

Importance of Remittances in Indian Economy: An Assessment

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Abstract: The importance of remittances has been analysed in this paper. Remittances can play a very important role in shaping an economy especially for underdeveloped and developing nations. In Indian context, over the years it has become a very important element in India's BoP. It plays more significant role in the economy of some states like Kerala, Maharashtra and Karnataka. India is the largest receiver of remittances for past few years. It plays a dual role in any economy, on one side it boost the internal economy of nation by increasing household disposable income and so the demand and on the other hand it improves the external sector of the nation's economy.

Keywords: Remittances, Underdeveloped and Developing Nations, Balance of Payments (BoP), Disposable income.

Introduction

What Is a Remittance? (Investopedia)

A remittance refers to money that is sent or transferred to another party. The term is derived from the word remit, which means to send back. Remittances can be sent via a wire transfer, electronic payment system, mail, draft, or check. Remittances can be used for any type of payment including invoices or other obligations. But the term is typically used to refer to money sent to family members back in a person's home country. Most remittances are made by foreign workers to family in their home countries. They may also be payments that are made to a business. The most common way of making a remittance is by using an electronic payment system through a bank or money transfer service such as Western Union. People who use these options are generally charged a fee, but transfers can take as little as ten minutes to reach the recipient.

Remittances occupy a very important place in Indian Economy. Over the years, it has become a prominent BoP component. For many years India has been the top receiver of Remittance in the World. Within India, the state of Kerala is the biggest beneficiary of the same. It plays a very important role in the economy of some Indian states and as for Indian Economy as well.

According to the World Economic Forum, India has become the largest Diasporas in the world with 18 million citizens living in other countries and the U.S being the top destination. In 2017, 1.3% of the American population was made up the Indian descents (World Economic Forum, 2019). The personal transfers included in the definition are independent of the source of income and the origin of the sending household. The personal transfers included the worker's remittances which comprise of current transfers sent by the migrant population who are employed in the new economies and are considered the residents of that economy. Additionally, it includes compensation to the employees which includes the wages, salaries and other benefits which are earned by the individuals who are residents (IMF, 2007).

A majority of available studies point out that generally remittances benefit the home country in several ways: in terms of improved foreign exchange reserves and the balance of payments; augmenting consumption which stimulates local economies; easing liquidity constraints on small businesses where micro-financing is not widely available; and channeling resources towards productive investments (see **Giuliano and Ruiz-Arranz, 2009**). They act as insurance during crises and natural disasters, and contribute to improving current account sustainability and credit worthiness (see **Ratha, 2012**). They are also appreciated as one of the few mechanisms for the redistribution of capital between developed and developing countries (see **Russell, 1986; Jones, 1998**). **Yang and Martinez (2006)** in their study find evidence of favorable spillover effects to non-migrant households as well. Thus, Remittances augment consumption and, if harnessed effectively, provide benefits at both micro and macro level.

Review of Literature

M. Aijaz (2015) in his study concluded that Indian diaspora and their massive remittances possess substantial growth potential. The conclusion drawn underlines the need for policy initiatives in order to maximize developmental benefits, and also hints for future research on the subject.

Prema-chandra Athukorala and Kunal Sen (2001) in their study concluded that, the real interest rate, growth and the level of per capita income, spread of banking facilities, and the rate of inflation as statistically significant positive influences on domestic saving. Terms of trade changes and inward remittances by expatriate Indians seem to have a negative impact on the saving rate. There is also a clear role for fiscal policy in increasing total saving in the economy, with the private sector considering public saving as an imperfect substitute for its own saving. The result relating to the inflation rate needs to be qualified by referring to the fact that India has throughout been a *low inflation* country. What the result seems to suggest is that *mild* inflation is conducive for private saving. (Kapur, 2004) in his research found that, in comparison to the other financial flows, remittance is more stable and hence is better than other forms of capital. In a similar context, the study highlighted that the remittance flows to the developing countries fell by

5.27 percent due to the negative influence of the global financial crises. However, the fluctuation was very less in comparison to the fall in the foreign direct investments which lowered by about 31.94 percent during the crises.

Divya Narang (2020) in his study found that the remittances positively impacted the gross fixed capital formation and the household final consumption expenditure. This indicates that when the amount of personal remittance inflows increases in an economy increases; it leads to a rise in the amount of investment and consumption expenditure in an economy. Personal remittances play a significant role in affecting the macroeconomic variables within the Indian economy. The positive demand-side effects are realized in the form of a rise in consumption and investment. Thus, remittance inflow indirectly contributes to the greater amount of injections into the circular flow of income in the economy. Further, being a stabilized source of foreign capital, personal remittances can be useful for maintaining the current account balance and can prevent liquidity overhang.

Research Objectives

- To study the trend of remittances in India
- To analyze the importance of remittances in India

Research Methodology

In the present study, a descriptive research design was used by the researcher to examine the trend of remittances in India and to analyze the importance of remittances in India. Source: To complete the study secondary sources of data from various reports and papers, RBI data 2015, World Development Indicators 2020, RBI Bulletin November 2018, and data from various websites have been analyzed.

Country-wise Remittances and State-wise share in inward Remittances

From RBI Bulletin 2018, it has been found that 82 per cent of the total remittances received by India originated from seven countries, viz., the United Arab Emirates (UAE), the United States (US), Saudi Arabia, Qatar, Kuwait, the United Kingdom (UK) and Oman. With over 90 per cent of overseas Indians working in the Gulf region and South East Asia (ILO, 2018) – mostly semi-skilled and unskilled workers – the Gulf Cooperation Council (GCC) countries accounted for more than 50 per cent of total remittances received in 2016-17, This become the prominent reason why various studies have shown that the amount of remittances received by India is pro cyclical to the crude oil prices in international market.

Table 1: State-wise Share in Total Inward Remittances (In Per cent)

Kerala	19.0
Maharashtra	16.7
Karnataka	15.0
Tamil nadu	8.0
Delhi	5.9
Andhra pradesh	4.0
Uttar pradesh	3.1
West bengal	2.7
Gujarat	2.1
Punjab	1.7
Bihar	1.3
Rajasthan	1.2
Goa	0.8
Haryana	0.8
Madhya pradesh	0.4
Orissa	0.4
Jharkhand	0.3
Puducherry	0.2
Uttarakhand	0.2
Chandigarh	0.2
Jammu and kashmir	0.2
Assam	0.1
Others	15.7
Total	100.0

Note: "Others" also includes those remittances for which banks could not identify the specific destination and, therefore, covered such transactions under "Others".

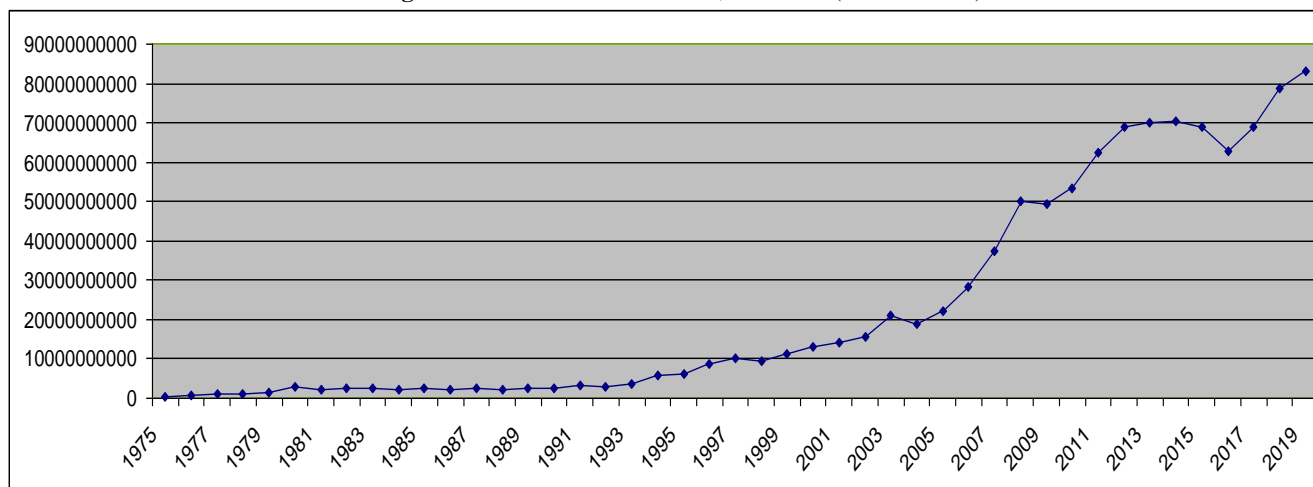
Source: Globalising People: India's Inward Remittances

This article is prepared by Shri Rajeev Jain, Shri Dharendra Gajbhiye and Ms. Soumasree Tewari in the Division of International Finance, Department of Economic and Policy Research (DEPR), Reserve Bank of India under the guidance of Shri.Rajan Goyal, Adviser, (DEPR). Preliminary findings of the survey were published on the RBI's website on August 09, 2018. RBI Bulletin November 2018.

From the above table, it is clearly evident that the state wise share in terms of percentage out of total Remittances is subjected to huge differences. On one side Kerala received 19 percent (or approximately one fifth of total remittances received by India as whole. On the other side, Orissa, Madhya Pradesh, Chhattisgarh, Assam, Haryana, Jammu and

Kashmir, etc. have received less than one percent of the total remittances. The first three States i. e., Kerala, Maharashtra and Karnataka received approximately 50 percent of the total remittances received by India. The level of workers' remittances is determined by the migrants' educational level, incomes, motivation to transfer the accumulated capital for investment in the home country (Brown, 1997). In an econometric analysis, Turkey Straubhaar (1986) reveals that remittance flows were neither affected by the variations in the exchange rate nor the real rate of return on investment. This implies the relative stable behaviour of remittances vis-à-vis other capital flows.

Figure 1: Personal remittances, received (current US\$)



Data Source: World Development Indicators
Last Updated Date: 9/8/2020

During 1980s, the remittance flows were largely due to oil economies of middle-east employing skilled and semi-skilled Indian workers. The source of flows has changed in 1990s responding to the demand of information technology -learned highly skilled manpower in USA, Canada, Australia and parts of Europe. According to RBI Survey (Nov., 2009), North America continued to be the most important source region of remittances accounting to nearly 38% of the total remittances followed by Gulf region (27%) and Europe (18%), which mirrors the new waves of skilled migration to technology related sectors in developed countries. Workers' remittances to India have shown buoyancy in the recent years and have imparted significant resilience and strength to India's balance of payments (BoP).

Table 2: Remittances and their share in GDP 2005–2006 to 2013–2014 (US\$ billion).

Year	Remittances	Percentage of GDP
2005–2006	21.3	3.7
2006–2007	25.4	3.7
2007–2008	38.7	4.9
2008–2009	51.60	4.6
2009–2010	55.06	2.8
2011–2012	66.10	3.8
2012–2013	67.60	3.8
2013–2014	70.39	3.4

Source: RBI data 2015.

Table 2 shows the Remittances as percentage of GDP, which varies between 2.8 to 4.9 percent of GDP. It shows its importance in both internal (in terms of boosting the consumption and investment demand within the economy) and external economy (in terms of balancing trade deficit and increasing forex reserve).

According to the World Bank's 2019 Migration and Development Brief, \$529 billion in remittances were sent to low- and middle-income countries in 2018—an increase of 9.6% over the previous record high of \$483 billion in 2017. This figure is significantly larger than the \$344 billion of foreign direct investment in these countries, excluding China, in 2018. If we include high-income countries as well, the total amount of remittances jumps to \$689 billion, up from \$633 billion in 2017.

Conclusion

From the above study of Inward Remittances it can be concluded that India receives highest amount of remittances in the world, which helps the economy both internally as well as externally. There is clear cut difference between states in terms of remittances received which is caused by many factors. There are multiple factors which determine and influence the amount of remittances but the study shows that it is pro cyclical with the international crude oil prices probably because major chunk of India diaspora work in this crude oil exporting nations.

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