

Remittances Cushion India's Finances

Prelims: Current events of national and international importance | Economy

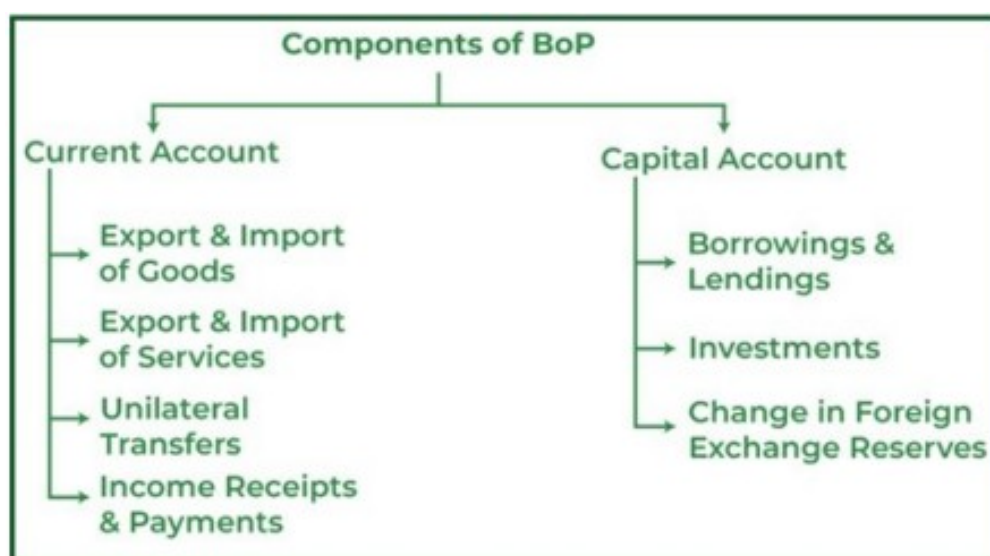
Why in News?

Recently, India received workers' remittances crossing USD 100 billion in a year, which cushioned the Balance of Payments amid weak FDI/FPI inflows and capital outflows.

- **Balance of Payments (BOP)** - The BoP record the transactions in goods, services and assets between residents of a country with the rest of the world for a specified time period typically a year.

BoP follows the Double Entry System to record transactions with the rest of the world and has two sides - Credit side and Debit side

BoP Surplus	Balanced BoP	BoP Deficit
Credit Side > Debit Side	Credit Side = Debit Side	Credit Side < Debit Side



- **Remittances** - Money sent home by Indians abroad and it forms more than 2/3rd of private transfers.
- **Private Transfers** - Broader category including remittances,

withdrawals/redemption of NRI deposits, personal gifts/donations, and gold/silver brought via passenger baggage.

FY 2026

Workers' remittances - 110.47 billion (26% increase from FY25).

Private transfers - 151.71 bn (15% increase).

Net transfers - 144.07 bn (16% increase).

Impact of Remittances and Private Transfers

- **Immediate Cushion** - Helped offset weak Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) outflows.

FDI - Long-term capital inflow giving ownership/control over assets (e.g., factories, land, companies).

FPI - Short-term capital inflow in financial assets (shares, bonds) without management control.

- **Rupee Management** - RBI buys foreign currency inflows (USD, etc.) to add to reserves and prevent excessive rupee appreciation, keeping exports competitive.
- **Reserves Role** - Forex reserves act as insurance against external shocks, Current Account Deficit (CAD) pressures, and volatile capital flows.

CAD - It occurs when a country's total imports of goods, services, and transfers exceed its total exports.

- **Rupee Depreciation** - When INR weakens against USD or other currencies, the value of each dollar sent home rises in rupee terms.
- **Limitations** - Remittances are not a long-term fix, FDI/FPI must improve, trade deficit needs management.

Drivers of Surge

- **West Asia Conflict** - Remittances grew as workers sent extra money home due to uncertainty.
- **Rupee Depreciation** - Encouraged sending more foreign currency since it converted into higher rupee value.
- **Shifting Sources** - Gulf share fell from 47% (2016-17) to 38% (2023-24), while contributions from the US and UK increased.

Reference

[Indian Express | BoP](#)

