Remittances Cushion India's Finances

Prelims: *Current events of national and international importance | Economy*

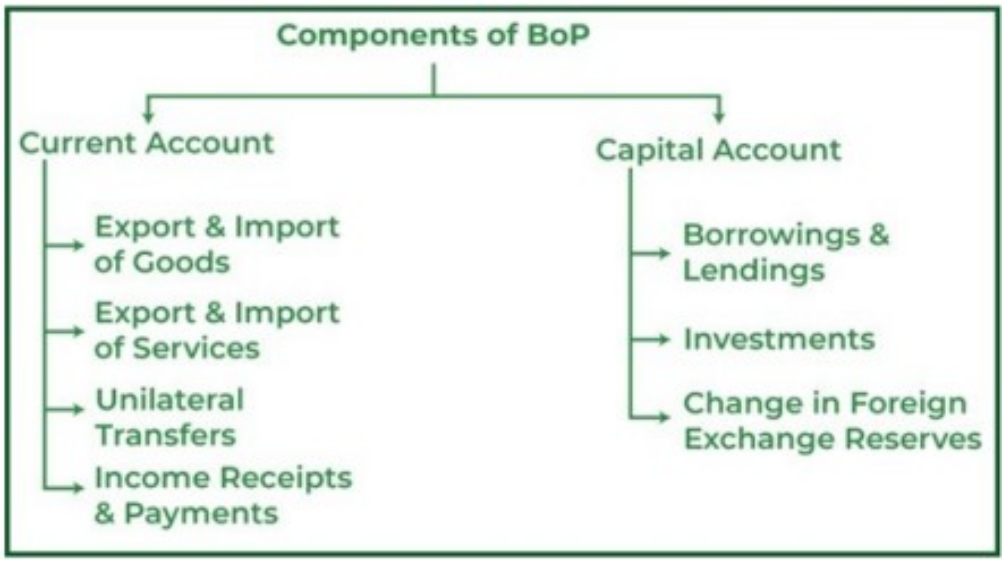
Why in News?

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