



Macroeconomic Theme: Remittances

Remittances: An Overview

Highlights:

- ✓ *Remittance inflows have been robust, and the real risk lies in those flows ebbing the near term due to technological changes such as AI, fast changing immigration policies and an increase in tax on remittances*
- ✓ *Remittances are a stable source of foreign earnings for an emerging market like India and are projected to reach USD 160 Bn in 2029 by RBI.*

One of the most stable and steadily increasing components of India's current account has been remittances or private transfers which have grown in line with the economy's engagement with the rest of the world. Remittances have doubled from USD 55.6 Bn in 2010-11 to USD 118.7 Bn in 2023-24. The average net remittances in FY2024-25 were ~USD 33-34 Bn which has been much more robust as compared to the average capital inflows of USD 4.52 Bn. Since these private transfers are regular and not linked to capital markets, they do not get the media limelight enjoyed by international capital flows. However, software exports and strong remittances have helped India manage to keep the current account in tolerable levels, by financing on average 42-44 per cent of the merchandise trade deficit.

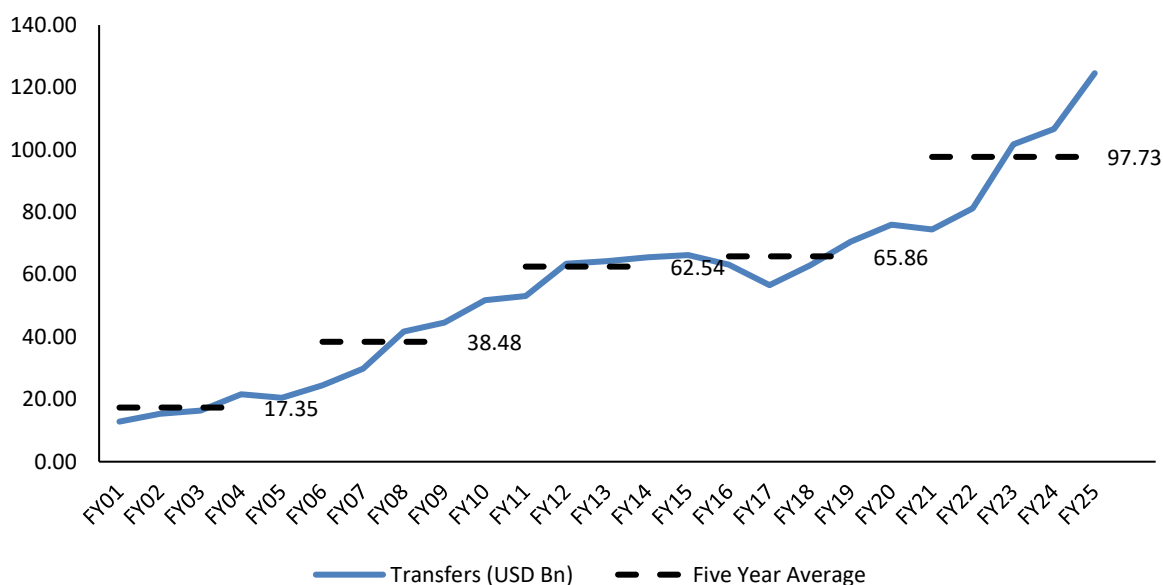
Remittances-A stable source of FX: Remittances are not classified as capital flows and rightly so since these are "transfers" i.e. there is no change in the stock of capital due to these transfers. In essence, the IMF Balance of Payments Manual classifies remittances or current transfers as those transfers which are not transfers of capital. These private transfers have been a crucial element along with services exports to contain the Indian current account deficit (CAD) since 2001.

According to the World Bank, India has been the top receiver of remittances globally since 2008 and its share has risen from 11.0 per cent in 2001 to 14.0 per cent in 2024, and remittances have been the dominant source of external finance flows for India as has been the case for most of the EM low- and middle-income countries except China. Especially for India, since these flows have been steadily increasing with the increased Indian diaspora abroad. The stable nature of these remittances they have been in the background as compared to the attention that the Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) garner in the debate over external financial flows to India. Since 2020, a comparison of the FII/FDI and the remittances i.e. private transfers reveals an interesting picture of the flow of external finances in India.



Classifying Remittances: The current transfers are classified, according to the sector of the compiling economy, into two main categories: general government and other sectors. General government transfers comprise current international cooperation, which covers current transfers (cash or in kind) between governments of different economies or between governments and international organizations. When an entry in the balance of payments records that a resident entity in one economy has provided a nonresident entity with a real resource or a financial item (e.g., goods, the provision of a service, or a financial or non-financial asset), the double-entry system requires that an offsetting entry be made. If the offsetting entry does not consist of the provision of a real resource or a financial item, the offset is designated as a transfer¹. In this article private transfers are a proxy for remittances, and the terms are used interchangeably.

Chart 1: Trajectory of Private Transfers (USD Bn)



Source: RBI, STCI PD Research

Private transfers are classified under secondary income receipts and include four components i.e.

1. Inward Remittance from Indian workers abroad for family maintenance etc.
2. Local withdrawals/redemptions from non-resident deposits
3. Gold and silver brought through passenger baggage

¹ Balance of Payments Manual -International Monetary Fund.



4. Personal gifts/donations to charitable/religious institutions in India

The largest component in terms of value is the worker remittances that flow inward from abroad.

Growth in Private Transfers since 2001: Private transfers have been rising as the Indian diaspora abroad has crossed over 18 million, and the average private transfers, which are a proxy for the remittances the five-year average has increased from USD 17.4 Bn to USD 97.7 Bn indicating a growth of ~41 per cent on a CAGR basis. In recent times, services exports and private transfers have been the balancing factors due to which India's current account deficit has been manageable despite the intense volatility seen in the capital flows since COVID-19. As the Indian diaspora increased from around 6.6 million in 1990 to above 18.5 million according to the sixth round of the survey on remittances conducted in 2023-24, the volume of remittances has grown accordingly, and also the relatively low cost of sending USD 200 to India at 4.9 per cent which is lower than the average 6 per cent cost faced worldwide.

Chart 2: Foreign Investment and Private Transfers (USD Bn)

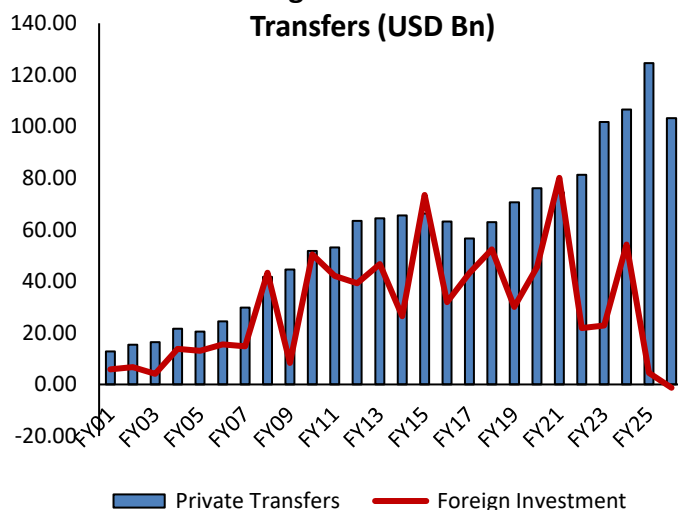
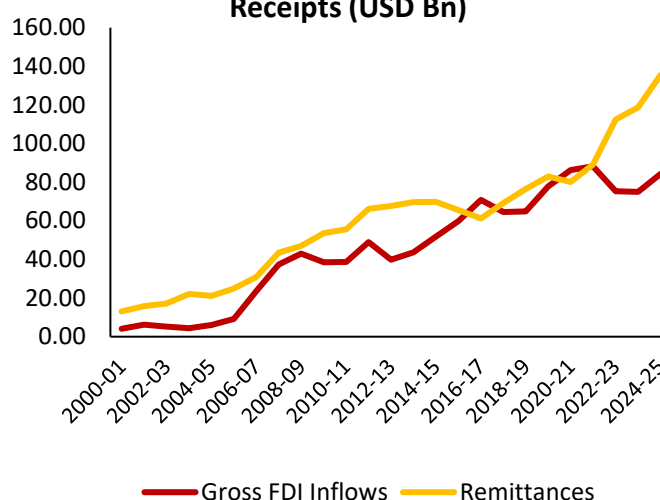


Chart 3: Gross FDI Inflows vs Remittance Receipts (USD Bn)



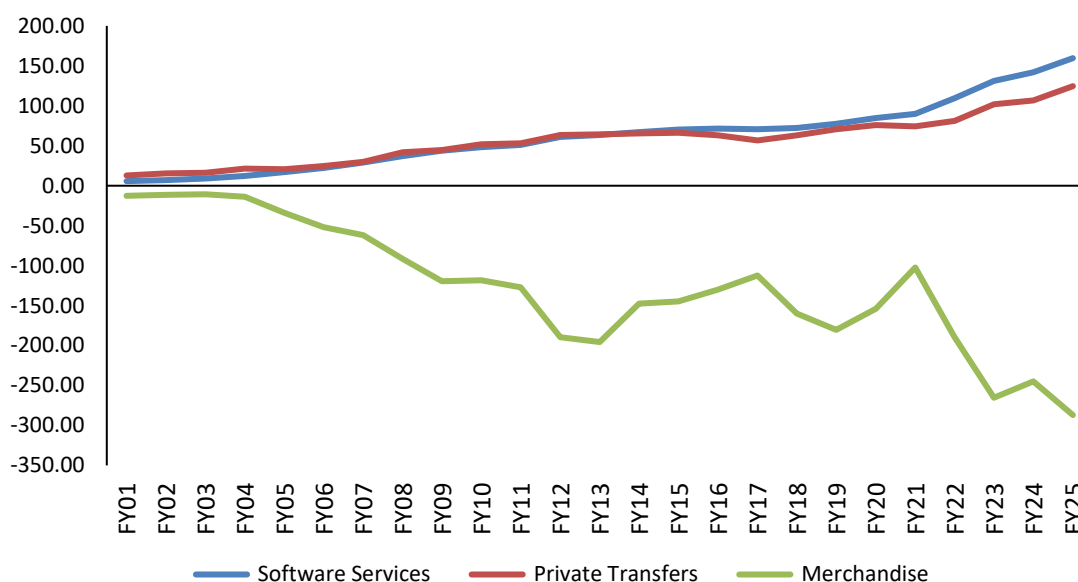
Source: RBI FY26-Numbers are Financial Year to Date.

Remittance Tax & AI : While capital flows have been volatile in the two and a half decades since 2001, owing to the discretionary nature of the global capital flows which are always in search of yield, and tend to exhibit fickleness as far as portfolio flows are concerned, remittances have remained steady and increased over time to fund the trade deficit by approximately 40-45 per cent on average. RBI projects the inward remittances to grow to USD 160 Bn 2029.



While the remittance flows are stable, they have come under duress in recent times due to two main factors i.e. fast changing technology like artificial intelligence (AI) which could lead to job losses especially in the technological firms, and which in turn could also affect the economy largest export engine i.e. software services adversely. The second channel is the possibility of the US administration charging a “remittance tax” of 5 per cent, which was proposed by the US President Donald Trump in the One Big Beautiful Bill (OBBB) and was reduced from the proposed 5 per cent to 3.5 per cent and is currently capped at 1 per cent by the US Congress to be effective from 1st January 2026. The share of US in global remittances is the largest with 28 per cent and it remains India’s largest source of remittance flows. This tax only applies to transfers by cash, cheques or money orders or any such physical transfers and electronic mediums such as bank transfers and credit/debit card transfers are exempt from the tax.

Chart 4: Software Services & Private Transfers (USD Bn)



Source: RBI

While a remittance tax poses a real risk for India’s most stable source of external finance, the other major risk is the displacement of skilled labor, especially in the technological space, due to artificial intelligence. If these factors were to adversely affect remittances by 10 per cent and software exports by 10 percent it could widen the current account deficit by USD 25-30 Bn, taking the CAD as a percentage of GDP within the 1.8-2.1 per cent band.



Concluding Observations: Remittances are one of the stable sources of external finance available to an emerging economy such as India. Due to the lowering of costs of sending remittances especially due to the newer digital platforms such as UPI, India has been able to lower transaction costs to an average below the global average of 6 percent at 4.9 per cent. This remains higher than the sustainable development goals (SDG) target of 3 per cent to transfer USD 200 but makes India an affordable destination for remittances. Although remittances are external financial flows, they are driven by motives other than profit and hence remain a stable source of foreign currency funds, unlike capital flows. From a purely macroeconomic perspective these flows also play a crucial role in shaping consumption and investment in the domestic economy. The recent technological developments related to artificial intelligence (AI) which gives rise to possibilities of high-skilled labor being displaced creates a structural risk for these flows to India and in essence also leads to vulnerabilities on the current account.

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