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Trends in remittances

India has retained its position as the world leader in remittance inflows in 2023 as well. Over the last decade, remittance inflows into India have seen a steady increase due to the presence of a wide diaspora of foreign residents spread across the World. The Gulf Cooperation Countries and the USA remain the biggest sources of remittance to India, followed by the UK.

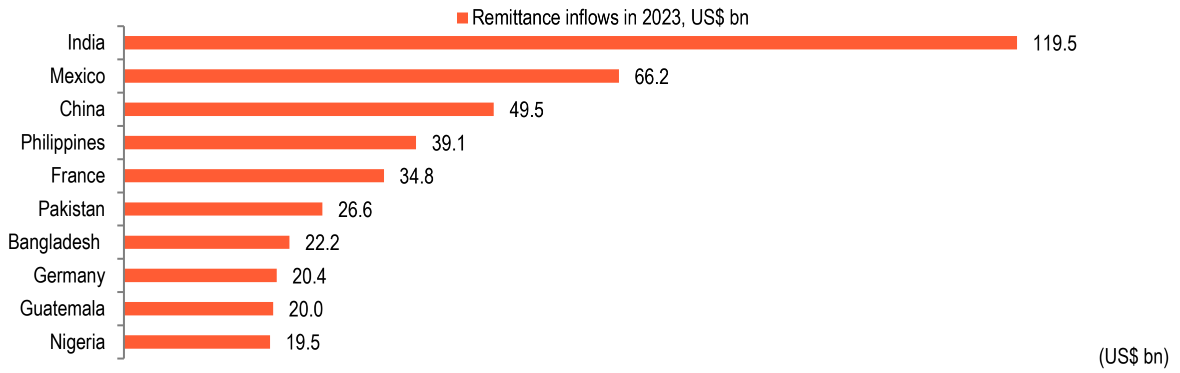
There has also been a sharp pickup in remittance outflows under the RBI's liberalized remittance scheme (LRS). The increase is majorly driven by higher remittance outflow towards travel, while maintenance of close relatives also retains its significance.

We expect a further pickup in both remittance inflows as well as outflows in FY25, with the former likely to grow at a faster pace due to a recovery in global growth. This should help keep the current account deficit contained at 1-1.5% of GDP in FY25.

Global picture of remittance inflows:

Global remittance inflows have seen a steady increase in the last few years. From just US$ 580.6bn in 2013, remittance inflows have risen to US$ 857.3bn as per World Bank estimates. Country wise, India is the highest recipient of these inflows at US$ 119.5bn in 2023, accounting for a share of 13.9% of total inflows. India's dominance in global remittance inflows can be gauged from the fact that inflows into Mexico, which is the second highest recipient of remittances, is almost half of the amount remitted into India. China received the third highest remittances in 2023 at US$ 49.5bn, accounting for 5.8% of total global remittance inflows. Other South-Asian countries such as Pakistan and Bangladesh also feature in the list of the top 10 highest remittance receiving countries.

Figure 1: Global remittances inflows



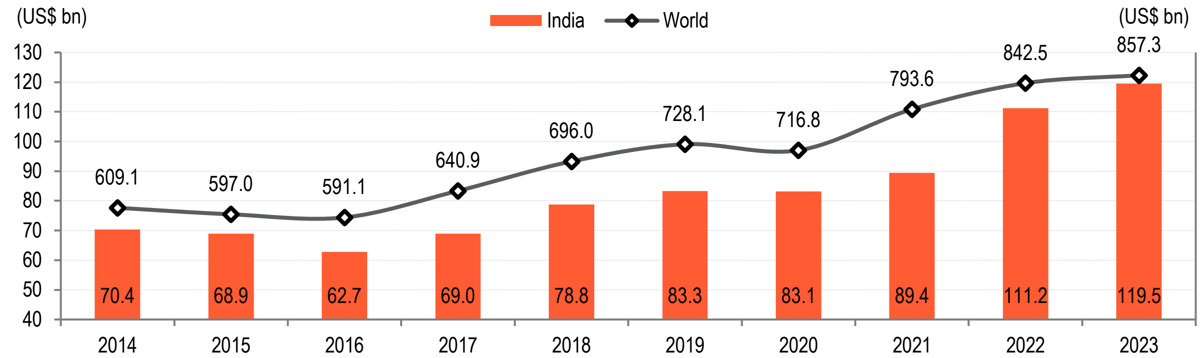
Source: World Bank-KNOMAD, June 2024, Bank of Baroda Research

Remittance inflows into India:

Remittance inflows into India have increased steadily over the years. In fact, India has retained its place at the top of the table with respect to remittance inflows in each of the last 10 years. From about

US$ 70bn in 2013, remittance inflows into India have increased to US$ 119.5bn in 2023, at a CAGR of 5.5%. In comparison, global remittance inflows have increased by 4% in the same period. Within the top 10 remittance receiving countries, only Mexico registered a higher growth in remittances than India, at 10.7% in the last 10 years. On the other hand, there has been a decline of 1.8% in remittances to China. In fact, while Mexico ranked 5th amongst the top 10 in 2013, and gradually replaced China at the second place in 2023.

Figure 2: India remittances inflows



Source: World Bank-KNOMAD, June-2024, Bank of Baroda Research

In terms of sources of remittance inflows, globally, the US is the largest source of remittance to the world and accounted for over 25% of total remittance inflows in the world in 2021. This was followed by the Gulf Cooperation Countries (GCC) which accounted for another 17%. Apart from these, Germany, the UK and Russia are also important contributor to global remittance flows.

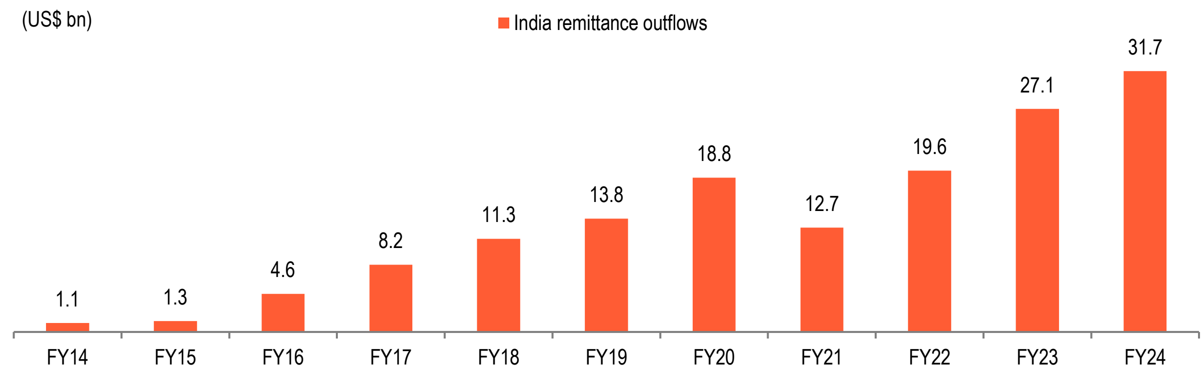
For India, GCC countries accounted for over 40% of total remittance inflows in 2021, led by United Arab Emirates. USA with a share of close to 17% and UK with a share of 5% are other important contributors.

Further, results of RBI survey indicate that over 40% of remittances inflows into India in 2020-21 were for family maintenance, followed by deposits in banks which accounted for close to 35% of total inflows.

Outward remittances from India:

There has also been a commensurate increase in India's outward remittance in the last 10 years. From just US$ 1.1bn in FY14, remittance outflows increased to US$ 31.7bn in FY24. This translates into a CAGR of over 40%, which is much higher than the CAGR of remittance inflows in the same period. Barring FY21, which was marked by the Covid-19 pandemic, remittance outflows from India have shown a clear upward trend.

Figure 2: India remittances inflows



Source: CEIC, Bank of Baroda Research

Looking at the granular data, some interesting facts emerge. Over the last 10 years, there has been a significant change in the nature of outward remittances. Purpose wise, 'gifts' had the highest share in India's outward remittance in FY14, followed by 'others'. Maintenance of close relatives and investment in equity/debt were the other major heads. On the other hand, their share has declined significantly in subsequent years. Travel has emerged as the primary source of remittance outflow from India, accounting for 53.6% of total outflows in FY24 from just 1.5% share in FY14. An increase in disposable income and growth of aspirational middle class in the country, there has been an increase in foreign travel. This trend gained further traction after travel restrictions due to the Covid-19 pandemic were lifted. The share of maintenance of close relative has remained around 15% over the last 10 years. However, there has been a sharp decline in the share of gifts and education in this period.

Table 1: Category wise outflows

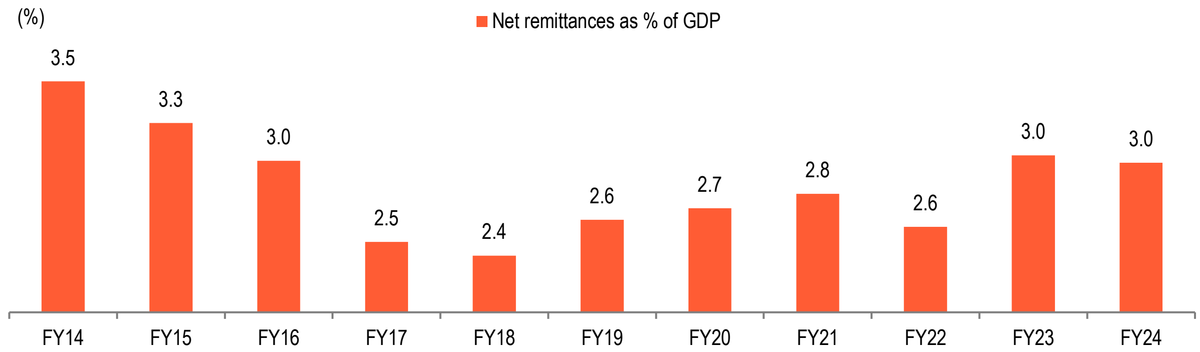
	Outflows in FY14, US$ mn	% Share	Outflows in FY24, US$ mn	% Share	CAGR
Travel	0.0	1.5	17.0	53.6	100.8
Maintenance of Close Relatives	0.2	15.9	4.6	14.5	38.8
Gifts	0.3	24.4	3.6	11.3	29.6
Studies Abroad	0.2	14.6	3.5	11.0	36.1
Investment in Equity or Debt	0.2	15.1	1.5	4.8	24.7
Deposit	0.0	2.9	0.9	2.9	40.1
Others	0.2	19.7	0.3	0.9	3.3
Purchase of Immovable Property	0.1	5.4	0.2	0.8	15.2
Donation	0.0	0.2	0.0	0.0	19.1
Medical Treatment	0.0	0.4	0.1	0.3	32.7
Total	**1.1**		**31.7**		**40.0**

Source: CEIC, Bank of Baroda Research

Concluding remarks:

Remittances play an important role in a country's balance of payment position. This is especially true for countries like India which consistently run a deficit on the current account due to an unfavorable trade balance position. In India, the current account deficit has averaged a little over 1% of GDP in the last 10 years, while the merchandise trade deficit has been much higher at over 6% of GDP. Support to the current account has stemmed from services and remittance receipts. At 3% of GDP in FY24, net remittances have helped ease the pressure on the current account and thus improve the country's external stability.

Figure 3: Net remittances as % of GDP



Source: CEIC, Bank of Baroda Research

There has been a steady increase in both inward and outward remittance from India in the last decade. Inward remittance has benefitted from better growth outcomes in major source countries such as the US and GCC. At the same time, outward remittance from India have also shown traction, with most of it being directed toward travel and maintenance of close relatives. We expect this trend to continue.

Rise of an aspiring middle-class has ensured that discretionary spending of households has gone up, which is reflected in higher travel expenses to foreign countries. Global growth is expected to gradually improve, with USA expected to remain resilient. Labour markets in the USA, UK and Eurozone remain robust with unemployment rate near record lows. This bodes well for inward remittance. Further, while there seems to be some slowdown in remittance inflows from GCC countries, stable oil prices should help in reviving the inflows from the region. On balance, we expect net remittances into India to remain steady in FY25 and contribute positively to the current account balance which is expected in the range of 1-1.5% of GDP.

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