

Record Remittances of \$110 Billion in 2025-26 - Explained

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Remittances Latest News

- Indian workers abroad sent home a record \$110.47 billion in 2025-26, helping cushion India's external finances amid weak capital inflows and pressures from the West Asia crisis.

Understanding Remittances

- Remittances are money transfers made by migrant workers and overseas nationals to their families and home countries.
- They represent one of the largest sources of foreign exchange for developing economies and play a vital role in supporting household consumption, savings, and investment.

Categories of Inflows

- In India's **Balance of Payments** (BoP) accounting, the term commonly referred to as "remittances" actually includes two distinct categories:
- **Workers' Remittances**
 - Money sent home by Indians working abroad.
 - These are part of the current account of the BoP.
 - Reflect the genuine flow of earned income from migrant workers.
- **Private Transfers (Broader Category)**
 - Includes workers' remittances (more than two-thirds of the total).
 - Plus withdrawals from non-resident deposits and redemptions.
 - Personal gifts and donations, including to religious and charitable institutions.
 - Gold and silver brought through passenger baggage.

Significance of Remittances for India

- Largest recipient globally: India has been the world's largest recipient of remittances for several years.
- Supports current account: Remittances help offset the trade deficit.
- Foreign exchange buffer: They cushion the economy against capital outflows.
- Household welfare: Support consumption, education, healthcare, and housing for millions of families.
- Rural economy: Significant contribution to states like Kerala, Tamil Nadu, Punjab, and Uttar Pradesh.

News Summary: Record Remittances in FY26

- In 2025-26, Indian workers abroad sent home a record \$110.47 billion, marking the first time workers' remittances have ever crossed the \$100-billion mark in a single year. This represents:
 - A 26% increase from \$87.55 billion in 2024-25.
 - A 34% year-on-year growth in the January-March 2026 quarter alone, with \$31.07 billion sent home, the highest in 13 years.

Reasons For the Record Inflows

- **West Asia Crisis Effect**
 - Economists suggest the West Asia crisis likely led to a "precautionary" rise in remittances.
 - Workers in conflict-affected regions sent home larger sums than usual, fearing potential disruptions and uncertainty.
- **Sharp Rupee Depreciation**
 - The rupee's significant fall during 2025-26 created an incentive for greater remittances:
 - A weaker rupee means more rupees received in India for each dollar (or other foreign currency) sent.
 - This arbitrage opportunity encouraged workers to remit more money during the depreciation phase.
- **Changing Geography of Remittances**
 - The geographical composition of India's remittance inflows has shifted significantly:
 - Gulf countries' share (UAE, Saudi Arabia, Kuwait, Qatar, Oman, Bahrain) declined from 47% in 2016-17 to 38% in 2023-24.

- Advanced economies (US, UK, Canada, etc.) have increased their share, driven by higher-skilled migration.

Implications for India's Economy

- **Supporting the Rupee:** Robust remittance inflows have helped support the rupee at a time when:
 - Foreign Portfolio Investors (FPIs) have been net sellers.
 - Net FDI inflows totalled less than \$9 billion in 2024-25 and 2025-26 combined.
 - Crude oil prices remain elevated, widening the current account deficit.
 - Without these remittances, the rupee may have fallen even more sharply against the dollar.
- **Cushioning the Current Account:** Remittances form a critical part of the secondary income account, helping offset the goods trade deficit. They are particularly valuable because they are:
 - Stable inflows compared to volatile capital flows.
 - Counter-cyclical, often increases during economic crises in the home country.
 - Non-debt creating, unlike external borrowings.

Long-Term Concerns

- **FDI Inflows on the Decline**
 - Foreign Direct Investment as a percentage of GDP has been declining since 2010:
 - Net FDI inflows totalled less than \$9 billion in 2024-25 and 2025-26 combined.
 - This requires sustained policy effort to attract long-term capital.
- **Weak FPI Flows**
 - Foreign Portfolio Investors have been net sellers for several consecutive years:
 - Since 2020-21, five out of six years have seen net FPI outflows.
 - This requires structural reforms to make Indian markets more attractive.
- **Trade Deficit Management**
 - The current account deficit remains heavily oil-driven with elevated crude oil prices. Managing the trade deficit through:
 - Boosting exports of manufacturing and services.
 - Reducing dependency on imported crude oil through renewable energy.
 - Promoting import substitution in key sectors.
- **AI Threat to Remittances**
 - A new concern emerging is the impact of Artificial Intelligence (AI) adoption on employment in advanced economies:
 - The US and UK, increasing contributors to India's remittances, are grappling with AI's impact on current and future employment.
 - Job displacement in skilled sectors could reduce future remittance flows.
 - Indian IT and white-collar workers abroad may face increased competition.
 - This adds uncertainty to the long-term sustainability of remittance growth from advanced economies.

Significance

- The record remittance inflows highlight several important aspects of India's external sector:
- **Resilience of the Indian Diaspora**
 - The Indian diaspora, estimated at over 32 million worldwide, has proven to be a reliable source of foreign exchange. Their contributions reflect:
 - Strong family ties with India.
 - Cultural commitment to supporting families back home.
 - Confidence in the Indian economy.
- **Shift Toward Skilled Migration**
 - The growing share of remittances from advanced economies indicates that:
 - More highly skilled Indians are working abroad in IT, finance, healthcare, and academia.
 - Higher earnings per worker translate to larger remittances.
 - However, this also reflects the brain drain challenge for India.
- **Geographic Diversification**
 - The reduced dependence on the Gulf region:
 - Reduces vulnerability to oil price shocks and regional conflicts.
 - Aligns with India's diaspora policy to engage with diverse global communities.

Source: IE | TH

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