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## GLOBAL RECESSION AND ITS IMPACT ON NRI REMITTANCE TO INDIA



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### ABSTRACT

*In recent times, all news papers in all over the world analysis about the recession. In other side the world leaders are together to discuss this important issue of economic recession and try to find an amicable solution to this problem of Economic slowdown. In India many seminars and conferences are conducted in this title and the participants from different field are trying to analysis the impact of global recession on India in various titles. One of the important areas which we should always remembered that NRI remittance to India. The past history reveals that NRI remittance to Indian is tremendous and our strength of economy reasonably depends upon their remittance to our motherland. Because of global recession many Indians layoff their job and return to their homeland. Theoretically we agree that it will affect the NRI remittance. But really what did happen? This article explains the reason and impact global recession in India and analysis the NRI remittance in the light of recession and this article also analysis the two important questions. Whether the NRI remittance in the recent years has showing increases trends or not?, Whether the NRI remittance for the subsequent years will increases or decreases?*

**Recession** : National Bureau of Economic Research (NBER) define's a recession as a "significant decline in economic activity lasting more than a few months." It understood from the definition that Many professionals and experts around the world believe that a true economic recession can only be confirmed if GDP (Gross Domestic Product) growth is negative for a period of two or more consecutive quarters. The roots of a recession and its true starting point actually rest in the several quarters of positive but slowing growth before the recession cycle really begins. Often in a mild recession the first quarter of negative growth is followed by slight positive growth, then negative growth returns and the recession trend continues.

**Global Recession** : It is actually more common than you might understand for countries around the world to experience mild economic recessions. Recession is a natural result of the economic cycle and will

adjust for changes in consumer spending and consumption or increasing and decreasing prices of goods and labour. A recession is when GDP growth slows, businesses stop expanding, employment falls, unemployment rises, and housing prices decline and A recession normally takes place when consumers lose confidence in the growth of the economy. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in Unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment.

**General Impact on India** : Whenever the US sneezes, the world catches a cold, This is evident from the way the Indian markets crashed taking indication from a probable recession in the US and a Global economic slowdown. Weakening of the American Economy is bad news, not just for India, but for the

rest of the world too. Here the highlighted list of areas where we affected. 1. Indian companies have major outsourcing deals from the US 2. Indias exports to the US have also grown substantially over the years. 3. Indian companies with big tickets deals I the US are seeing their profit margins shrinking. 4. More people have sold the shares in the Indian share market than they bought in the recent weeks. This has added to the fall of sensdex to lower points. 5. One danger meanwhile is of a dip in the employment market. There is already anecdotal evidence of this in the IT and financial sectors, and reports of quiet downsizing in many other fields as companies cut costs 6. many companies has laid off their staffs, the number of tourists inflow to India has come down, companies have cut down compensations and perks etc, government and other private companies are reluctant in starting new ventures and starting new projects etc. 7. One of the casualties this time could be real estate, where building projects are half-done all over the country and in this tight liquidity situation developers find it difficult to raise finances.

8. Consumers are also frozen in this sudden glare of the headlights. More expensive money means that floating rate loans begin to bite even more: even those not caught in such a pincer will decide that purchases of durables and cars are not desperately urgent. 9. The Falling rupee against the dollar, more than against other currencies will mean tht exporters who felt squeezed by the earlier rise of the currency can breathe easy again, though buyers overseas may now become more scarce. 10. Overheated markets in general (stocks, real estate, employment among other) will all have an element of sanity restored. 11. Because of such uncertainty many people have started saving money in banks rather than investing. 12. India's IT export growth is also slowing down 13. Hundreds of workers have lost jobs in diamond jewellery, textiles and leather industry. 14. Companies in IT industry have stopped hiring and projected lower manpower need 15. Firms attached to the capital market are laying off and large companies are putting their future expansion plans on hold. 16. Steel plants are cutting production

**NRI Remittance to India** : The Reserve Bank of India (RBI) has reported that Indians living abroad

transferred \$24.6 billion to India in the fiscal year 2005-2006. In the year 2005-06 NRI remittance has increased of 25% over the previous year. India, thus, continues to retain its position as the leading recipient of remittances in the world. India has pipped China and Mexico to become the top remittance receiving country in the world, as the latest data released by the World Bank corroborate. NRI Remittances in 2006 from Indians overseas totaled \$25.7 billion (roughly Rs 1,28,500 crore) followed by Mexico (\$24.7 billion), China (\$22.5 billion) and the Philippines (\$14.9 billion). The major portion of remittance comes from USA and Canada account for 44% of the remittances, while 32% comes from the Gulf. The average size of the remittance was around US\$ 1,100 and more. An estimated 5.7 million Indian workers abroad sent home \$27 billion in 2007 to make India the top receiver of migrant remittances, according to the latest World Bank data released in March 2008. Instead of the Middle East with its estimated five million NRI workers, the US with about 2.4 million NRIs was the main remittance source. North America as a remittance source has gained over the Gulf with the growing number of Professionals in IT. The financial sector reform helps the Indians who are living abroad transfer the money easily to India. We will discuss this in the next title.

India's extensive economic reforms of the early 1990s provide an important context. The economic liberalization, which began in 1991, has been dubbed by some as "India's second independence." It gradually ended the state monopoly on a range of industries, allowed foreign capital in most sectors of the economy, lowered taxes and tariffs, and rolled back currency controls. These reforms accelerated India's integration into the world economy and represented a larger change in the Indian mindset.

### **The Channels of Remittance Flows to India**

**The Channels of Remittance Flows to India** : The growing number and relatively higher skill levels appear to be driving the growth in Indian remittances. Better means of transferring funds, like electronic transfers are aiding the rapidly increasing remittances. Supporting the fact is the upbeat business of wire transfer companies with estimated revenues of \$15 billion in 2006, and up to 30% profit margins. A clear understanding of the country specific remittance statistics also requires that there should be clarity

about the channels/methods of fund transfers used by the remitters and the recipients. In India, the institutions engaged in the business of money transfer are required to be registered in order to receive and deliver remittances. Apart from the commercial banks, a number of other non-bank players have entered in the area of money transfers with innovations in products and the recourse to new methods anchoring on the correspondent relationship and alliance products with the international banks/exchange houses. The network at the remitter's end comprises the local banks, building societies, money transfer operators (MTOs), Postal system and the overseas branches or associate offices of the Indian banks. At the receiving end, the entities are Indian banks, branches of foreign banks, Indian Post, MTOs, non-bank finance companies, travel companies and FMMCs.

Presently, there are about 87 commercial banks designated as authorized dealers, which can receive and transfer remittances. Besides, there are 53 Money Transfer agents. The informal agents include unregistered entities such as hawala dealers, returning migrants, friends, relatives and trading companies. Designated post offices can only receive remittances. Globally, post offices are involved in the cross border remittance transfer business given their wider branch network. In India postal system for cross border transfer of remittances is mainly used by the WUMT to deliver funds in wider locations. It is interesting to note that in the case of India while the traditional banking channel (i.e., wire transfer, drafts and cheques) accounts for bulk of the inward remittances, two other channels, viz., Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangements (RDA) that provide benefits of easier and speedier operations have assumed significance in expanding the delivery of remittances.

**Remittance & GDP :** NRI remittances are primarily sent to family members to support them for their survival. Once these remittances improve their living standards, they are invested in consumer goods, housing and land, and bank deposits, according to a new IMF study published recently. This comprises most of the remittances.

The IMF study found that the benefits of remittances in generating higher and continued levels

of consumption may come at the expense of long-run growth. High remittances may actually decrease economic growth in some countries due to lower productivity. So the recipient governments should devise economic and other policies to promote economic growth, stable exchange rates to discourage illegal transfers and social welfare. Remittance contribute greater share of any national economy. India's total income tax and wealth tax collections together are less than the remittances received. However, while the remittances make up only about 3% of India's GDP, while other countries with remittances of over 20% of GDP include Tonga, Guyana, Haiti, Lebanon, Tajikistan, Honduras and Jordan. Nepal and Bangladesh form 15% and 9% of their respective GDPs.

**Remittances to India as Percent of GDP  
1990-1991 to 2005-2006**

Year	Remittances (US\$ billions)	Percent GDP
1990-1991	2.1	0.7
1995-1996	8.5	3.22
1999-2000	12.07	2.72
2000-2001	12.85	2.84
2001-2002	15.4	3.29
2002-2003	16.39	3.39
2003-2004	21.61	3.69
2004-2005	20.25	3.03
2005-2006	24.55	3.08
2006-2007		

Sources: Reserve Bank of India: RBI Bulletin

**Recession and layoffs :** The global financial meltdown has led to recession and layoffs in many countries, With an estimated 50,000 to 1.5 lakh Indian workers returning home from the United Arab Emirates alone, If construction workers are hard hit in the Gulf, the IT professionals are bearing the brunt in the US. The study admitted that the construction industry in the Gulf region, especially in the UAE, is facing a tough time due to the global meltdown and has left millions of construction workers with an uncertain future.

**Layoffs and Remittance :** “There are also apprehensions about workers’ remittances and NRI flows to India slowing down as a consequence of global financial crisis and the recession in major advanced economies. There is a perception that the recession induced rising job losses in the US and Europe could fall more on migrants workers. Even if there is no lay-off, workers would often have to accept lower wages

as employers worldwide are seeking to cut costs in an attempt to cope better with the financial crisis,” the RBI said. Fears have also been expressed in several quarters about the reverse migration of Indian labourers working in the Gulf countries, which could result in a decline in remittances and NRI deposits in India. But “Based on the information collected from regional offices of the Reserve Bank, it was observed that so far there was no slowdown in the inward remittances,” the RBI study said. As inward remittances depend upon the interest differential and the exchange rate movement, due to the rupee depreciation in the recent period, there has been a significant rise in inflows, particularly through the rupee denominated NRI accounts such as NRO and NR(E)RA schemes. Moreover, with the US economy, which has the highest NRI population and a major source of remittances, showing signs of a slowdown, and at the same time, brightening of prospects for the Indian economy, many NRIs are coming back which is also adding to the remittances figure.

**Conclusion :** This article focuses on two important issues, namely, whether the NRI remittance in the recent years has showing increases trends or not? Whether the NRI remittance for the subsequent years will increase or decrease? One of the important impact of global recession was layoff, due to this many Indians return to their home land. The RBI said in its annual report contradicting popular perception of a

severe impact on remittances. “The financial crisis has so far failed to significantly slow down inflow of remittances in India, available information indicates that inward remittances to India have not been impacted significantly by the economic crisis,” According to the World Bank estimates (July 2009), remittance flows to developing countries, which increased to \$328 billion in 2008 from \$285 billion in 2007, are projected to decline by 7.3 per cent in 2009, the RBI said. This was happened because of Policy initiatives by the government and banking institutions have achieved two significant results. First, most remittances flow through formal channels. Second, an increasing number of remitters have moved from being pure “savers” to “investors.” The Indian policy regime has demonstrated its ability to attract NRI capital through NRI deposit accounts and successive bond issues. Investing in microfinance operations would be a good place to start, given their success in India.

Finally this article reveals that the globalisation and the aging of some developed country populations will ensure that demand for migrant workers remains robust for years to come. Hence the volume of workers’ remittances is likely to continue to grow and, with it, the challenge of unlocking the maximum social benefit from these transfers. In simple words, the NRI money will keep flowing in more and more.

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