Invisibles in India's Balance of Payments*

1. Introduction

In recent years, India's balance of payments (BoP) developments have been marked by strong growth in invisibles receipts, which have provided sustained support to the current account position. Attention has been drawn to this silent transformation in India's external transactions whereby invisibles comprising services, income from financial assets, labour and property and workers' remittances are rapidly catching up with merchandise exports as the principal foreign exchange earners for the country. These developments have drawn increasing interest in the disaggregated data on components of invisibles.

India's invisibles form part of the BoP statistics. These are released in two stages. In the first stage, major components of invisibles are released as part of BoP statistics on a quarterly basis to meet the IMF's Special Data Dissemination Standards (SDDS). These quarterly data are released through Reserve Bank of India (RBI) website and also published in the RBI Bulletin. The coverage of statistics is limited under broad heads of services (travel, transportation, insurance, government not included elsewhere and miscellaneous services[1]), transfers (private and official transfers) and income (investment income and compensation of employees). In the second stage, when the data firm up and more details are available, the disaggregated statistics on invisibles are compiled and provided on an annual basis. These disaggregated data are published as an article titled "Invisibles in India's Balance of Payments" in RBI Bulletin.

The latest disaggregated data on components of invisibles for the period 2000-01 to 2003-04 were released in March 2005 issue of RBI Bulletin[2]. The present article extends the analysis on invisibles set out in the above mentioned article. The data on invisibles are extracted from balance of payments records and the classification broadly conforms to the international standards.

2. Concepts and New Reporting Arrangements

Concepts

The statistics on India's BoP are compiled in accordance with the guidelines of IMF's Balance of Payments Manual, 5th Edition (BPM5), 1993, with minor modifications to adapt to the specifics of the Indian situation. The Manual defines BoP as a statistical statement that systematically summarises, for a specific time period, the economic transactions of an economy with the rest of the world. Transactions between residents and non-residents consist of those involving goods, services, and income, involving financial claims on and liabilities to the rest of the world, and those classified as transfers, involving offsetting entries to balance one-sided transactions. Under the BoP standard presentation, invisibles form part of the current account and have three major heads: services, transfers and income. These three major heads are then disaggregated into minor heads (Annex 1). The definitional aspects of these minor heads are set out below.

(i) 'Travel' represents all expenditure by foreign tourists in India on the receipts side and all expenditure by Indian tourists abroad on payments side. Travel receipts largely depend on the arrival of foreign tourists in India during a given time period.

---

* Prepared in the Division of International Finance, Department of Economic Analysis and Policy. Previous issue of the article was published in RBI Bulletin, March 2005.

1 'Miscellaneous services' comprise of a host of business services. These mainly encompass communication services, construction services, financial services, software services, royalties, copyright and license fees, management services and business services.

2 Such data for the period 1997-98 to 1999-2000 were earlier published in January 2001 issue of RBI Bulletin and for the period 1989-90 to 1996-97 in April 1999 issue of the RBI Bulletin. The data for the period 1956-57 to 1989-90 were published in July 1993 in the "Monograph on India's Balance of Payments". This article seeks to contribute to this endeavour by providing the disaggregated information on India's trade in invisibles.

(ii) 'Transportation' records receipts and payments on account of the carriage of goods and natural persons as well as other distributive services (such as port charges, bunker fuel, stevedoring, cabotage, warehousing) performed on merchandise trade.

(iii) 'Insurance' consists of insurance on exports/imports, premium on life and non-life policies and reinsurance premium from foreign insurance companies.

(iv) 'Government not included elsewhere (GNIE)' represent remittances towards maintenance of foreign embassies, diplomatic missions and international/regional institutions, while payments record the remittances on account of maintenance of embassies and diplomatic missions abroad.

(v) 'Miscellaneous Services' encompass communication services, construction services, financial services, software services, news agency services, royalties, copyright and license fees and business services.

(vi) 'Investment Income' represents the servicing of capital transactions (both debt and non-debt). These transactions are in the form of interest, dividend, profit for servicing of capital transactions. Interest payments represent servicing of debt liabilities, while the dividend and profit payments reflect the servicing of non-debt (foreign direct investment and portfolio investment) liabilities. Investment income payments move in tandem with India's external liabilities, while investment income receipts get linked to India's external assets including foreign exchange reserves. In accordance with the BPM5, 'compensation of employees' has been shown under the head, "income" with effect from 1997-98.

(vii) 'Transfers' represent one-sided transactions, *i.e.*, transactions that do not have any *quid pro quo*, such as grants, gifts and migrants' transfers by way of remittances for family maintenance, repatriation of savings and transfer of financial and real resources linked to change in resident status of migrants. Official transfer receipts record grants, donations and other assistance received by the Government from bilateral and multilateral institutions. Similar transfers by Indian Government to other countries are recorded under official transfer payments.

New Reporting Arrangements

In recognition of the growing importance of services and in order to meet the requirements of compilation under extended balance of payments statistics, a Technical Group on "Statistics of International Trade in Services" was formed which submitted its report in March 2002. Against the backdrop of rising importance of services exports, the RBI took the lead in putting in place an arrangement to collect comprehensive information on India's trade in services in the context of the ongoing negotiations on international trade in services under the GATS framework (Box 1). Thus, new reporting arrangements were put in place in 2004-05 wherein a

Box 1: New Initiatives for Monitoring Trade in Services

Recent developments in negotiations under the General Agreement on Trade in Services (GATS), the ongoing liberalisation of current and capital account transactions and rationalisation of the reporting requirements have placed an increasing demand on comprehensive information relating to international trade in services. Timely and more disaggregated information on international transactions in services assumes vital importance for effective monitoring, especially because the cross border transactions in services are both on-site and off-site. Under the common international initiative for strengthening information system on international trade in services, a comprehensive 'Manual on Statistics of International Trade in Services' has been designed by the United Nations to provide a coherent conceptual framework within which countries can structure the statistics collected and disseminated by them.

A Technical Group on Statistics of International Trade in Services appointed in the RBI submitted its report in March 2002. In pursuance of the recommendations of this Group, the purpose codes for capturing data on international trade in services were revised. This revision in purpose codes is designed to broadly comply with the requirements under the WTO in respect of the GATS. With the new reporting system in place since April 1, 2004, the coverage and quality of data on India's international trade in services is likely to be strengthened which would, in turn, contribute to effective monitoring of cross-border transactions.

References

1. Reserve Bank of India (2002), Statistics of International Trade in Services: Report of the Technical Group, March.
2. United Nations (2002), Manual on Statistics of International Trade in Services.

number of new purpose codes were introduced with a view to collect data separately for a number of emerging business services which are associated with the ongoing technological transformation of the economy. These new category of services comprise merchanting services, trade related services, operational leasing services, legal services, accounting services, business and management services, advertising services, research and development services, architectural and engineering services, agricultural services, office maintenance services, environmental services and personal and cultural services. In a liberalised environment with greater freedom and authority given to authorised dealers (ADs), this initiative was in recognition of the compelling need to provide for timely and disaggregated information flow from ADs to the RBI. The detailed explanation of these categories of business services is presented in Annex 2.

3. Magnitude and Trends in Invisibles

India's current account developments, particularly since the mid-1970s are characterised by two elements: persistence of trade deficits and buoyant invisible surpluses, which have set the trajectory for the current account balances. Resurgence of invisible surpluses in the 1990s, after a hiatus in the late 1980s, have in fact, restrained the current account deficits within a narrow corridor in the 1990s and guided the surpluses in the recent years (Chart 1). Thus, a sustained rise in invisibles surplus has significantly minimised the risk to the external payments position. Furthermore, the persistence of current account surpluses (for 3 years) together with significant capital inflows enabled further easing of payment restrictions on current and capital account transactions both for individuals and the corporates. The invisible balances have provided a modicum of stability to the current receipts as the invisible balances as ratio to GDP have witnessed relative stability (Table 1).

Table 1: Selected Indicators on Invisibles

(Per cent)

Year	Net Invisibles (US $ billion)	Net Invisible/ Trade balance	Invisible Receipts/ Invisible Payments	Invisible Receipts/ GDP	Invisible payments/ GDP	Invisible Balance/ GDP
1990-91	-0.2	-2.6	96.9	2.3	2.4	-0.1
1995-96	5.4	48.0	144.6	5.0	3.5	1.6
2000-01	9.8	78.6	143.6	7.0	4.9	2.1
2001-02	15.0	129.4	168.8	7.7	4.5	3.1
2002-03	17.0	159.4	168.4	8.3	4.9	3.4
2003-04	27.8	202.7	208.1	8.9	4.3	4.6
2004-05	31.2	92.7	181.5	10.0	5.5	4.5
2005-06	40.9	79.4	181.0	11.5	6.4	5.1

The stagnation in invisibles receipts during the 1980s gave way to level shift during the 1990s, as reflected in the share of invisibles in the current receipts rising to 47 per cent in 2005-06 from 29 per cent in 1990-91 (Chart 2).

The invisible surplus continued to rise to reach a level of US $ 40.9 billion in 2005-06, emanating from buoyant services exports and sustained remittances from migrant workers overseas. In tandem with the growth momentum in the services sector and its rising contribution to GDP, the comparative advantage of India in services exports is reflected in India's services

Chart 1: India's Current Account and Invisibles

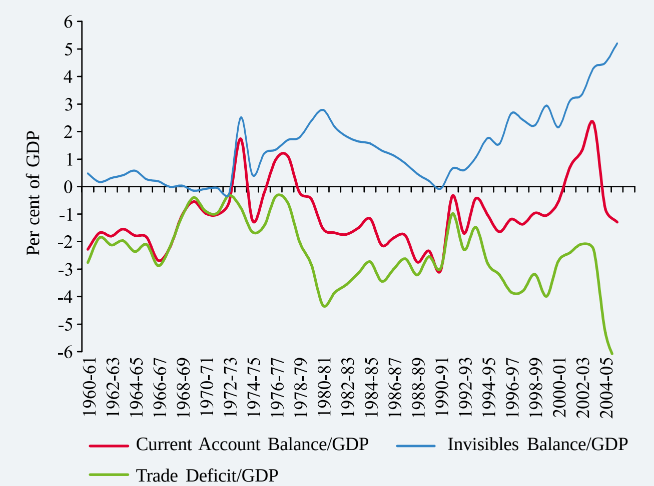
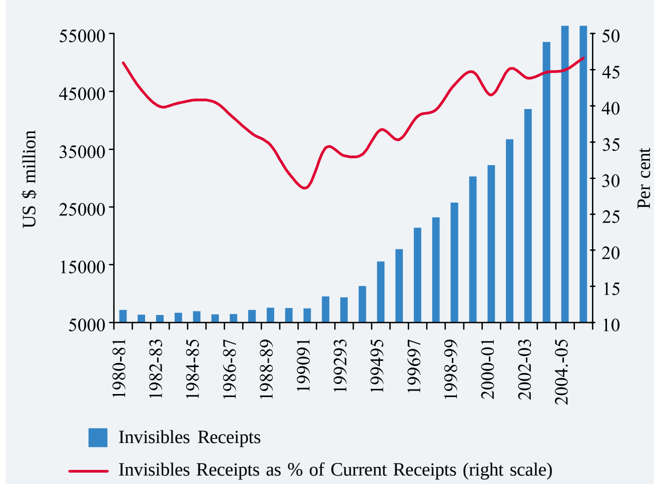


Chart 2: Trend in India's Invisibles Receipts



exports growing at above 20 per cent, on an average, since the mid-1990s. Within the services exports, rising prominence of business services reflects high skill intensity of the Indian work force. There has also been a strong revival in the international tourist interest in India in recent years. An important feature of services exports is that India has emerged as a major software exporting country with a level of US $ 23.6 billion in 2005-06, expanding at a steady rate of over 30 per cent in the recent past. With workers' remittances at US $ 24.6 billion in 2005-06, India continued to retain its position among the leading remittance receiving countries in the world marked by relative stability in such inflows. The sustained expansion in remittances since the 1990s was underpinned by structural reforms, including a market-based exchange rate, current account convertibility as well as shifts in labour migration pattern to increasingly high skilled categories (Chart 3).

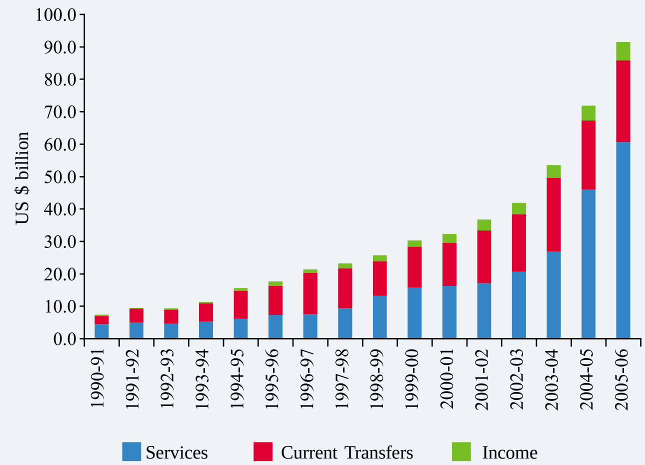
A significant rise in the invisible receipts since the mid-1990s is attributable to an improved competitive advantage in business and technological services exports. The rising prominence of business services reflects high skill intensity of the Indian work force. A marked feature of services exports, besides the shift in the trend level of exports, has been the reduced volatility, which provided a modicum of stability to the current receipts.

4. Composition of Invisibles

(i) Trade in Services

An important feature of services exports has been a structural shift driven by the emergence of new avenues of service exports. The traditional services have displayed sluggishness while new services particularly high skill and technology intensive services are rising in importance in the 1990s (Table 2). Reflecting these positive developments and continued buoyancy of India's services exports, India emerged as an important service exporter. Services exports during 2005-06 continued to be led by rapid growth in software services exports and business and professional services. The gains recorded by the exports of services have far exceeded those recorded by exports of goods.

Chart 3: India's Invisibles Receipts: Major Components



Travel

Travel receipts constitute an important component of services receipts. Receipts under travel consist of expenditure by foreign tourists towards hotel accommodation, food and beverage services and goods and services purchased including domestic travel. Foreign

Table 2: Composition of India's Services Exports

(Per cent)

	Travel	Transportation	Insurance	G.n.i.e.	Software Services	Non-Software Miscellaneous Services*	Total Services
1990-91	32.0	21.6	2.4	0.3	-	43.6	100.0
1995-96	36.9	27.4	2.4	0.2	-	33.1	100.0
2000-01	21.5	12.6	1.7	4.0	39.0	21.3	100.0
2001-02	18.3	12.6	1.7	3.0	44.1	20.3	100.0
2002-03	16.0	12.2	1.8	1.4	46.2	22.4	100.0
2003-04	18.7	11.9	1.6	0.9	47.6	19.2	100.0
2004-05	15.4	10.8	2.0	0.9	40.9	29.9	100.0
2005-06	12.9	10.4	1.7	0.5	38.9	35.6	100.0

* Include business and professional services.

tourist arrivals generally follow a seasonal pattern, peaking in October-December with the tourist season extending up to March. The deceleration in travel earnings, a fall out of global slowdown in tourist growth in the 1990s due to geo-political uncertainties and global recession, reversed with renewed buoyancy in travel receipts (Table 3). Tourism earnings continued with their buoyancy witnessed since 2003-04, reflecting both business and leisure travel. Liberalisation of payments system, growing globalisation, rising services exports and associated business travel, have led to sustained growth in outbound tourism from India through the 1990s. Concomitantly, travel payments also increased, reflecting rising business and leisure travel in consonance with (i) growing merchandise and services trade and (ii) growing disposable incomes of residents in an environment of liberalised payments regime. The potential for greater leisure tourism and business travel indicate the continuation of sustained growth in this segment in the near future.

Software Services

India has become one of the most favoured destinations for software and IT enabled services, achieving exports of US $ 23.6 billion in 2005-06. As the global IT spending has been expanding at a rate of above 5 per cent, global IT services market is estimated to reach US $ 396 billion by 2005. India has remained attractive because of its low cost of operations, high quality of product and services and readily available skilled manpower. Additionally a favourable time zone difference with North America and Europe helps organisations achieve round the clock internal operations and customer service. This has enabled the Indian software industry to continuously enhance its market shares in global IT spending.

Table 3: Foreign Tourist Arrivals in India

Year	Arrivals (millions)
1991	1.68
1992	1.87
1993	1.76
1994	1.89
1995	2.12
1996	2.29
1997	2.37
1998	2.36
1999	2.48
2000	2.65
2001	2.54
2002	2.38
2003	2.73
2004	3.46
2005	3.90

Source : Ministry of Tourism and Culture, Government of India.

ITES-BPO industry has witnessed significant growth in 2005-06, driven by increased offshoring by firms in America and Europe. Within ITES service lines, customer care and finance have been the two fastest growing segments. Apart from these two, some other important segments in the outsourcing industry include human resources, payment services administration and content development. While presently customer care remains the largest service line, finance and administration services are expected to grow significantly over the next few years. The global ITES and BPO market is growing at around 9 per cent. With the industry structure undergoing change, established software service companies have entered into ITES-BPO arena driven by factors such as cross selling opportunities, critical mass and strong balance sheets, end-to-end service offerings. Even as Indian service providers continue to strengthen their position as providers of Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) services to companies around the world, the possibility now exists for India to add new stream of services export growth *i.e.*, Engineering Services Outsourcing (ESO) (Box 2).

Business and Professional Services

Another important aspect of the invisibles has been a sharp acceleration in non-software services exports partly emanating from underlying dynamism in export of business and professional services (Table 4). Business services comprises of merchanting services, trade related services, operational leasing services without operating crew, including charter hire, legal services, accounting, auditing, book keeping and tax consulting services, business and management services, advertising, trade fair, market research and public opinion polling service, research and development services, architectural, engineering and other technical services, agricultural, mining and on-site processing services, audio-visual and related services and personal and cultural services. The business services payments have also witnessed sharp increase in the recent period, reflecting the ongoing technological transformation of the economy and modernisation of Indian industry with a great deal of focus on technological upgradation on sustained basis.

Box 2: Globalisation of Engineering Services

Engineering services is a huge market: Global spending for engineering services is currently estimated at $750 billion per year, an amount nearly equal to India's entire gross domestic product. By 2020, the worldwide spend on engineering services is expected to increase to more than $1 trillion. Of the $750 billion spent today, only $10-15 billion is currently being offshored—a tiny fraction of the total. India brings home about 12 percent of today's offshored market, which it currently shares with Canada, China, Mexico, and Eastern Europe. By 2020, it is estimated that as much as 25 to 30 percent of a much larger $150 to $225 billion market for offshored engineering services could belong to India—as much as $50 billion in annual revenue—if the country builds the capacities, capabilities, infrastructure, and the international reputation it needs to become the preferred destination for these complex, high-value services.

On the positive side, India has the single largest pool of engineering talent among the emerging countries capable of taking on this kind of work—more than Russia and China combined. The current graduate talent pool suitable for ESO and ITO/BPO work in India represents 28 percent of the total in low-cost countries. The outsourcing boom has also created what one might call the habits of success: extensive experience in forging strong client partnerships, in building strong, technically focused organisations, in competing in the fast-changing global market, and most importantly, in creating the business model necessary to deliver value to clients thousands of miles away.

However, India may have to overcome some serious challenges. First, although India trains more engineers suitable for BPO and ESO than any other low-cost countries, not all are equipped with the skill sets required to succeed in this market. Even allowing for a healthy growth rate of 4 percent a year in the number of graduates, the projected number of engineers with the right specialised skills will not be nearly enough to meet the potential demand. Second, India's weak engineering and physical infrastructures are likely to hamper growth as well. As opposed to ITO/BPO, ESO has close links with manufacturing and it may be difficult for India to succeed without significantly enhancing manufacturing capabilities – not easily accomplished given the infrastructural constraints. ITO/BPO success has been driven by companies investing in almost "standalone" facilities to de-risk themselves; however, this won't work with manufacturing. To capture its full potential share of this new business, India needs to take steps to address the gaps.

Source: NASSCOM (2006), "Globalisation of Engineering Services - The Next Frontier for India" August, *Research Report*, www.nasscom.org.

(II) Workers' Remittances

Surge in workers' remittances to India, responding to the oil boom in the Middle East during the 1980s, and the information technology revolution in the 1990s, has put India among the highest remittance receiving countries in the world. Remittances by migrant workers include repatriation of funds for family maintenance and local withdrawals from the non-resident Indian (NRI) deposits. Remittance inflows from overseas Indians reached US $ 24.6 billion in 2005-06 from US $ 2.1 billion in 1990-91 as the second wave of migrant workers started in the mid-1990s towards information technology sectors in the US (Table 5).

Table 4: Receipts and Payments of Miscellaneous Services

(US $ million)

	Receipts		Payments	
	2004-05	2005-06	2004-05	2005-06
Total Miscellaneous Services	30,629	45,197	16,902	23,065
Of which:				
Communication services	1,384	2,182	738	808
Construction services	491	916	716	853
Financial services	512	1,704	832	1,307
Software services	17,700	23,600	800	1,338
News agency services	171	339	281	306
Royalties, copyright and license fees	71	129	712	729
Business services	5,167	12,874	7,318	10,403
Personal, Cultural & Recreational services	105	128	102	97

Table 5: Private Transfers to India

(US $ million)

Year	Flows (US $ billion)	Share in Current Receipts (Per cent)	Flows (Per cent of GDP)
1990-91	2.1	8.0	0.7
1995-96	8.5	17.1	2.4
1999-00	12.3	18.1	2.7
2000-01	13.1	16.8	2.8
2001-02	15.8	19.4	3.3
2002-03	17.2	18.0	3.4
2003-04	22.2	18.5	3.7
2004-05	21.1	13.6	3.0
2005-06	24.6	12.5	3.1

Demand for semi-skilled/unskilled labour from Middle East started in mid-1970s and peaked in the early 1980s, which was followed by the second wave- mid-1990s, led by information technology boom. Thus, the migration pattern changed from unskilled/semi-skilled to highly skilled workers to the US. The pattern of migration and their skill content has in fact determined the pattern of remittance inflows to India (Table 6).

The inflows in the form of workers' remittances to India have stabilised around 3 per cent of GDP since the latter half of the 1990s. They have offset India's merchandise trade deficit to a large extent, thereby keeping current account deficits modest through the 1990s. Some recent studies on the subject have observed that the relative stability of workers' remittances can be attributed to the low interest rate and exchange rate sensitivity of such flows. Further, they recorded the lowest volatility measured by coefficient of variation after merchandise exports during the period 1992 to 2004 *vis-à-vis* other components of current receipts such as income and services exports (Table 7). Private transfers were also less volatile in relation to other capital account items such as NRI deposits and foreign direct investment and portfolio investment. Workers' remittances in the Indian context are found to be counter-cyclical and as such they have provided some element of stability to the current account balance. India's overwhelming comparative advantage reflects the vast pool of skilled and semi-skilled labour and technical manpower in the country and the ability to successfully locate labour overseas.

A significant share of remittances to India continues to be contributed by inflows from the oil exporting countries of Middle East. Thus, the behaviour of remittances to India is likely to be influenced by growth patterns in these countries, best represented in the form of oil prices. Another important source of remittance inflows to India is the US. In the Indian context, a major part of funds remitted by expatriate workers is channelised through inflows to non-resident deposits in the form of local withdrawals.

Table 6: Spatial Distribution of Overseas Indian Community

Region/Country	Numbers in Million
I. Industrial Countries	**4.5**
United States	1.7
Euro Area	0.5
United Kingdom	1.2
Others	1.1
II. Developing Countries	**12.1**
Africa	2.0
Asia	5.5
Middle East	3.5
Latin America	1.1

Source: Report of the High Level Committee on the Indian Diaspora, December 2001.

Table 7: Relative Volatility of Workers' Remittances and Other Trade and Capital Flows to India

(Per cent)

	1976-91 CV	1992-04 CV
Current Account		
Private Transfers	33.1	49.1
Services	41.7	56.5
Income	42.1	66.1
Merchandise Exports	38.5	37.5
Capital Account		
NRI Deposits	94.4	62.8
Foreign Direct Investment to India		57.6
Portfolio Inflows		98.9
Total Foreign Investment	48.1	72.6

CV = Coefficient of variation

Measures taken in the past to foster the use of formal channels for remitting workers' remittances to India include the adoption of a market determined exchange rate, current account convertibility and speedier process of remittance transfers through bank branches (Box 3).

Sources, Transaction Cost and Time: Survey Results

In the recent years, besides the magnitude of remittance inflows, there has been a growing interest about the micro aspects of remittances such as the modes of transfer, transaction cost, speed of delivery, regularity in sending remittances and how the remittances are utilised. On these important aspects, a recent study "Remittances from Overseas Indians: A Study of Methods of Transmission, Cost, and Time" conducted by the Department of Economic Analysis and Policy of the Reserve Bank of India analysed the micro aspects of remittances, which are relatively less explored (detailed study is at Annex 3). The study based on a survey of banks, which are engaged in foreign exchange transactions, revealed North America as the most important source region of remittances to India (about 44 per cent of the total remittances), while the Asian region (Gulf and east Asia) contributed about 32 per cent of remittance flows to India. The higher share of North

Box 3: Inward Remittances

Remittance inflows have shown significant increase and become an important source of financing of current account deficit not only in India but in several countries. Inward remittances to developing countries have surged from US $ 58 billion in 1995 to US $ 160 billion in 2004 (World Bank, 2005). Remittances have emerged as the second important source of funds to developing countries after foreign direct investment. Remittances are equivalent to about 6.7 percent of developing countries' imports and 7.5 percent of domestic investment, indicating the significance of these inflows for the host economies, especially smaller economies. Remittances were even larger than total capital inflows in 36 developing countries in 2004 and exceeded merchandise exports in a number of countries such as Albania, Haiti, Jamaica, Lebanon, Nepal and Serbia. In part, the surge in officially recorded remittances to developing countries in recent years reflects better data collection owing to greater awareness of the development potential of remittances as well as concerns about money laundering. In a number of countries, the government policies to improve banking access and the technology of money transfers have also helped increase the flow of remittances and promote their transfer through formal channels. Workers remittances are found to be counter-cyclical and as such they have provided some element of stability to the recipient countries.

Remittance Inflows to India

The surge in workers' remittances to India, responding to the oil boom in the Middle East during the 1970s and 1980s, and the information technology revolution in the 1990s, has put India as the highest remittance receiving country in the world. Remittances include repatriation of funds for family maintenance and local withdrawals from the non-resident Indian (NRI) deposits. Inward remittances from Indians working abroad have surged from US $ 2.1 billion in 1990-91 to reach US $ 24.6 billion in 2005-06. Inward remittances have offset India's merchandise trade deficit to a large extent, thus keeping current account deficits modest through the 1990s.

The sustained expansion in remittances since the 1990s has been underpinned by structural reforms, including market based exchange rate, current account convertibility as well as a shift in the labour outflow pattern from semi-skilled to increasingly high-skilled categories. Policy initiatives to facilitate remittance flows through speedier and cost effective money transfer arrangements like the banking channels, money transfer agencies and post offices have also contributed to stability in remittances. While banking channels account for bulk of the inward remittances to India, the two schemes, *viz.* (i) Money Transfer Service Scheme (MTSS) and (ii) Rupee Drawing Arrangements (RDA) are also assuming significance. These schemes provide benefits of easier and speedier operations and play an important role in expanding the outreach of remittances services to remote locations in the country.

Reference:

1. World Bank (2005), Global Economic Prospects (2006).

America is in line with the fact that the migration to North America in software and other technology related areas has been steady with relatively higher average earning levels. A predominant portion of the remittances received (54 per cent) are utilised for family maintenance, *i.e.*, to meet the requirements of migrant families regarding food, education, health, *etc.* On an average, about 20 per cent of the funds received are deposited in bank accounts locally and 13 per cent of the funds received are invested in land/property/equity shares. The average size of remittance transfer to India is relatively higher. Out of the total remittance transfers to India, the remittances with average size of US $ 1,100 and above accounted for 52 per cent of the total value of remittance inflows. Within the high value remittances, a large part (63 per cent) was accounted for by the remittances exceeding US $ 2,200. A cross-section analysis of the relationship between the size of remittances and the frequency of sending remittances reveals an inverse relationship between the size and the frequency, which is in line with the empirical findings. The following are the main findings of the study regarding cost and time involved in transmitting remittances.

(i) The study found that electronic wires/Swift has been used as a dominant mode of transferring remittances from abroad by the overseas Indians. The higher use of Swift *vis-à-vis* other modes of transfers also indicate the preference of the senders for time efficient modes as drafts/cheques are relatively time consuming means of transfer.

(ii) Swift transfers are the most time efficient means of remitting money as they depend on electronic/ telegraphic transfer of funds with average time taken being mostly 1-2 days. Similarly, transfers through debit/credit cards are also less time consuming (2-6 days) as these are electronic based transfers. Remittances made through cheques, drafts and money orders are time consuming. The maximum time taken in remitting funds through these instruments can be as long as 30 days.

(iii) Swift is the costlier means of transferring funds *vis-à-vis* drafts and cheques. While the cost of sending up to US $ 500 from US to India is 2.5-8.0 per cent in the case of SWIFT, it is much lower at 0.7-2.0 per cent in the case of drafts/cheques. There is a strong tapering effect in the cost structure of remitting funds to India.

(iv) Besides the remittance charges paid for bank to bank transfers, the handling charges imposed domestically on delivering funds to non-customers or remote locations are found to be in the range of 0.1-0.6 per cent of the total value of funds.

Another recent report of the "Working Group on Cost of NRI Remittances" May 2006 (Chairman: Chief Executive, FEDAI)[3] to look into the components of costs of NRI remittances that go into the pricing of remittances to India reveals that (i) Bank charges in India in respect of inward remittances are relatively nominal. However, in respect of beneficiaries at centres other than where remittance has been received, nominal domestic DD/TT charges are applicable, (ii) to keep the cost of remittances at the foreign centre low, the NRI should try to route their remittances though a branch of an Indian bank or a foreign Bank with a presence in India, (iii) banks which are active in NRI remittances business should conduct an awareness programme for diaspora, (iv) the active bank in NRI remittances should view this business as a volume play and consciously reduce fee based costs so that volume can grow and review their existing scale of charges, (v) the role of foreign representatives of the Indian banks and the services of Indian Embassies, Consulates may play an important role for spreading awareness, (vi) the restriction on the number of Exchange House relationships that an Indian bank can enter into may be relaxed and perhaps done away with especially for banks that have instituted adequate risk management controls. The Group also recommended the following measures: (i) to examine the feasibility of extending the scope of RTGS for inter-city settlements between banks in India, (ii) to permit the Indian banks to enter the MTO business abroad, subject to local regulations.

A comparative analysis of the main findings of the above mentioned studies is set out in Box 4. It may be observed that while the 'Working Group on Cost of NRI Remittances', provides the cost of remittance transfers in general, the study 'Remittances from Overseas Indians: A Study of Methods of Transmission, Cost, and Time', reveals the more intricate dimensions of cost associated with particular modes of transfers and the strong tapering effect of the size of transaction on cost element. The latter study also measures the time taken in delivering remittances to India through various modes of transfers under the banking channel.

(iii) Investment income

Investment income receipts are mainly determined by two components: interest and discount earnings on RBI investment and reinvested earnings of the Indian direct investment enterprises abroad. Investment income receipts rose significantly since the late 1990s (Table 8) due to build up of foreign exchange reserves. The rise in reinvested earnings reflects the upward trend in Indian overseas investment by the Indian companies to take advantage of access to markets, natural resources, distribution networks, foreign technologies and other strategic assets such as brand names.

Investment income payments mainly reflect payment of interest on commercial borrowings, interest payments on non-resident deposits and reinvested earnings of the foreign direct investment (FDI) enterprises operating in India. While the interest payments depend on the level of debt and the interest rate environment, the reinvested earning payments are influenced by the profitability and reinvestment decisions of FDI enterprises operating in India. A shift in the level of investment income payments since 2000-01 partly reflects the inclusion of reinvested earnings of FDI enterprises as per the revised procedure

3 The study is available on the Reserve Bank of India website.

Box 4: Comparison of Main Findings of the 'Report of the Working Group' and the Study 'Remittances from Overseas Indians'

Working Group on Cost of NRI Remittances	Remittances from Overseas Indians: A Study of Methods of Transmission, Cost, and Time, DEAP, RBI
Approximate geographical corridor-wise break-up of remittance inflows were observed to be as under: Middle Eastern Region 35 per cent, North America 30 – 35 per cent, Europe 20 per cent, and others 10 per cent.	North America emerges as the most important source region of remittances to India (about 44 per cent of the total remittances), while the Asian region (Gulf and East Asia) contributed about 32 per cent and Europe about 13 per cent of remittance flows.
Typically, correspondent bank charges were in the region of US$ 15-20. For every additional tier in the process a fee of US$ 15-20 may be assumed. However, some banks in India have entered into arrangements with correspondents (mainly in USA and UK) whereby a much smaller fee is charged on remittances to India on the basis of overall volumes or in some cases where account with the correspondent bank is maintained with a minimum balance.	SWIFT is the costlier means of transferring funds *vis-à-vis* drafts and cheques. While the cost of sending up to US $ 500 from US to India is 2.5-8.0 per cent in the case of SWIFT, it is much lower at 0.7-2.0 per cent in the case of drafts/cheques.
Remittance charges will vary depending on the mode used. Typically, for a remittance of USD 1000 from a major financial centre to a bank in India the overall cost could be in the range of 2 to 3 per cent which will come down proportionately with the size of the remittance amount.	There is a strong tapering effect in the cost structure of remitting funds to India. The cost element also is associated with the modes of transfer with inverse relationship between the speed and the cost of transfer.
Handling charges are equivalent to domestic DD rates.	Besides the above mentioned charges paid on remitting funds from overseas locations, the handling charges imposed domestically on rerouting funds to deliver to non-customers or remote locations are found to be in the range of 0.1-0.6 per cent of the total value of funds.

of recording FDI in India to reach the international best practices.

Table 8: Investment Income

(US $ million)

Year	Receipts	Payments
1990-91	368	4,120
1995-96	1,430	4,634
1996-97	1,073	4,380
1997-98	1,561	5,020
1998-99	1,893	5,462
1999-00	1,783	5,478
2000-01	2,554	7,218
2001-02	3,254	7,098
2002-03	3,405	6,949
2003-04	3,774	7,531
2004-05	4,124	8,219
2005-06	5,477	10,504 *

* Includes, inter alia, interest payments (US$ 1,718 million) of India Millenium Deposits (IMDs).

5. Cross Country comparison

Trade in Services

Reflecting the positive developments in terms of comparative advantage in a number of services exports and continued buoyancy of India's services exports, India emerged as 19th important service exporter in the world in 2004 with a market share of 1.7 per cent as against 0.6 per cent in 1990 (Table 9).

Travel Services

India ranked 21st in the world tourist earnings in 2004 as against 23rd rank in 1990. However, with the recent revival in tourist interest in India, a marginal improvement was recorded in its share in world tourist earnings to 1 per cent in 2004 from an average of 0.7 per cent in the late 1990s (Table 10).

Table 9: Comparative Position of India among Top Service Exporters, 2004

Country	Exports (US $ million)	Share (%)
USA	3,40,418	15.2
UK	1,81,440	8.1
Germany	1,41,852	6.3
France	1,10,313	4.9
Japan	97,611	4.4
Spain	84,877	3.8
Italy	83,706	3.7
Netherlands	73,472	3.3
China	62,434	2.8
Hong Kong	54,175	2.4
Belgium	52,487	2.3
Ireland	52,459	2.3
Austria	48,994	2.2
Canada	47,534	2.1
Switzerland	43,343	1.9
Korea	41,429	1.9
Singapore	41,179	1.8
Sweden	38,719	1.7
India	**38,282**	**1.7**
Denmark	36,304	1.6

Source : Balance of Payments Statistics Year Books, IMF.

Table 10: India's Position in Travel Earnings, 2004

	Country	US $ million	Share in World Travel Earnings (%)
1.	USA	93,922	15.0
2.	Spain	45,067	7.2
3.	France	40,686	6.5
4.	Italy	35,378	5.7
5.	UK	28,188	4.5
6.	Germany	27,601	4.4
7.	China	25,739	4.1
8.	Turkey	15,888	2.5
9.	Austria	15,306	2.5
10.	Canada	12,817	2.1
11.	Greece	12,715	2.0
12.	Australia	12,703	2.0
13.	Japan	11,265	1.8
14.	Mexico	10,753	1.7
15.	Netherlands	10,417	1.7
16.	Switzerland	10,399	1.7
17.	Thailand	10,043	1.6
18.	Belgium	9,179	1.5
19.	Portugal	7,758	1.2
20.	Croatia	6,973	1.1
21.	**India**	**6,170**	**1.0**
22.	Sweden	6,163	1.0

Source: Balance of Payments Statistics Year Book 2005 and Reserve Bank of India.

Software Services

Earnings from exports of software and IT enabled services remained the key driver of services earnings. Globally, India ranks second to Ireland in exports of computer and information services (Table 11). Notwithstanding increasing competitive pressures, India remains an attractive source because of its low cost of operations, high quality of products and services and availability of skilled manpower.

Workers' Remittances

In recent years, there has been a significant increase in the workers' remittances across the countries. According to available estimates, officially recorded data for workers' remittances to developing countries rose to US $ 167 billion in 2005 (US $ 96.5 billion in 2001), up 73 per cent from 2001. More than half of the increase from 2001 to 2005 in remittances occurred in China, India and Mexico. The World Bank (2005) observed the following underlying reasons for this phenomenon. First, the number of migrants has grown sharply. During the oil boom in the 1970s and 1980s, thousands of low skilled Indian workers migrated to the Persian Gulf countries. In the 1990s, migration to Australia, Canada, and the United States, increased significantly, particularly among information technology (IT) workers on temporary work permits. Second, the swelling of migrants' ranks coincided with better incentives to send and invest money, easing of regulations and controls, more flexible exchange rates, and gradual opening of the capital account. The elimination of the black-market premium on the rupee and convenient remittance services provided by Indian and international banks have no doubt shifted some remittance flows from informal hawala channels to formal channels. Third, non-resident Indians have also responded to several attractive deposit schemes and bonds offered by the Government of India. A cross country comparison of recent flow of remittances to developing countries reveals that India has emerged as a leading recipient country in the world (Table 12).

Table 11: Computer & Information Services Exports, 2004

(US $ billion)

Rank	Country	Amount
1	Ireland	18.6
2	**India**	**17.7**
3	U.K.	10.6
4	Germany	7.9
5	U.S.A.	6.6
6	Israel	4.3
7	Netherlands	3.6
8	Spain	2.9
9	Canada	2.8
10	Belgium	2.4

Source: Balance of Payments Statistics Year Book 2005, IMF.

Table 12: Workers' Remittances- Cross Country

(US $ million)

	Country	1996	2003	2004
1	Bangladesh	1,345	3,180	3,572
2	Brazil	1,866	2,018	2,459
3	China	1,672	3,343	4,627
4	Colombia	745	3,060	3,170
5	Egypt	3,107	2,961	3,341
6	**India**	**8,453**	**21,885**	**20,012**
7	Mexico	4,224	13,396	16,613
8	Morocco	2,165	3,614	4,221
9	Pakistan	1,245	3,963	3,943
10	Portugal	3,575	2,752	3,032
11	Philippines	569	8,199	8,961
12	Spain	2,749	4,718	5,189

Source: Balance of Payments Statistics Year Books, IMF.

6. Policy Initiatives

In the 1990s, a liberalised trade regime was put in place, which marked a significant turnaround in India's external trade policy. The institution of a market-determined exchange rate system in 1993, followed by current account convertibility, provided enabling environment for trade in goods and services. Among the services, software exports played an important role in enhancing India's competitiveness in services trade. The important policy initiatives in this regard was setting up of Software Technology Parks of India (STPIs), which are currently about 47 and located across the country. Furthermore, the regime for Indian investment overseas has been substantially liberalised in order to provide Indian companies access to new markets and enhancing competitiveness at the global level. The permission to Indian companies to make overseas investments to the extent of 200 per cent of their net worth and the flexibility to finance such acquisitions have helped service providers to gain access to markets abroad in sectors such as software, Information Technology Enabled Services (ITES) and trading/retailing. Simplification of documentation and retention of earnings/unspent exchange in foreign currency deposits has provided further flexibility to exporters in general. To sum up, market-based exchange rate, institutional development for wider access to remittance services, improvement in payments and settlement system, expansion of Indian bank branches abroad, initiatives to facilitate speedier and cost effective money transfer arrangement has helped in augmenting remittances flows through formal channels.

Trade in Services

Among the measures to facilitate services exports, the Services Export Promotion Council set up by the Government of India aims to: (i) map opportunities for key services in key markets and develop strategic market access programmes for each component of the matrix, (ii) co-ordinate with sectoral players in undertaking intensive brand building and marketing programmes in target markets, (iii) make necessary interventions with regard to policies, procedures and bilateral/ multilateral issues, in co-ordination with recognised nodal bodies of the services industry. The Foreign Trade Policy (2004-09) announced that Government shall promote the establishment of Common Facility Centres for use by home-based service providers, particularly in areas like engineering and architectural design, multi-media operations, software developers, *etc.*, in state and district-level towns, to draw in a vast multitude of home-based professionals into the services export arena. The objective is to accelerate the growth in export of services so as to create a powerful and unique 'Served From India' brand. Service providers of services listed in Handbook of Procedures who have a total foreign exchange earning or earning in Indian Rupees which are otherwise considered as having been paid for in free foreign exchange by RBI, of at least Rs.10 lakh in the preceding or current financial year shall be eligible to qualify for duty credit scrip. For individuals who are service providers of services listed in the Handbook of Procedures, the total foreign exchange earned or earning in Indian Rupees which are otherwise considered as having been paid for in free foreign exchange by RBI criteria would be Rs.5 lakh in the preceding financial year. All service providers, including Healthcare and Educational Service Providers, Engineering Process Outsourcing (EPO) and Knowledge Process Outsourcing (KPO) service providers, of services listed in the Handbook of Procedures shall be entitled to duty credit scrip equivalent to 10 per cent of the foreign exchange earned by them in the preceding financial year[4].

4 Duty credit scrip may be used for import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables. The imports shall relate to any service sector business of the applicant. Utilization of duty free credit scrip earned under the scheme financing shall also be permitted for payment of duty in case of import of capital goods under lease financing.

Remittances from Overseas Indians

Inflows from overseas Indians are in the form of: (i) inward remittance towards family maintenance and (ii) deposits in the Non-resident Indian (NRI) deposits schemes with the banks in India. Remittances include mainly the inflows towards family maintenance and the funds domestically withdrawn from the Non-Resident Indian Rupee Deposits[5]. Such remittances from overseas Indians are treated as current transfers. As against this, the inflows from overseas Indians for deposits in the Non-resident deposit schemes are treated as capital account transactions.

Past Measures

Regarding institutional measures to facilitate remittances, a number of initiatives have been undertaken in the past. As alluded to earlier, these include market-based exchange rate, current account convertibility, regulatory measures to facilitate the institutional development for wider access to remittance services, policy initiatives to facilitate speedier and cost effective money transfer arrangements.

The incentives by the banking system to attract remittances from overseas Indians in the form of deposits include a number of deposit schemes. In the 1970s, the two oil shocks shifted substantial resources towards oil exporting countries which provided investment and employment opportunities in the oil-rich countries. The RBI devised specific deposit schemes to tap the savings of non-resident Indians employed in these countries. Special schemes for Non-Resident Indians were initiated in February 1970 with the introduction of the Non-Resident External Rupee Account. This was followed by the Foreign Currency denominated schemes. Since the 1990s, the policy with respect to the non-resident deposit schemes has been to retain the attractiveness of these schemes to maintain capital flows from abroad, while at the same time, reducing the effective cost of borrowing in terms of interest outgo and the cost to macroeconomic management. In line with these objectives, while the interest rates on these deposits have been gradually deregulated the reserve requirements and, in recent period, interest rate ceilings have been fine-tuned in relation to capital flow cycles.

Incentives through the interest rate mechanism are also available on NRI deposits. Recently, the Reserve Bank has issued the following notification: "With effect from close of business in India on November 17, 2005, the interest rates on fresh repatriable Non-Resident (External) Rupee (NRE) deposits for one to three years should not exceed 75 basis points (as against 50 basis points effective since November 1, 2004) above the London Inter Bank Offered Rate (LIBOR)/Swap rates for US dollar of corresponding maturity." This was further increased by 25 basis points in April 2006 to LIBOR/ SWAP rates of US dollar plus 100 basis points. ADs or housing finance institutions in India approved by the National Housing Bank are now allowed to provide housing loans to a non-resident Indian or a person of Indian origin resident outside India for acquisition of a residential accommodation in India. From May 2004 the installment on such loans, interest and other charges can be repaid by close relatives (as defined under Section 6 of the Companies Act, 1956) of the borrower in India directly to the borrower's loan account with the AD/ housing finance institution.

Recent Developments

In the recent past measures have been taken in the form of facilitating remittance receiving infrastructure domestically which, *inter alia*, include special money transfer schemes such as Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangements (RDA).

It may be mentioned that while bulk of the inward remittances to India takes place through banking channels, two schemes, *viz.*, Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangements (RDA), have recently gained momentum on account of their speed and ease of operation. MTSS is an approved method of transferring remittances from abroad to beneficiaries in India. Only personal remittances such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible. The system envisages a tie-up between reputed money transfer companies abroad and agents in India who have to be an Authorised Dealer, Full Fledged Money Changer, registered NBFC or International Air Transport Association (IATA) approved travel agent with a minimum net worth of Rs.25 lakh. The Indian agent requires the Reserve Bank

5 The funds locally withdrawn from the rupee denominated deposits for various purposes by the person authorised by the NRI form part of the workers' remittances as these cease to be a liability and assume the form of unrequited transfers.

approval to enter into such an arrangement. Remittances up to Rs.50,000 can be paid in cash, while any amounts in excess of this amount have to be necessarily paid by cheque/demand draft (Annex 4).

Rupee Drawing Arrangements (RDA) are entered into by banks in India with Private Exchange Houses in the Gulf Region, Singapore and HongKong for channelising inward remittances. Authorised Dealers need the prior approval of the Reserve Bank to enter into RDA with Exchange Houses and open vostro accounts in their name. Inward remittances under the scheme are normally personal remittances from NRIs in the above countries. Trade remittances up to Rs.2 lakh per transaction can also be funded through these arrangements. Under RDA, banks may enter into arrangements under Designated Depository Agency (DDA), Non-Designated Depository Agency, or Speed Remittance procedures. Under DDA procedure, the Exchange House issues rupee drafts to the beneficiary and at the end of each day arrives at the total drawings and deposits their daily collections on the next working day in the DDA account (this account is a designated account opened in the name of the drawee bank by the Exchange House with a bank acceptable to the drawee bank at a centre mutually agreed upon). No collateral security is to be placed by the Exchange House under this kind of arrangement in the normal course. Under Non-DDA procedure, the Exchange House directly credits the nostro account of the bank with the total of daily drawings. Collateral deposits equivalent to one month projected drawings are insisted upon (15 days cash and 15 days bank guarantee). Under Speed Remittance, the Exchange House sends instructions electronically to the bank with complete details of the beneficiary and funds their rupee account through the bank's nostro account well in advance before issuing payment instructions.

Commercial banks designated as authorised dealers, can receive and transfer remittances. Presently there are about 10 overseas principals with tie up with 27 Indian entities. These comprise 9 ADs, 16 FFMCs, Department of Post and Thomas Cook. Designated post offices are permitted to receive remittances. Presence of the Indian banks abroad has helped in facilitating remittances from the source countries to wider delivery in India as the Indian banks have a wider network of branches in India. As on October 2005, there were about 150 branches, subsidiaries, representative offices and joint ventures of the Indian banks abroad. Bank sponsored exchange houses have facilitated remittances from Gulf countries. The remittance transfer mechanism in India is broadly in compliance with BIS General Principles for International Remittance Services: (1) Transparency & Customer Protection, (2) Payments System Infrastructure, (3) Legal & Regulatory Environment, (4) Market Structure, Competition and Governance and (5) Risk Management. Remittances through the channels of MTSS and RDA have been steadily rising. Remittances from overseas Indians through MTSS were US $ 1.2 billion and RDA US$ 6.1 billion in 2004. These inflows steadily rose to US $ 1.9 billion under the MTSS route and RDA US $ 7.3 billion under the RDA route in 2005.

It may be mentioned that recognising the importance of migrant Indians and remittances, Government of India has set up a Ministry of Overseas Indian Affairs to promote all matters relating to overseas Indians comprising Persons of Indian Origin (PIO) and Non-Resident Indians (NRIs). The Ministry also aims at promotion of investment by Overseas Indians including innovative investments and policy initiatives consistent with the overall Government policies particularly in areas such as exclusive Special Economic Zones (SEZs) for overseas Indians.

7. Conclusion

The sustained rise in India's invisibles surplus has significantly minimised the risk to the external payments position. Furthermore, the persistence of current account surpluses together with significant capital inflows enabled further easing of payment restrictions on current and capital account transactions both for individuals and the corporates. The invisible balances have provided a modicum of stability to the current receipts as the invisible balances as ratio to GDP have witnessed relative stability. The stagnation in invisibles receipts during the 1980s gave way to level shift during the 1990s, as reflected in the share of invisibles in the current receipts rising to 47 per cent in 2005-06 from 29 per cent in 1990-91. A marked feature of India's invisibles is the buoyant services exports, which are characterised by a shift in the level as well as reduced volatility, providing stability to current receipts. Within the services exports, rising prominence of business services reflects high skill intensity of the Indian work force. India has emerged as major software exporting country, expanding at a steady rate of over 30 per cent in the recent past.

The surge in workers' remittances to India, responding to oil boom in the Middle East during the 1970s and

1980s, and the information technology revolution in the 1990s, has put India as the highest remittance receiving country in the world. With workers' remittances reaching US $ 24.6 billion in 2005-06, India continued to retain its position among the leading remittance receiving countries in the world with relative stability in such inflows. The sustained expansion in remittances since the 1990s was underpinned by structural reforms, including a market-based exchange rate, current account convertibility as well shifts in labour migration pattern to increasingly high skilled categories. Sustained growth in India's international trade in services, increasing importance of workers' remittances in the balance of payments and the requirements arising on account of India's commitments under GATS has at the same time underlined the need for disseminating disaggregated information on international trade in services and workers' remittances.

As observed in the RBI Annual Report, 2005-06 the buoyancy observed in services exports in the recent years is likely to strengthen as exports of business and professional services gather further growth momentum. The remittances from overseas Indian workers are also likely to remain an important and stable source of financial inflows with continuous transition to higher skill categories of the Indian migrant workers. For the full potential of earnings from exports of services to be realised, issues relating to skill enhancement and quality of education assume greater importance. Demand for education, especially higher education, is expected to grow immensely in the coming years in view of the demand emanating from knowledge intensive nature of the services sector as well as demands from the manufacturing sector. In view of reports of growing shortages of skilled human power, policies that hinder setting up of high quality educational institutions need to be ironed out. Public-private partnership in the field of education holds great promise for equipping the country with institutes of excellence.

Statement 1 : Invisibles by Category

Items	(Rs. crore)							(US $ million)						
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
A. Receipts	**131449**	**147778**	**175108**	**202757**	**245413**	**311550**	**405604**	**30312**	**32267**	**36737**	**41925**	**53508**	**69533**	**91481**
1. Services	**68137**	**74555**	**81739**	**100419**	**123175**	**193711**	**268706**	**15709**	**16268**	**17140**	**20763**	**26868**	**43249**	**60610**
Travel	13166	16064	14975	15991	23054	29858	34580	3036	3497	3137	3312	5037	6666	7789
Transportation	7400	9364	10326	12261	14714	21021	27815	1707	2046	2161	2536	3207	4683	6277
Insurance	1004	1234	1374	1783	1922	3913	4606	231	270	288	369	419	870	1042
GNIE	2523	2986	2467	1417	1105	1797	1356	582	651	518	293	240	401	305
Miscellaneous	44044	44907	52597	68967	82380	137122	200349	10153	9804	11036	14253	17965	30629	45197
2. Transfers	**54939**	**60948**	**77289**	**85289**	**104329**	**97201**	**111822**	**12672**	**13317**	**16218**	**17640**	**22736**	**21691**	**25220**
Official Transfers	1659	1156	2197	2174	2531	2762	2961	382	252	458	451	554	616	667
Private Transfers	53280	59792	75092	83115	101798	94439	108861	12290	13065	15760	17189	22182	21075	24553
3. Income	**8373**	**12275**	**16080**	**17049**	**17909**	**20638**	**25076**	**1931**	**2682**	**3379**	**3522**	**3904**	**4593**	**5651**
Investment Income	7727	11690	15487	16484	17314	18538	24305	1783	2554	3254	3405	3774	4124	5477
Compensation of Employees	646	585	593	565	595	2100	771	148	128	125	117	130	469	174
B. Payments	**74421**	**102639**	**103727**	**120400**	**118044**	**171959**	**224497**	**17169**	**22473**	**21763**	**24890**	**25707**	**38301**	**50539**
1. Services	**50467**	**66650**	**65850**	**82775**	**76794**	**124880**	**170269**	**11645**	**14576**	**13816**	**17120**	**16724**	**27823**	**38345**
Travel	9268	12741	14336	16155	16534	23571	28495	2139	2804	3014	3341	3602	5249	6421
Transportation	10450	16172	16486	15828	10688	20363	32795	2410	3558	3467	3272	2328	4539	7394
Insurance	525	1004	1339	1687	1672	3249	4385	122	223	280	350	363	722	985
GNIE	1167	1460	1349	1105	976	1843	2129	270	319	283	228	212	411	480
Miscellaneous	29057	35273	32340	48000	46924	75854	102465	6704	7672	6772	9929	10219	16902	23065
2. Transfers	**150**	**981**	**1729**	**3886**	**2633**	**4066**	**4183**	**34**	**211**	**362**	**802**	**574**	**906**	**944**
Official Transfers	2	0	0	0	0	1598	2152	0	0	0	0	0	356	486
Private Transfers	148	981	1729	3886	2633	2468	2031	34	211	362	802	574	550	458
3. Income	**23804**	**35008**	**36148**	**33739**	**38617**	**43013**	**50045**	**5490**	**7686**	**7585**	**6968**	**8409**	**9572**	**11250**
Investment Income	23747	32885	33830	30847	34586	36947	46738	5478	7218	7098	6370	7531	8219	10504
Compensation of Employees	57	2123	2318	2892	4031	6066	3307	12	468	487	598	878	1353	746
Net	**57028**	**45139**	**71381**	**82357**	**127369**	**139591**	**181107**	**13143**	**9794**	**14974**	**17035**	**27801**	**31232**	**40942**

P : Preliminary.

Statement 2 : Invisibles Receipts by Category of Transactions

Items	(Rs. crore)							(US $ million)						
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
a) SERVICES	**68137**	**74555**	**81739**	**100419**	**123175**	**193711**	**268706**	**15709**	**16268**	**17140**	**20763**	**26868**	**43249**	**60610**
i) TRAVEL ACCOUNT														
Tourist Expenses in India	13166	16064	14975	15991	23054	29858	34580	3036	3497	3137	3312	5037	6666	7789
TOTAL	**13166**	**16064**	**14975**	**15991**	**23054**	**29858**	**34580**	**3036**	**3497**	**3137**	**3312**	**5037**	**6666**	**7789**
ii) TRANSPORTATION ACCOUNT														
a) Sea Transport														
Surplus remitted by Indian companies operating abroad	262	157	344	241	170	932	1956	61	34	71	50	36	208	441
Operating expenses of foreign companies in India	696	398	495	695	1325	2075	2690	161	87	103	145	289	462	607
Charter hire charges	181	453	407	401	433	217	616	42	99	85	83	94	48	139
b) Air Transport														
Surplus remitted by Indian companies operating abroad	781	851	739	820	444	589	854	180	185	154	170	97	130	193
Operating expenses of foreign Companies in India	87	94	44	21	84	479	474	20	22	10	5	18	107	107
Charter hire charges	103	19	85	21	81	82	93	24	4	18	5	18	20	21
c) Freight on exports	4617	6670	7053	8775	11329	16445	19599	1065	1458	1476	1815	2470	3660	4424
d) Others	673	722	1159	1287	848	202	1533	154	157	244	263	185	48	345
TOTAL	**7400**	**9364**	**10326**	**12261**	**14714**	**21021**	**27815**	**1707**	**2046**	**2161**	**2536**	**3207**	**4683**	**6277**
iii) INSURANCE ACCOUNT														
a) Insurance on export	832	1111	1179	1466	1711	2148	2583	192	243	247	303	373	478	583
b) Premium														
Life	3	4	26	101	3	114	167	1	1	5	21	0	25	38
Non-life	31	24	32	28	54	1302	333	7	5	8	6	12	289	75
Reinsurance from foreign companies	43	18	40	76	40	87	848	10	4	8	16	9	19	194
c) Commission on Business received from foreign companies	2	7	15	18	23	131	346	0	2	4	4	5	29	78
d) Others	93	70	82	94	91	131	329	21	15	16	19	20	30	74
TOTAL	**1004**	**1234**	**1374**	**1783**	**1922**	**3913**	**4606**	**231**	**270**	**288**	**369**	**419**	**870**	**1042**
iv) Government Not Included Elsewhere														
a) Maintenance of foreign embassies and diplomatic missions in India	887	1019	935	860	850	1025	898	205	222	195	178	185	229	202
b) Maintenance of international and regional institutions in India	1636	1967	1532	557	255	772	458	377	429	323	115	55	172	103
TOTAL	**2523**	**2986**	**2467**	**1417**	**1105**	**1797**	**1356**	**582**	**651**	**518**	**293**	**240**	**401**	**305**
v) MISCELLANEOUS ACCOUNT														
a) Communication services	4601	5262	3585	3931	4535	6191	9695	1064	1138	752	812	990	1384	2182
b) Construction services	1691	2430	696	863	2097	2184	4026	389	536	144	178	458	491	916
c) Financial services	1569	1577	1387	3276	1372	2279	7551	361	347	292	676	299	512	1704
d) Software services	17412	29013	36038	46424	58781	79404	104632	3962	6341	7556	9600	12800	17700	23600
Of which:														
IT Services	14929	24758	28908	34334	42249	58768	76701	3397	5411	6061	7100	9200	13100	17300
ITES-BPO	2483	4255	7130	12090	16532	20636	27931	565	930	1495	2500	3600	4600	6300
e) News agency services	1485	511	43	284	321	769	1497	342	114	9	59	69	171	339
f) Royalties, copyright and license fees	237	272	104	111	146	316	572	54	60	22	23	32	71	129
g) Business services (1 to 12)$	**2790**	**1522**	**2464**	**3890**	**5937**	**23067**	**57196**	**643**	**334**	**519**	**807**	**1296**	**5167**	**12874**
1. Merchanting services						1248	2237						278	504
2. Trade related services						1923	3945						429	889
3. Operational Leasing Services						123	613						28	138
4. Legal services						1126	1733						257	390
5. Accounting / Auditing services						170	414						38	93
6. Business Management & consultancy services	2790	1522	2464	3890	5937	6955	16541	643	334	519	807	1296	1556	3722
7. Advertising/ trade fair						726	1933						162	435
8. Research & Development services						985	2303						221	519
9. Architectural, Engineering & other technical services						6325	20603						1417	4640
10. Agricultural, Mining & on-site processing services						236	158						52	35
11. Maintenance of offices abroad services						3227	6637						724	1491
12. Environmental services						23	79						5	18
h) Personal, Cultural & Recreational services						466	566						105	128
i) Refunds/rebates	231	238	258	213	234	1716	518	53	52	54	44	51	380	117
j) Other services$$	14028	4082	8022	9975	8957	20730	14096	3285	882	1688	2054	1970	4648	3208
TOTAL (a to j)	**44044**	**44907**	**52597**	**68967**	**82380**	**137122**	**200349**	**10153**	**9804**	**11036**	**14253**	**17965**	**30629**	**45197**

P : Preliminary.

Statement 2 : Invisibles Receipts by Category of Transactions *(Concld.)*

Items	(Rs. crore)							(US $ million)						
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
b) TRANSFERS	**54939**	**60948**	**77289**	**85289**	**104329**	**97201**	**111822**	**12672**	**13317**	**16218**	**17640**	**22736**	**21691**	**25220**
i) OFFICIAL TRANSFERS														
Donations received from Non- residents	174	393	211	156	413	256	232	40	85	44	32	90	63	52
Grant under PL 480 II	414	439	323	280	153	135	169	96	97	68	58	33	30	38
Grants from other Governments	1071	324	1663	1738	1965	2371	2560	246	70	346	361	431	523	577
TOTAL	**1659**	**1156**	**2197**	**2174**	**2531**	**2762**	**2961**	**382**	**252**	**458**	**451**	**554**	**616**	**667**
ii) PRIVATE TRANSFERS														
Inward remittance from Indian workers abroad for family maintenance etc.	32192	35507	31361	47915	47648	40066	44527	7423	7747	6578	9914	10379	8973	10056
Local withdrawals/redemptions from non-resident deposits	17849	21577	40654	32147	48565	44598	55270	4120	4727	8546	6644	10585	9907	12454
Gold and silver brought through passenger baggage	57	44	61	89	86	118	73	13	10	13	18	19	27	17
Personal gifts/donations to charitable/ religious institutions in India.	3182	2664	3016	2964	5499	9657	8991	734	581	623	613	1199	2168	2026
TOTAL	**53280**	**59792**	**75092**	**83115**	**101798**	**94439**	**108861**	**12290**	**13065**	**15760**	**17189**	**22182**	**21075**	**24553**
c) INCOME ACCOUNT	**8373**	**12275**	**16080**	**17049**	**17909**	**20638**	**25076**	**1931**	**2682**	**3379**	**3522**	**3904**	**4593**	**5651**
I) Compensation of Employees														
Wages received by Indians working on foreign contracts	646	585	593	565	595	2100	771	148	128	125	117	130	469	174
TOTAL	**646**	**585**	**593**	**565**	**595**	**2100**	**771**	**148**	**128**	**125**	**117**	**130**	**469**	**174**
II) Investment Income														
Interest received on loans to non-residents	256	384	959	745	910	293	438	59	84	201	154	198	65	98
Dividend/profit received by Indians on foreign investment	68	54	273	64	184	407	941	16	11	57	34	40	92	213
Of which:														
Dividend received by Indians on foreign investment ++						194	116						44	26
Profit received by Indians on foreign investment ++						213	825						48	187
Reinvested Earning	0	1553	3339	5342	2536	1114	1612	0	340	700	1104	552	248	364
Interest received on debentures,FRNs,CPs, fixed deposits and funds held abroad by ADs out of foreign currency loans/export proceeds	50	86	63	69	137	813	404	11	18	13	14	31	182	92
Interest received on overdraft of VOSTRO accounts of foreign correspondents/branches by the ADs	38	26	3	5	1	1518	480	10	6	30	40	95	333	109
Payment of taxes by the non-residents/ refund of taxes by foreign governments to Indians	854	313	626	100	720	774	271	195	70	131	21	157	173	61
Interest/discount earnings etc. earnings on RBI investment	5992	8927	8344	8885	9708	13543	20070	1383	1950	1757	1835	2115	3014	4520
Interest/remuneration on SDR holdings	37	35	37	64	46	76	89	9	8	7	13	10	17	20
Others	432	312	1843	1210	3072	0	0	100	67	358	190	576	0	0
TOTAL	**7727**	**11690**	**15487**	**16484**	**17314**	**18538**	**24305**	**1783**	**2554**	**3254**	**3405**	**3774**	**4124**	**5477**

P : Preliminary.

$: These new categories of services are available since 2004-05 as the reporting system was put in place to record such transaction.

$$: Till 2003-04, others included advertising, rentals, office maintenance, prizes, exhibitions & other services not included elsewhere.

++ : The break-up is available only since 2004-05.

Statement 3 : Invisibles Payments by Category of Transactions

	(Rs. crore)							(US $ million)						
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
a) SERVICES	**50467**	**66650**	**65850**	**82775**	**76794**	**124880**	**170269**	**11645**	**14576**	**13816**	**17120**	**16724**	**27823**	**38345**
i) TRAVEL ACCOUNT														
Business	5490	7200	7001	9617	12449	14451	11818	1268	1586	1471	1987	2712	3222	2661
Health Related	13	18	18	18	26	59	177	3	4	4	4	6	14	40
Education Related	263	435	1182	818	1082	2892	4688	61	95	249	169	237	642	1058
Basic travel quota (BTQ)	1638	1738	2465	3830	2063	5226	7124	379	381	518	796	449	1164	1608
Pilgrimage	602	867	541	604	72	144	118	137	187	113	125	16	31	27
Others	1262	2483	3129	1268	842	799	4570	291	551	659	260	182	176	1027
TOTAL	**9268**	**12741**	**14336**	**16155**	**16534**	**23571**	**28495**	**2139**	**2804**	**3014**	**3341**	**3602**	**5249**	**6421**
ii) TRANSPORTATION ACCOUNT														
a. Sea Transport														
Surplus remitted by foreign companies operating in India	1681	1872	2245	1603	683	4529	6565	387	408	474	330	148	1009	1475
Operating expenses of Indian companies abroad	1757	3736	2125	2439	1670	1493	4111	406	831	446	505	364	333	926
Charter hire charges	501	700	534	540	459	389	327	116	157	112	111	100	87	73
Freight on imports @						3924	5888						876	1328
Freight on Exports +						2328	2860						519	645
Remittance of passage booking abroad #						114	47						26	11
b. Air Transport														
Surplus remitted by foreign companies operating in India	3561	5632	6477	6827	2999	5156	8348	821	1236	1362	1410	652	1147	1889
Operating expenses of Indian companies abroad	580	444	529	539	611	459	1128	134	98	111	112	132	102	254
Charter hire charges	324	336	333	391	280	217	576	75	73	70	82	60	48	129
Freight on imports @						528	506						118	114
Freight on Exports +						264	199						59	45
Remittance of passage booking abroad #						138	208						31	47
c. Freight on imports @@	1317	2970	3482	2895	3503			304	647	732	600	763		
d. Remittance of passage booking abroad @@	104	52	136	80	48			24	12	29	17	11		
e. Others	625	430	625	514	435	824	2032	143	96	131	105	98	184	458
TOTAL	**10450**	**16172**	**16486**	**15828**	**10688**	**20363**	**32795**	**2410**	**3558**	**3467**	**3272**	**2328**	**4539**	**7394**
ii) INSURANCE ACCOUNT														
a. Premium														
Life	3	1	3	2	4	42	58	1	0	0	0	1	10	13
Non-life	45	37	123	22	47	1511	909	10	9	25	5	10	336	205
Reinsurance	328	805	850	1421	1224	1350	2302	76	180	178	295	266	299	516
b. Commission on Business	24	1	15	3	2	54	114	6	0	3	0	0	12	26
c. Others	125	160	348	239	395	292	1002	29	34	74	50	86	65	225
TOTAL	**525**	**1004**	**1339**	**1687**	**1672**	**3249**	**4385**	**122**	**223**	**280**	**350**	**363**	**722**	**985**
iv) Government Not Included Elsewhere														
a. Maintenance of Indian embassies and diplomatic mission abroad	1023	1199	1002	938	855	1516	1801	237	262	209	195	186	339	406
b. Remittances by foreign embassies and mission in India	144	261	347	167	121	327	328	33	57	74	33	26	72	74
TOTAL	**1167**	**1460**	**1349**	**1105**	**976**	**1843**	**2129**	**270**	**319**	**283**	**228**	**212**	**411**	**480**
v) MISCELLANEOUS ACCOUNT														
a) Communication services	826	583	1767	4704	3547	3298	3610	190	127	370	965	772	738	808
b) Construction services	220	757	2446	6391	2995	3217	3783	51	166	517	1326	655	716	853
c) Financial services	5785	8991	6046	6765	3217	3735	5795	1632	1973	1264	1388	700	832	1307
d) Software services	1600	2705	3202	3565	2175	3579	5954	138	591	672	737	476	800	1338
e) News agency services	693	1167	777	1122	1080	1251	1368	90	256	163	232	235	281	306
f) Royalties, copyright and license fees	1351	1073	1723	1703	2039	3185	3239	311	235	361	352	444	712	729
g) Business services (1 to 12)$	**5003**	**4674**	**7154**	**8768**	**11711**	**32807**	**46226**	**1152**	**1022**	**1501**	**1812**	**2550**	**7318**	**10403**
1. Merchanting services						1055	1512						235	339
2. Trade related services						4741	6644						1052	1498
3. Operational Leasing Services						1584	2212						355	498
4. Legal services						327	418						73	94
5. Accounting / Auditing services						58	97						13	22
6. Business Management & consultancy services	3456	2499	2537	3135	3734	5708	9452	795	546	533	648	814	1279	2120
7. Advertising/ trade fair						2298	2713						514	611
8. Research & Development services						254	640						57	144
9. Architectural, Engineering & other technical services						4987	7301						1111	1641
10. Agricultural, Mining & on-site processing services						30	73						7	16
11. Maintenance of offices abroad services	1547	2175	4617	5633	7977	11746	15118	357	476	968	1164	1736	2618	3410
12. Environmental services						19	46						4	10
h) Personal, Cultural & Recreational services						461	427						102	97
i) Refunds/rebates	387	292	715	736	1677	3437	301	89	64	150	152	365	762	68
j) Other services$$	13192	15031	8510	14246	18483	20884	31762	3051	3238	1774	2965	4022	4641	7154
TOTAL (a to j)	**29057**	**35273**	**32340**	**48000**	**46924**	**75854**	**102465**	**6704**	**7672**	**6772**	**9929**	**10219**	**16902**	**23065**

Statement 3 : Invisibles Payments by Category of Transactions *(Concld.)*

Items	(Rs. crore)							(US $ million)						
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06P
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
b) TRANSFERS	**150**	**981**	**1729**	**3886**	**2633**	**4066**	**4183**	**34**	**211**	**362**	**802**	**574**	**906**	**944**
i) OFFICIAL TRANSFERS														
Grants/donations from official sector	2	0	0	0	0	1598	2152	0	0	0	0	0	356	486
TOTAL	**2**	**0**	**0**	**0**	**0**	**1598**	**2152**	**0**	**0**	**0**	**0**	**0**	**356**	**486**
ii) PRIVATE TRANSFERS														
Remittance by non-residents towards family maintenance and savings	125	581	1392	3668	2387	1887	1570	29	124	292	757	522	421	354
Personal gifts/donations to charitable/ religious institutions	23	400	337	218	246	581	461	5	87	70	45	52	129	104
Of which:														
Remittance towards personal gifts and donations ++						488	426						108	96
Remittance towards donations to religious and charitable institutions abroad ++						75	32						17	7
Remittance towards grants and donations to other governments and charitable institutions established by the governments ++						18	3						4	1
TOTAL	**148**	**981**	**1729**	**3886**	**2633**	**2468**	**2031**	**34**	**211**	**362**	**802**	**574**	**550**	**458**
INCOME	**23804**	**35008**	**36148**	**33739**	**38617**	**43013**	**50045**	**5490**	**7686**	**7585**	**6968**	**8409**	**9572**	**11250**
i) Compensation of Employees														
Payment of wages/salary to Non-residents working in India	57	2123	2318	2892	4031	6066	3307	12	468	487	598	878	1353	746
TOTAL	**57**	**2123**	**2318**	**2892**	**4031**	**6066**	**3307**	**12**	**468**	**487**	**598**	**878**	**1353**	**746**
ii) Investment Income														
Payment of interest on NRI deposits	7549	8276	8621	6845	7536	6071	6634	1742	1811	1808	1413	1642	1353	1497
Payment of interest on loans from non-residents	13167	13401	13599	12565	15920	11001	19956	3037	2930	2855	2594	3469	2450	4465
Payment of dividend/profit to non-resident share holder	2333	4676	3397	2237	4041	8969	11123	537	1047	712	462	878	1991	2502
Of which:														
Payment of dividend to non-resident share holders ++						7120	10674						1578	2400
Payment of profit to non-resident share holders ++						1849	449						413	102
Reinvested Earnings		6177	7841	8866	6710	8555	7420		1352	1644	1832	1460	1904	1676
Payment of interest on debentures, FRNs, CPs fixed deposits, Government securities etc.	512	271	103	207	192	766	896	119	60	23	43	42	170	204
Charges on SDRs	132	73	248	96	73	86	75	30	16	52	20	16	19	17
Interest paid on overdraft on VOSTRO a/c Holders/	2	2	2	22	92	1154	266	0	0	0	4	20	255	60
OD on NOSTRO a/c														
Payment of taxes by the Indians/refund of taxes by government to non-residents	52	9	19	9	22	345	368	13	2	4	2	4	77	83
TOTAL	**23747**	**32885**	**33830**	**30847**	**34586**	**36947**	**46738**	**5478**	**7218**	**7098**	**6370**	**7531**	**8219**	**10504**

P : Preliminary.

@ : For the period prior to 2004-05, the break-up of 'freight on imports' between the sea transport and the air transport is not separately available. Therefore, these were included under the head 'freight on imports' [Item a(ii)(c)].

\+ : The category 'freight on exports' was introduced in 2004-05 with a view to improve the date coverage.

\# : For the period prior to 2004-05, the break-up between the sea transport and the air transport is not separately available. Therefore, these have been included under the head 'remittance on passage booking abroad' [Item a(ii)(d)].

@@ : Since 2004-05, presented under the heads 'sea transport' and 'air transport', separately.

$: These new categories of services are available since 2004-05 as the reporting system was put in place to record such transaction.

$$: Till 2003-04, others included advertising, rentals, office maintenance, prizes, exhibitions & other services not included elsewhere.

++ : The break-up is available only since 2004-05.

Annex 1

Invisibles: Concepts

1. Services

Travel

'Travel' represents all expenditure by foreign tourists in India on the receipts side and all expenditure by Indian tourists abroad on payments side. Travel receipts largely depend on the arrival of foreign tourists in India during a given time period.

Transportation

'Transportation' records receipts and payments on account of the carriage of goods and natural persons as well as other distributive services (like port charges, bunker fuel, stevedoring, cabotage, warehousing, *etc.*) linked to merchandise trade.

Insurance

'Insurance' consists of insurance on exports/imports, premium on life and non-life policies and reinsurance premium from foreign insurance companies.

Government not included elsewhere (G.n.i.e)

'Government not included elsewhere (GNIE)' receipts represent inward remittances towards maintenance of foreign embassies, diplomatic missions and offices of international/regional institutions in India, while GNIE payments record the remittances on account of maintenance of Indian embassies and diplomatic missions abroad and remittances by foreign embassies on their account.

Miscellaneous

'Miscellaneous services' comprise of a host of business services, *viz.*, communication, construction, financial, software and news agency services, royalties, copyright and license fees, business services and others.

2. Transfers (official, private)

'Transfers' represent one-sided transactions, *i.e.*, transactions that do not have any *quid pro quo*, such as grants, gifts, and migrants' transfers by way of remittances for family maintenance, repatriation of savings and transfer of financial and real resources linked to change in resident status of migrants. Official transfer receipts include grants, donations and other assistance received by the Government from bilateral and multilateral institutions. Similar transfers by Indian Government to other countries are recorded under official transfer payments.

3. Income

Transactions are in the form of interest, dividend and profit for servicing of capital transactions. Investment income receipts comprise interest received on loans to non-residents, dividend/profit received by Indians on foreign investment, reinvested earnings of Indian FDI companies abroad, interest received, interest/discount earnings on RBI investment *etc.* Investment income payments comprise payment of interest on non-resident deposits, payment of interest on loans from non-residents, payment of dividend/profit to non-resident share holders, reinvested earnings of the FDI companies, *etc.*

In accordance with the IMF's Balance of Payments Manual (5th edition), 'compensation of employees' has been shown under the head, "income" with effect from 1997-98.

Annex 2

New Reporting System for Services

Item	Description
Merchanting services	Sale & purchase of goods without crossing the border.
Trade related services	Commission on exports / imports between resident merchants, commodity brokers, dealers, and commission agents and non-residents and vice-versa.
Operational leasing services	Other than financial leasing without operating crew, including charter hire.
Legal services	Covers the provision of legal advice, representation and documentation.
Accounting services	Accounting, auditing, book keeping and tax consulting services.
Business and management services	Business and management consultancy and public relations services.
Advertising Services	Advertising, trade fair, market research and public opinion polling service.
R & D Services	Associated with basic research, applied research and experimental development of new products and processes.
Architectural and engineering services	Architectural, engineering and other technical services.
Agricultural services	Agricultural, mining and on–site processing services – protection against insects & disease, increasing of harvest yields, forestry services, mining services like analysis of ores, *etc.*
Office maintenance	Payments for maintenance of offices abroad.
Environmental services	Environmental Services.
Personal and Cultural services	Audio-visual and related services – services and associated fees related to production of motion pictures, rentals, fees received by actors, directors, producers and fees for distribution rights. Personal, cultural services such as those related to museums, libraries, archives and sporting activities; fees for correspondence courses abroad.

Annex 3

Remittances from Overseas Indians: A Study of Methods of Transmission, Cost, and Time*

Introduction

Workers' remittances to developing countries have drawn considerable attention due to their characteristics of stable source of external finance. However, in the recent years, besides the magnitude of remittance inflows, there has been a growing interest about the micro aspects of remittances such as the modes of transfer, transaction cost, speed of delivery, regularity in sending remittances and how the remittances are utilised. Globally, these dimensions of remittances are not adequately examined. In the Indian context, steadily rising remittance inflows from overseas Indians, which have stabilised around 3 per cent of GDP, have generated ample interest on the above mentioned aspects of remittances. However, there is virtual lack of information on such dimensions of remittances. Keeping in view the above developments, the present study attempts to address the following issues:

- Relative use of instruments available for money transfers,
- Cost and efficiency of the present system,
- Source regions of remittance inflows,
- End-use of personal remittances.

As a backdrop, during the 1990s there was a structural shift in the level of workers' remittances to India. The remittance inflows to India from overseas Indians increased to US $ 24.6 billion in 2005-06 (US $ 2.1 billion in 1990-91) and emerged as an important component of the current receipts. Sustained inflow of remittances was underpinned by structural reforms, including a market determined exchange rate, current account convertibility as well as a shift in the labour outflow pattern from semi-skilled to increasingly the new stream of highly skilled migrants in technology sectors. Besides these, the incentive structure for remittances including the introduction of a number of deposit schemes to attract funds from non-resident Indians, tax incentives and attractive interest rates on such schemes also contributed to the inflows of remittances. The move to the market determined exchange rate in 1993 led to a decline in the incentives for sending remittances through hawala channels. Further, the improvement in the remittance-receiving infrastructure domestically-expansion in the network of banks and money transfer agencies - also contributed to the inflow of remittances. Accordingly, India is categorised as a country with a higher average size of remittances with average remittances sent to India by the US Indians at US $ 1,100 (Orozco, 2003).

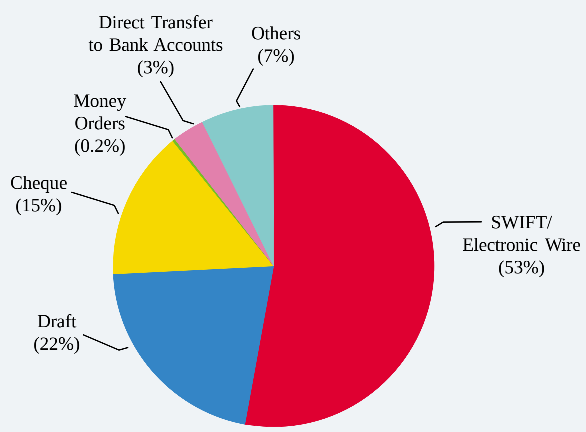
The present study is based on the data collected through a random sampling of the bank branches across major centres in India-Ahmedabad, Bangalore, Chandigarh, Chennai & Pondicherry, Delhi, Hyderabad, Jaipur, Kolkata, Mumbai, Kochi, which are not only representative of the major remittances receiving cities, but are also the corridors for delivering remittances in the interior areas of the States. Section I of the study analyses the instruments and current arrangement for remittance transfers. Size and the frequency of remittance transfers are discussed in Section II. The cost and the speed, which are vital dimensions of remittances, are examined in Section III. Section IV and V attempt to explore the source regions of remittances and the utilisation pattern of remittances, respectively. The main conclusions of the study are summarised in Section VI.

* Study was prepared by the Department of Economic Analysis and Policy (DEAP), Reserve Bank of India, Mumbai in July, 2006. The Survey work was undertaken by the Regional offices of DEAP viz. Ahmedabad, Bangalore, Chandigarh, Chennai & Pondicherry, Delhi, Hyderabad, Jaipur, Kochi and Kolkata and the Division of International Finance, DEAP, CO, Mumbai. Logistic support for survey work was provided by the Financial Market Monitoring Unit, DEAP, CO, Mumbai. The technical support for the study was provided by the Division of International Finance, DEAP, CO, Mumbai.

SECTION I: INSTRUMENTS AND ARRANGEMENT FOR REMITTANCE TRANSFERS

The main instrument used by the migrant workers to send remittances to India include Electronic Wires/ SWIFT, Drafts, Cheques, Debit/Credit cards, Money Orders and Direct Transfers to Bank Accounts. The survey, based on the information received from Major ADs branches in 10 cities reveals, that Electronic wires/ Swift has been used as a dominant mode of transferring remittances from abroad by the overseas Indians (Chart 1). Although it is argued that the SWIFT/wire transfer is a costlier means of transfer for small value remittance transactions and more cost effective for the higher value trade and other transactions, a higher use of this mode can be attributable to a relatively wider network of the Indian bank branches abroad to provide electronic fund transfer and less penetration of money transfer operators (MTOs). The higher use of Swift *vis-a-vis* the other modes of transfers also indicates on the preference of the senders for economy in time in remitting funds as drafts/cheques are highly time consuming means of transfer.

Chart 1: Instruments of Remittances Inflows to India



The regional pattern on the use of SWIFT indicates that the inward remittances to metropolitan centres such as Kolkata, Mumbai and Delhi were predominantly through the use of this facility (Table 1).

The traditional banking modes of remittance transfer *i.e.*, drafts and cheques continue to be second major means of remitting money to India through the banking system. The use of debit/credit card transfers, which are gaining importance in remittance corridors such as US to Latin America, is still negligible as it is in the initial stages. Use of money orders to remit funds is also insignificant.

An important emerging trend is the recourse to instant transfer of money through 'direct transfer to bank accounts', which is operated through the special arrangement with overseas correspondent banks or using automated clearing house (ACH) facility in countries such as US. In the Gulf Region, indigenous banks are very few and services provided by foreign banks situated in this region for remitting money is limited. Hence, Private Exchange Houses (PEHs) have come up in this

Table 1 : Instruments used for Sending Remittances to India
(Percentage Share in total Remittances)

Centre	SWIFT/ Electronic Wires	Drafts	Cheques	Debit/Credit Cards	Money Orders	Direct transfers to Bank Account	Others	Total
1	2	3	4	5	6	7	8	9
Ahmedabad	55	18	17	-	-	5	8	100
Bangalore	48	24	20	-	-	-	8	100
Kochi	22	51	-	-	1	7	20	100
Chennai	38	24	24	1	-	-	13	100
Chandigarh	52	22	18	-	1	3	4	100
Delhi	61	4	13	-	-	15	6	100
Hyderabad	53	12	29	-	-	-	6	100
Jaipur	49	37	13	-	1	-	1	100
Kolkata	81	12	6	-	-	1	1	100
Mumbai	70	12	9	-	-	4	6	100

region to facilitate remittances of emigrants. To facilitate remittances, banks in India enter into Rupee Drawing Arrangements (RDA) with PEHs in the Gulf Region and also in Singapore and Hong Kong. Inward remittances under the scheme are normally personal remittances from NRIs in these countries. The tie ups are with the agencies such as UAE Exchange Centre, Bahrain/Oman/Gulf Exchange Company, Kuwait-India International Exchange Co., Mustafa Sultan Exchange Co. At present, around 35 banks have entered into 200 RDA's with Exchange Houses. The use of such formats is rising significantly in the case of Kerala.

Section II: Size and Frequency of Remittances

It is generally argued that remittances to India are less frequent and higher in size as compared with many Latin American countries which are also important remittance corridors. In fact, the average size of remittance also reflects on a number of factors such as the average earning level of the migrants and their skill category, duration of stay (generally an inverse relationship between the duration and stay and the propensity to remit), economic activity in the host country. Less frequent and high size of remittances may be directed towards the investment purposes rather than for the family maintenance needs.

The important observations that can be made from the analysis of survey data on the size of remittances are (Table 2):

- The average size of remittance transfers to India is relatively higher. Out of the total remittance transfers to India, the remittances with average size of US $ 1,100 and above accounted for 52 per cent of the total value of remittance inflows.
- Within the high value remittances (*i.e.*, US $ 1,100 and above), a large part (63 per cent) was accounted for by the remittances exceeding US $ 2,200.
- The high value transactions (*i.e.*, US $ 1,100 and above) were predominant in remittance receiving centres such as Jaipur, Delhi, Mumbai, Chandigarh and Bangalore.
- Relatively lower value transactions (*i.e.*, <US $1,100) were concentrated in centres such as Chennai, Kolkata, Hyderabad and Kochi.
- Only 30 per cent of the total remittances transfers were of an average size of <US $ 500.
- Almost 50 per cent of the remittance transfers to Kolkata and Chennai were of the size below US $ 500.

An insight into the nature of remittances (*i.e.*, whether the remittances are sent for family maintenance) can be gleaned from information on "how frequently the remittances are sent"? It is generally observed that the remittances, typically coming for the purposes of family maintenance, are smaller in size and more regular and frequent in nature to meet the regular consumption needs of the dependants in the home

Table 2: Size of Remittances sent by Overseas Indians (Percentage share in total Remittances)

Centre	Above Rs.1 lakh	Rs.50,000-1,00,000	Rs.20,000-50,000	Rs.10,000-20,000	Rs.5,000-10,000	Rs.1,000-5,000	Below Rs.1,000	Total
1	2	3	4	5	6	7	8	9
Ahmedabad	46	31	18	2	1	1	1	100
Bangalore	36	20	24	-	-	6	14	100
Kochi	24	16	18	18	14	8	1	100
Chennai	18	15	18	24	11	10	4	100
Chandigarh	38	19	19	12	7	5	1	100
Delhi	53	14	17	8	4	3	1	100
Hyderabad	23	14	21	-	14	11	16	100
Jaipur	51	28	18	-	3	-	-	100
Kolkata	11	26	12	5	18	3	27	100
Mumbai	40	18	21	7	5	7	2	100

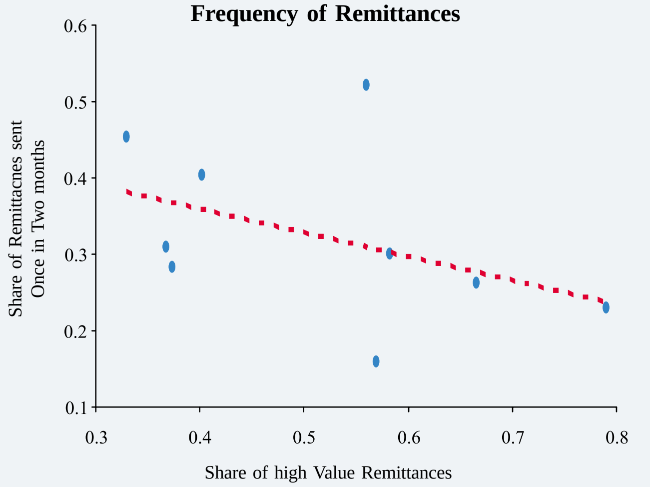
Table 3: Frequency of sending Remittances by Overseas Indians (Percentage share in Total Remittances)

Centre	Once a Month	Once in two Months	Once in three Months	Once in six Months	Once a Year	Others	Total
1	2	3	4	5	6	7	8
Ahmedabad	19	14	35	5	12	15	100
Bangalore	52	20	16	1	-	11	100
Kochi	40	16	16	12	14	3	100
Chennai	45	17	20	10	7	1	100
Chandigarh	16	9	13	33	23	6	100
Delhi	26	19	16	7	5	26	100
Hyderabad	28	12	26	12	14	9	100
Jaipur	23	23	24	13	13	5	100
Kolkata	31	2	21	6	25	16	100
Mumbai	30	14	15	20	20	2	100

country. The survey results indicate that about two-thirds of the total remittance inflows are received with a frequency of at least once in a quarter (Table 3). Furthermore, 31 per cent of the total remittances are received at a monthly frequency.

A cross-section analysis of the relationship between the size of remittances and the frequency of sending remittances reveals an inverse relationship between the size and the frequency, which is in line with the empirical findings (Chart 2). This broadly indicates that the centres which receive remittances of smaller magnitude, receive them more frequently, which implies that the lower magnitude remittances, typically meant for family maintenance, are more frequently sent.

Chart 2: Relationship Between the Size and Frequency of Remittances



Section III: Speed and Cost of Remittances Transfers

The two important aspects of remittances which lack adequate information are: (i) time taken to deliver remittances from senders to the recipients, and (ii) cost of remitting the funds paid by both sender and the recipient. As the cost of sending remittances is determined at the end of the remitting overseas financial institution, these are difficult to obtain. The cost that can be gathered from the resident recipient institutions relate mainly to the charges paid by the recipient at the receiving end relating to handling charges of banks. These issues are discussed below.

Speed of Remittance Transfers

The time taken to deliver the remittances may vary depending on the geographical location of the sender and the recipient and the modes of transfer used. While the time taken in delivering remittances is an important concern for the remitter, sometimes, the decision on the time efficiency is also influenced by the higher costs associated with quick delivery. The following points emerge from the analysis of the survey results (Table 4).

- Swift transfers are the most time efficient means of remitting money as they depend on electronic/ telegraphic transfer of funds. The average time taken in delivering such funds to India is mostly 1-2 days.
- Remittances made through cheques and drafts are the most time consuming. The maximum time taken in remitting funds through these instruments can be as long as 30 days. Similarly, money orders are also time consuming modes of transfers.

Table 4: Time Taken to deliver Remittances

(No. of days)

Centre	SWIFT/Electronic Wires	Drafts	Cheques	Debit/Credit Cards	Money Orders
1	2	3	4	5	6
Bangalore	2	7-10	10-25	-	21-25
Kochi	1-2	5-6	10-12	-	-
Chennai	2	9	16	6	10
Chandigarh	2	16	22	3	21
Delhi	-	-	-	-	-
Hyderabad	1-5	9	14.6	-	-
Jaipur	1-2	1-21	8-28	-	-
Kolkata	1-4	2-27	2-30	-	-
Mumbai	1-5	2-30	4-30	2	1-15

- Transfers made through debit/credit cards are less time consuming (2-6 days) as these are some form of electronic transfers.

Cost of Sending Remittances

The cost of remittances can be of two types: (a) explicit cost – amount charged on remitting money, and (b) hidden cost – the implicit charge in the form of exchange rate charged on conversion of foreign currency into domestic funds. It is often argued that small remittance transactions for family maintenance are offered less favourable exchange rate and the cost on this account can be exorbitant for some countries with less developed exchange markets. However, in the Indian context, it is understood that the exchange rates applied for conversion into domestic funds are reasonably transparent and do not contribute to the cost in any significant measure. In case of remittances from the Gulf countries to India through the exchange house arrangements, the funds are converted into rupees at the end of the remitter and the recipient in India does not bear any exchange risk. It is observed that the remittance transfer cost from Gulf countries to India is relatively lower (Jadhav and Singh, 2005).

It is often difficult to find out the cost of remitting money as the cost is paid by the remitter to the overseas MTO or the correspondent bank. The cost of transfer also has two elements (i) the cost paid by the sender while remitting money (ii) the cost paid by the receiver domestically in the form of handling charges. The latter includes the charges levied by the receiving bank when the beneficiary is customer of another domestic bank. Charges are also levied when the receiver is in remote locations where the funds are delivered by the receiving bank by making a rupee demand draft. Some recent studies have estimated the cost of remitting funds from UK to India at 6 per cent (World Bank, 2005).

An attempt was made to collect the charges levied on bank to bank transfer of funds from locations such as US to India. These however, do not include any handling charges at the Indian end of the receiving bank or the implicit charges in the form of differential exchange rate used for conversion. Information was collected from nine commercial banks which had their overseas branches or the correspondent relationship with the remitting overseas banks. As summarised in Table 5, the following are the main points emerging about the cost of remitting through banks:

- Swift is the costlier means of transferring funds *vis-a-vis* drafts and cheques. While the cost of sending up to US $ 500 from US to India is 2.5-8.0 per cent in the case of SWIFT, it is much lower at 0.7-2.0 per cent in the case of drafts/cheques.
- There is a strong tapering effect in the cost structure of remitting funds to India.
- The cost of remitting US $ 500 to US $ 1,000 works out much lower in the range of 0.7-2.0 per cent for SWIFT, 0.4-1.5 per cent for drafts/cheques.

Table 5: Instrument-wise Cost of Remitting Funds: A Select Case of Some Banks

(US Dollar)

Bank	SWIFT		Drafts		Cheques	
	<= 500	<=1000	<= 500	<=1000	<= 500	<=1000
1	2	3	4	5	6	7
HSBC	20 (4.0%)	20 (2.0%)	10 (2.0%)	10 (1.0%)		
BOI		10 (1.0%)			10 (2.0%)	
PNB	40 (8.0%)					
UTI Bank	13 (2.5%)	16 (1.6%)			3 (0.7%)	4 (0.4%)
Canara Bank		15 (1.5%)				
Indian Bank		25 (2.5%)		15 (1.5%)		10 (1.0%)
Allahabad Bank		13 (1.3%)		5 (0.5%)		5 (0.5%)
Indian Overseas Bank		7 (0.7%)				
BNP Paribas		10 (1.0%)				

Note : Figures in bracket represent the cost as percentage of the funds remitted.

- The cost element, however, is associated with the modes of transfer with inverse relationship between the speed and the cost of transfer.
- Besides the above mentioned charges paid on remitting funds from overseas locations, the handling charges imposed domestically on rerouting funds to deliver to non-customers or remote locations are found to be in the range of 0.1-0.6 per cent of the total value of funds.

SECTION IV: SOURCE REGIONS OF REMITTANCE INFLOWS

The remittances received from different destinations broadly reveal the migration pattern, skill content of the migrants and the earning levels. The survey results reveal the following:

- North America emerges as the most important source region of remittances to India (about 44 per cent of the total remittances). This is in line with the fact that the migration to North America (US and Canada) in software and other ICT related areas has been increasing and the average earning levels of migrants in such areas are relatively higher.
- The Gulf region still accounts for an average 24 per cent of the total remittance inflows to India, with major source countries being UAE and Saudi Arabia (Chart 3).

Chart 3: Source Regions of Remittances Inflows to India

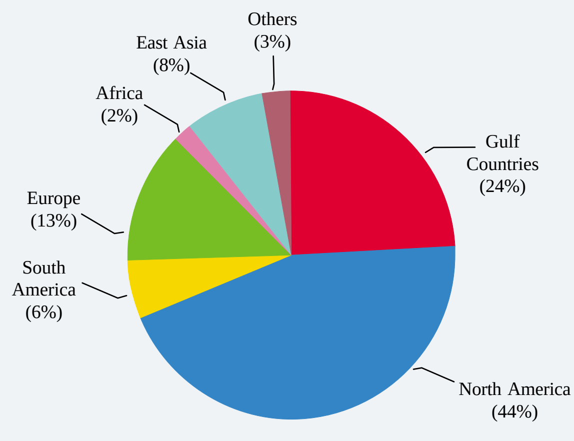


Table 6: Source Regions of Remittance Inflows
(Percentage share in Total Remittances)

Centre	Gulf Countries	North America	South America	Europe	Africa	East Asia	Others	Total
1	2	3	4	5	6	7	8	9
Ahmedabad	16	41	7	20	5	5	6	100
Bangalore	20	70	3	-	-	6	1	100
Kochi	56	18	6	14	2	2	3	100
Chennai	29	44	6	11	1	8	1	100
Chandigarh	16	37	9	30	1	6	1	100
Delhi	9	55	4	15	3	10	3	100
Hyderabad	19	65	8	-	-	5	3	100
Jaipur	38	45	1	5	1	11	0	100
Kolkata	15	38	6	21	4	9	7	100
Mumbai	25	31	8	15	3	14	4	100

- The Asian region (Gulf and East Asia) together contribute about 32 per cent of remittance flows to India and emerge as the second most important region for remittances to India.
- Europe, on an average, accounts for 13 per cent of the remittance inflows to India.
- Within the broad contours of remittance inflows to India, the remittance inflows pattern reveals that Kochi (Kerala) receives 56 per cent of the remittances from the Gulf region, while Bangalore, Hyderabad, Kolkata and Delhi receive a predominant portion their remittances from North America (Table 6). These variations in sources of remittances trace out the migration pattern. For instance, one-third of NRIs in Gulf countries are from Kerala, whereas for the latter group, the migration stream is mainly in the ICT sectors in the North America and Europe.

Section V: Utilisation Pattern of Remittances

The issue of consumption *versus* investment enhancing effect of worker's remittances is widely debated. Cross country studies provide conflicting evidence on this issue and no consensus has been reached so far (Jadhav, 2003). Assuming the consumption bias of workers' remittances, there is definite second round effect on investment as the rising consumption demand from the remittance receiving household is likely to provide boost to the goods producing sectors. Keeping the above debate in the backdrop, the survey attempted to find out the possible end-use of the funds remitted by the overseas Indians to their families back home.

An analysis of the utilisation of remittances sent by the overseas Indians reveal the following pattern (Chart 4):

- A predominant portion of the remittances received (54 per cent) are utilised for family maintenance, *i.e.*, to meet the requirements of migrant families regarding food, education, health, *etc.*

Chart 4: Average Utilisation Pattern of Remittances Sent to India

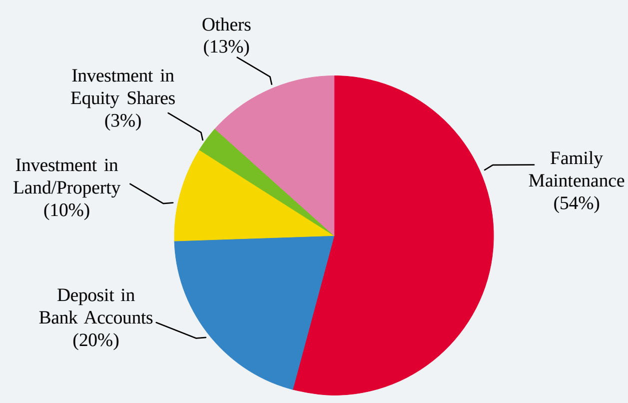
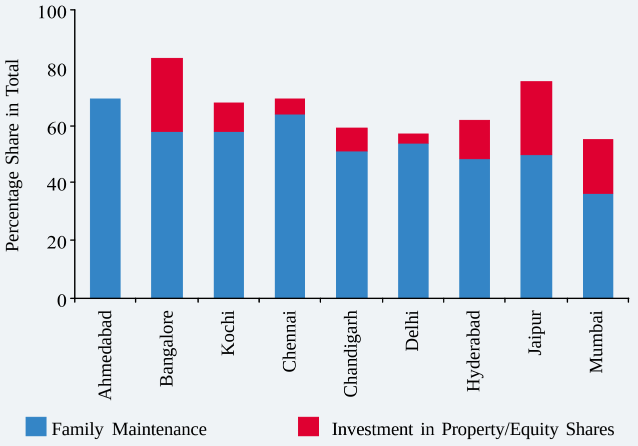


Chart 5: Utilisation Pattern of Remittances for Family Maintenance & Investment in Property/Shares



- On an average, about 20 per cent of the funds received are deposited in the bank accounts. A relatively higher portion of remittances are put in bank deposits in centres such as Delhi, Chandigarh, Kochi and Mumbai.
- About 13 per cent of the funds received were invested in land/property/securities.
- The regional pattern of investment in land/property/equity shares reveals that a relatively higher portion (20-25 per cent) is invested in such assets in centres such as Bangalore, Jaipur and Mumbai (Chart 5 and Table 7).

SECTION VI: CONCLUSION

The study based on the sample survey of the micro aspects of remittances reveals the following important dimensions of inward remittances from overseas Indians.

(i) Electronic wires/Swift has been used as a dominant mode of transferring remittances from abroad by the overseas Indians. The higher use of Swift *vis-à-vis* other modes of transfers also indicates on the preference of the senders for time efficient modes as drafts/cheques are highly time consuming means of transfer.

(ii) The average size of remittance transfer to India is relatively higher. Out of the total remittance transfers to India, the remittances with average size of US $ 1,100 and above accounted for 52 per cent of the total value of remittance inflows. Within the high value remittances, a large part (63 per cent) was accounted for by the remittances exceeding US $ 2,200.

(iii) A cross-section analysis of the relationship between the size of remittances and the frequency of sending remittances reveals an inverse relationship between the size and the frequency, which is in line with the empirical findings.

(iv) Swift transfers are the most time efficient means of remitting money as they depend on electronic/ telegraphic transfer of funds with average time

Table 7: Utilisation Pattern of Remittances
(Percentage share in Total Remittances)

Centre	Family Maintenance	Deposits in Bank	Investment in Land/ Property	Investment in Equity Shares	Others	Total
1	2	3	4	5	6	7
Ahmedabad	69	-	-	-	31	100
Bangalore	58	15	20	5	2	100
Kochi	58	29	7	3	4	100
Chennai	64	19	4	1	12	100
Chandigarh	51	29	7	1	12	100
Delhi	54	35	3	-	8	100
Hyderabad	48	17	11	3	21	100
Jaipur	50	14	25	-	11	100
Mumbai	36	25	7	12	20	100

taken being mostly 1-2 days. Similarly, transfers through debit/credit cards are also less time consuming (2-6 days) as these are electronic based transfers.

(v) Remittances made through cheques, drafts and money orders are the most time consuming. The maximum time taken in remitting funds through these instruments can be as long as 30 days.

(vi) Swift is the costlier means of transferring funds *vis-a-vis* drafts and cheques. While the cost of sending up to US $ 500 from US to India is 2.5-8.0 per cent in the case of SWIFT, it is much lower at 0.7-2.0 per cent in the case of drafts/cheques.

(vii) There is a strong tapering effect in the cost structure of remitting funds to India.

(viii) Besides the remittance charges paid for bank to bank transfers, the handling charges imposed domestically on delivering funds to non-customers or remote locations are found to be in the range of 0.1-0.6 per cent of the total value of funds.

(ix) North America emerges as the most important source region of remittances to India (about 44 per cent of the total remittances), while Asian region (Gulf and east Asia) contributed about 32 per cent of remittance flows to India. The higher share of North America is in line with the fact that the migration to North America in software and other technology related areas has been steady with relatively higher average earning levels.

(x) A predominant portion of the remittances received (54 per cent) are utilised for family maintenance, *i.e.*, to meet the requirements of migrant families regarding food, education, health, *etc*. On an average, about 20 per cent of the funds received are deposited in the bank accounts and 13 per cent of the funds received were invested in land/property/equity shares. The regional pattern of investment reveals that in centre such as Bangalore, Jaipur and Mumbai, a sizeable portion (20-25 per cent) is invested in property/equity shares.

References

1. ESCAP (1987): International Labour Migration and Remittances between the Developing ESCAP Countries and the Middle East: Trends, Issues and Policies, Development Paper No.6, Economic and Social Commission for Asia and Pacific (ESCAP), Bangkok.
2. International Monetary Fund (2005), *World Economic Outlook*, April.
3. Jadhav, Narendra (2003), 'Maximising Development Benefits of Migrant Remittances: The Indian Experience', Paper presented at the *International Conference on Migrant Remittances*, Department for International Development and World Bank, London, October 9-10.
4. Jadhav, Narendra and Bhupal Singh (2005), ''Workers' Remittances as Stable Financial Flows : Some Evidence from India'', *Seminar on International Migration, Remittances and Development,* April 7-8, 2005, V.V.Giri National Labour Institute.
5. Orozco, Manuel (2003), ''Worker Remittances: An International Comparison'', *Inter-American Dialogue Project* commissioned by the Multilateral Investment, November.
6. Ratha, D. (2003), "Workers' Remittances: An Important and Stable Source of External Finance", *Global Development Finance*, pp 157-175.
7. World Bank (2004), *Global Development Finance*.
8. World Bank (2005), *Global Economic Prospects 2006*.

Sample Survey on Inward Remittances from Overseas Indians

1. Details of the Branch

Name of the Bank Branch	
Address of the Branch	
Phone No.	
Category of AD Licence (A/B/C)	

2. Generally what is the size of a single family remittance transaction received by your branch? Please specify

Rs.

Foreign currency (Specify the currency and units)

3. Instruments/methods used for sending remittances

Instrument used to transfer remittances	% share of each instruments in the total personal remittances received in your branch
Electronic wires/SWIFT	
Drafts	
Cheques	
Debit/Credit cards	
Money orders	
Direct Transfers to Bank Account	
Other methods, please specify	
Total	100.0

4. Frequency of remittances made by NRIs

	Frequency	% of NRIs sending money through your branch
i)	Once a month	
ii)	Once in two months	
iii)	Once in three months	
iv)	Once in six months	
v)	Once a year	
vi)	Any Other, Please specify	
	Total	100.0

5. Currency denomination used for sending remittances

Currency Unit	% share of each currency in the total personal remittances received in your branch
Saudi Riyal	
UAE Dirham	
US Dollar	
GB Pound Euro	
Others	
Total	100.0

6. Size of personal remittances sent by NRIs through your branch

Amount (Rs.)	% Share of total remittances received through your branch
Less than 1,000	
1,000 – 5,000	
5,000 – 10,000	
10,000 – 20,000	
20,000 – 50,000	
50,000 – 1,00, 000	
Above Rs. 1 lakh	
Total	100.0

7. Source of remittances

Region	Major Country(ies) from the region	% of total remittances received through your branch
Gulf Countries		
North America		
South America		
Europe		
Africa		
East Asia (including Japan)		
Australia/New Zealand		
Total		100.0

8. Cost of sending remittances - from a foreign country to your branch

Instrument	Average Cost incurred by the sender (% of amount remitted)	Details of the cost incurred, if known
Electronic wires/SWIFT		
Drafts		
Cheques		
Money orders		
Pre-paid Cards		
Others		

9. Do you have arrangement with international money transfer agencies for remittance transfer to India? If yes, kindly specify the name of the institutions/exchange houses/money transfer companies and features of the arrangement.

10. Approximate time taken to deliver remittances (time from amount remitted by the NRI abroad to time of receipt of money by the beneficiary in India)

Type of Instrument used for remittances	No. of Days Taken
Electronic wires/SWIFT	
Drafts	
Cheques	
Debit cards	
Money orders	
Pre-paid cards	
Other methods, please specify	

11. Purpose of Remittances (if known)

Purpose	% of total remittances received through your branch
Family maintenance	
Deposit in banks	
Investment in land and property	
Investment in equity/shares, etc	
For social/religious functions	
Others	
Total	100.0

12. Your suggestions for encouraging migrants to transfer remittances through banks/recoganised money transfer agencies

Suggestion	Please Indicate your suggestion (?) and offer comments
Allow remittances to be delivered in international currencies not just in local currency.	
Improve postal service infrastructure to deliver remittances to more locations	
Use of online methods of remittances	
Use of microfinance institutions for delivering remittances	
Arrangements with overseas exchange houses/money transfer agencies.	
Any other, please specify	

13. Any other observations/suggestions for improving the flow of remittances.

Annex 4

Money Transfer Service Scheme

Money Transfer Service Scheme (MTSS) is a quick and easy way of transferring personal remittances from abroad to beneficiaries in India. Only personal remittances such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible. The system envisages a tie-up between reputed money transfer companies abroad and agents in India who would disburse the funds to the beneficiaries at ongoing exchange rates. The system does not envisage the repatriation of such inward remittances. The India agent is also not allowed to remit any amount on account of exchange loss to the overseas principal.

The Indian agent who has to be an Authorised Dealer, Full Fledged Money Changer or registered Non-Banking Financial Company (NBFC), IATA approved Travel agents (having minimum net worth of Rs.25 lakhs) requires RBI approval to enter into such an arrangement. The agent is allowed to open a special rupee account with an AD through which all the remittances disbursed under the scheme, are to be routed. The Indian agent pays the beneficiaries first, on instructions from the overseas principal and is reimbursed the amount and his commission, by the overseas principal, within a day or two through normal banking channels. A copy of the guidelines which are to be followed by the Indian agents while applying for RBI approval is attached.

General Guidelines for seeking permission for Money Transfer Service Scheme (MTSS)

The Agent in India should be an Authorised Dealer, Full Fledged Money Changer, Registered Non Banking Financial Company or an IATA approved Travel agent. (having minimum net worth of Rs.25 lakhs). If the agent is a NBFC, they should incorporate a clause in the Memorandum and Articles of Association that it can undertake money transfer activities.

Information/documents to be submitted by the Agent alongwith application

a) An undertaking that the agent/directors is/are not under investigation by any law enforcing agency.

b) Name and address of the overseas Principal with whom the MTS will be conducted.

c) Full details of the operation of the scheme by the overseas principal. (Our permission would be country specific).

d) List of branches in India and their addresses where MTS will be conducted by the Agent.

e) Estimated volume of business per month/year under the scheme.

f) Balance Sheet and Profit and Loss account for the last two financial years, if available.

Criteria for selection of overseas Principal

a) The principal should be a registered entity licensed by the Central Bank/Government or any other regulatory authority for carrying on Money Transfer Activities or where Money Transfer is an unlicenced activity, the principal should be licensed/supervised by any other regulatory/supervisory body in the host country.

b) Should be registered with the trade/Industry bodies.

c) Should have a good rating from one of the reputed credit rating agencies.

d) Should submit confidential reports from two banks.

e) Should submit a report certified by independent Chartered Accountants, regarding steps taken to comply with anti money laundering norms in the host country.

Collateral requirement

Collateral equivalent to 3 days' average drawings or USD 50,000 whichever is higher, may be kept by the overseas principal with the designated bank in India. The minimum amount of USD 50,000 shall be kept as a foreign currency deposit while the balance amount may be kept in the form of a Bank Guarantee. The adequacy of collateral amounts should be reviewed half yearly on the basis of remittances received during the past six months.

Other conditions

a) Only personal remittances shall be allowed under this arrangement. Donations/contributions to charitable institutions/Trusts shall not be remitted through this arrangement.

b) A cap of USD 2500 has been placed on individual transactions under the scheme. Amounts upto Rs.50,000/- may be paid in cash. Any amount exceeding this limit shall be paid by means of cheque/D.D./P.O. *etc.* or credited directly to the beneficiary's account only.

c) Only 12 remittances can be received by a single individual during a year.

Note

In exceptional circumstances, where the beneficiary is a foreign tourist, higher amounts may be disbursed in cash. Full record of such transactions should be kept on record for scrutiny by the auditors/inspector.