# FOREIGN REMITTANCES

# Remittances Defined:

- A **remittance** is a transfer of money by a foreign worker to an individual in his or her home country. Money sent home by migrants competes with international aid as some of the largest financial inflows to developing countries.

- A sum of money sent in payment or as a gift

# Inward and Outward Remittances:

- The term 'inward remittance'' means purchase of foreign currencies in whatever form and includes not only remittances by draft, but also purchase of travelers cheques, drafts under travelers letters of credit, bills of exchange, currency notes and coin etc. Debit to bank‘s non-resident Rupee accounts also constitutes an inward remittance.

- The term "outward remittance" means sale of foreign exchange in any form and includes not only remittances by T.Ts, M.Ts, drafts etc., but also sale of travelers cheques, travelers letters of credit, foreign currency notes and coin etc. Outward remittance can be made either by sale of foreign exchange or by credit to non-resident Rupee account of banks' overseas branches or correspondents. Authorized Dealers may sell foreign exchange for approved transactions

# Reasons for Remittances:

- Unemployment
- Poverty
- Attraction of Higher wages
- Better amenities of life
- Better education opportunities
- Political Freedom

# Advantages:

- Budget Deficit Bridging
- Trade Deficit
- Foreign Reserves
- Redistribution of income and wealth Increase
- in consumption
- Increase in Savings
- Increase in Investment
- Impact on BOP
- Impact on GNP
- Standard of Living improved

- It should be mentioned here that remittances only prove a temporary breathing space to economies under stress but their continuation over time is never guaranteed.

# Disadvantages:

- Brain Drain: Professional and skilled people leave the country causing loss in productivity.
- Inflation
- Demonstration effect
- Failure in adjustment in new social system
- Social and Psychological Effects

# Conclusion:

- Foreign Remittances are important for a Nation. They help to bridge the gap in BOP but this support is not mostly transitory.
- Conversely, some economists are of the view that they are essential for the developing countries. In some cases even more than official development assistance. As in case of Pakistan where they are even more than FDI.

# Policy Implications:

- By raising the level of education in the country. Academic as well as skilled.
- Investment in Human Capital
- Training of Labour Force.
- Removing of Economic Barriers.
- Attitudinal Changes. Social and Psychological improvement.
- Political Changes and Diplomatic Attitude.
- Terrorism.
- Note: Labour Force Restrictions due to Health concerns.