6.10 In the three successive years of current account surpluses ending in 2003-04, buoyant net earnings from invisibles more than compensated for the trade deficits. In 2004-05, with growth of more than 12 per cent, earnings from invisibles crossed US$30 billion; but with the trade deficit growing by a much larger 167 per cent to over US$36 billion, the current account balance turned into a deficit (Table 6.2). In the first half of 2005-06 as well, while invisibles grew by 31 per cent, the trade deficit grew much faster by 114 per cent, and resulted in a sharp widening of the current account deficit.

6.11 Within invisibles, the contribution of different categories to overall invisible earnings has changed significantly since the early 1990s (Figure 6.1). Traditionally, private transfers, comprising mainly remittances from Indians working abroad, had been the main source of invisible earnings. Over time, however, non-factor services have emerged as another key component of invisibles. Indeed, beginning from 1991-92 till 2001-02 (except 1999-2000), private transfers always exceeded invisibles (net). However, since 2002-03, overall invisibles have been higher than private transfers, mainly due to rising contribution of non-factor services (Table 6.2). As a proportion of total invisibles (net), the share of private transfers has declined from 121 per cent in 1996-97 to around 65 per cent in 2004-05, while that of non-factor services has improved from 7 per cent to 45.5 per cent during this period.

6.12 The increasing share of non-factor services in invisibles can be traced to the buoyancy in export of software services. Net earnings from software services increased by 34.1 per cent from US$12.3 billion in 2003-04 to US$16.5 billion in 2004-05. The rate of growth was more or less maintained during the first half of 2005-06 with such receipts growing by 30 per cent from US$7.6 billion in April-September 2004 to US$9.8 billion. Indeed, the robust growth in export of software services has been responsible for an overall growth of 59 per cent in net non-factor services receipts in April-September 2005 vis-a-vis April-September 2004 (Table 6.2), since the other leading components of non-factor services, travel and transportation, became net outflows during April-September 2005. While higher outbound tourist traffic has resulted in net travel outflows, such developments in transportation also reflect higher outgo related to rising volume of imports and mounting freight rates.

6.13 India continues to remain the highest remittance receiving country in the world (Box 6.3). Buoyant private transfers have imparted strength and stability to net invisibles receipts. Between 1990-91 and 2003-04, private transfers increased every year except in 1997-98 and 1998-99. In 2004-05, however, private transfers declined by 6.3 per cent (Table 6.2). Developments in the first half of the current year, with growth of 20.8 per cent in private transfers, probably indicate a return to the earlier secular trend (Table 6.2).

Box 6.3 : Remittances from overseas workers into India

Over the years, remittances from overseas Indians have emerged as a stable source of foreign exchange inflows for the country. In 2004, inward remittances into India were US$21.7 billion. This made India the highest remittance receiving country in the world, followed by China (US$21.3 billion), Mexico (US$18.1 billion), France (US$12.7 billion) and Philippines (US$11.6 billion). India's share in total global remittances of US$225.8 billion in 2004, was almost 10 per cent (Global Economic Prospects, 2006; World Bank).

High level of migration is one of the necessary conditions for higher remittance flow into an economy. Migration of workers from India has been steadily increasing during the 1990s, particularly since the onset of the information technology revolution. While earlier the bulk of migration from India used to be towards the Persian Gulf, in more recent years, Indian workers have been increasingly moving to the US and Canada. Indeed, currently, remittances from Indians living in the US account for about a half of the total remittances into India. There is also a marked difference in the skill-endowments between the earlier and more recent migrants. Compared to the relatively low-skilled Indian workers who used to migrate in the past, mostly to the Gulf, Indians migrating to the US and other advanced nations in recent times possess well-developed technical skills, particularly in IT operations. The difference in skills has also led to an increase in average earnings of the more recent migrants, and in turn, to larger volume of inward remittances.

Apart from high migration, strong incentives for remitting funds, and easy procedures for doing so, are significant determinants of remittances. The robustness of India's macroeconomic fundamentals and rapid economic growth has made the 'home' country an attractive destination for repatriating money. At the same time, such flows have also been facilitated by increasing availability of speedier and cost-effective money transfer arrangements through banks and post offices. Apart from the availability of regular banking channels, two schemes, viz. Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangements (RDA), providing benefits of easier and speedier operations, have helped in expanding the outreach of remittances to remote parts of the country.

Fig. 6.1 Net Inflows of Non-Factor Services, Private Transfers and Invisibles : 1991-92 to 2004-05