CURRENT AFFAIRS: 04.06.2026

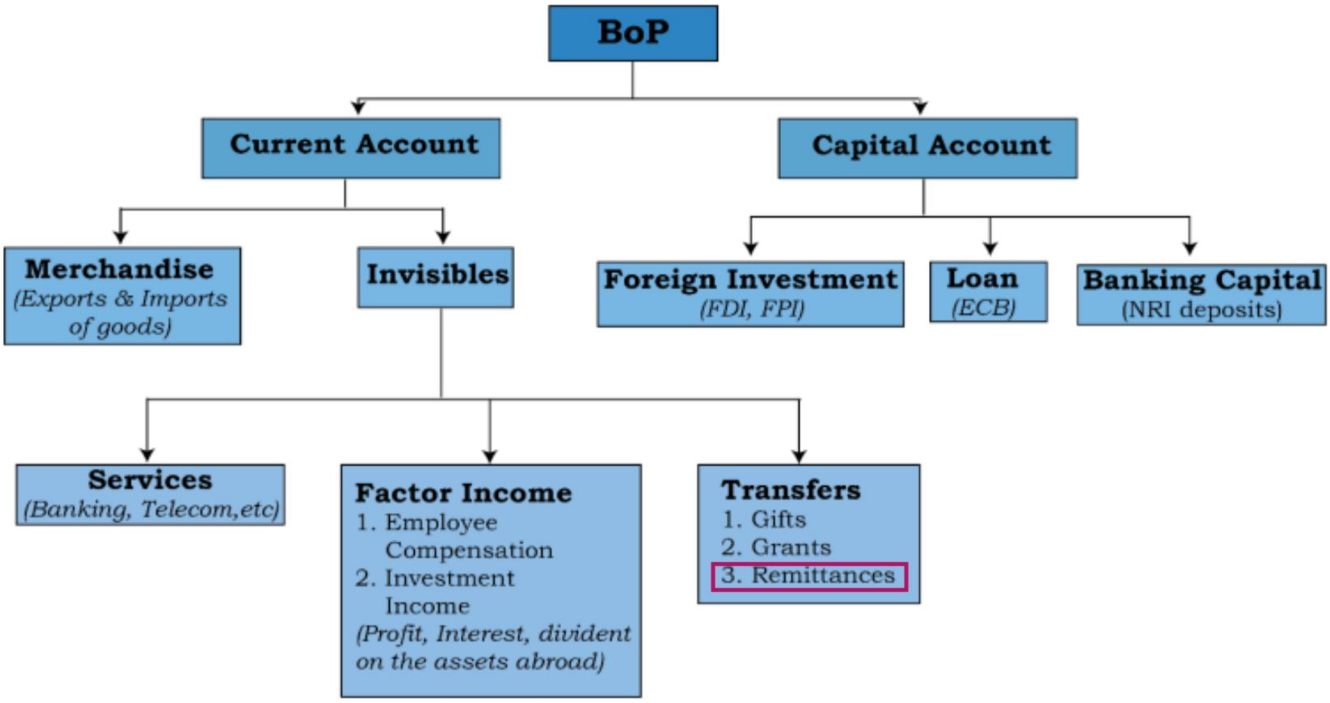
Economists have highlighted the critical role of **inward remittances** in managing **India's external balances.** Amidst global economic headwinds, volatile **Foreign Portfolio Investments (FPIs)**, and a widening merchandise trade deficit, **remittances have emerged as the unsung hero of India's macroeconomic stability.**

How do Remittances Anchor India's External Balances?

- **Cushioning the Current Account Deficit (CAD):**
  - **Balance of Payments (BoP) Structure:** The **BoP** is divided into the **Current Account and the Capital Account.** Remittances are categorized under the Current Account as "Invisibles."
    - In India's BoP, invisibles include services, income, and transfers. Remittances fall under private transfers/personal transfers, which are part of **Net Secondary Income (NSI)** in the Current Account.
  - **Offsetting Trade Deficit:** India is structurally a CAD economy driven by a **widening merchandise trade gap**, which ballooned from roughly USD 6 billion in 2000-01 to **USD 284 billion in 2024-25.** In 2024-25, remittances alone covered **47.5% of this massive trade deficit**.
    - Remittances act as a **massive, liability-free surplus** that offsets a significant portion of this trade deficit, keeping the overall **CAD within a manageable and safe threshold (usually targeted below 2.5% of GDP).**
    - Since mid-2013, remittance inflows have, on average, financed more than the entire volume of India's merchandise trade deficit.
- **Stabilizing the Rupee:** Unlike FPIs, which are considered **"hot money"** and can trigger rapid capital outflows during global uncertainties (e.g., US Federal Reserve rate hikes), **remittances provide a stable and continuous supply of** foreign currency (like US Dollars, Euros, and UAE Dirhams) into the Indian economy.
  - When these foreign currencies are converted into INR for domestic use by families, it creates a persistent **demand for the Rupee.**
  - This buffers the domestic currency against sharp depreciations caused by volatile foreign investor sell-offs.

Significance for the Indian Economy

- **Non-Debt Creating Inflows:** Unlike **External Commercial Borrowings (ECBs)** or **Foreign Direct Investment (FDI)** which involve future repayment obligations or dividend repatriations, remittances are **private, non-returnable transfers.**
- **Forex Reserves:** They reduce the burden on the **Reserve Bank of India (RBI)** to actively intervene in the forex market, aiding in the accumulation and preservation of India's robust forex reserves.
- **Socio-Economic Development:** At the micro level, these **funds directly boost domestic consumption,** improve health and education outcomes for recipient families, and drive regional growth (historically notable in states like Kerala, Maharashtra, Karnataka, and Tamil Nadu).



What are Remittances?

- **Definition:** Remittances are cross-border financial transfers sent by migrant workers and **Non-Resident Indians (NRIs)** back to their home country to support families and local communities.
- **Driver:** These flows are largely driven by **"altruistic motives" (family obligations)** rather than "investment motives," making them highly stable and less vulnerable to sudden global financial shocks.
- **Regulatory Framework:** The **Foreign Exchange Management Act (FEMA), 1999** regulates all foreign exchange transactions in India.
  - Under the **Liberalized Remittance Scheme (LRS),** a part of FEMA, Indian residents can remit up to **USD 250,000 per year for personal and investment purposes, with higher amounts requiring RBI approval.**
  - However, LRS prohibits remittances for **gambling, speculative trading, and terrorist financing.**
  - Remittances to India can be received through NRE (Non-Resident External), NRO (Non-Resident Ordinary), and **FCNR (Foreign Currency Non-Resident) accounts.**
- **Status of Remittances in India:**
  - **World's Top Recipient:** India has been the world's largest recipient of remittances since 2008.
  - **Massive Scale of Inflows:** Remittances reached **USD 135 billion in 2024-25**, comfortably outpacing gross FDI inflows, a trend that has held true for most years between 2000-01 and 2024-25.
  - **India's Remittance Profile:** According to the RBI survey on remittances published in 2025 (tracking data between 2016-17 and 2023-24), a decisive structural shift has occurred:
    - **Dominance of Advanced Economies:** Advanced nations (the US, UK, Singapore, Canada, and Australia) now account for more than 50% of total remittance inflows to India.
    - **The Rise of the US:** The US has overtaken the UAE as the single largest source of remittances. The US share increased from 22.9% to **27.7%**.
    - **Decline of the GCC Share:** The combined share of the Gulf countries has slipped down to **38%**, with the UAE's individual share falling from 26.9% to 19.2%.

- **Skill-Base Transformation:** This geographical shift indicates that high-wage, skilled professionals working in **OECD** countries are now out-remitting semi-skilled and unskilled blue-collar labor based in the Gulf.

- **Concerns:** The rising concentration of remittances from advanced economies increases India's vulnerability to host-country immigration policies and tightening visa regimes.
  - Furthermore, **rapid AI-driven automation in the West threatens** high-wage white-collar tech jobs that form the mainstay of recent remittance success.
  - Concurrently, geopolitical friction in the **GCC region** and local nationalization drives risk displacing large volumes of blue-collar workers.
  - Ultimately, any stagnation in these inflows amid **negative FDI and FPI trends will severely widen the current account deficit and destabilize the rupee.**

India's 1st Blue Bond

Recently, **Sagarmala Finance Corporation** announced plans to issue India's first **blue bond** to diversify its funding sources and finance maritime and coastal infrastructure projects.

- **Blue Bond:** A blue bond is a **debt instrument** used to raise funds specifically for projects linked to **oceans, seas, coasts, rivers and other water-based ecosystems**.
  - It is generally targeted at investors interested in environmentally focused and sustainable finance instruments.
- **Purpose:** The funds will be used for lending towards the development of **maritime and coastal infrastructure**, including ports, port connectivity, shipbuilding, inland waterways and coastal road networks.
- **Blue Bond vs Green Bond:** A **green bond** is generally used to fund broader climate and environmental projects, while a **blue bond** specifically focuses on ocean, marine and water-related sustainable projects.
- **Global Examples:** Seychelles issued the **world's first sovereign blue bond in 2018**, while **Belize used a debt-for-ocean swap in 2021** to support marine conservation.
- **India's Relevance:** India's **long coastline, large fishing communities, port network and climate-vulnerable coastal regions** make blue bonds important for financing sustainable blue economy projects.
- **Blue Economy Link:** India's blue economy includes fisheries, shipping, offshore energy and coastal tourism, contributing about **4% to GDP and supporting around 4 million livelihoods**.
- **Significance:** Blue bonds can help India **attract global sustainable finance, reduce pressure on budgetary resources, support coastal communities** and balance maritime infrastructure growth with marine conservation.
- **Sagarmala Finance Corporation:** It is a **state-owned maritime-focused lender** established in **2016** under the **Ministry of Ports, Shipping and Waterways**. It received a **Non-Banking Financial Company (NBFC)** licence in **June 2025**.

RudraM-II Missile Successfully Flight-Tested

Recently, **DRDO** and the **Indian Air Force** successfully conducted flight-tests of the indigenous **RudraM-II air-to-surface missile** from an airborne platform, reportedly the **IAF's Su-30MKI** fighter aircraft.

- The missile was tested under extreme release conditions and met all mission objectives, with the trial supported by the **Integrated Test Range (ITR), Chandipur, Odisha,** a key DRDO facility for testing missiles, rockets and other defence systems.

RudraM-II Missile

- **About:** RudraM is a series of **indigenous air-to-surface anti-radiation missiles** developed to meet the Indian Air Force's requirement for enhancing its **Suppression of Enemy Air Defence (SEAD)** capability.
  - **Anti-radiation missiles** are designed to **target enemy radar, communication systems and other radio-frequency sources** that form part of hostile air-defence networks.
  - Three variants of the RudraM missile, **RudraM-I, RudraM-II and RudraM-III**, have been developed, with comprehensive testing of the first and second variants carried out earlier.
- **Purpose:** In SEAD operations, such missiles are used especially during the **initial phase of an air conflict** to strike enemy air-defence assets from stand-off ranges, improving the survivability of friendly aircraft in follow-on missions.
- **Development:** RudraM-II has been indigenously developed by **DRDO, with Research Centre Imarat (RCI), Hyderabad** as the nodal laboratory, in collaboration with several other DRDO establishments.
- **Significance:** The successful test strengthens the **IAF's precision strike capability,** enhances SEAD operations, supports Aatmanirbharta in defence, and reflects the growing maturity of India's advanced weapon technologies.