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Viewpoint | NRIs better off focusing on their personal budgets than on India’s

By focusing sharply on their income, expenses, assets and liabilities, NRIs can be their own finance ministers.

The Union Budget in India is a keenly followed event, with reams of print as well as online and video content focused on the pre-budget expectations, actual budget announcements and post-budget analysis. Most NRIs find these events rather different from how government budgets are presented in their country of residence, where the relative attention to the Budget day, as well as pre- and post-budget activities tend to be much lower.

However, as it is such a big event from an Indian perspective, and most NRIs tend to have a portion of their wealth in India, they also tend to focus significantly on the Budget proposals. With this being the first Budget of the Modi 2.0 government and a slowdown of global economies including India starting to emerge, this year’s budget is likely to attract even more attention.

Whilst there are certainly points of interest in the Union Budget that can impact personal finances and financial markets, including changes in tax rates, government spending pattern shifts, incentives to promote certain industries/sectors amongst others, we find that a lot of these pale in significance compared to the likely impact of a similar focus on the personal/family budget of the NRI instead.

So how can NRIs benefit by focusing on their personal budgets?

Managing to improve their income

Just as the government focuses on managing its income through changes in tax rates, NRIs can focus on multiple resources that they have which can help them manage their income better. For instance, over a period of time, you may find that certain skills that NRIs have, such as people management, are no more as much in demand as they used to be as workforce is shrinking, with technology and outsourcing getting more and more popular. Re-skilling and/or focusing on domain skills may be far more valuable to ensure that incomes continue to grow in the future. Similarly, just as a government may look at its assets in the form of stakes in public sector companies and see if they are adequately compensated for the capital invested there, NRIs must look at the assets that they own to see if they can generate better income. For example, a large number of NRIs own real estate that is not rented out. By renting out this real estate, their income can be enhanced.

Balancing their expenses

The government typically divides its expenses into plan and non-plan expenditure, and tracks these expenditures month-on-month against a target that they set for them. They make changes along the way if they find that they are exceeding or going below these estimates during the year. In much the same way, NRI families can divide their expenses into a combination of fixed expenses and discretionary expenses, which they can then track carefully for overspending or lesser spending. Over the years, having dealt with NRIs, we find a certain set of them tend to overspend and thus not save enough, as the avenues to spend can be significant, especially in geographies where there are no direct taxes. At the other end, a set of NRIs tend to keep such a tight control on their expenses that they could be significantly compromising their present lives to save for the future. By taking a balanced approach to their expenses, and managing and tracking expenses on an ongoing basis, they are able to balance their expenses.

Invest for growth

A large portion of government expenditure tends to go towards managing day-to-day expenses such as salaries of government employees and interest payments and only a small portion tends to be allocated towards avenues that would create long-term growth. It may be a good idea for NRIs to look at family expenses in different buckets as well, but have the amounts allocated in the right mix: have a meaningful portion of the income allocated towards self-development as well as high-quality education, which could be a great long-term investment in oneself and family members, have a significant portion invested in long-term assets such as equities that will beat inflation and support long-term goals such as retirement, and also set aside a portion to take care of day-to-day expenses and maintain lifestyle needs.

Repay loans

Most governments struggle with borrowings and keeping them under control. NRIs, due to the geographies that they are in, could end up getting access to low-cost loans and can sometimes fall into a debt trap as a result, as they could also miss accounting for the currency risks involved, especially as many of them borrow in one geography and invest in another geography. Therefore, keeping borrowing under control is critical.

By focusing sharply on their income, expenses, assets and liabilities, NRIs can be their own finance ministers and ensure healthy Growth, Development and Progress (personal GDP) for themselves and their families. This could have a much bigger impact on them than the Union Budget.

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