

The impact of remittances on economic growth: An econometric model

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Received 20 April 2015; accepted 24 June 2016

Available online 14 July 2016

Abstract

Remittances in the world represent one of major international financial resources, which sometimes they exceed the flows of foreign direct investment (FDI). For centuries, there have been heated debates on the sources of economic growth in developing economies and also why some countries reflect strong economic growth comparing to others.

This study aims to observe the impacts of remittances on economic growth, using panel data set of six high remittances receiving countries, Albania, Bulgaria, Macedonia, Moldova, Romania and Bosnia Herzegovina during the period 1999–2013. These countries have experienced a major increase in remittance inflows, and at this time accounts for the bulk of total remittance receipts, compared with other regions. Most countries, remittances represent the largest source of foreign exchange earnings and represent more than 10 percent of GDP.

In other words, the econometric analysis will be based on those six remittance receiving countries. The paper is then to review the empirical literature devoted to the impact of remittances on economic growth, in order, to identify empirically if there are significant relationships between remittances and growth in these countries. The results suggest that remittances have a positive impact on growth and that this impact increases at higher levels of remittances relative to GDP.

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JEL classification: C3; O1; F3

Keywords: Remittances; Economic growth; Panel data

Resumo

As remessas no mundo representam um dos principais recursos financeiros internacionais, que por vezes ultrapassam os fluxos de investimento direto estrangeiro (IDE). Durante séculos, tem havido acalorados debates sobre as fontes de crescimento econômico em economias em desenvolvimento e também porque alguns países refletem forte crescimento econômico em comparação com outros.

Este estudo tem como objetivo observar os impactos das remessas sobre o crescimento econômico, usando o conjunto de dados de seis países receptores de remessas, a Albânia, a Bulgária, a Macedônia, a Moldávia, a Romênia e a Bósnia-Herzegovina durante

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Peer review under responsibility of National Association of Postgraduate Centers in Economics, ANPEC.

o período 1999-2013. Esses países experimentaram um grande aumento nos fluxos de remessas e, neste momento, respondem pela maior parte das receitas totais de remessas, em comparação com outras regiões. Na maioria dos países, as remessas representam a maior fonte de divisas que correspondem a mais de 10% do PIB.

A análise econométrica será baseada nos seis países receptores de remessas. O trabalho objetiva rever a literatura empírica dedicada ao impacto das remessas sobre o crescimento econômico, a fim de identificar empiricamente se há relações significativas entre remessas e crescimento nesses países receptores de remessas. Os resultados sugerem que as remessas têm um impacto positivo no crescimento e que esse impacto aumenta com o nível de remessas em relação ao PIB.

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Palavras-chave: Remessas; Crescimento econômico; Análise de dados de painel

1. Introduction

Remittances are a new financial phenomena and one of the main important sources of incomes based on it seize and economic impact in the world. Data from (World Bank, 2014) indicates that global remittance is \$430 billion dollar in 2011 and remittance is 0.31% of global GDP in 2009. The impact of remittance on economy system is more profound in developing countries because, they receive \$307.1 billion of the total \$416 billion inward remittances, which is about 74 percent. Remittance is also 27 percent of the GDP of developing countries. According to the World Bank, remittances flows to the developing world have reached USD 414 billion in 2013 (up 6.3 percent over 2012), and are now, behind foreign direct investment, the second largest source of external financial flows to developing countries. Given the 232 million international migrants and the almost 70 million internal migrants, the earnings generated and transferred by migrants are projected to reach USD 540 billion by 2016. Importance of remittances is increasing potentially and they are becoming one of main important sources of foreign financial flows, especially in developing countries, both in size and growth rate. The true size of remittances as well as unrecorded flows through formal and informal channels is believed to be significantly large (Fig. 1 and Graphs 1–3).

Recorded remittances are more than twice as large as official aid and nearly two-thirds of foreign direct investment (FDI) flows to developing countries. The enormous upward movement in remittances payments may be attributed largely to two factors, namely; immigration between developing and developed countries has increased dramatically

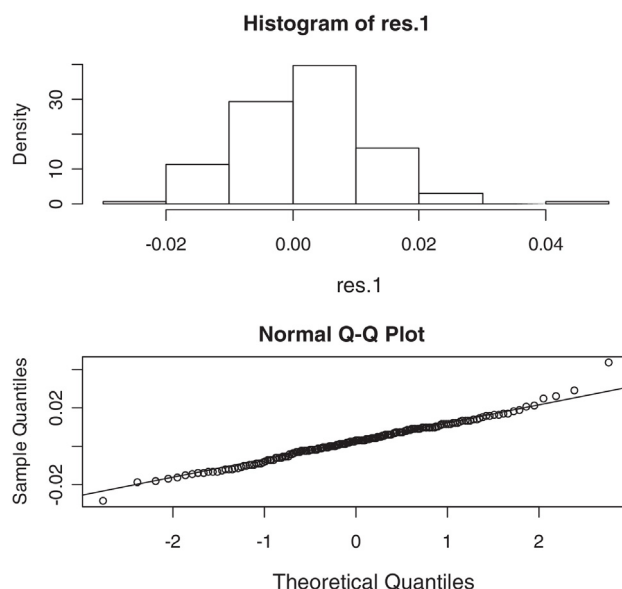


Fig. 1. Residuals Control for the 'Fixed Effects' model. The first graph (above) shows the histogram of the distribution of the model residuals. Comment: Form approaching normal distribution. Second graph: Comparison of theoretical quintiles. We see that the points fit very well with the normal line. So this shows that our model is valid.

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