

The extent to which remittances affect the economic development of the Philippines

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Introduction

This report will investigate the relationship between remittances and economic growth in the Philippines, both theoretically and empirically using GDP per capita and Remittance data. This is an important topic because global remittance flows have been rising exponentially, from US\$339m in 1977 to US\$228bn in 2014¹, triple that of foreign aid inflows.

The Philippines in particular is the case study for this report because of the increasing diaspora of Filipinos, which currently stands at ten million² and the large volumes of remittance inflows, which constitute 9.8% of the country's GDP¹.

Benefits of Remittances

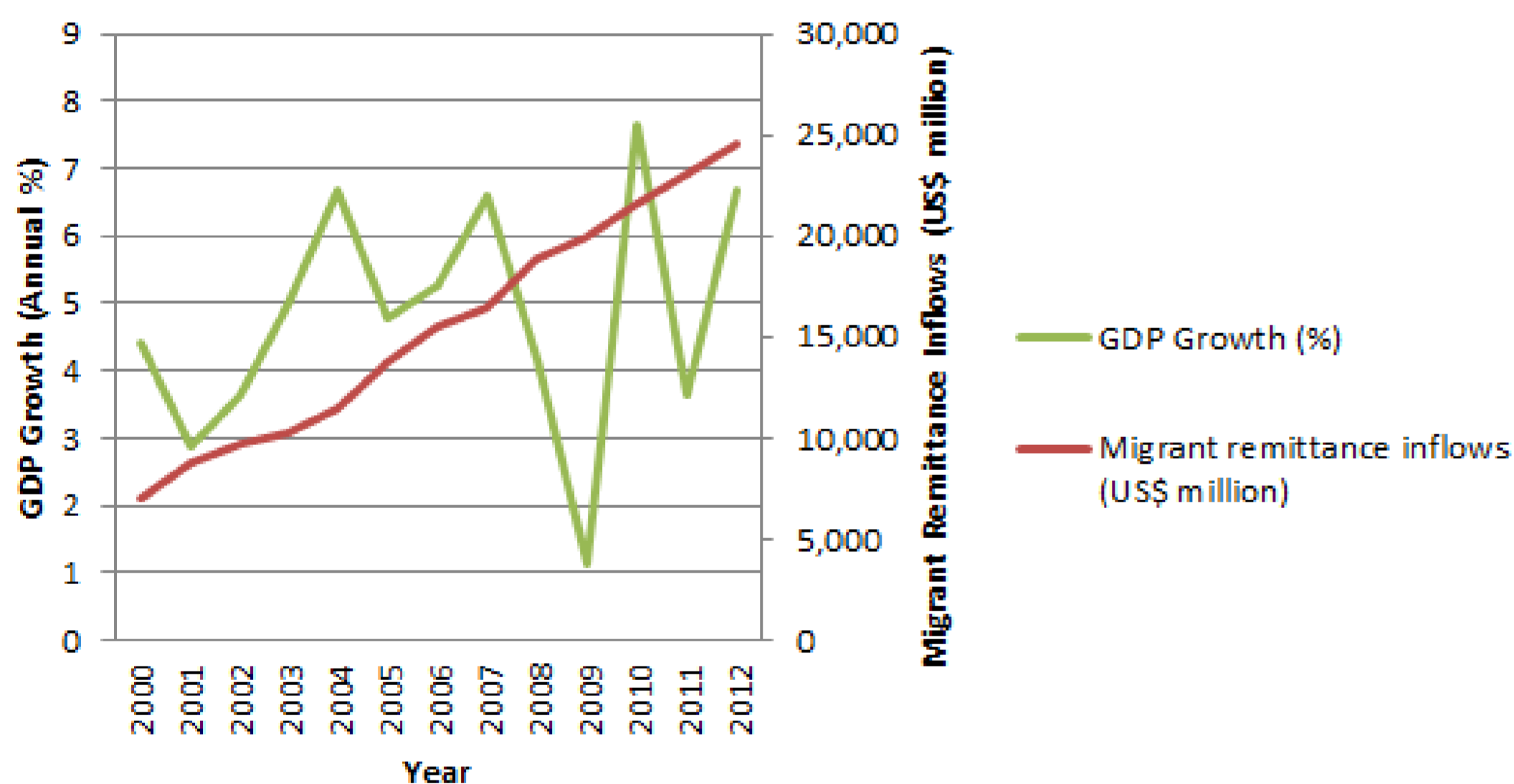
1. Alleviation of Poverty³
2. Rise in Welfare⁴
3. Consumption Smoothing⁵
4. Reinvestment

Costs of Remittances

1. Rise in Regional Disparities⁶
2. Informal Channels of Remittances⁷
3. Vulnerability of the Financial system⁸



GDP Growth and Remittance Inflows



Results

The results found that there is a weak relationship between remittance inflow and economic growth, with an r^2 value of 26%. However, this could be because of the direction of causality between remittance inflows and economic growth; domestic growth can lead to a rise in remittance inflows or other independent variables, such as indecent governance, can lower remittance inflows.

Conclusion

The regression analysis conducted in this research has shown inconclusive results. Nevertheless, this is on par with other empirical studies conducted on this topic, which have also had ambiguous results. Bansak *et al.* (2015) has additionally stated that there has been no overall consensus on the relationship between remittances and economic growth. Nevertheless, despite the lack of empirical results, it is still important to consider remittance inflows with development because it has considerable qualitative effects on the standard of living and welfare.

Methodology

Regression analysis will be undertaken.

The economic growth equation is postulated as follows:

$$\hat{Y}_t = \hat{\alpha}_t + \hat{\beta}_1(\text{Remit}_t) + \hat{\beta}_2(\text{Gov}_t) + \hat{\beta}_3(\text{Aid}_t) + \hat{u}_t$$

\hat{Y}_t represents economic growth, which is changes in gross domestic product;

Remit_t is the total inflow of remittances, measured as a ratio to gross domestic product,

Gov_t is the total government expenditure,

Aid_t is the net official development assistance and official aid received, both measured as a ratio to GDP,

\hat{u}_t is the error term. The subscript t refers to year.

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