

Impact of Remittances on Economic Growth of Pakistan

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MASTERS OF SCIENCE in FINANCE

by

Muhammad Moazzam Hassan - 13005096-003

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RESEARCH COMPLETION CERTIFICATE

It is certified that the research work contained in the thesis “Impact of Remittances on Economic Growth of Pakistan” has been conducted under my supervision by Mr. Muhammad Moazzam Hassan, ID, 13005096-003, of MS Finance program.

Signature: _____

26th May 2018

Date: _____

Supervisor's Name: Muhammad Mahmood Shah Khan

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Researcher Signature: _____

Date: 26th May, 2018

Researcher Name: M. Moazzam Hassan

Confirmed By

Supervisor's Signature: _____

Date: 26th May, 2018

Supervisors Name: Muhammad Mahmood Shah Khan

DEDICATION

To

My Parents and Teachers

ABSTRACT

One of the major international financial resources in the world is remittances which occasionally exceeds the foreign direct investment flows in few economies of the world (Gapen et al., 2009). There had been number of research articles and debates on the economic growth sources within developed and under developed countries (Pradhan, Upadhyay & Upadhyaya, 2008; Fayissa & Nsiah, 2010). Remittances considered holding the strong influence on the growth of an economy. The purpose of this research study is to examine the influence of worker's remittances on the economic growth along with few economic indicators in Pakistan. Panel data for the time period 1971 to 2016 is taken to examine the empirical linkage between the worker's remittances and economic growth. By applying the ARDL and bound cointegration approach, the study found that there is a positive impact of remittances on the economic growth of Pakistan in the short run and long run. This study also elaborated that worker's remittances impact increases at higher levels relative to economic growth in Pakistan. Furthermore, the study concluded positive association among the FDI, labor force, capital and economic growth for both short run and long run. However, no statistically significant linkage found between economic growth and net exports in Pakistan. The study also concluded that unattractive rate, lack of proper foreign policy, transactions through freelancing business, AML/compliance, rebates on home remittances and religious factors hurdles the growth of remittances.

Keywords: Remittances, Economic Growth, ARDL, Granger Causality, Pakistan

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CHAPTER # 01

INTRODUCTION

1. INTRODUCTION

One of the major international financial resources in the world is remittances which occasionally exceeds the foreign direct investment flows in few economies of the world. There had been number of research articles and debates on the economic growth sources within developed and under developed countries. Remittances considers as one of the resilient foreign earnings source for many developing economies including Pakistan. Remittances considered holding the strong influence on the growth of an economy. There had been seen steady growth in the remittances flow within the under developing nation for the last three decades (Gammeltoft, 2002). Remittances are regular or periodical private income that is transferred to family members in the origin country by the international migrants.

Worker's remittances are one of the significant income sources due to its large size and positive influence on the development of economy across the world. Remittances are a new financial phenomena and had seen steady growth within the under developing countries of the world. According to Ratha (2007), remittances unrecorded flows and true size is expected to be significantly large by both channels, that is, formal and informal. There are around 140 million individuals, which mean nearly two percent of world's population that live within a place that is not actually belongs to them by 20th century. According to the report of world migration (2010), the estimated migrants across the world were 214 million by the year 2010 and with the same pace it might touch 405 million in 2050.

1.1 Remittances in Pakistan

The economy of Pakistan is highly dependent on the agriculture sector. There had been seen a significantly increment in the large number of people who are moving to other countries for the purpose of earnings for their families due to lack of employment facilities and poor development of industrial infrastructure in the country. For Pakistan, remittances are believed to a vital foreign earnings source since 1970. Every year,