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Impact of Remitances on Reserves

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Abstract - The study focused on the importance of remittances and reserves and also sees its implication for reserve increasing in three countries (Pakistan, India and Bangladesh). We analysis the impact of remittances on reserves in these three countries for the period 2000-2009.The regression analysis shows that remittances effect on reserves positively and significantly. Furthermore the study also finds that remittances have a strong and statistically significant impact on reserve increasing thus the reserves will increase when remittances will increase. The study also finds country wise analysis, Indian country is on top with respect to remittances and reserves and the Indian reserves are heavily dependent on remittances.

Keywords : *Remittances, Reserves, Pakistan, India, Bangladesh.*

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Impact of Remitances on Reserves

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I. Introduction

Remittance is a transfer of money by a foreign worker to his or her home country. They are private savings of workers and families that are spent to home country for food, clothing and other expenditure. Remittance is not a new phenomenon; it is also a part of the human history. Several European countries, for example Italy, Spain and Ireland were heavily depending on remittances received from their migrants during 19th and 20th centuries1.

These countries created policies on remittances after taking some research effort on this field. For instance, Italy was the first country in the world that make a law to protect the remittances in 1901 while Spain was the first country who signed an international treaty with Argentina in 1960 to lower the cost of the remittances received. Remittances are playing very important role in the economies of many countries. According to the World Bank estimates, remittances totaled US$414 billion in 2009, of which US$316 billion went to developing countries that involved 192 million migrant workers. Remittances enhance savings, public expenditure on education and growth. Inflows of remittances in any country effect the economic growth very positively, improving the balance of payment position and reducing the dependence on the external growth in number of migrants and their income, lower costs and wider networks in the industry that support remittances. Reserves are very necessary for any to improve their economy. Some of the reserves maintain the commercial banks and remaining reserves maintain the state bank of a country. A country can increase their reserves through remittances because the amount which the people send their home that amount is not fully used some of the amount used and remaining amount submitted to the bank, through tax, foreign aid. Countries keep their reserves in foreign currencies like dollar, Euro; pound because when they import the oil and other different products, they should make the payment in foreign currencies.

II. Literature View

Qayyum Abdullah et al (2008) that study focused on the inflow remittances of Pakistan and its application on economic growth and poverty of Pakistan. They take the data from 1973-2007.The study finds that the remittances have statically significant effect on poverty reduction. So the importance of remittances cannot be denied on in terms of economic growth and poverty reduction. This study also finds that international migration labor have their significant benefit for developing countries. Sunny Kumar Sing et al (2010) they tried to find out the impact of remittances on macroeconomics variables like (GDP, RESERVES, IMPORT and EXPORT). They take data to analyze from year 1971-2008. The study shows that remittances have been increasing at very fast level for the last 15 years and these increasing trends can be attributed to various factors like the shifting from informal channel to formal channel, increase in the volume of international migration due to the economic improvement of government of India and changes in the regulatory framework regarding international migration. These increasing in remittances have influenced the foreign exchange reserve of India significantly which have the potential to affect the many of macro variables. They also find out the remittances has the positive significant effect on the above variables.

III. Objective of the Study

a) Impact of remittances on Reserves

b) How remittances effect on reserves differentiate between Pakistan, India and Bangladesh

IV. Research Methodology

The purpose of the study is to evaluate the impact of remittances on reserves.

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[1]Source: Wikipedia

a) Collect data from world Bank
b) Panel data
c) Three countries data(Pakistan, India and Bangladesh)
d) Ten year data from 2000 to 2009
e) 30 observations
f) Use regression model for analysis

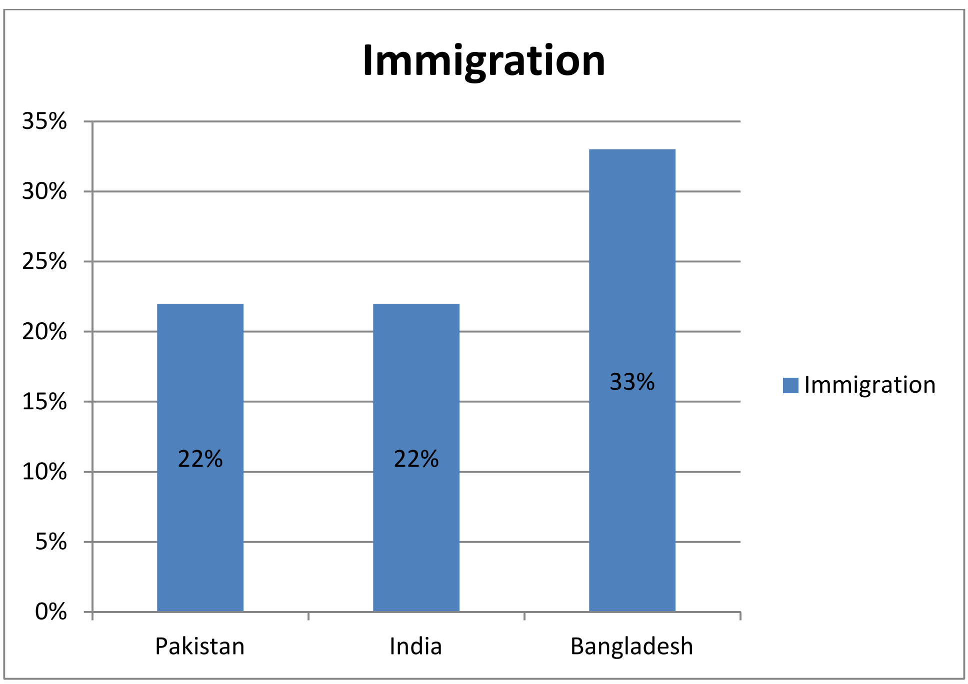
V. Statistical Result and Findings

Table 1 : Average Immigration, Remittances and Reserves of Pakistan, India and Bangladesh

	Reserves in Billions US$	Remittances in Billions US$	Immigration
Pakistan	10.007	4.5024	22 %
India	153.164	25.7845	22 %
Bangladesh	3.851	4.938	33 %

Pakistan's immigration is on average from 2000 to 2009 is 22%, net remittances which comes from different countries are 4.5 billion US$ and reserves maintain in their banks are 10 billion US$. Indian immigration are also 22% but remittances of Indian migrants send to their country are 25.7 billion US$ and the reserve of India are very high as compared to Pakistan, reserves are 153 billion US$. Bangladesh immigration are high as compared to Pakistan and India, these are 33% and Bangladesh received the remittances almost 5 billion US$ and their reserves are 3.8 billion's US$.

Figure 1: Value of Immigration of three countries Pakistan, India and Bangladesh



The figure 1 shows that Bangladesh immigration is 33% but Pakistan and Bangladesh both has 22% immigration which means Bangladesh people are really likely to go abroad for work, the Bangladesh people mostly work in labor class and they are very hard working people.

Figure 2 : Value of Remittances of three countries Pakistan, India and Bangladesh.

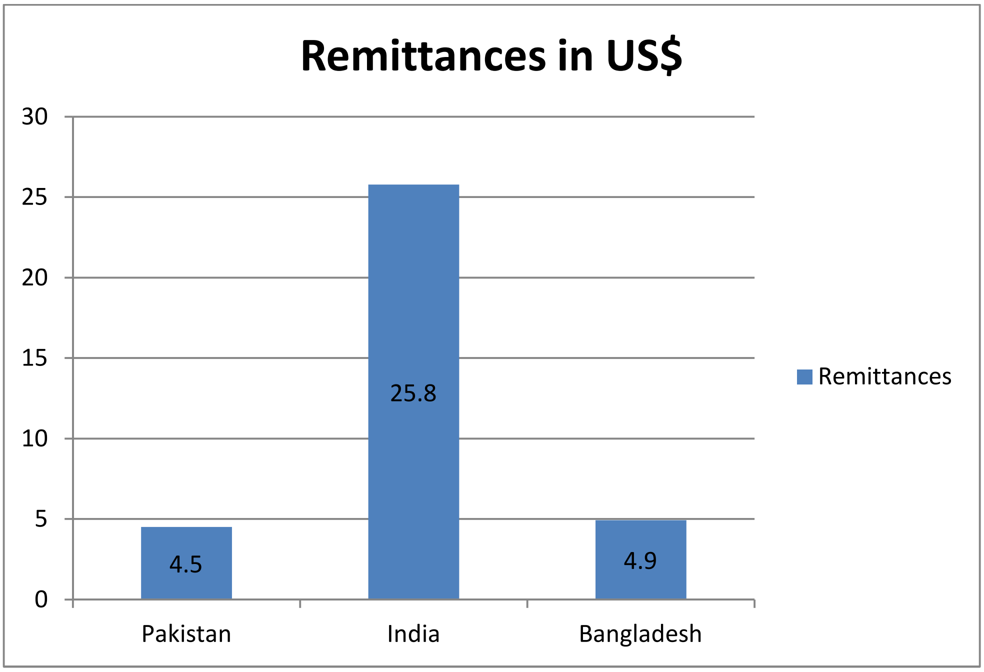
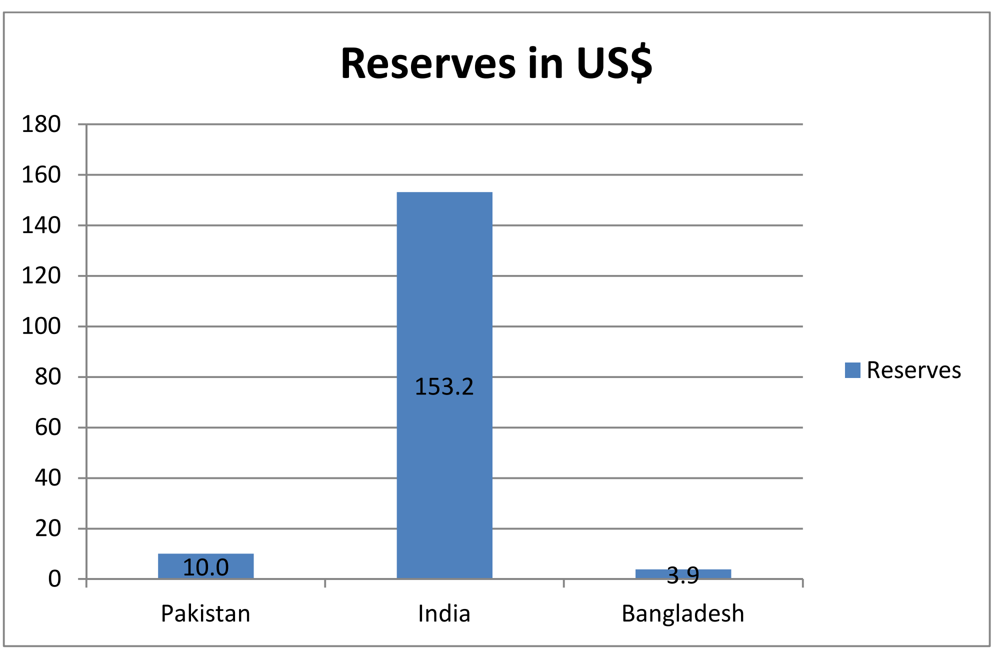


Figure 2 shows that Indian remittances are very high as compared to Pakistan and Bangladesh. Indian remittances are 25.8 billion US$, Pakistan remittances are 4.5 billion US$ and Bangladesh remittances are 4.5 billion US$. Indian and Bangladesh remittances are high as compared to Pakistan because both countries people are ready to work at cheaper labor and the remittances came in both counties through Proper banking channel.

Figure 3 : Value of reserves of three countries Pakistan, India and Bangladesh



The figure 3 shows that India has the high reserve where as Pakistan and Bangladesh has very low reserves in their banks. There is a lot of difference in reserves between these three countries. One of the basic reasons of the high reserves of India is that its population is almost ten times more from both countries.

VI. Regression Analysis

To find out the impact of remittances on reserves we apply regression analysis and create a model for it.

Reserves= α + ß Net remittances

Overall Regression Analysis

Reserves = -23.34 + 6.73Net Remittances R^2 =0.00 (0.01)

The above model shows positive impact on reserves P value is (0.01) which means that remittance have the significant impact on reserve and the value of R^2 explanatory power is (0.00) which is very good.

Table 2 : Country wise Regression Analysis

	Intercepts Model	Regression	P Value	R^2
Pakistan	3.85	1.36	0.01	0.58
India	-22	6.79	0.00	0.90
Bangladesh	41.4	5.08	0.00	0.92

Pakistan : Reserves = -22 + 6.79NR R2 =0.58

India : Reserves = 41.40 + 5.09NR R2 =0.90 (0.00)

Bangladesh : Reserves = -23.34 + 6 .73NR R 2 = 0.92 (0.00)

In above models Pakistan regression model shows positive impact on reserves, P value is (0.01) which meansthe remittances has the significant effect on reserves and the value of R2 Explanatory power is (0.58) which is moderate. The Indian model shows positive impact on reserves, P value is (0.00) which means the remittances has the statistically significant effect on reserve and the value of R2 Explanatory power is (0.90) which is good and the Bangladesh regression model shows that positive impact on reserves, P value is (0.00) which means the remittances has the statistically significant effect on reserves and the R2 Explanatory power is (0.92) which is so good. In three countries India is one of the best country with respect to remittances and reserves. All three models have the significant impact on reserves but the Indian reserves are very dependent on remittances.

VII. Conclusion

The studies mainly focused on the importance of remittance and reserves and also see the impact of remittances on reserves. Regression model used to find out the impact of remittances on reserves. It is found that remittances effect reserves very positively and significantly. Findings from this study are basically, remittances have strong statistically significant impact on reserves increasing. The finding of this study suggests that if the remittance will increase, Reserves will also increase. Indian reserves are so much dependent on remittances.

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