ARE REMITTANCES INFECTOUS? EVIDENCE OF REMITTANCES CAUSING DUTCH DISEASE

Nadeem Rizwan  
Department of Economics  
North Carolina State University  

nrizwan@ncsu.edu

Kathryn A. Boys  
Assistant Professor  
Department of Agriculture and Resource Economics  
North Carolina State University  

kaboyes@ncsu.edu

Selected Paper prepared for presentation at the 2017 Agricultural & Applied Economics Association Annual Meeting, Chicago, Illinois, July 30-August 1

Copyright 2017 by Nadeem Rizwan and Kathryn A. Boys. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.
**INTRODUCTION**

Remittances, “monies earned or acquired by non-nationals which are transferred back to their country of origin” (IGM) are an increasingly important source of external finance—particularly for developing (low and middle income) countries. Worldwide, remittance flows are estimated to have reached $575 billion USD in 2016, reflecting an almost a 16-fold increase since 1980.

There is a higher dependence on remittances in poorer than in richer countries (Figure 3). For many developing nations, remittance inflows are much larger than their official development assistance and more stable than the private capital flows. These capital inflows can provide critical economic support after economic shocks and natural disasters, and have a positive role in reducing poverty (Jongwanitch 2007). Empirical evidence has been mixed on the relationship between remittances and economic growth (Catrinescu et al. 2009, Ahortor and Adenutsi, 2009, Barajas et al. 2009, Chami et al., 2005). Further remittances are an important source of foreign exchange for developing countries and cover a substantial portion of imports (Figure 4).

**DATA**

A dataset containing 159 countries with data coverage from 1980-2015 was constructed from two main sources. REM data were compiled from the Destatis REM database. The remainder of the data was collected from the World Bank’s Development indicator database. Remittances, government expenditure, openness, and aid are expressed as a percent of GDP. Per capita GDP is expressed in constant 2010 US$, and the US real interest rate is used as a proxy for the world real interest rate.

**RESULTS**

Models are estimated for the whole sample and for country groups with different income status’ (Table 2). As remittances are particularly important to middle- and low-income countries, and their impact may have changed across time, results are also estimated and compared between two decades (1980-90 and 2005-2015, Table 3). Overall, the impact of the independent variables on the REG is as anticipated and are largely consistent across time and country income status. Results indicate that there is no evidence that remittances appreciated the REG except in high income countries. This suggests that remittances received by the households of those countries are primarily spent on non-tradables and/or the income supplements from abroad reduce participation in the tradable sector in comparison to the tradable sector. Results in Table 3 indicate that the impact of remittances on the REG remains insignificant for middle and low-income countries in different decades. Furthermore, Chi-square tests find no evidence that the effect of remittances on the REG has changed across time. This analysis offers a unique examination of the impact of remittances on REGs across a considerable range of countries and long time period. These results differ from several other studies which find that remittance inflows increase the real exchange rate (Acosta et al., 2009; Makhlof and Mughal, 2013). Other analyses, however, are more narrow in their focus (e.g. single country case studies) which may explain the different findings.

**Conclusions**

Controlling for country heterogeneity, the empirical estimates find evidence of remittances causing the REG to appreciate in case of high income countries. However, the result does not hold for countries of other income groups. The impact of remittances on REG of middle and low income countries do not differ between the 80′s and the late 2000′s. These results have important policy implications. As the impact of remittances differ on countries of different income levels, countries should be very careful in devising economic policies to take advantage of inward remittances. “A one size fits all” solution will not be the prudent way to go forward in tackling the potential problems arising from remittance inflows. Additional micro studies exploring the spending patterns of remittance receipts would be useful to identify and examine the underlying reasons that remittances have different impacts on countries with different income levels.

**Key References**


