Do remittance inflows spur economic growth in India? Empirical evidence using symmetric ARDL

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Abstract

This study is an attempt to empirically investigate the remittance-growth nexus in India with a most recent sample. Indian economy stands out to be a perfect case for such investigation because India has experienced mounting remittance inflows in the past decade. We employed the ARDL bounds testing procedure to examine the remittance growth nexus. It was found that remittance inflows spur economic growth in India both in the short run and long run. Furthermore, it has been observed that external debt negatively contributes to economic growth. We did not find any statistically significant relationship between inflation and economic growth. The policy implications of our findings indicate that India should adopt policy measures to encourage inward remittances. This can be done by offering a higher rate of interest on non-residents' deposits to accelerate the growth of inward remittances. Moreover, the costs on foreign remittance transfers should be minimised.

Keywords: Remittances, economic growth, external debt, India, ARDL bounds test.

Introduction

The growing amount of remittances into the developing countries is gaining much interest in recent years because of its macroeconomic impacts on the countries receiving it. For many developing countries, remittances typically outweigh the foreign direct investment, portfolio inflows from financial markets and official development assistance (Chami et al., 2008). Remittance inflows have become the second-largest source of external finance after foreign direct investment (Aggarwal, Demirguc-Kunt & Peria, 2011). Such mounting aggregate remittance inflows are expected to have a significant macroeconomic impact on the receiving countries. Thus, it becomes increasingly important for policymakers to understand the effects of remittance inflows on economic growth and devise appropriate policy strategies accordingly. Beyond the fact that remittance inflows reduce poverty, boost human capital and decrease inequalities, their

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