Remittances and Economic Growth: The Role of Financial Development

The Economies should take serious action to enhance Remittances and innovations in their Financial sector that generate another room for Economic Growth

The innovations in financial markets, inflow of remittances and acceleration in growth have been important rudiments of emergent economies. The foremost source of income in most of the developing countries (DCs) is considered to be those resources that have become available as a result of immigration; labor and human capital movement over the time. In the mean while, development in financial market, easy access to loan and widening credit growth contribute positively in high growth as well as better income level of the inhabitants of home land. In addition to that, globalization among the nations develop strong integration between financial sectors and remittances flow that in combination lead to higher growth both for technology as well as production.

Qayyum and Nawaz (2013) theoretically extend the Ramsey-Cass-Koopman's model of economic growth by incorporating the workers remittances and financial development in an open economy framework. Innovations in financial sector directly lead to the technological progress that is related with the positive shift in production function. Results indicate that due to financial development and remittances the level of consumption as well as investment goes up that leads to higher steady state level of capital. Remittances do affect the consumption level but have no impact on the growth rate of consumption.

Initially financial development and remittances increase both consumption and net output that may appear as deficit but in long-run expansion in net output dominate over consumption and trade surplus appear in the long run. We can say, both the worker remittances and financial developments generate the higher steady-state level of capital stock and output.

On the basis of the findings, policy makers should develop an innovative and well established financial sector that may be efficient enough to attract higher amount of remittances. The financial sector development along with increasing remittances may stimulate the economic growth.

Figure I: *Effect of financial development on capital and investment*

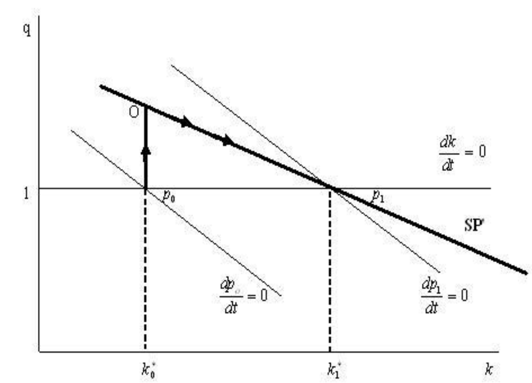
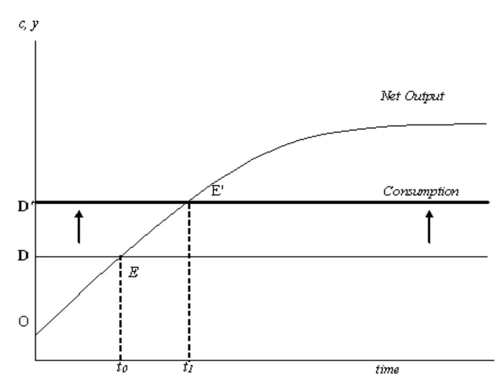


Figure II: *Effect of financial development on Consumption and net output*



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