The extent to which remittances affect the economic development of the Philippines
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Introduction
This report will investigate the relationship between remittances and economic growth in the Philippines, both theoretically and empirically using GDP per capita and Remittance data. This is an important topic because global remittance flows have been rising exponentially, from US$339m in 1977 to US$228bn in 2014, triple that of foreign aid inflows.

The Philippines in particularly is the case study for this report because of the increasing diaspora of Filipinos, which currently stands at ten million and the large volumes of remittance inflows, which constitute 9.8% of the country’s GDP.

Benefits of Remittances
1. Alleviation of Poverty
2. Rise in Welfare
3. Consumption Smoothing
4. Reinvestment

Costs of Remittances
1. Rise in Regional Disparities
2. Informal Channels of Remittances
3. Vulnerability of the Financial System

Regeneration analysis will be undertaken.

The economic growth equation is postulated as follows:

\[ Y_t = \alpha_t + \beta_1(\text{Remit}_t) + \beta_2(\text{Gov}_t) + \beta_3(\text{Aid}_t) + \epsilon_t, \]

\( \text{Remit}_t \) represents economic growth, which is changes in gross domestic product;
\( \text{Gov}_t \) is the total inflow of remittances, measured as a ratio to gross domestic product,
\( \text{Aid}_t \) is the total government expenditure,
\( \epsilon_t \) is the error term. The subscript \( t \) refers to year.

Results
The results found that there is a weak relationship between remittance inflow and economic growth, with an \( r^2 \) value of 26%. However, this could be because of the direction of causality between remittance inflows and economic growth; domestic growth can lead to a rise in remittance inflows or other independent variables, such as indecent governance, can lower remittance inflows.

Conclusion
The regression analysis conducted in this research has shown inconclusive results. Nevertheless. This is on par with other empirical studies conducted on this topic, which have also had ambiguous results. Bansak et al. (2015) has additionally stated that there has been no overall consensus on the relationship between remittances and economic growth. Nevertheless, despite the lack of empirical results, it is still important to consider remittance inflows with development because it has considerable qualitative effects on the standard of living and welfare.

References