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Remittances and economic growth: A study of Guyana[☆]



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ABSTRACT

Using an augmented Solow framework and an ARDL bounds test for cointegration, we explore the short- and long-run effects of remittances, aid and financial deepening on growth in Guyana using annual data for the period 1982–2010. The results show that remittances have a positive and significant effect both in the short and the long run. Aid has a negative effect in the long run and financial deepening is not statistically significant. The Granger-causality test reveals that capital stock, aid and financial deepening cause remittances inflow in Guyana.

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1. Introduction

The economic growth of Guyana vis-à-vis the remittances inflow has not received enough attention despite the fact that the remittances inflow to Guyana has been increasing at a steady pace. Over the years, remittances in Guyana have increased from an average of \$US3.6 million (0.8 percent of Gross Domestic Product or GDP) in the 1982–1990 period to US\$189.3 million (14.1 percent of GDP) in the 2001–2010 period (World Bank, 2012). In 2010, the remittances inflow to Guyana recorded US\$309

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Table 1

Selected indicators of Guyana's economic system.

Land Area ('000 km ²)	196.9
Population in thousands (2010)	754.5
Per capita GDP, current 2000 US\$ (2006–2010)	2502.3
Per capita aid current US\$ (2006–2011)	211.6
Annual GDP growth (%) (2006–2010)	4.4
Annual inflation, consumer prices index percent (2007–2010)	6.4
External debt stocks as a percent of GDP (2006–2010)	48.6
Current account balance as a percent of GDP (2006–2010)	–8.8

Source: World Bank (2012).

Figures for interval years are averages computed by the authors.

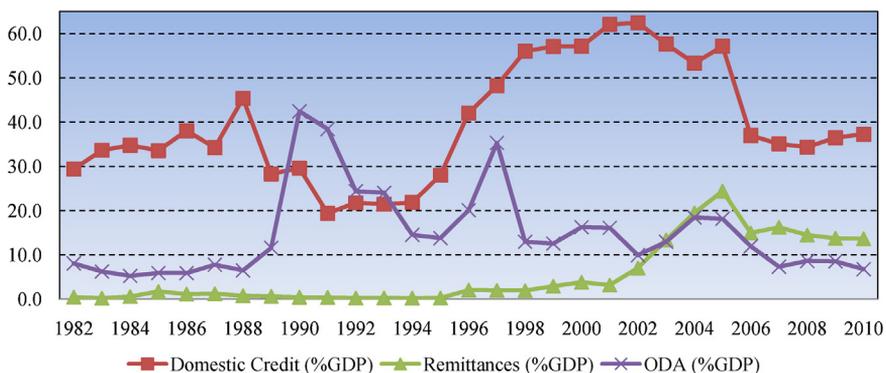
million (13.7 percent of GDP) and was ranked 16th in the World in relative terms. Nevertheless, these inflows are understated because a significant amount of remittances flow through informal channels. The major remittance markets are USA (68%), U.K. (11%), and Canada (10%), among others (Roberts, 2006; World Bank, 2012). A summary of Guyana's economic profile is given in Table 1.

As noted in Fig. 1, although there is a slight increase in domestic credit between 1982 and 2003, it has remained below 65 percent of GDP. Moreover, there has been some volatility in aid inflows (ODA as a percent of GDP) over the sample period. On the other hand, the remittances inflow has increased significantly since early 2000. It is also noted that the remittances inflow has been relatively stable, indicating some resilience from economic shocks.

The role of remittances in economic growth has been studied vastly. However, in the case of Guyana, the subject is not well explored. Subsequently, in this paper, we advance our study by exploring the nexus between remittances, financial deepening and official development assistance (ODA) vis-à-vis growth. We hypothesize that the remittances inflow has a plausible positive effect on growth in Guyana given its history of migration and the recent surge in remittances. However, we give equal importance to the role of financial deepening measured by domestic credit to private sectors and aid in the development process. However, their respective impacts will depend on the degree of financial depth and aid management and deployment strategies over the years, respectively. The structure of the article is as follows. Section 2 provides a brief literature survey on selected variables. Section 3 discusses the method and data. Section 4 provides regression and Granger-causality test results. Conclusions with some limitations are presented in Section 5.

2. Remittances, aid and financial deepening

Remittance inflows are often defined as private income sent back to the remaining family unit in the home country from one or more family members living and working abroad (Chami et al., 2006). At a global level, remittances have surpassed the official development assistance (ODA) of developing

**Fig. 1.** Financial deepening, ODA & remittances in Guyana.

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