



**MACROECONOMIC DETERMINANTS OF WORKERS'
REMITTANCES IN PAKISTAN**

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ABSTRACT

Workers' remittances have become the second foremost source of monetary flows to developing countries. Pakistan has experienced fluctuations in economic indicators in the past that hindered the flow of workers' remittances in the country. According to World Bank data, Pakistan has become seventh largest remittances receiving developing country in 2012. This paper explores the economic determinants of workers' remittances of Pakistan using time series data spanning from 1972 to 2012. The stationary properties of each time series are examined and found integrated of order one. The variables of remittances model are recognized as co-integrated. A multivariate regression and an error correction model (ECM) are employed in estimating a long run and short run relationship between workers' remittances and selected macroeconomic variables. The analysis also considers granger causality and an impulse response function.

Research aims to analyze the extent to which multi variables impacts the flow of workers' remittances in Pakistan. The research is causal and explanatory in nature and follows quantitative research design. This study identifies empirically verified economic determinants of workers' remittances of Pakistan by using multivariate regression. The quantitative substantiation of multivariate regression analysis shows that interest rate, inflation rate, exchange rate, real GDP, gold prices, development expenditures, stock market performance and political stability appeared to be important determinants of workers' remittances.

In particular, workers' remittances increased with the increase in GDP, development expenditures, gold prices, depreciation of local currency and political stability. Contrasting to this, rise in interest rate, unemployment rate, fluctuation in inflation level, as greater insecurity in relation to price changes in future period and high inflation reduces the return on funds remitted. Stock market performance as a substitute of investment in gold has lowered the inflows of workers' remittances in Pakistan during the study period.

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