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The Effect of Remittances on Financial Development in The Kyrgyz Republic

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Abstract

The purpose of this study is to examine the impact of remittances on financial development in the Kyrgyz Republic. As there is a low level of the Kyrgyz Republic's financial development index and high level of remittances` share to GDP, we aimed to investigate whether there is a direct link between remittances and financial development. The empirical model is the vector autoregression approach. The monthly data from 2005 to 2019 of the remittances from abroad, focusing on the ratio of bank deposits and loans to GDP were used in the empirical analysis. Remittances have an impact on deposits, which in turn proves that there is a direct link between remittances and financial development. The study results demonstrate that deposits have an impact on credits, which is confirmed by the results of the Granger Causality Analysis as well as VAR model. This means that there is an indirect link

between remittances and financial development in Kyrgyzstan. Correspondingly, remittances have an impact on the loan through the deposit. This also supports the fact that reducing poverty and improving the well-being of the population also depends on remittances. The high share of remittances inflow to GDP has a dual effect on balance of payments of the country. On the one hand, remittances parcel covers the current account deficit, and on the other hand, 78.4 per cent of remittances is the source of financing for consumer imports.

Keywords: remittances, financial development, Kyrgyz Republic, VAR

