

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Natalia COSOVAN
Advisor:	Tomáš Cahlík
Title of the thesis:	Impact of remittances on investments, financial development and economic growth

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

The master thesis of Mrs. Cosovan covers 73 pages of text, which aims at describing multifaceted aspects of remittances recorded by Moldova. The first 30 pages are dedicated to explaining the basic framework of these international financial transfers related to labour migration, such as definitions, motivations and remittance processes (channels). This would not be anything more than an ordinary introduction, provided there would not be inserted extensive references to studies and comments of other authors on this topic in general. One should appreciate that approach.

My first critical comment deals with ch. 3.4, which does not provide sufficient "key facts" on Moldavian remittances, as one would expect. I would welcome more extensive and detailed data on remittances – especially a time series from alternative resources (of statistics and other papers), instead of indicating just NBM official figures for mere 2009 and 2010 (p. 35). I would also expect a comparison of remittances with the GDP and wages of various industries in Moldova, shedding more light on the claims that mere 8,8% of population is able to generate 36% (or 27%) of the GDP. Using the author's figure of 4403 EUR per migrant in 2009 and the estimated number of migrants as 318 thousand (in 2008 - see p. 15), then the remittances would be 1,4 billion EUR (i.e. 30% of the GDP in 2009 at current exchange rate). That would be much more than what indicates the table 6 (p. 35). One would also need to consider the exchange rate fluctuation since the GDP fluctuated widely (e.g. 2948, 3802, 5232, 4610 between 2006 and 2009) and the share of remittances on nominal GDP is thus also subject to such a volatility. The data on remittances are also difficult to measure – I would welcome to see an estimation of errors and omission in the data used later (see ch. 6) in the study.

What concerns the analysis in ch. 4, assessing the impact of remittances on the economy is primarily related to the evolution in the balance of trade, current account, net FDI, official reserves of the NBM, savings, investments and the net government fiscal balance. Figure 10 deals only very superficially with these macroeconomic indicators. Similarly Fig. 11 introduces some complicated economic interdependencies that remain a mere replication of a table by Culiuc (2006) without going deeper into its meaning.

Chapter 5 is an introduction to three hypotheses which form the core of the next analysis and the main contribution of the thesis. The quotation of many references is a positive aspect of this chapter. Chapter 7 introduces the model to be estimated. Unfortunately, its mere 2 pages are grossly insufficient to explain the foundations of the model, notwithstanding that the author quotes two references using a "similar method". This lack of theoretical underpinning is the weakest point in the thesis.

Chapter 8 deals with three specifications of a more general model where the most important explanatory variable is the autoregressed GDP with a lag of one year. While model 1 shows a rather weak role of remittances on the GDP level, model 2 reduced to mere 3 explanatory variables (out of originally proposed 8) seems to be more relevant, even though one may have an impression that the model was insufficiently specified, whose omitted variables might be then "proxied" by remittances. (Well, this is just my speculation and some more tests would be necessary to reject such a potential situation, which would otherwise signal a trap of a spurious regression).

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Conclusion:

The thesis by Mrs. Cosovan is an interesting study of an extremal dependence of one country on the inflows of remittances. Its positive side are numerous references to other analyses. The final empirical test of three hypotheses is, however, rather less persuasive. Three important introductory hypotheses mentioned on p. 3 remained insufficiently explained throughout the analysis:

- a) Remittances have compensated for the deficiency of the financial system (remark: some more evidence should be brought in order to uphold this statement).
- b) Remittances are not invested by people in opening their own businesses.
- c) Remittances give to entrepreneurs from this country an instrument to start its business (remark: this is a contradiction of the previous statement).

The author should explain these statements during the defense of the thesis.

I recommend this thesis for defense.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	18
<i>Methods</i> (max. 30 points)	11
<i>Contribution</i> (max. 30 points)	14
<i>Manuscript Form</i> (max. 20 points)	16
TOTAL POINTS (max. 100 points)	59
GRADE (1 – 2 – 3 – 4)	

NAME OF THE REFEREE: *Doc. ing. Vladimír Benáček, CSc.*

DATE OF EVALUATION: 5.6.2011

Referee Signature

