International remittances and household expenditure patterns in Sri Lanka

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Introduction

Remittances play an increasingly important role in developing countries, especially in the economies of South Asia. Sri Lanka is one of the economies that receive a high value for international remittances in Asian region. There is a growing interest on studying how remittance is spent and whether to find out its usage affects on economic development. In Sri Lanka, the inflow of the remittance is in increasing trend, by contributing to the rapid growth of the country's Gross Domestic Product (GDP). The exchange rate was also depreciating significantly in the past couple of years increasing the monetary value of remittances. There are three main arguments on the use of internal remittances in household expenditure. Randazzo and Piracha (2014) stated that the remittance receiving households may perceive the international remittances as transitory income, compensatory income and just another source of income, and the expenditure pattern may depend on the nature of perception. Remittances are a key element in identifying the net impact of international migration on the country of origin. In Sri Lanka's national accounts, workers remittances are treated as the component of national savings. There is a growing interest on how remittances are spent and whether the use of remittances may have an impact on the economic development. Although there are several studies, remittances from international migration to Sri Lanka, there is little known on the impact of international remittances on household expenditure pattern in the recent past.

The current literature provides contradictory arguments on the way remittances are perceived by the remittance receiving households. For example Chami et al. (2005), Samaratunge et al. (2012) consider it as a compensatory income while Tabuga (2008) suggests it as a transitory income while Randazzo and Piracha (2014), Adams (2005) argue it as just an another source of income. Hence, the objective of this research is to analyze the impact of the international remittances on household expenditure patterns in Sri Lanka and thereby to identify the trends in the flow of the international remittance to Sri Lanka, while also examining the expenditure patterns of households which receive remittance from international migration.

Methodology

The study was conducted using the secondary data collected from Household Income Expenditure Survey (HIES, 2012/13) conducted by the Department of Census and Statistics (DCS) under the national Household Survey Programme (NHSP) of Sri Lanka. The HIES data are collected as a year-long sample survey conducted in 12 consecutive monthly rounds, covering all 25 districts. Population of this research is the number of Household in Sri Lanka and 25000 households were taken as the sample by HIES 2012/13 by using stratified simple random sampling method. From these 25000 households, researcher derived the sample of 20540 households by using simple random sampling. The main objective is to identify the impact of international remittances on household expenditure pattern. Researcher used descriptive statistics and multiple regression models to achieve the research objectives. Researcher employed Ordinary Least Square (OLS) as one of the main analytical techniques while, propensity score matching (PSM) as an alternative approach to overcome the possible self-selection bias generated by the Ordinary Least Square method. The self-selection problem was highlighted in Yang (2005. To deal with this issue, expenditure behavior of households receiving remittance should be compared with that of the similar households without migrants while controlling for the endogeneity of migration choices and hence, remittances. Therefore, the study employs the PSM method as an alternative approach which uses the nearest neighbor to compare similar households.

International remittance was the independent variable and household expenditure on food, expenditure on liquor, drugs and tobacco and expenditure on non-food were the major dependent variables included. Working-Lesser Model was taken as the major theoretical model for the analysis.

Results and discussion

The estimates based on HIES data and Sri Lanka Bureau of Foreign Employment, shows that the inflow of the international remittance is increasing over the years. In 2013 the remittances received from international migration by the households was Rs.6.4 billion of which 8.64 percent of the country's GDP and in 2015 it was Rs.6.98 billion of which 9 percent of the GDP (Central Bank of Sri Lanka, 2015). PSM analysis showed that the coefficient of the average treatment effect of the treated is 8287.7 (See Table 1). This implies that the households who are receiving international remittances spend approximately Rs.8288 more than households who do not receive international remittances. Furthermore, the analysis found that the households who receive international remittance spend more than Rs. 1212.5, compared to the households do not receive international remittance on food. Importantly the results generated by using PSM analysis confirmed that, compared to the households without receiving remittances, households which receive international remittances spend more on non-food items such as durable goods, healthcare, education and investments and they spend less on food, and liquor, drugs and tobacco. The coefficient of the expenditure on non-food was Rs. 4442.6. The similar results were generated by the analysis using Ordinary Least Squares.

The households with similar characteristics of remittances receiving are compared using PSM technique. The study used the nearest neighbor matching method estimated the average treatment effect on dependent variable. However, the study suggests that there is no relationship between international remittance and household expenditure on liquor, drugs and tobacco which, is due to migration of male (male households heads) member(s) of the family.

Table 1 Estimated coefficients using PSM and OLS analysis

Variables	PSM	OLS
Total household expenditure	8287.6***	7904.7**
expenditure on food	1212.4***	1087.1
expenditure on liquor, drugs and tobacco	87.9	-17.5
expenditure on non-food	4442.6***	7380.7***

Source: Estimations using HIES 2012/13 data

Conclusion

International remittance has become an important foreign currency earning source in Sri Lanka. After garments exports, remittances have become the single largest component of foreign exchange inflows to the economy. The international remittances inflow to Sri Lanka is increasing over the years. In 2015, remittance inflow was 6.98 billion and it was 9 percent of the country's GDP. There is a growing interest on how remittances are spent and whether their use impacts the economic development (Adams, 2005).

The analysis disclosed that the international remittance has a stronger impact on the household expenditure patterns; especially the expenditure non-food. But, more importantly, receiving remittance has negative impact on expenditure on liquor and tobacco in OLS method and positive impact identified by using PSM method. The study also compared the PSM estimates with the OLS estimates which allow the analysis of the expenditure patterns at the average and found similar results. The analysis discovered that in Sri Lanka, compared to the households non-receiving remittance, households which receive international remittances spend more on non-food items in productive activities and spend less on food, liquor, drugs and tobacco which is supported by De and Ratha, (2012). Consequently in Sri Lanka, household receiving international remittances

perceive international remittances as compensatory income. Therefore entrepreneurs are given a source of opportunity to attract the investment from those families receive international remittances.

Keywords: *Household expenditure patterns, international remittances, migration, Propensity Score Matching (PSM).*

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