**Relationship between economic growth,financial development, and worker’s remittances in South Asia: Ananalysis byPooled Mean Group (PMG) framework**

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**Abstract**

This empirical study examinesthe relationship between financial development, remittances inflow and economic growth for the South Asian countries. The index of financial development is constructed using eight indicators of banking, insurance and stock markets. We have used panel data from five countries of South Asian region from 1989-2011. Pesaran’s (2007) Cross-Sectionally Augmented IPS (CIPS) test has been applied to test panel stationarity. Westerlund (2007) panel cointegration test is applied to establish a long run relationship between the variables. After confirmation of cointegration, Fully Modified OLS (FMOLS) and Dynamic OLS (DOLS) cointegration equations are applied to estimate long-run co-efficients. Pooled Mean Group (PMG) of Pesaran et al. (1999)is used to analyze the short run causality dynamics. Findings indicate that remittances inflows and economic growth have a positive and significant impact on financial development in long run. There is a bi-directional causality between inflows of foreign remittances and financial sectordevelopment.

**Keywords:**South Asia, Remittance inflows, financial development index, economic growth.