

Financial effect of remittances

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Abstract. *Remittances are those amounts obtained outside the country's borders by economic immigrants in the first place. Remittances are a germ factor of economic migration. The assumptions of the statistical-econometric models used in migration analysis give a complete picture of the degree and complexity of migration in each country. Also, in these models that are described in detail in the article, the correlation that exists between emigration and remittances is highlighted. Of course, remittances as we know have an impact on economic growth in each country, but in order to reach clear conclusions on the basis of which national and international programs in this field can be planned, we must use methods, statistical-econometric models of analysis in the first turn of migration. Thus, it is about the neoclassical model that approaches the essence and reasons of migration at the macroeconomic level. On the other hand, there is also a neoclassical model that follows the microeconomic approach. This model represents a deepening of the neoclassical macroeconomic model. At the macroeconomic level, the analysis of remittances must be based on the volume of periodic transfers from the migrant to the family or other groups in the country in order to identify the effectiveness of these transfers, in order to be able to study the effect of migration on the income level of the population, but also on economic growth.*

Keywords: remittances, economic migration, statistical-econometric models, correlations, developments.

JEL Classification: O15, J61.

Introduction

The most important and widespread consequence of population movement, from the point of view of a country's economic activity, is remittances.

Remittances are defined by the World Bank as the sum of personal transfers and employer compensation.

Personal transfers are considered all current transfers in cash, or in kind between resident individuals and non-resident individuals, regardless of the sender's source of income (and regardless of whether the sender receives income from work, entrepreneurship or property, social benefits or any other types of transfers, or if it has assets) and the relationship between the households (regardless of whether they are related or independent individuals).

Workers' compensation, according to the World Bank, refers to frontier workers, seasonal workers or short-term workers who work in an economy where they are not residents or to resident workers who work for non-resident entities.

Workers' compensation refers to the remuneration received by an individual for work performed in the production process in an employee-employer relationship with the enterprise.

Employee compensation comprises three elements: wages and salaries in cash, wages and salaries in kind, and employers' social contributions. Compensation of employees is recorded gross and includes amounts paid by the employee as taxes or other purposes in the economy in which the activity is carried out.

Simplifying this definition, in the specialist literature remittances are presented as personal transfers from migrants to their families. Migrants transfer earnings from work abroad to families back home to support regular maintenance, so remittances are sent with a specific purpose, that of providing for the needs of the household. Remittances are a key component in the migrant's lifestyle and reality and should therefore be seen from the perspective of the migrant's character, trend and characteristics.

The main condition of the model is given by the fact that a migrant, before making the decision to leave his own country, very clearly analyzes the costs, incomes, the cost-benefit relationship as well as the social and technological conditions he will encounter in that country. In this way he draws his own conclusion and chooses his emigration model or not. This neoclassical model at the micro or macroeconomic level was also considered in Romania, when after 1990 a growing number of people enrolled in economic emigration, i.e. of those who left the country because the living conditions were insufficient or minimums and from individual and group analysis realized that they can acquire other conditions in other countries. Of course, this has an effect on the labor force in our country but also in other countries, but it is a possibility for those who resorted to this method to leave the territory of Romania.

We can continue to talk about the new economic theory of migration that starts from the neoclassical economic model but introduces a new element into the equation, that the decision to leave the country does not belong entirely to the migrant but is a decision influenced by the household level, the conditions of socio-economic life and others. From here we can consider that a level of estimation of the determining factors of migration represents a correct tool to know the realities and to be able to determine whether something can be done or not to be able to stop this process of migration. Prominent economists have spoken and substantiated the gravity model and the more recent modified gravity model which gives clearly superior elements for conducting the study on migration and its effects.

We can analyze at the level of the European Union that this phenomenon of migration is stimulated by the very directive of this Community which provides for the free movement of people. Going structured upwards we can talk about the human capital model, the spatial job search model, the modelling of migration with aggregated data, the modelling of migration with microdata and can thus reach statistical-econometric models used in the analysis of remittances.

Fleming established the Mundell model showing the consequences of migration on remittances and entrepreneurship. We say entrepreneurship because many who return from this migration not only bring remittances at the macro and microeconomic level, but develop businesses, ensure the creation of new jobs and can be a beneficial phenomenon.

Literature review

At the macroeconomic level, the analysis of remittances must be based on the volume of periodic transfers from the migrant to the family or other groups in the country in order to identify the effectiveness of these transfers, in order to be able to study the effect of migration on the income level of the population, but also on economic growth. Consequently, a significant number have turned their attention to this aspect. Thus,

Anghelache C. and others (2015) consider financial inclusion, being focused on Romanian migrants and their families.

In 2017 Anghelache C. and others publish the result of a research that highlights the fact that remittances can be an element with a positive influence on poverty reduction.

Barrell R et al (2010) studied the macroeconomic impact of migration flows in Europe, considering both receiving and sending countries. They noted that the expansion of the European Union in 2004 was followed by an increase in migration from poorer states to those with advanced economic development.

Bohlmeijer E. et al. (2007) are concerned with the effective evaluation of reminiscence on psychological well-being in different target groups and treatment modalities, highlighting

a moderate influence of reminiscence on life satisfaction and emotional well-being in adults.

Di Giovanni J. et al. (2015) study the impact of migration on global well-being using a multi-sector quantitative model. In the analysis they considered variables such as labor productivity, international trade, remittances and a labor force.

Dilip R. And others (2021) highlight the fact that despite COVID-19, remittance flows have remained in volume in 2020, registering a smaller decrease than previously forecast.

Eggoh J. et al. (2019) do a statistical-econometric study that highlights the extent to which international remittance transfers stimulate economic growth in developing countries.

Fromentin V. (2017) makes a dynamic study on the impact of remittances on financial development in terms of emerging and developing countries.

Gheasi M. and Nijkamp P. (2017) are concerned with the long-term effects of international migration on foreign direct investment (FDI).

Giuliano P. and Ruiz-Arranz M. (2009) are concerned with the effects that remittances have on financial development and economic growth.

Kumar R.R. et al (2018) studied the effect of remittances on total factor productivity growth, considering Bangladesh and India.

Javed M. et al. (2017) conducted a survey to highlight migrant characteristics, funding sources and transaction costs. The authors highlighted the fact that migration abroad brings valuable benefits as measured by total expenditure.

Mondal R.K. and Khanam R. (2018) studied the impact of remittances on reducing household consumption volatility using a dataset from 84 developing countries.

Rao B.B. and Hassan G.M. (2011) highlight the fact that remittances brought by migrant workers are a source of funds that contribute to long-term economic growth.

Vasile V. And others (2019) highlight the impact of remittances from the country of origin and the perspective on economic growth at the macro and micro level of the household in Romania and Moldova, making in this sense a comparative analysis of external financial flows.

Zghidi N. et al. (2018) did a study on a group of four North African countries that looked at the links between remittances, economic growth and economic freedom.

Data, Results and Discussion

Remittances, money transfers sent by Romanian migrants to their families back home, continued to grow in 2022, compared to 2021, according to World Bank estimates.

The volume of remittances in 2017 was estimated by the World Bank at EUR 529 billion, this figure also includes remittances to developed countries. At the same time, 75% of this value, EUR 399 billion, is represented by remittances to developing countries, an increase of 4.8% compared to 2018.

The growth trend continues in 2018, the World Bank estimates a 3.5% increase in remittances to developing countries, their value reaching EUR 413 billion. Globally, an increase in remittances of 3.4% is estimated, their value reaching \$546 billion EUR. The consecutive increase in the volume of remittances comes after two consecutive years of decline and is based on the growth of economic power in the EU, the USA and the Russian Federation.

Following the movement of migration, the main countries receiving remittances, globally are India (57 billion EUR), China (56 billion EUR), Philippines (29 billion EUR), Mexico (28 billion EUR) and Nigeria (20 billion EUR).

The cost of remittances did not decrease in 2022, even though the level proposed by the Sustainable Development Goal is 3% for a transfer of EUR 170, the cost remained at the level of 7.2%.

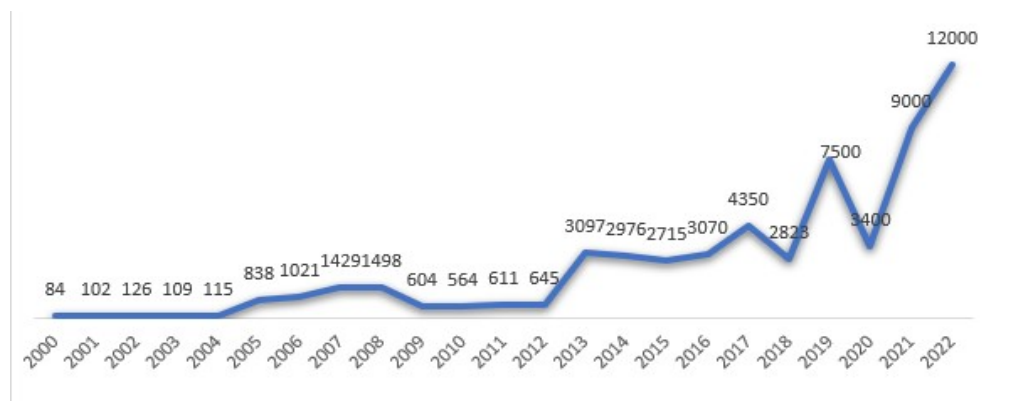
According to the data of the European Bureau of Statistics, Eurostat, in 2019 Romania benefited from an infusion of money from abroad, through remittances, in the amount of 7.5 billion euros (of which almost 5.6 billion euros from the EU) and in 2020 they reached 3.4 billion euros, the highest level in the EU.

The volume of remittances sent home by Romanians from the Diaspora in 2021 was estimated by the World Bank at over 8.2 billion EUR and in 2022 they reached the value of 12 billion EUR. The total transfers from the diaspora equals 3.1 % of Romania's GDP and places Romania in 3rd place among EU states, according to the value of remittances relative to GDP.

Money transfers or remittances tend to be more stable than capital flows and are countercyclical. That means they increase during economic downturns or after a natural disaster in migrants' home countries, when private capital flows tend to decline. In countries affected by political conflict, remittances sent home by the diaspora are a major source of livelihood.

In the case of our country, the transfers that Romanians make from across the borders fuel the national economy in many ways: from investing in children's education, to stimulating the real estate market, to fuelling domestic consumption and to stimulating entrepreneurship.

The evolution of remittances to Romania can be seen in Graph 1.

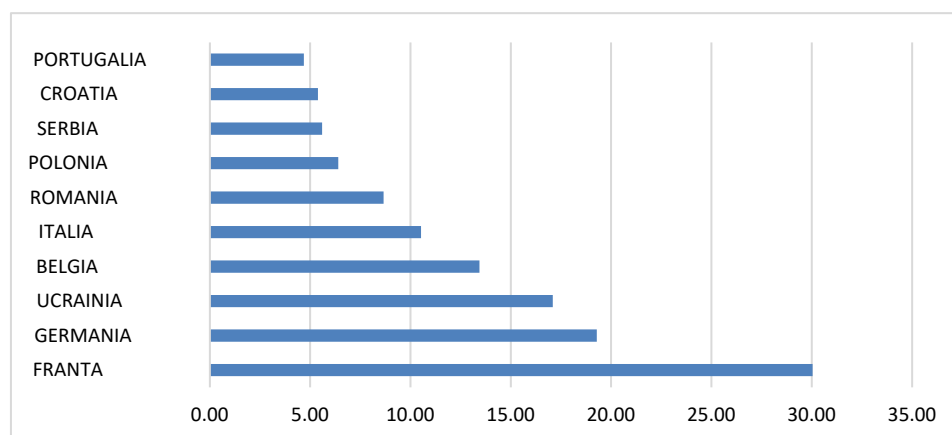
Graph 1. *Volume of remittances to Romania (millions of euros)*

Source: World Bank.

It can be seen from Graph 1. the fluctuation of the volume of remittances to Romania, with significant increases in 2007 and 2008, as a result of Romania's accession to the EU and the legalization of the labor market. The following period 2000-2012 was a period of decline in remittances to Romania, largely due to the financial crisis of 2008. The situation recovered in 2013, and the World Bank's estimates for 2017 show a 42% increase compared to 2016, a volume of EUR 4.350 million.

And in Romania, the economic, social and political aspects have impacted remittance flows, the increase in the volume of remittances received in the period 2013-2017, proves once again that Romania is one of the source countries of migration, at the same time benefiting from economic growth and improvement workforce.

During the 2019-2021 Covid pandemic, we note that the volume of remittances to Romania continued to fluctuate, with a slight increase in 2019 (7.5 billion Eur) and 2021 (9 billion Eur) and a significant decrease in 2020 to 3.4 billion Eur.

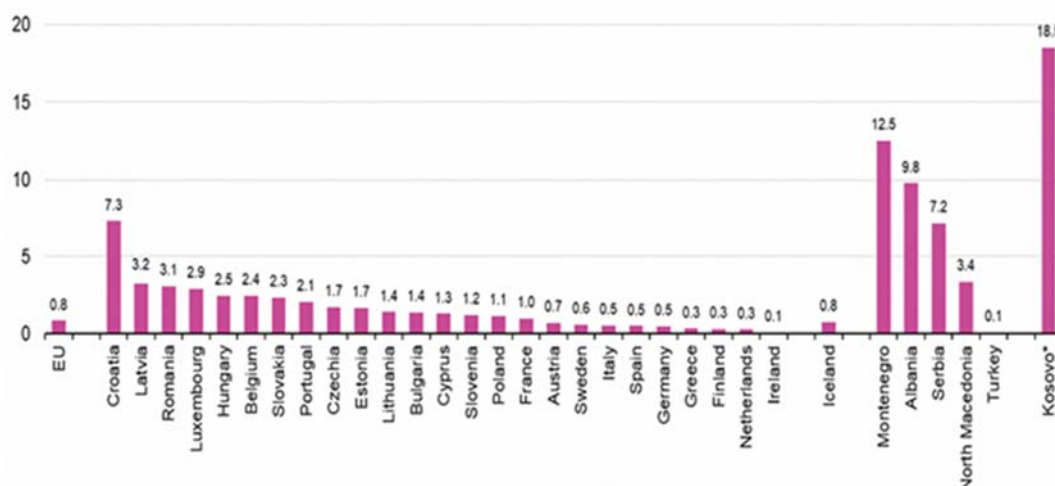
Graph 2. *Top 10 EU countries, by volume of remittances received in 2022*

Growth levels: GDP growth in 2017 of 6.95% compared to 2016 and remittances as a percentage of GDP of 2.03 in 2017 compared to 1.86 in 2016, reflect Romania's unique circumstances as a country of origin of migrants. For this reason and more, it is important to trace the relationship between remittances and economic development, with policies and strategies that can be used in deepening the impact of remittances in economic development.

As shown in Chart 2, Romania is in the top 10 EU countries in terms of the volume of remittances received. This source of external funds is important for Romania's economy in several aspects:

- remittances can have a positive impact on the country's economic development, in 2017 the volume of remittances represented 2% of GDP (Graph 3);
- remittances can help the financial inclusion of Romanian migrants and their families;
- remittances can have a positive impact in reducing poverty.

Graph 3. *Remittances in relation to GDP, in 2022*



Remittances, if used properly, have the potential to impact Romania's economic development, by increasing the material well-being of migrant workers and, implicitly, their families and the community they belong to. Remittances improve the quality of life of migrant families by helping to increase household income and thus helping to allocate a greater share of income to spending on food, housing, health and education.

Furthermore, remittances can influence national reserves, exchange rates, savings and lending rates. Remittances can also contribute to a household's saving capacity, but when households do not have access to financial institutions and services, migrants' savings are most likely to be kept outside financial systems.

According to data presented by Eurostat, EUR 43.8 billion were sent from countries that are part of the EU. Over time and in the EU, there have been fluctuations in the volume of

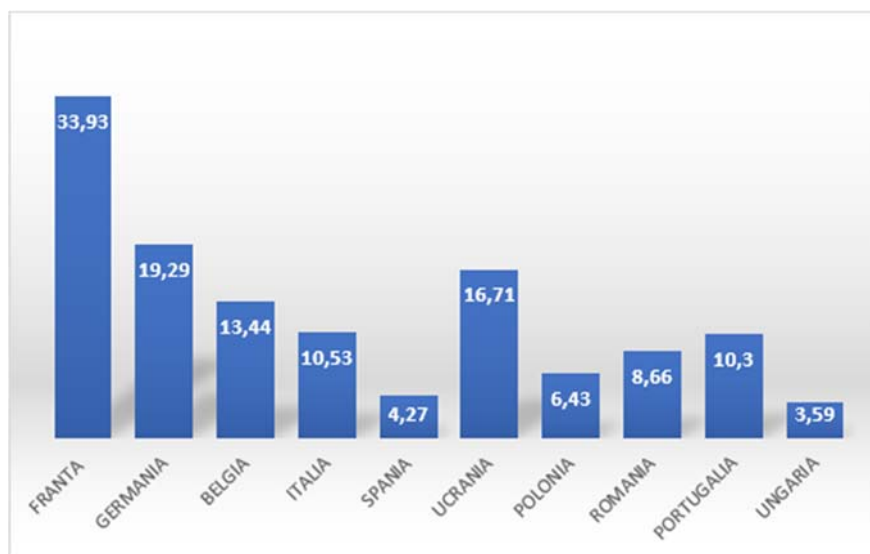
remittances, according to Eurostat in the period 2009-2013 the volume of remittances recorded was below EUR 40 billion. The volume of remittances then increased from EUR 40.8 billion in 2014 to EUR 43.8 billion in 2016.

Due to the fact that within the EU citizens can move freely on the labor market, residents of EU countries transfer money between them, according to Eurostat statistics, 2 out of 3 euros sent are also found within EU countries.

The countries in chart number 4 represent the top 10 EU countries, depending on the volume of remittances received. The countries represented in the graph in orange are developing countries.

On the other hand, it presents the first 10 EU countries where remittances have a more visible impact on the economic growth of the respective country. On the first places are Croatia and Latvia, where remittances in GDP represent 4.5% and 4.2% of GDP, respectively. For Romania, the percentage of remittances in GDP is 2.

Graph 4. *The main 10 EU countries, according to the volume of remittances received (million Eur)*



Source: World Bank.

Conclusions

A series of conclusions emerge from the study. A promising conclusion that emerges is that remittances, money transfers sent by Romanian migrants to their families at home, continued to grow in 2022, compared to 2021, according to World Bank estimates.

Another conclusion is that the volume of remittances in 2017 was estimated by the World Bank at EUR 529 billion, this figure also includes remittances to developed countries. 75% of this value, EUR 399 billion, is represented by remittances to developing countries, an increase of 4.8% compared to 2018.

Last but not least, it was found that the growth trend continues in 2018, the World Bank estimates a 3.5% increase in remittances to developing countries, their value reaching EUR 413 billion. Globally, an increase in remittances of 3.4% is estimated, their value reaching \$546 billion EUR. The consecutive increase in the volume of remittances comes after two consecutive years of decline and is based on the growth of economic power in the EU, the USA and the Russian Federation.

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