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HOW IMPORTANT ARE REMITTANCES FLOWS FOR ROMANIA?

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Abstract:
By all analyses, the remittances flows describe a trend of significant growth worldwide, over the past two decades, currently representing an extremely important component of capital for the poor and developing countries. Compared to other capital flows (foreign direct investment, development aid or other types of private capital), the remittances size is positioned, generally, only behind FDI, causing direct and indirect socio-economic effects, far more profound than other types of capital. Moreover, studies show that remittances flows tend to a much greater stability over time as compared to other balance of payments flows, especially the exports and the private capital.

Romania is an important recipient economy. If in 2000, the value of the entries was 96 million USD, in 2008, the amounts remitted from abroad reached a peak of over 9.2 billion USD, after which, during the global economic crisis, they declined, reaching a value of 3.5 billion USD, in 2013.

Over the years, along with FDI, the capital flows from remittances have significantly contributed to the economic growth and to the increase of the welfare of an important part of the population by improving economic and social status. However, how important have the remittances flows proved to be for the economy as a whole? Is there any influence of these amounts on the inflation, labour market, education, or entrepreneurship? How much is Romania losing by dispatching such an important part of its population to work abroad, and how much does it earn from the money remitted home?

Key words: remittance flows; economic growth; international migration, remittance and development

JEL classification: F24

1. INTRODUCTION

Capital originating from remittances flows is not a new subject in the debates and analyses regarding the phenomenon of global migration, correlated with the economic growth and development. Recently, however, an accentuated growth tendency of these financial flows led to the re-actualization of the implications of this phenomenon, especially in the developing countries. According to the World Bank, the annual remittances flows heading towards this category of countries, reached, in 2014, the 436 billion USD thresholds, being at the moment, after the FDI flows, the second most important source of external capital. In some states, the remittances volume is up to three times bigger than the values allocated for development, generating profound implications for the level of wellbeing and economic growth.

Considering that the approximate number of the global migrants is around 250 million (75 million increase compared to the year 2000), and the number of migrants inside the states' borders is over 750 million, the earnings generated and transferred by them are estimated to reach the value of 636 billion USD by 2017, in a positive perspective of international economic trend.

The crisis that hit the western financial markets in 2008, led to a severe economic recession, which influenced and continues to influence the migrants as well as the policies regulating the migration flows. However, in spite the growing vulnerabilities that migrants have to face, the remittances flows have remained in a relative stability, during and after the economic crisis. This category of population (the migrants), continue to represent an important source of income for their families, having a crucial role of co-assurance and/or reduction of risks in the difficult periods of time (Ratha, 2013).

Romania is in the category of remittances receiving states, with an important annual volume. If in 2000, the value of remittances inflows was 96 million USD, in 2008 that value reached a maximum level of 9.3 billion USD, this value going down during the economic crisis and reaching a point of 3.5 billion USD in 2013.

During the years, along with the FDI, the capital flows coming from remittances have contributed significantly to the stimulation of the economic growth and to the increase of the wellbeing level of an important part of population through the amelioration of the socio-economic conditions. Moreover, for Romania, as well as for the other developing countries, the remittances have proven to be a much more stable source of foreign currency, compared to the other capital inflows. Still, the connection between the remittances flows and the economic development remains a complex one, especially in the case people's movement, which contributes to global interdependencies at all levels: economic, politic and social.

2. LITERATURE REVIEW

The first studies referring to the phenomenon of international migration were focused, firstly, on the dimension of understanding and explaining the determinants of this phenomenon, and, later on, on the impact of the remittances at a microeconomic level. These studies have outlined a general pessimistic vision of the implications that the migration phenomenon and the resulting remittances have. Also, these studies have concluded that the remittances cannot contribute to the economic growth in the beneficiary countries. The explanation resides in the fact that these categories of funds are directed, primarily, towards the satisfaction of basic consumption needs or subsistence consumerism.

However, at the moment, it is generally accepted that the pessimistic approach was based, especially, on empirical analyses insufficiently developed, limited, created with unsure data, in the majority of the countries analysed. Furthermore, this point of view ignores the potential of the indirect effects generated by remittances, at the level of the whole society, including households with no members abroad. Here is not being accounted the fact that, besides the direct investments realised by migrants, or by the funds' beneficiaries, the remittances can be utilised productively through many other channels and instruments, such as „the management of remittances by banks, the extension of investment credit allowed by the increase in the liquidity of banks from remittance deposits, the liberalization of other resources from consumption, investment in human capital such as education and health care, the purchase of more investment goods from abroad, growth of investment as a result of the multiplier effects of spending on consumption" (Glystos, 2001, p.5).

Also, according to Faini (Faini R., 2007), by loosening financial constraints, remittances incorporate the ability to stimulate entrepreneurial behaviour, generating this way, a positive impact on the general economic environment in developing countries. Giuliano and Ruiz-Arranz (2008) examine the link between the remittance flows, financial development and economic growth in 73 developing countries, during 1975-2002. According to the results, remittances compensate the underdeveloped financial system by relaxing credit constraints on investment growth stimulants. In those economies where the financial system is underdeveloped, remittances act as a substitute, improving capital allocation. The authors consider that, through the channel of investment, remittances act positively on economic growth in countries where the financial system fails to meet the credit needs of the population. Acting in order to stimulate consumption and the investment segment, remittances flows incorporate a mitigation potential of an economic recession, in the case of certain countries, equally boosting local economies. Ratha (2013) points out that remittances increase the saving levels of the beneficiaries and influence positively the financial intermediation, these aspects being able to determine prospects of economic growth in the countries of origin. Accordingly, Yasseen (2012) shows a positive correlation between remittances and the development of financial systems in developing countries from Central Asia and North Africa.

Despite these positive views on the impact of remittances, the influence and impact of these financial flows on economic growth and employment remains a subject of analysis. For example, Stratan et al. (2013) show that in the case of Moldova, even if remittances ranged from 14% of GDP in 2006 to 19.1% of GDP in 2011, the correlation between income from remittances and economic growth at the national level is still in a region of ambiguity. While the study by Barajas et al. (2012) argues that remittances may vary depending on the economic climate (growth or recession) of the host country of migrants, Giuliano and Ruiz-Arranz (2005) believe that there is a positive impact of remittances flows in GDP growth, but only for the relatively underdeveloped financial markets. Chami and Fullenkamp (2013) indicate that, the stronger the impact of the net remittances will be on the level of the national economic growth, the more adjustments are needed, on the one hand, regarding the governmental policies to increase the potential of these financial flows and, on the other hand (and more importantly), regarding the way their beneficiaries are using them.

Chami et al. (2003) emphasizes the presence of moral hazard effect of remittances, which affects negatively the economic growth. Their study covering a sample of 113 countries in the period 1970-1998, shows a negative relationship between funds received and growth. Indeed, in the case of this study, the beneficiary, who is in a position to guarantee the achievement of remittances - even in the case of lack of performance, or in the case of less productive or negative economic results - is not determined and motivated to work, aspect that can induce a reduction of effort, given the same level of income, with negative effects for economic growth and development. The overall conclusion of the authors suggests that this type of income cannot be considered an important source of capital in the economic development.

Catrinescu et al. (2006), considering some institutional variables, concluded that there is a positive but fragile impact of remittances on growth. Their influence and significance of the associated coefficient varies depending on the applied econometric model and institutional variables taken into account. Mundaca (2005), Pradhan et al. (2008), and Zazzaro Bettin (2009) also found that there are some significant positive results, according to econometric specifications adopted or development variables of the financial system analyzed.

As mentioned, remittances flows have the potential to generate negative incentives, if they are perceived as a reliable and permanent source of income. Jadotte (2009) demonstrate such effects in Haiti, both in the size of the workload allocated as well as in the participation on the labor market. Therefore, remittances can reduce the likelihood of beneficiaries to work and, equally influence the growth of consumption goods (mostly imported) instead of funding private investment or saving (Azam and Gubert, 2006; Chami et al., 2003). A remark relevant, which belongs to Alper and Neyapti (2006) in their study on remittances from Turkey, is that, while consumption is part of the motivations for short term remittances, the investments are part of the long term aspirations and they appear a lot later. In the same vein, De Haas (2007) emphasizes the temporary aspect of the impact of remittances, arguing that the full potential of the development of migration and therefore of remittances should not be expected in the first ten or twenty years from the moment the widespread migration started. In addition, other authors (Barajas et al., 2011; El-Sakka, 1999) observed that the increasing consumption of beneficiaries could lead to higher prices in the local market and exchange rate appreciation.

3. THE IMPACT OF REMITTANCES FLOWS IN ROMANIA

The migration of the workforce abroad creates serious imbalances in the national economy, reflected as influences on the level of unemployment, the segmentation of labour, the employment potential of the labour force, wage distortions, loos of the potential to generate high added value (through the loss of specialists - brain drain), as well as the as well as the damaging of general potential of economic growth. Moreover, although migration abroad eased the local and regional labour markets, it generated, in turn, an increased pressure on social assistance.

Beyond these unwanted negative effects there is manifested a number of aspects with positive impact: the volume of remittances flows entered the country over the years, the transfer of know-how (practices, knowledge) obtained from the experience of migrants gathered outside, business opportunities arising from the contact with other socio-economic patterns or the meliorating of life standards.

At the macroeconomic level, the effects of remittances from abroad are difficult to assess and measure due to multiple interactions at the level of macroeconomic variables. However, the most visible impact of these transfers is found in household consumption, an important macroeconomic aggregate reflected in the domestic demand, which is an important component of GDP. These capital receipts in Romania had visible effects on both the investments and saving levels, largely covering the current account deficit. The amounts of money that reached the households in Romania are direct sources of revenue growth which influenced significantly the growth of consumption and hence temporary reduction of poverty for a certain category of the population. Moreover, these amounts have the ability to reduce social inequality through redistributive effects, positively influencing the standard of living, and causing a number of beneficial effects on family relationships (Figure no.1).

The capitals that come from remittances represent an important factor for economic growth, contributing significantly to the reduction of the external imbalances and to the decrease of pressure on the exchange rate. Romania has benefited substantially from the increasing remittance flows, especially after the year 2000, both the domestic consumption growth and hence the overall economic growth, as well as the reduction of the current account deficit being sustained. But, from 2009, with the expansion of the economic crisis, remittances dropped sharply from a value of nearly 9.3 billion USD in 2008, to almost half in 2009, 4.8 billion USD, at the end of 2013 reaching the threshold of only 3.5 billion USD. Despite the decline induced by the global economic crisis, remittances remain relatively high due to the fact that most of the migrants, even when faced with economic difficulties, continues to send money to support their families back home. The share of remittances in GDP is lower in Romania than in other countries, but the absolute amount is a significant one and for an important number of people this money is the only way to survive.

In terms of the workforce deployed abroad, Romania is seen from two perspectives: on the one hand it is appreciated for its highly skilled workforce and on the other hand it is criticized for taking the jobs of the host countries' workers.

The consequences of an extensive phenomenon of specialists migration (brain-drain), occurs throughout society, both economically and socially. In this process, Romania has constantly lost an extra added value through a massive exodus in this category, becoming less competitive, being also affected the degree of innovation as well as a number of preconditions necessary for accelerating the economic growth and development.

Concretely, one effect of this phenomenon is that Romania has lost its attractiveness for FDI, the investors not being attracted to a work force market that fails in terms of quality and quantity, and, finally, the national economic sectors were affected profoundly in a negative way. The national supply of labour diminished significantly creating a shortage of skills, the aging of the population has accentuated, the level of training in relation to demand has fallen and all of these aggregate factors led to a pronounced structural crisis.

In a different approach, the workforce gone abroad determines the remittance flows that come in the country. The decision of a significant proportion of the working population to focus on a job abroad leads to positive effects by maintaining the unemployment rate at optimal levels (Figure no.5), it leads to the support of the most stable source of external capital through the remittances generated, to growth in domestic consumption, to the financing of studies (Figure no.4), to access to health services and improved living conditions for a large part of the population.

From another view of analysis, remittances flows are a source that supply inflation, stimulate imports (Figure no. 2 visibly - in 2005-2008, when remittances grow in direct correlation with the decrease in net exports), and reduce the interest of beneficiaries for employment and, as a consequence, their income.

From a structural viewpoint, although, currently in Romania, there are no conclusive studies to analyze patterns of allocation of money from remittances, some empirical observations suggest that the most significant part of these funds is spent for the basic consumption of families and only a small proportion is allocated for investment in human capital (healthcare, education), assets (buildings, land) or entrepreneurship activities.

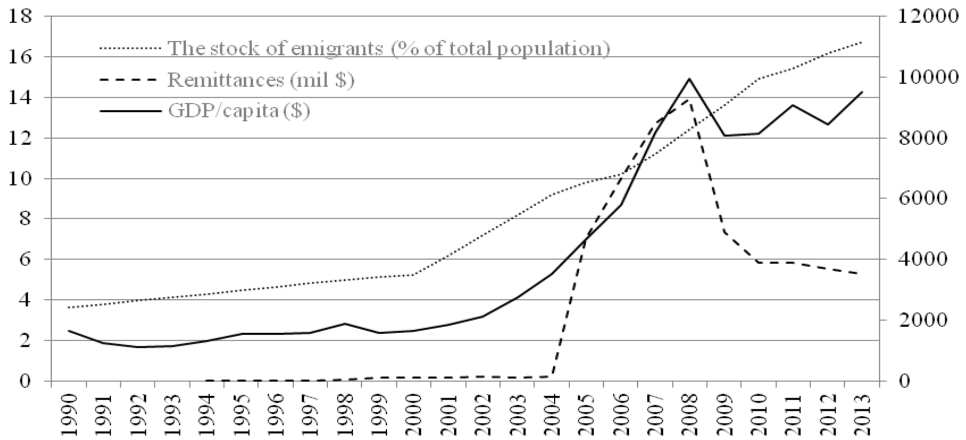

Figure 1. GDP/capita, the stock of emigrants and remittances flows in Romania, during 1990-2013.

Source: Author, based on data from: http://data.worldbank.org/; http://www.pewglobal.org/

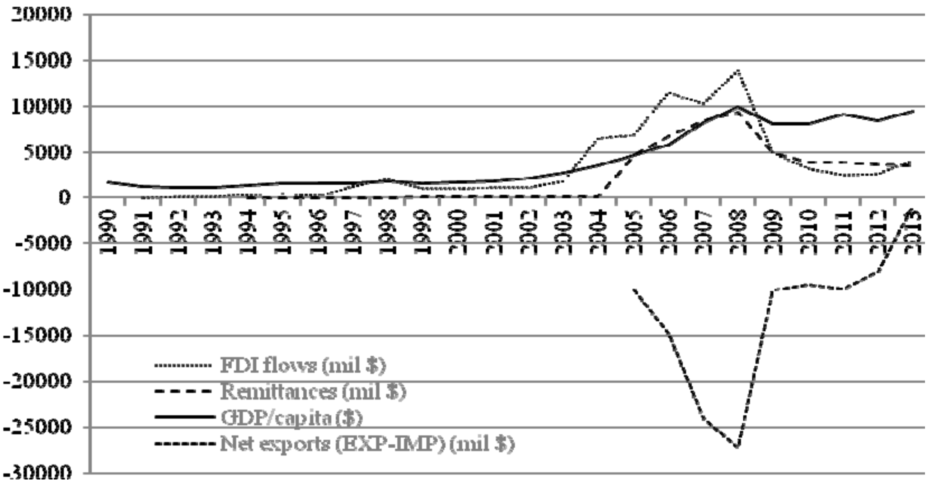

Figure 2. GDP/capita, FDI inflows, remittances flows and net exports in Romania, during 1990-2013.

Source: Author, based on data from: http://data.worldbank.org/

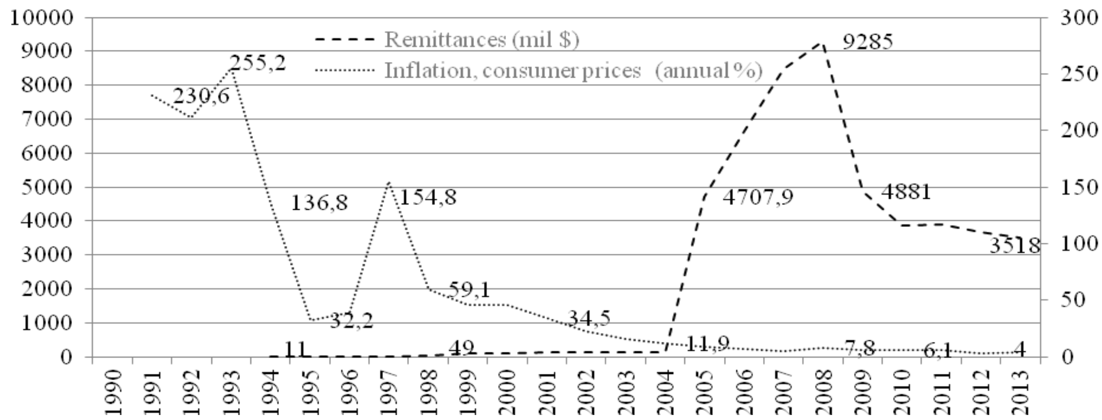

Figure 3. Remittances flows and inflation, in Romania, during 1990-2013.

Source: Author, based on data from: http://data.worldbank.org/

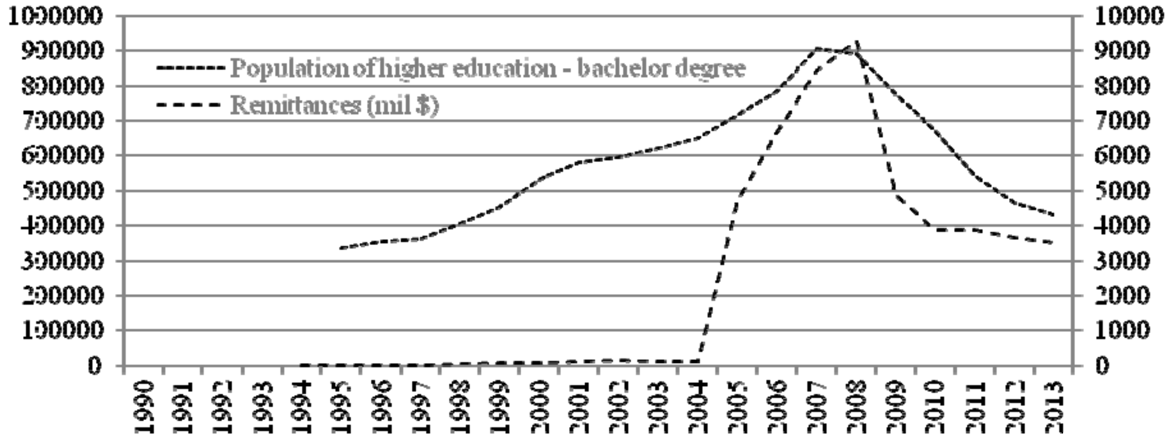

Figure 4. Remittances flows and the population of higher education (bachelor degree), in Romania, during 1990-2013.
Source: Author, based on data from: http://data.worldbank.org/; www.insse.ro

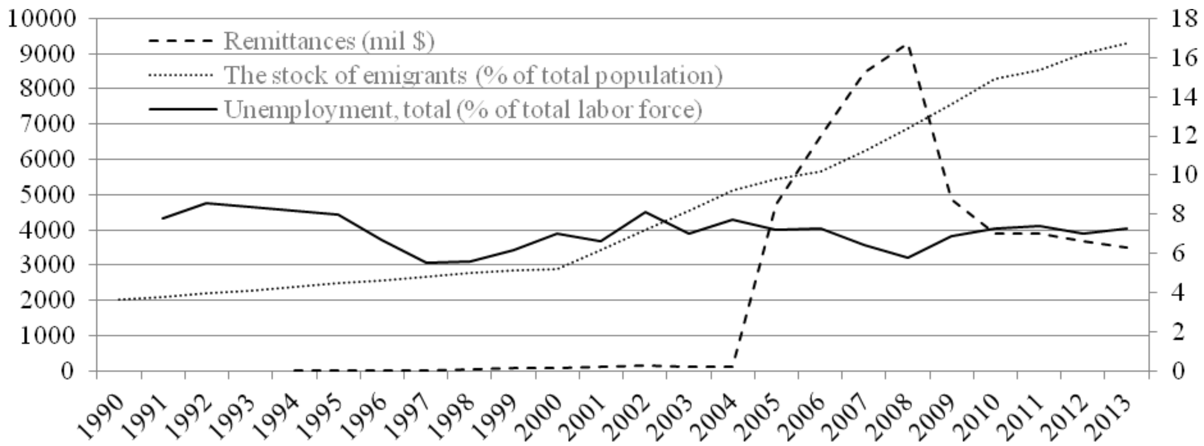

Figure 5. Remittances flows, emigration rate and unemployment, in Romania, during 1990-2013.
Source: Author, based on data from: http://data.worldbank.org/; http://www.pewglobal.org/

4. CONCLUSIONS

In this analysis, we have investigated the influence of remittances flows on the economic environment in Romania, using both elements of qualitative and quantitative analysis expressed through the graphs created. For estimating the remittances – economic growth relationship, using economics academic literature, we referred to a number of macroeconomic indicators considered as most relevant determinants for the economic growth.

One of the main conclusions drawn from the analysis is that the evolution in time of the remittances flows entering Romania is positively related to the evolution of the GDP/capita, and the total volume of remittances generates a net positive impact on the living standards of the recipient households.

The volume of remittance flows involve effects both at the macroeconomic level – inflation, workforce market, imports, exports, exchange rate, balance of payments, domestic consumption – as well as at the microeconomic level, among the beneficiary households, by increasing the savings rate, the access to health services, education, investment in various assets.

As the amplitude and particularities of employment migration phenomenon and of the associated remittances are not yet enough analysed and comprehended, we found that more elaborate research in this field represents a necessity, especially in the case of Romania. The amount of remitted money in this particular country encapsulate an important potential of economic development; yet, in order for this to be mostly fructified, we must know the determinant factors, the forms of manifestation, the allotment patterns, the particular elements of the phenomenon as, eventually, the decisive factors may get involved and moderate active programs and policies for a long-term benefit in this direction.

Although the outcome of the study leads to the conclusion that remittances flows exert a significant positive influence on the economy of Romania, both directly as well as indirectly, a more accurate measurement of this impact as well as the identification of some parameters that characterize the intensity and the form of the link, can be carried out in a subsequent step, by using analytical methods: regression (which allows description of the law of variation of a variable based on the average of one or more variables), and/or the correlation method (which determines the intensity of the relationship between variables).

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