

## THE ANALYSIS OF ROMANIAN MIGRANTS' REMITTANCES

**BRÎNDUȘA MIHAELA RADU,**

*ASSOCIATED PROF. PHD. SR III, INSTITUTE FOR ECONOMIC FORECASTING, ROMANIAN  
ACADEMY*

e-mail: bmradu@yahoo.com

**CARMEN UZLĂU**

*ASSOCIATED PROF. PHD. SR III, INSTITUTE FOR ECONOMIC FORECASTING, ROMANIAN  
ACADEMY*

e-mail: carmen.uzlau1812@gmail.com

**MARIANA BĂLAN,**

*UNIV.PROF. PHD. SR I, INSTITUTE FOR ECONOMIC FORECASTING – NIER, ROMANIAN  
ACADEMY*

e-mail: dr.mariana.balan@gmail.com

### **Abstract**

*Remittances - or money sent to the country by Romanians working abroad - are very difficult to measure accurately, there are situations in which they do not reach relatives through banks or fast transfer companies, but in envelopes by bus drivers, cash sent through friends or colleagues who return to the country or even more sophisticated procedures: Romanians make a card at a foreign bank, come with the card and leave it to a relative in the country, and the card is also supplied from abroad, without being taken national records [4].*

*Migration experts say that the level of remittances can be at most a proxy for the intention to return to the country of the sender of money. The remittance of substantial amounts can be associated with the hypothesis of building a house or the firm intention to return to Romania, while decreasing remittances can be associated with the reverse hypothesis [2].*

*In the current conditions in which the pandemic, which has become global, of COVID-19 has "upset" all national economies, which has led to massive layoffs, the closure of enterprises from the smallest to the largest we are witnessing a phenomenon unique after 1990, namely the massive return of Romanian emigrants [1].*

*In this context, we considered opportune an analysis of the impact of remittances of Romanian migrants on economic growth, remittances that will certainly be greatly diminished in the next period, or maybe even stopped.*

**Keywords:** *population migration, remittances, economic development*

**JEL Classification:** *F22, J61, R23*

### **1. Introduction**

Migration is the mass movement of groups or populations from one territory to another, determined by economic, social, political or natural factors. According to the World Bank, international migration is the movement of people across international borders and has major implications for economic development and poverty reduction, both in the countries of origin and in the destination of migrants. People will continue to migrate as long as there is a demand for labor in developed countries. Remittances have emerged as a consequence of migration and can be said to be strongly rooted in human history, with their importance and economic benefits over time [3].

The analysis of the problems related to the migration of Romanians presupposes the detailed knowledge of the motivations and characteristics of the migrants, of their circulation, but also of some related data, whose influence on the migration phenomenon can be direct or indirect. Knowing the motivations of Romanians to emigrate, but also the strategies used to leave Romania, can give us an overview of the migration phenomenon, with all the variety it covers. These

strategies were adapted according to the period in which they migrated, but also according to the possibilities of each individual. Until 2014, the strategies used were: permanent (stable) migration, circular migration, internal migration, return migration and double migration (remigration). After 2015, a new orientation emerged (multiple migration), determined in particular by the fact that these migrants could not adapt to the places where they resettled. These areas represented either Romania or other places in the countries belonging to the European Union [2].

Whatever the motivation for migration, an important side of it is the remittances of migrants, namely the amounts of money sent by them to relatives left in the country, amounts of money that have a great economic importance for our country.

## 2. Review of remittances worldwide

Romania received the largest amounts of money from Romanians abroad, among European and Central Asian (ECA) countries, after Russia and Ukraine, according to a report published on Monday by the World Bank. Globally, the largest amounts entered India (\$ 69 billion), China (\$ 64 billion), the Philippines (\$ 33 billion), Mexico (\$ 31 billion), Nigeria (\$ 22 billion) and Egypt (\$ 20 billion) [1], [10], [14].

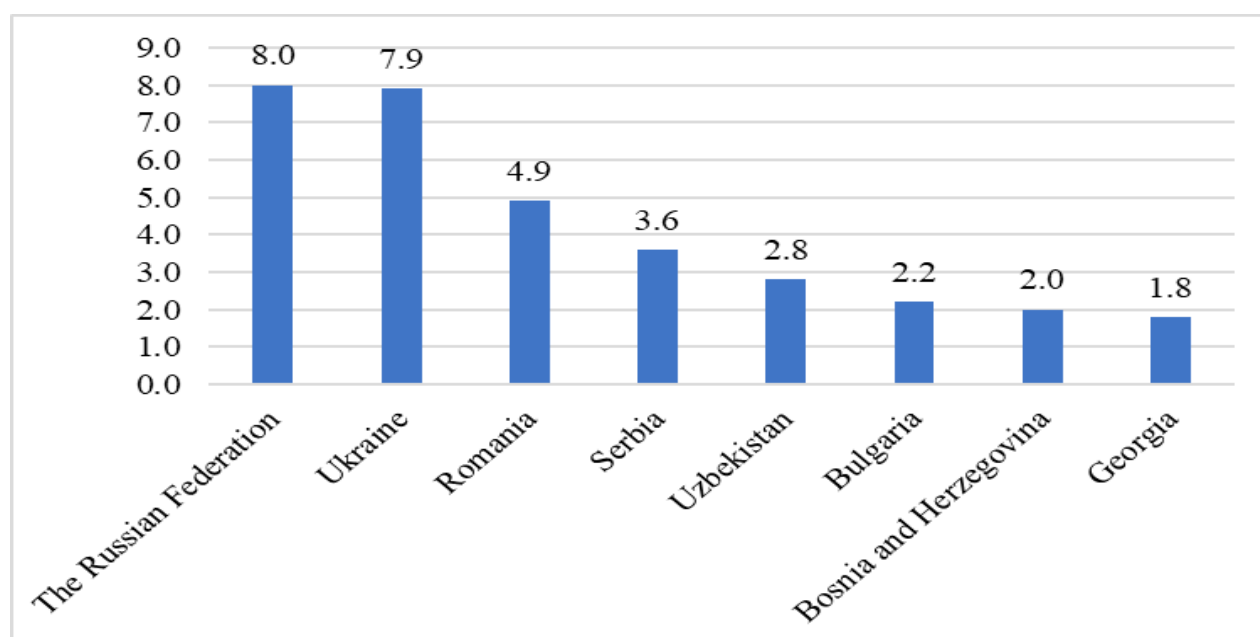
The largest outflows were from the United States (\$ 67 billion) and Saudi Arabia (\$ 38 billion). The largest increases in remittances were in Europe and Central Asia (21%) and sub-Saharan Africa (11%).

Last year, remittances of \$ 466 billion were recorded, sent by the 266 million migrants to emerging and developing countries. Remittances rose for the first time in three years.

Three quarters of the remittance flow to Europe is sent from 6 main countries: the Russian Federation (USD 20.6 billion); United Kingdom (USD 17.1 billion); Germany (USD 14 billion); France (USD 10.5 billion); Italy (USD 10.4 billion) and Spain (USD 9.6 billion).

The remittances are transfers (Figure no. 1), mostly personal, from migrants to family and friends. Their economic impact depends to a large extent on how they are used: for investment, consumption, education, health, etc.

**Figure no. 1** Remittances sent to countries in Europe and Central Asia in 2017 (\$ billion)



Source: World Bank

### 3. The financial effects of migration

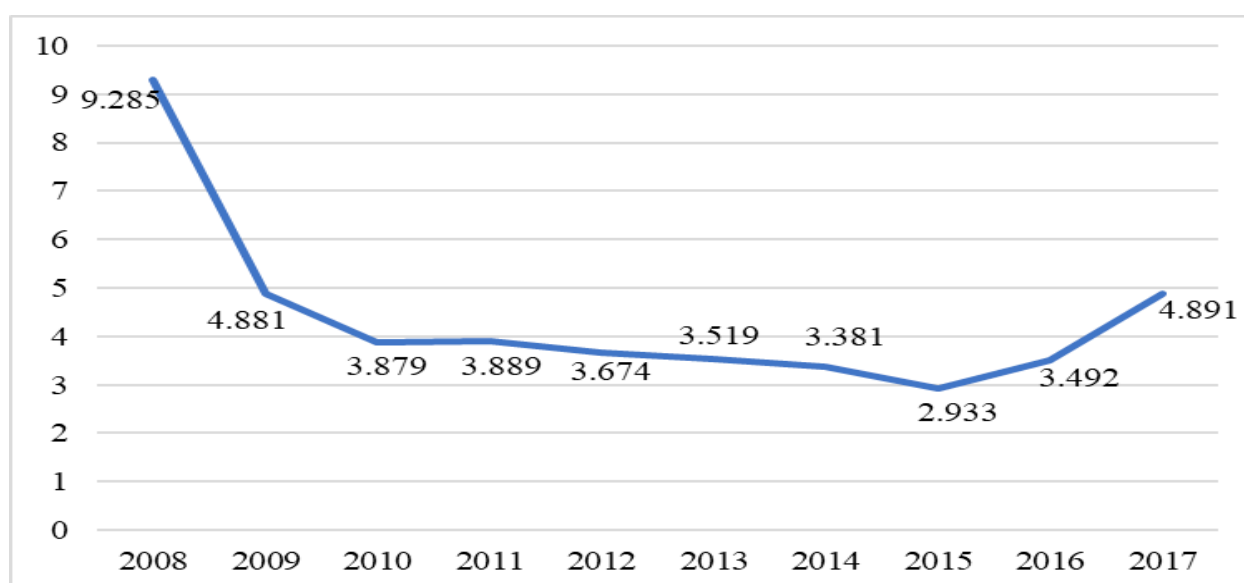
In the following we will analyze the role of remittances and their impact in the general framework of the Romanian economy. Remittances are seen as effects of external migration and currently represent an important share of household income in Romania, being the main source of assets to be accumulated. Discussing the importance of remittances for Romania we can see that two important events influence the market in this country with the integration in 2007, on the one hand, simplified the movement of Romanians to places abroad, and on the other hand significant amounts of money that were sent home. of immigrants. Higher revenues can induce other effects in the chain, causing an immediate increase in demand, which leads to an increase in production and demand to other companies or sectors [7], [9]. Higher incomes can be a source of investment, leading to increased production. On the other hand, remittances can be a national source of currency, facilitating imports of energy, high-tech equipment or balancing trade. At the same time, remittances can put pressure on the exchange rate, leading to the appreciation of the national currency [3]. A World Bank report places Romania in tenth place in the world rankings of money sent by immigrants, with shipments estimated at \$ 8.38 billion in 2010, [14]. Romania surpassed Poland in terms of the amounts sent home by diaspora citizens in 2018, according to the latest Eurostat data.

In 2018, Romanians abroad sent to Romania almost 3 billion euros, up from 2017 (2.823 billion euros – Figure no. 2). On the other hand, also in 2018, more than 250 million euros were sent abroad from Romania by foreign citizens working here. The result is a positive balance of 2.7 billion euros, money that entered Romania in 2018, as remittances.

Thus, Romania climbed to the second position in the European top of the remittance balance, surpassing Poland, which received over 2.5 billion euros in remittances. Portugal remains in first place [14].

The amounts sent by Romanians from the Diaspora, most of them working outside Romania, are almost 4.3 billion dollars, according to World Bank data. Compared to the GDP of 211.8 billion dollars that Romania had in 2017, the amount means 2.03% of GDP. It is the highest value of remittances (money received by the families of those who left, from members of their households, who are no longer domiciled in the country) received by Romania so far, in recent history [11], [12], [13].

**Figure no. 2** Evolution of remittances from Romania in the period 2008-2017 (\$ billion)



Source: World Bank, INS

From 2005 until now, Romanians working abroad have sent to the country app \$ 38.819 billion. As can be seen in the figure above, the worst year was 2010, and the best years were 2007 and 2008, as shown by World Bank data. In 2009 the number of Romanian emigrants was 2.769 million and represented 13.1% of the total population. The amount sent by them to Romania represented 4.4% of GDP, unlike in 2010 when remittances occupied 4% of Romania's GDP. The amounts sent to Romania by those who went to work abroad reached their highest level in 2008 [11], [12], [13].

According to a World Bank study, \$ 9.4 billion went to Romania in 2008, but the level of remittances fell sharply. in 2009 to only \$ 4.9 billion. Another finding of our research highlights the fact that the app. two thirds of the money sent to the country in the last 10 years comes from Romanians who went to work in Spain and Italy [10], [6]. Remittances to Romania, as in other countries, are a potential source of savings and investment for capital formation and development. However, in order to make full use of remittances, the latter should penetrate the country's financial system. Attracting remittance recipients as customers is an essential challenge for the Romanian financial sector. It is necessary to turn remittance recipients into bank account holders, which continues to be a difficult task. We can see that people in the villages rarely have bank accounts. Only 6.2% of rural households have a current account opened with one of the country's banks, and 4.3% of households have savings accounts [10].

Also, the level of trust in financial institutions (banks, credit and savings associations, microfinance institutions, post offices) is lower in rural than in urban areas. The population in rural areas is characterized by a relatively lower level of understanding of financial problems. About 23.5% of the population in the villages make savings, but only 5.7% of them deposit this money in current accounts or savings accounts, the rest of the funds are held in cash in foreign currency. This means that more advanced penetration of financial institutions in rural communities, in particular, could result in a much more efficient use of remittances from a macroeconomic point of view. It is clear that remittances can significantly influence the economic potential of a country or region, especially when remittances are large enough. The predilection to save may be lower in households that receive large remittances because they are usually younger, larger, which generates additional consumption costs (needs) [1]. It is widely accepted that remittances made by migrants have been the basis for growth in the real estate sector over the past few years. In the case of rural localities, the share of remittances in the total product is much higher, being an important and stable source of income for more than 25% of rural localities in the region.

Remittances of any size are also a key factor in preventing households from falling into poverty. On the other hand, remittances to rural localities are so disproportionately distributed that 75% of the transferred amounts are directed to 25% of the recipient households. More needy households with older members receive smaller remittances and in this case the money is used mainly to cover vital needs such as food, clothing or medical services. For this part of the recipients, the income generated by remittances is a simple substitute for the lack of employment opportunities in the country. Younger and more qualified households receive higher remittances, which are more often used for investment purposes. Education, renovation / modernization of the farm and real estate are the main investments of families in rural areas of the country [4], [10], [14]. Remittance money is rarely used to launch other entrepreneurial businesses than agribusiness. This is an alarming phenomenon that requires urgent interventions to improve the business environment in rural areas in Romania. We consider that the phenomenon of migration represents a reality of the contemporary society with great economic, social and political implications. At the moment, there are no prepared solutions for an effective migration policy, but one of the possible ways to follow could be to combine short-term migration with certain economic incentives for returning to the country of origin or for a circular circulation of the same type. come over.

This would allow immigrants to spend short periods abroad without affecting the number of permanent migrants. The World Bank also highlights the potential benefits of circular migration. Thus, destination countries could cover labor shortages, increase incomes and reduce social tensions generated by poorly managed migration. Countries of origin could accumulate human capital that could otherwise be wasted [2], [5]. In terms of immigrants, they can increase their own income, build human capital and financial savings, maintain ties with their families or create trade links between countries and contribute to the development of the region, and default of the country of origin. We cannot fail to notice that no matter how hard some countries accept this phenomenon of migration, it also has positive aspects.

As I mentioned, immigrants can contribute large sums of money and human capital to the economic and social development of a country or a developing region. Increasing the number of immigrants leads to economic development and not necessarily to higher unemployment. Immigrant workers are accepted in the country of adoption as a means of supporting economic growth. Remittances in Romania, as in other countries, are a potential source of savings and investment for capital formation and development [4], [6]. It seems that ensuring the productive use of large amounts of remittances transferred to Romania should become one of the most important priorities for decision makers in the country. To achieve this goal, it is necessary to direct a larger share of remittances to the country's financial system, instead of keeping them in cash at home.

During the period with the highest migration, 2007-2008, the amounts were around 1.6 billion dollars, followed by a decline that coincides with the period of financial and economic crisis that covered the whole of Europe and the United States. Then the level of amounts began to rise and reached for the first time over 4 billion dollars, in 2017, as shown in the chart below [9], [11], [12]. The amount is equivalent to 2% of GDP, ie as much as the Defense budget was last year. If we calculate how much money comes back for each of the 19.5 million inhabitants, officially registered with the residence in Romania on January 1, 2018 by the Institute of Statistics, 880 lei would return for each.

Population movement, especially migration, is a global phenomenon. Migrants have a very important contribution in both countries - both in the host country and in their country of origin. Romanians are considered economic migrants, because they chose to leave their country voluntarily and look for the premises for a better life, thus improving their future and that of their families. The money sent home by them influences the increase of consumption (consumption on which Romania's economic growth in recent years is largely based), but also social emancipation, development of services, development of civic attitude (social remittances). "Statistics from 2015 indicate that almost 5 million Romanians work abroad. 68% of them send money to their families. The main destination countries of Romanians are: Italy, with fish1 million Romanian migrants, Spain with over 650 thousand Romanian migrants and Germany with 590 thousand Romanian migrants. In 2014, remittances in Romania represented 1.7% of GDP ", according to a study [9]. "The increased volume of remittances has been observed over time and their impact on the economic growth of a country has been studied by economists, it has been shown that the effect of remittances in the economic development of a country depends on how they are used in the country. destination: investment, consumption, education, health, etc. A positive effect of remittances has also been observed in reducing poverty. Migrants and their families are exposed to a higher risk of poverty, due to the lack of financial history, financial exclusion and low incomes ", the authors of the quoted study also note [9].

Many emerging countries / countries in transition in Europe and around the world receive billions of USD / EUR annually as remittances from the citizens of those countries who have decided to emigrate and work abroad, this is also the case in Romania. Remittances have had, and most likely will continue to play, a major positive role in the formation of Gross Domestic Product (GDP), to a greater or lesser extent depending on the individual characteristics of each country, the dynamics of foreign exchange flows, the structure and size of groups. of senders, the more or less

permissive regulations of the host countries, as well as many other historical, logistical, banking and socio-cultural factors.

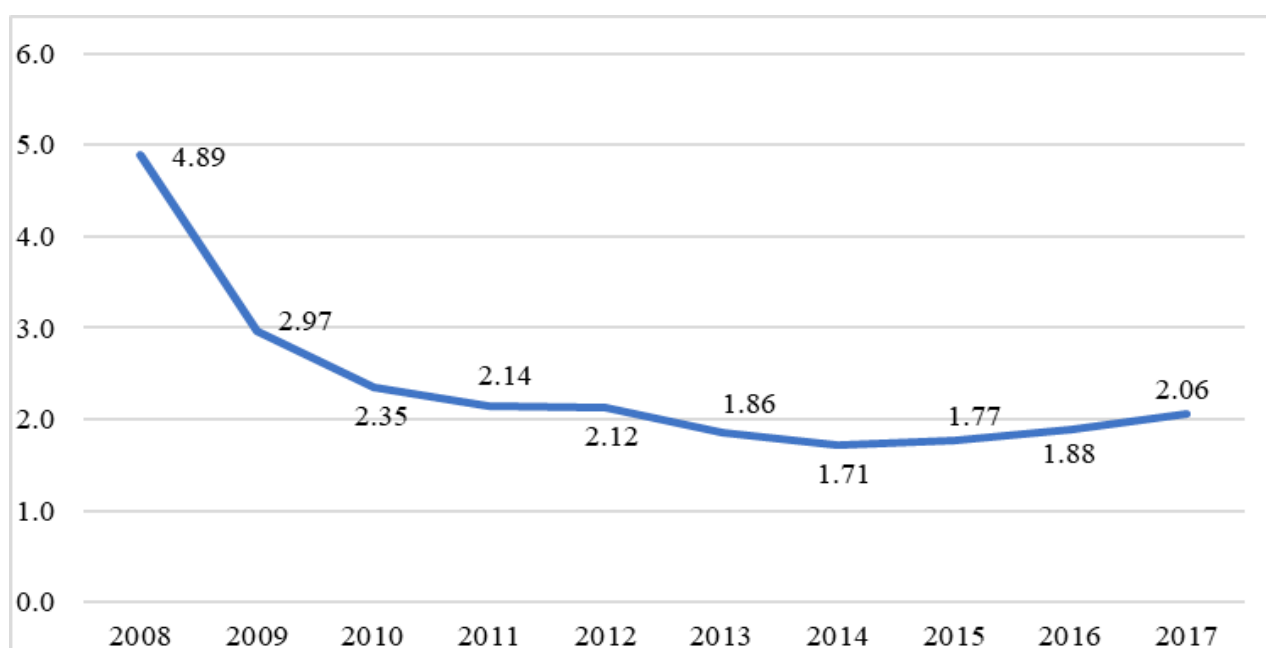
Romania experienced a massive exodus of the population after the revolution of December 1989. Currently, there are no official data published on the number of Romanians who emigrated since 1990, but according to estimates by analysts dealing with the problems of the Romanian economy, now in about 5 million Romanians live abroad. The number is impressive. The Romanian media speaks of even the largest peacetime migration in a single country.

The comparison with Syria is often made to the detriment of Romania. But what is even more alarming is the age structure of this massive group of Romanians. These are especially young people. This simple fact has dramatic macroeconomic repercussions, as presented in the mentioned article. Even more worrying is the current trend in which many young people leave Romania immediately after completing high school. Going to study abroad is not a negative thing as such (in the history of the country this fact has been recorded permanently, the great national poet Eminescu himself being an intellectual product of an education abroad), but the most dramatic is the fact that most do not I'm coming home.

Of course, there is also a favorable macroeconomic impact of these transfers. On average, in the last decade, Romania has received about 3.4 billion euros annually in the form of remittances. The contribution of remittances to the formation of the Romanian GDP since Romania's accession to the European Union (EU) (on average 2.35% - Figure no. 3) does not need any presentation, especially in the situation of this country which has accumulated a very large external debt (98 billion euros as of September 30, 2018) [14].

On the other hand, what should worry the Romanian authorities is the trend of this currency inflow. The chart below is obviously illustrative for a worrying situation. Remittances decrease visibly, from year to year (with small exceptions), and the strategic analysis of this trend is not optimistic. Foreign currency inflows will continue to decline as a result of a multitude of factors. The economic and geopolitical situation of the host countries is only one of these factors. More recently, starting in March 2019, Britain's exit from the EU will clearly have a negative impact on remittance inflows to Romania's foreign balance of payments.

**Figure no. 3** The evolution of the percentage represented by remittances from Romania in GDP in the period 2008-2017



Source: World Bank, INS

The share of Great Britain is not majority in the total volume of remittances received, but currently in the United Kingdom the Romanian minority is one of the largest and most active. For now, the future of these Romanians in the United Kingdom is uncertain. An exit of the United Kingdom from the EU without adequate arrangements will have negative consequences on foreign remittances in Romania. Moreover, in addition to the direct impact on remittances, Brexit will have another more dramatic consequence than the one mentioned above. In practice, depending on the arrangement reached, the EU will have less than GBP 8.6 billion in the EU budget, which is Britain's net annual contribution. Naturally, community funds will be reduced, and access to structural funds for new members, including Romania, will be reduced accordingly [11], [12], [13].

#### 4. Conclusions

The changes that took place on the Romanian labor market after 1990 largely overlap with the stages of Romanians' external migration [10]. The low number of reforms, bureaucracy and corruption inhibited the private environment and had serious consequences on the structure of the labor market, and the main consequence was the massive departures of Romanians to countries like Israel, Germany, Spain or Italy, looking for a job. The effects of emigration were visible, and Romania faced major economic and social imbalances.

Starting with the high inflation of the 1990s and then continuing with high unemployment rates, and later with the lack of labor supply in the IT industry and the medical sector, emigration was the main cause of the problems faced by the labor market. from Romania. To all this was added the consequences of the economic crisis which further narrowed the possibilities of having a balanced labor market aligned with European rules [8].

In addition to the series of negative effects that emigration has produced on the economy and the labor market, we note that the amounts of money sent by Romanians who went to work to families left at home are one of the positive effects for our country's economy. It is encouraging that for several years there has been the issue of building a strategy to balance the labor market and even trying to bring immigrants into the country. Unfortunately, these policies are not based on the economic realities of this period. Romania needs to set up a national employment policy based on current labor market needs. To all this must be added a strategy of harmonization of existing higher education in Romania with the needs of the domestic labor market.

#### 5. Bibliography

- [1]. **Adams, R.H.J. (2009)**, The determinants of international remittances in developing countries. *World Development*, 37 (1), 93–103;
- [2]. **Aggarwal, R., Demircuc-Kunt, A. and Peria, M.S.M. (2011)**, Do remittances promote financial development? *Journal of Development Economics*, 96 (2), 255–264;
- [3]. **Anghel, M.G., Niță, G. and Badiu, A. (2017)**, Impact of Remittances on Financial Development and Economic Growth. *Romanian Statistical Review Supplement*, 1, 106-112;
- [4]. **Anghelache, C., Pârțachi, I., Anghel, M.G. and Niță, G. (2017)**, Remittances, a factor for poverty reduction. *Romanian Statistical Review Supplement*, 5, 59-66;
- [5]. **Bettin, G. and Zazzaro, A. (2012)**, Remittances and financial development: Substitute or complement in economic growth? *Bulletin of Economic Research*, 64 (4), 509–536;
- [6]. **Bugamelli, M. and Paterno, F. (2009)**, Do Workers' Remittances Reduce the Probability of Current Account Reversals? *World Development*, 37 (12), 1821-1838;
- [7]. **Combes, J., and Ebeke, C. (2011)**, Remittances and household consumption instability in developing countries. *World Development*, 39 (7), 1076-1089;

- [8]. **Das, A. (2012)**, Remittance Behavior of Migrants and its Macroeconomic Effects in Four Developing Countries. *International Journal of Applied Behavioral Economics*, 1 (1), 41-59;
- [9]. **Pradhan, K.C. (2016)**, Does remittance drive economic growth in emerging economies: Evidence from FMOLS and Panel VECM. *Theoretical and Applied Economics*, XXIII (4) (609), Winter, 57-74;
- [10]. **Stan, S. (2009)**, Romanian migration to Spain and the impact on the Romanian labour market, Working Paper N0. 14, Barcelona;
- [11]. \*\*\* United Nations (2016). *International Migration Report 2015*;
- [12]. \*\*\* United Nations (2015). *Trends in international migration, 2015*, December 2015;
- [13]. \*\*\* United Nations (2015). *Integrating migration into the 2030 Agenda for Sustainable Development*, December 2015;
- [14]. \*\*\* World Bank, (2012). *Remittances to developing countries will surpass \$400 billion in 2012*, In *Migration and development brief 19*, Migration and Remittances Unit, Development Prospects Group, World Bank.