

## MONETARY REMITTANCE – ROMANIA CASE STUDY

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**Abstract:** *There is vast literature regarding the grounds of remittance. The best known and most often quoted article on the theme belongs to Lucas and Stark, who divided the grounds pursuant to which people remit money, into altruistic and personal grounds. At microeconomic level, the main beneficiaries of remittance are the remitters themselves and their close ones and, at macroeconomic level, the benefits are substantiated in the increase of domestic consumption, poverty decrease, recovery from macroeconomic shock or imbalance, support of the payment balance. The behavior of migrants who remit money to their country of origin is influenced by factors such as gender, age, educational level, civil status, family position, period of stay in the foreign country and the opportunities therein. There are about 3 million Romanians working abroad and remittance represents an economic advantage for the country, as it stimulates consumption and investments and improves society’s welfare. Remittance stands for an essential source of external funding for developing countries. During 2003 – 2013, Romanians abroad sent home over 54 billion Euro and the peak of the amounts sent by Romanian workers was reached in 2008 (7,765 billion Euro). Following economic crisis, remittance was drastically decreased by almost a half during the following year.*

**Keywords:** *remittance, the grounds of remittance.*

**JEL Classification:** *J61, F24, D31.*

### 1. Introduction

There is an entire literature related to the issues that stand at the base of remittances. The most popular and quoted article on the subject, belongs to Lucas and Stark (1985), who divided the grounds pursuant to which people remit money into altruistic and personal grounds. Rapoport and Docquier (2006) divided the grounds for migrant remittances out of altruistic grounds, in safety and investment grounds.

Migrants remit in order to access resources in their country of origin (Lucas and Stark, 1985; Gubert, 2002), to have a safety net, in case the unforeseen happens (De la Brière et al., 2002; Stark, 2009), in order to return the service made (Lucas and Stark, 1985; Cox, Eser and Jimenez, 1998 cited in Bartolini, 2015) or due to social pressure (Stark, 2009).

### 2. The concept of remittance

*International remittance* represents the transfer of funds made by migrants towards recipients in the country that they came from (Roberts, 2004). The transfers can be monetary (cash, transfers, checks etc.) or in kind (products, payments for a household, donations etc.). These remittances can be measured by using the balance of payments through which the economic transactions of a country are done with the rest of the world. These data do not include „informal” remittances hand-carried) or the transactions made through money transfers. Using certain samples more accurate data about migrant remittance can be collected (Baruah and Cholewinski, 2007). By remittance we understand the money or goods transfer that is done by migrants working outside their communities of origin, either in urban areas or outside their countries to their families (Côté et al., 2015). Many analysts use official balances of payments or central banks data that rely mostly on official transfers made through financial and banking institutions (Roberts, 2004).

*Remitters* are defined as being the migrants that sent money or goods (food, clothing, household items, electrical appliances or vehicles) to their households, in the last 12 months (Garip, 2014).

At a microeconomic level, the main beneficiaries of remittances are the remitters themselves and their close ones and at a macroeconomic level, the benefits consist of the

rise of the internal consumption, poverty reduction, recovering from macroeconomic shocks or unbalances, sustaining the balance of payments (Bartolini, 2015).

Most studies sustain the idea that money remittances from migrants contribute to the economic growth of countries that supplied the workforce (Goldring, 1990; Rozelle et al., 1999; Stark, 1991; Stark and Lucas, 1988; Stark et al., 1988; Taylor, 1999; Taylor et al., 1996), to reducing poverty for the ones left at home (Adams, 2006; Adams and Cuecuecha, 2010; Adams and Page, 2005; Taylor et al., 2008). There are specialists that argue by sustaining that these remittances favour the rise of inflation through the over appreciation of the national currency which has a negative impact on prices, favouring the inactivity of the ones able to work because they prefer to be financially sustained and not work (Postelnicu, 2013). At the beginning of the 90's, the idea that remittance does not stimulate growth but enhances the dependency towards the communities that send money through material expectations of the people that are home (Durand et al., 1996a; Adams, 1991), which leads to more migrations (Schiff, 1994). Remittance represents a major source for income for many households in countries from Asia, Africa and Latin America (Basnet and Upadhyaya, 2014).

According to official data supplied by the World Bank, money transfers of migrants towards emerging states are foreseen to reach in 2018, 665 billion US dollars (Table no. 1). India, with a population of over 14 million people that live outside the country's borders continue to remain the largest remittance pole, with over 71 billion USD in 2014. Even though the remittances towards India are high, they represent only 3.7% of the country's GDP in 2013 (World Bank, 2014).

**Table no. 1. Estimates and forecasts for monetary remittances on a global level and on regions (billions of dollars)**

	2010	2013	2014	2015p	2016p	2017p	2018p
<b>At a global level</b>	<b>457</b>	<b>560</b>	<b>580</b>	<b>588</b>	<b>610</b>	<b>635</b>	<b>665</b>
East Asia and Pacific	95	113	120	126	130	135	141
Europe and Central Asia	34	47	44	36	39	42	45
Latin America and the Caribbean	55	61	64	67	70	72	75
Middle East and North Africa	39	49	51	51	53	54	56
South Asia	82	111	116	123	128	133	139
Sub-Saharan Africa	30	32	32	33	34	35	37

Source: World Bank, *Migration and Remittances: Recent Developments and Outlook, Special Topic: Forced Migration, no. 23/2014, p. 4.*

Until now, regional remittances have recorded a considerable growth in three regions: Eastern Asia and Pacific, South Asia and Latin America together with the Caribbean's. The flows towards the Middle East and North Africa began to come back after the weak performance during 2013. In Europe and Central Asia the flows are lower due to the economic perspectives from Russia. This area is confronted with uncertainties caused by the Ukrainian conflict and its repercussions on Russia from West-European countries. The world economy registered a slow growth in 2014 that was burdened by geopolitical events in different parts of the world. Many economies experienced a growth in their gross domestic product, but under the thresholds recorded before the economic crisis. In 2014, the factors that influenced migration and remittance flows were: unequal economic recovery of developed countries (for example USA recorder growth in the fields of construction and services, which was reflected in an increase in remittances toward

Mexico, Nicaragua, El Salvador, Guatemala, while the Euro zone, the slow economic recovery, resulted in reduced remittances); the euro depreciation in favour of the US dollar reduces the value of remittances in dollars as well as strengthening the border controls, which reduced the number of migrants (World Bank, 2015). It is known that emigrants and diaspora from a certain country have a crucial role, over the transfer of technology and facilitating direct foreign investments in the country of origin (Samet, 2014).

With some exceptions, most migrants chose to work abroad, in order to sustain their families financially, and as a result they make everything to send as much money as possible in their country of origin. Some authors sustained that as result of the money received from migrants, families take independently have a higher level of living, but at the community level this is no longer valid. They went as far as asking governments to discourage migration and remittance due to the fact that they create excessive consumption (Cuthbertson and Cole, 1995 cited in Brown 1997), dependency of imports or non-productive investments in houses and lands (Nyamongoa et al., 2012). Other authors acknowledged the input brought by monetary remittance in the beneficial countries by paying external debts, ensuring an important source of foreign exchange or reducing poverty and that they can influence positively economic growth by increasing capital accumulation (Barajas et al., 2009) or by developing the financial sector (Giuliano and Ruiz-Arranz, 2009) and also reducing currency fluctuation in the country of origin (Bayar, 2015).

Even though, monetary remittance in the country of origin is used mostly for consumption, there are studies that demonstrated that these amounts are used by the families of remitters in investments in houses, education, and health. These expenses have a positive impact on the quality of human capital that is the main development component of a country. The possible benefits as well as remittance costs on the country that receives them are underlined in Table no. 2.

**Table no. 2. The potential benefits and costs or remittances in the recipient country**

Potential benefits	Potential costs
Are a stable source of foreign exchange which eases foreign exchange constraints and helps finance external deficits (Nyamongoa et al., 2012), an important and stable source of external development finance (Ratha, 2003).	May ease pressure on governments to implement reforms and reduce external imbalances (Papademetriou and Martin, 1991; Reichert, 1981).
Are potential source of savings and investment for capital formation and development by lessening the production and investment constraints in the economy (Goldring, 1990; Rozelle et al., 1999; Stark, 1991; Stark and Lucas, 1988; Stark et al., 1988; Taylor, 1999; Taylor et al, 1996).	May reduce savings of recipient families and thus have a negative impact on growth and development (Nyamongoa et al., 2012, Miluka et al., 2010; Rozelle et al., 1999).
Facilitate investment in children's education and human capital formation (Edwards & Ureta, 2003; Yang, 2008).	Migration leads to "brain drain" and has a negative impact on economy that is not fully compensated by remittance transfers (Nyamongoa et al., 2012).

Potential benefits	Potential costs
Raise the standard of living for recipients (Greenwood, 1985; Lucas, 1987; Taylor, 1992; Taylor and Wyatt, 1996; Yang, 2008; Garip, 2012).	May reduce labour effort by recipient families and thus have a negative impact on growth and development (Salahuddin and Gow, 2015).
Reduce income inequality (Adams, 1992; Taylor, 1992; Taylor et al., 2008).	Increase income inequality (Taylor and Yitzhaki, 1988; Mora, 2005).
Reduce poverty (Adams, 2006; Adams and Cuecuecha, 2010; Adams and Page, 2005; Taylor et al., 2008).	

Source: adaptation after specialised literature

Remittances are made through official ways such as financial-banking transfers, through cash transfers operators or unofficial ways such as informal cash transfers (ex. Hawala – is based on the honour and performance of a money network of brokers from the Middle East, North Africa and India) or through transport companies, couriers, relatives, families that are vulnerable to the risk of having their money stolen or confiscated. The over evaluation and restrictions of exchange rates, lack of trustworthy financial institutions, low profit rates for financial assets, as well as high transfer costs or difficult access to official channels represent some of the causes of unofficial remittances. A study realised by the European Bank of Investment, demonstrates the fact that in countries from Southern Europe, remittances are predominantly done through unofficial channels (Baruah and Cholewinski, 2007). From the global perspective, the remittance costs tend to decrease, especially due to new players on the market and the use of digital payment systems. Yet, there are concerns about the increase of costs with banks and money transfer operators.

The behaviour of migrants that remit money in their country of origin is influenced by factors such as, gender, age, education level, marital status, position in the family, period of stay in the receiving country and the opportunities there. Some household surveys suggest that only half of all international migrants remit (Gubert, 2002; de la Briere et al., 2002). At a global level, women send as much money as men, but reported to the level of income, women send more money than men, even though they gain less (I.O.M, 2016). Women tend to send money more often and on a longer period of time than men, and usually they send it to another woman that takes care of the children; men send money to their wives that are left at home. Due to the fact that women send small amounts of money, after short intervals of time the amounts diminish due to banking commissions.

The migrant's age represents an important factor of remittances, these amounts increasing in direct ratio to age, but there are authors that dismissed this supposition (Amuedo and Pozo, 2006). Authors such as Maggard (2004), Faini (2007), Sinning (2007) believe that people with higher education remit fewer amounts of money, in comparison with people without studies. Authors like Bollard et al. (2009), Bouoiyour and Miftah (2015) claim that the amounts are in connection with the level of education. The marital status as well as the position within the family of the migrant, represents important factors with regard to the level of remittances (Hodinott 1994; from Briere et al., 2002 cited in Sinning, 2007). The higher the number of family members, the more the level of remittances increases, and in case the connection with the family members is not so tight, the remittance level decreases.

Migrants remittances decrease once the period in which they are not in their home country is longer, because it is assumed that they will use these amounts for investments in the host country and the procurement of long term goods that they will use there,

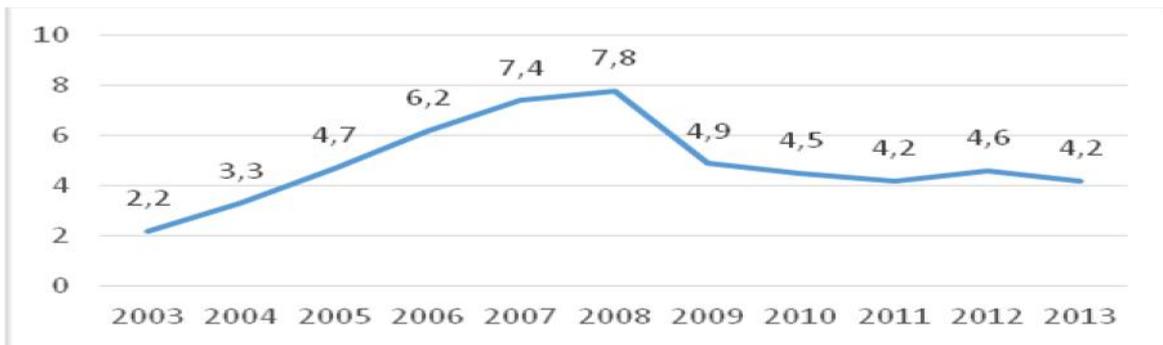
concluding that these amounts represent savings made in the host country (Basu and Bang, 2013). The income and status of the migrant employee determined the behaviour of remittances, immigrants will remit, except for the case in which the working place is stable because they feel safe and are not afraid of having to return to their country. Some migrants realise the negative effect of their departure, by trying to compensate through remittances their absence (Garip, 2014), or these are due to social pressure that they are facing (Stark, 2009).

The opinions are divided with regard to the advantages or disadvantage that come out of remittances. Remittances increase the income from external sources of a country, and have as a consequence economic development through the increase of consumption and investments, level of living of the beneficiaries of these amounts, but not all authors agree that economic growth and new working places are resulted from these remittances.

### 3. Cash remittances of Romanians abroad

Approximately 3 million Romanians are working abroad, and remittances represent an economic advantage for the country, because they stimulate consumption, investments and improve the society's level of living.

During 2003-2013, Romanians that are abroad, sent over 54 billion euro, amounts reaching their highest, 7.8 billion euro, in 2008, as observed in Chart no. 1; after the economic crisis the remittances drastically decreased, reducing by half in the following year, and then they decreased again in 2013, to 4.2 billion euro.



**Chart no. 1. Cash transfers made by Romanians that are abroad<sup>1</sup> 2003-2013 (billions euro)**

Source: data taken from the Romanian National Bank, "Romania and migrants", 12 June 2014, p. 8.

Even though, statistics show that in 2013, the number of Romanians that are working in Spain is 728 thousands persons (Eurostat, 2014), being significantly higher than the number of people that are working in the USA (188 thousands persons) (Unicef) or in Germany (245 thousands persons) (Eurostat, 2014), the latter have made larger money transfers. Romanians that are in Italy are on the first place, regarding remittances, their amounts reaching in 2013, 925 million Euro, the second place being held by Germany with 595 million Euro, and thirdly, USA with 460 million euro and on the fourth place is Spain with 393 million Euro (as seen in Table no. 3).

During the period of 2005 – 2009, Spain was on the second place after Italy, in the remittances top, after which their level decreased in 2010-2011, with a light come-back in 2012, followed by a new decline in 2013.

<sup>1</sup>\*Includes money transfers from workers and other people that are aboard (below and over 1 year)

**Table no. 3. Money transfers of Romanians abroad (2005-2013)**

Million euro									
Country	2005	2006	2007	2008	2009	2010	2011	2012	2013
Italy	1393	1839	2426	2718	1465	1111	932	900	925
Germany	486	745	334	441	453	509	597	491	595
USA	385	313	525	439	278	261	331	593	460
Spain	865	1302	1874	2111	1080	738	498	504	393
Switzerland	81	114	115	108	160	106	191	191	252
France	294	351	471	332	189	292	314	275	250
Great Britain	122	160	219	115	135	92	193	377	224
Hungary	39	58	45	184	125	95	97	99	128
Austria	61	70	147	129	101	94	138	88	111
Greece	127	173	293	450	231	158	107	87	75
Turkey	19	22	26	22	18	35	50	62	35
Ireland	73	94	109	30	17	24	194	167	20
Others	753	931	857	685	599	968	588	717	762
Total (inputs)	4697	6171	7441	7765	4851	4484	4231	4551	4230

\*Includes money transfers from workers and other people that are abroad (below and over 1 year)

Source: National Bank of Romania, "Romania and migrants", 12 June 2014, p. 7.

The financial-economic crisis affected, as expected, the money transfers made from abroad to Romania, so that between 2008 when the peak was recorded, with a total of 7.8 billion euros, and 2009, when the remittances level decreased with 37.5% until 4.85 billion euro, almost all states from which Romanians were sending money recorded declines, except for Germany, Switzerland and Great Britain who registered higher levels of remittances in 2009. This meant that Romanians in these countries, were not affected so severely by the crisis, maybe even because in these countries Romanian migrants are qualified and probable haven't lost their jobs as it happened to Romanians in Spain, where the remittance level was reduced to half (48.8%) in 2009 compared to 2008.

Romanians working in Italy are the ones that between 2005-2013 have sent the most money to Romania, and until 2010 the second place was occupied by Romanians in Spain; starting with 2011, Romanians from Germany surpass the ones in Spain as total value of transfers and beginning with 2012, Romanians in USA begin to have an important share in the financial transfers towards the homeland (RNB).

The total value of money transfers increased, the transfer's in foreign currency (including of those working abroad) have exceeded the direct foreign capital investments. In 2010, the money sent by Romanians from abroad was double in value in comparison with the direct foreign investments.

José de Sousa and Laetitia Duval (2010) tested the influence that the geographical distances have on remittances made by Romanians that are abroad, and concluded that there is a link between the two. Italy is the country from where Romania receives the largest amounts at the remittances level, even though they are migrants in countries that are geographical closer to our country such as Greece, Austria or Hungary, where the remittances levels is not so high (De Sousa and Duval, 2010).

#### 4. Conclusions

Following the studies realised, a series of grounds can be found for migrant remittance towards the countries of origin such as altruistic reasons (in order to financially sustain the family and closed ones that are at home), personal reasons (because they intend to come back in the country and use for themselves these amounts), reasons related to safety, investments or social pressure.

The behaviour of migrants who remit amounts of money in the country of origin is influenced by factors such as gender, age, education level, marital status, level of income as well as time spent abroad; the amounts sent are high or low according to the factors mentioned above.

The remittances can have positive effects over the person that remits, the beneficiaries and countries of origin, but there are negative effects due to the rise of inflation, inactivity and unemployment because the ones that receive these amounts prefer not to search for a job.

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