

THE IMPACT OF REMITTANCES ON ECONOMIC SITUATION OF EUROPEAN COUNTRIES

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Abstract

The most studies dealing with remittances consider the international migration and remittances as efficient instrument for developing countries. However, the negative fact of remittances is often neglected. The economically developed countries are threatened by outflow money abroad. The Czech Republic and most developed European countries are the immigration countries. Many foreigners come here because of work or study, especially from third countries. This paper deals with rarely discussed issues of migration standing on the border between demographics and economic statistics. The migration has the obvious positive impact in getting a needed work force, skilled and unskilled. Besides positive influence the migration has a negative impact on several European economies with regard to sent remittances, because one of the reasons of migration is financial security of family in the country of origin. This paper is aimed to determine the impact on migration and remittances in Europe and find out the most threaten economies.

Key words: European countries, labour market, migration, remittances

JEL Code: F22, F24, J61

Introduction

International migration of population has been a significant feature of the international economy for a long time. It is an important source of income, foreign exchange and workforce for a large number of economies.

Stojanov et al (2011) presents some reasons for the increasing interest about migration and development linkages during the last two decades. Generally, there are many reasons for migration – e.g. environmental change or climate variability, policy, war conflict, loss of housing options (construction of dams, urbanization), education or work. Labour migration is one of the most common reasons for leaving the country of birth. It is caused by the differences between income levels in particular countries. Lucas (2005) finds the links between the international migration and economic development in the lower income

countries. People from these countries migrate for work to developed countries and many of them send earned money back to their country of origin to their families and relatives. Such migrants' transfers of money are known as remittances. There are a lot of studies about positive effect of remittances for developing countries. The study of Djacic (2004) indicates the remittances as source of improvement of the standard of living and reducing the risk of poverty. They have a positive effect on health and education of the migrant's households and help sustain economic activity and equilibrium of balance of payment (Lucas, 2005). Ruiz and Vargas-Silva (2014) argue that the remittances are not stable over time, they infirm the impact of remittances on economy and financial policies by reason of changing cyclical fluctuations.

As it has already been noted, the most of studies deals with the impact of migration and remittances on developing economies. This paper deals with the migration and remittances from the perspective of economically developed European countries. They are especially immigration countries and some of them are threatened by outflow money abroad through remittances. It represents rarely discussed issues of migration.

The paper is organized as follows. Firstly we introduce the data sources and methodology of remittances' calculations. Then we present the results of our analysis, which includes the evaluation the situation of migration and remittances in the Czech Republic and in European countries. Finally we analyse the impact on European economies through the share on GDP. The aim of this paper is to determine the impact of the migration and remittances on European countries and find out the most threaten economies.

1 Data sources and methodology

Generally, personal remittances are defined as migrants' transfers of money to their country of origin resulting from their temporary or permanent incomes. The definition of remittances is not uniform and has been still changing. In this paper we use the definition of the International Monetary Fund (2009). The IMF's manual determines remittances as the sum of two items of the balance of payments:

- all current transfers in cash or in kind made or received by resident households to or from non-resident households (also transfers between resident and non-resident individuals)
- compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by non-resident entities.

The migrants must be distinguished by the length of stay for correct capturing and quantifying all of accompanying flows. We distinguish (according to current national account standard ESA 1995) the residents (economic entities, living and working in the Czech Republic for at least one year or longer) and non-residents (economic entities, living and working in the Czech Republic less than one year). The category of non-residents also includes the cross-border workers, seasonal workers, foreign students studying in the Czech Republic, foreigners working in the Czech embassies abroad.

The amount of remittances is often difficult captured. There are no or very limited direct information about remittances. Some estimates were done but it usually includes only formal remittances. These estimates may be distorted by the amount of unregistered remittances (Schiopu, Siegfried, 2006).

Our estimation is partly based on the research project of the Institute of Sociology of the Academy of Sciences of the Czech Republic (ISAS). This project was conducted in 2010 with financial assistance of Czech Statistical Office (Leontiyeva, Tollarová, 2011). This project was focused on labour migration, incomes, consumption expenditures and remittances of several nationalities in the Czech Republic: Ukraine, Russia, Vietnam, Moldova and the countries of the former Yugoslavia. The results were used for estimation of remittances of foreigners in the Czech Republic. On this basis, we created the groups of countries representing clusters with similar behaviour in terms of incomes, consumption and remittances.

The basis for calculation of remittances is the net wage. Remittances are ascertained as a percent of the net wage in case of resident individuals. For estimating non-residents' remittances we supposed the equality between their net wage and remittances, according to the definition of the IMF.

2 Personal transfers between Czech Republic and other European countries

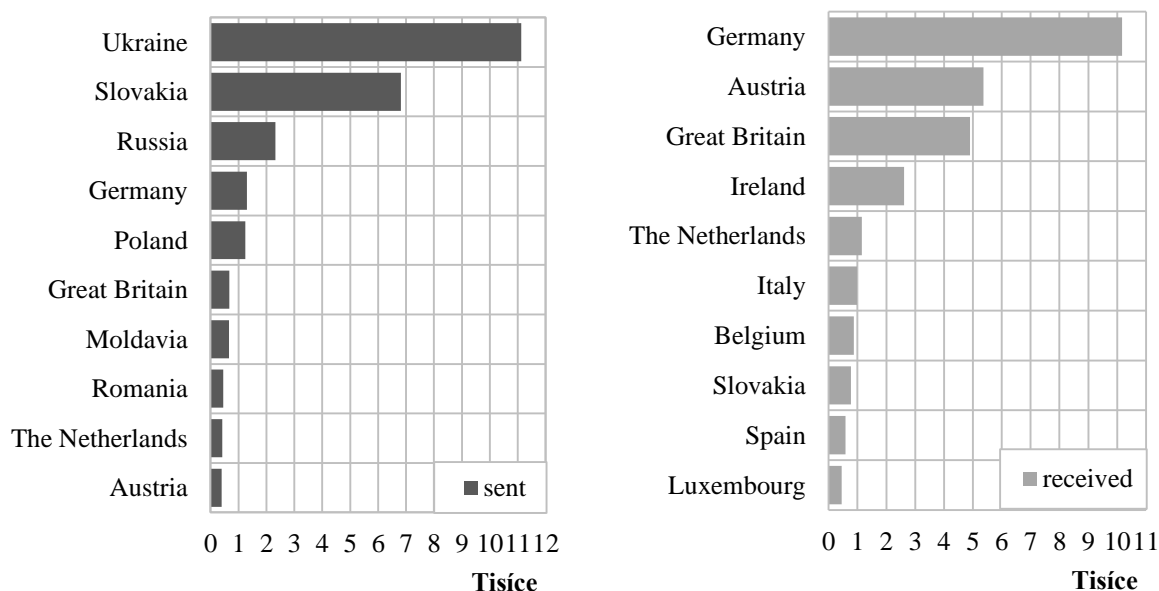
More than 560,000 foreigners live in the Czech Republic in 2012. They represent about 5% of total population and they are considering as the significant economic power. The labour migration belongs to the main reasons of immigration to the Czech Republic, working foreigners count about 80% of total immigrants. The issue of negative influence of remittances is related with working abroad. The aim of many foreigners is earning money a sending them back to their home country. For example most of migrants from Ukraine are

married men with children who engaged in paid work in the Czech Republic and sent remittances back home not out of desperation, but as an attempt to maintain a good standard of living for their families in Ukraine (Strielkowski, Weyskrabova, 2014). An integration of family, permanent settling or study represent the other reasons for migration.

The structure of nationalities is interesting, most foreigners come from Slovakia, Ukraine and Vietnam. The increasing of amount of immigrants in the Czech Republic is evident from 1993. The number of immigrants has shot up by 400,000 in the last twenty years (from 160,000 to 560,000). The total amount of funds sent from the Czech Republic to abroad reached approximately 35 billion CZK in 2012. However, the Czech Republic has also emigrants working abroad, who bring earned money back, of course. The citizens of the Czech Republic often work abroad for short-term. Working emigrants brought over 36 billion CZK in 2012.

We deal with the money transfers between European countries in this paper. In relation to the Czech Republic, the greatest amount of remittances was transferred to Ukraine and Slovakia in 2012. These two countries gain more over 50% of total amount of Czech remittances.

Fig. 1: Sent and received remittances in Czech Republic (2012)



Source: CZSO, own calculations

On the contrary, more than half of received remittances come from Germany. Germany has become one of Europe's most significant destinations for migration (Green,

2013). Austria and Great Britain belong to the countries, which are the most desirable destination for work of Czech citizens.

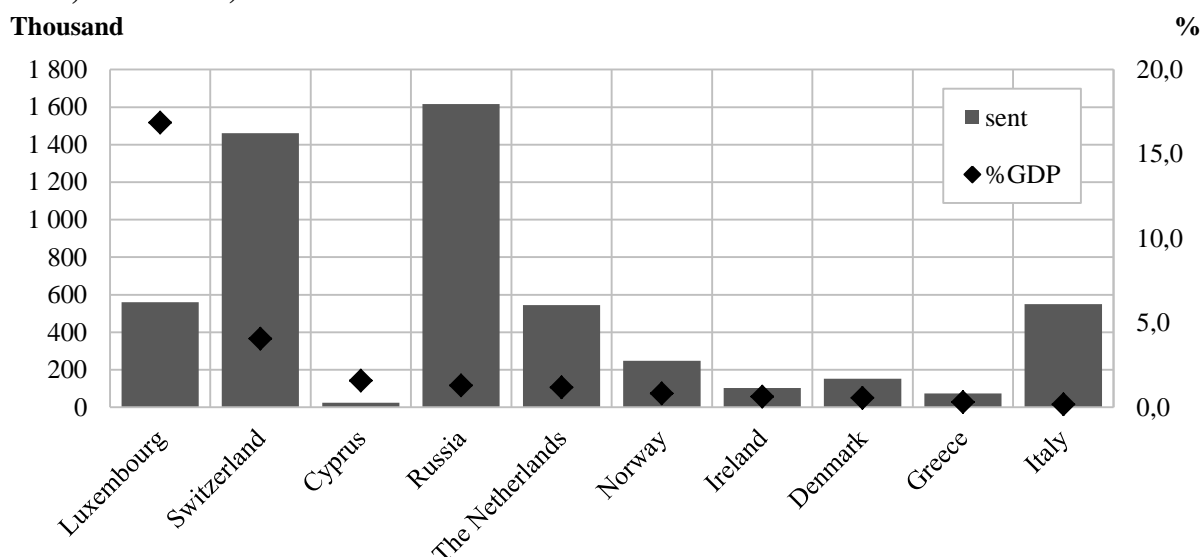
From the perspective of economically developing countries, remittances are considered as an effective tool for their development, labour migration is getting an important role in maintaining of a stable level of the labour force (Stojanov, Strielkowski, 2013). However, the Czech Republic does not belong to countries for which sending remittances represents a significant problem, because remittances constitute approximately 0.6% of GDP.

3 The importance of remittances in European countries

The most of developed European countries have positive net migration. The migration so represents a very important issue, it has the obvious positive impact in getting a needed work force, skilled and unskilled. However, besides the positive influence the migration has a negative impact on several European economies with regard to sent remittances (Findlay et al, 2013).

We introduce the European countries from two points of view. Firstly, we show ten European economies, where the migration has the greatest negative influence in terms of sent remittances abroad (see Fig. 2) and on the other hand, ten countries receiving the most amount of remittances from all over the world (see Fig. 3).

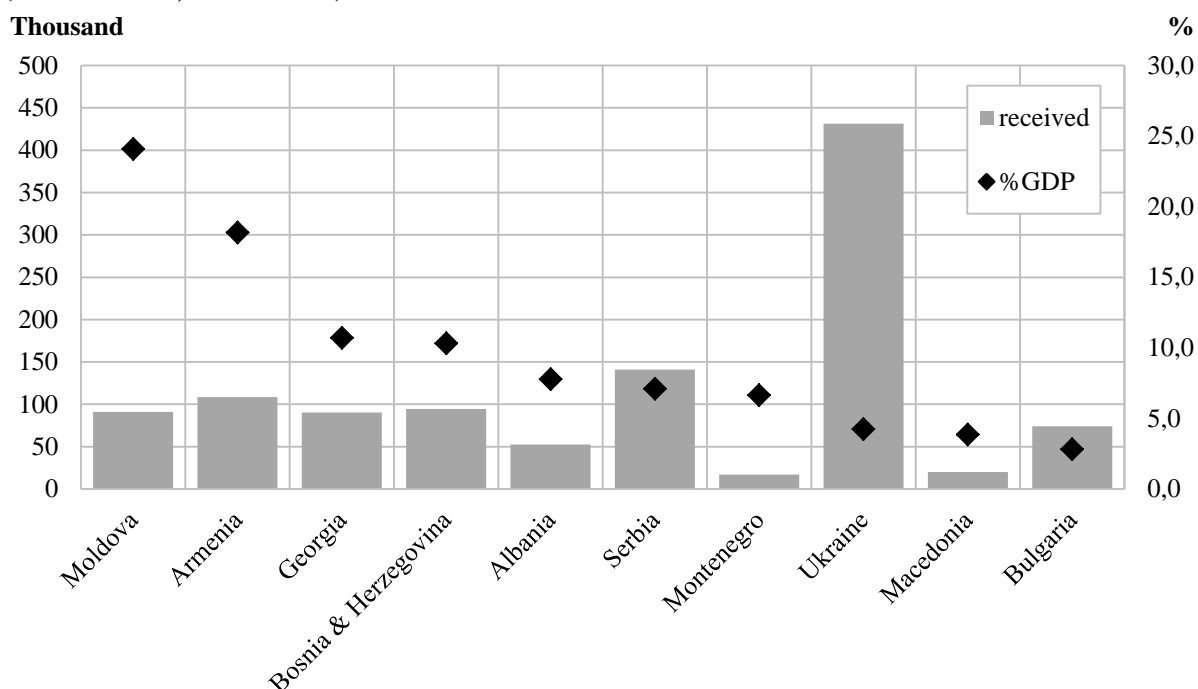
Fig. 2: Top ten of European countries from the view of sent remittances in 2012 (billion CZK, % of GDP)



Source: The World Bank, own calculations

The figure above shows the amount of sent remittances abroad in 2012 and especially the percent of the difference between sent and received remittances on the GDP providing better idea about impact on sent remittances to economy. Luxembourg is situated on the top of European countries in relation to sent remittances. The sent remittances amounted to 19% of the GDP and received remittances were only 3% of the GDP in 2012. The second most threatened European economy in terms remittances is Switzerland, where the difference between sent and received remittances amounts 4% of the GDP. The other European countries, where remittances represent than 1% of the GDP are Cyprus, Russia and The Netherlands.

Fig. 3: Top ten of European countries from the view of received remittances in 2012 (billion CZK, % of GDP)



Source: The World Bank, own calculations

We find also less developed countries in Europe, of course. The figure above depicts ten European countries which receive the greatest money transfers through their emigrants. Ukraine obtained the most amounts of remittances in 2012 (431 billion CZK). The received remittances have the most significant impact on economy of Moldova, there the amount of remittances reached 24% of the GDP in 2012. Remittances in Armenia represented 18% of the GDP. In such countries, situated mainly in East and South-East Europe is migration abroad economically more gainful than their actual situation at home and the remittances have entirely the positive effect (Straubhaar, 1986).

Conclusion

The migration has the obvious positive impact in getting a needed work force. However, the issue of remittances is closely related to migration, the most reason of migration is the work because of financial security the family in country of origin. We deal with the question of remittances in this paper; the aim was to determine the impact on migration and remittances in Europe. There are several developed countries which have positive net migration, but thereby they are unprofitable in terms of sent remittances. The economically developed countries are threatened by outflow money abroad. In this paper was shown the amount of remittances sent from the developed European countries, including the Czech Republic, and at the same time expressed the amount of received money back through emigrants working abroad. We found that remittances do not have significant negative effect in most European countries. Also we demonstrated that there are some countries in Europe, where received remittances have entirely positive effect on economy and financial situation.

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