Chapter 8

Microeconomic and Macroeconomic Contexts of Remittances

Andrej Přívara
University of Economics in Bratislava, Slovakia

ABSTRACT

Global remittances flow has been rising considerably over the last decade. Their share in the GDP in some (especially developing) countries reaches several percent. That is why their impact on a migrant’s country of origin has become a subject of debate in the scientific community. This chapter provides a synthesis of views that have crystallized as part of an ongoing academic debate on remittance determinants and their impact on recipient countries. The author aims to analyze the fundamental scientific opinions published on this topic and to outline possible directions for future research on migrant remittances. The chapter analyzes individual determinants as well as remittance effects on two levels: microeconomic and macroeconomic ones. The analysis concludes that remittances are an important source of external financing for the economies of developing countries. Nonetheless, they cannot be considered as a panacea for economic backwardness.

INTRODUCTION

Remittances are one of the consequences from international migration of the labour force (Deskar-Škrbić, Drezgić & Šimović, 2018; Škuflić & Vučković, 2018). They represent the cash flow sent by migrants to their countries of origin. The International Monetary Fund (IMF) defines these transfers as: “The household income generated from the reserves saved abroad, usually in the course of a temporary or permanent movement of people” (IMF, 2009. 272).

In the course of the last years, the research on the issues related to remittances has intensified. International organisations, as well as scientific community, discuss in particular the problems related to definition of the determinants of remittances, the ways of realisation of these money transfers, as well as economic impact of the related financial operations on the country of migrant origin.

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The raised interest in the issue of remittances is undeniably related to the enormous development potential hidden in them. One of their advantages is that they represent a more stable capital resource as compared to the two other international cash flows: foreign direct investments (FDI) and development aid. Unlike FDI, whose amount increases in upward fluctuations of the economic cycle and decreases during a recession, money transfers from migrants are subject to economic conjuncture to a significantly smaller degree. Stronger resistance of remittances to cyclical fluctuations in migrants’ host countries can be accounted for by the protection of income in the times of economic recession by the mechanisms protecting employees (e.g., unemployment benefit).

The ambition of our chapter is to contribute to the ongoing discussion on the determinants of remittances and their impact on the countries receiving them. Its aim is the analysis of academic discussion based on the substantial number of scientific works published on the topic concerned and also suggesting possible directions for future research.

DATA SOURCES AND THEIR INTERPRETATION

The recurring problem of remittance scrutiny lies in the collection of the statistical data related to their flows. The problem is caused primarily by different interpretations of the term by different institutions following their development. Investigation in our article will be based on secondary data gathered from the World Bank databases. The World Bank calculates remittances in accordance with the methodology designed by the International Monetary Fund, which suggests that this notion consists of three constituents:

- Workers’ remittances, i.e., money and merchandise transfers, which are sent by migrants living abroad for more than one year to the country of their origin;
- Compensation of employees, i.e., gross wages of employees living abroad for a period less than 12 months;
- Migrants’ transfers, i.e., money and merchandise transfers related to cross border migration (e.g. day-to-day commuting abroad).

This methodology however, despite the fact that it is the most commonly used one in various publications on remittances, has its drawbacks. On the one hand, it overestimates real remittance flows; on the other hand, it underestimates them as well. The overestimation is caused by the addition of the number of migrants’ gross wages to “compensation of employees”. In reality though, these are not sent to the country of migrant’s origin in their entirety – part of them is spent in a host country. Underestimation of the remittance data calculated according to the IMF methodology is caused by the fact that a significant percentage of money transfers by migrants to their country of origin is realised through various unofficial channels, not shown in official statistics as such.

The importance of remittances as a potential source of economic development, in the case of developing countries in particular, can be illustrated by the data provided in Figure 1.

Data provided in Figure 1 refer to the absolute values of the current remittance flows. For a more detailed image on their importance, particularly from the aspect of potential risk of developing a dependency on remittance inflow, we suggest taking into account the shares of remittances in national GDPs as well (Figure 2).