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Remittances as an economic development factor. Empirical evidence from the CEE countries

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Abstract

Empirical studies on remittances revealed their key role for the household consumption of the receiving families, as well as their investment potential with direct influence on economic development in emigrant's country of origin. This paper focuses on the second approach by treating remittances as capital flows that have macroeconomic growth potential. Aiming to test this hypothesis, we constructed a two growth models that include remittances as the variable of interest, alongside the traditional production factors. The models have been tested using aggregate data that cover ten countries in Central and Eastern Europe (CEE) over 1995-2011. Panel estimation methods were employed to account for potential cross-section heterogeneity. The main result is the significant positive influence of remittances on both absolute and relative GDP growth in our panel of CEE countries.

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1. Introduction

Ranking second to FDIs and staying resilient even in times of economic crisis, remittances remained an important source of external financing for developing countries (Ratha, 2012). Consequently, a large part of the migration literature is focused on remittances, trying to assess both their contribution to the household consumption of the receiving families and the influence on economic development in the countries of origin. Depending on their concrete use, the remittance flows either provide additional revenues for household consumption or are invested and fuel economic growth. Both destinations had been documented in the literature (e.g., El-Sakka and McNabb, 1999; Buch et al, 2004).

As an important source of capital, remittances are able to support the economic growth of the receiving countries. We test this hypothesis on a panel dataset including ten countries in Central and Eastern Europe (CEE) that are the newest members of EU, over 1996-2011. Migration statistics indicate CEE countries as important receivers of remittances (fig.1), and their remittance inflows returned at high levels following temporary decrease in the context of the recent global economic crisis.

Information on potential development effects of remittances are of large interest and might be especially useful for policymakers that should devise appropriate policies for transposing the economic potential of these financial resources into real economic growth.

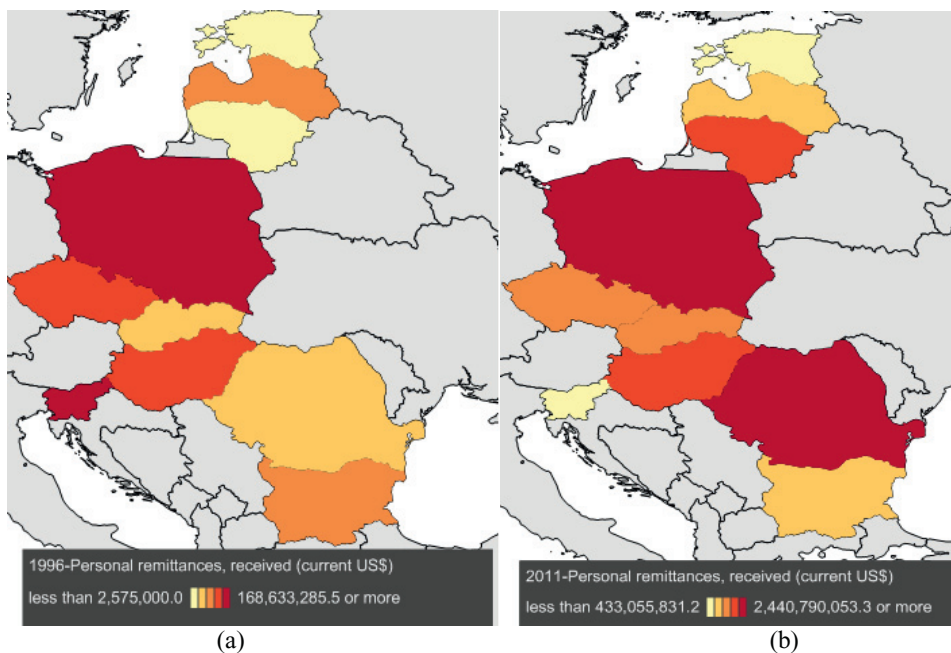


Fig. 1. Remittance inflows in CEE countries: (a) year 1996; (b) year 2011.

Source: processed by author using World Bank online database

The remainder of this paper proceeds as follows. Next section provides a summary of the literature on macroeconomic effects of remittances, focusing on their role in economic growth. Section 3 describes the method employed in the paper and highlights the variables and data. Section 4 discusses the results and the final section summarizes the main findings.

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