Dynamics of Remittances towards Romania after EU Adhesion

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ABSTRACT

The remittance industry, that is experiencing some positive structural changes with the advent of cell phone and internet-based remittance instruments, included Romania, since certain reforms concerning the openness of the economy were implemented. In general, the diffusion of these changes is slowed by a lack of clarity on key regulations (including those relating to money laundering and other financial crimes). Also remittance costs have fallen, but not far enough, especially in the South-South corridors. Recorded remittances to developing countries were estimated to reach $ 240 billion in 2007. But the true size of remittances including unrecorded flows could be even larger. However, a severe stagnation in remittance flows to some important developing countries (up to a visible deceleration in others countries) contributed to a slowdown in the rate of growth of remittances in Romania as well. Nevertheless, the growth of remittances to developing countries remains robust because of strong growth in Europe and Asia. This paper aims at highlighting a series of mutations that Romania knew and which are felt as a consequence of the general context and of its efforts and involvement from the international flow of money transfers. The most important contribution contained by this article refers to the impact of some national policies and of the global financial turmoil as well exerted upon the remittances that the Romanians sent home from abroad.

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1. Introduction

From social and political events that marked the end of the 20th century, meaning the transition to a competitive economy of a considerable platoon of ex-socialist economies, and given the increasing international movement of all types of funds and under all kind of effects, a more intense focus has turned to extending this markets, by formalizing the flows of people between the countries with traditionally developed economy and the newly-open economies which were liberalized by their accession to EU.

Numerous studies carried out at different levels of interest approached this issue and analyzes its impact not only in terms of advantages and disadvantages ratio, but also in terms of pre-conditions to be met and the optimal staging of this important and complex operation, given the resulted consequences, with serious difficulties in predicting their size and extent. As a financial and economic policy that is consistent with the intrinsic current global system configurations, capital account liberalization can also lead to increased market concentration and market power of firms. But on the background of the development of the financial markets with poor and asymmetric information, the liberalization of capital movements has contributed to financial instability in the world. These factors have induced both severe distortion and contradictory behaviour of the economic subjects, causing a so-called "herd behaviour", which is a chaotic avalanche of speculations, resulting in multiple (un)balances, with constant and unpredictable twists.

In this paper we highlight a series of mutations that Romania knew and which are felt as a consequence of the general context and of its efforts and involvement from the international flow of money transfers. Since this creates uncertainty and maintains the increasing economic instability, as it causes dramatic alternations between periods of excitement and accelerated development, which are then fast enough followed by devastating crises and stagnation, if not a serious social regression under a severe deteriorating of the economic conditions - it requires maximum attention and rigorous internal and external conjuncture research, so that is to ensure the effectiveness of policy measures to liberalize the capital. There are many approaches of this subject in the actual literature, but for contextualizing the situation in Romania, the paper focuses on some of our published studies and on the estimates of certain specialized studies abroad. The most important contribution this article contains refers to a dynamic analysis of the monetary transfers from our co-nationals that left Romania to work in Western European countries and whose volume and intensity changed significantly at the confluence of the impact of some national policies and global financial turmoil.
2. Conceptual premises for the capital account liberalization in Romania

As a result of the Maastricht Treaty, European Union countries have liberalized the capital movements, which led to the prospect of introduction of the euro. With a view to integrating to EU, Romania has pledged to liberalize the capital flows and in this respect has developed a coherent strategy to complete the full liberalization of capital account. Among the obligations of the Member States of EMU, it is also the removing all restrictions in the national legislation on capital movements between them, respectively - between these countries and the third countries (with some exceptions), and the adoption of Community rules in this area. This measure must necessarily be preceded by strict rules considered essential to the success of this approach. Inflation ratio should be within acceptable and, most important, controllable limits, while the national currency exchange rate should stabilize and obtain sufficient external economic credibility. Budget deficit and state extra-budgetary commitments should be also within reasonable limits. External indebtedness ratio, both public and private, must follow the same controllable trend and in the absence of any excess premises.

Finally, but without a lower importance, it is necessary to coordinate the development of modern financial system with guaranteed operation of effective prudential rules as an expression of a coherent policy of competition, and having the support of an effective statistical and information system as well. Although the capital account liberalization and the adoption of inflation targeting strategy were achieved with a relative delay in Romania as compared to other countries in Central and Eastern Europe, this delay was justified by several reasons. First, the gradual nature of structural reforms and of the macro-stabilization programs of the ‘90s was reflected in higher inflation and interest rates as compared to other countries in the region and EU Member States. Second, the delay in capital account liberalization was imposed until the moment that, after restructuring the banking sector, the financial sector became strong enough to cope with potential capital flows increased reversibility. Thirdly, it was necessary that the central bank should achieve a satisfactory level of international reserves coverage of imports, and this objective was hardly achieved but in the first half of the current decade.

It should be noted that, despite the delay, capital account liberalization was carried out in accordance with the following principles: Entries before outputs; Medium and long-term flows before short-term flows; Direct investments before portfolio investments; Respecting the succession compounded by banks - companies - household. Only after a thorough monitoring of how they have implemented the above principles, full capital account liberalization was completed in 2006, i.e. a relatively sufficient time before Romania’s EU accession in January 2007 and superimposed on the adoption of inflation targeting strategy.

3. Main steps in the financial openness

Romania fully liberalized foreign exchange transactions for the current financial and foreign countries. In fact, begun in 1991 by adopting a law on foreign investment, this process has dragged on throughout the ‘90s because of Romanian authorities’ hesitations to reform and open economy.

On 25 March 1998, an important event occurred, when Romania has accepted the obligations stipulated in the art. No. VIII of the IMF’s Chart. According to this document, Romania liberalized current account transactions, as an important and necessary step in the process to ensure currency convertibility. At that time, and unlike Romania’s actions, other Central and Eastern Europe countries continued to practice various forms of exchange control on their current account transactions, including the exporting firms’ obligation to sell in full the received foreign currency from exports to the commercial banks - as applied to Poland, Hungary, Czech Republic and Slovakia - or the repatriation of their export receipts immediately, as it was adopted in the Czech Republic, Slovakia, Poland (up to 2 months), Bulgaria (without limit). But these restrictions were to be phased out, as the progress of countries towards accession was recorded. In Romania, the last forms of exchange control were virtually abolished on 1 April 2005, when almost all the capital flows were liberalized - long-term and short term - except for the money market operations which were conducted by non-residents and residents’ accounts operations opened abroad, which were subsequently liberalized.

However, financial openness of the Romanian economy makes it vulnerable to large capital flows and potentially unstable, since, unlike the past, these inputs and outputs for bi-univocal capital flows are not only punctual destabilizing phenomena, but also elements in the inherent transition process, and therefore must be taken seriously into account in designing and implementing the economic policy. Thus, within the period between 2004 and the first half of 2007, the national currency, leu (ROL), has notably appreciated in real terms against major world currencies. This appreciation has attracted substantial capital amounts, which could undermine the authorities’ efforts to control inflation and the current external deficit. Phenomenon manifested itself in circumstances where, in Romania, ”the capital intensity factor” (capital-labour ratio) is much lower than in the industrialized countries. However, small technical equipment, coupled with a quite numerous and well qualified workforce, and also with a poorly developed infrastructure, require a high real interest rate, meant to stimulate savings and, therefore, to finance investments.

4. Romania’s evolutions in the EU context

As a first response measure of capital account opening, capital inflows in Romania did not fail to make their appearance. For Romania, 2007 has a double meaning: in addition to being marked when Romania became an EU member country, this year represented an increase in capital inflows that would follow. When in 2007 there were entries totalling 4.9 billion Euros, the amounts have been increasing steadily, even dramatically, peaking in 2008 with the fabulous sum of 5.1 billion Euros. But unfortunately, after 2008, when signs of the crisis began to be perceived in the world and in Western European countries as well, the amounts of money began to fall, reaching in January of 2011 the record of their lowest value in the recent years, namely 226 million Euros. For many years, Romanians which have gone to work abroad were ironically called “strawberry pickers”, but beyond this ironic expression, Romania itself depended - and still depends – on the money they sent.
Out of the 4.9 billion that "strawberry pickers" sent back home, a large proportion of about 67% came from Romanians in Italy and Spain. This means that the workers living in Spain, they sent home more than 1.2 billion Euros (1.289 billion Euros) in 2007, while our co-natives which were working in Italy have moved to Romania about 2.013 billion Euros.

Figure 1. Evolution of remittances from the "strawberry pickers"

In 2008, the amounts sent by Romanians working in EU countries totalled 5.1 billion Euros, while the amounts sent by Romanians working outside the EU stood at over 360 million (0.360 billion Euros). For example, only the Romanians living in Italy had sent 2.202 billion Euros in 2008, while shipments from Spain totalled 1.579 billion Euros. Officially, the Romanian family budgets entered 240 million Euros more in 2008, which mean 14% more than last year. According to the official data of the NBR in 2008, Romanians in Spain had sent nearly 400 million to their relatives in the country. Moreover, even in recession, Spain and Italy are responsible for up to 90% of all money sent home by the Romanians.

In international balance of payments data compiled by remittance-recipient countries, remittances are measured as the sum of two categories of transactions: "workers' remittances" and "compensation of employees"[1]. However, and this is an acknowledged fact in all media in recent years, Romania has depended increasingly on more and more money sent home by her fellows went to work abroad. There are many voices that go further with diagnosis and support that Romanians working out brought Romania almost as much money as the foreign investors did through FDI, which have reached a record 9 billion Euros. In 2008 the monthly average transfer ranged from about 380 Euros from Italy, and about 360 Euros from Spain.

Despite the crisis, Romanians working abroad have still continued to send money home in 2009, although fewer and whether working in EU or extra-community space. One notes, however, that the amounts sent by Romanians working in EU countries fell significantly this year and totalled 3.5 billion Euros, while the money sent by Romanians working in countries outside the EU stood at 358 million Euros. Economic crisis in the first half of 2009 led to a fell by about 45% of the transfers to Romania. In terms of the amount shipped in 2007 and 2008, the corridors Italy - Romania and Spain - Romania were the most highly frequented in the EU.

In most cases, the amounts coming out of the country are greater than the inputs, with the exception of Romania, Poland, Portugal, Lithuania, Greece, Sweden and Estonia. EU’s statistical office said also that in the absence of remittances from the citizens working abroad, the current account deficits in Romania and Poland would have been up to 50% higher. In 2009, salaries and other earnings paid to foreign workers in Romania stood at 44 million Euros, while 33 million Euros of which were for the citizens from EU countries. It should be noted that in 2008, these remittances amounted to EUR 66 million Euros.

5. Intra and extra EU transfers

Remittances are household income received from abroad, resulting mainly from the international migration of workers. Remittances may be sent as cash or in kind, and may flow through a variety of formal or informal channels. The most widely recognised type of formal channel is dedicated money transfer operators such as Western Union and Money Gram. Formal channels also include banks and credit unions in both sending and receiving countries that often operate in collaboration with money transfer operators. Informal channels include systems [...] operated by non-financial firms or brokers with physical presence in remittance-sending migrant enclaves and in remittance-receiving areas in migrant home countries [1].

Like any income, remittances are partially spent on household consumption and partially saved and invested. Results from surveys [4] with returned migrants in ECA countries found that the majority of remittances are utilized for funding consumption of food and clothing but that large quantities are also used for education and savings (over 10%). Smaller amounts are spent on business investment (less than 5%). (ECA countries - The Europe and Central Asia region of the World Bank is an administrative regional country grouping. It consists of Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, the Former Yugoslav Republic of Macedonia, Moldova, Poland, Romania, the Russian Federation, Serbia and Montenegro, the Slovak Republic, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan).

Since 2007, when the economy began to respond differently to the global financial crisis, remittances intra – i.e. between the EU countries, had already started to decline and in 2008 and 2009 showed declines of 18% and by 13% respectively. Instead, extra EU transfers continued to grow by 12% in 2008 to 19% in 2007. Compared with 2008, during 2009 the average transfer decreased by approximately 10-15%. About 10% decrease also registered the value of the traded amounts, by about 12-13% as a share of the amounts from Spain, and 8-9% of those from Italy.

Deterioration of the situation of the two major European economies visibly affect us, since the two countries are traditionally responsible for up to 90% of all money sent home by workers abroad. In 2010, the crisis has deepened
its consequences, so that in the current account of foreign currency inflows, Romania received 3.4 billion Euros from the Romanian fellows working abroad (compared to the 3.5 billion Euros in 2009 or the top absolutely reached in 2008 of 5.1 billion Euros). The main countries from which they sent money were still Italy (36% of the amount) and Spain (34%), plus and the United Kingdom (14%). Then follow the U.S. and Greece, each with 5-6% of total remittances home. In January and February of 2010 the Romanians working abroad sent back home the amount of 874 million Euros. Compared with the first quarter of the last year, when the money sent by the “strawberry pickers” amounted to 1.1 billion Euros, the first quarter of 2010 decreased by 30%, reaching to only 843 million Euros. In the context of the current crisis that amount is of major importance in shaping the current account, contributing to a deficit reduction as well.

According to statistics, the money sent home by Romanians that were working abroad varies widely from country to country. A Romanian stranier sent home in Romania about 350 Euros per month. But one must take into account the fact that the figures reflected in the statistics are only part of the central bank transfers made by Romanians working abroad, namely that came through official channels of bank accounts and money transfer companies.

Figure 2. Evolution of remittances in the country of the Romanians from abroad

![Figure 2](source: www.businessday.ro [8])

To a large extent, Romania’s GDP was composed for years by the incomes of the co-natives working abroad, the so-called strawberry pickers. Since 2008, a sharp decline steadily registered until the amounts sent in 2010 - as shown in the chart above dynamics, which was the sign that the recession has hit one by one all the areas where the Romanians were working. Although many of them have lost their jobs and become unemployed, they continue to send money home and thus they continue to support the Romanian economy. But the amounts sent by transport companies or friends should be added to the officially known channels to send money. These methods are usually impossible to determine, although for them one could estimate an amount of about 1.7 million Euros.

Figure 3. The amounts sent by Romanians from abroad – billions of Euros

![Figure 3](source: www.businessday.ro [8])

As a first explanation for the decrease registered in the last year could probably be the first sign that these workers simply give up to sending money to Romania, but according to another hypothesis which appears more plausible in the current circumstances, the Romanians who work outside would rather opt for the unofficial but more informal channels, as considered cheaper and safer than the bank.

Table 1. Migrating reasons [4]

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Early 2011 were heralded as the worst since 2005, after consecutive years in which Romania has benefited from significant inflows of foreign currency from Romanian workers abroad. Compared with the peak in 2007-2008, the amounts sent home by Romanians working out are twice as small. Since the first quarter they continued their sharp decline, totalling only 758 million Euros, representing a grim minimum of the last six years. The motivations for migration may be stylistically described as combinations of social, ethnic, and politically related push and pull factors (see table below). Yet, (...), labor migration is becoming the chief motive for migration for the majority of migrants in Central and Eastern European and Central Asian countries.

Research on remittances in Europe [4] suggests that decisions by migrants to send money for family support or for investments back home are greatly influenced by expectations of eventual repatriation, the financial capacity of the senders, the needs of receivers, the tacit agreements between the two, and macroeconomic factors, particularly the foreign exchange rate, interest rates in home and host countries and the inflation rate in the home country. Perhaps the three most important determinants of migrant’s decisions to send money home are the length of time a migrant spends in the host country, his or her expectations of returning home, and the existence of some kind of agreement with the family.

In the recorded flows such as the transfers at EU level, after the total amount sent home and with a total of 3.5 billion Euros, Romanians were second in the EU remittances after the Spaniards, which totalled 4.8 billion Euros. In contrast, there were Germans, Latvians, Slovenians and Finns, who have not sent any money to families back home. Thus, remittances by intra and extra community first place Spain in the EU, with a total of 4.820 billion Euros. Of the 27 EU countries, Germany, Latvia, Slovenia and Finland had remittance zero. For the first time, the EU remittances representing a total output fell from 31.8 billion Euros in 2008, to the amount of only 29.6 billion Euros in 2009. This value is by 53 % over the one from 2004; this advance was supported by the significant increase in remittances for the countries outside the Union. In 2009, remittances to the countries outside the EU represented 73 % of the total, compared to only 59 % as they were in 2004.

Although approximately in only one year the Western European economies have passed on plus, the Romanians which were employed there were not doing too well even now. Compared with the first quarter of 2010, the amounts from the "strawberry picker" became 10 % lower. If in January remittances "nurse" was the smallest since 2005, only 226 million Euros, which is the absolute minimum, in February this year amounts, have easily exceeded this minimum, by 237 million Euros. Remittances sent in the country by the "strawberry pickers" in the first two months cumulated 463 million Euros, the minimum of the seven years for this period. Thus, the amounts accumulated in the first two months of 2011 are a third lower than the same period last year, when they amounted to the sum of 702 million Euros. Also, the money sent home by the "strawberry pickers" is over two times lower than before the crisis - the first two months of 2008 amounts totalled 979 million Euros. As anticipated, immediately after Romania's opening the capital account in 2006, capital inflows from the "strawberry pickers" showed progressive increases. As can be seen in the chart below, capital inflows from the so-called "strawberry pickers" had an upward trend until the third quarter of 2008 - this year the peak in capital inflows - but then the trend turned upward suddenly in a downturn. Comparing the first quarter of this year, 2011, with the first quarter of other years, one can easily see that this period is the weakest quarter of 2005 up to date, wit an amount of only 758 million Euros, compared with 769 million Euros in 2005. As regarding the amounts sent by the "strawberry pickers" by far one can see that the best years of Romania were 2007 and 2008, as long as the opposite is the situation in 2009 and 2010.

6. Romanian specific subtleties of a European phenomenon

The early years of transition witnessed high levels of cross-border migration as populations that were previously unable to move due to Soviet restrictions relocated to their ethnic or cultural homelands [4].

According to some official more or less controversial estimates, nearly 3 million Romanian fellows are currently abroad in countries like Italy, Spain, Hungary, Germany or Austria. In other words, it means about 13 % of the Romania’s population or one in seven Romanians. Compared to only 3-4 % from the emigrants from the Czech Republic and Hungary, or only 8 % of the population of Poland, Romania has one of the largest shares of immigrants among countries in the region. It is true that the great decline of the remittances from the Romanians living abroad is largely due to a difficult situation on the labour market in countries like Spain and Italy, countries that face serious problems. In Spain, for example, which is one of the first two preferred destinations for most of the "strawberry pickers", the unemployment rate reached 20.7 % in March, the highest level of European Union, where unemployment rate amounts on average to about 10 % and, like Italy, moreover, is facing a debt crisis.

However, the dramatic drop in remittances by the compatriots is attributable to another cause as well, namely - a visible change in their attitude towards Romania itself. A serious trend is felt, in the sense that many of those who left the country to work out almost do not want to hear from Romania and plans to "drag" after them their loved ones who were still remaining at home. However, another aspect was also revealed earlier this year: the remittances from the "foreigners" were even lower than the amounts of European funds which Romania absorbed - 609 million Euros in January and February. These are even smaller amounts than the remittances in the first quarter of 2005, when it rose up to 769 million Euros, but one should bear in mind that at that time there were not so many Romanians outside the country to work. Compared with the peak in 2007-2008, the amounts sent home by Romanians working out are twice as small and there are few signs that the situation will soon turn to a good trend.

Although many European economies returned to growth for some time, labour market conditions in many European countries continue to be difficult right in those areas where a sui generis tradition finds Romanian compatriots working. Perhaps the general deterioration of the situation could not be perceived if, every time they come back home after different European countries, they would have breathed the necessary air of normality, if the "strawberry pickers" would not be faced with the corruption that touched almost everything in the Romanian
Since the late 1990s, remittances sent home by international migrants have exceeded official development assistance and portfolio investment, and in several years have approached the magnitudes of foreign direct investment flows [1]. More recently, the remittance industry has also seen the introduction of cell phone-based remittances and several pilots involving remittance-linked financial products. These changes may imply a shift from cash-based remittances to account-based remittances in future. Mobile banking and partnerships with cell phone companies can potentially extend remittance services to millions of people in remote, rural areas. In the Philippines, G-Cash and SMART provide deposit, credit and money transfers through mobile phones. In Kenya, Vodafone through its subsidiary Safaricom, has launched a mobile banking service M-PESA (“mobile money” in Swahili) [2]. Vodafone has also launched a pilot with Citigroup to explore international remittances from the UK to Kenya by mobile phone. In India, Visa has tied up with some of the major commercial banks to extend its domestic card-to-card transfer service to mobile phones. Western Union and the GSM Association have also announced a pilot project for mobile phone remittances. Regulations relating to anti-money laundering and countering the financing of terrorism appear to have become a constraint to reducing remittance costs, especially for smaller remittance service providers dependent on correspondent banks. These regulations are also affecting banks and cell phone companies interested in providing international remittances and mobile banking services. It is time now for policy makers to find ways for harmonizing telecom and financial services regulations [2].

Migration creates challenges and opportunities for sending and receiving countries. For Romania, as for many other net emigration countries in ECA, household income and national output are strongly tied to the incomes of migrants living and working abroad. Cross-country growth studies conducted [4] indicate that remittances have a positive impact on long-term economic growth. Migration can allow migrants to learn new skills and can facilitate cross-border trade and investment linkages. Moreover, labour-importing CIS (Commonwealth of the Independent States) economies and the neighbouring EU rely on migrant labour from the region to maintain rates of economic growth and standards of living.

Massive capital inflows that began to come into the country after 2007 have fuelled a collective impression that Romania began to quickly catch up the latter on the west Europeans. Based on these massive capital inflows, the national currency started to appreciate rapidly against the euro, coming in July of 2007 at a rate of 3.1337 ROL/ EURO, which was the minimum reached after the accession. Unfortunately, this configuration has only served to increase the risk of the severe devaluations that occurred later and whose proof is the actual value rate of around 4.1 ROL/EURO. National currency could not avoid any speculative attacks, as in October 2008 that occurred immediately after the bankruptcy of Lehman Brothers bank. But they were finally discouraged by the IMF agreement with Romania, which set at its disposal certain very substantial sum for this purpose. The perverse effect of these capital inflows has been revealed in the exaggerated prices of almost all the expensive assets, while policy measures dealt also with artificially increasing more and more exaggerated wages. Actually, it is estimated that the massive capital inflows that have increased after the accession would be among the most profound causes which led to the “overheating” economy on the one hand, and to the hardness adjustment measures undertaken in the last year.

However, studies of both Romanian and foreign officials believe that Romania is facing a sensitive revival of capital inflows. Nevertheless, while putting pressure on the appreciation, they could also explain the actual changes in the country that are favourably viewed and appreciated by most foreign and local investors.

7. Conclusions

Since the late 1990s, remittances sent home by international migrants have exceeded official development assistance and portfolio investment, and in several years have approached the magnitudes of foreign direct investment flows [1]. More recently, the remittance industry has also seen the introduction of cell phone-based remittances and several pilots involving remittance-linked financial products. These changes may imply a shift from cash-based remittances to account-based remittances in future. Mobile banking and partnerships with cell phone companies can potentially extend remittance services to millions of people in remote, rural areas. In the Philippines, G-Cash and SMART provide deposit, credit and money transfers through mobile phones. In Kenya, Vodafone through its subsidiary Safaricom, has launched a mobile banking service M-PESA (“mobile money” in Swahili) [2]. Vodafone has also launched a pilot with Citigroup to explore international remittances from the UK to Kenya by mobile phone. In India, Visa has tied up with some of the major commercial banks to extend its domestic card-to-card transfer service to mobile phones. Western Union and the GSM Association have also announced a pilot project for mobile phone remittances. Regulations relating to anti-money laundering and countering the financing of terrorism appear to have become a constraint to reducing remittance costs, especially for smaller remittance service providers dependent on correspondent banks. These regulations are also affecting banks and cell phone companies interested in providing international remittances and mobile banking services. It is time now for policy makers to find ways for harmonizing telecom and financial services regulations [2].

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