

# OSTEUROPA-INSTITUT REGENSBURG



## Kurzanalysen und Informationen

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### Migration, remittances and the current economic crisis: implications for Central and Eastern Europe

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*In recent years labour migration from Central and Eastern Europe has increased, resulting in a comparatively stable and high inflow of remittances into these countries. This briefing explores how the current economic crisis impacts on the development of migration and remittance flows into EU-10<sup>1</sup> and CIS countries. There is evidence for a reduction of migration movements in the short run and a likely decrease of remittance flows into this region*

#### Introduction

With the political transformation in Central and Eastern Europe at the end of the 1980s and later with the break-up of the Soviet Union, a new migration space developed in the region. The opening of formerly closed borders allowed an increasing number of people to leave their home countries. At the beginning of these migratory movements political and ethnic motivations prevailed, encouraging ethnic minority populations to return to their (perceived) nation states. Later, economic migration gained importance, especially considering that a substantial part of mobility is short-term and often irregular. Labour migration from Central and Eastern European countries, now members of the European Union, was primarily directed towards the EU-15, while migrants from the Commonwealth of Independent States (CIS) headed for Russia as well as the European Union and overseas destinations. In many cases, the new labour exporting countries allowed a relaxation of their labour markets

due to emigrations, although adverse effects such as brain drain and sectoral labour shortage occurred as well. Migrant-sending countries in Central and Eastern Europe enjoyed the inflow of remittances which contributed to poverty reduction and in some cases helped to stimulate the economy. In the light of this development it is of crucial concern how the current economic crisis will impact on migration and on the receipt of remittances in this region.

#### International migration, remittances and the current economic crisis

The current economic crisis will most likely impact notably on international labour migration and on the flow of remittances to migrant sending countries. Because labour migrants are considered to represent the most flexible and vulnerable part of the labour force, economic recession can be expected to result in a dismissal of migrants or in a cut of their wages.

<sup>1</sup> In this briefing, EU-10 countries include all new EU-members from the 2007 round minus Malta and Cyprus; EU-8 countries exclude Bulgaria and Romania.

Furthermore, receiving countries usually restrict the entrance of labour migrants in times of economic crisis and enforce immigration laws. To protect their labour markets, governments of immigration countries also encourage the return of foreign labour to their home region in providing incentives to leave. Thus, the global economic crisis will force a number of (irregular) migrants to return to their home countries, while less people in sending regions will be in a position to leave. However, legal migrants will have a strong incentive to stay abroad as their home country economies are hit by the crisis as well, resulting in a deterioration of employment perspectives at home. Additionally, stricter entrance regulations often discourage migrants from returning home, because they anticipate not being able to re-migrate again.

The amount of remittances depends on the stock of migrants working abroad, their propensity to send money home and on the economic situation of labour absorbing countries (Ratha 2003). In this context the sector profile of migrants is crucial as foreigners often work in cyclically-sensitive sectors, such as construction, trade and tourism. Consequently labour migrants are particularly exposed to economic shocks, which typically translate into a reduction of remittances. In the current economic crisis remittance flows to developing and transformation countries diminished in the third quarter of 2008, while for 2009 a reduction of remittance flows by five to eight percent is estimated (Ratha and Mohapatra 2009). Against the background of growing remittances by double-digit rates in the past few years, this is particularly harmful for transition and developing economies where remittances considerably contributed to poverty reduction (Chami et al. 2008, World Bank 2006). Moreover, remittances seem to be more stable than private capital flows. According to the Institute of International Finance, net private capital flows to developing countries declined by 50% between 2007 and 2008, and for 2009 a further cutback of 65% is expected.

### **Migration and remittances in the new EU-member states**

After the European Union enlargements of 2004 and 2007, the new Central and Eastern European member countries experienced an increased labour migration, primarily towards the EU-15. The first enlargement round in 2004 triggered an annual net migration of ap-

proximately 220.000 persons from the EU-8 countries to the EU-15; considerably exceeding past movements. Between 1989 and 2003, the average annual net migration from Central and Eastern European countries – joining the EU in 2004 – to the EU-15 amounted to approximately 56.000 people. As a result of transition arrangements on labour migration, the most important receiving EU-15 countries were Ireland and Great Britain which opened their labour markets to the new EU members after May 2004. As in the case of the EU-8 countries, migration from Bulgaria and Romania towards the EU-15 started years before enlargement in 2007. This is reflected by the fact that by the end of 2007 nearly 1.86 million Bulgarians and Romanians were living in the EU-15, while in the year 2000, only 278.000 citizens from these countries resided there. Greece, Italy, Ireland and Spain admitted the greatest part of Bulgarian and Romanian immigrants.

As a result of the ongoing migration from Central and Eastern Europe since the political transformation at the end of the 1980s, a substantial number of citizens from these countries have established themselves abroad and regularly send money home. By now, for many of the EU-10 countries remittances constitute a comparatively stable source of external financing (see table 1). In 2008, two EU-10 countries, Poland and Romania belonged to the top 10 remittances-recipient economies worldwide (Ratha et al. 2008). It has to be remarked that remittances do not seem to have strong effects on investment and entrepreneurship in the EU-10 economies (Kaczmarczyk and Okolski 2008). Most remittances receiving households in Poland, Romania and the Baltic states spend these resources on consumption, private housing, durable goods, and in some cases investment into education plays a role.

Table 1: **Remittances to EU-10 countries, 2004-2008**  
(US\$ million)

	2004	2005	2006	2007	2008e
Bulgaria	1.723	1.613	1.707	2.086	2.200
Czech Republic	815	1.026	1.190	1.332	1.410
Estonia	167	264	402	426	426
Hungary	307	280	363	413	413
Latvia	229	381	482	552	583
Lithuania	325	534	994	1.427	1.427
Poland	4.728	6.482	8.496	10.496	11.000
Romania	132	4.733	6.718	8.533	9.000
Slovakia	529	946	1.088	1.483	1.500
Slovenia	266	264	282	284	300

e = estimation

Source: World Bank 2009

While the inflow of remittances has increased in all of the EU-10 member states between 2004 and 2008, the growth rates of remittances developed quite differently in these countries (see table 2). In the Baltic states, the Czech Republic and Poland remittances attained the highest percentage in-

creases between 2004 and 2006, whereas Romania experienced an outstanding jump in remittance growth between 2004 and 2005. This reflects different migration intensities and money sending patterns of labour migrants of the respective EU-10 countries.

Table 2: **Growth rates of remittance flows, 2004-2008**

	2004	2005	2006	2007	2008e
Bulgaria	0.3%	-0.1%	5.8%	22.2%	5.5%
Czech Republic	63.3%	25.9%	15.8%	11.9%	5.9%
Estonia	69.5%	58.0%	52.3%	6.0%	0.0%
Hungary	4.0%	-8.8%	29.6%	13.8%	0.0%
Latvia	24.5%	66.4%	26.5%	14.5%	5.5%
Lithuania	182.6%	64.3%	86.1%	43.6%	0.0%
Poland	78.0%	37.1%	31.2%	23.5%	4.8%
Romania	6.5%	3485.6%	41.9%	27.0%	5.5%
Slovakia	24.7%	78.8%	15.0%	36.3%	1.1%
Slovenia	11.7%	-0.8%	6.8%	0.7%	2.1%

e = estimation

Source: World Bank 2009

Although remittances to a number of EU-10 countries are high, expressed in US\$ terms, as a percentage of GDP they are not outstanding. In Bulgaria and Romania remittances amounted to 4.2 and 4.5 percent of GDP in 2008, while in Poland remittance flows made up 2.1 percent and in Lithuania 3 percent of

GDP (see table 3). Nevertheless these inflows affect a large number of households which partly depend on the money sent by family members working abroad.

Table 3: Remittances in % of GDP, 2004-2008

	2004	2005	2006	2007	2008e
Bulgaria	7.0%	5.9%	5.4%	5.3%	4.2%
Czech Republic	0.7%	0.8%	0.8%	0.8%	0.6%
Estonia	1.3%	1.9%	2.4%	2.0%	1.8%
Hungary	0.3%	0.3%	0.3%	0.3%	0.3%
Latvia	1.7%	2.4%	2.4%	1.9%	1.7%
Lithuania	1.4%	2.2%	3.3%	3.7%	3.0%
Poland	1.8%	2.1%	2.5%	2.8%	2.1%
Romania	0.2%	4.8%	5.5%	5.0%	4.5%
Slovakia	1.3%	2.0%	1.9%	2.0%	1.6%
Slovenia	0.8%	0.7%	0.7%	0.6%	0.6%

e = estimation

Source: World Bank 2009

Due to the current economic crisis the growth of remittances to the EU-10 countries slowed in 2008 – with the exception of Slovenia – and in the current year remittances will most likely decrease markedly. This is related to an incipient reverse migration which includes a number of Poles, Romanians and citizens from Baltic states who have left or will leave Great Britain, Ireland, Spain and other EU-15 countries. With respect to the British economy, return migration of Polish labour migrants is not only related to layoffs but also to the appreciation of the Polish Zloty against the British Pound, making it less attractive for Poles to work in Britain. In Spain, many jobs at construction sites were taken by immigrants from Central and Eastern Europe, who are now the first ones to lose their jobs because of the economic downturn.

Most new immigrants from the EU-10 countries in the EU-15 states intended to move temporarily, thus they may decide to return as soon as they lose their jobs or as wages decrease seriously. As free movement of labour will be granted in the coming years to citizens of the new European Union members, remigration is an option as soon as the economic situation in destination countries improves. Therefore labour migrants from EU-10 states can be expected to react rather flexibly to the economic crisis. Nevertheless, for sending countries the return of high numbers of labour migrants may put downward pressure on wage growth in these states, increase unemployment and potentially boost budget deficits. In addition, the reduction in remittance flows following from reverse migration will have a negative impact on the welfare of many households in the region.

### Migration and remittances in CIS countries

In the recent decade, permanent and temporary labour migration remarkably gained significance in all CIS countries. While some states, such as Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Kyrgyzstan, Tajikistan and Uzbekistan are predominantly labour exporting regions, Russia is an immigration as well as an emigration country. According to official data 3.9 million foreign workers were employed in Russia in 2008, although the number of illegal foreign workers was estimated to reach 12 million. Most of these workers come from CIS countries, largely from Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Kyrgyzstan, Tajikistan and Uzbekistan. Citizens from CIS countries can enter Russia without a visa but they have to register with the local authorities to be eligible for a work permit. As many CIS immigrants fail to register, irregular foreign employment in Russia is high. The majority of foreign workers from CIS countries in Russia are men, and they predominantly work in construction, services, trade and agriculture. It is estimated that CIS countries send six to eight percent of their labour force abroad, with Armenia, Azerbaijan, Moldova, Kyrgyzstan and Tajikistan representing the most important emigration regions. Examining the destination choice of labour migrants from CIS countries remarkable differences can be observed. While most labour migrants from Armenia, Azerbaijan, Uzbekistan, Tajikistan and Kyrgyzstan move to Russia, 30 to 40 percent of workers from Moldova, Georgia and Ukraine head for Western destinations. As for Russia, approximately 45 percent of labour

migrants relocate to Western regions, the others go to CIS countries.

Connected to labour migration, the receipt of remittances has significantly increased in CIS countries between 2004 and 2008 (see table 4). This is additionally stressed by the fact that official statistics on remittances most

likely underestimate the actual inflow of these resources to a considerable extent. Many migrants transfer money outside the official channels, especially if they perform irregular work.

Table 4: **Remittances to CIS countries, 2004-2008\***  
(US\$ million)

	2004	2005	2006	2007	2008e
Belarus	257	255	340	354	354
Moldova	705	920	1.182	1.498	1.550
Russia	2.495	2.919	3.091	4.100	4.500
Ukraine	411	595	829	4.503	5.000
Armenia	435	498	658	846	864
Azerbaijan	228	693	813	1.287	1.410
Georgia	303	346	485	696	696
Kazakhstan	166	178	187	223	250
Kyrgyzstan	189	322	481	715	715
Tajikistan	252	467	1.019	1.691	1.750

\* No data are available for Turkmenistan and Uzbekistan

e = estimation

Source: World Bank 2009

Between 2004 and 2007 nearly all CIS countries experienced double digit growth rates in remittances annually, and in certain years and in certain countries exceptionally

higher rates (see table 5). As a result of the global economic crisis growth rates of remittances decreased between 2007 and 2008.

Table 5: **Growth rates of remittance flows, 2004-2008\***

	2004	2005	2006	2007	2008e
Belarus	16%	-0.8%	33%	4%	0%
Moldova	45%	31%	28%	27%	3%
Russia	72%	17%	6%	33%	10%
Ukraine	25%	45%	39%	443%	11%
Armenia	169%	14%	32%	29%	2%
Azerbaijan	33%	204%	17%	58%	10%
Georgia	29%	14%	40%	44%	0%
Kazakhstan	13%	7%	5%	19%	12%
Kyrgyzstan	142%	70%	49%	49%	0%
Tajikistan	73%	85%	118%	66%	3%

\* No data are available for Turkmenistan and Uzbekistan

e = estimation

Source: World Bank 2009

In part, however, the reduction in remittances from Russia expressed in dollar terms has to be attributed to the Ruble depreciation against the US\$. For 2009 remittances are expected to decline by five to eight percent worldwide,

although some countries seem to be confronted with higher decreases. According to estimations of the Asian Development Bank, remittances to Tajikistan will decrease by 30 percent in 2009 and the Central Bank in

Moldova recorded a decrease of remittances by approximately 27 percent in the first three months of this year. The reduction of remittances poses a great challenge to many CIS countries which depend on the inflow of remittances as an important source of poverty reduction and of financing external imbalances.

The relevance of remittance flows to CIS countries becomes even more pronounced when these resources are expressed as a percentage of their GDP (see table 6). Here

Moldova and Tajikistan stand out, where the receipt of remittances amounted to 34 percent and 45 percent of their GDP in 2007 respectively. Accordingly, these two countries belonged to the most important remittances receiving regions worldwide, with Tajikistan coming first and Moldova second. However, these countries experienced a particularly severe decrease of remittances as a percentage of GDP between 2007 and 2008.

Table 6: **Remittances in % of GDP, 2004-2008\***

	2004	2005	2006	2007	2008e
Belarus	1.1%	0.8%	0.9%	0.8%	0.6%
Moldova	27.1%	30.8%	34.7%	34.1%	25.3%
Russia	0.4%	0.4%	0.3%	0.3%	0.3%
Ukraine	0.6%	0.7%	0.8%	3.1%	2.8%
Armenia	12.2%	10.2%	10.3%	9.2%	7.2%
Azerbaijan	2.6%	5.2%	3.9%	4.1%	3.0%
Georgia	5.9%	5.4%	6.2%	6.8%	5.4%
Kazakhstan	0.4%	0.3%	0.2%	0.2%	0.2%
Kyrgyzstan	8.5%	13.1%	17.0%	18.8%	14.2%
Tajikistan	12.2%	20.2%	36.4%	45.6%	34.1%

\* No data are available for Turkmenistan and Uzbekistan

e = estimation

Source: World Bank 2009

In looking at the development of remittance flows in the CIS region, there is evidence for a – partly serious – drop of these financial resources. Russia, the most important destination of foreign labour from CIS countries suffers from a spill-over of the global financial crisis and a decrease in oil prices. The resulting slowdown of the economy especially affects the construction sector and trade which employ high numbers of immigrants. In an effort to secure jobs for natives, Russian Prime Minister Vladimir Putin announced to cut the quota of legal migrants by up to a half in December 2008. Furthermore, the Russian government declared to strengthen the fight against irregular labour migrants. Therefore, immigrants in Russia will be increasingly confronted with harsh labour market conditions, i.e. cut of wages or loss of jobs. While some labour migrants might return, the bulk of foreign workers will stay in Russia, as their – generally poorer – home country economies also suffer from the global crisis. While officials and the population in Russia defeat further labour migration, the demand for foreign workers prevails. Big construction companies in Russia that cut their work places by 30 percent

in 2008, and are expected to reduce them to 50 percent in 2009, still stick to foreign workers as these are cheaper and more flexible. As in many industrialized economies, unemployed natives in Russia are not prepared to carry out jobs usually filled by foreigners. Thus, while a number of labour migrants from Kyrgyzstan, Tajikistan and Uzbekistan return, there is also evidence of an increasing number of migrants from these countries to leave for Russia since the economic crisis in fall 2008 (Marat 2009). Nevertheless, fewer migrants can be expected to find a job in Russia, resulting in an overall decrease of remittance flows to their home countries.

For Western destinations, particularly the European Union, where labour migrants from CIS countries occupy jobs in construction, agriculture and services, labour market prospects are bleak as well. Because many labour migrants from CIS countries in Western destinations perform irregular work, they are especially exposed to job losses. Furthermore, European Union countries enforce immigration regulations and increase their fight against irregular labour migrants. The Spanish government, for example, announced to limit the

admission of foreign workers and to encourage immigrants to leave under a plan of voluntary return. Yet most migrants from CIS countries have a strong incentive to stay abroad, as they need to organize (costly) transit documents to return and face unemployment and economic hardship at home.

## **Summary and outlook**

The current economic crisis resulted in decreasing growth rates of remittances to Central and Eastern European and CIS countries in 2008, and in 2009 a reduction of remittance flows is expected. While in the EU-10 countries this development will lower the welfare of many remittances receiving households, the economic risks of shrinking remittances are much higher in a number of CIS countries. For several post-Soviet economies, such as Armenia, Moldova, Kyrgyzstan and Tajikistan, remittances are a major source of family income and foreign exchange. Thus, a cutback of remittances will negatively impact poverty reduction and the economic development in these countries. Additionally there is evidence that

remittances are more stable than private capital flows.

The further development of remittances in the current economic crisis is difficult to predict. While some studies have shown that the flow of remittances has been relatively stable in the past, behaved counter-cyclically and had a positive effect on output stability (Chami et al. 2009), other research found remittances positively related to the business cycle in the home countries of labour migrants (Lueth and Ruiz-Arranz 2008). However, compared to previous economic crisis situations, this recession affects migration and remittances more severe because the crisis is global by nature and because remittances to many developing economies are much higher than in the past.

The deeper the crisis and the longer it lasts in immigration countries the greater will be the decline in remittances. The tightening of immigration regulations and the increase of anti-immigration sentiments in many destination countries are likely to reduce labour migration additionally and thus further depress remittance flows. In those cases, where migrants return, wages in home countries will come under pressure and unemployment rates are likely to increase.

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