

Migration in Europe: Case Studies: Bulgaria & Romania
Chairman: Philip Hanson
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Discussion

Silvana Malle: I have a question about remittances; you both mentioned that remittances are very high, but I wonder if they are even higher. What is the situation in Bulgaria and Romania? I know about Moldova, because a number of Moldavians work in northern Italy, women as housekeepers for example, and I know how they send money home – nobody uses the post office or banks. They have these mini-buses which carry people around Italy, they give a small percentage of the money to the driver and are sure the driver will deliver the money, and none of this is recorded.

Oana-Valentina Suci: The data I have used came from the National Bank of Romania, so probably the remittances are even higher. You can see this in the huge houses that they build, with 20 rooms for example, just to show off.

Silvana Malle: But in this case you are talking about gypsies?

Oana-Valentina Suci: No, Romanians as well.

Silvana Malle: I have been to Romania and Bulgaria, and just the structure of a gypsy house is completely different from any other, because of numerous decorations. Entire regions are like this. Are you talking about this?

Oana Valentina Suci: I am talking about whole villages in Moldova, Bukovina, and the latter used to be a wealthy region and now they are even richer. There you will see the newest and most expensive cars and houses in Europe.

Phil Hanson: This is a way for the immigrants to send assets back home, and you say a lot of this goes into houses. Presumably, if the banking system and the financial markets were much more open, flexible, efficient and trusted, more of these assets would be built up as financial assets. You are saying they are making a choice of sending them unofficially.

Krassen Stanchev: Although these figures are large for Bulgaria and Romania, they are not as high as in Central Asia, where in Tajikistan remittances make up 40% of GDP. The point is that Bulgaria and Romania have benefits from remittances, but they are not dependent on remittances. Although I recalculated that for this year remittances by the end of August 2010, are equal to 125% of FDI. This is because of the bad economic policies of the Finance Minister, Simeon Djankov, and especially the Prime Minister. The government started reshuffling the economic influence, which immediately frightened the foreign investors' community and delayed a project in the pipeline; and only those who had invested heavily in the mines and factories stayed in the country.

The fact is that FDI dropped from 30% of GDP in 2007 to nil this year (2010), because of the previous socialist government and current populist government. As to the not so transparent transfers, we can speculate and indeed we were speculating in Bulgaria about this; if we use the contracting tacit money methodology, I believe that unregistered transfers would be somewhere at the level of 15% to 20% of total remittances. Otherwise, both the Central Banks - Romania's and Bulgaria's - count remittances as net private transfers; I mean you have credit from abroad and debit notes to foreign countries. The methodology used to be reliable until the beginning of 2010. Then, I do not remember why, the EU changed one of the banking regulations and currently banks are not required to report international transfers of less than 50,000 Euros, which means none of the immigrants' transfers needs to be recorded. However, the Bulgarian Central Bank had an agreement with the banks to report these transfers, so Bulgarian data is relatively reliable. A study from 2004 is being repeated by our colleague, who reviewed tax incentives and rates, and I think it will confirm the findings from 2004 and what I managed to update.

Jan Fidrmuc: Following the topic of remittances, it is not obvious that they are a good thing; Oana mentioned that they channel the money into building new houses. As long as remittances finance consumption, and in this case building a house is consumption; it does not necessarily make a country richer in the long-term. It makes the individual obscenely rich, in a way which they like to show off, but it would be much more productive if they transferred remittances into new businesses. I was wondering to what extent that helps to build up the productive base of the country, rather than just help families increase their consumption.

Oana-Valentina Suci: There are no studies yet, related to this. There is a study done by Professor Sandu, who compiled this index, which is the Home-return intention, and what he discovered is that they should do as you say and invest in businesses, if they have the intention to return. The problem is that they do not really intend to.

Jan Fidrmuc: So why do they send money back?

Oana-Valentina Suci: Because they still have elderly parents or children to support and that is an issue I did not touch in my presentation; the social and emotional problems that these children back home are facing, because they are usually left with old grandparents.

Krassen Stanchev: There are many surveys on what happens to remittances, I do not believe that Romanian immigrants are so irrational. In Bulgaria there are older papers by ethnologists and anthropologists. My own experience with clients from areas populated by Turk- the companies I work with come from these regions show that the first recipients are relatives or parents. The next direction is business; the Turks like everyone in Bulgaria, invest in real estate. It depends on many factors, but up to 10% of real estate in big cities is funded by remittances from Bulgarian workers abroad. What is also important is the level of independent transfers, and in Bulgaria and Romania they held surveys every five years. The family transfer is as high as 25% of the income of the family. This should be compared with the taxes on labour and healthcare and those areas. In Bulgaria, the overall level of direct

taxes is relatively low; income tax and corporate tax is flat at 10%, but the social taxes, are at the level of 20% and 22% of the income. So if you have a level of the family income redistribution of 25%, then you think twice whether you want to give the Finance Minister 50% or to give your family 25% without giving what the law requires to the treasury. Therefore, many of the choices are absolutely rational.

Jan Fidrmuc: I would not say it is irrational; it may be perfectly rational to build a house with twenty rooms if it gives you a social status. And it might be perfectly rational to spend money on a nice car or DVD player than hay or some kind of investment, but it has different economic implications. This seems to be the case in most countries which have large emigration communities. Having a steady inflow of remittances does not necessarily decrease the growth rate of the home country, because much of it goes to consumption rather than investment. Having 3% or 4% in remittances does not necessarily mean the country will become prosperous. Even if it is consumption, it will account for the growth. This was associated with Dutch disease: cash inflow from mineral resources; oil and gas. The argument is that if you get a steady inflow of Euros or Dollars, in order to spend them in Romania you have to convert them into the local currency, so it tends to appreciate. And this diminishes the ability of the country to become richer.

Krassen Stanchev: This is very detailed and probably a valuable argument, but there is no analogy between Dutch disease and remittances. The second thing is a regulatory argument; in Bulgaria and Romania you may sign loans and make deposits in any currency such as Mongolian tugriks, so it depends on your contract with the bank. It is not illegal and there is a small appreciation of the Lev, but it is marginal.

Tomasz Mickiewicz: I hear the argument about Dutch disease quite often in Poland, I hear about people being unhappy about remittances coming to Poland. The problem is that there is something more than remittances. In principle, there should be nothing wrong with having a lot of consumption financed by money from abroad. The real problem is the next step, which is the risk pattern. This is the same problem that oil-dependant countries such as Azerbaijan have; this is a very risky path of development, because they are putting all their eggs in one basket. The real question is whether the flow of remittances is stable or not. If it is stable, it will continue for the next twenty years, but it may not be stable. It is unlikely to be stable, given that patterns of migration are volatile; people will come back, stay and stop sending money back because they will settle. That is the real question.

Natasha Srdoc: Another problem is the poor institutional standards in these countries.

Krassen Stanchev: I looked at anecdotal stories of remittances being used in Georgia, in very beautiful areas in the mountains, similar to Bled. People were trying to start a business, and according to World Bank indicators Georgia is one of the best countries to do business in. When I asked Georgians coming back from abroad, who were trying to build a hotel, why they have trouble doing it, they simply said they do not know what the government will do with their rent contract next year. If they come and take their properties, what will they do? So, people do have a business culture, I do not think it is a cultural issue, but an institutional

one. In Bulgaria, the period of growing remittances coincided with growing investment. The investment in Bulgaria, as a share of GDP, between 1998 and 2008 was 25%. And, irrespective of the behaviour of remittances, FDI steadily increased.

John H. Moore: I would like to turn the discussion slightly away from remittances, but it seems to me the question is who decides on the uses of remittances. If somebody goes abroad, gets a job and they want to send money home, they ought to be able to do that and they ought to be send it for whatever use they desire; that is the nature of a liberal society. The real question comes from Natasha; what are the institutions like? It seems that institutions which are good for channelling remittances into investment are also good for the development of domestic investment as well. So, if you want to have good institutions, then they should be the same as the ones for the protection of private property, taxation etc. The question is who decides on the uses of the remittances.

Tomasz Mickiewicz: I agree this is a concern, but the problem is about institutions and policies, and the discussion went in this direction. If you have a country which relies so much on the inflow of capital; either remittances or borrowing abroad, this is an indicator that there is something problematic in the country and the policymakers are not happy that much of the development is financed by the fact that people feel attached to their families of origin. The reason why we look at what is financed by remittances is not that we would like to restrict that, but it indicates there is not enough capital created within the country. They should have a more developed banking sector and capital coming into it. Typically the financial sector is underdeveloped in those countries where we see that.

Bob Reilly: I know the situation in Central and Latin America anecdotally, because so many workers come from those countries as remittance workers. You find examples of people working as maids sending money back home so their relatives can have maids. They use money in this fashion, because there is no productive way to use it.

Philip Hanson: That is why I am not entirely convinced by John's argument that the institutions are a piece. I think you could have a very effective informal network which could efficiently transfer remittances from A to B, without the country in which B is located having the institutions to make good use of those firms.

Steve Pejovich: But how do you define these institutions?

John Baker: I studied this problem in Central America, where the banks wanted to receive remittances, but were not allowed. The US government would much prefer remittances to go through banks than Western Union, for example.

Krassen Stanchev: For that matter, Serbia and Croatia nationalised the savings of the Yugoslav Gastarbeiters. When people were working a lot they were transferring the money to the banks and suddenly Milosevic and Tudjman came and they nationalised the savings.

Tomasz Mickiewicz: This had a disastrous effect on the financial sector in Serbia.

Jan Fidrmuc: In the Croatian case, where people had savings in foreign currency and put them in bank accounts, suddenly the Euro was introduced and all these Deutsch Marks became worthless. They had to open their accounts and deposit them, and somehow a large portion of their savings was left with the banks, apparently. Some people did not trust the banks and withdrew the money, but a lot decided not to move their money.

Krassen Stanchev: By the time this happened, most of the banks were owned by foreign institutions and the government had no say in how they should behave.

Jan Fidrmuc: Until the adoption of the Euro, people were keeping their savings in their drawers and under mattresses.

Natasha Srdoc: But this was a precedent with Slovenia's Ljubljanska Banka, because it refused to return any deposits to Yugoslav countries and it became a transition problem.

Jan Fidrmuc: So they refused to pay out deposits to non-Slovenes?

Krassen Stanchev: They nationalised foreigners' accounts.

Matej Kovac: The fact is that Ljubljanska Banka has branches in all the republics and they claimed it is territorial principle, because each bank was responsible for each country. In all other republics apart from Croatia, the branches of Ljubljanska Banka were separate, but in Croatia it was a branch of the central offices. This issue is now being resolved by the European Court of Human Rights. All of the Croatians who sued Ljubljanska Banka lost their cases.

Silvana Malle: After listening to the discussion one could come to the conclusion that remittances are a negative thing. However, I have seen these poor people from Eastern Europe working hard and sending money back home to their elderly relatives so that they can enjoy better living conditions. Therefore, I think that people who argue that remittances are a bad thing, should provide robust evidence to prove it.

Philip Hanson: I do not think anyone at the table was arguing that, but we can come back to it later. Would any of the speakers like to add something?

Krassen Stanchev: I would like to finish with two points: the first one is that the very decision to emigrate is related to a mobilisation of resources and is very positive for growth. People start learning a foreign language and those sorts of things. The second thing is also important, and for Bulgaria it is also proven. In 1999, during the Kosovo crisis, we did some research on the impact of refugees on their hosts. It so happened that we did not have many refugees from Kosovo and Serbia: we had nine families from Serbia and 90 from Kosovo, but compared to the bulk of the refugees, they were from Afghanistan, Iraq and other countries. The impact of refugees from those countries plus Kosovo and Serbia, was entirely positive. So, whatever they received from the Bulgarian welfare system, was but a fraction of what they put in. The refugees came with their own money and it was five times more than the Bulgarian Government was spending on maintaining them; border police, camps, welfare etc.

Oana-Valentina Suci: As Krassen said, this is a process of resource mobilisation and a process of social learning as well; both for the countries which receive these migrants and their countries of origin. What we are dealing with now, at least in the case of Romania, is not a horizontal type of migration any longer, when people leave for good. It is a type of circulatory migration and my guess is that, at the end, when not only the success stories, but also those who failed will return home, this will be transferred in a social type of learning, in which people mobilise their resources to have a better life in their home countries, as well as abroad.