

## 2.6 REMITTANCES TO HUNGARY AND HOW TO MEASURE THEM

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In parallel with the gradually growing number of emigrants leaving Hungary, it has become increasingly important to analyse the extent to which the remittances of emigrants contribute to the livelihood of Hungarian households and the growth of the domestic economy. In the case of countries with a large emigrant population it is common that these money flows are considered to be important sources; thus these countries strive to utilize these remittances to the largest possible extent and channel them to development funds. In Hungary it is only recently that a significant increase in remittances has emerged and this now makes it worthwhile to examine the best avenues for their use, despite the paucity of available relevant data.

The *World Bank* (2015) publishes data based on macroeconomic estimations, which can serve as a basis for the analysis of the volume of these flows. Due to their aggregate level however, they do not facilitate a detailed examination of the topic. Among others there is no information on the number and socio-economic status of the receiving households, how these money flows are transferred to Hungary and in which ways they are utilized. This subchapter introduces the information at our disposal regarding remittances to Hungary, and also the various measurement techniques available together with their strengths and weaknesses.

### Measurement problems of remittances

Since the phenomenon of remittances is rather complex from the socio-economic point of view, its measurement also requires a comprehensive approach. From the measurement's point of view one of the main factors is whether the money is sent home via an electronic payment method, which is easier to track, or if it is remitted by means of a barely detectable private cash transfer. The cost of electronic transfers and the development level of the financial infrastructure in the countries affected can have a great influence on this. In some cases (not so much in Europe) the identification of the actual receiving country is hindered by the fact that remittances are sent to a neighbouring country due to the low level of security or the lack of a proper financial infrastructure, and transferred in cash to the actual receiving destination (*Sander-Maimbo*, 2005). Another problem is that it is quite difficult to identify the actual remittance transactions among the otherwise easier recordable electronic transfers. In other words, it is not clear how to define the proper transaction

value limit and how other types of transactions, such as business or touristic transfers can be filtered out.

In line with *IMF* (2009) recommendations to reduce measurement errors it is worthwhile to use several data sources when measuring remittances. The parallel application of different data compilation methods facilitates the compilation of the most reliable datasets and the reduction of disadvantages of using one single particular data source.

To reduce the costs of measurement, regular data on cross-border electronic money transfers can be obtained with the help of administrative data sets and the data collected by central banks or national statistical offices from payment service providers (e.g. banks). The drawback of this method is that it is not capable of measuring informal personal cash transfers and the distinction between remittances and money transfers for other (e.g. business) purposes is also problematic. Defining a transaction value limit can partly solve this problem; however, the proper definition of the limit can be a difficult task and heavily influences the results.

Another possible solution is the use of household sample surveys, which provide direct information on receiving households. Thus more detailed data can be collected on the amount, the transferring method and the frequency of remittances, as well as on the characteristics of the receiving households. Nonetheless the execution of such surveys is significantly more resource demanding than the collection of administrative data, furthermore the non-response rate can be considerably high due to the sensitivity of the topic. Since the regional distribution of receiving households is often uneven in the population, the inclusion of the appropriate number of households in the survey can require special sampling techniques.

The two main techniques mentioned can be completed using estimation procedures, which support the low resource demand calculation of relatively reliable results from data with an inappropriate quality level. The other advantage of estimations is that they can be flexibly fitted to the specific features of the country or the statistical data sources. However, the validation of these results and the criteria used for the calculation can be difficult, since they are usually based on the opinion and presumptions of experts in the field.

### **Remittances to Hungary**

The World Bank publishes the most complete dataset on the volume of remittances, which is based on the compensation of employees and the personal transfer categories of the current account of affected countries. These current account data are amended using estimation procedures in order to identify money flows between sending and receiving countries (*Ratha-Shaw, 2007*). According to the published data, the amount of remittances sharply increased globally after the millennium; the amount of USD (583 billion) sent in 2014

(*World Bank*, 2015) shows a more than four-and-a-half-times growth compared to the level in the year 2000. The World Bank (*Maimbo–Ratha*, 2005) and additionally the IMF (*IMF*, 2009) draw attention to the fact that remittances show much lower volatility compared to Foreign Direct Investments, and their volume does not depend on the economic situation of the receiving country, thus these money flows can serve also as a reliable resource in times of economic recessions.

Several research studies examined worldwide the factors which influence the amount of the money transferred. Among these there are country-specific factors (e.g. how close is the relationship between the family members and how it influences remittances), but general features can also be identified. For instance, the time period spent abroad by the emigrant heavily influences the amount of money transfers according to *IMF* (2009) analyses. In the case of short-term migration, the amount of remittances is usually higher compared to that of those who utilize their income in order to establish a new life in their new country. Other research studies (*Chimhowu–Piesse–Pinder*, 2005) proved that women support their families in home countries more reliably than men. Nonetheless the economic situation in the country where the emigrant works is less important, since these countries normally have developed welfare systems, where the social transfers compensate for the decrease in incomes (*Ratha*, 2005).

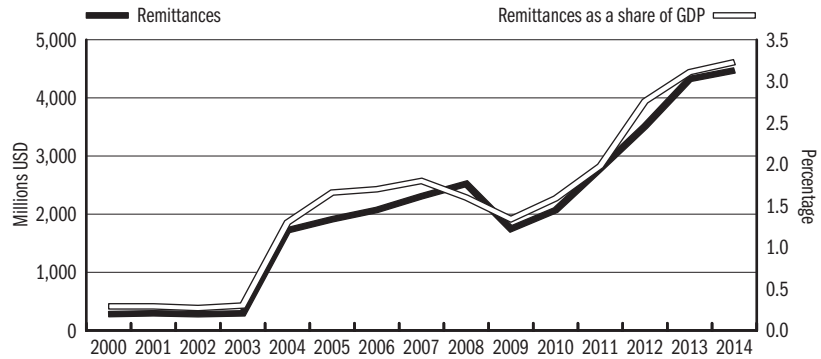
Considering remittances to Hungary over the last 15 years (*World Bank*, 2015) it appears that after a remarkable increase in 2004 presumably in connection with accession to the EU, since 2009 a new ascending period has commenced. This is in line with the significantly growing number of emigrants from Hungary during this period (*Figure 2.6.1*). In terms of absolute numbers this means that the USD 280 million sent to Hungary in the year 2000 has become sixteen-times higher after 15 years and in 2014 was almost USD 4,500 million (4,473 million).

In remittances as a share of GDP the same trend appears. In the first couple of years after joining the EU remittances constituted 1.5–2 percent of the GDP, but due to the sharp rise which commenced in 2010, the latest data from 2014 shows a figure of more than 3 percent.

For the originating countries of transfers the main target countries of emigrant Hungarians can be considered the most important areas also from the remittances point of view (*Figure 2.6.2*). Among these Germany is the biggest source country, from where more money was sent in 2014 (USD 952,2 million) than from the United Kingdom (USD 396,3 million) and Austria (USD 365,1 million) together. The United States and Canada are also major sending countries, which is even more important from the aspect that emigration to these countries was not within the focus of recent studies. Other main source countries of remittances are Australia, Switzerland, Sweden and Slovakia.<sup>1</sup>

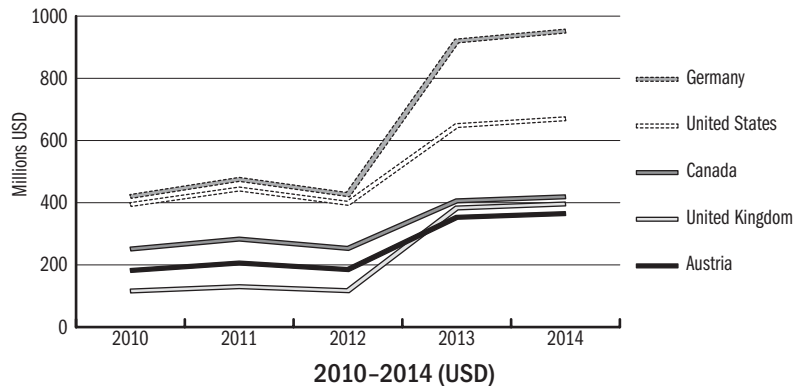
<sup>1</sup> Remittances from Hungary are around USD 1–1.5 billion since 2006, which is approximately one quarter of the received money transfers. Contrary to remittance inflows, no significant growth appeared in the amount of money sent from Hungary, and after the economic crisis in 2008 it even decreased. These transfers are mainly not connected to the current, especially economically motivated migration, but rather to the continuous support of Hungarian national relatives abroad, which might explain the relatively stable value of these money flows.

**Figure 2.6.1: Remittances to Hungary and their share of the GDP, 2000–2014 (million USD)**



Source: *World Bank* (2015), *KSH* (2015), data for 2014 are preliminary.

**Figure 2.6.2: Remittances to Hungary by the main sending countries, 2010–2014 (USD)**



Source: *World Bank* (2015), data for 2014 are preliminary.

In addition to using current account data, the household sample survey of the SEEMIG project, which examined the migration processes of the South-eastern European countries, represented another approach. The survey (see *Blaskó–Jamalia*, 2014) was based on the regularly undertaken (quarterly) Labour Force Survey, which had the main goal of achieving representative results using special sampling techniques on the characteristics of the emigrant Hungarian population. In the framework of the survey remittances were also analysed, which showed that one quarter of emigrant Hungarians send money transfers to a Hungarian household.

### Conclusion

The issue of remittances is a complex phenomenon with several social, economic, and demographic aspects, thus the examination of these money transfers and the obtaining of reliable results imply several difficulties. According to

the published data of the World Bank, in the case of Hungary a major growth occurred both in the amount of remittances and in their share of GDP. In 2014 the USD 4.5 billion amount of remittances constituted 3.2 per cent of the GDP, which is significant in the Hungarian current account as well. This stresses the importance of further analyses. In order to achieve this a special household survey with a large sample size dedicated to the topic would be extremely useful. Data from a sample survey would be important to get a clear picture on the socio-demographic features of the receiving households, but this data can serve as a basis for the more reliable application of administrative data sources and estimation procedures with lower costs.

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