

## The Impact of Remittances on Poland's Economy by Luca Barbone, Katarzyna Pietka-Kosinska, Irena Topinska

In a recent study commissioned by Western Union, the leading money-transfer firm in the world, we explored the effects of remittances on the Polish economy over the past fifteen years.<sup>1</sup> This e-brief reports on the results obtained with respect to the macroeconomic impact of remittances (simulated through a macro model of the Polish economy), as well as their effect at the household level and in terms of their regional distribution. We show that remittances have had a significant and positive impact on the Polish economy, and that the impact can be expected to increase with the expected rise in labor mobility in Europe over the next few years.

### Growing Importance of Remittances World-Wide

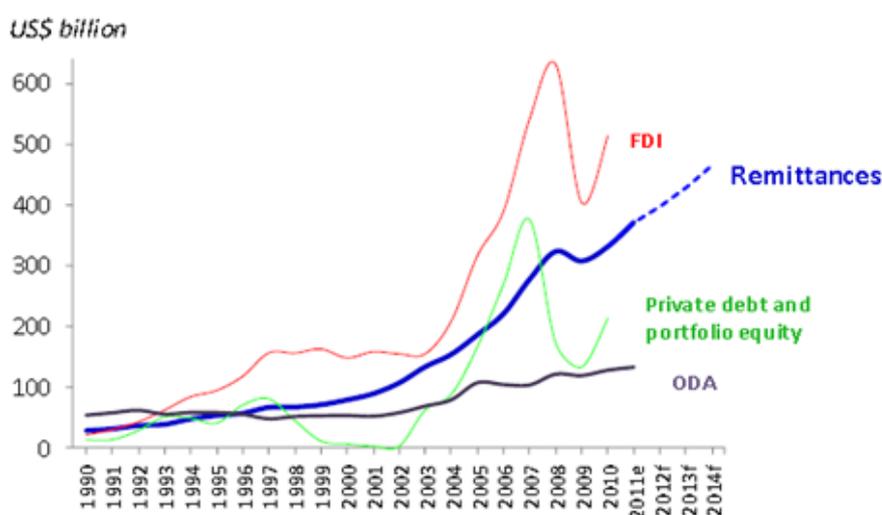
Remittances are flows of money between individuals living in different countries, and are mainly associated with migration. Over the last few years, remittances have increased significantly throughout the world as a result of increased migration flows, as well as the reduced costs of transfers and ease of implementation. As shown in Fig.1, remittance flows to developing countries account for a large portion of external inflows—well ahead of official development assistance. In many smaller countries, large-scale remittance flows account for more than a quarter of GDP.

Remittances have also risen significantly in Poland over the last twenty years, and now amount to a noticeable share of the balance of payments and the economy. In 2011, Poland was the 17<sup>th</sup> largest recipient of remittances,

having received US\$8 billion (or 1.5 percent of GDP) (Fig. 2). There are several channels through which remittances can affect the economy, in Poland as elsewhere. Remittances directly increase the disposable income of recipients, who can decide whether to spend them or to save them. Depending on what goods or services are purchased, this can lead to increases in recorded consumption or investment, and thus, though multiplier effects, to increases in overall GDP. Remittances can also lead to changes in relative prices if recipients have different preferences than the general population. For instance, in many “remittance-dependent” countries, increases in

residential construction spurred by investment in housing by families of migrants have led to changes in the value of land and construction services. Remittances can also affect expenditure decisions at the household level, often involving tradeoffs, for instance, between education

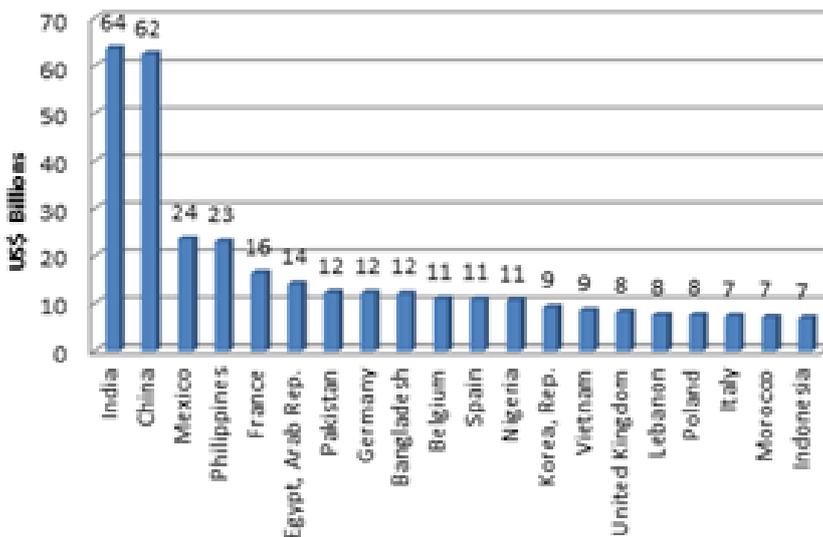
**Figure 1- Remittances and Other Resource Flows to Developing Countries, 1990-2014**



<sup>1</sup> Barbone, Luca, Katarzyna Piętko – Kosińska and Irena Topińska (2012): „Wpływ przepływów pieniężnych na polską gospodarkę w latach 1992-2012 – raport Western Union, przygotowany przez Centrum Analiz Społeczno-Ekonomicznych - CASE”, available at <http://www.case-research.eu/pl/node/57729>

expenditures and other items, particularly if households are liquidity-constrained. In the remainder of this brief, we will try to quantify these effects through the use of a macroeconomic model, and through an analysis of the Household Budget Survey data of 2008.

**Fig. 2: Top Remittance Recipients**



## Macroeconomic Effects of Remittances in Poland

Remittances<sup>2</sup> have played an important role in the Polish economy, growing from 0.5 to 1.5 percent of GDP in 1995-2011, peaking at 2.5 percent of GDP in 2006-2007<sup>3</sup>. The value and share of remittances in GDP increased considerably after Poland joined the EU and most European labor markets opened their doors to Poles. Remittances were also larger than EU transfers until 2008. This growing trend was reversed, temporarily, by the financial crisis of 2008-2009, which resulted in a worldwide decrease in remittances, which was also reflected in the case of Poland.

How have these flows affected the Polish economy? As discussed above, there are multiple channels that lead from the receipt of an external transfer to its potential effects on growth, some of which can be modeled more easily than others.

In our case, in order to quantify the macroeconomic effects of this increase in private external flows, we utilized a model of the Polish economy whose main transmission channel is through the effects on aggregate incomes and consumption. The simulations consisted in removing the remittances flows (thus negatively shocking the economy over the 1994-2010 period), and calculating the resulting outcomes for aggregate demand, including consumption.

On this basis, we show that remittances sent to Polish residents increased the average annual growth of real disposable income by 0.2 percentage points (from 2.7% to 2.9%), which in turn translates into an average annual rate of increase in household consumption by 0.1 percentage points (from 4.1% to 4.2% in real terms) and 0.1 percent higher annual GDP growth rate (from 4.3% to 4.4%). Thus, without transfers, the Polish economy would have developed more slowly, and most likely with higher income disparities, as transfers from abroad are concentrated in selected regions where emigration was particularly strong.

In other words, as a result of the inflow of remittances and their effect on consumption and incomes, the GDP of Poland in 2011 was PLN 22 billion (US\$7b) higher than it would have been without transfers. Other intangibles, such as their contribution to financial sector deepening, are more difficult to quantify, but have been shown to be substantial in other country contexts.

## Effects of Remittances on Household Budgets in Poland

Having established that remittances have a meaningful, if not enormous, effect on macroeconomic aggregates, we turn to questions regarding their use by Polish households. How important are remittances in the budgets of Polish families? Which families are the primary beneficiaries? Does the inflow of income from abroad reduce poverty and inequality, and to what extent? To address these questions, we turned to data from the 2008 Household Budget Survey, which was the first to identify all sources of foreign income, i.e., work, business, social benefits, and transfers from other households, etc.

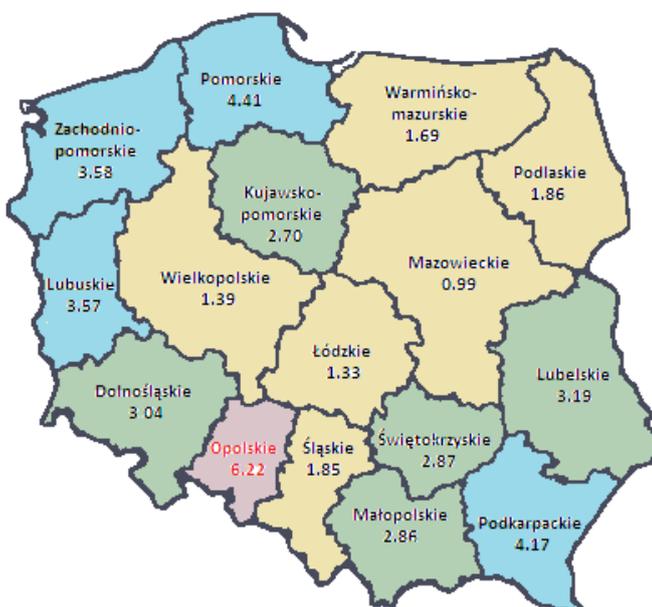
<sup>2</sup> Defined here as the sum of Compensation of Employees and Migrants' transfers, according to the NBP methodology.

<sup>3</sup> Net of living expenses of short-term migrants, these figures are, respectively, 0.3, 1.1 and 1.7 percent of GDP.

The main results can be summarized as follows:

First, remittances are sent to a relatively small number of households in Poland (2.5 percent or about 330 thousand households in 2008, amounting to over 1.2 million people). However, because remittances are concentrated on a small number of households, they actually represent a sizeable portion of the incomes of recipients. According to the HBS data, they amounted to approximately 635 PLN per person, or an impressive 62 percent of income for remittance-receiving households.

**Figure 3 - Distribution of Remittances by Region (Percent of households)**



Secondly, recipients of remittances are mostly from small towns and rural areas rather than large cities; they are less present in the central regions of the country, which have experienced a lower outflow of migration (Fig. 3). In addition, they are often from large households (especially young families with children), and their educational levels reach basic vocational education or higher (rather than primary education). Interestingly, these families also receive lower-than-average social benefits from domestic sources, most likely reflecting the specific demographic characteristics of these families, such as age and number of persons included in the household.

Because of their concentration and importance among recipients, remittances have a powerful effect with regard to the overall poverty rate (measured by the percentage of people not meeting the mid-sized equivalent expenditure

In the country), as they reduce it by nearly 2 percentage points, from 19% (a hypothetical poverty rate assuming no remittances) to 17.1%. In fact, the extent of poverty in remittance-receiving households is lower than the average, at 16.2%.

Remittances also result in a slight decrease in income disparities. This is shown by the analysis of income distribution in the different quintile groups as well as in the Gini coefficient analysis. The latter indicator, calculated for disposable income, declines in fact from 0.35 when excluding remittances, to 0.34 when remittances are accounted for, a modest but not insignificant improvement.

It should be noted that these results were obtained using data from only one year, and a specific definition of foreign transfers, which does not fully coincide with the concept used in the statistics and macroeconomic analysis. Further analysis would no doubt contribute to a better understanding of the effects of remittances at the household level.

## Conclusions

Thanks to joining the European Union and the resulting greater labour mobility, Polish households have received a substantial inflow of remittances, which peaked at 2.5 percent of GDP in the mid-2000s. In this brief, we show that remittances have increased GDP growth and, most importantly, have contributed to increased welfare for some of the least well-to-do segments of the Polish population. While in the short-run the economic slow-down in Europe may result in reduced opportunities for Polish workers interested in employment abroad, it is nevertheless important to keep remittances facilitation (costs, financial instruments, financial literacy) on the policy agenda so that these cash flows can continue to contribute to the national economy in the years to come.

This E-Brief is a summary of the report titled "Wpływ przepływów pieniężnych na polską gospodarkę w latach 1992-2012 – raport Western Union, przygotowany przez Centrum Analiz Społeczno-Ekonomicznych - CASE", (Effects of Remittances on the Polish economy in the years 1992-2012 – report Western Union, prepared by CASE).

The report in Polish is available at

<http://www.case-research.eu/pl/node/57729>



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