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WHAT ARE THE ECONOMIC CONSEQUENCES OF THE MIGRATION AND REMITTANCES FOR THE UKRAINE?

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Abstract

Background: Economic integration activities in modern globalized world increasingly involve international movements of labor. In the case of the Ukraine, the country is one of the top ten donors of the labor force, where both, temporary and permanent migrant workers account for about 10% of the Ukraine's total population. Considering that remittances received in Ukraine from its migrants workers are estimated to be about 4% of the Gross Domestic Product, there are grounds to claim that high flow of labor and workers remittance flows have been influencing the country's economic development in resent years.

Purpose: The purpose of this paper is to analyze the impact of migration and remittances, and examine their consequences on the Ukraine's economy.

Practical Approach: Different forms of secondary empirical material of both qualitative and quantitative character have been used. Furthermore, to complement the analysis, a survey among Ukrainian migrants working in Portugal has been conducted.

Results: It has been determined that labor migration and remittances have a dual effect on the Ukraine's economy. First, remittances do have a strong short-term boost to domestic demand that positively affected GDP growth in recent years. Second, however, is that large financial inflows do not contribute to the business sector but instead generate dependence on remittances as they are a source of a supplemental income for many thousands of Ukrainian households; moreover, strong migration trends do not seem to generate more opportunities for those remaining in the Ukraine.

Keywords: labor migration, remittances, economic consequences, Ukraine.

JEL Classification:

F24 – International Economics – International Factor Movements and International Business – Remittances

J61 – Labor and Demographic Economics –Mobility, Unemployment and Vacancies — Geographic Labor Mobility, Immigrant Worker

Resumo

Contexto: As actividades de integração económica do mundo globalizado moderno implicam cada vez mais deslocações internacionais de trabalhadores. No caso da Ucrânia, o país é um dos 10 maiores a enviar força laboral para o exterior, onde tanto os trabalhadores emigrantes temporários, como os permanentes representam cerca de 10% do total da população ucraniana. Tendo em consideração as remessas recebidas na Ucrânia, oriundas dos seus trabalhadores emigrantes e estimadas em cerca de 4% do Produto Interno Bruto, existe fundamento para preconizar que o elevado fluxo de trabalho e remessas de trabalhadores têm influenciado o desenvolvimento da economia do país nos últimos anos.

Objectivo: O objetivo deste relatório é analisar o impacto da emigração e o das respetivas remessas e examinar as suas consequências na economia da Ucrânia.

Metodologia: Foram utilizadas diferentes formas de material empírico secundário de características tanto quantitativas como qualitativas. Além disso, para complementar a análise, foi realizado um estudo entre emigrantes ucranianos a trabalhar actualmente em Portugal.

Resultados: Determinou-se que a migração laboral e as remissas desencadeiam um efeito duplo na economia ucraniana. Numa primeira instância, as remissas potenciam fortemente o poder de compra doméstico a curto prazo, o que afectou positivamente o crescimento de PIB nos últimos anos. No entanto, numa segunda fase encontram-se os vastos fluxos financeiros internos que não contribuem para o sector de negócios, mas que, em vez disso, provocam dependências das remissas como uma fonte de rendimento suplementar para muitos milhares de lares ucranianos; mais ainda, as fortes tendências migratórias não parecem proporcionar mais oportunidades para os que permanecem na Ucrânia.

Palavras-chave: migração laboral, remessas, consequências económicas, Ucrânia.

Classificação JEL: F24; J61

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Glossary

BP	Balance of Payments
CGEM	Computable General Equilibrium Model
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDNI	Gross National Disposable Income
GFCF	Gross Fixed Capital Formation
GNI	Gross National Income
IMF	International Monetary Fund
MTO	Money Transfer Organization
NBU	National Bank of Ukraine
NHS	National Household Survey
ODA	Official Development Aid
SSCU	State Statistics Committee of Ukraine
TPF	Total Productivity Factor
WB	World Bank

Executive Summary

The large-scale labor migration and associated workers' remittance flows have taken a growing role in shaping the Ukraine's economic evolution in recent years. Although in the Ukraine much of the impetus for labor migration comes from unfavorable domestic conditions, the phenomenon is part of a wider trend of a growing movement of temporary and skilled workers across national borders.

The Ukraine's experience confirms that globalization is not limited to trade and finance. Labor migration and worker's remittances picked up during the regional crises in the late 1990s. The domestic economic situation was already difficult before the crisis, since the transformation from a central planned to a market-based economy involved radical changes, resulting in output contraction and massive job losses. When hit by the crisis, many workers had few viable alternatives in seeking job opportunities abroad to support their families. Despite moderate economic recovery, the migration intensified over time surpassing the five million mark. At the end of 2008, migrants accounted for almost a quarter of the economically active population. The gross inflow of workers' remittances reached almost 17 per cent of GDP in 2008 ($30.2 mln) — large compared with other countries in which remittances also play a relatively significant role.

This paper examines the micro economical characteristics and macroeconomic consequences of migration and workers' remittances on the Ukraine's economy. Drawing on data gathered from various sources and the results obtained from a survey conducted by the author, the paper attempts to explain why Ukrainian workers go abroad and how their remittances are used. With this background, the paper describes the impact the large inflows of remittances have had on the macroeconomic environment.

There are two main reasons why this paper could be of general interest. First, the analysis of migration processes in the Ukraine adds to the growing literature on the characters and motives behind migration and worker's remittances. Second, the analysis of the macroeconomic consequences includes the potential impact of labor migration and remittances on different aspects of the economy — economic growth, investment, competitiveness, monetary and fiscal conditions.

The paper finds that the basic patterns of migration and remittances in the Ukraine are consistent with facts in the labor migration literature. Ukrainian migrant workers, temporary and permanent, have a strong attachment to Ukraine, sending large portions of their earnings home. Transfers are primarily used to meet basic consumption needs and finance housing and education, with smaller amounts invested in business activities.

Findings suggest that the decision to migrate and remit part of the income to families back in Ukraine have profound macroeconomic consequences for the domestic economy. They 1) increase household consumption and thus drive growth; 2) lower unemployment rate but put pressure on wages; 3) threaten the sustainability of the pension and social security systems; 4) put the foreign exchange rate under the appreciation pressure.

The thesis is organized as follows. *Chapter 2* gives a brief overview of the literature on migration and remittances, where the main theoretical framework of motives and impacts of remittances are described. *Chapter 3* examines the case of the Ukraine. As a background of the ongoing discussion, a perspective is given about the development of migration and remittance trends, patterns and characteristics in the Ukraine. *Chapter 4* analyses the effect of remittances on the household economy, drawing on a recent household survey. Finally, in *Chapter 5*, macroeconomic consequences of labor migration and remittances on the Ukraine's economy are assessed. Conclusions are presented in *Chapter 6*.

1. Introduction

As globalization continues, economic integration activities in today's world go beyond international trade and capital movement; they increasingly involve international movements of labor. Human mobility has become a fact of modern life. Demographic problems, political instability, inequality in salaries and income, as well as a lack of employment perspectives are the main reasons behind the high flow of labor. According to the World Bank estimations, one out of every 37 persons is an international migrant (nearly 180 million people live outside the country of their birth).

The outflow of labor migrants is likely to impact the human capital composition and the economic development of the sending country. Remittances are one of the most important motivations for migration. The size and the frequency of remittances are the product of millions of individual's decisions, and the receivers are free to choose how to use them. Just in 2008, over US$ 305 billion was sent by international migrants to their loved ones back home (Ratha, 2009). One out of seven people in the world is personally affected by the hundreds of billions of US dollars in remittances that are sent every year. Over the past 20 years, migrant transfers have influenced the economic and social situations of various countries worldwide. Currently, they are a second largest source of foreign exchange earnings for some countries, just after Foreign Direct Investment (FDI), and are more critical for development and poverty reduction than Official Development Aid (ODA), (Giuliano & Ruiz –Arrranaz, 2005).

International migration is considered to be a key factor for the economic development for both the sending and the receiving country (Todaro, 2003). This paper examines characteristics and the potential and actual contribution of labor migration and remittances on the Ukraine's economy. Based on the balance of payment data and the data from national household survey, the thesis attempts to explain why Ukrainian workers go abroad and how their remittances are used. With this background, the paper goes on to provide an outlook on how the remittances inflows and labor mobility affect macro-performance of the Ukraine.

1.1 Background

An interesting illustration of the migration trend is the Ukraine. Historically, the Ukraine has been involved in numerous migration movements. Currently, it is one of the top ten donors of the labor force. Both, temporary and permanent migrant workers account for about 10% of the Ukraine's total population.

Until recently, the topic of migration and importance of remittances has been dismissed. Only when the large-scale working migration has turned into a considerable threat to the growing economy, have the media and government authorities given it more attention.

Labor migration and remittances picked up in the wake of the 1998 regional crisis. At that time, many workers had few alternatives in their home country, and thus migration was the only way to provide families with sufficient financial means. Despite domestic economic recovery, the migration trend increased over time and so did the amount of remittances. Getting accustomed to higher incomes and having learnt the languages, many migrants chose to settle down, and thus were lost from the home labor market. It has been expressed that those millions of migrants working abroad are likely to have a negative impact on the pace of economic growth of the country. It is especially relevant to a highly-qualified labor force. In some regions, there is an obvious lack of skilled labor force — one of the most important factors of attractiveness from an investors point of view. Taking that into consideration, a question has been raised whether the remittances are contributing to building a better future or aggravating further the economical situation in the Ukraine.

There is no official study on the impact of remittances on the Ukraine's economy. The goal of this paper is to raise more knowledge about the subject, as well as to encourage further research.

1.2 Objective

The objective of this paper is to evaluate the impact of migration and remittances, and examine their consequences on the Ukraine's economy.

In order to reach this objective, the following questions will be addressed:

- What determines remittances?
- What are the potential impacts of remittances on the receiving economy?
- What are the characteristics and use of remittances in the case of the Ukraine?
- How migration and remittances influence household welfare and economic development in the Ukraine?

- What effect remittances have on poverty, income distribution and growth?
- What macroeconomic consequences migration and remittances may have on the domestic economy?

1.3 Data and Limitations

For the purpose of this paper, database on migration statistics was required. Administrative data was obtained from national population estimates. Data on remittances was collected from the National Bank of Ukraine (NBU) and is available from 2001-2008.

Data from national household survey was provided by State Statistics Committee of the Ukraine (SSCU). The survey was carried out in 2005 and available for years 2001-2005. Economic indicators were collected from the same source.

Other important secondary sources include earlier published studies, discussion papers, articles, literature on remittances, and general information about the Ukraine from both, national and international organizations.

The time period analyzed in this paper is 2001-2008, since remittances were registered from year 2001 and the latest available data is for 2008. For some periods, however, no data has been found.

Since there are many different ways in which migration and remittances can be studied, this paper is limited to focusing mainly on macroeconomic consequences of remittances and migration on the economy of the Ukraine. However, to understand the relation between remittances and economic growth, the direct effect on the household welfare is also discussed.

1.4 Disposition

The thesis will be divided into two main sections.

The first section will discuss the theoretical framework of the thesis and will consist if theories regarding migration processes and remittances. The definition of the labor migration, also known as “economic migration” will be interpreted according to the definition by Chiswick (Brettell, 2007): “Economic migrants are those who move from one place of work and residence to another, either within a country or across international boundaries, primarily because of their economic opportunities, as distinct from refugees and those who move because of the migration decision of others (tied movers)". This paper will only analyze international migration.

The theoretical framework precedes a case study of the Ukraine, the second section of the thesis. An overview of labor migrations processes will be followed by an analysis of the labor migrant's actual effects on the domestic economy. The case study of Ukraine will be conducted as a qualitative literature overview, where available literature on the situation of labor migrants will be analyzed.

2. Explaining Migration and Remittances – Theoretical Considerations

While there are many theories of migration, there is no single theory that can provide a comprehensive explanation for the migration processes. There is no well-developed general theory of remittances either. Research on remittances provides evidence and results from empirical studies and is distinguished by particular geographical, socio-cultural and other limitations (OECD, 2009). For many countries, remittances play a significant role for a country's economic development. It is believed that they are as important as FDI and other capital flows (Chami & Fullenkamp, 2005).

2.1 Migration Theories

People move due to many different reasons – poverty, war, hunger, repressions, demographic problems, urbanization processes and lack of employment perspectives. These reasons affect an overall migration process to a varying degree. Wide variety of theories sum up following common reasons for migration - human migration occurs when people can benefit from better employment opportunities, higher incomes than in their home country, ability to remit, and a better standard of living including socio-cultural aspects.

In many studies, international migrations are almost entirely related to economic factors, such as income differentials and employment opportunities. It is rooted in neoclassical theory that the movement of people is caused by wage differences between countries, meaning that decisions to migrate are mainly driven by cost-benefit reasons. Given free mobility, workers move from countries with lower wages to those with comparatively higher wages.

According to a human capital theory, people migrate if expected returns reduced by migration costs are bigger than in the home country. Here migration costs include traveling, information, income losses, as well as psychological costs of leaving the family, friends and the home country environment (Bauer, 1997).

While classical migration theories look at migration as a loss of valuable assets for sending countries; contemporary views are more focused on positive effects of migration - remittances flows brought to the home country. According to Schiff (2005), the positive impact of migration is quite marginal, while Stark (1997, p.233) claims that migration of high-skilled workers may contribute to a higher average level of human capital per worker since "prospective migration favorably alters the incentives of a poor country's workforce to invest in human capital formation". Therefore, the net welfare effect from migration has no distinguishing path for the home country.

Another theory that contributes to explanations about migration is New Economics of Labor Migration, where migration is seen as a strategy to diversify family's sources of income. In this theory wage differences are not a necessary condition for migration decisions (Russell, 1996)

2.2 Remittance Theories

Many migrants send a portion of their earnings back to their home country. These flows of foreign currencies have been a critical means of financial support for several generations. Reaching millions of households, their impact is recognized in all developing countries around the world.[1] In general, migrating workers can be characterized by moderate expenditures and high level of savings. Migrants staying in their host country with their family tend to remit to their relatives remaining in their home country less, than those who are working abroad alone. Studies have shown that the flow of remittances tends to decline with the length of migrants´ stay, meaning that the ties to the home country grow weaker, and so the amounts remitted are decreasing (Stalker, 1994).

While some migrants remit in favor of themselves, others do so to support family in their

[1] Approximately 10% of the world's population relay on remittances totally or partially.

home country. The theories underlying the motives for remittances suggest that transfers are made purely out of concern for the family.

2.2.1 Motives to Remit

In order to understand motives behind remitting behavior, two main reasons for remitting should be looked at.

The earliest literature on remittances[2] claims that reasons for remittances are purely altruistic ones – caring for the family or relatives left behind in the home country. The altruism model shows a positive relation between migrants´ wages and the magnitude of remittances - the higher the migrant's income, the larger the remittances. The amount remitted is also complimented by the household income, the size of the household and the consumption level of the recipient households. Remittances are larger the lower the income of the receiver (Lucas & Stark, 1985).

More recent studies have been focusing on self-interest motivation for remitting, where the determinant factor for the magnitude of remittances is the migrant's return on investment in the home country, and the difference between this return and the return in the host country (Addison, 2004). The theory regards family as a business unit or agents that will be looking after the migrant's investments while they are abroad. In this case, remittances are used for managing migrant's interests as well as some compensation for agents. According to self-interest theory, remittances will increase with higher return on investment, future possibility of returning home, business opportunities and other investments that can be secured by family members left behind (Stark, 1997). The amount of money remitted is positively related to the income size of recipient households.

Even though reasons for remitting may seem to be purely self-interest at first sight, research has shown strong evidence of altruistic motives justifying much of the remittances. Migrants are expected to live up to their obligations and family expectations. Altruism in this case is the migrant's concern about income or consumption levels of his/her family in the home country (Chami & Fullenkamp, 2005).

[2] Stark in 1991 studied motives for remitting

2.2.2 Determinants of Remittances

In most of the literature on remittances, determinant factors are mainly analyzed from a macroeconomic perspective. Variables that are primarily looked at include worker migrant's and his family's socioeconomic characteristics on one hand and migrant's personal motives on the other.

Russell (1996) argues that time passed abroad, the income level of the migrant's family, job situation of other family members, education level, work experience and marital status of the migrant are among the main socio-demographic determinants of remittances. Other factors such as the number of children, their education level, as well as the economic situation of the migrant before migration were later on added by Ilahi and Jafarey (1999).

Russell argues that the following factors are supposed to have a positive impact on remittances: number of workers abroad, economic activity in the host and origin country, facility of transferring funds and the marital status of the migrants (married migrants tend to send more). Among factors that have a negative influence on remittance flows are political risk factors in the remitting country (the larger the risk, the smaller the willingness to remit), ratio of females in the population of a host country (the larger the ratio of females, the smaller the remittances), number of employed members in the household, level of education and occupational level of migrants (it is assumed that poorer households tend to send members with lower education and skills level abroad so that the propensity to remit is greater). There are also factors that may have a positive or a negative impact on remittance flows, depending on a country and/ or the household structure: wage rates, exchange rates, relative interest rates, and years since out-migration (Ramamurthy & Bhargavi, 2003). It is assumed that the length of the migrants' stay in the host country influence its tendency to remit to the country of origin. As the time goes by, migrants consider themselves as permanent residents in the new home country with their own independent household. Generally, less contact and weaker ties with family members back in their home country leads to a decrease in the amount remitted (Chami & Fullenkamp, 2005).

The decision-making process for remitting appears as follows: 1) "a pool of remittances" is generated from migrant's foreign disposable income which is determined by several above mentioned factors; 2) then, the migrant makes a decision whether to send remittances or keep them in the host country; 3) if the migrant decided to remit, the next question is whether to do so via formal or informal channels; 4) once the amount of remittances is decided upon, the migrant and recipient households decide if remittances are to be consumed or invested/saved.

2.2.3 Use of Remittances

The way remittances are used by recipients is an empirical question. Remittance-recipient households are expected to act rationally, spending their remittances to yield higher profits (Glytsos, 2002). Three facts emerge from the literature (Chami & Fullenkamp, 2005): (1) a significant proportion (often a majority) is spent on consumption; (2) a significant (but smaller) portion is saved or invested (houses, land, and related expenditures such as renovations); and (3) savings and investments are not necessarily productive for overall economy, since the purchase of a house or land is not a productive activity.

The majority of remittances are aimed at improving financial situation of recipient households. The migrant's family members that remain in their home country, enjoy a higher standard of living. In richer households, transfers may provide capital for small businesses and entrepreneurial activities. In poorer households, remittances are mostly used to finance basic consumption goods, housing, food, and health care. This fact does not take into account that education is classified as consumption and that the expenditures on education is investment in human capital. In both, the short and long term, investment in education implies an improvement of the educational infrastructure of the sending country. Although remittances finance investment in education, their net effect on human capital development can be negative, since migration can potentially lead to a brain drain.

In those cases when remittances are not considered as being spent on productive investment and development, the investment in human capital might achieve the goals that any investment may be expected to attain.

2.2.4 Remitting channels

Generally, remittance transfers are taking place through formal and informal channels. Formal channels are money transfer organizations (MTOs) that are registered and regulated by authorities, and banks operating as MTOs. Formal channels are more easily monitored. Regulated organizations report frequently to the central bank about the size of remittances sent through their organization. There is no incitement for reporting wrong information. Even though remittances that were sent formally are reported regularly, it is still hard to measure their size. The diversity of methods used to transfer capital (electronic transfers, money orders, drafts) makes it hard to differentiate which amount is to be considered as remittances and which is not (Martinez, 2005). Whenever an ATM dual card is used for remitting, it is impossible to observe whether the money was withdrawn by a foreign tourist or a remitter.

As far as informal channels are concerned, the most common ones are hand carrying and hawala system. Remittance flows transferred informally are harder to estimate and thus difficult to analyze their effect on the economy. Due to the lower transaction costs, informal channels are very much used by migrants from countries where the formal sector is underdeveloped, exchange policies are restricted, and transaction costs are high (Freund & Spatafora, 2005). It is important to note, that a considerable amount of money is carried home by migrants themselves. Choosing such method of transferring money, migrants are taking the risk of being stopped and asked questions about the origin of capital if the amount is higher than permitted or more than declared. This system is partially built on people's trust since custom agent can not stop and search everyone, so migrants find it in their interest not to report the full amount carried home. Market observations on the global level estimate that the size of informal transactions ranges from 35 to 75 percent of the recorded size (Freund & Spatafora, 2005).

2.2.5 Impacts and Implications of Remittances

The impact of remittances on the economy varies over time. Generally, remittances can create a positive impact on the economy through various channels. The contribution to growth appears to be positive in the short term. As described by Glytsos (2002), there are two major channels through which remittances can affect macro-performance of the recipient country. Firstly, as foreign exchange through the balance of payments, and secondly, as income that is saved, invested or consumed.

One major impact of remittances is its effect on the current account of BOP. Remittances help rising national income by providing foreign exchange as well as providing foreign currency to finance essential imports (Taylor, 1999). Foreign exchange influences economic development and growth through demand and supply factors. The financial inflows result in short- and long-term implications for the economy. In the literature, the lack of foreign exchange is described as an impediment for development (Glytsos, 2002). Extra inflows of foreign exchange from remittances contribute to the reduction of balance of payments deficit. Improvements are likely to happen due to increase of the total amount of money in circulation with no impact on the inflation rate, but stronger national currency (Ramamurthy & Bhargavi, 2003). However, the appreciation of the national currency may make the economy less competitive internationally and thereby cause the deficit in the external current account, e.g. Dutch disease.[3]

According to traditional economic models, saving remittances can lead to higher investments, increased consumption and economic growth. While the inflow of remittances is expected to increase investment in the receiving economy, their effect on the receiving country is different, if remittances are consumed.[4] If remittances are used for purchasing imported goods, it can result in trade deficit and higher inflation (Ramamurthy & Bhargavi, 2003). The potential risk of inflation occurs in the case of increased demand and unresponsive supply. Researches have proved that in some economies, remittances have forced inflation leading to rising imports. Moreover, negative correlation between remittances and GDP growth, suggests that remittances are compensatory in nature – they are compensating for poor economic performance instead of acting as capital to finance productive investment and thus stimulate economic development (Chami & Fullenkamp, 2005).

Another negative impact of remittances is that they make households dependent on the extra source of income, undercutting recipients' incentives to work. Heavy reliance on remittances is not only risky for recipient households, but also for the receiving economy in general, taking into consideration that remittances often constitute more than 50 per cent of the household income that is used for consumption. Therefore, the decline in remittances would imply a drastic decline in consumption, and thus distort development and even cause an economic slowdown (IOM, 2005).

While recent studies in some Mediterranean countries point out that remittances may have negative impacts on growth (Glytsos, 2002), others argue that negative relationship between

[3] Dutch disease occurs when an inflow of foreign currency raises the value of that nation's currency, making domestic goods less competitive with other nations, leading to increasing imports and decreasing exports

[4] Taylor (1992) argues that remittances are normally spent on consumption and not investment in the productive sector

remittances and growth may simply reflect the counter-cyclical nature of remittances.[5]

To sum up, the effect of remittances on output and employment depends on the end-use of transfers. The effect would be larger if remittances were geared more toward investment expenditure. If remittances are used for consumption, then the stimulation of production would come through the multiplier effect, especially if the economy is operating below capacity.

3. Migration and Remittance Patterns In The Ukraine

3.1 Terminology

3.1.1 Methodological Problems

Currently, the statistical community is developing better measures for remittances flows where the decisions are to be made as to which items must be included and which are to be excluded in calculations of remittances. Although the research in the field is advancing, the big problem is to obtain a reliable data. The main constrain in this process is the methodology of calculations which results in rather significant discrepancies. Furthermore, measuring remittances represent another challenge, since the large part of the remittances are transferred through informal channels, which means that theses transfers do not appear in the official statistics. According to Chami and Fullenkamp (2005: 64) "…the lack of common methodological and statistical coordination between the countries hinders general inference of the subject."

3.1.2 Definition of Remittances

Remittances are measured differently around the world, and in order to be able to compare remittances between countries, data has to be harmonized. In 2005, IMF has developed a manual according to which remittances belong to a group of items classified as Transfers in the Balance of Payments (BOP). Transfers are defined in Balance of Payments Manual, 5th edition (BOPM5) as offsetting entries for real sources or financial items provided by one economy to another.

According to IMF Balance of Payments Statistical Yearbooks, standard measures on

[5] Influence of growth on remittances rather than vice-versa

remittances are based on the three items: (i) “workers remittances” – money sent by workers residing abroad for more than one year; (ii) “compensation of employees” – gross earnings of foreigners residing aboard for less than a year; (iii) “migrant transfers” net worth of migrants moving from one country to another.

3.1.3. Measurement Problems

Official statistics only include remittances sent through formal channels. These statistics are primarily collected and reported through the Balance of Payments framework, but they are incomplete or often not comparable in many countries. Officially recorded estimates significantly underestimate the real magnitude of remittance flows. Model-based estimates and household surveys suggest that informal flows could add at least 25 per cent to the official estimates, with significant regional variation.

Remittances sent through postal orders do not have the information of whether the sender has lived abroad for less or more than a year. Therefore, it is difficult to register this money in any of the categories workers' remittances, migrants' transfers or compensation of employees. Additionally, there are shortcomings in statistics of personal imports: migrants' duty free imported goods or goods brought along as personal luggage or gifts, and savings that are brought home to be converted into domestic currency at local banks (Ramamurthy & Bhargavi, 2003). Furthermore, remittances in kind (such as clothes and other consumer goods, jewelry, etc) are not officially registered either.

3.2 Extent of Migration

Though there are no definitive data on how many Ukrainians have emigrated, it is generally agreed that this number has increased significantly in the past few years. Data obtained from different sources (official versus unofficial estimates), shows a very large discrepancy in numbers. According to the World Bank (2006), 10% of the entire Ukrainian population or almost a quarter of the population (23.2%) of working age are working abroad. That is up to five million people. Beyond this number, a survey conducted in 2005 found that the approximate number of Ukrainians working or looking for a job abroad was about four million, consistent with the WB estimates. Additionally, about 50 percent of respondents expressed interest in working abroad. Available official estimates (source: SSCU) on labor migration show much more modest numbers, yet it confirms that the number of migrants is rather large when compared with an economically active population of 20.7 million in 2008.

In the early 1990s, there has been an ongoing emigration of high-skilled and professional people. According to studies conducted in 2000 by Docquier and Marfouk, more than 246 000 high-skilled workers left the country. As for the highly-qualified migrants (with doctorate degree), since 1991, there were 675 doctors of science and 1.151 specialists with Ph.D. degree that permanently relocated (SSCU). Main receiving countries of highly-skilled and educated Ukrainian emigrants were Canada, the United States, Israel and Germany.

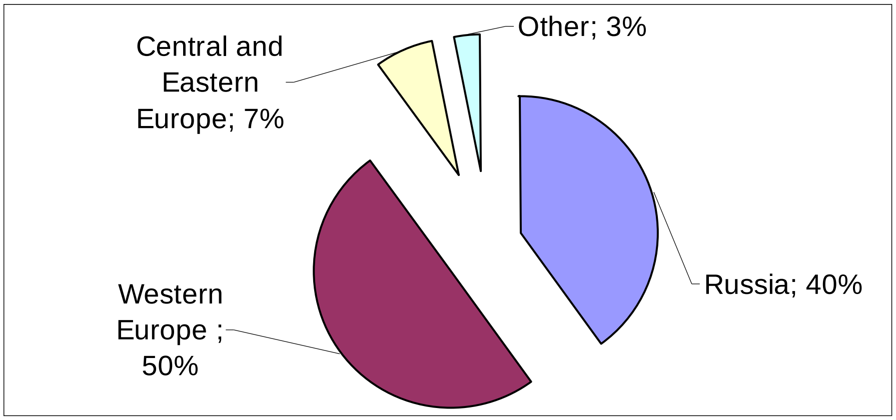
It has been estimated that there were 893 000 Ukrainians living in the US in 2000.[6] Canada has been, and still is, a popular country for migration. In 2001 there were an estimated 1 071 000 persons of Ukrainian origin.[7] Unlike low-skilled migrants traveling for short- or long-term periods, highly-skilled emigrants were interested in permanent relocation and settling in a new country.

One of the major migration flows in the late 1990s were directed primarily towards Russia, as the country was doing comparatively better in its transition period to market economy and stabilization of socio-economic situation. Due to cultural and linguistic similarities, and, even more importantly, a non-visa regime for Ukrainian citizens, Russia is the most popular destination for migration. About 1.5 million Ukrainians are to be found there. The majority of them are men, working on constructions and other low-skilled jobs.

As far as Western Europe is concerned, about 60% of all migrants are employed in countries which are members of the enlarged EU. The most attractive destinations are Poland, The Czech Republic, Italy, Portugal, Spain, and Germany. According to the most recent survey, out of the ten most popular countries, 4 EU member states are topping the list (Italy, Portugal, Spain, and Poland). Ukrainian migrants in the enlarged EU earn their wages mainly in low-skilled jobs, often on the short-term basis. They are engaged in economic sectors such as agriculture (16%), construction (57%), industrial sector (6%), care and services (21%), (Jakubiak &. Kolesnichenko, 2006). Figure 1 gives an overall picture of directions for temporary migration in Europe.

[6] U.S. Census Bureau
[7] Center for Ukrainian Canadian Studies

Figure 1. Main Directions of Temporary Migration in Europe



Note: Western Europe: Italy, Portugal, Spain, France, Germany, Belgium. Central and Eastern Europe: Turkey, Greece, Check Republic, Cyprus.

3.2.1 Decision to Migrate

Although the Ukraine has always been involved in numerous migration movements in its history, migration patterns in the last decade of the 20th century were unique. Since its independence in 1991, the Ukraine actively participated in international migration which appeared as a result of economic and political transformations in the country.

In the 1990s, the considerable number of cross border movements between the Ukraine and neighboring countries (Russia, Poland and Hungary) consisted of short-term trips undertaken by people engaged in petty-trade. By buying and selling goods, people would gain profits from prices and exchange rate differences. At that time, approximately 20% of the working-age population was engaged in such shuttle trade.

During the first years of independence, the Ukraine's economy entered into a period of transformation from a planned to a market economy. Fundamental changes in social structures encouraged growth but at the same time resulted in the rise of unemployment and, as a consequence of that, labor reallocation. Discouraged by poor job opportunities and low wages at home, migrating or working in the shadow economy were the only options for many Ukrainians. Increasing income gaps in Ukraine and EU countries heated up the interest of Ukrainians towards employment opportunities abroad. According to the survey, motivation to migrate was generated by higher wages (58% of respondents) and good employment chances abroad (37%).[8]

Massive and accelerating emigration since the late 1990s was not solely due to push factors associated with the difficult transitory period and a lack of employment opportunities; some pull factors also played an important part. Once Ukrainians were established abroad, relatives and friends back home found it easier to join them in the host country – usually in the same city and, at least temporarily on arrival, in the same living quarters.

Most often, Ukrainians decide to migrate due to 1) difficult economical situation in the country (30%); 2) willingness to earn more and live in better conditions (25%); 3) unhealthy environmental conditions (12%).

3.2.2 Migrant's Profile

Migrants can be characterized according to the following estimates: place of origin, educational level, employment status, skills and other characteristics (Asch, 1994).

While the majority of Ukrainian migrants (32%) are from rural, agricultural regions, there are about 28% of migrants from small and medium cities. The level of education among permanent migrants is distinctly above average, but for seasonal and temporary workers the opposite is true. Most migrants with a below-average level of education go to Russia, where salaries are lower. Many were unemployed (40%) or had an income lower than the basic household expenditures (30%). The majority of migrants are men (60-65%) of 35-40 age group; female migrants are older (40-50 age group). In relation to the duration of the migration period, every second migrant makes seasonal short-term trips (1-6 months); every fifth migrant goes for long-term work (1.5-2 years), (Pribitkova, 2009).

Attachment to the home country is very important for Ukrainian migrants. Many of them prefer to go abroad either as seasonal or nonpermanent migrants so that they can still be in touch with their families. At the same time, about one third of migrants reside in the host country and only a minority of migrants intends to move abroad permanently.

3.3 Remittances

As far as remittances are concerned, their role as an international financial flow for

[8] Data from the Household Survey carried in 2005

providing additional sources for development as well as consumption expenditures has been given a very little attention by government officials. Unfortunately, no in-depth studies have been done regarding remittance flows. The data from different agencies, both national and international organizations, is far from reliable, as it is based on incomplete information and thus very much varies. Estimation of remittance trends is complicated by the extended use of the informal transfer channels that are not included in official statistics.

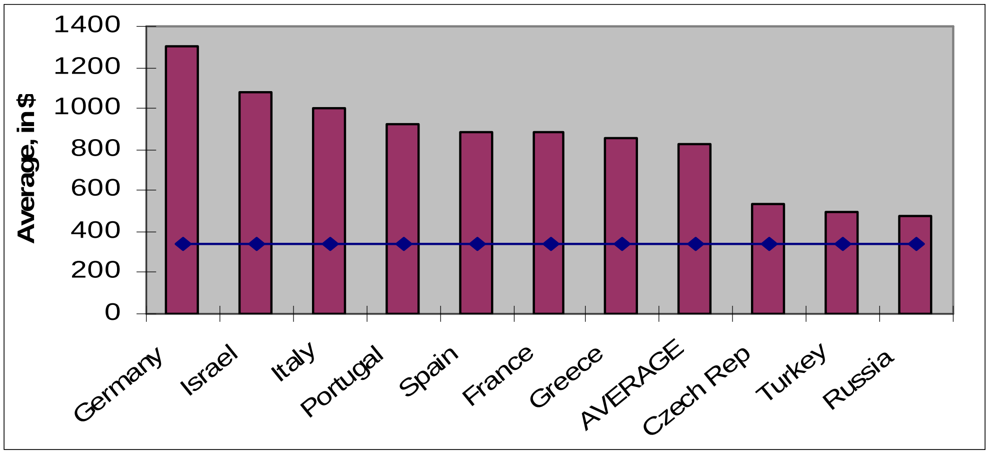
According to the World Bank, officially recorded remittances were only $829 million in 2006.

Due to the changes in the recording of migrant transfers, the numbers presented by the WB for years 2007 and 2008, are considerably larger (4.503 and 5.769 US$ million respectively). Such a significant change should not be regarded as a real growth in the remittances; instead, it should indicate that the data presented by the WB for the last two years of the analyzed period represents more accurately the real volume of transfers. Information obtained from NBU for the period 2001-2006 revealed far higher numbers, while the flows recorded by NBU during 2007-2008 differ only slightly from those presented by the WB. According to the Department of migration studies, about 25 per cent of remittances were transferred through informal channels (including those that were brought by migrants themselves). In order to reflect that and perform more accurate analyses, the official data on remittances obtained from NBU were adjusted accordingly (Table 11).

3.3.1 Remittance Trends and Flows

The average monthly earnings of migrants are estimated at $843 which is almost 2.5 times higher than the average salary in Ukraine in 2008. Earnings vary according to the host country and type of migrant. Migrants to Russia have the lowest earnings, while migrants to Western European countries have the highest earning levels (Figure 2 and Table 1). Earnings level increases with the level of education of the migrant and their status in the host country (i.e., legal or not).

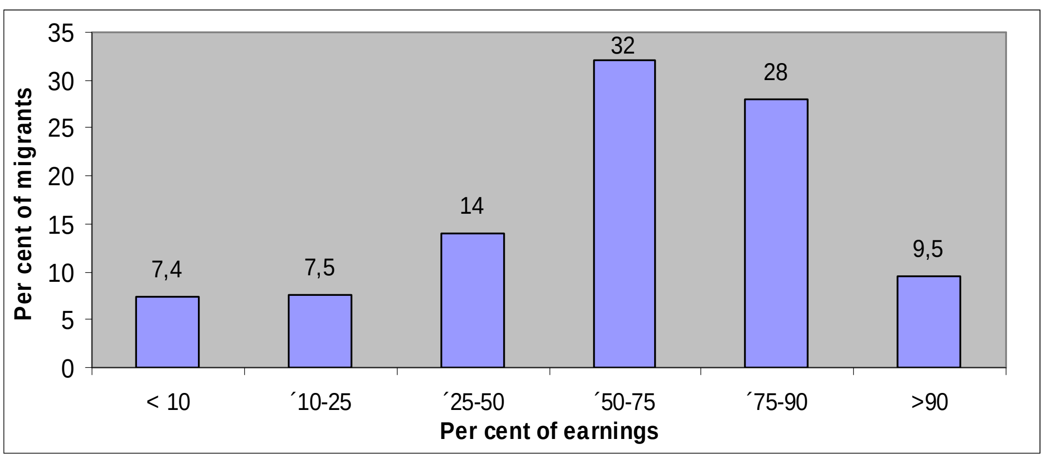
Figure 2. Earnings received by Ukrainian Migrants



Source: OECD, SSCU, 2008 Note: blue horizontal line indicates average salary in Ukraine in 2008

According to the survey, about 70% of migrants transfer significant portions of their earnings home. Those that do not remit are either recent migrants or young migrants who often have no family obligations and probably accumulate savings. Those who do transfer money home, tend to send large portions of their earnings. Seventy per cent of migrants remit 50 % or more of their earnings (Figure 3). Almost half of migrants send money within three months of the departure. According to the survey, people migrating to Russia, Portugal, Spain, Italy, and the Czech Republic transfer money faster than people who go to other countries, thus reflecting the fact that it is easier to find an employment in these countries.

Figure 3. Percent of Earnings Sent to the Family



Source: Calculations based on data from SSCU

As far as remitting mechanisms are concerned, the information presented by the Department of Migration studies in Ukraine indicates that informal channels remain to be very common (representing about 25% of all transfers). Migrants bring money personally, ask relatives or friends to carry money or even send money hidden in parcels transported by bus drivers. Transferring money through formal channels, bank transfers, rapid transfers through money transfer organizations (Western Union, MoneyGram, Unistream, and Contact) or post offices, is the most frequently used method (about 80% of migrants do so). The remaining 20% of migrants transport money personally. The choice of transfer depends on the category of migrant. Permanent migrants in Western European countries prefer to use bank and rapid transfers, while seasonal workers´ preference is to bring money themselves.

Remittance flows are usually expressed as a percentage of GDP or percentage of merchandise export. For most countries, remittances account for about 1% of GDP (Ramamurthy & Bhargavi, 2003). As a percentage of merchandise exports, the relative share for developing countries ranges from 25-50%. Both allow for large fluctuations (Ramamurthy & Bhargavi, 2003). In 2008, worker's remittances accounted for US$7.26 billion, which is 4.03 per cent of GDP. Another measure to express remittances can be remittances per capita (Figure 4). The remittances trend per capita reflects the general aggregate growth, reaching in 2008 the amount of 157 US$. Yearly per capita increase is largely a result of inflows growth, and not so much because of a decrease in population (during 2001-2008 population decreased by 2.42 million). While remittances appear to be a rather significant for receiving households, as a percentage of the total income per capita, they represent only a very small share, since not every household benefits from them.

Figure 4. Remittances per Capita for the Period 2001 -2008

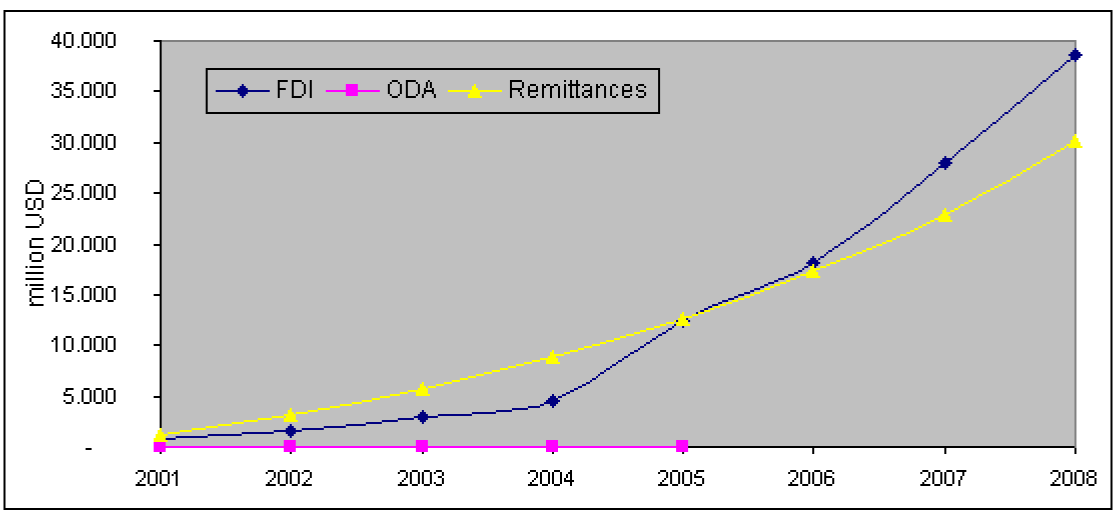
	2001	2002	2003	2004	2005	2006	2007	2008
Remittances, US$ mln	1.243	1.898	2.520	3.175	3.756	4.697	5.644	7.260
Remittances per capita,	26	39	53	67	80	98	121	157
Remitances / per capita income, %	3,6%	4,9%	5,4%	5,3%	5,2%	5,0%	4,7%	4,9%

According to Ratha (2003), foreign direct investments are the largest source of financial flows to developing countries. In the case of the Ukraine (Figure 5 and Table 2), during the first part (2001-2004) of the examined period, the remittances had been the primary source of the foreign exchange with almost 50% difference. The large FDI inflows in 2005 eliminated the difference, and from 2006 onwards, the accrual FDI inflows have surpassed the remittances inflows by 20%. It is also important to note that the average growth of FDI growth during the examined period was 78%, while the average remittance growth was 30%.

Official Development Assistance (ODA) to Ukraine is relatively small and declining, constituting about 17% of the remittances flows.

Although for the last three years, the remittances have been lower than the FDI inflows; migrant transfers represent an important source of foreign exchange into the country. While the FDI flows remain higher than the flows from working migrants, the favorable investment climate must be promoted further in order to maintain or, perhaps even, improve the investment attractiveness of Ukraine and thus stimulate the economy.

*Figure 5. Capital flows to Ukraine 2001- 2008**



Data for ODA is still not available for 2006-2008 Source: Compilation based on data from OECD and SSCU
* Numbers presented on accrual basis

According to the findings presented in the figure 5, remittance inflows have been increasing consistently over time, and have not been significantly affected by the political and economic situation in the country. During the examined period, remittance flows have increased by 5.8 times. Thus far, they have been a rather stable and reliable resource of foreign exchange.

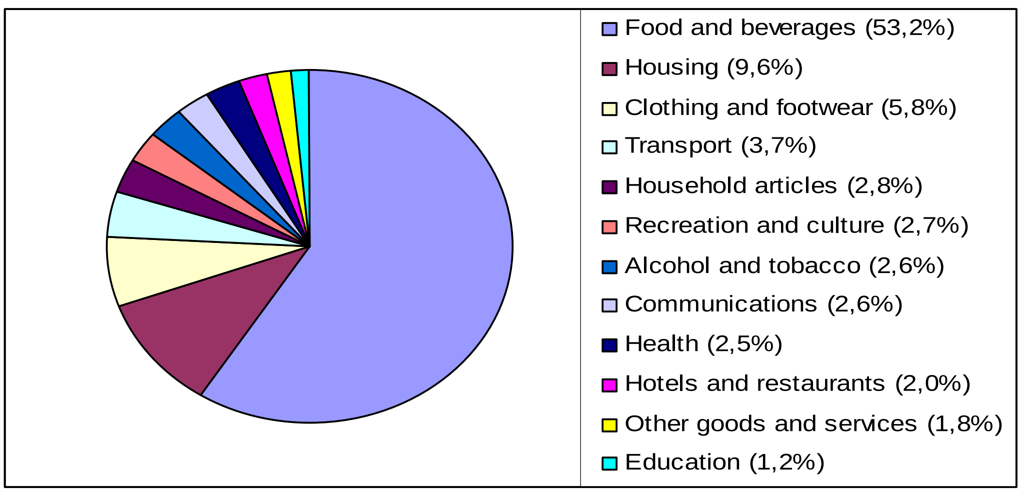
4. Remittances and Household Economy

Household economy is a complex pattern of different types of income earned by various household members, where increasing tendency and magnitude of remittance income represent a substantial weight. Considering that the income of a large number of households is influenced to a great extent by transfers sent from abroad, the role of remittances in the Ukrainian household economy will be further studied in this chapter.

4.1 Household Consumption

Households are classified according to their income and expenditures. In 2008, the household consumption represented 86.2% of the total expenditures, out of which the consumption of food and beverages accounts for almost ½ of total consumption expenses (Figure 6). Other top three expenditures include: housing, clothing and transport (purchasing and maintenance of vehicles).

Figure 6. The Average Household Expenditures

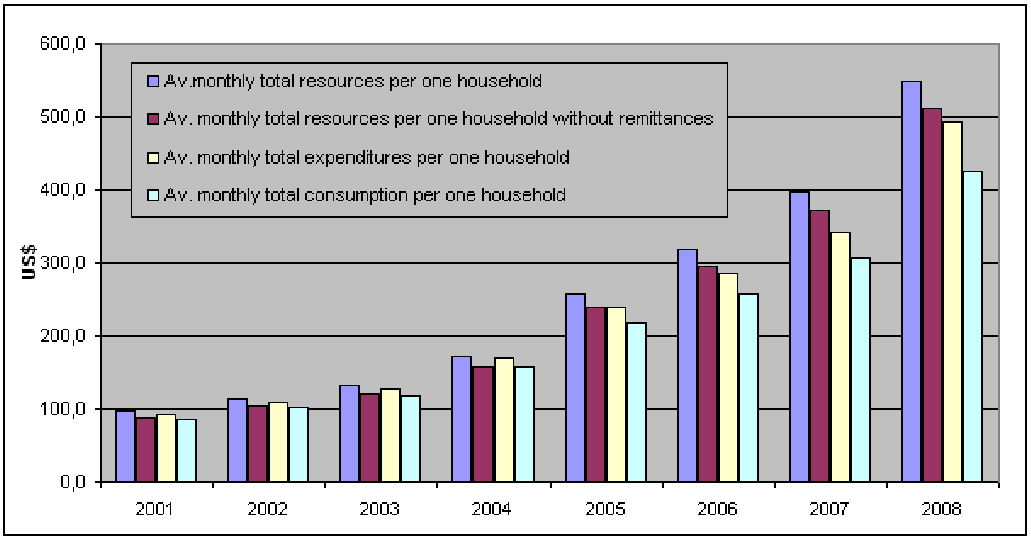


Source: Compilation based on data from SSCU

4.1.1 Remittances and Household Income

On average, remittances represent about 7.7% of monthly total available household resources (Figure 7 and Table 3). The difference between total available resources and total available resources without remittances has increased by 4.6 (from \$8 to \$37), while the ratio of remittances in the average monthly total resources per one household decreased from 8.4% in 2001 to 6.8% in 2008.

Figure 7. Average Household Consumption and Income With and Without Remittances



Source: own estimate based on the data from SSCU

Considering that for many recipient families, remittances represent a large share or their income, there is a positive correlation between contribution of remittances to the family income, savings and consumption.

4.2 Remittance Receiving Households

According to NHS, about 25% of households in the Ukraine receive remittances. In rural regions, the percentage of receivers is considerably higher (about 30%) than in small towns (15%) or urban areas (9%). In the Western part of the country, there are almost 25% of households that receive remittances, in the south and central regions the number is just over 10%. An average monthly amount received is \$160 (the number does not take into consideration transfers done through informal channels); a median recipient receives remittances 10 times a year.

Single households with children are major receivers of transfers. For this group of receivers, remittances have been an important source of supplemental income as transfers account for about 40% of their total income. In many cases, remitters are spouses working abroad who remit significant amounts of money to their wives and children left back home. Remittance-receiving households are generally better off economically than the average citizen living in the same region. Higher consumption level of these households indicates that their basic consumption needs are met.

Another group dependent on remittances is single retired people aged 60 and older. These households have the lowest consumption level, especially women over 65 years old. Normally retired households are the worst off social group, as the average pension in the Ukraine is approximately $140. Remittances reaching these persons are sent by children or relatives working abroad.

4.3 Motives Behind Remittances

Motives behind remittances in Ukraine are linked to family ties and kinship between household members, who need support or are dependent on remitters. As stated earlier, the main motive has been to provide satisfactory standard of living, purchase of a land or a family house.

As far as family homes are concerned, for many Ukrainian households the remittance income is seen as the only way to become a property owner. New housing policies and reforms, which occurred after the Ukraine's independence, initiated the privatization of the former state owned flats in the late 1990s. Later on, the perception of owning a flat or a house became a dominant status for most households. Even though the government subsidies for housing in combination with tax reduction created more favorable climate for house purchasing, the rapid growth of real estate prices made it almost impossible to earn the necessary sum at home. Local salaries and prices are absolutely disproportional. Of course, high house prices can be explained by higher demand which was partially fuelled by purchasing power of remittance-receiving households.

House purchasing, depositing money and plans to make business investment, indicate the migrants´ intentions to return back home at some point in the future and keep them motivated to remit as much money as they possibly can. Remitting for above mentioned purposes can be characterized as "desired", while remittances used for supporting household consumption needs are more of a "required" nature.

4.4 Use of Remittances

The effect of remittances depends on the way how receivers use the money. Researchers have found that in the Ukraine most of the remittances are spent on basic household expenses, improving standards of living through better housing, education, and health care.

According to NHS, 51 % of money is used to meet current consumption needs (e.g. food, clothes, and basic household commodities). Almost 25% of remittances are used for education, health and household durables. Another 20 per cent is spent on a house purchase or renovation. Only 4% of money received from abroad is used as a working capital or for small business investments (e.g. land, farm, machinery, market stands). While receivers have a high propensity to consume (most of the remittance income is spent rather than saved) there is nothing indicating that remittance-receiving households spend a larger share of their total income on current consumption than do non-remittance receiving households. As for the size of savings, even if their share in total available income is not higher, the total amount is likely to be greater as they have higher total available resources as a result of the supplemental income.

The survey also revealed that women are more likely than men to use money for education, health or savings. The gender difference in the income allocation is supported by the fact that female bargaining power in the household can generate a more effective resource allocation.

4.5 Determinants Behind Remittances

Given remittance scale, trends, and role in the income of Ukrainian households, analysis of determinants and how different variables affect remittances is required. Due to the lack of relevant data on the national level, the current analysis of determinants is based on the information obtained from a survey carried out by the author.[9] In general, the survey revealed that determinants behind remittances of Ukrainian migrants who work in Portugal are affected by nearly all variables defined earlier in the paper (subsection 2.2.2). The overall impact of

[9] Survey took place in January 2010; it was conducted among 112 Ukrainian migrants working in Portugal (questionnaire is presented in annex)

these variables on determinants goes along with the arguments proposed by Russell, Ilahi, Jafarey, and Ramamurthy.

The survey revealed that that neither gender nor age is significantly affecting the ability to remit. In relation to the migrant’s age, elderly Ukrainian migrants remit more than the younger ones. The main explanation to it is family obligations. An ability to find a better-paid job, where migrant’s skills could be applied is also has an effect to the amount remitted. It also has been noted that the educational level of migrants has a general positive effect on remittances, exceptions made when migrants are working in seasonal low-skilled jobs or do not speak the local language.

Marital status and, even more importantly, the number of children left back home notably affect the share or migrants´ earnings remitted to their family. If children are young and have yet to get an education, then remittances are primarily saved for the university/college studies.

With respect to the time passed abroad, the majority of respondents noted that a longer stay in Portugal enabled them to find a better job than they had upon arrival (meaning that they are earning more and, consequently can transfer back home larger amounts). The same time, there were many respondents for whom the time since arrival did not have any positive effect on the amount remitted, as their expenditures increased along with their earnings.

As far as the income level of recipients is concerned, remittances appear to be sensitive to this variable, though in a different manner. Remittances used for investment purposes increase with the household’s income level. If the income level of a family is small, the additional income received from abroad is not very big either. While the level of remittances is varying depending on the income of the receivers, the share of the remittance income in the total income is roughly the same.

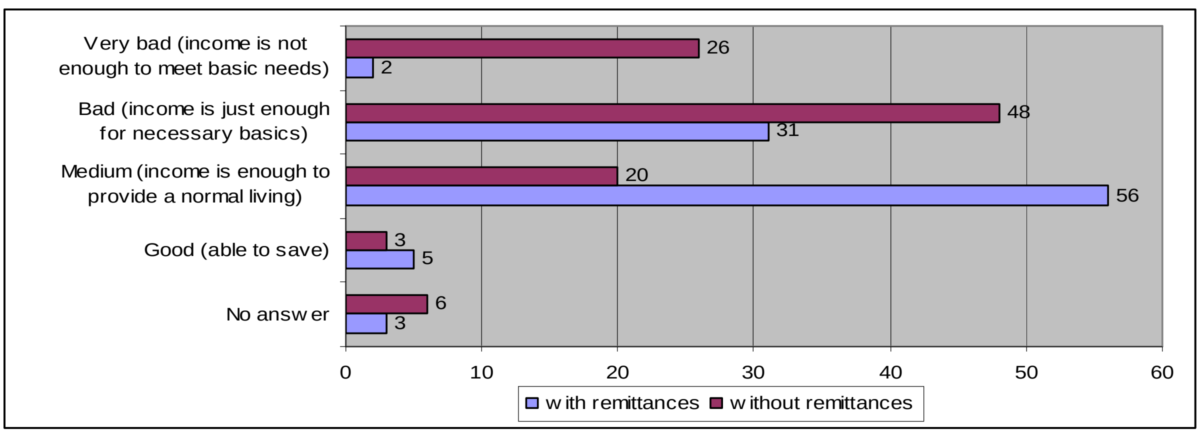
Talking about the mechanisms of transferring money, conditions have been made for the easy flow of money from Portugal. Although political risk in the Ukraine is considered to be a determinant, it does not seem to have an immediate effect on remittances. Migrants continue to transfer money back to their families, though the willingness to remit might be smaller. During the periods of political instability, migrants are more preoccupied with the long-term future of their family. More frequently, they consider the possibility of a more permanent stay in Portugal with the prospects of bringing in their family.

4.6 Effect of Remittances on Household Welfare

Analysis of the effect of remittances has to take into account the broader costs and benefits of the migration experience for individuals and households. According to a study conducted by Malynovska (2007), remittances have both direct and indirect effects, though the magnitude of their impact depends on whether they are consumed or invested.

Resulted obtained from the survey indicated that, overall, remittances have a positive effect on household welfare. Serving as source to diversify the income, remittances help smooth the household consumption, and so, minimize the effects of economic shocks. Households with remittance inflows have better welfare than households without migrant's financial support. For the majority of households, remittances helped improve their financial situation and move up to a higher income group. While for 41% of interviewed households, remittances notably improved their financial position, 43% of respondents felt that the income from abroad helped them but to a lesser extent. As a result, the number of households with "bad" and "very bad" financial position decreased by 2 times, while the "medium" group is significantly larger (Figure 8).

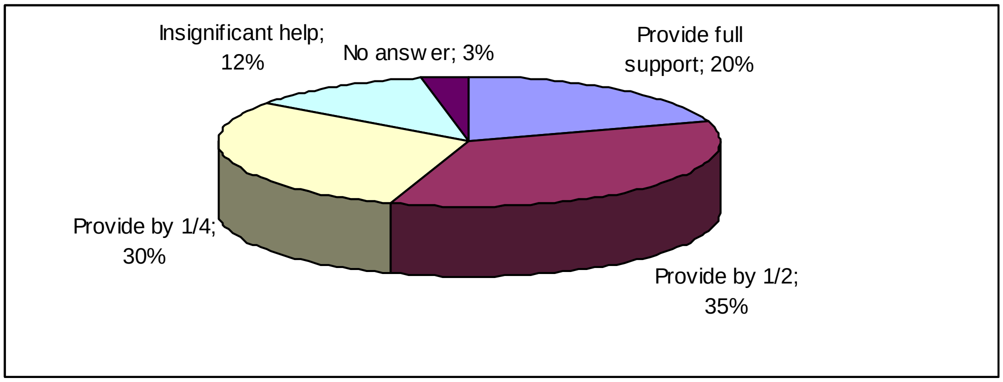
Figure 8. Impact of Remittances on Financial Position of Households (in percent)



Source: Institute of Migration

Reliance on remittances depends on the income size of recipient households. In those households where remittances represent only an insignificant share of the total income, the remittances' help is smaller than in families where remittances constitute a larger share of the total income. Remittances are a substantial supplement for majority of recipient households; they are main source of income for more than 50% of respondents´ families (Figure 9).

Figure 9. Remittance Support to Receiving Households



Source: Institute of Migration

The fact that the significant part of remittances is used for consumption and only a small portion is used for investment purposes clearly indicates that remittances have a short-term impact on household welfare. In regards to education and house or land purchasing, here remittances have a medium-term effect. In some years, young household members living in the family house will need their own place, and, unless economic conditions in the Ukraine allow them to earn necessary amount in their home county, the migration cycle will have to be repeated.

4.6.1. Remittances as a Contributor to Poverty Reduction

Talking about social effects, it is important to analyze remittances as a contributor for poverty reduction. Measuring the poverty impact of remittances is difficult: data is scarce and calculating the income gains from remittances requires assumptions concerning what migrants would have earned if they had stayed at home.

There are two terms in which poverty can be measured – absolute or relative. The absolute poverty line is based on a minimum consumption basket of food and non-food products (Bourguignon, 2006). In Ukraine, the absolute poverty line corresponds to around $1.4 per person per day in 2006 prices[10]. The proportion of the population living on less than the minimum required was 8% in 2007, which is a 23.7% decrease from the year 2001.

[10] This poverty line was developed jointly by the World Bank and Ukrainian experts. The minimum consumption basket set by the Government of Ukraine is equal to $2.3 per day per person, meaning that the percentage of the population living below poverty line would be greater

Amongst many factors that influenced poverty reduction in Ukraine, remittances only played an important part when poor people gained as a result of additional financial inflows. As it is impossible to identify by how much exactly poor people benefited from remittances on the national level, the assumption based on the information presented in figure 8 suggests that remittances had a significant contribution to the severity of poverty on the individual household level.

With regards to migrant's profile, the typical Ukrainian migrant was unemployed or had an income insufficient to meet his/her basic needs, meaning that he or his family had an average or low income but did not necessarily belong to the poorest group. In this case, remittances had a direct impact on poverty reduction in the short term, since they went directly to poor households and were used mainly for basic needs, such as food, clothes, housing, education, and health care. Even though, the largest part of the remittances was consumed and not used for "productive" investment, spending on basic needs generated local multiplier effect that made up the basis for poverty reduction in the region.

4.6.2. Remittances and Income Inequality

According to existing theoretical work, evidence concerning the impact of remittances on income inequality is rather contradictory. Their impact on inequality seems to be affected by a number of factors, such as migration history, opportunities to migrate, income level of recipient households, share of remittance income in the total household income, income distribution between households at the local (regional) level, and others. Empirical evidence presented by Ramamurthy and Bhargavi (2003) states that in some developing countries remittance flows have an inequality-increasing effect, i.e. the income distribution gap widens due to the remittance inflows (Ramamurthy & Bhargavi, 2003). In order to see if the same holds true in the case of Ukraine, the share of the poorest and richest deciles in the total national income will be analyzed .

According to the World Bank, the Gini coefficient[11] for the entire world is estimated to be between 0.56 and 0.60. Gini for personal income distribution in Ukraine was 0.31 in 2008, which means that income inequality in Ukraine remains very low by international standards.

[11] Gini coefficient characterizes inequality in living standards; it is used to measure income inequality and ranges between 0 (perfect equality) and 1 (complete inequality)

The comparison of estimates of the Gini coefficient over examined period (2001- 2008) indicated that income inequality in the Ukraine has risen, meaning that the gap between rich and poor is widening. The same confirms the growing difference in the share of the poorest and the richest deciles in the national income (Figure 10). While the share of income of the poorest decile has significantly increased (22.1%), this growth could not reduce the gap between the richest and the poorest groups, the difference between the share of poorest and richest deciles in the total national income during 2001- 2006 has increased by 1.8%. Increase in inequality is aligned with the fact that those who benefited most from changes in income are the wealthy and rich population group whereas the poorest ones are those with least benefit.

Figure 10. Share of the Poorest and Richest Deciles in the Total National Income.*

	2001	2006	
Lowest 10%	3,1%	25,2%	\ 22,1%\
Highest 10%	3,5%	27,4%	\ 23,9%\

Source: The World Bank Factbook,   * the latest data available is for 2006.

In relation to remittances as an additional source of income, the top (richest) decile is unlikely to have a direct benefit from them, as members of wealthy households are unlikely to migrate with the purpose of remitting from a host country. As for the increase in the share of the poorest group, in total national income, this growth could be attributed to the supplemental income received from abroad; though, the size of these contributions was not sufficient enough to reduce the income inequality between highest and lowest deciles. Considering that the majority of migrant workers are from the lower or average income deciles, it is expected that remittances have a positive distributive effect in equalizing income distribution of households in these deciles. It can be concluded, that the growing income inequality between richest and poorest ones is more related to the economic development of the country, where remittances contribute to preventing the income gap from growing even further.

5. Macroeconomic consequences

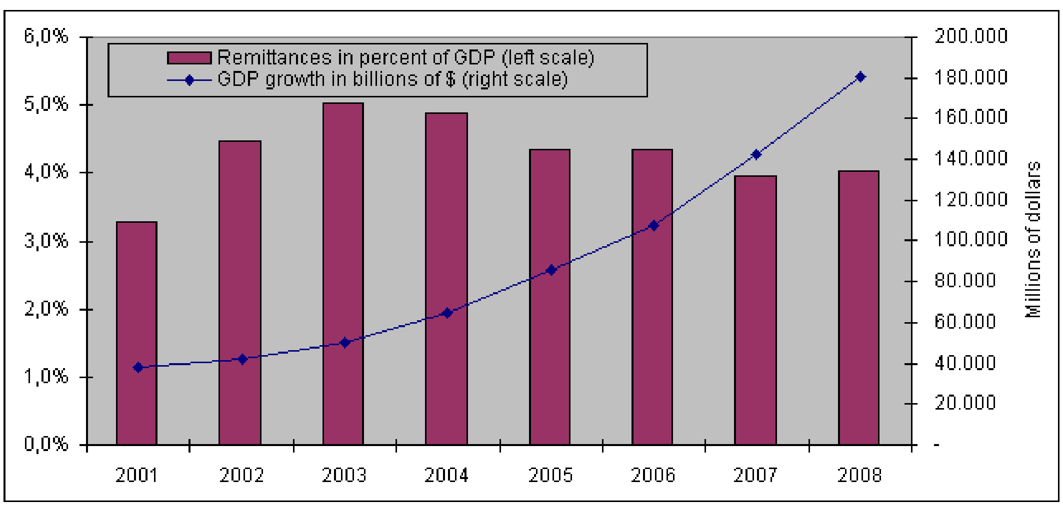
While it is important to know how remittances are used by recipient households, it is also vital to have an understanding of how remittances and migration affect the macro-performance of the country.

Theoretical and empirical documentation on the macroeconomic impact of remittances is far from clear. Several studies about consequences of remittances on the macroeconomic level reveal opposing views. Some believe that remittances fail to help the domestic economy, as they not only lead to dependency among the recipients, but also create incentives that reduce the domestic work efforts (Chami & Fullenkamp, 2003). Another opinion expressed by Rapoport and Docquier (2005) claims that remittances reduce poverty, increase national income, contribute to the balance of payment, and fuel high rates of household savings and investment. It can be said, that, in one way or another, remittances indeed have an impact on the macroeconomic environment of a receiving country; and, as will be demonstrated in this chapter, the Ukraine's economy is no exception.

5.1. Impact of Migration and Remittances on Economic Growth

Considering that workers´ remittances augment national income and aggregate demand, they have played an important role in fueling growth in recent years, through their effect on consumption. Figure 11 (Table 4) shows that the share of remittances as a percentage of GDP has been varying from 3.3% to 5% of GDP.

Figure 11. GDP Growth and Share of Worker's Remittances

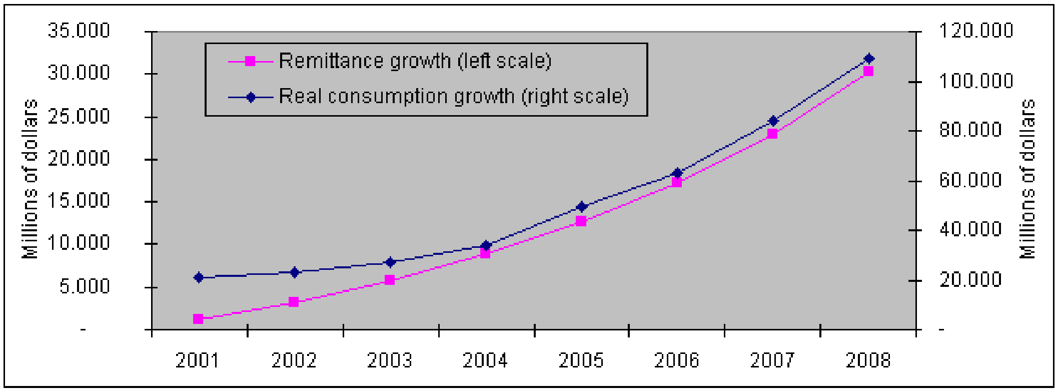


Source: own estimates based on data from SSCU

In Western regions, where migration is more prevalent (migration from the Western part of the Ukraine represent more than 50% of the overall movement), the effect of remittances on consumption and purchasing power has been rather significant.

As seen in Figure 12 (Table 5), there is a consistent correlation between real consumption and remittances growth. This correlation is a direct reflection of the fact that the supplemental income has been used for consumption purposes.

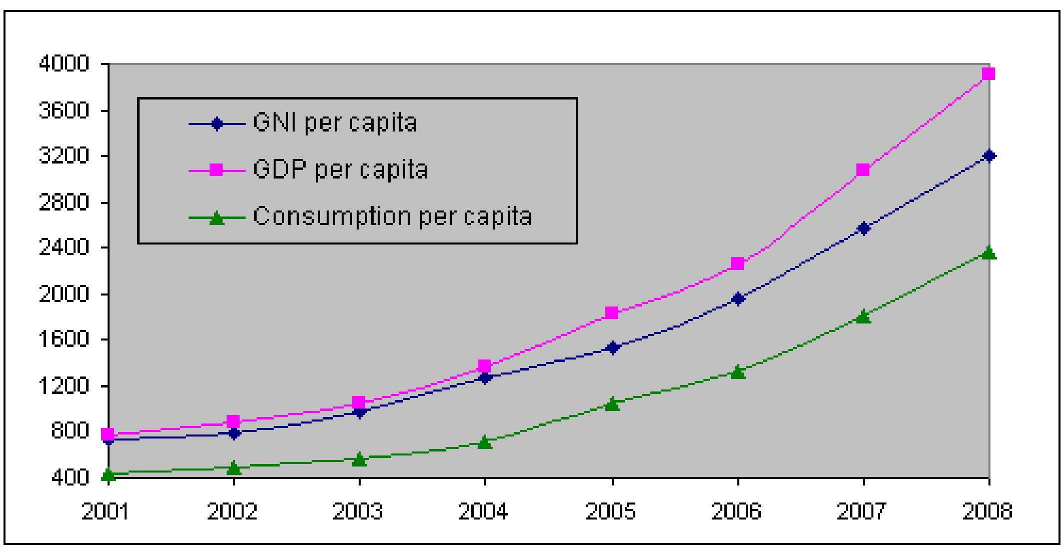
Figure 12. Remittances´ Growth and Real Consumption Growth



Source: own estimates based on data from SSCU

While GDP and gross national income (GNI) have been growing rapidly, consumption per capita have been increasing even faster (Figure 13, Table 6). Between 2001 and 2008, income per capita on average grew by 19%, consumption per capita by 21%, mainly reflecting the large and rising growth of workers´ remittances.

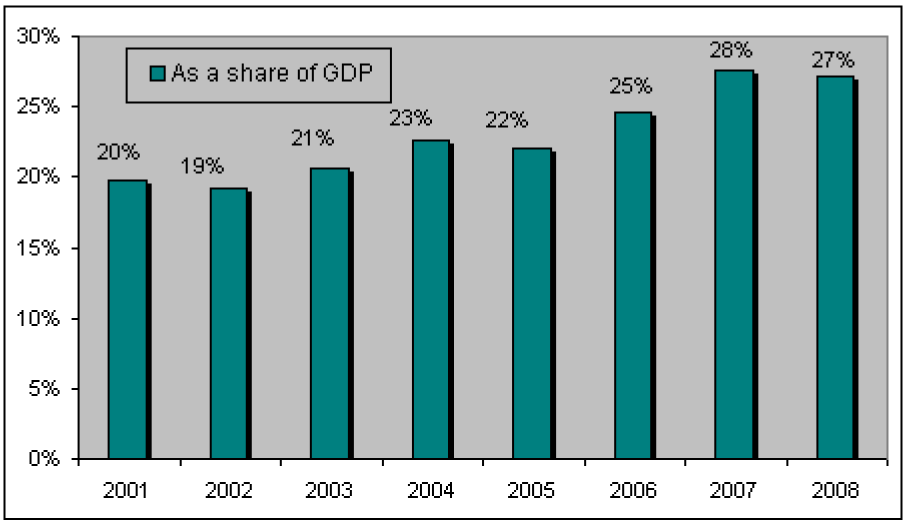
Figure 13. GDP, GNI, and Consumption Per Capita (in dollars)



Source: own estimates based on data from SSCU

By contrast, the contribution of investments in economic growth was smaller, though as a share of GDP (27%), Gross Fixed Capital Formation (GFCF) is slightly higher than in the world economy (24%). Analyzing the changes of the gross value of acquisitions of fixed capital formation, there was 23% growth, and as a chare of GDP, during 2001 - 2008 period, GFCF has increased by 7% (Figure 14, Table 7). Even though some parts of remittances were invested in existing fixed assets, mainly second hand (vehicles, machinery for small businesses), the contribution of migrants transfers to the growth of GFCF did not appear to be very significant.

Figure 14. Gross Fixed Capital Formation



Source: own estimates based on data from SSCU

The small contribution of remittances in GFCF can be explained by the fact that only a small percentage of remittances is used for business investments. Given current situation (high remittances, growing consumption and somewhat low growth in fixed assets formations), an assumption can be made that 1) remittances have a mild positive impact on macroeconomic growth in the short term; 2) with current investment climate, remittances have almost no effect on the long-term growth of the Ukraine.

Another way of studying the impact of migration and remittances on the Ukraine's economic growth is through analysis of a computable general equilibrium (CGE) model that was constructed by Lücke (2007). In constructing the model, input data from national accounts, household survey and state statistics was combined to run a set of simulations. The purpose behind the simulations was to find what the Ukraine's economy would look like without migration and remittances. The three different scenarios were run to study the impact on the economy included: reduction of total productivity factor (TPF) by 10%, reduction of remittances by 70%, and labor supply increase by 5%.

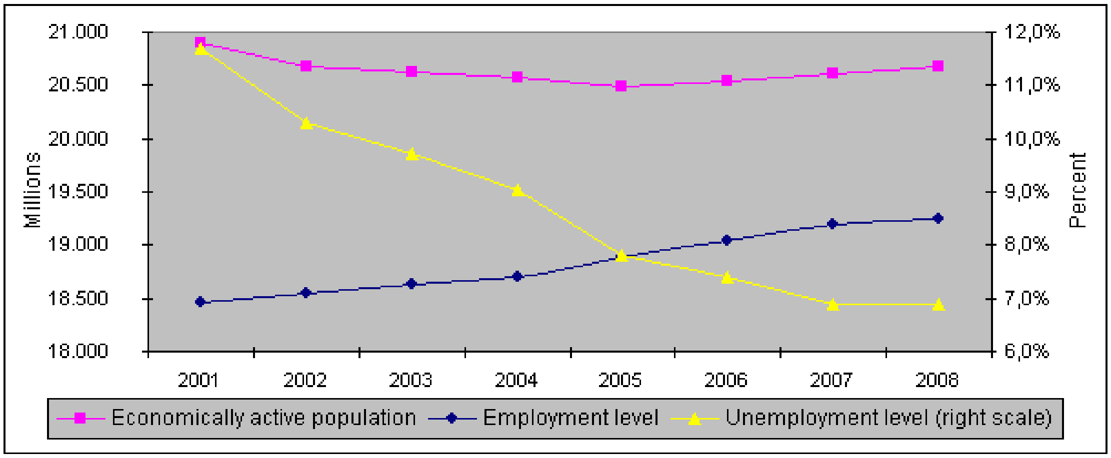
According to results of simulations, the direct effect of remittances was pretty modest, while indirect effects of migration appear to be rather considerable. TPF would be lower without remittance-induced demand. Light and food industries benefit most from demand effects generated by remittances. While these sectors would be 17 and 14 per cent less without benefits from workers´ transfers, public administration services seem to be quite remittance neutral sectors. As far as consumers are concerned, all types of households benefit from remittances: their overall consumption would have been lower by 14-21% in a "remittance and migration free" Ukraine. Those who gain the most are rich urban households; those households who are paid by government gain the least from remittances and their indirect effects. With a lower percentage of migrants, the economy would have benefited from a higher supply of labor, which would have led to a better macroeconomic performance. In case of an increase in supply of all types of labor, rich urban households would gain an extra 8% in terms of overall consumption.

To sum up, according to the CGE model, the net effect of remittances, including both direct and indirect, seems to be rather impressive: in the short term, the economy would have lost about 7 % of its potential without migration and remittances induced effects.

5.2. Labor Market

During the period 2001 - 2008, the only apparent effect that emigration had on the labor market was in terms of unemployment. According to official statistics, the unemployment rate has decreased by 4.8% (Figure 15, Table 8). About 40% of previously unemployed people have found work at home, whilst 600.000 of former unemployed people had left Ukraine to find a job abroad. While the country has witnessed a substantial outflow of the economically active population in recent years, the decline in the labor force was relatively modest – 1%. The decrease in the labor force could be much higher considering that almost a quarter of economically active population is currently working abroad. Fortunately, with the new generation entering the labor market, the total size of the working age population has remained relatively stable during the last seven years. As far as real wages are concerned, the average real wage level increased by 114.6 per cent during 2001-2008 (Table 8).

*Figure 15. Labor Market Indicators, 2001 – 2008**



Source: SSCU * International Labor Organization methodology

Though the emigration has reduced unemployment, it also led to labor shortages in some sectors (agriculture, construction, and transportation), in which employers are not able to find enough workers unless they are prepared to pay very high salaries by Ukrainian standards. In Ukraine in 2008, the average monthly salary in these sectors was $221, $393, and $466 respectively, while migrants working abroad would receive almost three times as much as they would get paid at home while doing the same work.

5.3. Balance of Payments

Remittances have had a notable impact on BP. Exports and imports have been continuously growing since 2001, though, as a share of GDP, exports have declined by 13.7 per cent (from 55 to 42%), and imports are less by 6 per cent (from 54 to 48%). Due to the fact that imports have been growing faster than exports (48 and 42% of GDP correspondingly), the balance of trade in goods and services has deteriorated from surplus of 1.6 per cent of GDP in 2001 to deficit of 6.1 per cent in 2008. Remittances, as a share of trade deficit, accounted for 66% in 2008 (trade deficit was $10.9 billion), thus making remittances important in financing the trade deficit (Figure 16, Table 9).

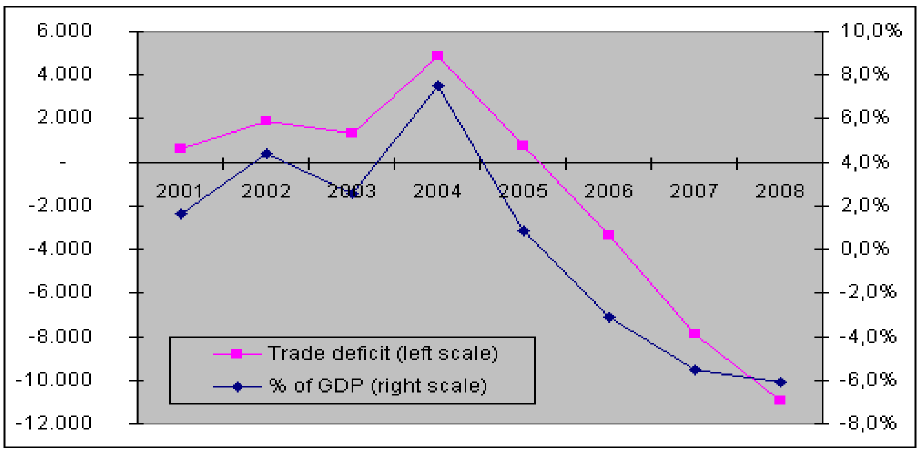
5.4. Exchange Rate and External Competitiveness

Hryvna has been under appreciation since 2001. There has been a higher demand for the national currency at foreign exchange bureaus since many remittance-recipient households exchanged foreign currency into hryvna. If further appreciation of currency is to follow, the NBU will have to intervene by purchasing foreign exchange so that the appreciation is kept under control.

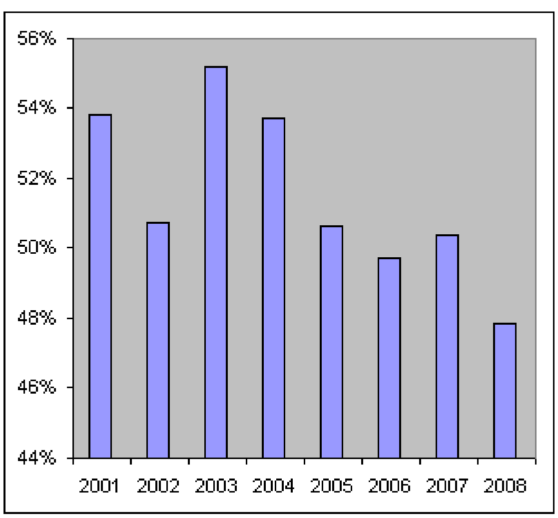
In the combination with rapid wage growth and widening trade deficit, the national currency also strengthened in real terms (Figure 16, Table 9).

Figure 16. Assessing Competitiveness

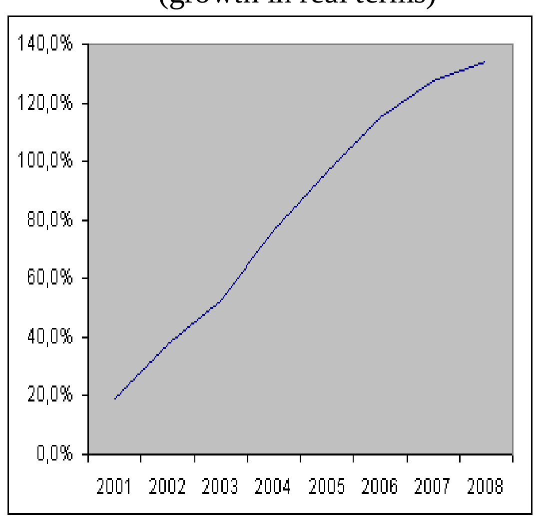
Trade Deficit



Imports, % of GDP, Annual Change



Average Monthly Wage
(growth in real terms)



Source: own estimates based on data from SSCU and NBU

An important part of the explanation concerning the appreciation of hryvna is labor migration and large remittances inflows. By reducing unemployment, labor emigration has helped raise the actual wage. At the same time, remittances have boosted national disposable income and domestic demand, leading to increases in the price of non-traded goods and services and, therefore, to the real exchange rate appreciation. If Ukraine's economy is to operate close to its potential, with remittances continuing to grow and the situation in the labor market becoming tighter, further real exchange rate appreciation is not excluded.

With wages a fraction of the EU average, the Ukraine is regarded as low-cost country. Given the right policies and a business-friendly environment, the Ukraine is very much able to attract larger FDI and increase exports. Rather than seeing the appreciation of hryvna as harmful to the economy, the current situation can be positive for the attraction of additional and relocation of current resources in the economy in a way that would lay the foundation for long-term growth. Considering that remittances provide an important portion of balance of payments financing, domestic production of goods and services could be reorganized toward growing domestic consumption.

As far as trade deficit is concerned, there are two possible explanations: 1) rapid growth of imports as a result of increased domestic demand partially generated by remittance-recipient households, and/or 2) growing but at a decreasing pace, exports are becoming less competitive in the international market.

5.5. Monetary Conditions, Inflation and Fiscal Consequences

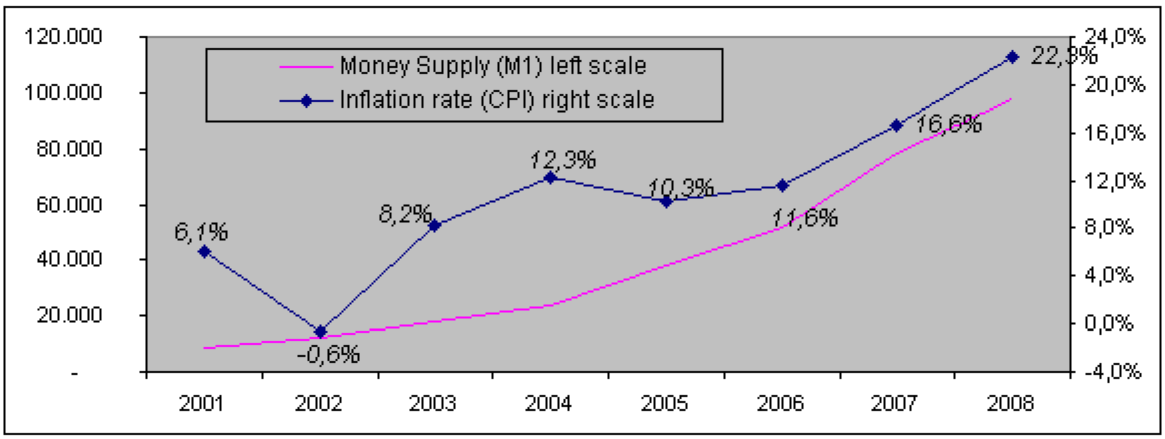
The large inflows of workers´ remittances have complicated the task of the monetary policy. The official monetary policy objective is to maintain the stability of the national currency. In practice, NBU attempts to achieve several goals:

- Keep inflation low;
- Preserve external competitiveness by controlling appreciation of hryvna against US dollar and Euro;
- Keep interest rates low, in order to support private sector development.

The National Bank is also concerned about its profit level, since it affects the strength of its balance sheet.

While it has been proven to be rather difficult to keep inflation low, achieving the above mentioned monetary policy goals in the face of growing inflows of foreign exchange appears to be even more complex. As a way to control the appreciation of hryvna, the NBU chose to buy large amounts of foreign exchange which led to increase of money supply and fueled inflation (Figure 17, table 10). On the positive side is the fact that the National Bank's intervention in the money market, resulted in lower long-term interest rates.

Figure 17. Money Supply (M1) and Inflation*



Source: own calculation based on data from NBU and SSCU

* M1 is a very liquid measure of the money supply; it contains cash and assets that can quickly be converted to currency

The outflow of the economically active population and inflows of remittances have affected fiscal performance in recent years, and will likely have even greater impact on fiscal policy in the medium to long term. In the short term, fiscal performance has been affected through the impact of emigration and remittances on 1) labor market, 2) revenue collection.

- *Labor market changes.* As emigration has reduced unemployment rate, and remittances are providing substantial support to the poor, pressures on the budget related to unemployment have been lessened.
- *Revenue collection of the government budget.* Overall fiscal revenue collection has improved over the past few years, partially owing to rising import taxes. Although the decline in the labor force and employment have put the income tax revenues under

constraint, rising remittance inflows and, consequently, higher demand on imports, increased import-related tax collection.

In the long term, emigration leads to fiscal sustainability problems, through its impact on the contribution base. Not only do migrants not contribute to pension system, but also, upon their retirement, the burden of providing them with a means for living will be placed on the social security system. An additional challenge is the uncertainty about the size of the old-age population that would be dependent on pension benefits. Future migrant workers' decisions as to whether to retire in the Ukraine or elsewhere cannot be predicted.

5.6. Socio-Economic Effect of Migration

Economic effectiveness of migration on a sending country can be evaluated through comparison of state costs and social-economic benefits. In relation to the Ukraine's economy, the socio-economic effect of migration can be characterized by both positive and negative aspects.

Following benefits and positive consequences have been identified:

- Large inflows of foreign exchange improve balance of payments; such inflows of capital are not borrowed like public debt, and do not entail expenses. Supplemental income from abroad has a multiplier effect, as it increases national income, aggregate demand and stimulates production.
- Remittances result in higher rates of household savings, encourage entrepreneurship and contribute to the formation of micro-enterprises, thus increasing economic potential of regional economies in the long term. Sixty per cent of migrants that opened or expanded their own business upon returning back home did so with the capital earned in a foreign country.
- Less pressure on the labor market, mostly in relation to employment. During the period 2001-2008, the unemployment rate decreased by 4.8 per cent. The lower level of unemployment allows the government to save funds, that otherwise would have to be used for the creation of additional working places and unemployment subsidies.
- Raise the immediate standards of living of recipients who are in most of the cases is general population. Possibility to provide financial support to families back home, finance children's education, improve living conditions, health and purchase household durables. Additionally, remittances ease credit constrains because a stable stream of supplemental

income make recipient households more creditworthy in the eyes of formal sector financial institutions.

- Along with the attraction of know-how in the Ukraine, working migrants acquire new qualifications and valuable skills which contribute to the development of human capital. Additionally, migration increases quality and competitiveness of the labor force. Skilled migrants may establish some trade and investment links with the Ukraine, and thus enhance its attractiveness as a destination for FDI.
- Multiplier effect from additional consumption, particularly in the housing sector. Additional consumption leads to an increase in tax receipts.

On the other hand, if we look at migration from another perspective, following costs and negative consequences were found:

- Growing imbalance in the labor market. Migration destroys labor collectives, erodes good work habits, and creates a shortage of specialists in certain industries and regions. Migrants performing low-skilled jobs might lose their qualification, as many of them are working in a different field or have a professional experience higher than one required for their new job in a host country. Brain drain of skilled workers and/or loss of experience can also lead to deterioration in quality of basic goods and services in the short term. Outflow of qualified labor resource can potentially slow down the economic growth and affect labor supply by encouraging some remittances-recipient households to choose more leisure than labor.
- Increase in the money supply leads to unjustified price growth, leads to exchange rate appreciation and lowers export competitiveness. Imports brought by migrants from abroad create competition with nationally produced goods.
- Remittances have no direct contribution to the national pension system or the government budget. While additional consumption contributes to the tax receipts, migration is placing additional strain on the income tax collection and social system sustainability. In the long run, a decrease in state budget income and social funds is expected. If at least half of migrants (12 per cent of economically active population) were working in Ukraine in 2008 and earning the average salary, they could have contributed to the state budget about $1.5 mln in income taxes (tax on personal income in Ukraine in 2008 was 15%).

- Lower purchasing power of non-remittance recipient households may slacken society, as a population without remittance support finds it more and more difficult to cope with constantly growing prices on commodity and real estate.
- High number of migrants with high education reflects the low efficiency of state investment in education. Unfortunately, holders of a university degree in Ukraine are not guaranteed a well-paid job that would provide them with enough means for a satisfactory standard of living. For many parents and children, education has partially lost its prestige, and is not perceived any more as fundamentally important for a good-quality of life.
- Working migration increases the possibility of household emigration, which can lead to a further decrease in the population. According to sociologists, the number of Ukrainians willing to emigrate has doubled during the last decade Experience and knowledge gained during working migration period have a strong influence on decision to emigrate permanently. Unfortunately, the perspective becomes more and more realistic, as migrants are increasing their period of stay in a host country.
- Outflow of youth has negative demographic consequences. Along with negative effects of the family function such as the ruining of family relations and kinship, the atmosphere and conditions in migrants´ families are not favorable for bringing up children. In one West-Ukrainian region, for example, the number of marriages per thousand inhabitants has decreased by 1.3 times in the last decade. During the same period, the absolute number of divorces has increased by nearly 1.5 times. Migration decreases birth-rate and therefore diminishes the reproductive potential of the family.
- Negative psychological aspect includes migrants not having access or not being able to afford qualified health care services. In relation to illegal migrants, the majority of them are living in very tough conditions and performing hard physical work. They are the least protected ones from violation of their human and labor rights.

Already today, many working migrants notice that the new houses and questionable education for children do not bring great positive changes in the lives of their families. Earning abroad more than at home and trying to fit into the system of social relations that is very much dominant in Ukraine, working migrants find themselves being left out from it at all.

6. Conclusions

The behavior of Ukrainian emigrants is consistent with the facts from the literature on the motivation behind emigration and remittances. In particular, Ukrainian emigrants appear to have a strong attachment to their home country and remit large portions of their earnings to their families. Findings suggest that the human capital theory dominated the emigrants' behavioral decision-making when deciding to emigrate since the benefits of the extra income that migrants send back home to their families prevail over the high cost of migration. The major determinants behind the flows are the characteristics of the Ukrainian migrant workers (their age, education level, ability to speak the local language and marital status). Other factors that also influenced the amount of flows are time passed abroad, number of children and their education, migrant's and his/her family income levels. Typical migrant is from the low or average income groups.

Reasons for remitting are justified by altruistic motives that are linked to family ties and kinship between household members, who need support or are dependent on remitters. As for the role of remittances in the household economy, they do directly increase the income of the recipients and help smooth the household consumption. In addition to brining the direct benefit of higher wages earned abroad, remittances help households diversify their sources of income (and thus reduce the vulnerability to risks of home economy) while providing much needed source of capital for a home purchase, children's education and entrepreneurial activities. Survey revealed that there are 25% of households who benefit from remittances. Bigger part of the remittances were used to reach higher consumption level; to a lesser extend the money from abroad provided working capital for initiating business activities or investment purposes, and eased the credit constrains making recipient households more creditworthy in the eyes of financial institutions. The role of migrants´ capital in new start-ups is limited by heavy taxation, lack of affordable credits, bureaucratic barriers in registering the enterprise, and skepticism as to the future of small businesses.

Although the domestic economy demonstrated moderate recovery from the regional crisis in the late 1990s, the migration trends only intensified over time, which leads to the conclusion that barriers to migration tend to be lower, as the new migrants benefit from access to better information about job opportunities, and from the support network in destination counties. Indeed, the presence of relatives or friends in a foreign country is among the most important factors affecting the decision to migrate.

Although share of remittances in the household income widely varies, findings suggest that remittances have a mild decrease in the level of poverty, but a larger impact of the depth and severity of poverty. While the remittances have a positive distributive effect in equalizing income distribution, the inflows were not large enough to reduce the income gap between richest and poorest households. Unfortunately, there is a large number of households that are heavily dependent on remittances, and so can only maintain a satisfactory level of living as long as they receive support from their family members working abroad. Termination of transfers would result in a lower purchasing power and, consequently, decrease in demand for certain groups of products (real estate, durable goods, and investments in higher education).

The fact that the significant part of remittances is used for consumption and only a relatively small portion is used for investment purposes clearly indicates that remittances have a short-term impact on household welfare. As regards the education and house or land purchasing, here remittances have a medium-term effect. Remittances are likely to continue to boost household demand for consumption and investment in housing, as well as providing a safety net. In the long term, as more emigrants settle abroad, remittance inflows may decrease as emigrants may decide to start saving and investing in their host country rather than remitting funds back home.

Labor emigration and remittances have profound macroeconomic consequences. Remittance pattern in the Ukraine show that the inflow has increased by nearly sixfold during the period 2001-2008. As a percentage of exports, the relative share of remittances varied from 6 to 10%. Compared to other capital inflows, remittances have been rather stable source of foreign exchange into the country. The flows were not as high as FDI, but far more significant than ODA and other capital flows. In the short to medium term, remittances are likely to remain a stable source of foreign exchange. There was a small contribution of remittances in GFCF, which can be explained by the fact that only a small percentage of remittances was used for “productive” investment.

To the extent that remittances increase consumption, per capita income level and reduce the severity of poverty and have an equalizing effect on income distribution, remittances have a positive, perhaps not always direct, impact on growth. Following positive aspects have been identified in the different macroeconomic channels.

Output in productive sectors, manufacturing and agriculture, has been rising steadily.

Considering that remittances are mainly spent on the purchasing of domestic goods and services, national producers have increased the output to meet the higher demand. Even though only relatively small portion of remittances was used for investment purposes, it was found that remittances contributed to the stimulation of production through multiplier effect. Higher consumption also fueled demand on imports leading to the increase in the collection of the import-related tax.

Growing volumes of migrant transfers positively affect development and consolidation of the national banking system. They play an important part in the realization of transfers from host countries. Emigration has reduced unemployment rate, which in turn lessened the pressure on the budget expenses related to the payments of unemployment subsidies. By reducing unemployment, labor emigration has helped raise the actual wage. Another positive aspect of remittances is their part in the formation of foreign exchange reserve, which in turn contributes to national security.

The results of the study performed by Lücke also supported positive effects of the emigration and remittances. According to the CGE model that was run to test economic performance of the country under the different scenarios, the net effect of remittances (both direct and indirect) appeared to be positive in the short run. Results revealed that the economy would have lost about 7% of its potential without emigration and remittances induced effects.

On the other hand, there is a number of implications caused by emigration and remittances that negatively affect the macro-performance of the Ukraine. Even though this additional spending has given a strong short-term boost to domestic demand that has helped to drive GDP growth in recent years, the domestic demand supported by remittance inflows is unlikely to ensure sustainable growth in the long term. At the regional level the scope of the multiplier effect is greater than at the national level, as the local spending of remittance income generates further income for other local households. Such regional increase in income generates the local inflation for the non-traded goods and a small increase in the national inflation. Such net effect is the multiplier effect at the local but not the national level where local gains come partially at the expense of the regions that do not receive the remittances but are forced to suffer the tighter monetary policy.

The appreciation of the national currency that was partially caused by large and sustained amounts of foreign exchange inflows in the last decade. At the same time, an increase in the money supply activates the inflation, and led to unjustified price growth. The appreciation of the real exchange rate negatively affected the competitiveness of exports of domestic goods in the international market.

Consumption driven demand for national goods also fuelled demand for imported goods. Since 2006, growing imbalances in the Ukraine’s external trade have led to formation of the trade balance gap. Deterioration in the trade balance can be attributed to an insufficiently flexible domestic supply and thus failure to react to the increased demand for certain groups.

Large outflow of workers and remittances reduced the supply of labor, distorted household labor decisions and reduced work efforts. Though the emigration has reduced unemployment, it also led to the labor market imbalances and labor shortages in some sectors (agriculture, construction, and transportation).

In the long term, emigration leads to fiscal sustainability problems, through its impact on the contribution base, since emigrants do not contribute to pension system. What is even worse is that upon their retirement, the burden of providing them with a means for living will be placed on the social security system. There are also concerns and uncertainty as for the size of the old-age population that would be dependent on pension benefits. Additionally, there is also a possibility of further decrease in the population due to household emigration and the distortion of the family functions.

Are labor migration and remittances good or bad for the Ukraine? Taking into consideration all above presented pros and cons, as well as referring to results that were obtained by Lücke, it can be concluded that in the short term positive effects of emigration and remittances generally outscore its negative impacts. The effect of remittances on long-term economic growth is inconclusive. In my opinion what matters more are the primary reasons for these processes and the reaction of government officials. In principle, higher mobility of labor and capital presents benefits, allows more efficient allocation of resources. In that sense, a wider choice of employment opportunities, both at home and abroad, available to Ukrainian workers is welcome. The present problem is that the main motive behind migration comes from low wages and the lack of opportunities at home.

An attempt to improve the policy and business environments would enhance the Ukraine's attractiveness to foreign capital and stimulate larger foreign direct inflows. Good investment climate with well-developed financial systems and sound institutions would increase the proportion of remittances invested in physical and human capital, and so would promote the financial development, which in turn could enhance growth. In a few years time, it will become even more important, as many migrants are likely to consider staying abroad permanently and using their savings in their host country if there will not be any improvements in their home country.

The short-term benefits of remittances for the Ukraine's economy should not be regarded as a conclusion that migration and remittances is a positive phenomenon for the economic development of the Ukraine. Considerations must include not only short-term benefits in the present but also long-term ones, in which the Ukraine will be a more attractive place for both labor and capital.

Conclusively, this paper is the first one on the subject of the effect of migration and remittances on the Ukraine’s economy. Regardless of the magnitude of this phenomenon, it has not been given enough attention at the national level. Findings presented in this thesis demonstrate the importance of this topic for the country, which should encourage further in-depth study.

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Annex

Questionnaire for Ukrainian migrants working in Portugal

The objective of the survey is to gather information about Ukrainian migrants working in Portugal and remittances sent to Ukraine.

1. Gender

Female Male

2. Age

25-30 30-35 35-40

40-45 45-50 50-55 more than 55

3. Your occupation is related to which of the following fields?

Light industry	Commerce	Science and high technologies
Construction	Services	Other (specify please)
Agriculture	Medicine	
Transport and communications	Finance	______________________

4. How would you evaluate financial situation in your family before and after migration?

Before migration

Very bad (income is not enough even for essentials)

Bad (income just covers expenses for essentials)

Medium (income is enough for everything required for normal life)

Good (income allows for savings)

After migration

Very bad (income is not enough even for essentials)

Bad (income just covers expenses for essentials)

Medium (income is enough for everything required for normal life)

Good (income allows for savings)

5. Do you provide a financial support to your relatives left back at home?

Yes No

6. How do you transfer money? (few alternatives are possible)

Western Union or Money Gram Through the bank

Through relatives, friends or money couriers

Bring personally

7. **How often do you transfer (send or bring) money?**

Every month

Every second month

Every third month

Twice a year

Once a year

8. **Indicate approximate amount of every transfer**

75-100€	150-175€	225 -250€	other amount (specify please)
100-125€	175-200€	250-275€	______________________
125-150€	200 -225€	275-300€	

9. **What part do remittances represent in the total household income?**

Only insignificant part

Represent about ¼

Represent about ½

Represent almost 100%

No answer

10. **On what money are used?**

Food and clothes

Children's education

Purchase of the house

Purchase of the land

Own business development

Saving account

Tables

Table 1. Average earnings received by Ukrainian migrants in foreign countries

	US $
Germany	1300
Israel	1080
Italy	1000
Portugal	920
Spain	880
France	880
Greece	860
Czech Rep	530
Turkey	500
Russia	480
AVERAGE	843

Figure 2. Capital flows to Ukraine, 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008
FDI accrued, US$ mln	792	1.485	2.909	4.624	12.432	18.036	27.927	38.620
ODA, US$ mln	519	1.002	1.325	1.683	2.093	-	-	-
Remittances, US$ mln	1.243	3.141	5.661	8.836	12.592	17.289	22.933	30.193

Table 3. Average monthly household resources and expenditures

	2001	2002	2003	2004	2005	2006	2007	2008
Av.monthly total resources per one household, US$	97	114	133	172	258	319	398	550
Av. monthly total resources per one household without remittances, US$	89	104	121	157	240	296	372	513
%-age of remittances	8,4%	8,6%	9,0%	8,5%	6,9%	7,1%	6,6%	6,8%
Av. monthly total expenditures per one household, US$	92	110	128	170	240	286	341	492
Av. monthly total consumption per one household, US$	86	102	119	158	219	259	307	425
Av. monthly total consumption per one household / Av total monthly expenditures, %	94%	93%	93%	93%	91%	91%	90%	86%

Table 4. GDP Growth and Share of Worker's Remittances

	2001	2002	2003	2004	2005	2006	2007	2008
GDP, US$ mln	38.009	42.392	50.132	64.883	86.142	107.753	142.719	180.355
Remittances, % of GDP	3,3%	4,5%	5,0%	4,9%	4,4%	4,4%	4,0%	4,0%

Table 5. Remittances´ Growth and Final Consumption Growth

	2001	2002	2003	2004	2005	2006	2007	2008
Final consumption of households, US$ mln	20.905	23.358	27.422	33.933	49.273	63.251	83.776	109.475
Remittances, US$ mln	1.243	3.141	5.661	8.836	12.592	17.289	22.933	30.193

Table 6. Remittances´ Growth and Real Consumption Growth

	2001	2002	2003	2004	2005	2006	2007	2008
GDP per capita, US$	780	879	1049	1367	1829	2255	3069	3899
GNI per capita, US$	730	790	980	1270	1540	1950	2570	3210
Consumption per capita, US$	429	485	574	715	1046	1324	1801	2367

Table 7. Gross Fixed Capital Formation

	2001	2002	2003	2004	2005	2006	2007	2008
GDP, US$ mln	38.009	42.392	50.132	64.883	86.142	107.753	142.719	180.355
Gross fixed capital formation, US$	7.488	8.137	10.333	14.655	18.938	26.509	39.276	49.082
% of GDP	20%	19%	21%	23%	22%	25%	28%	27%

Table 8. Labor Market Indicators, 2001 – 2008

	2001	2002	2003	2004	2005	2006	2007	2008
Economically active pupulation, mln	20.893	20.669	20.618	20.582	20.481	20.545	20.606	20.675
Employment rate, mln	18.453	18.540	18.624	18.694	18.886	19.032	19.189	19.251
Unemployment level, %	11,7%	10,3%	9,7%	9,0%	7,8%	7,4%	6,9%	6,9%
Average monthly wages, US$	58	71	87	111	157	206	268	343
Real growth,%	119,3%	118,2%	115,2%	123,8%	120,3%	118,3%	112,5%	106,3%

Table 9. Balance of Payments

	2001	2002	2003	2004	2005	2006	2007	2008
Export, US $ mln	21.079	23.354	28.951	39.714	44.345	50.234	63.995	75.298
% of GDP	55%	55%	58%	61%	51%	47%	45%	42%
Import, US $, mln	20.460	21.497	27.663	34.842	43.622	53.585	71.873	86.263
% of GDP	54%	51%	55%	54%	51%	50%	50%	48%
Balance, US $ mln	619	1.856	1.288	4.872	723	- 3.351	- 7.878	- 10.965
% of GDP	1,6%	4,4%	2,6%	7,5%	0,8%	-3,1%	-5,5%	-6,1%
Remittances, US$ mln	1.243	1.898	2.520	3.175	3.756	4.697	5.644	7.260
% of trade deficit	201%	102%	196%	65%	520%	-140%	-72%	-66%

Table 10. Money Supply (M1) and Inflation

	2001	2002	2003	2004	2005	2006	2007	2008
Inflation rate, CPI	6,1%	-0,6%	8,2%	12,3%	10,3%	11,6%	16,6%	22,3%
Money supply , US$	8.520	12.194	17.832	23.691	37.904	51.696	78.447	98.047

Table 11. Statistical Information

	2001	2002	2003	2004	2005	2006	2007	2008
GDP, US $	38.009.344.577	42.392.896.031	50.132.953.288	64.883.060.726	86.142.018.069	107.753.000.000	142.719.000.000	180.355.000.000
GDP per capita, US $	781	879	1.049	1.367	1.829	2.255	3.069	3.899
FDI, US$	792.000.000	693.000.000	1.424.000.000	1.715.000.000	7.808.000.000	5.604.000.000	9.891.000.000	10.693.000.000
FDI accrued, US $	792.000.000	1.485.000.000	2.909.000.000	4.624.000.000	12.432.000.000	18.036.000.000	27.927.000.000	38.620.000.000
Export, US $	21.079.982.502	23.354.246.423	28.951.780.524	39.714.921.470	44.345.910.902	50.234.448.600	63.995.199.600	75.298.212.500
% of GDP	55,5%	55,1%	57,8%	61,2%	51,5%	46,6%	44,8%	41,8%
Import, US $	20.460.430.186	21.497.437.577	27.663.363.624	34.842.203.610	43.622.317.950	53.585.566.900	71.873.288.400	86.263.796.500
% of GDP	53,8%	50,7%	55,2%	53,7%	50,6%	49,7%	50,4%	47,8%
Balance, US $	619.552.317	1.856.808.846	1.288.416.900	4.872.717.861	723.592.952	- 3.351.118.300	- 7.878.088.800	- 10.965.584.000
% fo GDP	1,6%	4,4%	2,6%	7,5%	0,8%	-3,1%	-5,5%	-6,1%
Remittances, US$	1.243.000.000	1.898.000.000	2.520.000.000	3.175.000.000	3.756.000.000	4.697.000.000	5.644.000.000	7.260.000.000
% of GDP	3,27%	4,48%	5,03%	4,89%	4,36%	4,36%	3,95%	4,03%
GNI, US $	35.539.220.720	38.079.975.000	46.856.691.000	60.263.532.000	72.541.931.000	93.186.112.500	119.529.029.500	148.488.822.000
GNI, per capita, US$	730	790	980	1.270	1.540	1.950	2.570	3.210
GNDI, US $	35.539.220.720	38.079.975.000	46.856.691.000	60.263.532.000	72.541.931.000	93.186.112.500	119.529.029.500	148.488.822.000
GNDI per capita, US$	730	790	980	1.270	1.540	1.950	2.570	3.210
Final consumption expenditures of households, US$	20.905.139.517	23.358.485.713	27.422.725.449	33.933.840.760	49.273.234.335	63.251.011.000	83.776.053.000	109.475.485.000
% of GDP	55,00%	55,10%	54,70%	52,30%	57,20%	58,70%	58,70%	60,70%
consumption per capita, US $	429	485	574	715	1046	1324	1801	2367
Exchange rate, UAH/US$	5,37	5,32	5,33	5,31	5,12	5,05	5,05	5,26
Average monthly wages, US$	57,9	70,7	86,7	111,1	157,4	206,1	267,5	343,3
Real growth, %	119,3%	118,2%	115,2%	123,8%	120,3%	118,3%	112,5%	106,3%
Nominal growth, %	118,5%	120,9%	122,9%	127,7%	136,6%	129,2%	129,8%	133,7%
Inflation rate, CPI	6,1%	-0,6%	8,2%	12,3%	10,3%	11,6%	16,6%	22,3%
Money Supply UAH	45.755.000.000	64.870.000.000	95.043.000.000	125.801.000.000	194.071.000.000	261.063.000.000	396.156.000.000	515.727.000.000
Money supply , US$	8.520.484.171	12.193.609.023	17.831.707.317	23.691.337.100	37.904.492.188	51.695.643.564	78.446.732.673	98.046.958.175
Gross fixed capital formation, US$	7.488.081.937	8.137.030.075	10.333.020.638	14.655.367.232	18.938.476.563	26.509.702.970	39.276.831.683	49.082.889.734
% of GDP	19,70%	19,19%	20,61%	22,59%	21,99%	24,60%	27,52%	27,21%
Population	48.683.864	48.202.500	47.812.950	47.451.600	47.105.150	47.787.750	46.509.350	46.258.200
Economically active population	20.893.600	20.669.500	20.618.100	20.582.500	20.481.700	20.545.900	20.606.200	20.675.700
Unemployment level, %	11,7%	10,3%	9,7%	9,0%	7,8%	7,4%	6,9%	6,9%
Av.monthly total resources per one household	97,0	114,3	132,9	171,7	258,1	319,1	398,4	550,0
Av. monthly total resources per one household without remittances	89	104	121	157	240	296	372	513
%-age of remittances	8,4%	8,6%	9,0%	8,5%	6,9%	7,1%	6,6%	6,8%
Av. monthly total expenditures per one household	92	110	128	170	240	286	341	492
Av. monthly total consumption per one household	86,2	102	119	158	219	259	307	425
Av. monthly total consumption per one household / Av total monthly exp	94%	93%	93%	93%	91%	91%	90%	86%
Av.size of a household	2,9	2,8	2,7	2,6	2,5	2,4	2,0	2,2
Number of households	17.832.917	17.786.900	18.249.218	18.111.298	18.047.950	18.379.904	17.888.212	17.791.615