

## Contributions of Financial Remittances from Migrants in Supporting Foreign Exchange Reserves in Algeria

إسهامات التحويلات المالية للمهاجرين في دعم احتياطي النقد الأجنبي بالجزائر

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### Abstract:

The study aims to investigate the extent to which financial remittances from Algerian migrants contribute to supporting the country's foreign exchange reserves, considering them as crucial sources of foreign currency inflows into the economy. The study ultimately found a lack of effective contributions to support Algeria's foreign exchange reserves from its migrants' remittances, attributed to the low proportions of remittances in this country and their dependency on the country's banking system, its flexibility, and development.

**Keywords:** Financial Remittances from Migrants; Foreign Exchange Reserves; Official Channels of Remittances; Algerian Economy; Migrants.

**JEL Classification Codes:** f22, f31.

### ملخص:

تهدف الدراسة إلى البحث عن مدى إسهام التحويلات المالية للمهاجرين الجزائريين في دعم احتياطي النقد الأجنبي للدولة، باعتبارها أهم مصادر العملات الأجنبية التي ترد للاقتصاد. توصلت الدراسة في الأخير إلى عدم وجود مساهمات فعالة في دعم احتياطي النقد الأجنبي للجزائر من طرف تحويلات مهاجريها، وذلك لضعف نسب التحويلات في هذه الدولة، وتأثير حجمها بالجهاز المصرفي للبلد ومدى مرونته وتطوره.

**كلمات مفتاحية:** التحويلات المالية للمهاجرين؛ احتياطي النقد الأجنبي؛ القنوات الرسمية للتحويلات؛ الاقتصاد الجزائري، المهاجرين.

**تصنيفات JEL:** f31, f22.

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## **INTRODUCTION**

Financial remittances from migrants have become one of the most important sources of hard currency for countries that receive them, as well as for the countries that are the source of these remittances and impose deductions for their transfer. They are considered a significant source of foreign exchange for the economies of countries, given their crucial role in strengthening foreign exchange reserves. Consequently, both parties have sought to regulate these remittances within a legal framework. However, defining them comprehensively has been challenging due to differences in the accounting structures of each country's balance of payments or the accounting system followed in the country.

On the other hand, it is acknowledged that the Algerian economy relies heavily on oil revenues, accounting for approximately 90%, followed by financial remittances from Algerian migrants abroad. These remittances represent the second source of hard currency in the Algerian economy. It is observed that most of these remittances come from European countries due to the substantial presence of Algerian migrants in Europe, being geographically closer, in addition to the mindset of the Algerian individual.

### **Study problem:**

The problem of this study can be formulated in the following main question:

**To what extent do the financial remittances from Algerian migrants contribute to supporting foreign exchange reserves in Algeria?**

### **Study Hypothesis:**

This study proceeds from the following hypotheses:

- Financial remittances from Algerian migrants are a secondary source after fuel exports in supporting foreign exchange reserves.
- Financial remittances from Algerian migrants are an excellent alternative for supporting foreign exchange reserves, given their limited susceptibility to crises.

### **Study Objectives:**

- Highlighting the importance of financial remittances from migrants and their contribution to supporting foreign exchange reserves in Algeria.
- Familiarizing with some theoretical and intellectual aspects related to financial remittances from migrants.

- Understanding the reality and evolution of financial remittances from migrants in Algeria.

### **Study Methodology:**

The study relied on established methodologies in economic studies to serve its objectives. The descriptive approach was used to present the theoretical framework of financial remittances from migrants. Additionally, the analytical approach was employed to present and analyze various developments witnessed by financial remittances from Algerian migrants and the evolution of foreign exchange reserves in Algeria.

### **Literary review:**

To the best of the researchers' knowledge, the relationship between the study variables, namely financial remittances from migrants and foreign exchange reserves in Algeria, has not been studied before. However, there are several related studies, including:

1. Study by (coiffard, 2011) titled "Determinants and Macroeconomic Effects of Financial Remittances from Migrants," an analytical study of a sample of countries that are major recipients of financial remittances. The research was presented as a doctoral thesis in Economics at the University of Grenoble in France in 2011. The study aimed to analyze the impact of financial remittances from migrants on the countries of origin, their determinants, and the economic effects in Tajikistan. The study found that financial remittances contribute to the overall economic stability of the countries of origin, especially during economic crises. However, excessive reliance on them in some countries may lead to a decline in economic activity. The study also revealed that remittances in Tajikistan are linked to the Russian economy as a major sending country for financial remittances. Their impact remains confined to investment and private consumption.
2. Study by (Abdelnour, 2015) titled "Migration Challenges North-South: The Impact of Financial Remittances from Migrants on the Algerian Economy," a doctoral thesis in Economics at Abu Bakr Belkaid University, Tlemcen, in 2015. The study addressed the issue of the impact of financial remittances from migrants on the Algerian national economy using an economic growth model covering the period from 1970 to 2010. The results indicated a negative impact of remittances on Algerian economic growth in both the short and long terms, primarily due to a significant portion being allocated to consumption instead of investment, with a large proportion flowing through unofficial channels.
3. Study by (khaldoun & bouali, 2022) titled "The Long-Term Impact of Financial Remittances from Migrants on Exchange Rates in Algeria." This study aimed to measure the effect of financial remittances from migrants on the real effective exchange rate in Algeria over the long term. The results indicated no statistically significant relationship between financial remittances from migrants and the real effective exchange rate. This was attributed to various factors, including the limited flow of financial remittances

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through official channels, feeding into the parallel exchange market due to the premium offered in that market.

### **Study Structure:**

To address the main problem, the study has been divided into the following components:

- The theoretical framework of financial remittances from migrants and their reality in Algeria.
- The reality of foreign exchange reserves in Algeria.
- The contribution of financial remittances from migrants to supporting foreign exchange reserves in Algeria.

### **1- The Theoretical Framework of Financial Remittances from Migrants and Their Reality in Algeria**

#### **1-1 Concept of Financial Remittances from Migrants:**

Defining the concept of financial remittances from migrants proves to be challenging due to variations in their recording methods in the balance of payments of both receiving and sending countries. These remittances are classified as tourism revenue in some receiving countries, while others categorize them as foreign direct investment flows. Furthermore, there is significant inconsistency in the data related to the financial remittances from migrants, including their volume and annual flows. Discrepancies can be observed in the data published by the International Monetary Fund and the data provided by receiving countries regarding remittances. The variation is primarily due to differences in international migration data and the criteria based on which it is recorded. Additionally, a substantial amount of money is transferred through unofficial channels to avoid deductions associated with formal remittances, making it difficult to estimate. Concerning the definition of financial remittances, the following points are noted:

##### **1-1-1 Definition by the International Monetary Fund (IMF):**

It defines financial remittances as current transfers, mainly of financial assets or goods, made by migrants, or individuals who have resided in another country for a period of at least one year, to individuals, families, or accounts, and recorded by the IMF in three categories (Abdelnour, 2015):

- **First category:** Account number 2310, included in the agreed balance of payments in the IMF, encompasses compensation for workers. It includes all the money received by a worker outside their home country for a period of less than a year, covering wages,

insurances, compensations, and social services received by the worker and sent to their home country.

- **Second category:** Account number 2391, represents financial transfers, denoting all external flows related to expatriate workers who have resided abroad for at least one year. These transfers include physical assets or goods transferred by migrants to their home country, either to their family members or to their personal bank accounts in their home country.
- **Third category:** Account number 2431, represents migrants' transfers, reflecting the net financial transfers made by migrants when leaving their home country, returning to it, and residing there for a period of at least one year.

### **1-1-2 World Bank (WB) Definition:**

The financial remittances from migrants are defined as transfers made by employees or individuals who intend to remain employed outside their home country for more than a year. They send their money or a portion of it to their home country (Hicham, 2018, p. 73).

### **1-1-3 International Organization for Migration (IOM) Definition:**

The financial remittances from migrants are defined as the total cash flows that migrants transfer to their home country, encompassing all financial flows associated with international migration movements (Zahra, 2018, p. 401).

Based on the above, we can define financial remittances from migrants as all financial transactions in which migrants transfer money, goods, or other financial assets from the country in which they reside to their home country.

## **1-2 Types of Financial Remittances from Migrants:**

Financial remittances from migrants vary in nature, including cash flows sent to the migrants' home countries, which are sent by migrants to their family members in the home country. There are also goods sent by migrants such as electronics, clothing, and other items. Additionally, there is another type of remittances known as knowledge transfers, which primarily consist of knowledge acquired by migrants in the receiving countries and transferred to their home country for utilization. As for the common classification of financial remittances from migrants, it is based on the diversity of transfers according to the channels through which they are sent, starting from the destination country and reaching the home country. They are typically categorized into:

### **1-2-1 Official Financial Transfers:**

These transfers involve transactions that go through official channels using specialized financial institutions for money transfers, such as banks, post offices, and currency exchange offices. The flows of this type of transfer are recorded in the balance of payments of the recipient

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countries. Additionally, there are statistics and data available at the international financial institutions that record all official financial flows. These transfers are conducted through major channels. The main institutions involved in legal money transfers from one country to another include:

- **Money Transfer Companies:** These are financial institutions that operate in the field of money transfers and cover most countries globally. Among the most important ones are "Western Union" and "Tomas Cook," which are non-banking financial institutions licensed to conduct banking transfers, provided that the money is not deposited into an account that allows withdrawal by check.
- **Banks:** Money is transferred through banks, with the condition that both the sender (migrant) and the receiver (recipient) have current bank accounts. The bank acts as an intermediary to transfer the funds, and the recipient can withdraw the funds in their home country. This process can also be done electronically if the recipient has a credit card, allowing them to withdraw money from ATMs.
- **Postal Networks:** These are among the most important official transfer channels, as they have reduced the cost of transfers for migrants. The Universal Postal Union oversees this process, and it has contributed to reducing transfer costs for migrants. The average transfers per month increased from 400 to 7000 after implementing this system in 2007. The cost of transferring \$200 is around \$10 for migrants using postal networks, compared to up to \$25 in other institutions. The transfer can either be done traditionally, where the recipient has to wait for a receipt confirming the arrival of the transferred funds at the post office near their residence, which can take days or even months in some cases. Alternatively, the electronic method has significantly reduced waiting time for the recipient, usually not exceeding 12 hours.

### 1-2-2 Informal Financial Transfers:

These transfers go through unofficial channels, making them difficult to track and measure because they are not recorded in the balance of payments. Among the significant channels for informal financial transfers are:

- **Money Carrier (Porteur):** A person who transfers money from the migrant to their home country and delivers it to the migrant's family. The carrier could be another migrant intending to spend a vacation in their home country or someone who has permanently returned to their home country. This method relies on trust and security and is characterized by simplicity, clarity, and low cost. However, its main drawback is the high level of risk, such as theft and loss (Tapia, 2008).
- **Regular Mail:** In this method, the migrant transfers their money from the destination country to their home country using regular mail. This method is characterized by low costs but carries a higher risk of loss or theft.

- **Hawala System:** Due to the lack of sufficient banking coverage, individuals find it challenging to access and open current accounts. Therefore, for financial transfers, they resort to the hawala system. This system primarily involves two points: one in the destination country where the migrant resides and another in the home country. The point in the destination country contacts the one in the home country, informing them about the money transfer intended for another migrant who wants to send it to their family. The recipient of the funds needs to be aware of the secret code, which is a necessary condition for receiving the funds (Abdelnour, 2015, p. 23).

### **1-3 The Reality of Migrants' Financial Transfers in Algeria:**

It is known that the majority of financial transfers from migrants in Algeria originate from Europe. This is attributed to the concentration of Algerian migrants in Europe, considering it the closest destination. The following table illustrates the developments in the flow of financial transfers from Algerian migrants during the period between 1990 and 2022.

**Table (1):** Flow of Financial Transfers from Algerian Migrants during the Period 1990-2022

**Unit:** Billion dollars

<b>Years</b>	<b>Financial Transfers from Algerian Migrants</b>
1990	0.35
1991	1.29
1992	1.39
1993	1.14
1994	1.39
1995	1,12
1996	0.88
1997	1.06
1998	1.06
1999	0.79
2000	0.79
2001	0.67
2002	1.07
2003	1.75
2004	2.46
2005	0.17
2006	0.18
2007	0.09
2008	0.1
2009	0.15
2010	0.19

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2011	0.2
2012	0.21
2013	0.21
2014	2.45
2015	1.99
2016	1.98
2017	1.79
2018	1.98
2019	1.78
2020	1.7
2021	1.759
2022	1.82

**Source:** Compiled by researchers based on data from the website  
<https://www.knomad.org/data/remittances>

Through Table (1), it is evident that financial transfers from migrants have experienced fluctuating developments during the period between 1990 and 1999. This fluctuation can be interpreted through changes in various macroeconomic indicators. These changes resulted from Algeria's adoption of a series of reforms under the guidance of international financial institutions such as the International Monetary Fund and the World Bank. This was to overcome economic challenges arising from declining oil prices and increasing external debts. In addition to these factors, financial transfers from migrants were also affected by social factors such as rising unemployment rates and poverty.

Since the beginning of the third millennium, financial transfers reached their lowest levels in 2001, gradually increasing until 2004, and then experiencing a decline in 2007. However, in general, there was an increase in subsequent years due to improvements in economic and financial conditions.

### 2- The Reality of Foreign Exchange Reserves in Algeria:

Foreign exchange reserves are simply defined as the total annual accumulations of foreign assets owned by a specific country. These reserves are constituted by recording surpluses in the balance of payments. One of the main sources for these reserves can be the surplus in the trade balance. For example, in Algeria, the surplus in the trade balance from the hydrocarbons sector is a major source of constituting foreign exchange reserves. Revenues from oil and gas exports contribute to enhancing the country's foreign value, thus contributing to an increase in foreign cash flow.

**Table (2):** Development of Foreign Exchange Reserves in Algeria during the Period 2000-2022.

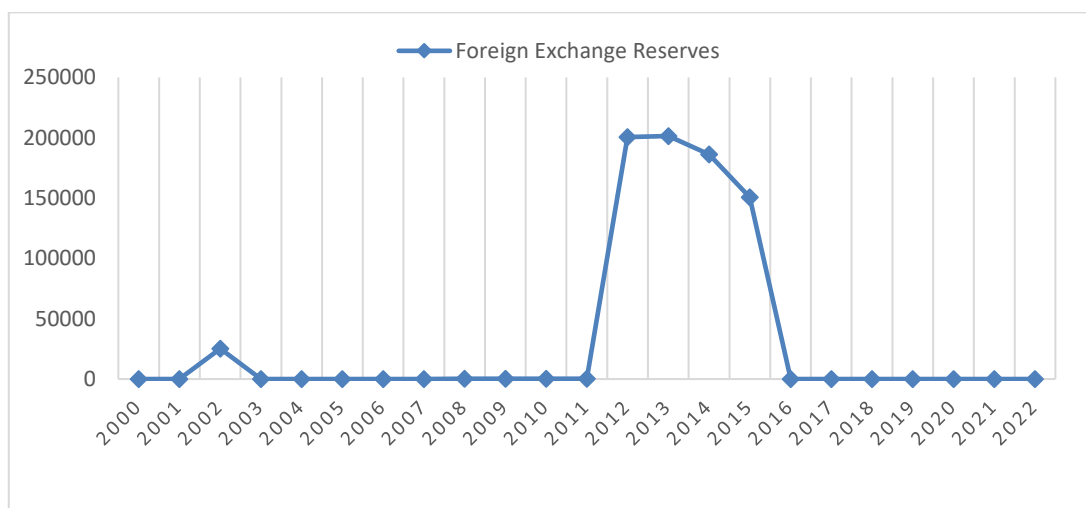
Years	Foreign Exchange Reserves
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2000	13.556
2001	19.625
2002	25.151
2003	35.455
2004	45.692
2005	59.167
2006	81.463
2007	114.972
2008	148.099
2010	170.461
2011	191.396
2012	200.587
2013	201.437
2014	186.351
2015	150.595
2016	114.14
2017	97.33
2019	53
2020	42
2021	44
2022	60

**Source:** annual report on Economic and monetary development in algeria ,bank of Algeria.  
2000\_2022.

**Fig (1):** Development of Foreign Exchange Reserves in Algeria during the Period 2000-2022.



**Source:** Compiled by researchers based on the data from Table No. 2.

From the table and the figure, it is observed that the foreign exchange reserves in Algeria have continuously increased since the year 2000. This increase was significantly evident until the year 2008, rising from 13.556 billion dollars to 148.099 in 2008. However, it is noted that

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the increase in reserves has taken a relatively slower pace compared to the previous years during the years 2008-2009, with an increase estimated at 7.013 dollars between these years. This can be associated with the global crisis in 2008. The reserves then began to rise again from 2009 until 2013, achieving its maximum increase. Subsequently, there was a continuous decrease until 2017, followed by a slight increase in 2022 compared to the preceding years. Since the Algerian economy is predominantly influenced by the hydrocarbons sector, any increase or decrease in reserves is closely linked to changes in oil prices.

### 4- Contribution of Migrant Remittances to Supporting Foreign Exchange Reserves in Algeria:

Migrant remittances are considered one of the sources of foreign exchange for the country, playing a significant role in supporting foreign exchange reserves. We will highlight this role through the percentage of remittances to foreign exchange reserves.

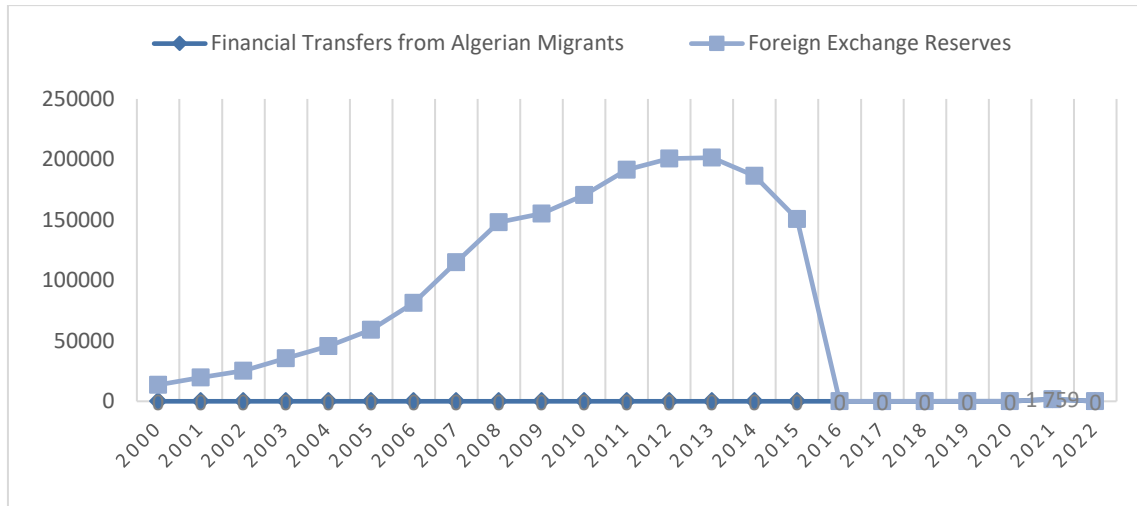
**Table (3):** Percentage of Algerian Migrant Remittances to Foreign Exchange Reserves in Algeria

Unit: Billion dollars

Years	%
2000	5,827
2001	34,134
2002	42,543
2003	49,358
2004	53,838
2005	0,2873
2006	0,2209
2007	0,0782
2008	0,0675
2009	0,0967
2010	0,1114
2011	0,1044
2012	0,1046
2013	0,1042
2014	13,147
2015	13,214
2016	17,347
2017	18,391
2018	2.4787
2019	35,283
2020	40,476
2021	39,977
2022	30,333

Source: report bank.2 2023\_000 [www.bank.ofalgerie.dz](http://www.bank.ofalgerie.dz)

**Fig (2):** Developments in Foreign Exchange Reserves versus Migrant Remittances in Algeria during the period 2000-2022



Source: Compiled by researchers based on data from Tables 1 and 2

From Table No. (03), the impact of Algerian migrant remittances on foreign exchange reserves is evident, with weak percentages not exceeding 6%. In the year 2000, the percentage was estimated at 5.827, the highest value. This can be attributed to several factors, including the depreciation of the Algerian dinar against the dollar and the elimination of the previous political conditions that Algeria went through before the year 2000.

In 2001, the percentage dropped to 3.4134 due to the political conditions prevailing globally following the events of September 11, 2001. The percentage then increased until 2004 to 5.38, only to decrease again from 2005 to 0.2873. It continued to decline to less than 1% over the following years. This decline was accompanied by a significant increase in the volume of foreign exchange reserves. It's worth noting that this period saw a substantial increase in oil prices until 2013. The percentage slightly increased from 2017 to 2022.

### Conclusion:

The volume of financial remittances from Algerian migrants remains weak, barely exceeding 2 billion dollars. This is an extremely small proportion compared to the number of Algerian migrants abroad on one hand, and to other countries that are recipients of migrant remittances, such as Lebanon, Egypt, and Morocco, on the other hand. This can be attributed to various factors, with one of the most significant being the Algerian government's lack of focus on the financial remittances of its migrants and the weakness of the banking system. The study has also found that there is no significant contribution from Algerian migrant remittances to supporting foreign exchange reserves in Algeria. This is due to the nature of the economy, as the Algerian economy relies on the revenues from hydrocarbon exports as a source for accumulating reserves. The contribution of remittances to these reserves has been very weak.

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Despite their low contribution, migrant financial remittances rank second as a source of hard currency. They have remained resilient to previous crises, such as the 2008 financial crisis. This makes them a safe and strong source for accumulating foreign exchange reserves, necessitating the Algerian government's attention to this matter.

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