

THE DYNAMIC IMPACT OF REMITTANCES ON ECONOMIC GROWTH IN EASTERN EUROPEAN COUNTRIES

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Abstract:

This paper examines the dynamic relationship between remittances and economic growth in a panel of nine Eastern European countries over the period 2003–2021, using a System GMM framework that explicitly addresses endogeneity, persistence, and unobserved heterogeneity. The analysis incorporates financial development, institutional quality, and major macroeconomic shocks to explore whether remittance inflows generate growth-enhancing effects or structural distortions associated with the Dutch Disease. The empirical results indicate that remittances exert a statistically significant and positive impact on economic growth. However, this effect is nonlinear and conditional on the level of financial development. In financially underdeveloped environments, remittances initially substitute domestic credit, generating a crowding-out effect. As financial development improves, this relationship reverses and remittances become complementary to domestic financial intermediation, strengthening their contribution to growth. Threshold estimations confirm the existence of this transition at very low levels of financial development, implying that Eastern European economies rapidly move from substitution toward complementarity. The findings do not support the presence of a strong Dutch Disease mechanism. Remittance inflows remain well below the structural thresholds commonly associated with sustained real exchange rate appreciation and sectoral distortions. Instead, the main structural vulnerability of the region stems from persistent labor emigration and human capital depletion. Crisis periods, particularly the global financial crisis and the COVID-19 pandemic, significantly reduce growth, yet remittances continue to function as an important macroeconomic stabilizer. These results highlight the crucial role of financial development and institutional quality in converting remittance inflows into sustainable economic growth. Policy efforts should therefore focus on deepening financial markets, strengthening institutions, and shifting development strategies from migration-dependent growth toward domestic productivity expansion.

Keywords: *Remittances, Economic Growth, Financial Development, Eastern Europe, System-GMM*

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