

## Remittance Analysis and their Economic Aspect, Kosovo Case

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### Abstract

The role of remittances as an external source of funding is considered to be extremely beneficial for many countries, especially for those facing with large number of unemployed and a slow pace of economic development. As Kosovo faces an unfavourable economic situation, remittances from abroad have been a great support, contributing to the well-being of Kosovar families. Kosovo's economy heavily relies on the remittances of immigrants living in Diaspora, but the data and analysis regarding the extent of the remittances in Kosovo have been scarce. In this paper, an analysis will be conducted on the remittances received so far in Kosovo, focusing on their effects on the economy, and especially their impact on GDP and exports and FDI. As a conclusion, this study is expected to yield results that will reflect more in detail and more precisely as to what is the real impact of remittances in emerging economies and which have a high percentage of remittances received in general in these countries, and in particular more insights will be provided as to where Kosovo stands at this level of remittance impact on the economy.

**Keywords:** remittances; investments; economic development; Kosovo

### 1. Introduction

Emigrant remittances represent the most important and lasting source of external financing for developing countries, since in recent years, they exceed FDI, and in many countries, they are larger than foreign aid. Their importance adds even more if we consider that they significantly cover trade deficits, which are inevitable when production in the country is very low and most of the products have to be imported.

As in many developing countries, for the Kosovo economy remittances are of great importance, as they are one of the important financial resources for the consumption of many Kosovo families, while maintaining the social stability in the country.

Remittances effects on the domestic economy should be seen in relation to GDP, exports and FDI, and from the data it is seen that they are at a percentage of 10-15 percent, while they exceed export and FDI values, i.e. double the number and in a few years even four times FDI and exports. The role of remittances at the macro level has had positive effects on improving development, maintaining economic stability, security from various economic shocks and reducing poverty level (Maimbo, S.M., & Ratha, D. 2005).

### 2. The Importance of Remittances

The importance of remittances is easily noticeable by the large amounts entering in Kosovo, which are pretty steady and almost only increased in recent years, and their share in many Kosovo families is very high, as it may be the only income they receive, and with which they cover the basic living needs.

Their role in the economy is very high, as they represent a high percentage of GDP, they go far beyond FDI and exports, and almost fully cover imports that are made within a year.

From many countries that have no opportunities and capacities to generate jobs for the active working population, it faces immigration, which aims at finding employment in another country for a better economic life for himself and his family.

In many studies that have been conducted, one of the main reasons for emigration are economic reasons, and then comes the importance and impact of emigration has a bearing and effects on not only the sending country but also for the recipient country, as the birth rate problems and lack of workforce in many areas and professions are faced by many nations.

### 3. Economic Dimension

Remittances and their impact can be multidimensional but the economic dimension is most important since the direct effects are huge and vital for many Kosovo families which regularly receive remittances and improve their socio-economic status.

#### 3.1 The Impact of Remittances on GDP

The economy of Kosovo during all these years after the war has recorded continuous economic growth, which has mainly come from public investment and consumption, and less from investments and net exports. However, it should be taken into account that the bearer of economic growth is consumption by households, but the problem of Kosovo's case here is that there is a high trade deficit and a large amount of money is out of the domestic economy as a result of higher imports, compared to a low volume of exports.

So there is a continuous increase in imports, and this directly mitigates any economic growth so that instead of Kosovo having a higher GDP, it is usually lower because economic growth in nominal terms "disappears" by payments for imported goods.

Remittances are an integral part of the revenue and indirectly also of the GDP, and the share of remittances in the GDP is between 10-15% over the period 2008-2016, so the importance of remittances is very important in terms of economic aspect and their impact is almost constant.

**Table 1:** Remittance to GDP ratio (in million Euros)

Year	Remittances	GDP	% that remittances occupy on GDP
2008	609	3,883	15.68 %
2009	586	4,070	14.40 %
2010	584	4,402	13.27 %
2011	493	4,815	10.24 %
2012	516	5,059	10.20 %
2013	573	5,327	10.76 %
2014	622	5,567	11.17 %
2015	665	5,807	11.45 %
2016	691	6,070	11.38 %

**Source:** KAS; Calculations: The author

Remittances impact indirectly on GDP through consumption increased by emigrants when they come to vacation in their country of origin as well as through the small scale investments they make. In the first years after the war, everything was almost entirely destroyed, both in residential buildings, in construction and agricultural machinery, in workshops and small businesses, and almost to a large extent, it was the Diaspora's contribution to restore the normal situation, as well as it should be noted that visits of migrants to the country of origin were more frequent in that period.

**Table 2:** Frequency of Immigrants Visits to Kosovo

Frequency of visits in Kosovo	% of immigrants
Once a year	19.9 %

Twice a year	4.3 %
Three to four times a year	63.9 %
Several times a year	11.9 %

**Source:** Kosovo Remittance Studies 2013 (KAS)

From the table above, it can be seen that in 2012 when the surveys were conducted, most immigrants visit Kosovo more than three times a year, and the effect of their visits reflects on expenditures and in this context through increased consumption of goods and services even in GDP growth.

While looking at the data in the table below, it is noticeable that the annual expenditures of immigrants are higher than cash remittances and goods and services, hence their impact may be higher in the GDP indirectly. Here it should be borne in mind that a large part of the expenses they make during their stay in Kosovo is difficult to be measured, as they usually stay more than four weeks and incur great expenditures.

The expenses of immigrants during the holidays in their country of origin is different, such as food and beverages, clothing, transport (including diesel and gasoline products), gifts, household appliances, health services, etc.

**Table 3:** Remittance Revenues in Kosovo over the years

Year	Average remittances in cash and goods and services	Average Expenditure of immigrants	Total annual remittances in cash and goods and services	Total annual expenditure of immigrants	Total annual revenue of remittances
2010	3.331 €	2.757 €	174.3 million €	272.4 million €	446.7 million €
2011	2.136 €	2.352 €	157.5 million €	214.1 million €	371.6 million €
2012	2.829 €	2.715 €	186.9 million €	270.1 million €	457 million €

**Source:** Kosovo Remittance Studies 2013 (KAS)

From the table, it is clear that the annual expenditures of immigrants are pretty high over 200 million Euros each year, or over 2 thousand Euros the average expenditure for each migrant. Mostly this money is spent on consumer goods, and considering the high levels of imports in most of the goods, then this money goes out of Kosovo for a short time.

The impact of remittances on GDP would be much greater if they were channelled into more productive uses, as by the form of remittance income we see that the most of them go into consumption, while very little for investment. No empirical study has been found for Kosovo, which has only investigated the impact of remittances on GDP, but from other countries' researches it has been found that remittances have a positive impact on GDP. Umar et al. al. (2012) in their study of Pakistan found that the growth of one million dollar remittances, GDP has increased by eleven million dollars.

Moreover, another finding of their study for Pakistan, is that the country's government can increase remittances by immigrants from sending out of the country's unemployed young people to earn income for their lives, and this will have a double impact: first, unemployment, disappointment and crime rate fall, and secondly: most of remittances sent by the Diaspora will result in a higher GDP.

Fayissa and Nsiah (2008) used a linear function, Cobb-Douglas production to analyze panel data for 37 African countries for the period 1980-2004. They conducted research on the contribution of remittances to economic growth compared to other factors that impact on economic growth such as FDI, external aid, human and physical capital, the opening of a place, the policies and the remaining income. They found that the impact of remittances on economic growth was positive and important. Thus, a 10 percent increase in remittances led to 0.3 percent GDP growth per capita.

Ziesemer (2011) analyzed the impact of remittances on GDP per capita, savings, public spending on education, tax revenue and emigration. In this study, he used data for 52 countries with GDP less than \$ 1200 (base year 2000). The results of

this study showed that remittances have a strong positive relationship with GDP per capita, savings rate and public spending on education.

Ratha and Mohapatra (2007) note that when a recipient country experiences an economic decline due to the financial crisis, natural disasters or political conflicts, remittances tend to increase.

In many countries, remittances, together with foreign direct investment, represent two of the most important sources of external funding. By making a comparative analysis of the participation of remittances and FDI in GDP, we can see and note how important remittances are to the country's economy.

In Table 8 and 9 we see how remittances are much higher than FDI for every quarter or even year in the framework of this period presented in the tables, and accordingly we can conclude that even the weight of remittances in the country's economy is significantly higher than FDI, although both are seen to contribute a lot to the economy. From Table 9 we see that GDP in 2015 has been higher in the period 2010-2015, as well as remittances in this year reached the highest amount throughout this period.

### 3.2 Remittance relation to FDI and Exports

Remittances are an important source of external funding for many developing countries, and in many cases, countries with a large Diaspora also exceed Foreign Direct Investments (FDI). To see the role of remittances in the country's economy, another important and weighty indicator is their relation with the export of goods and services of the country.

As shown in the tables and graphs below, two indicators of importance to the country's economy, FDIs have a decrease, unlike remittances that increase and represent a sustainability, implying that the economy and the level of living and consumption in Kosovo is more affected by remittances than by foreign investments.

**Table 4:** Foreign Direct Investment and Remittances in Kosovo 2007-2014

Value in Million Euros

Year	2007	2008	2009	2010	2011	2012	2013	2014
FDI	440.74	369.86	295.45	368.51	384.39	229.06	280.23	151.30
Remittances	515.61	608.72	585.70	584.33	584.81	605.63	620.83	693.68

**Table 5:** Percentage Weight Occupied by Remittances in FDI

Year	2007	2008	2009	2010	2011	2012	2013	2014
Remittances /FDI	117%	165%	198%	159%	152%	264%	222%	458%

**Source:** Central Bank of the Republic of Kosovo

Remittances in most countries have had a positive impact on economic growth and represent an important source in creating the economic and social sustainability of such countries, and undoubtedly they have had an impact on living conditions and have generally increased the welfare of families that are recipients of remittances.

The impact of remittances should be seen from a positive but also negative point of view; both sides should be analyzed concretely about the impact of remittances on household income and expenditure, labour market, access to education, health care services, etc. According to the UN Development Program (UNDP 2010), remittances from the Diaspora contribute about 40 percent of the total monthly income of the families receiving them.

Thus, the remittances' weight in remittance-receiving households is quite large and without their participation, the overall income may have direct effects on many basic needs such as health services, education, clothing and especially in food.

Although, according to the 2010 World Bank report, remittances have helped members and families to buy basic things, but it remains unclear whether remittances have contributed to investment in business and education (WB, 2010).

Remittances by CBK reports from 2004 to 2014 in most years have been on the rise, notably, in 2014 they were even higher, reaching 693.7 million Euros, with the tendency to be even higher in 2015, based on statistics from January to May 2015, always comparing with the same period of 2014, respectively January to May 2014.

Given the amount of money received through remittances over a year, their role and impact is great and very important, so decision-making and policy-making institutions need to prepare concrete strategies to channel these amounts into investment projects for economic development.

The role and impact of remittances depends largely on the host country and the policies it implements, especially in terms of monetary and credit policy applied by the country, then in fiscal policy, pricing policy, competitiveness and economic liberalisation, social policy, and first of all, to what extent there is a harmonization between these policies. Policy alignment should take place within a country because only then the necessary prerequisites are established for the realization of economic activity by economic entities and in this context the use of remittances in investment will give the appropriate results in terms of growth and economic development.

### *3.3 The impact of migration and remittances on the economy (in microeconomic and macroeconomic terms)*

Migration is a dynamic process, as in most cases an immigrant attracts one or more to migrate, especially those who are close or have a family or friendly relationship. The large migration and remittances that immigrants send to their country of origin are extremely important, especially when economic development is slow and the country faces difficulties of different natures, so the impact of remittances is noticed both at the microeconomic and macroeconomic levels. The World Bank reports that remittances have significantly reduced poverty in different countries, such as Bangladesh, Guatemala, and Uganda (Todaro, M.P. & Smith, S.C. 2012).

From a microeconomic point of view, remittances are an important monetary source for the family of origin, helping families with this source to have basic living conditions and to meet the existential needs of living as food, shelter, clothing, and so on. Also, in this aspect, even in households with other incomes, and remittances constitute an additional source of income, they have an important role in enabling a better economic and social life, they can use additional financial resources in higher education, more advanced health care, or savings or investment to raise family capital.

The improvement of key macroeconomic indicators weakens migration, while the worsening of macroeconomic indicators promotes new wave of massive migration. Generally speaking, remittances in Kosovo have positively impacted macroeconomic stabilization, allowing for the financing of imports, covering trade deficits that are inevitable during this period that Kosovo's economy is going through, stimulated the development of the construction sector.

The microeconomic and macroeconomic impacts of remittances are diverse, depending on the context of the sending country, the selection of migrants and their use by recipient households. A common and extremely important feature in the context of human development is countercyclical nature: the ability to protect families in countries of origin / timely delivery of economic downturn, political conflicts or natural disasters (de Haas, 2009).

At the macroeconomic level, migration and remittances contribute to the country's economy by participating in GDP growth in Kosovo, which has been steadily increasing in recent years, and remittances have also played a major role here. In a macroeconomic context, remittances increase consumption, cover trade deficit and contribute to exchange rate stability (Kireyev 2006).

Furthermore, migration and remittances to a certain extent have helped to stabilize employment, compensating for some of the income that would come from regular employment in the domestic market. According to Pant (2008), remittances other than those used for consumption and capital investment have a positive impact on the economy in stimulating demand for goods and other services. (B.Dietz, "Migration and Remittances in Macedonia: A Review", Working Paper, no. 281, 210 pg. 3).

In any aspect of remittances, both microeconomic and macroeconomic, their impact is enormous given the sum of over 600 million Euros coming to Kosovo each year, most of which are used for consumption. But besides these, many immigrants visit Kosovo on average 1-2 times a year and make expenses by causing that many businesses in Kosovo

during this period when immigrants stay increase turnover and generate greater revenues, and of course, new temporary jobs are generated in certain sectors, especially in the trade and hotel services sector.

### *3.4 Contribution of remittances to the economic development of the country*

Decision-making bodies of Kosovo, by creating appropriate policies can stimulate investments from the Albanian Diaspora, as through these investments a greater economic growth would occur.

The readiness of many Diaspora members who have high human and financial capital potential, which they have created for many years in their current state, is to invest their capital in their country of origin. But, in advance, the state of Kosovo should create favourable conditions for absorbing these investments by compatriots because considering that we are living in a time of great globalization, where even renowned companies have shifted equipment and technology to produce their own traditional products in another country at a cheaper cost, such as labour force, in some cases even raw materials, and thus remain competitive in the market.

Once the main and only goal of every company was profit and profit only, while today the company, besides aiming for profit, they have added to this goal their maximization, so they demand for each year more profits than the previous period.

Therefore, policies should focus on attracting as much investment as possible, and in this regard, cooperation should be intensified and more frequent contacts with members of the Diaspora who are already part of the giant world companies in different production areas, trade and services. Thus, encouraging the Albanian Diaspora to invest in Kosovo would increase the opportunities of bringing co-operation with foreign investors as well.

Through cooperation that could be realized between the Diaspora and foreign investors, the image of Diaspora would improve in the countries where they live but this would also have an effect on improving the image of Kosovo in other countries.

Already, it has almost become a phenomenon that many markets are no longer attractive to investors because they simply are not very attractive, so these circumstances should be used to attract as much investment as possible and a good opportunity is through our Diaspora, which is in most developed countries and who have gained different experiences and in most cases are successful. This experience along with their financial capital that they have created for several years, could have been used to raise companies in certain sectors where we could be more competitive than companies of other countries.

From the statistics, we can now see that remittances have a stability regarding their arrival, especially when we consider the recent financial crises in many economies of countries where our Diaspora lives and operates, but does not mean that this trend of remittances will remain for a long time, as immigrant generations are changing age and in the future a disconnection of close family ties will occur. So this may be the golden time to use our Diaspora to invest the capital created by them, to preserve and deepen even more the family ties between the members that live in Kosovo and those who may be living in other countries.

However, the crises in the economies of countries where our Diaspora is can affect the reduction of remittances in addition to other reasons. According to the World Bank, the pace of the remittance flow began to slow down by the second half of 2008 as a result of the crisis that appeared in several countries such as Greece, Ireland, Spain, Italy, etc. (World Bank Report, 2012).

## **4. Conclusion**

The importance of remittances from an economic point of view for the underdeveloped and developing countries is very high and vital considering that in most of the countries, they represent a high percentage of incomes compared to GDP. From statistics it can be seen that in many countries, but also in Kosovo, they exceed FDI and foreign aid largely cover trade deficits and are a very important source of well-being for Kosovo's families. How important are remittances is also shown by their relation to the GDP, FDI and exports.

Given that the percentage of remittances in relation to GDP is almost every year over 10 percent, while FDI and exports exceed almost double, respectively quadruple over a few years.

Remittances in Kosovo come in different forms, such as cash, various goods and products, services, and a large part of the expense when immigrants visit their home country. Regarding the frequency of visits, immigrants visit Kosovo several times a year, according to statistics, the largest percentage, with over 60 percent, visits three to four, so in each visit they spend or better say contribute to the increase of consumption, and so on GDP growth.

Most of the remittances brought by immigrants in Kosovo over the past 10 to 15 years have been steadily increasing, and therefore their role has been great. They have not stopped and have not declined even in the recent financial crisis that was in many countries of the world, such as the countries or states where the immigrants from Kosovo are concentrated and the powerful economies of those countries that have easier coped with the crisis compared to some other countries where the percentage of immigrants from Kosovo is very small.

Kosovo possesses a really advanced legislation and in line with European legislation in many areas, but the practice and enforcement of laws is still far from European standards and practices.

Ultimately, regarding remittance analysis and their economic impact, it can be said that Kosovo remains far to do from the practical aspect of law enforcement, implementation of strategies, and the provision of the opportunity to channel remittances from consumption to investment, since their impact may be greater and for longer time.

Adequate business environment needs to be created, information should be provided about the potential and opportunities that Kosovo provides for investment, the need to harmonize and join the interests of immigrants with financial potential and ready to invest in their country of origin, and objectives that the state of Kosovo has to develop the economy and raise the well-being of its citizens.

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