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# The effects of the Global Financial Crisis on Kosovo's Remittances

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**Abstract.** Kosovo's nearly half of the population lives outside of its territory, making its diaspora have an epic impact on Kosovo's development through remittances. Remittances affect Kosovo's Gross Domestic Product (GDP) through their impact on GDP's main factor which is consumption. Since remittances constitute nearly 12% of Kosovo's GDP, this research is important because its focus is to understand the effect that Western Europe Countries have on Kosovo through remittances – especially through unemployment. This research aims to understand the impact of Global Financial Crisis on remittances of Kosovo. This is a quantitative research based on numerical data. Analyses of this research are done through statistical methods and SPSS Statistics Software.

**Keywords:** Kosovo's Remittances, Financial Crisis, GDP, Western Europe.

## Introduction

Remittances have an enormous role to Kosovo's economy. Kosovo's economy is mainly affected by personal consumption and the main factor contributing to consumption are remittances. This research aims to understand the effect that Western Europe Countries have on Kosovo through remittances, especially the impact that Global Financial Crisis of 2008 had on remittances of Kosovo.

First, there will be an overview on statistical facts of Kosovo's remittances. Then, this study focuses on the top three main countries (Germany, Switzerland and Italy) that host Kosovan emigrants and how their unemployment rates through Financial Crisis of 2008-2010 affected Kosovo's remittances. Finally, a correlation analysis has been conducted in order to analyze any relation between unemployment rates (of Germany, Switzerland and Italy) and remittances sent to Kosovo.

Through results of this study it has been concluded that unemployment rates of Germany and Italy during the Financial Crisis of 2008 had a strongly negative impact on Kosovo's remittances.

Hypothesis of this study are:

H1: Germany's unemployment rate has a negative impact on Kosovo's remittances.

H2: Switzerland's unemployment rate has a negative impact on Kosovo's remittances.

H3: Italy's unemployment rate has a negative impact on Kosovo's remittances.

## Literature Review

### Remittances of Kosovo

Migration of Kosovan population has started since the Yugoslavia era '60-'70 [2]. Kosovo has one of the highest emigration rates in Eastern Europe. More than one in every third household has a family member abroad. Remittances are considered to be a crucial source of external finance [14], amounting more than 11% of Kosovo's GDP in 2010 [1].

Remittances have served as a main factor for many Kosovan households. Since 1960s, migration and remittances have made immense contribution to Kosovan economy. They also help households lacking employment. These remittances have played a crucial role in helping households to meet their basic consumption needs [3], since 45% of total cash remittances received are used for consumption, only 11% are used for business investment and 12% are used for housing investment. Kosovo has high unemployment rate and migration has served as a key factor on reducing the pressure on labor market. Remittances have served as an informal network for vulnerable households. 37% of Kosovan households have family members abroad where 25% receive remittances [12] [13].

The largest share of Kosovan emigrant household heads, 53.6%, emigrated after the 1999 conflict. Germany, Switzerland and Italy remain top three host countries of Kosovan emigrants [12], hosting 37.1%, 22.6% and 5.3% of all emigrants [4].

In Figure 1 it can be seen a notable decline of remittances from €608.7 mln to €585.7 mln due to global financial crisis.

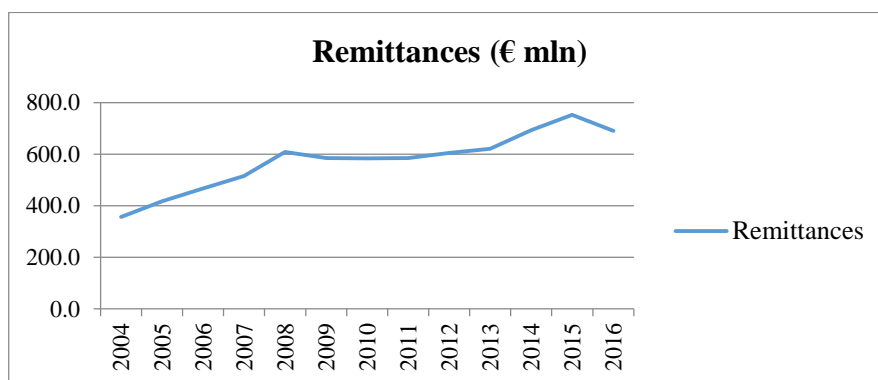


Fig 1. Remittances sent to Kosovo 2004 – 2016 (BQK)

### Global Financial Crisis of 2008

The Great Financial Crisis which hit the world economy in the aftermath of the bankruptcy of the investment bank Lehman in 2008. This Financial Crisis was the most severe fall of real GDP in 2009 among many high income countries. Although the euro area was considered for a long time as a protective shield against the problems, gradually the credibility of European currency came under pressure [6].

As mentioned before, the three main hosts of Kosovan emigrants are Germany, Switzerland and Italy. Now we are going to analyze the unemployment rates of these countries, in order to see if there is any correlation between unemployment rates (in Germany, Switzerland and Italy) and remittances sent to Kosovo.

## Germany

In September 2008, a deep impact from New York affected the financial world: companies went bankrupt, unemployment increased society was also affected. The economic system in Germany was deeply hit by financial crisis. In 2008, the annual economic growth rate fell to 1% and in 2009 it even became negative at -4.7% [7].

Figure 2 shows that unemployment rate in Germany during the financial crisis of 2008 increase from 7.53% in 2008 to 7.74% in 2009.

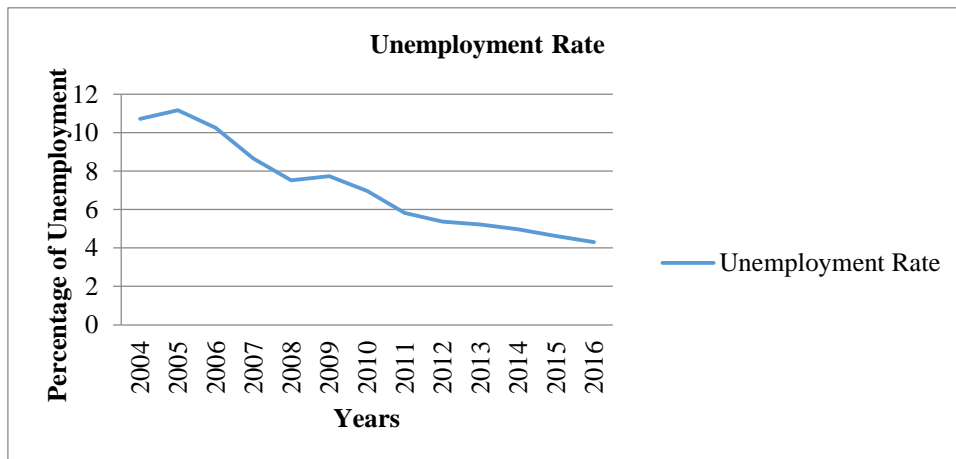


Fig 2. Unemployment rate in Germany 2004-2016 [9].

## Switzerland

The Financial Crisis of 2008 caused a drop in exports, losses for the tourism business and a rise in unemployment in Switzerland. The Swiss economy slowed down considerably in the third quarter of 2011, when the real gross domestic product only increased by 0.2%, while exports (-1.2%) decreased for the first time [8].

Figure 3 shows that unemployment rate in Switzerland during the financial crisis of 2008 increased from 3.35% in 2008 to 4.12% in 2009 and also continued to increase to 4.54% in 2010.

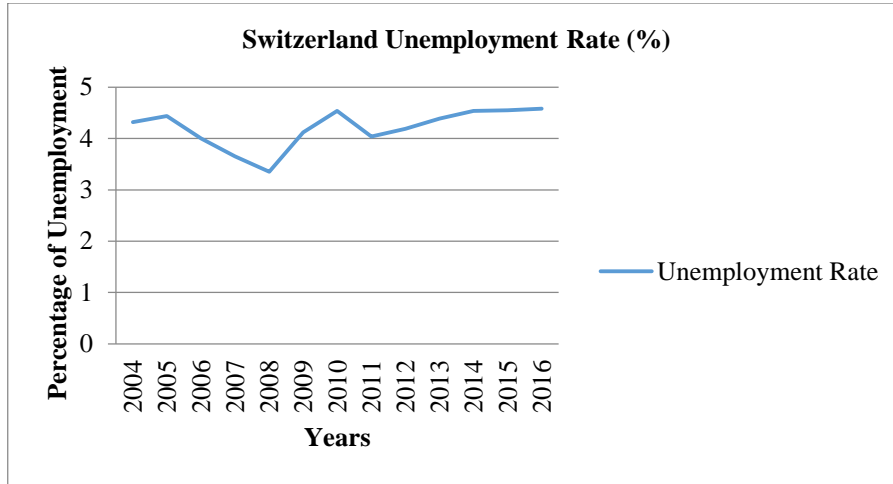


Fig 3. Unemployment rate in Switzerland 2004-2016 [10].

## Italy

2009 was characterized with negative economic performance, where GDP decreased in real terms by five percentage points from its average value in 2008. In 2009, the number of people in employment declined by 380.000, while unemployment rate increased to 7.8% [5].

Figure 4 shows that unemployment rate in Italy, during the financial crisis of 2008, increased from 6.08% in 2008 to 6.72% in 2009 and continued to increase to 8.36% in 2011.

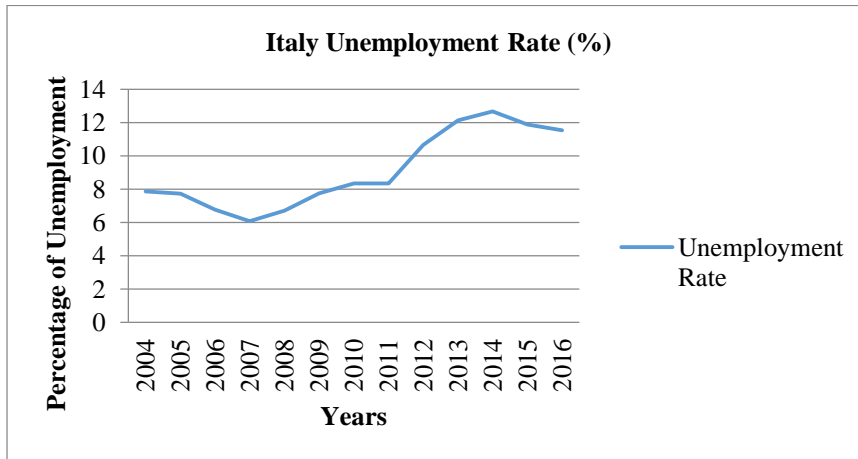


Fig 4. Unemployment rate in Italy 2004-2016 [11].

## Methodology

Descriptive research has been used in this paper because there was no need to analyze thoroughly. This research is based more on quantitative analysis since it is believed that there will be more accurate analysis of how Global Financial Crisis affected remittances of Kosovo. Also statistical methods as correlation were used to analyze the results through SPSS Statistical Analysis.

## Results

The dependent variable of this study is remittances sent to Kosovo, while independent variables are unemployment rates in Germany, Switzerland and Italy. Pearson correlation has been used to analyze the impact of unemployment rates of these countries on remittances sent to Kosovo. According to the table below (table 1) the correlation coefficient between Germany's unemployment rate and remittances sent to Kosovo is -0.932 and also by considering p-value = 0.000 which is smaller than 0.05, the hypothesis stating that Germany's unemployment rate negatively influences remittances sent to Kosovo is acknowledged.

**Table 1.** Correlation between Germany's Unemployment and the remittances sent to Kosovo.

		Germany Unemployment	Remittances
Pearson Correlation	Germany Unemployment	1	-0.932
	Remittances	-0.932	1
Sig. 1-tailed	Germany Unemployment		0.000
	Remittances	0.000	
N	Germany Unemployment	13	13
	Remittances	13	13

According to the table below (table 2) the correlation coefficient between Switzerland's unemployment rate and remittances sent to Kosovo is 0.746 and also by considering p-value = 0.021 which is smaller than 0.05, the hypothesis stating that Germany's unemployment rate negatively influences remittances sent to Kosovo is not accepted. This means that the increase in unemployment rate of Switzerland during 2008-2010 did not affect Kosovo's remittances sent from there.

**Table 2.** Correlation between Switzerland's Unemployment and the remittances sent to Kosovo.

		Switzerland Unemployment	Remittances
Pearson Correlation	Switzerland Unemployment	1	0.746
	Remittances	0.746	1
Sig. 1-tailed	Switzerland Unemployment		0.021
	Remittances	0.021	
N	Switzerland Unemployment	13	9
	Remittances	9	9

According to the table below (table 3) the correlation coefficient between Italy's unemployment rate and remittances sent to Kosovo is -0.822 and also by considering p-value = 0.003 which is smaller than 0.05, the hypothesis stating that Italy's unemployment rate negatively influences remittances sent to Kosovo is acknowledged.

**Table 3.** Correlation between Italy's Unemployment and the remittances sent to Kosovo.

		Italy Unemployment	Remittances
Pearson Correlation	Italy Unemployment	1	-0.822
	Remittances	-0.822	1
Sig. 1-tailed	Italy Unemployment		0.003
	Remittances	0.003	
N	Italy Unemployment	13	9
	Remittances	9	9

## Conclusions

This study has explained that Financial Crisis of 2008 affected Kosovan remittances through unemployment rates of two main host countries of Kosovan emigrants, Germany and Italy. This research has shown that factors such as unemployment rates of Germany and Italy have a strongly negative impact on Kosovo's remittances. This means that with an increase of unemployment rates of those countries, Kosovo's remittances decrease. On the other hand, even though literature explains that during 2008-2010 Switzerland had an increase of unemployment rates, this did not affect decreasing Kosovo's remittances sent from Switzerland.

Finally this study concludes that Financial Crisis of 2008 affected Kosovo's remittances through unemployment rates of Germany and Italy.

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