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The impact of remittances on economic growth in Kosovo

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Abstract

Migration continues to be a very pronounced and very complex phenomenon in the world. Also, Kosovo continues to face a large number of migrants in different countries of the world for economic, social and political reasons. Diaspora has an important role in the development of the country in several forms, but one of the most common forms are remittances. The purpose of this paper is to show the impact of remittances on economic growth in Kosovo. The techniques that used to study this research are panel data. The study uses quarterly secondary data for the period 2010-2020. Remittances are an important mechanism for economic growth in Kosovo. The positive effects of remittances are also observed in the facilitation of health care, education, welfare and general living conditions, but given the trend of economic development in the world including the pandemic and many other elements, it is likely that remittances will not be stable in the coming years, therefore, at the end of the paper, recommendations are given on possible policies on predestination of remittances, reduction of bank transfer fees, especially from Germany and Switzerland, return of migrants and investments in Kosovo.

Keywords: *Economic Growth, International Emigration, Remittances.*

1. Introduction

Various literature reviews have identified several forms of contributions that may be provided by the diaspora in their countries where they come from. Remittances are considered the most frequent and most important financial contributions. The Diaspora of Kosovo has been and will remain an important financial resource for Kosovo. (Balkans, 2020) In many literatures, the benefits of countries that have from diaspora shows that in many countries of the world, especially in developing countries, the diaspora has been directly involved in economic developments, in the countries where they come from through their investments in various sectors. In this paper we will address a specific topic and it is about remittances which entered into unilateral transfers on the invisible balance sheet in its current account. The paper aim is to provide a regression analysis of the impact of remittances on economic growth in Kosovo for period 2010-2020. The variables that used in this paper are: Gross Domestic Product, Gross Capital Formation, Remittances, Foreign Direct Investment, Public Debt, Exports, Imports, Net Exports, Final Consumption Expenditures.

The research is divided into several parts. At the beginning there is a theoretical discussion on the various descriptions of the literature on Remittances, in the following part is the presentation of the methodology we used to conduct the research, the results of which are presented in the form of tables and graphs. In the end of paper is a summary of the results obtained and some economic recommendations that are formulated.

2. Literature review

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Remittances according to the International Organization for Migration are: monetary transfers that migrants make in the country where they come from. So, in most cases, these remittances are personal cash transfers from an immigrant to his relatives in the country where he comes from.

Remittances, commonly understood as money or goods that migrants send to family and friends in their countries where they come from, are often the most direct and well-known connection between migration and development. (Giuliano, Paola, Ruiz-Arranz and Marta, 2006).

Remittances can also be of a social nature, such as the ideas, behaviors, identities, social capital and knowledge that migrants gain during their stay in another part of the country or abroad, which can be transferred to communities of origin (Levitt, 1998).

The International Monetary Fund, the main provider of international remittance statistics based on Central Bank data, defines remittances as the sum of the two main components in their Balance of Payments Statistics manual:

1. **"Employee compensation"**: This refers to the income earned by temporary migrant workers in the host country and the income of workers employed by embassies, international organizations and foreign companies (Barajas, 2009).
2. **"Personal transfers"**: These are all current transfers in cash or received by residents (whether migrants or non-migrants) from or to individuals in other countries (all current transfers between residents and non-residents) individuals (Barajas, 2009).

According to the World Bank, "Remittances are current transfers from migrants who are considered residents in the country of destination." The World Bank counts as remittances three types of money transfers to countries of origin. These are: workers' remittances, employer compensation and remittances. (Bank, a.d.)

The three basic characteristics of remittances are: stability, cyclical behavior and time structure. These characteristics have attracted the attention of many researchers and have been included in important econometric analyzes. Also, to this day, these discussions or analyzes still continue to spark a lot of discussion in terms of the causes and consequences they carry.

2.1 Macroeconomic effects of remittances

Until recently, most discussions and research on remittances focused on end-use (microeconomic) use by host families, including the effects on poverty. The large size of remittances in many countries suggests that the macroeconomic effects of remittances may be critical in many countries.

Particular attention is paid to the impact that remittances have on a country's macroeconomic indicators. The impact on the level of GDP, the level of unemployment, the inflation rate, economic growth, the level of the balance of payments, the exchange rate, etc should be mentioned here.

Based on the literature, remittances help maintain macroeconomic stability, as well as remittances reduce the possibility of macroeconomic shocks. The reason is that the level of remittances tends to increase if the country where the remittances are directed is in a difficult economic situation.

In general, remittances can have a positive impact on the economy through several channels, such as: increasing savings, increasing investment, increasing consumption, reducing unemployment, as well as reducing poverty, thus affecting the level of GDP as well as the level of economic growth.

2.2 The Impact of Remittances on Economic Growth

Theoretical and empirical investigations on the economic impact of remittances have produced very mixed results. On the positive side, remittances contribute to poverty alleviation and, in some cases, provide capital to finance household investments and savings. For a number of countries, international remittances have boosted macroeconomic growth, mainly by increasing national disposable income.

The effect of remittances on economic growth depends on how they are spent. If remittances are spent on consumption, the impact of remittance welfare depends on the intensity of traded and non-traded goods. Empirical evidence shows that the effects of multiplication can significantly increase gross national product.

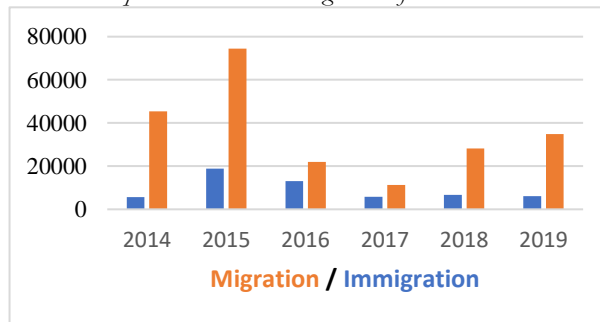
Based on some data and results, the data showed that remittances also reduced unemployment, but insignificantly. Remittances don't have only positive effects on the resource economy.

In most of developing countries, remittances represent the largest source of foreign exchange earnings and represent more than 10 percent of GDP. (Dietmar Meyera, Adela Sherab, 2016)

3. Emigration and remittances in Kosovo

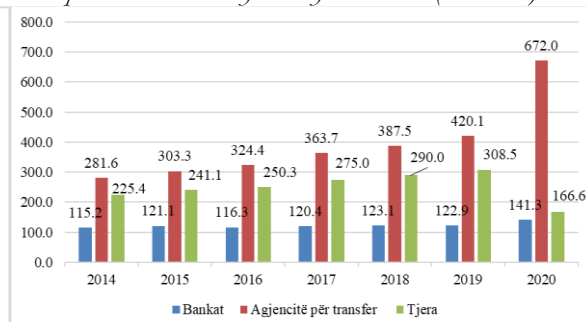
Kosovo is considered one of the countries with a lot of people that live abroad. About 70 to 80 thousand people that have been borned in Kosovo, currently they live abroad. At first, emigration tendencies have been driven by persecution by the former Yugoslavia for politics, then economic reasons and so on. Since the mid-2000s, Kosovo's Gross Domestic Product has grown at an average rate of 3 to 4 percent per year. Remittances have played a major role in this increase and to some extent have offset Kosovo's lack of export earnings. The remittances sent by the emigrants have influenced the provision of a very valuable economic aid not only for their families, but also for the socio-economic stabilization of the country in general. The flow of income from emigrants is a very important source of financial growth as well as economic development of the country, providing access to foreign currency in Kosovo, as well as providing the basis for savings and investments in the country.

Graph 1. International migration of Kosovars



Sources: (ASK, 2021)

Graph 2. Remittances by delivery channels in (mil. Euro)



Sources: (BQK, 2021)

Remittances delivery from some channel as banks, transfer agencies, etc. But the most preferred and used route by our emigrants during 2020 has been the transfer through transfer agencies where there are 672 million euros or 68.6% followed by other with 166.6 million euros and finally banks with 141.3 million euros. Emigrants from Kosovo have emigrated mainly to European Union countries due to their more developed economic level and higher standard of living. Most immigrants are located in Germany (27%), Switzerland (24%), USA (9%), England (6%), Italy (5%), France (4.8%), Sweden (4%) and in other developed countries. On the table 1, you can see the origin of remittances in Kosovo, for period 2014-2021, expressed in percentage.

Table 1. Origin of remittances in Kosovo by country, 2014-2020, expressed in %

Shtetet	2014	2015	2016	2017	2018	2019	2020
Gjermania	36.4	36.7	37.1	39.3	40.4	40.7	42.3
Zvicrra	22.5	22.4	22.6	22.5	21.7	20.2	22.3
Italia	5.0	4.8	5.3	4.4	4.9	4.9	4.1
Austria	3.8	3.5	3.6	3.8	4.1	4.0	4.6
Belgjika	2.6	2.5	2.3	2.6	2.5	2.4	2.1
SHBA	6.2	8.0	6.8	7.0	6.7	7.1	6.4
Suedia	2.9	2.9	3.4	3.4	3.4	3.0	2.5
Franca	3.3	3.1	3.8	4.1	4.3	4.3	3.8
Norvegjia	3.2	2.7	2.0	1.9	1.9	1.7	1.3
Kanada	1.3	2.0	1.6	1.6	1.4	1.4	1.1
Mbretëria e Bashkuar	3.1	2.9	2.9	2.8	2.3	2.1	1.9
Danimarka	0.6	0.3	0.4	0.4	0.3	0.3	0.3
Finlanda	0.5	0.6	0.7	0.8	0.8	0.9	0.9
Holanda	0.6	0.7	0.7	0.6	0.6	0.5	0.5
Sllovenija	1.4	0.8	1.1	0.5	0.5	0.6	0.7
Vende tjera	6.6	6.0	5.7	4.6	4.2	5.9	5.2

Sources: (BQK, 2021)

On the table 2, you can see the main macroeconomic indicators of Kosovo in the period 2014-2020. As you can see, the remittances have grown continually, like in million or percentage.

Table 2. The main macroeconomic indicators of Kosovo in the period 2014-2020

	2014	2015	2016	2017	2018	2019	2020
Gross Domestic Product (GDP in Mil)	5.391	5.795	6.043	6.326	6.658	7.066	6.809
Real GDP growth (in%)	1.2	4.1	4.1	4.2	4.1	4.2	5
Exports of goods (in %)	5.8	5.5	5.1	5.9	5.6	5.6	45.8
Imports of goods (in %)	42.7	41.9	42.8	44.3	46.3	45.7	13.3
Remittances (in Mil)	622.3	665.5	691	759.2	800.6	851.5	980
Remittances in flow (in %)	9.9	10.5	10.5	11.1	11.3	12	14.3
Foreign Direct Investment (in Mil)	151.2	308.8	220	255.4	272.1	254.6	341.7
Net inflows of foreign direct investment (in %)	2.2	4.7	2.9	3.3	3.4	2.8	3
GDP per capita (€)	3364	2963	3063	3277	3664	3986	3900

Sources: (BQK, 2021)

4. Methodology

The study uses quarterly data on remittance inflows, for the period 2010-2020, where data are taken in quarterly periods involving 44 periods or samples. Data on remittances are compiled by the Central Bank of the Republic of Kosovo as the sum of remittances channeled through formal channels (commercial banks and money transfer agencies) and remittances sent in the form of cash (accounting for about 40 percent of those sent through formal channels according to the UNDP study conducted in 2010). Data used in this study include Gross Domestic Product, Gross Capital Formation, Remittances, Foreign Direct Investment, Public Debt, Exports, Imports, Net Exports, Final Consumption Expenditures, where all data are taken in quarterly periods including 44 periods or sample, the same as mentioned above from 2010 to 2020.

In order to investigate the impact of Remittances on economic growth in Kosovo, panel data regression analysis is used for the case of Kosovo with SPSS.

We will also use the descriptive analysis and statistical methods of Correlation and ANOVA to analyze the correlation and dependence of the Gross Domestic Product variable with other independent variables respectively Remittances.

4.1 Development of hypotheses

Economic growth is influenced by micro and macroeconomic inputs, however this paper aims to extend the focus on the impact that the flow of remittances has on economic growth. Remittance inflows are an important factor for economic growth, but exceptions can be found. International remittances represent the inflow of cash or non-cash items into the economy and accordingly, this paper aims to confirm empirically whether remittances affect economic growth.

In addition, the impact of remittance inflows has already seen mixed results, with positive or negative correlations. Therefore, the following hypotheses are formulated:

H0 Macroeconomic indicators have impact on economic growth in Kosovo.

H1 Remittance flow have positive impact on economic growth in Kosovo.

3.2. The specification of model

To determine the impact of remittances on Gross Product (economic growth), we measure from the equation below:

$$\text{Gross Product (economic growth)} = \beta_1 \text{ Gross Capital Formation} + \beta_2 \text{ Remittances} + \beta_3 \text{ FDI} + \beta_4 \text{ Public Debt} + \beta_5 \text{ Exports} + \beta_6 \text{ Imports} + \beta_7 \text{ Net Exports} + \beta_8 \text{ Final Consumption} + \varepsilon \quad (3)$$

1. **Gross Domestic Product** - The most important economic indicator in the System of National Accounts is the Gross Domestic Product which represents the value at market prices of all material goods and services produced within a country in a given period (usually one year). GDP is an among the key macroeconomic indicators to measure economic growth. GDP is of two types: real and nominal. Real GDP includes final goods and services measured at constant prices. Nominal GDP includes final goods and services measured at current prices.
2. **Final consumption of the Government** - The final consumption of the Government consists of the amount of goods and services purchased, the compensation of workers and the consumption of fixed capital, reduced by sales revenues. Expenditures can be divided into two categories: individual and collective. The first constitutes expenses incurred for individual benefits, e.g., medical services. Collective expenditures are public in nature, for example government expenditures on public protection and security would be included in this category.
3. **Gross capital formation** - This whole is presented in the national account's capital accounts and in the report on government activities. It is one of the two main transactions in capital assets. As the name implies, in the formation of gross fixed capital are presented all the acquisitions and possession of fixed assets, which means that all assets produced are of a non-financial nature and are transferable between generating units. Capital assets can be tangible - e.g., buildings, facilities, machinery - or intangibles - e.g., computer software. Similar to consumption, this transaction is valued at purchase prices.
4. **Exports** - Export to the economy means the transportation of goods or materials from one country to another legitimately according to the rules and standards of the countries participating in an exchange of goods or goods. The export of goods is done to foreign consumers in a country other than the producer of those goods.

5. **Imports** - Import into the economy is known as the transportation (entry) of goods, products from one country to another legitimately and according to the economic policy set by the countries participating in trade. Unlike export, which means the departure of goods from one country, as import from one country is considered a good that enters from another country in that country.
6. **Net exports** - represent the difference between the value of exports and the value of imports.
7. **Remittances** - are cash payments in the form of remittances and are an integral part of the balance of payments in the current account of the monetary system. They are estimated to be the second most important financial inflow worldwide after international aid.
8. **Foreign direct investments** - defined as an investment by a resident entity (direct investor), with the objective of securing a stable interest, in a resident entity in another country (direct investment entity). Stable interest means the existence of a long-term relationship between the direct investor and the entity where it is invested (direct investment unit) as well as a significant degree of influence from the direct investor in the management of the entity.
9. **Public debt or government debt** - refers to the obligations that a government has to pay a certain amount in a certain future to bondholders issued by the government or other related institutions.
10. **e - error term**, how likely is the model to be erroneous

5. Analysis

The work analyzes were done with SPSS, through descriptive statistics and regression, thus testing the correlation and collinearity between variables. On the table 3 you can see analysis of descriptive statistics, that describes the mean and standard deviation of nine variables that includes in model for 44 periods.

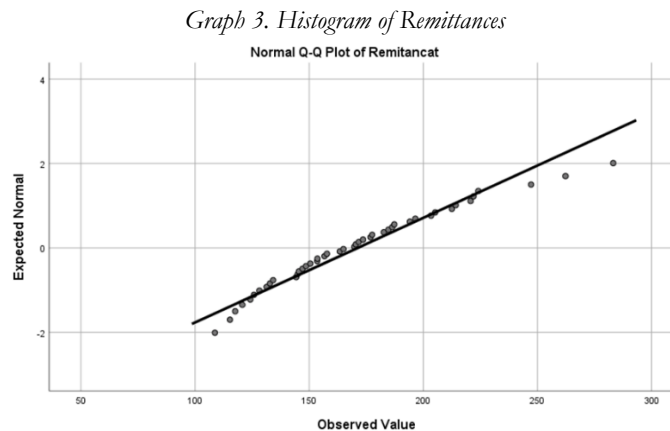
Table 3. Analysis of Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
Gross Products	1,426.06	273.873	44
Gross Capital Formation	416.96	88.751	44
Remittances	171.28	40.333	44
Direct Foreign investments	69.68	28.805	44
Public Debt	419.64	85.617	44
Export	84.96	17.701	44
Imports	699.05	140.322	44
Net exports	-614.09	127.066	44
Final Consumption	1,458.05	260.105	44

According to descriptive data Remittances are characterized by an average of 183.54 and standard deviation of 40,333, their minimum is 109, while the maximum is 283. Gross product has an average of 1,426.06 and standard deviation of 273,873, its minimum is 1,021, while its maximum is 1,952. Regarding gross capital formation, it has an average of 416.96 and standard deviation of 88,751, its minimum is 251, while its maximum is 634. Foreign direct investment is characterized by an average of 69.68 and standard deviation of 28,805, their minimum is - 4, while the maximum is 132. Public debt has an average of 419.64 and standard deviation of 85,617, its minimum is 243, while its maximum is 616. Whereas, export has an average of 84.96 and standard deviation of 17,701, its minimum is 43, while maximum 143. Regarding import it has an average of 699.05 and standard deviation of 140.322, its minimum is 389, while maximum 979. Net exports are characterized by an

average of -614.09 and standard deviation of 127.066, their minimum is -853, while the maximum - 346. Final consumption has an average of 1,458.05 and a standard deviation of 260,105, its minimum is 1,005, while its maximum is 2,073.

Checking residues for the 'Fixed Effects' model, on graph 4 describes normal Q-Q of remittances, showing the histogram of the model points distribution.



Source: By authors, SPSS

The form approaches the normal data distribution. On the table 4 you can see analysis of the correlation between the variables.

Table 4. Analysis of the correlation between the variables

Correlations				
		Gross Products	Gross Capital Formation	Remittances
Pearson Correlation	Gross Products	1	0.772	0.873
	Gross Capital Formation	0.772	1	0.641
	Remittances	0.873	0.641	1
	Direct Foreign investments	-0.053	0.025	0.019
	Public Debt	0.825	0.454	0.815
	Export	0.749	0.6	0.845
	Imports	0.885	0.821	0.828
	Net exports	-0.873	-0.823	-0.797
	Final Consumption	0.852	0.632	0.886
Sig. (1-tailed)	Gross Products	.	0	0
	Gross Capital Formation	0	.	0
	Remittances	0	0	.
	Direct Foreign investments	0.367	0.437	0.451
	Public Debt	0	0.001	0
	Export	0	0	0
	Imports	0	0	0
	Net exports	0	0	0
	Final Consumption	0	0	0

From the results presented in the table above it can be seen that there is a significant correlation between most of the variables. There is a strong positive correlation between remittances and gross product ($r = .873, p = .000$).

On table 4 is the model summary of regression analysis between Gross Product as a dependent variable and Final Consumption, Foreign Direct Investment, Gross Capital Formation, Exports, Public Debt, Net Exports and Remittances as independent variables.

Table 5. Analysis of regression

Model Summary								
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Change Statistics		
						R Change	Square Change	F Change
1	.951a	0.904	0.885		92.94	0.904	48.198	7

The model explains 89% of the significance (Adjusted R Square = .885). This means that model is correct and the variables are correlated, also according to this significance, hypothesis 1 of the paper is confirmed, which means that remittances have an impact on economic growth in Kosovo.

Table 6. ANOVA analysis

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2914315	7	416330.777	48.198	.000 ^b
	Residual	310964	36	8637.89		
	Total	3225279	43			

a. Dependent Variable: Gross Product

b. Predictors: (Constant), Final Consumption, Foreign Direct Investment, Gross Capital Formation, Exports, Public Debt, Net Exports, Remittances

Table 7. Impact of Variables on Gross Product

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	52.535	111.474		0.471	0.640
	Remittances	1.603	1.043	0.236	1.537	0.133
	Direct Foreign investments	-0.337	0.557	-0.035	-0.605	0.549
	Export	0.061	1.587	0.004	0.038	0.970
	Net exports	-0.39	0.289	-0.181	-1.353	0.185
	Final Consumption	-0.008	0.145	-0.008	-0.056	0.955

According to the analysis, macroeconomic indicators have an impact on economic growth, according to the significance of the model, remittances have an impact of 0.133, followed by net exports with 0.185, foreign direct investment with 0.549, final consumption with 0.955 and exports with 0.970.

Table 8. Diagnosis of collinearity for all variables

Collinearity diagnostics ^a						
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	Direct investments	Foreign Remittances
1	1	7.773	1.000	.00	.00	.00
	2	.150	7.204	.00	.00	.00
	3	.027	16.889	.32	.04	.04
	4	.026	17.416	.10	.22	.00
	5	.012	25.932	.08	.00	.00
	6	.006	37.267	.02	.09	.19
	7	.005	39.641	.00	.47	.25
	8	.003	53.970	.47	.17	.52

Diagnostics of collinearity confirms that there are serious problems with Multicollinearity. There are no specific values that are close to 0, indicating that predictors are highly correlated and that small changes in data values can lead to large differences in coefficient estimates. Values less than 15 indicate a small problem with collinearity, such as: Gross Capital Formation and Remittances, values greater than 15 indicate a potential problem with collinearity such as: FDI, Public Debt and Exports and values higher greater than 30, such as: Import, Net Export and Public Expenditure have a serious problem with collinearity.

6. Results and Discussion

According to the research of this paper, we found that macroeconomic indicators have an impact on economic growth in Kosovo, with special emphasis on remittances. The most of remittances are accepted by transfer agencies but not banks, in which case this should be reviewed and elaborated mechanisms that would increase the involvement of the banking sector in the transfer of remittances, thus reducing foreign bank transfer fees, especially with larger host countries such as Germany and Switzerland. Although remittances continue to be a stable mechanism of the economy in Kosovo, the situation with the pandemic and inflation that has affected the globe, may make remittances unsustainable in the future.

7. Conclusion

According to this paper, remittances are an important mechanism for economic growth in Kosovo. The potential impact of remittances on development and economic growth in Kosovo requires even deeper analysis. The research was conducted using descriptive research design. Statistical methods of correlation and ANOVA were also used to analyze the correlation and dependence of the Gross Domestic Product variable with other independent variables, respectively Remittances. According to the correlation analysis, there is a strong positive correlation between remittances and Gross Product ($r = .873$, $p = .000$). According to Regression analysis, remittances have an impact on Gross Product. The regression model is significant with $p < .000$ **, this is explained by the variables mentioned above. The model explains 89% of the significance (Adjusted R Square = .885). Kosovo needs to develop policies that encourage the redistribution of remittances to investment and savings, whether by creating investment platforms or issuing government bonds to the diaspora; reducing the cost of transferring remittances; and, by increasing programs on the financial education of remittance-receiving families;

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