
Remittances- Importance and Effect in the Economy during the Covid-19 Pandemic - The Case of Kosovo

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Abstract:

Purpose: *The paper addresses issues related to the remittances of the Kosovar diaspora, including the analysis of their economic effect before and during Covid19. The main purpose of this paper is to analyze remittances in Kosovo and the effect of remittances on the economy in the Republic of Kosovo in the period 2010-2021.*

Design/methodology/approach: *Official data from local and international institutions were used to conduct this study. This article provides a theoretical overview of remittances and remittance trends in Kosovo, from 2010 to 2022. For the finalization of this paper, the presented material has support including scientific literature, as well as reports and publications from the Central Bank of Kosovo, the Statistics Agency of Kosovo. In order to achieve the main objective of this article, different sources of data were used as well as the method of analysis, comparative method, econometric analysis which is presented through correlative analysis.*

Findings: *In the framework of the work and analysis we have done regarding the impact and economic effect of remittances before and during the Covid19 pandemic in Kosovo, the results showed that: Remittances represent an important source of income for family economies, having influence and effects on the economy of Kosovo. Remittances to Kosovo should be mainly focused on investments in the economy and development projects.*

Practical implemantation: *Practical application: The low level of economic development in the country has influenced that remittances remain an important financial source, affecting the level of consumption and the standard of living of families in Kosovo.*

Originality value: *The value of originality: The research refers to remittances that continue to be of great importance to families in Kosovo. This is when it is taken into account that Kosovo has a low level of local production and economic growth, as well as a high rate of unemployment, in this context the importance and effect of remittances has been and remains of special importance for households and the economy in general in Kosovo.*

Keywords: *Remittances, Economy, Covid19, Family economy, GDP.*

JEL Classification: *O10, O15.*

Paper Type: *Research article.*

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1. Introduction

In the framework of the paper, issues related to the remittances of the Kosovar diaspora, their importance for the family economies in Kosovo, the forms of sending and the economic effect before and during the Covid 19 Pandemic are addressed. The impact of remittances in Kosovo is important because they constitute an additional source of income for host families.

The Kosovar diaspora is distributed in different countries, most of them are concentrated in the countries of Western Europe. Remittances from the diaspora undoubtedly remain an important source of finance for households in Kosovo. The sending of financial means from the diaspora to Kosovo comes through different routes that generally used formal and informal ways of sending money.

I take into account the low level of development in the country, the high rate of unemployment, the deficit in the trade balance, the importance and economic effect of the remittances of the Kosovar diaspora has been and remains of special importance mainly in the consumption and well-being of the receiving families in Kosovo. Remittances to Kosovo during 2021 have reached over 1 billion euros (Central Bank of Kosovo-CBK, Monthly Statistical Bulletin, 2022). The greatest support of remittances remains in the social aspect of the country, especially for families who have the only source of income.

In Kosovo, one of the main factors affecting immigration is the high unemployment rate in Kosovo, according to the results of the Labor Force Survey (LFS) for 2021, the unemployment rate is 20.5% while the employment rate is 30.0% (Kosovo Agency of Statistics-KAS, 2022).

The paper presents a theoretical overview of the role of remittances in the economy, the effect of remittances in the economy before and during the Covid-19 pandemic, the progress of remittances over the years including the time period from 2010 to 2021, correlations between GDP and remittances and conclusions, recommendations and references, which are presented at the end of the paper.

2. Literature Review

Remittances strongly influence the increase in household income and also the increase in the standard of living of the population in the beneficiary country (Taylor and Wyatt, 2006). The origins of modern immigration date back to the early 19th century and are widespread today. All factors and motives that lead to immigration are divided into push factors and pull factors. The push factors are the reasons that motivate people to leave a certain country, where one of them may be economic difficulties, bad political situation, unemployment, natural conditions, etc. The pull factors are those causes that drive and motivate people to move to a particular destination.

For many Kosovars, the unfavorable political and economic conditions were an incentive to emigrate to other countries. Emigration from Kosovo began in the late 60s and early 70s and can be divided into four phases: (Riinvest Institute, 2007).

- 1) 1960-1988;
- 2) 1989-1997;
- 3) The group of refugees of the war of 1998-1999;
- 4) 2000-today.

Most of the immigrants are concentrated in the countries of the European Union and in other more developed countries of Europe and the world. Immigrant remittances have an impact on the economic and social processes in Kosovo, especially on the consumption value of the population (Limani and Musa, 2013). Diaspora plays a very big role in the economic development of Kosovo, through material contribution (remittances) and other forms of aid (Limani and Musa, 2013).

Diaspora represents an important potential and supporting factors for the sustainable development of Kosovo in the future. To send their funds, immigrants use different ways that are generally divided into two main groups: formal and informal ways of sending money (Central Bank of Kosovo-CBK, 2013). During the transfer through unofficial channels, immigrants have used two main ways, they have sent their means personally during visits to their homeland, or another way through their relatives and friends (Central Bank of Kosovo-CBK, 2013).

The research questions of this study include:

H0: The impact of remittances on the economy before and during the covid19 pandemic in Kosovo?

H1: What is the effect on the economy and the participation of remittances in GDP in Kosovo?

3. Methodology and Data

3.1 Research Methods

Official data from local and international institutions were used to conduct this study. This article provides a theoretical overview of remittances and remittance trends in Kosovo, from 2010 to 2022.

For the finalization of this paper, the presented material has support including scientific literature, as well as reports and publications from the Central Bank of Kosovo, the Statistics Agency of Kosovo, which deal with issues related to remittances, namely the impact and economic effect of remittances in Kosovo before and during the Covid19 Pandemic. The methodology of the study is based on a broad dimension in the review of theoretical and empirical literature.

In order to achieve the main objective of this article, different sources of data were used as well as the method of analysis, comparative method, econometric analysis which is presented through correlative analysis. Also, the relationship between the independent variable of remittances and the dependent variable of GDP is presented, which is presented through correlational analysis.

Through the work and analysis carried out regarding remittances and the effect of remittances in the economy before and during the Covid-19 pandemic, including the correlation between GDP and remittances, at the end of the work, the relevant conclusions and recommendations are given.

4. Analysis of Findings

Remittances in Kosovo have been and continue to be one of the most important contributors to the country's economic and social development, with estimates suggesting that a quarter or more of households have a family member living abroad.

According to the International Monetary Fund „Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies” (International Monetary Fund, 2009; Balance of Payments and International Investment Position Manual, Sixth Edition).

Remittances are considered an important contributor to the well-being of Kosovar families. Remittances represent an important source of private investments and constitute a very important element of aggregate demand, influencing the growth of consumption.

In other words, not focusing on complex empirical analysis, including the importance and effects of remittances in the economy of Kosovo, the following table shows the progress of remittances in the period 2010-2022.

Table 1. Progress of remittances and Gross Domestic Product in Kosovo in the period 2010-2022

- in million euros

Vitet	Remittances	Gross Domestic Product	Remittance/GDP report (%)
2010	584.3	3,788.7	15.4%
2011	492.5	4,285.7	11.4%
2012	516.4	4,633.9	11.1%
2013	573.4	5,053.4	11.3%
2014	622.3	5,241.1	11.8%
2015	655.5	5,640.1	11.6%
2016	691.0	5,990.5	11.5%
2017	759.2	6,328.6	11.9%
2018	800.6	6,572.9	12.1%
2019	851.7	6,988.8	12.1%

*Remittances- Importance and effect in the economy during the pandemic
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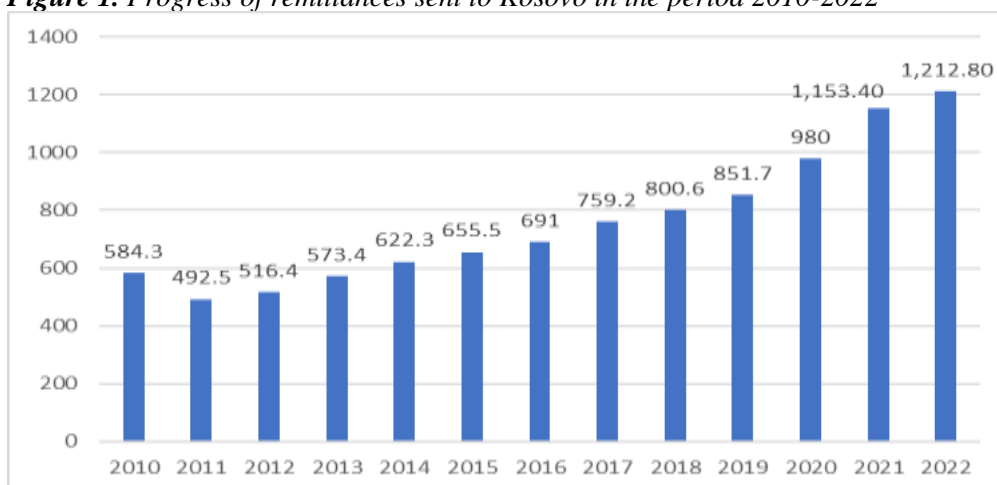
58

2020	980.0	6,679.3	14.6%
2021	1,153.4	7,958.0	14.5%
2022	1,212.8	8,594.0	14.1%

Source: Central Bank of Kosovo, Monthly Statistical Bulletin No. 256, Pristina, 2022, p. 96. Kosovo Statistics Agency, Series 5, National Accounts Statistics, Gross Domestic Product (GDP) according to economic activities and with the expenditure approach 2008-2020, Pristina, 2021, pg. 7. Kosovo Statistics Agency, National Accounts Statistics , Gross Domestic Product Q1 2022, Pristina, 2022, pg. 7.

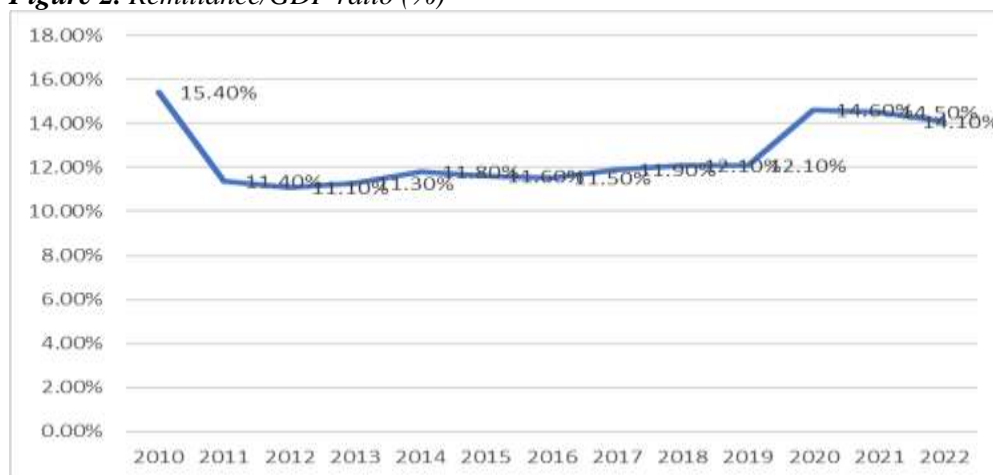
Table 1 and Figures 1 and 2 show the progress of remittances sent to Kosovo and the remittance/GDP ratio including the period 2010-2021. In 2010, the remittances sent to Kosovo were in the amount of 584.3 million euros, having a trend of decline in 2011, while in the following years the trend of growth, reaching in 2021 a value of 1.1 billion euros, compared to the previous year 2020, remittances had an 18% growth rate. It is also observed the progress of the gradual increase over the years of the participation of remittances in GDP. In 2021, the share of remittances in GDP was 15.4%.

Figure 1. Progress of remittances sent to Kosovo in the period 2010-2022



Source: Central Bank of Kosovo, Monthly Statistical Bulletin No. 256, Pristina, 2022, p. 96. Kosovo Statistics Agency, Series 5, National Accounts Statistics, Gross Domestic Product (GDP) according to economic activities and with the expenditure approach 2008-2020, Pristina, 2021, pg. 7. Kosovo Statistics Agency, National Accounts Statistics , Gross Domestic Product Q1 2022, Pristina, 2022, pg. 7.

Taking into account the situation and economic development in Kosovo, remittances have served as a very important pillar for the country's economic development and social development. Kosovo's economy has seen positive growth rates in the last decade, despite the challenges posed by the fluctuations in the global and especially the European economy. According to the Kosovo Agency of Statistics (KAS) data for 2021 Gross Domestic Product (GDP) we notice that in 2021 was Euro 7,484.5 million (Kosovo Agency of Statistics-KAS, 2022)

Figure 2. Remittance/GDP ratio (%)

Source: Central Bank of Kosovo, *Monthly Statistical Bulletin No. 256*, Pristina, 2022, p. 96. Kosovo Statistics Agency, *Series 5, National Accounts Statistics, Gross Domestic Product (GDP) according to economic activities and with the expenditure approach 2008-2020*, Pristina, 2021, pg. 7. Kosovo Statistics Agency, *National Accounts Statistics, Gross Domestic Product Q1 2022*, Pristina, 2022, pg. 7.

Regarding the origin of remittances, the main contributing countries are Germany, Switzerland, Italy, Austria and the USA. Of the total remittances sent to Kosovo in 2021, the remittances are received from Germany 14.0%, Switzerland 7.0%, Italy 2.0%, Austria 2.0% and the US 3.0%. (Central Bank of Kosovo-CBK, 2022).

In order for remittances to have a greater positive effect on the country's economy, it is important for them to be invested in opening new businesses, expanding existing businesses, and so on. Remittances in Kosovo are, in most cases, used for consumption and have a direct impact on meeting the daily needs of the country's population.

4. Remittances and their Effect on the Economy before and during the Covid-19 Pandemic in Kosovo

The capital of the diaspora has played and plays an important role in the financial resources of the population of Kosovo, as they send a part of their savings to their family members in Kosovo. Remittances represent a very important source of income for the population of Kosovo.

Remittances in Kosovo have been and continue to remain an important source of income for households in Kosovo, from which they provide a large part of final consumption. In this context, remittances (remittances from the diaspora) represent a certain value of private investments, constituting an important element of aggregate demand, because they influence the growth of consumption.

Undoubtedly, the Kosovar emigrants distributed in different countries of the world through remittances (financial means) sent to families in Kosovo, influence the increase in consumption and the standard of living, in the alleviation of poverty and the reduction of social problems, as well as through economic investments in the development economic of Kosovo.

So, the Kosovar diaspora in different periods has played an important role by providing an important source of finance for the economy of Kosovo. There is no doubt that the diaspora has been and continues to be an important and supportive potential in economic developments in Kosovo.

Since the post-war, Kosovo continues to have a low level of economic growth, a high unemployment rate and a high trade deficit. Taking into account this indicator, the economy of Kosovo, especially family economies, continue to depend to a large extent on remittances sent by the Kosovar diaspora.

Remittances are usually sensitive and affected by the economic conditions of the countries from which they originate, which may be loosely related to events in the recipient country. Obviously, remittances tend to increase (decrease) when conditions in recipient countries worsen (improve). In other words, from an economic point of view, remittances are directly dependent on economic flows and other conditions in the recipient country.

The Covid-19 pandemic started in China at the end of 2019 and which involved almost all the countries of the world at the beginning of 2020, so Kosovo was also involved in this pandemic starting from March 2020. Based on this, the Covid19 Pandemic of spread all over the world, it has undoubtedly affected the financial situation of Kosovar emigrants by directly affecting the remittances (financial means) sent by the diaspora to Kosovo.

In Kosovo, with the decision of the Government of Kosovo, the first emergency measures to prevent the spread of the Covid3-19 Pandemic were taken in March 2020. Table 2 reflects the remittances sent to Kosovo before the Pandemic (2019) and during the Covid-19 Pandemic (2020 and 2021) .

Looking at the remittances sent to Kosovo in the period 2019-2021 (the period before the Covid19 pandemic and during the Covid-19 pandemic), it is observed that despite the measures of restrictions in the economy of different countries, the remittances sent to Kosovo had a growth trend in 2020 compared to the year 2019 before the start of the Covid-19 pandemic.

So, in 2019 before the start of the Covid-19 pandemic, the remittances sent to Kosovo were 851.7 million euros, while during the period of the Covid-19 pandemic the remittances sent increased, so in 2020 they were worth 980.0 million euros, while during in 2021 to 1.1 billion euros (Central Bank of Kosovo-CBK, 2022).

Table 2. Remittances and remittance channels for the period 2019 (before the Covid-19 pandemic) and 2020 (during the Covid-19 pandemic)

-in million euros

Year	Total	Commercial Banks	Money transfer agencies	Others
January 2019	56.4	9.0	27.0	20.4
February 2019	56.6	5.6	30.5	20.5
March 2019	71.7	9.1	36.6	26.0
April 2019	68.8	9.4	34.5	24.9
May 2019	78.4	7.6	42.4	28.4
June 2019	73.5	9.9	37.0	26.6
January-June 2019	405.4	50.6	208.0	146.8
January-December 2019	851.7	123.0	420.1	308.5
January 2020	62.3	10.1	29.6	22.6
February 2020	63.3	5.9	34.5	22.9
March 2020	61.7	7.3	41.2	13.8
April 2020	60.3	8.8	51.5	---
May 2020	104.0	15.4	88.6	---
June 2020	81.6	11.3	59.0	---
January-June 2020	433.2	58.8	304.4	59.3
January-December 2020	980.0	141.3	672.0	166.6

Source: Central Bank of Kosovo (2020). Monthly Statistical Bulletin No. 224, Pristina, pg. 99. Central Bank of Kosovo (2020). Monthly Statistical Bulletin No. 226, Pristina, pg. 99. Central Bank of Kosovo (2020). Monthly Statistical Bulletin No. 212, Pristina, pg. 99. Central Bank of Kosovo (2022). Monthly Statistical Bulletin No. 248, Pristina, pg. 96.

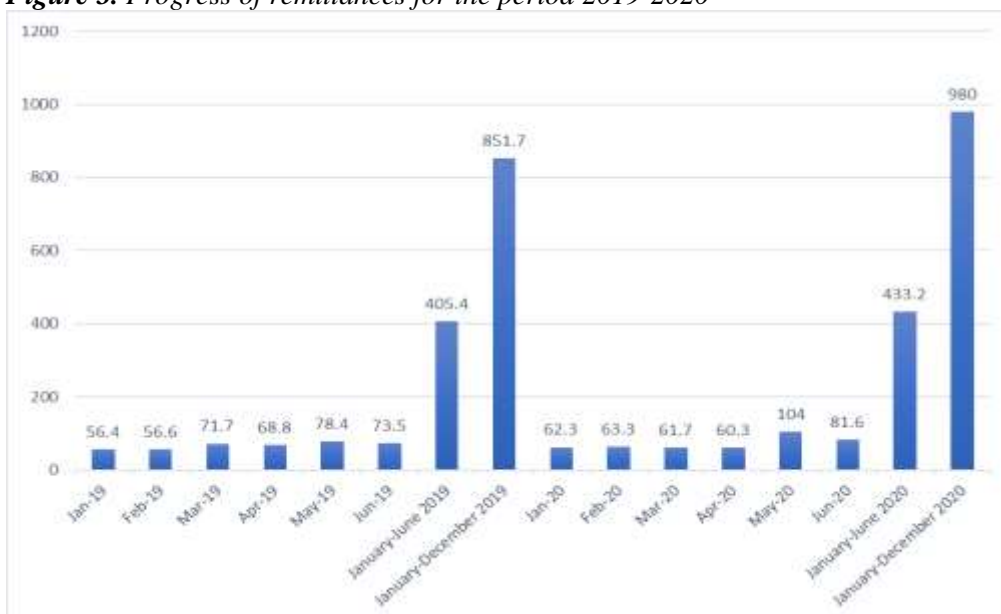
Analyzing the remittances sent by the Diaspora to Kosovo and comparing the same period of 2019 with the period of 2020, Table 3 and Figure 3 reflect the progress of remittances sent to Kosovo for the period January-December 2019 (before the Covid-19 pandemic) and January-December 2020 (during the Covid-19 pandemic).

Remittances sent to Kosovo in the period January-June 2019 were worth 405.4 million euros, while in the period January-December 2019 they were worth 851.7 million euros, while in the period January-June 2020 they were worth 433.2 million euros and in the period January -December 2020 were worth 980.0 million euros, with an increase in remittances sent to Kosovo.

In 2020, before the start of the Covid-19 pandemic in Kosovo, during the months of January-February 2020 there was an increase in remittances of 11% compared to the same period of the previous year (2019) January-February 2019, while in the month of March 2020 there was a decrease of remittances of about 14%, compared to the month of March 2019.

Remittances in the month of March 2020 were 61.7 million euros against 71.7 million euros in the month of March 2019. This decrease, which may be the result of the beginning of the Covid-19 pandemic in Kosovo and the impact of it in other countries and in the economy of the countries where the Kosovar diaspora lives and works, having an effect on the sending of remittances from the diaspora to Kosovo in the period of the beginning of the Covid-19 pandemic.

Figure 3. Progress of remittances for the period 2019-2020



Source: Central Bank of Kosovo (2020). *Monthly Statistical Bulletin No. 224*, Pristina, pg. 99. Central Bank of Kosovo (2020). *Monthly Statistical Bulletin No. 226*, Pristina, pg. 99. Central Bank of Kosovo (2020). *Monthly Statistical Bulletin No. 212*, Pristina, pg. 99. Central Bank of Kosovo (2022). *Monthly Statistical Bulletin No. 248*, Pristina, pg. 96.

5. Correlation Between Gross Domestic Product and Remittances

Remittances are an important economic and social parameter. Remittances are a key issue in economic discussions and at the same time an extremely intensive area of research. Correlational analyzes were used in this article to measure the strength of the relationship between the independent variable Remittance (X) and the GDP dependent variable (Y). The result of the correlational study is obtained by the correlation coefficient. The correlation coefficient values are between - 1 and + 1.

Its + 1 value indicates that both variables are in complete linear relation and in the same direction which means that all points lie in a straight line with coefficient positive angle. Whereas the value - 1 of the correlation coefficient indicates that the variables are in complete linear relation and in the opposite direction. For correlation analyzes, it has been argued that the correlation coefficient is a summary measure

describing the degree of the statistical relationship between two variables; the dependent variables and the independent variables (Leroux, 2009).

Indicators of the Correlation Analysis of Remittances and GDP are presented by the Correlation Coefficient (r), the Determination Coefficient (r^2) and Alliance / the Contingency Coefficient (ka). On the basis of correlational analyzes we analyze the impact of Remittances on GDP. For Remittances and GDP, the correlation analysis covers the period from 2010 to 2021.

Table 3. Data are expressed in EUR millions over the period 2010-2021

Vitet	Remitenca X1	GDP Y1	X1-X	(X1-X) ²	Y1-Ȳ	(Y-Ȳ) ²	(X1-X)*(Y1-Ȳ)
2010	584.3	3,788.7	-139	19,321	-1,935.2	3,744,999.04	268,992.8
2011	492.5	4,285.7	-230	52,900	-1,438.2	2,068,419.24	330,786
2012	516.4	4,633.9	-206	42,436	-1,090	1,188,100	224,540
2013	573.4	5,053.4	-149.9	22,470.01	-670.5	449,570.25	100,507.95
2014	622.3	5,241.1	-101	10,201	-482.8	233,095.84	48,762.8
2015	655.5	5,640.1	-67.8	4,596.84	-83.8	7,022.44	5,681.64
2016	691.0	5,990.5	-32.3	1,043.29	266.6	71,075.56	8,611.18
2017	759.2	6,328.6	35.9	1,288.81	604.7	365,662.09	21,708.73
2018	800.6	6,572.9	77.3	5,975.29	849	720,801	65,627.7
2019	851.7	6,988.8	128.4	16,486.56	1,264.9	1,599,972.01	162,413.16
2020	980.0	6,679.3	256.7	65,894.89	955.4	912,789.16	245,251.18
2021	1,153.4	7,484.5	430.1	184,986.01	1,760.6	3,099,712.36	757,234.06
Total	723.3	5,723.9	2.4	427,599.7	0.7	14,461,219	2,240,117.2

Source: Own study.

The correlation coefficient is calculated from equation (1) and the covariance from equation (2) as follows:

$$r = \frac{\sum(X1 - X) * (y1 - \bar{Y})}{\sqrt{\sum(X1 - X)^2 * \sum(Y1 - \bar{Y})^2}} \tag{1}$$

$$r = \frac{2,240,117.2}{\sqrt{427,599.7 * 14,461,219}} = \frac{2,240,117.2}{2,486,687.13} = 0.90$$

Covariance- The covariance of choice is defined as follows:

$$S_{xy} = \frac{\sum(x1 - x) * (y1 - \bar{Y})}{n - 1} \tag{2}$$

$$S_{xy} = \frac{\sum(x_1 - \bar{x})(y_1 - \bar{y})}{n-1} = 2,240,117.2/12 = 186,676.42$$

Correlation Coefficient:

The correlation coefficient is $r = 0.90$. From this we see that we have a positive average correlation, and that there is a positive average correlation between Remittances and GDP.

Determination coefficient:

$r^2 = (0.90)^2 = 0.81$. From here it results that **81%** of the Remittances variation is explained by the variation of GDP.

Alliance coefficient:

$Ka = 1 - r^2 = 1 - 0.81 = 0.19$ It results that **19%** are other unexplained factors affecting Remittances.

6. Conclusion

Remittances continue to be of great importance to households in Kosovo. Considering that Kosovo has a low level of local production and economic growth, as well as a high rate of unemployment, in this context the importance and effect of remittances has been and remains of special importance for family economies and the economy in general in Kosovo.

In the framework of the work and analysis we have done regarding the impact and economic effect of remittances before and during the Covid-19 pandemic in Kosovo, we present some of the conclusions and recommendations:

Remittances remain an important financial source and an important influencing element of aggregate demand, influencing the level of consumption and the standard of living of households in Kosovo.

Remittances represent an important source of income for family economies, having influence and effects on the economy of Kosovo.

Remittances to Kosovo should be mainly focused on investments in the economy and development projects.

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