Association Démographie des Balkans
Demography of Balkans Association

LA POPULATION DES BALKANS À L'AUBE DU XXIÈME SIÈCLE

THE POPULATION OF THE BALKANS AT THE DAWN OF THE 21ST CENTURY

Cinquième Conférence Internationale de Démographie des Balkans

Fifth International Conference of Balkans demography

OHRID

(21-24 OCTOBRE 2015 / 21-24 OCTOBER 2015)

SEANCE: LE BILAN MIGRATOIRE DES BALKANS

SESSION: MIGRATION IN THE BALKANS

Paper

INFLUENCE OF WORKERS' REMITTANCES ON ALLEVIATION OF CURRENT ACCOUNT REVERSALS IN THE WESTERN BALKANS

Silvana Mojsovska*, Vesna Georgieva Svrtinov**

This paper aims to explore the dynamics of remittances in the countries of the Western Balkans (Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Croatia, Kosovo and Albania) and their influence on balances of payment. It provides an analysis on the magnitude of remittances, their volatility, their relationship to Foreign Direct Investment (FDI) inflows and arguments whether remittances can help to alleviate the current account reversals. The analysis has been based on available data from World Bank database. Comparative analysis of the countries is provided, in purpose of distinguishing common features and differences in the region with regards to the importance of the remittance inflows. The main outcome of the paper indicates that that remittances serve as an important tool for reducing the current account reversals in all Western Balkans due to their volume and greater stability compared to other private capital flows. However, remittances are mostly related to consumption, which serves as an area of potential action for policy-makers to enhance the effects from remittances through investment.

Key words: *Remittances, Current Account Reversals, Balance of Payments*

Introduction

The importance of remittances as an economic category has been rising over the last two decades, owing to the vast mobility of labour in the global economy. In most of the cases, emigration is driven by economic factors, such as poverty and high unemployment. It often takes a form of partial family emigration, when only one or two members of the family emigrate, while others remain in their home country, implying increase of the workers' remittances flows towards the country of their origin. Apart from the remittances' role for ensuring sustainability of individual households, the remittances inflows have been used as a powerful instrument by the authorities in mitigation of the current account problems. This role could be very significant to small and open economies, such as Western Balkan countries, given the large-scale emigration from these countries. This paper aims to explore whether remittances can help to alleviate the current account reversals in the Western Balkan countries. In this context, the magnitude of remittances, their volatility and their relationship to other capital flows are elaborated, as they serve as determinants to the role of the remittances in the recipient country. The analysis has been based on available data from World Bank database. Comparative analysis of the countries is provided, in purpose of distinguishing common features and differences in the region with regards to the importance of the remittance inflows.

Remittances inflows in the Western Balkan countries

Remittances are among the most tangible link between migration and development. They are typically perceived as international financial transfers by private persons, primarily associated with labour migration. Most often, they refer to an income earned in the host country of migration that is sent or brought to the home country. Implicitly, the remittances affect the economy of both parties (sending and receiving country). The importance of remittances has been rapidly growing, evident through surge of the remittances inflows from USD $126.5 billion in 2000 to USD $583 billion in 2014 (World Bank Statistics), out of which USD $436 billion was received by developing countries.

* University Ss. Cyril and Methodius in Skopje, Institute of Economics – Skopje, (s.mojsovska@ek-inst.ukim.edu.mk)
** University Ss. Cyril and Methodius in Skopje, Institute of Economics – Skopje, (vesna@ek-inst.ukim.edu.mk)

Remittances are also relevant for the Western Balkan countries, provided the large-scale emigration from this region, particularly in the last two decades, the strong family ties that emigrant population maintains with the country of origin, and the lowered cost of sending remittances. Table 1 shows the remittances inflows in the Western Balkan countries, as a percentage of GDP in purpose of providing more realistic overview of the significance of the remittances inflows for each individual country. In our analysis, we have only focused on the remittances inflows, as remittances outflows from Western Balkans are rather insignificant.

With regards to the data used for our research, we have to indicate that World Bank database has been used as it contains comparable data on all analyzed countries for most of the years (with exception of Serbia, Montenegro and Kosovo prior to their current status of separate countries) and it provided more comprehensive base for the research compared to other approached sources (primarily National Banks of the respective countries).

Table 1: *Remittances inflows in Western Balkan countries (as % of GDP)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Albania	16.21	17.09	16.49	15.72	15.55	15.4	14.89	13.72	11.61	10.95	9.69	8.73	8.32	8.47	8.54
B&H	29.19	26.52	22.94	20.89	20.67	18.69	17.12	17.4	14.52	12.32	10.82	10.69	10.92	10.8	11.24
Croatia	2.94	3.2	1.63	1.49	1.6	1.52	1.63	1.78	1.75	1.93	2.03	2.16	2.45	2.59	n.a
Kosovo	n.a	n.a	n.a	n.a	17.14	18.77	18.9	19.01	18.33	18.66	17.1	16.75	16.29	15.86	n.a
Macedonia	2.14	1.98	2.63	3.51	3.75	3.62	3.88	4.14	4.1	4.05	4.12	4.14	4.04	3.49	3.24
Montenegro	n.a	n.a	n.a	n.a	n.a	n.a	n.a	5.35	6.59	7.31	7.32	7.64	8.22	9.58	9.41
Serbia	n.a	n.a	n.a	n.a	n.a	n.a	n.a	7.6	5.5	9.23	8.49	7.04	8.7	8.84	n.a

Source: *Author's calculations based on World Bank database on Migration and Remittances*[1]

Table 1 shows three groups of countries according to the volume and trend of their remittances inflows since 2000 onwards. The first group, consisting of Bosnia and Herzegovina (B&H), Albania and Kosovo, has been characterized with significantly higher inflow of remittances as percentage of GDP, compared to other countries. Hence, B&H and Albania have experienced a sharp declining trend over 2000-2014. The second group, composed of Macedonia and Croatia, had much lower remittances (2-4% of GDP) over the period, although with a slightly rising trend over the years. In the third group, consisting of Serbia and Montenegro, remittances surged up to around 9% of the GDP in 2013.

These differences could be discussed from the perspective of political and socio-economic conditions in the Western Balkan countries. Political factors have been crucial for the first group, due to the war in B&H (1992-1995), the opening of the Albanian border in 1990 after a long period of isolation, as well as Kosovo's conflict with Serbia and implicitly, the refugee crisis of 1999. The political instability and wars reflected into socio-economic hardship, causing massive outflow of citizens from these countries in the 1990s. These countries were also characterized by a very low GDP, implying that remittances inflows in these countries were substantial. Therefore, the discussion below would be focused on these three countries.

1 http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html

As an outcome of emigration waves (mostly during the war and afterwards), the World Bank estimates that over 37.7% of the Bosnian population lived abroad in 2005 and that B&H was among the four largest recipients of remittances per capita in the world at the start of new millennium (World Bank, 2006) and among the top six in terms of the share of remittances in GDP (IOM, 2007). Implicitly, the remittances in B&H were equal to 29.2% of GDP in 2000. The remittances inflows in B&H were downsized to 10.8% of GDP in 2010 (Table 1). Afterwards, remittances in B&H have stabilized to around 11% of GDP. However, it has to be stressed out that the remittances in B&H have not experienced significant changes in absolute terms, i.e. they have increased from USD 1.6 billions in 2000 to USD 1.9 billions in 2014 (Chart 2).[2] Implicitly, it could be argued that the decline into the remittances inflows in relative terms (as percentage of GDP) has been largely attributable to a poor post-war GDP in B&H and a certain revival of the Bosnian economy over the last decade. However, emigration is still a serious issue in B&H, with low income, absence of prospects and lack of economic development serving as main push factors, while existence of substantial social networks abroad, attraction of living in economically developed societies and better and higher educational and professional opportunities serve as main pull factors (Bosnia and Herzegovina Council of Ministers, 2008). At present, the emigration flows are subject to substantially tighter immigration policies of the attractive countries (primarily EU, USA, Canada), implying that possibility for massive outflows from B&H is narrowed. In this context, it is unlikely to expect significant changes into the B&H remittances inflows in relative terms in the forthcoming future, given also the modest GDP growth of the country.

As noted above, Albania has been significant recipient of remittances, owing to the extremely high emigration in 1990s. More specifically, more than 300,000 Albanians (Carletto *et al*., 2004:2) left the country in 1991 and 1992, while the total number of Albanians leaving abroad in 1999 has been estimated to 800,000 persons, out of which 500,000 in Greece and 200,000 in Italy. Although the use of informal channels for the transmission of remittances prevailed (IOM/ILO, 2007), the remittances sent via formal channels reached 17% of GDP in 2001. However, recent years witnessed a decline in emigration numbers, in part owing to a more realistic perception by prospective Albanian migrants of opportunities in Europe, partly because of tighter admission policies and border controls and the often unfriendly attitudes in host countries (IOM, 2006). In addition, the crisis in Greece and Italy have significantly affected the migration flows, as well as remittances inflows. In relative terms, Albania has experienced halving of its remittances over the first decade of 21st century, from 16.2% of GDP in 2000 down to 8.7% in 2011. On the other hand, the amount of annual remittances in absolute terms rose from USD 0.6 billion in 2000 up to uppermost USD 1.5 billion in 2008 and USD 1.1 billion in 2014 (Chart 2). In this context, the decrease of the relative share of remittances as percentage of GDP has been attributable to the GDP growth in the country. It could be argued that the remittances contribute to the fueling of the Albanian economy, mainly through the injection of finances received by the emigrants' families.

While B&H and Albania experienced a decrease of remittances inflows as a percentage of GDP in B&H and Albania, Kosovo has been characterized with high and stable remittances. According to IMF estimation, around 1/5 of the Kosovo population resided outside the country in 2003, while another research finds that one in five Kosovar households received remittances at the start of 2000s (Mustafa *et al.* (2007). This resulted in significant remittances in Kosovo, around 16% of the GDP. In addition to the low FDI in the country (Chart 2), it could be argued that remittances in Kosovo serve as the main instrument for boosting the economy (mainly on the consumption side). Other Western Balkan countries have also experienced substantial emigration mostly due to economic reasons, which reflects their remittances inflows (Chart 2), as presented in the following sections.

[2] Ibid

Impact of remittances inflows on current accounts in the Western Balkan countries

As international financial transfers, the remittances have been recorded in the current account of the balance of payment,[3] along with the balance of trade. If the country is coping with trade deficit, the remittances could play an important role in mitigating the current account problems. High and steady inflows of net remittances could offset the trade deficit (completely or partially), helping to restore or alleviate the current account balance. Remittances have more positive effects on the balance of payments than other monetary inflows (foreign investments, loans, financial aid, etc.), as they are not related to particular investment projects and repayment schemes. Furthermore, net remittances could be added to the stock of international reserves and used to repay foreign debt. In this respect, the remittances are a highly appreciated financial instrument by the monetary policy makers, as they provide effective and prompt cushion against external shocks on the domestic economy.

The role of the remittances in the Western Balkan countries is highlighted by the analysis of their current accounts. Chart 1 includes data on the current account deficit with and without remittances' participation, which stresses the role of the remittances in offsetting the current account deficits in each country. The trend of the remittances per country is also presented on the sub-Charts.

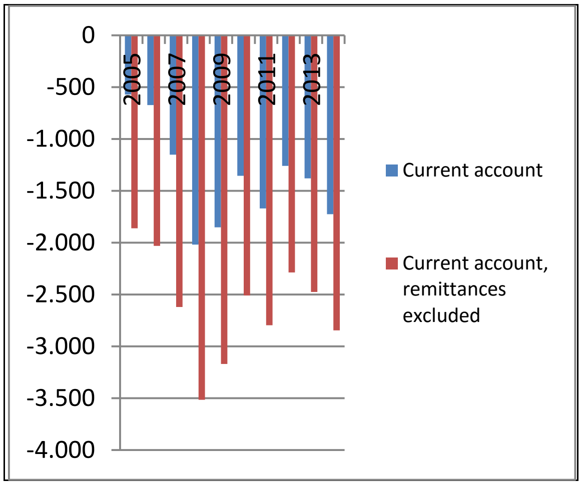
All Western Balkan countries cope with current account deficits over the period 2005-2014, although in different magnitudes. As Chart 1 shows, there is a common pattern for all the countries. Remittances inflows regularly offset part of countries' trade deficit and led to a significant decrease of their current account deficits. Complete offset of the current account deficit has been recorded only once: in Croatia in 2013. Otherwise, the remittances have covered at least half of the current account deficit. So the ratio of coverage of the trade balance with remittances inflows is quite stable, despite different effects of external shocks to the economies. For instance, all the countries have experienced deepening of the current account deficit in 2008, as the crisis has affected the exports of these countries and led to a widening of the trade deficit. On the other hand, in general, remittances have not been negatively affected in 2008. On the contrary, they experienced an increase in most of the countries. Afterwards, a certain decline of the remittances occurred, followed by their recovery, but mostly in the same line as the trade balance. In other words, the widening of the trade balance has been accompanied by rising remittances and vice versa. As a result, the remittances had offset trade deficits in the Western Balkan countries in the post-crises period in the same manner as prior to 2008.

In this context, it should be noted that remittances are not always following the external economic trends due to the "personal" dimension of migration. More specifically, the size of the remittances usually do not represent a big part of the migrant total income, and, therefore, migrants are able to continue sending money to their relatives in their country of origin, even with a decreased income reflecting the economic crisis in the recipient country. Furthermore, if migrants decide to return to their country, they usually take back their total accumulated savings which are also counted in the total remittances in their home country. This "personal" dimension of migration reflects into greater stability of remittances compared to other private capital flows.

Chart 1: *Current accounts in Western Balkan countries, with and without remittances' participation (in US$ million)*

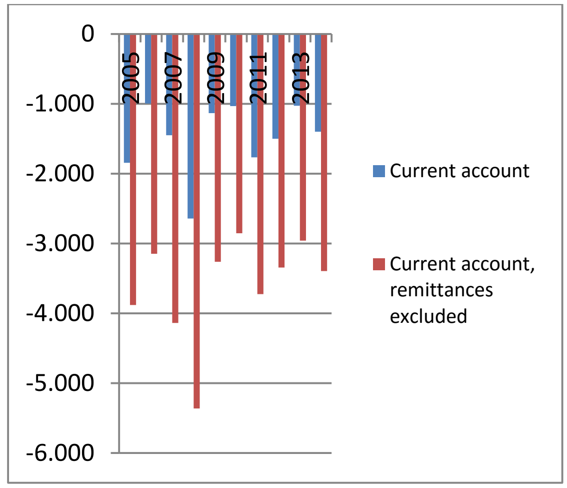
[3] Funds sent by migrants to their country of origin to purchase real estate or invest in local business are recorded not as remittances, but as foreign investment transactions.

Albania



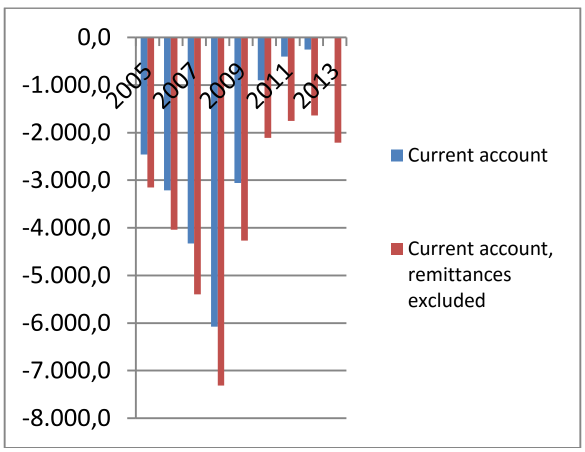
Source: Author's calculations based on World Bank Country Database

1.2. Bosnia and Herzegovina



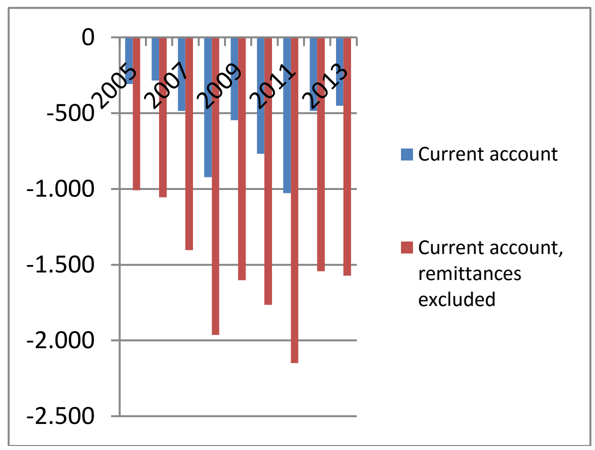
Source: Author's calculations based on World Bank Country Database

Croatia



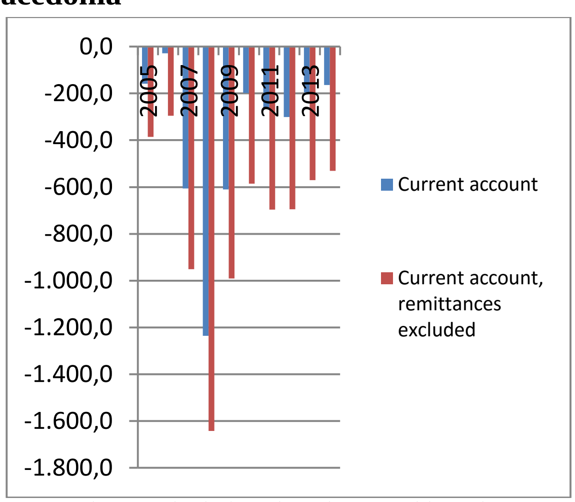
Source: Author's calculations based on World Bank Country Database

1.4. Kosovo



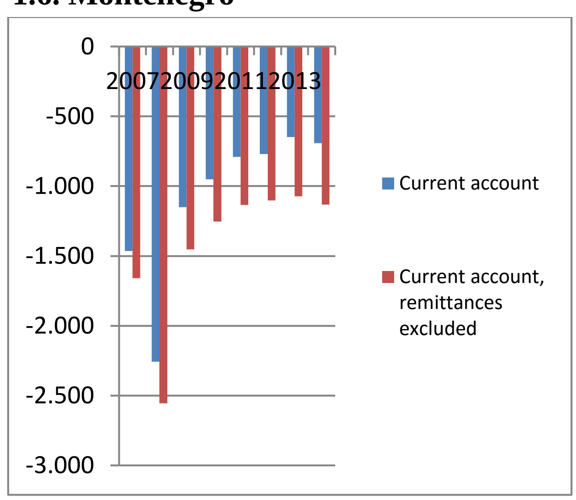
Source: Author's calculations based on World Bank Country Database

Macedonia



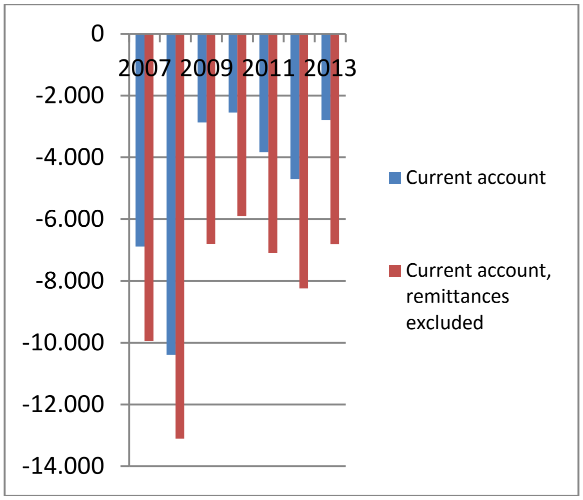
Source: Author's calculations based on World Bank Country Database

1.6. Montenegro



Source: Author's calculations based on World Bank Country Database

Serbia



Source: Author's calculations based on World Bank Country Database

Summarized, the data in Chart 1 shows that the current account deficits without remittances are much higher than those with remittances. More specifically, over the analyzed period, the current account deficit without remittances would be 1.9 times higher in Albania on average, 3.4 times in B&H, 1.54 times in Croatia, 2.7 times in Kosovo, 1.7 times in Macedonia, 1.7 times in Serbia and 1.3 times in Montenegro. Apparently, the remittances in Western Balkan countries play important role in offsetting the balance of payments problems. They improve the negative balance of payment and cover the trade deficit, thus financing imports.

However, another important impact of remittances, this time negative, could occur. It refers to the appreciation of the national currency due to the remittances increase of the total amount of money in the national economy. This appreciation makes exports more expensive and therefore, the international competitiveness of the domestic companies could deteriorate. Thus, the economy would face decrease in exports and increase in imports. This may further lead to a pressure on the balance, a slower growth of employment opportunities and consequently to a further rise in the incentive of the citizens to emigrate. Although the empirical evidence of negative effects from remittances on terms of trade and growth are limited, usually these negative effects exist in cases of small and open economies, which are, at the same time, large remittance receiving countries. However, such risk in the Western Balkan economies is rather low, as these countries pursue monetary policy of pegged currency to the euro, which implies that remittances are mostly related to euro-currency risks instead of domestic currency risks. Therefore, the role of remittances is positive as a whole. It provides to the monetary authorities in these countries the feeling that stability of the remittances is instrument for maintaining the sustainability of the balance of payment.

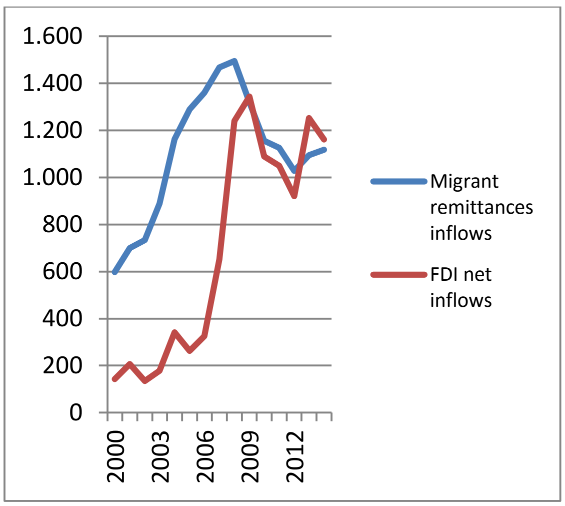
Remittances versus Foreign Direct Investments (FDI) in the Western Balkan countries

The impact of remittances in the national economy could be more clearly understood through their comparison to other sources of external financing, such as foreign direct investments, portfolio investments and official aid for development. In this context, it is important to underline that remittance flows are much more stable and less volatile than foreign direct investments and portfolio investments. Portfolio inflows are the least stable source of external funding, due to their high volatility over different economic cycles and high dependency on the current situation in the particular country of interest. In the Western Balkan region, portfolio investments are not well spread, due to a high level of underdevelopment of the secondary stock exchange markets. Official aid for development represents capital flows without any obligation for future repayments and with a certain degree of stability over the years. The Western Balkan countries have already received substantial amounts of foreign aid over the last two decades, but the current trend is declining. Therefore, we'll only focus on the comparison of the remittance inflows with the FDI, as external financial sources which have an impact on growth as well as on trade. Chart 2 represents the trend of remittances and FDI flows in each country of the Western Balkan region. The periods differ in accordance to the availability of the data (World Bank Database).

As Chart 2 shows there is specific relation between remittances and FDI for each Western Balkan country due to uneven disperse of the FDI over the region. Croatia and Montenegro have been largest recipients of FDI in the first decade of the 21st century, implying significantly higher FDI compared to the remittances inflows. The trend changed after the crisis, as FDI declined (globally, as well as in the region) while remittances experienced a continuous upward trend in both countries over the period. Thus, it could be argued that FDI inflows were of outmost importance in these two countries over the period. On the other hand, remittances in B&H, Kosovo, Serbia and Albania (up to 2009) have been a more significant source of external capital compared to FDI, which is also confirmed by the relatively high share of remittances as a percentage of GDP in these countries, as shown in the Table 1. In Macedonia, although the remittances played an important role, they represented a considerably lower amount compared to other Western Balkan countries (in per capita terms), which explains the higher impact of any larger FDI inflow. As a consequence, both sources - remittances and FDI - have played an equally important role in Macedonia over the period, although their relatively small size must be stressed out.

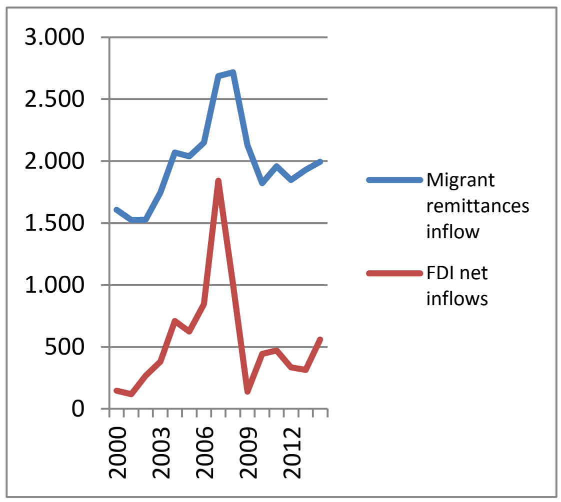
Chart 2. *Remittance inflows and FDI in Western Balkan countries (in US$ million)*

2.1. Albania



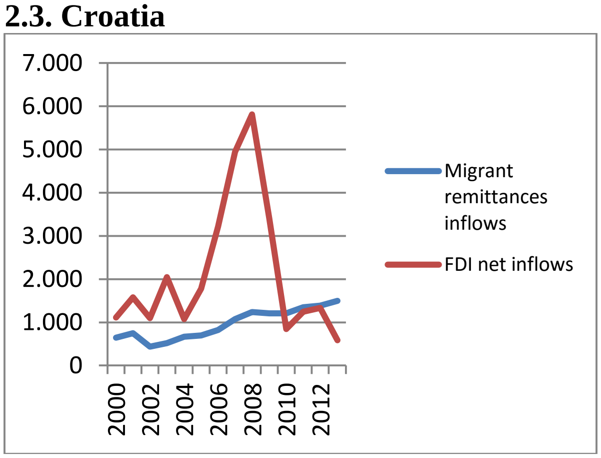
Source: Author's calculations based on World Bank Country Database

2.2. Bosnia and Herzegovina



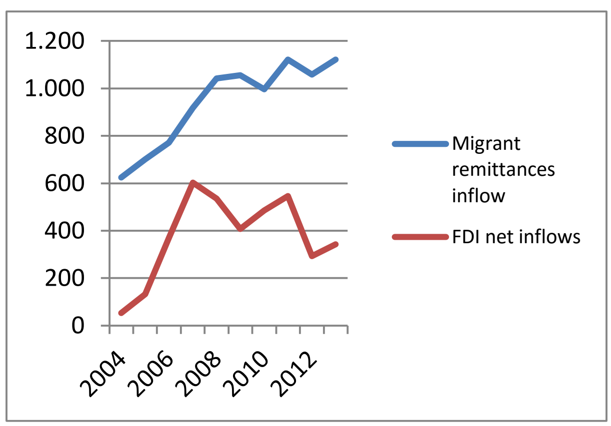
Source: Author's calculations based on World Bank Country Database

2.3. Croatia



Source: Author's calculations based on World Bank

2.4. Kosovo

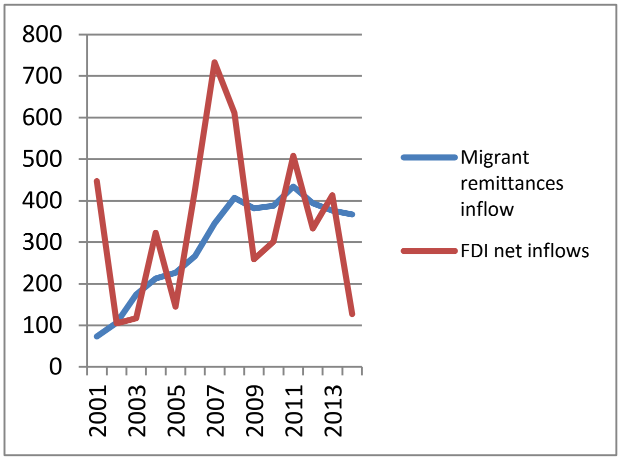


Source: Author's calculations based on World Bank

Country Database

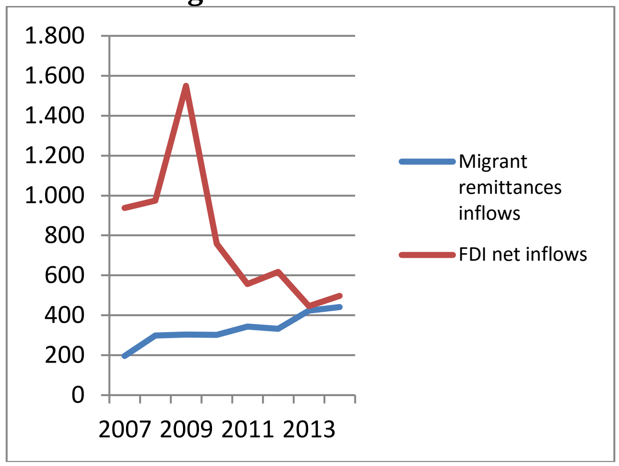
Country Database

2.5 Macedonia



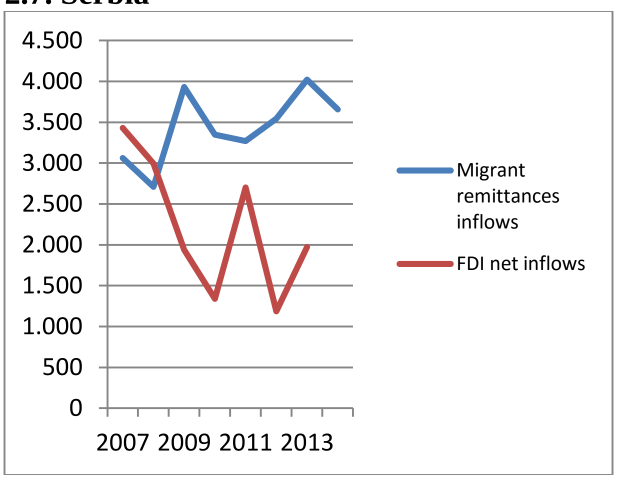
Source: Author's calculations based on World Bank Country Database

2.6. Montenegro



Source: Author's calculations based on World Bank Country Database

2.7. Serbia



Source: Author's calculations based on World Bank Country Database

In short, Chart 2 shows that the remittance flows are more important sources of external financing for some Western Balkan countries compared to FDI flows, while the general finding is that remittances are certainly a more stable source in all countries, compared to FDI. Nevertheless, the recent global financial crisis has shown that remittance flows are volatile, too, although the trends of remittances are often affected by the so-called "social" dimension. In addition, the analysis focuses on the formal flows of remittances, while there are also informal remittances that do not contribute to the mitigation of the current account problems, but are also a very important source for fueling the domestic economies. However, no estimate of these informal flows is available.

However, the discussion about remittances and FDI should also focus on the impact of both financial sources on migration. FDI are expected to generate growth and increase of the competitiveness of the recipient economic branches, with positive effects on trade and job creation. In this context, the incentives for migration should decrease. On the other side, remittances are primarily related to household consumption, rather than investment. They also provide certain boosts to the economy, but the long-term effects on the home country are primarily of social nature. Implicitly, this is an area of potential action for policy-makers who might be looking for higher benefits from the remittances.

Conclusion

The importance of remittances for the Western Balkans has been growing over the last two decades, given that the breakdown of the socialist system in these countries led to large-scale emigration. The main role of remittances for national economies is perceived through their impact on current account. The research has shown that there is a common pattern for all Western Balkan countries that remittances inflows regularly offset large part of their trade deficit and led to a significant decrease of their current account deficit. Furthermore, remittances have been stable source of external financing to all analyzed countries, with lower volatility compared to other private capital flows. In this respect, the remittances represent an important source of financial resources and have traditionally provided a cushion against external shocks in Western Balkan countries. However, the recent global financial crisis has shown that remittance inflows are volatile, too. This implies necessity for more serious approach by the policy-makers on the prospects for remittances' further trends and their impact on the current account on the balance of payment, as well as tailoring policy-actions for channeling remittances to boost the real economy through investment.

Bibliography

Arrehag, L., Sjoberg, O., and Sjoblom, M. (2004), *"Cross-border migration and remittances in a post-communist society return flows of money and goods in the Korce district, Albania",* South-Eastern Europe Journal of Economics, No. 3, 1, pp. 9–40.

Blouchoutzi, A. and Nikas. C (2014), *"Emigrants' remittances and economic growth in small transition economies: The cases of Moldova and Albania"*, Journal of Economics and Business Vol. XVII, No.2.

Bojicic, V., Caušević, F. and Tomaš, R. (2004), "*Bosnia and Herzegovina: Problems, obstacles and outcome of the reforms",* European Balkan Observer, Vol. 2, No. 4

Bosnia and Herzegovina Council of Ministers. 2008. *Migraton & Asylum Strategy and Action Plan 2008-2011*. Ministry of Security, Sarajevo.

Carletto C., Davis, B., Stampini, M., Trento, S., Zezza, A. 2004. *Internal Mobility and International Migration in Albania.* ESA Working Paper, 4–13, FAO, Rome.

Castaldo, A., Litchfield, J. and Reilly, B. (2005), '*Who is most likely to migrate from Albania? Evidence from the Albania living standards measurement survey",* Sussex Centre for Migration Research, Working Paper No. T11.

Chami, R., Fullenkamp, C. and Jahjah, S. (2005*), "Are immigrant remittance flows a source of capital for development?*" IMF E-book, pp. 55-81.

Dragutinovic, M. R. and Jovicic, M. (2006), *"Macroeconomic analysis of causes and effects of remittances: a panel model of the SEE countries and a case study of Serbia",* GDN Southeast Europe, Working Paper, Vienna Institute for International Economic Studies.

Gazi, M. H. and Holmes, M. J. (2014), "*Do remittances facilitate a sustainable current account?",* Working Paper 07/14, University of Waikato, Hamilton, New Zealand.

IOM (2006). *Return and Readmission, The Case of Albania*. Tirana.

IOM (2007). *Bosnia and Herzegovina. Migration profile.* IOM and the Slovenian Ministry of Interior, Ljubljana.

IOM/ILO (2007) *Enhancing the impact of migrant remittances in Albania*. IOM/ILO Working Paper, Geneva.

Kupiszewski, M., et al, (2009) "*Labour migration patterns, policies and migration propensity in the Western Balkans"*, The Central European Forum for Migration and Population Research (CEFMR)

Markiewicz, M. 2006. *Migration and remittances in Macedonia*. Centre for Economic Analyses (CEA), Skopje.

Meyer, D. and Shera, A. (2015), "*Remittances' impact on the labor supply and on the deficit of current account",* Econstorn, Working Paper No. 97

Mustafa, M., Kotorri, M., Gashi, P., Gashi, A., Demukaj, V. 2007. *Diaspora and migration policies*. Prishtina

Ratha, D. (2003), "*Workers remittances: An important and stable source of external development finance",* Global Development Finance, The World Bank.

Ratha, D. and Mohaparta, S. (2007), "*Increasing the macroeconomic impact of remittances on development",* Development Prospects Group, The World Bank.

Schrooten, M. (2005), "*Bringing home the money - What determines worker's remittances to transition countries?"* Discussion Paper, Series A, 466. The Institute of Economic Research, Hitotsubashi University, Tokyo.

Sejdini, A. (2014), "*Migration and remittances in Balkan 5: A comparative evidence*" Dissertation, University of Tirana.

World Bank (2006), *Migration and Remittances. Eastern Europe and the Former Soviet Union*. Washington.

World Bank (2011), *"Migration and remittances"* Fact book, Second edition, Washington. (www.worldbank.org/prospects/migrationandremittances).

World Bank. 2014. World Development Indicators 2014. Washington