

# THE ROLE OF REMITTANCES IN MACEDONIA'S ECONOMIC DEVELOPMENT

Research Article

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Petrit Pollozhani

## *Abstract*

The economy of Macedonia and other Albanian lands, as well as those of developing countries, in the globalization processes of remittances provide considerable financial resources. Although in the last few years there is a gradual shrinkage, they still provide Macedonia's economy with an additional accumulation that promotes economic development. Remittances increase GDP, reduce poverty, depreciate economic cycles, increase quality of life, withstand payment bill deficits, increase foreign exchange reserves, consumption, savings, etc.

The remittances of the emigrants in the Macedonian economy by the National Bank account for about 4% of GDP, but they are actually much higher (around 20%). According to an author's own poll, Albanians send the money mostly through their friends, relatives, WESTERN UNION, etc.

Macedonia's economy is not competitive in the international goods and market services, as for the consequence of a deep balance of payments deficit (about 20% of GDP). Remittances cover the deficit and enable foreign exchange reserves to remain stable.

The work presents the inter-dependence of GDP from remittances to the Macedonian economy in the period 2000/2016. The analysis shows a strong correlation between them

Although remittances in Macedonia's economy are a stimulating and stabilizing factor, government measures to stimulate investment in migrants remains desirable.

The priority of the Macedonian government and especially the Albanian political entities should be the strategy for repression of displaced persons, eventually their return, investment incentive policies can encourage emigrants to save money to invest in their homeland.

**Keywords:** developing countries, financial resources, economy, market services

## **Introduction**

According to the World Bank data in 2015, 30% of Macedonia's population has emigrated. Migration is even higher, beginning with the fact that some of the emigrants are not identified at all. The large number of immigrants shows that they have high financial savings potential. They are not invested in the homeland because the incentive strategy is lacking. It is a pity for the Albanian parties in Macedonia who see that every day the Albanian schools are emptied and the youth massively migrated having no program to stop the migration. In the government coalitions there isn't any build demand for incentives for investment by emigrants who would develop the local economy and on the other hand would return the confidence of returning home.

In developing countries, the policy of stimulating investment from the emigrants' money is under consideration and efforts are being made to build attractive strategies. Macedonia should move at the same road, certainly initiated by the Albanian parties because over 80 of the Macedonian emigrants belong to this ethnicity. The invasion of the economies of the emigrants will not only stimulate economic development but would curb the emigration and it is likely that a number of them will return to their homeland.

Punumi aims to sensitize the issue of remittances, their importance for the Macedonian economy and introduce ideas for transferring savings from emigrant countries to the country to invest

## **The economic and social impact of remittances in the Macedonian economy**

Remittances in the Macedonian economy are of great importance. They increase aggregate demand that promotes economic development. It reduces the poverty, improves the standard of population, covers the gap of reserves stemming from the balance of payments deficit, facilitates mitigating shocks from business cycles.

Remittances in Macedonia, although they continue to decline, still represent a significant financial resource. More than \$ 316.000.000 in 2016, according to the Macedonian National Bank, contributes over 3% of GDP. Realistically they are much higher because most remittances are sent home to different ways (relatives, friends, Western Union etc.) It is estimated that the overall annual value of remittances entering Macedonia amounts to about \$ 2 billion. Most of them about 50% are consumed for food, some are spent on buying flats or houses, considerable amounts are spent on weddings and family parties, some are saved and only 1% is invested. The average amount of money from migrants is € 200 per month or € 2500 per year per household. Recent years' research shows that remittances play an important social role for families who accept remittances. They live better, get better education, have better health care and more. Recognized remittances reduce poverty. Almost 80% of remittances are Albanians' money. More than 50% of Macedonian citizens have members of families who live in the countryside and 32.4% of them receive remittances, says the official report of the Bank. Macedonia's people of 2015. Remittances have always played important roles in the welfare of citizens, especially Albanians, because if it were not remittances, poverty in Macedonia would be greater and the budget for social transfers would also be higher. With the money of the emigrants, Macedonia's economy covers the balance of payments deficit. All countries with high deficits in the balance of payments have a serious problem with foreign exchange reserves because they pay the import. In Macedonia, thanks to remittances this problem does not exist. From what I see above, it is obvious that Albanians in Macedonia are not only a political stabilizing element (recognition of the nation, religion, and state) but also economic stabilizers. Remittances of Albanians have depreciated

the economic shocks in the first years of transition of 1990/1995 (when the economy continued to decline) in the wake of the 2001 war and in the global crisis 2007/09.

Despite the extraordinary contribution of remittances, incentive pollutants for absorbing savings from abroad (the diaspora) in the hometown remain desirable

### **Field research**

Analyzing the importance of remittances, the author prepared a questionnaire for immigrants and interviewed over 400 people. The interview was conducted only by Albanians and included immigrants from Struga, Kicevo and Tetovo. The interviewed immigrants are of different ages and different countries but dominate those of Switzerland and Germany. During the interview from the immigrant's response, the author was surprised. Immigrants of all ages regardless of the country of emigration, over 80% want to return to their homeland. Monthly incomes that would stimulate immigrants to return depend on the immigrant country. For example, those who work in Italy, Austria and Germany will return to their home country with a monthly salary of 600 €, those of Switzerland and Scandinavian countries with a salary of 1000 €

The causes of displacement from Macedonia were: looking for better life (90%), loss of prospect hope, low income of employees and non-value system (80%)

From the interview it turns out that every immigrant, whether by son or father, has built a house in Macedonia. According to author's stories during the transition period, the Albanians for housing construction spent over 10 billion € (100,000 households x 100,000 homes), representing Macedonia's one-year manufacturing potential. Nearly every immigrant consumes about € 1,500 a year for housing maintenance and nearly every Albanian emigrant family has spent over € 20,000 on weddings and family parties. Every fourth emigrant provides a monthly income of € 200 for families in need.

To the question, which factor will be decisive for the money earned in exile to invest in the hometown, nearly 90% of the respondents are responding if corruption and nepotism diminish, if the business climate is felt, capital is ensured, efficient functioning of the judiciary and we enjoy the same benefits as foreign invaders.

Migrants are aware of the negative consequences of long-term emigration and the question of what immigration advice you would recommend to family members, relatives and friends was the answer, not to seek emigration at all costs.

In addition to the economic aspect, the questionnaire also had cultural questions. It is a pity that Albanian emigrants, when coming to their homeland, very little visit libraries and book fairs. Almost 90% of the respondents answered that when they came to their homeland they did not come to see libraries and fairs and did not read books. The small number of those who have read books are mainly of religious character.

## The interdependence between remittances and GDP

Macedonia's economy after the transition (the 90's) marked modest development results. In 1990/2015 its economy was at an average annual rate of 1.2%. GDP per capita in the same period grew 1.5 times from \$ 2238 in 1990 to \$ 5644 in 2015. Macedonia's economy is uncompetitive in the international market resulting in a continued deficit in the balance of payments. Countries with fragile economies such as Macedonia, and with a significant balance of payments deficit (about 20% of GDP) due to competitive constraints face a serious problem of foreign exchange reserves and macroeconomic instability. Macedonia does not suffer from these problems because saviors are the treasuries of emigrants, which are a very important accumulation.

Various research shows that remittances to the Macedonian economy are very little (about 1%) used for investments. In economic analysis, the regression equation is the most common form to express the difference between two economic indicators in the case of economic development (PBB) and remittances. GDP is a dependent variable (Y) and unaddressed variable remittances (X). Based on the regression equation, the independent variable (remittances) and the dependent economy development (PBB)) are defined.

In this case, a simple regression model has been applied, whose equation is as follows:

$$Y = \beta_0 + \beta_1 + \epsilon_t$$

The  $\beta_0$  parameter is constant,  $\beta_1$  is the linear regression coefficient and  $\epsilon_t$  the factor of error during the time of the analysis (t). It shows the deviations of the values observed from the expected values of the variables set

The regressive equation is presented by the concrete data of the Macedonian economy for remittances and GDP during the period 2000/2016. Their dynamics are presented as follows

Table 1

The remittance dynamics and GDP in the Macedonian economy in the period 2000/2016 (in million \$)

	PBB	Remittance
2000	377.3	81
2001	371.1	73
2002	401.8	106
2003	494.6	174
2004	568.3	213
2005	625.9	227
2006	686.1	267
2007	833.6	345

2008	991.1	407
2009	940.2	401
2010	940.7	414
2011	1049.5	434
2012	974.5	394
2013	1081.8	376
2014	1131.9	366
2015	1008.6	307
2016	1049.1	316

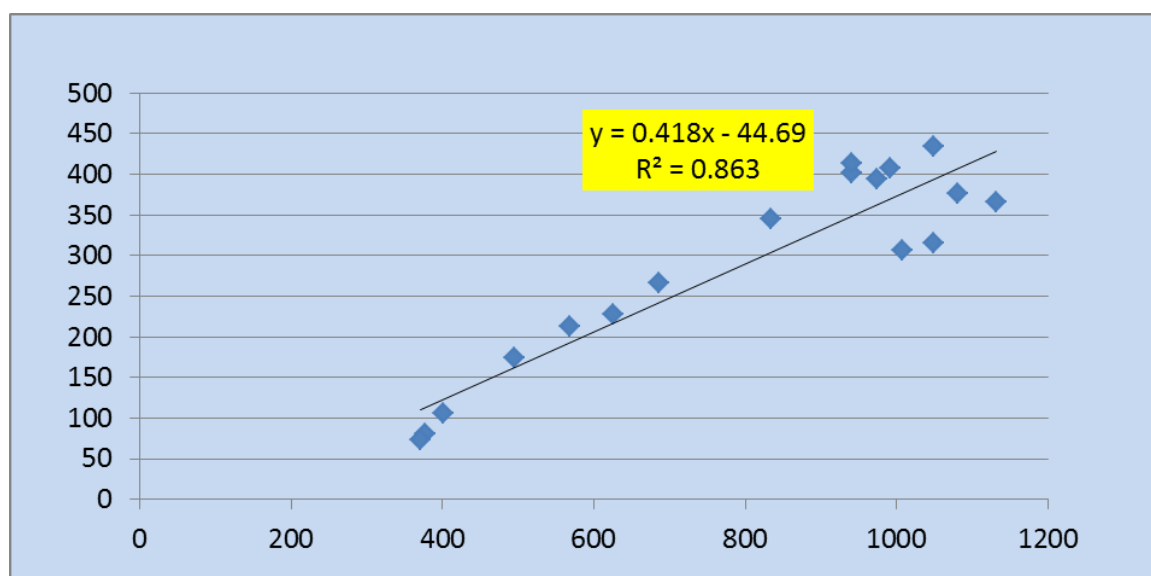
Source: <https://koemb.com/migration-and-remittances-factbook-2016>, World Bank, org

From the data in the table above we can see the remittances (\$ 81 million) and GDP (\$ 3.77 billion) of 2000, with the exception of 2001 (armed struggle) until 2011, marked by continued growth. The following five years (2012/2016) GDP marks oscillations, while remittances according to the Macedonian National Bank drop.

Such dynamics of remittances and GDP in the given period are presented and graphically. We present the trend with regression equation

Graph 1

Graphic presentation of remittances and GDP in the Macedonian economy in the period 2000/2016



As we can see from the regressive equation  $Y = 0.418 x - 44.63$ , the economic development (GDP) and remittances in the Macedonian economy in the period 2000/2016 have been in fair report. In other words, the growth of remittances has increased and GDP If

remittances are increased by \$ 0.418 the GDP is increased by \$ 1. The exception is the last five years (2012/2016) in which, alongside economic growth, remittances have shrunk. In other words, with the increase of remittances, the GDP grew and remittances stimulated the economic development of Macedonia in the analyzed period. The radiation coefficient  $R^2 = 0.86$  indicates that remittances to GDP in the Macedonian economy in the period 2000/2016 have influenced 86%, and other factors have influenced by 14% ( $1 - 0.86$ )

### Econometric results

The econometric results are obtained from concrete data of the Macedonian economy for GDP and remittances for the period 2000/2016.

Table 2

Radian coefficients and standard error for GDP and remittances in the Macedonian economy for the period 2000/2016

Model	R	$R^2$	$R^2$ modified	standard error
1	0.929223	0.863856	0.854353	103.4674

According to the data in the chart above the analyzed period (2000/2016) in GDP and remittances have a strong correlative correlation (coefficient of correlation 0.929). As noted above, the value of  $R^2$  (0.863) shows that the GDP of the economy of Macedonia for the analyzed period is 86% dependent on remittances and 14% from other factors.

Reliable results for correlation of two macroeconomic indicators in the analyzed period can be observed in the Anova test.

Table 3: Anova test for concrete data for Macedonia's economy for GDP and remittances for Macedonia - the period 2000/2016

Model	Square Amount small	Df	Average squares	F (Koefficient. of Fisher)	reliability Significance
Regression	1015463	1	1015463	94.8543	7.07
residues	160582	15	160582		
Total	1176045	16			

The Anova test shows the presence of an important relationship between GDP and remittances. Compared to the observed value of the test value criterion as a result of the implementation of the Fisher test ( $94.8548 > 6.32$ ), it is proved the hypothesis that remittances have a profound impact on the economic development of Macedonia.

### **Tips and suggestions**

From what was mentioned above for the economic and social function of remittances in the Republic of Macedonia it is reasonable to convey messages that have to do with concrete advice and suggestions. They would shortly be as follows:

Albanian political parties, chambers of commerce, economic development institutes, and Universities need to build strategies for braking and possibly starting the return of immigrants from the outside. Such a strategy is a national obligation of the Albanian parties operating in Macedonia. The Albanian emigrants from Macedonia have taken extremely worrying proportions.

The government in migration programs should raise awareness about the opportunities and risks of migration. This form of awareness should include public information through the media, radio, press, etc. It even has to find a place and in the education system (middle school). Such measures are justified from massive emigration, which emit whole villages and endanger primary school closures due to lack of students.

Macedonian emigrants, after working in developed countries, have high incomes and possess considerable savings. The Macedonian government should build strategies with incentive policies for investment by immigrants.

The strategy should include stimulating monetary and fiscal incentives (stimulating taxes)

Free infrastructure for the objects investing the migrants (water, electricity, roads, etc.) to the investment facility, identical to the operations enjoyed by foreign direct investment.

To be released for several years from personal income tax and personal tax.

Ensure capital invested according to European standards.

Government to participate in a portion of monthly wages in immigrant businesses in IDH analogue manner.

To stimulate all the co-ownership firms in which owners will be an immigrant from Macedonia and a foreigner.

The government and other institutions inform migrants without interruption for all the facilities and favors offered by their embassies if immigrants invest in their country of origin

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