About the Policy Spotlight

The Policy Spotlight is a publication of the American Chamber of Commerce in Kosovo (AmCham Kosovo). The purpose of this document is to outline the challenges for the development of respective policies in order to pave the way for addressing them. This edition focuses the spotlight on the Remittances in Kosovo: A 5 Year Comparative Analysis.

Spotlight on the Remittances

Before venturing into remittances in Kosovo, it is crucial to comprehend what remittances are and how they affect households. Remittances take place when the diaspora sends a portion of their earnings, in the form of cash or goods, to their home countries to support their families. This transfer happens from one person or household to another. The money being transferred is a lifeline for many developing countries; therefore, it is targeted to the specific needs of the recipients and thus tends to reduce poverty. As a result, remittances have expanded rapidly in recent years, becoming one of the primary sources of foreign income for many developing economies. It is difficult to estimate the exact size of remittance flows because many take place through unofficial channels. However, the purpose of this spotlight is to solely rely on the official data in order to prove an overview of this issue.

Overview of Remittances in Kosovo

Remittances are widely viewed as a cultural symbol of a diaspora’s love and commitment to their close families, and, in many cases, to the extended families as well. Given the country’s socio-political history, almost every Kosovar family has relatives abroad, and almost every family receives financial support from abroad. Therefore, regardless of necessity, the diaspora feels a moral obligation to send money home. This phenomenon has been taking place for a long time, generation after generation.\(^1\)

Remittances are especially important for low-income countries. According to the International Monetary Fund, such countries account for nearly 4% of their GDP, compared with about 1.5% of GDP for middle-income countries.\(^2\)

Before we dive into details about the remittances over the years, it is vital to comprehend how a remittance transaction occurs.

1. The diaspora sender pays the remittance to the sending agent using cash, check, credit card, debit card, or a debit instruction sent by email, phone, or through the internet.
2. The sending agency instructs its agent in the recipient’s country to deliver the remittance.

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1 Central Bank of Kosova (CBK), “Remittances” [Link](#)
2 International Monetary Fund (IMF), “What Are Remittances?” [Link](#)
3. The paying agent makes the payment to the beneficiary.

A fee is typically charged by the sending agent and often paid by the sender, and a currency-conversion fee for delivery of local currency to the beneficiary in another country are among the costs of a remittance transaction. Some smaller operators charge the beneficiary a fee to collect remittances, presumably to account for unexpected exchange-rate movements. And remittance agents (especially banks) may earn an indirect fee in the form of interest (or "float") by investing funds before delivering them to the beneficiary. The float can be significant in countries where overnight interest rates are high.

**Remittances in Kosovo-Throughout the Years**

According to the data gathered from the Central Bank of Kosovo and the Kosovo Statistic Agency, the amount of remittances received through regulated channels in Kosovo for 2021 was EUR \(1.153\) billion, or \(14.4\%\) of GDP, and had a recorded annual growth of \(17.7\%\) in 2021.\(^3\) \(^4\) While most remittances are transferred through unregulated channels (in-person remittances, through intermediaries such as bus drivers, etc.), the total amount is assumed to be even higher.

In 2021, \(57.6\%\) of the remittances occurred through Money Transfer Agencies, a \(1.2\%\) decrease from the previous year. Remittances through Banks grew by \(26.5\%\), while remittances through the "Informal Channel" increased by \(86.3\%\) as a result of border opening. During this year remittances to Kosovo the majority were sent from Germany and Switzerland, which accounted for \(39.2\%\) and \(18.9\%\) of total remittances. Remittances from the United States are also accepted in substantial numbers, marking up \(7.2\%\) of total remittances.

However, the flow of remittances has changed over the years, an essential difference has taken place before the pandemic in 2019 and in the pandemic year 2020, indicating an increased from EUR \(851.5\) million to EUR \(980.0\) million, compared to EUR \(800.6\) million in 2018 (refer to figure 1). CBK in their 2021 annual report, states that "In the pre-pandemic year 2019, remittances amounted to an annual increase of \(6.4\%\)," (refer to figure 2). This increase in remittance

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\(^3\) Central Bank of Kosovo (CBK), "Annual Report 2021" [Link]

\(^4\) Kosovo Statistics Agency (KSA), "Gross Domestic Product (GDP) with the Expenditure and Production Approach, 2008-2021" [Link]
has occurred despite the fact that the pandemic crisis has drastically hit the nations where Kosovo’s diaspora is concentrated.

**Remittances in Kosovo: January-October 2022**

In the period from January to October* 2022 *(refer to figure 3), of the EUR **1.009** billion collected via remittances in Kosovo the vast majority of transfers **57.4%** occurred through Money Transfer Agencies, **16.9%** of them occurred via Banks, and **25.6%** of transfers were received through other channels *(refer to figure 4).* In the first half of 2022, remittances to Kosovo mainly came from Germany and Switzerland, countries from which **39.4%**, respectively **18.2%** of total remittances were sent. A significant share of **8.2%** of remittances was also accepted from the United States of America *(refer to figure 5).*

The Use of Remittances

In low-income households, remittances may be used to buy basic consumption goods, housing, children’s education and health care. In middle-income households, they may provide capital for small businesses and entrepreneurial activities. In Kosovo, a 2010 UNDP study, summarized by the Group for Legal Studies states that around **“40%”** of remittances are used for household consumption, another portion for housing and human capital investment, whereas only a small amount is used for business investment.” Remittances are very important for Kosovo and its diaspora in terms of both money and culture. They are not only vast, but they are also distributed more evenly among developing economies than capital flows, including foreign direct investment. In Kosovo, the value of remittances has always

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5 Central Bank of Kosovo (CBK), “Time Series - Remittances inflows by channel” Link

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6 Central Bank of Kosovo (CBK), “Time Series - Remittances inflows by country” Link

7 Group for Legal Studies, ‘How ‘friendly’ is Kosovo for Foreign Direct Investments: A Policy Review of Gaps from a Regional Market Prospective” Link
been higher than that of FDIs, this value has had a steady and significant increase during 2018-2021 (refer to figure 1).

This has mainly remained the case until now, except for a noteworthy investment by the diaspora in the real estate market. Remittances do benefit the welfare of Kosovo citizens, but different studies draw mixed conclusions on their economic impact. A study using regression models and World Bank data for the Western Balkans, concluded that the economic impact of FDI was highly significant, whereas considering remittances as “not key determinants of growth”. They suggested that respective authorities should “create an adequate environment for new, successful investments, and [make] good use of incoming remittance flows.”

Many argue that the diaspora can positively impact the level of FDIs in Kosovo by redirecting remittances into investment. Regarding this, the Foreign Direct Investment paper published by AmCham concluded that:

“Notwithstanding the debated economic impact of remittances, this study suggests that the diaspora should consider redirecting remittances towards FDI or their current investment in real estate towards other beneficial and profitable sectors. On the other hand, Kosovo and its respective authorities should work towards attracting FDIs from the diaspora and establishing effective mechanisms for the utilization of diaspora capital. It is important to note that the diaspora faces a lower investment risk than other potential investors and remains the hope for an increase in FDI levels.”

The Downside of Remittances on the Labor Market in Kosovo

The impact of remittances on the labor market in Kosovo has been generally beneficial; however, according to a World Bank study, the labor force participation rate for households with migrants is 45%, 14% lower than that of non-migrant households with 59%. The lower labor market outcome for migrant households may be partially explained by a higher reservation wage generated by remittances, which has been demonstrated to be statistically significant.

Hofler and Murphy (1994) define the reservation wage as “The wage such that employment offers paying wages less than the reservation wage are rejected.” whereas higher unemployment is often viewed as a negative consequence of remittances, according to Dermendzhieva (2009). Higher reservation wages, longer periods of unemployment, and less active job seeking indicate a decline in labor supply. Undoubtedly, the labor shortage as a by-product of remittances mostly affects the private sector, which simultaneously is the key sector for driving economic growth in Kosovo. The inability of achieving workforce equilibrium, meaning that the demand for labor is not met by the supply of labor, is causing an ever-increasing dissatisfaction among the business community.

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8 Journal of Risk and Financial Management, “Financing Growth through Remittances and Foreign Direct Investment: Evidences from Balkan Countries” Link
9 American Chamber of Commerce in Kosovo (AmCham), “Foreign Direct Investment in Kosovo” Link
10 World Bank, “The role of Migration and Remittances in Kosovo” Link
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