

UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

**COVID-19 CRISIS AND
REMITTANCES: THE CASE OF
KOSOVO**

Ljubljana, June 2023

LEJLA EJUPI

AUTHORSHIP STATEMENT

The undersigned Lejla Ejupi, a student at the University of Ljubljana, School of Economics and Business, (hereafter: SEB LU), author of this written final work of studies with the title "COVID-19 Crisis and Remittances: the case of Kosovo", prepared under supervision of Mojmir Mrak, PhD, Full Professor.

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LIST OF ABBREVIATIONS

BoP – Balance of Payments

BTI - Bertelsmann Transformation Index

CBK – Central Bank of Kosovo

DEED - Diaspora Engagement in Economic Development

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

IMF – International Monetary Fund

IOM - International Organization for Migration

IRF – Impulse Response Function

ITRS - International Transaction Reporting System

KAS – Kosovo Agency of Statistics

MF – Ministry of Finance

NLB - Nova Ljubljanska Banka

SWIFT - Society for Worldwide Interbank Financial Telecommunications

UN – United Nations

UNDP - United Nations Development Programme

INTRODUCTION

The source of economic growth for developing countries has been studied for decades now. These studies have recognized factors of economic growth and, as such, have considered the effects of surplus labor, physical capital investment, technological change, foreign aid, foreign direct investment, investment in human capital and reached to the impact of institutional and political factors such as political freedom and political stability, accountability, etc. (Sobiech, 2019).

In consideration of various types of remittances, for the purpose of this study, remittances are analyzed as cross-border, private, voluntary, social or in-kind transfers made by a sender country through migrants and diaspora, individually or collectively, to a receiving country to people or to communities by using formal and informal channels.

The spectacular rise of remittances in recent years has gotten the attention of researchers and policy makers who explore the effect of remittances on economic variables. Most significantly, the pros and cons of remittances on economies has been thoroughly explored. These studies have depicted the effects of remittances on well-being, economic growth, creating a dependency culture in the receiving country, lowering labor force participation, conspicuous consumption etc. To formulate specific targeting policies for each of these effects, research has been put in place to explore each of these effects specifically in order to get the utmost benefit from these external inflows. The aggregate level in the receiving countries has enabled economic stability, improved creditworthiness, and has been a contributor to investment promotion that accelerates growth and reduces poverty (Cooray & Mallick, 2013).

For many developing countries, remittances hold the key role of international capital flows or at least a major impact in development which surpasses foreign direct investment, export revenues, and foreign aid (Fayissa & Nsiah, 2010). Remittances are a portion of migrants' earnings sent from the migrating country to the place of origin, the receiving country, playing a significant role for countries with lower economic development. In 2012 only, there were €39 billion transferred by immigrants from EU-27 to their home country (Soava, Mehedintu, Sterpu & Raduteanu, 2020). The far-reaching effect of remittances and their growth has been prone to meticulous research regarding their effect on the development of a country. Nonetheless, failure to adequately isolate the effect of unobservable factors, which cause biased results, is identified as a major problem in this case.

Remittances are known for their counter cyclical nature, that is, they increase when there is a macroeconomic shock, securing recipient families against income shocks, and soothing their decreasing consumption in turn. Moreover, remittances have a positive relationship

with trade balances and are a source of tax revenue for governments in countries that are dependent to VAT, trade taxes, and sales taxes.

With the emergence of COVID-19 crisis, the economic impacts are noticeable, with poverty reduction and welfare improvements in the Western Balkans halted. More specifically, the crisis affected household welfare, due to fewer jobs and loss of labor income in the most affected industries, as well as lower international remittances. A study by Ratha (2011), concludes that remittances act as a macroeconomic tool that offsets the adverse effects of financial crises at times when every other flow decreases or stagnates during a financial crisis. Hence, remittances create a stable consumption and output against price volatility. The economic conditions of the receiving country are also a very important factor affecting the macroeconomic impact of remittances.

Kosovo, being the poorest country in Europe, relies heavily on remittances since the first wave of migrants who migrated to Germany, Switzerland, and other European countries in the 1970s. Kosovo remittances share of GDP stood at 18.68% in 2020 (World Bank, 2021). Therefore, due to the importance and the dependence of Kosovo economy on remittances, analysis of their macro- and microeconomic effect, especially during the outbreak of the COVID-19 pandemic, is crucial for public and economic policy.

Migration and remittances have made a significant contribution to the economy of Kosovo since the 1960s. The microeconomic impact of remittances is most notable on a household level, where they are a direct coping mechanism for the households that lack employment and are disadvantaged at earning opportunities. At least one in every third of households in Kosovo has emigrant family members, and one in four households is a receiver of remittances. On the other hand, the macroeconomic impact of remittances is mostly felt as a major source of external finance, accounting for 18.87% in 2020 (World Bank, 2021). The impact that remittances have on GDP is significant, and together with FDI and the Financial sector they constitute a dominant part of GDP, reaching up to nearly 65%. Moreover, remittances in Kosovo play a stimulating role in consumption and private investment, which in turn improves the welfare of many citizens (Prekazi, Pasjaqa & Dumi, 2015). In 2010, research suggests that over 25% or over 400,000 Kosovars have remittances as the main source of income, while in 2013, 43% of Kosovo citizens have family members abroad (Badivuku-Pantina & Zogjani, 2015).

The effect of remittances on other micro- and macroeconomic factors such as labor supply, consumption, GDP, economic growth rate, balance of payments, etc., with an emphasis on studies of these relationships at times of crisis such as the spread of COVID-19, has not been thoroughly explored in Kosovo. The current research aims at understanding the broad and structured effect of remittances in the economy of Kosovo, and if the value of remittances increased or decreased due to the pandemic.

It has been found that remittances have a positive impact on the balance of payments for developing countries, and on enhancing economic growth due to the direct effect that they have on savings, investment in human and physical capital, and through indirect effects on consumption. The value of remittance flows for developing countries has been rising in recent years. The fact that remittances support growth and are less volatile than other private capital flows, which also are stable through business cycles and crises, makes them a catalyst for stability in developing countries (Buch & Kuckulenz, 2010).

Considering the limited research on the impact of remittances on economies in the region, especially during and after crisis, this paper aims to fill the evidence gap that would enable improved policymaking to maximize the development effect of migration and remittances in the economy of Kosovo. The overall objective of the current thesis is to analyze macroeconomic and microeconomic effects on remittances during the COVID-19 crisis in Kosovo. On the macroeconomic side, the thesis will focus on the implications of COVID-19 crisis on GDP and growth rate, balance of payments, and public finance while on the microeconomic side, it will focus on how the crisis was reflected on the consumption of households, labor participation, and individual sectors such as that of construction, and food and accommodation sector.

Despite the increasing importance of remittances and their connection to other economic factors in Kosovo, the relationship between these factors has not been adequately studied in a comprehensive meta-analysis, and most importantly, the effect of the pandemic in these relationships is an unexplored field. Previous studies have focused and isolated some macroeconomic factors, but there are limited comprehensive far-reaching studies in the subject matter. Another study that explored the aggregate effect that remittances have on private consumption and investment in Romania, for a span of 9 years, finds that remittances positively influence private consumption but have a negative effect on investment (Arapi-Gjini, Möllers & Herzfeld, 2020). Furthermore, there are several studies that explore the effect of remittances on the economies of different countries where most of the studies focus on one to two factors that are influenced by remittances. The current study is a meta-analysis and explores the relationship of remittances with many other macro- and microeconomic factors and adds the outbreak of COVID-19 and the effects that it had on these factors.

This study has been carried out based on an empirical analysis conducted through consultation of literature and statistical data to investigate the level of the analyzed factors and test the relationship of remittances and economic factors in Kosovo, as well as a qualitative analysis carried out through interviews with policy makers and finance workers for further analysis of the case study. The qualitative analysis includes interviews with representatives from the Central Bank of Kosovo, Ministry of Finance of Kosovo, one of the biggest banks in Kosovo - NLB Bank, and finally, an owner of a business in the food and accommodation sector. These interviews are designed and customized specifically to

address the key impact and reveal the importance that remittances have for each of these sectors.

To achieve this, the qualitative questions were split into three groups of questions that address three of these different groups of sectors which are represented in this study. The first group is that of Government Institutions and the Central Bank, the second group of questions addresses the impact of remittances on banks and exchange offices, whereas the third group of questions deals with the impact of remittances in the accommodation and food service sector.

The depth of the current research is reached through these interviews. These 4 interviews with specific questions were completed during the first quarter of 2022, after the impact of COVID-19 was noticeable and impactful. The interviews are used as a trailblazer in order to see the insights from firsthand experience of different sectors with remittances, remittance flows, and their role during the crisis during the emergence of COVID-19. Through these interviews, it was attempted the results be firmly secured and/or contradicted to find ways to understand the real impact of remittances on the economy of Kosovo. These interviews, which complement the research, are mirrored against the current literature and compared to the findings of the current quantitative analysis.

The total amount of remittances received by diaspora countries is to be analyzed annually for the period 2010-2020, as well as factors exhibiting Kosovo economic growth for this time period. In addition to remittances, other variables to be considered are consumption/household, labor supply, individual sectors, GDP, growth rate, balance of payments and public finances. Our variable of interest, remittances received from workers abroad, as well as economic factors are to be taken from the World Development Indicators and from the Central Bank of Kosovo. In the second phase of analysis, the effect of remittances in economic factors is to be specifically analyzed for the years from 2019 to 2021, in order to understand the effect of COVID-19 on the economy of Kosovo, as well as the effect on the level of remittances of the diaspora workers.

In more specific terms, this thesis has the following objectives:

(i) To analyze macro- and microeconomic implications of remittances on the global level and on the level of Western Balkans countries in recent years.

(ii) To investigate the macro- and microeconomic implications of remittances on the Kosovo economy over the period of last 10 years. The analysis will be focused on selected macroeconomic indicators, such as economic growth, public finances, and balance of payments (current account balance), as well as selected microeconomic areas, such as labor participation rate, consumption/households, and selected sectors.

(iii) To explore the effect of COVID-19 on the level of remittances to Kosovo for the years 2019-2020.

(iv) To investigate the channels used for remittance transfers to Kosovo, and to analyze whether these channels have changed due to the spread of the pandemic.

This thesis is structured in a way that explains the concept of remittances at the beginning, by also showing the importance they hold and how they interact with other economic factors. The thesis will flow by a presentation of global figures and the importance they hold for various countries, including developed and developing countries. After that, because of the previous research papers and articles, it is concluded that the main importance of remittances falls on the developing countries, those countries being, India, China, Bangladesh, Pakistan, Egypt, China, Mexico, etc., as the largest receivers of remittances globally. By following a structure that flows from the global impact of remittances to identification of the countries that depend most on them, the thesis then points down to the region analyzed in this paper, the Western Balkans. The importance of remittances for this region is depicted by the analysis of previous papers that have considered the impact of remittances to this region.

The focal point of the paper is Kosovo. This point of discussion is only reached after the interpretation of the importance and the role of remittances globally, regionally, for Western Balkans, and then for Kosovo. The importance of remittances is first described by previous papers and statistics that present the fact that Kosovo is heavily reliant on such transfers. Immigration has always helped poor countries and that is the case with Kosovo too. The different phases of immigration in the history of Kosovo have created a relatively large pool of diaspora which is said to have reached nearly 900,000 people representing a big number for a country with a population of 1.88 million.

The importance of remittances is significant both in monetary and cultural terms. In 2019 only, the remittances flowing through formal channels were €1.24 billion, representing a staggering figure that makes up to 15.6% of the country GDP. The largest share of remittances is sent from Switzerland, Germany, and the UK. The importance of remittances increases in crisis, and sometimes it is found that their flows increase, proving to be a cushion for any type of crisis, be that natural disasters, economic crisis, or a multi-faceted crisis as that of the emergence of COVID-19.

The analysis then reaches the evaluation of the impact of remittances during the crisis and has a focal point the years of the emergence of COVID-19, 2020-2022. Since the issue at hand is a recent one, and the impact of it is yet to be seen and analyzed, the research involves 4 interviews that fill the knowledge gap of the impact of COVID-19 to the Economy of Kosovo.

Through different sectors taken in consideration and via combination of a meta-analysis of previous papers, World Bank data, and the interviews at hand, the paper attempts to shed light on the issue of the importance of remittances for Kosovo, the relationship of these

figures with both macro- and microeconomic factors, and how this all has unraveled during the COVID-19 crisis.

1 CONCEPT AND MAIN CHARACTERISTICS OF REMITTANCES

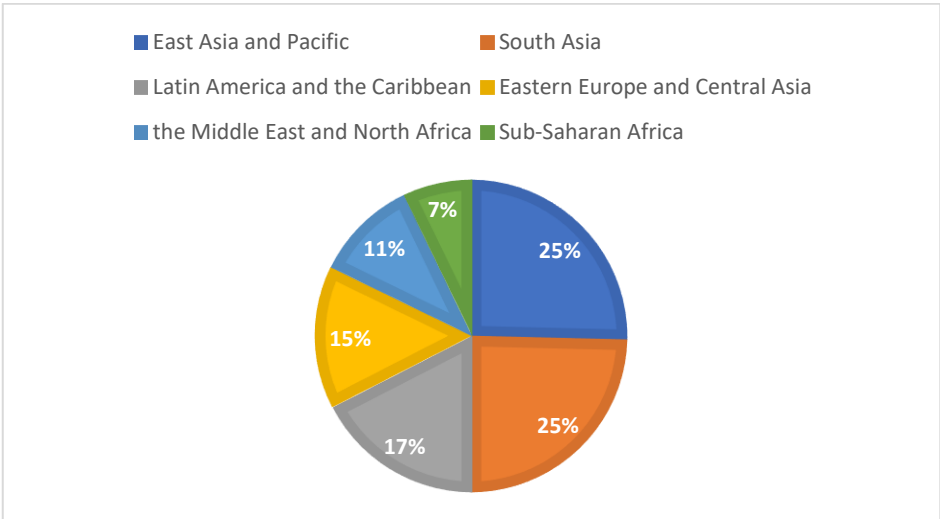
1.1 Concept of Remittances

Remittances are the part of the income migrants send to their families in the home country as a means of supporting. For many developing countries this is the largest source of foreign income. Estimating the exact amount of remittance flows is not possible yet since many of these transfers happen through unofficial channels. Globally, formally transferred international migrant remittances are projected to reach \$589 billion in 2021, showing an increase of 7.3% from the previous year (World Bank, 2021).

Remittance transfers involve the role of a sender, a receiver, and the intermediaries in both countries. Intermediaries are channels that are used to process the transfer and they range from formal (banks, microfinance institutions, money transfer operators, etc.), and the informal channels (family members and informal players). Historically, migration has been a strategy for prosperity for millions of socially poor households globally. In 2020, there were 281 million migrants worldwide, making up 3.5% of the total global population. Between 2018 and 2019, global remittances increased from \$600 billion to \$714 billion.

The total volume of international remittances in 2020 was \$701 billion. Remittance flows as depicted in Figure 1, by region are 21.5% for East Asia and Pacific, 20.85% for South Asia, 14.76% for Latin America and the Caribbean, 12.55% for Eastern Europe and Central Asia, 9.03% for the Middle East and North Africa and 6.01% for Sub-Saharan Africa.

Figure 1: Global remittances % by region



Source: Olivie, & O'Shea (2022).

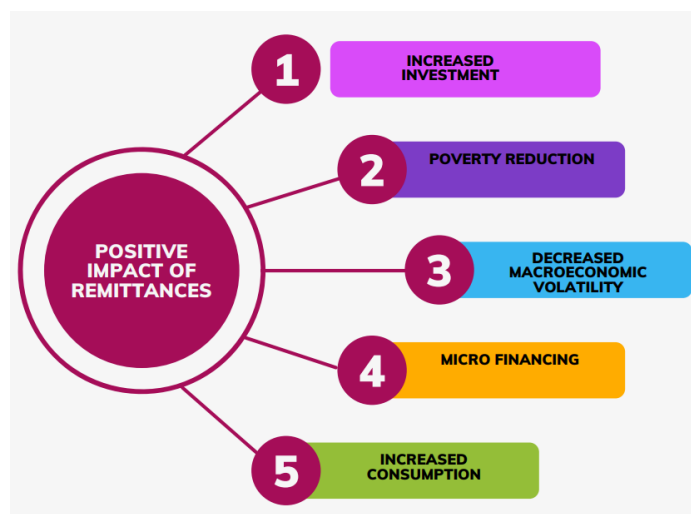
The main sender regions of international remittances are The United States, the European Union, the United Arab Emirates, and Saudi Arabia. Whereas the countries that receive most are India, China, Mexico, the Philippines, and Egypt. More specifically, as a percentage of GDP during 2021, remittances represented more than 30% of GDP for Tonga, South Sudan, Lebanon, Gambia, Somalia, and the Kyrgyz Republic. Remittances represented over 20% of GDP for Tajikistan, El Salvador, Nepal, Jamaica, Lesotho, and Samoa (Olivie & O'Shea, 2022).

The remarkable increase of remittances in the recent decades has made them more reliable than other sources of foreign inflows thus making them less volatile. In 2013, for India and China, remittances exceeded \$50 billion, and their importance is even more crucial for smaller developing countries to which they make up more than 50% of the Gross Domestic Product (GDP) (Bakker, 2014).

Studies that emphasize the positive impact of remittances go from elaborating on the effect of remittances on reducing poverty, development, trade, and investment, increase of consumption etc. However, the impact of remittances relies heavily on the structural characteristics that they are allocated to. Moreover, besides the positive effect of remittances on economies, studies also find out that there are numerous negative effects of remittances. To name a few, remittances seem to have a negative impact on human capital, therefore, decreasing labor supply, and decreasing the willingness to work for those that do not migrate but depend on remittances.

It is evident that the positive effect of remittances as depicted in Figure 2, is in increasing investment, reducing poverty, micro financing, finance education and healthcare, decreasing macroeconomic volatility, increasing import etc.

Figure 2: Positive impact of remittances for a recipient country

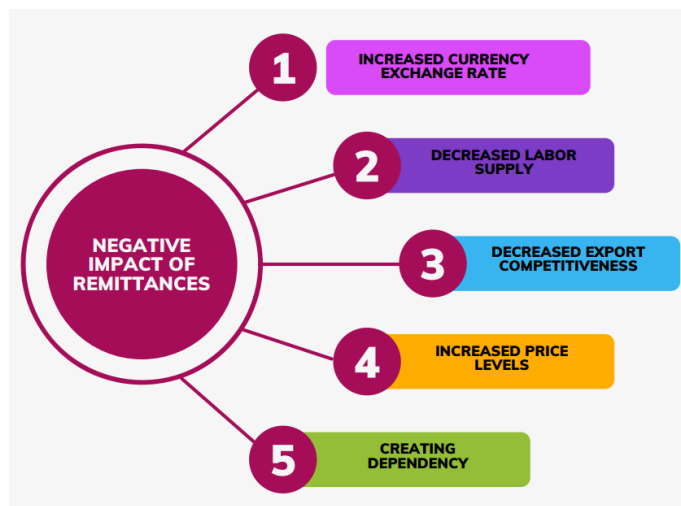


Source: Cazachevici, Havranek, & Horvath (2020).

More specifically, the positive impact of remittances falls mainly into reducing poverty, increasing economic growth, decreasing current account deficit, increasing investment in small businesses etc. The main impact of remittances on development comes by supporting new economic activities, tourism, increase of consumption etc.

On the other hand, the negative impact as depicted in Figure 3, of remittances goes from increasing currency exchange rate, decreasing labor supply, decreasing export competitiveness, and increasing price levels.

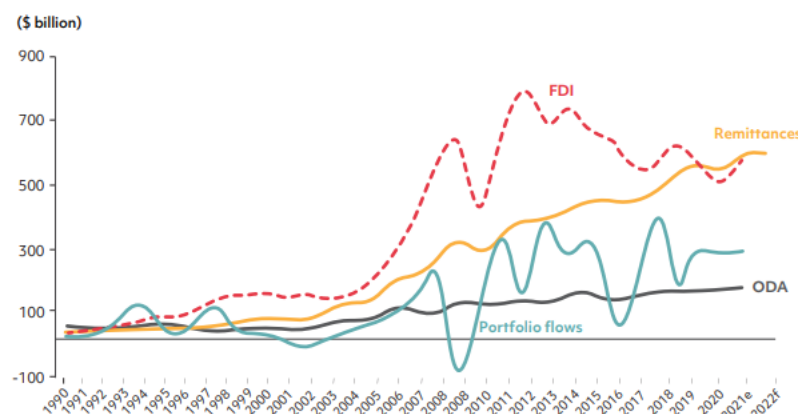
Figure 3: Negative impact of remittances for a recipient country



Source: Cazachevici, Havranek, & Horvath (2020).

More specifically, the side effects of remittances are usually perceived as labor supply reduction, dependency creation that results in economic growth inhibition (Topxhiu & Krasniqi, 2017). The upward trend of remittances has brought attention to their importance, continuously gaining more prominence in research and policy on the debate that they have on poverty alleviation and economic growth. This increase in interest stems directly from the sharp increase over the years, mainly in developing nations see below Figure 4.

Figure 4: Remittances, Foreign Direct Investment, and Official Development Assistance Flows to Low- and Middle-Income Countries, 1990–2022

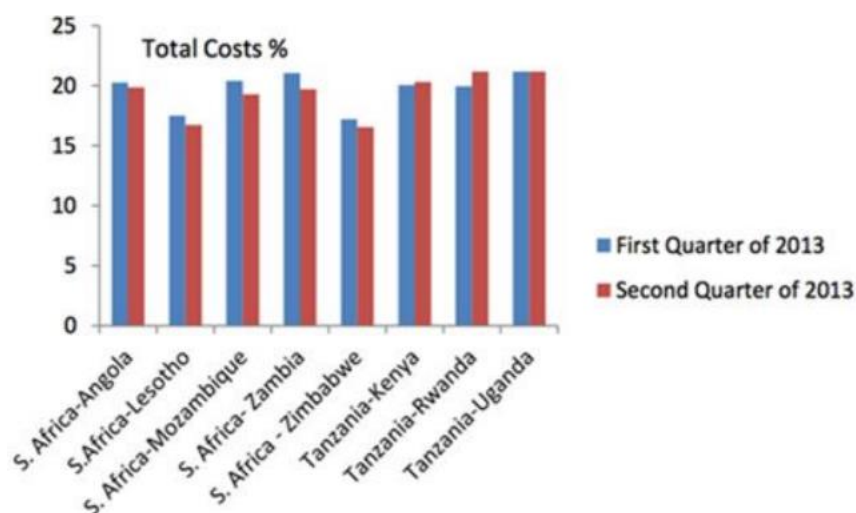


Source: Knomad (2021).

In cases of poor households, remittances are usually used for consumption, housing, education, and health care. Whereas, in richer households, they are an assistance for small businesses and entrepreneurial activities; henceforth, providing capital for investment. Compared to capital flows, stability is a characteristic of remittance flows, and it is observed that they have a countercyclical nature. This implies that remittances increase during economic crisis, instability, and natural disasters, thus making up for the decrease in capital flows. Moreover, in cases of political conflict, they play a paramount role for the poor (Bulut & Mohamed, 2018). For instance, remittances reflected around 31% of GDP in Haiti and around 70% in some areas in Somalia in 2017 and 2006 respectively (Amuedo-Dorantes, Georges & Pozo, 2008).

When considering the large amounts of remittances and their increase in recent years, it should be noted that although increases are considerable, these figures remain underestimated, nonetheless. This is because of informal channels that immigrants use to make the transfers. The number of informal remittances could be as high as 50% of the actual numbers. A key factor that impacts the choice of transfer channel when sending remittances are transfer costs. Making these transfers remains considerably costlier than using informal channels. The costs of transfers prove to be a burden for both the sending and the receiving ends, when considering poorer households. The cost to send money varies significantly between developed and developing countries and corridors. There are a set of factors that lead to these differences and these fall under cost inefficiencies, weak infrastructures, lack of transparency and competition, and financial regulation constraints. Moreover, sometimes even banks contribute to this inefficiency by adding extra fees on recipients that can reach up to 8% of the transaction value. The intra-African transfers were the most expensive in 2013, and the costs for sending \$200 within Africa reached 20% of the transfer the below Figure 5 depicts costs of sending money within Africa.

Figure 5: Cost of sending \$200 within Africa



Source: Lubambu (2014).

Informality is the various economic activities, enterprises, jobs, and workers that are not under the governance of the state. This concept initially related to self-employment in unofficial businesses and now it has been expanded to be inclusive of wage employment in unprotected jobs. Developing countries are more prone to have a larger informal economy and are often the ones that heavily rely on remittances. Moreover, the choice of transfer for remittances depends on the costs of the transfer and the familiarity of the system used. These financial systems are usually underdeveloped in developing countries and the costs for transfers are usually higher in outdated systems. Consequently, the remittance sending migrants and the receiving families turn to informal channels. Informal channels are usually cheaper and easier to understand since they do not require additional knowledge on financial services of the recipients (Freund & Spatafora, 2008).

Moreover, poor immigrants are reluctant about using banks for remittance services and tend to prefer micro-financing institutions, money transfer operators, or informal services (Bolzani, 2017). The choice of transfer impacts the economy and the size of the informal sectors within the economy. Informal channels signify cash transfers that are based on personal relationships, or carried by courier companies, friends, relatives, etc. The choice of provider for remitting money depends on various factors, with the most prominent ones being the cost, speed, security, geographic proximity, convenience, and user knowledge.

Foreign Direct Investment (FDI) is seen as a significant source of external funding for both developing and developed economies. The effect of FDI on economic growth has been studied extensively, resulting in findings that render both positive and negative effects. It is largely agreed that FDI stimulates development in technology investment, increases capital stock, and increases employment. However, the opposing views find that it has a negative effect on domestic investment and diminishes local competition (Saeed, 2014).

Despite the presence of many digitized service providers, the most common way to send remittances has remained the physical transaction of cash, a procedure that has been severely disrupted by the outbreak of the pandemic. A study conducted by the International Association of Money Transfer Networks (IAMTN) in collaboration with the United Nations Capital Development Fund (UNCDF) (Gravesteyn, Aneja, Cao, 2020), has reported that the United Arab Emirates, Saudi Arabia, United States and United Kingdom were the countries impacted mostly by outbound remittances.

Furthermore, according to Aneja and Islam (2020), service providers can also make accounts more attractive by providing value-added services, such as linking remittances with credit, insurance, savings, payments, and other inclusive financial products. The paper provides an example of a partnership between local commercial banks with mobile financial service providers in Bangladesh, which is allowing inward flows through online-to-wallet money-transfer companies, resulting in a daily average increase of remittances by as much as 150% (Aneja & Islam, 2020).

Therefore, sending and receiving remittances through digital channels might ensure easier access for migrants and families in developing countries. Such a strategy, however, cannot be accomplished only by providers, but a coordinated effort is rather needed. Public sector institutions and remittance service providers need to put an effort in creating strategies and methodologies for the financial inclusion of migrants and their families, to help them open bank accounts, teach them financial literacy and the use of digitized channels. Moreover, the government can create incentives to remittance service providers, banks, and other enablers of remittance flows, to make sure that the providers can sustain their operations, extend benefits to the customers, and maintain agent networks (Aneja & Islam, 2020).

1.2 Main Characteristics of Remittances

A remittance transaction consists of three steps that take place in this order: The migrant sender sends the money by a money transfer agent using cash, check, money order, credit card, debit card. This agent then confirms the transaction to its office in the receiving country, which then pays the money to the receiver of the remittance. These transactions usually consist of a cost that takes the form of a fee charged by the agent, normally incurred to the sender. In other more uncommon cases, the agent charges the receiver to collect the remittances, often as a means of considering unexpected exchange rate volatility.

Typically, remittances represent transfers that are made from one person to person or household. The reduction of poverty is the most evident consequence of remittances, and they target specific needs of the receiving end. This is the most widely accepted finding of the extensive studies that are conducted on the effects of remittances for the receiving countries.

Unlike any forms of financial flows, remittances are directly transferred into family incomes and have a direct instant effect on the livelihoods of the receiving households. Compared to their importance, we have limited information about the role that remittances play in crises. It is however believed that their role is countercyclical, meaning that they increase during crises and play a crucial role in enabling survival during disasters and accelerate recovery after them. Understanding the role that remittances have during a crisis is of paramount importance. Their further scrutiny can lead to potential new ways of supporting remittance flows. Remittances are also more important to poorer countries; these countries are also more subject to crisis or disasters. A key question is whether remittances increase during a crisis (Ratha & Sirkeci, 2014). At a microeconomic level, remittances are an additional source of income that reduce extreme poverty. Remittances to poor households are social insurance that supports households with capabilities to resist economic shocks. Moreover, remittances enable receiving households to raise their spending on essential goods and services, like health care and education, as well as enabling asset build up, both liquid and non-liquid assets, which in turn open doors to financial services and investment opportunities (Brown, Carmignani & Fayad, 2013).

A study by POSSO (2012) explores the relationship of remittances on labor supply by investigating the intensity of job search for unemployed participants in households that receive remittances in Kosovo. This study found that the effect of remittances on labor supply is negative but small. However, the results supported the hypothesis that an increase in remittances is negatively correlated to registering at an unemployment center.

A study by Rodriguez and Tiogson (2001) suggests that households that have migrants in other countries tend to decrease their labor participation and working hours. Other studies suggest that there is also a negative relationship between remittances and labor supply, but only in narrow segments of the population (Cox-Edwards & Rodríguez-Oreggia, 2009; Amuedo-Dorantes & Pozo, 2006). Chami, Ernst, Fullenkamp and Oeking (2018) find that remittances reduce labor participation and have a positive effect on informality of the labor market. Ratha (2003) states that the effect of remittances on consumption is a positive one, where by increasing the level of consumption of rural households, remittances have a multiplier effect on their likelihood to be spent on domestically produced goods. However, another study by Ahoritor and Adentusi (2008), argues that remittances slow productivity and growth in low-income countries, because this money is spent on consumption, which is likely to be dominated by foreign goods other than locally produced goods, and not on productive investments. It is suggested that remittances reduce consumption volatility, which in turn contributes to a more stable macroeconomic environment and as such enhances investment.

A study by Meyer and Shera (2017) employs an annual panel of data for the period from 1999 to 2013 exploring the effect of remittances on economic growth of 6 countries of western Balkans which by applying multiple regression analyses found that worker remittances have a positive and significant effect on economic growth of these six

countries. This study goes on to conclude that the major contribution of remittances is on economic growth, but also that the productive use of remittances also enables these countries to maintain and improve this growth by enhancement of consumption and investments (Meyer & Shera, 2017). On the macroeconomic level, remittances have a multiplier effect that goes from consumption of goods and services to investment, and increasing employment and productivity etc.

The side effects of remittances on the receiving countries are the labor shortage that they create when emigrants are attracted and decide to leave the receiving country for a better perspective in a foreign country. Moreover, in case the receiving country is highly dependable on remittances and they are large, there could be a real exchange rate appreciation, and as a result, the economy would be rendered less competitive in the international markets. There is evidence that remittances impact the incentive to work for the recipients, consequently, decelerating economic growth. However, opposing views state that the negative relationship of remittances and economic growth is a result of the impact that economic growth has on remittances, rather than the opposite (POSSO, 2012).

A study by Ahmed, Mughal and Martinez-Zarzoso (2020) on the remittance costs and their impact on the use of informal channels exploited considerable bilateral data on remittance flows that covered 30 sending and 75 receiving countries for a period of 7 years and found that a 1% decrease in the cost of transfer for sending money leads to a 1.6% increase in formal remittances. This study suggested that policies should focus on decreasing the cost of remittances through formal channels, which as a result would decrease the use of informal channels (Ahmed, Mughal & Martinez-Zarzoso, 2020).

Informal channels are usually a faster and more convenient type, since they are not subject to banking and foreign exchange regulations and provide a door-to-door service. Unlike the formal sector, the informal one, does not require the customer to have a bank account or any knowledge of financial services (Freund & Spatafora, 2008). Moreover, the total amount of remittances in Kosovo is assumed to be a lot greater than registered due to the incoming remittances being transferred through unregulated channels such as in person or through intermediaries such as other visiting family members, bus drivers, etc. The incentives that governments seldom offer to increase remittances and render them productive rather than be used for consumption can sometimes be more problematic than the strategies for expanding financial service access or reduction of transaction costs. It is evident that tax incentives attract remittances, however, they also encourage tax evasion. The efforts of migrant associations to match remittances with investment have lacked the success they initially presented (Ebeke, 2012).

In the last few years, there has been an increasing interest of the institutions of the World Bank, IMF, and UN, in making remittances more formal. The average costs for transferring remittances to developing countries were at 8% in 2019, compared to a 3% target set by the Sustainable Development Goal to be reached by 2030. The existing research on remittance

transfer decisions is largely made of micro econometric studies that consider migrant motives such as altruism, self-interest or strategic motives, and family arrangements. At the macroeconomic level, economic conditions in the remittance sending and receiving country and the migrant stock have been found to be the dominant factors on the type of channels used, suggesting that remittances depend on the size of diaspora and the countries the diaspora is located. Moreover, when immigrants decide to send money, they are subject to the conditions in the receiving country (Arthur, Musau & Wanjohi, 2020).

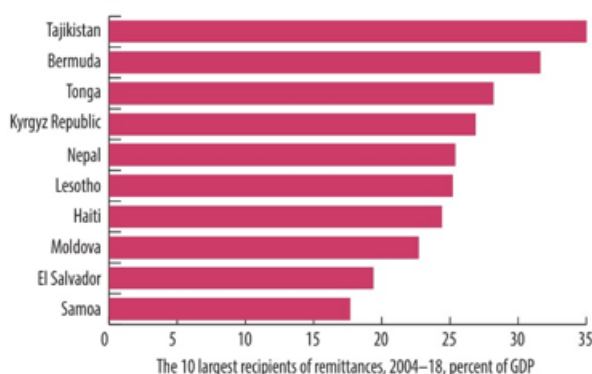
Remittances are recorded in balance of payments and there are many studies assessing the proper recording of remittances. The importance of remittances also stems from the fact that they are more equally distributed than capital flows and foreign direct investment, especially for developing countries to which they make up around 4% of the GDP, compared to the 1.5% for middle-income countries (World Bank, 2021). Remittances have been found to enhance economic growth of only the developing countries, or countries that are less financially developed (Giuliano & Ruiz-Arranz, 2009). A study by Barajas, Chami, Ebeke and Tapsoba (2012) concludes that there is a likelihood that remittances expand the funds that flow through the banking system. Consequently, enhancing financial development and therefore accelerating economic growth through increased economies of scale in financial intermediation or by the effect on political economy since a larger number of depositors can pressure the government into undertaking beneficial financial reforms.

1.3 Importance of Remittances for Various Groups of Countries with a Special Reference to Western Balkans

International remittances, represented after foreign direct investment, are the most important external funding for developing countries. A study exploring the impact of remittances on poverty reduction for 10 Asian developing countries found that remittances have a significant impact on poverty gap ratio and poverty severity ratio. The poverty gap ratio can decrease by 22.6% and the poverty severity ratio by 16.0% for every 1 percent increase in international remittances as a percentage of gross domestic product (GDP) (Huay & Bani, 2018). A study by Barro (1991) included a panel of 100 countries for a period of 30 years to find the factors that have an impact on economic growth. The findings represent the effect of factors such as rule of law, smaller government consumption, longer life expectancy, higher levels of schooling, lower fertility rates, higher levels of investment, democracy, a lower inflation rate, and openness to trade on the growth rate of GDP per capita (Barro, 1991). Economic traps such as conflict of war, rent seeking on natural resources, dependence on a single neighboring country, and lack of rule of law have disabled developing economies to grow and prosper (Opoku, 2009). For a recipient country that gets remittances representing at least 10 percent of its annual GDP, a 1 percent decrease in the host country output gap will tend to decrease the recipient country output gap by almost 1 percent (Barajas et.al, 2012). Remittances represent much more than 10 percent of GDP for many countries, led by Tajikistan and Bermuda, with more

than 30 percent, as seen in Figure 6. In the case of Kosovo, remittances represent 14.8% of its GDP as for the year 2021.

Figure 6: Largest recipients of remittances worldwide in 2020



Source: Sayeh & Chami (2020).

According to the World Bank, in 2019, about \$529 billion were sent to low- and middle-income countries. The number of remittances is expected to increase in the future. Studies in development economics and finance have been assigning a significant role to remittances in relation to growth prospects of developing nations, and potentially, to having a positive effect as a development tool for such nations. Remittances are seen as an ingredient to the integration of countries into a globalized economy (Sarkar, Rahman, Islam, Sikdar & Khan, 2018). For many decades, remittances have been a very important means of support for family members by those that have migrated to more developed countries. In developing countries, policy makers have made remittances a national focus and created financial systems that attract remittances especially through official channels (de Luna-Martinez, 2005).

Remittances have a more profound effect on the economies of the developing countries. In 2013, remittance flows to developing countries reached \$414 billion and were standing right behind foreign direct investment as the second most substantial source of external financial flow to developing economies. As the importance of remittances is increasing, there is potential that they will become one of the most significant sources of foreign financial flow, especially for developing countries, reaching a total of \$589 billion in 2021 (World Bank, 2021).

However, the impact of remittances on the economies of the receiving countries depends on how the money is spent by the receiving households. In cases when these inflows are spent in sectors that have strong links with other economic sectors, then the positive effect of remittances is amplified. Moreover, Chami, Barajas, Garg and Fullenkamp (2010) state that remittances negatively impact economic growth due to the presence of moral hazard and asymmetric information. Research suggests that remittances can have a negative impact on growth in the receiving countries due to the reduced incentive to work, which in turn reduces labor supply.

Remittance flows to developing countries reflect an enormous increase over the years, going from \$126 billion in 2000, to \$717 billion in 2019. However, despite the notable effect the remittances have on economies, these figures remain understated because of the informality, and undermine the real magnitude of the impact. It is estimated that a range from 35%-90% of international remittance transfers, depending on the regions and the routes used, were sent before the pandemic. Consequently, the new reality that followed the post pandemic period has pushed a significant amount towards formalization and digitalization.

The Western Balkans is renowned for its large immigration rates over the decades that resulted in a large diaspora. It is said that by 2013, 5.7 million people from this region lived abroad, constituting 31.2% of immigration rate that starts from 18.2% of total population in Serbia to an extensive 45.3% in Montenegro. Consequently, remittance flows are significant in this region, comprising \$8.6 billion in 2015, ranging from 3.1% of the GDP of North Macedonia to 16.7% of the GDP of Kosovo (Gashi & Sylejmani, 2020).

Remittances, which finance domestic demand and investment, constitute 10% of the GDP in the Western Balkans, showing a high reliance on them. In 2015, this region received nearly \$8.6 billion, showing that they are a significant driver of economic growth. More specifically, three Western Balkans countries were among the top 10 countries receiving the largest remittances as percentage of GDP for the period of 2005-2016. The countries that made the list were Kosovo at 16.68%, Bosnia and Herzegovina at 12.87%, and Albania at 12.12%.

The exports of goods and services are the largest external source of financing in the Western Balkans. Remittances come right after the exports of goods with 10.4% of the external source of income and FDI falling behind with 7.93% (Gashi & Sylejmani, 2020).

Table 1: Share of remittances to GDP and share of migrants to total population in %

	Year	XK	BA	ME	AL	RS	HR	MK	RO	BG	PL	CZ	HU	SK	EE	SI
Remittances as a share of GDP, %	2019	15.7	11.2	10.5	9.6	8.2	6.6	2.2	3.3	3.3	1.1	1.5	2.9	2	1.7	1.1
	2020	18.9	9.2	12.6	9.9	7.3	7.1	3.4	3	1.4	1	1.77	2.4	1.8	1.6	1.1
Share of migrants to total population, %	2020	39.7	48.5	21.4	44.1	14.5	26	33.5	20.7	24.3	12.6	9.6	7.3	7.7	15.6	7.6

Source: Belyi, Landesmann, Leitner & Mara (2021).

In countries like Kosovo, where high unemployment rate persists, migration eases the pressure on the labor market and has potentially alleviated fiscal pressure on the government. Moreover, besides the cash aspects of the remittances, migrants are a source of social remittances that are characterized by ideas, behaviors, and social capital to their countries. As a result of constant interaction with international migrants, there has been an increase in the support for democratic processes in the home countries.

1.4 Remittances During COVID-19 Crisis with a special reference to Western Balkans

Remittances have a direct influence on consumption and investment in the home country. In developing countries, remittances are mostly spent on education, health, household, consumption, and real estate (Petreski et al., 2018). As foreign direct investment is directly affected by the crisis, and especially now during COVID-19, the importance of remittance flows is expected to increase even further for developing countries. In contrast to most other types of capital flows, remittance flows remained resilient during the COVID-19 crisis.

The resilience of remittances during the financial crisis represents the affected income of migrants that in turn influenced their behavior in ways that absorbed the income loss by consumption and rent costs. Moreover, immigrants that were directly affected by the crisis in terms of their employment, moved to jobs in other sectors, consequently, causing an increase even in hard times such as global financial crisis and even more so in times of conflict and natural disasters (Justino & Shemyakina, 2010).

In 2020, the level of remittances to low- and middle-income countries amounted to \$540 billion, showing thus a drop of just 1.6% against the previous year when they reached \$548 billion. The recorded impact of the pandemic on remittances was smaller than during the 2009 global financial crisis (Kpodar, Quayyum, Gammadigbe & Mlachila, 2021).

A study conducted by Yamada, Shimizutani and Murakami (2021) on monthly household panels in Tajikistan, covering the period before and during the pandemic, reports adverse but temporary effects in remittance levels during April and May 2020. The results of the study also show that remittances returned quickly to the levels evidenced in previous years. Remittances have played an insurance role by helping mitigate the negative effects of the pandemic-induced slump. Similar outcomes are also found for Mexico, in a study by Dinarte, Jaume, Medina-Cortina, Winkler (2021). A significant increase in formal remittances has been reported during the pandemic despite severe unemployment in remittance sending economies. Such an increase is very likely to reflect the shift from informal to formal remittance channels rather than an increase in total remittances.

The study conducted by Kpodar, Mlachila, Ouavyum, Gammadigbe (2021) on the Impulse Response Function (IRF) of remittance growth with respect to COVID-19, shows that within 2-5 months after the pandemic outbreak, remittances are positively associated with COVID-19 cases. For instance, a 10% rise in COVID-19 cases per million population would lead to 0.3%-point increase in remittances on a cumulative basis after 5 months. This result sheds light on the crucial role of remittances for vulnerable households in low- or middle-income countries. This study has been conducted through a regression analysis which controls economic activities in the host country, and to the extent it can reliably capture the state of the economy.

The impact of COVID-19 on remittances shows the high effort of migrants to assist their families regardless of the economic hardships they were facing. Moreover, this impact shows that migrants looked up to supporting their families more than what the economic impact would necessitate. Such results can also be related to the nature of the crisis, affecting the health of individuals, as low-income families, who rely on remittances, cannot afford social distancing measures, and are as a result more exposed than others.

Exploring and understanding the role and significance of remittances is specifically important at the current turn of events, with the global economy experiencing a unique and sharp shock because of the global pandemic of COVID-19. It is of particular interest to explore the effect of remittances and the evidence of their crucial role in supporting developing countries through the current juncture and towards recovery. However slower, remittances maintain their resilience during this time, especially when compared to other capital flows, thenceforth, rendering them an even more significant source of foreign financing to these receiving countries. The remittance flows to developing countries have dropped by 7.0% in 2020, however, it is probable that this decline is far less severe than the shock in private investor capital. Remittance flows were expected to drop by another 7.5% in 2021, but the prospects remained subject to a high degree of uncertainty. In 2020, the dynamics were much more uncertain, and it was suggested that 2021 would see a strong remittance growth in the medium term as sender economies would recover and the demanding households from developing economies would exert pressure. During global economic and natural disasters, a high reliance on remittances could be of detrimental nature to vulnerable groups opposed to serving as a cushion. After the global economic recession in 2008, the economic slowdown in migrant host countries was instantly sensed in migrant sending countries. In 2010, in Albania, Bosnia and Herzegovina, Kosovo, and Serbia, remittances decreased by 12%, 11%, 4%, and 15%, respectively.

The economic contribution of migrants in their home countries is crucial, especially for developing countries. The pandemic effects of business closures because of lockdowns have exacerbated the risky nature of their livelihoods. Many workers have lost their employment and have experienced decreased incomes, a process that the spread of the pandemic has proven particularly severe on migrants and their families (Gravesteyn, Aneja & Cao, 2020). A study by the World Bank (Ratha, De, Kim, Plaza, Seshan & Yameogo, 2020) has predicted a decrease of remittance flows in low- and middle-income countries by around 20%, marking it as the sharpest decline in recent history. The main factor behind it being the severe effect of the pandemic on the wages and employment of migrants in their host cities, affecting not only them, but also their families, communities, and remittance economies more broadly.

In the emergence of the COVID-19, the dynamics of remittances have been unbalanced through regions. Remittances declined in Central Europe, a region that has high salaries and the cross-border commuters are in large numbers. On the other hand, remittances increased in regions where there is a large dependence on them. The Western Balkans is a

region where the dependence on remittances was large even before the emergence of COVID-19, and, because the immigrants from this region are all settled in some of the wealthiest countries in Europe, the remittances during this period surged. This provided a cushion to the economic stress caused by the pandemic and proved to be a lifeline to many households during this period.

The heavy reliance of the Western Balkans countries on the steady inflow of remittances that finance domestic demand and investments was expected to decrease due to travel restrictions and increased unemployment caused by the contraction of the European union economy because of the COVID-19 pandemic. This anticipation pushed the governments in this region to respond with immediate monetary policies and fiscal stimuli to cushion the economic insecurity. These policies included increase of liquidity by central banks that eased the burden on companies and individuals, salary subsidies for employees, and financial support to the health sector.

These support packages will have their downturns which will result in a fiscal deficit and accumulation of debt. The GDP to debt ratios ranges from 71% in Montenegro to 17% in Kosovo (Svrtinov, Trajkovska, Kacarski & Koleva, 2020). The immigration from the Western Balkans countries to the EU has been steadily increasing over the years. The share of immigrants abroad can reach up to one half of the resident population remaining in home countries. In Albania, this share is 44% and in Kosovo it reaches almost 40%. The importance of remittances increases, especially during economic crises, and reaches up to 20% of GDP share.

The plummeting income in the Western Balkans countries because of the pandemic resulted in a strong increase of remittances during this period. In 2020 alone, the inflow of remittances to these countries reached €8.4 billion, close to 10% of their GDP. This is like the financial packages that governments in this region allocated to tackle the downturns of the pandemic. Remittances rose by a spectacular 30% in North Macedonia, 15% in Kosovo, and by 8% in Montenegro. However, these figures decreased in Serbia and Bosnia and Herzegovina. As a result of these developments, the households in the Western Balkans were able to maintain their consumption levels (Belyi, Landesmann, Leitner & Mara, 2021). Private consumption slowed down during the beginning of the pandemic in all these countries except for Kosovo. These financial insecurities also increased due to the health-related expenses in this period, especially in villages, which in turn had the effect of the increased support from the immigrants abroad. It is now evident that during the pandemic, remittances were resilient in the countries where immigration and remittances are an important factor of the economy (Madzarevic, Record & Kostopoulos, 2022).

2 REMITTANCES IN KOSOVO

2.1 Kosovo Economy and the Role of Remittances

Kosovo has a continuous economic struggle, and it is perhaps of no surprise that remittances have an ongoing role for the stability of both the economy and the livelihood of households. As the evidence suggests, remittances have played and continue to play a key role in enabling households to maintain a basic consumption level. Evidence shows that remittances are a major source of income and come second only after permanent employment. Remittances play a crucial role for the economy of Kosovo. Their effect is a direct improvement of standard of living in Kosovo, thus, helping rural communities and directly reducing poverty. The effect that remittances have on macroeconomic stability is illustrated by the role they have in the rapid development of construction and service sectors.

Kosovo continuously faces economic difficulties that impair prospects of development. High levels of unemployment and low exports compared to other countries are just partially the issues that this economy has. Remittances help this economy to balance its payments, increase consumption and investment that in turn have a positive impact on the economy.

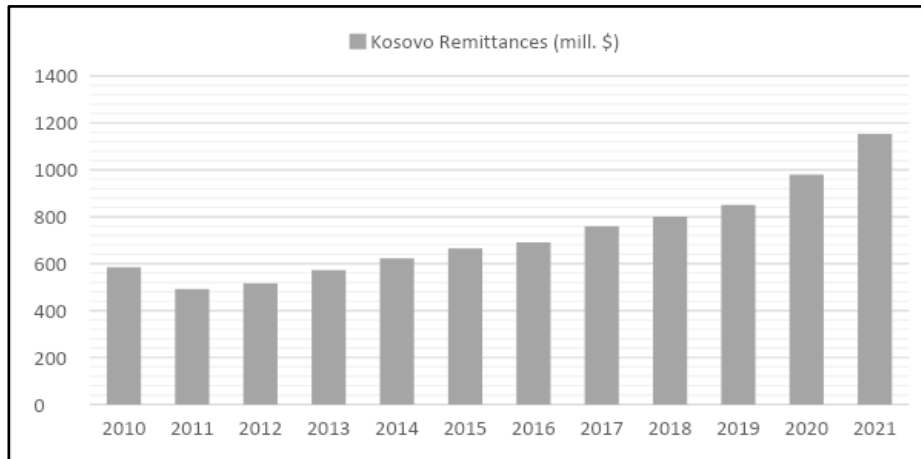
The value of remittances for the years analyzed in this paper has had a steady figure. The lowest value of remittances was in 2011, at \$492.5 million, due to the regional decline of economic activity that was mostly caused by a decline in the overall demand. The overall economic decline in this region was at 0.2% compared to the growth of 2.3% a year earlier. This decline is deeply affected by the developments in the euro area in terms of trade, foreign direct investments, and remittances. As such, this sensitivity is visible at any point when there is fluctuation in these variables (CBK, 2012). Remittances peaked in 2021 when the total value of remittances reached \$1.153 billion. The two greatest contributors to these values are the two sending countries, Germany and Switzerland, where Kosovar diaspora is the largest. Remittances are highest in the region, and they are sent through formal and informal channels. Remittances play a key role in the development of the economy in Kosovo.

Remittances increased by 15% in 2020 when the pandemic COVID-19 started. This increase is highly valuable to Kosovo economy which is the weakest one in the region, and based on this fact, is highly dependable on remittances. Moreover, during the pandemic crisis, the economic consequences of which have been felt from the start, the importance of remittances just increased. From our qualitative interviews, the official from the Ministry of Finance agreed that the remittance data should be obtained from CBK, the numbers of which show a steady increase during the years analyzed in this paper.

Moreover, due to the extraordinary support from the Kosovar diaspora, remittances diminished the economic shock by COVID-19 and the need for economic implications of different Government and Public finance tools during this time. From the interview with

the Government Official from the Central Bank of Kosovo, the data is different from the data used in this paper that is obtained from the World Bank since the remittances that the Central Bank of Kosovo reports are only the direct transfers from abroad, excluding indirect consumption and investments. Therefore, remittances in recent years in Kosovo have shown an increase in levels as exhibited in Figure 7.

Figure 7: Kosovo remittances increase (period 2010-2021)



Source: Own work.

Remittances in Kosovo are analyzed in this study as one of the main factors affecting the economy. The results show a variation of levels for the period 2010-2021, with lowest being \$492.5 million in 2011, and the highest value being \$1,153 billion in 2021, as noted in Table 2, representing an annual increase of 17.7%. In the pre-pandemic year 2019, remittances marked the value of \$851.5 million, marking an annual increase of 6.4%, which simultaneously also reflects an increase of 6.8% of the 5-year average of this economic factor. Despite the fact that countries where there is Kosovar diaspora were hit by the pandemic crisis in 2020, remittance level in Kosovo has undergone an acceleration of growth.

Table 2: Kosovo remittances in million \$ (period 2010-2021)

Year	Remittances
2010	584.3
2011	492.5
2012	516.4
2013	573.4
2014	622.3
2015	665.5

2016	691.0
2017	759.2
2018	800.5
2019	851.7
2020	980.1
2021	1.153.4

Source: Own work.

A study investigating the dynamic effects of remittances on household poverty and income distribution suggests that the effect of remittances has a double outcome both on absolute and relative poverty levels, and leads to a marginal increase in inequality in Kosovo. Moreover, it also points out that the effect that remittances have on poverty reduction are stronger in the short-run but also have a positive effect on the long term (Arapi-Gjini, Möllers & Herzfeld, 2020). The effect of remittances on the living standard of families in Kosovo has also been explored by focusing on the impact of these transfers on consumption expenditure and consumption distribution. This study finds that remittances significantly improve the living standard of the receiving households. The lower the levels of consumption in a household, the effect of remittances is higher (Duval & Wolff, 2016).

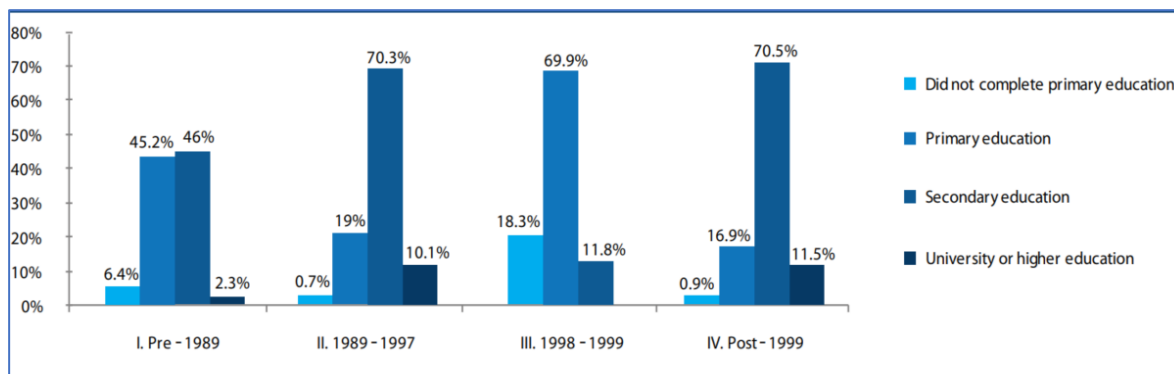
Remittances remain a significant influencing factor for the economy of Kosovo. Increase of remittances, public sector wages, and pensions have influenced consumption. One of the largest contributors to Kosovo GDP growth is the construction sector. During the beginning of 2000s, the financial institutions and telecommunications sector were the focus of foreign direct investment. In recent years, this attention has turned towards real estate and the construction industry. Research suggests that FDI in the two sectors is highly influenced by the Kosovar Diaspora (Gashi, 2018; Badivuku-Pantina & Zogjani, 2015). In 2019, the construction sector proved to be the fourth largest employer in Kosovo. The Balance of Payments account is the account that records transactions between residents of

a country with those outside of it. As such, remittances are an integral part of the BOP. For a transaction to be recorded under the BOP, the fact that the transaction is taking place between a resident and a non-resident should be established. This account consists of three different accounts, namely the current, that records import and export of goods and services between residents and non-residents, the capital, that records the transfers receivable and payable, and financial account, that records accounts related to financial assets and liabilities. It is evident that migrant remittances have a positive impact on the balance of payments in developing countries and enhance economic growth. Their economic impact flows through direct implications of remittances to savings, investment in human and physical capital, and their indirect effects on consumption.

However, recording the impact of remittances on the BoP account has been under research scrutiny because aggregating this is a complicated issue since no single data item in the balance of payments account comprehensively records transactions that are considered remittances. In the BoP framework, remittances flow from two items. First being the income earned by workers in foreign economies where they are not residents, and personal transfers from residents of the economy to those of another economy (Caceres, 2021). In 2020, Kosovo balance of payments stood at a deficit and increased to €480.7 million which makes 7.1% of GDP. This is an increase of 20.4% that occurred mainly because the positive balance of service was halved. On another note, there was an increase in exports of goods and a significant decline in imports, which resulted in a 9.4% decline in trade deficit. Remittances received reached €1.43 billion, which is an annual increase of 18.9%, whereas FDI reached €341.7 million, this being an increase of 34.2% (CBK, 2021).

Kosovo continuously runs on deficit as it has a high level of import and a relatively low level of export despite the positive impact of services and remittances (KAS, 2019d; Guell, 2012). As in similar countries, the response to the hardship with high unemployment rates and financial insecurity has been migration. The Kosovar diaspora has maintained close ties with the family through regular visits, and persistent remittance transfers. Around 72% of Kosovar diaspora admitted to sending remittances to their families several times per year. Of that 72%, 26.4% of them sent remittances monthly while 25.5% and 20% of them sent remittances every three months or two times per year, respectively. Furthermore, 57.1% of the Kosovar diaspora reported annual visits to their homeland, while 35.6% claimed to be visiting Kosovo more than once per year. The initial migrant base profile is that of young, mostly undereducated, and unskilled men from rural areas who migrated to Western European countries to work as a way of supporting their own families left behind in Kosovo. See below Figure 8 depicting the immigrants' education level during different emigration waves.

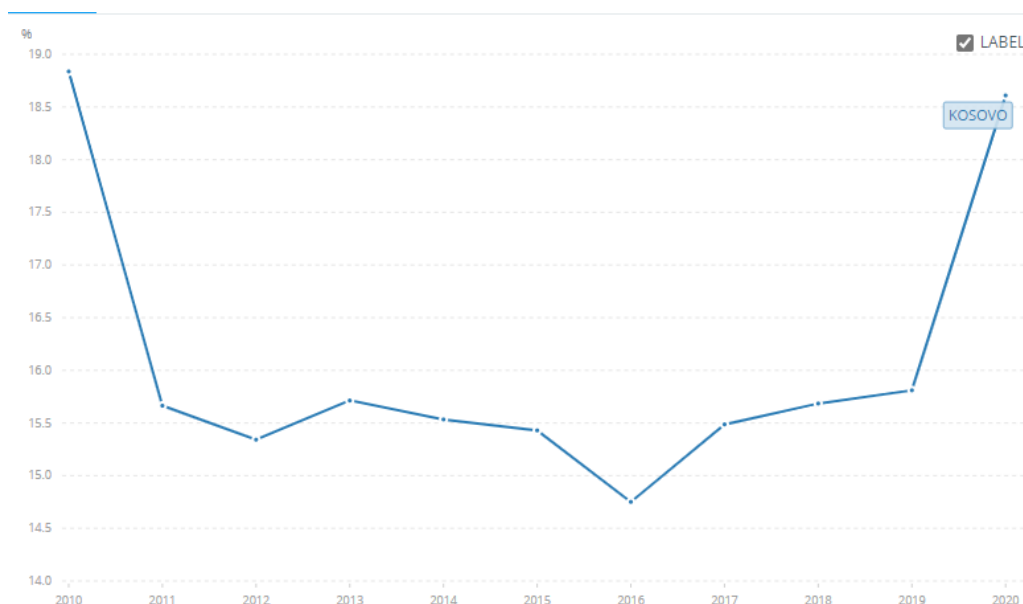
Figure 8: Immigrants' education level across emigration waves



Source: Elezaj, & Limani (2012)

The migrant base slightly improved in the late 1980s, as more educated and skilled youngsters migrated, and then again after 1999, as families left behind in the first two phases of migration, joined their emigrant family members abroad. Kosovo diaspora remains crucial for both the economy and the culture. The number of remittances through formal channels in 2020 reached \$1.43 billion or 18.6% of GDP, according to the World Bank.

Figure 9: Personal remittances received (% of GDP) - Kosovo

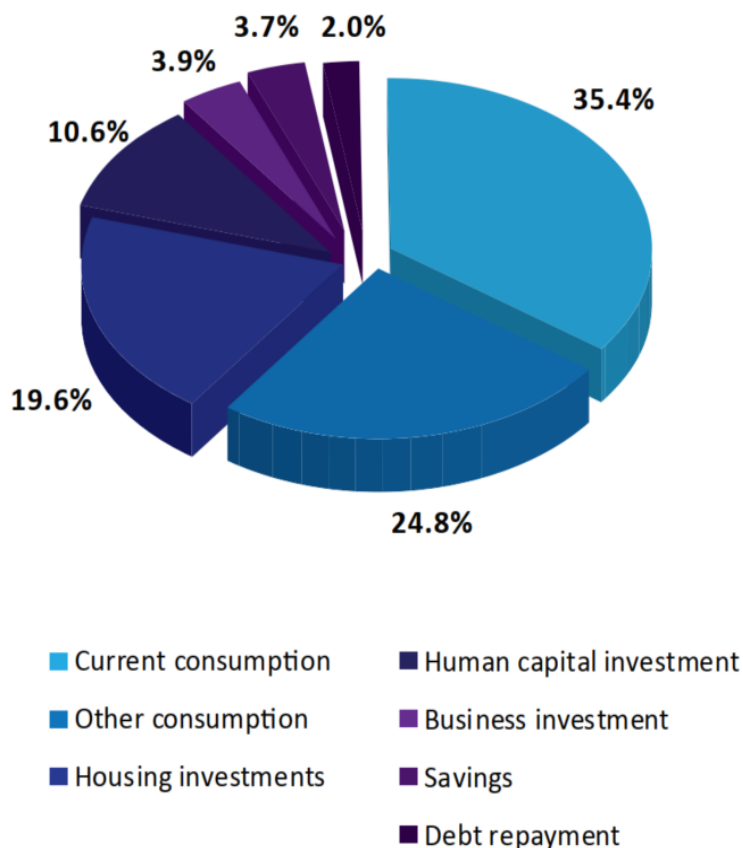


Source: World Bank (2022).

Nonetheless, this amount is undervalued by the impact of informal transfers that take place through informal channels (deliveries in person, intermediaries like bus drivers, etc.). As noted above, the impact of remittances relies on the profile of the receiving households and their consumption patterns. Remittances are predominantly used for consumption, split in two types of consumption.

Figure 10 shows the current consumption that consists of food, clothing, services, and utilities, whereas, other consumption consists of home appliances, cars, weddings, funerals etc., with 35.4% and 24.8% of the total distribution, respectively.

Figure 10: Remittance consumption distribution categories in 2011



Source: Elezaj, & Limani, (2012).

From the qualitative research conducted, the government official from the Central bank of Kosovo described the impact of remittances as follows: “Remittances affect the economy of Kosovo in many ways. They help to reduce poverty, mitigate social assistance, and thus save the budget from the unbearable burden of debt. Remittances also affect the increase of liquidity in the banking sector, as some of them are deposited in the banking sector.”

2.1.1 Macroeconomic Side

According to the World Bank (2018), despite its small base, Kosovo economic growth has consistently been above the Western Balkans average since the global financial crisis. However, Kosovo remains the third poorest country in Europe even though GDP per capita

has increased. Countries with high emigration rates, as it is the case with Kosovo, are more likely to receive remittances from their family members abroad.

Moreover, remittances are a lifeline for developing countries as they have a direct effect on households. Migration in Kosovo has developed as a coping strategy to unemployment and poverty, with 30% of households having a migrant relation abroad and 20% of households receiving remittances (Shaorshadze & Miyata, 2010). In addition, a study by Loxha (2019) found that the poverty level in Kosovo increased when remittances were reduced. As a result, historically speaking, the economy of Kosovo has been affected by remittances due to high unemployment rates.

Moreover, according to Alishani and Nushi (2012), the diaspora contributes greatly to the reduction of poverty, economic growth and development of the country, through promoting trade and investment due to being more informed about economic opportunities or are driven by personal connections in business.

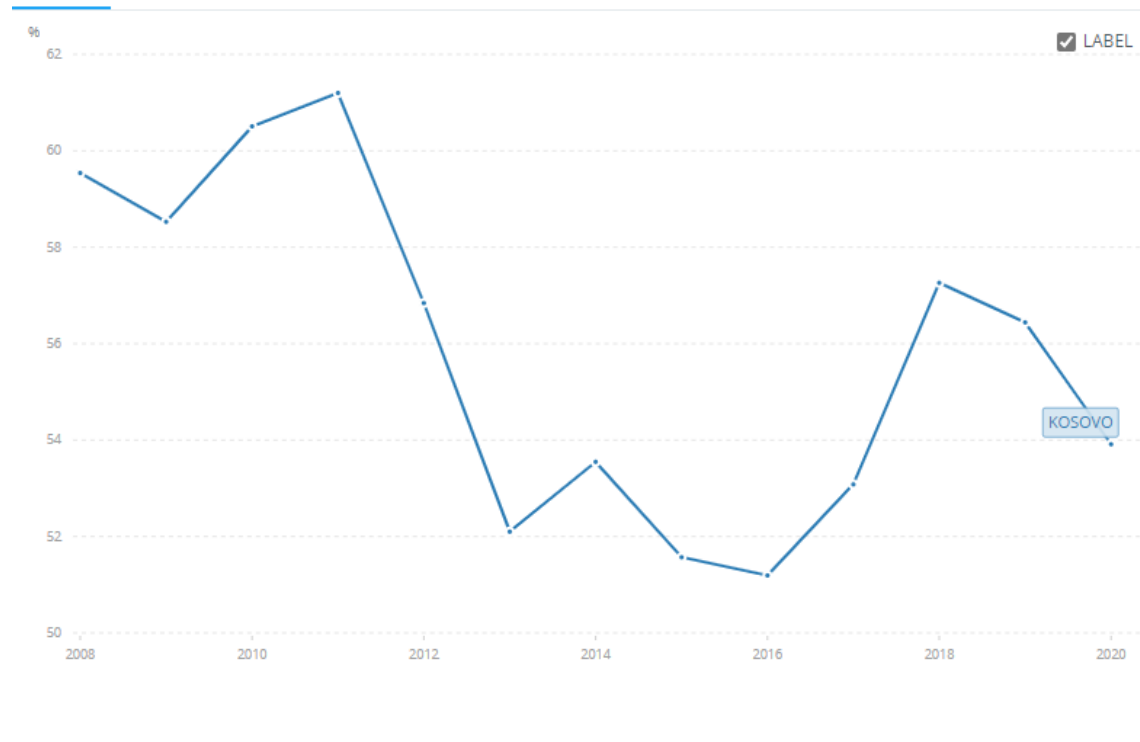
According to a study by Barajas, Chami, Fullenkamp, Gapen and Montiel (2009) due to an internally developed financial system, remittances are also likely to be directed to investments. Altogether, remittances are of crucial importance as they have the role of external capital flows (Haxhikadrija, 2009). In accordance with Haxhikadrija (2009), remittances contribute greatly in financing education and healthcare, in improving the welfare of families, and have a multiplier effect in the economy of Kosovo; consequently, positively affecting the overall economic growth.

Kosovo economy relies mostly on remittances from the diaspora. Concerning this situation, the International Organization for Migration (IOM) and the United Nations Development Programme (UNDP) have carried out a joint project, the Diaspora Engagement in Economic Development (DEED) project, which aims at increasing the inclusion of the diaspora and remittance-receiving households in Kosovo in the economic development of the country by investing the remittances in new businesses; hence, creating new jobs.

A study by Lueth and Ruiz-Arranz (2007) has found that in economies with an underdeveloped financial system, remittances eliminate barriers and credits by improving the allocation of capital and accelerating economic growth; thus, serving as a substitute for financial development. The context, in which a country is in, is crucial to carry out an appropriate evaluation of the macroeconomic impact of remittances. Put differently, the multiplier effect that remittances play, may be an economic growth stimulant.

However, for countries that are heavily reliant on imports, evidence suggests that the multiplier effect is weaker. Kosovo imports accounted for 53.91% of GDP in 2020 (World Bank, 2021).

Figure 11: Imports of goods and services (% of GDP) - Kosovo



Source: World bank (2022).

On the other hand, increases in demand could influence revenues of governments through the impact that they have on value added tax collections or other taxes on imports. Despite challenges posed by fluctuations in the global and more particularly European economy, Kosovo economy has exhibited growth rates during the last decade. Kosovo has a low GDP value at a country level, compared to the countries in the region and beyond. Therefore, remittances positively impact its economy by affecting the increase of savings, investment, consumption, reducing unemployment and poverty (Bellaqa & Jusufi, 2020), hence, affecting Kosovo GDP and economic growth. In 2014 and 2015, Kosovo was ranked among the countries with the highest impact of remittances on its GDP with 16.1% in 2014 and 13% in 2015. Moreover, remittances have a significant importance for the economy of Kosovo as it covers over 40% of Kosovo trade deficit (CBK, 2016).

A study by Govori and Fejzullahu (2020) examines the impact that external financial flows have on Kosovo GDP and its economic growth. The study has been conducted through a regression analysis including factors: GDP (dependent variable), remittances, FDIs, net exports, external public debt, and external private debt (independent variables).

The coefficient of remittances has shown a strong and positive effect on GDP, as they represent a significant percentage of GDP, producing multiplier effects that lead to economic growth. However, the contribution of remittances to GDP depends on how these funds are spent (Govori & Fejzullahu, 2020).

This study has also examined how remittances are used, showing current consumption with 35.4%, other expenditures with 24.8%, residential investment with 19.6%, health care and education with 10.6%, business investment with 3.9% and savings with 3.7%. Undoubtedly, if remittances would be used in the form of direct investment generating benefits such as profits, interests, commissions, dividends, etc., they would contribute more to the economic growth of Kosovo. Moreover, the use of remittances for investments in the manufacturing sectors, would bring more benefits to investors and Kosovo economy (Govori & Fejzullahu, 2020). Furthermore, the results show a negative effect of external public debt on GDP and a positive effect of external private debt, mainly because external public debt belongs to the nonprofit sector, whereas external private debt is linked to financing of business projects that bring profits (Govori & Fejzullahu, 2020).

The Kosovo Human Development Report (UNDP, 2014) explores the context of Kosovo and how diaspora affects human development in Kosovo. The report highlights the fact that the diaspora contributes in multiple ways, from migrant remittances, labor income for short-term jobs, travel expenditures when visiting Kosovo, and other international reserve flows, which in turn help to strengthen the demand for domestic goods and services and boost the demand for local workers. Considering that Kosovo has low levels of exports and is mostly based on import-consumption, its economic growth has been greatly supported by foreign direct investment and higher deposits - financed credit growth, and remittance flows (Alishani & Nushi, 2012). Although global value of remittances is less than that of Foreign Direct Investments (FDIs), they are distributed better. While most FDIs are concentrated in middle-income countries, remittances are distributed more widely and in more countries. For many developing countries, remittances are the first source of external financing (Topxhiu & Xhelili, 2017).

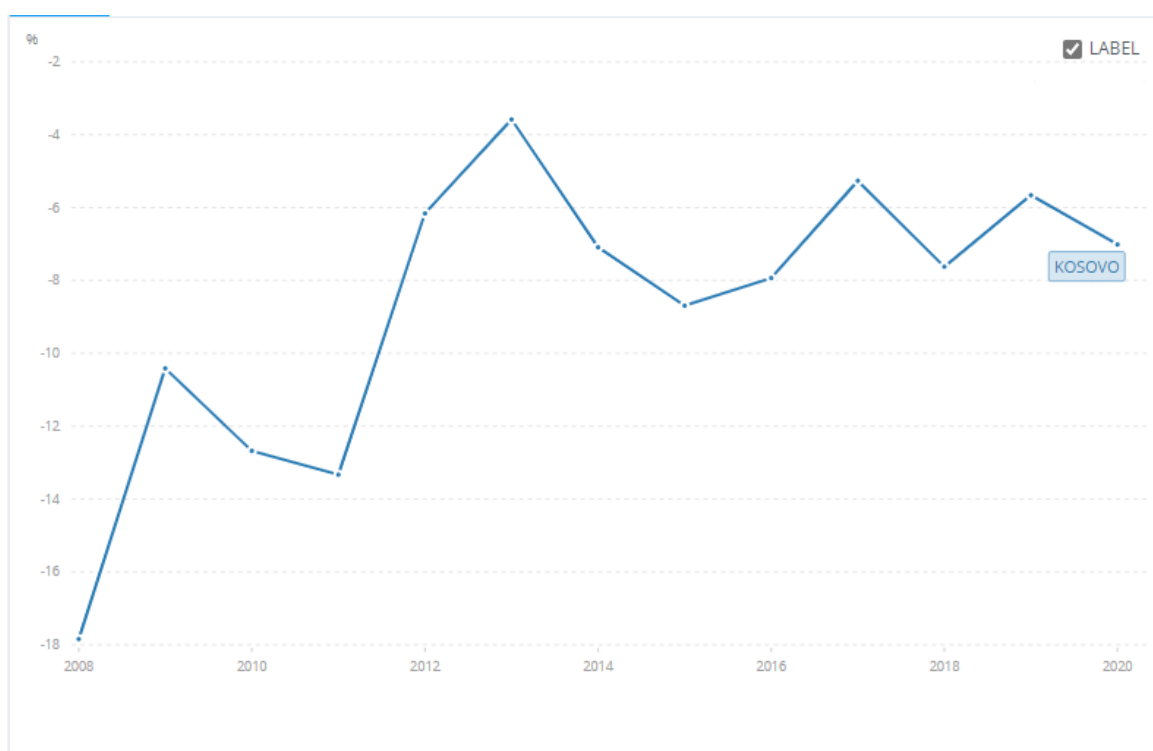
According to the Country Report on Kosovo by the Bertelsmann Stiftung's Transformation Index (BTI) (2018), the primary sources of economic growth in Kosovo are public investment, the export-oriented mining industry, and remittances. Diaspora investments drive Kosovo economy; however, they do not strengthen the development of the local economy, but rather influence the economy to pay for imports. National economy of Kosovo is driven by remittances and consumption, and not by investments and trade, as it ought to be. Research on the role of migration and remittances, in affecting economic growth in developing countries, suggests a rather controversial issue where some researchers point out a positive effect while others do not find a statistically significant link between these factors. However, the majority are in favor of the positive effect of migrant remittances to the economic growth of Kosovo.

Research suggests that sources of economic growth are investments and savings (Sato, 1964), sufficient labor force (Fields, 1984), technological changes (Solow, 1956), foreign direct investment (Samuel, 2009), opening of economy and investment in human capital (Lucas, 1988), and investment in new ideas and research (Barro, 1991). At the macroeconomic level, remittances bring necessary foreign exchange and directly improve

the balance of the current account, which is considered one of the key indicators of the health of the economy (Goschin, Popa & Roman, 2010).

Kosovo runs on a trade deficit and is continuously a net borrower from the rest of the world. In 2020, this deficit stood at 7% of the \$7.8 billion GDP of the country, showing an improvement in international competitiveness from 18% it had in 2008. Statistics published by the Central Bank of Kosovo show that remittance flows have a positive effect on financing the balance of payments deficit. Kosovo remittances are part of secondary income as are the government sector and the sector of financial and non-financial corporations, and households (Merovci & Sekiraqa, 2021). Remittances also play a crucial role in financing the current account deficit, which in the case of Kosovo, as seen in Figure 12, is constantly faced with a deficit. The main cause of this deficit is the trade balance, showing a big disproportion regarding imported and exported goods.

Figure 12: Current account balance (% of GDP) - Kosovo



Source: World bank (2022).

2.1.2 Microeconomic Side

The effect of remittances on poverty relies on the pre-remittance income levels of the receiving households and the profile of the senders. Remittances act as a survival tool for households in poverty-stricken countries. In regions where migration is more expensive due to the inaccessible migration networks that can only be afforded by a higher income household, remittances can increase income inequality. Remittances unequivocally

improve the livelihood of the receiving households, but the impact of remittances on human development depends on the type of use.

There is extensive evidence on the positive effect of remittances on health, nutrition, education, housing, and investment. Investments in human capital indicate a positive impact of remittances on sustainable human development, by improving future earnings prospects of younger generations. On the other hand, heavily remittance reliant households that have remittances as a stable source of income can create dependency and have a negative impact on labor participation.

Remittances remain a crucial source of income and a gateway to financial inclusion for many households. Households that have a steady remittance receipt become eligible for borrowing and are more prone to start using transaction accounts, savings, insurance, etc. In Kosovo, remittances are primarily used for consumption, bill payments, health care, home improvements, education, and investment purposes.

Moreover, remittances in Kosovo have been increasingly used for capital investment, especially in the construction sector. The construction industry in Kosovo stands as one of the most important sectors of the economy. With its participation rate at around 10%, the construction industry remains as the fourth biggest employer in Kosovo, with around 25,000 registered employers. However, this sector is affected by informality, and the employment in this sector is believed to be much higher than the official figures. Private spending dominates this sector with around 70% of the market share, from which 72% are for residential projects. Public investment in this sector is largely focused on infrastructure and further increase of railroad infrastructure. Construction sector is significantly influenced by diaspora investments.

A devastating amount of evidence suggests that remittances play a multiplier effect through increase of the income of receiving households and diaspora tourism. Moreover, the role remittances have, as a major source of external finance, is considered crucial for many countries. Remittances raise the gross income level of receiving households, regardless of the income or profile background that these households have.

This increases the consumption levels for products and services, which in turn, raises labor demand. However, Kosovo has high unemployment rates, and as such, migration eases the pressure on the labor market and could lessen the fiscal pressure on the government.

Nowadays, around 18% of the population of 1.8 million people live below the poverty line, making Kosovo one of the poorest countries in the region (KAS, 2019a). Furthermore, Kosovo youth unemployment is at the rate of around 50%, which creates poverty and presents migration as an attractive option, especially for young individuals (Employment Agency of Republic of Kosovo, 2020). According to the Kosovo Remittance Study by Elezaj, Bislimi and Duri (2012), regardless of the income of the recipients or the profile of

migrants, remittances increase the demand for consumption of products, resulting in an increase of demand for local labor).

Moreover, taking into account that Kosovo has high unemployment rates, migration reduces the pressure on the labor market. Considering that poverty is strongly correlated with unemployment, and migration has been a solution for it, remittances have taken the role of an informal network for low-income households (Elezaj, Bislimi & Duri, 2012). As a result, by reducing the unemployment rate in the labor market and increasing household income, remittances also impact the reservation wage in the market, which also benefits the non-recipient individuals. According to Elezaj, Bislimi and Duri (2012), while research also suggests a negative impact of remittances on labor participation, as they have a spoil effect on recipients by causing them not to seek employment or be more selective of jobs, when the unemployment rate of Kosovo is disaggregated by receipt of remittances, the unemployment rate is nearly 5% higher for remittance recipients (50.3%) compared to non-recipients (45.8%).

According to (World Bank, 2020), Kosovo economic growth has been in positive trends, outperforming some neighboring countries, but its effects are not yet sufficient enough to reduce the amount of unemployment. Kosovo is currently populated by 0.025% of the world's population, has at disposal around 0.008% of the world's land area, and produces 0.08% of the total world production, measured by GDP (KAS, 2018a).

According to KAS (2019b), the number of registered businesses in Kosovo exceeds 150,000, but only around 70,000 are in permanent operation. There are also more than 308 thousand households (KAS, 2018b). These represent the key elements of Kosovo economy and contribute to the creation of the new value which consists of agriculture with 12%, industrial production with 16%, trade with 12.3%, education, health and science services with 4.4%, public administration with 10%, transport and accommodation with 5.4%, communication and financial services with 5%, comprising taxes on products with 17%, construction and real estate activities with about 16%, and other services with 2% (KAS, 2019c).

The construction industry in Kosovo represents one of the most important pillars of the economy of the country. In 2019, with its participation with 9.7%, the construction industry was the fourth biggest employer in Kosovo, with around 25,000 registered employers (KAS, 2019a; Riinvest Institute, 2016). In 2017, the average salary in this sector was €388, or the fourth biggest salary from all other sectors (KAS, 2019d; CBK, 2019).

The construction industry is one of the most important contributors to Kosovo GDP. In 2018, this sector was listed as the 6th contributor, with 6.6% or €500.15 million (KASb, 2019; CBK, 2019).

Besides its significant role in satisfying the basic physical and social needs for shelter and infrastructure, construction industry also stimulates economic growth through linkages with goods and services from other industries (Berk & Bicen, 2018; Wells, 1985; Wells, 1984). In most of the cases, construction industry growth was faster than the economy; however, at some points, it was one of the industries to suffer from stagnations and fluctuations. The economy of Kosovo is currently confronted by severe difficulties owing to the combination of low export, lower commodity prices and high energy costs (World Bank, 2020; Ofori, 2006). With an average of 70%, private spending dominates the construction industry in Kosovo, while public spending, government and donor-funded, represents less than 30% in the workload of construction companies (CBK, 2019). Analyzing the private spending segment, residential projects dominate with 72% share (Riinvest Institute, 2016). Public spending is focused mainly on the road construction, and further improvement of the existing road and railroad infrastructure (MF, 2020).

Construction comprises all companies that are involved in either the manufacturing or provision of construction materials. An assessment carried out by UNDP (2011) found an estimation of 80% of the construction materials being imported, while in 2015, the Ministry of Trade and Industry of Kosovo estimated that 40% of construction materials are in fact being produced domestically. However, the index of the cost of construction in Kosovo, according to data published by Kosovo Agency of Statistics, has been progressively increasing since 2013 (KASd, 2019). This cost increment, accompanied by the presence of large international companies for big complex projects, such as the construction of two highways and the new Prishtina International Airport, on one hand discourages the initiation of local large construction firms, while on the other hand directly affects the housing prices (Aliu, Knápková, Kryeziu & Bagis, 2017; Wright, 2016; Capussela, 2015).

Although Kosovo economy is progressively developing, economic freedom is still stalled by a lack of economic reforms and private-sector investment that has resulted in very high unemployment rate, and very low living standards.

Remittances sent for investment by most migrants are intended mainly for immovable property (40.4%), while others send remittances for the service sector such as transport, trade, or tourism (Mjaku & Mjaku, 2017). In addition, a low number of migrants send remittances for investment in production sectors such as industry or agriculture. Nowadays in Kosovo, where up to 66% of the GDP is generated from the service sector, nearly 75% of the household budget is spent by the Kosovo families in food and accommodation (Aliu & Mulaj, 2020), exhibiting a larger share than its neighboring countries. Moreover, this constant high share of income spending on food and accommodation, at the expense of other sectors, has become a source of inefficiency.

2.2 Remittance Inflow to Kosovo During COVID-19 Crisis and its Economic Implications

Kosovo economy contracted by 5.3% during the emergence of COVID-19 in 2020. This was a result of the decline in consumption, especially diaspora-related exports of travel and investment services. The unexpected increase of remittance receipts and exports (due to the demand for Kosovo nickel), helped avoid a deeper recession. Kosovo economy is recovering from the deepest recession in a decade. Improved vaccination rates, renewed mobility, policy actions, and extraordinary diaspora support resulted in projections of a growth of 7.5% of real GDP in 2021.

The qualitative research conducted with the government official from the CBK goes in hand with the current research and the response related to the impact of COVID-19 to the economy of Kosovo is as follows: “In 2020, due to anti-covid measures, there was a decline in economic activity of about 5.3%. One of the most important channels that affected economic activity was the fact that diaspora could not visit Kosovo, especially during the summer, and this halved the export of travel, leading to a 12.7% decline in economic activity in Q2 and 7.7% in Q3. Last year, with the increase of the number of diaspora who visited Kosovo, the export of travel services also increased, hence there was more economic activity.”

The fiscal response made the difference for households and firms and mitigated the impact of the shock of those most deeply affected by the emergence of the pandemic. The rebounding of revenues caused an almost balanced position in 2021 which came after a deficit of almost 8% of the GDP in 2020. The impact of the pandemic and the response used by the government to offset these effects presented a lesser burden to the economy by the increased extraordinary diaspora inflows and the increases in net credit to the private sector.

However, the COVID-19 shock brought to surface the fragility of Kosovo growth model that is based on consumption, but definitely showed the importance that remittances have for this fragile economy, especially during the crisis. Hence, Kosovo being the only country in the region where remittances have grown during this time, has an additional advantage that other countries do not. This is presented as an opportunity to create the groundwork for a resilient recovery that also affects the long-standing structural barriers by working on the regulatory environment for private sector development, prioritizing social transfers to the most vulnerable, and investing in human capital to increase inclusiveness and create a model with sustainable growth (Aliu & Mackedon, 2021).

According to the 2021 Annual Report of the Central Bank of Kosovo, the banking sector, despite facing the challenges caused by the COVID-19 pandemic, closed the year with a positive financial result. Kosovo net profit realized in 2021 was €117.5 million, or 47.1% higher than in the previous year.

The significant increase in the profit of the banking sector during this period is mainly attributed to the fast growth of revenues compared to the decreased growth of expenses. The income of the banking sector reached the value of €322.1 million and was characterized with 15.4% of annual growth.

This study investigated data on remittances and micro- (Labor Participation Rate, Consumption/Households) and macroeconomic (GDP, Growth Rate, Balance of Payments and Public Finances) factors of Kosovo, retrieved from World Bank open data platform, as well as analyzed the topic into more detail through qualitative interviews with financial policy makers and finance workers in Kosovo. The data was analyzed through descriptive statistics, analysis of correlations between the variables and through thematic analysis of the interviews. The data was also further analyzed with an emphasis on 2020, and in some cases 2021 (when data was available), to shed light on the effect of COVID-19 on the economy of Kosovo.

A bivariate correlation test was performed to examine the relationships between remittances and macro- and microeconomic factors of Kosovo. To test for convergent validity, the significance level (α) of 0.05 has been set as a basis.

The results of the bivariate correlation test are shown below:

$$r(9) = .81, p = .002 \quad (1)$$

As test (1) shows, remittances have shown a strong and significant positive relationship with GDP.

$$r(9) = -.72, p = .013 \quad (2)$$

Test (2) shows that remittances have also demonstrated a strong and significant but negative association with Growth Rate.

$$r(9) = .21, p = .58 \quad (3)$$

From the relationship with microeconomic factors, test (3) demonstrates that remittances have shown a positive yet insignificant relationship with Labor Participation Rate.

$$r(9) = .87, p = .001 \quad (4)$$

On the other hand, when analyzing the relationship with Consumption, test (4) demonstrates that remittance levels have shown a strong and significant positive association.

$$r(9) = .85, p = 0.06 \quad (5)$$

Lastly, test (5) demonstrates that remittances have shown a strong; however, insignificant relationship with Balance of Payments (Current Account Balance).

These data suggest that an increase in remittances is associated with an increase in GDP, but a decrease in economic growth rate. The relationship between remittances and labor

participation rate is not clear, but remittances have a positive impact on consumption. The relationship between remittances and the balance of payments is not significant, meaning it does not have a clear impact on the trade and financial position of the country.

This could mean that remittances act as a cushion for household consumption, allowing them to sustain their spending levels, but on the other hand, they also could be a sign of a lack of economic opportunities in the country. Additionally, the negative relationship with growth rate could imply that a reliance on remittances could stifle domestic economic development.

As part of the qualitative research, the Director of Payments and Treasury Division of NLB bank was interviewed on remittance inflows during the examined period, and on the effect of COVID-19 on them. According to her, remittance inflows were usually higher before holidays (e.g., New Year's Eve or Eid Mubarak), whereas a decrease was evident during the summer months since migrant family members come physically to visit their hometowns and deliver the financial support themselves.

However, during the pandemic, apart from having evidenced an increase in remittance inflows (25%), they were more constant throughout the year. The bank identifies the remittances through its ITRS code '319' defined by the Central Bank of Kosovo and receives all international transfers through SWIFT application. No estimation is evident in regard to remittance inflows through informal channels.

According to Kpodar, Mlachila, Quayyum & Gammadigbe (2021), transaction costs account for a major fraction in the transfer of remittances, as a result, affecting their volume greatly. When costs are high, migrants either refrain from sending money to their families, reduce the volumes, or use informal channels (Freund & Spatafora, 2007). As estimated by Freund and Spatafora (2007), the number of remittances sent through informal channels can vary significantly from 50-250% of remittance flows. Even though the overall cost of remittances has been decreasing due to competition from more technologically adept companies such as Western Union and MoneyGram, their costs still remain high. As a result, informal channels are still active, but flows through informal channels may have been unfavorably affected due to travel restrictions because of COVID-19.

Based on the qualitative research, the government official from the Ministry of Finance being asked about the effect of COVID-19 on Remittance inflow, responded "During the pandemic, Kosovo experienced a significant increase in remittances. Many economists saw this trend as an increase in support of migrants to their relatives in Kosovo – since during the lockdown, households struggled to pay for daily expenses. On the other hand, there are some other people arguing that the pandemic only formalized remittance channels, since migrants did not visit Kosovo in 2020, as they used to. I personally believe that both arguments hold, with approximately the same weight."

Moreover, from the interview with the owner of a business in the food and accommodation sector, the impact of COVID-19 on this sector is evident too. This is mostly due to imposed restrictions that disabled businesses from doing their normal operations and due to increased costs for hygiene and disinfection procedures.

Despite the increase in wages, there was a significant shortage of workers that was coupled with a fluctuating consumption in this sector. Whereas the government official from the Central Bank of Kosovo said: “Regarding the impact of the pandemic, the decline in remittances was evident during March and April 2020, while subsequently remittances managed to recover from this decline and marked an accelerated growth of 15% in 2020. Thus, even though the countries where the diaspora is located were hit by the crisis, remittances increased rapidly and had a countercyclical effect on the economy.” So again, as presented throughout the paper, the remittances increased during the emergence of COVID-19 because of the increased support by the Kosovo Diaspora. Moreover, although data on the informal channels and the amounts that go through these channels per year are not available, it is evident that channels used during COVID-19, especially during the long lockdown periods, influenced the channels used for remittance transfers.

And the second response, directly related to the channels used in the last two years, is “Again, data for this question are on the CBK website. However, it is worth stating that I believe that historically, the number of remittances from unofficial channels has been underestimated.” Again, this is evident and the informality of the economy in general hurts the growth.

The responses related to the impact of COVID-19 on the GDP and the Growth rate of Kosovo economy are as follows: “Of course. COVID-19 and lockdowns are responsible for a GDP decline of -5.3% in 2020. Economic activities were stopped suddenly, and that is translated into GDP reduction.”, and “Yes. When we have a reduction in GDP, next year may be a higher GDP growth rate. This happens due to the so-called “base effect”. However, besides the base effect, Kosovo experienced a strong recovery in 2021 also as a consequence of Government Fiscal Measures, and a great number of migrants visiting Kosovo during the summer.”

The government official from the CBK explained the channels used for transfers with exact data “In terms of channels, most remittances are transferred through money transfer agencies, 58% in 2021, 63.5% in Q1 2022. A smaller part of remittances is sent through banks, 15.5% in 2021, 17.4% in Q1 2022. The remaining 27% of remittances are sent through informal channels which means the transfer of cash during diaspora visits to Kosovo.”

It can be noticed from both the quantitative and qualitative analysis that remittances have a positive impact on the economy of Kosovo, especially since it is found that remittances hold a strong and significant positive relationship with GDP, and Consumption. The impact on these two economic indicators is the strongest and is currently in hand with previous literature and the current qualitative research conducted for the current research through

interviews. It is evident that remittances create a cushion for stability in times of crisis especially since they have increased during the emergence of COVID-19.

Remittances hold a key role in increasing and stabilizing consumption levels both during growth and contraction periods. The fact that through the interviews, it has been thoroughly illustrated that remittances in Kosovo are mostly used for consumption strengthens the current quantitative analysis and leaves an open space for future research to focus on this even in more depth. However, the analysis of the 10-year period through bivariate correlations, the relationships of remittances with growth rate, BoP and Labor Participation rate must first eliminate any uncontrolled factors in order to analyze the impact of remittances more clearly.

2.2.1 Macroeconomic Implications of Remittances Flows on GDP, Growth Rate, Balance of Payments and Public Finances

Kosovo GDP, throughout the 11-year analysis, as seen in Table 2, has experienced slight variations, apart from the year 2010 which exhibits the lowest value of \$5.3 billion. On the other hand, the year 2019 evidenced the highest GDP value of \$7.9 billion. Regardless of the drastic effect of COVID-19 on the Kosovo economy, its GDP still maintained a constant value, with no drastic drops, probably due to also the highest level of remittances experienced throughout this period. Moreover, as a result of the emergence of the COVID-19, and the shock the economy experienced from it, Kosovo government lifted the fiscal rule of 2% budget deficit to 6.5%.

Table 3: Kosovo GDP in billion \$ (period 2010-2021)

Year	GDP
2010	5.344
2011	6.342
2012	6.164
2013	6.736
2014	7.075
2015	6.296
2016	6.683
2017	7.181
2018	7.879
2019	7.900

2020	7.717
2021	7.800

Source: Own work.

As seen in Table 3, Kosovo growth rate has experienced variations throughout the examined years, with its most drastic fall of -5.34% in 2020, the year when the pandemic crisis hit the economy of Kosovo, with visible consequences especially for private businesses. However, the Kosovo government managed to immediately respond by measures retaining the flow of private industries and experienced a drastic increase of economic growth rate of 7.50% in the following year. In contrast to that, a very low growth rate was demonstrated in 2012, with only 1.71%. From qualitative analysis of this study, it has been understood that the effect of remittances on GDP is indirectly positive. In other words, the official from the Ministry of Finance stated that: “Remittances affect consumption first, then many products are imported and hence remittances may worsen trade deficit. It is very hard to measure precisely, but overall remittances accelerate the GDP and Kosovo GDP growth.” It is worth noting that this information also goes along with data analyzed through desk research; remittances do have a multiplier effect on the GDP.

Moreover, the government official from the Central Bank of Kosovo implied “Remittances, as a percentage of GDP, have a high share in Kosovo economy (14.8% in 2021). Compared to the countries in the region, remittances in Kosovo, in addition to being more stable and higher in relation to GDP, have recorded a higher growth rate, so the impact on GDP growth is very large, mainly through increase in consumption.”

Table 4: Kosovo growth rate (period 2010-2021)

Year	Growth Rate
2010	4.94
2011	6.32
2012	1.71
2013	5.34
2014	3.35
2015	5.92
2016	5.57
2017	4.82
2018	3.40
2019	4.76
2020	-5.34
2021	7.50

Source: Own work.

A deficit in the current account has consistently characterized balance of payment of Kosovo because of the high level of import of goods and relatively low level in the export of goods, which is not offset by the positive balance of services (KAS, 2019b; 2013). Also, despite the favorable position of some categories such as the services industry, at the primary and secondary income, this has not been enough to eliminate the trade deficit. The current account deficit, as a percentage of GDP in Kosovo, was around 8% in 2005, about 12% in 2010 and had an improvement of about 8.5% in 2015 (KASd, 2019; CBK, 2016).

This is an indication that the deficit in balance payments in Kosovo is persistent, as seen in Table 4, demonstrating a potential harm on economic growth and the labor market, or on the overall economic development.

Table 5. Kosovo current account balance (BoP, current US\$; period 2010-2021)

Year	Current Account Balance (BoP)
2010	-677.508.209
2011	-845.469.987
2012	-379.707.018

2013	-241.164.650
2014	-501.611.181
2015	-547.387.863
2016	-530.232.050
2017	-377.958.225
2018	-600.498.296
2019	-447.233.076
2020	-541.106.313
2021	-818.350.535

Source: Own work.

The official of the Ministry of Finance implied that there is a connection between remittances and public finances through the consumption component implying that consumption levels affect taxes that in turn increase revenues. Moreover, since remittances are a component of the balance of payments, an increase in remittances can have a positive impact on the balance of payments. However, in the case of Kosovo, the balance of payments is always in deficit.

Whereas from the interview with the CBK official, the impact of remittances on public finances and BOP is described as follows: “Without remittances there would be lower revenue and higher expenditure thus leading to a higher deficit in the Kosovo Budget. Kosovo has a high trade deficit in the Balance of Payment and remittances are the most important component in financing this deficit because they finance about 45% of it.”

Literature too suggests that the effect of remittances on balance of payment is also positive for the recipient country since these inflows decrease current account deficits. Remittances are a measure deriving from BOP and are an important source of external funding for households, particularly in developing countries.

By analyzing this, one can identify and measure the major contributions that industrial nations have on poorer nations in terms of financial flows, as well as the dependence of the latter on this type of income (Caceres, 2021).

According to the Country Report on Kosovo by the Bertelsmann Stiftung’s Transformation Index (BTI) (2018), the primary sources of economic growth in Kosovo are public investment, the export-oriented mining industry, and remittances. Diaspora investments drive Kosovo economy; however, they do not strengthen the development of the local economy, but rather influence the economy to pay for imports. Kosovo national economy

is driven by remittances and consumption, and not by investments and trade, as it ought to be.

Economic growth is driven by factors such as investments and savings, adequate labor force, technological advancements, foreign investment, liberalized economy, investment in human capital and innovation (Samuel, 2009). At the macro level, remittances provide crucial foreign currency and enhance the current account balance, a key indicator of a country's economic stability (Goschin, Popa & Roman, 2010). Kosovo currently operates with a trade deficit, meaning it imports more goods and services than it exports. This results in a need for the country to continuously borrow from other countries. In 2020, the deficit was recorded at 7% of its \$7.8 billion GDP, however, this still represents an improvement compared to 2008 when the deficit stood at 18% of GDP. Data from the Central Bank of Kosovo highlight that remittances play a crucial role in financing the balance of payment deficit, contributing positively to the overall health of the country's economy.

2.2.2 Microeconomic Implications of the Remittance Flows on Labor Participation Rate, Consumption/Households and Individual Sectors

In Kosovo, remittances are primarily used for consumption, bill payments, health care, home improvements, education, and investment purposes. Moreover, remittances in Kosovo have been increasingly used for capital investment, especially in the construction sector. The construction industry in Kosovo stands as one of the most important sectors of the economy. In terms of microeconomic factors, data on labor participation rate are not available for the year 2010 and 2011; therefore, analysis has only been carried out for the period 2012-2021. Labor participation rate for the total population was lowest in 2016 with 28%, whereas highest in 2014 with 41.60% of the population being employed or seeking a job, as noted in Table 5. There is, however, a noticeable rise in labor participation from 30.10% in 2019 to 38.30% in 2020, and a further gradual rise in 2021 with 39.50%, which may have been a side effect of the pandemic influence and the insecurity experienced by the population due to unforeseeable changes in their standard of life and household income.

Table 6: Kosovo labor participation rate of total population (period 2012-2021)

Year	Labor Participation Rate (%)
2010	-
2011	-
2012	33.50
2013	40.50

2014	41.60
2015	37.60
2016	28.00
2017	29.80
2018	40.90
2019	30.10
2020	38.30
2021	39.50

Source: Own work.

Considering the major effects that COVID-19 had on the labor factor of the economy in Kosovo, female and male variations were also analyzed. The results show, as expected, a much lower participation rate for females as opposed to males for all examined years. Female labor participation rate was lowest in 2018 with only 14.19% of them either seeking a job or being employed; however, in the following year, their participation in labor rose at 17.78%. Moreover, during 2020, there is also a slight rise in female participation in labor at 17.84%. Males, in contrast, show a decrease in participation in labor in 2020 at 48.25%, which also represents the lowest rate throughout the examined years, as demonstrated in Table 6. Differences in employment rates have also been reported with variations between heads of remittance recipient and non-recipient households, with 77.8% of non-recipient males reporting to be employed, as compared to 70% of recipient ones (Elezaj, Bislimi & Duri, 2012). Similarly, but with a smaller gap, 33% of non-recipient females report to be employed, compared to 29.4% of the recipient ones. Moreover, the Kosovo Remittance Study (Elezaj, Bislimi & Duri, 2012) shows a slight difference in the daily hours of work between recipients (8.3hrs) and non-recipients (8.2hrs), and both groups work 5.6 days per week on average. However, non-recipient household heads report to have been employed almost 1 year longer than recipient ones (9.6yrs/8.7yrs) on average. Taking into account that Kosovo has high unemployment rates, migration reduces the pressure on the labor market. Considering that poverty is strongly

correlated with unemployment, and migration has been a solution for it, remittances have taken the role of an informal network for low-income households (Elezaj, Bislimi & Duri, 2012).

From the qualitative research on the questions related to the effect of remittances on labor participation, the government official from the Ministry of Finance responded as follows: “I believe that remittances make people participate less in the labor market, because the recipients simply do not want to work for a low salary.” Whereas the CBK official responded “High dependence on remittances can be an obstacle to addressing imbalances in the economy such as trade deficits and unemployment. Remittances can negatively affect productivity, and consequently production and exports, and can discourage remittance recipients from becoming active in the labor market while being satisfied with remittances. Therefore, we believe that remittances have negatively affected the labor force participation rate.” According to the Kosovo Remittance Study (Elezaj, Bislimi & Duri, 2012), the share of unemployed males not looking for work is 17.2%, whereas non-recipients comprise 10.3%. On the other hand, the percentage of inactive females is drastically higher compared to men, 49.4% of female recipients are unemployed and not looking for work compared to 42.4% of women of non-recipient households. These data suggest that the level of labor participation rate is lower for remittance recipients.

Table 7: Kosovo labor participation rate of female and male populations (period 2012-2020)

Year	Female Labor Participation Rate (%)	Male Labor Participation Rate (%)
2010	-	-
2011	-	-
2012	16.11	50.64
2013	18.87	54.56
2014	19.03	55.47
2015	16.01	50.82
2016	16.28	51.84
2017	17.19	57.35
2018	14.19	53.51
2019	17.78	51.85
2020	17.84	48.25
2021	-	-

Source: Own work. Another microeconomic throughout 2010-excluding data 2021, is

examined factor analyzed 2020 in this case, not available yet for

consumption/households as well. Results show the lowest rates being in 2010 with a value of \$4,993 billion consumed throughout Kosovo, and slight variations in the following years. Unexpectedly, the highest value of consumption is evidenced in 2020 with \$6,552 billion, as seen in Table 7. Such an outcome could be an effect of COVID-19, where possibilities of spending money on other activities such as traveling or attending activities jointly with other people was very limited due to quarantines and social measures; therefore, people were likely to consume more due to spending more time at home, or due to boredom and the need for satisfaction. Households, as reported in the section on remittances, received higher levels of remittances from the diaspora, which also affected the higher level of consumption rates.

Table 8: Kosovo consumption/households in billion \$ (period 2010-2020)

Year	Consumption/ Households
2010	4.993
2011	5.549
2012	5.387
2013	5.803
2014	6.267
2015	5.356
2016	5.464
2017	5.690
2018	6.288
2019	6.327
2020	6.552
2021	7.810

Source: Own work.

Various studies show that the vast majority of remittances are used to finance the current consumption of households, and a smaller portion is used for longer-term expenditures, especially in real estate and the construction sector (Prekazi, 2018; Haas, 2005). Qualitative research conducted with the employees of the Ministry of Finance also suggests that “Remittances mainly affect the economy of Kosovo through components of consumption, similarly as for most of the developing countries.” In Kosovo, it was estimated that approximately 60% of the total remittances are spent for consumption

(Kosovo Agency of Statistics, 2013). And the interview with the CBK official also resulted in the same conclusion that remittances are mostly used for consumption.

Moreover, diaspora has a significant impact on the food and accommodation sector, and as the responses from the qualitative research conducted with a business owner in Kosovo suggest, the diaspora impacts this sector with their remittances sent to families at home that increase consumption, but also, by their visits that are at least twice per year for summer holidays and winter holidays through which they have a direct impact by their consumption in this sector too.

In other words, households in Kosovo spend remittances on food, clothes, housing bills, etc. So, as the work of research presented throughout the paper, it is evident that remittances are mainly used for consumption, and through that they have an indirect effect on other pillars of the economy.

Besides the significant role in satisfying the basic physical and social needs for shelter and infrastructure, construction industry also stimulates economic growth through linkages with goods and services from other industries (Berk & Bicen, 2018). In most of the cases, construction industry growth was faster than the economy; however, at some points it was one of the industries to suffer from stagnations and fluctuations. The economy of Kosovo is currently confronted by severe difficulties owing to the combination of low export, lower commodity prices and high energy costs (World Bank, 2020).

CONCLUSION

The current study has been conducted with the objective of exploring the current evidence of the relationship of remittances on macro- and microeconomic factors of the global economy and that of Western Balkans countries in recent years. More specifically, the study investigates the current evidence of the relationship of remittances and macro- and microeconomic factors of the Kosovo economy for a period of 10 years and explores the effect of COVID-19 on the level of remittances and the fluctuations of the economic factors of Kosovo for the years 2020-2021. Moreover, it goes on to explore the type of channels used for remittance transfers, and whether they have changed due to the spread of the pandemic, the analysis of the effect of COVID-19 crisis on the economy of Kosovo, with an emphasis on macroeconomic factors such as economic growth rate, GDP, public finances and balance of payments (current account balance), and microeconomic factors such as labor participation rate, individual sectors, and consumption/households.

Based on the findings from previous literature and available statistical data retrieved from World Bank and Central Bank of Kosovo, the current study focused on exploring the positive impact of remittances on GDP, growth rate, BoP, consumption, and the negative relationship with labor participation rate. Moreover, with the emergence of the pandemic of COVID-19, this study explores the impact of this health crisis with far reaching

implications on the GDP, growth rate, remittances, labor participation rate, and consumption in Kosovo.

The results of the current study derive from three pillars of combined theoretical analysis of previous literature and studies, an empirical analysis of a 10-year period of the impact of remittances on the economy of Kosovo, with a focus on macro- and microeconomic factors, and first-hand qualitative research developed through interviews with representatives of financial sectors most impacted by the remittances and diaspora in general. The findings were then combined under scrutiny with the impact that the crisis of the emergence of COVID-19 had. These results show that remittances have a positive relationship with macroeconomic factors, GDP, economic growth rate, BoP, and the microeconomic factor, consumption.

The current findings complement previous research that illustrates the nature of the positive impact of remittances for their countercyclical nature, that is, they increase when there is a macroeconomic shock, securing recipient families against income shocks, and soothing their consumption in turn. Moreover, remittances have a positive relationship with trade balances and are a source of tax revenue for governments in countries that are dependent to VAT, trade taxes, and sales taxes. According to the outcomes of this study, remittances have shown a strong positive and significant relationship with Kosovo GDP, as expected. With COVID-19 affecting Kosovo economy directly, regardless of remittances, its GDP decreased from \$7.9 billion in 2019 to \$7.7 billion in 2020. Such an outcome could be due to the direct effect of the quarantine, where all businesses were closed and were not allowed to operate, as well as the impossibility for people to travel. However, in 2021, Kosovo GDP experienced a rise of \$7.8 billion when the COVID-19 measures for businesses were lessened and travel restrictions ceased to take place. Remittance levels of Kosovo fluctuated for the analyzed period of 10 years, highest being \$1.4 billion in 2020 with the strike of the pandemic. This result could be interpreted as an outcome of the higher generosity of Kosovo families that live abroad, or the use of transfer channels due to the impossibility of traveling personally to Kosovo to transport the money informally in a physical manner. The statistical platforms providing financial information on Kosovo economy, so far, lack data on 2021 for some of the investigated factors, including Current Account Balance (BoP), Female/Male Labor Participation Rate and Consumption/Households; a limitation that affects this study directly. Therefore, future research should consider the analysis of factors for each of the investigated years.

Surprisingly, remittance levels in Kosovo have shown a significant but rather negative relationship with Economic Growth Rate. A major decrease in Kosovo Growth Rate is evidenced with -5.3% in 2020, with the spread of the pandemic and the drastic economic measures that entailed, directly affecting the economy. It is important to note that the economic growth rate in 2019 was 4.7%, hence, demonstrating a lowering rate of 9%. On the other hand, in 2021 Kosovo government managed to respond by the measures retaining the flow of private industries and affected the increase of economic growth rate of 7.5%. The Government Official from the Central Bank of Kosovo stated that remittances have a

high share in Kosovo economy, with 14.8% in 2021, compared to regional countries. Additionally, the impact of remittances on Kosovo economic growth rate is very large, mainly through the component of consumption. Therefore, the current study may be limited in terms of having more data to analyze relationships on; hence, it statistically has demonstrated a negative association of remittances and economic growth rate, even though the reality on this matter is evidently different.

Remittances have exhibited a strong significant and positive association with consumption, as previous literature also suggests. Remittances directly affect the household incomes which are at times invested in businesses or private sector; however, the majority of them are spent on consumption; approximately 60% of remittances in Kosovo are spent on consumption (Kosovo Agency of Statistics, 2013). Such a result is also confirmed through the qualitative research, with the representative of the Ministry of Finance suggesting that remittances affect the economy of Kosovo mainly through the component of consumption. Moreover, such an outcome is also seen to be evident for the year 2020, where as a result of lack of outdoor activities due to quarantine, and insecurity as to how long the quarantine period may last, families in Kosovo have induced higher consumption during this period.

Moreover, labor participation rate has increased during COVID-19, more specifically, that of women, and during the emergence of COVID-19, consumption has increased as well. This could be a direct effect of the increased remittances during 2020, since it is evident, from both previous research and the interviews held with policy makers and industry players that remittances in Kosovo are a consumption driver and are mostly used to cover basic needs. This goes in hand with previous research that has found remittances to have a direct influence on consumption and investment in the home country. In developing countries, remittances are mostly spent on education, health, household, consumption, and real estate (Petreski et al., 2018).

On the other hand, remittance levels in Kosovo have shown a strong positive relationship with Balance of Payments, but the relationship is insignificant. This result could be an issue of not having enough data to analyze; therefore, statistically the relationship has shown insignificant. Moreover, recording the impact of remittances on the BoP account has been under research scrutiny because aggregating this is a complicated issue since no single data item in the balance of payments account comprehensively records transactions that are considered remittances. In the BoP framework, remittances flow from two items. First being the income earned by workers in foreign economies where they are not residents, and personal transfers from residents of the economy to those of another economy (Caceres, 2021). This presents another issue for the financial sectors in Kosovo, which future research should take into account, as well as a systematic change needs to take place so remittances are structured into a specific category as inflows of Kosovo economy.

When analyzing the effect of remittances on microeconomic factors, the results of this study exhibit a positive yet insignificant relationship with labor participation rate. An

outcome as such could be interpreted as a statistical result of lacking available data for the years 2010/2011. However, through qualitative research, it was understood that remittances negatively affect labor participation rate, simply because individuals do not accept working for low salaries and are discouraged to participate in the labor market when they are satisfied with remittances. Furthermore, high dependence on remittances is an obstacle to addressing imbalances in unemployment. During COVID-19 period (2020/2021) there was an evident increase from 30% in 2019 to 38% in 2020 and 39.5% in 2021. Such a result may be a side effect of the pandemic influence and the insecurity experienced by the general population due to unforeseeable drastic changes in household incomes and standard of life.

When analyzing the data on gender aggregations of labor participation rate, the results of the study show somewhat of an unexpected outcome. While Female Labor Participation Rate in Kosovo is evidently much lower than the Male one, with a mean of 17% and 53%, data figures on active females in the labor market or looking for a job are gradually increasing throughout the years, whereas data numbers on males are decreasing. Remittances may have a negative effect on the labor participation rate, especially among females, as the Kosovo Remittance Study (Elezaj, Bislimi & Duri, 2012) suggests. However, while the lowest rate of labor participation for females is exhibited in 2018 with only 14%, 2019 demonstrates a high increase to 17.7%, and an even higher rate in 2020 with 17.8%, even though the economy of Kosovo was affected greatly by the pandemic outbreak. On the other hand, 2017 marks the highest rate of labor participation for males with 57%, and the data figures decrease gradually in the following years, with the lowest rate of 48% in 2020. Such data could be representative of the public discourse on women's rights and their right to work in Kosovo during the last 3-4 years, as well as the need for more income for households with incomes from both a female and a male partner due to the increase in prices.

As presented in this paper, a study by POSSO (2012) that explored the relationship of remittances with labor supply found that the impact of remittances on labor supply is negative but small, and further on supported the hypothesis that increases in remittances are negatively linked to registering at an unemployment center.

Moreover, when considering the impact of the emergence of the pandemic COVID-19 on the economy of Kosovo, as a result of the empirical analysis, the current research could not illustrate the expected negative impact of COVID-19 on GDP, economic growth rate, and the decrease that was expected on remittance inflows as a result of it. Contrary to the expectations on this regard, remittance flows have increased during the emergence of COVID-19, which was either a result of the increase of the formality of the transfers, or a general increase that has been evident in the previous research that describes remittances as a cushion during crisis. Migrants tend to help their families more in the receiving country when there is a crisis, be that financial crisis, health crisis, and/or natural disasters. Previous research has illustrated that those remittances, although at high numbers, remain underestimated nonetheless. This happens because of the informality of the transfers

resulting from the perceived formal transfer costs that remain higher than those of informal transfers and the perceived complexity of the banking services by the poorer population groups that are the ones receiving most remittances.

The interview with the official from the Central Bank of Kosovo goes hand in hand with the evidence of the positive impact of remittances on Kosovo economy, for which it was stated that in 2020, due to anti-covid measures, there was a decline in economic activity of about 5.3%. One of the most important channels that affected economic activity was the fact that diaspora could not visit Kosovo, especially during the summer season, and this halved the export of travel, leading to a 12.7% decline in economic activity in Q2 and 7.7% in Q3. In 2021, with the increase of the number of people from diaspora who visited Kosovo, the export of travel services also increased; hence, there was more economic activity.

Regarding the formality and the choice of transfers for remittances, the Director of Payments and Treasury Division of NLB bank, implied that the remittance flows are usually higher during holidays, whereas there is a decrease during summer months since migrant family members come physically to visit their families and deliver their financial support by themselves. However, most of the points starting from the positive impact of remittances on Kosovo GDP, growth rate, consumption, BoP, and the negative impact of remittances on labor participation rate were in hand with the qualitative research conducted with 4 key insightful players.

The aims of the study have been achieved on some of the expectations. This research has shed light on the impact and the importance that remittances play for a developing country like Kosovo, especially during an economic and health crisis. This study has demonstrated a positive relationship between remittances as a crucial factor of Kosovo GDP, and in turn, Balance of Payments. Considering that Kosovo runs on a deficit, the impact of remittances has been a positive one at lowering this deficit; however, due to other uncontrolled and unforeseen variables, Kosovo economy remains at a shortfall.

As suggested by previous studies, remittances have a positive and a strong effect on the GDP of a country, especially on a developing economy as the one of Kosovo is. Similarly, the same goes for the economic growth rate, and consumption. Great importance is given to the fact that remittances play an increased role in improving the life of Kosovo residents by increasing their consumption capabilities.

Labor participation of Kosovar females and males has been evidenced with surprising results, where female participation rate has been gradually increasing during the 10-year period, whereas male one has experienced a decrease. Nevertheless, remittances have been exhibited as a negative factor influencing the absence of individuals in the labor market, be that as active participants or as seeking for a job. This issue has been and remains to be a significant result of the interplay of remittances with the low wages offered in Kosovo.

Overall, remittances play a significant role in the economy of Kosovo, and their impact has been felt in various ways over the last decade. A detailed explanation of how remittances affect the economy of Kosovo would be that they are a significant source of income for many households in Kosovo. They provide a much-needed boost to the standard of living of families and help reduce poverty levels. This increase in household income has a ripple effect on the economy, as families are able to spend more on goods and services, which in turn stimulates local economic activity. By increasing local consumption, remittances can have a significant impact on the local economy. An increase in demand for goods and services leads to an increase in economic activity, which in turn generates employment and income opportunities. This contributes to the overall growth and development of the local economy.

Remittances can also positively impact the balance of payments by reducing the dependence of a country on foreign aid and loans. A healthy balance of payments is essential for the stability and growth of any economy, and remittances can play a key role in achieving this balance. They result in a foreign currency inflow, which helps stabilize the local currency and reduce inflation. This is because the inflow of foreign currency increases the supply of the local currency, which can help keep prices stable. This is particularly important for countries like Kosovo, where inflation can be a significant problem. The impact of remittances on the economy of Kosovo has been significant over the last 10 years. As more and more people continue to work abroad and send money home, the importance of remittances to the economy of Kosovo will only continue to grow.

While COVID-19 was a major factor to affect Kosovo economy in terms of its GDP and growth rate, surprisingly, it has demonstrated a positive effect on Kosovo remittance levels, its consumption rates in turn, and the female labor participation rate. Remittance levels during 2021 have shown to be the highest in the 10-year period, a result which could be interpreted as they were transferred through formal channels due to impossibility to use informal ones, or as an increase in the generosity of the families due to a major health and economic crisis for Kosovo households.

The current study has its limitations, mainly due to lack of data for some of the examined variables, which have affected the outcomes of the study, especially in terms of the empirical analysis. Moreover, the 10-year time-frame analyzed in this paper, has shown to be rather small to conduct research as such with many variables and broad value. Therefore, future similar research should take into account a longer period, which would not only affect the significance of the statistical analysis, but also the validity of the examined relationships and their interplay. An important factor to emphasize is also the lack of data on many of the factors for specific years, especially for 2021, which financial agencies and governmental institutions that work on statistics should make sure to provide through their databases and reports at their earliest convenience, in order to be able to investigate and research financial issues in a real-time manner.

Lastly, future research can include more economic factors/variables in its analysis in order to be able to have a wider and clearer view of the economic situation of Kosovo, as well as be able to analyze more concretely not only the direct variables affecting one another, but also mediators which may have an effect but are disregarded.

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APPENDICES

Appendix 1: Abstract in Slovenian Language

Dodatek B: Kratek povzetek

Ta študija preučuje pomen nakazil za gospodarstvo Kosova, ki je za svojo stabilnost močno odvisno od tega ključnega zunanjega vira financiranja. Z ocenjevanjem mikro in

makroekonomskih učinkov nakazil, zlasti med pandemijo COVID-19, raziskava osvetljuje

ključno vlogo nakazil, ki so leta 2020 predstavljala 18,87 % kosovskega GDP, pri izboljšanju

blaginje državljanov s povečano potrošnjo in zasebnimi naložbami. Analiza se opira na podatke

iz platforme odprtih podatkov Svetovne banke in Centralne Banke Kosova ter kvalitativne

vpogleda, zbrane v intervjujih s predstavniki Ministrstva za finance, Centralne banke Kosova,

Banke NLB in gastronomskega sektorja.

Pandemija COVID-19 je močno vplivala na svetovno gospodarstvo, vključno s kosovom.

Rezultati študije kažejo, da so nakazila ostala ključni vir zunanjskega financiranja za Kosovsko

gospodarstvo, ki je pomagalo ublažiti gospodarske posledice pandemije. Natančneje, ravni

nakazil so dosegle vrhunec leta 2021, ko je skupna vrednost nakazil dosegla \$ 1,153 milijard.

Pozitivno razmerje med nakazili in potrošnjo poudarja pomen nakazil pri podpori blaginje

Kosovskih državljanov in nakazuje, da imajo nakazila pomembno vlogo pri podpiranju

gospodarstva v prihodnosti. Rezultati korelacijskega testa so pokazali močno in pomembno

pozitivno povezavo med nakazili ter GDP in potrošnjo, vendar negativno povezavo s stopnjo

rasti in nepomembno povezavo s plačilno bilanco. To nakazuje, da je povečanje nakazil

povezano s povečanjem GDP in potrošnje, vendar z zmanjšanjem stopnje gospodarske rasti. To

bi lahko pomenilo, da nakazila delujejo kot blažilnik potrošnje gospodinjestev, lahko pa so tudi

znak pomanjkanja gospodarskih priložnosti v državi.

Ugotovitve študije zagotavljajo tudi vpogled v vpliv nakazil na ponudbo delovne sile na Kosovu.

Rezultati kažejo na pozitivno, a nepomembno razmerje med nakazili in ponudbo delovne sile,

kar kaže, da lahko nakazila prispevajo k ustvarjanju novih delovnih mest v gospodarstvu, z naložbami, zlasti v gradbeništvu. Leta 2019 se je gradbeni sektor izkazal kot četrti največji delodajalec na Kosovu. To ima pomembne posledice za oblikovalce politik, saj poudarja potrebo

po ustvarjanju okolja, ki je ugodno za pretok nakazil, in spodbujanju politik, ki podpirajo gospodarsko rast in ustvarjanje delovnih mest.

Na koncu ta študija osvetljuje pomen nakazil v gospodarstvu Kosova in poudarja potrebo po

nadaljnjih raziskavah za spodbujanje trajnostne gospodarske rasti in odpravljanje strukturnih

ovir.

Appendix 2: Short Summary

This study examines the significance of remittances on the economy of Kosovo, which heavily relies on this key external finance source for its stability. By evaluating the micro- and macroeconomic effects of remittances, particularly during the COVID-19 pandemic, the research sheds light on the crucial role played by remittances, which accounted for 18.87% of Kosovo GDP in 2020, improving the well-being of its citizens through increased consumption and private investment. The analysis draws upon data from the World Bank open data platform and the Central Bank of Kosovo, as well as qualitative insights gathered through interviews with representatives from the Ministry of Finance, the Central Bank of Kosovo, NLB bank, and from the gastronomy sector.

The COVID-19 pandemic has had a significant impact on the global economy, including Kosovo. The results of the study show that remittances have remained a crucial source of external finance for the economy of Kosovo, helping to mitigate the economic impact of the pandemic. More specifically, remittance levels peaked in 2021 when the total value of remittances reached \$1.153 billion.

The positive relationship between remittances and consumption highlights the importance of remittances in supporting the welfare of Kosovo citizens and suggests that remittances have an important role to play in supporting the economy in the future. Results from the correlation test showed a strong and significant positive relationship between remittances and GDP and consumption, but a negative relationship with growth rate and a non-significant relationship with the balance of payments. This suggests that an increase in remittances is associated with an increase in GDP and consumption, but a decrease in economic growth rate. This could indicate that remittances act as a cushion for household consumption, but could also be a sign of a lack of economic opportunities in the country.

The findings of the study also provide insights into the impact of remittances on the labor supply in Kosovo. The results indicate a positive but insignificant relationship between remittances and the labor supply, suggesting that remittances can contribute to the creation of new jobs in the economy through investment, especially in the construction industry. In 2019, the construction sector proved to be the fourth largest employer in Kosovo having important implications for policymakers, as it highlights the need to create an environment that is conducive to the flow of remittances and to promote policies that support economic growth and job creation.

In conclusion, this study sheds light on the importance of remittances to the economy of Kosovo and highlights the need for further research to promote sustainable economic growth and address structural barriers.

Appendix 3: Qualitative Research, Interview Questions

Demographics

Name/Surname:

Position and Department/Division:

Institution:

Location (city, country):

Date:

Financial Institutions / Central Bank of Kosovo

1. According to your estimates, what is the annual volume of cross-border remittance inflows to Kosovo since 2010?
2. Are there any means through which your institution estimates remittance inflows through informal channels?
3. How do you think remittances directly affect the economy of Kosovo according to your point of view?
4. How do you reflect the pandemic context and its impact on the remittance level of Kosovo?
5. How do you think remittances have affected the GDP of Kosovo in the last 10 years?
6. How do you think remittances have affected the economic Growth Rate of Kosovo in the last 10 years?
7. Which types of channels were mostly used for remittance transfers during the last 2 years?
 - a. Did this change in the recent years as a result of the pandemic restrictions?
8. Do you believe COVID-19 directly affected the GDP of Kosovo, if yes, how?
9. Has the spread of the pandemic affected the economic Growth Rate of Kosovo?
10. Do you believe remittances have affected Public Finances and Balance of Payments in Kosovo?
 - a. If yes, how?

11. What do you think was the pandemic effect on Balance of Payments and Public Finances?
12. How do you think remittances have affected the Consumption levels in Kosovo in the last 10 years?
13. How do you think remittances have affected the Labor Participation Rate in Kosovo in the last 10 years?
14. How do you think remittances have affected the Individual Sectors of Kosovo in the last 10 years, i.e., the banking sector, the accommodation and food sector?

Banks / Exchange Offices

1. Does your institution collect data on cross border remittance inflows?
 - a. If yes, which methods are used by your institution in collecting data and other information on migrant remittance inflows?
2. Are there any means through which your institution estimates remittance inflows through informal channels?
3. Do you think the pandemic had an impact on the channels used for transfers?
4. Did you notice any level of fluctuation on remittance transfers during these last 2 years?
 - a. If yes, what period were there increases or decreases of remittance transfers?
5. How much of an increase or decrease of remittances did you notice during the last 2 years?
6. Are there particular periods of the year when remittance inflows tend to be much larger or much smaller?
7. If applicable, during which seasons/periods of the year remittance inflows are likely to be larger or smaller, and what do you think are the causes of that?
8. Which types of channels were mostly used for remittance transfers during the last 2 years?
9. Did this change in the recent years as a result of the pandemic restrictions?

Businesses / Accommodation and Food Service Sector

1. Do remittances or the direct consumption of diaspora help, and to what extent, your business according to your point of view?
 - a. If yes, in what periods of the year are the remittances or the help received by the diaspora influencing most the increased consumption?
2. How has the pandemic affected your business according to your opinion?
3. Have you experienced any difference in the turnover of revenues during the last 2 years according to your point of view?
4. How have you experienced the effect in the labor aspect in your company during 2020-2021?
5. Have the consumption levels in your company been affected by the pandemic?
 - a. If yes, during which period did your business experience higher or lower consumption during the last 2 years?
6. Have the remittances or the direct consumption of the diaspora changed during the pandemic?
 - a. If yes, how?