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PERSONAL REMITTANCES AND THE FACTORS THAT INFLUENCE THEM

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Abstract

The purpose of this work is to study the factors that have an impact on the amount of personal remittances in Albania. The data are secondary and their source is the World Bank. Since remittances have an important impact on developing countries such as Albania, the study of these factors was considered important. Remittances in Albania go mainly for consumption, medical care, housing and education. The data during their statistical processing were transformed into logarithmic in order to discover not only the direction of their impact but also the elasticity. Remittances were positively affected by inflation, unemployment and labor taxes in Albania. This impact was significant. The increase in inflation, unemployment and taxes on work would bring about the increase in income flows. While the average salary level in Albania has a negative impact on remittances. This impact is also significant. The increase in the average salary in Albania will decrease the inflow of personal remittances.

Keywords: Remittances, average salary, tax of labor, inflation, unemployment

INTRODUCTION

When immigrants send income earned in other countries to their families in the country of origin in various forms such as cash, goods, etc. then these are called remittances. According to the World Bank: "*Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus*

include all current transfers between resident and nonresident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities."[1]

Remittances for developing countries such as Albania are very important. The value recorded in the various statistics contains only the part that has gone through a formal and legal process. But of course their value is greater than the registered one since a good part of them enters the informal way. According to various studies conducted at the time such as Adams and Page (2003, 2005) and Gupta, Patillo and Wagh (2009) have found that remittances reduce the level of poverty in the countries where remittances enter. Of course, their destination depends on the economic level of the host families. In poor families, these remittances will go for consumption, medical care, housing or education. On the contrary, the tendency of rich families is to invest these income flows. It is also worth mentioning the importance of the ratio of remittances to exports and imports. Remittances play an important role in financing imports and reducing the financial deficit.

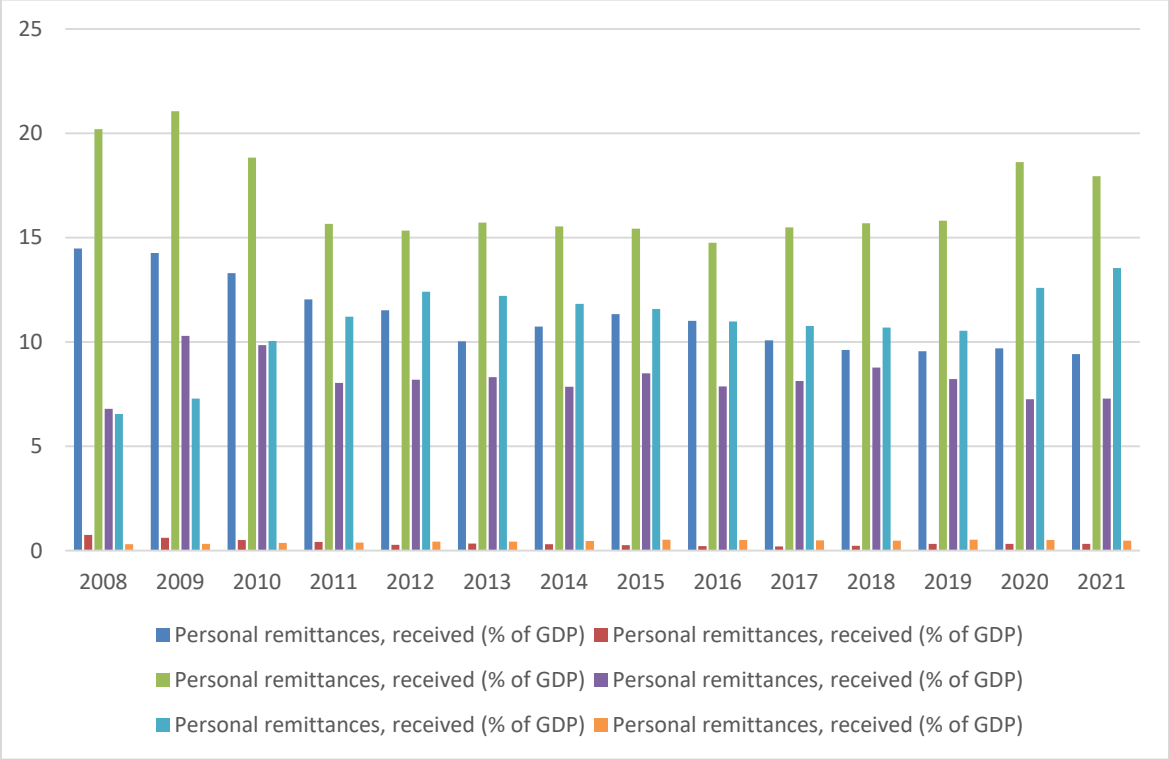
If we compare the weight of remittances as a percentage of GDP for countries such as Kosovo, Serbia and Montenegro with Italy and Greece, we look at Greece for the period 1992-2021 remittances range from 0.2 to 2.47% of GDP. Italy for the period 1992 to 2021 remittances vary between 0.15 and 0.52 percent of GDP. Serbia for the periods from 2007-2021 these values are between 6.79% - 10.29%. Montenegro, for the same period, the values range from 5.33% to 13.53%. Kosovo's remittances for the period 2008-2021 are between 14.75% and 21.05% of GDP. Albania for the period 1992-2021 has remittances from 9.4% to 28.0% of GDP.

Referring to Figure 1, which reflects Personal remittances, received (% GDP) for the countries mentioned above, what is evident is the fact that Kosovo for the entire period from 2008 to 2021 is above all the compared countries. Then it is generally followed by Albania and Montenegro, where in different years their ranking changes. For the period 2008-2011 Albania comes second. Afterwards, for the period 2012-2021, Montenegro takes second place. And Serbia ranks 4th.

Figure 2 shows the performance of remittances, exports and imports as a percentage of GDP for the period 2008-2021 in Albania. It is clear that in this period imports are constantly leading, but remittances also make an important contribution to cover the deficit.

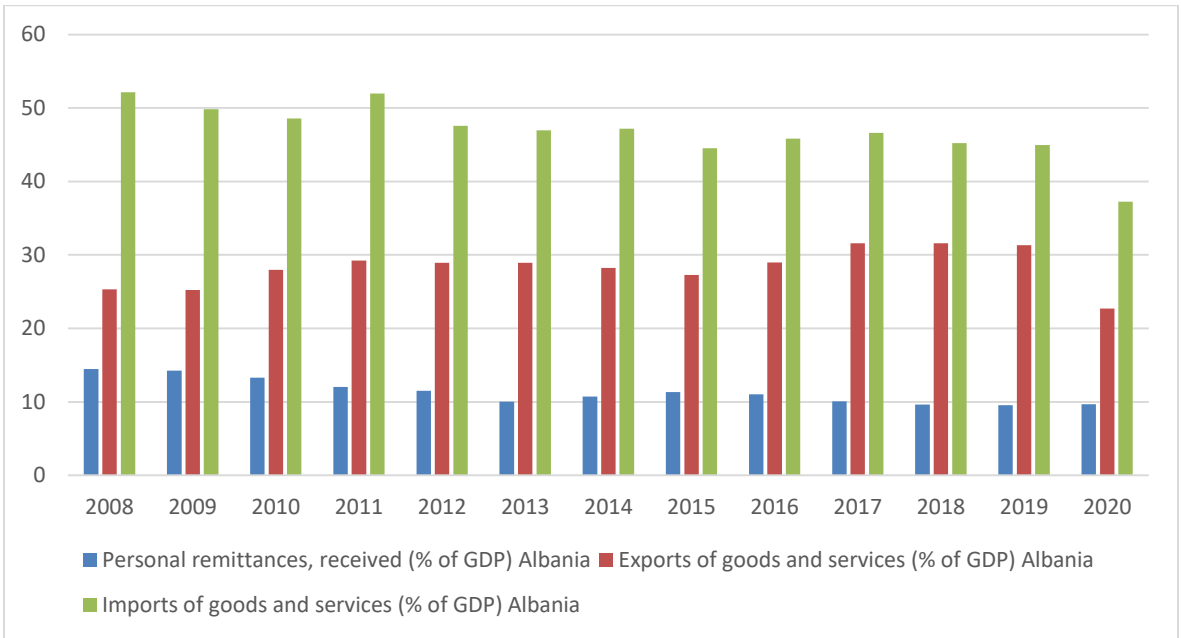
[1] https://databank.worldbank.org/metadataglossary/world-development-indicators/series/BM.TRF.PWKR.CD.DT

Figure 1. Personal remittances, received (% GDP) period 2008-2021



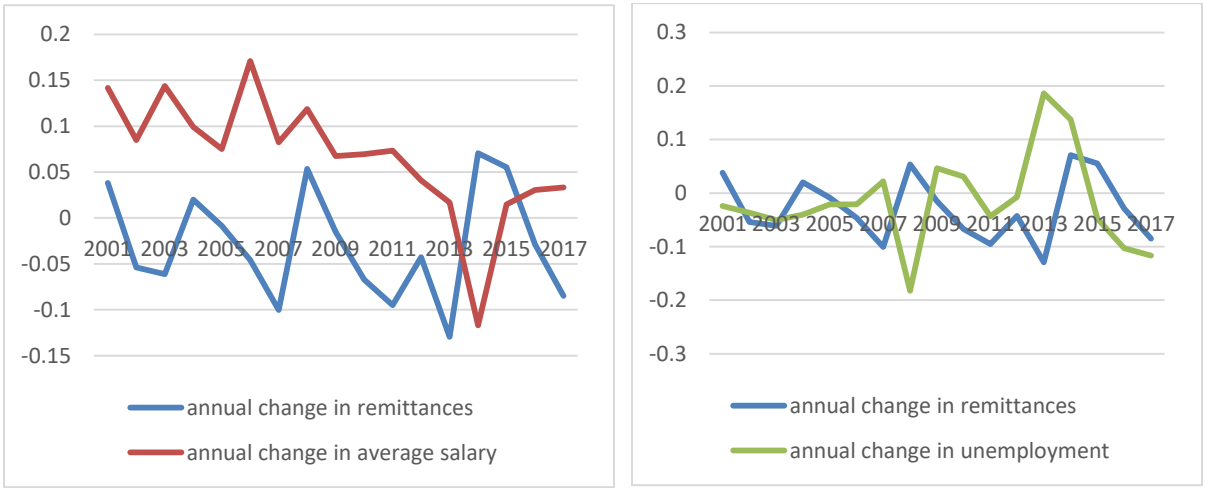
Source: https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS

Figure 2. Personal remittances, exports and imports in Albania 2008-2021



Source: https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS

Figure 3. Annual growth of personal remittances, average salary and unemployment in Albania 2001-2017



Source: data processed by the author

LITERATURE REVIEW

Remittances have a direct impact on the economic growth of a country. Therefore, it is very important to study the factors that influence them. Different studies have been made by different authors and at different times. The impact of education, average salary or taxes in the country where remittances are sent has been studied. They also tested the impact of distance between places, personal skills, etc

Bourdet and Falck (2003) in their study reached the result that for the data taken in the study for the period 1980-2000, remittances received in Cape Verde had an important relationship with the exchange rate of the host country.

Also Amuedo-Dorantes and Pozo (2004), Holzner (2006) in their studies found that remittances lead to an appreciation of the real exchange rate.

Browne and Mineshima (2007) in their study found that remittances to the Pacific region depend on the growth rate of real GDP, on the distance between the countries and on the language spoken by the two countries.

Velaj and Nexhipi (2022) in the study conducted for Albania found that Remittances have a negative impact on the euro/all exchange rate.

Buch and Kuckulenz (2004) found that economic growth does not have a clear impact on the level of remittances.

Straubhaar (1986) studied the relationship between remittances received in Turkey by immigrants in Germany and found that there was a significant relationship between the level of payment and remittances.

Studies conducted by (Swamy (1981), Straubhaar (1986), El-Sakka and Mcnabb (1999), and Chami et al. (2003)), Elbadawi and Rocha (1992) came to the conclusion that the total number of immigrants had a positive and significant impact on remittance flows.

Islam and Nasrin (2015) studied remittances in Bangladesh. They are used in data from 1977 to 2011. The result of their study was that gross domestic product of host country and domestic country, exchange rate, petroleum price and skill of labor had a significant impact on remittance flows.

Velaj, Nexhipi and Merko (2022) discovered in their work that the impact of annual growth of personal remittances on annual growth of tax revenues is positive and significant. They were taken in a study of data for Albania for the period 2000-2021.

Even the study of Al-Assaf and Al-Malki (2014) and Sultonov (2013) reaches the same conclusion.

Bredtman et al. (2018), found in their study that highly educated migrants receive higher wages.

Guetat & Sridi (2017) discovered that when the inflation rate is high, life becomes more difficult because inflation causes lack of price stability.

METHODOLOGY

The data obtained in the study are for the period 2005 to 2020[2]. The source of the data is the World Bank and INSTAT. The data belong to Albania. The dependent variable is personal remittances (% GDP). The independent variables taken into consideration are inflation according to the deflator, the unemployment rate, Labor tax and contributions (% of commercial profits), the average salary and the euro/ALL exchange rate since the majority of immigrants in Albania are located in European countries. SPSS statistical program was used for data processing.

Personal remittances (% GDP) (Y):– is dependent variable.

Inflation according to deflator X1:- is independent variable.

Unemployment rate X2: –is independent variable.

Labor tax and contributions (% of commercial profits) X3: – is independent variable.

Exchange rate euro /ALL X4:– is independent variable.

Average salary X5: - is independent variable.

[2] For all the examined variables, the available data were for the period 2000-2020. The only exception was the labor tax and contributions variable, where the World Bank had data only for the period 2005-2020. Therefore, for the presentation of the statistical model, we limited ourselves to the data that belonged to the period 2005-2020.

The hypotheses of the research are:

H0: There is no significant relationship between the personal remittances and inflation, unemployment rate, labor tax and contribution), average salary, the exchange rate euro / ALL.

H1: There is a significant relationship between the personal remittances and inflation, unemployment rate, labor tax and contribution), average salary, the exchange rate euro / ALL.

The model used in our study is the multiple linear regression model. The purpose of the multiple regression method is to analyze the relationship between independent variables and a dependent variable. The regression method checks if such a relationship exists, and if it does, it aims to use existing information about the independent variables to improve accuracy in predicting the value of the dependent variable.

When we build the model in the form $y= \beta0+ \beta1x1 +\beta2\ x2+...+\beta pxp+\epsilon$, where ϵ has distribution N (0, σ 2), mathematically we are dealing with the polynomial multiple regression model.

We will first estimate multiple linear regression parameters. Thus to build the shape model: $yi= \beta0+ \beta1xi1 +\beta2\ xi2+...+\beta pxip+\epsilon$ for i= 1....n we need to estimate $\beta0$, $\beta1$, $\beta2$, βp which are the parameters of this model and $\epsilon1\epsilon2\epsilon3$ ...ϵn, n independent variables N (0, σ 2).

To estimate the parameters $\beta0$, $\beta1$, $\beta2$, βp we use the method of least squares. Then we will do interval estimation of regression parameters and we will test the raised hypotheses.

In standard multiple regression, all independent variables are simultaneously entered into the model. The estimate of R2 determines the strength of the association between the independent variables and the dependent variables. The Fisher test is used to determine whether or not this association determined by selection can be generalized to the entire population.

The t-test is used to assess the individual relationship between each independent variable and the dependent variable. Beta coefficient analysis is used to find out the relationship between the dependent variable and the independent variables and whether or not this relationship exists.

The standard error of the estimate is used to determine the confidence level.

The data are tested for collinearity and normality. The variance inflation factor was calculated with the equation: VIF = 1/ (1-R2). A value of 1 indicates that there is no correlation between this independent variable and any others. VIFs between 1 and 5 suggest that there is a moderate correlation, but it is not severe enough to warrant corrective measures. VIFs greater than 5 represent critical levels of multicollinearity where the coefficients are poorly estimated, and the p-values are questionable.

In the model used, we will calculate the elasticity of remittances in relation to the independent variables entered in the model. *Eri* is the elasticity of remittances in relation to inflation. *Ert* is the elasticity of remittances in relation to taxes and *Eru* is the elasticity of remittances in relation to unemployment. The formulas for their calculation are as follows:

$$\mathrm{E}ri = \frac{Percentage\ Change\ in\ remitances}{Percentage\ Change\ in\ inflation}$$

$$\mathrm{Eri} = \frac{\Delta \mathrm{R}/\mathrm{R}}{\Delta \mathrm{i}/\mathrm{i}} = \frac{(\mathrm{R1} - \mathrm{R0})/\mathrm{R0}}{(\mathrm{i1} - \mathrm{i0})/\mathrm{i0}}$$

$$\mathrm{Eri} = \frac{\mathrm{dR}/\mathrm{R}}{\mathrm{di}/\mathrm{i}}$$

$$\mathrm{Eri} = (\mathrm{dR}/\mathrm{di})\ (\mathrm{i}/\mathrm{R})$$

$$\mathrm{E}rt = \frac{Percentage\ Change\ in\ remitances}{Percentage\ Change\ in\ taxes}$$

$$\mathrm{Ert} = \frac{\Delta \mathrm{R}/\mathrm{R}}{\Delta \mathrm{t}/\mathrm{t}} = \frac{(\mathrm{R1} - \mathrm{R0})/\mathrm{R0}}{(\mathrm{t1} - \mathrm{t0})/\mathrm{t0}}$$

$$\mathrm{Ert} = \frac{\mathrm{dR}/\mathrm{R}}{\mathrm{dt}/\mathrm{t}}$$

$$\mathrm{Ert} = (\mathrm{dR}/\mathrm{dt})\ (\mathrm{t}/\mathrm{R})$$

$$Eru = \frac{Percentage\ Change\ in\ remitances}{Percentage\ Change\ in\ unemployment}$$

$$\mathrm{Eru} = \frac{\Delta \mathrm{R}/\mathrm{R}}{\Delta \mathrm{u}/\mathrm{u}} = \frac{(\mathrm{R1} - \mathrm{R0})/\mathrm{R0}}{(\mathrm{u1} - \mathrm{u0})/\mathrm{u0}}$$

$$\mathrm{Eru} = \frac{\mathrm{dR}/\mathrm{R}}{\mathrm{du}/\mathrm{u}}$$

$$\mathrm{Eru} = (\mathrm{dR}/\mathrm{du})\ (\mathrm{u}/\mathrm{R})$$

RESULTS

During data testing we transformed the data into logarithmic data. We did this for 2 purposes. The first was to minimize the problem of collinearity between variables as this would lead to an unreliable model. And the second to interpret the elasticity of variables. After the transformation we noticed that we again had collinearity problems between the average salary and unemployment and taxes. For this purpose, we have treated the relationship between the average salary level in Albania and personal remittances in another model.

After we tested the logarithmic variables (inflation, taxes, unemployment and exchange rate), the result was that again the exchange rate variable showed problems (Condition Index) in the collinearity diagnostics data[3]. Therefore, we also eliminated this variable from our model.

Value of R Square = 0.96 means that 96 % of our model is explained by the variables used. As we mentioned above, the linear regression p value for each independent variable tests the null hypothesis that the variable has no correlation with the dependent variable.

The variables used were tested for multicollinearity and the VIF value is between 1-1.87.

Our model is significant as P value <0.01 and F=80.97. The three variables included in the model have an impact on personal remittances and this impact is positive. The constant is insignificant since p value =0.2 >0.05. The impact of unemployment on remittances received is positive and significant as p-value = 0.002. So the increase of unemployment in Albania by 1% will bring the increase of remittances from abroad by 0.368 %.

The impact of inflation in Albania on remittances is positive and significant as p-value = 0.034. The increase in inflation (the level of prices in Albania), by 1% will bring an increase in remittances by 0.48 %. The impact of the tax rate on work in Albania is positive on remittances and significant as p-value <0.001. The increase in taxes by 1% will increase remittances by 0.585 %. Albania is a developing country where most of the remittances received will cover the basic expenses of families. Therefore, this result was expected and justified. The equation of our model is:

$Y = 0.48X_1 + 0.368X_2 + 0.585X_3$

As mentioned above, we treated the model to see the impact of the average salary in Albania on remittances separately. The result was that the average salary in Albania negatively affected personal remittances. So the increase in the average salary in Albania would lead to a decrease in personal remittances from abroad[4]. The equation of our model is:

$Y = 8.047 - 0.523X$

[3] See appendix, table 2
[4] See appendix, table 3

An increase by 1 percent in the average salary in Albania would cause a decrease in personal remittances by 0.523%.

Table 1: Results of the Multiple Regressions Model

Model Summary[b]

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Durbin-Watson
1	.980[a]	.960	.949	.04051	2.262

a. Predictors: (Constant), Lnlabortax, lnunemployment, lninflation

b. Dependent Variable: lnremitancetogdp

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.399	3	.133	80.977	<.001[b]
	Residual	.016	10	.002		
	Total	.415	13			

a. Dependent Variable: lnremitancetogdp

b. Predictors: (Constant), Lnlabortax, lnunemployment, lninflation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-.373	.278		-1.342	.209	-.992	.246		
	lnunemployment	.368	.088	.269	4.157	.002	.171	.565	.946	1.057
	lninflation	.048	.019	.211	2.454	.034	.004	.091	.535	1.870
	Lnlabortax	.585	.063	.791	9.298	<.001	.445	.725	.546	1.830

a. Dependent Variable: lnremitancetogdp

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	lnunemployment	lninflation	LNLabortax
1	1	3.442	1.000	.00	.00	.02	.00
	2	.554	2.492	.00	.00	.53	.00
	3	.002	39.537	.02	.33	.43	.83
	4	.001	59.360	.98	.67	.03	.17

a. Dependent Variable: lnremitancetogdp

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.2516	2.7763	2.4937	.17513	14
Residual	-.05408	.07162	.00000	.03553	14
Std. Predicted Value	-1.382	1.613	.000	1.000	14
Std. Residual	-1.335	1.768	.000	.877	14

a. Dependent Variable: lnremitancetogdp

Descriptive Statistics

	Mean	Std. Deviation	N
lnremitancetogdp	2.4937	.17870	14
lnunemployment	2.6699	.13070	14
lninflation	.5625	.79229	14
Lnlabortax	3.1759	.24156	14

Correlations

		lnremitancetogdp	lnunemployment	lninflation	LNLabortax
Pearson Correlation	lnremitancetogdp	1.000	.265	.693	.940
	lnunemployment	.265	1.000	-.150	.035
	lninflation	.693	-.150	1.000	.660
	Lnlabortax	.940	.035	.660	1.000
Sig. (1-tailed)	lnremitancetogdp	.	.180	.003	<.001
	lnunemployment	.180	.	.304	.453
	lninflation	.003	.304	.	.005
	Lnlabortax	.000	.453	.005	.
N	lnremitancetogdp	14	14	14	14
	lnunemployment	14	14	14	14
	lninflation	14	14	14	14
	Lnlabortax	14	14	14	14

CONCLUSIONS

In this paper, during the study of data related to personal remittances, it was noticed that developing countries such as Serbia, Kosovo, Montenegro and Albania have their inflows (as % of GDP) higher than developed countries such as Italy or Greece. The first place was taken by Kosovo. Then it is followed by Albania and Montenegro, where in different years their ranking changes. For the period 2008-2011, Albania comes second. Afterwards, for the period 2012-2021, Montenegro takes second place and, Serbia ranks 4th.

The testing of the considered variables demonstrated that the exchange rate variable showed collinearity problems even after its transformation into *ln*. For this reason, it was removed from our model. Also, the average salary of Albania had collinearity problems with the variable of taxes and unemployment, so it was examined separately. As a conclusion, personal remittances in Albania (inflows) are significantly affected by unemployment, labor tax and contributions, as well as by the general level of prices (inflation). All 3 independent variables have a positive impact on remittances. This result is logical and in line with various studies previously conducted for other developing countries. The more prices, unemployment and the level of taxes on work increase, the more remittances will come in from abroad. This for Albania is also affected by the fact that most of the remittances go to consumption, medical care, housing or education. On the other hand, the influence of the average salary level in Albania on remittances is important but has a negative impact. This means that the increase in the level of salaries would bring a decrease in the incoming flows of remittances.

CONFLICT OF INTEREST STATEMENT

The authors declare that they have no conflict of interest.

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APPENDICES

Table 2. Result of the Multiple Regressions Model

Descriptive Statistics	Mean	Std. Deviation	N
lnremitancetogdp	2.4937	.17870	14
lnunemployment	2.6699	.13070	14
lninflation	.5625	.79229	14
LNLabortax	3.1759	.24156	14
lnexchangerate	4.8813	.05712	14

Correlations

		lnremitancetogdp	lnunemployment	lninflation	LNLabortax	lnexchangerate
Pearson Correlation	lnremitancetogdp	1.000	.265	.693	.940	-.409
	lnunemployment	.265	1.000	-.150	.035	.300
	lninflation	.693	-.150	1.000	.660	-.518
	LNLabortax	.940	.035	.660	1.000	-.410
	lnexchangerate	-.409	.300	-.518	-.410	1.000
Sig. (1-tailed)	lnremitancetogdp	.	.180	.003	<.001	.073
	lnunemployment	.180	.	.304	.453	.149
	lninflation	.003	.304	.	.005	.029
	LNLabortax	.000	.453	.005	.	.073
	lnexchangerate	.073	.149	.029	.073	.
N	lnremitancetogdp	14	14	14	14	14
	lnunemployment	14	14	14	14	14
	lninflation	14	14	14	14	14
	LNLabortax	14	14	14	14	14
	lnexchangerate	14	14	14	14	14

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.982[a]	.965	.950	.04012	2.247

a. Predictors: (Constant), lnexchangerate, lnunemployment, LNLabortax, lninflation

b. Dependent Variable: lnremitancetogdp

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.401	4	.100	62.233	<.001[b]
	Residual	.014	9	.002		
	Total	.415	13			

a. Dependent Variable: lnremitancetogdp

b. Predictors: (Constant), lnexchangerate, lnunemployment, LNLabortax, lninflation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.867	1.166		.744	.476	-1.770	3.504		
	lnunemployment	.396	.091	.290	4.336	.002	.190	.603	.867	1.153
	lninflation	.041	.020	.181	2.022	.074	-.005	.086	.484	2.066
	Lnlabortax	.574	.063	.776	9.087	<.001	.431	.717	.532	1.880
	lnexchangerate	-.262	.239	-.084	-1.094	.302	-.803	.279	.664	1.507

a. Dependent Variable: lnremitancetogdp

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	lnunemployment	lninflation	LNLabortax	lnexchangerate
1	1	4.415	1.000	.00	.00	.01	.00	.00
	2	.581	2.757	.00	.00	.48	.00	.00
	3	.002	43.572	.00	.14	.43	.91	.00
	4	.001	57.019	.01	.82	.00	.04	.01
	5	4.277E-5	321.295	.99	.04	.08	.05	.99

a. Dependent Variable: lnremitancetogdp

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.2681	2.7867	2.4937	.17555	14
Residual	-.04828	.06615	.00000	.03338	14
Std. Predicted Value	-1.285	1.669	.000	1.000	14
Std. Residual	-1.203	1.649	.000	.832	14

a. Dependent Variable: lnremitancetogdp

Table 3. Result of the Simple Regressions Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.921[a]	.848	.840	.08432

a. Predictors: (Constant), lnaveragesalary

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.715	1	.715	100.606	<.001[b]
	Residual	.128	18	.007		
	Total	.843	19			

a. Dependent Variable: lnremittances

b. Predictors: (Constant), lnaveragesalary

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	8.047	.549		14.652	<.001		
	lnaveragesalary	-.523	.052	-.921	-10.030	<.001	1.000	1.000

a. Dependent Variable: lnremittances

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	lnaveragewage
1	1	1.999	1.000	.00	.00
	2	.001	58.243	1.00	1.00

a. Dependent Variable: lnremittances