



REMITTANCES IN ALBANIA: DYNAMICS, TRENDS AND MACROECONOMIC SIGNIFICANCE

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Abstract

Remittances represent monetary transfers sent by migrants to their countries of origin and are widely regarded as a fundamental component of international financial flows for many developing economies. In the economic literature, remittances are analyzed as alternative sources of financing that influence household welfare, consumption, private investment, human capital development and macroeconomic stability. Albania, as one of the countries with a high level of emigration in the Southeast European region, has for decades experienced a significant role of remittances in its economic and social development. Remittances have directly contributed to poverty reduction, increased household consumption and the financing of small-scale entrepreneurial activities, while simultaneously providing an important source of foreign currency for the national economy. However, their dynamics have reflected changes in migration patterns, the integration of the diaspora into host countries and economic transformations within Albania. This article examines remittances as a concept, their economic and social functions, as well as the historical trajectory and current role of remittances in Albania, by analyzing their multifaceted impacts and the challenges associated with the economy's reliance on this financial source. The findings indicate that remittances have accounted for a substantial share of household income and foreign exchange inflows, particularly during periods of economic instability, helping to smooth consumption and reduce vulnerability. Policy implications emphasize the need to shift from consumption-led use of remittances, toward mechanisms that encourage productive investment, financial inclusion and diaspora engagement, to support long-term and sustainable economic growth.

Keywords: Economic development, financial flows, migration, remittances, social function



INTRODUCTION

Remittances, defined as monetary and non-monetary transfers sent by migrants to households and communities in their countries of origin, constitute a fundamental component of economies characterized by high levels of emigration. Over recent decades, remittances have emerged as one of the most significant international financial flows, frequently surpassing foreign direct investment and official development assistance, particularly in low and middle-income countries. Beyond their role as a vital source of income for recipient households, remittances contribute to increased consumption, the stimulation of private investment, improved access to education and healthcare and enhanced economic resilience in the face of cyclical shocks and unforeseen crises (Adams & Page, 2005).

According to estimates by international financial institutions, global remittance flows have reached record levels since 2020. This trend reflects the intensification of migration flows, technological advancements in payment and money transfer systems and rising living costs in host countries. As a result, remittances have become increasingly recognized as a relatively stable source of external financing for developing economies, positioning them at the center of policy debates on economic development, macroeconomic stability and social protection.

In the economic literature, remittances are commonly classified into three main categories.

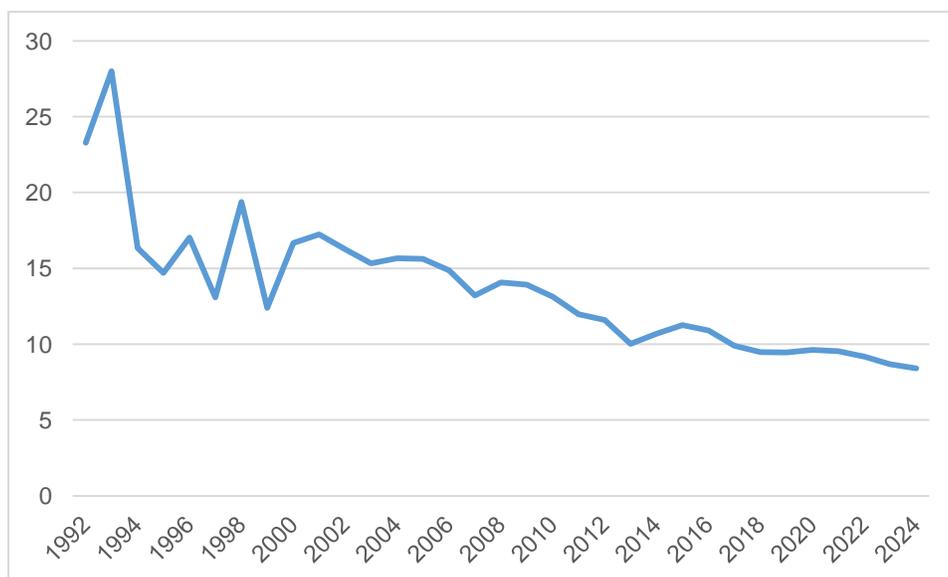
1. **personal remittances**, consist of current transfers in cash or in kind, made by migrants to resident households or individuals in their countries of origin. These transfers account for the largest share of recorded remittance inflows and are primarily used to finance basic household expenditures, including food, housing and healthcare. At the same time, personal remittances play a significant role in financing education and skills development, thereby contributing to human capital accumulation and improving long-term labor market outcomes.
2. **compensation of employees**, refers to wages, salaries and other remuneration earned by individuals working temporarily or seasonally in a country where they are not residents and subsequently transferred to their home country. This component is particularly relevant in sectors such as agriculture, construction and services, where seasonal migration is a common income-generating strategy. Compensation of employees contributes to income smoothing at the household level, poverty reduction and the financing of small-scale investments within local communities.
3. **migrant capital transfers**, encompass financial resources and assets transferred by migrants in connection with a change of residence or for the purpose of productive investment in their countries of origin. These transfers include investments in real estate, business start ups and community development projects. This category represents a

more advanced form of diaspora engagement and holds substantial potential for promoting economic growth, job creation and diversification of the productive base.

Overall, remittances constitute a multidimensional phenomenon whose economic and social impacts, depend on the interaction of macroeconomic conditions, institutional quality and household-level characteristics. This underscores the need for context-specific empirical analysis and well-designed policy frameworks that aim not only to sustain remittance inflows, but also to channel them toward productive and sustainable economic uses (Bettin & Zazzaro, 2012).

In the Albanian context, remittances have historically played a decisive role in the country's economic and social stability. Albania ranks among the countries with a high remittance-to-GDP ratio, particularly during periods of economic transition and external shocks. Remittance inflows have functioned as an important shock-absorption mechanism, mitigating the effects of unemployment, poverty and macroeconomic volatility, while supporting household consumption, savings and investment (Dushku, 2021). Nevertheless, despite their macroeconomic significance, remittances in Albania remain predominantly oriented toward consumption and housing, whereas their potential contribution to productive investment and long-term sustainable development, remains only partially exploited. This highlights the necessity of a comprehensive analysis of remittance dynamics, composition and policy instruments, capable of transforming remittances into a more effective driver of sustainable economic development.

Figure 1: Albania, personal remittances received % of GDP



Source: World Bank Data

LITERATURE REVIEW

In an effort to understand the motivations and effects of remittances, a range of theoretical models has been developed, including:

- The altruistic model Lucas & Stark, (1985)
- The investment or self-interest model Massey et al., (1993)
- Risk-sharing theory Massey & Taylor, (1999) and
- Structuralist approaches, Portes, (1978); Sassen, (1991).

Table 1: Theoretical Models of Remittances

Theoretical Model	Key Authors	Core Premise	Predicted Impact
Altruistic Model	Lucas & Stark (1985)	Remittance-sending behavior is driven by moral obligation and concern for the welfare of family members left behind.	Coverage of basic household needs and improvement in living standards.
Investment (Self-Interest) Model	Massey et al. (1993)	Remittances are viewed as a strategic household investment aimed at enhancing long-term prosperity.	Business development, investment in housing and education and promotion of sustainable economic development.
Risk-Sharing Theory / New Economics of Labor Migration (NELM)	Massey & Taylor (1999)	Migration and remittances function as informal insurance mechanisms that allow households to diversify income sources and share risks arising from imperfect local markets (e.g., unemployment, shocks).	Income stabilization, consumption smoothing and enhanced household-level social protection.
Structuralist Theories	Portes (1978); Sassen (1991)	Migration is a consequence of global structural inequalities between core and peripheral economies.	Predominantly pessimistic effects: reinforcement of dependency, inflationary pressures, decline of local production and widening regional inequalities.

Over the past two decades, the literature on remittances has expanded substantially, conceptualizing them not merely as monetary flows but as complex economic and social phenomena, closely intertwined with international migration, financial systems and development policies. Within this framework, remittances are regarded as an important source of capital for households and economies with high levels of emigration, exerting direct effects on consumption, savings, investment and the balance of payments (Giuliano & Ruiz-Arranz, 2009). Contemporary studies emphasize that, due to their relative stability, remittances often function as risk-sharing mechanisms and as buffers against economic shocks, particularly in developing countries (Ratha, 2013).

Nevertheless, critical strands of the literature, underline that remittances should not be viewed as a substitute for sustainable development policies. While they provide short-term support to household welfare and macroeconomic stability, excessive structural dependence on remittances may hinder institutional reforms and structural transformation in recipient economies. Consequently, literature suggests that national development strategies should be grounded in careful assessments of the long-term benefits and costs associated with remittance inflows.

At the microeconomic level, Adams (2011), Adams & Page (2005), argue that remittances exert a predominantly positive impact on household welfare and poverty reduction, by increasing income levels and the capacity to meet basic consumption needs. However, their effects on income inequality and productive investment are heterogeneous and highly contingent, upon the institutional environment, labor market structure and the degree of financial sector development in remittance-receiving countries.

A major strand of the literature focuses on the motivations underlying remittance behavior. Ahmed et al., (2021) find that remittance decisions can not be explained by a single motive, but rather reflect a combination of altruism, debt repayment and investment objectives. The authors emphasize that reducing transaction costs and improving access to formal transfer channels, are critical for increasing recorded remittance flows and for advancing the achievement of the Sustainable Development Goals (SDGs). In a similar vein, Azizi (2019) provides an in-depth analysis of the individual, household and macroeconomic determinants of remittance behavior, concluding that motivations are intertwined and arise from a mix of altruistic and self-interested considerations. This finding challenges the strict dichotomy between altruistic models, Lucas & Stark, (1985) and self-interest models, Massey et al., (1993), suggesting instead, that migrant behavior is best explained by hybrid and dynamic frameworks.

Another important dimension of the remittance literature extends beyond consumption and conventional investment outcomes, to encompass environmental and rural development aspects. Williams and Paudel (2020) examine the effects of migration and remittances on the adoption of natural resource conservation practices in rural areas, finding that migration, through the reduction of household labor availability, may negatively affect the uptake of conservation practices. At the same time, remittances as financial inflows do not automatically induce pro-environmental behavior, underscoring the complexity of the socio-economic mechanisms linking financial capital to sustainable rural development.

Finally, recent literature has placed particular emphasis on remittance transfer channels and their role during global crises. Dinarte et al., (2021) document rapid shifts in remittance transfer behavior during the COVID-19 pandemic, highlighting a significant increase in the use of electronic and digital channels, as a result of mobility restrictions and social distancing

measures. Their findings underscore the importance of financial technology and the formalization of remittance channels as key mechanisms, for enhancing the elasticity and resilience of remittance flows in the face of macroeconomic and public health shocks.

RESULTS AND COMMENTS

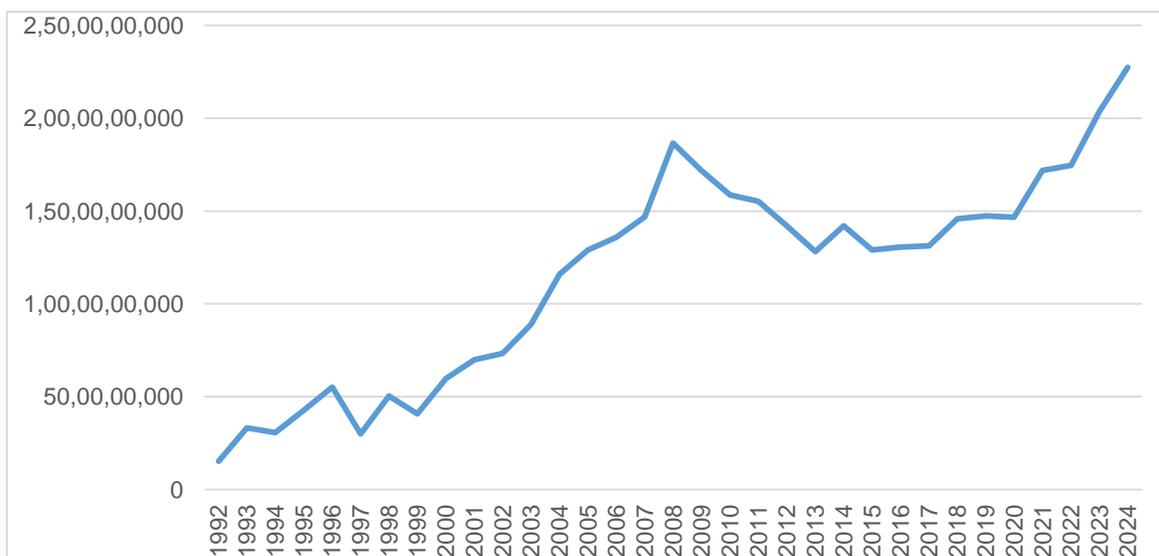
Analysis of remittance flows in Albania-

Macroeconomic impact and structural challenges

Following the commencement of the post-socialist transition in the early 1990s, Albania has experienced one of the most intensive processes of international migration in Southeast Europe. This phenomenon has led to the formation of a diaspora that is numerically significant and economically active, which has maintained strong financial, social and cultural ties with its country of origin. In this context, remittances, defined as the monetary transfers made by emigrants to their families and individuals in the home country, have consolidated their position as one of the most critical sources of external financing for the Albanian economy.

Historically, remittances have consistently accounted for between 8.5% and 9.2% of Gross Domestic Product (GDP), positioning them alongside Foreign Direct Investment (FDI) and International Aid, as key sources of foreign exchange inflows. According to reports by the Bank of Albania, these flows have played a crucial role in maintaining macroeconomic stability, particularly during periods of global and regional financial crises, acting as a significant economic shock absorber.

Figure 2: Albania, personal remittances received (US \$)



Source: World Bank Data

At the microeconomic level, remittances directly influence the well-being of recipient households and their consumption structure. Empirical evidence indicates that the largest share of remittances is utilized to cover basic necessities, including food, household operating expenses, healthcare and education. This orientation towards consumption contributes to the growth of aggregate demand and the improvement of living standards. A significant finding, highlights the direct role of remittances as a mitigant against household poverty. For many households, particularly in rural and peripheral areas, remittances function as an informal social protection mechanism, mitigating income inequalities and reducing the risk of economic exclusion. Studies suggest that for households significantly dependent on this source, remittances can account for up to 18% of total annual income. In some instances, remittances are also deployed for household investments, primarily in the construction or improvement of housing, as well as the financing of small economic activities and microenterprises. However, these investments generally remain limited in scale and exhibit a modest impact on long-term productivity growth.

At the macroeconomic level, remittances constitute an essential component of the Balance of Payments (BOP), specifically within the current transfers (secondary income) item. The consistent foreign currency inflows generated by remittances, contribute significantly to the improvement of the nation's foreign exchange reserves and the stabilization of the exchange rate, thereby alleviating pressures on the domestic currency. Furthermore, remittances play a crucial role in strengthening domestic consumption and mitigating the impact of external economic shocks. During periods of recession or global uncertainty, these flows often exhibit a higher degree of resilience compared to other capital flows, functioning as a vital stabilizing mechanism for the national economy.

Despite their positive impact, remittances in Albania face significant structural challenges, particularly concerning their channeling and formalization. A substantial portion of transfers, estimated to be between 30% and 40%, continues to be channeled through informal channels, such as cash transfers or personal networks. This phenomenon is primarily linked to the relatively high costs of formal transfers, which have historically fluctuated between 7% and 10% for standard transactions, as well as to administrative procedures and the lack of banking access in some areas. The reliance on informal channels reduces statistical transparency, limits the effectiveness of public policies and weakens the capacity of authorities to channel remittances towards productive uses. Economic literature notes that while remittances contribute significantly to consumption and housing, the extent of their orientation towards productive investments and enhancing productive capacity remains low. The Bank of Albania

has emphasized the necessity of developing financial instruments that link remittances with long-term savings, credit and investment products.

In recent years, digital financial platforms and online banking services, have begun to gradually replace traditional transfer channels. These platforms offer lower costs, higher transaction speed, greater traceability and increased formalization of financial flows, thereby expanding access for diaspora communities. However, their utilization is faced with certain challenges, including:

- ✓ Low level of financial literacy in some segments of the population.
- ✓ Lack of complete standardization of these platforms within the Albanian market.
- ✓ Technological and cybernetic risks

Public policies in Albania aim to enhance the developmental effect of remittances through the improvement of banking infrastructure, reduction of transfer costs, financial integration of migrant families and the promotion of diaspora projects. Key strategies include; the National Diaspora Strategy, collaborations with banking institutions for dedicated products, co-funding schemes and formalization campaigns in cooperation with the Bank of Albania. However, a critical assessment indicates that the lack of diversified financial instruments, limited administrative capacity and inefficient public management have collectively reduced the transformative impact of these policies.

In the medium term, remittance flows are expected to remain relatively stabilized. However, long-term risks exist, linked to the progressive integration of the second and third generations of the diaspora into host countries. This demographic shift could weaken economic ties with the country of origin and lead to a gradual reduction in transfers. Moreover, a high structural dependence on remittances may alleviate pressure for internal economic reforms, hinder the diversification of the productive base and limit the development of high value-added sectors. In this context, maximizing the developmental potential of remittances requires active and coordinated policies aimed at increasing formalization, reducing transfer costs and creating effective mechanisms for channeling diaspora capital toward productive investment, innovation and local economic development.

CONCLUSION

Remittances have played and continue to play a fundamental role in the Albanian economy, both at the micro and macroeconomic levels. During the period 2010–2024, they have demonstrated stability and gradual growth, reaching record levels in recent years. These flows have significantly contributed to the improvement of household welfare, the cushioning of economic shocks, the maintenance of aggregate consumption and the support of

macroeconomic balances, including the current account deficit and financial stability. In this sense, remittances constitute a vital "financial artery" for the Albanian economy and a significant instrument for social stability.

However, the analysis also highlights structural limitations and risks. The dominant use of remittances for consumption and housing, combined with relatively high transfer costs and the presence of informal channels, limits their long-term developmental potential. The empirical literature on the orientation of remittances towards productive investment remains mixed, suggesting that, without appropriate policies and instruments, remittances rarely transform into productivity-enhancing capital. Furthermore, excessive reliance on remittances creates a risk of dependency and may hinder the structural transformation of the economy.

In this context, to fully capitalize on the potential of remittances for sustainable development, an integrated approach of public and financial policies is required. It is recommended to:

- (i) further formalize remittance channels to improve statistical accuracy and transparency;
- (ii) promote the use of digital channels to lower transfer costs and increase financial inclusion;
- (iii) create specific investment instruments for the diaspora, such as diaspora bonds and dedicated investment funds;
- (iv) strengthen public programs aimed at attracting migrant investments and linking remittances with the banking sector and savings/investment products;
- (v) develop more detailed empirical studies on informal remittances, their dynamic effects and evidence-based policies.

Future research should focus on micro-level household and firm data, to assess the causal impact of remittances on investment, productivity and labor market outcomes. Further studies are also needed to quantify informal remittance flows, evaluate the effectiveness of digital transfer channels and assess diaspora investment instruments through impact evaluation methods. Comparative regional analyses within Southeast Europe, could additionally provide valuable insights for evidence-based policymaking

In conclusion, remittances remain a key factor for the socio-economic stability of Albania, but they can not substitute for developmental policies. The transition from consumption-oriented remittances to productive investment-oriented remittances requires institutional reforms, innovative financial instruments and financial education for beneficiary families, with the aim of transforming this resource into a sustainable engine for long-term development.

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