

THE IMPACT OF REMITTANCES ON ECONOMIC GROWTH AND REDUCTION OF POVERTY IN EMERGING MARKET

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Abstract

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The role of remittances is considered to be extremely important as an external source of financing for many countries, especially for those facing slow economic development and high unemployment rates. Therefore, the aim of this study is to analyze the impact of remittances on economic growth and poverty reduction in the developing market, with a specific focus on Kosovo as the case study. To examine the hypotheses, this paper utilizes a comparative analysis method for the period from 2008 to 2022. The study's results indicate that remittances have had a significant and important influence on economic growth. Furthermore, the findings demonstrate that remittances have contributed to the improvement of well-being and living standards for the people of Kosovo. At the same time, remittances have been a strong foundation for the recipient economies, significantly reducing the risk of poverty. Additionally, the study results show that remittances have positively influenced the maintenance of economic equilibrium between rural and urban, as well as regional areas. The fundamental objective of this research is to study and contribute further to this field, which has not been sufficiently covered for developing economies like Kosovo.

Keywords: Kosovo, Migration, Remittances, Economic Growth, Poverty

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1. INTRODUCTION

Remittances, as an important component of the economy for many different countries and a determining factor in economic implications, have been consistently studied and researched under academic scrutiny. It is also crucial for governments of different countries to analyze the role of remittances as an important component in economic implications and the development of economic policies. This means that the role of remittances is considered to be extremely important as an external source of financing for many countries, especially for those facing slow economic development and high unemployment rates, such as Kosovo.

Therefore, the aim of this paper is to analyze the inflows from remittances, their utilization, and their impact on the economy of Kosovo and the reduction of poverty.

In this way, many studies have analyzed the effect of remittances on economic growth to identify whether remittances have a positive impact on economic growth (Rehman & Hysa, 2021; Abduvaliev & Bustillo, 2019; Meyer & Shera, 2017; Javid et al., 2012; de Haas, 2007; Kumar, 2013).

To fulfill the objective of researching the role of remittances in economic growth and poverty reduction in Kosovo, this paper presents two hypotheses as follows:

H1: The increase in remittance inflows has positive effects on economic growth in Kosovo.

H2: The increase in remittance inflows has positive effects on poverty reduction in Kosovo.

To achieve the research objective and meaningful results, this paper utilized a comparative analysis method. Specifically, data from literature sources, scientific journals, materials, reports, and documents were collected, and databases were utilized, e.g., for the period 2008-2022, data was gathered from the Kosovo Agency of Statistics (KAS) and the Central Bank of the Republic of Kosovo (CBK).

Based on the study results, remittances have had significant and important effects on the economic growth of Kosovo, and therefore, their role has been substantial in many aspects. Moreover, the findings of the study demonstrate that remittances have influenced the growth and improvement of well-being and living standards for the people of Kosovo. At the same time, remittances have been a solid foundation for the recipient economies, significantly reducing the risk of poverty.

In this context, remittances and migration have been a very important mechanism for Kosovo in the mitigation of poverty as well as stimulating economic growth. Remittances are a stable source of foreign financing and their role in the gross domestic product (GDP) fluctuates between 11% and 16% according to the United Nations Development Program (UNDP, 2012), while in 2018 the role of remittances in GDP was 15.8% according to the World Bank Group (WBG & KNOMAD, 2019). At the same time, the role of remittances together with foreign direct investments and the financial sector makes up approximately 65% of GDP, therefore, the role of remittances is of great significance for Kosovo. They influence the stimulation of consumption and private investments and their impact is very high in improving the well-being of many citizens of Kosovo (Zogjani & Badivuku-Pantina, 2014). The economic growth of Kosovo after the conflict has been in double-digit growth. In the last decade, the economic growth was solid, from 2008 the average growth was 3.4%. Economic growth is mainly attributed to the efforts of donors for reconstruction and international transfers (Loxha, 2019). Kosovo remains one of the poorest countries in Europe and in the South-East Europe (SEE) region, although poverty levels have decreased to 29.7% since 2011 (KAS, 2021). At the same time, according to Loxha (2019), Kosovo faces high levels of unemployment. During the last decade, the level of unemployment was at a level above 40%, while in 2021 it is reported that 20.5 % of individuals of working age (15-64 years) are unemployed (KAS, 2021). While in 2022, in the first quarter, the unemployment rate was 16.6% (KAS, 2023).

This paper is organized as follows. Section 1 is the introduction. Section 2 presents the literature review. Section 3 provides research methodology. Section 4 presents the results and discussion. Section 5 concludes the paper.

2. LITERATURE REVIEW

Numerous studies have been conducted by various authors analyzing the role of remittances in economic growth. Specifically, through different

research studies, authors have attempted to shed light on the importance of remittances and their impact on economic growth for different developing and developed countries. In this way, according to de Haas (2007), remittances play an important role in the growth and improvement of millions of people. But if there is an environment of political instability in the respective country, as well as corruption, economic policies, bureaucracy, and the rule according to the law are not at appropriate levels, then with the non-functioning of these institutions, remittances alone cannot play a key role in promoting economic growth. In the study conducted by Kumar (2013), using the autoregressive distributed lag (ARDL) test and the extended Solow framework for Guyana from 1982 to 2010, it was argued that remittances have positive effects in both the short and long term. Similarly, Rehman and Hysa (2021), in their study on six Western Balkan countries from 2000 to 2017, identified that financial development and remittances have positive effects on economic growth. While, according to Artal-Tur et al. (2014), immigrants can promote the development of trade and business in general, both in the host country and in the native country, for at least three reasons: Firstly, immigrants have a consolidated knowledge of the language, customs, laws and experiences of business both in the host and local countries, and in this way, their presence helps to increase information, promotion and increase opportunities for commercial cooperation. Secondly, immigrants promote imports from their country of origin to the country of destination by increasing sales of products from the home country. Thirdly, immigrants' connections can ensure the implementation of contracts through exceptions and sanctions that affect the reduction of trade costs, eliminating and regulating weak institutional practices. According to an empirical study conducted by Meyer and Shera (2017), the role of remittances has positive effects on economic growth. Similarly, in a study by Cooray (2012), covering South Asian countries from 1970 to 2008, the findings concluded that the effect of remittances on economic growth is positive. Loxha (2017) found that, in countries with high levels of poverty, such as Kosovo, remittances play a strategic role in increasing the level of social security for families and in the level of economic growth. Inflows of remittances to the respective country increase economic growth, reduce the poverty rate, increase the acceleration of investments and influence the growth of human development through better financing in education. However, remittances also have negative effects that influence economic growth in the respective country. A significant flow of financial remittances reduces labor force participation and lowers labor efficiency (Javid et al., 2012). Jusufi and Ukaj (2020), in their study, identified that the role of remittances for Kosovo is significant and that the impact of remittances on the economy of Kosovo is substantial. Similarly, Abduvaliev and Bustillo (2019), in their study on Commonwealth of Independent States (CIS) countries, emphasized that remittances have significantly influenced poverty reduction, resulting from increased income levels and reduced consumption levels. Moreover, a 1% average increase in remittances has had a positive effect on GDP growth by 0.25% and a poverty reduction of 2%.

Diaspora and remittances are very significant for the economy of Kosovo, they have been considerably important for Kosovo since the late 1960s. According to much research and literature about the migration of the people of Kosovo, history recognizes 4 stages of migration.

1. The first phase of migration is characterized by temporary workers, who had special contracts and whose purpose was temporary work. These immigrants have mainly gone to Germany and Switzerland. Most of them were from rural areas, with poor education and unqualified for work. After they have been recruited and systematized in work relationships, they have been encouraged to get qualified through various programs, and many of these have brought their families into the country where they migrated and have continued to live for generations. This phase lasted from 1960 to 1988.

2. In 1989, Kosovo lost its autonomous status; this affected massively the dismissal of Albanians from work, and at the same time increased the pressure for economic migration to other countries. The second phase was during the years 1989-1997 and was characterized by the migration of young men, well-educated and qualified for work. Migration was from urban and rural areas.

3. The third phase of migration is the wave of forced migration. This migration comes as a result of the war during 1998-1999, and this is where the massive displacement of migration took place. Population displacement occurred in neighboring countries such as Albania, Montenegro, and Macedonia.

4. Finally, migration after 1999 is also the phase that characterizes the current phase of migration (Mustafa et al., 2007).

According to the KAS (2013), Germany and Switzerland were the main destinations of the largest part of immigrants, and at the same time, a smaller part of the immigrants as the most frequent destinations where they go are: Italy, the USA, Austria, and Slovenia. In order to have a clearer picture of the geographical extent of Kosovar emigration, UNDP together with the KAS have conducted a survey, and the geographical extent of Kosovar emigrants has been highlighted.

Table 1. Distribution of immigrants according to host countries

<i>Country</i>	<i>Percentage</i>
Germany	32.8%
Switzerland	24.8%
Itali	7.6%
Slovenia	6.1%
Austria	5.9%
USA	4.3%
Sweden	2.9%
France	2.9%
England	2.5%
Belgium	2.2%
Norway	1.5%

Source: KAS (2013).

The ratio of the gender structure of immigrants is in favor of men with a marked distance of female immigrants. Among the immigrants, 67% are men, and 32.5% are women. As for the level of education of the head of the family immigrants, the ratio

between men and women is more balanced. Among the male heads of households, 9.1% have a higher education, 70.6% have a secondary education and 19.7% with primary education, while regarding the gender structure, females are 19.1% with a higher education, 57.6% have a secondary education, and 18.9% with primary education (UNDP, 2012).

Kosovar emigration also differs with regard to the origin of urban and rural areas. The data from the Population Census highlights a much larger number of the population living in rural areas than in urban areas, respectively 62% of the population of Kosovo lives in rural areas and 38% in urban areas. Therefore, among Kosovar emigrants, there is a difference between urban and rural areas, respectively, 73% of those who left Kosovo are from rural areas and 27% are from urban areas. At the same time, the most important characteristic of Kosovar immigrants is that the vast majority of heads of families have jobs. The employment status of immigrant household heads is 87%, while only 3% of them are unemployed. Consequently, this is important because the high level of employment affects the generation of monthly income. Most of the families of immigrants generate a monthly income of over 2,000 euros. While another large part of immigrant families, 24.20%, generate a monthly income of 2,000-4,000 euros (KAS, 2013). Table 2 shows the distribution of monthly income of immigrant families.

Table 2. The monthly income of the remittance-sending household

<i>The monthly income of the remittance-sending household</i>	<i>Percentage of sending households</i>
Less than 500 euros	1.67%
501-1,000 euros	18.09%
1,001-1,500 euros	13.78%
1,501-2,000 euros	12.04%
2,000-4,000 euros	30.02%
4,001 euros or more	24.20%

Source: KAS (2013).

3. RESEARCH METHODOLOGY

To achieve the research objective and meaningful results, this paper utilized a comparative analysis method. Specifically, data from literature sources, scientific journals, materials, reports, and documents were collected, and databases were utilized, e.g., for the period 2008-2022, data was gathered from the Kosovo Agency of Statistics and the Central Bank of the Republic of Kosovo. Considering that the research is based on the comparative analysis method, two aspects of analysis were followed: In the first aspect, factors such as emigrants and their movement to respective countries, monthly income from remittance transfers to recipient families, distribution of remittance transfers by regions, analysis of average incomes of recipient and non-recipient families from remittances, and analysis of distributed families receiving remittances based on income quintiles were examined. In the second aspect, the remittance flow from 2008 to 2022, remittances sent to different countries from 2008 to 2021, and where the most significant investments were made were analyzed. After analyzing the data from literature sources, scientific

journals, materials, reports, documents, and the database, the comparative analysis method was employed, leading to the main findings and conclusions regarding the impact of remittances on economic growth and poverty reduction in the developing market, with a specific focus on the case of Kosovo.

4. RESULTS AND DISCUSSION

Remittances, investments, and travel expenses during visits to Kosovo are some of the financial transactions involved by the members of the diaspora. The impact of these transactions is large in relation to the economic impact, taking into account the number of the diaspora population compared to the resident population in Kosovo (around 700,000/1.8 million) (UNDP & Swiss Cooperation Office Kosovo, 2014). Remittances are considered the second largest source of income for families that accept remittances, therefore, it is widely known that the economy of Kosovo relies heavily on remittance flows from immigrants and remittances continue to be the most important source of income and source of economic growth. In this way, personal remittances received in 2016 made up 14.8% of GDP, while in 2017 it was reported 15.5% of GDP according to the World Bank (n.d.), then in 2018, the role of remittances in GDP was 15.8% according to the WBG and KNOMAD (2019), while in 2021 it was 18% of GDP and in 2022, 17.1%.

In 2020, the COVID-19 pandemic as a global health crisis has presented one of the biggest challenges the world has faced since the Second World War where many different activities around the world were closed, as well as other restrictions such as travel restrictions, quarantine, and the complete closure of borders are some of the measures taken by many countries in the world as a way to prevent the COVID-19 pandemic (Gap Institute [GAP], 2020). Regardless of the global crisis caused by COVID-19, according to the CBK (2022), referring to the years 2020 and 2021, the trend of the flow of remittances in Kosovo has increased. In 2020, the value of remittances sent was 980 million euros, while in 2021, the value of remittances reached a value of 1,153.3 billion euros. If we compare the flow of remittances with the year 2019, it is significantly higher and, according to

KAS (2021), in 2019 the value of remittances reached the amount of 851.5 million, while from 2014 – 622.3 million; it is important to refer to the continuing increase trend of remittances.

Table 3. Remittances during the period of 2008–2022

<i>Years</i>	<i>Millions of euro</i>
2008	608.7
2009	585.7
2010	584.3
2011	492.5
2012	516.4
2013	573.4
2014	622.3
2015	665.5
2016	691
2017	759.2
2018	800.6
2019	851.5
2020	980.0
2021	1,152.4
2022	1,222.9

Source: KAS (2021), CBK (2022, 2023).

According to UNDP (2012), in addition to sending remittances in cash through different channels, a significant part of the income from remittances is invested in the two most important components. The first component is sending the remittances in the form of goods and services, while the second component is the investments in different fields. Regarding the first component, the largest percentage of remittances sent in the form of goods and services consists of household appliances (35%) and cars (34%), educational and health services are divided by 8%, while the rest is allocated to consumption 7%, land 3%, and productive assets 5%. As for the second component, investments in various fields, according to KAS (2013), the majority of investments are made in the field of construction (47%), the purchase of real estate (26%), while a small part/amount is allocated to agriculture (10%), processing industry (6%), art, entertainment, and recreation (8%).

Remittances received in Kosovo mainly come from the European Union countries and the USA. Germany and Switzerland are the leading countries in remittances from abroad, from these countries, 42.9% and 20.0%, respectively, were sent in 2020. While a significant part of remittances is sent from the USA, the value sent in 2020 was 6.7%.

Table 4. Remittances by country during the period 2008–2021, in percentage

<i>Years</i>	<i>Germany</i>	<i>Switzerland</i>	<i>Italy</i>	<i>Austria</i>	<i>Belgium</i>	<i>USA</i>	<i>Sweden</i>	<i>France</i>
2008	37.7%	15.9%	13.1%	6.2%	2.8%	2.8%	3.7%	3.9%
2009	38.1%	22.0%	9.8%	5.5%	2.8%	2.3%	3.2%	3.9%
2010	34.1%	21.6%	7.2%	5.5%	2.9%	3.1%	3.7%	4.1%
2011	33.7%	22.1%	7.4%	5.5%	2.7%	3.9%	3.4%	3.8%
2012	34.5%	21.0%	8.5%	6.2%	2.6%	3.8%	3.3%	3.3%
2013	35.3%	22.7%	10.6%	4.6%	1.6%	4.4%	2.1%	5.0%
2014	36.8%	21.1%	3.8%	3.1%	4.0%	6.1%	2.4%	2.4%
2015	38.8%	22.2%	5.1%	3.3%	2.2%	8.4%	2.9%	3.3%
2016	38.0%	23.5%	4.3%	3.6%	2.4%	6.9%	3.1%	4.0%
2017	39.4%	21.8%	4.5%	3.7%	2.6%	7.1%	3.5%	4.3%
2018	42.1%	22.8%	4.9%	4.2%	2.5%	7.4%	3.3%	4.4%
2019	41.2%	20.4%	4.7%	3.9%	2.4%	7.3%	2.6%	4.3%
2020	42.9%	20.0%	4.3%	4.7%	2.2%	6.7%	2.6%	4.2%
2021	36.9%	19.7%	4.4%	4.6%	2.8%	7.1%	2.6%	3.7%

Source: KAS (2021, 2022b).

The role of remittances is important because of their contribution in many aspects. Their effect also plays an important role in well-being, and therefore, it has been argued that remittances are a security factor for poor countries. Another element that increases the importance of remittances is that they are a direct flow to people or relatives in need, avoiding bureaucracy and reducing the chances that they will go into the pockets of government officials (de Haas, 2007). Therefore, relying on the contribution of remittances to economic growth, serving as additional income for people in need, and so as

an important element in the fight against poverty, for Kosovo remittances from abroad play an irreplaceable role in these aspects. According to the research of the KAS (2013), in 2012, the percentage of households accepting remittances was greater in rural areas (24%) than in urban areas (21%). Regarding the distribution of remittances in the regions of Kosovo for the years 2010, 2011, and 2012, as shown in Table 5, the highest percentages are in the regions of Gjakova (35%, 2012), Peja (30%, 2012), Gjilan (29%, 2012), and Prizren (23%, 2012).

Table 5. Distribution of receiving families by region (2010–2012), in percentage

<i>Region</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Prishtina	14%	20%	18%
Prizren	23%	20%	23%
Mitrovica	18%	20%	20%
Gjilan	26%	26%	29%
Ferizaj	9%	26%	17%
Peja	31%	37%	30%
Gjakova	12%	-	35%

Source: KAS (2013).

As for the effect of remittances on household incomes, it is important to analyze the budgets for remittance-receiving households and non-remittance-receiving households. According to UNDP (2012), households receiving remittances without the inclusion of remittances have a higher average

income (580 euros) than households not receiving remittances (536 euros). At the same time, when the average monthly income from remittances (146 euros) is added to the receiving families, their monthly income reaches 694 euros, as can be seen in Table 6.

Table 6. Average of income including and excluding remittances

<i>Type of family household</i>	<i>Average monthly incomes, excluding remittances</i>	<i>Average monthly incomes, including remittances</i>
Receiving households	580 euros	694 euros
Non-receiving households	536 euros	536 euros
All households	546 euros	575 euros

Source: UNDP (2012).

In order to have a clearer picture of the importance of remittances and their contribution to the receiving family economy, it is important to analyze the income distribution of all family economies in all sources. With 20.1% of the total income for receiving households, remittances are the second largest and most important source for these receiving households. This value/amount of remittances exceeds income from non-permanent employment and is higher than any social protection benefit. There are three main sources for all households in Kosovo, incomes from permanent employment is the main source for households (40.03%), remittances are the second most important source of income (20.01%), support from family members who are working in different regions of Kosovo is 14%, while income from temporary employment and self-employment constitute 15.2% (UNDP, 2012). Based on the statistical data noted above, for the incomes of households receiving and non-receiving remittances, the data suggests that

remittances sent from abroad as a destination have families with average incomes and not those who are the poorest, therefore, remittances as such have a greater impact on increasing inequality rather than reducing the level of poverty in Kosovo. At the same time, based on the study by KAS (2013), although remittances affect the increase in the level of inequality, they also have an impact on the reduction of poverty in households receiving remittances. Based on Table 7, in the distribution of households receiving remittances in income quintiles (with or without including the remittances), consisting of 20% of the total income of household economies according to declared income, it is noticed that remittances have a significant effect in removing a considerable part of the family economies from the first three quintiles (1–200 euros), (201–480 euros), (341–480 euros), in raising them to the two highest quintiles and make that a greater number of receiving families (13% of them) have a higher income of 483 euros or more.

Table 7. Distribution of households receiving remittances by income quintile (including and not including remittances)

	<i>Quintile I (1–200 euros)</i>	<i>Quintile II (201–340 euros)</i>	<i>Quintile II (341–480 euros)</i>	<i>Quintile IV (483–700 euros)</i>	<i>Quintile V (701–12655 euros)</i>
Receiving households (incomes with remittance)	14%	15%	18%	24%	30%
Receiving households (incomes without remittance)	21%	19%	20%	20%	20%

Source: KAS (2013).

Regarding the family economies by quintile of income (according to the receiving of remittances), Table 8 shows that remittances have a greater effect on increasing the level of inequality than on reducing the level of poverty. Based on the frequencies by quintiles, we identify that households receiving remittances have a higher frequency than non-remittance households and all families together, and are categorized in the two quintiles with the highest income (IV and V). Thirty

percent (30%) of those who receive remittances have a monthly income of 754 euros or more, while 24% have a monthly income of 501–753 euros. Receiving households have lower participation than non-receiving households with lower income in the other three quintiles (I, II, III). At the same time, in all quintiles, non-receiving households have an equal distribution, but their lower incomes and non-receiving remittances have a greater presence than the average of all households in the quintiles I, II, III.

Table 8. Distribution of households into quintiles of income (according to the receiving of remittances)

	<i>Quintile I (4–230 euros)</i>	<i>Quintile II (233–350 euros)</i>	<i>Quintile II (351–500 euros)</i>	<i>Quintile IV (501–753 euros)</i>	<i>Quintile V (754–12780 euros)</i>
Receiving households	14%	15%	18%	24%	30%
Non receiving households	22%	22%	21%	18%	17%

Source: KAS (2013).

5. CONCLUSION

The aim of this study was to analyze the impact of remittances on economic growth and poverty reduction in the developing market, with Kosovo as the case study from 2008 to 2022. Based on the comparative analysis method, the main findings of this scientific paper indicate that in developing markets, such as Kosovo, remittances play a crucial and significant role in positive economic implications. Specifically, the research findings show that the population of Kosovo has migrated to different countries, mainly Western European countries, for political, economic, and social reasons. The study results demonstrate that remittances have had a significant and important influence on economic growth. Furthermore, the findings of the study show that remittances have contributed to the improvement of well-being and living standards for the people of Kosovo. At the same time, remittances have been a strong foundation for the recipient economies, significantly reducing the risk of poverty. Specifically, this has positively

influenced maintaining economic balance between rural and urban, as well as regional areas.

The study findings indicate that the highest flow of remittances is oriented towards consumption, and the level of remittance investments in Kosovo, compared to their potential, is relatively low. Moreover, the majority of investments are oriented towards non-productive activities, both from emigrants and recipient economies.

In conclusion, the research findings are important for the government of Kosovo. From this perspective, the Kosovo government should focus on improving the business environment and simultaneously concentrate on building policies that attract investments from emigrants, as with increased flow and potential of remittances, there will be positive effects with a substantial impact on the economic growth of Kosovo.

In the future, this research should be supported by data beyond 2022, as the continuous increase in the remittance flow necessitates further investigation. Thus, the limitation of this study is that it relies on data until 2022.

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