

International Remittances: A Source of Development Finance – Evidence from North Macedonia

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Abstract. The aim of this study is to provide a general overview of remittances received in North Macedonia, their channels and cost of transmission, their country of origin, their usage, as well as try to elaborate their potential impact in the economy. In North Macedonia private transfers account for around 16% of the GDP per year. It is estimated that at least half of these private transfers are consisted of cash remittances that directly contribute to Macedonian households. Nevertheless, emigration and remittances are not tackled enough in official surveys and policies, leaving no room for proper research in this regard.

Keywords: remittance, financial development, emigration, North Macedonia

JEL: F16, F32, F38

1 International Remittances: A Source of Development Finance

Remittances have recently been studied greatly by researchers, mainly because of their magnitude and their positive impact on the economic development. They have become a significant source of external financing, the second largest after foreign direct investment (“FDI”), representing almost three times the amount of Official Development Assistance (“ODA”) and Official Aid (“OA”). This is particularly true for developing countries, where migrants are sending their earnings back to their families at levels above 441 billion US dollars, constituting more than 10% of the GDP in a few countries (World Bank 2016).

Recently, multiple studies have examined the relationship between remittances and financial development or remittances and overall economic growth. Most of these studies are based on aggregate or micro level data for either a single or a panel of countries.

Aggarwal, Demirguc-Kunt and Peria (2011) have studied the relationship between remittances and financial development in 109 developing countries in the period 1975-2007, and concluded that there is a significant positive link between them. The level of financial development measured by bank deposits to GDP and bank credit to GDP increased significantly with the flow of remittances in most of the countries. However, according to the authors, measuring the impact of remittances on financial development can be a challenging task, mainly because of the potential for endogeneity biases that results from measurement error, reverse causation, and omitted variables.

Nyamongo et al. (2012) performed a similar study in a panel of 36 African countries in the period 1980-2009. They also found out that remittances appear to be an important source of financial development and growth for these countries. They show that when remittances are received through formal channels they positively impact the growth of bank loans, and if they manage to produce a large enough effect on the financial sector, they could lead to financial development. Another important study in this regard is Gupta et al. (2009), who use a panel of 44 Sub-Saharan African countries in the period 1975-2004. The study also suggests that remittances are a statistically significant determinant of financial development. However, Gupta, Patillo and Wagh (2009) is predominantly focused in the effect of remittances on financial depth, thus they provide limited insight on the effect of remittances on financial inclusion. Furthermore, Demirguc-Kunt, Cordova and Peria (2011) investigate the effect of remittances in the banking sector by studying the remittance receiving households and the measures of banking breadth and depth for Mexico on a municipality level. They conclude that remittances have a great impact in increasing the number of branches and accounts per capita and the amount of deposits to GDP, i.e. they are firmly associated with greater breadth and depth. Additionally, Mundaca (2009), using a panel of 39 Latin American and Caribbean countries in the period 1970-2002, concludes that positive responsiveness of economic growth to remittances accelerates due to the developments in financial intermediations.

More recent studies on the impact of remittances on financial development and economic growth are Chowdhury, 2016 and Inoue 2018, etc. Chowdhury (2016), examines how remittances can influence economic growth under different levels of financial development. By using panel data from top 33 remittance-recipient developing countries in the period 1979-2011, the author suggests that while remittances are effective in promoting economic growth, the influence of financial variables is found to be insignificant. Furthermore, Inoue (2018) applied the generalized method of moments to panel data from 120 developing countries during 1980-2013, and concluded that remittance inflows can help alleviate poverty conditions in developing countries, and this effect is greater in less financially developed countries. Therefore, depending on their respective situations, these countries should leverage either the domestic or external financial sources for their poverty reduction strategies. Countries with a lagging financial sector but a high remittance inflow should promote remittance inflows through formal channels, whereas, countries with a developed financial sector but low remittance inflows should enhance financial deepening by improving access to and usage of formal financial services.

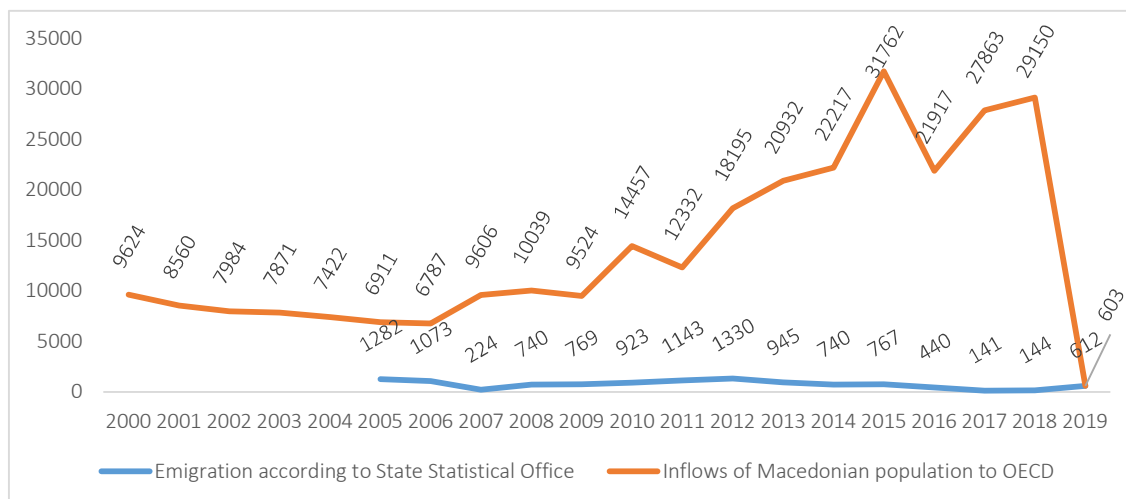
When it comes to North Macedonia and other Western Balkan countries, remittances are of a significant importance. Among other things, they have helped these countries to maintain their foreign exchange reserves stable and to decrease their current account deficits, especially during the recent global financial crisis. In North Macedonia private transfers account for around 16% of the GDP per year. It is estimated that at least half of these private transfers are consisted of cash remittances that directly contribute to Macedonian households. However, the main problem is that remittances and their effect on economic development are usually not included in official surveys and policies, thus it is unclear to which extent can remittances serve as informal social protection or alleviate poverty in North Macedonia.

To summarize, the majority of the studies suggest a positive relationship between remittances and economic and financial development. However, there is also a number of studies with inconclusive results, studies that suggest a negative relationship between the two, or no significant relationship whatsoever.

2 Emigration in North Macedonia

Due to the lack of reliable and attested data, providing an overview of the impact of migration in North Macedonia is a challenging task. Currently, there is no official body that registers the number of emigrants and immigrants, no regulatory framework that regulates this issue, and above all, no official population census since 2002 (Trpkova-Nestorovska 2019). Though it is obvious that people are departing every day, there are no valid administrative sources that provide information regarding the exact number of persons who depart, the length of their planned stay abroad, their gender and age, education background, as well as their motives for leaving the country. The State Statistical Office of the Republic of North Macedonia compiles migration statistics from immigration and emigration records of regional offices of the Ministry of Internal Affairs of the Republic of North Macedonia, though this data is highly unreliable. The data that is currently available covers the period from 2005 to 2019. Thus, the only somewhat reliable data on this issue are those provided by the Organization for Economic Co-operation and Development (“OECD”) – covering periods from 2000 to 2019, and the estimations by the World Bank. Below you can find the available data compiled by the State Statistical Office, in comparison to those by OECD.

Figure 1 Emigrants from North Macedonia according to different sources

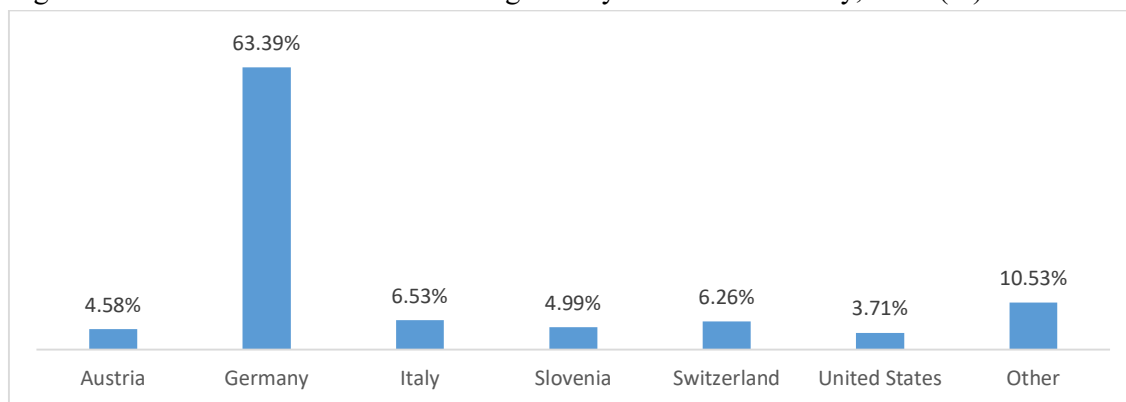


Source: (State Statistical Office of the Republic of North Macedonia 2021), (OECD 2021)

The statistics presented on Figure 1 show that there is relevant inconsistency between the data provided by the State Statistical Office vs. OECD. According to OECD, the number of emigrants from North Macedonia is exceptionally higher than the one provided by the State Statistical Office, except in 2019. According to the same source, it appears that around 111,295 people left North Macedonia in the period from 2015 to 2019. However, since OECD’s approach includes temporary migration, the number of persons who return cannot be overlooked. During the same period, around 62,395 returned, which means that the average annual outflow was 12,479 people. From a realistic point of view, these numbers make more sense, though the real number of emigrants might be unfortunately even higher.

Furthermore, according to the 2018 OECD statistics, almost two thirds of all Macedonian migrants went to Germany, followed by Italy with 6.53% and Switzerland with 6.26%.

Figure 2 The structure of Macedonian migrants by destination country, 2018 (%)



Source: (OECD 2021)

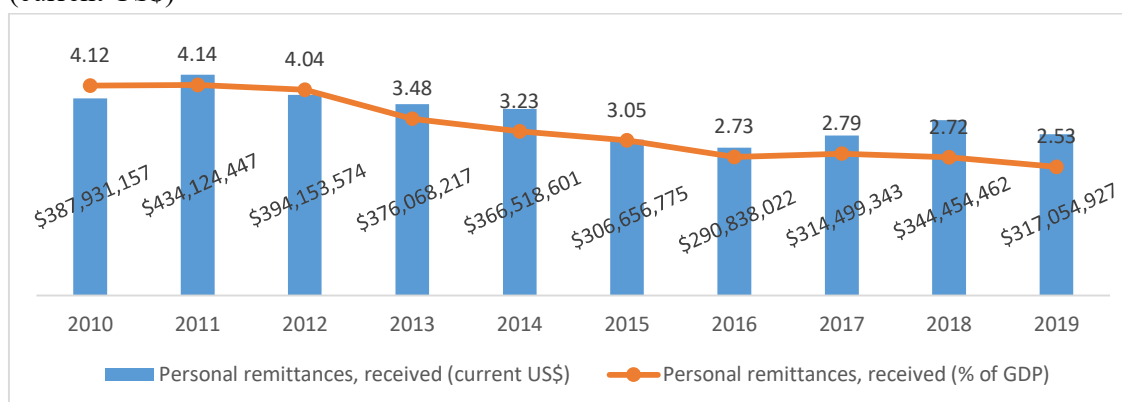
3 Remittances in North Macedonia

Similar to emigration, the exact amount of remittances in North Macedonia remains debatable. There is a shared skepticism among academics regarding the officially recorded data on remittances, mainly because these figures represent only the remittances that are channeled through banks and Money Transfer Operators (“MTO”). When private transfers are taken into consideration, the amount of remittances increases significantly, though in reality, even these results might be underestimated (Mughal, Cipusheva and Abazi 2013). Below we will try to present an overview of the remittances and their relationship with a few other indicators, in the pursuit of revealing their approximate quantity and impact on the economy.

Personal Remittances

According to the World Bank, personal remittances are comprised of personal transfers and compensation of employees. As shown below, the personal remittances received in North Macedonia were estimated to be 4.12% in 2010, followed by a continuous decrease over time. In 2019, they represented only 2.53% of the GDP or \$317,054,927. This is a significantly low estimation in comparison to what is generally believed they truly amount.

Figure 3 Personal remittances, received (% of GDP) & Personal remittances, received (current US\$)



Source: (World Bank 2021)

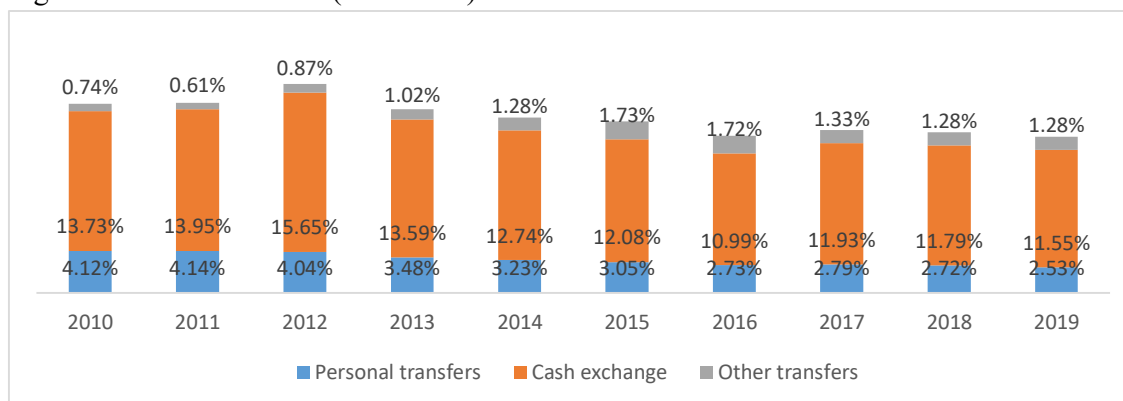
Private Transfers

Officially recorded personal remittances represent only a small portion of private transfers. The largest share of private transfers is consisted of “Other transfers”, which include net cash exchange recorded by banks and private exchange offices (the main source of private transfers from Macedonian migrants, though through informal channels) and other private transfers such as rents, pensions, disability assistance coming from abroad, etc. (Chai and Sodsriwiboon 2014).

Thus, if we take into consideration the private transfers including remittances, the ratio increases significantly. The Figure 4 below shows that in 2019 they represented 15.36% of the GDP. Of this, 2.53% comes from personal transfers, 11.55% from cash exchange and 1.28%

from other transfers. In comparison to 2010, private transfers in 2019 have decreased for around 3% of the GDP.

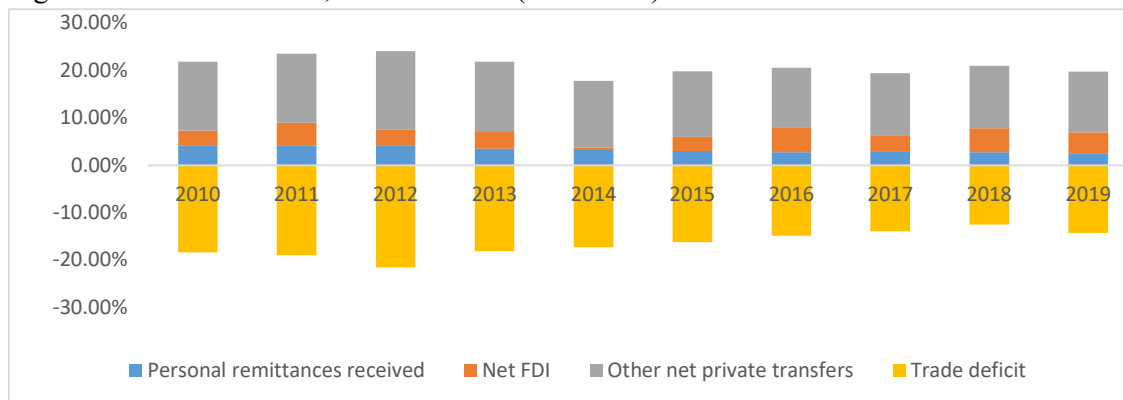
Figure 4 Private Transfers (% of GDP)



Source: (NBRM 2021), (World Bank 2021)

Furthermore, private transfers are a major source of financing the trade deficit in North Macedonia. As it can be seen in the below figure, they have made a great contribution over the last few years by covering almost the entire trade deficit. As a continuous solid source of financing, they have played an important role in helping the economy recover from the crisis.

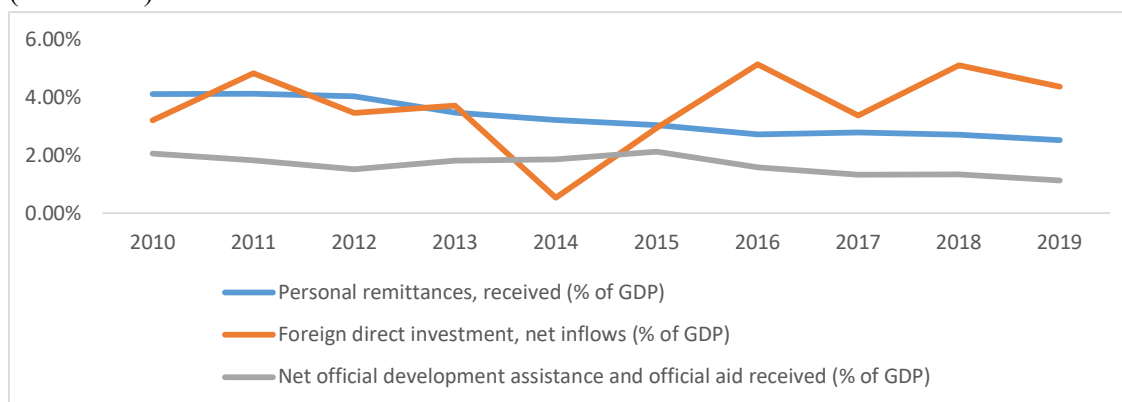
Figure 5 Private Transfers, Trade & FDIs (% of GDP)



Source: (NBRM 2021)

Additionally, when reviewing remittance inflows, it is important to present their comparison to FDIs and Official Development Assistance (“ODA”) and Official Aid (“OA”). Figure 6 below shows that the ratio of remittances to FDIs is highly erratic, but this is mainly because of the volatility of FDI rather than of remittances, which have been relatively stable over the last years. Before 2015 remittances were similar to or exceeded the FDIs, whereas, from 2015 on, FDIs have had an increase and became almost twice as high as remittances. On the other hand, ODA and OA have been steady with a tendency to decrease in the last four years, though they have always been lower than remittances.

Figure 6 Personal remittances received, FDI net inflows, Net ODA and Official Aid received (% of GDP)



Source: (World Bank 2021)

So far, the authorities have made multiple attempts to try to improve the process of defining the exact flux of remittances, however, this still remains a challenge. One of the main issues that predominantly impacts the conducted research and leads to inconclusive findings is the absence of a recent population census. Nevertheless, in January 2021, North Macedonia's lawmakers passed the bill for holding the first census in almost 20 years. This can pave the way for proper and reliable research of remittances in the near future.

Transmission Channels

The official channels of remittance inflows in North Macedonia are considered the following providers: commercial banks (bank to bank transfers), post offices, saving cooperatives, money transfer agents such as Western Union, Money Gram, etc.

As of 2021, the banking system in North Macedonia is comprised of 14 private banks, 2 savings houses and the Macedonian Bank for Development Promotion, which is the only state-owned bank (MBA 2021). However, it is believed that the largest proportion of remittances enters the country through informal channels, such as self-delivery, delivery through friends and relatives, and other ways of transfers. According to the World Bank estimations, remittances sent through informal channels could add at least 50% to the official rates.

Since there is no available updated data on the channels of remittances that are mostly used, below you will find estimations based on 2 surveys that were conducted in the past: DoTM Survey in 2008 and UACS Remittances Survey in 2012. As shown in the table below, before the crisis, the preferred channel of transmission were the money transfer agencies, whereas after the crisis, people preferred sending the money through friends or relatives. Additionally, according to these surveys, a more in-depth analysis suggests that immigrants in remote countries send money through the post or money transfer agencies, while those in closer countries (like the EU and Switzerland) are keen on using the informal channels as well (Petreski and Jovanovic 2013).

Table 1 Transmission channels

	Money transfer agencies	Bank	Post	Friend or relative	Personally
<i>Before the crisis</i>	35.3%	22.8%	3.0%	25.1%	13.7%
<i>After the crisis</i>	22.4%	39.6%	0.3%	35.4%	2.3%

Source: (Petreski and Jovanovic 2013)

Cost of transmission

The World Bank's website "Remittance Prices Worldwide", that provides data on the cost of sending and receiving relatively small amounts of money from one country to another, currently provides information only for the cost of sending money from Germany to Macedonia. As of 14 March, 2021 this cost was approximately 9.55 EUR (6.82%) for sending an amount of 140 EUR. Data for other sending countries is not available (Remittance Prices Worldwide 2021).

Furthermore, the World Bank Indicators provide an average transaction cost of sending remittances to North Macedonia only for the period 2016-2018. This data represents the average transaction cost of sending remittances to a specific country based on the average of the total transaction cost in percentage of the amount sent for sending 200 USD, charged by each single remittance service provider included in the above mentioned "Remittance Prices Worldwide" database to a specific country (World Bank 2021). However, as mentioned above, since this database currently provides information only for the cost of sending money from Germany to North Macedonia, subsequently it is believed that the table below provides an average transaction cost based on remittance service providers for Germany only.

Table 2 Average transaction cost of sending remittances to North Macedonia

2016	9.18%
2017	10.24%
2018	7.74%

Source: (World Bank 2021)

Additionally, based on author's research, 8 banks in North Macedonia are Western Union agents and 3 other MoneyGram agents. The transfer fees quoted below are calculated for an online transaction of 200 EUR sent from the respective country to North Macedonia, as of 14 March, 2021. Fees, foreign exchange rates and taxes at agent locations may differ from online fees.

Table 3 Cost of transmitting 200EUR online to North Macedonia through Western Union and MoneyGram

	Western Union		MoneyGram	
Austria	3.90 EUR	1.95%	2.99 EUR	1.50%
Germany	4.90 EUR	2.45%	3.99 EUR	2.00%
Italy	1.90 EUR	0.95%	2.99 EUR	1.50%
Slovenia	1.90 EUR	0.95%	Website not available	NA
Switzerland	3.18 EUR (3.5 CHF)	1.59%	2.72 EUR	1.36%
United States	5.81 EUR (7 USD)	2.91%	4.14 EUR	2.07%

Source: (Western Union 2021), (Money Gram 2021)

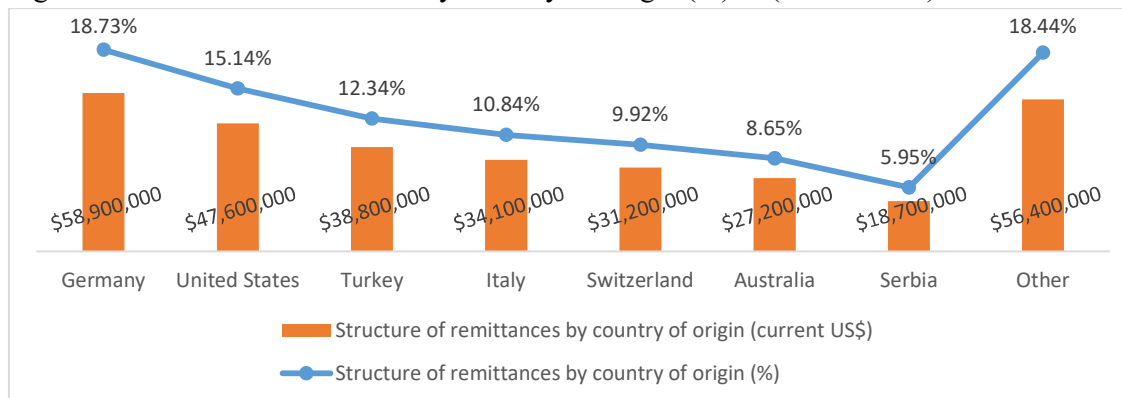
As shown in the table above, MoneyGram has slightly cheaper online costs of transmission than Western Union, except in the case of Italy. Furthermore, the World Bank shows a higher average cost for sending money from Germany to North Macedonia, because it includes other remittance service providers that may charge more than Western Union and MoneyGram, which are considered cheaper than the rest.

Remittances by Country of Origin

Even though there is no official data regarding the country of origin, based on the emigration figures, we assume that the largest share of remittances comes from Europe, especially from Germany, Italy and Switzerland. Other contributing countries are Slovenia, Austria, United States, etc.

The only somewhat updated data that we managed to find are statistics from non-official statistics, such as internet resources, that collects its data from the following institutions: International Monetary Fund (“IMF”), Eurostat – Statistical Office of the European Communities, the World Bank, European Central Bank, etc. The figure below presents remittances by country of origin as of 2017. According to this source, the biggest contributor is Germany, followed by United States, Turkey, Italy, Switzerland, Australia, etc.

Figure 7 Structure of Remittances by Country of Origin (%) & (current US\$)

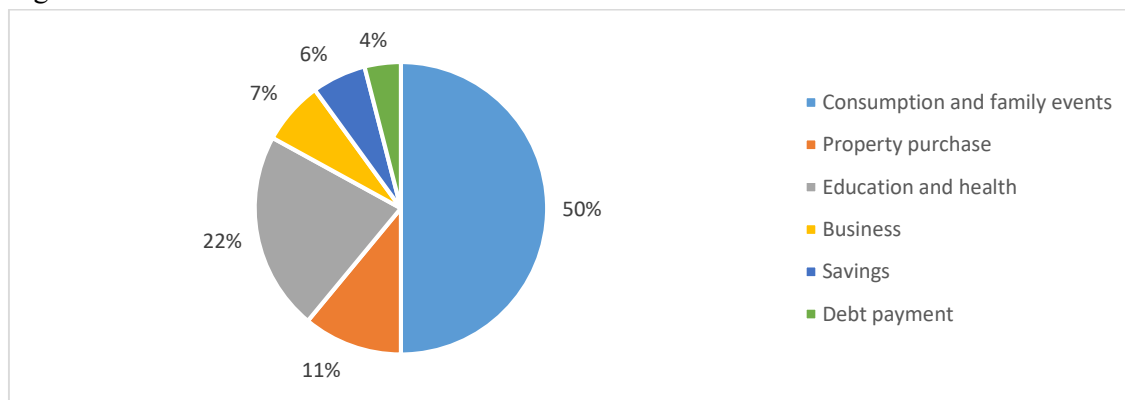


Source: (CountryEconomy 2021)

The use of remittances

Again, since there is no updated survey that shows the current usage of remittances, according to Petreski, et al. (2018) half of the total remittances in North Macedonia are used for consumption and family events, followed by education and health with 22% and property purchase with 11%. The tendency to conduct business or use this money for savings is trivial. This data is based on the DOTM Survey which was conducted back in 2008. Having in consideration the unemployment rate, it is no surprise that remittances are mainly used for consumption. This suggests that remittances can mainly be considered as complementary support rather than opportunistic transfers. However, it is an apparent fact that they do reduce both poverty and income inequality in North Macedonia.

Figure 8 Use of remittances



Source: (Petreski, et al. 2018)

4 Conclusion

Remittances are one of the least explored areas in research in North Macedonia, thus, their true nature still remains debatable. There is a shared skepticism among academics regarding the officially recorded data on remittances, mainly because these figures represent only the remittances that are channeled through banks and MTOs. However, it is believed that the largest proportion of remittances enters the country through informal channels, such as self-delivery, delivery through friends and relatives, and other ways of transfers. According to the World Bank estimations, remittances sent through informal channels could add at least 50% to the official rates.

Furthermore, when private transfers are taken into consideration, the amount of remittances increases significantly, though in reality, even these results might be underestimated. Currently, private transfers account for around 16% of the GDP per year in North Macedonia. As a major source of financing, they have played an important role in covering almost the entire trade deficit over the last few years, as well as helping the economy recover from the crisis. Nevertheless, it is unclear to which extent can remittances serve as informal social protection or alleviate poverty in North Macedonia. This is mainly because remittances and their effect on economic and financial development are usually not included in official surveys and policies, hampering the research in this regard.

Additionally, another obstacle that predominantly impacts the conducted research and leads to uncertain findings is the lack of a recent population census. As of January 2021, North Macedonia's lawmakers passed the bill for holding the first census in almost 20 years. This may lay the first stone on conducting a well-grounded research on remittances in the upcoming period.

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