

The impact of remittances on economic development and the labour market structure in Albania

Abstract

This article reports on a study examining the impact of remittances on economic development and the labour market structure in Albania, focusing on both short-term and long-term effects. The methodology follows a quantitative approach, utilising data from the Bank of Albania, INSTAT and international organisations for the period 2015-2024. Analysis of this data was conducted using multiple regression models to assess the correlation between remittances, economic growth and shifts in the labour market. Remittances do have a positive influence on consumption and investment but they may also contribute to the participation rate being lower than what it might otherwise be as a result of economic dependency, while also creating other market and socioeconomic distortions. The study adds to the existing literature by providing policy recommendations to enhance the productive use of remittances and strengthen labour market participation in Albania so that remittances can move beyond their short-term welfare benefits towards being the foundation of a more resilient and dynamic economic model.

Keywords: remittances, Albania, labour market, EU integration, GDP growth, participation rate, structural transformation

Introduction

The phenomenon of remittances has gained significant attention in recent decades as a vital component of economic and social development in many low and middle income countries. In Albania, remittances constitute a crucial source of external income and have consistently played a stabilising role throughout periods of economic transition and political upheaval. Following the fall of communism in the early 1990s, Albania experienced a massive wave of emigration, leading to the formation of a widespread diaspora, particularly in countries such as Greece, Italy, Germany, the United States and, more recently, the United Kingdom. As a result, remittance flows have begun to account for a substantial share of the country's GDP – at times reaching up to 15% – and have become a key factor in household economic survival, consumption smoothing and investment decisions.

Despite the clear fiscal and social benefits, the implications of this increasing dependence on remittances are far from unambiguous. While these inflows ease immediate financial constraints and promote improved standards of living, they also raise concerns about long-term sustainability, labour market engagement and the emergence of economic dependency. Households that receive remittances may

deprioritise participation in the formal labour market, thereby reducing the country's productive capacity. At macroeconomic level, a reliance on remittances may distort economic incentives and reduce the urgency for structural reforms and employment generation strategies.

In the Albanian context, these dynamics are particularly salient. The country continues to face persistent labour market challenges including high youth unemployment, informality, skill mismatches and regional inequalities. At the same time, Albania is actively pursuing integration into the European Union, a process that necessitates greater alignment with EU labour standards, productivity benchmarks and social inclusion measures. Therefore, understanding the multifaceted impact of remittances on Albania's economic development and labour market structure is not only academically relevant but also critically important for national policy planning and international cooperation.

The study on which this brief article is based aims to contribute to this discourse by analysing the short and long-term effects of remittances on key economic indicators and labour market participation in Albania over the period from 2015 to 2024. The goal is to unpack the dual nature of remittances – as both a stabilising force and a potential source of labour disengagement – and to offer policy recommendations for maximising their developmental impact.

Shaping the research

The academic discourse on remittances encompasses a broad array of perspectives, ranging from their impact on household welfare and economic stability to their role in shaping migration cycles and labour markets. Studies consistently identify remittances as a significant contributor to financial security in recipient economies, particularly where institutional support systems are limited. This article narrows the focus to examine two particular themes within this discourse which are addressed by the broader research study.

Remittances and economic growth

One of the dominant narratives in the literature highlights the positive contribution of remittances to macroeconomic growth. Ratha (2013) frames remittances as a consistent and resilient inflow that often surpasses official development assistance and foreign direct investment. These funds are shown to support consumption, facilitate access to education and healthcare, and provide the capital needed for small-scale enterprise development. Giuliano and Ruiz-Arranz (2009) note that, in environments with limited financial services, remittances function as *de facto* credit mechanisms, enabling investments that might not otherwise occur.

Remittances and labour market participation

Conversely, a more cautious body of literature warns of the potential for remittances to undermine labour force participation. Chami et al. (2005) argue that, because remittances are non-labour income, they can reduce recipients' incentives to engage in the labour force. This argument is particularly relevant in settings where

remittances are regular and predictable, leading to behavioural shifts toward economic inactivity. These dynamics may be further exacerbated in cases where education and job opportunities are either inadequate or misaligned with labour market needs.

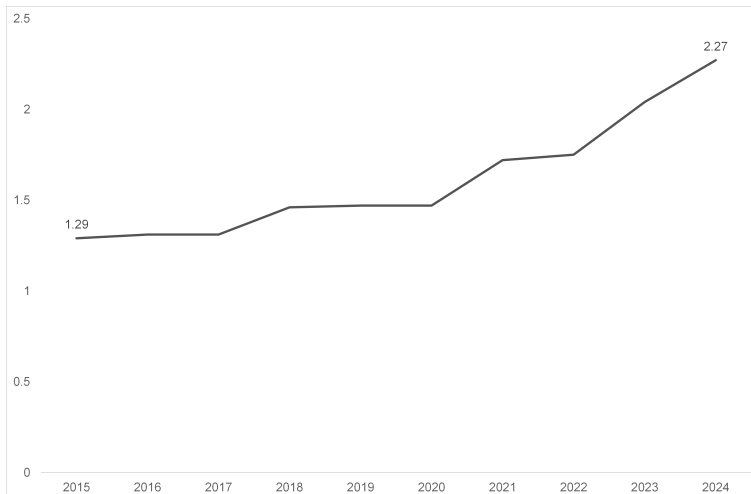
Other scholars offer a more nuanced perspective, suggesting that remittances can promote self-employment and micro-enterprise formation. For instance, Woodruff and Zenteno (2007) found that, in Mexico, remittances often serve as seed capital for businesses in migrant-sending communities. This indicates that the effects of remittances are not monolithic but are variable depending on local economic conditions, the structure of remittance flows and household-level decision-making.

The Albanian context

In the Albanian context, remittances have historically played a stabilising role during periods of national crisis and transition. According to Barjaba and Barjaba (2015), the Albanian diaspora's financial contributions were vital in supporting families during the post-socialist economic collapse and subsequent regional instabilities. More recently, reports from INSTAT (2022) suggest that remittance-receiving households enjoy higher consumption levels but tend to invest less in long-term economic activities such as education or entrepreneurship. These findings raise questions about the sustainability of remittance-driven growth in the absence of complementary domestic reforms.

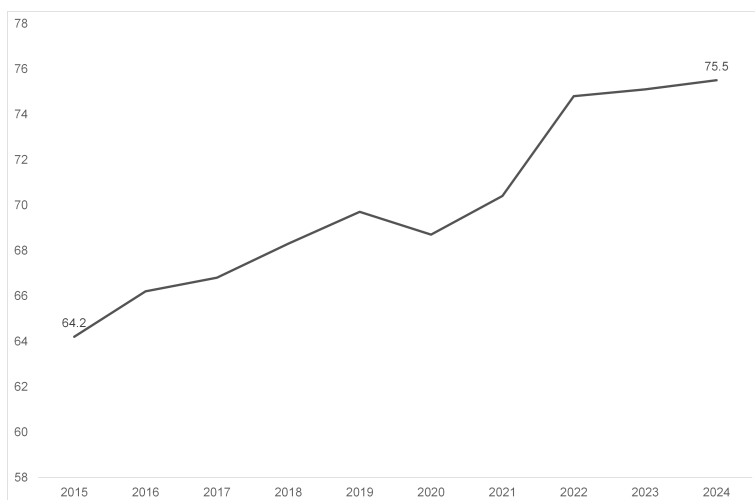
Further complexity arises in that a substantial portion of remittances continues to flow through informal channels, limiting their visibility and integration into national economic planning. The OECD (2021) and Plaza and Ratha (2011) have emphasised the importance of formalising remittance transfers through digital and banking infrastructure which could enable better monitoring, taxation and policy alignment.

Figure 1 – Remittance inflows in Albania (2015-2024)



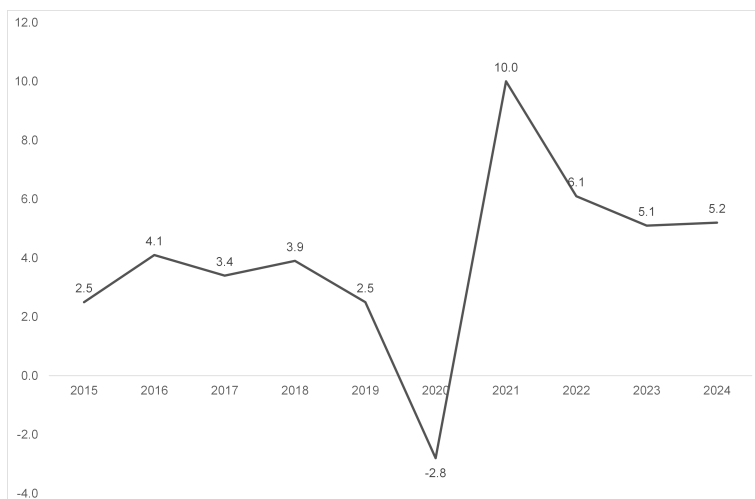
Source: World Bank data.

Figure 2 – Labour participation rate, workforce aged 15-64 (2015-2024)



Source: INSTAT (nd).

Figure 3 – GDP per capita growth in Albania



Source: World Bank data.

Comparative regional insights

Comparative insights from Kosovo, Moldova and the Philippines highlight both the universality and context-specificity of remittance dynamics. In Kosovo, remit-

tances support household income but are rarely reinvested. Moldova faces similar challenges with labour force participation, while the Philippines – despite having an advanced labour export model – struggles with the social costs of long-term migration.

These examples reinforce the notion that the benefits of remittances depend heavily on institutional frameworks, policy choices and the strategic orientation of both senders and recipients.

Emerging trends and theoretical perspectives

Theoretical approaches such as the new economics of labour migration (Stark and Bloom 1985) provide a useful analytical lens, viewing remittances as part of household strategies to manage risk and overcome credit constraints rather than mere altruistic transfers. According to Taylor (1999), households may send members abroad specifically to diversify income sources and gain access to capital that can support domestic investments. This perspective contrasts with classical migration theories which focus predominantly on wage differentials and mismatches in labour supply and demand.

In summary, the literature converges on a central insight: remittances are neither inherently beneficial nor harmful. Their impact depends on how they are used, the environment in which they circulate and the policies that guide their integration into national development agendas. In Albania, where remittances remain a cornerstone of household finance, the challenge is to amplify their developmental potential while minimising the risks of economic dependency and labour disengagement.

Methodology

This study employs a quantitative research design using secondary data from the Bank of Albania, INSTAT, Eurostat and World Bank databases. The analysis covers the period from 2015 to 2024, focusing on the most recent trends and dynamics. Data were analysed on an annual basis. The statistical analysis was performed using SPSS software, applying a multiple linear regression model to explore the relationships between remittance inflows, economic development and labour market participation. The variables are structured as follows:

- dependent variable: GDP per capita at constant prices (as an indicator of economic growth)
- independent variables: remittance inflows (expressed in euros); labour force participation rate; gross capital formation
- control variables: inflation rate; education index; and employment rate.

Descriptive statistics and correlation matrices were first produced to understand the distribution and initial relationships between the variables. To address the temporal effects of remittances on the economy, time-lagged variables were introduced into the regression model. The issue of multicollinearity between the predictors was evaluated using Variance Inflation Factor (VIF) analysis within SPSS, ensuring the robustness of the model.

Additionally, a time series chart was developed to represent visually the trends between remittance inflows and labour force participation over the study period. This graphical representation aided in identifying the patterns and possible structural shifts over time.

Results and discussion

The empirical findings indicate that remittances contribute positively to GDP growth by increasing consumption and investment in key sectors such as real estate and small enterprises. These financial transfers have allowed households to meet their basic needs, improve housing quality and afford better healthcare and education services. In several cases, remittances have facilitated the start-up of small businesses, thereby promoting local entrepreneurship and community-level economic development. For many families, remittances function as a form of social insurance, providing financial stability during times of crisis or unemployment. Moreover, by relieving immediate income pressures, they may enable recipients to invest in long-term assets such as the education of children or agricultural equipment in rural areas.

Despite these advantages, remittances are not without drawbacks. One of the most cited concerns is the reduction in labour market participation among recipients of working age. In Albania, as labour force participation has grown, according to LFS data, the concern is more that remittances may lower the participation rate below what it might otherwise be. As remittances represent a non-labour source of income, they can discourage active job-seeking behaviour, particularly when transfers are regular and substantial. This phenomenon is especially pronounced among younger populations, where remittances may delay entry into the workforce or reduce the incentive to pursue formal employment. Over time, this can lead to a dependency culture in which households are reliant on external income rather than engaging in productive economic activities domestically.

Additionally, the large volume of remittance inflows into sectors like housing has led to price inflation in real estate markets, making it more difficult for non-recipient households to afford homes. An over-reliance on remittances can also distort local labour markets, leading to skill mismatches and the underutilisation of domestic human capital. When remittance income substitutes rather than complements labour income, it may weaken productivity growth and deter innovation, especially if recipients do not invest in business creation or professional development.

Therefore, while remittances are an indispensable financial resource for many households, their broader economic implications must be carefully managed. Effective policy must balance the short-term welfare gains they offer with the long-term need to increase the labour participation rate and productive economic engagement.

Policy implications

Addressing the complex effects of remittances in Albania requires a multi-dimensional policy approach that simultaneously nurtures their developmental potential and mitigates their unintended socioeconomic consequences.

First, there is a clear need to enhance financial literacy among remittance-receiving households. Many families use remittances primarily for consumption or housing which, while beneficial in the short term, may not lead to sustained economic gains. By promoting financial education and awareness, especially in rural and semi-urban areas, policymakers can help households understand the value of saving, investing and diversifying income sources. Targeted programmes that teach budgeting, savings management and investment planning could empower families to channel remittances into productive ventures.

Second, the government should establish and strengthen institutional frameworks that encourage the use of remittances for entrepreneurship and job creation. This could include tax incentives for small business development, microcredit schemes for return migrants and the creation of community-based investment funds. These measures would not only stimulate local economies but also offer employment opportunities, reducing reliance on migration as a livelihood strategy. Encouraging the diaspora to invest in local startups, tourism initiatives or green energy projects can create more inclusive and sustainable growth trajectories.

A critical area of intervention involves engaging the Albanian diaspora through formal mechanisms. Policies aimed at benefiting from diaspora capital – such as diaspora bonds, co-investment funds or matching grant programmes – can transform remittances from passive inflows into active components of national development. Offering dual citizenship and maintaining strong bilateral agreements with countries hosting large Albanian migrant populations can enhance trust and participation in such initiatives.

Moreover, labour market policies must be aligned with remittance flows to prevent labour disengagement. This could involve developing flexible employment schemes, vocational training programmes and upskilling initiatives that target young people and unemployed individuals, particularly in regions with high emigration rates. Encouraging formal employment and reducing barriers to workforce entry – such as excessive regulation or lack of childcare – can complement remittance income and maintain an active labour force.

Finally, policy coherence is essential. Remittances intersect with education, health, housing, migration and investment policies. A coordinated, cross-sectoral strategy that integrates remittance management into broader economic planning will be more effective than isolated interventions. Regular data collection, monitoring and collaboration with international partners such as the World Bank, Institute of Migration and the EU can provide evidence-based support for designing and adjusting policies over time.

In sum, while remittances provide invaluable support to Albanian households, their full developmental potential can only be realised through deliberate, inclusive and future-oriented policy frameworks. These must combine financial empowerment, institutional support, diaspora engagement and labour market integration to transform remittances from a safety net into a foundation for long-term prosperity.

Conclusions

Remittances have long been recognised as a critical financial lifeline for many developing countries, and Albania is no exception. As this article has shown, these financial flows play a complex dual role within the national economy. On the one hand, remittances provide substantial support to households by enabling higher levels of consumption, improving access to education and healthcare, and offering a degree of financial resilience against economic shocks. They also stimulate entrepreneurial activity in certain contexts, particularly when channelled toward business investments or when used as seed capital for self-employment.

However, the findings also reveal that the long-term implications of remittance dependency must not be overlooked. A significant concern highlighted throughout this article is the potential impact on labour force participation rates, especially among younger populations. When households receive stable and regular remittance income, there is a risk that work incentives diminish and that individuals delay or forgo participation in the domestic labour market. This dynamic can contribute to a culture of economic passivity and overreliance on external income sources, undermining the broader objective of inclusive, self-sustaining development.

Moreover, while remittances positively influence GDP and consumer spending, their impact on structural transformation remains limited without supportive institutional frameworks. In Albania, this underscores the importance of implementing policies that not only facilitate remittance flows but also guide their allocation toward productive and socially beneficial outcomes. Without this strategic redirection, remittances may inadvertently contribute to economic stagnation rather than progress.

The study further emphasises the need for a coordinated and forward-thinking policy environment that leverages the potential of the Albanian diaspora, promotes financial inclusion and strengthens domestic labour capacity. By creating pathways for investment, skill-building and the reintegration of return migrants, Albania can move beyond the short-term welfare benefits of remittances toward a more resilient and dynamic economic model.

Ultimately, remittances should be seen not only as private household transfers but as opportunities for broader development. Their effectiveness depends greatly on how they are managed, both at household level and through national policy. A deliberate, inclusive and evidence-based approach will be key to transforming remittances from a coping mechanism into a catalyst for long-term economic and social transformation.

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(annual GDP growth)



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