

Luljeta Minxhozi: The contribution of the Albanian diaspora to the nation's economic development

Speech by Ms Luljeta Minxhozi, First Deputy Governor of the Bank of Albania, at the Second Summit of the Albanian Diaspora, Tirana, 4 March 2019.

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Dear ladies and gentlemen,

On this special day, we have come together to share thoughts and discuss on how Albanians, irrespective of where they live in the world, may achieve welfare and prosperity.

This is a time, in our economic history, when the efforts of individual citizens to ensure prosperity are also considered as social efforts, for our nation to be prosperous and developed.

Such forums – in which Albanians that live abroad come together to discuss, and see that while working for themselves and their families, they help the nation to advance – are signs of a rising national conscience and our modern civilisation.

Albania has a large diaspora, which is present in all continents and was estimated at 1.15 million people in 2017, or around 40% of the population that actually resides within the country.

A characteristic of the Albanian diaspora is that it is closely related economically with the home country, contributing to increased financial transfers from abroad.

These transfers are in the form of:

- ♦ Remittances which are net transfers from abroad and are calculated in the balance of payments at around EUR 600 million per year, over 2013–2017, equal to 5.7% of Albania's GDP.
- ♦ Income generated from seasonal emigration in the form of temporary employment. This category creates income in the form of primary income-compensation of employees, on average EUR 250 million annually during 2013–2017.
- ♦ If we add other income unrelated to employment, total transfers from permanent and seasonal emigration (remittances) reach around EUR 1 billion annually, or around 9.0% of nominal GDP.

While the share of remittances, in terms of both the level of flows and of the ratio to GDP, is lower compared with mid-2000s, their annual growth has resulted stable in more recent years, averaging 3% for the 2015–2017 period.

Through its economic activity, the diaspora contributes positively to the Albanian economy in two aspects:

The first aspect are remittances and other forms of transfers. These have an evident role on the aggregate demand of Albania, for financing households' consumption, and generating savings, which help to fund investments.

Their contribution to economic growth of Albania has been cyclical.

- ♦ In 2009–2013, this impact was negative by 0.4%; this period experienced shocks that hit European economies after the crisis.
- ♦ Afterwards, particularly in 2014, remittances increased notably due to the tendency of emigrants to withdraw their money from European banks (particularly from banks in Greece)

and send them as deposits in Albania.

- ♦ Currently, in 2015–2017, the contribution of remittances is estimated at 0.2% of economic growth.

The importance of remittances on economic growth has declined over the years, also in line with the strengthening of domestic growth factors; yet, they remain an important element of disposable income and, therefore, a determinant factor for the performance of consumption in Albania. Remittances have an important role in alleviating poverty and mitigating social problems for certain categories of the society.

The second aspect is the positive impact on the labour market dynamics. The export of the labour force (emigration) tends to push wages upward in Albania, by better balancing labour demand and supply. On the other hand, it diversifies the supply of Albania for qualified labour.

Despite the increase of remittances and their upward contribution to economic growth, a lot remains to be done to foster the role of the diaspora and create more opportunities for a better economic use of their savings, as well as to help boost the Albanian economy.

It is difficult to make an exact calculation of remittances due to the numerous formal and informal channels of their flows. Our banking system does not yet facilitate remote access and use of bank accounts by emigrants, in order for them to be able to easily use them while in their respective countries; the cost of banking transactions are higher and often banking procedures are perceived as complicated.

Due to these factors, in the case of Albania, only 4% of remittances are channelled through the banking system, 57% through non-bank financial institutions and 39% in the form of cash.

The economic result is that remittances are disbursed in cash at 96% and this form of payment diminishes the multiplying impact of their contribution to economic growth.

As regulator of the banking and payments systems, the Bank of Albania is strongly committed to promote and facilitate the transfer of remittances in the Albanian economy:

- ♦ First, by modernizing the procedures and alleviating transfer costs for remittances. For this reason, the Bank of Albania, in collaboration with the World Bank, is implementing a project for formalizing remittances inflows through banking channels, together with resulting effects such as cutting the costs on transfers, increasing financial inclusion and reducing the use of cash in the economy.

In this context, in 2017, a study was realised focusing on retail payments, which include remittances. The findings were used as a basis for drafting the National Strategy for reforming the retail payments market in Albania.

In addition, the Bank of Albania has prepared a new draft-law on retail payments, which include the remittance market. This law will approximate our payments system with the PSD2 Directive of the EU and aims to promote the creation of an innovative payments system in Albania, the decrease cash payments and the creation of adequate conditions to boost competition, foster transparency and enhance the security of the payments systems.

- ♦ Second, by aiming to further develop and diversify savings and capital market instruments, so as to increase the interest of Albanian citizens living abroad for depositing their savings in Albania.

Thank you!