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Comments on the paper:

“Sources and uses of foreign currency”, Mr. Ilir Gedeshi, Mrs. Esmeralda Uruçi

The importance of immigrants remittances in the economic development.

In the report “Global Development Finance 2003” of World Bank, of April 2003, it is underlined the conclusion that the direct foreign investments (FDI) and remittances are transformed into the most important financial resources for the developing countries trend, even more important than private loan. Just like FDI, remittances are considered to be more stable as capital resources and in this way contribute to a stable growth of the developing countries.

In a world-like rank, the remittances flow passes the USD 100 billion per year, and more than 60% passes to the developing countries. Therefore, they constitute an important mechanism for the transfer of resources from developed countries into developing countries.

A few words on remittances trend in Albania.

By the mid-year 1990, Albania experienced the phenomenon of massive immigration, which with the passage of time will become a key factor for the finances. Starting from year 1992, perhaps even earlier, the remittances became more and more significant.

In principle, inflows increase must be influenced by the expectancies for development in the Albanian economy. The forecasts for price level increase and exchange rate depreciation, which would be followed by higher levels of Lek (AL) interest rate, would urge greater exchange inflows by immigration. In 1994-1996 period, it is noticed the phenomenon of the remittances, exchange inflows withdrawal in the country at the side of the pyramid schemes, reaching the highest level in 1996. The years 1997 and 1999 record these transfers' reduction, as a result of the 1997-year crisis which marked the fall of the pyramid schemes and Kosovo's crisis.



The short experience of transition demonstrates us that the financing of the high trade deficits is financed not only by capital inflows, which have no doubtly played a significant role, but the financing possibilities have been great within the current account through immigrants remittances. During 1994-2000 period, nearly USD 4,4 milliard have entered in the current transfers kind, in which nearly USD 3,6 milliard constitute a contribution to Albanian remittances. The remittances for year 2002 are estimated at USD 632 million or at 13% of GDP.

Thesis and recommendations for remittances management policy.

The nature, amount, frequency and impact of the remittances at the social and economic dimension of the country are of a special importance and have attracted the specialists' attention all around the world. Migrants' inflows exert a strong influence on the incomes and wealth distribution in the beneficiary country, (Taylor and Wyatt, 1996). In the studies and empirical measurement performed, the world literature concludes that at "the first phase" of the migration, the remittances are used at a great extend as a means of subsistence for the beneficiary families, such as food, clothes and health needs (Massey and Parrodo, 1994; Massey at al., 1987; Rhoades, 1978). By meeting these means of subsistence, the improvement of the living conditions and the increase of the living standard result as priorities in expending these inflows. At a later phase, a significant part of these remittances is utilized for useful investments, especially for the business set-up, which comes out to have a positive effect in the country's economic development, influencing at the same time on employment and the decline of the pressures for immigration. However, a similar phenomenon in Albania is trifling. The more so, with the passage of time, immigrants and the following generations become more "complete" in the resident country, consequently their relations with the country of their origin lessen.

As it is referred by the report, Albanian migration remittances are getting closer to this climax.

The actual emergency stands in the insuring these inflows good management and continuity. The exchange assets set up by the immigrants' work must at all cost confront a smart domestic policy. This policy, despite the channeling of the private current transfers due to consumer investments, must tend to create the respective mechanisms to absorb the foreign exchange means generated by the immigrants' work (despite the fact that they can enter in Albania as transfers or stand as saving deposits in the countries where they live) and in order to realize stable investments.

Our recommendations for the remittances development and management policy will be listed as follows. It is worth mentioning that the recommendations start from the preliminary condition that the remittances have a positive net effect on the Albanian economy. In the actual state, we are conscious of a similar condition existence.

- *Reduction of transfers cost.*

The competitiveness increase or the increase in the number of the actors in this sector, would reduce the transfers cost. A low price for the transfers would cause these transfers level increase. On the other hand, the reduction of the corresponding taxes would affect these transfers' volume increase.

By setting up a price transparency, the government must encourage the competition in this sector. This competition will lead not only to price fall but will also encourage many migrants. The price transparency on its own will not bring about price fall in a monopolist market just like the ours one. The government must make use of the incentives in setting up new companies, reducing taxes, etc.

- *The creation of the development funds.*

The development funds will serve as institutions that will gather immigrant remittances in order to realize exceeding investments. Let's refer to the example of the Savings – Credit Agencies, developed in Albania last years. On the other hand, it is thought that the money managed in this way will produce an effect to the economy and the financial system. It is worth stressing that the positive trend and set-up at the beginning of these funds is thought to have a positive effect after their first success (after the immigrants are convinced for their efficiency, it is thought that the income flow of the investment in them). As a good example can be considered South Chorea.

- *The co-operations among the governments.*

Relying on other countries' experience, it must and can be taken steps forward for the cooperation between Albanian government and the governments of the countries with Albanian remittances, in order to set the official structures that will help the immigrants (not only for their social problems such as legalization, education etc.), for an efficient usage of their savings toward their own country. The governments of host countries and home countries must undertake the effective measures in order to facilitate the remittances (for example: micro-credits, training, the facilitating of the bureaucratic procedures, fiscal facilitations, etc.). Worth mentioning is the case of Maly that has a considerable immigration in France. The structures set up through the governmental agreements have assisted in the development of Maly's economy.

- *The increase of the size credit of the economy from the banking system.*

It is thought that the credit-granting increase by the banking system will be accompanied by the increase of the banks' branches and subsidiaries at a greater geographical spread in the country. Therefore, even the utilization of the banking system (even other financial institutions) for the remittances is increased.

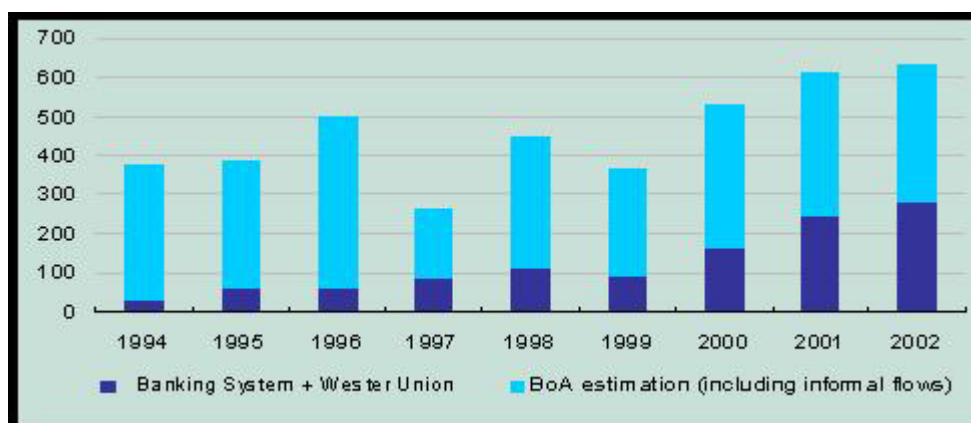
Remittances measurement

Bank of Albania estimates the remittances flow by means of a methodology that is based on the theory of the parallel markets (and this occurs because in Albania a considerable part of the transactions is performed by means of these markets). The methodology is based on measuring the foreign exchange outflows by the parallel market, because the remittances by means of the banking system are easily measurable. In this way, this methodology constitutes in setting up a matrix of

exchange flows, which evidences the outflows and inflows of the cash exchange by the parallel market.

Stressing that in this big “sack” of “remittances”, despite the remittances, there are included foreign currency assets generated by doubt activities, which in Albania are represented by illegal activities – all providing cash in Albania.

In the previous years, due to the development of the banking system and the people’s awareness for the advantages of the banking system usage, remittances have increased by means of the banking system.



Methodological considerations

Regarding the methodology that could be used in the future assessment of remittances, we believe that the way suggested by Mr. Gedeshi and Mrs. Uruçi in their article/essay should be followed. Hence, we consider that the data collected by institutions, which have done surveys, are very important.

Consequently, we think that periodical surveys should be made in gathering information on remittances (as well as on other economic-social data) for a certain period of time, and on this ground set up a mathematic-statistical model. Then, this model could serve in further time series simulations (there are various methods that can be suggested, like Box&Jenkins, Monte – Carlo, AR(p), MA, ARMA, ARIMA, etc.). Other periodical surveys (less frequent) should be made on potential corrections of the model in keeping the real trends. In order to achieve quantitative evaluations of the indicators, we suggest these surveys be made in host countries.