

Do Migrant Transfers cause Dutch Disease in Albania?

Cakrani Edmira

University of Vlora "Ismail Qemali", Vlora, Albania
edmira.cakrani@gmail.com

Resulaj Pranvera

University of Vlora "Ismail Qemali", Vlora, Albania
pranveraresulaj@yahoo.com

Koprencka Luciana

University of Vlora "Ismail Qemali", Vlora, Albania
lucianakoprencka@yahoo.it

Dutch Disease is the model, which tries to explain the contradictory relationship between the greater exploitation of natural resources and a decline in the sector of natural resources. Theory suggests that an increase in foreign inflows currency from export of natural resources is associated with overvaluation of the real exchange rate, which makes tradable sector less competitive, resulting in less competitive country and even reduced exports in natural resources sector. The purpose of this article is to study the possibility of occurrence of Dutch Disease phenomenon in Albania, as a result of increased foreign currency inflows, not from increased resource exports, but from migrant transfers. Almost 30% of Albanian population is living and working abroad, most of them in Europe. Due to high trade balance deficit, migrant transfers in Albania are important source of ease pressures on the domestic currency lek. Recently, migrant transfers from abroad accounted for 10% to 20% of GDP and constitute the largest influx of foreign finance, even more than foreign direct investment and official development assistance. In the empirical model, real exchange rate is the dependent variable and migrant transfers, real GDP per capita, government consumption and trade openness are explanatory variables. All the variables are tested for stationary through Augmented Dickey-Fuller test. The results of test showed that are not stationary in the level, but become stationary in First Difference $I(1)$, so they are included in model in First Difference. Johansen Cointegration test results showed that there is a long-run relationship between real exchange rate and the variables included in the model. Results suggest that migrant transfers have a significant impact on the real exchange rate in Albania and an increase in their flows lead to the overvaluation of the real exchange rate in the country, causing the Dutch Disease phenomenon to occur.

Keywords: Dutch Disease, Real Exchange Rate, Migrant Transfers, Overvaluation, Unit Root, Cointegration.