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# IMPACT OF RTEMINTANCE ONE ECONOMIC GROWTH AND DEVELOPMENT IN REPUBLIC OF MACEDONIA

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#### Abstract

For more than half a century, there has been heated debate on the sources of economic growth in developing countries. Factors perceived growth are ranked by overwork for capital investment and technological changes, foreign aid, foreign direct investment, investment in human capital, increasing the return on investment in new ideas for research and development. Positive or negative impacts outlined above on traditional sources of economic growth have been documented in scientific research. Other researchers have also considered the importance of institutional factors such as the role of political freedom, political instability and accountability in economic growth and development.

Despite the increasing importance of remittances in total international capital flows, however, direct or indirect ratio between remittances and development and economic growth has not been studied adequately. This study examines the impact of private transfers in economic development using timely data spanning the period 2005-2015 in the Republic of Macedonia. According to empirical results, private transfers have stimulated economic development in countries where financial systems are less developed, offering an alternative way to finance investment and to help the country's liquidity.

Key words: economic development, GDP, remintancat, export, import

#### INTRODUCTIONS

Private transfers are the subject of increasing interest to researchers in the international arena. Many of the first scientific works individually assess transferred migrants in developing countries are also increasing it by 56 billion dollars as they were in 2000 they totaled 100 billion dollars in 2005 (Aite Group Consultants and Analysts, 2005). With the high and strong growth, private tranfer of immigrants are important to their native countries, especially in terms of their potential for development. (Freund & Spatafora, 2005) ndarrja estimate that the number of immigrants in OECD countries would result in an increase of 75% of the value of informal money transfers to developing countries. Despite the large amounts of revenue from migrants and seasonal workers outside the country by informal channels, it is believed to be the large volume of revenue through informal channels. Informal channels include tranfer cash based on personal relationships with the people business, trensfere through family, friends and the like, while the formal channels include service providers to transfer money as banks, nonbank financial institutions and operators for sending money fast. By (Puri & Ritzema 2000) and (El-Qorshi, 2002), informal revenues rotullohen from 10% to 50% of total revenues. Empirical research (Freud & Spatafora, 2005) on a sample of 100 developing countries shows that informal remittances of money to the countries they achieve 35-75% of revenues recorded official.

In world literature highlighted several factors that influence the decisions of immigrants sending money to their native countries: Credit spread risk - Unlike ratings are in private equity, monetary transfers of immigrants are significantly more danger latta in countries with the highest credit. Countries with low income, from which derives the largest number of migrants, both usually have a lower credit rating, higher unemployment and a higher number of immigrants Inflation . The studies of (El Saka & McNabb, 1997) show that inflation has a positive impact and significant remittance flows of migrants, it is normal that in terms of price growth in the home countries, the support of family members will be higher.

The investment climate - Comparisons between countries prove that to private monetary tranfer affects the investment climate in their native countries, and that in the same way as the outcomes contribute to capital flows Economic cycles - therefore also affects remittance flows in the economic cycle of the countries sent money to the native countries. In terms of economic development high expatriate benefits grow.

Countries of the former Yugoslavia, including the Republic of Macedonia counted as countries that receive more money from immigrants from countries Nodrike. The money that migrants send back home are of great importance for the economy of the countries that receive the money. This is also the newest study compiled by the University of Gothenburg. According to the study, in some places remintance revenues are greater than foreign aid and foreign investment.

According to the World Bank, it is expected that at the global level in 2015 money remintancës be 550 billion dollars, while in 2016 this amount is projected to grow to 700 billion dollars at the world level, from which most of the predicted end in developing countries. For this reason, the governments of these countries should you devote greater attention to development strategies, using tranfer flows of migrants as important financial source for the promotion of economic development, especially in regions less developed countries where economic conditions are the main reason migration of the population.

Over the last decade, the current account deficit in the balance of payments is realized with a high level of 7-8% of GDP. The deficit is equal to the difference between national savings and investment generally. In other words, the total savings of the private sector and for 7-8% of GDP less than the total investment, although their level is depressed. Shaved to beat this level of investment, the state should focus on one of three options: a) expend funds from the

foreign currency reserves, b) increased external debt, c) attracting private capital from abroad. The three options together should provide an annual income of 300 million dollars, or 7-8% of GDP. On the contrary, the current level of saving can not be shaved the level of investment, ie they will further be reduced.

These macroeconomic disproportions confirmed in real life, at the macroeconomic level. The few private enterprises which in these unfavorable conditions are willing to invest, may not provide the means for closing the financial construct.

Revenue from external tools nvaret investment climate in the country. Many times emphasized the importance of foreign investment as a form of deficit financing. However, we should pay attention to other sources of financing for economic development that provides a significant source of the state budget. Remintancat it comes to migrants. Remintancat in global frameworks as a source of external financing in developing countries.

Global studies suggest that the informal channels are cheaper than formal channels, the main determinant of the transfer, are spending. (Swason & Kubas, 2005) evaluate the monetary costs during informal transfer, by 1-5% of the value of assets that are transferred. Formal channels are much more in expensive, especially when it comes to bank remittances or operators of sending money fast as' Wetern Union 'Money Gram' etc. Costs shipments smaller amounts are significantly greater given the fact that most of these houses serving although provisions have structured nvarshmëri the value of the transfer, however, they have set minimum spending that hurt negatively small shipments flows. (Sanders & Maimbo, 2003) determine the costs of most operators for quick money shipments start from 15 dollars. Also, the minimum costs vary from 5-50 dollar banks in the country nvarshmëri sending respectively receiving country. In contemporary terms, international financial institutions do përpjejke you increase the positive effects of the transfer, stressing the need of channeling them through the banking system. In this regard, activities are needed in connection with improvement of statistical evidence, as well as activities for further improvement of the banking system.

#### The components of private transfers in the Republic of Macedonia

In the balance of payments statistics in the Republic of Macedonia constitute private transfers, remittances and abroad, cash transfers, pensions etc. The main source is the data banks of the payment system with the outside world.

In component 'shipments' are included monetary transfers by individuals, who are formal channels between residents and migrant people who have non-resident status due to the stay abroad of one or more years. People who live and work out less than a year are considered residents and their transactions are recorded in the category 'compensation of employees' account revenues.

In the tabulation below, we have data on private transfers in the Republic of Macedonia for the period of 2005-2015 years

	Ι	II	III	IV	V	VI	VII	VIII	IX	Х	XI	XII	Total
2005	8,2	9,1	7,5	9,6	10,0	12,0	9,4	11,5	14,1	11,7	11,9	10,5	125,3
2006	8,4	8,9	11,8	11,9	13,2	12,6	11,8	12,9	13,9	14,4	13,7	11,3	144,7
2007	10,1	10,8	13,5	12,0	14,2	13,0	14,8	14,1	14,8	15,6	12,5	12,6	158,1
2008	10,3	11,2	13,2	13,5	14,0	14,0	15,5	12,9	15,7	16,1	12,0	13,3	161,6
2009	11,4	10,9	13,1	14,2	14,3	14,7	15,8	13,9	16,7	15,4	15,0	14,5	170,1
2010	11,5	11,8	16,0	14,8	15,3	17,7	14,2	15,8	16,6	14,0	17,5	16,7	181,8
2011	10,7	11,9	15,0	15,7	16,7	16,2	15,4	16,6	15,8	16,2	14,3	15,1	179,7
2012	12,0	12,0	15,4	16,4	18,0	16,4	16,0	16,7	15,3	17,5	14,0	13,3	182,8
2013	12,1	11,7	13,5	15,0	16,2	15,1	17,1	15,4	16,3	16,8	13,7	14,3	177,4
2014	12,7	12,8	14,8	15,9	16,3	15,7	19,0	14,9	18,9	17,7	13,6	17,3	189,8
2015	12,6	11,9	14,5	15,8	16,4	15,6	19,2	15,1	16,5	16,4	13,9	16,8	184,7

From the table we see that revenues from private transfers occupy an important place in the overall revenues of the country, if we compare them with the level of GDP in the country. In the table below we present level of GDP for the period 2005-2015 and% participation of private transfers in GDP.

Year	<b>GDP</b> ( milion euro)	% of private transfer on GDP
2005	6.234	2,0%
2006	6.029	2,4%
2007	5.858	2,7%
2008	5.881	2,7%
2009	5.722	2,9%
2010	5.561	3,3%
2011	5.613	3,2%
2012	5.348	3,4%
2013	5.038	3,5%
2014	4.797	3,9%
2015	6.230	3,8%

As we see from the table above, the level of private transfers significantly participates in the country's GDP, and that talk of private transfers which are recorded in government statistics. If we take into account research (Freud & Spatafora, 2005) on a sample of 100 developing countries shows that informal remittances of money to the countries they achieve 35-75% of revenues recorded official, the participation of private transfers in GDP is much more high, given it's very important to the state's GDP this as very important given that affect the country's economic development.

# The volume of direct foreign investments in the Republic of Macedonia 2005-2015

Republic of Macedonia, as well as other countries in transition, since independence thanks attempts to attract greater amounts of foreign capital through foreign direct investment. Constantly various measures undertaken by the legal and economic aspects of creating favorable investment climate for the realization of the international investment position. In order to increase the interest of foreign investors to invest their capital in the country are undertaken many reforms macroeconomic and activities that relate to the protection of property rights and the implementation of contracts and improving efficiency in the functioning of legislative and judicial power and more efficient administration.

Despite the government's efforts to increase foreign investment, their level is very low, all as a result of political instability. The following table is given the level of foreign investments for the period 2005-2014 in the Republic of Macedonia.

The trend of foreign investment in the Republic of Macedonia for the period of years 2005-2014

Year	FDI ( milion euro)
2005	94,2
2006	424,0
2007	700,2
2008	600,5
2009	185,5
2010	206,9
2011	473,9
2012	147,7
2013	350,1
2014	370,0
2015	198,0

As we see from the table, the level of investment is very low compared with regional ones. The impact of the economic crisis in 2008 and 2009 kontriobuoi that this trend of growth in FDI decrease from 600.5 million in 2008 to 185.5 million in 2009. In 2010 and 2011 we have a trend of increasing investments foreign. Despite the great efforts and spending huge amounts of public funds to the country promovimine investment oasis, the results are very low compared with regional ones.

#### **Empirical Analysis**

For our tests we used the correlation between quantitative variables and regression analysis. Correlation between variables will help us to measure the level of association between explanatory variables and their association with the variability pendant. The correlation is calculated for all explanatory variables. Regression analysis was used to measure precisely the effect of the explanatory variables on individual variability and the relationship between their pendant.

	Mean	Standard devijation	Minimum	Maximum	Standard eror
GDP	5.608.0	443.58	4,797.60	6,234.42	140.27
Provate transfer	167.130	20.03	125.30	189.80	6.33
FDI	355.30	200.06	94.20	700.20	63.27
Export	2,740.50	746.95	1,686.10	4,057.00	236.21
Import	4,163.73	934.37	2,567.10	5,554.60	295.47

Descriptive analysis of data

The above indicators are studied individually, through the calculation of maximum, minimum, average and standard deviation. Descriptive analysis was conducted in order to help the empirical analysis and to support the findings of the empirical analysis.

	GDP	Private transfer	FDI	Export	Import
GDP	1				
Private transfer	0,9555	1			
FDI	0,0783	0,0207	1		
Export	0,8554	0,7298	0,3820	1	
Import	0,9569	0,8601	0,2885	0,9409	1

#### **Correlation between explanatory variables**

Correlation analysis was built in order to treat the individual level explanatory variables association with variablen hanger and tested linear relationship between the explanatory variables. Kolineariteti explains a variable depending on a variable explanatory else. In cases where there is perfect kolinearitet between explanatory variables, it means two or more variables, among which there kolineariteti show the same information. This affects the explanatory power of the model to sit and statistical significance of individual coefficients decrease. This undermines the relevance of the variables included in the model Interpretative. In general, the explanatory variables have on the level kolineare 0.7 behavior should not be included in the regression model analyzes (Dougherty, 2007). The table above shows that the high kolinearitet recorded export and import stress variables. This means that kolineariteti should not be a problem in our empirical analysis.

# **Regression Analysis**

To analyze the theoretical expectations that explain the impact of explanatory variables on the variable pendant financial leverixhit should do regression analysis, through small amount of square.

The paper uses the correlation analysis to analyze the correlation between profitability and factors affecting it.

Model 1: GDP =  $\alpha$  +  $\beta$ 1 (private transfers) +  $\beta$ 2 (FDI) +  $\beta$ 3 (exports) +  $\beta$ 3 (import) Model evaluation methods applied and obtained OLS results presented in the table;

	Coefficient	Standard	t	Р		
		eror				
GDP	2.923,35	195,38	14,96	2,414	2,421	3,425,59
Private transfer	9,066	2,030	4,465	0,006	3,85	14,28
FDI	-0,253	0,102	-2,478	0,0559	0,055	-0,516
Export	0,001	0,077	0,014	0,988	-0,197	0,199
Import	0,301	0,082	3,665	0,014	0,090	0,513
Regression	R	(2) =0,993				
coefficient = 0,996						

The results obtained suggest that private transfers, exports and imports has positive correlation with GDP. With the growth of private transfers for a unit on average, GDP in absolute value will increase to 9.066 units when other factors remain constant.

The analysis also note that there are also positive correlation between exports and imports to GDP. With the growth of export and import unit will have a GDP growth to 0,001 units respectively 0.301 units when other factors remain constant.

By regression analysis we find that the value of t-statistic in the three variables is outside the range (-2,2), which means that the coefficient is statistically significant. As well as p-value (probability) tell us about the statistical significance of the regression coefficients. If the p-value is less than 0.1; 0:05; 12:01 say the coefficient is statistically significant at the significance level of 10%; 5%; 1% respectively. In our case p-value is less than 0.01, then conclude that the coefficient is statistically significant at the level of significance of 1%.

Variability of GDP from private transfers, foreign investments, exports and imports is explained by 99%.

#### Conclusion

The benefits of remittances, as private financial flows to households in developing countries, are well documented in the literature. Remittances are more stable and predictable as compared to other financial flows and, more importantly, they are counter-cyclical providing buffer against economic shocks. In conflict or post–conflict situations, remittances can be crucial to survival, sustenance, rehabilitation, and reconstruction. In providing primarily for household livelihoods, remittances are spent on general consumption items in local communities that contribute to local economies by supporting small businesses. A fair share of these expenditures is directed to the construction of homes, health care and education, alongside savings in financial institutions, thereby generating employment in these critical services sectors. Moreover, in contributing to foreign exchange earnings, remittances can spur economic growth by improving sending countries' creditworthiness and expanding their access to international capital markets. Remittances represent one of the largest sources of external private finance for developing countries.

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