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Remittances and the effects of FDI on economic growth and macroeconomic stability with a focus on developing countries

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Abstract: In the context of the ongoing economic transformation in the Western Balkans, this study explores how foreign direct investment (FDI), remittances, gross fixed capital formation, exchange rates, and inflation influence economic growth in Kosovo and Albania. Using quarterly data from 2011 to 2024 and applying ARMA regression and correlation analysis, the study sheds light on the dynamics driving growth in these two neighboring yet distinct economies. The findings reveal that while FDI and capital formation strongly stimulate growth in Kosovo, Albania's economy appears more reliant on remittance inflows. Moreover, the analyses uncover a positive association between remittances and inflation in both countries, signaling the dual role of remittances as both growth enablers and potential inflationary pressures. The implications of the results point to the need for actions by both countries. Albania must improve its investment climate to attract diversified FDI, while Kosovo should focus on converting remittances from consumption into productive investments. Both countries stand to benefit from policy reforms that unlock the full development potential of these financial flows. By highlighting underutilized economic levers, this study offers not only empirical insights but also a timely contribution to the broader conversation on sustainable growth in emerging economies.
Keywords: *Economic Growth, Exchange Rate, Foreign Direct Investment, Remittances.*

1. Introduction

Economic growth plays a crucial role in the well-being of citizens; therefore, every country strives to stimulate all components that contribute to economic expansion. Foreign direct investment (FDI) and remittances are significant external financial sources that support the economic development of recipient countries. Considering the role of the Gross Domestic Product (GDP), it is essential to examine the factors influencing this macroeconomic indicator. Economic growth, defined as GDP, is influenced by consumption, savings, investments, and net trade, according to macroeconomic theories and general knowledge. However, it is equally important to investigate the impact of other national indicators on economic growth.

Various researchers attempt to establish connections between different macroeconomic variables and shed light on which factors have the greatest contribution to economic growth. Furthermore, this has been an area where scholars have measured and compared different results by analyzing past trends, current developments, and future projections of economic growth determinants, always aiming to enhance people's well-being.

Predicting the future, in terms of how multiple scenarios are created based on historical economic growth data and other variables, presents a significant challenge for most researchers. Various studies have attempted to draw parallels between macroeconomic variables and derive conclusions on the impact of internal and external factors on the economy, such as remittances, foreign direct investment (FDI), exchange rates, and inflation rates. These efforts and challenges become increasingly complex over time in the context of forecasting and identifying the key factors influencing the economy.

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Furthermore, it is widely believed that if accurate predictions and results are achieved, they can be used as a tool to improve the standard of living in the respective economies. Various researchers argue that foreign financial inflows, such as remittances and foreign direct investment, serve as the most significant "infusion" and a key driver of economic growth, particularly in developing economies.

Most policymakers promote investments and simplify procedures to attract more foreign capital or foreign direct investments, with the primary goal of fostering economic growth and improving the living standard of their citizens. On the other hand, several studies have attempted to analyze whether foreign financial inflows, such as remittances, impact economic growth. Given that both Kosovo and Albania are developing economies, the number of emigrants leaving these countries and their role both in terms of incoming remittance flows and the level of foreign direct investments show a tendency for positive growth. Furthermore, capital inflows create opportunities for reducing unemployment and increasing household wealth, forming a chain reaction that contributes to economic growth through taxation and other alternative means.

On the other hand, foreign financial inflows encompass not only physical capital but also managerial expertise, technological advancements, and the dissemination of knowledge in general, thus having a broader impact on a country's economy [1]. Furthermore, Pessoa [2] argues that foreign direct investment (FDI), as a form of foreign financial inflows, occurs as a result of globalization and the free international movement of capital, aiding countries in their transition process.

This research aims to expand the scope beyond the impact of remittances and foreign direct investments and include other macroeconomic and financial parameters that may influence economic growth. Through empirical analyses, two econometric models will be developed for both countries to measure the effect of foreign direct investment, remittances, gross capital formation, inflation rate, and exchange rate on economic growth.

2. Literature Review

Foreign direct investments (FDI) and remittances are two key components that shape the economies of these two countries. Remittances refer to incoming financial flows from emigrants to their countries of origin, while foreign direct investments represent capital inflows in the form of investments in the local economy. This study explores the impact of foreign direct investments, remittances, gross capital formation, interest rates, and exchange rates on economic growth in Kosovo and Albania.

Until 2000, Kosovo experienced low levels of investment due to its undefined international status. According to Riinvest Institute [3] besides the government, key promoters of FDI attraction included the Kosovo Chamber of Commerce, USAID-KBS, Euro Info Center, and various foreign representative offices. Reports from the Central Bank of Kosovo (CBK) indicate that foreign direct investments have generally followed a positive trajectory, with the exception of 2007, when a decline was observed. This drop was attributed to low institutional trust, unstable policies at both central and local levels, fiscal barriers, administrative obstacles, and other structural challenges. More recently, the Outlook [4] shows that FDI in Kosovo reached €844.3 million in 2023, accounting for 8.7% of the country's Gross Domestic Product (GDP). Furthermore, the report reveals that FDI inflows were primarily concentrated in real estate activities (60.6%), followed by financial and insurance activities, and the energy sector.

According to reports published by the Central Bank of Kosovo (CBK), remittances in Kosovo have also shown a positive trend. However, they continue to play a particularly important role for less developed countries with large trade deficits by helping to reduce this gap. Based on the annual reports published by the Central Bank of the Republic of Kosovo [5] it is stated that remittances in Kosovo represent one of the main sources of financing household consumption and serve as a stabilizing factor for social conditions by reducing the pressure on the state budget.

Data published in the 2023 Annual Report of the Central Bank show that the total value of remittances in 2023 reached €1.3 billion, accounting for 13.9% of Kosovo's GDP, representing an increase of 9.9% compared to the previous year. Furthermore, these findings are supported by trends in

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increased emigration, as reported by the World Bank [6] which highlights that international mobility has become a key development strategy for Kosovo. The report notes that, relative to its population size, Kosovo ranks among the top five countries with the highest emigration rates globally. According to the report's data, between 2012 and 2020, approximately 245,000 individuals emigrated from Kosovo

Moreover, an increasing trend of emigration is also observed in Albania. According to the World Bank [7] international mobility has become a key development strategy for Albania, and it has been noted that between 2010 and 2021, an average of 16% of the total population emigrated. This rise in migration has also contributed to the growing role of remittances in Albania's economic development. According to the same source, in 2022, remittances accounted for an average of 9.9% of Albania's GDP. Based on the literature, remittances not only meet essential family needs but are also channeled into investments in productive or financial activities. According to annual reports published by the Bank of Albania, it is observed that from 2008 to 2013, remittances showed a declining trend[1]. A revival of remittances has been evident from 2013 onwards, and by 2024, this resurgence is attributed to the increased number of emigrants from the country.

Given its significance, numerous researchers have examined the impact of remittances and FDI on economic growth. In this context, Narayan, et al. [8] conducted an empirical analysis of developing countries during the period 1995–2004. Their findings indicated that both remittances and FDI contribute not only to inflationary pressures but also to economic expansion. Building upon this perspective, Moreano, et al. [9] investigated the dynamic relationship between remittances, capital formation, structural transformation, and economic growth. Their study emphasized the growing relevance of remittances in recent decades, noting their contribution to social welfare and their broader impact on economic development. Furthermore, Wehncke, et al. [10] analyzed the relationship between economic growth, FDI, and official development assistance using the Panel ARDL approach. Their findings revealed that FDI has a positive effect on economic growth, while official development assistance plays a significant role in fostering long-term economic development. However, the authors argue that capital formation is also affected by remittances through increased household income, which can be transferred as a gift to another family, opening new avenues for further research in this field.

Capital formation represents the accumulation of capital within an economy, which can be interpreted in various ways, such as a country's capital stock. In modern times, this concept is often linked to factors such as savings, public debt, capital market development, and other economic concepts discussed in various economic literature sources.

The empirical results of Boamah, et al. [11] show that Gross Fixed Capital Formation and Net Foreign Direct Investment (FDI) inflows have a positive and significant impact on economic growth. Through their empirical analysis of the economies of these Asian countries, the authors demonstrated that both FDI and Gross Fixed Capital Formation have a substantial and positive effect on growth. These findings suggest that policies should be directed towards promoting investments in Gross Fixed Capital Formation as well as in attracting Foreign Direct Investment.

Elaborating on the relationships between macroeconomic variables is a crucial aspect, where the need for a clear perspective from both sides and a comprehensive analysis of variable interdependencies is essential. Based on general economic knowledge, it is evident that economic stability and an improved standard of living for people are directly linked to economic growth. However, this issue extends even further when examining the impact of economic growth on other national indicators.

Following this perspective, according to Tintin [12] the size of GDP, trade openness, economic freedoms, and political rights play a significant and positive role in the inflows of FDI. The author analyzed six Central and Eastern European countries (CEEC) for the period 1996–2009 and identified that the factors influencing FDI inflows vary depending on major investors such as the EU-15, China, Japan, and the United States.

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According to Di Maria and Lazarova [13] the migration rate is significant in many cases for the level and composition of human capital. The authors also argue that the migration rate creates a chain reaction that affects the economic growth rate through human capital formation. Similarly, Nikas and Blouchoutzi [14] through an empirical analysis of Romania, Bulgaria, and Albania, which are among the countries with the highest emigration levels, concluded that remittances have a positive impact on economic growth.

In this context, Matuzeviciute and Butkus [15] analyzed the interaction between remittances and economic growth across 116 countries with different development levels for the period 1990–2014. By using methodologies such as Ordinary Least Squares (OLS) regression and first differences, the authors identified a significant and positive relationship between remittances and economic development. Although many researchers have recognized the positive role of remittances in economic growth, the emphasis has been placed on how these funds are utilized, particularly in financing investment-oriented projects [16].

A study on these indicators was also conducted by Ghosh and Saha [17]. Their research findings confirm a positive and significant effect of FDI on economic growth in developing countries. However, improvements in three specific indicators, institutional quality, government effectiveness, and the legislative framework, enhance the impact of FDI on economic growth.

Furthermore, Gjançi and Çërava [18] and Gjançi and Çërava [19] using the ARDL method for the period 1992–2012, analyzed the relationship between FDI and economic growth (GDP). Based on their results, the authors concluded that there is a long-term positive relationship between these two variables. Similarly, Boriçi and Osmani [20] following the same line of research and analyzing the case of Albania from the early 1990s during the democratization process, discovered a positive relationship between FDI and economic growth.

The exchange rate and interest rate emerge as variables that, directly or indirectly, influence most macroeconomic indicators. Various countries use the exchange rate to impact exports, which are a crucial component of GDP, while interest rates are utilized to control monetary policy, indirectly affecting a wide range of macroeconomic variables.

Using the VECM method, specifically Johansen's co-integration method, Çakërri [21] conducted an analysis on the impact of the exchange rate on capital formation, inflation, economic growth, and other variables in Albania. The author did not find a significant impact of the exchange rate on the Albanian economy as a whole, but highlighted its crucial role in capital formation, particularly in influencing foreign financial flows. Expanding on this analysis, Kurtović [22] examined the effect of the exchange rate in Albania for the period 1994–2015, using the VECM model and impulse response analysis for empirical testing. The author found a positive impact of the exchange rate on Albania's trade balance, both in the short term and long term. Furthermore, Nikas and Blouchoutzi [14] used the Granger causality method to analyze the relationship between remittances and the real effective exchange rate, applying three lags. By examining the last three years of remittance inflows in Albania, they identified that through "expenditure pressure", the exchange rate significantly influenced the conversion of remittances. Similarly, Ceesay and Limbe [23] explored the link between remittance inflows and exchange rate dynamics, suggesting that a sustained increase in remittances may lead to long-term currency overvaluation.

On the other hand, researchers widely support the notion that a reduction in interest rates fosters capital formation and promotes economic growth, positioning it as a vital tool for policymakers. Moreover, the interest rate remains a key instrument for stimulating or stabilizing macroeconomic performance. In this context, Odhiambo [24] empirically analyzed the impact of interest rates on economic growth using two different methods. The author found that interest rate reforms positively influence economic growth and serve as an essential tool for controlling monetary levels in the market.

Njie and Badjie [25] argue for a long-term relationship running from the real interest rate and the real exchange rate to GDP. Consequently, they recommend prudent budget management and the avoidance of unnecessary expenditures that could lead to fiscal deficits.

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That said, interest rates and exchange rates are critical instruments for economic control in the post-financial crisis period. This occurs for several reasons, including: improving the trade balance, stabilizing fiscal policy, promoting investments, and restoring the equilibrium of the financial system within the economy.

3. Research methodology

The purpose of this research is to examine the impact of FDI, remittances, and macroeconomic factors on economic growth. The study will analyze the contribution of these indicators in Albania and Kosovo, as described in the following sections: foreign financial inflows, including remittances and FDI, Gross Fixed Capital Formation (GFCF), inflation, and exchange rate movements on economic growth (GDP growth).

All these variables are based on secondary data sources, obtained from online databases of the Bank of Albania, the Central Bank of Kosovo, and the World Bank. The data has been collected on a quarterly basis for the period 2011–2024 and is expressed in millions and percentages. Furthermore, to ensure unit comparability, the variables have been transformed accordingly. Specifically, the conversion of values from millions to percentages is performed using the logarithm transformation of the variables, while FDI is incorporated with a lag structure (lags).

The data processing and analysis will be conducted using SPSS software. Through regression analysis and the ARMA model, this study seeks to address the following research questions:

1. Do remittances contribute to economic growth?
2. How do foreign direct investments influence economic growth?
3. Is there a relationship between remittances and inflation?

The general model follows a linear form, as presented below:

$$Yjt = \beta j + \Sigma\beta\kappa\ X\kappa\ jt + \varepsilon jt \qquad (1)$$

By substituting the variables into the model, we obtain the following equations:

$$Yjt = \beta j + \Sigma\beta_1 X_1jt + \Sigma\beta_2\ X_2jt + \Sigma\beta_3\ X_3jt + \Sigma\beta_4\ X_4t + \varepsilon jt \qquad (2)$$

Where:

- Y = Real GDP (indicator of economic growth)
- X_1 = FDI (Foreign Direct Investments)
- X_2 = Rem (Remittances)
- X_3 = GFCF (Gross Fixed Capital Formation)
- X_4 = CPI (Inflation)
- X_5 = AEC (Average Exchange Rate)
- β0 \ beta_0 = Intercept term

By substituting the above indicators, we develop the following model:

Model I (Kosovo)

$$GDPjt = \beta 0 - \beta FDIjt + \beta Remjt + \beta GFCFjt + \beta CPIjt + \beta AECjt + \varepsilon it \qquad (3)$$

Model II (Albania)

$$GDPjt = \beta 0 - \beta FDIjt + \beta Remjt + \beta GFCFjt + \beta CPIjt + \beta AECjt + \varepsilon it \qquad (4)$$

4. Research Results

Through empirical analysis, we attempt to answer the questions raised above. In line with the methodology, we use two econometric regression models to analyze the impact of foreign inflows such as remittances and FDI, Gross Fixed Capital Formation (GFCF), Inflation, and the exchange rate, on economic growth (GDP growth). To further deepen the analysis, we have also used the correlation between remittances and inflation to identify the relationship between these two variables

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4.1. Regression Analysis Results

Referring to the results, we see that the two econometric models for Kosovo and Albania are statistically significant (p=0.000<0.05, p=0.032<0.05), presented in Tables 1 and 2.

Table 1.
Regression Model Summary for Kosovo[b].

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.630[a]	0.397	0.330	1.6346586	0.397	5.919	5	49	0.000

Note: a. Predictors: (Constant), Rem, FDI, FCF, AER, CPI
b. Dependent Variable: GDP.

Table 2.
Regression Model Summary for Albania[b].

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.464[a]	0.215	0.135	2.5057	0.215	2.684	5	49	0.032

Note: a. Predictors: (Constant), Rem FDI, GFCF, AER, CPI
b. Dependent Variable: GDP.

Additionally, in the multicollinearity analysis, referring the result, we see that the tolerance and VIF values are lower than ten and close to one, respectively, confirming that the independent variables do not exhibit strong multicollinearity. Furthermore, from the model summary, we observe that 33% of GDP variations in Kosovo and 21.5% in Albania are explained by remittances, foreign direct investments, gross fixed capital formation, the average exchange rate, and inflation.

Table 3.
Regression coefficients and their statistical significance Kosovo.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-80.972	37.593		-2.154	0.037		
	Rem	0.010	0.027	0.041	0.352	0.727	0.994	1.006
	FDI	2.910	0.882	0.410	3.301	0.002	0.870	1.150
	GFCF	10.073	4.529	0.596	2.224	0.031	0.187	5.359
	CPI	0.665	0.215	0.389	3.094	0.003	0.846	1.181
	AER	24.205	11,706	0.576	2.068	0.044	0.173	5.796

Note: Dependent Variable: GDP.

Table 4.
Regression coefficients and their statistical significance Albania[a].

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-106.617	30.657		-3.478	0.001		
	REM	20.039	6.579	0.659	3.046	0.004	0.342	2.920
	FDI	1.558	5.667	0.036	0.275	0.785	0.911	1.098
	CPI	-1.741	1.705	-0.146	-1.021	0.312	0.780	1.282
	AER	30.803	8.658	0.718	3.558	0.001	0.393	2.542
	GFCF	-1.621	5.131	-0.041	-.316	0.753	0.957	1.045

Note: Dependent Variable: GDP.

From the results presented in Tables 3 and 4, we observe that remittances in Kosovo do not have a statistically significant impact, whereas in Albania, remittances have a positive and significant effect on

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economic growth. This confirms that Albania's economic growth is significantly influenced by remittance inflows compared to Kosovo.

On the other hand, foreign direct investments (FDI) have had a positive and significant effect in Kosovo, suggesting that FDI is a key factor in the country's economic growth. Contrary to the findings in Kosovo, FDI in Albania has had a positive but statistically insignificant effect, confirming that FDI has not been an effective driver of economic growth in Albania.

The results show that gross fixed capital formation (GFCF) in Kosovo has had a significant impact ($\beta = 0.596$, $p = 0.031$) on economic growth, emphasizing the importance of investments in stable capital for the country's economic development. In contrast, in Albania, gross fixed capital formation did not have a significant impact on economic growth. The results indicate a negative effect, possibly due to high long-term fixed asset investments in Albania, leading to a shortage of funds for short-term investments that could stimulate economic growth more rapidly.

One of the key macroeconomic parameters tested in this study is the exchange rate's impact on economic growth. Based on the results, we observe that in both Kosovo and Albania, the exchange rate has a statistically significant and positive impact on economic growth. These findings suggest that a stable exchange rate or a slight currency depreciation can stimulate economic growth. Unlike Kosovo, which is part of the Eurozone and does not have the ability to influence exchange rates, Albania has its own national currency, meaning fluctuations in the exchange rate can promote exports and imports, contributing to economic growth.

The last macroeconomic indicator analyzed is inflation, which in Kosovo had a significant impact on economic growth. This effect may be attributed to the fact that the euro has been more stable compared to the Albanian lek.

Regarding inflation, an additional correlation analysis between remittances and inflation was conducted in both countries, which is presented in Tables 5 and 6 at the end of the article. The results indicate a Pearson correlation of 0.42 for Kosovo and 0.41 for Albania, confirming that remittances and inflation have a moderately strong positive relationship (Sig. (2-tailed) = 0.002 and 0.001, respectively), which is statistically significant.

These findings suggest that an increase in remittances contributes to a rise in inflation rates and vice versa.

Table 5.
Correlation between Remittances and Inflation in Kosovo.

		Rem	CPI
Rem	Pearson Correlation	1	0.422**
	Sig. (2-tailed)		0.002
	N	56	52
CPI	Pearson Correlation	0.422**	1
	Sig. (2-tailed)	0.002	
	N	56	52

Note: **. Correlation is significant at the 0.01 level (2-tailed).

Table 6.
Correlation between Remittances and Inflation in Albania.

		Rem	CPI
Rem	Pearson Correlation	1	0.416**
	Sig. (2-tailed)		0.001
	N	56	56
CPI	Pearson Correlation	0.416**	1
	Sig. (2-tailed)	0.001	
	N	56	56

Note: **. Correlation is significant at the 0.01 level (2-tailed).

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5. Discussion of Results

In line with the research objective, this study empirically analyzed the effects of remittances, foreign direct investments, and other macroeconomic parameters on economic growth in two developing economies. The findings suggest that remittances have a positive effect on economic growth, addressing the first research question.

The positive and statistically significant effect was observed in Albania, indicating that the country's economic growth is largely driven by remittances. In contrast, the findings for Kosovo show that remittances do not have a statistically significant impact on economic growth.

The reason for the insignificant effect of remittances in Kosovo lies in the fact that remittance inflows are primarily directed toward consumption rather than productive investments. As a result, their impact on economic growth remains limited.

On the other hand, according to a report published by Riinvest Institute [26] the existing economic growth model in Kosovo has been consumption-driven for the past 25 years. Over the last two years, around 3.4% of economic growth has been stimulated by consumption, while only 1.7% has been driven by investments.

The findings of this study align with those of several other researchers who have investigated the effect of remittances on economic growth. Comes, et al. [27] analyzed the impact of remittances in six Central and Eastern European countries, with results confirming that remittances had a positive effect on economic growth. Similarly, Khatir and Güvenek [28] examined the role of remittances in SAARC countries, finding a positive relationship between remittances and economic growth.

Moreover, the authors recommended that government policies in these countries should focus on maximizing remittance inflows and ensuring their productive use to support economic growth and reduce unemployment.

Regarding the impact of foreign direct investments (FDI) on economic growth, the results indicate a positive effect in both countries, providing an answer to the second research question of this study. FDI had a significant impact on Kosovo's economy, demonstrating that economic growth in Kosovo is strongly driven by this factor.

According to a report published by the American Chamber of Commerce in Kosovo (2021), the net FDI inflows over the past nine years accounted for 4.55% of Kosovo's GDP, a result that is aligned with the findings of this empirical analysis.

Based on this report, FDI contributes to economic growth through human capital accumulation, technological innovation, foreign trade, and stimulation of domestic investments. Foreign direct investments in Kosovo have been primarily concentrated in financial activities, the energy sector, and mineral resources. During this period, the financial sector, in particular, expanded its activities, contributing further to Kosovo's GDP growth.

In Albania, foreign direct investments (FDI) had a positive effect on economic growth but were not statistically significant, confirming that economic growth was not driven by FDI.

FDI in Albania has been primarily concentrated in the energy sector, real estate assets, and financial services, which are non-productive sectors. As a result, their distribution across the broader economy has been limited. These findings are also supported by the fact that a significant portion of investors in Albania may repatriate their profits rather than reinvesting them domestically. On the other hand, according to Çakërri [21], the insignificant effect of FDI on economic growth is explained by the fact that a large share of FDI is directed toward the export market and is primarily attracted by low-cost resources rather than contributing directly to the local economy.

The impact of FDI has also been analyzed by numerous researchers. Boudiaf and Henniche [29] found that FDI had a very weak effect on long-term economic growth, while in the short term, there was no impact at all. The authors attribute these findings to the lack of appropriate conditions necessary to attract and incubate FDI in most Arab countries.

However, other studies provide evidence of a positive effect of FDI on economic growth. Ayenew [30] conducted a study on 22 Sub-Saharan African countries, confirming that FDI has a positive impact

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on economic growth. Similarly, Demeti and Rebi [31] who analyzed the period 2002–2013, found a positive relationship between FDI and productivity, which in turn leads to economic growth.

Gross fixed capital formation (GFCF) had a significant positive effect on economic growth in Kosovo, but this effect was not confirmed in Albania. These results suggest that Kosovo experienced a substantial increase in FDI, indicating that FDI was channelled effectively GFCF. Similar findings are reported by Boamah, et al. [11] who also highlight the strong link between FDI, GFCF, and economic growth in developing countries.

This demonstrates that FDI played a crucial role in Kosovo's post-war period, helping the country achieve greater economic stability and growth. Ayenew [30] also confirmed the positive effect of capital formation on economic growth in his research on African countries.

Within this study, the exchange rate had a positive effect on economic growth in both countries, suggesting that economic growth in Kosovo and Albania can be stimulated by a stable exchange rate.

Blonigen [32] using data on Japanese acquisitions in the United States across three-digit SIC industries from 1975–1992, argues that exchange rate fluctuations can influence FDI in a form of acquisitions. This is because such acquisitions involve firm-specific assets that generate returns in currencies different from those used for the purchase, which aligns with the relationship between FDI and exchange rate movements.

The correlation analysis between inflation and remittances in both countries addresses the final research question: Does an increase in remittances correlate with inflation growth? The findings confirm a positive relationship between these two factors, suggesting that an increase in remittances can contribute to higher inflation and vice versa.

These results align with the findings of Odhiambo [24] who empirically analyzed the impact of interest rates on economic growth using two different methods. His results confirmed that interest rate reforms positively influence economic growth and serve as a crucial tool for controlling monetary levels in the market. Similar conclusions were also suggested by the study of Njie and Badjie [25] who emphasized the long-term relationship between interest rates, exchange rates, and GDP.

6. Conclusions

This study examined the impact of foreign direct investments (FDI), remittances, gross fixed capital formation, exchange rate, and inflation on economic growth. The analysis was conducted from the perspective of two developing economies over the period 2011–2024, using quarterly secondary data. The study employed empirical analyses, including the ARMA regression model and correlation analysis, to investigate the relationship between remittances and inflation.

Based on the results, we confirmed that remittances serve as a significant inflow with a positive effect on economic growth, particularly acting as a strong driver of economic expansion in Albania. Additionally, FDI, gross fixed capital formation, inflation, and the exchange rate had a positive effect on economic growth in Kosovo, suggesting that these indicators were key stimulators of the country’s economy. In contrast, in Albania, remittances, exchange rate stability, and inflation were the primary drivers of economic growth.

A key objective of this study was to examine the relationship between remittances and inflation, where the results indicated that increasing remittance inflows positively impact inflation in both countries.

The study recommends that both countries, especially Albania, should create a more favorable environment for attracting foreign direct investments. This can be achieved by improving infrastructure, enhancing fiscal policies, reducing bureaucratic barriers in administrative processes, and ensuring political stability.

Additionally, given the large number of emigrants from these countries, it is crucial to maximize remittance inflows. Specifically, the findings suggest that Kosovo should implement policies that encourage remittances to be directed toward investments, ensuring that their contribution stimulates economic growth rather than being primarily used for consumption.

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Further research is needed to assess the sectoral distribution of foreign direct investments in both countries, allowing for a better understanding of their impact on specific industries. Such analysis would help these economies direct FDI toward key industrial sectors through favorable policies, ultimately contributing to economic growth and employment generation.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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