

# Remittances and Macroeconomic Stability in North Africa: Impacts on Growth, Exchange Rates, and Labor Markets

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**How to cite this paper:** Rexhepi, D. (2025). Remittances and Macroeconomic Stability in North Africa: Impacts on Growth, Exchange Rates, and Labor Markets. *Modern Economy*, 16, 1021-1026.

<https://doi.org/10.4236/me.2025.167048>

**Received:** February 25, 2025

**Accepted:** July 11, 2025

**Published:** July 14, 2025

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## Abstract

Remittance inflows have emerged as a significant source of external finance for developing economies, particularly in North Africa. As globalization accelerates labor mobility, remittances play an increasingly critical role in shaping macroeconomic dynamics, from GDP growth to labor market structures. This paper examines how remittances impact economic stability in Egypt, Morocco, Tunisia, and Algeria, analyzing five key macroeconomic dimensions: GDP growth, exchange rates, balance of payments, inflation, and labor market participation. These dimensions are selected based on their prominence in both theoretical literature and policy relevance across remittance-receiving countries. The study also evaluates national policies aimed at maximizing the developmental impact of remittance flows. The remainder of this paper is organized as follows: Section 1 reviews the literature, Section 2 describes the methodology, Section 3 presents the empirical analysis, Section 4 discusses policy implications, and Section 5 concludes.

## Keywords

Remittances, Migration and Development, North Africa, Exchange Rate, Macroeconomic Stability, Brain Drain

## 1. Introduction and Literature Review

For this study, macroeconomic stability is defined as the condition where an economy experiences steady GDP growth, controlled inflation, sustainable external balances, and healthy labor market participation. Developmental impact refers to the ability of remittance inflows to promote long-term growth, capital formation, human development, and economic diversification.

The literature on remittances and macroeconomic outcomes presents both optimistic and cautionary views. Several studies, such as [Francois et al. \(2022\)](#), show a statistically significant long-term association between remittances and GDP growth across developing countries, including North Africa. Conversely, other scholars highlight risks of dependency, reduced labor force participation, and the potential for Dutch Disease, where remittance inflows may contribute to real exchange rate appreciation and reduced competitiveness of the tradable sector ([Daway-Ducanes, 2019](#)).

[Maimbo and Ratha \(2005\)](#) emphasize that while remittances provide valuable external financing, their predominant use for consumption rather than productive investment may contribute to inflation and limit developmental potential. In Egypt, [Mohamed Youssef \(2000\)](#) found a correlation between remittance-induced money supply growth and rising inflation, though causality remains debated. Similarly, [Narayan et al. \(2011\)](#) suggest that increased demand for non-tradables may distort prices and stimulate inflationary tendencies.

On exchange rates, [Mele and Marzovilla \(2015\)](#) highlight Morocco's adoption of a basket peg system to mitigate remittance-related exchange rate volatility, while [Bouoiyour and Rey \(2005\)](#) warn that such regimes may still overvalue domestic currencies. [Barrett \(2013\)](#), focusing on Latin America, demonstrates that remittance effects on exchange rates vary considerably by context.

Brain drain and labor market disengagement are additional concerns. [El Morabety and El Morabety \(2022\)](#) and [Abdelhamid \(2018\)](#) document fiscal costs associated with skilled migration from Morocco, while [Samet \(2014\)](#) and [Mohapatra \(2008\)](#) discuss potential brain gain through returning migrants or diaspora linkages.

In sum, while remittances contribute to macroeconomic stability and household welfare, they may also generate vulnerabilities, requiring careful policy responses to harness their developmental potential.

## 2. Methodology

This paper employs a qualitative comparative case study approach, based on extended thesis research. The five macroeconomic dimensions analyzed—GDP growth, exchange rate behavior, balance of payments, inflation, and labor market effects—were selected due to their central role in the literature as the primary channels through which remittances influence national economies ([Maimbo & Ratha, 2005](#); [Francois et al., 2022](#); [Narayan et al., 2011](#)).

Secondary data sources were collected through a structured literature search of peer-reviewed academic studies, international institution reports (IMF, World Bank, European Commission), and national statistics offices in Egypt, Morocco, Tunisia, and Algeria. Selection criteria included recency, empirical rigor, regional focus, and relevance to remittance flows. Thematic synthesis was applied to extract common patterns while accounting for country-specific differences.

The interpretive approach allows for cross-country comparisons while ac-

knowledging limitations such as informal transfer channels, data inconsistencies, and varying policy contexts (De Arcangelis et al., 2023; Maimbo & Ratha, 2005).

### 3. Macroeconomic Analysis by Country and Theme

#### 3.1. Morocco

Morocco offers a case where remittances account for approximately 6% of GDP (Kalantaryan & McMahan, 2021). The country's basket peg exchange rate regime has helped stabilize remittance value (Mele & Marzovilla, 2015), though overvaluation concerns persist (Bouoiyour & Rey, 2005). Remittances significantly contribute to Morocco's balance of payments, covering much of its trade deficit (Bouhga-Hagbe, 2006). However, Dutch Disease effects risk weakening the manufacturing sector (Daway-Ducanes, 2019).

Labor market impacts include increased employment in real estate and construction, particularly in rural regions (De Haas, 2006). Nonetheless, substantial brain drain persists, with many highly educated professionals emigrating (El Morabety & El Morabety, 2022; Abdelhamid, 2018).

#### 3.2. Egypt

Like Morocco, Egypt heavily depends on remittances, which constitute around 8.9% of GDP (Kalantaryan & McMahan, 2021). Egypt's 2016 shift to a floating exchange rate led to significant depreciation and inflation (Hrifa, 2023). Remittances cushion Egypt's trade deficit and contribute approximately 15% of total export revenues (Bouhga-Hagbe, 2006). However, research suggests remittance growth may exert inflationary pressures, though causal mechanisms remain complex (Mohamed Youssef, 2000).

Egypt faces extensive brain drain, with highly skilled emigrants representing over 50% of permanent migrants (Herve & Hall, 2021), limiting domestic human capital development despite improved household welfare.

#### 3.3. Tunisia

Tunisia presents a somewhat different experience. Remittances contribute 5% - 6% of GDP and exceed foreign direct investment (Habib, 2023). Evidence suggests remittances support private investment and mitigate inflation (Magda & Mirzaie, 2008).

Remittances have improved Tunisia's current account and funded investments in health and education (Hossain & Sunmoni, 2022). Labor market participation declines slightly due to remittance inflows, but policies promoting return migration and entrepreneurship help mitigate brain drain (Ensari et al., 2023).

#### 3.4. Algeria

Algeria's case stands apart due to its resource-based economy, where remittances represent only 1% of GDP (Kalantaryan & McMahan, 2021). Remittance effects on exchange rates and inflation are minimal. Still, Algeria faces significant skilled

emigration (Charum & Meyer, 2000).

The government has increasingly focused on diaspora engagement, such as the “Two-in-one” entrepreneurial program to mobilize diaspora investment (Djelti & Zapata-Barrero, 2024), signaling a policy shift toward private sector development and diversification.

## 4. Policy Implications

The analysis shows that while remittances can support macroeconomic stability, their developmental impact requires proactive policy design.

### 4.1. Strengthening Financial Channels

Formalizing transfer mechanisms and reducing transaction costs can maximize developmental benefits. Morocco’s efficient remittance corridors with the EU offer a regional model (Kalantaryan & McMahon, 2021).

### 4.2. Managing Exchange Rate Pressures

Dutch Disease risks necessitate complementary reforms alongside exchange rate management. Egypt’s floating regime underscores the need for inflation-targeting frameworks (Hrifa, 2023).

### 4.3. Mobilizing Diaspora Investment

Policies encouraging remittance use for productive investment can boost growth. Algeria’s entrepreneurial initiatives and Tunisia’s return migrant programs illustrate promising approaches (Djelti & Zapata-Barrero, 2024; Ensari et al., 2023).

### 4.4. Addressing Brain Drain

Retention and reintegration policies—such as research funding, skill transfer programs, and diaspora knowledge networks—can help mitigate brain drain effects (Samet, 2014; El Morabety & El Morabety, 2022).

### 4.5. Enhancing Economic Diversification

Reducing remittance dependency through broader sectoral development lowers vulnerability to external shocks, as Algeria’s diversification efforts demonstrate.

## 5. Conclusion

Remittances play a vital but complex role in North Africa’s macroeconomic landscape. They contribute to GDP growth, external account stability, and household welfare but may also fuel inflation, contribute to real exchange rate appreciation, and exacerbate labor market disengagement. Brain drain remains a shared challenge undermining long-term development.

Country experiences differ in policy effectiveness. Morocco’s financial reforms and Tunisia’s diaspora programs show encouraging results, while Egypt and Algeria require further institutional strengthening. Ultimately, comprehensive poli-

cies encompassing financial formalization, diaspora engagement, skill retention, and economic diversification are essential to convert remittance inflows into sustainable national development drivers.

## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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