ZIBELINE INTERNATIONAL™ PUBLISHING
e-ISSN: 3009-1098
CODEN: JTWEAG

JOURNAL OF THIRD WORLD ECONOMICS (JTWE)

DOI: http://doi.org/10.26480/jtwe.01.2024.31.35

REVIEW ARTICLE

A REVIEW OF IMPACT OF REMITTANCE ON NEPALESE ECONOMY

Asmita Chalise

Department of Agricultural Economics and Agribussiness Management,
Agriculture and Forestry University (AFU)
Corresponding Author Email: asmitachalise9@gmail.com

This is an open access article distributed under the Creative Commons Attribution License CC BY 4.0, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

ARTICLE DETAILS

Article History:

Received 20 February 2024
Revised 15 March 2024
Accepted 02 April 2024
Available online 04 April 2024

ABSTRACT

Remittance refers to the private income transferred by migrant individuals back to their home country either periodically or regularly. Remittance is an essential source of foreign income for developing countries like Nepal. Poverty, lack of employment, lower wage rate, political instability are major push factors for labour migration. The remittance to GDP ratio of Nepal is highest among the countries of South Asia. In the fiscal year 2023, there was a rise in remittance inflows, which can be attributed to the significant numbers of individuals migrating outside the country. Remittances have partially alleviated poverty, redcued income inquality and enhanced the living conditions of people living in rural areas. While remittance brings some economic advantages to the country, it is equally important to acknowledge the potential long-term negative effects. The increased remittance inflow hasn't contributed much to expand export however has contributed to increased import through excessive consumption. The export sector faces decline from 20031 million in FY2021/2022 to 157140.7 in FY2022/2023. The economy of Nepal is facing appreciation of real exchange rate due to large remittance inflow and use of remittance income on non-productive sector. There is need to devise policies that promote long term growth.

KEYWORDS

GDP, Import, Migration, Labour

1. INTRODUCTION

Remittance refers to the part of the income that migrant individuals send from their destination back to their home country. While remittance can be sent in various forms, the term typically pertains to monetary and cash transfers made by international migrant workers to their place of origin(Chhetri et al., 2020). It is part of private income transferred regularly or periodically to home country. In 2022AD Nepal was ranked as the 9th country in terms of remittance inflows and it contributes significantly to its GDP (World Bank, 2023). This is an essential source of foreign income for developing nations such as Nepal.

The economy of Nepal has always been primarily based on agriculture. Even today, the agricultural sector contributes 24.1% to the country's GDP. However, the nature of agriculture in Nepal is predominantly subsistence-based farming. As a result, many Nepalese individuals have opted for employment in non-agricultural sectors or have chosen to emigrate to other countries in search of better opportunities. This shift in population towards emigration and the declining interest in agriculture is gradually transforming Nepal's economy into remittance-based economy. The present trend shows that the Nepalese economy is being increasingly dependent upon remittance(Gurung, 2020).

Looking back in the history, remittance started in Nepal with Gorkha remittance(Gaudel, 2007; Pant and Budha, 2016). Migration of labour is not a new phenomenon. The international labour migration become more formal in Nepal after people started to work in British army. This was only after Sugauli treaty when Britain begin to recruite Gorkhas(Pant and Budha, 2016). Nowadays Nepalese going abroad is not only for military purpose but also for employment opportunities worldwide(Gaudel, 2007). The factors that pushes international migration are rapid population growth, lack of employment opportunities in own country, increasing tax burden, political instability, higher demand for labour in industrialized country etc(Shrestha, n.d.). Labour migration has increased more rapidly particularly after globalization(MoLESS, 2022). Upon the enactment of the 1985 Labour Act, the government recognized the benefits associated with the migration of foreign workers (Pant and Bahadur Budha, 2016).

2. LABOUR MIGRATION

Nepal has approved labour permit to 111 countries. There have been significant changes in migration situation in Nepal in recent decades. The number of citizens applying for employment overseas has increased drastically. The various factors contributing to the increased migration are poverty, limited employment opportunities, conflicts, as well as social, environmental, and political issues. Additionally, increase in the demand for workers, along with higher wages has played an important role in labour migration. The labour migration sector was severely impacted by COVID-19 during the years 2019/20 and 2020/21. With restrictions on the entry of foreign nationals, lockdown, spread of virus throughout the world mobility of labour had come to a standstill for several months. The number of labours leaving the country have increased post-COVID (MoLESS, 2022). The number of people taking approval for labour migration has increased from 354660 in FY 2021/2022 to 497704 in FY 2022/2023(*Figure 1*). 277272 has renewed their labour approval in FY2022/2023 which faces a decline compared to previous year which was 282453(NRB, 2023a).

Quick Response Code	Access this article online	
	Website: www.jtwe.com.my	**DOI:** 10.26480/jtwe.01.2024.31.35

Cite The Article: Asmita Chalise (2024). A Review of Impact of Remittance on Nepalese Economy. *Journal Of Third World Economics (JTWE), 2(1): 31-35.*

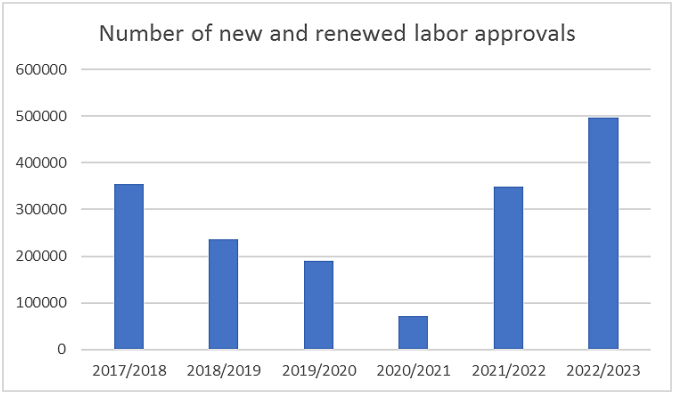

Figure 1: Number of new labours approval

Source: Data from 2017/2018 to 2021/2022 from labour migration report,2022 and 2022/2023 from MoF

2.1 Channels Of Remittance Flow

The main channels through which remittance enters the country are of two types. They are:

I. Official channels: The official channels include banks, financial institutions etc. Nepal Rastra Bank (NRB) has implemented various measures to promote migrant workers to send remittances through official channels. There has been arrangement to provide an additional 1 percent interest on remittance funds received through banking channels from Nepalese individuals working abroad who decide to deposit their earnings. Non-resident Nepali open a deposit account in Nepal more easily(MoF, 2022).

II. Unofficial channels: The process involves various methods, including personal networks, agents, hawala/hundi, and remittances in the form of consumer items. These consumer items are either brought by the workers themselves or sent with someone else. Informal channels are commonly used due to the open border with India, as there is no official database for tracking these transactions. Out of the total amount of NPR 128.5 billion (approximately USD 1 billion) remitted to Nepal from India in 2018/19, an estimated NPR 38 billion (around USD 295 million) (29.6 percent) was transferred through informal means. The lack of financial and digital literacy among migrant workers and their families, as well as the absence of migrant-centric products and services, are significant obstacles to formalizing the inflow of remittances (NRB, 2022).

3. Impact of Remittance on Economy

3.1 Remittance in Flow

The inflow of remittance and its annual change over the years has been depicted in figure 2. The inflow of remittance has increased over the years. Over the past 10 years there has been sharp increase in remittance from Rs. 543.29 billion to Rs. 1220.56 billion. Compared to 2022 remittance inflow in September, 2023 has increased by Rs. 228.37 billion which is 22.10% higher compared to the same time of previous year. In the fiscal year 2023, there was a rise in remittance inflows, which can be attributed to the significant numbers of individuals migrating outside the country. The annual percentage change in remittance has shown significant variation over the years. It has remained positive till date except in the fiscal year 2019/20 which was due to Covid-19 impact (MoLESS, 2022).

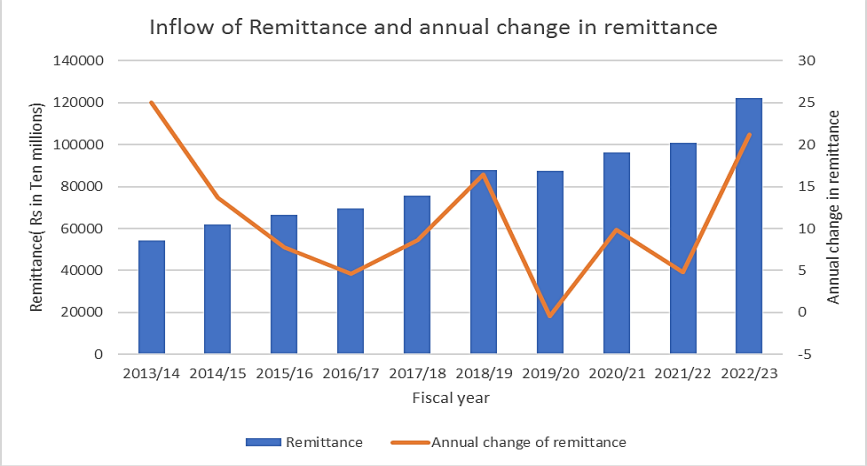

Figure 2: Inflow of Remittance and annual change in remittance

Source: Ministry of finance

In terms of remittance inflow, Nepal is one of the top ten countries in south Asia as depicted in figure 3.

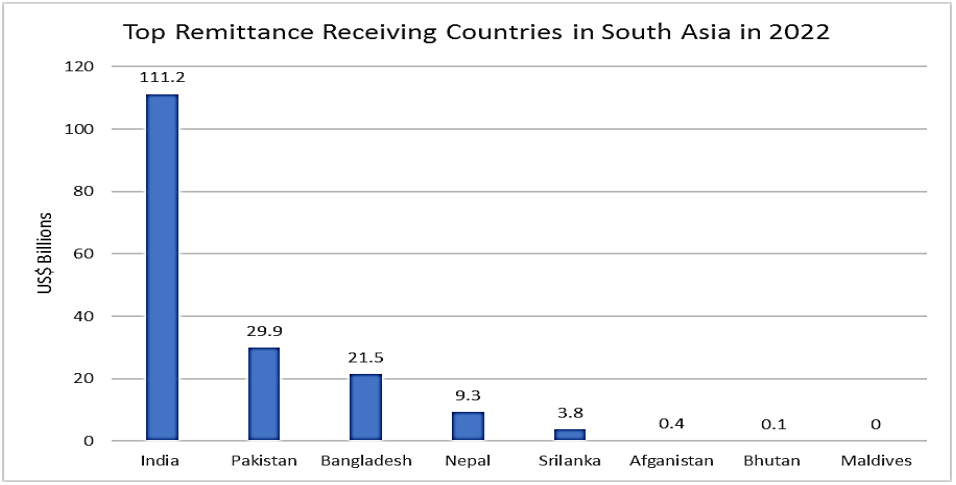

Figure 3: Top Remittance receiving countries in South Asia

Source: World bank

3.2 Remittance As A Percentage Of GDP

The contribution of remittance to national economy is measure through remittance to GDP ratio as shown in figure 4. The average of remittance to GDP ratio for the last ten years was 23.02 (Dhungana, 2012). During this period remittance as a percentage of GDP has ranged from 20.42 to 24.34. It was highest during FY2015/16 and lowest during FY2021/2022. The remittance inflows as a percentage of GDP increased from 20.4 percent in FY22 to 22.7 percent in FY23. This rise can be due to several factors such as high emigration rates in the previous year, depreciation of the Nepalese Rupee (NPR) by 8.2 percent against the US dollar, the mandatory requirement to allocate 10 percent of Initial Public Offering (IPO) shares to Nepalis working abroad by Nepalese company starting from November 2022, and some measures of social security benefits being extended to Nepalis working abroad, to commence in March(World Bank, 2023). The increase in remittance to GDP ratio shows the rise in inflow of remittance and its increasing contribution to national economy(Pant and Budha, 2016).

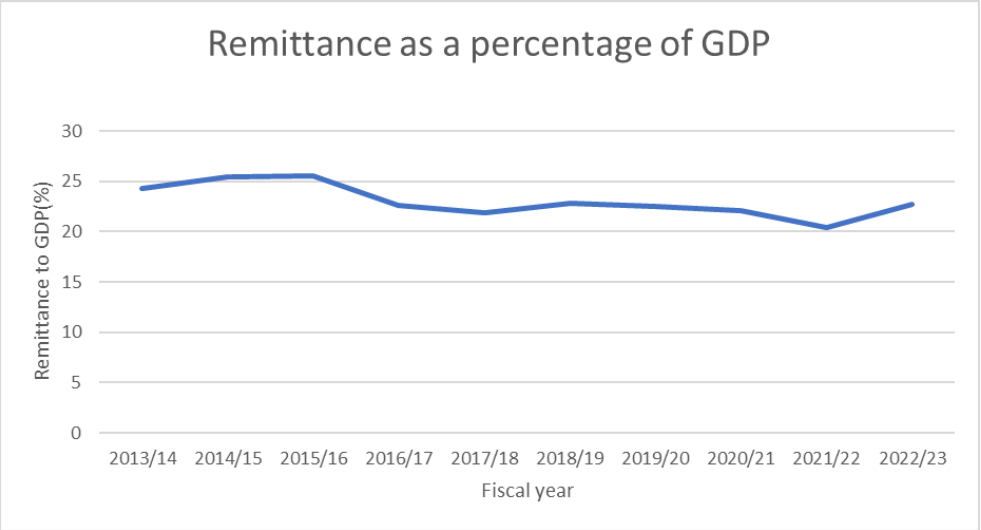

Figure 4: Remittance as a percentage of GDP

Source: Ministry of finance

3.3 Relationship Between Remittance Inflow And GDP

The contribution of remittance inflow to GDP is shown in figure 5. Both GDP and remittance inflow are increasing during recent years. The correlation coefficient between GDP and remittance is 0.984 and is significant at 1% level of significance which indicates positive relationship between remittance inflow and GDP. Thus, with the increase in remittance, GDP of the country will also increase. There has been rise in remittance both in terms of sheer numbers and in comparison, to the national GDP due to increase in the number of migrant workers (Sijapati et al., 2017). The remittance to GDP ratio of Nepal is highest among countries of south Asia(Banjara et al., 2020; Chandra, 2023). Remittance positively influence consumption, saving and investment and leads to economic growth (Chhetri et al., 2020).

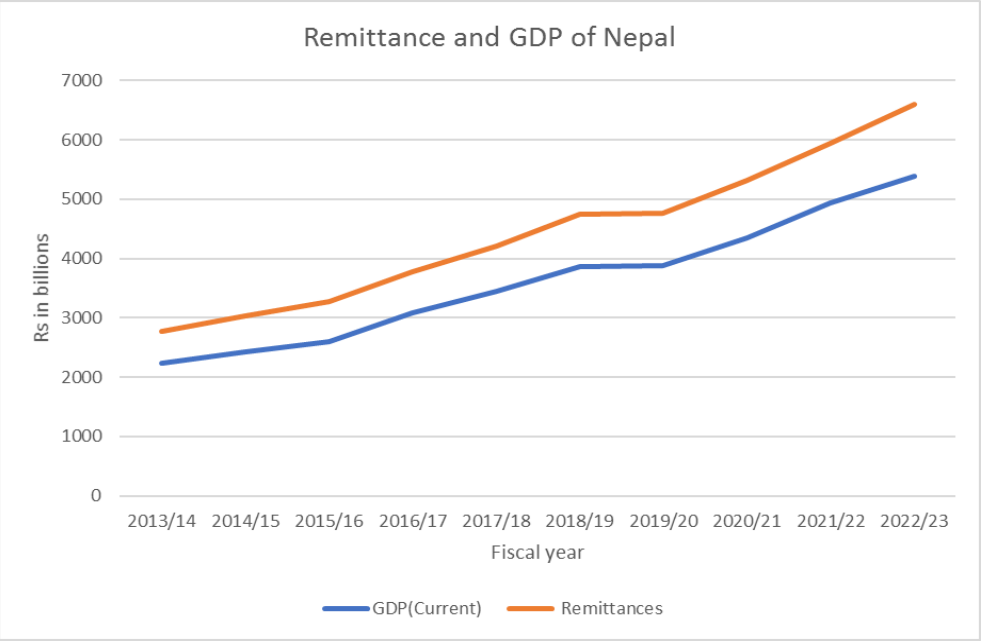

Figure 5: Relationship between GDP and Remittances

Source: Ministry of finance

3.4 Comparison Of Remittance And Inflation

Over the time inflation and remittance as a percentage of GDP has changed variably. Inflation was found to highest during 2015/16 after that there was sharp decline in inflation till 2017/2018. It was least during 2020/2021. Remittance as percentage of GDP has remain higher than inflation. The increased influx of remittance has boosted the money supply. However, it has failed contributed to domestic value creation leading to a significant gap between the country's production capacity and the demand (NRB, 2023b). The correlation coefficient between remittance and inflation was found to be 0.691683 and it was found significant at 5% level of significance. It shows there is strong positive relationship between remittance and inflation thus increase in remittance causes increase in inflation.

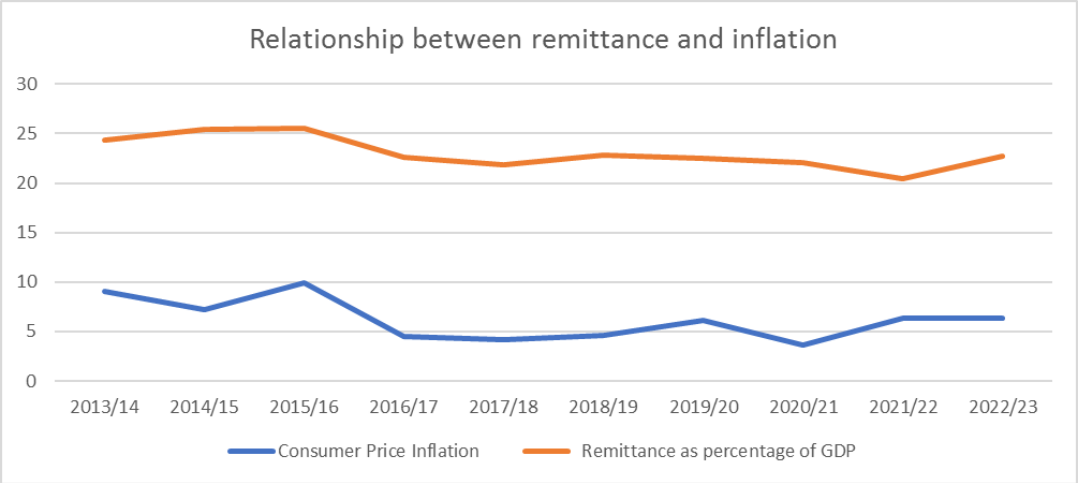

Figure 6: Relationship between remittance and inflation

Source: Ministry of finance

3.5 Comparison of remittance with import, export

There was sharp incline in import of goods from FY2019/2020 to FY2021/2022. It shows declining trend from FY2021/2022 to FY2022/2023 primarily due to Indian trade restriction and domestic policies. It has been made mandatory to keep cash margin upto 50 to 100% while opening the import letter of credit for some specialized items (MoF, 2022). The increased remittance inflow hasn't contributed much to expand export. The export sector faces decline from 20031 million in FY2021/2022 to 157140.7 in FY2022/2023. The higher inflow of remittance has resulted in reduced domestic production because of migration of required labour force. It has increased imports over the year and the situation is more exacerbated due to open border with India(Uprety, 2017). In long run, remittance causes dependency and increase in import of goods because of investment of money in unproductive sector (Banjara et al., 2020).

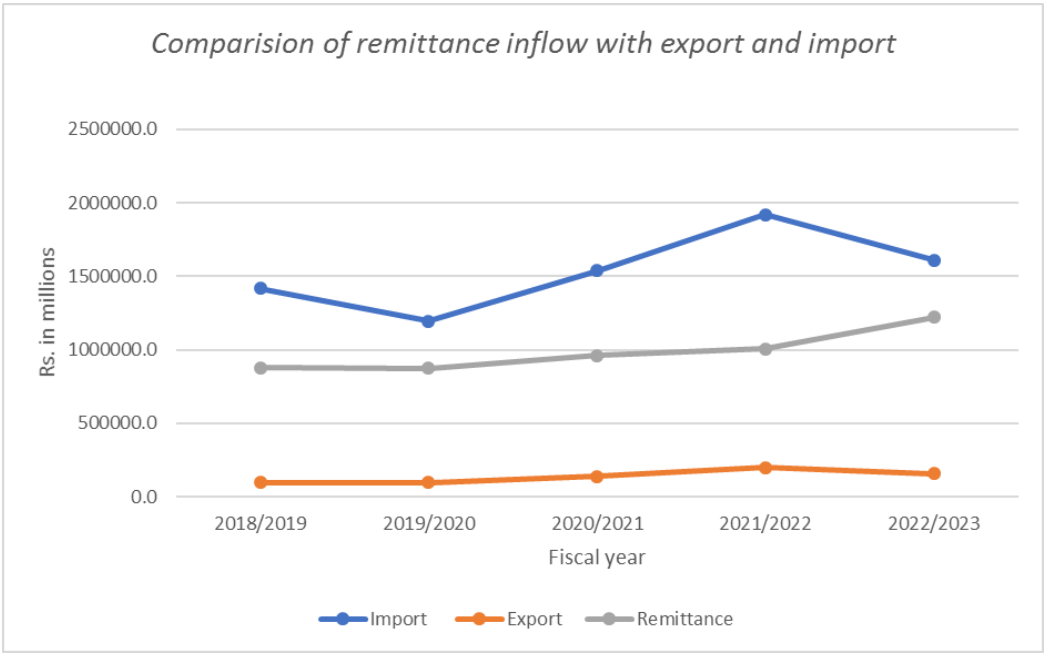

Figure 7: Comparision of remittance inflow with export and import

Source: Nepal Rastra Bank

4. Remittance and Socio-Economic Progress

A large part of labour force of Nepal resides outside the country. The remittance sent by this labour force has become the backbone of Nepalese economy. This situation has created both positive and negative impact in socio-economic development of Nepal(Uprety, 2017).

It has been recognized that remittance is one of the six pillars of economy (Shrestha, n.d.). Remittances have empowered households to increase consumption levels, improve nutrition, access better health care, education and housing (NRB, 2020). The large portion of the funds sent as remittance are utilized for household expenses and repaying loans that were taken out prior to or to fund for going abroad (Seddon et al., 2002). Small amount is also used for investment. The primary type of investment includes funding for children education, lending money and reinvestment for future migration. Only small portion is used for productive sectors like trade, agriculture and manufacture(Shrestha, n.d.). Remittances have partially alleviated poverty, reduced income inequality and enhanced the living conditions of people living in rural areas. Nevertheless, it is crucial to recognize that there are adverse outcomes linked to remittances in Nepal.

The economy that faces appreciation of real exchange rate due to large remittance inflow and use of remittance income on non-productive sector suffers from Dutch disease (Polat et al., 2019). Nepal economy faces the similar condition. The economy of Nepal is too dependent on remittances, lowering the labour force participation, decreasing the competitiveness in the world market, brain drain and slowing economic growth (Gurung, 2020). Nepali citizens are currently facing issues related to moral hazard, such as a rise in conspicuous consumption behaviors like excessive drinking and partying. Additionally, there is a lack of emphasis on developing a culture of saving, leading to a significant increase in imports compared to exports. This trend results in money being spent on unnecessary consumption and unproductive sector that do not contribute

to Nepal's economic development. Nepal Rastra Bank estimates that out of total amount being remitted only 3.5 per cent is being used in productive sectors like capital formation and investment whereas 70 per cent is spent paying back loans and on daily consumption(NRB, 2016). concluded that only 2% of total remittance inflow results in capital formation (Byanjankar, 2021).

5. Conclusion

Remittance contributes almost one fourth to the total GDP of the country. The remittance has shaped national economy in so many ways. It has created both positive and negative impact on the economy of Nepal. The increasing trend of outward migration and remittance inflow has not only served as foreign currency reserve but also improved socio-economic condition of Nepalese. It has contributed to reduce rural poverty, improve the living standard of migrant families and overall nation. The use of remittance and skills in productive sector will create multiplier effect in national economic development. Though the countries that receives remittances experience short term socio-economic advantages, it can also have negative effects on a nation's trade competitiveness. This can be evident as increased consumption, reduced savings leading to larger import. As the inflow of remittance increases it contributes to increase import of goods while decrease in export resulting from lower domestic production. This leads to real exchange rate appreciation, and use of remittance money in unproductive sector leading to Dutch disease. While remittance brings some economic advantages to the country, it is equally important to acknowledge the potential long-term negative effects. The government of Nepal should formulate policies that promote transfer of remittance through formal channels, their investment in productive sector through ample availability of investment opportunities. There is need to devise policies that promote long term growth. It is crucial to have a comprehensive understanding of the impacts of these behaviors in order to formulate specific policies that will maximize the benefits of monetary inflows for Nepal. There should be opportunities that attract migrant to return back and use their skills for economic development of the country.

References

Banjara, S., Karki, S., and Dumre, A., 2020. Assessment of remittance and its impacts on economic growth in Nepal. Archives of Agriculture and Environmental Science, 5(1), Pp. 61–66. https://doi.org/10.26832/24566632.2020.050109

Byanjankar, R., Sakha, M., Assistant, J., and Sbi Bank, N., 2021. Role of Remittances on Rural Poverty in Nepal: Evidence from Cross-Section Data.

Chandra, V., 2023. Remittance flows reached an all-time high in 2022 in South Asia. https://blogs.worldbank.org/peoplemove/remittance-flows-reached-all-time-high-2022-south-asia

Chhetri, R. K., KC, P., and Dhakal, S. C., 2020. Remittance and its Impact on Nepalese Economy. Acta Scientific Agriculture, 4(3), 01–05. https://doi.org/10.31080/asag.2020.04.0818

Dhungana, B. R., 2012. Remittance and Nepalese Economy. Saptaprawaha, Journal of SMC, Bharatpur.

Gaudel, Y. S., 2007. Remittance Income in Nepal: Need for Economic Development. Journal of Nepalese Business Studies, 3(1), 9–17. https://doi.org/10.3126/jnbs.v3i1.491

Gurung, D., 2020. Remittance and the economy of nepal: The impact on emigration.

MoF. 2022. Economic Survey 2022. https: //mof. gov.np /uploads /document /file/ 1633341980 _ Economic%20Survey%20(Engslish)%202020-21.pdf

MoLESS. 2022. NEPAL LABOUR MIGRATION REPORT 2022. https: //moless. gov.np /storage/files/post_files/Nepal%20Labour%20Migration%20Report_ 2022.pdf

NRB. 2016. Saving and Investment Pattern of Remittances Recipient Households (Nepalese).

NRB. 2020. Nepal Ma Bipreshan Aprabaaha Sthiti (The Situation of Remittance Flow in Nepal).

NRB. 2022. Annual Report Fiscal Year 2021/22. www.nrb.org.np

NRB. 2023a. Current Macroeconomic and Financial Situation .

NRB. 2023b. Monetary Policy for 2023/24. https:// www. nrb.org. np/contents /uploads /2023/08/Monetary-policy-in-English-2023_24-Full-text.pdf

Pant, B., and Budha, B. B., 2016. Remittances and Exchange Rate Linkages: Experiences of Nepal.

Polat, B., and Rodríguez Andrés, A., 2019. Do emigrants' remittances cause Dutch disease? A developing countries case study. Economic and Labour Relations Review, 30(1), Pp. 59–76. https://doi.org/10.1177/1035304619828560

Seddon, D., Adhikari, J., and Gurung, G., 2002. Foreign Labor Migration and the Remittance Economy of Nepal. Critical Asian Studies 34, Pp. 19–40.

Shrestha, B., 2008. Contribution of Foreign Employment and Remittances to Nepalese Economy. www.un-instraw.org/en/grd/.

Sijapati, B., Lama, A. S., Baniya, J., Rinck, J., Jha, K., and Gurung, A., 2017. Labour Migration and the Remittance Economy The Socio-Political Impact.

Uprety, D., 2017. The Impact of Remittances on Economic Growth in Nepal Journal of Development Innovations. In Journal of Development Innovations (Vol. 1, Issue 1). www.karmaquest.org/journal

World Bank. 2023. Remittances Remain Resilient but Likely to Slow. https:// www.w orldbank. org/en/news/press-release/2023/06/13/remittances-remain-resilient-likely-to-slow

World.Bank. 2023.Nepal Development Update Restoring Export Competitiveness. www.worldbank.org