

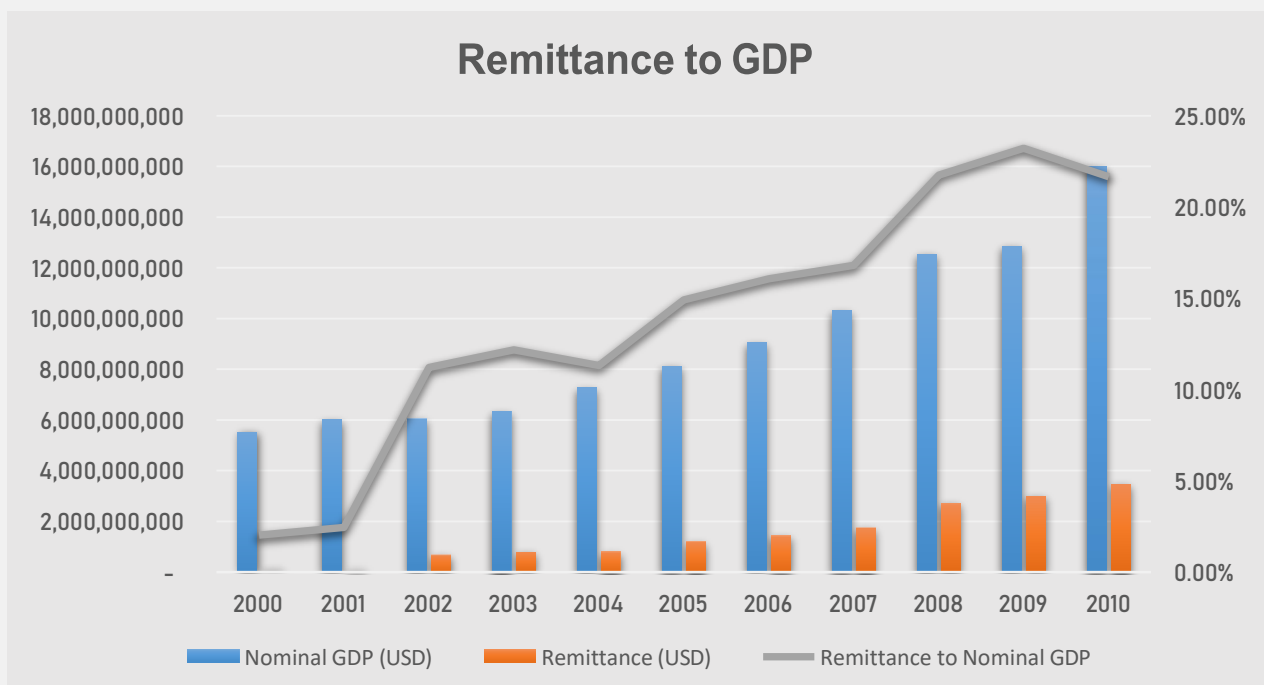
Emerging Trends in Remittance, Its Impact on GDP and Inflation in Nepal

History and Relevance of Remittance to Nepalese Economy

As the economy of every country hovers around inflation and interest rates, an additional factor plays a very critical role in our economy, Remittance. Remittances play a crucial role in the global economy but its significance to Nepal is of utmost importance. As of 2022 remittance to nominal GDP of Nepal stands at 22.76% according to World Bank data. This is estimated to grow even further at around 24.50% as of 2024.

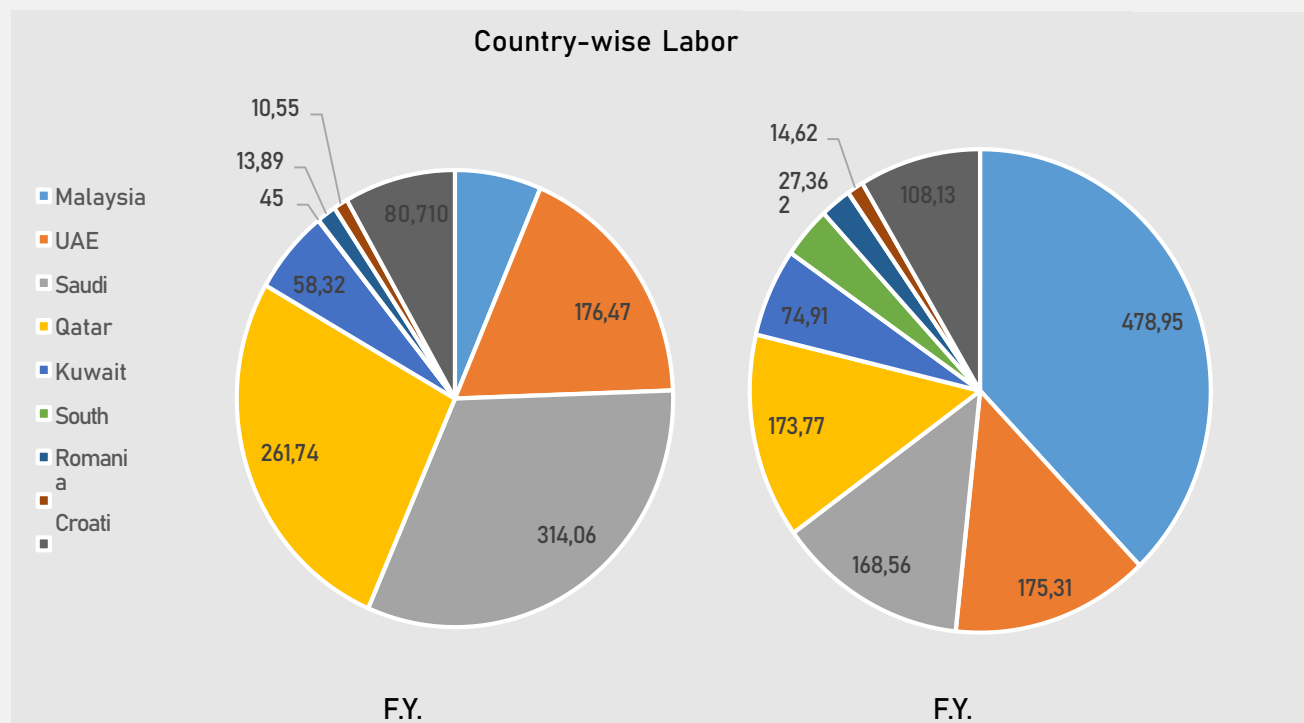
The formally recorded history of remittance in Nepal dates back to post Anglo-Nepal War of 1814-16 AD when the Sugauli Treaty was signed between the East India Company and the Nepalese side. Nepalese joining the East India Company as army personnel is said to have formally started the inflow of remittance to Nepal. This trend grew even larger as demand for youth grew in the British army during both World War I and II. Historically, the salaries of those army personnel and their pension after their retirement were the major sources of remittance for the country.

As access to opportunities grew due to globalization Nepal's working-age population migrated to different parts of the globe in large numbers mainly to fulfill their economic need. The government of Nepal signed the first Foreign Employment Act in 1985, formally recognizing and managing foreign employment through the Act. Foreign migration for employment grew significantly in the first decade of the 21st century fueled by different factors: political, social, and economic. As data suggest, the remittance amount grew from USD 111 million in 2000 AD to USD 3.464 billion in 2010 indicating a growth of 31 times over the period of a single decade. This increase fueled the dependency of the Nepalese economy on remittance as the remittance to nominal GDP ratio grew from 2.03 % in 2000 AD to 21.65% in 2010 AD.



Remittance for Nepalese Economy

Remittance over the years has played a crucial role in both micro and macro aspects of the Nepalese economy. It is the major source of household income and consumption in most of rural Nepal. This amount serves as a fund for basic needs consumption like food, shelter, health, and education as well as for investment in small businesses ultimately contributing to improving the standard of living in rural Nepal. Over the last decade, the major aspiration of rural youth has been to support their household from remittance income as the Nepalese economy shifts largely from an agriculture-based economy to a service-based economy. The major destination countries for these youth have been Malaysia, Qatar, Saudi Arabia, United Arab Emirates, and Kuwait with some traveling to South Korea after passing the Employment Permit System (EPS) test. Also, there's an unaccounted Indian part of this story. People from Terai and the western hills of the country who cannot afford the cost of migration to the above-mentioned countries choose India as the top destination for employment. The number of migrant Nepalese workers in India is always a subject of discussion with most studies agreeing around two to three million. There is no official data available that can be relied upon.



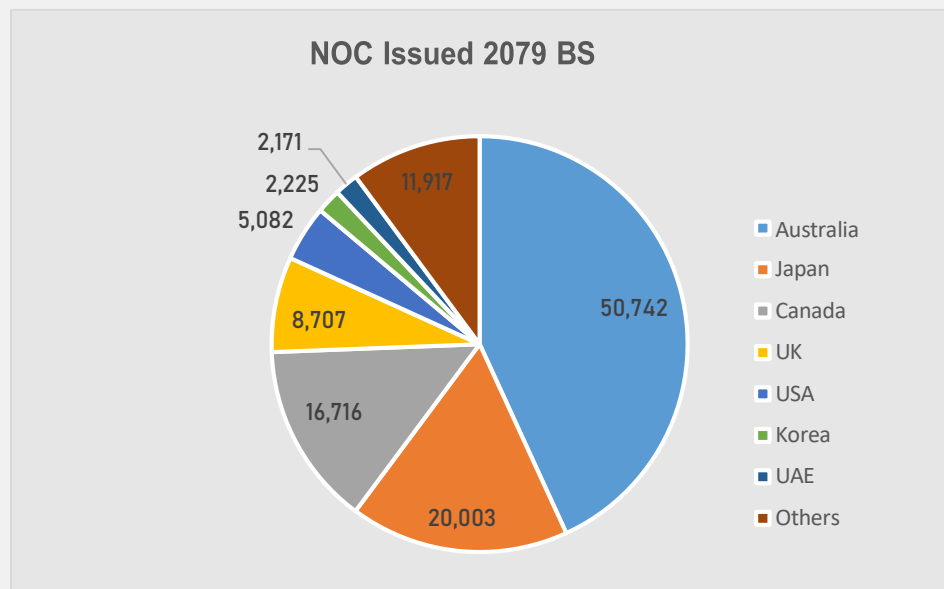
In recent years, remittances have been crucial for Nepal from a macroeconomic standpoint, significantly bolstering the country's Balance of Payments (BOP) and foreign exchange reserves. Despite Nepal's imports surpassing exports by tenfold, effective management of the BOP and forex reserves has been sustained largely through remittance inflows. Moreover, remittances have been instrumental in fostering economic stability and enhancing social welfare, thereby supporting Nepal in achieving its goals of poverty reduction.



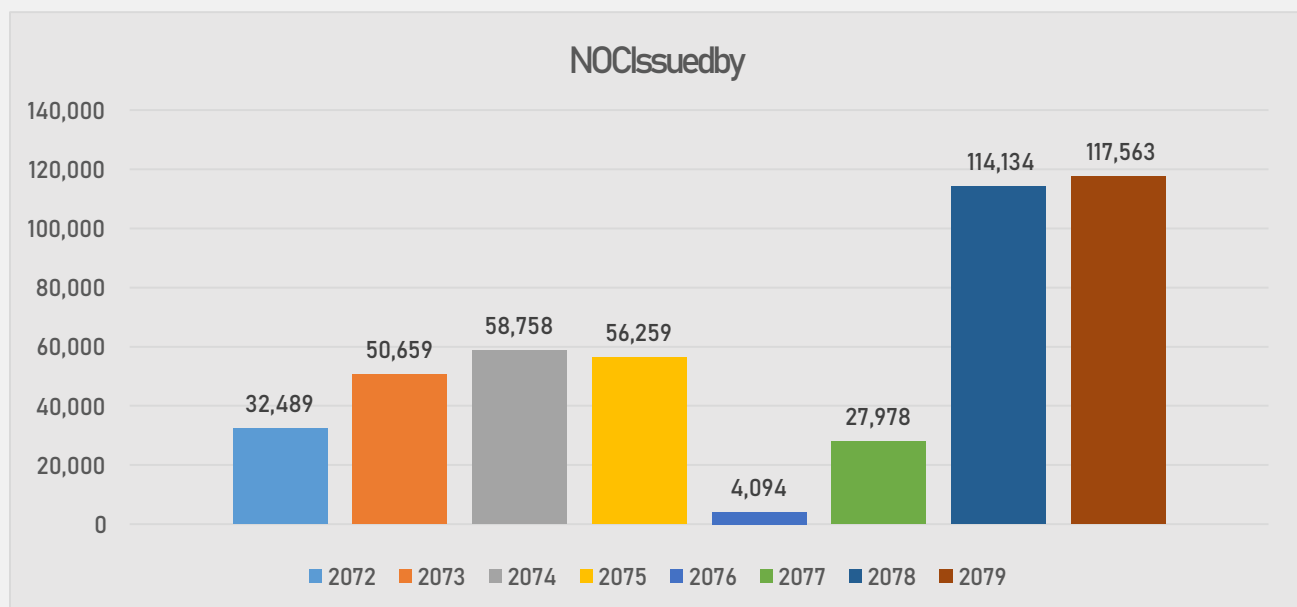
Emerging Trend in Remittance

In addition to migrant workers mentioned earlier, there is a growing trend of remittances from developed countries such as the USA, Australia, the United Kingdom, Canada, and Europe in Nepal, which is often overlooked in discussions. This trend is closely tied to the increasing migration of Nepalese students to developed countries for educational purposes in recent years. Many of these students opt to remain in these countries after graduation and join their workforce. Since their employment in these countries does not require approval or permits from Nepalese labor or governmental authorities, official figures on Nepalese nationals in the workforce of these developed countries are unavailable. As we analyze the trend in the No

Objection Certificate (NOC) issued by the Ministry of Education in recent years we can easily predict that a large number of this workforce resides in countries like Australia, Japan, the USA, Canada, the United Kingdom, and the rest of Europe. During 2079 BS a total of 117,563 No Objection Certificate was issued by the Ministry of



Education with 43% of NOC issued for Australia alone, followed by Japan at 17%, Canada at 14%, the United Kingdom at 8%, the United States 4% and so on.



Source: Ministry of Education, Science and Technology



The question arises whether these students serve as a source of remittances for Nepal. It is argued that even if these students join the workforce in their respective countries, they can't afford to send remittances to Nepal due to issues like high living costs and better investment opportunities in these developed countries. However, World Bank data on net remittance inflows to Nepal suggests otherwise. Out of the top 6 countries which sent remittances to Nepal in 2021 the bottom 3 are the United States, Australia, and the United Kingdom respectively.

S. No.	Destination Country	Net Remittance received (In Million USD)	Contribution %
1.	Saudi Arabia	1,691.98	26.05%
2.	Malaysia	1,684.72	25.94%
3.	Qatar	1,098.59	16.91%
4.	United States	684.18	10.53%
5.	Australia	466.58	7.18%
6.	United Kingdom	224.54	3.46%
7.	Others	644.70	9.93%
	World	6,495.29	

Source: World Bank Data, 2021

New labor permits issued to migrant workers peaked at around 500,000 during 2012/13, the new labor permits issued to migrant workers declined to around 200,000 in 2018/19 and again remained around 500,000 post-COVID. Post-COVID figures also include a new trend of worker migration to European countries like Romania, Croatia, Poland, and Malta. While labor permit issuance reached its peak a decade ago and is now recovering, the increasing number of students studying abroad remains a significant yet unrecognized contribution by policymakers. This workforce not only contributes directly through remittance but also through technical know-how and promotion of Nepal in their respective country. A rise in Nepal's IT sector exports and new Business Process Outsourcing (BPO) industries are the perfect examples of these contributions.

Conclusion

Considering the recent scenario of an increase in outward migration of all skilled, semi-skilled, and unskilled manpower from the country, the Nepalese economy seems to be moving towards more dependency on remittance and other foreign sources of income. The increase in household income due to remittances boosts



overall consumption and investment levels. Countries like India, Philippines, Bangladesh, etc. have shown remarkable GDP growth with some level of attribution to high remittance inflows. The consumption patterns of households are significantly determined by their receipt of remittance income which ultimately contributes to GDP calculation and demand-pull inflation. A sudden change in consumer behavior due to the fast growth of remittance can impact price levels in the economy in an unforeseen manner.

Central banks play a crucial role in managing the impact of remittance on inflation and interest rates through monetary policy. Some study suggests that remittance inflows can lead to fluctuations in interest rates in response to changes in economic conditions. We emphasize the importance of fostering a deeper understanding of remittance trends for informed economic decision-making. As we navigate the landscape of remittance flows, we must carefully consider the implications for sustainable economic development and prosperity. In conclusion, the growing trend of remittance has a profound impact on GDP, inflation, and interest rates in Nepal. Understanding and harnessing this impact is crucial for policymakers to formulate effective economic strategies. As remittance continues to rise, its implications on the Nepalese economy are expected to increase, shaping the future of economic growth and stability. Remittance trends can influence policy decisions related to monetary and fiscal policy. Policymakers must adapt to the changing dynamics of remittance to maximize its positive impact on the economy. Collaboration between government institutions, financial regulators like NRB, international agencies, and non-resident Nepalese are essential for leveraging the potential of remittance for economic growth.

