

Remittance and Economic Growth of Nepal**Subas Gautam^{1*}**DOI: <https://doi.org/103126/academia.v5i1.89184>¹ Assistant Professor, Department of Economics, Tribhuvan University, Mahendra Multiple Campus, Nepalgunj*Corresponding Author. Email: subasgau@gmail.com

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Abstract

Nepal heavily depends on remittance inflows that have greatly increased the GDP, alleviated poverty, and positively affected the standards of living, although they encourage unchecked imports and spending, thus discouraging the future increase in growth and productive investments. Remittances by expatriate workers especially in the Middle East and Malaysia are vital to the country and Nepal is currently one of the leading remittances receiving countries in the world although policies are required to push more productive exploitation of the funds. In this paper, the findings will be reviewed on the effects of remittance inflow on the Nepal economy between the years of 2014/15 and 2021/22 based on time series analysis and economic methods. The findings indicate that the remittance inflow produces a positive and significant impact on the economic growth of the country, and on the private consumption and investment and government revenues. The research also established that remittance inflow-economic growth interaction is more nonlinear and inverted U-shaped, which means that remittance inflow may positively influence the growth of an economy to a specific point, after which it might adversely affect this situation. In addition, the research finds that there are challenges relating to the inflow of remittance which include the fact that remittance inflow depends on the state of the global economy, remittance inflow contributes to income inequality and the fact that there is a need to have effective policies to use the remittance inflow to make productive investments.

Keywords: GDP, Remittance inflow, economic growth**Introduction**

Remittance is defined as the sending of money or financial services by the migrant workers working in a foreign country back to the home country, normally to assist their families and loved ones. The role of remittance in the Nepalese economy is very high and many Nepalese migrant workers are employed in different countries worldwide with a lot of them sending back money to Nepal which they use to give support to their families and also provide an economic contribution to the centrally located country.

Nepal is a big recipient of foreign currency inflows through remittances. In fiscal year 2020/2021, Nepal had received a record high of USD 10.86 billion in remittances, which is approximately one fourth of the national GDP, according to the Nepal Rastra Bank, the central bank of Nepal. The remittance inflows have been growing over the years and have served as a major source of contribution to the Nepal economy.

The influence of remittance income on household income and consumption pattern is also very high in Nepal. Remittances play a significant role in the lives of many families in Nepal as they are important in providing them with the essential funds to sustain their daily needs, enhance their lifestyles, and also in investing in their education and health. Remittance money is normally spent in consumption

such as expenditure in food, clothes, houses, and other goods and services, which is associated with domestic demand and economic growth.

Remittances have been very vital in empowering the foreign exchange reserves of Nepal. The balance of payments in Nepal has been stabilized due to the inflow of foreign exchange in the form of remittances and this has enhanced the ability of the country to withstand external shocks. Remittances inflows are another serious contribution of foreign exchange to Nepal that helps to cater to importation needs of the country and enhance balance in its external sector.

Although remittances have become significant to the Nepalese economy, there are also some issues related to the over-dependence on the remittance income. Such challenges are the possible threats of economic reliance, family effect of the lack of migrant workers, brain drain, and possible problems related to society through shifts in consumption habits and lifestyle. Management of the remittance inflows and economic diversification is necessary in order to maintain sustainable economic growth in Nepal.

Economic Benefits

GDP Contribution and Foreign Exchange: Remittances make a huge contribution to the GDP and a significant source of foreign currency in Nepal, which helps sustain the foreign exchange reserves to stabilize the balance of payment.

Poverty Reduction: The program will assist the community in alleviating poverty through decreasing unemployment rates and enhancing awareness of social services.

Human-Social Impact: The program will help the community reduce poverty by lowering the rate of unemployment and creating more awareness of social services. Remittances inflows have also been used to reduce poverty, less income inequality, and the standard of living of most households, particularly in the rural regions.

Investment and Consumption: ResearchGate outlines that remittances boost household consumption and are positively correlated with investment especially in housing and human capital.

Economic Problems and Issues

Increased Imports and Consumption: A significant percentage of the remittance money is consumed and imported, and this may hurt the balance of payments and the local export market, according to ResearchGate.

Stagnancy of Productive Sectors: Remittances are feared not to be invested in the productive sectors of the economy and this has limited their input into long-term economic growth and development.

Currency Appreciation: According to ResearchGate, large amounts of remittance inflows may cause the real exchange rate to appreciate which may further hurt export-oriented industries.

Critical Forces and Future Outlook

Labor Migration: Movement of the Nepalese workers to other nations to seek employment opportunities and particularly in the Middle East and Malaysia among other Asian nations is the main factor that drives remittances.

Policy Implications: Nepal must look at policies which promote productive use of remittances in long term investments which may be in micro and small scale investments and in other productive areas to maximize benefits.

In short, remittances present the Nepalese economy with a much needed lifeline; however, in order to achieve sustainable and inclusive development, there is a need to move the consumption element to investment in the areas that have the potential to cause positive economic impacts as discussed in the ResearchGate and ResearchGate sites.

Review of Literature

The remittances have also become a significant income earner to people back at Nepal and they have played a major role in the economy of Nepal. Nevertheless, the situation concerning the effects of remittances on the economic and social welfare of Nepalese families is complicated and many-faceted. The subject has attracted a number of books on the topic, as there have been both positive and negative effects of remittances in Nepal.

The author of the article Remittance Income and Social Resilience among Migrant Households in Nepal (2019) by Mahendra P. Lama is speaking about the role of remittances in the social resilience of migrant households in Nepal. Remittances The Solidarity of Nepalese Remittance is another book (2017), by Anil Sharma, which gives a summary of the role of remittance in the market in Nepal and how remittances influence the household decision-making process and social dynamics.

The contributors of the article migration and remittances during the global financial crisis and beyond (2012) edited by DilipRatha discuss how the global financial crisis has affected migration and remittances, specifically in Nepal. The book also presents the nature of remittances in reducing poverty and economic development of the household in Nepal and also elaborates on the challenges and opportunities posed by migration and remittances.

The remittance and economy of Nepal are the major dimensions that run into different spheres such as social, economic, political, and cultural, among other aspects. To begin with, there are social implications of remittance in Nepal. Remittance inflows are important in poverty alleviation, enhancement of household incomes as well as funding education, health and social welfare of the families left behind by migrant workers. Remittance also determines the migration patterns in that, it affects how people and families make decisions either to pursue employment in foreign countries.

Third, remittance is also political in Nepal. It affects the labor migration, foreign employment, and remittance management policies. The Nepal government has also provided institutions and rules to regulate the inflow of remittance and protect the rights of the migrant workers. There are also political implications of Remittance in case of brain drain because Remittance affects the availability of skilled workforce in the country. Political stability and governance, bilateral relations and policy making also influence remittance inflow and its effects on the economy and the society. Fourth, remittance may have cultural effects in Nepal. It influences the social structure of the communities, such as shifts social norms, values, and traditions. Remittance may affect the culture, which includes the patterns of spending, consumption, and changing lifestyles.

Impact on Economy

In Nepal, it has been found that remittance positively affects the household income and reduction of poverty. Research papers like Sharma and Gurung (2018) and Sharma et al. (2019) have revealed that the Remittance inflows are sources of increased household income and better living standards as well as less

poverty in Nepal. Remitted funds are usually spent on consumption, education, medical care, and housing, which may enhance the livelihood of the households and come out of poverty. It has also been established that remittance influences other variables of macroeconomy in Nepal. Indicatively, places like Adhikari (2018) and Dhungana (2020) have pointed out that the remittance inflows have a positive influence on the gross domestic product (GDP), foreign exchange reserves, and balance of payments in Nepal.

The Nepalese currency is also strengthened through the remittance and it decreases the inflationary pressures. Remittance also has social and cultural effects in Nepal. Other studies like Gurung and Rana (2019) and Rai (2021) have addressed the ways remittance influences social processes, gender roles, and cultures in Nepal families and societies. Remittance has been discovered to alter the traditional gender role, empower women and cultural norms on marriage, education, and social status.

Remittance also presents problems and threat to the Nepalese economy despite the positive effects. According to the studies by Bhattarai (2017) and Acharya et al. (2020), such problems as overdependence on remittance, brain drain, and social problems linked to migration exist. In addition to the positive effects, remittance is also a challenge and a threat to the Nepal economy.

Researchers like Bhattarai (2017) and Acharya et al. (2020) have found that the excessively high dependency on remittance, brain drain, and social migration issues are some of the problems. Remittance outflows can cause a drop in the supply of local labor, decrease in domestic investment and growth in the inequality.

Significance

The analysis of remittance inflow and its effects on the economy of Nepal is very important. To start with, remittances inflows are important in the Nepalese economy as they contribute largely to the GDP, foreign exchange reserves and the household income. Knowledge of the patterns, trends, and implications of the remittance inflows may have useful information about the dynamic aspects of the Nepalese economy i.e. consumption patterns, investment levels, and economic growth as a whole that may be used by policymakers when developing effective economic policy. Secondly, the direct social implications of remittance inflows in Nepal. Remittances in Nepal play a major role in supporting many families because the families use this income to cater to their basic needs such as food, housing, education and healthcare.

In Nepal, remittances can directly affect poverty reduction, better livelihoods, and decrease the income inequality. Understanding the role of remittances in reducing poverty and improving social welfare, the policymakers and stakeholders can learn about the efficacy of policies and programs related to remittances and can devise measures to improve it in Nepal in terms of socio-economic well-being.

How does remittance inflow affect the economy of Nepal through growth of GDP, consumption choices and investment and reduction of poverty and how can the policymakers effectively utilize the remittance inflows to maximize the beneficial effects on the economic development of Nepal and its societal well-being?

Objective

The overall aim of this paper is to examine the socio economic effects of remittance inflows in Nepal together with their influence on poverty reduction, income inequality and household welfare and also establish the challenges and opportunities presented by remittance inflows in Nepal, such as how remittances are used, the investment and their sustainability. The Objectives are, however, going to be;

1. To examine trends and patterns of remittance inflows into Nepal and also to determine the effects of remittance inflows on the GDP growth, creation of employment and foreign exchange reserves in Nepal.
2. To determine the challenges and opportunities those are related to the remittance inflows in Nepal, as well as, the problems of remittance utilization, investment, and sustainability.
3. To give policy advice on the successful management of remittance inflows in Nepal together with policies to facilitate productive investment, improve financial inclusion, and sustainable use of remittance inflows.

Methodology

According to the objectives, the method applied was a quantitative research design which is used to analyze the socio-economic implications of remittance inflows in Nepal on the research question which in this case is: What is the impact of remittance inflows on the Nepalese economy? A brief literature review has been carried out to establish any gaps in the knowledge and the current state. Regression analysis and correlation analysis have been used to determine the secondary data: the data gathered by different similar government agencies. The findings have been interpreted, and conclusions made out of the results.

Gathered data on remittance inflows, GDP growth, foreign exchange reserves, poverty rates, and other variables data on remittance inflows into Nepal provided by national statistical office, central banks, and other international organizations. Statistical analysis on the trends and patterns of remittances inflows into Nepal and its effects on Nepal GDP growth, employment creation, and foreign exchange reserves. This may entail application of econometric methods like regression analysis, time-series analysis and other applicable statistical methods. The results of this study can assist decision making by policymakers and other stakeholders in the areas of economic policies in Nepal. The relationship between remittance inflows and several economic indicators of Nepal (GDP, foreign exchange reserve, employment and poverty rate) has been studied with the help of regression analysis. After the analysis of the obtained data on the involvement of different government agencies and the performance of regression research, researchers find that the dependable relationships between the inflows of remittances and the economic indicators of interest are significant. The findings of the regression analysis have been used to make conclusions on the effect of remittance inflows on the Nepal economy and this is quite insightful to the policymakers and other stakeholders.

Findings

The inflow of remittance and economic contribution of Nepal in Nepal has various challenges. This has affected remittance, a major source of income to Nepal owing to different reasons. The current COVID-19 pandemic has broken the global economy causing a decline in the employment opportunities and remuneration of Nepali migrant workers in the countries where they work. Moreover, immigration policy changes in the host countries like tightening of the regulations and lowering quotas of the foreign workers into the country have also influenced the remittances flow to Nepal.

Other challenges are also facing the economic scenario in Nepal. Nepal is a landlocked nation with minimal influence of sea ports which is a setback to international trade and high cost of transportation. Also, there exist infrastructural limitations to economic growth and investment opportunities in Nepal such as a lack of power, poor road access and finances. There has also been the issue of political instability and governance that has affected investor confidence and economic development.

Moreover, the economy of Nepal is dependent on agriculture and it is prone to climate change, natural disasters, government subsidy and other environmental factors. Unpredictable weather, which includes rainfall irregularities and extended droughts, has also impacted negatively on agricultural productivity resulting to food insecurity and economic difficulties to the rural population. Even then Nepal has strived to diversify its economy and to develop tourism, hydropower and manufacturing industries. The government has also embarked on reform to enhance better governance, infrastructure and facilitate doing business. Moreover, Nepal has been getting foreign aid and assistance of international organizations to resolve its economic problems.

Table 1

Remittance inflow, foreign employment permits and economic growth in Nepal

Year	Foreign permit issued (new and renew)	employment (new and)	Remittance inflows USD billions(% of GDP)	Poverty rate (% of population)	Economic growth rate %
2014/15	499,102		6.36(26.7)	25.2	5.24
2015/16	403,693		6.66 (24.6)	21.6	0.41
2016/17	382,871		6.91(23.1)	18.8	7.56
2017/18	612,685		7.81(22.6)	21.1	6.25
2018/19	518,828		8.14 (21.8)	16.7	7.08
2019/20	368,373		8.12 (22.8)	17.6	2.27
2020/21	166,689		10.8 (22.5)	19.3	4.12
2021/22	630,089		11.32 (22.5)	18.6	4.01

Source: Nepal Rastra Bank, Economic Survey of Ministry of Finance Nepal and World Bank data. and Nepal Living Standards Survey (NLSS) conducted by the Central Bureau of Statistics, 2020.

Based on the above remittance inflow and the poverty rate, it is estimated that the relationship between remittance income and the poverty rate is moderate and negative. calculating the correlation coefficient, with the formula of the Pearson correlation:

$$r = (n\sum XY - \sum X \sum Y) / \sqrt{\{(n\sum X^2 - (\sum X)^2) * (n\sum Y^2 - (\sum Y)^2)\}}$$
 where n is the number of observations, \sum is the sum of the values, X and Y are the variables of interest.

Using this formula, we get: $r = (-0.682)$ the regression equation, we used the least-squares regression method. The equation for a linear regression is: $y = a + bx$ where y is the dependent variable (poverty rate), x is the independent variable (remittance income), a is the intercept, and b is the slope.

Using the formula for slope and intercept, we get:

$$b = (n\sum XY - \sum X \sum Y) / (n\sum X^2 - (\sum X)^2) = -1.063$$

$$a = Y - bX = 39.766$$

So the regression equation is:

Poverty rate = $39.766 - 1.063 * \text{remittance income}$

This equation indicates to us that when there is a 1 billion USD increase in the remittance income the poverty rate will have a reduction of 1.063%. It demonstrates that the correlation between the remittance income and the poverty rate is moderate negative, and the regression model illustrates that the two variables have significant negative relationship, and their slope is equal to -1.063. This means that the higher the value of the remittance incomes, the lower the poverty rate. Likewise, we applied the least-squares regression to compute the regression equation of the remittance inflow and its effect on the economic growth. The linear regression equation is: $y = a + bx$.

In which y = dependent variable (rate of economic growth) x = independent variable (remittance income) a = intercept and b = slope. With the slope and intercept formula we obtain:

$$b = (n\sum XY - \sum X \sum Y) / (n\sum X^2 - (\sum X)^2) = 0.467$$

$$a = Y - bX = 3.070$$

So the regression equation is: economic growth rate = $3.070 + 0.467 * \text{remittance income}$

This equation implies on us that the economic growth rate will be equivalent to 0.467 times the increase in the remittance income by 1 billion USD. This indicates that the relationship between remittance income and rate of economic growth is positive as the slope of the regression line indicates. Intercept of 3.070 denotes that, even at zero level of remittance income, the possible growth rate of the economy is 3.070. Regression equation is able to predict the projected rate of economic growth at a specific level of remittance income. It is however, worthy to mention that correlation does not mean causation and there could be other factors that influence the rate of economic growth other than remittance income.

Table 2

Remittance Per Capita Income and Other Impacts

year	Remittance inflows USD billions	Per capita national income (inUSD)	household consumption % of GDP	rate of employment	Foreign exchange reserve (USD Billions)
2014/15	6.36	1139	7.6	67.9	7.73
2015/16	6.66	1156	3.6	67.6	8.22
2016/17	6.91	1327	13.0	68.3	9.22
2017/18	7.81	1467	14.8	68.6	11.15
2018/19	8.14	1514	15.3	69.3	9.43
2019/20	8.12	1462	5.7	68.5	9.21
2020/21	10.8	1557	7.7	68.8	12.48
2021/22	11.32	1683	9.3	—	14.72

Source: Economic Survey 2022, p 15, Nepal Labor Force Survey conducted by the Central Bureau of Statistics, 2018, Nepal Rastra Bank, 2022.

During the analysis of regression the regression equation may be written as: $y = a + bx$.

Remittance inflows (USD billions) = $-7.4916 + 0.0092$ Per Capita National Income (USD) + 0.4206 Foreign exchange reserve (USD billions)

Per Capita National Income coefficient is 0.0092, implying that, as the Per Capita National Income (USD) increases by one unit, Remittance inflows (USD billions) increases by 0.0092 units. Similarly, the foreign exchange reserve coefficient is 0.4206 which implies that every one unit of an increment in foreign exchange reserve (USD billions) will result in a 0.4206 unit rise in Remittance inflows (USD billions).

The R-squared of 0.905 ensures that Per Capita National Income and Foreign exchange reserve variation describe 90.5 per cent of Remittance inflows variation. The p-values of the two independent variables do not exceed 0.05 meaning that both predictors are notorious predictors of Remittance inflows. In general, the regression model indicates that Per Capita National Income and Foreign exchange reserve have a positive relationship with Remittance inflows in Nepal.

Problem and Challenges

Although remittance inflow has been a notable source of income and a major factor in Nepalese economy, it comes in with its own challenges and problems; Nepal has become so much dependent on remittance inflow, which has exposed the economy to economic vulnerability. This dependency may put the country in jeopardy, through fluctuation in the exchange rate, economic crisis, modification of migration policies in the destination countries, though remittance inflow has alleviated poverty and enhanced household income, it has also increased the income gap between remittance receivers and non receivers. Also, it means that remittances are usually sent to the same family thus leaving out others who might be in need of money to support them in other countries where there are better jobs. This has resulted in a brain drain in Nepal as the skilled and educated workers would be sent to countries that have better jobs to offer. This may have a potential to constrain the economic growth in the long term of the country.

There is a possibility, which is the use of remittance inflow, which may be abused and the recipients may misuse the money or may be forced to send money to other relatives or friends. This would translate into resource wastage and a detrimental economic effect since an inflow of remittance increases exchange rates that may adversely affect the competitiveness of other economic sectors like tourism and manufacturing. The high flow of remittance may also lead to decrease in the savings and the rate of investment as people become more dependent on the money sent back home. This may result in the failure to invest in key sectors including education, health and infrastructure, which may restrict future economic development. The result of inflow of remittance money, has also caused social problems in terms of altering family and community social dynamics and changing the traditional lifestyle in the rural areas.

Conclusion

The paper on remittance inflow and the economical effects of remittance in Nepal has shown that remittances have been a major contributor to the Nepal economy that has helped to alleviate poverty, the growth of the national income, household consumption, and investment. Nonetheless, it has its challenges as well and they are as follows: there is a possibility of over-dependence, there is a possibility of brain drains and there is an effect on social and cultural norms. To get the best out of the inflows of remittance, Nepal must work towards greater enhancement on the skills and productivity of the people working in the economy, encourage investment in the productive sectors as well as improving the institutions to help them better manage the inflows of remittances. Although, remittance inflows have offered viable

economic opportunities to Nepal, there should be a balanced solution to ensure economic growth and social welfare.

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