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Principal Author: **Arjun Kumar Dahal**
Lecturer (Economics), Mechi Multiple Campus, Bhadrapur
Email: arjun.dahal@memc.tu.edu.np
ORCID: https://orcid.org/0000-0003-4816-4576
Corresponding Author: **Ganesh Bhattarai, Ph.D.**
Associate Professor, (Management), Nepal Commerce Campus, Kathmandu, Nepal,
Email: ganesh@ncc.edu.np,
ORCID: https://orcid.org/0000-0001-9163-5172
Co-author: **Prem Bahadur Budhathoki**, M. Phill.
Associate Professor, (Management), Saraswati Multiple Campus, Kathmandu, Nepal,
Email: prem.budhathoki@mahmc.tu.edu.np,
ORCID: https://orcid.org/0000-0002-1249-7005

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Drivers of Economic Growth in Nepal: The Role of Economic Globalization, Inflation, Capital Formation, and Demographic Pressure

Abstract

This study aims to evaluate the influence of economic globalization, inflation rate, gross capital formation, and age dependency ratio on Nepal's economic growth. It relies on secondary data of 55 annual data points from 1970 to 2024. An analytical research design is employed. The autoregressive distributed lag (ARDL) model is employed to examine the short-term and long-term impact of independent variables on the dependent variable. Approximately 70 percent of the fluctuation in Nepal's economic growth is attributed to economic globalization, inflation rates, total capital formation, and the age dependency ratio. The findings demonstrate that a one percent variation in total capital formation and the inflation rate yields a 1.336 percent and 0.236 percent enhancement in economic growth, respectively. Economic globalization and the age dependence ratio exert no major individual influence on economic growth. Nepal ought to implement a balanced policy framework that stimulates capital investment via public–private partnerships, directs remittances into productive sectors, sustains stable and manageable inflation, generates employment and skills training to leverage the demographic dividend, reinforces pension systems, and improves global integration through enhanced institutions, trade logistics, and regional agreements.

Introduction

Nepal's economy has experienced complex and uneven growth over the last few decades. A country whose economy had been in slow growth for several years was highly vulnerable to natural disasters and political instability. However, hints of revival were evident in fiscal year 2024/25. Output is gradually increasing, according to multilateral estimates and national accounts, due to gains in services, hydropower, and agriculture (WB, 2025). Meanwhile, overall macroeconomic factors such as inflation, gross fixed capital accumulation, and the demographic composition of the population continuously affect the pace and inclusiveness of growth across different parts of the country.

Open trade, foreign direct investment (FDI), channels of remittances, and cross-border integration are all aspects of economic globalization. It is the increasing integration and interdependence of national economies through flows of products, services, capital, technology,

information, and labor across national borders (Nguyen & Le, 2021). Trade liberalization, FDI, improved communication and transportation, and the rise of multinational companies are among the factors contributing to this phenomenon (Ahmed et al., 2021; Gygli et al., 2019; Shangquan, 2000). In other words, what happens to the economy of one country increasingly affects the economies of other countries (Dreher, 2006). It has changed the ease with which one can enter markets, the spread of technology, and the interaction between different sectors of the economy. Various studies in Nepal have indicated that the consequences of globalization are complex and vary over time, as well as in the manner in which it is diffused through trade, FDI, and remittances. Recent investment climate and policy assessments indicate that there are both positives, such as increased potential for trade and investment, and bottlenecks, including infrastructural and regulatory issues that hinder the growth-enhancing impact of globalization.

Inflation is the gradual and continuous rise in the prices of goods and services (Khairi & Haryanti, 2024). Inflation affects real incomes, the decision to save, the rate of interest, and the level of consumption. The recent macroeconomic appraisals from Nepal Rastra Bank reveal that, during the early to mid-2025 period, the headline CPI inflation rate contracted compared to the same period last year. At the same time, short-term fluctuations in wholesale prices and pressure on the supply side continued to gain importance. Understanding the impact of inflation on economic growth and investment decisions is crucial for stabilizing the economy and designing policies that foster growth (McKinsey & Company, 2022). During the short run, inflation plays a vital role in boosting the economy, encouraging people to spend their money rather than save (Karki et al., 2020). However, if inflation persists for a prolonged period, it distorts price signals, erodes purchasing power, and causes uncertainty - all of which are detrimental to long-term economic growth.

In conventional production frameworks, growth is a product of total capital accumulation-that is, higher investment promotes productive capacity, structural transformation, and higher productivity gains when interacted with human capital and institutions (Yadav & Pradhan, 2002). According to data from the World Bank and the national government, Nepal's gross capital formation as a percentage of GDP has varied over time. It is due to both state infrastructure projects and private investment cycles.

The age dependency ratio, or demographic structure, is the critical determinant of whether a demographic dividend might be realized, and it determines the size of the working-age population in relation to dependents. The age dependency ratio is the number of dependents (people under 15 or over 64) compared to the number of persons of working age (15 to 64 years old) (Irmen, 2017). It illustrates the amount of work the population has to do, as larger ratios mean that more dependents rely on fewer workers. Demographic change is happening in Nepal. While the dependency ratio has declined, it remains high compared to some of its neighbors, presenting both opportunities and challenges. Recent estimates describe Nepal's demographic window as an opportunity for further investments that could transform population shift into enduring growth.

This study aims to investigate the impact of economic globalization, inflation, and capital accumulation on Nepal's economic growth. It examines how globalization, the annual inflation rate, and capital accumulation individually and collectively impact Nepal's economic growth.

This study comprises six parts. The rest of the document is structured in this manner. Part 2 examines the research on globalization, inflation, capital accumulation, and demographic structure

as factors that contribute to economic growth. Part 3 discusses the data, the creation of variables, and the econometric methods employed. Section 4 presents real-world results, including short- and long-term estimates, checks for robustness, and an analysis of interactions. Section 5 compares the results to those of previous studies, and Section 6 ends with suggestions for future research.

Literature Review

This section presents a comprehensive review of pertinent theoretical and empirical studies. The theoretical review is offered at the outset, followed by the empirical review. A theoretical review elucidates concepts, models, and frameworks developed by scholars to explain the relationships between variables, relying on established theories rather than empirical facts. An empirical review consolidates findings from research that utilizes data, observation, or experimentation to validate hypotheses and demonstrate real-world evidence of links.

Economic Globalization and Economic Growth

Classical economists, such as Adam Smith and David Ricardo, emphasized the concept of comparative advantage and specialization through trade as fundamental catalysts for economic progress. Ricardo's theory of comparative advantage implies that nations benefit from exchanging goods where they have a relative efficiency, hence enhancing output and growth (Ricardo, 1817). Neoclassical growth models, such as the Solow-Swan model, emphasize capital accumulation and technological progress, often facilitated by globalization, as fundamental drivers of growth (Solow, 1956).

Endogenous growth models, proposed by Romer (1986), contend that globalization stimulates growth via knowledge spillovers and innovation. Open economies benefit from technological transfers through foreign direct investment and trade, thereby enhancing productivity and ensuring sustained long-term prosperity. Globalization facilitates access to expansive markets, prompting companies to innovate and expand (Romer, 1990). Conversely, dependence theorists like Frank contend that globalization may intensify disparities, as core nations exploit periphery ones, hence potentially obstructing growth in developing economies. World-systems theory posits that global economic frameworks perpetuate uneven development, thereby constraining growth in underdeveloped countries.

Ying et al. (2014) examined the globalization and economic development of ASEAN nations. They observed that economic globalization has a positive and considerable impact on economic growth. The elasticity of economic growth in relation to economic globalization was 1.48 percent. Baidoo et al. (2023) investigated the effect of economic globalization on economic growth in Ghana. They concluded that economic globalization does not inevitably enhance economic growth. More specifically, a one percent increase in economic globalization reduces economic growth by 1.8 percent in the short term and by 3.9 percent in the long run, respectively.

Adesoye et al. (2015) examined the relationship between economic globalization and economic growth in emerging economies. They identified long-term co-integration between multiple factors of economic globalization and economic growth in Nigeria. Gozgor and Can (2017) examined the causal relationship among product diversification in exports, economic globalization, and economic growth. Research demonstrates that the diversification of exports and economic globalization are positively correlated with economic growth exclusively in upper-middle-income economies.

By conducting a meta-analysis of 516 primary studies, Heimberger (2022) examined the impact of globalization on economic growth. The meta-analysis revealed that economic globalization promotes development, but its effects are inconsistent over time. Additionally, education and institutions serve as critical mediators. Athalage et al. (2025) investigated the correlation between economic development and globalization. In Asia, North America, and Oceania, bi-directional causal pathways between economic growth and globalization were observed, whereas one-way causality was observed in Africa, South America, and Europe. Hasan (2019), Ulucak (2018), and Suci (2015) discovered that the beneficial effects of economic globalization accelerate long-term economic growth. The detrimental effects of economic globalization on economic growth have been identified (Gardezi et al., 2021).

Inflation and Economic Growth

In economic theory, there has been much discussion about the relationship between inflation and economic growth. According to the Quantity Theory of Money, which posits that changes in the money supply have no impact on real output but only affect nominal variables, inflation is generally neutral in the long term (Fisher, 1911). On the other hand, the Keynesian viewpoint suggests that moderate inflation can, in the short term, stimulate growth by lowering real wages, increasing employment, and promoting investment (Keynes, 1936). According to the structuralist school, moderate inflation in developing economies could be the consequence of structural bottlenecks (like restrictions on the supply of food). This could be consistent with growth, as it represents an expansion of demand. However, high and sustained inflation distorts price signals, lowers savings, deters investment, and impedes long-term growth, according to monetarist theory (Friedman, 1968).

Table (1): *Summary of empirical literature on navigating the nexus between inflation and economic growth.*

Authors (Year)	Duration (Country)	Dependent variable	Independent Variable	Methods	Findings
Fischer (1993)	Cross Country Panel (1961-1988)	Real per capita GDP growth	Inflation and macro-economic variables	Cross-sectional and panel regression	Growth is negatively associated with inflation; evidence suggests that causation runs from macro policy, including inflation, to growth.
Khan & Senhadji (2001)	Cross-country panel (Broad sample, decades)	GDP growth	Inflation	Threshold estimation	Inflation starts hurting growth by about 1 to 3 percent in advanced countries and 7 to 11 percent in developing countries.
Zhu & Pollian (2005)	80 countries (1961-2000)	Economic growth	Inflation	Non-linear regression analysis	The impact of inflation may vary depending on the nation's economic condition.

Dahal (2025)	Nepal (1998-2023)	Capital Accumulation	Economic growth, inflation, government effectiveness, and corruption control	Dynamic ordinary least squares method (DOLS)	Inflation has no significant impact on capital formation and economic growth.
Poudel & Rout	Nepal (1976-2019)	Economic expansion	Inflation	Smooth transition regression approach	There is a non-linear relationship between inflation and economic growth.

The reviewed studies indicate that inflation generally has a negative or non-linear impact on economic growth, with effects varying by country and financial conditions. Fischer (1993), Khan and Senhadji (2001), and Zhu and Pollian (2005) highlight the detrimental effects of inflation on growth, with thresholds differing between advanced and developing economies. However, Dahal (2025) finds no significant impact of inflation on capital formation and growth in Nepal, while Poudel and Rout (2019) confirm a non-linear relationship, emphasizing the context-specific nature of inflation's influence.

Capital Formation and Economic Growth

The Harrod (1939) and Domar (1946) framework established a direct, mechanical relationship between savings/investment and growth. In its most basic form, growth is based on the saving rate and the capital-output ratio. A higher savings (and investment) rate leads to a higher growth rate, but the model also shows volatility and the difficulty of ensuring the "warranted" growth rate is achieved. The Harrod-Domar perspective emphasizes policy levers, including boosting savings and mobilizing investment, with growth following as a result (Harrod, 1939; Domar, 1946).

Dahal and Luintel (2021) examined how savings and capital accumulation could contribute to Nepal's economic growth. They discovered that a one percent rise in capital formation leads to a 0.267 percent rise in Nepal's GDP. Onwiodiokit and Otolorin (2021) found that fixed capital formation has a negative and significant impact on economic growth. In contrast, human capital formation has a positive and significant effect on economic growth in Nigeria.

Topcu et al. (2020) investigated the relationship between economic growth and its determinants, including natural resources, energy consumption, and gross capital formation. They found that capital formation disadvantages low-income countries. Additionally, it is seen that unidirectional causality exists in all panels, although bidirectional causality is evident among middle- and high-income countries. Chow (1993) examined the relationship between capital formation and economic growth in Ghana. He found that capital accumulation plays a positive and considerable role in economic growth. Aslan and Altinoz (2021) examined the relationship between capital development and economic growth within the framework of globalization. Bidirectional causality was identified between capital formation and economic growth in European and Asian nations.

Dahal et al. (2025) noticed the relationship between public borrowing, gross capital formation, and economic development. They observed that a one percent gain in capital formation results in a 0.6205 unit increase in Nepal's economic growth. Anagun and Sokunbi (2024) found that physical and human capital development had a strong, favorable influence on economic growth.

Age Dependency Ratio and Economic Growth

The age dependency ratio can greatly influence economic growth. A high dependency ratio makes life more challenging for working individuals, which can slow down economic growth by reducing savings, investment, and productivity. Conversely, a lower dependency ratio—often referred to as the demographic dividend—freezes up resources for investment, innovation, and human capital development, hence facilitating faster and more sustainable economic growth. The demographic transition theory posits that a high dependency ratio, marked by an increased number of children or elderly individuals in relation to the working-age population, strains resources, diminishes household savings, and constrains capital accumulation, thereby adversely affecting growth (Bloom & Williamson, 1998). On the other hand, when the dependency ratio decreases, countries can reap a demographic dividend, meaning that a larger portion of the population is working, which leads to higher productivity, increased savings, and faster economic growth (Mason, 2001). However, the effect is not uniform. Youth dependency frequently imposes financial strain on public education and healthcare expenditures, while old-age dependency may challenge pension and healthcare frameworks, both of which might undermine growth prospects (Lee & Mason, 2010). The connection between ADR and economic growth is constantly changing. It depends on the structure of dependents, the capabilities of institutions, and a country's ability to maximize the potential of its working-age population.

Table (2): *Summary of empirical literature on the topic of ADR and economic growth*

Author (Year)	Period (country)	Dependent variable	Independent variable	Methodology	Key findings
Bloom & Williamson (1998)	1965–1990, Emerging Asia	Economic Growth (GDP)	Demographic Transition, ADR	Cross-country regression	Declining ADR created a demographic dividend that accelerated growth in Asia.
Mason (2001)	East Asia, 1960–1995	Economic Development	Comparative case study	Regression Analysis	Low dependency ratios led to increased savings and investment, thereby boosting growth.
Kelley & Schmidt (2005)	1960–1995, 86 countries	Per Capita GDP Growth	Fertility, ADR, Education	Panel data regression	Lower ADR significantly contributed to growth, but the effect varied by region.
Lee & Mason (2010)	Global (long-term demographic data)	Economic Growth	ADR, Fertility, Human Capital	Overlapping generations model	Youth dependency hinders growth; declining ADR boosts productivity and savings.

Choudhry & Elhorst (2010)	1961–2003, Asian countries	GDP Growth	ADR, Labor Participation	Dynamic panel data (GMM)	Negative relationship between high ADR and growth; working-age expansion supported growth
Ahmed & Krishnasamy (2013)	1970–2008, Malaysia	Economic Growth	ADR, Capital, Trade	Time series (ARDL model)	ADR had a significant negative impact on growth in the long run
Bloom et al., (2011)	Global (1960–2005)	GDP per capita Growth	ADR, Health, Education	Panel regression	Falling ADR explained one-third of East Asia's growth miracle.
Emerson et al. (2024)	1975-2014 (OECD countries)	Economic growth	Age dependency ratio	Panel regression analysis	The old-age dependency ratio hurts growth
Lee & Shin (2019)	1960-2014 (142 countries)	Economic growth	Age dependency ratio	Regression analysis	Old age dependency ratio negatively and in a non-linear relation with ADR and growth

The empirical literature consistently highlights that the age dependency ratio (ADR) has a substantial impact on economic growth, with the majority of research indicating a negative correlation between increased dependency loads and growth performance. Bloom and Williamson (1998) and Bloom et al. (2011) illustrate that the decreasing Age Dependency Ratio (ADR) in Asia produced a demographic dividend, hence expediting growth. Mason (2001) and Kelley & Schmidt (2005) contend that reduced dependency ratios facilitated savings and investment, albeit the impacts differed by location. Lee & Mason (2010) affirm that juvenile reliance obstructs growth, but a declining ADR enhances productivity and capital accumulation. Country-specific and panel research, including Choudhry & Elhorst (2010) and Ahmed & Krishnasamy (2013), substantiate that a high ADR has a detrimental effect on growth in both short- and long-term scenarios. Recent studies, such as Lee & Shin (2019) and Emerson et al. (2024), highlight the increasing difficulty of old-age dependency, demonstrating its detrimental and occasionally nonlinear impact on growth in OECD and global contexts. These findings indicate that a decreasing Age Dependency Ratio (ADR) can create growth opportunities, whereas an increasing old-age dependency presents considerable long-term economic concerns.

Numerous studies have examined the impact of globalization, inflation, capital accumulation, and demographic structure on economic growth worldwide and in specific regions. Nonetheless, only a limited number have particularly analyzed Nepal, a tiny, open, and remittance-dependent economy characterized by distinct structural attributes. Current evidence reveals inconsistent and context-dependent outcomes: globalization is recognized as both a catalyst and a hindrance to growth, depending on the level of development and the quality of institutions; inflation exhibits non-

linear or minimal effects, shaped by particular thresholds; and the influence of capital accumulation differs among income groups and regions. The demographic dividend literature emphasizes the advantages of a decreasing reliance ratio, while warning against the difficulties associated with a rising old-age dependency ratio. However, there is a lack of understanding regarding the collective and individual impacts of these variables on Nepal's economic growth, both in the short and long term. This gap underscores the need for a country-specific, comprehensive analysis that incorporates globalization, inflation, capital accumulation, and demographic dynamics to inform Nepal's economic policy.

Research Methods

Research Design

This study employs a causal correlational research design. Causal-correlational research design is a method that examines the relationships among variables to determine whether changes in one variable may cause or predict changes in another, without direct manipulation. It is guided by positivist research philosophy. It follows deductive reasoning.

Source of Data and Processing

This study is based on secondary data collected from the World Bank Report and various economic surveys of Nepal. It covers 55 years of data from 1970 to 2024. Data are analyzed by using SPSS 27 and EViews 12. Some graphical and econometric tools are used to analyze the data.

Variable Specification

In this study, economic growth, inflation rate, total capital accumulation, age dependency ratio, and economic globalization are used as the study variables. The economic growth is taken as the dependent variable, and the rest are taken as independent variables.

Model Specification

In this study, the Autoregressive Distributed Lag (ARDL) model is employed to investigate co-integration among variables and assess the impact on economic growth resulting from changes in independent variables. The ARDL model is an econometric approach used to analyze both short-run and long-run relationships between a dependent variable and its lagged values, as well as the current and lagged values of explanatory variables (Pesaran et al., 2001). The general ARDL (p,q) model is written as:

$$Y_t = \alpha_0 + \sum_{i=1}^{P} \alpha_i Y_{t-1} + \sum_{j=0}^{q} \beta_j X_{t-j} + \mu t \qquad (1)$$

Where Yt denotes the dependent variable, Xt is the explanatory variable(s), p and q represent the lag length of the X and Y variables, and μt indicates the error term.

There are two forms of the ARDL model. The error correction model (ECM) is the short-run model. The short-run dynamics are captured when the ARDL model is in its ECM form (Pesaran & Shin, 1995). It can be specified as:

$$\Delta Yt = \gamma_0 + \sum_{i=1}^{P-1} \gamma_i \Delta Y_{t-i} + \sum_{i=1}^{q=1} \partial_j \Delta X_{t-j} + \lambda(Y_{t-1} - \emptyset - \emptyset_{1X_{t-1)}} + \varepsilon t \qquad (2)$$

Where, Δ denotes first difference (short run changes), γ_i, ∂_j are short-run coefficients, $(Y_{t-1} - \emptyset - \emptyset_{1X_{t-1})}$ indicates error correction term (ECT) and λ is the speed of adjustment. It should be negative and significant. The short-run coefficients γ_i, ∂_j show the immediate effect of the change in X and Y. The error correction term ensures that any disequilibrium in the short run is corrected towards the long-run equilibrium.

The long-run relationship is derived from the ARDL by normalizing coefficients on lagged levels. The long-run ARDL model is:

$$Y_t = \alpha_0 + \sum_{i=1}^{P} \alpha_i Y_{t-1} + \sum_{j=0}^{q} \beta_j X_{t-j} + \mu t \quad (3)$$

The long-run solution is:

$$Y_t = \emptyset_0 + \theta_1 X_t + \varepsilon_t \quad (4)$$

$$\text{Where, } \emptyset_0 = \frac{\sum_{j=0}^{q} \beta_j}{1 - \sum_{i=1}^{p} \alpha_1} \quad (5)$$

The long-run coefficients ($\emptyset_0$) shows the sustained or equilibrium impact of X on Y. The long-run or level equations capture the equilibrium relationship between X and Y.

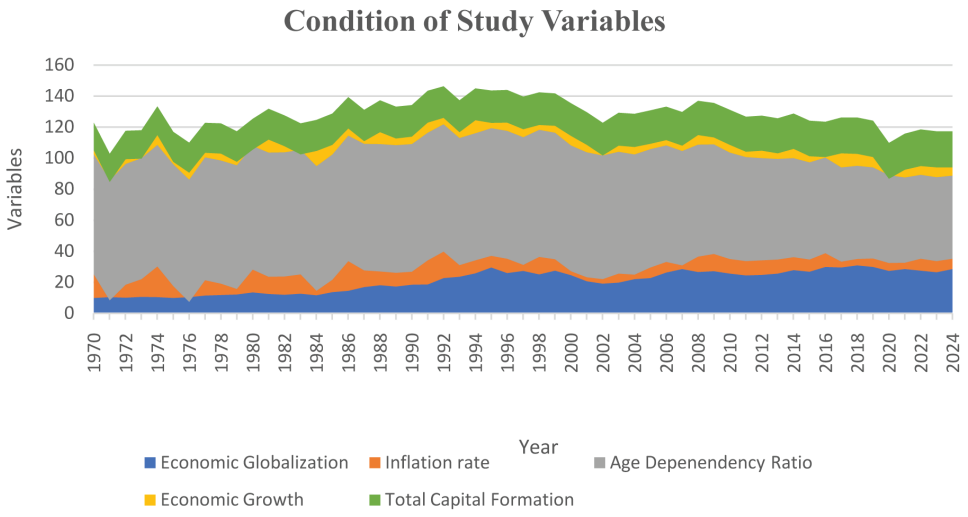
Presentation and Analysis

Condition of Study Variables

In this study, economic growth, inflation rate, age dependency ratio, total capital accumulation, and economic globalization are considered as variables. Figure 1 illustrates the changes in the research variables over time, from 1970 to 2024. The blue line for economic globalization indicates a continuous upward trend, especially after the 1990s. This demonstrates how Nepal is gradually becoming integrated into the global economy. The inflation rate (orange) fluctuates significantly during the time period, with a few strong peaks. The figure reveals the overall condition and long-term trends of the study variables from 1970 to 2024. The inflation rate (orange) displays high fluctuations throughout the period, with several sharp peaks, indicating episodes of economic instability. The age dependency ratio (grey) remains consistently high, though with a gradual decline in recent years, suggesting a slow demographic shift toward a more balanced working-age population. Economic growth (yellow) fluctuates over time with periods of both expansion and contraction, highlighting Nepal's unstable but generally positive growth path.

Meanwhile, total capital formation (green) maintains a relatively stable presence, with slight increases after the mid-1990s, pointing to growing investment in productive capacity. Overall, the figure shows that the economy is having mixed success. Globalization and capital formation are both on the rise; however, demographic pressure remains high, and inflation and growth are unstable.

Figure (1): *Condition of dependent and independent variables*



Source: Drawn by the author using Excel, 2026

Key Information about Variables

The descriptive statistics provide an overview of the dataset's key features, comprising 55 observations. Based on the Descriptive statistics of Table 3, the range of economic globalization is 9.996 to 30.991, with an average value of 20.911 and a standard deviation of 7.043. This means that the amount of global integration has changed over time. The age dependency ratio is relatively high, with an average of 74.302 and a range of 53.686 to 82.413. This means that a significant portion of the population relies on individuals of working age. The inflation rate fluctuates significantly, ranging from a low of -3.113 (deflation) to a high of 19.806, with an average of 8.046 percent. This means that inflation is likely to remain high but remain highly unstable. Lastly, economic growth ranges from -2.98 to 9.68, with an average of 4.11 percent. It illustrates that growth is generally positive but not very stable. The data indicate that Nepal's economy is complex, characterized by fluctuations in globalization, population growth, inflation, and economic growth.

Table (3): *Key information about the study variables*

Descriptive Statistics					
Variables	N	Minimum	Maximum	Mean	Std. Deviation
Economic Globalization	55	9.996	30.991	20.911	7.043
Age Dependency Ratio	55	53.686	82.413	74.302	9.204
Inflation rate	55	-3.113	19.806	8.046	4.515
Economic Growth	55	-2.98	9.68	4.11	2.716
Valid N (listwise)	55				

Source: Author's calculation by using SPSS, 2026

Autoregressive Distributed Lag (ARDL) Model

The ARDL (2,2,4,0,4) model explains the short- and long-run dynamics of the dependent variable, economic growth (Y), in relation to the regressors: total capital formation (LTC), inflation rate (INFR), economic globalization (ECONGLZ), and age dependency ratio (ADR). The lagged dependent variables Y(−1) and Y(−2) are negative and significant, suggesting strong adjustment effects and mean reversion in the system. Among the regressors, total capital formation has a positive and significant short-run effect, though its second lag turns negative, implying fluctuating impacts of capital formation. Inflation rate shows mixed effects, with the fourth lag significantly positive, indicating a delayed inflationary influence on growth. The age dependency ratio exhibits alternating positive and negative coefficients across lags, indicating a complex demographic impact on the economy, whereas economic globalization appears to be statistically insignificant.

Table (4): *Results of the autoaggressive distributive lag model*

Dependent Variable: Y

Method: ARDL

Model selection method: Akaike info criterion (AIC)

Dynamic regressors (4 lags, automatic): LTC, INFR, ECONGLZ, ADR

Fixed regressors: C

Selected Model: ARDL (2, 2, 4, 0, 4)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y (-1)	-0.654	0.1256	-5.207	0.000
Y (-2)	-0.418	0.1255	-3.335	0.0021
LTC	4.936	2.0696	2.384	0.022
LTC (-1)	1.362	2.0995	0.649	0.520
LTC (-2)	-3.528	1.7448	-2.022	0.051
INFR	0.098	0.067	1.4657	0.151
INFR (-1)	-0.007	0.069	-0.104	0.917
INFR (-2)	0.151	0.072	2.091	0.044
INFR (-3)	-0.050	0.064	-0.7773	0.442
INFR (-4)	0.298	0.067	4.4384	0.0001
ECONGLZ	-0.019	0.095	-0.2076	0.836
ADR	-6.097	2.483	-2.4554	0.013
ADR (-1)	21.83	7.222	3.0234	0.007
ADR (-2)	-29.714	9.979	-2.977	0.0053
ADR (-3)	20.894	7.878	2.652	0.0121
ADR (-4)	-6.805	2.722	-2.499	0.0174
C	-61.5004	22.834	-2.693	0.011
R-squared	0.690	Mean dependent var		4.3505

Adjusted R-squared	0.545	S.D. dependent var	2.618
S.E. of regression	1.765	Akaike info criterion	4.236
Sum squared resid	106.008	Schwarz criterion	4.880
Log likelihood	-91.024	Hannan-Quinn criteria.	4.482
F-statistic	4.749	Durbin-Watson stat	2.290
Prob(F-statistic)	0.00006		

Source: Author's calculation, 2026

Based on the estimated output, the fitted equation is

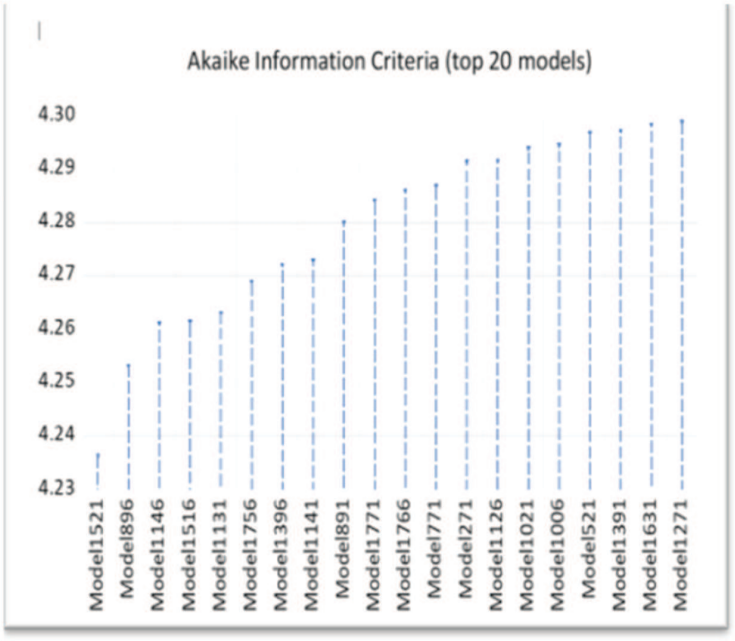
$$Y_t = -61.500 - 0.654*Y_{t-1} - 0.418*Y_{t-2} + 4.936*LTC_t + 1.362*LTC_{t-1} - 3.528*LTC_{t-2} + 0.098*INFR_t - 0.007*INFR_{t-1} + 0.151*INFR_{t-2} - 0.050*INFR_{t-3} + 0.298*INFR_{t-4} - 0.019*ECONGLZ_t - 6.097*ADR_t + 21.830*ADR_{t-1} - 29.714*ADR_{t-2} + 20.894*ADR_{t-3} - 6.805*ADR_{t-4} + \varepsilon_t \quad (6)$$

The diagnostic statistics indicate that the model fits reasonably well, with an R-squared of 0.69 and a statistically significant F-statistic ($P < 0.01$), suggesting that the explanatory variables collectively explain variations in the dependent variable. It means that the inflation rate, total capital accumulation, age dependency ratio, and economic globalization explain 69 percent of the variation in Nepal's economic growth. The Durbin-Watson value of 2.29 indicates no serious autocorrelation problem. Overall, the results highlight that capital formation, inflation, and age dependency are key drivers of economic performance in both the short and dynamic lags. At the same time, globalization has little direct impact on this specification. The significant fluctuations in the age dependency ratio highlight demographic pressures as both opportunities and challenges for sustained growth.

Model Selection Criteria

Figure 2 presents the top 20 ARDL models ranked by the Akaike Information Criterion (AIC). Among them, Model 1521: ARDL (2, 2, 4, 0, 4) has the lowest AIC (=4.23), making it the best-fitting model compared to alternatives such as ARDL (3, 2, 4, 0,4) or ARDL (3, 0, 4, 0, 4). The gradual rise in AIC values across the remaining models shows that other specifications fit the data less efficiently. In conclusion, the ARDL (2, 2, 4, 0, 4) model is statistically preferred because it strikes a balance between explanatory power and model parsimony, making it the most suitable for analyzing both the short- and long-run dynamics of the study variables.

Figure 2: *Graphical representation of model selection criteria*



Source: Drawn by the author using EViews12, 2026

ARDL Bound Testing

The Autoregressive Distributed Lag (ARDL) Bounds Test is employed to ascertain the existence of a long-term co-integration between the dependent variable and the explanatory variables. In ARDL Bound Testing, the null hypothesis (Ho) posits the absence of a long-run relationship or no co-integration. In contrast, the alternative hypothesis asserts that a long-run relationship or co-integration exists. The test checks whether the calculated F-statistic falls between the Pesaran critical bounds values (I(0) = lower bound, I(1) = upper bound). The results of the ARDL Bound Testing are listed in Table 5

Table (5): *ARDL bound testing results*

ARDL Long run bound testing, Dependent variable: D(Y)

F-Bound test	Null Hypothesis: No level relationship			
Test statistics	Value	Significance level	Lower bound I(0)	Upper bound I(1)
F-statistics	16.551	1%	3.29	4.37
		5%	2.56	3.49

Source: Author's calculation using EViews 12, 2026

The result of the ARDL Bounds Test (F = 16.551) is clearly higher than the upper critical bound at the one percent significance level (4.37). It indicates a stable, long-term equilibrium relationship between economic growth and the chosen regressors. Consequently, long-term analysis and error

correction modeling are applicable for this study. The ARDL model shows strong evidence of a long-run cointegrating relationship between economic growth and the variables that explain it. The same result can also be observed at the 5 percent significance level. We can now proceed to estimate the long-run coefficients (Long Run Form) and the Error Correction Model (ECM), which will capture both short- and long-run dynamics, given that co-integration has been confirmed.

Long-run ARDL Model or Levels Equation.

In an Autoregressive Distributed Lag model**,** the long-run model (also called the levels equation) shows the stable long-run relationship between the dependent variable and its regressors when short-term fluctuations are eliminated. The ARDL approach first estimates both short-run and long-run dynamics. The levels equation, also known as the long-run model, provides the estimated coefficients of the independent variables in their levels form, indicating how a one-unit change in an explanatory variable affects the dependent variable in the long run, while holding other factors constant. These coefficients are derived after confirming co-integration through the bounds test. The results of the long-run ARDL model are displayed in Table 6.

Table (6): *Outcomes of the long-run ARDL model*

Levels Equation				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTC	1.336	0.447	2.989	0.005
INFR	0.236	0.071	3.331	0.002
ECONGLZ	-0.009	0.046	-0.207	0.836
ADR	0.054	0.036	1.484	0.146
C	-29.669	10.805	-2.745	0.009

Source: Author's calculation by using EVIews12, 2026

The estimated long-run equation is:

$$Y = -29.669 + 1.336*LTC + 0.236*INFR - 0.009*ECONGLZ + 0.054*ADR \quad (7)$$

The long-run ARDL results indicate that economic growth is primarily driven by long-term capital (LTC) and inflation (INFR), both of which have positive and statistically significant effects. This suggests that higher capital accumulation and moderate inflation can support long-term growth. In contrast, economic globalization (ECONGLZ) and the age dependency ratio (ADR) have statistically insignificant effects, suggesting they do not play a significant role in explaining long-run growth. The negative and considerable constant implies that without these key drivers, the economy would face negative growth. Overall, the model highlights the importance of domestic capital and stable inflation in fostering long-term economic growth.

The error correction equation is estimated as:

$$EC = Y - (1.3366*LTC + 0.2369*INFR - 0.0096*ECONGLZ + 0.0542*ADR - 29.6692) \quad (8)$$

ARDL Error Correction Regression

The Autoregressive Distributed Lag (ARDL) model includes both short-term and long-term relationships between variables. ARDL error correction regression is one type of this model. It has an error correction term (ECT) that indicates how quickly short-term deviations from the long-term equilibrium are corrected. In summary, it discusses how changes in independent variables affect the system in the short term and how quickly it returns to its long-term equilibrium. The results of the short-run ARDL model are presented in Table 7.

Table (7): *Results of ARDL error correction regression***.**

ARDL Error Correction Regression

Dependent Variable: D(Y)

Selected Model: ARDL (2, 2, 4, 0, 4)

ECM Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(Y (-1))	0.418	0.1138	3.676	0.0008
D(LTC)	4.936	1.3363	3.693	0.0008
D(LTC (-1))	3.528	1.3239	2.665	0.0117
D(INFR)	0.098	0.0568	1.736	0.0916
D(INFR (-1))	-0.3995	0.0626	-6.375	0.0000
D(INFR (-2))	-0.2481	0.0616	-4.024	0.0003
D(INFR (-3))	-0.2983	0.0508	-5.861	0.0000
D(ADR)	-6.0975	1.9186	-3.178	0.0032
D(ADR (-1))	15.626	4.0159	3.891	0.0004
D(ADR (-2))	-14.088	4.3395	-3.246	0.0026
D(ADR (-3))	6.8053	2.2000	3.093	0.0039
CointEq (-1) *	-2.0728	0.1942	-10.67	0.0000
R-squared	0.8784	Mean dependent var		0.1115
Adjusted R-squared	0.8441	S.D. dependent var		4.1759
S.E. of regression	1.6486	Akaike info criterion		4.0401
Sum squared resid	106.008	Schwarz criterion		4.4947
Log likelihood	-91.024	Hannan-Quinn criteria.		4.2138
Durbin-Watson stat	2.2901			

Source: Author's calculation by using EVIews12, 2026

The ARDL Error Correction Regression results show both the short-run dynamics and the long-run adjustment mechanism. In the short run, changes in LTC and ADR significantly influence the dependent variable D(Y), while the inflation rate **(**INFR) shows both positive and negative lagged impacts. The presence of significant coefficients for lagged variables indicates dynamic

interactions, where past values of explanatory variables affect current changes in Y. The high R^2 value of 0.878 and the adjusted R^2 value of 0.844 suggest that the model explains most of the variation in the dependent variable. The Durbin–Watson statistic of 2.29 indicates no serious autocorrelation problem.

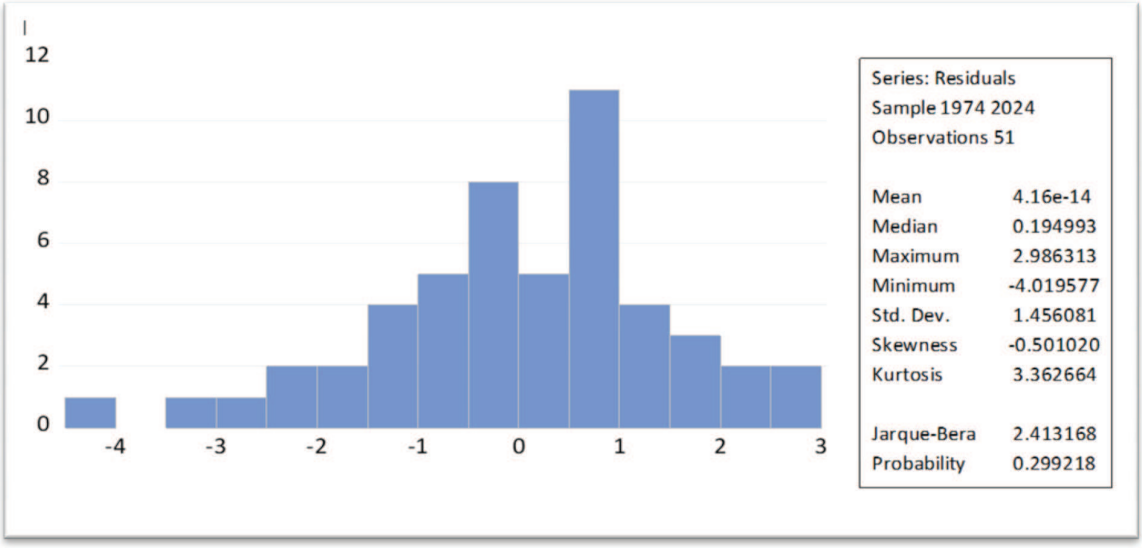
The error correction term (CointEq(-1)) is negative and highly significant (−2.07, P<0.01), confirming the existence of a stable long-run relationship among the variables. This coefficient implies that any short-run disequilibrium is corrected at a speed of about 207 percent per period, meaning overshooting occurs before convergence to equilibrium. The estimated short-run equation is:

$$\Delta Y_t = 0.418*\Delta Y_{t-1} + 4.936*\Delta LTC_t + 3.528*\Delta LTC_{t-1} + 0.098*\Delta INFR_t - 0.3995*\Delta INFR_{t-1} - 0.2481*\Delta INFR_{t-2} - 0.2983*\Delta INFR_{t-3} - 6.0975*\Delta ADR_t + 15.626*\Delta ADR_{t-1} - 14.088*\Delta ADR_{t-2} + 6.8053*\Delta ADR_{t-3} - 2.0728*EC_{t-1} + \varepsilon t \quad (9)$$

Validity Checking of the ARDL Model

There are various methods of diagnostic checking of the ARDL model. Among these, normality tests, CUSUM tests, serial correlation tests, and actual, fitted, and residual graphs are used.

The histogram indicates that the residuals are somewhat normally distributed, with a mean close to zero and moderate skewness (−0.50) and kurtosis (3.36). The Jarque-Bera probability (0.299 > 0.05) shows that we can't reject the null hypothesis of normality. Therefore, the residuals follow a normal distribution, indicating that the model is valid and reliable.

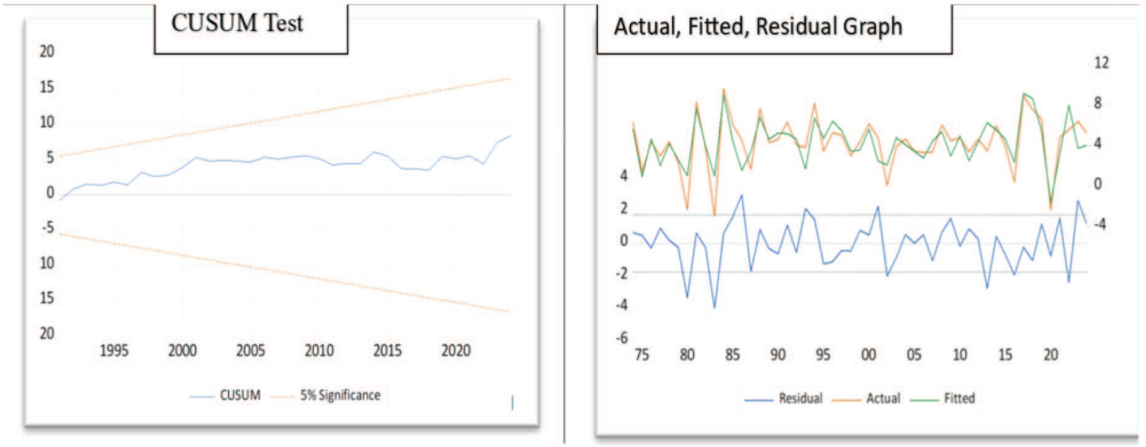


Source: Drawn by Author using EViews12. 2026

In Figure 3, the CUSUM test and actual, fitted, residual graphs are presented for residual diagnostics. The CUSUM line remains within the 5 percent significance boundaries, indicating that the model is structurally stable over the sample period. It means there are no significant structural breaks in the relationship between the variables.

The fitted values closely follow the actual values, showing that the model has a good fit. The residuals fluctuate randomly around zero, suggesting no serious misspecification.

Figure (3): *Residual diagnostics by CUSUM test and actual, fitted, residual graph*



Source: Drawn by Author using EViews12, 2026

Table 8 shows the residual diagnostics by using the serial correlation test. The Breusch-Godfrey LM test shows p-values (0.2927 and 0.1518) greater than 0.05, meaning the null hypothesis of no serial correlation cannot be rejected. This indicates that the residuals are free from serial correlation up to a lag of 2. Therefore, the model is well-specified and reliable for inference.

Table (8): *Breusch-Godfrey Serial Correlation LM Test*

Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	1.277127	Prob. F (2,32)	0.2927
Obs *R-squared	3.769927	Prob. Chi-Square (2)	0.1518

Source: Author's calculation using EViews12, 2026

Result Discussion

This study has examined the short-run and long-run impacts of economic globalization, inflation rate, total capital accumulation, and age dependency ratio on Nepal's economic growth. They have long-run co-integration. The long-run co-integration is likely to occur because globalization, inflation, capital accumulation, and aging dependency are all structurally linked to Nepal's growth path. This means that they move together over time due to consistent investment patterns, demographic trends, and the gradual integration of Nepal into the global economy. Both short-run and long-run analyses reveal that capital formation and inflation play significant positive roles in driving growth. The results indicate that a one percent increase in total capital formation and the inflation rate results in a 1.336 percent and 0.236 percent increase in long-run economic growth, respectively, in Nepal. The research findings of Dahal and Luintel (2021), Dahal et al. (2025), and Anagun and Sokunbi (2025) on the nexus between capital formation and economic growth align with the findings of this study, but the findings of Topcu et al (2020) do not align with the findings of this study. Gross capital formation has a positive impact on Nepal's economic growth by

increasing investment in infrastructure, industries, and technology, thereby enhancing productivity and expanding the country's production capacity.

Inflation has a positive and significant impact on growth. However, the findings of Fischer (1993) and Khan and Senhadji (2001) suggest that inflation hurts Nepal's economic growth. Similarly, Dahal (2025) and Poudel and Raut could not find the linear and significant impact of inflation on growth. A moderate level of inflation in Nepal can stimulate economic growth by encouraging consumption and investment, as people and firms prefer to spend and invest rather than hold depreciating money. It also enables firms to increase revenues and reinvest in production, thereby boosting output and employment.

At the same time, the age dependency ratio exerts alternating effects, reflecting demographic pressures. The economic globalization and age dependency ratio have no individual significant impact on economic growth. The findings of Ying et al. (2014), Haidoo et al. (2023), and Athalage et al. (2025) indicate a positive impact of economic globalization on economic growth. In contrast, Gardezi et al. (2021) found that economic globalization hurts economic growth. Economic globalization may not significantly impact Nepal's economic growth because the country has a narrow export base dominated by low-value agricultural and primary goods. Weak industrial capacity and inadequate infrastructure limit Nepal's ability to integrate effectively into global value chains. Additionally, a heavy reliance on remittances overshadows the benefits of trade and foreign investment, reducing the direct growth impact of globalization. The research findings of Bloom and Williamson (1998), Mason (2001), and Emerson et al. (2024) on the nexus between the age dependency ratio and economic growth do not align with these findings. The age dependency ratio may have no significant individual impact on Nepal's economic growth because remittance inflows from migrant workers offset the economic burden of dependents. Additionally, a large share of the dependent population is engaged in informal or subsistence activities, which are not fully captured in official growth measures. Weak social and economic institutions also limit the potential demographic dividend from shifts in dependency.

Conclusion and Policy Implications

This study examines the short-run and long-run impacts of economic globalization, inflation rate, total capital accumulation, and age dependency ratio on Nepal's economic growth. They have long-run co-integration. The overall results of the ARDL analysis confirm that the model is statistically valid, robust, and well-specified for examining the determinants of Nepal's economic growth. The high explanatory power ($R^2 = 0.878$ in the short run and 0.690 in the principal ARDL regression) further validates its reliability. Both short-run and long-run analyses reveal that capital formation and inflation play significant positive roles in driving growth. At the same time, the age dependency ratio exerts alternating effects, reflecting demographic pressures. The results indicate that a one percent increase in total capital formation and the inflation rate results in a 1.336 percent and 0.236 percent increase in long-run economic growth, respectively, in Nepal. In contrast, globalization remains statistically insignificant, suggesting that its direct influence on Nepal's growth has been limited. Notably, the negative and highly significant error correction term confirms a strong long-run equilibrium relationship and a fast adjustment mechanism toward stability. Overall, the ARDL findings provide robust evidence that Nepal's growth dynamics are primarily shaped by domestic capital accumulation, inflation management, and demographic factors, with globalization playing an indirect role.

This study's findings have significant policy implications for Nepal's economic growth plan. Nepal should focus on policies that stimulate both public and private investment in infrastructure, manufacturing, and technology, as capital accumulation has the most significant long-term positive effects. Mobilizing local funds, enhancing the investment climate, and directing remittance inflows into productive sectors can substantially expedite growth. The fact that moderate inflation promotes growth suggests that it's essential to maintain inflation at a manageable level. This means that fiscal and monetary policies must work in tandem to prevent excessive price fluctuations while ensuring sufficient funds are available for individuals to invest and spend. The changing consequences of the age dependence ratio demonstrate the importance of leveraging Nepal's demographic shift. To transform the working-age population into a productive labor force, policies should focus on creating jobs, teaching people new skills, and providing programs that help young people secure employment. To address the increasing reliance on others in old age, we also need long-term plans, such as reforms to pensions and social security programs. Lastly, globalization may not seem important in the near term, but it is nevertheless essential for knowledge transfer, trade growth, and foreign investment. To better connect with the global economy, Nepal needs to strengthen its institutions, improve trade logistics, and negotiate more effective regional trade deals. In short, a balanced growth strategy that deepens capital investment, maintains stable inflation, leverages demographic opportunities, and selectively embraces globalization will ensure Nepal's sustained economic transformation.

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