Effects of Remittance in Economic Growth in Nepal  
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ABSTRACT

Remittances, which are the transfers of funds by foreign workers to their countries of origin, have become a significant source of financing in developing countries. In 2011, migrants sent approximately three times more to developing countries than those countries received in official development aid. In some countries, remittances have exceeded foreign direct investment (FDI). In addition, remittances to developing countries have grown 23.34% from 2009-2011 compared to the meager 0.05% growth in FDI, indicating that remittances will continue to be a major source of funds for developing countries. However, the impact of remittances on economic development is still a controversy. This study explores the relationship between remittance and economic activity by analyzing the impact of remittances on the selected macroeconomic variables in Nepal, a least developed country that has seen remittances play a significant role in its economy.

THEORETICAL BACKGROUND AND METHODOLOGY

Consistent with the development/microeconomic view associated with Krueger (1979), Todaro (1969), and Hossain (2007, 2010), we assume that migrants from lower income countries invest in public and private human capital formation and so remittances contribute to aggregate domestic savings and investment. The rise in savings and investment contributes to capital formation, and hence, production and income. Furthermore, the remittance inflow is also used for consumption and human resource management which contributes to economic growth and development. This quality of governance is also important.

HYPOTHESIS

1. Increase in remittances has a positive impact on GDP.
2. Increase in remittances affects Capital Formation positively.
3. Remittances have a positive contribution towards human capital formation.

LITERATURE

Previous studies on these scenarios have produced contrasting conclusions. Some studies associate remittances with positive economic growth. For example, Hossain (2007, 2010) and Hossain (2010) found remittance inflows improved financial sector and process of economic development.

SUMMARY

The correlation table indicates that remittances per capita has a strong positive correlation with GDP per capita, Capital Formation, and Export. This indicates that changes in remittances may have a positive impact on economic growth as suggested by the correlation coefficients. Furthermore, the relationship between remittances and export is found to be negative. The study suggests an increase in the number of remittances may have a positive impact on GDP and Capital Formation, and negatively on the external trade balance. Further studies using advanced testing methods are required.

FUTURE WORK

- Sharp increases in remittances over various points in time require additional studies and provides us with opportunity to better see how possible causes for such increases in remittances. Further study will include examining appropriate econometric perspectives after reanalyzing the data trends and further analyzing the previous literature.
- Nepal’s recent history has been characterized by political instability. The country became democratic in 1962 but continued to suffer from weak economic performance. Our research will include analyzing how remittances affected economic growth under two governance scenarios — monopoly and liberal democracy. The results indicate that political stability has a significant impact on the growth of remittances.
- Eventually, we plan to re-examine the study of the effects of remittances by analyzing other countries in different world regions.

See attached page for References.