



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 these countries received in official development aid. In some countries, remittances have exceeded Foreign Direct Investment (FDI). In addition, remittances to developing countries have risen 25.29% from 2009-2011 compared to the meager 0.59% growth in FDI, indicating that remittances will continue to be a major source of funds in developing countries. However, the impact of remittance 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 remittance play a significant role in its economy.

LITERATURE

Previous studies on these literatures have produced contrasting conclusions with some studies associating remittances with positive economic growth and vice-versa. Some of the leading studies in remittances are as follows: Sami, J. (2013). Remittances, banking sector development and economic growth in Fiji. *International Journal of Economics and Financial Issues*, 3 (2), 503.

-found remittance inflows improved financial sector and process of economic development

Ajilore, T., & Ikhide, S. (2012b). A Bounds Testing Analysis of Migrants Remittances and Financial Development in Selected Sub-Sahara African Countries. *The Review of Finance and Banking*, 4(2).

-positive relationship between remittance and economic development in four selected sub-Saharan African countries

Upreti, Dambar. The Impact of Remittances on Economic Growth in Nepal. *Journal of Development Innovations*.

-remittance negatively related to GDP/capita in the short run and no significant evidence of any impact on the long run

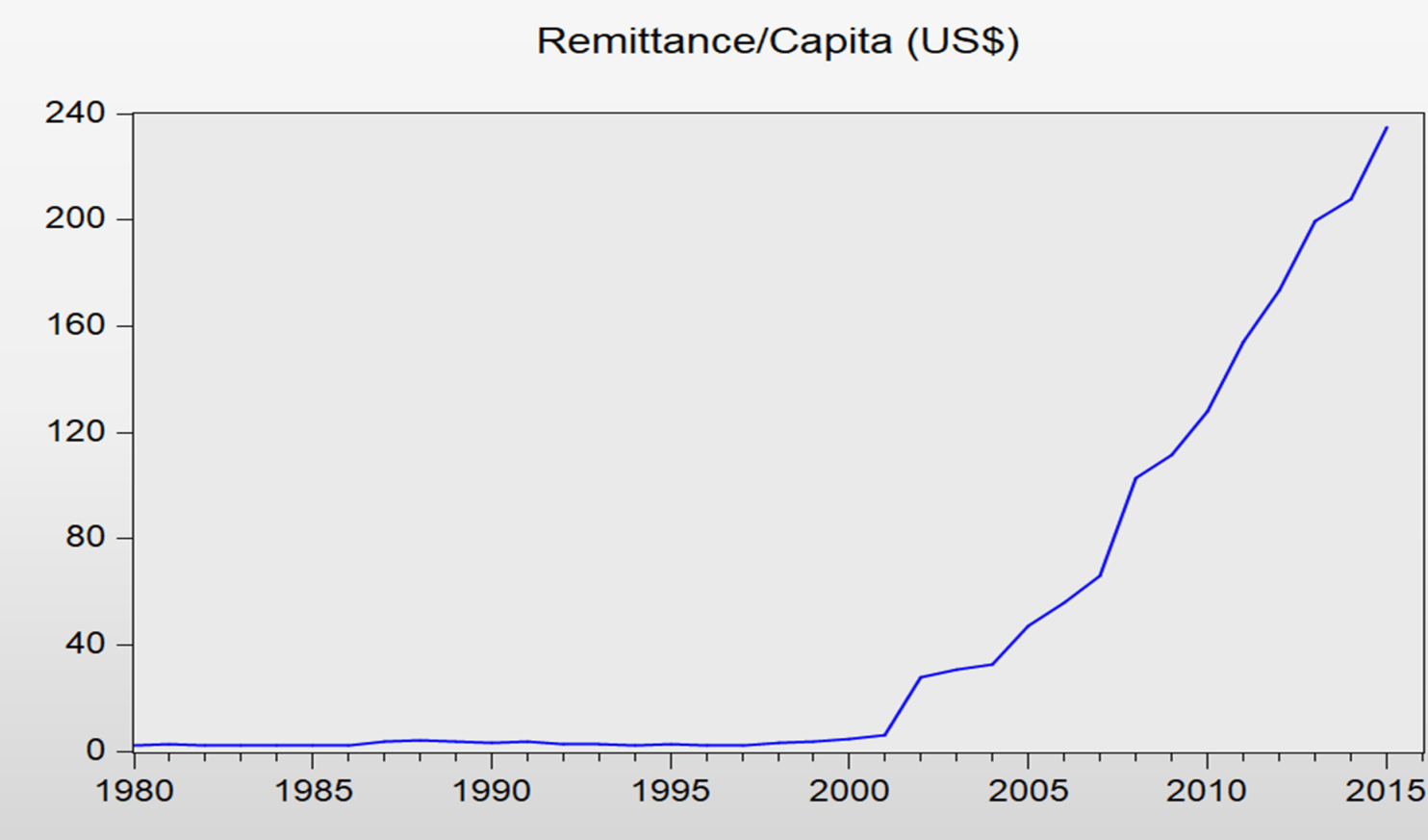


Fig. Remittance/Capita of Nepal(current US\$) from 1980-2015

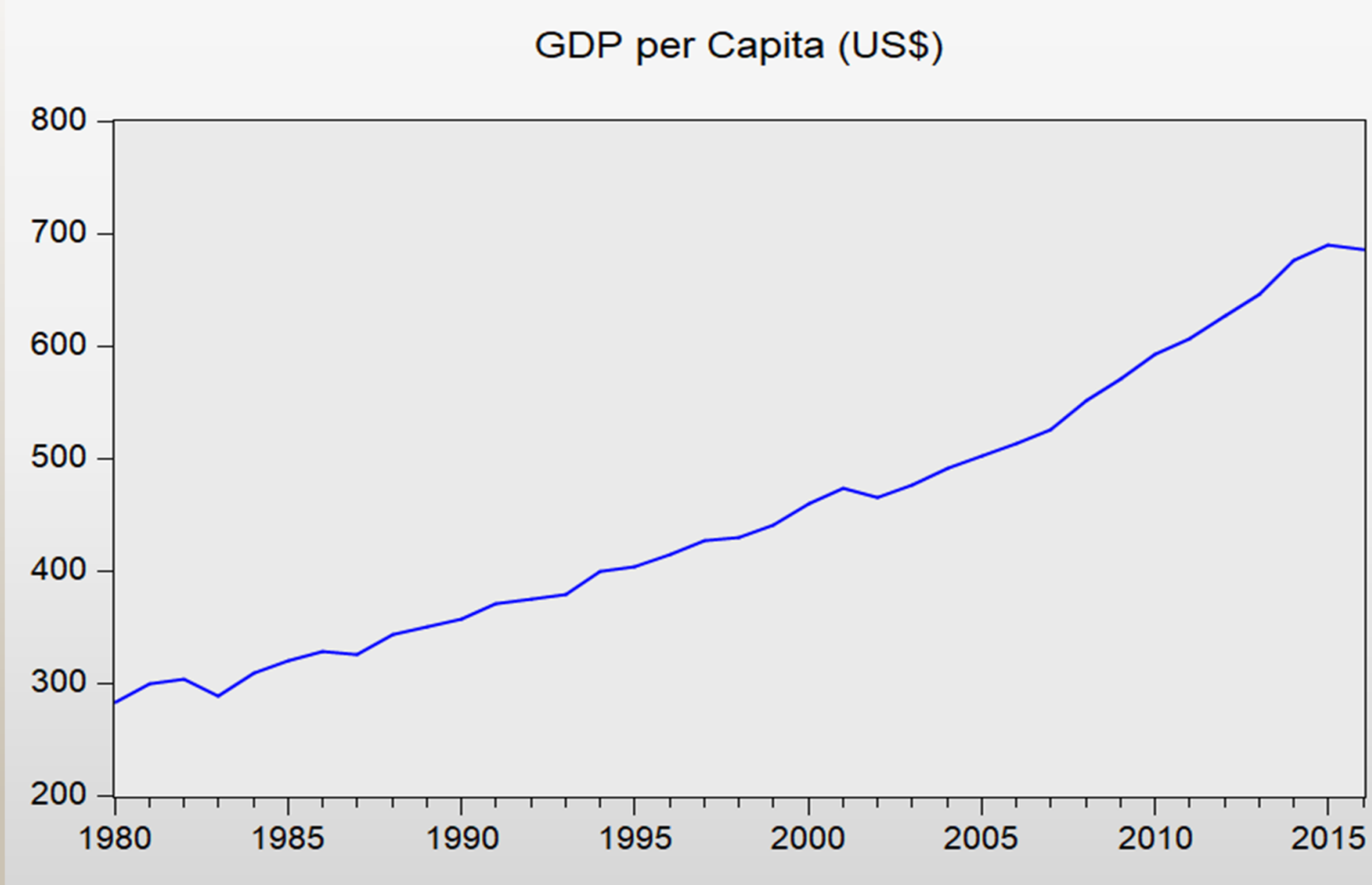


Fig. GDP/Capita of Nepal (2010 US\$) from 1980-2015

THEORETICAL BACKGROUND AND METHODOLOGY

Consistent with the developmental/Neoclassical view associated with Kindleberger (1965), Todario (1969), De Haas (2007, 2010), we assume that migrants from lower income economies to more advanced economies send remittances to their home countries where the remittance sent positively augment domestic savings and investments. The rise in savings and investments contributes to capital formation and economic growth. In addition, workers transfer technologies through sharing of new ideas on education and financial and human resource management which contributes to economic growth and development. The 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.

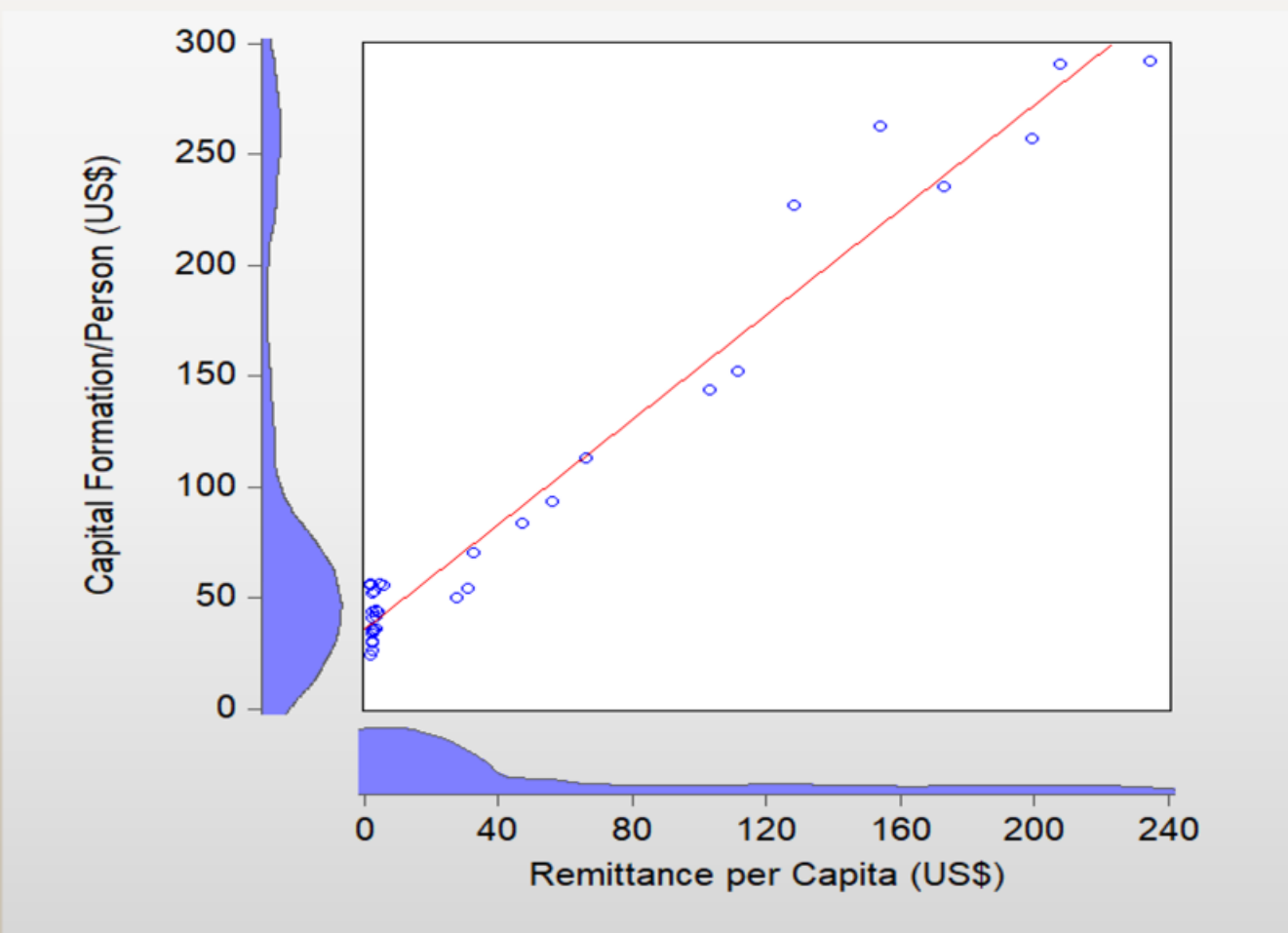


Fig. Scatterplot Diagram of Capital Formation/Person against Remittance/Capita

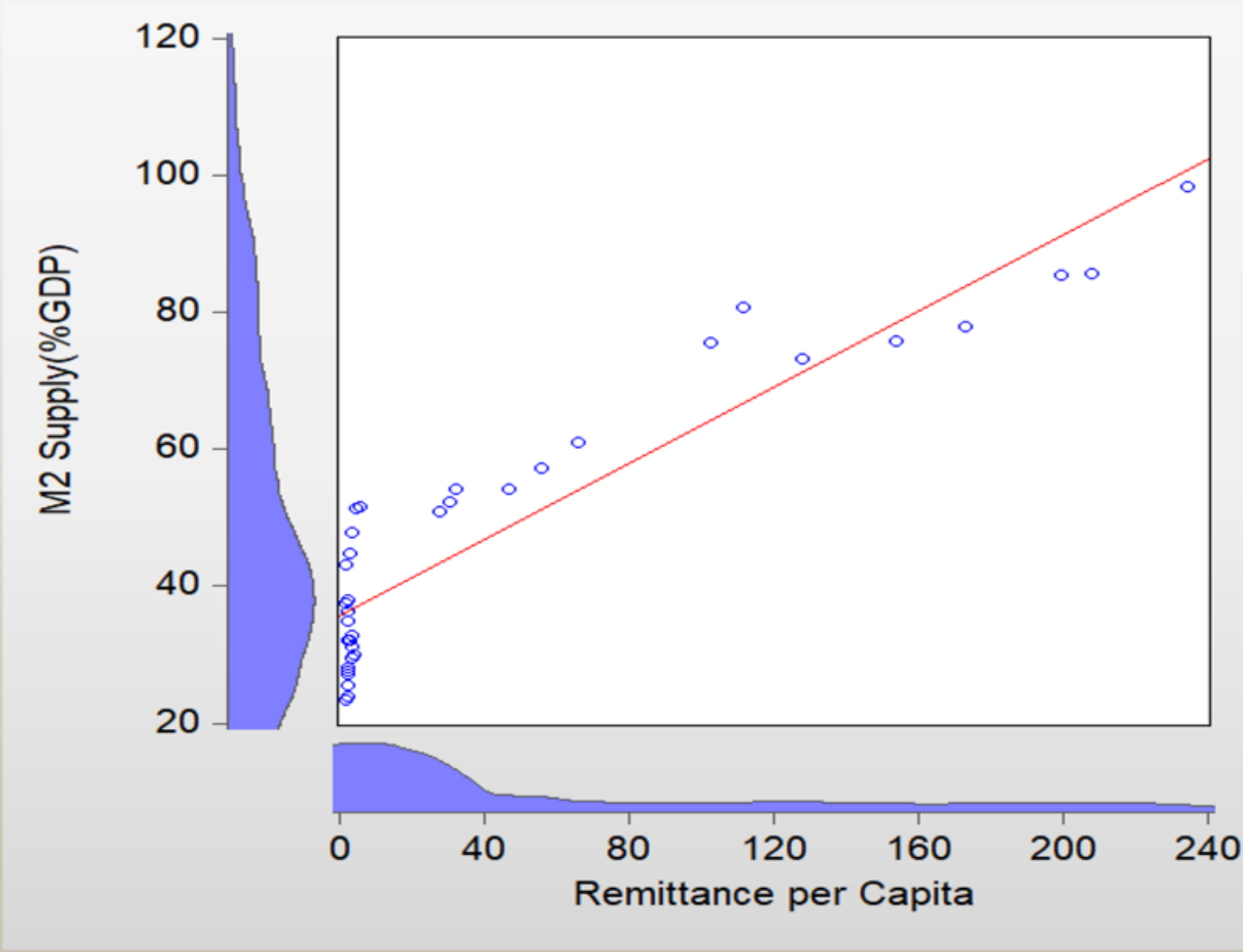


Fig. Scatterplot Diagram of M2 supply against Remittance/Capita

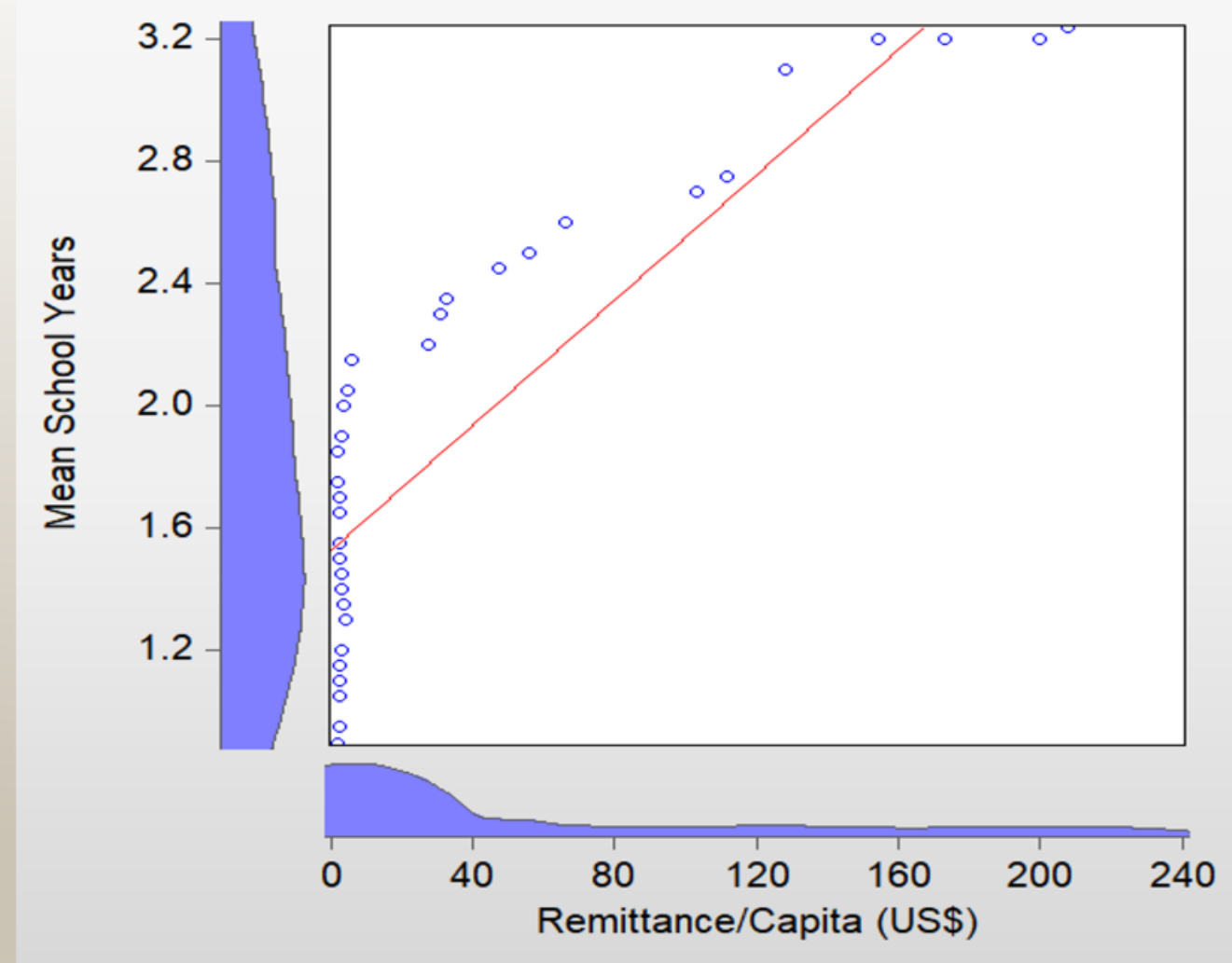


Fig. Scatterplot Diagram of Mean School years against Remittance/Capita

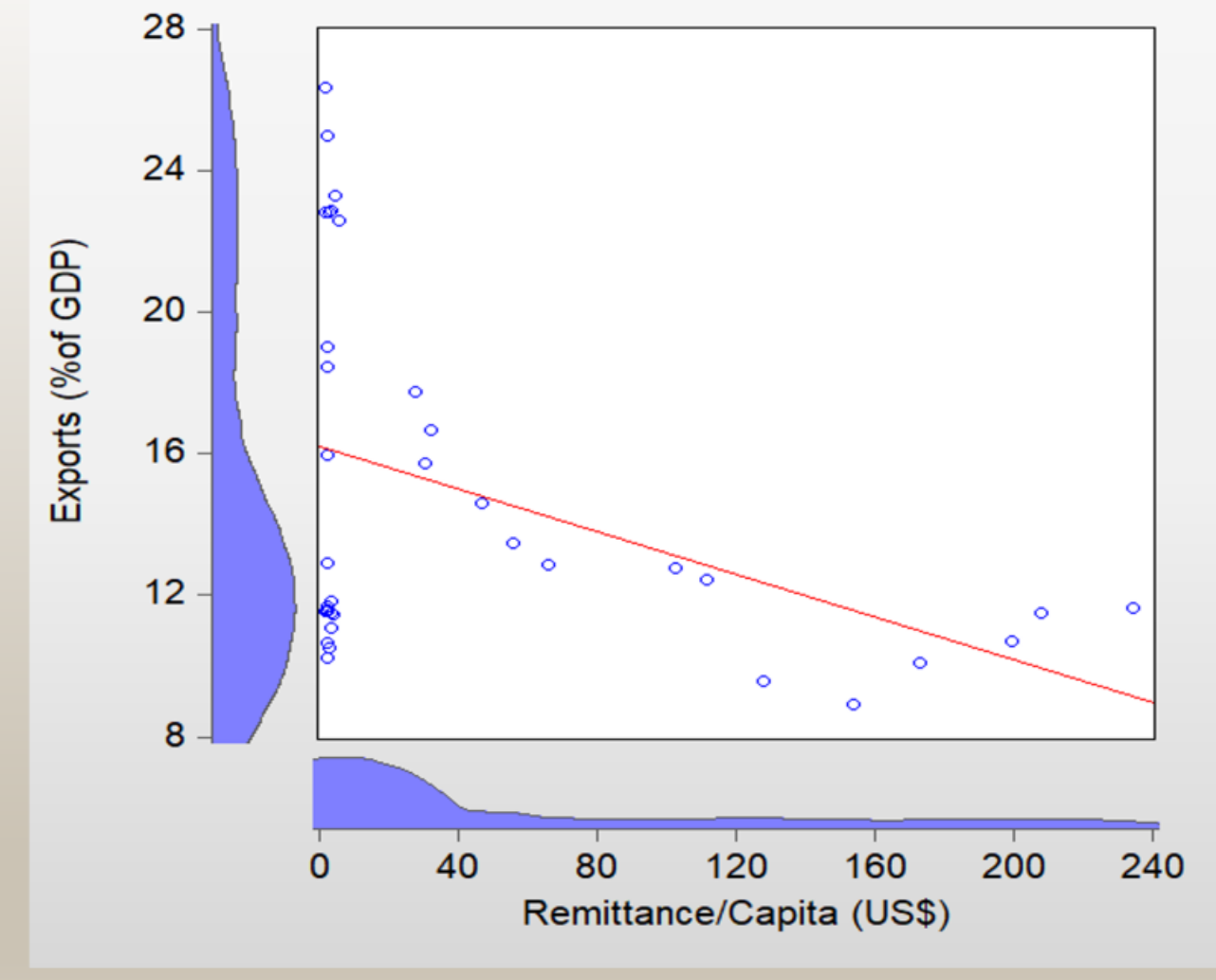


Fig. Scatterplot Diagram of Exports against Remittance/Capita

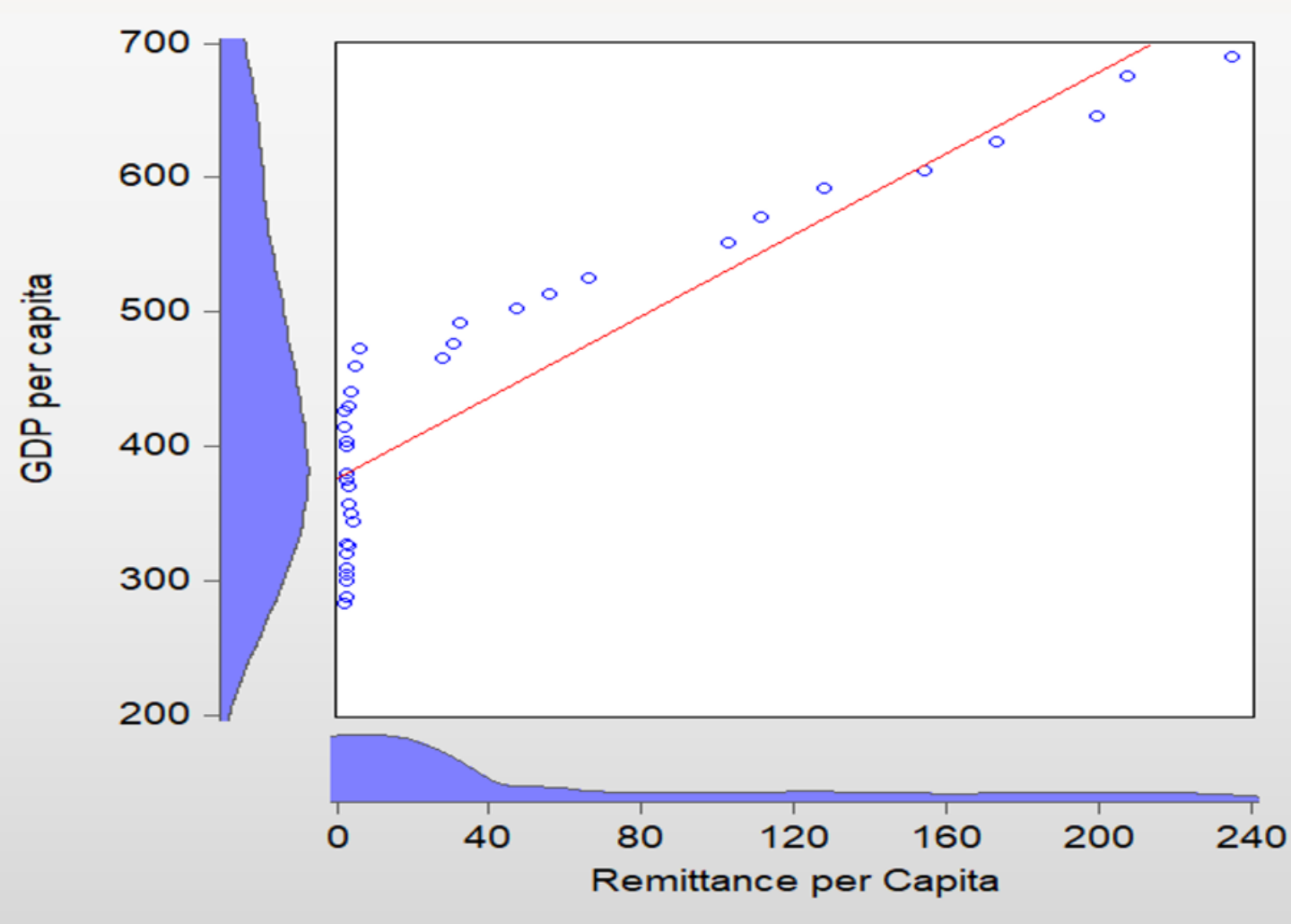


Fig. Scatterplot Diagram of GDP per Capita against Remittance per Capita

DESCRIPTIVE STATISTICS

	GDP CAP	REM	GFORM	M2	EDU	EXPORT	DUMMY
Mean	437.72	40.13541	83.66	46.87	1.94	14.92	0.2
Median	426.17	3.48	51.83	43.19	1.85	12.78	0.0
Maximum	675.74	207.91	290.74	85.64	3.24	26.33	1.0
Minimum	283.05	1.99	23.88	23.46	0.90	8.90	0.0
Std. Dev.	111.08	62.50	77.25	19.45	0.74	5.08	0.41

Legend:

GDP CAP : Real GDP per Capita
REM : Remittance per Capita
GFORM : Capital Formation per Person
M2 : Broad Money (% of GDP)
Export : Exports (% of GDP)
Dummy : Governance System at the period (0 if monarchy, 1 if democracy)

CORRELATION MATRIX

Covariance Analysis: Ordinary

Sample Data Range: 1980 2014
Total observations: 35

Correlation Probability	GDP CAP	REM	GFORM	M2	EDU	EXPORT	DUMMY
GDP CAP	1.000000 ----						
REM	0.884552 0.0000	1.000000 ----					
GFORM	0.894570 0.0000	0.982242 0.0000	1.000000 ----				
M2	0.984260 0.0000	0.903879 0.0000	0.900339 0.0000	1.000000 ----			
EDU	0.994298 0.0000	0.863082 0.0000	0.877682 0.0000	0.978193 0.0000	1.000000 ----		
EXPORT	-0.049811 0.7763	-0.414853 0.0132	-0.346183 0.0416	-0.113803 0.5151	-0.050963 0.7712	1.000000 ----	
DUMMY	0.785830 0.0000	0.924225 0.0000	0.921972 0.0000	0.842541 0.0000	0.765921 0.0000	-0.406390 0.0154	1.000000 ----

SUMMARY

The correlation table indicates that remittance per capita has a strong positive correlation with GDP per capita, Capital Formation, Money Supply, Mean School Years. The low p-values indicate statistical significance of the correlation coefficients. Notwithstanding, the relationship between remittances and exports is found to be negative. The findings support all three of our hypothesis. The graphs of the data indicate trends that remittances may have an influence on other macroeconomic variables. In light of our understanding that correlation is not sufficient to prove causation, further studies using additional testing methods are required.

FUTURE WORK

- Sharp increases in remittances at various points in time requires additional studies and provides us with an opportunity to better test for the possible causes for such increases in remittance. Thus, further study will include running appropriate econometric regressions after reviewing the data trends and further analyzing the previous literatures.

- Nepal's recent history has also been categorized with political instability. The country became democratic in 2008 but continues to suffer from weak macroeconomic performances. Our research will include analyzing how remittances affected economic growth under two governance scenarios – monarchy and liberal democracy. Previous studies have not separated the study between the two governance. Thus, our study will try to identify the effects of remittance on different governance systems.

- Eventually, we plan to extend the study of the effects of remittances by analyzing other countries in different world regions.

See attached page for References.