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EFFECT OF REMITTANCE INCOME ON NEPALESE ECONOMY

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Effect of Remittance Income on Nepalese Economy

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Abstract* – *Remittance as a main cause of foreign currency to the rising nation has become a considerable component of making current account surplus in the balance of payments. It is argued that many workers from Nepal going abroad for employment are no doubt young, energetic, laborious and enthusiastic. The social impacts of such migration were likely to be at least as profound as the financial ones, particularly with regard to family and gender relations. In some Nepalese villages, up to 90% of the young men have left, returning at most every six months. This paper discusses the various aspects of remittance related to capital accumulation, spending pattern, contribution to the economy as well as the possibility of economic failure due to burgeoning dependency on it.

Keywords: Remittance, income, economy

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INTRODUCTION

Development economics has traditionally taken into account foreign savings as the key to augmenting a nation's capital output ratio. Factors such as foreign direct investment (FDI), official development assistance (ODA), foreign trade, the transfer of technology and, more recently, remittances have been incorporated into these studies. The macroeconomic effects of remittances enjoy a strong theoretical tradition dating back to Adam Smith, David Ricardo and the labor theory of value and comparative advantage. It advanced right up to the endogenous growth innovation in the 1980s assigning human capital a crucial role in modern production and exchange. Generally, remittances refer to that portion of migrants' earnings sent from the migration destination to the place of origin. Even though they can also be sent in kind, the term 'remittances' is normally limited to denote monetary and other cash transfers transmitted by migrant workers to their families and communities. [2]

Remittance holds great significance in Nepal where one-fourth of the population lives below the poverty line. According to World Bank, Nepal is among the top five countries in the world with remitted income amounting to 23 per cent of the national GDP. Statistics show that remittances bring in one hundred billion rupees each year to Nepal. In 2010, Nepal received $3,507 million (The World Bank, p. 15). According to World Bank, remittance has definitely reduced headcount poverty rate in the country. It has been stimulating much needed economic development [1].

Remittance income in developing Countries have become a lifeline for economic development. By remittance we mean sending income in terms of money or goods in home by the migrants or workers who have their earnings outside their home country. Now a day's, this source of foreign income has been growing rapidly in each year in developing countries [8]. Since long time in Nepal, many migrants have been transferring their income through the unofficial channels. Today due to the establishment of different agencies like Western Union, International Money Express (IME) etc. in several district headquarters of the country, the remittance flows has become popular for transferring cash or money in time to the recipients. However, it is difficult to calculate the exact size of remittance flows in Nepal due to the emergence of unofficial channels even though it has recorded in balance of payments account. In this regard, it is estimated that unrecorded flows through informal channels are believed to be more than 50 percent of the recorded flows in developing countries (Ratha 2005) [3].

REVIEW OF LITERATURE:

Impact of Remittance Inflows on Nepal's Economy

Generally, there are three methods of measuring remittance inflows. The first is through the BoP estimates. The second mechanism is the household surveys of recipients of such flows, for instance, the Nepal Living Standards Survey (NLSS). The third technique is through banks or financial institutions in origin countries, that is, focusing on resource transfer institutions. The size of remittance flows examined in this paper refers to the workers' remittances under the current account of the BOP data compiled by the Research Department of Nepal Rastra Bank.[1]

Because of political instability prevailing in the country, many workers regard foreign employment as their only feasible option. Again, paucity of economic opportunities at home and rising employment prospects abroad have also tempted Nepalese to seek employment abroad (Seddon, 2005). According to the statistics of the Department of Labor and Employment Promotion, the number of workers going abroad for employment increased by 17.9 percent to 453,543 in 2012/13 from 384,665 in 2011/12. With the increase in the number of workers, the inflow of remittances has soared. In 2012/13, remittances aggregated USD 4.93 billion, a rise by 11.7 percent compared to USD 4.41 billion in 2011/12 [4]. Likewise, the remittances to GDP ratio

Efforts towards Mobilizing Remittances [7]

Owing to the positive impact of remittances, the country has given priority in promoting overseas employment and mobilizing remittances so as to maximize the benefits from these transfers. In this respect, effective 29 March 2002, the Nepal Rastra Bank (NRB) had begun granting licenses to private sector organizations interested in remittance-transfer business. As of 15 July 2013, 47 firms besides the commercial banks are undertaking money transfer businesses.

Different policy provisions have also been carried forward for encouraging remittances through the banking channel. For instance, the NRB had arranged to provide 15 paisa per US dollar as commission to licensed private firms in addition to the prevailing buying rate (NRB, 2002) [6]. Moreover, permission was granted to manpower agencies, engaged in sending Nepalese nationals to work overseas, to open foreign currency account in the Nepalese commercial banks out of the foreign currency income that they realized under the prevailing rules.

If a Nepal-based licensed agent/representative of any money transfer company situated overseas requires bank guarantee for the purpose of receiving advance payment from the principal company, a policy arrangement of making such facility available, within the stipulated limits, directly from the commercial banks was introduced beginning FY 2004/05 (NRB, 2004) [5]. This measure has facilitated the licensed agents in making instant payments of the remittance to the related parties.

CONCLUSION:

In this paper we found that remittance flows are substantial, constant relative to other forms of growth finance, and well-targeted to susceptible families, both as support during a crisis and as an income-smoothing mechanism. In Nepal, during the last few years, remittances have been a significant avenue of support for family members remaining at home. As the number of personnel going abroad for employment continues to rise, the equivalent growth of remittances has become a critical flow of foreign currency into Nepal.

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[1] Since remittances are transmitted through different channels, it is an arduous task to capture the full amount in the BOP statistics. As a result, it is difficult to come up with strong and valid conclusions on the role of remittances in the economic development of the country.