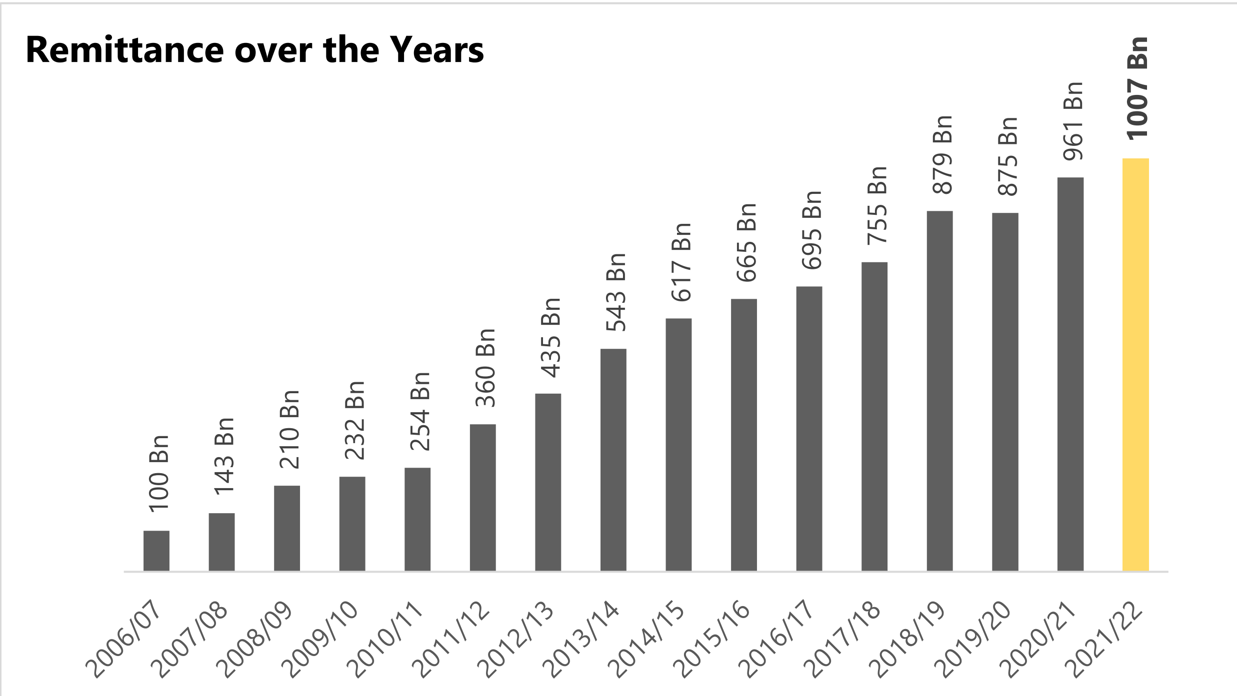
The Remittance Debacle

According to the KNOMAD, remittances to Nepal reached 10 Trillion in 2022, accounting for more than 21.8% of the country's GDP.

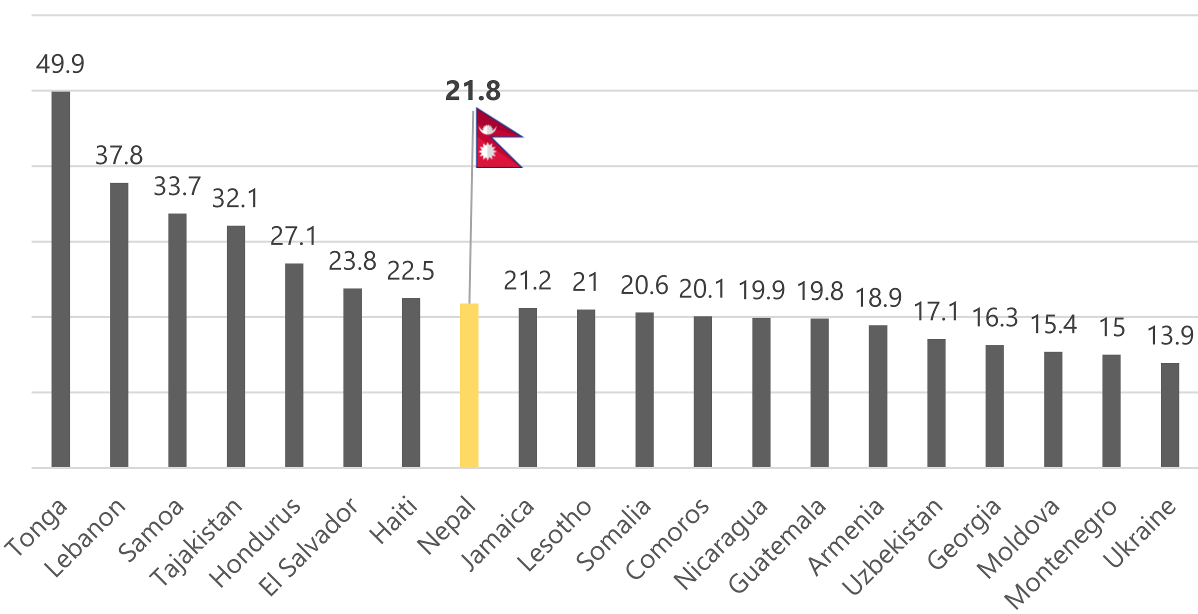


Constant political instability leading to shortsighted policies leading to underdeveloped infrastructure for industry to flourish leading to the inability to generate domestic employment leading to migrant outflow, this sequence has continued for almost 3 decades now, and as a result, Nepal is one of the most remittance-dependent countries in the world. In fact, Nepal stands 8th among the countries with the highest remittance to GDP ratio, in the company of mostly underdeveloped and least developed countries, war-stricken (civil wars or border conflict) nations, and some geographically isolated islands and landlocked nations which also goes to show that for a country dependence on Remittance is not conducive for economic prosperity and development.

Remittance despite having raised the living standards of people of low-income country like Nepal, however, has triggered a Dutch Disease** like phenomenon. The negative implications of remittances as studied by Sapkota1 stated *"The massive inflow of remittances raised household income and expenditure capacities, which then increased aggregate demand and expenditure much more than the economy's output and productivity would permit.*

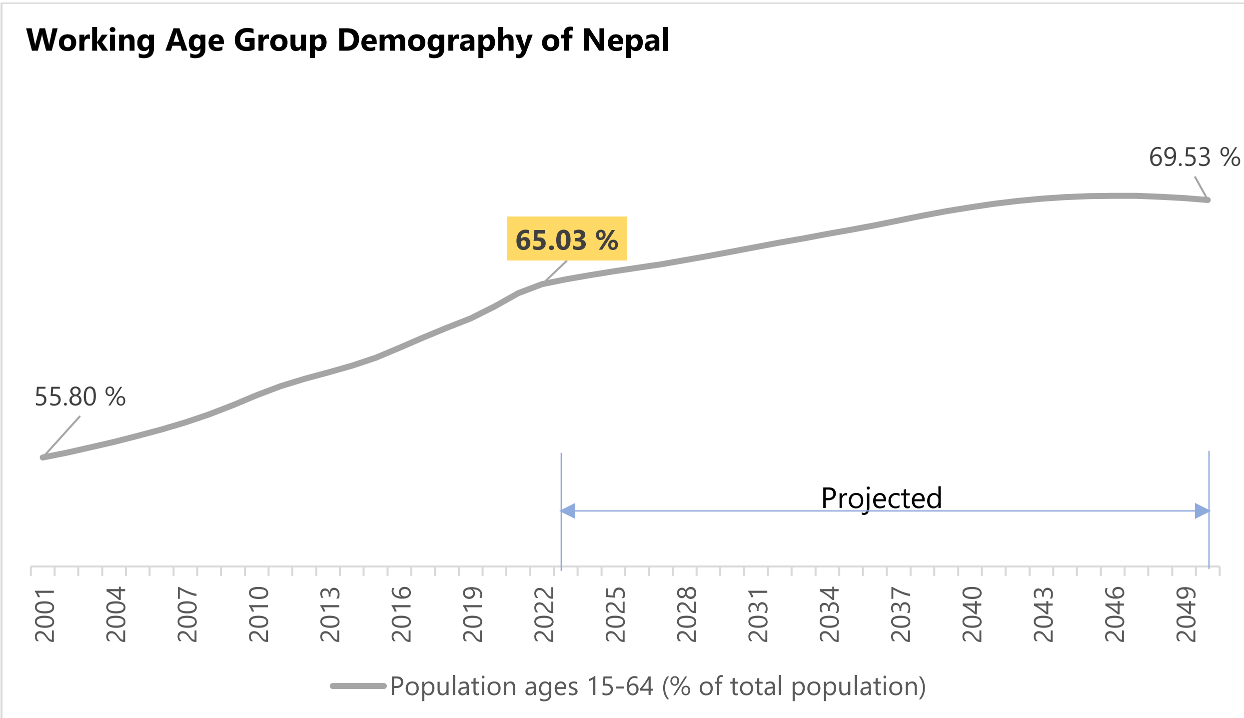
It led to a rise in demand for and output non-tradable in the economy. However, the high demand and pressure on production also increased wages in both non-tradable and tradable sectors. The rise in wages arising both from high demand for production and the shortage of workers due to high migration led to an increase in the cost of production throughout the economy. It meant a loss of competitiveness in the tradable sector (usually manufacturing and agriculture), whose prices are determined in the international market. It resulted in reduced external demand for non-resource tradable and then, finally, its reduced share in overall output. Meanwhile, since income is higher from migration, capital and labor are attracted to this sector from other sectors of the economy. The resulting shortage of workers is further exacerbating the problem by raising wages which means even more loss of competitiveness."

Countries with Highest Remittance % to GDP

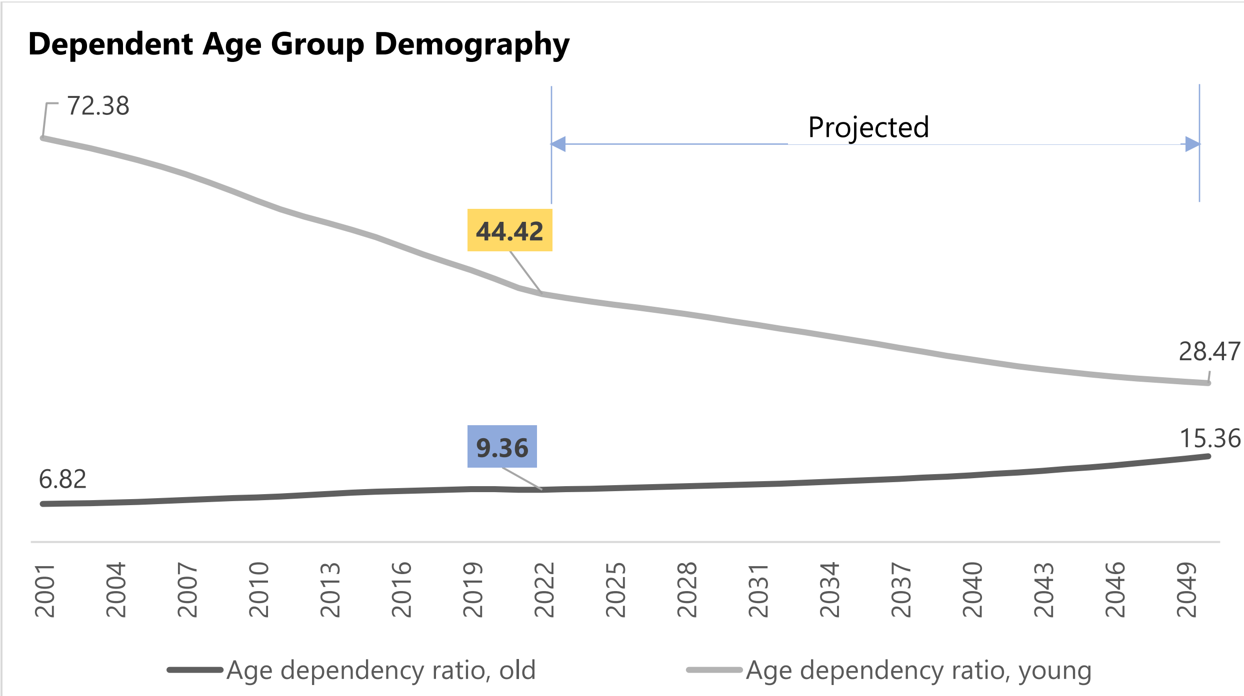


Remittance as of now looks to be towing the Nepalese economy along, nevertheless at a slow pace, but for how long? The average GDP yearly growth for the past decade (2069-2079 BS) is at 4.49%. For a nation aspiring to be promoted to a "Developing Country" from being an "LDC (Least Developed Country)", the GDP growth needs to be north of 6% consistently for at least a decade. A massive undertaking, which requires the mobilization of resources at an optimum, which includes human resources as well. A country in dire need of its workforce to propel the economy on the back of domestic production, Nepal ironically waved goodbye to more than 3.5 lakh able-bodied working-age youths to seek employment in foreign countries.

However, Nepal does not have the luxury to continue to turn a blind eye to the migrant outflow problem and keep relying on the fruits of the remittance trees planted on foreign soil toiled on by its migrant citizens. Nepal currently has a surplus of the working-age population (age 15 - 64) unlike some of the world's developed economies. According to the World Bank Data, the current pie of the working-age population of Nepal is 65.03% (2022) of the total population.



This surplus labor dividend is projected to have linear growth to reach 69.53% by the year 2045 after which it can plateau and then go into decline. Implying that Nepal will continue to see more and more youth entering the job market seeking employment for 20 more years to come. Yet, Nepal at a policy level and in terms of labor mobilization plan execution is neither preparing nor looking to prepare itself to harness this surplus working-age population. In case Nepal sleeps through the next two decades, it is going to wake up finding itself in more dire circumstances.



The world as a whole is witnessing an unprecedented decline in fertility rates and Nepal is no exception. World Bank data shows, a couple in Nepal in 2022 will have 2.055 offspring as opposed to 3.763 just 20 odd years ago in 2001. Making a case for a diminishing youth population 20 years down the line. Further, with life expectancy improving with time, the old population will live longer, only to add to the social security burden.

Remittances are only being used for imports and consumption and not going to the productive sector or creation of infrastructure, in time Nepal risks having only old population relient on on social security net with neither proper infrastructure, a prosperous domestic production industry, a self-reliant agriculture sector nor a productive youth to make these possible.

Declining fertility, fewer people replacing the aging labor force, the old population growing, and failure to solve this chronic migration problem, the equation leads to a fairly simple conclusion of what the country might face in a generation or two. Growing dependence on remittance and inability to use its own human resources, Nepalese people have only two decades to build a runway to take a prosperity flight but the task looks daunting as of now.

Time is ticking for Nepal.

[1] Chandan Sapkota, "Remittances in Nepal: Boon or Bane?" The Journal of Development Studies, 2013

** Dutch disease is a concept that describes an economic phenomenon where the rapid development of one sector of the economy (particularly natural resources) precipitates a decline in other sectors.