

Remittance in Nepal Growth, Risks and Outlook

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Himalayan Capital

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EXECUTIVE SUMMARY

Executive Summary

Nepal’s growth story is intertwined with that of remittance growth, and remittance income has changed the face of modern Nepal. For a country switching from a primarily Agro based economy to a service based one, Remittances have bridged the gap that would have otherwise required large scale industrialization to achieve.

Annual Remittance (In Billions NPR)

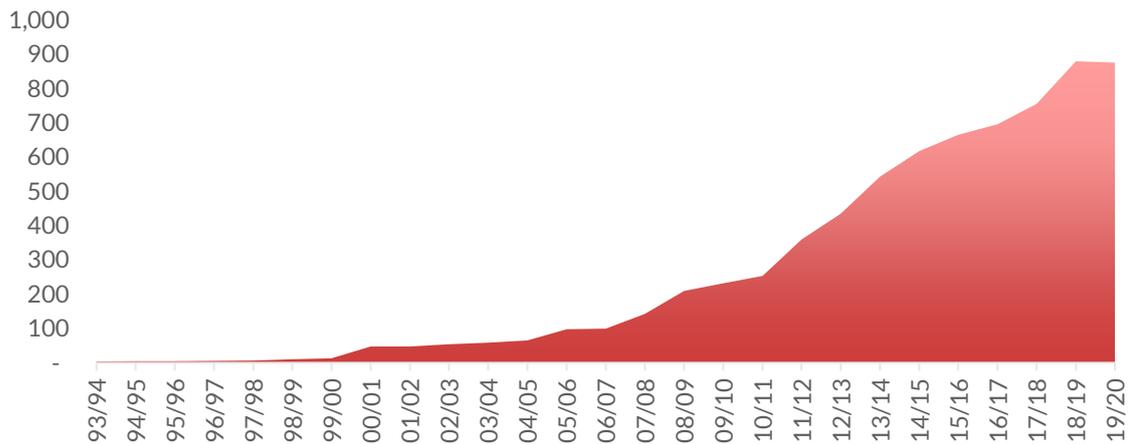


Figure 1: Annual Remittance Numbers Since 1993

Remittance as a percent of GDP

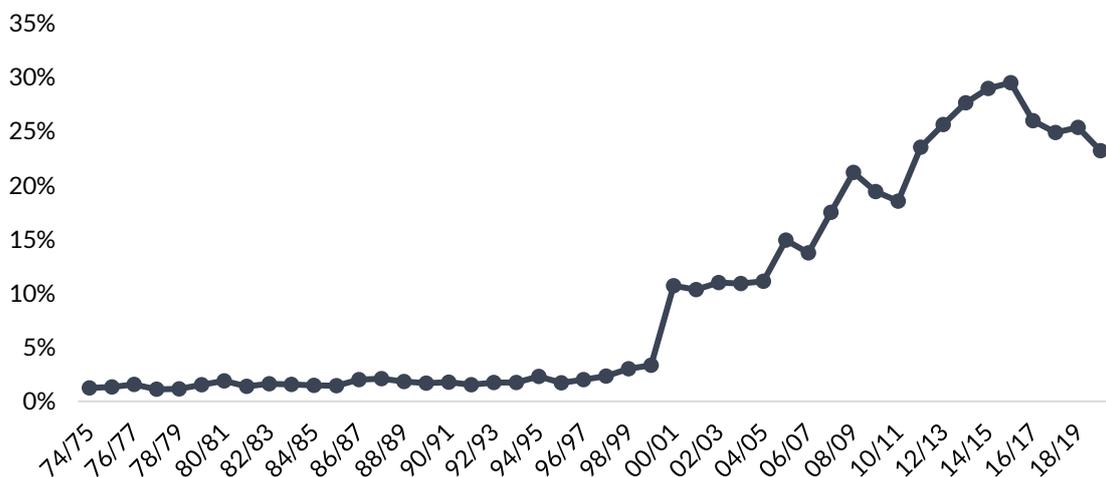


Figure 2: Remittance as percent of GDP

Remittance Inflows affect everything from household expendable income to deposit growth in our Financial Institutions.

Use of Remittance in Household

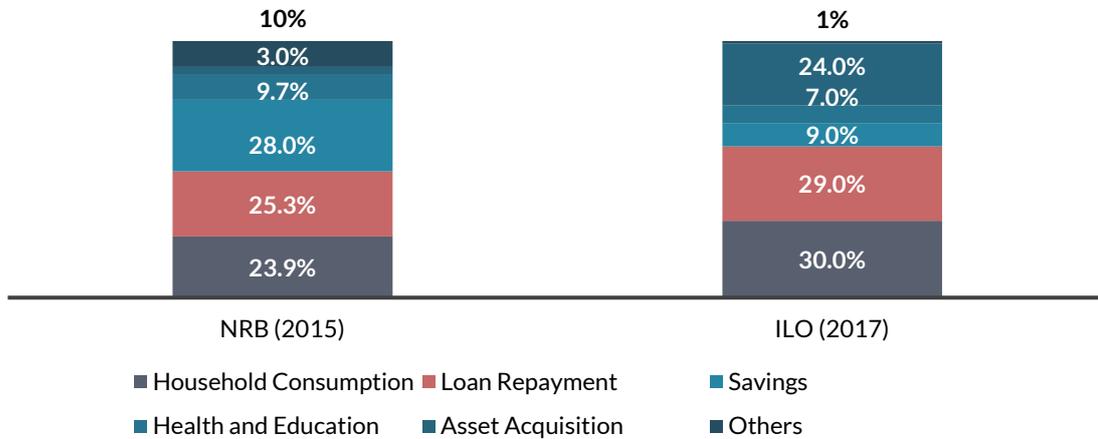


Figure 3: Use of Remittance in Household

Annual Remittance Vs New Deposits In BFIs (In Billions NPR)

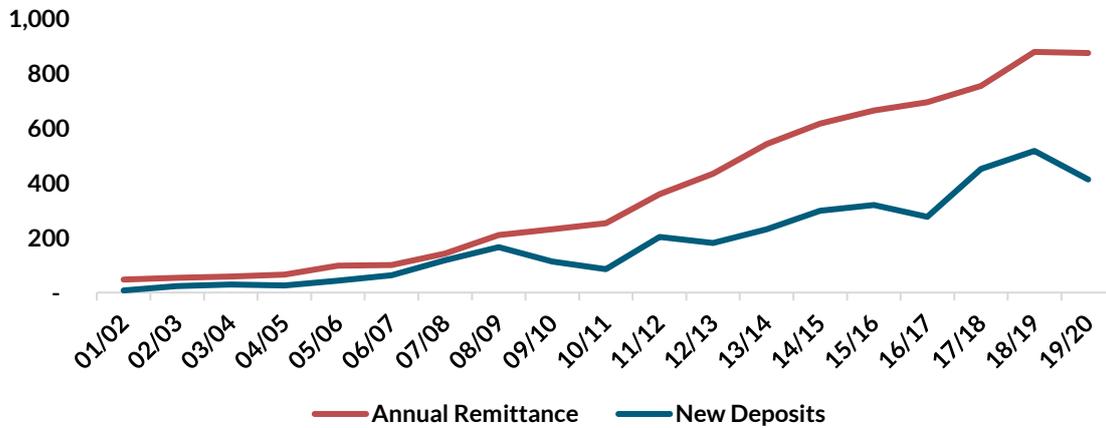


Figure 4: Annual Remittance Vs New Deposits in BFIs

The increase in remittance income has translated to a direct improvement in the Quality of Life of Nepal’s citizens evident primarily through the reduction in poverty rate from 42% in 1995 to just around 18.7% at the end of the last fiscal year and consequently due to the economic freedom provided for pursuing education the literacy rate has risen from 51% to 78% in the last one and a half decade.

Effect of Remittance on Poverty and Literacy Rate

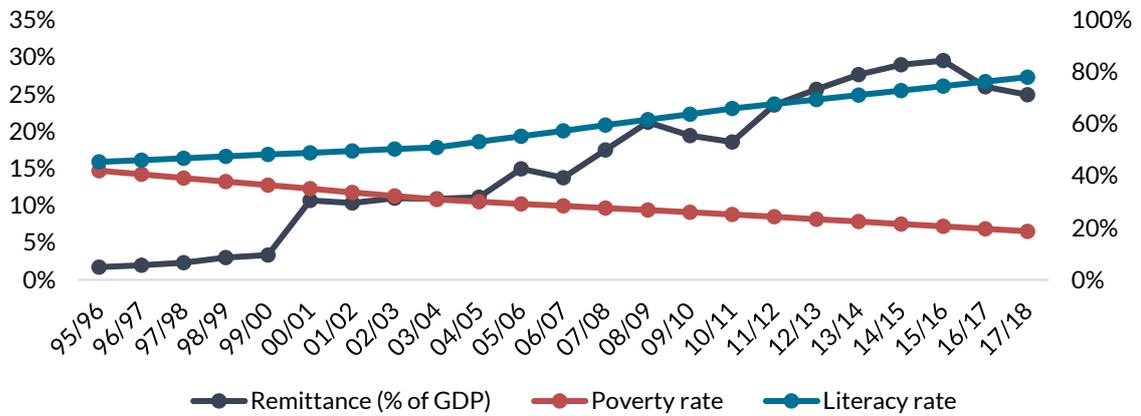


Figure 5: Effect of remittance on Poverty and Literacy Rate

Due to availability of poverty and literacy rate data over discrete time spans, various values have been interpolated from existing data.

It has shaped the demographic fabric of Nepali society and brought forth rapid urbanization. With increase in disposable income attributable to remittance, Nepal has observed rapid increase in consumption driven primarily through imports.

Annual Import Vs Annual Remittance (In Billions NPR)

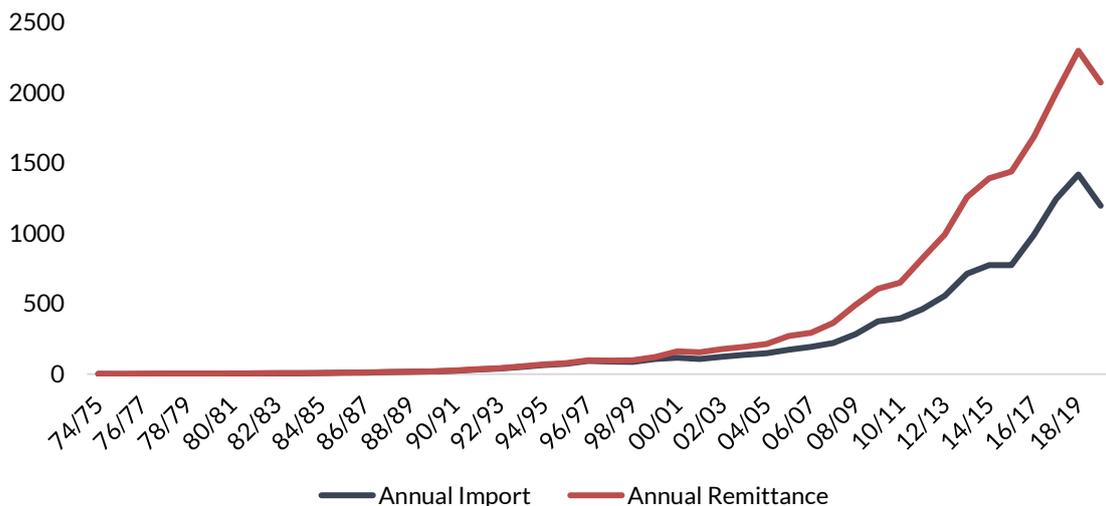


Figure 6: Annual Import Vs Annual Remittance

However, for the last few years, the rate of growth of people that have been going abroad seeking work opportunities has been in a decreasing trend due to saturation being reached w.r.t overall demand and supply, lack of identification of newer higher value destinations and procedural hassles that come along.

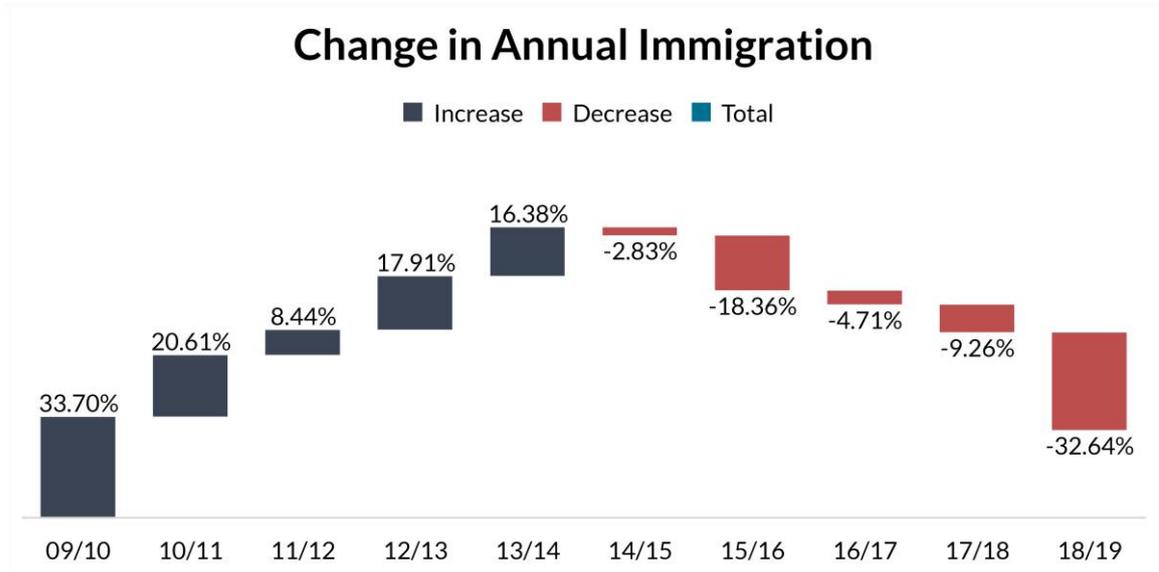


Figure 7: Change in Annual Immigration in Last 10 years

Remittance Numbers however have been on the up but do show imminent signs of slowing down in the upcoming years.

Remittance Inflow in the last five years (In Billions NPR)

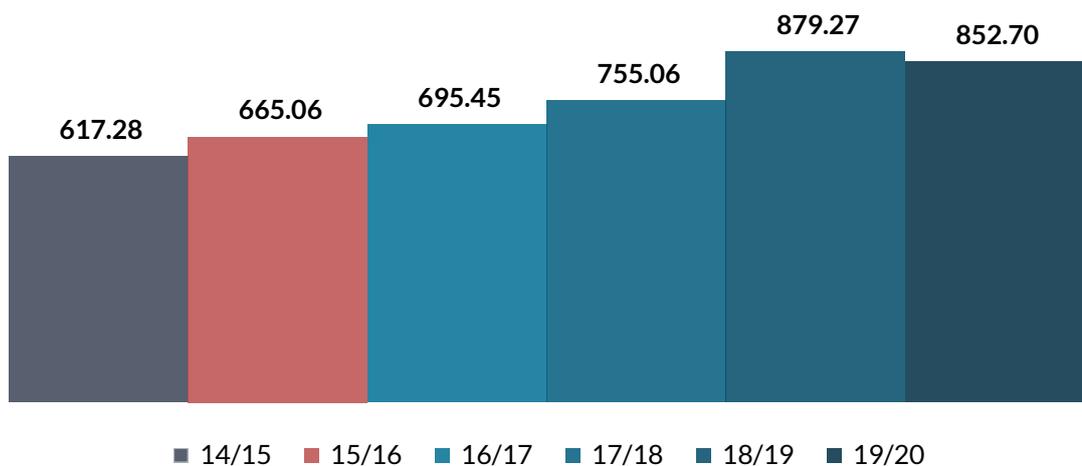


Figure 8: Remittance Inflow in the last five years

The Middle East (Saudi Arabia and Qatar) and Malaysia, the two most key markets for Nepali workers do not look as attractive anymore and there seems to be an upcoming need for finding higher value labor destinations for Nepali Workers. Further, with oil prices showing signs of greater volatility and the economies being dependent on oil revenue, a slowdown of economic activities is more likely than ever in Nepal’s top remittance destinations.

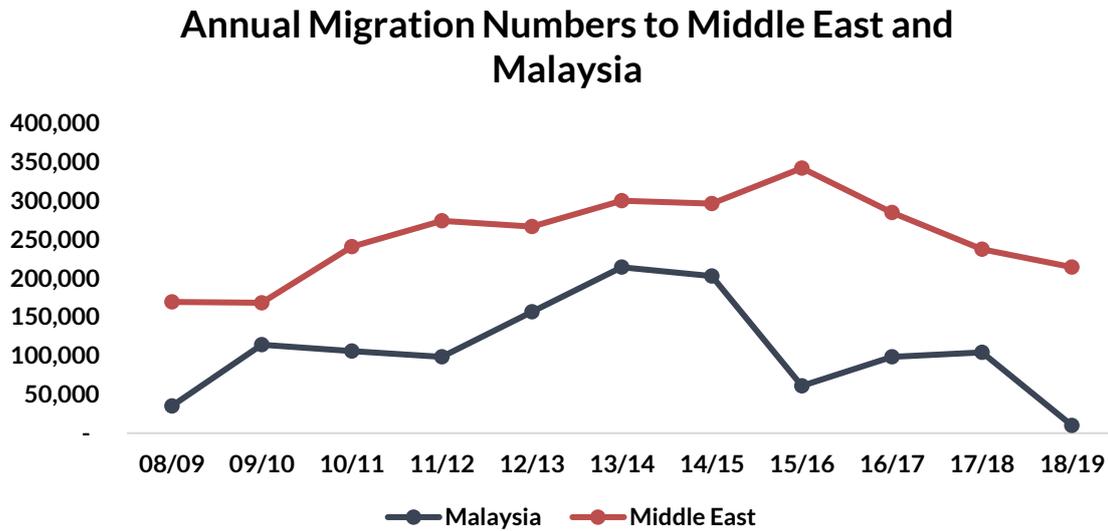


Figure 9: Annual Migration Numbers for Middle East and Malaysia in Last Decade

Longstanding problems such as lack of security and assurance of compensation seem to be less prevalent due to government efforts to establish more formal channels of labor migration, but it is not without its challenges as observed with a moratorium of sorts on migration to Malaysia for the last one and half years due to disagreements at government levels. Similarly, cost of remitting has gone down substantially as a move to cash less transactions is happening. COVID-19 has presented several challenges; the impending specter of returning migrants and the consequent economic fallout expected of it is the primary. However, this has not been evident as of now as shift to formal channels due to COVID-19 has boosted formal numbers and people seem to have remitted savings due to the tough times as well.

Comparative Monthly Remittance Numbers (In Billions NPR)

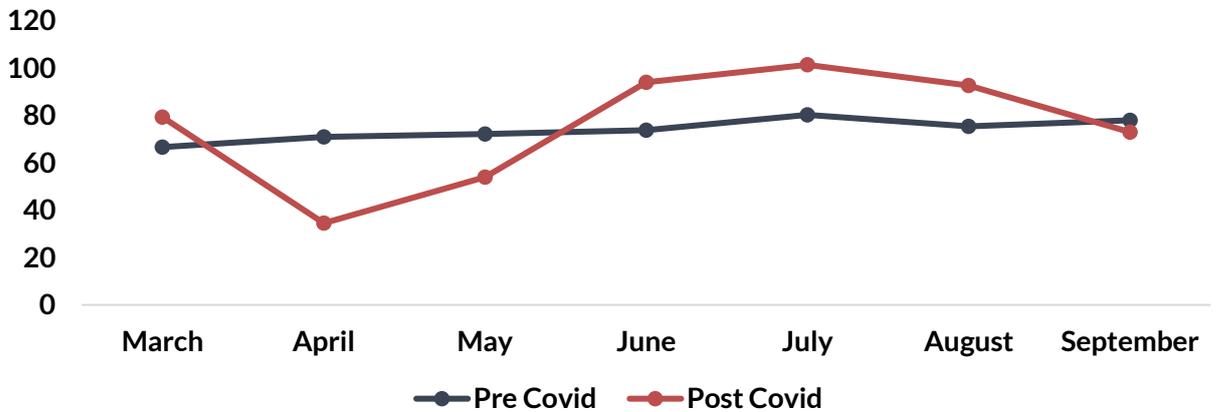


Figure 10: Monthly Remittance Numbers this FY after COVID-19 vs numbers last FY

The underlying economic impact of the pandemic while not visible on government books now; this will however surely be evident in the longstanding aftereffects on the Nepali Economy.

The Remittance companies which have till now prospered on the back of unrelenting foreign employment are also now likely to face more challenges. Regulatory oversight towards reduction in commissions due to digitalization, and the banning of agent fixing can all disrupt set business models. The industry with several major players is already saturated and any reduction in unit revenue would need to be supplemented by a growth in volume which does not seem forthcoming as things stand.

However, a push towards digitalization and amortizing the impact over the long term can help shield these institutions from the immediate shock of regulatory instructions. Identifying new markets wherein to set a dominant position early on and leveraging the position for further growth will be a key success strategy in this regard.

Remittance in Nepal Growth, Risks and Outlooks

