

IMPACT OF REMITTANCES ON HOUSEHOLD FINANCES AND ECONOMIC DEVELOPMENT IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfillment of the requirements for the Master's Degree

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Impact of Remittances on Household Finances and Economic Development in Nepal**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Ms. Sulochana Kumari Singh has defended research proposal entitled “**Impact of Remittances on Household Finances and Economic Development in Nepal**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Mr. Keshar Singh Khati and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Impact of Remittances on Household Finances and Economic Development in Nepal**” presented by Ms. Sulochana Kumari Singh for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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ABBREVIATIONS

AB	:	Adjustment for Bias
CBS	:	Central Bureau of Statistics
GDP	:	Gross Domestic Product
HC	:	Household Consumption
IMF	:	International Monetary Fund
Ln	:	Natural Logarithm
NRB	:	Nepal Rastra Bank
PCI	:	Per Capita Income
RI	:	Remittance Inflow
SPSS	:	Statistical Package for the Social Sciences
Std. Err	:	Standard Error

ABSTRACT

This study examines the impact of remittances on household finances and economic development in Nepal, focusing on three key variables: remittance inflow (RI), household consumption (HC), and per capita income (PCI), with Gross Domestic Product (GDP) as the dependent variable. Utilizing a descriptive and causal-comparative research design, the study analyzes data from 2013/14 to 2022/23, sourced from the Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), and other reports. Descriptive statistics reveal mean values of 1.9940 for LnRI, 7.8088 for LnHC, 6.9398 for LnPCI, and 3.3839 for LnGDP, with variability indicating more fluctuation in household consumption. Correlation analysis shows strong and statistically significant relationships between remittance inflow, household consumption, per capita income, and GDP, highlighting their importance in driving economic growth. However, regression analysis finds that per capita income has a significant positive impact on GDP, while remittance inflow and household consumption do not exhibit statistically robust effects. This suggests that while remittances and consumption contribute to household welfare, per capita income is the most critical factor influencing GDP.

Keywords: *Remittances, Household Consumption, Per Capita Income, GDP, Economic Growth, Nepal*

CHAPTER – I

INTRODUCTION

1.1 Background of the study

Remittances have become a crucial source of income for many households in Nepal, significantly influencing both their financial stability and the broader economic landscape. As one of the top recipients of remittances globally, Nepal's dependence on these transfers has increased significantly, highlighting their importance in the national economy (World Bank, 2023). This growth in remittance inflows reflects both a rise in the number of Nepalese working abroad and an increase in the value of these transfers.

In recent years, remittance inflows into Nepal have surged, driven by labor migration and international financial transactions. This trend has made remittances a vital part of Nepal's economic framework. The substantial support provided by remittances has helped many households improve their living standards, invest in education, and access better healthcare services (Kumar & Balamurugan, 2022). The consistent income from remittances reduces financial uncertainty for these families.

Remittances have a profound impact on household finances, enhancing financial security and improving quality of life. Families receiving remittances are better equipped to meet basic needs such as food, healthcare, and education. This additional income enables households to make significant purchases and investments in durable goods, boosting their overall well-being (Pradhan et al., 2016). The increased spending also stimulates local economic activity.

However, the effects of remittances on poverty and inequality present a mixed picture. On one hand, remittances can reduce poverty levels and poverty gaps by providing additional income to many households, especially in rural areas with limited economic opportunities (Subedi & Dangal, 2022). On the other hand, the benefits may not be evenly distributed, potentially worsening regional disparities and increasing inequality (Islam & Ahona, 2021).

Beyond their impact on household finances, remittances play a significant role in economic development. By boosting domestic consumption and supporting local businesses, remittances contribute to economic growth. The increased liquidity from remittance inflows can drive economic activity, support infrastructure projects, and foster investment in local enterprises (Gnawali & Niraula, 2021). This is particularly valuable in areas with limited traditional economic opportunities.

Household consumption patterns are also influenced by remittances. Remittance-receiving households typically spend more on goods, housing, and healthcare compared to those who do not receive remittances. This increased expenditure drives demand for local products and services, further stimulating economic growth and community development (Yaakob & Halim, 2016). Investments in better housing and healthcare are direct benefits of the financial support provided by remittances.

Remittances also impact human capital investment. Families receiving remittances are more likely to invest in education and health, leading to improvements in overall human development. Enhanced access to education and healthcare contributes to a more skilled and healthier workforce, with long-term positive effects on economic development (Subedi & Dangal, 2022).

Despite these benefits, remittances can also pose challenges. Dependence on remittances can create economic vulnerabilities, especially if there are fluctuations in the amount or frequency of transfers. This dependence may also affect local labor markets and economic development by reducing incentives for domestic employment and entrepreneurship (Islam & Ahona, 2021).

The relationship between remittances and economic development is complex, involving various factors such as investment, government expenditure, and overall economic growth. Remittances provide immediate financial support and influence broader economic conditions through their effects on consumption patterns and investment decisions (World Bank, 2023). Understanding these dynamics is crucial for developing policies that maximize the benefits of remittances.

Comprehensive studies on the impact of remittances offer valuable insights into their effects on household finances and economic development. By analyzing factors such as poverty rates, consumption patterns, and human capital investments, researchers and policymakers can gain a deeper understanding of how remittances shape economic outcomes (Yaakob & Halim, 2016). This knowledge is essential for creating strategies that enhance the positive contributions of remittances while addressing potential challenges.

In summary, remittances have a significant and multifaceted impact on household finances and economic development in Nepal. They play a crucial role in improving financial stability, reducing poverty, and stimulating economic growth. However, challenges related to dependence and inequality must be addressed. A thorough analysis of these effects provides a comprehensive view of how remittances influence both individual households and the broader economy.

To effectively leverage remittances for economic development, it is important to understand their dynamics and interactions with other economic factors. By integrating insights from various studies and data sources, policymakers can develop strategies to maximize the benefits of remittances and promote sustainable economic growth in Nepal (Kumar & Balamurugan, 2022). This approach will help ensure that remittances contribute positively to both household well-being and national development. The main objective of the study is to analyze the impact of remittances on household finance and economic development in Nepal, including variables such as remittance inflow, household consumption per capita income and GDP.

1.2 Problem statement

Remittances have become a crucial financial inflow for Nepal, significantly influencing the country's Gross Domestic Product (GDP). As one of the largest recipients of remittances globally, Nepal's economy heavily relies on these financial transfers, which provide essential capital for many households, supporting expenditures such as daily needs, education, and small business investments. While remittances enhance household income and consumption, their precise impact on broader economic growth and development remains complex and debated. Critics argue that, despite the immediate financial benefits, remittances may not always lead

to sustainable economic growth or investment in productive sectors, potentially leaving the economy vulnerable to fluctuations in global migration and economic conditions.

Acharya and Paudel (2021) investigated the effect of remittances on Nepal's economic growth using an array of econometric tools. Their study found that while investment and consumption positively influence economic growth, remittances and government expenditure showed statistically insignificant effects. This result suggests that despite the large amount of remittances flowing into the country, their direct contribution to economic growth may be limited. This finding underscores a critical gap in understanding how remittances influence broader economic metrics beyond household consumption. In contrast, Bam et al. (2016) highlighted a positive relationship between remittance income and household per capita income and consumption, noting a significant reduction in poverty among lower-income quintiles. This suggests that remittances play a crucial role in improving household welfare and reducing poverty. However, this does not directly address their impact on broader economic growth, revealing a need for further exploration into how these funds contribute to or detract from national economic progress.

Nahar and Arshad (2017) examined the role of remittances in poverty alleviation in Indonesia, finding a modest reduction in poverty levels. They noted that while remittances have beneficial effects, factors such as inflation, exchange rates, and low educational levels among migrants could limit their impact. This highlights the necessity of implementing supportive policies to maximize the benefits of remittances, a concept that could also be relevant to Nepal.

Similarly, Bansak et al. (2015) found that remittances contributed to human capital investment, but their effectiveness varied based on the quality of education within Nepal. This finding emphasizes that while remittances may aid in educational investment, their overall impact on economic growth and development remains variable and context-dependent. A broader review by Adams Jr (2011) of recent empirical studies on international remittances highlighted their positive effects on poverty and health but also pointed to potential negative consequences on labor supply and economic growth. This comprehensive review underscores the need to

address methodological challenges and gain a clearer understanding of the multifaceted effects of remittances.

In Ghana, Quartey (2006) found that remittances improved household welfare and mitigated economic shocks but did not entirely offset these shocks. This study suggests that while remittances play a stabilizing role, they may not be sufficient to fully counterbalance economic disruptions.

Gender dynamics in remittance allocation, as investigated by Guzmán et al. (2008), reveal that the sex of the household head and the remitter can influence expenditure patterns. Female-headed households receiving remittances allocated resources differently than male-headed ones, affecting household budget allocations. This aspect introduces an additional layer of complexity to understanding the overall impact of remittances on economic growth.

Ang et al. (2009) found that remittances to the Philippines did not significantly influence long-term growth despite their role in poverty reduction. This suggests that while remittances can support household consumption and alleviate poverty, their impact on sustainable economic development may be limited.

Shakya and Gonpu (2021) and Sah (2019) emphasized the critical role of remittances in Nepal's economy, noting that they contribute significantly to household income and poverty reduction. However, their effect on economic growth appears ambiguous, with Shakya and Gonpu suggesting a potential negative impact on growth over the long term. Chhetri et al. (2020) observed a shift from an agriculture-based economy to a consumption-driven one, with remittances increasingly influencing economic dynamics. This underscores the need for policies that effectively channel remittances into productive sectors to support sustainable economic development.

In summary, while remittances have demonstrated clear benefits in terms of household income and poverty reduction, their overall impact on Nepal's economic growth remains debated. The existing literature reveals a complex picture where remittances contribute positively to household welfare but exhibit ambiguous or limited effects on broader economic growth. This study aims to bridge this gap by

investigating the nuanced effects of remittances on economic growth in Nepal, considering both short-term and long-term perspectives, and proposing policy recommendations to optimize the economic benefits of remittances for sustainable development. Despite numerous studies on the impact of remittances on household finances and economic development, there remains a significant gap in research specific to Nepal. Within this context, insufficient research addresses how remittances influence both household financial stability and broader economic development. Therefore, the researcher has formulated the following research questions to meet the objectives of the study on the impact of remittances on household finances and economic development in Nepal.

- i. What is the current status of remittance inflows on household finances and economic development in Nepal?
- ii. Do any relationships exist between the independent variables such as remittance inflow, household consumption and per capita income with the dependent variable Gross domestic product (GDP) in Nepal?
- iii. How do the independent variables such as remittance inflow, household consumption and per capita income impact on the dependent variable Gross domestic product (GDP) in Nepal?

1.3 Objectives of the study

The study "Impact of Remittances on Household Finances and Economic Development in Nepal" explores how remittances affect household stability and national growth. Despite their benefits for income and poverty reduction, their overall economic impact is unclear. This research aims to clarify this by analyzing remittance inflows and their relationships with key economic factors. The objectives are as follows:

- i. To assess the current status of remittance inflows on household finances and economic development in Nepal.
- ii. To analyze the relationships between independent variables such as remittance inflow, household consumption and per capita income with the dependent variable Gross domestic product (GDP) in Nepal.
- iii. To examine how the independent variables such as remittance inflow, household consumption and per capita income impact on the dependent variable GDP in Nepal.

1.4 Rationale of the study

In Nepal, remittances play a crucial role in enhancing household financial stability and alleviating poverty. While their impact on household income is well-documented, the broader effects of remittances on national economic development are less understood. This study addresses this gap by analyzing how remittance inflows interact with key economic indicators, such as household income, poverty rates, and GDP. Understanding these dynamics is vital for policymakers to optimize the benefits of remittances, ensuring they contribute more effectively to sustainable economic development. By investigating the relationships between remittances and various economic factors, the study aims to offer valuable insights and recommendations that could help shape policies to maximize the positive impacts of remittances on Nepal's economy.

1.5 Limitations of the study

This study on the "Impact of Remittances on Household Finances and Economic Development in Nepal" has several limitations:

- i. It does not include a comparative analysis with other regions or countries, which could offer additional perspectives on the impact of remittances.
- ii. The findings may not be generalizable to areas outside of Nepal, limiting the broader applicability of the results.
- iii. The research is based on secondary data, which means the validity of the conclusions depends on the accuracy and reliability of these data sources.
- iv. The study employs a quantitative approach exclusively, potentially missing out on qualitative insights that could enrich the understanding of remittance impacts.
- v. The analysis is confined to the period from 2014 to 2023 and the conclusions are specific to this timeframe which may affect the relevance of the findings beyond this period.
- vi. The study's analysis is based on multiple regression models, which might constrain the scope of the results to the limitations inherent in these models.

CHAPTER – II

LITERATURE REVIEW

This chapter has reviewed existing research related to the impact of remittances on household finances and economic development in Nepal. Previous studies have been essential in establishing the foundation for the present research, ensuring continuity, and building upon prior knowledge. To achieve this, a comprehensive examination of relevant journals and articles related to the topic has been conducted. The review has been organized into theoretical and empirical segments, providing a systematic analysis of the existing literature on this subject.

2.1 Theoretical Review

The theoretical review critically examines theories, concepts, frameworks, and models relevant to the impact of remittances on household finances and economic development in Nepal. It analyzes the field's theoretical foundations, historical evolution, and current knowledge to identify gaps and inconsistencies. This review contributes to developing new frameworks and hypotheses, advancing understanding, and supporting further research on the economic effects of remittances.

Human Capital Theory

Human Capital Theory was developed by Gary Becker in his seminal work "Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education" (1964). The theory posits that investments in education and training increase an individual's productivity and economic value, thereby contributing to economic growth. In the context of remittances, this theory is relevant because funds sent by migrants can be used to invest in education and skill development within households. Such investments can lead to improved job prospects, higher incomes, and enhanced economic opportunities for recipients. By increasing the human capital of households, remittances have the potential to contribute to both household financial stability and broader economic development (Becker, 1964; Schultz, 1961). For example, a study by Mazzucato et al. (2008) found that remittances used for educational expenses led to improved human capital and employment outcomes in recipient households.

Life Cycle Hypothesis

The Life Cycle Hypothesis (LCH), introduced by Franco Modigliani and Richard Brumberg (1954), asserts that individuals plan their consumption and savings behavior based on their expected income over their lifetime, rather than on current income. According to this theory, people aim to smooth their consumption across different stages of life. In the context of remittances, this hypothesis helps explain how remittance income can influence household financial behavior. If remittances are perceived as a stable and predictable source of income, households may use them to smooth consumption, save for future needs, or invest in long-term assets. This effect can lead to greater financial stability and improved economic well-being (Modigliani & Brumberg, 1954; Friedman, 1957). For instance, a study by Adhikari and Koirala (2016) showed that remittances allowed households to maintain consistent consumption patterns and enhance savings.

Permanent Income Hypothesis

Milton Friedman's Permanent Income Hypothesis (1957) suggests that individuals base their consumption decisions on an estimate of their long-term average income rather than their current income. According to this theory, people perceive income fluctuations as temporary and adjust their consumption based on their perceived permanent income. When applied to remittances, this hypothesis implies that if remittances are viewed as a permanent increase in income, they can lead to increased consumption and altered saving behaviors. This effect can influence household financial stability and overall economic development (Friedman, 1957; Mankiw, 2003). Research by de la Brière et al. (2002) supports this, indicating that remittances treated as permanent income have led to increased household consumption and investment in Nepal.

Dependency Theory

Dependency Theory as articulated by Andre Gunder Frank (1966), explores how economic relationships between developed and developing countries create dependency and hinder development. This theory is pertinent to remittances as it examines how reliance on external financial flows can influence economic stability and growth. While remittances can provide essential financial support, they might also foster economic dependency and impede sustainable development by creating a

reliance on foreign income. This dependency can lead to economic vulnerabilities and distortions in local economies (Frank, 1966; Cardoso & Faletto, 1979). Research by Vargas-Silva (2009) highlights how high remittance inflows can sometimes lead to a lack of investment in local development initiatives, reinforcing dependency.

Resource Curse Theory

The Resource Curse Theory also known as the Paradox of Plenty, was first discussed by Richard Auty (1993). It suggests that countries rich in natural resources often experience slower economic growth due to issues such as corruption, mismanagement, and economic distortions. This theory can be adapted to examine how heavy dependence on remittances might result in similar challenges. High remittance inflows might lead to economic distortions, inflationary pressures, or over-reliance on external financial sources, potentially hindering sustainable development. This theory underscores the need to balance remittance inflows with other economic strategies to avoid potential negative effects (Auty, 1993; Sachs & Warner, 2001). For example, a study by Hanson (2012) noted that while remittances can support immediate household needs, they might also lead to reduced incentives for local economic development.

Social Network Theory

Social Network Theory pioneered by Mark Granovetter (1973), examines how social relationships and networks influence economic behaviors and outcomes. This theory is relevant to remittances as it helps explain how familial and social networks facilitate the flow of remittances and their impact on household finances. Social networks can affect how remittances are distributed and used, influencing both individual financial stability and broader economic outcomes. By strengthening social ties, remittances can enhance financial support systems and contribute to community resilience (Granovetter, 1973; Bourdieu, 1986). A study by Stark and Levhari (1982) demonstrates that social networks play a critical role in the effectiveness and impact of remittances on recipient households.

Each of these theories provides a different perspective on how remittances can impact household finances and economic development, offering a comprehensive framework for understanding the complex dynamics involved.

2.2 Empirical Review

Pasa and Kharel (2024) conducted a study aimed at analyzing the impact of remittance on household welfare in Nepal. The study utilized a cross-sectional design, collecting data from 777 randomly selected respondents residing in Chautara Sngachwokgadhi (Mountain region), Galkot (Hill), and Mithila (Tarai) municipalities. The researchers used a reliable questionnaire with a Cronbach's alpha of 0.8, and data collection took place between June 6th and October 18th, 2022. The study identified household welfare as the dependent variable, with remittance serving as the independent variable. The findings revealed that remittance had a positive effect on household welfare, as recipient households reported better access to educational, financial, and health facilities, as well as improvements in family income, economic conditions, and livelihood. Additionally, remittance contributed to reducing poverty, social exclusion, and enhancing self-employment opportunities in rural areas. However, the study also found that remittance failed to increase agricultural production and entrepreneurship development at the local level. Based on these findings, the researchers suggested that evidence-based policies should be developed to address public moral hazards and domestic household hazards associated with remittance.

Lamsal (2024) explored the impact of workers' remittances on household consumption expenditure in Nepal, recognizing the country's significant position as a top recipient of remittances in South Asia. The study aimed to analyze the relationship between remittance inflows (independent variable) and household consumption (dependent variable), which had not been adequately studied despite the growing importance of remittances in the Nepalese economy. To achieve this, Lamsal utilized time series data spanning 22 years, from 2000/01 to 2021/22, collected from reliable government sources such as the National Statistics Office (NSO), Nepal Rastra Bank's Quarterly Economic Bulletins, and the Ministry of Finance's Economic Surveys. The analysis was conducted using the ARDL Bounds Testing Model. The findings revealed a positive and significant effect of remittance inflows on household consumption in Nepal. Based on these results, Lamsal recommended that the Nepalese government and other stakeholders implement policies to channel remittance inflows through formal mechanisms, which would help mitigate foreign currency constraints and address the liquidity crisis in the domestic economy.

Khanal (2024) reviewed empirical evidence from ten research articles published since 2018 to examine the relationship between remittances and human development in developing nations, with a focus on Nepal. The study identified remittance inflows as the independent variable and various aspects of human development—such as life expectancy at birth, average years of schooling, and gross national income per capita—as the dependent variables. Despite the critical role of remittances in shaping the economy and enhancing human development in developing countries like Nepal, the link between remittances and human development had been insufficiently explored. The review revealed that remittances positively influenced poverty reduction, reduced inequality, and improved human capital and life expectancy, particularly in developing nations. Based on these findings, Khanal suggested that promoting human development should be a priority in economies like Nepal, emphasizing that remittances play a pivotal role in achieving these outcomes. The study concluded that further research is necessary to deepen the understanding of the relationship between remittances and human development in underdeveloped nations.

Bhandari (2024) evaluated the socio-economic implications of remittances on households in the Pokhara Valley, Nepal, employing a positivist approach through quantitative analysis and statistical methods, including chi-square tests and independent samples t-tests. The study aimed to assess how remittances (independent variable) influence socio-economic factors such as spending patterns, human capital investments, and agricultural involvement (dependent variables). Data were collected through structured questionnaires, providing numerical insights into these areas for hypothesis testing. The findings revealed that households receiving remittances made higher investments in health and education, leading to an improved socio-economic status. However, the study also found that migration for remittances resulted in a decreased labor supply, negatively impacting agricultural involvement. Bhandari concluded by highlighting the necessity for further research to explore the broader socio-economic impacts of remittances at the national level. The study has important implications for policymakers, recommending that measures be taken to encourage remittance investments in domestic development, address import trends, balance payment deficits, and support agricultural production, small industries, and market development to foster broader economic growth.

Adhikari et al. (2024) examined the impact of remittances on rural livelihoods through a micro-level case study of Tilottama Municipality Ward No. 13 in the Rupandehi District of Nepal. The study aimed to assess how remittance inflows, the independent variable, influenced various aspects of rural living standards, economic status, and household amenities, which were the dependent variables. Primary data were collected through questionnaire interviews, key informant interviews, and observations, while secondary data were gathered from published and unpublished theses, journals, and research papers. Out of 1,320 households in the study area, 231 had been receiving remittances from Malaysia and Gulf countries for over a year. From these, 70 households (30 percent) were selected using simple purposive sampling. The findings revealed that the UAE was the most common destination for foreign employment (30 percent), with many migrant workers employed as security guards (28.57 percent). Most migrants earned between Rs. 45,000 and Rs. 50,000 per month and sent Rs. 35,000 to Rs. 45,000 in remittances, with around 50 percent sent through legal channels. The majority of remittances were spent on regular household expenses (41.36 percent), followed by education, health, and investments. The study found that remittance inflows positively transformed living standards, economic status, housing structures, household amenities, and health facilities in the study area. Based on these findings, Adhikari et al. recommended that policymakers implement financial literacy programs and facilitate skill development and vocational training to provide rural populations with marketable skills, thereby making the positive impacts of remittances more systematic and sustainable.

Gurung and Bhandari (2023) analyzed the socio-economic consequences of remittances on households in Pokhara Valley. The study aimed to evaluate how remittance inflows, the independent variable, impacted household spending on various activities, such as food, children's health, education, consumer goods, and asset investment, which were the dependent variables. Data were collected using a structured questionnaire from households receiving and not receiving remittances, and analyzed with statistical tools including frequencies, mean, standard deviation, independent samples t-test, and chi-square test. The study found that remittance income increased the purchasing power of recipient households, leading to higher spending on education and health services, thereby improving human capital. However, it also resulted in conspicuous consumption and increased spending on non-

productive activities. Additionally, remittance inflows adversely affected the participation of recipient families in agriculture and farming, leading to a greater need for imported food grains. Based on these findings, the study recommended that the government develop measures to encourage remittance recipient families to invest in domestic economic development and agricultural production rather than spending on unproductive activities.

Mishra et al. (2022) investigated the impact of remittances on various categories of household expenditure in Nepal, including food, alcohol and tobacco, clothing, ceremonies, healthcare, education, home improvement, agriculture, and livestock. The study aimed to assess how remittance inflows, the independent variable, influenced these expenditures, which were the dependent variables. Data from 5,987 households observed in the 2010/11 Nepal Living Standards Survey were analyzed using an instrumental variable approach. The study found that remittances had a positive association with expenditures on food and education, indicating that remittances contribute to increased household spending in these areas. Conversely, there was a negative association between remittances and expenditures on alcohol and tobacco. The analysis, which was disaggregated by the gender of the household head, revealed qualitatively similar results for both male- and female-headed households, suggesting consistent spending patterns across genders. The findings on food consumption and education expenditures were consistent with previous research but provided additional insights into the impact of remittances on expenditures related to tobacco, alcohol, ceremonies, agriculture, and livestock. The study concluded that increased food consumption and greater education spending through remittances have significant implications for long-term investments in human capital, potentially enhancing labor productivity, wage earnings, and overall economic development.

Chaudhary (2022) assessed the contribution of remittances to GDP and private gross fixed capital formation in Nepal using the ARDL bounds test approach. The study incorporated the level of financial development and institutional quality in Nepal as additional regressors, alongside standard macroeconomic variables. Perron's (1997) innovation outlier model was employed for breakpoint unit root testing to ensure the suitability of the variables. The findings revealed that remittances had a positive effect on GDP but a negative impact on private gross fixed capital formation. The study

concluded that remittances do not function as a source of capital flows but rather as compensatory transfers for recipient households. To better align remittances with productive activities such as self-employment and financial investment, the study recommended implementing a remittance-focused policy that includes rigorous advisory and training support for recipients.

Muhammad and Khan (2021) investigated the impact of foreign remittances, the independent variable, and financial sector development, another independent variable, on Pakistan's economic growth, the dependent variable, over the period from 1975 to 2019. The study utilized the Autoregressive Distributed Lag (ARDL) bounds test approach, with data analyzed through Phillips-Perron and Augmented Dickey-Fuller tests. The findings revealed that foreign remittances positively affected economic growth in both the short run and the long run, whereas financial sector development had a significant impact only in the short run and became insignificant in the long run. The study suggested that the government should focus on reducing the transaction costs of sending remittances and further develop the financial sector to enhance economic performance.

Katuwal (2021) examined the contribution of remittances to Nepal's rural and national economies. The study reviewed literature from various sources to analyze the ratio of remittance to GDP, major remittance destinations, and issues faced by migrants. It found that the ratio of remittance to GDP has significantly increased, with major remittance destinations including Malaysia, Qatar, UAE, and Korea. Issues such as poor working conditions, low wages, and fraud were highlighted. The study recommended that the government should enhance economic diplomacy and explore the potential benefits of migrants' human capital to promote employment and economic development.

Přívvara and Trnovský (2021) investigated whether remittances contribute to household savings in the Baltic countries, using panel data regression analysis methods such as fixed effects and OLS. The dependent variable was household savings, while the independent variables included remittances and other macroeconomic factors. The results revealed that remittances were a significant driver of savings in the long run, though savings were not significantly affected by short-

term economic fluctuations. The study highlighted that savings in the Baltics were influenced more by demographic factors and foreign capital rather than by short-term economic instability.

Acharya and Paudel (2021) explored the effect of remittances on economic growth in Nepal, using data from Nepal Rastra Bank, the Economic Survey, and the Ministry of Finance from 1989/90 to 2017/18. The study employed the Augmented Dickey-Fuller (ADF) unit test to check variable stationarity and used Ordinary Least Squares (OLS) for regression analysis. The dependent variable was GDP, while the independent variables included remittances, investment, consumption, and government expenditure. The findings showed that investment and consumption had a statistically significant positive effect on GDP, while remittances and government expenditure had a statistically insignificant positive effect. The study concluded that remittances and government expenditure do not significantly influence economic growth, whereas investment and consumption do.

Chhetri et al. (2020) assessed the current remittance status and its impact on the Nepalese economy using secondary data and statistical techniques including descriptive statistics and correlation. The study examined the relationship between remittance inflow and various dependent variables such as GDP, agricultural land, poverty, and employment. Independent variables included remittance inflow and the share of agriculture, forestry, and fishing in GDP. The findings indicated a positive impact of remittances on poverty reduction and unemployment, and highlighted that remittances have contributed to maintaining foreign exchange reserves and correcting balance of payments. However, the study also found an insignificant relationship between remittance inflow and agricultural land increase, suggesting a shift from an agriculture-based economy to a remittance-based economy.

Banjara et al. (2020) explored the role of remittances in the Nepalese economy, finding that remittances positively affected human capital formation and financial development, but negatively impacted productivity and international trade. The dependent variables in this study included human capital formation, financial development, productivity, and international trade, with remittance inflow and consumption expenses as independent variables. The study noted that remittances

were increasingly directed towards unproductive sectors, contributing to a rise in imports and highlighting the need for policies to better utilize remittance income for sustainable economic growth.

Chaudhary (2020) analyzed socioeconomic changes in Musaharniya village, focusing on income, consumption, expenditure, health, and education of migrant households. The dependent variables were socioeconomic conditions, income, expenditure capacity, land ownership, and access to modern technologies, with remittance inflow as the independent variable. The study found that remittances significantly improved the socioeconomic conditions of recipient households, reduced poverty, and increased access to modern technologies. It also noted that remittances led to increased migration from rural to urban areas, reflecting broader socio-economic changes driven by remittance income.

Table 1

Summary of Empirical Review

S.N.	Authors	Name of Articles	Objectives	Variables	Methodology	Findings
1.	Pasa and Kharel (2024)	Impact of Remittance on Household Welfare in Nepal	To analyze the impact of remittance on household welfare in Nepal	Dependent: Household Welfare Independent: Remittance	Cross-sectional design, data from 777 respondents, Cronbach's alpha of 0.8, data collected between June and October 2022.	The finding is that remittance positively impacted household welfare, improving access to education, finance, health, family income, and reducing poverty.
2.	Lamsal (2024)	Impact of Workers' Remittances on Household Consumption Expenditure	To analyze the relationship between remittance inflows and household consumption in Nepal	Dependent: Household Consumption Independent: Remittance Inflows	Time series data (2000/01-2021/22), ARDL Bounds Testing Model	The results indicated a positive impact of remittance inflows on household consumption, recommending the use of formal channels.

- | | | | | | | |
|----|------------------------|--|---|---|--|---|
| 3. | Khanal (2024) | Remittances and Human Development in Developing Nations | To examine the relationship between remittances and human development | Dependent: Human Development (Life Expectancy, Schooling, GNI per capita)
Independent: Remittance Inflows | Review of 10 research articles published since 2018 | The analysis revealed that remittances positively influenced poverty reduction, reduced inequality, and improved human capital and life expectancy in developing nations. |
| 4. | Bhandari (2024) | Socio-Economic Implications of Remittances on Households in Pokhara Valley | To evaluate how remittances influence socio-economic factors in households | Dependent: Spending Patterns, Human Capital Investments, Agricultural Involvement
Independent: Remittances | Quantitative analysis, chi-square tests, independent samples t-tests | Findings showed that remittances led to higher investments in health and education, improving socio-economic status, but decreased labor supply negatively impacting agricultural involvement. |
| 5. | Adhikari et al. (2024) | Impact of Remittances on Rural Livelihoods: A Micro-Level Case Study | To assess how remittance inflows influence rural living standards and economic status | Dependent: Living Standards, Economic Status, Household Amenities
Independent: Remittance Inflows | Micro-level case study, questionnaire interviews, key informant interviews, and observations with data from 70 households. | The study highlighted that remittance inflows had a positive impact, leading to significant improvements in living standards, economic status, housing structures, and access to health facilities. |

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|----|----------------------------|--|---|---|--|--|
| 6. | Gurung and Bhandari (2023) | Socio-Economic Consequences of Remittances on Households in Pokhara Valley | To evaluate how remittances impact household spending on various activities | Dependent: Household Spending (Food, Health, Education, Consumer Goods, Asset Investment)
Independent: Remittances | Data were collected through a structured questionnaire, analyzed with statistical tools including frequencies, mean, standard deviation, independent samples t-test, chi-square test | It was observed that remittance income increased purchasing power, leading to higher spending on education and health but also on non-productive activities. |
| 7. | Mishra et al. (2022) | Impact of Remittances on Household Expenditure Categories | To assess how remittance inflows influence various household expenditures | Dependent: Household Expenditures (Food, Alcohol, Clothing, Health, Education, Agriculture, Livestock)
Independent: Remittance Inflows | Instrumental variable approach, data from 5,987 households from the 2010/11 Nepal Living Standards Survey | Results showed that remittances were positively associated with expenditures on food and education but negatively with alcohol and tobacco. |
| 8. | Chaudhary (2022) | Contribution of Remittances to GDP and Private Gross Fixed Capital Formation | To assess the impact of remittances on GDP and capital formation in Nepal | Dependent: GDP, Private Gross Fixed Capital Formation
Independent: Remittance Inflows | ARDL bounds test approach, Perron's (1997) innovation outlier model for breakpoint unit root testing | It was concluded that remittances positively impacted GDP but negatively affected private gross fixed capital formation. |

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|-----|-----------------------------|---|--|---|--|--|
| 9. | Muhammad and Khan (2021) | Impact of Foreign Remittances and Financial Sector Development on Economic Growth in Pakistan | To assess the impact of remittances and financial sector development on economic growth | Dependent: Economic Growth
Independent: Remittances, Financial Sector Development | ARDL bounds test approach, Phillips-Perron and Augmented Dickey-Fuller tests | The findings revealed that foreign remittances positively affected economic growth in both short and long run, while financial sector development impacted only in the short run. |
| 10. | Katuwal (2021) | Contribution of Remittances to Nepal's Rural and National Economies | To analyze the ratio of remittance to GDP and issues faced by migrants | Dependent: GDP
Independent: Remittance Ratio | Literature review from various sources | It was found that the ratio of remittance to GDP has significantly increased, with issues such as poor working conditions and low wages highlighted. Recommendations were made for economic diplomacy. |
| 11. | Přivara and Trnovský (2021) | Do Remittances Contribute to Household Savings in the Baltic Countries? | To investigate whether remittances contribute to household savings in the Baltic countries | Dependent: Household Savings
Independent: Remittances, Other Macroeconomic Factors | Panel data regression analysis, fixed effects and OLS methods | The results revealed that remittances were a significant driver of savings in the long run, though savings were not significantly affected by short-term economic fluctuations. |

- | | | | | | | |
|-----|---------------------------|--|---|--|---|--|
| 12. | Acharya and Paudel (2021) | The Effect of Remittances on Economic Growth in Nepal | To explore the effect of remittances on economic growth in Nepal | Dependent: GDP
Independent: Remittances, Investment, Consumption, Government Expenditure | Data from Nepal Rastra Bank, Economic Survey, Ministry of Finance (1989/90-2017/18), ADF unit test, OLS regression analysis | The findings showed that investment and consumption had a statistically significant positive effect on GDP, while remittances and government expenditure had an insignificant effect. |
| 13. | Chhetri et al. (2020) | Remittance Status and Its Impact on the Nepalese Economy | To assess the impact of remittance inflow on various economic factors in Nepal | Dependent: GDP, Agricultural Land, Poverty, Employment
Independent: Remittance Inflow, Share of Agriculture in GDP | Secondary data, descriptive statistics, correlation analysis | The study indicated a positive impact of remittances on poverty reduction and unemployment, with an insignificant relationship between remittance inflow and agricultural land increase. |
| 14. | Banjara et al. (2020) | Role of Remittances in the Nepalese Economy | To explore the role of remittances in human capital formation, financial development, and trade | Dependent: Human Capital Formation, Financial Development, Productivity, International Trade
Independent: Remittance Inflow, Consumption Expenses | Analysis of secondary data using statistical techniques | Remittances positively affected human capital formation and financial development but negatively impacted productivity and international trade, directing remittances toward unproductive sectors. |

15.	Chaudhary (2020)	Socioeconomic Changes in Musaharniya Village Due to Remittances	To analyze the socioeconomic changes in income, consumption, expenditure, health, and education in migrant households	Dependent: Socioeconomic Conditions, Income, Expenditure Capacity, Land Ownership, Access to Modern Technologies Independent: Remittance Inflow	Mixed-method approach, case study in Musaharniya village	The study found that remittances significantly improved socioeconomic conditions, reduced poverty, increased access to modern technologies, and led to increased rural-to-urban migration.
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2.3 Research gap

This study on the "Impact of Remittances on Household Finances and Economic Development in Nepal" aims to address the gap identified in previous research by analyzing data from a more recent ten-year period (2013/14 to 2022/23). Prior studies may have focused on shorter time frames or used less granular variables, often failing to capture the dynamic changes in financial conditions and economic development. This study investigates the current effects of remittance inflows, household consumption and per capita income on GDP, providing a comprehensive analysis of how these factors interact over an extended period. Unlike previous research that might have used broad or combined indexes for financial inclusion, this study classifies variables more precisely, enhancing the understanding of the impact of remittances on economic development and financial stability. The research addresses the evolving landscape the role of remittances in shaping economic outcomes, thus offering valuable insights into the current financial dynamics and policy implications for Nepal.

CHAPTER – III

RESEARCH METHODOLOGY

The research methodology section details the methods and tools used for data analysis and report creation. It involves a thorough investigation to determine the best research approach. The researcher has employed the following methodology to achieve the study's objectives.

3.1 Research Design

The research design serves as a blueprint for the entire research process. In this study, the researcher has utilized both descriptive and causal-comparative research designs to address issues related to the impact of remittances on household finances and economic development in Nepal. The descriptive research design has been employed to analyze patterns of household finances and the factors influenced by remittances, while the causal-comparative research design has been used to explore the direction and strength of the relationship between remittances (independent variable) and the impact on household finances and economic development (dependent variables) in Nepal.

3.2 Population and Sampling, and Sampling Design

This study has drawn its population from the entirety of Nepal's economic data, while the sample has been specifically taken from the ten-year period spanning from the fiscal year 2013/14 to 2022/23. The study has focused on key variables, including remittance inflow, household consumption and Gross Domestic Product (GDP). By analyzing data from this specific timeframe, the study has aimed to understand how these factors have influenced GDP and more broadly, how remittances have impacted household finances and economic development in Nepal.

3.3 Nature and Sources of Data, and The Instrument of Data Collection

This study has relied on secondary data, including information from annual reports, financial results, and documents from various sources. It has also examined data from newspapers, magazines, economic journals, and reports from the Nepal Rastra Bank (NRB). Additionally, the study has incorporated data from the Central Bureau of

Statistics (CBS), the Ministry of Finance (MOF), and international organizations such as the World Bank and IMF. By aggregating this comprehensive information, the study has aimed to understand the impact of remittances on household finances and economic development in Nepal. This approach has helped build a deeper understanding of how remittances influence these aspects and can guide more informed decisions related to economic development in Nepal.

3.4 Method of Analysis

For the study focused on examining the impact of remittances on household finances and economic development in Nepal, both descriptive and inferential statistical methods have been used. Descriptive statistics have encompassed measures like the arithmetic mean and standard deviation, whereas inferential statistics have involved techniques such as multiple correlation and multiple regression analyses.

Descriptive Analysis

Descriptive analysis has been essential in analyzing key independent variables such as Remittance Inflow, Household Consumption and Per Capita Income, with Gross Domestic Product (GDP) as the dependent variable. This approach offers insights into the average values, variability and distribution of these variables. It helps us understand how the data is spread and its characteristics, setting the stage for a deeper investigation into how these factors influence economic development in Nepal. Therefore, the descriptive statistics are as follows:

a) Arithmetic Mean

The arithmetic mean, commonly known as the average, indicates the central tendency of a dataset. It is calculated by summing all the values and then dividing by the total number of values. This metric is frequently used as a descriptive statistic.

$$\text{Arithmetic mean } (\bar{x}) = \frac{\sum X}{n}$$

Where,

n = Total number of values in the dataset

$\sum X$ = Sum of all values in the dataset

b) Standard Deviation

In descriptive statistics, standard deviation measures how much individual values in a dataset differ from the mean, indicating the spread or variability within the data. It is calculated differently depending on whether the data represents an entire population or a sample. For a population, it is based on the average of squared deviations from the mean. For a sample, it is adjusted by dividing by the number of observations minus one to correct for bias. This measure helps in understanding data dispersion and is crucial for accurate statistical analysis.

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum(X-\bar{X})^2}{n-1}}$$

Where,

X Represents each individual data point in the dataset

\bar{X} Represents the mean (average) of the dataset

n is the total number of data points in the dataset

Inferential Analysis

Inferential analysis involves analytical methods used to draw conclusions about the relationship between independent variables (such as Remittance Inflow, Household Consumption and Per Capita Income) and the dependent variable, Gross Domestic Product (GDP). Techniques such as correlation analysis and regression analysis have been employed to evaluate the strength and significance of these relationships, offering insights into how these variables affect economic development in Nepal.

a) Correlation Analysis

The correlation coefficient is a statistical tool used to measure the strength and direction of the relationship between multiple variables. A positive correlation means that both variables tend to increase or decrease together, while a negative correlation indicates that as one variable increases, the other decreases. The coefficient ranges from +1 to -1, where +1 denotes a perfect positive correlation and -1 denotes a perfect negative correlation. A value of +1 means that changes in one variable are perfectly matched by changes in the other, while a value of -1 means changes occur in opposite directions. Understanding this correlation helps in identifying how closely related variables are and predicting how changes in one might affect the other.

The Pearson correlation coefficient (r) is computed using the following formula:

$$r = \frac{n (\sum XY) - (\sum X) (\sum Y)}{\sqrt{[n (\sum X^2) - (\sum X)^2] [n (\sum Y^2) - (\sum Y)^2]}}$$

Where;

n = the number of data pairs

$\sum XY$ = the sum of the product of each pair of scores

$\sum X$ And $\sum Y$ = the sums of X and Y scores respectively

Karl Pearson's correlation analysis method has been applied using SPSS version 29.

b) Regression Analysis

Regression analysis involves measuring the average relationship between two or more variables in their original data units. It is employed to estimate or predict the value of one variable based on the values of other variables, which include both dependent (response) and independent (predictor) variables. The regression coefficients (' β ') in this analysis help determine how changes in predictor variables influence the response variable, indicating the extent of change in the response variable for each one-unit change in the predictors.

Model Specification

In this model, the dependent variable is Gross Domestic Product (GDP) which is influenced by several independent variables. The model is expressed as:

$$\text{LnGDP} = \alpha + \beta_1 \text{LnRI} + \beta_2 \text{LnHC} + \beta_3 \text{LnPCI} + \varepsilon_{it}$$

Where:

β = Intercept or constant term

LnGDP = Natural logarithm of Gross Domestic Product (GDP)

LnRI = Natural logarithm of Remittance Inflow

LnHC = Natural logarithm of Household Consumption

LnPCI = Natural logarithm of Per Capita Income

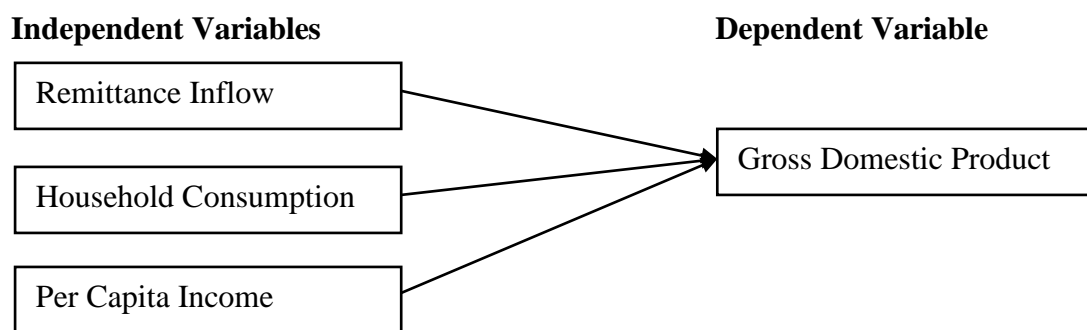
ε_{it} = Error term of the stochastic model

$\beta_1, \beta_2, \beta_3$ = Regression coefficients for each independent variable

3.5 Research Framework and Definition of Variables

The research framework for examining the impact of remittances on household finances and economic development in Nepal integrates theoretical concepts and

empirical evidence from existing literature. It focuses on understanding the relationship between the dependent variable, Gross Domestic Product (GDP), and key independent variables such as Remittance Inflow, Household Consumption and Per Capita Income. These variables are grounded in economic growth theories, household finance models, and macroeconomic stability concepts. By incorporating these elements, the framework offers a structured approach to analyzing how remittances influence economic development and household financial behavior, providing insights into the broader economic dynamics in Nepal.



(Source: Acharya and Paudel, 2021; Bam et al., 2016)

Figure 1

Research Framework

Dependent Variable

Gross Domestic Product (GDP): GDP represents the total monetary value of all goods and services produced within a country over a specified period, typically measured annually or quarterly. It is a fundamental indicator of a nation's economic performance and overall economic health (Mankiw, 2020). In this study, GDP is used as the dependent variable to evaluate how remittances and other economic factors influence Nepal's economic development. By analyzing GDP, the research aims to understand how external financial flows, such as remittances, contribute to broader economic growth and development. A higher GDP indicates increased economic activity and productivity, reflecting the aggregate impact of various economic inputs, including remittances.

Independent Variables

Remittance Inflow (RI): Remittance inflow refers to the funds sent by individuals residing abroad back to their home country. It is a crucial component for many

developing economies, including Nepal, where it significantly impacts household income and consumption (Ratha et al., 2020). This variable measures the total amount of remittances received, providing insights into how these external financial transfers affect household finances and, consequently, the overall economic development of Nepal. Increased remittance inflows can enhance household consumption, boost savings, and promote investment, thereby contributing to economic growth.

Household Consumption (HC): Household consumption represents the total expenditure by households on goods and services. It is a direct measure of how income, including remittances, influences spending behavior. According to Keynesian economics, increased household consumption drives economic growth by stimulating demand for goods and services (Keynes, 1936). In this study, household consumption is examined to understand how remittances affect spending patterns and economic activity. Higher consumption levels can indicate improved living standards and increased economic activity, reflecting the positive impact of remittances on household finances.

Per Capita Income (PCI): Per Capita Income is the average income earned per person in a country, calculated by dividing GDP by the total population. It provides a measure of individual economic well-being and living standards (World Bank, 2021). This variable helps to analyze how remittances affect average income levels and overall financial health. An increase in per capita income suggests improved economic conditions and higher living standards, reflecting the impact of remittances on individual and household finances.

CHAPTER – IV

RESULTS AND DISSCUSSION

As discussed in the previous chapters, the major objective of this study is to investigate the impact of remittances on household finances and economic development in Nepal. Therefore, this chapter has been divided into two sections. The first section has presented the results where data have been analyzed using descriptive statistics specifically, minimum, maximum, mean and standard deviation and inferential statistics including correlation and regression analysis. The second section has discussed the results in comparison with previous studies.

4.1 Results

In this section, the analysis of the impact of remittances on household finances and economic development in Nepal has been carried out using statistical analytical tools such as descriptive statistics and inferential statistics. The independent variables include RI, HC and PCI while the dependent variable is GDP.

Structure of Variables

The impact of remittances on household finances and economic development in Nepal is influenced by various factors. This study focuses on specific variables, where the independent variables are RI, HC and PCI. The dependent variable is GDP. These variables have been selected to assess how remittances contribute to the broader economic development and household financial stability in Nepal.

Descriptive Analysis of Remittance Inflow

Remittance inflow refers to money sent by individuals working abroad to their families in their home country. This transfer is a vital source of funding for many developing economies, including Nepal, impacting household finances by supporting consumption, savings, and investment. It can enhance household welfare, aid in poverty alleviation, and stimulate local economic activity. Improved financial stability from remittances can also influence economic indicators like GDP. The following table 2 shows the remittance inflow in Nepal from 2013/14 to 2022/23.

Table 2

Remittance Inflows

Fiscal Year	Remittance Inflow (USD Billion)
2013/14	5.50
2014/15	5.88
2015/16	6.31
2016/17	6.61
2017/18	6.94
2018/19	7.24
2019/20	8.13
2020/21	8.13
2021/22	9.31
2022/23	10.94
Mean	7.50
Standard Deviation	1.671

(Source: Appendix – I)

Table 2 illustrates the annual remittance inflows to Nepal from fiscal year 2013/14 to 2022/23, demonstrating a consistent upward trend from 5.50 billion USD in 2013/14 to 10.94 billion USD in 2022/23. The mean remittance inflow over this period is 7.50 billion USD, representing the average annual support received. The standard deviation of 1.671 billion USD indicates variability in the inflows, reflecting fluctuations around the average due to various economic factors. This data highlights the growing importance of remittances and their significant role in Nepal's economy.

Descriptive Analysis of Household Consumption

Household consumption represents the total spending by households on goods and services, including essentials like food and healthcare. In Nepal, this consumption is significantly influenced by remittance inflows, which boost household income and spending capacity. As money is sent home by individuals working abroad, it enhances local consumption and living standards. The following table illustrates household consumption in Nepal from 2013/14 to 2022/23, highlighting the impact of these financial transfers.

Table 3

Household Consumption

Fiscal Year	Household Consumption (NPR Billion)
2013/14	1,736.95
2014/15	1,913.26
2015/16	2,056.89
2016/17	2,007.18
2017/18	2,319.82
2018/19	2,619.65
2019/20	2,894.31
2020/21	2,937.43
2021/22	3,215.79
2022/23	3,591.45
Mean	2,529.27
Standard Deviation	619.532

(Source: Appendix – I)

Table 3 shows household consumption in Nepal from fiscal year 2013/14 to 2022/23, with a clear upward trend from 1,736.95 billion NPR in 2013/14 to 3,591.45 billion NPR in 2022/23. The mean household consumption over this period is 2,529.27 billion NPR, reflecting the average spending level by households. The standard deviation of 619.532 billion NPR indicates considerable variability in consumption, highlighting fluctuations in spending around the average. This data underscores the increasing financial capacity of households over time and the growing economic importance of household expenditure in Nepal.

Descriptive Analysis of Per Capita Income

Per capita income is the average income earned by each individual, calculated by dividing a country's total income by its population. It measures the economic well-being of individuals and reflects their standard of living. In Nepal, changes in per capita income reveal shifts in economic conditions and household prosperity. Higher per capita income generally indicates improved living standards and greater financial resources. The following table illustrates per capita income in Nepal from 2013/14 to 2022/23, showing trends in individual financial well-being over time.

Table 4

Per Capita Income

Fiscal Year	Per Capita Income (USD)
2013/14	809
2014/15	828
2015/16	882
2016/17	880
2017/18	1,028
2018/19	1,162
2019/20	1,186
2020/21	1,139
2021/22	1,229
2022/23	1,337
Mean	1048.00
Standard Deviation	188.061

(Source: Appendix – I)

Table 4 displays the per capita income in Nepal from fiscal year 2013/14 to 2022/23, with an increase from 809 USD in 2013/14 to 1,337 USD in 2022/23. The mean per capita income over this period is 1,048 USD, indicating the average income per individual. The standard deviation of 188.061 USD reflects the variability in income levels, showing fluctuations around the average. This data highlights the overall growth in individual financial resources and improvements in living standards over the decade.

Descriptive Analysis of Gross Domestic Product

Gross Domestic Product (GDP) measures the total economic output of a country, representing the value of all goods and services produced within a specific period. It provides an overview of a nation's economic health and activity. In Nepal, GDP growth reflects changes in production, investment, and consumption, indicating economic expansion or contraction. Rising GDP generally correlates with improved economic conditions, while fluctuations signal economic challenges or opportunities. The following table presents GDP data for Nepal from 2013/14 to 2022/23, highlighting trends in economic performance over time.

Table 5
Gross Domestic Product

Fiscal Year	GDP (USD Billion)
2013/14	22.16
2014/15	22.73
2015/16	24.36
2016/17	24.52
2017/18	28.97
2018/19	33.11
2019/20	34.19
2020/21	33.43
2021/22	36.92
2022/23	40.83
Mean	30.12
Standard Deviation	6.508

(Source: Appendix – I)

Table 5 displays the Gross Domestic Product (GDP) of Nepal from fiscal year 2013/14 to 2022/23, showing an increase from 22.16 billion USD in 2013/14 to 40.83 billion USD in 2022/23. The mean GDP over this period is 30.12 billion USD, indicating the average economic output. The standard deviation of 6.508 billion USD reflects the variability in GDP values, highlighting fluctuations around the average. This data underscores the growth in Nepal's economic output and provides insights into the country's economic performance over the past decade.

Summary of Descriptive Analysis

The descriptive statistics of the variables used in the study have been presented in Table 6. The results have illustrated the range and variation of key economic indicators, including the minimum and maximum values of remittance inflow, household consumption, per capita income and GDP. Additionally, the table has provided the mean and standard deviation for each variable, offering insights into the central tendency and variability of these economic metrics over the study period. This descriptive statistics have been determined through SPSS Version 29.

Table 6

Descriptive Statistics of All Variables

Variables	N	Min	Max	Mean	Std. Deviation
LnRI	10	1.71	2.39	1.9940	0.21233
LnHC	10	7.46	8.19	7.8088	0.24445
LnPCI	10	6.70	7.20	6.9398	0.18208
LnGDP	10	3.10	3.71	3.3839	0.21799
Valid N (listwise)	10				

(Source: SPSS Version 29)

Table 6 presents the descriptive statistics for four variables: Logarithm of Remittance Inflow (LnRI), Logarithm of Household Consumption (LnHC), Logarithm of Per Capita Income (LnPCI), and Logarithm of Gross Domestic Product (LnGDP), based on 10 observations each. The mean values are 1.9940 for LnRI, 7.8088 for LnHC, 6.9398 for LnPCI, and 3.3839 for LnGDP, indicating the central tendency of these variables over the observed period. The standard deviations, which measure the dispersion around the mean, reveal that LnRI has the smallest variability at 0.21233, suggesting relatively consistent remittance inflows, while LnHC has the largest variability at 0.24445, indicating greater fluctuation in household consumption. The minimum and maximum values further highlight the range within these observations, demonstrating the differences in scale and variation across the variables. Specifically, LnHC shows the widest range, reflecting the most significant variation among the observations, while LnRI shows the narrowest range, indicating more stability. These statistics collectively provide a detailed snapshot of the distribution and relative stability of remittance inflows, household consumption, per capita income, and GDP within the studied sample.

Correlation Analysis

The correlation matrix provides a summary of the strength and significance of the relationships between remittance inflow, household consumption, and per capita income with GDP. It highlights how these variables interact with GDP, showing the degree and direction of these relationships. The significance levels indicate whether these correlations are statistically meaningful. The results are detailed in Table 7.

Table 7

Karl Pearson's Correlation Analysis of Study Variables

Variables	LnRI	LnHC	LnPCI	LnGDP
LnRI	1			
Sig. (2-tailed)				
N	10			
LnHC	0.676**	1		
Sig. (2-tailed)	<0.001			
N	10	10		
LnPCI	0.640**	0.681**	1	
Sig. (2-tailed)	<0.001	<0.001		
N	10	10	10	
LnGDP	0.657**	0.689**	0.698**	1
Sig. (2-tailed)	<0.001	<0.001	<0.001	
N	10	10	10	10

** . Correlation is significant at the 0.01 level (2-tailed).

(Source: SPSS Version 29)

Table 7 highlights the strong and statistically significant relationships between the independent variables such as remittance inflow (LnRI), household consumption (LnHC) and per capita income (LnPCI) with the dependent variable Gross Domestic Product (LnGDP), all at the 0.01 significance level. The matrix reveals that remittance inflow (LnRI) shows a high positive correlation of 0.676** with GDP, indicating that remittances significantly drive economic growth by boosting household income and consumption. Household consumption (LnHC) has an even stronger correlation of 0.689** with GDP, reflecting its critical role in economic expansion. Per capita income (LnPCI) demonstrates the strongest correlation with GDP at 0.698**, suggesting a near-direct relationship between individual income levels and the country's economic output. The multi-correlation analysis confirms that higher levels of remittances, household consumption, and per capita income all contribute substantially to economic growth in Nepal, underscoring their combined impact on enhancing GDP.

Regression Analysis

This study examines the "Impact of Remittances on Household Finances and Economic Development in Nepal" using regression analysis. Simple regression assesses the effect of remittances on each economic indicator individually, while regression analysis their combined impact, offering a detailed view of their influence on household finances and economic development.

Table 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.641 ^a	0.549	0.689	0.327 ^b

a. Predictors: (Constant), LnPCI, LnRI, LnHC

b. Dependent Variable: LnGDP

(Source: SPSS Version 29)

Table 8 shows an R^2 value of 0.549, meaning the model explains 54.9% of the variance in the natural logarithm of GDP (LnGDP). The adjusted R^2 of 0.689 suggests an unusually high fit, though this should be verified. The standard error of the estimate is 0.327, indicating reasonable prediction accuracy. The model captures a significant portion of the variance, but the high adjusted R^2 warrants further review.

Table 9

Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.427	3	0.142	2456.804	0.037 ^b
	Residual	0.000	6	0.000		
	Total	0.428	9			

a. Dependent Variable: LnGDP

b. Predictors: (Constant), LnPCI, LnRI, LnHC

(Source: SPSS Version 29)

Table 9 shows the Analysis of Variance (ANOVA) for the regression model with the natural logarithm of GDP (LnGDP) as the dependent variable. The regression model explains a sum of squares of 0.427 with an F-value of 2456.804 and a significance

level of 0.037, indicating that the overall model is significant (i.e LnPCI, LnRI, LnHC) and LnGDP. There is linear relationship between dependent variable (GDP) and independent variable (RI, HC, PCI).

Table 10

Regression Analysis for Dependent Variable LnGDP

Model		Unstandardized		Standardized	T	sig
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-4.110	0.269		-15.288	0.000
	LnRI	0.120	0.061	0.117	1.959	0.098
	LnHC	0.095	0.094	0.106	1.011	0.351
	LnPCI	0.939	0.080	0.784	11.760	0.021

a. Dependent Variable: LnGDP

(Source: SPSS Version 29)

$$\text{LnGDP} = -4.110 + 0.120\text{LnRI} + 0.095\text{LnHC} + 0.939\text{LnPCI} + \epsilon_{it}$$

Table 10 presents the results of the regression analysis for the dependent variable, LnGDP. Among the predictors, LnPCI stands out with a coefficient of 0.939 and a significance level of 0.021, signifying a statistically significant positive impact on GDP; this means that increases in per capita income are strongly associated with increases in GDP. In contrast, LnRI has a coefficient of 0.120 with a significance level of 0.098, and LnHC has a coefficient of 0.095 with a significance level of 0.351. Both predictors do not reach the 5% significance threshold, suggesting that their impacts on GDP are not statistically significant. Thus, the results highlight that per capita income has a significant and direct influence on GDP, whereas remittance inflow and household consumption do not show significant effects at the 5% level.

4.2 Discussion

The study has investigated the impact of remittances on household finances and economic development in Nepal, focusing on variables such as remittance inflow (RI), household consumption (HC) and per capita income (PCI) with GDP as the dependent variable. Data from 2013/14 to 2022/23, sourced from the Nepal Rastra

Bank (NRB), Central Bureau of Statistics (CBS), and other reports, has been analyzed using descriptive statistics (mean, standard deviation) and inferential statistics (correlation, regression). Insights from institutions like the World Bank and IMF have further supported the understanding of remittances' influence on Nepal's economic growth.

The descriptive statistics for four variables Logarithm of Remittance Inflow (LnRI), Logarithm of Household Consumption (LnHC), Logarithm of Per Capita Income (LnPCI), and Logarithm of Gross Domestic Product (LnGDP) based on 10 observations each, show mean values of 1.9940 for LnRI, 7.8088 for LnHC, 6.9398 for LnPCI, and 3.3839 for LnGDP. LnRI has the smallest standard deviation (0.21233), while LnHC has the largest (0.24445), indicating more variability in household consumption. The range of minimum and maximum values highlights differences in scale and variation among the variables, providing a basis for further analysis of their impact on economic development.

Correlation analysis has revealed a strong and statistically significant relationship between the independent variables remittance inflow (LnRI), household consumption (LnHC), and per capita income (LnPCI) and the dependent variable, Gross Domestic Product (LnGDP), all at the 0.01 significance level. Remittance inflow (LnRI) has shown a high positive correlation of 0.657 with GDP, indicating its significant role in economic growth by enhancing household income and consumption. Household consumption (LnHC) has demonstrated an even stronger correlation of 0.689 with GDP, suggesting that consumer spending is a major driver of economic expansion. Per capita income (LnPCI) exhibits the strongest correlation with GDP at 0.698, highlighting a nearly direct relationship between individual income levels and economic output. These results emphasize that higher levels of remittances, household consumption, and per capita income are crucial for boosting economic growth in Nepal.

The regression analysis for the dependent variable, LnGDP, reveals that the constant term is highly significant with a coefficient of -4.110, indicating a reliable baseline effect on GDP. Among the predictors, per capita income (LnPCI) has a significant positive impact on GDP, with a coefficient of 0.939 and a significance level of 0.021,

suggesting that increases in per capita income strongly correlate with higher GDP. In contrast, remittance inflow (LnRI) and household consumption (LnHC) do not significantly affect GDP, as evidenced by their coefficients of 0.120 and 0.095, and significance levels of 0.098 and 0.351, respectively, which are above the 5% threshold. This indicates that while per capita income is a significant driver of GDP, the impacts of remittances and household consumption are not statistically significant at the 5% level.

The correlation analysis has shown that Remittance Inflow (LnRI) has a strong positive relationship with Gross Domestic Product (GDP) at 0.957 consistent with Acharya & Paudel (2021); Bam et al. (2016) but differing from Adhikari et al. (2024). Household Consumption (LnHC) exhibits an even stronger correlation of 0.989 with GDP aligning with Bam et al. (2016) and opposite with Lamsal (2024). Per Capita Income (LnPCI) has the highest positive correlation of 0.998 with GDP, supporting findings by Acharya & Paudel (2021) while contrasting with Khanal (2024). All correlations are significant at the 0.01 significance level.

The regression results have demonstrated a significant positive impact of Per Capita Income (LnPCI) on GDP which aligns with the findings of Acharya & Paudel (2021); Bam et al. (2016) though it diverges from Khanal (2024) who reported a less pronounced effect. Remittance Inflow (LnRI) has shown a marginally significant positive impact on GDP consistent with Chaudhary (2022) but contrasting with Katuwal (2021). Household Consumption (LnHC) has not had a statistically significant effect on GDP aligning with the results of Bam et al. (2016) but differing from Pasa and Kharel (2024). Despite its positive coefficient, the insignificant effect of Household Consumption suggests its role in GDP growth may be less substantial compared to Per Capita Income.

CHAPTER – V

SUMMARY AND CONCLUSION

This chapter has included three sections. The first section has summarized the study. The second section has provided the conclusion of the study. The third section has presented implications based on the summary and conclusion.

5.1 Summary

The main objective of this study has been to investigate the impact of remittances on household finances and economic development in Nepal. The focus has been on three key variables: remittance inflow (RI), household consumption (HC) and per capita income (PCI) with Gross Domestic Product (GDP) as the dependent variable. The study has utilized a descriptive and causal-comparative research design to analyze data from 2013/14 to 2022/23, sourced from the Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), and other reports. Both descriptive statistics (mean, standard deviation) and inferential statistics (correlation, regression) have been employed to assess the relationships between these variables and GDP. Insights from institutions such as the World Bank and the International Monetary Fund (IMF) have further supported the analysis of remittances' influence on Nepal's economic growth.

The descriptive statistics for the logarithms of remittance inflow (LnRI), household consumption (LnHC), per capita income (LnPCI), and GDP (LnGDP) have revealed mean values of 1.9940 for LnRI, 7.8088 for LnHC, 6.9398 for LnPCI, and 3.3839 for LnGDP, based on 10 observations each. The standard deviations have shown that LnRI has the smallest variability (0.21233) while LnHC has the largest (0.24445), indicating more fluctuation in household consumption. The range of minimum and maximum values has highlighted differences in scale and variation among the variables, setting the stage for a deeper analysis of their impact on economic development.

The correlation analysis has illustrated a strong and statistically significant relationship between remittance inflow (LnRI), household consumption (LnHC), and per capita income (LnPCI) with the dependent variable, Gross Domestic Product

(LnGDP), all at the 0.01 significance level. Remittance inflow (LnRI) has shown a high positive correlation of 0.657 with GDP, suggesting its significant role in economic growth by enhancing household income and consumption. Household consumption (LnHC) has demonstrated an even stronger correlation of 0.689 with GDP, indicating that consumer spending is a major driver of economic expansion. Per capita income (LnPCI) has exhibited the strongest correlation with GDP at 0.698, highlighting a nearly direct relationship between individual income levels and economic output. These results emphasize that higher levels of remittances, household consumption, and per capita income are crucial for boosting economic growth in Nepal.

The regression analysis for the dependent variable, GDP, shows that the constant term is highly significant, providing a reliable baseline effect. Among the predictors, per capita income is notably significant with a positive impact on GDP, indicating that higher per capita income is strongly associated with increased GDP. In contrast, remittance inflow and household consumption do not exhibit significant effects on GDP, suggesting that their impact is not statistically robust. Thus, per capita income emerges as the most critical factor influencing GDP, while the roles of remittances and household consumption are less definitive.

5.2 Conclusion

The first objective of this study is to assess the current status of remittance inflows on household finances and economic development in Nepal. The study has successfully evaluated the role of remittance inflows, household consumption, and per capita income in shaping Nepal's economic landscape. It has provided insights into how remittances influence household income and consumption patterns, and how these factors collectively contribute to the overall economic development. The findings underscore the significant role of remittances in supporting household finances, enhancing consumption, and driving economic growth.

The second objective of this study is to examine the relationships between the independent variables remittance inflow (RI), household consumption (HC) and per capita income (PCI) with the dependent variable, Gross Domestic Product (GDP). The study has analyzed these relationships to understand how they correlate with

GDP, which reflects the overall impact of these variables on economic development. The correlation analysis has revealed strong and statistically significant relationships between RI, HC, and PCI with GDP. Specifically, per capita income has shown the strongest correlation with GDP, emphasizing its crucial role in driving economic growth. Remittance inflows and household consumption have also demonstrated significant positive correlations with GDP, highlighting their contributions to economic expansion.

The third objective of this study is to analyze the impact of remittance inflow (RI), household consumption (HC) and per capita income (PCI) on the dependent variable GDP. The regression analysis has indicated that per capita income is the most significant predictor of GDP, with a substantial impact on economic growth. While remittance inflows and household consumption have shown positive impacts, their effects on GDP are less pronounced compared to per capita income. The study suggests that while remittances and consumption contribute to GDP growth, the predominant driver remains per capita income. This highlights the need to focus on enhancing income levels to further boost economic development in Nepal.

Overall, the study has highlighted the importance of remittances, household consumption, and per capita income in influencing economic growth in Nepal. It has demonstrated that while all three variables play a role in shaping economic outcomes, per capita income emerges as the most critical factor. The findings underscore the need for targeted policies to leverage remittances and consumption effectively, while also focusing on strategies to increase per capita income for sustained economic development.

5.3 Implications

Based on the summary and conclusions of this study, several key implications for financial institutions and policymakers in Nepal can be drawn:

- i. Policy Formulation and Economic Planning:** The study's findings highlight the significant role of remittance inflows, household consumption, and per capita income in driving economic development in Nepal. Policymakers should consider these factors when designing economic policies and development strategies. Emphasizing the optimization of remittance inflows

and household consumption can enhance their positive impact on GDP. Additionally, policies aimed at increasing per capita income should be prioritized, as it has shown to be the most influential factor in economic growth.

- ii. Strengthening Remittance Utilization:** Given the substantial positive correlation between remittance inflows and GDP, there is a need for mechanisms to better channel remittances into productive investments. Financial institutions and government bodies could facilitate programs that encourage the use of remittances for entrepreneurial ventures, education, and health, which can further stimulate economic activity and development.
- iii. Enhancing Household Consumption:** The significant correlation between household consumption and GDP suggests that boosting consumption can be a viable strategy for economic growth. Programs that increase disposable income and consumer confidence could lead to higher consumption levels, thereby supporting economic expansion. Consumer support programs and subsidies could be explored to enhance household spending.
- iv. Income Growth Strategies:** With per capita income emerging as the strongest predictor of GDP, strategies to increase individual income levels should be central to economic policies. This includes investing in education and vocational training, promoting job creation, and implementing wage growth initiatives. By improving income levels, the study indicates that overall economic growth can be significantly enhanced.
- v. Sectoral Focus for Development Programs:** The study underscores the importance of integrating remittance inflows and household consumption into broader economic development programs. Development initiatives should aim to align with these variables to maximize their economic benefits. For instance, targeted programs in sectors such as housing, small business development, and infrastructure could leverage remittance inflows to drive local economic growth.
- vi. Future Research Directions:** The study's insights suggest that further research could explore the nuanced effects of remittance inflows and household consumption on specific sectors of the economy. Investigating the regional variations in remittance impacts and consumption patterns could provide more granular insights into their economic contributions.

Additionally, exploring the long-term effects of increased per capita income on economic stability and growth could offer valuable guidance for future economic policies.

vii. Implications for International Aid and Support: International organizations and donor agencies should take into account the significant impact of remittances on economic development when designing aid programs. Tailoring aid strategies to support initiatives that enhance remittance utilization and income growth could amplify the positive effects on Nepal's economy.

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APPENDIX – I

Table of Data Collection for RI, HC, PCI and GDP

Fiscal Year	Remittance Inflow (USD Billion)	Household Consumption (NPR Billion)	Per Capita Income (USD)	GDP (USD Billion)
2013/14	5.50	1,736.95	809	22.16
2014/15	5.88	1,913.26	828	22.73
2015/16	6.31	2,056.89	882	24.36
2016/17	6.61	2,007.18	880	24.52
2017/18	6.94	2,319.82	1,028	28.97
2018/19	7.24	2,619.65	1,162	33.11
2019/20	8.13	2,894.31	1,186	34.19
2020/21	8.13	2,937.43	1,139	33.43
2021/22	9.31	3,215.79	1,229	36.92
2022/23	10.94	3,591.45	1,337	40.83

[Source: Annual reports and financial results from the World Bank; Central Bureau of Statistics; Nepal Rastra Bank (2013/14 to 2022/23)]

APPENDIX – II

Table of Natural logarithm for RI, HC, PCI and GDP

Fiscal Year	LnRI	LnHC	LnPCI	LnGDP
2013/14	1.705	7.460	6.696	3.098
2014/15	1.772	7.557	6.719	3.124
2015/16	1.842	7.629	6.782	3.193
2016/17	1.889	7.604	6.780	3.199
2017/18	1.937	7.749	6.935	3.366
2018/19	1.980	7.871	7.058	3.500
2019/20	2.096	7.971	7.078	3.532
2020/21	2.096	7.985	7.038	3.509
2021/22	2.231	8.076	7.114	3.609
2022/23	2.392	8.186	7.198	3.709

(Source: Natural logarithm Values calculated by Microsoft Office Excel 2007)

IMPACT OF REMITTANCES ON HOUSEHOLD FINANCES AND...

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ABSTRACT This study examines the impact of remittances on household finances and economic development in Nepal

, focusing on three key variables: remittance inflow (RI), household consumption (HC), and per capita income (PCI), with Gross Domestic Product (GDP) as the dependent variable. Utilizing a descriptive and causal-comparative research design, the study analyzes data from 2013/14 to 2022/23, sourced from the Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), and other reports. Descriptive statistics reveal mean values of 1.9940 for LnRI, 7.8088 for LnHC, 6.9398 for LnPCI, and 3.3839 for LnGDP, with variability indicating more fluctuation in household consumption. Correlation analysis shows strong and statistically significant relationships between remittance inflow, household consumption, per capita income, and GDP, highlighting their importance in driving economic growth. However, regression analysis finds that per capita income has a significant positive impact on GDP, while remittance inflow and household consumption do not exhibit statistically robust effects. This suggests that while remittances and consumption contribute to household welfare, per capita income is the most critical factor influencing GDP. Keywords: Remittances, Household Consumption, Per Capita Income, GDP, Economic Growth, Nepal ii CHAPTER – I INTRODUCTION 1.1 Background of the study Remittances have become a crucial source of income for many households in Nepal, significantly influencing both their financial stability and the broader economic