EFFECT OF MACROECONOMIC FACTORS ON REMITTANCE IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management, in partial fulfilment 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 "**Effect of Macroeconomic Factors on Remittance 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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Rajesh Paudel

REPORT OF RESEARCH COMMITTEE

Mr. Rajesh Paudel has defended research proposal entitled "**Effect of Macroeconomic Factors on Remittance 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 Joginder Goet and submit the thesis for evaluation and viva voce examination.

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Dissertation Submitted Date:

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Effect of Macroeconomic Factors on Remittance in Nepal**" presented by Rajesh Paudel a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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This study entitled "**Effect of Macroeconomic Factors on Remittance in Nepal**" has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models about macroeconomic factors.

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Rajesh Paudel
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ABBREVIATIONS

AD	:	Anno Domini
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
df	:	Degree of Freedom
EXP	:	Export
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
i.e.	:	That is
IMP	:	Import
INF	:	Inflation rate
Ltd.	:	Limited
MS	:	Money Supply
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
SD	:	Standard Deviation
TU	:	Tribhuvan University

ABSTRACT

Remittances play a crucial role in the economic stability and development of many countries, particularly those with significant migrant populations. The study examines how the remittance is affected by macroeconomic data. Research using both descriptive and causal comparison methods has been conducted in order to meet the specific goal of the study.

The study's findings show that the money supply, inflation rate, import, GDP, and export are all related and have a linear relationship with remittance. The regression analysis aimed to examine the impact of selected macroeconomic variables on remittance inflows using a least squares approach. Furthermore, remittance has a linear relationship with money supply, inflation rate, import, GDP, and export. The regression result explores that remittance is positively impacted by money supply and Export where money supply is statistically significant but export is insignificant at 1% level of significance respectively. The impact of inflation rate, import and export have insignificant impact on remittance as all the included variables have p-value greater than 0.05.

The study suggests that external factors such as global oil prices, interest rates in host countries, and geopolitical tensions also play a significant role in determining remittance trends.

Keywords: Inflation Rate, Money Supply, GDP, Export, Import

CHAPTER I
INTRODUCTION

1.1 Background of the Study

Nepal's economic progress over the past fifty years has not been particularly remarkable when compared to other neighboring countries. During this period, Nepal underwent several political transitions. After the return of democracy, the 1980s saw the continuation of liberal economic policies that had been previously introduced. The country implemented several significant liberal reforms over the next decade, including the deregulation of trade, industry, finance, and foreign exchange systems; the simplification of price controls and subsidies; the privatization of key state-owned enterprises; a major reduction in trade tariffs; and policies aimed at encouraging foreign investment. However, political instability caused by the Maoist insurgency and frequent changes in government after 1995 significantly hindered economic growth, delaying the implementation and completion of some of the more challenging reforms (Wahab et al., 2022).

Remittances are essential for the economic stability and development of many countries, especially those with large migrant populations. These financial transfers from migrants to their home countries provide a crucial source of income for households, helping to reduce poverty and supporting investments in education, healthcare, and overall economic growth. However, the flow of remittances is influenced by various macroeconomic factors that can either promote or limit the volume and consistency of these financial transfers (Phuyal, 2016).

Macroeconomic factors such as exchange rates, inflation, interest rates, economic growth, and employment conditions in both the sending and receiving countries have a significant impact on remittance flows. Fluctuations in exchange rates, for example, affect the value of remittances in the recipient country's local currency, influencing the real purchasing power of households that rely on these funds. Inflation can diminish the value of remittances, while interest rates influence the cost of financial transactions and investment opportunities for migrant workers. Moreover, economic growth in host countries affects job availability and wage levels for migrants, directly influencing their capacity to send money home (Joshi & Giri, 2015).

The Remittance, a composite index derived from market capitalization and considered a representative indicator of the Nepalese stock market, is used to assess the performance of the stock market. It is generally believed that the stock market mirrors the overall state of the economy (Khatri, 2019).

The COVID-19 pandemic, along with other global economic disruptions, has underscored the vulnerability of remittance flows to macroeconomic shocks. Economic recessions in migrant-receiving countries often lead to job losses, wage reductions, and a decline in remittance transfers. Additionally, policy changes such as stricter immigration regulations or higher transaction fees can pose barriers to the flow of remittances (Gurung, 2004).

Given the substantial impact of remittances on economic development, understanding the relationship between macroeconomic factors and remittance flows is essential for policymakers, financial institutions, and development agencies. This study aims to examine how key macroeconomic variables influence remittance flows, offering insights into trends, challenges, and potential policy interventions to ensure stable and sustainable inflows. By analyzing these factors, the research will enhance the understanding of the economic dynamics driving migrant remittances and their role in global financial stability (Sharma, 2011).

Several macroeconomic factors affect the volume and stability of remittance flows. These factors can be grouped into economic conditions in both sending and receiving countries, as well as broader global economic trends. Key macroeconomic variables that have a significant influence include (Koirala & Bajracharya, 2004).

Therefore, this study explores the relationship between remittances and various macroeconomic factors, including the money supply, GDP, interest rates, inflation rates, and foreign exchange reserves. It also examines how these variables—money supply, GDP, interest rates, inflation rates, and foreign exchange reserves—impact remittance flows.

The economic conditions in remittance-sending countries have a direct impact on migrants' ability to send money home. Robust economic growth and low unemployment rates in host countries typically result in higher remittance inflows. In contrast, economic downturns, recessions, or financial crises can diminish migrants' capacity to remit funds (Monti, 2022).

Therefore, it is essential for decision-makers to closely monitor stock market growth and be ready to take appropriate actions to prevent bubbles from forming and the market from collapsing. Understanding the relationship between the stock market index and the factors that influence it is key to this process. Various factors can impact the stock market, particularly those that affect a company's cash flows or the discount rate. However, the extent to which these factors influence the market will vary from country to country, depending on the size, nature, and other characteristics of the market and economy (Monti, 2022).

1.2 Problem Statement

A depreciation of the recipient country's currency relative to the currency of the remittance-sending country can increase the value of remittances in local currency terms. On the other hand, currency appreciation may decrease the real value of received remittances, thereby impacting household consumption and investment decisions (Ghimire & Mishra, 2018).

Inflation rates in both the host and recipient countries are crucial in determining remittance flows. High inflation in the recipient country reduces purchasing power, leading to greater dependence on remittances to cover basic needs. Similarly, high living costs in host countries can limit migrants' ability to send money home, as their personal expenses increase (Gurung et al., 2017).

Remittances have emerged as a crucial source of external finance for many developing economies, frequently exceeding foreign direct investment and official development assistance. However, the flow and stability of remittances are shaped by various macroeconomic variables, including inflation, exchange rates, interest rates, unemployment, and GDP growth, in both the remittance-sending and receiving countries (Paterson et al., 2023).

Despite the critical role of remittances in promoting economic development and alleviating poverty, there is still a lack of clarity on how macroeconomic indicators specifically influence the volume and direction of remittance flows. Inconsistent findings across different countries and time periods make policymaking and forecasting more challenging.

As a result, it is essential to explore the extent to which macroeconomic variables impact remittance inflows, providing valuable insights for governments, central banks, and international organizations in designing effective economic and migration policies (Sah, 2019).

Interest rates and the level of financial development in recipient countries play a significant role in determining how remittances are utilized. Higher interest rates can motivate remittance recipients to save or invest rather than spend. Furthermore, well-developed financial institutions and accessible banking services facilitate remittance transactions, lowering costs and improving overall efficiency.

Nepal's Gross Domestic Product (GDP) growth rate has remained relatively low in recent years, barely surpassing 5%. For instance, it was 5.60 percent in the fiscal year (FY) 2022–2023, while it peaked at around 10 percent in FY 2015–16. However, inflation has consistently stayed just above 5% in recent years (NRB, Nepal Rastra Bank, 2012). Between FYs 2019/20 and 2020/21, Nepal's financial sector faced a severe liquidity crisis, pushing interest rates to record highs. During this period, the capital market also exhibited significant volatility.

Global financial crises, pandemics, and geopolitical events have a profound impact on remittance flows. For example, the 2008 global financial crisis resulted in job losses in key sectors that employed migrants, leading to a reduction in remittances to developing countries. Similarly, the COVID-19 pandemic disrupted labor markets and global mobility, causing an initial decline in remittances. However, there was a swift recovery due to the surge in digital remittance transfers, which allowed for continued financial support despite mobility restrictions.

Higher price volatility in the stock market is often linked to fluctuations in macroeconomic variables. Analyzing these relationships between macroeconomic factors and the Nepali stock market is essential for understanding market dynamics. The primary objective of this study is to determine whether macroeconomic factors, either independently or collectively, influence the behavior and performance of the Nepali stock market (Phuyal, 2016).

Studying the macroeconomic factors influencing remittances is crucial for understanding global financial flows and economic resilience. As remittances increasingly contribute to economic stability and development, further research is needed to explore emerging trends and effective policy interventions. By analyzing the impact of economic growth, exchange rates, inflation, and other macroeconomic indicators on remittance flows, policymakers and stakeholders can develop strategies to enhance economic stability and improve the well-being of households that rely on remittances.

1.3 Research Questions

As a result, the research addresses several key issues related to the effect of macroeconomic variables on remittances. The core research questions are:

i. What are the factors of money supply, GDP, inflation rate, export, import and remittance in Nepal?
ii. Is there any relationship between money supply, GDP, inflation rate, export, and import with remittance in Nepal?
iii. Do money supply, GDP, inflation rate, export and import impact on remittance?

1.4 Objectives of the Study

The major objective of this study is to assess the effect of macroeconomic variables on remittance in Nepal. The specific objectives of this study are listed below:

i. To assess the factors of macroeconomics indicators i.e. money supply, GDP, inflation rate, export, import with remittance in Nepal.
ii. To examine the relationship between money supply, GDP, inflation rate, export, import with remittance in Nepal.
iii. To analyze the impact of money supply, GDP, inflation rate, export, and import on remittance.

1.5 Rationale of the Study

This study focuses on the factors that influence macroeconomic indicators, which are critical in guiding investor decisions. By understanding these macroeconomic variables, investors can make more informed choices regarding the purchase of shares, particularly in sectors like insurance businesses. Companies can strategically manage these variables such as inflation rates, interest rates, and GDP growth to optimize their stock prices. Strong

business performance, combined with wide market penetration, often leads to enhanced shareholder value. Ultimately, this creates a prosperous corporation and ensures that investors, irrespective of their financial capabilities, can participate in the market with minimized risks.

This research contributes to the development of the stock market and the overall economic growth of Nepal. By offering insights into the dynamics of the Nepalese stock market, the study provides valuable knowledge for reducing investment risks and enhancing investor confidence. The findings are of interest to a broad audience, including academics, students, researchers, and professionals in the finance industry. The study aims to analyze the internal financial factors influencing share prices, providing current and potential investors with a clearer understanding of the companies involved, enabling them to make informed and strategic investment choices. Additionally, the study serves as a potential roadmap for future research and for stakeholders looking to deepen their understanding of the market's dynamics.

This study is valuable for individuals interested in understanding the impact of remittances, particularly through signaling variables, stock trading volumes, stock price trends, and the listing of new companies in the secondary market. It also provides key insights for improving the efficiency of the stock market. The findings can benefit issue managers, stock brokers, securities dealers, market makers, and lawmakers by offering a clearer understanding of the factors influencing the stock market dynamics. By examining these elements, the study helps these stakeholders make more informed decisions and contribute to the overall improvement of the financial market.

1.6 Limitations of the Study

- There are several macroeconomic variables; only six of them the Money supply, GDP, inflation rate, export, and import are included in the analysis.
- The analysis of the Money supply, GDP, inflation rate, export, import and remittance forms the basis of the entire study; other factors that could have an impact on the remittance are disregarded.
- The study's secondary data, which spans a 30-year period from 1994/95 to 2023/24, was obtained from NEPSE, SEBON, the NRB website, and other sources.

- Only regression, correlation, and descriptive statistics are used in this study as statistical methods.

CHAPTER II

LITERATURE REVIEW

A literature review involves examining research papers and other relevant sources within a specific field to collect information on previous studies, their results, and any gaps, which helps guide further research. It is a crucial step in research projects and an integral part of any dissertation. In other words, the results are based on a strong theoretical foundation and aim to explore connections through hands-on learning, reflection, and empirical investigation. Understanding existing discoveries is valuable for advancing knowledge.

2.1 Theoretical Review

Classical Growth Theory

Classical growth theory is an early economic concept that explains long-term economic development through capital accumulation, population growth, and finite natural resources. Developed by economists like Adam Smith, David Ricardo, and Thomas Malthus in the 18th and 19th centuries, it suggests that investing in physical capital—such as tools, machinery, and infrastructure—boosts productivity and output. Economic growth drives population growth, which, over time, pressures resources and wages. As more capital is applied to a fixed amount of land or resources, the returns on investment begin to decrease. The theory, particularly associated with Malthus, argues that population growth will surpass food production, leading to stagnation or even a decline in living standards. Eventually, economies hit a point where growth halts due to resource limitations and diminishing returns. While classical growth theory has largely been replaced by neoclassical and endogenous growth theories, which incorporate technology, innovation, and human capital, it remains an important foundation for understanding early economic ideas and the challenges of growth within resource constraints (Harris, 2007).

Neo Classical Growth Theory (Solow Swan Model)

The Neo-Classical Growth Theory is an economic framework that explains long-term economic growth through capital accumulation, labor or population growth, and technological advancement. Developed mainly by Robert Solow and Trevor Swan in the 1950s, it is also known as the Solow-Swan model (Adow, 2025).

Production Function:

It uses a Cobb-Douglas production function, typically:

$Y=A \cdot K^{\alpha} \cdot L^{1-\alpha}$

Where:

Y: Output (GDP)

K: Capital

L: Labor

A: Total Factor Productivity (technology)

α: Capital's share of output ($0 < \alpha < 1$)

Diminishing Returns to Capital:

When more capital is added (while labor and technology remain unchanged), the additional output produced by each extra unit of capital decreases. This is referred to as diminishing marginal returns.

Exogenous Technological Progress:

Technological progress is treated as an external factor in the model (not explained within it). It is the primary driver of long-term economic growth.

Steady-State Growth:

The economy eventually reaches a stage where output, capital, and labor grow at a steady rate, and per capita output increases at the rate of technological progress.

Convergence Hypothesis:

Poorer countries are expected to catch up to the income levels of wealthier countries, provided they have similar savings rates, population growth, and access to technology.

In the short run, capital accumulation can drive economic growth. However, in the long run, only technological progress can sustain growth in output per worker. Policies that boost savings or investment have temporary effects unless they also improve productivity. The theory doesn't explain the source of technological change and overlooks the importance of institutions, innovation, and human capital. This gap led to the development of Endogenous Growth Theories in the 1980s, which focus on these internal factors.

Endogenous Growth Theory

Endogenous Growth Theory is an economic concept that attributes long-term economic growth to internal factors rather than external ones. In contrast to classical and neoclassical

growth models, which treat technological progress as an external (exogenous) factor, this theory emphasizes the role of human capital, innovation, and knowledge as key drivers of economic growth. These elements are shaped by economic decisions and policies. Developed in the 1980s and 1990s by economists such as Paul Romer and Robert Lucas, it focuses on internal influences like education, research and development, and policy measures. The theory also highlights how knowledge spillovers—where ideas and innovations benefit others beyond the original creators—can boost overall economic growth. Additionally, it suggests that government initiatives, such as subsidies for education and innovation, can have a lasting positive effect on growth (Acs, 2021).

Harrod Domar Growth Model

The Harrod-Domar Model is an economic growth framework that highlights the role of investment in driving economic growth. Developed independently by Sir Roy Harrod and Evsey Domar in the 1930s and 1940s, the model suggests that for an economy to sustain growth, it must increase savings and enhance the efficiency with which investment is converted into output. The model assumes a fixed capital-output ratio, no technological progress, and does not account for changes in the labor force or productivity. As a result, it is not suitable for analyzing long-term dynamic economic trends (Harrod, 1939).

Assumptions:

i. Constant capital-output ratio (v)
ii. Constant saving rate (s)
iii. No government intervention
iv. Closed economy (no trade)
v. Full employment of resources

Schumpeterian Growth Theory

Schumpeterian Growth Theory is an economic concept introduced by Joseph Schumpeter and later formalized by economists such as Philippe Aghion and Peter Howitt. This theory stresses that innovation and technological advancement are the primary forces driving long-term economic growth (Aghion et al., 1999).

Creative Destruction: Economic growth stems from the introduction of new innovations that replace outdated technologies or products. While this process may lead to the decline of old industries, it ultimately drives overall progress and development.
Entrepreneurship: Entrepreneurs play a key role in economic growth by introducing innovations that create new markets and disrupt established ones.
Endogenous Growth: In contrast to traditional models that view technology as an external factor, Schumpeterian theory integrates innovation as an internal driver of the economy, shaped by policies, institutions, and incentives.
R&D and Knowledge Spillovers: Investment in research and development (R&D) drives new innovations, which can generate broader benefits throughout the economy.

In summary, Schumpeterian Growth Theory connects economic progress to competition driven by innovation, highlighting the dynamic and constantly evolving nature of capitalist economies.

Unified Growth Theory

Unified Growth Theory (UGT) is an economic framework that aims to explain long-term economic development by integrating factors like technological progress, demographic shifts, and human capital accumulation. Unlike traditional models that focus on specific transitions, such as moving from agrarian to industrial economies, UGT offers a comprehensive explanation of growth over time, spanning from pre-industrial societies to modern economies (Galor, 2007).

Technological Progress: The theory argues that technological innovation is crucial for driving economic growth, but this process is shaped by social and institutional factors.

Demographic Transition: UGT incorporates the idea that population growth and shifts in fertility rates are closely tied to economic development. As societies progress, they generally undergo a demographic transition, moving from high birth and death rates to lower ones.

Human Capital: Another key theme in UGT is the accumulation of knowledge, education, and skills within a population. The theory suggests that as economies evolve, investments in human capital become increasingly vital for driving growth.

Transition Stages: UGT outlines key stages in economic development, ranging from the Malthusian era, where economic growth is constrained by population size, to the modern growth era, marked by sustained per capita income growth driven by technological innovation.

Overall, UGT offers a comprehensive framework to understand the complex interactions between technological, demographic, and human capital factors in shaping long-term economic growth.

Modern Monetary Theory

Modern Monetary Theory (MMT) argues that countries with control over their sovereign fiat currency (such as the U.S. dollar or Japanese yen) cannot "run out of money" like a household or business can. In contrast to traditional economic views, which prioritize balanced budgets and reducing debt, MMT suggests that government deficits are not automatically harmful. In fact, they can promote economic growth and employment, as long as inflation is kept in check (Juniper, 2014).

Currency Sovereignty: Governments that issue their own fiat currency can never become insolvent in that currency, as they have the ability to create more money when needed.

Functional Finance: Fiscal policy should prioritize achieving full employment and price stability, rather than adhering to arbitrary deficit targets.

Taxes and Bonds: Taxes are not mainly intended to fund government spending, but rather to manage inflation and redistribute wealth. Similarly, bonds are viewed as a tool for controlling interest rates, rather than for financing expenditures.

Inflation Constraint: The main constraint on government spending is inflation, not the availability of revenue.

Job Guarantee: MMT often supports a government-backed job guarantee program as a way to ensure full employment and maintain price stability.

Real Business cycle Theory

Real Business Cycle (RBC) Theory argues that fluctuations in economic activity, or business cycles, are primarily driven by real shocks, particularly technology shocks that impact productivity, rather than monetary factors. The theory assumes that economic agents, such as households and firms, act rationally in a perfectly competitive environment where prices and wages are flexible (Greenwood et al., 1995).

According to RBC theory:

- Business cycles are seen as efficient reactions to exogenous changes in the real economic environment, such as shifts in technology, taxes, or regulations.
- Government intervention is generally viewed as unnecessary or potentially harmful, as markets are believed to adjust optimally on their own.
- Fluctuations in output, employment, and consumption are seen as optimal responses to these shocks by forward-looking agents.

The framework typically employs Dynamic Stochastic General Equilibrium (DSGE) models to represent the economy, where agents maximize utility or profits over time while facing various constraints.

New Keynesian economies

New Keynesian economics is a contemporary macroeconomic framework that extends the traditional Keynesian approach by integrating microeconomic foundations, with a particular emphasis on price and wage rigidities. It seeks to explain short-term economic fluctuations and highlights the role of monetary policy in stabilizing output and inflation (Goodfriend & King, 1997).

Price and Wage Stickiness: Unlike classical models, New Keynesians assume that prices and wages are sticky, meaning they don't adjust immediately to changes in economic conditions. This stickiness causes money to be non-neutral in the short run, allowing monetary policy to influence real variables such as output and employment.

Rational Expectations: In New Keynesian models, agents are assumed to form expectations rationally, utilizing all available information efficiently. However, because of nominal rigidities, these expectations do not result in immediate market clearing.

Imperfect Competition: Firms have market power and set prices above marginal cost, which enables price-setting behavior that contributes to price stickiness and cyclical fluctuations in the economy.

Role of Monetary Policy: Central banks play a key role in stabilizing the economy, with the Taylor Rule commonly used to guide how they should adjust nominal interest rates in response to deviations in inflation from its target and output from its potential.

Dynamic Stochastic General Equilibrium (DSGE) Models: These models are frequently used in New Keynesian analysis to simulate how shocks impact the economy over time, taking into account the effects of monetary policy.

New classical theory

The New Classical Theory, or New Classical Macroeconomics, emerged in the 1970s as a response to the perceived shortcomings of Keynesian economics, particularly in explaining stagflation. It highlights the significance of microeconomic foundations, rational expectations, and market-clearing in macroeconomic analysis (Goodfriend & King, 1997).

Rational Expectations: Economic agents form expectations about the future based on all available information and consistent economic models. This concept was introduced by John Muth in 1961 and further developed by Robert Lucas.

Market Clearing: Prices and wages adjust quickly to changes in supply and demand, ensuring that markets clear continuously, even in the short run.

Policy Ineffectiveness Proposition: Systematic monetary and fiscal policies cannot consistently manage output and employment because agents' rational expectations lead them to anticipate and counteract policy effects (Lucas, 1976).

Real Business Cycle (RBC) Theory: Fluctuations in output and employment are viewed as optimal responses to real shocks, such as changes in technology, rather than to monetary shocks (Kydland & Prescott, 1982).

Monetary theory

Monetary theory examines the relationship between the money supply, interest rates, inflation, and overall economic activity. A key principle of modern monetary theory is that changes in the money supply significantly affect prices and output in both the short and long term. One of the most influential perspectives within monetary theory is Monetarism, primarily developed by Milton Friedman. According to Friedman, inflation is "always and

everywhere a monetary phenomenon," driven by excessive growth in the money supply relative to economic output. Monetarists argue that controlling the money supply is the most effective means of managing inflation and maintaining economic stability. In contrast to Keynesian views, which emphasize fiscal policy and demand-side interventions, monetary theory—particularly in its classical and monetarist forms—focuses more on the role of central banks in managing the economy through tools like interest rate adjustments and open market operations. Monetarist theory stresses the importance of government control over the money supply to regulate economic activity, asserting that fluctuations in the money supply directly affect inflation, employment, and production (Johnson, 1965).

Monetarists argue that inflation is mainly caused by excessive growth in the money supply and that controlling this growth is essential for maintaining price stability. They believe the central bank should focus on a steady, predictable increase in the money supply, rather than attempting to fine-tune the economy through fiscal policy or interventions.

The Quantity Theory of Money, often represented as MV = PQ (where M is the money supply, V is velocity, P is the price level, and Q is output), forms the foundation of much of traditional monetary theory. When velocity and output are stable, increases in the money supply directly result in price increases. Over time, this theory evolved with insights from New Classical and New Keynesian economics, incorporating expectations and market frictions into monetary models. Today, modern central banks typically use inflation targeting as a guiding framework, drawing on these monetary theory principles. These approaches aim to ensure price stability and maintain public confidence in the currency's value through transparent and predictable monetary policy actions..

Monetarists generally advocate for a limited role of government in economic matters, stressing the importance of market forces over government interventions.

Import-Export Theory

The Import-Export Theory is an economic concept that describes how international trade—through the import and export of goods and services—impacts a country’s economy. It emphasizes that such trade can greatly affect a nation's local industries, overall economy, and trade balance (Seyoum, 2013).

Imports: Imports refer to goods and services a country purchases from other nations. By importing, countries can obtain products they are unable to produce domestically due to resource limitations or can acquire them at a lower cost or better quality from international sources.

Exports: Exports are goods and services a country sells to other nations. They enable a country to earn foreign exchange, support the growth of domestic industries, and enhance economic ties with other countries.

Balance of Trade: This term describes the gap between a country's exports and imports. When exports exceed imports, it's known as a trade surplus; when imports surpass exports, it's called a trade deficit. Maintaining a balanced trade is generally seen as beneficial for promoting sustainable economic growth.

Impact on Domestic Industries: Importing can drive domestic companies to become more competitive, but it may also pose risks to local industries if they struggle to compete with foreign products. Conversely, exporting provides access to international markets, though it requires domestic businesses to meet global demand and comply with international quality standards.

Global Interdependence: The theory also emphasizes the interdependence of the global economy. Nations rely on each other for resources, markets, and technological advancements, making international trade a vital component of economic growth and development.

Overall, the Import-Export Theory highlights the advantages of international trade, including a wider selection of goods, economic expansion, and improved global relationships, while also acknowledging the difficulties in maintaining a balanced trade between imports and exports.

2.2 Empirical Review

Dhakal et al. (2025) examined on migration and remittances: assessing their role in socioeconomic development in Nepal (2000–2023). This study explores the effects of migration and remittances on Nepal’s socio-economic progress. Using quantitative

methods like regression analysis and trend evaluation, it analyzes how remittances influence GDP growth, poverty reduction, and economic stability. The findings reveal that remittances accounted for an average of 25% of Nepal's GDP during the study period, significantly lowering poverty by boosting household income and improving access to education and healthcare. However, the study also highlights concerns such as the economy's overreliance on remittances and its vulnerability to global economic shifts. It recommends policies focused on economic diversification and the productive investment of remittance funds.

Verma et al. (2025) examined on unveiling the impact of remittances on productive efficiencies: investigating productivity growth of prominent remittance-receiving developing nations. This study analyzes both theoretical and empirical literature to examine how international remittances influence productivity growth in developing countries, using panel data from 1991 to 2021. It applies the Data Envelopment Analysis (DEA)-based Malmquist Productivity Index (MPI) to assess national production efficiency. Methodologically, the research incorporates unit root and co-integration tests, along with the pooled mean group autoregressive distributed lag (PMG-ARDL) approach. To ensure the robustness of results, dynamic ordinary least squares (DOLS) and fully modified OLS (FMOLS) estimators are also employed. The findings show that remittances significantly contribute to technological progress (TEC) and enhance total factor productivity (TFP) growth. However, the study did not establish a clear impact of remittances on technical efficiency (EFF). Given the role of remittances in driving innovation and productivity, the study recommends that governments create supportive economic policies to increase remittance inflows. This research bridges a gap in existing literature by focusing on the relationship between remittances and productivity an area less explored compared to their effects on general economic growth. The use of the output-based MPI method provides deeper insight into how remittances affect various aspects of productivity development in emerging economies.

Mutai et al. (2025) analyzed on Sustainable economic development in Kenya: influence of diaspora remittances, foreign direct investment and imports. Many African nations face challenges in maintaining consistent economic growth, influenced by various macroeconomic factors. This study examined the trends and impacts of diaspora remittances, foreign direct investment (FDI), and imports on Kenya's economic growth

using panel data from the World Bank Indicators spanning 1973 to 2021. Employing the autoregressive distributed lag (ARDL) model and computations via R software, the analysis provided insights into both short- and long-term dynamics. In the short term, FDI and imports showed a non-significant negative effect on economic growth, while diaspora remittances had a positive impact. However, over the long term, all three variables FDI, imports, and remittances were significant drivers of economic growth. The study notes potential data limitations due to variations in data quality and availability, as well as external influences like global economic shifts, political stability, the COVID-19 pandemic, regulatory changes, and natural disasters, which should be considered when interpreting results. The short-term negative but non-significant effects of FDI and imports suggest that policies promoting these may not produce immediate economic benefits, prompting policymakers to reconsider their strategies. Conversely, the positive short-term impact of diaspora remittances highlights their vital role in economic development, urging governments to implement policies that facilitate remittance flows and encourage diaspora investments. The transition from short-term insignificance to long-term significance for FDI, imports, and remittances underscores the importance of long-range economic planning that accounts for their cumulative effects. Moreover, diaspora remittances are crucial in reducing poverty and inequality by providing direct financial support to households, emphasizing the need for policies that maximize their benefits in addressing social challenges. Overall, this study offers original insights into how diaspora remittances, FDI, and imports interact to influence Kenya's economic growth, with a nuanced focus on both short- and long-term impacts.

Azizurrohman (2025) investigated on the impact of remittance inflows on economic growth in ASEAN countries: A panel data analysis. This study explores the impact of remittance inflows on economic growth in ASEAN countries, focusing specifically on GDP per capita from 2000 to 2023. Using panel data regression analysis, the research investigates the relationship between remittances and GDP per capita while accounting for financial development, inflation, and unemployment. The fixed effects model reveals that GDP per capita increases by 0.128% for every 1% rise in remittances as a share of GDP. Additionally, the results indicate that inflation and unemployment negatively affect growth, while financial development has a positive influence. The model's robustness is supported by an R-squared value of 0.45. This study underscores the importance of financial development and macroeconomic stability, providing empirical evidence of remittances'

role in driving economic progress. The findings offer valuable policy recommendations for maximizing the benefits of remittances to support sustainable development across ASEAN nations.

Bajaj et al. (2025) explored on examining the impact of geopolitical risk on foreign remittances: evidence from top remittances receiving countries. This study explores the impact of remittance inflows on economic growth in ASEAN countries, focusing specifically on GDP per capita from 2000 to 2023. Using panel data regression analysis, the research investigates the relationship between remittances and GDP per capita while accounting for financial development, inflation, and unemployment. The fixed effects model reveals that GDP per capita increases by 0.128% for every 1% rise in remittances as a share of GDP. Additionally, the results indicate that inflation and unemployment negatively affect growth, while financial development has a positive influence. The model's robustness is supported by an R-squared value of 0.45. This study underscores the importance of financial development and macroeconomic stability, providing empirical evidence of remittances' role in driving economic progress. The findings offer valuable policy recommendations for maximizing the benefits of remittances to support sustainable development across ASEAN nations.

Adow (2025) analyzed on remittances and economic growth in East Africa. This paper analyzes data from the World Development Indicators to assess the impact of remittances on GDP per capita growth in 15 East African countries between 2000 and 2022. Using a fixed effects model alongside the System Generalized Method of Moments (System GMM) to control for unobserved heterogeneity and endogeneity, the results reveal a significant positive link between remittances and economic growth. However, high inflation and rapid population growth limit the developmental benefits of remittances. The study also finds that greater financial depth boosts the effectiveness of remittances in driving economic progress. It highlights the importance of targeted policies focused on enhancing financial inclusion, stabilizing inflation, and fostering investment-friendly environments to maximize remittance-driven growth. These measures could enable East African countries to leverage remittances more effectively as a driver of sustainable economic development. Overall, the research emphasizes remittances' crucial role in economic growth and calls for structural reforms to improve their long-term impact and sustainability in the region.

Shafiq et al. (2025) examined on the role of remittances in Pakistan economic growth: trends, impact, and policy recommendations. This study offers a detailed empirical analysis of the role remittances play in driving economic growth in Pakistan. It specifically investigates the relationships among Real Gross Domestic Product (GDP), foreign remittances, unemployment rate, literacy rate, and real exchange rates using time series data from 1980 to 2024. The research employs various econometric methods, beginning with unit root tests to check the stationarity of variables. After confirming stationarity, the Auto-Regressive Distributed Lag (ARDL) Bound Testing approach is used to assess cointegration. Both long-run and short-run relationships are estimated, with the Error Correction Mechanism (ECM) applied to analyze short-term dynamics. The results show that foreign remittances significantly contribute to economic growth. Increased remittance inflows improve household well-being by enhancing healthcare, education, living standards, purchasing power, investment levels, and employment opportunities. These improvements collectively boost production and revenue generation, leading to higher GDP and sustained economic growth. The study also suggests potential policy measures to further harness remittances for economic development.

Acharya and Ojha (2024) examined on macroeconomic determinants of remittances inflow in Nepal. The study aims to examine how various macroeconomic factors affect remittance inflows in Nepal. Applying the ARDL co-integration approach, it analyzes both short-run and long-run determinants of remittances using annual data from 1993 to 2021. The findings reveal that global oil prices, the nominal exchange rate, and domestic output influence remittance inflows. While none of these factors have a significant short-term impact, oil prices show a positive and significant effect in the long run. The study also detects a correction mechanism that helps remittance inflows return to long-run equilibrium after deviations. Additionally, the negative relationship between domestic GDP and remittances supports the common view that remittances tend to be countercyclical and motivated by altruism.

Bhattarai (2024) investigated on impact of remittance on economic growth in Nepal. This study investigates the relationship between remittance inflows and economic growth in Nepal, focusing on how rising remittances impact the country’s economic progress. It utilizes secondary data from reputable sources like the World Bank and employs graphs to illustrate data trends. The analysis draws on existing literature to interpret the findings.

Results indicate that remittances positively influence GDP, as increases in GDP align with higher remittance inflows. While remittances have led to greater import demand and trade deficits, they have also helped strengthen foreign currency reserves. The study finds that remittances do not directly reduce unemployment but primarily support labor migration rather than boosting local job creation. Additionally, remittances appear to have no direct effect on inflation but seem to contribute to maintaining inflation stability.

Bilewicz (2024) examined on the role of remittances in economic growth of Poland. This paper examines the relationship between remittance inflows and Poland's economic development using annual secondary data from 2004 to 2023 sourced from Eurostat. The analysis employs ordinary least squares (OLS) and backward stepwise regression techniques. The findings reveal that the ratio of annual remittances to GDP has a negative impact on economic growth. In contrast, control variables such as trade openness and investment show a positive and significant effect on growth. Understanding the factors influencing economic growth is crucial for crafting effective policies, including those related to debt management. The study's results can help inform policies aimed at improving the management of remittances. Given the limited prior research on the impact of remittances in Poland, this study contributes valuable insights into the effects of migration and the country's economic growth dynamics.

Karki et al. (2024) analyzed on the role of remittances in building economic resilience in Nepal: a Keynesian analysis. This study applies a Keynesian framework to explore the impact of remittances on Nepal's economic resilience using secondary data from trusted government sources covering 2000/01 to 2018/19. It examines how remittances relate to key macroeconomic factors such as consumption, investment, imports, and Gross National Product (GNP). The analysis shows a significant rise in remittances over time, alongside growth in GNP, private consumption, government spending, imports, and disposable income. Multiplier analysis reveals that a one-unit increase in remittances results in a 0.89 unit rise in consumption, a 1.25 unit increase in imports, a 0.32 unit growth in investment, and a 2.14 unit boost in GNP. Multiple regression confirms strong positive links between remittances and consumption, imports, and GNP. These findings highlight remittances' vital role in Nepal's economy and their potential for supporting sustainable development. However, the study cautions policymakers against relying on remittances as a long-term economic solution despite their short-term benefits. By offering a thorough examination of

remittances' effects on Nepal's economy, the study adds valuable insights for policy development and future research.

Sapkota and Joshi (2024) examined on remittance and inflation nexus in Nepal: An ARDL Approach. This research examines the relationship between remittance inflows as a percentage of GDP and inflation in Nepal, considering several control variables. Using a descriptive and causal research design, the study analyzes data from 1990 to 2022 with the ARDL model. The model's validity was confirmed through the ADF test and VAR lag length criteria, while post-diagnostic tests such as LM, Breusch-Pagan-Godfrey, Jarque-Bera, Ramsey RESET, and KUSOM were conducted. The findings reveal a significant long-run positive impact of remittances on inflation, alongside a negative effect of the foreign exchange rate on inflation in Nepal. The error correction mechanism indicates that any short-term imbalance among variables adjusts back to long-run equilibrium at a rate of 1.05% per year. Given the positive relationship between remittance inflows and inflation, the study suggests implementing effective policies to channel remittance earnings into productive sectors rather than consumption, possibly through attractive incentives, to better control inflation.

Apanisile et al. (2023) investigated on threshold effect of remittance inflows on selected macroeconomic variables in Nigeria. This study explores the threshold effect of remittance inflows and the channels through which they impact macroeconomic variables in Nigeria, focusing on output growth and inflation. Using annual secondary data from 1986 to 2019, the analysis applies threshold regression, vector error correction, and Granger causality techniques. The research identifies a single threshold value for both inflation and output models, dividing the analysis into two distinct regimes. Findings reveal that remittance inflows in Nigeria are substantial enough to significantly affect key macroeconomic indicators. The study also highlights private consumption, money supply, and interest rates as the main channels through which remittances influence these variables. It concludes that maximizing the benefits of remittance inflows requires effectively channeling them into productive investments within the Nigerian economy.

Bhandari (2023) analyzed on impact of capital market on GDP Growth in Nepal. This study examines the relationship between Nepal's GDP growth from 1994 to 2002 and the performance of its capital market. Using the ARDL technique, it investigates the long-term

impact of the capital market on economic growth by analyzing factors such as market capitalization, gross fixed capital formation, broad money supply, the NEPSE Index, the number of listed companies on NEPSE, and recurrent expenditures. The findings reveal a strong correlation between Nepal's GDP growth and its capital market, with the capital market significantly influencing GDP growth. Negative and significant error correction terms indicate the speed at which shocks and disequilibrium are adjusted. However, the study also identifies structural and institutional weaknesses in Nepal's capital markets, as some variables show insignificant effects in both the short and long term.

Bhatta (2023) examined on assessing dynamics of macroeconomic variables across the south Asian region. This study examines how changes in one economic variable influence others, focusing on economic growth, imports, exports, and foreign currency reserves in five South Asian countries from 1980 to 2021. Using a quantitative approach with the panel vector autoregressive (PVAR) method, the research explores the interrelationships among these variables. The causality tests reveal one-way causal links from GDP to imports and from reserves to GDP. Additionally, foreign currency reserves are found to cause both exports and imports, but not the other way around. Other variables do not show significant causal relationships, as their probability values exceed the 0.05 threshold.

Dangal et al. (2023) invstigated unraveling the effect of remittance on Nepal's agricultural GDP. This study aims to analyze the impact of remittances on Nepal's agricultural GDP using a causal comparative research design with panel data from 2000 to 2022. Remittances play a significant role in Nepal's economy, contributing 26.6% of GDP in 2023, ranking the country fifth globally in terms of remittance-to-GDP ratio. The analysis found a negative coefficient of -0.571 for remittances relative to GDP, with a significant t-value of 5.766, indicating that remittances have a detrimental effect on the contribution of agriculture, forestry, and fishing to GDP. The results suggest that increased remittances lead to a consistent decline in the agricultural sector's share of GDP. This trend reflects labor migration to international markets, which could result in a severe labor shortage in Nepal and decreased use of arable land if it continues. The study highlights the importance of this issue for government authorities and policymakers to address in future planning.

Eke and Eke (2023) analyzed on macroeconomic impact of remittances: evidence from Nigeria. This study examines the impact of remittances sent by Nigerians abroad on the

country's economic growth over the period 1980–2020, using the Engel-Granger Error Correction Model. While existing literature shows mixed results on remittances' effects in developing countries, this research specifically looks at how per capita remittances contribute to per capita GDP growth compared to other investments, such as human and physical capital, within the production framework. The findings reveal that both remittances and physical capital investment have positive and significant effects on Nigeria's GDP. In contrast, investment in human capital and institutional factors show negative and significant impacts on growth. The study suggests that with targeted policies to strengthen these outcomes, remittances' positive impact could increase further. It recommends introducing more financial innovation tools and promoting their use, especially in remote areas, to boost remittance volumes, expand formal financial system usage, and enhance remittances' contribution to economic growth.

Pokhrel and Adhikari (2023) analyzed on non-linear relationship between remittance inflow and inflation in Nepal: An NARDL approach. This paper investigates the nonlinear relationship between remittance inflows and inflation in Nepal using time series data. The study employs Zivot unit-root tests, which allow for a single structural break, along with NARDL cointegration analysis to identify structural breaks and examine long-run asymmetric relationships. The results reveal a long-term asymmetric cointegrating relationship between remittance inflows and inflation, showing that positive inflation shocks lead to increased remittance inflows in Nepal. Additionally, the asymmetric dynamic multiplier analysis indicates that positive shocks have a stronger effect on raising inflation over time compared to negative shocks. The study recommends that the Nepalese government develop comprehensive policies for the efficient use of remittances. These findings can assist policymakers in designing effective strategies to mitigate inflationary pressures associated with remittance inflows.

Nepal (2022) examined inflation caused by remittance in Nepalese economy. This paper investigates the impact of remittances on inflation in Nepal using econometric techniques such as the Co-integration test, Vector Error Correction Model (VECM), and Granger Causality tests. Analyzing annual data from 1990/91 to 2018/19, the study finds that the variables are co-integrated according to Johansen's co-integration test. The VECM reveals both short-run and long-run relationships between remittances and inflation. Granger Causality results indicate a unidirectional causality running from remittances to inflation.

The paper emphasizes the importance of channeling remittances into capital formation, suggesting that returning migrants be provided with soft loans to start domestic and small-scale industries and encouraged to engage in forced savings.

Joshi (2022) investigated on impact of remittance on consumer price index in Nepal. Remittances significantly contribute to the economic development of recipient countries through various micro and macroeconomic channels. However, their negative effects, such as Dutch disease and inflation, cannot be ignored. This paper analyzes the impact of remittances on overall inflation, measured by the consumer price index, in Nepal using time series data from 1975 to 2020. Results from the Ordinary Least Squares (OLS) regression show that remittances, money supply, import trade, and budget deficits positively influence inflation, while real GDP has a negative effect. The impact of export trade remains inconclusive. Given the inflationary pressure caused by remittances, the study recommends that the government direct remitted funds toward productive investments to prevent excessive demand-pull inflation.

Dahal (2022) examined on effect of remittances on the macro economy: a structural VAR study of Nepal. This paper explores the short-term macroeconomic effects of remittances in Nepal, one of the world's top remittance recipients relative to GDP. Despite large remittance inflows since the early 2000s, their quantitative impact on Nepal's economy has been understudied, partly due to limited reliable data. Using newly available quarterly GDP data from 2004 to 2019, the study applies a Structural Vector Autoregression (SVAR) model to analyze how remittance and other macroeconomic shocks affect Nepal's small open economy. The results reveal that remittance shocks do not significantly affect output (GDP) but do lead to increases in money supply and prices, as well as an appreciation of the real exchange rate. These findings address previous inconsistencies regarding price levels and exchange rates in earlier studies. The inflow of remittances is primarily influenced by economic conditions in foreign partner countries and the real exchange rate, while domestic GDP and interest rates have little impact. Most macroeconomic variables show limited responsiveness to changes in the policy interest rate, and money supply does not significantly react to inflation shocks, highlighting challenges for Nepal's monetary policy. Although money supply is the main tool used by Nepal's monetary authorities, the effectiveness of its transmission mechanism appears to be impaired.

Suhendra and Malini (2022) analyzed the impact of macroeconomic variable toward Indonesia composite stock price index. This research aims to determine how the Dow Jones Index, interest rates, exchange rates, and inflation influence the Composite Stock Price Index (CSPI) on the Indonesia Stock Exchange. Using multiple linear regression analysis, the study found that all these factors collectively have a significant impact on the CSPI. Specifically, the Dow Jones Index, interest rates, and inflation positively and significantly affect the CSPI, while the exchange rate has a significant negative effect. These results provide valuable insights for current and potential investors.

Zarate-Hoyos (2022) explored on an analysis of the macroeconomic determinants of Peruvian remittances. This paper analyzes how various macroeconomic factors affect remittance flows to Peru from 1992 to 2017, focusing on the United States as the main host country for Peruvian migrants. Using quarterly data and a vector error correction (VEC) model, the study confirms the presence of co-integration among the variables and identifies a structural break. The findings suggest that Peruvian migrants' behavior is largely driven by self-interest rather than altruism, as indicated by the impact of key macroeconomic determinants.

Ngumba (2022) analyzed on macroeconomic determinants of diaspora remittances. a case study in Kenya. This paper investigates the impact of GDP, inflation, and the real effective exchange rate on remittance inflows using the Autoregressive Distributed Lag (ARDL) model, which effectively handles variables integrated at both I(0) and I(1) levels. Analyzing 52 observations from 1970 to 2021 with EViews 12, the study finds a long-run co-integration relationship between remittances and the selected macroeconomic variables. Results indicate that GDP significantly influences remittances—specifically, remittance growth tends to decline as GDP growth increases—while inflation and the real effective exchange rate have a less pronounced but still notable positive effect on remittance inflows. The study recommends adopting policies that attract remittances towards investment and savings, especially under favorable economic conditions.

Jijin et al. (2022) examined on macroeconomic determinants of remittances to India. Remittance flows have evolved as a significant economic variable over the past decade. In several developing countries, remittances exceed other capital inflows and the value of total exports. Thus, remittances are widely recognized as a potential funding source for economic development in emerging economies. The inflow of remittances to India has

increased tremendously in recent years, making the country the highest recipient of remittances across the globe. Remittances are an essential component that contributes to narrowing the Current Account Deficit and have always been a stable constituent of the Balance of Payment. This paper attempts to explore the vital macroeconomic variables that determine remittance flows to India. Notably, it investigates the dominant motives of remittances in the Indian context. We employ an ARDL approach to co-integration to identify the macroeconomic determinants of remittances and find that crucial variables such as exchange rate, oil price, and domestic GDP substantially impact the flow of remittances. The results also indicate that migrants are more vulnerable to oil price shocks in host countries. The overall findings of the study show that remittances are not countercyclical in the Indian context, and remittances are subject to a weak investment motive as opposed to a primarily altruistic motive.

Acharya and Paudel (2021) examined on effect of remittances on economic growth in Nepal. This study aims to explore the effect of remittances on the economic growth of Nepal using the Augmented Dickey-Fuller (ADF) Unit Root Test to check the stationarity of variables. The Gross Domestic Product (GDP) is considered the dependent variable, while remittance, investment, consumption, and government expenditure serve as independent variables. All variables are measured at current prices, with data collected from Nepal Rastra Bank, the Economic Survey, and the Ministry of Finance, Government of Nepal, covering the period from 1989/90 to 2017/18. A simple regression equation was estimated using the Ordinary Least Squares (OLS) method. Additional analytical tools employed include the unit root test, heteroscedasticity test, normality test, serial correlation test, R-squared test, t-test, F-test, and Durbin-Watson (D-W) test. The empirical results reveal that investment and consumption have a statistically significant and positive effect on Nepal's economic growth. Remittances and government expenditure also exhibit a positive impact on GDP, although these effects are statistically insignificant. The residuals from the model are homoscedastic, free from serial correlation, and normally distributed, confirming the model's robustness.

Banjara et al. (2020) investigated on assessment of remittance and its impacts on economic growth in Nepal. This study delves into the issues related to remittances and their role in the Nepalese economy. Remittances are found to have a positive association with human capital formation and financial development, while exerting a negative impact on

productivity and international trade in Nepal. As one of the leading countries in sending workers abroad, Nepal received approximately US$ 6.29 billion in remittances, accounting for nearly 25 percent of its GDP in 2017/18. However, the investment of remitted funds predominantly in unproductive sectors such as consumption, rather than productive sectors, has led to an increase in overall imports. Remittance income has become a major source of financing, surpassing foreign aid and investment in recent years. Therefore, the Government of Nepal should formulate appropriate policies to maximize the benefits of remittances and retain manpower to foster sustainable economic growth and development.

Chhetri et al. (2020) examined on remittance and its impact on Nepalese economy. This paper assesses the current status of remittances and their impact on the Nepalese economy. The study uses secondary data from various sources and employs statistical techniques, including descriptive statistics and correlation analysis. The number of Nepalese citizens seeking foreign employment has been increasing year after year, with Malaysia being the primary destination, followed by Qatar, Saudi Arabia, UAE, and others. Nepal ranks 19th among the top remittance-receiving countries globally and holds the 4th position when remittances are measured as a percentage of GDP. The percentage increase in inflation was lower compared to the proportion of remittances relative to GDP. The results show an insignificant relationship between remittance inflows and the increase in agricultural land. Remittances have played several positive roles in the Nepalese economy, including poverty and unemployment reduction, maintaining foreign exchange reserves, and correcting the balance of payments. A positive and significant correlation was found between GDP and remittance inflows per year at the 10% level of significance. However, remittances as a percentage of GDP and the share of agriculture, forestry, and fishing were negatively and significantly correlated. The share of agriculture, forestry, and fishing in the country's GDP is diminishing, while the proportion of remittances relative to GDP is increasing. Labor shortages in both agricultural and non-agricultural sectors pose a genuine problem, as many active youths are engaged in foreign employment. As the volume of remittances rapidly increases, dependency on these inflows grows, gradually shifting the Nepalese economy toward a consumption-oriented model.

Dangal and Ghimire (2020) analyzed on trends and structures of remittance and its impact on inflation in Nepali economy. The purpose of this study is to explore remittance inflow trends and structures, as well as their influence on inflation in the Nepali economy. The

study primarily relies on secondary data published by the Nepal Rastra Bank annual report and the Economic Survey released by the Ministry of Finance, Nepal, covering the fiscal years 2000/01 to 2019/20. The data were analyzed using descriptive statistics and correlation analysis. During the study period, remittance inflows in Nepal showed a consistent increasing trend. The remittance-to-GDP ratio stood at approximately 25.42% in the fiscal year 2017/18. Remittances exhibited a strong positive association with the national gross domestic product (r = 0.9867) and a positive but weaker association (r = 0.492) with inflation. In the short run, increasing remittance inflows benefit the economy by boosting household consumption and reducing poverty. However, in the long run, these inflows may contribute to economic decline if not effectively channeled. Therefore, the government must formulate strategies, policies, and programs that promote long-term investment of remittances into productive sectors to sustain economic growth and support the sustainable development of the country.

Sah (2019) investigated on remittance and economic development of Nepal. Nepal is one of the least developed yet highest remittance-recipient countries in the world. In 2016, Nepal received remittances amounting to US$ 8.1 billion, ranking 23rd globally among remittance-receiving nations. Remittance income is a major source of capital formation in Nepal, directly linked to labor migration, which in turn promotes foreign employment opportunities. Remittances have become a key factor in increasing household incomes and contributing significantly to the country's GDP. Approximately 30 percent of Nepal's GDP consists of remittance inflows sent home by Nepalese working abroad, playing a vital role in poverty reduction. The poverty rate in Nepal declined from 42 percent in 1995/96 to 25.2 percent in 2010/11. By 2015, remittances accounted for 31.5 percent of Nepal's GDP. The total remittance amount in the country reached 259 billion, with 20 percent originating from internal sources, 11 percent from India, and 69 percent from Gulf countries. The majority of remittance income received by households is used for daily consumption (79 percent), with the remainder allocated to other purposes. Consequently, Nepal's economic status is heavily dependent on remittance inflows, making it a migration-driven economy.

Dahal et al. (2019) examined on relationship between remittances and inflation in Nepal. Empirical evidence underscores the significant impact of remittances on a country's macroeconomic indicators. This is especially important for import-dependent developing countries like Nepal, where remittances constitute a vital source of foreign currency

earnings and help finance imports. However, understanding their effects on inflation remains limited, as remittances can influence inflation differently depending on whether the demand or supply side is more affected. This study utilizes time series data and employs an error correction model (ECM) to investigate the impact of remittances on the domestic price level. The results indicate that remittance inflows have a dampening effect on domestic inflation, suggesting that remittances have facilitated the importation of relatively cheaper goods from abroad, despite their influence on overall economic expenditure. Additionally, the research reveals that traditional macroeconomic factors such as GDP, narrow money supply, and inflation in India exert upward pressure on Nepal's domestic inflation. These findings provide valuable insights into the nuanced relationship between remittances and inflation dynamics in the Nepalese economy.

Kaphle (2018) explored on relationship between remittance and economic growth in Nepal. This study investigates the relationship between remittances, trade, and economic growth. Using time series econometric techniques—such as unit root tests, co-integration analysis, and error correction models—the study examines both long-run and short-run associations between the dependent and independent variables. The results confirm a long-run relationship between remittances, trade, and economic growth. However, while no short-run causal relationship is found between remittances and economic growth, trade exhibits a significant short-run influence on GDP during the study period. The paper also discusses the effective utilization of remittances. It is hoped that the findings will assist the government and policymakers in formulating domestic policies focused on the efficient use of remittances and better management of migration in Nepal.

Table 1

Summary of Empirical Review

SN	Authors	Variables	Method	Major Findings
1	Dhakal et al. (2025)	Foreign Direct Investment (FDI), Imports. and Remittance.	Regression analysis and trend assessment	According to the findings, remittances accounted for an average of 25% of Nepal's GDP during the survey period, significantly reducing poverty by raising household incomes and improving access to education and healthcare.

2	Verma et al. (2025)	Remittances, Productivity Growth, Total Factor Productivity (TFP), Technological Progress (TEC), Technical Efficiency (EFF).	Data envelopment analysis (DEA)-based Malmquist Productivity Index (MPI)	Remittances significantly enhance technological progress (TEC) and total factor productivity (TFP) growth; however, the study was unable to establish a conclusive effect of remittances on the nation's technical efficiency (EFF).
3	Mutai et al. (2025)	Diaspora remittances, Foreign Direct Investment (FDI), Imports. Economic Growth	Autoregressive distributed lag (ARDL) model for econometric	Remittances have a positive influence on economic growth, while foreign direct investment (FDI) and imports initially show a non-significant negative impact. However, when considered together, remittances, FDI, and imports all emerge as significant positive determinants of economic growth.
4	Azizurrohman (2025)	Remittance inflows. GDP per capita.	Panel data regression analysis	A 1% increase in remittances (as a percentage of GDP) leads to a 0.128% increase in GDP per capita. Additionally, financial development positively influences economic growth, whereas inflation and unemployment exert negative effects.
5	Bajaj et al. (2025)	Geopolitical Risk (GPR) shocks and Foreign Remittances (FRs).	Nonlinear panel autoregressive distributed lag (ARDL)	Positive Global Political Risk (GPR) shocks have a significant and positive impact on remittance inflows, while adverse (negative) GPR shocks lead to a decrease in remittances.
6	Adow (2025)	Remittances and GDP per capita growth.	Fixed effects model and System Generalized Method of Moments (System GMM	There is a significant positive association between remittances and economic growth. However, this positive impact is limited by high inflation and rapid population

				growth. Additionally, greater financial depth amplifies the beneficial effect of remittances on economic growth.
7	Shafiq et al. (2025)	Independent: Foreign remittances, unemployment rate, literacy rate, real exchange rates. Dependent: Real Gross Domestic Product (GDP).	Auto-Regressive Distributed Lag (ARDL)	Foreign remittances play a significant role in Pakistan's economic growth. They enhance household well-being, stimulate investment, and create employment opportunities, all of which collectively contribute to higher GDP.
8	Acharya and Ojha (2024)	Foreign remittances, unemployment rate, literacy rate, real exchange rates and Remittance	The ARDL approach to co-integration	The negative association between domestic GDP and remittances supports the widely observed pattern that remittances tend to be countercyclical and driven by altruistic motives.
9	Bhattarai (2024)	Descriptive and Inferential Statistics Method is used to analyze the data.	Descriptive and causal design.	The results indicate that remittances have a positive impact on GDP, with increases in remittance inflows coinciding with GDP growth. However, remittances also lead to higher import demand, contributing to trade deficits.
10	Bilewicz (2024)	Remittances (as a ratio to GDP), trade openness, investment and Economic growth.	Ordinary least squares (OLS)	The annual remittance-to-GDP ratio negatively impacts Poland’s economic growth, while trade openness and investment exert a positive and significant influence on growth.
11	Karki et al., (2024)	Consumption, investment, imports, Gross National Product (GNP) and Remittance	Multiple Regression and Correlation analysis	The study reveals a significant increase in remittances over the years, alongside growth in GNP, private consumption, government expenditure, imports, and disposable income.

12	Sapkota and Joshi (20240	Inflation and Remittance	Descriptive and causal research design.	This research reveals a significant long-run positive effect of remittances on inflation, alongside a negative effect of the foreign exchange rate on Nepal's inflation rate.
13	Apanisile et al. (2023)	Remittance inflows and Output growth, inflation rate.	The threshold regression technique, vector error correction and Granger causality.	Remittance inflows exhibit a threshold effect, whereby their impact on the economy can be positive or negative depending on their magnitude. The main channels through which remittances influence economic outcomes are private consumption, money supply, and interest rates.
14	Bhandari (20230	GDP, remittance and Capital Market	Correlation and Regression.	There is a strong correlation between Nepal's GDP growth and the performance of its capital market. The results indicate that the capital market significantly influences GDP growth.
15	Bhatta (2023)	GDP, Imports, Export, Reserve and Remittance.	Panel vector autoregressive (PVAR).	The study shows causal relationships between GDP and imports, as well as between reserves and GDP. Reserves also cause changes in exports and imports, but not the other way around. Other variables do not exhibit significant causal relationships with each other.
16	Dangal et al. (2023)	GDP and Remittance,	Causal comparative research design	Findings indicate that an increase in remittances leads to a significant and consistent decline in the share of GDP contributed by agriculture, forestry, and fishing.
17	Eke and Eke (2023)	Per capita remittances, investment in human capital, investment in	Error correction method	Remittances and investment in physical capital exerted a positive and significant impact on GDP, whereas investment in human capital and institutional

		physical capital, institutional factors. Gross Domestic Product (GDP).		factors had a negative and significant effect on economic growth.
18	Pokhrel and Adhikari (2023)	Remittance, Inflation, GDP.	NARDL co-integration analysis	It was found that positive inflation shocks subsequently increase remittance inflows in Nepal. Moreover, positive shocks have a greater impact on raising the inflation multiplier over time compared to negative shocks.
19	Nepal (2022)	Remittance and Inflation	Econometric methodology such as Co-integration test, Vector Error Correction Models (VECM) and Granger Causality tests.	Returned migrants should be provided with soft loans to establish domestic and small-scale industries. They should also be encouraged to practice forced savings.
20	Joshi (2022)	Remittance, export, import, inflation,	Ordinary least squared (OLS) regression method.	The results revealed that remittances, money supply, import trade, and budget deficit have a positive impact on inflation, whereas real gross domestic product has a negative impact.
21	Dahal (2022)	GDP, remittance, Money supply.	Econometrics Model. SVAR.	Most macroeconomic variables do not respond to changes in the policy rate; moreover, the money supply's reaction to a positive inflation shock is not significant, posing additional challenges for policymakers in Nepal.
22	Suhendra and Malini (2022)	Dow Jones Index, interest rates, exchange rates, inflation and Composite Stock Price Index (CSPI).	Multiple linear regression analysis approach	The Dow Jones Index, interest rates, and inflation exert significant positive effects on the Composite Stock Price Index (CSPI), while the exchange rate has a significant negative impact on the CSPI.

23	Zarate-Hoyos (2022)	American and Peruvian macroeconomic variables and Peruvian remittances flow.	Vector of error correction (VEC).	The study found evidence of co-integrated variables and identified a structural break. It also confirmed that the "self-interest" motive for remittances, such as investment purposes, predominates over the "altruistic" motive, like family support.
24	Ngumba (2022)	GDP, inflation, real effective exchange rate and Diaspora remittances.	Autoregressive Distributed Lag (ARDL) model.	A long-run relationship exists between the variables, with remittance growth declining as GDP growth increases.
25	Jijin et al. (2022)	Exchange rate, oil price, domestic GDP and Remittance flows.	ARDL approach	Exchange rate, oil price, and domestic GDP substantially impact remittance flows in India. Remittances in the Indian context are not countercyclical, meaning they do not necessarily increase during economic downturns.
26	Acharya and Paudel (2021)	Remittance and Economic growth rate	Augmented Dickey Fuller Unit Test (ADF)	Empirical results indicate that investment and consumption have a statistically significant and positive effect on Nepal's economic growth. In contrast, remittances and government expenditure exhibit a positive but statistically insignificant effect on GDP. The residuals from the analysis are homoscedastic, free from serial correlation, and normally distributed.
27	Banjara et al. (2020)	Remittance and Economic growth rate	Regression analysis and Descriptive research design.	Remittances are found to have a positive association with human capital formation and financial development in Nepal, while exerting a negative impact on productivity and international trade.

28	Chhetri et al. (2020)	Remittance, GDP and FDI,	Multiple Regression analysis and Descriptive research design.	The results showed an insignificant relationship between remittance inflows and the increase in agricultural land.
29	Dangal and Ghimire (2020)	Remittance and inflation,	Descriptive statistics and correlation.	Remittances showed a strong positive association with the national gross domestic product (GDP) and a positive, though weaker, association with inflation. In the short run, increasing remittance inflows benefit the economy by boosting household consumption and reducing poverty. However, in the long run, they may potentially contribute to economic decline.
30	Sah (2019)	GDP, Remittance and Inflation	Correlation analysis	Nepal's economy heavily depends on remittances, making it a migration-driven economy.
31	Dahal et al. (2019)	Inflation and Remittance	Time series data and employs an error correction model (ECM)	The findings indicate that remittance inflows help reduce the domestic inflation rate.
32	Kaphle (2018)	Remittance and Economic growth	Time series econometric techniques; unit root, co-integration and error correction mechanism	The results confirm a long-run relationship between remittances, trade, and economic growth. However, while no short-run causal relationship exists between remittances and economic growth, trade demonstrates a significant short-run impact on GDP during the period analyzed.

2.3 Research Gap

Although research on the factors influencing remittance flows has expanded, many questions remain unanswered regarding the long-term impact of key macroeconomic variables such as money supply, GDP, imports, exports, and inflation on remittance

inflows. Most existing studies tend to focus on short-term analyses or country-specific case studies with limited time frames, thereby inadequately capturing the structural and dynamic relationships that evolve over extended periods.

Furthermore, comparatively few studies treat remittance flows as the dependent variable to specifically analyze how macroeconomic conditions affect remittance behavior, while the majority focus on remittances as an explanatory variable influencing economic growth. There remains limited understanding of how macroeconomic stability or volatility shapes migrants' decisions to remit, especially across different phases of the economic cycle.

A long-term, multivariate study with remittance as the dependent variable and key macroeconomic indicators as independent variables presents a valuable opportunity to address this gap, especially given the availability of 30 years of macroeconomic data. By employing this approach, policymakers can gain deeper insights into how both domestic and international economic trends influence migrant remittance behavior, providing more robust evidence of the structural and causal relationships between macroeconomic conditions and remittance flows.

CHAPTER III
RESEARCH METHODOLOGY

A structured way to address a research problem was through research methodology. This was considered a field of study that focused on the methods used in scientific research. It explored the reasoning behind various research methods and clarified why certain approaches were chosen. It helped assess the appropriateness, validity, and reliability of the research. Without proper research methods, understanding the rationale for the study would have been challenging. The chosen methodology was used to achieve the objectives of the research.

3.1 Research Design

Both descriptive and causal research designs were employed in the study. The descriptive research design was used to identify the qualitative factors influencing remittance, while the causal research design was applied to explore the cause-and-effect relationships between independent and dependent variables. Additionally, regression and correlation analyses were conducted. The data spanned from the year 1994/95 to 2023/24 A.D.

3.2 Population and Sample, Sampling Method

The population of the study referred to the focus group, which was also the group for which data from Nepal Rastra Bank (NRB, 2023) could be widely applied. The study employed purposive sampling, selecting data from a 30-year period, spanning from 1994/95 to 2023/24.

3.3 Nature and Source of Data

The study was based on secondary data, which was sourced from the Ministry of Finance (MOF), Nepal Stock Exchange (NEPSE), Securities Board of Nepal (SEBON), and Nepal Rastra Bank (NRB). Data from NRB were used for the dependent variable (Remittance) and the independent variables (money supply, inflation rate, imports, GDP, and exports). Additionally, other relevant data were obtained from publications, including books, pamphlets, periodicals, journals, newspapers, and various schools of thought.

3.4 Method of Analysis

Data analysis was conducted based on the available data pattern. To meet the study's objectives, graphical and regression analysis tools were employed.

Descriptive Statistics

Descriptive statistics were concise numerical summaries that provided an overview of a given data set, which could represent either the entire population or a sample. These statistics were categorized into measures of central tendency and measures of variability (spread). Measures of central tendency included the mean, while measures of variability encompassed the standard deviation.

Mean

The arithmetic mean was the most commonly used measure to represent an entire data set with a single value. It was calculated by dividing the sum of all items by the total number of items. The mean values of different variables represented the average value over the study period.

Standard deviation

Dispersion referred to the extent to which individual items varied from a central value. The standard deviation was used to measure this absolute dispersion. A higher standard deviation indicated greater dispersion, while a smaller standard deviation suggested a higher degree of uniformity and homogeneity within the data. In this study, the standard deviation was calculated for several variables, including earnings per share, dividend per share, dividend payout ratio, retained earnings, market value per share, dividend yield ratio, and price-to-earnings ratio.

Coefficient of determination (r^2)

The coefficient of determination was a measure of the degree of linear relationship or correlation between two variables, where one was independent and the other was dependent. In other words, it quantified the percentage of total variation in the dependent variable that could be explained by the independent variable. The value of the coefficient of determination ranged from 0 to 1. A value of 1 occurred only if there was no unexpected variation, meaning that all data points in the scatter plot lay precisely on the regression line.

Regression analysis

Regression analysis indicated the direction of movement between variables but did not provide information about the relative movement of those variables. In this study, remittance was the dependent variable, while money supply, GDP, inflation rate, exports, and imports were treated as independent variables. In multiple regression analysis, methods such as least squares, standard error of estimate, and multiple coefficients of determination were used to analyze these relationships.

Model 1

$REM = \beta_0 + \beta_1 MS + \beta_2 GDP + \beta_3 INF + \beta_4 EXP + \beta_5 IMP.....+ e_t$

Where,

REM = Remittance

MS = Money Supply

GDP = Gross Domestic Product

INF = Inflation Rate

EXP = Export

IMP = Import

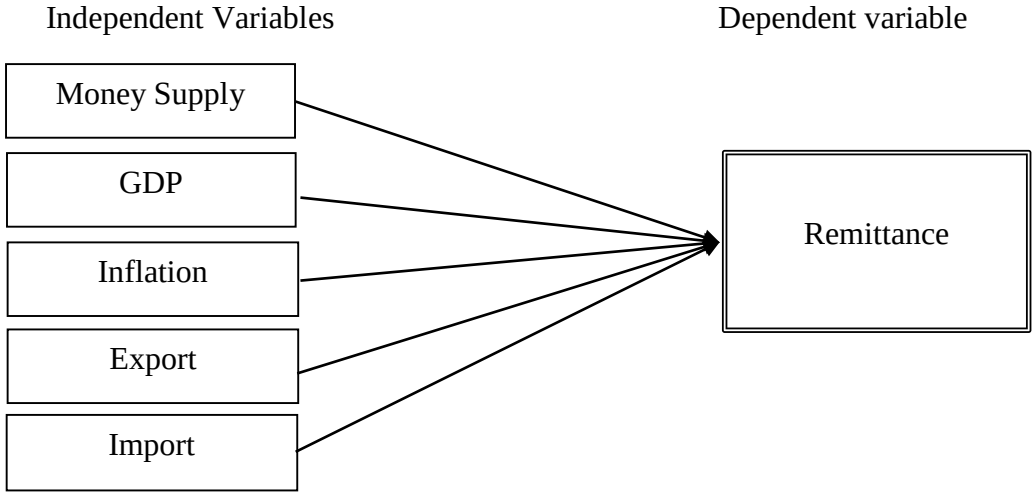
β_0 = Constant when all independent variables are Zero

$\beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 + \ldots.$ = Corresponding coefficients

3.5 Research Framework

Figure 1

Conceptual Framework



(*Source:* Mohammad, 2017)

Definition of Variables

Money Supply

The money supply refers to the total amount of cash and other liquid assets in an economy at a specific point in time. It includes all available currency and bank deposits that can be easily converted into cash by an account holder (Keray, 2009).

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the key indicator used to assess a nation's economic health. It represents the total output produced by all individuals and businesses within a country, regardless of whether they are foreign-owned or domestic. As long as the production occurs within the country's borders, it is considered part of the GDP (Erdugan, 2018).

Inflation rate

The inflation rate refers to the rate at which the price of goods and services fluctuates over time. Rising prices tend to reduce bank profitability, creating an inverse relationship between inflation and profitability (Kunt & Maksimovic, 1996).

Export

Exports are goods and services produced in one country and sold to buyers in another. Along with imports, exports constitute international trade. Countries often look beyond their geographical borders to tap into global markets, seeking increased revenue and more transactional opportunities (Hussain, 2002).

Import

An import refers to a good or service purchased by one country but produced in another. Together, imports and exports form the basis of international trade. When the monetary value of a nation’s imports surpasses that of its exports, it results in a negative trade balance, commonly known as a trade deficit (Hussain, 2002).

Remittance

Remittance is the transfer of money from one individual or group to another, typically referring to funds sent to family members in another country. For example, a person living

and working in the U.S. may send money to their family in a less affluent nation, where such remittances often serve as an important source of financial support (Monti, 2012).

CHAPTER IV

RESULTS AND DISCUSSION

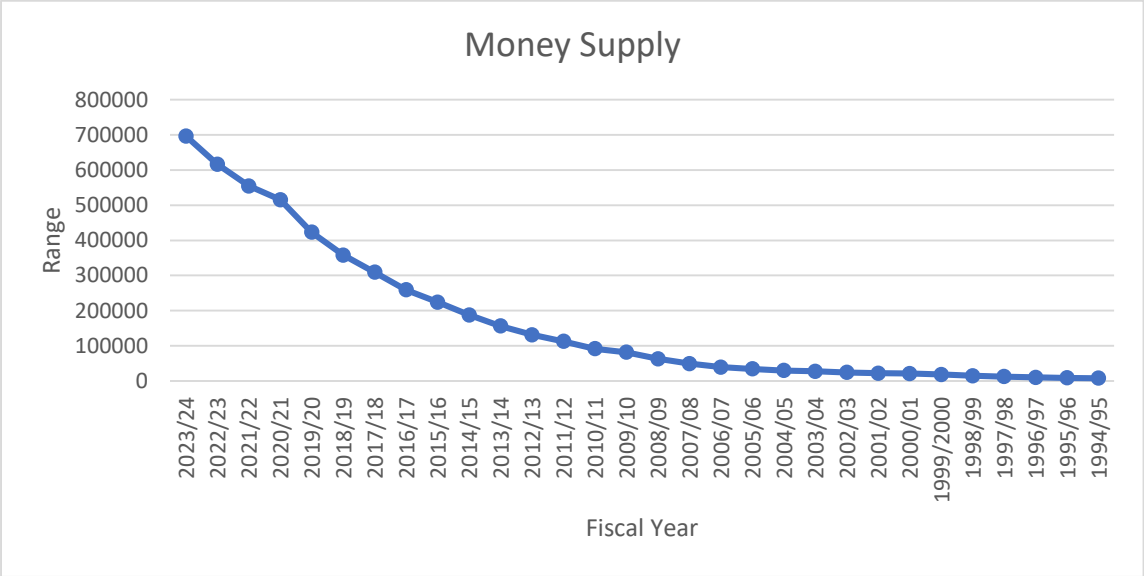
This chapter presents the data gathered for the variables used in the study, with each variable illustrated in separate figures. To address the research questions, the data were analyzed using various statistical tools. Descriptive statistics, such as the mean and standard deviation, were computed to explain the macroeconomic variables influencing remittance.

4.1 Trend Analysis

4.1.1 Trend Analysis of Money Supply

Figure 2

Trend Analysis of Money Supply



Source: Calculation using Excel

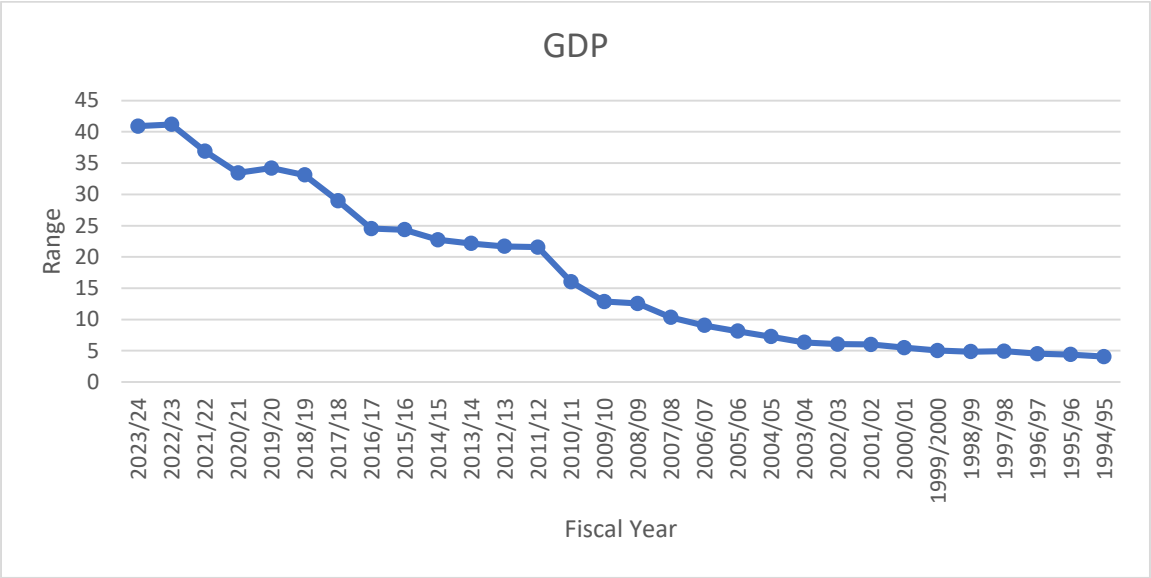
The data shows a continuous and substantial rise in the money supply, increasing from 8,098.47 at the start to 696,396.3 at the end, with no year recording a decline. Growth is moderate in the early phase, from 8,098.47 to around 30,044, suggesting an initial development stage, then accelerates between 30,044 and 113,030.23 due to stronger economic activity or policy measures, and becomes more rapid thereafter, indicating robust expansion, increased liquidity, or possible inflationary pressures. This sustained upward trend likely reflects expansionary monetary policies, greater lending and credit creation, and economic growth requiring more currency in circulation, while the sharp rise in recent

years hints at intensified policy interventions or potential economic overheating, raising concerns about inflation control and monetary policy effectiveness.

4.1.2 Trend Analysis of GDP

Figure 3

Trend Analysis of GDP



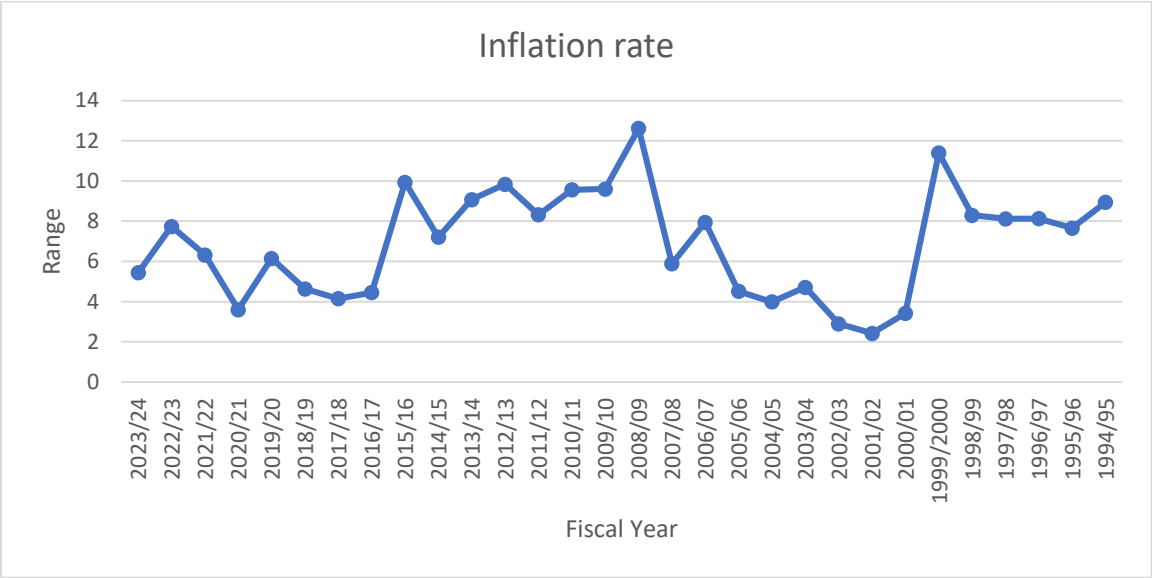
Source: Calculation using Excel

The GDP data starts relatively high at 40.91, reaching a slight peak at 41.18 before beginning a gradual yet consistent decline. From this peak, GDP falls to 36.92 and continues its downward trajectory with minor fluctuations along the way. There are a few short-lived increases, such as a rise from 33.43 to 34.19, but these do not alter the overall trend. By the middle of the dataset, GDP drops significantly to around 16, after which it continues to fall. In the later period, the values stabilize in the lower range of about 4–5, eventually ending at 4.07. This pattern reflects a clear and prolonged downward trend in GDP over time, with the decline appearing steady rather than sharp at any single point. Such a sustained decrease, without signs of lasting recovery, points to the possibility of long-term structural challenges rather than a temporary economic shock. It could indicate a shrinking economy, a continuous reduction in economic activity, or diminishing returns in a particular sector or across the economy as a whole. Overall, the data suggests a consistent and extended economic slowdown, starting from over 40 and gradually decreasing to just above 4, with only minor and temporary interruptions to the declining path.

4.1.3 Trend Analysis of Inflation

Figure 4

Trend Analysis of Inflation Rate



Source: Calculation using Excel

The inflation rate in the dataset shows considerable fluctuation, with values ranging from a low of 2.4% to a high of 12.62%. It begins at a moderate 5.44%, rises to 7.74%, and then drops to 3.6%, indicating early volatility but generally moderate inflation in the initial years. From Year 5 (6.15%) to Year 15 (9.6%), there is an overall upward trend, culminating in a peak of 12.62% in Year 16, which may reflect an inflationary shock or economic crisis during that period. Following this peak, inflation declines sharply to 5.89% and then fluctuates within the 4–8% range, suggesting a period of correction. Eventually, the rate dips to between 2.4% and 3.4%, marking the lowest levels recorded in the dataset. This pattern indicates alternating cycles of inflationary pressure and correction, with one significant spike followed by a sustained downward adjustment.

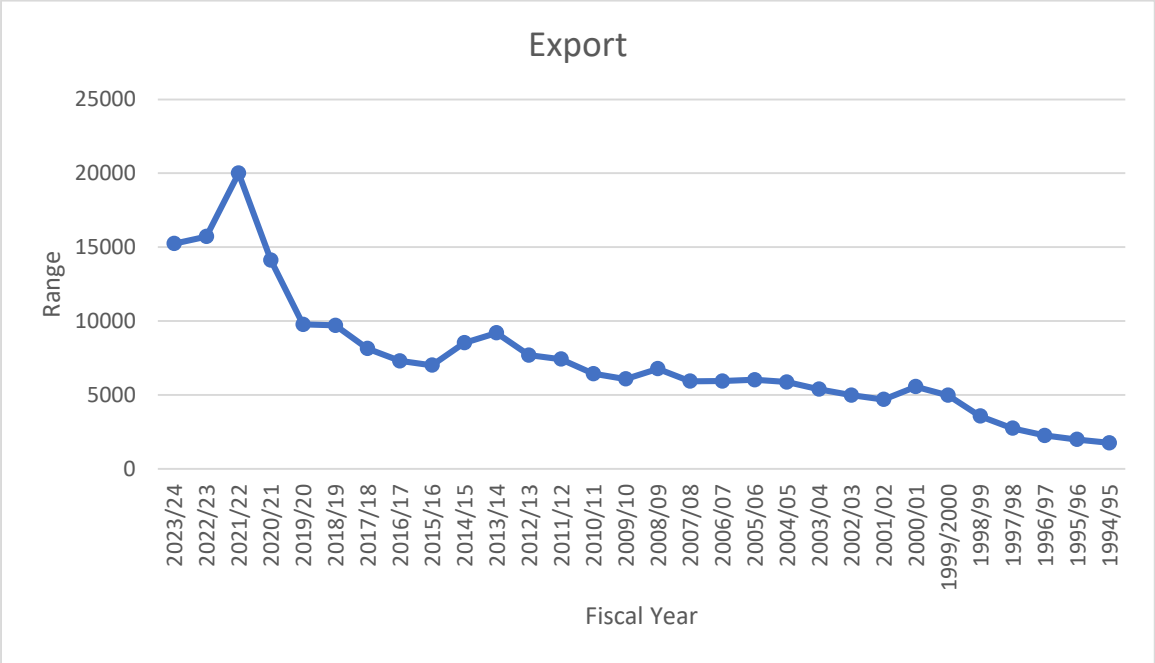
The inflation data reflects a cyclical pattern characterized by alternating periods of sharp increases and subsequent corrections. Initially, inflation remains moderate, followed by an upward trend that peaks around Year 16 at 12.62%, likely indicating an inflationary shock or crisis. This is followed by a sharp decline to historically low levels of 2.4–3.4% during Years 23–25, suggesting a period of controlled inflation that may have supported economic stability. However, inflation rises again sharply to 11.39% in Year 26 and remains elevated around 8–9%, signaling a resurgence of inflationary pressures in the most recent period.

These fluctuations, with two significant peaks in Years 16 and 26, suggest the economy has been influenced by external shocks—such as oil price volatility, political instability, or supply chain disruptions—along with shifts in monetary policy and global economic cycles. The renewed rise after a low-inflation phase points to potential structural vulnerabilities or the impact of global factors, including post-pandemic recovery effects and supply chain constraints, contributing to sustained upward pressure on prices.

4.1.4 Trend Analysis of Export

Figure 5

Trend Analysis of Export



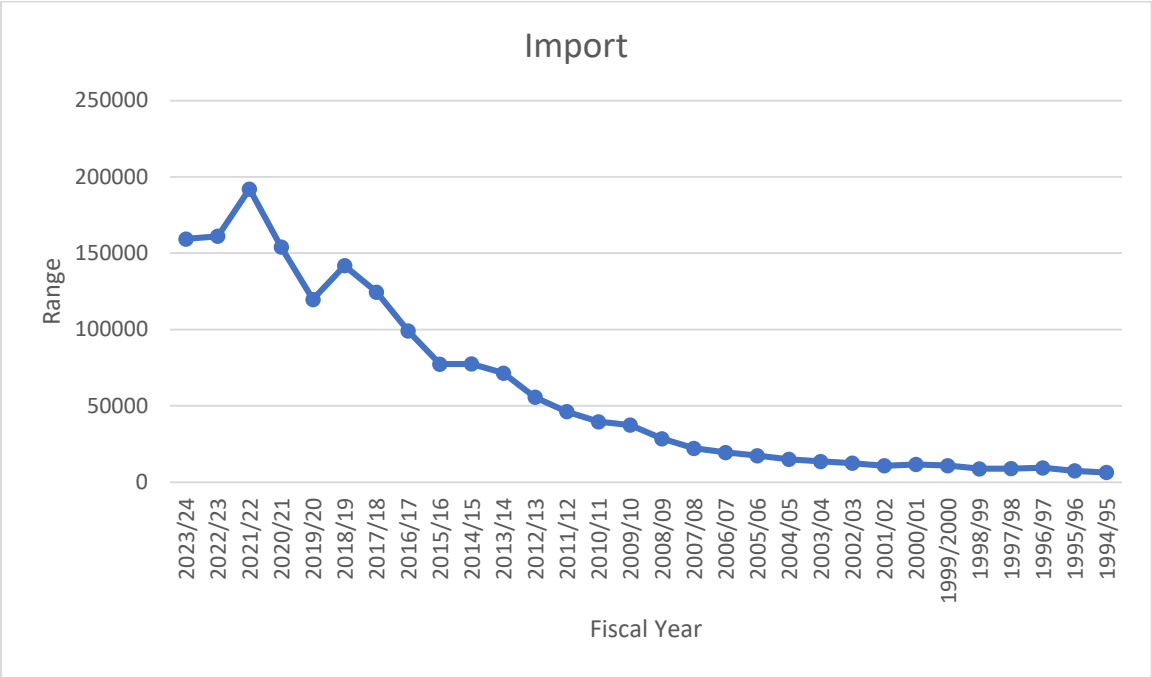
Source: Calculation using Excel

The export data shows an initial phase of strong growth, peaking at 20,003.1, before entering a sharp and prolonged decline. Post-midpoint, values drop from around 5,000 to 1,763.92, reflecting a clear and sustained downward trend. While occasional spikes suggest brief periods of recovery, these gains proved unsustainable. The latter years are marked by a fairly consistent decrease, pointing to structural challenges in maintaining export performance. This pattern suggests that after the early years of momentum, significant factors—such as policy shifts, external shocks, reduced global demand, or competitiveness issues contributed to the persistent decline, leaving exports far below their peak by the end of the observed period.

4.1.5 Trend Analysis of Import

Figure 6

Trend Analysis of Import



Source: Calculation using Excel

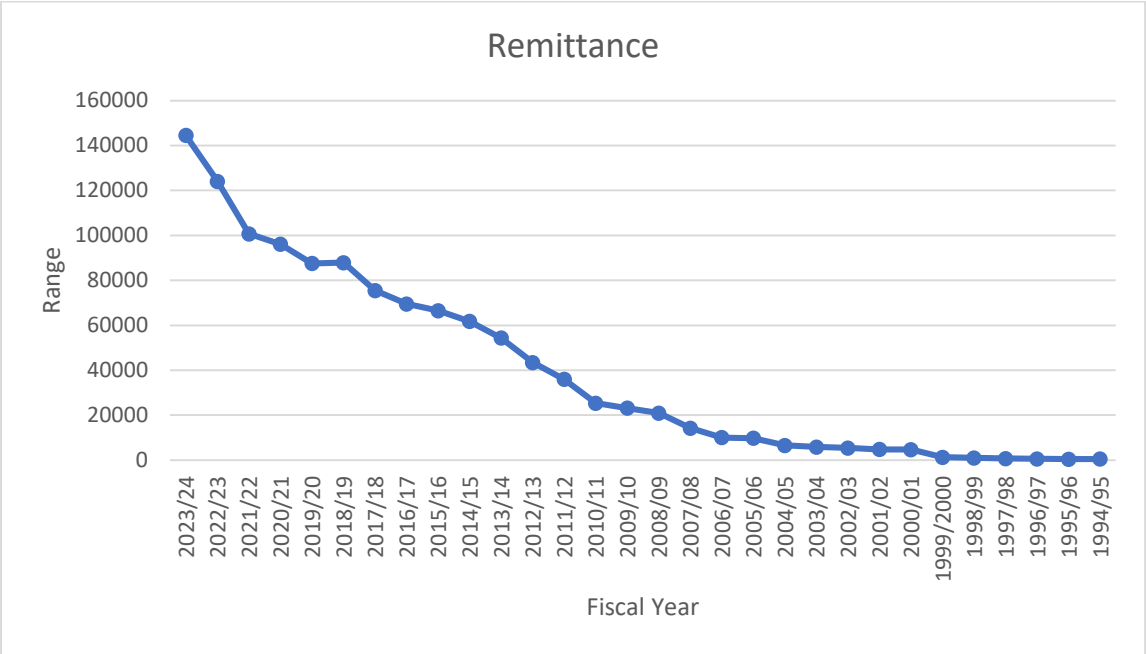
The data shows an initial growth phase, with values rising from 159,298.55 to a peak of 192,044.84, indicating a period of expansion. This is followed by a steady decline from 153,983.71 down to 99,011.32, which may reflect external influences such as policy changes, economic downturns, or reduced demand. The downward trend continues from around 77,359.91 to 46,166.77, though the rate of decline begins to slow. Finally, there is a gradual decrease from 39,617.55 to approximately 12,435.21, possibly suggesting a contracting market or that imports are being substituted by increased domestic production.

The import data reveals a significant and sustained decline over the period, with values starting high and even experiencing slight growth before entering a prolonged downward trend. Ending values are quite low, ranging from 10,738.9 down to 6,367.95, suggesting the decline is approaching a stable low point. Early fluctuations and peaks give way to a steady decrease, indicating a substantial reduction in import reliance over time. This pattern likely reflects structural changes in trade dynamics, possibly due to shifts in economic policy, increased domestic production, or evolving production strategies that have reduced the need for imports in the later years.

4.1.6 Trend Analysis of Remittance

Figure 7

Trend Analysis of Remittance



Source: Calculation using Excel

The remittance data, likely representing yearly amounts, starts at a high value of 144,531.51 and declines sharply to about 506.36 by the end, showing a clear overall downward trend. In the first half, there is a rapid decrease from 144,531.51 to 43,458.17 over roughly 12 data points, suggesting a major policy change, economic shift, or reduced inflows. Following this, the decline continues from 43,458.17 down to approximately 4,721.61 but at a more gradual pace, indicating a slower reduction in remittance amounts during the latter period.

The data suggests a period of stabilization, albeit with continued negative growth, as remittance values flatten out at a much lower range of around 500–1,000. The final years show consistently low and nearly stable figures, reflecting a clear long-term decline in remittance flows. The initial rapid decrease could be attributed to external factors such as economic crises, shifts in labor migration patterns, or changes in international policies. Although the decline slows over time, indicating some adjustment or ongoing pressure, remittances have not recovered and have settled at a significantly reduced volume. This

trend may also reflect economic downturns in the countries from which remittances originate.

4.2 Descriptive Analysis

Table 2 presents the descriptive statistics for all the variables used in the study. It provides a summary of each variable analyzed, with the mean and standard deviation displayed in columns two through five in sequential order.

Table 2

Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
LN Money Supply	9.00	13.45	11.2150	1.40713
LN GDP	1.40	3.72	2.5500	.80253
Inflation Rate	2.42	12.62	6.9003	2.65344
LN Export	7.48	9.90	8.7517	.57650
LN Import	8.76	12.17	10.4247	1.12200
LN Remittance	6.06	11.88	9.5437	1.84971

Source Appendix I

The descriptive statistics table shows the range, central tendency, and variability of six economic variables. Money Supply ranges from 9.00 to 13.45, with a mean of 11.2150 and a standard deviation of 1.40713, indicating moderate variation over the observed period. GDP has a smaller spread, ranging from 1.40 to 3.72, with a mean of 2.5500 and a lower variability (SD = 0.80253), suggesting relatively stable growth. Inflation Rate fluctuates more widely, between 2.42 and 12.62, with a mean of 6.9003 and the highest variability among the variables (SD = 2.65344), showing considerable price instability. Exports remain comparatively consistent, ranging from 7.48 to 9.90 (mean = 8.7517, SD = 0.57650). Imports have a wider range (8.76–12.17) with a mean of 10.4247 and moderate variability (SD = 1.12200), reflecting notable fluctuations in import levels. Remittance shows substantial variation, ranging from 6.06 to 11.88, with a mean of 9.5437 and a relatively high standard deviation of 1.84971, indicating significant changes in inflow patterns. Overall, the data suggests that inflation and remittance experience the highest volatility, while exports and GDP are comparatively more stable.

4.3 Correlation Analysis

Table 3 presents the correlations among the variables used in the study. When variables are correlated, it suggests that at least one may influence the other. This table displays the Karl-Pearson correlation coefficients for the variables analyzed, with the corresponding p-values shown in parentheses. The following section provides a detailed presentation of these variables.

Table 3

Pearson's correlation

Variables	LN MS	LN GDP	INF	LN Exp.	LN Imp.	LN REM
Money Supply (MS)	1					
Sig. (2-tailed)						
GDP	.991**	1				
Sig. (2-tailed)	.000					
Inflation rate (INF)	-.112	-.046	1			
Sig. (2-tailed)	.557	.811				
Export (Exp.)	.920**	.889**	-.181	1		
Sig. (2-tailed)	.000	.000	.340			
Import (Imp.)	.994**	.992**	-.085	.894**	1	
Sig. (2-tailed)	.000	.000	.654	.000		
Remittance (REM)	.963**	.958**	-.138	.927**	.948**	1
Sig. (2-tailed)	.000	.000	.468	.000	.000	

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

Money Supply (MS) has a very strong and statistically significant positive correlation with GDP (r = 0.991, p = 0.000), Export (r = 0.920, p = 0.000), Import (r = 0.994, p = 0.000), and Remittance (r = 0.963, p = 0.000). This suggests that increases in money supply are closely associated with growth in these variables. However, MS has a weak negative correlation with Inflation (r = –0.112, p = 0.557), which is not statistically significant. GDP is also strongly and significantly positively correlated with Export (r = 0.889, p = 0.000), Import (r = 0.992, p = 0.000), and Remittance (r = 0.958, p = 0.000), indicating that higher GDP tends to accompany greater trade activities and remittance inflows. Its correlation with Inflation is weak and negative (r = –0.046, p = 0.811), showing no significant link.

Inflation (INF) shows weak and negative correlations with all variables (MS, GDP, Export, Import, and Remittance), none of which are statistically significant. This indicates that inflation rates in this dataset do not exhibit a meaningful relationship with these economic indicators. Export (Exp.) has a strong and significant positive correlation with Import ($r = 0.894$, $p = 0.000$) and Remittance ($r = 0.927$, $p = 0.000$), suggesting that higher exports are linked to greater imports and remittance inflows. Import (Imp.) also shows a strong and significant positive correlation with Remittance ($r = 0.948$, $p = 0.000$), meaning that larger remittance inflows are associated with higher imports. Overall, the analysis highlights that MS, GDP, Exp., Imp., and REM are highly interlinked, while Inflation appears to be an outlier with negligible association with other variables.

4.4 Regression Analysis

The primary purpose of the regression analysis was to assess how the independent variables in the study influenced the dependent variable. Specifically, the analysis aimed to test the hypotheses and examine the impact of Money Supply, GDP, Inflation Rate, Export, and Import on remittance.

Table 4

Model Summary of Remittance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.976a	.953	.944	.43874

a. Predictors: (Constant), Money Supply, GDP, Inflation Rate, Export, Import

Table 4 shows the R^2 value, which represents the percentage of variation in remittance explained by the independent variables. The adjusted R^2 is considered a more reliable statistic as it accounts for the sample size and the number of predictors in the model. It helps assess the reliability of the correlation and the contribution of adding independent variables. Here, the R^2 value is 0.953, indicating that 95.30% of the variation in remittance is explained by Money Supply, GDP, Inflation Rate, Export, and Import.

Table 5

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94.601	5	18.920	98.289	.000b
	Residual	4.620	24	.192		
	Total	99.221	29			

a. Dependent Variable: Remittance

b. Predictors: (Constant), Money Supply, GDP, Inflation Rate, Export, Import

Table 5 (ANOVA) provides an overall summary of the relationship between the dependent variable and the independent variables. It indicates that the impact of the independent variables money supply, GDP, inflation rate, export, and import on the dependent variable, Remittance, is statistically significant at the 0.05 significance level, with a p-value of 0.000.

Table 6

Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.391	4.676		.725	.475
	LN Money Supply	.327	.837	.248	.390	.700
	LN GDP	2.713	1.017	1.177	2.667	.013
	Inflation rate	-.044	.036	-.064	-1.250	.223
	LN Export	1.007	.434	.314	2.317	.029
	LN Import	-1.240	.810	-.752	-1.530	.139

a. Dependent Variable: Remittance

Source: Appendix III

Regression analysis output: coefficient

The linear equation of this model is,

$Y = a + b_1X_1+b_2X_2+b_3X_3+b_4X_4+b_5X_5$

Remittance = 3.391 + 0.327 MS + 2.713 GDP – 0.044 INF + 1.007 Exp. – 1.240 Imp.

The regression analysis demonstrates that the model effectively explains variations in remittance, as reflected by the significance of the coefficients. The negative coefficient (-14.325) suggests that, without the influence of money supply, GDP, inflation, export, and import, remittance would have a large negative baseline. Its statistical significance ($p < 0.05$) indicates that this intercept is meaningful in the model. Money supply has a positive and strong impact on remittance. For every one-unit increase in money supply, remittance is expected to rise by 2.547 units, holding other variables constant. The large standardized coefficient ($\beta = 1.938$) shows it has a strong relative importance compared to other predictors. Its significance ($p < 0.05$) confirms this relationship is not due to chance. GDP has a negative and significant effect on remittance. A one-unit increase in GDP reduces remittance by 0.121 units, keeping other factors constant. The standardized coefficient ($\beta = -0.812$) indicates it has a relatively large negative influence. This might reflect that as the domestic economy grows, dependence on remittances tends to decline.

Inflation rate shows a very small and statistically insignificant negative effect on remittance. The tiny coefficient and high p-value (> 0.05) imply that changes in inflation do not meaningfully influence remittance in this model. Exports have a small, positive but insignificant impact on remittance. This suggests that an increase in exports is not strongly related to changes in remittance, likely because remittance inflows are more driven by labor migration patterns than trade performance. Imports have a negative but insignificant effect on remittance. The result implies that increases in imports do not significantly alter remittance inflows, possibly because remittances are used for household consumption rather than being directly tied to import volumes. The model shows that money supply and GDP are the key significant predictors of remittance flows, with money supply having a strong positive effect and GDP having a strong negative effect, while inflation, exports, and imports do not have a statistically significant impact.

4.5 Discussion

In line with the study's objectives, remittance is analyzed in relation to key macroeconomic variables. The independent variables considered include money supply, inflation rate, imports, GDP, and exports. Both statistical and financial methods have been employed to measure and compare these macroeconomic factors with remittance.

The analysis shows that money supply has a strong and statistically significant positive effect on remittance inflows, with a coefficient of 2.547 and a highly significant p-value of 0.0001. This suggests that increases in money supply are closely linked to higher remittance levels. A possible explanation is that a larger money supply improves liquidity in the economy and supports the growth of financial institutions and infrastructure, making it easier and more efficient for individuals to send and receive remittances, which in turn encourages greater volumes of these transfers.

The correlation analysis reveals strong and statistically significant positive relationships among money supply, GDP, export, import, and remittance at the 0.01 level, indicating these variables move closely together. Money supply shows an almost perfect positive correlation with imports and GDP, suggesting that increases in money supply are linked to higher economic output and trade activities. Similarly, remittances are strongly correlated with money supply and imports, highlighting their important role in driving consumption and trade. Exports also maintain significant positive correlations with money supply and remittances, reflecting the interconnectedness between trade performance and capital inflows. In contrast, the inflation rate exhibits weak and negative correlations with all variables, indicating that changes in price levels have minimal association with money supply, GDP, trade, and remittances in this context.

Overall, these findings underscore that monetary expansion, economic growth, remittances, and trade variables are closely linked, forming a robust network of economic interdependencies, consistent with conclusions drawn by Pandey, Risal, and Chauhan (2020). They also identified a comparable relationship between GDP and remittance flows. Nevertheless, this finding is not consistently confirmed across existing studies. For instance, research by Ukamaka (2021) and Panthi (2022) presents contrasting results, suggesting that the connection between GDP and remittances may differ depending on regional, structural, or time-related factors. Such variations highlight the complexity of the economic dynamics at work and emphasize the necessity for additional research to fully comprehend the underlying processes.

The regression analysis reveals that money supply and GDP significantly affect remittance inflows, whereas inflation rate, export, and import do not show statistically significant impacts. The positive coefficient for money supply ($B = 2.547$, $p < 0.001$) indicates a strong

association between increased money supply and higher remittance inflows. In contrast, GDP has a significant negative effect ($B = -0.121$, $p < 0.001$), suggesting that rising GDP corresponds with a decline in remittance inflows, possibly because better domestic economic conditions reduce dependence on foreign earnings. This finding contrasts with the study by Akter and Rahman (2023) but aligns with the conclusions of Suhendra and Malini (2022). Meanwhile, inflation rate, export, and import show insignificant relationships with remittance ($p > 0.05$), indicating they do not substantially explain remittance variations within the model. Overall, these results emphasize the greater importance of monetary factors over trade or price-level variables in influencing remittance inflows. The lack of significance for these variables concurs with previous studies by Paterson et al. (2023) and Devkota (2019), who also found limited or no direct effect of these macroeconomic indicators on remittance patterns.

Overall, the findings highlight the crucial role of domestic monetary conditions and economic performance in influencing remittance inflows. Policymakers seeking to boost remittance receipts should prioritize creating a stable and accessible financial environment. The lack of significance for inflation, imports, and exports suggests that remittance flows are more responsive to internal monetary policies and the overall economic health than to external trade factors or inflationary pressures.

CHAPTER - V

SUMMARY AND CONCLUSION

5.1 Summary

The study explores the impact of macroeconomic variables on remittance inflows. To achieve its objectives, both descriptive and causal-comparative research methods were employed. A comprehensive review of relevant literature including books, journals, essays, earlier studies, and theoretical analyses was conducted. Using a descriptive and exploratory research design, the patterns and status of both dependent and independent variables were examined. The causal effects of money supply, inflation rate, imports, GDP, and exports on remittance were assessed through regression analysis and other financial techniques. The study utilized secondary data obtained from official annual reports spanning a thirty-year period, from 1994/95 to 2023/24.

During the study period, secondary data were analyzed using various statistical and financial tools, including weighted averages and percentage analysis. The first chapter addresses the main research question, provides the overall context, offers a brief description of the sample banks, outlines the problem statement, states the objectives and rationale of the investigation, and discusses the study's limitations. The second chapter focuses on the theoretical analysis, presenting a summary of relevant and related literature. It also includes a description of the conceptual framework and an overview of key research in the field.

The third chapter outlines the study's research methodology, covering topics such as the definition of statistical tools, research design, data sources, analysis techniques, and the evaluation of financial indicators and variables. The fourth chapter presents and analyzes data using statistical tools and methods to highlight the quantitative aspects of dividend policy, and also includes related discussions. The fifth chapter offers a summary, conclusion, and implications of the study. Additionally, it provides recommendations and, where possible, compares them with existing empirical evidence.

5.2 Conclusion

The study's findings indicate that money supply, inflation rate, imports, GDP, and exports are all interconnected and exhibit a linear relationship with remittance. The regression analysis, conducted using the least squares method, assessed the impact of these selected

macroeconomic variables on remittance inflows. Among them, money supply and GDP demonstrated statistically significant relationships with remittance at conventional significance levels—money supply showing a positive correlation, while GDP exhibits a negative correlation with remittance.

The correlation analysis indicates that remittance has a strong and significant positive relationship with money supply, GDP, export, and import, while its correlation with inflation is weak and not significant. Among the independent variables, money supply, GDP, and remittance show the highest correlations, reflecting their close connection. However, regression results reveal that only money supply and GDP have a significant impact on remittance, with money supply exerting a strong positive effect and GDP a negative one. Inflation, export, and import do not significantly affect remittance, suggesting their limited influence on remittance inflows. Overall, these findings emphasize the critical role of monetary and economic growth factors in shaping remittance, while trade and inflationary factors appear less influential.

Other variables, such as inflation rate, import, and export, do not show statistically significant effects within the model. The overall model is statistically significant, as evidenced by the F-statistic. Moreover, the Durbin-Watson statistic indicates the possibility of autocorrelation, which should be addressed in further analysis. These results offer insight into which economic indicators are more closely associated with remittance behavior in the context studied. Additionally, remittance exhibits a linear relationship with money supply, inflation rate, import, GDP, and export.

5.3 Implications

The findings of this study carry significant implications for policymakers, financial institutions, and development agencies in Nepal. Firstly, the strong link between macroeconomic stability and remittance inflows highlights the importance of maintaining sound fiscal and monetary policies. Controlling inflation, ensuring stable exchange rates, and fostering sustainable economic growth both in Nepal and in key labor destination countries are crucial factors that directly affect the volume of remittance inflows.

Secondly, because remittances are a vital source of foreign exchange and household income, any macroeconomic instability threatens not only individual livelihoods but also Nepal's overall economic resilience. Therefore, policymakers should focus on fostering a favorable investment environment that encourages the productive use of remittance funds—shifting from mere consumption to investments in infrastructure, education, and entrepreneurship.

Thirdly, the study indicates that external factors like global oil prices, interest rates in host countries, and geopolitical tensions significantly influence remittance trends. To reduce risks associated with heavy reliance on a limited number of countries, it is crucial for Nepal to diversify its labor migration destinations and reinforce bilateral labor agreements.

Lastly, improving financial inclusion and upgrading the remittance transfer system can help maximize the developmental benefits of remittances. Reducing transfer costs and encouraging the use of formal channels will ensure that a greater portion of remittance funds supports Nepal's economic growth, while also protecting the financial well-being of households receiving remittances.

Nepalese investors generally lack familiarity with effective investment strategies. Therefore, investment plans should be clearly communicated to them, grounded in a proper assessment of risks and returns. Investors need to be aware of their own strengths, weaknesses, and risk tolerance to gain a competitive edge through thorough stock analysis and forecasting. Since many Nepalese investors have limited knowledge of stock markets, there is a need for continuous research and analysis of the securities market, alongside investor education and awareness programs. Establishing an academy dedicated to institutional financial education services would further support dependable and sustainable capital mobilization.

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APPENDICES

Appendix I

Essential Information from World Bank and Nepal Rastra Bank

Money Supply	GDP	Inflation rate	Export	Import	Remittance
13.45	3.71	5.44	9.63	11.98	11.88
13.33	3.72	7.74	9.66	11.99	11.73
13.23	3.61	6.32	9.90	12.17	11.52
13.15	3.51	3.6	9.55	11.94	11.47
12.96	3.53	6.15	9.19	11.69	11.38
12.79	3.5	4.64	9.18	11.86	11.38
12.64	3.37	4.15	9.00	11.73	11.23
12.47	3.2	4.45	8.90	11.5	11.15
12.32	3.19	9.94	8.86	11.26	11.11
12.14	3.12	7.21	9.05	11.26	11.03
11.96	3.1	9.08	9.13	11.18	10.9
11.79	3.08	9.84	8.95	10.93	10.68
11.64	3.07	8.32	8.91	10.74	10.49
11.43	2.77	9.56	8.77	10.59	10.14
11.32	2.55	9.6	8.71	10.53	10.05
11.05	2.53	12.62	8.82	10.26	9.95
10.81	2.34	5.89	8.69	10.01	9.57
10.59	2.2	7.95	8.69	9.88	9.21
10.45	2.1	4.52	8.70	9.76	9.19
10.31	1.98	3.99	8.68	9.61	8.79
10.23	1.85	4.72	8.59	9.52	8.68
10.11	1.8	2.9	8.52	9.43	8.6
10.02	1.79	2.42	8.45	9.28	8.47
9.97	1.7	3.42	8.62	9.36	8.46
9.83	1.62	11.39	8.51	9.29	7.14
9.63	1.58	8.3	8.18	9.08	6.94
9.45	1.59	8.12	7.92	9.09	6.55
9.25	1.51	8.13	7.72	9.14	6.33
9.13	1.48	7.66	7.59	8.92	6.06
9	1.4	8.94	7.48	8.76	6.23

Source: www.nrb.com.np and www.worldbank.com

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