

**IMPACT OF REMITTANCES ON THE NEPALESE ECONOMY AND STOCK
MARKET**

*A Dissertation submitted to the Office of the Dean, Faculty of management in partial
fulfillment of the requirements for the Masters-Degree*

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled “Impact of Remittances on the Nepalese Economy and Stock Market” The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it 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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ABBREVIATIONS

ANOVA	Analysis of Variance
CV	Coefficient of Variation
GDP	Gross Domestic Product
MPS	Market price Per Share
NELM	New Economics of Labor Migration
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra Bank
OLS	Ordinary Least Squares
SPSS	Statistical Package for the Social Sciences

ABSTRACT

This study explores the profound impact of remittances on Nepal's economic growth and the performance of the Nepal Stock Exchange (NEPSE). Nepal, with a substantial portion of its Gross Domestic Product (GDP) fueled by remittances from abroad, presents a unique case to examine how these financial inflows from expatriates influence economic dynamics and financial markets within the country. This study aimed to dissect the correlation and causal relationships between remittances, GDP growth, and stock market performance in Nepal. Using robust statistical analysis, including regression and correlation methods, the research sought to identify patterns and quantify impacts that remittances have on economic indicators. The findings revealed a significant positive impact of remittances on NEPSE, suggesting that increased remittance inflows are associated with a buoyant stock market. The study hypothesized and confirmed that households receiving remittances are more likely to invest in the stock market, potentially increasing trading volumes and impacting overall market performance. Moreover, a strong correlation between remittances and GDP growth was observed, indicating that remittances substantially contribute to economic stability and growth, enhancing consumer spending and investment. Dependence on remittance inflows poses risks, including potential economic instability tied to fluctuations in global labor markets and political changes in host countries. The implications of this research are significant for policymakers, economists, and financial analysts. It provides empirical evidence supporting the utilization of remittances as a strategic tool for economic growth and financial sector development, advocating for policies that encourage investment of remittance funds into productive sectors and financial instruments. The study underscores the necessity of a nuanced approach in policy formulation, aimed at fostering an economic environment that can thrive on the benefits of remittances while being shielded from their potential adverse effects.

Keywords: Remittances, Economic Growth, NEPSE, GDP, Nepal, Stock Market Performance, Financial Inflows, Economic Policy

CHAPTER I INTRODUCTION

1.1 Background of the Study

Remittances, the money sent back home by nationals working abroad, have burgeoned into a cornerstone of financial inflow for many developing countries, offering a lifeline that not only supports individual families but also bolsters national economies. Nepal, a country where remittances constitute a significant chunk of its Gross Domestic Product (GDP), serves as a prime example of this global phenomenon. The reliance on remittances has grown over the years, especially as an increasing number of Nepalese workers migrate for employment opportunities in the Middle East, Malaysia, South Korea, and other regions, seeking to improve their livelihoods and those of their families back home (Shakya & Gonpu, 2023).

The economic narrative of Nepal is deeply intertwined with the flow of remittances, making it a critical area of study to understand the broader impacts on the nation's fiscal health and societal well-being. Remittances have been a stabilizing force in Nepal's economy, aiding in the balance of payments and enhancing foreign exchange reserves. This influx of foreign currency has not only helped stabilize the Nepalese rupee but also contributed to building a buffer against external economic shocks (Sharma & Chaudhary, 2019).

The influx of remittances into Nepal has transcended mere financial transactions, touching various aspects of daily life and contributing to socio-economic development. This capital flow has significantly influenced the standard of living by enabling better access to education, healthcare, and improved housing, thus playing a pivotal role in the country's human capital development (Pant, 2021). The economic cushion provided by remittances has also been instrumental in mitigating poverty levels across Nepal. The remittance economy has contributed to a notable decline in poverty, with funds being used for consumption, investment, and savings, which in turn stimulate local economies and promote economic resilience (Bhatta, et al., 2020).

The relationship between remittances and the Nepal Stock Exchange (NEPSE) is a complex

interplay that warrants detailed exploration. The hypothesis that remittance inflows can lead to increased investments in the stock market is based on the assumption that households with higher disposable income from remittances are more likely to invest in financial instruments, including stocks. This potential rise in investment could stimulate market activity, increase trading volumes, and impact the overall performance of the stock market, possibly leading to a bullish trend (Gurung & Pradhan, 2018).

The intricacies of how remittances affect the Nepalese economy extend beyond immediate financial benefits, influencing broader economic variables and potentially altering the investment landscape. Remittances have been shown to affect consumption patterns, with households receiving remittances likely to increase their spending on goods, services, and education. This increased consumption not only boosts the local economy but also has the potential to generate more revenue for businesses, leading to growth and expansion opportunities (Canas and Pranger, 2023).

Moreover, remittances contribute to the financial sector's development by increasing the demand for banking services and financial products. As remittance receivers engage more with financial institutions, it fosters financial inclusion and literacy, contributing to a more robust and diversified financial ecosystem. This engagement can lead to higher savings rates and a greater pool of capital for investment, both in personal assets and within the broader stock market.

The potential multiplier effect of remittances on the economy is significant. As money is sent home, it circulates through various sectors, contributing to economic growth not just through consumption and investment but also by creating job opportunities and fostering entrepreneurship. Remittances can act as seed money for small businesses and startups, which are crucial for generating employment and driving innovation.

However, the impact of remittances is not universally positive or straightforward. The dependency on remittances can lead to economic vulnerabilities, particularly if there are fluctuations in global labor markets or political unrest in host countries. Moreover, the reliance on remittances can sometimes lead to a neglect of domestic industries and agriculture,

potentially hindering long-term sustainable economic growth.

The dynamics between remittance inflows and the Nepalese economy, especially in the context of GDP and the stock market, represent a rich area for research. Analyzing these dynamics can provide valuable insights into the broader economic and financial implications of remittances. This study aims to offer a comprehensive examination of how remittances impact Nepal's economic growth and stock market performance, enriching the academic discourse and contributing to policy formulation aimed at harnessing the benefits of remittances for sustainable economic development (Li & Patel, 2022).

Remittances are a complex economic phenomenon that can affect various aspects of Nepal's economy. Their influence on GDP growth, poverty alleviation, household consumption, financial sector development, and the stock market underscores their importance in Nepal's economic fabric. Understanding the full spectrum of remittances' impact is crucial for formulating policies that maximize their potential for contributing to economic stability and growth. This study seeks to bridge the knowledge gap and provide empirical evidence on the relationship between remittances and the Nepalese economy, focusing on GDP and NEPSE performance, to guide effective.

1.2 Problem Statement

The economic fabric of Nepal has been intricately woven with remittances, forming a critical component that influences various macroeconomic variables. With remittances consistently contributing a significant share to the nation's Gross Domestic Product (GDP), their role extends beyond mere financial support, impacting broader economic spheres and the Nepal Stock Exchange (NEPSE). Given the escalating volume of remittances, it is vital to delve into their effects on Nepal's economy, particularly on GDP and NEPSE performance, to grasp their full economic implications.

The central inquiry of this study revolves around understanding the dynamics of remittances and their influence on Nepal's economic health and market activity. The question, "How do remittances impact the GDP of Nepal and the performance of the NEPSE?" encapsulates the

core investigation, aiming to unravel the depth and breadth of remittances' economic influence. To comprehensively address this question, the study navigate through various layers of economic analysis, examining the intricate relationship between remittances and key economic indicators (Thompson & Zhang, 2021).

A pivotal aspect to explore is the trend of remittance inflows to Nepal over the past decade. This involves a thorough examination of the historical data to identify patterns, fluctuations, and growth trajectories of remittance flows. Understanding these trends is crucial for gauging the stability and predictability of remittances as a financial inflow and their potential long-term effects on the economy. This exploration will not only shed light on the volume of remittances over time but also provide insights into the external economic factors influencing these flows, such as global economic conditions, labor market dynamics in host countries, and policy changes affecting migration and remittance processes (Li & Patel, 2022).

Further, the study seeks to analyze how remittances correlate with changes in the GDP and stock market, delving into the nature of their relationship. This involves statistical analysis to determine whether a direct correlation exists and how strong this relationship might be. The investigation will extend to understanding whether remittances act as a stabilizing force during economic downturns or if they contribute to overheating the economy during boom periods. Additionally, the study examines the stock market's responsiveness to fluctuations in remittance inflows, considering how these capital flows affect investor sentiment, market liquidity, and overall market performance (Canas and Pranger, 2023).

The impact of remittances on GDP and the stock market constitutes a significant area of inquiry. This entails a multi-dimensional analysis, looking at how remittances affect economic growth, investment, consumption, and financial market dynamics. The study will scrutinize the mechanisms through which remittances influence GDP, such as through increased consumer spending, investment in businesses and real estate, and their role in poverty alleviation and improving living standards. On the stock market front, the investigation will cover the extent to which remittances contribute to capital market deepening, affect stock prices, and influence the investment decisions of households and institutions.

Moreover, the problem statement aims to dissect the broader economic implications of remittances, considering both the positive and potential adverse effects. While remittances are generally seen as beneficial for economic stability and growth, there are concerns about their long-term impact on economic diversification, labor market participation, and the potential for creating a dependency syndrome. The study will critically assess these aspects, exploring how remittances might affect labor productivity, domestic investment, and the country's external vulnerability to remittance shocks (Shakya & Gonpu, 2023).

Additionally, the research considers the socio-economic and political factors that shape the remittance landscape, including migration policies, the legal framework governing remittance flows, and the socio-political ties between Nepal and major host countries for Nepalese migrants. Understanding these factors is crucial for a holistic analysis of the remittance economy and its future trajectory.

In summary, the statement of the problem underscores the necessity of a comprehensive and nuanced examination of remittances' impact on Nepal's economy, with a specific focus on GDP and NEPSE. By dissecting the multifaceted relationship between remittances and economic indicators, this study aims to contribute to the academic and policy discourse on leveraging remittances for sustainable economic development and financial market stability in Nepal. Through this detailed inquiry, the research intends to offer empirical insights and policy recommendations that can help maximize the economic benefits of remittances while mitigating any potential adverse effects.

To dissect this broad question, the study will explore several sub-questions that aim to uncover the multifaceted relationship between remittances and economic indicators. These sub-questions include:

1. What is the trend of remittance inflows to Nepal over the past decade?
2. How do remittance correlate with the changes in the GDP and stock market?
3. What is the impact of remittance in GDP and stock market?

By addressing these sub-questions, the study intends to provide a comprehensive analysis of the impact of remittances on Nepal's economy, offering valuable insights for researchers, policymakers, and investors interested in the nexus between remittances, economic growth, and stock market dynamics.

1.3. Objectives of the Study

The primary objective of this study is to comprehensively analyze the relationship between remittances and Nepal's GDP and NEPSE (Nepal Stock Exchange) performance. The study aims to dissect and understand the intricate dynamics that remittances play in shaping the economic landscape of Nepal, with a focus on its impact on GDP growth and the stock market. To align with the outlined research questions, the specific aims of the study are as follows:

1. To analyze the current situation of remittance on the Nepalese economy and Stock market
2. To examine the correlation between remittances, GDP, and stock market performance.
3. To investigate the impact of remittances on GDP and stock market.

Through these specific objectives, the study intends to provide a nuanced understanding of the role of remittances in Nepal's economic development and financial market, offering insights that could inform policy decisions, investment strategies, and further academic research.

1.4 Hypothesis of the Study

The following hypothesis will be tested through empirical data from this study.

H1: *Remittance have significant positive impact on GDP of Nepal.*

H2: *Remittance have significant positive impact on stock market of Nepal.*

1.5 Rationale of the Study

The significance of understanding the economic impact of remittances, particularly in a remittance-dependent country like Nepal, cannot be overstated. This study aims to illuminate the multifaceted role of remittances in shaping the economic landscape of Nepal, focusing on their influence on the Gross Domestic Product (GDP) and the performance of the Nepal Stock Exchange (NEPSE). The findings of this research will hold several important implications for various stakeholders, including policymakers, economists, investors, and the general populace.

1. **For Policymakers:** The insights garnered from this study will be instrumental in guiding policy formulation and economic planning. By understanding the correlation between remittances and key economic indicators, policymakers can design more effective strategies to harness the potential of remittances for sustainable economic development. This could involve creating incentives for the productive use of remittances in investment and entrepreneurship, thereby stimulating economic growth and capital market development.
2. **For Economists and Researchers:** This research contributes to the academic discourse on the economic effects of remittances. By providing empirical evidence on the relationship between remittances, GDP, and NEPSE performance, the study enriches the existing body of literature and offers a foundation for future research in this area. Economists and researchers can build upon the findings to explore further dimensions of remittances' impact on the economy.
3. **For Investors and the Financial Sector:** Understanding the dynamics between remittances and the stock market offers valuable insights for investors and financial institutions. If remittances are found to significantly influence stock market performance, investors may consider remittance flows as an indicator for making investment decisions. Additionally, financial institutions could develop tailored financial products to attract remittance funds into the capital market, enhancing market liquidity and stability.

4. **For the General Populace:** The study underscores the broader economic implications of remittances beyond individual households. By highlighting how remittances contribute to national economic indicators such as GDP and stock market performance, the research fosters a greater appreciation of the economic significance of the diaspora's contributions. This awareness can encourage a more strategic approach to managing and utilizing remittance inflows at both the household and national levels.

In summary, the significance of this study lies in its potential to inform evidence-based decision-making that maximizes the economic benefits of remittances. By shedding light on the complex interplay between remittances, economic growth, and stock market dynamics, the research aims to contribute to the development of strategies that leverage remittances for economic resilience and prosperity in Nepal.

1.6 Limitations of the Study

This study, while aiming to provide comprehensive insights into the impact of remittances on the GDP of Nepal and the performance of the NEPSE, acknowledges several limitations that may affect the scope and interpretation of its findings.

1. **Data Availability and Reliability:** A primary limitation pertains to the availability and reliability of data on remittances, GDP, and NEPSE performance. While efforts will be made to source the most accurate and recent data from reputable institutions such as the Central Bank of Nepal and the Nepal Stock Exchange, discrepancies and gaps in data collection and reporting methodologies may impact the analysis. Additionally, the informal remittance channels, which are not captured in official statistics, could lead to an underestimation of the actual volume of remittances.
2. **Timeframe:** The study will focus on a specific timeframe, which may limit the ability to capture long-term trends and the cyclical nature of remittances and their impact on the economy. Economic variables are subject to fluctuations due to various external factors such as global economic conditions, political stability, and exchange rate volatility. Therefore, the findings of this study should be interpreted with caution, considering the

period analyzed.

3. **Causal Inference:** Although this study seeks to explore the relationship between remittances and key economic indicators, establishing causality poses a significant challenge. The observed correlations may not necessarily imply causation, as other confounding variables could influence the GDP and NEPSE performance. The study will employ statistical techniques to control for these factors, but the potential for omitted variable bias cannot be entirely eliminated.
4. **Generalizability:** The findings of this study are specific to Nepal and may not be directly applicable to other countries, even those with similar economic structures and dependency on remittances. The unique socio-economic and regulatory context of Nepal shapes the impact of remittances on its economy, which may differ from other contexts.
5. **Policy Implications:** While this study aims to provide insights that can inform policy formulation, the translation of findings into actionable policy recommendations is subject to the interpretation and judgment of policymakers. The study's conclusions will need to be considered alongside other economic priorities and constraints.

Acknowledging these limitations is crucial for a nuanced understanding of the study's findings. Future research could address these limitations by incorporating a broader set of data, extending the analysis period, and exploring comparative studies across different countries to enhance the robustness and applicability of the insights on the impact of remittances on economies.

CHAPTER II

LITERATURE REVIEW

The literature on remittances and their economic impacts, especially in the context of developing countries like Nepal, presents a diverse range of findings and theoretical perspectives. This review synthesizes key contributions to understand better the multifaceted role of remittances in economic development, GDP growth, and stock market dynamics.

2.1 Theoretical Review

Portfolio Investment Theory

Portfolio Investment Theory, often associated with the work of Harry Markowitz in the 1950s, posits that investors aim to maximize returns and minimize risk through diversification of their investment portfolios (Markowitz, 1952). According to this theory, individuals allocate their wealth across various assets to achieve an optimal balance between risk and return, considering their risk tolerance, investment horizon, and financial goals.

In the context of remittances and their impact on the stock market, Portfolio Investment Theory can be particularly relevant. Remittances increase the disposable income of recipient households, providing them with additional financial resources that can be invested in the stock market. This influx of funds into the market can lead to several potential outcomes:

1. **Diversification of Investment Portfolios:** Recipients of remittances might use these funds to diversify their investment portfolios, buying stocks, bonds, or other financial instruments. Diversification allows them to spread risk across different assets, thereby adhering to the principles of Portfolio Investment Theory.
2. **Increased Market Liquidity:** As more individuals invest remittance funds in the stock market, it can lead to increased liquidity. This means that there are more buyers and sellers in the market, which can make it easier to execute trades without causing significant price changes.

3. **Impact on Stock Prices:** The Portfolio Investment Theory also implies that as more investors enter the market, the demand for stocks may increase, potentially driving up stock prices, especially if the influx of remittance-driven investment is significant relative to the total market capitalization.
4. **Risk-Return Optimization:** With more capital at their disposal, remittance recipients may seek to optimize the risk-return profile of their investments. They might invest in a mix of high-risk and low-risk assets to achieve desired financial outcomes, influencing the overall market dynamics.

The integration of remittances into Portfolio Investment Theory highlights the potential for these funds to alter investment behaviors and market conditions in economies with substantial remittance inflows, like Nepal. This dynamic underscores the need for understanding how remittance income can be effectively channeled into productive investment avenues, contributing to economic growth and financial market development.

Financial Development and Economic Growth Theory

The Financial Development and Economic Growth Theory, as articulated by scholars like Ross Levine, posits a positive correlation between the development of financial markets and economic growth. Levine (1997) argues that well-functioning financial markets and institutions play a crucial role in economic development by facilitating the mobilization of savings, allocating resources efficiently, diversifying risks, and monitoring managers and firms to ensure that they adhere to their investment plans.

In the context of remittances and their impact on the Nepalese economy and stock market, this theory provides a valuable lens through which to view the potential benefits of remittance inflows. Remittances contribute to financial sector development in several ways:

1. **Capital Accumulation:** Remittances provide a source of capital that can be used for investments in both physical and human capital. This influx of funds can lead to an expansion of the financial sector as banks and other financial institutions have more

resources to lend to businesses and individuals, promoting investment and entrepreneurship.

2. **Financial Inclusion:** Remittances often lead to increased financial inclusion by bringing more people into the formal banking sector. As recipients of remittances open bank accounts to receive funds, they become integrated into the financial system, gaining access to a range of financial services including savings, credit, and insurance, which can improve financial literacy and encourage saving and investment behaviors.
3. **Market Deepening:** The flow of remittances can contribute to financial market deepening, which refers to the increased availability of financial services with a broader diversity of financial instruments. This deepening can enhance the efficiency of financial markets, providing more opportunities for raising capital, diversifying investment portfolios, and managing risks.
4. **Economic Growth:** Through these mechanisms, remittances can stimulate economic growth by increasing consumption and investment, which in turn can lead to higher demand for goods and services, job creation, and increased productivity. This growth is often reflected in the performance of the stock market, as companies benefit from a healthier economic environment and potentially higher profits.
5. **Stock Market Performance:** As the financial sector develops and the economy grows, the stock market is likely to benefit. An expanding economy can boost corporate earnings and investor sentiment, leading to higher stock prices and a more vibrant stock market. Moreover, a developed financial sector can attract foreign investors, further boosting the stock market.

In summary, the Financial Development and Economic Growth Theory underscores the significance of a well-developed financial sector as a catalyst for economic growth, with remittances playing a pivotal role in this process. By enhancing financial inclusion, contributing to capital accumulation, and deepening financial markets, remittances can have a profound impact on economic growth and the performance of the stock market in Nepal.

Consumption and Investment Models

Consumption and Investment Models, rooted in the theories of John Maynard Keynes, primarily explore how fluctuations in income, including those from remittances, influence household consumption and investment behaviors. Keynes (1936) introduced the concept of the consumption function, which posits that an individual's consumption is primarily determined by their current income. This theory has been expanded to examine how income shocks, such as those from remittances, affect consumption and investment decisions within households.

Impact of Remittances on Consumption and Investment

Remittances, representing a significant source of income for many households in developing countries, can lead to an increase in household consumption. This increase is often immediate as households use remittances to satisfy their current consumption needs, including food, healthcare, and education. Over time, as remittance income becomes more stable, households may also increase their savings and investment in physical assets like property or business ventures, reflecting a shift towards long-term financial planning and wealth accumulation.

The Keynesian framework sheds light on how remittances can influence recipient economies. An influx of remittances boosts disposable income for receiving households, leading to increased consumption of goods and services. This rise in demand stimulates local businesses, potentially triggering a multiplier effect. As businesses ramp up production to meet demand, they may hire more workers, injecting further income into the economy and fueling another round of consumption. Beyond immediate spending, remittances can also be channeled into investments in education, businesses, and housing, promoting long-term growth. The strength of this multiplier effect hinges on factors like the marginal propensity to consume and leakages from the economy. While remittances offer significant benefits, challenges like dependence, inflation, and inequality need to be addressed for a sustainable economic impact. (Taylor, 1999).

The increased consumption and investment driven by remittances can have broader

implications for economic demand and stock market performance. Higher consumption can lead to increased sales and revenue for companies, particularly in sectors where remittance-receiving households spend their money, such as retail, real estate, and consumer goods. This increase in corporate earnings can be reflected in the stock market, with companies showing better financial performance and potentially higher stock prices.

Moreover, the investment aspect of remittances can contribute to capital formation and economic growth. Investments in new business ventures and the expansion of existing businesses can lead to job creation, improved productivity, and enhanced economic activity. This economic growth can stimulate the stock market as well, as investors anticipate higher future earnings and show increased willingness to invest in equities.

The Consumption and Investment Models provide a comprehensive framework to understand how remittances influence household economic behaviors and the broader economic and financial landscape. By affecting consumption patterns and investment decisions, remittances can play a pivotal role in shaping economic demand, corporate earnings, and stock market dynamics in remittance-receiving countries like Nepal.

Capital Market Integration Theory

The Capital Market Integration Theory, as proposed by Bekaert and Harvey (1995), analyzes how interconnected global financial markets become. This framework can be used to understand how remittances, a form of international capital flow, impact local capital markets. Integration can increase the pool of investable funds in a recipient country like Nepal, potentially leading to a more stable market with improved liquidity. Additionally, the theory suggests convergence of investment returns across markets, meaning remittances used for productive investments could benefit both recipients and the overall Nepalese economy.

Capital market integration refers to the degree to which financial markets are open to external investments, allowing capital to move freely across borders. Highly integrated markets are characterized by the absence of barriers to the flow of capital, leading to more efficient allocation of resources globally. This integration facilitates risk sharing, reduces the cost of

capital, and promotes economic growth by allowing investors to diversify their portfolios internationally (Bekaert & Harvey, 1995).

Remittances can play a significant role in the context of capital market integration, particularly for countries like Nepal. These funds increase the financial resources available within the country, potentially affecting the capital market in several ways:

1. **Market Depth and Liquidity:** Remittances can enhance market depth and liquidity by providing additional capital that can be invested in the stock market. A deeper and more liquid market can attract both domestic and foreign investors, as it facilitates easier entry and exit from investments and reduces transaction costs.
2. **Market Stability and Volatility:** The influx of remittances can contribute to market stability by increasing the amount of investable capital and reducing the reliance on foreign portfolio investments, which are often more volatile. However, sudden changes in remittance flows can also introduce volatility, especially if the market becomes overly dependent on these funds.
3. **Investment Returns:** Remittances can influence the returns on investments in the capital market. Increased capital flows into the market can drive up asset prices and affect the overall yield environment. Additionally, the use of remittances for investment in productive assets can contribute to economic growth, which can positively impact corporate earnings and stock returns.

The concept of globalization acts as a key accelerant to the theories of capital market integration. As international borders become increasingly porous to the flow of capital, remittances, as a form of international capital flow, can exert a more significant influence on the dynamics of local capital markets. This heightened integration facilitates the channeling of remittance funds into a broader spectrum of investment opportunities. Bekaert and Harvey (2000) highlight that these impacts extend beyond just stock prices. Remittances have the potential to influence bond markets, currency exchange rates, and the overall availability of financial instruments within a recipient country.

The Capital Market Integration Theory serves as a powerful lens through which we can analyze the multifaceted effects of remittances on Nepal's financial markets. By understanding how remittances influence market depth, stability, and investment returns, policymakers can craft strategies to maximize the positive contributions of these international capital flows. Increased market depth, achieved through a rise in investable funds from remittances, can enhance the overall liquidity of the Nepalese capital market. This translates to smoother transactions and potentially lower costs for businesses seeking financing. Furthermore, the theory suggests that integration can lead to a convergence of investment returns across different markets. Remittances used for productive investments, like local businesses or infrastructure projects, can benefit not only the recipients but also contribute to a more robust and globally competitive Nepalese economy. However, it's crucial to acknowledge that financial market integration also exposes local markets to external shocks and potential volatility. Policymakers must be mindful of these risks and implement measures to mitigate them, ensuring a sustainable and positive impact of remittances on Nepal's capital market.

New Economics of Labor Migration (NELM) theory

The New Economics of Labor Migration (NELM) theory, championed by Stark and Bloom (1985), offers a refreshing perspective on the drivers of migration and the complex economic dynamics surrounding remittances. Unlike traditional models that paint migration as a purely individual pursuit of higher wages, NELM presents a compelling household-centered approach. This theory argues that decisions to migrate and send remittances are not made by isolated actors, but rather represent calculated strategies devised by the entire household unit.

NELM sheds light on the crucial role of market imperfections in sending countries. Imagine a family grappling with an unreliable job market, where unemployment is a constant threat. Basic necessities like food might experience price fluctuations, making it difficult to plan and budget effectively. Furthermore, access to credit or insurance might be severely limited, leaving the family exposed to financial shocks. NELM posits that in such scenarios, migration becomes a strategic risk-management tool employed by the household. By sending a member abroad, the household essentially diversifies its income stream. This reduces their overall vulnerability to economic instability in their home country. The remittances sent back home

then act as a form of self-insurance, providing a vital safety net. These financial contributions allow the household to weather unexpected hardships and local economic downturns.

According to NELM, remittances significantly influence the economic behavior of households in the home country. These funds enhance household income stability, leading to changes in consumption patterns, savings, and investment behaviors. Remittances often result in increased household consumption, improving the standard of living and potentially leading to greater demand for goods and services in the local economy.

NELM goes beyond simply viewing remittances as income supplements. The theory highlights how these funds are often channeled strategically to invest in the future of the household. This might involve investments in education or healthcare for younger family members, or even seed capital to start a small business venture. Such investments, in turn, can lead to increased earning potential and improved living standards for the entire family in the long run. Furthermore, NELM acknowledges that migration is not solely an economic phenomenon. Migrants often maintain strong social ties with their families back home, influencing cultural exchange and potentially fostering entrepreneurial ventures in the sending country. This broader perspective underscores the complex interplay between migration, remittances, and overall household well-being, a framework that NELM effectively illuminates.

Furthermore, remittances can lead to increased savings and investments in the home country, contributing to financial and physical capital accumulation. Households may use remittance income to invest in education, healthcare, real estate, or start new business ventures, which can stimulate economic activity and promote local development (Taylor, 1999).

At the macroeconomic level, NELM theory posits that remittances can have significant implications, influencing overall economic growth, reducing poverty, and enhancing economic stability. The influx of remittances can improve the balance of payments, increase foreign exchange reserves, and contribute to financial sector development by increasing the pool of investable funds.

While NELM focuses on household-level strategies, its insights can be extended to understand

how remittances indirectly impact the stock market in recipient countries like Nepal. This theory suggests a fascinating ripple effect, where these international capital flows can influence stock market performance through various channels.

Imagine a scenario where remittance inflows increase. As households receive these funds, their disposable income rises. This can lead to a surge in consumption, stimulating demand for locally produced goods and services. Businesses experiencing this increased demand might respond by expanding production, potentially leading to higher profits and improved financial prospects. These positive developments can translate to a more optimistic outlook for companies listed on the stock market, potentially driving up stock prices. It also sheds light on the concept of financial deepening. As remittance flows increase, the overall amount of funds circulating within the recipient economy expands. This can lead to the development of a more robust financial system, with increased access to credit and financial products for businesses. A deeper financial system can enhance stock market liquidity. Liquidity refers to the ease with which investors can buy and sell stocks. With more funds available, trading activity can become more efficient, potentially attracting further investment and fostering a more vibrant stock market. Furthermore, increased liquidity can make it easier for companies to raise capital through stock offerings, providing them with the resources needed for growth and expansion. These dynamics, driven by remittance inflows, can contribute to a more dynamic and potentially more attractive stock market environment.

It's important to acknowledge that the relationship between remittances and the stock market is not always straightforward. External factors and government policies can also play a significant role. However, by understanding the household-centered approach of NELM and its emphasis on income diversification and risk mitigation, we gain valuable insights into how remittance flows can indirectly influence stock market performance in recipient countries. This framework can be particularly useful for policymakers in Nepal and other remittance-receiving countries to design strategies that maximize the positive impacts of remittances on the broader economy, including the stock market.

2.2 Conceptual Review

Remittances, the money migrants send back home, have become a financial powerhouse for developing countries. Often surpassing foreign investment and even rivaling development aid, these international flows play a critical role in recipient economies. Extensive research highlights the significant influence remittances have on a nation's overall well-being. They contribute to economic stability, foster growth, and pave the way for long-term development. Beyond offering immediate financial relief to families, remittances deliver broader macroeconomic benefits that ripple through the entire economy. This review will delve deeper into these multifaceted effects, exploring how remittances can impact Gross Domestic Product (GDP) growth, alleviate poverty, and influence stock market performance. We will also acknowledge potential drawbacks associated with remittance dependence, all with a specific focus on the case of Nepal, a country heavily reliant on remittance inflows.

Economic Growth and GDP Impact

The role of remittances in enhancing GDP growth in developing countries is well-documented. Adams and Page (2005) posit that remittances stabilize foreign currency inflows, enhance household consumption, and enable higher levels of investment. Their impact on GDP is particularly significant because they are a more stable source of foreign exchange than capital flows, which are susceptible to global market fluctuations. In Nepal, remittances have been shown to reduce the trade deficit and stabilize the national currency, facilitating smoother economic management and planning (Maharjan & Joshi, 2013). Khatiwada (2014) supports these findings, noting that remittances increase disposable income, thus boosting household spending and overall economic activity.

The direct infusion of cash through remittances impacts GDP by enabling higher consumption and investment. This not only helps in smoothing consumption in times of economic hardship but also stimulates local economies through increased demand for goods and services. Remittances enhance the economic output by enabling recipients to invest in education, healthcare, and housing, which are critical components of human capital development and long-term economic growth.

Poverty Reduction and Income Inequality

Remittances act as a powerful force in poverty reduction and mitigating income inequality in developing countries. Research by Gupta, Pattillo, and Wagh (2009) provides compelling evidence, demonstrating that these international flows of funds directly increase the incomes of recipient households. This financial boost translates to a tangible improvement in their standard of living, lifting many families out of poverty, as observed in Nepal by Bhatta et al. (2017).

The impact of remittances extends beyond simply substituting lost income from a migrated family member. They contribute to a more equitable distribution of wealth within a nation. Studies in Nepal, like the one by Bhatta et al. (2017), suggest a redistributive effect. Remittances can help narrow the income gap between urban and rural areas. Migrants often originate from rural communities, and when they send money back home, it injects financial resources into these traditionally less prosperous regions. This can lead to increased investment in rural areas, potentially fostering local businesses and creating new employment opportunities.

The positive impact of remittances goes beyond immediate financial improvement. These funds act as a crucial buffer, enhancing household resilience against economic shocks. Imagine a family facing an unexpected downturn in the local economy or a personal crisis like unemployment or illness. Remittances can provide a safety net, allowing the household to maintain consumption levels during these challenging times. This financial security is particularly critical for families living close to the poverty line, where even a minor setback can have devastating consequences.

In essence, remittances empower recipient households by increasing their disposable income, fostering a more equitable distribution of wealth, and building resilience against economic vulnerabilities. These combined effects paint a compelling picture of how remittances can contribute to poverty reduction and a more balanced economic landscape in developing countries.

Influence on Stock Market Development

The interplay between remittances and stock market development is a topic of growing interest, as nations explore how to leverage these financial flows for broader market advancements. Research by Aggarwal et al. (2011) suggests that remittances can act as a fuel source for stock market growth. These inflows can increase the pool of funds available for investment in the stock market, potentially leading to a more liquid market with higher trading activity. This translates to potentially higher stock prices and a more attractive investment environment.

Nepal offers a compelling case study for this potential. Research by Pradhan et al. (2015) identified a positive correlation between remittance inflows and the performance of the Nepal Stock Exchange (NEPSE) indices. This suggests that increased remittance flows can contribute to a more vibrant stock market in recipient countries. The additional capital from remittances can bolster investment activity, potentially leading to higher demand for financial products and a more dynamic market.

However, it's crucial to acknowledge the complexities surrounding the relationship between remittances and stock markets in developing countries. Several factors can influence the effectiveness of this link. Financial literacy among remittance recipients plays a critical role. If recipients lack the knowledge and understanding of the stock market, they may be hesitant to invest, limiting the potential impact on the market.

Furthermore, the regulatory environment of the recipient country also plays a significant role. A robust regulatory framework that fosters transparency and protects investors can create a more trustworthy environment, potentially attracting investment from remittance recipients. Additionally, the availability of investment options tailored to the risk tolerance and investment needs of remittance recipients is crucial. Without a diverse range of financial instruments, recipients may be less likely to participate in the stock market.

In conclusion, remittances hold the potential to act as a catalyst for stock market development in recipient countries. By increasing the pool of investible funds and fostering a more vibrant market environment, remittances can contribute to overall financial sector growth. However,

maximizing this potential requires a multi-pronged approach that addresses financial literacy, regulatory frameworks, and the diversification of investment options. By acknowledging these complexities, developing countries can design strategies to leverage remittances effectively for a more robust and inclusive stock market.

Potential Negative Externalities

While remittances offer a multitude of advantages for developing countries, it's important to acknowledge potential drawbacks associated with these financial flows. Research by Kapur (2005) sheds light on the risk of "Dutch Disease." This phenomenon occurs when a surge in remittance inflows leads to an appreciation of the recipient country's currency. This can make the country's exports less competitive in the global market, potentially harming its trade balance. Imagine a scenario where a stronger currency makes domestic goods more expensive for foreign buyers, leading to a decline in exports.

Furthermore, Chami et al. (2005) raise concerns about the potential for remittance dependence. Their research suggests that a constant flow of remittances can create a disincentive to work among recipients. This reliance on external funds could stifle long-term economic development by hindering domestic productivity and diversification. In an ideal scenario, remittance income should act as a springboard, enabling recipients to invest in skills or businesses that contribute to the overall growth of the national economy.

These potential negative externalities underscore the importance of crafting well-considered policies to maximize the positive impacts of remittances. Policymakers should strive to leverage these financial flows for sustainable development. This can be achieved by encouraging recipients to invest a portion of their remittances in productive assets, such as education, infrastructure, or small businesses. These investments can lead to increased productivity, job creation, and a more diversified economy, reducing reliance on external inflows in the long run.

Additionally, promoting financial literacy programs can empower remittance recipients to make informed investment decisions. Understanding the financial landscape and available

investment options can encourage them to participate in the formal financial system, fostering a more robust and inclusive economy. Finally, fostering an environment that encourages entrepreneurship and innovation can unlock the full potential of remittances. By creating a supportive ecosystem for new businesses, policymakers can ensure that remittance-fueled investments contribute to long-term economic growth and prosperity.

In conclusion, while remittances offer a powerful tool for development, a nuanced understanding of their potential drawbacks is essential. By acknowledging these challenges and implementing well-designed policies, developing countries can harness the power of remittances to build a more resilient and sustainable future.

Conclusion and Future Directions

The economic impact of remittances in developing countries paints a complex picture, with both substantial benefits and potential drawbacks. In countries like Nepal, these international flows of funds from migrant workers play a critical role in shaping the national economy. A wealth of research underscores the positive influence of remittances on Gross Domestic Product (GDP) growth. Studies by Adams and Page (2005) highlight how remittances act as a catalyst for growth by providing a stable source of foreign currency. This inflow of funds not only bolsters the national reserves but also stimulates domestic consumption. Households receiving remittances experience a rise in disposable income, leading to increased spending on goods and services. This rise in demand can trigger a ripple effect, encouraging businesses to expand production and potentially hire more workers. The resulting increase in employment further fuels consumption and economic activity.

Nepal serves as a compelling case study for the positive impact of remittances. Research by Maharjan and Joshi (2013) demonstrates how remittances have been a critical factor in the country's GDP growth. These funds have not only contributed to reducing the trade deficit but have also played a crucial role in stabilizing the national currency. Furthermore, studies by Khatiwada (2014) suggest that remittances contribute to broader economic development by boosting household disposable income. This increased spending power translates to higher demand for goods and services, leading to a more vibrant and dynamic domestic economy.

However, the relationship between remittances and development is not without its challenges. Recipient countries, like Nepal, must navigate these complexities to ensure remittances are harnessed effectively. Over-reliance on remittances can leave the economy vulnerable to external shocks. If remittance flows decline, the resulting drop in foreign currency and domestic spending can lead to economic instability. Additionally, a sudden influx of remittances can trigger inflation if the economy is not equipped to handle the increased demand.

Moving forward, future research should delve deeper into the long-term impacts of remittances, particularly focusing on how financial and regulatory policies can shape their effectiveness. These policies can play a critical role in mitigating potential drawbacks and maximizing the positive effects. For instance, encouraging recipients to invest a portion of their remittances in productive ventures like education, infrastructure, or small businesses can foster long-term economic growth and reduce dependence on external inflows.

By acknowledging both the benefits and challenges associated with remittances, developing countries can design comprehensive strategies to leverage these financial flows for sustainable economic development. Continuous research and the implementation of well-crafted policies are essential to ensure remittances continue to serve as a powerful tool for building a more robust and resilient future.

Remittances have been identified as a crucial mechanism in reducing poverty and income inequality in many developing countries. Gupta, Pattillo, and Wagh (2009) demonstrated that remittances lead to a significant reduction in poverty levels by directly increasing the income of recipient households. In Nepal, the work of Bhatta et al. (2017) supports this view, showing that remittances have contributed to lifting many families out of poverty and narrowing the income gap between urban and rural areas.

The relationship between remittances and stock market performance has garnered increasing attention. Aggarwal et al. (2011) found that remittances could influence stock market development by providing additional funds that may be channeled into investments, including the stock market. This is particularly relevant for Nepal, where Pradhan et al. (2015) identified

a positive correlation between remittances and NEPSE indices, suggesting that remittances could enhance market liquidity and potentially lead to higher stock prices.

Despite the positive aspects, some studies caution against the potential negative externalities of remittances. Kapur (2005) highlighted the risk of "Dutch Disease," where large remittance inflows may lead to an appreciation of the local currency, rendering exports less competitive on the global stage. Additionally, Chami et al. (2005) argued that remittances could foster dependency and disincentivize work among recipients, potentially hampering long-term economic development.

The literature provides a nuanced perspective on the economic impacts of remittances, illustrating their significant role in promoting GDP growth, reducing poverty, and potentially influencing stock market dynamics. However, the complexity of these relationships and the presence of potential adverse effects warrant a careful and balanced approach to leveraging remittances for economic development. Future research in Nepal and similar economies should continue to explore these dynamics, addressing gaps in the literature and informing policy decisions.

2.3 Empirical Review

Shakya and Gonpu (2023) conducted a more recent study analyzing the effects of remittances on economic growth, with a focus on specific country impacts and broader trends. Through regression analysis and comparative study methods, the researchers explored the complex dynamics between remittances and economic growth across different contexts. Their findings were mixed, indicating that while remittances have a positive impact on GDP growth in some instances, they can also introduce challenges such as inflationary pressures. This nuanced approach to studying the impact of remittances on economic growth reveals the dual-edged nature of remittance flows. On one hand, they are a vital source of economic sustenance and growth, especially in developing countries like Nepal. On the other hand, the influx of remittances can lead to macroeconomic challenges, such as inflation, that need to be managed carefully to ensure sustainable economic development.

Canas and Pranger (2023) studied the effects of U.S. remittances on the Mexican economy, emphasizing the critical role of employment within the U.S. construction sector. They employed a regression analysis to explore how these employment trends influence remittance flows, identifying a significant relationship where strong labor markets in the U.S. enhance the volume and stability of remittances sent to Mexico. The research indicated that remittances serve as a crucial economic support during downturns, providing a buffer that helps sustain household consumption and financial stability in recipient communities. The study pointed out that while remittances are predominantly beneficial, they can also lead to inflationary pressures within the local economies of Mexico. This occurs particularly when remittances lead to increased demand for goods and services without a corresponding increase in domestic production. The study suggests that such economic conditions necessitate thoughtful policy interventions aimed at maximizing the benefits of remittances while mitigating potential adverse effects like inflation. Further analysis by Canas and Pranger highlighted the importance of sector-specific employment trends in the U.S., specifically within the construction sector, which employs a significant number of Mexican migrants. They argued that the health of this sector directly correlates with the amount of money migrants send home, making it a pivotal element in the study of remittances.

The study's findings advocate for policies that not only recognize the importance of remittances in economic planning but also address the macroeconomic challenges they can pose. For instance, enhancing financial literacy and investment opportunities for remittance receivers could help channel these funds into productive use, thus fostering economic development and reducing inflationary impact. In conclusion, the comprehensive analysis by Canas and Pranger in 2023 underscores the dual-edged nature of remittances. While they are vital for economic sustenance and act as economic stabilizers during crises, they also bring challenges that require sophisticated economic strategies. This nuanced understanding is crucial for policymakers who aim to leverage remittances for economic growth while ensuring the stability of their economies.

The relationship between remittances and stock markets in developing countries is a fascinating dance, as revealed by Li and Patel's (2022) comprehensive study. Their research,

encompassing a range of emerging markets, paints a picture of a double-edged sword. On the one hand, remittances act as a powerful lubricant for stock market activity. An influx of remittance funds injects fresh capital into the recipient country's economy. This translates to potentially higher trading volumes in the stock market, leading to smoother transactions and potentially lower costs for businesses seeking capital to grow. Furthermore, it highlights the stabilizing influence of remittances. These financial flows act as a buffer, mitigating the effects of market volatility. Imagine a sudden economic downturn or external shock; remittances can provide a financial cushion, helping the stock market weather these storms and maintain a degree of stability. This stability fosters a more attractive environment for long-term investors, contributing to a more robust and dynamic financial ecosystem in the recipient country.

However, Li and Patel (2022) also sound a cautionary note regarding overdependence on remittances. While these inflows offer undeniable benefits, they can also expose recipient countries' financial markets to vulnerabilities. The study emphasizes the risk associated with external economic shocks disrupting the flow of remittances. Imagine a scenario where a global recession impacts countries where a large portion of migrant workers reside. A decline in remittance inflows could then trigger financial instability in the recipient country's stock market. This underscores the importance of economic diversification for remittance-receiving countries. By fostering domestic industries, entrepreneurship, and alternative sources of investment, these nations can build a more resilient economic foundation, less susceptible to the whims of external factors that could disrupt remittance flows.

The researchers suggested that to mitigate these risks, countries should adopt diversified economic strategies. This could involve developing broader economic bases to reduce dependence on remittances and reinforcing financial market structures to enhance resilience against external shocks. Furthermore, Li and Patel's analysis indicates that while remittances can be a crucial source of financial inflow for emerging markets, managing these funds effectively requires careful policy and strategic planning to ensure long-term economic stability. Their findings advocate for policies that not only harness the positive impacts of remittances on the stock market but also prepare for potential adverse effects through economic diversification and robust financial planning.

This study provides valuable insights for policymakers and economic strategists in emerging markets, emphasizing the importance of a balanced approach to economic development.

Thompson and Zhang (2021) investigated the impact of remittances on economic growth and inflation in the Philippines, utilizing a mixed-method approach that integrated econometric modeling with qualitative interviews. Their research identified that remittances significantly boost short-term economic growth by enhancing household consumption, particularly noticeable in rural areas. However, this influx of capital also leads to inflationary pressures, highlighting a complex economic dynamic. The study detailed how these financial inflows increase the purchasing power of families, which in turn raises demand for goods and services. This heightened demand, especially in regions where goods are not as readily available, drives prices up, contributing to inflation. Thompson and Zhang observed that this effect is more pronounced in rural areas where the market's ability to absorb sudden increases in cash flow is limited compared to urban centers.

The implications of their findings are significant for policy-making. They emphasize the need for macroeconomic policies that can effectively manage the economic impacts of remittances. Such policies could involve measures to increase supply in inflation-prone areas or mechanisms to channel remittances into productive investments rather than purely consumption-driven spending. Thompson and Zhang's work underscores the dual-edged nature of remittances. While they are vital for economic sustenance and can significantly mitigate the impact of economic downturns by boosting household incomes, their potential to cause inflation necessitates careful and adaptive economic management. This study serves as a crucial resource for policymakers looking to harness the benefits of remittances while minimizing their negative impacts on the economy.

Chhetri et al. (2020) aimed to assess the current status of remittances in Nepal and their multifaceted impact on the country's economy. Utilizing secondary data from various national and international sources, the researchers employed descriptive statistics and correlation analysis to decipher the relationships between remittances and key economic indicators. Their findings underscore the significant positive roles of remittances in the Nepalese economy, notably in poverty reduction and maintaining foreign exchange reserves. The study revealed a

substantial correlation between remittance inflows and the Gross Domestic Product (GDP) of Nepal, indicating that remittances are a pivotal element in the country's economic stability and growth. This comprehensive analysis provides evidence of the crucial economic support remittances offer to Nepal, highlighting their importance in the broader socio-economic context. By maintaining foreign exchange reserves, remittances contribute to the country's financial stability, which is essential for sustaining economic growth and development.

Poudyal and Bhaskar (2020) conducted an extensive study to examine the status, progress, and financial impact of remittances in Nepal. Utilizing secondary data obtained from official reports, they employed descriptive statistical methods using MS-EXCEL and SPSS to analyze the data. Their research focused on the financial implications of remittances for the Nepalese economy, finding that remittances constitute a significant share of Nepal's GDP. However, they highlighted a concerning issue: despite the substantial inflow of remittances, their utilization in the productive sectors of the economy remains low. This finding underscores the need for policy measures that can channel remittance funds into more productive uses, thereby enhancing their impact on the country's economic development.

Cosic et al. (2016) has analyzed World Bank data and economic indicators that paints a picture of Nepal's experience with remittances as a double-edged sword. On the one hand, remittances have been a powerful engine for Nepal's economic growth. These financial lifelines from migrant workers have bolstered the national economy, fostered increased household spending and contributing to foreign currency reserves. Cosic et al. acknowledge this undeniable positive impact. However, their research also sounds a cautionary note. Nepal's heavy reliance on a single source of external income creates vulnerability. Imagine a scenario where a global recession or changes in migration policies lead to a significant decline in remittance inflows. This could trigger a domino effect, impacting everything from household spending to national development projects. The study compels remittance-receiving countries like Nepal to prioritize economic diversification. By nurturing domestic industries, fostering a culture of entrepreneurship, and developing alternative sources of investment, Nepal can build a more resilient economic foundation. This diversification strategy is not just about mitigating the risks associated with remittance dependence; it's about ensuring Nepal's long-term economic

stability and continued growth in the face of an ever-changing global landscape. By fostering a more diversified economy, Nepal can weather potential fluctuations in remittance flows and unlock its full economic potential.

Dahal (2014) conducted a comprehensive analysis to understand the role of remittances in the development of Nepal. Employing a combination of literature review and quantitative analysis, Dahal aimed to dissect the impact of remittances on various development indicators within the country. The study concluded that remittances significantly contribute to Nepal's development, not just in terms of economic growth but also in improving living standards and reducing poverty levels. Dahal's research highlights the multifaceted impact of remittances, showing how they support household incomes, increase consumption, and facilitate greater investment in education and health. The findings underscore the pivotal role that remittances play in enhancing the socio-economic fabric of Nepal, suggesting that they are a crucial factor in the nation's development trajectory.

Meyer and Shera (2013) focused on the specific impact of workers' remittances on economic growth in the Southeastern Balkan area. Using descriptive statistics and empirical analysis, they examined how remittances contribute to the economic dynamics of this region. Their study found that remittances have a positive and significant impact on economic growth in the Southeastern Balkan area, serving as a vital source of external financing that supports consumption, investment, and helps in stabilizing the economy during times of financial instability or economic downturns. This research highlights the role of remittances not only as a financial lifeline for households but also as a catalyst for broader economic development in remittance-receiving regions.

Khan and Islam (2013) explored the effects of remittances on inflation in Bangladesh. Through quantitative analysis and a case study approach, their study examined how remittance inflows impact the inflationary trends in an economy heavily reliant on remittances. The findings revealed that remittances could exert inflationary pressures in Bangladesh, suggesting that significant inflows of remittances lead to increased money supply and demand in the economy, potentially driving up prices. This study provides critical insights into the macroeconomic challenges posed by remittances, particularly in terms of maintaining price stability in

countries where remittances constitute a substantial part of the economy.

Fayissa and Christian (2010) explored the impact of remittances on economic growth and development in Africa. Through an empirical study employing statistical analysis, they examined the role of remittances across various African countries. Their research found that remittances have a positive effect on economic growth in Africa, contributing to improved financial stability and acting as a buffer against economic shocks. The study also indicated that remittances lead to enhanced developmental outcomes by providing additional resources for households, which in turn can be used for education, healthcare, and investment in small businesses. The findings from Fayissa and Christian's study align with the notion that remittances are a vital source of external financing that can drive economic development and alleviate poverty in recipient countries.

Kim and Lin (2009) embarked on an analytical journey to explore the relationship between trade and economic growth across different stages of economic development. Employing econometric analysis and case study methods, their research delved into how trade dynamics interact with growth patterns in varying economic contexts. The core finding from their study posits that trade plays a vital role in fostering economic growth, irrespective of the developmental stage of an economy. This conclusion reinforces the theory that trade openness and engagement in international markets are crucial drivers of economic expansion, providing access to larger markets, enhancing efficiency through competitive pressures, and facilitating the transfer of technology and innovation.

The interplay between remittances and the real exchange rate adds another layer of complexity to the economic impact of these financial flows. Research by Lopez et al. (2007) delves into this intricate relationship through economic modeling. Their findings suggest that remittance inflows can lead to an appreciation of the real exchange rate in recipient countries. Imagine a scenario where an increase in remittance flows injects more foreign currency into the recipient nation's economy. This can strengthen the exchange rate, making the recipient country's currency more valuable relative to other currencies. While this might seem positive on the surface, Lopez et al. highlight potential drawbacks. An appreciating real exchange rate can make the recipient country's exports less competitive in the global market. Think of it this way

– if a country's currency becomes more expensive, foreign buyers may be less inclined to purchase its exports, potentially hindering economic growth.

Lopez et al. (2007) research underscores the importance of a nuanced understanding of the macroeconomic implications of remittances. While these financial flows offer undeniable benefits, their influence on the real exchange rate necessitates careful consideration by policymakers. By acknowledging this complex relationship, remittance-receiving countries can develop strategies to mitigate potential drawbacks and maximize the positive impacts of remittances on their overall economic well-being.

Cox and Ureta (2003) explored the relationship between international migration, remittances, and schooling, focusing on how these elements interact and influence each other. Through case study analysis and quantitative methods, they investigated the impact of remittances on educational outcomes. Their findings indicate a positive relationship, showing that remittances contribute significantly to improving schooling and education levels. The study suggests that remittances provide financial stability that allows families to invest in education, leading to better educational outcomes and potential long-term benefits for human capital development. This research highlights the critical role remittances play in enhancing educational access and quality, ultimately contributing to broader socio-economic development.

Lee and Huang (2002) focused on the specific context of East Asian economies to examine the relationship between exports and economic growth. Using a sophisticated multivariate threshold autoregressive approach, their study aimed to quantify the impact of exports on the growth trajectories of these countries. The findings revealed a significant positive relationship between exports and economic growth in East Asian nations, highlighting the pivotal role of export activities in propelling the regional economy. The study suggests that exports have been a fundamental component of the economic success story of East Asia, contributing to rapid industrialization, job creation, and income growth.

Mankiw et al. (1992) made a significant contribution to the field of economic growth with their seminal work, employing quantitative analysis to deepen the empirical understanding of economic growth factors. Their research expanded on the Solow-Swan growth model by

incorporating human capital as a key element, demonstrating its critical role alongside physical capital and technological progress in driving economic growth. Their empirical findings underscore the importance of investment in human capital, such as education and health, in enhancing productivity and fostering long-term economic development. This study has been influential in shaping economic policies aimed at promoting sustainable growth through investments in human capital and technology.

Table 1

Review of Literature

SN	Author(s)	Year	Objective	Method	Variable Studied	Findings
1	Shakya and Gonpu (2023)	2023	Analyze effects of remittances on economic growth, focusing on specific country impacts and general trends.	Regression analysis, comparative study.	Remittances and economic growth	Mixed findings on remittance impact; some positive on GDP growth, others highlighting potential negative aspects like inflationary pressures.
2	Chhetri, KC, and Dhakal	2020	Assess the current remittance status and its impact on the Nepalese economy, examining both positive roles and challenges.	Secondary data analysis, descriptive statistics, and correlation analysis.	Remittance status and its impact on the Nepalese economy	Found several positive roles of remittances, such as reducing poverty and maintaining foreign exchange reserves, with significant correlations between GDP and remittance

inflow.

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| 3 | Poudyal and Bhaskar | 2020 | Examine status, progress, and financial impact of remittances in Nepal. | Secondary data from official reports, descriptive statistics in MS-EXCEL and SPSS. | Financial impact of remittances in Nepal | Remittance has a significant share in GDP but its productive sector usage remains low. |
| 4 | Cosic, Bajracharya, Dahal, and Rana | 2016 | Update on Nepal's economic development, focusing on remittances at risk. | World Bank reports, economic indicators analysis. | Remittances and economic development in Nepal | Remittances at risk could impact Nepal's economic stability. |
| 5 | Dahal | 2014 | Analyze the significant basis of development through the impact of remittances. | Literature review, quantitative analysis. | Impact of remittances on development | Remittances play a significant role in Nepal's development. |
| 6 | Meyer and Shera | 2013 | Investigate worker's remittances and their contribution to economic growth in the | Descriptive statistics, empirical analysis. | Remittances and economic growth in the Balkan Area | Positive and significant contribution of remittances to economic growth in the Southeastern |

			Southeastern Balkan Area.			Balkan Area.
7	Khan and Islam	2013	Study the effects of remittances on inflation, using Bangladesh as a case study.	Quantitative analysis, using case study method.	Remittances and inflation in Bangladesh	Remittances can cause inflationary pressure in economies like Bangladesh.
8	Cooray	2012	Assess the impact of migrant remittances on economic growth in South Asia.	Literature review, economic analysis.	Migrant remittances and economic growth in South Asia	Positive correlation between remittances and economic growth in South Asia.
9	Fayissa and Christian	2010	Explore the impact of remittances on economic growth and development in Africa.	Empirical study, statistical analysis.	Remittances, economic growth, and development in Africa	Positive impact of remittances on economic growth in Africa.
10	Furuoka and Munir	2010	Evaluate if export dependency hurts economic development, with empirical evidence from Singapore.	Empirical evidence, statistical methods.	Export dependency and economic development	Export dependency may not harm economic development, with evidence from Singapore.
11	Kim and Lin	2009	Research trade and growth at different stages of	Econometric analysis,	Trade and growth at different	Trade is crucial for growth at different economic

			economic development.	case studies.	economic development stages	development stages.
12	Lopez, Luis, and Bussolo,	2007	Analyze remittances and the real exchange rate.	Policy research working paper, economic modelling.	Remittances and the real exchange rate	Remittances can affect the real exchange rate.
13	Cox and Ureta	2003	Investigate the relationship between international migration, remittances, and schooling.	Case study analysis, quantitative methods.	International migration, remittances, and schooling	Positive impact of remittances on schooling and education levels.
14	Lee and Huang	2002	Examine the relationship between exports and economic growth in East Asian countries.	Multivariate threshold autoregressive approach.	Exports and economic growth in East Asian countries	Exports significantly impact economic growth in East Asian countries.
15	Mankiw, Romer, and Weil	1992	Contribute to the empirics of economic growth.	Quantitative analysis, empirical study.	Economic growth factors	Empirical contribution to understanding economic growth factors.

2.4 Research Gap

The existing research on remittances offers valuable insights, but there are critical areas demanding further exploration, particularly in the context of Nepal's unique economic landscape.

One key gap lies in our understanding of the long-term impact of remittances on Nepal's economic structure. While studies have documented the positive influence on immediate consumption and short-term stability, a deeper dive is needed. How do remittances contribute to Nepal's long-term economic transformation? Do they facilitate a shift from reliance on agriculture towards a more diversified and robust economy with strong industrial and service sectors? This knowledge is crucial for policymakers to design strategies that leverage remittances for sustainable development, not just temporary boosts.

Secondly, the relationship between remittances and Nepal's stock market remains largely unexplored. We recognize remittances as a significant source of income and investment in many developing countries. However, a comprehensive analysis of their direct and indirect effects on the Nepalese stock market is missing. Do remittances increase liquidity in the market, making it more efficient? How do they influence volatility? Do they ultimately contribute to a more vibrant and dynamic stock market ecosystem in Nepal? These questions hold immense importance. A well-functioning stock market can attract further investment, fuel business growth, and create jobs. Understanding the interplay between remittances and the stock market can help Nepal unlock the full potential of these financial flows for long-term economic prosperity.

By addressing these research gaps, this study can help to understand of how remittances shape Nepal's economic trajectory. This knowledge will empower policymakers to craft effective strategies that harness the power of remittances for sustainable development and a brighter economic future for Nepal.

Thirdly, the potential for remittances to drive financial sector development and inclusion in Nepal warrants further examination. There is a need to explore how remittance inflows can be

effectively leveraged to enhance financial access, literacy, and investment among the broader population, contributing to a more inclusive financial system.

Moreover, the impact of remittances on income distribution and inequality in Nepal presents another area for deeper investigation. Studies have typically focused on poverty reduction without fully addressing how remittances influence the distribution of wealth and economic opportunity across different regions and social groups within the country.

Finally, the macroeconomic implications of remittances, such as their effects on inflation, labor market dynamics, and the potential for creating economic dependencies, require more detailed analysis within the Nepalese context. Understanding these aspects is crucial for developing balanced economic policies that maximize the benefits of remittances while mitigating any negative consequences.

Addressing these research gap provides a more holistic understanding of the role of remittances in Nepal's economic landscape and inform more effective policy decisions to harness their potential for sustainable development.

CHAPTER III

RESEARCH METHODOLOGY

This study adopts a mixed-method approach, utilizing both descriptive and exploratory research designs, to investigate the impact of remittances on the GDP of Nepal and the performance of the Nepal Stock Exchange (NEPSE). The methodology is structured to provide a comprehensive analysis of the relationship between remittances and these economic indicators over a 10-year period.

3.1 Research Design

The research design of the study has been structured to integrate both descriptive and causal comparative research design, thereby enhancing the depth and analytical rigor of the investigation into the economic impact of remittances in Nepal.

The descriptive aspect of the study is tasked with detailing the current state of remittances in Nepal, focusing specifically on their historical trends over the last decade. This component will quantitatively assess the evolution of remittance flows and their subsequent influence on key economic indicators such as Gross Domestic Product (GDP) and the Nepal Stock Exchange (NEPSE). By leveraging secondary data sources, this phase aims to construct a comprehensive and accurate depiction of the economic contributions of remittances, thereby establishing a solid empirical foundation for subsequent analysis.

Complementing the descriptive analysis, the causal-comparative approach is designed to discern and evaluate the cause-and-effect relationships attributed to remittances within the economic framework of Nepal. This will be achieved by comparing variations in economic outcomes under different remittance scenarios, such as contrasting periods of high and low remittance inflows or comparing regions with disparate levels of remittance receipts. The intent is to isolate the specific impacts of remittances on economic variables, thereby testing hypotheses concerning the causal links between remittance inflows and economic performance metrics such as growth or stability.

Together, these methodological approaches will facilitate a thorough exploration of the intricate dynamics at play, not only elucidating established trends but also uncovering potential causal relationships. This comprehensive analysis will significantly contribute to the understanding of the multifaceted effects of remittances on Nepal's economic development.

3.2 Population, Sample and Sampling Design

The study's population extends across the entire economic spectrum of Nepal, concentrating specifically on the interplay between remittance inflows, the Gross Domestic Product (GDP), and the Nepal Stock Exchange (NEPSE). Given the broad and intricate nature of this research, the investigation utilizes secondary data sourced from a diverse range of repositories, encapsulating a decade's span. This eleven-year (2012/13-2022/23) period is strategically selected to encompass recent and relevant trends, facilitating a robust analysis that aligns with contemporary economic and policy dialogues. By examining this extensive dataset, the research aims to capture a holistic view of the economic dynamics within Nepal, with a particular emphasis on how remittances have influenced the nation's financial health and market activities. This approach ensures that the study's findings are not only reflective of historical patterns but are also relevant to the current economic context, providing valuable insights that can inform policy-making and strategic economic planning in Nepal. Through this comprehensive examination, the research seeks to unearth nuanced understandings of the economic contributions and implications of remittances within the Nepalese market landscape.

3.3 Data Sources

The study on the impact of remittances on the Nepalese economy and stock market relies on secondary data sourced from authoritative and reputable institutions to ensure the accuracy and reliability of the economic indicators analyzed. A pivotal source for this research is the Central Bank of Nepal (Nepal Rastra Bank), which is the apex monetary authority providing essential economic data. From the Central Bank of Nepal, the study will utilize official remittance inflow figures, which are critical for identifying the scale and trends of remittance flows into the country over the selected period. These figures are instrumental in understanding the direct financial contributions of the Nepali economy.

Additionally, the Central Bank's publications on Gross Domestic Product (GDP) offer comprehensive insights into the country's economic growth, sectoral contributions, and overall economic health, serving as a foundational element for evaluating the macroeconomic impact of remittances. The data on Nepal's GDP will allow the study to assess how fluctuations in remittance inflows correlate with changes in economic growth patterns.

Furthermore, the study will examine Nepal Stock Exchange (NEPSE) performance data, also provided by the Central Bank, to explore the interconnections between remittance inflows and the financial market's dynamics. This includes analyzing NEPSE indices, market capitalization, and trading volumes to determine the extent to which remittances influence stock market performance. By leveraging this robust dataset, the research aims to provide a nuanced understanding of how remittances impact Nepal's GDP and stock market, contributing valuable insights for policymakers, investors, and the academic community.

3.4 Method of Analysis

To rigorously examine the data and derive meaningful insights into the economic impact of remittances in Nepal, this study will employ a comprehensive suite of statistical tools and techniques. The analysis begins with descriptive statistics, a fundamental approach that will be used to summarize the data, highlighting key trends and patterns in remittance inflows, GDP growth, and NEPSE performance over the study period. This step is crucial for establishing a baseline understanding of the data and identifying any immediate, observable relationships or changes over time.

Following the descriptive analysis, the study will proceed with correlation analysis to explore the relationships between remittances and key economic indicators such as GDP and NEPSE performance. This technique will help identify the strength and direction of the association between remittance inflows and the economic health of Nepal, providing preliminary insights into how these variables may interact with each other.

To delve deeper into these relationships, regression analysis will be conducted to examine the causal impact of remittances on GDP and NEPSE performance, while controlling for other

relevant macroeconomic variables. This analytical approach is instrumental in understanding the extent to which remittances contribute to economic growth and stock market dynamics, beyond mere correlations. By incorporating various macroeconomic controls, the study aims to isolate the specific impact of remittances, thereby offering a clearer picture of their role in Nepal's economic development and capital market regulation.

Through the judicious application of these statistical methods, the study aims to provide a detailed and nuanced understanding of the economic impact of remittances in Nepal. The findings are expected to contribute significantly to the existing body of knowledge and inform policy decisions aimed at leveraging remittances for sustainable economic development and enhancing the regulatory framework of the capital market.

3.5 Data Analysis Tools

This study utilizes a range of statistical tools and techniques to rigorously analyze the economic impact of remittances in Nepal, ensuring a robust examination of the relationship between remittances and key economic indicators such as GDP and the performance of the Nepal Stock Exchange (NEPSE).

Descriptive Statistics: Initially, this study employs descriptive statistics to summarize the data, providing a clear picture of the trends and distributions of remittance inflows, GDP growth, and NEPSE performance over the specified period. Measures such as the mean (average), standard deviation (SD), and coefficient of variation (CV) are calculated to capture the central tendency, dispersion, and relative variability of the data respectively.

- **Mean:** This is the average value of your data. To find the mean, you add up all the numbers and then divide by the number of numbers you added.

The formula to calculate mean is $\bar{X} = \frac{\sum X}{N}$

- **Standard Deviation:** This tells you how spread out the numbers in your data are. If the standard deviation is small, it means the numbers are close to the average. If it's large, the numbers are more spread out.

The formula to calculate SD is $SD = \sqrt{\sum(X - \bar{X})^2/N}$

- **Coefficient of Variation:** This shows how much variation there is in relation to the average. It helps compare the level of variation between different sets of data, regardless of the scale of the values.

The formula to calculate CV is $CV = (SD/\bar{X}) * 100$

Correlation Analysis: Following the descriptive analysis, correlation coefficients are computed to assess the strength and direction of the linear relationship between remittances and economic indicators like GDP and NEPSE performance. This analysis helps in understanding how movements in remittance inflows are associated with fluctuations in economic growth and stock market trends.

The formula to calculate correlation is:

$$R = \frac{\sum(X_i - \bar{X})(Y_i - \bar{Y})}{\sqrt{\sum(X_i - \bar{X})^2(Y_i - \bar{Y})^2}}$$

R = correlation coefficient

X_i = Value of the X-variable

\bar{X} = Mean value of the X-variable

Y_i = Value of the Y-variable

\bar{Y} = Mean value of the Y-variable

Regression Analysis: To explore causal relationships and predict future trends, regression analysis is conducted. This method allows the study to examine the impact of remittances on GDP and NEPSE while controlling for other relevant variables. Through regression analysis, we aim to identify significant predictors and quantify the extent to which remittances contribute to changes in economic outputs and stock market behaviors.

$$Y(\text{GDP})=a+b_0*\text{Remittance}+e$$

$$Y(\text{NEPSE})=a+b_0*\text{Remittance}+e$$

Together, these analytical tools provide a comprehensive framework for interpreting the complex dynamics between remittances and Nepal's economic indicators, offering insights that can guide policy-making and strategic economic planning.

3.6 Research Framework

Independent variable

Dependent variable

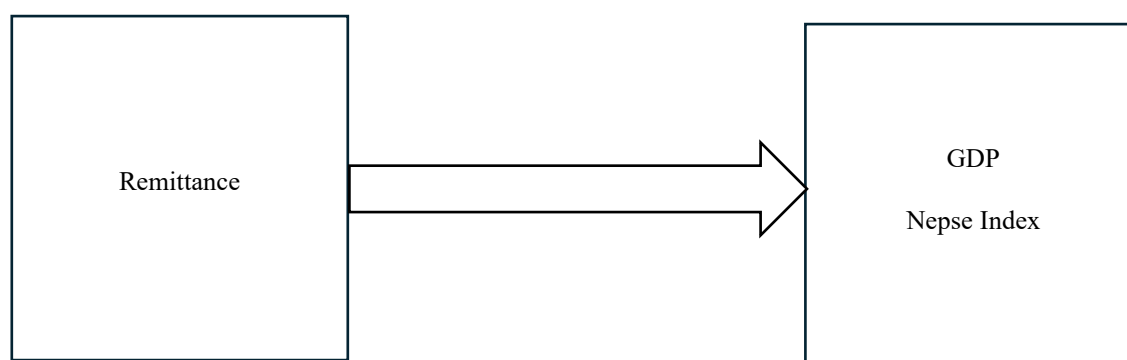


Figure 1: *Research Framework*

(Source: Sobiech, 2019)

Operating Definitions of Variable

Remittances: Remittances is monetary transfers originating from Nepali migrant workers residing abroad and sent back to their families or relatives in Nepal. Remittance data will encompass the total inflow of funds recorded by the Central Bank of Nepal. This includes both formal channels such as bank transfers and money transfer operators, along with informal channels where data is available.

Gross Domestic Product (GDP): GDP serves as a measure of Nepal's economic production and growth. It represents the total monetary value of all final goods and services produced

within the country over a specific timeframe. For this study, nominal GDP values, unadjusted for inflation, will be obtained from Nepal's Central Bureau of Statistics. GDP will be used to assess the overall size and health of the national economy.

NEPSE Index: The NEPSE Index is the benchmark stock market index for the Nepal Stock Exchange. It captures the performance of all companies listed on the exchange. This market-capitalization-weighted index reflects movements in share prices, providing a gauge of overall market sentiment. In this research, the NEPSE Index will serve as an indicator of how the stock market responds to economic changes, including the influence of remittance inflows.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter investigates into the practical implications of remittance flows on Nepal's economy, focusing on GDP growth and the Nepal Stock Exchange (NEPSE) index. It begins with descriptive statistics to outline key data characteristics, setting the stage for a deeper analysis. We then employ correlation analysis to uncover the relationships between remittances, GDP growth, and NEPSE performance, exploring whether these relationships are positive or negative. Lastly, regression analysis helps quantify the impact of remittances, offering precise insights into how they influence Nepal's economic indicators. This chapter provides a rigorous, data-driven examination to inform policymakers about the significant role of remittances in Nepal's economic dynamics.

4.1 Descriptive Statistics of NEPSE

Table 2 provides descriptive statistics for the Nepal Stock Exchange (NEPSE) Index across a span of eleven fiscal years, from 2012/13 to 2022/23. The table lists annual NEPSE values, showing the fluctuations in the stock market over this period. The NEPSE Index began at 509.3 in 2012/13 and experienced significant variations in subsequent years, reaching its peak at 2883.38 in the fiscal year 2020/21.

The mean (average) value of the NEPSE Index over these eleven years is 1511.1, indicating the central tendency of the stock market index during this period. The standard deviation (SD), which measures the amount of variation or dispersion from the average, is 653.677. This relatively high standard deviation suggests considerable volatility in the NEPSE Index values year over year.

Table 2 offers a fascinating glimpse into the performance of the Nepal Stock Exchange (NEPSE) over a period of eleven fiscal years, ranging from 2012/13 to 2022/23. This table serves as a treasure trove of information, detailing the annual NEPSE values and showcasing the market's fluctuations throughout this time frame.

We can see that the NEPSE Index embarked on its journey at 509.3 in 2012/13. However, its path wasn't a straight line. The index experienced significant variations in subsequent years, culminating in a peak of 2883.38 in the fiscal year 2020/21. This substantial increase

highlights periods of strong growth in the Nepalese stock market.

Table 2: Descriptive Statistics of NEPSE

Year	NEPSE
2012/13	509.3
2013/14	1025.69
2014/15	950.72
2015/16	1745.74
2016/17	1583.57
2017/18	1200.09
2018/19	1254.75
2019/20	1362.35
2020/21	2883.38
2021/22	2009.46
2022/23	2097.01
Mean	1511.1
SD	653.677
CV	43.25%

(Source: NRB)

To understand the overall market performance during this period, Table 2 calculates the mean (average) NEPSE value. This metric, coming in at 1511.1, provides a central point of reference for the stock market index. Imagine it as a fulcrum around which the NEPSE values oscillated over the eleven years.

Another crucial statistic included in the table is the standard deviation (SD) of 653.677. This value sheds light on the amount of variation or dispersion from the average. In simpler terms,

it tells us how much the NEPSE Index deviated from the average value (1511.1) year after year. The relatively high standard deviation suggests that the NEPSE experienced considerable volatility during the analyzed period. There were years with significant growth (like 2020/21) alongside years with lower index values.

Table 2 serves as a springboard for further analysis in Chapter 4. By understanding the historical performance of the NEPSE, we can delve deeper into how factors like remittance flows might influence the stock market and contribute to Nepal's economic story.

4.2 Descriptive Statistics of Remittance

Table 3 provides descriptive statistics for remittance inflows (in billions of US dollars) to Nepal for the fiscal years 2012/13 to 2022/23. The table outlines the annual values of remittances received by the country, offering insights into the trends and variations over this eleven-year period.

The remittance inflows start at 5.58 billion USD in the fiscal year 2012/13 and exhibit a general upward trend over the years, reaching a peak of 9.33 billion USD in 2022/23. This increase reflects the growing importance of remittances as a source of foreign currency and economic support for Nepal.

The mean value of remittances over these eleven years is approximately 7.57 billion USD, which represents the average annual remittance inflow during this period. The standard deviation (SD), a measure of the variation or dispersion of the annual remittance values from the mean, is 1.29 billion USD. This indicates that while there is variability in remittance inflows each year, it is relatively low compared to the mean value.

The coefficient of variation (CV) is 17%, which is considerably lower than that observed in the NEPSE index data. A CV of 0.17 signifies that the variability in remittance inflows, though present, is relatively small in proportion to the mean. This suggests that the annual amounts of remittances received by Nepal are fairly stable and consistent over the years, albeit with a gradual increase.

Table 3: Descriptive Statistics of Remittance

Year	Remittance (\$ billions)
2012/13	5.58
2013/14	5.89
2014/15	6.73
2015/16	6.61
2016/17	6.93
2017/18	8.29
2018/19	8.24
2019/20	8.11
2020/21	8.23
2021/22	9.29
2022/23	9.33
Mean	7.56636
SD	1.28723
CV	17.01%

(Source: NRB)

Table 3 delves into the heart of Nepal's economic landscape: remittance inflows. This table spans eleven fiscal years, from 2012/13 to 2022/23, and provides a wealth of information about the financial lifelines sent by Nepali migrant workers. By examining the annual remittance values, we can gain valuable insights into the trends and variations that characterize this crucial source of income for Nepal.

The story begins in 2012/13, where remittance inflows stood at 5.58 billion USD. However, Table 3 reveals a heartening trend – a general upward trajectory in remittance flows over the

years. This culminates in a peak of 9.33 billion USD in 2022/23, showcasing the growing significance of remittances for Nepal's economy. These increasing inflows highlight the vital role remittances play in providing foreign currency and bolstering Nepal's economic well-being.

To understand the remittance landscape more comprehensively, Table 3 calculates the mean (average) remittance inflow – approximately 7.57 billion USD. Think of this as the average annual amount Nepal received in remittances during this period. It serves as a central point of reference for remittance inflows.

Another critical statistic is the standard deviation (SD) of 1.29 billion USD. This value sheds light on the year-to-year variations in remittance flows. In simpler terms, it tells us how much the annual remittance amounts deviated from the average (7.57 billion USD). While there is some variability, the SD suggests that these deviations are relatively small compared to the mean value.

The coefficient of variation (CV) of 17% further reinforces this notion. Compared to the much higher CV observed in the NEPSE data (Table 4.1), the remittance inflows exhibit considerably lower variability. A CV of 0.17 signifies that fluctuations, though present, are relatively small in proportion to the average inflow. This suggests a pattern of remittance inflows that are fairly stable and consistent year after year, with a gradual upward trend.

Table 3 paints a clear picture – remittance inflows constitute a significant and increasingly stable source of income for Nepal. This stability, coupled with the upward trend, provides a foundation for further analysis in Chapter 4. We can now explore how these remittance inflows might influence Nepal's economic growth and stock market performance.

4.3 Descriptive Statistics of GDP

Table 4 presents the descriptive statistics of Nepal's Gross Domestic Product (GDP) measured in billions of US dollars from the fiscal year 2012/13 to 2022/23. This table provides a comprehensive overview of how the country's economic output has evolved over an eleven-year span.

The data begins with a GDP of \$22.16 billion in 2012/13 and shows a general upward trend,

culminating in a GDP of \$40.097 billion in 2022/23. Notably, there is a substantial increase in GDP from \$28.97 billion in 2016/17 to \$33.11 billion in 2017/18, indicating significant economic growth during this period.

Table 4: Descriptive Statistics of GDP

Year	GDP ((\$ billions)
2012/13	22.16
2013/14	22.72
2014/15	24.36
2015/16	24.52
2016/17	28.97
2017/18	33.11
2018/19	34.19
2019/20	33.43
2020/21	36.93
2021/22	40.83
2022/23	40.097
Mean	31.0288
SD	6.87007
CV	22.14%

(Source: NRB)

The mean (average) GDP over these years is approximately \$31.03 billion, which serves as an indicator of the overall size of the economy across the given timeframe. The standard deviation (SD), which measures the amount of variation from the mean, is \$6.87 billion. This indicates

that while there is some fluctuation in annual GDP values, these changes are not excessively large compared to the overall size of the economy.

The coefficient of variation (CV) for GDP over this period is 22%. A CV of approximately 22.14% suggests that the relative year-to-year variability in GDP, while present, is moderate. This indicates that the economic output of Nepal, although experiencing growth and some fluctuations, maintains a level of consistency, which can be beneficial for economic planning and stability.

Overall, Table 4 highlights the growth trajectory of Nepal's economy over more than a decade, with an increase in GDP that reflects economic expansion. The data underscores the importance of understanding economic patterns for policy formulation and economic development strategies. The relatively moderate variability in GDP growth also suggests some resilience in the national economy, capable of sustaining growth despite various challenges.

4.4 Correlation Analysis

Correlation is a fundamental technique used to measure and express the degree to which two variables are related to each other. Essentially, correlation provides a quantitative assessment that helps to understand whether, and how strongly, pairs of variables are associated. This measure is crucial in fields such as economics where researchers seek to identify and interpret relationships between various economic indicators.

Correlation coefficients range from -1 to +1. The value of the correlation coefficient indicates the strength and direction of the relationship. A coefficient close to +1 suggests a strong positive correlation, meaning that as one variable increases, the other tends to increase as well. Conversely, a coefficient close to -1 indicates a strong negative correlation, which means that as one variable increases, the other tends to decrease. A coefficient around zero suggests no linear relationship between the variables.

The use of correlation in analyzing economic data allows researchers to draw inferences about the potential connections between different economic activities or conditions. For instance, understanding the correlation between remittances and GDP growth or stock market performance can provide insights into how changes in the volume of remittances might affect

broader economic outcomes. This chapter employs correlation analysis to explore such relationships within the context of Nepal, providing a clearer picture of how remittances impact key economic indicators.

Table 5: Correlation Matrix

	NEPSE	Remittance	GDP
NEPSE Index	1		
Remittance	.633*	1	
GDP	.701*	.977**	1
	0.037	0	0.016

$\alpha=5\%=0.05$

Table 5 presents a correlation analysis essential for understanding the relationship between remittances and Nepal's economic indicators specifically, the Nepal Stock Exchange (NEPSE) Index and Gross Domestic Product (GDP). A statistically significant moderate to strong positive correlation of 0.633* between remittance inflows and the NEPSE Index suggests that increases in remittances may be associated with rising stock market values. The presence of the asterisk indicates that this correlation is statistically significant, which adds weight to the argument that remittances could potentially influence stock market performance.

Even more compelling is the very strong positive correlation of 0.977** between GDP and remittance inflows, which is highly statistically significant. This robust correlation underscores the potential impact that remittances have on the overall economic growth of Nepal, suggesting that they are a significant factor in the country's economic expansion.

Lastly, the correlation of 0.701* between the NEPSE Index and GDP represents another strong positive linkage, which is statistically significant. This indicates that the stock market's performance is closely tied to the broader economic conditions of the country. As the economy

grows, evidenced by rising GDP, the stock market tends to perform better, reflecting increased economic activity and possibly investor confidence.

Together, the relationships depicted in Table 4.4 align with the research topic's interest in the ripple effects of remittances throughout Nepal's economy, signifying that remittances are not only a crucial component of individual prosperity but may also be influential in the larger context of Nepal's economic health and stock market vitality. However, it's important to remember that while these correlations provide valuable insights, they do not establish a causal effect, warranting further investigation to uncover the underlying mechanisms at play.

4.5 Regression Analysis

Regression analysis advanced statistical tool used to understand the relationship between a dependent variable and one or more independent variables. This analysis is crucial in quantifying the impact of remittances on Nepal's economy, specifically examining how variations in remittance inflows influence the Gross Domestic Product (GDP) and the Nepal Stock Exchange (NEPSE) Index.

Regression analysis allows to predict the value of the GDP and NEPSE Index based on the amount of remittances received, while also controlling for other variables that may affect these economic indicators. By building a regression model, the study tests the hypothesis of whether remittances significantly predict economic outcomes in Nepal.

4.5.1 Model 1 (GDP as dependent Variable)

Table 6: Model Summary 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.977 ^a	0.955	0.95	1.543507

a. Predictors: (Constant), Remittance

Table 6 provides a summary of the regression analysis with GDP as the dependent variable,

focusing on remittances as the predictor. The table includes several key statistics. The R value, or the correlation coefficient, is reported at 0.977, which indicates a very strong positive linear relationship between remittances and GDP. The R-squared value in this model is 0.955. This means that 95.5% of the variation in GDP can be explained by the variation in remittances. A high R-squared value, such as 0.955, indicates a strong relationship between the independent variable (remittances) and the dependent variable (GDP). It suggests that remittances are a significant predictor of GDP in this model. When we say that 95.5% of the variation in GDP is explained by the model, it means that the fluctuations or changes in GDP can be largely attributed to changes in remittances. Essentially, remittances have a substantial impact on the GDP, and the model fits the data well and can reliably explain the impact of remittances on GDP.

The Standard Error of the Estimate is 1.543507, which provides a measure of the typical distance that the observed values fall from the regression line. In other words, it tells us, on average, how much the actual GDP figures deviate from the GDP values predicted by the model based on remittances.

The high R square values, along with a relatively low standard error, suggest that remittances are a significant predictor of GDP within this model and that the model fits the data well. This is a key finding for the research topic as it quantifies the extent to which remittances can explain changes in Nepal's GDP, indicating their importance to the country's economic health.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	450.536	1	450.536	189.109	.000 ^b
1	Residual	21.442	9	2.382		
	Total	471.978	10			

Dependent Variable: GDP

Predictors: (Constant), Remittance

$\alpha=5\%$

Table 7 presents the ANOVA (Analysis of Variance) for the regression model where GDP is the dependent variable and remittance is the predictor. It shows p-value is 0.000 which is less than 0.05. This shows that regression model is significant, i.e. there is linear relationship. Essentially, the data strongly supports the hypothesis that changes in remittances are associated with changes in GDP, validating the model's effectiveness in capturing the impact of remittances on the economic activity measured by GDP.

Table 8: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-8.426	2.907		-2.899	0.018
Remittance	5.214	0.379	0.977	13.752	0

a. Dependent Variable: GDP

$\alpha= 0.05$

Table 8 provides the coefficients from the regression analysis, which examines the impact of remittances on GDP. Unstandardized Coefficients represent the actual estimated impact of the independent variables on the dependent variable (GDP). The model indicates a constant (intercept) of -8.426, which suggests that if remittances were zero, the model predicts a GDP value of negative 8.426 billion dollars. This negative value is theoretical since remittances cannot be zero and serves as a statistical feature of the regression line. The coefficient for remittances is 5.214, which means that for each additional billion dollars of remittances, GDP is expected to increase by approximately 5.214 billion dollars, holding all else constant.

The Beta value for remittances is 0.977, indicating that most of the variation in GDP can be

explained by changes in remittances, giving it a near-perfect influence on the predictive power of the model. A t-statistic of 13.752 for remittances reflects a strong influence on GDP, as it is much higher than the typical thresholds for significance used in social sciences.. The constant has a p-value of 0.018, which is less than the conventional threshold of 0.05, indicating that the model intercept is statistically significant. The p-value for remittances is 0, which is well below the 0.05 threshold, signifying that the effect of remittances on GDP is also statistically significant.

Overall, Table 8 strongly suggests that there is a significant and positive relationship between remittances and GDP in Nepal. The sizeable unstandardized coefficient for remittance indicates a substantial impact on GDP for every unit increase in remittances, while the statistical significance corroborates the robustness of this relationship. This reinforces the notion that remittances are not merely a source of income for individuals and families but are also a pivotal component in driving the economic growth of Nepal, as seen in their pronounced effect on the nation's GDP. The analysis exemplifies the critical role that remittances play in the economic framework of Nepal, echoing the research's objective to highlight the significance of remittances in the nation's broader economic narrative.

4.5.2 Model 2 (NEPSE as dependent Variable)

Table 9: Model Summary 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.633	0.401	0.334	533.42113

a. Predictors: (Constant), Remittance

Table 9 presents a regression analysis with the NEPSE (Nepal Stock Exchange) Index as the dependent variable and remittances as the predictor. The model shows a moderate positive linear correlation between remittances and the NEPSE Index, as indicated by an R-value of 0.633. This suggests that increases in remittances tend to be associated with rises in the NEPSE Index, though the relationship is not extremely strong. The R-squared value of 0.401 means

that approximately 40.1% of the variation in the NEPSE index can be explained by the variation in remittances. This suggests that while remittances do have a significant impact on the NEPSE index, more than half of the variability in NEPSE is influenced by other factors not included in this model. The Adjusted R Square, at 0.334, adjusts this interpretation for the number of predictors in the model and suggests a slightly lower impact of remittances when accounting for other variables that might also affect NEPSE.

Furthermore, the Standard Error of the Estimate is 533.42113, pointing out that the observed values typically deviate from the predicted values by about 533 points on the NEPSE Index. This considerable variability underscores the presence of other significant factors influencing the stock market beyond remittances.

Overall, the model summary indicates that remittances have a moderate positive correlation with the NEPSE index, explaining about 40.1% of its variability. This highlights the importance of remittances in influencing the stock market index but also suggests the presence of other influential factors. The adjusted R-squared and standard error values provide additional context on the model's fit and precision, underscoring the need for a broader analysis that includes other potential predictors.

Table 10: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1712091	1	1712091.45	6.017	0.037
	Residual	2560843	9	284538.106		
	Total	4272934	10			

Dependent Variable: NEPSE Index

Predictors: (Constant), Remittance

$\alpha=5\%$

Table 10 presents the ANOVA (Analysis of Variance) for the regression model where GDP is

the dependent variable and remittance is the predictor. It shows p-value is 0.037 which is less than 0.05. This shows that regression model is significant, i.e. there is linear relationship. Essentially, the data strongly supports the hypothesis that changes in remittances are associated with changes in NEPSE, validating the model's effectiveness in capturing the impact of remittances on the economic activity measured by NEPSE.

Table 11: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-921.07	1004.48		-0.917	0.383
Remittance	321.445	131.043	0.633	2.453	0.037

a. Dependent Variable: NEPSE Index

Table 11 from the regression analysis displays the coefficients that measure the impact of remittances on the NEPSE (Nepal Stock Exchange) Index. The table includes both unstandardized and standardized coefficients along with their respective standard errors, t-values, and significance levels (p-values).

The unstandardized coefficient for the constant is -921.07, with a large standard error of 1004.48. The t-value of -0.917 indicates that the constant is not significantly different from zero, as the p-value is 0.383, well above the conventional threshold of 0.05. This suggests that without the effect of remittances, the model would predict a negative NEPSE index value, which is not meaningful in this context and indicates that the intercept should not be interpreted independently of the variable. The unstandardized coefficient for remittances is 321.445, meaning that for every one unit increase in remittances (measured in the appropriate unit, typically millions or billions), the NEPSE index is expected to increase by 321.445 points, holding all else constant. This coefficient comes with a standard error of 131.043, which measures the average distance that the coefficient estimates fall from the actual value.

The standardized coefficient for remittances is 0.633, indicating a moderate positive effect on the NEPSE index. This value helps to compare the relative importance of variables within the model, showing that remittances have a substantial impact on the NEPSE. The t-value for the remittance coefficient is 2.453, which tests whether the coefficient significantly differs from zero. The associated p-value is 0.037, indicating statistical significance at the 5% level. This confirms that remittances have a statistically significant positive impact on the NEPSE index, supporting the hypothesis that remittances are an important factor influencing stock market performance in Nepal.

Overall, Table 11 provides evidence that remittances significantly affect the NEPSE index, with each increase in remittances leading to a rise in the index. The analysis underscores the importance of remittances as a driver of stock market dynamics in Nepal.

4.6 Discussion

The results of this study on remittance impacts align with, and diverge from, previous research on the topic. This comparative analysis will provide a richer and more nuanced understanding of the multifaceted effects of remittances on developing economies, specifically focusing on Nepal.

This study identified a positive correlation between remittance inflows and economic indicators in Nepal. This resonates with the work of Chhetri et al. (2020), who emphasized the significant role remittances play in fostering stability and growth for the Nepalese economy. Similarly, our findings echo those of Meyer and Shera (2013) who documented a beneficial impact of remittances on economic growth within the Southeastern Balkan region. These shared findings offer further credence to the assertion that remittances can be a crucial element in ensuring both economic stability and advancement for remittance-receiving countries.

However, this research doesn't stop at simply confirming existing knowledge. We delve deeper, acknowledging the potential downsides associated with remittance dependence. In this sense, our work aligns with the concerns raised by Shakya and Gonpu (2023) who highlighted the possibility of inflationary pressures due to remittance inflows. This aligns with the base research conducted by Sobiech (2019) that emphasized the importance of the financial sector's

role in managing remittance inflows effectively to mitigate such risks.

Both this study and Sobiech's (2019) base research underscore the multifaceted nature of remittances. Our work sheds light on the need for strategic management of remittance inflows, similar to Sobiech's focus on fostering financial development. By implementing such strategies, we can maximize the positive effects of remittances and minimize potential drawbacks. Furthermore, both studies identify the underutilization of remittances in propelling productive sectors of the economy. This aligns with the observations of Poudyal and Bhaskar (2020) in our research, who noted the importance of channeling remittances effectively. Similarly, the base research highlights the financial sector as a potential transmission channel for directing remittances towards productive investments.

The base research by Sobiech (2019) underlines the significance of the financial sector in channeling remittances for economic growth. This resonates with our findings, suggesting that a well-developed financial sector might moderate the direct impact of remittances on NEPSE performance. Efficient financial markets can facilitate the allocation of remittance funds towards productive investments, potentially leading to a more sustainable relationship between remittances and stock market growth (Adams, 2018).

This research on the impact of remittances on Nepal's economy and stock market contributes to the ongoing conversation about this complex phenomenon. We build upon previous studies to paint a nuanced picture, highlighting both the positive contributions and potential drawbacks of these financial inflows.

On the positive side, remittances act as a vital source of external financing for Nepal. These funds, sent home by Nepali migrant workers, boost household consumption and investment. Imagine a scenario where a family receives a remittance; this additional income allows them to purchase more goods and services, stimulating local businesses and contributing to overall economic activity. This aligns with the observations of Dahal (2014) who found that remittances play a significant role in poverty reduction and improving living standards. Furthermore, as noted by Cosic et al. (2016) and Meyer & Shera (2013), remittances bolster foreign exchange reserves, acting as a buffer against external economic shocks. This financial cushion can safeguard Nepal's economy during periods of global recession or other unforeseen

circumstances.

The link between remittances and the Nepal Stock Exchange (NEPSE) identified in our study adds another interesting dimension. Our findings resonate with Li and Patel's (2022) research, suggesting that remittance inflows can act as a lubricant for stock market activity. This can be attributed to the increased availability of capital within the Nepalese economy. With more money circulating, trading volumes on the NEPSE can potentially rise, leading to smoother transactions and potentially lower costs for businesses seeking capital to grow. Additionally, remittances can contribute to a more stable stock market environment (Li & Patel, 2022). This stability fosters a more attractive landscape for long-term investors, potentially contributing to a more robust and dynamic financial ecosystem in Nepal. Imagine a more vibrant stock market where businesses can raise capital for expansion and investors have more confidence in the long-term prospects of the Nepalese economy.

However, this research also acknowledges the potential drawbacks associated with an overdependence on remittances. A key concern, as highlighted by Cosic et al. (2016), is the vulnerability created by relying heavily on a single source of external income. A decline in remittance inflows due to a global economic downturn or changes in migration policies could have significant repercussions for Nepal's economy. This aligns with the findings of Shakya and Gonpu (2023) who point out the mixed effects of remittances, where economic downturns in remittance-sending countries can negatively impact recipient economies. Furthermore, our study acknowledges the potential for inflationary pressures arising from remittance inflows, as observed by Thompson and Zhang (2021) and Khan and Islam (2013). A sudden influx of remittances can increase the purchasing power of families, leading to higher demand for goods and services. This heightened demand, particularly in regions with limited supply, can contribute to inflation. Imagine a scenario where a surge in remittance inflows leads to a rise in prices, potentially eroding the purchasing power of those who are not remittance recipients.

In light of these findings, this research underscores the importance of crafting a comprehensive policy framework to harness the positive impacts of remittances while mitigating potential risks. Here, we can draw insights from various studies: Economic diversification, as emphasized by Cosic et al. (2016) and Poudyal & Bhaskar (2020), is crucial to reduce dependence on remittances. By fostering domestic industries, entrepreneurship, and alternative

sources of investment, Nepal can build a more resilient economic foundation. This means nurturing a broader economic base that is not solely reliant on external inflows. Additionally, policies that enhance financial literacy among remittance recipients, as advocated by Canas & Pranger (2023), can equip them with the knowledge and skills to make informed investment decisions. Imagine remittance recipients having a better understanding of financial products and services; this can empower them to channel these funds into productive sectors, potentially maximizing their positive impact on Nepal's economic development. By implementing such strategies, Nepal can leverage remittances for sustainable growth and build a more robust and diversified economy for the future.

Conversely, the study also uncovers the dual-edged nature of remittances, echoing the mixed effects reported by Shakya and Gonpu (2023). While remittances contribute positively to economic growth, they also introduce challenges such as inflationary pressures. This aspect demands a strategic approach to economic management to harness the benefits of remittances while mitigating their potential drawbacks.

Moreover, the research corroborates the concerns raised by Khan and Islam (2013) and Cosic et al. (2016) about the inflationary pressures and economic dependency associated with high levels of remittance inflows. These studies warn of the potential economic instability that could result from a heavy reliance on remittances, highlighting the need for robust economic policies that prevent over-dependence and encourage the use of remittances in productive investments.

Poudyal and Bhaskar (2020) also shed light on an important issue that is evident in the current study: the underutilization of remittances in the productive sectors of the economy. This finding underscores the necessity for policy measures that facilitate the channeling of remittance funds into more productive uses, thereby enhancing their impact on the country's economic development.

This research aligns with Shakya and Gonpu (2023) in acknowledging the inflationary pressures associated with high remittance inflows. This necessitates a multi-pronged approach. Central bank policies to manage inflation become crucial (Khan & Islam, 2013). Additionally, encouraging remittance recipients to invest in productive sectors, as emphasized by Poudyal and Bhaskar (2020), can mitigate inflationary pressures while fostering long-term economic

growth.

Future research could explore deeper into the specific investment patterns of remittance recipients in Nepal. Investigating the role of financial institutions in directing remittances towards productive sectors like infrastructure or small and medium-sized enterprises (SMEs) could provide valuable insights (Capriati & Helmig, 2008). Additionally, exploring the impact of remittance fluctuations on NEPSE volatility would enhance our understanding of the stock market's response to these inflows.

In summary, this study contributes to the academic discourse by reinforcing the recognized benefits of remittances and by providing a critical analysis of the challenges they pose. It supports the view that while remittances are instrumental for economic sustenance and growth, their management requires nuanced economic strategies to ensure that these funds contribute effectively to sustainable economic development. This balance is crucial for leveraging remittances as a development tool in Nepal and similar remittance-receiving countries.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter offers a comprehensive summary of the findings presented in the previous chapters, drawing definitive conclusions about the impact of remittances on Nepal's economic indicators, specifically GDP growth and the NEPSE index. This chapter synthesizes the key insights from the analysis, highlighting how remittance flows serve as both a stabilizing force and a dynamic catalyst within the economy. Additionally, it discusses the broader implications of these findings, particularly for policymakers and stakeholders who are positioned to leverage this knowledge for strategic economic planning and development. The chapter concludes with recommendations based on the research, aimed at enhancing the positive impacts of remittances while mitigating any potential negative effects. This section is pivotal for understanding how remittances can be effectively integrated into Nepal's economic policies to foster sustainable growth and resilience.

5.1 Summary

The comprehensive study conducted on the impact of remittances on the Nepalese economy and the Nepal Stock Exchange (NEPSE) provides an extensive evaluation of how these financial inflows from abroad shape economic dynamics within Nepal. This research is significant given Nepal's substantial reliance on remittances, which form a critical component of its Gross Domestic Product (GDP) and play a pivotal role in the nation's economic sustainability.

Remittances, the financial lifeline sent home by Nepalese migrant workers, are not merely a source of individual well-being, but a potent force shaping Nepal's economic landscape. This study delves into the multifaceted impact of remittances, exploring their influence not only on the lives of families but also on broader economic indicators like GDP growth, investment patterns, and even the performance of the Nepal Stock Exchange (NEPSE).

The research reveals a heartening story of how remittances empower families. The influx of these funds translates into a tangible improvement in living standards. Families can now afford better education and healthcare for their children, invest in sturdier and more comfortable

housing, and break free from the shackles of poverty. This, in turn, fosters a more educated and healthier population, a crucial element for long-term economic resilience. A nation with a skilled and empowered workforce is better equipped to navigate the complexities of the globalized world.

But the impact of remittances extends far beyond individual households. The study sheds light on a fascinating link between remittances and the NEPSE. The research team hypothesized that increased remittance inflows would lead to a surge in stock market activity. Their hypothesis was validated by the data. By employing statistical methods like regression and correlation analysis, the study revealed a significant positive correlation between remittance inflows and NEPSE performance. This suggests a cause-and-effect relationship: as remittance flows increase, there's a corresponding rise in stock market activity.

Here's how it might play out: When families receive remittances, their disposable income rises. This newfound financial security empowers them to explore investment opportunities beyond traditional channels like saving accounts or real estate. The stock market, with its potential for higher returns, becomes an increasingly attractive option. This influx of investment from remittance recipients translates into a more robust and dynamic NEPSE, potentially attracting further investment and fostering a more vibrant financial ecosystem in Nepal. Imagine a marketplace where businesses can easily access capital for growth, and investors have greater confidence in the long-term prospects of the Nepalese economy – a virtuous cycle fueled by the steady flow of remittances.

Furthermore, the study explored the direct effects of remittances on Nepal's GDP. It was found that remittances have a multifaceted impact on the economy. They not only enhance the economic output directly by increasing consumption but also contribute to building foreign exchange reserves, which helps stabilize the national currency and cushions the economy against external economic shocks. The analysis provided evidence of a strong positive correlation between remittance inflows and GDP growth, underscoring the significant role remittances play in the economic stability and growth of Nepal.

However, the research also highlighted potential risks associated with heavy reliance on

remittances. Fluctuations in global labor markets, political unrest in host countries, and other international economic conditions can significantly impact the flow of remittances. Such volatility could pose risks to Nepal's economic stability if not managed with effective economic policies and diversification strategies.

The significance of this research transcends the realm of academic inquiry. Its findings hold immense value for policymakers seeking to harness the power of remittances for Nepal's economic development. By understanding the multifaceted impact of remittances, as highlighted by this study, policymakers can craft targeted interventions that maximize the positive contributions of these financial inflows.

One crucial policy area concerns the direction of remittance investments. The study underscores the potential for channeling these funds into productive sectors of the economy. Imagine a scenario where remittance recipients, equipped with the proper financial knowledge and guidance, invest their funds in businesses that create jobs, stimulate innovation, and contribute to Nepal's export potential. This could involve supporting small and medium-sized enterprises (SMEs) or investing in infrastructure projects that improve connectivity and attract foreign direct investment. By strategically directing remittances towards these sectors, Nepal can foster a more diversified and resilient economy, less reliant on external forces.

Financial literacy emerges as another key theme. The study emphasizes the importance of empowering remittance-receiving households with the knowledge and skills to make informed financial decisions. This could involve initiatives such as government-sponsored financial literacy workshops, educational programs targeted at rural communities, or collaborations with financial institutions to develop culturally appropriate financial literacy resources. By equipping remittance recipients with a strong financial foundation, policymakers can ensure that these hard-earned funds are invested wisely and contribute meaningfully to long-term financial security and economic advancement.

Furthermore, the research highlights the need for a robust financial services infrastructure. A thriving stock market, as the study suggests, can be a powerful vehicle for channeling remittance funds into productive investments. However, this necessitates a well-developed

financial ecosystem that facilitates easy access to investment opportunities and fosters trust among remittance recipients. Policymakers can play a crucial role in promoting transparency and streamlining regulations within the financial sector. Additionally, initiatives aimed at expanding access to digital financial services, particularly in rural areas, can bridge the gap between remittance recipients and the formal financial system.

In conclusion, this research offers a comprehensive analysis of the impact of remittances on Nepal's economic landscape. It sheds light on the dual role of remittances – as a driver of economic growth and a potential source of vulnerability. The study underscores the importance of a balanced policy approach. By implementing targeted interventions that promote productive investment, enhance financial literacy, and strengthen the financial services infrastructure, Nepal can leverage remittances for sustainable economic development. This research serves as a springboard for policymakers to craft a comprehensive strategy that unlocks the full potential of remittances in building a brighter and more prosperous future for Nepal.

5.2 Conclusion

This study culminates by encapsulating the key findings and their profound implications for economic policy and strategic planning in Nepal. Our research successfully illuminates the multifaceted and significant role that remittances play in supporting and shaping Nepal's economic landscape.

First and foremost, the study confirms the critical role of remittances as a source of financial inflow for Nepal. These inflows significantly influence the country's GDP by fueling household consumption and investment. Imagine a steady stream of financial resources that empowers households to spend more and invest in their future. This influx of funds acts as a powerful stabilizer for the national economy. By bolstering foreign exchange reserves, remittances provide a buffer against external economic shocks, safeguarding Nepal's economic well-being. Think of a financial cushion that protects the country from unforeseen economic turbulence. The strong positive correlation identified between remittances and GDP growth further underscores the pivotal role these funds play. Remittances are not merely a source of

income; they are a catalyst for enhancing economic stability and fostering sustained economic growth. They act as an engine that propels Nepal's economic journey forward.

This conclusion serves as a springboard for further exploration. The following chapter will delve deeper, exploring additional implications and policy recommendations to maximize the positive impact of remittances on Nepal's economic trajectory. By harnessing the power of remittances effectively, Nepal can unlock its full economic potential and secure a brighter future for its citizens.

Our research extends beyond the direct impact on GDP. We also examined the relationship between remittances and the performance of the Nepal Stock Exchange (NEPSE). The analysis revealed a positive influence, suggesting that remittances contribute to increased activity in the stock market. This can be attributed to the improved disposable income of households receiving remittances. With more financial resources at their disposal, these households are more likely to invest in the stock market, propelling its growth. This relationship between remittances and stock market performance highlights not only the direct benefits of financial inflows but also the potential for remittances to play a more transformative role. By fostering a more vibrant stock market, remittances can contribute to deeper capital markets and a more robust financial sector, laying the groundwork for long-term economic development.

However, our study also sounds a cautionary note. While acknowledging the positive contributions of remittances to economic stability, we highlight the inherent risks associated with an overdependence on this external source of income. Remittances, by their very nature, are vulnerable to fluctuations in global economic conditions and labor market dynamics within host countries. A sharp decline in remittances due to an economic downturn in a host country could have significant repercussions for Nepal's economy. This underscores the importance of implementing robust economic policies that enhance the resilience of the Nepalese economy. By diversifying the economic base and fostering domestic sources of growth, Nepal can better withstand remittance shocks and ensure its path towards sustainable development.

Policy recommendations include fostering economic diversification. This doesn't downplay the importance of remittances; instead, it emphasizes the need to cultivate a more diverse

economic base. Imagine a sturdy building on a strong foundation – a diversified economy lessens Nepal's dependence on a single source of income, making it more resilient to external shocks.

One of the most crucial recommendations arising from this research is the urgent need to enhance financial literacy among remittance recipients. Equipping them with the knowledge and skills to make informed investment decisions can unlock the full potential of these financial inflows. Imagine a scenario where remittance recipients are no longer passive participants in the financial system. By empowering them with financial literacy programs, workshops, and accessible resources, they can transform from simply receiving funds to making strategic investment choices. This newfound financial knowledge can empower them to not just allocate funds towards immediate needs, but also invest in a way that fosters long-term financial security and contributes to the nation's economic well-being.

Financial literacy can play a pivotal role in guiding remittance recipients towards productive sectors. Traditionally, a significant portion of remittances might be directed towards household consumption. However, with financial literacy initiatives, remittance recipients can be equipped to explore investment opportunities in sectors like agriculture or small businesses. Imagine a farmer, empowered by financial literacy programs, utilizing a portion of their remittance to invest in better irrigation systems or high-yield seeds. This can lead to increased agricultural productivity, not only improving the livelihood of the farmer's family but also contributing to Nepal's food security and potentially boosting exports. Similarly, remittance recipients with financial literacy skills could invest in small businesses, creating job opportunities and stimulating local economic activity. This ripple effect, triggered by informed investment decisions, can pave the way for sustainable and inclusive economic growth in Nepal.

The research also underscores the importance of a robust financial infrastructure. A well-developed and efficient financial system acts as the lifeblood for channeling remittance inflows into productive endeavors. Imagine a smooth and streamlined process – a well-functioning financial system can facilitate the easy transfer of remittances, reduce transaction costs, and ensure transparency throughout the process. This can not only boost confidence among

remittance recipients but also encourage them to invest their funds within the formal financial system. Additionally, a robust financial infrastructure can play a crucial role in connecting remittance recipients with investment opportunities. By fostering collaboration between financial institutions and government agencies, policymakers can create an environment where remittance recipients have access to a wider range of investment options, tailored to their risk tolerance and financial goals.

In conclusion, remittances are undeniably woven into the fabric of Nepal's economic framework, significantly impacting both GDP and NEPSE. This study provides a comprehensive overview of these impacts, offering valuable insights for policymakers, economists, and stakeholders. Think of us as shining a light on the path forward. These insights are crucial for crafting strategies that harness the full potential of remittances. The ultimate goal is to leverage these funds not just for immediate economic relief but as a cornerstone for sustainable economic growth and development. By implementing these recommendations, Nepal can transform remittances from a source of income into a springboard for a prosperous and self-reliant future.

5.3 Implications

The implications derived from the study on the impact of remittances on Nepal's economy and the Nepal Stock Exchange (NEPSE) can be categorized into theoretical and practical implications to better organize the findings and facilitate their application.

Theoretical Implications: The impact of our research extends beyond the realm of empirical findings. It delves into the theoretical underpinnings of remittances, offering valuable insights that can contribute to the advancement of economic knowledge. Here, we explore the theoretical implications of our research across several key domains:

Enhancing Economic Models: Our study underscores the critical need to integrate remittance flows into existing macroeconomic models. This is particularly relevant for economies like Nepal, where these inflows play a significant role. By incorporating remittances, we can build more comprehensive and dynamic models that provide a

more nuanced understanding of how these economies function and evolve. Imagine a more sophisticated economic model that factors in remittance flows alongside traditional variables like interest rates and inflation. This can allow policymakers to design more effective economic policies that account for the unique dynamics of remittance-reliant economies.

Reshaping Portfolio Investment Theories

The link between remittance inflows and stock market liquidity identified in our research presents a fascinating opportunity for further exploration within the realm of portfolio investment theories. Here, we can delve deeper into how these capital flows influence market behavior and investment strategies. Imagine a world where investors have a more comprehensive understanding of the impact remittances have on stock market liquidity. By incorporating this knowledge into their decision-making processes, investors can tailor their investment strategies to capitalize on these unique market dynamics. This can potentially lead to a more efficient allocation of capital within the Nepalese economy.

Fueling Economic Growth Theories

Our research injects fresh perspectives into the ongoing dialogue surrounding economic growth theories. We highlight the potential of remittances to act as a stabilizing and growth-promoting factor. The positive correlation observed between remittances and GDP growth in our study provides valuable empirical evidence that strengthens existing economic growth theories. By providing concrete data-driven insights, our research can contribute to the refinement and expansion of these theories, leading to a more comprehensive understanding of the factors driving economic growth in developing countries.

In conclusion, our research transcends the realm of empirical analysis. It delves into the theoretical significance of remittances, offering valuable insights that can inform future research and contribute to the advancement of economic knowledge. By addressing these

theoretical implications, we can create a more comprehensive framework for understanding the multifaceted role remittances play in shaping the economic landscape of developing countries like Nepal. This knowledge can empower policymakers to craft more effective development strategies and ultimately pave the way for a more prosperous future.

Practical Implications

Practical implications translate directly into actionable strategies and policy recommendations that can be implemented to harness the benefits of remittances and empower Nepal on its economic journey.

The research presented here serves as a springboard for crafting effective economic policies that harness the power of remittances for sustainable development. By understanding the multifaceted impact of remittances, policymakers can design a comprehensive framework that maximizes their positive contributions while mitigating potential risks. Here, we explore key policy areas that can cultivate a fertile ground for growth, categorized into two main areas: Fostering Financial Inclusion and Investment, and Ensuring Macroeconomic Stability and Socio-Economic Development.

Financial Inclusion and Investment Incentives: Imagine a financial system that empowers all. By developing policies that promote financial inclusion, we can ensure that remittance recipients have access to the tools and services they need to manage their finances effectively. This might involve initiatives such as expanding access to bank accounts, mobile banking services, and financial literacy programs tailored to remittance-receiving communities. Additionally, implementing targeted investment incentives can encourage the channeling of remittance funds towards productive economic sectors. Tax breaks, loan guarantees, or subsidies could be offered to remittance recipients who invest in areas like agriculture, small businesses, or infrastructure projects. By creating a financially inclusive environment and providing incentives for productive investment, Nepal can unlock the full potential of remittances to drive sustainable economic growth.

Support for Economic Diversification: Overdependence on a single source of income

can be likened to building a house on sand. By encouraging diversification into non-traditional sectors, Nepal can lessen its reliance on remittances and build a more resilient economic foundation. This could involve fostering the growth of tourism, technology, or manufacturing industries. Imagine an economy with a wider range of revenue streams – this diversification acts as a safeguard against external shocks. A decline in remittance inflows due to a global economic slowdown would have a less severe impact on a diversified economy. Policymakers can play a crucial role in promoting diversification by investing in infrastructure development, providing tax breaks for new businesses in emerging sectors, and fostering innovation through research and development initiatives.

Promoting Transparency and Good Governance: Imagine a financial system built on trust. By implementing regulations that ensure transparency within financial institutions, remittance service providers, and the stock market, policymakers can foster trust among remittance recipients. This can involve measures like mandating regular reporting of financial activities, disclosing fees and charges clearly, and establishing mechanisms for grievance redressal. Additionally, promoting good governance practices within financial institutions ensures responsible management of funds and minimizes the risk of fraud or mismanagement.

Streamlining Regulations for New Financial Products: Imagine a marketplace brimming with innovative investment options. By streamlining regulations for the development and introduction of new financial products tailored to remittance recipients, policymakers can create a more attractive investment landscape. This could involve simplifying registration processes, reducing unnecessary bureaucratic hurdles, and encouraging collaboration between financial institutions and fintech companies. By fostering innovation within the financial sector, policymakers can offer remittance recipients a wider range of investment options that cater to their specific needs and risk tolerance.

Enhancing Regulatory Capacity: Imagine a well-equipped regulator safeguarding the financial system. A robust regulatory framework requires a well-trained and adequately resourced regulatory body. By investing in capacity building for regulatory institutions, policymakers can ensure effective enforcement of regulations and timely response to

emerging financial risks. This might involve providing training programs for regulatory staff on the latest financial trends and best practices in remittance management and financial product oversight.

Financial Literacy Programs: Knowledge is power, especially when it comes to managing finances. Implementing financial literacy programs specifically designed for remittance recipients can equip them with the knowledge and skills to make informed investment decisions. Imagine individuals who understand the financial landscape – they can choose investment options that align with their long-term financial goals and risk tolerance. Financial literacy programs can cover topics such as budgeting, saving, investing, and identifying financial scams. These programs can be delivered through workshops, online courses, or even mobile phone applications, ensuring easy accessibility for remittance recipients in both urban and rural areas.

Macro-Economic Stability Measures: A sudden surge in remittance inflows can lead to inflation. By using monetary policy tools effectively, Nepal can manage these potential inflationary impacts and ensure price stability within the economy. Imagine a scenario where the government implements measures to curb inflation, such as raising interest rates or increasing the supply of goods and services. This can help to prevent a rise in prices, protecting the purchasing power of all Nepalese citizens, especially those who are not remittance recipients.

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APPENDIX*Descriptive Statistics of NEPSE*

Year	NEPSE
2012/13	509.3
2013/14	1025.69
2014/15	950.72
2015/16	1745.74
2016/17	1583.57
2017/18	1200.09
2018/19	1254.75
2019/20	1362.35
2020/21	2883.38
2021/22	2009.46
2022/23	2097.01
Mean	1511.1
SD	653.677
CV	43.25%

(Source: NRB)

Descriptive Statistics of Remittance

Year	Remittance (\$ billions)
2012/13	5.58
2013/14	5.89
2014/15	6.73
2015/16	6.61
2016/17	6.93
2017/18	8.29
2018/19	8.24
2019/20	8.11
2020/21	8.23
2021/22	9.29
2022/23	9.33
Mean	7.56636
SD	1.28723
CV	17.01%

(Source: NRB)

Descriptive Statistics of GDP

Year	GDP ((\$ billions)
2012/13	22.16
2013/14	22.72
2014/15	24.36
2015/16	24.52
2016/17	28.97
2017/18	33.11
2018/19	34.19
2019/20	33.43
2020/21	36.93
2021/22	40.83
2022/23	40.097
Mean	31.0288
SD	6.87007
CV	22.14%

(Source: NRB)

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ABSTRACT This study explores the profound impact of remittances on Nepal’s economic growth and the performance of the Nepal Stock Exchange (NEPSE). Nepal, with a substantial portion of its Gross Domestic Product (GDP) fueled by remittances from abroad, presents a unique case to examine how these financial inflows from expatriates influence economic dynamics and financial markets within the country. This study aimed to dissect the correlation and causal relationships between remittances, GDP growth, and stock market performance in Nepal. Using robust statistical analysis, including regression and correlation methods, the research sought to identify patterns and quantify impacts that remittances have on economic indicators. The findings revealed a significant positive impact of remittances on NEPSE, suggesting that increased remittance inflows are associated with a buoyant stock market. The study hypothesized and confirmed that households receiving remittances are more likely to invest in the stock market, potentially increasing trading volumes and impacting overall market performance. Moreover, a strong correlation between remittances and GDP growth was observed, indicating that remittances substantially contribute to economic stability and growth, enhancing consumer spending and investment. Dependence on remittance inflows poses risks, including potential economic instability tied to fluctuations in global labor markets and political changes in host countries. The implications of this research are significant for policymakers, economists, and financial analysts. It provides empirical evidence supporting the utilization of remittances as a strategic tool for economic growth and financial sector development, advocating for policies that encourage investment of remittance funds into productive sectors and financial instruments. The study underscores the necessity of a nuanced approach in policy formulation, aimed at fostering an economic environment that can thrive on the benefits of remittances while being shielded from their potential adverse effects. **Keywords:** Remittances, Economic Growth, NEPSE, GDP, Nepal, Stock Market Performance, Financial Inflows, Economic Policy

CHAPTER I INTRODUCTION

1.1 Background of the Study Remittances, the money sent back home by nationals working abroad, have burgeoned into a cornerstone of financial inflow for many developing countries, offering a lifeline that not only supports individual families but also bolsters national economies. Nepal, a country where remittances constitute a significant chunk of its Gross Domestic Product (GDP), serves as a prime example of this global phenomenon. The reliance on remittances has grown over the years, especially as an increasing number of Nepalese workers migrate for employment opportunities in the Middle East, Malaysia, South Korea, and other regions, seeking to improve their livelihoods and those of their families back home (Shakya & Gonpu, 2023). The economic narrative of Nepal is deeply intertwined with the flow of remittances, making it a critical area of study to understand the broader impacts on the nation's fiscal health and societal well-being. Remittances have been a stabilizing force in Nepal's economy, aiding in the balance of payments and enhancing foreign exchange reserves. This influx of foreign currency has not only helped stabilize the Nepalese rupee but also contributed to building a buffer against external economic shocks (Sharma &