

# Impact of the Economic Crisis on Remittances in Nepal

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Remittances from labour migration have a central and rapidly rising role for Nepal's economy and its development opportunities.

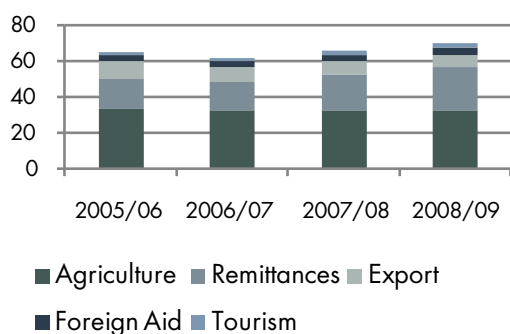
The risks of so-called 'remittance economies', with their low diversification and high dependency on the economies of the migrant-receiving countries, are debated widely (Seddon et al. 2002). Fears that the global economic crisis of 2008/09 could have serious long-term impacts on remittances and subsequently on development in Nepal have been widespread. Indeed, the worldwide remittance flows declined by 6 per cent from 2008 to 2009. This article explores the effects of the economic crisis of 2008/09 on Nepal's migration and remittance flows.

Over the past decade, the overall development environment in Nepal was characterised by many opportunities, but also by political instability and unrest coupled with slow economic growth and diminishing export values. Nevertheless, poverty rates have been decreasing in Nepal, and remittances are an important variable to explain this positive trend. Lokshin et al. (2007) found that remittances could explain almost 20

per cent of the poverty decrease in Nepal since 1995. In 2009, remittances already represented 23 per cent of Nepal's gross domestic product (GDP). The share of remittances in GDP grew substantially from 2006/07 to 2008/09, while agriculture, exports, and foreign aid showed no development or even a declining trend (Figure 1).

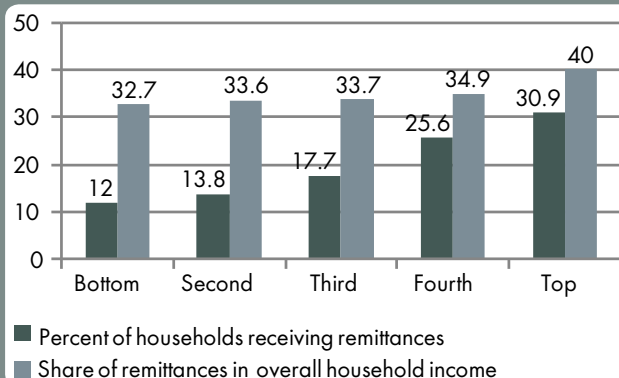
At the household level, remittances increasingly make the most direct, immediate, and significant contribution to maintaining and improving livelihoods. Labour migration has helped Nepalese migrants to increase income, acquire and improve skills, build assets, and improve their social status. In Nepal, remittances are primarily used for consumption to fulfil basic needs for food, water, shelter, and clothing. A significant portion, however, is also invested in education, health, or repayment of loans, or kept as savings for later investment capital (Hoermann and Kollmair 2009). As shown in Figure 2, remittances represent between 30 and 40 per cent of the overall household income, and this proportion is more or less balanced among the income quintiles. However, the number of households receiving remittances grows with household wealth.

Figure 1: Major sector contributions to Nepal's GDP (%)



Source: Ministry of Finance, Government of Nepal (2009)

Figure 2: Nepalese households receiving remittances and share of remittances of income, 2003/04 (consumption quintiles, %)



Source: Central Bureau of Statistics, HMGN (2004)

## Flow of remittances to Nepal

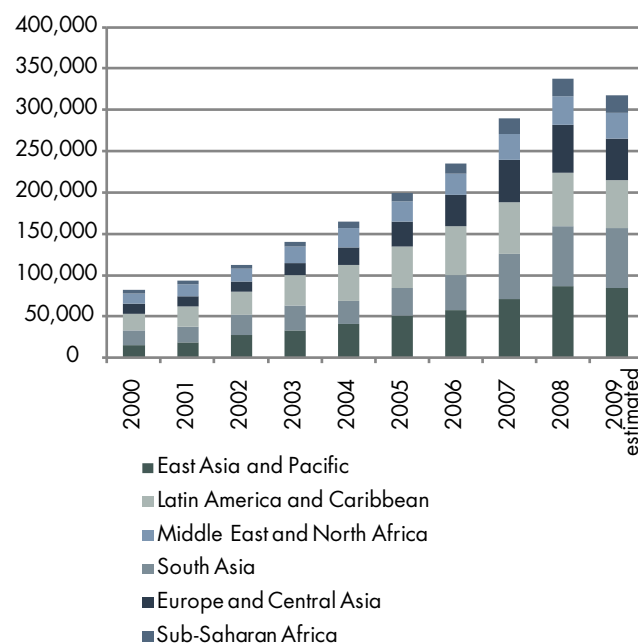
The global economic crisis and its impacts led to a worldwide decline in remittance flows by 6 per cent from 2008 to 2009. However, the remittances for the Asia-Pacific region were hit the least, declining only 2 per cent as compared with the declines in Europe and Central Asia (15 per cent), Latin America and the Caribbean (10 per cent), the Middle East and North Africa (7 per cent), and sub-Saharan Africa (3 per cent) (Figure 3).

The case in Nepal was unusual, however. Remittance flows did not decrease during the financial crisis, nor in the following years. In 2009, South Asia was expected to experience a sharp slowdown (Ratha and Mohapatra 2009). However, remittance flows to Nepal grew robustly in 2008 and – exceptionally for South Asia – continued to grow in the subsequent years; there was not even a lagged response to the crisis and the weakened global economy.

Indeed, from 1998 to 2010 remittance inflows to Nepal never declined. During the time of the global financial crisis, remittances grew by 9.5 per cent from 2008 to 2009, and by 18 per cent from 2009 to 2010 (Figure 4). In 2009, Nepal was the fifth highest recipient of remittances in terms of share of GDP worldwide. Of the 10 countries receiving the highest remittances as a share of GDP, Nepal had the highest growth rates, which were sustained to 2010.

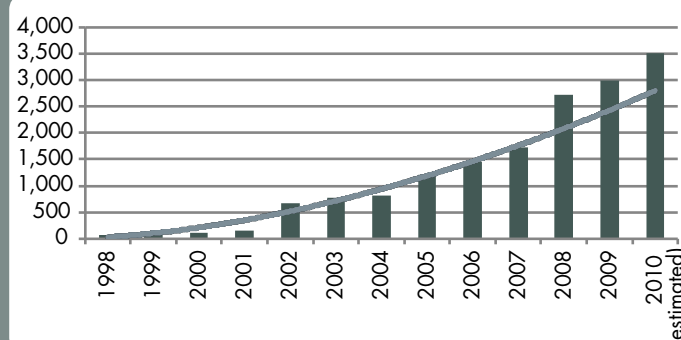
The financial crisis did, however, cause a decline in the growth rate of the remittance inflows to Nepal (Figure 5). From 2007 to 2008 remittances to Nepal grew by about 40 per cent, from US\$ 1.7 billion to 2.7 billion, but from 2008 to 2009 the growth rate declined to 9 per cent. Nevertheless, Nepal is among only 20 countries worldwide that had positive remittance growth rates between 2008 and 2009.

Figure 3: Development of global remittance inflows, 2000–2009 (US\$ million)



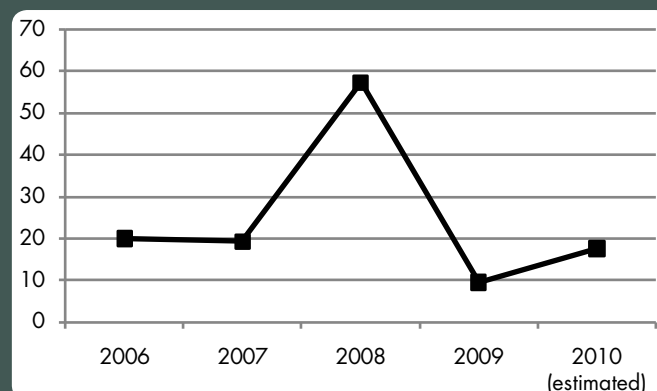
Source: World Bank 2010

Figure 4: Annual inflow of remittances to Nepal, 1998–2010 (US\$ millions)



Source: World Bank 2010

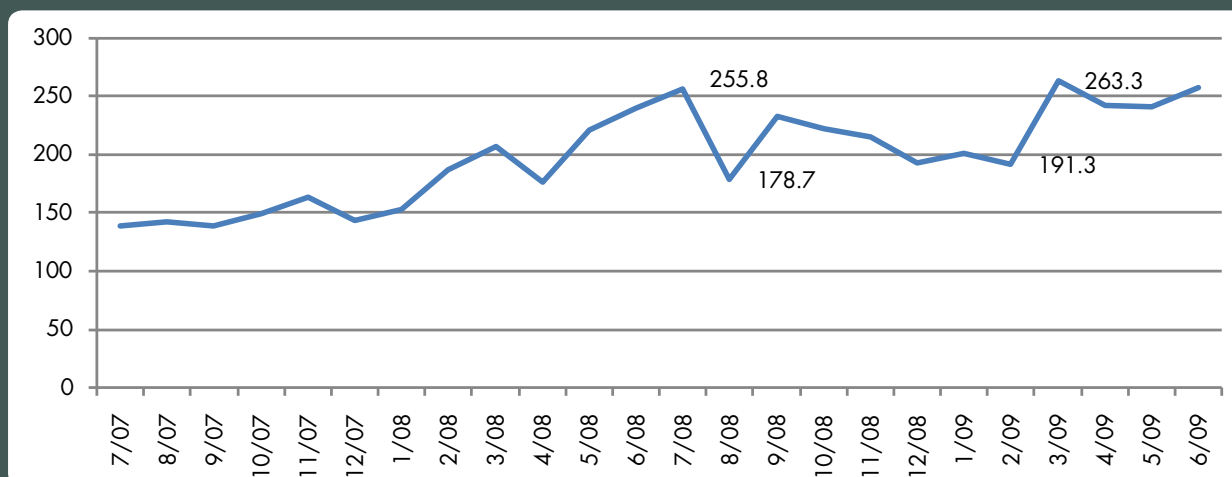
Figure 5: Growth rate of remittances to Nepal, 2006–2010 (%)



Source: World Bank 2010



Figure 6: Monthly remittance inflows to Nepal, 2007–2009 (US\$ million)



Source: World Bank 2010

A closer look at the monthly remittance flows from 2007 to 2009 (Figure 6) shows overall fluctuations but a distinctive fall of remittances from July to August 2008. However, the flows recovered in the subsequent months and grew substantially from February to March 2009, becoming even higher than they were in July 2008.

## Flow of migrants from Nepal

While remittances to Nepal continued to grow during and after the financial crisis, the flow of outgoing migrants declined significantly (12 per cent) in 2007/08 – for the first time since 1994 – after having increased steadily from about 10,000 to more than 240,000 over the preceding decade (Figure 7).

The stock of Nepalese labourers in the receiving countries appears to remain stable. Despite declining numbers of outgoing migrants from Nepal, no mass return of migrant workers has been observed to date. Most workers opt to remain in the destination country and cope with the effects of the financial crisis. Migrants may accept reductions in wages, poorer working conditions, or temporary unemployment with the hope of timely financial recovery with new jobs and improved employment conditions. Furthermore, pressing loans and lack of alternative earning opportunities back in Nepal discourage many to return home.

India is the largest market for Nepalese migration to foreign countries. Nepalese migrants do not require visa permits to work in India and are hence not registered as other migrants are. Data on remittances and migration flows are only available from the Census 2001 or the Nepal Living Standard Survey 2003/04. Thus, the

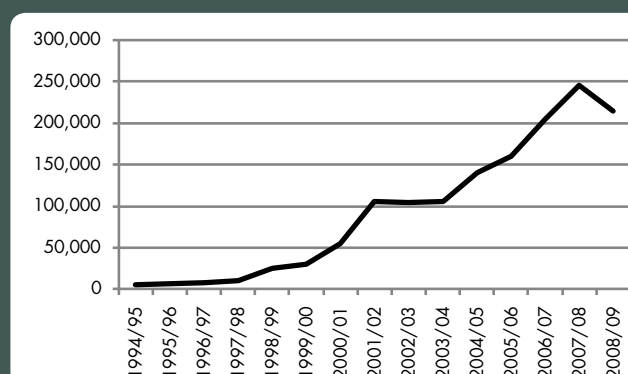
effects of the global financial crisis on the Indian-Nepal corridor cannot be observed here.

After India, the main destinations for Nepalese migrant workers are the Gulf countries and Malaysia (Figure 8). Malaysia was a major destination for Nepali migrants in 2005/06 but its importance decreased in the years immediately following. In 2009, citing the global financial crisis as the reason, Malaysia adopted more restrictive immigration policies to protect the local labour market and stopped recruitment of foreign workers. Here is one worker's experience:

*"I migrated to Malaysia and paid about US\$1,400 to the employment agency in Kathmandu to get a job. My contract was for three years in a manufacturing factory but I was only paid for three months. Once the bad economy hit my employer, I was only provided food and accommodation. After a few months the factory started to lay off workers and I returned to Nepal"*

– Kabi Raj Bista, age 20, Nepalese migrant to Malaysia (ICIMOD, unpublished)

Figure 7: Flow of registered foreign labour migrants from Nepal, 1994–2009



Source: Department of Foreign Employment, Govt. of Nepal (2011)

At present the situation is improving, and Malaysia has increased its quotas for Nepalese workers again (Ghimire, 2010).

The flow to the Gulf countries, specifically to Qatar and the United Arab Emirates, grew from 2005/06 to 2006/07. Subsequently, Qatar experienced a notable (about 10 per cent) decline of immigration flows from Nepal from 2006/07 to 2007/08, but the decline was reversed in the following year as the number of incoming Nepalese migrants almost doubled. The United Arab Emirates did not experience a notable decline of migrant inflows from Nepal. However, from 2006/07 to 2008/09 the growth rate of inflows was almost zero, while it recovered to almost 20 per cent from 2008/09 to 2009/10. A probable explanation for the comparatively robust migration flows from Nepal to the Gulf countries is that many of these destinations follow long-term infrastructure strategies with large funding reserves accumulated over the years (Ratha and Mohapatra 2009).

## Conclusion

The economic crisis slowed down the remittance growth rate and temporarily caused a decline in the migration outflows in Nepal. The impact has not been as sharp as predicted and feared, and Nepal is among the few countries worldwide that did not face negative remittance growth rates in 2008/09 or very sharp and long-lasting declines in migrant outflows. One explanation for why the effects of the global economic crisis in South Asia, and specifically Nepal, differed so pronouncedly from the more severe effects in Latin America and other strongly affected regions is the comparatively swift recovery of the main destination countries of Nepalese migrants. As recent figures show, Nepal's remittances and migration flows are already substantially growing again. The global economic crisis is likely to have only temporarily weakened the role of remittances and labour migration in Nepal.



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Figure 8: Flow of labour migrants with work permits from Nepal to major destinations, 2005–2010

