

**Snowball Capital's Memo on the Impact of Covid-19 on Remittance**

As a result of the deadly coronavirus pandemic, remittances to Nepal are likely to drop by 14% according to the World Bank. Global remittances are also projected to decline by 20%. There are currently around 3.5 million Nepalese working abroad and multiple sources estimate that at least 0.5 million of them are willing to return back to Nepal (matches with the 14% decline forecasted by the World Bank). However, as the situation is still unclear and the economic effects may worsen, the decline could be worse than forecasted.

The drop in remittance amount is a direct result of the decline in the global economy and the meltdown of oil prices. The majority of the Nepalese migrants who go abroad are in Gulf countries and Malaysia; countries highly dependent on oil for their revenue. Nepalese migrant workers' woes range from receiving lower wages and reduced working hours to permanent loss of employment. Migrant workers are more in the first line of defense when it comes to job cuts as nations prioritize their 'own'.

The Asian Development Bank describes remittances as the "bedrock" of Nepalese economy; indispensable for Nepal at its present stage of development. It has represented more than a quarter of our GDP for the past few years. A significant portion of the deposit in BFIs also comes from the remittance. A decrease in deposit collection/growth means decreasing lending capacities, lesser economy activity, and so on and so forth. Since banks and other FIs comprise of the majority of the NEPSE index, poorer growth and performance are expected to reflect on their share prices and subsequently the rest of the stock market. Remittance seems to be the balancing factor that is preventing this vicious cycle.

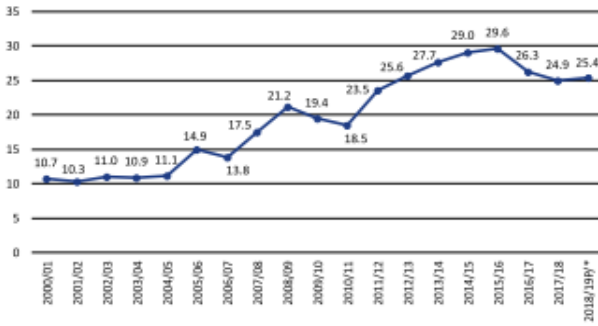
Year	Deposit (\$, Billion)	YOY Growth	Remittance (\$, Billion)	YOY Growth	Remittance/ Deposit
2011/12	10.71		3.60		33.59%
2012/13	12.50	16.71%	4.35	20.90%	34.80%
2013/14	14.78	18.24%	5.43	24.83%	36.74%
2014/15	17.72	19.89%	6.17	13.68%	34.84%
2015/16	21.07	18.91%	6.65	7.74%	31.57%
2016/17	23.85	13.19%	6.96	4.57%	29.16%
2017/18	28.37	18.95%	7.55	8.57%	26.62%
2018/19	33.54	18.22%	8.79	16.45%	26.22%

Source 1: World Bank and NRB

Above table shows that remittance is a significant portion of bank's deposit. Remittance accounts for more than 25% of the total deposit since 2011/12. If remittance continues to decrease in the current year, source of funds of BFIs will be severely hampered. "In 2019, remittance inflow in Nepal was \$8.1 billion which is expected to decline by 14 % to \$7.1 billion in 2020" (World Bank, 2020). In 2019, the GDP of Nepal was \$29 billion. This marks a loss of Rs. 12,000 crores in direct foreign income.

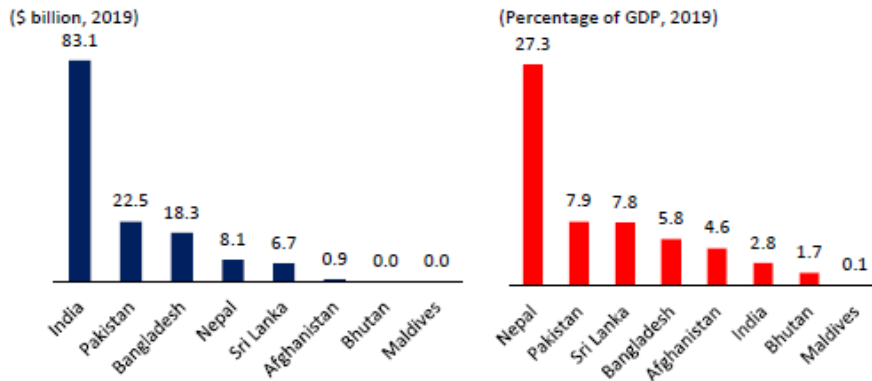


Figure 31: Remittance as share of GDP



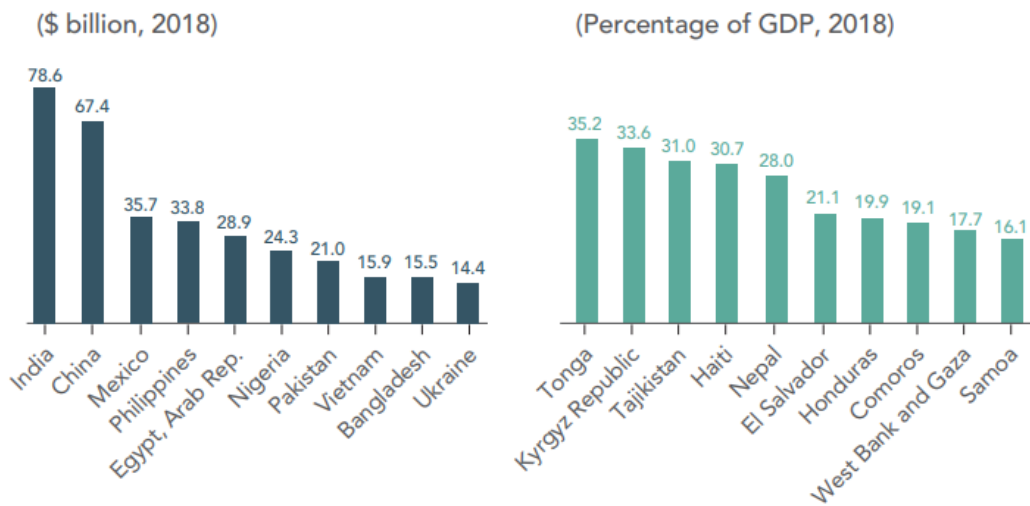
Source: Nepal Rastra Bank, 2019. Available at www.rnb.org.np/.
 Note: P/* refers to preliminary.

Source 1: Nepal Rastra Bank



Source 2: World Bank staff estimates, World Development Indicators, and IMF Balance of Payments statistics.

FIGURE 1.2 Top Remittance Recipients in 2018



Source 3: World Bank staff estimates, World Development Indicators, IMF Balance of Payments Statistics. Note: The top recipient counties include several high-income countries such as France and



Germany (not shown in the figure), but as a share of GDP, remittance flows to these countries are negligible. GDP = Gross Domestic Product.

In 2019, Nepal was the top country that has the highest remittance as a percentage of GDP among South Asian countries. Nepal was also ranked 5th country for the same among the World in 2018.

Impact on Balance of Payments

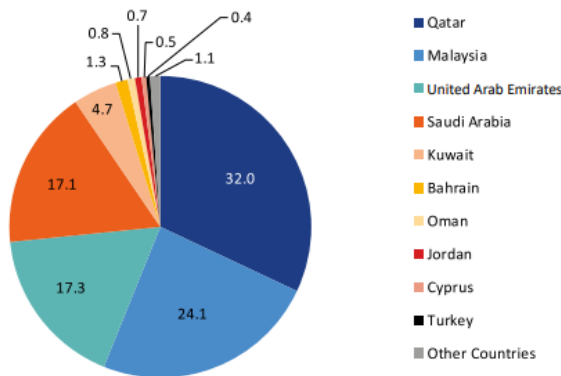
The Balance of Payments is a statement or record of all monetary and economic transactions made between a country and the rest of the world.

In FY 2018/19, Nepal imported goods and services worth ~\$14Billion. During the same financial year, Nepal exported goods and services worth ~\$2.8 Billion. The difference between the import and exports is an eye-popping fivefold. A country needs foreign currency to be able to buy goods from other countries and for Nepal, this is now largely supported by remittance. We earn about 3.5 times more foreign currency on remittance than from the export of goods and services. Remittance is, by a huge margin, the single largest component in the current account balance of Nepal. Its contribution to Nepal's economy cannot be emphasized enough.

The decrease in remittance will decrease foreign currency reserve, and to balance the current account, the government will need to either decrease import or increase export. However, the latter seems unlikely. Decreasing imports will further hit government's revenue collection, which will reduce its ability to spend and invest in the economy, creating a vicious cycle. Import tax (customs and VAT) contribute significantly to the government's revenue (53.69% as of 2074/75, IRD Annual Report).

The decline of Oil Prices

Figure 11: Top destination countries for foreign employment 17 July 2015 to 13 April 2019



Source: From DoFE figures, 2019.

From the figure, we can see that majority of Nepalese Immigrants are based in the Gulf countries and Malaysia, mostly oil driven economies. Therefore, in addition to COVID, the oil prices will also result in decreasing remittance for Nepal. However, in contrast to the impact of COVID-19, this will have relatively minimal impact.

Ministry of Labor, Employment, and Social Security has issued a public notice that from March 12, 2020, no Nepali worker has gone abroad. From the date of writing this memo, it has been exactly 2 months. This indicates that not only remittance from the people who are already abroad has been



impacted but also the prospects of increase also seem bleak. As expressed above, many Nepalese are also expected to return due to the dire state of the host country's employment environment. With returned migrant workers seeking employment and the increased risk of unemployment of people working currently in Nepal, securing and creation of jobs should be of top priority but we do not expect much from the government.

Needless to say, remittance has been the thread holding Nepal's economy together and its significant deterioration for a sustained period of time can have devastating results, much worse than the impact any other sector will face from this global health crisis.

- **Girish Lakhe**, *Managing Director, Snowball Capital*