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# Determinants of Final Consumption Expenditure in Nepal

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***Abstract***

*This paper explores the reciprocal relationship between urbanization, remittance inflows, and GDP growth as determinants of Final Consumption Expenditure (FCE) in Nepal. The analysis serves as an empirical case study of a Least Developed Country (LDC) navigating a unique economic landscape. Since understanding consumer behavior is critical for overall economic development, this research focuses on the aforementioned determinants as key drivers of consumption spending. By utilizing secondary data from reliable sources, the study scrutinizes the influence of these factors on consumer behavior. Nepal's FCE model offers a unique perspective on transitional economies, providing valuable insights for policy formulation in similar contexts. Ultimately, this paper highlights the transition from consumption-led growth toward investment-oriented development to achieve sustainable economic stability, revealing the vital connections between FCE determinants and their broader economic impact.*

***Keywords:*** *Urbanization, Remittance, GDP Growth, Consumer Spending, Infrastructure Development, Keynesian Consumption Function*

## 1. Introduction

According to World Bank's portal, final consumption expenditure, also says total consumption, is the sum of household final consumption expenditure (private consumption) and general government final consumption expenditure (general government consumption). Final consumption expenditure is the total value counted from total consumption of goods and services used by households and government including any statistical discrepancies calculating in US dollars (Eusebio, 2013). Government Final Consumption Expenditure (GFCE) shows government spending on goods and services for public welfare (e.g., public education, defense, street lighting) and Household Final Consumption Expenditure (HFCE) is usually measured through household surveys, national accounts, and government budget, focusing only on consumption. Final consumption expenditure (FCE) represents firsthand factor of economy growth which is accompanied by consumption behavior of household & government consumption spending. That's why having the knowledge of FCE and its determinants is essentials to promote economic performance, reduce poverty, and formulate needy policy.

FCE's trend is the trend of consumption by consumer's and government and its spending on product within an economy over a given period of time. According to Dernburg (1985), consumption refers to the act of utilizing goods and services to satisfy human needs, highlighting its significance in overall welfare. The final consumption expenditure level includes on spending on both durable and non-durable goods, serves as an indicator of an economy's overall condition. The level of

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consumption per capita is a key measure of an economy's productive success which is determined by some macroeconomic trends like urbanization, remittance and GDP growth rate (Stiglitz et.al.,2009, Abbas et.al.,2023 & Mallick, 2020). Limited related study to consumption trending may be one of the reason of inability to promote economy as per as plan. Classical and Keynesian consumption theories focuses on income, interest rates, and wealth effects but modern consumption trend is also guided by social, demographic, technology, tradition and culture etc. So further research is needed to explore consumer's lasing decision process that linked with socioeconomic perspective.

Nepal's Current Socioeconomic Status has many challenges existed in the society as indicated by various indicator. Present macroeconomic indicator's weak performance shows economic instability of Nepal and poor global position (FATF's grey list, 2024). Consumption's trend is vital part so to understand what actually is happening, we need to do this research. If we able to trace this, it will be better from many perspective. Proper analyzing of consumption's trend based on real data is crucial for policy makers for formation of economic related state policy (Cimadomo, 2016). So to explore how Nepalese consumption patterns is influenced by some major factors are main objectives of this research. Understanding this dynamic can inform policy adjustments to enhance economic stability and growth in Nepal, a country heavily reliant on agriculture (26.5% of GDP) as well as heavily depend upon remittances for consumption also known as remittance economy. According to the world bank, up to 2023, total 25.4% of Nepal's GDP is occupied by remittance which is much higher in occupancy. Normally more than 10% occupancy in GDP by remittance is not taken as proper measurement for economy. Remittance shows that total consumption is heavily influenced by remittance. Likewise increasing rate of urbanization 22% in 2023 as per World Bank indicates consumption is significantly affected by urbanization. But slower growth rate 2% in 2023 compare to the growth rate 5.6% in 2022 shows reducing rate of total consumption. This paper tries to address identified gap with the support of relevant research document, available of data related to determinants of FCE and its systematic analysis using time-series analysis, panel regression, ARDL model to test hypothesis. Using three determinants remittance, urbanization and GDP growth, the study aims to find evidence-based result appropriate for economic development.

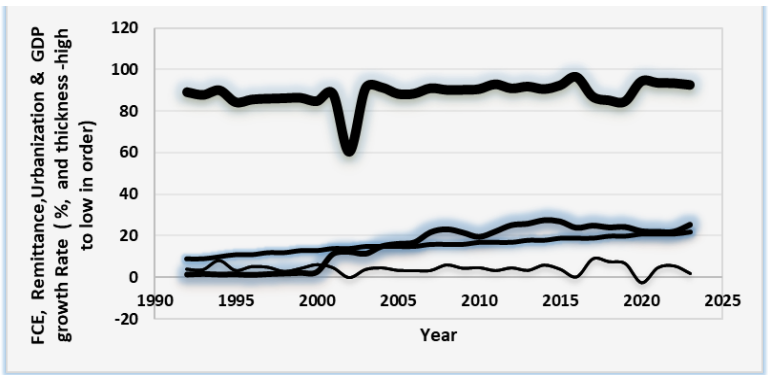


**Figure1:** FCE and Determinants
Source: World Bank

## 2. Literature Review

The relationship between aggregate consumption and the role of government in stimulating consumption was extensively discussed by renowned economist J.M. Keynes in his 1936 publication, The General Theory of Employment, Interest, and Money. Keynes emphasized that final consumption expenditure is determined by the sum of household and government expenditures. He argued that government spending constitutes a crucial component of aggregate demand and plays a significant role in enhancing overall consumption levels. All government is applying this for economic stability, prosperity and for competitive global position. Recent step coped by current American President Donald Trump to impose the import tariff to reduce the growing trade deficit and stimulate the domestic industry and consumption is strong example of Fiscal Policy. So fiscal policy is weapon of government for the good governance. It can be used in every situation and difficulties around the world. During the financial crisis of 2008, fiscal policy played a crucial role in stabilizing the global economy through widespread stimulus measures and coordinated government spending, preventing a collapse in employment (Aizenman & Jinjarak, 2011). It continues to be vital in supporting recovery, especially in emerging markets with more fiscal space, while balancing short-term stabilization needs with long-term debt sustainability.

The study of Maldova shows that remittances shift productive investment expenditures from rural to urban regions, resembling a Dutch Disease-like crowding-out effect, while influencing regional consumption patterns through spatial expenditure allocation (Manic, 2017). Fatás & Mihov (2001) state that fiscal policy, particularly through increased government spending, leads to strong and sustained growth in consumption. Callegari (2007) in his study highlights that the effectiveness of fiscal policy how government spending and tax changes interact with the diverse consumption behaviors. Investment on agriculture and infrastructure boost growth and there is positive long run relationship between GDP growth and Consumption (Thapa, 2024). Consumption behavior significantly affects fiscal policy outcomes, as individuals respond differently to government spending based on income and age. Poorer, credit-constrained consumers increase spending more than wealthier ones, leading fiscal shocks to reduce consumption inequality (Anderson et.al, 2016).

Keynesian economics concludes that consumption is the primary driver of aggregate demand, making it a central mechanism through which fiscal policy influences macroeconomic outcomes (Keynes, 1936). Several theories provide insights into consumer behavior and its relationship to fiscal dynamics. The life-cycle hypothesis (Modigliani, 1986) suggests that individuals plan their consumption and saving behavior over their lifetime, aiming to smooth consumption across different stages of life. According to this model, people tend to be net savers during their middle age when income peaks, and dissave during retirement or early life stages. This theory also introduces the concept of inter-temporal utility maximization, where consumers allocate resources over time, constrained by their lifetime income. In contrast, Keynes and New Keynesian economists argue that saving is more directly a function of current income rather than interest rates, disputing the high interest elasticity of saving. However, modern consumption theories, such as Friedman's Permanent Income Hypothesis, bridge these views by proposing that individuals base consumption decisions

not solely on current income, but on their expected long-term average income. If current income exceeds this permanent income, the excess is likely to be saved.

According to the 2024/25 Budget Speech made by Ministry of Finance Nepal, Debt Financing is 19.74%, Capital Expenditure 18.94% and Recurring Expenditure 61.32% out of 100%. Due to low volume of capital expenditure and high debt financing, it may not be taken as consumer friendly budget as government is unable to allocate the base of the development i.e. infrastructure development, research and innovation etc and shows burden of debt increasing. Public debt Management office Nepal recently announces that total public debt amount reached at roughly equivalent to $21.28 Billion USD in which $2.70 billion is collected as external and internal debt this year to manage the recurrent expenses. So rising public debt and diminishing growth rate is serious concern of matter to Economy( Gogas, et.al., 2014). According to Nepal Rastra Bank, it is recorded a trade deficit of $947.45 million USD in February of 2025. Balance of Trade in Nepal averaged -421.05 million USD from 2001 until 2025, reaching an all time high of -29.64 million USD in October of 2001 and a record low of -1.27 billion USD NPR Million in November of 2021. Erceg et al., 2005 says a trade deficit can lead to higher foreign debt, loss of domestic production, currency weakness, potential economic vulnerabilities which ultimately reduces the aggregate consumption rate.

### *2.1 Theoretical Framework*

The Keynesian consumption function provides a foundational model for understanding consumption behavior (Fernandez-Corugedo, 2004). If we think about Remittances, it directly increases disposable income for recipient households, boosting consumption, particularly in LDC s and developing countries where indigenous income opportunity is so limited. GDP growth is also followed by production efficiency, disposable income through higher wages and employment, while urbanization may increase by improving access to goods, services and credit lead to higher volume of consumption. Urbanization can be linked with Structural Change Theory which shows economic development as a shift from agrarian to industrial/service economies, driven by urbanization(Pasinetti, 1983 & Lo & Salih, 2019). Urbanization also transforms labor markets, infrastructure, and creates favourable environment for advanced development. According to Aghion et al. (1988) on their article about Endogenous Growth Theory explains economic growth driven by internal factors like human capital and innovation, boosting productivity and income. Friedman's Permanent Income Hypothesis states consumption depends on expected long-term income like regular remittances boost permanent income, and persistent consumer spending. GDP growth stabilizes income expectations, while urbanization raises future income prospects, influencing consumption. Relative Income Hypothesis suggests consumption is driven by income relative to peers, creating a "demonstration effect" (Alvarez-Cuadrado & Van Long, 2011). Urbanization increases exposure to wealthier peers, boosting consumption. Remittances enable emulation of higher consumption patterns, while GDP growth amplifies this effect by raising average incomes. Life-Cycle Hypothesis suggests individuals smooth consumption over their lifetime based on expected income and wealth. Remittances increase resources for consumption or savings (Shefrin & Thaler, 1988). Urbanization raises lifetime income expectations, boosting consumption.

Rising GDP growth enhances wealth, supporting consumption smoothing. Remittances, which directly increase disposable and permanent income, influencing consumption through Keynesian, PIH, and LCH mechanisms. Urbanization, which drives structural changes, enhances access to goods/services, and raises income expectations, aligning with Structural Change Theory and above mentioned theory.

### *2.2 Conceptual Framework*

On the GDP calculation followed by consumption expenditure method,

Final (Aggregate) Consumption Expenditure (FCE) = HFCE+ GFCE-----(1)

Where, HFCE= Household Final Consumption Expenditure

GFCE= Government Final Consumption Expenditure

Equation (1) can be written as

$$FCE = C+G$$

$$= a+bY_d+G\text{----(2)} \quad \text{(Kenesian Consumption Function)}$$

Where, C = Household Consumption = $a+bY_d$ -- Consumption function,

a = autonomous consumption,

b = MPC (Marginal Propensity to consumption, )

$Y_d$ = Household Disposable Income

G = Government Consumption

C+G represents final use of goods/services for direct satisfaction by household and government sector and it includes only spending on goods/services that are consumed immediately to satisfy current needs. If we assume FCE is depend on Remittance, Urbanization and Economic growth rate then it can be statistically presented as time series ARDL( Auto regressive Distributive Lags) to regression model like this;

$$FCE_t = \beta_0 + \beta_1 URTP_t + \beta_2 GDPGR_t + \beta_3 RGDP_t + \varepsilon_t \dots\dots\dots\dots (3)$$

$FCE_t$= Final Consumption Expenditure at time t, it can be also written as as part of GDP Contribution

$URTP_t$= Urbanization rate as percentage of total population at time t

$GDPGR_t$= GDP growth rate at time t.

$RGDP_t$= Remittance rate as percentage of GDP at time t.

$\varepsilon_t$ = Error term at time t.

Where $\beta_0$ is intercept. , and are coefficients showing the strength/direction of each variable's impact.

ARDL model Equation (3) can be extended as ARDL Model including lags of independent variables.

$$FCE_t = \beta_0 + \beta_1 URTP_t + \beta 1 URTP_{t-1} + \beta_2 GDPGR_t + \beta_2 GDPGR_{t-1} + \beta_3 RGDP_t + \beta_3 RGDP_{t-1} + \varepsilon_t \dots\dots\dots\dots\dots\dots (4)$$

## 3. Methodology

This research has applied quantitative method to draw the result. Data from world bank, Nepal Living Standard Survey 2022/23, Nepal Economic Survey 2024 are used to collect to come up on research finding. SPSS, E Views and Excel are used to analyze the data. Data from 1992 to 2023 are collected and time series analysis- ARDL Model is used to test the hypothesis. This model will show and analyze both the short-run and long-run dynamic relationships between a dependent variable and independent variables. This model uses the cointegration concept to model both short-run and long-run relationships even when variables have mixed stationarity orders (I(0) and I(1)) without requiring pre-testing for cointegration with the same restrictions as other methods.

### 1.1 *Hypothesis Formulation*

Hypothesis construction is given below on the basis of above equation 2. Here, $H_1$ is taken as Alternative Hypothesis and $H_0$ is taken as Null Hypothesis.

Remittance (RGDP)

RGDP increase $Y_d$, FCE.

I) $H_1$: RGDP increases FCE.

$H_0$: RGDP doesn't increase FCE

Urbanization (URTP):

Urban areas offer better access to markets, services, and credit, increasing consumption.

II) $H_1$: URTP positively correlates with FCE.

$H_0$: URTP negatively correlates with FCE

GDP-Growth Rate (GDPGR)

GDPGR raises aggregate income, boosting both household and government spending. Governments may increase GFCE (e.g., public services) during growth phases.

III) $H_1$: GDPGR increases FCE.

$H_0$: GDPGR doesn't increase FCE.

## 4. Result

**Table 1:** Normality Test

| | | | | |
|---|---|---|---|---|
| Jarque-Bera | FCE | GDPGR | RGDP | URTP |
| | 286.7829 | 5.275523 | 3.883546 | 1.313950 |
| Probability | 0.000000 | 0.71521 | 0.143449 | 0.518417 |

The Jarque-Bera diagnostic test reveals that the independent variables GDPGR, RGDP, and URTP approximate a normal distribution. FCE with very high JB statistic, zero p-value shows not normality. It may be the by the reason of outliers, structural breaks, or the nature of the data.

**Table 2:** Augmented Dickey Fuller Test

| Variables | Order of Integration | P-Value | Conclusion |
|---|---|---|---|
| FCE | I(0) | 0.0005 | Stationary |
| GDPGR | I(0) | 0.0001 | Stationary |
| Urtp | I(0) | 0.3349 | Not stationary |
| Urtp | I(1) | 0.0000 | Stationary |
| RGDP | I(0) | 0.7027 | Not stationary |
| RGDP | I(1) | 0.0006 | Stationary |

All the variables are stationary at I(0) and I(1) and so this ARDL test is valid.

**Table 3:** ARDL Long Run Coefficients

Case 2: Restricted Constant and No Trend

| Variable | Coefficient | Std. Error | t-Stastics | Prob. |
|---|---|---|---|---|
| RGDP | 0.483911 | 0.197791 | 2.446580 | 0.0233 |
| URTP | -0.814595 | 0.582705 | -1.397953 | 0.1767 |
| GDPGR | -1.625741 | 0.814280 | -1.996537 | 0.0590 |
| C | 102.3093 | 8.547491 | 11.96951 | 0.0000 |

Results from the ARDL model confirm a stable long-run relationship between FCE of GDP, remittance inflows, urbanization, and GDP growth. The Levels Equation shows that remittance inflows exert a significant positive long-run effect on aggregate consumption, with a 1-unit increase in remittances associated with a 0.48-unit rise in consumption. Urbanization has a negative but statistically insignificant long-run effect, while GDP growth exerts a negative impact that is weakly significant at the 10 percent level, suggesting resources may shift from consumption to savings or investment as growth accelerates. The error-correction coefficient (-1.13) from the ECM indicates rapid adjustment, correcting more than 100 percent of disequilibrium each period, thereby confirming the robustness and stability of the estimated long-run relationship.

**Table 4:** F-Bounds Test

| Test Statistics | Value | Signific. | I(0)Bound | I(1)Bound |
|---|---|---|---|---|
| F-stastics. | 11.781 | 10% | 2.37 | 3.2 |
| k | 3 | 5% | 2.799 | 3.67 |
| | | 2.5% | 3.15 | 4.08 |
| | | 1% | 3.65 | 4.66 |

The value of F-statistic is 11.781 which is above all critical bound at I(1) bound. It rejects null hypothesis and proves no cointegration. It can be concluded that long run relationship exists among variables, confirming a statistically significant long-run relationship of independent variables on dependent variables.

**Table 5:** ARDL Error Correction Regression

| Variable | Coefficient | Std. Error | t-Stastics | Prob. |
|---|---|---|---|---|
| D(RGDP) | 0.343182 | 0.336088 | 1.021106 | 0.3188 |
| $D(RGDP_{t-1})$ | -2.057512 | 0.367541 | -5.598043 | 0.000 |
| D(GDPGR) | -0.738960 | 0.271371 | -2.723059 | 0.0127 |
| $D(GDPGR_{t-1})$ | -1.625741 | 0.814280 | -1.996537 | 0.0590 |
| CointEq (t-1) | -1.134594 | 0.135491 | -8.373951 | 0.0000 |

Above table shows short-run and D ( ) represents first differences short run changes, coefficients immediate impact and dynamic adjustment. Current period changes in remittances and in GDP growth. Lagged effects ($RGDP_{t-1}$) & ($GDPGR_{t-1}$) show how impacts evolve over time. The value of CointEq (t-1) coefficient, -1.135 indicates very rapid adjustment which shows 113.5% of disequilibrium is corrected within one period. This is unusually fast adjustment (typically expect values between - 0.1 and -0.9). P=0.000 confirms reliable adjustment mechanism.

**Table 6:** Breusch - Godfrey Serial Correlation LM Test

| | | | |
|---|---|---|---|
| F-stastics | 0.136841 | Prob.F(2,19) | 0.8730 |
| Obs*R-squared | 0.425994 | Prob. Chi-Square(2) | 0.8082 |

The Breusch-Godfrey Serial Correlation LM test in ARDL model shows a p-value higher than 0.05, it means, there is no evidence of autocorrelation in the error terms of model. It is taken as good result because autocorrelation in residuals can make the estimated coefficients inefficient and the standard errors biased, leading to unreliable inference.

**Table 7:** Heteroskedasticity Tests -Breusch-pagan-Godfrey

| | | | |
|---|---|---|---|
| F-stastics | 2.383143 | Prob.F(8,21) | 0.0530 |
| Obs*R-squared | 14.27561 | Prob. Chi-Square(8) | 0.0749 |
| Scaled explained SS | 15.08294 | Prob. Chi-Square(8) | 0.0576 |

Chi-square statistics in table 8 is 8 and P value is 0.0749. So there is no heteroskedasticity

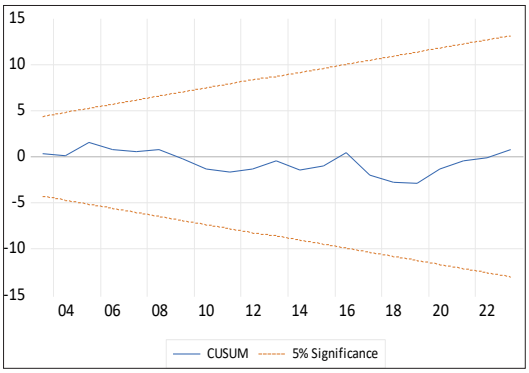


Figure 2(a): Recursive Estimates

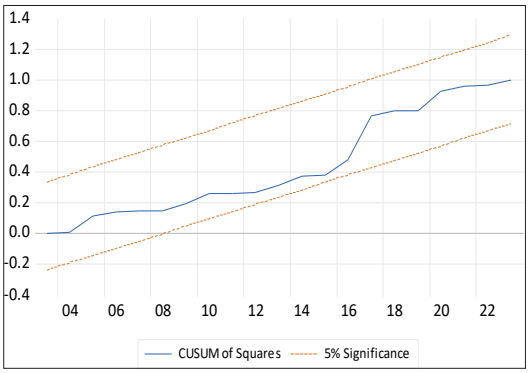


Figure 2(b): Recursive Estimates

Both CUSUM and CUSUM of Squares plots [Fig.2(a) and Fig.2(b)] remain within the 5% confidence bounds. It proves that model is stable, and there is no evidence of structural breaks or changing variance in the estimated parameters over time.

**Table 8:** Correlogram of Residual Squared

| Autocorrelation | Partial Correlation | | AC | PAC | Q-Stat | Prob* |
|---|---|---|---|---|---|---|
| | | 1 | -0.129 | -0.129 | 0.5527 | 0.457 |
| | | 2 | -0.116 | -0.135 | 1.0112 | 0.603 |
| | | 3 | -0.014 | -0.050 | 1.0178 | 0.797 |
| | | 4 | -0.134 | -0.165 | 1.6766 | 0.795 |
| | | 5 | -0.146 | -0.213 | 2.4941 | 0.777 |
| | | 6 | 0.140 | 0.040 | 3.2836 | 0.773 |
| | | 7 | -0.115 | -0.167 | 3.8311 | 0.799 |
| | | 8 | 0.005 | -0.067 | 3.8321 | 0.872 |
| | | 9 | 0.084 | -0.014 | 4.1551 | 0.901 |
| | | 10 | -0.028 | -0.053 | 4.1919 | 0.938 |
| | | 11 | -0.021 | -0.042 | 4.2140 | 0.963 |
| | | 12 | -0.045 | -0.138 | 4.3201 | 0.977 |
| | | 13 | -0.053 | -0.086 | 4.4792 | 0.985 |
| | | 14 | -0.060 | -0.154 | 4.6921 | 0.990 |

All the spikes of Table 8 are fitted inside the dotted line so that model is fit for the research.

## 4. Discussion

This research explored the FCE's determinant in Nepal using an ARDL framework, focusing on both short- and long-run dynamics. Normality test exposed that independent variables are distributed broadly consistent with normality.With all variables stationary at I(0) or I(1), the ARDL model is valid. The empirical results demonstrate a robust and stable long-run relationship between FCE and its key determinants. Remittance inflows indicates a strong positive effect on consumption, whereas URTP and GDPGR show a weakly significant effect that shifts to savings or investment as growth accelerates rather than consumption. The highly significant error-correction coefficient (-1.135) indicates unusually rapid adjustment to long-run equilibrium, strengthening the model's stability. Applied model tries to ensure that reliability of these estimates: residuals are free from serial correlation and heteroskedasticity, while CUSUM tests indicate parameter stability and the absence of structural breaks. The econometric result of FCE and its determinants demonstrates Nepal's macroeconomic instability. Overall, the findings highlight the crucial role of remittance inflows in perpetuating household consumption, while exposing more complex relation among GDPGR, URTP, and Consumption Behaviour.

The findings of this study yield critical insights with direct implications for Nepal's economic policy formulation. The strong positive effect of remittances on FCE highlights the need to strengthen formal remittance channels and promote financial literacy and investment schemes to convert short-term consumption gains into long-term sustainable consumption & capital formation. The weak impact

of GDPGR on consumption signals that growth strategies should be paired with measures protecting expenditure power and promoting inclusive development. Previous researchers have mentioned that trade deficits lead to an increase in higher debt, negative domestic production and may reduce aggregate consumption rate. But it was not well explained there. So, this paper indicates that loss and negative domestic production lead to a negative effect on consumption in the economy. This research indicates exactly the same situation as Nepal, facing huge trade loss and dis-managed types of urbanization which shows a weak and negative impact on consumption. Similarly, the econometric results of urbanization indicate that urban policy should be moved to raise living standards by providing job opportunities and a business environment. The rapid adjustment move pointed out by the error-correction table shows scope for effective counter-cycle fiscal and monetary policies to stabilize macroeconomic performance. This result also signals that supply-side (or structural) policy is needed to increase long-term productive capacity that leads to sustainable consumption. But Nepal has weak infrastructure, improper financial markets, and low human capital, which hinders expected growth. This signals drastic financial reform along with rapid investment in human capital to increase GDPGR and aggregate consumption. Thereafter, productive use of remittances and managed urbanization helps to stabilize consumption, and so its result can lead to more sustainable and inclusive growth.

This study evaluates FCE in Nepal using Keynesian theories. As the econometric test explicitly testifies the long-term relationship between dependent and independent variables, it shows variables move together in a stable, lasting equilibrium over time, even if they fluctuate in the short run. It proves that null hypothesis ($H_0$) is rejected and it can be said that RGDP, GDPGR and URTP are the main determinants of FCE. The performance of these determinants is also affected by other macroeconomic variables like inflation, interest rates, and exchange rate volatility. But above test confirms that RGDP, GDPGR and URTP have main role on shaping FCE. Overall, by taking Nepal as LDC, its final consumption expenditure (FCE) reflects long-term structural weaknesses as well as new prospects for development, highlighting that consumption is not only as welfare but also as a key driver of long-term economic growth.

## 5. Conclusion

The analysis clearly indicates that remittances, urbanization, and GDP growth rate have a significantly positive impact on consumption in Nepal. It is the fact that final consumption expenditure (FCE) is vital for an economy which summarizes aggregate demand for goods and services and drives overall economy that's why trend of consumption is one of the most essential indicator of economic performance. To ensure long-term economic stability, policymakers must align policy with shifting consumption behavior, emphasizing domestic production over import-dependent consumption. Promoting locally produced goods and services in response to rising consumption demand can drive sustainable and inclusive economic growth. Economic vulnerabilities, like inflation, the pandemic's impact, or structural economic problems are must be addressed efficiently. The paper also highlights the appropriate policy formulation and its implementation to use remittance into productive deployment for long term growth. By analyzing research related paper and relevant

data, this research concludes that remittance comprises a major portion in terms of consumption, indicates consumption-oriented Nepalese economy. Urbanization as developed form of rural society symbolizes quality life constitutes vital part of expanded consumption of various goods and services. Government should address the rising urban barriers like poverty rates, rising unemployment and regional disparities, to mitigate adverse effects on consumption patterns. Higher GDP growth rate signals rising urbanization and rising urbanization to higher GDP growth. GDP growth is also associated with remittance inflows, shows deeply impacts on aggregate consumption. Despite significant portion of contribution on GDP in Nepal, constraint of remittance is the limited productive deployment embodies only less than one third of total remittance amount.

In the other side, government is facing serious challenge to cover recurrent expenditure in Nepal. Low allocation of resources on capital expenditure and rising public debt followed by huge trade deficit and heavily remittance dependent economy are not friendly environment for government spending, economic growth, and sustainable development. We have consumption-driven economy due to high occupancy of FCE's contribution in total GDP share. FATF's grey listing 2025 to Nepal second times exhibits high risk vulnerabilities and necessitates drastic financial reforms. By considering all these fact, government should seriously cope its step to tackle such challenge.

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