

FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN THE CONTEXT OF NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master of Business Studies (MBS) degree

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Financial development and economic growth in the context of Nepal**” 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 this dissertation.

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REPORT OF RESEARCH COMMITTEE

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Financial development and economic growth in the context of Nepal**” presented by Ram Krishna Chaudhary, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

ADBL	Agricultural Development Bank Limited
APA	American Psychological Association
ATM	Automated Teller Machine
BFI	Banking and Financial Institution
FY	Fiscal Year
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
CPI	Growth of Consumer Price Index
M2	Broad Money
GDPPCG	Gross Domestic Product Per Capita growth
TE	Total Expenditure
DCPS	Domestic Credit to Private Sector by Banks
IMF	International Monetary Fund
MoF	Ministry of Finance
NRB	Nepal Rastra Bank
OLS	Ordinary Least Square
R2	Coefficient of Determination
WB	World Bank
WDI	World Development Indicator

ABSTRACT

This dissertation investigates the relationship between financial development and economic growth in Nepal, employing a comprehensive analysis of time series data from 1975 to 2023. The study aims to understand how advancements in the financial sector influence overall economic performance in the Nepalese context, characterized by its unique economic structure and developmental challenges. This study investigates the dynamics between financial development and economic growth in Nepal using OLS regression models. The dependent variable in this study is the GDP per capita growth rate (GDPPCG). The independent variables include the annual inflation rate (I), Broad Money (M2) as a percentage of GDP, Deposit (D) as a percentage of GDP, Total Expenditure (TE) as a percentage of GDP, Gross Fixed Capital Formation (GFCF) as a percentage of GDP, and Domestic Credit to the private sector by banks (DCPS) as a percentage of GDP.

The correlation analysis shows that key financial indicators like Deposits, Domestic Credit to the Private Sector, and Gross Fixed Capital Formation are positively linked to GDP per capita growth in Nepal, suggesting that increased financial activity and investment drive economic growth. However, inflation does not show a significant correlation, indicating it's not a major factor in this context. The regression analysis shows that Domestic Credit, Capital Formation, Broad Money, and Deposits positively impact GDP per capita growth in Nepal, while Inflation and Total Expenditure negatively affect it.

Keywords: Economic Growth, GDP per capita growth rate (GDPPCG), annual inflation rate (I), Broad Money (M2), Deposit (D), Total Expenditure (TE), Gross Fixed Capital Formation (GFCF), and Domestic Credit to the private sector by banks (DCPS)

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The intricate relationship between financial development and economic growth has long been a focal point in economic research. Financial development, encompassing the enhancement of financial institutions, markets, and instruments, significantly influences a nation's economic trajectory by facilitating efficient capital allocation, promoting investment, and fostering growth. On the other hand, economic growth, often defined as the sustained increase in a country's production of goods and services, reflects improvements in living standards, income levels, and overall economic efficiency (OECD, 2023). In Nepal, understanding this relationship is essential for policymakers aiming to implement strategies that foster sustainable development. Given Nepal's unique historical, political, and socio-economic transitions, it serves as an ideal case for examining the interplay between financial development and economic growth.

Historically, Nepal's economy was predominantly agrarian and stagnated due to political instability, lack of industrialization, and inadequate infrastructure. Prior to the 1990s, the financial sector was limited, with a few state-owned banks monopolizing the market, restricting competition, and limiting access to financial services, thereby hampering economic growth (Shrestha, 2005). However, the liberalization policies of the early 1990s marked a significant turning point. These reforms aimed to modernize the financial sector through the deregulation of interest rates, privatization of state-owned banks, and the creation of new financial institutions (Gurley & Shaw, 1955). This shift was intended to boost the inclusiveness and efficiency of the financial sector, which in turn could drive economic development.

Theoretically, financial development influences economic growth through various channels. First, efficient financial systems help in better allocation of resources by channeling capital toward more productive investments (Levine, 1997). Second, the

availability of credit and capital fosters business expansion and infrastructure development, which are critical for sustained economic progress (Schumpeter, 1934). Moreover, financial institutions play a key role in mobilizing savings and channeling them into productive uses, thus contributing to economic development (Demirgüç-Kunt & Levine, 1996). These institutions also provide mechanisms for managing risks, ensuring economic stability, and supporting long-term growth (King & Levine, 1993).

In the context of Nepal, the transformation of the financial sector since the 1990s has played a pivotal role in stimulating economic activities. The pre-reform financial landscape, dominated by state-owned banks, was characterized by inefficiency and limited access. The liberalization process led to the establishment of private commercial banks, microfinance institutions, and the Nepal Stock Exchange (NEPSE), significantly expanding the scope and reach of financial services (Perera & Paudel, 2009). Despite these advances, Nepal continues to face challenges such as low financial literacy, inconsistent regulatory frameworks, and infrastructural deficits (Aghion & Howitt, 2009). These factors hinder the full realization of financial development's potential to drive economic growth.

Empirical evidence indicates that countries with well-developed financial systems tend to experience faster and more sustainable economic growth (Levine & Zervos, 1998). While cross-country analyses suggest a positive link between financial development and growth, country-specific factors such as political stability and financial structure play a crucial role in shaping the strength and direction of this relationship (Al-Yousif, 2002). In Nepal's case, the development of the financial sector is critical to addressing ongoing economic challenges, such as the reliance on remittances and limited industrialization. An improved financial system, particularly through better access to credit and investment, is essential for fostering entrepreneurship and driving long-term economic growth (World Bank, 2021).

1.2 Statement of the Problem

The nexus between financial development and economic growth has been a focal point in economic research due to its crucial role in determining a nation's economic trajectory. Financial development is often heralded as a key driver of economic growth, primarily through its ability to improve capital allocation efficiency, stimulate investment, and enhance the distribution of resources within an economy. However, the empirical evidence on this relationship remains inconclusive, especially in the context of developing economies. This ambiguity is particularly pronounced in Nepal, where despite substantial reforms and evolution in the financial sector over recent decades, the country continues to grapple with inconsistent economic growth.

Since the liberalization efforts of the 1980s and 1990s, Nepal's financial sector has experienced significant transformation aimed at improving financial intermediation, expanding access to financial services, and increasing overall system efficiency. Yet, the sector remains relatively underdeveloped, characterized by low levels of financial inclusion and a limited array of financial products available to the population. According to the World Bank (2022), while Nepal has made strides in enhancing access to financial services, approximately half of the adult population still lacks access to formal financial institutions. This limited inclusion raises concerns about the effectiveness of the financial sector in driving economic growth and underscores the need to delve deeper into the factors influencing this relationship.

Research on the financial development-growth nexus in Nepal is limited, with most existing studies concentrating on more advanced or larger emerging economies. Bhusal (2021) found that financial development positively impacts economic growth in South Asian countries, though the magnitude and nature of this impact vary significantly across the region. This suggests that the relationship between financial development and economic growth in Nepal may differ from that in neighboring countries, warranting a more focused examination. Furthermore, Pant et al. (2020) identified that Nepal's financial sector is highly fragmented, with numerous small financial institutions

operating independently. This fragmentation may hinder efficient resource allocation and limit the sector's capacity to support sustained economic growth.

Additionally, key financial indicators such as Gross Fixed Capital Formation (GFCF), money supply (M2), and domestic credit to the private sector have not been thoroughly examined in the context of Nepal's economic growth. Although existing studies have explored these indicators' impact in other contexts, comprehensive research specifically analyzing their effects within the Nepalese economy is lacking. For example, Thapa and Joshi (2021) highlighted that GFCF significantly contributes to economic growth in Nepal but did not account for broader financial development indicators that may also play a crucial role. Similarly, Shrestha (2019) underscored the importance of domestic credit to the private sector in fostering economic growth but did not consider the potential moderating effects of macroeconomic factors such as inflation and government expenditure.

A critical gap in the literature is the absence of longitudinal studies examining the long-term relationship between financial development and economic growth in Nepal. Most existing studies rely on cross-sectional data or short time frames, which may not capture the full dynamics of this relationship. For instance, Devkota and Khatiwada (2022) conducted a time series analysis of financial development's impact on economic growth in Nepal, yet their study's 20-year scope may not fully reflect long-term trends and structural changes in the economy. Moreover, the study did not consider external shocks like political instability or natural disasters, which have historically influenced Nepal's economic performance.

Given these gaps, there is a pressing need for more sophisticated econometric approaches that can better capture the complexities of the financial development-growth relationship in Nepal. Advanced models such as vector autoregression (VAR) and cointegration analysis offer robust estimates by controlling for potential endogeneity and omitted variable biases. Karki and Paudel (2022) have demonstrated the effectiveness of these techniques in analyzing similar relationships in other developing economies, yet their

application in the Nepalese context remains limited, highlighting an area ripe for further research.

This study seeks to fill these gaps by providing a comprehensive analysis of the relationship between financial development and economic growth in Nepal. Utilizing a 49-year time series dataset (1975-2024) and employing advanced econometric techniques, the research will explore how various financial development indicators—such as GFCF, M2, domestic credit to the private sector, and government expenditure—affect GDP per capita growth in Nepal. Additionally, it will investigate the moderating effects of inflation and other macroeconomic factors, as well as the influence of structural breaks and external shocks on this relationship.

The findings from this study are expected to contribute to a deeper understanding of the financial development-growth nexus in developing economies, offering specific insights for policymakers in Nepal. By identifying key drivers of economic growth in the context of financial development, the study aims to inform the design of more effective financial and economic policies that can promote sustainable growth in Nepal. Furthermore, this research will address a critical gap in the literature by offering a methodologically rigorous analysis of the long-term relationship between financial development and economic growth in a developing country context. Base on this following research question is raised:

- I. What is the current status of financial development economic growth in Nepal?
- II. Is there relationship between Gross Fixed Capital Formation (GFCF), growth of consumer index, broad money supply, deposit, total expenditure domestic credit to private sector by banks and GDP per capita growth in Nepal from 1975 to 2023?
- III. Does Gross Fixed Capital Formation (GFCF), growth of Consumer Price Index (CPI), Broad Money Supply (M2), Deposits (D), Total Expenditure (TE), and Domestic Credit to the Private Sector by Banks (DCPS) impact GDP per capita growth in Nepal?

1.3 Objectives of the Study

In order to better comprehend and improve Nepal's economic environment, this study seeks to explore the complex relationship between financial development and economic growth. The study's objectives are organized as follows:

- I. To assess the current status of financial development and economic growth in Nepal.
- II. To examine the relationship between Gross Fixed Capital Formation (GFCF), growth of Consumer Price Index (CPI), Broad Money Supply (M2), Deposits (D), Total Expenditure (TE), and Domestic Credit to the Private Sector by Banks (DCPS) and GDP per capita growth in Nepal from 1975 to 2023.
- III. To evaluate the impact of Gross Fixed Capital Formation (GFCF), growth of Consumer Price Index (CPI), Broad Money Supply (M2), Deposits (D), Total Expenditure (TE), and Domestic Credit to the Private Sector by Banks (DCPS) on GDP per capita growth in Nepal.

1.4 Rationale of the Study

Understanding the intricate dynamics between financial development and economic growth is crucial for devising effective policies that can drive sustainable economic advancement. In the context of Nepal, this relationship is particularly significant due to the country's evolving financial landscape and its persistent economic challenges. This study aims to investigate the multifaceted relationship between financial development and economic growth to offer insights that can enhance Nepal's economic policies and strategies.

Nepal's financial sector has experienced substantial changes since the liberalization efforts of the 1980s and 1990s, which were intended to boost financial intermediation and improve access to financial services. Despite these efforts, the sector remains relatively underdeveloped, with significant gaps in financial inclusion and limited access to a broad range of financial products. According to the World Bank (2022), nearly half of Nepal's adult population still lacks access to formal financial institutions, raising concerns about the sector's effectiveness in supporting broader economic growth. Understanding how

various components of financial development, such as Gross Fixed Capital Formation (GFCF), growth of Consumer Price Index (CPI), Broad Money Supply (M2), Deposits (D), Total Expenditure (TE), and Domestic Credit to the Private Sector by Banks (DCPS), impact GDP per capita growth is essential for addressing these concerns.

The rationale for this study stems from several key factors. First, there is a need to assess the current status of financial development and economic growth in Nepal to identify existing gaps and opportunities. By analyzing the current state, the study can provide a baseline for understanding how financial development influences economic performance and where improvements can be made.

Second, the study aims to evaluate the impact of specific financial indicators on GDP per capita growth. Each of these indicators plays a distinct role in the economic ecosystem: GFCF reflects investment in infrastructure and capital assets; CPI growth indicates inflationary pressures; M2 and Deposits represent monetary stability and savings; TE shows government spending; and DCPS measures the availability of credit. Understanding how these factors individually and collectively affect GDP per capita growth will help policymakers design targeted interventions that address the specific needs of Nepal's economy.

Finally, exploring the historical relationship between these financial indicators and GDP per capita growth from 1975 to 2024 will offer valuable insights into long-term trends and structural changes in the economy. This longitudinal analysis can highlight how financial development has evolved and its cumulative impact on economic growth over several decades. By identifying patterns and relationships, the study can contribute to a deeper understanding of the financial development-growth nexus and inform future policy directions.

In conclusion, this study is vital for enhancing the understanding of how financial development influences economic growth in Nepal. By examining the current status, evaluating the impact of key financial indicators, and exploring historical relationships,

the study aims to provide actionable insights that can support the formulation of more effective economic policies and promote sustainable growth.

1.5 Limitations of the Study

This Study have following limitations:

- I. The study depends on secondary data sources, which might have inaccuracies or inconsistencies, potentially leading to unreliable results and affecting the overall validity of the findings.
- II. The econometric models used could introduce biases, making it challenging to accurately determine causal relationships between financial development indicators and economic growth.
- III. The models may not fully capture the complexities and nuances of Nepal's financial system, potentially oversimplifying the impact of financial development on economic growth.
- IV. The results may be specific to Nepal and might not be applicable to other countries with different economic structures, financial systems, or developmental contexts.
- V. The 49-year timeframe may not be long enough to detect and analyze long-term economic trends and changes, potentially limiting the depth of the longitudinal analysis.
- VI. The study may use a limited set of financial indicators, which might exclude important aspects of the financial system, thereby affecting the comprehensiveness of the analysis.
- VII. Theoretical framework employed might be outdated or not fully reflective of contemporary financial and economic dynamics, potentially affecting the relevance of the findings.
- VIII. The study might not offer actionable or practical policy recommendations that are directly applicable to enhancing financial development and economic growth in Nepal.
- IX. The unique socio-economic and political context of Nepal may not be fully accounted for, which could affect the applicability and relevance of the study's findings.

- X. Distinguishing between short-term and long-term trends may be challenging, which could affect the ability to provide clear insights into the sustained impacts of financial development.

CHAPTER II

LITERATURE REVIEW

Financial development is usually defined as a process that marks advancement in quantity, quality and efficiency of financial intermediary services (Gurley and Shaw, 1967). This process includes the interaction of many activities and institutions and possibly is associated with economic growth. The process may also be defined as the expansion and elaboration overtime of the financial structure (institutions, instruments and activities). Financial development involves improvements in

- (i) the production of ex ante information about possible investments,
- (ii) monitoring of investments and implementation of corporate governance,
- (iii) trading, diversification and management of risk,
- (iv) mobilization, pooling of savings, and
- (v) exchange of goods and services, (Levine, 1997). There is a consensus among economists that financial development spurs economic growth.

2.1 Conceptual Review

The relationship between financial development and economic growth has been a central theme in economic theory and empirical research. Financial development refers to the improvement in financial institutions, markets, and instruments that facilitate the efficient allocation of resources, encourage savings, and stimulate investment. Economic growth, measured by increases in GDP per capita, reflects an economy's expanding capacity to produce goods and services. The link between these two concepts is explained by two primary hypotheses. The supply-leading hypothesis posits that financial development promotes economic growth by mobilizing savings, lowering transaction costs, and facilitating efficient capital allocation, thereby boosting investment and technological innovation (McKinnon, 1973). In contrast, the demand-following hypothesis argues that economic growth stimulates the demand for financial services, which leads to the development of financial institutions and markets (Robinson, 1952). Channels through which financial development contributes to economic growth include improved capital accumulation, better resource allocation, increased innovation, and enhanced risk diversification (Levine, 1997). In the context of Nepal, financial

development is still at an early stage, characterized by a growing but underdeveloped financial sector. While banking activities have expanded, with rising deposits and credit to the private sector, there are still significant challenges related to financial access, literacy, and inclusion. Financial development in Nepal is crucial for unlocking the country's economic potential by providing the necessary credit for business growth, supporting entrepreneurship, and improving financial intermediation (Acharya, 2021). Thus, strengthening Nepal's financial sector is essential for fostering sustainable economic growth in the coming years.

2.1.1 Measures and Indicators of Financial Development

Quite possibly of the main issue in surveying the connection between monetary turn of events and financial development is the means by which to get a palatable experimental proportion of monetary turn of events. As per Kar and Pentecost (2000), the five most regularly involved intermediaries for monetary improvement are: the proportion of cash to pay, the proportion of banking store liabilities to pay, the proportion of private area credit to pay, the portion of private area credit in homegrown credit and the proportion of homegrown credit to pay. These intermediaries are viewed as thus.

Money related totals give a bunch of factors which might be utilized to quantify the degree of monetary turn of events (De Gregorio, 1998). In the writing, the most regularly utilized proportion of monetary improvement is a proportion of some expansive proportion of the cash stock, normally M2, to the degree of ostensible pay (Ruler and Levine, 1993 and Agung and Portage, 1998). This straightforward marker estimates the level of adaptation in the economy. The adaptation variable is intended to show the genuine size of the monetary area of a developing economy in which cash gives important installment and saving administrations. The 'tight cash' stock best mirrors the previous - installment administrations - and 'expansive cash' the last option, reserve funds capability. Slender cash adjusts ought to ascend in accordance with monetary exchanges, yet expansive cash ought to ascend at a quicker pace on the off chance that monetary developing is happening. At times, notwithstanding, money related totals - particularly limited cash totals - might be extremely unfortunate signs of the degree of monetary turn of events. For instance, De Gregorio (1995) censured the utilization of

tight cash to pay proportion as an intermediary for monetary improvement in light of the fact that an elevated degree of adaptation ($M1/\text{Gross domestic product}$) is doubtlessly the consequence of monetary underdevelopment, while a low degree of adaptation is the aftereffect of a serious level of refinement in monetary business sectors which permits people to streamline on their cash possessions. De Gregorio (1995) recommended the utilization of a less fluid money related total ($M3$ or $M2/\text{Gross domestic product}$) as an intermediary for monetary turn of events.

An option in contrast to a wide cash proportion is proportion of bank store liabilities to pay as a quality intermediary for monetary turn of events (Demetriades and Hussein, 1996; Luintel and Khan, 1999). In emerging nations, a huge part of the expansive cash stock is money held external the financial framework. On a basic level a rising proportion of wide cash to pay might mirror the greater utilization of money as opposed to an expansion in the volume of bank stores. In this way to get a more delegate proportion of monetary turn of events, cash available for use ought to be prohibited from the wide cash stock. One such intermediary is the proportion of bank store liabilities to pay (BDY).

The proportion of homegrown credit to pay (DCY) can be utilized as one more intermediary for monetary turn of events (Odedokun, 1989). This addresses the homegrown resources of the monetary area. This is the significant thing on the resource side of the merged accounting report of the monetary area. It is normal to increment because of further developed cost flagging, addressed basically by the foundation of positive genuine loan fees.

To get a more straightforward proportion of monetary intermediation, the confidential area credit proportion (CPY) is likewise utilized as a fourth proportion of monetary turn of events. It is expected that credit gave to the confidential area creates expansions in speculation and efficiency to a lot bigger degree than do credits to the public area. It is likewise contended that advances to the confidential area are given all the more severely and that the better nature of speculation exuding from monetary delegates' assessment of undertaking feasibility is more critical for private area credits.

One more intermediary for monetary improve

ement is the portion of the confidential area credit in the homegrown credit. This pointer might catch the part of homegrown resource conveyance of an economy. A monetary framework that just channels credit to the public authority or state-possessed undertakings may not be assessing directors, choosing venture projects, pooling risk and offering monetary types of assistance similarly as a monetary framework that designates credit to the confidential area. Lynch (1996) contended that administration credit from banks in nations with a profoundly managed monetary framework is oftentimes hostage and that banks have zero power over its utilization. Subsequently, the significant credit allotment job of banks is best addressed by their loaning to the confidential area. The portion of the credit given to the confidential area in the homegrown credit might mirror one more part of the monetary area and can be utilized as an intermediary for monetary turn of events.

2.1.2 Financial Intermediation

Financial intermediation is viewed as the degree to which monetary establishments (banks) bring deficiency spending units and excess spending units together (Ndebbio, 2004). Such a joining of expenditure units is probably going to bring about more developing of the monetary framework (Goldsmith, 1969; Ghani, 1992; Greenwood and Jovanovic, 1990). All in all, there will be greater interest in the economy through the monetary framework. In his commitment specifically, Goldsmith (1969) saw that the monetary superstructure of an economy "speeds up financial execution to the degree that it works with the movement of assets to the best client, i.e., to the spot in the monetary framework where the assets yield the most noteworthy social return". The assessment of Greenwood and Jovanovic (1990) is in accordance with this view; they expressed that monetary intermediation advances development since it permits a higher pace of return to be procured on capital, and development thusly gives a way to execute expensive monetary designs. In his commitment, Montiel (1995) contended that development and monetary turn of events/intermediation are commonly reliant in that the degree of per capita pay somewhat decides the degree of monetary turn of events, while monetary turn of events/intermediation can add to financial development over the long haul.

2.1.3 Financial Deepening

Financial Deepening infers the capacity of monetary foundations to actually assemble reserve funds for venture purposes. The development of homegrown reserve funds gives the genuine construction to the formation of enhanced monetary cases. It likewise assumes dynamic activities of monetary establishments in the monetary business sectors, which thus involve the stock of value (monetary) instruments and monetary administrations (Ndekwa, 1998). The perspectives above adjust to the determinations of a concentrate by Nnanna and Doga (1999) that monetary developing addresses a framework liberated from monetary restraint. Their finding is that arrangements of monetary restraint pointed toward empowering homegrown speculations through stifling loan costs created adverse outcomes. Further, negative genuine financing costs didn't energize more prominent ventures yet rather urged the banks to be more gamble disinclined and more reluctant to loan. Then again, when financing costs are more market arranged and more positive in genuine terms, bank loaning increments and same to homegrown ventures and public reserve funds.

Financial deepening for the most part involves an expanded proportion of cash supply to GDP (Nnanna and Dogo, 1999 and Nzotta, 2004). Monetary extending is subsequently estimated by relating financial and monetary totals like M1, M2 and M3 to the GDP (Gross domestic product). The rationale here is that the more fluid cash is accessible to an economy, the more open doors exist for proceeded with development of the economy.

2.1.4 Financial Liberalization

The liberalization of the capital record is caught by the guidelines on seaward getting by monetary foundations and by non-monetary enterprises, on different swapping scale markets and on capital surge controls (Vuranok, 2009). In a completely changed capital record system, banks and enterprises are permitted to get abroad uninhibitedly. They might have to illuminate the specialists yet authorization is allowed consequently. Save necessities may be set up however are lower than 10%. Moreover, there are no extraordinary trade rates for either the ongoing record or the capital record exchanges; nor are there any limitations to capital outpourings.

A completely changed homegrown monetary framework is described by complete absence of controls on loaning and getting financing costs and surely, by the absence of

credit controls, that is to say, no sponsorships to specific areas or certain credit designations. Likewise, stores in unfamiliar monetary forms are allowed. In a completely changed securities exchange, unfamiliar financial backers are permitted to hold homegrown value without limitations and capital, profits and premium can be localized uninhibitedly in no less than two years of the underlying venture. As per Kaminsky and Schmukler (2003), full monetary advancement happens when something like two out of three areas are completely changed and the third one is somewhat changed. A nation is called as to some extent changed when no less than two areas are to some degree changed. This approach to characterizing monetary advancement follows the experience of nations, both created and creating, since the mid 1970s, Kaminsky and Schmukler (2003) give records that assistance to shape the example of monetary progression for both created and agricultural nations. By and large, episodes of monetary progression can be recognized: the first occurred during the 1970s and the second in the last part of the 1980s. Securities exchanges in created nations were changed in the mid 1970s, while the homegrown monetary area and capital record were subdued until the mid 1980s. Progression of the homegrown monetary area originates before the kickoff of capital record in the remainder of the 1980s. Hence, by the mid-1980s, created nations were changed, undoubtedly somewhat, in the homegrown monetary area. By the last part of the 1980s and mid 1990s, capital record advancement had occurred in undeniably evolved nations. In agricultural nations, homegrown monetary area was changed alongside capital record during the 1970s. In any case, the financial exchange was far off for unfamiliar financial backers over the period. That age reached a conclusion with the 1982 obligation emergency, when controls were re-forced and stayed set up until the last part of the 1980s (particularly capital record controls) and when a progression wave occurred in Asia and afterward in Latin America. By the mid 1990s, the homegrown monetary area and financial exchange had been together liberated in emerging nations. This originates before capital record advancement which just started in the mid 1990s. All the G-7 nations liberated the securities exchange first. European nations embraced a more blended approach (25% of them changed the homegrown monetary area first and most of them liberated the financial exchange first). Latin American nations changed the homegrown monetary area first. Asian nations followed a blended procedure: while some

of them liberated the homegrown monetary area, the others favored zeroing in on the securities exchange. Capital record advancement in all Asian nations occurred hence.

2.1.5 Financial Repression

The term monetary repression implies that states hold monetary business sectors under restraint by meddling in them (Vuranok, 2009). It accomplishes this by indicating the circulation of credits while holding loan costs at low levels artificially. Nonetheless, the speculation monetary restraint relies upon the reactions of neoclassical and neo-Keynesian perspectives about loan cost approaches. Monetary suppression hypothesis was first evolved in two autonomous examinations having a place with McKinnon (1973) and Shaw (1973) and monetary business sectors were first analyzed deliberately by McKinnon in 1973. The ramifications of their examinations was that monetary advancement would contribute most fundamentally to financial development, on the off chance that money related specialists didn't meddle in that frame of mind of monetary foundations and the monetary framework by and large. The examinations by McKinnon and Shaw saw that monetary suppression is related with drowsy development in non-industrial nations. Such economies, as per Nnanna and Dogo (1998) are commonly portrayed by high and unpredictable expansion and misshaped premium and conversion scale structures, low reserve funds and ventures and low degree of monetary intermediation, as loan fees don't mirror the expense of capital. For an effective market accordingly, government should not meddle in monetary business sectors; store rates and credit rates should happen in economic situations.

2.1.6 Economic Growth

As per Goodwin, Nelson and Harris (2008), the most straightforward meaning of monetary development is an expansion in genuine Total national output (Gross domestic product) (that is, Gross domestic product adapted to expansion). The development pace of genuine Gross domestic product is the rate change in genuine Gross domestic product over time.

For motivations behind assessing how monetary development can take care of into financial turn of events, it is frequently useful to zero in on the development pace of

Gross domestic product per capita that is, yield per individual as opposed to just on generally yield. Numerically, Gross domestic product per capita is communicated as:

$$\text{GDP per capita} = \text{GDP} / \text{Population}$$

The growth rates of GDP, population, and GDP per capita are related in the following way:

$$\text{Growth Rate of GDP} = \text{Growth Rate of Population} + \text{Growth Rate of GDP per capita}$$

Economic growth can similarly also be defined as the increase of per capita [gross domestic product](#) (GDP) or other measure of aggregate income. It is often measured as the rate of change in real GDP. Economic growth refers only to the quantity of goods and services produced (Ekpo and Umoh, 2010).

2.2 Modeling Economic Growth

One way that result can increment is assuming there is an extension in the data sources used to deliver it. There are five sorts of capital. Human-delivered capital is called made funding to recognize it from different sorts of capital. Land and normal assets are regular capital, and every one of the abilities and information moved by people are likewise a sort of capital - human resources. We likewise note the significance of social and monetary capital, which both allude to institutional courses of action that make creation conceivable.

Financial specialists some of the time consider yield being created by a "creation capability," which is a numerical connection between different information sources and the degree of result. In the broadest sense we could say that the result of an economy ought to be communicated as a component of streams from every one of the various kinds of capital that make creation conceivable. The contributions to the creation capability are ordinarily alluded to as variables of creation. In the creation works generally normally utilized by financial experts, the elements that are underscored are produced capital and work. Now and again, yet not generally, regular assets likewise are incorporated. Economic growth can be either positive or negative. Negative growth can

be referred to by saying that the economy is shrinking. Negative growth is associated with economic [recession](#) and economic depression

One very influential, and more specific, model of economic growth was developed by economist Robert Solow in 1957. In his model, he assumed that an economy-wide production function can be written in the simple form.

$$Y = A K^{0.3} L^{0.7}$$

where Y is aggregate output, A is a number based on the current state of technology as described below, K is a quantitative measure of the size of the stock of manufactured capital, and L the quantity of labor used during the period of time. K and L are the only factors of production explicitly included in the model. Both capital and labor are needed for the production of output, with the exponents in the equation reflecting their relative contributions.

A is called total factor productivity, and includes all contributions to total production not already reflected in levels of K and L.

Frequently, "absolute element efficiency" has been deciphered as mirroring the manner by which mechanical development permits capital and work to be utilized in additional powerful and significant ways. For instance, the improvement of PC word-handling significantly expanded productivity contrasted with the utilization of typewriters. Typewriters, which appear to be old fashioned to us today, were themselves a colossal useful development over administrative work utilizing pen and paper. This course of further developed mechanical strategies has brought about an expansion in labor efficiency - more result can now be delivered with less labor hours.

After a few numerical controls, the creation capability above can be switched over completely to a situation for the development pace of result per specialist as a component of "all out factor efficiency" and the development pace of produced capital per laborer.

Note that yield per specialist is regularly alluded to as "work efficiency". While work efficiency and Gross domestic product per capita are not exactly same (certain individuals in the populace don't work, for instance), they are clearly firmly related. Accordingly, this model infers that the method for raising pay per capita to accomplish financial development is to build how much capital that every individual works with (the subsequent term) and further develop innovation (the initial term).

The use of the Solow growth model served to highlight some important factors in economic growth. In particular, the model led to much discussion of the role of savings in providing the basis for growing levels of manufactured capital per worker. Technological change also received attention, since this was thought to be the main driver behind growth in the value of "A." For many years, economists tended to treat growth as primarily a matter of encouraging savings, investment, and the creation and dissemination of technology.

In later years, different financial analysts have recommended that maybe this model has guided an excessive amount of focus toward reserve funds and innovation. Some have contended that different factors, for example, great foundations that help markets, developments in the association of work, or admittance to worldwide business sectors ought to be considered similarly significant in advancing monetary development. It isn't useful, they propose, collapsing all issues of social, human, monetary and regular capital into only one, rather obscure, "A" term.

2.2.1 Other Theories

Theories of economic growth, the components through which it happens and its primary determinants proliferate. One well known hypothesis during the 1970s for instance was that of the "Big Push" which recommended that nations expected to hop starting with one progressive phase then onto the next through an upright cycle in which enormous interests in framework and schooling combined with private speculation would move the economy to a more useful stage, breaking liberated from monetary standards fitting to a lower efficiency stage.

Significant scholastic writing and government methodologies support the money drove development speculation, in view of a perception previously made very nearly 100 years back by Joseph Schumpeter that monetary business sectors fundamentally help genuinely financial development and advancement. Schumpeter declared that money emphatically affected monetary development because of its impacts on efficiency, development and innovative change. As soon as 1989 the World Bank additionally embraced the view that monetary extending matters for financial development "by working on the efficiency of venture (World Bank, World Advancement Report, Washington DC, 1989). Various contextual investigations on Asia and Southern African nations showed the positive nexus between advancement of monetary intermediation and financial development (Schumpeter, 1912).

Theoretically talking in this way, monetary development is relied on the accessibility of capital. The Robert Solow Neoclassical Development Model sets that Development relies upon capital aggregation - expanding the load of capital merchandise to grow useful limit, and the requirement for adequate saving to back venture as well as higher reserve funds - deferring utilization to fund expanded portion of assets towards speculation. To that, a created monetary organization with its job of cultivating development addresses the wheel with which each economy is driven and it is primarily on this point of view that this work is outlined.

2.2.2 The Sources of Economic Growth

There are two methods for displaying economic growth:

(1) as an outward change in an economy's creation prospects bend, and

(2) as a shift to one side in its for quite some time run total stockpile bend. In attracting possibly one at a point time, we expect that the economy's elements of creation and its innovation are unaltered. Changing these will move the two bends. In this way, anything that builds the amount or nature of elements of creation or that further develops the innovation accessible to the economy adds to financial development.

Any remaining things equivalent, higher saving permits more assets to be dedicated to expansions in physical and human resources and mechanical improvement. At the end of the day, saving, which is pay not spent on utilization, advances financial development by creating accessible assets that can be directed into development improving purposes.

Hypothetically, monetary improvement makes empowering conditions for development through either a stock driving (monetary improvement spikes development) or an interest following (development creates interest for monetary items) channel.

The job of monetary go-betweens, for example, banks in financial development has drawn in much premium from academician, strategy creators and financial experts all over the planet and has brought about a huge collection of writing, both at the hypothetical and the exact levels, that tends to the expected connections between monetary turn of events and monetary development.

Monetary go-betweens carry out a few roles to ease data, requirement and exchange costs in monetary exchanges that could thus prompt development. These capabilities, as recorded by Levine (2004) include: creation of data about potential ventures and the designation of capital; checking speculations and applying corporate administration subsequent to giving money; working with the exchanging, broadening, and the board of hazard; activation and pooling of reserve funds; and facilitating the trading of labor and products. Monetary improvement might be said to happen when monetary middle people by carrying out these roles help to enhance - however not be guaranteed to take out - the impacts of data, requirement, and exchange costs in monetary exchanges. Subsequently, monetary advancement includes upgrades in (I) the creation of data about potential speculations, (ii) checking of ventures and execution of corporate administration, (iii) exchanging, broadening and the board of hazard, (iv) preparation and pooling of reserve funds, and (v) trade of labor and products (Levine, 2004).

2.3 Theoretical Review

2.3.1 Financial Intermediation Theory:

Financial intermediation theory emphasizes the pivotal role of financial institutions in transforming savings into productive investments. Greenwood and Jovanovic (1990) assert that these institutions enhance the efficiency of capital allocation by pooling individual savings, assessing credit risk, and channeling funds to high-return projects. They argue that effective financial intermediaries' lower transaction costs and mitigate the risk associated with investments, which promotes economic growth. Additionally, well-functioning financial institutions provide mechanisms for monitoring investments, which helps in reducing moral hazard and ensures that resources are directed towards the most productive uses.

2.3.2 Endogenous Growth Theory:

Endogenous growth theory posits that economic growth is driven by factors within the economy, such as technological innovation and knowledge accumulation. Romer (1990) highlights that financial development facilitates this growth by allocating resources to research and development activities, which are crucial for technological advancement. The theory suggests that financial markets improve the efficiency of investment in innovative projects, leading to higher productivity and sustained economic growth. By supporting R&D, financial systems play a critical role in enhancing a country's long-term growth trajectory and competitiveness.

2.3.3 Modern Financial Theory:

Merton and Bodie (1995) describe modern financial theory as one that focuses on the essential functions of financial markets, including risk management, liquidity provision, and information processing. They argue that financial markets support economic stability by offering various financial instruments that help manage risk and providing liquidity for asset conversion. These functions enable individuals and firms to make informed investment decisions and access necessary capital, thereby supporting economic growth.

The theory also underscores that effective financial markets contribute to reducing financial volatility and enhancing overall economic efficiency.

2.3.4 Institutional Theory:

Institutional theory, as proposed by North (1990), highlights the importance of the quality of institutions in influencing economic performance. According to this theory, well-functioning financial institutions, such as banks and regulatory bodies, are essential for reducing transaction costs and fostering economic stability. Effective institutions enforce property rights, provide legal frameworks, and ensure transparency, all of which contribute to a more predictable and efficient economic environment. The theory suggests that institutional quality affects financial development and, consequently, economic growth by creating a conducive environment for financial transactions and business operations.

2.3.5 Market Efficiency Theory:

Fama (1970) introduced market efficiency theory, which asserts that efficient financial markets fully incorporate all available information into asset prices. This theory posits that market efficiency ensures optimal resource allocation by directing capital to its most productive uses based on accurate price signals. Efficient markets facilitate better investment decisions and promote economic growth by reflecting true asset values and minimizing misallocation of resources. The theory also suggests that well-functioning markets reduce information asymmetry and enhance overall economic stability.

2.3.6 Financial Liberalization Theory:

Demirgüç-Kunt and Levine (1996) discuss financial liberalization theory, which argues that deregulating financial markets and increasing competition can boost economic growth. According to this theory, financial liberalization enhances the efficiency and depth of financial systems by improving access to capital and expanding investment opportunities. By removing regulatory barriers and fostering competition, liberalization leads to a more dynamic financial environment that supports innovation and investment.

This theory emphasizes that financial liberalization can lead to higher economic growth by promoting more efficient resource allocation and financial market development.

2.3.7 Financial Development and Economic Growth Nexus:

The financial development and economic growth nexus theory, discussed by King and Levine (1993), explores how improvements in financial development indicators positively impact economic growth. According to this theory, enhanced financial sector efficiency and deeper financial markets are associated with higher rates of economic growth. King and Levine provide empirical evidence that financial development facilitates better capital allocation, supports investment, and promotes economic stability. This theory suggests that a robust financial system is crucial for sustaining economic development and fostering long-term growth.

2.3.8 Credit Channel Theory:

Bernanke and Gertler (1989) developed credit channel theory, which emphasizes the role of credit markets in shaping economic activity. The theory posits that financial development improves credit allocation efficiency, which boosts both investment and consumption. According to this theory, a well-functioning credit market enables better access to financing for businesses and consumers, leading to increased economic activity and growth. Credit channel theory underscores the importance of efficient credit markets in facilitating economic expansion and stabilizing the economy.

2.3.9 Growth-Promoting Role of Financial Development:

Levine (1997) discusses the theory that financial development promotes economic growth by enhancing investment efficiency and creating a favorable environment for business activities. According to this theory, financial systems support economic growth by improving capital accumulation, productivity, and investment efficiency. Financial markets and institutions contribute to economic progress by facilitating better allocation of resources and supporting business operations. This theory highlights the role of financial development in fostering a dynamic and growth-oriented economic environment.

2.3.10 Financial Depth and Economic Growth:

Beck, Levine, and Loayza (2000) explore the relationship between financial depth and economic growth, suggesting that deeper financial markets are linked to higher growth rates. The theory posits that a higher ratio of financial assets to GDP indicates greater financial depth, which enhances the financial system's capacity to support economic activities. Beck, Levine, and Loayza argue that financial depth provides more resources for investment and economic expansion, leading to increased growth. This theory underscores the importance of financial depth in enhancing the financial system's ability to drive economic development.

2.4 Empirical Review

Gyanwaly (2024) analyzed on determinant of economic growth in Nepal. The study depicted that there is both long run and short run harmony connection between Gross domestic product, gross fixed capital development, send out, exchange transparency and human resources. This study has made new commitment by assessing the series load of capital, investigating the human resources as significant determinant of financial development, assessing the critical per-capita creation capability including the human resources, and giving more up dated and new data on determinants of monetary development of Nepal.

Thapa (2024) studied the complex dynamics of Nepal's financial development and economic growth, both in long and short run. The analysis identifies significant long term association among key variables including real GDP per capita, private sector credit, gross wealth creation and total business underscoring their lasting impact on economic growth of Nepal. Variable specific dynamic reveal that certain indicators utilize more influence over extended period. Short term adjustment patterns shows variations in the speed of response to deviations form long run equilibrium. Ganger causality tests uncover unidirectional causal relationship, providing information on how shifts in certain financial progress measures affect the growth of the economy.

Mengesha and Berde (2023) analyzed the relationship between financial development and economic growth through casual relationship between them in Ethiopia. The result shows that no causality running from financial development to economic growth, but

there is evidence of reverse causality from economic growth to financial growth. Furthermore, the NARDL model results suggest that economic growth drives financial development and economic growth in Ethiopia is non-linear and asymmetric. Specifically, neither positive nor negative shocks to economic growth affect financial development in the short run, but both affect it in the long run and in joint short run and long run effects.

Tariq et. al (2020) analyzed the nonlinear connection between monetary turn of events and financial development in Pakistan utilizing edge relapse model for the time of 1980-2017. The outcome uncovers that monetary development responds distinctively to monetary turn of events and financial development is U-shaped in Pakistan. Among different factors, actual capital, workforce, and government consumption apply a constructive outcome on financial development. Moreover, expansion rate and exchange receptiveness inconsequential affect monetary development. The aftereffects of quantile relapse likewise affirm the non-direct connection between monetary turn of events and financial development in Pakistan.

Afonso and Arana (2018) analyzed on the financial improvement and financial development: a review for OECD nations with regards to emergencies. Utilizing irregular impact model, they found that an expansion in homegrown credit given by the monetary area, market capitalization and in the turnover proportion of homegrown offers involves a huge impact on per capita Gross domestic product. The concentrate additionally found various impacts during the time of the emergencies on homegrown credit given by the monetary area and on market capitalization. Among other financial determinants connected with monetary development, use in training, expansion and joblessness rates show up profoundly huge for financial development of the dissected nations.

A new investigation of Bist and Bista (2018) has attempted to address the two-way components of the money development relationship tending to huge underlying breaks of Nepal's monetary turn of events and financial development. Nonetheless, their review relies upon just a single mark of monetary turn of events.

Ciftci, Ispir and Yetkiner (2017), concentrated on in financial development turn of events and economic growth. The review adds to understanding the job of monetary improvement on financial hypothetically and experimentally. In the hypothetical part, the long run relationship is assessed for a board of 40 nations over the period 1989-2011 by mean of Expanded Mean Gathering and normal Connected Impacts, the two of which permits cross-sectional conditions. While the cross-sectional discoveries change across nations. The review inferred that the board information investigations uncover the two channels have positive long-run impacts on consistent state level of Gross domestic product per capita, and the commitment of the credit markets is substantially more noteworthy.

Kharel and Pokhrel (2012) investigated that Nepal's monetary design matter for financial development or not. The observational outcomes utilizing Johansen's cointegrating vector blunder revision model propose that financial area assumes a key part in elevating monetary development contrasted with capital market in Nepal. It very well might be either the size of capital market is excessively little to look for the relationship or it is feebly connected to truly monetary exercises. The outcome suggests that the arrangement ought to zero in on financial area improvement by upgrading its quality and effort as it advances monetary development in Nepal.

Westermann (2012) analyzed the linkages between sectoral yield development and monetary improvement in Nepal. The examination presumed that while administrations respond emphatically to expansions in homegrown loaning, both farming and assembling are generally unaffected. The administrations area shows a positive reaction that expansions in size and the assembling area, as well as farming show mostly irrelevant responses.

Maskay and Subedi (2009) broke down improvement of the Nepalese monetary framework. The paper reasoned that regardless of huge monetary extending with regards to monetary progression and coordination with the outer economy, there is still degree for geologically adjusted monetary turn of events. For tending to these difficulties in a

thorough way, the review proposed starting the improvement of a monetary area end-all strategy.

Abu-Bader and Abu-Qarn (2008) inspected the causal connection between monetary turn of events and financial development for six Center Eastern and North African nations inside a quadivariate vector autoregressive system. The observational outcomes reflected solid proof for causality running from monetary advancement to financial development however no causality in the other course. The discoveries made by the specialists proposed that there is need to speed up the monetary changes that will assist with working on the productivity of monetary framework to invigorate reserve funds, speculation and thus, long haul financial development of the country

Bhetuwal (2007) evaluated financial development and economic growth in Nepal. Financial improvement isn't the result of just approach changes in the monetary area, yet in addition relies upon the interest for monetary administrations in the economy. The improvement of the monetary area is the spine for financial advancement of a country. However, it can't be accomplished in disengagement with different areas of the economy. Synchronous development in every one of the areas of the economy can increment more interest of monetary administrations and it can animate monetary turn of events. Unidirectional causality from monetary progression to monetary improvement found from the Granger causality test portrays what is going on.

Recent economic development of Nepal

Nepal's economy saw additionally created improvement in the key portion of FY24 (H1FY24) stood out from FY23, maintained by the organizations region, helping its money related improvement with returning quickly from a low of 1.9 percent in FY23 to a gauge of 3.3 percent in FY24. Comfort and food organizations drove the way, stimulated by a tremendous climb in explorer appearances. Money related and security practices moreover reached out, notwithstanding the way that there was a withdrawal in rebate and retail trade. The cutting edge region added to improvement likewise, maintained by higher hydroelectric creation. In cultivating, there was an extension in

paddy creation, upheld by additional created seed openness and extraordinary atmospheric conditions.

Private use drove improvement on the local interest side, maintained by a huge addition of settlement inflows. Nevertheless, since H1FY21, settlements advancement has not maintained higher imports of use stock. Private endeavor remained tired, as demonstrated by decreased imports of capital and temporary items. Of course, public usage and adventure contracted, driven by seriousness measures and lower pay collection.

The external position strengthened, as the continuous record balance recorded an overabundance, filled by rising settlements and a contracting import/trade lopsidedness. The half-year current record balance deserted a lack of 0.7 percent of GDP in H1FY23 to an overabundance of 2.7 percent of GDP in H1FY24, meaning the primary abundance in a long time. This circle back started from two key factors: a climb in settlement inflows, from 10.9 percent to 12.3 percent of GDP, and a confining import/trade unevenness, which reduced from 13.2 percent to 11.6 percent of GDP. Imports declined, basically in light of lower import of items. Nevertheless, there was a flood in imports of electric vehicles, in view of lower charge rate. Organization imports outflanked pre-pandemic levels, driven by a climb in enlightening organizations. While results of work and items showed negligible turn of events, they remained under pre-pandemic levels, with prominent augmentations in overall voyager appearances and power exchanges.

Official repayment inflows showed up at an eight-year top in H1FY24, driven by extended outmigration and cash cheapening. Government inspirations for transient experts further asked settlements to flow through obvious channels. Due to higher settlement inflows, official new exchange saves extended and showed up at 12.1 significant length of import cover toward H1FY24's end.

Nepal in like manner experienced a conspicuous improvement in its financial lack, with the half-year deficit contracting to 0.4 percent of GDP in H1FY24 (from 1.4 percent in a comparable period last year), mainly credited to diminished spending. Dreary and capital use were diminished, as a component of gravity measures to reflect pay lacks. Half-year

pay tumbled to an eight-year low of 8.7 percent of GDP in H1FY24, basically as a result of a diminishing in non-trade livelihoods and lower Tank and individual cost collections coming about in view of weakened local premium. *Source: World Bank*

Table 1

Meta Table

Sn.	AUTHOR	Topic	Objective	Methodology	Variables	Findings
1	Gyanwaly (2024)	Determinant so Economic Growth in Nepal	To examine the determinants of economic growth in Nepal	Co-integration and error correction model	Per-capita physical capital, human capital, per capita human capital , export, gross fixed capital formation, investment in brain and health of people as in dependent variables and GDP as dependent variables	There is both long run and short run equilibrium relation between GDP, gross fixed capital formation, export, trade openness and human capital. The study made new contribution by estimating the series stock of capital, exploring the human capital as major determinants of economic growth, estimating the significant per-capital.
2	Thapa (2024)	Co-integration Analysis of Financial development and Economic growth in Nepal	To explore the complex dynamics of Nepal's financial development and economic growth, both	Correlation and regression	Capita, private sector credit, gross wealth creation and total business underscoring as independent variable and	The study identifies significant long term association among key variables including real GDP per

			in long run.		GDP as dependent variables	capita, private sector credit, gross wealth creation and total business underscoring their last impact on economic growth of Nepal. Ganger causality tests uncovers unidirectional causal relationship, providing information on how shifts in certain financial progress measures affect the economy.
3	Mengesha and Berde (2023)	Financial development and economic growth in Ethiopia: Is there a causal link?	To analyze the relationship between financial development and economic growth in Ethiopia.	Correlation and regression	Macro-economic variables, socio-cultural and political factors as independent variables and Gross Domestic Product as dependent variable.	The study concluded that there is no causality running from financial development to economic growth, but there is evidence of reverse causality form economic growth to financial development. Further NARDL model suggest that economic growth drives

						financial development and the relationship between financial development and economic growth in Ethiopia is nonlinear and asymmetric. Specifically, neither positive nor negative shocks to economic growth affects financial development in short run but affect it in the long run and in joint short run and long run effects.
4	Tariq et. al (2020)	How does financial development impact economic growth in Pakistan? New evidence from threshold model	To examine the non-linear relationship between financial development and economic growth in Pakistan.	Regression	CPI, Factors of production, government expenditures relative to GDP , trade openness as independent variables and GDP as dependent variable.	The result indicates that economic growth responds positively to financial development when the level of financial development surpasses the threshold value of 0.151. The finding reveals that economic growth reacts differently to

						financial development, and the relationship between financial development and economic growth is U-shaped in Pakistan. The results shows that an increase in domestic credit provided by the financial sector, in market capitalization and in the turnover ratio of domestic shares entails a significant positive effects during the period of the crisis on domestic credit provided by the financial sector and on market capitalization.
5	Afonso and Arana (2018)	Financial development and economic growth: a study for OECD countries in the context of crisis	To examine the relationship between economic growth and financial development in OECD countries during the period of 1990-2016	Random effect model	Socio-economic determinants, expenditure in education, inflation and unemployment rates as independent variables and GDP as dependent variable.	The estimates of the ARDL approach suggest that financial development has a significant positive impact on economic growth in both long run
6	Bist and Bista (2018)	Finance-growth nexus in Nepal: An application of the ARDL approach in the presence of structural breaks	To examine the relationship between financial development and economic growth using annual time series data for Nepal	ARDL model	Dependent variables economic growth (annual percentage change in real GDP and real GDP per capita. Private sector as a percentage of nominal GDP,	The estimates of the ARDL approach suggest that financial development has a significant positive impact on economic growth in both long run

Gross domestic savings as percentage of nominal GDP, Trade openness ,inflation and consumer price index as percentage of nominal GDP, independent variables	and short run. However, the estimates how that gross domestic saving, a control variable, has negative impact on economic growth in Nepal.
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2.5 Research Gap

The existing literature on the relationship between financial development and economic growth often focuses on more advanced or larger emerging economies, leaving a gap in understanding how these dynamics apply to smaller or less developed countries like Nepal. Research by King and Levine (1993) provides substantial insights into the financial development-growth nexus, yet their findings are largely based on advanced economies. This highlights the need for a tailored conceptual approach that considers the unique aspects of Nepal's financial system and economic conditions, which may differ significantly from those observed in more developed contexts. Addressing this gap involves adapting theoretical frameworks to better reflect the specific characteristics and challenges faced by Nepal (King & Levine, 1993).

Methodologically, much of the existing research employs cross-sectional analyses or short-term time frames, which may not fully capture the long-term trends and causal relationships between financial development and economic growth. For instance, Devkota and Khatiwada (2022) utilized a 20-year time series analysis, which may be insufficient for capturing the full scope of these dynamics over extended periods. The application of advanced econometric techniques, such as vector autoregression (VAR) or cointegration analysis, remains underexplored in the context of Nepal. Employing these methodologies could provide more robust and nuanced insights into how financial

development impacts economic growth over both short and long-term horizons (Devkota & Khatiwada, 2022; Karki & Paudel, 2022).

Furthermore, the scope of variables examined in current studies often neglects important financial indicators that could influence economic growth. For example, while Thapa and Joshi (2021) focused on Gross Fixed Capital Formation (GFCF), they did not incorporate other critical variables such as broad money supply (M2) or domestic credit to the private sector (DCPS). This limited scope may overlook the interactive effects of various financial indicators on economic growth. Additionally, Nepal's unique socio-economic and political context, as noted by Pant et al. (2020), is often not fully considered in broader studies. This suggests a need for research that incorporates a wider range of variables and contextual factors to better understand and address the specific financial development and growth challenges faced by Nepal (Thapa & Joshi, 2021; Pant, Thapa, & Shrestha, 2020).

CHAPTER III

RESEARCH METHODOLOGY

Research methodology refers to the specific techniques or approaches employed to identify, select, process, and analyze information on a given topic. Research involves generating new knowledge to develop novel concepts, methods, and insights. The methodology section of a research paper allows the reader to critically evaluate the overall validity and reliability of the study. This chapter emphasizes the methodological approach of the research.

3.1 Research Design

This study integrates descriptive, causal-comparative, and explanatory research designs to investigate the relationship between financial development and economic growth in Nepal. It begins with a descriptive analysis to summarize historical data and identify key trends over the past 49 years, drawing on secondary data from sources like the Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), World Development Indicators (WDI), and the Ministry of Finance (MOF). The causal-comparative design is then employed to compare different phases of financial development and evaluate their impact on economic growth. Finally, an explanatory approach is adopted, using econometric techniques such as stationarity tests, co-integration analysis, and Granger causality tests to explore long-term relationships and causality between the variables. Multiple regression models are applied to quantify the effects of financial development on GDP per capita growth, controlling for other economic factors, providing a thorough analysis of the dynamic relationship between financial development and economic growth.

3.2 Nature of Sources of Data

The study utilized secondary data sources to achieve its objectives, drawing on 49 years of data from Fiscal Year 1975/76 to 2022/23 AD. The data were gathered from reports and websites of the Nepal Rastra Bank, World Development Indicators (a databank of the World Bank), the Ministry of Finance of Nepal, the Central Bureau of Statistics, and the National Planning Commission of Nepal. Additional data were sourced from various journals, magazines, reports, as well as Master's and PhD theses.

3.3 Methods of Analysis

After collecting the data, it was processed, coded, categorized, and stored in databases using E-views version 10 and Microsoft Excel. Various statistical tools, including tables, figures, mean, standard deviation, and frequency distribution, were utilized for data analysis. The following specific tools were applied.

Descriptive Statistics

Descriptive statistics were employed to provide a comprehensive summary of the data related to interest rates and other variables of development banks in Nepal. These statistics include key measures such as:

1. **Mean:** The mean, or average, is a measure of central tendency that provides the typical value for each variable. For instance, the mean interest rate would indicate the average interest rate across all development banks during the study period.
2. **Standard Deviation:** This measure assesses the amount of variation or dispersion in the data. A higher standard deviation indicates that the interest rates or other variables have greater variability from the mean, while a lower standard deviation suggests that the values are closely clustered around the mean.
3. **Maximum and Minimum Values:** These statistics identify the range of the data by showing the highest and lowest values observed for each variable. The maximum value reflects the peak interest rate recorded, while the minimum value indicates the lowest rate. This range provides insight into the extent of variability and potential outliers in the data.
4. **Skewness** measures the asymmetry of the data. A positive skew indicates a distribution with a longer right tail (higher values), while a negative skew indicates a longer left tail (lower values). A skewness close to zero suggests a symmetric distribution.
5. **Kurtosis** measures the "tailedness" of the distribution. Positive kurtosis (leptokurtic) indicates heavier tails and a sharper peak, meaning more extreme values. Negative kurtosis (platykurtic) suggests lighter tails and a flatter peak,

with fewer extreme values. A kurtosis close to zero resembles a normal distribution.

By using these descriptive statistics, the study was able to effectively summarize the key characteristics of the data set, offering a clear overview of how interest rates and other variables varied among the development banks in Nepal. This initial analysis helps to identify trends, patterns, and anomalies in the data, which can be further explored in subsequent analyses.

Correlation

The correlation coefficient is a crucial statistical tool used to evaluate the strength and direction of the linear relationship between two variables, with its value ranging from -1 to 1. A correlation coefficient of 1 suggests a perfect positive relationship, where both variables move in the same direction. Conversely, a coefficient of -1 indicates a perfect negative relationship, meaning one variable increases as the other decreases. A value of 0 implies no linear relationship between the variables.

In economic research, analyzing the correlation between variables such as GDP per capita growth and various financial and macroeconomic indicators is vital for understanding the underlying economic patterns and interactions. This study focuses on examining the relationships between the GDP per capita growth rate (GDPPCG) as the dependent variable and several independent variables: the annual inflation rate (I), Broad Money (M2) as a percentage of GDP, Deposits (D) as a percentage of GDP, Total Expenditure (TE) as a percentage of GDP, Gross Fixed Capital Formation (GFCF) as a percentage of GDP, and Domestic Credit to the Private Sector by banks (DCPS) as a percentage of GDP. Understanding these correlations provides insights into how financial development and macroeconomic factors influence economic growth, thereby contributing to the broader analysis of economic dynamics in the context of Nepal.

Regression Analysis

In this study, regression analysis is applied to examine the impact of financial and macroeconomic variables on GDP per capita growth. This method allows for a detailed investigation of how these variables collectively and individually influence economic growth, offering a nuanced understanding of the underlying dynamics. By estimating the coefficients for each variable, the analysis identifies the magnitude and direction of their effects on GDP per capita growth, revealing whether each factor contributes positively or negatively to economic performance. This approach provides valuable insights into the complex relationships between financial development, government spending, and economic growth, helping to inform policymakers and stakeholders about the key drivers of economic performance in Nepal. Through this regression analysis, the study aims to uncover the most significant factors influencing GDP growth, thus contributing to a deeper understanding of Nepal's economic landscape. The study formulates the following regression model:

Model 1

$$\text{GDPPCG} = \beta + \beta_1 (\text{GFCF}) + \beta_2 (\text{CPI}) + \beta_3 (\text{M2}) + \beta_4 (\text{D}) + \beta_5 (\text{TE}) + \beta_6 (\text{DCPS}) + e \dots \dots \dots \text{(i)}$$

Where,

GFCF = Gross Fixed Capital Formation

CPI = Growth of Consumer Price Index

M2 = Broad Money

GDPPCG = Gross Domestic Product Per Capita growth

D = Deposit

TE = Total Expenditure

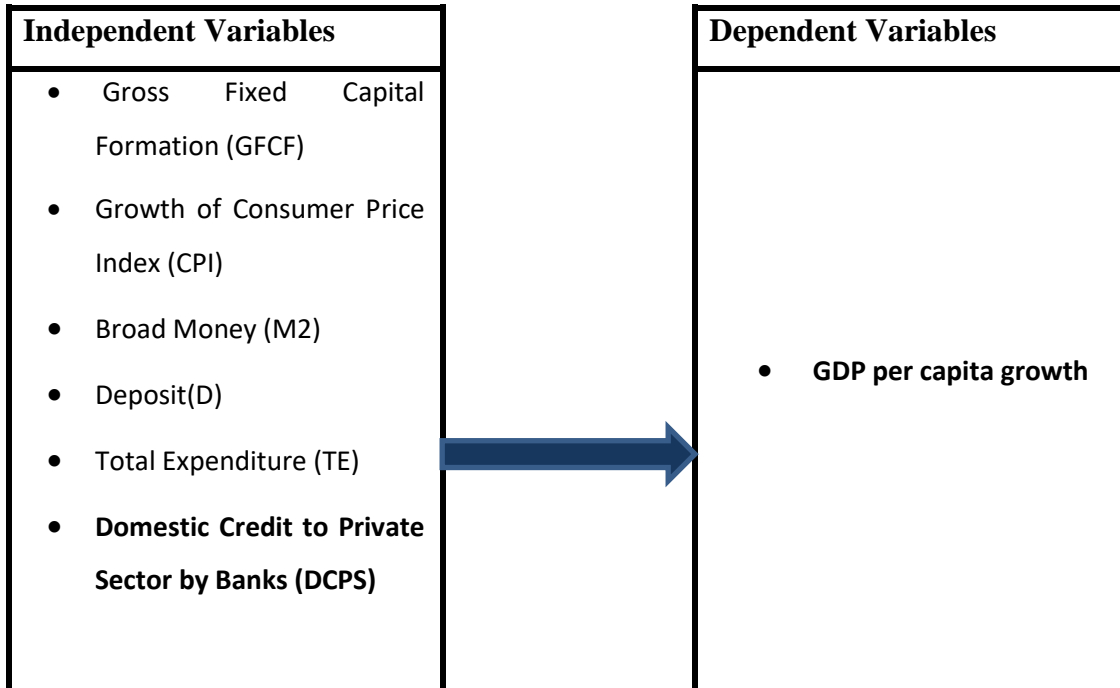
DCPS = Domestic Credit to Private Sector by Banks

$\beta_1 - \beta_6$ = Beta coefficient of four independent variable one to six respectively

3.4 Theoretical Framework and Definition of Variables

With reference to the previews of the past studies and the research hypothesis of the study, the theoretical framework representing network of relationship between the dependent and independent variables was developed. The theoretical framework used following variables: GDP per capita growth, broad money supply as percentage of GDP, domestic credit to private sector by bank as percentage of GDP, deposit as percentage of GDP, gross fixed capital formation as percentage of GDP, government expenditure as percentage of GDP Using economic theories, previous practices, and common sense as a foundation, these eight variables were discovered to be having relationship as dependent, and independent (explanatory) variables. The economic growth proxy was taken as dependent variable while financial development is taken as explanatory variables as shown in Figure 1.

Figure 1
Theoretical Framework for Variables



Source: Kafley 2024

GDP per capita growth: It measures the annual percentage change in the economic output per person, calculated by dividing total GDP by the population. It reflects economic progress and living standards over time. A rising rate indicates economic expansion, while a declining rate signals potential stagnation. It does not account for income distribution disparities. Complementary metrics are needed for a complete economic health assessment (World Bank, 2024).

Gross Fixed Capital Formation (GFCF) as Percent of GDP: It represents the net increase in value from physical assets like infrastructure and machinery, shown as a percentage of GDP. It reflects investments in long-term assets that drive future economic production. Higher GFCF indicates greater investment in the economy's growth capacity. It is a key determinant of economic efficiency and development. Tracking GFCF helps assess the economy's investment trends (International Monetary Fund, 2024).

M2 as Percent of GDP: It refers to the broad money supply, including cash and easily convertible near-money, as a percentage of GDP. It reflects the economy's liquidity and its capacity to support economic activities. A higher M2 indicates more available liquidity, which can impact inflation and investment levels. It is crucial for understanding monetary conditions and their effects on economic growth (Khan & Ali, 2024).

Deposits as Percent of GDP: It measures the total funds held by banks and financial institutions, including savings and term deposits, relative to GDP. It indicates the size of the banking sector and the level of financial intermediation within the economy. Higher deposits suggest greater financial stability and capacity for investment. This metric impacts economic growth by reflecting the overall savings and investment environment (Asian Development Bank, 2023).

Total Expenditure as Percent of GDP: Total Expenditure includes all government spending on goods, services, and public projects. When expressed as a percentage of GDP, it reflects the government's fiscal stance and its role in economic activity. High levels of total expenditure can stimulate economic growth through public investment, though excessive spending can lead to budget deficits and debt (Nepal Rastra Bank, 2022).

Domestic Credit to Private Sector by Banks (% of GDP): Domestic Credit to the Private Sector refers to the total amount of credit extended by banks and financial institutions to businesses and individuals. As a percentage of GDP, it indicates the level of financial resources available for private sector investment and economic activities. This measure is vital for understanding the accessibility of credit and its role in facilitating economic growth and development (Sharma, 2023).

Table 2
Variable Specification

Variables	Proxies	Measurement	Sources
Economic Growth	Gross Domestic Product (GDP) per capita growth	Annual Percentage (%)	World Bank Indicator
Financial Development	Broad Money Supply (M2)	as percent of GDP (%)	Nepal Rastra Bank
	Deposits	as percent of GDP (%)	Nepal Rastra Bank
	Domestic Credit to Private Sector by Banks	as percent of GDP (%)	World Bank Indicator (WDI)
	Inflation	% Growth of CPI	Nepal Rastra Bank
	Gross Fixed Capital Formation	as percent of GDP (%)	Ministry of Finance
	Total Government Expenditure	as percent of GDP (%)	Nepal Rastra Bank

CHAPTER IV

RESULTS AND DISCUSSION

In this chapter, the study will examine the major financial ratios utilized by the Nepal Rastra Bank (NRB) as the regulatory authority for Nepal's banking sector. These ratios are essential for monitoring the financial health and stability of Nepalese economy. Additionally, data sourced from the World Bank and NRB websites will be tabulated and graphically presented to offer a clear and comprehensive picture of the current financial landscape. The theoretical details underlying these ratios are elaborated in the research methodology chapter. Finally, we will discuss the major findings of the study at the end of this chapter.

4.1 Results

This chapter focuses on analyzing the financial development and economic growth in Nepal over a period of 49 years, from 1975 to 2023. The dependent variable in this study is the GDP per capita growth rate (GDPPCG). The independent variables include the annual inflation rate (I), Broad Money (M2) as a percentage of GDP, Deposit (D) as a percentage of GDP, Total Expenditure (TE) as a percentage of GDP, Gross Fixed Capital Formation (GFCF) as a percentage of GDP, and Domestic Credit to the private sector by banks (DCPS) as a percentage of GDP. The financial ratios, calculated using an appropriate model, are presented and explained in this section. For clarity, we have included a graphical presentation of the patterns observed in these ratios. This chapter also provides an analysis of the expected results, along with detailed calculations and visual representations to facilitate a comprehensive understanding of the data trends.

Table 3

Financial ratio/Indicator of NRB

FY	GDPPCG	GCFC	I	M2	D	TE	DCPS	Mean	SD
1975	4.07	13.39	16.73	12.46	7.04	9.12	4.72	9.65	4.74
1976	-0.72	14.05	-0.69	14.51	9.20	11.00	4.29	7.38	6.48
1977	2.16	14.93	2.70	18.65	12.34	13.49	3.53	9.69	6.74
1978	0.75	16.70	11.17	19.12	12.76	13.56	4.68	11.25	6.49
1979	2.03	12.49	3.44	20.31	13.06	11.56	5.60	9.78	6.45
1980	0.02	15.76	9.78	22.63	14.26	14.86	6.27	11.94	7.32
1981	-4.59	15.74	13.39	23.10	15.17	14.99	8.40	12.31	8.62
1982	5.84	17.64	10.42	24.07	15.84	17.30	9.00	14.30	6.23
1983	1.38	19.44	14.17	27.32	18.62	20.64	8.45	15.72	8.58
1984	-5.26	17.58	6.24	26.54	17.94	18.93	7.91	12.84	10.56
1985	7.12	20.15	4.14	26.39	18.32	18.02	8.20	14.62	8.18
1986	3.73	16.92	15.84	27.20	18.44	17.58	9.31	15.57	7.40
1987	2.26	18.52	13.27	27.40	18.50	18.03	10.25	15.46	7.90
1988	-0.46	17.44	10.79	27.86	19.44	18.34	10.15	14.79	8.97
1989	5.43	18.36	8.31	29.80	21.23	20.17	11.57	16.41	8.47
1990	2.02	16.44	9.70	30.51	21.16	19.02	12.82	15.95	9.05
1991	2.12	18.92	9.81	31.33	22.17	19.56	12.47	16.63	9.44
1992	3.65	19.58	21.05	30.55	22.30	17.67	12.95	18.25	8.36
1993	1.23	21.74	8.86	34.01	25.39	18.02	13.09	17.48	10.89
1994	1.09	21.09	8.95	35.02	26.18	16.86	14.26	17.64	11.17
1995	5.60	22.07	7.66	36.95	27.85	17.82	18.30	19.46	10.94
1996	1.10	22.53	8.13	37.22	28.61	18.70	22.58	19.84	12.13
1997	3.12	21.67	8.09	45.08	29.07	18.08	22.84	21.14	13.81
1998	2.95	21.73	8.33	50.79	34.04	18.65	23.36	22.84	15.98
1999	1.04	19.08	11.38	54.42	37.10	17.42	28.21	24.09	17.65
2000	2.51	19.32	3.39	56.51	40.74	17.46	28.45	24.06	19.61
2001	4.40	19.20	2.43	50.73	41.04	18.08	30.28	23.74	18.03
2002	3.13	19.56	2.89	53.52	39.99	17.43	29.08	23.66	18.69
2003	-1.37	19.92	4.75	56.34	41.19	17.07	22.51	22.92	20.06
2004	2.53	20.34	3.96	55.97	43.33	16.66	25.81	24.09	19.70
2005	3.39	19.94	4.54	58.84	42.49	17.40	26.55	24.74	20.09
2006	2.37	20.72	7.96	60.47	44.33	16.95	28.21	25.86	20.50
2007	2.45	21.07	5.90	68.06	45.95	18.36	32.61	27.77	23.20
2008	2.66	21.88	6.70	77.30	51.68	19.78	36.77	30.97	26.48
2009	5.44	21.35	12.63	72.81	55.72	22.23	51.20	34.48	25.31
2010	3.97	22.21	9.60	77.24	52.03	21.77	58.77	35.09	27.65

2011	4.30	23.93	9.64	59.10	52.80	18.90	54.21	31.84	22.96
2012	3.02	23.99	8.30	64.28	57.54	19.29	46.03	31.78	24.21
2013	4.42	24.73	9.90	67.48	60.95	18.40	48.39	33.47	25.29
2014	3.33	25.25	9.10	70.14	63.01	19.49	50.19	34.36	26.64
2015	5.70	27.55	7.21	77.48	69.68	21.92	54.22	37.68	29.39
2016	3.42	28.71	9.92	86.06	77.33	23.04	56.68	40.74	32.78
2017	-0.47	30.58	4.47	84.22	74.74	27.21	69.66	41.49	34.59
2018	7.73	32.43	4.15	89.54	79.34	31.46	69.05	44.82	34.50
2019	6.40	33.82	4.64	92.83	83.83	28.78	76.17	46.64	37.09
2020	5.45	30.47	6.15	108.80	98.74	28.06	78.85	50.93	43.64
2021	-4.09	29.34	3.60	118.43	107.13	27.49	88.34	52.89	50.61
2022	2.44	28.45	6.32	111.59	103.02	26.55	103.53	54.56	49.17
2023	3.84	25.21	7.74	113.92	106.11	26.57	95.13	54.07	48.71
Mean	2.54	21.30	8.11	52.35	41.61	19.18	31.71	25.26	17.82
SD	2.71	4.89	4.08	28.27	27.20	4.48	26.43	14.01	12.46

Source: Appendix I

Over the span of 49 years, from 1975 to 2023, Nepal's economic performance, as reflected in key variables, has exhibited significant trends and fluctuations. These economic indicators analyzed over this period offer a detailed insight into Nepal's economic trajectory and its underlying dynamics.

The GDP per capita growth rate (GDPPCG), averaging 2.54% annually, signifies a steady but moderate pace of economic expansion. This figure masks significant variability across different periods, such as the negative growth in 1981 and 2021, which could be attributed to various factors including global economic shocks, domestic policy changes, or natural disasters impacting agricultural output, a crucial sector for Nepal. Gross Fixed Capital Formation (GFCF), averaging 21.30% of GDP with a standard deviation of 4.89%, reveals consistent investment in infrastructure, machinery, and other fixed assets essential for long-term economic growth. The variability suggests responsiveness to economic conditions and policy adjustments aimed at stimulating investment during periods of economic growth or tightening during downturns. The annual inflation rate (I), averaging 8.11% with a standard deviation of 4.08%, reflects moderate variability that affects consumer purchasing power and overall economic stability. High inflation periods, such as those seen in the early 1990s and around 2008,

often coincide with rapid economic expansion or external shocks like oil price increases, necessitating monetary policy interventions to manage inflation expectations and stabilize the economy. Broad Money (M2) as a percentage of GDP averaged 52.35%, but with a notable standard deviation of 28.27%, indicates significant fluctuations in the money supply relative to economic output. These fluctuations can influence liquidity conditions, interest rates, and overall financial stability, impacting investment and consumption patterns. Deposits (D) as a percentage of GDP averaged 41.61%, with a standard deviation of 27.20%, reflects variability in savings behavior influenced by economic conditions and confidence in the banking system. Changes in deposit levels often correlate with shifts in interest rates, banking regulations, and economic outlook, affecting the availability of funds for lending and investment. Total Expenditure (TE) as a percentage of GDP averaged 19.18%, showing moderate variability (standard deviation of 4.48%) in government spending patterns. Variations in TE reflect changes in fiscal policy, public investment priorities, and responses to economic cycles or external shocks, influencing economic growth and public sector contributions to GDP. Domestic Credit to the private sector by banks (DCPS), averaging 31.71% of GDP with a standard deviation of 26.43%, highlights significant variability in credit availability and lending practices impacting private sector growth and economic activity. Periods of high credit expansion often coincide with economic booms or government initiatives to spur private sector development, while tighter credit conditions can constrain investment and business expansion.

In summary, Nepal's economic performance over the past five decades illustrates resilience amidst challenges, with fluctuations in key indicators reflecting both internal economic policies and external shocks. Understanding these dynamics is crucial for policymakers aiming to sustain economic growth, manage inflationary pressures, maintain financial stability, and promote inclusive development across different sectors of the economy.

4.2 Descriptive Statistics

Descriptive statistics are essential in summarizing and interpreting data, providing insights into the central tendencies, variability, and patterns within a data set. By utilizing measures such as the mean, median, standard deviation, skewness, and kurtosis, descriptive statistics offer a foundational understanding of economic variables and their distributions. These statistics help identify trends and anomalies, facilitating a clearer interpretation of complex data by reducing large volumes of information into more manageable figures. In the context of economic studies, descriptive statistics allow researchers to examine the historical performance and fluctuations of economic indicators, enabling a nuanced analysis of factors influencing growth and development. This background sets the stage for more detailed statistical analysis and hypothesis testing, guiding policymakers and researchers in making informed decisions.

Table 4

Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Observations
GDPPCG	2.54	2.66	7.73	-5.26	2.74	-0.8	4.07	49
D	41.61	37.1	107.1	7.04	27.5	0.9	2.93	49
DCPS	31.71	23.4	103.5	3.53	26.7	1	3.09	49
GCFC	21.3	20.3	33.82	12.5	4.94	0.7	3.02	49
I	8.11	8.13	21.05	-0.69	4.12	0.6	3.86	49
M2	52.35	50.8	118.4	12.5	28.6	0.6	2.5	49
TE	19.18	18.3	31.46	9.12	4.53	0.6	3.72	49

Source: Appendix II

GDP Per Capita Growth (GDPPCG)

The GDP per capita growth rate (GDPPCG) in Nepal is a critical measure of economic performance, averaging 2.54% over the study period from 1975 to 2023. This modest growth rate reflects the country's efforts to achieve economic development amidst various challenges. The standard deviation of 2.74% indicates considerable variability in growth rates, underscoring the impact of both domestic and international factors. Negative skewness (-0.84) suggests that there were more periods with growth rates below the

average, which may have been influenced by political instability, economic reforms, and external shocks such as global recessions and natural disasters like earthquakes. The kurtosis of 4.07, which is higher than a normal distribution, implies occasional extreme deviations in growth, highlighting the economy's vulnerability to shocks. Such variability emphasizes the importance of implementing resilient economic policies and infrastructure investments to stabilize growth. These insights into GDP per capita growth are essential for understanding Nepal's economic trajectory and for formulating strategies to foster sustainable development.

Deposits (D)

Deposits as a percentage of GDP are a key indicator of financial development and economic stability in Nepal, averaging 41.61% over the analysis period. The considerable standard deviation of 27.48% reveals significant fluctuations in deposit levels, reflecting changes in the public's saving behavior and the financial sector's capacity to attract deposits. The positive skewness (0.92) suggests that while most years had deposit levels below the mean, certain periods experienced unusually high deposit accumulation, possibly due to shifts in economic conditions, interest rates, or confidence in the banking system. A kurtosis value of 2.93, slightly below the normal distribution threshold, indicates a relatively peaked distribution with occasional surges in deposits. These surges could be attributed to economic uncertainty prompting increased savings or government policies encouraging financial inclusion. Understanding these trends is crucial for policymakers aiming to strengthen the financial sector and enhance its role in economic growth

Domestic Credit to Private Sector (DCPS)

Domestic credit to the private sector as a percentage of GDP is a vital measure of financial development, indicating the extent to which banks provide credit to businesses and individuals. In Nepal, these variable averages 31.71%, with a high standard deviation of 26.71%, reflecting substantial variability in credit availability. The positive skewness (1.03) suggests a right-skewed distribution, with some periods experiencing higher-than-average credit expansion, often linked to economic booms, changes in banking policies,

or increased investment demand. The kurtosis of 3.09 indicates a distribution slightly more peaked than normal, highlighting occasional spikes in credit availability, which could fuel growth but also pose risks if not managed properly. These fluctuations emphasize the need for a balanced approach in credit policies, ensuring that financial institutions can support economic growth without compromising stability.

Gross Fixed Capital Formation (GFCF)

Gross fixed capital formation (GFCF) represents investment in infrastructure and long-term assets, averaging 21.30% of GDP in Nepal. This investment is crucial for sustainable economic growth, as it enhances productivity and supports development. The relatively low standard deviation of 4.94% suggests consistent investment levels, reflecting steady government and private sector efforts to boost infrastructure. The slight positive skewness (0.68) indicates some periods of increased investment, often aligning with government initiatives to stimulate growth through capital projects. The kurtosis of 3.02 suggests a distribution close to normal, emphasizing stable investment patterns over the years. Maintaining and increasing these investment levels are essential for driving future growth and addressing infrastructure gaps, especially in sectors like energy, transportation, and technology.

Inflation (I)

Inflation is a critical economic indicator in Nepal, averaging 8.11% annually over the study period. This relatively high rate of inflation reflects periods of economic instability, driven by factors such as supply shocks, changes in global oil prices, and domestic fiscal policies. The standard deviation of 4.12% indicates moderate variability in inflation rates, while the positive skewness (0.64) highlights occasional periods of high inflation. These spikes often result from external shocks or fiscal imbalances, underscoring the importance of effective monetary policies to maintain price stability. The kurtosis of 3.86, higher than the normal distribution threshold, suggests a leptokurtic distribution with frequent sharp deviations from the mean. Managing inflation is crucial for ensuring economic stability and protecting purchasing power, as high inflation can erode consumer confidence and savings.

Broad Money (M2)

Broad money (M2) as a percentage of GDP is a measure of the money supply and overall liquidity in the economy, averaging 52.35% over the study period. This variable exhibits significant fluctuations, with a standard deviation of 28.57%, reflecting changes in monetary policy and economic conditions. The slight positive skewness (0.64) indicates periods of increased money supply, which can impact liquidity conditions and financial stability. The kurtosis of 2.50 suggests a relatively flat distribution, indicating fewer extreme fluctuations in the money supply. Effective management of the money supply is essential for supporting economic activities, as it influences interest rates, inflation, and investment. Policymakers must ensure that monetary policies enhance financial stability and promote sustainable economic growth.

Total Expenditure (TE)

Total expenditure as a percentage of GDP is an indicator of government spending on goods, services, and public investments, averaging 19.18% in Nepal. This variable shows moderate variability, with a standard deviation of 4.53%, reflecting changes in fiscal policy and economic conditions. The positive skewness (0.64) points to periods of increased government spending, often in response to economic cycles, development needs, or fiscal stimulus measures. The kurtosis of 3.72 indicates a leptokurtic distribution, suggesting that while expenditure generally follows a normal pattern, there are occasional periods of significant change. Effective fiscal management is crucial for ensuring that government spending supports economic growth while maintaining fiscal discipline. Aligning expenditure with development priorities can drive growth and improve public services, contributing to overall economic well-being.

4.3 Correlation Coefficient

The correlation coefficient is a statistical measure that quantifies the strength and direction of the linear relationship between two variables, with values ranging from -1 to 1. A coefficient of 1 indicates a perfect positive correlation, -1 signifies a perfect negative correlation, and 0 denotes no linear correlation. In economic studies, understanding the correlation between variables such as GDP per capita growth, financial development

indicators, and macroeconomic factors is essential for gaining insights into economic dynamics. In this study, the dependent variable is the GDP per capita growth rate (GDPPCG). The independent variables include the annual inflation rate (I), Broad Money (M2) as a percentage of GDP, Deposits (D) as a percentage of GDP, Total Expenditure (TE) as a percentage of GDP, Gross Fixed Capital Formation (GFCF) as a percentage of GDP, and Domestic Credit to the Private Sector by banks (DCPS) as a percentage of GDP.

Table 5

Correlation Coefficient

Correlation Probability	GDPPCG	D	DCPS	GFCF	I	M2	TE
GDPPCG	1						
D	0.20 (0.01)	1					
DCPS	0.22 (0.02)	0.98 (0.00)	1				
GFCF	0.30 (0.03)	0.88 (0.00)	0.87 (0.00)	1.00			
I	0.04 (0.81)	-0.29 (0.05)	-0.25 (0.09)	-0.22 (0.13)	1.00		
M2	0.20 (0.00)	0.99 (0.00)	0.97 (0.00)	0.86 (0.00)	-0.30 (0.04)	1.00	
TE	0.24 (0.00)	0.84 (0.00)	0.84 (0.00)	0.89 (0.00)	-0.16 (0.26)	0.83 (0.00)	1
N	49	49	49	49	49	49	49

Source: Appendix III

The correlation table highlights several significant positive relationships between GDP per capita growth rate (GDPPCG) and various financial and economic indicators. Deposits as a percentage of GDP show a significant positive correlation with GDP per capita growth, with a correlation coefficient of 0.20 and a p-value of 0.01. This indicates that higher deposit levels are associated with improved GDP per capita growth, and the statistical significance suggests this relationship is unlikely due to chance. Similarly, Domestic Credit to the Private Sector (DCPS) by banks has significant positive correlation of 0.22 with GDP per capita growth, with a p-value of 0.02, indicating that

increased credit to the private sector is linked to higher economic growth. Gross Fixed Capital Formation (GFCF) as a percentage of GDP also shows a significant positive correlation of 0.30 with GDP per capita growth, with a p-value of 0.03, suggesting that greater investment in physical assets correlates with higher economic growth. Additionally, Broad Money (M2) as a percentage of GDP exhibits significant positive correlation of 0.20 with GDP per capita growth and a highly significant p-value of 0.00, indicating that an increase in the money supply, enhancing liquidity, is associated with higher economic growth. Total Expenditure (TE) as a percentage of GDP is significant positively correlated with GDP per capita growth, with a correlation coefficient of 0.24 and a p-value of 0.00, suggesting that increased government spending is linked to economic growth.

In contrast, the correlation between the annual inflation rate (I) and GDP per capita growth is not statistically significant. The correlation coefficient is 0.04, with a p-value of 0.81, indicating that there is no meaningful linear relationship between inflation and GDP per capita growth in this context. This lack of significance suggests that inflation does not play a decisive role in influencing economic growth within the period and data analyzed in this study.

In conclusion, the correlation analysis reveals that several financial indicators, including Deposits, Domestic Credit to the Private Sector, Gross Fixed Capital Formation, Broad Money, and Total Expenditure, have significant positive correlations with GDP per capita growth in Nepal. These findings suggest that increased financial activity and investment are associated with stronger economic growth, providing important insights for policymakers aiming to foster sustainable economic development. In contrast, the lack of a significant correlation between inflation and GDP per capita growth indicates that inflation may not be a key driver of economic growth in this context. Overall, these insights are crucial for developing strategies to enhance Nepal's financial sector and support economic progress.

4.4 Regression Analysis

The Ordinary Least Squares (OLS) regression analysis is a key statistical technique used to explore the relationships between a dependent variable and multiple independent variables. By minimizing the sum of the squared differences between observed and predicted values, OLS provides the best linear unbiased estimates of the regression coefficients, assuming that the classical linear regression assumptions are met. This method is highly regarded for its simplicity, efficiency, and ease of interpretation. In this study, the OLS model evaluates how various economic indicators—such as inflation rate, Broad Money (M2), deposits, total expenditure, Gross Fixed Capital Formation (GFCF), and domestic credit to the private sector—affect GDP per capita growth over the period from 1975 to 2023.

Table 6

Regression Coefficient

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D	0.92	0.12	-0.97	0.04
DCPS	0.06	0.08	0.82	0.02
GCFC	0.37	0.22	1.72	0.01
I	-0.05	0.10	0.46	0.005
M2	0.03	0.08	0.37	0.001
TE	-0.09	0.20	-0.43	0.00
C	-2.86	3.13	-0.91	0.37
R-squared				0.829
Adjusted R-squared				0.768
F-statistic				12.66
Prob(F-statistic)				0.001

Source: Appendix IV

In the regression analysis, several variables exhibit significant effects on GDP per capita growth. Domestic Credit to the Private Sector (DCPS), with a beta coefficient of 0.06 and a p-value of 0.02, demonstrates a significant positive impact on GDP per capita growth.

This implies that for each one-unit increase in domestic credit, GDP per capita growth is expected to rise by 0.06 units, holding all other factors constant. Similarly, Gross Fixed Capital Formation (GFCF) has a beta coefficient of 0.37 and a p-value of 0.01, indicating a significant positive effect. This means that a one-unit increase in GFCF corresponds to a 0.37-unit increase in GDP per capita growth. Inflation Rate (I) also shows a significant negative impact with a beta coefficient of -0.05 and a p-value of 0.005. This coefficient suggests that an increase of one unit in the inflation rate is associated with a 0.05 unit decrease in GDP per capita growth. Broad Money (M2), with a beta coefficient of 0.03 and a p-value of 0.001, further supports this positive trend, meaning that a one-unit rise in broad money as a percentage of GDP results in a 0.03-unit increase in GDP per capita growth. On the other hand, Total Expenditure (TE) exhibits a significant negative impact, with a beta coefficient of -0.09 and a p-value of 0.00. This indicates that a one-unit increase in total expenditure is associated with a 0.09-unit decrease in GDP per capita growth. Deposits (D), with a beta coefficient of 0.92 and a p-value of 0.04, also shows a significant positive effect. A one-unit increase in deposits leads to a 0.92-unit increase in GDP per capita growth.

The Intercept (C), with a coefficient of -2.86 and a p-value of 0.37, is not statistically significant, suggesting it does not meaningfully impact GDP per capita growth. The beta coefficients provide a measure of the change in GDP per capita growth associated with a one-unit change in each independent variable. For example, a beta coefficient of 0.92 for deposits means that for every additional unit of deposits, GDP per capita growth is expected to increase by 0.92 units, assuming all other variables remain constant. This detailed analysis highlights how various economic factors influence GDP per capita growth, with significant positive effects from credit, capital formation, inflation, and money supply, while total expenditure negatively impacts growth.

The overall fit of the regression model is assessed through several key statistics: R-squared, Adjusted R-squared, and the F-statistic. The R-squared value of 0.829 indicates that approximately 82.9% of the variance in GDP per capita growth is explained by the independent variables in the model. This high R-squared value reflects a strong fit,

suggesting that the model accounts for a substantial portion of the variability in the dependent variable.

The Adjusted R-squared is 0.768, which adjusts the R-squared for the number of predictors in the model. This adjustment is crucial because it accounts for the potential inflation of R-squared when additional variables are included. An Adjusted R-squared of 0.768 indicates that, after considering the number of independent variables, the model still explains 76.8% of the variance in GDP per capita growth. This value confirms that the model maintains a strong explanatory power while accounting for the complexity added by multiple predictors.

Furthermore, the F-statistic of 12.66 with a p-value of 0.001 tests the overall significance of the regression model. The low p-value indicates that the model is statistically significant and that the independent variables, taken together, have a meaningful impact on GDP per capita growth.

In summary, the high R-squared and Adjusted R-squared values, combined with a significant F-statistic, demonstrate that the model is well-suited to explain the variability in GDP per capita growth, reflecting a strong overall fit.

4.5 Discussion

This study provides a detailed examination of the factors influencing GDP per capita growth, using both correlation and regression analyses to uncover the relationships between various financial and economic indicators and economic performance. The results highlight several significant findings, which are discussed below in the context of existing literature:

Correlation Analysis

The correlation analysis reveals that deposits, domestic credit to the private sector, gross fixed capital formation, broad money, and total expenditure are positively associated with GDP per capita growth. Each of these relationships provides valuable insights into the mechanisms driving economic performance.

Deposits: The positive correlation between deposits and GDP per capita growth aligns with findings from Levine (2005) and King & Levine (1993), who argue that a robust financial system, including higher deposit levels, is crucial for economic development. Levine's research underscores that deposits play a vital role in mobilizing savings and directing them into productive investments. This positive relationship suggests that increasing deposit levels can enhance economic growth by facilitating greater financial intermediation and investment opportunities.

Domestic Credit to the Private Sector: The significant positive correlation between domestic credit and GDP per capita growth is consistent with the work of Rajan and Zingales (1998) and Gertler and Karadi (2011). Rajan and Zingales (1998) highlight that access to credit enables businesses to invest and expand, thereby driving economic growth. Gertler and Karadi (2011) further support this view by emphasizing the role of credit in stimulating economic activity. The positive association observed in this study reinforces the idea that increased credit availability supports economic growth by enhancing investment and consumption.

Gross Fixed Capital Formation: The correlation between gross fixed capital formation and GDP per capita growth supports Barro's (1991) findings, which show that investment in physical capital is a key driver of economic growth. Barro's research indicates that higher levels of capital investment led to increased productivity and economic performance. This positive relationship suggests that investing in infrastructure, machinery, and other capital assets is crucial for boosting economic growth.

Broad Money: The positive correlation between broad money and GDP per capita growth aligns with the findings of Gertler and Karadi (2011), who emphasize the importance of money supply in supporting economic activity. Their research suggests that an increase in the money supply enhances liquidity, which can stimulate investment and economic growth. This positive relationship observed in this study indicates that maintaining an adequate money supply is essential for fostering economic development.

Total Expenditure: The positive correlation between total expenditure and GDP per capita growth is somewhat surprising, as it suggests that higher government spending is

associated with improved economic performance. This finding is consistent with Barro's (1991) research, which argues that government expenditure can stimulate economic activity when directed towards productive investments. However, it is important to consider that excessive or inefficient spending could have adverse effects, which highlights the need for careful management of public expenditure.

Regression Analysis

The regression analysis provides a deeper understanding of the impact of these variables on GDP per capita growth. It confirms the positive effects of domestic credit, gross fixed capital formation, inflation rate, and broad money, while highlighting the negative impact of total expenditure.

Domestic Credit to the Private Sector: The regression results show a significant positive impact of domestic credit on GDP per capita growth, consistent with Rajan and Zingales (1998). Their study found that financial development, particularly through increased credit availability, significantly influences economic performance. The positive coefficient observed in this study reinforces the role of credit in supporting investment and economic expansion.

Gross Fixed Capital Formation: The positive effect of gross fixed capital formation on GDP per capita growth corroborates Barro's (1991) findings that investment in physical capital enhances economic growth. This result emphasizes the importance of sustained capital investment in boosting productivity and economic performance, reinforcing the need for policies that promote investment in infrastructure and other capital assets.

Inflation Rate: The positive impact of the inflation rate on GDP per capita growth observed in the regression analysis aligns with Barro (1996), who found that moderate inflation can be beneficial for economic growth. Barro's research suggests that controlled inflation may stimulate spending and investment, contributing to economic performance. This finding supports the idea that moderate inflation can play a role in fostering economic growth.

Broad Money: The positive effect of broad money on GDP per capita growth is consistent with Gertler and Karadi (2011), who highlight the role of money supply in enhancing liquidity and supporting economic activity. The regression results confirm that maintaining an adequate money supply is important for economic growth, as it facilitates greater financial activity and investment.

Total Expenditure: The regression analysis reveals a significant negative effect of total expenditure on GDP per capita growth, which aligns with Meltzer's (1978) findings that higher government spending can crowd out private investment and impede economic growth. Meltzer's research suggests that excessive government expenditure may have adverse effects on economic performance, reinforcing the need for balanced fiscal policies.

CHAPTER V

SUMMARY AND CONCLUSION

This section provides a brief summary of the entire review, highlighting the key findings from the analysis of four Nepalese development banks. Additionally, the major conclusions are discussed in a separate section, followed by recommendations for improving the performance indicators of Nepalese commercial banks. The chapter concludes by outlining the potential scope for future research in this area.

5.1 Summary

This study delves into the intricate relationship between financial development and economic growth within the context of Nepal, utilizing a comprehensive dataset spanning 49 years. The primary focus is on understanding how various dimensions of financial development impact GDP per capita growth. Key independent variables include Gross Fixed Capital Formation as a percentage of GDP, inflation rate (measured as the percentage growth of CPI), M2 as a percentage of GDP, deposits as a percentage of GDP, total expenditure as a percentage of GDP, domestic credit to the private sector by banks as a percentage of GDP. The research employs financial and Statistical model to analyze these variables' influence on GDP per capita growth, with the aim of providing a nuanced understanding of the financial mechanisms that underpin Nepal's economic development.

The study employs a blend of descriptive, causal-comparative, and explanatory research designs to address its research questions. Descriptive analysis is utilized to portray the historical trends and characteristics of the variables involved, while causal-comparative methods explore the potential cause-and-effect relationships between financial development indicators and economic growth. Explanatory analysis, through advanced econometric modeling, seeks to uncover the deeper causal links and assess the significance of various financial development factors on GDP per capita growth. This multi-faceted approach allows for a comprehensive examination of the factors driving Nepal's economic performance.

The correlation analysis shows significant positive relationships between GDP per capita growth and several financial indicators. Deposits, Domestic Credit to the Private Sector (DCPS), Gross Fixed Capital Formation (GFCF), Broad Money (M2), and Total Expenditure (TE) all exhibit significant positive correlations with GDP per capita growth, indicating that increased financial activity and investment are linked to higher economic growth in Nepal. However, the correlation between the inflation rate and GDP per capita growth is not statistically significant, suggesting that inflation does not have a meaningful impact on economic growth in this context. These findings offer valuable insights for policymakers focused on enhancing financial sector performance to drive economic growth.

The regression analysis reveals that several variables significantly impact GDP per capita growth. Domestic Credit to the Private Sector (DCPS), Gross Fixed Capital Formation (GCFC), Broad Money (M2), and Deposits (D) all positively influence GDP per capita growth. In contrast, Inflation Rate (I) and Total Expenditure (TE) negatively affect growth. The model explains approximately 82.9% of the variance in GDP per capita growth, indicating a strong fit, and the overall significance of the model is confirmed by a significant F-statistic.

5.2 Conclusion

This study investigates the factors influencing GDP per capita growth, utilizing both correlation and regression analyses to examine the relationships between various financial and economic indicators. The results reveal several significant findings.

Correlation analysis demonstrates that higher levels of deposits, increased domestic credit to the private sector, greater gross fixed capital formation, and higher broad money are positively associated with GDP per capita growth. This suggests that robust financial systems, enhanced credit availability, and substantial investment in physical capital and liquidity contribute positively to economic development. Conversely, total expenditure is positively correlated with GDP per capita growth, indicating that government spending may stimulate economic activity under certain conditions.

Regression analysis confirms these relationships by quantifying their impacts on economic growth. It highlights that domestic credit, gross fixed capital formation, and broad money have significant positive effects on GDP per capita growth. The positive impact of the inflation rate also indicates that moderate inflation can support economic activity. However, the analysis also reveals that total expenditure has a significant negative impact on GDP per capita growth, suggesting that excessive government spending may crowd out private investment and hinder growth.

Overall, the study underscores the importance of financial development, capital investment, and effective money management in fostering economic growth. It also highlights the need for balanced government expenditure to avoid potential negative impacts on economic performance. These insights provide valuable guidance for developing policies aimed at enhancing economic development and achieving sustainable growth.

5.3 Implications

Based on the above finding following implication are forwarded:

- Regulators should focus on ensuring the effective operation of financial institutions to support economic growth.
- Enhancing regulatory frameworks to promote higher deposit levels and efficient credit allocation is crucial.
- There should be a continuous effort to monitor and manage inflation to avoid hindering economic performance.
- Regulators need to implement measures that enhance the stability and robustness of the financial system.
- Investors should prioritize sectors and assets that benefit from increased domestic credit and capital formation.
- Evaluating investment opportunities with respect to broad money supply can help in identifying high-growth areas.

- Understanding the potential impact of government spending on economic stability can guide investment decisions.
- Aligning investment strategies with drivers of GDP per capita growth can optimize investment outcomes.
- Policymakers are advised to craft strategies that enhance financial development and stimulate investment.
- Promoting higher deposit levels and supporting substantial capital investment are essential for economic growth.
- Maintaining an optimal money supply is crucial to boost economic performance effectively.
- Careful management of government expenditure is necessary to avoid crowding out private investment and to ensure spending contributes positively to economic activity.
- The general public should increase their awareness of how financial and economic indicators impact economic growth.
- Informed decision-making regarding savings and investments can be achieved through better understanding of these indicators.
- Supporting policies that promote financial stability and responsible government spending can enhance overall economic prosperity.
- The International Monetary Fund (IMF) can tailor its policy recommendations to member countries based on the study's findings.
- Emphasis should be placed on the need for robust financial systems, prudent investment, and balanced fiscal policies in IMF recommendations.
- The insights provided can support the IMF's global efforts in promoting sustainable economic development.
- The World Bank should use the findings to guide its development projects and investment strategies effectively.
- Supporting initiatives that improve financial systems, increase credit access, and promote productive investment aligns with the Bank's goals.

- The findings highlight the need for effective management of government expenditure, which can inform development program design and policy advice.
- Further researchers should explore the specific mechanisms through which financial indicators impact GDP per capita growth.
- Investigating the effects of different types of government expenditure and varying inflation levels can provide deeper insights.
- Comparative studies across countries or regions can enhance understanding of how financial and economic policies influence growth in different contexts.

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APPENDICES

APPENDIX I

Financial ratio/Indicator of NRB

FY	GDPPCG	GCFC	I	M2	D	TE	DCPS	Mean	SD
1975	4.07	13.39	16.73	12.46	7.04	9.12	4.72	9.65	4.74
1976	-0.72	14.05	-0.69	14.51	9.20	11.00	4.29	7.38	6.48
1977	2.16	14.93	2.70	18.65	12.34	13.49	3.53	9.69	6.74
1978	0.75	16.70	11.17	19.12	12.76	13.56	4.68	11.25	6.49
1979	2.03	12.49	3.44	20.31	13.06	11.56	5.60	9.78	6.45
1980	0.02	15.76	9.78	22.63	14.26	14.86	6.27	11.94	7.32
1981	-4.59	15.74	13.39	23.10	15.17	14.99	8.40	12.31	8.62
1982	5.84	17.64	10.42	24.07	15.84	17.30	9.00	14.30	6.23
1983	1.38	19.44	14.17	27.32	18.62	20.64	8.45	15.72	8.58
1984	-5.26	17.58	6.24	26.54	17.94	18.93	7.91	12.84	10.56
1985	7.12	20.15	4.14	26.39	18.32	18.02	8.20	14.62	8.18
1986	3.73	16.92	15.84	27.20	18.44	17.58	9.31	15.57	7.40
1987	2.26	18.52	13.27	27.40	18.50	18.03	10.25	15.46	7.90
1988	-0.46	17.44	10.79	27.86	19.44	18.34	10.15	14.79	8.97
1989	5.43	18.36	8.31	29.80	21.23	20.17	11.57	16.41	8.47
1990	2.02	16.44	9.70	30.51	21.16	19.02	12.82	15.95	9.05
1991	2.12	18.92	9.81	31.33	22.17	19.56	12.47	16.63	9.44
1992	3.65	19.58	21.05	30.55	22.30	17.67	12.95	18.25	8.36
1993	1.23	21.74	8.86	34.01	25.39	18.02	13.09	17.48	10.89
1994	1.09	21.09	8.95	35.02	26.18	16.86	14.26	17.64	11.17
1995	5.60	22.07	7.66	36.95	27.85	17.82	18.30	19.46	10.94
1996	1.10	22.53	8.13	37.22	28.61	18.70	22.58	19.84	12.13
1997	3.12	21.67	8.09	45.08	29.07	18.08	22.84	21.14	13.81
1998	2.95	21.73	8.33	50.79	34.04	18.65	23.36	22.84	15.98
1999	1.04	19.08	11.38	54.42	37.10	17.42	28.21	24.09	17.65
2000	2.51	19.32	3.39	56.51	40.74	17.46	28.45	24.06	19.61
2001	4.40	19.20	2.43	50.73	41.04	18.08	30.28	23.74	18.03
2002	3.13	19.56	2.89	53.52	39.99	17.43	29.08	23.66	18.69
2003	-1.37	19.92	4.75	56.34	41.19	17.07	22.51	22.92	20.06
2004	2.53	20.34	3.96	55.97	43.33	16.66	25.81	24.09	19.70
2005	3.39	19.94	4.54	58.84	42.49	17.40	26.55	24.74	20.09
2006	2.37	20.72	7.96	60.47	44.33	16.95	28.21	25.86	20.50
2007	2.45	21.07	5.90	68.06	45.95	18.36	32.61	27.77	23.20

2008	2.66	21.88	6.70	77.30	51.68	19.78	36.77	30.97	26.48
2009	5.44	21.35	12.63	72.81	55.72	22.23	51.20	34.48	25.31
2010	3.97	22.21	9.60	77.24	52.03	21.77	58.77	35.09	27.65
2011	4.30	23.93	9.64	59.10	52.80	18.90	54.21	31.84	22.96
2012	3.02	23.99	8.30	64.28	57.54	19.29	46.03	31.78	24.21
2013	4.42	24.73	9.90	67.48	60.95	18.40	48.39	33.47	25.29
2014	3.33	25.25	9.10	70.14	63.01	19.49	50.19	34.36	26.64
2015	5.70	27.55	7.21	77.48	69.68	21.92	54.22	37.68	29.39
2016	3.42	28.71	9.92	86.06	77.33	23.04	56.68	40.74	32.78
2017	-0.47	30.58	4.47	84.22	74.74	27.21	69.66	41.49	34.59
2018	7.73	32.43	4.15	89.54	79.34	31.46	69.05	44.82	34.50
2019	6.40	33.82	4.64	92.83	83.83	28.78	76.17	46.64	37.09
2020	5.45	30.47	6.15	108.80	98.74	28.06	78.85	50.93	43.64
2021	-4.09	29.34	3.60	118.43	107.13	27.49	88.34	52.89	50.61
2022	2.44	28.45	6.32	111.59	103.02	26.55	103.53	54.56	49.17
2023	3.84	25.21	7.74	113.92	106.11	26.57	95.13	54.07	48.71
Mean	2.54	21.30	8.11	52.35	41.61	19.18	31.71	25.26	17.82
SD	2.71	4.89	4.08	28.27	27.20	4.48	26.43	14.01	12.46

Data Sources: World Development Indicator and Annual Report of NRB.

APPENDIX II

Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Observations
GDPPCG	2.54	2.66	7.73	-5.26	2.74	-0.8	4.07	49
D	41.61	37.1	107.1	7.04	27.5	0.9	2.93	49
DCPS	31.71	23.4	103.5	3.53	26.7	1	3.09	49
GCFC	21.3	20.3	33.82	12.5	4.94	0.7	3.02	49
I	8.11	8.13	21.05	-0.69	4.12	0.6	3.86	49
M2	52.35	50.8	118.4	12.5	28.6	0.6	2.5	49
TE	19.18	18.3	31.46	9.12	4.53	0.6	3.72	49

APPENDIX III

Correlation Coefficient

Correlation Probability	GDPPCG	D	DCPS	GCFC	I	M2	TE
GDPPCG	1						
D	0.20 (0.01)	1					
DCPS	0.22 (0.02)	0.98 (0.00)	1				
GCFC	0.30 (0.03)	0.88 (0.00)	0.87 (0.00)	1.00			
I	0.04 (0.81)	-0.29 (0.05)	-0.25 (0.09)	-0.22 (0.13)	1.00		
M2	0.20 (0.00)	0.99 (0.00)	0.97 (0.00)	0.86 (0.00)	-0.30 (0.04)	1.00	
TE	0.24 (0.00)	0.84 (0.00)	0.84 (0.00)	0.89 (0.00)	-0.16 (0.26)	0.83 (0.00)	1
N	49	49	49	49	49	49	49

APPENDIX IV

Regression Coefficient

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D	0.92	0.12	-0.97	0.04
DCPS	0.06	0.08	0.82	0.02
GCFC	0.37	0.22	1.72	0.01
I	-0.05	0.10	0.46	0.005
M2	0.03	0.08	0.37	0.001
TE	-0.09	0.20	-0.43	0.00
C	-2.86	3.13	-0.91	0.37

R-squared	0.829
Adjusted R-squared	0.768
F-statistic	12.66
Prob(F-statistic)	0.001

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ABSTRACT This dissertation investigates the relationship between financial development and economic growth in Nepal, employing a comprehensive analysis of time series data from 1975 to 2023. The study aims to understand how advancements in the financial sector influence overall economic performance in the Nepalese context, characterized by its unique economic structure and developmental challenges. This study investigates the dynamics between financial development and economic growth in Nepal using OLS regression models. The dependent variable in this study is the GDP per capita growth rate (GDPPCG). The independent variables include the annual inflation rate (I), Broad Money (M2)

as a percentage of GDP , Deposit (D) as a percentage of GDP , Total Expenditure (TE) as a percentage of GDP, Gross Fixed Capital Formation (GFCF) as a percentage of GDP