

**DETERMINANTS OF THE FACTORS AFFECTING
ECONOMIC GROWTH OF NEPAL**

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RECOMMENDATION

This is to certify that the thesis

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Determinants of the Factors Affecting Economic Growth of Nepal**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work conducted in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (M.B.S) under the supervision of respected supervisor **Lecturer Mikha Shrestha** of Shanker Dev Campus, T.U.

.....

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ABBREVIATIONS

ADB	:	Asian Development Bank
ATM	:	Automated Teller Machine
CD	:	Credit Deposit
CPG	:	Credit Policy Guidelines
CV	:	Coefficient of Variance
EPS	:	Earnings Per Share
FY	:	Fiscal Year
GDP	:	Gross domestic product
ICAN	:	Institute of Chartered Accounts Nepal
MOF	:	Ministry of Finance
NA	:	Net Assets
NABIL	:	Nabil Bank Limited
NBL	:	Nepal bank Limited
NEPSE	:	Nepal Stock Exchange
NII	:	Net Interest Income
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
OMO	:	Open Market Operations
PE	:	Probable Error
RBB	:	Rastriya Banijya Bank
SCB	:	Standard Chartered Bank Nepal
SD	:	Standard Deviation
SMS	:	Short Message Service
WB	:	World Bank

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Over the past two decades, Nepal's financial system has undergone significant expansion, both in terms of business volume and market size. This growth has been particularly notable since the mid-1980s, with the emergence of various financial institutions offering a diverse range of services. The Nepalese financial system can be broadly categorized into two main divisions: the banking system and the non-bank financial system. Within the non-bank financial system, entities such as the Employees Provident Fund, Nepal Stock Exchange Limited, insurance companies, Deposit Insurance and Credit Guarantee Corporation, Credit Information Center Limited, Citizen Investment Trust, and Postal Savings offices have also played crucial roles. Despite not being subject to direct central bank regulation, these entities have contributed significantly to the overall financial landscape of Nepal. The country's Gross Domestic Product (GDP) has shown substantial growth, reaching \$40.83 billion in 2022, reflecting the robustness of its financial sector (*NRB, Annual Report, 2022*).

Mobilizing domestic resources is essential for economic development, and financial institutions serve as intermediaries focused on providing financing for trade, commerce, and industry. Their role in uplifting the economy is paramount, with financial development becoming increasingly crucial over time. However, the impact of financial systems on economic growth is influenced by various factors such as resource endowment, population growth rate, and government policies (*Aliyu, 2014*).

Macroeconomic policies of a country typically aim at various objectives, with economic growth being one of the major priorities. Lending, a fundamental aspect of commercial banking, involves the temporary provision of money or property with the expectation of repayment with interest. Commercial banks provide credit to individuals, commercial corporations, industrial units, and governments for both consumption and investment purposes. Lending is crucial for generating debts and facilitating economic activities (Mishra et al., 2009). Various theories have been proposed to understand the role of financial systems and commercial banks in determining economic growth, yet no

consensus has been reached. These theories focus on examining the influence of different factors on economic growth.

The provision of loans and advances is a core function of commercial banks, guided by monetary policies and specific lending guidelines. These guidelines dictate the minimum and maximum levels of credit that can be extended to various sectors of the economy. Evaluation of the borrower's character, determination of loan amounts, and clarification of the loan purpose are essential steps in the lending process (*Pokharal, 2009*). Gross Domestic Product (GDP) reflects the income generated within a country by its factors of production using its own resources. Economic growth, on the other hand, refers to the expansion of goods and services produced by an economy over time. Real GDP, adjusted for inflation, is commonly used to measure economic growth (*Beck, 2000*).

An economy encompasses the economic system of a specific area, region, or country, involving various interrelated components such as production, consumption, and growth (*Bajagai, 2009*). In addition to their traditional lending role, commercial banks engage in credit extension through the purchase of securities, especially when loan demand is low. Nepalese commercial banks have diversified their investment portfolios, investing in shares, debentures, government obligations, and other financial instruments, contributing to the overall development of the financial sector (*Shrestha, 2022*).

There are several studies that have been carried out on this topic in foreign countries but in case of Nepal there are not enough studies on this topic especially based on recent panel data and method. Thus, this study acts as the basis for further investigation in the area of bank lending, deposit, interest rate and investment and economic growth in Nepal. This study attempts to identify whether the bank lending, deposit, interest rate and investment affects economic growth. Thus the main objective of this study is to assess the effects of bank lending, deposit, interest rate and investment on economic growth as well as to suggest ways of improving and expanding the bank lending to achieve better economic growth in Nepal.

One of the most important functions of commercial banks is to accept deposits from individuals, partnership firms, and corporations. In the context of commercial banks in Nepal, there are primarily two types of deposits: non-interest-bearing deposits and

interest-bearing deposits. Non-interest-bearing deposits encompass current deposits, margin deposits, and other similar types. On the other hand, interest-bearing deposits include savings accounts, fixed deposits, call deposits, and certificates of deposits.

Despite the notable expansion of financial institutions in Nepal over the past few decades, including the emergence of numerous commercial banks, the equitable distribution of capital resources necessary for economic development remains a significant challenge. With a disproportionate concentration of banks in urban centers like the Kathmandu Valley, access to financial services for rural and marginalized populations is limited, hindering inclusive growth. Furthermore, the complexity of bureaucratic procedures and persistently low savings rates pose barriers to efficient fund mobilization and lending activities, constraining the flow of credit to individuals and businesses.

1.2 Focus of the Study

This study focus to dissect the complex relationship between Nepal's economic indicators, such as GDP, lending patterns, deposit rates, interest rates, and investments within commercial banks to elucidate their impact on overall economic growth. By shedding light on these connections, policymakers can formulate targeted strategies to promote financial inclusion, spur investment, and foster sustainable development across all sectors of the Nepalese economy.

1.3 Statement of the Problem

Despite the rapid increase in the number of financial institutions, including commercial banks, following the introduction of liberalized economic policies in the 1990s, the availability of capital resources remains a key factor in the economic development of a country. The development of a robust capital formation mechanism is essential for successful economic development. However, the lack of economic development or slow national economic growth has been a chronic problem affecting this process. The liberalization and increased sophistication of financial markets have made debt management a crucial issue in economic policy. The coverage of commercial banks in Nepal is not evenly distributed throughout the country. Most of these banks are concentrated in urban areas such as the Kathmandu Valley and major cities. The increasing number of commercial banks has led to their larger share in the overall

financial system and consequently their contribution to the country's economic development through fund mobilization and utilization to boost aggregate demand (Bhurtel, 2010).

However, there are challenges in providing long-term and medium-term loans due to lengthy procedures. Additionally, the low rate of deposit formation among the Nepalese population has negatively impacted the lending process of banks. Banks often rely heavily on property mortgages, but they face difficulties in promptly and effectively recovering their funds in cases of default, primarily due to the lack of proper legal procedures.

Based on these observations, this study focuses on the following research questions:

- What is the current status of Nepal's GDP, lending, deposits, interest rate and investments in commercial banks?
- What is the relationship between GDP, lending, deposits, interest rate and investments of commercial banks in Nepal?
- What is the impact of lending, deposits, interest rate and investments on GDP, specifically focusing on the lending activities of commercial banks in Nepal?

1.4 Objectives of the Study

The general objective of the study is to analyze the determinants affecting the economy growth in Nepal.

The study has the following specific objectives:

- To determine the current status of Nepal's GDP, lending, deposits, interest rate and investments in commercial banks.
- To examine the relationship between GDP, lending, deposits, interest rate and investments of commercial banks in Nepal.
- To analyze the impact of lending, deposits, interest rate and investments on GDP, specifically focusing on the lending activities of commercial banks in Nepal.

1.5 Significance of the Study

The emergence of commercial banks in Nepal's banking service industry has had a significant impact on the country's economy. However, due to limited availability of time series data within a short timeframe, there have been few studies conducted on this

subject. Therefore, it is important to assess the role of commercial banks in the Nepalese economy using appropriate statistical tools and quantifiable variables, along with descriptive analysis.

The findings and recommendations of this study are expected to be valuable for policymakers and for future research endeavors. This study is likely the first of its kind in assessing the economic contribution of commercial banks to the development of the Nepalese economy. Banks serve as the backbone of the financial system by accepting deposits from various entities such as individuals, government institutions, businesses, and non-business sectors. They generate funds through lending and investment activities, which are then made available to borrowers including individuals, businesses, and government entities. In doing so, they facilitate the flow of goods and services from producers to consumers and support the financial activities of the government. This highlights the importance of the banking system in the functioning of the overall economy.

Banks accumulate funds from clients through savings and provide loans to individuals or business institutions through lending, deposits, interest rate and investments. Therefore, making sound financial decisions is crucial for the efficiency and profitability of banks. Many financial decision-making processes revolve around lending policies and lending management, as they play a vital role in the success of businesses. This study focuses on aspects such as lending position, non-performing loans, lending portfolio management, and the relationship between lending and bank profitability.

1.6 Limitations of the Study

This study has been conducted primarily for academic purposes; however, it encountered several complexities. The research focuses on justifying events using well-established tools and techniques, which may limit the emphasis on fundamental and decision-oriented analysis. There are certain limitations and drawbacks to the present study, particularly in the examination of lending practices in commercial banks.

- The study is focused on published annual reports of banks, where the information's were given in condensed form.

- The study does not include the latest information because it only uses data available at the time the study was done.
- The study only covers a 15-year period, from 2009 to 2023.

1.7 Organization of the Study

The whole study is divided into five main chapters. They are as follows:

Chapter - I: Introduction

It includes general background of the study, introduction of the organization, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter - II: Review of Literature

This chapter presents conceptual framework, review of related literature like books, dissertation, articles, brochure, booklets, journals, report and magazines etc. At last research gap is also mentioned in this chapter.

Chapter - III: Research Methodology

This chapter deals with research methodology to be adopted for the study to satisfy the objectives of the study. It consists of research design, sample and population, sources of data, data collection procedure, methods and tools of data analysis.

Chapter - IV: Presentation and Analysis of Data

This chapter is most important and plays vital role in this study. This chapter deals with presentation, analysis and interpretation of data. These collected data have been analyzed and interpreted by the help of various statistical and accounting tools and techniques. It also includes major findings of the study.

Chapter - V: Summary, Conclusion and Recommendations

This chapter presents of the brief summary of whole research report and conclusions. It also provides some useful suggestion and recommendations to concerned parties. At the beginning of the study table of contents, recommendation sheet, viva voce sheet, acknowledgement, list of table and figure and abbreviation are presented at first and bibliography, appendices and research proposal are also presented at the end of the study.

CHAPTER-II

LITERATURE REVIEW

The literature review is a crucial part of the research because it looks at what has already been studied about the topic. It helps the researcher understand the subject better and builds the base for their own study. By looking at previous studies and theories, the researcher can see what has been done and what still needs to be explored. For this study, the literature review focuses on how commercial banks impact Nepal's economic growth. The researcher reviewed many sources, like books, articles, journals, and publications from both Nepal and other countries. This review supports the research by providing a deep understanding of financial institutions and their effects, helping to build a solid framework and guide the research methods.

2.1 Theoretical Review

2.1.1 Gross Domestic Product

Gross Domestic Product (GDP) is a measure of the total value of all goods and services produced within a country's borders during a specific time period, typically a year. It is a widely used indicator to gauge the size and growth of an economy. GDP can be calculated using various methods, including the expenditure approach (summing up consumer spending, investment, government spending, and net exports) or the income approach (summing up wages, profits, rents, and other income). GDP represents the overall economic activity and productivity of a country and is often used as an indicator of economic health. It provides insights into the size of the economy, its growth rate, and the standard of living of its citizens (*Wells, 2016*).

Gross Domestic Product (GDP) is a fundamental measure in economics, encapsulating the total monetary value of all goods and services produced within a country's borders during a specified period, typically a year or a quarter. It serves as a crucial barometer of economic activity and growth, providing insights into the overall health and vitality of an economy. Economists, policymakers, businesses, and investors closely monitor GDP because it offers a comprehensive snapshot of an economy's performance. An increasing GDP suggests a growing economy with higher production levels and increased income, while a declining GDP may indicate economic contraction and reduced prosperity.

Moreover, GDP enables comparisons between different economies, helping to evaluate relative strengths, weaknesses, and competitiveness. By understanding GDP trends, stakeholders can make informed decisions about resource allocation, investment opportunities, and policy measures to promote sustainable economic development. In essence, GDP serves as a vital tool for assessing and understanding the economic well-being and progress of a nation (*Bryniuk, 2023*).

2.1.2 Lending

Lending refers to the act of providing money, usually in the form of a loan, to an individual, business, or government entity with the expectation of repayment with interest. Lending can be done by financial institutions such as banks, credit unions, or online lenders. It plays a crucial role in facilitating economic growth by providing funds to individuals and businesses to invest in projects, purchase assets, or meet their financial needs. Lending is often regulated to ensure responsible borrowing and lending practices, protect consumers, and maintain the stability of the financial system. Lenders assess the creditworthiness of borrowers by considering factors such as their income, credit history, collateral, and ability to repay the loan (*Dhungana, 2014*).

Lending acts like the fuel, powering businesses and individuals. Banks or online platforms provide loans (money) to borrowers for things like starting a business, buying a house, or financing education. This access to capital allows for investment, innovation, and ultimately, a growing economy with more jobs and wealth. It's a win-win: borrowers spread financial risk and lenders earn interest. However, just like a car needs a controlled speed, lending needs responsible practices. Too much debt can burden borrowers and lead to defaults, potentially creating a financial crisis. Unethical lenders might exploit borrowers with high interest rates. To keep the economic engine running smoothly, regulations and financial literacy are crucial. By ensuring responsible lending and financially informed borrowers, we can navigate towards a healthy and thriving economy (*Shehadeh et al., 2023*).

2.1.3 Economic Growth

Economic growth refers to the increase in an economy's production of goods and services over time. It is typically measured by the growth rate of real GDP, which takes into account inflation-adjusted changes in the value of output. Economic growth is a

fundamental goal for most countries as it is closely associated with improvements in living standards, higher employment rates, and increased opportunities. Various factors contribute to economic growth, including investments in physical and human capital, technological advancements, improvements in productivity, and favorable government policies. Sustainable economic growth is often a result of a combination of these factors working together to increase the productive capacity of an economy (*Krugman et al., 2019*).

Economic growth is defined as an economy's ability to produce more goods and services over time. Here, the authors compare growth using two approaches: demand and supply. The demand perspective analyzes GDP and its components, like consumer spending and investment. This reveals what drives the demand for goods and services within an economy. On the other hand, the supply perspective utilizes the neoclassical production function, which connects factors like labor and capital to productivity. By analyzing both sides, the authors aim to gain a more comprehensive understanding of how these EU countries are achieving economic growth (*Raisova & Durcova, 2017*).

2.1.4 Government Policies

Government policies play a crucial role in shaping economic growth in Nepal (*Khanal et al., 2020*). Policies related to fiscal, monetary, trade, and investment regulation can significantly impact the overall economic environment. For example, favorable tax policies, investment incentives, and trade agreements can stimulate economic growth by attracting domestic and foreign investments (*Adhikari & Agrawal, 2018*).

In a democracy, it's crucial to create effective policies because they're the backbone of how democracies function. Policies are guidelines or plans set by the government, covering a wide range of areas and groups within society. It's important to understand that different people may interpret policies differently, depending on their interests and perspectives. Policymaking isn't just about the government; it's influenced by social and political factors too. To understand how policies are made and carried out, we need to look at different theories. Some theories, like the elite/mass hypothesis, suggest that powerful groups have more influence over government policies. Others, like institutional theory, say that government institutions shape policies. Rational choice theory emphasizes the importance of access to information for policymakers. Systems theory

looks at how different institutions and players interact to shape policies, considering the broader environment too. In a democracy, where public engagement is key, it's important for politicians and officials to support ideologies that promote citizen participation in policymaking (*Adeniran et al., 2023*).

2.1.5 Infrastructure Development

Adequate infrastructure, including transportation networks, energy supply, telecommunications, and water resources management, is essential for economic growth. Improved infrastructure enhances productivity, reduces transaction costs, and facilitates trade and investment activities, thus fostering economic development (*Shrestha, 2019*).

Infrastructure development plays a crucial role in Nepal's economic growth from 1994 to 2018. The study examines the relationship between infrastructure development and economic growth, utilizing integration tests and an ECM model. Results indicate a stable relationship between gross domestic product (GDP) and various infrastructure variables, including road length, percentage of economically active population, tertiary education enrollment, and gross capital formation. The Error Correction term suggests an 88 percent adjustment towards equilibrium, affirming a long-term relationship among the variables. The negative and statistically significant Error Correction term signifies convergence towards equilibrium over time, highlighting the importance of infrastructure in fostering economic growth. Policymakers can leverage these findings to prioritize infrastructure development, which not only enhances efficiency and competitiveness but also accelerates economic growth within Nepal (*Dhungel, 2020*).

2.1.6 Human Capital Development

Investment in education, healthcare, and skill development is vital for enhancing human capital, which in turn drives economic growth. A well-educated and skilled workforce contributes to higher productivity, innovation, and technological advancement, thereby fueling economic expansion (*Subedi & Devkota, 2017*).

Human capital development is about helping people become better at what they do. It's like investing in education and health to make sure everyone can make the most of their abilities. When people are healthy and educated, they can work better and be more productive. This includes things like going to school, staying healthy, and getting training

for jobs. Governments play a big role in making sure there are enough schools and healthcare services for everyone. They also help with job training to keep skills up-to-date. All of this helps make sure that people can contribute more to their country's economy and have better opportunities in life. It's like giving everyone the tools they need to succeed, which benefits everyone in the long run (*Eniekezimene et al., 2023*).

2.1.7 Natural Resource Endowment

Natural resource endowment, including hydropower potential, agricultural land, minerals, and biodiversity, influences economic growth. Sustainable utilization and management of natural resources can generate revenue, create employment opportunities, and drive economic diversification. The debate on whether natural resource abundance benefits or harms a country continues, prompting this study to explore how natural resources impact human development, considering governance's role. Focusing on 44 major natural resource-exporting countries, including oil, natural gas, and coal exporters, data from 1990 to 2021 was analyzed using various statistical methods. Findings suggest that oil and gas rents align with the resource blessing hypothesis, while coal rents exhibit a neutral effect. Additionally, good governance significantly enhances human development. Country-specific results from bootstrap causality analysis indicate a mix of resource blessing, curse, and neutral outcomes. Overall, the impact of natural resource abundance varies, with good governance playing a crucial role. While natural resources alone don't hinder human progress, poor governance can impede it by mismanaging resource rents. Policy recommendations emphasize the importance of utilizing resource rents wisely with effective governance for inclusive growth and human development (*Chen, 2023*).

2.1.8 Political Stability

Political stability and governance quality are critical determinants of economic growth. A stable political environment fosters investor confidence, encourages long-term planning, and promotes institutional development, all of which are conducive to sustainable economic growth. Political stability plays a pivotal role in shaping financial markets, acting as a cornerstone for investor confidence and long-term capital commitment. When political conditions are stable, investors feel assured and are more willing to invest for the future. A stable political environment reduces the risk of sudden policy shifts, government interference, or political unrest, fostering an atmosphere conducive to

sustained economic growth and investment. In contrast, economic policy uncertainty can disrupt financial markets, causing volatility and complicating investment decisions. Clarity and predictability in economic policies are essential, as uncertainty can lead to market hesitancy, fluctuations, and potential disruptions. Therefore, maintaining a delicate balance between political stability and economic policy certainty is vital for investor sentiment, capital allocation, and overall financial market health and resilience (*Lau, 2024*).

2.1.9 Trade and Investment

Openness to trade and investment can stimulate economic growth by facilitating access to foreign markets, technology transfer, and capital inflows. Trade liberalization policies and investment promotion initiatives can attract foreign direct investment (FDI) and promote export-oriented industries, thereby driving economic expansion. The integration of trade and investment is a fundamental aspect of the global economy, influencing economic growth, development, and welfare. Multi-country trade model incorporates domestic investment in physical capital and foreign direct investment (FDI) in the form of non-rival technology capital. By modeling and quantifying the general equilibrium links between trade and investment which sheds light on their interconnected nature and their impacts on the global economy. One key innovation is the consideration of FDI alongside traditional trade dynamics, recognizing FDI as a significant driver of economic activity and technological advancement. The removal of FDI from low- and lower-middle-income countries would result in a considerable loss in world welfare. Moreover, decline in world trade impacts both winners and losers across nations. FDI serves as a substitute for export trade among countries, emphasizing its role in facilitating global economic interactions and resource allocation. There is intricate relationship between trade and investment, emphasizing the significance of FDI in driving economic growth and fostering international cooperation. By understanding these dynamics, policymakers and stakeholders better navigate the complexities of the global economy and harness the potential benefits of trade and investment for sustainable development (*Anderson et al., 2019*).

2.1.10 Financial Sector Development

A well-developed financial sector, including banking, insurance, capital markets, and microfinance institutions, is essential for mobilizing savings, allocating capital

efficiently, and facilitating investment activities. Access to finance, financial inclusion, and regulatory reforms are key determinants of financial sector development and, consequently, economic growth. The role of the financial sector in economic growth is a topic of extensive debate in development economics, with perspective that the real sector cannot advance without a robust financial system. There is a crucial role of financial development in both historical and developing country contexts. Financial inclusion is pivotal in reducing poverty and income inequality, contributing to overall economic well-being by providing accessible and affordable financial services. In Nepal, the financial sector is crucial for supporting small and medium enterprises (SMEs), yet a significant portion lack formal financial relations, indicating the need for further development. Overall, financial development is essential for expanding the economy, raising income levels, and reducing poverty, though the relationship between financial development and economic growth remains complex, prompting further research in the Nepali context (Paudel & Acharya, 2020).

2.1.11 Technological Innovation

Technological innovation and adoption drive productivity growth, competitiveness, and economic diversification. Investment in research and development (R&D), technology infrastructure, and innovation ecosystems can enhance capacity for technological innovation, thus promoting economic growth in knowledge-intensive sectors. Technological innovation profoundly shapes organizational populations by disrupting markets, altering resource importance, and challenging learning capabilities, aligning with Schumpeter's concept of creative destruction. Research indicates that innovation progresses through cycles of incremental change punctuated by disruptive technological discontinuities, which propel significant performance improvements. These discontinuities can either enhance existing competencies or render them obsolete, fostering opportunities for both incumbents and newcomers. The emergence of a dominant design establishes technological dominance, prompting incremental advancements thereafter. While the universality of this cycle is debated, it has proven insightful across industries. Innovation presents opportunities for entrepreneurs to establish competitive positions, yet it also poses risks for incumbents, as outcomes are unpredictable. Ecological research linking technology cycles to population dynamics supports the profound influence of technological innovation on organizational evolution,

suggesting the importance of understanding how ecological processes shape technological change (*Coccia, 2021*).

2.1.12 Regional Disparities

Addressing regional disparities in infrastructure development, human capital, and economic opportunities is crucial for inclusive and sustainable economic growth. Policies promoting balanced regional development, rural-urban integration, and poverty alleviation can reduce inequalities and promote shared prosperity. Regional disparities in economic performance and living standards are prevalent in many countries, reflecting variations in income, education, and health outcomes. These disparities raise equity concerns by contributing to overall within-country inequality and limiting opportunities for social mobility. Moreover, they can hinder economic efficiency as underutilized potential in disadvantaged regions constrains overall growth. Beyond economic implications, regional disparities fuel social tensions, political polarization, and resentment towards urban elites, threatening national cohesion and potentially leading to conflict. While some disparities may be a normal feature of economic growth due to concentration and specialization of production, others stem from adverse economic shocks that impact specific regions. Addressing regional disparities raises questions about the economic forces that drive them, whether they reflect market or policy failures, and the trade-offs between spatial equality and growth. Policymakers must consider whether to focus on promoting balanced growth across regions or providing targeted support to lagging areas through investments in education, health, and infrastructure, or facilitating out-migration (*Floerkemeier, 2021*).

2.1.13 Theories and Principles

a. Time Value of Money

The Time Value of Money principle is a bedrock concept in finance that underscores the notion that a sum of money has different values at different points in time. This principle is crucial in various financial transactions, as it forms the basis for calculating interest rates, determining the present and future values of cash flows, and evaluating the profitability of investments (Koch, 2019). Essentially, it recognizes the opportunity cost associated with the timing of cash flows and is pivotal in decision-making processes related to deposits and investments.

The time value of money is a concept that says having money now is better than having the same amount in the future. This is because money you have now can be invested to earn more money over time. For example, if you have \$100 today, you could invest it and make some extra money through interest or other investments. So, having that \$100 now is more valuable than having it in the future because you can start earning more with it right away. It's like saying a bird in the hand is worth two in the bush. This idea is also called discounted present value, and it's based on the idea that smart investors prefer to get money sooner rather than later because they know it can grow in value over time. So, if you were given the choice between getting \$100 now or getting it a year from now, you'd probably choose to get it now because you can start making it work for you right away (*Mubarak and Nobanee, 2022*).

b. Risk Return Trade off

Expected excess returns on bonds and stocks, along with real interest rates and risk levels, exhibit predictable shifts over time, which tend to persist for extended periods. An empirical model capable of capturing these complex dynamics while remaining practical is essential for effective asset allocation strategies. Changes in investment opportunities influence the risk-return tradeoff of bonds, stocks, and cash across various investment horizons, giving rise to a "term structure of the risk-return tradeoff." This term structure reflects how the relationship between risk and return evolves over time, impacting asset allocation decisions. Asset return predictability plays a crucial role in shaping the variance and correlation structure of returns on stocks, bonds, and Treasury bills across different investment horizons. By understanding and accounting for these predictable shifts, investors can adjust their portfolios accordingly to optimize risk-adjusted returns and mitigate potential risks associated with changing market conditions (*Campbell & Viceira, 2024*).

c. Principle of Diversification

Diversification, as proposed by Markowitz's Modern Portfolio Theory (Markowitz, 1952), is a strategy aimed at managing risk by spreading investments across different assets. By doing so, the impact of poor performance in any single investment is mitigated. This diversification principle acknowledges that the returns on different assets do not move in perfect tandem and seeks to create portfolios that optimize risk-adjusted

returns. Diversification is a fundamental aspect of investment decision-making, particularly in the context of managing risk and uncertainty.

However, despite its importance, the concept has often been misunderstood, as evidenced by the 2007–2009 financial crisis. A comprehensive review by Koumou (2020) has been conducted on the diversification principles in portfolio theory. The core focus of the review centers on four key diversification principles: the law of large numbers, correlation, capital asset pricing model (CAPM), and risk contribution or risk parity diversification principles. These principles serve as the foundation of portfolio selection rules and asset pricing theories, playing a crucial role in understanding diversification.

d. Liquidity Preference Theory

The liquidity preference theory, developed by John Maynard Keynes in his seminal work "The General Theory of Employment, Interest, and Money" (1936), elucidates the relationship between interest rates, individuals' preference for liquidity, and the supply of money. At its core, the theory delves into why individuals may opt to hold onto cash rather than investing in interest-bearing securities. Keynes identified three key motives driving this behavior: transaction, precautionary, and speculative motives. Transaction motives relate to the need for cash to facilitate day-to-day transactions and payments. Precautionary motives involve holding cash as a buffer against unforeseen emergencies or expenses. Speculative motives revolve around the desire to hold onto cash in anticipation of future investment opportunities or changes in asset prices. Consequently, the liquidity preference theory posits that individuals may demand higher interest rates as compensation for relinquishing the liquidity provided by cash and committing to long-term financial assets. By shedding light on these motives and their influence on interest rate dynamics, the liquidity preference theory offers valuable insights into monetary policy, financial markets, and economic decision-making (*Gajendrakar, 2024*).

e. Efficient Market Hypothesis

Fama's Efficient Market Hypothesis (EMH) posits that financial markets efficiently reflect all available information. According to EMH, it is challenging for investors to consistently achieve above-average returns through the analysis of publicly available information, as prices already incorporate that information (Fama, 1970). This theory has profound implications for investment strategies and the role of information in financial

markets. In efficient markets, investors compete fiercely, causing prices to adjust instantly to new information. This means that a financial instrument's price reflects both its return potential and its level of risk at any given time. Fama (1965) emphasizes that in such markets, a stock's trading price generally matches its true underlying value. This idea of market efficiency builds on Samuelson's (1965) argument that financial asset prices follow a random pattern, making future price movements unpredictable. Fama (1970) defines a market as efficient if prices consistently incorporate all available information. The semi-strong informational efficiency hypothesis suggests that current prices fully reflect all publicly available information, including company financial reports and analyst studies. This hypothesis can be tested by observing how stock prices react to company announcements: if the market is semi-strong efficient, stock prices should adjust immediately and appropriately to new information. However, empirical studies using event study methodology have produced mixed results, making it difficult to draw definitive conclusions about the extent of semi-strong efficiency in markets (Bouattour et al., 2019).

f. Loanable Fund Theory

The Loanable Funds Theory, as articulated by Wicksell (1898), explains the determination of interest rates in the market through the interaction between lenders and borrowers. It posits that interest rates are influenced by the supply and demand for loanable funds in the economy. This theory is crucial for understanding the dynamics of interest rates in lending markets, providing insights into how borrowing and lending activities affect the overall cost of capital.

The loanable funds theory posits that the interest rate is determined by the interaction of the demand for and supply of credit in the financial market. When the demand for credit increases, the interest rate tends to rise, reflecting the increased competition among borrowers for available funds. Conversely, when the supply of credit rises, the interest rate typically falls as lenders compete to attract borrowers. It's important to note that rises in demand for credit lead to increases in the supply of securities (and borrower indebtedness), which in turn drives up the demand for money, and vice versa. This reciprocal relationship between credit demand, securities supply, and demand for money influences interest rate movements. In testing the loanable funds theory, diagrams illustrate how each increase in credit demand shifts the Total Transaction (TT) curve

upwards, while increases in credit supply shift it downwards, demonstrating the theory's application in understanding interest rate dynamics in financial markets (Jossa, 2021).

2.2 Review of Related Studies

2.2.1 Review of International Articles

Ozili et al. (2023) conducted a study on “*The Effect of Abnormal Increase in Credit Supply on Economic Growth in Nigeria*”. This paper investigated the effect of abnormal increase in credit supply on economic growth in Nigeria after controlling for the quality of the legal system, size of central bank asset, banking sector cost efficiency and bank insolvency risk. The authors employed the generalized method of moments (GMM) regression methodology to estimate the effect of abnormal increase in credit supply on two measures of economic growth in Nigeria. The abnormal increase in credit supply has a significant effect on economic growth. Abnormal increase in credit supply increased real gross domestic product (GDP) growth. The abnormal increase in credit supply decreases real GDP per capita during the global financial crisis. The abnormal increase in domestic credit to the private sector has a significant positive effect on GDP per capita when there was strong legal system quality in Nigeria. In contrast, the abnormal increase in domestic credit to the private sector has a significant negative effect on real GDP growth when there was strong legal system quality in Nigeria. The abnormal increase in credit supply was ineffective in increasing GDP per capita during crisis years. Policymakers should be cautious in pressuring financial institutions to release an abnormally large amount of credit into the economy particularly during financial crises. Rather, policymakers should encourage financial institutions to supply credit in a sustained manner not in an abnormal manner and in a way that supports growth.

Fatima and Ajabnoor (2022) conducted a study on “*The Role of Banking System in Fostering Economic Growth in India*”. The main objective of the study was to explore the relationship between Indian banking borrowing and economic growth. They used exploratory research of secondary data spanning from 2005 to 2020 in their study. The study emphasized the pivotal role of a country's banking system in fostering economic growth. It emphasized that the strength of a nation's economy relies heavily on the robustness of its banking and lending systems. To analyze the relationship between Indian banking borrowing and economic growth, the study categorized lending into two segments: food and non-food credits, both of which represent bank loans. The research

employed a vector error correction model to assess this relationship. The findings revealed that both food and non-food credits had a short-term impact on Indian GDP. Using the ordinary least squares method, it was determined that food credit had a negative influence, while non-food credit also had a negative effect. These findings hold significance for bankers, regulatory bodies, and various government stakeholders, providing valuable insights into the dynamics between banking borrowing and economic growth in India.

Wen et al. (2022) conducted a study on “*The Impact of Financial Development on Economic Indicators: a Dynamic Panel Data Analysis*”. The study investigated the effect of financial development on major economic indicators, i.e., economic growth, inflation, and employment by applying System GMM estimation technique for a panel of 120 countries for the period 1997 to 2017. Four distinct proxies of financial development are used, i.e., private sector credit, liquid liabilities, money and quasi money, and bank credit. The results contradicted the traditional supply-lending hypothesis and reveal negative impact of financial development on economic growth. Moreover, financial development was found to be positively associated with inflation and employment growth. It is suggested that there was needed to reform and strengthen the supervision of financial intermediaries to ensure sound prudential lending practices. Furthermore, more credit needed to be allocated to highly productive firms.

Batrancea et al. (2022) conducted a study on “*The Determinants of the Economic Growth in the Seven Non-Member of the Basel Committee of Banking Supervision*”. The objective of the study was to investigate the determinants of economic growth in seven non-member countries of the Basel Committee of Banking Supervision—Bolivia, Czech Republic, Estonia, Malaysia, Peru, Poland, and Thailand—spanning the years 1990 to 2019. The predictors analyzed included metrics such as the bank capital to assets ratio, bank liquid reserves to bank assets ratio, inflation, interest rate spread, and the bank nonperforming loans to total gross loans ratio. Through panel data analysis and a random effects econometric model, the study revealed that economic growth, as measured by the gross domestic product growth rate, was predominantly influenced by the bank capital to assets ratio over the three decades studied. These findings hold potential implications for national policymakers seeking to foster economic growth for the betterment of society at large.

Vafa et al. (2020) conducted a study on “*The Role of Capital Labor and Total Factor Productivity in Gross Domestic Product Growth*”. The objective of the study was to analyze the factors influencing economic growth and productivity in Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. Utilizing panel data spanning from 1992 to 2015 sourced from the World Bank, FAO, and UN, the analysis employs regression techniques with random and fixed effects. Grounded in the Solow-Swan model with the Cobb-Douglas production function, the research scrutinizes the roles of capital, labor, and total factor productivity (TFP) in Gross Domestic Product (GDP) growth and agricultural value-added. Additionally, it explores the influence of variables such as exports, imports, Foreign Direct Investment (FDI), research and development (R&D), and education on GDP and TFP. The study further delves into the impact of FDI, exports, imports, and other factors on the broader national economy, agricultural value added, and TFP in both sectors. The primary findings of the analysis underscore the intricate relationship between factors of production, Total Factor Productivity (TFP) development, and economic growth. While regions with excess capital and labor may lack incentives for TFP advancement, those facing scarcity tend to prioritize it, indicating its pivotal role in enhancing output efficiency. Particularly relevant to Post-Soviet countries is the observation that their agricultural markets are heavily reliant on Russian GDP growth. To sustain long-term growth, policymakers are urged to prioritize policies fostering TFP growth, including technology adoption, competitiveness promotion, and efficient state-owned enterprise management. Moreover, investment in physical capital should lean towards enhancing technology and production efficiency rather than mere capital accumulation. However, the study acknowledges methodological limitations, such as the absence of data on key factors like Foreign Direct Investment (FDI) in agriculture and Research and Development (R&D), which may affect TFP dynamics. Furthermore, it underscores the nuanced interplay between technical change and efficiency decline, emphasizing the need for comprehensive understanding when assessing TFP trends.

Chirwa and Odhiambo (2020) conducted a study on “*The Determinants of Economic Growth: a Comparative Study between Developed and Developing Countries*”. It examined the determinants of economic growth are different when this distinction is used, it reveals that developing countries the key macroeconomics determinants of economic growth include foreign aid, foreign direct investment, fiscal policy, investment, trade, human capital development, demographics, monetary policy, natural resources,

reform and geographic, regional, political and financial factors. In the developed countries, the study reveals that the key macroeconomics determinants that are associated with economic growth included physical capital, fiscal policy, human capital, trade, demographics, monetary policy and financial and technological factors.

Udonwa et.al (2019) conducted a study on “*Role of Population Growth in Economic Growth in Nigeria*”. The objective of the study was to assess the role of population growth and other determinants in economic growth in Nigeria. They analyzed the time series data for the period 1981-2013. Using Augmented Cobb-Dougllass Production Function and relying on error correction modeling framework, the econometric results established the fact that population growth has the potentials of fostering economic growth in Nigeria. But underlined the fact that this and other benefits would depend on, not only the group of the entire population that is active, but the quality of the population. There has been intense debate in the literature on what determines growth in an economy. Some scholars believe that increases in the population of a nation tantamount to economic progress, in that, it provides a huge base of labor force. However, others have argued that these increases could be a curse rather than a blessing, because if the increase in the number of people in the economy is not supported with conscious efforts at training and holistic development of human capital, then disaster is eminent. But a few scholars also believe that population assumes a neutral position in economic growth process, that is, population does not directly impact growth directly, but it interacts with other growth determinants (such as human capital development, research and development, technology and so on) is what actually determine growth or otherwise in the economy. This paper therefore sought to assess the role of these growth determinants in economic growth performance in Nigeria. Amongst other policy options suggested, it was advocated that policy measures that will foster target-oriented and skill-enhancing education and training should be designed and implemented. Provision of accessible and affordable health care for a healthy population was also advocated if Nigeria’s population growth must be advantageous.

Ali and Masih (2018) conducted a study on “*The Determinants of Economic Growth: the Malaysian Case*”. The objective of the study was to investigate the impact of macroeconomic indicators on real GDP in Serbia. They investigated the drivers that fuel economic growth, exploring factors such as the consumer price index, stock market

index, gross domestic growth, exports, and housing price index. Employing time series techniques, the study scrutinizes the relationship between economic growth and these determinants. The findings suggest the presence of a long-term cointegrating relationship and multiple short-term causal connections between economic growth and these factors. In essence, the study reveals that collectively, these determinants impact economic growth in the short term. However, upon closer examination, it becomes apparent that only asset prices (specifically stock prices) and consumer goods prices significantly drive economic growth, whereas the influence of housing prices, commodity prices, and real production is less pronounced. Consequently, the study concludes that asset prices and consumer goods prices play pivotal roles as determinant factors of economic growth, while housing prices, commodity prices, and real production may act as catalysts or supplementary determinants to economic growth in the context of Malaysia. This research contributes to shaping monetary and fiscal policies, particularly within the Malaysian context.

Milenkovic et.al (2017) conducted a study on “*Macroeconomic Indicators and Their Impact on Economic Growth in Serbia*”. The objective of the study was to investigate the impact of macroeconomic indicators on real GDP in Serbia. They analyzed the data from 2001 to 2015 and find the determinants of economic growth. Study shows that Monetary policy is an important segment of the economic policy of each country where inflation and monetary aggregates represent its significant components. Also, their movement reflects the trends in the volume of money and the price level which is of great relevance for the economic situation in the country. This paper manifest the impact of macroeconomic indicators on the real gross domestic product. In the study, inflation (INF), monetary aggregate (M3), public expenditures (PE) and foreign direct investment (FDI) are used as independent variables, while the gross domestic product is determined as a dependent variable. The results showed that there is a positive relationship between GDP and INF, PE and FDI, but it is statistically not significant. On the other hand, M3 has a negative impact on GDP, it is statistically significant. Using correlation matrix, a very high correlation between INF and PE was found, while the lowest correlation was recorded between GDP and INF and statistically significant effect on banks’ lending.

Simionescu et al. (2016) conducted a study on “*Policy Changes and Economic Growth: Evidence from European Union Economies*”. The objective of the study was to assess

how policy changes influence the economic growth in economic union economies. Fifteen European Union economies using a panel estimation technique was used to assess how policy changes influenced the economic growth of these countries. The study found similar results to previous research, indicating that bank lending promotes economic growth. Causality testing analysis on thirteen Asian developing countries and also found a positive relationship between bank lending and economic growth. The IMF's 2008 Global Financial Stability Report supported these findings by highlighting the statistically significant impact of credit growth on GDP growth. The report suggests that a squeeze and credit spread over three quarters in the USA can reduce GDP growth by approximately 0.8% and 1.4% year-on-year, respectively, assuming no other supply shocks to the system.

Muktadir and Islam (2016) conducted a study on “*The Relationship between Remittance and Credit Disbursement of the Banking Sector*”. The objective of the study was to explore the relationship between remittance and credit disbursement in the banking sector of an unspecified country. The analysis was done using the time series econometric techniques with monthly data spanning from 2006 to 2012 which found out that there exists a bi-directional causality between the variables, which means when remittance increases, it leads to increase in total deposits of banks which results to increase in liquidity position of the banks which enables them to enhance credit disbursement. So the problem of lack of investment due to credit constraint was overcome and investment opportunities were improved in the country.

Table 1

Summary of Empirical Review

Author	Objective and Methodology	Major Findings
Ozili et al. (2023)	Investigate the effect of abnormal increase in credit supply on economic growth in Nigeria. Generalized method of moments (GMM) regression methodology	Abnormal increase in credit supply has a significant effect on economic growth. It increases real GDP growth but decreases real GDP per capita during crises. Abnormal increase in domestic credit to the private sector has a significant positive effect on GDP per capita when there is a strong legal system quality, but a significant negative effect on real GDP growth when there is a strong legal system quality.
Fatima & Ajabnoor	Explore the	In the short term, both food and non-food

(2022)	relationship between Indian banking borrowing and economic growth. Vector error correction model	loans have a negative impact on India's GDP. Food loans reduce GDP, and non-food loans also decrease GDP.
Wen et al. (2022)	Investigate the effect of financial development on economic growth, inflation, and employment. System GMM estimation technique for a panel of 120 countries from 1997 to 2017	Financial development slows down economic growth but increases inflation and job growth. More loans should be given to highly productive companies.
Sendi, Mayanja, and Nyorekwa(2022)	investigate the factors influencing economic growth in Uganda over the period 1982 to 2015. employed the Autoregressive Distributed Lag (ARDL) model, a widely used econometric technique for analyzing time series data.	In Uganda, initial GDP growth, government spending, and investment boost short-term economic growth. However, inflation, foreign aid, and structural adjustment programs slow it down. For long-term economic growth, trade openness, population growth, government spending, and investment are beneficial. There is no significant link between trade openness, population growth, or human capital with short-term growth, and no significant link between inflation, human capital, foreign aid, and long-term growth.
Batrancea, Rathnaswamy, and Batrancea (2022)	investigate the determinants of economic growth in seven non-member countries of the Basel Committee of Banking Supervision: Bolivia, Czech Republic, Estonia, Malaysia, Peru, Poland, and Thailand. employed panel data analysis	Over the three decades studied, economic growth, measured by GDP growth rate, was mainly influenced by the ratio of bank capital to assets. Other factors like bank liquid reserves, inflation, interest rate spread, and nonperforming loans also affected economic growth, but their impact was less significant.
Vafa et al. (2020)	aimed to investigate the roles of capital,	Regions with plenty of capital and labor often don't push for improvements in productivity,

<p>Chirwa & Odhiambo (2020)</p>	<p>labor, and Total Factor Productivity (TFP) in Gross Domestic Product (GDP) growth and agricultural value-added. The authors employed regression techniques with both random and fixed effects to examine the relationships between the variables of interest. Examine the key determinants of economic growth in developed and developing countries. Secondary data analysis and econometric modeling</p>	<p>while regions with limited resources do, showing the importance of boosting productivity to improve efficiency. The agricultural markets in the studied countries depend heavily on Russia's GDP growth, highlighting the impact of external economies. Policymakers should focus on policies that boost productivity, like adopting new technologies, promoting competition, and managing state-owned enterprises efficiently, to ensure long-term growth. Investments should aim at improving technology and production efficiency rather than just increasing capital.</p>
<p>Udonwa et al. (2019)</p>	<p>Assess the role of population growth and other determinants in economic growth in Nigeria. Augmented Cobb-Douglas Production Function and error correction modeling framework</p>	<p>In developing countries, important factors for growth include foreign aid, investment, trade, fiscal policy, human capital, demographics, monetary policy, natural resources, and regional influences. In developed countries, growth depends on physical capital, fiscal policy, human capital, trade, demographics, monetary policy, and technology. Population growth can help Nigeria's economy grow, but it depends on factors like the quality of the population and other growth factors. To make the most of this potential, policymakers can focus on improving education, providing training to enhance skills, and making healthcare more accessible.</p>
<p>Ali and Masih, (2018)</p>	<p>explore factors such as the consumer price index, stock market index, gross domestic growth, exports, and housing price index and analyze their relationship with economic growth time series</p>	<p>The relationship between economic growth and factors like consumer prices, stock market performance, GDP, exports, and housing prices in Malaysia is complex. There are long-term connections and short-term cause-and-effect relationships between them. The study found that stock prices and consumer goods prices have a significant impact on economic growth. However, the influence of housing prices, commodity prices, and actual</p>

	techniques to analyze the relationship between economic growth and its determinants.	production on growth is less clear. Overall, the study suggests that stock prices and consumer goods prices are key factors driving economic growth in Malaysia, while other factors like housing prices and production might have supporting roles.
Milenkovic et al. (2017)	Investigate the impact of macroeconomic indicators on real GDP in Serbia. Correlation matrix and regression analysis	Inflation, government spending, and foreign direct investment all have a positive effect on GDP—they help it grow. However, the amount of money circulating in the economy (measured by M3) has a negative impact on GDP—it slows down economic growth.
Simionescu et al. (2016)	Assess how policy changes influence economic growth in European Union economies. Panel estimation technique	Loans from banks help boost economic growth in both European Union countries and developing nations in Asia.
Muktadir & Islam (2016)	Explore the relationship between remittance and credit disbursement in the banking sector of an unspecified country. Time series econometric techniques	Remittances and credit disbursement have a two-way relationship—they both influence each other. This leads to more money being deposited in banks and more loans being given out..

2.2.2 Review of Nepalese Literature

Shrestha (2022) conducted a study on “*The Effects of Financial Liberalization Measures on Nepal's Financial System and Economic Growth*”. The main objective of the study was to assess the effects of financial liberalization measures on Nepal's financial system and economic growth. The research aimed to gain insights into the underlying reasons and the process of financial liberalization within Nepal. Econometric tools, including co-integration and ARDL models, were employed to analyze the data. The study's findings revealed a significant relationship between the number of per capita bank branches and the expansion of the financial sector, contributing to overall financial development. Additionally, the study identified the real deposit rate as a crucial factor influencing time deposits. In summary, the research concluded that financial

liberalization had positive implications for both financial development and economic growth, albeit with certain negative consequences in terms of redistribution and financial stability.

Bhandari (2021) conducted a study on “*The Depiction of Interplay between Nepal’s Financial System and Economic Growth*”. The objective of the study was to provide an insightful depiction of the interplay between Nepal's financial system and its economic growth. The research aimed to contribute significantly to the comprehension of the intricacies within the nation's financial sector. To achieve this, the researcher adopted an empirical approach, utilizing a questionnaire survey to gather perspectives from a diverse array of experts representing various fields. Through this systematic inquiry, the study sought to uncover the multifaceted dynamics that underlie the relationship between the financial landscape and the trajectory of economic advancement in Nepal. The study's findings held particular significance in shedding light on the various factors that shape this intricate relationship. One key discovery emphasized the substantial role that political and institutional factors play in influencing the link between the structure of the financial system and the pace of economic growth. This insight underscores the nuanced interdependence between the nation's financial infrastructure and broader socio-political dynamics, which collectively impact Nepal's economic trajectory. Furthermore, the research underscored the pivotal role of the legal environment within Nepal. This legal framework was identified as a crucial determinant in shaping the direction and magnitude of economic growth, accentuating the imperative of a robust legal foundation to foster and sustain economic development. Bhandari's study made a notable contribution to unraveling the intricate interrelationship between Nepal's financial system and its economic growth. By employing empirical analysis and drawing on expert opinions, the research illuminated the role of political, institutional, and legal factors in shaping this crucial nexus, offering valuable insights for policymakers, practitioners, and scholars alike as they navigate the path of sustainable economic development in Nepal.

Dhungana (2021) conducted a study on “*The Influence of Commercial Bank on the Economic Growth in Nepal*”. The main objective of the study was to explore how commercial bank deposits exerted influence on the economic growth landscape of Nepal over a two-decade span, from 1990 to 2010. The study's core objective was to unravel the dynamics between deposit levels within financial institutions and the corresponding

trajectory of GDP growth. To achieve this, the researcher adopted a trend analysis approach, seeking to unveil patterns and relationships that could shed light on the intricate interplay between these critical economic variables. The study's outcomes unveiled a noteworthy and substantial revelation: a positive correlation between commercial bank deposits and economic growth in Nepal. This pivotal finding indicates that higher deposit levels within the realm of commercial banks hold a significant role in fostering nominal GDP growth and contributing to the overall enhancement of the country's economic well-being. Essentially, this suggests that the availability of funds within the banking system, facilitated through deposits, is a fundamental catalyst in driving economic expansion. The positive correlation between bank deposits and economic growth underscores the foundational role that the financial sector plays in the broader economic context. The ability of financial institutions to accumulate and channel deposits effectively represents a mechanism through which capital is mobilized and channeled into productive ventures, thereby fueling economic activities and fostering growth. As deposits accumulate, the financial system becomes equipped to facilitate lending to businesses, entrepreneurs, and individuals, stimulating consumption, investment, and production, all of which contribute to a more vibrant and dynamic economic landscape.

Pokharel (2020) conducted a study on “*The Commercial Banks and the Economic Growth in Nepal*”. The objective of the study was to analyze the capital, GDP ratio, population, and employer expenditure in commercial banks. The researcher used a production function model and conducted multi-variate regression analysis to analyze the data. The findings of the study indicated significant differences between urban and rural areas in terms of finance concentration and industrial sectors. The study highlighted that a substantial amount of finance was focused on the industrial sectors in urban areas, where the income level of the people was higher. The study also emphasized the importance of GDP for the enhancement of per capita income and overall economic development.

Bhattarai (2020) conducted a study on “*Bank Lending Determinants with the Evidence from Nepalese Commercial Banks*”. The objective of the study was to examine the impact of investment portfolio, cash reserve ratio and bank size on the load and advance. Correlation and regression has been used in the study to analyze the data. The result showed that investment portfolio, cash reserve ratio and bank size have positive and

significant effects on loan and advance. But the liquidity has negative and statically significant with loan and advance. The macroeconomic variables gross domestic products growth rate and inflation rate have not played effective roles to determine the loan and advance. The study concluded that liquidity, investment portfolio, cash reserve ratio and bank size were major determinants of loan and advance.

Bhattarai (2019) conducted a study on “*The Effect of Commercial Bank in the Economic Growth of Nepal*”. The objective of the study was to examine the relationship of liquidity ratio, interest rate spread and exchange rate. The study found that liquidity ratio, interest rate spread and exchange rate were significant in determining lending behavior in Nepal’s commercial banks. The positive effect of exchange rate infers those commercial banks in Nepal have sufficient insights into the international market and trade and that they are prepared to meet short-term and long-term commitments. Likewise, the findings showed interest rate spread negatively and significantly associated with total loans advanced. This implies that as the cost of borrowing increases, banks significantly increase credit supply in the market. However, there seems a greater deal of reluctance from among the borrowers to get more credit in such situations. During periods of economic stagnation, majority of loans become non-performing and thus constraining credit available to private sector.

Sigdel (2018) conducted a study on “*The Determinants of the Economic Growth in Nepal*”. The objective of the study was to investigate the determinants of economic growth in Nepal by employing Ordinary Least Squares (OLS) methods from the period before liberalization in 1975 to 2016, divided into periods before and after liberalization. It analyzes the trends and nature of economic growth, gross fixed capital formation, net exports, remittances, and total expenditure. The study finds that gross fixed capital formation and remittances significantly determine economic growth, while total exports and net exports do not exhibit a significant impact. The analysis highlights the post-liberalization period as witnessing a substantial increase in Nepal's Gross Domestic Product (GDP), particularly after transitioning into a federal republic in 2007. Remittances show a notable increase, attributed to a rise in international labor migration. Gross fixed capital formation steadily increases over the past decade, and the study reveals a positive and significant relationship between remittances and economic growth in the long run. Similarly, net exports also demonstrate a positive and significant

relationship with GDP in the long run. The study utilizes line graphs to depict the variables' nature, employs OLS and multiple regression models to assess long-run and short-run relationships, and conducts tests for heteroscedasticity and normality of the data.

Bajracharya (2018) conducted a study on “*The Determinants of Lending Behavior with the Evidence from the Nepalese Commercial Banks*”. The objective of the study was to analyze the determinants of the lending behavior. It revealed that bank size, volume of deposit, cash reserve ratio were the major determinants of loan and advance of Nepalese commercial banks. It found that bank size and deposit of the banks had significant positive impact on loan and advance of commercial banks in Nepal whereas cash reserve ratio of the banks had negative impact on loan and advance of the banks. Similarly, inflation rate and lending volume of the banks had negative relation which indicates that higher inflation rate leads to decrease lending of the banks.

Timilsina (2016) conducted a study on “*The Determinants of Bank Lending Behavior in Nepal*”. The objective of the study was to explore the determinants that affect the bank lending. It depicted that the Assets, liquidity, OMOs, and CRR were the major determinants to affect bank lending. OMOs and CRR tend to influence the bank lending in negative manner. However, bank rate had positive impact on lending. Hence the central bank, focused more on OMOs and CRR as monetary instrument. As study found that assets, capital and liquidity had positive impact on bank lending, central bank was recommended to focus more on effective and realistic liquidity monitoring and forecasting. Banks willing to lend more were recommended to increase their assets, capital as well as liquidity position that cushion them at the time of liquidity crisis.

Dhungana (2014) conducted a study on “*The Contribution of Financial Institutions to Economic Growth in Nepal*”. The objective of the study was on the Deposit/GDP ratio as an indicator and analyzed the development of commercial banks in recent decades. The researcher investigated the relationship between financial institutions and economic growth in a developing country setting like Nepal. The study emphasized the importance of the Deposit/GDP ratio and its impact on economic growth. The findings highlighted the significant role of financial institutions, particularly commercial banks, in promoting

economic growth through the mobilization of deposits and their subsequent utilization in various economic activities.

Timsina (2014) conducted a study on “*The Determinants of Bank Lending in Nepal*”. The objective of the study was to examine the relationship of GDP and liquidity ratio on the lending behavior. It revealed that Gross Domestic Product and liquidity ratio of banks had the greatest impacts on their lending behavior. Granger Causality Test showed the evidence of unidirectional causal relationship from GDP to private sector credit. The study implied that GDP was the barometer of the economy and commercial banks should pay their attention to the overall macro-economic situation of the country, factors affecting the GDP in general and their liquidity ratio in particular while taking lending decision.

2.3 Research Gap

Based on the information provided, it is found that there is a research gap regarding the study of lending, deposits, interest rate and investments in commercial banks and their effects on GDP. While previous studies have focused on credit risk management, comparative studies of banks, and lending policies, there is limited research specifically on lending practices in commercial banks and their impact on economic indicators. It is worth noting that while some research has been conducted in the past, the current research environment, including factors such as GDP, per capita income, and lending practices, has significantly changed. Therefore, there is a need for an updated study to understand the current scenario and fill the research gap in this specific area.

Furthermore, the study mentions that similar research has been conducted in African countries, but the similar research taking all these components i.e, lending, deposits, interest rate and investments specifically focusing on Nepal's commercial banks and their impact on GDP has not been found. This highlights the novelty and importance of the proposed research in providing valuable insights into the lending practices of commercial banks in Nepal and their contribution to the country's economic growth. Overall, the research aims to address the existing research gap, utilize advanced statistical analysis tools, and contribute to the understanding of the relationship between lending practices in commercial banks and the overall economic development of Nepal.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology generally refers research design, population and sample, data collection, data analysis techniques. In this research, linear regression analysis as well as correlation has been done. In research design mainly descriptive and quantitative analysis has been also done.

3.1 Research Design

The study conducted a descriptive analysis to calculate the mean, standard deviation, minimum and maximum values of different parameters over a fifteen-year period. The research employed quantitative research methods. The quantitative analysis was based on regression analysis to examine the relationship between finance and economic development.

3.2. Population and Sample

As on May, 2024, there are 20 commercial banks which form the population for this study. However, for the purpose of the study, all the commercial banks are selected with last 15 years' data from 2009 to 2023. The banking industry in Nepal consists of twenty commercial banks, which are organizations with significant exposure and turnover in the economy. Due to time limitations, the study utilizes data, which includes information on lending, deposits, interest rate investments of all commercial banks, as well as the gross domestic product (GDP) of Nepal. The data is obtained directly from the reports of the Nepal Rastra Bank, the central bank of Nepal.

3.3 Nature and Sources of Data

The data for this study has been taken from the secondary sources, thus the nature of the data is secondary one. Mostly the data have been taken from the publications made by Nepal Rastra Bank and Ministry of Finance, the Government of Nepal. The main source of data for the study are Economic Surveys, published by the Ministry of Finance, Government of Nepal, Quarterly Economic Bulletin and the Banking and Financial Statistics published by Nepal Rastra Bank and other relevant sources. Throughout this study the annual data, i.e. fiscal year ended as of mid-July each year and necessary adjustments in the data have been made to evolve continuous and comparable series

3.4 Data Collection Procedure

The obtained data are presented in various tables with supporting interpretation. These detail calculations that cannot be shown in the body part of the report are presented in appendices at the end. The study is mainly based upon secondary data; the data relative to financial performance and directly obtained from concerned banks. The supplementary data performance records of concerned banks, booklets, journals and other organization. Data are collected through annual report, minutes and memorandum of association relative websites and several organizations. Concept paper made by few organizations, newsletters, bulletin and brochures also helped in collection of data for the study. Similarly, methods like surfing in website and personal visit to bookshops is also used for the collection of data and information.

3.5 Data Analysis Tools

Data was collected from instruments and sources, including government databases, financial reports, and academic publications. The collected data underwent a number of preparation process involving editing to correct errors and inconsistencies. Following this, the data was processed and organized into a structured format and made ready to analyze using both financial and statistical methods. The analysis employed simple financial methods, such as basic financial ratios and statistical techniques, including descriptive statistics (mean, standard deviation, coefficient of variation) and inferential statistics (regression analysis, and correlation analysis). Data was then tabulated, summarized in tables to highlight key findings and patterns, facilitating easier interpretation. Major findings were drawn from this thorough analysis, with interpretations focused on understanding how the results relate to the economic growth of Nepal. This systematic approach provided clear, evidence-based insights into the determinants impacting Nepal's economic growth.

3.5.1 Financial Analysis Tools

Financial ratios are critical indicators used to assess the performance and financial situation of firms within Nepal. These ratios are calculated to determine the financial condition of firms by analyzing the relationship between various financial variables presented in their financial statements. Most financial ratios can be derived from information provided in these statements, allowing for the analysis of changes over time and comparisons with other firms. By examining these ratios, the study can gain insights

into the financial health of firms, which is a key factor affecting the overall economic growth of Nepal.

Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value.

$$\text{Mean or Average } (\bar{X}) = \frac{\sum X}{N}$$

Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean.

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum(X-\bar{X})^2}{n-1}}$$

Coefficient of Variation (CV)

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater the risk relative to the average.

$$\text{Coefficient of Variation (CV)} = \frac{\text{Standard Deviation}}{\text{Mean}}$$

3.5.2 Statistical Tool Used

Statistical methods refer to the mathematical techniques employed to analyze and interpret numerical data collected from groups of individuals or observations. These methods help derive meaningful insights and patterns from the data. The study uses several statistical tools, including descriptive statistics such as mean, coefficient of variation, and standard deviation, which summarize and describe the main features of the data. It also utilizes inferential statistics like regression analysis, and correlation analysis to make inferences about the larger population from the sample data. Additionally, trend

analysis is employed to examine data over time and identify patterns that provide insights into Nepal's economic growth. Comparative analysis is used to compare data across different time periods, regions, or sectors, helping to understand the differences and similarities in economic growth factors. These statistical tools are crucial for analyzing the collected data, drawing conclusions, and understanding the various determinants impacting the economic growth of Nepal.

Correlation

Correlation is the statistical tool that refers the closeness of the relationship between two or more variables. We can use correlation to describe the degree to which one variable is linearly related to other variables. The coefficient of correlation deals to determine the degree of relationship between two or more sets of figures. Among the various method of finding out coefficient practice for calculating correlation coefficient, the most widely used in practice for calculating correlation coefficient is Karl Pearson's correlation coefficient. So, Karl Pearson's correlation coefficient method is applied in the study. Correlation coefficient always lies between +1 to -1. When $r = +1$, there is perfect positive correlation between two variables and when $r = -1$, there is perfect negative correlation. And when $r = 0$, there is no correlation.

The correlation coefficient can be calculated as:

$$\text{Correlation } (X, Y) = \frac{n\sum XY - (\sum X)(\sum Y)}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Regression Analysis

Regression is a statistical method for investing relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two or more variables.

$$\text{GDP} = \alpha + \beta_1 \text{ Lending} + \beta_2 \text{ Deposit} + \beta_3 \text{ Investment} + \beta_4 \text{ Interest Rate} + e \dots \dots \dots (i)$$

Where,

GDP = Gross Domestic Product

Lending = Bank Lending

Deposit = Bank Deposit

Investment = Bank Investment

Interest Rate = Interest Rate

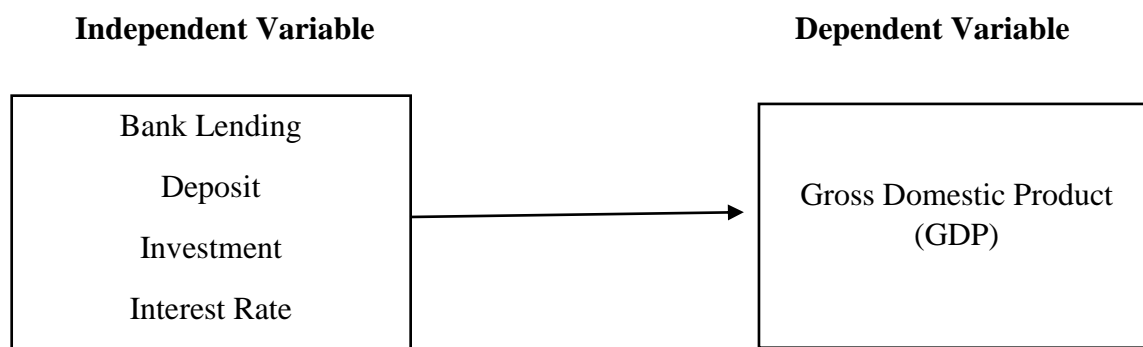
α = constant term,

e = error term,

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Beta coefficient of variables

3.6 Research Framework and Definition of Variables

Conceptual frameworks aid the researcher to precisely discover the variables of the study and explains the relationship exist among them. It provides the foundation for creditability.



(Source: Timsina & Pradhan, 2016)

Figure 1 Research Framework

Independent Variables

Bank Lending

According to Mishkin and Eakins (2015), Bank lending is the principal means by which banks generate revenue and make profits. Banks provide loans to businesses and individuals for a variety of purposes, such as buying a home, starting a business, or expanding an existing business. Bank loans typically require the borrower to make regular payments of both principal and interest over the life of the loan.

Deposit

According to Cecchetti and Schoenholtz (2017), A deposit is a claim on the bank, made by an individual or a firm, that obliges the bank to give the depositor his or her money when demanded or at some point in the future. Deposits are the main source of funds that banks use to make loans.

Investment

According to Daniel and Ibrahim (2019), Investment is the expenditure on new capital goods (fixed investment) and changes in inventories (stock investment) by business enterprises, governments, and households during a given period. It emphasizes that investment includes both fixed investment (such as machinery, equipment, and infrastructure) and stock investment (changes in inventory levels), and it encompasses investments made by various entities.

Interest Rate

The term "base rate" refers to the underlying probability or frequency of an event occurring in a population before considering any additional information or specific context. It serves as a baseline or starting point for evaluating the likelihood of an event. In various fields such as statistics, psychology, and decision-making, understanding the base rate is crucial for making accurate assessments. When making predictions or judgments, it's important to incorporate both the base rate and any relevant additional information to arrive at a more accurate estimate (Shrestha, 2009).

Dependent Variables

Gross Domestic Product

Mankiw (2014) states that GDP measures the total income earned from the production of the new final goods and services in the economy, and it measures the total expenditures on the new final goods and services produced in the economy. It highlights that GDP can be measured from both the income and expenditure perspectives, capturing the income earned by individuals and businesses involved in production, as well as the total spending on final goods and services by households, businesses, and the government.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

The main focus of this study is to present and analyze data. It involves comparing Nepal's GDP with the lending, deposit, interest rate, and investment activities of commercial banks in Nepal.

4.1 Data Presentation and Analysis

The way licensed financial institutions, which are regulated by the Nepal Rastra Bank, perform has a big impact on Nepal's GDP. A strong GDP often correlates with favorable financial performance and indicators of these institutions. Multiple indicators assess a country's economic health, and various factors, including lending, deposit, interest rate and investment activities of commercial banks, can notably affect Nepal's GDP. In essence, the interplay between financial institutions' performance and key economic variables like lending, deposit, interest rate and investment contributes to shaping Nepal's overall economic situation.

4.1.1 GDP Status Nepal

GDP, or Gross Domestic Product, is a crucial measure that shows the total value of all goods and services produced in a country within a specific time period. It covers everything that happens economically within a country's borders. By adding up the value of all goods and services, GDP gives us a complete picture of how strong and active a country's economy is. It's like a dynamic meter that keeps track of economic activities happening over time, giving us a good idea of how well a country is doing financially.

Calculating GDP can be done in different ways, each giving us a different view of the economy. The production approach looks at how much value is added at each stage of making goods and services. The income approach considers how much money goes to everyone involved in making those goods and services. And the expenditure approach adds up all the money spent on buying those final goods and services. These methods offer unique insights into economic activity, but when combined, they give us a complete and unified picture of a country's economic output.

Table 2

GDP Status of Nepal

(in Billion \$)

Year	GDP
2009	12.85
2010	16
2011	21.57
2012	21.7
2013	22.16
2014	22.73
2015	24.36
2016	24.52
2017	28.97
2018	33.11
2019	34.19
2020	33.43
2021	36.92
2022	40.83
2023	40.05
Mean	27.57
S.D.	8.55
C.V. (%)	31.02

(Source: Annex I)

Table 2 presents the Gross Domestic Product (GDP) status of Nepal spanning from 2009 to 2023. Across this timeframe, Nepal's economy exhibits a discernible upward trajectory, reflecting consistent growth in GDP. Noteworthy fluctuations are observed within this overall trend, suggesting periods of accelerated expansion juxtaposed with more subdued growth or minor contractions. For instance, there is a noticeable surge in GDP from 2016 to 2017, followed by a slight downturn in 2020. Despite these fluctuations, the mean GDP for the period stands at approximately 27.57, indicating the average economic output. Moreover, the standard deviation of 8.55 underscores the degree of variance or dispersion around this mean, signifying the extent of fluctuation in GDP values. The coefficient of variation, at 31.02%, further accentuates the relative variability of GDP figures, providing insights into the stability of Nepal's economic performance over the specified period. Overall, the data underscores Nepal's overall

positive economic trajectory, albeit with periodic fluctuations in growth rates, reflecting the inherent dynamism of its economy.

4.1.2 Bank Lending of Commercial Banks in Nepal

Bank lending is when banks give money, usually in the form of loans or credit, to people, businesses, or governments. This lets borrowers get money for things like starting a business, buying a house, or paying for big projects.

Table 3

Bank Lending of Commercial Banks in Nepal

(In Billion Rs.)

Year	Lending
2009	401
2010	463
2011	534
2012	585
2013	727
2014	877
2015	1068
2016	1392
2017	1715
2018	2080
2019	2482
2020	2886
2021	3687
2022	4153
2023	5451
Mean	1900.07
S.D.	1547.73
C.V (%)	81.46

(Source: Annex I)

Table 3 provides data on bank lending by commercial banks in Nepal spanning from 2009 to 2023. Over this period, there is a striking upward trend in lending activities, indicating a substantial expansion in the availability of credit in the Nepalese financial system. Beginning at 401 billion Rs. in 2009, lending steadily increases year by year, reaching 5,451 billion Rs. in 2023. This consistent growth underscores the robustness of the banking sector in Nepal and its role in facilitating economic activity through the provision of loans and credit. The mean lending over the period stands at 1,900.07 billion Rs., highlighting the average level of lending activity during this timeframe. However, the standard deviation of 1,547.73 billion Rs. and the coefficient of variation of 81.46%

indicate a notable degree of variability and dispersion in lending figures, respectively. Such variability may stem from factors such as changes in economic conditions, shifts in regulatory policies, or fluctuations in borrower demand. Nonetheless, the overall trend suggests a dynamic and expanding financial landscape in Nepal, with commercial banks playing a pivotal role in supporting economic growth and development through increased lending activities.

4.1.3 Bank Deposit of Commercial Banks in Nepal

A bank deposit happens when you put money into a bank account. When you do this, the bank owes you that money. Bank deposits can be in different types of accounts like savings accounts, checking accounts, or certificates of deposit (CDs). You can take out or move your money from these accounts whenever you want.

Table 4

Bank Deposit of Commercial Banks in Nepal

(In Billion Rs.)

Year	Deposit
2009	563
2010	630
2011	687
2012	867
2013	1036
2014	1203
2015	1462
2016	1764
2017	2093
2018	2471
2019	2878
2020	3489
2021	4086
2022	4442
2023	5086
Mean	2183.80
S.D.	1497.83
C.V (%)	68.59

(Source: Annex I)

Table 4 illustrates the bank deposit figures of commercial banks in Nepal from 2009 to 2023. Over this timeframe, there is a discernible pattern of steady growth in bank deposits, reflecting the increasing confidence of individuals and businesses in the banking system. Starting at 563 billion Rs. in 2009, deposits consistently rise each year, reaching 5,086 billion Rs. in 2023. This upward trajectory suggests a growing propensity among

Nepalese citizens to save and invest their funds within the formal banking sector. The mean deposit over the period stands at 2,183.80 billion Rs., indicating the average level of deposits during this period. However, the standard deviation of 1,497.83 billion Rs. and the coefficient of variation of 68.59% highlight a notable degree of variability and dispersion in deposit figures, respectively. This variability may stem from factors such as changes in interest rates, economic conditions, or shifts in consumer behavior. Nevertheless, the consistent growth in bank deposits underscores the stability and reliability of the banking sector in Nepal, serving as a crucial source of funding for various economic activities and investments within the country.

4.1.4 Investment of Commercial Banks in Nepal

Bank investment refers to the allocation of funds by a bank into various financial instruments and assets with the goal of generating returns and managing risk. Banks invest their own capital, as well as the funds they receive from depositors and other sources, in a range of assets such as government and corporate bonds, stocks, real estate.

Table 5

Investment of Commercial Banks in Nepal

(In Billion Rs.)

Year	Investment
2009	130
2010	134
2011	149
2012	181
2013	209
2014	226
2015	282
2016	358
2017	341
2018	424
2019	534
2020	656
2021	653
2022	626
2023	891
Mean	386.27
S.D.	235.73
C.V (%)	61.03

(Source: Annex I)

The provided table presents data on the investment activities of commercial banks in Nepal from 2009 to 2023. Throughout this period, there is a discernible trend of increasing investments by commercial banks, indicating a growing allocation of funds towards various investment opportunities. Starting at 130 billion Rs. in 2009, investments witness a consistent uptrend each year, reaching 891 billion Rs. in 2023. This pattern suggests that commercial banks are actively engaging in investment activities to optimize returns and diversify their portfolios. The mean investment over the period stands at 386.27 billion Rs., indicating the average level of investment during this timeframe. However, the standard deviation of 235.73 billion Rs. and the coefficient of variation of 61.03% reveal a notable degree of variability and dispersion in investment figures, respectively. Such variability may be influenced by factors such as market conditions, regulatory changes, and risk preferences of banks. Nonetheless, the consistent growth in investments underscores the proactive stance of commercial banks in Nepal towards enhancing their financial performance and contributing to the overall economic development of the country.

4.1.4 Interest Rate of Commercial Banks in Nepal

The term "base rate" refers to the underlying probability or frequency of an event occurring in a population before considering any additional information or specific context. It serves as a baseline or starting point for evaluating the likelihood of an event.

Table 6

Interest Rate of Commercial Banks in Nepal

Year	Interest Rate
2009	6.5
2010	6.5
2011	7.0
2012	7.0
2013	9.83
2014	8.36
2015	7.88
2016	6.54
2017	9.89
2018	10.47
2019	9.57
2020	8.50
2021	6.86
2022	9.54
2023	9.99
Mean	8.30
S.D.	1.48
C.V (%)	17.89

(Source: Annex I)

The table provides data on the interest rates of commercial banks in Nepal from 2009 to 2023. Over this period, there are fluctuations in interest rates, reflecting changes in monetary policy, economic conditions, and market dynamics. The interest rates begin at 6.5% in 2009 and 2010, remain relatively stable, before increasing to 7.0% in 2011 and remaining at that level through 2012. In 2013, there is a notable jump to 9.83%, possibly indicating changes in central bank policy or market factors influencing borrowing costs. Subsequently, interest rates fluctuate, reaching a peak of 10.47% in 2018 before gradually declining to 6.86% in 2021. The mean interest rate over the period is 8.30%, indicating the average level of interest rates during this timeframe. However, the standard deviation of 1.48 and coefficient of variation of 17.89% highlight a notable degree of variability and dispersion in interest rate figures, respectively. This variability may be influenced by factors such as inflation, central bank policy decisions, and macroeconomic conditions. Overall, the data underscores the dynamic nature of interest rates in Nepal's banking sector, with fluctuations reflecting the interplay of various economic factors and policy interventions.

4.1.5 Correlation Analysis

The correlation between Nepal's GDP and the lending activities of commercial banks in Nepal indicates how closely these two things are connected. We're examining the relationships between lending, deposits, interest rates, investment, and GDP. Each box in our table shows a correlation coefficient between two of these factors, which tells us how strong and in which direction their relationship is. If the coefficient is 1, it means there's a perfect positive relationship, implying the variables move together. A coefficient of -1 indicates a perfect negative relationship, where the variables move in opposite directions. If the coefficient is close to 0, it means there's little to no linear relationship between the variables.

Table 7

Correlation Analysis

		GDP	Lending	Deposit	Investment	Interest
GDP	Pearson Correlation	1				
	Sig. (2-tailed)					
Lending	Pearson Correlation	.923**	1			
	Sig. (2-tailed)	.000				
Deposit	Pearson Correlation	.942**	.997**	1		
	Sig. (2-tailed)	.000	.000			
Investment	Pearson Correlation	.907**	.995**	.989**	1	
	Sig. (2-tailed)	.000	.000	.000		
Interest	Pearson Correlation	.531*	.440	.450*	.394	1
	Sig. (2-tailed)	.016	.052	.046	.086	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The correlation matrix in Table 7 shows some interesting relationships between five key economic variables: GDP, Bank Lending, Bank Deposit, Interest, and Investment. First, we see that GDP, which measures a country's economic output, is very closely related to both Bank Lending and Bank Deposit. The correlation coefficients are about 0.923 for Bank Lending and 0.942 for Bank Deposit, both of which are highly significant. This means that as GDP grows, bank lending and deposits tend to grow significantly as well, indicating a strong connection between economic activity and the banking sector. Moreover, the relationship between Bank Lending and Bank Deposit is extremely strong, with a correlation coefficient of around 0.997. This suggests a nearly perfect positive relationship, meaning that the amount of money banks lend out is very closely matched by the money they take in as deposits. This underscores the crucial role banks play in facilitating financial transactions and supporting economic growth. Additionally, the correlation between Investment and GDP is about 0.907, which is also highly significant. This shows a strong link between economic growth and investment. Finally, the correlation between the interest rate and GDP is 0.531, indicating a moderate positive relationship between these two variables.

4.1.6 Regression Analysis

Regression analysis is a statistical tool used to figure out which factors influence the outcome of an experiment. It helps answer questions like: What are the key factors? Which factors can we ignore? How do these factors interact with each other? And

importantly, how confident are we in our understanding of these variables? In this study, GDP is the dependent variable, meaning it is the outcome we are trying to explain. The independent variables, which are the factors we think might affect GDP, are lending, deposit, interest, and investment.

Table 8

Model Summary when Dependent Variable is GDP

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.967 ^a	.935	.917	3.09837

a. Predictors: (Constant), Investment, Deposit, Lending, Interest

Table 8 summarizes a regression model that examines how GDP is influenced by four factors: Investment, Deposit, Interest, and Lending. This model, referred to as "a," has a high explanatory power, with an R-squared value of 0.935. This means that about 93.5% of the changes in GDP can be explained by these four factors. In other words, Investment, Deposit, Interest, and Lending have a strong positive relationship with GDP, indicating that changes in these factors are closely linked to changes in GDP. The adjusted R-squared value is 0.917, which takes into account the number of predictors and further confirms the model's reliability. The standard error of the estimate is 3.09837, indicating the average difference between the predicted GDP values and the actual GDP values. Overall, these statistics suggest that the regression model is a strong tool for understanding and predicting changes in GDP based on Investment, Deposit, Interest, and Lending.

Table 9

ANOVA Table when Dependent Variable is GDP

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2056.795	4	514.199	53.563	.000 ^b
1	Residual	143.999	15	9.600		
	Total	2200.794	19			

a. Dependent Variable: GDP

b. Predictors: (Constant), Investment, Deposit, Lending, Interest

Table 9 shows the results of an ANOVA analysis for a regression model where GDP is the dependent variable, and the predictors are Investment, Deposit, Interest, and Lending. The table helps us understand where the variations in the model come from. The regression part of the model explains a large portion of the variation in GDP, with a sum of squares of 2056.795. This means that the combination of Investment, Deposit, Interest, and Lending together account for a significant amount of the changes in GDP. There are 4 degrees of freedom for the regression part, which matches the number of predictors in the model. The residual part, with a sum of squares of 143.999 and 15 degrees of freedom, represents the variation in GDP that the model doesn't explain. This is the amount of change in GDP not accounted for by the predictors we used. The F-statistic is 53.563, which tells us if the overall regression model is significant. A high F-statistic like this one, along with a corresponding p-value (not shown here but usually included), indicates that the regression model is indeed statistically significant in explaining the variations in GDP.

Table 10
Coefficient Table when Dependent Variable is GDP

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	1.359	5.283		.257	.800
	Lending	-.021	.011	-2.464	-1.934	.072
	Deposit	.025	.007	3.150	3.720	.002
	Investment	.008	.030	.196	.262	.797
	Interest	.901	.630	.119	1.430	.173

a. Dependent Variable: GDP

Table 10 shows the coefficient estimates for a regression model where GDP is the dependent variable and the predictors are Lending, Deposit, Interest, and Investment. The constant term has a coefficient of 1.359, meaning that if all the predictors are zero, the predicted GDP is 5.283 units. Lending has a negative coefficient of -0.021, suggesting that an increase in Lending is linked to a slight decrease in GDP by about 0.021 units,

holding everything else constant. However, the p-value for Lending is 0.072, which is above the typical significance level of 0.05, indicating that this relationship might not be statistically significant and could just be due to chance. Deposit has a positive coefficient of 0.002, meaning a one-unit increase in Deposit is associated with a 0.002 unit increase in GDP, holding other variables constant. The p-value here is 0.002, which is less than 0.05, suggesting a statistically significant relationship between Deposit and GDP. Investment has a small positive coefficient of 0.008, but the p-value is 0.797, much higher than 0.05. This indicates that changes in Investment do not have a statistically significant effect on GDP in this model. The p-value for the interest rate is 0.173, which is also greater than 0.05, indicating that its relationship with GDP is not statistically significant. Overall, the model suggests that Deposit has a significant positive effect on GDP, while Lending, Investment, and Interest do not show statistically significant relationships with GDP.

4.2 Major Findings of the Study

The major findings of the study are as follows:

- Nepal made more money each year from 2009 to 2023, though sometimes the amount went up a lot and other times just a little. But overall, the money the country made went up.
- Each year, banks in Nepal gave out more loans, which means they lent more money to people and businesses.
- Banks in Nepal also started putting more of their money into different things to try to make even more money, like investing in businesses or projects.
- Sometimes, the amount of interest people had to pay on loans in Nepal changed. It went up and down because of different reasons, like when the government changed how much they wanted to control the money.
- When Nepal made more money, banks lent out more money, and people put more money into banks. This shows that how much money people have and spend is connected to how banks work.
- Putting money into banks helped Nepal make even more money. This shows that saving money is good for the country's economy.
- Even though things changed sometimes, Nepal kept making more money, which shows that the country is strong and can change when it needs to.

- Banks in Nepal play a big part in helping the country's economy grow by giving out loans and investing money in different things.
- The interest rates in Nepal went up and down because of different reasons, showing that the country's money system is always changing.
- While how much money banks give out and take in is closely linked to how much money Nepal makes, other things like investing money and interest rates don't always have a big impact on the country's money-making ability.
- Nepal's banks are strong and steady, which helps the country keep growing and getting better.
- Overall, Nepal's money situation improved over the years, showing that the country is doing well and getting smarter about handling its finances.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The banking sector, particularly commercial banks in Nepal, plays a crucial role in the country's financial system. However, it hasn't fully tapped into its potential to drive economic growth. The sector faces several challenges, such as insufficient capital and a high number of bad loans, which often lead to financial crises and even bank failures.

Our research shows that bank lending has a significant impact on Nepal's economic growth, highlighting how important lending is for the country's economy. We explored the connections between commercial bank lending and Nepal's GDP, as well as the relationships between bank lending, GDP, and bank deposits. Over time, Nepal's financial landscape has grown in terms of business activities and market size, with many financial institutions offering a wide range of services. These institutions are vital for economic development and have seen rapid growth.

However, the growth of commercial banks has mainly been in urban areas, limiting access to banking services for the broader population. Our study investigates the complex relationship between financial development and economic growth in Nepal using correlation, regression analysis, and economic theories. We used both descriptive and empirical methods, relying on statistical data and SPSS software for a detailed analysis. Our findings highlight the significant contribution of commercial banks to Nepal's economic development, reflected in key indicators like GDP, loan assets, investments, and deposit ratios.

Additionally, the number of commercial banks has reduced to 20 due to mergers and acquisitions. Our regression analysis shows a positive link between commercial bank lending and Nepal's economic growth, supported by a strong positive correlation between these factors.

5.2 Conclusion

The activities of commercial banks, including lending, deposits, interest rates, and investments, are crucial for Nepal's economic growth. These banks show strong lending

practices, especially in their loan portfolios. The data shows a positive link between Nepal's GDP and the activities of commercial banks. Specifically, commercial banks focus heavily on providing loans and advances, making this the most important part of the financial sector and a major contributor to the economy.

There is a significant positive correlation between the total lending activities of commercial banks and Nepal's GDP. This means that when commercial banks increase or decrease their lending, the GDP also tends to increase or decrease accordingly. Similarly, there are strong correlations between GDP and both investments and deposits. Using SPSS, the results clearly show that Nepal's GDP is strongly influenced by the levels of lending, deposits, interest rates, and investments in the banking sector. The correlation coefficient (r) highlights the strength of this relationship.

The relationship between lending and GDP is particularly strong, indicating a significant connection between these two variables. There is also a strong positive correlation between GDP and the investment activities of commercial banks. However, the relationship between GDP and deposits is not significant, meaning deposits do not have a direct impact on economic development.

From the analysis, it is clear that while deposits are less important in this context, lending and investment are crucial for economic outcomes. Over the research period, commercial banks have consistently increased their loans and advances. The average growth rate of total loans and advances is promising for generating earnings. This positive trend is due to the bank's strong reputation and its ability to adjust interest rates on deposits and loans according to market conditions.

5.3 Recommendations

The major implications of the study are:

- **Banking Sector Policy Implications:** The findings suggest that the lending, deposit, interest rate and investment activities of commercial banks significantly influence Nepal's economic growth. Policymakers can use this information to design and implement policies that encourage responsible lending practices and promote investments in sectors that align with the country's economic development goals.

- **Financial Sector Development:** Recognizing the positive correlation between banking activities and economic growth underscores the importance of a robust and stable financial sector. Policymakers may consider measures to enhance the strength and resilience of the banking sector, such as regulatory improvements and risk management practices.
- **Access to Financial Services:** Given that commercial banking expansion is primarily urban-centric, there is a need to address the limited accessibility of banking services to rural and underserved areas. Expanding access to financial services can contribute to a more inclusive economic growth.
- **Encouraging Investment:** The thesis highlights the role of bank investments in economic growth. Policymakers can explore ways to encourage banks to allocate resources to sectors that have the potential for higher returns and substantial economic impact.
- **Risk Management:** The presence of a positive correlation between lending and economic growth also highlights the importance of sound risk management practices in commercial banks. Effective risk assessment and mitigation measures are essential to maintain the stability of the financial system.
- **Profitability and Sustainability:** Understanding the relationship between lending, deposit growth, and profitability can help banks strategize for sustainable growth. They may consider measures to attract deposits at lower costs and maximize returns on their loan portfolios.
- **Research and Further Analysis:** The thesis underscores the importance of ongoing research and analysis in the field of finance and economics. Researchers and policymakers can delve deeper into specific aspects of banking activities and their impact on economic growth to fine-tune policies and practices.
- **Economic Planning:** Planners and policymakers can use the insights from this research to integrate the banking sector into the country's economic planning more effectively. Aligning banking activities with broader economic development goals can lead to more targeted and impactful policies.

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APPENDIX

ANNEX I

Year	GDP	Lending	Deposit	Investment	Interest Rate
2003	6.33	123	181	55	6.33
2004	7.27	138	206	58	7.27
2005	8.13	157	224	60	8.13
2006	9.04	173	165	82	9.04
2007	10.33	235	337	93	6.25
2008	12.55	313	426	108	6.25
2009	12.85	401	563	130	6.5
2010	16	463	630	134	6.5
2011	21.57	534	687	149	7.0
2012	21.7	585	867	181	7.0
2013	22.16	727	1036	209	9.83
2014	22.73	877	1203	226	8.36
2015	24.36	1068	1462	282	7.88
2016	24.52	1392	1764	358	6.54
2017	28.97	1715	2093	341	9.89
2018	33.11	2080	2471	424	10.47
2019	34.19	2482	2878	534	9.57
2020	33.43	2886	3489	656	8.50
2021	36.92	3687	4086	849	6.86
2022	40.83	4153	4442	993	9.54

(Source: Microtrends, 2023; NRB Annual Report, 2023)

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(Source: Microtrends, 2023; NRB Annual Report, 2023)

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