

**INTEREST RATE STRUCTURE AND ITS IMPACT
UPON
DEPOSIT, LENDING AND INFLATION IN NEPAL.
(SPECIAL REFERENCE TO JOINT VENTURE BANK)**

A THESIS

Submitted BY:

SAROJ THAKURI

Nepal Commerce Campus

MBS Symbol No: 1203/061

Campus Roll No 419 /059

T.U. Registration No: 34658-94

Submitted to:

Office of The Dean

Faculty of Management

Tribhuvan University

*IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE MASTER'S
DEGREE OF BUSINESS STUDIES (MBS)*

New Baneshwor, Kathmandu

April, 2009

RECOMMENDATION

This is to certify that the thesis:

Submitted by

SAROJ THAKURI

Entitled

**INTEREST RATE STRUCTURE AND ITS IMPACT
UPON
DEPOSIT, LENDING AND INFLATION IN NEPAL.
(SPECIAL REFERENCE TO JOINT VENTURE BANK)**

has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

.....
(Dr. Bihari Binod Pokharel)
Chairperson Research Department

.....
(Mr. Diwakar Pokhrel)
Campus Chief

.....
(Mr. Sanjeev Parajuli)
Thesis Supervisor

Date:

VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

SAROJ THAKURI

Entitled

**INTEREST RATE STRUCTURE AND ITS IMPACT
UPON
DEPOSIT, LENDING AND INFLATION IN NEPAL.
(SPECIAL REFERENCE TO JOINT VENTURE BANK)**

and found the thesis to be the original work of the student written accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree of Business Studies (MBS).

Viva-Voce Committee

Chairperson (Research Committee)

Member (Thesis Supervisor)

Member (External Expert)

Date:

TRIBHUVAN UNIVERSITY

Faculty of Management

Nepal Commerce Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “Interest Rate Structure and Its Impact upon Deposit, Lending and Inflation in Nepal. (Special Reference to Joint Venture Bank).” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master’s Degree of Business Studies (MBS) under the supervision of Mr. Sanjeev Parajuli, Lecturer of Nepal Commerce Campus.

.....

SAROJ THAKURI

Researcher

Nepal Commerce Campus

T.U. Registration No: 34658-94

ACKNOWLEDGEMENT

This research study “Interest Rate Structure and Its Impact upon Deposit, Lending and Inflation in Nepal (Special Reference to Joint Venture Bank)”. has been carried out in partial fulfillment of Master’s Degree of Business Studies (MBS). During the course, I worked with sincerity, honesty and diligently, as far as possible. But beside my continual efforts, I also got unforgettable support from different people and parties. I am extremely grateful and overwhelmed by their support while completing my work.

Firstly, I would like to pay reverence to family who headed me towards the light of education and path of truth. Due to their non-stopping effort for guidance, today I come in this position. So I would like to share the credit of my success with them. I’m really indebted by them.

After this, I would like to express my cordial gratitude to my all teachers, who taught me up to now. For this dissertation, I would like to pay my sincere thanks to my thesis adviser Mr. Sanjeev Parajuli, lecturer of Nepal Commerce Campus. His incessant suggestion and guidance from the beginning to the end is really an appreciable effort. The same credit also goes to Dr. Bihari Binod Pokharel, head of the Research Department, NCC. His valuable support for the preparation of proposal to thesis is really praise worthy things. I am extremely indebted by their efforts despite of their busy schedule.

I would also like to express my gratitude to all other members of Nepal Commerce campus, especially, staffs from MBS department, libraries staffs as well as all known and unknown people who supported as well as inspired me to complete this thesis. My next thanks go to all the staffs of Nepal Rastra Bank who helped me in providing sufficient materials.

Last but not least I am greatly indebted by my all friends and family members who helped me directly and indirectly by sharing ideas, giving me encouraging and suggestions in writing this thesis and making it possible.

Thanks

Saroj Thakuri
Nepal Commerce Campus

Table of Contents

Contents	Page No
Title	
Viva-Voce sheet	
Recommendation	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
CHAPTER I	
INTRODUCTION	1-20
1.1 General Background	1
1.2 Brief Introduction about Interest Rate	3
1.3 Interest Rate structure in Nepal	4
1.4 Objectives of the Study	7
1.5 Statement of the Problems	8
1.6 Significance of the Study	9
1.7 Research Hypothesis	10
1.8 Limitation of the Study	12
1.9 Briefly Introduction of Joint Venture Bank	13
1.10 Introduction of Sample Organization under Study	16
CHAPTER II	
REVIEW OF LITERATURE	21-70
2.1 Introduction	21
2.2 Theoretical Review	21
2.2.1.1 Meaning of Interest	21
2.2.1.2 Theories of Interest	22
2.2.1.3 Functions of Interest Rate in Economy	42
2.2.1.4 Change in Interest & Its Effect upon Value of Assets	43

2.2.1.5 Factors influencing the difference in Interest Rate	45
2.2.2.1 Concept of Deposit	48
2.2.2.2 Types of Deposit	49
2.2.2.3 Importance of Deposit	51
2.2.3.1 Concept of Lending	52
2.2.3.2 Factors Affecting the Volume of Lending	53
2.2.4.1 Concept of Inflation	55
2.2.4.2 Inflation and Interest Rate	56
2.2.4.3 Tools to Measure Inflation	60
2.2.5.1 Interest Rate Spread	61
2.3 Review of Unpublished Theses	61

CHAPTER III

RESEARCH METHODOLOGY	71-78
3.1 Introduction	71
3.2 Research Design	71
3.3 Population & Sample	72
3.4 Sources of Data and Collection Procedure	73
3.5 Data Processing & Presentation	73
3.6 Data Analysis Tools	73
3.6.1 Statistical Tools	74
3.6.2 Financial Tools	77

CHAPTER IV

PRESENTATION AND ANALYSIS	79-121
4.1 Introduction	79
4.2 Analysis of Deposit and Interest Rate	80
4.2.1 NABIL Bank Limited	80
4.2.2 Himalayan bank Limited	86
4.2.3 Everest Bank Limited	91
4.3 Analysis of Lending and Interest Rate	95
4.3.1 NABIL Bank Limited	95
4.3.2 Himalayan Bank Limited	99
4.3.3 Everest Bank Limited	103
4.4 Analysis of Inflation and Interest Rate	106
4.4.1 NABIL Bank Limited	106
4.4.2 Himalayan Bank Limited	109
4.4.3 Everest Bank Limited	111
4.5 Analysis the Position of Interest Rate Spread and Loan and Advance Ratios	113
4.5.1 NABIL Bank Limited	113

4.5.2 Himalayan Bank Limited	115
4.5.3 Everest Bank Limited	118
4.6 Findings of this Study	120
CHAPTER V	
SUMMARY, CONCLUSION AND RECOMMENDATIONS	122-130
5.1 Summary	122
5.2 Conclusion	124
5.3 Recommendations	128
BIBLIOGRAPHY	
APPENDIX	

List of Tables

Table No:	Name of the Tables	Page
1-1	Structure of Interest Rate (Percentage per Annum)	5
1-2	List of Licensed Joint Venture Banks	16
1-3	The Ownership of NABIL	17
1-4	The Present Capital Structure of NABIL	17
1-5	The Ownership of HBL	19
1-6	The Present Capital Structure of HBL	19
1-7	The Ownership of EBL	20
1-8	The Present Capital Structure of EBL	20
4-1	Interest Rate Structure on Deposit of NABIL as on Mid-July	81
4-2	Relationship between Interest Rate and Deposit amount of NABIL	83
4-3	Interest Rate Structure on Deposit of HBL as on Mid- July	87
4-4	Relationship between Interest Rate and Deposit amount of HBL	88
4-5	Interest Rate Structure on Deposit of EBL as on Mid- July	91
4-6	Relationship between Interest Rate and Deposit amount of EBL	92
4-7	Lending rate of NABIL on different sectors during seven FYs	96
4-8	Lending rate of HBL on different sectors during seven FYs	100
4-9	Lending rate of EBL on different sectors during seven FYs	103
4-10	Inflation Rate and Interest Rate of NABIL	106
4-11	Inflation Rate and Interest Rate of HBL	109
4-12	Inflation Rate and Interest Rate of EBL	111
4-13	Position of Interest rate spread and Loan and Advance ratio of NABIL	114
4-14	Position of Interest Rate spread and Loan and Advance ratio of HBL	116
4-15	Position of Interest Rate spread and Loan and Advance ratio of EBL	118
5-1	Unified (Integrated) results of all data analysis	124

LIST OF FIGURES

Figure No	Name of the Figure	Page
2-1	The Substitution Effect Relating Saving and Interest Rates	26
2-2	The Investment Demand Schedule	27
2-3	The Equilibrium Rate of Interest in the Classical Theory	28
2-4	The Interest Rate and Volume of Savings	30
2-5	The Supply of Loanable Funds	31
2-6	Total Supply of Loanable Funds	32
2-7	The Supply of Loanable Funds	34
2-8	Equilibrium Rate of Interest in loanable funds theory	35
2-9	The Demand for Money (M_D) as a Function of the Rate of Interest	36
2-10	Quantity of Money Demanded	36
2-11	Quantity of Money Demanded	36
2-12	Effect of an Increase in the Money Supply on the Rate of Interest	37
2-13	Effect of a Decrease in the Money Supply on the Rate of Interest	37
2-14	Money Supply and Interest Rate	38
2-15	Equilibrium Interest Rates under Rational Expectation Theory	41
2-16	Interest rate determination	44
2-17	Security price determination	44
4-1	Interest Rate of NABIL on Deposits during Different FYs	82
4-2	Deposit Amount of NABIL during different FYs	84
4-3	Interest Rates of NABIL on Saving and Fix Deposit	84
4-4	Interest Rate of HBL on Deposits during Different FYs	88
4-5	Deposit Amount of HBL during different FY	89
4-6	Interest Rates of HBL on Saving and Fix Deposit	89
4-7	Interest Rate of EBL on Deposits during Different FYs	92
4-8	Deposit Amount of EBL during different FYs	93
4-9	Interest Rates of EBL on Saving and Fix Deposit	94
4-10	Lending Amount of NABIL during Different FYs	97
4-11	Average Lending Rate of NABIL during Different FYs	98
4-12	Lending Amount of HBL during different FYs	101

4-13	Average Lending Rate of HBL during different FYs	101
4-14	Lending Amount of EBL during different FYs	104
4-15	Average Lending Rate of EBL during different FYs	105
4-16	Inflation Rate, Deposit Rate and Lending Rate of NABIL	107
4-17	Inflation Rate, Deposit Rate and Lending Rate of HBL	110
4-18	Inflation Rate, Deposit Rate and Lending rate of EBL	112
4-19	Relation between Deposit Rate and Lending Rate of NABIL	115
4-20	Deposit Amount and Loan Amount of NABIL during Different FYs	115
4-21	Relation between Deposit Rate and Lending Rate of HBL	117
4-22	Deposit Amount and Loan Amount of HBL during Different FYs	117
4-23	Relation between Deposit Rate and Lending Rate of EBL	119
4-24	Deposit Amount and Loan Amount of EBL during Different FYs	119

Abbreviation

A.D.	=	Anno Domini
ATM	=	Automated Teller Machine
B.S.	=	Bikram Sambat
Cal	=	Calculated
CPI	=	Consumer Price Index
Det	=	Determination
d.f.	=	Degree of Freedom
Dr	=	Doctor
EBL	=	Everest Bank Limited
e.t.c	=	Etcetra
e.g.	=	Example
FIFO	=	First in First Out
Fig.	=	Figure
FY	=	Fiscal Year
GDP	=	Gross Domestic Product
HBL	=	Himalayan Bank Limited
i.e.	=	That is
JVB	=	Joint Venture Bank
LIFO	=	Last in First Out
Ltd.	=	Limited
NABIL	=	Nabil Bank Limited
NGO	=	Non Government Organization
NRB	=	Nepal Rastra Bank
No.	=	Number
p.	=	Page
Pvt.	=	Private
Rs.	=	Rupees
Tab	=	Tabulated
T.U	=	Tribhuvan University.
T-Bill	=	Treasury Bills
Viz	=	Namely