

**DETERMINANTS OF LIQUIDITY IN NEPALESE
COMMERCIAL BANK**

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Certification of Authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

(.....)

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Date: December, 2018

RECOMMENDATION LETTER

It is certified that thesis entitled Determinants of Liquidity in Nepalese Commercial Banks submitted by Raju Bista an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled Determinants of Liquidity in Nepalese Commercial Banks presented by Raju Bista candidate for the degree of Master of Business Studies (MBS Semester) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABSTRACT

This study examined the determinants of liquidity in Nepalese commercial banks. In order to accomplish these objective, bank specific and macro-economic variables was taken as independent variable and bank liquidity was taken as dependent variable. Variable under bank specific includes capital adequacy, deposit, bank size and macro-economic variables include gross domestic product, and inflation rate, . Variables under bank liquidity includes liquid assets to total assets and liquid assets to deposit plus borrowing

This research has used the descriptive research design and casual correlation research design. The study is quantitative in nature. Hence, the study is based on secondary data which has been collected from the yearly statistics report published in the official website of economic survey, financial and banking statistics of NRB, principal indicators of respective banks from 2007 to 2018. The study has taken 5 commercial banks as a sample covering the period of 2007 to 2017 with 50 number of observation for all banks. The study has used descriptive analysis, correlation analysis, and regression analysis for analyzing data.

The bank specific variables and macro economic variables has used in the study for measuring liquidity in Nepalese commercial banks and result indicated that the, Bank Size Deposits, GDP, Inflation found to have significant effect on liquidity of the country. Similarly, result indicated that the capital adequacy ratio, found to have Negative effect on liquidity of the country. Variables i.e. Bank Size and Inflation have in insignificant positive impact on liquidity. Variables i.e. GDP and Deposit have significant Positive impact with liquidity from our study.

The outcome of the study can be used by commercial banks that have a sufficient capital ratio decreases liquidity position of commercial bank for Nepal. Bank should give higher Increment of the assets to expand their operation and to take advantage of economic scale for carefully monitoring loan growth. Bank authority should carefully observe the macroeconomic condition while formulating liquidity position of their respective banks

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LIST OF ABBREVIATIONS

BIS

BS

CAR

CC

CLRM

DEP

DW

FEM

GDP

INF

JB

L1

L2

LOLR

NRB

Bank for International Settlement

Bank Size

Capital Adequacy Ratio

Correlation Coefficient

Classical Linear Regression Model

Deposit

Durbin-Watson

Fixed Effect Model

Gross Domestic Product

General Inflation Rate

Jarque-Bera

Liquid Assets/ Total Assets

Liquid Assets/ Deposit and Borrowing

Lender of Last Resort

Nepal Rastra Bank