# INTEREST RATE AND ITS IMPACT ON LENDING, DEPOSIT AND INFLATION

(WITH SPECIAL REFERANCE OF RASTRIYA BANIJYA BANK, NEPAL BANK AND AGRICULTURE DEVELOPMENT BANK LTD.)

Submitted by:

Pabitra Poudyal

Shankar Dev Campus Roll No. 1476/2060 T.U. Registration No. 7-2-39-171-2000

A Thesis submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In partial Fulfillment of the requirements for the Degree of Master of Business Studies (M.B.S)

Ref		Date:
	VIVA-VOCE SHEET	
We have co	onducted the viva-voce examination of the	e thesis presented
	by: PABITRA POUDYAL	
	Entitled:	
INTEREST RAT	E AND ITS IMPACT ON I AND INFLATION	LENDING, DEPOSIT
•	EFERANCE OF RASTRIYA I	
· ·	be the original work of the student recommend the thesis to be accepted requirement for	· ·
M	laster Degree of Business Studies (N	M.B.S.)
	Viva –Voce committee	
Dr. Shilu M. Bajracharya <b>Thesis supervisor</b>	Prof. Bishweshore man Shrestha <b>Head of Research Department</b>	Pro. Dr. Kamal Deep Dhakal  Campus Chief

Ref		Date:
	RECOMMENDATION This is to certify that the thesis	N
	Submitted by: PABITRA POUDYAL	
INTEREST RAT	Entitled by: E AND ITS IMPACT ON L. AND INFLATION	ENDING, DEPOSIT
	REFERANCE OF RASTRIYA BA AGRICULTURE DEVELOPMEN	
	approved by this Department in the prescri nagement. This thesis is forwarded for exan	
Dr. Shilu M. Bajracharya	Prof. Bishweshore man Shrestha	Pro. Dr. Kamal Deep Dhakal
Thesis supervisor	Head of Research Department	Campus Chief

#### TRIBHUVAN UNIVERDITY

Faculty of Management Shanker Dev Campus

### **DECLARATION**

I hereby declare that the work reported in this thesis entitled "Interest Rate Structure and Its Relation with Deposit, Lending and Inflation in Nepal" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies under the supervision of Dr. Shilu Bajracharya, Lecturer of Shanker Dev Campus.

Date.....

Pabitra poudyal

Shanker Dec Campus, Roll No: 1476/2060

T.U. Registeration No. 7-2-39-171-2000

## Acknowledgement

Thesis is really an appreciable curriculum of T.U. because it helps the students to express their theoretical concept gained during the study period into the practical field. So, being concerned to thesis, I have also got a chance to express my theoretical concept gained from class and library study into this practical field. The present study "Interest Rates Structure and its relation with Deposits, Inflation and Lending in Nepal" has been prepared for the partial fulfillment of the requirement for Master Degree in Business Studies.

.

Firstly, I would like to express my cordial gratitude to my all teachers. For this dissertation, I would like to pay my sincere thanks to my thesis adviser – Dr. shilu Bajrcharya lecturers, Shanker Dev Campus. Their incessant suggestion and guidance from the beginning to the end is really an appreciable effort. The same credit also goes to Mr Shankar poudyal, Shanker Dev Campus. 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.

After this I would like to pay gratitude to my father, mother, my husband as well as my sisters 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.

I would also like to express my gratitude to all other members of Shanker Dev 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, for providing me sufficient materials and suggestions.

In this regard, I'm grateful to my friends Nabin Awal who helps me to make graph. At last I would like to express to pay gratitude to my father in law, mother in law and daughter who gave me time to write thesis.

Advices, Recommendations and suggestions are whole-heartedly welcome. Thanks

Pabitra Poudyal Gongabu, Kathmandu Ph:9841353249

# List of Abbreviation

A.D. = Anno Domini

ADB/N = Agriculture Development Bank/ Nepal

B.S. = Bikram Sambat

CPI = Consumer Price Index d.f. = Degree of Freedom

e.t.c = Etcetra e.g. = Example Fig. = Figure FY = Fiscal Year

HMG = His Majesty Government

i.e. = That is

LIFO = Last in First Out

Ltd. = Limited

NBL = Nepal Bank Limited

NGO = Non Government Organization

NRB = Nepal Rastra Bank

No. = Number

R = Correlation coefficient

R<sup>2</sup> = Determinants of correlation coefficient

RBB = Rastra Banijya Bank

Rs. = Rupees

s.d = Standard Deviation T.U = Tribhuvan University.

T-Bill = Treasury Bills

Viz = Namely

### TABLE OF CONTENTS

Viva-Voce sheet Recommendation Declaration Acknowledgement List of Tables List of Figures Abbreviations

CHAPTER 1: INTRODUCTION (1-9)		
1.1 General Background		
1.2 Interest Rate	2	
1.3 Interest Rate structure in Nepal	4	
1.4 Statement of the Problem	4	
1.5 Objectives of the Study	5	
1.6 Significance of the Study	6	
1.7 Limitation of the Study	7	
1.8 Plan of the Study	8	
1.9 Introduction of Sample Organization under Study	9	
CHAPTER 2: REVIEW OF LITERATURE (11-47)		
2.1 Introduction	11	
2.2 Theoretical Review	11	
2.2.1 Meaning of Interest	11	
2.2.2 Functions of Interest Rate in Economy	13	
2.2.3 Theories of Interest	13	
2.2.3.1 The Classical Theory of Interest	14	
2.2.3.2 Loanable Funds Theory of Interest	20	
2.2.3.3 Keyne's Liquidity preference Theory	27	
2.2.3.4 Rational expectation Theory of Interest	28	
2.2.4 Term Structure of Interest Rate	31	
2.2.5 Factors Affecting Interest Rates	33	
2.2.6 Inflation and Interest Rate	36	
2.2.7 Impact of Inflation on Interest Rates	39	
2.2.8 Concept of deposit	40	
2.2.9 Concept of Lending	42	
2.2.10 Interest Rates Charged by Institutional Lenders	44	
2.2.11Review of Thesis	47	
CHAPTED 2. DECEADOH METHODOLOGY (52.50)		
CHAPTER 3: RESEARCH METHODOLOGY (53-58)		
3.1 Introduction	53	
3.2 Research Design	53	
3.3 Population & Sample	53	
3.4 Source of Data and Data Collection Procedure	54	

3.5 Data Processing & Presentation		
3.6 Data Analysis Tools		
3.6.1 Arithmetic Mean		
3.6.2 Standard Deviation	55	
3.6.3 Coefficient of Correlation	55	
3.6.4 T-test for significance sample Correlation Coefficient	57	
3.6.5 Variables	57	
3.6.5.1 Depended Variables	58	
3.6.5.2 Independed Variables	58	
3.6.6 Reasearch Hypothesis	58	
CHAPTER 4: PRESENTATION AND ANALYSIS (60-94)		
4.1 Introduction	60	
4.2 Analysis of Deposit and Interest Rate	60	
4.2.1 Analysis of Deposit and Interest Rates		
4.2.1.1 Rasta Banijya Bank	61	
4.2.1.2 Nepal Bank Limited	66	
4.2.1.3 Agriculture Development Bank/ Nepal	71	
4.2.2 Analysis of Lending and Interest Rate		
4.2.2.1 Rastra Banijya Bank	76	
42.2.2 Nepal Bank Limited	80	
4.2.2.3 Agriculture Development Bank/ Nepal		
4.2.3 Analysis of Inflation and Interest Rate		
4.2.3.1 Rasta Banijya Bank		
4.2.3.2 Nepal Bank Limited	89	
4.4.3.3 Agriculture Development Bank/ Nepal	92	
4.3 Findings of this Study	94	
CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATION (99-103)		
5.1 Summary		
5.2 Conclusion		
5.3 Recommendation		
BIBLIOGRAPHY		
Annex		