

CHAPTER-ONE

INTRODUCTION

1.1 Background of the study

Every nation in the world is it developed or underdeveloped is in pursuit of attaining the goal of rapid economic development in some way or other depending upon the prevailing prospects and nature of instruments for economic growth. “The low income underdeveloped countries are not the only ones that have recently awakened to the possibility of growth and that now attach unprecedented importance to promoting it. The highest income most highly-developed countries in the world are also giving unprecedented attention to this objective.”(Chandler, 1962:1). The problem of economic growth, therefore, is not unique or typical to the underdeveloped or developed countries. However, notwithstanding the universality of the problem, there is a difference between their approaches to economic growth. The underdeveloped countries have to start from the beginning. They have to make relentless efforts to overcome their technological backwardness and strive hard to accelerate their economic development whereas the latter have basically to maintain and accelerate the progress already achieved. It would not be so irrelevant here to define the term ‘economic development’ in a sentence or two before attempting a brief description about the same in the context of developing countries with reference to Nepal. In fact, the term ‘economic development’ has become quite a controversial issue to every economy of the world these days. Any concise and authoritative definition has not yet come out from among the intelligentsia or experts of the concerned discipline.

Simon kuznets views economic growth as a sustained increase in the total net output of a nation i.e. in national income or product at constant prices; in total population and in income or product per-capita.(Simon, 1995:27). Similarly, Gerald Meir R. and Robert E. have observed: “Economic development is a process whereby an economy’s real income increases over a long period of time.”(Gerald Meir, 1995:2). Thus, from above enunciations we can derive the conclusions that economic development is a dynamic and on-going process leading to an increase in

real income which ultimately aims at improving the well-being of the people by uplifting their living standards and life style as a whole. Thus, in a layman's terminology, economic development is nothing else but the economic prosperity of a nation which may be achieved over a long period of time. It is not just a problem of increasing capital stock, improving the quality of population, supplying and accumulating resources and technical knowledge. It is more a problem of mobilizing the utilizing the available resources in the most efficient manner with the aim of realizing highest possible productivity out of them.

The difference between the incomes of developed and developing countries demonstrates a fantastic contrast, and the nations with their vulnerable economies and inherent technological backwardness occupy the major portion of the globe. The World Development Report of 1992 has revealed that in 1990 low income economies below 610 dollars per-capita were 43; middle income economies above 7620 per-capita were 24.(World Development Reports, 1992).

After suffering with economic and financial crisis in recent years, South Korea, Japan, European countries, Thailand, America, Malaysia, and Singapore etc. are recovering their economic condition gradually. Among the Nepalese neighboring countries, China and India's economic condition is growing very rapidly.

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of national output, income and employment, solving the problem of inflation and balance of payments and making the economy free from the burden of foreign debts. Domestic capital formation helps in making a country self-sustainable. According to classical economists, one of the main factors, which helped capital formation, was the accumulation of capital. Profit made by the business community constituted the major part of savings of the community and that saved was assumed to be invested. They thought capital formation indeed plays a decisive role in determining the level and growth of national income and economic development. It seems unquestionable that the insufficient capital accumulation is the most serious limiting factor in undeveloped countries. In the view of many economists, capital occupies the central and strategies position in the process of economic development in an underdeveloped economy lies in a rapid expansion of the rate of its

capital investment so that it attains a rate of growth of output which exceeds the rate of growth of population by the significant margin. Only with such a rate of capital investment will the living standard begin to improve in a developing country. In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such savings as most people have incomes so low that vertically all current income must be spent in maintaining a subsistence level of consumption (Higgins, 1968:804).

For the development of any country first, it is required to have enough capital. It is the backbone for the development of the nation. Nepal lacks the adequate capital for its development planning. Due to this reason so many development planning are in pending. If there is enough capital available, it can invert into the profitable project and contribute little bit in the National GDP. Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank for example, the bank must invest by lending the funds of various business companies. These firms in return, may invest the money in new factories and equipments to increase their production. In addition borrowing from the banks, most issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in such project, as the construction of dams, roads and schools. All such investments by individuals, business and government involves a presto sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living (The World Book Encyclopedia, 1966:232).

Nepal is one of the least developed countries in the world with only a per capita income of about \$ 240. One of the causes of pervasive poverty is the lack of economic resources for the growing population and slow rate of national economic growth. For proper and efficient utilization of resources, it needs proper plan and strategy development and for plan, huge amount of capital investment is required. About 42 percent of total population of Nepal is steeped in absolute poverty line. The lack of effective and trained human resources, lack of advanced technology and based on traditional agriculture are the main causes of poverty. Due to low per capita income, there is lack of saving and capital formation.

For the development of any country, the financial sector of the country is responsible and must be strong. The financial sector is a vast

field, which comprises of banks, co-operatives, insurance companies, financial companies, stock exchange, foreign exchanges markets, mutual funds etc. these institutions collect idle and scattered money from the general public and finally invest in different enterprises of the national economy that consequently help in reducing poverty, increase in life style of people, increase employment opportunities and thereby developing the society and the country as a whole. Thus today's concept, the financial institutions and commercial banks has become one of the bases for measuring the level of economic development of nation.

For the smooth development of a country, it is very important to have an adequate saving, which can be invested in productive sector. Due to the low income, there is fewer saving. People spend all the money in consumption of necessary item. Some also hoards it. People have no idea about the investment in productive line. Commercial banks collect the saving of people in the form of deposit collection and invest it in the productive area. They give the loan to the people. Commercial banks mobilize their deposit collected from people.

Recognizing the true fact of developing the country, Nepal cannot ignore the importance of commercial banks. Realizing it Government of Nepal has been adopting the economy liberalization policy. Due to liberalization policy made by government, the number banks have been increased and there has emerged the tough competition between them. At present, there are 26 Commercial Banks.

1.2 Banking System Development in Nepal

Certainly, no comparison can be made between ancient and modern banks, yet it is necessary to know how the present banking system gradually developed. The growth of banking in Nepal is not so long. In comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Nepal had to wait for a long time to come to this present banking system. The origin of banking in Nepal and its beginning of growth is controversial.

Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Mandev, the coin "Manank" was in use. Historical example as to the pre-modern banking system was found in 723 A.D. when Gun Kam Dev, the

king of kathmandu had borrowed money to rebuild and to rule kathmandu (NRB, Nepal Bank Patrika, 2037, No. 3:37). During the reign of Gun Kam Dev, the coin “Gunank” was in use. Historically, we find the evidence of minted coin of Amshuverma in 7th century. At the end of 8th century, Shankhadhar, a Merchant of Nepal, paid all the outstanding loans of the Nepali people and started a New Era (Nepal Sambat). Sadashiva Dev in 12th century introduced silver coins.

Jagasthiti Malla, ruler of Kathmandu, classified the people into 64 different casts on the basis of their occupation towards the end of the 14th century. At that time, king Malla has given the responsibility to a caste of society called “Tankadhari”. In the same century, copper coins were used by king Ratna Malla of Kathmandu, Silver coins by Mahendra Malla and the gold coins by the last Malla king of kathmandu Jaya prakash Malla.

After unification of Nepal, Prithvi Narayan shaha, the great king had used coin Mohar in his name. During the reign of Ranodip Singh, an office named “Tejarat” was established in kathmandu in 1933 B.S. It used to provide loans to the government officials and the people against deposit of gold and silver. After having conducted a treaty with British India in 1980 B.S., Nepal could trade over sea freely for the diversification of trade.

After the establishment of Nepal Bank Limited (NBL) on 30th kartik, 1994 B.S., midern banking system was started in Nepal. Since, Ashwin 1st 2002 B.S., the notes of 5, 10 and 100 were brought into use from Sadar Muluki Khana of Nepal Government.

The economic and industrial development was stopped in Nepal from the Second World War. After 2007 B.S., the banking activities of Nepal were not satisfactory due to political instability. At first, this bank was given the authority and responsibility of central bank, but with the change of time, it was necessary to establish a central bank. So in 2013 B.S. Nepal Rastra Bank (NRB) was established in Nepal. It issued the Nepali notes on 7th Falgun 2016 B.S. for the first time. This bank is the central bank of Nepal. NRB was established with many objectives but mainly.

1. To use of Nepalese currency (NC) in place of Indian currency (IC).
2. To increase usage of NC.
3. To stop dual monetary system.
4. To apply monetarism in all part of the nation.

5. To provide for issuance of notes.
6. To keep stability of the exchange rate of NC.
7. To encourage national industry by mobilizing the capital for development.
8. To develop banking system in Nepal.

To fulfill the necessity of the financial institutions, to achieve the fixed goal of the project, Nepal Industrial Development Corporation (NIDC), 2016 B.S. and Agriculture Development Bank (ADB/N) 2024 B.S. were established under the special consideration of central bank.

The process of the development of banking systems in Nepal was not satisfactory up to 2040 B.S. (1938). No bank was opened from during this period except ADB/N in 2024 B.S. and only extending the branches and sub branches of the banks, in this period. Nepal was observing the events that were taking places in the world also. Nepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into practice. The country cannot change its status by using only its own capital in the country without importing new technology from foreign country and accordingly, law and policy have been enacted by the state to encourage the foreign investment on banking sector. From this the real form to the development of banking system started in Nepal. The competition began to grow. The banks began to offer their valuable services to the people through new technologies. This was the great significant event. Thus, some banks are opened on the joint investment basis.

Nepal Arab Bank Limited (NABIL) is the first established in joint investment in Nepal in 2041 B.S. (1985). Nepal Indosuez Bank was the second bank established in joint investment in 2042 B.S. (1985). At present, there are altogether 26 commercial banks in operation in Nepal.

1.3 Focus of the study

This study will be focusing the problems of deposit mobilization and proper utilization of NBL. This study will be mainly consist the study of deposit and the characteristics of this bank's loan and reflects of on the position of bank's deposits and aggregate allocations of credit on different sectors of the economy. Therefore, this study deals with efficiency of NBL

and economic development of the country by its deposit and credit of NBL and how can we utilize it to fulfill the financial needs of the different sectors of the economy.

1.4 Statement of the problem

Nepal is underdevelopment country and rapid economic development is the basic need of the country. Development by its means is not possible within a short period and it takes a long time. For the proper development of a country, it has to build up infrastructure. In Nepal, the process of development started only after 1956 A.D. when the first five year plan came into practice.

Capital, in fact, plays the leading role for the economic development of a country. But in Nepal, there is shortage of capital. There are various sources of accumulating capital Internal and External. Under external sources: aid, grants and loans are the main sources. In Internal sources: accumulating capital, taxes, public enterprises, public debt are the popular in our country. But due to underdevelopment, poverty, lack of banking knowledge the desired capital for the development of the country can't be accumulated from those internal sources. So, it can be said that in Nepal's present situation, bank deposit is the dependable and permanent sources of capital accumulation.

The need of deposit mobilization for economic development of a country is no more to question. But we are facing an acute problem of resource mobilization. There are 26 commercial banks in Nepal which are very much considered to be vital financial institution to mobilize domestic resources. They have of course good performance in the course of mobilizing ideal deposits. Having a general look upon the utilization of deposit of Nepal Bank Limited with 5 years period. But viewing to our economic situation, need more improvement upward in it. Again, it can be noticed that the general trend of deposit mobilization is slightly declining which is perhaps not appealing to our development needs.

1.5 Objective of the study

The purpose of this study is to examine relationship between the amount of total deposit and amount of total landing granted by NBL. The basic objectives of this study will as follows:

- a) To examine the relationship between deposit collection and landing of NBL.
- b) To see the impact of interest rates of loan on the landing extended by NBL.
- c) To study the trend of deposit mobilization of NBL.
- d) To provide Suitable suggestions and recommendations for further improvements.

1.6 Significance of the Study

As the research done in any field, there are several key factors that cannot be avoided, in which significance of study also occurs. Mainly this study covers the deposit and credit position of NBL, so it helps to reveal ‘the financial position of the bank and study occupies an important role in the series of the studies on NBL. The significances of the study are:

1. This study is important to know how well the bank is utilizing its deposit.
2. This study is important to policy makers and academic professionals to formulate policies and plans on the basis of the performance of the bank.
3. This study is important to the bank to make policies based on recommendations suggested in the thesis.
4. It is important for the investors, customers (depositors, loan takers) and personnel of bank to take various decisions regarding deposits and loan advances.
5. This study may encourage to researcher to research further.

1.7 Limitation of the Study

This study is conducted for the partial fulfillment of Master Degree in MBS, so it posses some limitations of its own kind. The main limitations of the study are as follows:

- 1) The whole study is based of secondary data such as financial statement and financial reports.

)The study is confined of only five years periods arranging from 2002/03 to 2006/07.

)The gathered data are not tried to verify.

) Our of total 26 commercial bank in Nepal the present study deals with only Nepal Bank Limited.

)The other limitations are time constraints.

1.8 Organization of the study

The study is divided into five different chapters for proper identification:

Chapter I: It includes the introduction part. It contains Background of the Study, Development of banking system in Nepal, Statement of problem, Significance of Study, Objective of Study, Focus of the Study, Limitation of the Study and Chapter Scheme of the Study.

Chapter II: It includes the Conceptual Review and Review of Related studies. There are definition of Commercial Bank, Role of Commercial Bank in Economic Development of Nepal, Function of Commercial Bank, Objectives and Activities of NBL. It also includes Deposit and its Types, Deposit Mobilization and its need and advantages in Conceptual Review. Beside this, Review of Books, Articles, Research Papers and Previous related Thesis are studied in this chapter.

Chapter III: It contains how the study is done or the research methodologies used are described. For this purpose various financial tools and statistical tools are defined which are used for the analysis and presentation of data.

Chapter IV: It contains the presentation and analysis of data. It is the main chapter of the study. It also contains the major findings of the study.

Chapter V: It contains the summary, conclusion and recommendation of the study.

CHAPTER-TWO

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic “Deposit Mobilization of NBL”. Every study is very much based on past knowledge. The previous studies can not be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research is ensured by linking the present study with the past research studies.

Literature Review is basically a “Stock Taking” of available literature in one’s field of research. The literature survey thus provides us with the knowledge of the status of their field of research. Therefore, this chapter has its own importance in the study (Wolff and Pant, 2000:30).

2.1 Conceptual Review

It is basically concerned with the theoretical part relevant to the topic.

2.1.1 Concept of Commercial Bank

A bank is a business organization that receives and holds deposits of funds from others make loans or extents credits and transfer funds by written order of deposits (The Encyclopedia America, 1984, vol. 3:302).

A commercial bank is a dealer in money and substitutes for money and substitutions for money, such as cheque or bill of exchange. He also provides a variety of financial services (The New Encyclopedia Britanica, 1985, vol. 14:605).

The American institute of banking has laid down for functions of the commercial banks i.e. receiving and handling deposits handling payment for its clients, granting loans and investment and creating money by extension of credit (Principle of Bank Operation, USA: 609).

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Abrol &Gupta, 1971:65).

In the Nepalese context, commercial bank act, 1974 defines “A commercial bank as one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions (Commercial Bank Act, 1974).

Commercial Banks are those banks who pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing. They can not finance in fixed assets. They grant loans in the form of cash credits and overdrafts. Apart from financing they also render services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers (Vaidya, 2001:38).

A commercial bank can be defined as an institution which deals in money in words of the Crowther “Banks collect money from those who have it to spare or who are saving it out of their income and lend this money out against goods security to those who requires it (Crowther, 1985:58).

2.1.2 Role of Commercial Banks in Nepal

For all countries of the world and more so far the developing countries like Nepal, fast Economic Development is one of the most important aspects of the developmental activities. However, it is obvious that unless the development of the most important sector like agriculture, industry, trade and commerce are achieved, even development is impossible. For all the development, the regular supply of financial resources is a prerequisite. Finance is thus like fuel for providing energy to move the tempo of economic development and financial institution naturally, serve as reservoir for supplying and controlling the stream of the fuel i.e. finance, the commercial banks which are the financial institutions dealing with activities of agriculture industry, trade and commerce play the most important role for the business activities of the world. The objectives of the commercial banks are to mobilize the idle resources in productive uses collecting them from scattered and various sources. Its role in economic development is thus immense in order to

bring out greater mobility of resources to meet the ever increasing needs of financing or the various economic activities.

These institutions are now trying best to contribute more and more services and facilities for the enlistment of national economy. They have become the core of financial system by holding the deposits of millions of people, government and business units. Thus from their deposits, they make fund available through their lending and investing activities to different borrower like individuals, business firms and even to the government. They ultimately facilitate the flow of goods and services from producers to customers and to the financial activities of the government. It is quite clear that commercial banks are the most important institutions of capital formation that imply mainly saving, investment and productions which ultimately lead to the economic development of a country.

The role of commercial banking in the economy is obviously a prime prerequisite for the formulations of the bank policy as the role shapes, the nature and character of the bank. The deposit minded bankers may over stress conservation liquidity while the loan minded banker may under emphasize safety. Often Commercial Bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customers who seldom borrow money from the bank an important function may be the acceptance and safe keeping of deposits. But those customers who often take loans from the bank, the credit creation function may be the most important. The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between central bank and a commercial bank is the now-a-days the central bank does not do much banking, but the more fundamental difference in one of aim. The main objective of the commercial bank is to make profit where as the central bank thinks of the effects of its operations on the working of the economic system. The commercial bank has the shareholders and is expected to do the best it can for them but the central bank by contrast is usually owned by the government. The commercial bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confined to what is necessary for influencing the

country's financial business in the directions citrated by economic policy (Sayers, 1972:17-18).

Commercial Banks are those banks that are engaged in commercial banking transactions and exclude from this description such banks are established for achieving certain specific goals such as co-operatives, agricultural and industrial banks, much wider activities in relation to the economic development of the country have been empowered to the banks. Apart from strictly performing commercial functions, commercial banks so described in the act are empowered to perform such functions as the undertaking of agency business. In the issue of shares and debentures for public corporations guaranteeing and underwriting foreign exchange business under the restrictions imposed by foreign exchange act, rules, order and notifications; advancing loans for period not exceeding one year against the security of jewelers, gold and silver ornaments or gold and silver bullion or against the mortgage of land and buildings, for acquiring plant and machinery; and receiving deposits of government money according to the order of Government in those places where there are no branches of the NRB or NBL or where the NRB gives its consent to remit through bills of exchange and cheques in Nepal and foreign countries and so on (Pant, 1980:118).

Nepal has been facing the problem of accelerating the pace of economic development. In this respect the role of commercial bank in the country is vital. The commercial banking system in Nepal is still in its infant stage as compared to other development countries. However, their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development. Today, there are 17 commercial banks are in operation. Among these Nepal Bank Ltd is the oldest one established in 1937 A.D. These banks though not as modern as those of developed countries in their service and management's, the role they are performing for Nepal's overall economic development cannot be underestimated. They have been performing a leading role to the best of their capacity in the promotion of Agriculture, Industry, Trade and commerce etc.

Nepal being an underdeveloped country, its industries, agriculture sector, trade and commerce are still in a state of infancy. Their development greatly depends upon the effective role of commercial

banks. The insufficiency of capital for the establishment of the industries, modernization in agriculture etc. has become a serious problem for economic development in Nepal.

Presently, the contribution of commercial banks in agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where agricultural development banks and cooperative societies do not enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obviously more investment. Thus role of commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal.

The economy of our country is dominated by agricultural sector. This could be exemplified from the figures that about 76 percent of the total population is engaged in agriculture and about 40 percent of the national income comes from the agriculture. Similarly, about 51% of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture sector is most urgent and indispensable for strengthening the base of national economic structure.

Nepal being an under developed country, majority of the farmers in the villages are very poor. They do not have the sufficient capital to invest in this sector. The commercial bank has an important role to play here by helping the agriculture sector through two channels:

1. By providing fixed capital to Agricultural Development Bank by purchasing its shares of debentures
2. By giving direct credit facility to the farmers on the mortgage of their land, house, food grains and other cash crops like jute, tobacco etc.

As the agricultural development needs capital, the commercial banks are helping by providing financial help to the farmers and they are able to invest or utilize the fund in different ways that make them increase agricultural product. Thus in order to accelerate the tempo of economic development of Nepal, the government and the commercial banks should play crucial role in the agriculture sector of the economy. Thus, the sound development and wide geographical coverage of commercial banks

particularly in agriculture is a prerequisite for accelerated and sustained economic growth. In recent years even though the commercial banks have made rapid progress in mobilizing financial resources they are still insufficient in their lending policies. The lending policies of Nepalese commercial banks resemble more closely to those of the 19th century London banks than 21st century developing institutions. In a way, it would seem apparent that the accelerated private sector investment is dependent on the commercial banks giving more emphasis in medium and long term credit for equipment and constructions and more liberal policy on the requests of collateral. In these respects, in recent years the NBL has been doing some useful services with its development oriented approach but it goes without saying that there is a long way to go to this particular field.

Thus commercial banks in Nepal have been helping farmers by providing different facilities in Nepal. These helps are in the fields of cultivation, exporting rice, jute, paddy etc. and providing facilities regarding better market for their product helping to start livestock, poultry firm, rice mills, animal husbandry, bee firm etc. and also provide the guidance for them.

The role of commercial bank is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more and more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the industrial development has been achieved by Nepal. However many other financial institutions like ADB/N, NIDC have already been established for the development of agricultural and industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country, many places are very remote and sometimes it requires many weeks to approach some of the places. Due to lack of transport and communication facilities and other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial banks have their appropriate role to play here by expanding their branches in the different hilly and terrain regions availing loan to the local people. In industrial sector, commercial banks are providing the necessary financial help for the industrial establishment in the country. They provide short and

medium term loan to industries to purchase machineries, tools, raw materials etc. and to introduce new and developed techniques of production.

Without the development of foreign trade, economic development of a country will not be possible. Nepal has focused its trade with India and Tibet only few years ago. Today, Nepal's trade has extended with different countries of the world. Commercial banks has promoted the domestic and foreign trade of Nepal by spreading their branches all over the country and extending close relations with many renowned important by providing them facilities of BD, LC, OBD, TT etc.

Commercial banks are also helping for the development of transport by providing funds for transport industry. Similarly, banks are playing important role in tourism industries by helping to expand hotels facilities, dealing with foreign exchange and accepting traveler cheque from the tourists.

So, the role of commercial banks is extremely important for the development of industries, trade, commerce, agriculture etc, of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries and the mixed economic countries like Nepal as well.

2.1.3 Functions of Commercial Banks

Commercial Banks are directly related with the people. Commercial banks are an important bank. Its functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit, here commercial banks are also established to accelerate common people's economic welfare and facility, to make available loan to Agriculture, Industry and Commerce and to provide the banking services to the public and the state. Along with other functions, the main functions of commercial bank are to accept deposits from the people and to lend it to those who are in need of financial aid.

2.1.4 Objectives of NBL

The oldest bank of Nepal, Nepal Bank Limited was established on

1994 B.S. Kartik 30, Monday (November 15, 1937) NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. It is the first bank of Nepal to establish under the principle of Joint venture (Joint venture between govt. & general public).

Nepal Bank Limited seeks to provide an environment within which the bank can bring unique financial value and services to all customers. It will be a sound institution where depositors continue to have faith in the security of their funds are receive reasonable returns; borrowers are assured of appropriate credit facilities at reasonable prices; other service-seekers receive prompt and attentive service at reasonable cost; employees are paid adequate compensation with professional career growth opportunities and stockholders receive satisfactory return for their investment.

Objectives:

Nepal Bank Limited has the following objectives

- J Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- J Provide competitive and customer oriented banking services to all customers through competent and professional staff.
- J Reclaim leadership within the national financial community.

2.1.5 Resources of Nepalese Commercial Banks

Commercial Banks have mainly three sources for their advancing. They are follows:

- i. Capital: So far as the capital fund its concerned, it is only a nominal source. Therefore it can not be used for investment purposes. This capital fund consists of two elements: Paid up capital and General reserve.
- ii. Deposit: Deposits are the main resources of commercial banks for advancing loans. Deposits are received from different forms and accounts. There are mainly three types of deposits: Current, Saving and Fixed. In a developing country like Nepal, where the majority of the people are still poor, saving

deposits have played a significant role for the development of the country. Therefore, the main source of raising capital is that of deposit. Ronald (1962) rightly says “The deposits function of the banker is important because it has to aggregate small sums of money lying scattered here and there twenties, fifties and hundreds. Singly these sums have no economic efficiency what so ever but they can accomplish Herculean tasks when they are aggregate and employed by the banker” (p. 20).

- iii. Internal and external borrowing: Internal and external borrowing are very important for a developing country like Nepal being an underdeveloped country; commercial banks alone can not fulfill the necessities of the society. Therefore commercial banks are allowed to borrow from both two sources External and Internal. Generally External borrowing means the borrowing from foreign bank, foreign government; International Bank for Reconstruction and Development (IBRD), International Monetary Fund (IMF) etc. Internally, commercial banks can borrow from only one source that is from NRB.

2.1.6 Deposit

It is important that the commercial bank’s deposit policy is the most essential policy for its existence. The growth of bank depends primarily upon the growth of its deposits. The volume of funds that management will use for creating income through, loans and investment is determined largely by the bank’s policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposit creating powers of commercial banks forces to raise the assets along with the liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industry. Thus, banks have evolved from relatively passive acceptors of deposits to active bidders for funds. Deposits are one of the aspects of the bank liabilities that management has been influencing through deliberate action (Vaikya, 1999:68).

Bank deposits arise in two ways: The first when the banker receives cash and credits a customer’s account, it is known as a primary or a simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance loans, discount bills,

provide overdraft facilities; make investments through bonds and securities. This is called derived deposits of derivative deposits. They add to the supply of money. Banks actively create such deposits (The Encyclopedia Britanica, 1981:700).

2.1.6.1 Types of Deposits

At the outset it is necessary to know what a deposit is. Commercial Bank Act 231, defines deposits as the amounts deposited in current, saving and fixed accounts of a bank or financial institution. People in general, the businessmen; the industrialists and other individuals deposit money in a bank. Actually, such amount is the main source of capital for the commercial bank. Bank, flows such amount as loan and invest in different sectors to earn profit. Usually, a bank accepts three types of deposits. They are current, saving and fixed deposits. But in other countries we find more than three deposits. In Nepal, Banks grant permission to their customers to open three types of accounts under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of bank are classified on the following basis.

- i. Demand Deposit
- ii. Saving Deposit
- iii. Fixed Deposit

i. Demand Deposit

The deposit in which is immediately paid at the time of any account holder's demand is called demand deposit. In another words, we can say this type of demand deposit as current account. Current account means an account of amounts deposited in a bank, which may be drawn at any time on demand. Its transaction is continual and such deposit can't be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account. From such deposit, the merchants and traders are benefited more than the individual. The bank should pay as many times as the cheque is sent until there is deposit in his account. The bank can't impose any condition and restrictions in demand deposit. An institution or an individual, who

usually needs money daily, proceeds their acts and transaction through such deposit. The current account is very important for the customers of bank.

In any institution, which carries out cash transaction, there is possibility of corruption; misuses and fraud. There should be a provision of separate employees for the recovery of the cash and for the payment of the cash. The current account is necessary to collect and buy the bills, to use the facility of over-draft, letter of credit, remittance etc. Current deposit on the one hand, saves time and labour and on other hand, the bank keeps the accurate account of the account holders, so it is a great facility for the customers. Therefore, it has a great importance.

ii. Saving Deposit

The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the commercial bank act 2031, saving accounts means an account of amounts deposited in a bank for savings purposes. This account is suitable and appropriate for the people of middle class, farmers and the labours who have low income, officials and small businessmen. This saving deposit bears the features of both of the current and fixed period deposits. Generally, most accounts are opened saving deposit in a bank.

Therefore, this deposit is popular in people in general. According to internal rules or banks some banks demand a small amount and some banks demand a great deal of money to open saving account. But there is no harmony in the rules to withdraw the money of the saving account. Different banks have made different rules. Some banks have three lakh, some have five lakh and some have not fixed the limitation. So, there is divergence as to how much amount of money can be withdrawn. Banks give some interest on it.

iii. Fixed Deposit

Under the Commercial Bank Act 2031: Fixed Account means an account of amounts deposited in a bank for certain period of time. The customers opening such account deposit their money in this account, for

fixed period. In another words, it is called time deposit because this amount is deposited for a certain period.

Usually, only the person or institution who wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 years, 4 years, 5 years etc. More interest rate is payable in this deposit than other deposits. Both parties the bank and the customer can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer too can be made his financial transaction stronger by getting more interest from this deposit. The amount collected in the saving deposit must be returned to the customer after date is expires. The amount can't be withdrawn before the fixed time (Bhandari, 2003:76).

2.1.7 Credit Creation by commercial Banks

The creation of credits or deposits is one of the most important functions of commercial banks. Bankers are dealers of money who deal others people's money. Banks generate profits by accepting cash through demand deposits and advance loan on credit to customers. When a bank advances a loan, it does not pay the amount in cash. But it opens a current account in his name and allows him to withdraw the required sum by cheques. But very often, the customer retains certain amount with the bank in a deposit. In this way, the bank creates credit or deposits. The process is explained below how the credit is created by the help of deposits.

In the modern banking industry, actual cash withdrawals from the deposit are very negligible. The bank usually synchronizes the withdrawals and deposits from their past experience. Thus a bank lends a large part of the money it receives in deposits. If the bank has more primary deposit, he can lend more keeping small cash in reserve for day to day transactions. The bank knows that the customer will withdraw money by cheques which will be deposited by his creditors in the same bank or some other bank where they have their accounts. Such cheques which are deposited in other banks are settled through clearing house. The same procedure is follows in other banks and is settled through clearing house. The same procedure is follows in other banks. In this way, the bank is able to create credit or deposits by keeping small cash in reserves and lending the remaining amount. Therefore, the loans make an

increase in the total amount of deposits. These deposits are called derived deposits.

On the other hand, when a bank advances money by discounting a bill of exchange, the proceeds of the bill are credited to the customer's account. The deposits of the customers will then increase. More deposits can make more lending by banks. This is also one of the ways of creating credit.

We know that the bank provides overdraft facility to a customer on the basis of some security. The bank enters the amount of the overdraft in the existing account of the customer and the customer is allowed to overdraw his account up to the fixed limit subject to the condition that the amount overdrawn from time to time is more than fully covered by the market value of the securities lodged with the bank. The amount may be used to buy goods and services. He can make payment by issuing cheques in settlement of his transactions. This process gives the bank an additional supply of money which did not exist before.

A bank also creates a deposit by making investments by buying government bonds and securities. The bank pays for the bond through a cheque on itself to the central bank. If it buys such security from others, it creates the amount in the account of the seller, provided he is the bank's customer. Otherwise it pays by cheque which is deposited in some other bank. In all such cases, liabilities and assets in the banking system on the whole are increased. Thus loans by banks create deposits or credit is created by banks (Vaidya, 2001:42-44).

2.1.8 Deposit Mobilization

Collecting scattered small amount of capital through different medias and investing the deposited fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. In other words, investing the collecting fund in the productive sectors and increasing the income of the depositors, it also supports to increase the saving through the investment of increased extra amount (NRB, Bankers prakashan, 1984, No. 24:12).

When we discuss about deposit mobilization, we are concerned with increasing the income of the low income group of people and to make

them able to save more and to invest again the collected amount in the development activities (NRB, Bankers Prakashan, 1984, No. 24:10).

The main objective of Deposit Mobilization is to convert idle saving into active saving (NRB, Bankers Prakashan, 2037, No. 4:7).

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, $\text{saving} = \text{Total Income} - \text{Total Expenditure}$. Basically saving can be divided into two parts: Voluntary saving and compulsory savings. Amount deposited in different accounts of commercial bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving and current.

In developing countries there is always shortage of the capital for the developmental activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time, private people also can not undertake large business because the per capita income of the people is very low while their propensity to consume is very high. Due to low income their saving is very low and capital formation is also very low so their saving is not sufficient for carrying on development works.

To achieve the higher rate of growth and per capita income, economic development should be accelerated. "Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital (Johnson, 1965:11)." But how capital can be accumulation in the developing countries, there are two ways of capita accumulation in the developing country one from the external sources and other from the internal sources. In the first group Foreign Aid, Loans and Grants are the main. While in the later financial institutions operating within the country play a dominant role. In the context on Nepal, commercial banks are the main financial institutions which can play very important role in the resource mobilization for the economic development in the country. Trade, Industry, agriculture and commerce should be developed for the economic development.

Economic development so defined is necessary and sufficient to generate rates up savings and investment. The generation of high rates of saving and thereby investment is possible only through the commercial

banks. Commercial bank occupies greater role in economic development by generating the savings towards the desired sectors from one place to another, communicating with its branches and agencies in different parts of the country and the world and advising to the commercial people.

Increasing the income of the low income group of people and making them able to save more deposit mobilization helps to invest the collected deposit in desired sectors (NRB, Banker's Prakashan, 1984, No. 24:25).

The savings growth rate depends, among others, on the level of country's per Capita income and its growth rate, population growth rate, interest rate on savings or on bank accounts, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess of income over consumption. Investment is the expenditure made for the formulation of the fixed capital. Mobilization of saving implies transfer of resources from surplus spending units to deficit units. In these connections, financial intermediaries play an important role in mobilization of voluntary saving. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for investment. They prefer to spend savings on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobilized internally, saving from abroad can also finance the investment needed at home. When capital is not mobile internally, saving from abroad will limit investment at home.

Insurance of bank deposits, creation of proper atmosphere can increase deposits and the development of security of capital markets with the help of banks will prove effective in mobilizing the available floating resources in the country (Ghosal & Sharma, 1965:92).

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sector to increase employment and National productivity. Deposit mobilization is the most dependable and important source of capital formation (RBB, 2055, No. 4:14).

Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period according to banking rules and regulations. This definition clearly states that Deposit Mobilization is the starting point of banking transactions. Banking activities can be increased as much as we can mobilize the accumulated deposit effectively (NRB, Nepal Bank, Patrika, 2037, No. 4:7).

Deposits, such as current, saving and fixed deposits are the main part of the working capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort to every possible means laying at their disposal (NRB, Nepal Bank, Patrika, 2040, No. 13:2).

A commercial bank changes the scattered unproductive small savings into loan able and active savings. The bank not only collects saving, but also it provides incentives to the savers and help them to be able to save more (RBB, Upahar, 2054, No. 3:15).

Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more and more deposit. In these context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, Upahar, 2054, No. 3:20).

2.1.8.1 Need for Deposit Mobilization

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report “Deposit Mobilization why and how” (NRB, Banker’s Prakashan, 1984, No. 24), Group “A” states the following points as the need for deposit mobilization:

1. Capital is needed for development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.
2. It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country’s, we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.

3. The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can flow forwards buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

4. Commercial banks are playing a vital role for National development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productively, but it helps, to some extent, to mobilize bank deposit.

5. To increase saving is to mobilize deposit. It is because if the production of agricultural and industrial products increases, it gives additional income, which helps to save more, and ultimately it plays a good role in deposit mobilization (P.10).

Deposit mobilization plays a vital role for the economic development of an underdeveloped and developing country, rather than developed one. It is because, a developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sectors. But, in an Under Developed Country (UDC) and developing country, Deposit Mobilization plays a great role in such countries. Low National Income, Low per capita income, lack of technical know how, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical condition etc, are the main problems of Economic Development of an UDC like Nepal. So far the developments of these sectors concerned, there is needs of more capital. Again, instead of the development of a particular sector, the development of every sector should go side by side. So, the development process of these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an UDC. We can take this in our country's present context (NRB, Banker's Prakashan, 1984, No. 24:12).

2.1.8.2 Advantages of Deposit Mobilization

In that report, Group "B" states following points as the advantages of Deposit Mobilization:

- a) Circulation of idle money: Deposit mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into

active saving. Deposit mobilization helps the depositor's habit of saving on one side, and it also help to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development and also increases in investor income.

- b) To support fiscal and monetary policy: Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by Deposit Mobilization. Deposit Mobilization helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation and helps central banks objective of monetary policy.
- c) To Promote Cottage Industries: Deposit Mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also support in the development of the locality as a whole increasing employment and income of the local people.
- d) Capital formation: Capital plays a vital role for the development of industries. But in an underdeveloped country, there is always lack of capital to support such industries. Capital formation and industrialization is possible through deposit mobilization.
- e) Development of banking habit: One important side of economic development of a country is to increase banking habit in the people. Deposit mobilization helps in these aspects. If there is proper deposit mobilization, people believe on the bank and banking habit develops on the people.
- e) To check up miss utilization of money: Mostly our customs and habits are supported by social and religious believes. There is also tendency of copying other and to show their superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check up miss utilization of money.
- f) To support government development projects: Every underdeveloped country's government needs a huge amount of money for development

projects. The deposit collected by the commercial banks can fulfill to some extent the need of money to the government.

- g) Co-ordination between different sectors: Deposit mobilization helps to collect capital from surplus and capital hoarding sectors. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit and the needy sectors by receiving loans and advances benefits the surplus and hoarding sectors, thus Deposit Mobilization helps to keep good co-ordination between different sectors.
- h) Others: Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers, increases investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. (pp. 12-14).

On this same report, Group “C” views that:

Capital is needed for the economic development of a country. External sources are not dependable sources of capital. So, mobilization of internal resources has a great significance. This is the only way of receiving capital continuously for a long time.

Group “C” further states that there are various institutions mobilize internal resources. These are commercial banks, insurance companies, post offices etc. Among them, commercial banks are the effective and dependable sources of mobilizing internal resources. This is due to the fact that commercial bank’s branches are scattered all over the country. Deposit Mobilization not only helps in country’s economic development, it is also helpful to the depositor himself. The interest earned in the amount helps to raise the standard of living on one side and on the other; the depositor had right to draw the deposited amount at the time need (P. 17).

So, commercial banks play an important role for the economic development not only in developed country, but also in a developing country.

Actually, commercial banks perform a number of interrelated functions, all of which are vital and form apart of balanced view of

banking policy. Commercial banks bring into the most important ingredient of the money supply demand deposits through the creation of credit in the form of loans and investments. Banks are the custodians of the community's money as well as the suppliers of its liquidity. For this the depository function may be the most important. Commercial banks participate with other institutions in the progress of accumulating and inventing real savings and perform a number of other incidental functions.

As creators and custodians of the money supply the concern of commercial banks with the liquidity of the economy is of course fundamental. The depository functions of the commercial banking system are to look at the purposes for convenience or for safety. These are partial truths, which shed but little light on the functional role of banks as depositories.

Demand deposit in commercial banks constitutes the major portion of the money supply. A primary function of money is its use as a means of a payment. Demand deposits also frequently consist of funds kept with a bank to support credit requirements or to compensate the bank for wide variety of banking services. Finally funds may be deposited in commercial banks for true saving purposes. Individuals generally accumulate such funds over relatively long period of time for non-specific purposes such as the proverbial "rainy day" retirement of unknown personal emergencies. These funds have greater stability than investment funds and latter in turn are less volatile than working balances. True savings are more likely to be deposited in banks for the sake of convenience than for the sake of interest return and therefore less sensitive to interest rate differentials between different savings media and saving institutions. So saving deposits are likely to represent as admixture of these savings and of the investment funds of liquidity reserves of individuals.

Because commercial banks are the primary sources of commercial and industrial loans, and because they have little competition for the deposits that represent purely working balances. This is the bread and butter business of the commercial banking system.

All too often one hears the public relations officer of a bank make the statement that "All we have to sell is service". Actually what bank have to sell is credit, which is another name for liquidity or purchasing power

service is not a product but price, the cost of a bank deposits which are in turn, the raw material of its credit creating business where services are truly sold, they are an adjunct to the true banking function (Bhandari, 2003:91-93).

Commercial banks are very important agency for collecting the savings of the people and these have been a sizable increase in the aggregate deposit liabilities.

Economic progress is the function among other things of the rate of new capital formation. Capital formation is a long process. It involves putting to production use that part of the current incomes which is not used for current consumption. The process of capital formation may be divided into three stages. Firstly the creation of savings by individuals, business houses or public authorities, Secondly mobilization and canalization of saving, i.e. conversion of savings into funds which are available for investment in Agriculture, Industry and Trade, finally, reacquisition of capital goods out of such funds. The essence of the process is the diversion of part of society's current available resources for the purpose of increasing the stock of capital goods so as to make possible an expansion of consumable output in the future. Therefore, the drive for capital formation requires actions to increase, mobilize and appropriately channel the domestic resources available for economic development. It is a complex problem with wide dimensions, but the present survey is confined to banking sector alone, with is perhaps the most important agency for this purpose (Ghosal and sharma, 1965:63).

From the resource mobilization by commercial banks not only it utilizes the resources but to some extent it solves the problem of unemployment in the country. It helps to utilize the capital in best possibility. The concept of capital includes not merely material capital of wealth but human capital in the form of trained and skilled workers, managers and professional people (Johnson, 1965:11). Hence commercial banks are the institutions which help to utilize national resources i.e. financial resources, human resources, and natural resources in the best possible manner by encouraging and initiating these resources to be utilized.

Banking has acquired a new significance and the banking activities a new dimension. Social responsibilities have been enjoyed by the banks

by bringing about economic development in the country in big way. They are assigned priority sectors of the economy for special attention in extending credit. All the activities of the banks now are geared to accelerate the growth of economy at all levels to iron out the regional imbalances. It is also hoped now that the banks can do a lot in solving the unemployment problem in the country which has assumed large dimension.

Thus commercial banks provide opportunities for gainful employment to citizen who has limited economic capacity. Therefore, on one hand it solves the problem of unemployment on the country and on the other hand it utilizes the fund in the best possible manner for the economic development.

2.2 Review of Related studies

This part consists of a review of past studies conducted by other researchers which are relevant to the topic.

2.2.1 Review of Books

When funds are plentiful, market rate generally tend to decline, banks seek loan aggressively and therefore lower their rates induce marginal borrower to come into the market. When funds are scarce banks raise their rates and some potential borrowers may defer the use of credit or seek it elsewhere (Crosse, 1963:63).

Shrestha (2058 B.S.) has expressed her view on investment. The writer stresses on the fulfillment of credit needs of various sectors which insures investment. The investment lending policy of commercial bank is based on the profit maximization as well as the economic enhancement of the country (pp. 31-32).

2.2.2 Review of Articles

Bajracharya (2047 B.S.) through his article “Monetary Policy and Deposit mobilization in Nepal” has concluded that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purposes commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private

sector so for providing credit to the investor's in different aspects of the economy (pp. 93-97).

Fry (1974) in the article, "Resource Mobilization and Financial Development in Nepal" says that the interest rate fixing authorities causes adverse effect on income distribution. Interest rate affects the savings and its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people and Nepalese undeveloped money and capital market, interest rate can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money and it allows people to invest into best opportunities (Fry, 1974:15).

Joshi (1984) the chief officer of NRB in the topic "Rural saving Mobilization in Nepal" states that: The ability to save and the incentive to save are the two major determinants of savings. The incentives to save as reflected in Nepal Rastra Bank real interest rate policy can be stretched for with profit. It is highly probable that further increase in the growth rate of financial savings can materialize if a flexible policy is pursued to keep real interest rate at a positive level. But eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capita GDP over the past decade. For a sustained growth of deposits or of overall saving rate what is needed more is to increase the income level of the people in order therefore to make saving mobilization strategy effective and successful policy measures should be taken considering two aspects of the strategy. In short run, policy should focus on the appropriate steps to tap savings within the existing banking framework while the long run measures should be adopted with a view to raising the investment rate and making it more productive.

The researcher suggests the following points to increase deposits and to extend volume of credit:

- a. Effective publicity and attractive prizes.
- b. Branch expansion policy.
- c. To extend the household saving account.
- d. Revision in interest rate policy.
- e. Credit planning.
- f. Win the confidence of local people.

- g. To invest in priority sector (Joshi, 1984:65-66).

Pradhan, (2053 B.S.), in his article “Deposit Mobilization, its problem and Prospects” has presented that deposit is the life-blood of every financial institutions, like commercial bank, finance company, co-operative or non-government organization. Her further adds in consideration of most of banks and finance companies, the latest figure does produce a strong feeling that serious review must be made of problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily on the business deposit and credit disbursement.

The writer has highlighted following problems of Deposit Mobilization in Nepalese context:

- Most of the Nepalese do not go for saving in institutional manner, due to the lack of good knowledge. However, they are very much used of saving be it in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system and availability of deposing facilities and so on.
- Unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking system people prefers holding and cash in the personal possession.
- No more mobilization and improvement of the employment of deposits and loan sectors.

The writer has also recommended for the prosperity of deposit mobilization which are as follows:

- By providing sufficient institutional services in the rural areas.
- By cultivating the habit of using rural banking unit.
- By adding service hour system to bank.
- Nepal Rastra Bank could also organize training program to develop skilled manpower.
- By spreading co-operative to the rural areas of development mini branch services (pp. 9-10).

Kafle (2053 B.S., P. 13), in her article entitled “NRB and its policies for monetary control” opines that liberalization, the effect on deposit seems to be positive in the latter period as it increased from 17.74 to 21.62 percent of nominal GDP, and there was a positive effect on savings mobilization, however, in the case of loan and advances, commercial banks were found to be underlet because the percentage of loans and advances to nominal GDP was only 10.6 and 11.9 percent in the two period respectively.

Sharma (2000) on the entitled, “Banking the future on competition” found that all the commercial banks are establishing and operation in urban areas, his achievements are:

- a) Commercial banking are charging higher rate of interest on lending.
- b) Commercial banks are establishing and providing their services in urban areas only. They do not have interested to establish in rural areas. Only the RBB and NBL have branches in rural areas.
- c) They do not properly analyze the credit system. The researcher further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible (Sharma, 2000:13).

Kafle (1990, p. 15) in the topic, “Monetary and financial reports in Nepal” states that consolidation and liberalization of interest rate reform measure are initiated with a view to provide more option to commercial banks in the mobilization of savings and portfolio management through market determined interest and lending rates.

Willamson (1998) in the topics, “Personal saving in developing nations” found that savings and investment decisions are highly interdependent in Asian sector interest rate mostly household people to save money for short period. Its influence is less in the long run saving decision (p.25).

Morris (1980) in his discussion paper “Latin America’s Banking System in the 1980’s” has concluded that most of banks concentrated on compliance with central bank rules on resource requirement, credit

allocation and interest rates. While analyzing loan portfolio quality operating efficiency and soundness of bank investment management has largely been overlooked, the huge losses now find in the bank's portfolio in many developing countries and testimony to the poor quality of this ever sight investment function.

The writer adds that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of lending, loan mismatching. This has led many banks of developing countries to the failure in 1980's (Morris, 1980:81).

2.2.3 Review of Previous Thesis

Phuyal (2053 B.S.), on his thesis entitled "A study on the deposits and loans and advances of NBL" has tried to examine relationship between deposits and interest rates and to find out the causes of decrease in the loans and advances of the bank. Data is used for five years from the year 2028 B.S. to 2033 B.S. only secondary data are used. Coefficient of correlation has been applied in order to calculate the loans and advances and deposits.

In the thesis, the writer has found that to increase the loan and advances, the bank should not only consider the security of its borrowers. When bank provides loan without security then the person can utilize in one sense and borrowing is benefited in other way. Bank also should invest its resources to the technicians to import their technical tools. Loan and advances has been decreased due to high rate of interest. So, Interest rate must be decreased to increase investment of the bank.

The study conducted by Karmacharya (1978) entitled, "A study on the deposit mobilization of NBL" has tried to examine the role of NBL in the deposits accumulation and to see how far the bank is able to utilize the collected deposits. This study covers 8 years data from the year 1970 to 1977 and based on secondary data. Correlation, percentage and ratio analytical tools of statistics are used for the analysis and interpretation of data.

The writer found that the deposit credit ratio is only 52% on average which shows unutilized resources are increasing. The security

marketing corporation which is recent established can play an active role for utilization of unutilized resources. The writer further found that NBL should not only concentrate in the extension of short term credit only. Bank should increase the level on priority sector and extent its branches to meet growing needs of the country.

This study conducted by Pant (1979) entitled, “A study of deposit collection and utilization of commercial banks in Nepal” with the main objectives:

- 1) To find out whether commercial banks have been able to collect deposit from different sectors.
- 2) ii. To find out whether banks are to satisfy financial need of economy.
- 3) To find out relationship between deposits and loans.

For the purposes of study, activities of NBL and RBB are taken together the period of 14 years (i.e. from 1965 to 1978). Only secondary data is used in this study to gather the required information regarding existing position of commercial banks.

The writer found that deposits are collected much from individuals and deposits from organization is very low, similarly more loans are granted to the commercial sector and little amount to the agriculture and industrial by commercial banks. They can not utilize the deposit properly. The writer further found, there is positive relationship between deposits and loans.

The writer recommended that commercial banks should not limit their lending activities in only business sector. It should be distributed in different sectors. Commercial banks also offer long term loans not only short term period. At last, writer suggested that the fully interest rates should be changed by making its more suitable to expand the services of commercial banks in all sectors.

A study conducted by Pradhan (2037 B.S.) entitled; “A study on investment policy of NBL” has tried to find out to what extent NBL has been able to utilize mobilized deposits. This study is concerned only from 2029 B.S. to 2034 B.S. and mainly based on secondary data. Various statistical tools: coefficient of correlation for testing the relationship

between the deposits and loan and advances, ratio analysis to compare different factor like loan and advances and deposit, bank's liquidity position, profitability condition etc.

The writer found that there is a greater relationship between deposits and loan and advances. Increase in deposits leads to increase in the loan and advances but when immense increase in the deposit leads to little bit increase in loan and advances. The writer also found that it could invest only 2.98% on the priority sector in 2034 B.S. Bank could not mobilize its recourses. In the thesis, the writer recommended that the bank should invest more on agriculture sector and further says the bank should make clear cut policy to provide the loan. The bank should invest on risky sector to earn more profit and increase the rate of interest in deposit side and decrease in loan and advances.

This thesis conducted by Shrestha (2042 B.S.) on the topics, "A study on deposit mobilization and utilization of commercial banks with reference to NBL" with the objectives are:

- a) To sketch the deposit mobilization of NBL.
- b) To analyze the impact of interest rate in deposit mobilization.
- c) To analyze the impact of branch expansion on the deposit mobilization.

This study covers ten years data from the year 2031 B.S. to 2040 B.S. It is limited to deposits and loans and advances only. The study is primary based on secondary data. In this study, statistical tools like percentage changes, correlation test is done and to test its significance analysis, probable error test is carried out.

On the thesis, the writer found the NBL has been much sufficient in the collection of resources from the people in both urban and rural areas of the country but in the process of utilization, the bank is still behind. The interest rate has played important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be change according to the need of nation. It is also suggested that to expand availability of banking services, branch expansion policy should be continued to mobilize resources as well as accelerate lending to productive sector.

This thesis conducted by Neupane (1986) entitled, “Deposit mobilization of commercial banks in Nepal, comparative study of RBB and NBL Kritipur Branch” with the objectives of:

- a) To examine whether RBB, Kritipur Branch is successful to complete with NBL, Kritipur branch in relation to deposit and loan advanced.
- b) To examine how for RBB, Kritipur Branch is successful to provide door to door services to its customers in the collection of more deposits.
- c) To examine how far the deposits of RBB, Kritipur Branch have been efficiently mobilized.

This study covers deposit and credit during the year from mid-July 1976 to mid-July 1985 of RBB and NBL Kritipur Branch. The study is based on both primary and secondary data. Karl’s Pearson’s formula of coefficient correlation has been used to compare various variables.

In this research, the writer has found that a comparative study of deposit between the two bank branches shows a good position of NBL branch’s deposit comparison to RBB branch as well as credit position. The writer has also mentioned that the activities of the branch for mobilizing deposits seem to be idle. The branch has taken no steps for collecting more deposits or advancing more loans except the customers themselves knock the door of the branch. Lastly the researcher found that the RBB Kritipur branch is not successful to collect maximum deposit from the area it covers.

So the researcher has recommended that local staff can play an active role in deposit mobilization. so, at least 4 local staffs are suggested to appoint in the RBB branch out of 8 staff in deposit counter. He has further suggested that there should be a certain budget to the branch for advertisement about its activities and interest must be revised.

Shrestha (1987) conducted on the thesis; “A comparative study on resource mobilization of NBL and RBB” has tried to see the branch expansion of the banks as sector wise and to examine which bank is mobilizing its deposit properly. This study covers the data from the year 1982 to 1986 and basically based on secondary data.

The writer found that Branch expansion of RBB is more than NBL but branch expansion activity of NBL is more than RBB in rural areas whereas in the urban areas as vice versa and the mobilization of total deposits of both banks are in increasing trend but RBB is rather efficient in mobilizing the saving deposit and time deposit than NBL.

Karki (2001), in the thesis entitled, “An analysis of Deposit Mobilization of RBB, Lahan Branch” has tried to see ‘the impact of interest rate on deposit mobilization also to know the efficient utilization of the accumulate deposits. This study is mainly concern with the RBB Lahan branch. The data presentation analysis of deposits and loan advances is limited to the period of ten years from the year Mid-July 1990 to Mid-July 1999. Most of data are study, the researcher has found the RBB Lahan branch is less successful to collect maximum deposit and also the deposits cannot efficiently utilized and there is negative correlation exists between interest rates and total credits.

For so, the researcher has recommended that bank should extend long term credit, the bank should not very much conscious about its security. The person, who has skill but not security, does not get loan from the bank. The bank decreased the interest in credit side, staffs should be trained. Finally the researcher has suggested that there should be frequently communication between staffs and key customers, particularly businessman.

Agrawal (2002), in the thesis entitled, “A study on Deposit and Investment Position of Yeti Finance Company Ltd” has tried to examine the trend the deposit position and investment position of the Yeti finance company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of five years (i.e. FY 1996/97 to 2000/001). The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility which is not a fair strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this

sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

The minimum amount to open accounts and interest rate on credit should be reduced which ultimately intensify the profit and goodwill of the company in future. But in his research there is not clearly mentioned the effect to interest in deposit collection as well as in investment.

Tandukar (2003) in the thesis entitled “Role of NRB in deposit mobilization of commercial bank” has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trends of deposits mobilization towards total investment and loan and advances. Projection is for five years (i.e. 1998 to 2002). The data used in that study both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 17 commercial banks as population and two banks i.e. Nepal Bangladesh Bank Limited (NBBL) and Everest Bank Limited (EBL) as sample banks. The researcher has found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher than EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

In the study, only concentrate on two banks. The researcher has recommended to NBBL that diversification of loan and investment is highly suggested to the bank. As NBBL has given priority in investment in treasury bills which is risk free but it yields very low return to the bank and recommended to EBL to collect the deposit by initiating various new programs to attract the customer for this it can pay a higher interest rate than other banks recently providing.

Roy (2003) on his thesis entitled “An investment analysis of Rastriya Banijya Bank” has tried to analyze relationship of loan and advance, and total investment with total deposit and to compare it with that of NBL and to compare loan and advance, total investment, total deposit and net profit of RBB and compare it with of NBL. That study was based on secondary data covering five years period from FY 1992/93 to 1996/97.

The researcher used most of financial tools and coefficient of correlation, multiple regression analysis, least square, standard deviation and coefficient of variation (C.V.) as statistical tools.

The researcher has found that RBB has good deposit collection, loan and advances and small investment in government securities. It also found that profitability position of RBB is the worth. RBB needs immediate step to increase its profitability. It also further found that RBB has more low quality of loan and advances.

The researcher has recommended that RBB should enhance its investment in securities. Small amount investment in securities of good company brings better income that large amount investment in securities of worse companies. So RBB needs to conduct proper pre-analysis before such investment. It also recommended that RBB should decrease loan loss by decreasing its poor quality of loan and advance. It needs to revise credit collection policy. He further suggested that RBB should decreases interest expenses and unnecessary fixed assets expenses and administration expenses should be controlled. Moreover RBB should enhance its off-balance sheet operation, remittance in other to increase its earnings.

The forgoing review of literature suggests that Deposit Mobilization analysis vital role in economic development of country. Deposit Mobilization can be best examined using the factors, such as interest rate, loan and advances, investment branch expansion etc. Hence, in this study, the interest rates deposits and loan and advances variables are used to identify the correlates of Deposit Mobilization of NBL.

2.2.4 Research Gap

Previous researchers were either on the problems or prospects of commercial banks. But some researchers have covered both problems and prospects of the commercial banks. Most of the research was done in vast way. Some research covered all the commercial banks or study of commercial bank. But this study is focused on a particular Banks or study of a commercial bank i.e. NBL. This study has covered both the problems as well as remedies on Deposit Mobilization of NBL. This study is specific in order to analyze and explore the present pattern of

increasing trend of deposits in the bank although interest rate is continuously decreasing.

Most commercial banks have a wrong notion that the people of the rural area have not practice in Bank transaction of rural area have not landi poor are not bankable. They can't repay their loan and pay rate of interest. So they are interested in profitable business. If commercial banks do not lend their financial resources to rural areas by expanding their bank branches, they have to depend on funding from bilateral and multilateral donor agencies.

So, banks play a vital role in developing country like Nepal. If bank performs well or be able to earn profit, it will definitely support to Nation. It shows the important of bank. So, this study has been conducted.

CHAPTER-III

RESEARCH METHODOLOGY

Research is undertaken not to solve the problem existing in the work setting but also to add or contributed to the general body of knowledge in a particular area of interest to the researcher. Research is thus a knowledge building process. It generates new knowledge, which can be used for different purpose it is used to build a theory, develop policies, supports decision making and solve problems. With the open of new frontiers of knowledge through research new concept and theories are developed to explain, verify and analyzed the social phenomena (Wolf and Pant, 1999: 204).

Research Methodology is a way to systematically solve the research problem (Kothari, 1990: 10). It may be understood as a science of studying how research is done scientifically. In it, study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

This topic presents the short outline of the methods applied in the process of analyzing the Deposit Mobilization of the Nepal Bank Limited (NBL). Research is a systematic method of finding out the solution to a problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective ink view.

This chapter looks into the research design, nature and sources of data, data collection procedure and tools and techniques of analysis.

3.1 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For the analysis of the Deposit Mobilization of Nepal Bank Ltd, analytical as well as descriptive designs applied to achieve the objective of the research.

3.2 Population and Sample

There are altogether 26 commercial banks are in operation in Nepal. In this study, the deposit mobilization of NBL is studied. 26 commercial banks are taken as the population and NBL is chosen as the sample to find the condition of deposit mobilization.

3.3 Data Collection Techniques

The researcher used only secondary data collection techniques. Secondary data are collected from some reports, publications, official records etc. So the major sources of secondary data for this study are as follows:

- a) Annual reports of the bank.
- b) Published and unpublished bulletins, reports of the bank.
- c) Published and unpublished bulletins, reports of the Nepal Stock Exchange.
- d) Previous studies and reports.
- e) Unpublished official records.
- f) “Banking and Financial statistics” report of Nepal Rastra Bank Magazines.
- g) Journals and other published and unpublished related documents and reports for Central Library of T.U. and Library of Nepal Rastra Bank.
- h) Various Internet Websites.
- i) Other published materials.

3.4 Methods of Data Analysis

Data, valuable information and other things collected from different sources in raw form and in the initial stage in judging in independently do not help for decision but proper arrangement of them is essential thus the collected information and facts have been properly processed, tabulated, for the purpose of analysis and analyzed using relevant financial and statistical tools to achieve the objective.

3.5 Study variables

The variables considered relevant to the study are loan and advances interest rate and different types of deposits.

3.6 Data Analysis Tools

For presentation of collection data and its interpretation, different tools are used. Growth analysis, Percentage change, Ratio analysis are financial tools whereas coefficient of correlation and Trend analysis are statistical tools.

3.6.1 Financial Tools

Percentage Change Ratio

Percentage is used to measure the changing position of different amount. The following formula is used to find out the annual percent change.

$$\text{Annual percentage change} = \frac{\text{Amount of this year} - \text{Amount of last year}}{\text{Amount of last year}}$$

Similarly loan deposit ratio (LD Ratio) can be calculated dividing the loan by deposit.

$$\text{LD Ratio} = \frac{\text{Loan}}{\text{Deposit}}$$

This ratio describes relationship between deposit and loan.

Growth Ratio

The growth ratio represents how well the bank is maintaining its financial and economic position. For calculation of growth rate, the following formula is used.

$$D_n = D_0(1+g)^{n-1}$$

Where,

D_n = Total amount in nth year

D_0 = Total amount in initial year

g = Growth rate of amount

n = Total no. of years during the study period.

To examine the analysis, following growth ratios are calculated in this study:

- i. Growth ratio of total deposit
- ii. Growth ratio of total lending (loan and advances)

3.6.2 Statistical Tools

Coefficient of Correlation

It describes and identifies the relationship between two or more variables. Karl Pearson's coefficient of correlation has been used to find out the relationship between the following variables.

- 1) Coefficient of correlation between deposit and loan.
- 2) Coefficient of correlation between saving interest rate and saving deposit.
- 3) Coefficient of correlation between fixed interest rate (1 year) and fixed deposit.

To find the co-efficient of correlation between above variables, this formula has been used.

$$\text{Karl Pearson's Coefficient of Correlation (r)} = \frac{\epsilon \psi}{\sqrt{\phi \epsilon^2 + \psi^2}}$$

Where,

$x = x - \bar{x}$ = Deviation taken from exact A.M. of X series.

$y = Y - \bar{Y}$ = Deviation taken from exact A.M. of Y series.

\bar{x} = A.M. of X series.

\bar{Y} = A.M. of Y series.

Trend Analysis

The general tendency of the time series data to increase or decrease or stagnate during a long period of time is called simply trend. Under this, following subtopics have been presented.

- i. Trend analysis of total deposit and forecast for next one year.
- ii. Trend analysis of total lending (loan and advances) and forecast for next one year.

CHAPTER-IV PRESENTATION AND ANALYSIS OF DATA

In this chapter, the analysis parts are presented in detail. Different financial and statistical analysis which are related to deposit mobilization are studied to evaluate and to analyze the performance of NBL.

4.1 Deposit Position of NBL

Deposit is that amount which is deposited by savers in commercial banks and other financial institution for safe keeping with an obligation to interest from it. Deposits are the main sources of resources to meet growing demand of financial existence. The existence of commercial banks, basically demand upon the mobilization of deposits. The commercial banks may function when they have adequate deposits. Higher the volume of deposit, higher will be the volume of lending and investment which again generate higher volume of profit. So, a commercial bank first of all tries to mobilize as much deposits as possible.

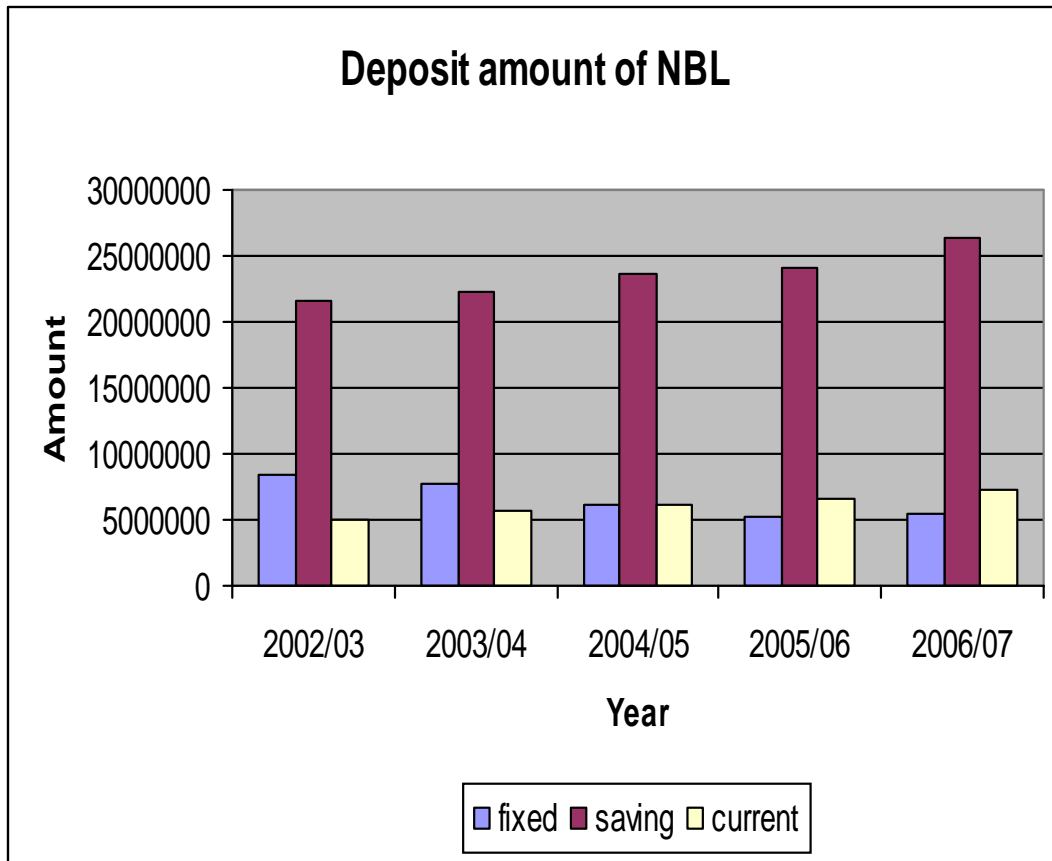
Since the establishment of NBL, it is playing an important role in the economic development of the country by collecting the scattered resources in the form of deposit. Table No. 4.1 shows the deposit position of NBL.

Table No. 4.1
Deposit position of NBL

Year	Amount Rs.in '000'			Total Rs.in '000'	Percentage change
	Fixed	Saving	Current		
2002/03	8,389,959	21,628,036	4,996,006	35,014,001	-
2003/04	7,815,946	22,204,405	5,714,693	35,735,044	2.06
2004/05	6,191,011	23607521	6,135,632	35,934,164	0.55
2005/06	5,222,448	24,128083	6,479,234	35,829,765	-0.29
2006/07	5,393,446	26,427,198	7,193,560	39,014,204	8.89
Total	33,012,810	117995243	30,519,125	181,527,178	

Sources: NBL

Which can shown figure in below:



The above table and figure shows deposit position of NBL. There is decreasing volume of fixed deposit except the fiscal year 2006/07. Saving deposit is increasing volume and current deposit is increasing volume. Total deposit also increasing volume except fiscal year 2005/06.

4.2 Lending Position of NBL

The total Lending includes the amount of loans and advances and investment. Loan and advances includes credit against imported goods, clothes and yarn, Government bonds, bills purchase and discounts, gold and silver, house and loan, fixed deposit receipt, share.

Total lending is the amount of loans and advances and investment. Bank provides the loan by accepting the security of debtor. It depends upon the interest rate structure of loans. The low interest rate attracts the people to take loan and advances from the bank. Commercial banks supply loan to their clients for different purpose or sector like agriculture, industrial, trade and miscellaneous.

Investment is defined simply to be the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed.

Table No. 4.2
Lending Position of NBL

Year	Total credit in '000'	Percentage change
2002/03	18,132,327	-
2003/04	17,937,658	-1.07
2004/05	16,866,546	-5.97
2005/06	12,441,554	-26.23
2006/07	13,756,620	10.57

Source: NBL

The above table No. 4.2 presents the statement of total lending of NBL. The total lending reveals that the amount of lending granted by bank is decreasing except the f/y 2006/07.

In f/y 2002/03 total lending amount was 1813237 thousand and it was decrease 1.07% and made Rs. 17937658 thousand. Fiscal year 2004/05 the amount also decrease 5.97% , f/y 2005/06 it also decrease 26.23% and f/y 2006/07 the amount increase 10.57% and made Rs. 13756620 thousand.

Thus the above analysis shows the condition of loan and advances of NBL. It is decreasing trend except f/y 2006/07.

4.3 Loan Deposit Ratio

Loan and deposit are the major functions of commercial banks. The relationship between these two factors shows the efficiency, ability and idle resources of commercial banks. The ratio of Loan and deposit declares by the effective utilization of collected resources.

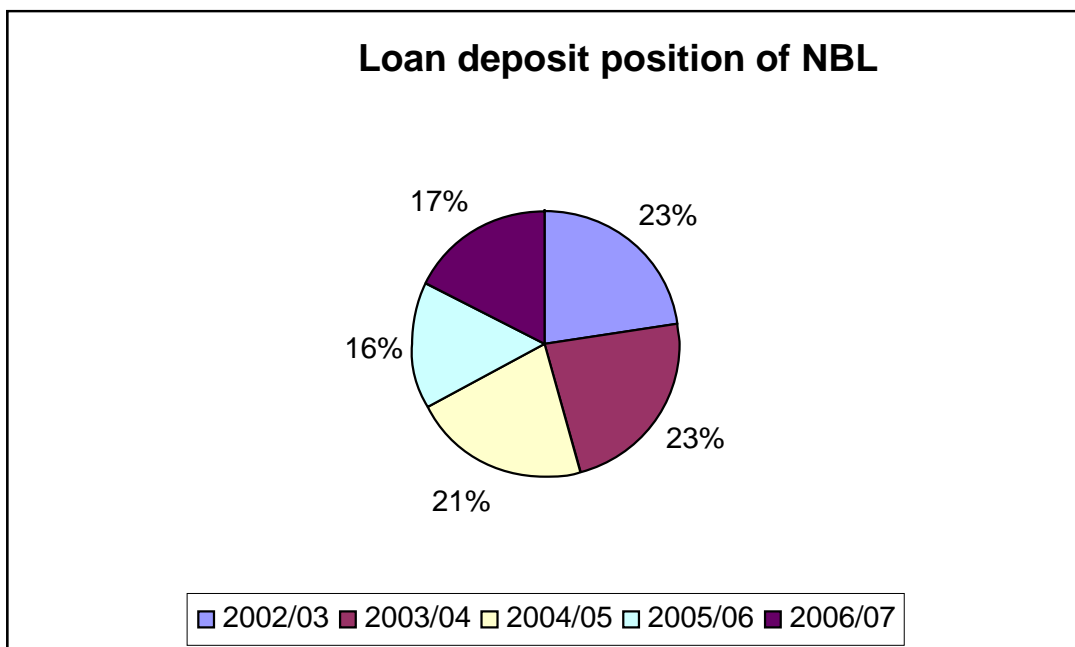
Table No. 4.3 represents the ratio of loan as percentage of deposit with the help of amount of loan and deposits of NBL.

Table No. 4.3
Loan Deposit (LD) Ratio of NBL

Year	Total Deposit	Total Loan	LD Ratio
2002/03	35,014,001	18,132,327	51.79
2003/04	35,735,044	17,937,658	50.20
2004/05	35,934,164	16,866,546	46.94
2005/06	35,829,765	12,441,554	34.72
2006/07	39,014,204	13,756,620	35.26

Source: NBL

Which can shown figure in below:



The above table and figure shows the LD ratio of NBL. The f/y 2002/03 the LD ratio was 51.79 percent and it made 50.20 percent in f/y 2003/04. In f/y 2004/05 LD ratio also decrease than previous year and made 46.94 percent and f/y 2005/06 it also decrease and made 34.72 percent. In the f/y 2006/07 this ratio made 35.26 percent.

Thus the above analysis the LD ratio is decreasing trend except 006/07. The higher percentage shows the effective utilization of available resources of bank.

4.4 Current Deposit Position

Current account is also known as demand deposit. Under this, any amount may be deposited in this account. Account is opened after making enquiries about the credit worthiness of the customer. There are no restrictions regarding the number of withdrawals or the amount of the withdrawals. The bank does not pay any interest on such accounts but charge a small amount on the customer having current account. Traders and businessman keep their money with the bank under current accounts.

Table No. 4.4 shows the deposit amount in current account of NBL.

Table No. 4.4
Amount Deposited in Current Account

Year	Amount	Percentage change
2002/03	4,996,006	-
2003/04	5,714,693	14.38
2004/05	6,135,632	7.37
2005/06	6,479,234	5.60
2006/07	7,193,560	11.02

Source: NBL

The above table shows that the current deposit amount of NBL is increasing. In f/y 2002/03 current deposit amount was Rs. 4996006 thousand and it increased 14.38% and made Rs. 5714693 thousand and it also increase 7.37% and made Rs.6135632 thousand. In f/y 2005/06 the previous year amount increased in 5.60% and made Rs.6479234 thousand and f/y 2006/07 the amount increase in 11.02% and made Rs. 7193560 thousand.

4.5 Saving Deposit Position

The deposit in saving account has also become one of the vital features of commercial banks. Any Nepali citizen with minimum Rs. 2000 (Two thousand) balance can open the account in NBL. But the saving account holder does not have the same facility of withdrawn money as the current account holder. If the customer wants to withdraw more money from the bank, which is not allowed by it but if he gives pre-information to the bank, in this situation he can withdraw more money. Table No. 4.5 represents the saving deposit position of NBL.

Table No. 4.5
Saving Deposit of NBL

Year	Amount	Percentage change
2002/03	21,628,036	-
2003/04	22,204,405	2.66
2004/05	23607521	6.32
2005/06	24,128083	2.20
2006/07	26,427,198	9.53

Source: NBL

The above table shows that the saving deposit amount of NBL is increasing. In f/y 2002/03 saving deposit amount was Rs. 21628036 thousand and it increased 2.66% and made Rs. 22204405 thousand and it also increase 6.32% and made Rs.23607521 thousand. In f/y 2005/06 the previous year amount increased in 2.20% and made Rs.24128083 thousand and f/y 2006/07 the amount increase in 9.53% and made Rs. 26427198 thousand.

4.6 Fixed Deposit Position

Fixed account means an account of amounts deposited in a bank for certain period of time. The customers can renew the fixed deposit period after the expiry of the fixed time. Usually, the interest is awarded every 3 month in this deposit. Any Nepalese person can open fixed account with minimum Rs. 50,000 in NBL. The rate of interest in the fixed deposit is

higher than that of other deposit. The customer can not deposit more money again in this deposit, before the fixed time. Table No. 4.6 shows the fixed deposit position of NBL.

Table No. 4.6
Fixed Deposit Position of NBL

Year	Amount	Percentage change
2002/03	8,389,959	-
2003/04	7,815,946	-6.84
2004/05	6,191,011	-20.79
2005/06	5,222,448	-15.64
2006/07	5,393,446	3.27

Source: NBL

The above table shows that the fixed deposit amount of NBL. It is decreasing and last year slowly increasing. In f/y 2002/03 fixed deposit amount was Rs. 8389959 thousand and it decreased 6.84% and made Rs. 7815946 thousand and it also decrease 20.79% and made Rs.6191011 thousand. In f/y 2005/06 the previous year amount decreased in 15.64% and made Rs.5222448 thousand and f/y 2006/07 the amount increase in 3.27% and made Rs. 5393446 thousand.

4.7 Growth Ratio of NBL

The growth ratio represents how well the banks are maintaining its economics and financial position. Higher the ratio better performance of the bank and vice –versa. In this ratio, two growth ratios are studied which are directly related to deposit mobilization bank.

For calculation of growth rate, the following formula can be used.

$$D_n = D_0(1+g)^{n-1}$$

Where,

D_n = Total amount in nth year

D_0 = Total amount in initial year

g = Growth rate of amount

n = Total no. of years during the study period.

4.7.1 Growth Ratio of Total Deposit

Table No. 4.7 represents the total deposit and growth rate during the study period of 2002/03 to 2006/07.

Table No. 4.7
Growth Ratio of Total Deposit

Year	Total Deposit
2002/03	35014001
2003/04	35735044
2004/05	35934164
2005/06	35829765
2006/07	39014204
Growth rate	2.80

Source: NBL

The above table shows that the growth rate of total deposit of NBL is 2.80 percent. So it can be said that this bank must improve its deposit collection in higher growth rate. So this bank should reform the existing policy into new activities, program, policy which might help increased the deposit of Bank.

4.7.2 Growth Ratio of Total Lending

Table No. 4.8 represents the amount of total Lending and its growth rate of study period of 2002/03 to 2006/07.

Table No. 4.8
Growth Ratio of Total Lending

Year	Total amount
2002/03	18132327
2003/04	17937658
2004/05	16866546
2005/06	12441554
2006/07	13756620
Growth rate	-5.67

Source: NBL

The above table shows that the growth rate of total Lending is negative (-5.67 percent). It is not good. So it can be concluded that the bank seems in very weak condition. So the bank must be increase growth rate of total Lending.

4.8 Interest Rate and Different Deposits

4.8.1 Interest Rate and Saving Deposit

The saving deposit interest rate of NBL is related to the amount of saving deposit. The saving deposit is a precautionary deposit. The Table No. 4.9 shows the saving deposit amount and saving deposit interest rates of NBL, during the study period.

Table No. 4.9
Structure of saving Deposit Interest Rate and Amount of
Saving Deposit of NBL

Year	Interest rate per annum	Amount of Saving Deposit
2002/03	3	21628036
2003/04	3	22204405
2004/05	3	23607521
2005/06	3	24128083
2006/07	2.5	26427198

Source: NBL

According to table 4.9 for year 2002/03 to 2005/06 the saving deposit interest rate is same 3% per annum. Fiscal year 2006/07 the saving deposit interest rate become 2.5% per annum.

4.8.2 Interest Rate and Fixed Deposit Amount

The fixed deposit interest rate of NBL is related to the amount of fixed deposits. At the high fixed deposit rate, the people want to deposit more money in the form of fixed deposits. The Table No. 4.10 shows the structure of fixed deposit interest rates and the amount of fixed deposits of NBL, during the study period.

Since there are different categories in fixed deposit interest rates, one year deposit interest is taken because most of the fixed depositors are interested one year deposit period.

Table No. 4.10
Structure of Fixed Deposit Interest Rates and Amount in
Fixed Deposit of NBL

Year	Interest rate per annum	Amount of Fixed Deposit
2002/03	3.5	8389959
2003/04	3.5	7815945
2004/05	3.5	6191011
2005/06	3.5	5222448
2006/07	3	5393446

Source: NBL

From the table 4.10 the fixed deposit interest rate of year 2002/03 to 2005/06 was 3.5% and year 2006/07 its interest rate become 3%.

4.9 Statistical Analysis

Under this analysis, some statistical tools are used to achieve the objectives of the study. Following statistical tools are used for this purpose.

- Coefficient of Correlation
- Trend analysis

4.9.1 Coefficient of Correlation

Under this analysis, Karl Pearson's coefficient of correlation is used to find out the relationship between the two variables. Correlation analysis is a measure of association that is based on the numerical values of the two variables. It is preferred in this study to identify the relationship between variables whether the relationship is significant or not.

4.9.1.1 Correlation Coefficient between Deposit and Loan

Correlation coefficient between deposits and loan measures the degree of relationship between deposit and loan. Here, the loan is the amount of loans and advances. In correlation analysis deposit is an independent variable (x) while loan is dependent variable (y) (See Detail in Annex I).

Table No. 4.11
Correlation between Deposit and loan

Name	r	r ²	P.Er	6P.Er	Sig./insig.
Nepal Bank Limited	-0.5332	0.2843	0.2159	1.2953	insignificant

Since the calculated value of correlation coefficient between deposit and loan is -0.5332, there is negative association between deposit and loan.

The coefficient of determination (r²) is 0.2843. It indicates that 28.43 percent of variation in the dependent variable (total loan) has been explained by the independent variable (Total deposit). Further value of P.Er/ is 0.2159 and 6P.Er. is 1.2953. The value of correlation coefficient ρ is less than 6 times probable error (6P.Er.). Therefore r is insignificant.

So it can be concluded that there is insignificant and negative relationship between deposit and loan of NBL. It also shows that there is increase in the deposit and decrease in the amount of lending.

4.9.1.2 Correlation Coefficient between Interest Rate & Saving Deposit

Correlation Coefficient between interest rate and saving deposit measures the degree of relationship between them. For correlation analysis, interest rate is taken as independent variable (x) whereas saving deposit is dependent variable (y). The main objective of computing 'r' between these two variables is to justify whether interest rate is significantly correlated with saving deposit or not (See Annex II).

The following table describes the relationship between interest rate and saving deposit under the study period.

Table No. 4.12
Correlation Coefficient between Interest Rate & Saving Deposit

Name	Evaluations Criteria					
	r	r ²	P.Er	6P.Er	Sig./insig.	Relationship
Nepal Bank Limited	-0.8418	0.7086	0.87898	0.5274	Insignificant	High degree of negative correlation

Source: NBL

Since the calculated value of correlation coefficient between interest rate and saving deposit is -0.8481, there is negative correlation between two

variables. Again coefficient of determination (r^2) is 0.7086. It indicates that 70.86 percent of variation in the dependent variable (saving deposit) has been explained by the independent variable (interest rate).

Generally, probable error is used to measure the significance of the relation between two variables. The probable error P.Er is 0.087898 and 6P.Er. is 0.5274. The value of correlation coefficient (r) is to less than 6 time probable error (6P.Er.).It can be concluded that the relation between the two variables interest rate and saving deposit is not significant or there is no degree of association between saving interest rate and saving deposit.

4.9.1.3 Correlation coefficient between Interest Rate and Fixed Deposit (1Year Interest Rate)

Correlation Coefficient between Interest rate and fixed deposit measures the degree of relationship between the interest rate and fixed deposit. Here, interest rate is independent variable (X) and fixed deposit is dependent variable (Y). The main objective of the analysis of 'r' between interest rate and fixed deposit is to justify whether interest rate is significantly correlated with fixed deposit or not (See Annex III).

Table No. 4.13
Correlation Coefficient between Interest Rate and Fixed Deposit

Name	Evaluations Criterions				
	r	r^2	P.Er	6P.Er	Sig./insignificant
Nepal Bank Limited	0.4720	0.2228	0.1587	0.9524	insignificant

Table No. 4.13 describes the relationship between interest rate and fixed deposit during the study period from 2002/03 to 2006/07.

According to above table, the correlation coefficient between interests rate (independent) and fixed deposit (dependent) of NBL. It is 0.4720 and the value of coefficient of determination (r^2) is 0.2228. It indicates that 22.28 percent of the variation in the dependent variable (deposit) has been explained by the independent variable (interest rate).

Again value of P.Er is 0.1587 and 6p.Er is 0.9524 since the value of 'r' is less than 6P.Er, the value of r is not significant at all i.e. there is no evidence of correlation between fixed interest rate and fixed deposit amount.

4.9.2 Trend Analysis

This topic analysis the trend of total deposit and total Lending of NBL, during the year from 2002/03 to 2006/07 the trend ignores sudden or short term fluctuating. The movement may be slow or fast.

Simple linear trend line of the form $Y = a + bX$ is used when X and Y are considering variables. Here X denotes time in years. 'b' measures the increasing and decreasing rate of Y. Y includes total deposit and total lending. Here, methods of least square is used for analyses the trend of deposit and Lending of NBL. It provides basis for obtaining the line of best fit in the series.

4.9.2.1 Trend analysis of Total Deposit

Under this topic, an effort has been made to calculate the trend values of deposit of NBL, for 2002/03 to 2006/07 and forecast for next three year i.e. 2007/08, 2008/09, 2009/010. The following table shows the trend value of deposit for 8 years. (See Annex IV).

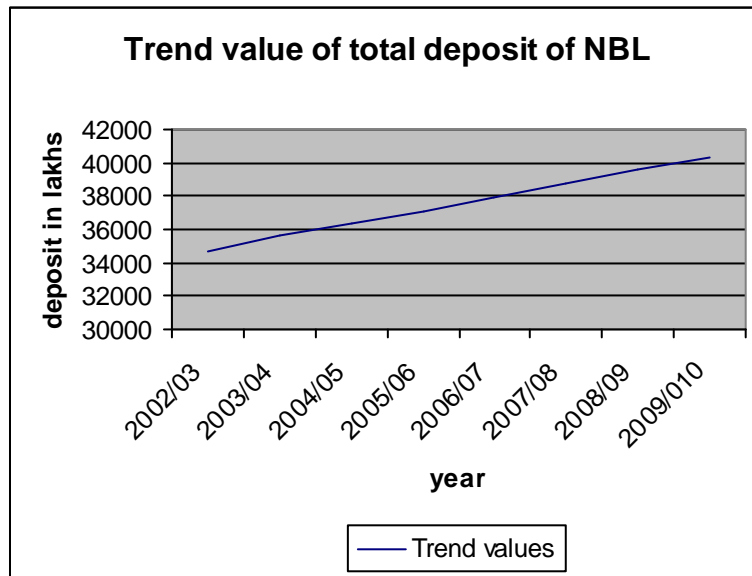
Table No. 4.14
Trend value of Total Deposit of NBL

RS.in '000000'

Year	Trend values
2002/03	34686.4
2003/04	35695.8
2004/05	36305.2
2005/06	37114.6
2006/07	37924
2007/08	38733.4
2008/09	39542.8
2009/010	40352.2

Source: NBL

Since the calculated value 'b' is positive, it is found that the bank's deposit is in increasing trend. If other things remains constant, the total deposit of the bank of 2007/08, 2008/09 and 2009/010 will be Rs.38733.4, Rs.39542.8 and Rs.40352.2 lakhs respectively. (expected). The calculated trend value of total deposit of NBL is fitted in the trend line.



Trend value of Total Deposit of NBL

4.9.2.2 Trend Analysis of Total Lending

The trend value of Lending amount of NBL has been calculated for 5 year from 2002/03 to 2006/07. The forecasted value of Lending account for the year 2007/08, 2008/09 and 2009/010 has also been calculated (See Annex V).

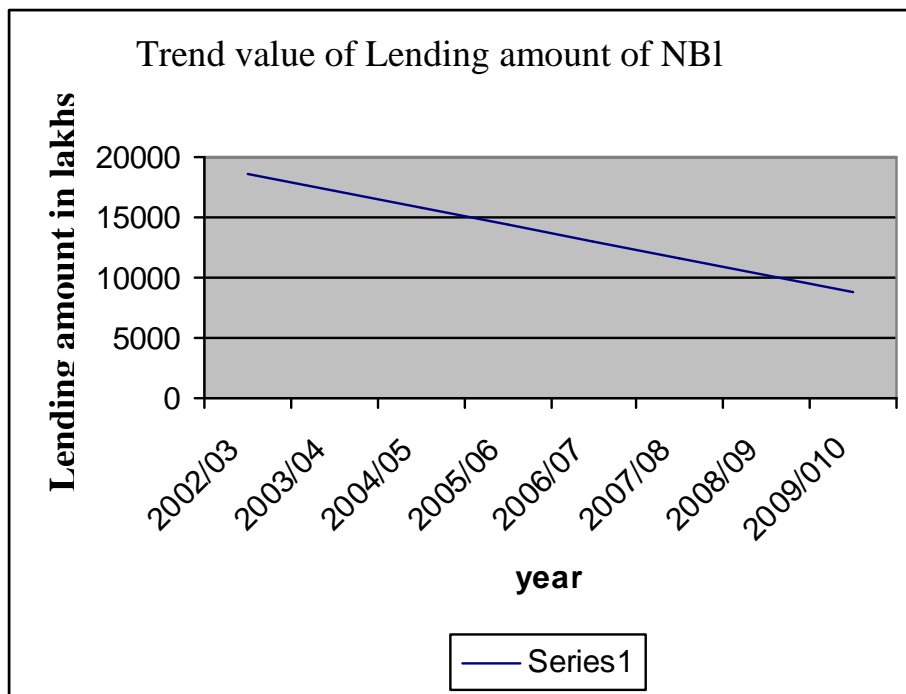
Table No. 4.15 shows the trend values of NBL for 8 years.

Table No. 4.15
Trend Value of Lending Amount of NBL

Year	Trend values Rs. in '000000'
2002/03	18676
2003/04	17251.2
2004/05	15826.4
2005/06	14401.6
2006/07	12976.8
2007/08	11552
2008/09	10127.2
2009/010	8702.4

Source: NBL

Since the calculated value of 'b' is negative, it is found that the bank's Lending is in decreasing trend. If other things remain constant, the total Lending of the bank of 2007/08, 2008/09 and 2009/010 will be Rs.11552, Laks Rs.10127.2 laks and Rs.8702.4 lakhs respectively. (Expected). The calculated trend value of total Lending of NBL is fitted in the trend line.



4.10 Major Findings

Percentage change ratio

Current deposit is increasing volume and the highest percentage of change is in 2003/04 i.e. 14.38 percent.

Saving deposit also increasing volume and the highest percentage of change is in 2006/07 i.e. 9.53% and the analysis shows that the percentage is increased in each year but in zigzag order.

Fixed deposit is decreasing except f/y 2006/07. The highest percentage of changed is decreasing by 20.79% and f/y 2006/07 it is increasing by 3.27%.

Lending Position of NBL

Loan and advance of NBL is decreasing trend except f/y 2006/07.

Lending Deposit Ratio

LD ration is decreasing trend except 2006/07 the highest percentage shows the effective utilization of available resources of bank.

Growth Ratio of Total Deposit

The growth rate of total deposit of NBL is 2.80%. It can be said that this bank must improve its deposit collection in higher growth rate. So this bank should reform the existing policy.

Growth ratio of Total Lending

The growth rate of total Lending is negative. It is not good, the bank seems weak condition. So the bank must be increase the growth rate of total Lending.

Saving Deposit Interest Rate and Saving Deposit of NBL

The saving deposit interest rate is same 3% from study period 2002/03 to 2005/06 in the year 2006/07 interest rate become 2.5%.

Fixed Deposit Interest Rate and Fixed Deposit of NBL

The fixed deposit interest rate from 2002/03 to 2005/06 is same 3.5% and year 2006/07 interest rates become 3%.

Correlation Coefficient

Correlation Coefficient between deposit and Loan of NBL shows the negative relationship between the two variables. Since $r^2 = 0.2843$, it indicates that 28.43% of the variation in the total loan has been explained by the deposit. Since $r < 6p.Er$. There is insignificant relationship between deposit and loan.

Correlation Coefficient of saving interest rate and saving deposit shows negative relationship between two variables. By application of the coefficient of determination, it indicates 70.86% of the variation in the saving deposit has been explained by saving interest rate. Since $r < 6p.Er$, There is no significant relationship between interest rate and saving deposit.

Correlation coefficient between fixed deposit interest rate and fixed deposit amount shows the positive relationship between these two variables. By application of the coefficient of determination, it indicates 22.28% of the variation in the fixed deposit amount has been explained by the fixed interest rate. r is less than $6p.Er$. There is no significant relation between interest rate and fixed deposit.

Trend Analysis and Projection of next 3 years

The total deposit has been found in increasing trend. The total deposit of NBL will be Rs. 38733.4 lakhs, Rs. 39542.8 lakhs and Rs. 40352.2 lakhs in f/y 2007/08, 2008/09 and 2009/010 respectively, if other thing remains same.

The total credit has been found in decreasing trend. If other things remain constant, the total Lending amount will be Rs. 11552, Rs. 10127.2 and Rs. 8702.4 lakhs for the year 2007/08, 2008/09 and 2009/010 respectively.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The role of commercial banks becomes crucial in the task of capital formation which is, no doubt, a key variable in the economic development of a country. Scattered resources hold no meaning unless and until they are mobilized and utilized efficiently in some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed savings into meaningful capital investments in order to aid industry, trade, commerce and agriculture for the economic development of a nation. It should not be forgotten that a country can hardly achieve its goal of economic development without a strong capital base, and the commercial banks have a pivotal role in forming such base. It is quite true that a strong financial institution is of great need in the developing country like Nepal. Because all the economic conditions are based on the financial institutions and the development of a country depend upon the active participation of the banks in the different activities in the country.

Deposits are the obligation of the commercial banks. So, commercial banks must allocate the funds in different loans and advances and investments. The purpose of this study is to examine the relationship between total deposit and total lending. Besides this, the objectives are to see the impact of interest rate on amount of deposit collected and amount of loan granted by NBL and to know the deposit mobilization trend of this bank.

The total deposit position in 2002/03 was Rs. 35014001 thousand and total lending (loan and advances) was Rs. 18132327 thousand in the same year c/d ratio was 51.79%. In the year 2006/07 was 35.26%. So it can be concluded that bank has not been able to utilize the collected deposit. There is idle deposit staying with this bank.

The correlation coefficient between deposit and loan is negative i.e. $r = -0.5332$, which indicates there is negative relationship between deposit and loan. Here $r < 6p.Er$. It means relationship between deposit and Loan is insignificant. It shows that by increasing the deposit the amount of Loan can be decreased.

The saving interest rate is in same in f/y 2002/03 to 2005/06 and f/y 2006/07 it is also decrease but the saving deposit amount is increasing year by year. in case of fixed deposit amount interest rate is stable in f/y 2002/03 to 2005/06 and f/y 2006/07 it decrease. The fixed deposit amount is decreasing overall the study period.

It is found that the correlation coefficient interest rate and saving deposit collection is negative and fixed interest rate and fixed deposit collection is positive. In both case $r < 6p.Er.$, it indicates that the correlation coefficient between interest and saving/fixed deposit is not significant. Although the interest rate lowers the deposit collection is high.

5.2 Conclusion

Bank is the very necessary for nation. It helps in the formation of capital in the nation, which is the most important factor for the economic growth of the country. The commercial banks in Nepal are doing well but they are hit giving satisfactory results due to some internal and external factors. The deposits and its investment in productive sectors by commercial banks are not stable. That's why they are not earning more profit. Deposit is indeed the major organ of a commercial bank. Higher the deposit higher will be the chance of mobilization of funds and profit also. Bank should be careful while advancing loan because loan is the blood of commercial banks for survival. If commercial bank does not apply sound investment policy, it will be a great trouble in future to collect loan amount. Bank should invest its fund in various portfolios after the deep study of the project to be safe from bankruptcy. Diversification of investment is very much important to commercial bank than other business houses because bank uses the money of other people for the benefit of its own.

In case of NBL it is successful to collect deposit but it is facing the problem of utilization of its fund. The average c/d ration was found to be 43.78% which poor. So it can be said that the activities to that bank for mobilizing deposit seems to be idle. The increasing deposit and decreasing loan and advances is the great problem to manage. Bank has good deposit collection but it has maintained low investment policy on loan and advances. So there is wider gap between total deposit and total lending (loan and advances). The interest rate has not been influenced to the deposit collection as well as landing sector of the bank. Peoples seem to be insensitive towards the change in the rate of interest. The growth ratio shows bank's loan and

advance is very lower than its deposit collection. Correlation coefficient shows there is insignificant relation between deposit and loan. But there is no degree of association between deposits (saving/fixed) and interest rates (saving interest and fixed one year interest rates).

5.3 Recommendations

The problems related to deposit mobilization of NBL, have been discussed. According to the analysis, the following recommendations are highlighted to put forward for the further improvement of the deposit mobilization of the NBL.

1. To increase the deposit collection

Since the growth ratio of total deposit is only 2.80%, it is recommended that the bank should try to do different activities to collect more deposit such as :

- a) The bank should try to start new programs like Lottery, Prize and other scheme which may help to increase deposit collection of the bank. Deposit interest rate should more attractive to fight with other banks.
- b) Banks should open its door to small depositors or decreasing in minimum bank balance for promoting and mobilizing small investors' funds.
- c) The bank follow and easy procedure to open a new account and it should give facilities to keep minimum balance low like Rs.100.

2. To increase loan and advances

Since the average L/D ratio is found 43.78% and growth ratio of total lending is negative i.e. -5.67% which is very poor. So the bank should reach different sector to extend loan and advances. There is recommendation to the bank to increase the utilization of these funds.

- a) There should be facility for medium as well as long term loan.
- b) The bank should not more conscious about the security. Lending has to be extended to genuine projects without security. There will not be any loss to the bank because good or prospects projects guarantee the return which will enable to repay the interest and loan amount. So it is recommended that projects with high prospect should be given special treatment while providing loan.
- c) The bank should invest in government and other different securities. Although such securities yield and lowest interest rate

due to low risk features, it helps utilization of idle deposit and earn more profit.

- d) Lending rates should be charged according to the bearing capacity of the people. It should not be more than average rate of return. So, low interest rate on lending is recommended.
- e) It is recommended it should follow an easy procedure while granting loan. Lending process should be shortly as much as possible.

Besides that, bank could improve in deposit collection as well as it's utilization through these activities:

- a) The bank provide training and observation tours and should be incentives packages such as award system, bonus system to motive staffs.
- b) There should be attractive publicity of the bank in such a way that people will have knowledge of the bank and it encourages them to save the money.

BIBLIOGRAPHY

Books

Abrol, P.N. and Gupta, O.P. (1971). Dictionary of commerce. New Delhi: Anmol publication.

American Institute of Banking (1972). Principle of Bank Operation, USA: USA Prints.

Bhandari, D.R. (2003). Banking and Insurance: principle and practice. Kathmandu: Aayush Publication.

Commercial Bank Act 1974 (2031 B.S.). Kathmandu.

Crosse, H.D. (1963). Management Policies for Commercial Banks Prentice Hall. London: Inc Engle word Cliff, N.J. Second Printing.

Crowther, S.R. (1985). An Outline of Money. London: Thomes Nelson and sons Ltd.

Ghosal, S.N. and Sharma, M.D. (1965). Economic Growth and Commercial Banking in a Developing Economy. Calcutta: Scientific Book Agency, First Published.

Higgins, B. (1968). Economic Development: Problem, Principle and Policies. New York: Otta University.

Johnson, H.J. (1965). The World Economy at the Crossroads. New York: Oxford University Press.

Kothari, C.R. (1989). Research Methodology: Methods and Techniques. New Delhi: Willey Eastern Limited.

Pant, Y.P. (1980). Problem of Fiscal and Monetary Policy: A Case Study of Nepal. Kathmandu: Sahayogi Prakashan.

Ronald, R.I. (1962). The Management of Bank Fund. New York: McGraw Hill Book Company.

Sayer, R.S. (1972). Modern Banking. New York: Oxford University Press, Seventh Edition (Reprinted 1972).

Shrestha, S. (2058 B.S.). Portfolio Behavior of Commercial Banks in Nepal. Kathmandu.

The Encyclopedia America 1984. Vol. 3 USA: USA Publisher, Helen Heminguar Benton.

The Encyclopedia Britanica 1981. American Grutier Incoporate.

The Encyclopedia Britanica 1985. Vol. 14.

The World Book Encyclopedia (1966). Vol. 2. Sunny England Dingsport Press Inc.

Vaidya, S. (1999). Banking Management. Kathmandu: Monitor Nepal.

Vaidya, S. (2001). Banking and Insurance Management. Kathmandu: Teleju Prakashan.

Wolff, H.D. and Pant, P.R. (2001). A Hand Book for Social Science Research and Thesis Writing. Kathmandu: Buddha Academics Pvt. Ltd.

Articles

Bajracharya, B.B. (2047 B.S.). “Monetary Policy and Deposit Mobilization in Nepal.” Rajat Jayanti Smarika, RBB Kathmandu, Pp. 93-97.

Fry, Dr. M.J. (1974). “Research Mobilization and Financial Development in Nepal.” CEDA: Publication July 1974, P.15.

Joshi, R. (1984). “Rural Saving Mobilization in Nepal.” Agricultural Credit Department, NRB, Pp. 65-66).

Kafle, Dr. P.K. (1990). “Monetary and Financial Reports in Nepal, Implication for Adjustment and Growth.” Economic Review, NRB, April, P.15.

Kafle, S.D (2053 B.S.). "NRB and its Policies for Monetary Control." NRB Samachar, Baishakh, P. 13.

Morris, F. (1980)." Latin America's Banking System in 1980's". World Bank Discussion, P.81.

Pradhan, S.B. (2053 B.S.). "Deposit Mobilization, its Problem and Prospects." NB Patrika, Baishakh Masanta, P.9.

Sharm, B. (2000). "Banking the future on competition." The Business Age Oct. 2000, P.13.

Williamson, J.N. (1998). "Personal Saving in Developing Nations". An International Cross Section from Asia, the Economic Record, June, P. 25.

Thesis

Agrawal, A. (2002). A Study on Deposit and Investment Position of Yeti Finance Company Ltd. An Unpublished Thesis, Shanker Dev Campus.

Karki, K.B. (2001). An Analysis of Deposit Mobilization of RBB. An Unpublished Thesis, Central Department of Economics, T.U.

Karmacharya, M.N. (1978). A Study on the Deposit Mobilization of NBL. An Unpublished Thesis, Central Department of Economics, T.U.

Neupane, M. (1986). Deposit Mobilization of Commercial Banks in Nepal: (A Comparative Study of RBB and NBL), Kritipur Branch. An Unpublished Thesis, Central Department of Economics, T.U.

Pant, R.P. (1979). A Study of Deposit Collection and Utilization of Commercial Banks in Nepal. An Unpublished Thesis, Central Department of Management, T.U.

Phuyal, D.P. (2035 B.S.). A Study on the Deposits and Loans and Advances of NBL. An Unpublished Thesis, Central Department of Economics, T.U.

Pradhan, N.M. (2037 B.S.). A Study on Investment Policy of NBL. An Unpublished Thesis, Central Department of Economics, T.U.

Roy, D. (2003). An Investment Analysis of RBB. An Unpublished Thesis, Shanker Dev Campus.

Shrestha, S. (2042 B.S.). A Study on Deposit Mobilization and Utilization of Commercial Banks with Reference to NBL. An Unpublished Thesis, Central Department of Economics, T.U.

Shrestha, U.L. (1987). A Comparative Study on Resource Mobilization of NBL and RBB. An Unpublished Thesis, Central Department of Management, T.U.

Tandukar, P. (2003). Role of NRB in Deposit Mobilization of Commercial Bank. An unpublished Thesis, Shanker Dev Campus.

Magazines

International Forum, 2003 April-May. Year 19, No. 7. Kathmandu.

NRB, 1984, Year 6, No. 24, Banker's Prakashan Workshop Report. "Deposit Mobilization Why and How." Kathmandu: Bankers Training Centre.

NRB, Mid-April 1994 – Mid-April 2003. Banking and Financial Statistics. Kathmandu: Banking Operation Department.

NRB, 2037, No. 3 and 2040, No. 13. Nepal Bank Patrika. Kathmandu.

NRB, 2003, Vol. XXXIV, No. 3 Quarterly Economic Bulletin. Kathmandu.

NBL, FY 2060/61 – 2064/2065. Annual Report. Kathmandu.

Annex I
Calculation of correlation between deposit and loan

Rs. '000000'

year	deposit (X)	loan (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	xy	x^2	y^2
2002/03	35014	18132	-1291.2	2305.6	-2976990.72	1667197.44	5315791.36
2003/04	35735	17937	-570.2	2110.6	-1203464.12	325128.04	4454632.36
2004/05	35934	16866	-371.2	1039.6	-385899.52	137789.44	1080768.16
2005/06	35829	12441	-476.2	-3385.4	1612127.48	226766.44	11460933.16
2006/07	39014	13756	2708.8	-2070.4	-5608299.52	7337597.44	4286556.16
	$\phi X=181526$	$\phi Y=79132$	0	0	-8562526.4	9694478.8	26598681.2

$$\bar{x} = \frac{\sum x}{n} = \frac{181526}{5}$$

$$= 36305.2$$

$$\bar{y} = \frac{\sum y}{n} = \frac{79132}{5}$$

$$= 15826.4$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{-8562526.4}{\sqrt{9694478.8 \times 26598681.2}}$$

$$= -0.5332$$

$$r^2 = 0.2843$$

calculating of probable error (P.Er.)

$$\text{P.Er.} = 0.6745 \left| \frac{1Zr^2}{\sqrt{n}} \right|$$

$$= 0.6745 \left| \frac{1Z2843}{\sqrt{5}} \right|$$

$$= 0.21588$$

$$6\text{P.Er.} = 6 \left| 0.21588 \right|$$

$$= 1.2953$$

Annex II
Calculation of correlation between interest rate and saving deposit
 Rs. '000000'

year	interest rate (X)	saving deposit (Y)	x=X-X	y=Y-Y	xy	x ²	y ²
2002/03	3	21628	0.1	-1970.8	-197.08	0.01	3884052.64
2003/04	3	22204	0.1	-1394.8	-139.48	0.01	1945467.04
2004/05	3	23607	0.1	8.2	0.82	0.01	67.24
2005/06	3	24128	0.1	529.2	52.92	0.01	280052.64
2006/07	2.5	26427	-0.4	2828.2	-1131.28	0.16	7998715.24
	φX=14.5	φY=117994	0	0	-1414.1	0.2	14108354.8

$$\bar{x} = \frac{\sum x}{n} = \frac{14.5}{5} = 2.9$$

$$\bar{y} = \frac{\sum y}{n} = \frac{11794}{5} = 23598.8$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{1414.1}{\sqrt{0.2 \times 14108354.8}}$$

$$= -0.8418$$

$$r^2 = 0.7086$$

calculating of probable error (P.Er.)

$$P.Er. = 0.6745 \left| \frac{1Zr^2}{\sqrt{n}} \right|$$

$$= 0.6745 \left| \frac{1Z0.7086}{\sqrt{5}} \right|$$

$$= 0.087898$$

$$6P.Er. = 6 \left| 0.087898 \right|$$

$$= 0.5274$$

Annex III

Calculation of correlation between interest rate and fixed deposit

year	interest rate (X)	fixed deposit (Y)	x=X-X	y=Y-Y	xy	x ²	y ²
2002/03	3.5	8389	0.1	1787	178.7	0.01	3193369
2003/04	3.5	7815	0.1	1213	121.3	0.01	1471369
2004/05	3.5	6191	0.1	-411	-41.1	0.01	168921
2005/06	3.5	5222	0.1	-1380	-138.0	0.01	1904400
2006/07	3	5393	-0.4	-1209	483.6	0.16	1461681
	∑X=17	∑Y=33010	0	0	604.5	0.2	8199740

$$\bar{x} = \frac{\sum x}{n} = \frac{17}{5}$$

$$= 3.4$$

$$\bar{y} = \frac{\sum y}{n} = \frac{33010}{5}$$

$$= 6602$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{604.5}{\sqrt{0.2 \times 8199740}}$$

$$r = 0.4720$$

$$r^2 = 0.2228$$

calculating of probable error (P.Er.)

$$P.Er. = 0.6745 \left| \frac{1 - Zr^2}{\sqrt{n}} \right|$$

$$= 0.4567 \left| \frac{1 - Z(0.2228)}{2.2361} \right|$$

$$= 0.087898$$

$$6P.Er. = 6 \times 0.087898$$

$$= 0.5274$$

Annex IV

Trend analysis is calculation of trend value and trend line of total deposit of NBL

Let, the trend line be

$$y = a+bx \dots\dots\dots (1)$$

where,

x = X-middle year

Calculation of trend value of total deposit

Rs. '000000'

year (X)	Total deposit (y)	x =X-2004/05	x ²	xy	Trend value y _c = a+bx
2002/03	35014	-2	4	-70028	36305.2+809.4 -2=34686.4
2003/04	35735	-1	1	-35735	36305.2+809.4 -1=35695.8
2004/05	35934	0	0	0	36305.2+809.4 0=36305.2
2005/06	35829	1	1	35829	36305.2+809.4 1=37114.6
2006/07	39014	2	2	78028	36305.2+809.4 2=37924
	∑y=181526	∑x=0	10	8094	
2007/08		3			36305.2+809.4 3=38733.4
2008/09		4			36305.2+809.4 4=39542.8
2009/10		5			36305.2+809.4 5=40352.2

Since, $\sum x = 0$

$$a = \frac{\sum y}{n} = \frac{181526}{5} = 36305.2$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{8094}{10} = 809.4$$

Annex V

Trend analysis is calculation of trend value of lending amount of NBL

Let, the trend line be

$$y = a+bx \dots\dots\dots (1)$$

where,

x = X-middle year

Calculation of trend value of lending amount

Rs. '000000'

year (X)	lending amount (y)	x =X-2004/05	x ²	xy	Trend value y _c = a+bx
2002/03	18132	-2	4	-36264	15826.4+-1424.8 -2=18676
2003/04	17937	-1	1	-17937	15826.4+-1424.8 -1=17251.2
2004/05	16866	0	0	0	15826.4+-1424.8 0=15826.4
2005/06	12441	1	1	12441	15826.4+-1424.8 1=14401.6
2006/07	13756	2	4	27512	15826.4+-1424.8 2=12976.8
	∑y=79132	∑x=0	10	-14248	
2007/08		3			15826.4+-1424.8 3=11552
2008/09		4			15826.4+-1424.8 4=10127.2
2009/10		5			15826.4+-1424.8 5=8702.4

Since, x = 0

$$a = \frac{\sum y}{n} = \frac{79132}{5}$$

$$= 15826.4$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-14248}{10}$$

$$= -1424.8$$