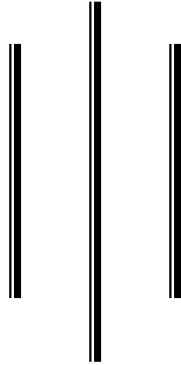


**THE STUDY ON
MAJOR AFFECTING FACTOR OF INTEREST
RATE
IN NEPALESE FINANCE COMPANIES**



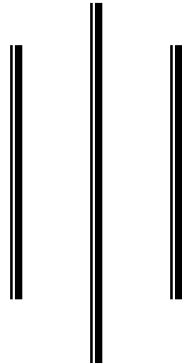
A THESIS

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Submitted to:

**Office of Dean
Faculty of Management
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In the partial fulfillment of the requirements for the degree of Master
Of the Business Studies (MBS)
Thakur Ram Multiple Campus
Birgunj, Parsa
Jan. 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by
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VIVA-VOCE SHEET

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

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IN NEPALESE FINANCE COMPANIES**

found the thesis to be original work of the student and written according to the prescribed format of Faculty of Management, Tribhuvan University. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Master in Business Studies (MBS)

Viva-Voce commitee

Head of Research Department

Member (Thesis Supervisor)

Member (External Expert)

Date

DECLARATION

I hereby declare that the work reported in this thesis entitled “The Study on Major Affecting Factors of Interest Rate in Nepalese Finance Companies.”, submitted to the Faculty of Management, Thakur Ram Multiple Campus, Tribhuvan University is my original work done in the format of T.U. for the partial fulfillment of the Master’s Degree in Business Studies (MBS) under the supervision and guidance of Mr. Sanjay Shrestha Thakur Ram Multiple Campus.

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Executive Summary

Nepal is a classical example of poor country through bestowed with rich natural resources. The lack of capital & technical Know-how has become a major barrier that has led those resources being unutilized. The pace of economic development of Nepal is still in infant stage. The economy of a country is characterized by the declining interest high inflation and slow growth in per capita income, low income, low saving and low investment, along with a very low growth rate. To steer up the economy by utilizing those resources, the circulation of money from savers to user is essential. Financial institution (Financial Intermediaries) specially finances companies to the health and vitality of the economy.

In Nepal financial institution has a recent history. After the Government adopted the open market and economic liberal policy, in the financial sector, among other institutions finance company has been incorporated under finance company act 2005. Finance companies are referred as limited liabilities according to the provisions of company act 1965. The first finance company named Nepal Awash Development Finance Co. Ltd was established in 1992 but today there are 60 such finance companies of which 39 are in Kathmandu.

Interest rate is one of the important factors which influence people to save deposit their savings in finance companies for a long period. Interest rates of Nepalese Finance companies are affected by various factors. The interplay of demand and supply is the determining factors of interest rate. But such forces are not functioning properly. The amount of deposit in general increases with the increase in the interest rate. But this study has found the highly negative correlation between those variables. This shows that the amount of the deposit is increasing even if the interest rate is decreasing. It may be because of the insecurity that prevailed for the last decade. There is highly negatively correlation between those variables. This shows that the amount of deposit is increasing even if the interest rate is decreasing. It may be because of the insecurity that prevailed for the last decade. There is highly negatively correlation between interest rate on lending and amount of disbursed. This fact seems to contradict with the general theory of interest. The positive correlation has been found between nominal interest rate and risk free rate. The fact seems compatible with the general theory. The correlation between inflation and nominal interest rate is found to be contradicted with the general theory of interest.

There are many other qualitative factors beside inflation, risk free rate etc. that affects or influence the interest rate charged and offered by finance companies of Nepal. Factors like maturity period competition sector wise difference as well as NRB's policies and directives are also the determining factors of interest of Nepalese finance companies. The present peace talks between the Government and Moist is hope to bring solid outlet to promote peace and security for fostering economic development under the proper monitoring of UNO.

ABBREVIATIONS

B.S	=	Bikram Sambat
C.C	=	Correlation Coefficient
CRR	=	Cash Reserve Ratio
DF	=	Degree of Freedom
FCs	=	Finance Companies
FDR	=	Fixed Deposit Receipts
FY	=	Fiscal Year
HMG	=	His Majesty Government
IR	=	International Rates
LFC	=	Lalitpur Finance Company
LUFC	=	Lumbini Finance Company
MD	=	Multiple Determination
NA	=	Not Available
NADF	=	Nepal Awash Development
NEPSE	=	Nepal Stoke Exchange Companu Ltd.
NFC	=	Navadurga Finance Company
NMBF	=	Nepal Merchant Banking and Finance td
NRB	=	Nepal Rastra Bank
SFC	=	Samjhana Finance
UFC	=	United Finance Company
UFCL	=	Union Finance Company Ltd
UNO	=	United Nation Organization