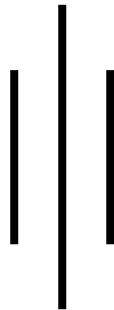


A Study on Commercial Banks' Investment on Government Securities



A Thesis

Submitted By:

Shanta Dhungana
Makawanpur Multiple Campus
TU Registration No.: 7-1-242-342-96

Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University
Kathmandu, Nepal

*In the Partial Fulfillment of the Requirement for
Master's Degree of Business Studies (MBS)*

December-2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:
Shanta Dhungana

Entitled

“A Study on Commercial Banks’ Investment on
Government Securities”

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

.....
Mr. Vijay Kumar Sharma
Chairman of Research Committee

.....
Mr. Bachchu Ram Adhikari
Campus Chief

.....
Uddab Prasad Sapkota
(Thesis Supervisor)

.....
Jayaram Devkota
(Thesis Supervisor)

Date:

VIVA- VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

Shanta Dhungana

Entitled

**“A Study on Commercial Banks’ Investment on
Government Securities”**

and found the thesis to be the original work of the student written in accordance with the prescribed format. We recommend the Thesis to be accepted as partial fulfillment of the requirement for

Master’s Degree of Business Studies (MBS)

Viva-voce Committee

Chairperson, Research Committee: _____

Member (Thesis Supervisor): _____

Member (Thesis Supervisor): _____

Member (External Expert): _____

Date:.....

DECLARATION

I hereby, declare that the work reported in this thesis entitled "**A Study on Commercial Banks' Investment on Government Securities**" submitted to Research Department of Makawanpur Multiple campus, Hetauda, is my original work done in the form of partial fulfillment of the requirements for the Masters of Business Studies (MBS) under the supervision of Lecturers **Mr. Uddab Sapkota** and **Mr. Jayaram Devkota** of Makawanpur Multiple campus, Hetauda.

.....

Shanta Dhungana

Date:.....

ACKNOWLEDGEMENT

The present study "**A Study on Commercial Banks' Investment on Government Securities**" has been prepared for the partial fulfillment of the requirement for Master's Degree of Business Studies.

The successful completion of this dissertation is the result of invaluable guidance of my supervisor **Mr. Uddab Sapkota**, and **Mr. Jayaram Devkota**, lecturers of Makawanpur Multiple Campus. Without their proper guidance and excellent supervision, this research report would not have been presented in this form. So first of all, I would like to express my heartfelt gratitude to **Mr. Sapkota and Mr. Devkota** for their valuable supervision and regular inspiration during this study. I would like to express my sincere gratitude to **Bachchu Ram Adhikari**, Campus chief of Makawanpur Multiple campus , for providing me chance to carryout this research study. My sincere gratitude goes to **Bishnu Prasad Dahal**, Head of Management Department, Makawanpur Multiple Campus, Hetauda, for his kind cooperation and facilitation during my study. I most appreciate the kind cooperation of my respected teachers and all staffs of Makawanpur Multiple campus during my study in Makawanpur Multiple campus.

I would like to express hearty thanks towards all the members of my family who provided regular inspiration and continuous contribution for my success. I would like to express my heartily thanks towards my friend **Mr. Raghu Ram Karki** for his kind cooperation in various stages of the study. I would like to thank and all my colleagues for their valuable cooperation during this dissertation preparation. Last but not least, I would like to express my sincere thanks to all of them who had supported me to complete this dissertation work.

Shanta Dhungana

Makawanpur Multiple Campus

Makawanpur, Hetauda

TABLE OF CONTENTS

Title	Page No.
Chapter 1 Introduction	1-16
1.1 Background of the study	1
1.1.1 Overview of Present Economy	2
1.1.2 History of banking development	3
1.1.3 Introduction of Commercial Banks	6
1.1.4 Investment On Government Securities	8
1.1.5 Profiles of the Banks under study	9
1.2 Statement of the problem	12
1.3 Objectives of the study	13
1.4 Significance of the study	14
1.5 Limitations of the Study	15
1.6 Organization of the Study	15
Chapter 2 Review of Literature	17-33
2.1 Introduction	17
2.2 Conceptual Review	17
2.2.1 Concept of Investment	17
2.2.2 Investment Alternatives	19
2.2.3 Government Budget and Deficit finance	21
2.2.4 Government security market	21
2.2.5 Government Securities for Short-term Investment	22
2.2.5.1. Treasury bills	23
2.2.5.2. Short-term Treasury Notes and Bonds	25
2.2.5.3. Short-term Municipal Obligation	26
2.2.6 Government Security for Long-term Investment	27
2.6.1 Treasury Notes and Bonds	27
2.6.2. Municipal Bond	28
2.3 Review of Related Studies	29

Chapter 3 Research Methodology	34-43
3.1 Introduction	34
3.2 Research Design	34
3.3 Variables	35
3.4 Population and Sample	35
3.5 Sources and Nature of Data	35
3.6 Data Collection Techniques	36
3.7 Data Analysis Tools	36
3.7.1 Statistical Tools	37
3.7.1.1 Average (Mean)	37
3.7.1.2 Standard Deviation	37
3.7.1.3 Coefficient of Variation	38
3.7.1.4 Trend Analysis	38
3.7.2 Financial Tools	39
3.7.2.1 Financial Ratio Analysis	39
Chapter 4 Data Presentation And Analysis	44-92
4.1 Introduction	44
4.2 Financial Ratio Analysis	44
4.2.1 Investment on Government Securities to Total Investment Ratio	44
4.2.2 Investment on Treasury Bills to Total Investment Ratio	46
4.2.3 Investment on Government Bond to Total Investment Ratio	48
4.2.4 Total Investment to Total Deposit Ratio	50
4.2.5 Investment on Government Securities to Total Deposit Ratio	52
4.2.6 Investment on Treasury Bills to Total Deposit Ratio	54
4.2.7 Investment on Government Bond to Total Deposit Ratio	56
4.2.8 Investment on Treasury Bill to Total Investment on Government Securities Ratio	58
4.2.9 Investment on Government Bond to Total Investment On Government Securities Ratio	60
4.2.10 Investment on Treasury Bill to Short-term Investment Ratio	62
4.3 Least Square Linear Trend Analysis	64

4.3.1	Trend Analysis of Investment on Government Securities to Total Investment Ratio	65
4.3.2	Trend Analysis of Investment on Treasury Bill to Total Investment Ratio	66
4.3.3	Trend Analysis of Investment on Government Bond to Total Investment Ratio	68
4.3.4	Trend Analysis of Total Investment to Total Deposit Ratio	70
4.3.5	Trend Analysis of Investment on Government Securities to Total Deposit Ratio	72
4.3.6	Trend Analysis of Investment on Treasury Bill to Total Deposit Ratio	74
4.3.7	Trend Analysis of Investment on Government Bond to Total Deposit Ratio	76
4.3.8	Trend Analysis of Investment on Treasury Bill to Total Investment on Government Securities	78
4.3.9	Trend Analysis of Investment on Government Bond to Total Investment on Government Securities	80
4.4	Analysis of Yield Rate of Government Securities	82
4.4.1	Trend Analysis of Interest Rate of 364-days Treasury Bills	82
4.4.2	Trend Analysis of Interest Rate of 91-days Treasury Bills	84
4.4.3	Trend Analysis of Interest Rate of National Saving Certificate	86
4.4.4	Trend Analysis of Interest Rate of Development Bond	87
4.5	Major Findings of the Study	89
Chapter 5 Summary, Conclusions and Recommendations		93-97
5.1	Introduction	93
5.2	Summary	93
5.3	Conclusions	95
5.4	Recommendations	96

References

Appendices

LIST OF TABLES

Table 1.1	Lists of Commercial Banks in Nepal	5
Table 4.1	Investments on Government Securities to Total Investment Ratio	45
Table 4.2	Investment on Treasury Bills to Total Investment Ratio	47
Table 4.3	Investment on Government Bond to Total Investment Ratio	48
Table 4.4	Total Investment to Total Deposit Ratio	51
Table 4.5	Investment on Government Securities to Total Deposit Ratio	53
Table 4.6	Investment on Treasury Bills to Total Deposit Ratio	55
Table 4.7	Investment on Government Bond to Total Deposit Ratio	57
Table 4.8	Investment on Treasury Bill to Total Investment on Government Securities Ratio	59
Table 4.9	Investment on Government Bond to Total Investment on Government Securities Ratio	61
Table 4.10	Investment on Treasury Bills to Short-term Investment Ratio	63
Table 4.11	Trend of Investment on Government Securities to Total Investment Ratio	65
Table 4.12	Trend of Investment on Treasury Bills to Total Investment Ratio	67
Table 4.13	Trend of Investment on Government Bond to Total Investment Ratio	69
Table 4.14	Trend of Total Investment to Total Deposit Ratio	71
Table 4.15	Trend of Investment on Government Securities to Total Deposit Ratio	72
Table 4.16	Trend of Investment on Treasury Bills to Total Deposit Ratio	75
Table 4.17	Trend of Investment on Government bond to Total Deposit Ratio	77
Table 4.18	Trend of Investment on Treasury Bills to Investment on Government Securities Ratio	79
Table 4.19	Trend of Investment on Government Bond to Investment on Government Securities Ratio	81
Table 4.20	Trend of Interest Rate of 364-days Treasury Bills	83
Table 4.21	Trend of Interest Rate of 91-days Treasury Bills	85
Table 4.22	Trend of Interest Rate of National Saving Certificate	86
Table 4.23	Trend of Interest Rate of Development Bond	88

LIST OF FIGURES

Figure 4.1	Investment on Government Securities to Total Investment Ratio	46
Figure 4.2	Investment on Treasury Bills to Total Investment Ratio	48
Figure 4.3	Investment on Government Bond to Total Investment Ratio	50
Figure 4.4	Total Investment to Total Deposit Ratio	52
Figure 4.5	Investment on Government Securities to Total Deposit Ratio	54
Figure 4.6	Investment on Treasury Bills to Total Deposit Ratio	55
Figure 4.7	Investment on Government Bond to Total Deposit Ratio	58
Figure 4.8	Investment on Treasury Bills to Total Investment on Government Securities	60
Figure 4.9	Investment on Government Bond to Total Investment on Government Securities Ratio	61
Table 4.10	Investment on Treasury Bills to Short-term Investment Ratio	64
Figure 4.11	Trend of Investment on Government Securities to Total Investment Ratio	66
Figure 4.12	Trend of Investment on Treasury Bills to Total Investment Ratio	68
Figure 4.13	Trend of Investment on Government Bond to Total Investment Ratio	70
Figure 4.14	Trend of Total Investment to Total Deposit Ratio	72
Figure 4.15	Trend of Investment on Government Securities to Total Deposit Ratio	74
Figure 4.16	Trend of Investment on Treasury Bills to Total Deposit Ratio	76
Figure 4.17	Trend of Investment on Government bond to Total Deposit Ratio	78
Figure 4.18	Trend of Investment on Treasury Bills to Investment on Government Securities Ratio	80
Figure 4.19	Trend of Investment on Government Bond to Investment on Government Securities Ratio	82
Figure 4.20	Trend of Interest Rate of 364-days Treasury Bills	84
Figure 4.21	Trend of Interest Rate of 91-days Treasury Bills	85
Figure 4.22	Trend of Interest Rate of National Saving Certificate	87
Figure 4.23	Trend of Interest Rate of Development Bond	88

ABBREVIATIONS

AGM	Annual General Meeting
A.M.	Arithmetic Mean
BOK	Bank of Kathmandu Limited
B.S.	Bikam Sambat
C.V.	Coefficient of Variation
DBL	Dubai Bank Limited
EBIL	Emirates Bank International Limited
EBL	Everest Bank Limited
Etc.	Etcetera
FDI	Foreign Direct Investment
FINGO	Financial Intermediary Non Governmental Office
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
i.e.	That is
IMF	International Monetary Fund
JBVs	Joint Venture Banks
Ltd.	Limited
MBS	Masters of Business Studies
Nabil	Nabil Bank Limited
NBLB	National Bank Limited Bangladesh
NEPSE	Nepal Stock Exchange
NIC	Nepal Industrial and Commercial Bank Limited
NRB	Nepal Rastra Bank
PNB	Panjab Bank Limited
RANs	Revenue Anticipation Notes
RBB	Rastriya Banijya Bank
Rs.	Rupees
S.D.	Standard Deviation
SEBO/N	Security Board of Nepal
TANs	Tax Anticipation Notes
Vol.	Volume