

# **CHAPTER- I**

## **INTRODUCTION**

### **1.1 Background of the Study**

The world is one of the pieces in the universe which is politically divided among different countries with variability in various aspects. Economic condition is one of the most remarkable distinctions among other things. In this universe there are some countries whose economic condition is very high with per capita income more than US\$ 50,000 while there are such poor countries as well whose economic condition is very low with per capita incomes less than US\$ 400 per annum. These poor countries are suffering from various problems despite the fact that during this decade significant improvement had been visible in the global economy and financial situations (Maharjan, 2005).

After suffering with economic and financial crisis in recent years, South Korea, Japan, European countries, Thailand, America, Malaysia and Singapore are recovering their economic conditions gradually. Among the Nepalese neighboring countries, China and India's economic condition is growing very rapidly. (Khanal, 2005)

Capital formation is one of the important factors in economic development. The capital formation process leads to increase in the size of the national output, income and employment by solving the problem of inflation and balance of payments and making the economy free from the burden of foreign debts. According to the classical economics one of the main factors which helped capital formation was the accumulation of capital. Profits made by the business community constituted the major part of savings of the community and that savings was assumed to be invested. They thought that 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 one of the most serious limiting factors in underdeveloped countries. In the view of many economists capital occupies the central and strategic position in the process of economic development (Maharjan, 2005). If an under developed economy lies in rapid expansion of the rate of its capital investment, 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, the living standard of people in developing countries will improve. In many 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).

For the development of any country the first requirement is to have enough capital. Capital is the back bone for the development of the nation. Nepal lacks the adequate capital for its development planning. Due to this reason so many development projects are in pending. If there were enough capital available, Nepal could invert many pending projects into the profitable projects and these projects would contribute a lot in the national GDP. Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in saving account in a bank for example, the bank must invest by lending the funds to various business companies. These firms in turn, may invest the money in factories and equipments to increase their production. In addition borrowing from the banks, most business companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to fill the gap of deficit budget and constructs public 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).

Nepal is one of the least developed countries in the world with only a per capita income of about US\$ 742 (CBS, 2012). One of the important 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 strategic development and for plan, huge amount of capital investment is required. Around 40% of total population of Nepal is steeped in absolute poverty line (CBS, 2012). The lack of effective and trained human resources, lack of advance technology and based on traditional agriculture are some of the main causes of poverty. Due to low per capital income there is lack of saving and capital formation.

Recognizing the fact, Nepal cannot ignore the importance of commercial banks for its development. Realizing it, Nepal government has been adopting the economic liberalization policy. Due to the liberalization policy adopted by the government, the number of banks has been increased and there has emerged the tough competition between them. At present, there are around 31 commercial banks, more than 900 bank branches, more than 2000 finance companies, 5 rural development banks, more than 600 co-operatives and many more non-government micro finance companies in Nepal (NRB , 2012).

## **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 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 region 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, 2037). During the region of Gun Kam Dev, the coin “Gunank” was in use. Historically, we find the evidence of minted coin of Amsuvarma in 7<sup>th</sup> century. At the end of 8<sup>th</sup> century, Shankardhar, a Merchant of Nepal, paid all the outstanding loans of the Nepali people and started a New Era (Nepal Sambat). Sadashiva Dev in 12<sup>th</sup> century introduced silver coins (Bajjracharya, 2047).

Jayasthiti Malla, ruler of Kathmandu, classified the people into 64 different casts on the basis of their occupation towards the end of the 14<sup>th</sup> century. At that time, king Malla has given the responsibility to a cast of society called “Tankadhari“. In the same century, copper coins were used by King Ratna Malla of Kathmandu, Silver

coins by Mahendra Malla and gold coins by the last Malla king of Kathmandu Jaya Prakash Malla (Bajracharya, 2047).

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 (Kafle, 2053).

After the establishment of Nepal Bank Limited (NBL) on 13<sup>th</sup> kartik, 1994 B.S., modern banking system was started in Nepal. Since, Ashwin 1<sup>st</sup> 2002 B.S., the notes of 5, 10 and 100 were brought into use from Sadar Muluki Khana (Maharjan, 2005).

The economic and industrial development was stopped in Nepal from the World War II. 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 7<sup>th</sup> Falgun 2016 B.S. for the first time (Maharjan, N. 2005). This Bank is the central bank of Nepal. NRB was established with many objectives but mainly.

- (a) To use of Nepalese currency (NC) in place of Indian currency (IC).
- (b) To increase usage of NC.
- (c) To stop dual monetary system.
- (d) To apply monetarism in all part of the kingdom.
- (e) To provide for issuance of notes.
- (f) To keep stability of the exchange rate of NC.
- (g) To encourage national industry by mobilizing the capital for development.
- (h) 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) 2034 B.S. were established under the special consideration of central bank

Rastriya Banijya Bank (RBB) was another important bank established in Nepal. The existence of only one bank (NBL) was functioning in the field of business only. Hence establishment of RBB had a great significance. This bank was established in government sector in 2022 B.S. (1966 A.D.). Its functions are to accept the deposits, to provide loan, to carry out works relating to agencies. It has rendered a great contribution to the development of the country.

The process of development of banking system in Nepal was not satisfactory up to 2040 B.S. (1983). No bank was opened from during this period except ADB/N in 2024 B.S. and only extending the branches of 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 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 bank began to offer their valuable services to the people through new technologies. Nepal Arab Bank Limited (NABL) is the first established in joint investment in Nepal in 2041 B.S. (Kafle, 2053). At present, there are altogether 31 commercial banks in operation in Nepal.

### **1.3 Focus of the Study**

This study will focus the problems of Deposit Mobilization and proper utilization of RBB, Dhadingbesi Branch. This study will mainly consist of the study of deposit and the characteristics of this bank's loans and reflects on the position of bank's deposits and aggregate allocation of credit on different sectors of the economy. Therefore this study deals with the efficiency of RBB Dhadingbesi Branch and economic development of the country by making a survey of deposits and credit of RBB and how can utilize it to fulfill the financial needs of the different sectors of the economy.

It has generally been observed that the deposits of commercial banks have not been fully utilized.

#### **1.4 Statement of Problem**

Nepal is underdeveloped 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 country can't be accumulated from those internal sources. So, it can be said that in Nepal's present situation, bank deposit is 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. We have 31 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 idle deposits. Having a general look upon the utilization of deposit of Rastriya Banijya Bank with 8 years periods, the average percentage of deposit mobilization is 35.63%. This is in fact a good figure. But viewing to our economic situation, we need more improvement upward in it. Again, we can notice that the general trend of deposit mobilization is slightly declining which is perhaps not appealing to our development needs. These are the problems associated with deposit mobilization of commercial banks. These problems include:

- (a) 85 % people of the total population live in the rural area.
- (b) Due to imbalance in the growth of banking in the country, many people are depriving of the banking facilities. There are many branches of commercial bank but these are not distributed in a balanced way.

- (c) Development works need short, medium and long term credit. But commercial banks, except in case of priority sector, provide only a short term credit.
- (d) The credit provided by commercial banks to the agriculture, industrial and service sectors (priority sector credit) are not satisfactory to the present needed.
- (e) Around 40% of people of our country are lying under the marginal poverty line (International Forum 2000).
- (f) Except in priority sectors loan the commercial banks are security minded to disburse credit. Again the procedure of loan taking is long and unsatisfactory.
- (g) Commercial banks are for loan and advances are very limited.
- (h) Lack of banking knowledge, advertisement, bad social customs and habits, people who can save money, they like to spend on unproductive activities like purchasing of land, making building, ornaments etc.

Because of these problems not only the deposit mobilization of certain branches of commercial banks, but the commercial banks as a whole are not satisfactory to the present requirement.

### **1.5 Objectives of the study**

The purpose of this study will be to examine relationship between amounts of total deposit and amount of total credit granted by Rastriya Banijya Bank Dhadingbesi branch. The specific objectives of the study are.

- (a) To study the trend of deposit mobilization and credit position of selected branch of RBB.
- (b) To examine how far the interest rates on deposits have positive relationship with the deposit collection of selected branch of RBB.
- (c) To look at the impact of interest rates of loan on the credit extended by RBB.

### **1.6 Research Questions**

On the basis of the objectives of the study as mentioned above the following research questions has been consider for the study.

- (a) What is the trend analysis and how it is formed?
- (b) How the interest rates affect on deposits collection of commercial bank and what type of relationship exists between these two variables?
- (c) How the lending interest rates affect on credits (loans and advances) of commercial bank and what type of relationship exists between these two variables?

### **1.7 Significance of the study**

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

- (a) This study is helpful to know how well the bank is utilizing its deposit.
- (b) This study is important to policy makers and academic professional to formulate policies and plans on the basis of the performance of the bank.
- (c) This study is important to the bank to make policies based on recommendations suggested in the thesis.
- (d) It is important for the investors, customers (depositors, loan takers) and Personnel of bank to take various decisions regarding deposits and loan advances.
- (e) This study may encourage to researcher to research further.

### **1.8 Limitations of the study:**

As every research has its own limitation this study is not biased. This study will be conduct for the partial fulfillment of master degree in Economics. So it possesses some limitations of its own kind. Due to various limitations the study cannot cover all dimensions of the object. The limitations of this study are as follows.

- (a) This study wills cover 8 years study period (i.e. from 2063 to 2070 BS)
- (b) This study will base on both primary and secondary data.
- (c) This study will not concern with detail experimental research.



- (d) This study will concentrate on deposit collection and its utilization by RBB Dhadingbesi branch only.
- (e) The consistency of finding and conclusion depend up on the reliability of the data.
- (f) Only selected statistical and financial tools are used.

## **1.9 Scheme of the study**

This study divided into five chapters for proper identification.

- Chapter I:** It includes the introduction part. It contains Background of the study, Development of banking system in Nepal. Chapter I also includes Statement of the problem, Significance of study, Objectives of study, Focus of the study, Scheme of study and Limitations of study.
- Chapter II:** It includes the conceptual 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 RBB. It also Include 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 methodology used is 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 finding of the study.
- Chapter V:** It contains the summary of the study as well as conclusion and recommendation.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

This chapter is basically concerned with review of literature relevant to the topic “Deposit Mobilization of RBB, Dhadingbesi Branch.” Every study is very much based on past knowledge. The previous studies cannot be ignored because they provide the foundation of present study. In other words, there has to be continuity in research is insured 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).

#### **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 extends credits and transfer the funds by written order of deposits (The Encyclopedia America, 1984).

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 (The Encyclopedia America, 1984).

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 saving of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from 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 the term needs of trade and industry such as working capital financing. They cannot 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).

A commercial bank can be defined as an institution which deals in money in words of 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).

### **2.1.2. Role of Commercial Banks in Nepal**

Financial sector is broad which consists of the banking sector and other financial institution (such as insurance corporations and pension funds, brokers, public exchange and securities markets etc), however in the context of economic development the banking industry carries the greater share of the financial system (Sheku, 2005). Most of the business relies on banking sector as a source of financing (Medhat, 2004). Banks have historically been viewed as playing role in financial markets for two reasons. One is that they perform a critical role in facilitating payments. Commercial banks, as well as other intermediaries, provide services in screening and monitoring borrowers; and by developing expertise as well as diversifying across many borrowers, banks reduce the costs of supplying credit (Katherine, 2004). Thus in their role as lenders, banks are often not merely buying someone's debt, rather they are providing significant financial services associated with extending credit to their customers and to the extent that investors want to hold banks liabilities, banks can fund borrowers directly. The main providers of additional financing are domestic commercial banks (Herald *et al*, 2009). Banks perform various roles in the economy (Franklin and Elena, 2008):-

- (a) They ameliorate the information problem between investors and borrowers by monitoring the latter and ensuring a proper use of the depositors' fund.
- (b) They provide inter temporal smoothing of risk that cannot be diversified at a given point in time as well as insurance to depositors against unexpected consumption shocks. Because of the maturity mismatch between their assets

and liabilities, however banks are subject to the possibility of runs and systematic risk. .

(c) Banks contribute to the growth of the economy.

They perform an important role in corporate governance. The relative importance of the different roles of banks varies substantially across countries and times but banks are always critical to the financial system.

Commercial banks are institutions that engage in two distinct types of activities, one on each side of the balance sheet deposit-taking and lending. So that banks are playing mainly intermediation function, this is supported by (Russell and Bamindele, 2009). Mahendra (2005) also states banks as the backbones of the trade and commerce playing the intermediary role of capital formation and supply. Even if other financial institutions are available banks play a major role in facilitating the way the financial sector operates (Eduardo *et al*). Therefore banks are important of all other financial institutions. Banks influence macroeconomic environment, as to Adam (2005), bank failures involve significant macroeconomic costs. Adam (2005) has developed evidence that bank failures have significant and apparently permanent effects on real economic activity. Therefore banks are also important influencers in macroeconomic environment.

Banks mobilize, allocate and invest much of society's savings (Berger *et al*, 2004). Households and businesses are mainly using banks to save their money to get loan for their project undertakings. Kelvin (2001) said that commercial banks are important financial intermediaries serving the general public in any society. In most cases commercial banks hold more assets than any other financial institutions. Apart from their many functions, commercial banks facilitate growth and development. Banks lend in many areas or sectors of the economy.

Moreover commercial banks will affect the overall economy of the specific country both in a good way or bad way. Commercial banks represent a vital link in the transmission of government economic policies (particularly monetary policy) to the rest of the economy. For example, when banks credit is scarce and expensive, spending in the economy tends to slow and unemployment usually increases as Kelvin

(2001) explains. So the event in the commercial banks will affect the country's economy in general.

Bank deposits represent the most significant components of the money supply used by the public, and changes in money growth are highly correlated with changes in the prices of goods and services in the economy (Kelvin, 2001). Commercial banks are critical to the development process. By granting loans in areas such as agriculture, manufacturing, services, construction and energy sectors, banks contribute to the development of the country. Not only commercial banks are affecting the economy but also the economy affects the functions of commercial banks. Bank loan portfolio including volume, tenor and structure may be generally influenced by their expectations of the performance of economy both in terms of stability and level of performance. As cited by Talavera et al (2006), Russel *et al* (2009) banks make out more loans during periods of boom and reduced level of macroeconomic uncertainty and curtail lending when the economy is in recession.

The role of the commercial banking in the economy is obviously a prime prerequisite for the formulations of the bank policy as the role shapes, the nature and characters of the bank. The deposit minded bankers may overstress 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 supplier 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. The main objective of the commercial bank is to make profit where as the central bank thinks of the effect of its operations on the working of the economic system. The commercial bank may be few or many and they are to be found business with the general public all over the 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).

Nepal has been facing the problem of accelerating 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 developing countries. However, their important role in the economic development of the country has been fully realized and those banks are being oriented in their activities best studied for the overall economic development. Today, there are 31 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 services and managements, the role they are performing for Nepal's overall economic development cannot be underestimated. They have been performed a leading role to the best of their capacity in the promotion of Agriculture, Industry, Trade and Commerce etc.

The economy of our country is dominated by agriculture sector. This could be exemplified from the figures that about 75% of the total population is engaged in agriculture and about 40% of the national income comes from the agriculture. Similarly, around 50% 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. Thus it is very clear that in such a country the financial help to the agriculture sector is most urgent and indispensable for strengthening the base of national economic structure.

In Nepal, 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 hereby helping the agriculture sector through two channels:

- (a) By providing fixed capital to Agriculture Development Bank by purchasing its shares of debentures.
- (b) By giving direct credit facility to the farmers on the mortgage of their land, house, food grains and other cash crops like jute, tobacco, sugarcane etc.

As the agriculture 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 agriculture products. 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 and wide geographical coverage of commercial banks particularly in agriculture is a prerequisite for accelerated and sustained economic growth.

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

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, OBC, 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 hotel facilities, dealing with foreign exchange and accepting traveler cheque from the tourist.

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 its self without the development of these banks. It is not only true in the capitalist countries but also true in 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 bank is 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 and Activities of RBB**

These are the objectives of RBB

- (a) Maintain the banking facilities for the general public for their economic interest.
- (b) Manage the circulation of Nepalese currency inside the whole country.
- (c) Fixation of exchange rate.
- (d) To mobilize capital for development.
- (e) To develop banking system in Nepal

The major activities include deposit collection, lending to commercial as well as productive sectors, Foreign exchange business, remittance, merchant banking, correspondent banking etc. Provision of convent service, flexibility and understanding of our needs of our customer are the main thrust of the bank.

The bank has participated in different programs such as Cottage and Small Scale Industry (CSI), Intensive Banking Program (IBP), Production Credit for Rural Women (PCRW), Micro Credit Program for Women (MCPW) etc. Banking with the Poor (BWP) program has been developed and launched by the bank and has gained popularity among the deprived sectors of the country.

The liberalized economic policy of the nation has encouraged us to be competitive in all areas of our business and hence to be efficient in the delivery our products in the market. The bank is moving ahead with and new perspective with the new management structure, new strategy, new program and it will enable the organization to provide more deficient, relevant, prompt services to our valuable customers.

Above all, the endeavor of the bank is to win the hearts millions of depositors and enterprising people and thereby translate it into sustainable profitability (Souvenir, RBB, 2059).



### **2.1.5 Resources of Nepalese Commercial Banks**

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

- (a) **Capital:** So far as the capital fund its concerned, it is only a nominal source, Therefore it cannot be used for investment purpose. This capital fund consist of two elements: Paid up capital and General reserve.
- (b) **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 to ever but they can accomplish Herculean tasks when they are aggregated and employed by the banker.”
- (c) **Internal and external borrowing:** Internal and external borrowing are very important for a developing country like Nepal being an underdeveloped country. Commercial banks alone cannot 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 Deposits**

Commercial Bank deposits are major liabilities for commercial banks. Kelvin (2001) said that deposits of commercial banks account for about 75% of commercial bank liabilities). Due to the fact that commercial banks are using this liability to lend it and gain return on it their deposits are using them do their business. Therefore, banks will be better if they are mobilizing more deposits. However, as N. Desinga (1975)

indicates deposit mobilization is a very difficult task. The cost of intermediation for mobilizing deposits is also very important part of overall intermediation cost of the banking system as E. A. Shaw (1995) indicates. Despite all these deposits play an important role in the banking system, whether cooperative or commercial bank. Deposits provide limits to the working capital of the bank concerned. The higher the deposits, the higher will be the funds at the disposal of a bank to lend and earn profits (N. Desinga, 1975). Therefore to maximize its profit the bank should increase its deposit.

Mahendra (2005) had also mentioned deposits as a foundations up on which banks thrive and grow and unique items on a bank's balance sheet that distinguish them from other type of business organizations.

Commercial banking is a service industry with a high degree of built in profit potential (Meenakshi, 1975). The number one expense item for a bank is interest paid. Commercial banks mainly depend on the funds deposited with them by the public to lend it out to others in order to earn interest income (Davinaga, 2010). Hamid (2011) said that if banks lose their deposit base they rely on non deposit based funding which is expensive.

Banks deposits arise in two ways: The first when banker receives cash and credits a customer's account, it is known as a primary or simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance, loans, discount bills, provide overdraft facility make investment through bonds and securities. This is called derived deposit or derivative deposits. They add to supply of money. Banks actively create such deposits (The Encyclopedia Britannica, 1981).

#### **2.1.6.1 Types of Deposits**

At the outset it is necessary to know what a deposit is. Commercial Bank Act 2031, define deposit is the amounts deposited in a current, saving or fixed accounts of a bank or financial institution. People in general, the businessmen, the industrialist and other individuals deposit money in a bank. Actually, such amount is the main sources 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 deposit. 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. Therefore, there are three kinds of deposits namely:

- (a) Current or Demand Deposits
- (b) Saving Deposit
- (c) Fixed or Time deposits / Term deposits

(a) **Demand Deposit**

The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposit. In another words, we can say that this type of demand deposit as current account. Current account means an account of amount 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 cannot 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 cannot impose any condition and transaction in demand deposit. An institution or an individual, who usually needs money daily, precede their acts and transaction through such deposit. The current account is very important for the customer of bank (Kafle, 2053).

(b) **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 account means an account of amounts deposited in a bank for saving purposes. This account is suitable and appropriate for the people of middle class, farmers and the labors who have low income, officials and 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 (Vaidya, 2001)

**(c) Fixed Deposit**

Under the Commercial Bank Act 2031, fixed account means an account of amounts deposited in a bank for a certain period of time. The customers opening such account and deposit their money, for a 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, 3years, 5 years etc (Kafle, 2053).

### **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. This process is explained below how the credit is created by the help of deposits.

In the modern banking industry, actual cash withdraws 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 he 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 banks know that the customer will withdraw money by cheques which will be deposited by his creditors in the same bank or some other banks 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.

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 the 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 his transaction. 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 bond and securities. The bank pays for the bond through a cheque on itself to the central bank. If it buys such securities 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 by 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).

### **2.1.8 Deposit Mobilization**

Collecting scattered small amount of capital through different Medias and investing the deposit fund in productive sector with a view to the increase the income of the depositor is meant deposit mobilization. In other words investing the collecting fund in the productive sector and increase the income of the depositor it also support to increasing to saving through the investment of increased extra amount (NRB, Bankers Prakashan, 1984).

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).

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words,  $\text{saving} = \text{Income} - \text{Total Expenditure}$ . 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 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)." But how capital can be accumulation in the developing countries, there are two ways of capital accumulation in the developing country one from the external sources and the other from the internal sources. In the first group Foreign aids, Loans and Grants are the main. While in the later financial institutions operating within the country play a dominant role. In the context of 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.

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 saving 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 if income over consumption. Investment is the expenditure 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 the financial assets.

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 and Sharma 1965).

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, Upahar, 2055).

Banking transaction refers to the acceptance of deposit 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, 2037).

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 this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB Upahar, 2054)

### **2.1.8.1 The Importance of Deposits for Banks**

#### **(a) Deposits as a source of fund for loan**

Herald (2009) states deposits are the main source of banks to provide loan. This deposit is mainly provided by people as Mohammad and Mahdi (2010). However deposits can also be provided by business organizations, NGOs, government and so on. Therefore, whether deposits are from individuals, businesses and government they are important financial source of banks.

### **(b) Attracting deposit is cheaper than raising equity**

Banks as other business organizations fund from debt and/or equity. In the banks context raising equity is more expensive or costly than attracting deposits. Lorenzo et al (2010) states that, if the lending channel plays a role, the deposit growth should lead to an increase in the supply of loans due to the additional source of financing for banks. As demand for loan increases because of the development work done by individuals, businesses and government, banks should extend their deposit base. When a commercial bank creates a deposit by lending to a business man, it is clearly performing a function for which it is entitled to a return in the form of interest payments (Harold, 1946).

### **(c) Banks make profit using their deposits**

Mahendra (2005) said that deposits provide most of the raw materials for bank loans and thus represent the ultimate source of the bank's profits and growth. Banks make profit by using their deposits, therefore it is said that depositors can discipline banks. Maria and Sergio (2001) found that depositors discipline banks by withdrawing deposits and by requiring higher interest rates. For depository corporations mainly deposit money banks, their principal objectives is undertaking financial intermediation to make profit and increase their shareholders value (Sheku, 2005). They achieve their objectives mainly by attracting deposits and investing the money on profitable investment portfolio.

### **(d) Fund investment and/or development projects**

Debt is largely held by domestic commercial bank which is funded mainly from deposits, the government demand for bank assets enabled banks to continue to expand their deposit base rapidly and profitably (Herald and Heiko, 2009). Individual investors and government are mainly depends on the deposits of banks to fund their investments and/or development projects. Generally, the banking system can be viable only if it can mobilize deposits at the required rate. And this can be done only by making a bank deposit more attractive (V. V. Bhatt, 1970). The ability of a bank's management and staff to attract checking and savings accounts from business and individuals is an



important measure of the bank's acceptance by the public (Mahendra, 2005). Banks' management major concern is the variability of deposits for several reasons. George (1972) mentioned the reasons why the variability of banks' deposits is important as follows:-

- i. Deposit variability is frequently included as an important determinant of portfolio strategy. The more volatile a bank's deposits are the more liquid its mix of assets will be.
- ii. To the extent deposit variability affects bank holdings of cash and excess reserves, variability affects the distribution of total member bank reserves within the banking system and thereby the path and speed of monetary policy actions.
- iii. To the extent deposit variability affects the mix of bank's assets; it affects the availability of funds for loans and consequently the loan rate.
- iv. To the extent deposit variability affects both the mix of earnings assets and the frequency of engaging in costly reserve adjustments, variability affects the profitability of individual banks.

### **2.1.8.2 The Factors Affecting Commercial Banks Deposits**

An important indicator of the success and efficiency of any credit agency, which is also a banking institution is, the extent to which it is able to mobilize the savings of the community in the form of deposit. But deposit mobilization is very difficult task. It depends up on various factors exogenous as well as endogenous, to the banking system (N. Desinga, 1975). Exogenous factors are the general economic environment of the region, the volume of business transaction of the region, the confidence of the people on the banking system, the banking habit of the people and the saving potential of the region. Even when exogenous factors are more conducive for deposit mobilization, banks may fail because of unfavorable endogenous factors such as location, type of building and window dressing (furniture, cheque books, vouchers, pay slips etc), which assure the customers about the physical fitness of a bank(N. Desinga, 1975). As N. Desinga (1975) did the researcher classifies the variables which are claimed to have effect on the commercial banks deposits into two, namely exogenous and endogenous factors. Exogenous has further divided into country

specific factors and bank specific factors for clarification purpose. Endogenous factors can be controlled by the banking system however the exogenous factors cannot be controlled by the banking system. The bank specific factors are factors that are specific to the banking system and the country specific factors are factors that are beyond the banking system.

### **(a) Exogenous Factors**

These are factors that are from country and banks that can affect the growth of commercial banks deposits. There are discussed as follows:-

#### **i. Country Specific Factors**

The country's economic, social and political factors can affect the commercial banks. According to Herald and Heiko (2009), country specific risks such as political, economic and financial risks may affect the propensity for depositors to place funds in the banking system. Any single bank operates under the rule and regulation of the country where it belongs, also different problems and shocks that has happened in the country has its own concern in the banks operation. Generally, bank success in their operation is mainly depends on the environment where the business is undertaken. The researcher has identified ten country specific factors that have an effect on the commercial banks deposits from the literature. They are saving interest rate or deposit rate, inflation, real interest rate, number of commercial banks available in the country, population growth, per capita income of the society, economic growth, consumer price index, gross domestic product (GDP) and shocks.

#### **ii. Saving interest rate (Deposit rate)**

One of the most effective factors for deciding to deposit in banking system is the interest rate (Mohammad and Mahdi, 2010). Moreover, this article shows the impact of interest rate on the performance of the banking system to achieve the goals that are expected from the banking system. Herald and Heiko (2009) also mentioned interest as one of the determining factor for commercial banks deposits. Philip (1968), also states that the offering of attractive interest rate on bank deposits may be considered to have had a beneficial effect. Moreover, Mustafa and Sayera (2009) said that low deposit

rates are discouraging saving mobilization. V. V. Bhatt (1970) said that the banking system is unlikely to be in a position to meet the demand for bank credit unless concerted policy is pursued to raise the rate of saving generally and the rate of saving in the form of deposits in particular.

Interest rate in the banking system is held as investment cost from the investor's point of view and opportunity cost from the depositor's point of view (Mohammad and Mahdi, 2010). Thus, capital market forces balance interest rates. In other words, the just and correct interest rate should be determined through market mechanism, that is, interest rate is balanced in supply and demand conditions in proportion with the inflation rate. Eustacius and David (1995) states that deposits are more interest rate sensitive and banks may choose to increase investments in interest rate sensitive assets and to decrease investments in loans. That is commercial bank deposits are interest rate sensitive, therefore as the interest rate changes the deposit of the commercial banks will change. It is known that depositors bring money to the bank which, the bank in turn lends it to borrowers. The gross earnings of the bank are determined by the volume and composition of loanable funds and the rates at which they are loaned. After losses and expenses of operation are deducted, the net earnings provide a margin out of which interest on deposits can be paid. Because of the competition for these funds among bankers who desire to loan them at a profit, a bank must pay interest or lose deposits to a competitor. The payment of interest on deposits is explained in this wise, like any other interest rate. As to Erna and Ekki (2004), Economists, mainly conventional ones, believe that depositors are attracted to deposit their money in banks because of the opportunity cost of holding cash in hand is high when the interest rate is also high (Romer, 2001, p. 346; Athukorala and Sen, 2004, p. 498). This can easily be explained by the utility maximization (cost minimization) premise, as a depositor will choose an action that will maximize their welfare or satisfaction. As to Richard (1971), regulation of the commercial banking industry affects the returns which commercial banks realize on their deposits and capital. That is although deposits are the source for profit of banks it is influenced by regulation of the country. Accordingly, the higher profit rate on demand deposits is to a large extent the result of the

prohibition against the payment of interest on these deposits. Therefore, depositors are motivated by returns. Using an Adaptive Expectation Model (AEM), it is founded that depositors are indeed motivated by returns in Malaysia (Erna and Ekki, 2004). On the other hand, Erna and Ekki (2004) state that Ghafur's (2003) shows that the rate of interest does not have influence on the volume of the deposits.

### **iii. Inflation**

As to Herald and Heiko (2009), inflation is one of the factors that determine commercial banks deposits. Fischer showed that in Latin America the effect of inflation on savings and time deposit to GDP was significantly negative (Mohammad and Mahdi, 2010). The classical belief is that, because bank assets and liabilities are expressed in monetary terms and because these assets will normally grow in line with growth in money supply, banks are relatively immune from the effects of inflation (Devinaga, 2010). In brief, monetary policy works by controlling the cost and availability of credit. During inflation, the Central bank can raise the cost of borrowing and reduce the credit creating capacity of commercial banks. According to Devinga (2010), this will make borrowing more costly than before and thereby the demand for funds will be reduced. Similarly with a reduction in their credit creating capacity, the banks will be more cautious in their lending policies. Since the banks demand for fund decreases obviously the deposits will decrease. Banking system was affected by inflation in terms of deposit absorption and facilities grant (Mohammad and Mahdi, 2010). As to Mohammad and Mahdi (2010), in developed countries negative correlation between inflation and absorbed deposits and granted facilities has been documented. However, in developing countries the opposite is true. Inflation is seen as an economic problem in developed countries in the second half of 20<sup>th</sup> century. Inflation with effect in economic growth, employment, income distribution and wealth as well as social and political conditions of a country can influence its entire dignity (Mohammad and Mahdi, 2010). Moreover Mohammad and Mahdi (2010) Banking system as an important effective factor in economic performance has also been under the influence of inflation. As to Mohammad and Mahdi (2010), as far as the effect of inflation on financial sector

conceived the literature demonstrates that inflation affects the capacity of financial sector for optimal allocating of resources. That is as inflation rate increases, true yields rate of money and assets decrease, therefore deposits are no longer attractive. Also the increase of inflation rate has a negative effect on the performance of financial sector through the market credits and in turn, on the performances of banks and capital markets and finally on the long term economic growth (Mohammad and Mahdi, 2010). With respect to the effect of inflation on savings, it can be mentioned that in general, all individuals who save a part of their incomes in banks are directly damaged by the inflation and their assets decrease in proportion with money value decrease (Mohammad and Mahdi, 2010). In that case as Mohammad and Mahdi (2010) describes people try to change their cashes and savings to more reliable and stable forms such as land, jewelry, antiques, art collections, foreign currencies that causes to definite decrease in commercial bank's total deposit. High inflation rates reduce the real value of deposits (M. A. Baqui *et al*, 1987). According to M. A. Baqui *et al* (1987), inflation technically did not decrease deposit; however it decreases the value of deposits.

**iv. Real Interest Rate**

Real interest rate is nominal interest rate minus inflation rate. Mohammad and Mahdi (2010) said that in negative real interest rate condition, people withdraw their resources from banking system. According to Mohammad and Mahdi (2010), Some research supposed that decrease in real interest rate could decrease true demands for money (in its extensive definition including savings and time deposits). Therefore it states that the interest rate and deposit of the banks have positive relationship. According to Voon-Choong *et al* (2010), while interest rates risk is a major concern for banks due to the nominal nature of their assets and the asset-liability maturity mismatch (Hasan and Sarkar, 2002), some researchers emphasized that higher interest rates had positive impact on banks (Hanweck and Ryu, 2004; Hyde, 2007).

**v. Population growth of the country**

The twin objectives of commercial banks, i.e. acquiring deposits and advancing credit cannot be attained without good banking habits of the people

(Mahendra, 2005). Moreover Mahendra (2005) states that, the number of deposit accounts is more important because it ensures that the probability of account is more important because it ensures that the probability of account holders withdrawing cash at a time decreases as the number of deposit account increase, thereby creating advantage for banks in terms of increasing the size of the loan able fund. So the higher number of deposit accounts the greater is the advantage to banks. The number of deposit accounts depends on the number of deposit account holders.

**vi. Per capita income of the society**

According to Jim (2008), per capita is the level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country. If households and firms desire to hold more money, deposits will increase (Evan, 2006). So the relationship between income and deposit is positive, that is if the income of the society increases the same happens for the commercial bank's deposits. Income is expected to have a positive effect on deposits (M. A. Baqui *et al*, 1987). Therefore as society's per capita income increases the same will happen for commercial banks deposits. Mahendra (2005) also indicates that income of the society matters for banks' deposit growth. Eshetu & Mammo (2009), Ethiopia is one of the poorest countries in the world with an estimated per capita income of just \$203 (IMF 2007 cited by the Financial Standards Foundation).

**vii. Economic growth**

Economic performance is generally being measured through GDP (Gross Domestic Product), a variable that has also become the de facto universal metric for 'standards of living (Yanne *et al*, 2007). It is universally applied according to common standards, and has some undeniable benefits mainly due to its simplicity (Yanne *et al*, 2007). According to Herald and Heiko (2009), growth is one of the determining factors for commercial banks deposits. GDP is calculated by adding up the value-added at each stage of production (deducting the cost of produced inputs and materials purchased from an industry's suppliers) (Jim, 2008). Erna and Ekki (2004) finds four variables,

GDP, number of Islamic bank's branch offices, profit sharing rate, and interest rate that are thought to have influence on the volume of deposits. So, GDP can influence the growth of commercial banks deposits.

**viii. Consumer price index**

According to Herald and Heiko (2009), price can also determine commercial bank deposit and it can be indicated by consumer price index. In literature there is an evidence for the influence of consumer price index on commercial banks deposit, however this area was rarely studied.

**ix. Shocks**

Aggregate shocks affect deposits and interest rates during crises, regardless of bank fundamentals and investors' responsiveness to bank risk taking increases in the aftermath crises (Maria and Sergio, 2001). Therefore, given all other variables the shocks happened in the economy can affect the banks' deposits.

**(b) Bank Specific Factors**

**i. Liquidity of the banks**

The concept of liquidity in finance principally lies in two areas (ISMAL, RIFKI, 2010):- a) Liquidity of financial instruments in the financial market b) The liquidity related to solvency.

The former related to liquid financial markets and financial instruments, smooth transactions and no barriers. As to ISMAL, RIFKI, (2010), the latter discusses the obligation of banks to make payments to third parties (Fiedler, 2000:442). Some examples of this includes: setting up liquidity management policies, reserve liquidity, balancing assets and liabilities and preparing liquid financial instruments (ISMAL, RIFKI, 2010). An important measure of liquidity is loan to deposit ratio. The loans to deposit ratio is inversely related to liquidity and consequently the higher the loans to deposit ratio the lower the liquidity and vice versa (Devinga, 2010)

Key liquidity indicators such as central bank credit to financial institutions, deposits as a share of monetary aggregates, loans to deposits ratios, are important for open market operations and liquidity management (Sheku,

2005). According to Voon-Choong *et al* (2010), the basic need for liquidity, asset, liability, capital adequacy, credit and interest rates risks management are now more challenging than before (Mishkin, 2007). The banks' liquidity management involves acquiring sufficient liquid asset to meet the bank's obligation to depositors (Voon-Choong *et al*, 2010). According to the findings of Dorothee and Andrea (2009) it is more profitable for savings banks to hold liquid assets than to invest in illiquid assets, such as medium-term interbank lending to other credit institutions. According to the theories of financial intermediation, the two most crucial reasons for the existence of financial institutions, especially banks, are their provision of liquidity and financial services (ISMAL, RIFKI, 2010). According to ISMAL, RIFKI, 2010, Regarding the provision of liquidity, banks accept funds from depositors and extend such funds to the real sector while providing liquidity for any withdrawal of deposits, however the banks' role in transforming short term deposits into long term loans makes them inherently vulnerable to liquidity risk (Bank for International Settlements (BIS), 2008b:1). Individual, business and government will be willing to deposit their money in banks if they are certain that they are safe to withdraw the money whenever they want, this is the question of liquidity of banks. The more liquid banks can attract the deposits. Liquidity risk occurs in two cases,

- i. It arises symmetrically to the borrowers in their relationship with the banks, for example when banks decide to terminate the loans but the borrowers cannot afford it.
- ii. It arises in the context of the banks' relationships with their depositors, for example, when depositors decide to redeem their deposits but the bank cannot afford it.

Liquidity risk is the possibility that depositors may withdraw some or all of their funds, and default risk is the possibility that borrowers may not repay all their debts when due (M. Shubik and M. J. Sobel, 1992). Banks that are perceived as less risky maintain a high level of liquidity or have a lower concentration of assets, particularly to the government, may be expected to be able to attract more deposits than their peers (Herald and Heiko, 2009). A



higher degree of financial intermediation(peroxide by the loan-to-assets ratios) may signal a bank's success in generating income as well as a need for it to attract more deposits to support its increased lending activities (Herald and Heiko, 2009). A higher liquidity buffers (measured by the ratio of liquid assets to deposits) tend factor favoring deposit demand (Herald and Heiko, 2009). Liquid banks as well as banks with higher loan exposure are associated with higher deposit growth. Herald and Heiko (2009), states that the liquidity situation of the bank also plays a significant role in determining banks deposit growth. According to Nada (2010), Banks perceived as risky should have had more difficulty attracting deposits and making loans than banks perceived as safe. When banks fail to pay for its depositors then it faces liquidity risk that makes other depositors not to deposit in that particular bank.

**ii. Profitability of the bank**

Erna and Ekki (2004) find the long run relationship between commercial banks deposits and the profitability of the banks. Higher bank profits would tend to signal increased bank soundness, which could make it easier for these banks to attract deposits (Herald and Heiko, 2009). However, the effect of bank profitability and bank size are found to be insignificant once controlling for the other variables. So, the effect of profitability and banks size on commercial bank deposit is lower as compared with other variables.

**iii. Security of the bank**

Security of banks matters in mobilizing deposit. Riskier banks would be able to attract deposits only paying higher Interest rates. The security of banks has their own impact on attractiveness for depositors. For example in the existence of deposit insurance the depositors no longer are concerned about the soundness of their banks because their deposits are insured in the event of bank failure. So the bank should secure its system so as to mobilize more deposit than before and to attract new depositors and maintain the exiting depositors.

**iv. Branches**

There is a relationship between commercial bank deposits and commercial bank's branch expansion. Not only are deposits influenced by bank branches, but the expansion of bank branches is also influenced by the level of deposits in any area (M. A. Baqui *et al*, 1987). It is expected that banks make decisions on expanding their facilities by considering factors such as level of competition, deposit potential, regional income and existence of road and vehicles. As deposit potential is one thing that banks consider in expanding its branches, the deposit can also be a reason for branch expansion strategy that the banking sector uses. According to Erna and Ekki (2004), there is a long run relationship between commercial bank branch and commercial banks deposits. It is often argued that branching stabilizes banking system by facilitating diversification of bank portfolios (Carlson and Mitcheer, 2006). Mark and Kris (2006), found from theoretical literature on banking regulation that branch banking leads to more stable banking systems by enabling banks to better diversify their assets and widen their deposit base (Gart, 1994, Hubbard, 1994). An argument commonly articulated in the literature is that branch banking stabilizes banking systems by reducing their vulnerability to local economic shocks; branching enables banks to diversify their loans and deposits over a wider geographical area or customer base (Mark and Kris, 2006). Restrictions on branching have been linked to the instability of banking systems. Daniel (2005), suggest that the lack of widespread branching bank networks hindered the development of large-scale industrial firms. It is stated that unit banks become increasingly incapable of receiving deposits from a widespread geographic area. The single office bank is also not able to monitor geographically diffuse debtors as easily as could be done with multiple offices. Moreover, it can be concludes that under branch banking the mobility of capital is almost perfect

**v. Bank size**

Among the factors prominently identified as affecting deposit variability one is bank size. Evidence indicates that the number and diversity of the ownership of individual deposit accounts as well as the distribution of deposits by type vary with bank size (George, 1972). Herald and Heiko (2009) founds

that although insignificant once controlled by other variables bank size have an effect on deposits. Smaller banks have to generate fewer deposits in absolute terms to achieve the same deposit growth than large banks, thus possibly favoring smaller banks in achieving higher deposit growth. But a larger bank with economies of scale as well as larger branch network might be able to better attract deposits (Herald and Heiko, 2009).

**vi. Reserves**

Richard Goode and Richard S. Thom (1959) said that reserves that are fixed legally can influence the deposits that banks can hold. According to them reserve requirements determine the maximum amount of loans and investments that each commercial banks and the banking system as a whole may maintain in relation to deposits. Thus, if the reserve requirement is 20 percent of deposits, loans and investment (of the bank's own choosing) may not exceed 80 percent of deposits. Therefore, reserve requirements limit the total expansion of bank deposits that can occur on the basis of any primary increase in deposits. Reserve requirements also have the effect of limiting the reduction in bank credit and deposits that is forced up on the banking system by a primary decrease in deposits.

The commercial banks can obtain currency to pay out to customers only by drawing down their reserve deposits at the central bank or by using till money (Richard Goode and Richard S. Thom, 1959). Till money, according to Richard Goode and Richard S. Thom (1959) is the currency that banks keep on hand to satisfy day to day needs. They pointed out that bank deposits are a large part of the money supply in virtually all countries.

**vii. Transaction cost**

Important indicator of management's effectiveness in any bank are whether or not deposited funds have been raised at the lowest possible cost and whether enough deposits are available to fund those loans the bank wishes to make (Mahendra, 2005). This last point highlights the two key issues that every bank must deal with in managing its deposits (Mahendra, 2005):- Where can the bank raise funds at the lowest possible cost. How can management

ensure that every bank always has enough deposits to support the volume of loans and other financial services demanded by public?

### **(c) Endogenous Factors**

In the literature three endogenous factors are identified that can affect the growth of commercial banks deposits. They are awareness of the society for using banks to deposit their money, convenience of Bank's office and service in the banks.

#### **i. Awareness of the society**

According to M. A. Baqui *et al* (1987), some analysts argue that demand for deposits is influenced by education level which in turn increases the awareness of the rural people about banking services (Mauri; Von Pischke). Since the study of M. A. Baqui *et al* (1987) conducted by taking rural area as its base it is obvious that it considers the awareness as a factor of deposit mobilization. It was also found that literacy as a proxy for awareness about banking, positively influence deposits.

#### **ii. Convenience of Bank's office**

Road and vehicles directly influence interest bearing deposits because of the reduction in depositors' transaction costs through reduced time spent in travelling to and from banks (M. A. Baqui *et al*, 1987). Banks can mobilize more deposit when they make themselves closer to their customers (depositors).

#### **iii. Services in the Bank**

It is known that banks are service giving organizations and the service delivery can affect their business undertakings. M. A. Baqui *et al* (1987) stated that there is some empirical evidence demonstrating the positive influence of services rendered to depositor (eg Dudzie, Dunson and Akaah). Baqui further suggested two innovations to be tested to provide incentives to depositors:-

Additional benefit like prize bounds could be given to depositors for maintaining deposits for particular period. As recommended by Nathan (1986), one category of deposits might be specifically tied to future loans.

Bank customers might be encouraged to participate in a savings program that, for example, provides machinery or housing after a predetermined amount of saving have been accumulated. Services in the bank should be attractive enough for the depositors so as to mobilize deposits. If the banks could offer these services, the savers would be inclined to keep a part of their saving in the form of deposits (V. V. Bhatt, 1970). The followings are services that V. V. Bhatt (1970) claims to use to mobilize deposits:-

- (a) Door-to-door collection of small saving in the form of deposits.
- (b) Offering land revenue or insurance premium: If the banks offer to pay land revenue or insurance premium out of the interest earned on deposits, some persons may be inclined to put deposits of such amounts as would earn enough interest to meet their land revenue or insurance premium liability. To attract deposits these types of services are worth providing.
- (c) An investment service: Some savers have neither the inclination nor the time to select an appropriate portfolio of financial investment. Banks can select the portfolio of investments on their behalf, keep the securities in safe custody, collect Interest/dividend income and even fill income-tax forms; with such services offered, some savers would be inclined to keep their liquid funds in the form of deposits.
- (d) Some persons like farmers get their incomes say once or twice in a year, while their expenditure is spread over the whole year. If banks could collect deposits from them at the harvesting season, and assure them regular withdrawals during the year, farmers may be inclined to keep deposits with the banks. This scheme would ensure safety of their funds, prudence in their management and certainty of regular monthly means to meet their current liabilities. In addition they would earn some interest. With a sympathetic and persuasive approach, farmers could be attracted to such a scheme.
- (e) While giving loans to farmers and small sector, the banks could provide them with facility of purchases from recognized dealers instead of giving cash to them. In this case, the dealers could send the bills to the banks, which would debit the accounts of the loan receivers. Some banks have introduced agro

cards with such a purpose in mind. If such facilities are provided to others also, the customers would use bank money rather than currency for making payment balances in the form of deposits rather than in the form of currency. According to V. V. Bhatt (1970) these are some of the new deposit schemes which, if introduced, could raise the rate of saving as well as the rate of growth of bank deposits.

To the extent to which the rate of saving is raised, the growth rate of the economy would be higher. To the extent to which the deposit growth rate is raised, the community would have more effective control over the allocation of financial resources for Plan purposes.

### **2.1.8.3 Advantages of Deposit Mobilization**

The advantages of deposit mobilization can be stated on following heads.

- 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.
- b) **To support the 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 analyze 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 total 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 the bank and banking habit develops on the people.
- f) **To check up miss utilization of money:** Mostly our customs and habits are supported by social and religious believes. There is also tendency of copy to others 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.
- g) **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.
- h) **Others:** Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy, projects villagers from being exploitation of indigenous bankers, increases investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc.

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 the other 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 Some Additional 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 scare banks raise their rates and come potential borrowers may differ the use of credit or seek it elsewhere (Crosse, 1963).

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.

### **2.2.2 Review of Articles**

Bajracharya (2047 B.S.) 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 economy.

Fry (1974) says that the interest rate fixing authorities causes adverse effect on income distribution. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people and underdeveloped money and capital market, interest rate can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to dome money and it allows people to invest into best opportunities.

Pradhan (2053B.S.), has been presented that deposit is the lifeblood of every financial institutions like commercial bank, finance company, cooperative or non government organization. He 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 prospect of deposit sector. Leaving few joint venture banks, other organization 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 facility 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 services hour system to bank.
- Nepal Rastra Bank could also organize training program to develop skilled manpower.

Kafle (2053 B.S.), 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 this 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 in the two periods respectively.

Sharma (2000) found that all the commercial banks are established and operated in urban areas. They do not have interested to establish in rural areas and they do not properly analyze the credit system. The researcher further states that private commercial bank mushroomed urban areas where large volume of banking transaction and activities are possible.

Williamson (1998) found that saving and investment division are highly interdependent in Asian sector interest rate mostly household people to saved money for short period. Its influence is less in long run saving decisions.

Morris (1980) has concluded that most of the 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 bans of developing countries to the failure in 1980's (Morris 1980).

### **2.2.3 Review of Previous Thesis**

Phuyal (2035 B.S.) 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 the 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 loans 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.

This study is conducted by Bruce C. Cohen and George G. Kaufman in 1965. It identifies the factors determining bank deposit growth and empirically analyzes them. Finally it describes the result of the study and recommends how states realize deposit growth.

According to Bruce and George (1965), the total volume of commercial bank deposits in the country is determined largely by the Federal Reserve System in accordance with the needs and objectives of the economy. However, as Bruce and George (1965) the distribution of these deposits among individual banks and areas is determined by market forces. When explaining the importance of deposits for banks, they said that bank deposits are one of many forms in which liquid wealth may be held and the very important one. As a medium of exchange demand deposits are an alternative to currency particularly for individuals and small business firms. In the study of Bruce and George (1965), the following variables are mentioned and claimed to have effect on the banks' deposits:-

Banking industry is one of the service giving industries. Consequently, a major factor influencing decisions of whether to hold commercial bank deposits is convenience of bank offices (Bruce and George, 1965). It is argued that population growth and shifts necessitate corresponding growth and shift in banking offices if banks are to both continue servicing their old customers and attract new ones. Therefore, beside the convenience of the office the commercial banks deposits can also be affected by the population growth.

New bank offices are believed to increase total deposit of banks in an area by capturing some funds which otherwise would have either been placed in banks outside the area or escape the banking system (Bruce and George, 1965). As to them other things being equal deposit growth may be expected to be positively associated with increase in the number of banking offices. Moreover, they concludes that other things being equal states permitting branch banking would experience faster deposit growth than states which forbid branch banking and the more liberal the branching regulations, the faster the deposit growth.

Economic theory relates the volume and composition of liquid assets to the income and wealth of the holders (Bruce and George, 1965). It is said that banks' deposit is among liquid assets. Therefore as banks' deposits are one of liquid asset and liquid assets are affected by the income and wealth of the holders, banks' deposits can be affected by the income and wealth of the society. Moreover, Bruce and George (1965) also said the demand for money and other liquid assets is theorized to rise as income rises. That leads to concludes that state experiencing faster increases in income may

be expected to experience faster increase in banks deposits. Bruce and George (1965), explains this on the other hand, increases in wealth may reduce the incentive to provide for additional liquid assets for reasons of precaution and security, thereby slowing the accumulation of deposits. Here, the relationship of banks' deposits and the income of the holders are not clear. There are two possibilities on this area:-

- i. As income increases banks' deposits may increase because societies have additional money to deposit.
- ii. As income increases banks' deposits may decrease because the society have little liquid asset need and they invest their money on the investment that is not liquid and have higher return than banks' deposits.

The paper by Bruce and George (1965) further explain that a state's importance as a financial center may be expected to be accompanied by increases in deposits, particularly demand deposits and act as a first approximation surrogate for business motivations in apportioning their deposits. That is the importance of the financial institution or banks in relative to the importance of other financial institution that is outside of bank. On the other hand it would also be the importance of the bank in relation with other banks to the society. This comes to be the competition between banks.

Bruce and George (1965), takes 1951-61 year as a sample to gather data. They take 48 states for each year which gives 480 observations. The dependent variables were total deposit of commercial banks, demand deposits and time deposits. Both one- and two-stage linear regressions are estimated. The final regressions were obtained by iteration.

In addition, variables whose coefficients are not statistically significant at the 5% level are removed. As stated above the study of Bruce and George (1965), have three dependent variables namely total deposit of commercial banks, demand deposits and time deposits of commercial banks. Accordingly, the regression identifies the relationship between the dependent variables and independent variables.

According to one-stage linear regression results, deviation from the mean percent change in total commercial bank's deposits are best explained by percentage change

in permanent income, percentage change in the importance of the state as financial center financial center (level). These three variables explain 42 percent of the variance in interstate deposit growth. Percentage change in permanent income, percentage change in financial center and financial center (level) also explain differential demand deposit growth among states best. The coefficient of multiple determinations is 0.38, somewhat lower than for total deposit of commercial banks.

The regression shows that time deposit growth is related positively to percentage increases in permanent income, importance as financial center, number of bank offices and interest paid on time deposits and to the ratio of interest rates paid by banks to that paid by near banks. Time deposit growth is negatively related to legal ability to branch, wealth per capita and time deposits to income. These variables explain almost 30 percent of the interest rate variance in percent change in time deposits. In the study branch banking and percent change in bank offices enter the regression significant by themselves.

The thesis conducted by shrestha (2042 B.S.), with the objectives are:

- i. To sketch the deposit mobilization of NBL.
- ii. To analyze the impact of interest rate in deposit mobilization.
- iii. To analyze the impact of branch expansion on the deposit mobilization.
- iv. This study covers 10 years data from the year 2031 to 2040 B.S. It is limited to deposits and loans and advances only. The study is primarily 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 that the interest rate has played important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be changed 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.

Shrestha (1987) has tried to see the branch expansion of banks as sector wise and to examine which bank is mobilizing its deposit property. This study covers the data from 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 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.

Agrawal (2002) has tried to examine the trend deposit position and investment position of yeti finance company. 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 that there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been 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 in agriculture. Agriculture is the backbone 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 areas 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 of interest in deposit collection as well as in investment.

Tandukar (2003) has tried to examine the role of NRB in deposit collection by the commercial banks and to analyze the trends of deposit mobilization towards total investment loan and advances. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, coefficient of correlation, trend analysis etc. 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 loans 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) has tried to analyze relationship of loan and advance, and total investments 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 period from 1992 to 1997. 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 recommended that RBB should enhance its investment in securities. Small amount investment in securities of good company brings better income than large amount investment in securities of worse companies. So RBB needs to conduct proper pre- analysis before such investment. He 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 decrease interest expenses and unnecessary fixed assets expenses and administration expense should be controlled. Moreover RBB should enhance its off-balance sheet operation, remittance in order to increase its earnings.

The forgoing review of literature suggests that Deposit Mobilization plays 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 RBB, Dhadingbesi branch.

#### **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 and some were either in comparison study between two commercial banks or study of a commercial bank. But this study is focused on a particular bank branch i.e. RBB, Dhadingbesi branch. This study has covered both the problems as well as remedies on Deposit Mobilization of RBB, Dhadingbesi Branch. 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. The finding of previous researchers was merely based on secondary data. But this study is based on primary as well as secondary data. Moreover this study has not been done by previous researcher separately. Thus, the fill up the gap, the current research has been conducted.

A Large number of people in Nepal reside in rural areas. Most of them depend on agriculture and agriculture related activities for their livelihood. Most of them cannot save much to attract deposit taking institution to open their branches in Nepal. But even the poor and ultra poor in rural areas can save. Their saving could be used to improve the supply of financial resources to rural people themselves and reduce poverty and unemployment from rural areas.

Most of the commercial banks have wrong notion that the poor are not bankable. They cannot 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, Bank Branches play vital role in developing country like Nepal. If bank branch performs well or be able to earn profit, it will definitely support to its central office as well as nation. It shows the important of bank branches. So, this study has been conducted. Out of total commercial bank branches, RBB has the highest number of branches. So RBB's financial position will be better when the bank branches perform well.



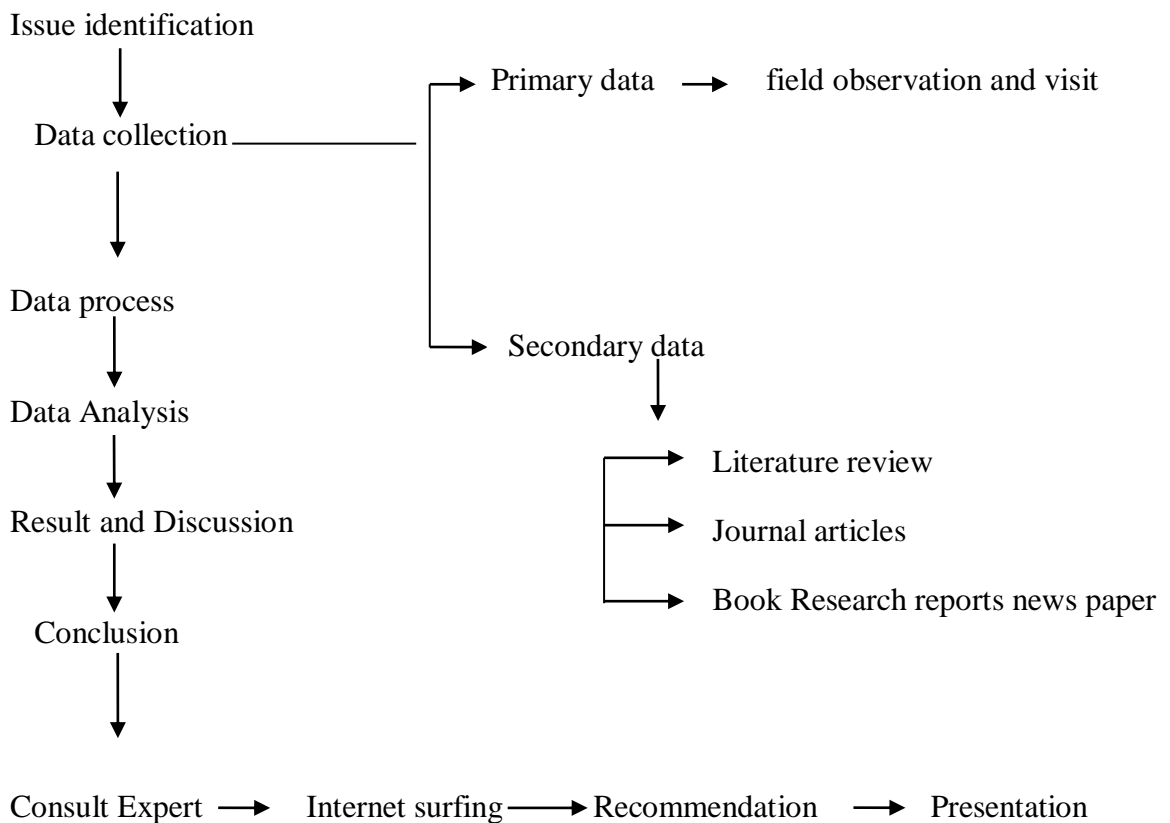
# CHAPTER-III

## RESEARCH METHODOLOGY

Research methodology describes the method and process applied in the entire subject of the study. This chapter describes the methodology employed in the study of deposit mobilization of Dhadingbesi Branch. The following are the details of research methodology used in the analysis.

### 3.1 Research Design:

Research is the plan structure and strategy of investigation conceived so as to obtain answer to research question and control variance. To achieve the objectives of the study, descriptive as well as analytical research design value have been used. This study is based on primary as well as secondary data. Some simple statistical methods such as trend line and regression analysis have been applied to examine the facts of the study. The research design process can be shown by following ways.



### **3.2 Population and sample**

There are altogether 31 commercial banks in functioning in Nepal. In this study, the deposit mobilization of RBB, Dhadingbesi Branch is studied. 148 Branches of RBB taken as the population and RBB Dhadingbesi branch is chosen as the sample to find the condition of deposit mobilization.

### **3.3 Sources of Data**

The data used in the study are primary and secondary. The required data for analysis are directly collected from balance sheet of RBB Dhadingbesi branch, banking and financial statistics of NRB. To make the study more reliable, somewhat information are collected through interview with the staff, the manager of bank and clients of the bank branch.

Supplementary data and information are collected from number of institutions. They are: T.U, central library, NRB, RBB central office and RBB Dhadingbesi Branch. Other information is collected from different economic journals, bulletins, magazines etc.

### **3.4 Methods of Data collection**

To get reliable information, discussion and interview were held with Manager and Assistant Manager of RBB Dhadingbesi branch. Questionnaire method is adopted to know the reaction of clients and staffs about the bank services. For this study 2 managers, 10 staffs of the Bank's branch and 40 clients were taken as samples for the interview.

### **3.5 Methods of Data Analysis**

First of all raw information have been received. After the collection of raw information the processing has been done. Then after all collected data has been grouped according to their nature in their tabular and chart form selecting relevant data.

The collected data are presented and refined for the purpose of this study. Help of simple arithmetic rules and calculating machines process the data .Thus the available

data of 8 years i.e.2063 B.S. Ashadh to 2070 B.S. Ashadh has been made and presented in the form of levels to present the situation clearly.

### 3.6 Study Variables

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

### 3.7 Data Analysis Tools

For presentation and interpretation of collected data, different tools are used. Growth analysis, percentage change, ratio analysis are financial tools whereas coefficient of regression and trend analysis are statistical tools.

#### 3.7.1 Financial Tools

- **Percentage Change Ratio**

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

$$\begin{aligned} & \textit{Annual percentage change} \\ & = \frac{\textit{amount of this year} - \textit{amount of last year}}{\textit{amount of last year}} \end{aligned}$$

Similarly credit deposit ratio (CDR) can be calculated dividing the credit by deposit

$$CDR = \frac{\textit{credit}}{\textit{deposit}}$$

The ratio describes the relationship between deposit and credit.

#### **Growth Ratio**

The growth ratio represent how will the bank is maintain its financial and economic position. For calculation of growth rate the following formula is used.

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

Where:

$D_n$  = total amount in  $n^{\text{th}}$  year

$D_o$  = total amount in initial year

$g$  = growth rate of amount

n = total no of year

To examine and analysis the following ratios are used in this study.

- 1) Growth ratio of total deposit
- 2) growth ratio of total credit (loan and advances)

### 3.7.2 Statistical Tools

#### Coefficient of Correlation

It describes and defines the relationship between two or more variable Karl parsons' coefficient of correlation will be used to find out the relationship between the following variables.

- i) coefficient of correlation between Deposit and Credit
- ii) coefficient of correlation between interest rate of saving and saving deposited
- iii) coefficient of correlation between fixed interest rate and fixed deposited

The formula of Karl parsons' coefficient of correlation

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

Where

$x = X - \bar{X}$  Deviation taken from exact arithmetic mean of x series

$y = Y - \bar{Y}$  Deviation taken from exact alternative mean of y series

$\bar{X}$  = Arithmetic Mean of X- series

$\bar{Y}$  = Arithmetic Mean 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 these following subtopics is presented. Trend analysis of total credit (loan and advances) and forecast for next one year.

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

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

In this chapter, the analysis part is presented in detail. Different financial and statistical analysis which are related to deposit mobilization are studied to evaluate and to analyze the performance of RBB, Dhadingbesi branch. In this chapter all years are conducted with Bikram Sambat (B.S.).

#### **4.1 Deposit Position of RBB, Dhadingbesi Branch**

Deposit is the main source of commercial banks. A bank accepts deposit mainly in three forms namely saving, current and fixed deposits.

##### **4.1.1 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 enquires about the credit worthiness of the customer. There are not restrictions regarding the number of withdrawals. The bank does not pay any interest on such accounts but charge a small amount on the customer having current account. Traders and businessmen keep their money with the bank under current account.

As mentioned in the table no.4.1 from the year 2063 Ashadh to 2070 Ashadh the current deposit raised continuously except in the year 2070. The outstanding current deposit was Rs. 923.42 lakhs in the year 2063. The mount increased to RS.968.18 in the year 2064 and the deposit was moved up to RS.1017.95 in 2065. The percentage is increased by 4.85 and 5.14 respectively in comparison with previous years. In the year 2066 amount increased to 1168.55 lakhs which was 9.65 percent more than in 2065. The increasing trend is continued up to 2069 by reached amount Rs. 2507.86 lakhs. The amount decreased to Rs. 2061.33 in 2070. Which was 17.8 percent less than the previous year.

Thus it is seen that the current deposit position of RBB, Dhadingbesi branch is in increasing trend except in the year of 2070.

Table No. 4.1 shows the deposit amount in current account of RBB Dhadingbesi branch

**Table 4.1**  
**Amount deposited in Current Account of RBB, Dhadingbesi Branch**  
**(Rs. in Lakhs)**

Year /Ashadh	Amount (Rs. In Lakh)	Percentage change
2063	923.42	—
2064	968.18	4.85
2065	1017.95	5.14
2066	1168.55	14.79
2067	1389.11	18.87
2068	1925.32	38.60
2069	2507.86	30.26
2070	2061.33	-17.8

*Source: RBB, Dhadingbesi Branch*

#### 4.1.2 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.1000 balance can open the account in RBB. 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/she gives pre- information to the bank, in this situation he/she can withdraw more money. Table No. 4.2 represents the saving deposit position of RBB, Dhadingbesi branch.

**Table 4.2**  
**Saving Deposit Position of RBB, Dhadingbesi Branch**

Year /Aashadh	Amount (Rs. In Lakh )	Percentage change
2063	1389.74	—
2064	1529.64	10.06
2065	1837.64	20.13
2066	1718.44	-6.48
2067	2023.27	17.74
2068	1876.53	-7.25
2069	1968.75	4.91
2070	2218.08	12.66

*Source: RBB, Dhadingbesi Branch*

The table mentioned above indicates the amount deposited in saving account from Ashadh 2063 to Ashadh 2070. The figure shows the increasing trend of saving deposits except in years of 2066 and 2068. The saving deposit was Rs.1389.74 lakhs in 2063. The amount increased to Rs.1529.64 lakhs in 2064 and Rs. 1837.64 lakhs in 2065. Amount decreased to RS.1718.44 lakhs in 2066. In the year 2067 amount is increased to Rs. 2023.27 lakhs and in 2068 amount is again decreased to Rs.1876.53 lakhs. From year 2069 is started to increased and reached 2218.08 in the year 2070.

In general above table shows the improving saving habits of Nepalese people even with the lower income.

### 4.1.3 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 months in this deposit. Any Nepalese person can open fixed account with minimum Rs 5000 in RBB. The rate of interest in the fixed deposit is higher than that of other deposit. The customer cannot deposit more money again in this deposit, before the fixed time. Table No.4.3 shows the fixed deposit position of RBB, Dhadingbesi Branch.

**Table 4.3**  
**Fixed Deposit Position of RBB, Dhadingbesi Branch**

Year /Ashadh	Amount (Rs. In Lakh)	Percentage change
2063	163.95	—
2064	189.19	15.39
2065	217.45	14.93
2066	229.99	5.77
2067	270.49	17.61
2068	313.99	16.08
2069	374.87	19.39
2070	465.85	24.27

*Source: RBB, Dhadingbesi branch*

The Table 4.3 clearly shows the increasing volumes of fixed deposit during the 8 years period from 2063 Ashadh to 2070 Ashadh. The total outstanding fixed deposit was Rs.163.95 lakhs in 2063 B.S. It was increased to Rs.189.19 lakhs in 2064 by

15.39 percentage comparison with previous year. It again increased to Rs.217.45 lakhs in 2065, Rs. 229.99 lakhs in year 2066 and so on. The increasing trend is continued up to 2070 and it finally reached to Rs.465.85 lakhs. Thus, it found that the bank successfully collected the amount in fixed account also.

#### 4.1.4 Total Deposit Position of RBB, Dhadingbesi branch

The Table No. 4.4 shows the total amount deposited in RBB, Dhadingbesi branch. It shows that the amount of volume is in increasing trend except the year 2070.

**Table 4.4**  
**Total Deposit Amount of RBB, Dhadingbesi Branch (Rs. In lakhs)**

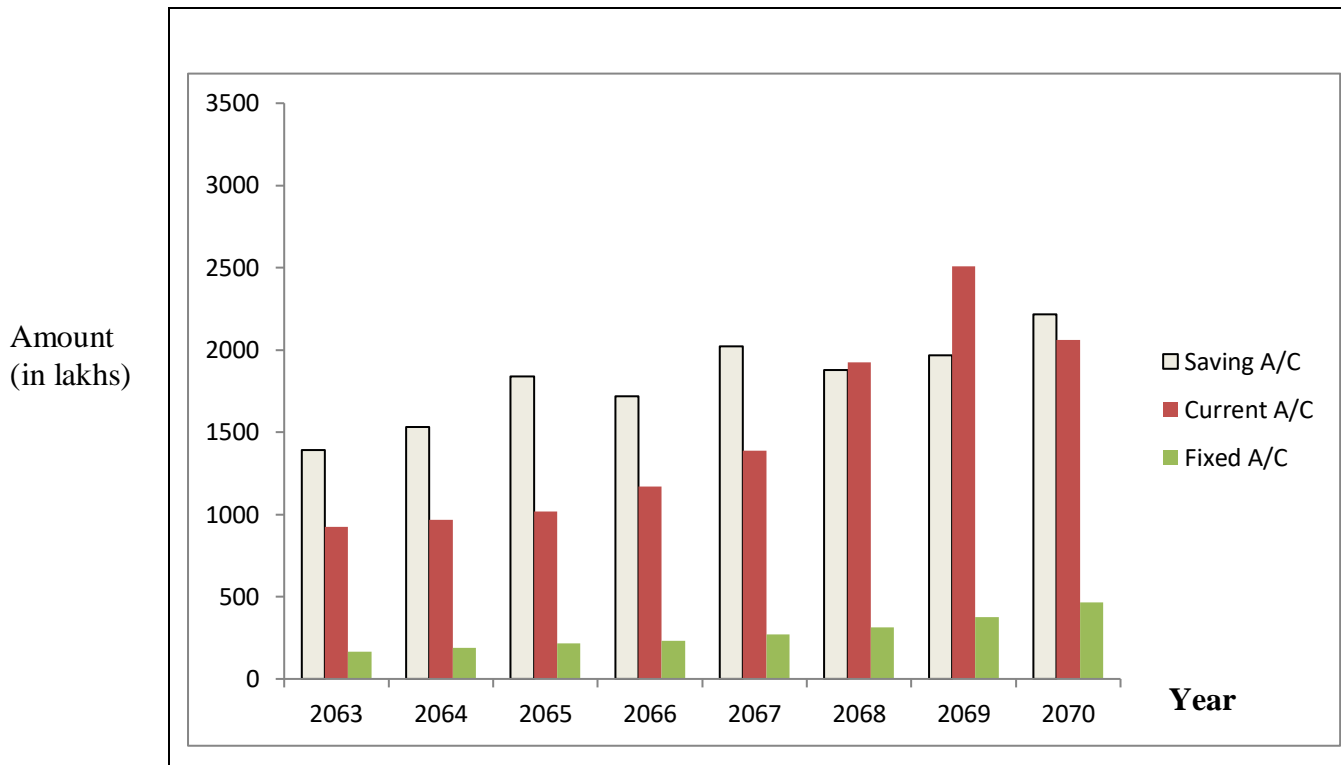
Year/Ashadh	Saving A/C	Current A/C	Fixed A/C	Total Deposit	Percentage change
2063	1389.74	923.42	163.95	2477.11	—
2064	1529.64	968.18	189.19	2687.01	8.47
2065	1837.64	1017.95	217.45	3073.04	14.37
2066	1718.44	1168.55	229.99	3116.98	1.43
2067	2023.27	1389.11	270.49	3682.87	18.15
2068	1876.53	1925.32	313.99	4115.84	11.76
2069	1968.75	2507.86	374.87	4851.48	17.87
2070	2218.08	2061.33	465.85	4745.26	-2.19

*Source: Derived from Table No. 4.1, 4.2, and 4.3.*

The total deposit was Rs.2477.11 lakhs in the year 2063 Ashadh. The deposit position in Ashadh 2064 was somewhat changed. The total amount increased to Rs. 2687.01 lakhs in terms of percent was 8.47. Again in Ashadh 2065, Total deposit increased to Rs.3073.04 (14.37%) lakhs. Likewise in 2067 it reached to Rs.3682.87 lakhs (18.15%), which was the highest increment from the preceding year during the study period. Total deposit moved up to Rs. 4115.84 lakhs in 2068 which was increased 11.76 percent than previous year. Similarly, in 2069, total deposit increased to Rs.4851.48 lakhs in term of percentage was 17.87. Finally in the year 2070 Ashadh, total deposit decreased to Rs. 4745.26 which was less than -2.19 percent in previous year. This is due to decrease in current deposit in that year. The comparison of three deposits in terms of total deposit is shown in Figure No. 1 below



**Figure: 4.1**  
**Deposited Amount of RBB, Dhadingbesi Branch**



#### **4.2 Credit Position of RBB, Dhadingbesi branch**

Total credit is the amount of loans and advances and investment. Loan is the sum of money which will be repay by the borrower. Investment is defined simply to the sacrifice of current consumption for future consumption whose objectives is to increase future wealth.

Total credit of RBB, Dhadingbesi branch is composed of loans and advances only. The branch has not invested in any sectors. Loan and advances of this branch includes gold and silver, house and land, fixed deposit receipt go down loan, loans on priority sector, CSI project, overdraft, hypothecation business and industrial loans, staff loans etc. The credit position of RBB, Dhadingbesi branch is shown in Table No. 4.5.

**Table 4.5**  
**Credit position of RBB, Dhadingbesi Branch (Rs. In Lakhs)**

Year /Ashadh	Total credit	Percentage change
2063	797.02	—
2064	996.28	25.00
2065	1023.65	2.75
2066	1145.72	11.92
2067	1271.75	11.00
2068	1387.26	9.08
2069	1642.05	18.36
2070	2071.17	26.13

*Source: RBB, Dhadingbesi branch*

The above table represents the statement of total credit extended by the branch. The credit of RBB, Dhadingbesi branch reveals that the amount of credit granted by the bank is in increasing trend. In Aahadh2063, the total credit of Rs.797.02 lakhs was extended. Total credit was increased to Rs.996.28lakhs in the year2064 which was increased by 25 percent than previous year. After that total credit extended by the bank continuously increased up to the year 2070, finally the total credit increased to Rs.2071.17 lakhs.

Thus the above analysis shows the condition of loans and advance of RBB, Dhadingbeshi branch is in increasing trend. But increasing percent is not similar. It is due to the high cost fund and costlier loan rates.

### **4.3 Credit Deposit Ratio of RBB, Dhadingbesi Branch**

Deposit collection and credit extended are the two major functions of RBB. The relationship between these two factors shows the efficiency, ability and idle resources of commercial banks. The ratio of credit and deposit is declared by the effective utilization of collected resources.

The Table No.4.6 shows the CD ratio of RBB, Dhadingbesi branch. It is calculated with the help of amount of credit divided by total deposit.

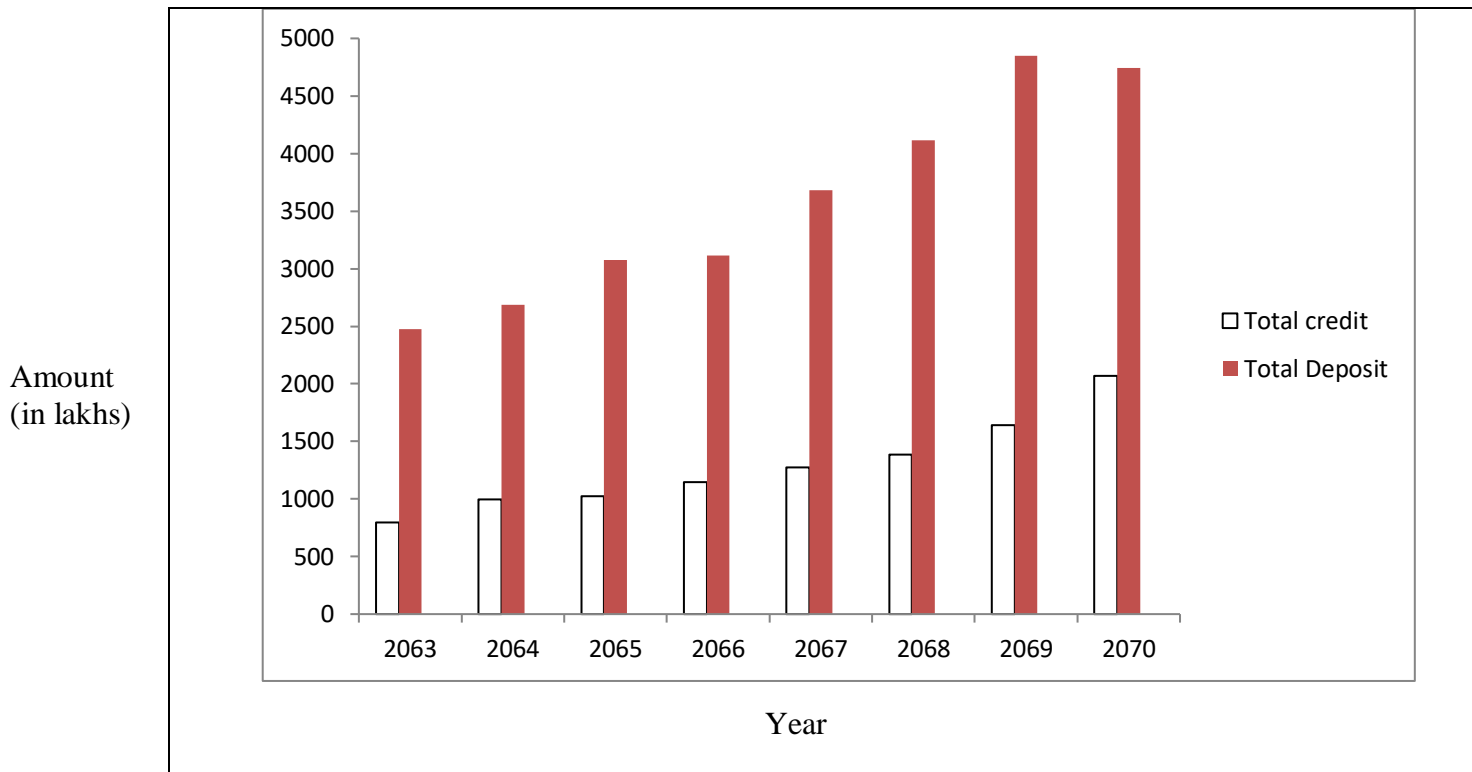
**Table 4.6****Credit Deposit Ratio of RBB, Dhadingbesi Branch (Rs. In Lakhs)**

Year/Ashadh	Total Credit	Total Deposit	CD Ratio
2063	797.02	2477.11	32.17
2064	996.28	2687.01	37.07
2065	1023.65	3073.04	33.31
2066	1145.72	3116.98	36.76
2067	1271.75	3682.87	34.53
2068	1387.26	4115.84	33.70
2069	1642.05	4851.48	33.84
2070	2071.17	4745.26	43.64

**Source: RBB, Dhadingbesi Branch**

According to the table, the credit was Rs. 797.02 lakhs and deposit was Rs. 2477.11 lakhs in the year 2063 Ashadh. The percentage of credit to deposit (CD ratio) was 32.17 in this year. The highest percentage shows the effective utilization of available resources of bank. The total credit was Rs. 996.28lakhs and deposit was Rs. 2687.01 lakhs in 2064. The CD ratio was 37.07 which were more than previous year. Similarly, credit and deposit amount was 1023.65 lakhs and Rs. 3073.04 lakhs in 2065 respectively. At this year CD ratio was 33.31 which was less than the year of 2064. CD ratio was increased to 2065 and moved up to 36.76. In that year credit and deposit amount were Rs. 1145.72 lakhs and Rs. 3116.98 lakhs respectively. In 2066, CD ratio was 33.70 which was less than previous year. During the year, credit amount was Rs. 1271.75 lakhs in 2067, Rs. 1387.26 lakhs in 2068 and Rs. 1642.05 lakhs in 2069. Likewise the deposit amount was Rs. 3682.87 lakhs in 2067, Rs. 4115.84 lakhs in 2068 and Rs. 4851.48 lakhs in 2069. The CD ratio was declining every year from the year 2066to 2069. After the Ashadh 2069, the CD ratio increased and reached to 43.64 for the year 2070 which was more than previous year. At the same time, the credit was Rs. 2071.17 lakhs and deposit was Rs. 4745.26 lakhs.

**Figure: 4.2**  
**CD ratio of RBB, Dhadingbesi Branch**



From above analysis, it can be said that there is a greater relationship between deposits and credit. Increase in deposits leads to increase in the credit but when immense increase in the deposit leads to little bit increase in credit. The above analysis shows that RBB, Dhadingbesi branch has not been succeeded to mobilize its resources. Its highest CD ratio is 43.64 and the lowest CD ratio is 32.17. The higher amount of deposit of this bank than credit is due to the concentration of this bank in deposit collection. The bank success to attract people to deposits their saving. Although bank has a lot of funds, it could not make the outflow of those funds as credit.

#### **4.4 Growth Ratio of RBB, Dhadingbesi Branch**

The growth ratio represents how well the bank is maintaining its economic 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 of bank.

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

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

Where:

$D_n$  = total amount in  $n^{\text{th}}$  year

$D_o$  = total amount in initial year

$g$  = growth rate of amount

$n$  = total no of years during the study period.

#### 4.4.1 Growth Ratio of Total Deposit

Table No. 4.7 represents the total deposit and growth rate during the study period of Ashadh 2063 to Ashadh 2070.

From the analysis, it is found that the growth rate of total deposit of RBB, Dhadingbesi branch is 9.73 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

**Table 4.7**  
**Growth Ratio of Total Deposit (RS. In Lakhs)**

Year/Ashadh	Total Deposit
2063	2477.11
2064	2687.01
2065	3073.04
2066	3116.98
2067	3682.87
2068	4115.84
2069	4851.48
2070	4745.26
Growth Rate	9.73

*Source: RBB, Dhadingbesi Branch*

#### 4.4.2 Growth Ratio of Total Credit

Table No. 4.8 represent the amount of total credit and its growth rate of study period 2063 Ashadh to 2070 Ashadh.

The analysis shows the growth rate of total credit is only 14.61 percent under a year study period which is very low. So, It can be concluded that, bank seems in very weak condition to increase growth rate of total credit.

**Table 4.8**  
**Growth Ratio of Total Credit (RS. in Lakhs)**

Year /Ashadh	Total Credit
2063	797.02
2064	996.28
2065	1023.65
2066	1145.72
2067	1271.75
2068	1387.26
2069	1642.05
2070	2071.17
Growth Rate	14.61

**Source: RBB, Dhadingbesi Branch**

The analysis shows the growth rate of total credit is only 14.61 percent under a year study period which is very low. So, It can be concluded that, bank seems in very weak condition to increase growth rate of total credit.

## **4.5 Interest Rate and Different Deposit**

### **4.5.1 Interest Rate and Saving Deposit**

The saving deposit interest rate of RBB, Dhadingbesi branch is related to the amount of saving deposit. The saving deposit is a precautionary deposit. The Table No.4.9 show the saving deposit amount and saving deposit interest rate of RBB, Dhadingbesi branch during the study period.

**Table 4.9**  
**Structure of Saving Deposit Interest Rates and Amount of saving Deposit.**  
**(Rs. in lakhs)**

Year /Ashadh	Interest rate of saving deposit per annum	Amount of saving Deposit
2063	2	1389.74
2064	2	1529.64
2065	2	1837.64
2066	2	1718.44
2067	2.5	2023.27
2068	3	1876.53
2069	2.25	1968.75
2070	2	2218.08

*Source: RBB, Dhadingbesi Branch and Banking and Financial Statistics NRB*

According to the Table 4.9 for 2063 Ashadh, the saving deposit interest was 2 percent and the amount of saving deposit was Rs. 1389.74 lakhs. The saving interest rates remained unchanged up to 2066. But the amount of saving deposit increased to Rs.1529.64lakhs in 2064, Rs. 1837.64 lakhs in 2065 and Rs. 1718.44 lakhs in 2066. The saving interest rates increased to 2.5 in percent in 2067 and amount of saving deposit was Rs. 2023.27lakhs. In 2068, the interest rates increased to 3%, which was highest during study period and deposit amount was Rs.1876.53 lakhs. In the year 2069, the saving interest rate again decreased to 2.25 %. At the same time, saving deposit amount increased to Rs. 1968.75 lakhs. The saving interest again decreased to 2% in the year 2070 and the amount of saving deposit was Rs. 2218.08 lakhs which was 12.66 percent increased than the previous year of 2069.

The comparison between the saving deposit interest rate and the amount of saving shows that saving deposit seems interest inelastic because it is increasing with respect to timeframe. This is for the reason that the mobilization of the resources increases the real income of the people and they save money even in small scale. And for precautions, they want to deposit the money in the form of saving deposit in the commercial banks although at a very low interest rate. They want to withdraw it whenever they need. As the result, the saving deposit amount increases.

#### 4.5.2 Interest Rate and Fixed Deposit Amount

The fixed deposit amount of RBB is related to the fixed deposit interest rate. At high fixed deposit interest 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 RBB, Dhadingbesi branch during the study period.

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

From the table No. 4.10, for the year 2063, the fixed deposit interest rate for 1 year was 3.25 percent and the amount of fixed deposit Rs. 163.95 lakhs. In 2064 and 2065 the fixed deposit interest rate remained same and amount was increased to Rs.189.17 lakhs and Rs. 217.45 lakhs respectively. In2066, the fixed deposit interest rate for 1 year increased to 5 percent. At the same time, the deposited amount in fixed A/C also increased by little bit, that was Rs. 229.99 lakhs. The fixed deposit interest rate was again increased to 7 percent from 5 percent in 2067. Fixed deposit amount also increased to Rs. 270.49 lakhs from Rs. 229.99 lakhs. In 2068, the fixed deposit interest rate again increased to 8 percent and deposited amount increased to Rs. 313.99 lakhs which was 16.08 percent more than the previous year. But interest rate decreased by 2.5 percent in 2069 and 2070that was 5.5 percent for both years. But in this time also, fixed deposit amount were increased to Rs. 374.87 lakhs and Rs. 465.85 lakhs respectively.

**Table 4.10**  
**Structure of Fixed Deposit Interest Rates and Amount of Fixed Deposit**  
**(Rs. in lakhs)**

Year /Ashadh	Interest rate per annum	Amount of fixed Deposit
2063	3.25	163.95
2064	3.25	189.19
2065	3.25	217.45
2066	5.00	229.99
2067	7.00	270.49
2068	8.00	313.99
2069	5.5	374.87
2070	5.5	465.85

*From the table 4.10, for the year 2063, the fixed deposit interest rate*



From above analysis, it is known that fixed deposit interest rate was not similar. It means some time it increased, some time it decreased and some time it remains unchanged. But the amount of fixed deposit increased year by year. The level of increase percent is not similar because in this period, the financial market became more competitive and complex. It is due to the cause of stiff competition among commercial banks. The interest rate has been changed by this competition. The amount of fixed deposit is affected by the deposit interest rates in small extent but whatever be the fixed deposit interest rates, the amount of fixed deposit seems to be in increasing trend. The mobilization of the resources increases the real income of the people and they save more and more money but they don't invest it. As a result, for security, they want to put the money in the form of interest bearing deposit in the banks for a certain period even at very low interest rates. So, the fixed deposit amount increases.

#### **4.6 The Impact of the Interest Rate on the Total Amount of Credit**

It describes how the interest rate impact on the loan amounted of RBB, Dhadingbesi branch. The lending interest rates of RBB, Dhadingbesi branch are related to the amount of loans. At the low interest rate bank can flow more and more amount of loan. There are many types of lending interest rates of RBB, Dhadingbesi branch. According to the activities of this bank, there are mainly four types of lending interest rate. They are: lending rates to industry, to priority sector, to commercial loans and to overdraft. The Table No. 4.11 shows the structure of lending interest rates of RBB, Dhadingbesi Branch and total amount of loans during the study period.

From the table 4.11, for the year 2063 Ashadh, The lending interest rate to industry was 11 percent, to commercial was 10 percent, to priority sector was 11.5 percent, to overdraft was 11 percent and the amount of credit (loans and advances) was Rs. 797.02 lakhs. The lending interest rate for all characters remained unchanged up to the year 2066, but the amount of credit is slightly increased in every year and reached to Rs. 1145.72 lakhs in 2066. In 2067, the lending interest rate of industrial, commercial and overdraft changed to 12.5 percent for each but the interest rate for priority sector remained same. In this year the total credit amount increased to Rs. 1271.75 lakhs which was 11.0 percent more than previous year. The lending interest rates of industrial, commercial and overdraft changed to 13.5 percent, 14 percent and

14 percent respectively in the year of 2068 but the interest rate of priority sector again remained same i.e. 11.5 percent. In this year, the total credit was Rs. 1387.26 lakhs. In the year 2069 lending interest rate for priority sector changed into 11 percent by decreasing 0.5 percent than previous year but for other three characters it changed into 13.5 percent, total credit amount for this year was Rs. 1642.05 lakhs. In the year 2070 lending interest rate for priority sector remained same i.e. 11 percent and all of other lending rates again slightly decreased. The lending rates to industry, commercial loan and overdraft were 13 percent, 12.5 percent and 12.5 percent respectively. At the same period, total credit increased to Rs. 2071.17 lakhs which increased to the highest percentage during the study period comparison with previous year i.e. 26.13 percent.

From above analysis, it can be said that the loans of RBB, Dhadingbesi branch is in small extent affected by the lending interest rate. Whatever are the lending interest rates, the amount of loan and advance seems to be in increasing trend in all years.

In general, when interest rate of loan and advances is decreased, there will be more demand of loan amount or people are interested to take loan from the bank. In case of rise of interest rate of loan, people are less interested to take loan from the bank. As a result, there is less demand of bank loan. But in case of RBB, Dhadingbesi branch it is not fully applicable. It proves the confidence of general law that higher the interest rate lowers the credit and lowers the interest, higher credit will be extended. Although the lending rates are changing, there is no demand of bank loan. Because Of existing political instability in the country, because of poor security system, there is very lack of investing opportunities or high risk in starting new business. So, people don't interested taking bank loan in order to invest into productive sector. That's why there is no demand of bank loan although the lending interest rates are decreasing.

**Table 4.11**  
**Structure of Interest rate and Total credit (RS. in Lakhs)**

Year/Ashadh	Lending interest rate				Total Amount of Credit
	Industry	Priority sector	Commercial loan	Overdraft	
2063	11	11.5	10	11	797.02
2064	11	11.5	10	11	996.28
2065	11	11.5	10	11	1023.65
2066	11	11.5	10	11	1145.72
2067	12.5	11.5	12.5	12.5	1271.75
2068	13.5	11.5	13.5	14	1387.26
2069	13.5	11	14	13.5	1642.05
2070	13	11	12.5	12.5	2071.17

*Source: RBB, Dhadingbesi Branch and Banking and Financial Statistics NRB*

## **4.7 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

### **4.7.1 Coefficient of Correlation**

Under this analysis, Karl Pearson's coefficient of correlation analysis 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 two variables. It is preferred in this study to identify the relationship between variables whether the relationship is significant or not.

#### **4.7.1.1 Correlation Coefficient between Deposit and Credit**

Correlation coefficient between deposit and credit measures the degree of relationship between deposit and credit. Here, the credit is the amount of loan and advances. In correlation analysis deposit is an independent variable (x) while credit is dependent variable (y) (See Detail in Annex II). The following describes the relationship between deposit and credit during the study period of 8 years.

**Table 4.12**  
**Correlation between Deposit and Credit**

Name	r	r <sup>2</sup>	P.Er	6P.Er.	Sig/ Insig
RBB, Dhadingbesi	0.971	0.943	0.01359	0.08154	Significant

Since the calculated value of correlation coefficient between deposit and credit is 0.971, there is high degree of positive association between deposit and credit. The coefficient of determination, (r<sup>2</sup>) is 0.943. It indicates that 94.3 percent of the variation in the dependent variable (total credit) has been explained by the independent variable (total deposit). Further value of P.Er is 0.0135 and 6P.Er is 0.08154. The value of correlation coefficient (r) is too greater than 6 times probable error (6P.Er). Therefore, r is significant.

#### **4.7.1.2 Correlation Coefficient between Interest Rate and 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 is significantly correlated with saving deposit or not (See Annex III).

The following table describes the relationship between interest rate and saving deposit under the study period of 8 years.

**Table 4.13**  
**Correlation Coefficient between Interest Rate and Saving Deposit**

Name	Evaluation Criteria				
	r	r <sup>2</sup>	P .Er	6P.Er	Sig./insig.
RBB, Dhadingbesi	0.2884	0.081	0.2192	1.315	Insignific.

Since the calculated value of correlation coefficient between interest rate and saving deposit is 0.284, there is positive correlation between these two variables. Again coefficient of determination (r<sup>2</sup>) is 0.081. It indicates that only 8.1 percent of the

variation in the saving deposit (Dependent variable) has been explained by the interest rate (independent variable).

Generally, probable error is used to measure the significance of the relation between two variables. The probable error P.Er is 0.2192 and 6P.Er is 1.315. Since the 'r' is less than 6P.Er, it can be concluded that the relation between saving interest rate and saving deposit is not significant or there is no degree of association between saving interest rate and saving deposit.

#### **4.7.1.3 Correlation Coefficient between Interest Rate and Fixed Deposit (1 year 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 objectives of the analysis of 'r' between interest rate and fixed deposit are to justify whether interest rate is significantly correlated with fixed deposit or not (See Annex IV).

**Table 4.14**

**Correlation Coefficient between Interest Rate and Fixed Deposit**

Name	Evaluation Criteria				
	R	r <sup>2</sup>	P.Er	6P.Er	Sig. /insig.
RBB,Dhadingbesi branch	0.5463	0.2990	0.1671	1.0026	Insignific.

Table No. 4.14 describes the relationship between interest rate and fixed deposit during the study period from 2063 Ashadh to 2070 Ashadh.

According to the above table, the correlation coefficient between interests rate (independent) and fixed deposit (dependent) of RBB, Dhadingbesi branch is 0.5463. On the other hand, the value of coefficient of determination (r<sup>2</sup>) is 0.299. It indicates that 29.9 percent of the variation in the dependent variable (Y) has been explained by the independent variable (X).

Again value of P.Er is 0.1671 and 6P.Er is 1.0026. Since the value of 'r' is less than 6P.Er, there is no evidence of correlation between fixed interest rate and fixed deposit amount or i.e. insignificant.

#### 4.7.2 Trend Analysis

This topic analyses the trend of total deposit and total credit of RBB, Dhadingbesi branch during the year from 2063 Ashadh to 2070 Ashadh. The general tendency of time series data to increase or decrease or stagnate during a long period of time is called simply trend. The trend ignores sudden or short term fluctuating. The movement may be slow or fast.

Simply linear trend line of the form  $Y = a + bX$  is used where X and Y are considering variables. Here X denotes time in year. 'b' measures the increasing or decreasing rate of Y. Y includes total deposit and total credit. Here, methods of least square is used for analyses the trend of deposit or credit of RBB, Dhadingbesi branch. It provides basis for obtaining the line of best fit in the series.

##### 4.7.2.1 Trend Analysis of Total Deposit

Under this topic, an effort has been made to calculate the trend values of deposit of RBB, Dhadingbesi branch for 8 years Ashadh 2063 to Ashadh 2070 and forecast for next one year i.e. Ashadh 2071. The following table shows the trend values of deposit for 9 years (for detail see Annex V).

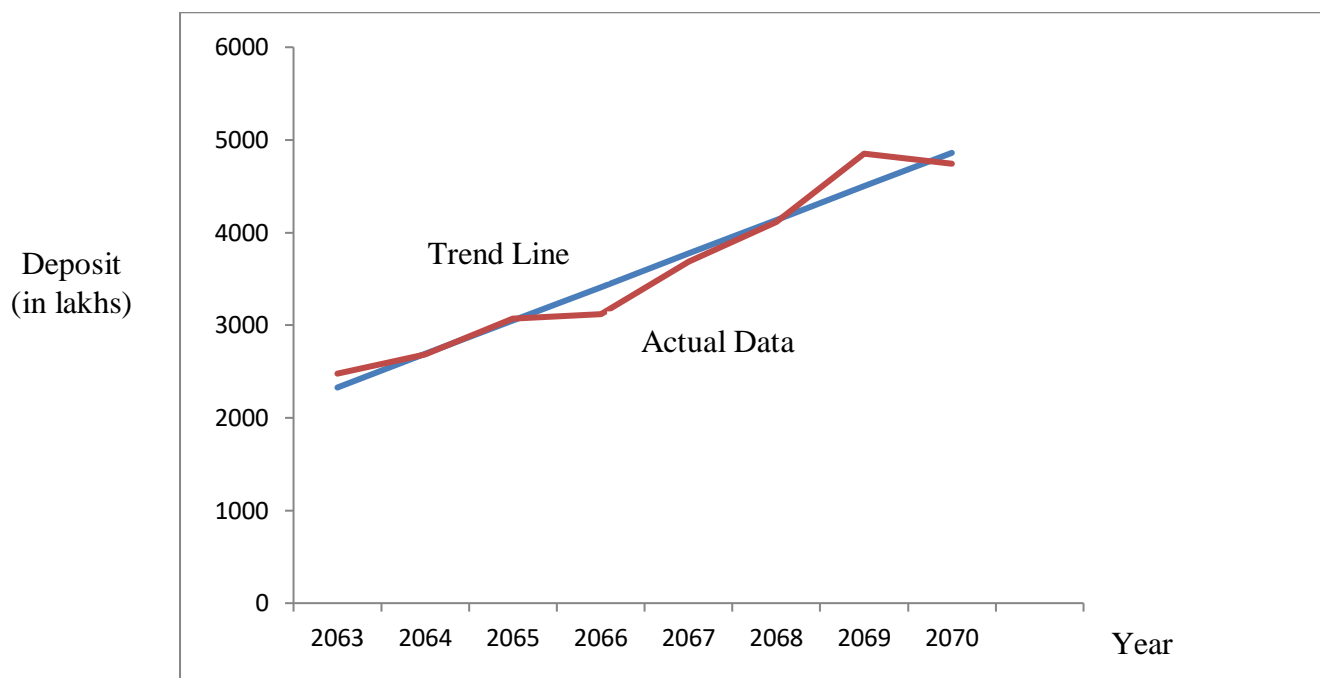
**Table 4.15**

**Trend Value of total Deposit of RBB, Dhadingbesi Branch (Rs. in Lakhs)**

Year /Ashadh	Trend Values
2063	2327.293
2064	2689.123
2065	3050.953
2066	3412.783
2067	3774.613
2068	4136.433
2069	4498.273
2070	4860.103
2071(Expected)	5221.933

Since the calculated value of 'b' is positive, it is found that the bank's deposit is in increasing trend. If other things remain constant, the total deposit of the bank of 2071 Ashadh will be Rs. 5221.933 lakhs (expected). The calculated trend value of total deposit of RBB, Dhadingbesi Branch is shown below.

**Fig 4.3: Trend Value of Total deposit**



#### 4.7.2.2 Trend Analysis of Total Credit

The trend value of credit amount of RBB, Dhadingbeshi branch has been calculated for 8 years from Ashadh 2063 to Ashadh 2070. The forecasted value of credit account for the year Ashadh 2071 has also been calculated (For detail see Annex VI).

Since the calculated value of 'b' is positive, it is found that the bank's deposit is in increasing trend. If other things remain constant, the total Credit of the bank of 2071 Ashadh will be Rs. 1945.828 lakhs (expected). The calculated trend value of total deposit of RBB, Dhadingbesi branch is fitted in trend line.

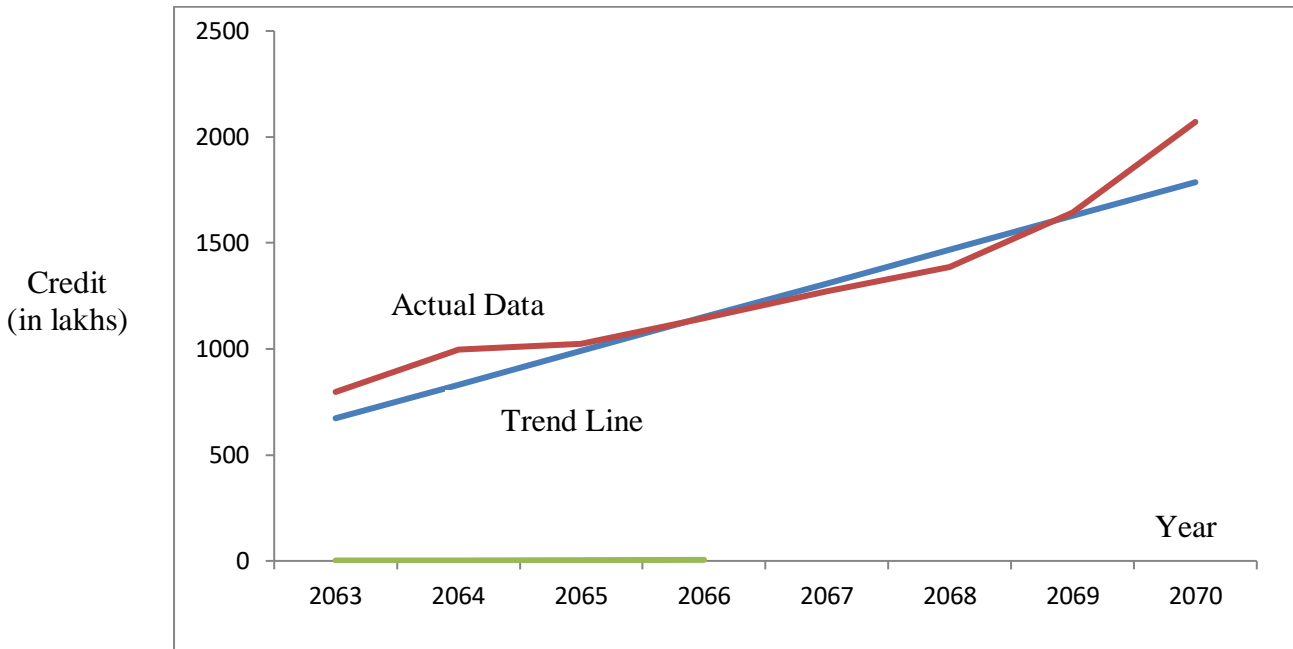
The Table No. 4.16 shows the trend values of RBB, Dhadingbesi branch for 9 years.

**Table 4.16**

**Trend Value of total Credit of RBB, Dhadingbesi Branch (Rs. in Lakhs)**

Year /Ashadh	Trend Values
2063	672.996
2064	832.100
2065	991.204
2066	1150.308
2067	1309.412
2068	1468.516
2069	1627.62
2070	1786.724
2071(Expected)	1945.828

**Fig 4.4: Trend Value of Credit Amount**



#### **4.8 Primary Data Analysis**

The primary data analysis has been done through the interview and questionnaires basis. The interpretation of the primary data is presented in this section of the study. The analysis has been presented in the point wise form to give the clear idea of the analysis (See Annex VIII for questionnaires).



**Table 4.17**  
**Showing Number of Samples Selected Under Study**

S.N.	Level	Sample taken No.	Response No.	percent
1	Managers	2	2	100
2	Staffs	10	7	70
3	Clients	40	30	75

**A. Management View**

**i. Factor that should be considered while making loan and advance decision**

The basic principles of lending are normally based on availability of resources. The most important factors contributing to success or failure of a lending is the promoters or person behind the investment project. The experience and qualification of the promoter will be added one. Making loan is the principle economic function of bank.

The government economic policy, country's present political situation, industrial scenario must be analyzed before lending. Government restriction like antipollution measures may also be understood what product enterprise wants to launch needs to be examined. IT is essential that money should be used for safe and viable ventures. The features of sound lending policy also to be considered like: safety and security, profitability, liquidity, diversification legality etc (See Questionnaires No. 1).

**ii. Increasing of idle deposits or decreasing the loan and advances**

This bank mobilizes its funds mainly in loan and advances for short period except CSI project. Bank does not grant loan without collateral. It means bank is concentrated on security minded. This is very much necessary if borrower/investor could not repay money in time, there will be great trouble to collect in future. Hence the bankruptcy is possible. So, bank provides loan on security basis rather than project basis.

The bank has no authority to invest the deposits into government and other securities because central office has not given authority to do so. That's why also the gap between deposit and credit is increasing. The bank couldn't find any new sector for investment of its deposits (See Questionnaire No.2).

## **B. Reactions of Bank Staffs**

- i.** There are altogether 15 staffs in this branch. Among them 2 are in officer level and 7 are clerical staffs, 5 security guards and 1 peon. Among them 7 staffs are trained. They just got on the job training only like coaching and counseling, programme instruction, job instruction training etc. But officer level has not received any management development training to increasing their efficiency. Training is the essential factor to increase their capability, confidence about work (See questionnaire No. 3 and Annex I).
- ii.** Wages and salaries significantly influence to the employees. They are instrumental in fulfilling employee's needs. Pay serves as a symbol of achievement and a source of recognition. But staffs of this branch are not satisfied with the present pay roll system. There is not also any reward system, incentives etc. Which help to motivate to employees in job performance? Employees may possess necessary skills and ability. But they may lack desire or willingness to use those skills and abilities. The building in which bank is operating is not its own. The rooms are also not suitable for banking activities. (See Questionnaire No. 4).

## **C Reactions of Clients**

- i.** Accepting deposits from the people is a major function of the commercial banks. People in general, the businessman the industrialists and other individuals deposit money in a bank. Most of people are using saving account to deposit their money in order to earn interest and securities purposes, who are small scale saver. Only the person whose financial position is better wants to gain more interest use fixed account. A customer who usually needs money daily uses current account for transactions. Bank

has 15686 saving depositors, 235 fixed depositors and 6547 current depositors till 2070 poush (See Annex I and Questionnaire No.5).

- ii. A new depositor faces difficulties to open an account because there are certain criteria fixed by the branch for identification of a new depositor. It is very difficult to depositors who are far from district headquarter. There is also lack of system to get information about the bank. Bank does not publish any brochure, magazine etc. Person who wants to deposit money into bank first of all, needs some information about the bank (See Questionnaire No. 6).
- iii. Providing loan is another major function of commercial bank. A bank provides loan to a person, company and institution. It provides loan by accepting the security of the debtor. There should be easy procedure in lending process is lengthy. Generally it takes 1 month to get loan from the bank. Bank charge more interest rates than rate of return on lending. It focused on big clients like businessman institutions etc. (See Questionnaire No. 8)
- iv. The manager generally visits to the investor once a year. First he collects the information about the running business. He also gives valuable suggestions and guidelines as it needed. That's why he is very helpful for the investor (See Questionnaire No. 8).
- v. The minimum level of bank balance and amount need to open an account in the bank are very high. So, this bank is far from small depositors. In case of death of depositor, it is very difficult to get back money. There is also lack of publicity of the bank. (See Annex I and Questionnaire No. 10)

#### **4.9 Major Finding**

In this study, to analyze the deposit and credit position of RBB, Dhadingbesi branch, for the period of 8 years starting from 2063 Ashadh to 2070 Ashadh have been taken into consideration. Both primary and secondary data have been used for the study. Generally, financial as well as statistical tools have been used to reveal the entire position of deposit and credit of RBB, Dhadingbesi branch.

## **4.9.1 Major Finding from Secondary Data**

### **Percentage change ratio**

- \* The analysis reveals that the bank attraction towards current deposit seems not to be satisfactory. It is not stable during the study period. It is negative position in the year 2070. The highest percentage of change is in the year 2068 Ashadh i.e. 38.60 percent.
- \* The change in percentage increase of saving deposit is highest in Ashadh 2065 i.e. 20.13 percent and the lowest in Ashadh 2068 i.e.-7.25 percent.
- \* In the analysis of fixed deposit, it is observed that fixed deposit percentage change is normal. Highest percentage of change is in the year 2070 i.e. 24.27 percent.
- \* The analysis reveals that the bank's attraction towards total deposit seems to be satisfactory. Though the percentage change is not stable normal, the ratios are on average.
- \* In case of percentage change in credit amount, the bank's attraction towards credit amount is poor compare to deposit.

### **Credit Deposit Ratio (CD Ratio)**

The CD ratio of RBB, Dhadingbesi branch which indicates the better utilization of its deposit in loan and advances is in almost unfavorable condition. CD ratio has been followed zigzag trend. It is clear that RBB, Dhadingbesi branch is not success in utilizing its deposit. The bank is facing the problem in investing in loan and advances. Due to various internal and external factors, the bank is not making any open investment. That's why deposits are excess and idle in the bank. So, there is wider gap between the deposits and credit. As a result, there is piling up of idle deposits with the bank.

### **Growth Ratio**

- \* The growth ratio of total deposit of RBB, Dhadingbesi branch by analysis of 8 years period is 9.73 percent. It means the bank is able to maintain 9.73 percent growth rate. This ratio measures capacity of the bank to maintain the percentage of increase of total deposit. Since the growth ratio of total deposit

is 9.73 percent, the bank must improve its deposit collection in high growth ratio.

- \* The growth ratio of total credit of RBB, Dhadingbesi branch during the study period of 8 years is 14.61 Percent only. So, the bank seems in weak condition to increase total credit yearly growth rate.

### **Interest Rates and Different Deposits and Total Credit**

- \* The interest rates on deposit and loans have been changing slightly in time to time. These changes were made in order to maintain the balance between interest earning and interest expenses.
- \* Saving deposit amount of RBB, Dhadingbesi branch have been found to be continuously increasing but the saving interest rate is decreasing year by year except the years of 2066 and 2068. It means there is very low impact of interest rate on its saving deposit.
- \* In case of fixed deposited amount, it is also in increasing trend. But the fixed deposit interest rate is in fluctuating trend. So, it can be said that there is no strong impact of interest rate on fixed deposit amount.
- \* The impact of lending interest rates on loan amount is not satisfactory. Even though, most of the items lending rates are decreasing, the loan amount is slightly increased.

### **Correlation Coefficient**

- \* Correlation coefficient between deposit and credit of RBB, Dhadingbesi branch shows the positive Relationship between these two variables. Since  $r^2 = 0.943$ , it indicates that 94.3 percent of the variation in the total credit has been explained by the deposit. Since  $r > 6P.Er$ , there is significant relationship between deposit and credit.
- \* Correlation coefficient between saving interest rate and saving deposit amount of RBB, Dhadingbesi branch also shows the positive relationship between these two variables. By application of the coefficient of determination, it indicates only 8.1 percent 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.

- \* From correlation coefficient between fixed interest rate and fixed deposit amount of RBB, Dhadingbesi branch, the coefficient of determination ( $r^2$ ) is 0.2990. It indicates that 29.9 percent of the variation in the fixed amount has been explained by the fixed deposit interest rate. Because of  $r$  is too less than  $6P.Er$ , there is no significant relationship between interest rate and fixed deposit.

### **Trend Analysis and Projection for Next One Year**

- \* The total deposit of RBB, Dhadingbesi branch has been found in increasing trend except the year 2070. The total deposits of RBB, Dhadingbesi branch will be Rs.5221.933 lakhs in the Ashadh 2071 if other things remaining same.
- \* The total credit to RBB, Dhadingbesi branch also has been found in increasing trend. If other things remaining constant, the total credit amount will be Rs.1945.828 lakhs for the year of 2071 Ashadh.

### **4.9.2 Major Finding from Primary Data Analysis**

- (a) Bank considers various possible factors while making lending. Such as: safety and security, profitability feasibility of project, available of resources, diversification, legality etc.
- (b) Bank's deposit collection is satisfactory but due to the lack of investing opportunities bank is unable to use its funds and bank has no authority to invest it into government and other securities.
- (c) Bank has limited trained staffs. There is not any reward system and incentives according to the performance and also lack of sufficient modern facilities.
- (d) There are a little bit problems in opening an account. The building is also not suitable for banking activities due to lack of modern facilities and place.
- (e) Lending process is lengthy because it takes long time to get loan from the bank.
- (f) Manager generally visits to the investor once a year to get information about the business. This is very helpful to the investors.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

For the economic development without inflationary pressure in the economy, mobilization as well as channelization of saving in the productive is important. No doubt commercial banks can play a crucial role for the economic development by formulation of capital, which is 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 formulation by converting dispersed saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of a nation. It should not be forgotten that a country could hardly achieve its good of economic development without a strong capital base. Commercial banks play a vital role in performing such base for financial and economic development by way of deposit mobilization

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

So far as RBB, Dhadingbesi branch's deposit and credit concerned, the deposit position in Ashadh 2063 was Rs. 2477.11 lakhs. As there was no investment made by the branch, total credit (loans and advances) of the branch in the same year was Rs. 797.02 lakhs and CD ratio was 32.17 percent. In the year 2070 Ashadh, the CD ratio was 43.64 percent. So, it can be concluded that bank has tried to utilize the collected deposit.

The correlation coefficient between deposit and credit is positive i.e.  $r = 0.971$ , which indicates there is positive relationship between deposit and credit. Here,  $r > 6P.Er$ , it means relationship between deposit and credit is significant. The increasing trend of deposit collection is accompanied by incensement in utilization side also. In average 35.63 percent of the deposit collection are found to be utilized leaving other 64.37 percent remaining idle. So, RBB, Dhadingbesi branch must try to more utilize even better and with proper a locative scheme.

Besides this, in credit sector also the interest rate is irresponsible to credit amount granted by this branch. It is found that there is very controversial between lending rate and credit amount. It proves the general law that lowers the interest rate, higher amount of credit will be granted and higher the interest rate, the less amount of credit will be granted. But in case of this branch, it is not applicable. It is found that credit amount is increased even lending rates are increased and credit amount is decreased even lending rates are decreased.

The analysis shows that interest rate is not responsible to total deposit. The saving interest rate is in decreasing trend but the saving deposit amount is increasing year by year. In case of fixed deposit amount, the fixed interest rate is not stable. It is in fluctuating trend. But the fixed amount is increasing overall the study period. In both cases  $r < 6P.Er$ . It indicates that the correlation coefficient between interest rate and saving/fixed deposit is insignificant. Although the interest rate is lowered the deposit collection is high. But the fact is something different when liberalization was introduced in Nepal as a means of development of the country, many joint ventures banks and financial institutions; people got opportunity to keep their savings in these institutions.

## **5.2 Conclusion**

Bank is very necessary for the 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 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. 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 because bank uses the money of other people for the benefit of its own.

In case of RBB, Dhadingbesi branch it is successful to collect deposit but it is facing the problem of utilization of its funds. The average CD ratio was 35.63 percent only. So, it can be said that the activities of this branch for mobilizing deposits seems to be idle. Bank has good deposit collection but it has maintained low investment policy on loan and advances. So, there is very much wider gap between total deposit and total credit (loan and advances). The interest rate has not been influenced to the deposit collection as well as lending sectors of the bank. People seem to be insensitive towards the change in the rate of interest. The growth ratio shows bank's loan and advances is very lower than its deposit collection. Correlation coefficient shows there is positive relation between deposit and credit. The number of staffs get trained are nominal. The bank has not tried to find out the new sectors of investment. The central office has not also given authority to the branch manager to invest on government securities. Except CSI project, the branch provides a short term credit only. And bank has also lack of sufficient facilities.

So, the bank must work hard to prove that it is really efficient and viable agency for mobilization of saving and its channelization into productive sectors. Bank is professional managed, competent enough to ensure adequate rate of return on investment and strategically well planned to be competitive.

### **5.3 Recommendations**

The problems related to deposit mobilization of RBB, Dhadingbesi branch have been discussed. According to the various analyses, the following recommendations are highlighted to put forward for the further improvement of the deposit mobilization of RBB, Dhadingbesi branch.

#### **a) To increase the deposit collection**

Since the growth ratio of total deposit is only 9.73 percent, it is recommended that bank should try to do different activities to collect more deposit such as:

- i.** The bank should try to start new programs like lottery prizes and other schemes which may help to increase the deposit collection of the bank. Deposit interest rates should be more attractive to fight with other commercial banks.
- ii.** Bank should open its door to the small depositors or decreased in minimum bank balance for promoting and mobilizing small investor funds.
- iii.** The branch is recommended to follow an easy procedure to open a new account. Instead of identification of a new depositor by an account holder, the bank should accept the identification by citizenship card or pension card or identity card of the students.

**b) To increase Loan and advances**

Since the average CD ratio is found to be 35.63percent and growth ratio of total credit is 14.61 percent which is low in comparison to the deposited amount. So, the bank should reach different sector to extend loans and advances. These are the recommendation to the bank to increase the utilization of its funds.

There should be facility for medium as well as long term loan.

- i.** The bank should not more conscious about the security. Credits have 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 project with high prospect should be given special treatment while providing loan.
- ii.** The central office should also give authority to branch manager to invest in government and other different securities. Although such securities yield the lowest interest rate due to low risk feature, it helps the branch to utilize its idle deposits and earn more profit.
- iii.** Lending rate 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 credit is recommended.

- iv.** It is recommended to the branch that 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 its utilization through these activities.

- i.** Training and observation tours should be organized on regular basis to increase their efficiency. There should be incentives packages such as award system, Bonus system to motivate staffs.
- ii.** 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. When there is more publicity, people may have great desire to save money in order to earn interest and use the bank to lend money instead of money lenders. The bank should also pay attention to publish bulletin, brochures and others so as to make people familiarize with its performance and activities.
- iii.** The bank branch should have its own building which is suitable for banking activities. The bank also should be modernized.
- iv.** Proper evaluation of the performance of staffs should be done in timely and continuously in order to increase the efficiency of the bank. For this, it is recommended that job analysis should be done to find out the job skill, knowledge, abilities etc. of staffs.

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