

Effects of Banking Lending, Deposit on Economic Growth in Nepal

A Final Thesis Report

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Certificate of Authorship

I hereby, declared that this lending research report entitled “**Effects of Bank Lending Deposit on Economic Growth in Nepal**” Submitted to Research Department, central department of Tribhuvan University is my original work. This work has been carried out in the form of partial fulfillment of the requirements for the degree of Master in Business Studies under the supervision of Dr. Bal Ram Chapagain, in Central Departmental of Management, Tribhuvan University.

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RECOMMENDATION LETTER

I recommended that the dissertation prepared “Effects of bank lending deposit on economic growth in Nepal” prepared by Anita Ghimire has been completed under my supervision for partial fulfillment of the requirements for the degree of master of management. I hereby forward it for approval.

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We the undersigned, have examined the thesis entitled " Effects of Bank Lending Deposit on Economic Growth in Nepal" prepared by Anita Ghimire a candidate for the degree of master of business Studies (MBS semester) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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I am responsible for any errors and I apologize for any of them committed that may have remained in this work. Thanks.

Anita Ghimire
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Abbreviations

ADB	=	Asian Development Bank
ATM	=	Automated Teller Machine
CD	=	Credit Deposit
CPG	=	Credit Policy Guidelines
CV	=	Coefficient of Variance
EPS	=	Earning Per Share
FY	=	Fiscal Year
GDP	=	Gross domestic product
ICAN	=	Institute of Chartered Accounts Nepal
MOF	=	Ministry of Finance
NA	=	Net Assets
NABIL	=	Nabil Bank Limited
NBL	=	Nepal bank Limited
NEPSE	=	Nepal Stock Exchange
NII	=	Net Interest Income
NPL	=	Non-Performing Loan
NRB	=	Nepal Rastra Bank
PE	=	Probable Error
r	=	Correlation
RBB	=	Rastriya Banijya Bank
SCB	=	Standard Chartered Bank Nepal
SD	=	Standard Deviation
SMS	=	Short Message Service
WB	=	World Bank
r^2	=	Coefficient of Determination

Abstract

In Nepal, the banking sector is an important part of the whole financial system which dominates the Nepalese financial system, especially commercial banks. However, the banking sector has not contributed significantly to the growth and development of Nepalese economy as expected. The poor performance of the sector has been attributed to numerous problems that faced the sector such as inadequate capital, high nonperforming assets which had led to frequent distress in the sector and may cause collapse of banks. This study is carried out to examine the impact bank lending, deposit and investment on economic growth in Nepal. In addition, the objective of this study is to examine the impact of bank lending, deposit and investment on economic growth in Nepal for the period 2001 to 2019. This study relies purely on secondary data, and using correlation and multiple regression model. The study concludes that there is a statistically significant impact of bank lending on economic growth in Nepal. This suggests that the performance of the Nepalese economy is greatly influence by bank lending.

This research examines the relationship between lending of commercial banks of Nepal and GDP of Nepal. The study also examines the correlation between bank lending and gross domestic product and correlation between GDP and deposit of commercial banks of Nepal. Nepalese financial system has grown significantly both in terms of business volume and the size of the market. A number of financial institutions with varied nature of operations came into existence offering a wide range of financial services. Financial institution is an important activity in the economy. They perform a wide variety of functions in the financial system. Financial Institutions have been regarded to be the core area of economic development. The increase in size and number of commercial banks are limited only in the urban areas so that banking services are not accessible to the general public.

This research examines interaction between financial development and economic growth in Nepal employing correlation and regression analysis and other related theories. This study is based on both descriptive analysis and empirical analysis. In this study statistical data have been regressed in the linear using SPSS. As from the research that financial institutions have grown rapidly which has contributed in overall economy of the nation. The economic indicators such as GDP, loan assets of commercial banks, investment, deposit and various ratios so on. The number of commercial banks has been reached to 31 in 2011 and after merger and acquisition it has been reduced to 28. From this research commercial banks are contributing in

the pace of economic development. The regression analysis also shows that the lending of commercial banks have positive contribution in the economic growth of Nepal i.e. GDP. Correlation of GDP with lending, deposit and investment of commercial banks are highly positive relationship with high correlation coefficient. From the regression analysis there is significance relationship of GDP with bank lending and investment of commercial banks of Nepal so null hypothesis has been rejected and alternative hypothesis has been accepted. But there is insignificant relationship between GDP and deposit of commercial bank so null hypothesis has been accepted at 5% level of significance and the regression equation using multiple regression has been derived with help of SPSS is, Gross Domestic Product = $225105.78 + 0.634x_1 - 0.03x_2 + 4.562x_3$. By using this regression equation future value can be forecasted.