

**INTEREST RATE AND ITS IMPACT ON DEPOSIT MOBILIZATION OF
COMMERCIAL BANKS**

A THESIS

**Submitted By:
Yadav Prashad Bohara
Central Department of Management
Campus Roll No: 283/066
Exam Roll No: 280172
T.U. Regd. No: 7-2-329-126-2006**

Submitted To:

**Office of the Dean
Faculty of Management
Tribhuvan University**



**In partial fulfilment of the requirements for the Degree of
Masters in Business Studies (MBS)**

**Kirtipur, Kathmandu
July, 2013**

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

Yadav Prashad Bohara

Entitled:

INTEREST RATE AND ITS IMPACT ON DEPOSIT MOBILIZATION OF COMMERCIAL BANKS

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

.....
Asso. Prof. Dr. Ramjee Gautam
(Thesis Supervisor)

.....
Prof. Dr. Sunity Shrestha
(Head of Research Department)

.....
Prof. Dr. Bal Krishna Shrestha
(Head of Department)

Date:-

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

Yadav Prashad Bohara

Entitled:

**INTEREST RATE AND ITS IMPACT ON DEPOSIT MOBILIZATION
OF COMMERCIAL BANKS**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as Partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS)

Viva-Voce Committee

Chairperson, Research Committee

Member (Thesis Supervisor)

Member (External Expert)

Member(Head of Department)

Date:-

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Interest Rate and Its Impact on Deposit Mobilization of Commercial Banks**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision of Asso. Prof. Dr. **Ramjee Gautam**, lecturer of Central Department of Management.

Yadav Prashad Bohara
Campus Roll No. : 283/066
Date: July, 2013

ACKNOWLEDGEMENT

First and foremost, I would like to express my heartfelt gratitude towards my thesis supervisor Asso. Prof. Dr. Ramjee Gautam for their humble guidance and supervision in the construction of this thesis. Further, I am immensely grateful for their precious and important guidelines and instructions. Once again, thank you sir for your unconditional support and encouragement.

I would like to express my sincere gratitude towards Head of the Central Department of Management & Research Committee Prof. Dr. Bal Kirshna Shrestha who has kindly provided his valuable suggestions. I would like to give thanks to all the administrative staffs & staffs of the department library for providing me necessary data and materials, which were necessary for my thesis writing.

I want to give thanks to all the staff members of T.U. Central Library, staffs of Nepal Rastra Bank as well as staff member of all sample banks who provided the reference and reading materials during the period of research. I would like to thank my friends who supported and helped me in every possible way they could.

Last but not the least, my sincere thanks to each and every individuals and organizations for their direct or indirect contribution in a successful completion of this thesis.

Researcher
Yadav Prashad Bohara
Central Department of Management
T.U. Regd. No. 7-2-329-126-2006
Roll No. 283/066

TABLE OF CONTENTS

	Page No.
Recommendation	
Vive-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
List of Abbreviations	
CHAPTER I	
INTRODUCTION	1-7
1.1 General Background of the Study	1
1.1.1 Brief Profile of the Sample Banks	3
1.2 Statement of the Problem	4
1.3 Objectives of the Study	5
1.4 Significance of the Study	6
1.5 Limitation of the Study	6
1.6 Organisation of the Study	7
CHAPTER II	
REVIEW OF LITERATURE	8-37
2.1 Conceptual Framework	8
2.1.1 Theories of Interest Rate	10
2.1.2 Functions of Interest Rate in the Economy	12
2.1.3 Determinants of the Interest Rates	12
2.1.4 The Current Interest Rate Policy of NRB	14
2.2 Commercial Banks	16
2.2.1 List of Commercial Banks in Nepal	17
2.2.2 Function of Commercial Banks	18
2.3 Concept of Deposit	20
2.3.1 Deposit Mobilization	22
2.3.2 Requirements of Deposit Mobilization	24
2.3.3 Advantages of Deposit Mobilization	25
2.3.4 Factors Affecting Deposit Mobilization	26
2.4 Advancing Loan	27
2.4.1 Factors Affecting the Volume of Lending	29
2.5 Interest Rate Spread	30
2.5.1 Major Cause of High Interest rate Spread	30
2.6 Review of Some Books & Articles	30
2.7 Review of Thesis	34
2.8 Research Gap	37

CHAPTER III		
RESEARCH METHODOLOGY		38-42
3.1	Research Design	38
3.2	Population and Sample	38
3.3	Data Collection Procedure	39
3.4	Data Processing and Presentation	39
3.5	Tools for Data Analysis	39
	3.5.1 Statistical Tools	40

CHAPTER IV		
DATA ANALYSIS AND PRESENTATION		43-77
4.1	Introduction	43
4.2	Overview of Nepalese Financial Sector	44
4.3	Rastriya Banijya Bank	45
	4.3.1 Interest Rate and Its Effect on Deposit of RBB	45
	4.3.2 Interest Rate and Its Effect on Lending of RBB	49
4.4	Nabil Bank Limited	52
	4.4.1 Interest Rate and Its Effect on Deposit of Nabil	52
	4.4.2 Interest Rate and Its Effect on Lending of Nabil	56
4.5	Bank of Kathmandu Limited	59
	4.5.1 Interest Rate and Its Effect on Deposit of BOK	59
	4.5.2 Interest Rate and Its Effect on Lending of BOK	62
4.6	Standard Chartered Bank Limited	65
	4.6.1 Interest Rate and Its Effect on Deposit of SCBL	65
	4.6.2 Interest Rate and Its Effect on Lending of SCBL	68
4.7	Combined Calculation of Sample Banks	71
	4.7.1 Interest Rate and Its Effect on Deposit of Combined	71
	4.7.2 Interest Rate and Its Effect on Lending of Combined	74
4.8	Findings of the Study	76

CHAPTER V		
SUMMARY, CONCLUSION AND RECOMMENDATION		78-81
5.1	Summary	78
5.2	Conclusion	79
5.3	Recommendation	80

BIBLIOGRAPHY

ANNEXURE

LIST OF TABLES

Table No.		Page No.
2.1	Names of the Commercial Banks and their Dates Taken into Consideration	18
4.1	Growth of Financial Institutions in Nepal from 1985 to 2012	44
4.2	Interest Rate Structure on Deposit of RBB	46
4.3	Relationship between Interest Rate and Deposit Amount of RBB	47
4.4	Lending Rate of RBB on Different Sectors during Five Years	50
4.5	Interest Rate Structure on Deposit of Nabil	53
4.6	Relationship between Interest Rate and Deposit Amount of Nabil	54
4.7	Lending Rate on Nabil on Different Sectors during Five Years	56
4.8	Interest Rate Structure on Deposit of BOK	59
4.9	Relationship between Interest Rate and Deposit Amount of BOK	60
4.10	Lending Rate of BOK on Different Sectors during Five Years	62
4.11	Interest Rate Structure on Deposit of SCBL	65
4.12	Relationship between Interest Rate and Deposit Amount of SCBL	66
4.13	Lending Rate of SCBL on Different Sectors during Five Years	68
4.14	Relationship between Interest Rate and Deposit Amount of Combined	71
4.15	Lending Rate of Combined on Different Sectors during Five Years	74

LIST OF FIGURES

Figure No.		Page No.
4-1	Deposit Amount of RBB During Different Years	48
4-2	Interest Rates of RBB on Saving and Fixed Deposit	48
4-3	Lending Amount of RBB During Different Years	51
4-4	Average Lending Rate of RBB During Different Years	52
4-5	Deposit Amount of Nabil During Different Years	55
4-6	Interest Rates of Nabil on Saving and Fixed Deposit	55
4-7	Lending Amount of Nabil During Different Years	58
4-8	Average Lending Rate of Nabil During Different Years	58
4-9	Deposit Amount of BOK During Different FY	61
4-10	Interest Rates of BOK on Saving and Fixed Deposit	61
4-11	Lending Amount of BOK During Different Years	64
4-12	Average Lending Rate of BOK During Different Years	64
4-13	Deposit Amount of SCBL During Different FY	67
4-14	Interest Rates of SCBL on Saving and Fixed Deposit	67
4-15	Lending Amount of SCBL During Different Years	70
4-16	Average Lending Rate of SCBL During Different Years	70
4-17	Combined Deposit Amount During Different FY	72
4-18	Combined Interest Rates on Saving and Fixed Deposit	72
4-19	Combined Lending Amount During Different Years	75
4-20	Combined Average Lending Rate of During different Years	75

LIST OF ABBREVIATIONS

A.D	Anno Domini
Amt.	Amount
ATM	Automated Teller Machine
BOK	Bank of Kathmandu Limited
BS	Bikram Sambat
C.V	Coefficient of Variation
CD	Certificate of Deposit
eg	Example
etc	Etcectera
FDR	Fixed Deposit Rate
Fig	Figure
FIs	Financial Institutions
FY	Fiscal Year
i.e	That is
Ltd.	Limited
MBS	Master of Business Studies
NABIL	Nabil Bank Limited
NGO	Non Government Organization
No.	Number
NRB	Nepal Rastra Bank
Pvt	Private
RBB	Rastriya Banijya Bank
Rs	Rupees
S.D	Standard Deviation
SCBL	Standard Chartered Bank Limited
T.U	Tribhuvan University
U.S	United States