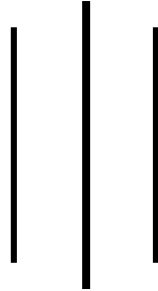


Impact of Interest Rate on Deposit and Lending of Commercial Banks



Submitted By:

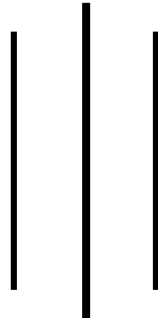
AMIN SUWAL

CENTRAL DEPARTMENT OF MANAGEMENT (KIRTIPUR)

T.U. REGISTRATION NO: 7-2-503-02-2003

EXAM ROLL NO: 6589/2065

CAMPUS ROLL NO: 45/2063-2065



Submitted To:

OFFICE OF THE DEAN

FACULTY OF MANAGEMENT

TRIBHUVAN UNIVERSITY

IN PARTIAL FULFILMENT OF THE REQUIREMENT OF THE DEGREE OF
MASTER OF BUSINESS STUDIES (M.B.S)

KIRTIPUR, KATHMANDU

MARCH 2014

RECOMMENDATION

This is to certify that the thesis

Submitted By:

Amin Suwal

Entitled

**“IMPACT OF INTEREST RATE ON DEPOSIT AND LENDING OF
COMMERICAL 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. Ajaya Prasad Dhakal
Thesis Supervisor

.....
Prof. Dr. Sunity Shrestha
Chairman, Research Committee

.....
Prof.Dr. BalKrishna Shrestha
Head of Department

Date:

VIVA-VOCE SHEET

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

Amin Suwal

Entitled

**“IMPACT OF INTEREST RATE ON DEPOSIT AND LENDING OF
COMMERCIAL BANKS”**

**And found the thesis to be the original work of the student written according to the
prescribed format. We recommend the thesis to be accepted as fulfillment of the
requirement for the Master Degree IN Business Studies (M.B.S)**

Viva-Voce Committee

Chairman, Research Committee:

Member (Thesis Supervisor):

Member (External Expert):

Member (CDM):

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled “Impact of interest rate on Deposit and Lending of Commercial Banks” submitted to Research Department of Central Department of Management (CDM), Kirtipur, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the degree of Masters of Business Studied under the supervision of Asso. Prof. Mr. Ajaya Prasad Dhakal, Central Department of Management, T.U.

.....

Amin Suwal

Central Department of Management (CDM)

Roll No: 45/2063-2065

MBS Symbol: 6589/2065

T.U. Registration No: 7-2-503-02-2003

Date :

ACKNOWLEDGEMENT

The presented Thesis entitled “Impact of Interest Rate on Deposit and Lending of Commercial Banks” is prepared for the partial fulfillment of the requirement for the degree of Masters of Business Studies of Tribhuvan University. We would like to express my cordial thanks to all the concerned peoples, who have directly or indirectly contribute towards achieving this fieldwork.

Firstly, we would like to express my gratitude to my thesis Supervisor Asso.Prof. Mr. Ajaya Prasad Dhakal who gave me necessary suggestions and guidance. We would like to acknowledge our deep sense to our respected teacher for guiding, helping and inspiring me to complete this thesis.

Last but not the least; I am greatly indebted to my friends and family members for their support and co-operation in writing thesis. My special thanks to Mr. Krishna Shrestha, Mr. Anup Deep Suwal, for their invaluable support and suggestion.

Thanks,

Amin Suwal
Central Department of Management
Tribhuvan University, Kirtipur
T.U. Registration: 7-2-503-02-2003
M.B.S Symbol No: 6589/2065
Roll No: 45/2063-2065

TABLE OF CONTENTS

Viva-Voce Sheet	ii
Recommendation	iii
Declaration	iv
Acknowledgement	v
Table of Contents	vi
List of Tables	ix
List of Figures	x
Abbreviations	xi

CHAPTER ONE

INTRODUCTION

1.1	Background of the Study	1
1.2	Overview of Interest Rate Policy and Financial Development	4
1.3	Statement of the Problem	7
1.4	Objective of Study	8
1.5	Significance of the Study	8
1.6	Research Hypothesis	8
1.7	Limitation of Study	9
1.8	Organization of the Study	10

CHAPTER TWO

REVIEW OF LITERATURE

2.1	Conceptual Framework	11
2.2	Theories of Interest Rates	13
2.2.1	The Classical Theory of Interest Rates	14

2.2.2	The Liquidity Preference Theory of Interest	16
2.2.3	The Lovable Fund Theory of Interest Rate	18
2.2.4	Rational Expectancy Theory	21
2.3	Economic Factors Affecting Interest Rate	21
2.3.1	Impact of Economic Growth on Interest Rate	21
2.3.2	Impact of Money Supply on Interest Rate	23
2.3.3	Impact of Budget Deficit on Interest Rate	23
2.3.4	Impact of Inflation on Interest Rate	23
2.3.5	Impact of Deflation on Interest Rate	24
2.3.6	Impact of Default Risk	24
2.3.7	Marketability and Liquidity	25
2.3.8	Reinvestment Risk	25
2.4	How Open Market Operation Affect Interest Rate	25
2.5	Term Structure of Interest Rates	26
2.6	Deposits	27
2.7	Lending	27
2.8	Review of Previous Thesis and Articles	28
2.9	Research Gap	38

CHAPTER THREE

RESEARCH METHODOLOGY

3.1	Research Design	39
3.2	Population and Sample	39
3.3	Data/Information Collection Procedure	39
3.4	Data Processing	40
3.5	Data Analysis Tools	40
3.6	Variables	43

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION

4.1	Analysis of Himalayan Bank Ltd.	46
4.2	Analysis of Standard Chartered Bank Ltd.	51
4.3	Analysis of Nepal Bangladesh Bank Ltd.	56
4.4	Analysis of Bank of Kathmandu Ltd.	61
4.5	Analysis of Nepal Investment Bank Ltd.	66
4.6	Comparative Analysis on Deposit Rates and Lending Rates of Sample Banks	71

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1	Summary	73
5.2	Conclusion	74
5.3	Recommendation	76

BIBLIOGRAPHY	77-79
---------------------	--------------

APPENDIX	80-83
-----------------	--------------

LIST OF TABLES

4.1 “A”	Calculation of Average Rate of Interest on Deposit of HBL	46
4.1 “B”	Interest Rate of Structure on Lending of HBL	47
4.1 “C”	Computations of Correlation Coefficients, Coefficient of Determination and T-statistics of HBL	48
4.2 “A”	Calculation of Average Rate of Interest on Deposit of SCBL	51
4.2 “B”	Interest Rate of Structure on Lending of SCBL	52
4.2 “C”	Computations of Correlation Coefficients, Coefficient of Determination and T-statistics of SCBL	53
4.3 “A”	Calculation of Average Rate of Interest on Deposit of NBBL	56
4.3 “B”	Interest Rate of Structure on Lending of NBBL	57
4.3 “C”	Computations of Correlation Coefficients, Coefficient of Determination and T-statistics of NBBL	58
4.4 “A”	Calculation of Average Rate of Interest on Deposit of BOK	61
4.4 “B”	Interest Rate of Structure on Lending of BOK	62
4.4 “C”	Computations of Correlation Coefficients, Coefficient of Determination and T-statistics of BOK	63
4.5 “A”	Calculation of Average Rate of Interest on Deposit of NIBL	66
4.5 “B”	Interest Rate of Structure on Lending of NIBL	67
4.5 “C”	Computations of Correlation Coefficients, Coefficient of Determination and T-statistics of NIBL	68
4.6	Comparative Analysis on Deposit Rates and Lending Rates of Sample Banks	71

LIST OF FIGURES

1.	The Equilibrium Rate of Interest in the Classical Theory	16
2.	The Equilibrium Rate of Interest in the Liquidity Preference Theory	18
3.	The Equilibrium Rate of Interest in the Lovable Funds Theory	20
4 “a”	Equilibrium Interest Rate When Demand Changes	22
4 “b”	Equilibrium Interest Rate When Demand Changes	22
4-1	Relationship between Deposit Rate and Lending Rate of HBL	49
4-2	Relationship between Deposit Rate and Lending Rate of SCBL	54
4-3	Relationship between Deposit Rate and Lending Rate of NBBL	59
4-4	Relationship between Deposit Rate and Lending Rate of BOK	64
4-5	Relationship between Deposit Rate and Lending Rate of NIBL	69

ABBREVIATIONS

A.D	=	Anno Domini
B.S	=	Bikram Sambat
RBB	=	Rastriya Banijaya Bank
NBL	=	Nepal Bank Limited
HBL	=	Himalayan Bank Limited
SCBL	=	Standard Chartered Bank Limited
NBBL	=	Nepal Bangladesh Bank Limited
NIBL	=	Nepal Investment Bank Limited
BOK	=	Bank of Kathmandu
US\$	=	United State Dollar
NIDC	=	Nepal Industrial Development Corporation
NRB	=	Nepal Rastra Bank
UK	=	United Kingdom
IC	=	Indian Currency
NC	=	Nepali Currency
GON	=	Government of Nepal
IMF	=	International Monetary Fund
BOP	=	Balance of Payment
ISD	=	Institute for Sustainable Development
D.F	=	Degree of Freedom
Ltd	=	Limited
e.g.	=	Example
Rs	=	Rupees