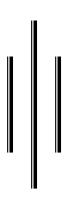
PRACTICES OF MONEY MARKET AND ITS INSTRUMENTS IN NEPAL

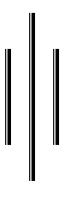


By Yub Raj Rai

Shankar Dev Campus, Kathmandu

Roll No: 1871/063

T.U. Reg. No: 7-2-39-459-2003



In the Partial Fulfillment of the Requirement for the Degree of Master of Business Studies (M.B.S.)

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

Kathmandu, Nepal September, 2013

RECOMMENDATION

This is to certify that the Thesis

Submitted by

Yub Raj Rai

Entitled

PRACTICES OF MONEY MARKET AND ITS INSTRUMENTS IN NEPAL

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

(Prof. Snehalata Kafle)	(Prof. Dr. Kamal Deep Dhakal)	(Asso. Prof. Praksah Singh Pradhan)
Thesis Supervisor	Head of Research Department	Campus Chief
(Pitri Raj Adhakari)		
Thesis Supervisor		

VIVA-VOCE SHEET

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

Yub Raj Rai

Entitled

PRACTICES OF MONEY MARKET AND ITS INSTRUMENTS IN NEPAL

and found the thesis to be the original work of the student and written according to the prescribed format Faculty of Management Tribhuvan University. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of Master's of Business Studies (MBS).

Wiva-Voce Committee Head (Research Department) Member (Thesis Supervisor) Member (Thesis Supervisor) Member (External Expert)

DECLARATION

I hereby declare that this thesis entitled **PRACTICES OF MONEY MARKET AND ITS INSTRUMENTS IN NEPAL** submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work as partial fulfilment of the requirements for the Degree of Master of Business Studies (MBS) under the supervision of Prof. Snehalata Kafle and Pitri Raj Adhakari, Shanker Dev Campus, Putalisadak.

•••••

Researcher Yub Raj Rai

Shanker Dev Campus

ACKNOWLEDGEMENTS

I am thankful to everybody, who in one way or the other, encouraged me and helped me in

the process of preparing this thesis. My heartfelt thanks and gratitude go to those without

whom the work would ever have reached its final stage.

Thesis supervisor Prof. Snehalata Kafle and Pitri Raj Adhakari Shanker Dev Campus, for

this necessary guidance, support and cooperation to complete this thesis. With great regard, I

would like to thank Prof. Dr. Kamal Deep Dhakal Head of Research Department, Shanker

Dev Campus for the necessary suggestion to undertake this work.

My deep appreciation also goes to staffs of T.U. Central Library and Shanker Dev Campus

Library.

I would like to share my success with the family members as well for providing a good

environment for the study and their valuable support without which no work can be

concluded in success. I also like to loud the help and support from my all friends. Their

evaluation, critical analysis and their suggestions are incredible.

Finally, once again I would like to thank all the people who helped me in some way or other

in presenting this thesis as a final product.

Yub Raj Rai

Researcher

Shanker Dev Campus

Table of Contents

			Page N	lo.
Reco	mmenda	tion		
Viva-	voce Sh	eet		
Decla	ration			
Ackn	owledge	ment		
Table	of Cont	ents		
List	of Table			
List	of Figure			
Abbr	eviation			
СНА	PTER-I	: INTRODUCTION	1-9	
1.1		al Background of the Study		1
1.2		ment of the Problem		61.3
	Object	tives of the study		61.4
		tance of the Study		71.5
	•	ation of the study		71.6
		ization of the Study		8
СНА	· ·	I: REVIEW OF LITERATURE	1	0-53
2.1		ptual Review	_	10
	2.1.1	The Financial System		11
	2.1.2	Function of Financial Market		12
	2.1.3	Types of Financial Market within the Financial Market		12
	2.1.4	The Development of Financial Markets and Instruments		13
	2.1.5	The Money Market		14
	2.1.6	Types of Money Market Instruments		15
	2.1.7	Need of Money Market		17
	2.1.8	Money Market in Nepal		20
	2.1.9	The Significance of Money Market for Controlling Controlling	ing	
		Economic Activities		22
	2.1.10	The Volume of Money Market Securities		23

	2.1.11 Investment and Interest Rate in Money Market	23
	2.1.12 Interrelationship of Short-term Interest in Money Market	25
	2.1.13 Yield Calculation on Money Market	26
	2.1.14 Yield Calculation of Treasury Bills	27
	2.1.15 Yield Calculation of Certificate of Deposit (CDs)	28
	2.1.16 Yield Calculation of Commercial Paper	28
	2.1.17 Yield Calculation of Bankers' Acceptance	29
	2.1.18 Yield Calculation of Eurodollars	30
	2.1.19 Yield Calculation on Repurchase Agreement	30
	2.1.20 Money Market Issue in Nepal	31
	2.1.21 Participators of Money Market in Nepal	32
	2.1.22 How T-bills are Sold in Nepal	34
	2.1.23 The Use of Repos by the Central Bank	35
	2.1.24 Repurchase Agreement in Nepal	36
2.2	Review of Related Books	40
2.3	Review of Journal and Articles	43
2.4	Review of previous Thesis	48
2.5	Research Gap	53
CHA	APTER-III: RESEARCH METHODOLOGY	54-58
3.1	Research Design	54
3.2	Population and Sample	54
3.3	Nature and Sources of Data	55
3.4	Means of Presentation and Demonstration the Data	55
3.5	Tools for Analysis	55
CHA	APTER-IV: DATA PRESENTATION AND ANALYSIS	59-72
4.1	Treasury Bills	59
4.2	Certificates of Deposits (CDs)	64
4.3	Repurchase Agreement (Repo)	66
4.4	Findings	71

CHA	APTER-V:SUMMARY, CONCLUSIONAND R	ECOMMENDATION 73-77
5.1	Summary	73
5.2	Conclusion	74
5.3	Recommendations	77
BIBLIOGRAPHY		78-79
APP	PENDICES	80-90

LIST OF TABLES

		Page No.
Table: 4.1:	Analysis of Yields on T-bill with Different Maturities	59
Table: 4.2:	Discount Yield of 28 Days Treasury Bills	60
Table: 4.3:	Discount Yield of 91 Days Treasury Bills	61
Table: 4.4:	Discount Yield of 182 Days Treasury Bills	62
Table: 4.5:	Discount Yields of 364 Days Treasury Bills	63
Table: 4.6:	Average Rates of CDs with Different Maturities	65
Table: 4.7:	Weighted Average Interest Rate of Repurchase Agreement	66
Table: 4.8:	Weighted Average Interest Rate of Repurchase Agreement	67
Table: 4.9:	Weighted Average Interest Rate of Repurchase Agreement	68
Table: 4.10:	Weighted Average Interest Rate of Reverse Repo in 2008/09	69
Table: 4.11:	Weighted Average Interest Rate of Reverse Repo in 2009/10	70
Table: 4.12:	Weighted Average Interest Rate of Reverse Repo in 2010/11	70

LIST OF FIGURES

		Page No.
Figure: 2.1	Monetary Action by Nepal Rastra Bank	37
Figure: 2.2	Repo Transactions	38
Figure: 2.3	Reverse Repo Transactions	39
Figure: 4.1	Comparison of Yield on T-bills with Different Maturities	60
Figure: 4.2	Discount Yield of 28 days Treasury-Bills	61
Figure: 4.3	Discount Yield of 91 Days Treasury Bills	62
Figure: 4.4	Discount Yields of 182 Days Treasury Bills	63
Figure: 4.5	Discount Yields of 364 Days Treasury Bills	64
Figure: 4.6	Average Interest Rates of CDs with Different Maturities	65

ABBREVIATIONS

ADBL Agricultural Development Bank Ltd.

BOK Bank of Kathmandu Ltd.

CDs Certificate of Deposit

EBl Everest Bank Ltd.

HBL Himalayan Bank Ltd.

KBL Kumari Bank Ltd.

LBL Lumbini Bank Ltd.

LMFF Liquidity Monitoring and Forecasting Framework

MBL Machhapuchhre Bank Ltd.

NBB Nepal Bangladesh Bank Ltd.

NBL Nepal Bank Ltd.

NCCB Nepal Credit and Commerce Bank Ltd.

NIB Nepal Investment Bank Ltd.

NICB Nepal Industrial and Commercial Bank Ltd.

NSBI Nepal State Bank of India Ltd.

REPO Repurchase Agreement

SCBL Standard Chartered Bank Ltd.

T-Bills Treasury Bills