

Impact of Monetary Policy on the Perceived Performance of Nepalese Commercial Banks

A Thesis

Submitted

By

Bhola Nath Paudel

Central Department of Economics

Campus Roll No: 75/14

T.U. Registration Number: 6-2-48-1582-2009

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Declaration

I, hereby, declare that this thesis is my own original work and that it has fully and specifically acknowledged wherever adopted from other sources. I also understand that if at any time it is shown that I have significantly misrepresented material presented to CEDECON, any credits awarded to me on the basis of that material may be revoked.

.....

Bhola Nath Paudel

Date:

RECOMMENDATION LETTER

This thesis entitled “Impact of Monetary Policy on the Perceived Performance of Nepalese Commercial Banks” has been prepared by Mr. Bhola Nath Paudel under my guidance and supervision. I hereby recommend this thesis for the final examination to the thesis committee as partial fulfillment of the requirements for the degree of Master of Arts in Economics.

.....

Associate Prof. Gyan Mani Adhikari
(Thesis Supervisor)

Date: December, 2021

APPROVAL LETTER

We certify that this thesis entitled “IMPACT OF MONETARY POLICY ON THE PERCEIVED PERFORMANCE OF NEPALESE COMMERCIAL BANKS”, submitted by Mr. BHOLA NATH PAUDEL to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in the partial fulfillment of the requirements for the degree of **Master of Arts in Economics** has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the Degree.

Thesis Committee:

.....

Prof. Shiva Raj Adhikari, Ph.D.

(Head of Department)

.....

Associate. Prof. Raghu Bir Bista Ph.D.

(External Supervisor)

.....

Associate Prof. Gyan Mani Adhikari

(Thesis Supervisor)

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List of Abbreviations

BMS	:	Broad Money Supply
BP	:	Bank Performance
BR	:	Bank Rate
CAMEL	:	Capita Assets Management Earning Liquidity
CB	:	Commercial Bank
CRR	:	Cash Reserve Ratio
MOF	:	Ministry of Finance
NRB	:	Nepal Rastra Bank
OMO	:	Open Market Operation
SEBON	:	Security Board of Nepal
SLR	:	Statutory Liquidity Ratio
WTO	:	World Trade Organization

ABSTRACT

Monetary policy is typically implemented by central bank or Nepal Rastra Bank on behalf of the government of Nepal to influence the banking activities in the desired course of action. The objective of monetary policy is to influence the performance of the economy as reflected in factors such as inflation, national output, and employment through its control on bank credit, quantity of money, bank deposit and interest rate. In this age of globalization and economic liberalization, banking sectors should have been reformed with a view toward improving its performance. After 2009, as per WTO provision, there will be large number of foreign banks coming to the country. The purpose of this study is to examine the attitude towards instruments of monetary policy on the performance of commercial banks in Nepal. This study also aims to examine the effect of monetary policy instruments on commercial banks performance. So this study considers seven factors: cash reserve ratio, open market operation, bank rate, broad money supply, spread rate, interest rate corridor and, statutory liquidity ratio and its impact on bank performance. To fulfill the purpose of the study, seven hypotheses were set. Data were collected using a structured questionnaire.

The questionnaire included regarding all the factors (independent variables) that were supposed to influence the performance of commercial banks. Descriptive statistics and correlation and regression were used to analyze the finding of this study. The major finding of the study shows that all of the factors except for statutory liquidity ratio and its effect on bank performance have significant influence on the bank performance. The study shows that explanatory variables except SLR have significant relationship with the commercial banks performance. The study shows monetary policy instrument are affecting the commercial banks performance. In conclusion, the identified factors influence the bank performance significantly. But, one variable statutory liquidity ratio with bank performance has insignificant impact as per the result of this study. This study shows that those variables which have significant relationship with dependent variable, is decisive for making better performance of banks or not is crucial for the performance of the bank.