IMPACT OF INTEREST RATE ON DEPOSIT MOBILIZATION AND PROFITABILITY

(A COMPARATIVE STUDY OF EBL AND NABIL)

By
NAWARAJ DEVKOTA

Shanker Dev Campus

Campus Roll No. 1092/063

T.U. Regd. No.: 5-1-33-108-2000

Symbol No.: 2888/065

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

In the Partial Fulfillment of the Requirement for the Degree of

Master of Business Studies (M.B.S.)

Kathmandu, Nepal August, 2011

REC	'MM	JEND	ATION
		,	\boldsymbol{A}

This is to certify that the Thesis

Submitted by:

Nawaraj Devkota

Entitled:

IMPACT OF INTEREST RATE ON DEPOSIT MOBILIZATION AND PROFITABILITY: A COMPARATIVE STUDY OF EBL AND NABIL

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

VIVA-VOCE SHEET

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

Nawaraj Devkota

Entitled:

IMPACT OF INTEREST RATE ON DEPOSIT MOBILIZATION AND PROFITABILITY: A COMPARATIVE STUDY OF EBL AND NABIL

And found the thesis to be the original work of the student and written according to the prescribed format. I recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of Master's in Business studies (M.B.S.)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	

DECLARATION

I, hereby, declare that the work reported in this thesis entitled "IMPACT OF

INTEREST RATE ON **DEPOSIT MOBILIZATION** AND

PROFITABILITY: A COMPARATIVE STUDY OF EBL AND NABIL"

submitted to office of the Dean, Faculty of Management, Tribhuvan University,

is my original work done for the partial fulfillment of the requirement for the

Masters of Business Studies (MBS) under the supervision of Associate Prof.

Ruchila Pandey, Shanker Dev Campus.

Nawaraj Devkota

Researcher

Roll No: 1092/063

Shanker Dev Campus

Date: - 2011

4

ACKNOWLEDGEMENTS

This is an attempt to present thesis entitled "Impact of Interest Rate on Deposit Mobilization and Profitability: A Comparative Study of EBL and NABIL", prepared for partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) is an outcome of continuous and immeasurable cooperation and support of several hands. I would like to express my heartfelt gratitude to all for their support.

I express my sincere honor and special sense of gratitude to my academic supervision, Associate Professor Ruchila Pandey, for her generous guidance, thoughtful encouragement and brilliant insight throughout this research work.

I also acknowledge to the respondents of the questionnaire, staffs of selected sampled banks for providing necessary information and required data and also the library staffs of Shanker Dev Campus and T.U. library for their cooperation.

Finally, due to limitations of resources constraint and others the study may be shortcoming. So I do not heart to declare that the study is comprehensive. I hereby, take responsibility of any defects of analysis or error in this thesis.

Nawaraj Devkota

TABLE OF CONTENTS

	Page No.
Recommendation	i
Viva-Voce Sheet	ii
Declaration	iii
Acknowledgements	iv
Table of Contents	v
List of Tables	viii
List of Figures	ix
Abbreviations	X
CHAPTER I: INTRODUCTION	1-11
1.1 General Background	Error! Bookmark not defined.
1.2 Statement of the Problem	Error! Bookmark not defined.
1.3 Objectives of the Study	Error! Bookmark not defined.
1.4 Significance of the Study	Error! Bookmark not defined.
1.5 Limitation of the Study	Error! Bookmark not defined.
1.6 Organization of the Study	Error! Bookmark not defined.
CHAPTER II: REVIEW OF LITERATUI	RE 12-39
2.1 The Conceptual Framework	Error! Bookmark not defined.
2.1.1 Interest Rates and Investment Pa	ttern Error! Bookmark not
defined.	
2.1.2 Interest Rates and Deposit Mobil	lization Error! Bookmark not
defined.	
2.1.3 Interest Rate and Monetary Police	cy Error! Bookmark not defined.
2.1.4 Interest Rate and Profitability	Error! Bookmark not defined.
2.1.5 Interest Rates and Price Level Cl	hanges Error! Bookmark not
defined.	
2.1.6 Function of Interest Rate	Error! Bookmark not defined.

2.1.2 Theories of Determining interest	Rate Error! Bookmark not
defined.	
2.1.2.1 Classical theory of interest r	ates Error! Bookmark not
defined.	
2.4.2 The Loanable Funds Theory of In	terest Error! Bookmark not
defined.	
2.4.3 The Liquidity Preference Theory	of Interest Rate Error!
Bookmark not defined.	
2.5 Factors Affecting the Difference in Interes	t Rates Error! Bookmark not
defined.	
2.2 Review of Related Studies	Error! Bookmark not defined.
2.3 Review of Theses	38
CHAPTER III: RESEARCH METHODOL	OGY 40-48
3.1 Research Design	Error! Bookmark not defined.
3.2 Population and Sample	Error! Bookmark not defined.
3.3 Nature and Sources of Data	Error! Bookmark not defined.
3.4 Methods of Analysis	Error! Bookmark not defined.
CHAPTER IV: DATA PRESENTATION A	AND ANALYSIS 49-88
4.1 Ratio Analysis	Error! Bookmark not defined.
4.1.1 Loan and Advances to Total Depo	osit Ratio Error! Bookmark not
defined.	
4.1.2 Total Investment to Total Deposit	Ratio Error! Bookmark not
defined.	
4.1.3 Return on Total Deposit	Error! Bookmark not defined.
4.1.4 Interest Earned to Total Assets	Error! Bookmark not defined.
4.1.5. Interest Coverage Ratio	Error! Bookmark not defined.
4.1.6 Net Interest Margin (NIM)	Error! Bookmark not defined.
4.1.7 Analysis of Net Interest Income	Error! Bookmark not defined.
4.1.8 Analysis of Effective Interest Rate	Error! Bookmark not defined.

4.1.9 Analysis of Interest Rate Spread	Error! Bookmark not defined.
4.1.10 Growth Ratio	Error! Bookmark not defined.
4.1.10.1 Growth Ratio of Total Dep	oosit Error! Bookmark not
defined.	
4.1.10.2 Growth Ratio of Loan and	Investment Error! Bookmark
not defined.	
4.1.10.3 Growth Ratio of Interest In	ncome Error! Bookmark not
defined.	
4.1.10.4 Growth Ratio of Interest E	xpenses Error! Bookmark not
defined.	
4.2 Coefficient of Correlation Analysis	Error! Bookmark not defined.
4.2.1 Correlation Coefficient between A	Average Deposit Interest Rate and
Total Deposit	Error! Bookmark not defined.
4.2.2 Correlation Coefficient between A	Average Lending Interest Rate
and Total Lending	Error! Bookmark not defined.
4.2.3 Correlation Coefficient between l	Interest Spread Rate and Net
Profit after Tax	Error! Bookmark not defined.
4.3 Regression Analysis	Error! Bookmark not defined.
4.3.1 Regression Analysis of Total Dep	posit (Y) on Deposit Interest Rate
(X)	Error! Bookmark not defined.
4.3.2 Regression Analysis of Total Len	iding (Y) on Lending Interest
Rate (X)	Error! Bookmark not defined.
4.3.3 Regression Analysis of Total Net	Profit After Tax (y) on Interest
Spread Rate (x)	Error! Bookmark not defined.
4.4 Primary Data Analysis	76
4.5 Major Findings	Error! Bookmark not defined.
CHAPTER V: SUMMARY, CONCLUSIO	N AND
RECOMMENDATIONS	89-93
5.1 Summary	Error! Bookmark not defined.
5.2 Conclusion	Error! Bookmark not defined.

5.3 Recommendations	Error! Bookmark not defined.
BIBLIOGRAPHY	94-97
APPENDICES	

LIST OF TABLES

	Page No.
Table 4.1: Loan and Advance to Total Deposit	Error! Bookmark not defined.
Table 4.2: Total Investment to Total Deposit F	Ratio Error! Bookmark not
defined.	
Table 4.3: Return on Total Deposit	Error! Bookmark not defined.
Table 4.4: Interest earned to total Deposit	Error! Bookmark not defined.
Table 4.5: Interest coverage ratio	Error! Bookmark not defined.
Table 4.6: Net Interest Margin	Error! Bookmark not defined.
Table 4.7: Net Interest Income	Error! Bookmark not defined.
Table 4.8: Effective Interest Rate	Error! Bookmark not defined.
Table 4.9: Interest Rate Spread	Error! Bookmark not defined.
Table 4.10: Total Deposit	Error! Bookmark not defined.
Table 4.11: Total Loan and Investment	Error! Bookmark not defined.
Table 4.12: Interest Income	Error! Bookmark not defined.
Table 4.13: Interest Expenses	Error! Bookmark not defined.
Table 4.14: Summary of Calculation	Error! Bookmark not defined.
Table 4.15: Summary of Calculation	Error! Bookmark not defined.
Table 4.16: Summary of Calculation	Error! Bookmark not defined.
Table 4.17: Summary of Calculation	Error! Bookmark not defined.
Table 4.18: Correlation Coefficient between In	nterest Spread Rate and Net
Profit after Tax	Error! Bookmark not defined.
Table 4.19: Summary of Calculation	Error! Bookmark not defined.

LIST OF FIGURES

	Page No.
Figure 2.1: The Substitution Effect Relating S	aving and Interest Rate Error!
Bookmark not defined.	
Figure 2.2: The Investment Demand Schedule	Error! Bookmark not defined.
Figure 2.3: The Equilibrium Rate of Interest in	
Bookmark not defined.	·
Figure 2.4: The Interest Rate and Volume of S	Savings Error! Bookmark not
defined.	
Figure 2.5 The Supply of Loanable Funds	Error! Bookmark not defined.
Figure 2.6 Total Supply of Loanable Funds	Error! Bookmark not defined.
Figure 2.7 Total Demand of Loanable Funds	Error! Bookmark not defined.
Figure 2.8: Equilibrium Rate of Interest in Lo	anable Fund Theory Error!
Bookmark not defined.	
Figure 2.9 The demand of Money as a functio	n of rate of interest Error!
Bookmark not defined.	
Figure 2.10: Quantity of Money Demanded	Error! Bookmark not defined.
Figure 2.11: Quantity of Money Supplied	Error! Bookmark not defined.
Figure 2.12: Effect of an increase in the mone	y Supply on the rate of interest
	Error! Bookmark not defined.
Figure 2.13: Effect of decrease in the money s	supply on the rate of interest
	Error! Bookmark not defined.
Figure 2.14: Money Supply and Interest Rate	Error! Bookmark not defined.
Figure 4.1: Total Deposit of NABIL and EBL	Error! Bookmark not defined.
Figure 4.2: Total Loan and Investment	Error! Bookmark not defined.
Figure 4.3: Interest Income of NABIL and EB	Error! Bookmark not
defined.	
Figure 4.4: Interest Expenses of NABIL and E	EBL Error! Bookmark not
defined.	
Figure 4.5: Pie-Chart Showing Importance of	Deposit for Commercial Banks
	Error! Bookmark not defined.
Figure 4.6: Pie-Chart Showing Interest Rate is	s Main Factor for Deposit
Collection	Error! Bookmark not defined.
Figure 4.7: Pie-Chart Showing the Preference	of Higher Interest Rate or
Different Services Provided by Co	ommercial Banks Error!
Bookmark not defined.	
Figure 4.8: Pie-Chart Showing Satisfaction wi	ith Interest Rates Offered by
Commercial Banks	Error! Bookmark not defined.
Figure 4.9: Pie-Chart Showing Options wheth	er Interest Rate Offered by Bank
Changes Quite Often	Error! Bookmark not defined.

Figure 4.10: Bar-Diagram Showing the Commercial Banks Enjoying Huge
Interest Spread Error! Bookmark not defined.

Figure 4.11: Bar-Diagram Showing Determinants of Interest Rate **Error! Bookmark not defined.**

Figure 4.12: Bar-Diagram Showing Opinion Regarding Bank Rely on the Interest Rate for Collection of Deposit **Error! Bookmark not defined.**

Figure 4.13: Bar-Diagram Showing Whether Interest Rate as Important Tool to Compete in the Market **Error! Bookmark not defined.**

Figure 4.14: Bar-Diagram Showing Bank Operating in the Same Market can Afford to Offer Comparatively Very Different Interest Rate **Error! Bookmark not defined.**

ABBREVIATIONS

CDM Central Department of Management

CV Coefficient of Variation

Dr. Doctor

DT Total Demand

EBIT Earning Before Interest and Taxes

EBL Everest Bank Limited

MBS Masters of Business Studies

NABIL Nepal Arab Bank Limited

NPAT Net Profit After Tax

NRB Nepal Rastra Bank

NGOs Non-Governmental Organizations

PE Probable Error

r Correlation Coefficeint

SD Standard Deviation

ST Total Supply

TU Tribhuvan University