

RELATION OF INTEREST RATE WITH DEPOSIT, LENDING AND INFLATION IN NEPAL

(A case study on RBB, NBL, HBL & NBB)

A THESIS

Submitted By:

NAVARAJ BHATTARAI

T.U. Regd. No: 7-2-3-1726-2001

Campus Roll No: 1713/061

SHANKER DEV CAMPUS

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree

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

Kathmandu, Nepal

Feb, 2011

RECOMMENDATION

This is to certify that the thesis

Submitted By:

NAVARAJ BHATTARAI

Entitled:

RELATION OF INTEREST RATE WITH DEPOSIT, LENDING AND INFLATION IN NEPAL

(A case study on RBB, NBL, HBL & NBB)

Has been prepared and approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

.....
Prof. Dr. Kamal Das Manadhar Prof. Bisheshwor Man Shrestha Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor) **(Head, Research Department)** **(Campus Chief)**

.....
Dhruba Subedi
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented

Submitted By

NAVARAJ BHATTARAI

Entitled:

RELATION OF INTEREST RATE WITH DEPOSIT, LENDING AND INFLATION IN NEPAL

(A case study on RBB, NBL, HBL & NBB)

And found the thesis to be original work of the student and written in accordance to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for **Master Degree of Business Studies (M.B.S)**

Viva-Voce Committee:

Head, Research Department :.....

Member (Thesis Supervisor) :.....

Member (Thesis Supervisor) :.....

Member (External Expert) :.....

DECLARATION

I hereby declare that the work reported in this thesis entitled “Relation of Interest Rate with Deposit, Lending and Inflation in Nepal” submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master’s Degree in Business Studies (M.B.S) under the supervision of Prof. Dr. Kamal Das Manandhar and Dhruba Subedi of Shanker Dev Campus.

.....
NAVARAJ BHATTARAI

Researcher

T.U. Regd. No: 7-2-3-1726-2001
Campus Roll No: 1713/061

ACKNOWLEDGEMENT

I express my sincere gratitude to all the authors and learned personalities, whose writings have been cited in this study. I also express my sincere gratitude to those authors whose writings though are not cited but helped and inspired me in making my vision clear and reaching on conclusion.

I extend my deep sense of indebtedness to my respected supervisor Prof. **Dr. Kamal Das Manandhar and Dhruba Subedi** for his precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without his valuable insight, I would not think of accomplishment of this thesis. I acknowledge my profound gratitude to the personnel of RBB, NBL, HBL, EBL & NBB for the cooperation shown and providing necessary data.

I want to give thanks for the staff members of T.U. Central Library, Shanker Dev Campus Library who provided the reference and reading materials during the period of research.

Finally, I would like to express my sincere gratitude especially to my wife, all my family members, and my friends for their assistance, timely encouragement in every step.

Thank you.

NAVARAJ BHATTARAI
Researcher

TABLE OF CONTENTS

	PAGE NO.
CHAPTER- I: INTRODUCTION	1-9
1.1 General Background	1
1.2 Interest rate	3
1.3 Structure of interest Rates (% age per annum)	5
1.4 Statement of the problem	6
1.5 Objectives of the study	7
1.6 Significance of the study	8
1.7 Limitation of the study	8
1.8 Organization of the study	9
CHAPTER- II: REVIEW OF LITERATURE	10-54
2.1 Introduction	10
2.2 Theoretical Review	11
2.2.1 Meaning of Interest	11
2.2.1.1 Theories of Interest	11
2.2.1.1.1 The classical theories of interest rates	12
2.2.1.1.2 The lonable fund theory	17
2.2.1.1.3 The liquidity preference theory of interest rate	22
2.2.1.1.4 The rational expectation theory	26
2.3 Functions of Interest rate in the economy	29
2.3.1 Change in interest & its effect upon value of an asset	29
2.3.2 Factors influencing the difference in interest rates	32
2.4 Concept of Deposit:	34
2.4.1 Types of Deposit	35
2.4.2 Importance of Deposit	37
2.5 Concept of Lending (Credit)	37
2.5.1 Factors affecting the volume of Lending	38

2.6	Concept of Inflation	39
2.7	Inflation and Interest Rates	41
2.8	Tools to measure Inflation	43
2.9	Review of Journals	44
2.10	NRB Directives and Interest rate in Nepal	46
2.11	Review of Previous Thesis	47
2.12	Research Gap	54
CHAPTER-III: RESEARCH METHODOLOGY		55-62
3.1	Introduction	55
3.2	Research Design	55
3.3	Population and Samples	56
3.4	Sources of data and Collection Procedure	58
3.5	Data Processing and Presentation	58
3.6	Data Analysis Tools	59
CHAPTER-IV: DATA PRESENTATION AND ANALYSIS		63-90
4.1	Introduction	63
4.2	Analysis of Deposit and Interest Rate	64
4.2.1	Rastra Banijya Bank	64
4.2.2	Nepal Bank Limited	67
4.2.3	Himalayan Bank Limited (HBL)	69
4.2.4	Nepal Bangladesh Bank (NBB)	72
4.3	Analysis of Lending and Interest Rate:	74
4.3.1	Rastra Banijya Bank	75
4.3.2	Nepal Bank Limited	77
4.3.3.	Himalayan Bank Limited (HBL)	79
4.3.4	Nepal Bangladesh Bank (NBB)	82
4.4	Analysis of Inflation and Interest Rate (Deposit & Lending Rate)	83
4.4.1	Rastra Banijya Bank (RBB)	84
4.4.2	Nepal Bank Limited (NBL)	85

4.4.3	Himalayan Bank Limited (HBL)	87
4.4.4	Nepal Bangladesh Bank (NBB)	88
4.5	Findings of this Study:	90

CHAPTER-V: SUMMARY, CONCLUSION AND RECOMMENDATION

		91-95
5.1	Summary	91
5.2	Conclusion	92
5.3	Recommendation	94

BIBLIOGRAPHY

LIST OF TABLE

TABLE	TITLE	PAGE NO.
Table 1-3:	Structure of interest Rates (%age per annum)	5
Table 4-1:	Interest rate structure on deposit of RBB as on Mid-July	64
Table 4-2:	Relationship between Interest Rate and Deposit amount of RBB	65
Table 4-3:	Interest rate structure on deposit of NBL on Mid-July	67
Table 4-4:	Relationship between Interest Rate and Deposit amount of NBL	68
Table 4-5:	Interest rate structure on deposit of HBL as on Mid-July	70
Table 4-6:	Relationship between Interest Rate and Deposit amount of HBL	71
Table 4-7:	Interest rate structure on deposit of NBB as on Mid-July	73
Table 4-8:	Relationship between Interest Rate and Deposit amount of NBB	73
Table 4-9:	Lending Rate of RBB on Different Sectors during Five FYs.	75
Table 4-10:	Lending Rate NBL on Different Sectors during Five FYs.	78
Table 4-11:	Lending Rate HBL on Different Sectors during Five FYs.	80
Table 4-12:	Lending Rate NBB on Different Sectors during Five FYs.	82
Table 4-13:	Inflation Rate and Interest Rate of RBB	84
Table 4-14:	Inflation Rate and Interest Rate of NBL	86
Table 4-15:	Inflation Rate and Interest Rate of HBL	87
Table 4-16:	Inflation Rate and Interest Rate of NBB	89

LIST OF FIGURES

FIGURE	TITLE	PAGE NO.
Fig 2-1:	The substitution effect relating saving and interest rates	15
Fig 2-2:	The Investment Demand Schedule	16
Fig 2- 3:	The Equilibrium rate of interest in the classical Theory	17
Fig 2-4:	The interest rate and volume of savings	19
Fig 2-5:	The Supply of Loanable Funds	20
Fig 2-7:	The Supply of Loanable Funds	22
Fig 2-9	The demand for money (M_D) as a function of the rate of interest	23
Fig 2-10:	Quantity of Money Demanded	23
Fig 2-11:	Quantity of Money Demanded	23
Fig 2-12:	Effect of an increase in the money Supply on the rate of interest	24
Fig 2-13:	Effect of decrease in the money Supply on the rate of interest.	24
Fig 2-14:	Money supply and interest rate	26
Fig 2-15:	Equilibrium interest rates under rational expectation theory	28
Fig 2-16:	Interest rate determination	31
Fig 2-17:	Security price determination	31

ABBREVIATIONS

&	:	And
A.D	:	Anno Domini
AGM	:	Annual General Meeting
AMEX	:	American Stock Exchange
B.S	:	Bikram Sambat
BVPS	:	Book Value per Share
C.V	:	Correlation of Variation
R	:	Correlation Coefficient
DPS	:	Dividend per Share
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
i.e.	:	That is
IPO's	:	Initial public offerings
Ltd.	:	Limited
MBS	:	Master of Business Studies
MPS	:	Market price per share
MVPS	:	Market Value per Share
NIBL	:	Nabil Bank Ltd.
NEPSE	:	Nepal Stock Exchange
NO.	:	Number
NRB	:	Nepal Rastra Bank
NYSE	:	New York Stock Exchange
OE	:	Organized stock exchange
OTC	:	Over the Counter Market
Pvt.	:	Private
%	:	Percentage

SBL	:	Siddhartha Bank Ltd.
SCBNL	:	Standard Chartered Bank Ltd.
S.D	:	Standard Deviation
SEBO	:	Securities Board of Nepal
T.U	:	Tribhuvan University
WSE	:	Warsaw Stock Exchange