ROLE OF INTEREST RATE ON FUND MOBILIZATION IN NEPALESE FINANCIAL MARKET

(A Comparative Study of Selected Nepalese Banks)

A THESIS

Submitted to: OFFICE OF THE DEAN FACULTY OF MANAGEMENT T.U. KRITIPUR

Submitted by CHANDRA BAHADUR BOHARA Kailali Multiple Campus

T.U. Roll No: 1278 T.U. Reg. No: 16331-93

In Partial fulfillment of the requirement for the Degree of Masters in Business Studies (MBS)

Acknowledgement

This thesis has been completed to fulfill the requirement for the degree of Master of

Business Studies. I am deeply indebted to my respected advisor Dr. Padam Raj Joshi,

Department of Management, Kailali Multiple Campus, Kailali, for his cordial co-

operation, supervision and inspiration without which this thesis dissertation would not

have come into existence. His intellectual guidance continually inspired me to complete

this work.

I would like to offer my profound gratitude to Mr. Janak Raj Shah and Mr. Tej

Raj Timilsina, Who have enriched my knowledge and encourage me in all my academic

endeavors. I am also thankful to Mr. Sital Rawal for his invaluable help.

I owe my sincere gratitude to Prof. Dr. Hem Raj Pant, Campus Chief of Kailali Multiple

Campus providing necessary suggestion to accomplish this dissertation. Similarly, I am

grateful to all staffs of Library of Kailali Multiple Campus for their better co-operation

during the entire period of preparing this thesis.

I would like to record my appreciation for the co-operation shown by the bank

staff of Malika Vikas Bank Ltd., Agriculture Development Bank, Nepal Bank Ltd. and

United Finance Company Ltd. I am also grateful to staff of Nepal Rastra Bank for giving

various information and data.

I am thankful to my friends Mr. Prem Bahadur Thayayat and Mr. Devi Prasad

Khanal, whose co-operation and encouragement strengthened me to complete this

attempt.

Finally, I would like to express a warm regard to the entire concerned person who help

and direct me for the successful completion of my Thesis.

.....

Chandra Bahadur Bohara

Dhangadhi, Kailali

Kailali Multiple Campus

2009

TABLE OF CONTENTS

Title page	
Recommendation Sheet	
VIVA-VOCE Sheet	
Acknowledgement	
Table of Contents	
List of Tables	
List of Diagrams and Figures	
List of Abbreviation	
CHAPTER-1: INTRODUCTION	Page
1.1 General Background	1
1.1.1 Concept of interest	3
1.1.2 Introduction of Financial Institution of Nepal	4
1.2 Focus of the study	5
1.3 Statement of the Problem	6
1.4 Objectives of the study	7
1.5 Scope of the study	8
1.6 Limitation of the study	8
1.7 Chapter Plan	9
CHAPTER-2: REVIEW OF LITERATURE	
2.1 Introduction	10
2.2 Theoretical Review	11
2.2.1 Concept of Interest Rate	11
2.2.2 Function of Interest Rate in the Economy	11
2.2.3 Theories of Interest Rate	11
2.2.3.1 Classical Theory of Interest Rates	11
2.2.3.2 Liquidity Preference or Cash Balance Theory of interest Rate	16
2.2.3.3 The Loanable Funds Theory of Interest	20
2.2.3.4 The Rational Expectations Theory of Interest	24

26

2.2.4 Interest Rate Change and Its effect on assets price

2.2.5 Factors affecting Interest Rates	27
2.2.6 An Overview of Deposit	30
2.2.6.1 Concept of Deposit	30
2.2.6.2 Types of Deposit	31
2.2.6.3 Importance of Deposit	32
2.2.6.4 Life Cycle pattern of Deposit	32
2.2.7 An Overview of Lending	33
2.2.7.1 Concept of Lending	33
2.2.7.2 Factor Affecting the Volume of Credit	34
2.2.8 Financial Institution Industry	35
2.2.9 Interest Spread	35
2.3 Review of Thesis	36
2.3.1 Review of journals and News Papers	40
2.5 Research Gap	41
CHAPTER-3: RESEARCH METHODOLOGY	
3. Introduction	43
3.1 Research Design	43
3.2 Research Hypothesis	44
3.3 Population and Sample	45
3.4 Data collection Procedure	46
3.5 Data Processing and Presentation	46
3.6 Data Analysis Tools	47
CHAPTER-4: PRESENTATION AND ANALYSIS OF DATA	
4.1 Introduction	51
4.2 Analysis of Deposit	51
4.2.1 Malika Development Bank Ltd. (MDBL)	52
4.2.2 Agriculture Development Bank (ADB/N)	53
4.2.3 Nepal Bank Limited (NBL)	54
4.3 Analysis of Lending	55
4.3.1 Malika Development Bank Ltd. (MDBL)	55

4.3.2 Agriculture Development Bank (ADB/N)	
4.3.3 Nepal Bank Limited (NBL)	57
4.4 Analysis of Interest Rate	59
4.4.1.1 MDBL Interest Rate Structure on Deposit	59
4.4.2.1 ADB/N Interest Rate Structure on Deposit	61
4.4.3.1 NBL Interest Rate Structure on Deposit	63
4.4.1.2 MDBL Interest Rate Structure on Loan	66
4.4.2.2 ADB/N Interest Rate Structure on Loan	67
4.4.3.2 NBL Interest Rate Structure on Loan	69
4.5 Impact of Interest Rate on Deposit	70
4.5.1 MDBL Interest Rate and Its Impact on Deposit	70
4.5.2 ADB/N Interest Rate and Its Impact on Deposit	72
4.5.3 NBL Interest Rate and Its Impact on Deposit	73
4.6. Impact of Interest Rate on Lending	75
4.6.1 MDBL Interest Rate and Its Impact on Lending	75
4.6.2 ADB/N Interest Rate and Its Impact on Lending	76
4.6.3 NBL Interest Rate and Its Impact on Lending	79
4.7 Comparison of Deposit, Lending and Interest Rate of selected	80
4.8 Analysis of Customer's Response	82
CHAPTER-5: FINDINGS, SUMMARY, CONCLUSION AND	
RECOMMENDATIONS	
5. Summary, Findings, Conclusion and Recommendations	85
5.1 Summary	85
5.2 Findings Of the Study	87
5.3 Conclusion	89
5.3 Recommendations	90

BIBLIOGRAPHY APPENDIX

LIST OF TABLES

Table No.	Name of the Table	Page
4-1 Deposit Trend	of MDBL as on Mid-July	52
4-2 Deposit Trend	l of ADB/N as on Mid-July	53
4-3 Deposit Trend	of NBL as on Mid-July	54
4-4 Lending Trend	d of MDBL	56
4-5 Lending Trend	d of ADB/N	57
4-6 Lending Trend	d of NBL	58
4-7 Interest rate st	ructure on deposit of MDBL	60
4-8 Interest rate st	ructure on deposit of ADB/N	62
4-9 Interest rate st	ructure on deposit of NBL	64
4-10 Lending rate	of MDBL on different sectors During Five FYs	66
4-11 Lending rate	of ADB/N on different sectors During Seven FYs	67
4-12 Lending rate	of NBL on different sectors During Seven FYs	69
4-13 Relationship	between Interest rate and deposit amount of MDBL	71
4-14 Relationship	between Interest rate and deposit amount of ADB/N	72
4-15 Relationship	between Interest rate and deposit amount of NBL	73
4-16 Relationship	between Interest Rate and Loan amount of MDBL	75
4-17 Relationship	between Interest Rate and Loan amount of ADB/N	77
4-18 Relationship	between Interest Rate and Loan amount of NBL	79
4-19 Comparison	of Aggregate Elements	81
4-20 Analysis of F	Respondent Answer	82

LIST OF DIAGRAM AND FIGURE

<u>Diagram No.</u>	Name of the Diagram	page
2-1	Substitution effect relating saving & interest rates	14
2-2	Investment Schedule	15
2-3	Classical Theory of Equilibrium Rate of Interest	16
2-4	Total demand for money	18
2-5	Supply of money in liquidity preference Theory	19
2-6	Equilibrium rate of interest in the liquidity preference Theory	19
2-7	Demand for loanable funds	21
2-8	Supply of loanable funds	23
2-9	Equilibrium rate of interest in the loanable funds theory	24
2-10	Expected demand and supply of loanable funds under the	
	Expectation Theory	25
2-11&12	Equilibrium Security prices and Rates	26
2-13	Life cycle pattern of saving	33
Figure No.	Name of the Figure	
4-1	Deposit Amount of MDBL during different FYs	53
4-2	Deposit Amount of ADB/N during different FYs	54
4-3	Deposit Amount of NBL during different FYs	55
4-4	Loan Amount of MDBL during different FYs	56
4-5	Loan Amount of ADB/N during different FYs	57
4-6	Loan Amount of NBL during different FYs	58
4-7	Interest Rates of MDBL on Saving and Fixed Deposit	61
4-8	Interest Rates of ADB/N on Saving and Fixed Deposit	63
4-9	Interest Rates of NBL on Saving and Fixed Deposit	65
4-10	Average Lending Rate of MDBL during different FYs	67
4-11	Average Lending Rate of ADB/N during different FYs	69
4-12	Average Lending Rate of NBL during different FYs	70

LIST OF ABBREVIATION

MDBL = Malika Development Bank Limited

ADB = Agriculture Development Bank

NBL = Nepal Bank Limited

B.S = Bikram Sambat A.D = Anno Domoni

CPI = Consumer Price Index

d.f = Degree of Freedom

etc = Etcetera

e.g. = Example

FIFO = First in First out

Fig = Figure

FY = Fiscal Year

GDP = Gross Domestic Product

i.e. = That is

LIFO = Last in First out

Pvt. = Private Ltd. = Limited

NFI = Nepalese Financial Institutions

NFM = Nepalese Financial market

NGO = Non Government Organization

TU = Tribhuvan University

NRB = Nepal Rastra Bank
Opeit. = Previously Credit

No. = Number

p. = Page
p.p = Pages
Rs. = Rupees

T-Bill = Treasury Bills

Viz = Namely