

**INTEREST RATE STRUCTURE OF JOINT VENTURE BANKS IN
NEPAL AND ITS IMPACT ON DEPOSIT AND LENDING**

A Thesis Proposal

By

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1 Background of study

Interest rate is the reward that accrues to people who provide the fund with which capital goods are brought (Soyibe and Adekanye, 1992). Interest can be defined as the payment made to a lender by a borrower for the use of a sum of money for a certain period of time. Interest is both a payment and receipt for the use of money, interest therefore can be considered from the above two viewpoints. If the interest is paid, it can be considered as a 'cost'. On the other hand, if interest is received it can be considered as a 'return'.

Interest rate is determined by the force of demand and supply of capital and for the condition that demand and supply of funds are equal. Hence, interest level is arrived at by the intersection between saving and investment (Lockett, 1984). Saving is defined as that portion of income after tax, which is not spent on consumption goods. Saving can also be seen as that part of income, which is not devoted to the purchase of household items and firms (Mc Kinnon, 1973). Investment on the other hand can be defined as the expenditure of funds almost exclusively by firms. Interest rate favors the investors when the interest rate is low. The major factor that determines investment is interest rate and this is influenced by savings. The act of saving and lending and the borrowing and investing activities within the financial system are significantly influenced by the interest rate. The interest rate is the price paid for borrowing the scarce loanable funds from a lender for an agreed-upon time. Interest rate is one of the tools for shaping the economy. It plays an important role in borrowing and lending. Generally, the rate of interest is computed by dividing the cost of borrowing funds in rupees by the borrower. The interest rate is expressed on an annual percentage basis.

An appropriate interest rate structure affects the deposit and lending of any financial institution, which in turn affects the economic upliftment of the whole country. The impact of interest rate is both on saving and investment in the economy. Interest rates provide the price signals to borrowers, lenders, savers and investors. Higher rates encourage savings in greater volume and increase the lending activities of funds. Lower interest rates, on the other hand, discourage saving and reduce the lending activities as well.

Interest rate in the free market economy is determined by the free interplay of the demand and supply forces. The interest rate performs several important roles in order to function properly the money and capital market in the economy. It performs the several major functions like generating adequate volume of savings to fund investment to grow the economy, to direct the flow of credit in the economy towards those investment projects having greater expected rate of return, bringing into balance the supply of money within the public's demand for money and acting as a tool to adopt government policy.

2 Statement of the problem

Interest rate is an essential tool in the field of finance and economies. According to economic theory saving increase as, increase in interest rate with investment increases as decrease in interest rate. Generally, when interest providing in deposits is very less and when interest charge on lending is very high the possible investors also cannot borrow funds for investment in priority sector of the economy. In such situation how could be possible to develop country's economy in international market.

Interest rate play important role for the banking development. Favorable investment climate makes appropriate interest rate. The interest rate is a price of credit. The interest rate is charged and offered of a financial institution and commercial banks was regulated by central bank before liberalization, but now these financial institution and commercial bank are free to fix their interest rate. Commercial bank can play the vital role by adopting effective interest rate policy on deposits and lending for encourage investment in every sector of economy. An appropriate interest rate helps to mobilize the fund in proper field. On the hand the lending rate of interest must be attractive to the borrowers. However, the study tries to find out the answers of the following research questions.

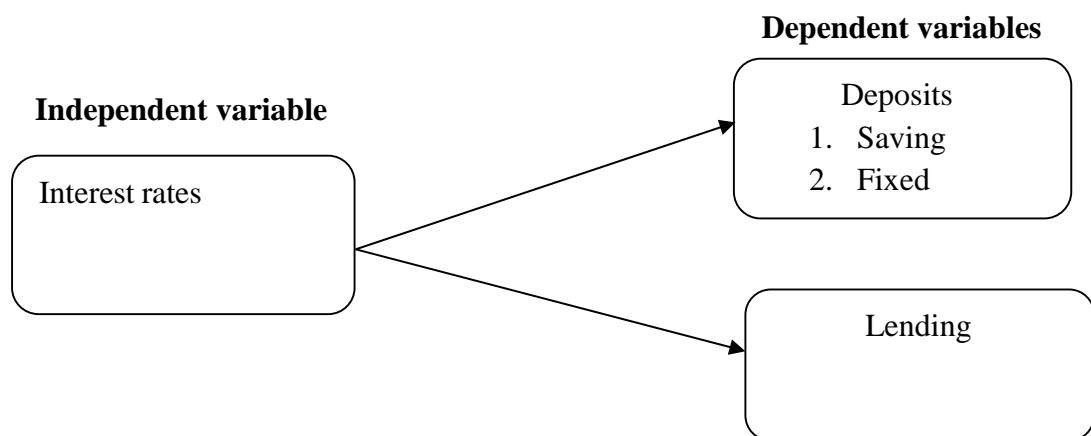
1. What are the interest rate structures of joint venture commercial banks in Nepal?
2. How does interest rate affect the volume of deposits of joint venture commercial banks?
3. How does interest rate affect the volume of lending of joint venture commercial banks?

3 Purpose of the study

The basic objective of this study is to analyze the overall influence of interest rate on deposit and lending of joint venture commercial banks in Nepal. The specific objectives of the study are as follows.

1. To analyze the interest rate structure of various joint venture commercial banks at different time period.
2. To explore the relationship of interest rate on the volume of deposit of joint venture commercial banks.
3. To examine the relationship of interest rate structure on the volume of lending of joint venture commercial banks.

4 Conceptual framework



5 Research hypothesis

The purpose of hypothesis is to organize a study. From the theoretical framework discussed above, the following hypotheses will be formulated based on the objective of study and research questions.

First hypothesis:

H₁: there is positive relationship between interest rate and saving deposit amount.

Second hypothesis:

H₂: there is positive relationship between interest rate and fixed deposit amount.

Third hypothesis:

H₃: there is negative relationship between lending rate and lending amount.

6 Significance of the study

Interest rate is simply the price of credit. Higher interest generally brings a lending investment. Lower interest rates on the other hand discourage the saving and encourage the investment. Higher the inflation, higher will be the interest rate.

It is crucial task of top-level management to fix interest rate. Event through people have more souring and even need more money for investment are not familiar with the interest rate structure of banks. In this study major function of joint venture commercial banks will be analyzed by using various mechanisms. This study will help to the further researcher, student, investor, business organization and individual to get useful information about interest rate deposits and lending. Further this study help to the general public to known the interest rate offered by banks for deposits of the Nepalese joint venture commercial banks.

7 Limitation of the study

A research is the vast investigation for the setline of the problem. There is not far from several limitations. This study will be limited by the following factors.

1. This study includes only four joint venture commercial banks.
2. There are many factor that affect the deposit amount and lending amount of joint venture commercial banks. However this study is focused on the interest rate only.
3. This study will cover the period from F Y 2012 to 2017.
4. This study is based on secondary data.
5. Only the statistical tools are used in the study as mean, standard deviation, correlation coefficient, coefficient of determination and t- test.

8 Literature review

The deposits depend upon numerous factors besides income, inflation and interest rates. Keeping the variable constant, the institutional interest rate is the important explanatory variables to influence the volume of deposits in Nepal. Interest rates play an important role in under developed country like Nepal where the demand for capital is increasing at each level of income. An appropriate interest rate can divert

investment in proper field. This means, upward movement in the deposit rates increase the volume of deposits (K.C 1980).

Changes in interest rate structure have some positive as well as negative effects in the financial market. The various economic indicator shows the impact of interest rate was not as positive as expected (Shrestha, 1999).

Management of internal loan and economic stability viewed that management of internal loan affected by interest rate directly. Interest rate structure helps government to take decision regarding loan. It also decides about the level of investment, which can invest by the investors. In the case of perfect money and capital market interest rate declare by the supply of money, which can be invest, and it's demand from private sector to government sector. But in developing countries interest rate must be higher because of government's high demand for capital (Pant's 2054).

9 Research methodology

Research methodology will follow to achieve the objectives of this research paper. The research methodology includes research design, population and sample, sources of data, data collection & processing procedure and data analysis tools & techniques.

9.1 Research design

To achieve the specific objective of the study, descriptive and correlational research will be used. Correlational techniques will be adopted to find the relationship between lending and saving amount with interest rates of joint venture commercial banks in Nepal.

9.2 Population and sample

The population data for this study comprise all joint venture commercial banks, which are current operating in Nepal. At present, there are six joint venture commercial banks operating in country. The sampling technique adopted in this research is the non-probability sampling method. The major non-probability sampling method adopted is the convenience sampling methods. Also the choice of the period is based on the availability of data. So out of six joint venture commercial banks only four joint venture commercial banks are selected for sample.

9.3 Sources of data

The nature and sources of data for this research is secondary data sources. The secondary data source is through the annual reports and banking and financial statistics of the central bank of Nepal under consideration in the research.

9.4 Data collection and processing procedure

To fulfill the predetermine objective, secondary sources of data will be used to facilitate the useful information for this study. The Secondary data will be collected first hand from the original sources, and from data collected and extracted from annual statement and statistics of the central bank of Nepal (NRB).

9.5 Data analysis tool and techniques

The analysis of data is done according to pattern of data available and felt necessity. This study requires more statistical tools rather than financial tools for analysis and presentation. So emphasis is given on statistical tools will be used to meet the objective of the study. The statistical tools arithmetic mean, standard deviation, coefficient of variance, correlation coefficient, coefficient of determination and t-test will be used for this study.

10 Chapter plan

The whole study is divided into five different chapters. They are:

Chapter-I Introduction

This chapter includes the background of the study, statement of problems, purpose of study, Theoretical/Conceptual Framework, significance of the study and the limitations of the study.

Chapter- II Review of literature

This chapter deals with the review of available literature. It includes conceptual review of books, reports, thesis and journals, review of previous works and research gap.

Chapter - III Research methodology

This chapter includes the research methodology used in the study which includes research design, population and sample , sources of data , data collection and processing procedure and data analysis tools and techniques.

Chapter – IV Results

This chapter is most important and plays vital role in this study. This chapter deals with the results and findings of the study carried to meet the objectives of the study.

Chapter - V: Conclusions

This chapter presents of the brief discussion, conclusions and implications of whole research report. It also provides some useful suggestion and recommendations to concerned parties.

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