

IMPACT BANK SPECIFIC AND MACROECONOMIC VARIABLES ON DEPOSIT MOBILIZATION OF NEPALESE COMMERCIAL BANKS

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ABSTRACT

The main purpose of this study is to analyze the impact of interest rate on deposit mobilization of commercial banks in Nepal. This study is based on secondary data analysis form the year 2013 to 2017 which consist of 50 observations. The data are obtained from the annual report of concerned banks and annual supervision report and economic bulletin published by Nepal Rastra Bank. To achieve the objectives of the study, descriptive, correlational and casual comparative research design has been used. The dependent variable is a total deposit which has been specified in term of LNTD while the independent variables are bank-specific (interest rate spread, deposit interest rate) and macroeconomic variables (inflation rate, gross domestic product, money supply). The relationship between total deposit and interest rate spread, deposit interest rate, inflation rate, gross domestic product, the money supply has been analyzed with the help of the multiple regression techniques from SPSS-21 Version. The limitation of the research is that only a sample of ten commercial banks annual reports for the period 2012/13 to 2016/17 (10 years) have been taken in order to address the subject under investigation. The study concludes that interest rate spread, deposit interest rate, inflation rate, gross domestic product, and money supply all factors affecting the deposits of commercial banks in Nepal. Whereas, interest rate spread, money supply, and gross domestic product are a positive impact on deposit and rest two variables are negative effects of Nepalese context. Which indicates higher the interest rate spread, money supply, and gross domestic product, higher would be the deposits. Similarly, an increase in the deposit interest rate and inflation rate leads to decrease in the deposits.

KEYWORDS: *Interest Rate Spread, Deposit Interest Rate, Inflation Rate, Gross Domestic Product, Money Supply*

INTRODUCTION

Deposit collection and mobilization is one of the major sources of capital formation. Deposit mobilization is a primary and crucial function of any commercial bank. Bank provides the facility of saving to the general public and provides funds to investors, which help in mobilization of public fund in fruitful purposes, which helps in the country's economic development. The collection of deposit and its mobilization are the two sides of the same coin, in the absence of one, another cannot work i.e. without the collection of the deposit, mobilization of deposits would be quite impossible and vice versa. They both get along with another under favorable condition, the interest rate being the most. Interest is the main factor in fund activities of commercial banks. Interest rate effects on the collection of deposits mobilization of saving position. A study on deposit mobilization, problem and prospect have reported that deposit is the lifeblood of every financial institution including commercial banks, financial company, co-operatives or

non-government organization (Pradhan, 1996). A study has highlighted that most of the Nepalese people do not go for saving in an institutional manner, due to lack of knowledge, however, they were a user of saving in the form of casher ornament. The study also raveled that customer's relevance deal with institutional service in a rural area of Nepalese commercial banks were no more mobilization and improvements of deposit and the loan sector. Athukoral and Sen (2003) found that the saving rate rises with both the level and growth of disposable income and the magnitude of the impact of the former is smaller than that of the latter. Berger, Kent, and Haubrich (2004) found that commercial banks are the main source which motivates people to save their earnings. Banks mobilize, allocate and invest much of society's savings. Households and businesses are mainly using banks to save their money to get a loan for their project undertaking.

The study carried out, Maharana, Choudury, and Panigrahi (2015) have concluded that there was a significant uptrend and growth in current deposits but in terms of growth of deposit year by year is fluctuating. There is a significant decline in deposits in scheduled commercial banks in Bhubaneswar during the period. As there is a significant increase in current deposit and term deposit over the period under study them mobilization of demand deposit and term deposits by the bank of Baroda is more than Axis bank over the period. On the whole, it is concluded that Bank of Baroda in Bhubaneswar city has performed well in deposit mobilization in five years from 2010/11 to 2014/15.

In the context of Nepal, Situala (2016) has shown that beta coefficients for interest rate margin, deposit interest rate, inflation rate, gross domestic product, and broad money supply are positively related with the deposited amount. However, the beta coefficient is significant for inflation. The study also reveals the positive impact of interest rate margin, deposit interest rate, inflation rate, gross domestic product, and broad money supply on the investment amount. However, the coefficient is significant for information and money supply.

Thus, the present study concludes that interest rate spread, deposit interest rate, inflation rate, gross domestic product, and money supply all factors affecting the deposits of commercial banks in Nepal. Whereas, interest rate spread, money supply, and gross domestic product are a positive impact on deposit and rest two variables are negative effects of Nepalese context. Which indicates higher the interest rate spread, money supply, and gross domestic product, higher would be the deposits. Similarly, an increase in the deposit interest rate and inflation rate leads to decrease in the deposits.

The remaining part of the study structure as the second part of the study research methodology, the third part of the result and discussion and final part of the summary and conclusion have been presented.

RESEARCH METHODOLOGY

This study is based on secondary data commercial banks for the period of 2012/13 – 2016/17. The data have been obtained from the annual report of concerned banks, Annual Supervision Reports and Economic Bulletin published by Nepal Rastra Bank (NRB). The data were collected for total deposit and interest rate spread, deposit interest rate, inflation rate, gross domestic product, money supply. A sample of 10 commercial banks has been taken out of 28 commercial banks. Moreover, in selecting the banks for the study, due care has been given to include banks such as Government Banks, joint venture, domestic, best performer, average performer and comparatively week performer in the sample. So, out of 28 commercial banks 10 banks are taken as the sample for the study based on a convenience sampling method. The sample banks are Nabil Bank Limited, Himalayan Bank Limited, Nepal Investment Bank Limited, Nepal Bank Limited, Standard Chartered Bank Nepal Limited, Nepal SBI Bank Limited, Laxmi Bank Limited, Everest Bank Limited, Machhapuchre Bank Limited, Nepal Bangladesh Bank Limited. Thus the study is based on 50 observations.

The Model

From the result of literature review of the studied of Sitaula (2016) in Nepalese context and Mustaq (2017) and Jibrin, Danjuma and Blessing (2014) and Tuyishime, Memba and Mbera (2015) and Bogale (2017) and Mashamba et al (2014) and Anthony (2012) in foreign studies have been chosen independent variables to examine the deposit mobilization of commercial banks. The study examines the relationship of deposit with interest rate spread (IRS), deposit interest rate (DIR), inflation rate (INF), gross domestic product (GDP), money supply (MS) by estimating specific research model. In order to explain the impact of bank-specific variables: interest rate spread and deposit interest rate and selected macroeconomic variables such as inflation, gross domestic product, and money supply on deposit mobilization, the regression model can be expressed as:

$$\text{LnTD}_{it} = \beta_0 + \beta_1\text{IRS}_{it} + \beta_2\text{DIR}_t + \beta_3\text{INF}_t + \beta_4\text{GDP}_t + \beta_5\text{MS}_t + \varepsilon_{it} \dots \dots \dots (I)$$

Where,

LnTD_{it} = Natural log total deposit amount of bank i for the time period t

IRS_{it} = Interest Rate Spread of the bank for time period t

DIR_t = Deposit Interest Rate for time period t

INF_t = Inflation Rate for time period t

GDP_t = Gross Domestic Product for time period t

MS_t = Money Supply for time period t

ε_{it} = Error term

β_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = The slope which represents the degree with which bank deposits changes as the independent variable changes by one unit variable.

Variables and Hypothesis

In this study total deposit is taken as the dependent variable and bank-specific variables (interest rate spread, deposit interest rate) and macroeconomics variables (inflation rate, gross domestic product, money supply) or independent variables.

Dependent Variables

Total Deposit

Bank deposits consist of money placed into banking institutions for safekeeping. The word deposit most often implies the act of placing consumers’ money in the safety of a bank. When calculating the total deposits from a bank’s perspective, various kinds of deposits are taken into consideration. Demand deposits, term deposits and interest, and non-interest bearing deposits are the cumulative examples of deposits items that are summed to get the value of the total deposit. Total deposit is generally considered as a good indicator to evaluate the economic conditions of the bank.

Independent Variables

The total deposit of commercial bank is influenced by the bank-specific variables like interest rate spread and deposit interest rate and macroeconomic variables: inflation rate, gross domestic product, and money supply were taken as independent variables for the study.

Bank Specific Variables

Interest Rate Spread (IRS)

The interest rate spread is the differences in the interest rate between the lending rate and the deposits rate. In this respect, Mushtaq (2017) has found a significant positive relationship between interest rate spread and total bank deposit. The empirical results showed also a positive and statistically significant relationship with the interest rate spread on private domestic savings (Anthony, 2012). The empirical results showed a positive influence interest-rate spread on the size of private domestic savings. Sitaula (2016) has shown that beta coefficients for interest rate spread are positively related to deposited amount Based on past empirical evidence this study develops the following hypothesis.

H₁: Interest rate spread has a significant and positive impact on banks deposits.

Deposit Interest Rate (DIR)

Tuyishime, Memba, and Mbera (2015) have found that a positive change is deposited interest rate affects the level of deposits received of the bank. Bogale (2017) has found deposit interest rate had an insignificant positive influence on bank deposit growth. Likely, Mashambaet al (2014) found a positive relationship between deposit rates and banks deposits for the period under study and all the other explanatory variables were statistically significant. Sitaula (2016) has found that beta coefficients for the deposit interest rate is positively related deposited amount. In line with the majority of past empirical evidence, a positive relationship is expected between the deposits interest rate and deposits.

H₂ : Deposit interest rate has a significant and positive impact on deposits.

Macroeconomic Variables

Inflation Rate (INF)

Bogale (2017) has found that the inflation rate has an insignificant negative influence on bank deposit growth. Likely, Banda (2010) has found that the inflation rate to be statistically insignificant. However valahzaghard and Kashfi (2014) have found that there is a positive and meaningful relationship between inflation rates with bank deposit. Likely, Sitaula (2016) has arrested that inflation rate is positively related to the deposited amount. In this scenario, a positive relationship is expected between the inflation rate and bank deposits.

H₃: Inflation rate has a significant and positive impact on bank deposits.

Gross Domestic Product (GDP)

Mashamba et al (2014) have found a positive relationship between gross domestic product and banks deposits for the period under study and all the other explanatory variables were statistically significant. Likewise, Loayza and Shanker (2014) have found gross domestic product had a positive relationship with saving. Sitaula (2016) has shown that beta coefficients for the gross domestic product are positively related to the deposited amount. Based on it, a positive relationship is expected between GDP and Bank deposit.

H₄: Gross domestic product has a significant and positive impact on bank deposits.

Money Supply (Ms)

The money supply is the total amount of money in circulation or in existence in a country. Bogale (2017) has found that money supply influence negatively and statistically significant on bank deposit growth. Jibrin, Danjuma, and Blessing(2014) have found the money supply is strong determinants of private domestic savings for the period under study. Likely, Sitaula (2016) has found that beta coefficients for money supply are positively related to the deposited amount. In line with the majority of pest empirical evidence, a positive relationship in expected between money supply and above department.

H₅: Money supply has a significant and positive impact on bank deposits.

Summary of the Study Variables and Hypothesis

An expected sign is a Statistical technique which shows the relationship between two variables. The positive expected sign means that one variable increase, the other variable will also increase while negative expected sign means that when one variable increase, the other variables will be decreased.

Table 1: Summary of the Study Variables and Hypothesis

Variables	Symbol	Expected Sign
Natural Log of Total Deposit	LNTD	-
Interest Rate Spread	IRS	+
Deposit Interest Rate	DIR	+
Inflation Rate	INF	+
Money Supply	MS	+
Gross Domestic Product	GDP	+

Source: Developer by Researcher (2019)

RESULTS AND CONCLUSIONS

Descriptive Statistics

Table 2 shows that the minimum and maximum total deposit amount of Nepalese sample banks during the sample period are Rs.17845.16 and Rs. 125669.4 million respectively. The average value is Rs. 64989.5 million which indicates the total deposit of commercial banks is satisfactory during the sample period.

Table 2: Descriptive Statistics of Study Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
TD (in Million)	50	17845.16	125669.4	64989.5	25649.14
IRS	50	2.49	7.32	4.5624	0.900484
DIR	50	3.28	6.15	4.542	1.03473
LIR	50	8.86	12.09	10.49	1.167852
INF	50	4.5	9.9	8.12	2.0824
MS	50	4.5	9.9	7.34	1.9965
GDP	50	0.2	7.4	4.44	2.5767

Source: Annual Reports from F/Y 2012/13 to 2016/17.

The average interest rate spread (IRS) ranges from 2.49 percent to 7.32 percent with an average of 4.5624 percent. Which shows interest rate spread is maintained in Nepalese commercial banks according to NRB direction. The deposit interest rate has a minimum value of 3.28 percent and a maximum value of 6.15 percent with an average of 4.542

percent. Similarly, the lending interest rate has a minimum value of 8.86 percent and a maximum value of 12.09 percent with an average of 10.49 percent. Likewise, average inflation is observed to be 8.12 percent with a minimum value of 4.5 percent and the maximum value of 9.9 percent. Money supply varies from a minimum of 4.5 percent to a maximum of 9.9 percent leading to an average of 7.34 percent. Similarly, the average gross domestic product is observed to be 4.44 percent with a minimum value of 0.2 percent and a maximum value of 7.4 percent.

Pearson's Correlation between Deposit and its Predictors of Commercial Banks in Nepal

In order to assess the nature of the correlation between the dependent and independent variables and to ascertain whether or not multicollinearity exists as a result of the correlation among variables. The Pearson's correlation coefficient is used to show the magnitude and direction of the relationship. The Pearson Coefficients of Correlation is used to assess the relationship between deposit with the interest rate spread (IRS), deposit interest rate (DIR), inflation (INF), money supply (MS) and gross domestic product (GDP) of the commercial banks at 1% and 5% level of significance. The correlation coefficients are based on data from 10 sample banks with 50 observations for the period 2013 to 2017. The Pearson coefficients were calculated and have been shown as a correlation matrix in Table 3.

Table 3: Correlation Matrix of Study Variables (N=50)

Variables	LNTD	IRS	DIR	LIR	INF	MS	GDP
LNTD	1						
IRS	0.071	1					
DIR	0.029	-0.014	1				
LIR	-0.242	0.188	.851**	1			
INF	-.337*	0.265	-.634**	-0.188	1		
MS	-.315*	0.163	0.118	.357*	0.021	1	
GDP	0.111	-0.018	0.207	0.137	0.179	-.746**	1
*. Correlation is significant at the 0.05 level (2-tailed).							
**. Correlation is significant at the 0.01 level (2-tailed).							

Sources: Results are drawn from SPSS 20.0

Table 3 shows the Person's correlation coefficient. In this correlation matrix, a deposit is taken as a dependent variable. Person's correlation model is used to show the relationship between the variables. The result shows that deposit is positively correlated with interest rate spread, deposit interest rate, and gross domestic product. This implies that the total deposit (TD) tends to move together with interest rate spread, deposit interest rate, and gross domestic product. It means higher the value of interest rate spread, deposit interest rate and gross domestic product higher would be the deposits for the year and vice versa. Likewise, there is a negative relation of deposit with the lending interest rate, inflation, and money supply. This implies that the total deposit (TD) tends to move the opposite direction as with lending interest rate, inflation, and money supply. It means an increase in lending interest rate, inflation, and money supply lead to a decrease in deposits and vice versa. All correlations coefficients among the independent variables were found to be less than 0.8, implying the absence of multicollinearity.

Impact of Interest Rate on Deposit Mobilization of Commercial Banks in Nepal

Table 4 shows the regression results of the model. In the model, total deposit (LnTD) is taken as a dependent variable and predictors are interest rate spread, deposit interest rate, inflation, money supply, and gross domestic product.

The model reveals a statistically significant relationship between the deposit and predictors (Sig. \leq 0.05 or Sig. \leq 0.01). The value of R-square is 0.344, which means 34.4 percent of the total variation in the value of the total deposit is

explained by the independent variables expressed in the equation. Adjusted R– square is 0.27, which indicates that on an adjusted basis, the independent variable is collectively 27 percent related to the dependent variable. That means 27 percent of the variation in the value of the total deposit is caused by its predictors.

Similarly, Fishers ratio (i.e., the F value) is 4.621 and a p-value or F (sig.) that is equal to 0.002, it indicates there is a linear relationship between the variables in the model and they strongly determine the behavior of deposits. By analyzing the Variance Inflation Factor (VIF) in the model. It is observed that all independent variables have VIF less than 10. It shows that there is no problem of multicollinearity.

Table 4: Regression Results

$$\text{Ln TD}_{it} = \beta_0 + \beta_1 \text{IRM}_{it} + \beta_2 \text{DIR}_{it} + \beta_3 \text{INF}_{it} + \beta_4 \text{GDP}_{it} + \beta_5 \text{MS}_{it} + \varepsilon_{it} \tag{1}$$

Variables	Coefficients	Std.Error	T- Value	P- Value	Collinearity Statistics	
					Tolerance	VIF
(Constant)	12.694	0.556	22.846	0.000		
IRS	0.148	0.064	2.323	0.025	0.854	1.170
DIR	-0.309	0.137	-2.253	0.029	0.139	7.214
INF	-0.207	0.065	-3.196	0.003	0.154	6.498
MS	0.038	0.075	0.508	0.614	0.123	8.116
GDP	0.098	0.065	1.500	0.141	0.100	10.042
No. of observation = 50, R² = 0.344, Adjusted R² = 0.27, F- value = 4.621, F (Sig.) = 0.002						

Sources: Results are drawn from SPSS 21.0

Regression coefficients are the sensitiveness of each predictor. It shows to what extend a predictor influence to the deposit mobilization of banks. The beta coefficient of IRS, MS and GDP are positive with a deposit which is similar to priori expectation. Here IRS is statistically significant but rests two variables MS and GDP are statistically insignificant. However, the beta coefficient of DIR and INF are negative but statistically significant with a deposit which is contrary to priori expectation. The result shows that IRS, DIR, and INF are found to be significant at 5 percent level of significance. Table 5 Depicts The Expected Sign, Actual Sign, Significance Level, And Hypothesis

Table 5: Relation between Bank Specific and Macroeconomic Variables on Deposit Mobilization of Nepalese Commercial Banks

Variables	Expected Sign.	Actual Results	Significance/Non Significance	Hypothesis Accepted/ Rejected
Banks Specific				
IRS	+	+	Sig.	Accepted (H ₁)
DIR	+	-	Sig.	Accepted (H ₂)
Macroeconomics				
INF	+	-	Sig.	Accepted (H ₃)
GDP	+	+	Non Sig.	Rejected (H ₄)
MS	+	+	Non Sig.	Rejected (H ₅)

SUMMARY AND CONCLUSIONS

The study concentrated on bank-specific and macroeconomic factors to determine deposit mobilization of commercial banks. Thus, the study carried out on the topic to point out the other factors that enhance the mitigation of the bank-specific and macroeconomic to improve deposit of Nepalese commercial banks.

The main purpose of this study is to analyze the impact of interest rate on deposit mobilization of commercial banks in Nepal. This study is based on secondary data analysis form the year 2013 to 2017 which consist of 50

observations. The data are obtained from the annual report of concerned banks and annual supervision report and economic bulletin published by Nepal Rastra Bank. To achieve the objectives of the study, descriptive, correlational and casual comparative research design has been used. The dependent variable is a total deposit which has been specified in term of LNTD while the independent variables are bank-specific (interest rate spread, deposit interest rate) and macroeconomic variables (inflation rate, gross domestic product, the money supply). The relationship between total deposit and interest rate spread, deposit interest rate, inflation rate, gross domestic product, money supply has been analyzed with the help of the multiple regression techniques from SPSS-20 Version. The limitation of the research is that only a sample of ten commercial banks annual reports for the period 2012/13 to 2016/17 (10 years) have been taken in order to address the subject under investigation. The predictors of deposit have been limited by interest rate spread, deposit interest rate, inflation rate, gross domestic product, money supply.

The interest rate spread, money supply, and gross domestic product are a positive impact on deposit and rest two variables are negative effects of Nepalese context. Which indicates higher the interest rate spread, money supply, and gross domestic product, higher would be the deposits. Similarly increase in the deposit interest rate and inflation rate leads to decrease in the deposits. In order to increase deposits mobilized in commercial banks in Nepal, should design other innovative marketing strategies which can increase the level of low-cost deposits such as the use of mobile van bank in collecting deposits. The Management of Commercial bank in Nepal should put in place strategies that focus on the unbanked population since they represent a significant number of customers left out which can build trust on and sustain its performance once they are included in the financial sector. The study also recommends strengthening and streamlining the agency banking channel as it facilitates the collection of deposits in rural areas where there is no presence of commercial banks. The banks should also offer competitive rate on deposits as a mechanism of mobilizing more but at the same time balancing with the interest paid on them, use different channels of making advertisement of the existing and new product offered to the customers, do the campaign of awareness on agency banking in order to build the trust of customers by studying and minimizing challenges faced by people using this channel. The banks should put in place strategies aiming at improving deposit mobilization policy in order to attract more customers and also ensure that there is an effective and efficient policy of converting deposit mobilized into the loan in order to gain the interest paid on the deposits. Banks should go for lending with the increment of deposit ratio. In the current situation, most of the banks are lending in a higher ratio with comparison to the deposit increase, which leads to a liquidity crisis. Thus, to maintain the ratio, banks should lend accordance with the deposit increment ratio. So that the interest rate in banks would be in a normal situation.

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