

ABSTRACT

The effectiveness of commercial banks in the domestic resource mobilization in Nepal is studied in this research study. The national savings is attracted by the commercial banks into deposits which are then mobilized into investments into the productive sectors of the economy. The investment in the productive sectors like agriculture, commerce, service, industry as well as the deprived sectors of the economy helps in the economic growth of the country. The higher the economic growth, higher will be the national savings of the country. Hence, this research has studied the effectiveness of the commercial banks in strengthening and accelerating this cycle of economic growth in Nepal.

Various hypotheses on gauging the effectiveness of the banks are developed and tested using descriptive and statistical tools as well as informal interviews. It is found that the present liberal policies and regulatory framework in the banking industry have played a positive role in the growth of the commercial banks. The banks in Nepal now mobilize about 30% of the national savings which is considered a low figure. The moderate growth of the savings and the above low saving deposit ratio show that there are opportunities for new banks and expansion of existing ones. On the other hand, the available funds which include the deposits in the banks have been efficiently diverted into investments which stands at around 80% of available funds at present. The financial performance indicators found using ratio analyses support this finding. The investments mobilized by these banks in sectors like agriculture, commerce, industry and service help strongly in contributing to the gross domestic product (GDP). Hence, the commercial banks in Nepal are playing a very positive role in resource mobilization especially in utilizing the available funds into investments. However, the low saving deposit ratio calls for more concerted effort by these banks as well as demonstrates the feasibility for more banks and bank expansion.

The study recommends that the savings that are out of the banks' domain especially in the rural areas could be captured by reaching them through expansion of branches and by providing innovative and improved quality of services. The competition from the informal sectors and other financial institutions can then be handled. This will ultimately benefit the country as well as the banks themselves.