Available online at www.rajournals.in

International Journal of Management and Economics Invention

ISSN: 2395-7220

DOI: 10.31142/ijmei/v5i7.01

Volume: 05 Issue: 07 July 2019

International Open Access

ICV: 72.76

Impact Factor: 6.378(SJIF), 0.532(GIF)

Page no.-2083-2087

Determinants of Investment of Nepalese Commercial Banks

Bishnu Prasad Bhattarai, Ph.D

Academic Director/ Business Unit Head, Excel Business College, Pokhara University, Kathmandu, Nepal
Faculty Member, Patan Multiple Campus, Tribhuvan University, Kathmandu, Nepal

ARTICLE INFO

Publication Online: 05 July 2019

Corresponding Author: **Bishnu Prasad Bhattarai**

ABSTRACT

The purpose of the study to examine the factors that affects the investment of Nepalese commercial banks. The study is based on the secondary data which were gathered for 10 commercial banks in Nepal for the period 20012/13 to 2016/17, leading to the total of 50 observations. The secondary data have been obtained from concerned banks annual reports. The descriptive, correlational and casual comparative research design has been employed. In this study, ten commercial banks are taken as sample out of total population of 28. The dependent variable used in this study is investment and independent variables used are Deposits, Size of the firm and Net Profit. The regression model reveals that there is positive relationship of Investment with Deposit and is statistically significant. Size of the firm have negative relation with the dependent variable and indicates statistically insignificant. In the same way Profitability has the positive relation with the investment but it is also statistically insignificant. It states that when the Profit of Firm increase then the investment will also rise. Deposit has the positive relationship with the investment which indicates that as deposits increases the investment amount get increases and is statistically significant.

KEYWORDS: Investment, Deposit, Size and Profit.

Introduction

The success and prosperity of the banks relies heavily upon the successful investment of collected resource to the productive sectors of economy. Hence, the main significance of this study is to help how to minimize risk on investment and maximize return through portfolio analysis. Similarly, the study of commercial banks on investment trend, risk and return pattern, portfolio management, credit management, structure change in deposit and in investment, effect on investment decision by earning, the internal weakness of the banks and furnish the ideas of improvement. Investment in financial sense is placing of money in the other for their use expecting a return or the participation in expected profits. But for manufacturing and trading firms the terms investment will be long term expenditures that aim at increasing return of efficiency or at building up goodwill thereby producing and increasing return over as period. Investment also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other risks.

George (1952) has stated that the investment and lending practices and policies of the commercial banking system change relatively slowly. Standards and practices which have proved successful in making loans to finance the production of goods and services or in investing funds in governmental and corporate securities continue to be utilized.

Wasson (1966) has concluded that a great many factors may affect the policies which govern investment management of commercial banks. Investment policy would necessarily be a part of total operational policy and would need to contribute to general objective of the bank operation.

Crosse and Hempel (1980) have found that Commercial banks bring into being the most important ingredient of the money supply demand deposits through the creation of credit in the form of loans & investment. Banks are the custodians of the community's money as well as the suppliers of its liquidity, since the study is concerned with the investment activities of commercial in Nepal, we take in to consideration exclusively the sector that are required for & relented to the same.

Shrestha, (1995), has explains Portfolio behavior of commercial banks sector of the economy including agriculture, industry, and commercial & social service sectors. The lending policy of commercial is based on the profit maximizing of the institution as well as the economic enhancement of the country.

United Nations, New York and Geneva (2003) on its "Investment policy review on Nepal" point out the reasons that why despite the growth in the number of financial institutions over the past decade in Nepal, all is not well in the financial sector.

Levisauskait (2010) has concluded that main points of passive portfolio management are holding securities in the portfolio for the relatively long periods with small and infrequent changes; investors act as if the security markets are relatively efficient; passive investors do not try outperforming their designated benchmark.

Alexander (2013) has stated that the investment portfolio is formed as a result of investment operations, which are the activities of the attachment of funds of the bank on a relatively long period of time in securities, real estate, the statutory funds of enterprises, collections, precious metals and other objects of investments, market value of which has the ability to grow and to bring the owner of interest income, dividends, profits from the resale and other direct and indirect revenues.

Thirumalai & Uthaya (2014), have concluded that commercial banks form the most important part of financial intermediaries. Banks form a significant part of the infrastructure essential for breaking vicious circle of poverty and promoting economic growth.

Amatya (2017) has concluded that growth and stability of the banks mainly influences the capital structure of such banks. And the capital structure of the banks has substantial impact on profitability. Further, it is inferred that most investors are aware about the interest cost and risk that debt capital carries, and thus they have desired secured capital structure by financing through more equity capital. Among different choices, it is finally concluded that the management should give prior emphasis to minimize cost of capital for having sound capital structure.

A few studies have been made on the investment portfolio analysis of commercial banks. Most of the studies made up to present are related to financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. only few students have been able to study on this topic. So the present study will be of substantial importance for investors, planners, researchers, students, and policy makers to meet their personal and organizational objectives by identifying the various weaknesses prevailing in the investment and provide package of suggestions of its improvement, finally it contributes to the national economy by means of institutional development. It is expected that this work will be helpful to decision makers to maximize the values of their organization. The issues of study: What are the factors affecting investment of Commercial Banks in Nepal?

Most of the researcher has done research on investment portfolio but they are mainly concern with the rate of return but they don't have measure the relationship between investment and other variables. So this study finds out the real relationship between the investment with deposit, profitability, loan and advance and size of the bank. The study found that Nepalese commercial banks investment affected by deposit.

The purpose of the research work is quite different from the studies made by other scholars (related to commercial bank). This study mainly focused to evaluate the factors affecting investment of Commercial Banks in Nepal. The remainder of the paper is organized as follows. Section two describes research methodology. Section three data presentation and analysis and final section draws summary and conclusions.

Research Methodology

The study is based on the secondary data which were gathered for 10 commercial banks in Nepal for the period 20012/13 to 2016/17, leading to the total of 50 observations. The secondary data have been obtained from concerned banks annual reports. The pooled cross-sectional data analysis has been undertaken in the study. The research design adopted in this study are descriptive, correlational and causal comparative. Table 1 shows the number of commercial banks selected for the study along with the study period and number of observations.

Table1: Sample Commercial Banks

S. No	Name of Banks	Period Covered	Observation
1.	Nepal Investment Bank Ltd.	2012/13- 2016/17	5
2.	Nabil Bank Ltd.	2012/13- 2016/17	5
3.	Everest Bank Ltd.	2012/13- 2016/17	5
4.	Nepal SBI Ltd.	2012/13- 2016/17	5
5.	Himalayan Bank Ltd.	2012/13- 2016/17	5
6.	Nepal Bangladesh Bank Ltd.	2012/13- 2016/17	5
7.	Sunrise Bank Ltd.	2012/13- 2016/17	5
8.	Global IME Bank Ltd	2012/13- 2016/17	5
9.	Laxmi Bank Ltd.	2012/13- 2016/17	5
10.	Standard Chartered Bank Ltd.	2012/13- 2016/17	5
Total Observation			**50**

The Model

The study examines the relationship between investment dependent variable and independent variables such as net profit, deposit, and size by estimating ordinary least square (OLS) model. The equation to be estimated has been specified as follows.

$\text{Log Inv}_{it} = \beta_0 + \beta_1 \text{ Log TD}_{it} + \beta_2 \text{ Log Size}_{it} + \beta_3 \text{ Log NP}_{it} + e_{it}$

Where, Log Inv_{it} = Log of Total Investment, Log TD_{it}= Log of Total Deposit, Log NP_{it}= Log of Net Profit, LogTA_{it} = Log of Total Assets, β_0= Constant, β_1 to β_3= Coefficient and e_{it}= Error Terms

Data Presentation and Analysis

Descriptive Statistics

Table 2 presents the descriptive statistics of both dependent variable i.e. Total Investment and independent variables which are Deposits, Size of Firm and Net Profit.

Table 2: Descriptive Statistics of Variables

Variables	No. of observation	Minimum	Maximum	Mean	Std. Deviation
LnInv	50	2.45	36.10	14.00	8.25
LnTD	50	17.75	125.67	63.12	26.57
LnTA	50	21.80	150.82	73.56	31.52
LnNP	50	0.25	3.61	1.38	0.74

Source: Annual Reports of Sample Banks and Result are drawn from SPSS 17

The result indicates that mean value and standard deviation of Investment are 14 and 8.25 respectively with the maximum value of investment 36.10 which was made by Nabil Bank in Fiscal Year 2015/16 and minimum value of investment 2.45 which was made by Sunrise Bank in Fiscal Year 2012/13. Likewise, Deposits mean value and standard deviation of Investment are 63.12 and 26.57 with the maximum value of Deposits 125.67 which was collected by NIBL in Fiscal Year 2016/17 and minimum value of Deposits is 17.75 which was collected by NBB in Fiscal Year 2012/13. Similarly, mean value and standard deviation of Size of Firm are 73.56 and 31.52 with the maximum value of Size 150.82 which was of NIBL in Fiscal Year 2016/17 and minimum value of Size of Firm is 21.80 which was of NBB in Fiscal Year 2012/13.Likewise, mean value and standard deviation of Net Profit are 1.38 and 0.74 with the maximum value of Net Profit3.61 which was of Nabil Bank in Fiscal Year 2016/17 and minimum value of Net Profit is 0.25 which was of Sunrise Bank in Fiscal Year 2013/14.

Correlation Analysis

Table 3 presents the correlation of matrix of dependent variable i.e. Total Investment with independent variables which are Deposits, Size of Firm and Net Profit.

The result shows the correlation analysis done by using Pearson's correlation coefficients. In this correlation matrix, Investment is taken as a dependent variable. Pearson's correlation model is used to show the relationship among the variables and 2-tailed test is used to measure the significance.

Table 3: Correlation Matrix of Variables (n=50)

Variables	LnInv	LnTD	LnTA	LnNP
LnInv	1			
LnTD	.689**	1		
LnTA	.682**	.698**	1	
LnNP	.573**	.658**	.572**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Annual report of sample banks and results are drawn from SPSS - 20.

The result shows that Investment is positively correlated with deposits and statistically significant. In same way Investment is positively correlated with Size and Profit but it is statistically insignificant.

Regression Analysis

Regression Analysis shows the relation between Total Investment and Predictors (Deposits, Size of Firm and Net Profit). The objective of study is to explore the certain Predictors significantly affects the Total Investment of the banks. Following table shows the result of the Study.

In the Table 4, dependent variable is investment amount and independent variables used in the model are deposits, profitability and size of the firm.

Table 4: Regression Results

Variables	coefficient	Std. Error	t	p-value
(Constant)	-8.163	2.629	-3.105	.003
LnTD	3.158	1.526	2.070	.044
LnTA	-1.999	1.586	-1.261	.214
LnNP	.139	.164	.849	.400
No of Observations: 50, R Square:0.797, Adjusted R Square: 0.784, F value:60.285, Probability: 0.000, DW : 1.812				

Source: Annual report of sample banks and results are drawn from SPSS - 20.

The table shows that the adjusted R square is 79.7 percent which explains that this regression model is good fit i.e. that gives good explanation on its dependent variables through its independent variables. The regression result from adjusted R square indicates that 79.7 percent of the variation in Investment is determined by this independent variable. This shows that dependent variable (Investment) is 79.7percent explained by the independent variables used in the model and rests are explained by other variables. Also the f-static is significant at the level of 1 percent, which means that the independent variable is able to explain the dependent variable that is in statistically meaning dependent variable (Investment Amount) is perfectly correlated with the independent variables (Deposits, Size and Net profit). Therefore, from the overall model which is determined by the F-statistical probability zero leading to the rejection of the null and indicates that the overall model is significant at the level of 1percent and5 percent.

Besides the given table also helps to explain the relationship with depend variable with independent variables which says Deposit has the positive relationship with the investment which indicates that as 1percent increase in deposits leads to 3.158 percent increase in the investment and is statistically significant. Likewise, Size has negative relation with the dependent variable which explains, 1 percent increase in Size of Firm leads to 1.999 percent decrease on investment but it is statistically insignificant. In similar way, Profitability has the positive relation with the Investment and its explains, 1 percent increase in Profit will leads to 0.139 percent increase in Investment but it is also statistically insignificant.

Summary and Conclusion

Bank is an institution whose main function is to accept deposit and invest it. Bank collects money from public by providing attractive sound interest and can earn profit by lending it on mainly in business organization, industrial, agricultural sectors etc. So, we can say the main task of commercial bank is to mobilize idle resources in productive areas by collecting it from scattered sources and generating profit. Banking plays significant role in the economic development of country. Banks role as intermediaries channeling between saving and investment and fulfill the credit needs of customer as well as investment requirement of savers. It is clear that efficient and stable banking systems are crucial for an orderly economic growth. The pace development of country largely depends on the level of financial development.

In the context of Nepal commercial banks are the only financial institutions, which can play very important role in the resource mobilization for the economic development in the country. Commercial bank occupies greater role in the economic development by generating the saving towards the desired sectors from one place to another, communicating with its branches and agencies in different parts of the country. The investment operation of commercial bank is risky affair. It is the most important factor for the shareholders and bank management. For this, commercial bank has to pay due consideration while formulating their investing policy. A healthy development of any commercial depends upon its investment policy. The objective of the study was to examine the existing investment position and its predictors of commercial banks in Nepal. This study accesses the relationship between investment position and its predictors of commercial banks in Nepal. This study evaluates the factors affecting investment of commercial banks in Nepal. To achieve the objective of the study, descriptive and casual comparative research design has been employed. In this study, ten commercial banks are taken as sample out of total population of 28. The study period covered five fiscal years from F/Y 2012/13 to F/Y 2016/17 which was based on secondary data. The data had been obtained from annual reports and financial statement of respective banks websites. The dependent variable used in this study is investment and independent variables used are Deposits, Size of the firm and Net Profit. The regression model reveals that there is positive relationship of Investment with Deposit and is statistically significant. Size of the firm have negative relation with the dependent variable and indicates statistically insignificant. In the same way Profitability has the positive relation with the investment but it is also statistically insignificant. It states that when the Profit of Firm increase then the investment will also rise. Deposit has the positive relationship with the investment which indicates that as deposits increases the investment amount get increases and is statistically significant.

References

1. Alexander, Y.(2013). *Portfolio Investment Specifics of Commercial Banks*, Chair of Banking, 1-4.

2. Amatya, R. (2017). *Comparative Analysis of Capital Structure Management of Commercial Banks*, Tribhuvan University, Kathmandu.
3. American Institute of Banking. (1972). *Principal of Bank Operation.* USA:AIB.
4. Bajracharya, R. (2000). *Investment of Commercial banks in Priority Sector.*, Tribhuvan University, Kathmandu.
5. Bhattarai, R. (1978). *Lending Policy of Commercial Bank in Nepal*, Tribhuvan University, Kathmandu.
6. Coleman, G.W. (1952). *Lending and Investment Practices of Commercial Banks*, Law and Contemporary Problems, 17(1), 108-127.
7. Crosse, H. and Hempel, G. (1980). *Management policies of commercial Banks. 3rd ed.*, New Jersey: Englewood cliffs, Prentice hall Inc.
8. Joshi, A. (2005). *Investment Policy of Commercial Banks in Nepal,* Tribhuvan University, Kathmandu.
9. Lamichhane, M. (2000). *Investment Policy of Joint Venture Banks in Nepal*, Tribhuvan University, Kathmandu.
10. Laudhari, S. (2001). *A study on Investment Policy of Nepal Indosuez Bank Ltd. In Comparison To Nepal SBI Bank Ltd.*, Tribhuvan University, Kathmandu.
11. Levisauskait, K. (2010). *Investment Analysis and Portfolio Management*, Vytautas Magnus University, Kaunas, Lithuania.
12. Pandit, K. (2003). *A Study on Investment Policy Analysis of S.C Bank Nepal Limited (In Comparison to Other Commercial Banks of Nepal),* Tribhuvan University, Kathmandu.
13. Poudel, K. (2002). *Liquidity and Investment Position of Joint Venture Commercial Banks in Nepal*, Tribhuvan University, Kathmandu.
14. Radhaswamy, M. and Vasudevan, S.V. (1979). *A text book of Banking.* New Delhi: S. Chand & Company Ltd.
15. Reilly, F.K. (1986). *Investment.* Japan: CBS College Publishing, The Dryden Press.
16. Shakya, D. (2014). *Comparative Analysis of Capital Structure Management of Commercial Banks*, Tribhuvan University, Kathmandu.
17. Sharpe, W.F., Alexender, G.J. and Bailey, J.V. (1998). *Investments.* New Delhi: Pentice Hall of India Pvt. Ltd.
18. Shrestha, S. (2004). *Nepal Rastra Bank* Guidelines on *Investment Policy of Commercial Banks in Nepal.*, Tribhuvan University, Kathmandu.
19. Shrestha, S. (1995). *Portfolio Behavior of Commercial Banks in Nepal*. Kathmandu: Mandala Book Point.
20. Singh, P. (1986). *Investment Management.* Bombay: Himalaya Publishing House.
21. Singh, S.P. and Singh, S. (1983). *Financial Analysis for Credit Management in Banks.* New Delhi: Vikas Publishing House Ltd.
22. Thapa, S. (1999). *A comparative study on Investment Policy of Nepal Bangladesh Bank Ltd. and joint Venture Commercial Banks in Nepal*, Tribhuvan University, Kathmandu.
23. Thirumalai K.S. & Uthaya C. (2014). Investment Policy by Commercial Banks, Global Journal for Research Analysis, 3(11), 80-83.
24. United Nation, New York and Geneva (2003). *Investment Policy Review Nepal*, New York: United Nations Publications.
25. Wasson, H.C. (1966). *Some Investment Policies for Commercial Banks*, Financial Analysis Journal, 83.