Ensuring Economic Stability through Liquidity Management in the Banking Sectors of Nepal

Basu Dev Lamichhane*

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Abstract:

This study aims at finding how Nepalese banks and financial institutions (BFIs) struggle at managing liquidity to stabilize financial performance for the nation's economic sustainability. Investigating the relationship between liquidity management and economic stability remains as sole purpose toensure the Nepalese economy.This study applies the qualitative research design and aims to explore the liquidity management of Nepalese BFIs with an interpretative approach. The economic and financial stability of the country can be accomplished through adequate and proper liquidity management in BFIs.The loanable fund is easily available in the banking sector that vibrates on economic activities including production, distribution, transportation, advertising, communication, exports, and job creation, consequently affecting the total economic activities. Based on the findings, the current scenario of liquidity crisis can be minimized through appropriate financial instruments, monetary policies, an increase in the export of goods, and discouraging the import of luxury items. Remittance is a major source of foreign currency in Nepal, and government needs to encourage people to send remittances through formal banking channels. Equally, the government needs to increase the spending capacity of budgeted capital expenditure on time. Policymakers, economists, microfinance practitioners, Banks, financial institutions (BFIs), and regulatory authorities are expected to be benefitted from the conclusions of the study.

Keywords: *Balance of payment, credit supply, economic stability, financial instruments, liquidity, remittance, SMEs,*

Introduction

The Nepalese global economy is ever-expanding and speeding through remittances and savings and the trend still continues. Developing countries like Nepal are attempting to keep up with this development process in order to gain a better position in the world of survival. At the same time, Nepalese Banks and financial institutions (BFIs) play an important role in the mobilization of local resources as financial intermediaries in the economic development chain.

Nepal is a sovereign country, but it is surrounded by two densely populated countries, India and China. Their level of economic development over the last few decades, as well as the current rate of economic growth, indicate that they have the potential to compete in the international market. However, Nepal's economic development is still in its early stages. The government has now initiated various economic policies, such as industrial policy and foreign investment policy, to

* Assistant Professor, Department of Management, Saraswati Multiple Campus, TU, Nepal.

promote economic growth and development. As a result, trade policies have been developed and are being implemented in the hope of bringing about a change in the country's industrial and business environment.

For the nation's economy to grow and its financial system to remain stable, the financial sector is essential. The nation's economy is boosted by the banking sector. BFIs drive the economy because the banking industry provides the necessary funds for economic activity to function efficiently. As a result, the banking sector is vital to the nation's economy.

The Nepalese banking industry is relatively young, with the first bank, Nepal Bank Limited (NBL) founded in 1937 as the country's first commercial bank with joint ownership by the government and the general public. The Nepalese financial system gained energy with the establishment of the Nepal Rastra Bank as the country's Central Bank in 1956. The first development bank, the Industrial Development Bank, was established in 1957 and was converted into the Nepal Industrial Development Corporation (NIDC) in 1959. A number of financial institutions were established within a decade of the establishment of Nepal Rastra Bank. RastriyaBanijya Bank Ltd, the government's second commercial bank, was founded in 1966.The Agricultural Development Bank (ADB/N) was established in 1968 with the goal of providing long-term and medium-term credit to the agricultural sector. ADB/N has now become a commercial bank. Following the adoption of the economic liberalization policy in Nepal, the financial sector has made tremendous progress in terms of the number of banks and financial service clients (Dhungana, 2019).

Table 1

The number of banks and financial institutions licensed by NRB as on Mid, Jan 2022.

S.N.	Types of Financial Institutions	Class	Number
1	Commercial Bank (CBS)	"A"	27
2	Development Bank (DBs)	"B"	17
3	Finance Companies (FCs)	"C"	17
4	Microfinance Institution (MFIs)	"D"	67

Sources: Bank and financial institutions regulation department, Nepal Rastra Bank

From the above figure the Nepal Rastra Bank, the central bank of Nepal has classified the BFIs into four categories that are "A", "B", "C",and "D" on the basis of the nature of business and paid-up capital as well. Group "A" is for commercial Banks, "B" is for Development Banks, "C" is for finance companies and "D" class is for microfinance institutions. As per NRB data, as of mid -Jan 2022, altogether 128 BFIs licensed are in operation. Out of them, 27 A-classcommercial banks, 17 B -class development banks, 17 C-class finance companies, and 67 D-class microfinance financial institutions (MFIs).

A shortage of cash flow characterizes a bad financial scenario known as a liquidity crisis. It may be used to describe market liquidity (the ease with which an asset can be converted into a liquid medium, such as cash), funding liquidity (the simplicity with which borrowers can secure outside financing), or accounting liquidity (the strength of a company's balance sheet as measured by its cash-like assets).

A bank collects money from those who have it to spareor who are saving it out of their income and lend the money to those who require it. Banking is the lifeblood of modern business for the economy. A pillar of the economic system BFIsprovides capital for the development of industry, trade, and business by investing the saving collected as deposits from the public, economic and social life. The well-organized financial system of a country plays a great role in the economic development of the country, as it transfers financial resources from savers to those who need them. The mobilization of financial resources, capital formation, and their proper utilization play a key role in the economic development of the country. However, the ability of banks to generate growth and economic development depends on the health, solidity, and stability of the banking system itself (Alex, 2012). Poor deposit mobilization by a bank agent has an adverse effect on its operation, the bank agent may not be in a position to offer withdrawal services to its customers. Therefore, the bank agent might be forced to seek other alternative ways; like borrowing from another financial institution which will be at a higher cost (Opoku, 2011).

A deposit is money placed in a bank or other financial institution's current, savings, or fixed accounts. A deposit is cash put into a savings or checking account at a bank or credit union by an investor. In this case, the deposited funds remain the property of the person or entity who made the deposit, who may withdraw the funds whenever they want, transfer them to another person's account, or use them to make purchases. Deposits can be divided into three categories: current deposits, savings deposits, and fixed deposits.

A key factor in determining how well a bank performs is liquidity. Because the traditional bank industry is primarily focused on the loan business and generates interest income for commercial banks, a lower level of liquidity (higher loan-to-deposit ratio) is expected to boost the banks' profitability.However, a high credit-to-deposit ratio might put commercial banks at risk for liquidity problems and result in bigger non-performing loans, which eventually reduces the banks' profitability (Budhathoki, et al., 2020).

The remaining parts of the paper are structured as follows. Section 2 includes the objectives of the study, section 3 includes a review of the literature. Section 4 includes the research gap. Section 5 is the research methodology and section 6 includes the findings of the study the section of the paper is finally finished with a discussion and conclusion of the study.

Objectives of the study

The study's specific goal is to investigate better liquidity management practices for the Nepalese economy. The study's specific goals include the following:

i. To evaluate the Nepalese economy's current liquidity issue.

ii. To find better solutions for the Nepalese banking sector's liquidity management in order to maintain economic stability.

Review of literature

This chapter contains a review of previous studies as well as a conceptual review of the study's topic and related areas. Review of literature means reviewing research studies or other relevant propositions in the related area of study so that all previous and previous studies, their conclusions, and perspective deficiency can be known and further research can be conducted. It is an essential component of all studies that convey what knowledge and ideas have been established on a topic in the past, as well as their strengths and weaknesses.

Theoretical review

The theoretical review investigates theories that expound on the topic under study and thus aid in a better understanding of the study in question while also putting forth a justification for the current study. The goal of this form is to concretely examine the corpus of theory that has accumulated in relation to an issue, concept, theory, or phenomenon. The theoretical literature review aids in determining what theories already exist, their relationships, the extent to which existing theories have been investigated, and the development of new concepts.The theories and liquidity management are outlined and explained in this section.

Liquidity preference theory of interest

Liquidity preference theory refers to money demand as measured by liquidity. J.M. Keynes developed the liquidity preference theory of interest when he published the general theory of employment, interest, and money in 1936 A.D. The interaction between the demand for money and the supply of money, according to Keynes, determines the rate of interest. The desire of people to hold a cash amount of money, known as liquidity preference, determines the demand for money, and the supply of money is controlled by the central bank, which remains constant at any given point in time.

According to J.M. Keynes, the demand for money is mainly created by three motives i.e. transaction motive, precautionary motive, and speculative. Transaction motives for money demand are dearer to hold money for daily economic activities. In these motives, people hold money to fulfill their daily life balancing with income and expenditure. It denotes $L_t = f(y)$. Transactional demand for money mainly depends on the income of the consumer. Likewise, the precautionary motive for money is also the demand for money to meet future unforeseen developments such as sickness, unemployment, unfortunate accidents, or unexpected circumstances. According to Keynes precautionary demand for money is also depends upon the income, and level of the consumer, and directly related to the level of income. It denotes $L_P = f(y)$.

Likewise, the speculative motive relates to the desire to assets in liquid form in order to take advantage of market movements regarding the future change in the rate of interest or bond price. According to J.M. Keynes, people hold money for the speculative purpose of gaining high profit. According to Keynes, it is the expectation of a change in bond price or in the current market rate of interest that determines the speculative demand for money. The speculative demand for money is the inverse function of the rate of interest. The higher rate of interest, the lower the speculative demand for money and vice-versa. It denotes as $L_{sp}= f(r)$

At very low interest, all money is speculated whole by the public which causes the speculative demand curve becomes perfectly elastic and creates the problem of liquidity (cash) in the financial market is called a liquidity trap or liquidity crisis.

Anticipated income theory

According to this theory, a bank's liquidity can be controlled by properly phasing and structuring the loan promises it makes to its clients. If a customer's anticipated loan payments are based on the borrower's future, then the liquidity in this situation can be planned.Nzotta (1997) asserts that the idea highlights a borrower's earning potential and creditworthiness as the ultimate assurance for assuring adequate liquidity. According to Nwankwo (1991), the idea suggests that banks are moving toward self-liquidating commitments.Many commercial banks have adopted a ladder effect in their investment portfolios as a result of this hypothesis.

The loanable fund theory

According to the loanable fund theory of interest rate setting, the variables influencing the supply and demand of loanable funds determine the level of interest in the financial market. According to Saunders (2010), the supply of loanable funds rises as interest rates rise, and all other factors are held constant. The interest rate is determined similarly to how demand and supply for goods are determined. He continues by stating that as interest rates decline, other factors remain the same, and the demand for loanable funds increases. Saunders (2010) lists the following two factors as contributing to the shift in the demand curve for loanable funds.In this theory, the main theme is the supply and demand for loanable funds (i.e. lending and borrowing) determine the interest rate. This explanation emphasizes the flow of funds by suppliers of loanable funds (lenders) and the flow of funds by the demanders of loanable funds (borrowers). It is a monetary theory of interest since it focuses on the financial factors that influence interest rates (i.e. borrowing and lending). According to this approach, the interest rate is determined by the demand for and supply of loanable funds. The term loanable funds include all forms of credit, such as loans, bonds, or savings deposits. This theory emphasizes the flow of funds by suppliers of loanable funds (lenders) and the flow of funds by the demanders of loanable funds.

Review of the major empirical literature

Nepal Rastra Bank, the central bank, is the totally autonomous leader of BFIs due to its independence and no government intervention. As a disciplined borrower, the domestic leader of the government must be urged to follow the rules. It serves as the government's economic advisor for evidence-based policy creation. The central bank must frequently act as a referee in the financial system, ensuring a level playing field for state and non-state financial actors in the market. In this way, the Central Bank is a self-governing and corporate entity with a permanent succession (NRB Act, 2002). If the central bank does not operate with autonomy, it will have a negative influence on the bank and financial sector stability, as well as monetary policy operations.

In their study on understanding financial crises, Diamond and Dybvig (1983) stressed the significance of liquidity in financial institutions.The study discovered that the percentage of debt made up of short-term demandable deposits is more important than the financial sector's borrowing or leverage.More generally, the banking literature states that the likelihood of bank-run behavior emerges and can result in systemic crises when the financial sector has illiquid assets financed by short-term debt, as stated in Gorton (2004).

Akinwumi et al. (2017) used the Pearson correlation coefficient statistical approach to examine liquidity management and bank performance in Nigeria. They came to the conclusion that there is a significant correlation between bank financial performance and liquidity, i.e., the more liquidity, the higher the returnable fund, the higher the returnable fund, the higher the interest income, which results in a higher return on equity (ROE) and returns on assets (ROA). They also recommended that the current liquidity situation and the best use of the assets should concentrate on increasing shareholders' equity return. The study also showed that effective management of liquid assets can maximize ROA and ROE, showing that banks must take these aspects into account for a strong financial performance.

Shrestha (2018) looked into the relationship between the profitability of Nepali commercial banks and the effectiveness of their liquidity management. They used inferential statistical techniques, CRR, CD, and ROA to examine the relationship between liquidity and the financial performance of Nepalese commercial banks while taking a variety of factors into consideration. He found that liquidity has no impact on the profitability of Nepalese commercial banks.Furthermore, he came to the conclusion that both excess and insufficient liquidity are financial illnesses that might negatively impact financial organizations' levels of profitability. Additionally, he made the case that a sufficient liquid fund is necessary for the effective administration of depositors' loanable and demandable funds, which is necessary for long-term financial viability.

Shrestha(2022) has stated reasons for the liquidity crisis, practices, and ways for liquidity solutions. He furthermore highlighted the current liquidity crisis of the Nepalese banking sector negatively affects lending in the productive sector of the banking sector. It has a negative impact on production, employment, income, and revenue generation which directly impacts the bank's balance sheet. He suggested the government of Nepal should increase foreign exchange through export promotion, discourage imports, and increase government capital budgetary expenses for liquidity management.

Dhungana(2022) has stated their view about the initiation of Nepal Rastra Bank, the central bank of Nepal for the Nations' financial stability. She highlighted the current initiation of Nepal rastra Bank for economic stability through refinancing, margin landing, risk-based supervisory mechanism, channelizing for remittance inflow, discouraging import through policy instruments, and instructing the slowdown in loan disbursement to the BFIs.

The effect of liquidity, leverage and the total amount of assets held by the bank on profitability was investigated by Budhathoki et al. in 2020. They used bank scope data from all 28 commercial banks that were active in Nepal between 2010–2011 and 2016–2017 for this study. The impact of liquidity, leverage and the overall size of the bank's profitability were all examined using the 168 observations combined with ordinary least-squares models. Additionally, they came to the conclusion that effective liquidity management has a positive impact on ROA, ROE, and NIM, the three profitability metrics.

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Milić, (2017) investigated the factors that have the greatest impact on banking sector liquidity in order to support agricultural businesses because macroeconomic factors affect the banking sector's exposure to liquidity risk. By employing statistical techniques such as correlation and multiple regression analysis. They came to the conclusion that inflation and unemployment rates were important determinants of liquidity in the banking sector. Macroeconomic factors influence the banking sector's exposure to liquidity risk, which is determined by the banking sector's willingness to respond to agriculture's growing financial needs.

Sathyamoorthi et al. (2020) investigated the impact of liquidity management on the financial performance of Botswana's commercial banks. The study measured financial performance using return on assets and return on equity. According to the findings, there is a statistically significant positive relationship between the loans-to-total-assets ratio and the liquid assets-to-total-assets ratio and return on assets and return on equity. The loan-to-deposit ratio and the liquid assets-to-deposit ratio both had statistically significant negative relationships with return on assets and return on equity. They proposed that commercial banks try to optimize liquidity variables in order to improve bank performance.

Research gap

Due to the internal and external economic climate, banks and financial institutions (BFIs) have been experiencing liquidity issues. The government's inability to spend on capital expenditures and a slow-moving remittance flow have caused a liquidity crunch in the banking sector in recent months. BFIs are unable to invest more in the priority and service sectors as well. Despite the fact that more than half of the current fiscal year 2021/022 has passed. According to the Financial Comptroller General Office's report, the Nepalese government was only able to use 22.94 percent of its revised capital expenditure. Failure to ensure financial transparency will definitely facilitate corruption and cronyism which encourage low capital expenditure. At the same time, remittance inflows have decreased by 4.9 percent to Rs. 540.12 billion, following a 10.9 percent increase.

According to data released by the Nepal Bankers Association (NBA), the umbrella organization for the country's commercial banks, the total deposits of 27 commercial banks fell by Rs. three billion to Rs 4.330 trillion between March 14 and 25.

Due to the government's failure to accelerate development and slow remittance growth, the banking sector has been experiencing liquidity constraints. During the current fiscal year, the banking sector has seen weak deposit growth for several months.Banks have been straining to disburse new loans to customers as a result of the liquidity crisis.Due to a slowdown in deposits, the bank is unable to meet loan demand. BFIs have used new instruments to attract deposits, offering 11.03 percent interest per annum on fixed deposits by CBs and 11.55 percent on FDs by DBs by the end of this fiscal year or mid-July for new loan investment and implementing credit-deposit (CD) ratio by end of this fiscal year or mid-July for implementing CD ratio by the end of this fiscal year or mid-July for implementing CD ratio by the end of this fiscal year or mid-July BFIs, on the other hand, are unable to recruit depositors. The banking sector has not been responsive sufficiently to meet the growing need for resources for the economy as expected. In

Nepal, there is no study has done onthe deposit crunch. Therefore this study is important in order to decide the possible ways for sustainable deposit collection.

BFIs currently have a CD ratio of more than 90%, which must be decreased to less than 90% by mid-July 2022 to meet regulatory requirements by narrowing loan distribution. BFIs collected 129 billion in deposits in mid-April, according to a report published by Nepal Rastra Bank, the country's central bank, compared to 449 billion in loan disbursements, indicating a significant gap between deposit collection and loan investment, indicating a deposit crisis in the banking sector.

Commercial banks, including venture banks, are currently active in Nepal's banking system. Any country cannot generate economic activity in the absence of modern banking. As a result, it's critical to determine whether banks are making a significant contribution to the economy's emerging sectors. The general business of founding is considered to be liquidity, which demonstrates the bank's ability to meet cash obligations. This research was conducted with the goal of improving the liquidity management of the Nepalese banking industry for economic stability.

Nepalese fundamental social and economic development problems are caused by the inefficient market, inefficient government spending capacity on infrastructure development, ineffective governance, and financial instability. There is a huge gap in transforming ideas into planning, planning into action, and action into impact. Well, functioning economic stability needs effective execution of monetary policy and budget.

Research Methodology

This study uses a qualitative research design and takes an interpretive approach to examine liquidity management strategies for Nepalese BFIs. This research is based on a review of existing literature related todeposit collection and mobilization tools and techniques of BFIs.Thus, it is review-based research. Internet search is conducted to find out major deposit collection and its mobilization technique and strategy. Some literature on deposit management is also collected to observe the developments in the theory and academics. Based on the discussion, the present deposit and loan disbursement scenario of the Nepalese banking and financial sector is presented along with a conclusion for a possible way out for improving the shortcomings.

Findings of the study

1. **Remittance inflow**

   Foreign exchange income is mostly derived via transfers. Domestic transfer inflows are heavily influenced by migrant workers. The Nepalese government has to create a favorable atmosphere for labor policies that give international employment to usersthrough system treatment. Furthermore, the government should encourage Nepalese migrants to save through the banking system rather than through non-banking channels.Despite the fact that remittance inflows are expected to increase in the coming months, many Nepali migrants have already left the nation in search of work overseas. Many Nepali migrant workers are looking for jobs abroad after the successful resolution of the COVID-19 issue. The government of Nepal must make easier foreign employmentthrough policy and institutional reforms in order to gain foreign currency through remittances.In addition, the government of Nepal should set separate funds for initial public offerings (IPOs) and further public offerings (FPOs) to encourage higher senders of foreign currency through official channels, as well as an additional 2% interest rate to foreign depositors from BFIs, which will help BFIs manage their liquidity.

2. Capital expenditure

The federal government is the country's top investor and employer. Job creation can be aided by the construction of a new bridge, a building, irrigation, a water supply project, development works, and other public construction projects. On the other hand, Nepal's government has been unable to spend its capital spending, which is quite concerning. No new jobs will be produced in the country if the government is unable to put its capital expenditure to use, notably in the construction sector. As a result, the government must release capital expenditures on a timely basis.

3. Need to improve the balance of payment

The balance of payment is vital for effective deposit administration. As we know this year's payment amount is lower than last year's. Between import and export, there is a huge discrepancy. Our export scenario only covers 10 percent of our import trade.

4. Corporate tax payment system

The Nepalese government needs to update its corporate tax filing system. The present system is 40%, 30%, and 30% for the first six months, the second last quarter of the year, and the last quarter of the current fiscal year, respectively. BFIs demand that the government pays them 25%, 25%, and 50% of their respective fiscal year on a four-monthly basis. Furthermore, BFIs advocate to the government a low-income tax structure in comparison to other corporate institutions, which makes deposit management easier for BFIs.

5. Sustaining livestock production

Nepalese economic growth has dwindled greatly with the service sector, especially tourism and the labor market, being greatly hit. Also, its agricultural production has not been able to keep up with the people’s needs. This is why the imports of agricultural and livestock products keep increasing day by day. The increasing trend of importing agricultural products makes a mockery of its agro-based economy. Nepal can be self-sustaining in livestock production which will help to decrease imports and reduce the trade deficit. It has been realized that it is an important source of rural income which improvesthe rural economy in the long run as well. So, the government should concentrate on agriculture and livestock production and revive small and medium-sized enterprises (SMEs) that are focused on these industries and should be encouraged to export their goods in order to replace imports.

6. Financial stability

In the fiscal year 2079–080, the Nepalese government forecasts an 8 percent increase in economic activity. The government has set an inflation target of 7%. The implementation of the budget will lead to rapid economic growth, lay the foundation for the agricultural sector's transformation, move the country toward food self-sufficiency, encourage exports, reduce the trade deficit, erect the bare necessities of infrastructure, and broaden access to essential social services like education and basic healthcare. Construction of roads, electricity, irrigation projects, transmission line expansion, development of airport and tourism infrastructure, and the implementation of information technology projects will lay the groundwork for economic development.

7. Foreign currency reserve

One of the major expenses of Nepal on foreign currency is the expenseof petroleum products. Now, the price of petroleum products in a foreign market is at a record high which is one of the major causes of the foreign currency deficit. We can save a large amount of foreign currency by decreasing the consumption of petroleum products and seeking substitutes such as electric vehicles etc. Nepal needs more resources to accelerate economic growth and that demands hard currency which can be achieved through different sources. Foreign exchange reserve includes earning from export, earnings from tourism, workers' remittance, foreign direct investment, and foreign assistance including foreign debts. To achieve more foreign exchange, Nepal needs to promote the export, and tourism industry, increase earnings from foreign employment and attract direct foreign investments, grants, and aid as well.

Discussion

The current financial crisis, specifically the liquidity problem, has a direct impact on BFIs' overall business and economic activities. In this situation, BFIs are dealing with NPLs as a result of liquidity issues.Because of its independence and lack of government intervention, Nepal Rastra Bank, Nepal's central bank, is the totally autonomous leader of BFIs. As a disciplined borrower, the domestic leader of the government must be advised to follow the rules. It serves as the government's economic advisor for evidence-based policy creation. The central bank must frequently act as a referee in the financial system, ensuring a level playing field for state and non-state financial actors in the market. In this way, the Central Bank is a self-governing and corporate entity with a permanent succession (NRB Act, 2002). If the central bank does not operate with autonomy, it will have a negative influence on the bank and financial sector stability, as well as monetary policy operations.In bright of this, the Nepal Rastra Bank, the country's central bank, should play a vital role in ensuring effective resource management by engaging with the government. Nepal Rastra Bank should take initiative to mitigate the country'seconomic downturn and liquidity crunch through financial and monetary tools, the economy has been facing.

As a result, a deposit is a financial transaction that BFIs utilize to gather money from various depositors such as civilians, job holders, bankers, business owners, capital market participants, and financial institutions for safekeeping with deposit mobilization purposes. In order to obtain foreign currency through remittances, the Nepalese government must make easier foreign employment through policy and institutional reforms. Remittance via unauthorized channels, mobilized wired funds for-profit, high beaurocratic process without Hassel free, unfavorable remittance-related rules, and LC for highlyluxurious commodities such as expensive liquor and beverage products are some of the causes of deposit problems in banking.

Shrestha (2022) has stated reasons for the liquidity crisis, practices, and ways for liquidity solutions. He furthermore highlighted the current liquidity crisis of the Nepalese banking sector negatively affects lending in the productive sector of the banking sector. It has a negative impact on production, employment, income, and revenue generation and directly impacts the bank's balance sheet. He suggested the government of Nepal should increase foreign exchange through export promotion, discourage imports, and increase government capital budgetary expenses for liquidity management which is inlined with these findings. Likewise, Dhungana (2022) has viewed the initiation of Nepal Rastra Bank the central bank of Nepal for the Nations' financial stability. Moreover, she highlighted the current initiation of Nepal rastra Bank for economic stability through refinancing, margin landing, risk-based supervisory mechanism, channelizing for remittance inflow, discouraging import through policy instruments, and instructing the slowdown in loan disbursement to the BFIs which is also similar with this findings.

Budhathoki, et al., (2020) examined the impact of liquidity, leverage, and total assets size of the bank on profitability. They concluded that liquidity management has a positive effect on all three profitability measures: ROA, ROE, and NIM. According to the findings of this study, bank financial performance (that is, profitability) is dependent on adequate liquidity, which has a negative impact on bank loan expansion capacity in the productive sector and the operation of SMEs. These findings are consistent with my findings too.

Because macroeconomic factors affect the banking sector's exposure to liquidity risk, Mili (2017) investigated the factors that have the greatest impact on banking sector liquidity in order to support agricultural businesses. They emphasized the banking sector's exposure to liquidity risk is influenced by macroeconomic factors, which are determined by the banking sector's willingness to respond to agriculture's growing financial needs. These findings are similar to research findings in that the greater the supply of credit to the agricultural sector, the greater the production, and thus the creation of more jobs.

Sathyamoorthi et al. (2020) looked at the loans-to-total-assets ratio and the liquid assets-to-total-assets ratio have a statistically significant positive relationship with return on assets and return on equity. Both the loan-to-deposit and liquid assets-to-deposit ratios had statistically significant negative relationships with return on assets and return on equity. They proposed that commercial banks optimize liquidity variables to improve bank performance. This finding is consistent with research findings because commercial bank financial performance is dependent on loanable funds, which ensure the financial sustainability of banking sectors.

In order to improve liquidity management in BFIs, the Nepalese government and regulatory authorities should urge foreign workers to only move money through banking channels and discourage them from investing in hyper funds such as cryptocurrencies. The banking channel's bureaucratic process is not yet free of delays. Furthermore, the remittance-based special incentive should be 2% rather than 1%. As a result, the Nepalese government should encourage such special deposits from abroad. Similarly, LC-related issues, which are a hidden issue of remittance inflow and balance of payment through commodity imports, especially high-priced alcoholic products and beverage products, should be strictly addressed.NRB the central bank of Nepal need to be aware of regarding use of credit card and a cheque for large transaction as a regulator. In addition, Modernization in the agriculture sector for mass production, distribution, sustainable income, rural employment, and import alternative, in the end, enhance overseas foreign money too.

Conclusion

Nepalese economic growth has been slowing down for the last few years. Especially, the service sector like banking, tourism, hospitality, and the labor market has been adversely affected. Agricultural production has not been able to meet the demand of the people. That's why the import of agricultural products has been increasing day by day.

The effect of the war between Russia and Ukraine adversely affects the financial system of underdevelopedcountries like Nepal. As a result of high imports,the foreign currency reserve is getting lower. Likewise, commodity price poses challenges, high inflation, ahigh crisis in the loanable fund in the banking sector, and occurs high credit risk which adversely affects the bank's balance sheet. This indicates the Nepalese economy needs to strengthen through the appropriate financial and monetaryinstruments. The current scenario of liquidity crisis may be minimized through the appropriate financial instrument, appropriate monetary policy, increasing exports, and discouraging imports of luxury items. Remittance is a major source of foreign currency in Nepal, and government needs to encourage people to send remittancesthrough formal banking channels. Onthe other hand, the government needs to increase the spending capacity of budgeted capital expenditure on time. Nepal Rastra Bank, the country's central bank, should promote the use of credit cards, cheques for large corporate transactions, and variable CD ratios through policy regulation for liquidity management.Therefore, any BFIs that want to increase their level of profit must implement appropriate liquidity management.

A sufficient degree of liquidity is also necessary for effective liquidity management. This will enable commercial banks to plan on how to fulfill demand and expand their loan portfolio by estimating the percentage of depositor funds that will be required at any given time.As adequate and proper liquidity management is strongly related to nations' economic and financial stability. Ithef loanable fund is easily available in the banking sector, they will vibrate economic activities including production, distribution, transportation, advertising, communication, exports, and job creation, which may positively affect total economic activities. *The study's implications are equally important to policymakers, economists, microfinance practitioners, regulatory authorities, banks, and financial institutions (BFIs) who will benefit from its findings.*

The absence of banks and policymakers as study populations is one of the study's limitations. Depending on the availability of the database, future research on this topic will open a new chapter. Before conducting further research, it is also strongly advised to seek advice from a panel of experts and professionals in the field of liquidity management.

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