

## ABSTRACT

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Nepal is predominantly mountainous and landlocked country with least development and low economic size of nominal US\$ 7.23 billion. In the last two decades, the financial sectors in Nepal have been developing despite political conflict. This study was concerned with the extent of sound development of the financial institutions in Nepal. The development of financial sectors has however been growing. The prevailing political conflict which began in 1996, has further constrained their development, and has confined banking in urban Nepal. It is generally considered that the central bank's (Nepal Rastra Bank) supervision is weak and the non-performing lending is sizable, especially in the two major national commercial banks; Nepal Bank Ltd. and Rastriya Banijya Bank. However, formal and informal financial institutions are functioning in Nepal but, the role of their contribution are known to a minor extent. Therefore, this research was designed to analyze the scope of sound development of the financial institutions in Nepal. We made use of descriptive and causal comparative research designs, and analysis of available information for the study highlighting the recent trends in structure and development of the financial sectors. In detail study and analysis of primary data from Nepal Rastra Bank (NRB) and information from clients of selected financial institutions has brought to light some interesting information. The collective data of NRB and selected commercial banks from the fiscal-year 2000 to 2015 were analyzed using regression model. The result revealed that bank credit plays important role in Economic Growth. Nevertheless, economy has gradually increased over the years, since 2000 to 2015. Accordingly, the financial sectors are implied to design and formulate strategies that will not only minimize the acquaintances of the bank to credit risk but also enhance its profitability. The financial system is quite adequate and can support the economic development of Nepal. Moreover, Nepal could achieve economic development and growth by enhancing the financial policies and creating stable government system although it is in transition timeframe.