MACRO ECONOMIC VARIABLES TRENDS AND THEIR IMPACT ON STOCK MARKET IN NEPAL

A Thesis

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)

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DECLARATION

I hereby declare that this thesis work entitled **MACRO ECONOMIC VARIABLES TRENDS AND THEIR IMPACT ON STOCK MARKET IN NEPAL** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Masters of Business Studies which is prepared under the supervision of respected supervisor Ramesh Kumar Paudel of Shanker Dev Campus, T.U.

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This entitled thesis **MACRO ECONOMIC VARIABLES TRENDS AND THEIR IMPACT ON STOCK MARKET IN NEPAL** has been prepared in partial fulfillment for the Degree of Master of Business Studies under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of finance.

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Researcher
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CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal's economic development over the past fifty years has not been particularly noteworthy in comparison to that of other neighboring nations. Nepal has undergone a number of political transitions over the course of this time. The 1980s saw the continuation of liberalized economic policies that had been in place prior to democracy's return. During this ten-year period, the nation implemented a number of significant liberal reforms, including the privatization of important state-owned businesses, the significant reduction of trade-related tariffs, deregulation of trade, industry, finance, and foreign exchange regimes, simplification of price controls and subsidies, and policies regarding industry and foreign investment. However, the country's economic growth was hampered by political unrest that delayed the implementation and completion of some of the most difficult reforms after 1995 due to repeated government changes and Maoist uprisings (Arshad et al., 2021).

On the stock market as a whole, shares of corporations that are publicly traded are traded. The over-the-counter market, in which shares of unlisted public companies are traded, and the secondary market, in which shares of publicly traded companies listed on the Nepal Stock Exchange (NEPSE) are traded, are the two venues for trade. Like this, there is one more sort of market called the essential or first sale of stock (Initial public offering) market where stocks are first exchanged. A stock's worth is based on the present value of future cash flows or profits, but prices are set by supply and demand in the market (Joshi & Giri, 2015). However, in order for a stock to be traded, a price or transaction value is required.

The Nepalese stock market's performance is evaluated using the NEPSE index, a complex index derived from market capitalization that is regarded as a representative measure of the market. In general, it is also held that the state of the economy can be seen in the stock market (Bhandari, 2022).

Common stockholders are in limbo regarding dividends, capital gains, and residual claims. As a result, they have to take the most risks. Common stocks are traded on both

stock exchanges and over-the-counter (OTC) markets. On the Nepal Stock Exchange (NEPSE), only the common stocks of businesses that are listed can be traded. The stock market in Nepal has been around for a relatively short time. According to Risel and Chauhan (2020), the Securities Exchange Center (SEC) was established in 1976 with the intention of assisting and encouraging the expansion of the capital market.

The capital market is thought to be an indicator of an economy. Despite the slower development of favorable macroeconomic variables, Nepal's capital market has experienced excessive volatility over the past ten years. This suggested that the Nepalese economy's capital market and macroeconomic variables might not be perfectly synchronized. This brought up the question of whether macroeconomic variables like money supply, prices, interest rates, and remittances in the Nepali economy could be used to describe equilibrium linkages between the stock market and short- and long-term remittances. This article therefore examined the co-integration of the six selected macroeconomic variables with stock market returns to determine the extent to which the Nepali stock market raised the necessary capital for the economy (Kharel, 2017).

Typically, the stock market index is used as a gauge of the economy. Since it demonstrates that investors have faith in the prospects of the economy, an increase in the stock index is typically interpreted positively. It encourages financial system investment. Still, when the stock market index rises rapidly, there is always cause for concern. If the index continues to rise in an unjustifiable manner in light of the fundamentals, it will eventually threaten the stability of the economy and financial system.

As a result, it is absolutely necessary for decision-makers to keep an eye on the expansion of the stock market and be ready to take the appropriate action if necessary to prevent the formation of bubbles and the market from collapsing. Understanding the connection between the securities exchange list and the factors that influence it is fundamental for this. Numerous factors may have an effect on the stock market. Anything that has an effect on a company's discount rate or cash flows has an effect on the stock market. However, based on the dimensions, nature, and other characteristics of the economy and market, the specific factors that influence to what extent will vary from nation to nation (Monti, 2012).

According to Abedallat and Shabib (2012), the Amman Stock Exchange index is related to two macroeconomic indicators—investment and GDP—as well as to three of them individually and the stock index. This suggests that price fluctuations on the Amman Stock Exchange are influenced by the movements of these two variables, as well as that these two variables influence the movement of the Amman Stock Exchange index. In addition, they discovered that changes in investments had a greater impact on the Amman Stock Exchange index than did changes in GDP.

Returns on London shares are the dependent variable in the analysis by Demirgue and Maksionovic (2014). The independent variables are the term structure of interest rates, risk premiums, exchange rates, money supply, unexpected inflation, sectorial dividend yields, and sectorial unexpected production. The results show that the UK stock market is significantly affected by macroeconomic factors, and that the effects of each factor vary by industry.

Kadariya (2015) found a significant negative correlation between interest rates and stock prices for 15 industrialized and developing nations using data from 1988 to March 2003. Stock prices are negatively correlated with US and Japanese long-term interest rates, according to Khadka (2016).

This study therefore examines the relationship between the NEPSE Index, the money supply, GDP, interest rate, inflation rate, and foreign exchange reserve. NEPSE is also influenced by the money supply, GDP, interest rate, inflation rate, and foreign exchange reserve.

1.2 Statement of Problem

These sorts of issues were to some degree settled with the presentation of NEPSE in 1993 A.D. Nonetheless, one continuous issue confronting the Nepalese people is that they see corporate shares to convey a higher gamble than they really do. This vulnerability makes them re-think the choice about whether to put resources into stocks, and subsequently, they neglect to utilize their cash, which harms the two financial backers and the nation's economy.

Nepal's economic development over the past fifty years has not been particularly noteworthy in comparison to that of other neighboring nations. Nepal has undergone a number of political transitions over the course of this time. The 1980s saw the continuation of liberalized economic policies that had been in place prior to democracy's return. During this ten-year period, the nation implemented a number of significant liberal reforms, including the privatization of important state-owned businesses, the significant reduction of trade-related tariffs, deregulation of trade, industry, finance, and foreign exchange regimes, simplification of price controls and subsidies, and policies regarding industry and foreign investment. By allowing the purchase and sale of securities and shares issued by various corporations, the stock exchange market makes it possible to turn savings into investments. The expansion of trade, industry, the service sector, and commerce are all aided by these markets, which are essential for capital formation and mobilization. As a result, the nation's economy as a whole benefits. According to Ghimire and Mishra (2018), this has led to the stock market being referred to as the economic mirror.

According to Gurung et al. (2017), stock markets are significant because of their capacity to attract capital for company, output, and economic expansion as a whole. NEPSE has been able to provide that platform to investors and listed companies in Nepal despite the country's status as a developing market with a relatively small market capitalization in comparison to other nations (Koirala & Bajracharya, 2004). More people are becoming aware of the share markets, as evidenced by the overall increase in investors and the rise in the number of dematerialized accounts.

Over the course of the past few years, Nepal's GDP growth rate has barely surpassed 5%. It was 5.60 percent in the monetary year (FY) 2022-2022, and it was around 10% in the financial year 2015-16. However, the rate of inflation has barely risen above 5% in recent years. Nepal's Rastra Bank (NRB, 2012). The Nepali financial sector experienced a severe liquidity crisis during FYs 2019/20 and 2020/21, which resulted in interest rates reaching all-time highs. During that time, capital market indicators showed a lot of volatility.

Sharpe (2002) inspected stock valuation and expansion for the time span of 1965-2001. In order to confirm this, the researcher obtains the monthly historical annual operating income for the S&P 500 from I/B/E/S International. The negative relationship between

expected inflation and equity valuations was demonstrated to be caused by two factors: an increase in expected inflation is associated with both higher necessary real returns and lower expected real profits growth. The earnings channel primarily demonstrates the opposite relationship between long-term earnings growth and anticipated inflation. The required real stock returns over the long term are significantly affected by anticipated inflation. The researcher concluded using a straightforward regression analysis that there is a significant inverse relationship between stock returns and inflation.

A correlation between the movement of macroeconomic variables and increased price volatility in the stock market was found in previous research (Phuyal, 2016; Kumar, 2019). Exploring any equivalent relationships between the macroeconomic pointers and the Nepali financial exchange is urgent. The primary objective of this research is to determine whether macroeconomic variables have a single or combined effect on the dynamics of the Nepali stock market.

Over the past few decades, the stock markets of emerging economies have grown significantly, attracting investors from all over the world. Prior research on the factors that influence stock return has primarily focused on established markets, with developing nations receiving less attention. The finance literature would benefit greatly from the theory's empirical testing in emerging markets. The capital market is thought to be an indicator of an economy. Despite the slower development of favorable macroeconomic variables, Nepal's capital market has experienced excessive volatility over the past ten years. This suggested that the Nepalese economy's capital market and macroeconomic variables might not be perfectly synchronized. This brought up the question of whether macroeconomic variables like money supply, prices, interest rates, and remittances in the Nepali economy could be used to describe equilibrium linkages between the stock market and short- and long-term remittances. Thus, the review has manages the accompanying issues:

i. Does the situation of money supply, GDP, interest rate, inflation rate, and foreign exchange rate changes the NEPSE Index?
ii. Is there any relationship between money supply, GDP, interest rate, inflation rate, and foreign exchange rate with NEPSE index?
iii. How does the money supply, GDP, interest rate, inflation rate, and foreign exchange rate effect on NEPSE index?

1.3 Objectives of the Study

The primary objective of this study is to investigate the factors that influence Nepal's market share price. The following is a list of the specific goals of this study:

i. To examine the existing position of money supply, GDP, interest rate, inflation rate, and foreign exchange rate in NEPSE index.
ii. To assess the relationship among money supply, GDP, interest rate, inflation rate, foreign exchange rate and NEPSE index.
iii. To analyze the effect of money supply, GDP, interest rate, inflation rate, and foreign exchange rate on NEPSE index.

1.4 Significance of the Study

The factors that influence macroeconomic indicators are the primary focus of this study. Based on this information, investors can purchase shares of insurance companies with confidence. Organizations can likewise increment or diminishing the comparing factors to raise the market cost of their stock. The outcome is a thriving business and extensive market penetration. In the end, it lets investors of all kinds, regardless of their financial capabilities, freely and without risk invest in a successful company with content shareholders.

The share market grows and improves as a result of this research, which also benefits the economy as a whole. In addition to providing fundamental information about the Nepalese stock market, the report makes suggestions for lowering the risk of stock investments. a subject that will be of interest to academics, students, researchers, teachers, and individuals who are employed in the financial sector outside of this study. This study has looked to dissect the inner monetary components that influence share cost to furnish both current and likely financial backers with precise pictures of the example organizations so they can pursue wise venture choices. This assignment may also serve as a road map for interested parties and future research.

This study is beneficial for those who are interested in learning more about the price trend of stocks, the volume of stocks traded, the list of newly listed firms in the secondary market (NEPSE), the impact of signaling elements on the NEPSE index, and other related subjects. Issue managers, stock brokers, securities dealers, market makers, and legislators can all benefit from the study to enhance the efficiency of the share market.

1.5 Limitations of the Study

The impediments of this study are as per the following:

i. There are many macroeconomic variables: Out of them, only six variables are taken in the study i.e. foreign currency reserve, GDP, interest rate, inflation rate, money supply and NEPSE index.
ii. The whole study is based upon the analysis of foreign currency reserve, GDP, interest rate, inflation rate, money supply and NEPSE index while others are ignored which might affects NEPSE index and financial performance of development banks.
iii. The study is based on secondary data taken from NEPSE, SEBON and NRB website, annual report of development banks and other sources with time period of 15 years starting from 2008/09 to 2022/23.
iv. This study has used only statistical tools i.e. regression, correlation and descriptive statistics only which may not cover the whole.

1.6 Organization of the Study

The report structure for this study consists of five major chapters.

Chapter-I: Introduction

Introduction, problem statement, study objectives, theoretical framework, research hypothesis, limitations of the study, and report structure are all included in this chapter.

Chapter-II: Literature Review

The reviewed available literature can be found in the second chapter. It incorporates the audit of books, survey of related diaries and proposition. This chapter's literature review provides the framework within which this study was carried out.

Chapter-III: Research Methodology

"The research methodology is the subject of this chapter." It incorporates research plan, nature and wellsprings of information, populace and test and strategy for examination. The instruments used to analyze and interpret the data are included in the method of analysis.

Chapter-IV: Data Presentation and Analysis

This section incorporates the show and investigation of information. The researcher includes the interpretation of the respondents' responses in this chapter. Different factual and numerical apparatuses are utilized to draw the significant discoveries and conversation.

Chapter-V: Summary, Conclusion and Recommendations

The study's summary and conclusion are presented in this final chapter.

CHAPTER - II

REVIEW OF LITERATURE

The theoretical review, empirical review, and research gap are all discussed in this chapter.

2.1 Theoretical Review

2.1.1 Efficient Market Theory (EMT)

The Efficient Markets hypothesis (EMT) is one hypothesis that describes how the capital market has changed over time. This concept was developed in 1965 by Fama, and Hodnett and Hsieh (2012) utilized it. As indicated by this assertion, the cost of a resource addresses generally relevant information that is as of now open with respect to the resource's natural worth, likewise alluded to as the current worth of the incomes that the security's proprietor expects to get. Nevertheless, the profit opportunities provided by the existence of firms that are both overvalued and undervalued drive investors to trade and shift stock prices toward the present value of future cash flows. Again, Fama (1991) said that market efficiency is a continuum because a market is more efficient when its transaction costs, like the cost of trading and getting information, are lower.

Informational efficiency of stock prices is important for two reasons. Investors' primary concern is whether various trading strategies can generate additional returns and outperform the market. Second, if stock prices accurately reflect all available information and new investment funds are utilized at their highest value, the capital market will grow more. The author also talked about three different kinds of market efficiency: the weak, semi-strong, and strong kinds. Using a particular kind of information as a trading instrument, any variation of the efficient market theory can rule out the possibility of a consistent outperformance by a particular investor group. On the other hand, assuming that capital markets are functioning properly, all investors take a low-risk approach and make rational choices.

2.1.2 Capital Asset Pricing Theory (CAPT)

The particular equilibrium model that has piqued the interest of a number of investors is the Capital Asset Pricing Theory, or CAPM as it is more commonly referred to. The CAPM of William Sharpe (1964) and John Linter (1965), for which Sharpe was awarded the Nobel Prize in 1990, provided the basis for asset pricing theory. The CAPM's strong

and logically appealing forecasts regarding risk measurement and the relationship between projected return and risk draw the market's attention. It lets users look at the relationship between risk and expected investment returns and the relevant risk of particular stocks. The CAPM is a desirable equilibrium model due to the implications it holds and the simplicity it possesses. However, over time, significant issues with the model have resulted in the creation of alternatives. The Arbitrage Pricing Theory (APT), which takes into account a wide range of risk factors, is the primary alternative to the Capital Asset Pricing Model (CAPM). Notwithstanding being a direct model with a strong groundwork in rationale, the CAPM has various unlikely presumptions. One or more of these presumptions were alleviated by a few modifications to the fundamental CAPM (Black, 1972). Keep in mind that no matter how diverse your portfolio is, you will never completely eliminate risk.

2.1.3 Capital Market Theory

Capital market theory, following Markowitz's modern portfolio theory, investigated the effects of introducing a risk-free asset. The CAPM is frequently credited to Sharpe, but Lintner and Mossin independently developed comparable models in the middle of the 1960s. Capital market theory is predicated on the following assumptions: investors can borrow or lend any amount at a rate of interest that is risk-free; all investors have the same expectations for returns; and all investors are Markowitz efficient investors who choose investments based on expected return and risk. Capital market theory is a model that tries to value assets, usually shares. The framework for conducting securities analysis is established by capital market theory.

2.1.4 Fama-French Three-Factor Model

The Fama and French Three-Factor Model, also known as the Fama French Model, is an asset pricing model that builds on the capital asset pricing model (CAPM) by including size and value risk elements in addition to the market risk factor. It was developed in 1992 and is commonly referred to as the Fama French Model. The fact that small-cap and value stocks frequently outperform the market is taken into account in this model. By including these two additional variables, the model is supposed to become more useful as a manager performance assessment tool by taking into account this tendency to outperform. The Fama French 3-factor model is an asset pricing model that builds on the

capital asset pricing model by adding size and value risk components to the market risk elements.

The book-to-market values, excess return on the market, and business size are the three components of the Fama and French models. Expressed in an unexpected way, the three boundaries that are considered are the profit from the portfolio less the gamble free pace of return, little short huge (SMB), and high less low (HML). HML represents esteem values with high book-to-showcase proportions that outflank the market, though SMB represents public corporations with more modest market covers that produce better yields.

This model, created by Eugene Fama and Kenneth French, enhances the CAPM by including additional variables that influence stock returns. The three components of this model are market risk, size (the size of the company), and value (the ratio of a company's book value to its market value). By comparing the results of mutual funds to these parameters, one can evaluate their performance using this strategy.

2.1.5 Style Box Theory

The style box hypothesis provides an illustration of a mutual fund's investment strategy. Depending on their investment objectives and the types of securities they own, funds are divided into nine groups. The style box typically includes dimensions such as investment style (value, growth, or blend) and market capitalization (big, medium, or small). Investors can quickly comprehend a mutual fund's features and investment strategy thanks to this hypothesis.

2.1.6 Darvas Box Theory

The trading strategy known as the Darvas box theory was created by Nicolas Darvas. It uses volume and highs as crucial indicators to identify businesses. Darvas' trading strategy focuses on investing in stocks that are making new highs and drawing a box around the recent highs and lows to choose an entry point and place a stop-loss order. At the point when cost development breaks over the past high however gets back to a value that isn't a long way from that high, the stock is supposed to be in a Darvas box. The trader creates the boxes by drawing a line over the most recent highs and lows of the timeframe they are using, as the Darvas box theory is not restricted to any particular time frame. The Darvas box theory, a technical strategy, enables investors to select stocks with

rising transaction volumes. The Darvas box speculation is best when applied to rising business sectors as well as bullish industry areas.

2.1.7 The Pricing Decision Theory

The most common way of sorting out the best cost for a decent or administration is alluded to as evaluating choice hypothesis. A variety of factors must be examined and economic concepts must be applied in order to make well-informed price decisions. Some fundamental ideas and theories in pricing decision theory are as follows:

- Supply and Demand: The fundamentals of supply and demand serve as the foundation for pricing decisions. When there is a high demand for a product or service and a limited supply, prices typically rise. However, if supply exceeds demand, it may be necessary to lower prices to boost sales.
- Price Elasticity: Price elasticity of demand measures the degree to which the quantity demanded responds to price changes. If demand is elastic, a small price change will result in a larger change in the quantity needed. If, on the other hand, demand is inelastic, price changes have a smaller impact on the quantity needed. Deciding what value changes might mean for deals income requires a comprehension of cost flexibility.
- Cost-Based Pricing: This pricing strategy takes into account production and operating costs in addition to the intended profit margin. Target return pricing, which aims to achieve a specific return on investment, and cost-plus pricing, which adds a markup to the manufacturing cost, are two examples of cost-based pricing strategies.
- Market-Based Pricing: This strategy bases prices on what customers are willing to pay for, the level of competition, and the state of the market. Market-based estimating approaches incorporate valuing strategies incorporate cost skimming, which sets high starting costs to boost income from early adopters, and infiltration evaluating, which sets low beginning costs to acquire portion of the overall industry.
- Psychological Pricing: This strategy takes into account the psychological factors that have an effect on how customers perceive prices. To influence consumer behavior, strategies such as prestige pricing, in which high prices are set to elicit feelings of exclusivity or luxury, and charm pricing, in which

prices are set slightly below whole numbers, such as $9.99 instead of $10, are utilized.

- Dynamic Pricing: In dynamic pricing, prices are changed right away in response to market shifts, changes in demand, and other factors. This strategy is frequently used in industries like hospitality, e-commerce, and transportation where rates can change based on the time of day, season, or clientele.

2.1.8 Arbitrage Pricing Theory (1976)

The two APT variations are the macro variable model and the factor loading model.

- Factor loading models employ factor analysis-generated artificial variables.
- The macro variable model uses macroeconomic variables because of their economic impact on stock prices (Erdugan, 2012).
- Roll and Ross's (1995) description of the APT and its advantages for portfolio management was more precise. In 1976, Roll and Ross created the APT.
- The CAPM is no longer the primary analytical tool for describing the phenomena observed in capital markets; instead, the alternative technique known as the APT takes its place.
- It predicts a link between a portfolio's returns and a specific asset's returns by employing a linear combination of variables.
- In contrast to the CAPM's risk vs. return rationale, the APT strategy fully utilized the concept of "pricing by arbitrage."
- As Ross (1976) has called attention to, the rationale and approach of exchange hypothetical thinking are major to practically fund hypothesis and are all not intended for his own hypothesis.
- Although both APT variants outperformed the CAPM, there was no clear winner in terms of explanatory power within and outside the sample. To decide the quantity of elements and their significance in foreseeing the responsiveness of individual protections to different efficient gamble factors, the component stacking model utilizes a variable examination procedure in view of counterfeit variables.

2.1.9 Concept of Financial Performance

Financial performance analysis is the process of examining a company's financial operations with the intention of maximizing value. Powerful and proficient independent direction is fundamental for better monetary exercises, and exceptional monetary execution from these superior monetary exercises prompts the association's prosperity.

The center of monetary navigation is monetary execution examination. An organization's growth and development are directly influenced by its financial performance, which is accurate when accurate facts and figures are sorted out. Making money is the goal of business organizations. The amount of profit made is one of the most important indicators of a company's strong financial performance.

Profit is the most important metric for a business's financial performance. A company's strengths and weaknesses can be better understood by analyzing its financial performance. As a result, it makes use of numerous financial statements. The pay articulation, which sums up the organization's benefit over the long haul, trails closely behind the asset report, which shows what is happening (Robinson 1951).

Financial performance analysis, which is a component of financial management, is the primary predictor of a company's success or failure. Its decision is urgent to helping benefit since it analyzes the company's productivity and verifiable execution utilizing monetary records and bookkeeping information. A company must turn a profit in order to survive, grow over the long term, and retain sufficient capital through retained earnings. However, profit is not the only determinant of a company's financial success. According to the viewpoints of financial backers, partners, monetary organizations, and the country in general, the business association's monetary circumstance ought to be strong. However, the financial aspect of public enterprises in Nepal is one of the most neglected aspects. Joint endeavor banks have, in the meantime, been assessing their monetary presentation to speedily go to restorative lengths, yet this has additionally been confined inside the banks.

In the context of Nepal, microfinance institutions are crucial to the economic development of the nation. It would be straightforward and simple to evaluate the monetary presentation of these top Nepali organizations involving an assortment of monetary estimation instruments to decide their profit and how they are being utilized to additional the country's financial development.

Financial performance analysis can be viewed as the heart of financial decisions in one way. The financial practices of any business have a significant impact on its capacity to grow and prosper. For a rational evaluation of the financial performance management in public organizations, it is crucial to cultivate relationships with banks and other financial institutions, raise vital funds, and keep accurate records. However, the financial aspect of public businesses in Nepal is frequently overlooked. However, joint venture banks have examined financial results to make necessary adjustments. However, the bank is the only subject of their research. The company's decisions have an effect on a variety of institutions, and financial performance is a component of financial management (Chand, 2016).

The management of the company is interested in all aspects of financial analysis for the purpose of putting in place a sound financial management system for internal business control. In like manner, the company's liquidity property are the fundamental focal point of exchange loan bosses. The company's ability to repay debt using cash flow is of greater concern to long-term creditors. The financial performance of the business is of interest to each and every one of the parties involved, either directly or indirectly. The absolute accounting figures in the financial statement, balance sheet, profit and loss account, and other accounts cannot provide a meaningful understanding of the company's performance and financial condition. According to Golesorkhi, et al., the primary qualitative judgment method for determining the firm's financial strengths and weaknesses is financial analysis because it correctly establishes the relationship between the items of the balance sheet and the profit and loss account. 2019.

The Joint Venture Bank of Nepal is a successful business. As a result, a joint venture commercial bank in Nepal's primary financial performance indicator is the bank's profit. However, it is unable to predict the bank's performance solely on the basis of an

analysis of its profitability. For the bank's monetary presentation, each part of the monetary examination should be considered.

2.1.9.1 Theory of Finance

Finance theory is a broad field that incorporates both speculation and mathematical measures to establish investing strategies and monetary value estimates. Theories of finance are also used to create plans for raising money and capital, as well as to manage financial risk.

2.1.9.2 Efficient Market Hypothesis

The proficient market speculation (EMH), at times alluded to as the effective market hypothesis, is a hypothesis that holds that reliable alpha creation is unthinkable and that offer costs precisely mirror all suitable data. According to the Efficient Market Hypothesis (EMH), stocks on exchanges always trade at their fair value, preventing investors from purchasing inexpensive stocks or selling them at excessive prices. As a result, professional stock selection and market timing should not be able to outperform the market as a whole; the only way for an investor to get more money back is to bet more riskily. The efficient market hypothesis (EMH) or theory states that share prices represent all available information. The EMH hypothesis states that stocks are said to trade on exchanges at their fair market value. Proponents of the efficient market hypothesis (EMH) argue that passive investing at low costs is advantageous to investors. Detractors of EMH hold the belief that equity prices can deviate from fair market values and that it is possible to outperform the market. Even though the EMH is an essential component of contemporary finance theory, it is highly contentious and is frequently disputed. According to proponents, searching for cheap stocks and applying fundamental or technical analysis to forecast market movements is pointless. According to Downey, Scott, and Velaswuez (2002), only inside information can theoretically produce excessive risk-adjusted returns, and neither fundamental nor technical analysis consistently produces risk-adjusted excess returns (alpha).

2.1.9.3 Fifty Percent Principle

The fifty percent principle is a rough guideline for predicting the scope of a technical correction. As per the 50% standard, a stock or other resource will lose to some extent

half of its latest increases before the cost begins to rise again when it begins to decline following a time of quick ascents. Using the fifty percent method, one can estimate the amount of value a stock will lose during a correction. If an asset declines following a price increase before rising again, it will lose half to two thirds of its recent price gains, according to this. Technical analysts use the fifty percent rule to determine when a stock is a good entry point and whether support levels are in place to prevent further declines. The concept works because, in the event of a market decline, the majority of investors act similarly. According to Smith (2001), the fifty percent strategy is most effective when applied to short-term trading and may be less effective in the event of significant economic shocks.

During a price correction, the fifty percent idea states that a security's price will drop between fifty and sixty-seven percent of its previous gains before rising again. The principle is a technical analysis technique that traders use to predict the best entry point so they can make the most money if the rising trend continues. The fifty percent idea is one of many technical theories that attempt to identify support levels in market behavior. While following a stock value that is skipping between its help level and new highs, different outlining methods, for example, design investigation and Fibonacci proportions are directed by a comprehension of this guideline. This kind of chart analysis is used most of the time in short-term investing. This is because it is risky to rely solely on charting for extended periods of time due to the unanticipated effects of significant economic events. Markets and the economy as a whole are altered by major events like the 2008 financial crisis (Smith, 2001).

2.1.9.4 Great Fool Theory

In finance, the larger fool theory says that buying overpriced assets that can be resold for a lot more money might pay off in some cases. The intrinsic value of these assets is significantly less than their purchase price. In this situation, a "fool" may buy a costly resource with expectations of bringing in cash by offering it to a "more noteworthy moron." This tactic only works as long as there are enough new "greater fools" willing to buy the asset at ever-increasing prices. A sell-off can cause the price to drop significantly until it is closer to its fair value, which may be zero in some cases (Malkiel, 2018) when investors can no longer deny that the price is out of touch with reality.

The Greater Fool Theory states that because there will always be buyers willing to pay a higher price, one can profit from investing in overpriced assets during a market bubble and then selling them for a profit later. The rise in value of a group of stocks, in this case those tied to the excitement of the Internet, is a sign of a bubble. Because of the updraft, more people buy the stocks, which in turn leads to more coverage in the media and print, which in turn encourages more people to buy, leading to significant gains for early Internet investors. At cocktail parties, successful investors tell you how easy it is to get rich, which boosts stock prices and brings in a growing number of investors. Be that as it may, the whole cycle is likened to a Ponzi plot, in which a rising number of guileless financial backers should be situated to buy the stock from the principal financial backers. Malkiel (2018) says that one eventually runs out of foolish people.

2.1.9.5 Odd Lot Theory

The odd lot theory is a technical analysis hypothesis that states that small individual investors frequently make mistakes and that odd-lot sales are more likely to come from individual investors. In this manner, if odd-parcel buys are up, it very well may be a great chance to sell, and if odd-part deals are up and little financial backers are selling an organization, it is most likely a great opportunity to purchase. Odd-lot trades are orders involving shares smaller than a 100-share round lot. It is assumed that lone retail traders, probably less knowledgeable market participants, carry out the majority of these odd-lot trades. Odd lot theory recommends trading against the actions of these naive traders. The testing of this hypothesis suggests that this observation is not always accurate. The odd lot concept is based on observing individual investor trades in odd lots. To increment cost productivity in their orders, this speculation likewise predicts that proficient dealers and financial backers normally exchange round parcel sizes, which are products of 100 offers. This way of thinking was common knowledge from about 1950 until the end of the century, but it has since lost some of its appeal (Scott, 2022).

2.1.9.6 Prospect Theory

Because it is assumed that gains and losses have distinct values, prospect theory states that people make decisions more on the basis of perceived profits than on perceived losses. The fundamental thought behind what is ordinarily alluded to as the "misfortune revolution" hypothesis is that when an individual is confronted with two equivalent

choices, one of which is given as far as expected benefits and the other as far as planned misfortunes, they would pick the previous. Investors, according to the prospect hypothesis, weigh perceived gains more than perceived losses when evaluating gains and losses. An investor will choose the option with the higher potential reward when presented with two equal options. Prospect theory is also known as the loss-aversion theory. A part of social financial matters, the possibility hypothesis battles that financial backers settled on apparent benefits since misfortunes have a more grounded profound effect. As per the conviction impact, individuals pick specific results over possible ones, and with regards to deciding, individuals will generally disregard comparable realities. A subfield of behavioral economics known as prospect theory explains how people make decisions about probabilistic options when there is risk and it is unclear how likely certain outcomes will be. This theory, developed in 1992 by Amos Tversky and Daniel Kahneman, is thought to be more psychologically accurate in explaining how people make decisions than the expected utility theory. In 1979, it was first suggested (Chen, 2022).

2.1.9.7 Rational Expectations Theory

- According to the economic theory of rational expectations, people make decisions based on what they know best about the market and trends in the past. It is reasonable to assume that people will generally be correct, despite occasionally making mistakes. John F., an American economist, Muth originally proposed the idea of sane assumptions in 1961. However, as part of the new classical revolution, economists Robert Lucas and T made it popular. It was widely used in microeconomics. Chief during the 1970s. The theory makes the following assumptions:
- When people have reasonable expectations, they always learn from their mistakes, make accurate predictions, and act based on all of the data and economic theories that are available.
- People know how the economy works and how changes in government policies affect macroeconomic factors like prices, unemployment, and total output.

The rational expectations theory has both weak and strong variations. The "strong" version assumes that actors have access to all relevant data and are able to use it to make

decisions that can be supported. The "weak" versions believe that people don't have enough time to gather all relevant information, so they make decisions based on what they don't know. For example, if they buy cornflakes, it is "rational" for them to keep buying that brand and not worry about knowing how much each brand costs differently (Muth, 1961).

2.1.9.8 Short Interest Theory

A bullish sign comes from high levels of short interest, according to the concept of short interest. As a result, proponents of this concept will attempt to acquire highly shorted stocks in order to take advantage of the anticipated price increase. This strategy is opposed by the majority of investors, who interpret short selling as a sign that the shorted stock is likely to decline. Subsequently, one could believe short revenue hypothesis to be an antagonist technique for money management. The short interest theory says that stocks with a lot of shorting have a better chance of rising in the future. This is a contrarian strategy because the majority of investors interpret short interest as a bearish indicator. The reason of short interest hypothesis depends on the perception that short merchants are at times constrained to make forceful acquisition of offers to cover their property. Short interest theory is built on the tenets of short selling. At the point when a financial backer shorts a stock, they basically apply for a line of credit from a merchant and sell it for cash immediately. When the broker demands payment, the investor will eventually be required to purchase the shares on the open market and return them to the broker. Short sellers make money when shares they bought fall in price after they sell them. The short dealer could then repurchase the offers at a scaled down cost and give them back to the merchant, keeping the overall revenue (Fernando, 2021).

2.2 Empirical Review

Ouma and Muriu (2014) conducted a research on the impact of macroeconomic variables on stock market returns in Kenya. This study examines how macroeconomic factors affected stock returns in Kenya from 2003 to 2013 using monthly data from the Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Theory (APT). The Ordinary Least Square (OLS) method is used to evaluate the model's validity as well as the relative weights of various variables that could influence stock returns. Two interesting discoveries arose out of the exact examination. To begin, each variable is I(0). Second, aside from interest rates, there is a strong correlation between stock market performance

and macroeconomic indicators. According to the study's findings, the outcomes of Kenya's stock market are influenced by factors such as inflation, money supply, and currency rates. The NSE's returns are found to be significantly influenced by inflation and the money supply. However, stock returns are found to be negatively impacted by exchange rates, whereas the NSE's long-run returns are not affected by interest rates.

Ndegwa (2016) conducted study at the Nairobi Securities Exchange on the impact of macroeconomic factors on stock market performance. The study's objective was to ascertain how NSE stock returns were affected by macroeconomic factors. The cash supply (M2), the US dollar swapping scale, and the CBK loaning rate were the macroeconomic factors that were utilized in the exploration. From July 2011 to June 2016, the NSE and the Central Bank of Kenya provided monthly secondary data for the analysis. 15.7% of the macroeconomic variables chosen for analysis had a slight positive effect on NSE stock returns, according to the study's findings. The cash supply was displayed to adversely affect the CBK loaning rate, while the cash supply decidedly affected the swapping scale. According to the Granger Causality test, the exchange rate is responsible for stock market returns. The exchange rate was also found to have an effect on the Granger Cause money supply and the CBK lending rate. Further examinations ought to be completed consolidating other macroeconomic factors excluded from this study like expansion, Gross domestic product, shopper cost file and so forth utilizing longer time of study and affirming the impact of then new type of administration in Kenya.

Khan and Khan (2018) published an article on the impact of macroeconomic variables on stock prices: A case study of Karachi Stock Exchange. By analyzing monthly data from May 2000 to August 2016, the study contributes to our understanding of how key macroeconomic variables affect stock prices in Pakistan. Because all variables are stationary at initial difference, the ideal ARDL bound testing method is used to confirm the short- and long-term co-integration of macroeconomic factors on stock prices. The outcomes infer that the cash supply, money rate, and loan cost affect Karachi Stock cash stock costs. In the short term, all of the variables are negligible, with the exception of the currency rate, which has a negative co-integration with stock prices. The central bank must exercise caution when adjusting the money supply because an excessive increase could affect the stock market and investment markets. The regulator should keep interest

rates reasonably low in order to encourage economic activity, improve the external economic environment through rule-based exchange rate management, and avoid arbitrary action.

Shrestha and Pokhrael (2019) used monthly data from mid-August 2000 to mid-July 2017 to evaluate the variables impacting the Nepalese stock market index. Huge political turns of events and Nepal Rastra Bank's position on share security and settled up capital have additionally been checked on. Simple OLS and ARDL Bound testing strategies were utilized for the empirical investigation. The Nepalese stock index responds positively to general money growth and negatively to changes in interest rates, as estimated by OLS behavioral equations. The stock market benefits as a result of low interest rates and ample capital availability. The stock index's long-term integration with the CPI, broad money, and interest rate is the subject of ARDL's research. The stock market index is linked to inflation, but not general interest rates or money supply. More importantly, changes in the political climate, Nepal Rastra Bank's policy of lending against share collateral, and increases in paid-up capital all have a significant impact on the stock index. Despite this, fluctuations in share prices are greatly influenced by news, rumors, and guesses. Understanding the Nepalese stock market and developing a stabilization strategy are made easier by these insights.

Norehan and Ridzuan (2020) researched on the impact of macroeconomics variables toward stock market in Malaysia. Utilizing yearly information, this study inspected the impacts of macroeconomic factors on the Malaysian securities exchange from 1981 to 2017. The study employed Autoregressive Distributed Lag (ARDL). The outcomes in light of long-run versatility show that the conversion scale and expansion well affect the Malaysian financial exchange. On the other hand, the stock market suffers in the long run from wide money and domestic saving.

Devkota and Panta (2020) investigated the causal relationship between the interest rate, gold price, and exchange rate in Nepal and the Nepalese stock exchange (stock market index). The January 2006-June 2018 month to month time series information were utilized. The time series aspects of the data are diagnosed with the help of the unit root test and Johansen's Co-integration test. The Granger causality test, which was based on the Vector Error Correction Model (VECM), also revealed the direction of causation to

the short- and long-term correlations between the variables. Devkota and Panta found a unidirectional causal connection between the gold cost and the loan fee as well as a criticism connection between the securities exchange record and the loan fee. The stock market index and exchange rates had a one-to-one causal relationship all through the study period.

Shrestha and Subedi (2020) studied the determinants of stock index in Nepal using monthly data for the period of mid-August 2000 to mid-July 2014. The Depository bill rate, wide cash, and purchaser cost record were chosen as the macroeconomic factors. According to the findings of the correlation study, there is a significant connection between the stock market index and macro factors. As per the discoveries, the securities exchange record responds unfavorably to the pace of depository bills and emphatically to expansion and the development of wide cash. Shrestha and Subedi say that shareholders in Nepal should use stocks as a hedge against inflation and consider them an alternative financial instrument. Additionally, investment in the Nepalese stock market is encouraged by the lower borrowing costs. The study also found that the stock market is very sensitive to changes in the NRB's policy and the political landscape.

Putra et al. (2021) examined the effect of macro-economic indicators on share prices in the construction sub-sector and building companies listed in Indonesia stock exchange 2013-2018. Methods for panel data regression that make use of a random effect model (RE) for data analysis are the focus of this research, which aims to determine how stock prices, inflation, exchange rates, and global oil prices interact with one another. The results demonstrated a connection between stock prices and inflation as well as global oil prices. The exchange rate has no effect on the stock price while this is going on.

Ukamaka (2021) looked into the connection between Nigeria's economic growth and financial deepening rrom 2007 to 2019. In Nigeria's financial industry, the banking, capital markets, insurance, and pensions sectors have all grown. Utilizing the Vector Blunder Remedy, a connection between monetary developing factors such Net Homegrown Credit, Market Capitalization, All out Benefits Resources, and Protection Pay and financial development was made for the review. The study's data were gathered via a secondary method.

Huy et al. (2021) investigated the impacts of internal and external macroeconomic factors on firm stock price in an expansion econometric model- A case in Vietnam real estate industry. The goal of this paper is to look at how macroeconomic factors like the GDP growth rate, inflation, exchange rate, and risk-free rate affect stock prices. Regression analysis is used. According to the findings of this research paper, the VIC stock price has a positive correlation with the lending rate in Vietnam but a negative correlation with the risk-free rate in Vietnam and the deposit rate of commercial banks in Vietnam.

Thapa (2021) investigated the influencing factors of stock price in Nepal. This study looked at the factors that influenced the stock prices of Nepalese commercial banks that were listed on the Nepal Stock Exchange Ltd. between 2008 and 2018 AD. An essential direct relapse model was utilized to inspect the information that was assembled from the budget reports and polls of the important associations. Earnings per share (EPS), dividend per share (DPS), effective rules and regulations, market whims and rumors, company profiles, and success depends on luck showed a positive association with share price, whereas interest rate (IR) and price to earnings ratio (PER) had a significant inverse association with share price. The review found that adjustments of loan costs and profits in Nepal significantly affected the financial exchange.

Majeed (2022) examined on the effect of macroeconomic variables on stock exchange market performance: Iraq stock exchange market as an example. "From January 2005 to October 2021, the purpose of this study is to investigate how monthly time series data of macroeconomic indicators affect the performance of the Iraqi stock market." The investigation involves the use of regression analysis. According to analysis, there is a long-term correlation between stock market performance and long-term macroeconomic indicators. Because they all have a significant impact, the real factors that determine the success of the Iraqi stock market are the money supply, exchange rate, and interest rate.

Suhendra and Malini (2022) researched on the impact of macroeconomic variable toward Indonesia composite stock price index. This study aims to determine how the Indonesia Stock Exchange's Composite Stock Price Index (CSPI), which is traded there, is affected by interest rates, exchange rates, inflation, and the Dow Jones Index. This study used the multiple linear regression approach as its analytical method. According to the findings of the study, inflation, interest rates, exchange rates, and the Dow Jones Index all have a

significant impact on the CSPI on the Indonesia Stock Exchange simultaneously. The results of the partial test show that inflation, interest rates, and the Dow Jones Index all have a positive and significant impact on the CSPI. On the other hand, the exchange rate has a significant and negative effect on the CSPI. Investors may benefit from the implications of the study's findings.

Carter et al. (2022) conducted a research on the stock price reaction of the COVID-19 pandemic on the airline, hotel, and tourism industries. In response to the COVID-19 pandemic, this study examines the stock market performance of US travel-related companies (hotels, restaurants, and airlines) between February and March 2020. The review centers around the factors that market players use to value the data into stock costs, despite the fact that it is clear that the decrease in movement was terrible information for the movement business. Companies with more debt were penalized more, according to the study, but larger businesses with larger cash reserves and higher market-to-book ratios experienced fewer negative returns. Additionally, the study indicates that financial reserves were highly valued by hotels.

Chettri (2022) investigated on financial institutions depth and growth in Nepal: Sensitivity to the choice of depth proxy. The sensitivity of the proxy used to represent financial depth and the long- and short-term growth implications of financial institution depth in Nepal are the focus of this study. Using annual time-series data from the Nepal Rastra Bank's Quarterly Economic Bulletins for the years 1980 to 2019, the study assessed integration using an autoregressive distribute lag (ARDL) model and bounds testing procedures. Total deposits, domestic loans to the private sector, the money supply as a whole, and financial institution assets are all considered indicators of depth by the World Bank. Real GDP measures economic growth, and trade openness and inflation are macroeconomic climate indicators. The regression analysis revealed that domestic credit to the private sector performed better than other variables in terms of its significant contribution to short- and long-term economic growth. Integration in the functions of economic growth was also found by the limits tests. It has been demonstrated that the money supply and bank deposits have a significant positive effect on growth over time. The positive correlation between financial depth measures and economic growth further supports the supply-leading (finance-led growth) hypothesis in the long run. Policies must prioritize the efficient distribution of affordable loans to successful initiatives for both

short- and long-term growth. For Nepal's long-term growth, expansionary monetary and fiscal policies and long-term deposits are highly desired.

Bhandari (2022) conducted a research on the relation between foreign direct investment inflows and tourism development in Nepal. Because of its natural beauty and cultural institutions, Nepal's tourism industry is ahead of the competition. These attributes have always existed. But the country hasn't been able to make full use of these cultural and natural resources for the benefit of the people. Due to a lack of thorough research on the potential of the tourism industry and its applications, Nepal has fallen behind many other nations even in the 21st century. However, research on the connection between "FDI (Foreign Direct Investment) inflows" and "tourism development" is still in its infancy. Therefore, the specific objectives of this study are to identify and examine the causal relationship between these two variables by utilizing Nepal's time series data from 1995 to 2019. The causal comparative study design was utilized to first accomplish the objectives of stating the dependent variable, "net FDI inflow," and the independent variable, "tourism development." In this manner, the discussion continued on, exchanging the jobs of the reliant and autonomous. This investigation revealed a positive correlation between the short-term growth of tourism and FDI inflow. However, there has not been a demonstrated association between these variables over time. Importantly, these findings aid the government and decision-makers in developing and implementing the most effective initiatives and policies for the sustainable tourism development of Nepal.

Panthi (2022) investigated on development and challenges of capital market of Nepal: A survey. Survey research is used in this article about the growth and challenges of the Nepalese capital market. Data is gathered through the use of both closed-ended and open-ended questionnaires. From regulators (including SEBON, NEPSE, NRB, and Insurance Board staff), banking and insurance industry workers, government personnel, brokers, instructors and students, and corporate entities, a total of 80 participants were selected. The Nepalese capital market is still in its infancy, so it can focus on many things to accelerate its methodical growth. Despite the fact that numerous policies have been developed to support the current state of the Nepalese capital market, political conditions, the inability to properly implement rules and regulations, and the limited participation of large investors have made the market less advantageous than it should be.

Saputra (2022) conducted a research on analysis of total debt, revenue and net profit on stock prices of foods and beverages companies on the Indonesia stock exchange (IDX) Period 2018-2021. This study aims to determine the factors that influence the stock prices of Indonesian food and beverage companies listed on the Indonesia Stock Exchange between 2018 and 2021. The stock price was the subject of the investigation, while total debt, revenue, and net profit were the independent variables. This study identified twenty Indonesian Stock Exchange-listed food and beverage companies. Simple random sampling is the sampling method used to obtain a sample of ten food and beverage businesses. The review utilized quantitative engaging measurements as its exploration approach. The tests that were used were the T-test, the F test for the coefficient of determination, the multiple linear regression analysis, and the classical assumption test. The company's financial statement information for the years 2018–2021 can be found on the Indonesia Stock Exchange website. The IBM application then processed the data, according to the website of the associated company with the research. 27 SPSS. The results of the study's combined F test show that income, total debt, and net profit all affect stock prices. The T-test, on the other hand, reveals that Income has no effect at all, Total Debt has no effect at all, and Earnings Net has a significant impact on stock prices.

Li and Pan (2022) conducted research on a unique ensemble deep learning model for news and stock price-based stock prediction. As methods for analyzing numerical, graphical, and textual financial data, machine learning and deep learning have recently gained popularity. One of the most popular and difficult deep learning subjects in finance is stock valuation projections. The sheer number of variables that could simultaneously influence the amplitude and frequency of stock price fluctuations presents a challenge when attempting to predict future stock prices. Earnings and profit announcements, projected future earnings, dividend announcements, the launch of a new product or the recall of an existing one, landing a significant contract, staff layoffs, a significant management change, an upcoming acquisition or merger, and accounting mishaps or scandals are a few company-specific factors that may have an effect on the share price. In addition, these aspects are unique to the company; other aspects, such as the performance of the industry, investor sentiment, and economic conditions, will also have an impact on the direction that equities will take in the future.

Pokhrel et al. (2022) published an article on predicting NEPSE index price using deep learning models. To estimate the end cost of the Nepal Stock Trade (NEPSE) record the following day, this study looks at three profound learning models: convolutional brain organization (CNN), gated intermittent unit (GRU), and long transient memory (LSTM). A carefully selected set of sixteen predictors from the Nepalese stock market's fundamental market data, macroeconomic data, technical indicators, and financial text data are included. The typical appraisal measurements — connection coefficient (R), mean outright rate mistake (MAPE), and root mean square blunder (RMSE) — are utilized to look at the exhibitions of the models being used. The trial discoveries show that the high expectation exactness and predominant attack of the LSTM model engineering. Furthermore, measurable evidence is displayed to help the vigor and reliability of the models.

Shrestha (2022) examined the effect of macroeconomic variables on Stock market Index with reference to Nepal stock exchange. The objective of the study was to investigate how macroeconomic factors affect Nepal's stock market index. OLS regression methods were used to collect monthly data in multivariate regression analysis from January 2002 to December 2016. The study concluded that the interest rate and wholesale price index had a greater explanatory power for explaining variations in the stock market index in the Nepalese stock market than the exchange rate and gold price did. Additionally, they had a greater impact on the stock market index than did the exchange rate and gold price.

Paterson et al. (2023) investigated on the impact of government policy responses to the COVID-19 pandemic and Brexit on the UK financial market: A behavioral perspective. During the height of the COVID-19 pandemic in the UK, the Governor of the Bank of England stated in an interview that the pandemic was an unprecedented economic emergency and that the bank could use drastic money-printing measures. As a result, the FTSE 100 and the pound sterling experienced record-breaking losses on the UK financial market. Taking all of this into consideration, it's possible that investors' perceptions of the financial market and attitudes were influenced by the information they received from regular announcements of government policy. In addition, this analysis suggested that the pandemic and the UK's eventual exit from the European Union (Brexit) may have harmed the outlook for the UK financial market as investors began to diversify their portfolios. As a result, the study examined how investors' responses to the COVID-19 epidemic and

Brexit simultaneously were affected by government policy announcements. According to our data, investor psychology was significantly impacted by frequent policy announcements during the epidemic, which in turn affected market behavior as a whole.

Bhandari (2023) conducted a research on impact of capital market on GDP Growth in Nepal. The capital market and Nepal's GDP growth between 1994 and 2002 are the subjects of this investigation. The study investigates the connection between capital market performance and GDP growth in Nepal. The drawn out effect of the capital market on financial development was researched utilizing the ARDL technique. In this sense, the framework's use of elements impacting Gross domestic product development included market capitalization, gross fixed capital creation as speculation, expansive cash supply, the NEPSE File, the quantity of NEPSE-recorded ventures, and repeating costs. The connection in the study suggests that the capital market and GDP growth in Nepal are significantly linked. The findings indicate that the capital market has a significant impact on GDP growth. Negative and significant error correction terms indicate the rate at which shocks and equilibrium are corrected. Certain factors show underlying and institutional lacks in Nepal's capital business sectors, both in the short and long haul.

Akter and Rahman (2023) debated Bangladesh's capital market's possibilities and issues. In order to boost the market and use it as a tool for the government's priority of rapid economic development, new policies have been proposed. From that point forward, the market has stayed flighty. In recent years, the market has grown nearly continuously. Despite the numerous advancements made over the years, the country's capital market is still plagued by issues such as a lack of product diversity, inconsistent legal and regulatory frameworks, and inadequate financial depth. In spite of the market's numerous internal and external obstacles, this paper emphasizes its potential. A vigorous capital market might be crucial for the country's entire monetary framework. Bangladesh's capital market is significantly less developed than that of many other nations, especially its neighbors. In 1976, the capital market in Bangladesh saw a revival.

Goldstein (2023) conducted study on the actual consequences of information in financial markets. Empirical research seeks to identify the useful information that markets provide regarding business decisions. Theoretically, the effects of this feedback effect on economic efficiency and financial market equilibrium are examined. The current

developments in information technology brought about by the Fin Tech revolution alter the manner in which financial markets handle information, which may alter the nature of the feedback effect. This essay compares and contrasts the major ideas in this body of work with the ongoing information revolution. Additionally, I discuss potential research directions.

Nguyen (2023) carried out an investigation on the growth of green bonds in emerging nations: perspectives from market participants in Southeast Asia. Due to its growing significance as the primary funding source for the Sustainable Development Goals, the concept of a green bond is relatively new in Southeast Asia. Additionally, the co-occurring Covid-19 pandemic has disrupted global green bond development. This study used 32 semi-structured interviews with participants in Southeast Asian capital markets to examine the current state of the green bond's development in those countries. The results indicate that the green bond market is expected to grow, as well as potential challenges, opportunities, and difficulties with regulations. In the study's conclusion, a number of hypotheses that can be tested in the future are presented in order to generalize the findings. Accordingly, the review adds to how we might interpret green securities in Southeast Asian monetary business sectors and has suggestions for specialists and chiefs in the area's green bond advancement.

Vaidya, Sharma and Dangol (2023) examined on opinion on distribution nature of NEPSE return: A qualitative analysis. The study conducted a qualitative analysis of the perspectives of Nepalese investors regarding the investment climate of the Nepalese stock market (NEPSE) and the challenges they have faced in making investment decisions. The paper also obtained the perspectives of the respondents regarding the NEPSE screening procedure and the market's return distribution structure. To get explicit thoughts from the sentiments, the paper utilized grounded hypothesis. The respondents to the study expressed concern regarding the solid foundations of the listed companies. In a similar vein, respondents expressed concern regarding trading practices and inaccurate information. The article found, through interviews, that investors in Nepal were able to improve their portfolios by screening shares using the listed companies' publicly available financial reports. Lastly, due to its distributional nature, the majority of interviewers believed that the NEPSE return followed a normal distribution. According to the respondents, the market return will follow a power-law if the Bull Run continues because

of the nation's ideal political and economic conditions and extraordinary volume of commerce. They also made a connection between the type of return distribution and the behavioral aspects of the investment decision-making process.

Maskey (2023) investigated on specific determinants of share prices: A case study of listed life insurance companies in Nepal stock exchange. The motivation behind this examination is to investigate the factors impacting the portion of the overall industry costs of extra security organizations that are recorded on the Nepal Stock Trade (NEPSE). As a sample, the study utilized panel data from all Nepal Stock Exchange-listed life insurance companies for the years 2007/08–2017/18. Graphic and inferential measurements were utilized to assess the information, and relapse coefficients in view of the numerous relapse model's discoveries were utilized to test the speculation in this review. The investigation discovered that the principal factors impacting share cost are profit yield, age of the organization, cost income proportion, procuring per offer, and profit yield. According to the study, dividends play a significant role in investments made by Nepalese investors. In addition, it was discovered that investors in Nepal are significantly influenced by the dividend policies of the companies.

2.3 Research Gap

Budathoki (2020) conducted a study using five years of data on the financial performance of two sample banks and macroeconomic indices. Using data from the past 15 years, this study presents a gap analysis of the NEPSE Index. The objective of the research project is significantly different from that of the other studies conducted by academics (related to Stock Price). Goet (2021) employs an analytical research design and a convenience sampling approach, whereas this study employs a purposeful sampling design and a casual and descriptive research design. The investigation of macroeconomic elements and markers is the primary objective of this review. This study utilized different measurable and monetary techniques, but Yagli (2023) restricted his examination to factual devices. Regression analysis, correlation analysis, and descriptive analysis are the statistical tools that perform the best among them. Therefore, interested individuals, academics, students, teachers, members of civil society, businesspeople, and the government will benefit from this study from both an academic and policy perspective.

CHAPTER - III

RESEARCH METHODOLOGY

The research strategy, population and sample data, analysis methodology, tools related to specific financial indicators, hypothesis testing, and utilized statistical techniques are all discussed in this chapter. The study's objectives are met by employing the applied approach.

3.1 Research Design

Both a relaxed similar plan and a distinct plan were utilized in this examination. The research that has been altered to meet the goals of this study is called a descriptive research design. To find out how GDP, foreign exchange reserve, interest rate, inflation rate, and money supply affect the NEPSE index, coordination and regression analysis were used in conjunction with a descriptive and casual comparative study design. The qualitative factors influencing the NEPSE Index have been identified using descriptive research methodology, and the cause-and-effect correlations between the independent and dependent variables have been identified using casual comparative research design. The data from 2008/09 to 2022/23 A.D. is covered. It tends to the factors impacting Nepal's NEPSE stock cost.

3.2 Population and Sampling

The study's population is comprised of the data released by Nepal Ratra Bank (NRB, 2023) and the World Bank (WB, 2023). The cash supply, Gross domestic product, loan cost, expansion, and unfamiliar money hold of the Nepalese economy north of a 15-year time span are utilized as the example for this review; trade rates, pay, joblessness, CPI, and different factors are forgotten about. The analysis of this study made use of purposeful sampling.

3.3 Nature and Source of Data

The study was founded on secondary data. The data came from the Ministry of Finance (MOF), NEPSE, SEBON, and NRB. The main macroeconomic factors were covered by the NRB. Also, further relevant and fundamental information can be procured from the distribution; unexpected distributions used for this point incorporate books and flyers, periodicals, diaries, papers, ways of thinking, and so on.

3.4 Method of Analysis

The available data pattern will serve as the basis for the data analysis. The study has made use of a variety of financial, accounting, and statistical tools to accomplish its goal.

Descriptive Statistics

Descriptive statistics, or brief informational coefficients, are utilized to provide an overview of a particular data set, which may be a sample or a representative of the entire population. Descriptive statistics fall into two categories: measurements of spread and measurements of central tendency. Variability is measured by the standard deviation, variance, minimum, and maximum variables, while central tendency is measured by the mean, median, and mode.

Mean

The most popular and widely used metric for summarizing all of a variable's data is the arithmetic mean. It is calculated by dividing the total number of items by their sum. The means of the various variables show the average value over the course of the study.

$$\text{Mean } (\bar{X}) = \frac{\Sigma x}{n}$$

Where,

$\bar{X}$= Sum of the variables 'x'

N = No. of Observation

Standard deviation

Dispersion is the degree to which individual items depart from a core value. The outright scattering is estimated by the standard deviation. The more dispersion there is, the higher the standard deviation gets. Minimal standard deviations are a sign of series homogeneity and observational regularity at high levels, and vice versa. This study determined the price earnings ratio, dividend yield ratio, market value per share, retained earnings, standard deviation, and dividend payout ratio.

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Correlation analysis

Correlation analysis is one statistical technique for describing how closely one variable is related to another. Correlation has been used in this investigation. A matrix representation

of the correlation coefficient between the subsequent financial variables has been calculated, analyzed, and displayed. In this study, the correlation coefficient between two variables, X and Y, is calculated using the formula below.

$$\text{Correlation Coefficient (r)} = \frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{n\Sigma x^2 - (\Sigma x)^2}\sqrt{n\Sigma y^2 - (\Sigma y)^2}}$$

r = 0 implies that the factors are connected lies between - 1 and +1 r = - 1 suggests that there is an ideal negative connection between the factors r = +1 infers that there is an ideal positive connection between the factors

Coefficient of determination (r^2)

The coefficient of determination is a measure of the degree of linear relationship or correlation between two variables, one of which is dependent and the other independent. The overall percentage variance in the dependent variables is referred to as r. There are values for the coefficient of assurance that reach from zero to one. A value of one can only occur when the unexpected variation is zero or when every data point in the scatterplot is exactly on the regression line.

Regression analysis

Relapse examination shows development bearing however not relative development in that frame of mind being scrutinized. Regression analysis enables us to determine the relative movement of the variables. For the given variable, regression analysis has been computed and analyzed. In multiple regression analysis, the standard error of estimate, least squares, and multiple coefficient of determination approaches are typically used to calculate this.

The model with multiple regression equations is:

Model I

This model examines the impact of elements on Stock Market i.e. NEPSE.

$NEPSE = \beta_0 + \beta_1 MS + \beta_2 GDP + \beta_3 Int.R + \beta_4 IR + \beta_5 FCR + \ldots\ldots e_t$

Where

Dependent Variables

NEPSE

Independent Variables

MS = Money Supply

GDP = Gross Domestic Product

Int. R = Interest Rate

IR = Inflation Rate

FCR = Foreign Currency Reserve

e_t = Error terms

3.5 Research Framework for Macro Economic

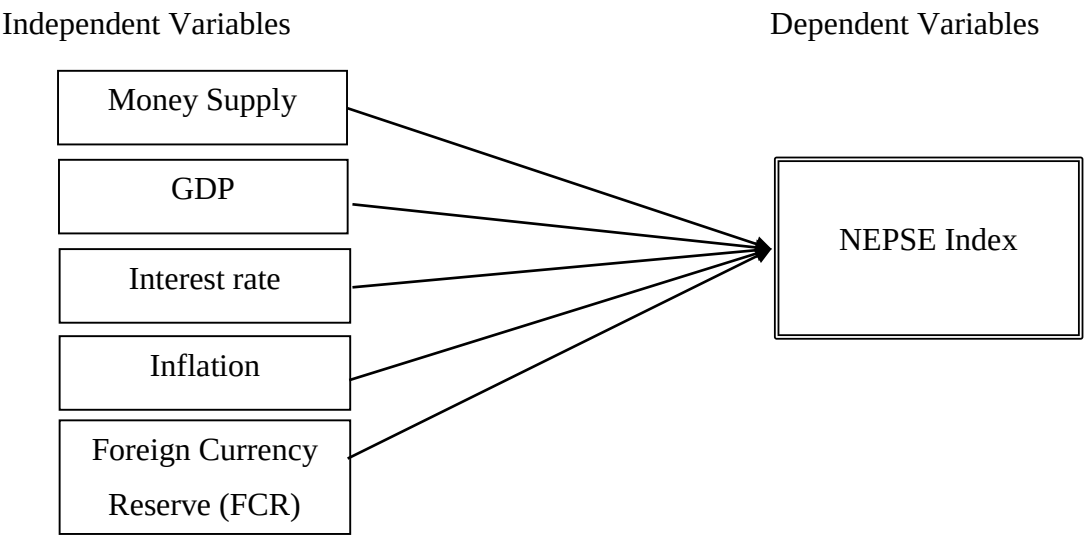

Figure 1

Research Framework

(Source Mohammad et al., 2017)

Foreign Currency Reserve (FCR)

The only foreign-currency deposits held by nationals and monetary authorities are foreign exchange reserves, also known as Forex reserves. A nation's holdings of foreign assets in government securities, such as bonds and gold, which can be easily converted into cash, as well as its holdings of foreign currencies that can be converted into its own currency through the foreign exchange market, are known as foreign exchange reserves.

Gross Domestic Product (GDP)

The total monetary or market value of all finished goods and services produced within a nation's borders during a given time period is known as GDP. The best way to gauge an

economy is through its gross domestic product. GDP is the total value of everything that a nation's citizens and businesses produce.

Interest rate (IR)

The percentage that banks take from their customers in exchange for providing goods or services is represented by the interest rate. Because it is an additional source of income for banks, this has a positive correlation with their profitability.

Inflation rate

The rate at which the price of any good or service fluctuates is known as the inflation rate. Expansion has an opposite relationship to benefit in light of the fact that an expansion in expansion implies bringing down the productivity of banks because of more exorbitant costs.

Money Supply

The total amount of currency and other liquid assets in a nation's economy on the date it is measured is known as the money supply. All cash in circulation and bank deposits that can be easily exchanged for cash are included in the money supply.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

The information accumulated comparable to the review's factors is introduced in this section. Every variable's information is displayed in an alternate figure. In order to determine the responses to the study topics, the data have been evaluated using a variety of statistical methods. Mean, median, maximum, minimum, and standard deviation have been computed to characterize the variables influencing the capital market's growth and prospects.

4.1 Trend Analysis of Dependent and Independent Variables

Table 1

Trend Analysis of Variables

Fiscal year	Inflation rate	Interest rate	GDP	MS (Rs.)	FCR (Rs.)	NEPSE (Rs.)
2022/23	11.09	3.61	4.53	937870.7	71765.9	749.1
2021/22	9.33	3.66	4.82	1049410.2	571971.8	477.73
2020/21	9.23	6.57	3.42	935824.1	490396.4	362.85
2019/20	9.46	8.22	4.67	856260.8	423204.3	389.74
2018/19	9.04	4.1	3.53	62139.3	35195.6	518.33
2017/18	8.36	6.3	6.01	53796.9	32748.3	1036.11
2016/17	7.87	5.9	3.98	47319.1	3742.6	961.23
2015/16	8.79	3.9	0.43	39711.89	26084.4	1718.15
2014/15	3.63	4.12	8.98	34682.87	22341.8	1583.57
2013/14	4.06	5.28	7.62	30159.02	19587.42	1212.36
2012/13	5.57	3.74	6.66	29815.2	33658	1259.02
2011/12	5.05	4.97	-2.37	22684	34284.21	1394.77
2010/11	4.09	4.72	4.84	22418	61874.2	2883.38
2009/10	3.8	7.34	5.6	20105	58114.33	2001.53
2008/09	7.7	7.24	5.84	20019	56824.9	2097.1
Mean	4.59	7.29	5.03	11.28	10.90	6.90
S.D	2.76	2.60	1.53	1.58	1.34	0.61

Source: NRB Website

The values of the independent and dependent variables are shown in Table 1. It contains the mean and standard deviation for the years 2008-2009 through 2022-23. GDP, the rate of inflation, the interest rate, the money supply, and the foreign currency reserve (FCR) are all independent variables, while NEPSE is a dependent variable. The term "Mean" refers to the average value of each variable. The typical NEPSE, for instance, is 6.90. Along these lines, the midpoints for Gross domestic product, Expansion rate, loan cost, cash supply and FCR are 4.59, 7.29, 5.03, 11.28 and 10.90. The "Standard" method is

used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. NEPSE's standard deviation, for instance, is 0.61. Similar to this, the GDP, inflation rate, interest rate, money supply, and FCR standard deviations are 2.76, 2.60, 1.53, 1.58, and 1.34, respectively. The variance in Gross domestic product, cash supply and loan fee while expansion rate is in expanding rate. In a similar vein, NEPSE exhibits a steady trend through 2019/20 and a rise in 2020/21. NEPSE again rises and stays the same in 2021/22.

4.1 Descriptive Analysis

The distinct measurements of the relative multitude of factors used in the review are shown together in Table 2. The descriptive statistics for each of the variables in the analysis are shown. The mean, median, maximum, minimum, and standard deviation values are shown sequentially in columns two through seven.

Table 2

Descriptive statistics

Variables	Minimum	Maximum	Mean	Std. Dev.
GDP	-2.37	8.98	4.57	2.753
Inflation Rate	3.63	11.09	7.14	2.506
Interest rate	3.61	8.22	5.31	1.527
Money Supply	9.90	13.86	11.28	1.581
Currency Reserve	8.23	13.26	10.90	1.340
NEPSE	5.89	7.97	6.89	.615

Source: Annual Report of Selected Sample

Table 2 presents an overview of the most important characteristics of each dataset variable in the descriptive statistics table for capital market performance. The GDP, currency reserve, money supply, inflation rate, interest rate, and NEPSE are the six variables listed in the table. The typical worth of each and every variable is signified by the expression "Mean".

The mean NEPSE over the studied period shows the average NEPSE. Similar to this, the averages for inflation, the money supply, the currency reserve, and the interest rate are 6.0260, 5.0370, 404717.49, and 169703.85, respectively. As an illustration, the stock has a median NEPSE of 1456.84, indicating that half of the stocks have NEPSEs that are below this threshold and the other half have NEPSEs that are above it.

The term "Maximum" denotes the highest value ever recorded for each variable. As an illustration, the highest NEPSE among the 15 fiscal years is 2883.38. For each factor, the "Base" shows the most reduced esteem that has been seen. For instance, the minimum NEPSE of 518.33 indicates the lowest price among the 15 fiscal years.

The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. The NEPSE values, for instance, fluctuate somewhat close to the mean value, as evidenced by the standard deviation of 651.686.

4.2 Correlation Analysis

The correlations between the study's variables are shown in Table 2. If there is correlation between the variables, it is reasonable to assume that at least one variable has an effect on the other. This table displays the Karl-Pearson correlation coefficient between the variables used in the analysis. The P-value is displayed within the parentheses. The variables are presented as follows.

Table 3

Pearson's correlation

Variables	GDP	INF	INT	MS	FCR	NEPSE
GDP	1					
Sig. (2-tailed)						
Inflation rate (INF)	-.007	1				
Sig. (2-tailed)	.980					
Interest rate (INT)	-.274	.081	1			
Sig. (2-tailed)	.323	.773				
Money Supply (MS)	.745**	.013	-.044	1		
Sig. (2-tailed)	.001	.964	.875			
Foreign Currency Reserve (FCR)	.393	.211	-.041	.733**	1	
Sig. (2-tailed)	.148	.451	.886	.002		
NEPSE	.754**	.026	.121	.699**	.314	1
Sig. (2-tailed)	.001	.927	.666	.004	.255	

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

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

Source Appendix II

The relationships between the variables under investigation are detailed in Table 3. The correlation coefficient measures the linear relationship between two variables and also

indicates its direction and strength. GDP, the rate of inflation, the interest rate, the money supply, the foreign currency reserve, and NEPSE are the six variables in this context. The relationships that exist between these variables are examined by the correlation matrix.

The data indicate that the foreign currency reserve (0.381), the money supply (0.622), and the interest rate (0.15) all have weak positive correlations with NEPSE, suggesting that these variables have a slight tendency to move in the same direction. The p-values of 0.752, 0.055, and 0.278 for each of these correlations indicate that they are not statistically significant. On the other hand, NEPSE and expansion have a moderately powerless negative connection (- 0.641), recommending an extensive penchant for higher NEPSE to be connected with higher expansion rate. This connection is statistically significant with a p-value of 0.046.

Moreover, there has all the earmarks of being a slight inclination for higher Gross domestic product to be emphatically connected with higher NEPSE, as demonstrated by the feebly regrettable relationship (0.111) among NEPSE and Gross domestic product. However, this correlation is not statistically significant with a p-value of 0.996. The relatively strong positive correlation (0.863) between the foreign currency reserve (FCR) and the money supply in the table indicates that there is a significant relationship between a higher FCR and the money supply. This connection is statistically significant with a p-value of 0.001. In addition, there is a small negative correlation (-0.072) between GDP and FCR, indicating a slight correlation between GDP and a larger foreign currency reserve. However, this link is not statistically significant with a p-value of 0.844.

Finally, there is a moderately weak negative correlation between interest rate and FCR (-0.019), indicating that a lower FCR is associated with a higher interest rate. With a p-value of 0.959, this correlation is not statistically significant.

4.3 Regression Analysis

Regression analysis was mostly used to figure out how the independent factors of the study affected the dependent variable. The objectives of the analysis were to test the hypotheses and investigate the effects of GDP, the Inflation Rate, the Interest Rate, the Money Supply, and the Foreign Currency Reserve on NEPSE.

Table 4

Model Summary of NEPSE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.850a	.723	.569	.40390

a. Predictors: (Constant), GDP, Inflation Rate, Interest Rate, Money Supply, Foreign Currency Reserve

The symbol r^2 denotes the proportion of NEPSE variability that can be explained by independent variables. It is more reliable to use the adjusted r^2 because it takes into account the sample size. Adjusted R-squared is used to determine the degree to which the connection is reliable and how much it is affected by the inclusion of independent variables.

The size of the coefficient for independent variables demonstrates the magnitude of the impact on dependent variables. The coefficient's sign—positive or negative—denotes the influence's direction. The standard blunder shows the typical deviation of the coefficient from the relapse line. It figures out dispersion.

Table 5

ANOVA Table

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.825	5	.765	4.400	.000b
	Residual	1.468	9	.163		
	Total	5.294	14			

a. Dependent Variable: NEPSE

b. Predictors: (Constant), GDP, Inflation Rate, Interest Rate, Money Supply, Foreign Currency Reserve

The ANOVA table displays the independent and dependent variables' overall significance and summary. The independent variables—the money supply, interest rate, inflation rate, and foreign currency reserve—have a statistically significant effect on the dependent variable, which is NEPSE of 0.000 at importance level 0.05. There is insufficient evidence to support the null hypothesis, which has a probability of greater than 5%. The

calculated p-value must be less than the 5% significance level to determine whether these variables have a significant relationship.

Table 6

Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.715	.980		4.810	.001
	GDP	.146	.075	.595	1.941	.044
	Inflation rate	.022	.075	.054	.289	.039
	Interest rate	.065	.043	.290	1.506	.016
	Money Supply	.176	.158	.453	1.114	.082
	FCR	-.115	.135	-.251	-.856	.005

a. Dependent Variable: NEPSE

Source: Appendix III

Regression analysis output: coefficient

The linear equation of this model is,

$Y = a + b_1X_1+b_2X_2+b_3X_3+b_4X_4+b_5X_5$

NEPSE = 4.715 + 0.146 GDP – 0.022 IR – 0.065 Int. R + 0.176 MS – 0.115 FCR

The t-value and the associated P-value are taken into consideration when determining the regression coefficient's statistical significance. For example, the t-value is 4.810, and the P-value is 0.001, or 0.01%. It demonstrates the statistical significance of computed "a." Foreign currency reserve (FCR) has a negative impact on NEPSE, which is significant at the 5% level of significance. In a similar vein, GDP, inflation rate, interest rate, and money supply all have a positive impact on NEPSE. At the 10% level of significance, GDP and money supply are statistically significant, while inflation rate and interest rate are statistically significant with coefficients of r = 0.022, P = 0.039 0.05, and r = 0.065, P = 0.006 0.05, respectively.

4.4 Major Findings

The following conclusions are drawn from the study's data analysis.

- The descriptive statistics included the values of the mean, median, maximum, minimum, and standard deviation for each variable. It gives an overview of the most important characteristics of each variable in the dataset that is related to the performance of the capital market.

- The term "Mean" refers to the average value of each variable. The "Median" is the value that falls somewhere in the middle of each variable when arranged in ascending order. The term "Maximum" denotes the highest value ever recorded for each variable. For each factor, the "Base" shows the most reduced esteem that has been seen. The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation).
- The correlation coefficient measures the linear relationship between two variables and also indicates its direction and strength. NEPSE has weak positive correlations with the money supply, interest rate, and foreign exchange reserve, indicating that these variables tend to move in tandem.
- However, these relationships lack statistical significance. However, as the relatively weak negative correlation between NEPSE and inflation demonstrates, there is a notable tendency for the inflation rate to be linked to higher NEPSE. Here, there is a correlation that is statistically significant.
- There is also a weak negative correlation between GDP and FCR, which suggests that a greater foreign currency reserve is associated with GDP. However, there is no statistically significant correlation here.
- On the reliant variable, or NEPSE, the impact of the loan cost, cash supply, unfamiliar money hold, and expansion rate is genuinely huge. Even at the 10% significance level, neither the interest rate nor the inflation rate have a significant effect on NEPSE. In a similar vein, NEPSE is influenced positively by both GDP and the money supply, with GDP being statistically significant while the money supply is not. As a result, there is a linear relationship between NEPSE and GDP, inflation, interest rates, the money supply, and the foreign exchange reserve.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter provides a concise summary of the entire investigation and highlights the most important findings. In addition, the major findings and their repercussions for financial performance and microeconomic indicators are discussed in a separate section of this chapter. The study's objective was to determine how NEPSE was affected by macroeconomic indicators.

5.1 Summary

The objective of this research is to investigate the challenges that the Nepalese capital market faces. The ten-year concentrate on period runs from the monetary year 2007-2008 to 2021-2022. Throughout the study, secondary data were analyzed to determine NEPSE's growth status. Numerous obstacles and difficulties must be resolved before an effective legislative and regulatory framework can be developed. As a result, the securities market in Nepal is still in its infancy. The securities market is a crucial link between surplus and deficit units, making it easier to transfer investable resources between sectors. The protections market is a setting for the steady trading of stocks and different protections. Protections market is the medium, through which dispersed saving and scant assets are moved into useful regions that at last assistance to the financial turn of events and industrialization of Country.

Throughout the course of the study, secondary data were examined using a variety of statistical and financial tools in addition to weighted average and percentage analysis. The first chapter covers the primary problem to be investigated, the general context, a brief description of the sample banks, the problem statement, the objectives and justification for the investigation, and the study's limitations. Theoretical analysis is the primary focus of the second chapter, which also includes a brief synopsis of the relevant and related literature. An outline of the significant examination overall is incorporated, alongside a clarification of the reasonable system. The study's research strategy is explained in detail in the third chapter. This section covers the examination plan, information source, insightful strategy, monetary marker and variable investigation, and measurable definition. The forward section manages the show and investigation of information to demonstrated quantitative elements on profit strategy utilizing factual devices and

method. The discussions are also included in this chapter. The fifth chapter gives a summary, a conclusion, and some implications. It also compares them to other empirical evidence as much as possible and offers some ideas.

NEPSE is positively correlated with GDP (r=754), the rate of inflation (r=0.26), the interest rate (r=0.121), the money supply (r=0.699), and the foreign currency reserve (r=0.314), but only GDP and the money supply are significant at the 0.05 and 0.01 levels of significance, respectively. In a similar vein, the regression results showed that, with r2 = 0.723, or 72.30 percent, independent variables could account for a portion of the NEPSE variability. At the significance level of 0.05, the influence of the interest rate, the money supply, the foreign currency reserve, and the rate of inflation is overall significant on the NEPSE by 0.000. In a similar vein, GDP, inflation rate, interest rate, and money supply all have a positive impact on NEPSE. At the 10% level of significance, GDP and money supply are statistically significant, while inflation rate and interest rate are statistically significant with coefficients of r = 0.022, P = 0.039 0.05, and r = 0.065, P = 0.006 0.05, respectively.

5.2 Conclusion

The results of the logged estimate showed that NEPSE has been significantly predicted by the money supply, foreign exchange reserve, GDP, inflation rate, and interest rate. According to descriptive and inferential statistics, NEPSE has weak positive correlations with interest rate, money supply, and foreign currency reserve, indicating a slight tendency for these variables to move in the same direction. However, these relationships lack statistical significance. Nonetheless, there is a measurably critical but instead humble negative connection between the two. These results are more in line with those of (Devkota, 2019) and (Paterson et al., 2023).

In addition, there is a slight negative correlation between GDP and NEPSE, indicating a slight correlation between GDP and NEPSE. However, there is no statistically significant correlation here. This is like the discoveries of (Selvarajan and Rahim, 2020) yet not comparative with (Edo, 2021). However, the findings of (Ukamaka, 2021) and (Nguyen, 2023) demonstrate that this correlation is not statistically significant. NEPSE is adversely affected by expansion rate and financing cost yet both are not critical even at 10% degree of importance. In a similar vein, GDP has a positive effect on NEPSE, with GDP being

statistically significant and money supply being statistically significant. Therefore, there is a linear relationship between NEPSE, GDP, interest rate, money supply, and foreign currency reserve similar to the findings of Pandey, Risal, and Chauhan (2020), but not supported by Ukamaka (2021) or Panthi.

5.3 Recommendation

Following an examination of the securities market, the following recommendations for its development have been made:

- Examine the relationship between GDP growth rates and stock market performance. In general, higher GDP growth may boost stock prices by boosting corporate earnings and investor confidence.
- The cost of borrowing money can go up, consumer spending and business investment can go down, and stock prices can go down as a result of higher interest rates. In contrast, lower interest rates have the potential to boost stock prices and encourage economic activity.
- Money Supply can improve stock market performance and investor confidence. Market volatility and decreased investment can result from regulatory uncertainty and political turmoil.
- Elevated degrees of unfamiliar cash save can increment extra cash and utilization, emphatically influencing homegrown organizations and the securities exchange.

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APPENDICES

Appendix I

Essential Information from World Bank and Nepal Rastra Bank

Fiscal year	Inflation rate	Interest rate	GDP	MS (Rs.)	FCR (Rs.)	NEPSE (Rs.)
2022/23	11.09	3.61	4.53	937870.7	71765.9	749.1
2021/22	9.33	3.66	4.82	1049410.2	571971.8	477.73
2020/21	9.23	6.57	3.42	935824.1	490396.4	362.85
2019/20	9.46	8.22	4.67	856260.8	423204.3	389.74
2018/19	9.04	4.1	3.53	62139.3	35195.6	518.33
2017/18	8.36	6.3	6.01	53796.9	32748.3	1036.11
2016/17	7.87	5.9	3.98	47319.1	3742.6	961.23
2015/16	8.79	3.9	0.43	39711.89	26084.4	1718.15
2014/15	3.63	4.12	8.98	34682.87	22341.8	1583.57
2013/14	4.06	5.28	7.62	30159.02	19587.42	1212.36
2012/13	5.57	3.74	6.66	29815.2	33658	1259.02
2011/12	5.05	4.97	-2.37	22684	34284.21	1394.77
2010/11	4.09	4.72	4.84	22418	61874.2	2883.38
2009/10	3.8	7.34	5.6	20105	58114.33	2001.53
2008/09	7.7	7.24	5.84	20019	56824.9	2097.1

Source: www.nrb.com.np and www.worldbank.com

Variables	Minimum	Maximum	Mean	Std. Dev.
GDP	-2.37	8.98	4.57	2.753
Inflation Rate	3.63	11.09	7.14	2.506
Interest rate	3.61	8.22	5.31	1.527
Money Supply	9.90	13.86	11.28	1.581
Currency Reserve	8.23	13.26	10.90	1.340
NEPSE	5.89	7.97	6.89	.615

Source: SPSS Output

Appendix - II

Variables	GDP	INF	INT	MS	FCR	NEPSE
GDP	1					
Sig. (2-tailed)						
Inflation rate (INF)	-.363	1				
Sig. (2-tailed)	.303					
Interest rate (INT)	.109	-.150	1			
Sig. (2-tailed)	.764	.679				
Money Supply (MS)	-.202	-.624	.104	1		
Sig. (2-tailed)	.575	.054	.775			
Foreign Currency Reserve (FCR)	-.072	-.604	-.019	.863**	1	
Sig. (2-tailed)	.844	.064	.959	.001		
NEPSE	-.002	-.641*	.115	.622	.381	1
Sig. (2-tailed)	.996	.046	.752	.055	.278	

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

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

Source: SPSS Output

Appendix III

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.422a	.178	.167	.46807

a. Predictors: (Constant), FCR, GDP, INT, INF, MS

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.993	4	3.498	15.967	.000b
	Residual	64.632	295	.219		
	Total	78.625	299			

a. Dependent Variable: NEPSE

b. Predictors: (Constant), FCR, GDP, INT, INF, MS

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.101	.122		9.056	.000
	GDP	.349	.068	.401	5.117	.000
	Inflation rate	-.022	.063	-.031	-.353	.724
	Interest rate	-.039	.064	-.052	-.600	.549
	Money Supply	.082	.073	.097	1.122	.263
	FCR	1.101	.122		9.056	.000

a. Dependent Variable: NEPSE

Source: SPSS Output

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CHAPTER – I INTRODUCTION 1.1 Background of the Study Nepal's economic development over the past fifty years has not been particularly noteworthy in comparison to that of other neighboring nations. Nepal has undergone a number of political transitions over the course of this time. The 1980s saw the continuation of liberalized economic policies that had been in place prior to democracy's return. During this ten-year period, the nation implemented a number of significant liberal reforms, including the privatization of important state-owned businesses, the significant reduction of trade-related tariffs,

deregulation of trade, industry, finance, and foreign exchange regimes , simplification **of price controls and subsidies**