

**CONTRIBUTION OF STOCK MARKET DEVELOPMENT ON
ECONOMIC GROWTH OF NEPAL**

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfilment of the requirement for the Master's degree

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Contribution of Stock Market Development on Economic Growth of Nepal**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Contribution of Stock Market Development on Economic Growth of Nepal**” Presented by Anil Bijukchhe a candidate for the degree of Master of Business Studies (MBS Semester) and Conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

GDP:	Gross Domestic Products
NEPSE:	Nepal Stock Exchange
SMD:	Share Market Development
SEBON:	Securities Exchange Board of Nepal
NRB:	Nepal Rastra Bank.
MOF:	Ministry of Finance
FDI:	Foreign direct investment
MPT:	Modern Portfolio Theory
EMT:	Efficient Market Theory
ARDL:	Autoregressive Distributed Lag
VAR:	Vector Autoregressive model
PLS:	Partial Least Square
SEM:	Structural Equational modelling
CMA:	Capital Market Authority

ABSTRACT

The primary aim of the research was to examine the role that stock market development factors play in the expansion of Nepal's economy. Economic growth is the study's dependent variable, and the study's independent variables are Stock Turnover Value, Market Capitalization, NEPSE Index, Digitalization, and Broad Money Supply. Various research designs, including descriptive, correlational, and analytical research, were employed to conduct the study. The study used a test of causality to examine whether there was a relationship between the rise of Nepal's stock market and the nation's overall economic growth over a ten-year period, from 2013 to 2023. Purposive sampling design has been used in the study since the researcher is about to analyze the impact of stock market development on economic growth of Nepal. The population of the study is the NEPSE index, and the sample is companies whose shares are traded on the NEPSE floor. This investigation used only secondary data.

The study findings has found that digitalization of stock market ($p = 0.000$) has been the most influential factor that has influenced economic growth of Nepal. The introduction of Meroshare and TMS by the broker house has led to rise in the Share market recently. In the same way market capitalization ($p = 0.018$) and Nepse index ($p = 0.025$) has shown significant relation with the economic growth of Nepal. Contrary, stock turnover ($p = 0.278$) and money supply ($p = 0.164$) has shown insignificant relationship with the economic growth of Nepal. Through the lens of Correlation test all the factors are positively associated with the economic growth. Digitalization of share market has found to be strongly correlated with economic growth followed by market supply, market capitalization, Nepse index and stock turnover value. The study is important because it will help investors, the government, and other stakeholders make decisions about policy and forecasts about the economy and stock market based on the variables that are being studied. The study can be beneficial to understand the role of agency that are associated with the stock market and capital market as a whole.

Keywords: Capital market, Inflation, Market capitalization, Money supply, Stock turnover.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The stock market is a valuable resource for obtaining capital for business growth. By issuing new stock, a pricing process incentivizes well-managed companies to allocate a larger portion of their new investment resources (Lazonick, 2018). This raises the amount of private investment and capital formation, which together promote economic growth (Orji et al., 2010). In addition to promoting economic expansion, the stock market serves as a vital hub for the expansion of businesses, industries, subsectors, and industries, all of which contribute to the overall, moderate growth of a nation's economy. According to Dhungana (2013), an effective stock market has the potential to stimulate domestic savings, mobilize savings, capital formation, and facilitate the efficient allocation of capital in productive sectors of the economy. These factors can ultimately lead to an increase in income, output, and employment, ultimately bolstering the country's economic growth. To handle the funds for the country's development initiatives, stock market development is essential. As a result, the stock market may function as a major catalyst for the nation's economic expansion (Gupta & Kathy, 2009). The impact of stock market development on economic growth, however, has generated some fascinating debate among academics. For this reason, economists, technocrats, policy advisors, and central banks across nations keep a close eye on and strictly supervise the operations of the stock market (Goodhart, 2013). There are several different channels via which the effects of the stock market are felt by the economy. These channels include, among other things, the value transacted, stock market turnover, real market capitalization, and stock market liquidity. Stock market size is a highly accurate indicator of capital accumulation, output, and GDP growth (Yartey & Adjasi, 2007).

Stock Market Development and Economic Growth

Since the creation of the stock market, the relationship between market expansion and economic growth has been studied in economic literature. It is safe to say today that the evolution of the stock market has an impact on economic growth. It was believed by

Calderon and Liu (2003) that there is still uncertainty regarding the nature of this causal relationship. By improving financial instruments and diversifying investor portfolios, the stock market plays a critical role in mobilizing domestic savings and offers a significant source of capital at a relatively low cost. According to theory, well-developed stock markets increase savings (Donwa & Odia, 2010). Savings have been shown to be positively correlated with GDP growth. Munro, (2000) revealed that the stock market serves as a basis for savings-based investment. In return for financial instruments like debentures, financial institutions offer a stage. It is used in profitable investments and helps move capital from areas with excess capital to areas with deficient capital. By increasing investments and eventually the economy, it helps the public and private sectors increase output (Kumo, 2009). Numerous academics have studied the relationship between GDP growth and stock performance in great detail, and they have come to the conclusion that stock performance plays a crucial role in boosting GDP growth. Since stocks play a major role in the theory proposed to increase output, stock performance is critical to GDP performance (Nazir, Nawaz, & Gilani, 2010). The stock market is thought to be a crucial sector where wealth accumulation can improve GDP performance. Experts claim that stocks in low-income nations are rising at an accelerating rate (Bhoyu, 2011). Therefore stock market has been very influential contributing towards nation's economic growth in recent developments.

The stability of the stock market is a rising source of concern for the government and policymakers. The underdeveloped and highly volatile Nepalese stock market (Ghimire (2022); Panta, 2020) is caused by a number of factors, including low investor awareness, insider trading and manipulation, an inadequate regulatory framework and infrastructure, and political instability (Dhungana, (2013); Karmacharya, 2023). Global market integration and market capitalization are enhanced by a stable and robust stock market (Pan & Mishra, 2018). Nepal's stock market has to be more diversified in order to draw in investors from a variety of backgrounds and offer more options for investing in stocks, bonds, commodities, and other securities (Adhikari, 2013). Macroeconomic factors that affect a country's economic growth include monetary and fiscal policy, GDP growth rate, rate of inflation, and money supply (Timilsina, 2001). The stock market disperses capital throughout the many sectors of the economy, accumulates and mobilizes savings,

encourages liquidity, and offers information for prospective investors (Dabwor et al., (2022); Thaddeus et al., 2022). Economic growth can be accelerated by a solid, active, and stable stock market (Qamruzzaman & Wei, 2018). Countries with less political instability and corruption tend to have higher rates of economic growth (Ngare et al., 2014). Strong information disclosure laws, internationally accepted accounting standards, and unfettered foreign capital movements are generally linked to significant and more liquid markets (Demirgüç-Kunt & Levine, 1996).

The Nepal Stock Exchange (NEPSE) is an organization that oversees the country's stock market. It is often accepted that a significant decline in stock values portends a recession in the future and that increasing securities prices are the primary drivers of GDP growth (Siong & Thing, 2008). The steep decline in stock values, which was visible in the global securities markets, significantly contributed to the improbability that was particularly rooted during the 2009 economic recession (Fuentes & Pereira, 2010). Because the stock markets serve as a source of capital formation, they are typically associated with economic growth. Additionally, according to Osamwony (2013), the securities market grows as a result of an economy's expansion.

In order to support economic growth, several nations have created policies to increase share market development (SMD) (Pradhan et al., 2014; Nguyen & Bui, 2019). A crucial component of any economic reform is the growth of the stock market. One method for converting savings into investments is the stock market. The securities market, in particular, makes it possible to minimize transaction costs as well as the expenses associated with gathering, processing, and disseminating information about businesses and potential investment projects (Levine, 1997). Companies can obtain perpetual capital for development by issuing stocks. The market also helps businesses avoid relying too heavily on debt financing by providing equity capital, which raises the corporate debt-to-equity ratio (Sylvester & Enabulu, 2011).

The purpose of the study is to examine the influence or the contribution of share market development in Nepalese economic growth which is measured by GDP specifically in the study. The factors or indicators of share market development are Money Supply (MS), Market Capitalization (MC), Stock Turnover Value (STV), Nepse Index (NPI), and

Digitalization of share market in Nepse (NLC). The share market is governed by NEPSE and SEBON and these factors of share development are recorded and evaluated by these governing bodies. The recent change in government formation has led to some positive Nepse index in the share market. It is also expected that concrete policies and plan formulation in making these share market platform transparent, accountable and precise in terms of schedule will be planned and organized. The co-operation between Nepse, Sebon, Nepal Rastra Bank, Ministry of Finance and many financial advisors and experts is required to construct more stable and concise plan for improving share market so that individual as well as institutional investors can gain profit and economy of the country can be pushed towards positivity.

1.2 Problem Statement

Long-term economic growth in a country revolves on its ability to increase the rates of accumulation of physical and human capital, to employ the resulting productive assets more efficiently, and to ensure that the entire population has access to financial assets. Numerous studies and policymakers have pointed out that rapid economic expansion increases demand for specific financial agreements or arrangements (Levine, (2005); Gallagher et al., 2021), which the well-established financial industry will inevitably meet. The relationship between financial development and economic growth has been hotly debated in the development and growth literature ever since the advent of both the growth-led finance hypothesis and the finance-led growth hypothesis. Consequently, there is a gap that this research project will fill, particularly in regards to the relationship between financial development and economic growth in Nepal (Shrestha & Subedi, 2014). The Nepalese stock market has experienced fluctuation as a result of inadequate government policy and unpredictability in politics

One of the main problems with the Nepalese stock market during this research study is that there are more individual investors than institutional investors in the market. The purpose of this study is to investigate how the stock market has impacted Nepal's economic expansion. Prior research has mostly focused on the banking industry (Hui & Jha, (2013); Timsina, 2014) thus it has not considered stock performance as the catalyst for GDP growth, which would lead policy makers to shift their attention to stock market

performance. This study attempted to close the gap in the literature by examining the relationship between stock performance and GDP performance in Nepal. There hasn't been much research done on the topic to specifically support the association.

The purpose of the study is to examine the influence or the contribution of share market development in Nepalese economic growth which is measured by GDP specifically in the study. The factors or indicators of share market development are Money Supply (MS), Market Capitalization (MC), Stock Turnover Value (STV), Nepse Index (NPI), and Digitalization (DG). The share market is governed by NEPSE and SEBON and these factors of share development are recorded and evaluated by these governing bodies. The recent change in government formation has led to some positive Nepse index in the share market. It is also expected that concrete policies and plan formulation in making these share market platform transparent, accountable and precise in terms of schedule will be planned and organized. The co-operation between Nepse, Sebon, Nepal Rastra Bank, Ministry of Finance and many financial advisors and experts is required to construct more stable and concise plan for improving share market so that individual as well as institutional investors can gain profit and economy of the country can be pushed towards positivity. Therefore, the study has been carried out to analyze the level of impact between stock market factors and economic growth of the country.

The present study has been carried out to answer following research questions:

- What is current position of stock market development and economic growth in Nepal?
- How relationship between stock market development and economic growth in Nepal is effective?
- Does money supply as factor of share market growth contribute towards economic growth in Nepal?
- In what ways market capitalization and stock turnover value shall impact Nepalese economic growth?
- Is there any significant relationship between NEPSE index and digitalization of share market with the economic growth of Nepal?

1.3 Objectives of the Study

To understand and evaluate the factors of stock market development and economic growth in terms of Nepal is the basic objective of the study. The main objective of the study was to analyze the contribution of stock market development factors and its influence on the economic market growth of Nepal. Some of the specific objectives of the study are as follows:-

- To identify the factors of stock market that contributes the economic growth of Nepal.
- To analyze the impact of money supply, market capitalization, stock turnover value, digitalization of share market and Nepse index on the economic growth of Nepal.
- To examine the influence of money supply, market capitalization, stock turnover value, digitalization of share market and Nepse index on the economic growth of Nepal

1.4 Hypotheses

The hypothesis based on the variables and objectives of the study are as follows:-

The total amount of money in the economy, including cash, coins, and bank account balances, is referred to as the money supply. This hypothesis will investigate whether variations in Nepal's money supply can impact the country's economic growth. The theory goes that increased money could encourage investment and spending, which would fuel economic expansion.

H1: There is significant relationship between money supply (MS) and economic growth of Nepal.

The total value of all shares held by all companies listed on the stock market is known as market capitalization, or MC. It is calculated by multiplying the share price of a business by the total number of outstanding shares. This hypothesis suggests that an efficient stock market may be an indicator of a healthy economy by examining the relationship between a larger total market value of listed companies and stronger economic growth.

H2: There is significant relationship between market capitalization (MC) and economic growth of Nepal.

The total value of shares traded over a specific time period is referred to as the stock turnover value. This hypothesis will inquire into whether higher economic growth is correlated with higher stock market trading volumes and values. This could suggest that investing and trading are beneficial to the economy.

H3: There is significant relationship between stock turnover value (STV) and economic growth of Nepal.

The digitalization of Nepal's stock market is hypothesized to have a significant and measurable impact on the expansion of the country's economy, according to this hypothesis. The term "digitization" is used in the context of the stock market to refer to the process of adopting and incorporating digital technologies into the processes of trading, clearing, settlement, and information dissemination.

H4: There is significant relationship between Digitalization of share market (DG) and economic growth of Nepal.

The Nepse Index is a measure that displays the average performance of all the stocks listed on the Nepal Stock Exchange. This hypothesis examines the relationship between changes in the stock market index whether positive or negative and the state of the nation's economy. An expanding economy may be indicated by a rising index.

H5: There is significant relationship between Nepse index (NPI) and economic growth of Nepal.

1.5 Rationale of the Study

The stock market is aware of the state of the economy. The economy is doing well when the stock market is rising, and it is not doing well when it is falling. The growth of the economy is directly correlated with stock markets. Increased earning potential, chances to save money, and opportunities to invest all accompany economic growth. It should be mentioned that a nation's level of industrialization has a significant impact on its ability to grow economically. It stands for the necessity of research to determine the issue, opportunities, and growth in the near future. What laws need to be passed, what policies

can be created, and whether rules and regulations need to be changed in order for the market to grow and function flawlessly. The study is important because it will help investors, the government, and other stakeholders make decisions about policy and forecasts about the economy and stock market based on the variables that are being studied.

Economists can also benefit greatly from this study since it can be used to forecast economic performance by analyzing the NEPSE index's performance and estimating Nepal's per capita income in the future, which can be used as a stand-in for the country's citizens' standard of living. Last but not least, the study will be crucial to empirical research on the subject because few academics have focused on the relationship between stock performance and GDP growth in Nepal. Financial statements should be kept up to date in order to satisfy related parties' information requirements. University students who are interested in learning about the current state, growth, problems, and obstacles facing the Nepalese stock market will find this study to be helpful.

1.6 Limitations of the Study

Some of the limitations of the study are as follows:-

- This study relies entirely on secondary data, with the reliability of the data source being a determining factor.
- The only variables considered to be independent are market capitalization, trading turnover, digitalization and the NEPSE index; the only variables considered to be dependent are real GDP.
- There are only specific statistical tools used such as correlation and regression analysis.
- The study covers data period from 2013 AD to 2023 AD. The study could not include time period of 20 years due to resource constraints.

CHAPTER II

LITERATURE REVIEW

Markets for capital are essential to economic expansion. It provides the investment's funding. By taking marketability and liquidity into account, the capital market guarantees a stable, competitive market for the buying and selling of securities. The majority of countries aim to improve the lives of their people and accelerate economic growth. Capital investment, saving, creating, conducting, and facilitating investment are all necessary for economic growth (Bekaert & Harvey, 1998).

Capital markets are places where capital providers and capital seekers trade money. In order to raise capital, buyers and sellers in the capital market exchange financial securities such as bonds, shares, mutual funds, and other long-term investments. Capital markets represent the economies of all countries and mobilize capital for economic growth (Stiglitz, 2000). Additionally, an effective capital market must be developed in order to mobilize ownership and debt capital through suitable and well-defined instruments. The capital market facilitates economic growth by channelling the assets of investors toward consumers, enabling them to make savings. The capital market enables people to save every little bit for their future. In Nepal, secondary financial markets facilitate the exchange of contracts, securities, and assets between individuals and organizations. Businesses raise money for operations and expansion through the capital markets (Bist, 2017). As the economy changes in real time, capital markets take the place of antiquated technologies. Over the past few decades, the capacity of emerging investors has demonstrated the nation's potential for capital inflow. Nepal has a relatively new capital market. The period's stock performance demonstrates that savings have been mobilized and put toward the nation's businesses and industries. It increases capital formation and economic growth. The capital market is underdeveloped in many developing nations, including Nepal, but it is growing and improving as more players and capital enter the market.

2.1 Theoretical Review

Stock market is an important tool for raising funds for their expansion. A pricing process rewards the well managed firms to have greater allocation of new investment resources from issuing new stock. This increase the level of capital formation and private investment and in aggregate enhance the economic growth (Mose, 2023). A part from facilitating economic growth, the stock market act as an indispensable fulcrum for the growth of sectors, sub-sectors, industries, firms and commerce which eventually foster the growth of the economy of a country to a reasonable degree (Ergun, 2012). This is why the managers of the economy, technocrats, policy advisers and the central banks of countries monitor and keenly regulate the activities of the stock market. The avenues through which the impacts of the stock market are transmitted to the economy are numerous. These avenues include stock market liquidity, real market capitalization, the value traded, and the turnover of stocks in the market amongst others.

The size of stock markets are the excellent forecaster of accumulation of funds, level of output, and GDP growth (Yartey & Adjasi, 2007). Recognized occurrence of a link between GDP and performance of stocks (Carlin & Mayer, 2003). Financial institutions provide a stage in exchange for financial tools like debentures. It assists to mobilize the capital from areas with excess capital to areas with deficient capital and is employed in profitable investment. It assists in the public segment and private sector to enlarge output by boosting investments and eventually boosting economy (Kumo, 2009)

In the literature on development economics, the financial system's contribution to economic growth has been extensively covered. Gurley & Shaw (1955) make the case in historical literature that the real sector cannot advance without the financial sector. A divergent perspective on the connection between financial development and economic growth was established by Buffie (1984). During the industrial revolution, the importance of financial development for economic growth was firmly established, and this significance continues to this day in the context of developing nations (Gupta, 1984). This is due to the fact that the financial sector oversees enormous amounts of working capital, gives entrepreneurs access to information and creative ideas—many of which are novel to the market manages the new business, boosts output and employment, and

encourages further saving and consumption (Perera & Paudel, (2009); Shrestha, (2005). Poverty and income inequality are decreased by formal financial inclusion. When financial activities are easily accessible, simple to complete, and affordable, a sizable portion of the population can participate (Pant, 2016). Easy access to a comfortable lifestyle is closely associated with income level. The satisfaction of fundamental needs, such as those for food, housing, healthcare, and education, elevates materialistic wellbeing, which is then followed by subjective wellbeing (Diener et al., 2010).

The primary drivers of economic growth, according to conventional economists, are rising investment and production capacity (Rousseau & Wachtel 2011). Three elements were identified by neoclassical economics as the primary forces behind economic growth in the first half of the 20th century: labor, capital, and land. For capitalist economies, this was adequate, and the more they employed them, the more economic growth they saw. The Solow-Swan growth model put forth the theory in 1957 that technology plays a major role in determining economic growth. Technological advancement increases the quality of outputs and the efficiency of resources while also deepening our understanding of production processes. Economic growth is impacted by various aspects of technological change. This covers everything from reorganizing the present equipment and processes to designing, developing, and producing new and distinct inputs and processes (Polat et al. 2015). It goes beyond investments in real estate, machinery, and equipment. The change in a nation's overall output over time, or the production of goods and services from one era to the next, is known as economic growth (Agarwal, 2019). It is the rise in the use of resources in societies, whether it be by building new factories or making undeveloped land available for use.) Growth is therefore made respectable by annualizing changes in per capita income

Q- Theory

Tobin (1969) developed the theory that explains how stock prices can directly affect economic growth. With a coefficient of "Q," the theory demonstrated how the stock price affects the cost of capital. The market price of equity divided by the cost of capital is known as the coefficient of Q, or "q." Firms will invest more if the "q" ratio is high, which will directly affect prices. The theory is further clarified by stating that "q" is the

ratio of a firm's replacement capital to its market value of current capital. Thus, companies that require additional funding can raise it through the market through the issuance of stocks. New investors can benefit from capital gains as stock values rise. Generally speaking, businesses attempted to raise capital by issuing shares on the market when the market price of stock was high. The measurement of stock valuation serves as the catalyst for investment decisions, which in turn stimulate economic activity and eventually lead to economic expansion.

Q-Theory provides a fundamental viewpoint on the direct impact of stock prices on economic growth. In this theory, an important factor in determining investment decisions is the so-called "q" ratio, which is the market value of a firm's current capital divided by its replacement cost. A high q ratio suggests that the market places a high value on the company's assets relative to their replacement cost, which encourages businesses to increase their capital formation spending. Economic activity is stimulated by this increased investment, which eventually results in economic growth. Investment opportunities can be greatly improved in Nepal by the growth of the stock market, as evidenced by metrics like market capitalization and the NEPSE index. Increased stock valuations give businesses the capacity to issue equity more effectively and raise capital, which boosts the economy and increases GDP.

Endogenous Growth Theory

Lucas (1988) developed the theory to establish a link between finance and growth. The model aimed to boost capital productivity by reducing financial intermediation costs and increasing saving rates, thereby promoting economic growth. According to the theory, as financial systems get bigger, they finance creative projects and eventually help to promote economic growth. It asserts that financial development and economic expansion are closely related. A higher degree of financial development and a high growth rate would arise from increasing the share of savings, saving rate, investment, and marginal productivity. Therefore, the development of the stock market and economic growth are positively correlated, according to the endogenous growth theory.

There is more information about the mutually beneficial relationship between financial development and economic growth in Lucas's 1988 Endogenous Growth Theory.

According to this theory, financial systems' growth and sophistication reduce the costs associated with financial intermediation, increasing capital productivity and saving rates. As the stock market in Nepal grows marked by higher stock turnover values and improved financial service digitalization financial resources become easier to access and are distributed more effectively. This financial deepening creates an atmosphere that is favourable to long-term economic growth by supporting creative initiatives and entrepreneurial attempts. Therefore, it is possible to view Nepal's stock market development indicators as playing a key role in propelling the nation's economic growth through improved channels for savings and investment.

The Neo-classical Economic Perspectives

Real GDP (GDP) is a measure of economic development and growth indicator that is modelled as a function of stock market development indicators and macroeconomic factors. The liberalization of the capital market will lead to economic growth because of the inflows of investments from outside the liberalized economy. The amount of activity and effectiveness of financial intermediation is gauged by the credit to the private sector (cps), which is calculated as the ratio of total credit provided by banks to the public sector to the GDP. Economic growth is anticipated as a result of increased private sector productivity and efficiency brought about by increased financial resources, particularly credits (Owusu & Odhiambo, 2012). Foreign direct investment (FDI), which is a useful tool for technology transfer between nations, is the other control variable that is used. Due to its impact on both the growth and amount of GDP, FDI inflow typically promotes economic growth.

Real GDP is frequently modeled from a neo-classical standpoint as a function of stock market development indicators and other macroeconomic variables. It is expected that the liberalization of Nepal's capital market, as demonstrated by a rise in market capitalization and an influx of foreign direct investment (FDI), will promote economic growth by drawing in outside capital. Furthermore, enhancing private sector productivity depends heavily on the credit extended to the private sector, which serves as a stand-in for financial intermediation. As a result of a thriving stock market, Nepal's private sector may become more productive and efficient, which would improve the country's overall

economic performance. This viewpoint emphasizes how a functional and liberalized financial system can stimulate economic expansion.

The Gurley and Shaw Propositions

Gurley and Shaw (1960) examined the relationship between the expansion of the financial market and actual economic growth, coming to the conclusion that financial innovation is a dynamic process that both causes and is caused by the real sector's development. They noticed that savings from entrepreneurs are the main source of capital formation in underdeveloped and impoverished environments. As the economy grows, bank-intermediated debt financing eventually replaces self-financed capital investment, and equity markets eventually appear as a further means of obtaining outside funding. Therefore, commercial banks are the main financial institutions in underdeveloped nations. Higher industrial and economic growth is facilitated by the development and prosperity of equity markets and specialized financial intermediaries as the economy expands. Shaw and Gurley proposed that the growth of the financial markets and the economy are correlated.

The propositions made by Gurley and Shaw demonstrate the dynamic interaction that exists between innovation in the financial markets and economic growth. They noted that the financial sector changes as economies grow, moving from a self-financed capital investment stage to a debt financing stage mediated by banks, and finally to sophisticated equity markets. This development means that, for Nepal, the early phases of economic growth are primarily dependent on savings accumulation and debt financing via commercial banks. The growth of the equity markets becomes more crucial as the economy gets older. Increased industrial and economic growth is made possible by the existence of specialized financial intermediaries and a thriving equity market. As a result, considerable economic development is anticipated to result from the expansion and prosperity of Nepal's stock market, which is characterized by rising market capitalization, digitization, and stock turnover.

Modern Portfolio Theory (MPT)

Harry Markowitz's Modern Portfolio Theory (MPT), which placed a strong emphasis on diversification, transformed the field of investing in the 1950s. According to MPT,

investors can create a "efficient frontier" of ideal portfolios that provide the highest expected return for a particular degree of risk. Investors can reduce risk without compromising returns by combining assets with different correlations. Investors can diversify across a wide range of industries, regions, and asset classes thanks to the abundance of investment opportunities offered by stock markets. By reducing unsystematic risk—the risk unique to individual assets—diversification aids in the achievement of a more stable return profile. Stock markets encourage higher levels of investment because they allow for greater diversification. Investors are more likely to put money into the market and support economic growth when they feel more secure as a result of lower risk.

Behavioural Finance Theory

The study of cognitive biases and psychological variables' effects on investor behaviour and market outcomes is known as behavioural finance theory. Behavioural finance acknowledges that investors frequently behave irrationally as a result of emotions and heuristics, in contrast to traditional financial theories which presume investors are rational and markets are efficient. Asset mispricing and anomalies in the market may result from the behaviour of the investors. Adopting policies and regulations to increase market stability and efficiency can be made easier by having a better understanding of behavioural finance. For instance, identifying prevalent biases like loss aversion, herd mentality, and overconfidence can help create educational initiatives targeted at reducing these biases. Furthermore, reducing irrational behaviour can be aided by policies intended to improve transparency and provide accurate information. Behavioural finance principles have the potential to boost economic growth by promoting increased investment activity and participation by investors.

Efficient Market Theory

The Efficient Market Theory (EMT) is a foundational theory in finance that asserts that financial markets are "informationally efficient," meaning that asset prices fully reflect all available information at any point in time. The association between financial markets and GDP growth is profoundly affected by this theory. Asset prices already incorporate all

relevant information, according to the EMT (Eugene Fama's 1970), thus it is hard to obtain higher returns than the average market return on a risk-adjusted basis.

Active trading strategies that aim to outperform the market are ineffective says the EMT, because every piece of information has already been priced in, rendering it impossible to consistently achieve risk-adjusted returns higher than the average market return. The EMH implies that markets are efficient, which means that prices respond rapidly to new information, ensuring that securities are always fairly priced. For capital markets to function effectively, which is essential for resource allocation and economic growth, pricing and information dissemination must be efficient.

Agency Theory

Conflicts of interest between principals (owners or shareholders) and agents (managers or executives) are the subject of agency theory, which was first developed by Michael Jensen and William Meckling in the 1970s. These conflicts arise from the possibility that agents will act in their own best interests rather than the principals', which could result in inefficiencies and poor decision-making. Stock markets have a number of ways to reduce these agency issues. Initially in order to make sure that management decisions are in line with shareholder interests, strict corporate governance standards enforced by stock markets demand accountability and transparency. The second step can be the competition for corporate control acts as a disciplinary mechanism, encouraging managers to perform well in order to keep their jobs in the face of takeovers and mergers. Also, managers' compensation is tied to the performance of the company's stock, thereby aligning their interests with those of shareholders through incentive alignment achieved through stock-based compensation schemes, like stock options. Through the mitigation of agency conflicts, these mechanisms foster enhanced firm performance and better management practices, thereby augmenting the economy's overall efficiency and spurring economic growth.

2.2 Empirical Review

The ability of investors, institutions, and governments to raise capital and conduct seamless commerce are necessary for maintaining economic growth and development. Exchange markets are therefore essential to economic development and growth

(Demirgüç-Kunt & Levine 1996). The size of the stock market plays a significant role in stabilizing the methods by which capital can be acquired to better support investments and economic development (Levine & Zervos, 1998). The empirical literature indicates that there is a significant correlation between the development of the stock market and economic growth, as demonstrated by the numerous academic studies conducted in this area. They found that in developed economies, the relationship is typically positive.

2.2.1 Review of Nepalese Articles

Karna et al. (2024) claimed that share market is becoming more and more popular every day. Globally, there is also a growing relevance for assisting individuals in buying and selling shares. Although Nepal has a well-developed share market despite its poverty, there are still certain obstacles and technological differences that make it difficult for the market to function. This market has become crucial during the past two years due to the worsening economic crisis. The current downturn in the price of shares is a result of growing losses in business and industry. Examining the growing trajectory of the Nepalese securities market is the study's primary goal. Examining the field of main market growth in Nepal and analyzing the trajectory of the Nepalese stock market in terms of market capitalization, transactions, traded securities, and listed securities are helpful.

Dhungana, (2023) examined the development of Nepal's stock market on economic growth. The stock market development indicators are market capitalization, trading turnover, NEPSE index, gross capital formation, and gross national savings. This research is based on secondary data (1995 to 2022) extracted from the Quarterly Economic Bulletin of Nepal Rastra Bank in mid-July 2023. The econometric methods such as the Johnson co-integration test, Granger causality test, and VAR model were used to assess the nexus between the stock market development and economic growth in Nepal. Long-term co-integration has been observed between the stock market development indicators such as gross national savings, market capitalization, gross capital formation, trading turnover, stock market index, and economic growth. Likewise, economic growth and stock market development are shown to be causally related in a unidirectional manner by the Granger causality test. It concludes that stock market

development matters for economic growth in the short and long run. The regulatory authority may adopt an appropriate policy for sustained growth of the stock market through (i) improving disclosure and transparency, (ii) enhancing investor awareness and education, (iii) safeguarding the interest of shareholders, (iv) diversifying the trading opportunities, and (v) maintaining the macroeconomic stability

Ranjit, (2021) aimed to examine the impact of stock market development on Nepal's economic growth. The nation's economic growth can be further enhanced by a robust stock market, which can encourage domestic savings, saver mobilization, capital formation, and effective capital allocation in productive sectors of the economy. These factors ultimately contribute to higher income, output, and employment levels. The research employed deductive reasoning and quantitative analysis, utilizing secondary data spanning 27 years, from 1994 to 2021. For data analysis, it employed the ARDL model, co-integration test, bound test, CUSUM, and CUSUMQ test. It takes the broad money supply, market capitalization, stock market turnover, NEPSE index, and listed firms as indicators of stock market development, and uses the actual gross domestic product as a stand-in for economic growth. The study discovered that the NEPSE index, market capitalization, and broad money supply all significantly affect real GDP. However, the stock market's meager contribution to real GDP suggests that there is a liquidity issue in the Nepalese stock market. The study suggests that Nepal's economic growth is significantly influenced by the development of the stock market.

Bhattacharai et al. (2021) used an autoregressive distributed lag (ARDL) model with bound testing procedures to investigate the relationship between Nepal's economic growth and the development of its stock market. The annual time series data from 1994 to 2019 are included in the study period. The market capitalization as a percentage of GDP, the total value of shares traded as a percentage of GDP, and the total number of shares traded as a percentage of market capitalization, respectively, serve as indicators of the size, depth, and efficiency of the stock market development. When these indicators show strong correlations with one another, an aggregated index is created and applied in the research. One measure of economic growth is the growth in real GDP per capita. The findings imply that there is a long-term, unidirectional causal relationship between economic growth and the stock market development index. The size and liquidity of the stock

market are important factors, demonstrating the market's capacity to raise capital and diversify risks while facilitating easier stock trading. Market inflation, the control variable, has no discernible effect on any of the two primary variables under investigation.

Pokharel (2020) explored using time series data spanning 26 years, from 1994 to 2019, to investigate the causal relationship between capital market development and economic growth in Nepal. The study used GDP per capita as a proxy for economic growth and market capitalization as a proxy for stock market development. The study stated that capital market development supports economic growth in Nepal and asserted a unidirectional relationship between stock market development and economic growth.

Bista (2017) investigated the actual correlation between Nepal's economic growth and the development of its stock market from 1993 to 2014. He used the market capitalization of the Nepal Stock Exchange (NEPSE) as a proxy for stock market development and real GDP per capita as a proxy for economic growth. According to his research, Nepal's economy has grown in tandem with the development of the stock market in a unidirectional manner.

Baral, (2019) insisted that the expansion of the economy depends on stock markets and financial intermediaries. In recent years, a great deal of research has been done on the connection between economic growth and stock market development. This study examined the relationship between Nepal's economic growth (measured by the logarithm of capital GDP at constant price) and stock market development (measured by the size and liquidity of the stock market) between 2007 and 2017. It did this by using an analytical research design that includes bi-variate analysis and a simple regression model. Secondary data were gathered from the Nepal Stock Exchange (NEPSE) and Ministry of Finance (MoF) official websites. For data analysis purposes, it is assumed that stock market development is a function of economic growth. The study's empirical findings show a strong correlation between the expansion of the economy and the growth of the stock market. Additionally, the development of the stock market caused significant variances in Nepal's economic growth; specifically, the size of the stock market

accounted 57.7 percent of the variation in economic growth, and the liquidity of the stock market explained 41.6 percent.

2.2.2 Review of International Articles

Ukoh, (2024) examined stock market performance and economic growth of Nigeria using data from 2001 to 2022. The objective was to determine the effects of stock market performance on the real gross domestic product in Nigeria. In order to achieve the set objectives, the study used the autoregressive distributive lag model (ARDL). The result of findings shows that value traded, all share index and market capitalization have a positive and significant long-run relationship with economic growth. Number of deals indicate an inverse and significant long-run relationship with economic growth in Nigeria. The researcher recommended that government should create an enabling environment where investment can thrive. This can be achieved by improving corporate governance, ensuring transparency in financial reporting, and strengthening regulatory frameworks. Additionally, the government should provide incentives to attract both domestic and foreign investors, thereby increasing market liquidity and growth.

Adeleke, (2024) examined the relationship between Nigeria's economic growth between 1999 and 2022 and the development of its capital market. The Central Bank of Nigeria Statistical Bulletin, 2022, provided the study's data. E-view 10 was used to help with the Autoregressive Distributed Lag Regression Estimate (ARDL) analysis. The results of this study show that RGDP is positively and statistically significantly impacted by all of the explanatory variables listed above. Furthermore, between 1999 and 2022, there is a positive and statistically significant relationship between the development of the capital market and the growth of the Nigerian economy. The study's findings support the following recommendations, which state that improving the capital market should be the top priority for all parties involved, including the Nigerian government at all levels. This can be achieved by giving the market's continued growth a favourable business environment. Second, through accountability and public awareness, all parties involved in capital market activities should make transactions at the Nigerian Stock Exchange more transparent in order to attract more participants and potential investors. Third, rather

than just being reported monthly, the All Share Index (ASHI) should reportedly be aggregated both annually and monthly.

The expansion of the stock market indicates the soundness of the economy's finances. It conveys the interest of an investor in a nation. Development in the stock market is therefore a crucial indicator of economic expansion. Using time series data covering the years 1977–2020 and the Autoregressive Distributed Lag (ARDL) co-integration technique, the current study examines the contribution of Pakistan's stock markets to the country's economic expansion. Economic growth is negatively correlated with population growth. The performance of the stock market, investments, and the presence of a military regime all positively and significantly affect Pakistan's economic growth.

Chikwira and Mohammed, (2023) claimed that money and liquidity, which are essential for economic growth and stability, are transferred through stock markets. The purpose of this study was to ascertain whether the effects of the stock market are shared in an environment that is politically unstable, volatile, and characterized by high rates of inflation. Using quarterly data from 2013 to 2022, a time series Vector Autoregressive model (VAR) was employed in the study. According to the study, at the 10% level, there is a positive statistically significant correlation between the stock market and economic growth. However, the liquidity of the stock market has little impact on Zimbabwe's economic growth). Therefore, the study recommends that policymakers carefully consider the regulations governing the stock market and loosen certain requirements for companies to be listed on stock exchanges. This will attract more internal and external businesses to listing, which will increase the liquidity of the stock market. The ZSE should also create a plan for the phased introduction of the commodity derivatives exchange, since Zimbabwe's abundant mineral resources and healthy agriculture could greatly boost the nation's revenue. Islam et al. (2023) used statistical techniques like descriptive statistics, Pearson correlation analysis, and multiple regression analysis to examine the effects of macroeconomic drivers on the Dhaka stock exchange, or DSE 30 index, including the gross domestic growth rate, inflation rate, and industrial production index. They discovered a strong and favorable correlation between the GDP rate and the index of the Bangladesh Stock Market. This suggests that a rise in the GDP causes the stock market to

rise in tandem. Their analysis confirms that one important factor influencing the performance of Bangladesh's stock markets is the country's GDP. As a result, rising GDP equals more opportunities for investment, which boosts stock markets. The outcomes also showed that the stock market stimulates entrepreneurship and generates new job opportunities, both of which have a positive impact on the economy. Furthermore, Elfeituri et al. (2023) discovered that the Gulf countries' stock market and economic growth have a positive correlation that is influenced by stock turnover and capitalization.

Ady et al. (2022) expressed that lately, regulators and scholars have had to pay attention to the digitalization of the financial markets, which is a need of the modern world. As a result, the current article examines how investors' adoption of technology and psychological objectivity regarding technological advancements affect Indonesia's capital market's digitalization. The study examines at the psychological objectivity surrounding technological advancement, the digitalization of the Indonesian capital market, and the mediating role that technology advancement plays in investors' behaviour toward technology adoption. Data from the chosen respondents was gathered for the article using questionnaires. Additionally, the study used smart-PLS to test the association between the variables using PLS-SEM. The findings showed that there is a positive correlation between the digitalization of Indonesia's capital market and investors' adoption of technology and psychological objectivity regarding technological advancement. The results also showed that the digitalization of Indonesia's capital market and investor behaviour are mediated by technological advancements and psychological objectivity. The study supports investor behaviour and psychological objectivity toward technology adoption, which helps policymakers develop policies related to the digitalization of the capital market.

Borteye and Peprah (2022) employed a correlational research design in Ghana, utilizing SPSS software to investigate the impact of stock market development on economic growth. The study focused on the stock market's size, capitalization, and liquidity in order to determine whether these factors contribute to economic growth. According to their findings, there is a positive correlation between stock market liquidity and economic growth, and there is a negative correlation between market size and economic growth. The study's findings, which indicated that there was no statistically significant correlation

between stock market development and economic growth in Ghana, suggested that the study was unable to determine the overall impact of the stock market on growth. The growing number of counters listed on the Ghanaian stock exchange was brought up in their study.

Algaheed, (2021) examined and evaluated the relationship between capital market development and GDP growth per capita in the Saudi Arabian economy from 1985 to 2018. Johansen, FMOLS, and ARDL tests are used. A log-linear eclectic model tailored to the data availability is used to calculate the stock market indicators, which include the share price index, capitalization, liquidity, number of share transactions, and number of shares. Contrary to the results of numerous studies published in the economic literature, capitalization and liquidity showed negative indicators. Nonetheless, the ratio of share transactions, the number of traded shares, and the share price index all showed the correct a priori indications. The results present significant doubts regarding the market's size, the actions and initiatives made to expand it, and their effects on the ability of the capital market to support GDP growth per capita. The market capitalization, share price index, number of traded shares, and Granger causality test do not contribute to per-capita GDP. Even at the five percentile, they are noteworthy. To support economic growth, the capital market authority (CMA) ought to develop a plan for quickly deepening the capital market.

Osamwonyi and Osaseri (2020) investigated the economies of South Africa and Nigeria from 1995 to 2015. To determine the impact of the stock exchange on economic growth, the study used panel estimation techniques along with the Granger causality test and ordinary least squares. The findings demonstrate that, in the Nigerian economy, economic growth is not a product of the stock exchange and vice versa.

Nathaniel et al. (2020) used the RDL approach to examine the Nigerian economy from 1980 to 2016, they discovered that the stock markets were stimulating the creation and advancement of innovations, which in turn had stimulated economic growth. The test demonstrated that, in contrast to the long term, this was the case in the short term. Of the variables examined, only trade openness was found to be insignificant in the short run. However, it was found to be significant in the long run, meaning that it affects economic

growth if it continues on its current course over an extended period of time. Furthermore, this study in Nigeria demonstrates that trade openness was negatively correlated with economic growth. In addition, they suggest measures that would encourage increased stock exchange participation and advance market accountability, stability, and liquidity.

Elhassan and Braima (2020) examine how Sudan's economic growth is impacted by the performance of the Khartoum Stock Exchange (KSE) market, focusing on the period from the first quarter of 1995 to the fourth quarter of 2018. The study evaluates the effect of the stock market on economic growth using an Autoregressive Distributed Lag (ARDL) bounds testing model with data from the KSE and the Central Bank of Sudan (CBS). The results show that the influence of KSE market performance on economic growth is not very great. The results of the ARDL test specifically show that, after a short-term shock, the rate of adjustment towards long-term equilibrium is only 24%, indicating the stability of Sudan's economic system through stock market performance. The turnover ratio and the value of stocks traded have negligible negative effects on growth, whereas market capitalization has a long-term positive and significant influence on economic growth. According to the study, Sudanese policymakers should create appropriate investment regulations to improve the KSE's capacity to draw in both domestic and foreign capital, enhancing market efficacy and efficiency and ultimately promoting economic expansion.

Shravani and Sharma (2020) examined the relationship between a few indicators of the Indian Stock Exchange and the industrial production index, taking into account the years 1996–1997 through 2015–2016. They employed a vector error correction model and an autoregressive distributed lag estimator in their analysis to determine the long-term relationship. The analysis discovered a long-term correlation between economic expansion and the stock market. In order to encourage more companies to participate in the stock exchange, Indian policymakers are considering reducing the restrictions on the listing requirements.

Qamruzzaman and Wei (2018) analyzed financial innovation and stock market growth from 1980 to 2026 in order to analyze Bangladesh's economy. Their methodology for determining the results included Granger causality tests and ARDL tests. The long-term

relationship between financial innovation, the stock market, and economic well-being is confirmed by the ARDL tests. Moreover, bidirectional relationships were found in both the short- and long-term associations according to the Granger causality tests. The results support the hypothesis that the drivers of economic growth are financial innovation and development.

Pan and Mishra (2018) examined causality and structural breaks in their investigation of the long- and short-term relationships between China's stock market and real economy. The market capitalization of stocks "A" and "B" on the Shanghai and Shenzhen stock exchanges was gathered on a monthly basis for the study. However, because China is a large country and the stock market makes up a small portion of the total economy—not enough to have an impact on the economy—the study found no relationship, at least not in the short run, between the stock market and the real economy

Silva et al. (2017) found a correlation between economic growth and stock market performance and examined the impact of stock market performance on growth. Data from companies listed on the Colombo stock exchange for sixteen years, from 2000 to 2015, were analyzed using SPSS software using the econometric technique of simple regression model and correlation analysis. The study's conclusions are consistent with earlier research, which shows a substantial positive correlation between Sri Lanka's economic expansion and stock market performance. This study adds to the body of literature and gives academics and economists in developing nation's useful information.

Osaskwe and Ananwde (2017) used data from Nigeria from 1989 to 2015 to apply the Autoregressive Distributive Lag (ARDL) model in order to study the co-integration relationship between stock market development and economic growth. The authors employed the real gross domestic growth rate as a surrogate for economic growth, and the market capitalization ratio and turnover ratio as markers of stock market development. The results demonstrated a positive correlation between stock market development and economic growth in Nigeria, both in the short and long term.

Yapatake (2016) used time series secondary data spanning the years 1993 to 2015 to investigate the effect of the stock market on Mauritius' economic growth. The findings demonstrated that there is no long-term causal relationship between economic growth and

the market capitalization, turnover, and value traded ratios. The remaining variables, such as the market capitalization ratio and the value traded ratio, do not have a short-run causal relationship with economic growth, but there is one that runs from the turnover ratio to economic growth.

Kajuroval and Rozmahell (2016) studied into the relationship between EU countries' economic growth and stock market development. Specifically, the nature and direction of causality are examined. The nature and direction of causation were determined using panel data approaches such as Granger causality tests, co-integration tests, and vector error correction models. In the sample of Euro area members, long-term effects of economic expansion on stock market development were found. Only the short-term effects of stock market development on economic growth were observed in non-Euro area nations.

Machuki, (2016) aimed to determine the link between performance of stocks and growth of economy as measured by the GDP in Kenya. The research did an analysis of stock market factors like; stock market capitalization (MC), stock turnover ratio (STO), stock traded value (TVL), number of listed securities (LS) and stock market index (MI) against the gross domestic product (GDP) which was used as a proxy for economic growth. Studies done on African stock markets portray them to be petite and hindered by various factors like stock market illiquidity. These studies also point out that countries with well-developed financial markets have a better level of per capita income than those with less developed markets. This notion is also confirmed by various theories which state that there is a big role that financial markets (stock markets) play in boosting economic growth through provision of long-term capital for projects and risk diversification.

Azam et al. (2016) investigated the impact of the stock market on the economic development of four nations: Bangladesh, India, China, and Singapore. The World Bank database provided annual time series cross-country data for the study, spanning the years 1991 to 2012. The study's variables and findings demonstrate the long-term co-integration of inflation, FDI, and economic growth with the development of the stock market.

2.3 Summary of Literature

The literature has been included from national journals, articles, conference papers as well as international. The study has been trying to establish relationship between the dependent and the independent variables through the literature review. The literature review presented in the second chapter of the study has been enlisted in the following table.

Table 1*Summary of Literature Review*

Authors (Date)	Journal Name	Research topic	Objectives	Methodology	Findings
Ukoh J. E. (2024)	African Banking and Finance Review Journal, 8(8)	Stock market performanc e and economic growth in Nigeria	To examined stock market performance and economic growth of Nigeria	The study used autoregressive distributive lag model (ARDL) using data from 2001 to 2022	The result of findings shows that value traded, all share index and market capitalization have a positive relationship with economic growth
Bharat Ram Dhungan a (2023)	Journal of Business and Social Sciences Research Vol 8(2).	Stock Market Developme nt and Economic Growth of Nepal	To examine the development of Nepal's stock market and economic growth in Nepal	The study adopted methods such as the Johnson co- integration test, Granger causality test, and VAR model.	The economic growth and stock market development are causally related in unidirectional manner by the Granger causality test. It concludes that stock market development matters for economic growth in the short and long run.

Ady et al (2022)	International Journal of E-business and E-Government Studies, 14(2),	The role of investors' behaviour and psychological unbiasedness on the digitization of the capital market in Indonesia	To explore how investors' adoption of technology and psychological objectivity regarding technological advancements affect Indonesia's capital market's digitalization	The study used smart-PLS to test the association between the variables using PLS-SEM	The findings showed that there is a positive correlation between the digitalization of Indonesia's capital market and investors' adoption of technology.
Bhattarai et al. (2021)	Global Business Review 1–15	Stock Market Development and Economic Growth: Empirical Evidence from Nepal	To examine the relationship between stock market development and economic growth in Nepal.	The study has employed autoregressive distributed lag (ARDL) model with bound testing procedures. The study period covers annual time series from 1994 to 2019	The findings revealed that stock market size and liquidity are significant contributors. In the same way the control variable market inflation shows no significant impact on either of the primary variables.
Yogesh	The	Contributio	To analyze	The study	The study found a

Ranjit (2021)	Economic Journal of Nepal, Vol. 44(1&2)	n of Stock Market Development on Economic Growth of Nepal	the contribution of stock market development on economic growth of Nepal	followed ARDL model, cointegration test, bound test, CUSUM, and CUSUMQ test for data analysis	significant role of broad money supply, market capitalization and NEPSE index to real GDP. But, there is a weak contribution of stock market turnover to real GDP
Algaheed, (2021)	Journal of Business Economics and Management, 22(2),	Capital market development and economic growth: an ARDL approach for Saudi Arabia	The relationship between capital market development and GDP growth per capita in the Saudi Arabian economy	The study adopted Johansen, FMOLS, and ARDL tests to explore relationship among variables.	The results revealed that economic growth can be attained by increasing the size of the stock markets of a country as well as the market capitalization in an Saudi Arabia market.
Jhabindra & Pokharel (2020)	Westcliff International Journal of Applied Research Vol. 4(1)	Capital Market Linkage to Economic Growth in Nepal	To examine the causal relationship between capital market development and economic growth in Nepal	The study has adopted Johansen cointegration test and vector error correction method (VECM) in regression analysis	The findings from this study conclude that there is unidirectional causality running from capital market development to economic growth in both the long-run and short-run.
Elhassan,	Economic	Impact of	To examine	The study uses	The results show

T., & Braima, B. (2020)	es, 8(4),	khartoum stock exchange market performance on economic growth	how Sudan's economic growth is impacted by the performance of the Khartoum Stock Exchange (KSE) market	Autoregressive Distributed Lag (ARDL) bounds testing model with data from the KSE and the Central Bank of Sudan (CBS).	influence of KSE market performance on economic growth is not very great. The turnover ratio and the value of stocks traded have negligible negative effects on growth, whereas market capitalization has a long-term positive and significant influence on economic growth
Milka Grbic (2020)	Post-Communist Economies, 33(4)	Stock market development and economic growth: The case of the Republic of Serbia.	To examine the relationship between stock market development and economic growth in the Republic of Serbia.	The analysis is carried out within the Vector Autoregressive model, using the Toda-Yamamoto-Dolado-Lütkepohl approach to the Granger causality test	The findings shows the positive response of economic growth to an unexpected stock market shock size, while liquidity shocks lead to alternate positive and negative responses to the economic growth rate in the short term
Krishna Babu	Effects of Stock	Janapriya Journal of	To analyze the	This study used analytical	This study significant

Baral (2019)	Market Development on Economic Growth in Nepal	Interdisciplinary Studies	relationship between stock market development and economic growth	research design that involves bivariate analysis by using simple regression model	relationship between economic growth and stock market development that explained 57.7 percent variation, and liquidity of the stock market explained 41.6 percent variation in economic growth of Nepal.
Jagdish Prasad Bista (2017)	The Nepalese Market Management Review	Stock Market Development and Economic Growth in Nepal: An ARDL Representation	To examine the empirical relationship between stock market development and economic growth in Nepal	The study adopted autoregressive distributed lag (ARDL) bounds testing approach for cointegration analysis. To determine the direction of the causality, Granger causality analysis has also been performed	Findings indicate that market capitalization has a significant positive impact on the economic growth in both long as well as in short run. However, results also showed that inflation has negative and significant impact on GDP per capita of Nepal in long as well as short run.
Silva et	Journal	Relationshi	To	Data from	The study's

al. (2017)	for Accounting Researches and Educators (JARE), 1(1)	p between stock market performance & economic growth: Empirical Evidence from Sri Lanka.	investigate the relationship between stock market development and economic growth in Colombo stock exchange.	companies listed on the Colombo stock exchange for sixteen years, from 2000 to 2015, were analyzed using SPSS software using the econometric technique of simple regression model and correlation analysis	conclusions are consistent with earlier research, which shows a substantial positive correlation between Sri Lanka's economic expansion and stock market performance.
Azam et al. (2016)	International Journal of Economics and Financial Issues Vol 6(3)	Stock Market Development and Economic Growth: Evidences from Asia-4 Countries	To examine the role of stock markets in economic growth for four Asian countries namely Bangladesh, India, China and Singapore	The study adopted annual time series cross country data over the period 1991 to 2012 and Autoregressive Distributed Lag (ARDL) bound testing approaches.	The empirical findings of the study reveal that stock market development and FDI inflows play vital roles in the process of economic growth and development in these selected countries.

2.4 Research Gap

The examination of how Nepal's capital market affects economic growth reveals a number of research gaps that call for more study. One prominent area of disagreement is

the connection between GDP growth and market capitalization, where conflicting results point to multidimensional dynamic. This uncertainty indicates that further research is necessary to determine how different factors, particularly in developing markets like Nepal, mediate or moderate this relationship. Furthermore, it becomes clear that there is still more research to be done on the functions that the Human Development Index (HDI) and Foreign Direct Investment (FDI) play in shaping economic growth via the capital market (Adeyeye, 2016; Okwu et al., 2020). Their possible side effects point to a productive direction for deepening our knowledge of the wider economic effects of the capital market.

Another gap is the temporal aspect of capital market impacts, more especially the differentiation between short- and long-term effects. Although previous research employs diverse approaches to evaluate these effects, there is still insufficient agreement regarding the capital market's impact across different time spans. Poudel and Raut, (2022) claimed that the lack of sufficient documentation regarding the role of market inflation in this particular context underscores the need for further investigation to elucidate the manner in which inflationary pressures interact with capital market dynamics and economic growth in Nepal.

Although the contribution of digitalization to GDP growth is acknowledged, more research is needed to fully understand its indirect effects on investor behaviour, market efficiency, and capital accessibility (Chen et al., 2021; Park & Choi, 2019). These features might shed light on the processes by which digitalization promotes economic growth. Last but not least, the micro-level dynamics of investor behaviour especially in response to financial literacy and digitalization remain insufficiently incorporated into the more comprehensive analysis of the effects on economic growth. Analyzing these particular behaviours could reveal how changing investor trends and preferences affect the macroeconomic picture. All things considered, filling in these research holes could greatly advance our knowledge of the intricate role that the capital market plays in propelling economic growth, especially in light of Nepal's changing economic environment.

CHAPTER III

RESEARCH METHODOLOGY

This section provided the overall plans and approach which will be useful for this research activity. This topic included definition of variables, scope of the study, research design, nature and source of data, tools and techniques of analysis. This research tried to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. The use of detailed research methods are described in the following sub headings.

Using quantitative research methods, the study has investigated the interrelationships of the study's variables. Quantitative research is the practice of collecting and analyzing numerical data. Finding averages and patterns, making predictions, assessing causal relationships, and extrapolating results to bigger groups are all possible uses (Johnson, 2004). Quantitative research relies on numerical data collection and analysis to answer research questions, but qualitative research also uses other types of data. Researchers can gather both quantitative and qualitative data in a mixed-methods study by, for instance, doing interviews with open-ended questions to elicit narratives and surveys with closed-ended questions to gather numerical data (Tashakkori & Teddlie, 2003). Consequently, in order to investigate the role of the stock market in the expansion of Nepal's economy, this study employed the following methodologies, procedures, and tools.

3.1 Research Design

Research designs such as descriptive, correlational, and analytical research were utilized in the process of carrying out the study. During the conceptualization and description stages of the research process, both descriptive and analytical research designs were utilized. In spite of this, a correlational research design has been utilized in order to investigate the dynamic relationship that exists between the variables of economic growth and the development of the stock market. In addition to this, the investigation of the relationship between growth indicators and stock market indicators is selected. Over the course of ten years, from 2013 to 2023, the research made use of a test of causality to

investigate whether or not there was a connection between the growth of Nepal's stock market and the country's overall economic expansion.

3.2 Population and Sample and Sampling Design

The NEPSE index has been utilized as the population, and companies whose shares are traded on the NEPSE floor have been utilized as the sample. There are a total of 358 companies listed on the NEPSE in 12 sectors, including equity (249), mutual funds (35), and non-convertible debentures (74), as per the report by SEBON. The concern of the study has been on Nepalese stock market in light of its problems, prospects and economic growth. Therefore, NEPSE was taken as sample, which will reflect the overall data of all the companies to achieve the research objectives. For sample size the data obtained on the basis of stock turnover, market capitalization, money supply, NEPSE index and digitalization are being based on the data from the time period 2013 to 2022 BS. Being based on the time period data the study has adopted the sampling technique and the findings of the study were discussed.

Non-probability sampling design is used in the study. Purposive sampling design has been used in the study since the researcher is about to analyze the impact of stock market development on economic growth of Nepal. The non-probability sampling technique uses subjective judgement of the researcher to select samples required for the study. The researcher has chosen the listed companies in the NEPSE that makes up overall data of stock turnover, market capitalization and other variables as the study is concerned about the stock market.

3.3 Nature and Sources of Data

Only secondary data was used in this investigation. Given that the study is concerned with both the overall values of stock market activity and the overall values of the economy. The necessary information is gathered on the following variables: market capitalization, money supply, Real GDP, trading turnover, number of listed securities, and NEPSE index. The right relationship has been used to produce the data on the variables, such as stock market volatility. The additional data and information was extracted from a number of sources such as:

- Annual reports of NEPSE.

- Annual reports of SEBON.
- Annual reports of CDS and Clearing Limited
- Economic survey
- Nepal Rasta Bank's Economic Report.

3.4 Methods of Analysis

The SPSS software has been utilized to examine the relationships between GDP performance and stock performance. This study's analysis employed quantitative data analysis techniques, such as inferential and descriptive statistics. Frequencies, measures of dispersion (standard deviation, range, and variance), and measures of central tendency (mean, median, or mode) was included in descriptive statistics. Correlation, regression, and analysis of variance are examples of inferential statistics that was used to determine the relationship between the variables. Pie charts, figures, and tables has also been used to portray the data, and they were helpful in showing the research's findings as well as effective. The data analysis was presented using tables and graphs.

Descriptive Analysis

The first step in data analysis is descriptive analysis, which aims to summarize and interpret the key elements on Nepal's economic growth and stock market development. The skewness in the data and typical values can be comprehend by computing measures of central tendency, such as mean, median, and mode. Standard deviation, variance, and range are examples of measures of dispersion that shed light on the variability or dispersion of data points. Relationships, like those between GDP growth and stock market performance, are easier to see when trends and patterns over time are visually represented using data visualization techniques like bar charts, line charts, and histograms.

Correlational Analysis

When two variables, like market capitalization and GDP growth or stock turnover value and economic growth in Nepal, are related, correlation analysis measures the strength and direction of the relationship. The most widely used metric, the Pearson correlation coefficient, has a range of -1 to +1. Values close to +1 denote a strong positive

relationship, values close to -1 a strong negative relationship, and values close to zero indicate no linear relationship. A strong positive correlation between economic growth and stock market development suggests that when stock market indicators improve, economic growth also tends to rise.

Regression Analysis

By analyzing the effects of independent variables on a dependent variable, regression analysis allows to evaluate how Nepal's stock market development indicators such as market capitalization, Nepse index, stock turnover value, digitalization of share market and money supply influences the country's economic growth. The strength and direction of these relationships can be determined by interpreting regression coefficients; for instance, a positive coefficient for market capitalization indicates that, under the assumption that all other variables remain constant, GDP growth rises with market capitalization. P-values and R-squared values, which show how well stock market indicators explain GDP growth, are used to evaluate the significance of the model.

Model Specifications

The regression models in this study are as follows:

$$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + E_i \dots\dots\dots (1)$$

Where, Y_1 = Dependent variable

X_1 = Variable 1

X_2 = Variable 2

β = Coefficient of Independent Variables

E = Error term

α = Constant

Empirical Model

The study has been based on following model which has been adopted in the study:

$$Y = \alpha + \beta_1 MS + \beta_2 MC + \beta_3 STV + \beta_4 NPI + \beta_5 DG + E_i \dots\dots\dots (1)$$

Here,

Y = Gross Domestic Product

MS = Money Supply

MC = Market Capitalization

DG = Digitalization of share market

STV = Stock Turnover Value

NPI = NEPSE Index

E = Error term

3.5 Research Framework and Definition of Variables

The ratio of market capitalization to real GDP is used to assess whether the market is generally overvalued or undervalued in relation to historical averages. Along with the growth in the market's size as indicated by market capitalization, the economy's size as indicated by real GDP increased. Real GDP and trading turnover would have a negative relationship. Due to the significant annual fluctuations in many companies' merchandise, average inventory is utilized rather than ending inventory. Because of this, they would prefer to stick with the same businesses despite low Real GDP for a longer period of time. Real GDP is likely to rise in countries with a higher number of listed securities. Real GDP and this relationship are positively correlated. Real GDP and NEPSE are directly correlated. Real GDP would rise in tandem with an increase in NEPSE.

The study objective is to establish the relationship between independent variable and dependent variable of the study (Ranjit, 2021). Therefore, the study is framed as:

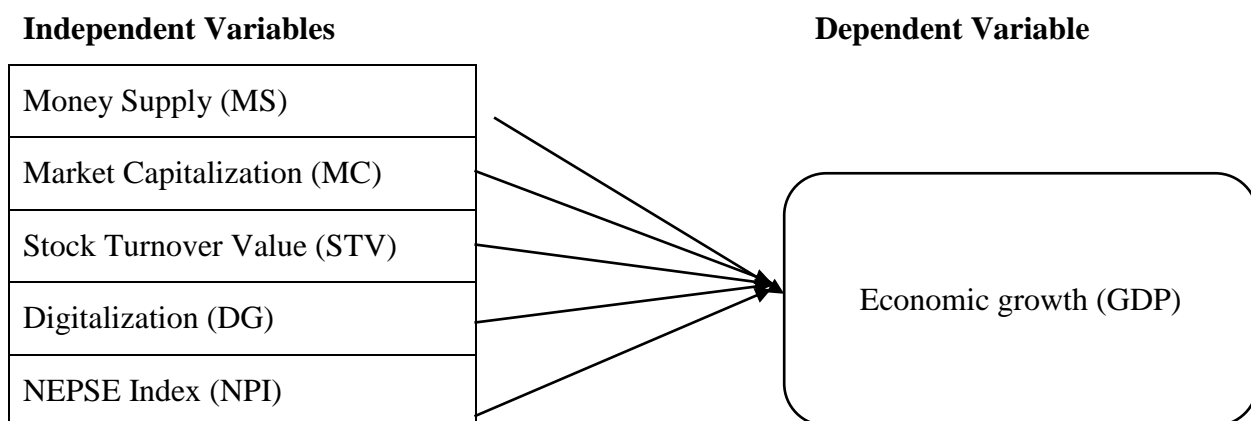


Figure 1

*Conceptual Framework***Specification of Variables**

Money Supply (MS): A given economy's money supply is the total amount of currency (C) that the public has in circulation as well as demand and time deposits (DD) that they have made with banks. Because MS has an adverse effect on interest rates (Chaitip et al., 2015), it is therefore considered an indirect indication of stock market development.

Market Capitalization (MC): The total monetary worth of all the outstanding stocks of all listed firms is known as market capitalization, or market cap (Pavone, 2019). It is computed by multiplying each listed company's current stock price by the total number of outstanding shares. It calculates the stock market's size. The size of the stock market has a beneficial impact on the expansion of the economy.

Stock Turnover Value (STV): A measure of liquidity called share turnover indicates how simple it is for investors to find a buyer or seller and turn a stock into cash (Wang et al., 2021). The number of shares outstanding during a given period divided by the total number of shares traded during that period is how share turnover is computed. Low transaction costs in the stock market indicate that buying or selling stocks is simpler for investors when the turnover value of the stocks is high.

Digitalization (DG): In the context of this research, the term "digitization" refers to the process of incorporating digital technologies into the operations, services, and infrastructure of Nepal's stock market. Through technological advancements, this variable encompasses a variety of aspects that collectively improve the stock market's efficiency,

accessibility, transparency, and overall functioning (Pirogova & Loubochkin, 2022). Overall, these improvements are made possible by the stock market.

NEPSE Index (NPI): The term "stock index" refers to the barometer used to gauge the economy's performance on the stock market. The Nepalese stock market's overall performance is displayed by the NEPSE index (Maskey, 2022). By dividing the current market capitalization by the market capitalization of the base year and multiplying the result by 100, the NEPSE index is computed.

CHAPTER IV

RESULTS AND DISCUSSIONS

This chapter displays and analyses the secondary data acquired in a systematic manner. In the investigation, several statistical and regression models from the prior chapter were applied. There are three parts to this section.

4.1 Results

The study has variables such as Stock turnover value, Market capitalization, NEPSE Index, Digitalization and Broad money supply to influence economic growth of Nepal which is represented by Gross Domestic product.

Data Representation of the Variables

Stock Turnover Value (STV): This represents the liquidity of the stock market, showing how easily stocks can be bought or sold. An increase in this value suggests a more liquid market, which is conducive to economic growth by making it easier for investors to participate in the market. The data shows fluctuations, with a significant peak in 2021AD followed by 2022AD and 2023AD, indicating a highly liquid market during that year. After the pandemic the investors were very attractive towards the stock market since the pandemic has just coming to easier and user friendly online portals were introduced and put into practice at that moment. Digitalization of share market and capital market where some records have been set in the year 2020-2021 AD which has helped to increase the stock turnover value.

Market Capitalization (MC): Reflecting the total value of all listed companies in the stock market, this variable has generally trended upwards over the decade, indicating growing market size. This growth is considered positive for the economy as it implies a larger stock market, which can support economic expansion through increased investment opportunities. The capitalization is highest in the year. Market capitalization of NEPSE has become maximum in the year 2021AD followed by 2023AD and 2022AD. The lowest was found in the year 2013AD. The data has shown that after 2020AD the market size has been increased. This can be the outcome of large number of IPO listing in the share market. Many companies were seeking to issue IPO in premium prices also.

The trend for premium IPO listing has touched year 2021AD which can be the major reason for increasing market capitalization over the years. The figure below represents the market capitalization chart over the year ranging from 2013AD to 2023AD in the Nepalese share market.

Digitalization: Measured by the number of dematerialized accounts, this variable has seen exponential growth, especially noticeable from 2015AD onwards. This growth signifies increased ease and transparency in stock market transactions, potentially leading to higher participation rates and efficiency in the market, contributing positively to economic growth. Since the 2021AD occurred the demat users raised exponentially. The listing of NIFRA company share to general public at the rate of Rs. 100 par value has led to the increasing number of demat users in the share market. The introduction of 10 shares maximum to each applicants in case of IPO being oversubscribed has also led to increasing number of demat users . Many microfinance companies and insurance companies along with hydropower companies were seeking to issue initial offering to the public to raise capital. Therefore the chart shoes rapid growth of demat users after 2020AD.

Broad Money Supply (MS): This reflects the total amount of money available in the economy, including currency and various types of deposits. The steady increase in money supply over the years could indicate an expanding economy but also has implications for interest rates and inflation, which in turn affect economic growth. The money supply has been normal not much of fluctuation. The money supply is being monitored by Nepal rastra bank which is the central controller of demand and supply of money in the market to maintain stable economy.

GDP: The ultimate measure of economic growth, Real GDP has increased significantly from 2012/13 to 2022/23, despite some fluctuations. The most notable jump is observed in the last year of the dataset that is in the year 2023AD followed by 2022AD and 2021AD respectively, which might reflect the cumulative effects of developments in the stock market, digitalization, and monetary policies. The increasing remittance in the country has led to major GDP increase in the country. In the contrary, the nation economy has been totally dependent on the remittance money. The nations has not been

able to sustain agriculture and tourism production which can be the sustainable production to increase GDP in the country and develop growth towards industrial level and technological aspects. The figure below represents the GDP data ranging from the year 2013AD to 2023AD.

Descriptive Analysis

Table 2

Descriptive analysis

Variables	Mean	Std. Deviation	Coefficient of Variation (CV)
Stock turnover	367.24	492.37	134.07
Market capitalization	1915.11	1029.12	53.73
Digitalization	1898370.09	212.92	0.011
Broad Money Supply	88.621	18.95	21.38
NEPSE index	1512.77	648.94	42.89
GDP	2292.61	1145.19	49.95

The table 2 represents data that shows an average of roughly 367 units for stock turnover, which indicates a moderate degree of trading activity in the stock market. The high standard deviation of about 492 units, which indicates notable variations in trading volumes year over year, sheds more light on this. Such variability suggests both high and low trading activity periods, which are indicative of the dynamic nature of the market and may be impacted by investor sentiment, market liquidity, and outside economic factors. The average market capitalization is approximately 1915 units. This number helps us understand the size of the stock market as a whole as well as the total value of all listed companies. The standard deviation, which is estimated to be around 1029 units, shows that the market size varies significantly between years. The total market capitalization can be affected differently by each of the following: changes in stock prices, the listing of new companies, and the delisting of existing ones.

The variable of digitalization seems to be particularly noteworthy, exhibiting an exceptionally high average of roughly 1,898,370 units. This could be a reflection of the overall number of digital transactions or the market's active digital user base. The stated standard deviation of 212.920, however, seems unusually low and raises the possibility of a mistake or misunderstanding. One would normally anticipate more variability in digitalization metrics given the swift expansion and dynamic nature of digital platforms in the finance industry. With an average of 89 units, the broad money supply provides information about the total amount of money in the economy, including deposits and cash in circulation. In comparison to other variables, the standard deviation of 19 units is comparatively low, indicating a more consistent growth in the availability of money with less volatility from year to year. Consistent monetary policy and economic management with the goal of preserving financial stability may be the cause of this steady growth.

The NEPSE Index measures the performance of the stock market and has an average of 1513 units with a standard deviation of roughly 649 units. The standard deviation's size suggests that the market's performance has experienced significant highs and lows, which can be ascribed to a wide range of factors such as global market trends, investor confidence, and economic conditions. Lastly, the GDP variable highlights the expansion and fluctuation in Nepal's economy with an average of roughly 2293 units and a standard deviation of about 1145 units. The wide variation in GDP growth rates among the years emphasizes how the nation's economic performance is influenced by both national and international economic policies, market dynamics, and other external factors.

Correlation Analysis

The provided correlation matrix provides a detailed understanding of the relationship between Nepal's GDP growth and various independent variables, including Stock Turnover, Market Capitalization, Digitalization, Broad Money Supply, and NEPSE Index. The coefficients illustrate the direction and strength of these relationships; they range from -1 to 1. The correlation coefficient which is denoted by r is a measuring tool of the strength of the straight line or linear relationship between two variables. Correlation coefficient (r) shows the strength and direction of linear relationship between the dependent and independent variables. The correlation coefficient takes on values

ranging between +1 and -1 that means the correlation coefficient ranges from -1.0 (perfectly negative correlation) to +1.0 (perfectly positive correlation). The relationships between the dependent variable and independent variables can be either positive or negative (Laerd Statistics, 2022).

Table 3

Correlation Matrix

Variables	STC	MC	DG	MS	NI	GDP
Stock turnover	1					
Market capitalization	.879**	1				
Digitalization	.747**	.838**	1			
Broad Money Supply	.790**	.886**	.960**	1		
NEPSE index	.854**	.986**	.747**	.817**	1	
GDP	.492	.603*	.919**	.818**	.501	1
P-Value	0.278	0.018	0.000	0.164	0.025	

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

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

The table 3 shows a moderately positive relationship is suggested by the correlation coefficient of 0.492 between GDP and Stock Turnover. This suggests that, while the relationship isn't particularly strong, there is a moderate increase in economic growth for every increase in stock market trading activity. At 0.603, market capitalization and GDP exhibit a stronger positive correlation. The statistical significance of this correlation is indicated by a single asterisk. This implies that economic growth rises in tandem with the total value of all listed companies on the stock market, indicating the important role that the size of the stock market plays in influencing the economy.

The most notable positive correlation between GDP and digitalization is 0.919, denoted by double asterisks to indicate statistical significance. This remarkably strong correlation

suggests that the adoption of digital technologies and their advancements significantly contributes to economic growth, underscoring the central role of digitalization in the capital market. A rise in the total amount of money in the economy, including cash and deposits, is strongly correlated with an acceleration of economic growth, according to the Broad Money Supply's correlation coefficient of 0.818 with GDP. Lastly, there is a moderately positive correlation between GDP and the NEPSE Index, with a coefficient of 0.501. This suggests that gains in the performance of the stock market, as indicated by a rising NEPSE Index, moderately support economic growth in the nation.

As a whole, the analysis emphasizes that each of the independent variables positively affects Nepal's GDP, with digitalization being the most significant factor, followed by market capitalization, the NEPSE Index, stock turnover, and the broad money supply. These results demonstrate how crucial a thriving and digitalized capital market is to the nation's economic growth, along with an expanding money supply and strong stock market performance.

Regression Analysis

The causal link between the variables is determined using regression analysis. A causal relationship between two highly linked variables isn't always required. A regression analysis is required to discover a cause-and-effect connection between variables or among variables. To find the result, the researchers used SPSS to run a regression analysis.

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992a	.985	.970	199.08

a Predictors: (Constant), NEPSE index, Digitalization, Stock turnover , Broad Money Supply, Market capitalization

The table 4 represents how well a regression model forecasts the dependent variable, GDP, using a variety of predictors, including the NEPSE Index, Digitalization, Stock

Turnover, Broad Money Supply, and Market Capitalization. Specifically, the R Square value which is .985, or 98.5% requires particular attention. This coefficient of determination indicates a very high percentage of the GDP variance that the model can explain using only the independent variables that are included. In real terms, this means that changes in these particular market and economic factors account for almost all of the GDP fluctuations that have been observed. An excellent fit between the model's predictions and the actual data is indicated by a high R Square value, which confirms the significance of the chosen variables and their combined impact on Nepal's economic growth. This measure is critical to regression analysis because it measures how well the model describes the variance of the dependent variable. This gives analysts and forecasters a clear way to assess the model's explanatory strength and potential for use in forecasting and analysis.

Table 5

ANOVA

Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	129.428	5	2583.086	65.179	.000b
Residual	198.589	5	396.918		
Total	131.017	10			

a. Dependent Variable: GDP

b. Predictors: (Constant), NEPSE index, Digitalization, Stock turnover, Broad Money Supply, Market capitalization

Table 5 shows the analysis of variance (ANOVA) which is of vital importance in comprehending the statistical significance of the GDP prediction model utilizing digitalization, market capitalization, the NEPSE Index, and stock turnover as predictors. One notable aspect of this analysis is the significance value, represented in the ANOVA table as 0.000 (or 0.000b). The p-value, which is linked to the F-statistic of 65.179, plays a critical role in determining the validity of the model. The F-statistic is computed through a comparison between the mean square resulting from regression and the mean square resulting from residuals. In essence, it assesses whether the predictors of the

model offer a more accurate fit than a model lacking any predictors. A significance value of 0.000 indicates an exceedingly low likelihood that the observed F-statistic could have materialized under the null hypothesis, which posits that all predictors in the model had no discernible impact on GDP. To put it simply, this indicates that the likelihood of the model's accurate predictions being attributed to random variation is extremely low, thereby confirming the statistical significance of the correlation between the independent variables and GDP. As a result, this highlights the efficacy of the model in elucidating fluctuations in GDP, thereby substantiating the selection of predictors and their pertinence to the analysis of economic growth. Ensuring confidence in the predictive capabilities of the model is contingent upon this level of statistical significance, which provides a solid basis for subsequent analyses, policy formulation, and economic forecasting.

Table 6

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2708.839	970.103		2.792	.038
Stock turnover	-.334	.275	-.144	-1.216	.278
Market capitalization	-3.131	.909	-2.813	-3.444	.018
Digitalization	.001	.000	2.216	8.128	.000
Broad Money Supply	-23.032	14.141	-.381	-1.629	.164
NEPSE index	3.622	1.149	2.053	3.152	.025

a. Dependent Variable: GDP

Table 6 shows the standardized coefficients, also known as Beta values, and the significance levels in the regression analysis's coefficients table offer vital information

about the relative weights and statistical significance of each predictor variable's effect on GDP. Regardless of the units of measurement, the standardized Beta coefficient enables us to compare the magnitude of each independent variable's effect on the dependent variable (GDP) on a standard scale. This comparison is essential to comprehending the factors that the model uses most to predict GDP.

From the table with a Beta value of 2.216, digitalization stands out as having a significant positive effect on GDP, meaning that of all the predictors, an increase in digitalization is most strongly correlated with GDP growth. Its significance level of .000, which verifies the statistical significance of digitalization's effect on GDP and effectively rules out the possibility that this effect is the result of chance, emphasizes this even more.

Although they go against each other, market capitalization and the NEPSE Index both have important roles to play. With a significance level of .018, market capitalization's high negative beta value of -2.813 indicates a significant negative impact on GDP. This finding is statistically significant. Conversely, a significance level of .025 indicates that the NEPSE Index, which has a positive Beta value of 2.053, significantly positively impacts GDP. The divergent impacts of market capitalization and stock market performance on economic growth are emphasized by these beta values.

Despite their correlations with GDP, Stock Turnover and Broad Money Supply fall short of statistical significance, as shown by their higher p-values (.278 and .164, respectively). This implies that although there might be a correlation between these variables and GDP, there is insufficient data to make a firm claim about their influence in this model.

The standardized Beta coefficients show that Digitalization is the most effective predictor of GDP growth, with Market Capitalization and the NEPSE Index having notable but opposing effects. The significance levels indicate the degree of confidence that can be placed in these relationships, emphasizing the important role that digitalization plays in economic development as well as the complex effects that market dynamics have on GDP in this particular analysis.

Major Findings

The findings of the study were based on the secondary data obtained from annual reports of NEPSE, SEBON and other governing authorities of capital market. On these basis, the following are the major findings of the study:

- **Stock Turnover Value (STV):** One important finding is that there was a notable peak in liquidity in 2021AD, indicating a very liquid market. This peak points to a situation in which buying and selling stocks would be simple, which might encourage more investor participation and boost economic growth.
- **Market Capitalization (MC):** One significant finding of an expanding stock market is the overall upward trend in MC over the past ten years. This expansion points to a more stable economic climate that promotes more investment opportunities and overall economic growth.
- **Digitalization:** One important indicator of improved digitalization in the stock market is the exponential rise in the number of dematerialized accounts, which became especially apparent in the 2015AD period. This growth suggests a shift in market transactions toward greater efficiency and transparency, which will probably boost market participation and have a favorable effect on economic expansion.
- **Broad Money Supply (MS):** A consistent upward trend in the money supply over time is a noteworthy finding that points to a growing economy. This increase in deposits and available cash suggests that economic activity may be stimulated, but it also has an impact on inflation and interest rates.
- **NEPSE Index (NPI):** A stronger stock market is indicated by the NEPSE Index's noticeable upward trend, especially the later years' notable growth. This is an important discovery because it increases investor confidence and acts as a positive gauge of the state of the economy, which could lead to more economic growth.
- **GDP:** The noteworthy rise noted in the dataset's final year is the most startling finding in this regard. The observed increase in Real GDP could potentially be attributed to the combined beneficial impacts of advancements in the stock

market, digitalization initiatives, and prudent monetary policies on Nepal's overall economic expansion.

- The correlation between GDP and stock turnover is indicated by a correlation coefficient of 0.492 in the table, indicating a moderately positive relationship. This finding implies that, although the correlation is not overly robust, each quarter increase in stock market trading activity corresponds to a moderate expansion in economic growth.
- The correlation between market capitalization and GDP is more pronounced in the positive at 0.603. A solitary asterisk denotes the correlation's statistical significance. This suggests that there is a positive correlation between the aggregate value of publicly traded firms on the stock market and economic growth. This underscores the significant impact that the scale of the stock market has on the economy.
- The statistically significant positive correlation between digitalization and GDP is 0.919, which denotes strongly correlated. The observed correlation between technological advances and adoption of digital technologies and economic growth is particularly strong, indicating that digitalization plays a pivotal role in the capital market.
- The correlation between an increases in the broad money supply (BMS), covering both cash and deposits, and a surge in economic growth is powerful, as indicated by the Broad Money Supply correlation coefficient of 0.818 with GDP.
- The correlation between GDP and the NEPSE Index is moderately positive, as measured by a coefficient of 0.501. This implies that increases in the NEPSE Index, which signifies improvements in the stock market, provide a moderate level of support for the economic expansion of the country.
- Digitalization displays a notable positive impact on GDP, as indicated by its Beta value of 2.216 in the table. This indicates that among all the predictors examined, an upsurge in digitalization exhibits the strongest correlation with GDP growth. Its 0.000 level of significance verifies the statistical significance of the impact of digitalization on GDP.

- The R Square value of 0.985, or 98.5%, these coefficient of determination signifies a significantly high proportion of the variance in GDP that can be accounted for by the model exclusively through the inclusion of independent variables.
- The considerable negative impact of market capitalization on GDP is indicated by its high negative beta value of -2.813, which has a significance level of 0.018. There is statistical significance to this finding.
- On the other hand, a significance level of 0.025 suggests that the NEPSE Index, characterized by a positive Beta value of 2.053, exerts a statistically significant positive influence on GDP.
- Despite their correlations with GDP, the variables of Stock Turnover and Broad Money Supply fail to achieve statistical significance, as evidenced by their p-values of 0.278 and 0.144, respectively.

4.2 Discussions

The study is examining the effect of Nepal's capital market on GDP growth which is relevant to a worldwide discussion about the function of financial development in economic frameworks. The liquidity or the money flow in the share market in 2021AD is a major takeaway from the research that has served well for the investors in share market and trading climate. This finding aligns with the current worldwide trend towards digitalizing financial markets, as brought out by Ady et al. (2022), who claimed the importance of being technologically prepared and using technology to improve market operations. In a similar way, the positive correlations between digitalization which was measured through dematerialized accounts and economic growth indicators like GDP suggest that Nepal is moving towards more efficient and transparent markets. These findings show how digitalization has the potential to revolutionize financial sectors, and they are in line with those of other emerging markets.

These correlations and the thorough examination pointed to the importance of making the capital markets more transparent, efficient, and liquid. All of the research points to the same conclusion: strong capital markets are critical for a country's economy, investment

prospects, and overall financial security. Therefore, improving Nepal's financial market infrastructures should be a top priority, just as it should be for countries around the world. The research in other regions, like the EU and Sudan, has shown that market capitalization is an important indicator of investor confidence and a factor in economic stability (Vyshnevskiy et al., 2021). Future research and policymaking efforts should be guided by this understanding in order to fully utilize financial markets as a driver of sustainable economic growth. However, the exact role that local economic conditions play impacts these findings differently. Strong financial markets are essential to encouraging economic growth and stability, according to studies such as Pokharel (2020); Paudel & Acharya (2020), which further emphasize the importance of capital markets in this process. Improving market efficiency, liquidity, and transparency is imperative, according to the accumulated findings of these studies. These enhancements are crucial for Nepal, like for other countries, to use their capital markets to achieve long-term economic stability and growth, and they should direct policy decisions and future research in this important field.

CHAPTER V

SUMMARY AND CONCLUSIONS

5.1 Summary

The study examined how capital market affects Real GDP growth. The study examined how stock turnover value, market capitalization, NEPSE Index, digitalization, and money supply affected GDP. Stock turnover value and money supply were insignificant with GDP, according to the study. Market capitalization, NEPSE Index, and digitalization also affect GDP. The study found several key relationships between Nepal's GDP-measured economic growth and capital market indicators using secondary data from NEPSE, SEBON, and other capital market governing bodies' annual reports. The peak in Stock Turnover Value (STV) between 2021AD and 2022AD indicates a liquid market that boosts economic growth by increasing investor participation. Over the decade, the Market Capitalization (MC) rose steadily, indicating a growing stock market and a strong economy conducive to investment.

One of the most important findings is the exponential rise in digitalization, as shown by dematerialized accounts from 2014 to 2015. This increase suggests a major shift toward more transparent and efficient market transactions, which will likely boost market participation and economic growth. The study's rising Broad Money Supply (MS) indicates a growing economy, but it also raises inflation and interest rate concerns. Since user-friendly online portals were introduced and implemented after the pandemic, investors were very interested in the stock market. Many microfinance, insurance, and hydropower companies sought public offerings to raise capital. The chart shows rapid demat user growth after 2020AD. GDP has increased due to rising remittances. The nation's economy relies solely on remittances. The nation has failed to sustain agriculture and tourism production, which could boost GDP and industrial and technological growth. Figure below shows GDP data from 2013AD to 2023AD.

The NEPSE Index (NPI)'s upward trajectory, especially in recent years, suggests a stronger stock market, boosting investor confidence and indicating sound economic conditions for further expansion. Unexpectedly, Nepal's Real GDP rose significantly in

the dataset's last year, likely due to stock market advances, digitization efforts, and prudent monetary policies. The study's statistical analysis shows a moderately positive correlation between GDP and stock turnover, indicating that increased trading activity boosts economic growth. Market cap and GDP have a stronger positive correlation, highlighting the importance of stock market size for economic growth. Digitalization drives economic growth due to its strong positive correlation with GDP. GDP and the Broad Money Supply are strongly correlated, highlighting the impact of monetary factors on economic growth.

Digitalization is the best predictor of GDP growth due to its high Beta value, positive correlation, and statistical significance. R Square value of 0.985 indicates that the regression model can explain 98.5% of GDP variation. However, the significant inverse relationship between market capitalization and GDP and the positive correlation between the NEPSE Index and GDP highlight the complex relationship between stock market dynamics and economic growth. The study explains how Nepal's capital market variables affect economic growth. It stresses the importance of digitalization, economic growth, and stock market size, performance, and liquidity. The results show how these factors affect GDP and provide valuable information for investors, policymakers, and scholars interested in Nepal's economic growth.

5.2 Conclusions

The study on the capital market's impact on Nepal's Real GDP analyzes the relationship between Stock Turnover Value, Market Capitalization, NEPSE Index, Digitalization, and Broad Money Supply. The research highlights the complex relationship between the capital market and economic growth by carefully analyzing secondary data from NEPSE and SEBON. The study concludes that Nepal's economic development depends on the capital market. The study finds that digitalization drives economic growth, as shown by the strong positive correlation and beta value with GDP. Digital technologies in the stock market have transformed market transactions, resulting in the exponential growth of dematerialized accounts. This shift toward transparency and efficiency increases market participation and economic growth.

The analysis also shows the complex relationship between market capitalization, NEPSE Index, and economic growth. NEPSE Index has a positive correlation with GDP, while Market Capitalization has a significant but negative relationship, suggesting a complex interaction that may involve market valuations exceeding real economic output. Rising stock prices, as measured by the NEPSE Index, indicate economic health and boost investor confidence, which boosts economic growth. However, Stock Turnover Value and Broad Money Supply, both capital market fundamentals, did not correlate with GDP. This study suggests that while these elements are important for monetary stability and market liquidity, digitalization, market capitalization, and stock market performance may have a greater impact on economic growth.

Nepal's economic growth is influenced by the capital market, and digitalization is the most important variable. This highlights the importance of funding digital infrastructure and enacting capital market laws that encourage technological innovation. Conflicting results about market capitalization and the NEPSE Index's benefits suggest more research is needed to fully understand these relationships. Overall, this research provides useful advice to academics, investors, and policymakers who want to use capital market dynamics to boost Nepal's economy. The study supports a comprehensive capital market development strategy, emphasizing digitalization, market efficiency, and transparency for long-term economic growth.

5.3 Recommendations and Implications

Overall, the study shows that although the capital market has a big impact on Nepal's economic growth, realizing the full potential of this market requires cooperation from all stakeholders. Nepal can accelerate its economic development trajectory by concentrating on digitalization, market efficiency, and financial literacy.

- Public and private sectors should invest in digital infrastructure to support economic growth due to its significant impact. This includes market player and trading technology platform cybersecurity.
- Prioritize the promotion of financial literacy to maximize the benefits of digitalization and increase market participation. Educational campaigns can diversify the market by connecting tech-savvy and traditional investors.

- Policymakers should prioritize creating and enforcing regulations that promote market transparency and efficiency. Regulations that promote ethical business practices and prevent market manipulation ensure an even playing field for investors.
- The complex relationship between market capitalization and GDP growth requires further study. This may aid investor and policymaker decisions.
- Government may provide financial support to new and established businesses introducing innovations. Technology that improves market operations may be adopted faster.

Implications

The study's findings on the capital market's impact on Nepal's economic growth have implications for many industries, emphasizing the need for a multipronged approach to capital market advancements. The findings emphasize the need for policy frameworks that support capital market technological advancements. Regulators should pass laws that protect investor interests and market stability while promoting digital innovation. Digitization suggests a regulatory strategy that balances risk management and innovation, ensuring capital market growth and security.

The study clearly shows investors the benefits of using digital platforms and tools in trading. It advises them to be cautious when investing due to the complex relationship between market capitalization, the NEPSE Index, and economic growth. Investors must understand these dynamics to navigate the market and capitalize on growth. Banks and other financial institutions are crucial to capital market understanding. These companies can attract more investors by offering digital products and services. Their support of financial literacy initiatives allows more people to participate in and profit from the capital market, increasing market access and participation.

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APPENDIX

The following table presents the data for the study which consists of data from timer period 2013- 2023AD.

Year (AD)	Stock turnover	Market capitalization	Digitalization	Broad Money Supply	NEPSE index	GDP
2013	22.05	514.49	256	64.3	518.33	1507.2
2014	77.3	1057.17	534	67.5	1036.11	1553.5
2015	65.43	989.4	40934	70.1	961.23	1642.7
2016	164.65	1890.13	392359	77.5	1718.15	1700.4
2017	205.02	1856.82	873237	86.1	1582.67	1700.4
2018	121.4	1435.14	1294758	84.2	1212.36	1846.5
2019	110.1	1567.49	1570572	89.5	1259.02	1982.7
2020	150.03	1792.76	1752228	92.8	1362.65	2109.3
2021	1454.44	4010.96	3789542	108.8	2883.41	2058.1
2022	1202.1	2869.34	5346124	120.5	2009.47	4266.32
2023	467.12	3082.52	5821527	113.5	2097.1	4851.62

Source: NEPSE, SEBON, CDS and Clearing

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ABSTRACT The primary aim of the research was to examine the role that stock market development factors play in the expansion of Nepal's economy. Economic growth is the study's dependent variable, and the study's independent variables are Stock Turnover Value, Market Capitalization, NEPSE Index, Digitalization, and Broad Money Supply. Various research designs, including descriptive, correlational, and analytical research, were employed to conduct the study. The study used a test of causality to examine whether there was a relationship between the rise of Nepal's stock market and the nation's overall economic growth over a ten-year period, from 2013 to 2023. Purposive sampling design has been used in the study since the researcher is about