

**A STUDY ON RELATIONSHIP BETWEEN STOCK MARKET
AND ECONOMIC GROWTH IN NEPAL**

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I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “*A STUDY ON RELATIONSHIP BETWEEN STOCK MARKET AND ECONOMIC GROWTH IN 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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Babita Aryal
Researcher

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ABBREVIATIONS

AD	:	Anno Domini
ANOVA	:	Analysis of Variance
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
e.g.	:	Example
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
i.e.	:	That is
IN	:	Information
Ltd	:	Limited
MBS	:	Master of Business Studies
MC	:	Market Capitalization
MC	:	Market Capitalization
NEPSE	:	Nepal Stock Exchange
NOLS	:	Number of Listed Securities
OLS	:	Ordinary Least Squares
SD	:	Standard Deviation
SEM	:	Structural Equation Modelling
TT	:	Turnover

ABSTRACTS

This study examines the relationship between the stock market and economic growth. The analysis covers the period from fiscal year 2014/15 to 2023/24, reflecting the stock market's evolution since its inception in 1994. Secondary data has been utilized to investigate key variables, including Gross Domestic Product (GDP), market capitalization, turnover, the number of listed securities, and the market index. These variables provide a comprehensive view of both the stock market's status and its impact on the broader economy. The analysis of relationships between these stock market indicators and GDP reveals that the number of listed securities has a significant positive impact on economic growth. This suggests that an increase in the number of listed companies is associated with greater economic activity, potentially due to improved access to capital and increased business opportunities. This finding supports the idea that a more developed stock market can contribute to economic expansion by fostering investment and growth. In contrast, other stock market indicators such as market capitalization, turnover, and the NEPSE Index show weaker or non-significant relationships with GDP. Market capitalization and turnover, despite indicating stock market size and activity, do not show a statistically significant impact on GDP. This implies that while these variables reflect aspects of market activity, their direct influence on economic growth may be limited or overshadowed by other factors. These findings suggest that the stock market's influence on economic growth is complex and may be affected by a range of factors beyond stock trading and market activity. While a growing number of listed securities is positively correlated with economic growth, other aspects of stock market performance might not have a straightforward or immediate impact on the broader economy.

Key words: *Gross Domestic Product, market capitalization, turnover, the number of listed securities, NEPSE index*

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The government and policymakers have a growing concern for the stability of the stock market. The Nepalese stock market is more volatile and underdeveloped due to various reasons such as low investor awareness, manipulation and insider trading, inadequate regulatory framework and infrastructure, and political instability. The stable and developed stock market expands market capitalization and integrates the global. Stock market diversification is required in Nepal, which may provide wider investment opportunities and attract investors in various areas such as equity, bonds, commodities, and other securities. The link between economic development and stock market returns is a persistent financial problem. Recently, for example, several developing countries have accomplished striking growth; also numerous institutional investors are wondering whether they can give these countries a higher weight centered on gross domestic product (GDP) instead of market capitalization. Investors like these, expect that big future returns has explain this greater weight (Ghimire, 2022).

Institutional development of capital market in Nepal started after the establishment of Securities Exchange Center (SEC). The Industrial Policy of the government also encouraged the promotion of securities exchange in Nepal. Nepal government under a program initiated to reform capital market converted Securities Exchange Center (SEC) into Nepal Stock Exchange (NEPSE) in 1993 as nonprofit organization under Securities Exchange Act 1983. Similarly in the same year Securities Board of Nepal (SEBON) was also established by government of Nepal in June 7, 1993 as an apex regulatory body of Securities Markets. SEBON regulates the market under the Securities Act, 2006. Since the establishment of SEBON, it has been concentrating its efforts on the legal and statutory frameworks such as providing advice to Government on matters related with the development of capital markets, register the securities of public companies, issue necessary securities regulations and directives, issue license to operate stock exchange etc. Nepse has been working under the jurisdiction of the SEBON. Nepal Stock Exchange (NEPSE) opened its trading floor on 13th January 1994 after establishing under securities Exchange Act, 1983. Currently, NEPSE is the sole

secondary market for listed securities of Nepal. It works in the issue and redemption of securities and other financial instruments and capital events such as payments of income and dividends. The Board of Directors consists Nine directors in accordance with Securities Exchange Act 1983. Six directors are nominated by Government of Nepal and rest of the directors are from different institutional investors. The shareholder ownership structure of NEPSE comprises of Government of Nepal, Nepal Rastra Bank, Nepal Industrial and Development Corporation and Members (Vaidya, 2021).

Relationship between growth of GDP and performance of stocks has received a huge attention by various scholars; they conclude that the function played by the performance of stocks should in boosting the GDP cannot go unnoticed. Performance of stocks is critical in performance of GDP as it has a crucial component in the theory put forward to increased output (Nazir, Nawaz, & Gilani, 2010) .Stock market is believed to be a key area whereby accumulation of funds can ease performance of GDP. Stocks in countries with low levels of income experts say, they are increasing at an increasing rate (Bhoyu, 2011). Nepal stock exchange (NPSE) is an institution regulation stock market in Nepal. It is normally believed that huge decrease in stock prices reflects recession in the future and rising securities prices are foremost factors for boosting the GDP (Siong & Thing, 2008).

Based on the Economic Survey 2022-23, Nepal's GDP trend in 2023 showed a significant slowdown. The growth rate for the fiscal year 2022/23 was estimated to have decreased to 1.9%, a notable drop from the 5.6% growth rate in the previous year. This decline was primarily due to several factors, including tight monetary policy, the unwinding of COVID-era stimulus measures, persistent global economic challenges, and broader fiscal consolidation efforts. Nepal's GDP has shown significant fluctuations over the years. In 2022, Nepal's GDP was approximately \$40.83 billion, marking a 10.57% increase from 2021, when it was \$36.92 billion. This growth followed a 10.44% increase from 2020, which saw a GDP of \$33.43 billion. However, 2020 experienced a 2.2% decline from 2019, when the GDP was \$34.19 billion. The GDP in 2019 had increased by 3.25% from 2018. These figures reflect the economic resilience and challenges faced by Nepal over recent years, highlighting periods of both growth and contraction. In 2023, Nepal's GDP was approximately \$40.91 billion. This represents a slight decrease from 2022, when the GDP was \$40.83 billion. The GDP

per capita in 2023 was around \$1,375, which is marginally higher than the previous year (Economic Survey, 2024).

Donwa and Odia (2010) argues that well developed stock markets boosts savings from a theoretical perspective. Savings have been established to be positively related to the growth of GDP (Mnuro, 2000), he reveals that stock market form a foundation for investment through savings. Savings are equal to investments, which leads to change in capital stock hence economic growth. Sustaining in stock market which is performing well drives growth in the economy by easing flow of finances from savers to borrowers. This however, comes after addressing various issues which hinder stock market performance especially in developing countries like Nepal. Some of these challenges include; political instability, economic recession and frail corporate governance practices in some of the market intermediaries and outdated policies which hinder stock market performance.

The development of Nepal's stock market and economic growth are examined in this study since several factors, including stock market development, affect economic growth. The stock market development indicators are market capitalization, trading turnover, NEPSE index, gross capital formation, and gross national savings. The need to determine the relationship between growth in the economy and stock market performance in Nepal is addressed by this research. Reason behind this was that, to have a well performing stock market, there must be economic growth and thus, investors must be undertaking expansionary strategies requiring extra financing from the stock market whereas savers are believed to be having surplus capital for investment. Strong stock market performance especially in the periods of high economic growth is crucial in mending the allocation problem which ensures that borrowers access the available surplus funds from savers. The relationship between performance of stock market and growth in the economy in Nepal forms heart for this research (Dhungana, 2023).

Theoretically, according to a couple of specialists, theory gains should even more eagerly partner with GDP improvement. In light of everything, they fight, the shrouded economy drives corporate advantages and consequently pay per share, which over the long haul chooses the expense of an association's stock. As time goes on, all out corporate benefit raises when the economy creates or the opposite way around.

Regardless, this conceivably works when a country's economy is closed, valuations stay steady and if simply local associations are recorded on a country's protection trade. Clearly, we live in an overall economy, where many, if not most, exchanged on an open market association work in various countries. In this way, their development is impacted by business conditions, laws, financing expenses, charge and cash related methodology, money regards and various factors in each spot.

1.2 Statement of the Problem

This study focuses on the relationship between stock market and economic growth. Both theoretical and statistical, utmost attempt is carried to fight against the accusation, which describes stock market as casinos. Considerable debate exists on the question. Is financial system important for economic growth? Stock market is very important institution which plays a crucial role for the economic development of the nation. The research focuses on importance once of financial system in mobilising savings, formation of capital, expansion of corporation and hence economic development.

Various researches and policy makers have focused a high rate of economic growth leads to a high demand for particular financial agreement or arrangement, and the well-developed financial sector has automatically respond to these types of demand. Since the introduction of both finance-led growth and growth-led finance hypothesis, the relationship between financial development and economic growth has been subject to the considerable debate in the literature of development and growth.

Therefore, there exists a gap which this research study has address especially on how financial development relates on economic growth in Nepal. Due to lack of appropriate government policy & political uncertainty the Nepalese Stock Market has gone through fluctuating condition. During this research study period, there is lack of enough institutional investors in the market & more individuals investors are found in the market is major drawback of the Nepalese Stock Market. This study is taken to examine the contribution of the Stock Market in the Nepalese economic growth. The previous studies have not viewed the stock's performance as the engine for the growth of GDP which would cause policy makers to turn their focus on the stock market performance as many past studies have mainly concentrated on the banking sector. There has been

little study on the subject to specifically underpin the relationship thus; this study sought to fill that literature gap; Relationship between stock market performance and GDP performance in Nepal

This study has try to identify the relationship between stock market and economic growth in Nepal and find out the degree of affection of those relations. More specifically, this study is expected to answer the following research questions;

- i. What is the status of stock market and economic growth of Nepal?
- ii. Is there any relationship between stock market and economic growth of Nepal?
- iii. What is the impact of stock market on economic growth of Nepal?

1.3 Objectives of Study

The main objective is to analyze the relationship between stock market and economic growth. In other words different economic indicators are used and analysed to visualize the relationship between stock market and economic growth.

- i. To measure the status of stock market and economic growth of Nepal.
- ii. To examine the relationship between stock market and economic growth of Nepal.
- iii. To analyze the impact of stock market on economic growth of Nepal.

1.4 Hypothesis

Based on the objectives mentioned above, the following hypotheses have been developed.

Hypothesis 1: There is positive relationship between Market Capitalization and Real GDP in Nepal.

Hypothesis 2: There is positive relationship between Trading Turnover and Real GDP in Nepal.

Hypothesis 3: There is positive relationship between Number of listed securities and Real GDP in Nepal.

Hypothesis 4: There is positive relationship between NEPSE index and Real GDP in Nepal.

1.5 Rationale of Study

The relationship between stock markets and economic growth is well-researched globally, but it remains underexplored in emerging economies like Nepal. The stock market reflects investor sentiment and channels funds to businesses, promoting investment and economic expansion. Understanding this relationship in Nepal is crucial due to the country's developing financial sector and unique economic challenges.

Nepalese stock market, primarily represented by the Nepal Stock Exchange (NEPSE), has grown significantly in recent years. However, its impact on the broader economy is still debated. This study aims to bridge this gap by analyzing the correlation between stock market performance and economic growth in Nepal. The findings will provide valuable insights for policymakers, investors, and researchers, informing decisions related to financial market regulation, economic policy, and investment strategies. This research will contribute to a deeper understanding of how stock markets can support economic development in emerging economies like Nepal, offering practical implications for fostering sustainable growth.

1.6 Limitations of the Study

The studies have some limitations. Time constraints, financial problems and lack of research experience has primary limitation and the study is based on secondary data.

The main limitations of the study:-

- This study is fully based on the secondary data. Reliability of the finding depends upon the trustworthiness of the sources of data.
- Due to availability of limited information this study has not cover every part of the performance aspects.

- Only market capitalization, trading turnover, number of listed securities, NEPSE index variable are taken as independent variable and only real GDP is taken as dependent variable.
- The study only covers the past and present state of Stock market in Nepal, hence doesn't make any predictions about future.
- This study is limited only to the determinants, trends, & situation of Stock Market in Nepal.
- Only selected statistical tools are used.

CHAPTER II

LITERATURE REVIEW

In this a critical review of related literature is carried out. Many academician and researchers have studied about the factors influencing stock price in stock market of different countries in different time zones. In Nepal now a day, price of stocks is being more volatile than before this event has attracted many researchers to conduct research on this matter.

After selecting topic of the research, researcher study different magazines, journals, newspapers, book to collect the information about the subject matter. This process of studying different materials, which are concerned with topic, is known as review of literature.

The topic's literature study entails a methodical inspection and evaluation of extant scholarly works, research articles, and academic literature that explore, particularly in context of Nepal, connection between macroeconomic variables and stock market performance. In order to understand how macro-economic factors such GDP growth, inflation, interest rates, exchange rates, foreign direct investment affect stock market performance in Nepal, prior research on the subject has been reviewed. The goal of this review is to critically analyze and summarize the research findings, methodologies, and theoretical frameworks used in those studies. Through the identification of trends, patterns, and discrepancies in the literature, the review seeks to offer investors, policymakers, and researchers a thorough understanding of the dynamics and mechanisms underlying the relationship between macroeconomic factors and stock market returns in Nepal. This chapter presents the research project's current status, offers suggestions, and aids in preventing needless research project duplication. Theoretical review, assessment of prior research based on national and worldwide review, and research gap are thus covered in the three main sections that follow.

2.1 Theoretical Review

Numerous scholars have utilized various theoretical frameworks to establish a connection amid alterations on macro-economic factor and returns on the share market. Within this section, several ideas that link share market return to macroeconomic

variables are discussed. The paper includes an overview of theories on the connection between certain macroeconomic factors and the evolution of the stock market. Macroeconomic factors are thoroughly studied in order to determine how they affect the evolution of the stock market.

2.1.1 Business Cycle Theories

According to Kydland and Prescott (1982), Business Cycle Theory examines the cyclical nature of economic activity, linking it with macroeconomic factors that subsequently affect share market returns. Key factors like GDP growth, inflation rates, and employment trends are a good way to economic health and influence investor sentiment. During expansionary phases, characterized by robust economic growth and increasing consumer confidence, share markets typically experience uptrend as companies generate higher revenues and profits. Conversely, during contractions or recessions, declining economic indicators often lead to downturns when investors get increasingly risk averse in the share market and corporate earnings falter. Government policies, including monetary and fiscal measures, also play a crucial role in mitigating or exacerbating these fluctuations. Understanding Business Cycle Theory aids investors in anticipating market movements and adjusting their portfolios accordingly to capitalize on opportunities and manage risks effectively.

2.1.2 Macroeconomic Indicator Hypothesis Theory

According to Watson (1989) the Macroeconomic Indicator Hypothesis theory, a few significant macroeconomic variables have a direct bearing on stock market results. These metrics, which include GDP growth, inflation rates, and unemployment rates, act as gauges for the state of the economy as a whole and the mood of investors. According to this theory, stock markets often perform well as investors anticipate increased corporate profitability when macroeconomic data point to a robust economy, which is defined by high GDP growth and low unemployment. On the other hand, stock market returns may decrease in times of economic recession or high inflation, as investors grow more pessimistic about the firm's capacity to make money in the future. Investors must comprehend the connection between macroeconomic data and stock market returns in order to make wise selections and efficiently manage market volatility.

2.1.3 Monetary Policy Transmission Theory

Theory of monetary policy transmission developed by Rabin (1997) and explains how shifts changes in the central bank's money supply and interest rates affect financial markets, macroeconomic variables, and share market returns. According to the idea, important macroeconomic variables including inflation, economic growth, and employment are impacted by changes in monetary policy. For example, interest rate change by central banks influence borrowing costs, investment choices, and consumer spending, all of which have an impact on financial activity. Consequently, these alterations impact stock returns and pricing as well they ripple through the financial markets. Generally speaking, reduced interest rates promote economic expansion, which raises business profits, which raises returns on the share market. However, in instances when firms face more borrowing costs and fewer elevated interest rates and expenditure by consumers may stifle increase in the economy and reduce stock market gains. Therefore, important details on the complex interplay between monetary policy, macroeconomic variables, and share market performance is offered through the Monetary Policy Transmission Theory, which is beneficial to both investors and policymakers.

2.1.4 International Macroeconomic Factors Theory

According to the Froyen (1996), International Macroeconomic Factors Theory, domestic macroeconomic factors are shaped by global economic conditions, which in turn affect stock market returns. This theory stresses the interdependence of economies beyond national boundaries and the impact of global trade dynamics, exchange rates, and geopolitical events on financial markets and local economic performance. Changes in currency rates, for example, might impact the competitiveness of imports and exports, so affecting business profitability and economic growth. Changes in the rates of growth of the world economy can also have an effect on the demand for products and services, which can then have an effect on domestic production levels and stock market returns. In addition, supply chains can be disrupted, investor mood can be impacted, and uncertainty can be introduced by geopolitical tensions or major events in important trading partners. These factors can cause volatility in macroeconomic indicators as well as stock prices. In order to navigate the complexity of the global economy and financial markets and make wise judgments, investors and policymakers must thus comprehend and analyze international macroeconomic aspects.

2.1.5 Capital Assets Pricing Model (CAPM)

An idealized representation of how financial markets value securities and, in turn, compute projected yield on capital investments is provided by CAPM (Sharpe, 1964). The approach for measuring risk and converting it into projections of anticipated yield on equity is provided via this model. The fact that the projected equity expenses produced by the models are in objective is one of CAPM main advantages. Due to its inherent tendency to streamline the financial market environment, CAPM cannot be employed in isolation. However, in an effort to create practical and realistic cost of equity assessments, financial managers might use it to support other methods and their subjective assessment. Even though there is still a lot of dispute around its use, current financial theory is now routinely applied to investment management. Additionally, corporate financial issues are increasingly being helped by the same methods. One tool for assessing a company's equity capital cost is the CAPM, which is a theoretical depiction of the behavior of marketplaces for finances. The model can be a helpful addition to the analytical toolkit of the money management, notwithstanding its limitations.

2.1.6 The Arbitrage Pricing Theory (APT)

The arbitrage pricing theory (ATP) was developed by Ross (1976), which was created by Ross in 1976, is an additional method of connecting macro-economic factor to stock market returns. The CAPM, predicated on the mean variance framework and the premise of a process creating security, is expanded upon by this model. To put it another way, the market risk premium serves as the sole independent variable on which CAPM is based. The assumptions of homogeneous expectations, completely competitive marketplaces, and frictionless capital markets are shared by both CAPM and APT. Nonetheless, Ross (1976) suggests using the arbitrage pricing theory (APT) in conjunction with several factors to explain asset price. He states that certain economic forces, such as (i) unexpected changes in risk premiums; (ii) shifts in the expected level of industrial production; (iii) unexpected inflation; and (iv) unexpected changes in the form of the interest rate term structure, are the main drivers of stock returns. The sensitivity of the assets to each of these factors is shown by factor-specific coefficients. The concept of one price serves as the foundation for Alternative Portfolio Theory (APT), a new method of estimating asset values. In actuality, two identical goods

cannot sell for different prices in an efficient market since doing so would eliminate the possibility of an arbitrage opportunity.

2.1.7 The Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) developed by Fama (1963), which holds considering asset values represent information that is accessible & that investors are unable to continuously beat the market, provides a fundamental framework for comprehending the dynamics of financial markets. The Efficient Market Hypothesis (EMH) provides a theoretical framework for analyzing the efficiency of the Nepalese share market in relation to macroeconomic conditions & share market returns. The Efficient Market Hypothesis (EMH) declares stock prices ought to accurately reflect changes in economic indices like GDP growth, inflation rates, exchange rates, and interest rates, provided that the market effectively integrates all pertinent macroeconomic information. Any departures from this theory might point to market inefficiencies, give investors a chance to profit from mispricing, or imply the existence of behavioral biases. The study intends to shed light on the effectiveness and integration of the Nepalese stock market with broader economic trends by examining the degree to which macroeconomic factors influence stock market returns in Nepal within the framework of the EMH. This has provide insightful information for investors, policymakers, and researchers.

2.2 Empirical Review

This section reviews every previous empirical study that looked at a particular macroeconomic variable in relation to the stock market index. This section contains the reviews, both national and foreign.

2.2.1 International Context

Widagdo et al. (2020) studied the financial ratio, macro economy, and investment risk on sharia stock return. This study's objective is not to determine whether investment risk may act as an intervening variable in this investigation, but rather to examine and test the impact of financial ratios and macroeconomics on the returns of Islamic stocks listed on the Jakarta Islamic Index (JII). Using a sample group of 29 firms listed on JII for a 5-year period ending December 31, 2018, the data used is based on secondary sources. The collected data were examined using the AMOS (Analysis Moment of

Structural) 21 software in conjunction with the SEM (Structural Equation Model). The study's findings demonstrate that only financial measures have an impact on investment risk and sharia stock returns, and the mediation test revealed that there is no mediating relationship between financial ratios, macroeconomic conditions, and Islamic stock returns. These results suggest that the financial condition of the organization has a crucial effect. The financial standing of the business might indicate the future amount of risk that investors are having to take on in addition to having an impact on the rate of return that is realized. Properly enhancing financial performance would benefit many stakeholders and reduce investment losses.

Kalam (2020) examined the effects of macroeconomic variables on stock market returns: evidence from Malaysia's stock market return performance. The aim of the manuscript was to investigate the effects of macroeconomic variables on the stock market return. Multiple regression analysis is used in the study to analyze secondary variables over 20 years, from 2000 to 2019, and the ARDL test is tested for long- and short-term coefficients. The analysis shows a notable influence on the return on the Malaysian stock market, which may also have an effect on the long- and short-term coefficients. This has also clarified Malaysia's stock market performance. The study clarified that the regulator should refrain from taking arbitrary actions, maintain interest rates at a reasonable level, and enhance the external economic environment by implementing a rule-based exchange rate policy.

Huy, Loan and Anh (2020) investigated Impact of selected factors on stock price: a case study of vietcombank in Vietnam. The objectives of the study was to examine and assess the positive and negative effects, during the course of the 2014–2019 period, of seven (7) macro-economic factors on the share price of a joint stock commercial bank in Vietnam, called Vietcombank (VCB). The results of a quantitative analysis show that the factors that have the biggest influence on VCB share price increases include growth in loan rates, risk-free rates, and GDP growth. These findings are displayed in a seven-factor model. A reduction in exchange rates has the second-biggest effect, and the S&P 500 has had a little dip after that.

Masood, Tvaronaviciene and Javaria (2019) studied the impact of oil prices on stock return: evidence from G7 countries. The objective of the paper was to investigate the impact of oil prices on the stock market of G7 countries. The time periods were from September 2009 to August 2016. The model, which has been used in the study, is based

on Arbitrage pricing theory-APT model, where financial assets are associated with macroeconomic variables. The findings demonstrated that, for Germany, Italy, Japan, the United Kingdom, and France, industrial production is positively correlated with a real stock return, while, for Canada, the United Kingdom, and the United States of America, there is a negative correlation between a real stock return and the short-term interest rate. For every country under consideration, the actual stock markets are not much impacted by oil prices.

Chang, Meo, Syed and Abro (2019) examined the dynamic analysis of the relationship between stock prices and macroeconomic variables an empirical study of Pakistan stock exchange. The study's goal was to systematically investigate the effects of macroeconomic factors on stock prices (SP) of the KSE-100 index, both short- and long-term, including industrial production, foreign direct investment (FDI), trade balance (TB), exchange rate, interest rate (IR), and consumer price index (CPI) and to investigate if the financial crisis has an impact on this connection. Using data from the post-crisis era (2008Q3–2018Q2) and the whole sample period (1997), this study employs an autoregressive distributed lag model. Furthermore, it examines the significance of each variable in explaining SP using variance decomposition analysis. The results for the whole sample period show that whereas CPI and industrial output have a positive long-term impact on SP, TB, exchange rate, and IR have a negative long-term impact. The data from the post-crisis period, however, show that the sole factor that has a long-term beneficial impact on the SP is CPI. Lastly, variance decomposition analysis shows that the shock alone accounts for 30% of the variation in SP.

Celebi and Honig (2019) investigated the impact of macro-economic factors on the German stock market: evidence for the crisis, pre- and post-crisis periods. The purpose of the research was to investigate the impact of leading indicators, sentiment, rates on German government bonds, and macro-economic factors on the main German stock index, the DAX30, from 1991 to 2018. To determine the outcome, other mathematical tools were used, such as the ordinary least squares (OLS) approach. The findings show that during the crisis compared to the pre- and post-crisis eras, a greater variety of economic events and indicators had a substantial influence on share returns. This suggests that the market is macro driven in the post-crisis era.

Emmanuel Isaac John (2019) examined the effect of macro-economic variables on stock market performance in Nigeria. Using yearly period data encompassing the years 1981 to 2016, this research attempts to investigate the impact of macro-economic factors on stock market performance in Nigeria. The Central Bank of Nigeria (CBN) Statistical Bulletin provided the data. Augmented dickey-fuller (ADF) test, Ordinary least square (OLS) regression, the cointegration test and the granger causality test methodology was applied. Emmanuel Isaac John discovered that the primary movers in the Nigerian the money supply and interest rate affect stock market performance, which both had a significant effect. On the other hand, it was demonstrated that exchange rates and inflation had a little (non-significant) effect on stock market performance. Thus, the following suggestions are put forth: monetary policies that encourage the flow of money into the pursuit of the economy is necessary to guarantee improved stock market performance; interest rates should be relatively low in order to ensure a higher performance of the stock market, as the Nigerian stock market is greatly impacted negatively by high interest rates.

Demir (2019) studied the macroeconomic determinants of stock market fluctuations: the case of BIST-100. The objective of the paper was to analyze the impacts of some prominent macroeconomic factors on the Turkish stock market index, BIST-100 (Borsa Istanbul-100). Within this purpose, this study tries to investigate the impact of some selected macroeconomic factors on BIST-100 index over the 2003Q1–2017Q4 period. The results of the ARDL Bounds Test applied to the quarterly data indicate that while interest rates and crude oil prices have a negative impact on the stock market index, economic growth, portfolio investments, foreign direct investments, and the relative value of the home currency all contribute to its rise. In summary, the findings indicate that the Istanbul Stock Exchange Market need more foreign capital inflows, cheaper energy and investment costs, and a stronger local currency.

Mohammad, Ullah, Islam, Alam and Khan (2017) studied the effect of macroeconomic variables on stock market performance of SAARC countries. This study aims to examine the influence of macroeconomic variables on the stock market performance of SAARC countries using the OLS multiple regression model. Years 2005 through 2015 were the ones they used. The study's findings showed that macroeconomic factors such interest rates, foreign exchange reserves, and exchange rates had a major impact on how well the stock markets perform in the SAARC countries. However, there is no obvious

connection between money and inflation and how they affect stock market performance.

Jamaludin, Ismail and Manaf (2017) studied the macroeconomic variables and stock market returns: panel analysis from selected ASEAN countries. The objective of the paper was to investigate, using monthly data from January 2005 to December 2015, the impact of three macroeconomic variables—inflation, money supply (MS), and exchange rate (ER)—on returns from the conventional and Islamic stock markets in the three ASEAN countries—Singapore, Malaysia, and Indonesia. Using panel least square regression methods, the findings demonstrate that the inflation rate and ER have a considerable impact on both stock market performances. MS is determined to be negligible. This paper's findings also indicate that inflation has a bigger impact and is adversely correlated with stock market performance. Since the outcomes might have an influence on boosting the capital market in the chosen ASEAN nations, monetary policy in this scenario needs to be changed to ensure that the inflation rate is set at a low level.

Balagobei (2017) investigated the macroeconomic variables and stock market returns in Sri Lanka. The aim of the manuscript was to investigate the impact of macroeconomic variables on stock market returns in Sri Lanka. All listed and operating firms on the Colombo Stock Exchange (CSE) between 2006 and 2015 are the focus of this study. Secondary data for the analysis came from the Department of Census and Statistics, Colombo Stock Exchange, Securities and Exchange Commission, and Central Bank of Sri Lanka's annual reports. Multiple linear regression model methodology was applied. The study findings indicate that macroeconomic factors, except for Sri Lanka's money supply, have an impact on stock market performance. Colombo's stock market return is negatively impacted by interest rates and factory industry production. The stock market performance is positively impacted by both the inflation and currency rates.

Robert D. Gay (2016) looked at the effects of macro-economic variables on share market returns in four developing countries: China, India, Russia and Brazil. The author used the Box-Jenkins ARIMA model to examine the time-series relationship between share market index prices and the macro-economic variables of oil price and exchange rate for Brazil, Russia, India, and China (BRIC). According to Robert D. Gay, Jr. research, there is no correlation between the oil price, the related exchange rate, and the BRIC nations' share market index values. Moreover, the historical and current share

market returns show no discernible correlation, indicating that the markets in China, Brazil, Russia, and India have a weak form of market efficiency.

Rashid & Alam (2014) was conducted time series analysis to examine the correlation between macroeconomic variables and Pakistani stock market returns. The aim of the study was to examine how macroeconomic factors affect stock returns and how efficient the Karachi Stock Exchange's stock market is. Over an eleven-year period, from 2001 to 2011, data on stock returns was gathered on a monthly basis from the Karachi Stock Exchange. To determine the long-run and short-run statistical dynamics, simple regression analysis, the Philip Perron (PP) Unit Root test, and the Augmented Dicky Fuller (ADF) Test were used. The results demonstrated a negative relationship between the money supply and stock market performance. The study demonstrates that, despite its high volatility and immaturity, the chosen stock market is responsive to changes in macroeconomic factors over the long term. The analysis demonstrates that macroeconomic factors have an effect on the stock market.

2.2.2 Neplalese Context

Subedi (2024) investigated the microfinance industry, the factors that influence stock prices sold on Nepal's secondary market through NEPSE. Analytical and descriptive methods are used in this investigation. To achieve goals, the panel regression model was used. Market price per share is negatively connected with floating share size in Nepalese capital markets, but favorably associated with earnings per share, return on equity, and price-earnings ratio. Due to a lack of financial literacy among market participants, company-specific characteristics must be taken into account when making investment decisions. While book value per share and return on equity are not statistically significant, earnings per share, price-earnings ratio, and floating shares are.

Maharjan and Bhattacharya (2024) examined how laws and regulations, psychological factors, market positioning of the firm, and investor decisions relate to macroeconomic factors and investor decision-making. Five independent variables have been chosen for this study, and their significance for investors' decision-making is examined. This study used a mixed methodology and was conducted via an online questionnaire survey. Study participant's investment selections were shown to be significantly influenced by five independent variables: interest rates, political unpredictability, herd mentality, financial success of the organization, and security and banking laws. However, the

coefficient table indicated that there was no correlation between the financial performance of the corporation and political unrest.

Lama and Bhattacharya (2023) investigated the quantitative analysis on impact of selected macroeconomic variables on Nepal Stock Exchange (NEPSE). This study aimed to determine the relationship between the stock market index and selected macroeconomic factors, including capital expenditure, economic growth rate, foreign reserve, and interest rate, as well as to investigate the influence of these variables on the index itself. The 27-year time span from 1994 to 2021 is covered by the historical data. Regression analysis is a quantitative method used in E-views data analysis. The study used ARDL methodologies together with a descriptive and causal research design as its approach. The main conclusions are that NEPSE and FR and NEPSE and CE have a favorable connection. Moreover, NEPSE and IR and NEPSE and EGR have negative correlations. All of the variables have a long-term association, as indicated by the bound test findings. Capital expenditure has a positive and considerable influence on the stock market, whereas other factors have a minor impact, according to the long-run coefficient estimation of the ARDL model. The study emphasizes the conclusions that, while interest rates, foreign reserves, and capital expenditures have no appreciable short-term effects on the stock market, economic growth rate has a positive and substantial impact at lag (-1).

Niraula (2021) studied the effects of government's policy in stock price: A case of Nepse. The main purpose of the study was to find out the relationship of government's policy on the price movement of Nepal stock exchange (NEPSE). Joint venture banks have been chosen using the judgmental sampling approach. The whole foundation of the investigation was secondary data. Descriptive and inferential statistics were employed, along with SPSS software version 26, to ensure appropriate analysis. The study's conclusions showed that although CRR, export, interest rate, and inflation are favorably correlated with stock price movement, GDP and imports are adversely related to it. It is also discovered that the macroeconomic variables have a major role in influencing the movement of Nepalese stock prices. More importantly, it has been discovered that changes in government policy have a major impact on the stock market. It is advised that the main variables that significantly impact the movement of NEPSE's stock price are CRR, export, interest rate, and inflation. Due to their inverse correlation with market volatility, GDP and import do not follow changes in stock price.

Shrestha and Lamichhane (2021) investigated the macro-economic factors and stock market performance in Nepal. Using time series data covering the years 1987/88 to 2019/20, the study's primary objective was to investigate the co-integrating connection between macro-economic determinants and stock market performance in Nepal. This paper assessed the co-integrating relationship between macro-economic variables and stock market performance using the Autoregressive Distributed Lag (ARDL) bounds testing approach. The stock market's functionality and macro-economic variables are co-integrated, according to the findings of the ARDL bounds test. Likewise, the findings of this study demonstrate the noteworthy advantages of economic expansion. Additionally, the results show that the wide money supply and interest rate have a substantial negative long-term impact on the functionality of the Nepalese stock market. This research concludes that the short-term imbalance in stock market functionality is eventually addressed by GDP, M2, and IR.

Panta (2020) studied the Macro-economic determinants of stock Market prices in Nepal. The primary objective of the research was to examine the relationship between stock market prices (NEPSE index) and five macro-economic variables—real GDP, broad money supply, interest rate, inflation, and exchange rate—using an autoregressive distributed lag (ARDL) model to explain the behavior of the index. Using the error correction model (ECM), which is derived from the ARDL model via a simple linear transformation, this study blends short run corrections with long run equilibrium without compromising long run information. The analysis was finished using yearly data spanning 25 years, from 1994 to 2019. The results demonstrate a substantial long-term association between the variance of the NEPSE Index and the broad money supply, interest rate, inflation, and exchange rate. In the near term, the GDP, money supply, and exchange rate may all be positively defined; only the money supply shows a positive relationship over an extended period of time.

Pandey (2020) investigated the macro-economic determinants of stock index: A study of NEPSE. The primary goal of this research was to investigate the macro-economic factors that influence Nepal's stock index. A sample size of $n = 22$ years was used to gather the data from the secondary source between the years of 1998 and 2020. To elucidate the impact of independent factors on the dependent variable, this study employed an inferential research methodology in conjunction with specified econometric methods. The correlational study design has been employed to elucidate

the cause-and-effect connection between the variables. Granger-causality tests reveal unidirectional causality from broad money supply to NEPSE index, bidirectional causality between capital mobilization and NEPSE index, bidirectional causality between GNI and NEPSE index, and NEPSE index not causing GNI. In the short run, all variables except exchange rate are significant, with an error correction term suggesting convergence at 103.96% annually. In the long run, broad money supply, political stability index, and capital mobilization through the primary market show a positive correlation with the NEPSE index; however, the inflation rate exhibits an insignificant negative relationship.

Poudel (2019) investigated the firm's characteristics and macro-economic variables on expected stock returns. The main goal of this research was to investigate how the features of the company and the macro-economic factors affect the return on common stock of the companies listed on the Nepal Stock Exchange (NEPSE). Based on 150 observations from 10 sample businesses during a 15-year period (2003/4 to 2017/18), the study was conducted. The influence of macro-economic factors and business characteristics on the return on common stock in Nepalese enterprises is investigated using fixed effect panel data analysis. The results validate the noteworthy adverse effects on stock return in the Nepalese context of business size, book to market equity, earning yield, and cash flow yield. The macro-economic variables interest rate and GDP growth rate have a major detrimental effect on stock return. In Nepal, however, the only factor that significantly positively affects stock return is the rate of inflation. In Nepal's case, the money supply has no discernible impact on the return on common stocks.

Khatri (2019) investigated how the macro-economic environment affects the stock market in Nepal. In order to better understand the dynamic link between Nepal's stock market and macro-economic factors like GDP, nominal domestic variables like inflation, money supply, and interest rate, and international variables like exchange rate and foreign direct investment, this study looked at these relationships. Johansen and Juselius's (1990) multivariate cointegration technique was used from mid-July 1994 to mid-July 2015. While foreign direct investment, inflation (CPI), and the US dollar exchange rate show positive but insignificant relationships, the study finds that Nepalese stock prices are negatively correlated with real economic activity and interest rates and positively correlated with the money supply. VEC estimates indicate that macro-economic variables have no significant short-term impact on Nepalese stock

prices, suggesting inefficiency in the NEPSE's short- and long-term responsiveness to macro-economic factor.

Devkota and Dhungana (2019) examined the impact of macro-economic variables on stock market in Nepal: An ARDL approach. The main objective of this research was to investigate how macro-economic factors affect the stock market in Nepal and to investigate the degree and direction of the association between the stock market index and a few chosen macro-economic variables. The secondary time series data serve as the study's foundation. The years 1994–2017 were included in the research. The Securities Board of Nepal (SEBON), Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), Ministry of Finance (MOF), and Nepal Stock Exchange Ltd. are the study's data sources. The Federation of Nepal Gold and Silver Dealers Association (FENEGOSIDA) provide the gold price data, which is then processed in accordance with the needs. The Bound test verified a long-term relationship between variables, showing that interest rates are the main factor influencing Nepal's stock market index. Gold prices have little effect, and the country's economy is reliant on remittances, so the actual exchange rate has little bearing. These findings ultimately point to the importance of macro-economic factors in the stock Market.

Karki (2017) investigated the stock market responses to macro-economic dynamics: Testing for long-run equilibrium in Nepal. This paper's primary objective was to investigate macro-economic variables that are empirically related to Nepal's stock market performance. It looks at yearly data for four macro-economic variables—real GDP, inflation, interest rate, and broad money supply—from 1994 to 2016 and aims to show how each variable affects stock prices, which are represented by the "NEPSE Index" of the Nepalese capital market, in relation to one another. Descriptive and causal comparative research techniques are used in this study to address the macro-economic variables affecting stock prices in Nepal. Empirical results, based on OLS estimations, indicate that while interest rates have a negative effect on stock market performance, real GDP, inflation, and money supply all have positive effects. Importantly, there is no cointegrating evidence between macro-economic variables and the stock market index, suggesting that the macro-economic variables cannot explain the variations in Nepalese stock prices.

Phuyal (2016) investigated, Can macroeconomic factors account for long-term alterations in the stock market? A capital market analysis of Nepal. The primary aim of

this study was to look into the long-term correlation between stock prices in emerging markets, like the Nepali stock market, and certain macro-economic parameters using the Johansen's integration approach. Using monthly data from January 2003 to December 2012, six Macroeconomic indicators and the stock market return were examined. A long-term equilibrium relationship between the Nepali stock market and several macroeconomic factors, including the interest rate, inflation rate, and remittance flow, was found by the research. The short-term imbalance was adjusted by 1.79% every month. Furthermore, it has shown that there was Granger causation between them. According to the Wald test, remittance income and the NEPSE index's lag values up to six levels had an impact on the near-term stock market index.

Table 1

Summary of Review

Author	Title	Objectives	Methodology	Findings
Widagdo, Jihadi, Bachitar, Safitri and Singh (2020)	Financial ratio, macro economy, and investment risk on sharia stock return	To analyze and test the effect of financial ratios and macroeconomics on Islamic stock returns listed in Jakarta Islamic Index (JII)	SEM (Structural Equation Model) with AMOS (Analysis Moment of Structural) 21 program	The study's findings indicate that only financial ratios have an impact on investment risk and sharia stock returns.
Kalam (2020)	The effects of macroeconomic variables on stock market returns: evidence from Malaysia's stock market	To investigate the effects of macroeconomic variables on the stock market return.	The multiple regression analysis, the ARDL test in long and short run coefficient	The research shows a noteworthy influence on the return on the Malaysian stock market, which may

		return performance				also have an effect on the long- and short-term coefficients.
Huy, and (2020)	Loan Anh	Impact of selected factors on stock price: a case study of vietcombank in Vietnam	of	To analyze and evaluate the impacts of seven macroeconomic factors on stock price of a joint stock commercial bank Vietcombank (VCB) in Vietnam	Regression model (7)	Quantitative research findings in a seven-factor model demonstrate that rising GDP growth, lending rates, and risk-free rates have a major impact on rising VCB stock prices.
Masood, Tvaronaviciene and Javaria (2019)		Impact of oil prices on stock return: evidence from G7 countries		To investigate the impact of oil prices on the stock market of G7 countries.	Arbitrage pricing theory-APT model	The findings demonstrated that, for Germany, Italy, Japan, the United Kingdom, and France, industrial production is positively correlated with a real stock

				return, while, for Canada, the United Kingdom.
Chang, Meo, Syed and Abro (2019)	Dynamic analysis of the relationship between stock prices and macroeconomic variables an empirical study of Pakistan stock exchange	To empirically examine the short-run and long-run impact of macroeconomic variables such as industrial production, foreign direct investment (FDI), trade balance (TB), exchange rate, interest rate (IR) and consumer price index (CPI) on stock prices (SP) of KSE-100 index	Autoregressiv e distributed lag model, Variance decomposition analysis	Overall, the results show that whereas industrial output and CPI have a favorable impact on SP over the long term, TB, exchange rates, and IR have a negative impact.
Celebi and Honig (2019)	The impact of macroeconomic factors on the German stock market: evidence for	To investigate the impact of macroeconomic factors, German government	The ordinary least squares OLS method, and other mathematical tools are used	Overall, the findings show that, in comparison to the pre- and post-crisis

	the crisis, pre- and post-crisis periods	bond yields, sentiment and other leading indicators on the main German stock index, namely the DAX30		eras, a greater number of economic factors and indicators had a substantial influence on stock returns during the crisis period. This suggests that a macro-driven market rules in the post-crisis era.
Emmanuel Isaac John (2019)	Effect of macroeconomic variables on stock market performance in Nigeria	To examine the effect of macroeconomic variables on stock market performance in Nigeria using annual time series data spanning 1981 to 2016	Augmented dickey-fuller (ADF) test, Ordinary least square (OLS) regression, The cointegration test, The granger causality test	Emmanuel Isaac John found that the money supply and interest rate actually had a considerable impact on the performance of the Nigerian stock market, making them the real movers.
Demir (2019)	Macroeconomic determinants	To analyze the impacts of	ARDL Bounds Test	The stock market index

of stock market fluctuations: the case of BIST-100	some prominent macroeconomic factors on the Turkish stock market index, BIST-100 (Borsa Istanbul-100)	is positively impacted by economic growth, the relative value of the home currency, portfolio investments, and foreign direct investments; on the other hand, interest rates and crude oil prices have a negative impact.		
Mohammad, Ullah, Islam, Alam and Khan (2017)	Effect of macroeconomic variables on stock market performance of SAARC countries	To examine the significance of macroeconomic variables in effecting stock market performance of SAARC countries using the OLS multiple regression Model	OLS multiple regression Model	The research results indicated that the performance of the stock markets in the SAARC nations is significantly influenced by macroeconomic variables, such as interest rates,

				foreign currency reserves, and exchange rates.
Jamaludin, Ismail and Manaf (2017)	Macroeconomic variables and stock market returns: panel analysis from selected ASEAN countries	To investigate how the three ASEAN countries—Singapore, Malaysia, and Indonesia—have different macroeconomic variables—	The panel least square regression techniques	The findings indicate that both the inflation rate and the ER have a major impact on stock market performance.
		inflation, money supply (MS), and exchange rate (ER)—that affect returns on the conventional and Islamic stock markets.		
Balagobei (2017)	Macroeconomic variables and stock market returns in Sri Lanka	To investigate the impact of macroeconomic variables on stock market returns in Sri Lanka.	Multiple linear regression model	The study's findings show that, with the exception of Sri Lanka's money supply, macroeconomic

					c factors affect stock market performance.
Robert D. Gay (2016)	Effect of macroeconomic variables on stock market returns for four emerging economies: Brazil, Russia, India and China	To investigate the time-series relationship between stock market index prices and the macroeconomic variables of exchange rate and oil price for Brazil, Russia, India, and China (BRIC) using the Box-Jenkins ARIMA model	the box-jenkins ARIMA model		The findings suggest a lack of significant correlation between oil prices and exchange rates concerning the stock market index prices of Brazil, Russia, India, and China, along with no notable correlation between past and present stock market returns, indicating a weak form of market efficiency in these countries.
Rashid & Alam (2014)	Time series analysis of the relationship	To investigate the impact of macroeconomic	Simple regression analysis, The		The study reveals a negative

	between macroeconomic factors and the stock market returns in Pakistan	c factors on stock returns. To investigate the stock market efficiency in Karachi Stock Exchange.	augmented dicky fuller (ADF) test, Philip perron (PP) unit root tests	correlation between money supply and stock market returns.
Subedi (2024)	Quest on determinants of stock price in Nepal: Evidence of microfinance sector share listed in NEPSE	To investigate the determinants of stock price traded in Nepal's secondary market through NEPSE, focusing on the microfinance sector	This study has adopted descriptive and analytical. The panel regression model was applied to fulfill objectives.	In Nepalese capital markets, market price per share is positively correlated with earnings per share, return on equity, and price-earnings ratio, while inversely correlated with floating share size.
Maharjan and Bhattacharya (2024)	Factors influencing individual's investing decisions in the Nepal's stock market	To investigate the link between macro-economic aspect, psychological aspect, laws &	This research has been carried out with online questionnaire survey and	The study examined five independent variables: interest rates, political instability, herd

		regulations, company's position in the market and investor's decision	follows mixed approach	mentality, company's financial performance, and security & banking regulations, all of which were found to be highly significant in influencing individuals' investing decisions.
Lama and Bhattacharya (2023)	Quantitative analysis on impact of selected macroeconomic variables on Nepal Stock Exchange (NEPSE)	To find the trend of sampled macroeconomic variables: capital expenditure, economic growth rate, foreign reserve and Interest rate to stock market index.	The methodology of the study is descriptive and causal research Design and ARDL techniques.	The main conclusions are that NEPSE and FR and NEPSE and CE have a favorable connection. Moreover, NEPSE and EGR and IR have negative correlations.
		To examine the impact of sampled		

		macroeconomics	Variables on stock market index.	
Niraula (2021)	Effects of government's policy in stock price: A case of Nepse	To find out the relationship of government's policy on the price movement of Nepal stock exchange (NEPSE)	In order to get a more comprehensive knowledge of the fluctuation in stock prices of Nepalese joint venture banks, this study employed a case study research approach. The selection of joint venture banks has been done using the judgmental sampling approach.	In contrast to GDP and imports, which show a negative relationship with stock volatility, the study indicates that in the Nepalese context, CRR, exports, interest rates, and inflation show a positive relationship with stock price movement.
Shrestha and Lamichhane (2021)	Macroeconomic factors and stock market performance in Nepal	To examine co-integrating relationship between macroeconomic factors and	An Autoregressive Distributed Lag (ARDL) bounds testing technique was	The results of the ARDL bounds test indicate a co-integration between

		stock market performance in Nepal using time series data for the period 1987/88 to 2019/20.	utilized in this work to determine the co-integrating connection between macroeconomic factors and stock market performance.	macroeconomic factors and stock market performance. Likewise, the findings of this study demonstrate the noteworthy advantages of economic expansion.
Panta (2020)	Macroeconomic determinants of stock market prices in Nepal	To examine the linkage between stock market prices (NEPSE index) and five macro-economic variables, namely; real GDP, broad money supply, interest rate, inflation and exchange rate using an autoregressive distributed lag (ARDL) model to explain the	Error correction model (ECM) is used in the study to combine short run modifications with long run equilibrium without sacrificing long run information. ECM is obtained from the ARDL model by a straightforward linear	The outcome shows that the broad money supply, interest rates, inflation, and exchange rates are all highly correlated with the long-term fluctuations in the NEPSE Index.

		behavior of the Nepal Stock Exchange Index.	transformation .	
Pandey (2020)	Macroeconomic determinants of stock index: A study of NEPSE	To examine the macroeconomic determinants of the stock index of Nepal	The Engle-Granger cointegration, the error correction model, the Granger-causality test	In the long run, broad money supply, political stability index, and capital mobilization through the primary market positively correlate with the NEPSE index, while inflation rate shows an insignificant negative relationship; in the short run.
Poudel (2019)	Firm's characteristics and macro-economic variables on	To examine the effect of firm's characteristics and macroeconomic variables on common stock	The impact of business attributes and macroeconomic factors on the return on common stock	According to the research, in the Nepalese context, the following factors have a significant

	expected stock returns	return from the firms listed in Nepal Stock Exchange (NEPSE).	in Nepalese firms investigated using fixed effect panel data analysis.	negative impact on stock return: firm size, book to market equity, earning yield, and cash flow yield..
Khatri (2019)	Macroeconomic influence on the Nepalese stock market	To examine the dynamic relationship among the stock market and macroeconomic factors such as nominal domestic variables and foreign variable (exchange rate and foreign Direct investment) of Nepal.	For the period of mid-July 1994 to mid-July 2015, it employed the multivariate cointegration approach of Johansen and Juselius (1990).	The study finds that Nepalese stock prices are positively linked to money supply but negatively associated with real economic activity and interest rates, while foreign direct investment, inflation (CPI).
Devkota and Dhungana (2019)	Impact of macro-economic variables on	To examine the impact of macro-economic	The bound test, ARDL test,	The Bound test verified a long-term relationship

	stock market in Nepal: ARDL approach	variables on Nepalese stock market. To study the direction and degree of relationship between selected macroeconomic Variables and the stock market index.		between variables, showing that interest rates are the main factor influencing Nepal's stock market index. Gold prices have little effect, and the country's economy is reliant on remittances, so the actual exchange rate has little bearing.
Karki (2017)	Stock market responses to macroeconomic dynamics: Testing for long-run equilibrium in Nepal	To examine empirically macro-economic factors of the stock market performance in Nepal.	Descriptive and causal comparative research techniques are used in this study to address the macroeconomic variables affecting stock	Based on OLS estimates, empirical findings show that real GDP, inflation, and money supply all have a positive impact on stock market performance, whereas

			prices in interest rates	
			Nepal. have a negative impact.	
Phuyal (2016)	Can macroeconomic variables explain long term stock market movements? A study of Nepali capital market	To investigate using Johansen's cointegration method, whether a long-term association of selected macroeconomic variables existed with stock prices in the emerging market like Nepali stock market	In this study, to carry out the co-integration, Johansen-Juselius (1990) co-integration test has been used.	The findings showed that there was a long-term equilibrium link between the Nepali stock market and many macroeconomic indicators, including the interest rate, inflation rate, and remittance flow.

2.3 Research Gap

While numerous studies have explored the relationship between stock markets and economic growth globally, there is a noticeable gap in the literature focusing specifically on the Nepalese context. Existing research primarily emphasizes the role of stock market indicators such as market capitalization, trading turnover, the variety of listed securities, and the NEPSE index as proxies for financial market development. However, these studies often overlook the nuanced and unique aspects of Nepal's economic and financial environment. Additionally, the impact of these stock market variables on Gross Domestic Product (GDP) as a measure of economic growth has not been thoroughly examined in Nepal. Despite Nepal's relatively small and emerging

stock market, understanding its dynamics and their influence on the country's economic growth is crucial for policymakers, investors, and economists. This gap suggests a need for more comprehensive and focused research that analyzes the interplay between the stock market and economic growth in Nepal, taking into account the local economic conditions, regulatory environment, and investor behavior.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the particular methods or methods use to identify, select, process, and analyse data about a topic. It refers to the various sequential steps that are to be adopted by way of a researcher at some stage in the course of studying the trouble with certain objectives. In this part it permits the reader to critically consider a study's ordinary validity and reliability. The methodology area answers two primary questions: How was the data accumulated or generated? How used to be it analysed?

This chapter is concern with the procedures and methods use in the objectives of the study. It includes lookup design, populace and sample, nature and sources of data, strategies of data series and information evaluation tools. It's about how a researcher systematically designs a find out about to make sure legitimate and dependable results that tackle the lookup targets and objectives.

3.1 Research Design

Research design is specification of strategies and processes for acquiring the information want to structure of resolve the problems. It facilitates the clean sailing of the more than a few research operations, thereby making research as environment friendly as possible. Research design is a plan, structure and approach to attain the goals of the study. To attain the goal of this study, descriptive and causal comparative research design has used for the reason of empirical contrast of aspect influencing of stock price in NEPSE. Some financial and statistical tools has applied to take a look at the facts. The information and information that has collect are rearranged, tabulate, analyse and interpret in order to attain the objectives of study. To carry out the learn about descriptive and causal comparative research design has employed. For the reason of description and conceptualization, descriptive research design has used. However, for the reason of analyzing the relationship between the variables of stock market improvement and economic growth, causal comparative research has used. The study adopts a test of cause in order to analyse the existence of the relationship between Stock market performance and monetary growth in Nepal over a ten years period from the 2014/15 to 2023/24.

3.2 Population and Sample, and Sampling Design

The population for this study consists of all economic activities and stock market transactions in Nepal from the beginning of the Nepalese stock market in 1994 to the present. This includes all variables related to the economy and stock market, such as GDP, market capitalization, stock turnover ratio, the number of listed securities, and the stock market index.

The sample for this study focuses on data from the fiscal years 2014/15 to 2023/24. The selected sample includes the relevant aggregate values of the economy and stock market activities within this time frame. Data has been collected on the specified variables, representing the stock market's contribution to the Nepalese economy over the given period.

3.3 Nature and Sources of Data

The lookup is on the whole base on the secondary information. To show the relationship between the unique variables secondary information is use. These require information has collected on the variables such as Real GDP, market capitalization, turnover inventory ratio, Per capita Income, no of listed securities and NEPSE index. The facts on the variables such as inventory market volatility shall be deriving by means of the use of fantastic relationship.

3.4 Instrument of Data Collection

The collection of supplementary data and statistics for this research will be conducted through various sources to ensure a comprehensive analysis. Primary among these sources are the trading reports from the Nepal Stock Exchange (NEPSE), which provide crucial insights into market trends and investor behavior. Additionally, the annual reviews published by the Securities Board of Nepal (SEBO/N) will be utilized to understand the regulatory environment and its impact on the market.

The Economic Survey 2024, covering the Fiscal Year 2023/24, published by the Government of Nepal's Ministry of Finance, will offer valuable macroeconomic indicators and fiscal policy insights. Further, the Economic Report by Nepal Rastra

Bank will provide detailed information on the country's monetary policies and economic health.

To develop the study with academic perspectives, previous research studies, dissertations, and articles from various journals and libraries has referenced. Data from the Central Bureau of Statistics will also be crucial in understanding demographic and economic trends. Additionally, relevant information will be gathered from various reputable websites to ensure that the research is grounded in the most current and reliable data available.

3.5 Methods of Analysis

This part summarizes the analysis conducted in next chapter, and in order to comprehend the outcome and extrapolate the conclusions, the relevant stages and procedures must be followed. In SPSS, the gathered data were entered for analysis. The coding is done in accordance with the relevant rules, depending on the kind of questions. To assess the dependability of scaled items, Cronbach's alpha coefficient was utilised. For quantitative data entry and analysis, MS-EXCEL is utilised. An analysis of the relationship between brand choice and customer satisfaction was conducted using basic descriptive statistics, including frequency count, percentage, mean, and standard deviation.

In order to analyze the data and draw a conclusion, the study has covered and incorporated statistical and financial techniques. Various tools are used to analyse the data in order to derive specific findings from this study. The emphasis on statistical tools is in line with the topic requirement, hence the following statistical tools will be employed in this study.

Arithmetic Mean

The study has covered and integrated statistical and financial instruments in order to evaluate the data and reach a conclusion. The data is analyzed using a variety of techniques to provide particular results from this investigation. The following statistical methods has employed in this study since the emphasis on them aligns with the topic requirement.

The mean is the value that indicates the concentration of values in the middle of the distribution and serves as a representative of the group of values. The average gives us

a position that most accurately depicts the facts. It depicts the qualities that the whole group has in common. The arithmetic mean value of the entire data set may be located in the space between the two extreme observations. It serves as a messenger for the uniform mass of data.

The mean value may be obtained by adding up each item and dividing the total by the number of items.

$$\bar{X} = \frac{\sum x}{n}$$

Where,

\bar{X} = Arithmetic Mean

$\sum X$ = Sum of all the values of the variable X

n = Number of observation

Standard Deviation

The standard deviation (σ) is used to calculate the absolute dispersion. As the standard deviation rises, the size of the values' deviations from the mean will also rise. Small standard deviations are a sign of high observational consistency and series homogeneity, and vice versa.

Mathematically,

$$\sigma = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Correlation Coefficient (r)

The appropriate statistical instruments used to identify, quantify, and concisely represent a quantitative connection are referred to as correlations. When the values of the variables are directly proportional to one another, there is a positive correlation. On the other hand, when the values of the variables show inverse proportionality, the correlation is considered negative; yet, the correlation coefficient is always between +1 and -1. The simple correlation coefficient, as determined by Karl Pearson, is provided by

$$r_{xy} = \frac{cov(X, Y)}{\sigma_X \sigma_Y}$$

$$r_{xy} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where "r" always falls between +1 and -1 and r_{xy} is the correlation between two variables, X and Y.

There is complete positive correlation when "r" = +1.

There is complete negative correlation when "r" = -1.

There is no association when "r" = 0.

There is a significant degree of positive or negative correlation when "r" is between 0.7 and 0.999 (or -0.7 and -0.999).

There is a moderate level of correlation when "r" is between 0.5 and 0.699.

There is little degree of correlation when 'r' is smaller than 0.5.

Regression Analysis

Regression is the statistical technique that enables us to forecast the value of an unknown variable from the known value of any other variable. Assuming that the two variables have a strong correlation, we may calculate the value of one variable using the value of the other. The independent variable is one whose value has known, whereas the dependent variable is one whose value has to be approximated. Regression thus makes use of a certain degree of variation in one variable to forecast the average likely change in another. It is a statistical strategy for figuring out the link between the variables by generating an approximated functional relationship between them. It is used to determine if the independent variable that is supplied affects the dependent variable.

Regression Model

The collected data was entered, arranged, and summarized using Microsoft EXCEL. The coding and analysis were performed using the Statistical Package for Scientists (SPSS). The data extracted from the original sources was distilled and presented as tables and figures using a range of tests and techniques. For analysis, tests such as descriptive analysis, cross tabulation, one-way ANOVA, Pearson correlation, linear and multiple regression analysis and others are run.

The regression equation is as follows:

$$\text{GDP} = \beta_0 + \beta_1\text{MC} + \beta_2\text{TT} + \beta_3\text{NOLS} + \beta_4\text{NI} + \text{eu}$$

Where,

β_0 = Constant

GDP = Economic growth in Nepal

MC = Market Capitalization

TT = Trading Turnover

NOLS = Number of listed securities

NI = NEPSE Index

eu = Error/ Stochastic term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are the regression coefficients independent variables.

3.6 Research Framework and Definition of Variables

The research framework determines the dependent variable and independent variables.

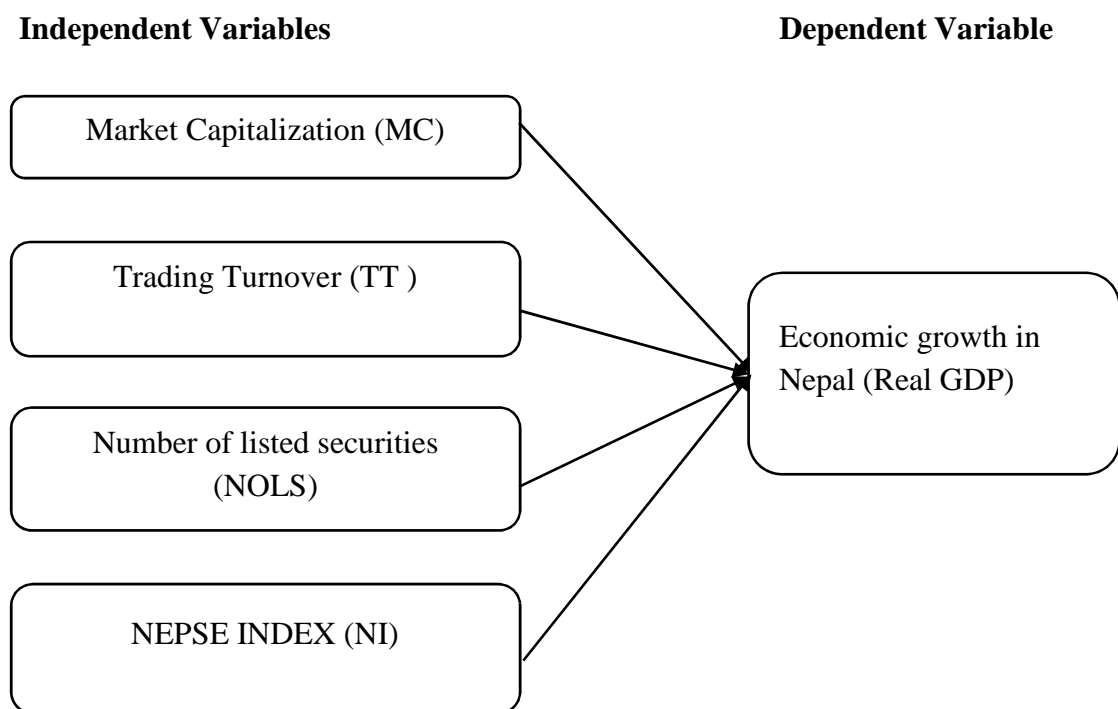


Figure 1 Research Framework

Source: G.C. and Neupane (2016)

Economic Growth in Nepal (Real GDP)

Real Gross Domestic Product (Real GDP) measures the economic growth of a country by reflecting the value of all goods and services produced over a specific period, adjusted for inflation (Bhoyu, 2011). In Nepal, Real GDP is an essential indicator of economic health, representing the nation's productivity and economic performance. Economic growth, as measured by Real GDP, is influenced by various factors such as investments, government spending, and consumption (Acharya, 2022). A positive growth in Real GDP suggests an expanding economy, which typically leads to better employment opportunities and improved living standards (World Bank, 2023).

Market Capitalization (MC)

Market capitalization (MC) represents the total value of all outstanding shares of a publicly traded company and is calculated by multiplying the current share price by the total number of outstanding shares. It serves as an important indicator of a company's size and market value (Chang et al., 2019). In the context of the Nepal Stock Exchange (NEPSE), market capitalization is used as a barometer for assessing the overall value and performance of the securities market (Dhungana, 2023). As Real GDP grows, the economies output increases, leading to higher productivity, which can positively influence corporate earnings (Singh, 2020).

Trading Turnover (TT)

Trading Turnover (TT) refers to the total value of shares traded on a stock exchange within a specific period. It is a key metric for assessing market liquidity and the overall activity level within the securities market. High trading turnover generally signals a dynamic market with strong investor engagement, whereas low turnover may indicate market stagnation or investor hesitancy (Gay, 2016). In the context of the Nepal Stock Exchange (NEPSE), trading turnover is an essential indicator of market activity, providing insights into investor confidence, market sentiment, and the performance of specific sectors in the economy. In relation to Economic Growth (measured by Real GDP) in Nepal, trading turnover is closely linked to the health of the broader economy (Ghimire, 2022). This increased investor activity results in higher trading turnover, indicating a thriving and liquid market (Sharma & Khanal, 2019).

Number of Listed Securities (NOLS)

Number of Listed Securities (NOLS) refers to the total number of companies whose shares are publicly traded on a stock exchange. It serves as a measure of the breadth and diversity of the stock market, providing an indication of the range of investment opportunities available to investors (Huy et al., 2020). A higher number of listed securities suggests a well-developed and mature market with a variety of options for investors, which in turn helps with better risk distribution. In the context of the Nepal Stock Exchange (NEPSE), NOLS is an important indicator of the market's depth and maturity, and it can provide insights into the overall health of the economy. In relation to Economic Growth (measured by Real GDP) in Nepal, the number of listed securities is closely tied to the expansion and diversification of the economy (Karki, 2017). As Real GDP grows, it often reflects improvements in various sectors such as agriculture, manufacturing, services, and infrastructure. These improvements can lead to the formation of new businesses, some of which may decide to list on the stock exchange to raise capital for expansion (Gurung, 2021).

NEPSE Index (NI)

The NEPSE Index (NI) is a composite index that tracks the overall performance of all the companies listed on the Nepal Stock Exchange (NEPSE). It is calculated by considering the market capitalization of the listed companies, offering a snapshot of the market's collective performance over time (Lama & Bhattacharya, 2023). As a key indicator, the NEPSE Index reflects the general trend of the market—whether it is experiencing growth (bullish) or decline (bearish). Investors, policymakers, and market analysts closely monitor the NEPSE Index to gauge the health of the stock market and predict future market behavior (Niraula, 2021). In the context of Economic Growth (measured by Real GDP) in Nepal, the NEPSE Index is closely linked to the country's economic performance (Acharya, 2022).

CHAPTER IV

RESULTS AND DISCUSSION

The descriptive and correlational, and regression statistics have been presented and analyzed. Major findings were revealed from descriptive; correlational and regression analyses have been drawn.

4.1 Results

The chapter begins with a description of the data used in the study. Data about Market Capitalization, NEPSE Turnover and GDP is presented.

4.1.1 Descriptive Analysis

This study uses mean, standard deviation, and coefficient of variation to analyze the dependent and independent variables by the descriptive research design.

Table 2

Analysis of Market Capitalization, NEPSE Turnover and GDP

Year	Market Capitalization (in million)	Turnover (in Million)	GDP (in Billion)
2014/15	989,403.00	65,425.03	186,235.75
2015/16	1,890,130.00	164,651.73	187,042.36
2016/17	1,856,829.39	205,023.12	203,833.67
2017/18	1,435,137.67	121,391.09	219,370.64
2018/19	1,567,499.39	110,074.97	233,974.27
2019/20	1,792,762.67	150,039.45	228,429.97
2020/21	4,010,957.81	1,454,444.24	239,481.75
2021/22	2,869,344.17	1,202,101.40	252,924.32
2022/23	3,082,519.56	467,126.94	257,625.05
2023/24	3,553,677.24	734,684.46	267,884.00
Mean	2,304,826.09	467,496.24	227,680.18
SD	1,003,285.26	500,631.44	28,551.20
CV	43.53	107.09	12.54

(Source: Economic Survey, 2023/24 and Annual Report of NEPSE, 2023/24)

Table 2 presents a analysis of Nepalese economic and financial data, focusing on market capitalization, NEPSE turnover, and GDP. It provides insights into how these indicators have fluctuated over time, revealing the interplay between financial markets and the overall economy. Market capitalization represents the total market value of publicly traded companies on the Nepal Stock Exchange (NEPSE). The table shows significant volatility in market capitalization across the years. In 2014/15, the market capitalization stood at NPR 989.4 billion, steadily rising to a peak of NPR 4,010.96 billion in 2020/21. This surge reflects the stock market's growth, likely driven by increased investor activity and economic policies supporting market expansion during that period. However, a significant decline is observed in 2021/22, with market capitalization dropping to NPR 2,869.34 billion. This may be linked to market corrections or external factors such as political instability or global economic trends. The average market capitalization across the ten-year period is NPR 2,304.83 billion, with a high standard deviation of NPR 1,003.29 billion, indicating substantial variability. The coefficient of variation (CV) of 43.53% reflects a moderate degree of relative volatility in the market capitalization.

NEPSE turnover measures the total value of shares traded on the stock exchange. The turnover demonstrates a considerable fluctuation, beginning with NPR 65.43 billion in 2014/15 and spiking sharply in 2020/21 to NPR 1,454.44 billion, coinciding with the peak in market capitalization. This surge in turnover might indicate increased liquidity in the market during this period, potentially due to investor confidence or favorable economic conditions. However, turnover dropped dramatically in 2022/23 to NPR 467.13 billion, signifying a market contraction or reduced trading activity. The average turnover for the period is NPR 467.50 billion, with a large standard deviation of NPR 500.63 billion. This suggests high volatility, further highlighted by the CV of 107.09%, indicating a considerable variation in turnover relative to its mean. The stock market's turnover seems to be more volatile than market capitalization, suggesting periods of both intense trading and significant slowdowns.

Nepalese GDP has shown a consistent upward trend over the ten years, reflecting steady economic growth. Starting at NPR 186.24 billion in 2014/15, GDP increased annually, reaching NPR 267.88 billion in 2023/24. This steady growth, though modest compared to the volatility in market capitalization and turnover, reflects the underlying expansion of the national economy. Despite global and domestic,

including the effects of the 2015 earthquake and other external shocks, Nepal's economy has demonstrated resilience. The mean GDP over the period is NPR 227.68 billion, with a standard deviation of NPR 28.55 billion. A CV of 12.54% suggests that GDP has been the most stable indicator among the three, with less relative volatility compared to the fluctuations in market capitalization and turnover.

Table 3

Analysis of Number of Listed Securities and NEPSE Index

Year	Number of listed securities (000)	NEPSE INDEX
2014/15	1,631,525.00	961.23
2015/16	2,105,437.00	1,718.15
2016/17	2,965,884.00	1,582.67
2017/18	3,598,745.00	1,212.36
2018/19	4,206,601.98	1,259.02
2019/20	4,827,581.58	1,362.35
2020/21	5,826,048.26	2,883.41
2021/22	6,771,226.54	2,009.47
2022/23	7,387,006.41	2,097.10
2023/24	8,322,509.53	2,240.41
Mean	4,764,256.53	1,732.62
SD	2,272,692.71	581.33
CV	47.70	33.55

(Source: Annual Report of NEPSE, 2023/24)

Table 3 provides a analysis of the Nepal Stock Exchange (NEPSE) by examining the number of listed securities and the NEPSE Index. It highlights the growth of the stock

market in terms of the quantity of securities available for trade and the overall performance of the market as reflected by the NEPSE Index. The data reflects trends and shifts in investor confidence, market liquidity, and economic conditions affecting the Nepalese stock market.

The number of listed securities represents the total number of shares, bonds, and other financial instruments listed on the NEPSE. Over the ten-year period, there has been a steady increase in the number of listed securities, growing from 1.63 billion in 2014/15 to 8.32 billion in 2023/24. This significant expansion can be attributed to various factors, such as more companies going public, the introduction of new financial instruments, or economic policies encouraging stock market participation. The consistent growth suggests a maturing financial market that is expanding its scope to accommodate a larger number of listed companies and instruments. The mean number of listed securities over the ten years is approximately 4.76 billion, with a high standard deviation of 2.27 billion. This indicates considerable growth but also some variability, reflecting different periods of accelerated listings. The coefficient of variation (CV) of 47.70% indicates moderate relative volatility in the number of listed securities, which is to be expected as stock markets evolve and expand over time. The increase in listed securities may signal positive investor sentiment and economic growth, with more businesses and investors turning to the stock market as a venue for capital raising and investment.

The NEPSE Index is a key measure of the performance of the stock market, reflecting the overall movement of share prices. The data shows significant volatility in the NEPSE Index, beginning at 961.23 in 2014/15, peaking at 2,883.41 in 2020/21, and ending at 2,240.41 in 2023/24. This fluctuation reflects periods of market optimism and bearish trends, driven by a combination of economic factors, investor sentiment, and possibly external shocks. The sharp rise in 2020/21 is particularly noteworthy, likely influenced by an economic rebound following the global COVID-19 pandemic, increased liquidity, and heightened investor interest. The average NEPSE Index for the ten-year period stands at 1,732.62, with a standard deviation of 581.33, indicating substantial volatility in the index. The CV of 33.55% shows that while the NEPSE Index has exhibited considerable variation, it is less volatile than the number of listed securities. This suggests that while the market grew in terms of listings, share price movements were subject to fluctuating investor confidence and market dynamics,

possibly impacted by macroeconomic conditions, regulatory changes, and external factors such as global market trends.

Table 4

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
GDP (in Billion)	186235.75	267884.00	227680.1780	28551.20445
Market Capitalization (in million)	989403.00	4010957.81	2304826.0900	1003285.25850
Turnover (in Million)	65425.03	1454444.24	467496.2430	500631.43724
Number of listed securities (000)	1631525.00	8322509.53	4764256.5300	2272692.70833
NEPSE INDEX	961.23	2883.41	1732.6165	581.32613

Table 4 presents key descriptive statistics minimum, maximum, mean, and standard deviation of five significant economic and stock market indicators for the given period. These statistics provide a concise summary of the data, helping to understand the variability and range of values across different indicators. Each indicator reflects important aspects of Nepal's economy and financial market performance.

The Gross Domestic Product (GDP) of Nepal has a minimum value of NPR 186,235.75 billion and a maximum value of NPR 267,884.00 billion over the analyzed period. The mean GDP is NPR 227,680.18 billion, and the standard deviation is NPR 28,551.20 billion. This relatively low standard deviation, compared to other indicators, reflects the stability and steady growth of Nepal's economy over time. The difference between the minimum and maximum GDP values indicates consistent but moderate economic growth, suggesting that while the economy is expanding, it does so at a steady pace, without drastic fluctuations.

The market capitalization, representing the total value of publicly traded companies on the NEPSE, shows a wide range. The minimum market capitalization is NPR 989,403.00 million, and the maximum is NPR 4,010,957.81 million. The mean market capitalization over the period is NPR 2,304,826.09 million, with a large standard deviation of NPR 1,003,285.26 million. This high standard deviation indicates significant variability in market capitalization, reflecting volatility in the stock market. The large difference between the minimum and maximum values suggests periods of

rapid growth in market value, followed by corrections or declines, likely influenced by macroeconomic conditions, investor sentiment, and market dynamics.

The NEPSE turnover, or the total value of shares traded, also exhibits substantial variability. The minimum turnover is NPR 65,425.03 million, while the maximum turnover reaches NPR 1,454,444.24 million. The mean turnover is NPR 467,496.24 million, with a high standard deviation of NPR 500,631.44 million. This substantial variability and high standard deviation indicate that turnover has fluctuated widely over the period. The sharp contrast between the minimum and maximum values reflects periods of both low trading activity and high trading volume, driven by factors such as investor confidence, economic conditions, and liquidity in the market. Turnover volatility suggests that market activity can shift dramatically in response to changing circumstances.

The number of listed securities shows steady growth over time, with a minimum value of 1,631,525.00 thousand and a maximum value of 8,322,509.53 thousand. The mean number of listed securities is 4,764,256.53 thousand, with a standard deviation of 2,272,692.71 thousand. The high standard deviation reflects the expansion of the stock market over the period, as more securities were listed on the NEPSE. The large difference between the minimum and maximum values indicates that the number of listed securities has increased significantly over time, possibly due to more companies going public and the introduction of new financial instruments. This consistent growth suggests a developing and expanding financial market.

The NEPSE Index, which measures the overall performance of the stock market, ranges from a minimum of 961.23 to a maximum of 2,883.41. The mean NEPSE Index is 1,732.62, with a standard deviation of 581.33. The relatively high standard deviation indicates significant fluctuations in the stock market index, reflecting volatility in stock prices. The large gap between the minimum and maximum values suggests periods of strong growth in the stock market, followed by corrections or declines. This volatility could be driven by factors such as economic performance, investor sentiment, regulatory changes, and global market trends.

4.1.2 Correlation Analysis

After displaying the descriptive statistics, the results of the calculation of the Pearson correlation coefficients are shown. The correlation coefficients illustrate the strength

and direction of the linear link between the impacts of market capitalization, turnover, the number of listed securities, and the NEPSE Index on GDP. It has been shown that market capitalization, turnover, the number of listed securities, and the NEPSE Index are all correlated with GDP. The coefficient of correlation exaggerates the association's strength. To ascertain the link between GDP and market capitalization, turnover, the number of listed stocks, and the NEPSE Index, we employ a simple correlation research.

Table 5

Correlation Analysis

	GDP	Market Capitalization	Turnover	No. of listed securities	NEPSE
GDP	1				
Market Capitalization	.745*	1			
	.013				
Turnover	.595	.870**	1		
	.070	.001			
No. of listed securities	.979**	.821**	.644*	1	
	.000	.004	.045		
NEPSE	.596	.975**	.876**	.682*	1
	.069	.000	.001	.030	

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

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

The findings of a correlation study that sought to determine the association between four independent variables—market capitalization, turnover, the number of listed securities, and the NEPSE Index—and GDP (as the dependent variable) are shown in Table 5. The range of correlation coefficients, represented by the letter "r," is -1 to +1; numbers around +1 signify a strong positive link, while values near -1 signify a strong negative one. A value around zero indicates that there is no meaningful link. Determining the importance of the correlations is made easier by the indication of statistical significance at the 0.05 and 0.01 levels.

Market capitalization and GDP have a reasonably significant positive link, as seen by the correlation value of 0.745. This indicates that GDP often rises in tandem with market capitalization, demonstrating the beneficial impact of stock market expansion on the economy as a whole. The correlation, which is statistically significant at the 0.05 level ($p = 0.013$), confirms the strong relationship between GDP and the market capitalization, or overall worth, of the stock market. By promoting investment, enabling capital creation, and boosting economic prosperity, the rise in market capitalization might result in higher economic growth.

With a correlation of 0.595, turnover and GDP appear to have a somewhat favorable association. Even while this association is positive, it is not as strong as the one between market capitalization and GDP, suggesting that while greater GDP is typically linked to more trading activity (turnover), the relationship is still favorable. The p-value of 0.070 suggests that turnover could not have as steady or predictable an effect on GDP as other factors like market capitalization, as the association is not statistically significant at the 0.05 level. Turnover has a less steady association with GDP since it represents short-term trading activity, which can vary depending on investor emotion and market circumstances.

With a value of 0.979, the relationship between GDP and the quantity of listed securities is the greatest in the analysis. This suggests a very high positive correlation, which means that GDP tends to expand proportionately to the quantity of listed securities. At the 0.01 level ($p = 0.000$), the association is extremely statistically significant. This connection implies that an increase in the number of listed securities is directly related to economic growth. Increased corporate activity, greater capital raising, and improved market participation—all of which are essential for promoting economic growth—may be reflected in additional stock market listings.

There is a somewhat positive association ($r = 0.596$) between GDP and the NEPSE Index. This implies that while the link between GDP and turnover is comparable in strength, GDP tends to increase when the NEPSE Index increases. An overall rise in stock prices is reflected in a higher NEPSE Index, which can stimulate economic development by increasing investment and wealth benefits. The connection between changes in stock prices and GDP, however, is not statistically significant at the 0.05 level ($p = 0.069$), suggesting that the relationship is not entirely stable during the examined time frame. In contrast to the quantity of listed securities, stock indexes

have a lesser association with GDP, which may be explained by a number of variables, such as market mood and external shocks.

4.1.3 Regression Analysis

Following the discussion of the Pearson correlation coefficients, the regression analysis was conducted. The results are based on data from 2014/2015 through 2023/24 for a few selected parameters. Both the basic and multiple regression models have been used to assess the impact of independent variables on the dependent variable.

Table 6

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986	.973	.952	6274.51738

a. Predictors: (Constant), NEPSE INDEX, Number of listed securities, Turnover, Market Capitalization

A regression analysis's model summary is shown in Table 6. One important indicator for assessing the effectiveness and explanatory capacity of the regression model is the modified R-square. The independent variables NEPSE Index, number of listed securities, turnover, and market capitalization account for 95.2% of the variance in Nepal's GDP (the dependent variable), according to the 0.952 Adjusted R-Square. This number is extremely high, suggesting that the regression model fits the data well. In essence, shifts in the stock market indicators that are part of the model account for most of the variations in GDP.

The high Adjusted R-Square suggests that the stock market (through the NEPSE Index, number of listed securities, turnover, and market capitalization) has a substantial and measurable impact on economic growth in Nepal.

Table 7

ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7139693639.214	4	1784923409.804	45.338	.000
	Residual	196847842.041	5	39369568.408		
	Total	7336541481.255	9			

a. GDP is a dependent variable.

b. The following variables are predictors: market capitalization, turnover, number of listed securities, NEPSE index, and constant

In order to ascertain if the independent variables (NEPSE Index, number of listed securities, turnover, and market capitalization) have a statistically significant effect on the dependent variable (GDP), Table 7 presents the findings of an Analysis of Variance (ANOVA) for the regression model.

The table's F-statistic, which gauges the regression model's overall significance, is 45.338. It is determined by dividing the regression's mean square (variation explained by the model) by the residual's mean square (variation not explained by the model). A high F-value indicates that the dependent variable's (GDP) variance can be adequately explained by the model. The F-statistic specifically examines the null hypothesis, which states that the independent variables—the NEPSE Index, the number of listed securities, turnover, and market capitalization—have no explanatory power over GDP as all of the regression coefficients are equal to zero.

The p-value for the F-statistic is represented by the Significance value (Sig.), which is 0.000. The statistical significance of the F-statistic is assessed using this number. The extremely low likelihood of detecting such a huge F-statistic by chance is indicated by the p-value of 0.000. The outcome is regarded as statistically significant since the significance value is less than the typical cutoff point of 0.05. This indicates that there is substantial evidence to disprove the null hypothesis and that the GDP variance is significantly explained by the independent variables taken together.

Table 8

Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	166279.998	21801.660		7.627	.001
Market Capitalization	-.022	.032	-.780	-.700	.515
Turnover	.006	.009	.109	.708	.511
Number of listed securities	.016	.004	1.289	3.792	.013
NEPSE INDEX	18.780	42.774	.382	.439	.679

a. Dependent Variable: GDP

In order to determine the individual effects of the four independent variables—market capitalization, turnover, the number of listed securities, and the NEPSE Index—on the dependent variable, GDP, Table 8 displays the findings of a multiple regression analysis. The unstandardized coefficients (B) and the significance values (Sig.) that go along with them are the main emphasis since they provide light on the relationship between GDP and each independent variable.

The projected GDP value when all independent variables are equal to zero is represented by the model's constant, which is 166,279.998. This implies that GDP would still be around 166,280 billion even if market capitalization, turnover, the number of listed securities, and the NEPSE Index were all zero. This intercept is statistically significant, as indicated by the constant's significance value of 0.001. As a result, it is crucial to the regression model.

There appears to be a negative correlation between market capitalization and GDP, as indicated by the market capitalization unstandardized coefficient (B) of -0.022. This suggests that, while all other variables are held equal, GDP is predicted to fall by 0.022 billion for every million rise in market capitalization. Nonetheless, market capitalization's significance value (Sig.) is 0.515, far higher than the standard cutoff of 0.05. This suggests that there is no statistically significant correlation between market capitalization and GDP. Because market capitalization does not seem to have a

significant effect on GDP in this model, even if the coefficient indicates a modest negative association, this finding should be read cautiously.

Turnover's unstandardized coefficient (B) is 0.006, suggesting that it has a positive correlation with GDP. This indicates that, while all other factors are held constant, GDP is predicted to rise by 0.006 billion for every million increase in turnover. Turnover has a significance value (Sig.) of 0.511, which is higher than 0.05 and indicates that there is no statistically meaningful association between the two. Similar to market capitalization, turnover in this model has no discernible influence on GDP, despite the coefficient suggesting a somewhat positive relationship.

With an unstandardized coefficient (B) of 0.016 for the number of listed securities, GDP is predicted to rise by 0.016 billion for every 1,000 increase in the number of listed securities. This indicates that there is a positive correlation between GDP and the quantity of listed securities. Crucially, this variable's significance value (Sig.) is 0.013, much below the 0.05 cutoff. This suggests that the quantity of securities listed has a positive and statistically significant effect on GDP. This is the only independent variable that has a significant impact out of all of them, indicating a strong correlation between Nepal's economic development and the number of listed securities. The function of capital formation and the investment opportunities offered by a thriving stock market may be reflected in this.

With an unstandardized coefficient (B) of 18.780, the NEPSE Index and GDP appear to be positively correlated. Keeping all other factors equal, GDP is predicted to increase by around 18.78 billion for every unit increase in the NEPSE Index. This indicates that rising stock prices are linked to economic expansion, as indicated by the NEPSE Index. Nonetheless, the NEPSE Index's significance value (Sig.) is 0.679, much more than 0.05. As a result, this link is not statistically significant, suggesting that, in the framework of this model, changes in stock prices by themselves do not significantly affect GDP.

4.2 Discussion

From the descriptive, correlation, and simple and multiple regression analysis above the major findings of the study can be drawn as below:

The findings of this study show that market capitalization (MC) has a negative but insignificant relationship with GDP. For instance, Widagdo et al. (2020) and Kalam (2020) found that market capitalization had a positive and significant impact on stock market performance and, consequently, on GDP in their respective studies on Indonesia and Malaysia. Additionally, Subedi (2024) pointed out that limited financial literacy and low investor participation in Nepal might explain why market capitalization has not had a substantial positive impact on GDP, as is observed in other countries.

This study finds a positive but insignificant relationship between turnover (TT) and GDP. Although the coefficient suggests that an increase in stock market turnover could lead to an increase in GDP, the lack of statistical significance indicates that this relationship is weak in the Nepalese context. Comparing this result with other literature shows some inconsistency. For instance, Huy, Loan, and Anh (2020) found that turnover and trading volume had a significant positive impact on stock prices and overall economic growth in Vietnam, implying a strong link between market activity and GDP. Similarly, Kalam (2020) found turnover to be an important factor in Malaysia's economic growth. The insignificant relationship in Nepal, as noted in this study, could be explained by lower market activity and liquidity, which Subedi (2024) and Niraula (2021) highlighted as major constraints in the Nepalese stock market, preventing turnover from having a substantial impact on the broader economy.

This study finds a positive and statistically significant relationship between the number of listed securities (NOLS) and GDP. When compared to other studies, this finding aligns with existing literature that underscores the importance of a well-developed capital market in promoting economic growth. For example, Widagdo et al. (2020) and Huy, Loan, and Anh (2020) both demonstrated that the growth in the number of listed companies and capital market activity significantly impacts economic performance. Similarly, Kalam (2020) highlighted the positive relationship between the number of listed firms and GDP growth in Malaysia. The consistent finding across different markets supports the theory that increasing the depth of a stock market, as measured by the number of listed securities, is crucial for facilitating economic growth.

In this study, the NEPSE Index (NI) and GDP have a positive but statistically insignificant association. This outcome is in contrast to what has been seen in other

markets. According to Huy, Loan, and Anh (2020), stock market indexes, including the NEPSE Index, significantly and favorably impacted Vietnam's GDP. In a similar vein, Kalam (2020) noted that Malaysian stock index performance significantly impacted economic development. These results imply that stock indexes, which represent investor confidence and company performance, serve as trustworthy gauges of economic health in more established or efficient markets. According to Subedi (2024) and Lama and Bhattacharya (2023), the NEPSE Index's lack of relevance in Nepal might be caused by reduced liquidity, inefficient markets, or a less developed financial infrastructure.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

This research evaluates whether Nepal's stock market contributes significantly to economic growth by closely analyzing the claim that it functions just as a speculative casino. The study intends to provide a comprehensive knowledge of the connection between stock market activity and economic performance in Nepal by examining a number of theoretical facets and using statistical methodologies.

The report, which spans the fiscal years 2014–15 through 2023–24, shows how the stock market has changed since its founding in 1994. Key factors such as GDP, market capitalization, turnover, the number of listed securities, and the market index have all been examined using secondary data. These factors offer a thorough understanding of the state of the stock market as well as its effects on the overall economy.

To measure the status of the stock market and economic growth, the study first assesses the overall trends and changes in the stock market alongside GDP fluctuations. This involves examining how market capitalization (the total value of listed companies), turnover (the volume of trade), and the number of listed securities (the total number of companies on the exchange) have evolved over time, and their respective correlations with GDP growth.

The analysis of relationships between these stock market indicators and GDP reveals that the number of listed securities has a significant positive impact on economic growth. This suggests that an increase in the number of listed companies is associated with greater economic activity, potentially due to improved access to capital and increased business opportunities. This finding supports the idea that a more developed stock market can contribute to economic expansion by fostering investment and growth.

In contrast, other stock market indicators such as market capitalization, turnover, and the NEPSE Index show weaker or non-significant relationships with GDP. Market capitalization and turnover, despite indicating stock market size and activity, do not show a statistically significant impact on GDP. This implies that while these variables

reflect aspects of market activity, their direct influence on economic growth may be limited or overshadowed by other factors.

The NEPSE Index, which measures stock price movements, also shows a non-significant relationship with GDP. Although rising stock prices might reflect positive market sentiment, this study suggests that they do not necessarily translate into substantial economic benefits.

Finally, by showing that several features of stock market development, especially the quantity of listed securities, have a considerable positive impact on economic growth, the study contradicts the idea that the stock market is just a speculative casino. This demonstrates how the stock market may contribute to economic growth by encouraging more investment and company expansion. The absence of discernible effects from other stock market indicators, however, points to a complicated and externally driven link between stock market activity and economic development. The results offer a nuanced perspective on the stock market's contribution to Nepal's economy, highlighting the significance of taking into account a variety of stock market performance factors when assessing its financial effect.

5.2 Conclusion

The results of this study challenge the notion that the stock market is only a speculative casino and offer a more nuanced understanding of the connection between the stock market and economic growth in Nepal. The study, which covers the fiscal years 2014–15 through 2023–24, shows that some stock market indicators have a major contribution to the economy, while others do not significantly affect economic growth.

The number of listed securities emerges as a key factor with a statistically significant positive impact on GDP. This result underscores the importance of a well-developed stock market in facilitating economic growth. A greater number of listed companies on the exchange likely improves access to capital, fosters investment opportunities, and enhances overall business activity, contributing to economic expansion. This finding supports the view that the stock market can play a vital role in driving economic development by promoting a more vibrant and accessible financial environment.

Conversely, other stock market indicators, such as market capitalization, turnover, and the NEPSE Index, exhibit weaker or non-significant relationships with GDP. Market capitalization and turnover, while reflective of the scale and activity within the stock market, do not show a direct and significant impact on economic growth. Similarly, the NEPSE Index, which tracks stock price movements, does not translate into substantial economic benefits according to this study's results.

These findings suggest that the stock market's influence on economic growth is complex and may be affected by a range of factors beyond stock trading and market activity. While a growing number of listed securities is positively correlated with economic growth, other aspects of stock market performance might not have a straightforward or immediate impact on the broader economy.

5.3 Implications

Managerial Implications:

- Managers and policymakers should focus on strategies to increase the number of listed companies on the stock exchange. A higher number of listed securities can stimulate economic growth by providing more investment opportunities and improving capital access for businesses.
- Initiatives to support and facilitate the listing of SMEs could help diversify and strengthen the stock market, thereby potentially enhancing economic development.
- Managers should consider the mixed impact of other stock market indicators such as market capitalization and turnover. While these metrics are important, their direct influence on economic growth may be less pronounced. Thus, focusing on a combination of metrics, including the number of listed securities, could provide a more comprehensive view of market performance.
- Investors and financial managers should recognize that while stock price indices and turnover provide valuable information, they should also consider other factors like the number of listed securities when making investment decisions or formulating strategies for market growth.
- Formulate Targeted Policies: Government and regulatory bodies should develop policies aimed at increasing market participation and listing activity.

Creating a more favorable environment for new listings can drive economic growth and attract more investment.

Future Research Implications:

- Future research could explore additional economic indicators and variables that might influence the relationship between the stock market and economic growth. This includes factors such as international trade, foreign investment, and economic policies.
- Conduct longitudinal studies to examine how the relationship between stock market activities and economic growth evolves over a more extended period. This can provide insights into long-term trends and the impact of economic cycles.
- Future studies could focus on specific sectors within the stock market to determine if certain industries have a more pronounced impact on economic growth. This approach can help identify which sectors contribute most significantly to economic development.
- Comparative research involving stock markets from different countries or regions could offer a broader perspective on how various market dynamics influence economic growth. This can help understand whether the findings in Nepal align with global patterns or are unique to the local context.

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APPENDIX

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GDP (in Billion)	10	186235.75	267884.00	227680.1780	28551.20445
Market Capitalization (in million)	10	989403.00	4010957.81	2304826.0900	1003285.25850
Turnover (in Million)	10	65425.03	1454444.24	467496.2430	500631.43724
Number of listed securities (000)	10	1631525.00	8322509.53	4764256.5300	2272692.70833
NEPSE INDEX	10	961.23	2883.41	1732.6165	581.32613
Valid N (listwise)	10				

Correlations

		GDP (in Billion)	Market Capitalization (in million)	Turnover (in Million)	Number of listed securities (000)	NEPSE INDEX
GDP (in Billion)	Pearson Correlation	1	.745*	.595	.979**	.596
	Sig. (2-tailed)		.013	.070	.000	.069
	N	10	10	10	10	10
Market Capitalization (in million)	Pearson Correlation	.745*	1	.870**	.821**	.975**
	Sig. (2-tailed)	.013		.001	.004	.000
	N	10	10	10	10	10
Turnover (in Million)	Pearson Correlation	.595	.870**	1	.644*	.876**
	Sig. (2-tailed)	.070	.001		.045	.001
	N	10	10	10	10	10

Number of listed securities (000)	Pearson Correlation	.979**	.821**	.644*	1	.682*
	Sig. (2-tailed)	.000	.004	.045		.030
	N	10	10	10	10	10
NEPSE INDEX	Pearson Correlation	.596	.975**	.876**	.682*	1
	Sig. (2-tailed)	.069	.000	.001	.030	
	N	10	10	10	10	10

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

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

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986 ^a	.973	.952	6274.51738

a. Predictors: (Constant), NEPSE INDEX , Number of listed securities (000), Turnover (in Million), Market Capitalization (in million)

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7139693639.214	4	1784923409.804	45.338	.000 ^b
	Residual	196847842.041	5	39369568.408		
	Total	7336541481.255	9			

a. Dependent Variable: GDP (in Billion)

b. Predictors: (Constant), NEPSE INDEX , Number of listed securities (000), Turnover (in Million), Market Capitalization (in million)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	166279.998	21801.660		7.627	.001
	Market Capitalization (in million)	-.022	.032	-.780	-.700	.515
	Turnover (in Million)	.006	.009	.109	.708	.511

Number of listed securities (000)	.016	.004	1.289	3.792	.013
NEPSE INDEX	18.780	42.774	.382	.439	.679

a. Dependent Variable: GDP (in Billion)

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ABSTRACTS This study examine the relationship between stock market and economic growth. The analysis covers the period from fiscal year 2014/15 to 2023/24, reflecting the stock market's evolution since its inception in 1994. Secondary data has been utilized to investigate key variables, including Gross Domestic Product (GDP), market capitalization, turnover, the number of listed securities, and the market index. These variables provide a comprehensive view of both the stock market's status and its impact on the broader economy. The analysis of relationships between these stock market indicators and GDP reveals that the number of listed securities has a significant positive impact on economic growth. This suggests that an increase in the number of listed companies is associated with greater economic activity, potentially due to improved access to capital and increased business opportunities. This finding supports the idea that a more developed stock market can contribute to economic expansion by fostering investment and growth. In contrast, other stock market indicators such as market capitalization, turnover, and the NEPSE Index show weaker or non-significant relationships with GDP. Market