THE IMPACT OF STOCK MARKET ON ECONOMIC GROWTH IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled **"THE IMPACT OF STOCK MARKET ON ECONOMIC GROWTH IN NEPAL".** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has 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 have 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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Sharada Parajuli

April, 2024

REPORT OF RESEARCH COMMITTEE

Mrs. Sharada Parajuli has successfully defended the research proposal entitled **"THE IMPACT OF STOCK MARKET ON ECONOMIC GROWTH IN NEPAL"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per the suggestions and guidance of the supervisor and submit the thesis for evaluation and viva voice examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"THE IMPACT OF STOCK MARKET ON ECONOMIC GROWTH IN NEPAL"** presented by Sharada Parajuli a candidate for the degree of Master of Business Studies (MBS), and conducted the viva voce examination of the candidate. We hereby certify that the dissertation is acceptable for the award of a degree.

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It is a pleasure to experience own creation that adds value to others. This thesis is the partial fulfillment of requirements for a Master's Degree in Business Studies (MBS) and I gained a lot of knowledge while doing it. Every project whether big or small is successfully large due to the effort of several wonderful people who have always given their valuable advice or lent a helping hand. I sincerely appreciate the inspiration; support and guidance of all those people who have been instrumental in making this study a success.

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ABBREVIATIONS

ARDL	=	Autoregressive Distributed Lag
CA	=	Constitution Assembly
CPS	=	Credit to the Private Sector
FDI	=	Foreign Direct Investment
GDP	=	Gross Domestic product
MC	=	Market Capitalization
NEPSE	=	Nepal Stock Exchange Limited
NI	=	NEPSE Index
NOLS	=	Number of Listed Securities
OLS	=	Ordinary Least Square
RGDP	=	Real Gross Domestic Product
SEBON	=	Securities Board of Nepal
SEC	=	Securities Exchange Center
SMC	=	Securities Marketing Center
TLE	=	Total Listed Equities
TNI	=	Total New Issue
TT	=	Trading turnover
VLT	=	Value of Transaction

ABSTRACT

The objective of this study was to analyze the progress of the stock market and its impact on the economic growth of Nepal. The study examined various stock market indicators, including stock market capitalization (MC), trading turnover (TT), number of listed securities (NOLS), and NEPSE index (NI), in relation to the real gross domestic product (RGDP), which served as a proxy for measuring economic growth. The study utilized secondary data obtained from the Economic Bulletin of Nepal Rastra Bank and the Economic Survey of the Ministry of Finance over 22 years, from 2000/01 to 2021/22 (Mid-July). A suitable descriptive research design was employed to analyze the data. Regression models were employed to assess the relevance of stock market performance and macroeconomic factors, such as Real GDP.

The results indicated a positive correlation between stock market indicators and economic growth in Nepal. Therefore, the analysis provides evidence that supports both the financial intermediation literature and the traditional growth literature. The study's findings indicate that the development of the capital market impacts the expansion of the financial industry. Additionally, this study found that economic growth is influenced by market capitalization, fluctuations in stock market price, and trading volume. The NEPSE (Nepal Stock Exchange) plays a crucial role in driving economic growth in Nepal. Therefore, the study suggests that the government should take significant measures to attract and promote active involvement in the stock market sector. The study suggests that the Securities Board of Nepal is responsible for governing and supervising the whole securities industry in Nepal. To ensure the effectiveness of the Board, it is crucial to have a sufficient number of professionals who are well-trained in all areas of the securities market. It should adopt new and emerging stock market regulatory frameworks that align with international standards. The greater stability of the Nepalese political and economic system has created a favorable investment climate for public sector, private sector, and multinational corporations to invest in Nepal. This will undoubtedly enhance the market capitalization, hence leading to an increase in the Real GDP.

***Keywords**: Stock Market Indicators, Economic Growth, Nepal Stock Exchange (NEPSE), Macroeconomic Factors, Capital Market Development*

CHAPTER I

INTRODUCTION

1.1. Background of the study

The stock market is a crucial resource for generating capital for their growth. Well-managed companies benefit from a pricing mechanism that allows them to allocate more of the capital they raise to investments. Capital formation and private investment rise as a result, helping the economy expand as a whole (Silva et al., 2018).

The stock market is a crucial hub that helps propel the expansion of businesses, industries, and trade, all of which contribute to the overall expansion of a nation's economy. For this reason, the stock market is closely watched and regulated by economic officials, technocrats, policy advisors, and national banks. The stock market's effects on the economy are felt in a variety of ways. Stock market liquidity, actual market capitalization, traded value, and stock market turnover are all examples of these channels (Dabwor et al.. 2020).

Stock market capitalization is a highly accurate predictor of future capital inflows, output levels, and GDP expansion (Yartey and Adjasi, 2007). There is a correlation between GDP and stock market performance, as has been widely observed (Carlin & Mayer, 2003). In return for debentures and other forms of debt financing, financial institutions give a platform. It helps move money from places where it's abundant to places where it's scarce, where it may be invested profitably. Public and commercial sectors alike benefit from this since increased output and investment lead to a healthier economy (Kumo, 2009).

The economic development of Nepal, a landlocked country in South Asia, has followed a convoluted path in recent decades. The country's economic growth has advanced significantly even though it is marked by political instability and structural problems. Nepal's stock market is becoming increasingly important to the country's economy and has been one of the driving forces behind the country's recent expansion. There are several elements, such as regulatory frameworks, investor confidence, and global market dynamics, that might mitigate the effect of the stock market on economic growth in Nepal. According to Bhattarai et al., (2021) study, the

impact of the stock market on economic growth in Nepal is complex and necessitates an in-depth examination of local and foreign factors.

The role played by the performance of stocks in growing the GDP has been the subject of much study, leading many academics to the conclusion that it cannot be ignored. The idea put out to boost output includes a vital component based on the performance of equities (Nazir et al. 2010). It is widely held that increased savings in the stock market will have a positive effect on GDP growth. Experts claim that stockpiles in low-income nations are growing ever larger (Bhoyu, 2011). The NEPSE is the regulatory body for the Nepalese stock market. Rising securities prices are primary elements for raising GDP, whereas falling stock prices are commonly thought to signal an impending recession (Siong & Thing, 2008). An enormous drop in stock values, seen in securities markets throughout the world, was a major catalyst for the improbability that emerged during and after the global economic recession of 2009 (Fuentes & Pereira, 2010). Capital formation, which the stock markets facilitate, is commonly thought to be a key factor in economic expansion. In addition, the expansion of a country's economy is the fuel that drives the expansion of its securities market (Owusu, 2018).

The stock market is commonly perceived as an institution that provides a platform for the effective allocation of money (Howells & Keith, 2000). The researchers further noted that borrowers can get cash, which they subsequently employ to finance long-term initiatives, whereas savers opt to put their excess assets in the stock markets. The stock market provides both privately owned enterprises and publicly-owned ones with the chance to raise capital that may be utilized to support long-term investments inside the country. According to Vakidais (2009), the presence of enough capital in the market enables both private firms and the government to borrow funds for investment purposes. This, in turn, contributes to the enhancement of economic growth and development, as evidenced by the increase in GDP.

For economic expansion and development, the stock market acts as a go-between for borrowers and savers, as noted by Giitobu (2000). In addition, they advocated that persons with financial surpluses put their money into the stock market, which offers a higher return than commercial banks. Borrowers can find appealing cash on the stock

market as well, especially when equity is preferred over loans that need higher interest payments.

According to Donwa and Odia (2010), there is a theoretical argument that suggests well-developed stock markets have the potential to enhance savings. According to Munro (2000), there is a positive correlation between savings and GDP development. The author also highlights that the stock market serves as a platform for investment facilitated by savings. Savings and investments are considered to be equivalent, resulting in alterations in the capital stock and subsequently contributing to economic growth. The maintenance of a robust stock market contributes to economic growth by facilitating the transfer of funds from savers to borrowers. However, this phenomenon occurs subsequent to the resolution of several obstacles that impede the development of stock markets, particularly in developing nations such as Nepal. Several problems can be identified, including political instability, economic slump, weak corporate governance standards in some market intermediaries, and obsolete rules that impede the operation of the stock market.

This study aims to answer questions about the nature of the link between economic expansion and the behavior of the Nepalese stock market. The logic behind this was that savers were assumed to have excess cash for investment, whereas investors were presumed to be pursuing growth-oriented plans necessitating further funding from the stock market. In order to fix the allocation problem and allow borrowers to have access to surplus money from savers, a strong stock market performance is particularly important during times of high economic development. The central focus of this study is the connection between the success of the stock market and the expansion of the Nepalese economy.

The capital market's historical history may be traced back to 1936 when Biratnagar Jute Mills Ltd. initiated the flotation of shares (NEPSE, 2009). In 1974, the Nepalese government introduced an industrial policy which led to the establishment of the Securities Marketing Center (SMC). The primary objective of this organization was to facilitate the trading of government securities, including development bonds, national saving bonds, and corporate securities of select firms. The Securities Marketing Center (SMC) underwent a name change in 1976, becoming the Securities Exchange Center (SEC). During that period, the Securities and Exchange Commission (SEC)

had the responsibility of brokering, underwriting, and managing public issues, as there was a lack of capital market institutions in Nepal apart from the SEC. In accordance with the goal of financial sector liberalization, the Government of Nepal underwent a transformation of the Securities Exchange Center (SEC) into the Nepal Stock Exchange Ltd. (NEPSE) in 1993. This conversion entailed the delegation of the operational duties about the secondary market to NEPSE. In 1993, the establishment of the Securities Board of Nepal (SEBON) was undertaken by the government of Nepal with the aim of establishing a regulatory entity for the securities market. Since its formation, the entity has experienced large fluctuations in value within a relatively short timeframe. Following the conclusion of the Maoist insurgency era and subsequent to the convening of the second Constitution Assembly (CA), the NEPSE index saw an upward trajectory, ultimately reaching a peak of 1036.1. This marked the highest point observed in the past six years, as reported by Shrestha and Subedi (2014).

The fluctuations of the NEPSE index have a notable impact on economic activity and transactions. In this context, a significant inquiry arises regarding the statistical correlation between the development of the stock market and economic growth in Nepal. The present study examines the role of the stock market in fostering economic growth within the context of Nepal. The utilization of this tool provides significant benefits to trading businesses, academics, academicians, and particularly policymakers.

From the perspective of investors and the business world alike, the stock market is of the utmost importance. Levine and Zervos (1998) argue that certain indicators may be used to gauge the health of the stock market and that this, in turn, correlates with the expansion of the national economy. Some of these elements are stock market liquidity, market capitalization, and stock turnover.

1.2. Statement of Problem

The stock market of Nepal has become a crucial element within the nation's financial framework, although it encounters several obstacles that have consequences for its influence on the growth of the economy. The intimate correlation between the stock market and Nepal's economic development is underscored by several significant challenges.

Few investors are aware of the problems and don't know enough about them. Many Nepalese buyers, especially those in rural areas, don't know much about how the stock market works. This could cause them to make bad choices and leave them open to market manipulation. This lack of understanding also makes it harder for regular people to trade in the market, which limits its ability to help the economy grow.

Nepal's stock market has some big problems, such as small size and few ways to diversify. Due to the small number of traded companies and industries, risks can be concentrated, making the market less resistant to shocks from outside. Also, the dominance of a few areas can make it harder for buyers to find different kinds of investments.

Unsuitable rules and regulations are a big problem. If there aren't strong rules and ways to keep an eye on things, investors may lose faith, which can cause the market to be unstable and discourage long-term investments. This uncertainty can make it harder for the stock market to move money into useful areas of the business.

We can't just ignore how the world market and Nepal's stock market work together. Changes in international product prices, foreign exchange rates, and the global economy can affect how investors feel and how the market does. Because Nepal's market is small and linked to other markets, it can be affected by these outside factors. This makes the relationship between the stock market and economic growth even more complicated.

Raising the rates of accumulation of physical and human capital, increasing the efficiency with which these assets are put to use, and ensuring that all members of society have access to financial assets is crucial for a country's economic growth to be sustained over the long term. Researchers and politicians alike have noted that a developed financial system would naturally adapt to the growing need for specialized financial agreements and arrangements that accompany rapid economic expansion. There has been a lot of discussion in the literature on development and growth on the connection between financial development and economic growth ever since the advent of the finance-led growth hypothesis and the growth-led finance hypothesis. This study will fill that void by investigating the link between financial development and GDP expansion in Nepal. The Nepalese stock market has been volatile because of a lack of ideal government policy and political uncertainty (Shrestha &Subedi, 2014).

The lack of sufficient institutional investors in the market throughout the time covered by this study is a significant weakness of the Nepalese stock market. The purpose of this research is to assess the role of the stock market in the development of the Nepalese economy. Many prior studies have mostly focused on the banking sector, thus policymakers have not traditionally seen stock performance as the engine for the expansion of GDP that would drive them to shift their attention to stock market performance. This research aimed to address a gap in the literature by analyzing the connection between stock performance and GDP performance in Nepal.

In conclusion, Nepal's stock market is facing several problems that all affect its ability to boost economic growth. Taking care of these problems, such as regulatory reforms, investor education programs, attempts to diversify the market, and government stability, is important if Nepal wants the stock market to help it reach its larger economic growth goals.

This present study is carried out to answer the following research questions:

i. What is the current position of stock market development and economic growth GDP in Nepal?
ii. What is the relationship between stock market development and GDP in Nepal?
iii. How stock market affect the GDP of the Country?

1.3. Objectives of the Study

The general objective of this study is to conduct a complete examination and analysis of the impact of the stock market on economic growth in Nepal. The primary goal is to gain insights into the possible function of the stock market as a catalyst or indicator of economic advancement. The specific objectives of this research are:

i. To analyze the current position of stock market development and economic growth GDP in Nepal.
ii. To examine the relationship between stock market development and economic growth in Nepal.
iii. To analyze the impact of the stock market on GDP.

1.4. Rationale of the Study

There is good reason to look into the "Impact of the Stock Market on Economic Growth" in the context of Nepal, where the economy is undergoing change and expansion. The stock market in Nepal is growing rapidly with the country's developing economy, but there is a shortage of research into the complex interplay between the two. This study tries to fill that void by investigating the relevant dynamics in the Nepali setting. Understanding the function of the stock market in directing money toward new sectors and startups in Nepal is crucial as the country makes the transition from an agricultural to an industrial economy. Foreign investment opportunities and the promotion of financial inclusion in a diversified economy are two additional stock market functions that need investigation.

The research can elucidate the market's significance as a gauge of economic health by comparing stock market fluctuations to other broad economic indicators. Understanding the relationship between the stock market and economic growth is especially crucial in light of the country's specific cultural and legal environment. At the end of the day, our research has the potential to add not just to Nepal's growth vision but also to global insights, providing approaches and lessons gathered from the intersection between stock market expansion and economic development in a developing nation.

The stock market is reflecting the reality of the economic situation. The economy is doing well while the stock market is rising, and poorly when it is falling. The health of the economy may be gauged by the performance of the stock market. When the economy expands, people can earn more, save more, and invest more. It's important to remember that industrialization is a key factor in every country's economic development. It's an indication that further research is needed to pinpoint the issue at hand and predict its future course. How can it be improved and made to perform perfectly by the formulation of policies, the passing of regulatory acts, and the introduction of new rules and regulations? Economists may use the future per capita income of Nepal as a proxy for the level of living standards according to this study, which looks at the success of the NEPSE index in predicting economic performance.

As few academics have focused on the correlation between stock performance and GDP development in Nepal, the Study will be of great relevance to empirical study on

the issue. Accurate financial records should be kept to supply the data required by linked parties. University students interested in the history, growth, and issues/challenges facing the development of the Nepalese stock market would find this research informative. Policymakers concerned with the growth of the capital market can also benefit from the suggestions that will be proposed as a result of this study's findings.

This study is of utmost importance as it addresses the current research void, provides valuable insights for policy changes, enhances investor confidence, and contributes to the broader economic development endeavors of Nepal. It accomplishes these objectives by comprehensively analyzing the intricate relationship between the stock market and economic growth. The study could have a big impact on a lot of different people and groups by giving them information that can help them make decisions, drive economic growth, and improve Nepal's general economy.

1.5. Limitations of the Study

i. The reliability of the results, which are based entirely on secondary data, will depend on the quality of those data sources.
ii. The research spans the years 2000/01 to 2021/22.
iii. Findings and suggestions may not apply exactly to other private and public sectors.
iv. Only market capitalization, trading turnover, number of listed securities, and NEPSE index are considered in stock market development.
v. Only GDP is considered for the economic growth rate.

CHAPTER II
LITERATURE REVIEW

When discussing a research problem in the context of a literature review, "the literature" refers to the sources that were read to gain a deeper understanding of the subject matter at concern. A review (also known as a re-examination) is a methodical, in-depth, and critical synthesis of the relevant research literature. How were previously conducted studies handled with similar issues, and what insights were gained from doing so? The literature review also suggests summarizing the major points of the studies or publications reviewed and making any relevant connections between studies. Therefore, this chapter is divided into two parts, i.e.

i. Theoretical Review
ii. Empirical Review

2.1. Theoretical Review

The theoretical literature review helps establish what theories already exist, the relationships between them, to what degree the existing theories have been investigated and to develop new hypotheses to be tested. The unit of analysis can focus on a theoretical concept or a whole theory or framework.

The stock market is a crucial element of a nation's financial infrastructure, functioning as a medium for the purchase and sale of assets, such as stocks and bonds. Given its significance in mobilizing capital, enabling investment, and fostering financial inclusion, it is crucial to comprehend the dynamics of the stock market in Nepal. An efficiently operating stock market may greatly enhance a nation's economic progress by facilitating enterprises' access to cash for expansion and innovation.

Stock market development involves a wide range of activities and characteristics, including the effectiveness and clarity of trading processes and the variety and extent of financial instruments offered. It is crucial to examine the impact of regulatory frameworks, investor education, and technical improvements on the growth of Nepal's stock market as it progresses and becomes more sophisticated. An exhaustive examination of stock market growth in Nepal will provide insight

into the distinct obstacles and possibilities encountered by market players.

The correlation between the development of the stock market and economic growth has garnered significant attention in scholarly circles. Multiple researches conducted in various economies have sought to clarify the nature and intensity of this correlation. Given the focus of your thesis on Nepal, it is crucial to investigate the potential impact of a dynamic and highly developed stock market on the country's GDP. In theory, a strong stock market may boost economic growth by enabling effective distribution of money, fostering entrepreneurial activity, and incentivizing long-term investments.

Moreover, analyzing how the stock market influences GDP in Nepal entails investigating how this impact is transmitted, including the wealth effect, capital formation, and the influence on investor confidence as a whole. Evaluating the factual data from global and local viewpoints will establish a strong basis for comprehending the particular forces at work in the context of Nepal.

2.1.1. Stock Market and Macro Economic Variable

The relationship between the stock market and the macroeconomy is not easily discernible. Historically, conventional models have prioritized correlation research as a means to ascertain the nature of the link between stock prices and macroeconomic factors. In recent times, there has been a surge in studies that seek to determine the causative direction between stock prices and macroeconomic variables. This increase in research may be attributed to the development of econometric methods such as co-integration, causality, and error correction models.

2.1.2. Stock Prices and Money Supply

The connection between stock prices and shifts in the money supply has been the subject of two competing theoretical explanations: The Portfolio Disequilibrium Hypothesis and the Central Bank Intervention Hypothesis. According to the Central Bank Intervention Hypothesis (Pearce & Roley, 1983), central banks often respond to unanticipated increases in the money supply by draining the market of its excess liquidity. Because longer-term yields would rise quickly, this projected central bank involvement will have a negative effect on stock values because of higher predicted short-term interest rates in the future. Since stock prices are thought to reflect the discounted present value of future benefits that accrue to investors, this is often

attributable to the increase in discount rates as a result of the rise in interest rates. Share prices fall when discount rates rise without an accompanying increase in expectations for the company's future profits. The Portfolio Disequilibrium Hypothesis (Cooper, 1983) states that the level of money supply has a beneficial effect on stock prices. Due to the public's cash, financial, and other asset portfolios being out of whack as a result of the unanticipated increase in money supply, stock prices will rise. When investors' portfolios are out of whack, they sell cash holdings and buy stocks, bonds, and other assets, driving up their values.

2.1.3. Stock Price and Inflation

The connection between stock prices and shifts in the money supply has been the subject of two competing theoretical explanations: The Portfolio Disequilibrium Hypothesis and the Central Bank Intervention Hypothesis. According to the Central Bank Intervention Hypothesis (Pearce & Roley, 1983), central banks often respond to unanticipated increases in the money supply by draining the market of its excess liquidity. Because longer-term yields would rise quickly, this projected central bank involvement will have a negative effect on stock values because of higher predicted short-term interest rates in the future. Since stock prices are thought to reflect the discounted present value of future benefits that accrue to investors, this is often attributable to the increase in discount rates as a result of the rise in interest rates. Share prices fall when discount rates rise without an accompanying increase in expectations for the company's future profits. The Portfolio Disequilibrium Hypothesis (Cooper, 1983) states that the level of money supply has a beneficial effect on stock prices. Due to the public's cash, financial, and other asset portfolios being out of whack as a result of the unanticipated increase in money supply, stock prices will rise. When investors' portfolios are out of whack, they sell cash holdings and buy stocks, bonds, and other assets, driving up their values.

2.1.4. Determinants of Economic Growth

The neoclassical model is frequently favored by researchers due to its simplicity in identifying the fundamental determinants of GDP growth, as stated by Rodrik (2003). Furthermore, proponents of endogenous growth models praise them for their capacity to integrate policy, institutional factors, and technical advances as the primary drivers of economic growth (Barrow, 1996).

Classical economists place significant emphasis on the significance of savings for the nation, as acknowledged by Levine and Renelt (1992) and Sala-i-Martin (1997), who regard savings and investment as crucial determinants. Private enterprise is frequently regarded as the catalyst for economic advancement, but public investment fulfills the necessary role of establishing the infrastructure needed for economic expansion. Howells and Keith (2000) observed that there exists a strong correlation between private and public investment. This is because public ventures can facilitate the development of infrastructure for the private sector, while also potentially displacing private investors by driving up capital costs. According to Sala-i-Martin (2003), public investment can have either beneficial or negative effects on private investment. The accumulation of shared human capital fosters the emergence of beneficial externalities that enhance the operational effectiveness of individual enterprises.

The aforementioned evidence demonstrates a discernible association between savings and GDP growth, as indicated by studies conducted by Barrow (1996) and Artadi and Sala-i-Martin (2003). Foreign aid is often considered to be a factor that is positively associated with economic growth. According to Bachha (1990), it alleviates any potential restrictions that may be imposed on the economy. The constraint on savings is a common occurrence in nations with a low GDP per capita. These countries often have limited savings, which hinders their ability to accumulate investments in the public sector. This constraint on domestic savings plays a crucial part in relaxing the overall savings limitation. According to Kathurimn (2010), It has been disclosed that limitations stemming from foreign exchange limits, which result from the necessity for imported capital goods or services and earnings from foreign exchange, may be insufficient. Aid comes within this classification of foreign exchange; wherein significant amounts of imports are permitted into the nation. The limitations resulting from fiscal choices have implications for savings. Foreign aid plays a role in funding public investment, therefore deterring the government from seeking more income to cover a budget deficit. Consequently, aid serves as a valuable tool in alleviating this restriction. However, Chenery and Strout (1966) argue that in underdeveloped nations, the provision of foreign help in the form of technological support might mitigate this constraint and enhance economic performance. Based on the above analysis, it can be inferred that there exists a clear correlation between aid and investment, resulting in subsequent economic growth. According to a study conducted

by Gomanee et al. (2005), it was shown that foreign aid had a beneficial influence on GDP development, particularly in developing nations, by facilitating financial resources for public investments. According to Elbadawi (1999), there is a contention that foreign aid provided to East African nations has an adverse effect on the exchange rate. This is due to the appreciation of the exchange rate, resulting in increased costs of exports and therefore impeding the growth of the Gross Domestic Product (GDP).

The influence of exports on private investment and subsequent GDP growth is a significant element to consider. According to various scholarly sources (Frankel and Romer, 1999; Harrison, 1996; Piazolo, 1995; Zhang and Zou, 1995), countries that engage in open trade enjoy several benefits in comparison to those that practice closed trade. These advantages include enhanced efficiency through labor specialization and increased competition from international firms. Additionally, open trade facilitates technological transfer, enables economies of scale through business expansion, and promotes the acquisition of knowledge through globalization. Moreover, the heightened level of competition resulting from this state of openness has the potential to detrimentally impact the operational effectiveness of domestic enterprises, and in some cases, lead to their demise (Harrison, 1996). Extensive studies have been conducted in this particular sector, with a predominant focus on exports. Imports, on the other hand, serve as a means of acquiring foreign technology and operate as intermediary commodities, and in certain cases, are utilized for investment reasons, therefore contributing to the enhancement of economic growth.

2.1.5. Endogenous Growth Framework and Finance

The emergence of endogenous growth literature in the 1990s strengthened the relationship between finance and economic growth. Endogenous growth theories permitted diverse policy influences on economic growth, including human capital and education (Lucas, 1972), (Schultz, 1991), international trade (Romar & Rivera, 1989), and financial markets (Greenwood & Boyan, 1990). Empirical works within the endogenous growth framework have highlighted the role of financial markets in promoting economic development by increasing capital productivity, reducing intermediation costs, and increasing the saving rate. All of these investigations, however, focused on the function of the banking system in the process of

intermediation. The focus shifted to capital markets, particularly stock markets, as a result of the 1990s' widespread enthusiasm for stock markets. In numerous developing countries, the failure of the existing manner of financial intermediation through Development Finance Institutions (DFIs) and bank-based interventionist systems led to a reorganization of these systems in favor of capital market-based financial intermediation. In addition, the desire of nations to attract foreign capital in non-debt-generating forms fueled the global development of equity markets. All of these factors stimulated scholarly interest in the various aspects of stock market evolution. With the World Bank's efforts to examine in depth the connections between the functioning of the stock market and economic development, serious empirical research in this area began only in 1995.

2.1.6. Post-Keynesian Perspective

When speculative activities began to appear in the financial markets, the gloomier side of the Keynesian theory gained favor among post-Keynesians. When financial assets provide greater returns than real investment projects, more money will be invested in financial capital, which reduces the amount of money available for actual investment in plant and equipment, as stated by the 'crowding out theory' proposed by (Tobin, 1965). The actual economy will feel the consequences of this through negative multiplier effects. Another potential for financial market (especially stock market) harm is proposed in the 'casino' hypothesis. When stock markets experience speculative bubbles, prices no longer fairly represent fundamental factors. There is a risk that the real economy may become the byproduct of a casino if speculative growth dynamics driven by irrational conduct are allowed to emerge. The tendency of financial markets to think only in the short term was a concern for Keynes himself. Since financial markets facilitate sequential trading, they are frequently supported by short-horizon speculators. Financial market prices are sensitive to a wide range of news that can swiftly shift market sentiment. As a result, financial market values are notoriously unpredictable and conducive to making or losing money in a hurry. Given the growing significance of financial markets, managers increasingly look to the short time horizon of financial markets as a benchmark for decision-making. Managers may damage their firms' long-term prospects if the financial markets consistently undervalue their long-term investments (Biswanger, 1999).

(Minsky, 1986) provides a more well-thought-out thesis for where financial instability comes from. He claims that when full employment is neared and the economy experiences a boom, debt commitments begin to exceed the income flows required to pay them. This occurs when people have too optimistic expectations regarding genuine profit potential, which are limited by the rise of productivity, while credit expansion is not. As a result, credit is being used more for "fake" purchases like make-up and recouping losses than for "real" investments. As a result, the stability of the financial system deteriorates, and a debt-deflation-induced economic collapse marks the peak of the business cycle. In general, these ideas point to a link between the expansion of the financial sector and slower overall economic growth. They define a stage of economic development when the growth of the financial sector is expected to come at the expense of the growth of the real sector, although this negative connection is not expected to persist under all economic situations.

2.1.7. The Gurley and Shaw Propositions

Based on their research into what drives and is driven by real economic growth, Gurley and Shaw (1960) concluded that "financial innovation is a dynamic process that causes and is caused by the development of the real sector." They noticed that entrepreneurs' savings are crucial to the process of capital accumulation in low-resource settings. As a country's economy matures, private savings are replaced by bank-mediated debt finance, and then stock markets emerge as a new tool for acquiring foreign cash. Therefore, commercial banks are the most common type of financial institution in countries with a low degree of development. Increased industrial and economic growth is a byproduct of the maturation of specialized financial intermediaries and the expansion of stock markets. Shaw and Gurley's Financial market growth and economic expansion are shown to move in tandem in this proposal.

2.1.8. The Keynesian Perspectives on Finance and Growth

Within the realm of contemporary macroeconomics, multiple versions of the Keynesian legacy may be observed, encompassing a spectrum that extends from post-Keynesian perspectives to those aligned with the more conventional new Keynesian style of thought. Keynes exhibited ambiguity over the impact of financial development on the actual economy. On one side, the individual emphasized the

significance of financial processes in augmenting the degree of growth. Conversely, they expressed concern regarding the detrimental impact of speculative activity in financial markets on enterprises.

2.1.9. The Neo-classical Economic Perspectives

The process of liberalizing the capital market is expected to have a positive impact on economic growth. This is due to the anticipated increase in investments from external sources into the liberalized economy. To assess the effects of stock market development on economic growth, the real Gross Domestic Product (GDP), which serves as a measure of economic development and growth, is analyzed with indicators of stock market development and macroeconomic factors.

Credit to the private sector (CPS) is a metric that quantifies the extent of financial intermediation activities and efficiency by measuring the percentage of total credit provided by banks to the public sector concerning the Gross Domestic Product (GDP). According to Owusu and Odhiambo (2018), it is anticipated that augmenting the financial resources, particularly through the provision of credits, to the private sector will enhance the efficiency and productivity of the private sector. This, in turn, is likely to result in economic growth. Another control variable included in this study is foreign direct investment (FDI), which functions as a viable mechanism for knowledge transfer between nations. Foreign direct investment (FDI) inflows have been seen to contribute to economic growth by positively influencing both the level and the rate of expansion of gross domestic product (GDP).

2.1.10. The Modigliani-Miller Irrelevance Theory

The Modigliani-Miller theorems provide academic support for the neo-classical viewpoint that finance has a negligible impact on real growth at the microeconomic level. These theorems suggest that a firm's investment decisions are unaffected by the financial process. Modigliani and Miller proposed two fundamental principles in the philosophy of finance. The researchers demonstrated that under completely mature capital markets, adhering to neo-classical principles of perfect competition, the lack of transaction costs and taxation, and the presence of complete and equal knowledge among all investors, the stock market value of a corporation remains unaffected by its choices about funding. The determination of a firm's market value is contingent upon

the earnings potential and risk associated with its underlying real assets. This valuation is unaffected by the firm's capital structure or the allocation of funds between internal and external sources for funding its investment plans. Furthermore, it has been determined that business development and investment decisions are exclusively influenced by tangible factors, including productivity, demand for output, technical progress, and the relative pricing of capital and labor. In this concept, finance serves as a facilitator for the investment process, while the growth of the financial sector aims to improve the efficiency of the intermediation process by addressing any existing defects. The M-M theorem is a representation of the neo-classical perspective on investment theory within the field of corporate finance.

The M-M theory can be distinguished from the pecking order theorem or hierarchy hypothesis (Mayers & Majluf, 1984), which is widely recognized as one of the key theorems in the field of corporate finance. It is often posited that organizations exhibit a preference for internal sources of finance over external ones. If external financing becomes necessary, firms tend to prioritize debt as the initial choice, followed by the potential utilization of hybrid instruments such as convertible debentures, with equity being considered as a last option. The capital structure and dividend distribution decisions of a corporation are significant factors that have an autonomous impact on its share price in this examination.

Recent theoretical advancements have provided support for the pecking order perspective while also refuting the M-M theorems. When limiting assumptions, such as the lack of taxation and financial difficulty, are loosened, it has been demonstrated that the capital structure of a business becomes significant. When corporations are provided with tax incentives that allow them to deduct interest as expenses, they tend to exhibit a preference for debt financing. Nevertheless, it is worth noting that an elevated degree of debt financing has the potential to amplify the likelihood of insolvency and financial turmoil in times of economic slump. The existence of this trade-off necessitates the establishment of an ideal debt-equity ratio to optimize the stock market valuation of a corporation. The significance of corporate capital structures and financial decisions for the real economy is underscored by the inclusion of more intricate considerations and recent theoretical advancements about asymmetric information between insiders (managers) and outsiders (creditors or

shareholders), challenges related to adverse selection, moral hazard, agency costs, signaling, and transaction costs.

2.2. Empirical Review

Several empirical studies have been conducted on the relationship between stock market development and economic growth with varying results.

2.2.1. Review of International Articles and Journals

Dabwor et al. *(*2022) analyze the impact of stock market volatility on economic development in Nigeria, taking into consideration the moderating function of globalization (economic, social, and political). All three variables (real GDP, stock market returns, and globalization index) are integrated of order one, and the results of the Bayer-Hacker and Johansen co-integration tests, as well as the recently developed unit root with structural breaks by Lee and Strazicich test, suggest evidence of a long-run relationship between them. Moreover, the GARCH (1,1) model shows that shocks to SMR volatility are more likely to have a lasting impact. The study concludes that there is a positive and inelastic influence of stock market gains on economic growth in Nigeria, but that this effect is too small to be statistically significant. Economic expansion in Nigeria is positively elastically and statistically impacted by globalization.

Pan and Mishra (2018) researched the impacts of the stock market connection on the world's largest and fastest-growing emerging economy, China. Unit root testing with structural breaks and the Autoregressive distributed lag (ARDL) model are part of the technique. The research revealed that the real sector and the financial sector in China were significantly affected by the global financial crisis that occurred between 2007 and 2012. Our data likewise indicates that the Shanghai A share market has been negatively correlated with the actual economy over the long term but to a much smaller extent. These results suggest that the existence of unreasonable optimism in the stock market and the economic bubble in China's financial sector is attested to by this inverse correlation. Short-term correlations between stock prices and the economy were not supported by the data. According to the results of a Toda Yamamoto causality test, rising prosperity has contributed to the expansion of Shenzhen's B share market. Stock market liquidity and stock market sector indices

were demonstrated to be complementary gauges of stock market operations, as evidenced by the equally weighted index.

Owusu (2018) analyzed the impact of stock market growth on GDP expansion in South Africa. It uses a Bound testing method based on auto-regression distributed Lags (ARDL) and proxies for many dimensions of stock market growth. The long-term evolution of the stock market is shown to have had a small effect on GDP expansion. There is a short-term effect of stock market growth on economic expansion in South Africa. So, we concluded that what drives real sector development and economic growth in South Africa is an increase in lending to the private sector and an increase in gross national spending.

Pradhan (2018) analyzes the long-term connection between stock market growth and GDP expansion in the G-20 nations from 1980 to 2015. Finding both unidirectional and bidirectional causation between stock market growth and per capita economic growth using a vector auto-regressive model for evaluating the Granger causalities. To keep sustainable development in the G-20 countries, the study's policy conclusion is that economic strategies should account for variations in the stock market and per capita economic growth.

Silva et al. (2018) studied a link between the performance of the stock market and the growth of the economy and looked at how the performance of the stock market affects the growth of the economy. Using SPSS software, data from companies registered on the Colombo stock market from 2000 to 2015 was analyzed using the simple regression model and correlation analysis, which are econometric techniques. The study's results agree with other research that shows a strong positive link between the success of Sri Lanka's stock market and its economic growth. This work adds to the existing research and gives important information to experts in developing countries and academia.

Azam et al. (2016) investigated the impact of stock markets on economic growth in four Asian nations: Bangladesh, India, China, and Singapore. The study employs annual time series cross-country data spanning from 1991 to 2012, along with the autoregressive distributed lag (ARDL) bound testing strategy, which is an analytical tool. The findings indicate the presence of long-term cointegration between economic growth, foreign direct investment (FDI), stock market development, and inflation.

The long-term elasticity estimates of stock market development in all countries exhibit the anticipated direction, but they are statistically significant just in China and Singapore. The relationship between incoming foreign direct investment (FDI) and economic development has been seen to be favorable in all nations, with the exception of India. However, this relationship is statistically insignificant for all countries, save China. The study's empirical findings demonstrate that the development of the stock market and the influx of foreign direct investment (FDI) are significant factors in the facilitation of economic growth and development within the chosen nations.

Nagare et al. (2014) examined how stock market development affects African economic growth. It includes yearly data from 36 African nations, 18 of which have stock markets, from 1980 to 2010. Data analysis uses panel data econometrics. Our primary results are:(i) countries with stock markets grow faster than countries without stock markets, (ii) relatively developed countries with stock markets grow slower than small countries with stock markets, (iii) stock market development boosts economic growth, (iv) investment, human capital formation, and openness boost economic growth in Africa, and (v) macroeconomic instability (inflation) and government spending hurt economic growth.

Nguyen and Pham (2014) conducted a study that investigated the causal association between stock market development and economic growth in Canada and Australia. The study utilized time series data spanning from the third quarter of 1981 to the third quarter of 2012. The findings suggest a significant and enduring association between the stock market and economic growth. Specifically, the development of the stock market has been found to contribute positively to future growth in Canada. However, this link does not hold true for Australia.

Laokulrach (2014), investigated the influence of the overall stock market as well as individual industries within the Stock Exchange of Thailand (SET) on the economy. A hypothesis was formulated positing a positive causal association between the stock market and economic development in Thailand. The study employed the regression analysis approach. The findings of the study indicated a mutually beneficial link between the development of the stock market and economic growth, as evidenced by the impact on gross capital creation. At the industry level, it was seen that the service

technology industries had a notable beneficial impact on economic growth. However, no substantial impact on national economic growth was identified for the remaining six industries. Greater assistance should be provided to small and medium-sized enterprises (SMEs), enabling them to grow their operations and contribute to increased capital creation and economic development. The provision of government support to public enterprises can serve as a means to facilitate the ASEAN exchange's role as a fundraising alternative, so contributing to stock market growth and fostering economic development.

Hossian et al. (2013) investigated to analyze the co-integration connection and causation direction between the stock market and the economic growth of Malaysia. The research employed quarterly time series data covering 15 years from Q1 1991 to Q4 2009. Data on share prices, which serve as the independent variable indicating stock market performance, were gathered from the Kuala Lumpur Stock Exchange (KLSE). The country's gross domestic product (GDP), serving as the dependent variable indicating economic growth, was obtained from the 'DataStream' database. The Engle-Granger Co-integration and Granger Causality methodologies were employed to ascertain the enduring, as well as immediate-term and causal associations among variables, correspondingly. The findings derived from empirical analysis indicate the presence of a link, both in the long and short term, between the stock market and economic development. However, the application of the Granger causation test reveals a unidirectional causation relationship.

International articles so far reviewed are presented in metastable.

Table 1:

Summary of International Articles

S.N	Date	Topic	Author's	Objectives	Methodology	Findings
1.	2020	Stock market returns, globalization and economic	Dabwor et al.	To investigate the effect of stock market volatility on	The Bayer–Hancks and Johansen cointegration	The study reveals a positive, inelastic but

		growth in Nigeria: Evidence from volatility and cointegrating analyses		economic growth in Nigeria.	tests, Lee and strazicich test.	statistically insignificant effect of stock market returns on economic growth in Nigeria.
2.	2018	Stock market development and economic growth: Empirical evidence from China	Pan and Mishra	To investigate the effects of financial markets, drive economic growth relationship on the Chinese economy, which is the fastest growing and largest emerging economy in the world.	unit root testing in the presence of structural breaks and the Autoregressive distributed lag (ARDL) model	(i). A-share market has had a long-run negative association with the real sector of the economy; however, the magnitude of impact has been minuscule. (ii). The findings did not show any evidence of a relationship between the stock market and the real economy in the short run.
3.	2018	Development of stock market and economic	Pradhan	To examine the long-run relationship	vector auto-regressive model for	The study finds the presence of

		growth: The G-20 evidence		between the development of the stock market and economic growth in G-20 countries	testing the Granger causalities,	both unidirectional and bidirectional causality between the development of the stock market and per capita economic growth.
4.	2017	Relationship between Stock Market Performance & Economic Growth: Empirical Evidence from Sri Lanka	Silva et al.	(i). To identify the relationship between stock market performance and economic growth of Sri Lanka and (ii). To analyze how stock market performance affects the economic growth of Sri Lanka.	The econometric technique of simple regression model and correlation analysis was used to analyze the data	The findings of the study are parallel with the previous literature that discloses a strong positive relationship between stock market performance and the economic growth of Sri Lanka.
5.	2016	Stock Market Development and Economic Growth:	Azam et al.	To examine the role of the stock market in economic	Autoregressive Distributed lag bound	

		Evidence from Asia-4 countries		growth for four Asian countries namely Bangladesh, India, China, and Singapore	testing approach	
6.	2014	Stock Market Development and Economic Growth in Africa	Nagare et al.	To investigate the role of stock market development on the economic growth of Africa	Panel data econometrics technique, causality test	i) countries with stock markets tend to grow faster compared to countries without stock markets,
7.	2014	Stock market development and economic growth in Sri Lanka	Jahfer and Inoue	To investigate the relationship between stock market development and economic growth in Sri Lanka	Augmented Dickey Fuller (ADF) test. Johansen co-integration tests, and vector error correction model (VECM).	(i). Co-integration results indicate the existence of a long-run association between stock market development and economic growth in Sri Lanka. (ii). VECM results show unidirectional causality from

						stock market development to economic growth despite different variables used to measure the stock market development.
8.	2014	The Impact of Banks and Stock Market Development on Economic Growth in South Africa: an ARDL-bounds Testing Approach	Nyasha and Odhiambo	To examine the impact of both bank- and market-based financial development on economic growth in South Africa	autoregressive distributed lag (ARDL) bounds testing approach.	There is a positive relationship between bank-based financial development and economic growth in South Africa. The results, however, fail to find any relationship between market-based financial development and economic growth in South Africa.
9.	2013	Stock Market	Osamwonyi	To examine	Granger	The study

		and Economic Growth in Ghana, Kenya, and Nigeria	and Kasimu	the causal relationship and the direction of causality between stock market development and economic growth in Ghana, Kenya, and Nigeria.	Causality test	showed that there is no causal relationship between stock market development and economic growth in Ghana and Nigeria, but revealed a bidirectional causal relationship between stock market development and economic growth in Kenya.
10.	2013	An Examination of the Relationship between Stock Market and Economic Growth: A Study in Malaysia	Hossian et al.	To examine the co-integration relationship and causality direction between the stock market and the economic growth of Malaysia.	Engle-Granger Co-integration and the Granger Causality approaches	The empirical result suggests that there exists a long and short-run correlation between the stock market and economic growth; however, the Granger

						Causality test suggests a unidirectional causality relationship.
11.	2013	Does the stock market cause economic growth? Portuguese evidence of economic regime change	Marques and Fuinhas	To examine the relationship between the stock market and economic growth in Portugal	Vector Autoregressive (VAR) modeling, Granger causality, variance decomposition, and impulse response function	There is evidence of Granger bidirectional causality between the stock market and economic growth. Meanwhile, there was no evidence of causality running from bank financing to economic growth.
12.	2012	Can Stock Market Development Boost Economic Growth? Empirical Evidence from Emerging Markets in	Carp	To analyze the dynamic of the stock market in Central and Eastern Europe under the impact of the macroeconom	VAR modeling, Granger causality	The current economic and financial crisis has had a strong influence on stock market performances in the process of financing

		Central and Eastern Europe		ic imbalances, emphasizing the volatility of the foreign capital inflows.		economic activities.
13.	2011	An Empirical Analysis of Stock Market Performance and Economic Growth: Evidence from India	Paramita and Gupta	To investigate whether the stock market performance leads to economic growth or vice versa;	Unit root (ADF, PP, and KPSS) tests, Granger Causality test, Engle-Granger Cointegration test, and Error Correction Model.	(i). There is a bidirectional relationship between IIP and Stock prices (BSE and NSE) and quarterly results reveal that there is no relationship between GDP and BSE but in the case of NSE and GDP there is a unidirectional relationship and that runs from GDP to NSE. (ii). There is a long-run relationship between the stock market

						performance and economic growth
14.	2011	Stock market performance and economic growth Empirical Evidence from Kenya using Causality Test Approach	Olweny and Kimani	To empirically analyze using the Granger causality test and establish the link between stock market performance and economic growth in Kenya.	Granger causality test based on the Vector Autoregressive (VAR) model	The correlation between financial market and economic growth, the majority of them have focused on the implication of banks and the credit markets on economic growth.
15.	2011	Stock Market Development and Economic Growth in Zimbabwe	Zivengwa et al.	To explore the causal link between stock market development and economic growth in Zimbabwe	Advanced econometric techniques of Unit Root Tests, Vector Autoregressive (VAR) and Granger Causality Tests	The result showed a uni-directional causal link that runs from stock market development to economic growth and there is evidence of an indirect transmission mechanism through the

						effect of stock market development on investment
16.	2010	Stock Market and Economic Growth: An Empirical Analysis for Germany	Antonios	To investigate the causal relationship between stock market development and economic growth in Germany	Vector Error Correction Model (VECM).	The result indicated that there is a unidirectional causality between stock market development and economic growth with direction from stock market development to economic growth.

2.2.2. Nepalese Context

Vaidya (2021) states that the stock market might indicate the economic health of a nation. When the economy is strong, so are the processes inside it. The stock market is a key indicator of economic progress. The market reflects the trend of the economy in both the short and long term. The stock market serves as a platform for capital production and financial instrument channeling throughout the economy. In my study, Karl Pearson's Correlation Coefficient results indicate substantial positive correlations between GDP, FDI, HDI, and Nepal Stock Exchange Limited (NEPSE) capitalization. However, there is a substantial negative association between HDI Ranking and inflation rate (insignificant). The Augmented Dickey-Fuller (ADF) Test indicates that stock market development variables have a unit root and are stationary at second-order integration. The Johansen Co-integration Test found that HDI, GDP, and FDI were linked to the market capitalization (MC) of the Nepalese stock market. In the

Nepalese stock market, GDP has a negative influence on market capitalization, whereas HDI and FDI have a favorable long-term impact.

Bhattarai (2021) uses an autoregressive distributed lag (ARDL) model with bound testing techniques to study the link between stock market development and economic growth in Nepal. Annual time series data from 1994 to 2019 is studied. Indicators of stock market development include market capitalization as a proportion of GDP, total value of shares traded as a percentage of GDP, and total shares traded as a percentage of market capitalization. Due to substantial correlations among these markers, an aggregated index was created and employed in the study. The real GDP per capita growth is used as an economic growth metric. The study indicates a long-term unidirectional causal association between the stock market development index and economic growth. The stock market's size and liquidity contribute to capital mobilization, risk diversification, and convenience of trading. The control variable market inflation has no meaningful effect on the major variables.

Bist (2017) evaluated Nepal's stock market development and economic growth from 1993 to 2014. Long-run and short-run elasticities were evaluated using autoregressive distributed lag (ARDL) boundary testing for co-integration analysis. It is assessed by real GDP per capita and stock market development by NEPSE market capitalization. Market capitalization had a positive long-term and short-term influence on economic growth, whereas inflation had a negative long-term and short-term impact on GDP per capita. Stock market rise caused economic growth unidirectional. It concluded that long-term policy should promote stock market growth. Increase economic growth.

Shah (2017) conducted a study to investigate the association between stock market development and economic growth in Nepal. The study analyzed data from mid-July 2001 to mid-July 2015 and used the Karl Pearson correlation coefficient as the statistical measure. The entire duration of the study is partitioned into two distinct phases, namely the initial stage and the subsequent stage of stock market advancement. During the initial phase spanning from mid-July 2001 to mid-July 2007, there was no substantial correlation observed between the development of the stock market and economic growth. During the period spanning from mid-July 2008 to mid-July 2015, a favorable correlation was seen between the advancement of stock

market activities and the overall expansion of the economy. The findings suggest that the stock market has made a favorable contribution to the economic prosperity of Nepal.

Using monthly data from the period between the middle of August 2000 and the middle of July 2014, Shrestha & Subedi (2014) analyzed the factors that affect Nepal's stock market index (NEPSE). Two dummy variables have also been utilized to account for the substantial shifts in the political climate and NRB's policy on lending against collateral shares. A substantial association between the NEPSE index and the selected macro variables, including the Consumer Price Index, is demonstrated by the correlation analysis. Treasury Bill Rate, Index Money, and Broad Money. Certain variables' time series qualities have been analyzed. The NEPSE index is found to react favorably to inflation and wide money growth, and adversely to the treasury bills rate, according to empirical data obtained via OLS estimates of behavioral equations. This would indicate that stockholders in Nepal view stocks as a means of protecting their wealth against inflation. It has also been shown that the stock market reacts strongly to shifts in the political climate and NRB policies.

Regmi (2012) investigated the causal link between stock market development and economic growth in Nepal from 1994 to 2011, employing the unit root test, co-integration, and vector error correction models, and constructing the NEPSE composite index as an indicator of stock market development. The findings revealed that the development of Nepal's stock market had greatly contributed to the country's economic progress. In this regard, a refined policy should be implemented to develop and improve the function of the stock market to accelerate and sustain the economy's robust growth.

2.3. Research Gap

Nepal's stock market and economic progress have been the subject of some useful studies. However, there is still a lot of room for more research into a wide range of topics connected to these topics. Not many studies have been done in the past, especially when it comes to how changes in the economy affect the stock market. The time gap that this study fills in is mentioned. Prior studies

were limited to the time frame until 2017/18, however, this research encompasses the period until 2021/22. Things change in the economy over time as well. This study also uses different tools than other studies that have been done before. In this study correlation and regression analysis are used which will overcome the methodological gap of previous research.

The link between Nepal's stock market and economic growth is part of the study. Additionally, Nepal's stock market has gone through big changes in the past few years, with new rules and laws being put in place, trade systems getting better, and mutual funds and market makers entering the market. The latest stock market data of Nepal will be used in this study to try to fill in the gaps in previous research by looking into the link between the NEPSE index and economic variables.

CHAPTER–III

RESEARCH METHODOLOGY

Research methodology refers to a systematic approach used to identify solutions to problems. It involves the systematic gathering, recording, analysis, interpretation, and reporting of information regarding different aspects of the phenomena being studied. This study focuses on elucidating the research methodology, which encompasses the many methodologies and processes employed during the entirety of the investigation. This chapter provides a comprehensive overview of the study design, population, sampling processes, nature and sources of data, data collecting technology, and data analysis that are currently being employed.

Both descriptive and analytical types of research are employed to fulfill the objective of the research work.

3.1 Research Design

Research design covers the complete procedure of strategizing and implementing a research investigation. The study implemented a research approach that incorporated descriptive, co-relational, and analytical methods. Descriptive and analytical research design is employed to facilitate the process of describing and conceptualizing. However, to analyze the relationship between stock market development and economic growth, a co-relational research approach has been used. Furthermore, the investigation will focus on examining the causal relationship between stock market indicators and growth indicators.

The study employed a causal test to examine the relationship between stock market performance and economic growth in Nepal from 2000 to 2021/22, spanning twenty-two years. The rationale for this approach is that in the context of business, relationships are frequently unclear, necessitating the development of a comprehensive knowledge of the connection being examined. This understanding is crucial for effectively explaining, predicting, and managing the variables being studied. The study aims to assist investors, government officials, and other stakeholders in making informed judgments on policy directions and forecasts related

to the stock market and economy. This will be achieved by analyzing the variables under investigation.

3.2. Population and Sample

The researcher has defined the population as the entirety of the units being studied. Population is first identified, however, if the population is vast, researchers pick a sample to conduct the study. The presence of several listed businesses on the Nepal Stock Exchange significantly influences the development of the stock market. The growing number of listed firms will determine the primary opportunities in the Nepalese stock market. Economic statistics such as GDP, market capitalization, trade turnover, and the number of listed securities The NEPSE index serves as a representative sample for studying the population of companies trading their shares on the NEPSE floor. This research focuses on the stock market's impact on the economy throughout the period from 2000/01 to 2021/2022, specifically analyzing multiple companies listed in NEPSE. Convenient method sampling is employed in research as per the convenience of data.

3.3. Sources of Data

The study exclusively depends on secondary data. Since the research focuses on the overall values of the economy and stock market operations, there is no requirement for collecting primary data. The necessary data is gathered on factors such as Real GDP, market capitalization, trading turnover, and the number of listed stocks in the NEPSE index. The data on variables, such as stock market volatility, has been obtained through the application of appropriate relationships. The additional data and information have been obtained from other sources such as;

i. Trading reports of NEPSE.
ii. Economic survey, Fiscal Year 2021/22(Government of Nepal, Ministry of Finance 2022)
iii. Nepal Rasta Bank's Economic Report.

3.4. Method of Analysis

We utilized SPSS software to examine the associations between GDP performance and stock performance. The analysis of this study utilized quantitative data analysis

methodologies, namely descriptive statistics and inferential statistics. The descriptive statistics encompassed frequency distributions, measures of central tendency (mean, median, and mode), and measures of dispersion (standard deviation, range, and variance). The use of inferential statistics involved utilizing correlation, regression, and analysis of variance to ascertain the link between the variables. The data was presented using pie charts, figures, and tables, which were both informative and impactful in presenting the research findings. The data analysis was presented via graphs and tables.

3.4.1. Conceptual Model

Econometrics is a statistical science that focuses on the use and advancement of mathematical and statistical methods to empirically estimate economic correlations, test economic theories, make economic forecasts, and evaluate government and business policies. The word "econometrics" was originally used by Polish economist Paweł Ciompa in 1910. Jan Tinbergen is widely regarded as one of the pioneers of econometrics.

The general econometric model used in the study is as follows: $Y= f(x)$

Where: $Y= f (X_1, X_2, X_3, X_4)$

Y - Gross Domestic Product

X_1- Market capitalization

X_2- Trading turnover

X_3- Number of Listed Securities

X_4- NEPSE index

3.4.2. Empirical Model

An empirical model focuses entirely on facts and is employed for prediction rather than explanation of a system. An empirical model comprises a mathematical function that accurately represents the pattern observed in the data. Hence, the fundamental econometric model:

$$y= \alpha_o+ \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$$

Where:

Y – Real Gross Domestic Product

α_o- constant

β_1- β_4- Co-efficient

X_1- Market capitalization

X_2- Trading turnover

X_3- Number of Listed Securities

X_4- NEPSE index

3.5 Theoretical Framework

A theoretical framework encompasses concepts, their definitions, and references to pertinent academic literature, as well as current theories that are employed for a specific investigation. The theoretical framework should exhibit a comprehensive comprehension of ideas and concepts that are pertinent to the research paper's issue and are associated with the boundary areas of knowledge under consideration.

The theoretical framework is typically not easily available in the literature review, which encompasses course readings and relevant research papers. This is because the framework requires an exploration of theories and analytic models that apply to the research topic under consideration. The choice of a theory should be contingent upon its suitability, practicality, and capacity for explanation.

The secondary variables of relevance in this study are the dependent variables of Real GDP. To elucidate the variability in Real GDP, four distinct independent variables are employed to examine the relationship with stock market development. The four factors under consideration are market capitalization, trading turnover, number of listed securities, and the NEPSE index.

The market capitalization to Real GDP is used to determine whether an overall market is undervalued or overvalued compared to the historical average. The increase in the size of the market as measured by market capitalization, and the size of the economy as measured by Real GDP also increased.

The trading turnover and Real GDP would be negatively related. Average inventory is used instead of ending inventory because many companies'

merchandise fluctuates greatly throughout the year. They would, therefore like to remain with the same companies for a longer time with low Real GDP.

The greater the number of listed securities, the higher is likely to be their Real GDP. It has a positive relationship with Real GDP. NEPSE and Real GDP have a direct relationship. If NEPSE increased then Real GDP also increased.

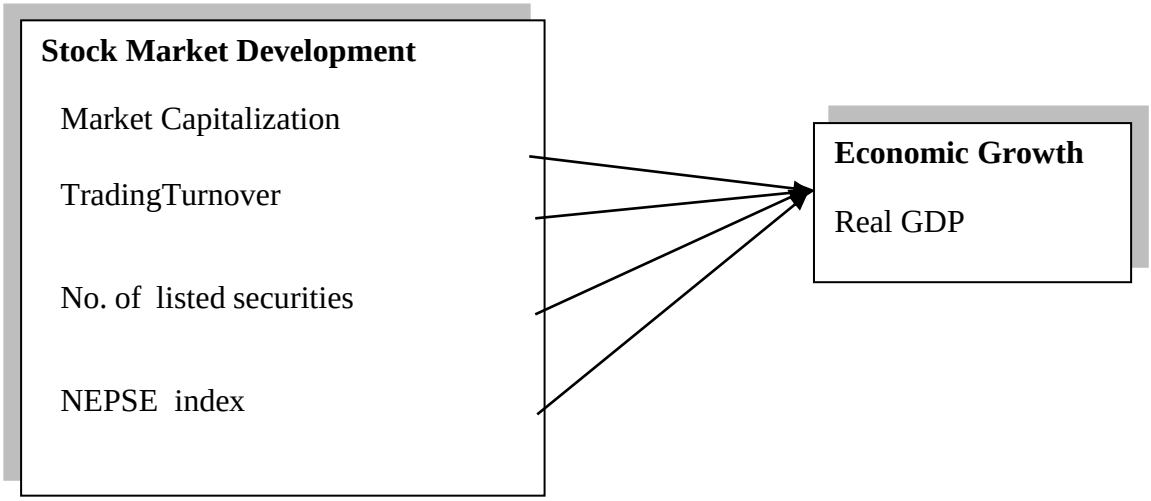

Figure 1: Theoretical Framework

Source: Subedi, N. (2020), MBS Dissertation

3.6 Definition of Variables

i. Real GDP

Real gross domestic product (GDP) is a macroeconomic indicator that quantifies the value of economic output, taking into account changes in prices. This adjustment converts the monetary measure of nominal GDP into an index that represents the quantity of total production.

ii. Market Capitalization

Capitalization refers to the process of providing a newly established firm with the necessary financial resources or investment cash. Capital refers to financial resources, hence capitalization refers to the process of acquiring funds for an organization.

iii. Trading Turnover

The inventory turnover ratio is calculated by dividing the cost of goods sold for a period by the average inventory for that period. Average inventory is used instead of

ending inventory because many companies' merchandise fluctuates greatly throughout the year.

iv. Number of Listed Securities

A listed security refers to a financial instrument that is traded on the NEPSE exchange. The standards for listing on the exchange differ and encompass criteria such as a minimum level of stockholder's equity, a minimum share price, and a minimum number of shareholders.

v. NEPSE Index

NEPSE is an abbreviation for the Nepal Stock Exchange, and the NEPSE index reflects the fluctuations in the overall market value of transactions made by firms listed on the Nepal Stock Exchange. This signifies the fluctuation in total market operations.

CHAPTER IV

RESULTS AND DISCUSSION

The study's major goal is to examine if stock market performance contributes to economic growth in Nepal. To achieve this goal, the study compares market capitalization, trade turnover, the number of listed securities, and the NEPSE index to the Real Gross Domestic Product (Real GDP). The obtained data is presented systematically and examined using various tools and procedures.

4.1 Data Presentation and Analysis

All academic investigations, commercial, industrial, and marketing operations, as well as professional practices, require data presentation and analysis. Data presentation needs skills as well as an understanding of the data.

4.1.1. Position of real GDP, MC, TT, NOLS and NI

Table 2:
Summary of Year wise Real GDP, MC, TT, NOLS, and NI

Year (Mid-July)	Real GDP	Market Capitalization	Trading Turnover	NEPSE Index*	No. Of Listed Securities
2000/01	413428	43,123.30	283.7	360.7	110
2001/02	414092	46,349.40	128	348.4	115
2002/03	429699	34,704.00	80.9	227.5	96
2003/04	448654	35,240.00	64.7	204.9	108
2004/05	463165	41,425.00	255.5	222	114
2005/06	480435	61,365.90	198	286.7	125
2006/07	493651	96,763.80	327.9	386.8	134
2007/08	522260	186,301.30	1,432.10	683.9	135
2008/09	542652	366,247.60	2,648.20	963.4	142
2009/10	565759	512,939.10	1,475.20	749.1	159
2010/11	587534	376,871.40	586.4	477.7	176
2011/12	614637	323,484.30	913	362.9	209
2012/13	637771	368,262.10	1,258.50	518.3	216
2013/14	694269	1,057,165.80	7,729.20	1,036.10	237
2014/15	695688	989,404.00	5,845.10	961.2	232
2015/16	749550	1,890,130.00	31,655.80	1,718.20	230
2016/17	791144	1,856,829.40	12331.40	1582.70	208
2017/18	797146	1435137.80	121391.1	1212.36	196
2018/19	850928	1567499.4	110075.0	1259.02	215
2019/20	870245	1792762.7	426886.7	1362.4	212
2020/21	2137000	4010957.8	1454443.9	2883.4	219
2021/22	2254000	2869344.2	1202101.4	2009.5	234
N	22	22	22	22	22
Mean	747895.8	907,377.65	153732.35	894.9354545	173.7272727
Standard Deviation	490218.3	1066608.066	393450.0509	696.6863884	49.87525564

Source: Appendix I

Over time, Nepal's economic structure, as indicated by important financial measures, has experienced significant changes. The Real GDP for the fiscal year 2000/01 was 413,428, with a Market Capitalization of 43,123.30 and a NEPSE Index of 360.7. There was a total of 110 securities listed. Over time, there were changes in these measurements, which were affected by different economic circumstances. The real GDP is increasing consistently every year up to 2019/20 and increases sharply in the following two years 2020/21 and 2021/22 with the values of 2137000 and 2254000 respectively.

Subsequently, the market encountered periods of both surges and declines. The fiscal year 2007/08 had a remarkable surge in Market Capitalization, reaching 186,301.30, accompanied by a large rise in Trading Turnover to 1,432.10. Nevertheless, the worldwide economic downturn in 2008/09 had a significant effect, resulting in a decline in various measures.

In the following years, there was a progressive improvement and expansion, and in the fiscal year 2013/14, there was a significant increase in Market Capitalization to 1,057,165.80. The NEPSE Index reached its highest point at 1,036.10, indicating increased investor confidence.

The continuous increase in the Number of Listed Securities highlights the market's development and expansion, providing investors with a wider range of options. The fiscal year 2020/21 is particularly noteworthy due to an exceptional increase in Real GDP and Market Capitalization. This calls for a thorough examination to comprehend the distinct factors behind this unusual occurrence.

The most recent statistics for 2022/23 show that the Real GDP has increased to 3,082,519.5, and the Market Capitalization is at a remarkable level. The NEPSE Index remains at a robust level of 254, indicating a strong market. The aforementioned patterns highlight the ever-changing nature of Nepal's financial industry, influenced by both local and international economic factors.

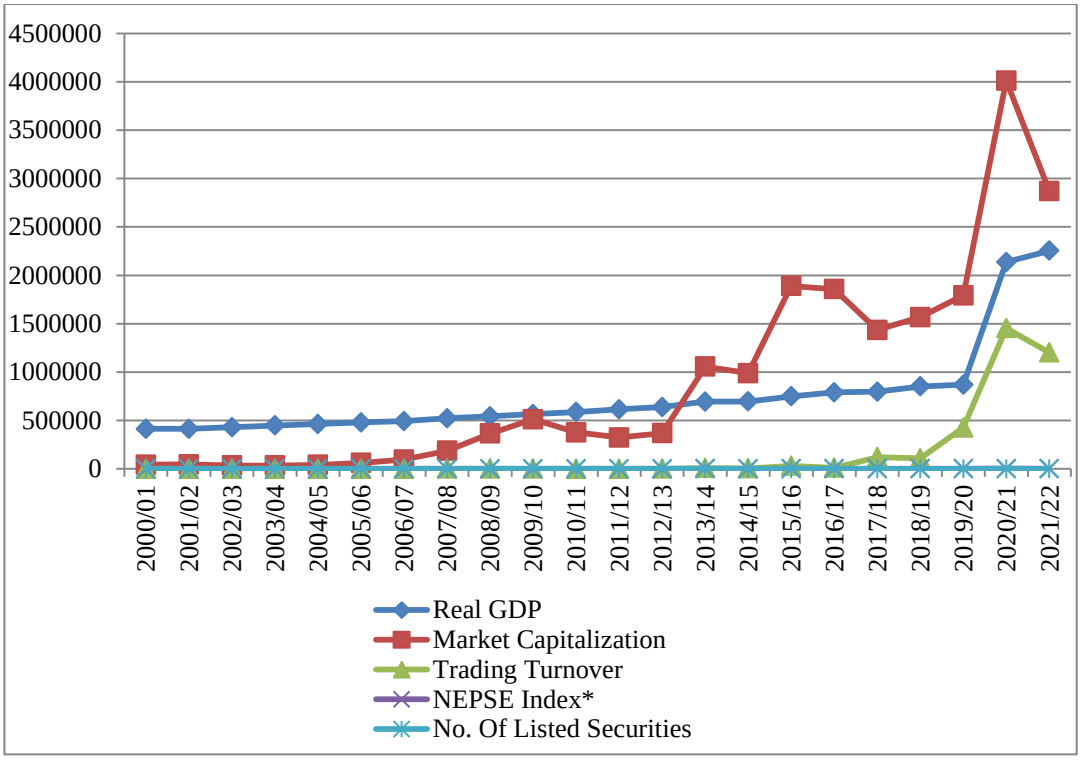

Figure 2: Line graph showing the Real GDP, MC, TT, NI and NOLS

A trend line was plotted to elucidate the trajectory of Real GDP, MC, TT, NI, and NOLS. Figure 2 illustrates a consistent upward trend in Real GDP, while MC, TT, NI, and NOLS exhibit fluctuating patterns.

4.1.2. Descriptive Statistics

Descriptive statistics provide concise descriptions of a given data collection, allowing for a better understanding of its characteristics and measurements. The primary forms of descriptive statistics include measurements of central tendency, such as the mean, median, and mode, as well as measures of variability, which encompass the standard deviation, variance, and the lowest and maximum values. These two measures employ visual representations such as graphs and tables, as well as verbal explanations, to facilitate comprehension of the examined data.

Presentation of Minimum value, Maximum Value, mean, and Standard Deviation of the selected indicators of stock market development and economic growth are presented in Table 3.

Table 3:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Standard Deviation
Real GDP	22	5.62	6.35	5.98	0.19
MC	22	4.62	6.60	5.61	0.69
TT	22	1.91	6.17	4.04	1.30
NOLS	22	1.98	2.37	2.17	0.13
NI	22	2.31	3.45	2.88	0.34

Source: Appendix III

Table 3 provides a comprehensive overview of the summary statistics for economic growth and the stock market development indicator. The dataset encompasses the time frame from 2000 to 2022 in Nepal. The table displays the minimum values for Real GDP, Market capitalization, trade turnover, Number of listed securities, and NEPSE index, which are 5.62, 4.62, 1.91, 1.98, and 2.31 respectively. Additionally, it shows the highest values for GDP, MC, TT, NOLS, and NI, which are 6.35, 6.60, 6.17, 2.37, and 3.45 respectively.

The arithmetic mean of Real GDP, Market capitalization, Trading Turnover, No. of listed securities, and NEPSE index are 5.985, 5.61, 4.04, 2.175, and 2.88, respectively. The data is displayed in rupees for all values, the NEPSE index is measured in points, and NOLS is shown as a numerical value.

The standard deviations for gross domestic product, market capitalization, trading turnover, number of listed businesses, and NEPSE index are 0.19, 0.69, 1.30, 0.13, and 0.34, respectively. Market capitalizations have a larger standard deviation compared to other variables. Investing in the stock market carries a significant level of risk.

4.1.3. Correlation Analysis of MC, TT, NOLS and NI on GDP

The concept of correlation is a statistical metric that quantifies the degree to which two or more variables exhibit simultaneous fluctuations. A positive correlation denotes the degree to which two variables exhibit simultaneous increases or decreases, whereas a negative correlation expresses the degree to which one variable increases while the other decreases. The dependent variables for the period of twenty-

two years, from 2000/01 to 2021/22, are Real GDP, Market capitalization, trading turnover, number of listed securities, and NEPSE index.

Table 4:
Pearson's correlation matrix for the dependent and independent variables during the period 2000 to 2021.

		Real GDP	Market Capitalization	Trading Turnover	NEPSE Index	No. of listed securities
Real GDP	Pearson Correlation	1				
Market Capitalization	Pearson Correlation	0.898**	1			
Trading Turnover	Pearson Correlation	0.962**	0.843**	1		
NEPSE Index	Pearson Correlation	0.852**	0.980**	0.790**	1	
No. of listed securities	Pearson Correlation	0.570**	0.713**	0.400	0.697**	1

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

Source: Appendix III

The Pearson correlation coefficient between various dependent and independent variables is presented in Table 4 which provides definitions for Real GDP, Market capitalization, trade turnover, Number of listed securities, and NEPSE index. The data covers the period from 2000 to 2022.

Real GDP and MC have a correlation value of 0.898. A significant relationship exists between MC and Real GDP. A high MC which is the result of multiplying share prices by the total number of outstanding shares sends a positive signal to the market, encouraging additional investment in stocks when companies are doing well. The real gross domestic product (GDP) and the stock market indicator MC are positively correlated. This indicates that there is a strong positive correlation between market capitalization and gross domestic product.

Trading turnover (TT) is a measure of stock market development that is equal to market capitalization divided by the trading value of equities in the domestic share market. As a ratio to market size, it gauges the volume of trades. A market with a high turnover rate is very liquid. Despite a good association between the stock market liquidity indicator TT and Real GDP, the correlation coefficient between the two is 0.962. That is, the two variables change in the same way and throughout the same

time frame. Furthermore, the relationship between real GDP and TT is significant (p-value 0.000 < 0.01 level of significance).

Additional stock market indicators are also correlated with the economic growth indicator. The No of Listed Securities (NOLS), denoting the number of organizations that are listed on the stock exchange (NEPSE) to trade their securities, exhibits noteworthy associations with Real GDP. The NOLS and Real GDP exhibit a correlation value of 0.570. This relationship demonstrates that a greater NOLS is considered a reliable indication of the stock market, which has a favorable impact on the economy. Increased participation of enterprises in the stock market will lead to a corresponding growth in Real GDP. Hence, a strong positive association exists.

There exists a positive and statistically significant correlation between the NEPSE Index (NI) and Real GDP, suggesting a strong positive association between the stock market index and economic growth. An example of a correlation coefficient between NI and Real GDP is 0.852. This relationship demonstrates that a greater net interest (NI) is considered a favorable indication of the stock market, which has a beneficial impact on the economy. A positive correlation exists between the level of NI in the stock market and the Real GDP. Thus, a strong positive association is guaranteed.

The efficiency of the stock market is directly linked to the efficiency of the whole economy. Hence, the significant and favorable correlation between stock market indicators and economic growth indicators is equally commendable and acceptable, since they exhibit a positive association with Real GDP.

4.4. Regression analysis (Impact of MC, TT, NI, and NOLS on Real GDP)

An investigation was conducted to examine the correlation between stock market indicators and economic growth indicators. The regression model involves several variables, including Real GDP, Market capitalization, trading turnover, Number of listed securities, and NEPSE index.

The Ordinary Least Square (OLS) approach is utilized to get regression results. The study introduces a regression approach that examines the relationship between economic growth and stock market development in Nepal.

Table 5:
Analysis of Regression

Model		Coefficients	Std. Error	t-stat	P-value	Remarks
1	(Constant)	5.600	0.700	8.004	<.001	significant
	MC	0.051	0.150	0.337	0.740	insignificant
	TT	0.159	0.041	3.861	0.001	significant
	NI	-0.064	0.500	-0.128	0.900	insignificant
	NOLS	-0.169	0.183	-0.926	0.368	insignificant

Dependent Variable: Real GDP

Source: Appendix III

Table 5 shows the coefficients associated with the independent variables. The mathematical representation of the regression model is as follows:

Real GDP = 5.60 + 0.051MC + 0.159TT - 0.064NI - 0.169NOLS

The coefficient of regression of Real GDP on MC is positive i.e. 0.051. While determining Real GDP, the impact of MC is positive which shows an increase in MC leads to an increase in Real GDP. This regression coefficient has 0.15 as SE, which measures the variability of the observed values around the fitted line of regression. t-statistic is 0.337 and the p-value is 0.74 greater than 0.05 which shows that MC has no signigicant impact on GDP.

Insights into the link between the dependent variable and the independent variables are revealed through the regression analysis. According to the model, the constant term is determined to be 5.600, which signifies the anticipated value of the dependent variable in the absence of any independent factors. Trading turnover (TT) exhibits a statistically significant positive impact on the dependent variable, as evidenced by a coefficient of 0.159 and a p-value of 0.001, among the predictors. This implies that a one-unit increase in TT is associated with an anticipated rise of 0.159 in the dependent variable while keeping all other variables constant.

Nevertheless, the remaining independent variables, namely MC (with a coefficient of 0.051 and a p-value of 0.740), NI (with a coefficient of -0.064 and a p-value of 0.900), and NOLS (with a coefficient of -0.169 and a p-value of 0.368) do not demonstrate statistically significant impact on the dependent variable real GDP. The aforementioned results emphasize the need to take time into account when making predictions about the dependent variable.

Table 6:
Significance of the model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.918	0.843	0.806	0.08568

a. Predictors: (Constant), No. of listed securities, NEPSE Index, Trading Turnover, Market Capitalization

Source: Appendix III

The regression analysis output presented presents significant information into the prediction capability and adequacy of the model. The model's R-squared value of 0.843 suggests that it accounts for about 84.3% of the variability seen in the dependent variable which has been explained by independent variables MC, TT, NI, and NOLS. This finding indicates a robust association between the predictors and the result. Furthermore, the adjusted R-squared coefficient of determination, which takes into consideration the number of variables included in the model, indicates that the model's ability to explain the data remains strong even when considering the possibility of over-fitting. The standard error of the estimate, which is calculated to be 0.08568, signifies the mean difference between the observed values and the anticipated values generated by the model. This metric serves as an indicator of the model's precision in forecasting the dependent variable.

The model's forecasting performance is influenced by many indicators, such as the number of listed securities, the NEPSE Index, Trading Turnover, and Market Capitalization. The high R-squared value suggests that the predictors have a strong ability to capture the fluctuations observed in the dependent variable. In general, this study highlights the dependability of the model in elucidating the association between the specified predictors and the result variable, indicating that these factors play a substantial role in the variability of the outcome within the framework of the regression model.

Table 7:

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.668	4	0.167	22.753	<.001[b]
	Residual	0.125	17	0.007		
	Total	0.793	21			

a. Dependent Variable: Real GDP

b. Predictors: (Constant), No. of listed securities, NEPSE Index, Trading Turnover, Market Capitalization

Source: Appendix III

Table 7 provides an analysis of variance (ANOVA) that provides valuable insights into the statistical significance of the regression model in elucidating the variability observed in the dependent variable, Real GDP. The overall fit of the regression model is statistically significant, as indicated by the extremely significant F-statistic of 22.753 ($p < 0.001$). This observation suggests that the predictors played a combined role in elucidating the variability observed in Real GDP. The regression model explains a significant amount of the overall variation, as seen by the high regression sum of squares (SSR) of 0.668. Furthermore, the regression mean square (0.167) is much greater than the residual mean square (0.007), indicating that the predictors account for a much higher amount of variation compared to the unexplained variance. The model incorporates several predictors, including the number of listed securities, NEPSE Index, Trading Turnover, and Market Capitalization, which combined provide a substantial contribution to the forecast of Real GDP. Hence, our study emphasizes the significance of these factors in elucidating fluctuations in Real GDP and demonstrates the resilience of the regression model in capturing these associations.

4.2 Discussion

This study exclusively utilizes secondary research data to establish the correlation between the stock market and economic growth. The average values of Real GDP, MC, TT, NOLS, and NI are 5.98, 5.61, 4.04, 2.17, and 2.88, respectively. The values 0.19, 0.69, 1.30, 0.13, and 0.34 have a standard deviation. TT has a bigger standard deviation, indicating a greater level of risk compared to another dependent variable.

The Real GDP in Nepal has seen a respectable degree of growth during the research period. The variables MC and TT exhibit stability with occasional fluctuations during the research period. Both MC and TT have been seeing a consistent upward trajectory in recent years.

The correlation coefficient between market capitalization (MC) and real GDP is statistically significant. The result is consistent with the study of Bayar et.al. (2014). The result contrasts with the study of Vaidya (2021).

The correlation relationship between Trading Turnover (TT) and GDP is 0.962. The coefficient exhibits a positive and statistically significant relationship. This study is consistent with the study carried out by Olusegun and Ajao (2024). The result contrasts with the study of Kumo (2009).

The correlation coefficient between NEPSE index (NI) and real GDP is statistically significance. The result is consistent with the study of Jahfer and Inoue (2014). The result contrasts with Ngugen and Pham (2014).

The correlation coefficient between the number of listed companies (NOLS), which is a key indicator of the stock market, and GDP is 0.570. The coefficient has a negative value and is statistically insignificant. This result is consistent with the study of Silva (2018). The result contrasts with the study of Dabwor et al.(2022).

The regression coefficient between MC and real GDP is insignificant. The result is consistent with the study of Vaidya (2021). The result contrasts with the study of Bista (2017).

The regression coefficient between TT and real GDP is positively significant. The result is consistent with the study of Laokulrach (2014). The result contrasts with the study of Subedi (2020).

The regression coefficient between NI and real GDP is negatively insignificant. The result is consistent with the study of (Levine and Zervos, 1996). The result contrasts with the study of Subedi (2020).

The regression coefficient between NOLS and real GDP is negatively insignificant. The result is consistent with the study of Silva et al. (2018) and contrasts with the result of Subedi (2020).

CHAPTER V
SUMMARY AND CONCLUSIONS

This chapter is structured into three distinct sections. The first section focuses on the summary of the study, the second section presents the conclusions, and the third section explores the implications of the research.

5.1. Summary of the Study

The topic of the study is the impact of the stock market on economic growth in Nepal**.** The major objective of this study was to assess the correlation between stock market development and economic growth in Nepal, as assessed by the Real GDP. The analysis utilizes the following stock market variables: market capitalization, trading turnover, number of listed securities, and NEPSE. The exchange of stock shares occurs within the stock market, serving two primary purposes. Firstly, it facilitates the provision of liquidity to investors who contribute funds towards the establishment of productive enterprises. Secondly, it serves as an incentive for savers to increase their savings and for economic entities to initiate productive ventures. The study utilized a descriptive and correlational research approach. The study exclusively utilizes secondary data spanning from 2000 to 2022, specifically up until mid-July. The research employed the regression analysis methodology.

There is a substantial and positive association between the explanatory variables, namely market capitalization (MC), trading turnover (TT), number of listed securities (NOLS), and NEPSE index (NI), and the dependent variable, real GDP. The correlation coefficients for these variables are 0.898, 0.962, 0.570, and 0.852, respectively. The results of the ordinary least squares (OLS) regression analysis indicate that the variables NI and NOLS exhibited negative signs, with values of -0.064 and -0.169, respectively. This demonstrates that the presence of NI and NOLS has a detrimental effect on economic growth. In contrast, the variables MC and TT exhibited positive signs, with values of 0.051 and 0.159, respectively. The expansion of the economy is associated with beneficial benefits that are statistically significant at a 5% level. There is a strong correlation between the performance of Real GDP and stock market indicators in Nepal's economy, as well as a correlation between the

growth of Real GDP and the performance of the stock market. This prompts the players to intensify their efforts in enhancing the performance of the stock market. The findings of the regression study indicate a statistically significant relationship between stock market performance and economic growth, as assessed by Real GDP.

The coefficient of Real GDP on MC is projected to be positive, as anticipated. The causal relationship suggests that when the market size, as measured by MC, expands, the economic size, as measured by Real GDP, likewise expands. This finding is further supported by the research conducted by Bista, J. P. (2017), which determined that there is a substantial correlation between Real GDP and MC.

The study indicates that there is a positive correlation between an increase in Trading Turnover (TT) and Real Gross Domestic Product (GDP). This research suggests that there is a positive correlation between lower levels of trade activity in the economy, as seen by higher turnover in financial markets, and overall economic growth. The coefficient for TT, which is statistically significant, together with its corresponding p-value, suggests that this link remains consistent across the collected data. thereby, it may be inferred that increased trading activity tends to promote economic growth, possibly by facilitating the allocation of capital, the determination of prices, and the availability of liquidity in financial markets, thereby making a positive contribution to overall economic production.

A negative number for the Number of listed securities (NOLS) indicates that investors are losing faith in the market or that there is net selling pressure. Under these conditions, the calculated Real GDP on the NOLS coefficient will probably be negative. The result is that real gross domestic product (GDP) tends to fall when market size falls as a result of greater selling pressure. Kolapo and Adaramola (2012) found that the capital market significantly affects economic growth, therefore this conclusion follows from their work. A negative NOLS rating suggests market pessimism, which may cause investment and capital inflow to fall and the economy as a whole to weaken. To sum up, when NOLS is negative, it means that market downturns or pessimism might cause economic contractions or slower development since there is a negative link between NOLS and the size of the economy (Real GDP).

Anticipated negative indications characterize the predicted Real GDP on NI coefficients. According to the casual connection, the size of the economy (as measured by Real GDP) grows in direct proportion to the size of the market (as

measured by NI). Research by Levine and Zervos (1996) confirmed these findings. This finding provides more evidence of a somewhat consistent relationship between the performance of the stock index and GDP expansion.

5.2. Conclusion

The goal of this study is to examine the trend of Nepal's stock market development regarding Real GDP, MC, TT, NOLS, and NI macroeconomic variables, as well as the impact of economic growth in Nepal from 2000 to 2022. A study of the Nepalese economy revealed that it is in a state of constant flux. By 2017/18, MC has been lessened. As far as the stock market is concerned, this is an unfavorable sign.

The research findings indicate a complex and subtle connection between several stock market indices and the economic growth in Nepal. Market capitalization (MC) and trade turnover (TT) have strong positive relationships with real GDP, suggesting that they can promote economic growth. In contrast, the association between the number of listed securities (NOLS) and the NEPSE index (NI) with GDP is weak or negligible, indicating a limited influence on economic growth. These findings are consistent with certain previous research but contradict others, emphasizing the intricate nature of the connection between stock market fluctuations and economic performance. In summary, the study emphasizes the significance of taking into account many aspects and contextual complications while evaluating the relationship between stock market operations and economic progress in Nepal.

An acceptable association between the stock market and economic growth in Nepal was found in the study since the majority of the coefficients were positive and a small number were just negative. Most of the results in the regression analysis are positive, which is expected, but there are a few negative numbers, which is surprising. There is a favorable correlation between the growth of Nepal's stock market and the country's economic progress, according to the study's analysis and the tested hypotheses. This further proves that the stock market is directly related to Nepal's economic growth.

Last but not least few very interesting inferences can be made from this research.

5.3. Implications

This study has investigated the development of the stock market and the growth of the economy in Nepal. There are still enough opportunities for future research in terms of data, model, and approach. The present work provides a sufficient foundation for future research endeavors. Given the previously mentioned results of the study, it is possible to conclude the following implications:

i. The regulatory supervision of the securities market in Nepal is under the authority of the Securities Board of Nepal. To ensure the effectiveness of the Board, it is crucial that the staffing levels are sufficient and that they get comprehensive training in all aspects of the securities market. This suggestion aims to align the regulatory frameworks of new and emerging stock markets with global standards.
ii. The government should create a favorable environment for the foreign investor.
iii. Market makers and investment bankers should be encouraged to participate in the stock market.
iv. Public and private organizations as well as multinational corporations found Nepal to be an attractive investment destination due to the country's relatively stable political and economic climate. Both market capitalization and real gross domestic product will rise as a result of this.
v. The companies that are taking part should be required to talk about the information on a regular and timely basis. There should be rules that require groups to share their financial information at least every three months.
vi. More research can be done in this area to learn more about how the stock market has grown and how Nepal's economy has grown. This can be done by using more factors, such as saving, inflation, and fixed capital creation by employees, as well as a longer study period.
vii. This study incorporates only information from secondary sources. This means that more research can be much more thorough if it uses primary data like questionnaires, surveys, special group discussions, and so on. The study can think about the qualitative events in the future.

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APPENDIX – I

Indicators of Stock Market & Economic Growth

Year (Mid-July)	Real GDP	Market Capitalization	Trading Turnover	NEPSE Index*	No. Of Listed Securities
2000/01	413428	43,123.30	283.7	360.7	110
2001/02	414092	46,349.40	128	348.4	115
2002/03	429699	34,704.00	80.9	227.5	96
2003/04	448654	35,240.00	64.7	204.9	108
2004/05	463165	41,425.00	255.5	222	114
2005/06	480435	61,365.90	198	286.7	125
2006/07	493651	96,763.80	327.9	386.8	134
2007/08	522260	186,301.30	1,432.10	683.9	135
2008/09	542652	366,247.60	2,648.20	963.4	142
2009/10	565759	512,939.10	1,475.20	749.1	159
2010/11	587534	376,871.40	586.4	477.7	176
2011/12	614637	323,484.30	913	362.9	209
2012/13	637771	368,262.10	1,258.50	518.3	216
2013/14	694269	1,057,165.80	7,729.20	1,036.10	237
2014/15	695688	989,404.00	5,845.10	961.2	232
2015/16	749550	1,890,130.00	31,655.80	1,718.20	230
2016/17	791144	1,856,829.40	12331.40	1582.70	208
2017/18	797146	1435137.80	121391.1	1212.36	196
2018/19	850928	1567499.4	110075.0	1259.02	215
2019/20	870245	1792762.7	426886.7	1362.4	212
2020/21	2137000	4010957.8	1454443.9	2883.4	219
2021/22	2254000	2869344.2	1202101.4	2009.5	234
N	22	22	22	22	22
Mean	747895.8	907,377.65	153732.35	894.9354545	173.7272727
Standard Deviation	490218.3	1066608.066	393450.0509	696.6863884	49.87525564

Source: NEPSE, Nepal Rasta Bank, Macroeconomic Indicators of Nepal

APPENDIX – II

Log Values of Real GDP and Stock Market Indicators

Year (Mid July)	Real GDP	Market Capitalization	Trading Turnover	No. of listed Securities	NEPSE Index
2000/01	5.62	4.63	2.45	2.04	2.56
2001/02	5.62	4.67	2.11	2.06	2.54
2002/03	5.63	4.54	1.91	1.98	2.36
2003/04	5.65	4.55	1.81	2.03	2.31
2004/05	5.67	4.62	2.41	2.06	2.35
2005/06	5.68	4.79	2.3	2.1	2.46
2006/07	5.69	4.99	2.52	2.13	2.59
2007/08	5.72	5.27	3.16	2.13	2.84
2008/09	5.73	5.56	3.42	2.15	2.98
2009/10	5.75	5.71	3.17	2.2	2.87
2010/11	5.77	5.58	2.77	2.25	2.68
2011/12	5.79	5.51	2.96	2.32	2.56
2012/13	5.8	5.56	3.1	2.33	2.59
2013/14	5.83	6.02	3.1	2.33	2.59
2014/15	5.84	5.99	3.89	2.37	3.02
2015/16	5.84	6.27	3.77	2.37	2.98
2016/17	5.87	6.26	4.5	2.36	3.24
2017/18	5.9	6.15	4.09	2.32	3.2
2018/19	5.92	6.19	5.04	2.33	3.10
2019/20	5.93	6.25	5.63	2.32	3.13
2020/21	6.32	6.60	6.16	2.34	3.45
2021/22	6.35	6.45	6.07	2.36	3.34

APPENDIX-III

Descriptive Statistics			
	Mean	Std. Deviation	N
Real GDP	5.8145	.19432	22
Market Capitalization	5.5527	.69394	22
Trading Turnover	3.4700	1.30064	22
NEPSE Index	2.2218	.13433	22
No. of listed securities	2.8064	.34273	22

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.918[a]	0.843	0.806	0.08568
a. Predictors: (Constant), No. of listed securities, NEPSE Index, Trading Turnover, Market Capitalization				

Correlation

		Real GDP	Market Capitalization	Trading Turnover	NEPSE Index	No. of listed securities
Real GDP	Pearson Correlation	1	.898**	.962**	.852**	.570**
	Sig. (2-tailed)		0.000	0.000	0.000	0.006
	N	22	22	22	22	22
Market Capitalization	Pearson Correlation	.898**	1	.843**	.980**	.713**
	Sig. (2-tailed)	0.000		0.000	0.000	0.000
	N	22	22	22	22	22
Trading Turnover	Pearson Correlation	.962**	.843**	1	.790**	0.400
	Sig. (2-tailed)	0.000	0.000		0.000	0.065
	N	22	22	22	22	22
NEPSE Index	Pearson Correlation	.852**	.980**	.790**	1	.697**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000
	N	22	22	22	22	22
No. of listed securities	Pearson Correlation	.570**	.713**	0.400	.697**	1
	Sig. (2-tailed)	0.006	0.000	0.065	0.000	
	N	22	22	22	22	22

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

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.600	0.700		8.004	<.001
	Market Capitalization	0.051	0.150	.181	0.337	0.740
	Trading Turnover	0.159	0.041	1.063	3.861	0.001
	NEPSE Index	-0.064	0.500	-0.044	-0.128	0.900
	No. of listed securities	-0.169	0.183	-0.299	-0.926	0.368
a. Dependent Variable: Real GDP						

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.668	4	0.167	22.753	<.001[b]
	Residual	0.125	17	0.007		
	Total	0.793	21			
a. Dependent Variable: Real GDP						
b. Predictors: (Constant), No. of listed securities, NEPSE Index, Trading Turnover, Market Capitalization						

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ABSTRACT The objective of this study was to analyze the progress of the stock market and its impact on the economic growth of Nepal. The study examined various stock market indicators, including

stock market capitalization (MC), trading turnover (TT), number of listed securities (NOLS), and NEPSE **index**

(NI), in relation to

the real gross domestic product (RGDP), which served **as a proxy for** measuring **economic growth** . The study utilized **secondary data**

obtained

from the Economic Bulletin of Nepal Rastra Bank and the **Economic Survey of the Ministry of Finance** over 22 **years, from**

2000/01 to 2021/22 (Mid- July). A suitable

descriptive research design was employed to analyze **the** data. **Regression models were** employed **to** assess the relevance **of stock market performance and macroeconomic** factors, such as **Real GDP. The results**

indicated

a positive correlation between stock market indicators and economic growth in Nepal. Therefore, **the** analysis provides evidence **that** supports both **the**