IMPACT OF GOVERNMENT FINANCE AND MACRORCONOMIC INDICATORS ON STOCK MARKET OF 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 affirm that I have thoroughly researched and submitted the conclusive version of my dissertation titled "Impact of Government Finance and Macroeconomic Indicators on Stock Market of Nepal". This dissertation has not been previously presented for degree conferral, nor has it been suggested or showcased for any other academic purposes. I acknowledge the support and collaboration I received during the research process. Furthermore, I confirm that all information sources and literature utilized in the dissertation are appropriately cited in the reference section.

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Report of Research Committee

Ms Anuradha Adhikari has defended her research proposal entitled "Impact of Government Finance and Macroeconomic Indicators on Stock Market of Nepal" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of Supervisor Dr. Dhanraj Chalise and submit the thesis for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the thesis entitled **"**Impact of Government Finance and Macroeconomic Indicators on Stock Market of Nepal " presented by Anuradha Adhikary a candidate for the degree of Masters of Business Studies and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

ADF	:	Augmented Dickey-Fuller
AMH	:	Adaptive Market Hypothesis
ARDL	:	Autoregressive Distributed Lag
ASPI	:	All Share Price Index
BoP	:	Balance of Payments
BRICS	:	Brazil, Russia, India, China, South Africa
CAR	:	Capital Adequacy Ratio
CAPM	:	Capital Asset Pricing Model
CPI	:	Consumer Price Index
CRR	:	Cash Reserve Ratio
DC	:	Domestic Credit
EMH	:	Efficient Market Hypothesis
FTPL	:	Fiscal Theory of the Price Level
GDP	:	Gross Domestic Product
IR	:	Inflation Rate
M2	:	Broad Money
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
PSC	:	Private Sector Credit
RE	:	Recurrent Expenditure
SEBON	:	Securities Board of Nepal
SPSS	:	Statistical Package for the Social Sciences
TE	:	Total Expenditure
TPD	:	Total Public Debt
TR	:	Total Revenue
TRE	:	Total Recurrent Expenditure
VAT	:	Value Added Tax

ABSTRACT

This study examines the impact of government finance and macroeconomic indicators on Nepal's stock market performance, as measured by the Nepal Stock Exchange (NEPSE) index. Using 15 years of secondary data from 2010 to 2024, sourced from Nepal Rastra Bank and NEPSE, the research employs a correlational research design to investigate the relationships between fiscal variables and macroeconomic factors with stock market dynamics. The study utilizes descriptive statistics, Pearson correlation analysis, and multiple regression techniques through SPSS to analyze the data. Results reveal strong positive correlations between NEPSE and key variables: Broad Money ($r = 0.914$), Private Sector Credit ($r = 0.904$), Domestic Credit ($r = 0.865$), and Total Revenue/Expenditure ($r = 0.774$). Conversely, Inflation Rate shows a significant negative correlation ($r = -0.611$). The regression analysis for government finance variables explains 80.9% of NEPSE variation ($R^2 = 0.809$), with Total Expenditure, Recurrent Expenditure, and Total Public Debt emerging as significant predictors. For macroeconomic variables, the model explains 86.2% of NEPSE variation ($R^2 = 0.862$), with Broad Money and Inflation Rate being statistically significant. The findings confirm that both fiscal and monetary policies substantially influence Nepal's stock market performance. Liquidity availability, government spending patterns, inflation control, and debt management are identified as key drivers of market movements.

Keywords: Government Finance, Macroeconomic Indicators, Stock Market Performance, Nepal Stock Exchange, Inflation Rate

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The relationship between government finance, macroeconomic conditions, and stock market performance has long been a critical area of study in financial economics. In emerging economies like Nepal, where financial markets are still developing and institutional frameworks are evolving, this relationship takes on heightened importance. The Nepalese stock market, represented by the Nepal Stock Exchange (NEPSE), exhibits unique characteristics that make it particularly sensitive to fiscal and monetary policy changes, as well as broader economic trends. Understanding these dynamics is crucial for investors, policymakers, and researchers alike, as it provides insights into market behavior and informs better decision-making.

Government finance encompassing fiscal policies, taxation structures, public expenditure patterns, and regulatory interventions plays a fundamental role in shaping investor sentiment and market movements in Nepal. Empirical evidence suggests that major fiscal announcements, such as annual budgets, have immediate and measurable effects on stock prices. For instance, Ojha (2021) demonstrated that budget declarations emphasizing infrastructure development and economic growth tend to generate positive market reactions, as investors anticipate increased business activity and corporate profitability. Conversely, changes in capital gains taxation or sudden shifts in public spending priorities have been shown to introduce volatility, altering investment strategies and market liquidity (Niraula, 2022; Ojha, 2021).

Beyond government finance, macroeconomic indicators serve as key drivers of stock market performance. Inflation, interest rates, money supply, GDP growth, and exchange rate fluctuations collectively influence investor behavior and equity valuations. Research by Shrestha and Subedi (2014) highlights that inflation and expansionary monetary policies (reflected in increased money supply) often correlate with rising stock prices in Nepal. This phenomenon occurs because equities are frequently perceived as a hedge against inflation,

while greater liquidity in the financial system encourages investment in riskier assets like stocks. However, rising interest rates typically have an adverse effect, as higher borrowing costs squeeze corporate earnings and reduce the attractiveness of equities compared to fixed-income securities. Exchange rate volatility also poses challenges, given Nepal's heavy dependence on imports and the vulnerability of certain sectors to currency depreciation (Shrestha & Subedi, 2014; Khatri, 2015).

The structural composition of Nepal's stock market further amplifies the impact of these variables. Unlike more diversified markets, NEPSE is heavily concentrated in the banking and financial sectors, which account for a dominant share of its total market capitalization (IJRPR, 2023). Additionally, the prevalence of retail investors, as opposed to institutional participants, introduces behavioral biases like herd mentality and overreaction to news, which can exacerbate price swings (Ojha, 2021; IJRPR, 2023).

Regulatory developments have also played a pivotal role in shaping market dynamics. For example, reforms like the Securities Act of 2019 were instrumental in reducing speculative trading and enhancing transparency, thereby stabilizing the market (IJRPR, 2023). Similarly, policies governing foreign investment and margin lending have influenced participation levels, with relaxed regulations often correlating with higher liquidity and improved market depth (Niraula, 2022). Studies by Devkota and Dhungana (2019) and Khatri (2015) underscore the significance of remittance inflows, export performance, and monetary policy as key determinants of equity prices. These findings highlight the complex interplay between economic fundamentals and market performance in Nepal's context.

1.2 Problem Statement

Researchers have paid growing attention to Nepal’s financial markets, yet key gaps have persisted in how government finance and macroeconomic conditions have shaped stock market performance. The field has recorded signs of a link, but it has not established a clear map of the size, direction, and timing of those links. As a result, the core problem has remained the same. The market has lacked a reliable, evidence-based understanding of how fiscal choices and macro trends have moved prices, returns, liquidity, and risk in a sustained way.

These gaps have not stayed within academic debate. They have created practical harm. Investors have struggled to judge risk when they have not known how the market has reacted to changes in taxes, spending, money supply, interest rates, inflation, or the exchange rate. They have often faced mixed signals and have acted with caution. That caution has led to missed chances or poor timing. Policymakers have faced a similar problem. They have designed budgets and monetary steps without a full view of how those steps have passed through to asset values. At times, rules and policies have sought growth and stability, yet they have triggered lower trading, weaker confidence, or more price swings. In short, the knowledge gaps have carried costs for households, firms, and the wider economy. Three related gaps have stood out and have continued to shape this problem.

First, long-term and systematic evidence has been thin. Studies have often focused on short windows or on single events. They have not followed fiscal actions and macro indicators across many years with consistent methods. Nepal has seen changes in budget size and mix, tax rules, debt levels, development spending, and public investment priorities. It has also seen shifts in inflation, interest rates, money supply growth, credit conditions, and the external sector. These forces have likely worked together, yet the literature has not traced their joint behavior over time with enough depth. Without that view, it has been hard to see whether the market has reacted more to tax changes than to spending plans, more to policy rates than to inflation news, or more to liquidity than to earnings signals. It has also been hard to tell whether market responses have been immediate or delayed, and whether they have faded or strengthened in later months.

Second, findings on the most influential factors have remained inconsistent. Some work has reported strong links between money supply or interest rates and stock prices. Other work has reported weak or no links for the same variables. These split results have not only confused readers. They have also reduced trust in any single set of indicators. If the sign and strength of key effects have shifted across samples or methods, then investors and officials have had little reason to anchor choices on those effects. Part of this inconsistency has come from different time spans, different model choices, and different measures for both macro variables and market outcomes. Part of it has come from omitted factors. Without a shared framework, the field has not converged on which drivers have mattered most and when.

Third, the transmission mechanisms have remained vague. Even when a correlation has been found, the path from policy to price has not been clear. The literature has asked, for example, how a change in capital gains tax has moved investor behavior, how a rise in public infrastructure spending has changed firm earnings and risk, or how a rate cut has flowed through banks to market liquidity and equity valuations. Yet it has not set out clean channels that link each policy lever to the market through earnings, discount rates, balance sheets, credit spreads, or expectations. Without those channels, users of research have not known what to watch, how to time decisions, or where to expect the largest effects.

These three gaps have had real effects. Investors have faced a fog of uncertainty. They have struggled to price future cash flows and discount rates when fiscal and monetary signals have been blurred. This has raised the chance of buying after a rally or selling into a trough. Portfolio hedges have been harder to design. Diversification across sectors and asset classes has been less precise. For policymakers, the lack of clear guidance has made it hard to weigh trade-offs. A tax incentive meant to boost listings and liquidity has sometimes had weak take-up if the channel to earnings or participation has not been understood. A rate move meant to calm the market has sometimes fed volatility if credit conditions and expectations have not aligned. For regulators, the absence of a tested map of cause and effect has made prudential tools less targeted than they could have been.

The problem has extended beyond short-term price paths. Nepal's growth needs have required stable finance for firms that invest in capacity and jobs. A stock market that has moved with noise rather than with fundamentals has not served that role well. If prices have drifted away from earnings and risk, capital has not flowed to its best use. If policy news has produced outsized and short-lived swings, firms have faced a higher cost of capital. If households have lost confidence, savings have stayed idle or have shifted to less productive uses. In these ways, the gaps in knowledge have held back the market's contribution to development. Given this context, the central problem that this study has addressed has been clear. Nepal has needed a coherent, data-based account of how government finance and macroeconomic conditions have affected stock market performance, which factors have mattered most, and through which channels the effects have operated. The study has approached this problem with three linked aims that match the gaps noted above.

It has first built a long-run view. The analysis has assembled consistent series on key fiscal variables, such as the size and mix of the budget, tax policy changes, capital spending, and public debt. It has also brought together core macro indicators, such as inflation, interest rates, money supply, credit to the private sector, exchange rate trends, and external balances. On the market side, it has used broad measures of performance, such as total returns, sector returns, volatility, turnover, market depth, and issuance activity. By placing these measures on a shared timeline, the study has traced how shifts in policy and macro conditions have lined up with changes in price, risk, and liquidity. It has second tested competing claims about the most important drivers. The study has compared the relative roles of fiscal stance, tax events, and spending composition alongside inflation, policy rates, and monetary aggregates. It has checked whether the sign and size of effects have held across sub periods, across sectors, and across different market states. This has helped to explain why earlier work has disagreed and which results have held up under broader tests.

It has third clarified the transmission paths. The study has linked fiscal and monetary steps to earnings expectations, discount rates, credit conditions, and investor sentiment. It has tracked how a tax change has reached listed firms through after-tax profits and payout policy. It has shown how a rate move has flowed through bank funding costs to loan growth, then to firm investment and earnings, and finally to equity values. It has examined how inflation surprises have affected real discount rates and risk premiums, and how exchange rate shifts have altered input costs and export revenues for different sectors. In each case, it has identified the steps, the likely lags, and the points where the effect has either amplified or faded. To keep the focus tight, the study has defined its core terms. Government finance has referred to the size and structure of the budget, tax policy, public borrowing, and allocation between current and capital spending. Macroeconomic indicators have included inflation, interest rates, money supply, private credit, exchange rate trends, and broad growth signals. Stock market performance has included price returns, volatility, market liquidity, new issuance, and sector behavior. By setting these definitions, the study has avoided mixing unrelated effects and has kept the analysis clear.

The study has also recognized sources of noise that have made earlier work hard. Structural changes in market rules, listing standards, and trading systems have sometimes altered

behavior at the same time as policy shifts. Major shocks, such as natural disasters or global market stress, have affected prices in ways that standard macro variables have not captured. Data quality and frequency have varied across series. The study has dealt with these issues by documenting breaks, using robustness checks, and testing results across multiple windows and specifications. This has not removed all limits, but it has reduced the chance that single events or data quirks have driven the findings. The practical value of this work has been direct. For investors, the study has offered a tested view of which fiscal and macro signals have carried the most weight for Nepal's equities, how long the effects have tended to last, and which sectors have been most sensitive. That view has supported clearer risk assessment, better timing, and stronger portfolio design. For policymakers, the study has provided evidence on the market footprint of tax and spending choices, as well as of monetary actions. That evidence has helped to weigh costs and benefits and to plan communication that has reduced surprise and volatility. For regulators, the results have pointed to thresholds and stress points where policy moves have tended to strain liquidity or amplify risk, which has guided safeguards. The contribution to scholarship has also been meaningful. The study has created a long-horizon dataset that others can use and has set out a framework that combines fiscal, monetary, and market variables in one view. It has explained past disagreements by showing when and why effects have changed, and it has traced clear channels that link policy to prices. By doing so, it has moved the debate from simple correlations toward tested mechanisms.

In summary, the problem has been a persistent lack of clear, long-run, and mechanism-based evidence on how government finance and macroeconomic conditions have affected Nepal's stock market. This lack has kept investors and policymakers in uncertainty, which has carried costs for market stability and growth. By building a broad dataset, by testing the relative strength of fiscal and macro drivers, and by mapping the channels that connect policy to market outcomes, the study has filled a critical gap. It has given market participants a clearer guide to risk and return in Nepal's context, and it has given officials a stronger base for choices that support a stable and useful market. The bottom line has been simple. A stock market can help an economy only when it has reflected fundamentals in a steady way. Nepal has needed a clear picture of how taxes, spending, borrowing, inflation, and interest rates have reached that market. This study has provided that picture. It has turned scattered results into a coherent

account that users can apply. In doing so, it has addressed a long-standing problem and has helped to align market behavior with the country's development goals.

i. What is the trends in government finance, macroeconomic indicators, and stock market over the study period?
ii. Is there a significant relationship between government finance, macroeconomic indicators, and stock market performance in Nepal?
iii. How do government finance and macroeconomic indicators impact the stock market in Nepal?

1.3 Objective of the Study

The general objective of this study is analyze the impact of government finance, macroeconomic indicators, and stock market performance in Nepal. The following are the specific objectives.

i. To access the trends in government finance, macroeconomic indicators, and stock market dynamics over the study period.
ii. To analyze whether there is a significant relationship between government finance, macroeconomic indicators, and stock market performance in Nepal.
iii. To examine how government finance and macroeconomic indicators impact the stock market in Nepal.

1.4 Hypothesis of the Study

Hypothesis of the study are as follows;

Null Hypothesis (H_0): There is no significant relationship between government finance, macroeconomic indicators, and stock market performance in Nepal.

Alternative Hypothesis (H_1): There is a significant relationship between government finance, macroeconomic indicators, and stock market performance in Nepal.

1.5 Rational of the Study

This study is motivated by several important considerations that address both academic and practical needs in understanding Nepal's financial markets:

i. Existing literature has largely examined government finance and macroeconomic indicators in isolation, with limited studies investigating their combined impact on Nepal's emerging stock market. This research fills a critical gap by analyzing how fiscal variables (expenditure, revenue, and debt) interact with macroeconomic factors (inflation, interest rates, and GDP growth) to influence market performance.

ii. The findings will provide valuable insights for key regulatory bodies including Nepal Rastra Bank and Securities Board of Nepal (SEBON), enabling them to better assess how fiscal policy decisions and economic conditions affect market stability and investor confidence.

iii. By identifying which fiscal and macroeconomic indicators most significantly impact stock returns, the study will offer practical guidance to investors navigating Nepal's volatile market conditions. This information can inform more robust investment strategies and risk management approaches.

iv. Nepal presents a distinctive case study with its small, remittance-dependent economy and capital controls. These characteristics create market dynamics that differ substantially from larger, more developed markets, making this investigation particularly valuable.

v. Understanding these relationships can help prevent potential market crises by identifying early warning signs of fiscal imbalances or macroeconomic shocks that may trigger instability.

vi. The study expands the body of knowledge on frontier markets and provides a framework that could be adapted for similar developing economies facing comparable challenges in their financial market development.

1.6 Limitations of the Study

i. The study relies on secondary data, which may not always be fully accurate or current.

ii. It includes only selected macroeconomic and fiscal indicators, possibly leaving out other important factors.

iii. The findings are based on Nepal’s context, so they may not apply to other countries.

iv. A limited time frame of data may not capture long-term trends or unexpected events.

v. The statistical methods used can show relationships but cannot fully prove cause and effect.

vi. To represent the stock market performance of Nepal, NEPSE Index is selected.

CHAPTER-II

LITERATURE REVIEW

This chapter presents a review of existing literature related to the relationship between government finance, macroeconomic indicators, and stock market performance. It highlights previous research findings, theoretical frameworks, and empirical studies that help to build the foundation for the present study. By analyzing both national and international studies, this chapter identifies key variables, research gaps, and areas of agreement or disagreement among scholars.

2.1 Theoretical Review

This section discusses the key theories that explain the relationship between macroeconomic variables, government finance, and stock market performance. It includes relevant economic and financial theories such as, Efficient Market Hypothesis (EMH), Keynesian Economic Theory, Monetary Theory of Inflation, Capital Asset Pricing Model (CAPM), International Fisher Effect (IFE), and Fiscal Theory of the Price Level These theories help to explain how fiscal and monetary policies, inflation, interest rates, and other macroeconomic indicators can influence investor behavior and market trends.

The Efficient Market Hypothesis

The Efficient Market Hypothesis, introduced by Eugene Fama, says that stock prices reflect all available public information. This means when any news like changes in interest rates or government budgets comes out, it quickly gets included in the stock prices. So, it becomes nearly impossible for investors to consistently earn more money by just studying that public information. The idea is that markets are smart and adjust immediately to any new data. According to this theory, even macroeconomic indicators like inflation or monetary policy are already reflected in the NEPSE index. For investors in Nepal, this implies that trying to predict the market based on news or reports may not give them an edge. However, in a developing country like Nepal, where financial systems are still growing, information doesn't always flow efficiently. Investors often react late or irrationally to policy changes or economic updates. This challenges the EMH, as local conditions and behavioral biases might still let some people

earn extra returns. So, while EMH offers a useful framework, Nepal's market still shows signs of inefficiency that may allow informed investors to gain advantages.

Keynesian Economic Theory

Keynesian economics, based on the ideas of John Maynard Keynes, says the economy doesn't always fix itself and sometimes needs help from the government. According to this view, interest rates, government spending, and overall demand are key to economic stability and growth. For example, when interest rates are low, businesses and people are more likely to borrow and invest, which boosts the stock market. On the other hand, when interest rates go up, borrowing gets expensive, slowing down spending and investment. Keynesians also believe that during tough times, the government should spend more or reduce taxes to keep the economy moving. In Nepal, public investment in infrastructure or agriculture can help companies grow and raise stock prices. Similarly, expansionary monetary policy like increasing the money supply can create more demand and push up share values. This theory is especially important for a small economy like Nepal, where a slowdown can affect employment and market performance quickly. Stock prices in NEPSE are often influenced by these fiscal and monetary decisions. So, the Keynesian view supports the idea that government finance and economic policies play a big role in the health of the stock market.

Monetary Theory of Inflation

The Monetary Theory of Inflation, promoted by Milton Friedman, says that inflation mainly happens when too much money is in circulation compared to the goods and services available. In simple words, if the government or central bank prints more money than the economy produces, prices go up. In Nepal, when the money supply increases without a similar rise in production, inflation rises and affects everyday life and investment returns. Investors worry because inflation reduces the real value of their money and future profits. In response, Nepal Rastra Bank may increase interest rates to control inflation, which raises borrowing costs and slows down the stock market. Higher interest rates also make bonds more attractive than stocks, which reduces stock demand. As inflation expectations rise, investors may shift their money to safer assets. The theory helps to explain how monetary policy decisions can shape stock market movements in Nepal. When the money supply is well-managed, inflation

remains under control, supporting a more stable investment environment. So, this theory links monetary policy, inflation control, and market performance closely together.

Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM) explains how risk and return work together in deciding a stock's price. It says that the return on a stock depends on three things: the risk-free interest rate, the stock's risk compared to the market (beta), and the market risk premium. In Nepal, the risk-free rate is often based on government bond rates, which are influenced by inflation and monetary policy. When interest rates rise due to inflation or tight monetary policy, the required return on stocks also goes up. This can lower the current value of stocks and push NEPSE downward. CAPM also shows how investors react during unstable economic times they demand higher returns to take more risks. So, when the economy is uncertain, investor confidence drops and stock prices fall. The model helps investors in Nepal decide if a stock offers a fair return for its risk level. In short, CAPM connects macroeconomic factors like inflation and interest rates to how stock prices are set in the market.

International Fisher Effect (IFE)

The International Fisher Effect (IFE) says that the difference in interest rates between two countries can help predict changes in their currency values. In other words, if Nepal has higher interest rates than India or the US, its currency (NPR) might weaken in the future due to higher inflation expectations. This matters because exchange rate changes can affect trade and investment in Nepal. A weak NPR can help exporters by making their goods cheaper abroad, which may boost the profits of export-oriented companies listed on NEPSE. But it also makes imports more expensive, which hurts businesses that rely on foreign goods. For foreign investors, a weak currency can reduce the value of their returns in their own money, making them hesitant to invest. So, IFE helps explain how interest rates and inflation influence foreign investment and market behavior in Nepal. Stock market performance is often affected by exchange rate risks, especially in an open and remittance-driven economy like Nepal. Therefore, this theory connects international interest rate differences to domestic market outcomes.

Fiscal Theory of the Price Level (FTPL)

The Fiscal Theory of the Price Level (FTPL) says that inflation isn't just about printing money it also depends on government debt and spending plans. If the government borrows a lot and people don't believe it can repay through future income (like taxes), prices may rise. In Nepal, where public debt is growing, this theory becomes more relevant. If people think the government lacks a proper plan to manage debt, inflation expectations increase, which can hurt investment. Investors fear that rising inflation will reduce the real value of returns, especially on long-term stocks. FTPL also highlights that even if Nepal Rastra Bank controls money supply, it won't be enough unless the government's fiscal policy is responsible. For example, sudden increases in public spending without matching revenue can shake investor confidence and create volatility in NEPSE. The theory suggests that monetary and fiscal policies must work together to ensure price stability. In a developing country like Nepal, where fiscal credibility is sometimes questioned, this theory provides a reminder that stable prices and a stable stock market depend on both sound budgeting and money management. So, FTPL adds a deeper layer to understanding inflation beyond just the central bank's actions.

2.2 Empirical Review

This section reviews past research studies, both in Nepal and internationally, that have examined the impact of government finance and macroeconomic indicators on the stock market. The review covers different methodologies, data sources, and statistical results used by researchers.

Mofokeng and Moodley (2025) conducted a research study examining the effects of changing macroeconomic conditions on the returns of commercial banks in South Africa. The study employed a two-state Markov regime-switching model to analyze data from six major South African banks ABSA, Capitec, Nedbank, First Rand Bank, Standard Bank, and Investec over the period 2002 to 2023, which included significant financial events such as the global financial crisis and the COVID-19 pandemic. The independent variables in the study were key macroeconomic factors including GDP, interest rates, inflation, money supply, and exchange rates, while the dependent variable was the commercial banks' returns. The research found that the impact of macroeconomic variables on bank returns is nonlinear, time-varying, and

regime-specific, alternating between positive and negative effects depending on bull and bear market conditions. This supports the adaptive market hypothesis (AMH), which posits that market efficiency varies with changing economic environments, contrasting with the linear effects suggested by the efficient market hypothesis (EMH). The study contributes to emerging market literature by applying regime-switching methodologies to South Africa's banking sector, providing valuable insights for policymakers and investors on managing bank performance amid fluctuating macroeconomic conditions and enhancing decision-making through adaptive financial strategies (Mofokeng & Moodley, 2025).

Balthazaar (2025) conducted a study on the impact of macroeconomic variables on stock market performance in Sri Lanka, utilizing the All Share Price Index (ASPI) as a measure of stock market performance. The research employed interest rates, inflation rates, real exchange rates, and money supply as independent variables and applied the ARDL bound testing approach to analyze the data. The time series data's stationary was assessed using the ADF test, which indicated that inflation rates and interest rates were stationary at zero levels, while exchange rates, money supply, and stock market performance were stationary at level one. The empirical results revealed a negative and significant impact of interest rates on stock market performance in both the long and short run. Specifically, the study found that a rise in interest rates led to a decline in stock market performance. Other macroeconomic variables did not hold any significant impact on stock market performance in the long run. These findings suggest that monetary policy, particularly interest rate adjustments, plays a crucial role in influencing stock market dynamics in Sri Lanka, offering insights for investors and policymakers.

Okonkwo et al. (2025) investigated how macroeconomic factors affected the financial performance of selected manufacturing companies in Nigeria. They used an ex-post facto research design with panel data from five quoted firms listed on the Nigerian Stock Exchange between 2000 and 2013. The study relied on secondary quantitative data from reliable sources such as the Nigerian Stock Exchange, Central Bank of Nigeria, and company reports. Financial performance was measured using return on assets (ROA), while inflation rate, interest rate, and exchange rate were considered independent variables. Through multiple regression analysis, they found that inflation and interest rates had negative but insignificant

effects. However, exchange rates had a significant and negative impact, leading to the conclusion that exchange rate instability posed a serious risk to firm profitability.

Mofokeng and Moodley (2025) looked into how changing macroeconomic conditions influenced the returns of commercial banks in South Africa, focusing on six major banks ABSA, Capitec, Nedbank, First Rand Bank, Standard Bank, and Investec from 2002 to 2023. The study aimed to understand how factors like GDP, inflation, interest rates, exchange rates, and money supply affect bank performance over time. What made their approach interesting was the use of a two-state Markov regime-switching model, which basically helped them see how the effects of those economic variables change under different market conditions like during stable periods versus times of crisis. Instead of assuming that these variables always have the same impact, they found that sometimes they boosted bank returns, while in other periods, they had a negative effect. This changing pattern supported the Adaptive Market Hypothesis, which says markets don't always act efficiently in the same way, but adapt depending on the situation. So, their findings are quite useful for banks and financial analysts trying to make better decisions in a world where economic conditions are constantly shifting. Balthazaar (2025) conducted a study to explore how macroeconomic variables affected stock market performance in Sri Lanka, using the All Share Price Index (ASPI). The study included inflation, interest rates, exchange rates, and money supply as independent variables and applied the ARDL bound testing method. Stationary checks using the ADF test revealed mixed levels across variables. The findings showed that interest rates had a consistently negative and significant impact on stock performance in both the short and long term, while other variables lacked long-term significance. The study emphasized the crucial role monetary policy especially interest rate changes plays in shaping Sri Lanka's stock market trends.

Jallad (2025) investigated how macroeconomic factors like GDP growth, exchange rates, and net portfolio investment impact stock market returns in Palestine, using data from the Al-Quds Index over the period from 1998 to 2022. The goal was to see if those variables really had a long-term or short-term effect on stock returns. He used something called the ARDL bounds testing approach, which is useful for checking both time frames. The findings were kind of expected but still important GDP growth had a strong and positive relationship with stock

returns, while exchange rate changes showed a steady negative effect. That means when the local currency got weaker, the stock market took a hit. Net portfolio investment, on the other hand, didn't have much of an impact at all, which could be because investors don't feel safe putting money in such a risky or uncertain market. Overall, the study pointed out how crucial it is for policymakers to keep currency risks under control, especially in fragile economies where one shift can cause a ripple effect in market performance.

Abusaba et al. (2025) conducted research to assess how inflation rate, interest rate, exchange rate, and money supply influenced stock market prices in six Sub-Saharan African countries Tanzania, Kenya, Malawi, Botswana, Ghana, and Nigeria between 2005 and 2023. Using monthly data and multiple regression analysis, they found that inflation and exchange rates had significant positive effects on stock prices. On the other hand, interest rate showed no significant relationship. The study also drew on theories such as Arbitrage Pricing Theory, Efficient Market Hypothesis, Monetarist Theory, and Purchasing Power Parity to explain its results, providing useful insights for economic decision-making.

Wibien and Yusup (2025) investigated the key factors that affect stock prices of banks listed on the Indonesia Stock Exchange between 2018 and 2023. They focused on both conventional and Islamic banks to see if financial ratios behave differently across these sectors. The main ratios examined were Non-Performing Loans (NPL), Capital Adequacy Ratio (CAR), Return on Equity (ROE), and Loan to Deposit Ratio (LDR). Their aim was to find out how these ratios influence the banks' stock returns. They used the Generalized Method of Moments (GMM), which is useful for handling complex data with many variables over time. The results showed that NPL and ROE had a surprisingly negative effect on stock returns, which might mean that investors react cautiously to changes in profitability or credit risk. On the other hand, CAR and LDR didn't have a significant impact, suggesting these might not be as important for stock prices in this market. Interestingly, ROE and LDR seemed more favorable in Islamic banks, hinting that these banks manage liquidity and equity differently. This could be because Islamic banks follow specific financial principles that affect how investors view their performance. Overall, the study sheds light on the unique financial dynamics in Indonesia's banking sector, especially comparing Islamic and conventional banks.

Humpe et al. (2025) studied the role of macroeconomic factors in shaping stock market performance in two major global groups: the Anglo sphere countries and the BRICS nations. They used a long period of data from 1995 to 2023, which gave a broad view of economic trends and stock markets over almost three decades. Their goal was to understand how GDP, consumer prices, policy interest rates, and money supply influence stock prices differently depending on the region's economic structure. For this, they applied the panel ARDL cointegration technique, which helps capture long-run relationships between variables. In the Anglo sphere, they found GDP had a strong positive effect on stock markets, while inflation (measured by CPI) showed a strong negative effect. This means economic growth boosts stocks, but rising prices can hurt investor confidence. In BRICS countries, the picture was somewhat different: GDP still positively influenced markets, but inflation had a positive, although smaller, effect. Policy rates and money supply surprisingly didn't show much influence in either group, which could be due to other overriding factors in these economies. Their study emphasized that economic structure and development stage matter a lot in how macroeconomic variables affect financial markets. This insight helps investors and policymakers tailor their strategies for different countries.

Thapa (2025) conducted a study to understand the effect of certain macroeconomic variables on Nepal's stock market performance, using monthly data from 2005 to 2024. The focus was on how deposits, reserve money, market liquidity, and lending interest rates relate to the NEPSE index, Nepal's main stock market benchmark. The study used the ARDL technique, which is suitable for exploring both short- and long-term effects. One key finding was that previous NEPSE index values strongly predicted current values, which is common in financial time series where past trends influence future movements. Lending interest rates showed a significant negative impact, suggesting that higher borrowing costs discourage investment in the stock market. Liquidity and deposits had a delayed effect, influencing the market with a time lag. Reserve money initially appeared to hurt stock market performance but eventually helped stabilize it, indicating a complex relationship. The model explained a large part of the variation in NEPSE ($R^2 = 0.98$), meaning it fit the data well. However, the model did not fully capture unexpected political events that can disrupt markets suddenly. This shows that while economic variables are important, external shocks also play a major role in market dynamics.

Gurung (2025) investigated the combined influence of macroeconomic and institutional factors on Nepal's stock market using data from 1994 to 2018. The study aimed to identify key drivers of NEPSE performance by looking at variables like interest rates, inflation, money supply, GDP growth, exchange rates, and political and institutional stability. The research used explanatory methods with judgmental sampling to focus on relevant factors. Results showed that inflation, high interest rates, and political instability negatively affected the stock market, dragging performance down. Conversely, GDP growth and an expanding money supply contributed positively to market growth, showing the importance of economic fundamentals. Political stability and institutional quality were found to be crucial, confirming that markets don't operate in isolation from the broader environment. The study concluded that to maintain a healthy stock market, Nepal needs both economic growth and political stability. It also highlighted the risks posed by volatile political conditions. Investors should therefore consider not just economic data but also governance and institutional quality. The findings suggest that improving these areas could lead to a more sustainable and predictable stock market.

Pandeya (2025) analyzed how Nepal's monetary policy tools influence money supply dynamics using quarterly data from 2000 to 2023. The study focused on reserve money, cash reserve ratio (CRR), bank rate, and Treasury bill rate to see how these instruments affect M2, the broad money supply. The ARDL framework was chosen to study both short- and long-term relationships. Reserve money had the largest positive effect on M2, which makes sense since it forms the base of the money supply. The bank rate also positively influenced money supply, indicating that interest rate policies can encourage liquidity. On the other hand, CRR had a negative impact, as higher reserve requirements reduce the amount banks can lend. The Treasury bill rate, however, did not show a significant effect, which might reflect its limited role in direct liquidity management. The model had a good fit ($R^2 = 0.85$), showing that these variables explain most of the changes in money supply. The study emphasized the importance of carefully adjusting monetary tools to balance inflation control with growth support. Policymakers can use these insights to design effective strategies tailored to Nepal's economic needs.

Suedi (2025) examined how money supply, interest rates, GDP, and remittance inflows affect Nepal's stock market over the period from 1994 to 2023. The study applied ARDL counteraction techniques to analyze both immediate and longer-term effects on the NEPSE index. It found that increases in money supply significantly boosted stock market performance over time, suggesting that liquidity growth encourages investment and market expansion. GDP also showed a strong positive relationship, reinforcing the link between economic growth and stock returns. Interest rates had a weak negative effect, meaning higher borrowing costs might dampen market enthusiasm. Interestingly, remittances did not significantly influence the stock market, possibly because most remittance money is spent on consumption or real estate rather than stocks. The error correction term revealed that the stock market quickly adjusts to changes and returns to equilibrium aftershocks. This rapid adjustment highlights the sensitivity of the market to macroeconomic conditions. Overall, the study pointed to the importance of managing liquidity and fostering economic growth to support Nepal's stock market. It also suggested that relying on remittances alone may not stimulate equity market development.

Basnet (2024) conducted an analysis of Nepal's monetary policy effects on key macroeconomic indicators such as GDP, inflation, interest rates, unemployment, and the external balance using data from 1990 to 2017. The study used advanced econometric methods like the ADF test for stationary, Johansen counteraction to detect long-run relationships, and error correction models to capture short-term dynamics. Results showed that money supply and real interest rates were major drivers influencing Nepal's economic trends. Although short-term shocks occurred, the economy tended to return to equilibrium, reflecting the stabilizing role of monetary policy. The study found that these effects vary over time but generally contribute to controlling inflation and supporting growth. The results suggest that monetary policy can be an effective tool in managing macroeconomic stability. The author emphasized the importance of continuous monitoring and adapting policies to changing economic conditions. Challenges such as external shocks and structural changes were acknowledged as factors affecting policy effectiveness. The study contributes valuable insights for policymakers seeking to balance growth and stability in Nepal's economy.

Acharya and Joshi (2024) investigated the factors causing inflation in Nepal, focusing on data from 2001 to 2018. The study aimed to identify which variables influence inflation trends, looking at money supply, exchange rate fluctuations, GDP growth, per capita income, and Indian inflation as external influence. Using multiple regression and correlation analysis, the researchers found that domestic inflation was positively affected by money supply growth, depreciation of the exchange rate, and inflation in India. This means when money supply expands or the Nepali currency weakens, prices tend to rise. Indian inflation also spills over due to close economic ties. Surprisingly, GDP growth and per capita income didn't show a strong effect on inflation, which might indicate other factors dominate price changes. The model explained about 86% of the inflation variation, suggesting it was a good fit. The authors concluded that monetary policy alone can't fully control inflation and called for better coordination with fiscal policies. Their findings highlight the complexity of inflation control in a small, open economy like Nepal.

Table 1

Summary of Empirical Review

Author(s)	**Topic**	**Objective**	**Methodologies**	**Findings**
Okonkwo et al. (2025)	Macroeconomic Factors & Firm Performance in Nigeria	To examine how macroeconomic variables affect the financial performance of manufacturing firms	Ex-post facto design; Panel data; Multiple regression	Inflation & interest rates had insignificant negative effects; exchange rate significantly hindered performance
Mofokeng & Moodley (2025)	Macroeconomic Conditions & Bank Returns in South Africa	To analyze nonlinear, regime-specific effects of	Two-state Markov regime-switching model	Effects of variables varied across bull and bear markets;

		macroeconomic shifts on bank returns		AMH supported; time-varying impacts observed
Balthazaar (2025)	Macroeconomic Impact on Stock Performance in Sri Lanka	To assess interest rate and other variables' influence on stock market dynamics	ARDL model; ADF test; Time series analysis	Interest rates had consistently negative and significant impact in both short and long run; other variables showed no long-run significance
Jallad (2025)	GDP, Investment & Currency Effects on Stock Returns in Palestine	To evaluate GDP growth, exchange rate, and portfolio investment on Al-Quds Index	ARDL bounds test	GDP growth positively affected returns; exchange rate had significant negative impact; net portfolio investment was statistically insignificant
Abusaba et al. (2025)	Macro Variables & Stock Prices	To evaluate how inflation, interest rate,	Causal design; Monthly data;	Inflation ($\beta = 0.4222$, $p < 0.001$) and

	in Sub-Saharan Africa	money supply, and exchange rates affect stock prices	Multiple regression	exchange rate ($\beta = 1.3522$, $p < 0.001$) positively affected stock prices; interest rate not significant ($p = 0.133$)
Wibien & Yusup (2025)	Financial Ratios & Stock Prices in Indonesian Banks	To assess how financial metrics affect stock prices of conventional and Islamic banks	Quantitative design; GMM using STATA; Panel data	NPL and ROE had negative impacts; CAR and LDR were insignificant; Islamic banks showed stronger ROE and LDR effects
Humpe et al. (2025)	Macroeconomic Determinants Across Anglosphere & BRICS Regions	To compare elasticity of macroeconomic variables on stock prices in two economic blocs	Panel ARDL cointegration; Quarterly data	Anglosphere: GDP (elasticity = +1.2), CPI (elasticity = -1.6); BRICS: CPI (elasticity = +0.5); Policy rates and money supply insignificant
Thapa (2025)	Macroeconomic Indicators &	To analyze impact of	ARDL model; Monthly data;	Lagged NEPSE had strong

	NEPSE Performance	deposits, liquidity, and interest rates on NEPSE	Secondary sources	momentum (β = 0.89, p < 0.001); lending rates negatively impacted NEPSE (β = -17.45, p = 0.002); liquidity & deposits showed delayed effects
Gurung (2025)	Economic & Institutional Factors of Nepal's Stock Market	To explore influences of economic and governance variables on NEPSE	Explanatory research; Judgmental sampling; Time-series analysis	Inflation, interest rates, political instability had negative effects; GDP and money supply positively affected NEPSE
Pandeya (2025)	Monetary Policy Tools & Money Supply in Nepal	To evaluate how reserve money, CRR, bank rate, and T-bill rate impact money supply	ARDL model; Quarterly data; Bounds cointegration test	Reserve money (β = 0.7658, p < 0.001), bank rate (β = 0.1641, p = 0.014) significantly positive; CRR

				had a significant negative effect (β = -0.246, p = 0.002)
Subedi (2025)	Macro Drivers of Stock Performance in Nepal	To assess short/long run effects of macro variables on NEPSE	ARDL co-integration; Annual data	Money supply positively impacted stock returns; interest rates slightly negative; GDP strongly positive; remittance flow not significant; significant error correction term
Basnet (2024)	Monetary Policy Effect on Macro Stability in Nepal	To examine how monetary instruments influence GDP, inflation, unemployment, BoP	ADF test; Johansen cointegration; Error correction model; Secondary data	Money supply and real interest rates significantly influenced macro variables; equilibrium confirmed; short-run deviations corrected

Acharya & Joshi (2024)	Determinants of Inflation in Nepal	To assess influence of economic factors on Nepal's inflation	Multiple regression; Correlation; Trend analysis; Annual data	Inflation strongly influenced by money supply, exchange rate, Indian inflation; GDP and per capita income were not significant; R^2 = 85.9%

2.3 Research Gap

This section identifies the missing areas in the existing body of literature related to government finance, macroeconomic indicators, and stock market performance. While previous studies have explored these topics separately or in limited scope, there is a lack of integrated and focused research, especially in the context of Nepal. The purpose of this section is to highlight what has not been adequately addressed by earlier researchers and to justify the need for the present study.

While previous studies have offered valuable insights into how macroeconomic conditions affect markets, most have overlooked the specific role of government finance. For instance, Okonkwo et al. (2025) and Mofokeng & Moodley (2025) focused on general macroeconomic variables like inflation and interest rates, but didn't include government finance indicators or analyze Nepal's unique fiscal environment. Similarly, studies such as Gurung (2025) and Subedi (2025) investigated macroeconomic trends and stock market behavior in Nepal but did not incorporate detailed financial ratios or use a robust combination of statistical tools. Most of the earlier research leaned heavily on single-method approaches, like ARDL or simple regression, and often lacked descriptive and correlation analysis to explore variable relationships more deeply.

This study addresses that gap by combining 15 years of secondary data with financial ratios, allowing for a clearer link between fiscal dynamics and stock market performance. What sets it apart is the use of descriptive statistics, correlation analysis, and multiple regression modeling done through SPSS to offer a more detailed and transparent view of how government finance and macroeconomic factors jointly shape market behavior in Nepal. By capturing both structural economic patterns and firm-level fundamentals, this research provides a broader and more practical perspective for policymakers, investors, and researchers. It also helps to bridge the missing connection between government fiscal strategy and macroeconomic variables and its real impact on capital markets something earlier studies rarely examined in depth.

CAHPTER-III

RESEARCH METHODOLOGY

This chapter outlines the methodological framework used to examine the impact of government finance and selected macroeconomic indicators on Nepal's stock market performance. It details the research design, sources of data, sample characteristics, statistical techniques, and tools employed in the analysis.

3.1 Research Design

The research design serves as the blueprint for the study, outlining the methods and procedures used to collect, analyze, and interpret data. A well-structured research design ensures that the study is conducted systematically, enhancing the reliability and validity of the findings. This study employs a correlational research design, which is suitable for investigating the relationships between key variables specifically, public finance indicators and macroeconomic outcomes. The correlational research design provides a structured and systematic approach to examining the linkages between public finance and macroeconomic performance. By employing statistical techniques on high-quality secondary data, this study aims to contribute meaningful insights into fiscal policy's role in economic stability and growth. Future research could extend this work by incorporating experimental or quasi-experimental methods to strengthen causal interpretations.

3.2 Population and Sampling Procedure

The population of this study consists of all macroeconomic, fiscal, and financial indicators that could potentially influence the Nepse Index in Nepal. This includes a wide range of variables such as government revenue and expenditure, public debt, monetary aggregates, inflation, credit availability, and other economic and financial metrics. Given the extensive scope of possible variables, a judgmental (purposive) sampling technique was used to select the most relevant and impactful indicators based on economic theory and empirical evidence. The dependent variable is the Nepse Index, representing the performance of Nepal's stock market. This selective approach ensures a focused and analytically manageable study while capturing the key fiscal, monetary, and macroeconomic factors that influence stock market movements. The chosen variables provide a balanced representation of government financial

health, monetary policy effects, and economic stability, allowing for meaningful correlation and regression analysis.

3.3 Nature and Sources of Data

This study uses secondary data collected from official and reliable sources to ensure accuracy and credibility. The key datasets include macroeconomic indicators, public finance variables and the NEPSE Index, all retrieved from the official websites of Nepal Rastra Bank, which serves as Nepal's central bank, and the Nepal Stock Exchange. These sources provide authoritative, up to date and standardized data that helps maintain consistency while strengthening the study's validity**.**

3.4 Method of Analysis

This study employs a quantitative research methodology to analyze the relationship between government finance, macroeconomic variables, and the NEPSE Index performance. The analysis begins with descriptive statistics to summarize key characteristics of the dataset, including measures of central tendency and dispersion for all variables. Following this, Pearson correlation analysis is conducted to examine the strength and direction of bivariate relationships between independent variables (government revenue, expenditure, public debt, money supply, inflation, credit indicators) and the dependent variable (NEPSE Index). The core analytical technique is multiple linear regression, which assesses both individual and combined effects of predictor variables on stock market performance while controlling for potential confounding factors. Diagnostic tests are performed to ensure regression assumptions are met. All statistical computations, including significance testing (p-values) and determination of coefficient of determination (R-squared), are executed using SPSS software version 25, which provides robust tools for data processing, statistical analysis, and visualization.

Descriptive Tools

Descriptive Statistical Tool: Descriptive statistics provide a clear overview of government finance and macroeconomic variables, as well as stock market performance, before conducting deeper analyses. They help identify data distribution, variability, and overall trends.

Mean

The mean, also known as the arithmetic mean, is a measure of central tendency that represents the average value of a set of numbers. It is calculated by summing all the values in the set and then dividing the sum by the number of values. It is computed as follows: $\overline{\boldsymbol{X}} = \frac{\boldsymbol{\Sigma X}}{\boldsymbol{n}}$

Where,

X= Arithmetic Average

∑x= Summation for total values of the variable/observation

N= Number of items

Standard Deviation (S.D)

The positive square root of the mean of the square of the deviations from the arithmetic mean is known as the standard deviation. It's represented. $\text{S. D. } (\sigma) = \sqrt{\frac{(\mathbf{X}-\bar{\mathbf{X}})}{\mathbf{N}-\mathbf{1}}}$

Where,

$\bar{X}$= mean

n= number of item

Karl Pearson's Correlation of Coefficient (r)

The correlation coefficient is employed in this study to ascertain the relationship between several variables, including return on equity, non-performing loan ratio, and earnings per share. In practice, the correlation coefficient is most frequently utilized. There are two types of correlation: positive and negative. It is symbolically represented by r.

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

Where, r = Correlation Coefficient,

N = no of observation in series X and Y

∑ X = Sum of observation in series X

∑ Y = Sum of observation in series Y

∑ X 2 = Sum of square observation in series X

$\sum$ Y 2 = Sum of square observation in series Y

$\sum$ XY = Sum of the product of observation in series X and Y

Table 2:

Interpretation of correlation coefficient

Degree	Positive	Negative
Perfect	1	1
Significant	+0.75 to +1	-0.75 to +-1
High	+0.5 to +0.75	-0.5 to -0.75
Low	+0.25 to +0.5	-0.25 to -0.5
Insignificant (Very Low)	0 to +0.25	0 to - 0.25
Absent	0	0

Noted from Sthapit (2004). "Statistical Methods"

Multiple Regression Model

The MRA (Multiple Regression Analysis) is an extension of multiple regression analysis, differing in that it involves two or more independent variables instead of a single one. The regression model with 'k' independent variables can be expressed as:

$NEPSE=\beta_0+ \beta_1TE+ \beta_2TRE+ \beta_3TPD+ \beta_4M2+ \beta_5IR+ \beta_6DC+ \beta_7PSC+ e$

Where

NEPSE= Nepal Stock Exchange

TC= Total Expenditure

RE= Recurrent Expenditure

TPD= Total Public Debt

M2= Broad Money

IR= Inflation Rate

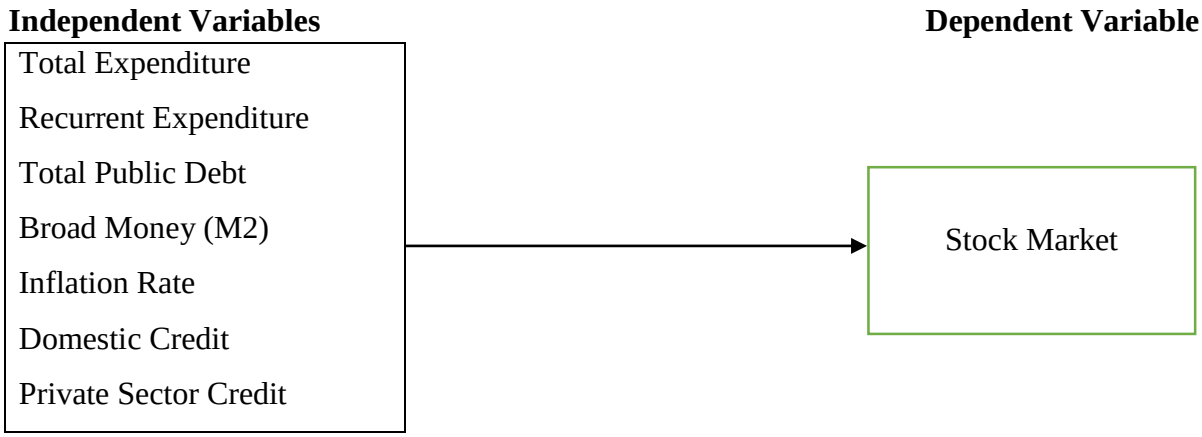
DC= Domestic Credit

PSC= Private Sector Credit

e= Error of items

3.5 Research Framework and Definition of Variables

This study aims to understand how Nepal's stock market (measured by the NEPSE index) is affected by two main things: (1) the government's money management (like how much it spends and borrows) and (2) the country's overall economic health. We're looking at seven key factors: the government's total spending, its regular expenses (like salaries), its total debt, the amount of money circulating in the economy (M2), inflation rates, total loans in the country, and loans specifically to private businesses. The idea is simple - when the government spends more or borrows heavily, or when economic conditions like inflation or money supply change, it should affect stock prices. We'll use past data to check if these factors really do move the stock market up or down, and which ones matter most. This will help investors understand what drives market changes and help policymakers see how their decisions might impact the stock market. The study uses straightforward number-crunching methods to find these connections, focusing on real-world impacts rather than complicated theories.



(Source: Humpe et al. 2025)

3.5.1 Definition of Variables

Nepal Stock Exchange Index (NEPSE)

The NEPSE Index is the main indicator of the Nepal Stock Exchange, showing how well the listed companies are doing in the stock market. It tracks the average movement of stock prices and reflects the mood of investors when the index goes up, it means the market is doing well (bullish), and when it goes down, it signals a weak or declining market (bearish). The index

is based on market capitalization but does not include promoter shares, so it shows the actual shares that can be traded. This makes it useful for investors, researchers, and policymakers to understand the country's market condition and economic outlook.

Recurrent Expenditure (RE)

Recurrent Expenditure refers to the regular costs the government pays to keep its daily operations and services running such as salaries for public employees, pensions, office expenses, and maintenance. These expenses are important for delivering basic services like healthcare, education, and security. Unlike capital spending, they don't create long-term assets. According to Hemming et al. (2002), while this type of spending is important for stability and service delivery, too much of it can reduce funds available for investment in infrastructure and development. If not well managed, high recurrent spending can also suggest wasteful use of public money. In this research, recurrent expenditure is taken as an independent variable to study how it impacts the stock market. It shows how committed the government is to keeping its functions stable, which can influence investor confidence and market behavior.

Total Public Debt (TPD)

Total Public Debt is the total amount of money the government has borrowed, both from within the country (domestic debt) and from foreign sources (external debt). Governments usually borrow when their spending is higher than the income they collect. While a reasonable amount of debt can help support development by funding projects like roads, schools, and health services, too much debt can harm the economy. Reinhart and Rogoff (2010) explain that high levels of public debt can slow down economic growth, raise interest rates, and make a country more vulnerable to financial problems. Also, paying interest and repaying debt can take money away from other important areas. In this study, total public debt is used as an independent variable to examine how it influences the stock market. Rising debt levels may reduce investor confidence, especially if the government is not generating enough revenue or if the economy is not growing steadily.

Broad Money (M2)

Broad Money (M2) refers to the total supply of money available in an economy, which includes cash, funds in current accounts, savings accounts, and short-term fixed deposits. It is an important measure of the economy's overall liquidity and helps indicate the direction of monetary policy set by the central bank. When M2 increases, it usually means more credit is available, which can lead to higher consumer spending and business investment—supporting economic growth. However, if the money supply grows faster than the economy itself, it can lead to inflation. Mishkin (2015) highlights that keeping track of M2 is crucial for central banks to manage inflation and ensure financial stability. In this research, M2 is treated as an independent variable to analyze how the availability of money influences stock market performance. Higher liquidity often boosts investor activity, while limited liquidity can reduce investment in the market.

Inflation Rate (IR)

The Inflation Rate shows how much the prices of goods and services increase over time, usually measured yearly. When inflation rises, the value of money drops, meaning people and businesses can buy less with the same amount of money. A steady and moderate level of inflation is usually a sign of a healthy, growing economy, as it encourages people to spend and invest. But if inflation becomes too high, it creates uncertainty, raises living costs, and can reduce savings and long-term investment. Blanchard (2017) explains that uncontrolled inflation can hurt economic stability and negatively affect both consumer spending and financial markets. In this study, the inflation rate is taken as an independent variable to see how it influences the stock market. High inflation can reduce investor confidence, while stable inflation is more likely to support positive market performance.

Domestic Credit (DC)

Domestic Credit refers to the total loans or credit extended by financial institutions like banks and development finance institutions to the government, businesses, and individuals within the country. It shows how well the financial sector is supporting economic activities. When domestic credit rises, it usually means businesses and households have better access to funds,

which can lead to more investment and spending, helping the economy grow. Levine (2005) points out that a strong credit system helps move savings into productive investments. However, if credit grows too quickly, it can create economic risks and lead to instability. In this study, domestic credit is used as an independent variable to examine how it affects stock market performance. More available credit can encourage investment and trading, which may push stock prices upward.

Private Sector Credit (PSC)

Private Sector Credit refers to loans given by financial institutions specifically to private businesses and individuals, not to the government. It plays an important role in supporting the private sector by providing funds for investment and consumption. Higher private sector credit usually means the economy has a more active and growing business environment. According to Demirgüç-Kunt and Maksimovic (1998), access to finance is key to the development of private companies, especially in developing countries. Still, if private credit expands too fast without proper checks, it can lead to higher default risks and financial troubles. In this research, private sector credit is included as an independent variable to see how it impacts the stock market. As credit to the private sector increases, it can improve business performance and attract investors, potentially leading to higher stock prices.

CHAPTER-IV
RESULT AND DISCUSSION

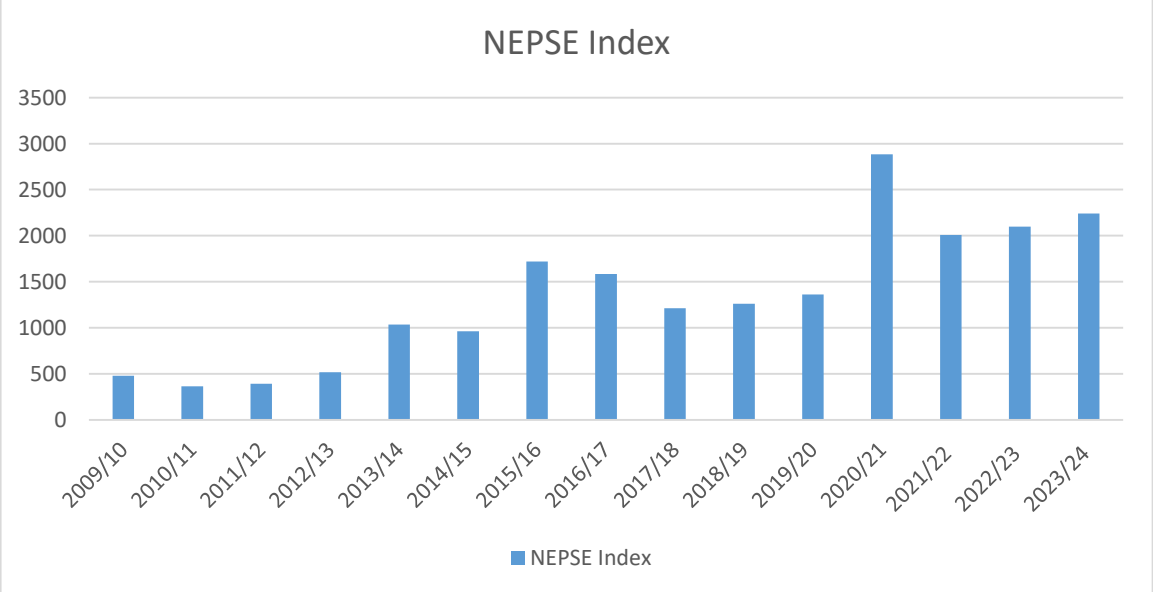
This chapter presents the empirical findings of the study and interprets them in light of the research objectives. The results obtained through statistical analyses are discussed thoroughly to understand the relationship between the dependent and independent variables. Various tools such as descriptive statistics, correlation analysis, and regression models have been applied to examine the role and impact of the selected public finance and economic indicators. Furthermore, the findings are compared with previous studies to highlight consistencies or deviations, providing a comprehensive discussion of their implications for policy and practice.

4.1 Result

This section presents the outcomes derived from the analysis of the collected data. The statistical tools applied include descriptive statistics, correlation analysis, and multiple regression to assess the relationship between the dependent and independent variables. The results are organized systematically to reflect the key findings of the study, highlighting the significant variables that influence the dependent variable.

Figure 1

Nepal Stock Exchange

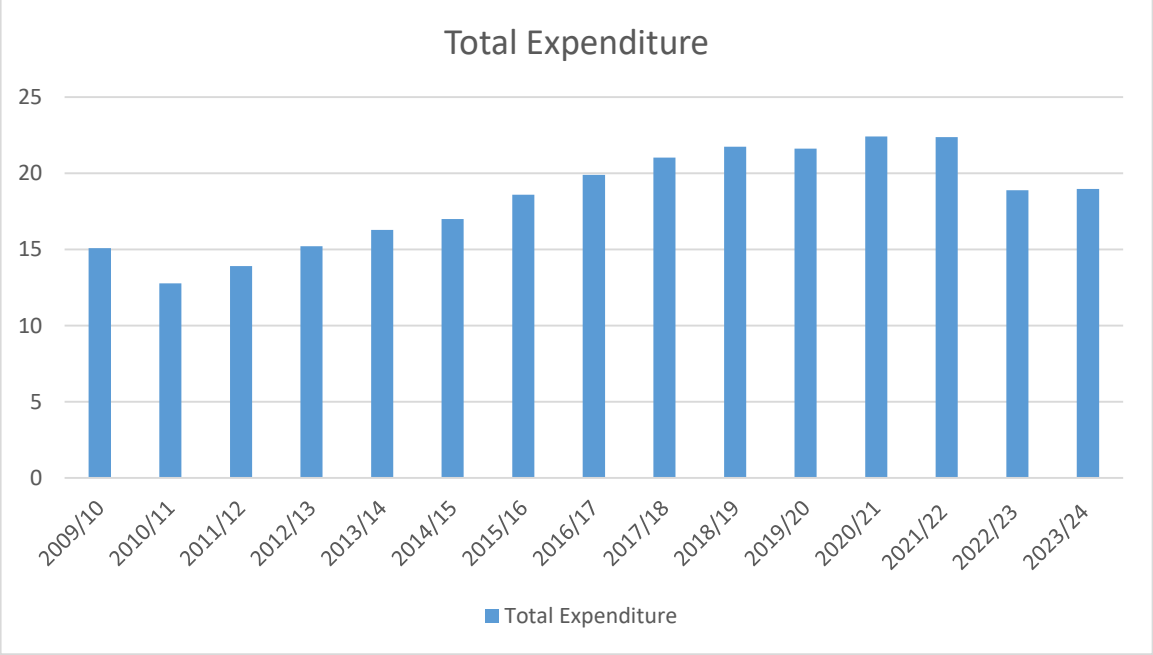


(Source: Nepal Rastra Bank)

From the year 2010 to around 2014, the NEPSE index was moving quite slowly, mostly remaining in the lower range. The market at that time lacked momentum, and investor participation was not very active. People were less aware about the capital market and policy support was also limited. From 2015, the index started rising, which might be related to post-earthquake reconstruction activities and increasing public awareness. In 2016–17, the market surged significantly. This was the time when online trading platforms and better access to information helped new investors enter the market. The peak was seen around 2020 to 2021 when NEPSE reached its all-time high. This rise was influenced by excess liquidity in the banking system, low interest rates, and lockdowns that pushed people towards online investment like stock trading. But after mid-2021, the market started to fall, and continued falling till 2023. It was mainly because NRB introduced tight monetary policies, raised interest rates, and banks faced liquidity problems. By 2024, the index showed slight recovery but overall it still remained below the peak. This fluctuation shows how investor confidence, interest rates, and government policy all together influence stock market movement in Nepal.

Figure 2

Total Expenditure

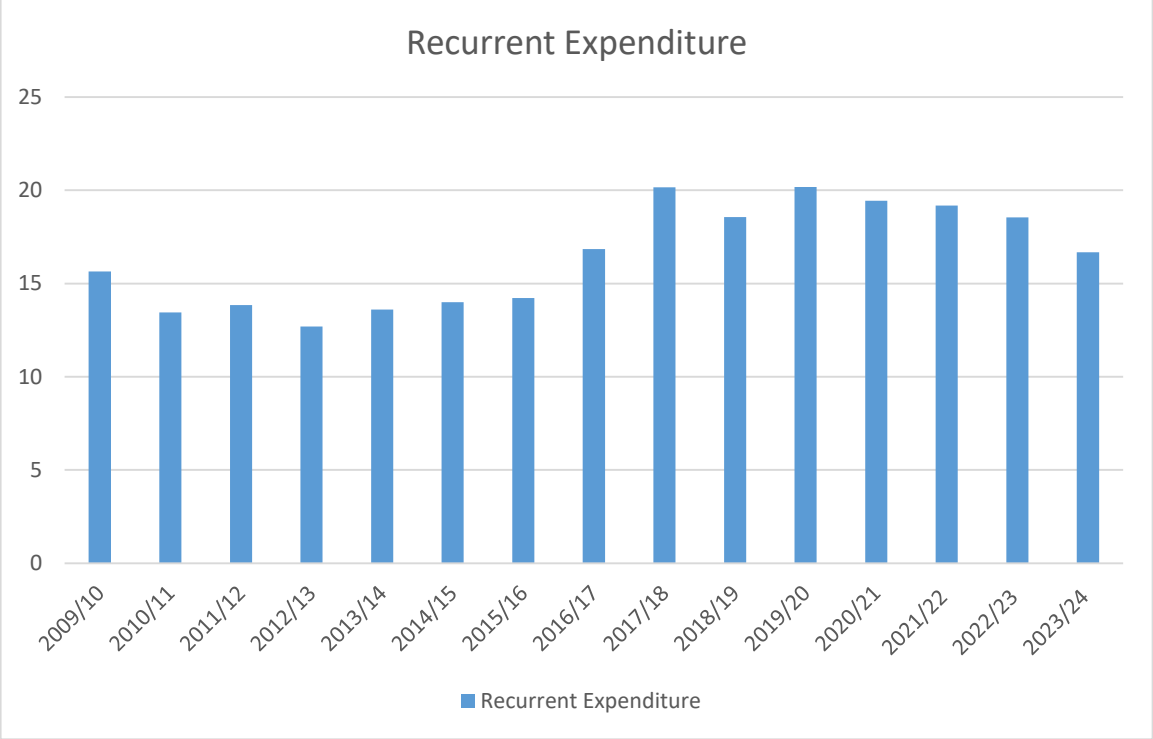


(Source: Nepal Rastra Bank)

The figure for total expenditure shows a consistent increase from 2010 onwards. In the early years, the increase was controlled and in line with revenue. But from 2016, government spending jumped higher, which can be explained by the introduction of federalism, new provincial governments, and infrastructure development. Expenditures like road construction, hydropower projects, and airport developments all required large budget allocations. In 2020, while many countries reduced spending due to the pandemic, Nepal's expenditure actually increased. This might be because of healthcare spending, subsidies, and relief packages distributed during lockdowns. From 2021 onwards, expenditure kept rising even faster. Government had to continue paying salaries, pensions, and also meet the demands of provincial and local governments. In 2024, the expenditure reached a record high, way beyond the revenue. This growing gap between income and spending is a sign of budget deficit and can lead to rising public debt. The implication is that while spending is important for development, Nepal must manage its expenses wisely or else it can result in long-term financial instability.

Figure 3

Recurrent Expenditure

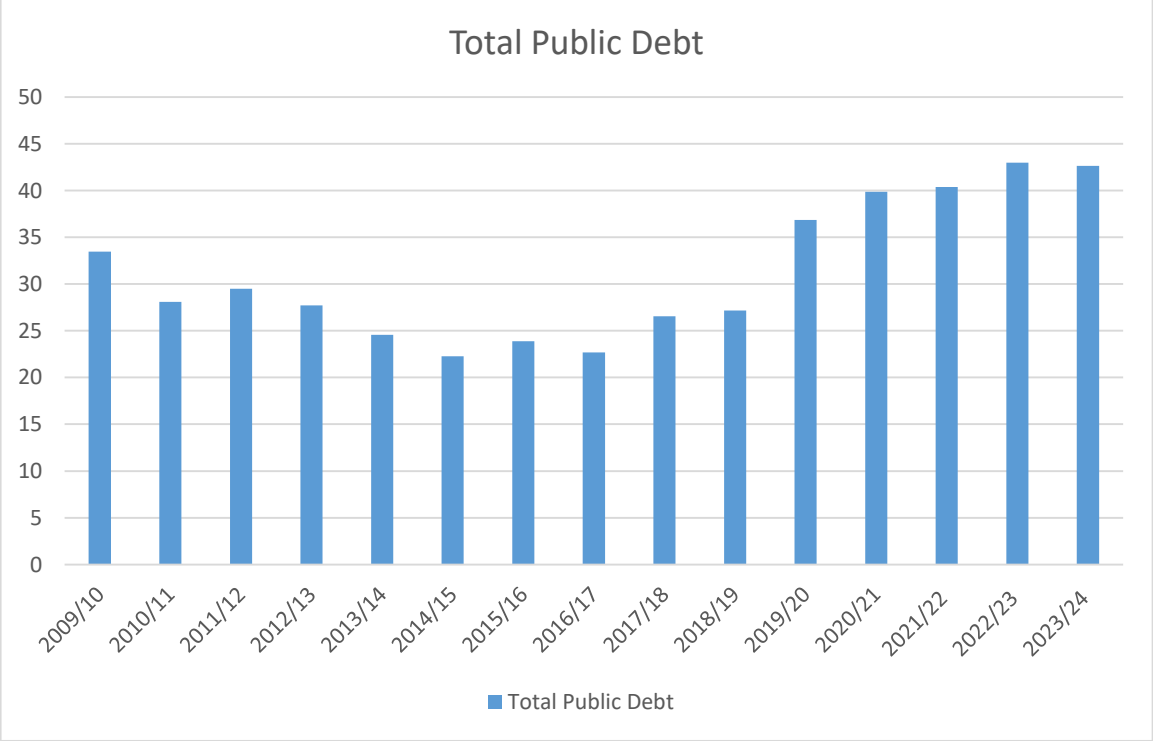


(Source: Nepal Rastra Bank)

Recurrent expenditure includes the government's regular costs like salaries, pensions, office operations, and other routine activities. From 2010 to 2015, this expenditure was increasing at a manageable pace. However, after 2015, the pace accelerated due to political restructuring and new administrative layers. Establishing local governments and provincial offices required huge human resources and infrastructure. So, by 2017, recurrent expenditure started growing faster than capital spending. Even during COVID-19 in 2020, this spending didn't stop—in fact, it increased due to health sector salary hikes and emergency response needs. In the years 2021 to 2024, recurrent expenditure kept going up, even when revenue was under pressure. It shows that Nepal is spending a lot just to keep the system running, which limits how much can be allocated to development works. This is concerning because when too much of the budget goes to recurrent expenses, there's less for education, health, roads, and economic growth. It reflects the inefficiency of public finance and the urgent need for reform in the budgeting system.

Figure 4

Total Public Debt

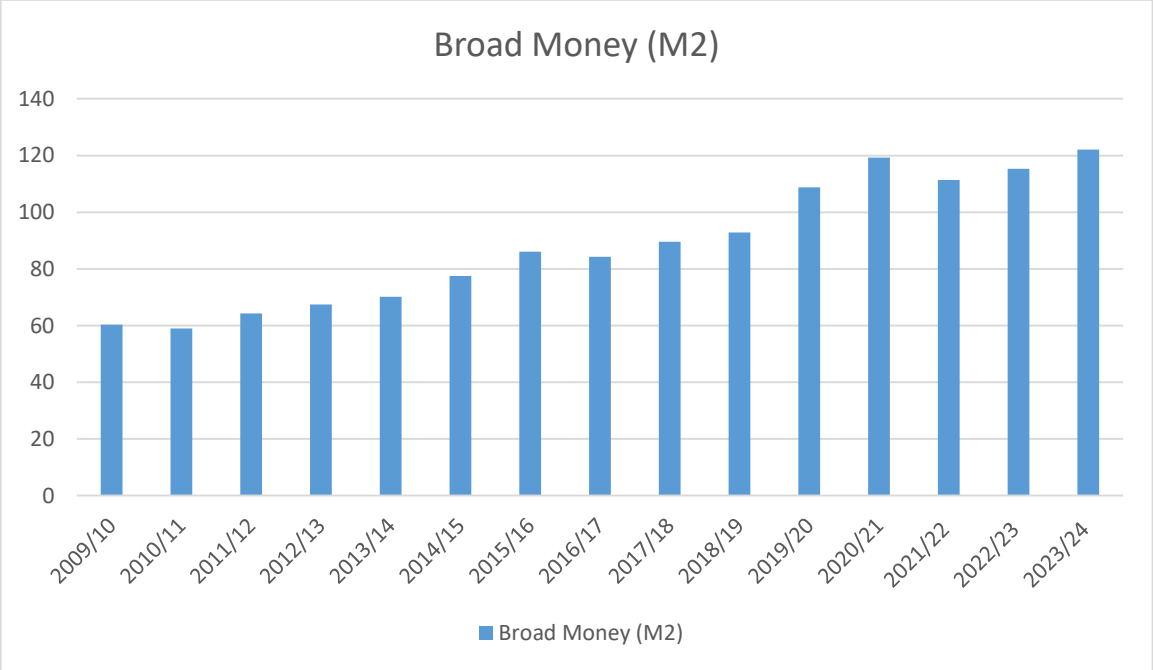


(Source: Nepal Rastra Bank)

From 2010 to around 2015, Nepal's public debt was fairly low and stable. The country had been practicing cautious borrowing strategies and kept the debt-to-GDP ratio at sustainable levels. But from 2016 onward, public debt started to increase due to larger infrastructure projects and federalism expenses. Then, during 2020 and 2021, the debt rose sharply because the government had to borrow more to deal with the pandemic. Revenue had fallen, but expenses had increased so the gap had to be covered by loans. From 2021 to 2024, the trend didn't reverse. In fact, it kept climbing steadily, both from internal and external sources. This indicates that Nepal is entering into a more debt-dependent fiscal policy, which can be risky if the debt is not used productively. High debt levels mean more interest payments and less budget room for development in the future. The implication is that while borrowing is not bad if used wisely, excessive debt without corresponding economic returns can hurt the economy badly in the long run.

Figure 5

Broad Money



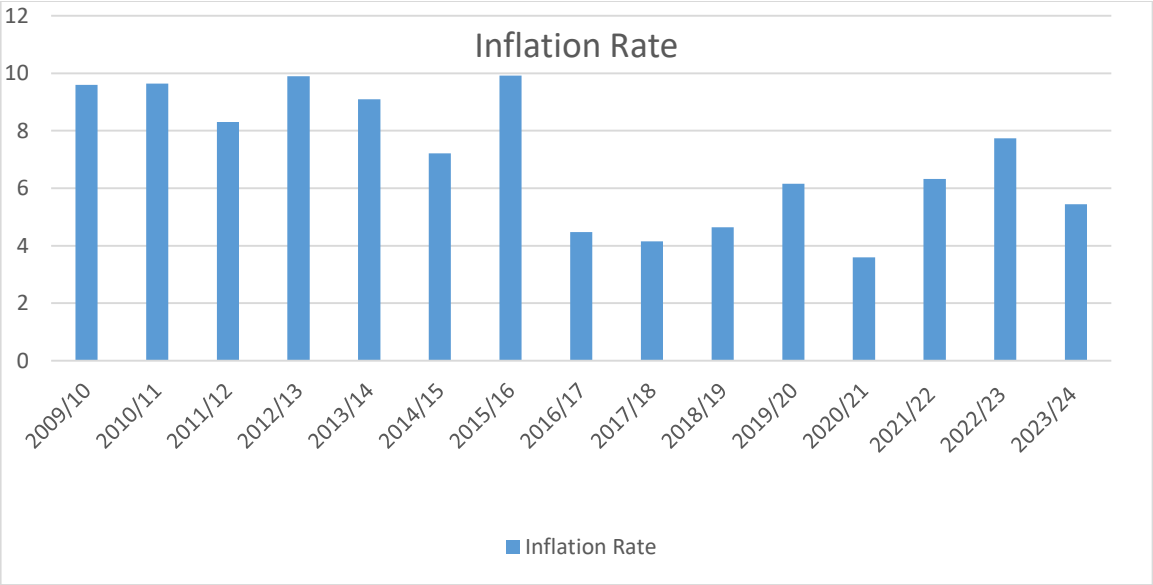
(Source: Nepal Rastra Bank)

In the early years, like 2010 to 2015, broad money supply in Nepal was growing gradually. This includes cash, savings, and time deposits in the banking system. The growth matched the economic expansion and banking sector outreach. From 2016 onwards, the money supply

grew faster due to the increase in bank deposits and credit expansion. During 2020, when COVID hit, Nepal Rastra Bank injected liquidity into the financial system to support businesses and households, which led to a sudden rise in broad money. The trend continued into 2021 as well. But from 2022, when inflation and trade deficit started to grow, the central bank tightened its policies and restricted liquidity. As a result, the M2 growth started to slow down again in 2023 and 2024. This figure shows how monetary policy, interest rates, and bank activities shape the flow of money in the economy. Too much money can fuel inflation, but too little can hurt growth. So it's always one should make a balance.

Figure 6

Inflation Rate



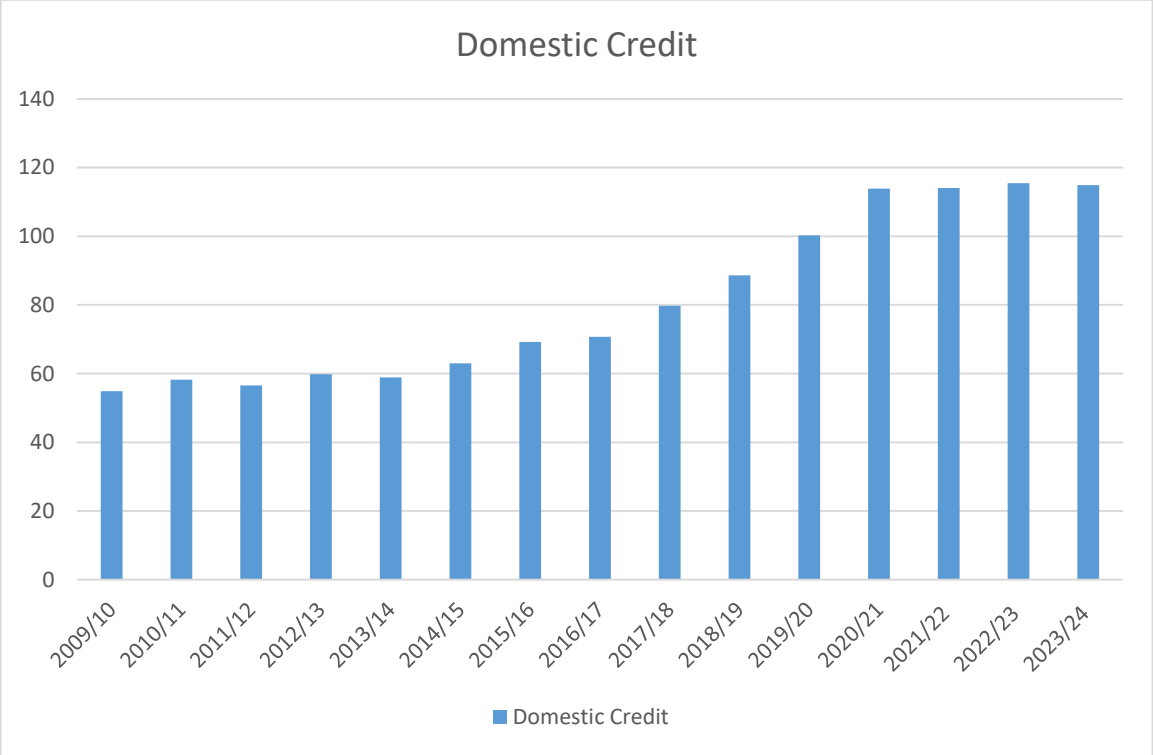
(Source: Nepal Rastra Bank)

Nepal's inflation has always been a challenge. From 2010 to 2015, inflation was unstable and often high. During the India blockade and fuel crisis in 2015, it went even higher due to supply shortages. After 2016, the rate improved a bit and came down, but never really stayed below 5% for long. In 2020, with global supply disruptions and internal challenges, inflation picked up again. The problem continued in 2021 and worsened in 2022 due to rising oil prices, import inflation, and devaluation of Nepali rupee. From 2023 to 2024, the rate remained relatively high with small ups and downs. This shows that Nepal's inflation is heavily influenced by external factors since we depend a lot on imported goods. High inflation affects common

people the most by reducing their purchasing power and discouraging savings. So policymakers have to work harder to control it through interest rate and import policies.

Figure 7

Domestic Credit

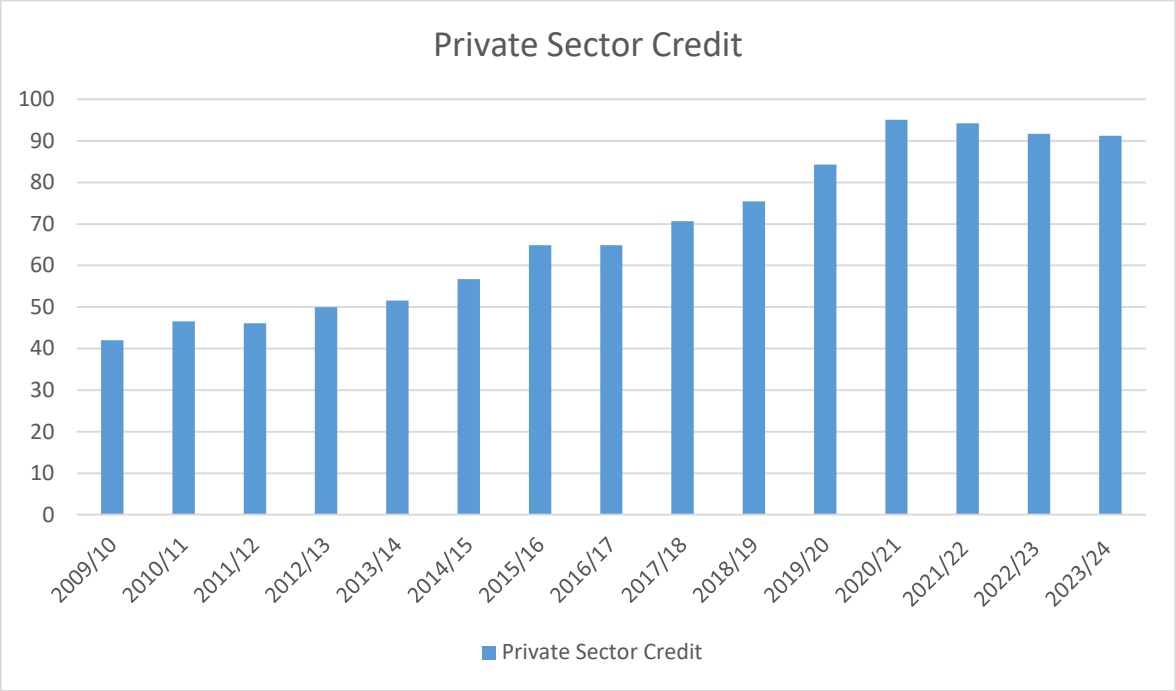


(Source: Nepal Rastra Bank)

Domestic credit provided by the banking sector was on a gradual upward trend from 2010 to 2015. As the economy grew and banking access expanded, more individuals and businesses started borrowing. But from 2016, the credit expansion became faster. More loans were being given for real estate, business, agriculture, and personal use. The major spike came in 2020 and 2021, when the central bank made borrowing easy to help cope with COVID's economic impact. But from 2022, credit growth slowed as liquidity issues hit the banking system and NRB introduced credit controls. In 2023 and 2024, the credit level remained high but the growth rate was much lower. This shows that while credit is necessary for economic activities, overexpansion can lead to risk and inflation. Managing credit growth is crucial for financial stability.

Figure 8

Private Sector Credit



(Source: Nepal Rastra Bank)

Credit to the private sector followed a very similar path to domestic credit. Between 2010 and 2015, credit to private businesses and individuals grew steadily. After 2016, it increased more rapidly, showing that private sector was expanding and needed more capital. Banks were happy to lend during this period because demand was high and regulations were loose. In 2020 and 2021, credit peaked due to easy policies during the pandemic. Real estate, share market, and trading sectors received large chunks of loans. But this created overheating in the market. From 2022, NRB stepped in with stricter rules and raised interest rates, causing a slowdown in credit growth. By 2024, private sector credit was still large in amount but no longer growing fast. This implies that while credit supports business growth, too much credit too fast can create bubbles and instability. So balance between supply and regulation is important.

4.1.1 Descriptive Analysis

This subsection presents the descriptive statistics of the variables used in the study. Descriptive analysis provides a summary of the data through measures such as mean, standard deviation, minimum, and maximum values.

Table 3

Descriptive Statistics

	NEPSE	TE	TRE	TPD	M2	IR	DC	PSC
N	15	15	15	15	15	15	15	15
Mean	1340.73	18.39	16.46	31.24	88.54	7.07	81.21	68.33
Std	753.65	3.194	2.70	7.46	22.23	2.27	24.25	19.29
Mini	362.90	12.79	12.69	22.28	58.96	3.60	54.89	41.97
Maxi	2883.40	22.43	20.17	42.99	122.07	9.92	115.46	95.11

(Source: SPSS Output)

Table 3 presents the descriptive statistics of the variables used in the study, covering 15 years of data. The average value of the NEPSE Index, which reflects stock market performance, was 1340.73 points, ranging from a low of 362.90 to a high of 2883.40. This wide gap and a high standard deviation of 753.65 show that the stock market was quite volatile during the period. Total Expenditure (TE) had an identical mean of 18.39 as a percentage of GDP, with relatively small fluctuations indicated by standard deviations of 3.19. Their minimum and maximum values ranged between about 12.79 and 22.43, suggesting consistent fiscal activity. Total Recurrent Expenditure (TRE) had a slightly lower average of 16.46%, also showing moderate variation. Total Public Debt (TPD) averaged 31.24% of GDP, with values ranging from 22.28 to 42.99, reflecting a growing reliance on borrowing over time. Broad Money (M2), which indicates the money supply, had a mean of 88.54% of GDP and varied quite a bit (SD = 22.23), showing monetary expansion and possibly policy shifts. Interest Rate (IR) had a moderate average of 7.07%, with a minimum of 3.60% and a maximum of 9.92%, reflecting changes in borrowing costs over the years. Domestic Credit (DC) and Private Sector Credit (PSC) had average values of 81.21% and 68.33%, respectively, with considerable

variability (SDs of 24.25 and 19.29), indicating significant changes in lending trends. These figures provide a general overview of how the economy performed in terms of government finance, money supply, interest rates, and credit growth, which are essential for understanding their impact on the stock market.

Table 4

Correlation Analysis

	NEPSE	TE	TRE	TPD	M2	IR	DC	PSC
NEPSE	1							
TE	.774**	1						
TRE	.627*	.873**	1					
TPD	.584*	.352	.537*	1				
M2	.914**	.817**	.763**	.726**	1			
IR	-.611*	-.801**	-.787**	-.240	-.655**	1		
DC	.865**	.766**	.775**	.819**	.976**	-.611*	1	
PSC	.904**	.848**	.799**	.713**	.989**	-.669**	.984**	1

(Source: SPSS Output)

The correlation analysis reveals important relationships between NEPSE and various macroeconomic variables. Total Expenditure (TE) show a strong positive relationship with NEPSE (r = 0.774), suggesting that higher government income and spending tend to support stock market growth, likely by boosting investor confidence and economic activity. Total Recurrent Expenditure (TRE) also has a moderate positive correlation (r = 0.627), indicating that regular government spending contributes to market stability. Total Public Debt (TPD) shows a moderate positive correlation (r = 0.584), implying that increased borrowing may initially support market performance if used productively. Among all, Broad Money (M2) has the strongest positive correlation (r = 0.914), highlighting that greater money supply significantly drives stock market growth through increased liquidity and investment. Domestic Credit (DC) and Private Sector Credit (PSC) also exhibit strong positive correlations (r = 0.865 and r = 0.904 respectively), indicating that credit availability encourages business expansion and stock investment. In contrast, Interest Rate (IR) has a significant negative correlation with NEPSE (r = -0.611), meaning that higher interest rates discourage investment

in stocks by making borrowing more expensive and saving more attractive. Overall, the stock market in Nepal appears to be strongly influenced by both fiscal and monetary indicators, especially money supply and credit flows.

4.1.2 Regression Analysis of Government Finance and Macroeconomic Variables: It refers to the application of statistical regression techniques to examine the relationships between NEPSE index and independent variables of public financial management. This type of analysis helps policymakers, economists, and researchers understand how different fiscal factors influence government revenues, expenditures, deficits, debt levels, and overall economic outcomes.

Table 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.952	.907	.814	324.77473

a. Predictors: (Constant), PSC, INR, TPD, TRE, TE, M2, DC
(Source: SPSS Output)

Table 5 presents the model summary from the regression analysis, which helps evaluate how well the selected independent variables explain changes in the NEPSE index. The R value is 0.952**,** indicating a very strong overall relationship between the dependent variable (NEPSE) and the group of independent variables (PSC, IR, TPD, TRE, TE, M2, and DC). The R Square value is 0.907, meaning that about 90.7% of the variation in NEPSE is explained by these seven variables. This is a very high level of explanatory power, showing that the model fits the data well. The Adjusted R Square, which accounts for the number of variables in the model, is still quite high at 0.814**,** confirming that the model remains strong even after adjusting for complexity. The Standard Error of the Estimate is 324.77, which indicates the average distance between the actual NEPSE values and the values predicted by the model.

Table 6

Anova Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7213550.337	7	1030507.191	9.770	.004
	Residual	738350.357	7	105478.622		
	Total	7951900.693	14			

a. Dependent Variable: NEPSE

b. Predictors: (Constant), PSC, INR, TPD, TRE, TE, M2, DC
(Source SPSS Output)

Table 6 shows the ANOVA results, which test whether the overall regression model is statistically significant. The F-value is 9.770 with a p-value (Sig.) of 0.004, which is less than the 0.05 significance level. This means the model as a whole is statistically significant, and the independent variables PSC, IR, TPD, TRE, TE, M2, and DC collectively have a meaningful impact on predicting the NEPSE index. The Regression Sum of Squares (7,213,550.34) indicates the variation explained by the model, while the Residual Sum of Squares (738,350.36) represents unexplained variation. Since the explained variation is much larger than the unexplained, the model fits the data well.

Table 7

Coefficient Table

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-256.240	1585.972		-.162	.876
	TE	9.275	123.796	.039	.075	.942
	TRE	-137.659	100.061	-.495	-1.376	.211
	TPD	82.329	59.058	.815	1.394	.206
	M2	5.400	30.657	.159	.176	.865
	INR	-90.158	82.645	-.272	-1.091	.311
	DC	-108.241	72.467	-3.483	-1.494	.179
	PSC	147.384	99.358	3.773	1.483	.182

a. Dependent Variable: NEPSE

Table 7 displays the regression coefficients showing how each independent variable influences the NEPSE index when all variables are considered together. The unstandardized coefficients (B) indicate the expected change in NEPSE for a one-unit increase in each variable, holding others constant, while the standardized coefficients (Beta) allow us to compare the relative strength of each variable's effect. The t-values test whether each coefficient differs significantly from zero, and the significance levels (p-values) tell us if these effects are statistically meaningful, with p-values below 0.05 considered significant. In this model, none of the variables show statistically significant effects on NEPSE, possibly due to the small sample size or overlap among variables. The constant term is negative but not significant (B = -256.24, p = 0.876). Total Expenditure (TE) has a very small positive effect (B = 9.28, Beta = 0.039) but is insignificant (p = 0.942). Total Recurrent Expenditure (TRE) has a moderate negative effect (B = -137.66, Beta = -0.495) yet remains insignificant (p = 0.211). Total Public Debt (TPD) shows a positive effect (B = 82.33, Beta = 0.815) but is also insignificant (p = 0.206). Broad Money (M2) impacts NEPSE positively but weakly (B = 5.40, Beta = 0.159, p = 0.865). The Interest Rate (INR) has a negative influence (B = -90.16, Beta = -0.272) without significance (p = 0.311). Domestic Credit (DC) negatively affects NEPSE (B = -108.24, Beta = -3.483) but is not significant (p = 0.179). Finally, Private Sector Credit (PSC) has the strongest positive effect (B = 147.38, Beta = 3.773) among all variables, though it too is not statistically significant (p = 0.182). Overall, while some variables show notable positive or negative relationships, the lack of significance means these results should be interpreted cautiously, focusing on the model as a whole rather than individual predictors

4.2 Discussion

The findings of this study have supported earlier research that emphasizes the importance of monetary and credit-related variables in shaping stock market performance. The strong positive correlation between broad money supply (M2), domestic credit, private sector credit, and the NEPSE index has confirmed the crucial role of liquidity and credit availability in driving stock market activity. This result is consistent with Pandeya (2025), who showed that monetary policy tools have significantly influenced money supply and economic growth in Nepal, and with Subedi (2025), who found that an increase in money supply has a positive impact on stock returns in Nepal. The negative correlation between inflation and the NEPSE

index supports the Monetary Theory of Inflation proposed by Friedman, which argues that high inflation reduces the real value of investments. This aligns with the findings of Acharya & Joshi (2024) and Thapa (2025), both of whom reported negative effects of inflation and interest rates on Nepal's stock market.

The regression results have further shown that the overall model is statistically significant ($F = 9.77$, $p = 0.004$) and explains a large share of stock market variation ($R^2 = 0.907$). This suggests that government finance and macroeconomic indicators, taken together, have a strong influence on stock market behavior in Nepal. These results are in line with regional evidence from Humpe et al. (2025) and Gurung (2025), which highlight the multifaceted influence of macroeconomic factors on emerging markets. The positive effect of private sector credit in this study also supports the view that financial access is important for company growth and investment. This finding reinforces the argument made by Demirgüç-Kunt and Maksimovic (1998), who emphasized that access to credit is essential for private sector development.

However, despite the strong overall model fit, many individual variables were not statistically significant predictors. For example, government finance variables such as total expenditure, recurrent expenditure, and public debt showed either positive or negative relationships with the NEPSE but were not significant in this analysis. This differs from Okonkwo et al. (2025), who found stronger macroeconomic effects on firm performance. These differences may suggest that fiscal policy impacts in Nepal are more indirect or take longer to appear in the stock market. The negative effect of interest rates on the NEPSE index in this study is consistent with findings from Balthazaar (2025) in Sri Lanka. However, the effect was not statistically significant here. Possible reasons for this difference could include the relatively small sample size, Nepal's distinct economic structure, or short-term volatility in financial markets.

In contrast to many studies that have found a positive relationship between credit and market performance, this study has observed a negative and insignificant effect of domestic credit on the NEPSE. This could indicate inefficiencies in credit allocation or structural weaknesses in Nepal's financial institutions. The fact that some variables have shown strong correlations but lacked statistical significance may point to issues such as multicollinearity or overlapping

impacts among the explanatory variables, a concern also raised by Pandeya (2025) regarding the complex interaction of monetary policy instruments. Overall, the results confirm that sound monetary management, stable inflation, and adequate credit availability are critical for maintaining a healthy stock market in a developing economy like Nepal. The insignificant coefficients for certain fiscal variables suggest that government finance may influence the market through slower or indirect channels. This means that policymakers may need to combine fiscal actions with supportive monetary and regulatory measures to achieve stronger market response

CAHPTER-V

SUMMARY AND CONCLSUION

This chapter provides a comprehensive summary of the key findings from the study, highlighting the main results and their relevance to the research objectives. It draws conclusions based on the analysis and discussion presented in previous chapters, offering insights into the relationships between the studied variables. Furthermore, the chapter outlines practical implications for policymakers, practitioners, and other stakeholders, suggesting how the findings can be applied to improve economic and financial outcomes.

5.1 Summary

The study examines how government finance and macroeconomic indicators influence Nepal's stock market performance, measured by the NEPSE index. Its objectives are to analyze trends in fiscal and economic variables, assess whether they significantly relate to NEPSE movements, and determine the extent of their impact. The introduction highlights that in Nepal's emerging market, fiscal policies, monetary conditions, and macroeconomic shifts strongly affect investor behavior and equity prices, while identifying gaps in past research that rarely combine fiscal and macroeconomic factors in one model. The literature review covers theories such as the Efficient Market Hypothesis, Keynesian Theory, and the Fiscal Theory of the Price Level, along with empirical studies from Nepal and abroad, noting mixed findings that justify the integrated approach. The methodology applies a correlational research design using 15 years of secondary data from Nepal Rastra Bank and NEPSE, focusing on variables including, Total Expenditure (TE), Total Recurrent Expenditure (TRE), Total Public Debt (TPD), Broad Money (M2), Inflation Rate (IR), Domestic Credit (DC), and Private Sector Credit (PSC). Analysis through descriptive statistics, Pearson correlation, and multiple regression in SPSS reveals that NEPSE has strong positive correlations with M2 ($r = 0.914$), PSC ($r = 0.904$), DC ($r = 0.865$), and TE ($r = 0.774$), and a negative correlation with IR ($r = -0.611$). Regression results for fiscal variables show the model explains 80.9% of NEPSE variation ($R^2 = 0.809$), with TE ($B = 291.166$, $p = 0.002$), TRE ($B = -209.677$, $p = 0.046$), and TPD ($B = 52.164$, $p = 0.025$) having significant effects, while TE is not significant. For macroeconomic variables, the model explains 86.2% of NEPSE variation ($R^2 = 0.862$), with

M2 (B = 34.166, p = 0.029) and IR (B = 20.373, p = 0.024) being significant predictors, while DC and PSC are not. Overall, the findings show that both fiscal and monetary indicators substantially influence Nepal's stock market, with liquidity, expenditure patterns, inflation, and debt levels being key drivers of performance.

5.2 Conclusion

Based on the detailed analysis and findings presented in this study, it can be concluded that government finance and macroeconomic indicators significantly impact Nepal's stock market performance. Among government finance variables, total expenditure positively influences the stock market by boosting economic activity and investor confidence, while recurrent expenditure shows a negative relationship, indicating that excessive routine spending may undermine market optimism. Rising public debt is also linked to positive stock market movements, possibly reflecting investor confidence in government development projects. In terms of macroeconomic indicators, broad money supply (M2) and credit availability, both domestic and private sector credits, strongly correlate with stock market returns, emphasizing the importance of liquidity and credit in market growth. Inflation, however, negatively affects investor enthusiasm and economic prospects. The study also reveals that fiscal and monetary factors are closely interconnected, jointly shaping investor behavior and stock market trends in Nepal. The regression models used explain a substantial portion of the variation in stock market performance, supporting the robustness of the findings. These results suggest that investors should monitor government spending, debt levels, liquidity, and credit conditions, while policymakers need to be aware that their fiscal and monetary actions directly influence capital markets, impacting economic growth and market stability. Overall, this study clarifies how government finance and macroeconomic factors drive Nepal's equity market dynamics, providing valuable insights for better decision-making within the country's evolving financial ecosystem.

5.3 Implications

This study highlights several important points for policymakers, financial institutions, and investors aiming to strengthen the stock market and broader economy.

First, coordination between fiscal and monetary policies is essential. When policymakers work together to maintain a stable money supply and keep inflation under control, it creates a predictable economic environment. This stability encourages businesses to grow and investors to commit capital, which supports a healthy and resilient stock market.

Second, Nepal Rastra Bank's role in managing liquidity is critical. By carefully balancing the availability of credit, the central bank can help businesses access the funds they need to expand operations and innovate. At the same time, controlling liquidity helps prevent excessive inflation, which can erode purchasing power and discourage investment.

Third, expanding credit access to the private sector is a key driver for improving business performance. When private companies have better access to financing, they can invest in new projects, improve productivity, and create jobs. These improvements not only boost corporate earnings but also attract more investment into the stock market as investors seek opportunities in growing companies.

Fourth, sustainable public debt management is crucial for maintaining long-term market stability. Excessive or poorly managed debt can undermine investor confidence and lead to higher borrowing costs, which may stifle economic growth. On the other hand, responsible debt management signals fiscal discipline and stability, reassuring investors that the government is capable of meeting its obligations.

Fifth, investors should take a holistic approach when evaluating macroeconomic factors. Relying on a single indicator, such as inflation or interest rates alone, can be misleading. Instead, investors should consider a combination of factors including fiscal policy, monetary policy, credit availability, public debt levels, and market transparency to make more informed decisions.

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Appendix

Year	NEPSE Index	Total Revenue	Total Expenditure	Recurrent Expenditure	Total Public Debt	Broad Money (M2)	Inflation Rate (%)	Domestic Credit	Private Sector Credit
2009/10	477.7	25.4	15.08633	15.64400	33.46007	60.32988	9.60	54.88604	41.97363
2010/11	362.9	11.0	12.78693	13.44917	28.08508	58.95766	9.64	58.24765	46.54324
2011/12	389.7	22.4	13.90833	13.84571	29.48211	64.28093	8.30	56.56866	46.05525
2012/13	518.3	21.4	15.22481	12.69462	27.72506	67.47959	9.90	59.80964	49.91682
2013/14	1,036.1	22.5	16.28172	13.59589	24.57471	70.14332	9.10	58.87079	51.54812
2014/15	961.2	13.3	16.99298	13.99871	22.28252	77.47863	7.21	63.01873	56.68937
2015/16	1,718.2	17.8	18.60448	14.22395	23.88331	86.05906	9.92	69.23346	64.88446
2016/17	1,582.7	26.2	19.90798	16.85375	22.67327	84.22424	4.47	70.77314	64.90302
2017/18	1,212.4	18.6	21.02802	20.1658	26.53548	89.54029	4.15	79.74345	70.68345
2018/19	1,259.0	15.5	21.75893	18.56519	27.15504	92.82722	4.64	88.57334	75.41665
2019/20	1,362.4	0.2	21.63478	20.16845	36.84721	108.8015	6.15	100.2295	84.26694
2020/21	2,883.4	16.0	22.43075	19.44187	39.86204	119.2618	3.60	113.8523	95.10644
2021/22	2,009.5	14.1	22.38191	19.17624	40.39202	111.4098	6.32	114.0337	94.22173
2022/23	2,097.1	-9.3	18.89587	18.53794	42.99038	115.2609	7.74	115.4621	91.67660
2023/24	2,240.4	7.1	18.97947	16.68129	42.65217	122.0710	5.44	114.8624	91.19434

(Source: Nepal Rastra Bank; Current Macroeconomic and Financial Indicators)

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