MACROECONOMIC FACTORS AND STOCK MARKET RETURN IN NEPAL

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

By

Anil Raj Rai
Roll No: 302/076
Exam Roll No: 23020/20
T.U. Reg. No: 7-2-0011-0001-2015
Campus: Shankar Dev Campus
Group: Finance

Kathmandu, Nepal
December, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Macroeconomic Factors and Stock Market Return in Nepal"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Anil Raj Rai

December, 2024

REPORT OF RESEARCH COMMITTEE

Mr. Anil Raj Rai has defended research proposal entitled **"Macroeconomic Factors and Stock Market Return in 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. Dhan Raj Chalise and submit the thesis for evaluation and viva voce examination.

Dr. Dhan Raj Chalise
Dissertation Supervisor

Dissertation Proposal Defended Date:

Dissertation Submitted Date:

Asso. Prof. Sajeeb Kumar Shrestha, Ph.D.
Head of Research Committee

Dissertation Viva Voce Date:

APPROVAL SHEET

We have examined the dissertation entitled **"Macroeconomic Factors and Stock Market Return in Nepal"** presented by **Mr. Anil Raj Rai** for the degree of **Masters of Business Studies**. We hereby certify that the dissertation is acceptable for the award of degree.

Dr. Dhan Raj Chalise
Dissertation Supervisor

Internal Examiner

External Examiner

Asso. Prof. Sajeeb Kumar Shrestha, Ph.D.
Chairperson Research Committee

Jogindar Goet
Campus Chief

December, 2024

ACKNOWLEDGEMENT

This research study on **"Macroeconomic Factors and Stock Market Return in Nepal"** has prepared as a partial fulfillment of **Master's Degree in Business Studies (MBS)** program.

I would like to express my sincere thanks and gratitude to my respected teacher, dissertation supervisor **Dr. Dhan Raj Chalise** for his encouragement, proper guidance, direction and valuable supervision at every stage of my research work.

My sincere gratitude to those scholars whose noble literature gave me the profound basis in order to build a conceptual and theoretical framework.

I would like to express my genuine appreciation to all the professors, readers and staff members of Shankar Dev Campus, whose suggestions and cooperation made me able to complete this thesis.

Appreciation also goes to my family members and all friends who encouraged me to prepare this study without whom this study could not have been possible.

Anil Raj Rai

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ABBREVIATIONS

ADF	:	Augmented Dickey Fuller
AMOS	:	Analysis Moment of Structural
ANOVA	:	Analysis of Variance
APT	:	Arbitrage Pricing Model
ARDL	:	Autoregressive Distributed Lag
ARMA	:	Auto Regressive Moving Average
BRIC	:	Brazil, Russia, India and China
CA	:	Correlation Analysis
CAPM	:	Capital Assets Pricing Model
CBN	:	Central Bank of Nigeria
CBS	:	Central Bureau of Statistics
CPI	:	Consumer Price Index
CRR	:	Cash Reserve Ratio
CSE	:	Colombo Stock Exchange
ECM	:	Error Correction Model
EMH	:	Efficient Market Hypothesis
ER	:	Exchange Rate
FDI	:	Foreign Direct Investment
GDP	:	Gross Domestic Product
GNI	:	Gross National Income
INF	:	Inflation
IP	:	Industrial Production
IR	:	Interest Rate
JII	:	Jakarta Islamic Index
KSE	:	Karachi Stock Exchange
M2	:	Broad Money Supply
MOF	:	Ministry of Finance
MS	:	Broad Money Supply
N	:	No of Years
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank

OLS	:	Ordinary Least Square
PP	:	Philip Perron
RA	:	Regression Analysis
RS	:	Rupees
SAARC	:	South Asian Association for Regional Cooperation
SD	:	Standard Deviation
SEBON	:	Securities Board of Nepal
SEM	:	Structural Equation Model
SP	:	Stock Prices
TB	:	Trade Balance
VEC	:	Vector Error Correction
B	:	Constant Term
E	:	Error terms

ABSTRACT

The stock market is one of the most energetic sectors that play an important role in contributing to the wealth of the economy. It plays a crucial role in the economic growth and development of an economy which would benefit industries, trade and commerce as a whole. The aim of this study is to investigate the relationship and impact of macroeconomic variables on stock market returns in Nepal. Dependent variable of this study is stock market return measured by Nepal Stock Exchange (NEPSE) and independent variables are macroeconomic variables, such as Policy Interest Rate (IR), Inflation Rate (INF), Exchange Rate (ER) in US Dollar, Industry Production or Nepal Manufacturing Output (IP) and Broad Money Supply (MS). The study targets all the companies listed and active in Nepal Stock Exchange (NEPSE) from 2014 to 2023. For analysis, secondary data was collected from annual reports of Central bank of Nepal (NRB), Nepal Stock Exchange (NEPSE), Securities Board of Nepal (SEBON) and Ministry of Finance (MOF) and Economic Bulletins. The results of the study reveal that the stock market returns is influenced by macroeconomic variables in Nepal. Inflation Rate and Policy Interest rate have negative insignificant influence on stock market return in Nepal Stock Exchange while Exchange Rate in US Dollar and Broad Money Supply have positive significant influence on stock market return and also Industrial Production has positive insignificant influence on stock market return. The findings of the study may be useful to public and economy especially stock market investors to focus the macroeconomic variables for making their effective decisions in order to enhance their stock market returns.

Keywords: NEPSE, Policy Interest Rate, Inflation Rate, Broad Money Supply, Exchange Rate, and Industrial Production.

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

The connection between macroeconomic factors and stock market returns is a subject of paramount importance for both academics and practitioners in finance. Macroeconomic factors encapsulate a spectrum of indicators reflecting the overall health and performance of an economy, including Gross Domestic Product (GDP) growth, inflation rates, interest rates, exchange rates, and governmental fiscal policies. The Nepalese stock market, still in its nascent stage of development, is witnessing increased attention from investors seeking to understand the nuanced dynamics governing its performance. As investors make decisions based on their perceptions of macroeconomic conditions, studying the relationship between these factors becomes imperative to unravel the intricacies of stock market behavior in Nepal. This analysis becomes more challenging due to Nepal's distinct socioeconomic and geopolitical setting. The nation has had to deal with issues including natural catastrophes, political unrest, and limited infrastructure, all of which have the power to affect how macro-economic variables and stock market results interact. Thus, a thorough investigation in this context would be beneficial for investors and policymakers navigating the complexities of the Nepalese economy, in addition to furthering the scholarly understanding of financial markets. It is important from a practical as well as intellectual standpoint to look into the relationship between macroeconomic variables and stock market results in Nepal. For investors to make wise investing decisions, they must comprehend how macroeconomic variables affect changes in the stock market. It is possible for policymakers to gain insights that facilitate the creation of stable and durable growth-promoting economic policies.

It has been long acknowledged that the stock market plays a significant influence in a nation's economic development and serves as a gauge of that development. Capital markets provide long-term funding to industries, and the stock market serves as a financing platform. Additionally, investors can readily put their money on the stock market. In many developing nations, such as Nepal, where the stock market has not had a lengthy history of development—a development that is also linked to political shifts like multiparty democracy—the stock market does not necessarily move

fundamentally. Both the market value of equities and the investment alternatives available have increased significantly since the founding of the Nepal Stock Exchange (Devkota & Dhungana, 2019).

Since the Nepalese market, sometimes referred to as the stock market index, is still too young to have fully developed, it is frequently assumed that a small number of powerful investors control the movement of the index. Some claim that the only reason for this volatility in equities is the phenomenon of supply and demand, while others point to the influence of macroeconomic factors. Moreover, investors in the stock market make their investment decisions only on the basis of technical analysis since they lack the knowledge necessary to conduct fundamental analysis regarding the correlation between macroeconomic indicators and the stock market. Thus, this work likewise attempts to deal with this problem. Similar to two other developing country emerging stock markets, our stock market is not completely efficient, allowing it to fluctuate in response to fundamental changes in the economy (Shrestha & Lamichhane, 2021).

As a result of the liberalized and globalized policies that the majority of emerging and developed governments have adopted, it is essential to the mobilization of capital in emerging and developed nations, which promotes the expansion of industry and trade. Macroeconomic variables are one of several indicators that can indicate to stock market participants that they should anticipate a better or lower return when investing in the stock market (Panta, 2020).

The stock markets show the volatile behavior over time. In volatility, the prices of shares move up and down in a relatively little amount of time. Overly erratic behavior is a hurdle in the smooth functioning of the financial system and detrimentally influences the economies as they were in the past. This volatility may compel the investor to shift their investments to risk-free asset rather than investing in riskier asset. Therefore, it is necessary for financial analysts, macro-economists and policy makers to understand the dynamic behavior of stock markets. Most important to note is that the investors are interested in understanding the nature of share market behavior as their investment spending is influenced by these patterns of volatility. A

nation's diverse economic endeavors have an impact on the returns in the share market (Lama & Bhattacharya, 2023).

Nepal's economy has expanded and developed significantly in the last few years, accompanied by a number of laws and regulations designed to create an atmosphere that is favorable to financial and investment activity. The Nepal Stock Exchange (NEPSE), which is the representative of the nation's stock market, is an important conduit for wealth generation and capital mobilization. It is crucial for investors, policymakers, and academics to comprehend the correlation between macroeconomic conditions and stock market returns in Nepal, as this knowledge aids in making well-informed decisions and formulating policies. The global financial landscape is characterized by increasing interconnectedness, and Nepal, despite being a small and emerging economy, is not immune to the impact of external economic forces. The study of macro-economic factors and their influence on stock market returns is essential to comprehend the dynamics at play within Nepal's financial markets (Karki, 2017).

This research aims to provide a comprehensive analysis of the interplay between macro-economic indicators and stock market performance, shedding light on the underlying mechanisms and potential implications for investors and policymakers. It is well recognized that a number of macroeconomic factors, both locally and worldwide, affect stock market results. The performance of the stock markets can be greatly impacted by a number of important factors, including GDP growth, inflation, policy interest rates, exchange rates (US Dollar), and government fiscal policies. For investors looking to maximize their portfolios and politicians hoping to create successful economic policies, it is essential to comprehend the type and scope of these linkages in the context of Nepal (Maharjan & Bhattacharya, 2024).

This study provides an in-depth analysis of the particular macroeconomic factors that influence stock market returns in Nepal in an effort to close the gap in the research that currently exists. The goal of this study is to address the unique requirements and difficulties of the Nepalese setting while making a significant contribution to the expanding body of knowledge in financial economics through research and empirical analysis. The objective of this study is to offer useful insights to stakeholders so they

may make well-informed financial decisions in this dynamic and changing economic environment by illuminating the complex relationship between macroeconomic conditions and stock market returns in Nepal.

1.2 Statement of Problem

The financial and economic sectors acknowledge that macroeconomic variables impact stock market prices and financial markets have an impact on the economy. On the relationship's trajectory, the results have been conflicting. In a similar vein, it was discovered that the price of gold, the rate of inflation, and the exchange rate had an effective effect on stock return, whereas the price of oil had no effect (Devkota & Dhungana, 2019).

Concerns about the correlation between macroeconomic factors and the stock market are shared by investors and government entities that enact policy. Furthermore, the causes of stock market are of interest to scholars and the general public. Efficiency of the stock market and economic growth are frequently linked. In Nepal, the sole secondary market for the purchase and sale of capital market instruments is the stock market. It serves as a financial middleman that connects the economy's surplus and deficit units. Furthermore, throughout the past 30 years, the stock market has seen extreme volatility. Therefore, the study's impetus came from the stock market's significance to the economy and its unexpected volatility (Poudel, 2019).

Due to these concerns, this study aims to determine how macroeconomic variables affect the stock market index in the context of the Nepalese stock market. Additionally, given Nepal's economic differences from the previously researched countries, research in a contextually distinct nation like Nepal is necessary. Therefore, the following problems are addressed in this study:

i) What is the tendency of broad money supply (M2), inflation, policy interest rates, exchange rates (US Dollar), and industrial production and NEPSE?
ii) How do the broad money supply (M2), inflation, policy interest rates, exchange rates (US Dollar), and industrial production have relationship with the NEPSE?
iii) How do the broad money supply (M2), inflation, policy interest rates,

exchange rates (US Dollar), and industrial production affect the NEPSE?

1.3 Objectives of the Study

The study's main goal is to investigate how macroeconomic factors affect Nepal's stock market index. The study focuses on the relationship between the Nepalese stock market index and a few chosen macroeconomic variables, as well as their impact. To be more precise, the study's main goals are:

i) To identify the tendency of macroeconomic variables: broad money supply, inflation, policy interest rates, exchange rates (US Dollar), industrial production and NEPSE index of Nepal.

ii) To examine the relationship of broad money supply, inflation, policy interest rates, exchange rates (US Dollar), industrial production with NEPSE Index of Nepal.

iii) To analyze the impact of broad money supply, inflation, policy interest rates, exchange rates (US Dollar), and industrial production on NEPSE Index of Nepal.

1.4 Hypothesis of the Study

The hypothesis has been adopted from Naik and Padhi (2012), Hassan and Sangmi (2013), Rafay et al. (2014), and Nova (2016), to investigate the influence of macro-economic factors on share market index. A hypothesis is put up to explain the phenomena in order to deduce and evaluate any logical or empirical ramifications, based on their hypothesis investigation. To examine how the independent and dependent variables are related, there were produced theories.

During the hypothesis testing process, five macroeconomic variables are considered which is mentioned above. Investigating potential correlations between these variables and the Nepali stock market index is the aim of this. To examine how dependent and independent variables relate to one another, hypotheses were developed. The following is a list of the study's alternate hypotheses:

H1: There is significant impact of broad money supply in NEPSE Index of Nepal.

H2: There is significant impact of inflation in NEPSE Index of Nepal.

H3: There is significant impact of policy interest rates in NEPSE Index of Nepal.

H4: There is significant impact of exchange rates in NEPSE Index of Nepal.
H5: There is significant impact of industrial production in NEPSE Index of Nepal.

1.5 Significance of the Study

The examination of macroeconomic factors and their impact on stock market returns in Nepal is of significant importance due to its implications for various stakeholders. This study holds practical value for investors by providing a nuanced understanding of how macroeconomic conditions influence stock market performance, enabling them to make more informed investment decisions. Additionally, the research contributes to effective risk management strategies, as investors and financial institutions can better anticipate and navigate market fluctuations. On a broader scale, the findings offer valuable insights for policymakers, allowing them to tailor economic policies to promote a stable and thriving stock market, thereby fostering overall economic growth. For businesses operating in Nepal, a grasp of the relationship between macroeconomic factors and stock returns informs strategic planning and financial decision-making. The study also contributes academically by expanding the body of knowledge on the intricacies of the Nepalese financial landscape. Moreover, understanding these dynamics can enhance investor confidence, attracting more participants to the market and potentially leading to increased economic activity. The investigation into the interplay between macroeconomic factors and stock market returns in Nepal holds paramount significance for both academic and practical reasons.

Firstly, such a study provides crucial insights for investors navigating the complexities of the Nepalese stock market, aiding them in making informed decisions amid varying economic conditions. This understanding is equally beneficial for risk management, as it enables investors to assess and mitigate potential financial risks more effectively. Moreover, the findings contribute to the formulation of sound economic policies by government authorities, fostering an environment conducive to a stable and thriving stock market. For businesses, awareness of how macroeconomic factors influence stock returns can guide corporate strategies, optimizing financial performance and adaptability. Academically, the research enriches the finance and economics literature by offering insights into the unique dynamics of Nepal's market.

Furthermore, the study's implications extend to bolstering investor confidence, encouraging economic development, and facilitating international comparisons to discern Nepal's market behavior in a global context. In essence, the significance of this study lies in its potential to guide investment decisions, risk management practices, policy formulation, strategic business planning, academic research, and overall economic development in the context of Nepal's stock market.

Given its distinct economic landscape and prospects, Nepal makes a strong argument for more research on the correlation between macroeconomic factors and stock market success. For the purpose of creating strategies that complement the regional economy, financial analysts, legislators, and investors must have a thorough understanding of these dynamics. In the context of Nepal's developing financial markets, the study adds to the body of knowledge necessary for making informed decisions by illuminating the complex relationships between macroeconomic variables and stock market outcomes. Investors can enhance their decision-making abilities, efficiently mitigate risks, and seize opportunities by possessing a sophisticated comprehension of the ways in which macroeconomic issues impact stock market returns. Thus, the study not only advances scholarly understanding but also influences the actual decision-making processes of those engaged in Nepal's financial markets.

In summary, the importance of examining macroeconomic variables and stock market returns in Nepal extend beyond the choices made by individual investors and encompasses risk management, economic policy formulation, corporate strategy, scholarly research, and market advancement. By revealing the complex relationships between macroeconomics and the Nepalese stock market, this study becomes a vital resource in the effort to create a strong, knowledgeable, and prosperous financial system in the nation.

1.6 Limitations of the Study

The study on the relationship between macroeconomic factors and stock market returns in Nepal is subject to several limitations that warrant consideration. First and foremost, the availability and quality of data can pose challenges. Nepal may have

limitations in terms of the historical depth and accuracy of economic indicators, potentially influencing the precision of the findings. Moreover, the study's reliance on historical data might not fully capture the evolving nature of macroeconomic variables and their impact on stock market returns, especially in the face of rapid economic changes. Another limitation is the potential omission of crucial variables, given the intricate and multifaceted nature of macroeconomic forces. This omission might lead to an oversimplified understanding of the relationship between these factors and stock market performance. Furthermore, the study's scope may not encompass all relevant macroeconomic factors, potentially overlooking nuanced elements that could contribute significantly to market dynamics. External factors, such as global economic conditions or geopolitical events, might also exert an unpredictable influence on the stock market, and these are challenging to incorporate comprehensively into the study. Lastly, the generalizability of the findings may be restricted due to the specific context of Nepal, and caution should be exercised when extrapolating the results to other regions or time periods. Acknowledging and addressing these limitations is essential for a more nuanced interpretation of the study's conclusions.

The research has the following limitations:

i) A comprehensive understanding of the stock market may not be provided by the research findings because only five of the many macroeconomic variables were included in the study.

ii) The whole study is based on time series data. It covers the time period of 10 years starting from 2014 to 2023.

iii) This study's usage of mathematical techniques and instruments might not have produced the same results as earlier research.

iv) The data used in the study is secondary. Those are based on the information provided by the SEBON, NRB and MOF. The truth of the research is based upon the data available from the SEBON, NRB and MOF.

CHAPTER-II
LITERATURE REVIEW

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

2.1 Theoretical Review

The relationship amid macro-economic variables and share marketplace outcomes can be better understood by using theoretical viewpoints. The Efficient Market Hypothesis (EMH) asserts that the price of stocks is a reflection of all the data at hand. This suggests that macro-economic factors are already included into business pricing, making it challenging for investors to regularly beat the marketplace with this knowledge alone. Still, behavioral finance theories claim that illogical decisions and due to cognitive biases, there is a chance that investors will cause market inefficiencies, which would then cause stock prices to diverge from their intrinsic values in reaction to macro-economic shocks.

2.1.1 Economic theories related to macro and micro economic indicators

Numerous scholars have utilized various theoretical frameworks to establish a connection amid alterations on macro-economic factor and returns on the share market. Within this section, several ideas that link share market return to macroeconomic variables are discussed. The paper includes an overview of theories on the connection between certain macroeconomic factors and the evolution of the stock market. Macroeconomic factors are thoroughly studied in order to determine how they affect the evolution of the stock market.

Business Cycle Theories

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

Macroeconomic Indicator Hypothesis

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

future. Investors must comprehend the connection between macroeconomic data and stock market returns in order to make wise selections and efficiently manage market volatility.

Monetary Policy Transmission Theory

Keynes (1936) discussed about it in "The General Theory of Employment, Interest and Money" and explains how shifts changes in the central bank's money supply and interest rates affect financial markets, macroeconomic variables, and share market returns. According to the idea, important macroeconomic variables including inflation, economic growth, and employment are impacted by changes in monetary policy. For example, interest rate change by central banks influence borrowing costs, investment choices, and consumer spending, all of which have an impact on financial activity. Consequently, these alterations impact stock returns and pricing as well they ripple through the financial markets. Generally speaking, reduced interest rates promote economic expansion, which raises business profits, which raises returns on the share market. However, in instances when firms face more borrowing costs and fewer elevated interest rates and expenditure by consumers may stifle increase in the economy and reduce stock market gains. Therefore, important details on the complex interplay between monetary policy, macroeconomic variables, and share market performance is offered through the Monetary Policy Transmission Theory, which is beneficial to both investors and policymakers.

International Macroeconomic Factors Theory

According to the Mundell (1932–2021), International Macroeconomic Factors Theory, domestic macroeconomic factors are shaped by global economic conditions, which in turn affect stock market returns. This theory stresses the interdependence of economies beyond national boundaries and the impact of global trade dynamics, exchange rates, and geopolitical events on financial markets and local economic performance. Changes in currency rates, for example, might impact the competitiveness of imports and exports, so affecting business profitability and economic growth. Changes in the rates of growth of the world economy can also have an effect on the demand for products and services, which can then have an effect on domestic production levels and stock market returns. In addition, supply chains can be disrupted, investor mood can be impacted, and uncertainty can be introduced by geopolitical tensions or major events in important trading partners. These factors can

cause volatility in macroeconomic indicators as well as stock prices. In order to navigate the complexity of the global economy and financial markets and make wise judgments, investors and policymakers must thus comprehend and analyze international macroeconomic aspects.

Capital Assets Pricing Model (CAPM)

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

The Arbitrage Pricing Theory (APT)

The arbitrage pricing theory (ATP) was developed by Ross (1976), which was created by Ross in 1976, is an additional method of connecting macro-economic factor to stock market returns. The CAPM, predicated on the mean variance framework and the premise of a process creating security, is expanded upon by this model. To put it another way, the market risk premium serves as the sole independent variable on which CAPM is based. The assumptions of homogeneous expectations, completely competitive marketplaces, and frictionless capital markets are shared by both CAPM and APT. Nonetheless, Ross (1976) suggests using the arbitrage pricing theory (APT) in conjunction with several factors to explain asset price. He states that certain economic forces, such as (i) unexpected changes in risk premiums; (ii) shifts in the expected level of industrial production; (iii) unexpected inflation; and (iv) unexpected

changes in the form of the interest rate term structure, are the main drivers of stock returns. The sensitivity of the assets to each of these factors is shown by factor-specific coefficients. The concept of one price serves as the foundation for Alternative Portfolio Theory (APT), a new method of estimating asset values. In actuality, two identical goods cannot sell for different prices in an efficient market since doing so would eliminate the possibility of an arbitrage opportunity.

The Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) developed by Fama (1970), which holds considering asset values represent information that is accessible & that investors are unable to continuously beat the market, provides a fundamental framework for comprehending the dynamics of financial markets. The Efficient Market Hypothesis (EMH) provides a theoretical framework for analyzing the efficiency of the Nepalese share market in relation to macroeconomic conditions & share market returns. The Efficient Market Hypothesis (EMH) declares stock prices ought to accurately reflect changes in economic indices like GDP growth, inflation rates, exchange rates, and interest rates, provided that the market effectively integrates all pertinent macro-economic information. Any departures from this theory might point to market inefficiencies, give investors a chance to profit from mispricing, or imply the existence of behavioral biases. The study intends to shed light on the effectiveness and integration of the Nepalese stock market with broader economic trends by examining the degree to which macroeconomic factors influence stock market returns in Nepal within the framework of the EMH. This will provide insightful information for investors, policymakers, and researchers.

2.2 Conceptual Review

Researchers, investors, & politicians throughout the world have shown a significant amount of curiosity on the connection between macroeconomic conditions & stock market performance. Comprehending the interplay amid these two sectors is especially crucial in developing economies such as Nepal, where the stock market is becoming an increasingly significant economic driver. In the context of Nepal, this conceptual study seeks to investigate the theoretical foundations and empirical data pertaining to the influence of macroeconomic factors on stock market outcomes.

Mixed results are found when empirical research on the association between macro-economic variables and share market execution in Nepal is reviewed. Certain macroeconomic indices (including GDP growth, inflation, and policy interest rates) and share returns have been found to have strong connections in certain studies; however, other research finds little or conflicting evidence of these links. The variability of empirical results may be attributed to several factors, including structural idiosyncrasies in the Nepalese economy, data constraints, and the relatively early stage of the stock market.

2.2.1 International Context

Widagdo, Jihadi, Bachitar, Safitri and Singh (2020) studied the financial ratio, macro economy, and investment risk on sharia stock return. This study's objective is not to determine whether investment risk may act as an intervening variable in this investigation, but rather to examine and test the impact of financial ratios and macroeconomics on the returns of Islamic stocks listed on the Jakarta Islamic Index (JII). Using a sample group of 29 firms listed on JII for a 5-year period ending December 31, 2018, the data used is based on secondary sources. The collected data were examined using the AMOS (Analysis Moment of Structural) 21 software in conjunction with the SEM (Structural Equation Model). The study's findings demonstrate that only financial measures have an impact on investment risk and sharia stock returns, and the mediation test revealed that there is no mediating relationship between financial ratios, macroeconomic conditions, and Islamic stock returns. These results suggest that the financial condition of the organization has a crucial effect. The financial standing of the business might indicate the future amount of risk that investors are willing to take on in addition to having an impact on the rate of return that is realized. Properly enhancing financial performance would benefit many stakeholders and reduce investment losses.

Kalam (2020) examined the effects of macroeconomic variables on stock market returns: evidence from Malaysia’s stock market return performance. The aim of the manuscript was to investigate the effects of macroeconomic variables on to the stock market return. Multiple regression analysis is used in the study to analyze secondary variables over 20 years, from 2000 to 2019, and the ARDL test is tested for long- and short-term coefficients. The analysis shows a notable influence on the return on the

Malaysian stock market, which may also have an effect on the long and short-term coefficients. This will also clarify Malaysia's stock market performance. The study clarified that the regulator should refrain from taking arbitrary actions, maintain interest rates at a reasonable level, and enhance the external economic environment by implementing a rule-based exchange rate policy.

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

Masood, Tvaronaviciene and Javaria (2019) studied the impact of oil prices on stock return: evidence from G7 countries. The objective of the paper was to investigate the impact of oil prices on the stock market of G7 countries. The time periods were from September 2009 to August 2016. The model, which has been used in the study, is based on Arbitrage pricing theory-APT model, where financial assets are associated with macroeconomic variables. The findings demonstrated that, for Germany, Italy, Japan, the United Kingdom, and France, industrial production is positively correlated with a real stock return, while, for Canada, the United Kingdom, and the United States of America, there is a negative correlation between a real stock return and the short-term interest rate. For every country under consideration, the actual stock markets are not much impacted by oil prices.

Chang, Meo, Syed and Abro (2019) examined the dynamic analysis of the relationship between stock prices and macroeconomic variables an empirical study of Pakistan stock exchange. The study's goal was to systematically investigate the effects of macroeconomic factors on stock prices (SP) of the KSE-100 index, both short and long-term, including industrial production, foreign direct investment (FDI), trade balance (TB), exchange rate, interest rate (IR), and consumer price index (CPI) and to

investigate if the financial crisis has an impact on this connection. Using data from the post-crisis era (2008Q3–2018Q2) and the whole sample period (1997), this study employs an autoregressive distributed lag model. Furthermore, it examines the significance of each variable in explaining SP using variance decomposition analysis. The results for the whole sample period show that whereas CPI and industrial output have a positive long-term impact on SP, TB, exchange rate, and IR have a negative long-term impact. The data from the post-crisis period, however, show that the sole factor that has a long-term beneficial impact on the SP is CPI. Lastly, variance decomposition analysis shows that the shock alone accounts for 30% of the variation in SP.

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

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

higher performance of the stock market, as the Nigerian stock market is greatly impacted negatively by high interest rates.

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

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

Jamaludin, Ismail and Manaf (2017) studied the macroeconomic variables and stock market returns: panel analysis from selected ASEAN countries. The objective of the paper was to investigate, using monthly data from January 2005 to December 2015, the impact of three macroeconomic variables—inflation, money supply (MS), and exchange rate (ER)—on returns from the conventional and Islamic stock markets in the three ASEAN countries—Singapore, Malaysia, and Indonesia. Using panel least square regression methods, the findings demonstrate that the inflation rate and ER have a considerable impact on both stock market performances. MS is determined to be negligible. This paper's findings also indicate that inflation has a bigger impact and

is adversely correlated with stock market performance. Since the outcomes might have an influence on boosting the capital market in the chosen ASEAN nations, monetary policy in this scenario needs to be changed to ensure that the inflation rate is set at a low level.

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

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

Rashid and Alam (2014) was conducted time series analysis to examine the correlation between macroeconomic variables and Pakistani stock market returns. The aim of the study was to examine how macroeconomic factors affect stock returns and how efficient the Karachi Stock Exchange's stock market is. Over an eleven-year period, from 2001 to 2011, data on stock returns was gathered on a monthly basis from the Karachi Stock Exchange. To determine the long-run and short-run statistical

dynamics, simple regression analysis, the Philip Perron (PP) Unit Root test, and the Augmented Dicky Fuller (ADF) Test were used. The results demonstrated a negative relationship between the money supply and stock market performance. The study demonstrates that, despite its high volatility and immaturity, the chosen stock market is responsive to changes in macroeconomic factors over the long term. The analysis demonstrates that macroeconomic factors have an effect on the stock market.

2.2.2 National Context

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

Maharjan and Bhattacharya (2024) investigated in the topic "Factors influencing individual's investing decisions in the Nepal's stock market". The main goal of this study was to research how laws and regulations, psychological factors, market positioning of the firm, and investor decisions relate to macroeconomic factors and investor decision-making. Five independent variables have been chosen for this study, and their significance for investor's decision-making is examined. This study used a mixed methodology and was conducted via an online questionnaire survey. Study participant's investment selections were shown to be significantly influenced by five independent variables: interest rates, political unpredictability, herd mentality, financial success of the organization, and security and banking laws. However, the coefficient table indicated that there was no correlation between the financial performance of the corporation and political unrest.

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

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

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

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

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

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

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

Khatri (2019) investigated how the macro-economic environment affects the stock market in Nepal. In order to better understand the dynamic link between Nepal's stock market and macro-economic factors like GDP, nominal domestic variables like inflation, money supply, and interest rate, and international variables like exchange rate and foreign direct investment, this study looked at these relationships. Johansen and Juselius's (1990) multivariate cointegration technique was used from mid-July 1994 to mid-July 2015. While foreign direct investment, inflation (CPI), and the US dollar exchange rate show positive but insignificant relationships, the study finds that

Nepalese stock prices are negatively correlated with real economic activity and interest rates and positively correlated with the money supply. VEC estimates indicate that macro-economic variables have no significant short-term impact on Nepalese stock prices, suggesting inefficiency in the NEPSE's short and long-term responsiveness to macro-economic factor.

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

Karki (2017) investigated the stock market responses to macro-economic dynamics: Testing for long-run equilibrium in Nepal. This paper's primary objective was to investigate macro-economic variables that are empirically related to Nepal's stock market performance. It looks at yearly data for four macro-economic variables—real GDP, inflation, interest rate, and broad money supply—from 1994 to 2016 and aims to show how each variable affects stock prices, which are represented by the "NEPSE Index" of the Nepalese capital market, in relation to one another. Descriptive and causal comparative research techniques are used in this study to address the macro-economic variables affecting stock prices in Nepal. Empirical results, based on OLS estimations, indicate that while interest rates have a negative effect on stock market performance, real GDP, inflation, and money supply all have positive effects. Importantly, there is no cointegrating evidence between macro-economic variables

and the stock market index, suggesting that the macro-economic variables cannot explain the variations in Nepalese stock prices.

Phuyal (2016) investigated, Can macroeconomic factors account for long-term alterations in the stock market? A capital market analysis of Nepal. The primary aim of this study was to look into the long-term correlation between stock prices in emerging markets, like the Nepali stock market, and certain macro-economic parameters using the Johansen's cointegration approach. Using monthly data from January 2003 to December 2012, six Macroeconomic indicators and the stock market return were examined. A long-term equilibrium relationship between the Nepali stock market and several macroeconomic factors, including the interest rate, inflation rate, and remittance flow, was found by the research. The short-term imbalance was adjusted by 1.79% every month. Furthermore, it has shown that there was Granger causation between them. According to the Wald test, remittance income and the NEPSE index's lag values up to six levels had an impact on the near-term stock market index.

Summary of Review

Author and Year	Title	Objectives	Methodologies	Findings
Widagdo, Jihadi, Bachitar, Safitri and Singh (2020)	Financial ratio, macro economy, and investment risk on Sharia stock return	To analyze and test the effect of financial ratios and macroeconomics on Islamic stock returns listed in Jakarta Islamic Index (JII)	SEM (Structural Equation Model) with AMOS (Analysis Moment of Structural) by 21 program	The study's findings indicate that only financial ratios have an impact on investment risk and sharia stock returns; however, the mediation test revealed that investment risk

				has no mediating role between financial ratios, macroeconomic conditions, and Islamic stock returns.
Kalam (2020)	The effects of macroeconomic variables on stock market returns: evidence from Malaysia's stock market return performance	To investigate the effects of macroeconomic variables on to the stock market return.	The multiple regression analysis, the ARDL test in long and short run coefficient	The research shows a noteworthy influence on the return on the Malaysian stock market, which may also have an effect on the long and short term coefficients. According to the study, the regulator should refrain from taking arbitrary actions, maintain interest rates at a reasonable level to

				promote economic activity, and enhance the external economic environment through rule-based exchange rate management.
Huy, Loan and Anh (2020)	Impact of selected factors on stock price: a case study of Vietcombank in Vietnam	To analyze and evaluate the impacts of seven (7) macroeconomic factors on stock price of a joint stock commercial bank Vietcombank (VCB) in Vietnam	Regression model	Quantitative research findings in a seven-factor model demonstrate that rising GDP growth, lending rates, and risk-free rates have a major impact on rising VCB stock prices, with the largest impact coefficients going to rising GDP growth and declining exchange rates coming in

				second .
Masood, Tvaronaviciene and Javaria (2019)	Impact of oil prices on stock return: evidence from G7 countries	To investigate the impact of oil prices on the stock market of G7 countries.	Arbitrage pricing theory-APT model	The findings demonstrated that, for Germany, Italy, Japan, the United Kingdom, and France, industrial production is positively correlated with a real stock return, while, for Canada, the United Kingdom, and the United States of America, there is a negative correlation between a real stock return and the short-term interest rate. For every country under consideration, the actual stock markets are not much impacted

				by oil prices.
Chang, Meo, Syed and Abro (2019)	Dynamic analysis of the relationship between stock prices and macroeconomic variables an empirical study of Pakistan stock exchange	To empirically examine the short-run and long-run impact of macroeconomic variables such as industrial production, foreign direct investment (FDI), trade balance (TB), exchange rate, interest rate (IR) and consumer price index (CPI) on stock prices (SP) of KSE-100 index To examine whether this relationship changes as a result of the financial crisis	Autoregressive distributed lag model, Variance decomposition analysis	Overall, the results show that whereas industrial output and CPI have a favorable impact on SP over the long term, TB, exchange rates, and IR have a negative impact. Only CPI, however, appears to have a long-term beneficial impact on the SP, according to statistics from the post-crisis period. Last but not least, variance decomposition analysis shows that a shock alone accounts for 30% of the variation in SP.
Celebi and	The impact of	To investigate	The ordinary	Overall, the

Honig (2019)	macroeconomic factors on the German stock market: evidence for the crisis, pre- and post-crisis periods	the impact of macroeconomic factors, German government bond yields, sentiment and other leading indicators on the main German stock index, namely the DAX30	least squares OLS method, and other mathematical tools are used	findings show that, in comparison to the pre and post-crisis eras, a greater number of economic factors and indicators had a substantial influence on stock returns during the crisis period. This suggests that a macro-driven market rules in the post-crisis era.
Emmanuel Isaac John (2019)	Effect of macroeconomic variables on stock market performance in Nigeria	To examine the effect of macroeconomic variables on stock market performance in Nigeria using annual time series data spanning 1981 to 2016	Augmented dickey-fuller (ADF) test, Ordinary least square (OLS) regression, The cointegration test, The granger causality test	Emmanuel Isaac John found that the money supply and interest rate actually had a considerable impact on the performance of the Nigerian stock market,

				making them the real movers. Conversely, the performance of the stock market was shown to be weakly (non-significantly) impacted by the inflation and exchange rates.
Demir (2019)	Macroeconomic determinants of stock market fluctuations: the case of BIST-100	To analyze the impacts of some prominent macroeconomic factors on the Turkish stock market index, BIST-100 (Borsa Istanbul-100)	ARDL Bounds Test	The stock market index is positively impacted by economic growth, the relative value of the home currency, portfolio investments, and foreign direct investments; on the other hand, interest rates and crude oil prices have

				a negative impact. These conclusions are drawn from the quarterly data using the ARDL Bounds Test. In summary, the Istanbul Stock Exchange Market needs cheaper energy and investment costs, more foreign capital inflows, and a stronger domestic currency.
Mohammad, Ullah, Islam, Alam and Khan (2017)	Effect of macroeconomic variables on stock market performance of SAARC countries	To examine the significance of macroeconomic variables in effecting stock market performance of SAARC countries using the OLS multiple regression Model	OLS multiple regression Model	The research results indicated that the performance of the stock markets in the SAARC nations is significantly influenced by macroeconomic variables,

				such as interest rates, foreign currency reserves, and exchange rates. But when it comes to influencing the success of the stock market, money and inflation have little bearing.
Jamaludin, Ismail and Manaf (2017)	Macroeconomic variables and stock market returns: panel analysis from selected ASEAN countries	To investigate how the three ASEAN countries—Singapore, Malaysia, and Indonesia—have different macroeconomic variables—inflation, money supply (MS), and exchange rate (ER)—that affect returns on the conventional and Islamic stock markets.	The panel least square regression techniques	The findings indicate that both the inflation rate and the ER have a major impact on stock market performance. MS is determined to be negligible. This paper's findings also indicate that inflation has a bigger impact and is adversely correlated with

				stock market performance.
Balagobei (2017)	Macroeconomic variables and stock market returns in Sri Lanka	To investigate the impact of macroeconomic variables on stock market returns in Sri Lanka.	Multiple linear regression model	The study's findings show that, with the exception of Sri Lanka's money supply, macroeconomic factors affect stock market performance. The production of factories and interest rates has a detrimental impact on the return on the Colombo stock market. Exchange rates and inflation rates positively impact the return on the stock market.
Robert D. Gay (2016)	Effect of macroeconomic variables on stock market returns for four emerging	To investigate the time-series relationship between stock market index prices and the	The box-jenkins ARIMA model	Robert D. Gay, Jr. findings suggest a lack of significant correlation between oil

	economies: Brazil, Russia, India and China	macroeconomic variables of exchange rate and oil price for Brazil, Russia, India, and China (BRIC) using the Box-Jenkins ARIMA model		prices and exchange rates concerning the stock market index prices of Brazil, Russia, India, and China, along with no notable correlation between past and present stock market returns, indicating a weak form of market efficiency in these countries.
Rashid & Alam (2014)	Time series analysis of the relationship between macroeconomic factors and the stock market returns in Pakistan	To investigate the impact of macroeconomic factors on stock returns. To investigate the stock market efficiency in Karachi Stock Exchange.	Simple regression analysis, The augmented dicky fuller (ADF) test, Philip perron (PP) unit root tests was applied to analyzing the data.	The study reveals a negative correlation between money supply and stock market returns, indicating the stock market's long-term responsiveness to macroeconomi

				c variables despite high volatility and immaturity, with past events influencing current returns, supporting the role of economic indicators in explaining stock market behavior.
Subedi (2024)	Quest on determinants of stock price in Nepal: Evidence of microfinance sector share listed in NEPSE	To investigate the determinants of stock price traded in Nepal's secondary market through NEPSE, focusing on the microfinance sector	This study has adopted descriptive and analytical. The panel regression model was applied to fulfill objectives.	Market price per share is positively correlated with earnings per share, return on equity, and price-earnings ratio, while inversely correlated with floating share size. Earnings per share, price-earnings ratio, and floating shares are statistically

				significant, but book value per share and return on equity are not, emphasizing the need to consider company-specific factors in investment decisions due to a lack of financial literacy among market participants.
Maharjan and Bhattacharya (2024)	Factors influencing individual's investing decisions in the Nepal's stock market	To investigate the link between macro-economic aspect, psychological aspect, laws & regulations, company's position in the market and investor's decision	This research has been carried out with online questionnaire survey and follows mixed approach	The study examined five independent variables: interest rates, political instability, herd mentality, company's financial performance, and security & banking regulations, all of which were found to be

				highly significant in influencing individuals' investing decisions. However, political instability and company's financial performance showed weak influence according to the coefficient table.
Lama and Bhattacharya (2023)	Quantitative analysis on impact of selected macroeconomic variables on Nepal Stock Exchange (NEPSE)	To find the trend of sampled macroeconomic variables: capital expenditure, economic growth rate, foreign reserve and Interest rate to stock market index. To examine the impact of sampled	The methodology of the study is descriptive and causal research Design and ARDL techniques.	The main conclusions are that NEPSE and FR and NEPSE and CE have a favorable connection. Moreover, NEPSE and EGR and IR have negative correlations. The findings of the bound test verified that all

		macroeconomic Variables on stock market index.		the variables had a long-term link. Capital spending has a positive and considerable impact on the stock market, whereas other factors have a negligible effect, according to the ARDL model's long-run coefficient estimation.
Niraula (2021)	Effects of government's policy in stock price: A case of NEPSE	To find out the relationship of government's policy on the price movement of Nepal stock exchange (NEPSE)	In order to get a more comprehensive knowledge of the fluctuation in stock prices of Nepalese joint venture banks, this study employed a case study research approach. The selection of	In contrast to GDP and imports, which show a negative relationship with stock volatility, the study indicates that in the Nepalese context, CRR, exports, interest rates, and inflation

			joint venture banks has been done using the judgmental sampling approach.	show a positive relationship with stock price movement. Macroeconomic variables are identified as major factors influencing NEPSE stock price movements, particularly in response to changes in government policy.
Shrestha and Lamichhane (2021)	Macroeconomic factors and stock market performance in Nepal	To examine co-integrating relationship between macroeconomic factors and stock market performance in Nepal using time series data for the period 1987/88 to 2019/20.	An Autoregressive Distributed Lag (ARDL) bounds testing technique was utilized in this work to determine the co-integrating connection between macroeconomic factors and stock market	The results of the ARDL bounds test indicate a co-integration between macroeconomic factors and stock market performance. Likewise, the findings of this study demonstrate the noteworthy

			performance.	advantages of economic expansion. This research concludes that the short-term imbalance in stock market performance is eventually addressed by GDP, M2, and IR.
Panta (2020)	Macroeconomic determinants of stock market prices in Nepal	To examine the linkage between stock market prices (NEPSE index) and five macro-economic variables, namely; real GDP, broad money supply, interest rate, inflation and exchange rate using an autoregressive distributed lag (ARDL) model To explain the behavior of the	Error correction model (ECM) is used in the study to combine short run modifications with long run equilibrium without sacrificing long run information. ECM is obtained from the ARDL model by a straightforward linear	The outcome shows that the broad money supply, interest rates, inflation, and exchange rates are all highly correlated with the long-term fluctuations in the NEPSE Index. In the short term, the GDP, money supply, and exchange rate can all be positively defined; but, in

		Nepal Stock Exchange Index.	transformation.	the long term, only the money supply can be positively defined.
Pandey (2020)	Macroeconomic determinants of stock index: A study of NEPSE	To examine the macroeconomic determinants of the stock index of Nepal	The Engle-Granger cointegration, the error correction model, the Granger-causality test	In the long run, broad money supply, political stability index, and capital mobilization through the primary market positively correlate with the NEPSE index, while inflation rate shows an insignificant negative relationship; in the short run, all variables except exchange rate are significant, with an error correction term suggesting convergence at 103.96%

				annually; Granger-causality tests reveal unidirectional causality from broad money supply to NEPSE index.
Poudel (2019)	Firm's characteristics and macro-economic variables on expected stock returns	To examine the effect of firm's characteristics and macroeconomic variables on common stock return from the firms listed in Nepal Stock Exchange.	The impact of business attributes and macroeconomic factors on the return on common stock in Nepalese firms is investigated using fixed effect panel data analysis.	In the Nepalese context, the following factors have a significant negative impact on stock return: firm size, book to market equity, earning yield, and cash flow yield; GDP growth rate and interest rate also have a significant negative impact; the only factor that significantly positively impacts stock

				return is the inflation rate; the money supply has no discernible impact.
Khatri (2019)	Macroeconomic influence on the Nepalese stock market	To examines the dynamic relationship among the stock market and macroeconomic factors such as nominal domestic variables (inflation, money supply, and interest rate), real economic activity (gross domestic product) and foreign variable (exchange rate and foreign Direct investment) of Nepal.	For the period of mid-July 1994 to mid-July 2015, it employed the multivariate cointegration approach of Johansen and Juselius (1990).	The study finds that Nepalese stock prices are positively linked to money supply but negatively associated with real economic activity and interest rates, while foreign direct investment, inflation , and the US dollar exchange rate show positive but insignificant relationships; VEC estimates indicate no significant impact of macroeconomic variables on

				Nepalese stock prices in the short run.
Devkota and Dhungana (2019)	Impact of macro-economic variables on stock market in Nepal: An ARDL approach	To examine the impact of macro-economic variables on Nepalese stock market. To study the direction and degree of relationship between selected macroeconomic Variables and the stock market index.	The bound test, the ARDL test	The Bound test verified a long-term relationship between variables, showing that interest rates are the main factor influencing Nepal's stock market index. Gold prices have little effect, and the country's economy is reliant on remittances, so the actual exchange rate has little bearing.
Karki (2017)	Stock market responses to macroeconomic dynamics: Testing for long-run	To examine empirically macro-economic factors of the stock market	Descriptive and causal comparative research techniques are used in this	Based on OLS estimates, empirical findings show that real GDP, inflation, and

	equilibrium in Nepal	performance in Nepal.	study to address the macroeconomic variables affecting stock prices in Nepal.	money supply all have a positive impact on stock market performance, whereas interest rates have a negative impact. Crucially, cointegrating evidence between macroeconomic factors and the stock market index is absent.
Phuyal (2016)	Can macroeconomic variables explain long term stock market movements? A study of Nepali capital market	To investigate using Johansen's cointegration method, whether a long-term association of selected macroeconomic variables existed with stock prices in the emerging	In this study, to carry out the result co-integration, Johansen-Juselius (1990) co-integration test has been used.	The findings showed that there was a long-term equilibrium link between the Nepali stock market and many macroeconomic indicators, including the interest rate, inflation rate,

	market like Nepali stock market	and remittance flow. The short-term disequilibrium was rectified on a monthly basis by 1.79%. According to the Wald test, the stock market index was impacted in the near term by remittance income and the lag values of the NEPSE index up to six levels.

2.3 Research Gap

A significant quantity of research has been conducted on the connection amid macro-economic factors and stock price. Notably, opinions on how macro-economic issues affect share market performances are not in agreement. The literature study indicates that there is variation and inconsistency in the impact of macro-economic factors on stock market performance across different countries. Furthermore, the Nepalese share market has not seen a sufficient quantity of this research. To close this gap, related research might thus be expanded. Furthermore, by utilizing these particular variables, a study can be conducted at the NEPSE with extremely recent data, utilizing alternative methodologies and economic models that could more accurately describe the performance of the stock market in the Nepalese context and help to clarify any

ambiguities in previous literature. In an effort to close the gap left by earlier research, this study reexamines how various macroeconomic factors affect the stock market index. The findings of the researchers with respect to particular macroeconomic factors are restricted to a brief time frame. Nevertheless, the time frame from 2014 to 2023 has been taken by this research. Similar prototypes such as the Vector Error Correction (VEC), Auto Regressive Distributive Lag (ARDL) & Auto Regressive Moving Average (ARMA) were used by earlier academics. Correlation analysis (CA) and Regression analysis (RA) is applied in this research, nevertheless.

CHAPTER-III
RESEARCH METHODOLOGY

The present chapter outlines all the essential procedures that were adhered to during the research endeavor to ultimately accomplish the study's stated goal. This chapter focuses on the framework of the research design, population and sample, and sampling design, nature and source of data, and the instrument of data collection, methods of analysis, research framework and definition of variables etc. The study's methodology is highlighted in this chapter.

3.1 Research Design

This study utilized a descriptive and casual comparative research design. Perhaps the information is arranged, tabulated, shown, and described more easily utilizing a descriptive and casual comparative research design. Investigating relationships amid the independent and dependent variables easier that is established via the employ of descriptive and casual comparative research design. The aim behind this descriptive and casual comparative research design is to investigate the possibility of regression and connection between NEPSE & the macro economic factors that we have selected. NEPSE is the dependent variable in this scenario, whereas the broad money supply, inflation, policy interest rate, exchange rate, and industrial production or Nepal manufacturing are the independent macroeconomic factors.

3.2 Population and Sample, and Sampling Design

This study's population consists of particular NEPSE index and economic factors. Convenience sampling has been used in the study's selection process. Ten years data are chosen from a total of year of operation. One kind of non-probability sampling called convenience sampling takes a sample from the areas of the population that are easily accessible. Convenience sampling is widely available and has been utilized for generations, despite its drawbacks. Its many benefits make it one of the reasons it is most frequently utilized. The majority of researchers find this approach to be the most appealing because it is incredibly quick, simple, accessible and affordable (Dusovskiy, 2018).

3.3 Nature and Sources of Data

Secondary sources provide the information and data that are required. The information is derived from the NEPSE, SEBON, MOF, Economic survey, and publications. Additional information is on relevant websites and national periodicals of the Nepal Rastra Bank (NRB).

3.4 Methods of Analysis

The secondary data used in this study were gathered from annual reports using a straightforward sampling technique. Over the research, secondary data will be gathered from the annual reports over the years 2014–2023. Using multiple regression analysis, correlation analysis, and descriptive analysis, the gathered data will be examined using SPSS 26 software.

3.4.1 Descriptive Analysis

According to Mugenda (2003) descriptive analysis is typically the best method for obtaining data that illustrates relationship and presents the world as it is—that is, the rate, or frequency distribution, mean, and change influencing the variables. This analysis can be helpful in identifying the key points of the examination's data and in providing an overview of the example and metrics.

3.4.2 Correlation Analysis

When there is a strong correlation between two variables, inferential analysis is used to characterize and assess the relationship between them. The relationship between NEPSE index of Nepal and broad money supply, inflation, policy interest rate, exchange rate and industrial production is examined in this study using the Pearson coefficient of correlation. The value ranges from -1 to +1.

3.4.3 Multiple Regression Analysis

The estimation of the relationship between the variables is one use of regression analysis. Regression refers to the process of evaluating an unknown estimate of a single variable, known as the dependent variable, with the help of another known variable, known as the independent variable. Multiple regressions are the term for an analysis that includes more than one variable. The regression coefficient's value

indicates how closely the independent variable related to fulfillment. By separating out each factor's overall commitment, multiple regression analysis also determines which of the components the strongest predictor is. Prior to considering and discovering the regression analysis assumptions, those presumptions were met.

3.4.4 Model Specification

The linear regression model that follows is given based on the body of existing literature. It shows that the broad money supply, inflation, policy interest rate, exchange rate and industrial production all affect the NEPSE index of Nepal.

$$NEPSE_{it} = \beta_0 + \beta_1 MS_{it} + \beta_2 IN_{it} + \beta_3 IR_{it} + \beta_4 ER_{it} + \beta_5 IP_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots (1)$$

Where:

$NEPSE_{it}$ = NEPSE Index of Nepal *i* in year *t*

MS_{it} = Broad money supply of Nepal *i* in year *t*

IN_{it} = Inflation of Nepal *i* in year *t*

IR_{it} = Policy interest rates of Nepal *i* in year *t*

ER_{it} = Exchange rates (US Dollar) of Nepal *i* in year *t*

IP_{it} = Industrial production of Nepal *i* in year *t*

β_0 = the intercept (constant term)

ε = Error terms

The regression coefficients for each variable are represented by the value of β_1, β_2, β_3, β_4, and β_5, which indicate the degree of change in NEPSE index with each unit variable change in the independent variable.

3.5 Research Framework & Definition of Variables

The research framework is a versatile analytical tool that can be used in a variety of situations. It is employed to structure concepts and draw distinctions in study. Both independent and dependent variables were included. An independent variable is one that the researcher has control over and that influences the changes of other variables. The impact of changing the independent variable is displayed by the dependent variables. NEPSE index is considered a dependent variable, while broad money supply, inflation, policy interest rate, exchange rate (US dollar), industrial production

are considered independent variables. Figure displays the research framework, which explains the independent and dependent variables employed in the study.

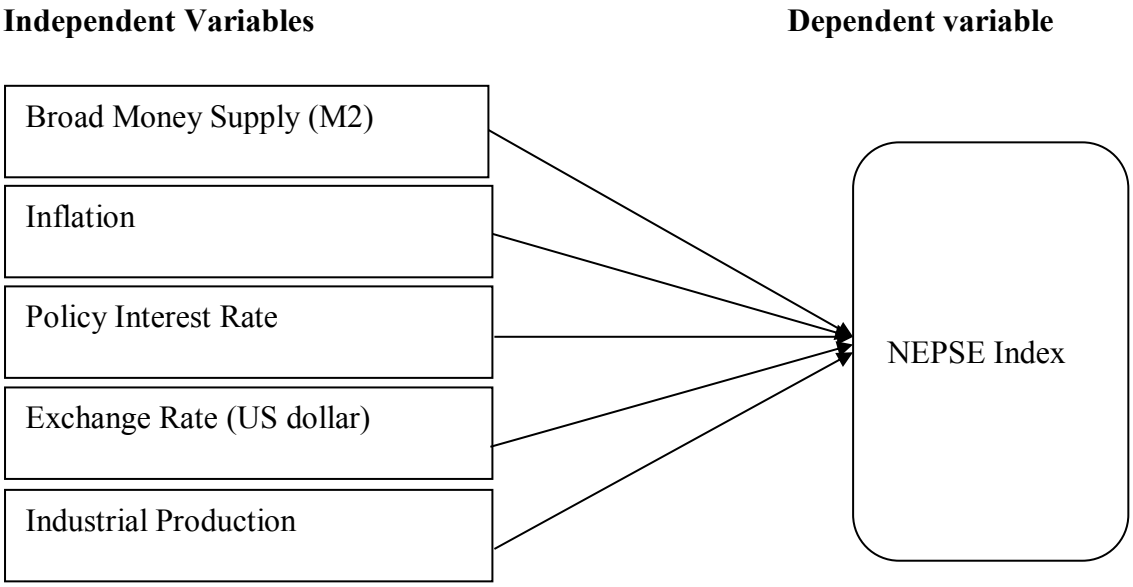

Figure 1 Conceptual Framework

Source: Rashid and Alam (2014) & Niraula (2021)

CHAPTER IV
RESULT AND DISCUSSION

The data will be shown in tables in this chapter. The study's primary goal is to offer data and evaluate it using a variety of statistical and financial methods. The analysis and presentation of empirical data comprise this chapter. As a result of the critical factors being carefully considered and analyzed, this chapter will examine the elements macroeconomic factors affect Nepal's stock market index. Such that research has establish the sample strengths and weaknesses, past performance, and current NEPSE situation.

4.1 Results

The minimum, maximum, mean and standard deviation of the variables under investigation make up the descriptive statistics employed in this research. Descriptive statistics, then, make it possible to show the data in a more meaningful form, making it easier to analyze the data.

Table 1 presents the descriptive statistics of the independent factors (broad money supply, inflation, policy interest rates, exchange rates and industrial production or Nepal manufacturing output) and dependent variables (NEPSE index) of Nepal.

4.1.1 Descriptive statistics

For the research period of 2013/14 to 2022/23, the dependent and independent variables are shown in the table below. NEPSE index is the dependent variable, whereas broad money supply, inflation, policy interest rate, exchange rate and industrial production or Nepal manufacturing output are the independent factors.

Table 1 Descriptive statistics

	N	Minimum	Maximum	Mean	S.D.
NEPSE	10	961.23	2883.41	1597.7830	577.60786
INF	10	2.71	10.44	6.3900	2.33116
IR	10	5.00	8.50	6.6000	1.04881
ER	10	98.21	130.60	111.3130	10.23893
MS	10	1566.00	6130.50	3597.8100	1600.79732
IP	10	1198.78	2124.74	1587.8140	309.00122

Table 1 presents descriptive statistics for various economic indicators in Nepal. These indicators provide important information about the economy's performance and trends. This study provides information about the performance of the stock market in Nepal. It includes the minimum value 961.23, maximum value 2883.41, mean (average) value 1597.7830, and standard deviation (a measure of how spread out the values is around the mean) which is 577.60786. So, on average, the NEPSE Index is around 1597.7830, with values ranging from 961.23 to 2883.41. Similarly, this study represents the inflation rate in Nepal. Inflation measures the rate at which prices for goods and services rise over time. The minimum inflation rate recorded is 2.71%, the maximum is 10.44%, the mean is 6.39%, and the standard deviation is 2.33116. This indicates that, on average, inflation in Nepal is around 6.39%, with fluctuations ranging from 2.71% to 10.44%.

Likewise, this study reflects the policy interest rates prevailing in Nepal. Policy interest rates affect borrowing, saving, and investment decisions in the economy. The minimum policy interest rate is 5.00%, the maximum is 8.50%, the mean is 6.60%, and the standard deviation is 1.04881. This suggests that the average policy interest rate in Nepal is around 6.60%, with variability ranging from 5.00% to 8.50%. In the same way, the exchange rates indicate the value of the Nepalese currency (like the Rupee) relative to other currencies. Here exchange rate indicate US dollar equivalent to Nepalese rupees. The table shows the minimum exchange rate Rs.98.21, maximum exchange rate Rs.130.60, mean exchange rate Rs.111.3130, and standard deviation 10.23893. This means that, on average, the exchange rate in Nepal is around

Rs.111.3130 Nepalese Rupees per unit of foreign currency (US dollar), with values fluctuating between 98.21 and 130.60 Rupees.

Similarly, the broad money supply (M2) refers to the total amount of money circulating in the economy. It includes cash, coins, and various types of bank deposits. The statistics include the minimum money supply 1566.00 billion, maximum money supply 6130.50 billion, mean money supply 3597.8100 billion, and standard deviation 1600.79732. This indicates that the average broad money supply in Nepal is around 3597.81 billion, with variability ranging from 1566.00 to 6130.50 billion.

Lastly, the industrial production or Nepal manufacturing output measures the output of the industrial sector in Nepal. It includes manufacturing, mining, and utilities production. The table shows the minimum industrial production 1198.78 million Dollar, maximum industrial production 2124.74 million dollar, mean industrial production 1587.8140 million dollar, and standard deviation 309.00122. This suggests that, on average, industrial production in Nepal is around 1587.8140 million dollar, with fluctuations ranging from 1198.78 to 2124.74 million dollar.

4.1.2 Correlation analysis

To determine relationships between the various factors, correlation analysis between variables is examined. The relationship between the many independent and dependent variables related to the study is ascertained using Pearson's Correlation analysis. Any two variable’s linear correlation is measured.

The bivariate Pearson's correlation coefficients between the various research variables are shown in Table 2. Based on data with ten year observations from 2013/14 to 2022/23, the correlation coefficient is calculated. NEPSE index is the dependent variable, while the broad money supply, inflation, policy interest rates, exchange rates and industrial production are the independent factors.

Table 2 Correlation Analysis

	NEPSE	INF	IR	ER	MS	IP
NEPSE	1					
INF	-0.142	1				
IR	-0.174	0.520	1			
ER	0.649*	-0.056	-0.072	1		
MS	0.700*	-0.147	-0.083	0.967**	1	
IP	0.532	-0.136	0.103	0.878**	0.929**	1

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

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

Table 2 presents a correlation analysis, which shows the relationships between the NEPSE Index (Nepal Stock Exchange Index) and various independent variables: Inflation (INF), Policy Interest Rates (IR), Exchange Rates in US Dollar (ER), Broad Money Supply (MS), and Industrial Production (IP). The correlation coefficient between NEPSE and inflation is -0.142. This negative correlation suggests that as inflation in Nepal increases, the NEPSE Index tends to decrease slightly, though the correlation is not strong. Similarly, the correlation coefficient between NEPSE and policy interest rates is -0.174. This negative correlation indicates that as policy interest rates rise, the NEPSE Index tends to decrease, suggesting an inverse relationship between the two variables.

Likewise, the correlation coefficient between NEPSE and exchange rates (US Dollar) is 0.649. This positive correlation suggests that as exchange rates (US Dollar) increase (meaning the Nepali Rupee strengthens relative to US Dollar) the NEPSE Index tends to increase as well. This indicates a strong positive relationship between the two variables. The correlation coefficient between NEPSE and broad money supply is 0.700. This positive correlation suggests that as the broad money supply in Nepal increases, the NEPSE Index tends to increase as well, indicating a strong positive relationship between the two variables. Similarly, the correlation coefficient between NEPSE and industrial production is 0.532. This positive correlation suggests that as industrial production or manufacturing output in Nepal increases, the NEPSE Index

tends to increase as well, indicating a moderate positive relationship between the two variables.

The correlation between NEPSE and exchange rates (ER) is marked with 0.649, suggesting a strong positive relationship. With a significance level of 0.01, there is only a 1% chance that this correlation occurred randomly. Therefore, we can infer that as exchange rates (US Dollar) increase, the NEPSE Index tends to increase significantly. Another significant relationship is between NEPSE and broad money supply (MS), marked with 0.700. This strong positive correlation indicates that as the broad money supply increases, the NEPSE Index tends to increase significantly. Again, with a significance level of 0.01, this correlation is unlikely to be due to random chance.

Conversely, there is a -0.142 link between NEPSE and inflation (INF). There is a comparatively high likelihood (more than 5%) that this link happened at random because it is not significant at the 0.05 level. As a result, there may not be a significant or trustworthy correlation between NEPSE and inflation. At the 0.05 level, the connection between NEPSE and policy interest rates (IR) is likewise insignificant, with a value of -0.174. This implies that rather than a significant link, the apparent association between NEPSE and policy interest rates may just be the result of random fluctuation.

4.1.3 Regression Analysis

This section presents the findings of the regression analysis that was computed. More precisely, it displays the regression findings on the NEPSE index of Nepal, including broad money supply, inflation, policy interest rates, exchange rates (US Dollar) and industrial production.

Regression analysis makes the assumption that there is a causal link between two or more variables, while correlation analysis makes no such assumption. A single dependent variable is the subject of a simple linear regression, while a single dependent variable is the subject of multiple linear regressions, which illustrate the effects of many independent variables. The degree of association between two variables is all that correlation analysis can reveal. Regression analysis is thus

performed in order to get a deeper comprehension of the degree of correlation between two or more variables. The influence of many independent factors on a single dependent variable is examined using multiple regression analysis. Thus, to examine the effects of several independent variables, multiple regression analysis is used.

Multiple linear regression analysis is used to predict the impact of independent variables on dependent variable. The equation for impact of independent variables is expressed in the following equation:

$NEPSEit = \beta0 + \beta1\ MSit + \beta2\ INit + \beta3\ IRit + \beta4\ ERit + \beta5\ IPit + \varepsilon it$…….... (1)

Where:

NEPSEit = NEPSE Index of Nepal *i* in year *t*

MSit = Broad money supply of Nepal *i* in year *t*

INit = Inflation of Nepal *i* in year *t*

IRit = Policy interest rates of Nepal *i* in year *t*

ERit = Exchange rates (US dollar) of Nepal *i* in year *t*

IPit = Industrial production of Nepal *i* in year *t*

β0 = the intercept (constant term)

eit = error component

The regression coefficients for each variable are represented by the values of β1, β2, β3, β4, and β5, which indicate the degree of change in NEPSE index with each unit variable change in the independent variable.

The results of model summary, analysis of variance (ANOVA) and beta coefficients analyzed the impact of independent variables on NEPSE index of Nepal which is dependent variable.

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.794[a]	0.630	0.168	526.85680

a. Predictors: (Constant), IP, IR, INF, ER, MS

Table 3 presents a model summary for a regression analysis conducted on a dataset, showing the relationship between the NEPSE Index (dependent variable) and several

independent variables: Industrial Production (IP), Policy Interest Rates (IR), Inflation (INF), Exchange Rates (ER), and Broad Money Supply (MS).

The correlation coefficient (also known as the Pearson correlation coefficient) measures the strength and direction of the linear relationship between the dependent variable (NEPSE Index) and the independent variables (IP, IR, INF, ER, MS). An R value of 0.794 indicates a strong positive linear relationship between the variables.
This statistic represents the proportion of the variance in the dependent variable (NEPSE Index) that is predictable from the independent variables (IP, IR, INF, ER, MS) included in the model. R square value of 0.630 means that 63% of the variance in the NEPSE Index can be explained by the independent variables in the model. This is a modified version of R square that adjusts for the number of predictors in the model. It penalizes the inclusion of unnecessary predictors that do not contribute much to explaining the variance in the dependent variable. In this model, the adjusted R square value is 0.168.

Table 4 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1892365.212	5	31.892	141.258	0.000[b]
	Residual	1110312.359	4	0.234		
	Total	3002677.571	9			

a. Dependent Variable: NEPSE

b. Predictors: (Constant) IP, IR, INF, ER & MS

Table 4 presents the results of an analysis of variance (ANOVA) for the regression model conducted on the dataset. ANOVA is a statistical method used to determine whether there are statistically significant differences between the means of two or more groups. The F-value is the ratio of the variance explained by the model to the variance left unexplained. It tests whether the overall regression model is statistically significant. A higher F-value indicates a more significant relationship between the independent and dependent variables. The significance level (Sig.) indicates the probability that the observed F-value occurred by chance alone. A significance level

below a certain threshold (0.05) suggests that the regression model is statistically significant.

Table 5 Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6064.598	6911.116		0.878	0.430
	INF	-6.938	99.604	-0.028	-0.070	0.948
	IR	56.410	238.644	0.102	0.236	0.825
	ER	-0.108	0.038	-0.135	-2.860	0.004
	MS	0.387	0.053	0.390	7.327	0.000
	IP	-2.055	1.883	-1.099	-1.092	0.336

a. Dependent Variable: NEPSE

Table 5 provides detailed information about the coefficients derived from a regression analysis conducted on the relationship between the NEPSE Index (Nepal Stock Exchange Index) and several independent variables: Inflation Rate (INF), Policy Interest Rates (IR), Exchange Rates (ER), Broad Money Supply (MS), and Industrial Production (IP). The coefficient for inflation is -6.938. This means that for every unit increase in inflation, the NEPSE Index is estimated to decrease by approximately 6.938 units. However, this coefficient is not statistically significant (Sig. = 0.948), meaning that changes in inflation are not reliably associated with changes in the NEPSE Index.

Similarly, the coefficient for policy interest rates is 56.410. This suggests that for every unit increase in policy interest rates, the NEPSE Index is estimated to increase by approximately 56.410 units. However, like inflation, this coefficient is not statistically significant (Sig. = 0.825), meaning that changes in policy interest rate are not reliably associated with changes in the NEPSE Index. Likewise, the coefficient for exchange rates (US Dollar) is -0.108. This indicates that for every unit increase in exchange rates (meaning the Nepali Rupee strengthens relative to US Dollar), the

NEPSE Index is estimated to decrease by approximately 0.108 units. This coefficient is statistically significant (Sig. = 0.004), suggesting that changes in exchange rates are associated with changes in the NEPSE Index. The coefficient for broad money supply is 0.387. This means that for every unit increase in the broad money supply, the NEPSE Index is estimated to increase by approximately 0.387 units. This coefficient is statistically significant (Sig. = 0.000), indicating that changes in the money supply are associated with changes in the NEPSE Index.

Lastly, the coefficient for industrial production or Nepal manufacturing output is -2.055. This suggests that for every unit increase in industrial production, the NEPSE Index is estimated to decrease by approximately 2.055 units. However, this coefficient is not statistically significant (Sig. = 0.336), indicating that changes in industrial production are not reliably associated with changes in the NEPSE Index.

4.2 Discussion

The finding of this study shows that there was insignificant impact of inflation on NEPSE index of Nepal. This finding was consistence with the study of Ilahi, Ali and Jamil (2013) who found that there was insignificant impact of inflation on stock market index. But, this finding has contradicted with the findings of Kalam (2020) who found that significant impact of inflation on stock market index. Similarly, the finding of this study shows that there was insignificant impact of policy interest rates on NEPSE index of Nepal. This finding was consistence with the study of Alam and Rashid (2014) who found that there was insignificant impact of interest rates on stock exchange index. But, this finding has contradicted with the findings of Niraula (2021) who found that significant impact of interest rates on stock exchange index.

Likewise, the finding of this study shows that there was significant impact of exchange rates (US Dollar) on NEPSE index of Nepal. This finding was consistence with the study of Balagobei (2017) who found that there was significant impact of exchange rates on stock exchange index. But, this finding has contradicted with the findings of Alam and Rashid (2014) who found that insignificant impact of exchange rates on stock exchange index.

In the same way, the finding of this study shows that there was significant impact of broad money supply on NEPSE index of Nepal. This finding was consistence with the study of Pandey (2020) who found that there was significant impact of broad money supply on stock exchange index. But, this finding has contradicted with the findings of Shrestha and Lamichhane (2021) who found that insignificant impact of broad money supply on stock exchange index.

Lastly, the finding of this study shows that there was insignificant impact of industrial production on NEPSE index of Nepal. This finding was consistence with the study of Balagobei (2017) who found that there was insignificant impact of industrial production on stock exchange index. But, this finding has contradicted with the findings of Alam and Rashid (2014) who found that significant impact of industrial production on stock exchange index.

CHAPTER V
SUMMARY AND CONCLUSION

This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters are made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the results and experience of this thesis work. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

The analysis conducted provides valuable insights into the relationship between the NEPSE Index (Nepal Stock Exchange Index) and various economic indicators in Nepal. Several statistical techniques, including descriptive statistics, correlation analysis, regression analysis, ANOVA, and coefficient analysis, were employed to understand this relationship. Descriptive statistics provided an overview of the central tendency and variability of economic indicators such as inflation, policy interest rates, exchange rates (US Dollar), Broad money supply, and industrial production in Nepal. These statistics revealed important information about the average values and fluctuations of these indicators over the specified period.

Correlation analysis further explored the relationships between the NEPSE Index and independent variables. Significant positive correlations were found between the NEPSE Index and exchange rates, as well as money supply, indicating that changes in these variables were associated with changes in the NEPSE Index. However, correlations with inflation, policy interest rates, and industrial production were not statistically significant, suggesting that these variables may not have a reliable relationship with the NEPSE Index. Regression analysis delved deeper into the relationships between the NEPSE Index and independent variables by fitting a regression model. The model provided insights into how well the independent variables collectively predicted the NEPSE Index. The model was found to be highly significant, indicating that the independent variables collectively had a significant effect on the NEPSE Index. However, the adjusted R square value suggested that

some predictors in the model may not be contributing much to explaining the NEPSE Index.

ANOVA further confirmed the significance of the regression model, showing that the variance explained by the model was much larger than the unexplained variance. This provided statistical evidence that the independent variables collectively explained a significant portion of the variance in the NEPSE Index. Finally, coefficient analysis examined the estimated effects of each independent variable on the NEPSE Index. While exchange rates and broad money supply showed statistically significant effects on the NEPSE Index, other variables such as inflation, policy interest rate, and industrial production did not have statistically significant effects.

5.2 Conclusion

The analysis conducted on the relationship between the NEPSE Index and various economic factors in Nepal offer several noteworthy conclusions. Firstly, the NEPSE Index demonstrates significant associations with certain key economic variables, particularly exchange rates and broad money supply. These findings suggest that fluctuations in exchange rates, which signify changes in the strength of the Nepali Rupee relative to US Dollar, as well as shifts in the broad money supply within the economy, play substantial roles in influencing the performance of the stock market represented by the NEPSE Index. Conversely, while inflation, policy interest rates, and industrial production or Nepal manufacturing output also play crucial roles in economic dynamics, the analyses reveal that their relationships with the NEPSE Index are not statistically significant. This suggests that movements in inflation rate, policy interest rate and industrial production levels may not reliably predict or influence fluctuations in the Nepali stock market, as represented by the NEPSE Index. However, it's important to note that despite the lack of statistical significance, these factors still warrant consideration in comprehensive analyses of Nepal's economic landscape due to their broader impacts on the economy.

Moreover, the regression analysis indicates that the collective influence of the independent variables significantly explains a notable portion of the variance in the NEPSE Index. This underscores the importance of considering multiple economic

indicators together rather than in isolation when assessing the performance and dynamics of the Nepali stock market. However, further refinement of the regression model may be necessary to better understand which specific variables contribute most substantially to explaining fluctuations in the NEPSE Index.

Lastly, these conclusions highlight the intricate interplay between various economic factors and the NEPSE Index in Nepal. While certain variables exhibit clear associations with the stock market's performance, others may not exert significant influence in the context of this analysis. Continued research and analysis in this area can contribute to a deeper understanding of Nepal's economic landscape and assist stakeholders in making informed decisions regarding investment, policy formulation, and economic management.

5.3 Implications

This study offers the following implications based on the finding from the empirical analysis are as follows:

- Understanding the significant influence of exchange rate (US Dollar) and broad money supply (M2) on the NEPSE Index can guide investors in formulating effective investment strategies. Investors may consider monitoring fluctuations in these variables closely and adjusting their investment portfolios accordingly to capitalize on potential opportunities or mitigate risks.
- Policymakers can utilize the insights gained from the analysis to formulate targeted economic policies aimed at stabilizing or stimulating the stock market in Nepal. For instance, policies focusing on managing exchange rate volatility or controlling the broad money supply (M2) may positively impact investor confidence and market performance.
- Firms operating in Nepal can use the findings to enhance their risk management strategies. Understanding the variables that significantly influence the NEPSE Index allows businesses to identify and mitigate potential risks associated with market volatility, currency fluctuations, and changes in monetary policy.

Future Research Implications:

- The study suggests avenues for further research to delve deeper into the relationships between macro-economic indicators and the NEPSE Index. Future studies could explore additional factors or employ more sophisticated statistical techniques to better understand the complexities of the Nepali stock market.
- Conducting longitudinal studies over extended periods can provide insights into how the relationships between economic variables and the NEPSE Index evolve over time. Longitudinal analysis allows researchers to assess the stability of relationships and identify trends or patterns that may emerge over different economic cycles.
- Research focusing on specific sectors within the Nepali economy can offer nuanced insights into how sector-specific factors influence the performance of the stock market of Nepal. Sectorial analysis can provide valuable information for investors and policymakers seeking to understand the dynamics of individual sectors and their impact on overall market performance.

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APPENDIX

Appendix I

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NEPSE	10	961.23	2883.41	1597.7830	577.60786
INF	10	2.71	10.44	6.3900	2.33116
IR	10	5.00	8.50	6.6000	1.04881
ER	10	98.21	130.60	111.3130	10.23893
MS	10	1566.00	6130.50	3597.8100	1600.79732
IP	10	1198.78	2124.74	1587.8140	309.00122
Valid N (listwise)	10				

Appendix II

Correlations

		NEPSE	INF	IR	ER	MS	IP
NEPSE	Pearson Correlation	1	-0.142	-0.174	0.649*	0.700*	0.532
	Sig. (2-tailed)		0.695	0.630	0.042	0.024	0.113
	N	10	10	10	10	10	10
INF	Pearson Correlation	-0.142	1	0.520	-0.056	-0.147	-0.136
	Sig. (2-tailed)	0.695		0.123	0.878	0.686	0.707
	N	10	10	10	10	10	10
IR	Pearson Correlation	-0.174	0.520	1	-0.072	-0.083	0.103
	Sig. (2-tailed)	0.630	0.123		0.844	0.820	0.778
	N	10	10	10	10	10	10
ER	Pearson Correlation	0.649*	-0.056	-0.072	1	0.967**	0.878**
	Sig. (2-tailed)	0.042	0.878	0.844		0.000	0.001
	N	10	10	10	10	10	10
MS	Pearson Correlation	0.700*	-0.147	-0.083	0.967**	1	0.929**
	Sig. (2-tailed)	0.024	0.686	0.820	0.000		0.000
	N	10	10	10	10	10	10
IP	Pearson Correlation	0.532	-0.136	0.103	0.878**	0.929**	1
	Sig. (2-tailed)	0.113	0.707	0.778	0.001	0.000	
	N	10	10	10	10	10	10

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

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

Appendix III

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.794[a]	0.630	0.168	526.85680

a. Predictors: (Constant), IP, IR, INF, ER, MS

Appendix IV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1892365.212	5	31.892	141.258	0.000[b]
	Residual	1110312.359	4	0.234		
	Total	3002677.571	9			

a. Dependent Variable: NEPSE

b. Predictors: (Constant), IP, IR, INF, ER, MS

Appendix V

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6064.598	6911.116		0.878	0.430
	INF	-6.938	99.604	-0.028	-0.070	0.948
	IR	56.410	238.644	0.102	0.236	0.825
	ER	-0.108	0.038	-0.135	-2.860	0.004
	MS	0.387	0.053	0.390	7.327	0.000
	IP	-2.055	1.883	-1.099	-1.092	0.336

a. Dependent Variable: NEPSE

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ABSTRACT The stock market is one of the most energetic sectors that play an important role in contributing to the wealth of the economy. It plays a crucial role in the economic growth and development of an economy which would benefit industries,