

**NEPALESE STOCK MARKET IN THE LIGHT
OF ITS GROWTH, PROBLEMS AND PROSPECTS**

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

By

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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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ABBREVIATIONS

CDS	Central Depository System
EMH	Efficient Market Hypothesis
FDI	Foreign Direct Investment
FPO	Follow-on Public Offering
FY	Fiscal Year
GDP	Gross Domestic Product
i.e.	That is
IPO	Initial Public Offering
Ltd	Limited
MBS	Masters of Business Studies
MOF	Ministry of Finance
NEPSE	Nepal Stock Exchange
No.	Number
NRB	Nepal Rastra Bank
NWPS	Net Worth Per Share
SDC	Shanker Dev Campus
SEBON	Securities Board of Nepal
SEC	Securities Exchange Center
TU	Tribhuvan University
VAR	Vector Auto Regression

ABSTRACT

The Nepalese stock market serves as a critical pillar in the nation's economic framework, enabling capital mobilization, investment opportunities, and wealth creation. Since its inception, the market has grown substantially, marked by an increase in the number of listed companies, higher market capitalization, and broader investor participation. Despite its progress, the stock market in Nepal faces persistent challenges that impede its development and limit its contribution to economic growth.

The study explores these issues in detail, highlighting critical barriers such as insufficient market liquidity, a limited and concentrated investor base, and inefficiencies in regulatory and institutional frameworks. Moreover, the lack of diverse financial instruments, such as derivatives, bonds, and ETFs, reduces the market's attractiveness and limits its ability to accommodate varied investment preferences.

Technological shortcomings, such as outdated trading systems and delays in implementing advanced digital platforms, also hinder market efficiency and accessibility. However, amidst these challenges, the Nepalese stock market holds significant growth potential. Recent reforms in regulatory practices, efforts to enhance transparency, the introduction of automated trading systems, and initiatives to promote financial literacy are steps in the right direction. Furthermore, increased interest from foreign investors, the development of emerging sectors, and the possibility of establishing alternative trading platforms present opportunities for expansion.

This study underscores the importance of addressing these barriers to unlock the full potential of the Nepalese stock market. Key recommendations include diversifying financial products, fostering an inclusive and robust regulatory environment, promoting investor education, and leveraging technology to improve accessibility and efficiency.

Keywords: Nepalese stock market, economic growth, financial instruments, market challenges, investment opportunities, regulatory frameworks, financial literacy, and technological advancement.

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Common Stock is the capital market instruments which are traded on long term market (primary as well as secondary market). Common stocks or securities is considered as sources of finance. The stock market is a financial system that helps in raising capital and distributing resources effectively. The stock market enables the trading of financial securities, which aids in mobilizing both internal and external financial resources. The financial market is made up of two main segments: the money market and the capital market. Capital markets are the markets consisting long term securities issued by the government, corporate organization and other financial institutions with promise to pay dividend to the common stockholders. Financial markets play a significant role in the economy development of a nation. The capital market is a framework designed to facilitate the trading of financial assets by bringing together buyers and sellers of securities. The activities of buying and selling securities in the stock market are extremely important for the efficient allocation of capital within economics (Adhikari, 2011).

Regulatory reforms have also been instrumental in enhancing market operations. The Securities Board of Nepal (SEBON) has implemented various policies aimed at enhancing transparency and protect investors. These reforms have helped to build investor confidence and encourage a more stable market environment (Khadka, 2021).

Financial institutions and markets are essential for the growth of any economy, whether it is developed or developing. Developed economies usually have a highly developed financial market in place whereas developing economy usually has not well developed market. During the turn of twenty centuries a lot of countries gave of the moribund communist style economy towards modern capitalist economy. In this process a large

number financial market has developed across the world, including our country Nepal (Shrestha, 2005).

The Nepalese stock market is much smaller compared to the stock markets of neighboring countries. In the economic development of the nation capital plays a vital role. The growth of the securities market is important for a country's fast economic progress. The securities market helps economic growth by providing long-term funds for the productive sector. Security market plays a prominent role in the developing nation's economy. Due to lack of capital for investment economic growth is low in Nepal. The capital market supplies the necessary capital for investment. The major function of the capital market is to provide steady and continuous market for the purchase and sale of securities at a price by considering marketability and liquidity (Dahal, 2009).

Capital market has grown in the country as an important base for the collection, allocation, mobilization and utilization of needed fund for the listed companies. The securities market/capital market plays an important role in mobilizing savings and channeling them into productive investment for the development of commerce and industries in the country. It helps in capital formation and contributes to the country's economic growth.

After the policy of economic liberalization adopted by Government of Nepal, one of the prime objectives of the government is to attract foreign investment in various sectors such as hydropower, telecommunications, manufacturing and processing industries. Foreign investors are given attractive incentive through various act and policies. However foreign investors are not allowed to invest in Nepalese capital market. This has caused restriction not only in the foreign investment but also the managerial and technical expertise that could come through foreign investment (KC, 2015).

Shortcoming in accounting and audit practice of non-financial companies has led to the incomplete disclosure to investors and the Security Board does not have power to force these companies for making true and complete disclosure (Adhikari, 2017).

The Nepalese stock market started with the establishment of the Securities Exchange Centre in 1976, which was later transformed into the Nepal Stock Exchange (NEPSE) in

1993. NEPSE, the sole stock exchange in Nepal, is located in Singha Durbar Plaza, Kathmandu. It operates under the Securities Board of Nepal (SEBON), which was founded in 1993 as the regulatory authority. NEPSE, which began functioning in 1994, seeks to provide liquidity and marketability to government and corporate securities by facilitating transactions through intermediaries such as brokers and market makers.

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of the securities market under the Securities Exchange Act 1983. Since its establishment, SEBON has been concentrating its effort on improving the legal and statutory frameworks which are the bases for healthy development of capital market. SEBON is the main governing body that oversees the regulation of the securities market in Nepal. Its objective is to regularize and manage the securities market and protect investor's interests by regulating the securities market, sales and distribution of securities and purchase, sale or exchange of securities.

SEBON was established with the objective to support the development of capital markets by promoting fair, transparent, efficient, and responsible securities transactions. The Governing Board of SEBON provides guidance to the government on matters concerning the development of capital markets. Its key responsibilities include granting licenses for stock exchanges, stock brokers, dealers, merchant bankers, and fund managers, as well as for depository participants and credit rating agencies. Despite these regulatory efforts, the Nepalese stock market remains underdeveloped and faces numerous challenges. Therefore, this study aims to evaluate the growth potential, key issues, and prospects of the Nepalese stock market, using both primary and secondary data.

1.2 Problem Statement

Stock market institutions help to mobilize/utilize the surplus units into the deficit units to productive investment. Stock price is determined by demand and supply of stocks in prevailing market with both qualitative and quantitative factors. It is a powerful tool for increasing productive capacities. The Nepalese stock market faces several challenges and

opportunities in term of its growth and prospects. Some of the key issues include liquidity constraints, limited investor participation, regulatory challenges and infrastructure limitations. These factors can hinder the market's growth potential and development. New information about the performance of the company comes randomly. Due to lack of related information and knowledge investors are influence by the financial institutions and different investors evaluate the available information differently and have different insight into future prospects of the firm. Investor's perception and attitude towards stock market plays a significance role in rational decision which is influenced by the knowledge and access to the data required for the analysis.

In the Nepalese context, the concept of capital market is not very old. It is running in the primary phase. As compared to other neighboring countries, Nepalese capital market is very small. Even after the establishment of security exchange center in Nepal there seems to be a very slow growth in Nepalese capital market.

The securities market is vital for mobilizing savings and directing them into productive investments, which helps drive the development of the country's commerce and industry. It primarily supports capital formation and economic growth. However, in many developing nations like Nepal, the capital market remains underdeveloped. The Nepalese securities market has not yet reached its full potential. The further improvement of this market is very crucial (Gautam, 2013).

The regulatory framework in Nepal's stock market has often been criticized for being inadequate and inefficient. There are frequent changes in policies and a lack of long-term strategic planning, which creates uncertainty among investors (Thapa, 2020).

Investor confidence is low due to past instances of market manipulation, insider trading and lack of transparency in financial reporting by listed companies. This has led to a cautious approach by both domestic and foreign investors (Koirala, 2018).

The NEPSE is characterized by low market liquidity and depth, meaning that there are not enough buyers and sellers to facilitate smooth trading. This can lead to high volatility and make it difficult for investors to enter or exit positions without significantly affecting stock price (Sharma, 2019).

Nepal's stock market is highly susceptible to the country's economic and political instability. Frequent changes in government, political unrest disrupt economic activities and consequently the stock market (Adhikari, 2017).

The technological infrastructure of the NEPSE is underdeveloped. The lack of advanced trading systems, digital platforms and adequate cyber security measures hampers the efficiency and attractiveness of the market (Ghimire, 2019).

Due to lack of proper government policy, unrest and insurgency in country, the price of securities especially common stocks has been rapidly fluctuating. Low trading volume, absence of professional broker, early stage of growth, limited movement of share price, limited information to investors, price instability in the secondary market, lack of proper investment decision of the investors etc. are the burning issue of Nepalese Security Market (Market Business News, 2019).

On the bright side, there are prospects for growth in the Nepalese stock market. Efforts to enhance market liquidity, attract more investors, improve regulations, and strengthen infrastructure can contribute to the market's expansion. Additionally, economic growth, political stability and reforms in the financial sectors can create opportunities for the stock market to thrive.

Recent economic reforms and liberalization efforts by the government, such as easing restrictions on foreign investments and improving business regulations, present opportunities for growth in the stock market (Nepal Rastra Bank, 2021).

There are ongoing efforts to increase financial literacy among the general population, which could lead to a broader base of informed investors participating in the stock market (Financial Literacy Centre Nepal, 2020).

Investments in technological advancements such as the implementation of automated trading systems and online trading platforms, can enhance market efficiency and accessibility (IT and Innovation in Finance, 2020).

The introduction and development of alternative investment instruments, such as mutual funds, derivatives and bonds, can diversify investment options and attract more participants to the market (Securities Board of Nepal, 2021).

Above study is carried out to answer the following research questions:

- What is the growth rate and trend of market capitalization, NEPSE index, number of shares traded and traded amount?
- What is the percentage of traded amount on market capitalization?
- What are the main causes of low trading volumes in NEPSE?
- How do political instability and economic uncertainties impact the performance and attractiveness of the Nepalese stock market?
- What is the percentage of traded shares on total listed number of shares?

1.3 Objectives of the Study

The general purpose of this study is to review the growth process of stock markets and their functioning through Nepal Stock Exchange. The following objectives have been considered as prime objectives of this study.

The general objective of the assignment/study is:

- To assess status of Nepalese stock market.
- To examine the impact of market capitalization, trading turnover and NEPSE index on economic growth in Nepal.
- To analyze the existing problems and challenges faced by Nepalese stock market.

1.4 Rationale of the Study

Financial market constitutes an important part of the total infrastructure for every society that has passed the stage of largely domestic economy. Stock market which is part of the financial markets helps in recognizing the situation of the economy. Stock market serves as a critical component of the nation's financial system. Stock markets are directly linked to economic growth. It helps in raising capital for business; facilitate company growth and mobilizing savings for investment. The stock market facilitates the mobilization of domestic and foreign savings for productive investments thus fueling economic growth.

Ongoing economic reforms and efforts to attract foreign investment present opportunities to enhance capital mobilization.

Stock market comprises huge prospects of Nepalese economy. It is directly related to the economic growth of the country. Thus as the stock market booms, the economy up rises and the declination in the stock market downgrades the economy.

This study has been important and valuable for those who are interested to the stock market of Nepal. This study will be useful to the students who are curious to know about the present status of Nepalese stock market, its growth and challenges for the progress of stock market. Researcher hopes that this study will help to government and other institutions to make their policies and programs.

1.5 Limitations of the Study

- This study is not all-encompassing and has certain limitations, some of which were beyond control. The research focuses solely on the "Growth, Problems, and Prospects of the Nepalese Stock Market."
- The study examines only the past and present state of the stock market in Nepal and does not include any predictions for the future.
- A significant portion of the analysis relies on secondary data obtained from annual reports of NEPSE, SEBON, and other sources.
- The study is based on data from only a limited number of fiscal years for the purpose of the research.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Introduction

Nepal's stock market plays a vital role in mobilizing resources and fostering economic development, yet it remains small and underdeveloped compared to neighboring countries.

Key challenges include low liquidity, limited investor participation, inadequate infrastructure, and regulatory inefficiencies, compounded by political instability and limited financial literacy among investors. Investor confidence is low due to past instances of market manipulation and lack of transparency. Additionally, economic and political instability frequently disrupts the market, impacting its growth potential. These issues hinder market growth and contribute to volatility and low confidence.

Despite these challenges, opportunities for growth exist through economic liberalization, policy reforms, technological advancements, and the introduction of alternative investment instruments. Strengthening the regulatory framework, enhancing technological infrastructure, and improving investor education are essential for realizing the market's full potential and supporting Nepal's economic growth.

This section of the study provides a comprehensive overview of existing knowledge on the stock market and its role in economic development. It begins with a theoretical review, which explores the basic ideas, principles, and theories underlying stock market behavior and its relationship with economic growth. Following this, an empirical review is presented. Additionally, this section highlights gaps in the existing research, pointing out unresolved issues and limitations that the current study seeks to address.

2.2 Theoretical Review

This chapter aims to provide a theoretical framework for understanding the Nepalese stock market, focusing on its growth, problems and prospects. The growth and

development of the Nepalese stock market can be understood through several key theories that explain how financial markets work. These theories highlight both the challenges the market faces and the factors that can help it grow in the future. Below are the main theories relevant to understanding the stock market in Nepal:

Market Microstructure Theory

Market microstructure focuses on the mechanisms and processes that determine asset prices and trading dynamics within capital markets. This theory examines how market design, trading rules, information transparency and liquidity affect market efficiency and investor behavior (O'Hara, 1995).

Financial Liberalization Theory

This theory highlights the role of financial liberalization policies (such as easing capital controls, deregulating interest rates and promoting foreign investment) in stimulating capital market development. While liberalization can enhance market efficiency and innovation, it also entails risks, such as increased volatility and financial instability (Mckinnon, 1973; Shaw, 1973).

Capital Market Development Theory

The Capital Market Development Theory suggests that as economies grow, there is a rising demand for more advanced financial instruments and investment opportunities. Capital markets offer a way for companies to raise funds, which helps drive economic development. In the case of Nepal, the growth of its stock market is closely linked to the country's overall economic progress. As Nepal's economy grows, with increasing income levels and a larger middle class, there is greater potential for the stock market to play a more important role in capital mobilization. This theory suggests that the Nepalese stock market has significant growth potential if it can overcome challenges like low investor participation and inadequate infrastructure.

Market Regulation and Governance Theory

Effective regulatory frameworks and strong corporate governance structures are essential for the success of any financial market. The Market Regulation and Governance Theory highlights the critical role of laws, regulations, and institutional systems in maintaining

transparency, fairness, and accountability within the stock market. In Nepal, the regulatory landscape has been progressing, with advancements in areas such as share dematerialization, corporate governance, and market transparency. However, challenges remain, particularly the weak enforcement of regulations, which undermines investor confidence. Building a strong regulatory environment is significant for ensuring the long-term growth and stability of the Nepalese stock market.

Efficient Market Hypothesis (EMH)

The efficient market hypothesis (EMH), proposed by Fama (1970), asserts that stock prices fully reflect all available information, making it impossible to consistently achieve higher-than-average returns. EMH is categorized into three forms:

Weak form: Stock prices reflect all past price information.

Semi-strong form: Stock prices include all publicly accessible information.

Strong form: Stock prices reflect all information, both public and private.

In the context of the Nepalese stock market, Shrestha and Subedi (2014) investigated the weak form of EMH and found that NEPSE does not fully adhere to this form. They observed that past price movements could predict future prices, suggesting that the market is not fully efficient. This inefficiency might be attributed to limited market participation, inadequate information dissemination and the nascent stage of the market.

Economic Growth and Stock Market Development

Economic theory clearly links economic growth with the development of the stock market. The Finance-Growth Nexus Theory suggests that a well-functioning stock market can boost economic growth by giving companies access to capital, encouraging innovation, and creating wealth for investors. On the other hand, a growing economy increases the demand for financial products, including stock market investments. In Nepal, the growth of the stock market is closely linked to the overall expansion of the economy, especially as sectors like infrastructure, banking, and tourism experience growth. This theory implies that as Nepal's economy continues to develop, it will create a favorable environment for the stock market to prosper.

Institutional Theory

Institutional Theory, as described by DiMaggio and Powell (1983), examines how institutions including regulatory bodies, influence organizational behavior and market performance. In the Nepalese context, SEBON plays a crucial role in regulating and supervising the stock market. However, regulatory challenges persist, including inconsistent policies, inadequate enforcement and limited regulatory capacity.

Poudyal (2015), identified that frequent changes in regulations and a lack of clarity have created uncertainties for investors and market participants in Nepal. These regulatory challenges hinder market development and reduce investor confidence, ultimately affecting market performance.

Investor Behavior and Behavioral Finance

Behavioral Finance, which incorporates psychological factors into financial decision making, offers insights into the problems of investor confidence. According to Prospect Theory by Kahneman and Tversky (1979), investors are prone to cognitive biases, such as loss aversion, leading to irrational decision-making.

Investor behavior plays a significant role in the development of stock markets, especially in emerging economies like Nepal. The Behavioral Finance Theory challenges the traditional assumption of rational investors and suggests that psychological factors, such as overconfidence, herd behavior (following what others do), and fear of losses, can lead to market inefficiencies and volatility. In Nepal, speculative trading, driven by psychological biases, is prevalent, contributing to the market's high volatility. Additionally, people still prefer safer investments like real estate or gold, rather than the stock market, due to a lack of knowledge and trust in stocks.

Thapa (2017), observed that investor confidence in the Nepalese stock market is often low due to market manipulation, insider trading and inadequate transparency. These issues erode trust in the market and deter potential investors for participating further exacerbating market inefficiencies.

Endogenous Growth Theory

Endogenous Growth Theory, introduced by Romer (1986), focuses on the importance of internal factors like human capital, innovation, and knowledge in driving economic growth. This theory is relevant to understanding the growth of the Nepalese stock market, where the development of financial infrastructure, regulatory frameworks and investor education can significantly impact market performance.

Koirala (2018), highlighted that the growth of NEPSE has been influenced by improvements in financial infrastructure, such as the introduction of online trading and the establishment of a central depository system. These advancements have enhanced market accessibility and efficiency, contributing to the overall growth of the market.

2.3 Empirical Review

2.3.1 Review of Articles

Wilson and Pradhan (2024) explored the influence of global economic events on the performance of the Nepalese stock market. The primary objective of the study was to assess how major global economic events, such as financial crises or geopolitical disruptions, affect the stock market in Nepal. The authors used an event study methodology, which analyzes stock market responses before, during, and after significant global events to gauge their impact. The findings revealed that global economic crises lead to significant market volatility in Nepal, with sharp declines in stock prices as global uncertainties affect investor sentiment. However, the study also highlighted that the recovery process tends to be slower in Nepal due to domestic challenges, including economic instability, regulatory inefficiencies, and political factors that hinder the market's ability to bounce back quickly. The research suggests that while the Nepalese stock market is vulnerable to global shocks, addressing domestic issues could improve its resilience and speed of recovery.

Chang and Liu (2024) investigated the relationship between stock market development and economic growth in Nepal. The primary goal of the study was to explore the

relationship between stock market growth and overall economic performance. The authors utilized econometric modeling, analyzing indicators such as GDP and various measures of stock market development to understand their interconnection. The findings revealed a positive correlation between stock market development and economic growth, suggesting that as the stock market grows, it contributes to overall economic progress. However, the study also pointed out that structural issues within the stock market, such as inefficiencies and regulatory gaps, continue to pose challenges. Despite the positive relationship, these underlying structural problems may limit the full potential of the stock market in driving sustainable economic growth in Nepal.

Carter (2023) explored the relationship between financial inclusion and stock market participation in Nepal. The study aims to investigate how the level of financial inclusion, including access to financial services and financial literacy, influences participation in the stock market. To achieve this, Carter conducted a survey-based study, focusing on financial literacy and stock market awareness among Nepalese individuals. The findings revealed that low levels of financial literacy and limited access to stock market platforms are significant barriers to broader participation in the stock market. Many individuals lack the knowledge and resources to engage with the market, which hinders efforts to increase financial inclusion and attract more participants. The study suggests that improving financial education and providing better access to stock market platforms could encourage more people to invest, thereby promoting greater participation in Nepal's stock market.

Martinez and Sharma (2023) examined the challenges faced by regulatory bodies in overseeing the Nepalese stock market. The primary objective of the study was to analyze the regulatory challenges and identify the weaknesses in the investor protection mechanisms within the market. The authors conducted a case study focusing on the effectiveness of the existing regulatory framework, particularly in terms of enforcement and investor safeguards. The findings revealed that regulatory weaknesses, such as inadequate enforcement of insider trading laws, have significantly contributed to market inefficiencies. These shortcomings undermine investor confidence, hinder market

transparency, and create an environment where unfair practices can thrive. The study suggests that strengthening regulatory oversight and improving the enforcement of laws, especially concerning insider trading, are crucial for enhancing market efficiency and protecting investors in Nepal's stock market.

Smith and Kumar (2022) investigated the growth and challenges of Nepal's stock market. The study's objective was to analyze the market's growth trajectory and identify key challenges. Using a quantitative analysis of stock market data from 2010 to 2022, the authors examined indicators like market capitalization and trading volumes. The findings revealed that while Nepal's stock market has seen consistent growth in market capitalization, it faces significant challenges, particularly low liquidity and a lack of foreign investment. These issues hinder market efficiency and its attractiveness to both local and international investors, limiting its potential for further development.

Davis and Sharma (2022) evaluated the impact of economic reforms implemented in Nepal since 2015 on the country's stock market. The main objective of the study was to assess how these reforms have influenced market performance, investor confidence, and overall market dynamics. The authors conducted a historical analysis of policy changes and their effects on stock market trends, focusing on key reforms introduced during the period. The study found that the reforms improved market transparency, making it easier for investors to access information and make informed decisions. However, the authors also highlighted that the slow pace of institutional improvements remained a significant challenge, with many reforms not being fully implemented or taking longer than expected to have an effect. Despite these challenges, the study concluded that the reforms had a positive, albeit gradual, impact on the market.

K.C. and Dhakal (2021) analyzed foreign direct investment and the Nepalese stock market. The study investigates the relationship between Foreign Direct Investment (FDI) and the Nepalese stock market. It analyzes how FDI inflows impact stock market performance, focusing on various economic indicators. The authors utilize statistical methods to assess trends and correlations concluding that FDI has a significant positive effect on stock market activity in Nepal. The research highlights the importance of

creating a conducive environment for FDI to enhance economic growth and market stability. Overall, the findings suggest that increasing FDI can lead to a more vibrant stock market in Nepal.

Baker, Bloom and Davis (2021) investigated the relationship between economic policy uncertainty and stock market volatility across various countries. They analyze how fluctuations in policy uncertainty can lead to increased volatility in stock markets, employing a comprehensive dataset that includes multiple international markets. The authors find that higher levels of economic policy uncertainty are correlated with greater stock market volatility, suggesting that uncertainty negatively impacts investor confidence and market stability. Their research emphasizes the need for clear and consistent economic policies to mitigate volatility and promote a stable investment environment globally.

Kaufmann, Kraay, and Masfuzzi (2021) explored the link between institutional quality and stock market performance in developing countries. They analyze various dimensions of institutional quality, such as governance, regulatory frameworks and political stability, to assess their impact on stock market outcomes. The study finds that higher institutional quality is associated with better stock market performance as it fosters investor confidence and encourages investment. The authors argue that improving institutional framework is crucial for enhancing stock market development and economic growth in developing nations. Their findings suggest that policymakers should prioritize institutional reforms to support financial markets.

Claessens and Yortoglu (2020) examined the relationship between corporate governance practices and stock market development in emerging markets. They provide empirical evidence indicating that strong corporate governance frameworks positively influence stock market growth by enhancing investor confidence and promoting transparency. The study highlights various governance mechanisms, such as board structures and shareholder rights that can drive market efficiency and attract investment. The authors suggest that improving corporate governance standards is essential for fostering robust

stock market development in emerging economies, ultimately leading to greater economic stability and growth.

La Porta, Lopez-de-Silanes, and Shleifer (2020) investigated how regulatory quality affects stock market development in emerging economies. They analyze various aspects of regulatory environments, including the enforcement of laws and investor protections and their impact on market growth. The authors find that higher regulatory quality correlates with more developed stock markets, as it fosters investor trust and encourages capital flow. Their research emphasizes the importance of sound regulatory frameworks in enhancing market efficiency and attracting investment in emerging economies, ultimately contributing to overall economic development.

Bekaert, Harvey, and Lundblad (2019) discussed key issues and challenges associated with stock market development in emerging economies. They identify factors that hinder market growth, such as regulatory barriers, macroeconomic instability and inadequate infrastructure. The authors emphasize the importance of sound policies and institutional frameworks in fostering a conducive environment for investments. They also explore the role of foreign investment and the impact of globalization on emerging markets. The paper highlights that addressing these challenges is crucial for enhancing market efficiency and promoting sustainable economic growth in these regions.

Caporale, Howells, and Soliman (2019) investigated the relationship between stock market development and economic growth in developing countries. They analyze the dynamic interactions between these two factors, utilizing econometric models to assess how stock market performance influences economic growth and vice-versa. The findings suggest a bidirectional relationship, where a more developed stock market contributes to economic growth by providing financing for businesses, while economic growth also enhances stock market development through increased investor participation and market liquidity. The authors conclude that fostering stock market development is vital for sustainable economic growth in developing nations.

Henry (2018) examined the effects of financial liberalization on stock market development in emerging markets. Utilizing empirical data, the study analyzes how the

removal of restrictions on capital flows and investment can stimulate market growth. The findings suggest that financial liberalization leads to increased liquidity, greater investor participation and enhanced market efficiency. However, Henry also notes potential risks, such as increased volatility and exposure to global financial shocks. The paper concludes that while financial liberalization can drive stock market development, careful management and regulatory oversight are essential to mitigate associated risks.

Lane and Milesi-Ferretti (2018) explored the relationship between financial globalization and stock market development in emerging markets. They analyze how increased integration into the global financial system influences local stock markets, focusing on capital inflows, foreign investment, and market liquidity. The study finds that financial globalization can enhance stock market development by providing access to larger pools of capital and improving market efficiency. However, they also discuss potential challenges, including increased volatility and susceptibility to external shocks. The paper emphasizes the need for robust regulatory frameworks to harness the benefits of financial globalization while mitigating risks.

Aitken and Harrison (2018) investigated the relationship between Foreign Direct Investment (FDI) and economic growth in developing countries using panel data analysis. They explore how FDI influences growth rates by assessing its impact on capital accumulation, technology transfer and productivity improvements. The findings suggest that FDI has a positive effect on economic growth in developing nations, particularly when accompanied by sound institutional frameworks and infrastructure. The study highlights the importance of creating an attractive environment for FDI to maximize its benefits for sustainable economic development.

Chari and Henry (2017) analyzed the impact of global financial crises on stock market volatility in emerging markets. They investigate how these crises affect market behavior, liquidity and investor confidence. The study finds that global financial shocks tend to exacerbate stock market volatility in emerging economies, often leading to significant fluctuations in asset prices. Their research emphasizes the vulnerability of emerging

markets to global financial conditions and highlights the importance of effective risk management strategies to mitigate the adverse effects of such crises on market stability.

Adjasi and Biekpe (2017) investigated the influence of macroeconomic variables on stock market returns in emerging markets. They examine important indicators like inflation, interest rates, and GDP growth, evaluating how these factors influence stock performance. The findings indicate that macroeconomic variables significantly impact stock returns, with varying degrees of influence across different markets. The study highlights the importance of understanding these relationships for investors and policymakers suggesting that macroeconomic stability is crucial for fostering robust stock market development in emerging economies.

Aggarwal, Klapper, and Wysoki (2017) examined the role of institutional investors in the development of stock markets in emerging economics. They analyze how the presence and activities of institutional investors, such as pension fund and mutual funds, influence market liquidity, efficiency and overall growth. The study finds that institutional investors play a crucial role in promoting stock market development by providing stable capital, improving governance standards, and enhancing market transparency. The authors suggest that policies encouraging the growth of institutional investment can significantly contribute to the maturation of stock market in emerging markets.

Levine and Zervos (2016) explored the relationship between stock market development and economic growth in emerging economics. They provide empirical evidence showing that a well-developed stock market contributes positively to economic growth by facilitating capital allocation, increasing liquidity and promoting corporate governance. The authors highlight that the benefits of stock market development are most pronounced in economies with strong legal and institutional frameworks. Their findings suggest that policymakers should focus on enhancing stock market infrastructure and regulations to support sustainable economic growth in emerging markets.

Beck and Levine (2016) examined the link between stock market liquidity and economic growth. They analyze existing literature on how liquidity affects capital allocation, risk

management and overall economic performance. The authors highlight that greater stock market liquidity can facilitate investment, attract foreign capital, and enhance financial stability. However, they also point out potential downsides, such as excessive speculative trading. The survey concludes that while there is a positive association between stock market liquidity and economic growth, the context and underlying institutional factors are crucial for realizing these benefits effectively.

Pagano and Röell (2015) investigated the role of market infrastructure in the development of stock markets. They analyze various elements such as trading systems, regulatory frameworks and clearing & settlement processes that contribute to market efficiency and investor confidence. The authors argue that robust market infrastructure is essential for attracting investment, enhancing liquidity and reducing transaction costs. Their findings suggest that improvements in market infrastructure can significantly promote stock market development, particularly in emerging economies and highlight the need for policymakers to prioritize these enhancements for sustainable financial growth.

Demirgüç-Kunt and Levine (2014) analyzed the relationship between financial development and economic growth in emerging Asian countries. They utilize empirical data to investigate how financial systems, including banking and capital markets, contribute to economic growth through improved capital allocation and increased investment. The findings suggest that greater financial development positively influences economic growth, with a significant impact observed in countries with well-functioning financial institutions. The authors emphasize the need for policymakers to foster financial sector development to enhance growth prospects in emerging Asian economies.

List of Empirical Studies

The summary of the analysis of the articles relevant to this study is shown in the table below:

S. N.	Authors (Date)	Article	Objectives	Methodology	Findings
1	Wilson & Pradhan (2024)	Impact of Global Events on Nepalese Stock Market Performance	To examine how global economic events affect the Nepalese stock market.	Event study methodology to assess market response to global events.	Identified significant market volatility following global economic crises, but slow recovery due to domestic challenges.
2	Chang & Liu (2024)	Stock Market Development and its Link to Economic Growth in Nepal	To examine the relationship between stock market development and economic growth.	Econometric modeling using GDP and stock market development indicators.	Identified positive connection between stock market development and economic growth, but structural problems still exist.
3	Carter (2023)	Financial Inclusion and Stock Market Participation in Nepal	To investigate the level of financial inclusion and its impact on stock market participation.	Survey-based study on financial literacy and stock market awareness.	Identified that low levels of financial literacy and access to stock market platforms hinder broader participation.
4	Martinez & Sharma (2023)	Challenges in Regulatory Oversight in the Nepalese Stock Market	To analyze the challenges faced by regulators in overseeing the stock market.	Case study of regulatory challenges and investor protection mechanisms.	Found that regulatory weaknesses, including enforcement of insider trading laws, have contributed to market inefficiencies.

5	Smith & Kumar (2022)	The Growth and Challenges of the Nepalese Stock Market	To examine the growth trajectory and challenges facing Nepal's stock market.	Quantitative analysis of stock market data from 2010-2022.	Identified consistent growth in market capitalization, but highlighted issues such as low liquidity and lack of foreign investment.
6	Davis & Sharma (2022)	Economic Reforms and the Nepalese Stock Market	To assess how economic reforms since 2015 have affected the stock market.	Historical analysis of policy changes and their impact on market trends.	Found that reforms improved market transparency but highlighted the slow pace of institutional improvements.
7	K.C. & Dhakal (2021)	Foreign Direct Investment and the Nepalese Stock Market	To explore the impact of liberalization policies on attracting FDI	Comparative analysis of FDI inflows pre- and post-liberalization	Liberalization policies attracting FDI; Increased foreign capital injection
8	Baker, Bloom, & Davis (2021)	Economic Policy Uncertainty & Stock Market Volatility: International Evidence	To analyze the impact of economic policy uncertainty on stock market volatility	Time-series analysis of multiple countries	Economic policy uncertainty increases stock market volatility
9	Kaufman, Kraay, & Mastruzzi (2021)	Institutional Quality & Stock Market Performance in Developing Countries	To study the influence of institutional quality on stock market performance	Panel data analysis of developing countries	High institutional quality correlates with better stock market performance
10	Claessens & Yurtoglu (2020)	Corporate Governance & Stock Market Development: Evidence from Emerging Markets	To investigate the relationship between corporate governance & stock market development	Comparative analysis of corporate governance practices and market performance	Strong corporate governance enhances market stability and investor confidence

11	La Porta, Lopez-de-Silanes, & Shleifer (2020)	The Influence of Regulatory Quality on Stock Market Development in Emerging Economies	To assess the impact of regulatory quality on stock market development	Comparative analysis of regulatory environments and stock market performance	High regulatory quality improves stock market development and investor protection
12	Bekaert, Harvey, & Lundblad (2019)	Stock Market Development in Emerging Economies: Critical Issues and Challenges	To examine the critical issues in stock market development in emerging economies	Literature review and empirical analysis	Emerging markets face liquidity issues, regulatory challenges, and political instability
13	Caporale, Howells, & Soliman (2019)	The Dynamics of Stock Market Development and Economic Growth in Developing Countries	To study the dynamic relationship between stock market development and economic growth	Vector autoregression (VAR) model	Stock market development positively affects economic growth in developing countries
14	Henry (2018)	Financial Liberalization & Stock Market Development: Evidence from Emerging Markets	To investigate the effects of financial liberalization on stock market development	Event study and panel data analysis	Financial liberalization boosts stock market growth and foreign investment
15	Lane & Milesi-Ferretti (2018)	Financial Globalization & Stock Market Development in Emerging Markets	To examine the effects of financial globalization on stock market development	Cross-country analysis of emerging markets	Financial globalization enhances stock market development and integration
16	Aitken & Harrison (2018)	Foreign Direct Investment & Economic Growth in Developing Countries: A Panel Data Study	To investigate the role of FDI in economic growth and stock market development	Panel data analysis of developing countries	FDI positively impacts economic growth and stock market development

17	Chari & Henry (2017)	Stock Market Volatility in Emerging Markets: The Impact of Global Financial Crises	To analyze the impact of global financial crises on stock market volatility in emerging markets	Time-series analysis of market data	Global financial crises increase stock market volatility and risk
18	Adjasi & Biekpe (2017)	The Impact of Macroeconomic Variables on Stock Market Returns in Emerging Markets	To investigate the relationship between macroeconomic variables & stock market returns	Econometric analysis of emerging market data	Macroeconomic variables significantly influence stock market returns
19	Aggarwal, Klapper, & Wysocki (2017)	The Role of Institutional Investors in Stock Market Development in Emerging Markets	To examine the influence of institutional investors on stock market development	Empirical analysis using institutional investor data	Institutional investors enhance market liquidity and stability
20	Levine & Zervos (2016)	Stock Market Development and Economic Growth: Evidence from Emerging Economies	To explore the relationship between stock market development and economic growth	Cross-country regression analysis	Stock market development is positively correlated with economic growth
21	Beck & Levine (2016)	Stock Market Liquidity and Economic Growth: A Critical Survey	To critically survey the relationship between stock market liquidity & economic growth	Literature review and empirical analysis	Stock market liquidity is crucial for economic growth
22	Pagano & Röell (2015)	The Role of Market Infrastructure in Stock Market Development	To explore the role of market infrastructure in stock market development	Case studies and empirical analysis	Robust market infrastructure enhances market efficiency and liquidity
23	Demirgüç-Kunt & Levine (2014)	Financial Development and Economic Growth: Evidence from Emerging Asian Countries	To investigate the impact of financial development on economic growth in Asia	Panel data analysis of Asian economies	Financial development supports economic growth and stock market development

2.4 Research Gap

A research gap highlights the disparity between what has been studied and what remains unexplored. A research gap is an area or topic within a field of study that has not been adequately explored, analyzed, or understood. As the world is growing faster the rapid changes and new developments may not be adequate to explain the current phenomena. In the Nepalese securities market, while several studies exist, critical areas such as growth, challenges, and prospects are inadequately explored. Many past studies lack comprehensive data analysis, relying primarily on secondary sources and neglecting primary data collection. This limitation has restricted a deeper understanding of the market's dynamics and trends.

The impact of regulatory reforms implemented by the Securities Board of Nepal (SEBON) is one significant gap. Despite these reforms aiming to enhance transparency and investor protection, their effectiveness on market dynamics, liquidity, and investor confidence remains largely unexamined. Additionally, comparative studies benchmarking Nepal's market against other emerging economies are rare, which could provide insights into best practices and strategies for sustainable growth.

Moreover, previous research often relied on incomplete or outdated data, failing to integrate primary data from key stakeholders such as investors and market participants. To address this, the current study employs a robust methodology that combines primary collected through questionnaires and secondary data from reliable sources like NEPSE and SEBON.

This study aims to analyze the performance, growth and challenges of the Nepalese securities market, focusing on whether it is on an upward or downward trend. By identifying key issues and opportunities, this research seeks to provide actionable insights for fostering a resilient and efficient market ecosystem. Addressing these gaps will contribute significantly to academic literature and provide practical implications for future researchers, policymakers, and market participants.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Research Design

A research study's plan is known as its research design. The research design provides a framework for carrying out the research. Research design is the comprehensive strategy or study that directs the course of the investigation. A research design includes a structure, strategies, and a plan to accomplish the study's objective. Analysis of primary and secondary data forms the foundation of this study. A combination of descriptive and causality research designs, have been employed to meet the study's goal. The process of characterizing the attitudes or conditions that are in place at the moment is known as descriptive research design and analytical surveys explain and define the reasons behind the existence of particular circumstances. The study includes variables that are associated with the company's performance, market information, and pertinent concepts and variables.

3.2 Population, Sample and Sampling Design

All entities connected to the Nepalese Stock Market are considered as a population for this study. It encompasses all businesses whose shares are listed and traded on NEPSE, as well as institutional and individual stock market participants, and regulatory bodies like SEBON and NEPSE.

The sample would be a subset of this population, chosen to represent key aspects of the market. For this study, the annual reports from the Nepal Stock Exchange and the Securities Board of Nepal were selected as the sample data. Data from ten years, covering the period from 2071/72 to 2080/81 are taken to conduct the study. For instance, it could include the number of companies listed in NEPSE, market capitalization, companies traded in NEPSE and major economic indicator (GDP, Turnover etc.). A purposive sampling method will be used to choose the relevant reports, and a stratified sampling

technique will be applied to gather responses from various groups of market participants, enabling a thorough analysis of the stock market's performance and trends.

3.3 Nature and Sources of Data

Based on the goal and requirements of the study, both secondary and primary data are used in the research. However, secondary data serves as the primary foundation for this research. The MOF- published Economic Survey and the annual reports from SEBON and NEPSE were the sources of the secondary data. The primary data were gathered via structured questionnaires with general public who make stock investments. Important data is also gathered from the internet and different websites. Economic growth (GDP), market capitalization, trading turnover, and NEPSE index are among the variables for which the necessary data are gathered.

Primary Data

Primary data is gathered through questionnaire distribution to investors and stock broker's officers. Primary data are gathered through questionnaire distribution.

Secondary Data

Secondary data for this study include the annual report of the SEBON and NEPSE are the secondary sources of information that are gathered. The internet and other websites are used to gather information related to the study.

3.4 Method of Analysis

The primary goal of the study is to present and analyze the data that are currently available. Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottle et al, 1988).

This study's main focus is on examining the connection between the stock market and economic growth. For this, a variety of relevant instruments and methods have been used. Both statistical and financial tools have been used for the analysis. The study's empirical findings were estimated using annual data for the year 2071/2072 to 2080/2081 period.

3.4.1 Tools of Data Analysis

Data analysis were carried out in an efficient manner in accordance with the patterns of primary and secondary data that are currently available. Simple financial and statistical tools are used primarily for the analysis. These financial and statistical tools are used in the following ways to analyze the data collected and draw conclusions.

3.4.1.1 Financial Tools

Financial tools are resources or instruments that help to make it easier for people, companies or organizations to save, invest, borrow and manage their money. These tools come in many forms, such as tangible, digital or conceptual goods and services. Any paper record, physical or digital that embodies a contract with monetary value is a financial instruments.

- **Percentage Change**

This ratio is used to determine how different change in position amounts. This ratio is computed to assess how quickly or slowly any variable is changing so that the business is moving in the right direction. The method of calculation is as follows:

$$\text{Annual percentage change} = \frac{\text{Amount of this year} - \text{Amount of last year}}{\text{Amount of last year}}$$

- **Trading Ratio**

The ratio of traded companies to total listed companies is known as the company trading ratio. It's not required for shares of every company listed on stock exchange to be traded. Hence, traded companies are those that are listed and whose shares are exchanged on stock exchange. Liquidity is measured by the company traded ratio, and vice-versa. The following formula can be used to get the company traded ratio;

$$\text{Trading ratio} = \frac{\text{Number of Traded Companies}}{\text{Number of Listed Companies}}$$

3.4.1.2 Statistical Tools

Methods and procedures for gathering, analyzing, interpreting and presenting data are known as statistical tools. With the help of these tools, decision based on data can be made with confidence. Several statistical tools are used in this research study to help with more accurate data analysis. The tools are stated below:

- **Arithmetic Mean or Average**

The arithmetic mean, also known as the mean or average, is a statistical measure of central tendency that is obtained by adding up all of the values in a dataset and dividing the result by the total number of values. It stands for the data set's central value.

Mathematically,

Arithmetic Mean (AM) is given by,

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

Where,

X = Arithmetic Mean

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

n = Number of observations

- **Co-efficient of Correlation (r)**

Correlation analysis is the suitable statistical method to quantify the relationship between two or more variables. Correlation measures the strength of the relationship between variables. It is the square root of the multiple correlation coefficient. It is possible for correlation to be negative or positive. A positive correlation is one where there is a direct proportionality between the variables' values. Conversely, the correlation is said to be negative if the values of the variables are inversely proportional. The correlation coefficient has a value in the range of -1 to +1.

"Pearson's coefficient of correlation" is a technique used to measure the relationship between variables. The coefficient of correlation is defined by the following formula:

$$r = \frac{[n(\sum xy) - \sum x \sum y]}{\sqrt{[n(\sum x^2) - (\sum x)^2][n(\sum y^2) - (\sum y)^2]}}$$

Where,

r = Co-efficient of Correlation

x = Independent Variable

y = Dependent Variable

n = Number of Periods

A correlation coefficient of -1 shows a negative correlation, whereas a value of +1 indicates a positive correlation. The variables are uncorrelated when $r = 0$. Two variables are increasing or decreasing in the same direction when r is between 0 and +1. There is an opposite direction of increase or decrease in two variables when r falls between 0 and -1. A perfect positive relationship between the variables is indicated when $r = +1$. A perfect negative correlation exists between the two variables when $r = -1$.

3.5 Research Framework and Definition of Variables

A systematic plan or structure that directs the entire process is called research framework. It summarizes the key components of a study, such as the questions, methodology, analysis and research objectives. Variables can be categorized into two main types: dependent and independent variables.

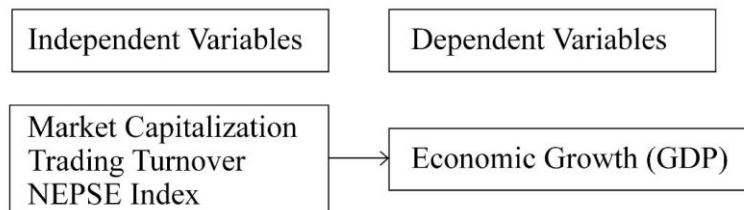


Figure 1. *Research Framework for Stock Market Development and Economic Growth*

Source: Dhungana, B. R. (2023).

- **Gross Domestic Product**

The GDP, or gross domestic product, is a key indicator of economic growth that affects investor and market behavior. An expanding economy is usually indicated by a growing GDP, which can encourage more investment in the Nepal Stock Exchange (NEPSE) by raising corporate profits and stock prices. GDP is frequently used as a growth rate indicator to evaluate the direction of the economy as a whole; higher growth rates typically boost investor confidence. Economic models also treat GDP as a dependent variable, analyzing it in relation to global economic conditions, government policies, and stock market performance to forecast investment strategies and market trends.

- **Market Capitalization**

Market Capitalization refers to the total market value of all outstanding shares of companies listed on a stock exchange, calculated by multiplying the current share price by the total number of shares. It serves as a key indicator of the size and health of a stock market. Market capitalization is often expressed as a percentage of Gross Domestic Product (GDP) to provide insight into the relative size of the stock market compared to the overall economy. A higher market capitalization relative to GDP indicates a larger, more developed stock market, while a lower percentage suggests a smaller or underdeveloped market. This comparison helps assess the depth and potential of the stock market in relation to the national economy.

- **NEPSE Index**

The NEPSE Index is an important measure of the overall performance and development of the Nepal Stock Exchange (NEPSE). It provides a snapshot of the situation and trends of the market by reflecting the combined movement of all listed stocks. The index is used to track changes in stock prices and serves as a barometer for investor sentiment, economic conditions, and market growth. An increase in the NEPSE Index typically indicates market growth and higher investor confidence, whereas a decrease may suggest a slowdown in the market or a period of uncertainty.

- **Trading Turnover**

Trading turnover represents the total value of stocks traded within a given period, serving as a measure of market liquidity. A higher turnover indicates a more active market, where transactions occur smoothly without major price fluctuations. When expressed as a growth rate, it reflects changes in trading activity, highlighting market trends. An increase in turnover suggests greater investor confidence and participation, while a decline may point to waning market interest or concerns over liquidity. In the Nepalese Stock Market, turnover growth is a useful indicator of the market's dynamism and investor sentiment.

CHAPTER - IV

RESULTS AND DISCUSSIONS

4.1 Results

The basic objective of this study is to analyze and present the findings of the research clearly and objectively.

4.1.1 NEPSE Index Movement

Index is one of the most significant secondary market indicators, serving as an insight into the nation's economic trends. The market value of all listed companies is represented by the NEPSE index, an economic indicator that informs investors about the direction of the stock market. The NEPSE index group includes several indices, all calculated based on market capitalization. The overall NEPSE index is the oldest, being calculated since the early days of NEPSE. Other indices in this group include the group-wise index, the float index, and the sensitive index. Investors and financial managers use these indices to compare returns on different investments and to analyze market trends. All listed shares, including promoter shares of all listed companies at NEPSE, are taken into consideration when determining the NEPSE Index.

Table 1
NEPSE Index Movement

Fiscal Year	(In Point)
2071/2072	961.23
2072/2073	1718.15
2073/2074	1582.67
2074/2075	1212.36
2075/2076	1259.02
2076/2077	1362.34
2077/2078	2883.38
2078/2079	2009.46
2079/2080	2097.10
2080/2081	2108.70

Source: Annual Report of NEPSE from 2071/72 to 2080/81

Table 1 shows that the NEPSE index point from FY 2071/72 to 2080/81. From Table 1 the trend of NEPSE index point seems fluctuating. The highest and lowest recorded NEPSE index points were 2883.4 and 961.23 in the FY 2077/78 and 2071/72 respectively. The trend of NEPSE index was found increased by significant points during the last two years.

Annual Sector-wise Index

Although the market capitalization concentration of the commercial bank group has decreased from previous fiscal years, it is still high at 36.73 percent, and this has a significant effect on the NEPSE index in overall. When compared to the opening group-wise index, the twelve-group closing index for the fiscal year 2021/22 decreased. The percentage change for each group is shown in the table below.

Table 2

Change in Group wise Index in Respect to Starting of FY 2021/22

S.N.	Group	Opening Index	Closing Index	Change %
1	Commercial Banks	2057.38	1363.39	-33.73
2	Development Banks	4847.47	3502.59	-27.74
3	Finance	2548.91	1586.93	-37.74
4	Hotels And Tourism	3605.86	2650.39	-26.50
5	Hydro Power	2938.31	2343.65	-20.24
6	Investment	107.97	64.53	-40.24
7	Life Insurance	17667.66	9688.19	-45.16
8	Manufacturing And Processing	6245.69	5091.02	-18.49
9	Microfinance	5514.78	4451.79	-19.28
10	Non-Life Insurance	14457.34	7986.32	-44.76
11	Others	2160.31	1464.03	-32.23
12	Tradings	3757.74	2025.56	-46.10

Source: Annual Report of NEPSE 2021/22

Table 2 shows the trading sector experienced the largest decline in the closing index for the fiscal year 2021/22, coming in at 46.10 percent below the opening index. In the same way, the closing index noticed a decline in the life insurance sector 45.16 percent, non-life insurance sector 44.76 percent, and investment sector 40.24 percent. The manufacturing and processing sector has experienced the lowest decline, at 18.49%, while the remaining sectors have experienced falls of less than 40%.

Sensitive Index

Sensitive index is an index that is determined by taking the market capitalization of businesses that are categorized as belonging to a sensitive group. The index dropped by 28.72 percent to close at 385.91 points when compared to the closing sensitive index for the fiscal year 2020/21. During the fiscal year, the sensitive index peaked at 598.49 and fell to 362.09 at various points. Throughout the period, the average value of the sensitive index is 487.44. The table below displays the sensitive index for the last ten years:

Table 3

<i>Sensitive Index</i>			
Year	High	Low	Close
2012/13	146.07	98.98	129.9
2013/14	222.49	126.69	222.45
2014/15	232.69	178.9	204.67
2015/16	373.05	204.9	369.07
2016/17	405.23	271.77	336.04
2017/18	350.18	248.03	255.2
2018/19	282.85	233.88	271.25
2019/20	347.69	244.86	288.25
2020/21	550.26	287.07	541.41
2021/22	598.49	362.09	385.91

Source: Annual Report of NEPSE 2021/22

4.1.2 Market Capitalization

Market capitalization is a significant secondary market indicator as it is compared to economic indicators. The market value of investors' assets, or market capitalization, varies daily in response to changes in the closing stock prices. Market capitalization is a key measure of the size of the securities market. It is the total value of all outstanding shares of a company. The market capitalization is determined by the number of outstanding shares and the current market price of the company's stock. It is computed by multiplying the closing price by the total number of outstanding shares of the company.

Table 4*Market Capitalization of NEPSE*

(Rs. In Millions)		
Fiscal Year	Amount	Percentage Changes
2071/2072	989403	-6.41
2072/2073	1890130	91.04
2073/2074	1856829.39	-1.76
2074/2075	1435137.67	-22.71
2075/2076	1567499.39	9.22
2076/2077	1792762.67	14.37
2077/2078	4010957.81	123.73
2078/2079	2869344.17	-28.46
2079/2080	3082519.56	7.43
2080/2081	3553677.24	15.28
Average		23.13

Source: Annual Report of NEPSE from 2071/72 to 2080/81

Table 4 shows the amount of market capitalization and their percentage of growth from fiscal year ending 2071/72 to 2080/81. From table 4, the trend of market capitalization was found fluctuating. The highest and lowest recorded market capitalization amount were 4010.74 billion and 989.4 billion in the FY 2077/78 and 2071/72 respectively. Similarly, the growth rate in market capitalization was highest in the FY 2073/74 i.e. 6.94% and lowest growth rate in market capitalization was occurred in the FY 2077/78 i.e. declined by -2.12%. The trend of growth rate in market capitalization was found increased by significant amount during the FY 2073/74. The rising market capitalization shows an increase in the share price of listed companies, reflecting the positive effect of the securities market on investors.

Annual Sector-wise Change in Market Capitalization

Market capitalization is a significant secondary market indicator as it is compared to economic indicators. It is calculated by multiplying the closing price by the total number of shares available in the company. Market capitalization has decreased by 28.46 percent and reached to Rs. 2869344.17 million as compared to the previous year. It was Rs. 4010957.81 million in the fiscal year 2020/21.

Table 5*Group wise Change in Market Capitalization (Rs. in Millions) 2021/22*

S.N	Groups	Opening		Closing		% Change
		Market cap	% of total	Market cap	% of total	
A	Commercial Banks	1584342.31	38.21	1053955.53	36.73	-33.48
B	Development Banks	176882.64	4.27	128420.28	4.48	-27.40
C	Finance	85596.13	2.06	50824.7	1.77	-40.62
D	Hotels and Tourism	62427.68	1.51	45885.82	1.6	-26.50
E	Hydro Power	342325.35	8.26	314232.39	10.95	-8.21
F	Investment	328979.31	7.93	197846.39	6.9	-39.86
G	Life Insurance	359586.21	8.67	213613.06	7.44	-40.59
H	Manufacturing & Processing	151505.57	3.65	123503.2	4.3	-18.48
I	Microfinance	396022.67	9.55	332474.4	11.59	-16.05
J	Non-Life Insurance	276827.92	6.68	152951.97	5.33	-44.75
K	Others	359816.7	8.68	243846.2	8.5	-32.23
L	Tradings	21868.43	0.53	11790.22	0.41	-46.05
Total		4146180.92		2869344.16		

Source: NEPSE Annual Trading Report 2021/22

Table 5 shows the sector-wise market capitalization composition, it was observed that the commercial bank group had the largest total market capitalization, with 36.73 percent of the total market capitalization, despite a 1.48 percent decrease from the opening market capitalization. In terms of opening market capitalization, the commercial bank group's concentration was 38.21 percent. It demonstrates that the commercial bank's concentration has slightly dropped from the prior fiscal year. The micro finance group and the hydropower group, with respective shares of the total closing market capitalization of approximately 11.59 percent and 10.95 percent, are ranked second and third in terms of total market capitalization. From the above table we can see that out of twelve group five group has increased and seven group decreased from the opening market capitalization. The above sector-wise market capitalization also shows that Nepalese capital market is still highly concentrated on banking sector during the period.

4.1.3 Annual Turnover

The total daily transaction amount of all sales and buy transactions that NEPSE conducts and records during the fiscal year is referred to as annual turnover. The total quantity of securities traded is referred to as turnover in the secondary market. Annual turnover is an important metric for assessing the country's economic activity. One of the key indicators of the capital market is the quantity of trading on the stock market; the higher the volume of trading, the higher the stock market liquidity.

Table 6

Annual Turnover of NEPSE

Fiscal Year	Share Units '000'	(Rs. In Millions)	
		Amount	Percentage Changes
2071/2072	160026.25	65425.03	-15.53
2072/2073	303575.21	164651.73	151.66
2073/2074	392881.15	205023.12	24.52
2074/2075	293817.53	121391.09	-40.79
2075/2076	387506.92	110074.97	-9.32
2076/2077	428522.04	150039.45	36.31
2077/2078	3404513.52	1454444.24	869.37
2078/2079	2492010.77	1202101.40	-17.35
2079/2080	1277110.85	467126.94	-61.14
2080/2081	2052150.60	734684.46	57.28
Average			99.50

Source: Annual Report of NEPSE from 2071/72 to 2080/81

Table 6 shows the annual turnover amount and their percentage of growth from fiscal year 2071/72 to FY 2080/81. From table 6, the trend of annual turnover amount seems fluctuating. The highest and lowest annual amount were 1454444.2 million and 65425.03 million in the FY 2077/78 and FY 2071/72 respectively. Similarly, the growth rate in annual turnover amount was highest in FY 2077/78 i.e. 869.37 percent and lowest growth rate in annual turnover amount was occurred in the FY 2079/80 i.e. declined by 61.14 percent. The average change in the annual turnover is 99.50% during the ten-year study period. The trend of growth rate was found increased by significant amount during the last two years due to requirement of capital increment by banks and financial institutions.

Sector-wise distribution of Annual Turnover

Commercial banks, development banks, finance, microfinance, hydropower, hotels, trading, manufacturing and processing, life insurance, non-life insurance, investments, and other are the twelve sectors into which the listed companies in NEPSE are divided. Additionally, the table below contains transaction details for mutual funds, debentures, preferred stocks, and promoter shares.

Table 7

Group-wise Distribution of Annual Turnover during the FY 2021/22

S.N	Group	No. of Shares ('000')		Amount (Rs. In millions)	
		Traded Shares	% of the Total	Traded Amount	% of the Total
A	Commercial Banks	469426.35	18.84	207420.97	17.25
B	Development Banks	230966.3	9.27	127035.96	10.57
C	Finance	156276.43	6.27	101336	8.43
D	Hotels and Tourism	17406.13	0.7	7502.02	0.62
E	Hydro Power	713061	28.61	358672.16	29.84
F	Investment	112436.36	4.51	56314.04	4.68
G	Life Insurance	69251.25	2.78	65420.3	5.44
H	Manufacturing & Processing	17196.53	0.69	43419.44	3.61
I	Microfinance	71799.73	2.88	113645.91	9.45
J	Non-Life Insurance	67096.72	2.69	64184.12	5.34
K	Others	26108.99	1.05	34444.12	2.87
L	Tradings	612.12	0.02	3764.68	0.31
M	Debentures	423.34	0.02	421.04	0.04
N	Mutual Fund	506416.34	20.32	7257.86	0.6
O	Preference Shares	7.3	0	4.49	0
P	Promotor Shares	33525.88	1.35	11258.29	0.94
	Total	2492010.77		1202101.4	

Source: Annual Report of NEPSE 2021/22

Table 7 shows the sector wise annual turnover of NEPSE. Table 7 illustrates, the hydropower sector has the largest share of the total trading volume in terms of both trading volume and number of shares traded. The trading volume of the Hydropower group was Rs. 358.67 billion, accounting for 29.84 percent of the total traded amount. Comparably, with 17.25 percent and 10.57 percent, respectively, the commercial bank

and development bank groups held second and third position. Microfinance and finance companies held the fourth and fifth positions, respectively, with 9.45 percent and 8.43 percent of the trading volume. It demonstrates how highly liquid the hydropower group is in relation to other groups.

Sector-wise distribution of number of trades

Hydropower companies' shares were traded more frequently than those of other sectors in fiscal year 2021/22, which comprised 28.61 percent of all shares traded, according to a division of shares traded among twelve sectors of listed companies. In a comparable way, commercial banks, development banks, and financing companies ranked second, third, and fourth, respectively, in terms of trading volume of all shares traded.

Table 8

Group-wise Distribution of Companies on the basis of Number of Trades

S.N.	Group	FY 2020/21		FY 2021/22		Percentage Changes
		No. of Traders	% of Total	No. of Traders	% of Total	
1	Commercial Banks	3576301	23.2	2664969	18.11	-25.48
2	Development Banks	1052155	6.82	1424820	9.68	35.42
3	Finance	685070	4.44	1097294	7.46	60.17
4	Hotels and Tourism	185602	1.2	112201	0.76	-39.55
5	Hydro Power	3394323	22.02	4626320	31.44	36.3
6	Investment	797107	5.17	1024435	6.96	28.52
7	Life Insurance	1257566	8.16	1058763	7.2	-15.81
8	Manufacturing & Processing	250469	1.62	287983	1.96	14.98
9	Microfinance	1588175	10.3	1278460	8.69	-19.5
10	Non-Life Insurance	1449155	9.4	660858	4.49	-54.4
11	Others	1009253	6.55	269291	1.83	-73.32
12	Tradings	32233	0.21	30859	0.21	-4.26
13	Debentures	4273	0.03	4830	0.03	13.04
14	Mutual Fund	113090	0.73	160825	1.09	42.21
15	Preference Shares	271	0	90	0	-66.79
16	Promotor Shares	22529	0.15	10485	0.07	-53.46
Total		15417572		14712483		

Source: Annual Report of NEPSE 2021/22

Table 8 indicates that, with 31.44 percent of all transactions during FY 2021/22, the hydropower group holds the highest stake in terms of transactions. Commercial banks, Development banks, microfinance companies, finance remains second, third, fourth and fifth position.

4.1.4 Number of Transactions and Listed Securities

The number of transactions indicates the capital markets' liquidity situation. Securities that are listed in the stock exchange have its own code of conduct. According to the stock exchange's current policy, securities must be listed within 12 days of their allotment. Additionally, the stock exchange's rules and regulations govern the listing and delisting of securities.

Table 9

Number of Transactions and Listed Securities in NEPSE '000'

Fiscal Year	No of Transactions	Percentage Changes	No of Listed Securities	Percentage Changes	Ratio
2071/2072	483856	-15.73	1631525	11.1	0.29
2072/2073	838987	73.4	2105437	29.05	0.39
2073/2074	1356515	61.68	2965884	40.87	0.46
2074/2075	1311034	-3.35	3598745	21.3	0.36
2075/2076	1422791	8.52	4206601.98	16.89	0.34
2076/2077	1848773	29.94	4827581.58	14.76	0.38
2077/2078	15417668	733.94	5826048.26	20.68	2.65
2078/2079	14712483	-4.57	6771226.54	16.22	2.18
2079/2080	8644715	-41.24	7387006.41	9.09	1.17
2080/2081	14795645	71.15	8322509.53	12.66	1.78
	Average	913.74	Average	192.62	

Source: Annual Report of NEPSE from 2071/72 to 2080/81

Table 9 shows the number of listed securities, number of transactions and the percentage changes in each fiscal year. Table 9 shows that the number of transactions is fluctuating indifferent fiscal year. The numbers of listed securities are increasing in each fiscal year than previous year during the study period. From table 9 the lowest and highest recorded number of annual transactions were 483856 and 15417668 in the FY 2071/72 and 2077/78 respectively. Similarly, the growth rate in number of transactions was highest in the FY 2077/78 i.e. 733.94% and lowest growth rate in number of trading transactions

was occurred in the FY 2079/80 i.e. declined by 41.24%. The trend of growth rate in number of annual share transactions was found increased by significant number during the FY 2077/78. The numbers of listed securities were highest in the fiscal year 2080/81 with 8322509.53 numbers and lowest in the year 2071/72 with 1631525. The highest percent change was in the year 2073/74 by 40.87 percent and lowest was in the year 2079/80 by 9.09 percent. There is positive growth rate in the number of listed securities.

4.1.5 Listed Companies and Paid up Value

Listed companies are those that have their shares publicly traded on the Nepal Stock Exchange (NEPSE). To be listed on the exchange, these companies have to go through a listing process and meet specific regulatory requirements. The actual sum of money that shareholders have paid for the company's issued shares is referred to as the "paid-up value." It is a component of the total capital of the company and plays a significant role in figuring out its market capitalization. Total paid-up value is calculated summation of the company wise amount obtained after multiplying per unit face value of the stock by number of listed stocks. After the addition of new IPO, FPO, rights, and bonus shares, paid-up value rises.

Table 10

No of Listed Companies and Paid up Value of Listed Share

<i>(Rs in Million)</i>				
Fiscal Year	No of Listed Companies	Percentage Changes	Paid Up Value of Share	Percentage Changes
2071/2072	232	-2.11	157576.10	10.69
2072/2073	230	-0.86	204019.64	29.47
2073/2074	208	-9.57	289590.44	41.94
2074/2075	196	-5.77	352094.55	21.58
2075/2076	215	9.69	412280.73	17.09
2076/2077	212	-1.4	473389.58	14.82
2077/2078	219	3.3	573236.17	21.09
2078/2079	234	6.85	667754	16.49
2079/2080	254	8.55	728952.77	9.16
2080/2081	270	6.30	825048.59	13.18
Average		14.98		195.51

Source: Annual Report of NEPSE from 2071/72 to 2080/81

Table 10 presents' annual data on the number of listed companies and their respective paid-up values over a span of ten fiscal years. In the fiscal year 2071/72, there were 232 listed companies, marking a slight decrease of 2.11% from the previous year. However, the paid-up value increased by 10.69% to 157,576.10 reflecting continued investment in these companies. Moving to 2072/73, the number of listed companies further decreased marginally by 0.86% to 230, while the paid-up value surged significantly by 29.47% to 204,019.64 indicating robust investor confidence and capital flow. By 2073/74, the trend shifted with a notable decline in the number of listed companies dropping by 9.57% to 208, yet the paid-up value escalated by a substantial 41.94% to 289,590.44. This suggests consolidation within the market with fewer but potentially stronger entities attracting larger investments. The trend continued in 2074/75, where the number of listed companies decreased by 5.77% to 196, while the paid-up value continued its upward trajectory, increasing by 21.58% to 352,094.55. In subsequent years, there was a recovery and growth in the number of listed companies, with fluctuations in annual percentage changes. By 2080/81, the number of listed companies reached 270, marking a 6.30% increase from the previous year, while the paid-up value rose by 13.18% to 825,048.59. These figures indicate a dynamic market environment where both the number of listed entities and the capital invested therein fluctuate in response to economic conditions, regulatory changes, and investor sentiment.

4.1.6 Market Day and Average Daily Turnover

A Market Day refers to a single trading session in a particular market, covering the hours from opening to closing. It is the time frame during which trading on an exchange or trading platform takes place, including the purchasing and selling of securities. Average Daily Turnover (ADT) is a critical metric used to measure the level of trading activity within a market over a given period, typically calculated on a daily basis. The average value of securities traded over the course of a standard trading day is represented by ADT. The computation involves dividing the total value of transactions, encompassing both sales and purchases, by the total number of trading days within the examined period.

Table 11*Market Day per Year and Average Daily Turnover*

Fiscal Year	Market Day	% Changes	Average Daily Turnover	% Changes
2071/2072	216	-6.09	302.89	-10.05
2072/2073	233	7.87	706.66	133.31
2073/2074	230	-1.29	891.40	26.14
2074/2075	233	1.3	520.99	-41.55
2075/2076	246	5.58	435.05	0.78
2076/2077	182	-26.02	824.39	89.49
2077/2078	246	35.16	5912.37	617.18
2078/2079	239	-2.85	5029.71	-14.93
2079/2080	236	-1.26	1979.35	-60.65
2080/2081	229	-2.97	3208.23	62.09

Source: Annual Report of NEPSE from 2071/72 to 2080/81

Table 11 presents the average daily turnover, market day per year, and their corresponding percentage changes over the course of the ten-year study period. The number of market days varies from year to year, peaking at 246 days in 2077/78 and 2076/77 and falling to 182 days in 2076/77. There is significant swings in market day including a notable decrease of -26.02% in 2076/77. Daily trading volume is measured by ADT, which varies greatly from 302.89 units in 2071/72 to a peak of 5912.37 units in 2077/78. These figures show significant variations in investor participation and market liquidity over time. There is a significant increase of 617.18% in ADT during 2077/78, followed by declines in subsequent years like -60.65% in 2079/80. These adjustments take into consideration changes in investor sentiment, market dynamics, and economic factors that affect trading activity.

No. of Listed Companies and No. of Traded Companies

Number of listed companies is the entire count of companies whose shares are formally listed and traded on stock exchanges. When a company is listed, its shares can be traded by the general public via the exchange. Number of traded companies indicates the number of listed companies whose shares have actually been traded within a specific period, such as a day, week, month, or year. Not all listed companies may have active trading in their shares at any given time. These figures are essential for evaluating

investor interest, liquidity, and market activity for different listed companies. In order to offer insights into market trends and investor behavior, stock exchanges and financial news sources frequently report on them.

Table 12

No. of Listed Companies and No. of Traded Companies

Fiscal Year	No. of listed companies	No. of traded companies
2071/2072	232	271
2072/2073	230	274
2073/2074	208	270
2074/2075	196	263
2075/2076	215	278
2076/2077	212	268
2077/2078	219	332
2078/2079	234	362
2079/2080	254	404
2080/2081	270	433

Source: Annual Report of NEPSE from 2071/72 to 2080/81

Table 12 shows the number of listed and actively traded companies for each fiscal year from 2071/2072 to 2080/2081, giving an overview of the dynamics of the Nepalese share market over the last ten years. The number of listed companies shows changes in market participation and may be a reflection of changes in regulations or the state of the economy affecting new listings. The number of listed companies peaked at 270 in 2078/2079 and declined to 254 in 2079/2080. Simultaneously, the number of traded companies, which varied from 263 to 433 during that time, shows different levels of investor interest and market activity. The peak of 433 traded companies in 2080/2081 points to a more active trading environment that may have been brought about by market expansions or economic reforms.

4.1.7 Sector-wise division of listed companies

The listed companies in NEPSE has been divided into twelve sectors. With this, at the end of FY 2021/22, NEPSE has 19 companies listed under commercial banks, 16 in development banks sector, 15 companies in finance sector, 48 companies in microfinance sector, 91 in hydropower sector, 6 in hotels and tourism sector, 2 in trading, 9 companies in manufacturing and processing sector, 12 in life insurance and 12 in non-life insurance

sector, 7 companies in investment and 6 in other sector. Amongst the 243 companies that were listed in NEPSE in FY 2021/22.

Table 13

Sector-wise Division of Listed Companies

S.N.	Group	Listed Number	Percentage
1	Commercial Banks	19	8
2	Development Banks	16	7
3	Finance	15	6
4	Hotels and Tourism	6	2
5	Hydro Power	91	37
6	Investment	7	3
7	Life Insurance	12	5
8	Manufacturing & Processing	9	4
9	Microfinance	48	20
10	Non-Life Insurance	12	5
11	Others	6	2
12	Tradings	2	1
Total		243	100

Source: Annual Report of NEPSE 2021/22

Table 13 presents a comprehensive analysis of different sectors or categories along with their respective percentages and numbers. With 91 entries, or 37% of the total, hydropower is the largest category, indicating its predominate role or presence. The significant contribution of microfinance is demonstrated by its subsequent 48 entries, which represent 20% of the total. Notable but smaller shares are held by Commercial Banks and Development Banks, with 19 and 16 entries, or 8% and 7% of the total, respectively. A significant contribution is also made by Finance 15 entries, or 6%, Life Insurance 12 entries, or 5%, and Non-Life Insurance 12 entries, or 5%. There are nine entries 4%, for Manufacturing & Processing, and seven 3%, for Investment. Hotels and Tourism and Others are on the lower end, each with 6 entries, amounting to 2%. Tradings, with only 2 entries, represents the smallest representation overall, accounting for just 1% of the total. The most notable sectors in this distribution are microfinance and hydropower, which demonstrate the diverse focus across different sectors.

4.1.8 Analysis of Growth of Nepalese Stock Market

The number of listed companies, market capitalization, total paid-up capital, number of share transactions, amount of IPO/FPO, number of right shares issued, number of issue managers and brokers, and degree of industrialization, among other factors, have all been used to analyze the overall growth of the Nepalese stock market. Table 14 displays the growth measurement-base statements along with their average score.

Table 14

Result of mean score of survey of growth of Nepalese Stock Market

S.N.	Statements	Agree	Disagree	Neutral	Total	Average Score
1.	The growth number of listed company is satisfactory.	13	5	10	28	2.29
2.	The growth of market capitalization is satisfactory.	19	3	6	28	2.57
3.	The growth amount of IPO/FPO is satisfactory.	22	1	5	28	2.75
4.	Increase in number of institutional investors in stock market is satisfactory.	13	9	6	28	2.14
5.	The number of issue manager and brokers are sufficient.	5	13	10	28	1.71
6.	The trend of paid-up value is increasing.	17	2	9	28	2.54
7.	Listed companies are building confidence of the investors by giving adequate returns.	18	2	8	28	2.57
8.	Listing of new mutual funds are adequate for maintaining liquidity in market.	9	10	9	28	1.96
9.	Number of share transactions has growth compared to past years to broker's presence through branch offices outside valley.	23	2	3	28	2.75
10.	A low level of industrialization and a small volume of securities traded hinders the growth of the stock market.	15	-	13	28	2.54

Table 14 shows the mean results of the growth statements in which the number of share transactions has increased in comparison to previous years due to the broker's presence through branch offices outside of the valley. Statements 3 and 9 have a higher mean score of 2.75, indicating that the growth amount of IPO/FPO is satisfactory, and respondents agreed with this statement. Statement 5 received the lowest score of 1.71, indicating that there are not enough issue managers and brokers. Statement 1 received a score of 2.29, indicating that it is unclear if the growth rate of listed companies is acceptable or not. Statements 2 and 7 both have the same mean score of 2.57, indicating that the market capitalization growth is marginally satisfactory and that most respondents agree that listed companies are gaining investors' trust by providing sufficient returns. The mean score for statements 6 and 10 is 2.54, indicating that respondents agree that paid-up value is on the rise. However, the majority of respondents disagree, stating that the stock market's expansion is hampered by low industrialization and a small volume of securities traded. Statement 4 with a score of 2.14, it was determined that there was insufficient data to determine whether the rise in institutional investors in the stock market was satisfactory or merely neutral. The mean score for statement 8 is 1.96, indicating that the listing of new mutual funds is insufficient to sustain market liquidity.

4.1.9 Analysis of Problem of Nepalese Stock Market

A number of factors have been used to analyze the issues facing the Nepalese stock market, including the sufficiency and complexity of the laws and regulations, information accessibility and availability, the market's overall influence from a small number of large investors, special measures to draw in institutional, foreign, and non-resident investors, the number of issue managers and brokers, the characteristics of rumor-based markets, the lack of professionalism among brokers and investors, the use of traditional technology to trade stocks, the inability of people living in remote areas to access the market, as well as other factors. Table 15 shows the measurement-base statement for the problem and their average score.

Table 15*Result of mean score of survey of problem of Nepalese Stock Market*

S.N.	Statements	Agree	Disagree	Neutral	Total	Average Score
1.	Legal rules and regulations are not sufficient.	14	8	6	28	2.21
2.	Information are not easily available to investors.	21	4	3	28	2.61
3.	Stock market is greatly influenced by small number of large investors.	20	5	3	28	2.54
4.	Brokers are only available in major cities but people living in rural areas have no market access.	20	2	6	28	2.64
5.	Margin lending by bank and financial institutions are not flexible.	12	4	12	28	2.29
6.	Nepalese stock market is the characteristics of rumor based market.	10	5	13	28	2.18
7.	The need of new stock exchange is now realized by investors.	18	2	8	28	2.57
8.	There is no special provision to attract institutional investors.	19	4	5	28	2.54
9.	Lack of professionalism in brokers has hindered the development of stock market.	25	0	3	28	2.89
10.	There is insufficient knowledge of investors about stock market.	20	3	5	28	2.61

Table 15 shows the mean results of the problem statements. The statement that brokers' lack of professionalism has impeded the development of the stock market is one that almost all respondents agree with. It received the highest mean score of 2.89, indicating that the problem statement was agreed upon by the respondents. The respondents could not definitively state whether or not the Nepalese stock market exhibits characteristics of a rumor-based system based on the lowest score of 2.18 for statement number 6. The respondents did not reach a conclusion about whether the rules and regulations were adequate, as indicated by Statement 1 score of 2.21. The respondents agree that investors do not have easy access to information, as well as that investors do not have sufficient

knowledge of the stock market, as indicated by the same mean score of 2.61 for statements 2 and 10. A score of 2.54 indicates that the average respondent agreed with the statement that a small number of large investors have a significant influence on the stock market. The respondents agree with the problem statement, as shown by the average mean score of 2.64 for statement 4, which highlights that brokers are only available in large cities, leaving rural residents without access to markets. Statement 5: Banks and financial institutions do not offer flexible margin lending; this statement received a score of 2.29, indicating a neutral state for the issue. The statements 7 and 8 are supported by the majority of respondents. Investors believe that the Nepal Stock Exchange's monopoly will end with the introduction of a new stock exchange, as reflected by average scores of 2.57 and 2.54. These scores also suggest that there are no specific provisions to attract institutional investors.

4.1.10 Analysis of Prospects of Nepalese Stock Market

Respondents are asked to rank the various measurement base statements with respect to the prospects of the Nepalese stock market. The number of listed companies and their turnover, return from the stock market, investor education program launched by SEBON, legal provisions, trend of large companies listed in NEPSE and growing interest from business and education community members, government policy regarding the stock market, SEBON's on-site and off-site inspections, potential of untapped sectors, nationwide stock market participation, and fully online trading system have all been taken into consideration when analyzing the prospects of the Nepalese stock market. The average score is utilized to analyze these. Table 16 displays the Prospects measurement-base statement and average score.

Table 16

Result of mean score of survey of prospect of Nepalese Stock Market

S.N.	Statements	Agree	Disagree	Neutral	Total	Average Score
1.	The number of listed companies and turnover of listed companies is increasing yearly.	25	-	3	28	2.89

2.	Stock market provide satisfactory return.	16	5	7	28	2.39
3.	An investor awareness program launched by SEBON is successful.	15	6	7	28	2.32
4.	Legal provisions has become easier and improved in comparisons to past years.	19	3	6	28	2.57
5.	Trend of large companies listed in NEPSE and increasing interest of educate and business people are greater prospect for Nepalese stock market.	25	1	2	28	2.86
6.	Government has taken the policy of dynamic, transparent, credible and investor friendly stock market.	14	5	9	28	2.32
7.	Onsite and offsite inspection conducted by SEBON is good news for investors.	2	18	8	28	1.43
8.	Sectors such as manufacturing and hydropower are not explored so such sectors has great potential.	20	4	4	28	2.57
9.	Current position of stock market is participated by individuals residing in cities only, so nationwide participation has great prospect.	18	4	6	28	2.50
10.	The online trading system needs to be introduced because it has great prospects.	24	-	4	28	2.86

Table 16 shows the mean results of the prospects statements in which statement no. 1 has the highest mean score 2.89, indicating that respondents are content with the quantity and turnover of listed companies. The statements "The government has adopted a policy for a dynamic, transparent, credible, and investor-friendly stock market" and "An investor awareness program launched by SEBON is successful" both received the lowest mean score of 2.32, suggesting that respondents neither agree nor disagree with these statements. Statement No. 2, "The stock market provides satisfactory returns," received a score of 2.39, indicating no strong disagreement with the statement. The statement that legal provisions have become easier and improved in comparison to previous years received a score of 2.57 from the respondents, indicating agreement with the statement. With a score of 2.86, the majority of respondents agreed with statement number 5, which

highlighted the trend of large companies being listed on NEPSE and the increasing interest of educated individuals and businesspeople in the Nepalese stock market due to its growing prospects. Statement No. 7 received a score of 1.43, indicating that the SEBON inspection program is ineffective. Statement No. 8 received a mean score of 2.57, indicating that there is widespread agreement that untapped industries like manufacturing, hydropower, and other fields have enormous future potential. With a mean score of 2.50, respondents agreed with statement no. 9, which states that there is great potential for nationwide participation following branch expansion. Finally, the majority of respondents support the imminent launch of an online trading system.

4.1.11 Descriptive Statistics

The primary characteristics of a dataset are summed up and described by descriptive statistics. Based on the mean, maximum, minimum, standard deviation, and number of observations, the descriptive qualities of the variables are highlighted.

Table 17

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Observation
GDP	5.38	5.76	5.5823	0.12708	10
Market Capitalization	6	6.6	6.3247	0.19357	10
Trading Turnover	4.82	6.16	5.4424	0.46867	10
NEPSE Index	2.98	3.46	3.2144	0.14241	10

Source: Calculation of SPSS Software and Appendix III

Table 17 the descriptive statistics provide an overview of the data for GDP and the financial indicators: Market Capitalization, Trading Turnover, and NEPSE Index. GDP values range from a minimum of 5.38 to a maximum of 5.76, with a mean of 5.5823 and a standard deviation of 0.12708, indicating relatively low variability. Market Capitalization shows a wider range from 6 to 6.6, with a mean of 6.3247 and a standard deviation of 0.19357. Trading Turnover has the greatest variability, with values between 4.82 and 6.16, a mean of 5.4424, and a higher standard deviation of 0.46867. The NEPSE Index ranges from 2.98 to 3.46, with a mean of 3.2144 and a standard deviation of 0.14241. Overall, these statistics highlight the central tendencies and variability in the data, emphasizing the differences in dispersion among the variables.

4.1.12 Results of the Pearson's Correlation

A statistical method for determining the existence and strength of a relationship between two variables is correlation. When two variables are correlated, it means that when one variable's value changes, the other variable tends to follow in a particular direction. We can use the value of one variable to predict the value of the other, so it's helpful to understand that relationship.

Table 18

Pearson's Correlation Analysis

		GDP	Market Capitalization	Trading Turnover	NEPSE Index
GDP	Pearson Correlation	1			
	Sig.(2-tailed)				
	N	10			
Market Capitalization	Pearson Correlation	.808**	1		
	Sig.(2-tailed)	0.005			
	N	10	10		
Trading Turnover	Pearson Correlation	.755*	.948**	1	
	Sig.(2-tailed)	0.012	<.001		
	N	10	10	10	
NEPSE Index	Pearson Correlation	.658*	.972**	.933**	1
	Sig.(2-tailed)	0.039	<.001	<.001	
	N	10	10	10	10

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

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

Table 18 the correlation matrix reveals the relationships between GDP and the predictors: Market Capitalization, Trading Turnover, and NEPSE Index. GDP shows a strong positive correlation with Market Capitalization ($r = 0.808$, $p = 0.005$), Trading Turnover ($r = 0.755$, $p = 0.012$), and NEPSE Index ($r = 0.658$, $p = 0.039$), indicating that as these

variables increase, GDP tends to increase as well. Market Capitalization is highly correlated with Trading Turnover ($r = 0.948$, $p < 0.001$) and NEPSE Index ($r = 0.972$, $p < 0.001$), suggesting a close relationship among these predictors. Overall, the results highlight significant positive correlations, underscoring the interconnectedness of these financial indicators in relation to GDP.

4.1.13 Regression Analysis

Regression analysis is a powerful statistical method used to examine the relationship between two or more variables of interest. Regression analysis comes in a variety of forms, but fundamentally they all look at how one or more independent variables affect a dependent variable.

Table 19

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.974a	0.949	0.923	0.03527

a. Predictors: (Constant), NEPSE Index, Trading Turnover, Market Capitalization

Table 19 shows the regression analysis results indicating a strong correlation ($R = 0.974$) between the predictors (NEPSE Index, Trading Turnover, and Market Capitalization) and the dependent variable, GDP. The R-squared value of 0.949 suggests that approximately 94.9% of the variance in GDP can be explained by these predictors, indicating a high level of explanatory power. The adjusted R-squared value of 0.923 reflects the number of predictors in the model, confirming its strength and reliability. Additionally, the standard error of the estimate is 0.03527, suggesting that the model predictions are close to the actual GDP values, further validating the effectiveness of the predictors.

Table 20

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.138	3	0.046	36.949	<.001b
	Residual	0.007	6	0.001		
	Total	0.145	9			

a. Dependent Variable: GDP

b. Predictors: (Constant), NEPSE Index, Trading Turnover, Market Capitalization

Table 20 presents the results of a regression analysis examining the relationship between several predictors (NEPSE Index, Trading Turnover, and Market Capitalization) and the dependent variable, GDP. The regression model explains a significant portion of the variance in GDP, as indicated by a regression sum of squares of 0.138 with an F-value of 36.949 and a p-value less than 0.001, suggesting that the model is statistically significant. The residual sum of squares is low (0.007), indicating that the model's predictions closely match the observed GDP values. Overall, the analysis shows that the combined effect of the predictors significantly influences GDP.

Table 21

Coefficients

Model		Unstandardized		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.097	0.884		-0.11	0.916
	Market Capitalization	1.919	0.295	2.923	6.507	<.001
	Trading Turnover	0.044	0.08	0.163	0.553	0.6
	NEPSE Index	-2.084	0.355	-2.335	-5.868	0.001

a. Dependent Variable: GDP

Table 21 the regression analysis results provide insights into the impact of Market Capitalization, Trading Turnover, and NEPSE Index on GDP. The unstandardized coefficient for Market Capitalization is 1.919, indicating a strong positive relationship with GDP, which is statistically significant ($p < .001$). In contrast, Trading Turnover has a coefficient of 0.044, but this effect is not statistically significant ($p = 0.6$), suggesting it may not have a meaningful impact on GDP. The NEPSE Index shows a negative relationship with GDP, with a coefficient of -2.084 and a significant p-value ($p = 0.001$), indicating that increases in the NEPSE Index are associated with decreases in GDP. The constant term is not significant, indicating that the model's intercept does not have a meaningful value in this context. Overall, the findings highlight the varying influences of these financial indicators on GDP.

4.2 Discussion

The overall findings of the study show some consistency with international article along with some thesis taken into consideration while conducting this study.

Smith and Kumar (2022) analyzed the growth trajectory of the Nepalese stock market from 2010 to 2022, highlighting consistent growth in market capitalization. However, they also identified challenges such as low liquidity and limited foreign investment, which hamper the market's full potential. This finding aligns with the Pearson's Correlation Analysis, which shows a significant positive correlation between GDP and market capitalization suggesting that economic growth contributes to the expansion of the stock market. Similarly, the analysis of trading turnover and market capitalization reveals strong correlations, indicating that increased market activity supports growth. Additionally, the NEPSE Index correlates positively with market capitalization and trading turnover, reflecting a consistent relationship between market performance and broader economic indicators. Both studies emphasize that while growth is evident, issues such as liquidity and foreign investment need to be addressed for further market development. The correlation results reinforce the need for improved market dynamics to overcome these challenges.

Wilson and Pradhan (2024) investigated how global economic events impact the performance of the Nepalese stock market, focusing on market responses to these external factors. They used an event study methodology to evaluate how global crises, such as financial recessions, affected market volatility in Nepal. The findings indicated that while significant volatility occurred following global economic crises, the recovery process was slow due to domestic issues like political instability, infrastructure limitations, and low investor confidence. Descriptive statistics on various economic indicators, including GDP, market capitalization, trading turnover, and the NEPSE Index, were analyzed to assess market behavior. The analysis showed that GDP has a narrow variation, with a mean, while market capitalization indicating moderate stability. The trading turnover and NEPSE Index showed lower levels of volatility, suggesting a somewhat stable market in those areas. These findings highlight the sensitivity of Nepal's

stock market to global events and the challenges it faces in achieving quicker recovery. The authors suggest that improving domestic market conditions could enhance resilience against global economic shocks.

Strong corporate governance in Claessens and Yurtoglu's (2020) study promotes investor confidence, which also indirectly reflected in the strong positive correlations in Nepalese market. For instance, the correlation between Market Capitalization and the NEPSE Index indicates that as market values grow, the overall index strengthens, which likely boosts investor confidence. Similarly, higher GDP and market metrics like Market Capitalization and Trading Turnover could imply a robust economic environment that encourages investor participation. Both analyses emphasize foundational elements corporate governance and GDP that support sustainable market development. Both underscore the importance of underlying drivers for long-term market performance. Chari and Henry (2017) analyzed the impact of global financial crises on stock market volatility in emerging markets, highlighting that such crises lead to increased volatility and risk within these markets. This aligns with this observations regarding the relationships among various economic indicators. A strong positive correlation between GDP and Market Capitalization suggesting that increases in GDP correspond to higher Market Capitalization, which may contribute to market stability even during financial crises. Similarly, findings of a significant positive correlation between GDP and Trading Turnover indicates that a robust economy facilitates greater trading activity, potentially mitigating some volatility during global downturns. Furthermore, a positive correlation between GDP and the NEPSE Index reflecting a moderate relationship that could influence how markets react during crises.

Levine and Zervos (2016) examined the relationship between stock market development and economic growth using cross-country regression analysis. Their findings revealed a positive correlation between stock market development and economic growth. In a similar analysis, Pearson's Correlation was used to assess the relationships between GDP, market capitalization, trading turnover, and the NEPSE Index. The results indicates significant correlations, with market capitalization showing a strong positive relationship

with GDP and trading turnover. Trading turnover was also significantly correlated with the NEPSE Index and GDP had a notable correlation with the NEPSE Index. This suggests that as stock market activities increase, economic growth is likely to follow.

Pagano and Roell (2015) emphasizes the significance of stable economic conditions and their influence on stock market development. This finding indicates a stable GDP, characterized by minimal variation and a low standard deviation, mirroring Pagano & Röell's assertion that robust market infrastructure fosters a consistent economic environment conducive to growth. Similarly, the study observes moderate variation in Market Capitalization, which aligns with their emphasis on the role of effective market structures in facilitating consistent capital flows.

Additionally, there are some inconsistencies that are explored as follows:

Martinez and Sharma (2023) examined regulatory challenges in the Nepalese stock market, focusing on issues like weak enforcement of insider trading laws and investor protection mechanisms, leading to inefficiencies in the market. This study parallels the descriptive statistics provided for various economic and market indicators in Nepal. The mean values for GDP, market capitalization, trading turnover, and the NEPSE Index reflect central tendencies within the stock market and economic indicators. Similar to the regulatory weaknesses highlighted by Martinez and Sharma, the statistics show variability, with a standard deviation indicating inconsistency in market performance. The minimum and maximum values for each indicator further underline the fluctuations that might contribute to market inefficiencies. Both studies suggest that inconsistencies, whether in market performance or regulatory enforcement, hinder the stability and growth of the stock market. Improving regulation and market transparency could help address these challenges and enhance market efficiency.

Chang and Liu (2024) examined the relationship between stock market development and economic growth in Nepal, finding a positive correlation between the two. However, they also highlighted that structural issues within the stock market, such as regulatory inefficiencies and low liquidity, continue to impede its potential for fostering robust economic growth. In contrast, the Pearson's correlation analysis presented in the table

shows a strong positive correlation between GDP and stock market indicators such as Market Capitalization and Trading Turnover with NEPSE Index also showing a weaker positive correlation. These correlations are statistically significant, indicating that as stock market metrics improve, GDP tends to rise as well. However, unlike Chang and Liu's econometric modeling, which may account for underlying causal relationships and structural challenges, the Pearson correlation only identifies linear relationships without exploring the deeper dynamics or potential barriers that could limit the impact of stock market development on economic growth.

Davis and Sharma (2022) studied economic reforms and the Nepalese stock market assess the impact of economic reforms since 2015 on the Nepalese stock market. They conducted a historical analysis of policy changes, focusing on how these reforms have shaped market trends. The study found that while these reforms improved market transparency, the pace of institutional improvements remained slow. On the other hand, descriptive statistics of key market indicators, such as GDP, market capitalization, trading turnover, and the NEPSE index, show relatively stable trends.

Baker, Bloom, and Davis (2021) emphasized volatility due to economic policy uncertainty, while this study indicates stability through strong, positive correlations. For instance, a strong GDP is associated with higher Market Capitalization and NEPSE Index values, suggesting growth and stability rather than volatility in response to economic factors. This contrast reflects how stability, rather than volatility, characterizes the Nepalese stock market under positive economic growth. Baker, Bloom, and Davis examined how policy uncertainty (a specific form of economic uncertainty) affects volatility. This study, however, does not focus on policy uncertainty but rather on how broader economic factors (like GDP) correlate with market behavior.

Henry's (2018) analyzed on financial liberalization and stock market development in emerging markets examines how liberalization policies impact stock market growth and foreign investment. Whereas, the study focus on the influence of stock market indicators on GDP, Henry's focus is on how financial liberalization policies drive stock market expansion and increase foreign capital inflows. This approach emphasizes the role of

policy as a macroeconomic influence on the market, rather than the predictive power of specific market variables.

Lane and Milesi-Ferretti's (2018) examined on financial globalization and stock market development investigates how the integration of financial systems across borders influences stock market growth and development in emerging economies. Unlike the correlations in this analysis, which focus on the relationships between domestic economic indicators like GDP, Market Capitalization, and the NEPSE Index, Lane and Milesi-Ferretti's work centers on the broader impact of financial globalization, examining how cross-border capital flows and financial openness contribute to stock market advancement and market integration. This broader, global perspective differs from our model's domestic focus on GDP's relationships with specific market variables.

Aitken and Harrison (2018) emphasized the role of Foreign Direct Investment (FDI) as a significant driver of economic growth and stock market development in developing countries, asserting that FDI enhances capital inflows, technology transfer, and market integration. In contrast, this analysis highlights the correlations among key economic indicators without focusing on external factors like FDI. For instance, this finding show a strong positive correlation between GDP and Market Capitalization indicating that higher GDP is associated with increased Market Capitalization, while Aitken and Harrison would attribute this relationship to the influence of FDI.

Aggarwal, Klapper, and Wysocki (2017) focused on the role of institutional investors in enhancing stock market development within emerging markets, employing empirical analysis to establish how these investors contribute to market liquidity and stability. While, this study examines the combined effects of the NEPSE Index, Trading Turnover, and Market Capitalization on GDP that confirms the statistical significance of regression model. This highlights a broader macroeconomic perspective, while their study specifically addresses the micro-level impacts of institutional investors. This finding includes a Regression Sum of Squares of indicating the extent of variance in GDP explained by predictors, which diverges from the focus on liquidity and stability in the context of institutional investor impact.

Demirgüç-Kunt and Levine (2014) explored the impact of financial development on economic growth in emerging Asian countries using panel data analysis. Their study found that financial development, including advancements in stock market systems, plays a significant role in fostering economic growth by improving financial intermediation and facilitating better resource allocation. This supports the notion that a developed financial sector, including a robust stock market, is crucial for long-term economic prosperity. Inconsistence with the descriptive statistics for the stock market in Nepal, including GDP, market capitalization, trading turnover, and the NEPSE Index, provide a different analytical approach. Market capitalization and trading turnover also exhibit moderate variation, with the NEPSE Index showing mean indicating a more limited market performance compared to the broader findings of Demirgüç-Kunt and Levine, who highlight the positive relationship between financial and stock market development and economic growth.

CHAPTER – V

SUMMARY AND CONCLUSION

5.1 Summary

The stock market has grown to be a crucial component of economic growth in recent years. It can be extremely helpful in promoting and directing savings so that business owners can fund profitable economic ventures. The stock market facilitates direct communication between capital fund suppliers and users. Consequently, there are theoretical and practical viewpoints on the stock market. The primary goal of this study is to assess the state of the Nepalese stock market. The study's specific goals are to examine the development of the Nepalese stock market, identify issues that the market has addressed, and assess the market's future.

The analysis of primary and secondary data forms the basis of this study. The official websites of SEBON (<https://www.sebon.gov.np/>) and NEPSE (<https://www.nepalstock.com.np/>) are the sources of the necessary secondary data. A survey of different respondents and an indirect interview with investors and officers of related authority have been conducted to further support this study. Throughout the study period, weighted average and percentage analyses were performed on secondary and primary data using various tabular and graphic presentations. The research design used for this study is a combination of analytical and descriptive. The number of listed companies, market capitalization, amount of IPO/FPO, number of issue managers and brokers, paid-up value, and amount of issue approval are the factors used to analyze the growth of the Nepalese stock market. Many measurement-base statements are used to analyze primary data using a Likert scale.

While analyzing the secondary data, the growth of listed companies was all positive except in the fiscal year 2071/72, 2072/73, 2073/74, 2074/75 and 2076/77. This was because, in the fiscal year 2071–72, the economy was negatively impacted by the devastating earthquake of 2072–01–12, and problems with international trade resulting

from disturbances on the southern border significantly impacted overall economic activity. Due to the challenges of low levels of economic activity, low government capital expenditure, and low opportunities for private sector investment, the fiscal year 2072–2073 saw a notable slowdown in economic growth. The decline in investor confidence in the capital market was reflected in the trend of fluctuating growth rates for both the annual turnover and NEPSE index. Because of the dematerialization of shares, the number of trading transactions has increased dramatically. Due to the listing of new shares of newly formed companies as well as bonus and right shares of already established companies, the market capitalization trend is growing at a positive rate and the paid up value is all positive.

The market capitalization, amount of IPO/FPO, and number of share transactions all showed satisfactory growth, according to the primary data analysis. However, the majority of respondent's express dissatisfaction with the quantity of brokers and issuer managers. On the other hand, most respondents agreed that the primary issues with the Nepalese stock market are the lack of professionalism among brokers, the lack of information, the influence of a small number of large investors, the lack of knowledge among investors, the necessity for a new stock exchange, etc. Investors, on the other hand, face a number of challenges and difficulties during their transaction period. The respondents, however, were unable to definitively state whether or not the Nepalese stock market exhibits rumors. The Nepalese Stock Exchange has also witnessed a number of promising developments, including a rise in the quantity and turnover of listed companies, better and more user-friendly legal provisions, an increase in the trend of major companies in NEPSE, and a growing interest in the stock market among educated and businesspeople. The primary opportunity for the Nepalese stock market is nationwide participation, as the stock market currently only allows participation from people who live in cities.

5.2 Conclusions

The Nepalese stock market has grown in market capitalization and the number of investors. There are still issues, though, like inadequate regulatory frameworks, a lack of market depth, and low financial literacy. Despite these problems, there are encouraging opportunities for its growth with better infrastructure and transparency. More institutional participation and more reliable regulations might encourage further development. In general, the market could develop into a more vibrant and long-lasting component of Nepal's financial system.

The NEPSE index, market capitalization, and trading turnover all have a major impact on Nepal's economic growth. Market capitalization, a measure of listed companies' worth, encourages investor confidence and signals reliable financial markets, both of which have a positive effect on economic growth. Similarly, by ensuring effective capital allocation and promoting investment, trading turnover a measure of the stock market's liquidity supports economic growth. As an indicator of economic health, the NEPSE index, which represents the performance of the stock market overall, rises in combination with increased economic activity. Taken together, these elements demonstrate how vital a healthy stock market is to Nepal's economic growth.

Despite it has experienced growth over the years, the Nepalese stock market still faces many obstacles, including low investor participation, low market liquidity, a lack of financial literacy, insufficient regulations, and political instability. Their growth and full potential are hindered by these problems. Market efficiency and investor confidence may increase if these issues are resolved. For it to develop sustainably, the regulatory framework must be strengthened and financial literacy must be encouraged. These obstacles must be removed in order to create a more stable investment environment and improve the prospects for the Nepalese stock market in the future.

5.3 Implications

Based on the findings of multiple research studies, including this one, the study has arrived at the following recommendations.

- The entire Nepalese securities market must be governed by the Securities Board of Nepal. A sufficient and well-trained workforce with knowledge of all aspects of the securities market is necessary for the Board to function effectively. In order to meet global standards, it should establish fresh and developing stock market regulations.
- In order to develop the stock market, Nepal Rastra Bank and the Securities Board should work together efficiently.
- Specific criteria should be used to help manage the listing and delisting of the firms in an effective manner.
- In order to draw foreign portfolio investments into the domestic market, specific provisions should be made.
- The investors should have access to as much information as possible for the lowest possible price.
- Clear laws should be established to protect investors' rights.
- As soon as possible, the stock market should implement equitable and consistent government policies, such as capital gain taxes, the expansion of investment instruments and sectors, bank-licensed brokers, and approval of non-resident Nepalese investors.

The Nepalese stock market suffers from low investor knowledge, a lack of information, and the influence of a small group of large investors. So many programs should be launched by the concerned authority.

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Appendix

Appendix I

Indicator of Economic Growth

(Rs. In Millions)

Fiscal Year	GDP
2071/2072	242363.85
2072/2073	260818.44
2073/2074	307714.49
2074/2075	345594.93
2075/2076	385893.04
2076/2077	388870.37
2077/2078	435255.02
2078/2079	493369.66
2079/2080	538133.51
2080/2081	570484.00

Appendix II

Indicator of Stock Market

Fiscal Year	Market Capitalization	Trading Turnover	NEPSE Index
2071/2072	989403	65425.03	961.23
2072/2073	1890130	164651.73	1718.15
2073/2074	1856829.39	205023.12	1582.67
2074/2075	1435137.67	121391.09	1212.36
2075/2076	1567499.39	110074.97	1259.02
2076/2077	1792762.67	150039.45	1362.34
2077/2078	4010957.81	1454444.24	2883.38
2078/2079	2869344.17	1202101.40	2009.46
2079/2080	3082519.56	467126.94	2097.10
2080/2081	3553677.24	734684.46	2108.70

Appendix III

Log Values of Economic Growth and Stock Market Indicators

Fiscal Year	GDP	Market Capitalization	Trading Turnover	NEPSE Index
2071/2072	5.38	6.00	4.82	2.98
2072/2073	5.42	6.28	5.22	3.24
2073/2074	5.49	6.27	5.31	3.20
2074/2075	5.54	6.16	5.08	3.08
2075/2076	5.59	6.20	5.04	3.10
2076/2077	5.59	6.25	5.18	3.13
2077/2078	5.64	6.60	6.16	3.46
2078/2079	5.69	6.46	6.08	3.30
2079/2080	5.73	6.49	5.67	3.32
2080/2081	5.76	6.55	5.87	3.32

QUESTIONNAIRE

Dear sir/Madam

I have been writing a thesis on “NEPALESE STOCK MARKET IN THE LIGHT OF ITS GROWTH, PROBLEMS AND PROSPECTS.” in partial fulfillment of the requirement for the degree of Master of Business Studies (MBS). This questionnaire has been developed and presented towards you as a part of study.

I humbly request you to fill it up at the best of your knowledge. Your kind cooperation in this regard will be great value for me.

I shall be highly obliged for prompt responses as for as possible.

Thank you.

Jasmina Koirala

Researcher

Shanker Dev Campus

Putalisadak, Kathmandu

Please answer the following questions with tick mark in appropriate space and as required by the questions.

Respondent:

Name:

Address:

Phone No.:

Section 1: Demographic Information

Name:

1. Gender:

- Male Female Other

2. Age:

- Under 18 18-25 26-35
 36-45 46-55 Over 55

3. Education Level:

- Less than high school High school diploma/GED
 Some college/Associate's degree Bachelor's degree
 Master's degree Doctoral degree

4. Occupation:

- Employed full-time Employed part-time Self-employed
 Student Retired Unemployed
 Other (please specify: _____)

Section 2: Statements

Please make a tick mark in each statement as to your opinion on the following statements:

1. Growth of Nepalese Stock Market

S.N.	Statements	Agree	Disagree	Neutral
1.	The growth number of listed company is satisfactory.			
2.	The growth of market capitalization is satisfactory.			
3.	The growth amount of IPO/FPO is satisfactory.			
4.	Increase in number of institutional investors in stock market is satisfactory.			
5.	The number of issue manager and brokers are sufficient.			
6.	The trend of paid-up value is increasing.			
7.	Listed companies are building confidence of the investors by giving adequate returns.			
8.	Listing of new mutual funds are adequate for maintaining liquidity in market.			
9.	Number of share transactions has growth compared to past years to broker's presence through branch offices outside valley.			
10.	A low level of industrialization and a small volume of securities traded hinders the growth of the stock market.			

2. Problem of Nepalese Stock Market

S.N.	Statements	Agree	Disagree	Neutral
1.	Legal rules and regulations are not sufficient.			
2.	Information are not easily available to investors.			
3.	Stock market is greatly influenced by small number of large investors.			
4.	Brokers are only available in major cities but people living in rural areas have no market access.			
5.	Margin lending by bank and financial institutions are not flexible.			
6.	Nepalese stock market is the characteristics of rumor based market.			
7.	The need of new stock exchange is now realized by investors.			
8.	There is no special provision to attract institutional investors.			
9.	Lack of professionalism in brokers has hindered the development of stock market.			
10.	There is insufficient knowledge of investors about stock market.			

3. Prospects of Nepalese Stock Market

S.N.	Statements	Agree	Disagree	Neutral
1.	The number of listed companies and turnover of listed companies is increasing yearly.			
2.	Stock market provide satisfactory return.			
3.	An investor awareness program launched by SEBON is successful.			
4.	Legal provisions has become easier and improved in comparisons to past years.			
5.	Trend of large companies listed in NEPSE and increasing interest of educate and business people are greater prospect for Nepalese stock market.			
6.	Government has taken the policy of dynamic, transparent, credible and investor friendly stock market.			
7.	Onsite and offsite inspection conducted by SEBON is good news for investors.			
8.	Sectors such as manufacturing and hydropower are not explored so such sectors has great potential.			
9.	Current position of stock market is participated by individuals residing in cities only, so nationwide participation has great prospect.			
10.	The online trading system needs to be introduced because it has great prospects.			

Thank you very much for your cooperation!

NEPALESE STOCK MARKET IN THE LIGHT OF ITS GROWT...

By: Jasmina Koirala

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ABSTRACT The Nepalese stock market serves as a critical pillar in the nation's economic framework, enabling capital mobilization, investment opportunities, and wealth creation. Since its inception, the market has grown substantially, marked by an increase in the number of listed companies, higher market capitalization, and broader investor participation. Despite its progress, the stock market in Nepal faces persistent challenges that impede its development and limit its contribution to economic growth. The study explores these issues in detail, highlighting critical barriers such as insufficient market liquidity, a limited and concentrated investor base, and inefficiencies in regulatory and institutional frameworks. Moreover, the lack of diverse financial instruments, such as derivatives, bonds, and ETFs, reduces the market's attractiveness and limits its ability to accommodate varied investment preferences. Technological shortcomings, such as outdated trading systems and delays in implementing advanced digital platforms, also hinder market efficiency and accessibility. However, amidst these challenges, the Nepalese stock market holds significant growth potential. Recent reforms in regulatory practices, efforts to enhance transparency, the introduction of automated trading systems, and initiatives to promote financial literacy are steps in the right direction. Furthermore, increased interest from foreign investors, the development of emerging sectors, and the possibility of establishing alternative trading platforms present opportunities for expansion. This study underscores the importance of addressing these barriers to unlock the full potential of the Nepalese stock market. Key recommendations include diversifying financial products, fostering an inclusive and robust regulatory environment, promoting investor education, and leveraging technology to improve accessibility and efficiency. Keywords: Nepalese stock market, economic