

CHAPTER-1

Introduction

1.1 General background

Nepal is developing country in which financial market plays an important role for corporate development. The capital market is the place or mechanism in which various kind of instruments are issued, transferred from one person/parties to another persons/parties by means of different ways of trading means from which the group of people having exceed funds, can utilize their funds in the productive sectors and the group of people, to whom the funds are require to run their business can also get funds. This process can help the economy rise up.

The financial market becomes the most important sector for forecasting the different productive activities in the economy. The financial market consists of the money market and capital market. The capital market plays the vital role of transfer and saving mainly of household sector to the companies, government and public sector. "Capital market refers to the link between lenders and borrowers of the funds, arranging of fund transfer process to seek other's benefit. (Sharpe at.al.2002:47)

The capital market is designed to finance a long term investment. i.e. it provides a wide range of investment alternatives of financial assets like stock and bond. (Rose 1983:2).In context of security market the capital market consist of various securities such as equity and debt nature. Debt instrument are sold in the market as debt securities which are issued by government unit and corporate bodies. (Brigham and Gapanski 1985:476). In general only a piece

of paper represents the investor's right to certain prospects or property and the condition under which he/she may exercise those right which serving as evidence of property rights is called security. (Sharpe at.al.2002)

According to security exchange act 1983, "Security means shares, stock, bond, debentures issued by a corporate body or certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by government of Nepal and it includes the securities issued under full guarantee of government or security as prescribed by government by a notification published in the Nepal gazette or receipt relating to deposits of securities as well as rights and interest relating to securities.

Securities transaction is a major component of the capital market system. Securities market exists in order to bring together buyer and seller of securities meaning their mechanism are created to facility the exchange of financial asset. In the securities market, various security instruments such as common stock, preferred stock, right share, mutual fund/unit, bond and treasury bonds etc are traded. It can be further classify in to primary market and secondary market.

The market whereby the corporation acquires the long term funds by issuing the security to the general public through initial public offering (IPO) and right issue is known as primary market. This is the first issue market that attracts investors to invest in the shares of the issuing companies. The success of the capital market depends on primary market and this ultimately provides a basis for multiple transactions in secondary market.

Secondary market is the market for the existing securities, second hand securities are bought and sold in the secondary market. Its

main function is to provide liquidity to the purchasers of securities. This market remains as a centre to convert stocks, bonds and other securities into cash immediately. Since, the secondary market provides liquidity to the securities the investors are encouraged to buy securities in the primary market.

Since the restoration of democracy in 1990, Nepal has been consistently pursuing liberal economic policies for the economic development of the economy of the country. The economic policies adopted in the country are lead towards enhancing the environment for market oriented economy. Similarly, Government of Nepal has also been undertaking measure for economy reforms on commensurate with these policies with a view to maximize the benefit from the liberal and market oriented economic policies.

Reform programs were initiated in the early 1990s and covered almost all sectors of the economy including trade, investment, fiscal and monetary policies, financial and capital markets policies of deregulation and implication of procedures having significantly improved the foreign investment climate prevailing in the country. As a result, foreign investors have been increasingly attracted to Nepal relatively liberal policies. Particularly on industry, commerce and foreign-investment. It is also evident from the fact more than 39 countries have so far invested Rs. 71.23 billions for more than 649 projects since the initiation of liberal economic policies in the early 1990s. (Concept paper of poverty reduction strategy paper 10th plan, National planning commission, KTM, Feb 2002). Appropriate financial reforms initiated since mid 1980s and expedited in the 1990s, have encouraged many commercial and joint venture banks as well as finance companies to open up. The policies of economy liberalization have also been instrumental in creating a favourable environment for private sector participation

in the management of economy.

Moreover, Government of Nepal has also undertaken significant measure to reforms capital market of the country. In various development plans, the growth of capital market has been emphasized, but in the tenth plan (2002-2007), capital market development plans, objectives policies and programmes have been spelled out comprehensively with additional improvements to create sufficient enabling conditions for the sound and steady growth of capital market in the country. Modernization of the stock exchange, strengthening institutional capacity SEBO and CRO establishing central depository system securities etc. regarding the Nepal stock Exchange in 1993 can be considered as the most significant steps towards the development of capital market.

The public offering of the share by Biratnagar jute mills Ltd and Nepal Bank Ltd in 1937 can be considered as the first step initiated towards building up of capital market in Nepal. These are the first joint stock enterprises in Nepal. The capital requirement was collected both from government level and private sector. Introduction of the company act in 1964 can be considered to be another step forward as this act empowered the entrepreneurs to incorporate organization by issuing shares. It was true that in the view of unorganized stock market, Government had felt the need for stock market before implementing capital market was taken only in 1976. In accordance with a program initiated to reform capital market. Government of Nepal converted the security exchange center in to Nepal stock exchange in 1993. Nepal stock exchange act 1993, which also has the provision for listing companies in the securities market. The security board of Nepal (SEBO/N) was formed to regulate and develop the transaction of securities. Likewise, Nepal stock exchange (NEPSE), as the

successor of securities Exchange center (SEC) was establishment to facilitate the transaction of the stock in its floor through it's member intermediaries such as brokers, security dealers and market makers. NEPSE started it's organized open cry system in its floor on 13th January 1994. However, NEPSE was established in 1993, there were transect only corporate securities. At present, Government securities have also listed in NEPSE and started to transect on the floor of the NEPSE since December,2006.At present, NEPSE has been successful enough for replace open cry system by the automations in stock trading through electric devices in addition to undertaking legal and imitational improvement measure. NEPSE has encouraged wide Area Network (WAN) to encourage the internal trading. Measures and efforts are going on to provide derivative market, OTC, disclosure requirement, cross border listing etc. There are more than 142 companies securities listed on NEPSE till the fiscal year 2007/08 (The number of listed companies in the Fiscal Year 2007/08 reached 148 with the listing of 13 new companies. However, the number of listed companies at the end of the fiscal year came down to 142 with the delisting of five companies and merger of two).

1.2 Statement of Problems

Development of capital market in general and the stock market in particular is a must for the sound industrial development of the country. Since any plan and program for the development requires a constant and long term supply of capital or funds. There is no denying the significance of capital market as an effective means of mobilizing resources from one sector to another. Capital market's institution helps to mobilize the surplus unit into the scattered resources and canalize them into productive sector. It is an

effective instrument of expanding productive capacities of the country.

Stock market helps to expand direct finance to industries and business concern through the mobilization of scattered saving. The securities market in Nepal, initially meant for the creation and development of government securities, has turned into a full fledged stock market creating a good prospect for raising capital through the public to finance equity short fall of the industrial venture. (Khatiwada Y .R, 2000:63). Nepalese securities market covers different important sector such as banking, finance companies, insurance, hotel, manufacturing and processing , trading, air service etc. The performance of these sectors will have significant bearing on the economic growth and prosperity of the country. These are also the sector that have undergone significant transformation in term of policies at national level and are considerably and consistently affected by the trends and characteristics of the global economic integration. Similarly, these sectors also constitute the significant agenda item of reform prescribed by the donor countries and institutions. Moreover these sectors are also likely to face competition within the country as well as beyond at regional and international level, as the country keep on pursuing the liberal and open market economic policies. Nepal's firm commitment to liberalization, its emphasis on creating a conducive environment for foreign investment as well as its membership of WTO indicate the need of development capital market in particular and further strengthening and preparing the sectors enlisted to cope with the challenges ahead. Specially, the study addresses:

- 1 What is the growth and development of securities market in Nepal?

- 2 How does securities market affect consumers price index (inflation rate)?
- 3 Are the infrastructures for the securities market adequate?
- 4 What are the opinions and views of investors on securities market?
- 5 What are the main reasons for under development of securities market in Nepal?

1.3 Objectives of the study

The major objectives of the study are as follows:-

- 1 To analysis the growth of securities market in Nepal.
- 2 To examine the relationship between securities market and growth of GDP.
- 3 To examine the relationship between securities market and inflation rate.
- 4 To examine the opinion and views of different group like executives of the listed companies, securities market's experts and investors on various aspects of securities market in Nepal.

1.4 Significance/Importance of the study

The major significance of this study is as follows:-

- 1 It helps to light a short picture of Nepalese securities market for the required person.
- 2 The study provides literate to further researchers in this area.
- 3 This research will be useful to university student who are curious to know about Nepalese security market, various aspects of security market, problem faced by securities market etc.
- 4 This study might be helpful or benefited for policy maker, administrators, investors, brokers and market makers to forms policy, rule and regulation and to investment in security market.

1.5 Limitation of the Study

Due to the various constraints, this study has been able to introduce only certain aspect of the securities market in Nepal. The limitations of the study are as follows:

- a. The present study is based on certain aspects of structure of securities market and its impact on inflation rate. This study has not been showed the sector wise paid up value annual and market capitalization rate of total securities of listed companies in NEPSE.
- b. Calculation of the study is fully dependent on the accuracy of the data provided by the respected organizations and respondent.
- c. The data has to be conducted in the absence of adequate data and information.
- d. The data have been taken for the period of 1993-2008 for GDP and inflation rate. However, government securities data have been taken from 1984-2008.
- e. The study is mainly based on secondary data collection.

1.6 Organization of the Study

The study has been organized in to five chapters and each are devoted to some aspect of the study of security market in Nepal. The organization of the study is arranged as follows:

In the first chapter, introduction of the study topic and the other relevant topic are given which provides the background of the study and introduction of securities market.

Chapter two includes the study of the review of literature. It has mainly two parts. One is conceptual framework and next is review of related studies. In this chapter, the important researches by

academician and researcher's studies are reviewed that give sample to new researcher.

The third chapter is for research and methodology. It gives the idea of research design, information of the population and samples used for the study purpose. Similarly data collection method, tools and technique of analysis are also given in this chapter.

Chapter four is the most crucial and main part of the study. It represents the data and information collection from primary and secondary sources. First the data available from primary and secondary collection method are analyzed and interpreted by using various tools and techniques.

The fifth and the last chapter include summary and conclusion of the study and also include some recommendations and suggestions that were found relevant to suggest and recommended from the study.

CHAPTER TWO

Review of Literature

The first chapter provides the introduction, problems, objectives and the limitation of this study where as this chapter provides the bases and inputs for this study gathering different types of information from other related books, journal and past thesis related to this Study. Review of literature means reviewing research studies or other propositions in the related area of the study so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work. (Joshi, 2001:89) The review of literature has been classified in three sections. First section presents a discussion on the conceptual framework. Review of relevant studies has been included in 2nd section while research gap included in section third.

2.1 Conceptual Framework

2.1.1 Introduction of Securities

A security in the process of transfer of money or money's worth is a piece of paper evidence of the transfer of money or money's worth and security holder's claim to receive future return. In business field, it represents debt or equity commitments in the form of debt instrument or stock certificates which being negotiable are trade in the market. (Campbell and viceria, 2001:99) stock market bond governmental as well as non governmental receipts of bank deposits and postal saving deposits, insurance policies derivatives, mutual fund certificates, bill book debts etc. all constitute securities. According to security exchange act 1983, security means share stock, bond, debenture, debenture stock issued by a corporate

body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill full guarantee of government of security as prescribed by government by a notification published in the Nepal gazette or receipts relating to deposits of securities as well as rights and interest relating to securities from the above definition from which the following securities can be listed:

- a. Treasury bond and bill issued by Government.
- b. Securities issued under the full guarantee of Government.
- c. Negotiable certificate of deposits which are issued by depositing institutions.
- d. Share, stock, bond, debenture stock issued by a corporate body.
- e. Certificate of unit saving scheme issued by a corporate body.
- f. Receipts relating to deposits of securities and securities include not only primary securities like share and debenture but they also include paper that evidence right and interest on securities. This means the term security also includes derivatives.

2.1.2 Types of Securities

Securities as defined in business parlance are open-market securities and hence are traded in the securities market. These securities may be classified in a number of ways and one of the classifications is as follows:

- a. Equity Securities:* Common and preferred stock which represents ownership interest in issuing corporation.
- b. Short term debt securities:* Most common debt securities are negotiable certificate of deposit, commercial paper, banker's acceptances and Treasury bill. These securities represent obligations of the issuing companies and mature within one year.

- c. Intermediate and long term debt securities:* These represents obligations that mature in more than one year and include securities such as government securities like treasury bill, note, bond and saving bond, government agency securities, municipal securities and corporate bonds etc.
- d. Hybrid securities:* These securities have combined characteristics of bond equity and debt. Convertible preferred stock and bond can be included under this category.
- e. Derivative securities:* These are deriving their value from the value of an underlying asset. Options, commodity futures, financial futures, options on futures, rights and warrants are underlying in derivative securities.
- f. Other securities:* In addition to securities mentioned already, there are other securities which have unique features such as mutual fund, stock of closed and companies depository receipts etc. are the example of such securities.

Securities may be grouped as primary securities and secondary securities or money market and capital market securities. Money market securities are of less than one year matures and are issued to correct temporary liquidity disorders of the issuing corporation while capital market securities are issued for longer term more than one year. These securities are normally issued to obtain long-term assets. The classification of securities as primary and secondary securities is based on the status of the bond issued by real sector unit to meet their own financial requirements are known as primary securities while securities such as certificate of deposit issued by financial intermediaries to collect funds for the purpose lending to real sector unit are known as secondary securities. Securities issued by real sector unit are called primary securities because the issues are the ultimate user of fund where as secondary securities are

issued by financial mediators to collect funds which are intermediated to the ultimate user of the fund.

2.1.3 Securities Market

The market in which securities are traded is known as securities market. Despite of the concentration of security market in few location, they refer more to mechanism rather than place, design to facilitate the exchange of securities by gathering buyer and sellers of securities together or people or institutions wanting to borrow money and brought together with those having surplus fund in the securities markets. Securities such as short term and long term debt, equities, derivatives etc are the product that traded in the market. Investor institution such as investment bankers and security firms, securities issuing institutions such as government and non government bodies and the participant of the securities market. Securities market's function is to provide a link between saving and investment there by facilitating the creation of new wealth (Baral, 1999:8-9).

Security market is the intimate part of capital market in fact basis of the economy. The most effective use of idle and surplus resources can be brought into practice only means of market mechanism. This represent the structural network of the saver and user groups of fund preassembly generated for long term financing but the information of network originates via-conversion process of saving into investment outlet. Thus the security market upholds the attempts particularly concerned with the collection and mobilization of the saving. Saving meticulously diverted towards the regenerating activities in the essence financing and industrialization activities will result in the repercussion favorable to the economy as a whole. (Khatiwada, 2055:16).

Securities market sets a price for the securities; it trades and makes it easy for people to trade them. It facilitates the sale and resale of transferable securities. The securities market can be divided in to two parts; the market in which new securities are traded is called primary market, where the existing securities are traded or resold is know as secondary market. Secondary market is built by financial intermediaries such as dealer, brokers and market makers. Brokers help to gather the buyers and sellers together with out themselves actual buying and selling is impossible. The securities dealers set price at which they themselves are ready to buy and sell the securities. Brokers and dealers come together in organized market or in stock exchange (Gitman, 1992:457).

There are crucial functions of securities market namely the raising of fund in the form of share and debenture trading in the securities already issued by the companies, while the first aspect is obviously much more important from the view of economic growth, the second aspects is also considerably important in fact, it facilitates for transfer of existing securities are abundant. The raising of new capital is considered assisted for the buyer of a new issue of security is confident that whenever he wants to get cash he can find (Kuntz, 1996:33).

Securities market is important constituent of capital market. It has wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities. The development of sound securities market with its constituent financial institutions is one of the mechanisms which enable the efficient transformation unit to those of deficit spending one who can use them move productively or have less risk aversion (Rugh, 1966:56)

A security market or financial market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. One of its main functions is "Price discovery" that is to cause security prices to reflect currently available information. The more quickly and accurately price discovery is achieved, the more efficiently financial markets will direct capital to its most productive opportunities there by leading to greater improvement in public welfare(William F. Sharpe, 1999:47).

NEPSE has defined securities market in the following ways, "The security market is the place where a large volume of financial securities like share and bonds, debentures etc. are traded according to prescribed rules. According to the advance learner's dictionary, "Securities are the documents, certificate etc. showing ownership of property an especially bond, stock and shares".

The existence of market for securities is to advantage to both issuers and investors. As to the benefit to issuers, securities market assists business and government is raising fund. In a society with private ownership of the means of production and distribution of goods and services, saving must be directed toward investment in industries where capital is most productive. Market mechanism makes possible the transfer of fund from surplus to deficit sectors, efficiently and at low cost (Fisher and Weil, 2000:17).

2.1.3.1 Types of Securities Market

The security market can be classified in a number of ways such as primary market and secondary market, money market and capital market or bond, stock and derivatives market.

In first category it can be classified in primary market and secondary market.

(a) ***Primary Market***

For raising fund, firms can sell the securities to general public in a primary market. It is the place where securities are sold at the time of their initial issuance. The main function of primary market is to provide to deficit unit mechanism for raising fund from surplus unit. The primary market is media through new financial assets are issued. They are the midpoint from where the demanders and the suppliers of today's funds, the creators and acceptance financial claim. In these primary markets, financial assts are created and exchanged, satisfying in the part of the financial needs of both demanders and suppliers of today's fund. At present concept, it is the market for direct issuance of securities.

Securities available for this first time are offered through the primary security markets. The issuance may be the brand new companies or that has been in business for many years. The securities offered might be new type for the issuer and additional amount of securities use frequently in the post. The key is that these securities absorb new funds for the issuers.

The primary securities market includes all the transaction that result in the accumulation of financial capital by firm. Government or individuals to be used in consumption or real capital investment. The participant in this process are many varied but important segment includes the money brokers who act as a middle man in the process of exchanging securities for fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of their fund by the help of security form that will appeal to the ultimate investor. (Nancy and Richardson, 1984:147) All the securities weather in money or capital market, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives

direct benefit from the sale of securities. Once the securities start to trade between individual, business, government or financial institutions, saver and investors, they become part of secondary market (Gitman, 1983:30). Primary market are distinguished by the flow of funds between investors as in the secondary market, participants in the primary market buy their asset directly from the source or the assets. Once the assets or securities are sold in the primary market, they begin trading in the secondary market. (Hirt and Stanly, 1985:25).

The contribution of primary market to company financing is direct in the sense that it provides additional funds to the issuing companies either for starting new business enterprises or for expansion or diversification of the existing one. Before the establishment of security market centre, the case of new issue was very few, issuing companies themselves undertook the issue management activities.

(b) *Secondary Market*

Secondary Market is market in which already issued security are traded or that market in which securities are traded that have issued at some previous point in time. The main function of secondary market is to provide liquidity to the owners of securities and unlike primary market; it does not provide money to the issuer of the securities. These markets are the market for existing asset which are currently traded between investors; these market are that creates the price and allow for liquidity. If secondary market did not exist, investor would have to new place to sell their asset (Hirt, 1983:29). The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides liquidity for financial

assets making them more attractive. So secondary market is a place where securities once sold are purchased and repurchased and is operated by security exchange center. SEC in order to promote the market, used to support the market even involving itself in buying and selling activities of necessary (Pradhan 1997:5). If investors could not resell securities readily, they would be hesitant to acquire them and such reluctance would reduce the total quality of funds available to finance industry and government. Those who own securities must be assured of a fast, fair, orderly and open system of purchase and sell at know price (Fisher and Jordon, 2000:18). Secondary securities markets allowing outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity and investment opportunities to investor and to make certain assets more attractive to buyer and seller. Secondary market comprises the stock exchange, the OTC (Over the Counter) market.

In another way it can be classified in money market and capital market.

a) *Money market*

The market for short term securities is known as the money market. It deals with those debt-instruments and other financial instrument that are issued with maturity of one year or less. The main function of money market is to provide short-term funds to deficit spenders. Money market instruments cover short-term, marketable, liquid, low-risk debt securities. Government, semi government organization, corporate bodies, bank and other financial institutions actively take part in this market. Important securities traded in money market are Treasury bill, commercial bills, certificate of deposits, commercial paper, bankers acceptances etc. Money market provides a channel for the exchange of financial assets for

money. Money market serves the purpose of meeting the short-term cash requirements of the companies, individual households, financial institutions and government as well as it helps in providing investment outlets for all those having surplus funds to invest in promising securities having less than one year of maturity.

b) Capital market

Capital market is the market for long-term debt and corporate stocks. It relates to those markets from where government, households, firms and industries secure long-term capital needs through the use of a wide variety of long-term financial instruments and other securities. It is the market for those financial instruments that are bought and sold with maturities greater than one year.

The capital market refers to the institutional arrangements which facilitate the lending and borrowing of long-term funds. It is a market in which long period securities (with a maturity of one year or more) are exchanged.(R.R Paul:184-A).Thus capital market securities include such marketable debt securities with maturities of a year or more and equity securities.

In fact, capital market deals with longer-term and relatively riskier securities. Treasury bonds are an example of capital market just as Treasury bills are an example of money market. All those who need longer-term funds depend on capital market. As for instance , government goes very often in capital market by selling long-term claims on their state-owned enterprise and industries to meet operating funds. Likewise, business and industries issue shares and other securities to raise funds from capital market. Households sell and buy long term claims to meet the very purpose of residential mortgage financing. Thus capital markets help in transfer of funds from saver to borrowers and secondary capital market allows investors and financial institutions to alter the liquidity risk and

portfolio composition in one way or the other.

Lastly it can be classified as bond stock and derivative market.

a) Bond, stock and derivative market

The increasing level of concentration in dealing in particular type of securities market in a market has given birth to new class of securities market known as bond market, stock market and derivative market. As the name implies the bond market deals exclusively on debts securities like government bonds, municipal bond, corporate bond etc. while stock market deals exclusively on equity like common stock and preferred stock. A significant development in financial market in recent year has been the growth of the derivative securities such as futures and options whose value depend on the values of other assets with the rapid growth of these securities, a separate market for them has emerged and known as derivative markets.

The technological inventions of the industrial revolution, such as steam engine had been made before, but the implementation had to wait for well developed financial market. The industrial society required and adapted financial system where publicly trade companies could get long term financing. The Nepal stock exchange opened in 1993 under the securities act 1993, this analysis focuses on the development and deepening of Nepal stock exchange in promoting economic growth. We discuss the theoretical finance growth, with an emphasis on the role of the stock market. It provides a framework for linking historical evidence to the data. Financial market allow for more efficient financing of private and public investment projects. By representing ownership of large value, indivisible physical asset by easily tradable and divisible financial assets and making trade in

them more liquid, they promote the efficient allocation of capital. They give lenders the opportunity to diversify their investment. In these roles, financial market increases the quality and quality of intermediate fund. Using a new data set on indicators of stock market development of the NEPSE, it is found evidence that financial development significantly contribute to economic growth. Using co-integration analysis our econometric analysis find evidence of an important long term relationship between stock market development and economic growth.

2.1.4 Concept of Gross Domestic Product

Gross Domestic Product (GDP) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of export, minus the value of imports, GDP includes only the goods and services produced with in geographic boundaries of a country regardless of the producer's nationality. GDP is one measure of economic activity, the total amount of goods and services produced in a country in a year. It is calculated by adding together the market value of the final goods and services produced in a year.

- a. It is a gross measurement because it includes the total amount of goods and services produced, some of which are simply replacing goods that have depreciated or have worth out.
- b. It is a domestic production because it includes only goods and service produced in a country.
- c. It measure current production because it includes only what was produced during the year.
- d. It is the measurement of final goods produced because it does not include the value of a good when sold by a producer, again when sold by distributor, and once more when sold by retailer

to the final consumer. We count only the final sale. Change in GDP from one year to next reflect changes in the output of goods and services and changes in their prices. To provide a better understanding of what actually occurring in the economy, real GDP also calculated. In fact, these changes are more meaningful as the changes in real GDP show what has actually happened to the quantities of goods and services, independent of changes in prices.

2.1.5 Concept of Inflation

Inflation is a situation in which the general level of prices keeps on raising primarily due to stimulus that is continuously being administered by the ever raising demand in the face of inadequate physical supplies. Thus inflation refers to the continuous growth of demand of very much in excess of supply of goods and services (Gupta, K.R., 1995:409). Inflation is most important variable while calculating the real interest rate. Purchasing power of the money decreases due to higher inflation. Sharpe and Alexander mention that inflation is an increment in the amount of currency in circulation, resulting in a relatively sharp and sudden fall in its value and raise in price Purchasing power risk denotes the fact that an investor's money asset such as cash, saving and investment may lose their purchasing power because of inflation. Economists measure the rate of inflation by using a price index that they construct or the rate of inflation between month t and the month t+1 is calculated as follows:

$$\text{Inflation Rate (Q)} = \frac{\text{CPI}_{t+1} - \text{CPI}_t}{\text{CPI}_t}$$

Where,

Q = Inflation rate

CPI = Consumer price index

t = Month taken

t+1 = Succession month of taken month

And the annualize inflation rate = $(1 + \text{per month } q)^{12}$

Inflation can be both harmful as well as beneficial for the economy. For developing countries, normal level of inflation is taken good because it encourage investment, production and consumption which foster the economic growth of the country where as higher inflation is the sin for the economy and the people of the country.

2.2 Review of Related Studies

2.2.1 Review of Related Books

As in the case of financial intermediaries, stock market or the securities market for equity is also one of the most important components of the financial system. Stock market primarily refers to the securities-market for equity stock issued by various institutions. The stock market plays a very important role in the functioning of the economy by providing liquidity to the equity issued by the various corporations. The stock market is considered as an indicator of the entire economic activities of an economy because the stock market affects various macroeconomic aspect of the economy as well as is affected by various kinds of macro and micro economic variables. Among the various microeconomic variables, money supply of the economy and its relation with the stock market price is of great debate in the financial literature (Dongol, 2003:2).

We know that securities market is an important constituent of capital market. It has a wide term embracing the buyers' and sellers' securities and all these agencies and institutions, which assist the sale and resale of corporate securities. Commenting to the importance of securities market, Hugh J. Patrick in his book

"Financial Development and Economic Growth" writes that," the development of a sound securities market with its constituent financial institutions is one of the mechanism which enables the efficient transformation of saving from the hands of surplus spending ones who use them more productively and have less risk aversion" (Hugh, January 1966).

Investment is the life blood of the economic development. It is evident that stock exchange will continue to fulfill in the national economy so long as a private enterprise exist. We know that the stock exchange is the place where stocks and shares are bought and sold. The sustention competition in the innumerable buyers and seller determine the price with a measure of precision that can not be obtained in other unorganized market to such as the property market where activities are of a spasmodic nature, (Pant, 2003:23).

In the view of many economists, capital is regarded not only central position to the process of economic development but also as strategic. According to Mahat "Capital which is itself the product of human labor with collaboration of the nature in the past is one of the ingredients in the process of production. It is required to start and run any productive operation. It is more so in industry where capital intensity is normally higher than in agriculture (Mahat, 1981:32).

Economic development demands transformation of saving or invertible resources in to actual investment. But people who initiated actual investment are not necessarily those who have funds for the purpose. As the process of industrial development starts in modern lines self financing becomes insufficient to support it. Private means of finance becomes not only limited but also even uneconomic. On the other hand there are other people generally households who have surplus funds but don't have desire

or capability to utilize them for investment activity, under such situation the need for a need of market mechanism that facilitate the transfer of funds from surplus spending unit (the unit whose current income exceeds current expenditure) become obvious. British capital market opinions that its functions is to enable control over resources to pass into the hands of those who can employ them most effectively there by increasing productive capacity.

In under developed countries, generally comes across a situation where entrepreneurs don't find resources or productive investment while savers invest their money in real asset or relatively low social productivity. The financial institution remedy such situation by soliciting the resources from savers by offering them a variety of financial securities determined in maturity yield provide them to the most efficient users.

2.2.2 Review of Related Past Thesis

For this purpose, already submitted master's degree theses have been used for review of literature. Those theses which have been related with this study are discussed below:

Legal and institutional arrangements for the protection of investors' interest play significant role for the development and stability of capital market. In this regard, Pandey (2002) conducted his master degree thesis on "Legal and Institutional Arrangement for Investors protection in Nepalese capital market". Pandey concludes in his study that existing legal provision and regulation are insufficient for protecting investors' interest. Provisions are insufficient especially in case of timely disclosure of price of disclosure sensitive information and insider trading. This study explains in his findings that most of the brokers in NEPSE are not professional,

qualified and most of them are from other faculty rather than investment and finance stream. Pandey further points out that most of the brokers in NEPSE are engaged in scandalous activities like wash sales concerning market, churning pools and insider trading. This study proposes the need of separate securities analysis and rating agency in order to facilitate investors on their investment decision currently, investors are puzzled to decide which company to invest and why?

Clearing system and settlement method of securities also plays a vital role in the efficiency and transparency of capital markets that leads the confidence among the investors. In the developed countries the clearing and settlement of securities are made through online system Bhattarai (2002) made a research on "Clearing and Settlement in Nepalese Security Market". In his study, Bhattarai mentions clearing and settlement system in security market is an emerging issue in the world. Different advance clearing and settlement system have been developing in different countries, such as central depository system (CDS) netting etc. In the CDS system physical certificate are dematerialized and book entry is followed to transfer the title. In the netting system, transaction are settled on the book of net than trade for trade basis. Bhattarai found in his study that existing clearing system of securities is inadequate and does not meet the international standard. Rabindra had recommended that the need of CDS as an efficient clearing and settlement system where securities are dematerialized and fund as well as titles are transferred electronically. This system dramatically reduces the paperwork, physical movement of the certificates and the cost of current system. If such system is applied in the Nepalese capital market, investors may be facilitating much more and investors may attract towards the mutual funds schemes.

In another Masters' Thesis on "Problem and prospects of debt market growth in Nepal" Kafle (2003) has found that there is good prospects of debt market in Nepal in the days to come. Kafle has traced out the reason of slow growth of debt market in Nepal are weak system of disclosure of information, lack of strong information disclosure laws, proper knowledge of investment. Despite this entire problem, this study has insisted the prospects of debt market growth in the days to come. Besides these, Pahari (2003) conducted a study on problem and prospects of debt market growth in Nepal in 2003. The main objective of the study were found the relationship of nominal interest rate with the rate of inflation, real rate of return and risk premium and relationship between GDP, GB, inflation rate and coupon interest rate of government securities with market interest rate etc.

The economic model used for role of government borrowing on economic development and consumer price index was:

$$\text{Regression equation, } \text{GDP} = a + b_1 \text{ GB}$$

Regression equation for inflation and government borrowing

$$\text{IR} = a + b_1 + \log \text{GB}$$

Where,

GDP = Gross Domestic Product

GB = Government Borrowing

From these relation Pahari found that there is a positive relation between the nominal interest rate and inflation rate. The nominal interest rate is significantly determined by inflation rate. The result also shows that nominal interest rate significantly determined by the real rate of return. The role of government borrowing on economic development revealed that there is a positive relationship between government securities market and GDP. The result shows GDP is significantly influenced by government borrowing. The

study shows that the positive relationship between government borrowing and inflation rate.

Khanal (2006) studies impact of security market on economic development of nation. Khanal found clear relation between GDP and security market size. This study concluded that security market size increases at increasing rate with GDP growth. Khanal further analyzed the relation between inflation rate and security market size by using econometric model. This study found inflation rate on an economy is significantly determined by market size. Khanal concluded that increased capital market volume acts to increase the volume of money and its velocity and hence contribute to increase inflation rate. His findings about inflation and security market size are:

$$\text{Log IR} = a + b \log \text{S.M} = vi$$

$$\begin{aligned} \text{Log IR} &= 5.1 + .92 \\ &= (3.43) + (2.93) \end{aligned}$$

Khanal also analysis opinions of respondents on impact of security market on economy. Khanal collected opinions of some company executives and reveals that they thought security market development is vital in economic development on nation. Other categories of his respondents are investors and exports. They also thought economic growth is difficult, it is impossible, without security market development.

2.2.3 Review of Journal and Articles

In the international study, [Newton](#) () conducted a research on 'Does stock market cause economic change?' Newton measured growth by the increment rate of real per capita GDP, the growth rate of real per capita productivity growth and capital stock. This study found a statistically significant coefficient on the financial

development variables, even after controlling expenditures inflation, education and trade openness. To address the issue of casualty, Newton used 1960 values for financial development and measures the subsequent influence of financial development on economic growth. Newton discovered substantial evidence that initial level of financial intermediation i.e. quantity and quality increased subsequent economic growth.

Levine and Zervos (1998) conducted a very similar analysis of 48 countries and for the period 1976-1993, but focused on the role played by the stock market. They measured stock market development along various dimension: size, liquidity, international integration and volatility. More precisely their measure were aggregate stock market capitalization to GDP and the number of listed firms, domestic turnover and value traded, integration with world capital markets, as measured by the CAPM and APT model and the standard deviation of monthly stock returns. The results suggested a strong and statistically significant relationship between initial stock market development and subsequent economic growth. Including stock market liquidity, stock market capitalization and bank intermediation jointly as repressors yields a separate and significant influence on the rate of economic growth for each of them. This suggested that banks and stock markets play somewhat different roles in the process of economic development. This is consistent with the hypothesis that finance matters for growth mainly in the early stages of development (Gregorio and Guidotto, 1995:195). There are two objections to this strain of literature. The first is that regression analysis measures correlation between variables, not causality. A co-integration analysis is the more natural setting for causality inferences. The second is that the time series used are often non-stationary. Often, the necessary

corrections are not made, which may give rise to spurious correlation. They used a co-integration analysis to investigate the direction of causality between financial development and economic growth. The analysis recognizes the non-stationary time series. Co integration analysis is capable of analyzing both variables in question. A long run relationship between finance and growth is present when there exist at least one co integration vector on a model including GDP and one or more financial development variables. To conclude that he used annual data for 1830-2000 from a new, rich database for the Brussels Stock Exchanges (BXS).

Goran Hagg (.....) conducted a study on "An economic inquiry into investment opportunities and risk" mentioning the stock market and inflation in China. The macroeconomic performance which depends upon both cyclical forces and policy decision, is important because economic indicators such GDP growth, inflation and monetary policy have an important effect on the stock market and its players. GDP growth affects the stock market positively, ceteris paribus, mainly because firms' earning are expected to increase, and as firms become more valuable, stock prices will also rise. Such influences because stock prices to move with business cycle, being high when profits are high and low when profits are low. These influences also cause stock price to vary with a host of factors that influence expectations of future profits.

There are also other factors that are related to GDP growth, such as demand for stocks, which reflects the households' wealth, which in turn depends on employment opportunities etc. inflation is an important macroeconomic indicator as well, because it affects firm' competitiveness and consequently their earning. A low inflation provides a sound business climate, which is positive for business

and industry; hence earning would be expected to increase and stock prices likewise. Changes in monetary policy cause change in inflationary expectations along with interest rates and these latter, or just the expectation of them, affect stock prices. For example, if a country's Central Bank decides to decrease monetary supply, a rise in interest rates will follow. Investors will then understand that holding government bonds would be more profitable, and as investors sell their stocks, prices will fall. Furthermore, a boom would also affect interest rates. The Central Bank is then expected to decrease monetary supply, so interest rates would rise. In total, the correlation between the interest rate and the stock market is negative, i.e. lowered interest rates lead to higher stock prices and vice versa.

The Chinese stock market has been developing very quickly since 1990 and has now more individual stockholders than any country besides the United States. The Chinese stock market is the second largest in Asia, and stocks are traded on three different stock exchanges: The Hong Kong Stock Exchange (KHSE, established in 1914). The Shanghai Stock Exchange (SHSE, established in 1991). The Hong Kong stock market is one of the most established stock markets in the world and is classified as a developed market. Hong Kong has the second largest stock market in Asia and the seventh largest in the world. Compare this with the two mainland stock exchanges, which both are relatively small and liquidity for economy the size of China. In Hong Kong, there is also a strong presence of the world's major financial institutions: including foreign banks, overseas securities and commodities trading companies, insurers and mutual funds. Hong Kong is also a free economy with well-established laws for finance and commerce. The trading system is extremely transparent and brokerage and

transaction costs are very low. Furthermore, the Economics intelligences Unite ranks Hong Kong shares in the lowest risk category.

2.3 Research Gap

Securities market plays an important role in the economic development of the country. Individual saving is mobilized in the productive sector that helps to utilize the resources in the optimal way which creates employment opportunities, increases production and income of the country. Therefore, the development of a sound and stable securities Market is essence in modern economic age. In today's liberal and global economy private sector is taken as the engine of growth and development. Therefore, private sectors play crucial role in the development of a country.

The securities Market is infant stage in Nepal. The beginning of corporate securities started with the issuance of share of Biratnagar Jute Mill in 1964. The trading of securities started in the floor of NEPSE after the establishment of Nepal Stock Exchange in 1964. NEPSE is the only secondary market for trading corporate securities. Till the end of 2008 the market capitalization of corporate securities is Rs. 366247.5 million with the paid up value of Rs. 29465.8 million. The value of government securities and GDP were Rs. 111239.1 and Rs. 820813.8 million respectively in 2008.

Various researchers have been conducted regarding securities market and its impact in the economics growth in national and international arena. Newton conducted a research study on *Does stock market cause economic changes?* Newton measured growth by the growth rate of real per capita GDP, the growth rate of the real per capita GDP, the growth rate of the real per capita capital

stock and productivity growth. This study found a statistically significant coefficient on the financial development variables, even after controlling for education, government expenditures, inflation and trade openness researchers have been conducted in Nepal regarding securities market in Nepal. Pahari conducted a research study regarding role of securities market in the GDP. This study found that there is positive relationship between the nominal interest rate and inflation rate. The nominal interest rate is significantly determined by inflation rate. The result also shows that nominal interest rate is significantly determined by the real rate of return.

The role of government borrowing on economic development securities market and GDP. The result shows GDP is significantly influenced by government borrowing. The study shows that the positive relationship between government borrowing and inflation rate. In this research, the researcher aims to examine growth of securities market and its impact on economy and price index. This research might be the first of its kind research in the country. Therefore, it is expected that this research will fill the gap to some extent.

CHAPTER THREE

Research Methodology

3.1 Introduction

We have already discussed about the introduction and the review of literature in the previous chapters. In this chapter we are going to discuss about the method of research and analysis employed in this study. Research means to get new things and techniques and to verify existing tools and techniques by hypothesis and other relevant information. Methodology is the research method used to complete the study systematically and test the hypothesis. This chapter aims to familiar the relevant techniques of data collection, analysis of data using statistical tools, technique required for preparation of research report and includes research design, population and sample of the study, methods of data collection, tools and techniques of analysis and some research hypothesis. A research methodology helps us to find out accuracy, validity. The justification on the present study can not be obtained without help of the proper research methodology.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It helps writing with the help of collection, tabulation, analysis and interpretation of data. The research design refers to the entire process of planning and carrying out a research study (Wolf and Pant, 2000:53).

This is a small conducted by a single researcher and is based on the primary and secondary data of the growth of securities in Nepal over different periods of time and it also tried to find out the relationship between the capital market growth and GDP. For this

purpose, the required secondary data has been collected from various sources covering of 26 years, i.e. from 1983/84 to 2007/08 for government securities, consumer price index and gross domestic product. While data for interest has been collected covering the period of 1992/93 to 2007/08. Corporate securities data have been collected for particular period. To examine the investors' and experts' opinion, 61 and 26 respondents, respectively were selected. To conducted the study, descriptive approach has been utilized mainly to see the structure of securities market in Nepal. Analytical approach has been mainly to analyze the relationship between capital market and GDP and inflation.

3.3 Nature and Sources of Data

3.3.1 Secondary Data

The necessary secondary data and information have been collected on structure of securities from wide ranges of sources i.e. various publications. Quarterly economic bulletin issued by NRB, trading report published by Nepal Stock Exchange and Corporate securities data derived from website of securities Board of Nepal and Its recorded official files. The major sources of secondary data and information are as follows:

- a. Economic Survey, Fy 2006/2007 and 2007/2008. Ministry of Finance GN/N.
- b. Various plan documents, National Planning Commission, GN/N.
- c. Quarterly Economic Bulletin, Nepal Rastra Bank, various issues.
- d. Website of Nepal Stock Exchange, www.nepalstock.com and other research websites.
- e. Website of Securities Board of Nepal, www.sebonp.com
- f. Other governmental and non-governmental publications, books

and journals, previous research studies, dissertations and, website and articles have been used.

3.4.2. Primary Data

For the primary data analysis with the objectives of obtaining some primary facts regarding the different aspects of Nepalese capital market, a survey of the respondents were made through a structured questionnaire as unstructured dialogues with the respondents. A total of 61 investors 41 executives of listed companies and 26 experts were selected. The sample selected for this selection of the study is drawn from all sectors companies which are listed in NEPSE. The study is therefore based on visits to the organization, investors, experts respondents located in Kathmandu as well as Lalitpur and Bharatpur valley. The selected experts and company's respondents were also interviewed during the study visit. There are 142 Nepalese enterprises listed in the NEPSE by the end of F/Y 2007/08. This is regarded as size of population for survey investigation of company. NRB Public Debt Department is used for the debt securities; NRB managed the issue on the behalf of the government. This study has been directly related towards the structure of securities in Nepal.

3.4 Technique or Method of Analysis

The main purpose of analyzing, the data is to change it from an unprocessed form to an understandable presentation. The analysis of the data consists of organizing, tabulating and performing statistical analysis (Wolf and Pant, 1999:127). The statistical technique of regression analysis used. The empirical results have been estimated in this study by using data for the period of 1983-2008. Similarly, primary data is classified, tabulated and analyzed by various statistical and financial tools.

(a) ***The Econometric Model***

To examine the relationship between securities market and consumer price index, the theoretical statement of the model is that the consumer price index (inflation rate) would depend upon one securities market.

This study attempts to assess the impact of securities market in inflation rate.

The theoretical statement may be framed as under

$$IR = f(S M)$$

The equation to be estimated has therefore been specified as under:

$$IR = a + b_1 \log SM + u_1$$

$$U_1 = \text{Error term or disturbance}$$

(b) ***Correlation, Regression and Growth Rate Analysis***

To find the co relation, growth rate, following formula have been used.

$$(i) \quad R_{xy} = \frac{N \sum XY - \sum X \cdot \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2 \cdot N \sum Y^2 - (\sum Y)^2}}$$

$$(ii) \quad \text{Growth Rate} = \left\{ \frac{V_t}{V_{t-1}} \right\}^{\frac{1}{n-1}} - 1$$

(iii) Statistical tools used

To process of estimating above models, various statistical tools has been used e.g. simple mean and percentage analysis etc. SPSS software program has been employed to calculated regression of inflation and SM.

CHAPTER –IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter deals with the presentation and interpretation of relevant data obtained from the various sources relating to structure of securities market in Nepal over the different period of time. Data presentation and interpretation is the important part of a research work which analyze the data and information using various tools and techniques and verify with the stated statistical tools to get the best results.

Data analysis is the relationships or differences supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion (Kothari, 2000:10)

An attempt is made to analyze the growth of securities market and its impact on economy and price index in Nepal. It also tried to find out the relationship between the securities market and GDP and inflation rate. The growth of the stock market causes economic changes. It has been seen that there is positive relationship between the growth of securities market and economic development (GDP). Structure of securities consist the types of securities issued in Nepalese Capital market i.e. both governmental and private companies' securities.

4.1.1 Growth of Securities Market in Nepal

The history of securities market is about seven decades in Nepal. The history began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. The introduction of company act in 1964, the first issuance of government bond in 1964 and the establishment of securities Exchange Center Ltd. in 1976 were other significance development relating of capital markets. Securities Exchange Center was

established with the objective of facilitating and promoting the growth of capital markets. Before conversion into Nepal Stock Exchange Ltd. it was the only capital markets institutions undertaking the job of brokering underwriting, managing public issues, market making for government bond and other financial services. Under a program initiated to reform capital markets, Government of Nepal converted Securities Exchange Center into Nepal Stock Exchange Ltd. in 1993.

The basic objectives of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its floor on 13th January 1994 and organized by open out cry system. This is the only secondary market in Nepal. Securities Board of Nepal (SEBO/N) was established on 26 May 1993 under the provision of the securities exchange Act 1993 (First amendment). It was established with the objective of promoting and protecting the interest of investors by regulating the securities market. Besides the regulatory rate, it is also responsible for the development of securities market in the country. The corporate bodies willing to issue the share, bond or debentures in the market, must get approval of Securities Board. After the assessment of financial and management competency of issuing firm, SEBO/N may grant the approval to issue the firms in the market. As per the provision of the “Securities Exchange Act, 1993” and Securities Exchange Regulation, 1993” Corporate bodies willing to manage and operate market for the healthy trading of Securities will first have to develop the infrastructure in matters relating to free and fair listing and trading of Securities, membership to the securities business person, inspection, supervision and disciplining of members and then apply to SEBO/N to get license. So far, the new securities ordinance Act has been passed in order to bring change in the composition of the brokerage business as well as replacement of

existing open cry system to online trading through the effort of bringing automation in Nepal stock exchange trading practice. This avoids manipulation and window trading through mobile communication among speculative investors and brokers encouraging them at the cost of genuine investors. There is a plan to add new additional 27 brokers to increase the number of brokers to 50 for providing quick and efficient delivery of services to investors. The selection of new brokers has been undertaken on an open competitive basis.

Government budget was introduced in 1952 for the first time in Nepal and it was a deficit budget. However the system of public debt was introduced in 1961. The main objectives of mobilizing public borrowing were regarded as the people's participation in the country's development and persuading the people for saving. The first internal loan was collected from Nepal Rastra Bank in the form of TBs amounting Rs. 7 million at a very nominal rate of interest of one percent. Since the issuance of long term bonds also started in the name of Development Bonds, National Saving Bond, Non-interest Bearing Prize Bond and Citizen Investment Bonds. At present, the common means of government debt is TBs for short term. Nepal stock exchange has started secondary trading of the government bonds on 20 December 2006 through the formal inauguration by finance minister Dr. Ram Sharan Mahat. On the first day bonds worth Rs. 7 hundred thousands were traded. The objective of the secondary trading of the bond is to boost the liquidity and reduce the cost of borrowing of the government. Both the government and corporate bond have been listed but they were not traded at all in the secondary market during the review period. Listing of government bonds reached 12 amounting Rs. 13.15 billion and corporate bonds amounting Rs. 4.85 billion has been listed on NEPSE till the end of the F/Y 2007/08. However, investors' response to government bond was not encouraging. Low number of individual investors and differential income tax on

internal for individual and corporate were the major reason for minimal transaction of the bond. By the end of the fiscal year 2007/08 142 companies were listed at Nepal Stock Exchange. The growth of the issuance of government and Private Sector Company is presented in table 4-1.

Table 4-1

Growth and issuance of Government and Private sector company's securities

Rs. in million

F/Y	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Instrument															
Equity Shares	227.9 (0.74)	173.96 (0.54)	224.74 (0.65)	57 (0.16)	119.4 (0.31)	148 (03.)	202.26 (0.36)	278.7 (0.46)	319.46 (0.42)	394.46 (0.48)	657.5 (0.75)	377.48 (0.106)	579.83 (0.63)	380.3 (0.37)	1007.75 (.82)
Right Shares	-	-	69 (0.2)	275.2 (0.76)	249.96 (0.64)	30 (0.06)	124.6 (0.23)	131.79 (0.22)	621.87 (0.83)	162.24 (0.19)	70 (0.08)	949.34 (0.42)	1013.46 (0.63)	1265.3 (1.24)	7605.21 (6.18)
Pref. Shares	16.5 (0.05)	-	-	-	-	80 (0.16)	-	-	140 (0.19)	-	-	-	-	400.00 (0.40)	-
Debenture	-	-	-	-	93 (0.24)	-	-	-	360 (0.48)	-	300.00 (0.34)	300 (0.33)	400 (0.43)	250 (0.24)	2950 (2.39)
Mutual / Unit Fund	100 (0.32)	50.00 0.15	-	-	-	-	93.25 (0.16)	82.91 (0.14)	138.48 (7.18)	140.48 (0.17)	123.41 (0.14)	157.74 (0.17)	210.71 (0.23)	198.3 (0.19)	194.8 (.15)
Govt. Securities	3063.2 (98.89)	32057.93 199.46	34241.8 (99.15)	35890.33 (99.08)	8406.6 (98.86)	49669.7 (99.4)	54357.0 (99.2)	60043.8 (99.18)	73621.0 (97.89)	81148.3 (99.15)	86133.78 (98.68)	87564.3 (98)	89954.9 (97.6)	99303.8 (97.55)	111239.1 (90.04)
Grand Total	3097.6	32228.86	34535.54	36223	39968.96	49927.7	54777.11	60537.2)	75200.81	81845.52	87284.61	89348.86	92158.9	101797.7)	122996.86

Sources : Annual Report SEBO/N, FY 2007/08 and Quarterly Economic Bulletin, NRB

Note : (i) The amount of private sector securities is only approved by SEBO/N

Table 4.1 shows the total capitalization of shares, bonds and government securities. This shows that securities market is dominated by government securities. The government securities represent almost 99 percent in 1993/1994 to 2000/01 and 97.55 percent in 2006/07 and 90.04 percent in F/Y 2007/08. It means corporate stocks and bonds markets represent only 1 percent in 1993/94 to 2000/01 and 9.96 percent in 2007/08. It shows that corporate sector of Nepal is at initial stage of growth. The equity shares are getting more and more popularity in the capital market. The equity issue approved by SEBO/N for Rs. 227.9 million in 1993/94, Rs. 657.5 million in 2003/04, Rs. 380.3 million in 2006/07 and Rs. 1007.75 million in F/Y 2007/08. The right issues also approval was Rs. 69 million in 1995/96, Rs. 1265.4 million in 2006/07 and Rs. 7605.21 million in F/Y 2007/08. However, the preference shares and debenture are not yet popular in Nepal. So far, there has been only four issue of preference shares and only seven issue of debenture during the period of 1993/94 to 2007/08. The first issued of debenture was made by shre Ram Sugar Mills and Followed by Himalayan Bank Limited by issuing 7.5 percent. HBL bond with amounting Rs. 360 million in 2001/02. Similarly, Nepal investment Bank Ltd. issued 7.5% Nepal investment bond in 2003/04 amounting Rs. 300 million with maturity of 7 years. Everest Bank Ltd. issued. Everest Bank debenture 2061 amounting Rs. 300 million with maturity of 7 years in 2005. Bank of Kathmandu Nepal investment Bank Ltd, Nepal Industrial and Commercial Bank Ltd. and Nepal SBI Bank Ltd. were issued bond amounting Rs. 200 million, Rs. 250 millions, Rs. 200 million and 200 million respectively in 2005/06. Again Nepal Investment Bank Ltd. issued Bond amounting Rs. 250 million in FY 2006/07. Five companies were issued bond amounting Rs. 2950 million in F/Y 2007/08. Only four companies namely Himalyan Bank Ltd., Kumari Bank Ltd, Nepal Investment Bank Ltd. and Nabil Bank Ltd.

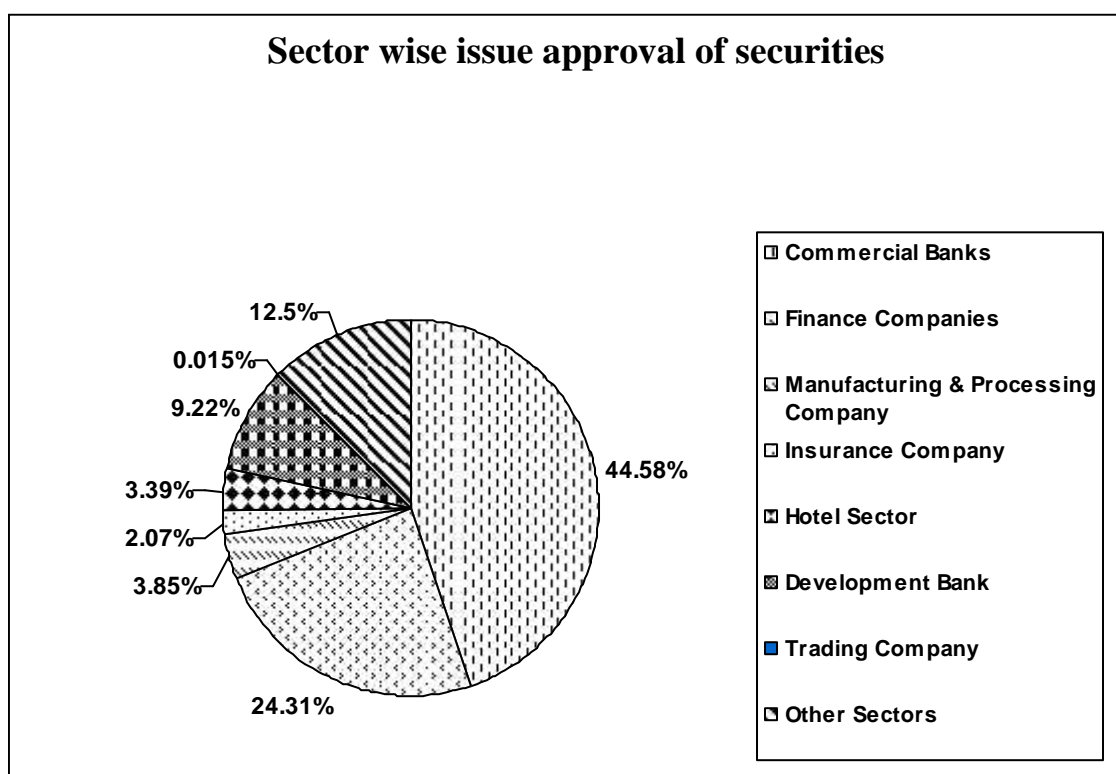
listed their bonds at NEPSE upto Mansir end in the current fiscal year. But no government bonds were listed till now in this current fiscal year. Other bank and corporate are also in the process of issues such bonds to meet the long term capital requirement it shows that corporate bond market is in developing stage in Nepal.

Above table indicates that corporate sectors securities market is dominated by equity shares. Government securities and corporate equity shares were issued regularly over the time. But other types of securities were not issued regularly. Capital market is known as the barometer of the economy of a country. The growth and stability of the capital market is determined by various macro economic factors despite the political and legal factors. During the period of boom, all economic indicators reach in the peak point because of the high production, income and consumption of goods and services. Having Nepalese economy dual, all economic activities are not integrated in the national economy. Thus the size of Nepalese capital market is about 44.3% of the total GDP. The number of listed companies in Nepal Stock Exchange Limited was 114 in 2003/04, 125 in 2004/05 and 135 in 2005/06 and continued to remain same as 135 in 2006/07 and 142 in F/Y 2007/08.

4.1.2 Sector wise issue approval of securities

The capital market size is relatively a small in Nepalese capital market where commercial banks covers the major portion of the issue of securities. The following figure depicts the sector wise public issue of shares from 1994- 2008 in Nepal.

Figure 4.1



Source : annual report of SEBO/N

Banking sector covers the major portion of the total issue of the securities in the Nepalese primary market. Banking sectors common stocks are frequently over subscribed in Nepal whereas other sectors securities are under subscribed. This because banking sector is able to give regular dividend to the share holders. During the period 1994-2008 sector wise issue approval by SEBO is; 44.58%, commercial banks, 24.31% finance companies, 3.85% manufacturing and processing company, 2.07% insurance company, 3.39% Hotel sector, 9.22% in Development bank, 0.015% Trading company and 12.5% other sectors. This shows that banking sectors securities are more popular in Nepal.

4.1.3 Market Capitalization value of securities

Government securities are not traded through organized capital market. The market capitalization of Nepalese capital market (excluding government securities) in different years is as follows:

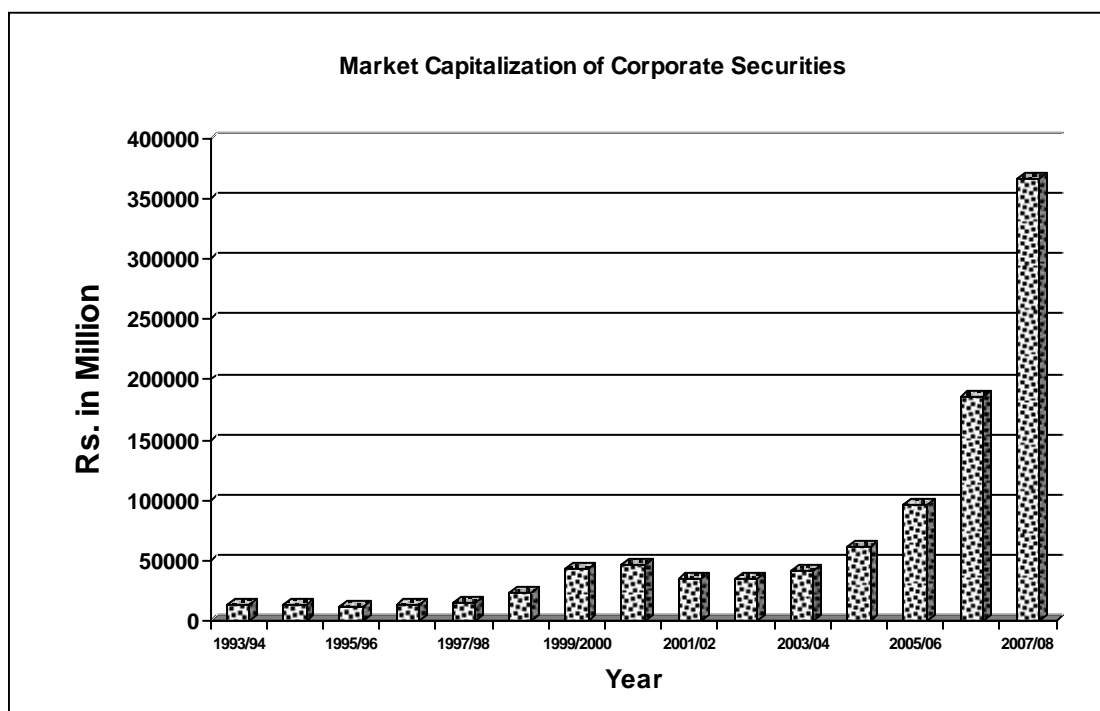
Table 4.2**Market capitalization value of securities**

Rs. in million

Fiscal year	Market capitalization
1993/94	13872.00
1994/95	12963.00
1995/96	12295.00
1996/97	12698.00
1997/98	14289.00
1998/99	23508.00
1999/2000	43123.00
2000/01	46349.40
2001/02	34704
2002/03	35240.40
2003/04	41424.20
2004/05	61365.90
2005/06	96763.70
2006/07	186301.30
2007/08	366247.5

Source : SEBO/N annual report, 2007/08

Figure 4.2



Source : Table 4.2

The market capitalization rate of corporate securities was 13872 million in 1994 which was increased to Rs 23508 millions in 1999 and again raised up to Rs. 43123 million in 2000 and Rs. 46349.40 in 2001. Then the market value of securities seems to decrease so that market capitalization has dropped to Rs 34704 million in 2002 and Rs 35240.4 in 2003 which was again increased to 41424.20 million in 2004, Rs. 61365.9 in 2005, Rs. 96763.7 million in 2005/06, Rs. 186301.3 million in F/Y 2006/07 and reached in highest value Rs. 366247.5 million in F/Y 2007/08. The total market capitalization of listed shares almost doubled to Rs. 366247.5 million during review year. The central bank's directive to increase the capital base of banks and financial institutions has a major impact on the market value of listed shares. Most of the companies opted to issue bonus and right shares to increase their capital base, which attracted lots of investors.

4.1.4 Paid up value of corporate securities in Nepal

The paid up value of corporate securities in Nepal was 1994 was 2182.2 million and the amount increased to Rs. 8165.2 million in 2001. Paid up value of securities increased to Rs. 9685.0 million, Rs. 12560.1 million, Rs. 13404.9 million, Rs. 16771.9 million, Rs. 19958 million, Rs. 21798.8 million and Rs. 29465.8 million in the Fiscal year 2002, 2003, 2004, 2005, 2006, 2007 and 2008 respectively. The paid up value of corporate security is shown in the following table and figure.

Table 4.3

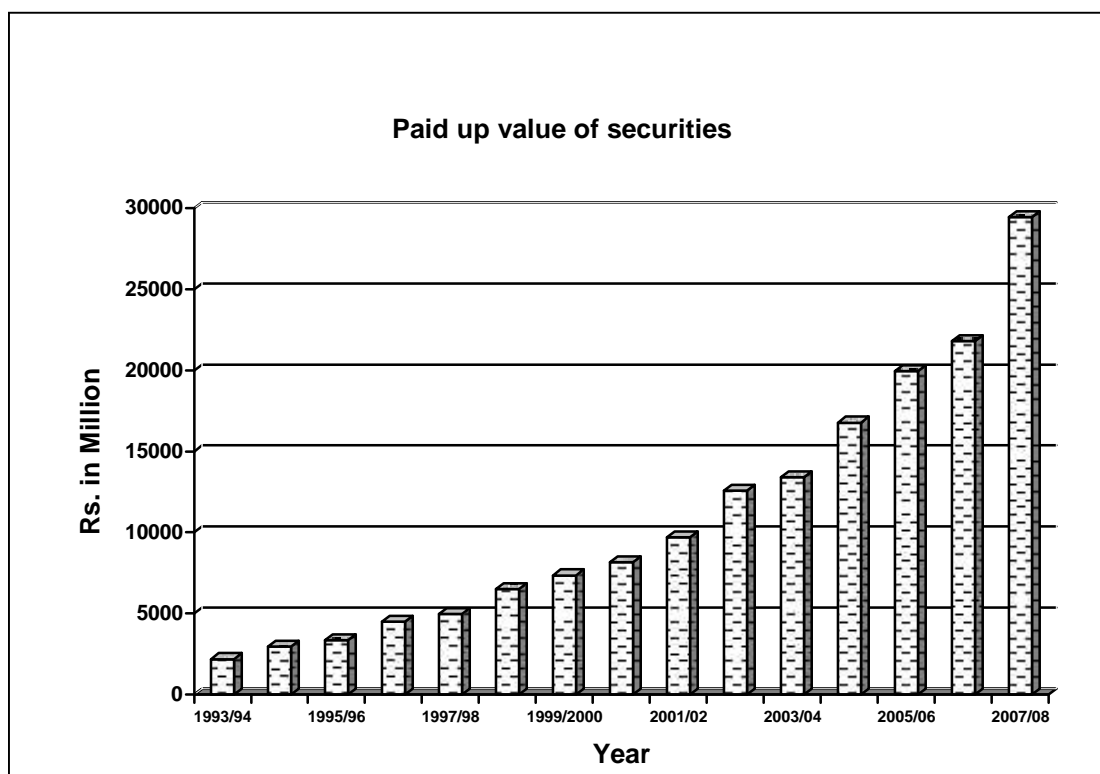
Paid up value of corporate securities in Nepal

Rs. in million

Fiscal year	Paid up value of securities
1993/94	2182.20
1994/95	2961.80
1995/96	3358.5
1996/97	4476.5
1997/98	4959.8
1998/99	6487.4
1999/2000	7347.4
2000/01	8165.2
2001/02	9685.0
2002/03	12560.10
2003/04	13404.90
2004/05	16771.90
2005/06	19958.0
2006/07	21798.8
2007/08	29465.8

Source : SEBO/N annual report,2007/08

Figure 4.3



Source : Table 4.3

4.1.5 Annual turnover of corporate securities in NEPSE

The turnover of the securities in the market reflects the liquidity nature of the securities. If the securities are highly liquid than the securities are attractive for investment and there are more possibilities of capital gain. So the annual turnover of the securities is also an indicator of the weak and strong capital market. When the capital market is slack investors are reluctant to invest in financial securities and they invest their funds in real assets like land and building machinery etc. Due to this reasons, public issues are decreased. The annual turnover of the securities has been seen very fluctuating. Annual turnover of the securities is present in table and figure 4.4 for the period 1994-2007/08.

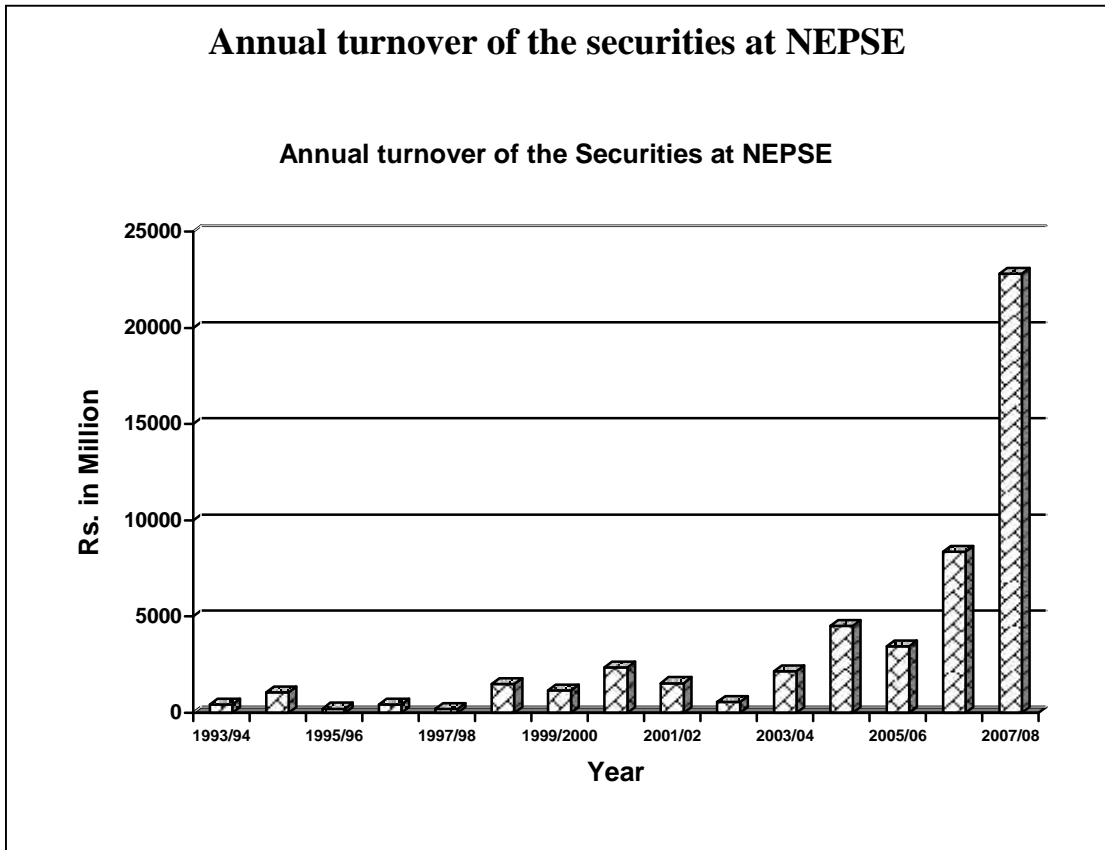
Table 4.4**Annual turnover of the securities at NEPSE**

Rs. in million

Fiscal year	Annual turnover
1993/94	441.60
1994/95	1054.30
1995/96	215.60
1996/97	416.20
1997/98	202.60
1998/99	1500.00
1999/2000	1157.00
2000/01	2344.20
2001/02	1540.60
2002/03	575.80
2003/04	2144.30
2004/05	4507.70
2005/06	3451.40
2006/07	8360.1
2007/08	22820.8

Source : SEBO/N annual report,2007/08

Figure 4.4



Source : Table 4.4

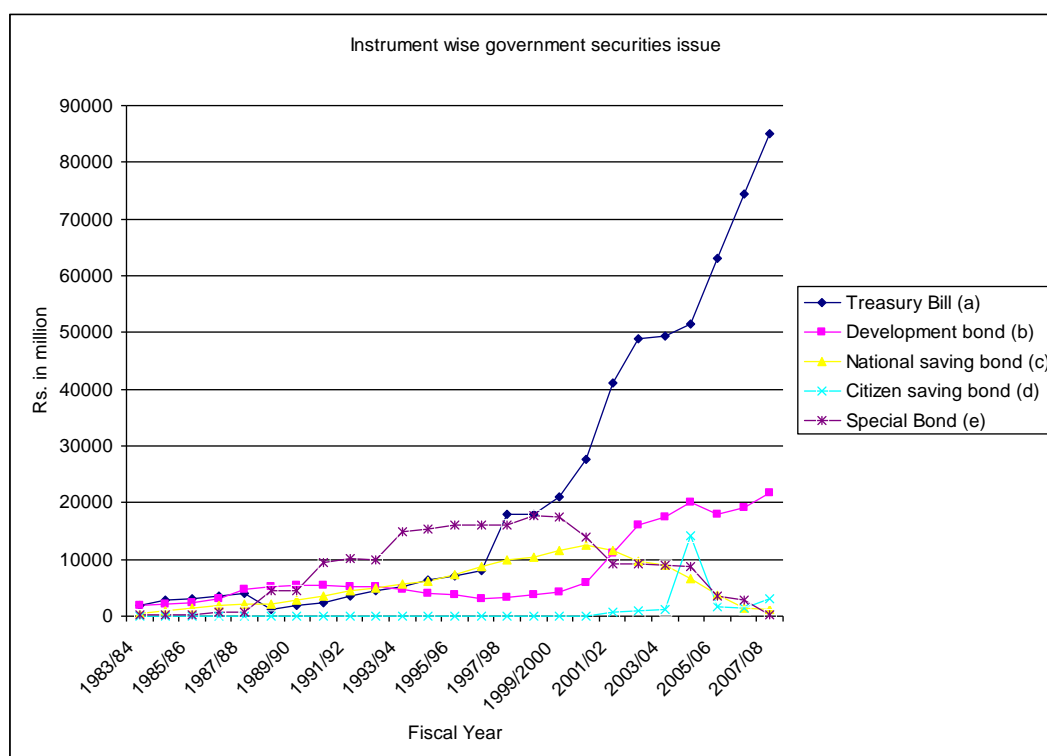
The annual turnover of corporate securities was around 450 million in 1994, and 1050 million in 1995. Then after it includes in the range of 200-400 million for next 3 years, and dramatically it reached to 2344.2 million in the year 2001. The annual turnover of the securities in 2003 is less i.e. 575.8 and for the year 2004 and 2005 was Rs. 2144.3 million and Rs. 4507.7 million respectively. Again, the annual turnover of the securities has decreased to Rs. 3451.50 in F/Y 2005/06 and increased to Rs. 8360.1million in F/Y 2006/07 and reached to Rs. 22820.8 million in F/y 2007/08. So the annual turnover of the securities was decreasing in the previous year which shows investors lower confidence in the security market. But this situation improve slightly and annual turnover also in upward movement in present years.

4.1.6 Trend and amount of government securities in Nepal (1994-2008)

Appendix-2 (i) depicts those five types of government securities are considered as the major financial instruments used to collect funds from the public. Government has been collecting huge funds by issuing these securities.

Treasury bills are of short term and issued for the period of less than one year. Treasury bills are normally floated for the period of 91 days. However, sometimes, government issues the bill for 364 days. Development bonds and National saving Bonds have 3-15 years period of maturity. These securities are classified as long term securities. In Appendix -2 (i), Treasury bills in 1984 were Rs. 1830 million in which trend is growing and has reached up to Rs. 85033.0 million in 2008. In 1989 it was decreased by 71.37 percent with compare to review year 1988. In the initial stage of issuance, its main investors were NRB; gradually commercial banks and other portion. Now commercial banks are dominant investors of Treasury Bills in Nepal. The instrument wise government securities issued in different years is presented in

Figure 4.5



Source : Appendix -2 (i)

Development bonds have also increased from 1984-2008 the total bond issued was Rs. 1810.00 million in 1984 and reached to Rs. 21735.4 million in 2008. Development bonds not increased in comparison to Treasury bills. The National Saving Bonds have been growing which seems in upward trend till 2002 and downward trend up to 2008. As indication the table, Rs. 500.00 million has been issued in 1984. The same amount increased to Rs. 11536.10 million in the year 2002 and decreased to Rs. 1116.9 million in the year 2008. Citizen Saving Bond was issued in 2002 for the first time in Nepal with amounting Rs. 628.10 million. The amount increased to Rs. 1678.9 million in the year 2006 and decreased to Rs. 1391 million in the year 2007 and this amount increased to Rs. 3014.3 million in F/Y 2007/08.

Special Bond has been used as the source of long term debt in Nepal. The amount of Special Bond was Rs. 197.10 million in the year 1984. The amount increased to Rs. 8176.3 million in the year 2005 and decreased to Rs. 339.4 million in the year 2008. The major investors of these securities are commercial banks, Nepal Telecom and Provident Fund. The internal debt has been increasing every year. The trend is gradually upward sloping. As a matter of general rule, internal borrowing can't be more than five percent of the total revenue collection (NRB Act, 2058) However, it has recently reached 33.82 percent and it is a matter of serious concern.

To sum up, this chapter provided important insights about the securities market position in Nepal. Government securities are one of the securities market dominant to corporate securities market. More than 90 percent market is covered by government securities during the period of 1994 to 2008.

Similarly, the relation between securities market and GDP has been found positively correlated. As the securities market grows, it indicates that the individual savings and corporate savings are invested in the productive sector that increases the Gross Domestic Product. The prosperous and reliable securities market is the symbol of strong national economy. By calculation of overall growth rate of the total government securities under formula is 9.65 percent. (appendix 2 (ii))

Similarly, the result of the relation between inflation and securities market shows that securities market affects the inflation rate in the country.

4.1.7 Trend and Amount of Private Securities in Nepal

Private securities refer to the issue of securities by the public limited companies with the approval of Securities Board of Nepal. Though the practice of issuing share by the public limited companies started in 1937 by Biratnagar Jute Mills, however, systematic recording and transfer of securities started with the establishment of Securities Board Nepal in 1993. The growth of the issue of such securities is shown in the following table.

Table 4.5**Amount of Securities issued with the Approval of SEBO/N and NRB**

Rs. in million

Fiscal Year	Total Value of private	Government Securities	Total Value of	% of Corporate
1993/94	2182.2	30631.20	32813.4	6.65%
1994/95	2961.8	32057.90	35019.7	8.45%
1995/96	3358.5	34241.80	37600.3	9.8%
1996/97	4476.5	35890.10	40377.3	11.00%
1997/98	4959.8	38406.60	43366.4	11.43%
1998/99	6487.4	49669.70	56427.1	11.49%
1999/2000	7347.4	54357.00	61704.4	11.90%
2000/01	8165.2	60043.70	68208.9	12.97%
2001/02	9685.0	73621.00	83305.7	11.62%
2002/03	12560.1	81148.3	93708.4	13.40%
2003/04	13404.9	86133.70	99538.6	13.46%
2004/05	16771.8	87564.3	104336.1	16.07%
2005/06	19958.0	89955.0	109912.9	18.16%
2006/07	21798.8	99303.8	121102.6	18%
2007/08	29465.8	111239.1	140704.9	20.9%

Source : SEBO/ annual report, 2007/08 and NRB Quarterly Economic Bulletin

From the above table 4-5, the total value of corporate securities was Rs. 2182.2million where as the volume of the government securities were Rs. 30631.2 in 1993/94. Corporate securities covered only 6.65% of the total securities. The volume of corporate securities increased to Rs. 13404.9 million in 2003/2004 whereas the value of government securities increased to 86133.7 million. The value of corporate securities covered only 13.46 percent of the total securities in Nepal. The value of corporate securities increased to Rs.16771.8 million in 2004/2005 and the value of government securities increased to Rs. 87564.3 million. The value of corporate securities was 16.07 percent of the total securities issued in Nepal. The value of corporate securities increased to Rs. 29465.8 million

in 2007/2008 where as government securities increased to Rs. 111239.1 million. The value of corporate securities was 20.9% of the total securities issued in Nepal. The portion of corporate securities is slightly increasing in Nepal. The overall growth rate of corporate securities in the year 2008 with respect to the year 1994 is 20.43 percent which is calculate in appendix-2 (ii)

4.1.8 Trend of Securities Market and GDP

The objectives of modern government are not only to maintain law and order in the country rather to achieve higher economic development and provide conducive economic and business environment in the country. Therefore, government spends money in different sectors to achieve the objectives of the government. GDP is one of the indicators of economic development in the country. Higher rate of the growth of GDP is the symbol of the faster economic development in the country. The following table shows-the GDP record in Nepal from 1994-2008.

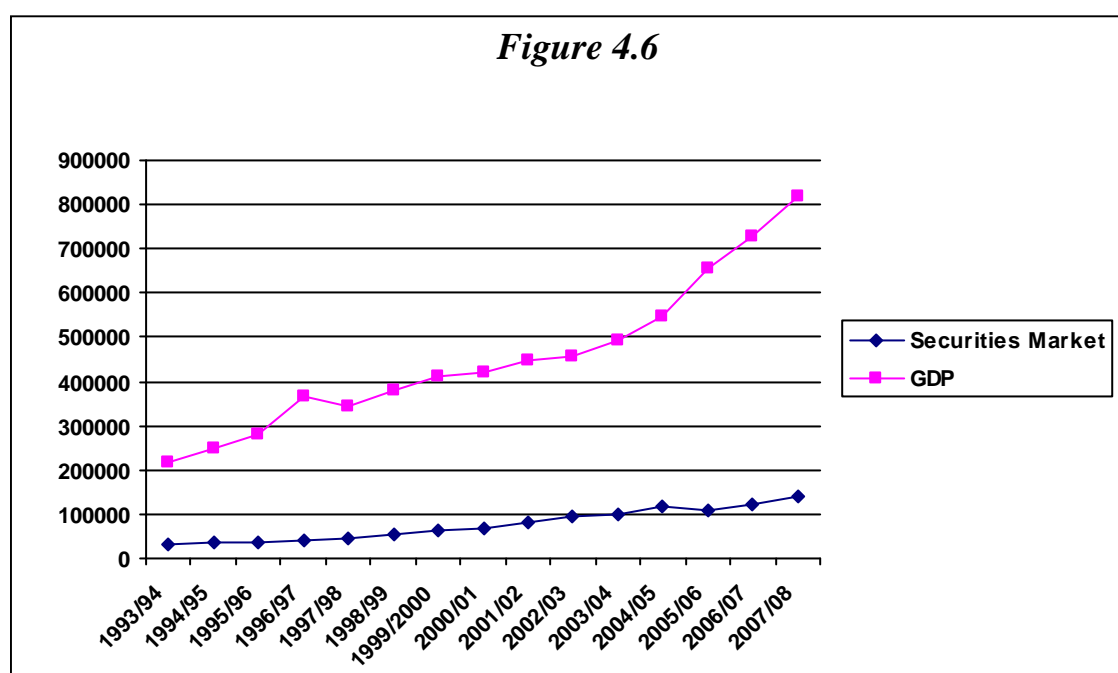
From the review of literature, it has been seen that there is positive correlation between the growth of securities market and GDP. The empirical study of this fact in context to Nepal is shown in the following analysis.

Table 4.6
Securities market size and GDP

Rs. in million

<i>Fiscal year</i>	<i>Securities Market size Rs. (Private+Govt.)</i>	<i>GDP Rs.</i>	<i>% Securities Market in GDP</i>
1993/94	32813.4	219175	14.97
1994/95	35019.7	248913	14.06
1995/96	37600.3	280513	13.40
1996/97	40377.3	366845	11.00
1997/98	43366.4	342036	12.67
1998/99	56427.1	378033	14.93
1999/2000	61704.4	410269	15.04
2000/01	68208.9	420262	16.23
2001/02	83305.7	447546	18.61
2002/03	97205.4	457662	21.23
2003/04	99538.6	493154	20.18
2004/05	119201.3	548484.7	21.73
2005/06	109913	654054.5	16.8
2006/07	121102.6	727089	16.65
2007/08	140704.9	820813.8	17.14

Source : Appendix2(iii)



Source : Table 4.6

As we compare the figure of GDP and securities market, the value of securities market in the GDP is very small. Security market covered only 14.97 of the total GDP in 1993/94. The portion of securities market increased to 16.23 percent, 18.61 percent, 21.23 percent, 20.18 percent, 21.73 percent, 16.8 percent , 16.65 percent and 17.14 percent in 2000/2001, 2001/2002, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07,2007/08 respectively. The increasing trend of securities market can be taken as the good prospects of securities market, But it is due to increase the government borrowing. The total value of securities market was 32813.4million in 1993/94 where as the value of GDP was Rs. 219175 million. The value of securities market increased up to Rs 119201.3 million in 2004/2005 and GDP increased to Rs. 548484.7 million in the same period. The value of securities increased to Rs. 121102.6 million in 2006/07 and GDP increased to Rs. 727089 million in the same period. The value of securities market increased to Rs 140704.9 million in F/Y 2007/08 and GDP increased to Rs 820813.8 million in the same period. The increment in the securities market plays crucial role in the economic activity of the country and that has the impact in the GDP of the country. Corporate as well as government securities have the impact in the economy of the country. Which is also indicate by the correlation coefficient between GDP and volume of securities market is highly imperfect positive correlated as calculated in appendix 2 (iii) i.e. 0.942. at 99% confidence level. The investment in the productive sector means more production, more employment opportunities and more income of the people. There are the possibilities of higher economic growth due to the growth of securities market.

4.1.9 Relationship between Securities Market and inflation

Securities market is one of the most important mechanisms of collecting capital for the fulfillment of the private and government requirement of capital. The government operated developmental programs for the benefit

of the people with use of capital collected from public in the form of various bonds and notes. Hence, this government expenditure increases the supply of money in the market and helps to increase the income of the people. The increment in the expenditure might increase both volume of securities market and supply of money in the country. Thus; there should be some relationship between the securities market and inflation. In this connection, an attempt is made to show how securities market injects the inflation rate.

Table 4.7

Securities market size and inflation rate

Rs. in million

Fiscal year	Securities Market size Rs. in million (Private+Govt.)	Inflation rate
1993/94	32813.4	9.01
1994/95	35019.7	7.68
1995/96	37600.3	8.10
1996/97	40377.3	8.10
1997/98	43366.4	8.32
1998/99	56427.1	11.35
1999/2000	61704.4	3.06
2000/01	68208.9	2.44
2001/02	83305.7	2.89
2002/03	97205.4	4.78
2003/04	99538.6	3.96
2004/05	119201.3	4.5
2005/06	109913	7.96
2006/07	121102.6	6.4
2007/08	140704.9	7.7

Source : NRB Quarterly Economic Bulletin, , 2008

Securities market being a part of the economy, may effect in GDP as well in the inflation rate of country. Securities market is the mechanism that collects the scattered capital from the market and canalizes in the productive sector that helps to optimal utilization of available human and natural resources Finally, it increase in the people's living standard. As financial instruments increase and become attractive for the investment for people, the trend of hoarding money decrease, the liquidity of currency decrease in the country, so the average growth rate of the inflation rate during the year 1993/94 to the corresponding year 2007/08 is seen satisfactory i.e. 6.43 percent which is calculated in appendix-2 (iv). In this, sense the issuances, the impact of securities market in the inflation rate is observed by applying the following econometric model. It is not enough to examine only the relationship GDP with SM, it is also necessary to examine the relationship of inflation rate with securities market because it provides the experts and policy makers how much is necessary to compensate the investor as inflation as inflation premium. The regression of inflation rate on increase percentage of securities market is estimated by using the data for the period of 1993/94 to 2007/08. The regression results are presented by Table 4.8

$$IR = f(SM)$$

$$\text{Log IR} = a + b \text{ log SM} + U_i$$

U_i = Error term of disturbance

Table 4.8

Regression of Inflation Rate on Securities Market

Regression Equation $\text{Log IR} = a + b_1 \text{Log SM}$

S.No.	Dependent Variable	Intercept	Regression Coefficient of	R2	F
			Log SM		
1	Log IR	2.383 (.065)*	-0.334 (.194)**	0.126	1.877**

Source : Calculating in computer by using SPSS program.

Note :

- i) Inflation Rate and Securities market represented by Log IR and Log of increase percent of SM respectively.
- ii) * and ** denotes significant of coefficient at 6% and 20% level.

Generally, it is accepted that inflation and security market size goes hand by hand .Literature from matured economy shows that there is somewhat imperfect positive relation between inflation of economy and growth of capital market. Beside, this fact, it is another important aspect to note is that inflation is not exclusively determined by security market size. Important determinant of inflation are demand and supply (consumption and production) of economy.

In Nepalese economy, negative correlation can be observed at least during study period. Correlation coefficient between these two variables is computed -0.325 negative which is calculated in appendix (iv) at 76% confidence level. This figure is significant only at 24% level of significance. From the fact of Nepalese economy, it can be said that there is no significance relation between the variables. The calculated value is

opposite of hypothesized size which is difficult to explain. From the analysis it must be said, Nepalese government has specific policies to control inflation and it has not using capital market size as monetary tools to control it.

Regression result of log IR and log SM is also found insignificant. The regression model of log IR and log SM is not significant. F-value is only 1.877. It seems significant only at 60% level of confidence. Coefficient .334 is significant only at 20% level of confidence and model explains only 13% variation in IR.

4.1.10 Ownership pattern of Government Securities

Treasury bills are one of the popular means of government borrowing for the short term. However it can be sold for the longer period maturity. Before 1988 TBs were sold on a fixed interest rate. The administrative interest rate was one percent at the beginning (in 1962) and maximum of five percent in 1988 TBs are now sold at a discount rate and the face value is paid to the holder on maturity. The spread between selling price and payment of full face value is known as the yield on the investment. Because of the competitiveness and short term maturity of this type of securities is usually confined to institutional investors like banks, finance and insurance companies. The operation of TBs is governed by the Public Debt Act 1961 according to which the amount of securities to be issued for any fiscal year is fixed in the budget speech. And then, -NRB on the behalf of the government, issues the bills, all at a time or in installments, depending upon the directives of the Ministry of Finance. The auction system of TBs on the weekly basis was started in November 1988 and since then the interest rate is being determined by the market force.

Development bonds, National saving Certificates and Citizen Investment Certificates are regarded as long-term government bonds to mobilize the

domestic resources. These bonds give rather higher yields and are popular in public. The government has issued these types of securities with a maturity period ranging from 3 percent to 15 years. Private holding of the debt would reduce the money supply, but on the other hand, when the central bank purchases securities it creates the high - powered money which builds up an inflationary pressure by increasing money supply in the economy. The following table shows the ownership structure of government bonds.

Table 4.9

Ownership Structure of Government Bonds (Amount in million)

Year	Total Govt. Bonds Rs. (5 year Average)	Nepal Rastra Bank %	Commercial Bank %	Others %
1989-1993	19421.56	45.91	34.88	19.21
1994-98	34245.66	48.09	24.9	27.01
1999-2003	63767.96	35.53	38.09	26.38
2004-2008	94839.16	17.32	60.98	21.7

Source : NRB Economic Bulletin, Oct 2008

As long as the central bank keeps on holding the government bonds, this encourages the government to issue more bonds. This will lead to a rise in the inflation rate in the country. As the central bank dominates in the market, the interest rate on the government securities will be less competitive. Table 4-9 illustrates that holding of NRB is decreasing which leads slow inflationary pressure in economy but our market condition shows about 6 percent of inflation. Another aspect of government bond ownership structure is interest rate competency. Interest rate becomes less competent with increasing ownership of NRB. Our data

shows decreasing ownership of NRB, it implies interest rate should become more competent in later year. Currently, it is still holding about 17.32 percent of the total outstanding government bonds. This means that the government has about 82.68 percent interest bearing debt. Nepal Rastra Bank Act 2002 limits the holding of the debt stock within 10 percent level of previous year's adjusted government revenue.

4.2. ANALYSIS OF PRIMARY DATA

Introduction

This study deals with the opinions of respondents with respect to the different aspects of securities market in Nepal. 150 set of questionnaire was distributed to collect the data from the respondents. Out of those 150 sets of 128 questionnaires was collected. This study is based on questionnaires survey on the opinions of 128 respondents. The main objectives of distribution of the questionnaire are to collect opinions on different aspects of the securities market in context in Nepal. Among the 128 respondents, 41 respondents belong to the executives of the listed companies, 26 respondents belong to the expert of the capital market and 61 respondents are general investors. Percentage of the respondent's category is presented in table 4-10

Table 4.10

Respondent's Profile

Respondents Category	No of respondents	Percent
Executives of Listed Companies	41	32%
Experts	26	20%
Investors	61	48%
Total	128	100%

For the primary data analysis with the objectives of obtaining primary facts regarding the different aspects of Nepalese capital market, a survey of the respondents were made through a structured questionnaire as unstructured dialogues with the respondents. A total of 61 investors, 41 executives of listed companies and 26 experts were selected. The sample selected for this section of the study is drawn from all sectors companies which are listed in NEPSE. The study is therefore based on visits to the organizations, investors, experts respondents located in Kathmandu as well as Bhaktapur and Lalitpur valley. The selected experts and company's respondents were also interviewed during the study visit.

4.2.1 Priority of the Long Term investment Option

In the overall ranks for the long term investment alternatives, i. e. common stocks, corporate debt securities, preference shares, fixed deposit with banks and financial institutions, investment in physical goods (gold, silver, land etc.) and government securities, the majority of the respondents gave priority to invest in the common stocks, and second priority to invest in government securities and thirdly to invest corporate debt securities. In this connection, majority of the respondents gave the last priority to invest in physical good. In respect when the responses of listed companies respondents, the listed companies respondents assigned the first priority to invest in government securities but other group respondents assigned the first priority to invest in common stocks. The fundamental reason was that companies were not allowed to invest in corporate securities more than 10% of their total capital but no limit for invest in government securities. Priority of all respondents to invest in various alternatives is presented Table 4.11.

Table 4.11

Priority for investment alternatives by all respondents

Respondent group	Companies	Investors	Experts	Overall rank
Investment alternatives				
a. common stock	3	1	1	1
b. fixed deposit in bank	2	6	3	4
c. Corporate debt securities	4	3	5	3
d. preference share	5	4	5	4
e. government debt securities	1	2	2	2
f. investment in physical goods	5	6	6	6

Source : field survey 2065.

To test whether the degree of relationship between the responding groups is significant, the rank correlation is calculated. The calculated rank correlation coefficients are 0.77, .031, and 0.61 between companies and expert, companies and Investor and experts and investors respectively, and the critical value at 5% level of significance is 0.82 (Appendix-3). Since the tabular value is greater than computed value, the degree of relationship between the responding groups is not significant.

4.2.2 Reasons for low popularity of the collection of funds through issuing Securities in Nepal

In their overall ranks for the reason of unpopularity of collection of funds through issuing securities the majority of the respondents gave the first priority to required funds can be easily obtained from banks and financial institution, the second priority to uncertainty with respect to interest rate, inflation and capital market as a whole, and third priority to there is a risk that debenture may not be sold in the market, and the last priority to

difficult to administer the company has to deal with large number of investors. In this aspects, when the responses of all groups respondents gave same priority for reason of unpopular corporate securities in Nepal (Appendix-3) priority of all respondents to unpopularity of raising funds through securities in Nepal is presented in table 4-12

Table 4.12

Priority of Reasons for unpopularity of corporate securities in Nepal

Respondents Group	Experts	Company	Investors	Overall Rank
Investment alternatives				
a. Required funds can be borrowed easily from banks and financial institutions	1	1	1	1
b. There is a risk that corporate securities may not be sold in the market.	3	3	3	3
c. Difficult to administer: the company has to deal with large number of investors	4	4	4	4
d. Uncertainty with respect to interest rate, inflation and capital market as a whole.	2	2	2	2

Source : Appendix -3

To test whether the degree of relationship between the responding groups is significant, the rank correlation is calculated. The calculated rank correlation coefficient between companies and experts, companies and investors and investors and experts are 1.00 each respectively, and critical

value at 5% level is not significant while at 10% level of significance is 0.80(Appendix-3). Since the tabular value is less than calculated values, the degree of relationship between the responding groups is significant.

In personal interview with the respondents on their aspect they revealed that the calculated rank correlation coefficients are 0.77, 0.31, and 0.61 between companies and experts, companies and investors and experts and investors respectively, the critical value at 5% level of significance is 0.82(Appendix-3). Since the tabular value is greater than calculated value, the degree of relationship between the responding groups is not significant.

4.2.3 Present pace of corporate securities market growth

The size of Nepalese securities market is not so large. It is (both private and government) only 14.97% of the total GDP in 1993/94 but however it is increased to 17.14 percent in 2007/008. The portion private corporate securities out of total securities is not more than 21% in Nepal. In this regards, the respondents were asked about the present pace of corporate securities in Nepal. Majority of the respondents viewed that the present pace of the corporate securities is very weak in Nepal. 63% of the executives of the listed companies told that the present pace is very weak and 37% respondents viewed that is weak. Similarly 49% of the investor's opinion was that the present pace is very weak, 33% respondent's response was weak and 18% were ignorant about that. Majority of the expert of securities market view was that the present pace of the corporate securities is very weak in Nepal (look appendix-3). Due to various reasons such as investor's confidence in the investment of the security is very low, listed companies are not able to pay regular dividend to the investors, the rules and regulations laid by regulating bodies of securities market like SEBO/N and NEPSE are not implement. The primary

issuance of securities is not fully subscribed except the Banking sector. Thus, the present pace of the securities market is very weak in Nepal.

Table No 4.13

Present pace of corporate securities market growth

Option	Companies	Investors	Experts	Total
a. Very weak	25 (63%)	30 (49%)	17 (63%)	67
b. weak	15 (37%)	20 (33%)	10 (37%)	50
c. I don't know	0 (0%)	11 (18%)	0 (0%)	11
d. Total	40 (100%)	61 (100%)	27 (%)	128

Source : Field survey 2065

4.2.4 Systematic Issuance of government Securities in Nepal

One of the questions asked to respondents is whether the government debt securities market is systematic or not. In this connection, seventy three percent of the respondents opinion that the government securities are not systematic. Only twenty seven percent of the respondents felt that government securities market is systematic (see appendix-3)

In this connection, when the responses of investor's group respondents are compared to the responses of remaining two groups, 18 percent of the respondents from the investors group that government securities market is systematic in Nepal and 82 percent of the respondents felt that it is not systematic. Regarding expert's group, 42 percent of the respondents felt that GN bond market is systematic while 58 percent of respondents felt that it is systematic. Similarly, as regards of companies group, 30 percent of the respondents have opinion that GN bond market is systematic while 70 percent of the respondents have viewed it is not so. The respondents

who felt government securities are systematic due to following reasons.

- It is effective so far for achieving the goal of monetary and fiscal policy in the nation.
- It is managed by the central bank of Nepal.
- It is orderly managed and developed by NRB.
- It has longer history and their weaknesses are eliminated in primary stage of its development. Hence it is well developed.
- Maturity and interest rates match each other.
- Interest payment along with principal return is systematic and timely.
- It is secure that can easily be converted in to cash through any banking institutions
- Stock exchange has started secondary trading of the government bonds on 29 December 2006.
- On the contrary, views of the respondents who say government debt securities market is not systematic in Nepal due to following reasons.
- Price competition and centralized market is lacking.
- Not traded based on market principal i.e. yield to maturity.
- It has no country wise trading system and only is located within Kathmandu valley.
- The system of GN bonds market frequently changes.
- It has not been able to get the benefit of capital appreciation.
- It is unknown to the mass population.
- However, the government and corporate bonds have been listed; they were not traded at all in NEPSE during the review period.
- Lack of centralized market therefore. It is difficult for secondary transaction.

- GN bonds market is unable to attract the individual investors.

Knowledge about securities market

The respondents were asked to know their view regarding the investor's knowledge about the securities market. It is often regarded that, Nepalese people have less knowledge about securities market due to which securities market is not stable and highly fluctuating. Many investors invest in the securities without having much knowledge about the profitability of securities market but by the reference from the relatives. So, investors suffer from losses. In this context, the respondents were asked whether Nepalese investors have adequate knowledge about securities market or not respondent wise responses are presented in following table.

Table No 4.14

Systematic Issuance of government Securities in Nepal

Option	Companies	Investors	Experts	Total
A. Yes	16 (40%)	16 (26%)	17 (63%)	49
B. No	24 (60%)	35 (57%)	10 (37%)	69
C. I don't know	0 (0%)	10 (17%)	0 (0%)	10
Total	40 (100%)	61 (100%)	27 (100%)	128

Source : field survey 2065

4.2.5 Securities Market Laws

Securities market act, laws and related other acts and implementation of the laws play important role in the development of securities market.

Various securities market law has been enacted to regulate promote and increase the Investor's confidence in the country.

Table no 4.15

	Companies	Investors	Experts	Total
A. Yes	28 (70%)	30 (49%)	19 (70%)	77
B. No	12 (30%)	23 (37%)	8 (30%)	43
C. I don't know	0 (0%)	8 (14%)	0 (0%)	8
Total	40 (100%)	61 (100%)	27 (100%)	128

Source: field survey 2065

However, some experts say that there is some insufficiency in the securities market laws so that securities market is not able to gain the monumental growth in the country. In this context, the respondents were asked whether securities market laws are sufficient or, not. 70 percent of the respondents of the executives of the companies opinion the existing securities market laws are not adequate and 30 percent respondents of this group felt that the existing securities market is adequate. Similarly, 49 percent investors expressed that the existing securities market laws are insufficient, 37 percent felt that existing securities market laws are sufficient and 14 percent respondents were unknown about it. Likewise, of the respondents of experts group, 70 percent opinion that existing securities market laws are not sufficient and 30 percent opinion that existing respondents securities market laws are sufficient (see appendix - 3). Based on the observed responses from all groups, it has been found that the existing securities market laws are not sufficient. In the informal Interview with the respondents, some respondents expressed that there is the conflict between the regulator and regulating and monitoring bodies. Securities Board of Nepal and Nepal Stock Exchange are the regulating

and monitoring bodies of securities market in Nepal. But the listed companies don't follow the laws laid by the companies so that investors don't know that real information about the securities. There has been some contradiction between securities Board and Nepal Stock Exchange Ltd. in the working environment.

4.2.6 Role of Securities Board of Nepal (SEBO/N) in the development and growth of securities market.

Securities Board of Nepal is the apex body for regulating controlling, promoting and development of securities market in the countries which formulates and implements the proper policies for the development, stable and reliable capital market. An attempt is made to know the view of respondents regarding the role of SEBO/N for the development and growth to securities market in Nepal.

Table No 4.16

Role of Securities Board of Nepal (SEBO/N)

	Companies	Investors	Experts	Total
a. Yes	19(48%)	31(51%) ¹	12(45%)	62
b. No.	21(52%)	20(33%)	15(55%)	56 I
c. I don't know	0(0%)	10(16%)	0(0%)	10
Total	40(100%)	61(100%)	27(100%)	1281

Source: field survey 2065

48 Percent of the respondents of the executives of- the companies opinion that SEBO/N is not playing strong role for the development and growth of securities market in Nepal where as 52 percent respondents opinion in against. In regards to the investors group, 51 percent expressed that SEBO/N is playing role for the development and growth of securities market in Nepal. Similarly, 45 percent of the respondents of experts group opinion that SEBO/N is playing role whereas 55 percent opinion in

against. From the observation, it has been found that majority of the respondents felt that SEBO/N is not significant role for the development and growth of securities market. In the informal talks with the respondents expressed that there are various laws regarding the regulation securities activities but SEBO/N is not able to make the mandatory for the implementing bodies.

4.2.7 Infrastructure for the development and growth of Securities Market.

Nepal Stock Exchange is the only one securities exchange center through where securities are bought and sold based on the online trading system. Though tenth plan has aimed to establish regional stock exchange centers, till date the buyers and sellers have to come Kathmandu for the trading of securities. In this connection, the respondents were asked whether infrastructure for the growth and development of securities is sufficient or not. Majority of the respondents argued that infrastructure for well developed securities market is still lack in Nepal. 60% of the respondents of executives of the companies viewed that existing infrastructure is not sufficient whereas 40% respondents opinion in favor of the issue. In regards to the investors and experts group, majority of the respondents of the both group opinion the similar view (Appendix-3). Based on the opinion of the respondents, it is clear that there are some infrastructures have to be still to be developed in Nepal for the sound development of securities market in Nepal. The respondent's view are presented in the table given below

Table no 4.17

Infrastructure for the development and growth of securities Market

Option	Companies	Investors	Experts	Total
a. Yes	16 (40%)	20 (33%)	12 (44%)	48
b. No	24 (60%)	41 (67%)	15 (66%)	80
c. Total	40 (100%)	61 (100%)	27 (100%)	128

Source: field survey 2063

4.2.8 Major factor hindering Capital market growth

Nepalese capital market seems very small in comparison to the GDP of the country. More than 90% of the security market is covered by government securities and less than 10% securities is covered by corporate securities. In this connection, the corporate securities participation in the securities market is very insignificant. In this context, the respondents were asked why the capital market can't grow in Nepal; the respondents were given three options i.e. due to the lack of knowledge, limited supply of securities and lack of capital gain. Based on the observed responses, 20 percent of the investors, and 33 percent of the experts opinion that the reason of the not growing capital market is due to lack of knowledge of the securities market among the investors. While 30 percent of the executives, 21 percent investors and 22 percent experts opinion that the reason of not growing capital market is due to the limited supply of securities in the market. Similarly, 50 percent of the executives of the companies, 63 percent of the investors and 45 percent of the experts opinion that capital market is not growing in Nepal due to lack of capital gain. Based on the respondents' responses, majority of the respondents argued that capital market is not growing in Nepal due to the

lack of capital gain opportunities. During interview in Nepal with the respondents, they argued that investors want capital gain as well as dividend that motivate them to invest in the securities. There are few companies in Nepal which provide regular dividend to the shareholders. Capital gain opportunities are very nominal in Nepal due to which the turnover of the securities is low and new companies don't dear to go in public issue. There are various sectors which can be financed by public issue but companies don't go public due to the fear of possible losses.

Table no 4.18

Major factor hindering Capital market growth

Option	Companies	Investors	Experts	Total
a. Lack of knowledge	8 (20%)	10(16%)	9(33%)	27
b. Limited supply of securities	12(30%)	13(21%)	6(22%)	31
c. Lack of Capital gain	20(50%)	38(63%)	12(45%)	70
Total	40(100%)	61(100%)	27(100%)	128

Source: field survey 2065

4.2.9 Improvement needed in the capital market

A sound development of securities market is itself an indicator of national development. Securities market play vital role in the economic development of a country. Therefore, securities market may help in the economic development of the country because the required capital can be collected to finance the productive sectors. There should be regional stock exchange to facilitate the trading of securities. Some respondents' view was that due to the centralized trading facility of the stocks (Nepal Stock Exchange Center, Kathmandu), the stock holders outside the valley are facing difficulty to sell and buy the securities. Some respondent's argument was that the trading of securities can be facilitated by

introducing on line trading mechanism of securities. The government securities should be practiced to be traded through stock market. Similarly, Government bodies like municipalities should practice to collect long term debt by issuing municipal bonds that may create the better opportunities for the mutual fund companies to earn fixed income and it will also increase the confidence over the investors on such funds. Likewise, some respondents view was the there is lack of institutional investors in the Nepalese stock market. Various types of bonds and debentures should be encouraged to issue in the market and tax benefits should given to the investors to motivate them to invest in the mutual funds.

4.3 Major findings of the study

4.3.1 Major findings form secondary data

The required data are collection from different secondary sources. After the collection of the secondary data, the data are analyzed with different kinds of financial and statistical tools to draw some conclusion. The summary of the major finding of the secondary data are as follows.

1. The total volume of securities is increasing each year. Government and, corporate securities are increasing. The volume of issued corporate securities increased to Rs.11757.7 million in 2008 from Rs. 344.4 million in 1994.
2. The sector wise issue of securities is dominated by banking sector equities. During the period of 1994-2008 banking sector covered 44.58%. Finance companies covered 24.36%, manufacturing and processing companies covered 3.85%, trading companies covered 0.015%, development bank covered 9.22%, 2.07% insurance companies, Hotel sector 3.39% and 12.5% other sector. This shows that banking sectors securities are more popular in Nepal.

3. Out of 100 percent, more than 90 percent of the securities market is covered by government securities. Only less than 10 percent of total securities market is covered by corporate securities. However, equity securities are the major securities among other private securities in Nepal.
4. The history of government securities in Nepal started with the issuance of treasury bills in 1962. Since then the volume and kinds of government securities have been growing,, over the time and the amount of outstanding securities had reached to Rs. 111239.1 million in 2008.
5. Most frequently, banking sector equity securities have been over subscribed where as Manufacturing and processing companies are under subscribed. Shree Ram Sugar Mills issued the first debenture which was under subscribed. However, Bonds issued by Himalayan Bank, Nepal Investment Bank Everest Bank, Nabil bank and kumari bank have been successfully subscribed.
6. The market capitalization of corporate securities is highly fluctuating over the years. The market value of securities was Rs. 13872 million in 1994 which increased to Rs. 46349 million in 2000 and it increased to Rs. 366247.5 million in 2008.
7. Similarly, the paid up value of corporate securities increased up to Rs. 29465.8 million in 2008 from Rs 2182.2 million in 1994.
8. The turn over of securities was found decreasing in the previous years. The turn over of the securities was Rs. 22820.8 million in 2008 which was 575.8 million in 2003 and 2344.2 in 2001.
9. Treasury bills, Development Bonds, National Saving Bonds, Citizen Saving Bonds, Special Bonds are the major instruments of government securities in Nepal through government obtains funds. Out of Which treasury bills covers the major portion. The amount of government securities increased to Rs.111239.1 million in 2008 from 30631. 20 million in 1994.

10. The size of corporate securities is increasing in total securities. Corporate securities covered 6.65 percent 1994 which increased to 20.9 percent in 2008. The average growth rate of corporate securities during the year 1994-2008 is 20.43 percent.
11. While observing the size of Gross Domestic product and the size of securities market, total value of securities (both corporate and government securities) was Rs. 32813.4 million 1994 and the value of GDP was Rs. 219175.00 million which was 14.97% of the GDP. The value of total securities market and GDP increased to Rs. 140704.9 million and 820813.8million respectively in 2008. The percentage of securities market increased to 17.14 percent in comparison to GDP.
12. While examining the trend of securities market size and GDP, it has been found that there is a positive relationship between these two variables. The correlation coefficient between these two variables is imperfect highly positive correlated i.e. 0.942. Therefore, it can be said that securities market plays role in the economic development of the country.
13. In regard the securities market and inflation, the relation between Inflation Rate and SM is found with negative i.e. -0.325 and insignificant at 10% level of significance.
14. However SM is found weak determinant of Inflation Rate, the coefficient is negative and significant only at 20% level of significance.
15. Size of SM can explain only around 13% variations in IR.
16. While observing the ownership pattern of government bonds, majority of the government securities was owned by Nepal Rastra Bank in the past. In the recent years, commercial banks are the major owner of the government bonds. In 2003, commercial banks owned 38.09% while Nepal Rastra Bank owned 35.53%

and 26.38% by others and in 2008-each of them owned 60.98%, 17.32% and 21.7% respectively.

4 3.2 Major finding from primary data

The questionnaire relating to different aspects of securities market in Nepal were distributed to the respondents. After the collection of the answer sheet, the data were processed and analyzed with financial and statistical tools to draw some conclusions. In course of the collection of the primary data, some interesting facts have been found. The summary of the major findings of the primary data are as Follows.

1. Regarding the priority of the long term investment, most of the respondents selected as the first preference on common stock among the investment options like corporate debt securities, preference shares, fixed deposit with banks and financial institutions and invest in physical goods: Second priority to invest government securities, third in corporate debt securities and then in preference and fixed deposit with banks and financial institutions and lastly on physical goods.
2. Regarding the unpopularity of collection of funds through issuing securities, majority of the respondents opinion that public companies don't go for public issuing because the required funds can be easily borrowed from banks and finance companies. Second reason they had given that uncertainty with respect to interest rate, inflation and capital market. The thirdly, there is a risk that corporate securities may not be sold in the market and lastly, difficult to administer the company has to deal with large number of investors.
3. Regarding the present pace of the corporate securities market, majority of the respondents viewed that the present pace of the corporate securities is very weak in Nepal. 63% of the executives

of the listed companies viewed that the present pace is very weak and 37% respondents view that the pace is weak. Similarly, 49% of the investor's opinion was that the present pace is very weak, 33% respondents' response is weak and 18% respondents were ignorant about that.-Majority of the experts of securities market opinion was that the present pace of the corporate securities is very weak in Nepal (see Appendix-3). Due to various reasons such as investors' confidence in the investment of securities is very low, listed companies are not able to pay regular dividend to the investors, the rules and regulations laid by regulating bodies of securities market like SEBO/N and NEPSE are not implemented.

4. The respondents' opinion regarding the systematic issuance of government securities in Nepal, 70 percent of the respondents' opinion was found government securities is not systematic. Only 30 percent respondents' opinion that the government securities are systematic in Nepal.
5. The respondents were asked to know their view regarding the investors' knowledge-about the securities market. It is often regarded that, Nepalese people have less knowledge about securities market due to which securities market is not stable and highly fluctuating. Many investors invest in the securities without having much knowledge about the profitability of securities market but by the reference from the relatives.
6. Securities market act, laws and related other acts and implementation of the laws play important role in the development of securities market. 70 percent of the respondents of the executives of the companies opinion the exiting securities market laws are not adequate and 30 percent respondents of this group felt that the existing securities market is adequate. Similarly, 49 percent investors expressed that the existing

securities market laws are insufficient, 37 percent felt that existing securities market laws are sufficient and 14 percent respondents were unknown about it. Likewise, of the respondents of experts group, 70 percent opinion that existing securities market laws are not sufficient and 30 percent opinion that existing respondent's securities market laws are sufficient. Based on the observed responses from all groups, it has been found that the existing securities market laws are not sufficient.

7. Questionnaire regarding the role of SEBO/N for the development and growth to securities market in Nepal. 48 percent of the respondents of the executives of the companies opinion that SEBO/N is not playing strong role for the development and growth of securities market in Nepal where as 52 percent respondents opinion in against. In regards to the investors group, 51 percent expressed that SEBO/N is playing role for the development and growth of securities market in Nepal. Similarly, 45 percent of the respondents of experts group opinion that SEBO/N is playing role whereas 55 percent opinion in against. From the observation, it has been found that majority of the respondents felt that SEBOIN is not significant role for the development and growth of securities market.
8. Regarding the sufficiency of the infrastructure for securities market, majority of the respondents argued that infrastructure for well developed securities market is still lack in Nepal. 60 percent of the respondents of executives of the companies opinion that existing infrastructure is not sufficient whereas 40 percent respondents opinion in favor of the issue. In regards to the investors and experts group, majority of the respondents of the both group opinion the similar view.
9. Nepalese capital market is very small in comparison to the GDP of the country. More than 90 percent of the security market is

covered by government securities and less than 10 percent securities market is covered by corporate securities. In this connection, the corporate securities participation in the securities market is very insignificant. In this context, the respondents were asked why the capital market can't grow in Nepal, the respondents were given three options i.e. due to the lack of knowledge, limited supply of securities and lack of capital gain. Based on the respondents' responses, majority of the respondents argued that capital market is not growing in Nepal due to the lack of capital gain opportunities. Capital gain opportunities are very nominal in Nepal due to which the turnover of the securities is low and new companies don't seem to go in public issue.

10. A sound development of securities market is itself an indicator of national development. Securities market play vital role in the economic development of a country. Therefore, securities market may help in the economic development of the country because the required capital can be collected to finance the productive sectors.

CHAPTER-V

SUMMARY AND CONCLUSIONS

5.1 Summary

In this chapter, the summary, conclusion and some recommendations have been presented which have been found from the study the prime objective of the study is to examine the structure of securities market in Nepal. Government securities as well as corporate securities market development must be viewed as a dynamic process in which continued macroeconomic and financial sector stability are essential for establishing and efficient market and the credibility to the government and corporate sector as issuer of the securities.

The government and private sector securities markets interact through many channels. Corporate securities market is an important for Nepal. There is no controversy as too whether this sector should be developed or not. However, it is a leading sector and once this sector is developed, capital market will also be developed as whole. The capital market and economic development are synonymous for many poverty-stricken developed countries. Many intellectuals in developed countries say that their countries are under-developed because they don't have developed their securities market. Hence, capital market in developing countries has been viewed as effective tools for achieving economics development and reallocation of capital all over the country. In the past decades, limited efforts were made to develop this sector. Government and corporate securities are not going according to the country demand. Interest rate and inflation rate are changing frequently due to the internal as well as external environment such situation discourage to investors and issuers.

This study mainly aims to analyze the structure of securities market in Nepal and its growth in the recent years. The specific objectives are : i) To analyze the structure of securities market in Nepal. ii) To examine the

trend of securities market and GDP (economic growth) iii) and to examine the relationship between securities market and inflation rate.

This study is based on secondary as well as primary sources of information. The study on structure of securities market in Nepal was accomplished by using secondary data for the period of 1993-2008. Similarly, the trend of securities market and GDP has been accomplished by using data for the period of 1984 -2008. Likewise, the relationship between securities market and inflation rate has been examined by using data for the period of 1994-2008. The relationship between these two variables has been interpreted by using econometric model.

Survey of respondents was accomplished by using primary data of 128 respondents. Out of 128 respondents, 41 were the executives of the listed companies, 26 were from experts, 61 were investors. 128 respondents gave their opinions on the different aspects of the securities market in Nepal. The results of these respondents were also analyzed to ascertain the differences in their responses.

5.2 Conclusions

It is known that development of securities market is an effective tool for the sound development and achieving economic development and reallocation of capital all over the country. However, in our country, security market is still in infant stage. Although the position of the security market can be seen in growing condition during this study but it is not satisfactory as it must be

The investment in banking sector is much more crucial than other sector that is it dominated other sectors such as hotel, business home etc. The size of the corporate securities out of total securities is also in increasing condition but it is very nominal as compared to government securities. Based on the above calculation there is a positive relationship between the securities market and GDP imperfect positive correlation can be seen

between these two variables which indicate the importance of the growth of securities market is it affects the gross domestic product of the nation. Where as there is a negative relationship between securities market and inflation rate but the average inflation rate during the study period is seen satisfactory.

Similarly based on primary data analysis, most of the investors selected as the first priority to common stock as a long-term investment among the given options including this study. The cause of unpopularity of collection of funds through issuing securities is found due to the uncertainty with interest rate, inflation and securities market. Most of the investors feels the present pace of the securities market very fragile condition this is because due to the low confidence to the investment; in securities, political instability and unpractical laws, rules and regulations implemented by SEBO/N and NEPSE. Besides these lack of investors knowledge to invest in securities, insufficient and non implemented rule and regulations, insignificant role of SEBO/N for the development and growth of the securities market, due to the lack of sufficient infrastructure of the securities market in Nepal is still in primitive stage. If we were able to make improvement towards these back draws then only the securities market being independent and itself be the indicator of the national development.

For this purpose the SEBO/N, the securities market regulator has also developed and try to implement proper securities market rules and regulations for its growth and development. These new securities market ordinance and improvement work has been expected to significantly help in the creation of conducive environment for all aspect of the securities market.

5.3 Recommendations

The security market is one of the major driving -forces for the economic development of a country. The security market provides the mechanism to supply the savings in to the productive sectors. In the developed economies, securities market is highly developed where size of capital market is wide with better investment opportunities. On the contrary, in the developing countries, the size of securities market is relatively small and majority of the securities market is dominated by government securities. The investor's confidence is low due to the lack of information regarding the stock market and company affairs. It is evident the development and growth of securities market is necessary for the economic development of the countries. Based on the research findings, some recommendations are put forwarded for the sound and faster development of securities market in Nepal.

1. Encourage the private investment

From the secondary data analysis it has been found that more than 90% of the securities market is covered by government securities. Only less than 10% of total securities market is covered by corporate securities. However, equity securities are the major securities among other private securities in Nepal. This shows that the presence of private securities is very nominal and the sum collected through government securities may go for the state operation which may not directly increase the productivity as the private investment do. Therefore, private investment should be encouraged.

2. Investment opportunities must be increased

Majority of the investors prefer equity stocks or they prefer to invest in the safer, sectors such as fixed deposits since due to the lack of investment opportunities in most liquid assets. So, vibrant stock exchange market should be developed.

3. Issuance of securities must be believable to public:

Public issuance of securities should be made favorable by introducing more financial securities in absence of such instruments companies/ firms go for bank loan instead of issuing securities in Nepal.

4. Transparent information system should be developed to investor

From the interview with the respondents, it has been found that small investors suffer from losses from the investment in the stocks because the lack of proper information regarding stock market, company profiles and the price of the stocks are manipulated by brokers. So, it is recommended to, prepare the necessary laws to prevent such activities to create the confidence of investors towards the stock market.

5. Investor must get return from their security investment:

It is no doubt that securities market provide the necessary capital for financing various venture for the national development but there should be minimum return to the investors. Banking sector equity has been found most preferred stock in the country. But few selected banks are giving return to its investors. Some of the banks' share price has been decreased in the bullish manner. The price of the stock of such firm was fixed high due to the artificial demand of stock by brokers and shareholders. Such malpractices should be banned by enacting proper laws by the concerned regulating bodies.

Other some recommendations are as follows:

- 6.** The researcher recommends to all the concerned persons, agencies and regulating bodies to make more efforts, research works and prepare acts so that securities market would grow by benefiting to investors and issuer firms for the national development of the country.

7. In the proper and favorable economic policies, foreign and domestic investment can be increased. Peace and stable political environment is the basic for long -term private investment in Nepal.
8. Similarly, majority of the respondents opinion that existing securities market laws are not sufficient and securities regulating body should bring the proper securities market law and implement effectively.
9. Regional stock exchange should be established to facilitate the trading of securities across the country to enhance the growth of the securities market in the country.

Bibliography

Books

- Alexander, J.VV. (2002). *Fundamental of Investment*, New Delhi, Prentice-Hall of India Pvt. Ltd.
- Bhattarai, R. (2007). *Share Market of Nepal*, Kathmandu, Buddha Publications Pvt. Ltd.
- Bringham, E.F. and Houston, J.F. (2001). *Fundamentals of Financial Management*, Harcourt Asia P.Ltd.
- Francis, J. C. (1996). *Investments: Analysis and Management*, Macgraw - Hill international editions, Finance series.
- Gupta, S.P.(1988). *Statistical Methods*, New Delhi, Sultan Chand and Sons.
- Gupta, K. R. (1973). *Macro Economics*, New Delhi, Atma Ram and Sons.
- Kohn, M. (1999). *Financial institutions and Markets*, New Delhi, Tata McGraw hill publishing Co.. Ltd.
- Kothari, C.R. (2000). *Research Methodology*, New Delhi, Wiswa Prakashan.
- Kothwari, C.R. (1990). *Quantitative Theory*, Andheri, Mumbai, India, Third Revised & Enlarged Edition, Vikash Publishing House Pvt. Ltd.
- Mahat R. S.(Dr.) (1981). *Capital Market, Financial Flows and Industrial Finance in Nepal*, Pulchowki, Lalitpur, First edition, Shajha Prakashan.
- Pant P. R. (2002). *Business Environment in Nepal*, Kathmandu, Nepal, Budha Academic Publishers and Distributors Pvt. Ltd.
- Sharpe W. F., Alexandar, G. J. and Bailey, J.V. (2002). *Investments*, New Prentice - Hall of India Pvt. Ltd.

- Shrestha, M. K. and Bhandari D. B. (2008). *Financial Markets and Institutions*, Kathmandu, Asmita Publications Pvt. Ltd.
- Sinha, L.N., (1960). *Capital Market in India*, Vora & W Publishers Pvt. Ltd.
- Sukla, M. C., (1988). *Statistical Method*, New Delhi, Sultan Chand & Sons.
- Waston, *Price Theory and its uses*, Delhi, A.1.8.T.S. Publishers and Distributors.
- Weston, J.F. and Copeland, T.E. (1992). *Managerial Finance*, Orlando, USA, The Dryden Press.

Journals and Articles

- Campbell, J.Y. and Viceia, L .M(2001). Who Should Buy Long Term Bonds, *The American Economic Review*, vol. 91 No 1.
- Charles, J. W. , (2002). *Encyclopedia of Banking and Insurance*, New Delhi, S. Chand and Company Ltd.
- Fisher, L. and Weil, R.L., (1971). Coping with the risk of Interest Rate Fluctuation : Return to Bondholders From Native and optimal Strategies,
- Fedrik Willund, J.S., (2001). *An Economic Inquiry into Investment Opportunities and Risks*; Linkoping University.
- Khatiwada, Y.R. (2000). *Monetary and financial Policy for the Promotion, of Business*, Kathmandu, Ministry of Commerce.
- Micheal, N. (1997). Does Stock Market Causes Economic Change, *Journal of Business*.

Past Thesis

- Bhattarai, R. (2002). *Clearing and Settlement System in Nepalese Security Market*, T. U., Kathmandu, An unpublished Masters' thesis, faculty of Management.
- Dangol, N., (2000). *Liquidity, Profitability and Stack Market in Nepal*, Kritipur, T.U. An Unpublished Masters Thesis.
- Kafle, D.R. (2003). *Problem and Prospects of Debenture Market Growth on Nepal*, T. U., Kathmandu, An unpublished Masters' thesis, Faculty of Management.
- Khanal, R.(2003). *Growth, Problem and Prospects of Stock Markets in Nepal*, T. U., Kathmandu, An unpublished Masters' thesis, faculty of Management.
- Khanal, S. (2003). *Growth of Securities Market and its impact on Economy and Price Index in Nepal*, T.U. Kathmandu, An unpublished Master's Thesis, Faculty of Management
- Mahato, S. (2002). *Risk and Return Analysis of Investing in Mutual Funds in Nepal*, T.U., Kathmandu, An unpublished Master's Thesis faculty of Management.
- Mainali, N. K. (2003). *Problem and Prospects of Debenture Market Growth in Nepal*, T. U., Kathmandu, An unpublished Masters' thesis, faculty of Management.
- Pandey, M.N. (2002). *Legal and Institutional Arrangements for Investors Protection in Nepalese Capital Markets*, T.U. Kathmandu, An unpublished Master's Thesis Faculty of Management.
- Pahari, I. T., (2003). *Problem and Prospects of Debt Market Growth in Nepal*, T.U., Kathmandu, An unpublished Master's Thesis Faculty of Management.

Sakya P. R. (2003). *Performance of Securities Board in Capital Market of Nepal*, T.U., Kathmandu, An unpublished Master's Thesis; faculty of Management.

Shrestha, A. (2004). *Growth & Prospects of Stock Market in Nepal*, T. J , Kathmandu, An unpublished Masters' thesis, faculty of Management.

Shrestha, D (2004). *Growth & Prospects of Stock Market in Nepal*, T. U. Kathmandu, An unpublished Master's Thesis, Faculty of Management

Websites

www.nepalstock.com

www.sebonp.com.

www.nrb.orq.np

www.indiafn.com

www.tivorldbank.org

www.mutualfundsindia.com

[www,sebi,org](http://www.sebi.org)

and others

Appendix-1

A Questionnaire survey on "securities market in Nepal and its impact on inflation rate"

Dear Respondent,

I have been conducted a research on "securities market in Nepal and its impact on inflation rate" in Nepal as a requirement for the partial fulfillment of the degree of MBS. In this regard, with a view to seek the views of all the market participants and or concerned bodies on the key issues relating to different aspects of securities market in Nepal. I have set a list of question, which are the key problems identified by the researcher.

I heartily request you to fill up at the best of your knowledge. Your kindly co-operation in this regard will be a immense value for me.

I shall be highly obliged for your prompt reply as far as possible.

Thank you

Bijaya Kandel
(Researcher)
Shankar Dev Campus
Kathmandu

Name:

Organization:

Address:

Please answer the following questions

Q N 1. What type of long-term investment do you generally prefer?

(Please rank in order of their importance by assigning 1 for the most important one) Importance

Very little

1 ...2.....3.....4....5...6...7

- a. Common stock ()
- b. Long term debt securities i.e. debenture, bond etc. ()
- c. Preference share ()
- d. Fixed deposit with banks, finance companies etc. ()
- e. Investment in physical goods like gold, silver, land etc. ()
- f. Government debt securities ()
- g. Others (specify) ()

]

Q. No.2 Raising funds through issuing securities are still unpopular in Nepal, what could be the reasons? (Please rank in order of their importance by assigning 1 for most important one)

Importance

Very little

1.... 2.... 3.... 4..... 5

- a. The required funds can be borrowed easily from banks and financial inst. ()
- b. There is a risk that the securities may not be sold in the market. ()
- c. Difficult to administer; the company has to deal with large number of investors. ()
- d. Uncertainty with respect to interest rate, inflation and capital market as a whole. ()
- e. Other (please specify). ()

Q.No. 3 What is your opinion about the present pace of corporate securities Market growth in Nepal?

- a. Very weak ()
- b. Weak ()
- c. Don't know ()

Q. NO. 4. Do you think that government securities market is systematic in Nepal?

- a. Yes
- b. No.

Please give some reasons ..

.....

.....

.....

.....

Q.No. 5. Do you think that Nepalese investors have enough knowledge about the securities market?

- a. Yes
- b. No
- c. I don't know

Q.No. 6. In your opinion, is there any insufficiency in the securities market laws so that the growth of securities market is slow in Nepal?

- a. Yes
- b. No
- c. I don't know

Q.No. 7. In your opinion, is SEBO/N playing adequate role for the growth and development of securities market in Nepal?

- a. Yes
- b. No
- c.. I don't know

Q.No. 8. Do you think that the infrastructures of Nepalese securities market are sufficient for the growth of securities market in Nepal?

- a. Yes
- b. No

Q.No.9 In your opinion, what are the major factors that the Nepalese securities market can't grow smoothly?

a. Lack of Investor's awareness about the securities market

b. Limited supply (No. of investment opportunities)

c. Lack of capital gain opportunities

Q.No. 10 What sort of improvements should be made in the securities market for the development and growth of mutual funds in Nepal? Give your recommendations.

- i.
- ii.
- iii.
- iv.

Appendix -2 (i)

i) Calculation of Inflation Rate = $\frac{\text{Year end consumer price index} - \text{last year price index}}{\text{Last year price index}}$

ii) Trend and amount of Government securities issued in Nepal (1994-2008)

Fiscal Year	Treasury Bill (a)	Development bond (b)	National saving bond (c)	Citizen saving bond (d)	Special Bond (e)	Total (a+b+c+d+e)	% Change
1983/84	1830.00	1810.00	500.00	0.00	197.10	4337.10	-
1984/85	2830.00	2010.00	1000.00	0.00	191.60	6031.60	39.07
1985/86	3080.00	2290.00	1500.00	0.00	320.20	7190.20	19.21
1986/87	3440.00	2990.00	1940.00	0.00	627.40	8997.40	25.13
1987/88	4090.00	4651.70	2196.50	0.00	697.80	11636.00	29.33
1988/89	1171.00	5088.60	2196.50	0.00	4431.80	12887.90	10.76
1989/90	1821.00	5388.60	2896.50	0.00	4567.00	14673.10	13.85
1990/91	2351.00	5482.30	3646.50	0.00	9376.00	20855.90	42.14
1991/92	3483.20	5132.20	4546.30	0.00	10073.20	23234.90	11.41
1992/93	4403.20	5132.20	4901.30	0.00	10019.10	24455.80	5.25
1993/94	5216.30	4732.20	5691.50	0.00	14991.20	30631.20	25.25
1994/95	6392.50	4122.20	6076.40	0.00	15466.80	32057.90	4.66
1995/96	7142.50	3672.20	7376.50	0.00	16050.60	34241.80	6.81
1996/97	8092.50	3042.20	8736.50	0.00	16019.60	35890.10	4.82
1997/98	17856.90	3302.20	9886.40	0.00	16035.50	38406.60	7.01
1998/99	17856.90	3872.20	10426.40	0.00	17784.20	49939.70	30.03
1999/2000	21026.90	4262.20	11526.50	0.00	17541.40	54357.00	8.85
2000/01	27610.80	5962.20	12476.4	0.00	13994.30	60043.70	10.46
2001/02	41106.50	11090.70	11536.10	628.10	9259.30	73620.70	22.61
2002/03	48860.70	16059.20	9629.80	931.10	9164.50	84645.30	14.97
2003/04	49429.60	17549.20	9029.80	1178.90	8946.20	86133.70	1.76
2004/05	51383.1	19999.20	6576.80	14289.90	8716.30	87564.30	1.66
2005/06	62970.3	17959.2	3876.8	1678.9	3469.8	89954.90	2.73
2006/07	74445.3	19177.1	1516.9	1391.0	2773.5	99178.90	10.25
2007/08	85033.0	21735.4	1116.9	3014.3	339.4	111239.10	12.15

The overall growth rate of corporate securities during the FY 1994 to 2008 is

$$\begin{aligned} \text{Growth rate} &= \left[\frac{V_T}{V_{T-1}} \right]^{\frac{1}{n-1}} - 1 \\ &= \left[\frac{V_{2008}}{V_{1994}} \right]^{\frac{1}{15-1}} - 1 \\ &= 20.43\% \end{aligned}$$

The overall growth rate of Government securities during the FY 1994 to 2008 is

$$\begin{aligned} \text{Growth rate} &= \left[\frac{V_T}{V_{T-1}} \right]^{\frac{1}{n-1}} - 1 \\ &= \left[\frac{V_{2008}}{V_{1994}} \right]^{\frac{1}{15-1}} - 1 \\ &= 9.65\% \end{aligned}$$

Appendix -2 (ii)

Amount of securities issued with the Approval of SEBO/N and NRB

Fiscal Year	Total Value of private Securities (Paid-up value)	Government Securities	Total Value of Securities	% of Corporate Securities
1993/94	2182.2	30631.20	32813.4	6.65
1994/95	2961.8	32057.90	35019.7	8.45
1995/96	3358.5	34241.80	37600.3	9.8
1996/97	4476.5	35890.1	40377.3	11
1997/98	4959.8	38406.6	43366.4	11.43
1998/99	6487.5	49939.7	56427.1	11.49
1999/20	7347.4	54357.0	61704.4	11.9
2000/01	8165.2	60043.7	68208.9	12.97
2001/02	9685.0	73620.7	83305.7	11.62
2002/03	12560.1	84645.3	97205.4	11.92
2003/04	13404.9	86133.7	99538.6	13.46
2004/05	16771.9	102429.4	119201.3	14.07
2005/06	19958.0	89954.9	109912.9	18.16
2006/07	21798.8	99303.8	121102.6	18
2007/08	29465.8	111239.1	140704.9	20.94

Source: SEBO/N Annual Report 2007/08 and Quarterly Economic Bulletin NRB

Fiscal Year	Securities Market size Rs. (Private + Government)	GDP Rs.	% securities Market in GDP
1993/94	32813.4	219175	14.97
1994/95	35019.7	248913	14.06
1995/96	37600.3	280513	13.40
1996/97	40377.3	366845	11.00
1997/98	43366.4	342036	12.67
1998/99	56427.1	378033	14.93
1999/2000	61704.4	410269	15.04
2000/01	68208.9	420262	16.23
2001/02	83305.7	447546	18.61
2002/03	97205.4	457662	21.23
2003/04	99538.6	493154	20.18
2004/05	119201.3	548484.7	21.73
2005/06	109913	654054.5	16.8
2006/07	121102.6	727089	16.65
2007/08	140704.9	820813.8	17.14

Source: SEBO/N Annual Report 2007/08 and Quarterly Economic Bulletin NRB

The correlation between GDP and volume of Securities Market is given by:

$$R_{xy} = \frac{N \sum xy = \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2 N \sum y^2 - (\sum y)^2}}$$

$$= 0.942$$

Appendix -2 (iv)

Securities market size and inflation rate

Fiscal year	Securities Market size Rs. in million (Private+Govt.)	Inflation rate
1993/94	32813.4	9.01
1994/95	35019.7	7.68
1995/96	37600.3	8.10
1996/97	40377.3	8.10
1997/98	43366.4	8.32
1998/99	56427.1	11.35
1999/2000	61704.4	3.06
2000/01	68208.9	2.44
2001/02	83305.7	2.89
2002/03	97205.4	4.78
2003/04	99538.6	3.96
2004/05	119201.3	4.5
2005/06	109913	7.96
2006/07	121102.6	6.4
2007/08	140704.9	7.7

Source: NRB Quarterly Economic Bulletin 2008

The average growth rate of inflation is calculated by

$$\begin{aligned} \text{Average inflation rate} &= [(1+q_1)(1+q_2)\dots\dots\dots(1+q_n)]^{1/n} - 1 \\ &= 6.43\% \end{aligned}$$

The correlation coefficient between Securities Market and inflation is given by:

$$\begin{aligned} R_{xy} &= \frac{N \sum xy - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}} \\ &= -0.325 \end{aligned}$$

Appendix -3

Rank wise number of Respondents of Field survey based on questionnaire

Q. No. 1

S.N,	Stream	Sector Companies	Rank wise No. of Responses						Total Responses	Weighted value	Mean weight	Overall Rank
			1	2	3	4	5	6				
1.	a.	Companies	11	5	5	6	5	8	40	133	3.33	3
		Experts	9	10	2	4	2	-	27	61	2.26	1
		Investors	49	6	1	4	1	-	61	85	1.39	1
		Total	69	21	8	14	8	8	128	279	2.18	1
	b.	Companies	3	5	9	15	6	4	42	154	3.67	4
		Experts	2	2	4	7	6	3	24	94	3.92	5
		Investors	2	16	17	15	12	1	63	211	3.35	3
		Total	7	23	30	37	24	8	129	459	3.56	3
	c.	Companies	2	3	7	7	16	5	40	167	4.18	5
		Experts	1	2	8	5	5	4	25	98	3.92	5
		Investors	-	13	18	17	6	8	62	226	3.65	4
		Total	3	18	33	29	27	17	127	491	3.87	4
	d.	Companies	1	15	12	6	4	4	42	135	3.21	2
		Experts	5	2	5	5	7	3	27	97	3.59	3
		Investors	1	6	13	9	23	11	63	269	4.27	6
		Total	7	22	30	20	34	18	131	501	3.82	4
	e.	Companies	3	4	6	6	10	12	41	175	4.27	5
		Experts	2	2	4	5	-	13	26	116	4.46	6
		Investors	1	4	5	9	14	29	62	304	4.9	6
		Total	6	10	15	20	24	54	129	595	4.64	6
	f.	Companies	20	8	3	4	4	2	41	93	2.27	1
		Experts	7	10	4	1	4	-	26	63	2.42	2
		Investors	8	20	11	11	4	9	63	199	3.16	2
		Total	35	38	18	16	12	11	130	355	2.73	2

Q.No.2

S.N,	Stream	Sector Companies	Rank wise No. of Responses				Total Responses	Weighted value	Mean weight	Overall Rank
			1	2	3	4				
1	a.	Companies	17	12	8	4	41	81	1.98	1
		Experts	12	4	5	5	26	55	2.12	1
		Investors	26	17	9	9	61	123	2.02	1
		Total	55	33	22	18	128	259	2.03	1
	b.	Companies	10	15	8	9	42	100	2.38	3
		Experts	4	6	9	8	27	75	2.78	3
		Investors	12	21	18	12	63	156	2.48	3
		Total	26	42	35	29	132	331	2.51	3
	c.	Companies	-	4	12	23	39	136	3.56	4
		Experts	1	8	9	8	26	76	2.93	4
		Investors	5	11	12	31	59	187	3.17	4
		Total	6	23	33	62	124	399	3.22	4
	d.	Companies	15	10	8	7	40	87	2.18	2
		Experts	9	8	4	6	27	61	2.26	2
		Investors	20	13	21	9	63	145	2.3	2
		Total	44	31	33	22	130	293	2.25	2

Variable Wise Respondents and Percentage

Q.No.	Option	Companies	Investors	Experts	Total
3.	a. very weak	25(63%)	25(41%)	17(63%)	67
	b. weak	15(37%)	25(41%)	10(37%)	50
	c. I don't know	0(0%)	11(18%)	0(0%)	11
	Total	40(100%)	61(100%)	27(100%)	128
4.	a. Yes	24(60%)	36(59%)	17(63%)	77
	b. No	16(40%)	15(25%)	10(37%)	41
	c. I don't know	0(0%)	10(16%)	0(0%)	10
	Total	40(100%)	61(100%)	27(100%)	128
5.	a. Yes	16(40%)	16(26%)	17(63%)	49
	b. No	24(60%)	35(57%)	10(37%)	69
	c. I don't know	0(0%)	10(17%)	0(0%)	10
	Total	40(100%)	61(100%)	27(100%)	128
6.	a. Yes	28(70%)	30(49%)	19(70%)	77
	b. No	12(30%)	23(37%)	8(30%)	43
	c. I don't know	0(0%)	8(14%)	0(0%)	8
	Total	40(100%)	61(100%)	27(100%)	128
7.	a. Yes	19(48%)	31(51%)	12(45%)	62
	b. No	21(52%)	20(33%)	15(55%)	56
	c. I don't know	0(0%)	10(16%)	0(0%)	10
	Total	40(100%)	61(100%)	27(100%)	128
8.	a. Yes	16(40%)	20(33%)	12(44%)	48
	b. No	24(60%)	41(67%)	15(66%)	80
	Total	40(100%)	61(100%)	27(100%)	128
9.	a. lack of knowledge	8(20%)	10(16%)	9(33%)	27
	b. limited supply of securities	12(30%)	13(21%)	6(22%)	31
	c. :Lack of capital gain	20(50%)	38(63%)	12(45%)	70
	Total	40(100%)	61(100%)	27(100%)	128