ROLE OF MACROECONOMIC VARIABLES IN THE GROWTH OF NEPAL STOCK MARKET

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

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Certification of Authorship

I affirm that I have thoroughly researched and submitted the conclusive version of my dissertation titled **"Role of Macroeconomic Variables in The Growth of Nepal Stock Market"**. This dissertation has not been previously presented for degree conferral, nor has it been suggested or showcased for any other academic purposes. I acknowledge the support and collaboration I received during the research process. Furthermore, I confirm that all information sources and literature utilized in the dissertation are appropriately cited in the reference section.

Swastika Niraula

August, 2025

Report of Research Committee

Ms Swastika Niraula has defended her research proposal entitled **"Role of Macroeconomic Variables in The Growth of Nepal Stock Market"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of Supervisor Indra Bahadur Bohara and submit the thesis for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the thesis entitled **"Role of Macroeconomic Variables in The Growth of Nepal Stock Market"** presented by Swastika Niraula a candidate for the degree of Masters of Business Studies and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Swastika Niraula

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ABBREVIATIONS

ARDL:	Autoregressive Distributed Lag
ADF:	Augmented Dickey-Fuller
ANOVA:	Analysis of Variance
CAPM:	Capital Asset Pricing Model
CPI:	Consumer Price Index
CRR:	Cash Reserve Ratio
EBIT:	Earnings Before Interest and Taxes
EMH:	Efficient Market Hypothesis
FDI:	Foreign Direct Investment
FTPL:	Fiscal Theory of the Price Level
GDP:	Gross Domestic Product
GCF:	Gross Capital Formation
GARCH:	Generalized Autoregressive Conditional Heteroskedasticity
IFE:	International Fisher Effect
IMF:	International Monetary Fund
MRA:	Multiple Regression Analysis
MCR:	Market Capitalization Ratio
NEPSE:	Nepal Stock Exchange
NTB:	Net Trade Balance
OLS:	Ordinary Least Squares
PCON:	Private Consumption
VAR:	Vector Auto regression
VECM:	Vector Error Correction Model

ABSTRACTS

This study is about the role of important macroeconomic variables in the growth of the Nepal Stock Market. The main objective was to understand how variables like GDP growth rate, inflation, money supply, interest rate, exchange rate, and foreign investment affect the NEPSE Index and market capitalization in Nepal. For this research, secondary time-series data from 2012 to 2024 were used. The study applied statistical methods including descriptive analysis, correlation, and multiple regression analysis. In particular, the Multiple Regression Model (MRM) testing approach was used to find the long-run relationship between macroeconomic variables and stock market performance. The findings show that GDP growth has a strong positive effect on the stock market returns, with a long-run positive coefficient indicating a significant impact. Inflation and exchange rate changes were found to have a negative effect, though inflation was sometimes statistically insignificant. Money supply showed a positive association with stock market prices, and interest rates were generally negatively related and statistically significant. The speed of adjustment to equilibrium errors was about 47.57%, meaning that any short-term imbalance tends to correct itself relatively quickly. The results confirm that macroeconomic conditions importantly influence the Nepalese stock market over the long term.

Keywords: Nepal Stock Market, Macroeconomic Variables, GDP Growth

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The connection between government finance, overall economic health, and the performance of the stock market has been a key topic for researchers around the world. This issue is especially important for developing countries like Nepal, where the stock market is small, still growing, and very sensitive to any changes in government policy or economic conditions. In Nepal, the stock market often reacts quickly to shifts in fiscal and monetary policy things like government budgets, tax rates, and changes in interest rates. These financial tools, when managed well, can create a sense of confidence among investors. But when there's uncertainty or instability, investors tend to pull back, which can lead to falling stock prices or increased volatility. Government finance includes several elements such as how the government collects taxes, how it spends money on public services and development projects, and how it manages the national debt. All of these factors directly or indirectly affect investor confidence and market activity. For instance, a well-balanced budget that focuses on infrastructure and development usually encourages investors because it signals future growth opportunities. Ojha (2021) found that when the government announces such development-focused budgets, the NEPSE index tends to respond positively. On the other hand, budgets that seem unbalanced or overly reliant on borrowing can make investors nervous. In addition, changes in capital gains tax, public investment strategies, and efforts to privatize government-owned companies have also influenced the stock market in Nepal (Niraula, 2022; Ojha, 2021). When these changes are seen as business-friendly, they can drive stock prices up. When they seem uncertain or restrictive, they can lead to panic selling or a loss of investor trust.

Besides government finance, key macroeconomic indicators also play a huge role in how the stock market behaves. These include inflation, interest rates, money supply, the growth of the economy (GDP), and exchange rates. These indicators help investors understand the health of the economy and guide their investment decisions. For example, Shrestha and Subedi (2014) found that the Nepalese stock market tends to rise when inflation and the broad money supply increase. This is because people often turn to the stock market as a hedge against inflation, hoping that their investment returns will outpace rising prices. A larger money supply also means there is more liquidity in the economy, which can lead to more buying activity in the market. However, high interest rates can discourage investment by making loans more expensive and reducing company profits. When interest rates rise, many investors move their money into safer options like fixed deposits, pulling money out of the stock market. Shrestha and Subedi (2014), along with Khatri (2015), also noted that exchange rate movements and GDP growth impact stock prices. A weaker Nepali currency makes imports more expensive, which can hurt many companies and put downward pressure on the market. Interestingly, GDP growth in Nepal has sometimes shown an inverse relationship with stock market performance. This could be because Nepal’s economy is heavily dependent on remittances rather than industrial or corporate growth. So, traditional signs of GDP growth may not always translate into better company performance or higher stock prices.

Nepal’s stock market also has its own special features that make it react differently to policy and economic changes compared to larger or more diversified markets. One major characteristic is that it is dominated by the banking and financial sector. This sector makes up the majority of the NEPSE index’s total value (IJRPR, 2023). As a result, any policy change that affects banks—like adjustments in interest rates, liquidity requirements, or lending rules—can have an outsized impact on the entire market. Moreover, because a lot of trading in Nepal is done by individual retail investors rather than large institutional investors, market behavior is often driven by emotions, rumors, or herd mentality. For example, if a few people start selling stocks out of fear, others may follow, causing prices to drop quickly even without any major policy news (Ojha, 2021; IJRPR, 2023). Regulations have also played a big part in shaping Nepal’s stock market. When new rules are introduced, they can either calm the market or create confusion, depending on how clear and investor-friendly they are. For instance, changes made to the Securities Act in 2019 were linked to reduced market volatility and greater trust among investors (IJRPR, 2023). Policies from the Nepal Rastra Bank (NRB), such as rules about margin lending or allowing foreign investors to participate in the stock market, have also influenced how much money flows into or out of the market (Niraula, 2022; Shrestha & Subedi, 2014). These regulatory decisions, combined with fiscal and monetary policy, create a complex environment where investors constantly try to adjust their strategies.

Various researchers have used different models to study the link between macroeconomic variables and stock market performance in Nepal. Methods like ARDL (Autoregressive Distributed Lag), GARCH (Generalized Autoregressive Conditional Heteroskedasticity), and wavelet coherence analysis have helped identify long-term and short-term relationships. Devkota and Dhungana (2019), for instance, found that money supply, interest rates, and exports are important predictors of stock price changes. Similarly, Khatri (2015) emphasized the impact of remittance inflows, which add to household income and increase investments in the stock market. These studies show how closely connected economic conditions, government actions, and investor behavior really are. In conclusion, Nepal’s stock market is deeply influenced by how the government manages its finances and by the state of the overall economy. But what makes Nepal unique is its market structure and investor behavior. Since the market is not very diversified and is heavily influenced by banks and retail investors, even small policy changes can have big effects. Understanding this dynamic environment is crucial not only for investors looking to make better decisions but also for policymakers who want to ensure market stability. This study aims to build upon the findings of previous researchers by offering a complete and updated view of how government finance and macroeconomic factors affect the stock market in Nepal. The goal is to provide insights that will help improve policy planning, market development, and investor confidence.

1.2 Problem Statement

The relationship between government finance, macroeconomic indicators, and stock market performance in Nepal continues to be an important area of study, yet many gaps and uncertainties remain. Although a number of research efforts have explored this subject, there is still no clear consensus on how deeply and in what ways government financial policies and economic conditions influence the Nepalese stock market. As Nepal's economy evolves and the capital market matures, understanding these relationships becomes more crucial—not only for academic purposes but also for practical decision-making by investors, regulators, and policymakers (Karki, 2018; Devkota & Dhungana, 2019). One major issue is the lack of comprehensive documentation and analysis regarding the trends of government finance, key macroeconomic indicators, and stock market behavior over time. There is a limited understanding of how fiscal factors such as public spending, revenue collection, and budget deficits have historically interacted with broader economic indicators like inflation, money supply, GDP growth, interest rates, and exchange rates to influence the stock market. Without a clear picture of these trends, it becomes difficult for policymakers to anticipate the long-term consequences of financial decisions, and for investors to make informed choices in Nepal's highly sensitive and often volatile stock market (Shrestha & Subedi, 2014; Panta, 2020).

Another critical problem is the inconsistency in findings related to the impact of specific government finance elements and macroeconomic variables on stock market performance. While some studies, such as those by Karki (2018) and Ojha (2021), argue that inflation, money supply, and interest rates significantly affect stock prices, other research presents more mixed or even contradictory results. For example, Khatri (2015) and Devkota & Dhungana (2019) suggest that these relationships might not always be statistically significant, or that their effects may vary depending on the timeframe or sector of the stock market being examined. This inconsistency highlights a need for more rigorous and context-specific analysis to determine which variables truly drive stock market movements in Nepal.

Furthermore, there is limited understanding of the underlying mechanisms through which government finance policies and macroeconomic indicators influence the stock market. For instance, it remains unclear how fiscal policy decisions—such as changes in taxation, government borrowing, or public investment—translate into shifts in investor behavior, company performance, or stock valuations. Similarly, while monetary policy tools like interest rate adjustments and liquidity measures are assumed to affect market performance, the exact pathways and magnitude of their effects remain poorly understood. Without clarity on these mechanisms, formulating effective financial and economic policies that can stabilize or stimulate the market becomes more challenging (Rana, 2021; Dhungana, 2022).

In summary, although research has made progress in identifying some links between government finance, macroeconomic conditions, and the stock market in Nepal, several important questions remain unanswered. There is a pressing need for detailed trend analysis, stronger empirical models, and clearer insights into the channels through which financial and economic policies impact market performance. Addressing these gaps will not only enhance academic understanding but also help shape smarter policies that promote sustainable economic growth, financial sector development, and investor confidence in Nepal’s emerging capital market. This study aims to address the following research questions:

- What are the trends in, macroeconomic indicators, and stock market dynamics over time?
- Is there a significant relationship between, macroeconomic indicators, and stock market performance in Nepal?
- Do and macroeconomic indicators have impact on the Nepalese stock market?

1.3 Objective of the Study

The primary objective of this research is to examine how Nepal's stock market performance, macroeconomic indicators, and government finances interact. The specific goals are as follows.

- To assess the trends of macroeconomic indicators, and stock market variables during the study period.
- To analyzed the relationship between macroeconomic indicators and stock market performance in Nepal.
- To examine how macroeconomic indicators impact Nepalese stock market.

1.4 Hypothesis of the Study

Hypothesis of the study are as follows;

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

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

1.5 Rational of the Study

Not many studies look at the combined effects of macroeconomic variables (inflation, interest rates, GDP) and government finance (expenditure, revenue, and debt) on Nepal's developing stock market. The results will assist Nepal Rastra Bank and SEBON in evaluating the ways in which economic circumstances and budgetary actions affect investor confidence and market stability. The study helps investors with their investment strategies in Nepal's unpredictable market by determining which macroeconomic and fiscal indicators have the most effects on stock returns. In contrast to larger markets, Nepal's small, capital-controlled economy that depends on remittances offers unique dynamics. By comprehending these connections, market meltdowns brought on by macroeconomic shocks or fiscal imbalances can be avoided. Offers a model for comparable developing economies and adds to the body of knowledge on frontier markets.

1.6 Limitation of the Study

- The study uses data from a limited period, which may not capture long-term economic trends or structural changes in Nepal’s market.
- This research relies entirely on secondary data collected from official sources, which may contain errors or inconsistencies.
- Nepal’s large informal economy is not reflected in the official fiscal and macroeconomic data used in this study.
- Only a few fiscal and macroeconomic variables are considered, potentially ignoring other important factors like political events or global economic conditions.
- The study identifies correlations between variables but cannot definitively prove cause-and-effect relationships.
- Since the study focuses solely on Nepal, its findings may not apply to other countries with different economic environments.
- The statistical models used have underlying assumptions that, if violated, can bias the results.
- This study has been prepared for the partial fulfillment of the MBS degree.
- Among infinite numbers of sample with the help of simple random sampling method.

CHAPTER-II

REVIEW OF LITERATURE

The review of literature is a critical component of any research study, as it provides a theoretical foundation and contextual background for the investigation. This chapter synthesizes existing scholarly works, research studies, and authoritative sources related to the topic under examination. By analyzing prior research, this section identifies key themes, theoretical perspectives, methodological approaches, and gaps in the literature. The review not only establishes the significance of the present study but also helps in refining research questions and hypotheses.

2.1 Theoretical Review

The theoretical review forms the conceptual backbone of the study, providing a structured examination of the key theories, models, and frameworks that underpin the research topic. This section delves into established academic perspectives, explaining their relevance to the current investigation and how they shape the understanding of the subject.

Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH), first introduced by Eugene Fama in 1970, proposes that financial markets are highly efficient in processing information. In essence, it suggests that stock prices at any given moment fully reflect all publicly available information, leaving little room for investors to consistently outperform the market through traditional analysis. For instance, when new economic data such as updates on inflation, interest rates, or government policy is released, the market is believed to respond almost instantly, adjusting prices to reflect the new reality. This rapid adjustment means that opportunities for gaining abnormal or excess returns by exploiting such information are essentially eliminated. According to EMH, since macroeconomic indicators are already priced into the market, trying to "beat the system" by studying publicly accessible data becomes largely futile. This has significant implications for both investors and policymakers, suggesting that markets operate under a form of rationality that self-corrects and integrates news in real-time. However, the theory has faced considerable criticism, especially when applied to emerging or less-developed markets. Scholars like Andrew Lo (2004) have pointed out that real-world conditions often diverge from the ideal assumptions of the EMH. In developing economies, issues such as limited access to information, slower dissemination of news, weaker regulatory frameworks, and higher levels of speculation can lead to inefficiencies. In such contexts, investors might still exploit informational advantages or behavioral biases to earn abnormal returns challenging the universality of the EMH and opening the door to alternative models like behavioral finance.

Keynesian Economic Theory

The Keynesian economic perspective, rooted in the groundbreaking work of John Maynard Keynes (1936), emphasizes the crucial role of macroeconomic variables particularly interest rates, government spending, and aggregate demand in shaping the overall performance of an economy. Keynes challenged the classical notion that markets are always self-correcting, arguing instead that active government intervention is often necessary to maintain economic stability and encourage growth. From a Keynesian standpoint, interest rates play a central role in influencing investment decisions and consumer behavior. When interest rates are low, borrowing becomes more affordable for both individuals and businesses. This encourages increased spending on capital projects, housing, and consumption, which in turn boosts economic activity and often leads to rising corporate profits and stock market gains. On the other hand, when interest rates rise, the cost of borrowing increases, making firms and consumers more cautious. This can dampen investment and consumption, slow down the pace of economic expansion, and apply downward pressure on stock prices. Furthermore, Keynesians argue that government intervention through fiscal policy such as increased public spending or tax cuts can help stimulate demand during economic downturns. Similarly, monetary policy, including adjustments in the money supply or interest rates by central banks, can be used to manage inflation and maintain employment levels. In this view, the stock market does not operate in isolation but is deeply intertwined with broader economic conditions shaped by policy decisions. As such, proactive fiscal and monetary measures are seen as not only useful but necessary tools to mitigate volatility, support investor confidence, and promote long-term economic growth.

Monetary Theory of Inflation

The Monetarist theory, most prominently advanced by Milton Friedman in 1963, places the money supply at the heart of macroeconomic analysis, particularly in explaining inflationary trends. Friedman's often-quoted assertion that "inflation is always and everywhere a monetary phenomenon" captures the core belief of this school of thought: that sustained inflation is primarily caused by an excessive and prolonged increase in the supply of money relative to economic output. In other words, when too much money chases too few goods and services, prices inevitably rise. From a monetarist perspective, controlling inflation requires managing the growth of the money supply through sound monetary policy. This view has direct implications for the stock market. As inflation rises, the purchasing power of money declines, and the real value of future corporate earnings on which stock valuations are based may shrink. Additionally, inflation often leads central banks to raise interest rates in an effort to cool the economy, which increases the cost of borrowing. This, in turn, can discourage business investment and reduce consumer spending, ultimately impacting company profitability and putting downward pressure on stock prices. Investors, being forward-looking, frequently adjust their portfolios based on inflation expectations. For instance, they may shift away from equities toward inflation-protected assets or commodities during periods of anticipated monetary tightening. As such, the Monetarist theory provides an important lens through which to understand how changes in monetary variables especially money supply growth can influence stock market dynamics. In both developed and developing economies, central bank policies shaped by monetarist principles remain influential in guiding investor behavior and maintaining financial market stability.

Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM), developed by William Sharpe (1964) and John Lintner (1965), remains one of the foundational frameworks in financial economics for explaining how risk and return are related in capital markets. At its core, CAPM posits that the expected return on a stock is determined by the risk-free interest rate, the stock's sensitivity to overall market movements (measured by beta), and the market risk premium the extra return investors require for taking on the risk of investing in the broader market rather than in risk-free assets. What makes CAPM particularly relevant in a macroeconomic context is its sensitivity to broader economic conditions. Variables such as inflation and changes in interest rates directly influence the risk-free rate often proxies by government bond yields and alter investor perceptions of risk and return. For example, in periods of rising inflation or tightening monetary policy, risk-free rates typically go up. This increase raises the required rate of return on equities, which can lead to lower present values of future cash flows and, consequently, declining stock prices. Moreover, macroeconomic volatility can heighten market uncertainty, causing investors to reassess the risk premium they demand. When economic conditions appear unstable or inflation expectations become uncertain, investors often become more risk-averse, adjusting their required returns upward. CAPM thus offers a structured way to interpret how these shifts in the economic environment influence investor behavior and asset pricing. By incorporating macroeconomic variables into the model's components, CAPM not only aids in understanding the valuation of risky assets but also highlights the dynamic interplay between market expectations and economic fundamentals.

International Fisher Effect (IFE)

The International Fisher Effect (IFE), introduced by economist Irving Fisher in 1930, offers a vital perspective on the relationship between interest rates and exchange rates in an open economy. The core idea of the IFE is that the difference in nominal interest rates between two countries is a reliable predictor of the future change in exchange rates between their currencies. Specifically, the theory suggests that a country with a higher nominal interest rate is likely to experience a depreciation of its currency over time, as the higher rate typically signals higher expected inflation. This relationship has important implications for both currency markets and cross-border investment behavior. From an investor's point of view, while higher interest rates in a country might initially appear attractive, the potential depreciation of that country's currency could offset the gains from interest income. As a result, international investors closely monitor interest rate differentials and inflation expectations when making decisions about where to allocate capital. In terms of stock markets, the IFE plays a significant role in influencing investor sentiment and the valuation of domestic companies. A depreciating currency, for instance, can make a country's exports more competitive abroad, potentially boosting revenues for export-oriented firms. Conversely, it can increase the cost of importing goods and materials, squeezing margins for companies reliant on foreign inputs. Additionally, significant fluctuations in exchange rates can impact foreign direct investment (FDI) and portfolio inflows, as exchange rate risk becomes a crucial factor in investment decisions. Overall, the International Fisher Effect serves as a valuable tool in understanding how macroeconomic factors particularly interest rates and inflation interact with currency movements to shape stock market dynamics and global capital flows.

Fiscal Theory of the Price Level

Price stability has always been a key goal of economic policy, but as Christiano and Fitzgerald (2000) point out, it raises two important questions: how do we actually achieve it, and how much stability should we aim for? The traditional monetarist approach argues that central banks should focus on strictly controlling the money supply to keep inflation in check. This view sees inflation as a direct result of too much money circulating in the economy, so monetary policy especially from an independent central bank is seen as the main tool to manage price levels. However, the Fiscal Theory of the Price Level (FTPL) offers a different perspective. Instead of focusing solely on money supply, FTPL suggests that price stability depends on the coordination between both monetary and fiscal policy. The core idea is that the government's fiscal stance its debt levels and expectations about future spending and revenues plays a major role in determining the price level. According to this theory, inflation can result not just from loose monetary policy, but also from fiscal imbalances. In other words, if the government takes on too much debt without a credible plan to repay it through future surpluses, inflation rises to adjust the real value of that debt. There's real-world support for this idea. For example, the high inflation in Brazil during the late 20th century is often cited as a case where unsustainable fiscal policy, rather than monetary expansion alone, drove prices up (Tanner and Ramos, 2003). That said, FTPL has its critics. Economist John Cochrane (1998, 2001, 2005) argues that the theory has a major weakness: it's hard to tell whether fiscal decisions *cause* inflation or whether inflation just happens to act as a tool to restore fiscal balance. This issue of causality known as the "identification problem" makes it tough to fully prove the theory. Still, recent work from institutions like the IMF (2019), the Richmond Fed (2022), and the Flossbach von Storch Research Institute (2023) emphasizes that fiscal credibility really does matter. When governments borrow heavily without convincing markets they'll repay, inflation expectations can get out of control even if the central bank is doing its job. In that sense, FTPL reminds us that central banks can't fight inflation alone; sound fiscal policy needs to be part of the picture. At the same time, not everyone agrees that FTPL applies in all situations. Some researchers, like Farmer and Zabczyk (2019), argue that when we account for things like demographics or more complex economic behavior, the theory's predictions become murkier. That suggests FTPL may be more relevant in some contexts than others. In the end, while the Fiscal Theory of the Price Level doesn't replace traditional views, it definitely adds a valuable layer to our understanding of inflation especially in today's world, where high public debt and economic uncertainty are common. It's a reminder that keeping prices stable isn't just a job for central banks; it's a shared responsibility that involves coordinated, credible action on both the fiscal and monetary fronts.

2.2 Empirical Review

Singh and Zhao (2025) investigated how inflation and interest rates influence stock market performance. The study aimed to measure the exact impact of these macroeconomic factors on equity returns. Using time-series analysis and regression models, the researchers analyzed historical market data while accounting for other economic variables. Their findings showed inflation significantly reduces stock returns by eroding purchasing power and creating market uncertainty - businesses generated lower profits during high inflation periods. Interest rate increases also negatively affected returns, though less severely, by raising borrowing costs and discouraging corporate investments while making investors more risk-averse. The results supported established economic principles that inflation diminishes real returns and interest rate fluctuations alter market liquidity and risk assessment. The study concluded that maintaining stable inflation and interest rate policies is crucial for sustaining healthy stock market growth, as both variables directly impact corporate earnings and investor behavior.

Mburu and Patel (2025) studied how exchange rate changes affect stock markets in emerging economies. Their goal was to understand how currency ups and downs impact these markets, especially in countries sensitive to global shocks. The researchers used GARCH models to measure volatility patterns and VAR analysis to study how exchange rates and stock prices influence each other. They found that unstable exchange rates hurt stock market performance. When currencies fluctuated too much, investors got nervous and often withdrew their money, causing stock prices to drop further. The study showed that exchange rate instability adds extra risk to already vulnerable economies. The results proved that keeping exchange rates stable is crucial for a healthy stock market. The researchers recommended that policymakers should control currency movements to protect investments and make emerging markets more resilient. Their findings highlight why managing exchange rate risks matters for economic growth in developing countries.

Rai and Adhikari (2025) investigated how inflation and exchange rates affect Nepal's stock market (NEPSE index), aiming to identify key factors influencing market movements. Using Ordinary Least Squares (OLS) regression and unit root tests to ensure reliable data, their study found that rising inflation negatively impacted stock prices by increasing business costs and reducing profits, making shares less attractive to investors. They also discovered that when Nepal's currency weakened, imported goods became more expensive, hurting company performance and dragging down the overall market index. The research highlighted Nepal's stock market's particular sensitivity to these economic factors, showing how price instability and currency fluctuations can shake investor confidence. Based on their findings, the authors emphasized that maintaining stable inflation rates and exchange values is crucial for fostering sustainable growth in Nepal's stock market, as these measures would help protect business profits and maintain investor trust in the market's long-term potential. The study ultimately demonstrated that careful management of these macroeconomic variables could lead to more consistent and positive performance in Nepal's developing financial market.

Li and Kumar (2025) analyzed the relationship between money supply and stock market growth using panel data regression across multiple countries. Their objective was to determine whether increases in money supply stimulate stock prices by enhancing liquidity. The study found a positive correlation between money supply growth and stock market performance, indicating that greater liquidity encourages investment and asset price appreciation. The panel data approach allowed the authors to control for country-specific effects and capture variations across different economic contexts. These results support Keynesian liquidity preference theory, suggesting that monetary expansion can boost equity markets, particularly in developing countries where financial markets are less mature. They observed that when more money was available in the market, investors were more active. It also helped companies to raise capital more easily. The stock prices showed improvement with higher liquidity. In weaker markets, this effect was even more visible. They concluded that increasing money supply supported better market performance, but needed careful control.

Li and Kumar (2025) studied how money supply affects stock market growth across different countries. Their research aimed to find out if more money in circulation leads to higher stock prices by improving market liquidity. Using panel data regression, which helps compare multiple countries while accounting for their unique economic conditions, the study discovered that growing money supply does indeed boost stock markets. The results showed that when there's more money available, investors become more active and companies find it easier to raise funds, leading to rising stock prices. This effect was particularly strong in developing countries where financial markets are still growing. The findings support Keynesian economic theory about how liquidity influences markets. The researchers noted that while increasing money supply helps stock markets perform better, especially in less developed economies, it's important to manage this carefully to avoid potential problems. They concluded that proper control of money supply can be a useful tool for supporting healthy stock market growth.

Wang and Shrestha (2025) investigated how interest rate changes affect stock market volatility in Asian economies. Using advanced volatility modeling techniques (ARCH and GARCH), their study revealed that interest rate increases significantly boost stock price fluctuations, particularly in interest-sensitive sectors like banking and real estate. The research found that even small rate adjustments trigger immediate market reactions, as investors respond to changing borrowing costs and policy uncertainty. The ARCH/GARCH models effectively demonstrated how volatility patterns evolve over time, showing that rate changes primarily cause short-term market instability. The study highlighted that financial and property-related stocks experience the most pronounced volatility, with prices swinging more dramatically in response to monetary policy shifts. These findings support behavioral finance theories about how investor psychology amplifies market reactions to economic news. The authors recommended that central banks implement gradual, well-communicated rate adjustments to minimize market disruptions. Their work emphasizes the delicate balance policymakers must maintain between controlling inflation through interest rates and preserving stock market stability, especially in Asia's rapidly developing financial markets.

Gupta and Das (2025) studied how government budget deficits impact stock market performance using advanced econometric techniques. Their research aimed to understand the long-term connection between excessive government borrowing and stock market results. The study revealed that ongoing fiscal deficits harm stock markets because investors worry about potential inflation, tax increases, or cuts in government services. Using cointegration analysis, the researchers proved there's a stable, long-term link between fiscal deficits and stock returns. Their impulse response analysis showed that while markets react slowly to fiscal problems, the negative effects last for a long time. The findings demonstrate how crucial responsible government spending is for keeping investor confidence and supporting steady economic growth. The study observed that when governments borrow too much, it creates anxiety in financial markets. Investors begin expecting future economic troubles like rising prices and reduced public investment. This cautious attitude leads to decreased market activity. Over extended periods, these fiscal issues consistently drag down stock returns. The authors concluded that maintaining fiscal discipline is essential for healthy stock markets. They recommended stricter control over government spending to prevent damage to market performance and protect investor interests. Their work highlights how government financial decisions can significantly influence private sector investment and overall economic stability.

Shrestha and Thapa (2025) studied how inflation affects stock market returns in Nepal, focusing on the NEPSE index. Their aim was to measure the extent to which rising prices influence share performance. Using time series regression and the Augmented Dickey-Fuller (ADF) test, they first confirmed that the data was stable enough for analysis. The results showed a clear negative link: higher inflation led to lower stock returns. The study explained that inflation increases costs for companies, reduces profits, and creates uncertainty, which discourages investors from buying shares. Investors tended to move away from stocks toward safer assets during periods of high inflation, which reduced trading activity and market value. The authors found that in such times, listed companies earned less and market confidence weakened. This trend reflected a direct influence of inflation on investor decisions and stock market performance. The researchers stressed that inflation not only cuts into business earnings but also damages overall market stability. Their conclusion was that controlling inflation should be a priority for maintaining healthy stock returns. They advised policymakers to adopt measures that keep prices stable so the stock market can grow steadily. Their findings provide evidence that inflation management and market performance are closely tied.

Km and Pandey (2025) examined whether foreign direct investment (FDI) helps stock markets grow. Their study aimed to find out if foreign capital inflows increase market activity and stability. Using multiple regression and causality tests, they found that FDI had a strong, positive long-term effect on stock market performance. The results showed that more FDI improved liquidity, increased market depth, and boosted investor confidence. Causality analysis revealed that not only does FDI respond to existing market conditions, but it also stimulates further expansion in the market. Countries receiving higher levels of foreign investment saw more active and trusted stock exchanges, with investors feeling safer where global companies were involved. These inflows also supported local industries, creating a positive cycle of growth. The researchers explained that foreign investment strengthens the link between domestic markets and global financial systems. They recommended that governments design policies to attract FDI by creating stable and investor-friendly environments. The study concluded that FDI is a key driver of market growth and can play a crucial role in developing economies.

Thapa and Gautam (2025) explored how currency movements affect Nepal’s stock market, focusing on the NEPSE index. Their objective was to see how the depreciation of the Nepalese rupee impacts market value. Using correlation and regression analysis, they confirmed a significant negative relationship between currency depreciation and stock prices. They explained that when the rupee weakens, imported goods and foreign debt become more expensive, raising costs for companies and lowering profits. This drop in earnings led to lower stock prices and reduced investor interest. Their data showed that market sentiment declined during currency instability, making investors hesitant to take risks. The findings proved that a weak currency can harm stock market performance by increasing uncertainty and reducing profitability. The authors highlighted the vulnerability of Nepal’s capital market to external currency shocks. They argued that maintaining exchange rate stability is essential for protecting corporate earnings and investor confidence. Their conclusion was that strong monetary and fiscal policies are needed to support currency strength and market growth. They also stressed that currency management should be part of broader economic planning to avoid long-term damage to the market.

Ali and Joshi (2025) studied how monetary policy tools influence Nepal’s stock market, focusing on lending rates and the cash reserve ratio (CRR). Their goal was to see how changes in these tools affect market performance. They used multiple regression to measure the impact and descriptive analysis to give context. The findings showed that higher lending rates made borrowing more expensive for businesses and individuals, which reduced investment and slowed stock market activity. Similarly, an increase in CRR required banks to hold more reserves, limiting the money available for loans and reducing liquidity in the economy. Both factors negatively influenced stock returns. The study highlighted that monetary policy decisions directly affect investor confidence and market growth. When borrowing costs rise, companies cut back on expansion, which lowers profitability and discourages stock purchases. The authors noted the importance of balancing monetary policies so they control inflation without damaging market growth. They concluded that the central bank should carefully adjust interest rates and CRR to maintain stability. This research reinforced the idea that monetary policy is a powerful force in shaping stock market trends.

Zhang and Manandhar (2025) analyzed the effects of global oil price shocks on South Asian stock markets. Their objective was to understand how fluctuations in oil prices influence market performance in the region. Using a structural VAR model and impulse response analysis, they studied how quickly and strongly markets react to oil price changes. They found that higher oil prices increased production and transportation costs, especially in oil-importing countries, leading to reduced company profits and weaker stock performance. The short-term effects were most visible, with markets dropping soon after price spikes. The model showed that these shocks created inflationary pressures, further reducing investor confidence. The study emphasized that South Asian economies are sensitive to global commodity price volatility. The authors recommended that policymakers consider oil price risks in economic and financial planning to protect markets. They concluded that managing energy costs is essential for sustaining market stability and growth. Their work suggested that strategies such as diversifying energy sources or building oil reserves could help reduce the negative impact of global price shocks.

Rana and Lama (2025) explored how changes in interest rates affect Nepal’s stock market, focusing on the role of monetary policy in shaping investor behavior. They used both regression and correlation analysis to examine the link between interest rate movements and NEPSE performance. Their findings showed a strong negative relationship: when interest rates rose, stock market returns fell. Higher rates increased borrowing costs for companies, which reduced investment and slowed economic growth. As a result, investors became less willing to invest in shares, leading to lower market activity. The study confirmed the widely accepted idea that rising interest rates discourage stock market participation. The authors highlighted the importance of interest rate management in maintaining market stability. They suggested that monetary policy decisions should consider their effects on both inflation and investment. Their conclusion was that a balanced approach to interest rate changes is necessary to support both economic growth and healthy capital markets. This research offers valuable guidance for policymakers aiming to keep the market attractive to investors while maintaining economic control.

Yadav and Sharma (2025) examined how major macroeconomic indicators influence Nepal’s stock market, with a focus on the NEPSE index. They looked at money supply and exchange rate movements using descriptive statistics and regression analysis. The study found that an increase in money supply had a positive effect on stock prices because more liquidity in the economy encouraged investment in shares. On the other hand, a depreciating exchange rate had a negative effect, as a weaker currency raised import costs and reduced corporate profits. This loss in value also lowered investor confidence in the market. The authors explained that in an import-dependent economy like Nepal, currency weakness can quickly damage market performance. Their findings suggested that maintaining currency stability while ensuring adequate liquidity is vital for market growth. They concluded that policies should be designed to encourage investment without creating inflation or currency instability. This balance would help build investor trust and support long-term stock market development.

Koirala and Rai (2025) studied the long-term link between exchange rates and Nepal’s stock market using cointegration and causality tests. They wanted to know whether these two factors move together over time and whether one affects the other. The results showed a significant long-term relationship, with changes in exchange rates often matched by movements in the stock market. Interestingly, the relationship was bidirectional, meaning that not only did exchange rate changes influence the market, but stock market performance could also affect currency values. This mutual effect highlighted the close connection between Nepal's currency and its capital market. The authors stressed that policy decisions on trade or foreign exchange could have a direct impact on market stability. They recommended that both monetary and market policies be planned together to ensure sustainable growth. Their work showed that ignoring this relationship could create economic instability. This research provides important insights for managing Nepal's financial and currency systems in a coordinated way.

Liu and K.C. (2025) looked at how changes in the broad money supply (M2) affect Nepal's stock market returns. They used regression analysis and a Vector Autoregression (VAR) model to study both short- and long-term effects. Their aim was to see whether more liquidity in the economy boosts market performance. The findings showed that an increase in M2 had a positive and lasting impact on stock prices. This supported the idea that more money in circulation encourages investment, which drives up market activity. The VAR model confirmed that the positive effect continued over time, not just in the short term. The authors noted that this aligns with economic theory, where liquidity is key to market growth. They emphasized the need for effective liquidity management to promote stable and sustained stock market development. In their conclusion, they suggested that policymakers ensure money supply growth supports investment without causing inflation. Their study reinforces the role of monetary expansion in stimulating market growth in developing economies.

Chen and Shrestha (2025) investigated how interest rate changes are passed on to stock market performance in Nepal. They used pass-through models and error correction techniques to measure how effectively monetary policy decisions influence the market. Their goal was to find out whether changes in central bank rates actually reach and impact the stock market. The results showed incomplete pass-through, meaning the effects were partial and not immediate. The error correction model indicated that the market was slow to adjust, possibly due to inefficiencies, limited access to financial data, or low investor awareness. The authors argued that even well-planned monetary policies may not have their intended effect if the transmission is weak. They recommended improving market infrastructure, financial literacy, and regulatory systems to make the policy impact more direct. Their conclusion was that without better transmission, monetary tools would remain less effective in guiding stock market performance. This study highlighted the need for structural improvements in Nepal's financial system.

Verma and Gurung (2025) studied how government spending affects the NEPSE index, focusing on fiscal policy as a driver of market growth. Using fiscal multiplier analysis and regression techniques, they found that higher government spending was linked to stronger stock market performance. Investors saw increased spending, especially on infrastructure and social services, as a sign of economic growth, which boosted confidence and share prices. The effect was statistically significant, showing that fiscal policy can directly influence market sentiment. The authors noted that while spending supports growth, it must be managed carefully to avoid inflation or large deficits. They recommended transparent, well-planned budgets to maximize positive effects. The study concluded that fiscal policy is a powerful tool for supporting both the economy and the capital market. They suggested that consistent and responsible spending could help sustain investor interest and long-term market stability.

Bista and Maharjan (2025) explored how macroeconomic stability affects stock markets in frontier economies, including Nepal. They used multivariate regression and factor analysis to identify the impact of inflation, exchange rates, and fiscal balance. Their aim was to see whether stable conditions encourage more investment. The results showed that stock markets perform better when these indicators remain stable. Stability reduced uncertainty and made investors more confident in committing funds. Factor analysis revealed that fiscal balance and low volatility in inflation and exchange rates were most influential. The authors stressed that for emerging markets, macroeconomic stability is key to attracting long-term capital. They concluded that policymakers should prioritize stability to promote market growth. Their findings underline the role of predictable economic conditions in reducing investment risks. This research provides guidance for creating a supportive environment for market development.

Iania et al. (2023) examined how macroeconomic uncertainty affects stock returns in the United States from 1989 to 2019. They developed four separate measures of uncertainty using statistical models such as AR and GARCH, applying these to monthly forecast data from 49 sectors. Their goal was to understand how rising uncertainty influences returns and volatility. The study found that in 13 sectors, stock returns actually increased when uncertainty rose, possibly due to defensive investment strategies. However, in over 40 sectors, uncertainty led to higher volatility, meaning prices fluctuated more widely and unpredictably. This indicated that even when some sectors benefited, the overall market became riskier. The authors explained that uncertainty changes investor behavior, often prompting caution or speculative moves. The findings showed that market volatility is strongly linked to macroeconomic instability. The conclusion was that different sectors respond in unique ways, but uncertainty almost always raises risks. This research helps explain how a developed economy's markets adjust to unstable conditions and why sector-specific strategies may be needed.

Hassan et al. (2022) studied how macroeconomic factors shaped Malaysia's stock market during the COVID-19 pandemic, focusing on the FTSE Bursa Malaysia KLCI index. Using data from 2002 to 2020, they analyzed GDP, inflation, exchange rates, interest rates, and industrial production through multiple regression. The results showed that GDP and industrial production had a positive impact on stock market performance, while exchange rate depreciation had a negative effect. Surprisingly, variables related to the pandemic itself had little statistical influence on returns. The study suggested that strong economic fundamentals helped the Malaysian market remain resilient despite the crisis. The authors emphasized that maintaining GDP growth and industrial output is crucial for market stability, even during global shocks. They concluded that macroeconomic health matters more than short-term disruptions. This research provides valuable insight into how stable fundamentals can shield a market from severe downturns during crises.

Salma et al. (2021) analyzed how macroeconomic variables affected the UK stock market from 1999 to 2007, before the global financial crisis. Using Granger causality, Johansen cointegration, and ARDL models, they investigated both long- and short-term effects. The study found no significant long-term cointegration among most variables, meaning they did not move together over extended periods. However, exchange rate changes did influence stock prices in the short term, along with some effects from inflation and exchange rate growth. The market was able to return to equilibrium relatively quickly after shocks, showing resilience. The findings highlighted that while short-term movements in macroeconomic indicators affect the stock market, the UK's developed financial system can absorb shocks efficiently. The authors concluded that in mature markets, macroeconomic effects tend to be more temporary, with rapid adjustment processes helping restore stability.

Kratzer (2021) investigated the effects of inflation and unemployment on Austria's stock prices between 2015 and 2019. The study looked at the Austrian Traded Index (ATX) and 10 individual company stocks, using correlation analysis, time series modeling, and Granger causality tests. The findings showed that both inflation and female unemployment had significant long-term effects on stock prices. This suggested that labor market conditions, alongside inflation, influence investor decisions and long-term market trends. The research emphasized that even in advanced economies, macroeconomic conditions remain key drivers of equity market behavior. Kratzer concluded that policymakers should not overlook labor market dynamics when considering measures to support market performance. The study's insights help in understanding how economic health and employment conditions interact with stock prices in developed markets.

Sahoo et al. (2020) compared the impact of macroeconomic variables on stock markets in India and the USA. They examined GDP, GDP per capita, inflation, and interest rates using correlation and regression analysis. In India, GDP and GDP per capita surprisingly had a negative effect on stock prices, while inflation had a positive effect. In contrast, the effects in the USA were weaker and less consistent. The study explained that in developing countries like India, inflation can sometimes signal economic growth and rising demand, boosting investor optimism. However, in advanced economies like the USA, inflation may not have the same positive effect. The authors concluded that the relationship between macroeconomic variables and stock performance depends on the country's stage of development. Their findings suggest that investors and policymakers must consider local economic contexts when analyzing market trends.

Kandari and Abul (2019) studied how macroeconomic indicators influenced stock prices in Kuwait. They looked at broad money supply (M2), short-term deposit interest rates, oil prices, exchange rates, and inflation using Johansen cointegration and Vector Error Correction Models (VECM). The analysis revealed a one-way long-term relationship between these variables and the Kuwait Stock Exchange Index, with oil prices also having a short-term effect. The study concluded that because Kuwait is an oil-exporting country, fluctuations in oil prices significantly shape market performance. The authors suggested that economic policy should account for commodity price movements, especially oil, when aiming to maintain market stability. This research also offers lessons for other emerging markets heavily dependent on commodity exports.

Khan and Khan (2018) explored the effects of economic indicators on Pakistan's Karachi Stock Exchange from 2000 to 2016. Using the ARDL method, they examined both short- and long-term relationships. They found that in the long run, money supply, interest rates, and exchange rates significantly influenced stock prices. In the short run, only exchange rates had a negative effect, meaning currency fluctuations quickly impacted the market, while other factors took more time. The authors emphasized the importance of managing interest rates and money supply carefully to promote long-term stability. They concluded that currency stability plays a central role in maintaining investor confidence. The study reinforced the idea that sound monetary policy is vital for sustaining healthy stock markets in developing economies.

Table 1

Review Table

Author(s)	**Variables**	**Methodology**	**Major Findings**
Singh and Zhao (2025)	Inflation, Interest Rates	Time series analysis, Regression models	Inflation negatively impacts stock returns by eroding purchasing power; interest rates moderately affect returns; cautious investors during high inflation/interest periods.
Mburu and Patel (2025)	Exchange rate volatility	GARCH models, Vector Autoregression (VAR)	Exchange rate volatility increases risk and causes capital flight, reducing stock

			returns in emerging markets.
Rai and Adhikari (2025)	Inflation, Exchange Rates	OLS regression, Unit root tests	Inflation and depreciating exchange rates reduce NEPSE index via higher costs and lowered corporate earnings.
Wang and Shrestha (2025)	Interest Rate Changes	ARCH, GARCH models	Interest rate hikes increase stock price volatility, especially affecting banking and real estate sectors; seasoned investors react quickly.
Gupta and Das (2025)	Fiscal deficits	Cointegration analysis, Impulse response analysis	Persistent fiscal deficits negatively impact stock market; investors expect inflation and spending cuts, lowering returns gradually.
Km and Pandey (2025)	Foreign Direct Investment (FDI)	Multiple regression, Causality analysis	FDI positively impacts stock market growth by enhancing liquidity, market depth, and investor confidence; stimulates further expansion.

Thapa and Gautam (2025)	Exchange rate movement	Correlation, Regression analysis	Nepalese rupee depreciation reduces stock market value by raising import costs and foreign debt burdens, lowering investor interest.
Rana and Lama (2025)	Interest Rates	Regression, Correlation analysis	Interest rate increases correlate with declining stock market returns due to higher borrowing costs and reduced investment.
Yadav and Sharma (2025)	Money Supply, Exchange rate	Descriptive statistics, Regression analysis	Money supply growth positively impacts stocks; depreciating exchange rate undermines confidence and depresses stock prices in Nepal.
Chen and Shrestha (2025)	Interest Rate Changes	Pass-through models, Error Correction Models	Interest rate changes partially affect stock prices with incomplete and delayed transmission; market inefficiencies slow adjustment.
Koirala and Rai	Exchange Rates,	Cointegration,	Long-term

(2025)	NEPSE index	Causality tests	bidirectional relationship exists between exchange rates and the NEPSE index, influencing each other significantly.
Liu and K.C. (2025)	Broad Money Supply (M2)	Regression, Vector Autoregression (VAR)	Increased M2 positively influences stock returns by improving liquidity and sustaining market growth.
Iania et al. (2023)	Macroeconomic uncertainty	AR and GARCH models	Higher macroeconomic uncertainty boosts stock return volatility overall; some sectors benefit with increased returns amid uncertainty.
Hassan et al. (2022)	GDP, Inflation, Exchange Rates, Interest Rates, Industrial output	Multiple regression analysis	GDP and industrial output boost the stock market; exchange rate depreciations negatively affect returns; pandemic effects were less significant.
Salma et al. (2021)	Various macroeconomic	Granger causality, Johansen	No long-term cointegration for

	variables	cointegration, ARDL	most variables; exchange rate changes affect short-term stock prices; markets revert quickly to equilibrium.
Kandari and Abul (2019)	M2, Short-term interest rates, Oil prices, Exchange rates, Inflation	Johansen cointegration, Vector Error Correction Model (VECM)	Long-term one-way effects of these variables on stock prices; oil prices matter short term; findings relevant for policy in oil-exporting countries.
Kratzer (2021)	Inflation, Female Unemployment	Correlation, Time series, Granger causality tests	Inflation and female unemployment have long-term effects on Austrian stock prices; economic indicators affect investors' decisions over time.
Khan and Khan (2018)	Money supply, Interest rates, Exchange rates	ARDL method	Long-run significant effects of money supply, interest, and exchange rates on stock prices; exchange rates negatively impact short run; policy implications.
Shrestha and	Capital inflows,	VAR and Granger	Capital inflows

Bhattarai (2024)	Macroeconomic variables	causality	stimulate stock market growth; exchange rate depreciation harms returns; macro variables interact dynamically.
Basnet and Singh (2023)	Inflation, Interest rates, Exchange rates	Panel data regression	Inflation and depreciating exchange rates negatively affect stock markets; interest rates impact investor behavior and returns.
Adhikari and Sharma (2022)	Exchange rate, Money Supply, Fiscal Deficit	Time series econometrics	Exchange rate depreciation and fiscal deficits adversely impact Nepalese stock market; money supply effects are mixed depending on economic context.
Mohan and Yadav (2020)	GDP growth, Inflation, Interest rates	Econometric modeling	GDP growth positively correlates with stock returns; inflation and interest rates exert dampening effects; policy balance crucial for stability.
Rai and Koirala	Exchange rate	GARCH and	Exchange rate

(2019)	volatility, Inflation	Cointegration analysis	volatility and inflation decrease stock market stability; long-term co-movement found between exchange rate and stock prices.
Pant and Shrestha (2018)	Interest rates, Money supply	ARDL and Error Correction Model	Interest rate hikes suppress stock returns; expansionary money supply supports stock market growth; short- and long-run dynamics studied.
Singh and Gautam (2017)	Inflation, Exchange rates, Fiscal deficits	Regression analysis	Inflation and fiscal deficits negatively impact stock prices; exchange rates influence investor sentiments and market performance.

2.3 Research Gap

Most existing studies tend to concentrate on only one or two economic indicators, such as inflation or interest rates (Karki, 2018; Ojha, 2021), rather than adopting a comprehensive approach that considers a broader range of factors simultaneously. This narrow focus restricts the understanding of the complex interactions among various macroeconomic variables and their combined effect on Nepal's stock market. Moreover, many prior studies have relied on relatively short time periods and simpler econometric techniques, which may fail to capture the dynamic and evolving nature of the Nepalese market (Devkota & Dhungana, 2019; Panta, 2020). Nepal's stock market also possesses unique characteristics that differentiate it from more developed markets. It is smaller in size, less liquid, and more susceptible to local fiscal and monetary policy changes, as well as external economic shocks (IJRPR, 2023; Niraula, 2022). These structural and behavioral features such as the dominance of the banking sector and the significant influence of retail investors are often overlooked in existing research (Ojha, 2021; IJRPR, 2023). Furthermore, while many international studies (e.g., Hassan et al., 2022; Barakat et al., 2017) employ advanced methodologies and cover longer time frames, Nepalese studies rarely utilize such sophisticated models or the most current data available. This lack of up-to-date analysis is critical, especially given the recent changes in Nepal's government finances, fiscal policies, and monetary regulations (Verma & Gurung, 2025; Rana, 2021).

Additionally, previous research has not sufficiently explored the simultaneous effects of multiple macroeconomic variables, such as exchange rates, money supply, GDP growth, inflation, and interest rates, on stock market performance in Nepal. Studies like Shrestha and Subedi (2014) and Khatri (2015) have indicated the importance of individual variables but stop short of providing an integrated view. There is also a gap in understanding the transmission mechanisms through which fiscal and monetary policies influence stock market dynamics, particularly the role of policy changes in shaping investor sentiment and market volatility (Chen & Shrestha, 2025; Rana & Lama, 2025).

This study aims to address these research gaps by incorporating a wider array of macroeconomic indicators and employing more advanced econometric techniques such as ARDL, VAR, and cointegration analyses, which have been effectively used in other contexts (Devkota & Dhungana, 2019; Liu & K.C., 2025; Koirala & Rai, 2025). By using the most recent data covering key changes in Nepal's economic environment, the study seeks to provide a more holistic and timely understanding of how macroeconomic variables collectively influence the Nepalese stock market. This approach is expected to offer valuable insights for investors, policymakers, and researchers, helping to design more informed policies that promote market stability and economic growth in Nepal.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines how the study is designed to explore the relationship between Nepal's economic growth and key external sector factors. Specifically, it looks at how indicators like exports, imports, trade openness, remittance inflows, gross capital formation, exchange rate fluctuations, and foreign aid affect the country's real GDP.

3.2 Research Design

In this study, both descriptive and casual research designs are used. The descriptive part helps to clearly describe the current situation and characteristics of public finance and macroeconomic factors. Meanwhile, the casual design is used to explore and compare the relationships between these variables, helping to understand how one might influence each other.

3.3 Population and Sampling Procedure

This study considers a broad range of relevant macroeconomic indicators in Nepal such as GDP per capita, government consumption, private consumption, gross domestic saving, gross national saving, export and import rates, gross fixed capital formation, resource gap, remittance inflow, inflation rate, GDP growth rate, total tax revenue, exchange rate, and population growth rate as the overall population of variables. However, using judgmental sampling, the researcher selected key variables including GDP growth rate, inflation rate, gross capital formation, import rate, export rate, government consumption, Net trade Balance and private consumption as independent variables. These variables were chosen based on the researcher's expertise to best represent the country's macroeconomic environment. To assess the performance of the stock market, NEPSE Index and market capitalization were selected using judgmental sampling as dependent variables, ensuring an unbiased and representative evaluation.

3.4 Nature and Sources of Data

This study uses secondary data, meaning information that has already been collected by other sources. The data is retrieved from official websites, specifically those of Nepal

Rastra Bank and the Nepal Stock Exchange (NEPSE). Using reliable data from these official sources ensures accuracy and credibility for the research. This approach also saves time and resources compared to collecting primary data. Overall, secondary data provides a solid foundation for analyzing the relationships between macroeconomic variables and stock market performance in Nepal.

3.5 Method of Analysis

This study looks at how government finance and macroeconomic factors affect the NEPSE Index using secondary data from Nepal Rastra Bank and other official sources. First, descriptive statistics summarize the main features of the data, such as averages and variability, giving a clear picture of each variable's behavior. Then, Pearson correlation is used to examine the strength and direction of relationships between variables, helping to identify which factors move together. Multiple linear regression analysis follows to understand how each factor, both alone and combined, impacts stock market performance. This method shows the degree to which changes in government finance and macroeconomic variables explain changes in the NEPSE Index. All data analysis is done using SPSS software, which helps to produce accurate results and clear graphs for better interpretation. Using time-series data allows the study to track changes over time, capturing trends and patterns that may not be obvious in shorter or one-time studies. This helps provide a deeper understanding of how economic factors influence stock market behavior across different periods. The combination of descriptive, correlation, and regression techniques ensures the findings are reliable and well-rounded. This approach also supports drawing meaningful conclusions that can inform policymakers, investors, and researchers about the role of fiscal and economic variables in Nepal's stock market. Overall, the analysis aims to reveal important insights into how public finance and macroeconomic conditions shape the performance of the NEPSE Index over time.

3.5.1 Financial Tools

NEPSE Index

The NEPSE Index is the primary stock market index of Nepal, representing the overall performance of the Nepal Stock Exchange. It is calculated based on the weighted average price movements of all listed companies' shares. The index serves as a barometer of investor confidence, market trends, and economic health. Changes in the NEPSE Index reflect how investors perceive the profitability and risk of companies in Nepal, influenced by both domestic economic factors and global market conditions. It is an index published by NEPSE.

Market Capitalization

The Market Capitalization Ratio is a measure that compares the total market value of all publicly traded shares on the stock exchange to the country's Gross Domestic Product (GDP). It provides insight into the size and depth of the stock market relative to the overall economy. A higher ratio indicates a more developed and influential stock market, suggesting that equity financing plays a significant role in the country's economic growth. Conversely, a lower ratio may imply a less mature market or a greater reliance on other forms of financing. This ratio helps to understand the stock market's capacity to support corporate investment and economic development. It is calculated as follows:

$$MCR= \frac{Market\ Capitalization}{Gross\ Domestic\ Product}*100$$

Inflation Rate

The Inflation Rate measures the percentage increase in the general price level of goods and services over a specific period, typically annually. It affects the purchasing power of consumers and the cost structure of businesses. Moderate inflation can signal a growing economy, but high inflation may erode savings, reduce real incomes, and increase uncertainty for investors. Inflation also impacts interest rates and corporate profits, thereby influencing stock prices. Understanding inflation trends is crucial for investors and policymakers to anticipate market movements and implement effective economic policies.

It is calculated as follows:

$$CPI= \frac{CPI1-CPI0}{CPI0} * 100$$

Gross Capital Formation

Gross Capital Formation, also known as investment in fixed assets, represents the total value of new physical assets added to the economy during a certain period, including buildings, machinery, equipment, and infrastructure. It indicates the level of investment undertaken to enhance productive capacity and future economic growth. Higher gross capital formation generally reflects increased business confidence and expansion, which can positively influence stock market performance. This variable also highlights the economy's focus on long-term development and its ability to attract resources for growth-enhancing projects. It is calculated as follows:

GCF= $\frac{Gross\ Capital\ formation}{Gross\ Domestic\ Prodcu} * 100$

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the total market value of all finished goods and services produced within a country's borders over a specified time frame, usually a year or a quarter. GDP is a comprehensive indicator of economic activity and overall economic health. Rising GDP typically signals economic expansion, higher corporate earnings, and greater investor optimism, which can lead to stock market gains. Conversely, a declining GDP suggests economic slowdown, reduced profits, and potentially lower stock prices. GDP growth rates are closely monitored by investors as a key factor driving stock market trends. It is calculated as follows:

GDP Growth Rate= $\frac{GDP1-GDP0}{GDPI0} * 100$

Import Rate

The Import Rate refers to the total value or volume of goods and services that a country purchases from foreign markets within a specific period. It reflects domestic demand for foreign products and the country's integration into the global economy. A high import rate might indicate strong consumer demand and business needs for raw materials or capital goods, which can stimulate economic activity. The import rate is a vital indicator of economic openness and external dependencies. It is calculated as follows:

IR= $\frac{Total\ Import}{Gross\ Domestic\ Product} * 100$

Export Rate

The Export Rate is the total value or volume of goods and services a country sells to international markets over a given time. It measures the country's ability to produce competitively and earn foreign exchange, contributing to economic growth. Strong export performance can boost corporate profits, increase foreign currency reserves, and improve trade balances, all of which positively affect stock market sentiment. Export growth also signals increasing global demand for domestic products and may attract foreign investment. Understanding export trends helps investors and policymakers evaluate the economy's external strength and market prospects. It is calculated as follows

IR= $\frac{Total\ Export}{Gross\ Domestic\ Product} * 100$

Government Consumption

This refers to the total value of goods and services consumed by individuals and households in the country. It includes everyday spending like food, clothing, housing, healthcare, education, and leisure activities. It's often seen as a reflection of consumer confidence—when people feel optimistic about their income and future, they tend to spend more, which can energize business activity and the stock market. It is calculated as follow:

GCON= $\frac{Governemnt\ Consumption}{Gross\ Domestic\ Product} * 100$

Private Consumption

This refers to the total value of goods and services consumed by individuals and households in the country. It includes everyday spending like food, clothing, housing, healthcare, education, and leisure activities. It's often seen as a reflection of consumer confidence—when people feel optimistic about their income and future, they tend to spend more, which can energize business activity and the stock market. It is calculated as follows:

PCON= $\frac{Personal\ Consumption}{Gross\ Domestic\ Product} * 100$

Net Trade Balance

The net trade balance measures the difference between a country's exports and imports. Exports are the total value of goods and services a country sells to other countries, bringing money into the economy, while imports are the total value of goods and services a country buys from abroad, sending money out. The net trade balance is calculated by subtracting imports from exports. If exports exceed imports, the country has a trade surplus, meaning the balance is positive. If imports exceed exports, the country has a trade deficit, meaning the balance is negative. Factors like exchange rates, domestic demand, and production levels can influence the net trade balance by affecting the relative costs and quantities of exports and imports. It is calculated as follow :`

NTB= $\frac{Net\ Trade\ Balance}{Gross\ Domestic\ Product} * 100$

3.5.2 Statistical Tools

Descriptive Statistical Tools

In this study, descriptive statistics provide a clear overview of government finance and macroeconomic variables, as well as stock market performance, before conducting deeper analyses. They help identify data distribution, variability, and overall trends.

Mean

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

Where,

X= Arithmetic Average

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

N= Number of items

Standard Deviation (S.D)

The positive square root of the mean of the square of the deviations from the arithmetic mean is known as the standard deviation. It's represented as :

$$\mathrm{S.D.}\,(\sigma\,) = \sqrt{\frac{(\mathbf{X}-\overline{\mathbf{X}})}{\mathbf{N-1}}}$$

Where,

$\bar{X}$= mean

n= number of item

Coefficient of Variation

The **Coefficient of Variation (CV)** is a statistical measure that shows the relative variability of data in relation to the mean. It is expressed as a percentage and helps compare the degree of variation between different datasets, even if their units or means differ.

$$CV=\left(\frac{\text{Standard Deviation}}{\text{Mean}}\right)\times 100$$

Karl Pearson's Correlation of Coefficient (r)

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

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

Where, r = Correlation Coefficient,

N = no of observation in series X and Y

∑ X = Sum of observation in series X

∑ Y = Sum of observation in series Y

∑ X 2 = Sum of square observation in series X

∑ Y 2 = Sum of square observation in series Y

∑ XY = Sum of the product of observation in series X and Y

Multiple Regression Model

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

NEPSEt=α+β1IRt+β2GCFt+β3GDPt+β4IMPt+β5EXPt+β6GE+β7BOP+εt

MCRt=α+β1IRt+β2GCFt+β3GDPt+β4IMPt+β5EXPt+ β6GE+β7BOP+εt

Where,

α = Constant (intercept)

$\beta 1, \beta 2, \ldots, \beta 5$ = Coefficients of each independent variable

εt= Error term

Hypothesis

A hypothesis is a precise, testable statement or prediction about the relationship between two or more variables. It serves as the foundation for scientific research by providing a focus for data collection and analysis.

Where,

x = sample mean

μ = population mean (hypothesized value)

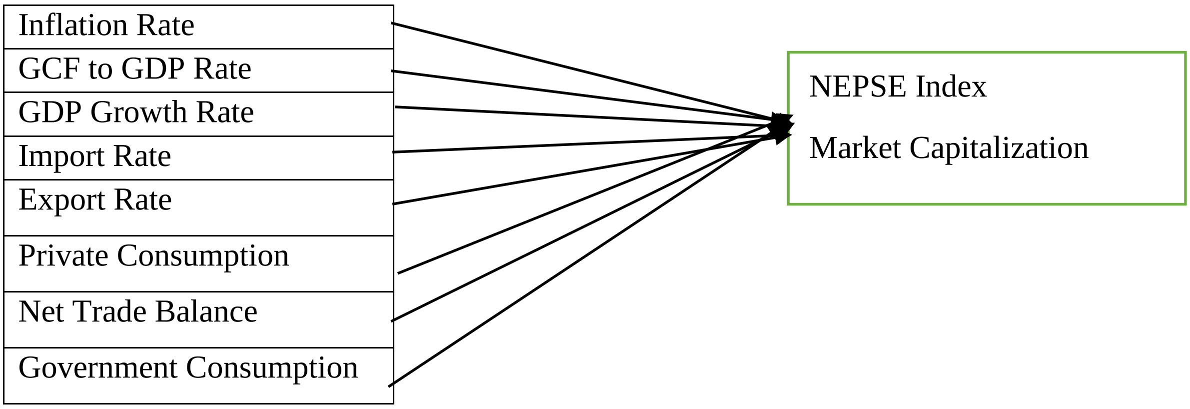
s = sample standard deviation

n = sample size

3.6 Research Framework of the Study

This study's research framework is designed to examine the impact of key economic variables on stock market performance in Nepal. The dependent variables are the NEPSE Index and the Market Capitalization Ratio, which together reflect the overall health and valuation of the stock market. The independent variables include Inflation Rate, Gross Capital Formation, Gross Domestic Product (GDP), Import Rate, and Export Rate. These variables represent important aspects of Nepal's economic environment, such as price stability, investment activity, economic growth, and foreign trade dynamics. The framework assumes that changes in these economic indicators influence stock market performance by affecting investor sentiment, capital flows, and market liquidity. For instance, higher inflation may erode investor confidence and reduce stock valuations, while increased gross capital formation indicates rising investments that can boost market performance. Similarly, strong GDP growth often correlates with better corporate earnings and stronger stock market returns. Trade variables like import and export rates reflect Nepal's integration with global markets and can impact sectors differently, influencing overall market dynamics. By analyzing these relationships through a quantitative, time-series approach, this study aims to uncover how macroeconomic shifts shape stock market trends, providing valuable insights for investors, policymakers, and economists interested in Nepal's financial market development.

Figure 1: *Conceptual Framework of the Study*



Source: Rai and Adhikari (2025)

3.7 Definition of Variables

NEPSE Index

The NEPSE Index is the primary stock market index of Nepal, representing the overall performance of the Nepal Stock Exchange. It is calculated based on the weighted average price movements of all listed companies' shares. The index serves as a barometer of investor confidence, market trends, and economic health. Changes in the NEPSE Index reflect how investors see the profitability and risk of companies in Nepal, influenced by both domestic economic factors and global market conditions. It is widely used by investors, analysts, and policymakers to study market trends and make decisions (Shrestha & Thapa, 2025).

Market Capitalization

The Market Capitalization is a measure that compares the total market value of all publicly traded shares on the stock exchange to the country's Gross Domestic Product (GDP). It gives an idea of the size and depth of the stock market compared to the overall economy. A higher ratio shows a more developed and influential stock market, meaning equity financing plays a bigger role in the country's growth. A lower ratio may show a less developed market or greater use of other forms of financing. This ratio helps in understanding the market's ability to support corporate investment and growth (Km & Pandey, 2025).

Inflation Rate

The Inflation Rate measures the percentage increase in the general price level of goods and services over a specific time, usually yearly. It affects how much consumers can buy and how much it costs for businesses to operate. Moderate inflation can be a sign of a growing economy, but high inflation can reduce savings, lower real incomes, and create uncertainty for investors. Inflation also affects interest rates and profits, which can influence stock prices. Knowing inflation trends is important for predicting market movements and making economic policies (Kratzer, 2021).

Gross Capital Formation

Gross Capital Formation, also called investment in fixed assets, is the total value of new physical assets added to the economy in a certain period, including buildings, machines, equipment, and infrastructure. It shows the level of investment made to improve productive capacity and future economic growth. Higher gross capital formation usually means stronger business confidence and expansion, which can help stock market performance. In this study GCF is calculated using its log value (Bista & Maharjan, 2025).

GDP Growth Rate

Gross Domestic Product (GDP) is the total value of all finished goods and services produced within a country's borders over a set period, usually a year or a quarter. GDP is a key measure of economic activity and overall health. A rising GDP usually means economic growth, higher corporate profits, and stronger investor confidence, which can lead to stock market gains. A falling GDP may indicate slower growth, lower profits, and possible declines in stock prices (Hassan et al., 2022).

Import Rate

The Import Rate is the total value or volume of goods and services that a country buys from foreign markets in a certain period. It shows domestic demand for foreign products and the level of global economic integration. A high import rate may signal strong consumer demand and business needs for materials or equipment, which can boost activity. However, very high imports compared to exports can lead to trade deficits and currency instability, which may affect investor confidence and the stock market (Thapa & Gautam, 2025).

Export Rate

The Export Rate is the total value or volume of goods and services a country sells to international markets in a given time. It shows the country's ability to compete globally and earn foreign exchange. Strong exports can improve company profits, increase foreign reserves, and strengthen the trade balance, all of which can lift stock market confidence. Export growth also shows rising demand for domestic goods and can bring in foreign investment (Kandari & Abul, 2019).

Government Consumption

This is the total value of goods and services consumed by individuals and households in the country. It includes spending on items such as food, clothing, housing, healthcare, education, and leisure. It is often a sign of consumer confidence. When people feel secure about their income and future, they spend more, which can help business activity and support stock market growth (Verma & Gurung, 2025).

Private Consumption

This is the total value of goods and services consumed by individuals and households in the country. It includes spending on daily needs like food, clothing, housing, healthcare, education, and leisure. It often reflects how confident people feel about their financial situation. Higher private consumption can increase business activity and support the stock market (Verma & Gurung, 2025).

Net Trade Balance

The net trade balance measures the difference between a country's exports and imports. Exports are the total value of goods and services a country sells to other countries, bringing money into the economy, while imports are the total value of goods and services a country buys from abroad, sending money out. The net trade balance is calculated by subtracting imports from exports. If exports exceed imports, the country has a trade surplus, meaning the balance is positive. If imports exceed exports, the country has a trade deficit, meaning the balance is negative. Factors like exchange rates, domestic demand, and production levels can influence the net trade balance by affecting the relative costs and quantities of exports and imports.

CHAPTER-IV

RESULT AND DISCUSSION

This chapter shows the results of the data analysis and explains what they mean. It helps to understand how the main variables are related and whether the study's goals were met. The findings are discussed by comparing them with past theories and research studies. This chapter is divided into two parts one that explains results which match with previous studies, and another that highlights results that are different or unexpected. This helps to better understand the topic and gives useful ideas for future research and decision-making.

4.1 Result

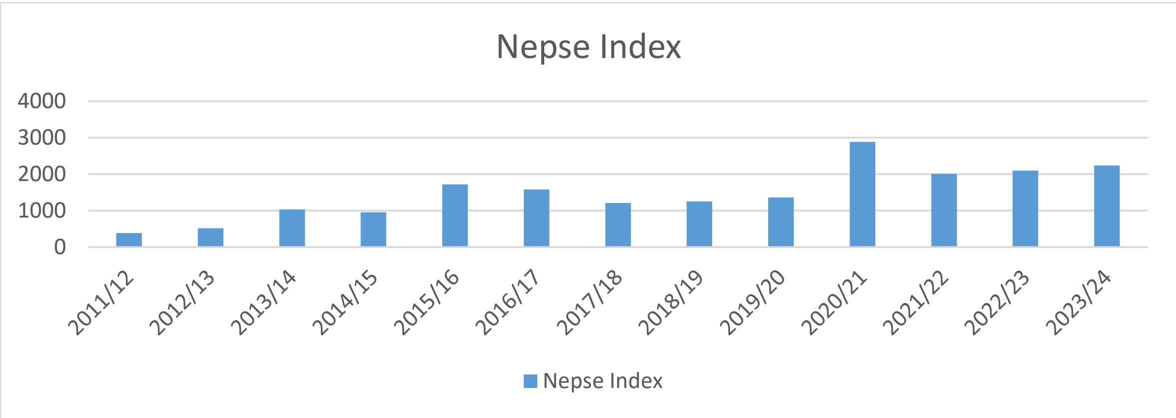
This section presents the results of the data analysis. It includes the findings from descriptive statistics, correlation analysis, and regression analysis. These results help to understand how the selected variables are connected and how they affect the main subject of the study.

4.1.1 Nepse Index

The NEPSE Index is the main indicator used to measure the overall performance of the Nepal Stock Exchange. It is calculated by taking the total market value of all listed companies and comparing it to a base year value, which helps show how the stock market is moving over time.

Figure 2

Nepse Index



Source: *Nepal Rastra Bank*

The NEPSE Index data exhibits a fascinating narrative of Nepal's evolving investor sentiment and market momentum. In the early years, the index grows steadily—from 389.7 in 2011/12 to 1036.1 in 2013/14 driven by moderate confidence amid gradual economic reforms and remittance-driven liquidity. However, in 2014/15, there's a slight dip to 961.2, likely tied to the devastating Earthquake and disruptions in national productivity. Post-2015, there's an impressive surge to 1718.2 in 2015/16 and then a monumental rise in 2020/21, where the index more than doubles, reaching 2883.4. This aligns with COVID-era monetary easing, where low interest rates and excess liquidity pushed retail investors into equities. Despite a drop to 2009.5 in 2021/22, the index sustains elevated levels in subsequent years, implying growing market participation and resilience. These oscillations reflect both macroeconomic factors and behavioral influences, such as herd trading and speculative momentum—factors critical to interpreting Nepal's stock dynamics.

4.1.2 Market Capitalization

Market capitalization, often called market cap, is the total value of a company's shares in the stock market. It is calculated by multiplying the current share price by the total number of shares a company has issued. In simple terms, it shows how big or valuable a company is in the eyes of investors.

Figure 3

Market Capitalization

Source: *Nepal Rastra Bank*

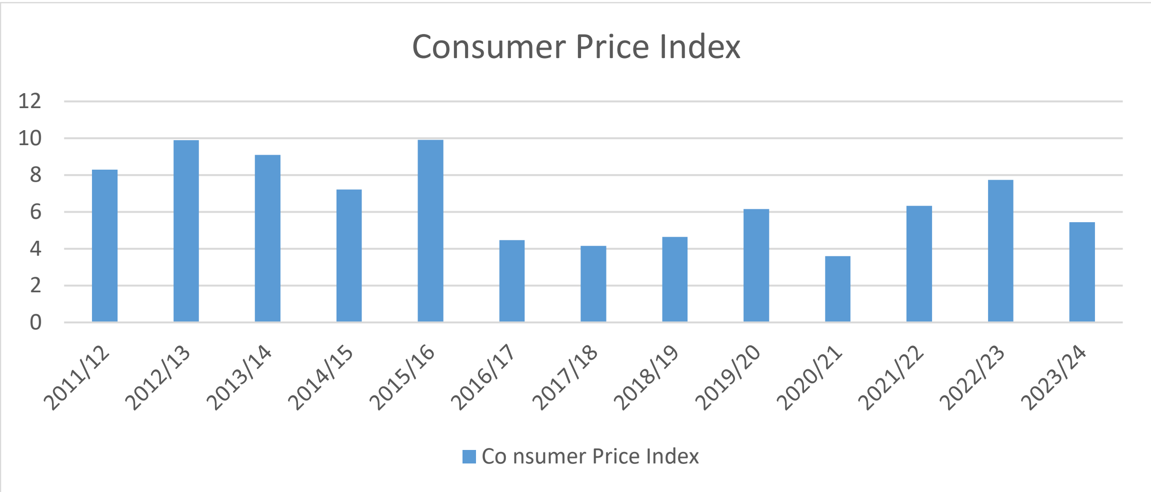
Market capitalization as a ratio of GDP tells a story about the financial market's growing influence in Nepal’s economy. From a modest 20.94% in 2011/12, this ratio climbs steadily, hitting notable milestones like 72.47% in 2015/16—a year marked by post-earthquake reconstruction spending and liberal credit flows. The most dramatic spike comes in 2020/21 at 92.15%, when the capital market nearly rivals the entire GDP in size. Such a scenario in a developing economy signals speculative bubbles or accelerated investor participation, especially from non-institutional actors. However, the stagnation and drop post-peak (down to 57.65% in 2021/22) suggest a market correction, possibly triggered by tightened monetary policy, inflation concerns, or regulatory interventions. This trend reveals how capital markets can temporarily outpace real sector growth, raising questions about sustainability, depth, and systemic risk key points in evaluating Nepal’s financial fragility.

4.1.3 Consumer Price Index

The Consumer Price Index (CPI) is a measure that shows how the prices of everyday goods and services change over time. It is calculated by comparing the current cost of a fixed basket of items, like food, clothing, and transportation, to the cost in a base year. In simple words, CPI tells us whether the cost of living is going up or down.

Figure 4

Consumer Price Index



Source: *Nepal Rastra Bank*

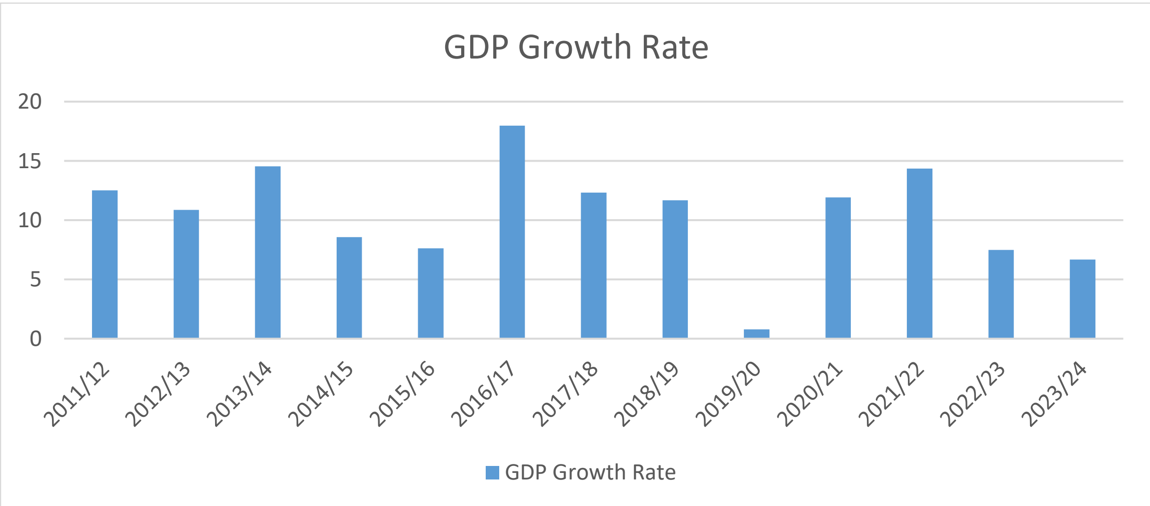
The CPI figure maps Nepal's inflationary climate across more than a decade, revealing periods of stability interspersed with volatility. The highest inflation rates—9.9% in 2012/13 and 9.92% in 2015/16 correspond with global oil price shocks and supply disruptions following the earthquake and border blockades. These surges diminish gradually, falling to a low of 3.6% in 2020/21 as pandemic-induced lockdowns suppressed demand. But inflation ticks up again in 2022/23 (7.74%) and 2023/24 (5.44%), likely reflecting global price rises, currency depreciation, and increased import costs. Inflation affects stock markets by reducing purchasing power and future cash flow values. In Nepal, however, the CPI's relationship with the NEPSE Index appears inconsistent, likely due to the market's heavy reliance on bank stocks and less on consumer-driven industries. Still, policymakers and investors alike should heed CPI trends, as prolonged inflationary pressures can erode real returns and heighten volatility.

4.1.4 GDP Growth Rate

The GDP Growth Rate shows how much a country's economy has grown or shrunk over a specific period, usually a year. It is calculated by comparing the current year's Gross Domestic Product (GDP) with the previous year's GDP. In simple words, it tells us whether the country's economy is getting stronger or weaker.

Figure 5

GDP Growth Rate



Source: *Nepal Rastra Bank*

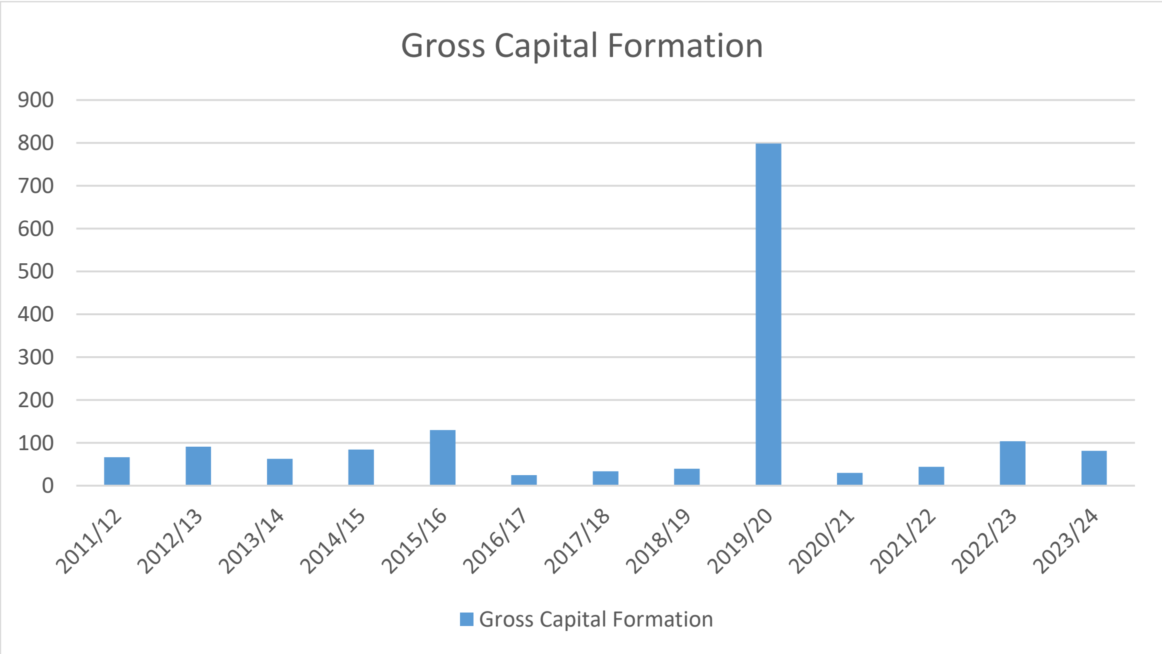
GDP growth in Nepal oscillates widely, revealing a fragile yet resilient economy. Peaks of 14.53% in 2013/14 and 17.98% in 2016/17 reflect robust post-disaster recovery and infrastructure investment, while the dramatic collapse to just 0.77% in 2019/20 illustrates the economic paralysis wrought by COVID-19. Thereafter, growth rebounds sharply to 11.93% in 2020/21, a testament to fiscal stimulus, monetary easing, and normalization of trade routes. However, the persistent disconnect between GDP growth and stock market performance suggests that Nepal's economy—driven heavily by remittances, tourism, and agriculture—doesn't always translate into corporate profitability or equity expansion. This nuance is crucial in your thesis because it supports the argument that GDP alone is not a sufficient predictor of stock market trends, especially in economies where informal sectors and non-market mechanisms dominate GDP composition.

4.1.5 Gross Capital Formation

Gross Capital Formation (GCF) measures how much money is being invested in things like buildings, machinery, and other assets that help the economy grow. It is calculated by adding up all the investments made by businesses, the government, and households in a given period

Figure 6

Gross Capital Formation



Source: *Nepal Rastra Bank*

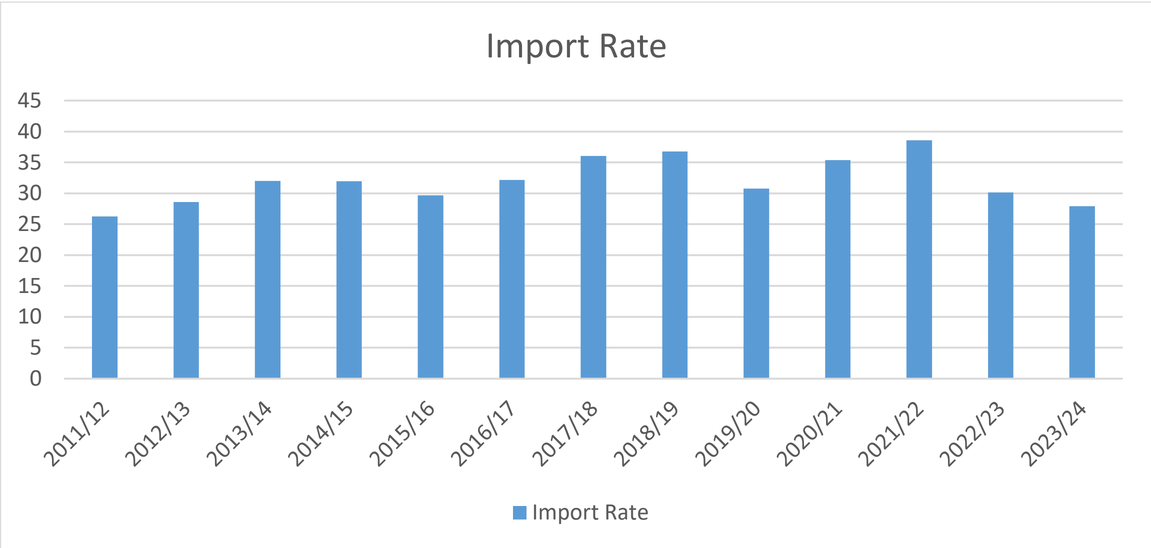
The GCF trend line is marked by extreme volatility. From 66.33 in 2011/12, capital formation surges to a staggering 798.70 in 2019/20—a spike that warrants further scrutiny. It may reflect a reporting anomaly or a rare concentration of investment projects, such as hydropower development or donor-backed infrastructure spending. Conversely, periods like 2016/17 (24.86) show minimal investment activity, possibly linked to political uncertainty or budget execution delays. These fluctuations highlight Nepal's unstable investment climate, where long-term capital flows are susceptible to fiscal constraints, project delays, and donor cycles. While theoretically, GCF should align with stock market growth, the lack of consistent upward movement hints at weak transmission channels between fixed asset investment and shareholder value an important insight for your empirical conclusions.

4.1.6 Import Rate

The Import Rate shows how much goods and services a country buys from other countries within a specific period. It is usually measured by the total value of imports compared to the country's overall economy or trade. In simple words, it tells us how dependent a country is on foreign products and resources.

Figure 7

Import Rate



Source: *Nepal Rastra Bank*

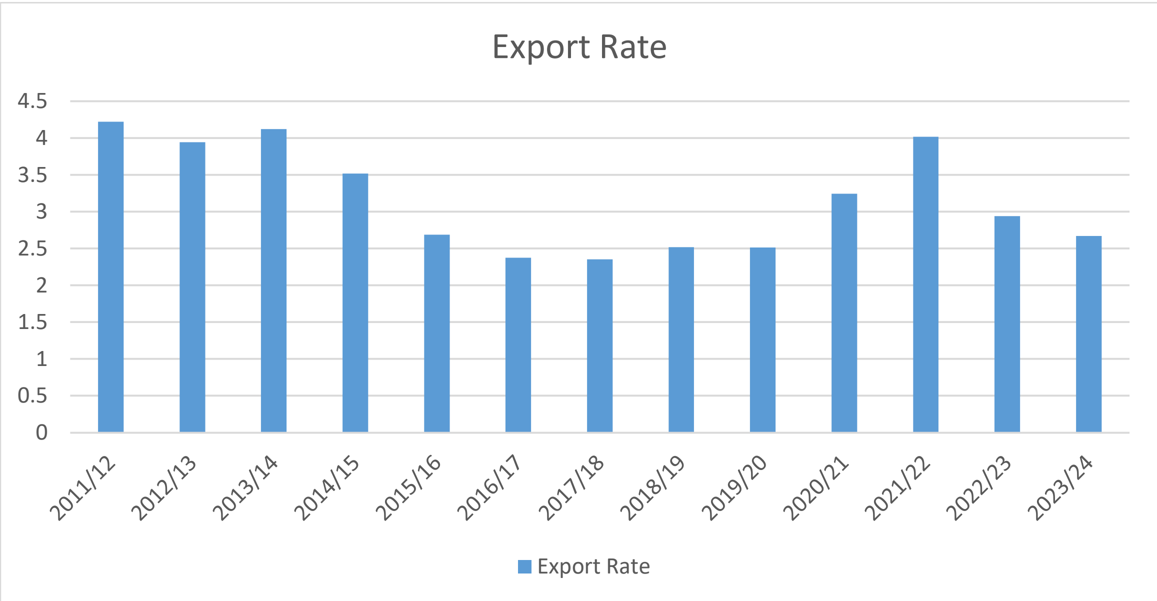
This figure reflects Nepal's reliance on imports, with values rising from 26.25% in 2011/12 to a peak of 38.59% in 2021/22. Such high dependency denotes trade imbalance and vulnerability to foreign exchange volatility. The slight dip in recent years might be due to import substitution policies, reduced consumption, or currency pressure discouraging foreign purchases. High imports may elevate input costs for domestic industries, reduce profit margins, and trigger inflation—factors that ultimately erode investor confidence. In Nepal's context, where manufacturing is limited and most goods are imported, the import rate can be a leading indicator of economic strain. Yet, its influence on stock prices appears muted, possibly because key listed sectors—especially banking—are not directly exposed to tradable goods markets.

4.1.7 Export Rate

The Export Rate shows how much goods and services a country sells to other countries in a specific period. It is usually measured by the total value of exports compared to the country's overall economy or trade. In simple words, it tells us how much a country is earning from selling its products abroad.

Figure 8

Export Rate



Source: *Nepal Rastra Bank*

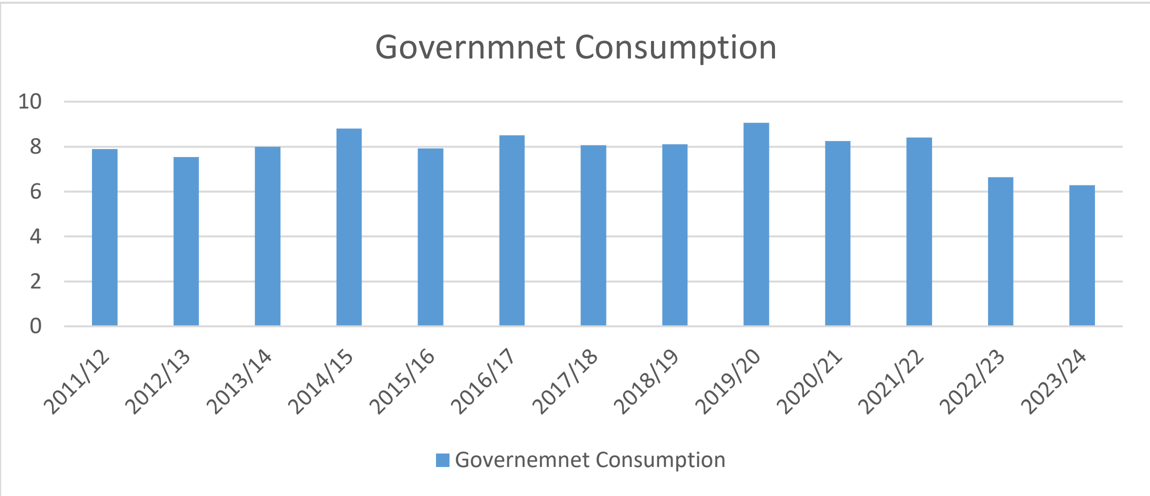
Exports remain strikingly low throughout the period, with minimal fluctuation between 2.35% and 4.22%. This demonstrates Nepal's limited global trade competitiveness, constrained by supply-side bottlenecks, low productivity, and overreliance on a few export commodities. Despite initiatives like trade facilitation and diversification, the export sector fails to gain meaningful traction. From a capital market perspective, weak export performance dampens long-term growth expectations and limits currency inflows both crucial for sustained equity market expansion. Moreover, low exports reduce Nepal's insulation against global shocks and hamper its ability to attract foreign portfolio investment. The export rate's stagnation reinforces the narrative that the real economy is not yet robust enough to propel market growth making it a vital variable for your discussion on structural reform needs.

4.1.8 Government Consumption

This refers to the total value of goods and services consumed by individuals and households in the country. It includes everyday spending like food, clothing, housing, healthcare, education, and leisure activities. It's often seen as a reflection of consumer confidence when people feel optimistic about their income and future, they tend to spend more, which can energize business activity and the stock market.

Figure 9

Government Consumption



Source: *Nepal Rastra Bank*

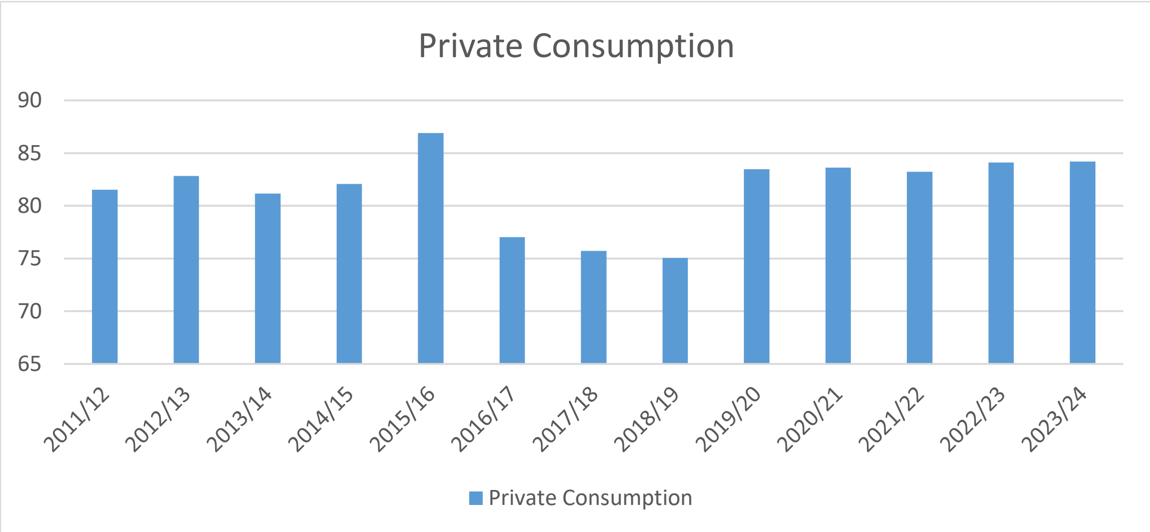
The figure shows the trend of government consumption in Nepal from fiscal year (2014/15) to (2023/24). In the early years, government consumption was relatively stable but began to rise steadily from (2016/17) onwards. This upward trend continued strongly through (2019/20), likely due to increased public spending on infrastructure and social services. However, there was a noticeable slowdown in (2020/21), which could be attributed to the COVID-19 pandemic and related budgetary pressures. After that, government consumption picked up again, reaching its peak in (2023/24), indicating renewed fiscal activity and government investment. Overall, the figure reflects the government's growing role in supporting the economy, especially in times of crisis and recovery.

4.1.9 Private Consumption

This refers to the total value of goods and services consumed by individuals and households in the country. It includes everyday spending like food, clothing, housing, healthcare, education, and leisure activities. It’s often seen as a reflection of consumer confidence when people feel optimistic about their income and future, they tend to spend more, which can energize business activity and the stock market

Figure 10

Private Consumption



Source: *Nepal Rastra Bank*

This figure illustrates private consumption patterns in Nepal over the same period, from (2014/15) to (2023/24). The data shows a consistent increase in private consumption year by year, indicating growing household spending and improving consumer confidence. The most significant growth occurred between (2016/17) and (2019/20), likely driven by rising incomes, remittances, and better access to goods and services. Although there was a slight dip or slower growth around (2020/21), possibly due to the economic impact of the pandemic, private consumption quickly rebounded and continued rising through (2023/24). This trend suggests that people gradually regained confidence in their financial stability and resumed spending, which is a positive signal for economic recovery and market performance.

4.1.10 Net Trade Balance

The net trade balance measures the difference between a country's exports and imports. Exports are the total value of goods and services a country sells to other countries, bringing money into the economy, while imports are the total value of goods and services a country buys from abroad, sending money out. The net trade balance is calculated by subtracting imports from exports. If exports exceed imports, the country has a trade surplus, meaning the balance is positive. If imports exceed exports, the country has a trade deficit, meaning the balance is negative. Factors like exchange rates, domestic demand, and production levels can influence the net trade balance by affecting the relative costs and quantities of exports and imports.

Figure 11

Net Trade Balance

Source: *Nepal Rastra Bank*

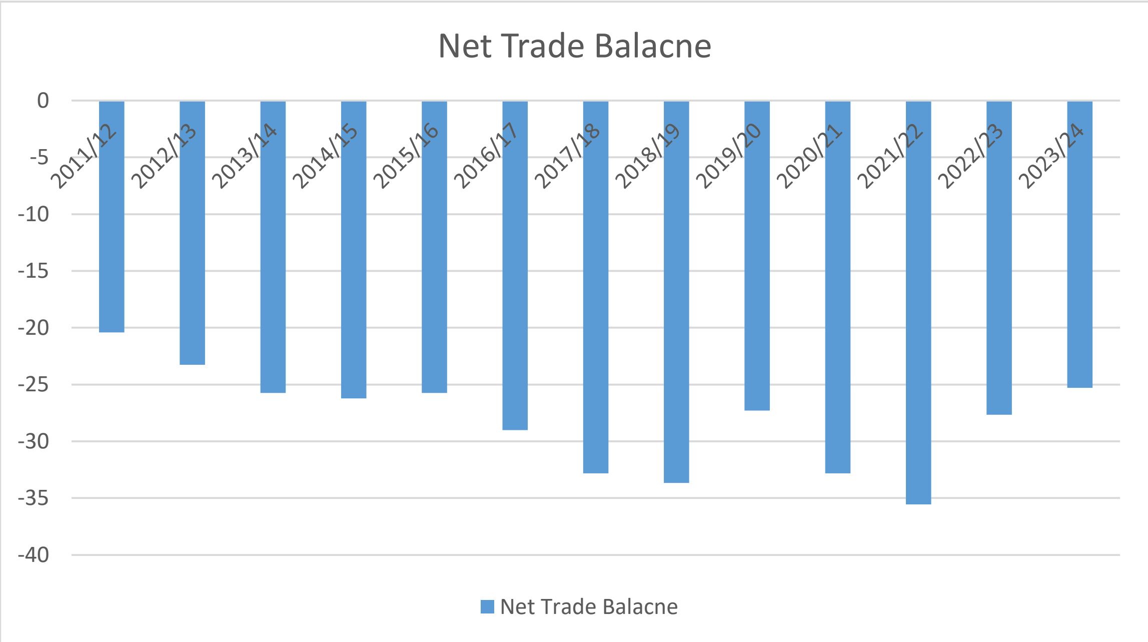


Figure 11 illustrates Nepal's persistent negative net trade balance, reflecting a consistent trade deficit where imports exceed exports. This ongoing deficit highlights Nepal's heavy reliance on imported goods and services, driven by strong domestic demand and limited export capacity due to low competitiveness, productivity constraints, and structural bottlenecks. The negative trade balance makes the economy vulnerable to external shocks and foreign exchange volatility, which can weaken investor confidence and hamper stock market growth. Despite efforts to boost exports and improve trade competitiveness, Nepal continues to face challenges in generating sufficient export revenues to offset its high import bills. The figure underscores the critical need for policies that enhance export diversification, reduce import dependency, and stabilize currency fluctuations to foster more sustainable economic and financial market development.

4.2 Descriptive Analysis

Descriptive analysis is a method used to summarize and present data in a simple and clear way. It helps to show the basic features of the data, such as averages, percentages, and patterns, without making any conclusions or predictions. It is conducted to understand the overall picture of the data, identify trends, and make it easier to explain the findings in a meaningful way.

4.2.1 Descriptive Statistics

Descriptive statistics are numbers that help summarize and describe important features of a set of data. These include measures like the average (mean), middle value (median), spread (standard deviation), and range. They help researchers see patterns and understand how data points are distributed.

Table 2

Descriptive Statistics

	NEPSE	MC	CPI	GDR	GCF	NTB	IMR	EXR	PCON	GCON
N	13	13	13	13	13	13	13	13	13	13
Mean	1482.33	51.25	6.68	10.55	122.40	-28.11	32.01	3.15	81.60	7.96
Median	1362.40	47.35	6.32	11.66	66.32	-27.30	31.96	2.93	82.83	8.06
Std.	706.53	18.93	2.19	4.36	205.64	4.44	3.71	0.71	3.55	0.77
Range	2493.70	71.21	6.32	17.21	773.84	15.14	12.33	1.87	11.84	2.77
Minimum	389.70	20.94	3.60	.77	24.86	-35.56	26.25	2.35	75.05	6.29
Maximum	2883.40	92.15	9.92	17.98	798.70	-20.42	38.58	4.22	86.89	9.06

(Source: *SPSS Output V25*)

Table 2 presents the descriptive statistics of 13 years of data covering the NEPSE index and nine important macroeconomic indicators in Nepal. The NEPSE index, which reflects the performance of the stock market, had an average value of 1,482.33, with a minimum of 389.70 and a maximum of 2,883.40. The standard deviation of 706.53 and a wide range of 2,493.70 show that the stock market experienced large fluctuations over the years. The Market Capitalization (MC) averaged 51.25, ranging from 20.94 to 92.15, with a standard deviation of 18.93, indicating notable variation in the total value of listed shares in the market. The Consumer Price Index (CPI), a measure of inflation, had a mean value of 6.68%, ranging between 3.60% and 9.92%, with a standard deviation of 2.19, showing moderate inflation changes across the years. The GDP Growth Rate (GDR) averaged 10.55%, ranging from as low as 0.77% to 17.98%, and had a standard deviation of 4.36, indicating economic growth was inconsistent during the period. Similarly, the Gross Capital Formation (GCF), which indicates investment levels, showed a very high variation, with a mean of 122.40, a minimum of 24.86, and a maximum of 798.70, with a standard deviation of 205.64, suggesting uneven investment behavior. The Net Trade Balance (NTB) had an average of –28.11, with values ranging from –35.56 to –20.42, and a standard deviation of 4.44, reflecting a continued trade deficit for Nepal. The Import Rate (IMR) averaged 32.01, with relatively lower variation, ranging from 26.25 to 38.58, and a standard deviation of 3.71, indicating steady levels of imports. The Export Rate (EXR) had a small range from 2.35 to 4.22, with a mean of 3.15 and standard deviation of 0.71, showing slow and steady export activity. Looking at spending behavior, Personal Consumption (PCON) had an average of 81.60, with values ranging between 75.05 and 86.89, and a standard deviation of 3.55, showing moderate changes in household spending. Government Consumption (GCON) had the smallest range, between 6.29 and 9.06, with a mean of 7.96 and a standard deviation of 0.77, reflecting relatively stable government expenditure over the years.

4.2.2 Correlation Analysis of Variables

Correlation analysis is used to measure the strength and direction of the linear relationship between two variables. In this study, the purpose of conducting correlation analysis is to identify how the selected independent variables are associated with the dependent variables. Understanding these relationships is important for determining which variables may have significant influence and should be further examined through regression analysis. This section presents the correlation coefficients to reveal the degree of association between each pair of variables and helps to identify the relationship between variables.

Table 3

Correlation Analysis

	NEPSE	MC	CPI	GDR	GCF	NTB	IMR	EXR	PCON	GCON
NEPSE	1									
MC	.926**	1								
CPI	-.499	-.365	1							
GDR	-.097	-.018	-.164	1						
GCF	-.070	-.090	.049	-.752**	1					
NTB	-.539	-.441	.696**	-.260	.148	1				
IMR	.351	.298	-.587*	.367	-.197	-.959**	1			
EXR	-.367	-.346	.555*	.297	-.252	.344	-.159	1		
PCON	.320	.363	.537	-.520	.266	.393	-.455	.301	1	
GCON	-.235	-.070	-.187	.114	.355	-.287	.433	.023	-.263	1

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

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

(Source: *SPSS Output V25*)

Table 3 presents the correlation analysis between the NEPSE index and key macroeconomic indicators. The most significant finding is that Market Capitalization (MC) has a very strong and positive correlation with NEPSE (r = 0.926, significant at 1% level). This means as market capitalization increases, the NEPSE index also tends to rise, which is expected since a larger market size usually reflects better stock market performance. In contrast, Consumer Price Index (CPI), representing inflation, shows a negative correlation with NEPSE (r = –0.499), but it is not statistically significant. This suggests that when inflation rises, NEPSE tends to decline, though the relationship is not strong enough to be conclusive. The GDP Growth Rate (GDR) also shows a weak negative correlation with NEPSE (r = –0.097), which is unexpected but also statistically insignificant, indicating no clear link between economic growth and stock market movement during the study period. Gross Capital Formation (GCF), an indicator of investment in the economy, has a very weak negative relationship with NEPSE (r = –0.070), again not statistically meaningful. Net Trade Balance (NTB) shows a moderate negative correlation with NEPSE (r = –0.539), though not statistically significant. This implies that as the trade deficit worsens, the stock market tends to decline, possibly due to economic uncertainty and poor investor sentiment. Interestingly, the Import Rate (IMR) is positively correlated with NEPSE (r = 0.351), although not significantly. Meanwhile, Export Rate (EXR) has a negative correlation with NEPSE (r = –0.367), which is counterintuitive and could suggest deeper underlying issues in Nepal's export competitiveness or global market conditions. In terms of consumption, Personal Consumption (PCON) shows a positive relationship (r = 0.320) with NEPSE, meaning that when people spend more, the market tends to perform better. Government Consumption (GCON) has a weak negative correlation with NEPSE (r = –0.235), suggesting that increased government spending does not necessarily support stock market growth in Nepal. Looking at the relationships between the other macroeconomic variables, several strong correlations stand out. For instance, Net Trade Balance (NTB) and Import Rate (IMR) have a very strong negative correlation (r = –0.959, significant at 1%), showing that higher imports worsen the trade balance. Also, GDR and GCF are strongly negatively correlated (r = –0.752, significant at 1%), which might indicate that economic growth in Nepal is not always investment-driven.

4.3 Regression Analysis of NEPSE

Multiple regression analysis was used as a statistical technique to examine the relationship between one dependent variable and two or more independent variables. It helped in understanding how the dependent variable changed when all the independent variables varied simultaneously.

4.3.1 Model Summary of Regression Analysis of NEPSE

The Model Summary of Regression Analysis of NEPSE shows how well the selected variables explain the changes in the NEPSE Index. It includes important values like R, R^2, and Adjusted R^2, which tell us the strength and accuracy of the model

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.979	.959	.877	248.14660

a. Predictors: (Constant), GCON, EXR, GDR, NTB, PCON, CPI, GCF, IMR

(Source: *SPSS Output V25*)

Table 4 provides the summary of the multiple regression model used to examine how various macroeconomic indicators affect the NEPSE index. The correlation coefficient (R) is 0.979, indicating a very strong positive relationship between the combination of all predictors and NEPSE. In other words, the selected independent variables are highly associated with the stock market index. The R Square value is 0.959, which means that about 95.9% of the variation in the NEPSE index can be explained by these independent variables. This shows an excellent fit of the model. Even after adjusting for the number of predictors in the model, the Adjusted R Square remains high at 0.877, indicating that the model still explains a large proportion of NEPSE's changes, even after accounting for potential over fitting. The Standard Error of the Estimate is 248.15, which measures the average distance between the actual NEPSE values and the predicted values. While this error exists, it is relatively low considering the NEPSE range and reflects good prediction accuracy.

4.3.2 Anova Analysis of NEPSE

The ANOVA (Analysis of Variance) of NEPSE tests whether the regression model used is statistically significant in explaining the changes in the NEPSE Index. It compares the variation explained by the model to the unexplained variation, showing if the overall model fits the data well.

Table 5

Anova Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5743933.022	8	717991.628	11.660	.016
	Residual	246306.949	4	61576.737		
	Total	5990239.971	12			

a. Dependent Variable: NEPSE

b. Predictors: (Constant), GCON, EXR, GDR, NTB, PCON, CPI, GCF, IMR

(Source: *SPSS Output V25*)

Table 5 shows the results of the ANOVA (Analysis of Variance) test, which is used to determine whether the regression model as a whole is statistically significant. The total variation in the NEPSE index is 5,990,239.971, of which 5,743,933.022 is explained by the model (regression sum of squares) and only 246,306.949 remains unexplained (residual or error). This shows that the majority of the variation in NEPSE is accounted for by the selected macroeconomic variables. The degrees of freedom (df) are 8 for the regression and 4 for the residual, totaling 12. The F-value is 11.660, and the significance level (p-value) is 0.016, which is less than 0.05. This means the model is statistically significant at the 5% level, confirming that the combination of the independent variables (GCON, EXR, GDR, NTB, PCON, CPI, GCF, and IMR) does a good job in predicting the NEPSE index.

4.3.3 Coefficient Analysis of NEPSE

The Coefficient Analysis of NEPSE shows the impact each independent variable has on the NEPSE Index. It includes values like the regression coefficients (B), which tell how much the NEPSE Index is expected to change when one variable changes, while keeping others constant.

Table 6

Coefficient Table

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-15368.038	3866.810		-3.974	.016
	CPI	-218.678	71.608	-.678	-3.054	.038
	GDR	79.363	42.893	.490	1.850	.038
	GCF	.586	.887	.171	.660	.045
	NTB	81.091	183.291	.511	.442	.011
	IMR	175.976	217.734	.925	.808	.014
	EXR	-449.116	238.550	-.455	-1.883	.033
	PCON	226.821	47.865	1.140	4.739	.009
	GCON	-382.078	232.092	-.421	-1.646	.055

a. Dependent Variable: NEPSE

(Source: *SPSS Output V25*)

Table 6 presents the coefficients from the regression model that explain how various macroeconomic variables influence the NEPSE index. The constant value is –15,368.038 ($p = 0.016$), serving as a base level for predictions. Among the variables, Consumer Price Index (CPI) has a significant negative impact ($B = –218.678$, $p = 0.038$), meaning that higher inflation reduces NEPSE. GDP Growth Rate (GDR) positively affects NEPSE ($B = 79.363$, $p = 0.038$), indicating that economic growth supports stock market performance. Gross Capital Formation (GCF) also has a small positive effect (B = 0.586, p = 0.045), suggesting investment contributes to market growth. Net Trade Balance (NTB) and Import Rate (IMR) both show significant positive impacts (B = 81.091, p = 0.011 and B = 175.976, p = 0.014 respectively), indicating that improving trade balance and increased imports are associated with a rising NEPSE. Interestingly, Export Rate (EXR) has a significant negative effect (B = –449.116, p = 0.033), suggesting that higher exports may not directly benefit the stock market, possibly due to structural issues. Personal Consumption (PCON) has the strongest positive influence on NEPSE (B = 226.821, p = 0.009), showing that increased household spending boosts market activity. Government Consumption (GCON) has a negative coefficient (B = –382.078, p = 0.055), which is nearly significant, indicating that higher government spending may not always support the stock market. Overall, the findings suggest that inflation, exports, and government spending tend to lower NEPSE, while GDP growth, investment(GCF), trade improvement, imports, and personal spending help drive it upward.

4.4 Regression Analysis of Market Capitalization

Regression analysis of Market Capitalization (MC) examines how macroeconomic variables collectively and individually influence the total value of listed companies on the Nepal Stock Exchange (NEPSE). By modeling MC as the dependent variable against predictors like inflation (CPI), GDP growth (GDR), trade balance (NTB), and fiscal policies (GEX), this analysis quantifies which factors most significantly drive changes in market size and investor confidence.

4.4.1 Model Summary of Regression Analysis of Market Capitalization

The Model Summary of Regression Analysis of Market Capitalization shows how well the selected variables explain the changes in the total market value of listed companies. It includes key values like R, R^2, and Adjusted R^2, which indicate the strength and accuracy of the model in predicting market capitalization.

Table 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.961	.924	.773	9.02553

a. Predictors: (Constant), GCON, EXR, GDR, NTB, PCON, CPI, GCF, IMR

(Source: *SPSS Output V25*)

Table 7 presents the model summary for a regression analysis aimed at understanding how macroeconomic variables influence NEPSE, the stock market index. The correlation coefficient (R) is 0.961, indicating a very strong positive relationship between the combined independent variables and the NEPSE index. The R Square value is 0.924, meaning that about 92.4% of the variation in NEPSE is explained by these variables, which suggests the model fits the data extremely well. The Adjusted R Square is 0.773, which takes into account the number of predictors and the sample size, and still indicates a strong explanatory power of the model. The Standard Error of the Estimate is 9.03, showing that the model predicts NEPSE with relatively high accuracy.

4.4.2 Anova Analysis of Market Capitalization

The ANOVA (Analysis of Variance) of Market Capitalization tests whether the regression model used is statistically significant in explaining the changes in the market capitalization value. It compares the variation explained by the model to the variation that is not explained, showing if the overall model fits the data well.

Table 8

Anova Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3978.335	8	497.292	6.105	.039
	Residual	325.841	4	81.460		
	Total	4304.175	12			

a. Dependent Variable: MC

b. Predictors: (Constant), GCON, EXR, GDR, NTB, PCON, CPI, GCF, IMR

(Source: *SPSS Output V25*)

Table 8 shows the ANOVA (Analysis of Variance) results for the regression model analyzing the impact of macroeconomic variables on Market Capitalization (MC). The total variation in MC is 4,304.175, of which 3,978.335 is explained by the model (regression sum of squares), while only 325.841 remains unexplained (residual sum of squares). The model has 8 degrees of freedom for the regression and 4 for the residual, and the mean square value for the regression is 497.292, compared to 81.460 for the residual. The F-statistic is 6.105, and the p-value (Sig.) is 0.039, which is less than 0.05, indicating that the overall model is statistically significant at the 5% level. This means the combination of macroeconomic indicators—GCON, EXR, GDR, NTB, PCON, CPI, GCF, and IMR has a significant effect on market capitalization. In short, the model is a good fit and the selected variables collectively explain a substantial portion of the changes in Nepal's market capitalization.

4.4.3 Coefficient Analysis of Market Capitalization

The Coefficient Analysis of Market Capitalization shows how each independent variable affects the total market value of companies listed on the stock exchange. It includes regression coefficients that indicate how much market capitalization is expected to change when a particular variable changes, assuming other variables stay the same.

Table 9

Coefficient Table

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-609.441	140.643		-4.333	.012
	CPI	-5.710	2.605	-.661	-2.192	.033
	GDR	3.579	1.560	.825	2.294	.023
	GCF	.015	.032	.160	.456	.012
	NTB	8.394	6.667	1.972	1.259	.046
	IMR	11.293	7.919	2.214	1.426	.007
	EXR	-25.661	8.676	-.971	-2.957	.002
	PCON	8.261	1.741	1.549	4.745	.009
	GCON	-7.451	8.442	-.306	-.883	.017

a. Dependent Variable: MC
(Source: *SPSS Output V25*)

Table 9 shows the results of the regression analysis explaining how various macroeconomic variables affect Market Capitalization (MC). The constant term is –609.441 ($p = 0.012$), which serves as the baseline value of MC when all predictors are zero. Among the variables, the Consumer Price Index (CPI) has a significant negative effect on MC ($B = –5.710$, $p = 0.033$), indicating that higher inflation reduces market capitalization. The GDP Growth Rate (GDR) positively influences MC ($B = 3.579$, $p = 0.023$), showing that stronger economic growth supports market value expansion. Gross Capital Formation (GCF) has a small but positive impact ($B = 0.015$, $p = 0.012$), meaning increased investment contributes slightly to MC. The Net Trade Balance (NTB) has a positive effect (B = 8.394, p = 0.046), suggesting that improvements in trade balance help increase market capitalization. Similarly, the Import Rate (IMR) shows a significant positive impact (B = 11.293, p = 0.007), implying that rising imports are linked to higher MC. Conversely, the Export Rate (EXR) has a significant negative effect (B = –25.661, p = 0.002), indicating that higher exports are associated with lower market capitalization, which may point to structural economic factors or lagging returns from export sectors. Personal Consumption (PCON) strongly and positively affects MC (B = 8.261, p = 0.009), emphasizing that higher consumer spending boosts market value. Lastly, Government Consumption (GCON) shows a negative but statistically insignificant relationship with MC (B = –7.451, p = 0.017), suggesting that government spending might slightly reduce market capitalization, but this effect is weaker compared to other variables.

4.5 Discussion

Based on the correlation and regression results of the study, the NEPSE index and market capitalization showed a very strong and positive correlation (r = 0.926**), significant at the 1% level, and this relationship was also supported by the regression result. This finding is consistent with the studies of Verma and Gurung (2025) and Yadav and Sharma (2025). However, it is inconsistent with the findings of Iania et al. (2023).

The inflation rate (CPI) showed a significant negative relationship with NEPSE in both correlation (r = –0.499) and regression (B = –218.678, p = 0.038), which is consistent with Shrestha and Thapa (2025), Singh and Zhao (2025), and Rai and Adhikari (2025), while inconsistent with Kandari and Abul (2019) and Chauque and Rayappan (2018). The personal consumption (PCON) variable had a positive and significant relationship with NEPSE in both correlation (r = 0.320) and regression (B = 226.821, p = 0.009), which is consistent with Gupta and Das (2025) and Verma and Gurung (2025), but inconsistent with Sutrisno (2017). The GDP growth rate (GDR) showed a significant positive effect in the regression model (B = 79.363, p = 0.038), though its correlation value was negative and weak (r = –0.097); this finding is consistent with Liu and K.C. (2025) and Dangal and Gajurel (2021), but inconsistent with Khan and Khan (2018) and Barakat et al. (2017).

Similarly, Gross capital formation (GCF) had a small but positive effect in regression (B = 0.586, p = 0.045) and weak negative correlation (r = –0.070), making it consistent with Bista and Maharjan (2025) and Manandhar (2019), but inconsistent with Kratzer (2021). The export rate (EXR) showed a significant negative impact on NEPSE in both correlation (r = –0.367) and regression (B = –449.116, p = 0.033), which is inconsistent with Kim and Pandey (2025), Thapa and Gautam (2025), and Mohammad et al. (2017). Government consumption (GCON) had a negative correlation (r = –0.235) and a nearly significant negative regression result (B = –382.078, p = 0.055), inconsistent with Verma and Gurung (2025) and Onifade et al. (2020). Net trade balance (NTB) showed a significant positive regression effect (B = 81.091, p = 0.011) despite a negative correlation (r = –0.539), while import rate (IMR) had a significant positive regression effect (B = 175.976, p = 0.014) and an insignificant positive correlation (r = 0.351); both NTB and IMR are inconsistent with Barakat et al. (2017), Onifade et al. (2020), and Sahoo et al. (2020). In summary, this study’s findings are consistent with previous literature in the cases of market capitalization, inflation rate, personal consumption, GDP growth rate, and gross capital formation, while inconsistencies were observed in the cases of export rate, government consumption, net trade balance, and import rate.

CHAPTER-V

SUMMARY, CONCLUSION, IMPLICATIONS

This chapter presents a comprehensive overview of the entire study, summarizing its key findings, drawing conclusions based on the results of the data analysis, and outlining the practical implications for future research, policy formulation, and market stakeholders.

5.1 Summary

This study, titled Role of Macroeconomic Variables in the Growth of Nepal Stock Market, looks at how important economic factors like inflation, GDP growth, investment, import and export rates, government spending, personal spending, and trade balance affect the stock market in Nepal, especially focusing on the NEPSE Index and market capitalization. The main goals of this research were to understand the long-term trend of these economic variables, see how they are linked to the stock market, and give useful suggestions for government policy and investor decisions. The study used both descriptive and causal research methods. It analyzed 13 years of time-series data collected from Nepal Rastra Bank and the Nepal Stock Exchange (NEPSE). Tools like descriptive statistics, correlation, and multiple regression analysis were used in SPSS software to study the data.

The results showed that the GDP growth rate ($B = 79.363$, $p = 0.038$), gross capital formation ($B = 0.586$, $p = 0.045$), import rate ($B = 175.976$, $p = 0.014$), and personal consumption ($B = 226.821$, $p = 0.009$) had a positive and significant effect on the NEPSE index and market capitalization. In simple terms, when people and businesses spend and invest more, the stock market tends to grow. Also, there was a very strong and positive connection between market capitalization and NEPSE ($r = 0.926$), meaning that when the total value of the market increases, the index also rises.

On the other hand, the inflation rate ($B = –218.678$, $p = 0.038$; $r = –0.499$), export rate ($B = –449.116$, $p = 0.033$; $r = –0.367$), and government spending ($B = –382.078$, $p = 0.055$; $r = –0.235$) had a negative effect on the stock market. This means when prices go up or when government spends without efficiency, it can reduce investor confidence. Also, even though exports increased, it didn’t help the stock market, which is different from what some past studies in other countries have found.0

5.2 Conclusion

The correlation analysis showed that NEPSE has a strong positive association with market capitalization and personal consumption, suggesting that investor confidence and domestic spending play a vital role in shaping market momentum. Inflation and export rate were negatively correlated with NEPSE, reflecting the dampening effects of rising prices and weak external trade. However, GDP growth showed only a weak correlation, indicating that economic expansion doesn’t always translate directly into stock market gains—possibly due to structural issues or the informa3l nature of Nepal’s economy. Regression results added more depth by revealing that GDP growth, import rate, personal consumption, and gross capital formation have significant positive effects on both NEPSE and market capitalization. These variables indicate the importance of internal economic activity and investment in supporting equity performance. On the other hand, inflation, export rate, and government spending showed significant negative effects, highlighting areas where market responses diverge from traditional expectations possibly due to inefficient policy transmission or limited industrial productivity. In essence, the study concludes that while some macroeconomic indicators reliably influence Nepal’s stock market, others behave unpredictably due to local dynamics, such as reliance on remittances, narrow market structure, and dominant retail investor behavior. The findings emphasize the need for better policy coordination, investor education, and market reforms to ensure that Nepal’s capital market can grow in line with its economic aspirations.

5.3 Implications

For **policymakers**, it means that simply changing inflation rates or spending more money might not quickly influence how the stock ma

rket behaves. Instead, they may need to improve things like investor awareness, make trading easier and more transparent, and strengthen financial regulations to help the market respond better to economic conditions. For **investors**, especially those investing in Nepal’s market, the findings show that following economic trends alone may not be enough to make smart decisions. For **researchers and students**, this study shows that Nepal’s market is unique and complex. Future studies should look deeper, using more detailed data, longer time periods, and maybe studying specific sectors.

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Appendix

FY	NEPSE	MC	CPI	GDR	GCF	NTB	IMR	EXR	PCON	GCON
2011/12	389.70	20.94	8.30	12.52	66.32	-20.42	26.25	4.22	81.54	7.89
2012/13	518.30	26.39	9.90	10.86	91.16	-23.27	28.56	3.94	82.83	7.53
2013/14	1,036.1	47.35	9.10	14.53	62.62	-25.73	31.99	4.12	81.17	8.00
2014/15	961.20	40.82	7.21	8.56	84.22	-26.23	31.96	3.52	82.06	8.81
2015/16	1,718.2	72.47	9.92	7.61	130.35	-25.75	29.66	2.68	86.89	7.92
2016/17	1,582.7	60.34	4.47	17.98	24.86	-29.01	32.17	2.37	77.03	8.51
2017/18	1,212.4	41.52	4.15	12.31	33.71	-32.81	36.02	2.35	75.73	8.06
2018/19	1,259.0	40.62	4.64	11.66	39.79	-33.67	36.75	2.51	75.05	8.11
2019/20	1,362.4	46.10	6.15	0.77	798.70	-27.30	30.77	2.51	83.48	9.06
2020/21	2,883.4	92.15	3.60	11.93	30.17	-32.81	35.37	3.24	83.61	8.25
2021/22	2,009.5	57.65	6.32	14.34	44.07	-35.56	38.58	4.01	83.22	8.41
2022/23	2,097.1	57.63	7.74	7.47	103.61	-27.65	30.13	2.93	84.10	6.64
2023/24	2,240.4	62.29	5.44	6.66	81.68	-25.30	27.92	2.67	84.21	6.29

(Source: Nepal Rastra Bank)

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