DEVELOPMENT AND CHALLENGES OF STOCK MARKET IN NEPAL

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

By

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CERTIFICATION OF AUTHORSHIP

I hereby affirm that I have researched and submitted the final draft of dissertation entitled DEVELOPMENT AND CHALLENGES OF STOCK MARKET IN NEPAL The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

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

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REPORT OF RESEARCH COMMITTEE

Ms. Himkala Rimal has defended research proposal entitled DEVELOPMENT AND CHALLENGES OF STOCK MARKET IN NEPAL successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor lecturer Teacher's Name and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation DEVELOPMENT AND CHALLENGES OF STOCK MARKET IN NEPAL presented by Himkala Rimal for the degree of Master of Business Studies (MBS). We hereby certify that the dissertation is acceptable for the award of degree.

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This dissertation entitled DEVELOPMENT AND CHALLENGES OF STOCK MARKET IN NEPAL has been prepared in partial fulfillment for the degree of master of business studies (MBS) under the Faculty of Management, Tribhuvan University, in based on research models involving the quantitative aspect of bank profitability analysis.

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CHAPTER- I

INTRODUCTION

1.1 Background of the Study

The stock market functions as a bustling marketplace where shares and various financial instruments of publicly held companies change hands. It serves as a conduit for trading financial assets with a maturity period of over a year, encompassing the buyers, sellers, and the entities facilitating these dealings. Within this realm, individuals engage in acquiring and offloading securities, fostering the exchange of financial instruments that aid in mobilizing both internal and external economic resources. This platform not only enables commercial entities to amass funds through diverse securities but also presents an avenue for individuals and institutions with liquid assets to invest. Entities utilize this arena to issue equities, corporate bonds, mutual funds, and stock derivatives to raise capital. Similarly, governmental bodies leverage it by issuing bonds for development and municipal purposes. However, the sale of these securities hinges on equitable opportunities for both individual and institutional investors, balancing long-term capital investments and short-term speculative ventures. Protecting the interests of investors stands as paramount, aligning with the growth and management of the stock market to entice a substantial influx of both domestic and international investors.

The stock market serves as a transformative mechanism, effectively pooling meager and scattered savings within an economy. Even with limited financial resources, individuals can invest in mutual funds, managed by adept professionals who curate portfolios maximizing returns for unit fund holders. This market, reliant on information, serves as a deterrent to impulsive behavior driven by rumors among small investors, rewarding informed decision-making with favorable returns. This inherent nature of the stock market contributes to poverty reduction within the economy.

The efficacy of the stock market paves the way for widespread participation in a nation's industrialization endeavors, aligning with national plans. It efficiently accumulates modest savings from investors and redistributes returns in the form of dividends and interest, productively utilizing these amassed funds. The global trajectory leans towards capital market-based financial systems, bolstering the financial industry's competitiveness and enhancing corporate financing efficiency. Developed stock

markets enable high-quality enterprises to secure financing through securities rather than relying solely on bank loans, departing from the traditional approach that favored only transparent, high-performing firms (Yartey, 2008).

The stock market is a dynamic force, serving as a vital channel within the economy's capital structure. An analysis of gathered data illuminates Vietnam's stock market evolution, evident in its capitalization, the influx of new products, and the rising count of listed companies. However, this growth is shadowed by pressing challenges: a lack of transparency and sustainability. Remedial suggestions have been proposed to bolster the operational efficiency of Vietnam's stock market in the near future (Vung and Ha, 2023).

The development of financial sectors mirrors a protracted and evolutionary journey. It signifies a nation's economic progress, as a robust financial market thrives alongside substantial income generation and investment prospects. Demirguc-Kunt and Levine (1996) and Mutize (2020) present varied conceptual viewpoints, highlighting the potentially positive, neutral, or even negative impacts of stock market evolution on economic growth. Discrepancies persist regarding the stock market's relative significance in driving economic activities, particularly in developing economies characterized by shallow, limited, and markedly imperfect capital markets, as noted by Ayadi and Williams (2023).

Financial markets assume a pivotal role in a country's economic advancement. Serving as intermediaries, they facilitate the flow of funds from savers to investors. By institutionalizing the mobilization of domestic savings into productive investments, they mitigate capital costs and expedite the nation's economic expansion. Commercial banks function as intermediaries in the credit market, enabling debt financing for investments. Capital markets, focusing on securities like stocks and bonds, cater to long-term financial resource mobilization. They also democratize ownership among the public, redistributing risks and wealth among smaller investors. Consequently, capital markets stimulate increased savings and productive investments.

Efficient capital markets exhibit consistent liquidity, providing an accessible entry and exit platform for investors. However, in developing countries, economic and policy constraints often hinder financial market development. Where capital markets exist,

they are typically rudimentary, with wealth and investments concentrated among a select few. Consequently, these markets remain narrow, limited by scarce investment prospects and low income and savings rates. High inflation further disincentives savings and triggers capital flight. Mayer (1988) contends that stock markets' importance in fostering economic growth is debatable, citing that corporate investments are predominantly funded through means other than equity issuance.

The development of the financial sector undergoes a gradual and evolutionary journey. It stands as a barometer of a nation's economic progress, thriving when substantial income generation and investment opportunities exist. Nestled between India and China, Nepal, a landlocked, mountainous terrain, embarked on its industrial journey by establishing ventures like jute, cement, and sugar factories. Concurrently, the government actively bolstered financial institutions—commercial banks and capital market entities—to support this industrialization push.

An efficient stock market framework should streamline order placement, disseminate information, and ensure swift order execution. Moss and Kenny (1996) observed a 1990s African trend: a pursuit of economic development through stock market establishments. Despite these efforts, the envisaged effectiveness of these markets remains unrealized. Matadeen and Seetanah (2015) note the scarcity of African-focused studies, while Carp (2012) underscores the influence of emerging market stock exchanges on economic growth via liquidity, market capitalization, risk-sharing, and diversification.

Hence, this study aims to assess the potential of selected African countries' securities markets in fostering capital formation through panel data analysis. This evaluation is crucial, considering the superior macro-economic performance linked to well-developed securities markets. Exploring the transmission mechanism between financial development and economic growth, particularly regarding gross fixed capital formation, holds critical significance.

Financial institutions and markets play a pivotal role in the development of any economy, whether it's advanced or emerging. Typically, developed economies boast highly sophisticated financial infrastructures, while their developing counterparts often grapple with underdeveloped markets. As the world transitioned from the fading era of

communist-style economies to the dawn of modern capitalism around the turn of the 20th century, numerous countries witnessed the burgeoning growth of financial markets, Nepal being no exception (Shrestha, 2005).

Certain emerging markets, such as India and China, have successfully attracted substantial foreign investments due to their well-established capital markets. In Nepal, the practice of raising funds through public share issuance dates back to 1937. Despite this historical precedence, the focused enhancement of the securities market didn't become a national priority until later. Nepal's industrial policy spearheaded the institutional development of the security market, culminating in the establishment of the Security Exchange Center in 1976. This entity operated to oversee and regulate both primary and secondary markets for long-term government and corporate securities.

Following years of policy establishment, comprehensive programs were orchestrated to foster the growth and facilitation of various market entities: stock exchanges, issue managers, underwriters, security dealers, stockbrokers, and portfolio managers. These initiatives were aimed at harmonizing the interests of market stakeholders and managing potential conflicts.

The Securities Act of 2063, ratified and published on the 30th of Poush, aimed to modernize securities-related legislation, regulate and oversee the operations of securities markets and the individuals engaged in securities trading, govern the issuance, purchase, sale, and exchange of securities, and cultivate the capital market to mobilize essential capital for the nation's economic development.

The cornerstone legislation governing Nepal's stock market, the Securities Act of 2063, alongside additional directives and circulars, lays down the regulations. It not only established Nepal's stock exchange but also outlined the procedures for obtaining the necessary license to operate within the framework of this Act. Anyone engaging in stock exchange operations, trading, or use of the exchange's name must acquire a valid license from the regulatory board as per the Act's stipulations.

Nepal's market journey commenced in 1976 with the establishment of the Security Exchange Central. This entity evolved into the Security Exchange Central (SEC) in 1984 upon the enactment of the Security Exchange Act. Initially, primarily owned by

the Nepal government, Nepal Rastra Bank, and Nepal Industrial Development Corporation, the SEC's primary role involved bolstering the capital market. It acted as a broker, underwriter, and share issuer, including the sale of government bonds. During 1984-1990, public enterprises dominated listed shares, with a significant portion having some form of government ownership among the 42 listed companies.

A transformative shift toward private sector growth in the capital market emerged in the mid-1980s with the liberalization of the financial sector. Foreign investors entered Nepal's banking sector, spurring growth and diversification in commercial banking services. This led to the emergence of private-sector-based financial institutions, transforming Nepal's financial landscape significantly.

The Finance Company Act amendments in 1992 facilitated the establishment of finance companies engaging in diverse areas such as leasing, housing finance, and hire purchase. These institutions were empowered to undertake capital market functions like share issuance, portfolio management, market making, and custodial services.

The burgeoning financial sector witnessed the inception of the Nepal Stock Exchange, followed by amendments to the Security Exchange Act in 1993. These changes transformed the Security Exchange into the Nepal Stock Exchange, empowering private brokers for securities trading. Simultaneously, the Security Exchange Board was established to oversee regulatory functions and delineate guidelines for private sector market intermediaries.

The economic environment played a pivotal role in steering the healthy growth of Nepal's capital market, influencing its evolving landscape significantly.

Nepal's stock market development is fundamental due to the nation's capital inadequacy, necessitating low-cost funding for its development. The funding required for long and intermediate-term development activities stems from both domestic and international sources at an effectively low cost. The dynamic stock market activities bolster private sector participation in the country's corporations and infrastructure projects, facilitating broad-based economic growth, a necessity in a capital-deficient and underdeveloped country like Nepal.

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1.2 Problem Statement

The advancement of the securities market, particularly the stock market, stands as an imperative for driving the industrial progression of a nation at large. Institutions within the securities market play a pivotal role in channeling funds from surplus entities to those facing deficits, fostering productive investments. This consolidation of resources not only integrates scattered assets but also aligns them with productive sectors, effectively amplifying a country's productive capabilities. However, the lack of comprehensive data, inadequate information, and a dearth of knowledge often subjects general investors to manipulation and exploitation by financial institutions or market intermediaries. Consequently, this renders investment in common stock excessively perilous and prone to high risks.

The prevailing attitude and perception of investors wield significant influence. Irrational decision-making stemming from ignorance, insufficient awareness, and unrestrained greed frequently leads to financial losses. A notable majority of Nepalese investors concentrate their funds on single securities due to their unfamiliarity with portfolio management and the risk-return dynamics of various securities.

The development of Nepal's securities market presents a formidable challenge. Issues such as the absence of professionalism among stock traders, the prevalence of independent buyers and sellers, a shortage of skilled workforce, delays in share management, and the exodus of rational investors collectively hinder the progress of the Nepalese stock market. Moreover, the market's fledgling nature impedes its effectiveness in determining fair stock values.

Addressing these challenges necessitates a conducive environment created by the government. This involves incentivizing capital mobilization, removing obstacles to private sector growth, and fostering law-based operations. Harmonizing divergent Acts and Rules within the market framework is essential, ensuring coherence and complementarity. Additionally, instituting a specialized body with a distinct charter governing the accounting profession helps regulate and uphold professional standards. Members of these institutions are bound by a code of conduct and fundamental principles, ensuring consistent performance within the profession.

Compared to developed stock markets, the Nepalese securities market remains relatively small, characterized by a limited number of brokers and listed companies, low transaction volumes, and a general lack of awareness among investors regarding the intricacies of the market. The market's dynamics are significantly influenced by a select few affluent individuals who wield substantial control. Consequently, other investors often follow their cues and rumors rather than conducting thorough analyses based on available data and information before making investment decisions.

Despite these challenges, the presence of diverse securities in the market provides each investor with the opportunity to select assets that align with their risk tolerance, preferences, and desired rate of return.

Additionally, delving into the correlation between the security market and various macro-environmental factors is crucial.

So this answers the following research question:

- What are the movements NEPSE index has shown during the study period?
- What are the relation between market capitalization, number of listed companies, NEPSE Index, paid-up value, turnover value, and turnover Volume?
- What are the current problems and prospects of stock market in Nepal?

1.3 Objectives of the Study

The main objective of this study is to identify the development and challenges of the Nepalese stock market. The other specific objectives of this study are as follows:

- To examine the movements of NEPSE index in the secondary market.
- To analyze the relation between market capitalization, number of listed companies, NEPSE Index, paid-up value, turnover value, and turnover Volume
- To identify and assess the problems and prospects of stock market.

1.4 Rationale of the Study

The study of the development and challenges of stock market in Nepal has been crucial study as it incorporates the obstacles in the capital market and also presents the sector wise trend of NEPSE. The significance of the study can be pointed out as follows:

- To the general public who are interested and are willing to invest in capital market of Nepal.
- Importance to further researcher.
- It will be important to all other interested parties.
- The study is significant to me (researcher) because it will polish my knowledge and ability.

1.5 Limitations of the Study

Every study has a limitation in itself. The limitations our study are presented below:

- The forthcoming research focuses exclusively on the evolution of Nepal's securities market, emphasizing its core developmental aspects. It deliberately omits discussion on the array of instruments and trading institutions available. Moreover, this study draws upon a blend of primary and secondary data sources.
- Limitations stem from the secondary data due to inherent reporting errors. Additionally, primary data collection faces challenges, where respondents might not always feel inclined to provide precise opinions. Furthermore, incomplete responses from respondents have been noted in some returned questionnaires.
- This study will be based on 10 year’s period from 2068/69 to 2077/78

CHAPTER-II

LITERATURE REVIEW

Literature review is an overview of previously published studies that discusses and reviews the subject matter. It is a process of systematic and critical summary of the literature published in the related field of research. It is the summary of the broad contents of the research articles or studies. It also indicates any linkages with any other related studies in the concerned field. There are two types of literature review i.e. theoretical review and empirical review both of which has been conducted under this chapter as follows:

2.1 Theoretical Review

Theoretical review examines the various concepts and theories that give insight for the research. The following segment outlines the various theories pertaining to the development of capital markets. Specifically, six fundamental theories are discussed: The Calderon-Rosell theory, Efficient Markets Theory (EMT), Capital Asset Pricing Theory, Capital Market Theory, Inter-temporal Capital Asset Pricing Model (ICAPM), and Markowitz Pricing Theory (MPT). Similarly, several theories expound upon the growth and obstacles within the security market, a selection of which is provided below:

Capital Asset Pricing Theory

Contemporary academic finance revolves around the foundational belief in market rationality, epitomized by the Capital Asset Pricing Model (CAPM). Crafted by Sharpe (1964) and Lintner (1965), the CAPM is the cornerstone of asset pricing theory, earning Sharpe a Nobel Prize in 1990. This model's appeal lies in its robust framework, seamlessly intertwining risk assessment with expected returns. It not only evaluates specific security risks but also delineates the intricate risk-return relationship in investments. Despite its allure as an equilibrium model owing to its simplicity and profound implications, skepticism about its validity has spurred the development of alternative frameworks. Among these is the Arbitrage Pricing Theory (APT), which accommodates diverse risk sources. While the CAPM boasts a logical foundation, its reliance on certain unrealistic assumptions has catalyzed proposals for extensions that relax these constraints (Black, 1972). It's crucial to recognize that even with extensive diversification, absolute risk elimination remains an elusive feat.

Fishers Theory

The short-term interest rate fluctuates mainly due to shifts in the expected inflation rate. Assuming the market agents' expectations regarding inflation are reasonably accurate, alterations in inflation rates become a primary driver for interest rate changes. This concept is expressed as r=i-p, where 'r' stands for the real interest rate, 'I' signifies the nominal interest rate, and 'p' represents the inflation rate (Mishkin, 2010). Fisher's theory, named after the economist Fisher (1930), is widely recognized and forms the foundation for the standard recommendation on real interest rates. It posits that competitive financial markets would set nominal interest rates on deposits to remain positive in real terms. This is because savers must be incentivized to hold financial assets instead of real assets, with real assets generally growing in nominal terms at the inflation rate. Accordingly, the nominal interest rate should equal the anticipated inflation rate plus a minor underlying real rate. As a result, lending rates, built upon deposit costs plus a small margin covering various expenses, such as intermediation costs, reserve requirements, taxes, and risk, would also remain positive in real terms. Hence, many economists advocate for maintaining low inflation to keep nominal interest rates at a lower level. The primary criticism of Fisher's theory lies in its limitation, focusing solely on the analysis of capital markets and operating under the assumption that prices of goods and services are already established (Mishkin, 2010).

Efficient Market Theory (EMT)

The Efficient Markets Theory (EMT) is a cornerstone guiding the progression of capital markets. Fama first introduced this theory in 1965, a concept later supported by Ewahetal (2009) and Hodnett and Hsieh (2012). At its core, the theory suggests that the price of an asset embodies all pertinent available information concerning its intrinsic value—the current worth of expected cash flows the security holder anticipates. Yet, despite this notion, the existence of undervalued and overvalued stocks tantalizes investors with prospects of profit, compelling them to trade and consequently adjusting stock prices towards anticipated future cash flow values.

Fama E. (1991) further emphasized that market efficiency isn't a simple on-off switch but exists on a spectrum. This spectrum hinges on transaction costs within a market, encompassing expenses related to information acquisition and trading. Lower costs

indicate higher efficiency levels. The efficacy of stock prices in conveying information holds importance in two primary aspects. Firstly, investors contemplate various trading strategies that could potentially outperform the market. Secondly, if stock prices indeed encapsulate all information, fresh investment capital naturally flows toward its most advantageous use, thereby nurturing capital market growth. Furthermore, the author delineated three distinct forms of market efficiency—weak, semi-strong, and strong—each capable of nullifying consistent outperformance possibilities by specific groups leveraging certain information in their trading pursuits.

Nevertheless, within the confines of efficient capital markets, it is assumed that all investors display risk aversion and exhibit complete rationality in their decision-making processes.

Calderon-Rosell Theory

In 1991, Calderon-Rossell pioneered a model delving into the core catalysts propelling capital market development (CMD). This model represents a watershed endeavor in establishing the foundational principles of financial theory within CMD. It accentuates stock market liquidity and economic growth as pivotal benchmarks within its framework. Subsequently, Yartey, in 2008, adapted Calderon-Rossell's model, broadening its scope to encompass a spectrum of additional factors shaping capital market development. These determinants are segregated into two distinct categories: macroeconomic factors and institutional variables. The former encompasses an array of elements such as savings, income levels, evolution of the banking sector, private capital flows, investment, stock market liquidity, and macroeconomic stability. Conversely, institutional variables encapsulate corruption, law enforcement, democratic accountability, and bureaucratic quality.

Capital Market Theory

Capital market theory emerged subsequent to the inception of modern portfolio theory, which was pioneered by Markowitz. It focused on the ramifications of integrating a risk-free asset within investment strategies. Although Sharpe is commonly credited with the creation of the CAPM, Lintner and Mossin independently devised akin models during the mid-1960s. The foundational assumptions of Capital Market Theory encompass the belief that all investors exhibit Markowitz efficiency, shaping their

investment choices based on expected returns and associated risks. Additionally, it assumes that investors can partake in borrowing or lending at a risk-free interest rate, and that all investors hold congruent expectations regarding returns. This theory functions as a structural basis for valuing diverse assets, particularly equities, and establishes the context in which securities analysis is executed. Capital market theory takes a positive stance by theorizing on investor behavior, deviating from the normative nature of modern portfolio theory (MPT), which outlines how investors should ideally act.

Inter-temporal Capital Asset Pricing Model (ICAPM)

The The CAPM functions within a single-period scope, overlooking the dynamic nature of market engagement over time. Merton's (1973) inter-temporal capital asset pricing model (ICAPM) was devised specifically to encompass this multi-period dimension inherent in financial market equilibrium. In contrast to the CAPM, the ICAPM framework acknowledges the likelihood of shifts in the investment landscape over time and the investors' inclination to safeguard against adverse alterations in available investment options. Should a particular security exhibit a tendency to yield high returns during unfavorable shifts in the investment array, investors seek to retain this security as a protective measure. This amplified demand consequently drives up the equilibrium price for the security, assuming all other factors remain constant. A pivotal insight of the ICAPM lies in the imperative to incorporate this hedging demand within the asset pricing equation.

Markowitz Pricing Theory (MPT)

The foundation of capital market theory rests upon Markowitz's portfolio theory. To delve into discussions about stock price behavior, one must invariably commence with Markowitz's seminal works from 1952 and 1959. Markowitz's model operates within a single temporal domain, where investors construct portfolios at the outset of the period. Their primary aim is to optimize the anticipated returns of the portfolio while maintaining an acceptable risk threshold (or minimizing risk while attaining a satisfactory expected return). This model's essence lies in a singular timeframe assumption, coupled with considerations about an investor's risk tolerance, thereby enabling risk assessment through the variance (or standard deviation) of the portfolio's returns.

Expanding upon Markowitz's groundwork, Sharpe (1964), Lintner (1965), and Mossin (1966) independently formulated what is now recognized as the Capital Asset Pricing Model (CAPM). This model posits that investors apply the principles outlined by Markowitz when crafting their portfolios. Consequently, capital market theory encompasses a series of forecasts pertaining to the equilibrium anticipated returns on precarious assets. Typically, these predictions are derived by employing simplifying assumptions, which aid in dissecting the analysis and fostering comprehension without fundamentally altering the principles underlying asset theory.

2.2 Review of Empirical Studies

An empirical literature review, also known as a systematic literature review, analyzes previous empirical studies in order to provide an answer to a specific research topic. Rather than drawing information from theories or beliefs, empirical research relies on observations and measurements to arrive at conclusions.

Table 1.

Review of Empirical Studies

Period from 2014 to 2022

Date	Article	Writers	Objectives	Methodology	Findings
2022	The Prospect and Challenges of Establishing Stock Market in Ethiopia	Waktola, M., & Biazin, H.	1. Uncover the tripartite foundational factors—institutional, macroeconomic, and policy dimensions—essential for initiating a stock market in Ethiopia. 2. Scrutinize prevailing institutional frameworks and policies to evaluate their efficacy in fostering a robust and operational stock market in Ethiopia. 3. Assess the pivotal role played by institutional components, including legal frameworks, trade regulations, establishment of a regulatory body for the stock market, growth of financial intermediaries, educational	Qualitative and quantitative methods, Collection of primary data, Key informant interviews	1. The stock market's complexity is pivotal in fostering financial sector development and a nation's economic progress. 2. Despite strong governmental aspirations, weak institutional and policy arrangements hinder the establishment of a strong, functional stock market in Ethiopia.

			initiatives, private sector enhancements, market infrastructure, and corporate governance in Ethiopia's stock market development.		
2022	Institutional improvements and savings rate in developing countries: evidence from Nepal and Tanzania	A Aryal	1. Emphasize the necessity of institutional improvements and increased savings rates in developing countries, highlighting the role of proper regulations in incentivizing savings.	theoretical analysis	1. Enhancing capital and securities markets can counteract low savings rates and address capital outflow issues, contributing to economic growth in developing nations.
2021	The effect of stock market liberalization on technological innovation	Moshirian, F., Tian, X., Zhang, B., & Zhang, W.	1. Investigate the impact of stock market liberalization on technological innovation. 2. Identify and analyze the channels through which stock market liberalization promotes innovation. 3. Examine the relationship among stock market liberalization, innovation, and productivity growth. 4. Offer novel insights into the real effects of stock market liberalization on productivity growth and the economy.	Conduct a quantitative analysis Use statistical methods	1. Stock market liberalization boosts innovation output in economies. 2. Relaxation of financial constraints facilitates innovation post stock market liberalization. 3. Improved risk sharing between domestic and foreign investors promotes innovation following stock market liberalization.
2021	Stock Market Development examines the possible long-run and short-run impact of regulatory quality on stock market performance in Nigeria	Fisayo Fagbemi, Opeoluwa Adeniyi Adeosun and Kehinde Mary Bello	1. Explore regulatory quality's impact on Nigerian stock market performance (1996-2019). 2. Investigate the regulatory quality-stock market performance relationship. 3. Assess regulatory quality's positive influence on the Nigerian stock market.	comprehensive analysis quantitative research methods regression analysis	1. Regulatory quality significantly boosts Nigeria's stock market performance. 2. Market-enhancing governance improves stock market outcomes. 3. Regulatory environment quality is pivotal for stock market efficiency.

2020	Stock Market Capitalization and Economic Growth of Nigeria and South Africa	Osakwe, Charity Ifunanya, Ogbonna, Kelechukwu Stanley; Obi-Nwosu, Victoria Ogochukwu	1. Examine capital market growth in Nigeria and South Africa. 2. Analyze market capitalization ratio to GDP's link with economic growth. 3. Determine market capitalization's significance for both economies.	time series OLS regression as the primary analytical method	1. South Africa shows a positive link between market capitalization and economic growth. 2. In Nigeria, market capitalization's link to GDP growth is insignificant.
2020	Macroeconomic Determinants of Stock Market Prices in Nepal	Panta B	1. Study Nepal's macroeconomic influences on stock prices. 2. Assess real GDP, money supply, interest rate impact on NEPSE index.	Simple Linear	1. Nepalese stock market reacts significantly to macro variables in the long run. 2. Changes in real GDP, money supply, interest rate affect Nepal's stock prices.
2019	Stock Market development and economic growth in BRICS	G OsaserIo Osamwonyii,	1. Explore stock market-economic growth ties in BRICS nations. 2. Analyze 1994Q1 to 2015Q4 World Bank data for insights. 3. Determine stock market's impact on economic growth. .	Regression and correlation analysis	1. BRICS countries' economic growth is significantly influenced by stock market development. 2. Positive correlation exists between stock market development indicators and BRICS' economic growth.
2019	Back propagation neural network based big data analytics for a stock market challenge	V. P. Ramesh, Priyanga Baskaran, Aarthika Krishnamoorthy, Divya Damodar	1. Present back propagation neural network methodology for stock return prediction. 2. Explain data preparation from unstructured sources and associated challenges.	multi-linear regression model,	1. Proposed neural network effectively predicts intraday stock returns. 2. Methodology involves preparing unstructured data and addressing

		an, and Preethi Sadasiva m	3. Validate back propagation neural network's stock return prediction.		algorithm-specific challenges.
2019	The relationship between stock market index and four macroeconomic variables in Nepal.	Devkota, S. R., & Dhungana, S.	1. Establish relationship between Nepal's stock market index and macro variables. 2. Investigate long-run ties between macro factors and Nepal's stock market.	ARDL bound test approach	1. Macro variables sustain a lasting impact on Nepal's stock market performance.
2018	The interplay between the stock market and the real economy in the various channels through which financial markets drive economic growth.	L Pan, V Mishra	1. Probe short-run stock market-real economy dynamics in China. 2. Assess stock market liquidity and sectoral indices' roles. 3. Examine state-owned monopolies' impact on China's short-run economy.	Descriptive analysis	1. Shanghai A share market exhibits a small, long-run negative tie to China's real sector. 2. Negative correlation suggests irrational prosperity and a market bubble.
2017	The Development of China's Stock Market and Stakes for the Global Economy	Carpenter, J. N., & Whitelaw, R. F.	1. Investigate stock market's potential for capital efficiency in China. 2. Explore stock market's role in global diversification and financial stability.	multi-linear regression model,	1. Emphasizes ongoing research to support China's economic growth and capital efficiency.
2017	Macroeconomic determinants of stock prices in Nepal	Gaire, K. B.	1. Establish long-run ties between NEPSE index, interest rates, and gold prices. 2. Examine causality between NEPSE index and short-term interest rates.	Descriptive analysis	1. Nepal's stock price sensitivity to short-term interest rates indicates a significant relationship.

2016	An Empirical Analysis Of Stock Market Development and Economic Growth: The Case Of Macedonia	Darko Lazarov, Emilija Miteva-Kacarski, Krume Nikoloski	1. Examine stock market's impact on Macedonia's economic growth. 2. Highlight challenges faced by Macedonia's stock market.	regression models	1. Macedonian stock market faces development challenges requiring legal and institutional harmonization.
2015	Challenges facing the Dar-es-Salaam stock exchange market in Tanzania.	Massele, J., Darroux, C., Jonathani , H., & Xu, F	1. Assess obstacles hindering efficiency and growth in Tanzania's stock exchange	Expert interviews or surveys: Comparative analysis	1. Emerging market stock exchanges contribute to economic growth and financial sector development.
2014	Determinants of Market Price of Shares: A Study on Nepalese Commercial Banks	Pradhan and Dahal	1. Investigate share price influences in Nepalese commercial banks. 2. Analyze bank-specific and macroeconomic variables' effect on share prices.	statistical analysis Hypothesis Testing	1. There are various factors that affect the share price in developing countries. 2. The study investigates the relationship between share price, bank-specific variables, and micro-economic variables in selected Nepalese commercial banks. 3. The stock price in the market is dynamic and changes daily, influenced by demand and supply factors.

International Context

Waktola1 and Biazin (2022) delved into The Prospect and Challenges of Establishing Stock Market in Ethiopia, highlighting the intricate nature of the stock market. Its pivotal role in fostering not just financial sector growth but also national economic advancement cannot be overstated. The study diligently scrutinized three fundamental

determinants—institutional, macroeconomic, and policy aspects—vital for Ethiopia's stock market establishment.

The research adopted a diverse methodology, encompassing an extensive literature review, analysis of governmental policies and strategies, gathering pertinent primary data, and conducting key informant interviews with senior officials across various organizations. The results underscore a fervent governmental ambition but underscore weak institutional frameworks and policy structures essential for robust and operational stock markets in Ethiopia.

Consequently, the study advocates for meticulous consideration by policymakers, emphasizing critical institutional facets like legal frameworks, the establishment of regulatory bodies for market oversight, nurturing financial intermediaries, fostering education and awareness, stimulating private sector growth, bolstering market infrastructure, and enhancing fledgling corporate governance norms.

Regarding macroeconomic factors, Ethiopia's substantial economic strides over the past two decades present a promising landscape for initiating and sustaining a stock market. Encouraging private sector involvement necessitates careful deliberation on pivotal monetary and fiscal policy components, including taxation and interest rate policies.

Reflecting on Ethiopia's historical context, the stock market existed during the Imperial era in the 1960s. However, the Derg regime's command economy policies centralized all economic activities, stymieing the free market. Post-1991, despite economic policy amendments and reforms, financial liberalization remained a contentious issue, with the stock market emblematic of this transformation. Its establishment demands an intricate evaluation of multifaceted and heavily regulated investment avenues, encompassing institutional, macroeconomic, and policy considerations—this forms the crux of this study's exploration.

Moshirian, Tian, Zhang and Zhang (2021) - Journal of Financial Economics findings revealed an upsurge in innovation output within economies following liberalization. This surge was attributed to three key factors: the easing of financial constraints, improved risk-sharing between domestic and international investors, and advancements in corporate governance. Their research delineated how stock market liberalization catalyzes innovation, thereby influencing productivity growth and subsequently,

economic advancement. Through their paper, fresh perspectives emerged on the tangible repercussions of stock market liberalization on both productivity and the broader economy.

Fagbemi, Adeosun and Bello (2021)-Stock Market Development examines the focus lay on assessing the enduring and immediate effects of regulatory quality on Nigeria's stock market performance spanning from 1996 to 2019. Their discoveries indicate a clear and significant positive correlation between regulatory quality and stock market performance. This underscores the belief that governance aimed at bolstering the market can indeed lead to an enhancement in stock market outcomes. Moreover, the study emphasizes that the regulatory environment's quality plays a pivotal role in market operations. The betterment of stock market performance hinges upon apt policy measures, a direct consequence of improved governance.

The study highlights the challenge faced by regulators in improving the institutional environment. It stresses the necessity for robust and efficient regulatory mechanisms to foster the country's stock market development. Prior research had not fully delved into the role of regulatory quality in Nigeria's stock market performance, thus leaving a gap in understanding. This study fills that void by substantiating the impact of regulatory quality on stock market development, addressing the competing hypotheses and the scant attention given in earlier studies.

Osakwe, Ogbonna and Obi-nwosu (2020)- conducted an analysis investigating the impact of stock market capitalization on the economic growth of Nigeria and South Africa from 2000 to 2018. During this period, they observed significant strides in the performance indicators of the capital markets of both nations, indicating a potential transformation in their respective economies. Utilizing time series OLS regression, the study scrutinized the data and identified a positive correlation between the market capitalization ratio to GDP and economic growth in South Africa. However, this relationship appeared insignificant for Nigeria. Consequently, while economic growth seems tied to the size of both countries' capital markets, South Africa's market size exhibited a stronger association with economic growth compared to Nigeria's. To bolster economic growth in both countries, the study advocates for an expansion in

market size by diversifying available financial instruments. This strategy aims to attract more investors, foster increased trading activity, and enhance overall market liquidity.

Osaseri and Osamwonyi (2019) delved into the relationship between Stock Market development and economic growth within BRICS. They gathered quarterly time series data spanning from 1994QI to 2015Q4 from the World Bank Indicator. Employing Panel Least Squares using fixed effect estimation, the study aimed to unveil how stock market development influences the economic growth of BRICS. To ensure the reliability and consistency of their regression results, diagnostic tests were diligently conducted. The outcomes underscored the significant impact of stock market development on economic growth, highlighting a positive correlation between stock market development indicators and the economic growth of BRICS. The study strongly recommends a focused approach by governments to address the weaknesses within each BRICS member country, swiftly implementing strategies to fortify these aspects for sustainable growth.

Ramesh, Baskaran, Krishnamoorthy, Damodaran, and Sadasivam (2019) introduced a revolutionary approach in their study, delving into the intricate realm of stock market prediction through the lens of back propagation neural networks and big data analytics. The focal point was the exploration of methodologies to tackle the challenge of forecasting intraday stock returns. Their comprehensive methodology encompassed data preparation from unstructured sources, highlighting the hurdles encountered while employing the back propagation neural network algorithm. These obstacles encompassed critical decisions like activation function selection, learning rate determination, and optimizing the hidden layer's neuron count.

The study also scrutinized the validation process, showcasing the efficacy of the back propagation neural network model in predicting stock returns. Notably, their algorithm achieved an impressive maximum absolute error of $6\times10-4$, indicating close proximity between predicted and actual values. The step-by-step demonstration of utilizing the back propagation algorithm to conquer the stock market challenge was a pivotal aspect of their article.

Furthermore, the authors hinted at the potential enhancement of results in a parallel computing environment, suggesting a promising avenue for future exploration. Additionally, their comparative analysis with a multi-linear regression model

underscored the superiority of the back propagation-based approach, especially in handling such complex predictions.

Pan and Mishra's (2018) exploration delved into the intricate relationship between the stock market and the tangible economy, scrutinizing the diverse channels through which financial markets propel economic expansion. This investigation hones in on delineating the impact of this correlation on China's economy, a powerhouse marked as the globe's fastest-growing and most substantial emerging market. The research findings unveil an enduring inverse link between the Shanghai A share market and the real economic domain. Nonetheless, the magnitude of this influence remains marginal. These revelations serve as a testament to the purported existence of irrational exuberance within the stock market and the presence of an economic bubble within China's financial sphere. Interestingly, no conclusive evidence emerged demonstrating a direct connection between the stock market and the real economy in the short term. Moreover, the equally weighted index exposes stock market liquidity and sectoral indices as viable alternate gauges of stock market dynamics. Crucially, these outcomes hold strong against alternative metrics of stock market activities. The study also underscores the pivotal role played by state-owned monopolies in China's economic performance, particularly in their ability to invigorate short-term economic growth.
Carpenter and Whitelaw's (2017) work, "The Development of China’s Stock Market and Stakes for the Global Economy," delves into the burgeoning growth of China’s stock market, fueling a surge in financial economics literature. Corporate evaluations have tracked China’s privatization stages, scrutinized biases in firm listing selection, and unveiled substantial underpricing in initial public offerings. On the asset pricing front, analysis has focused on domestic A shares’ premium over their foreign counterparts, delved into firm-specific information embedded in prices, unearthed fresh evidence on informational and behavioral price effects, and begun recognizing systematic cross-sectional return patterns. As China's market gains global sway and reforms usher in new dynamics, there's a trove of untapped research prospects. However, navigating China's unique financial system and refraining from uncritically applying US-based research paradigms pose challenges. Exploring China’s evolving stock market remains a compelling frontier for both domestic and global economic perspectives. The pivotal role of this market in propelling China’s future economic growth stands as a crucial inquiry amid the country's pivotal transition from a state-

controlled, investment-centric economy to a market-driven, consumption-oriented one. Simultaneously, China’s strides toward integration into global financial markets, epitomized by the MSCI indexes' debate on including Chinese A shares, underscore its critical juncture. The evolution of the broader financial system and specifically the stock market holds key sway over these transitions. Central questions revolve around whether the stock market can enhance capital allocation efficiency and foster financial stability, as well as whether it can facilitate global diversification, enabling better risk distribution and potentially reducing capital costs for Chinese enterprises. Addressing these queries through research takes precedence.

Lazarov, Miteva-Kacarski, and Nikolosk (2016)- An Emperical Analysis Of Stock Market Development and Economic Growth: The Case of Maedonia dual objectives were pursued. The primary aim revolved around scrutinizing the impact of stock market evolution on economic progress across 14 transitioning economies in the Central and South-East European (CSEE) region during the 2002-2012 timeframe. Simultaneously, the secondary goal centered on dissecting the distinctive traits and specificities characterizing the stock market in the Republic of Macedonia. To address the former, panel regression models (fixed and random effects) and a dynamic panel model (Generalized Method of Moments – GMM) were employed, while the latter was approached through a single-country lens and a comparative analytical framework delving into the Macedonian stock market's nuances.

The findings of the analysis point towards a positive and statistically significant correlation between stock market development and economic growth. Additionally, the comparative examination of the Macedonian stock market underscores its existing underdevelopment and the array of challenges it confronts before traversing into a new phase of growth post the adverse repercussions of the global financial crisis. These challenges encompass endeavors related to regional integration within the capital market, along with the imperative need for harmonizing legal and institutional frameworks. Key areas of focus include the streamlining of bankruptcy procedures, adherence to standardized accounting and reporting norms, fortifying public sector regulatory bodies, reinforcing corporate governance standards, and fostering a liberalized trade regime.

This study sought to explore the ramifications of stock market evolution within the financial system on economic growth within a cohort of 14 transitioning CSEE countries during the 2002-2012 periods. Methodologically, a dynamic panel econometric (system GMM) estimator was employed to mitigate prevalent issues observed in previous studies exploring the finance-growth nexus, such as indigeneity and omitted variable bias stemming from unobserved country-specific effects. As a corroborative measure, panel fixed and random models were also utilized. The outcomes derived from the study not only affirm a positive correlation between stock market development and economic growth but also highlight that this association isn't influenced by potential biases like omitted variables, simultaneity, or reverse causation. Moreover, most of the findings concerning determinants of growth, including net inflows of foreign direct investment and the degree of trade openness, align with the principal discoveries of earlier empirical studies. However, notably, banking sector development did not emerge as a significant growth determinant within our models, contrary to the outcomes of prior research.

Massele et al. (2015) conducted an analysis spanning three decades, highlighting how stock exchanges in emerging markets played a pivotal role in fostering economic growth, driving revolutionary changes, and expediting the development of the financial sector. The current landscape boasts over 20 stock exchange markets across Africa, forming a cornerstone in the domestic financial liberalization endeavors of numerous African nations. However, despite the establishment of these markets in Eastern and Sub-Saharan regions, persistent challenges obstruct their sustainable advancement. Among these emerging markets, the Dar-es-Salaam Stock Exchange (DSE) in Tanzania stands as a prime example, grappling with hurdles that impede its efficiency, sustainable expansion, and overall development.

National Context

Aryal (2022) it was highlighted that the enhancement of institutions is imperative for the progression of developing nations, coinciding with the augmentation of their savings rate. The challenge lies in the execution of appropriate regulations to steer individuals toward a beneficial savings trajectory. However, with adept regulations in place, governments possess the capacity to incentivize citizens towards prudent saving practices. Both Nepal and Tanzania have witnessed a significant impact on their saving

and growth rates due to the repercussions of COVID. In the current global economic climate, the paramount objective is to foster growth and avert recessionary pitfalls. This presents a contrasting trend where capital is flowing from economically challenged nations to wealthier counterparts. Addressing the predicament, the solution seems to rest in bolstering the capital and securities market to counterbalance the decline in savings and the outward flow of capital in developing countries.

Panta's research in 2020 delved into the nexus between Macroeconomic Determinants and Stock Market Prices in Nepal. Utilizing time series data spanning from 1994 to 2019, the study implemented an ARDL model. This model involved a straightforward linear transformation, encompassing the NEPSE index as the dependent variable and real GDP, money supply, interest rate, inflation, and exchange rate as the independent variables. The findings of the investigation highlighted a robust influence of macroeconomic factors on the Nepalese stock market over the long term.

Devkota and Dhungana (2019) conducted an investigation exploring the correlation between the stock market index and four key macroeconomic factors within Nepal. Their research encompassed a time span of 24 years, from 1994 to 2018, analyzing time series data. Utilizing the ARDL bound test approach, the study asserted a sustained connection between macroeconomic variables and Nepal's stock market. Notably, they posited that the influx of money supply yields a positive impact, while interest rates exhibit a negative effect. Conversely, the study found that gold prices and exchange rates do not exert any significant influence on Nepal's stock market. Ultimately, the research concluded that due to the absence of derivative instruments, Nepal's stock market remains volatile, lacking alternative investment avenues for stakeholders.

Gaire's (2017) research delved into Nepal's financial landscape, exploring the interconnectedness of the NEPSE index, short-term interest rates, and gold prices. Spanning from Jan- 15, 2006, to Jan-2016, the study rigorously applied unit root tests and co-integration assessments. Notably, it unearthed a one-way causal relationship between the NEPSE index and short-term interest rates. Ultimately, the findings underscored the significant sensitivity of Nepal's stock prices to fluctuations in short-term interest rates.

Pradhan and Dahal (2014) extensively surveyed the vast body of research dedicated to studying the intricate factors impacting share prices in developing nations. This inquiry specifically delves into the complex interplay among share prices, unique banking factors, and microeconomic variables within selected Nepalese commercial banks. The volatility of market stock prices, driven chiefly by the fluctuations in supply and demand, remains an ever-evolving aspect. Both micro and macroeconomic influences hold significant sway over the pricing dynamics of any commodity. This study focuses on closely examining the relationship between bank-specific and macroeconomic variables and the Market Price of Shares (MPS) within Nepal's banking sector. Its primary goal is to uncover how elements like earnings per share, dividend per share, price-earnings ratio, book value per share, return on assets, size, gross domestic product, inflation, and money supply impact MPS. By establishing the foundational theory, this research asserts that MPS relies on a spectrum of bank-specific and macroeconomic components, encompassing earnings per share, dividend per share, price-earnings ratio, book value per share, return on assets, size, gross domestic product, inflation, and money supply.

2.3 Research Gap

The present body of literature falls short in adequately addressing the intricate dynamics encompassing Nepal's stock market evolution and challenges. Despite an array of global stock market studies, there exists a conspicuous gap in comprehensive research that zeroes in on Nepal's market idiosyncrasies, hampering a nuanced comprehension of its growth path and obstacles. This study endeavors to bridge this critical void by delving into the multifaceted landscape of Nepal's securities market, scrutinizing its evolution, and elucidating the hurdles it faces. By scrutinizing the movements of the NEPSE index and probing the correlations among market metrics such as capitalization, listed companies, NEPSE Index, paid-up value, turnover value, and turnover volume, this research aspires to furnish valuable insights into Nepal's stock market dynamics. Furthermore, by pinpointing and assessing the prevailing issues and potential prospects

inherent in Nepal's stock market, this study aspires to provide a comprehensive understanding that could benefit a wide spectrum of stakeholders, including scholars, policymakers, students, businesses, and governmental bodies. This research's multifaceted approach aims to make a significant contribution to academia while furnishing actionable insights from a policy standpoint, thereby fostering well-informed decision-making and potentially paving the way for bolstered market sustainability and growth in Nepal.

Hence, this study holds promise for individuals, entities, scholars, educators, learners, entrepreneurs, and governing bodies, catering to both academic inquiry and policy deliberation.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Design

This research bases its findings on information gathered from secondary sources, employing a research methodology that combines descriptive and analytical approaches. The study encompasses various variables related to company performance, market insights, and pertinent concepts, contributing valuable insights.

As a result, this study holds promise for a diverse audience including interested individuals, stakeholders, scholars, professors, students, entrepreneurs, and governmental bodies. Its significance spans academic exploration and policy considerations, catering to a broad spectrum of interests.

3.2 Population and Sample and Sampling Design

A research or experiment involves a defined grouping of akin elements, known as a population. In this investigation, diverse sources such as SEBON and NEPSE websites alongside reports from analogous institutions constitute our pool of secondary data.

Spanning a decade from the fiscal year 2068/69 to 2077/78, our study draws its data from NEPSE and SEBON. The analysis within this study is rooted in the information gathered over this ten-year timeframe.

3.3 Nature and Sources of Data and the Instruments of Data Collection

Secondary data, sourced from previously published materials and research, form a cornerstone of our study. We've meticulously gathered this secondary data from diverse outlets, including annual reports from SEBON and publications such as those from NEPSE. Additionally, we've delved into reports issued by Nepal Rastra Bank, the Economic Survey from the Ministry of Finance, and other relevant sources. Our primary wellspring of information stems from SEBON's annual report. Complementing this, we've considered bulletins, pertinent stock market websites, and related resources crucial to our research, underscoring our reliance on secondary data.

Our study hinges on secondary data, specifically information already published. The lion's share of this data has been sourced from SEBON's annual report, supplemented by various literary sources like library books, periodicals, newspaper clippings, and corporate publications. Moreover, we've tapped into unpublished theses and research closely aligned with the financial metrics of the stock market. Chapter IV's pivotal data, drawn from internet resources such as www.nepalstock.com.np, www.sebon.com.np, www.mof.gov.np, and www.nrb.org.np, further enriches our analysis.

Raw data, devoid of inference, relies on organized presentation to yield meaningful conclusions. Data processing techniques, therefore, assume paramount importance in research endeavors. Researchers must judiciously select processing techniques aligned with the data's nature and the study's objectives. Crucially, the processed information should be comprehensible to both the general public and report users. To facilitate this, we've represented collected data through visual aids, harnessing computer tools like Microsoft Excel, IBM SPSS, and calculators for precise computation.

3.4 Methods of Analysis

Analyzing data involves a series of systematic steps—inspection, modeling, processing, cleansing, and transformation—to distill raw information into insightful, conclusive findings. This intricate process entails a meticulous examination of gathered data, enabling the derivation of informed conclusions through established principles and logical reasoning (Cottle et al: 1988). Post data collection, analysis becomes imperative as raw data from diverse sources often necessitates refinement before practical utilization. This involves verification and simplification to facilitate meaningful analysis. Our study involves a structured classification and tabulation of collected data, organizing it in alignment with its inherent characteristics. Through segregation and integration, the data assumes the required format for comprehensive analysis. The utilization of statistical tools and techniques in this phase empowers the elucidation of research findings and facilitates the derivation of conclusions. The application of these tools ensures the implicit presentation of comparative results, as delineated below:

Pie-diagram

Pie-diagram is a pictorial representation of data. It is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. It

visually reflects the data in a circular graph. All the given data are converted into 360 degrees as the angel of a circle is 360 degrees and all components of the data are presented in terms of angels that total 360 degrees for one set of data.

- In order to calculate the percentage of the given data, we use the formula:
  (Frequency ÷ Total Frequency) × 100
- Then to convert the data into degrees we use the formula:
  (Given Data ÷ Total value of Data) × 360°

Percentage

Percentage is a number of ratio that is expressed in fraction of 100. It is one of the most useful tools. It is mainly used for the comparison of two quantities or variables. In simple words, the word percentage means per hundred. The fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

Trend Analysis:

Trend analysis is a technical analysis and accounting analysis of the stocks. It is a form of comparative analysis that is often employed to identify actionable patterns from the given information. It uses the historical data i.e. what has happened in the past and gives trader an idea of what will happen in the future.

For that following equation has been used

$Y= a+bx$

Where, 'Y ' is the dependent variable, 'X' is the independent variable, 'b' is the slope of line and 'a' is the value of Y.

Correlation Co- Efficient:

The correlation coefficient, often represented as 'r', serves as a key tool in assessing the connection between multiple variables. It reveals both the direction and strength of this relationship. Correlation fundamentally explores the interplay between variables, distinguishing one as dependent and the others as independent. It's a statistical approach gauging the degree of association amid these variables, but it doesn't offer insights into

causation. Correlation comes in various forms—simple, partial, and multiple—each shedding light on different aspects. Among these, Pearson's coefficient takes the lead in linear regression, commonly referred to as 'Pearson's coefficient of correlation'. The calculation for this coefficient is as follows:

$$r(x,y) = \frac{\sum (X - \bar{X})\,(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2}\ \sqrt{\sum Y - \bar{Y})^2}}$$

The value of correlation coefficient range between -1 and +1. Following rules are available in interpreting the value of correlation coefficient:

- 1 indicates a strong positive relationship between the variables.
- -1 indicates a strong negative relationship between the variables.
- A result of zero indicates no relationship at all.
- Coefficient between 0 to +1 means positive relation in the same direction.
- Coefficient between 0 to -1 means negative relation in the same direction.

Regression analysis

Regression analysis serves as a tool for uncovering the correlation between a reliant factor and one or multiple autonomous factors. In this investigation, a regression model was employed for scrutinizing the data. Notably, several scholars, including Lazaridis and Trofornidis (2006), Yartey (2008), and Aduda, J. et al (2012), have adopted a similar model. Their exploration delineated a bifurcation into both theoretical and empirical models. The theoretical aspect originated from an extensive literature analysis, establishing the foundation for data compilation and assessment. In this specific inquiry, the theoretical model encompassed crucial components: CMD represented by Y, a constant term $\alpha 0$, predictor coefficients βi (2...4), error term εt for each observation, and independent variable predictors Xi (2...4). Therefore,

Theoretical model is

$Y = \alpha 0 + \beta i Xi + + \varepsilon i$

Where;

Y= Market capitalization (Dependent variable)

$\alpha 0$ = Constant term of the model

βi = Coefficient of slope of regression model

εi = Error Term

Xi; = Turnover value (independent variable)

3.5 Research Framework and Definition of Variables

A research project relies heavily on a conceptual framework to provide a structured comprehension of the interplay among various concepts and variables. In the thesis examining the evolution and hurdles within the Nepalese security market, the conceptual framework aims to pinpoint pivotal factors impacting the market's growth and longevity. Essentially, this framework embodies the anticipated correlations between variables or the traits under examination. These frameworks, whether textual or visual, stem from an in-depth analysis of existing literature on the subject matter. Serving as an analytical aid, they find utility across diverse fields requiring a comprehensive overview, facilitating the distinction of concepts and systematic arrangement of thoughts. Robust conceptual frameworks not only encapsulate tangible elements but also render them memorable and applicable in practice.

In this study it has identified dependent and independent variables which have assisted as a foundation for the entire work. It has been assumed that variables in Stock Market; i.e. dependent and independent variable are Market Capitalization and no of listed company in NEPSE, NEPSE index, Paid-up capital, Market turnover value and Market turnover volume.

The conceptual framework of this thesis about the development and challenges of Nepalese security market aims to identify and analyze the key variables and factors that impact the growth and sustainability of the market. The framework provides a structure for understanding the complex relationships between these variables and can serve as a basis for developing hypotheses and conducting empirical analysis.

Independent Variable Dependent Variable

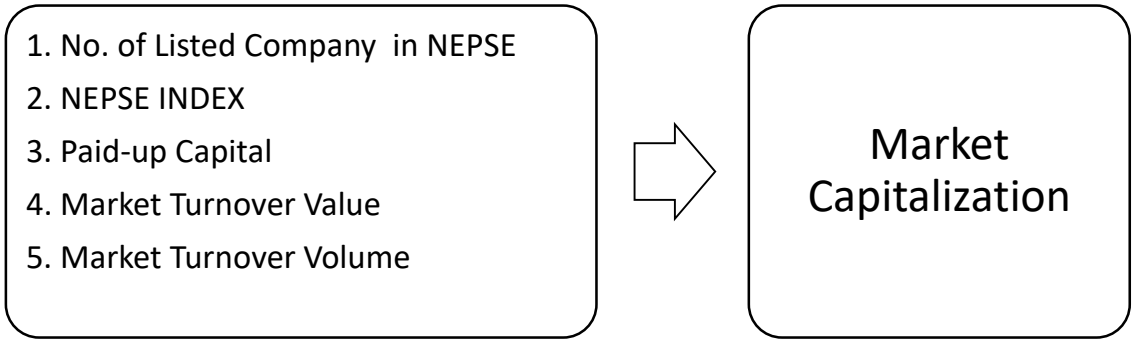

Figure 2.1: Conceptual framework

This figure shows the conceptual framework of the study by showing the dependent and independent variables.

Research variable

Market Capitalization

Market capitalization is the total value of total share of the stock listed in the stock exchange. It is the aggregate valuation of the company based on the current share price and the total number of listed stocks. It is calculated by multiplying the current market price of the company's share with the total outstanding share of the company.

For an instance, if a company issued 1 lakh share of 100 each, its market capitalization is one crore and it changes as per the market price of the share in daily transactions. So it is the open market value. The market cap increases by two reasons, one is due to issuance of new share and the other is due to increment in the price of the stock.

Listed Companies

A listed company means that company who are approved by the NEPSE to trade in its trading floor. All the companies are not worthwhile to enlist. The company which do not attain the set of criteria, are not eligible for listing

NEPSE Index

Nepal Stock Exchange (NEPSE) is the only Stock Exchange licensed in Nepal to operate secondary market for listed securities. NEPSE calculates the index, which is known as NEPSE index. It only covers an equity index. Equity index means index measuring the changes in the aggregate market value of listed equities/stocks.

Paid up Capital

Paid up capital means the total value of share issued and fully subscribed and paid. It is the function of the number of listed securities of traded companies and paid up value per share. Market capitalization is simply a total value of shares.

Market Turnover Value

Turnover value is the monetary term of total transaction. It is the amount of transaction traded on a particular period. It suggests how much money is turned over from the trading of stock. It is computed by multiplying the number of share traded by the market price. It is calculated on a periodic basis. It indicates how much trading activity occurred on a given business day in the market as a whole or individual stock.

Market Turnover Volume

Market turnover volume constitutes an important indicator for reflecting the economic activity of a country. It also reflects the stock market liquidity. Higher amount of trading of stock market size shows the higher stock market liquidity.

CHAPTER - IV

RESULTS AND DISCUSSION

This chapter delves into the thorough examination and presentation of secondary data, employing diverse methodologies outlined in the Research Methodology section. The aim is to fulfill the objectives articulated in the initial chapter by scrutinizing and showcasing the amassed data using the aforementioned methodologies. The presentation and analysis of data stand as a pivotal facet within the realm of research. Within this segment, the study endeavors to substantiate theoretical claims through mathematical computations. The eventual validation of these assertions would undoubtedly confer robustness and significance upon the study. The chapter is dedicated to dissecting and computing data acquired from sources such as NEPSE, Security Board Nepal (SEBON), alongside various literature sources. Its primary goal is to unearth the challenges plaguing the stock market while exploring its potential for future growth in Nepal. Moreover, a suite of pertinent statistical and financial tools has been diligently applied to conduct this analysis.

4.1 Results

4.1.1 Presentation and Analysis of Secondary Data

This segment delves into the exposition and examination of secondary data, which plays a pivotal role in bolstering the evolution of the securities market. The principal aim of this inquiry lies in fostering the growth of Nepal's securities market.

Table: 2

Mean and Standard Deviation of the Research Variables

Variables	Mean	Standard Deviation
Market Capitalization	1,548,552.57	1,019,683.17
Listed Companies	218.80	11.81
NEPSE Index	1,292.37	699.10
Paid up value	286,842.50	160,373.45

Turnover in value	238,056.30	431,795.72
Turnover in volume	570,791.60	1,004,383.76

Source: From Appendix II

Table 2 presents the mean and standard deviation of various research variables related to the market. The mean market capitalization is 1,548,552.57 with a standard deviation of 1,019,683.17, indicating that the average value of the companies listed in the market is relatively high and there is significant variability in their market capitalization. The mean number of listed companies is 218.80 with a standard deviation of 11.81, suggesting that, on average, there are a considerable number of companies listed in the market, and the deviation from this mean is relatively low. The NEPSE Index has a mean value of 1,292.37 and a standard deviation of 699.10, indicating the average performance of the market index and the level of fluctuation in its values. The mean paid-up value is 286,842.50 with a standard deviation of 160,373.45, reflecting the average amount of capital invested in the listed companies and the level of variability in these values. The mean turnover in value is 238,056.30 with a standard deviation of 431,795.72, representing the average trading volume in monetary terms and the extent of variation in the turnover. Lastly, the mean turnover in volume is 570,791.60 with a standard deviation of 1,004,383.76, indicating the average number of shares traded and the degree of dispersion in the trading volume. Overall, the descriptive statistics provided in the table offer insights into the central tendencies and variability of the different market variables, providing a snapshot of the market's characteristics and performance.

Correlation Analysis

The correlation denotes the interconnection of two or more variables, where one relies on another or others are free-standing. Analyzing correlation involves employing statistical methods to gauge the extent of this relationship. It's important to note that correlation analysis doesn't reveal anything regarding cause and effect. Among the correlation types—simple, partial, and multiple—we'll focus solely on simple correlation in this context. The measurement method we'll utilize herein is Pearson's coefficient of correlation.:

Table: 3

Correlations Analysis

		Market Capitalization	No. of Listed Companies	NEPSE INDEX	Paid-up Value	Turnover Value	Turnover Volume
Market Capitalization	Pearson Correlation	1	-.178	.990**	.829**	.913**	.907**
	Sig. (2-tailed)		.622	.000	.003	.000	.000
	N	10	10	10	10	10	10
No. of Listed Companies	Pearson Correlation	-.178	1	-.134	-.494	-.051	-.056
	Sig. (2-tailed)	.622		.712	.147	.889	.879
	N	10	10	10	10	10	10
NEPSE INDEX	Pearson Correlation	.990**	-.134	1	.773**	.873**	.862**
	Sig. (2-tailed)	.000	.712		.009	.001	.001
	N	10	10	10	10	10	10
Paid-up Value	Pearson Correlation	.829**	-.494	.773**	1	.690*	.711*
	Sig. (2-tailed)	.003	.147	.009		.027	.021
	N	10	10	10	10	10	10
Turnover Value	Pearson Correlation	.913**	-.051	.873**	.690*	1	.998**
	Sig. (2-tailed)	.000	.889	.001	.027		.000
	N	10	10	10	10	10	10
Turnover Volume	Pearson Correlation	.907**	-.056	.862**	.711*	.998**	1
	Sig. (2-tailed)	.000	.879	.001	.021	.000	
	N	10	10	10	10	10	10

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

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

The correlation analysis table shows the Pearson correlation coefficients between the variables Market Capitalization, No. of Listed Companies, NEPSE INDEX, Paid-up Value, Turnover Value, and Turnover Volume.

The Pearson correlation coefficient is a statistical measure that measures the strength of a linear relationship between two variables. The coefficient can range from -1 to 1, with -1 indicating a perfect negative correlation, 0 indicating no correlation, and 1 indicating a perfect positive correlation.

Looking at the table, we can see that:

- Market Capitalization has a strong positive correlation with NEPSE INDEX (r = 0.990**), which indicates that as the NEPSE INDEX increases, the Market Capitalization tends to increase as well.
- Market Capitalization also has a strong positive correlation with Turnover Value (r = 0.913**), which indicates that as the Turnover Value increases, the Market Capitalization tends to increase as well.
- No. of Listed Companies has a weak negative correlation with Market Capitalization (r = -0.178), which indicates that as the No. of Listed Companies increases, the Market Capitalization tends to decrease slightly.
- NEPSE INDEX has a strong positive correlation with Paid-up Value (r = 0.773**), which indicates that as the NEPSE INDEX increases, the Paid-up Value tends to increase as well.
- Paid-up Value has a strong positive correlation with Turnover Value (r = 0.690*), which indicates that as the Paid-up Value increases, the Turnover Value tends to increase as well.
- Turnover Value and Turnover Volume have a perfect positive correlation (r = 0.998**), which indicates that as the Turnover Value increases, the Turnover Volume tends to increase as well.

It is also worth noting that some of these correlations are statistically significant at the 0.01 or 0.05 level (indicated by ** and * respectively). This means that the probability of observing such a strong correlation by chance is very low. Therefore, we can conclude that there is a significant relationship between these variables. However, correlation does not imply causation, so we cannot determine the direction of causality between the variables based on these correlations alone.

Regression Analysis

The concept of regression revolves around reverting to an average value, a term coined by Sir Francis Galton back in 1877. There's a contemporary trend among writers favoring the term "estimating line" over "regression line," finding the former more elucidating in its nature.

This study relies on secondary data analysis to evaluate statistical significance and the strength of results. Utilizing the regression model outlined in chapter three, it explores

various specifications of the model to scrutinize the estimated relationship. The resultant regression outcomes are displayed in the tables below.

Regression serves as a measure depicting the average association between multiple variables within the original data units. Furthermore, regression analysis encompasses methods for estimating variable values based on knowledge of other variables, along with assessing the errors in this estimation process.

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Table: 4

Regression Analysis - Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	.999	34152.62420

a. Predictors: (Constant), No. of listed companies, NEPSE Index, Paid up value, Market Turnover Value, Market Turnover Volume

Table 4 Shows, the model summary which shows the results of a multiple linear regression analysis with five predictor variables (No. of listed companies, NEPSE Index, Paid up value, Market Turnover Value, Market Turnover Volume) and a constant term.

The R square value of 1.000 indicates that the model explains 100% of the variance in the dependent variable. This could be an indication of overfitting, where the model is too complex and may not generalize well to new data.

The adjusted R square value of 0.999, which takes into account the number of predictors in the model, is slightly lower than the R square value and suggests that the model may not be significantly improved by adding additional predictors.

The standard error of the estimate (34152.62420) represents the average distance between the actual values and the predicted values of the dependent variable, and indicates the degree of accuracy of the model's predictions.

Table: 5

Regression Analysis - ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9353118230595.514	5	1870623646119.103	1603.756	<.001[b]
	Residual	4665606959.981	4	1166401739.995		
	Total	9357783837555.494	9			

a. Dependent Variable: Market Capitalization

b. Predictors: (Constant), No. of listed companies, NEPSE Index, Paid up value, Market Turnover Value, Market Turnover Volume

Table 5: The ANOVA table of regression analysis shows that the model is significant ($p < .001$), indicating that the independent variables (No. of listed companies, NEPSE Index, paid up value, Market Turnover Value, and Market Turnover Volume) are collectively useful in predicting the dependent variable (Market Capitalization). The regression model explains a significant amount of variance in the dependent variable, as indicated by the large F-value of 1603.756 and R-square value of 1.000, which means that 100% of the variance in Market Capitalization is accounted for by the independent variables.

The regression analysis also shows that the regression line has a good fit to the data, as indicated by the small standard error of the estimate (34152.62420). Additionally, the sum of squares for the regression is much larger than the sum of squares for the residual, indicating that the majority of the variability in the dependent variable is explained by the independent variables.

Overall, these results suggest that the model is a good fit for the data and that the independent variables are important predictors of Market Capitalization.

Table: 6

Regression Analysis - Coefficients

Coefficients[a]					
		Unstandardized Coefficients	Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-525599.889	411314.736		-1.278	.270
	No. of Listed Companies	1656.061	1839.781	.019	.900	.419
	NEPSE INDEX	952.349	77.526	.653	12.284	<.001
	Paid-up Value	1.315	.332	.207	3.956	.017
	Turnover Value	1.606	1.031	.680	1.558	.194
	Turnover Volume	-.488	.435	-.481	-1.122	.325

a. Dependent Variable: Market Capitalization

The table 6 shows the coefficients for each independent variable in the regression model. The "Unstandardized Coefficients" column represents the estimated effect of each independent variable on the dependent variable (Market Capitalization), holding all other independent variables constant. The "Standardized Coefficients" column represents the effect of each independent variable on the dependent variable in standard deviation units.

The "t" column shows the t-value for each independent variable, which is a measure of how statistically significant the coefficient is. The "Sig." column represents the p-value for each independent variable, indicating the level of statistical significance. In general, a p-value less than 0.05 is considered statistically significant.

From the table, we can see that the NEPSE Index has a statistically significant positive effect on Market Capitalization (Beta=0.653, $p<0.001$). This means that for every one-unit increase in NEPSE Index, Market Capitalization is estimated to increase by 0.653 standard deviations, holding all other variables constant.

Paid-up Value also has a statistically significant positive effect on Market Capitalization (Beta=0.207, $p=0.017$), indicating that for every one-unit increase in Paid-up Value, Market Capitalization is estimated to increase by 0.207 standard deviations, holding all other variables constant.

No. of Listed Companies, Turnover Value, and Turnover Volume, on the other hand, do not have statistically significant effects on Market Capitalization, as their p-values are greater than 0.05.

The intercept or constant term in the model is -525599.889, indicating that when all independent variables are equal to zero, the estimated value of Market Capitalization is -525599.889. However, the p-value for the intercept is not statistically significant, indicating that this value is not reliable.

4.2 Discussions

The discussion section of the thesis aims to evaluate and interpret the results obtained from the analysis of the development and challenges of the security market in Nepal. In this section, the researcher examines each aspect of the findings in relation to relevant theories and empirical findings from previous research. The discussion also explores the consistency or inconsistency of the results with the predictions made by the existing theory and compares the findings with those of other researchers to identify similarities or contradictions.

The first objective of research is to examine the movements of NEPSE index in the secondary market. The analysis of secondary data reveals significant insights into the movements of the NEPSE index in the secondary market. Over the past ten years, there has been considerable fluctuation in the NEPSE index, with the highest value recorded in 2077/78 at 2883.41 points and the lowest in 2068/69 at 389.74 points. These findings demonstrate the volatility of the NEPSE index during the examined period. The result is consistent with Fagbemi, Adeosun and Bello (2021). The study finds that regulatory quality has a positive and significant impact on stock market performance in Nigeria.

The second objective of research is to analyze the relationship between market capitalization, number of listed companies, NEPSE Index, paid-up value, turnover value, and turnover volume. The analysis reveals several important relationships between different variables in the context of the Nepalese stock market. A strong positive correlation of 0.851 is observed between market capitalization and turnover value, indicating that as the market capitalization increases, so does the turnover value. Furthermore, the study finds positive relationships among market capitalization, NEPSE index, paid-up value, turnover value, and turnover volume. However, the number of listed companies does not show a significant relationship with the other

variables. These findings provide valuable information for investors and policymakers to make informed decisions regarding stock market investments and regulations. Multiple linear regression analysis with Market Capitalization as the dependent variable and five independent variables: No. of Listed Companies, NEPSE INDEX, Paid-up Value, Turnover Value, and Turnover Volume. The analysis indicates that the NEPSE INDEX has a statistically significant positive effect on Market Capitalization, with a standardized coefficient of .653 and a p-value of <.001. Paid-up Value also has a statistically significant positive effect on Market Capitalization, with a standardized coefficient of .207 and a p-value of .017. None of the other variables have a statistically significant effect on Market Capitalization, including No. of Listed Companies, Turnover Value, and Turnover Volume. The overall model is not statistically significant, as indicated by the p-value of .270 for the constant term. The findings of this research seem consistent with Devkota, & Dhungana, 2019 to some extent. Both studies highlight the relationship between market index (or market capitalization) and other variables. While your study focuses on a broader set of variables including market capitalization, NEPSE index, paid-up value, turnover value, turnover volume, and the number of listed companies, the first study examines the relationship between the stock market index and four macroeconomic variables. Both studies establish a positive connection between stock market performance (or market index) and certain variables, suggesting that changes in these variables can influence the stock market.

The third objective of research is to identify and assess the problems and prospects of the securities market. The analysis highlights both the problems and prospects of the Nepalese securities market. It identifies that the total number of listed companies increased from 216 in the fiscal year 2068/69 to 232 in 2071/72, representing the highest number listed in the last ten years. The market capitalization of corporate securities exhibits fluctuation over the years, with negative growth rates observed in three fiscal years. Conversely, the paid-up value of listed securities has steadily increased, reaching Rs. 573,240 million by the end of the fiscal year 2078/79. The correlation analysis further reveals the statistically significant positive effects of the NEPSE index and paid-up value on market capitalization. The result is consistent with Ramesh, Baskaran, Krishnamoorthy, Damodaran, and Sadasivam (2019) The proposed back propagation neural network algorithm effectively predicts intraday stock returns in the stock market challenge and The methodology includes data preparation from

unstructured sources and addressing challenges specific to the back propagation neural network algorithm, such as selecting the activation function, learning rate, and number of neurons in the hidden layer. Also in 2016 Lazarov, Miteva-Kacarski and Nikoloski finds the comparative analysis of the stock market in the Republic of Macedonia reveals that the Macedonian stock market is still underdeveloped and faces several challenges. These challenges include the need for capital market regional integration and the harmonization of legal and institutional frameworks.

Additionally, the dominance of the Bank and Financial Institutions sectors in the Nepalese securities market, accounting for approximately 85.34% of the total industry, is noted. Sectors such as hydropower, production and manufacturing, insurance, and others also make significant contributions. Looking into the prospects of the Nepalese stock market, the study identifies increased liquidity, a higher number of listed companies, greater turnover, better returns, and increased IPO activity as promising factors. It also emphasizes the importance of investor awareness programs, healthy competition among brokers and issue managers, and on-site and off-site inspections by SEBON in fostering the prospects of the Nepalese stock market.

However, it is important to note that there are limitations and weaknesses in the study. Potential sources of bias, imprecise measures, and methodological limitations should be considered when interpreting the results.

The research further identified a number of challenges that are impeding the growth of the Securities Market in Nepal. These include the absence of expected institutional investor presence and growth, limited availability of alternative financial instruments for investment, and the lack of a complete online trading system. In addition, the lack of development of institutional structures and capacity according to market size makes regulating and supervising general investors and securities traders a challenging task.

Overall, extending the Securities Market throughout Nepal and on an international level is a difficult and challenging task that requires addressing these various challenges and developing solutions to ensure sustainable and reliable capital mobilization.

CHAPTER-V

SUMMARY AND CONCLUSIONS

Summery gives a thorough overview of the research method from start to finish, outlining each step in details. The conclusion of the thesis dissertation work includes summery. This chapter explains three elements: the summery, the conclusion and the implications. Implications included the research's potential applications in the future.

5.1 Summary

This research study aims to analyze the development and challenges facing the stock market in Nepal over a period of ten years, spanning from the fiscal year 2068/69 to 2077/78. The study utilized secondary data to analyze the growth status of NEPSE. The analysis reveals several impediments and obstacles that must be overcome to establish an effective statutory and regulatory framework, which is why the Nepalese securities market is still in its early stage of development. The securities market plays a crucial role in mobilizing investable resources and bridging the deficit and surplus units of an economy. It is a continuous marketplace where securities are bought and sold, providing a medium for the transfer of scattered savings and scarce resources into productive areas, ultimately contributing to the economic development and industrialization of the nation. While securities markets have traditionally been more prevalent in developed economies, they are becoming increasingly important in emerging and developing countries. In many such countries, securities markets are beginning to gain a place as a source of financing for the corporate sector, although this is initially restricted to larger corporations. Along with private and public pension funds, collective investment schemes have become important players in many developing and emerging market countries, driving the need for suitable investments and spurring market development.

In this research, research question are What are the movements NEPSE index has shown during the study period? What are the relation between market capitalization, number of listed companies, NEPSE Index, paid-up value, turnover value, and turnover Volume? And What are the current problems and prospects of stock market in Nepal? Based on the research question the objective of research are determined and they are to examine the movements of NEPSE index in the secondary market, to analyze the relation between market capitalization, number of listed companies, NEPSE index,

paid-up value, turnover value and turnover volume and to identify and assess the problems and prospects of stock market. This thesis strives to achieve above three fundamental objectives: examining the movements of the NEPSE index, analyzing the relationship between key market factors, specifically, aiming to investigate the correlation and interplay between market capitalization, the number of listed companies, the NEPSE index, paid-up value, turnover value, and turnover volume and identifying and assessing the problems and prospects of the securities market in Nepal. The rationale of the study of this research are to the general public who have already invested in the capital market or are interested in doing so, it is crucial to stay informed about market trends, regularly review investment portfolios, and set realistic expectations regarding risk and returns, great importance to the researcher in the concerned subject as it contributes to the existing knowledge base, provides practical implications for policymaker and investors, enables market analysis and forecasting, enhances investor protection and confidence, facilitates academic advancement, informs policy and regulatory reforms, and support overall economic development, it will be important to all other stakeholders as it provides valuable insights and understanding for policymakers, regulators, investors, market participants, and the general public, enabling informed decision-making and contributing to overall growth and stability of the market and it is significant to me as a researcher and a learner to enhance my knowledge and abilities, allowing me to contribute to the field make informed decisions, and continue my personal growth. This thesis used the descriptive and analytical research design as a research methodology. Trend analysis, correlation coefficient, regression analysis used as a method of data analysis. This thesis has been assumed that variables in Stock Market; i.e. dependent and independent variable are Market Capitalization and no of listed company in NEPSE, NEPSE index, Paid-up capital, Market turnover value and Market turnover volume

In the result and discussion part of this thesis shows a strong positive correlation of 0.851 was found between market capitalization and turnover value, suggesting that as the market capitalization increases, so does the turnover value. The variables of market capitalization, NEPSE index, paid-up value, turnover value, and turnover volume were positively related to each other, indicating their interdependence within the NEPSE context. However, the number of listed companies did not show a significant

relationship with the other variables. In terms of regression analysis, the NEPSE index and paid-up value were found to have statistically significant positive effects on market capitalization, while other variables such as the number of listed companies, turnover value, and turnover volume did not exhibit significant effects.

5.2 Conclusions

In conclusion, this thesis successfully addressed four key objectives related to the stock market in Nepal, namely: assessing the development and challenges of the stock market, examining the movements of the NEPSE index, analyzing the relationship between market capitalization and various market factors, and identifying the problems and prospects of the securities market.

The first objective focused on examining the movements of the NEPSE index in the secondary market. The analysis of secondary data revealed significant volatility in the NEPSE index over the past ten years, with fluctuations between the highest recorded value in 2077/78 and the lowest in 2068/69. This finding emphasizes the dynamic nature of the Nepalese stock market and indicates the importance of considering market trends and fluctuations in investment decisions.

The second objective aimed to analyze the relationship between market capitalization, listed companies, NEPSE index, paid-up value, turnover value, and turnover volume. The findings revealed a strong positive correlation between market capitalization and turnover value, indicating that as the market capitalization increases, so does the turnover value. Additionally, positive relationships were observed among market capitalization, NEPSE index, paid-up value, and turnover volume. However, the number of listed companies did not show a significant relationship with the other variables. These findings provide crucial insights for investors and policymakers to understand the dynamics and interplay of market factors in the Nepalese stock market.

The third objective aimed to identify and assess the problems and prospects of the securities market. The analysis identified the increase in the number of listed companies over the years and highlighted the fluctuation in market capitalization, with negative growth rates observed in certain fiscal years. Conversely, the paid-up value of listed securities demonstrated steady growth. The dominance of the Bank and Financial Institutions sectors in the market was also noted. Furthermore, the study identified prospects for the Nepalese stock market, such as increased liquidity, a higher number of

listed companies, greater turnover, better returns, and increased IPO activity. The importance of investor awareness programs, healthy competition among brokers and issue managers, and effective regulatory inspections were emphasized as crucial factors to enhance the prospects of the market.

In conclusion, this thesis provides valuable insights into the development, challenges, and movements of the NEPSE index, relationships between market factors, and problems and prospects of the securities market in Nepal. The findings contribute to the existing literature and can be used by investors, policymakers, and market participants to make informed decisions, address challenges, and capitalize on the opportunities present in the Nepalese stock market.

5.3 Implications

After analyzing the stock market, the following implications have been provided for the enhancement of the securities market;

- Encourage More Listings: The Nepalese government and NEPSE should encourage more companies to list on the exchange by offering incentives and simplifying the listing process. This can help increase the number of investment opportunities available to the public and promote market growth.
- Despite continuous efforts by the Nepalese government, SEBON, and other regulatory entities, real sector companies are not entering the securities market. Enhancing sustainable investor confidence in the securities market is essential to attract more companies.
- The process of transferring ownership is time-consuming and tedious, requiring investors to be present in the Kathmandu valley. Decentralization of securities market information enhancing and training programs, as well as the centralization of secondary market services in Kathmandu valley, are obstacles that prevent capital mobilization in the secondary market from outside the valley. Therefore, securities market should extend throughout the country and at the international level.
- Reduce Trading Fees: NEPSE should consider reducing its trading fees to make the market more accessible to investors. This can also help to increase trading volumes and liquidity in the market.

- NEPSE should regularly update information provided by listed companies and take timely action against companies that violate NEPSE rules. NEPSE should also focus on improving its settlement and clearance system, creating an investor-friendly environment, having a well-equipped office, implementing a computerized system, and having an efficient staff. Furthermore, NEPSE should explore the possibility of substituting the current trading mechanism with an electronic trading system.
- Develop Derivatives Market: NEPSE should consider developing a derivatives market to provide more hedging options to investors and to attract more institutional investors. This can also help to increase liquidity in the market.
- Lack of reliable advice and suggestions for investors on stock and market opportunities has increased investment risk in the stock market. To increase the confidence of public investors, it is necessary to make the stock market more efficient and competitive by introducing new brokers in the market.
- Enhancing the institutional capacity of the security board of Nepal is crucial for regulating the stock market effectively. This can be achieved by upgrading physical facilities, ensuring autonomy in financial matters, strengthening legal aspects, providing adequate numbers of capable and technical human resources, and improving the internal governance system.
- Increase Transparency: NEPSE should ensure transparency in the trading process, such as providing more information about market trends and trading volumes. This can help investors make informed decisions and promote market efficiency.
- Nepalese investors lack knowledge of their investment schemes. They need to be made aware of investment schemes based on proper risk and return analysis. Investors must also be aware of their strengths, weaknesses, and risk-taking capabilities so that they can have a sound understanding of stocks and make superior forecasts. Reading daily newspapers, journals, and annual reports of NEPSE and SEBON can help investors gain the necessary knowledge.
- The development of the concept of international securitization and transactions in South Asia requires an autonomous and competitive central depository system of stock to make the recently introduced electronic transaction system reliable and fast. Shortcomings related to the operation of capital markets, such

as the lack of access to knowledge and information related to stock market operation among small investors and the low capacity of regulators to monitor and supervise stock market operation, need to be addressed to develop the stock market as an important capital mobilization tool.

- Merchant bankers are not adequately supervised, and only a limited number of them submit their annual report to SEBON as mandated by the Security Act 2006. Therefore, it is strongly recommended that regulators supervise merchant bankers and punish those who do not submit their AGM (Annual General Meeting).

Continuous study and research of Securities Market, investor education, and enhancement of awareness and establishment of academy for the institutional financial education services shall be done for the sustainable growth of Nepalese Security Market.

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APPENDICES

Appendix-I

Trend Analysis of NEPSE Index

Year(x)	**NEPSE index (y)**	**x-middle year**	**X^2**	**xy**
2068/69	389.74	-4.5	20.25	(1,753.83)
2069/70	518.33	-3.5	12.25	(1,814.16)
2070/71	1036.11	-2.5	6.25	(2,590.28)
2071/72	961.23	-1.5	2.25	(1,441.85)
2072/73	1718.15	-0.5	0.25	(859.08)
2073/74	1582.67	0.5	0.25	791.34
2074/75	1212.36	1.5	2.25	1,818.54
2075/76	1259.00	2.5	6.25	3,147.50
2076/77	1362.70	3.5	12.25	4,769.45
2077/78	2883.41	4.5	20.25	12,975.35
Total n=10	$\sum Y$ =12923.70	$\sum X$=0	$\sum X^2$ =82.5	$\sum XY$=15042.99

Let trend line be

$Y = a + b\,x$……. (I)

Where x = X - Middle year

$a = \frac{\sum Y}{N}$ = $\boldsymbol{a = \frac{12923.70}{10}}$ = 1292.37

$b = \frac{\sum XY}{\sum X2}$ = $\mathbf{b = \frac{15042.99}{82.5}}$ = 182.34

Y = 1292.37+182.34X

Appendix-II

Correlation and Regression Analysis of Market Capitalization and Turnover Value

Year	Market Capitalization (Rs in millions)	Listed Companies	NEPSE Index	Paid up value (Rs in millions)	Turnover in value(million)	Turnover in volume (000)
2068/69	371,115.74	216	389.74	110611	10273	41479
2069/70	514,490.00	230	518.33	126064	22050	81572
2070/71	1,057,170.00	230	1036.11	147930	77300	214145
2071/72	989,400.00	232	961.23	179190	65330	159720
2072/73	1,890,130.00	230	1718.15	204020	164650	303600
2073/74	1,856,820.00	208	1582.67	289600	205020	392900
2074/75	1,435,140.00	196	1212.36	352100	121400	294000
2075/76	1,567,500.00	215	1259.00	412280	110070	387500
2076/77	1,792,800.00	212	1362.70	473390	150030	428500
2077/78	4,010,960.00	219	2883.41	573240	1454440	3404500

Thank you!