CHAPTER: ONE

INTRODUCTION

1.1 General Background

Financial markets are a major apparatus of economic development of any country. Most of the developed countries who came in this position is a key role of capital market and they have an advanced financial institutions. Nepal also headed in this direction particularly since the 1994, when the Government of Nepal established a Stock Market with technical assistant of the IRIS centre at the University of Maryland under the USAID sponsored economic liberalization project. After the democratic movement of 2047 B.S. the gradual development of capital market became possible. Again the upshot of the decade long conflict the development of capital market dragged into far. Despite this pathetic situation and capital inflow, the number of financial institutions are increasing since the 062/63 people movement. Capital Market plays a fundamental role in economic development of a country. They are intermediary link in facilitating the flow of funds from savers to investors. By providing institutional mechanism for mobilizing domestic saving and efficiently channeling them into productive investment, they lower the cost of capital to investor and accelerate economic growth of the country. Financial intermediation between borrowers and savers is done by commercial banks. This credit market enables debt financing for investment. An alternative method of intermediation is through equity financing .This is only possible through the development of capital market. Capital market which deals with securities such as stocks and bonds are associated with financial resources mobilization on a long term basis. By raising capital directly from public, they lower the cost of capital. Capital market also allow for wider ownership among the public, thereby distributing risk and wealth among smaller investors. For investors they provide effective vehicles for making investment choices, which suit their own preference of risk and return based on available information. As such, capital market helps the economy to generate more saving and productive investment. A basic feature of an efficient capital market is constant liquidity, i.e., easy mechanism for entry and exit by investors. This requires sufficient volume and size of transaction in the market. Typically in the developing countries, for various economic and policy resources, financial markets are underdeveloped. In those countries where capital market does exist, it is a very rudimentary stage. Private wealth and investment are concentrated among several large companies and individuals. The choice of market instrument is also very limited. As a result, the capital markets are very narrow based. They are constrained by very limited investment opportunities and low income and investment rates. In many cases, the economy has high inflation, leading to a saving distinctive capital flight. Financial sector development is a lengthy evolutionary process. It is an indicator of the state of economic development of the country, since an efficient well-developed financial market is only possible when there is substantial income generation and investment opportunities (Bhattarai, 2006 and Tuladhar, 1996).

For the mobilization of invisible resources, capital market is an important intermediary through which effective bridging of the deficits unit and surplus unit can be ensured. Capital market plays crucial roles in mobilizing a constant flow of savings and channeling these financial resources for expanding productive capacity in the countries. (Kuli, 1989). Capital market can be divided into securities market and non-securities market. Stock market is a place where share of listed companies are traded or transfer from one hand to another at a fair price through the organized broker system. Stock market refers to the secondary market for securities whereas the primary market in the place for new issues. The main function of the securities market are to continuous market for purchase and sales of securities it competitive prices.

Stock market promotes the primary issuance of shares .because investors participate on the issuance of share market for they can get back the fund easily. The primary market of each positively and highly elastic with the stock prices and the liquidity in the secondary market (Sharma, 1996).Stock market has got its own prose but the main concern is to be proper materialization it in practice to achieve maximum benefits.

Nepalese capital market is a developing one in comparison to other big and developed capital market. The development of capital market is not possible if there are any favorable aspects of stock market and if the government provide better investment environment with clear policy.

In finance, capital markets facilitate:-

- The raising of capital (In the capital market)
- The transfer of risk (In the derivative markets)
- Price discovery
- Global transaction with integration of financial markets
- The transfer of liquidity (In the money market)
- International trade

1.2 Focus of the Study

Capital market helps to mobilize the financial resources and efficiently channel to productive investment. Capital markets consist of securities market and non-securities market. Stock market acts as a part of the capital market and can provide major sources for the investment in economic development. It is the stock exchange that provides liquidity to private investments in corporate interests.

The security market is the guideline of the capital flow in the capital market. Capital market is the most important indicator of the development of the national economy. The capital market shows the economic condition of the nation. The share price behavior has been a controversial subject matter among the academia basically financial and economic circles.

Capital market provides an effective way of procuring long term funds by issuing shares and debentures or bonds for commercial enterprises and at the same time provide investment opportunities for individuals and institutions (Adhikari, 2004 p.75). Practically, the activities of buying and selling securities in the security market are extremely important for the allocation of capital within economics. The capital market serves as a reliable guide to the performance of companies and thereby promoting efficiency. In Nepal the major constituent of the capital market is the commercial banks. Thus it has emphasized on the existing situation of securities market and its impact on developing countries by using various statistical data.

1.3 Statement of the Problems

The phase of development of the capital market in any country and its effective growth is depends upon the collective economic savings and investment opportunities etc. The economic, social, technological and political interference directly influences it. Thus today the capital market development plays the key role of the country.

The major causes of deficiencies in the Nepalese capital market appeared to be profitably and good governance of the company, government policy regarding investment, market operation system, investor's knowledge, information disclosures and inefficiency of the market. International circumstances also play a pivotal role of proper development of capital market. Despite these facts, market makers involved in the stock market are unable to exhibit the well performance according to the expectations of the investors. It is very difficult to examine all these avenues of the capital market. However this research work has tried to answer the following questions:

1. What is the process and prospect of capital market development in Nepal?
2. What is its impact in the context of least develop countries like Nepal and its role in economic development?
3. What is the latest economic scenario of the nation and its impact in capital market development?
4. What is the trend of Nepal Stock Exchange index?

1.4 Objectives of the Study

The major goals of the research are to analyze the capital market development process and its impacts in nation building as well as stock price behavior of the bank in Nepal.

Fowling specific objectives can be mentioned to make the study easier:

- To describe and analyzes the process and prospect of capital market development in Nepal.
- To studies of the capital market impact in the field of economic development in Nepal.
- To identify latest economic scenario of the nation and its impact in capital formation of the nation.
- To assesses the trend of Nepal Stock Exchange index.

1.5 Significance of the Study

The development of capital market and share price behavior in Nepal still is in a infant stage. But its proceeding is significant. As well as most of the people in Nepal are under the poverty line. They have low income. In such a situation they may not think about investment. And those who are willing to invest cannot get information about financial institution and investment procedure.

The significance of the study however is to analysis of the stock price behavior, market capitalization and its impact on developing countries like Nepal. The focus is further its negative and positive impact in society and economic development of the nation. This will benefits the prospective investors to obtain information and to take better investment decision. Further it will facilitate to those who are interest to conduct a research work in respective topic.

1.6 Limitation of the Study

It has analyzed the secondary data by using few statistical tools like percentage, chart, table, trends. This study lacks the primary data. This study has not cover every aspects of capital market development process like Nepal Stock Exchange. As well as whole study are based on secondary data only, so the validity of the study experienced weak knowledge, insufficient and inaccurate materials as well as limited expenses to carry out the research work in details.

1.7 Organization of the Study

Introduction, Review of literature, Research Methodology, Presentation and analysis of data, Summary, Conclusion and Recommendation are the organization of the study and concludes whole part of the research. In first chapter Introduction preliminary phase of the study, has been included. The second chapter Review of Literature an important body of research has been put. Research Methodology, the third chapter represents the population, sample and other significant statistical tools have been comprised. Fourth chapter, most significant one is presentation and analysis of data. The reliability of research highly depends on it. In this chapter major finding has also been drown. Fifth and last chapter is summary, conclusion and recommendation. Mostly it has squeeze from the data presentation and analysis.

CHAPTER: TWO

REVIEW OF LITERATURE

Research Review can be divided into two parts of sub-headings, Conceptual Review and Research Review. Conceptual review covers the concept of basic terms used in the studies and research reviews includes the review of Masters Dissertation, International journals and Nepalese journals.

2.1 Theoretical Review

Theoretical review refers to the basic concept of the related subject such as capital market, securities market, money market Nepal Stock Exchange, Securities Board of Nepal with classifications and securities analysis etc. It clarifies and make easy to understand the real meaning of the capital market.

- **Capital Market**

Capital market is for long-term securities, issued by Government and companies. Capital market typically involves financial assets that have a life span of over one year. Securities in the capital market are much more diverse than those in the money market for example the shares issued by various bank and financial institutions are traded in the capital markets.

- **Money Market**

Money market is also an essential parts of securities market. It is a system to transact fund for short period of time. This is a market for short term financial instruments also. This market typically involves financial assets that have a life-span of one year or less. Money market instrument are short term marketable, highly liquid and low risk debt securities. Money market instruments sometimes are also called cash equivalents or just cash. Treasury Bills (TB) issued by Nepal Rasta Bank (NRB) publishes Treasury Bills issuance notice in the Gorkhapatra Daily.

Money and capital market can further be divided into primary market and secondary market.

- **Primary Market**

Market in which government and companies raise capital is known as primary market. This market is also known as the first hand market. Agricultural development bank Ltd. (ADBL) for example in April 2010 floated shares to raise capital, which is a primary transaction. Primary market thus is basically concerned with accumulation of capital.

- **Secondary Market**

Market where the existing already outstanding securities are traded among investor is called secondary market. If A has Agriculture Development Bank Limited's shares and he /she decides to sell 1000-units of the bank shares it could be traded in the secondary market. But Treasury Bills is not listed at Nepal stock exchange. This market is also known as secondary market. Nepal stock Exchange in Nepal, Bombay stock exchange in India, New York stock exchange in America is some of the examples of secondary market.

2.1.1 Securities and Securities Market

- **Security**

Security in general a piece of paper representing the investor's right to certain prospects or property and the conditions under which he/she may exercise these rights. The piece of paper serving as an evidence of property rights called securities, can be share certificated, bond, commercial paper, preferred stock, treasury bill etc. It may be transferred to another investor and, with it, will go all its rights and conditions to the buyers. Moreover security is a legal representation of the right to receive prospective future benefits under stated conditions. A share certificate given to a shareholder is security that gives holder the right to claim on asset and profit of the company. Basically these are two types of securities on the basis of their tradability. These are negotiable and non-negotiable. Negotiable are tradable and transferable. Non-negotiable securities are non tradable and non transferable. Deposit slip given by the bank is non-negotiable securities whereas share certificate given by the company is negotiable. Debt securities, Equity securities, and derivative securities are the negotiable securities.

- **Security Market**

Security markets are mechanisms created to facilitate the exchange of financial assets. Therefore the markets exist in order to bring together the buyers and sellers of securities. Equity securities represent ownership shares in a corporation. Equity securities are traded in organized exchange and Over- The -Counter (OTC) market.

2.1.2 Background of Nepalese Capital Market

The history of capital market development in Nepal dates back to the era of Rana Prime minister Juddha samasher when Gunjaman Singh the first secretary at Nepalese embassy in England came back to Kathmandu and set up the 'Industrial council'. The council drafted company act and Nepal Bank act for the first time in 1936. Biratnagar jute mills Ltd. Initiated the first public flotation of shares in the securities market in 1937. In the same year Nepal Bank Limited also issued the shares. However, at that time the participation on the ownership structure of the corporate sector was restricted mostly to the Rana family.

In 1951 the 'company act 1951' was introduced and first issued of Government bond in 1964 was other important development relating to capital markets. The establishment of security exchange centre (SEC), in 1976 was the first and most important attempt by the government. After the establishment of the securities exchange centre under company act, institutional development of capital market in Nepal was stared. The function of securities exchange centre was very limited on trading government bonds and National saving certificate only. This had permanently held by the Nepal Rasta Bank. Security exchange centre started secondary market for corporate securities 1984

Security Board of Nepal (SEBON) was established on 26 may 1993 after the first amendment in The 'Security Exchange Act 1993' became effective. After eighteen years of incorporation, The Government of Nepal, converted securities exchange centre into Nepal Stock Exchange on 16 may 1993, under a program to initiate to develop a competitive and efficient security market. Thus, Nepal Stock Exchange has the basic objectives to impart free marketability and liquidity to government bonds and corporate securities by facilitating transaction in the trading floor through market intermediaries such as market maker and brokers. After the conversion of security exchange centre into Nepal Stock Exchange, 25 brokers and 5 market makers were appointed. It started Open-Cry Out of trading through market maker and broker on 30th January 1994. Although the growth of Stock market is highly relative to the growth of economy, the contribution of corporate sector in the economy is still low due to negligible size of corporate sector. Yet, there are some rays of hope for the substantial development of capital market by exploring more potentialities in the years to come. There should be automation for the efficient trading of the securities in the securities market. Nepal Stock Exchange should also go towards automation

2.1.3 Nepal Stock Exchange

Nepal Stock Exchange, in short is a non-profit organization, operating under, 'securities exchange act 2040'. The former securities exchange centre was converted into Nepal Stock Exchange under a program initiated to reform the capital market. The basic objectives of Nepal Stock Exchange is to arrange marketability and liquidity to the government and corporate securities by facilitating transaction in the trading floor through market intermediaries such as brokers and markets makers and others. The shareholders of the Nepal Stock Exchange are Nepal Rasta Bank, central bank, corporation and licensed numbers.

Nepal Stock Exchange has its own board of director, to direct control and monitor. It consists of 9 directors in accordance with the security exchange act, 2046. The government of Nepal and different institutional investors nominates six directors and two from the licensed members.

The general manager of the Nepal Stock Exchange is the Ex-officer director of the board. The authorized capital of the exchange is Rs 50 million. Government of Nepal, Nepal Rasta Bank (NRB), Nepal Industrial Development Corporation (NIDC) and the members subscribe Rs 34.91m. The government of Nepal has contributed 58.67%, Nepal Rasta Bank 34.60 percent, NIDC 6.13 percent and the members 0.60 percent on its capital.

- **Board of Directors**

The Board of Directors of NEPSE consists of nine Directors in accordance with Securities Exchange Act, Government of Nepal and different institution investor nominates1983. Six directors two from the licensed members and the General Manager of the NEPSE is the Ex-officer Directors of the board.

Table 2.1: Organizational structure of NEPSE

S.N.	Name of the Organization	No. of Directors	Designation
1	Ministry of finance	1	Chairman
2	Securities Board	2	Director
3	Nepal Rastra Bank	2	Director
4	NIDC	1	Director
5	Licensed Members	2	Director
6	General Members of NEPSE	1	Director
	Total	9	

Source: Security Board of Nepal

Trading Mechanism in Nepal

Trading mechanism is the trading procedure of an organized exchange. Different countries may have different procedures on the basis of the principles they have adopted. NEPSE has adopted the open-cry-out system. It has two license members. They are market makers and member brokers.

- **Market Makers**

Market makers are the institutional members. They are well-organized institutions and are considered an expert in the area of analyzing financial statements and controlling and regulating the market through market mechanism. Therefore, these organizations are allowed making buy and sale in and from their own account. So in the process of market making, they are allowed quoting both the bid and asking price. The spread between these two is income for market makers. They are not allowed to deal with general investors. It is expected that they will buy when there is excess supply of securities in the market and they will sell the securities when there is excess demand. In the case of excess supply, the price will come down and when there is excess demand the price will increase. Doing the above said market practice they will control the probable artificial increase and decreased of market price. Market brokers are their clients.

- **Member Brokers**

Member broker are the license holders who are empowers to accept the buy and sale orders from their individual and institutional clients and make transactions in trading floor organized, managed, and operated by stock exchange. Such security person excludes the orders on behalf of their clients and charges the commission on the basis of the traded amount. The rate of commission ranges from 1 to 1.5 percent. These intermediaries are not allowed to buy and sale in and from their own account. If there is no order for any particular securities and want to invest, they can do only after notifying to the stock exchange. Presently, 24 institutional member brokers are participating for the operation of floor.

- **Trading Hour and Days**

NEPSE has fixed the trading days and hours during which the licensed numbers are allowed to enter the floor to make the transactions. According to transactions by-law the transactions of listed securities will be traded from Monday to Friday. The floor will be operated from 11 am to 12 pm i.e., two hours a day. The number of securities less than the minimum tradable lot is traded two days a week. Monday and Friday from 2 pm, such odd lot transactions will be done in the designated system.

Table 2.2: Trading Schedule of NEPSE

Types of trading	Days	Trading time
Regular Trading	Sunday to Thursday	11 A.M. To 1 P.M.
Odd Lot Trading	Monday Friday	2 P.M. To 3 P.M. 11 A.M. To 12 Noon

Source: Securities Board of Nepal

- **Market Lot or Board Lot**

It is the minimum number of shares NEPSE has fixed that once the transaction is done at least the fixed quantity must be bought and sold. As mentioned above, NEPSE has linked the minimum tradable lot with its par value. Generally, in case of regular lot, any shares more than minimum board lot are allow to trade and in case of odd lot transactions any shares less than market lot will be allowed to trade.

In the regular transactions, the minimum number of securities that must be traded is known as market lot and board lot. This lot is fixed on the basis of par value of the securities. If the par value of securities is Rs. 100, the tradable lot is 10 shares and if it is of Rs. 10, then the trading lot is 100 shares. In case of debentures or corporate bonds, the minimum tradable lot is 10 debentures worth of Rs. 10,000.

Order Registration

The investors who want to buy or sale of securities must trade through licensed members or security persons. This is because the securities exchange act, 1983 has published making transactions without getting orders from their clients. The orders can be buy order and sale order.

Buy order is the order placed by buying clients to purchase the securities on behalf of him/ her. In this order, s/he has to mention clearly the name of the companies, the number of securities that s/he wants to purchase, price of the securities that s/he wants to pay and the validity of the orders. If the validity period of the order is not mentioned, that will be valid only for 15 days.

Sale order is the order that the selling client has to submit to the broker to execute the order on behalf of their clients. In this order, too the client has to mention the name of the company, number of securities, prices of the securities that s/he wants to sale and the validity period of the orders. If not, the order will be valid for 15 days.

The investor has to submit the orders at the broker's office. The broker has to register chronologically and must indicate time, date, and registered number on the face of the orders. The orders received at first must be executed first. It means the transactions should be based on first in first out. As mentioned above, the investors have to mention the price clearly. They can mention the price in three ways.

If the investor is sure about the performance of the company and the profitability of the company s/he can state the fixed price for the purchase and sale of the securities. In this situation, the brokers are not allowed to execute at higher and lower stated price. Beside this, if the investors is new and do not trust the brokers can specify the fixed price enabling them to sell at higher and lower than the stated price. As for instance, the pricing of the share of Mega bank Ltd. is Rs. 700.

If the investors are in dilemma and want to execute the transactions, they can quote the prices in range. In this situation, s/he gives certain liberty to his brokers to negotiate and execute the transactions on his /her behalf. This can take place after winning confidence of the brokers. They empower the brokers stating price in range like Rs. 700- Rs. 800.

It is the order in which the investors do not state and leave open stating that the brokers can execute the transactions at the appropriate price or the ruling price. In this situation, the investors must have full trust with his/her brokers that they do not deceive them. The brokers must attempt to win the confidence of their clients providing different types of services.

The brokers sort out all the orders registered at the end of the day and there might be several types of buy sale orders. Some of the buy and sale orders may match with buy orders in respect of name of the company, number of securities and price of the securities. Such orders are called matching orders. However, there may or may not other be investors to buy or sale.

- **Trading Limit**

The number brokers are allowed to execute trade ten times more than their deposits. They must deposit Rs. 25,000 Cash deposit and bank guarantee worth of Rs. 15,000 with stock exchange. They are allowed to execute the trade worth of Rs. 1,000,000. If they want, to make transactions more than Rs. 1,000,000 then they have to deposit 10 percent of their total additional transactions and the deposited amount will be rendered after the settlement of the account.

- **Trading Procedures**

The brokers must execute all the received orders as prescribed by the securities Exchange act, and by-laws formed there on. The collected orders can be categorized as matched orders, unmatched orders, and mutual orders. On the basis of the received orders, transactions will be executed either in the trading floor or off the floor.

- **Mutual Orders**

Actually this is the off the floor transactions executed with the pre-approval of NEPSE. Under this system, if the bulk stockholders want to sale the shares to someone and the buyer also want to buy the shares in this case the seller with the pre-approval of NEPSE involving the security person can do the transactions out of the floor. But according t the securities transaction rules, the number of shares that s/he wants to trade must be more than the five percent of total issued capital of the concern company. Regarding the price of the securities, the common practice adopted is that if the transaction is executed in the morning then five percent of the previous days price can be changed and if it is done in the evening then the transactions can be done changing two percent of the closing price. The involvement of broker is quite essential so the broker may receive this type of orders.

- **Matching Orders**

The brokers may have matching order at the end of the day. There may or may not be other buying and selling brokers. The broker does not know this. But on the next day, such broker has to notify to all the brokers that s/he has got both the buying and selling orders for the shares of the particular companies. If any other broker wants to buy or sell the shares s/he will execute the transactions otherwise s/he himself/ herself executes both the transactions. This is generally emerges in the case of closely held company. It is difficult to notify all the brokers personally. So, they used to quote the buy or sale price with green ink. If any other broker does not interfere, they can do the transactions. As the time passes on this system, take the form of mutual transactions of small number of shares and brokers started to interfere. It results the market less competitive and also a means for the price manipulation. It is becoming a problematic to the stock exchange.

- **Regular Transactions**

The brokers collect order from their clients and enter the trading floor with their orders. They generally enter the floor at 11 o’clock and the market makers enter the floor 10 minutes before the brokers enter the floor. This was because they had to quote the bid and ask price for the companies in which they were going to make the market.

The staffs of the stock exchange go on calling the names of the company one after another and the brokers also go on quoting their price. Once all the prices are quoted on the board then the buying broker declares the number of shares that s/he wants to purchase. If the selling broker wants to sell less than the said shares s/he declares the quantity. On the other hand, if the selling broker has more than demanded shares s/he said that s/he ready to give the number of shares. But the major things here to remember is that once the price matches no brokers can deny making transactions and at least the board lot should be executed. Another thing to remember is that the selling broker does not declare the quality because if the selling broker has more quantity of shares the buying brokers come to know the fact and they may chartering to reduce the price.

The brokers in the process of negotiation go on changing the price. The buying price will be changed if any other brokers show willingness to pay more than the quoted price and the selling price will change if any other selling brokers show their willingness to sell at lower price. In this way, the spread between buy and sale price lower down till the price matches.

- **Securities Issue Process**

Before issuing security the board of director of the firm decides how much fund to be raised. It also decides whether to raise funds from private placement or public sale. In private placement; fund can be raised promptly with lower cost. If the issue is big, the public sale an also be made at lower cost.

If the issue has to be sold publicly the firm should select investment bank. An individual investment bank alone may take the responsible of issue and sale and distribute of the security. If the issue is big, many investment banks make syndicate and take the responsibility of issue jointly.

The investment bank receives the new securities at low price as far as possible and earns profit by selling t other investors. The investment bank may directly purchase security with the issuing firm, or may only guarantee the fixed price of the security. But in both situations, the investment bank bears the risks of profit or loss that occur in security market.

After selecting the investment bank, the bank and the firm jointly make final decision regarding the basis, maturity, interest rate of the security and the commission of the investment bank etc. The commission charged by the investment bank may be a great financial coat particularly is small issue. Most of the firms have the rights to negotiate the commission charged by the investment bank by competitive bids. The investment bank which provides cheapest service is selected in it. The bid reduces the profit of an investment bank.

The delay in selling the security is regarded as the great enemy of the investment bank. It is because, he has to get addition fund to keep the security not sold and has also additional risk of fall in price. In case of adverse change in the price there is decline in the prestige of the investment bank in the eyes of both investors and the issuer. In this way the investment banking business is risky and highly competitive due to various uncertainties.

The security can be sold through underwriting or on best efforts basis. In underwriting the investment bank sells the security to the ultimate investor by buying with the firm. Since the issuer already receives money in it, he needs not worry at all. At the bank bears all risks as an underwriter or a guarantor.

In the final, the security is sold to the general public. The formal public sale is called ‘opening the book’. The sales start after opening the books. In case of high demand, the book is immediately closed and applications given more than requirement are announced. It is called the issue ‘flayed out of the window’. If the issue is not sold, time is increased and the book is kept open.

The security Board apex of the security market and has established in order to protect and promote the interest of the investors, and to systematize and regulate the security transaction for the development of security market. The securities issued by an organized firm should be registered in this board. If any organizes firm wants to sell its security openly or issue and sale through the circular method, that security should be registered in the board. The organized firm should apply to the Board with prospectus and other documents to register the security. After scrutinizing the application, the Boards registers thee security and gives permission for issue. The permission date is known as approval date. Organization must issue the security within two months after the approval date. Before making transaction of the security issued by a firm in the secondary market (NEPSE) it will have to be listed in Neal Stock Exchange.

2.1.4 Regulations of Security Market in Nepal

Security Board of Nepal (SEBON) is the apex body to regulate the Nepalese securities markets. It was established on 26 May 1993 under the provision of the securities Exchange Act, 1993. The objectives of the SEBON are to promote and protect the interest of investors by regulating the securities markets. SEBON also regulate, monitor, direct control and coordinate the entire capital market. SEBON works under the ministry of finance.

SEBON regulates both primary and secondary markets. To regulate the primary and secondary markets, there are various acts and laws. The rules and regulation of the transaction of securities provides the information to the potential investors of securities and encourage investment in securities market. The history of security market in Nepal start from Biratnagar jute Mill issued 8000 ordinary shares of Rs. 100 each.

The first securities Exchange Act was enacted in 1983 to regulate the trading of securities in Nepal. The act restricted the exchange of unlisted securities and provided the role of stock exchange.

NEPSE is the sole organization for the operation of secondary market for listed companies. NEPSE is working under Security Board of Nepal (SEBON). Following rules and regulations are followed by the issuing companies, investors, and brokers in the securities markets o Nepal.

Prevailing Securities Legislation

- Securities Exchange Act, 1983
- Securities Exchange Regulation, 1993
- Membership of Stock Exchange and Transaction By-laws, 1998

- Securities Listing By-laws, 1996
- Issue Management Guidelines, 1997
- Securities Allotment Guidelines, 1994
- Securities registration and Issue Approval Guidelines, 2000
- Guidelines on Business code of Ethics for Securities Brokers, 2001
- Bonus share issue Guidelines, 2001

Other Related Acts

- Companies Act, 1997
- Insurance Act, 1992
- Commercial Banks Act, 1974
- finance companies act, 1986
- Foreign Exchange (Regulation) act, 1962
- Foreign Investment and Technology Transfer Act, 1992

Other Securities Regulation

- Securities Board Regulation, 2007
- Stock Exchange Operation Regulation, 2007
- Securities Businessperson (Stock, Broker, Dealer and Market Regulation, 2007
- Securities Businessperson (Merchant Banker) Regulation, 2007
- Securities Registration and Issue Regulation, 2008

Securities Registration and Issue Regulation, 2008 (First Amendment)

- SEBON Procurement Regulation, 2009
- Mutual Fund Regulation, 2010

Mutual Fund Regulation, 2012 (First Amendment)

- Central Depository Service Regulation, 2010
- Credit Rating Regulation, 2011

2.1.5 Technical Analysis Vs Fundamental Analysis

There are two approaches, technical and fundamental of security analysis. Technical analysis forecast stock prices on the basis of past price behavior of the company, whereas fundamental analysis forecasts stock prices on the basis of earning dividend of the company.

Technical Analysis

Technical analysis is a security analysis discipline for forecasting the future direction of prices through the study of past market data, primary price and volume. In its purest form technical analysis considers only the actual price and volume behavior of the market or instruments. Technical analysts may employ models and trading rules based on price and volume transformations. Such as the relative strength index moving average regression, inter market and inter market price correlation cycles or classically, through reorganization of chart patterns (/http:/len.wikipedia.org, Aug 31 2009).

Technical analysis is the forecasting of future financial price movements based on examination of past price movements, like whether forecasting technical analysis does not result in absolute prediction about the future instead technical analysis san help investors anticipate what is 'Likely to" happen to price over time. Technical analysis uses a wide variety of charts that shows price overtime.

Robert A. Levy, a researcher and analyst says,

1. Market price is determined by the interaction of supply and demand forces.
2. Supply and demand are influenced by a variety of factors; both rational and irrational.
3. Barring minor deviation, stock prices tend to move in persistent trends.
4. Shifts in demand and supply bring about changes in trends.
5. Irrespective of why they occur, shifts in demand and supply can be deterred with the help of charts market section.
6. Because of persistence of trends and patterns, analysis of past market data can be used to predict future price behavior.

Technical analysis involves the examination of past market data, such as price and the volume of trading, which lead to an estimate of future price trend and therefore, an investment decision. Whereas fundamental analysis use economic data that are usually separate from the stock or bond market, the technical analyst believes that using data from the market itself is good idea because "the markets is its own best predictor". Technical analysis based trading decisions on examination on prior price and volume data to determine past market trend from which they predict future behavior for the market as a whole and for individual securities (Reilly and Brown, 2000 p. 870).

) **Fundamental Analysis**

Fundamental analysis is a method used to evaluate the worth of a security by studying the financial data of the issuer. It scrutinizes the issuer's income and expenses, assets and liabilities, management and position in its industry. In other words, it focuses in the "basics" of the business.

Fundamental analysis theory claims that at any point an individual stock has an intrinsic value, which is equal to present value of the future cash flow from the securities discounted at appropriate risk adjusted discounted rate. The value of the common stock is simply the present value of all the future income, which the owner of the share will receive (Franch, 1986).

2.2 Research Review

According to Laderman, forget about what the stock market is going to do today, tomorrow or even next year. Instead, think about investing for the longer term, where do you start?

First, identify the economic, social, and technological forces that will dominate the next decade. Then, determine the trends that point to a treasure trove of stock opportunities and –thereafter, figure out what kinds of companies could profit from those trends.

Mahat, (1981) in his book "Capital Market, Financial Flows and Industrial Finance in Nepal" has said, there is absent of secondary market to ensure liquidity to the securities in demand. Any attempt to stimulate investment in industrial sources would naturally depend on the extent to which the securities are salable in the market. Only the existence of a stock exchange can enable the security holders to sell their securities for cash and purchase alternate securities if they wish. In Nepal, in the absence of such stock market, an industrial security is an illiquid form of asset, even more illiquid than the real estate for all practical purpose.

Shrestha, (1992) has carried out the study on “Capital Market in Nepal: Changing Dimensions and Strategies”. He has attempted to highlight mainly on three important aspects; conceptual rationale of the capital market, achievement of the Nepalese capital market and thereby providing few possible scenario to improve the performance of capital market in Nepal.

For the study, he was examining the fourteen listed companies. The study concluded that various inconsistencies and hindrance do exist the way to the smooth functioning of the capital market. He has suggested few scenario like allowing the business if buying and selling securities to the private broker s with membership on the stock market. Next the security Exchange Centre (SEC) must flow “Leave it to the Market Force” to determined the final price of transactions. Likewise, it is necessary to identify rational talent and put committed dedicated professionals with additional background of knowledge and experience in the decision making capacity of the SEC.

Bhatta, (1995) has assed “The Performance of Capital Market in Nepal”. He has taken ten companies as a sample. Study concluded that the capital market requires continuous flow of information to run efficiently. Monotonous rules and regulations depressed the investors. Legal arrangements are need to amends to improve capital market.

Bhatta, (1995) conducted a study entitled “Assessment of the Performance of Listed Companies in Nepal”. His study was based on 10 listed companies with 5 years data (1990-95). One of his major objectives was to analyze the performance f listed companies in term of risk and return which is related to our study.

From his study, Bhatta has addressed the following the risk and return analysis of different stock. A highly significant positive correlation has been address between risk and return character of the companies. Investors generally accept higher return from those stocks which associates higher risk. Nepalese market is inefficient market thus; stock price does not reflect the information related to market as well as company. Neither investor analyzes the overall relevant information relating to the market nor exchange broker try to disseminate the information. Therefore, the market return and risk both do not represent the reality. In his study, he also explore that many companies among his sample have an unsystematic or diversifiable risk, which can be minimized through portfolio management using financial analysis.

Bhatta, (1997) has conducted research on the topic of “Dynamics of Stock Market in Nepal”. He concludes in his research that, the stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the later. The stock market raises and mobilized the investable resources to finance to the long term large projects in the economy. The stock market therefore, can be regarded as a heart of economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.

Development of the manufacturing sector is the backbone of an economy. This, in turn assists to faster banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sector.

Although it has became late to take stapes to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resource mobilized to finance the productive enterprises in Nepalese economy.

Gurung, (1999) conducted a study on "Share Price Behavior of Listed Companies in Nepal". The main objectives of the study was to analyzes the relationship between traded and listed companies, to evaluate the trading turnover , to analyze the behavior of NEPSE index , share price behavior of listed companies and to indentify the market behavior in Nepal. The sample for the study was fifteen companies listed in NEPSE. Different statistical tools like average correlation coefficient and probable errors were used. He concluded that the number of listed companies has been increasing during the study period, that is to say there was an expansion of capital market, and shares of the trading companies whose shares have been traded decreased in each year.

Panta, (2000) in her thesis "Current Problems and Prospects of Securities Market in Nepal" studied the trend of the Nepalese stock market and present state of primary and secondary market as well as problems and prospects of Nepalese stock market. The main findings of her study were,

- The development of capital market primarily depends on program and their implementation.
- In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market trading system for both equity and debt security.
- Lack of investors' confidence in stock marke3t since many listed companies resulted not trading on regular basis or hold AGM.
- NEPSE does not have appropriate policies, memberships, and fee structure to attract member outside the Kathmandu.
- IN Nepal, banks dominate primary markets in Government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.
- Lack of necessary provisions in the laws and regulations for the privatizations and automatics of stock exchange as well as for the establishment of central depository o securities (CDS).

She did point out the transparency and openness of transaction, quality professional services, in adequate corporate financial disclosures and improves legal, regulatory , and supervisory framework are the urgent need of Nepalese stock market. Therefore, it is important that the basic assumption in any effort for protecting investors interest or boosting their confidence or developing the stock market is that business, which should be enable to operate in an environment that remains conducive to growth and expansion but complete replication of any tailor made model, as applied anywhere, may not work because the specific in Nepalese stock market is different from other developed market.

Sapkota, (2000) “Risk and Return Analysis in Common Stock Investment” has concluded that common stock is the most risky and lifeblood of stock market because of higher risk and returns. Private company stockholders are the passive owners of the company but they play a vital role in economic development of the nation by mobilizing the dispersed capital remained in different form of the society. If investor is successful to analyze risk and return then common stock are the best financial assets for the stock investors.

Timilsina, (2001) conducted the study on “Capital Market Development and Stock Price Behavior in Nepal”. The main objective of the study was to find out the fair market prices of equities and observe the variation of actual prices from the computed fair prices to test whether the present behavior of prices will remain stable. The study covered a period of 8 months in the year 1992/2000. Thirty four listed companies were taken as a sample for the study. Different statistical, mathematical and financial tools including the formulation of hypothesis was done in the study. The main findings of the study was that the market price of share depends on Earning per Share(EPS), as well as Dividend per Share(DPS), but DPS is more prices sensitive and it will have direct and immediate response in the market. However the market values of share computed on the basis of Earning per Share near to the observed values.

Ojha, (2002) has conducted a mini research entitled” Financial Performance and Common Stock Pricing”. The major findings of the research are; Nepali stock market is in infant stage. Dominant of banking sector is prevalent in the market due to other industries including finance and insurance companies. Manufacturing companies are not encouraging. He also concluded that people have a misconception that the issuance of the bonus shares and right shares, which actually decreases price and this makes them to invest in even at a too high price with expectation of getting the same to increase their overall wealth. Further, he concluded that stock price in Nepal is determined more by other factors than the financial performance of the concerned company.

Pradhan, (2003) has carried out a study on "Stock Market Behavior in a Small Capital Market". The main purpose of the study was to address the stock market behavior in a small capital market in the context of Nepal. It attempts to examine relationship of market equity market value to book value, price earnings and dividend with liquidity leverage, profitability assets turnover and interest coverage. Different financial tools are used in the study period of 198 t0 1990 seventeen listed companies were the sample for the study. The result from the study was that the larger stocks have larger earning, larger ratio of market value to book value of equity, lower liquidity ,lower profitability and smaller dividend. Price earnings ratios and dividend ratios are more variable for larger stocks. Larger stocks also have higher leverage lower assets turnover and lower interest coverage but these are more variable for smaller stocks than for larger stocks. Stock with larger market value to book value of equity have larger price earnings ratio, and lower liquidity ,higher leverage, lower earnings, power turnover and lower interest coverage. Stock with higher price earnings ratio has lower liquidity, higher leverage, lower profitability, lower turnover and lower interest coverage. However, these are all more variable for stocks with smaller price earnings ratio than stocks with larger price earnings ratio.

Bogati, (2005) has conducted research on topic “Securities Market in Nepal”. Her study was based on the sample of seven companies among 114 listed companies. She has taken data of five years from fiscal year 056/057 to 2060/061 for the purpose of analysis. The objective of the study was to give instruction to security market to forecast the future trend of NEPSE in terms of annual turnover, paid value and market capitalization, to examine the signaling effects of some major national and international events on the return securities and to recommend appropriate and remedial suggestions for the improvements and development of secondary market in Nepal.

She concluded that the study of NEPSE index increased to 360.70 in fiscal year 056/57 from 195.25 in fiscal year .050/51, and then it fell down to 222.04 in fiscal year 060/061. Market returns also negative 9.92 percent. The data indicates that the performance of almost all sectors is poor. Although there are some businesses companies that are doing well, these few companies are not enough to make higher to overall performance of each sector that are enlisted in NEPSE. Financial performance of almost all market is poor and the main cause of poor financial performance is decreased in NEPSE index due to Maoist activities and political instability. The study shows, investors were unwilling to invest in securities market because of lack of poor knowledge and well guidance in this field. Investors wanted to have full information about risk and return and they wanted to confidence about their invest being utilized field.

Poudel, (2005) has conducted Research on the topic “Share Price Behavior of Listed Companies in Nepal”. The sample for the study comprised of 21 listed companies representation from each sector listed in Nepal Stock Exchange. The study was based on the secondary data. Different statistical tools like serial correlation and run test were used. The objectives of the study was tested the daily share price behavior of listed companies in Nepal.

He concluded that NEPSE index showed a steady increase in the later month of the study period, which also shows the better performance of the NEPSE. Stock market performance is steadily increasing with the increase in number of listed companies. The badly affected were hotels, trading, manufacturing and processing sectors, due to the different reasons. The NEPSE index of commercial Banks is in increasing trend as compared to the others.

Poudel, (2008) has conducted research on the topic “Stock Market Growth in Nepal”. His study was based on the primary and secondary data during the period year 1993/94 to 2007/08. The objective of the study was to examine the pace of primary market and growth of listed companies in Nepal and to analyze the market capitalization, number of transactions number of securities traded and number of securities listed etc. He has concluded that the study of the market capitalization value of listed securities was fluctuating in the research year and the growth rate is negative in market capitalization. Daily turnover, total share traded and opening market, NEPSE index was also increased. NEPSE and SEBON do not provide information accurately and timely. This further added that information provided is not sufficient. Primary market is more attractive for majority of the respondent because low risk. Majority of the respondent prefer to invest in banking and financial sector because of its marketability and profitability.

Poudel, (2008) has conducted the research on “Stock Market Growth in Nepal”. On the basis of findings he concluded that Government of Nepal adopting the liberalized economic policy has been initiating different program for the organized development of securities market. However, other program like amendment of securities exchange act, standardizing stock exchange by securities initiating Automated Trading System (ATS) etc which were perceived to be more important for the securities market development. Furthermore, three year interim plan of Nepal Government also developed various objectives and program for securities market development and to meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent ,credible and investor friendly capital market for developing the securities market as an important sources of long-term financing. More than 90 percent of primary market is from banking and financial sectors. It is because the obligatory rule of regulatory body (NRB) to go to the public issue. Real sector like manufacturing, trading and hotel are in few numbers in primary market it is because less attractive than financial sectors in terms of liquidity and profitability.

Unfortunately, in Nepal despite the history of about half a decade of planned economic activities to develop real sector of the country, little attention was paid to the development of financial sector. Over the past one and half decade, financial sector despite many problems has developed significantly in Nepal. However, most of the developments were confined to the banking sector; stock market has virtually remained stalled because of the low priority in the Governments financial reform policies.

Bastola, (2010) has conducted research on “Behavior of Nepal Stock Exchange Index”. She conducted that Capital Market is a vital role to develop the economy of the country. The institutional growth of primary and secondary market and number of listed companies are increased. It implies that that capital market in Nepal is in developing process. The number of transaction, share traded amount and market capitalization suggest that the Commercial Banks and Finance Companies as compared to others are in better position. They look less affected than the performance of hotel trading companies.

Review of Master’s Dissertations

Shrestha, (n.d.) has conducted a study on “The Role of SMC in the Economic Development of Nepal”. The general objectives of this study are to examine the role played by SMC in promoting Nepalese security market. This study has covered the time span of four years. This study has concluded that SMC is playing a crucial role to enhance the economic development of the country. The growth of the security market is highly dependent upon the development of financial institutions and their activities. However primary and secondary markets are not progressing smoothly.

Bhattarai, (n.d.) has studied “The Impact of SEC on Capital Mobilization with Specials Reference to the Government Securities and Share Market in Nepal”. He has founded that SEC has been established for the reason to provide the liquidity. Thus, it helps to mobilize the long –term capital to launch the development activities in the country.

Bhattarai, (n.d.) has concluded that majority of the companies displayed lower price earnings ratio. As a result, market price of the shares highly skewed. Furthermore, there is a mishmash between calculated a quoted price. Increasing number of financial institutions plus individual investors raised the transaction volume; speculation of shares is also encouraged.

CHAPTER: THREE

RESEARCH METHODOLOGY

This is third chapter, which is the most important part of research. To accomplish the stated objectives of this study, researcher has flow the specific research procedure. This chapter tried to explain those procedures one by one. Like research design adopted, population sample selected. Further it specified of source of data, data collection techniques, analyzing tools and limitation of technology.

Thus it is the process of arriving at the solution of problems through a planned and systematic method of finding out solution to a problem with certain objectives in view. Research Methodology helps to find out accuracy, validity and stability of research.

3.1 Research Design

In this study, researcher has employed the descriptive and analytical research design. Descriptive design is to analyze the capital market, securities market, stock market, NEPSE, commercial bank indices and trading indicators. While analytical design is adapted to identify about independence and randomness of the successive share prices. Further it interprets the empirical results.

3.2 Population and Sample

In this chapter as a whole data presented as a form of population. Yearly report and transactions of different years has been included for the study of purpose. Thus there is no need of any sample.

3.3 Nature and Source of Data

The required data study has been collected from the secondary sources. NEPSE, security board of Nepal, Nepal Rastra Bank, are the main institutions which provided the most important secondary data required for the study. The website of NEPSE, SEBON and Nepal Rastra Bank are the major sources of secondary data. Besides these, data has been collected from different books, journals, newspaper, article, and thesis. These website are the major sources of finding data:-

*Nepal Rastra Bank (www.nrb.org.np)

*Nepal Stock Exchange (www.stockexchange.com)

*Securities Board of Nepal (www. Sebon.com)

*Research studies, articles, journals, books etc.

3.4 Data Collection Procedure

The data are mainly based on secondary data obtained from earlier stated sources. For the purpose of the collection of data required for this study, first of all necessary study of data and the relevant document identify, then visiting various organization and area to collect data. The report and data are also collect from the websites, books, library, journal, magazine, dissertation and other published articles.

3.5 Data Processing and Analysis Tools

Simple statistical tools are used to this study. The statistical tools used in this study are percentage, line charts bar diagram multiple bar diagram. They are used to analyze the proportion of different economies, companies listed in the NEPSE, market capitalization, paid-up value, traded share, yearly transactions.

3.6 Limitation of the Methodology

An analysis of the study is fully based on secondary data. It plays a key role on the study and reliability of collected data and affects the result of a study. Mean, Standard Deviation, Regression, Correlation and other important statistical Tools have not been included but percentage, table, bar, multiple bar diagram have been used. Due to the lack of primary data and unavailability of resources study has been affected. Being capital market development process is in a slow pace it is mostly related to secondary market.

CHAPTER: FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the main body of the study, the presentation and analysis of collected data from the different sources presents the existing economic realities, market situation, annual turnover, market capitalization, number of share traded, neighboring countries economic trends and its impact in prospective capital market development in Nepal. The rest part deals with the trend of NEPSE index and major findings of the study.

4.1 Data Presentation and Analysis

Capital Market

In the first eight month of the fiscal year 2011/12, 7 companies issued securities and mobilized capital equivalent to Rs. 72.43 million. Of the 7 companies, 3 companies issued ordinary shares, 3 companies issued right shares while 1 company issued debenture share through the primary security market. This amount at the review period is 82.06 percent lesser than the amount mobilized through the issuance of securities in the same period of the previous year and capital mobilization of one company through debenture is Rs. 40 million. In the first eight months of the fiscal year 2010/11, 27 companies had mobilized capital equivalent to Rs. 4.037 billion by issuing securities. Of those 27 companies, 10 companies issued ordinary shares while 17 companies issued right share through primary security market.

In the fiscal Year 2008/09, 64 companies had mobilized capital equivalent Rs. 16.82 billion by issuing securities through ordinary share, right share and debenture. This trend has continuously decreasing since the four consecutive years. In Fiscal Year 2009/10, 61 companies mobilized capital equivalent to Rs. 10.82 billion in 2010/11, 6.85 billion with 47 companies and first eight month of fiscal year 2011/12 equivalent to Rs. 72.43 million only by 7 companies. Since four years the number of capital mobilizing companies also frequently decreasing, that the table explicitly shows.

Table 4.1: Primary Market Trends

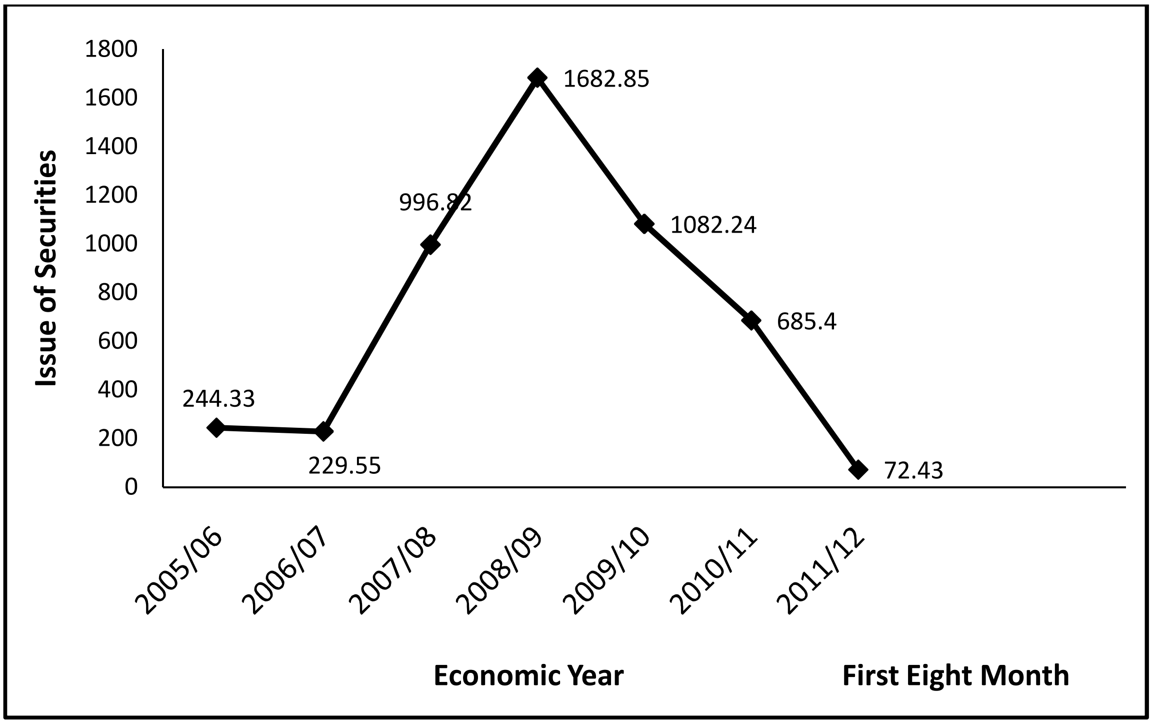
Rs. In Ten Million

	Particulars	Fiscal Year							
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	First Eight Months 2010/11	First Eight Months 2011/12
1	Capital Mobilization	244.33	229.55	996.82	1682.85	1082.24	685.40	403.77	72.43
A	Ordinary Share	57.98	38.02	92.48	181.57	264.93	172.88	63.9	12.35
B	Right Share	101.35	126.53	609.34	1426.28	817.30	507.52	339.87	20.08
C	Preference Shares	-	40	-	-	-	-	-	-
D	Debentures	85	25	295.00	75.00	-	5.00	-	40.00
E	Citizens Unitary Plan	148.63	170.23	98.00	95.34	100.88	31.54	29.88	33.08
2	Number of Capital Mobilizing Companies	29	34	64	64	61	47	27	7

Source: Security Board of Nepal

Figure 4.1: Primary Share Issue (Market Capitalization)

Rs. In Ten Million



Secondary Market

In the first eight months of fiscal year 2011/12, the total number of listed companies in Nepal Stock Exchange (NEPSE) has reached 215. This number in the corresponding period of the previous fiscal year was 202 while the number of such listed companies in NEPSE reached 209 in the end of same fiscal year. Likewise, the total number of listed development bonds in the review period has reached 20 with the listing of two new additional development bonds worth Rs. 8.00 billion. However, the number of institutional bond of investment bank Ltd. has reached 14 with Rs. 30 million paid-up values during this period. In the end of the first eight months of fiscal year 2011/12, market capitalization of security fell by 13.04 percent reaching Rs. 293.55 billion, which was Rs. 337.57 billion, during the same period of previous fiscal year 2010/11. The value of market capitalization which was Rs. 323.48 billion arriving at this point.

Table 4.2 : Secondary Market Trends

Rs. In Ten Million

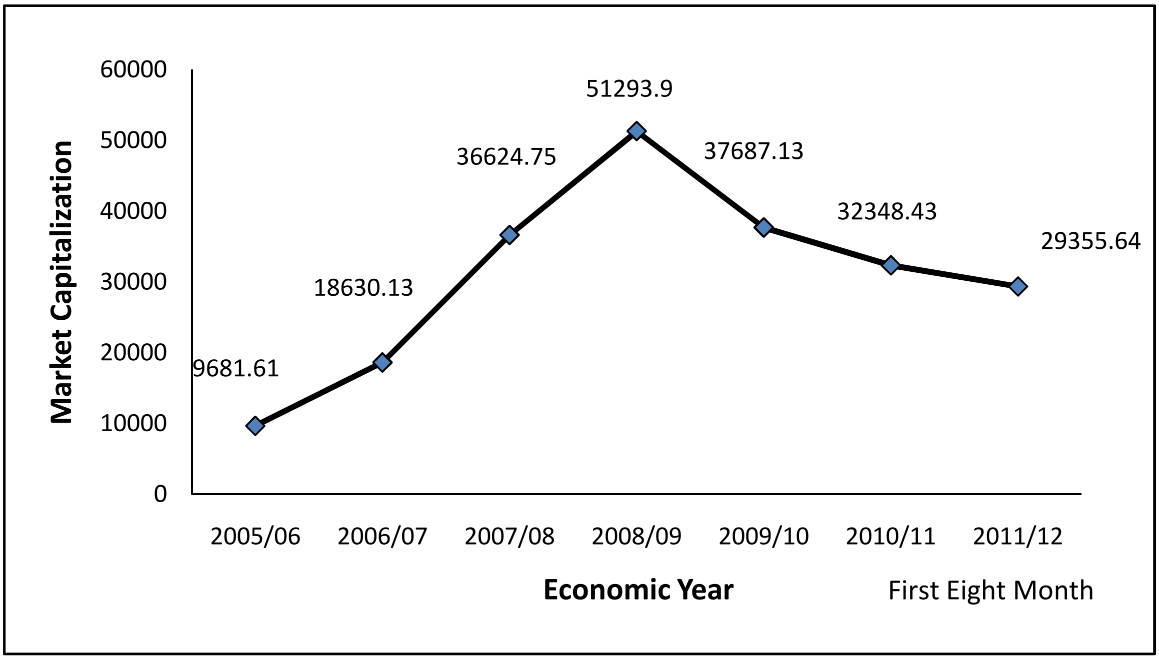
Particulars	Fiscal year						First Eight Months	
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2010/11	2011/12
Securities Transaction Amount	345.14	836.01	2282.08	2168.11	1185.11	666.53	427.23	527.67
Number of Securities Transaction “000”	12222	18147	28599.77	30547.17	26231.35	26240.39	16875.29	24302.24
Number of Transactions	97374	120510	150800	209091	213733	302364	193631	195273
Market Capitalization	9681.37	18630.13	36624.75	51293.90	37687.13	32348.43	33757.43	29355.64
Percentage of Transaction in Market Capitalization	3.56	4.48	6.23	4.23	3.14	2.06	1.27	1.80
Market Capitalization/ GDP Percent	14.80	25.60	44.90	51.74	32.15	19.48	28.49	18.48
Paid-Up Price of Listed Companies	2000.86	2179.88	2946.5	6114	7935.6	10023.8	9675.5	10847.1
Number of Listed Companies	135	135	142	159	176	209	202	215
Types of Securities Transaction (script Traded)	110	116.	136	170	198	222	205	211
NEPSE Index (Points)*	386.86	683.95	963.36	749.10	477.73	362.85	384.17	313.92

Source: Security Board of Nepal

During the review period of fiscal year 2011/12, altogether 24.30 million units of shares worth Rs. 5.28 billion were traded, which was 23.51 percent higher than the same period of fiscal year 2010/11. In the eight month of fiscal year 2010/11 altogether, 16.87 millions of units of share worth Rs. 4.27billion were traded.

Figure 4.2: Market Capitalization

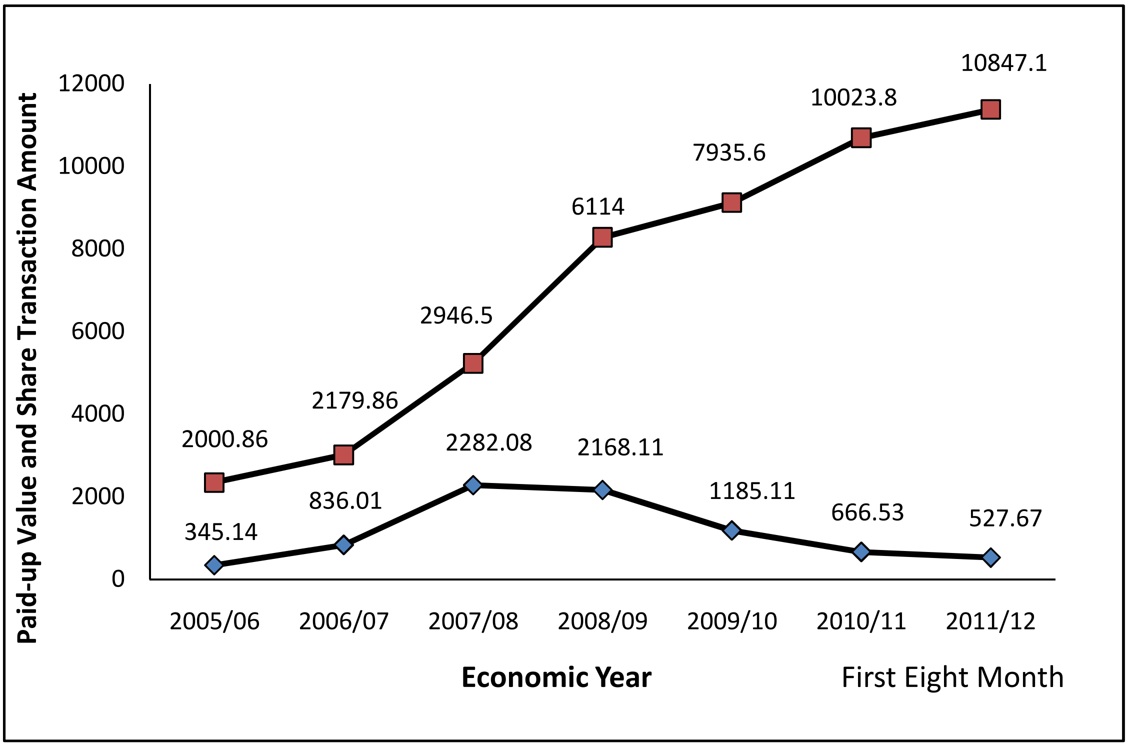
Rs. In Ten Million



The paid-up value of listed shares rose by12.11 percent reaching Rs.108.47 billion in the first eight months of the current fiscal year 2011/12 as compared to Rs. 96.75 billion in the corresponding period of the previous fiscal year. At the end of the fiscal year 2010/11 the paid-up value of listed shares was Rs.100.23 billion.

Figure 4. 3: Paid-Up Value and Share Transaction Amount

Rs. In Ten Million

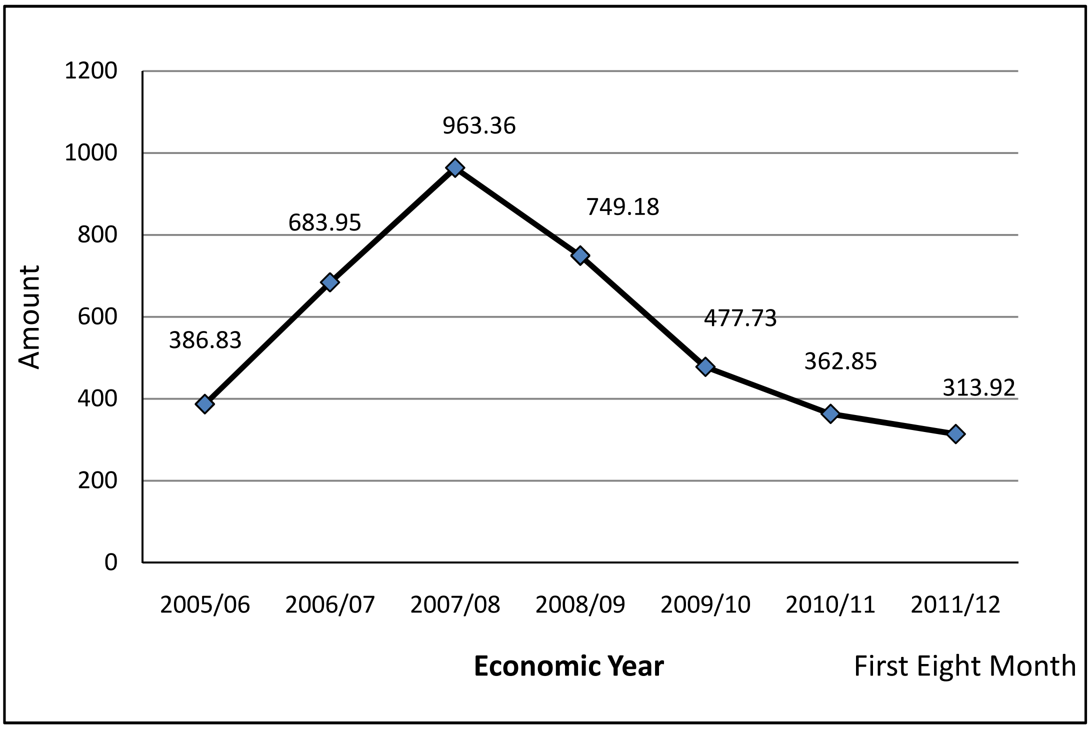


The number of share transactions conducted in the first eight months of the fiscal year 2011/12 rise by o.85 percent totaling 1, 95,273 shares as compared to the share transaction conducted 1,93,631 in the same period of previous fiscal year 2010/11.

NEPSE index that indicates the status of entire secondary market stood at 313.92 points in the first eight month of the fiscal year 2011/12. This figure declined by 35.44 percent in the current fiscal year as compared to the figure 384.17 points of the corresponding period of previous fiscal year.

Figure 4.4: NEPSE Index

Rs. In Ten Million



Altogether, 24.3 million units of shares worth Rs. 5,276.7 million were traded in the FY 2011/12, with an increase of 23.51 percent over the corresponding period of the previous fiscal year. In first eight months of FY 2010/11, altogether 16.875 million units of shares worth Rs 4272.3 million were traded.

The number of share transactions conducted in the first nine months of FY 2011/12 increased marginally by 0.85 percent totalling195,273 shares as compared to the transaction of 193,631 shares conducted in the same period of the precious years 2010/2011.

Securities Boards of Nepal (SEBON)

Mutual Investment Fund Regulation, 2010 under the Securities Related Act, 2006, has been implemented and Nepal Rastra Bank has already brought into effect the policies on fund management. By mid-March 2012, two companies namely Siddhartha Mutual Fund and Nabil Mutual Fund have been registered and permissions issued to go into operation in pursuance of the objective of encouraging entry of the banks and financial institutions desiring to establish mutual investment fund.

In the review period of the FY 2011/12, bonus shares equivalent to Rs. 1,517.1 million of 19 listed companies has been registered with the Board. In the same period, the Board has approved issuance of ordinary shares of three financial institutions and debenture of one institution totaling Rs. 513.5 million. Moreover, permission is also given for issuance of rights shares worth Rs. 208.50 million.

In the review period, SEBON has granted permission to the Central Depository System and Clearing Ltd. to establish Central Securities Depository System for bringing efficiency in the processes involved for approval, clearing and settlement, and ownership transfer of securities. Besides, process for company operation is initiated upon approval of the Company Operations By-Laws.

Central Deposit System and Clearing Ltd.

This company was founded on 22 December 2010 with the objective of establishing and operating a central depository system for the organized development of capital market of the country by ensuring well organized securities transactions through an arrangement of maintaining documentation of share transactions, and clearing and settlement system electronically. This fully Nepal Stock Exchange owned company has authorized capital of Rs. 500 million, and Rs. 300million is paid up. Main objective of the company is to take charge of shares, debentures, bonds, stocks and other securities, and conduct paperless transactions of securities, facilitation, ownership transfers of securities/instruments and maintain up to date records of such transactions electronically. Besides, the company will facilitate the professional transactions of securities instruments in the country through electronically managed central depositary system. For this, the company will establish and operate a modern share trading network by electronically linking the organized stakeholder member institutions, share issuance agencies, registrar and transfer representatives, stock exchange, and clearing agencies. Such arrangement is expected to bring simplicity, easiness, effectiveness and efficiency in the existing trading system.

The company has established its office; installed necessary hardware as infrastructure for starting and managing the depository service; and has also developed a Central Depository Accounting Software(CDAS). Likewise, development of a separate Clearing and Settlement Software (CnS) is in final stage for providing services relating to clearing and settlement of securities traded in the secondary market. Securities Transactions Act, 2006, Central Depository for Securities Deposits Rules, 2010 and Central Depository Services Rules, 2011 have been approved for operation and management of the Central Depository of Securities.

Approval in principle has been provided to ECRA India, Ltd. for making an entry into the credit rating service in the securities market in line with the objective of permitting companies desiring to enter into the credit rating business. In the process, securities allocation guidelines, and mutual investment guidelines are being drafted.

The Board, imparted basic knowledge on securities market to 1,500 people belonging to general investors, organized agencies/institutions, businessmen, bankers, listed companies, teachers/professors, economic journalists, legal practitioners, and students by organizing training programs in Kathmandu valley, and Banepa, Nepalganj, Dhangadhi, Surkeht, Rolpa districts outside the valley. Moreover, extensive additional training programs are planned in other parts of the country (outside Kathmandu valley) as well. Necessary preparation is underway for Training of Trainers (ToT) necessary for the extension of securities education throughout the country.

Necessary process has been initiated for attracting NRN investments in Nepal based on the report prepared by a Committee comprising members representing SEBON, Nepal Rastra Bank, and NRN. Also, a draft has been prepared for amendment in Mutual Investment Fund Rules, 2011 to facilitate NRN investment through the Fund.

SEBON, during the review period, has brought out Central depositary Service Regulation, 2010 into effect from October 6, 2010 with a view to making the process such as clearance, settlements and transfer of share prompt and efficient. In addition to this, during this same period, necessary arrangements have been made to carry out study for the implementation of International Standard Serial Number (ISSN) after securing membership of Association of National Numbering agency(ANNA) for the operation of central Depositary System. Likewise, SEBON has brought out the Mutual Fund Regulation, 2010 into effect from September 27, 2010 in order to register and operate Mutual

Investment Fund Plan, make regulatory provisions for the issuance of operation licenses and established duties, responsibilities and authorities of fund supervisors, fund managers and depositories. Formation of Five-Year Capital Market Master Plan under the technical assistance of World Bank for its promotion and growth is underway.

SEBON as provisioned in Share Trader (Merchant Banker) Regulation 2007 has brought Investment Management Guidelines, 2010 into effect from December 1, 2010 subsequently issuing the preliminary draft on guarantor's guidelines in order to regularize and manage share guarantee and portfolio management related tasks.

Under the scheme of securities data management system, developed on-line reporting system has been experimented successfully and request letters are being received from enlisted banks and finance companied for username and password to submit financial reports through websites. SEBON will be providing reports to enlisted financial institutions through on-line reporting system by the end of this fiscal year.

SEBON has been implemented Bonus Share Issue Guidelines, 2010 in the review period in order to regularize and systematize bonus share issue. The Board has enforced first amendment on Securities Registration and Issue Regulation, 2008. According to this Regulation, companies engaged in infrastructure and productive sectors are required to set aside at least 10 percent of their issued capital for the local people in order to attract such companies to public issue within the construction period.

Securities Act, 2006 is being revised together with the preparation of commodity market regulation so as to improve market monitoring and supervision system and regulatory provisions on commodity market by making SEBON fully autonomous body.

The SEBON, during the review period, has issued capital mobilization permits to 37 companied subsequent to the registration of shares worth Rs. 6513.2 million. In addition to this, SEBON has registered bonus hares equivalent to Rs. 4016.5 million of 50 companies and renewed 23 share brokers of Nepal Stock Exchange Limited and 7 merchant bankers during this review period.

Of the 204 listed companies, 136 such companies have submitted annual reports/ financial reports to SEBON in review period. The Board, during this review period, has provide basic level trainings pn various subjects related to security markets through training programs so as to enhance knowledge and awareness of share market investors, economic journalists, industrialists and students. In addition, the board has published Security Status Journal, 2010 and booklets in order to provide basic knowledge on share market and legal provisions adhered with this.

The Board has initiated investor training program in the current fiscal year. Under this program, interact program was conducted jointly with National Judiciary Academy on 4 March 2011 where securities market related issuers were discussed with officials involved in judicial services and law workers. Likewise, training program was jointly organized on 12 March 2011 by Janakpur Chamber of Commerce and Industries and Nepal Rastra Bank in Janakpur, Dhanusha in the participation of investors and concerne3d people for the first time outside the Kathmandu valley. Similarly, the Board organized an interaction program on March

2011 involving concerned people where problems and challenges of merchant banking business were discussed.

2010/11, a total of two government bonds worth Rs. 7.00 In the first nine months of the current fiscal year billion including one development bond worth Rs. 3.00 billion and one national saving certificate equivalent to Rs. 4.00 billion were issued. Government treasury bonds worth Rs. 9.9792 billion including three development bonds and two citizen treasury bonds were as issued in the corresponding period of the previous fiscal year 2009/10.

Nepal Stock Exchange Limited (NEPSE)

An MOU is signed between Nepal Stock Exchange and Korea Stock Exchange for the potential mutual cooperation in the field.

To simplify the investors' access, transactions are being carried out through the country's main cities like Biratnagar, Birgunj, Butwal, Pokhara and Narayanghat while necessary monitoring and studies are being conducted.

Of the transactions of listed securities worth Rs. 24.00 billion Targeted to take place through the licensed members in the previous fiscal year, transactions equivalent to only Rs 6.67 billion were conducted. As a result of the constantly slipping secondary market, securities worth Rs. 5.27 billion were traded till mid-February of this year. A total of six companies have been listed in the review period due to constant slippage of aggregate market indicators and apparent weakness seen on issuance of shares in the primary market.

The Share Traders

In the review period of the fiscal year 2011/12, the number of share brokers has reached 48. As only 23 share-brokers were found engaged in share trading business, additional 25 share brokers have been issued with license to make the business more competitive in the given size of the share market. In the review period, in the review period, 12 merchant bankers exist, while by the end of the FY 2010/11 there were 23 share brokers and 14 merchant bankers. In the review period, the Board has conducted on site monitoring and supervision and prepared report.

Mutual Fund Plan

Trading of the units of mutual fund plan is being carried out by NCM Mutual Fund through the secondary market. In the first eight months of the FY 2011/12, investment of the NCM Mutual Fund stood at Rs. 136.1 million, which is 5.8 percent more in comparison to the corresponding period of the previous fiscal year. However, as compared to the previous fiscal year, income of the plan Decreased by 1.8 percent totaling Rs. 6.64 million. Plan’s per unit net asset value in the first eight months of the previous fiscal year was Rs. 33.73,which in the review period has come down to Rs.21.28.

Mutual Fund Regulations

With the objective of mobilizing the scattered savings of the small investors and promoting institutional investment through the medium of Mutual Funds, SEBON has implemented Mutual fund Regulation, 2010. This Regulation consists of provisions such as fund promoter, fund supervisor, fund manager and depositary. Likewise, other provisions in the Regulations are to establish fund by the fund promoter, supervise fund by fund supervisor, manage fund coming under projects by fund manager and perform securities related custodial tasks. Similarly, qualification, power, functions and duties of fund promoter, fund supervisor, fund manager and depositories, agreements and matters to be disclosed in agreements, potential investment areas, limitations for investment within and outside country and cancellation of scheme have also been provisioned in the Regulations.

Citizens Investment Trust

By mobilizing both personal and institutional savings, CIT has been maintaining the investment flow by providing amount in the form of loan to different sectors. Besides, the Trust has been providing share issuance and sales managerial services under the Merchant Banking Business. The Trust's assets/liabilities that stood at Rs. 28.43 billion by mid-July 2011 grew to Rs. 31.9 billion by mid-March 2012. The trust fund, which shares a big chunk of the Trust's liability, grew by 20.87 percent by the first eight months of the FY 2011/12 reaching 28.55 billion as compared to the corresponding period of the previous fiscal year. Such liability grew to Rs. 25.08 billion by mid-July 2011 from Rs. 23.72 at mid-March of the previous fiscal year.

The Trust, as a merchant banker under the capital market service, completed the issuance of general and rights shares totaling to Rs. 2.54 billion in FY 2010/11. Amount of such transactions by the first eight months of FY 2011/12 has totaled Rs. 2.43 billion. In the review period, the Trust provided share registrar service equivalent to Rs. 2.49 billion.

Of the total fund collected until first eight-months of the review period, shares of Employees Saving Increment Approved Retirement Fund, Citizen Unitary Plan, Gratuity Fund Scheme, Investors' Accounts Scheme, and the fund collected from the insurance fund has been 61.7 percent, 1.16 percent, 17.61 percent 5.63 percent and 13.83 percent respectively.

CIT, by mid-July of FY 2010/11 invested Rs. 23.67 billion, which is at 3.42 billion more than its total investment in FY 2009/10. By mid-March 2012, such investment reached to Rs. 27.21 billion in comparison to Rs. 22.73 billion during the corresponding period of the previous fiscal year. From the investment portfolio structure, as of mid-March 2012, shares of fixed deposit, government bonds, share securities, period loans, and participate borrow/home loans, stood at 54.50 percent, 7.93 percent 7.48 percent, 16.32 percent, and 13.75 respectively. Compared to same period of the previous fiscal year, investment in fixed deposit decreased by more than 10 percent.

Level of CIT investments that was concentrated in fixed deposit, is being gradually reduced. Policies have been drafted with focus on investment diversification. For this, investment policy has been improvised. Likewise, co-financing procedures, 2011 has been drafted for expanding investments in infrastructure and projects construction. With the aim of purchasing shares from the secondary market, infrastructure building is in process for making arrangement of the Market Maker. Arrangement of Accident Insurance Trust of Rs.100, 000 have been made for the participants of the Employment saving increment Approval Retirement Fund, which is effective from 17 January2012.

Commodity Market

Six Commodity Exchanges are operating since commodity market operations began in Nepal in 2007. Of these, Commodity and Metal Exchange Ltd., Mercantile Exchange Nepal Ltd., Nepal Derivative Exchange Ltd., Nepal Spot Exchange Ltd. and Commodity future Exchange Ltd. have been established as public limited companies while Wealth Exchange Pvt. Ltd. has been established as a private company. Out of six exchanges in operation, four are future exchanges and two are spot exchanges. Wealth Exchange is the first commodity exchange company established as a Spot Exchange in Nepal.

In the review period, SEBON formed a Commodity Market Study Committee comprising of experts for creating foundation for regulatory arrangement. The Committee, after conducting study on problems, challenges, and possibilities as per its terms of reference is preparing its study report.

Commodity market has notably expanded in a very short period. Since establishment of Commodity and Metal Exchange Nepal Ltd. as a first commodity exchange company in 2007, by now six Commodity Exchange Companies are carrying out their operations in Nepal. It seems that every individual company has their own work policy, margin settlement and software system. In all there are 200 brokers in these Exchange Companies. There is the need for a separate regulatory agency for a healthy and balanced development through market systemization.

Access to Formal Banking Channels

A proliferation of Banks and financial sector in the last few years may have posed a risk to financial stability, but it has done wonders to expanding the Nepali people access to formal banking channels.

The deposit and credit indicators of commercial banks shows that average per capita deposit, which was Rs. 25,500 in mid-July 2011, reached Rs. in the end of fiscal year 2010/11 has been continuously dropping and 29,000 in mid-March 2012. Likewise, the average per capita credit increased to Rs. 22,500 from Rs. 20,400 in mid-July 2011. This type of financial expansion is considered to be helpful in achieving the higher rate of growth and alleviating poverty.

Table 4.3: Indicators of Financial Expansion

Description	Mid-July 2009	Mid-July 2010	Mid-July 2011	Mid-March 2012
Commercial Bank Branches	752	966	1111	1300
Population per Branch	34,435	27,184	23,960	20,500
Deposits in Commercial Banks (in billion Rs.)	495.8	569.0	680.2	772.5
Per Capita Deposit (Rs.)	19,150	21,668	25,500	29,000
Lending of commercial Banks (in billion Rs.)	406.7	472.3	544.2	598.5
Per Capita Loan (Rs.)	15,709	17,985	20,400	22,500

Source: Nepal Rastra Bank

Expansion of Financial Sectors

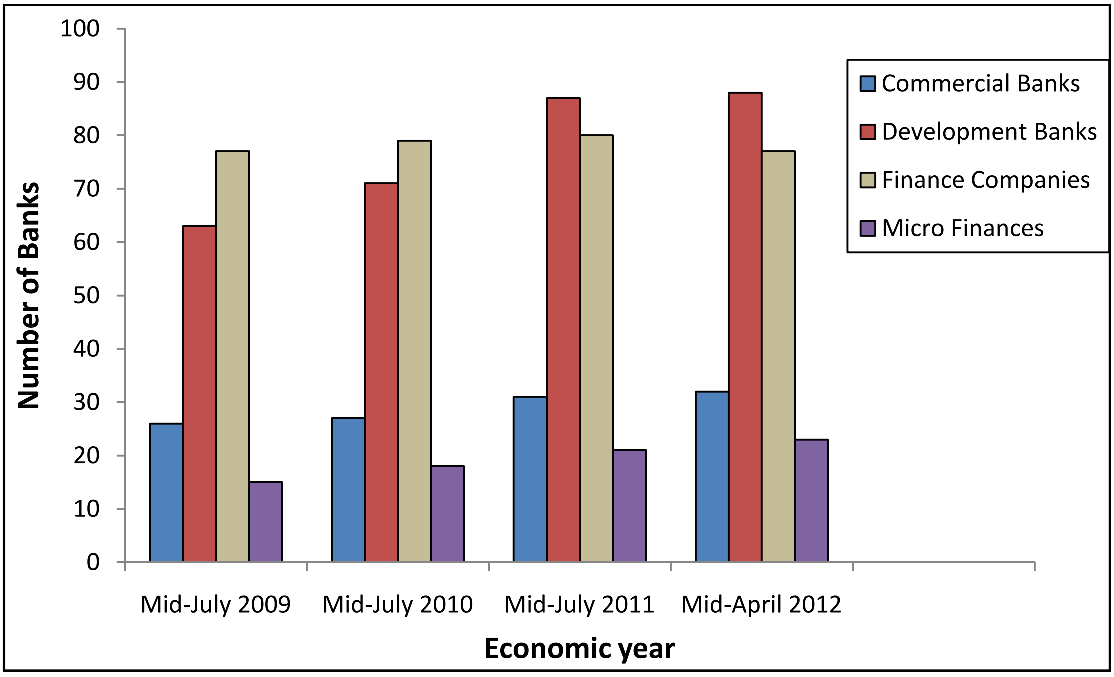
The number of commercial banks, development banks, finance companies and 'D' class micro-finance institutions remained 32, 88, 77 and 23 respectively in mid-April 2012. In addition to bank and financial institutions, there are other institutions engaged in financial services through various means including 25 insurance companies, Employees Provident Fund, Citizen Investment Trust, and Postal Savings Bank. Recently, merger among bank and financial institutions has started. Two commercial banks and five finance companies resulted in the formation of two banks and a finance company prior to the introduction of Merger By-Law in 2011. In the aftermath of the introduction of merger by-law, four development banks and four finance companies have been merged into four development banks. Similarly, 17 financial institutions have submitted their applications to obtain the letter of intent for mergers.

Table 4.4: Number of Banks and Financial Institutions

Banks and financial institutions	Mid- July 2009	Mid-July 2010	Mid-July 2011	Mid-April 2012
Commercial Banks	26	27	31	32
Development Banks	63	71	87	88
Finance Companies	77	79	80	77
Microfinance Companies	15	18	21	23
Nepal Rastra Bank Licensed Co-Operatives (Limited Banking Transactions)	16	15	16	16
Nepal Rastra Bank Licensed NGOs (Micro Finance Transaction)	45	45	38	37
Insurance Company	25	25	25	25
Employee Provident Fund	1	1	1	1
Citizen Investment Fund	1	1	1	1
Postal Saving Bank	1	1	1	1

Source: Nepal Rastra Bank

Figure 4.5: Number of Banks and Financial Institutions



Branch Expansion

There has been a significant growth in the number of branches of commercial banks. While the number of such banks was 1063 a year ago, it stood 1300 in mid-March 2012. During this period, the numbers of branches of development banks and finance companies have reached 629 and 336 respectively. Thus the total number of bank and financial institutions reached 2265. Taking the expansion of these institutions as a measuring rod, we could infer that Far Western and Mid-Western Development Regions are lagged behind in financial expansion.

Table 4.5: Branches of Banks and Financial Institutions

Development region or zone	Commercial Bank	Development Bank	Finance Company	Total
Eastern Development region	229	92	42	363
Mechi	65	26	10	101
Koshi	115	59	23	197
sagarmatha	49	7	9	65
Central Development region	652	246	190	1088
Janakpur	61	25	8	94
Narayani	121	93	32	246
Bagmati	470	128	150	748
Western Development region	235	213	87	535
Gandaki	102	94	46	242
Dhawalagiri	26	11	11	48
Lumbini	107	108	30	245
Mid-Western Development region	103	54	15	172
Rapti	35	24	9	68
Karnali	13	-	-	13
Veri	55	30	6	91
Far-Western Development Region	81	24	2	107
Seti	51	11	2	64
Mahakali	30	13	-	43
Total	1300	629	336	2265

Source: Nepal Rastra Bank

"D" Class Micro Finance Institutions

Microfinance has been extended by 23 microcredit related institutions through the country. Among those, Grameen Bikas Bank (Rural Development Bank) is operating in each development region with the objective of providing necessary financial resources to engage rural ultra-poor women in various income generating activities through group formation. Similarly, 15 Grameen Bank replicators are operating in the private sector as Microfinance Development Banks while 3 are wholesale lending Micro-Finance Institutions (MFIs).

Total assets/liabilities of "D" Class microfinance institutions increased by 12.83 percent to Rs. 26.26 billion by mid-March 2012 compared to mid-July 2011. The total deposits and borrowings of these institutions totaled Rs. 4.57 billion and Rs. 14.08 billion respectively in mid-March 2012 whereas loans and investments totaled Rs. 16.68 billion and 1.85 billion respectively

Table 4.6: Sources and Uses of fund of Micro Finance Institutions

Rs .in Ten Million

Resources	**Description**	**Mid-July 2011**	**Mid-March 2012***	**Percentage Change**
	Capital Fund	243.73	287.16	17.82
	Deposit	353.44	456.90	29.27
	Borrowing	1303.76	1407.84	7.98
	Others	376.78	433.49	15.05
	Profit/Loss Account	50.11	41.03	(18.12)
	Resource/Utilization	2327.81	2626.43	12.83
Utilization	Liquid Fund	333.87	371.40	11.24
	Investment	165.89	185.22	11.65
	Credit and Lending	1464.99	1667.62	13.83
	Others	355.24	393.79	10.85
	Profit/ Loss Account	7.82	8.40	7.42

Source: Nepal Rastra Bank *Provisional

Growth Rate of Neighboring Economies

Economic growth rate for most of the neighboring countries of Nepal has been encouraging for the year 2011 except Pakistan. Among the nations of this region, growth rate of all countries has been remained near to 6.0 percent. As per the global economic outlook published by IMF April 2011, the economic growth rate for India has been the highest in 2010 which 10.4 percent while such growth rate for china for the same year stood at 10.3 percent. The growth rates for India and China in the year 2011, 6.2 and 9.2. In 2012 are expected to remain 8.2 percent and 6.9 and in 2013, 7.3 and 8.8 percent respectively.

Table 4.7: Economic Growth Rate for Neighboring Countries

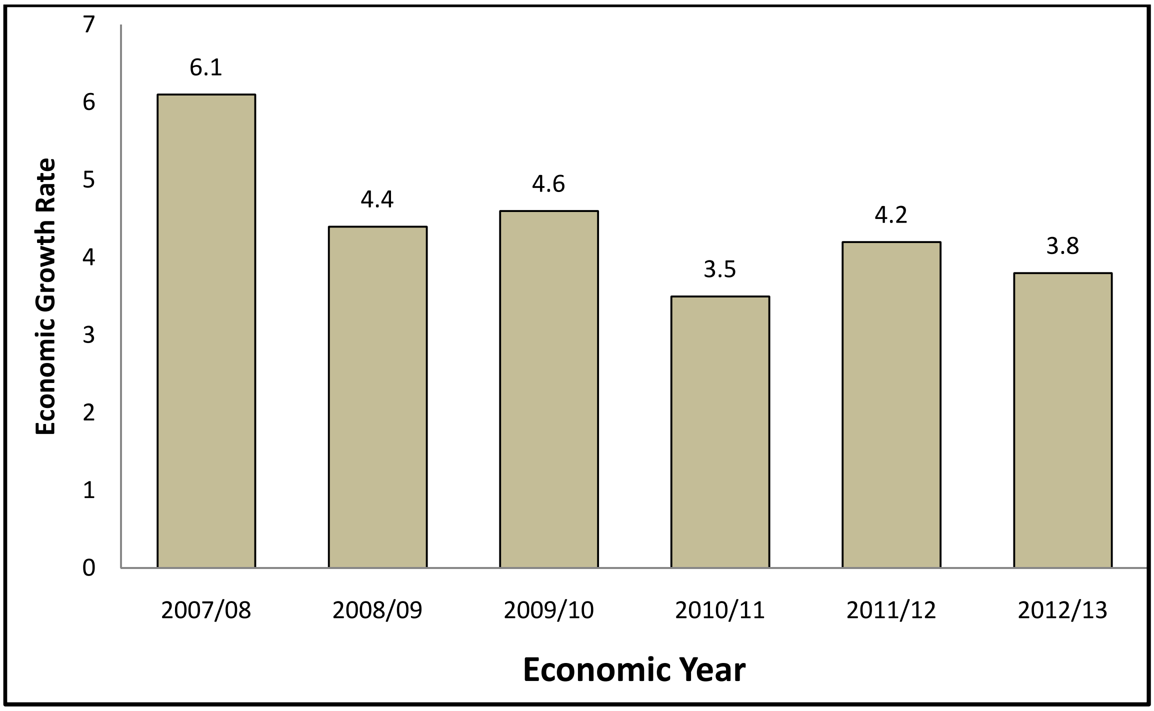
Countries	**Economic Year**					
					Forecast	
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
China	9.6	9.2	10.4	9.2	8.2	8.8
Pakistan	1.6	1.7	3.8	2.4	3.4	3.5
India	6.2	6.6	10.6	7.2	6.9	7.3
Afghanistan	3.6	21.0	8.4	5.7	7.2	5.8
Bhutan	3.0	6.7	10.6	5.9	7.0	9.9
Bangladesh	6.0	5.9	6.4	6.1	5.9	6.4
Maldives	12.8	-4.7	5.7	7.4	4.4	3.5
Sri Lanka	6.0	3.5	8.0	8.2	7.5	7.0
Nepal	6.1	4.4	4.6	3.5	4.2	3.8

Source: International Monetary Fund, 2012

National Economic Activities

The economic growth rate was less likely to be encouraging in fiscal year 2010/11 with GDP growth estimated at 3.5 percent against the target of 4.5 percent. Such decline in GDP as against the target was due to slow economic activities in the non-agricultural sectors. Labor problems, inadequate electricity supply, less expansion of bank loans, sluggish remittance flow and delayed government budget had adverse impact on the expansion of economic activities of non-agricultural sector. However, it is expected to 4.2 percent in current fiscal year and slowing down to 3.8 percent in 2013.

Figure 4.6: Economic Growth Rate of the Nation



Source: Nepal Rastra Bank

Consumption

Analysis of GDP from expenditure angle shows that share of GDP consumed is on increase. The share of consumption to GDP in FY 2000/01 at current prices that stood at 88.3 percent, which shot up to 91.4 percent in FY 2010/11 has slightly come down to 90.0 percent in the current fiscal year 2011/12. Share of the private sector in consumption that stood at 79.0 percent in FY 2000/01 decreased to 78.0 percent in the current fiscal year 2011/12 with slippage of 0.98 percentage point. Such share stood at 80.0 percent in the previous fiscal year. Likewise, share of the government consumption to GDP that stood at 8.1 percent in FY

2000/01 rose by 2 percentage points reaching 10.2 percent in the current fiscal year 2011/12. Government had consumed 9.6 percent of GDP in the previous fiscal year 2010/11.

Private sector shared 86.4 percent of the total consumption in the current fiscal year, which was 89.5 percent in FY 2000/01. Of the total government consumption of GDP in the current fiscal year, share of the government stood at 11.4 percent while consumption of non-profit institutions has been 1.9 percent. Food grain tops among the private sector consumption. For example, consumption of food items in 2000/01 that stood at 59.0 percent gradually rose to 62.7 percent by the fiscal year 2010/11 and remained constant in the current fiscal year. Consumption of services sector, however, has decreased despite growth of this sector. Share of services sector consumption that was 12.3 percent in FY 2000/01 has come down to 11.0 percent by the current fiscal year 2011/12. Household consumption of GDP at current prices has slipped by 1.7 percentage points totaling 83.3 percent.

Compared to the previous fiscal year, gross consumption in FY 2011/12 at constant prices of 2000/01 is estimated to reach Rs. 609.0 billion with increase of 3.6 percent. Of this total, government consumption expenditure and private consumption expenditure increased by 12.5 percent and 2.6 percent amounting to 65.48 billion and 530.0 billion respectively. On private consumption side, expenditures on consumption of food items, non-food items, and services increased by 2.9 percent (Rs. 295.0 billion), 2.7 percent (Rs. 165 billion), and 1.1 (Rs. 70.28 billion) respectively. Shares of food and non-food items and services of private consumption expenditure in this fiscal year stood at 55.6 percent, 31.1

percent and 13.2 percent respectively as compared to 55.5 percent, 31.1 percent and 13.4 percent respectively in the previous fiscal year.

The share of exports in GDP that was 10.7 percent in FY 2000/01 has dropped to be negative by 22.8 percent by the current fiscal year 2011/12. It was 23.9 percent in the previous fiscal year. It depicts rising trade deficit and share of such deficit getting added to GDP.

Import of goods and services share 32.6 percent of GDP, which is lower by 0.6 percentage points from FY 2000/01 and 0.2 percent lower from the previous fiscal year. Similarly, share of goods and services export has dropped significantly. Such share that was 22.6 percent in FY 2000/01 has slid to 8.9 percent in the previous fiscal year and 9.8 percent in the current fiscal year 2011/12.

Savings

The share of Gross Domestic Saving to GDP has improved in this year by 1.36 percentage points as compared to the previous fiscal year reaching 9.98 percent. Such share in FY 2000/01 was 11.66 percent, and 11.52 percent in FY 2009/10. Gross domestic saving in the current fiscal year at current prices is estimated at 155.0 billion, which was Rs. 118.0 billion the previous fiscal year. The share of Gross National Saving to GDP increased from 31.6 percent in the previous fiscal year by 5 percentage points in the current fiscal year reaching 36.6 percent. Gross national saving in the current fiscal year is estimated at 571.0 billion from the previous year's 433.0 billion.

Capital Formation

Capital formation in the fiscal year 2011/12 is estimated to grow by 14.6 percent at current prices reaching Rs. 510.59 billion. In the previous fiscal year such capital formation had decreased by 2.6 percent totaling Rs. 445.32 billion. Likewise, gross fixed capital formation in the current fiscal year is estimated to grow by 5.1 percent totalling305.68 billion. In the previous fiscal year, gross fixed capital formation had increased by 9.7 percent reaching Rs. 290.69 billion.

In the previous fiscal year, gross capital formation grew by 1.2 percent totaling Rs. 220.69 billion, while gross fixed capital formation slipped by 4.9 percent totalling121.31 billion. In the fiscal year 2010/11, gross capital formation and gross fixed capital formation decreased by 8.6 percent and 0.2 percent totaling 220.69 billion and Rs. 127.50 billion respectively. Share of gross fixed capital formation in the previous fiscal year, which was 57.9 percent, is estimated to contain at 54.4 percent in the current fiscal year.

The share of gross investment to GDP in the current fiscal year 2011/12 is estimated at 32.8 percent. Such share in FY 2000/01 that stood at 19.2 percent is estimated by increase in the current fiscal year by 0.4 percentage points reaching 19.6 percent. In the previous fiscal year, it was 21.2 percent. The remaining portion of gross capital formation (including statistical error) is covered by change in reserves. Of gross capital formation in the current fiscal year, contribution of the private sector and the government is estimated at 77.97 percent and 22.03 percent respectively. Such contribution, which was 78.69 and 21.31 percent in FY 2000/01, stood at 76.99 and 23.01 percent in the previous fiscal year.

Income Per Capita

Per capita income of Nepalese has risen. Per capita GDP at current prices has increased by 12.2 percent reaching Rs. 57,726. Likewise, gross national income per capita also grew by 12.7 percent reaching 58,274. Such growth in per capita GDP and gross national income per capita at current prices, however, has been 3.2 percent and 3.3 percent reaching Rs. 24,908.0 and 25,393 respectively.

Gross National Disposable Income

Disposal income of Nepalese has been on increase since past few years. Such income in the fiscal year 2011/12 is estimated to grow by 17.2 percent totaling Rs. 1.974 trillion at current prices. This growth is due to increase in remittance income for the last few years. In the current fiscal year, GDP at current prices is estimated to grow by 13.8 percent reaching Rs. 1.558 trillion. As compared to its preceding fiscal year, disposable income in FY 2010/11 rose by 13.4 percent, while GDP grew by 14.7 percent totaling Rs.1.685 trillion and 1.369 trillion respectively.

Based on gross national disposable income, ratio of consumption vs. national saving come out to 71.1 percent vs. 28.9 percent respectively. Such ratio in FY 2010/11 was 74.2 and 25.8 percents respectively. In the previous fiscal year, growth rates of all among GDP, Gross National Income, Gross National Disposable Income, Gross Domestic Saving and Gross National Saving had decreased, while in the current fiscal year, except for GDP and Gross National Income, all others are estimated to record growth. Saving in this year is estimated to increase as the share of consumption expenditure to GDP has been lower than in the previous fiscal year.

Inflation

In this fiscal year, monetary inflation could be contained to some extent. The point to point based overall urban consumer price index at mid-March of FY 2010/11 was 10.7 percent, which has been contained to 7.0 percent in the same period of FY 2011/12. In this month, price inflation rate on food items on point to point basis has been 4.2 percent while that on non-food items by 9.4 percent. Such rate in the previous fiscal year stood at 17.3 percent and 5.4 percent respectively. It shows of some success achieved in containing the price rise of food grains.

Remittance

Remittance inflow recorded a notable growth of 34.7 percent to Rs. 217.76 billion in the review period compared to a 12.3 percent growth to 161.61 billion in the same period last year. Likewise, while grants rose by 28.8 percent, pension income fell by 8.6 percent. Compared to the same period of the previous year, net transfer income rose by 29.7 percent to Rs. 256.88 billion. Current account has been in surplus with due credit to improvements in services account and transfer income

Table 4.8: Remittance Income

Description	Fiscal Year						
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	2068/69*
Rs in billion	97.69	100.14	142.68	209.70	231.73	253.55	217.77
Annual percentage change	49.	2.5	42.5	47.	10.5	9.4	-
Ratio to GDP	14.9	13.8	17.5	21.2	19.4	18.5	-

Source: Nepal Rastra Bank *First Eight Month

Some Significant Economic Indicators

Growth rate of Nepal's neighboring countries especially that of South Asian nations, has also slowed down in comparison to 2010. Average growth rate of South Asian countries that was 7.3 percent in 2010 got contained to 5.8 percent in 2011. IMF has estimated to remain the economic growth rate at the same level in 2012 also. Only the two South Asian countries namely Maldives and Sri Lanka maintained higher growth rate in 2012. India and China, that had attained double digit growth rates of 10.6 and 10.4 percent respectively in 2010 also registered lower growth rate of 7.2 and 9.2 percent respectively in 2011. IMF has estimated to further slow down the growth rate to 6.9 percent and 8.2 percent for these two countries respectively in 2012.

Agricultural GDP in FY 2011/12 is estimated to grow by 4.93 percent compared to 4.51 percent growth in the previous fiscal year. Agriculture and forestry, and fisheries sub-sectors are estimated to grow at the rate of 4.86 percent and 8.84 percent in this period. Production of food crops, which play vital role in the growth of agriculture sector, recorded a notable growth in this year. Production of major food crops in this year totaled 9,459,594 MT with a growth of 9.9 percent. Area under major food crops in the current fiscal year totaled 3,484,395 ha, which is higher by 0.46 percent from the previous year.

Growth rate of non-agriculture sector is estimated at 4.27 in this fiscal year, which was 3.4 percent in FY 2010/11 whereas this sector's growth rate in FY 2009/10 stood at 5.39 percent. Growth rates of construction and manufacturing sub-sectors have decreased while that of other sub-sectors has increased in this fiscal year. Among those sub-sectors recording positive growth are: mining and quarrying 5 percent; industrial outputs 1.3 percent; electricity, gas and water 7.4 percent; wholesale and retail trade 3.8 percent; hotel and restaurant 8.3 percent; transport, warehousing, and communications 6.8 percent; financial intermediation 3.5 percent; real estate and professional activities 3.0 percent; Public administration and defense 5.6 percent; education 5.0 percent; health and social works 5.5 percent; and other community, social, and personal service related activities 9.1. At the same time, growth rate of the construction sub-sector is estimated to grow negatively by 0.1 percent.

Gradual structural change can be observed in the Nepalese economy. A trend of decreasing contribution of agriculture and industry sectors and increasing that of services sector to GDP is clearly visible. On sectoral basis, contributions of primary, secondary and tertiary sectors to GDP are estimated at 35.68, 14.02 and 50.31 percents respectively. Such contribution of primary and secondary sectors is less by 1.75 and 0.27 percentage points as compared to the previous fiscal year. Contribution of the tertiary sector, however, has increased by 2.03 percent in comparison to the previous fiscal year. Increase in outputs of all components of the tertiary sector has led to increased contribution of this sector to GDP. Likewise, classification of GDP into two sectors namely, agriculture and non-agriculture shows contribution of agriculture sector to GDP has decreased while that of non-agriculture has increased a little. Contribution of agriculture, forestry, and fisheries to GDP is estimated at 35.1 percent, while remaining 64.9 percent to be shared by the non-agriculture sector. Such shares in FY 2010/11 were 36.9 and 63.1 percent respectively.

The share of consumption on GDP has decreased from 91.4 percent in the previous fiscal year to 90.0 in the current fiscal year. The shares of private and government consumption on GDP are 78.1 percent 10.2

respectively. Of the total consumption expenditure, shares of the private sector, government and not for profit institutions is found to be 86.4 percent, 11.4 percent and 1.9 percent respectively. Of the total consumption, share of food grain consumption is 62.7 percent and that of services is 11.0 percent.

The share of investment in GDP is seen to have increased in FY 2011/12. Such share, which stood at 32.5 percent in the previous fiscal year, is estimated to reach 32.8 percent in this year. Out of this, the share of gross capital formation is 19.6 percent. The private sector has contributed 77.97 percent of the total capital formation while the government sector shared the rest 22.03 percent. The share of savings on GDP has increased in the current fiscal year. The share of gross domestic saving has reached 9.8 percent while that of gross national saving has reached 36.6 percent. In the current fiscal year Gross Domestic Savings is estimated to total Rs. 155.0 billion while Gross National Savings is estimated at Rs.571.0 billion.

In this fiscal year, there has been 17.2 percent growth in National Disposable Income at current prices. Based on the data for the first eight months of the current fiscal year, per capita GDP of a Nepali has reached Rs. 57,726.0 or US$ 735.00. Likewise, based on Gross National Income, per Gradual structural change can be observed in the Nepalese economy. A trend of decreasing contribution of agriculture and industry sectors and increasing that of services sector to GDP is clearly visible. On sectoral basis, contributions of primary, secondary and tertiary sectors to GDP are estimated at 35.68, 14.02 and 50.31 percents respectively. Such contribution of primary and secondary sectors is less by 1.75 and 0.27 percentage points as compared to the previous fiscal year. Contribution of the tertiary sector, however, has increased by 2.03 percent in comparison to the previous fiscal year. Increase in outputs of all components of the tertiary sector has led to increased contribution of this sector to GDP. Likewise, classification of GDP into two sectors namely, agriculture and non-agriculture shows contribution of agriculture sector to GDP has decreased while that of non-agriculture has increased a little. Contribution of agriculture, forestry, and fisheries to GDP is estimated at 35.1 percent, while remaining 64.9 percent to be shared by the non-agriculture sector. Such shares in FY 2010/11 were 36.9 and 63.1 percent respectively.

In this fiscal year, there has been 17.2 percent growth in National Disposable Income at current prices. Based on the data for the first eight months of the current fiscal year, per capita GDP of a Nepali has reached Rs. 57,726.0 or US$ 735.00. Likewise, based on Gross National Income, per capita income of Nepalese has reached Rs. 58274 or US$ 742.00. Such a rise in income is attributable to increased remittance income and the growth in the agriculture and services sector's output.

Tourist arrival in Nepal grew by 22.1 percent in 2011 as compared to 2010 reaching their number to 736,215. Average duration of their stay, which was 12.67 days in 2010, has increased to 13.12 days in 2011. Income from the tourism sector totaled Rs. 28.63 billion with per tourist per day spending has reached US$39.90. Contribution of tourism sector to GDP has been 1.8 percent while this sector has provided direct employment to 120,000 people.

Electricity generation at the end of FY 2010/11 totaled 697.8 Megawatt MW), while electricity generation by Mid-March of 2011/12 has reached 705.6 MW. During this period 1,987 Kilometers (Km) of transmission lines have been constructed while 95,816 Km distribution lines have been constructed. Total electricity supply accounts for 3,858 Giga Watt Hours (GWH) including thermal generation, Import from India, and electricity generated in the public sector. Electricity supply in the previous fiscal year totaled 3,689 GWH.

Major Challenges of Economy

The economic growth rate of the country, a major indicator of economic development, has not been encouraging. The economic growth rate of country that averaged 3.51 percent over a decade has registered growth of 4.56 percent in the current fiscal year. Achieving the double-digit economic growth rate and creating a platform so as to make the nation economically prosperous has been a major challenge.

The poverty appears to be one of the country's major problems. One fourth of its total population still lives below the national poverty line. In this context, there lies a big challenge of reducing the poverty through poverty alleviation oriented programs to make the people economically and socially prosperous.

Agricultural production could not be increased as expected despite the fact the agriculture sector occupies one third space in country's GDP and provides employment opportunities to two third of its populace. Attention needs to be paid towards land management, enhancement of irrigation facility, and easy availability of chemical fertilizers, agricultural tools and improved seeds and seedlings, extension of agriculture credit facility, and marketing of agricultural produces in order to ensure the availability of essentiality of agricultural inputs.

The status of Industry sector has not been satisfactory. Though this sector was expected to grow in the post conflict situation, this could not be achieved due to lack of adequate investment, political transition and uneasy industrial relation. Hence, creating investment friendly environment for the industry sector by identifying both the domestic and foreign sources of investment and bringing policy, institutional and infrastructural improvements have been a challenge. Producing adequate human resource for this sector so as to facilitate the marketing of industrial outputs are also found to be equally important.

Foreign investments could not be attracted as desired despite appropriate policies in place. Though the country has entered into Bilateral Investment Promotion and Protection Agreement (BIPPA) and Double Taxation Avoidance Agreement (DTAA) with some countries for the promotion of investment, investment has not been made as projected. Even the private sector has not come forward openly for such investment. Hence, special effort has to be made to attract both the foreign as well as private sector investors.

Energy crisis has been the largest obstacle for country's economic development. Despite country’s huge water resource, all the economic and social activities have shrunk due to unavailability of adequate energy required to carry out such activities. Hence, enhancing investment through expeditious identification of appropriate electricity generation projects and easing policies while removing other difficulties related to such projects have remained as another challenges.

The country has not been able to generate enough employment opportunities for the labor force entering the labor market every year.

This has increased unemployment rate in the country on one hand, while millions of youth are flying oversees for foreign employment on the other. Hence, providing employment opportunities to the available human resource is a big challenge.

The number of foreign employment seekers is surging up every year and the income from remittance is also growing at the same time. However, investment environment could not be created by converting such remitted amount into the capital. Therefore, it is necessary to make it a solid source of investment to mobilize in productive sectors.

The expenditure capacity of government agencies has not increased. The synchronization between budget allocation and expenditures is lacking. Efforts on increasing capital expenditure have not been successful. Hence, there is an urgent need to increase capital expenditures to expedite development works.

The task for prioritizing government expenditures has not been fully achieved. Though a number of projects/programs are in implementation, the consolidated and coordinated results from these projects could be obtained. Hence, urgency is sought to develop result oriented expenditure system by prioritizing the government expenditure and make public expenditure management effective.

Inflation rate is still high though its increasing trend could be curbed by a little. The pressure on price of imported goods was exerted due to the deflation of Nepalese currency against US Dollar during the current fiscal year. Containing the price within certain limit by raising export of domestically produced goods is another challenge.

The price hike of petroleum products in international market has affected the domestic inflation of the country. Emphasis should be given to the energy management thereby reducing high dependence over such petroleum products. Likewise, attention should be paid to the imports and distribution of petroleum products.

The increasing liquidity with commercial banks, lack of identification of new areas of investment, wide gap between lending and deposits have posed a great challenge. Hence, they have to be managed immediately.

Attention should be paid to quality improvement along with the growing number of banks and financial institutions. Increasing rural people's access to financial and insurance institutions has been another challenge. It is therefore, imperative to enhance institutional governance of banks and financial institutions and insurance companies.

Hurdles in smooth project implementation, closure *(Bandhs)* and strikes like problems have delayed in achieving the expected results for projects. Problems as such can only be resolved through political consensus since these problems prevail mostly at time of political volatility. To conclude, the prevailing political transition needs to end soon to smoothly carry forward economic agenda of the country collectively by coming all parties together has been a fundamental challenge.

Though almost all aggregate economic indices have remained positive, Nepalese economy has not been able to attain dynamism as expected owing to the fact that construction sector remained weak coupled with the vulnerable capital market and real estate business. There is a challenge to make the economy dynamic by developing coordination of this sector with other sectors.

Public service delivery could not be enhanced as expected due to the prolonged political instability, flourishing lawlessness culture, and weak governance.

The state of the capital market is still weak and investors are not fully confident either. Though there have been some progress felt in the peace process in the later days of mid-April, 2012, and the policy measures taken by the government in this regard have somehow helped improve the peace process, the situation is not yet fully promising. Hence, it is important to take additional initiatives in this regard.

Foreign trade deficit of Nepal is ever growing. Low production of export oriented goods and higher imports of consumable goods due to the rise in per capita income and change in consumption pattern of the people have been attributing factors to persistent trade deficit as such. To reduce this, production has to be increased while promotion of goods and services that are of comparative and competitive advantage should be emphasized.

Challenges of Capital Market

Although economic indicators have been positive in recent days, securities market index, however, could not grow. In a situation whereby NEPSE Index is not growing. It has been a challenging task of upholding the confidence of investors in the capital market with its sustainable development.

Companies listed in the securities market are absolute dominance of banks and other financial institutions. As the presence of real sector companies remains minimal in securities market, it is very necessary to create congenial environment for entry of such companies in this market.

There is the absence of real price and stability in the secondary market of securities and lack of necessary facilities in major cities of the country for securities trading. In such a situation, it is a difficult and challenging task to avail investment opportunities by making the investment education nationwide through the use of the limited means and resources.

In view of rapid expansion of Commodity Market in Nepal, establishment of a separate regulatory agency has become utmost necessary.

Due to the continuous slip in the transactions of Citizen Unitary Plan of CIT, there is a probability of losing the confidence towards the Trust Fund being collected under the Plan.

There is a need to bring improvement in the unhealthy practice of listed companies like not getting financial accounts audited in a timely fashion, not taking care whether even audited accounts of the different organized sector institutions reconcile with each other, and disseminate sensitive information that could affect market price in such a way that serve their own interests. For this, it is necessary to make institutional sector transparent through implementation of International Financial Reporting Standards – IFRS. It is another challenging task to develop and instill principles and pride of a credible, reliable, and institutional good-governance amid absence of institutional culture in many of industrial enterprises and even in public companies.

It is also a difficult and challenging task to make the capital market a sustainable and trustworthy medium for capital mobilization through institutional arrangement for conducting continuous studies, researches, investor education, public awareness, and training programs.

Absence of legal provision for regulating a Trustee, despite imperative necessity of such an arrangement for securing the interest of beneficiaries of institutional bonds, mutual investment fund and depository service is adversely affecting the development of securities market. There is a need for a separate legal provision to deal with this shortcoming.

Another challenge is broadening the scope of work of stock brokers in the market through the provision of margin financing facility, and enhancing effectiveness of merchant bankers also through expansion of their working territories.

Challenges, such as, maintaining institutional good governance in insurance companies, enhancement of awareness towards insurance business and development of information system that suits changing time, exits in this sector.

Major Findings of the Study

From the above study shows, there is a great fluctuation in the capital market and secondary market. After the restoration of democracy in 2047 there is now substantial development in capital market.

- NEPSE index is gradually downgraded in subsequent year. It was 963.36 in fiscal year 2007/08, 749.10 in 2008/09, 477.73 in 2009/10, 362.85, in 2010/11, and 313.92 in the eight month of fiscal year 2011/12.
- Market capitalization also decreases in mid-July 2012 to Rs. 293.55 billion. This was Rs.337.57 billion in mid-July 2011 and Rs.323.48 billion at the end of fiscal year2010/11.

- Number of listed companies reached 212 in the eight month of this fiscal year. This is a significant number of increments. This number was 209 in 2011 and 176 in 2010 in the same period.
- Number of companies traded and number of listed share increased fluctuatingly.
- Total paid-up value has increased Rs. 108.47 billion in mid-July2012. This amount was Rs.96.75 billion in mid-July 2011 and Rs.100.23 billion at the end of fiscal year 2011.
- Number of capital mobilizing companies in consequent years continuously declining. In fiscal year 2008/09 it was 64. In fiscal year 2009/10 61, 2010/11, 47 and on the first eight months of the current fiscal year is just 7.
- Branch of Commercial Banks is far higher than Development Banks and other Finance Companies. Till Mid-March 2012 total branch of Commercial Banks is1300, Development Banks are 629 and Finance Companies are336. This number of Commercial Banks in the same period of 2010 was 966 and in 2011 were 1111.
- Number of Commercial Banks and Finance Companies in karnali zone is zero.
- 20,500 people per branch depends upon Commercial Bank until Mid-March 2012, which was 23,960 same period of previous period.
- Number of Commercial Banks has increased gradually. In Mid-April of 2012 this number is 32, while it was 31 in the same period of previous year.
- Economic growth rate of the country is little encouraging even being highly instable political environment. Current year it is expected to reach 4.5 while it was 3.5 in at the end of fiscal year 2010/11.

- In the context of neighboring countries china emerged as a super power. In 2011 it was the growth rate of 9.2 and the same period India has the 6.2 and Sri-Lanka has the 8.2.
- The share of consumption to GDP in fiscal year 2000/01 at current price that stood at 88.3 percent, which shot up to 91.4 percent in fiscal year 2010/11has slightly comedown to 90.0 percent in current fiscal year.
- Gross national saving in the fiscal year 2011/12 that stood at 571.0 billion from the previous year of 433.0 billion. It is 5 percent higher than the previous year of 31.6 percent to 36.6 percent.
- Remittance inflow reached a notable growth of 34.7 percent to Rs. 217.76 billion in the eight month of the fiscal year 2011/12 compared to 12.3 percent growth to 161.61 billion in the same period of previous fiscal year.
- Per Capita Income of people is satisfactorily increased. In current year it has reached Rs. 57, 726.
- Inflation of consumer price has decreased on this current year, reaching 10.7 percent from previous year to 7.0 percent this year.

CHAPTER: FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The capital market development process in Nepal began since the date of 1936 when Biratnagar jute mill floated its share. In the era of Rana regime 1936, Judddа shamsher established the financial council drafted a company act and Nepal Bank Act for the first time in Nepal 1936. In 1937, which was a ground zero, first flotation of share by Biratngar Jute mill Ltd. initiated. To come into existing situation there have made several institutional amendment in capital market development process. Due to the political turmoil and loggerhead among parties and monarchy the development process lagged behind. Despite this pathetic situation in 1976 Security Exchange centre established, which a giant leap in the development process was. The security Exchange centre converted into Nepal Stock Exchange in 16 May 1993 that facilitate to the saver and investor for trading securities. Security Board of Nepal established in 26 May 1993, which was an apex body to regulate the securities market. To protect and promote investors right and interest was its target. Under the Ministry of Finance it regulates, monitors, direct, control and co-coordinate the entire capital market.

Undoubtedly capital market has played an exclusive role to the economic development of the nation. It is a medium of investment to revel invisible resources for efficient mobilized for the economy. 60 years of the Nepalese history is the root cause of the impediment of the expansion of capital market. This theses paper apparently shows that our contemporaries' economy has advanced economy and we are staggering in the bottom of the poorest one in the South Asia too. China and India the economic data shows they already emerged as a major power in the world.

Research methodology is a systematic way of study and investigation that helps to solve research problem. It cooperates to put the problem in logical order and find out specific objective in planned manner as easy as possible. In this process descriptive and analytical design has been adopted to facilitate the problem. Several statistical tools like percentage, table diagram charts have been used to facilitate the research study. For data collection previous research, website, journals, magazine newspaper, books, articles has been used as a secondary data. National economy, neighboring countries economic stock market, market capitalization, NEPSE index, paid of capital, traded share, listed companies, commercial banks index has been thoroughly studied. All these show the impending economic situation of the economy.

The data shows that number of expansion of bank and financial institutions has rapidly upswing. Although the pondering question is it Banks and Financial institutions are highly concentrated in urban area that lagged behind the economic development of rural areas and equally affects the expansion of capital market. The government and concern holder should pay attention to expand it all over the nation where huge chunk of money might hoard. The data also reveals that the consumption and inflation rate is very higher than the economic growth. Which are the major obstacles of stable economic growth? It can be indictment for the developing economy. It is better to be commensurate in each other.

5.2 Conclusions

- Market capitalization also decrease consequent year.
- The trend of total paid-up value is increased.
- NEPSE index is gradually downgraded.
- The number of listed companies also significantly increased.
- Number of companies traded and number of listed shares increased fluctuating trend.
- Stock market is highly volatile.
- Expansion of banks and financial institutions in the rural area is likely to zero sum. Still in some hill and mountain district there is only one financial institution.
- Number of Bank and financial institutions is encouragingly increased in every economic year as well as its branches.
- There are too many financial institutions compared to the size of economy in the urban area.
- Micro Finance companies can play a significant role in our rural economy.
- Nepalese economy is a classic case of poverty and stagnation.
- Still inflation rate is in alarming position as much higher than economic growth.
- Consumption rate is substantially increasing each after year.
- Remittance has become the major source of earning and economic development.
- Nepalese economic growth rate is least in all south Asian country even than the war torn country.
- Per capita income has increased.
- Economic growth rate of current year is positive.

- We have nearly one century of capital market development process but the study shows that capital market growth and development is in slow pace.
- BFIs thoroughly invested much more money in several sector. Having several shortcoming it has became a boon for create employment opportunity, poverty reduction, increase domestic consumption and real growth of economy.

5.3 Recommendations

In urban area the number of bank and financial institutions has opened in mushrooming way. According to our economic size it is not compatible. The Nepal Rastra bank thus should regulate and monitor effectively.

- Due to the liquidity crunch several development banks and financial institutions have severely affected and going to merge that ultimately affect investor confidence. For this government and NRB should play a co-operational role.
- Government, NRB, SEBON, and other concerned authorities should launch public awareness program.
- Government should adopt investment friendly environment.
- Modern means of technology and information system should be held on for accelerate the institutional activities that enhance the employee skill and reduces unnecessary cost.
- Capital market played a vital role in economic development. According to statistical data to achieve real growth of economy we need more than Rs. 600-700 billion of capital expenditure. Thus

the government and concern sector should pay the proper attention to enlarge the volume of capital market.

- All most all the banks and financial institutions are set-up in the urban and plain area. Expansion of BFIs in rural area s also equally important for the balance development of the nation, thus concern parties should pay proper attention for the smooth development of BFIs in rural areas. Because there can be huge chunk of wealth and money hoarding in the village in scattering form should concentrate by the means of financial institutions.
- There is a great threat of insecurity among the investor. Without security no foreign and native investor invests money arbitrarily. Investment means return. Due to thugs, goons, political parties and theirs sister wings frequently harassed the investors and create the feelings of insecurity. Extortion, bullying, torture, kidnap, threat are theirs daily routine and these activities take place on political clemency. Thus government would devise new policy and program to curb these harass activities.
- First and foremost political stabilization is most. It is a backbone of every economy whether socialist or capitalist. Owing to political instability economic environment is deteriorating. Thus political parties should pave the better way to settle political impasse and investment environment.
- Sustainable development of micro financial sector can be an effective way to reduce poverty and empowered rural people to uplift their living standard, which can ultimately be helpful economic development of the nation.
- Timely amendment of government policy related to security market is must that enhance the confidence of investor.

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APPENDIX A
Macro Economic Indicator

Economic Year		2/3	3/4	4/5	5/6	6/7	7/8	8/9	9/10	10/11	11/12*
Real GDP (in basic price)	Annual % Change	3.8	4.4	3.2	3.7	2.8	5.8	3.9	4.3	3.8	4.6
Agriculture	Annual % Change	3.3	4.7	3.5	1.9	1	5.8	3	2	4.5	4.9
Industry	Annual % Change	3.1	1.5	2.9	4.4	4	1.6	-0.6	4.1	2.9	1.6
Service	Annual % Change	3.7	6.8	3.3	5.6	4.5	7.3	6	5.8	3..6	3.6
Real GDP (in production price) In producer price	Annual % Change	3.9	4.7	3.5	3.4	3.4	6.1	4.5	4.8	3.9	4.6
Per Capita GDP (in Constant Price)	Annual % Change	1.7	2.4	1.2	1.1	6.3	4.6	3.1	3.4	2.5	3.2
Per capita Gross National Income(in Constant Price)	Annual % Change	1.6	2.3	2.1	1.9	6.9	4.6	3.3	3.7	1.7	3.3
GDP (in Current Price)	Annual % Change	7.1	9	9.8	11	11.3	12.1	21.2	20.8	14.7	13.8
Gross National Income(in Current Price)	Annual % Change	7.1	8.9	10.5	11.5	11,6	12	21.4	20.3	14.5	14.2
Gross National Disposable Income (in current Price)	Annual % Change	7.6	9.3	11.1	14	10.1	16.5	24.2	18.9	13.4	17.2
Per Capita GDP	in US $	261	293	328	350	410	491	497	610	712	735
Per Capita Gross National Income	in US $	261	292	329	352	414	496	502	615	716	742
Per Capita Gross National Disposable Income	in US $	301	339	383	420	487	606	628	759	876	931
Real GDP (in Basic Price*)	Rs. in Billion	429.7	448.7	463.2	480.4	493.7	522.7	542.7	565.8	587.3	614.1
Agriculture	Rs. in Billion	165.8	173.7	179.8	185.4	187.2	198.1	204.0	208.1	217.4	228.1
Industry	Rs. in Billion	76.5	77.6	79.9	81.2	84.4	85.8	85.3	88.7	91.3	92.7
Service	Rs. in Billion	199.9	213.5	220.6	233.0	243.5	261.4	277.1	293.3	303.7	319.1
Real GDP(in Producer's Price)	Rs. in Billion	459.5	481.0	497.7	514.5	532.0	564.5	590.1	618.5	642.6	672.3
Per Capita GDP (in 2057/58 Price)	Rs.	18984	19436	19670	19884	21129	22110	22793	23561	24138	24908
Per Capita GNI (Rs. In	Rs.	18962	19401	19802	20186	21569	22567	23301	24170	24585	25393

2057/58 Price)											
GDP(In Producer's Current Price)	Rs. in Billion	492.2	536.8	589.4	654.1	727.8	815.7	988.3	1193.7	1369.4	1558
GNI (In Current Price)	Rs. in Billion	491.6	535.1	591.1	659.0	735.3	823.6	1000	1202.8	1376.9	1573
Gross National Disposable Income (in Current Price)	Rs. in Billion	567.1	620.0	688.8	785.2	864.3	1006.4	1249.5	1485.4	1684.8	1973.8
Per Capita GDP (in Current Price)	Rs.	20337	21689	23292	25279	28905	31946	38172	45469	51444	57726
Per Capita National Income (in Current Price)	Rs.	20309	21620	23357	25471	29200	32257	38626	45817	51727	58274
Per Capita Gross National Disposable Income (in Current Price)	Rs.	32430	25051	27218	30346	34323	39417	48262	56583	63292	73123
Gross Consumption/GDP	%	91.4	88.3	88.4	91.0	90.2	90.2	90.6	88.5	91.4	90
Gross Domestic saving/GDP	%	8.6	11.8	11.6	9	9.8	9.8	9.4	11.5	8.6	10
Gross National Saving/GDP	%	23.8	27.3	28.4	29	28.6	33.2	35.9	36	31.6	36.7
Gross Fixed Capital Investment/GDP	%	19.9	20.3	19.9	20.7	21.1	21.9	21.4	22.2	21.2	19.6
Gross Fixed Capital(Government Investment)/GDP	%	3	2.8	2.9	2.7	3.4	4.0	4.5	4.5	4.9	4.3
Gross Fixed Capital (private Investment)/GDP	%	16.9	17.5	17.0	18.0	17.7	17.8	16.9	17.7	16.3	15.3
Gross Capital Investment/GDP	%	21.4	24.5	26.5	26.9	28.7	30.3	31.7	38.3	32.5	32,8
Gross Domestic Saving and Gross Capital investment(Difference)/GDP	%	(12.8)	(12.8)	(14.9)	(17.9)	(18.9)	(20.5)	(22.2)	(26.8)	(23.9)	(22.8)
Total Population	in Million	2.38	2.41	2.45	2.48	2.52	2.55	2.59	2.63	2.66	2.70

1 Yearly Preliminary Estimation @2068 Chaitra month's *Before deduction of Bank service cost.

Annual Preliminary Estimates (Based on 8 month data)

Base Year 2005/06

^ Base Year 2001/02 = 100

& Base Year 2004/05 = 100

+ Base Year 1999/2000=100

% Change=Annual Change in Percentage

Note : Ratio of GDP is calculated at the current producer's Price Some Figure are updated accordingly as they are updated by the sources themselves.

APPENDIX B
Macro Economic Indicator (External Sector)

Export(Goods)	Annual % Change	6.4	8.0	8.9	2.6	(0.2)	(2.4)	14.2	(10.2)	5.8	14.8
Import (Goods)	Annual % Change	15.8	9.6	9.7	16.3	12	14.0	28.2	31.6	5.8	15.0
Export/Import Ratio	Annual % Change	40.2	39.6	39.3	34.7	30.5	26.7	23.8	16.2	16.2	16.2
Trade Deficit	Annual % Change	23.1	10.7	10.2	25.1	19.2	20.2	33.3	44.6	5.8	15.0
Tourism Income	Annual % Change	35.7	54.5	(42.3)	(8.7)	6.0	84.2	49.9	0.6	(12.5)	26.7
Tourism Expenditure	Annual % Change	7.7	62.4	(3.3)	23.4	32.0	32.2	50.5	2.8	(14.4)	(22.0)
Remittance Income	Rs in Billion	54.203	58.6	65.5	97.7	100.1	142.7	209.7	231.7	253.5	330.9
Remittance Income	Annual % Change	14.0	8.1	11.9	49.0	2.5	42.5	47.0	10.5	9.4	30.5
Current Account Balance	Rs in Billion	11.6	14.6	11.5	14.2	(0.9)	23.7	41.4	(28.1)	(12.9)	31.4
Export/GDP	Percentage	10.1	10.0	10.0	9.2	8.2	7.3	6.9	5.1	4.7	4.7
Import/GDP	Percentage	25.3	25.4	25.4	26.6	26.8	27.2	28.8	31.4	28.9	29.2
Gross Trade/GDP	Percentage	35.4	35.4	35.3	35.8	34.9	34.5	35.6	36.5	33.6	34.0
Trade Deficit/GDP	Percentage	(15.1)	(15.3)	(15.4)	(17.4)	(18.6)	(19.9)	(21.9)	(26.3)	(24.2)	(24.5)
Tourism income/GDP	Percentage	2.4	3.4	1.8	1.5	1.4	2.3	2.8	2.4	1.8	2.0
Tourism Expenditure/GDP	Percentage	1.3	1.9	1.6	1.8	2.2	2.6	3.2	2.7	2	1.4
Remittance Income	Percentage	11.0	10.9	11.1	14.9	13.8	17.5	21.2	19.4	18.5	21.2

1 Yearly Preliminary Estimation @2068 Chaitra month's *Before deduction of Bank service cost.
Annual Preliminary Estimates (Based on 8 month data)
Base Year 2005/06
^ Base Year 2001/02 = 100
& Base Year 2004/05 = 100
+ Base Year 1999/2000=100
% Change=Annual Change in Percentage

Note : Ratio of GDP is calculated at the current producer's Price Some Figure are updated accordingly as they are updated by the sources themselves.