

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries in the world. Nepal has launched economic development plan more than four decades ago. Recently she has adapted the plan of economic development through liberalization. However, any strategy for development requires a steady supply of medium to long-term capital as well as short term capital fund for productive investment.

Financial market is a place where the financial instruments are traded. Financial instrument includes share, bond, debentures etc. It is a mean to transfer fund from savers to those in need of funds. Financial experts have mentioned it as a brain of entire economy system. The failure of the financial market as a brain obstructs the progress of whole economy. Share or stock market is a major component of the securities market. Stock market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amounts of savings and transferring funds into the competitive and efficient uses requires a well functioning capital market to facilitate the process.

The capital market plays an important role in mobilizing savings and channeling them into productive investment for the development of commerce and industry of the country. It assists in capital formation and economic growth of the country. The history of capital market in Nepal is very new. The concept of capital market was developed by the establishment of Security Exchange Center on 2033 B.S. which was later on renamed by Nepal Stock Exchange (NEPSE) Limited. The number of listed companies and their trading was very negligible until the government of Nepal has made economic reforms along with

board financial policy in 2049 B.S. As the government opened broad financial policy in the process of economic liberalization, the privatizations of public enterprises have been started. Various financial and insurance companies in private sector are being establishment with local and foreign investment. In spite of the recent economic reforms by the country, the capital market of Nepal is still small, emerging and disorganized.

Upliftment of nation's economic growth and solving the problem of underdeveloped economy is widely depending on the nature of its economic infrastructure. One of the basic elements in achieving a self-reliant growth of the economy for sustaining the desired level of economic development is an accelerated rate of investment or capital upon the efficiency of the financial system. A developed financial system is a hallmark of any free enterprises. The market instrument and instrument and institutions that comprise the system facilitate the efficient production of goods and services and there by contributing the society's well being. The financial systems or markets perform this function by channeling the nation's saving into best uses. This can be done by bringing together those who have surplus funds to lend and those who wish to borrow the funds to finance their expenditures.

The non-security of Nepal came under regulatory framework when Nepal Rastra Bank, the central bank of Nepal was established in 1956. Prior to this, Nepal Bank Ltd. was the only financial institution operating under Nepal Bank Limited Act 1973. Another commercial bank, Rastriya Banijya Bank was established under Rastriya Banijya Bank Act 1966 in the public sector.

A single commercial bank Act was enacted in 1974 to consolidate the functioning of all the commercial banks under one legal umbrella. Also the Finance Companies Act and Development Bank Act came in 1985 and 1996 respectively. At present, the country has 25 commercial banks including joint venture banks, 59 developments banks including Agriculture Development Bank and Nepal Industrial Development Corporation and 78 finance companies operating in the financial market according to Mirmire-2008, NRB. In addition to the above, there are 11 Micro Finance Development Banks and 19 Co-operatives

doing limited banking operations. Besides, there are 18 insurance companies including Deposit and Credit Guarantee Corporation and other non-depository institutions like Employees Provident Fund and Citizen Investment Trust collecting huge amount of fund from the public in different forms and nature, providing long term funds to the people for various purposes.

In the absence of developed securities market in Nepal, the government was the sole issuing authority of Developments Bonds and National Saving Certificates. Therefore the securities generally founded in the market were mainly the Government Securities. Accordingly, Nepal Rastra Bank has been managing the issue of short-term treasury bills to time. Nepal Rastra Bank makes arrangement for the issue, register, purchase and sale, transfer of ownership and redemption of government bonds and debentures. Therefore, Government securities are fully traded under the management and supervision of Nepal Rastra Bank.

Altogether 36 public enterprises were established through subscription of shares under the companies Act during 1960-1975. The Government had dominant control as to the capital investment and management in most of those companies. Many companies were later on either liquidated or sold to private parties. Some of the prominent companies are still in operation under public sector while a few of them are in the process of privatization. Most of the companies are incorporated either under the full ownership of the government or under joint investment with the private sector. The role of private sector except in the operation of few small scale industries was almost nil during that period.

Institutional development of securities market in Nepal started from the year 1976 when securities exchange centre (SEC) was established under the companies Act with the joint capital contribution on Nepal Rastra Bank and Nepal Industrial Development Corporation. The industrial policy of the government also encouraged the promotion of securities exchange activities in Nepal. The main objective of the establishment of the centre was to mobilize public savings and encourage the people to participate in the ownership of industries and business enterprises. As a securities market intermediary, its role was to

organize and provide marketing facilities of channeling securities exchange business through the center. Its activities included the purchase, underwrite and sale, directly or through the licensed brokers or sub-brokers of the center, the shares, stocks and debentures of public limited companies and also development bond as well as Treasury bills issued by the government. (Economic Review; 2000:2-3)

1.2 Financial market in Nepal

The history of the financial market in Nepal is not so old and it is in the growth stage. However, the development pace of said market is not completely satisfactory compared to the development and emergence of various financial and non-financial institutions.

The financial market in Nepal is not basically different from the financial market in general. Hence, it has been explained very briefly here.

The financial market is still in infancy in Nepal. Since, the financial market plays an important role in the efficient distribution and use of resources. It is extremely important in a capital poor country like Nepal.

The system of lending and borrowing in an un-organized way is prevalent in Nepal since the ancient time. Even today substantial portion of rural credit is available from the unorganized sector. The system of providing loan through the organized sector was initiated by Hearth Adda established in 1993 B.S. The scope of this institution which made available loans only to the government employees in the beginning was limited.

The system of collecting deposit and granting loans in the organized sector had started with the establishment of Nepal Bank Ltd. in 1994 B.S. The mobilization of funds by selling securities to the general public had, however, started with the establishment of Biratnagar Jute Mill in 1993 B.S. The organized transaction of securities started in an organized way

with the establishment of Security Marketing Centre (Present Nepal Stock Exchange) in 2033 B.S.

There are many changes taking place in the financial system of Nepal due to financial liberalization. The business activities are increasing rapidly. The situation of Monopoly has come to an end and age of competition has emerged in Nepalese financial system. Many banks and financial institution have been established to cater the credit need of individuals and business firms.

“Financial markets provide a form in which suppliers of funds and demands of loans and investments can transact business directly.”

1.3 Statement of the Problem

The overall environment of the developing world has produced the two wings of the monetary sector, under the immature circumstances of the flow of development in almost all developing countries of the world. The two wings of the monetary sector have been culminated in the firm if organized and unorganized sectors of the economy. The organized sector obeys the norms of monetary management under the guidance and the supervision of the central monetary authority. But the existence of unorganized sector is the big hurdle in the path of the development of monetary sectors of the country. The activities of the monetary sector are directly linked with the flow of the economic development and evils of unorganized sector restrict the flow of economic development in the entire developing world including Nepal. Highlighting the importance of money supply issued by the central bank, a prominent writer Milton Friedman point out “The money supply becomes very important means of influencing the structure of interest rates, as does the management of national debt by the treasury”. The Nepalese monetary system has also been guided by the identical norms. The development of share market is the big event in the monetary sector of the developing countries because the bank and financial institutions, in these countries, are engaged in solving the transaction of loans, acceptance of deposits and other banking management. In

order to manage all these requirements, the government incurs huge expenditures and thereby the establishment of the share market under the separate management is either a matter of beyond the capacity of the government or the subject to under consideration in the context of the weaker economic situations of the developing economy like Nepal.

The monetary sector guides the pace of economic development through its different wings and the basic task of the government is to manage the accelerated pace of economic development in order to attract the components of economic scenario in the favor of developing world. If the management of monetary system is operating under the norms of scientific approach, a particular country can creep towards achieving the balanced economic growth in agriculture, industrial, trade and commercial and other basic infrastructural sectors of the economy. The development of share market ensures the creditability of the monetary systems and banking sectors of the developed as well as developing countries in international money market. If international money market is being influenced by the mechanism of the monetary and banking sectors of the economy, such a situation compels the different international financial institutions to inject the loan in order to establish the strong economic foundation of a particular developing as well as developed economy. A sound monetary system through well equipped money market of those economics, which have placed their entire economy on the root of economic development, can easily influence the international donors in order to inject the sizable volume of loan for the productive economic activities of different developing countries of the world. This is the basic task of the developing countries in order to produce its creditability in international money market.

If a glance on the entire framework of Nepalese economy is given , it can be pointed out that Nepal has not utilized its entire potentiality with a view to exploit the adequate volume of loan through the different international financial institutions for the creation of different productive activities in the himalayan kingdom. The monetary sector of Nepal is still under the phase of transition and the basic components of the monetary sector highlight that the adequate requirement of the loan for the economic development, Nepal till now, has not been able to influence the international donors to provide the loan to the himalayan kingdom under the bilateral arrangement. The basic reason of such a happening is that a tradition of

depending on grant, given by the different friendly countries, has been established in this country.

Although Nepal has improved the scene of monetary system by establishing the well equipped central and commercial banks, different financial institutions, the co-operatives and other wings of the monetary system along with the establishment of a finest component of share market in the form of Nepal Stock Exchange Ltd. in Kathmandu. “The underdeveloped nature of the capital market and the corporate sector, investment in corporate securities by banks has been insignificant in Nepal”. The establishment of Nepal Stock Exchange Ltd. has pushed up the development of share market in Nepal but a lot has yet to be done in this connection. The establishment of Nepal Stock Exchange Ltd. has increased the transactions of share and other related norms but the desirable activities are yet to be performed in this connection and thereby some of the fundamental issues in this connection arise as;

- a) Whether the monetary system of Nepal has been able to produce the accelerated pace of economic development in the country? or,
- b) Whether the different components of organized monetary sector have benefited the people of the grass root level of this country? or,
- c) Whether the establishment of Nepal Stock Exchange Ltd. along with other banking and financial institutions has ensured the creditability of Nepal in international money market? or,
- d) What additional measures and lessons will have to be taken under consideration to convert the whole scene in the favor of Nepal?

These are the leading issues which require the immediate economic diagnosis by the leading economists of this country.

1.4 Objective of the Study

The nature of the study is so comprehensive, at least in Nepalese domestic context, that it is very difficult to highlight the basic theme of the study without producing some of the objectives in this connection. The monetary macro economic variables are interlinked and in the case of the developing economy like Nepal, it is very difficult to formulate the concrete perception regarding the study. However, realizing the sensitiveness of the study, a co-ordination is being established among these variables in order to deduce the productive results in Nepalese share market. However, the objectives of the study can be presented as: -

- a) To highlight the significance of share market in Nepal.
- b) To gauge the contribution to be made by the share market to strengthening the productive base of Nepalese economy.
- c) To evaluate the collective contribution of share market as well as capital market in uplifting the overall economic development of the country.
- d) To assess the productive contribution of Nepal Stock Exchange Ltd. in checking the detoriating economic health of the country.
- e) To locate and demonstrate the position of Nepalese share market in comparison to key share market of world.

1.5 Hypothesis of the Study

The existing position and the related provisions of share market in Nepal induce to formulate the following hypothesis.

- a) The infant stage of share market in Nepal is likely to provide the material contribution in the development of the country.
- b) Share market is lagging behind hat that of capital market in material advancement of different sectors of the country.
- c) A systematic track has just been formulated by Nepal Stock Exchange Ltd. to provide the productive contribution in checking the detoriating economic health of Nepal.

- d) The Nepalese share market has yet to establish its reputation as internationally reputed share market of the country.
- e) The transaction in Nepalese share market has basically been guided by the comprehensive approach of money bond model and the effectiveness of money bond model has been curbed by the absence of proper monetary infrastructure within the Nepalese share market.

1.6 Methodology of the Study

The current topic of the study covers the entire monetary norms to reach towards the concrete conclusions. In order to derive the possible conclusions, the proper channel will have to be adopted to provide the concrete shape of the study. The sensitiveness of the study is immense in the sense that it affects the entire economy of the developed as well as developing world. The growing activities of the share market in the Nepalese economy also alarms to adopt the proper methodology to reach towards the conclusion. In order to search out the proper diagnosis to the problem of Nepalese share market, the following methodology will be taken under consideration to highlight and evaluate the different critical issues of the study. However, the methodology, which will be adopted in the process of the study, can be listed as: -

- a) The help of secondary data will be taken under consideration to highlight the different critical issues of the study.
- b) The norms of stratified tools and statistical equipments will have to be taken under consideration to relate the study by the productive concept of money multiplier in Nepalese domestic context.
- c) Some mathematical tools and statistical equipments will have to be taken under consideration to relate the study by the productive concept of money multiplier in Nepalese domestic context.

- d) The help of bar diagrams, pie-charts and other diagrammatic presentation will also be taken under consideration in order to justify the analysis through the diagrammatic presentation.
- e) Some primary information, preferably by the help of direct personal interview, will also be exercised to deduce the productive conclusions in Nepalese domestic context.

1.7 Limitations of the Study

Every research study has its own limitations and the current topic of the study also falls in the same category. The growing complexities in connection with the Nepalese share market have posed several limitations before the researchers to formulate the genuine perception about it. Being an independent researcher, it is being felt that the different critical issues of the study will have to be analyzed keeping the entire study within the boundary of certain limitations. However, the limitations of the study are: -

- a) The emerging role of share market in Nepalese context will be evaluated up to 2007/08.
- b) All the productive conclusions and critical issues will be highlighted on the basis of the information to be supplied by the Nepal Stock Exchange Ltd. and other related financial institutions of the country.
- c) The prime limitations of the study is that the entire literature will have to be concentrated towards the Nepal Stock Exchange Ltd. located in Kathmandu and the result will have to be drawn for the country as a whole.
- d) It possesses essence of invisible constraints because Nepal Stock Exchange Ltd. has not been able to extend its activities outside the valley.

1.8 Significance of the study

This study will be important for the following groups and individuals.

1. The research is very useful for future researchers.

2. The research is very useful for university students who are new generation.
3. The research is very useful for financial manager and analysis.
4. The research is very useful for HMG of Nepal.
5. The research is very useful for NGO's and INGO's.
6. The research is very useful for all other interested individuals and parties.

1.9 Organization of the study

Chapter 1	Introduction
Chapter 2	Review of Literature
Chapter 3	Research Methodology
Chapter 4	Data collection and Presentation
Chapter 5	Summary, Conclusion and Recommendation

The first chapter includes general background of the study, historical perspective of banking industry, overview of sample banks, statements of the problem, objectives of the study, significance of the study and limitation of the study. The second chapter, Review of Literature contains the review of related books, journals, and past research works. Similarly the third chapter expresses the way and the technique of the studying applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis. The fourth chapter is the important chapter in which collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools. Finally, the fifth and the last chapter provide the summary of the study, conclusion and recommendations which are forwarded to the related manufacturing companies to improve their working capita policies.

A Bibliography and Appendices will be attached at the end of the study

CHAPTER-II

REVIEW OF LITERATURE

Review of literature comprises a vital part in the thesis writing. The study has been done effectively by studying the various old thesis, dissertation, newspaper, magazine and suggestion from the experts of the related field. For studying the “Movement of stock price in NEPSE securities market” various available books in investment, capital structure and other financial areas gave some idea about the study. So, in the context of writing this section of Report many books, articles, old thesis paper, dissertation and suggestions of experts has been done to make this concrete report.

2.1 CONCEPTUAL REVIEW

The stock market is one of the forms of secondary market. It is a medium through which corporate sector mobilizes funds to financial productive projects by issuing shares in the market. Similarly, stock market provides the best investment opportunities to the investors. Thus, the effective collection of small amounts of savings and transferring funds into the competitive and efficient uses requires a well functioning capital market to facilitate the process. “In the absence of an efficient capital market, which attracts the funds the savers and channels them for the individual development, the savings which would otherwise have been available through capital markets are prone to remain dormant or leave the country or be deflected to less efficient uses.” (Mahat; 1981:30-31).

The stock market also imparts liquidity to the security holders. This offers an opportunity for investors to invest in the long-term ventures, while market also enables them to convert their securities into liquid cash before the maturity of the projects. Further, stock market liquidity may influence economic development. Many profitable projects require a long-term venture capital to finance. Most investors tend to avoid the risk and are often reluctant to tie their savings into the long-term commitments. Liquid stock market makes the investment less risky and more attractive. It encourages savers to invest in the long-term projects because

they can sell the security quickly and easily if they want to get back their investments before the project matures. While at the same time, companies receive easy access to capital through new issuance of shares.

In order to allocate capital efficiently and to maintain higher degree of liquidity in securities, the stock market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

Among the many reviews, experts are the chief parts themselves because the study is focused and centralized till finishing the study. The growth of stock market and its regulation is not so old in context of Nepal. The investment sector is flourishing in recent years as other economic sectors. Today, most of the developed countries are boosting their economic activities by the help of their investment sectors. In the present context of the work any type of global activities undertaken in any part of the world has influenced most of the investment sectors. The incidents in one corner of the world bring the changes in whole world's stock market. As for example, due to the September 11 terror attack in USA. USA attacked upon Iraq and due to this most of the investment sector's indexes is affected. Similarly, in Nepal due to the political disequilibrium, there is always fluctuation in stock prices.

2.2 A glance of the organized monetary sector in Nepal

The entire structure of Nepalese monetary system is vividly divided into two parts- organized and unorganized sectors. The unorganized sector has also occupied a significant place in performing its role in the remote areas along with the different villages of the country. A scene of institutional custom and traditional practices in the field of monetary transaction can also be realized in the urban areas of the different corners of Nepal if a genuine glance is made. The flow of unorganized activities of unorganized sector has really hindered the flow of the effectiveness of the monetary policy because the effectiveness of this policy is being absorbed by the existence of the traditional practices of unorganized monetary sectors. The central monetary practices and the country is deprived of getting the proper advantage of the

monetary system is unfortunately guided by the adequate inputs of unorganized sectors which has broken the flow of even economic development of the country.

Every government adopts some of the monetary measures to establish the proper track for the economic development by applying the instruments of monetary policy. The developed and the developing world exercise the norms of monetary measures to achieve the balanced economic growth. The Nepalese economy faces the situation of under development and to apply the basic norms of monetary measures in order to push up the rate of economic growth is the genuine demand of the circumstances particularly in the case of Nepalese context. “If a country records changes in the demand for, or the supply of, financial funds, the direction and the magnitude of financial flows may be obtained. These will, in turn, depict the stage at which and economy is operating. Besides, the knowledge of inter sectoral flows is also immensely helpful in credit planning, which depicts the origin and the direction of such flows. Thus far, Nepal has not reached this stage, though there has been a good beginning towards the creation of financial infrastructure in terms of a development of money and capital markets”.

The organized sector of Nepalese economy has carried out the different portfolios through which the development is supposed to be made in the proper span of time. The prime wing of organized monetary sector is the central monetary authority which controls the effective monetary management within the economy. The central monetary authority, Nepal Rastra Bank has right command over the banks, financial institutions and other related institutions and other related institutions of the country. Nepal Rastra Bank tries to implement the monetary measures through the proper injection of the genuine instruction so that the monetary instruments can accelerate the pace of economic development of the country.

A glance on the organized monetary sector can be materialized through the effective efforts made by the banks and the financial institutions in enhancing the monetary activities in order to push up the speed of the development.

The efforts of the central bank in creating the economic activities in order to utilize the natural resources of the country, the money supply plays the significant role in materializing it. Applying the Keynesian norm of underemployment equilibrium, it can be pointed out that the increased volume of money supply signifies the case of the productive utilization of resources in the country. In fact, the increase in money supply in the context of Nepalese economy justifies because Nepalese economy too is suffering from the situation of underemployment equilibrium. An increase in money supply in Nepalese economy can therefore create the income employment generation programme within the country. However, the real glance in organized monetary system can be visualized through the expansion of money supply issued by Nepal Rastra Bank in different years.

Table 2.1

A Glance of Money Supply of Nepal

Year	Money Supply (Rs. in Million)
2000 July	32,587.54
2001 July	32,369.45
2002 July	34,178.85
2003 July	35,326.52
2004 July	38,986.21
2005 July	37,547.87
2006 July	40,147.69
2007 July	42,658.32
2008 July	45,362.87

(Source: - NRB, Mirmire; 2008)

The table highlights that the consistent increase in money supply reflects the growing economic activities in the country. Such a situation justifies the Keynesian case of underemployment equilibrium situation in the domestic arrangement in Nepalese economy. The activities of organized monetary sector can also be evaluated in terms of the deposits

deposited at the various commercial banks of the country because deposits are also treated as the vital wings of money supply.

Table 2.2

Commercial Bank's Deposit ('000)

Year	Demand Deposit	Saving Deposit	Fixed Deposit	Total Deposits
2000 July	32,186,350	45,125,785	57,632,630	134,944,765
2001 July	35,589,258	45,925,658	58,458,045	139,972,961
2002 July	36,458,125	46,079,369	62,741,258	145,278,752
2003 July	36,986,635	48,387,483	65,082,147	150,456,265
2004 July	37,458,986	49,614,287	66,365,859	153,439,132
2005 July	39,586,213	51,748,965	68,148,054	159,483,232
2006 July	42,158,865	53,498,612	72,870,120	168,527,597
2007 July	46,589,367	54,216,025	73,250,687	174,056,079
2008 July	48,298,861	55,005,789	75,486,254	178,790,904

(Source: - NRB, Economic Bulletin; 2008; 21)

The growing share of deposits indicates the growing activities of the employment equilibrium in the economy. The overall increase in deposit also reflects the possibilities of exploiting the productive resources of the country through the enhancement in the money supply. As the share of deposit is being pushed up, it indicates that the money supply would also take the route of upward direction. It can therefore collectively be pointed out that the increase in money supply through the increase in deposits would encourage the exploitation of resources of the country. Enhancement in deposits also promotes the credit creation through which economy can creep towards the employment equilibrium situation in the country. Organized monetary sector of Nepal has performed the productive activities to attain the accelerated pace of economic development through the productive exercise of monetary policy.

The major wings of organized sector are Nepal Industrial Development Corporation, Agricultural Development Bank and Employee's Provident Fund under the domestic arrangement of Nepalese economy. The productive activities of these financial institutions can also be evaluated in terms of the loan disbursement in the concerned sector of the economy. A glance on the loan disbursement of Nepal Industrial Development Corporation, Agricultural Development Bank and Employees' Provident Fund can be materialized by the help of following table.

Table 2.3

Loan Disbursement by some Financial Institution (Rs. in million)

Description	2003/04	2004/05	2005/06	2006/07	2007/08
1) NIDC *					
a) Loan Disbursement	406.5	447.5	571.3	592.9	603.1
b) Realization	305.9	373.0	446.5	426.3	465.2
c) Loan Disbursement Net	100.6	74.5	124.8	166.6	137.9
d) Outstanding Loan	1038.2	1058.9	1245.89	1485.6	1432.5
2) ADB **					
a) Loan Disbursement	1370.8	1487.2	1469.0	1695.2	1964.6
b) Realization	954.9	1045.1	1142.5	1362.9	1584.7
c) Loan Disbursement Net	415.9	442.1	326.5	332.3	379.9
d) Outstanding Loan	3458.7	3698.5	3655.3	4257.0	4825.4
3) EPF ***					
a) Loan Disbursement	654.1	682.6	687.4	745.3	758.1
b) Realization	284.6	305.8	308.1	310.4	318.5
c) Loan Disbursement Net	369.5	376.8	379.3	713.9	439.6
d) Outstanding Loan	1780.2	1574.9	1429.0	1526.3	1489.2

(Source: - FNCCI- Nepal and the World, A Statistical Profile; 2008: 124)

* Nepal Industrial Development Corporation

** Agricultural Development Bank

*** Employee's Provident Fund.

The table compels to frame a perception that Agricultural Development Bank has performed the effective role in disbursing the loan to agricultural sector. But the importance point to note is that the volume of loan disbursement by agricultural sector seems to fluctuating. Such a trend has got to be stopped because the agriculture occupies the significant role in the economic development of the country. Nepal Industrial Development Corporation (NIDC) has also performed the productive role in injecting the loan to the industrial sector and the trend of providing the loan to industrial sector seems to be increasing year after except 2007/08. Employees' provident fund has also disbursed the loan to the common employees' with a view to subsidize the deteriorating economic condition of the employees of the country.

2.3 Share market as a complementary element in establishing the sound economic foundation for capital market in Nepal

The activities of the capital market are evaluated in terms of the performance of some of the financial institutions like Nepal Industrial Development Corporation and Institutions established under public as well as private arrangements. Although the establishment of capital market has its own history in Nepalese context, but this market was not in healthy position before the establishment of share market in Nepalese monetary sector. "The expansion of capital market in Nepal severely limited. On the one hand, there is a very limited growth of primary and secondary markets for shares, on the other, special institutions such as merchant banking which help in the execution of the capital market are still in their infancy."

A landmark event took place in share market of Nepal with the establishment of Security Exchange Centre in 1976. As it is felt "The very purpose for raising fund for government financing is to meet the growing expenses of the public sector, this will, at the same time, develop the security market which could play a significant role in the process of monetary management". In order to provide the concrete shape in the capital market of Nepal, Nepal Government converted Security Exchange Centre into Nepal Stock Exchange Limited in 1983. "Nepal Stock Exchange Ltd., in short, NEPSE, is a non-profit organization, operating

under Securities Act 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government bond and corporate securities by facilitating transaction in its floor through market intermediaries, such as brokers, market makers etc.”

NEPSE opened its trading floor on 13th January 1994 for its newly appointed brokers and market makers. His Majesty’s Government, Nepal Rastra Bank and Nepal Industrial Development Corporation are the shareholders of NEPSE.

In order to materialize the healthy trading turnover in share market, most of the reputed companies should participate in such an exercise. In Nepalese domestic arrangement some of the reputed companies and financial institutions have participated in share market.

2.4 Sensitivity of the current structure of share market towards risk and rate of return in the context of Nepalese economy

The development of diversified portfolio is an important landmark in the concept of share market of developed as well as developing countries. James Tobin apparently remarked that a portfolio consists either of bonds or of money. The approach of Tobin has tried to investigate the appropriate link between the risk and the rate of return. According to the literature of portfolio approach given by James Tobin, when the entire portfolio is kept in the form of money, the level of risk approaches to the maximum point due to the uncertainty in the market rate of interest. But when the portfolio is shared by bond and money, the intermediate level of risk emerges. James Tobin’s approach is relevant even in the case of under developed share market of Nepal. Participants of share market always try to translate the given three opinions into reality. Tobin argued that “To induce the individuals to be more risk, the expected value of this wealth must be increased, and because the individual avers risk and increases in wealth yield diminishing utility, ever-larger increase in expected wealth are necessary to induce him to bear uniform additional increments of risk.

James Tobin's concept has justified its productive applicability in the context of the developed share market as well as the developing share market like Nepal. The choice of portfolio by common consumer in the context of Nepalese economy can be identified seeking the norms of productive approach of James Tobin. In Nepalese domestic situation, Rs.4974.01 million share value is supposed to be the equilibrium expected value of the wealth.

2.5 Impact of resource allocations of financial intermediaries on share market in Nepal

The share market of Nepal has recently joined the systematic track of the well established norms of the share market. Some of the dominant financial intermediaries of Nepal have participated in the financial exercise in terms of the allocation of shares under Nepalese domestic arrangement. The commercial banks and the insurance and financial institutions have exhibited the productive role in the enhancement of the economic activities of Nepal. In the organized sector of Nepalese economy, commercial banks performed a series of economic and monetary transactions and these banks are bearing the extra load of the acceptance and discount houses even in the place of newly established share market of Nepal.

Financial institutions established under public sector have justified their significant role in making strong foundation of small and some of the big industries of the country. Among the prominent financial institutions, Nepal Industrial Development Corporation has injected a sense of grand panacea particularly to the industrial world of Nepalese economy.

2.6 Theories of Stock Price Movement

Simply, stock price movement refers the fluctuation of the stock price in the secondary capital market, i.e. market values is more than book value, Market value is less than book value and market value is more than book value due to the different internal and external causes. Market value can change when we try to study of Nepalese security market. It is

necessary to study the other external factors of foreign country due to the globalization, liberalization and modernization, all the world has become within a boundary so effect of one areas' movement automatically lies upon others. Theory is code of conduct of explanation process is pushed further, from where a concrete theme can be derived.

In broad sense, there are three theories concerning stock price movement. The theories explain share price fluctuation in the stock market. Market efficiency is the premise for all of the theories. The theories are: -

- a) Efficient market theories.
- b) Fundamental analysis theories.
- c) Technical analysis theories.

a) Efficient Market Theories

Efficient market theories refer the optimum price of the stock in the competition market. Stock price is neither over-valued nor under-valued in the market like monopoly market.

The term efficiency may be defined in various ways allocative efficiency, operational efficiency and information's efficiency. When the finance literature speaks of market efficiency it is generally speaking exclusively about informational efficiency in pricing the stocks. A market is said to be informational efficient if the current market price instantaneously and fully reflects all relevant available information and adjust instantaneously every influx of new information. In an efficient market, only price changes that would occur are those, which result from new information. "An initial and very important premise of an efficient market is that there are large numbers of knowledgeable and profit maximizing independent buyers and sellers, new information is generated randomly and the investors adjust the information rapidly." (Reilly; 1986:166) Therefore if market is efficient, it uses all available information to it in setting price. The

measure of efficiency evolved from the notion of perfect competition, which assumes free and instantly available information, rational investors with no taxes or transaction cost.

The requirements for a securities market to be an efficient market are: -

- Prices must be efficient so that new inventions and better products will cause a firm's securities price to rise and cause investors to want to supply capital to the firm (i.e., buy its stock).
- Information must be discussed freely and quickly across the national so all investors can react to new information.
- Transactions cost such as sales commissions on securities are ignored.
- Taxes are assumed to have no noticeable effect on investment policy.
- Every investor is allowed to borrow or lend at the same rate.
- Investors must be rational and able to recognize efficient assets so that they will want to invest money where it is needed most. (i.e., in the assets with relatively high returns). (Bhalla; 1983:309)

This constitutes the world of the efficient market theory or more popularly the capital assets pricing model.

As efficient market is concerned with the pricing mechanism of securities market, it has two dimensions of price adjustment. One is the type of information reacting to and another is the speed and quality of adjustment of security to the information. As any random infusion of information instantaneously and correctly adjusted in prices, there will be no subsequent dependencies or lags that are profitable. Pricing not only should be instantaneously, but also should discount accuracy of information so that the prices fluctuate closely around its intrinsic value. So Keane rightly pointed-out, "it would be clearly and add interpretation of efficiency if a doubling in price the price of a share were regarded as an efficient reaction to new information, simply because the movement was instantaneously, if the information in fact warranted a substantial reduction in price". (Kene;1983:9) Agreeing with this, Francis and Taylor noted, "Market efficiency refers to the ability of financial assets to quickly adjust and reflect all information that is relevant to value in its price." (Francis;1986:4) Therefore, it

assumes, that any given time, the market correctly prices all securities. The result, or so the theory advocates, is that securities cannot be overpriced or under priced for a long enough period to profit there from.

(i) Levels of market efficiency: - There are three levels of market efficiency depending upon types of information set impounded into the price. In other words, the forms of markets are determined on the basis of how publicly available information is reflected in the market price of shares. The statements that price reflect all available information represents the highest order of market efficiency. As Fama suggested, it is useful to distinguish three level of market efficiency.

- **Weak-form efficiency:** - If the pricing into the stock market has reflected all information found in the record of past prices and volume it is considered as weak form efficiency and participation of technical analysis approach in the market become futile.
- **Semi-strong-form efficiency:** - If current prices of stocks reflect not only all information found in the record of past prices and volume but also other publicly available information the market is semi strongly efficient. In that the market even fundamental analysis of published accounting information has no value, because participants would have discounted it accurately and instantaneously when they are disclosed.
- **Strong-form efficiency:** - The market where stock prices fully reflect all the available relevant information public as well as private, it is considered that the market held strong form of efficiency. In this market insider information cannot beat the market because no single participant has monopolistic access to that kind of information.

These three levels of efficiency described above are not indifferent to each other but they are serially higher order in degrees of market efficiency. If the market is semi-strongly efficient, it must be efficient in weak sense also because the past price data is one form of published information, which must have been impounded in the price.

If the market is not efficient in a weak sense, the past price information could be contained in past prices has not been reflected fully into the current prices. Similarly, for the market to be strongly efficient it must also be efficient at the semi-strong and weak levels, otherwise prices are not reflecting all relevant information.

(ii) Theory of weakly efficient market or random walk hypothesis

“The weak form of efficient market hypothesis stipulates that historical price and volume data for securities contain no information which can be used to earn a trading profit above what could be attained with a native buy-and-hold investment strategy” (Francis; 1986:543). “Sense if share prices fully reflect the information implied by all prior price movements. Price movements in effects are totally independent of previous movements, implying the absence of any price patterns with prophetic significance.” (Keane; 1983:10) The weak form of **Efficient Market Hypothesis (EMH)** is popularly known as the random walk theory. Random walk theory describes whether past price can predict future price. Fama argued, “random walk theory implies the future path of price level of a security is no more predictable than the path of series of cumulated random numbers. The series of price changes has no memory, that is, the past can not be used to predict the future in any meaningful way,” (Fama; 1965:34) It means, that the current size and direction of price change are independent and unbiased outcome of previous price changes. Put it differently, prices appeared to follow a random walk, implying that successive price changed is independent of one another.

Random walk model says that previous price changes or changes in return are useless in predicting future price or return changes. It means if we attempt to predict future price in absolute term using only historical price change information, we will not be successful i.e., successive price changes are independent. This independence implies that prices at any time will on the average reflect the intrinsic value of the security. If a stock’s price deviates from its intrinsic value because among other things, different investors evaluate the available information differently or have different insights into future prospects of firm, professional investors and astute non professional will seize upon the short-term of random deviations

from the intrinsic value and through their active buying and selling of the stock in question will force the price back to its equilibrium position. Finally, the efficient market theory holds that since price reflects all available information and since information arrives in a random fashion, there is little to be gained by any type of analysis whether fundamental or technical. It assumes that every piece of information has been collected and processed by thousands of investor and this information (both old and new) is correctly reflected in the price. Returns cannot be increased by studying historical data, either fundamental or technical, since data will have no effect on future prices.” (Fischer and Jordan; 2000:553)

Though the subject of market efficiency has been much concerned area of the study for the academicians and researchers in recent times, “the advocates of the efficient market theory are matched by an equally eloquent opposing camp which argues that the stock market is neither competitive nor efficient. The critics contend that one or more of the following factors cast their shadow over the efficiency and competitiveness of the stock market.” (Chandra; 1994:589)

- **Information inadequacy:** - Information is neither freely available nor rapidly transmitted to all the participants in the stock market. In addition, there is a calculated attempt by many companies to circulate “misinformation”.
- **Limited information processing capabilities:** - Human information processing capabilities are sharply limited. As Nobel Laureate Herbert Simon observed: “Every human organism lives in an environment which generates millions of new bits of information every second, but the bottleneck of perceptual apparatus certainly does not admit more than a thousand bits per second and possible much less.”
- **Irrational behaviors:** - In theory, it is generally assumed that investor rationality will ensure a close correspondence between market prices and intrinsic value. In practice, this may not be true. As J.M. Keynes argued: In point of fact all sorts of consideration enter into the market valuations which are in no way relevant to the prospective yield. L.C. Gupta made a similar observation: “our findings suggest that the markets evaluation process work haphazardly almost like a blind man

firing a gun. The market seems to function largely on a ‘hit –or – miss’ basis rather than on the basis of informed beliefs about the long-term prospects of individual enterprises.” (Gupta; 1981:20)

- **Monopolistic influence:** - In theory, the market is regarded as highly competitive. No single buyer or seller is supposed to have undue influence over price. In practice, powerful institutions and big operators wield great influence over the market. The monopolistic power enjoyed by them diminishes the competitiveness of the market.

Finally, due to these challenges posed by the critics of efficient market theory, there are many factors to point the finger at its reality validity and authenticity. This appears to be truer like relatively less developed capital market of Nepal. Nepalese capital market is yet to be efficient in terms of information as well as operations.

(2) Fundamental Analysis Theory

Generally Fundamental analysis theories refer the formula and principle. According to the technical analyst, fundamental analysis is idealist part of analysis. So it is not perfect and market principle of analysis of stock price movement.

Fundamental analysis approach involves working to analyze different factors such as economic influences, industry factors, governmental actions, firm’s financial statement, its competitor and pertinent company information like product demand, earnings, dividends and management in order to calculate an intrinsic value for firm’s securities. The analyst who believes on fundamental facts to determine the intrinsic value of stock is popularly known as fundamental analyst or fundamentalist.

“The value of common stock is simply the present value of all the future income which the owner of the share will receive.” (Francis; 1986:398) And the actual price should reflect intrinsic value of the stock i.e., good anticipation of cash flows and capitalization rate

corresponding to future time period. But in practice, first, it is not known in advance what the appropriate discount rate should be for a particular stock. Therefore fundamentalists estimate their intrinsic value by studying in details all matters that are relevant to company. “The study would involve examining its sales earnings, profit margins, dividends, management proficiency, industrial and business outlook, labour competence any factor that would have a bearing on its performance in the future”. (Raghu; 1991:167)

Fundamentalists forecast stock price on the basis of economic industry and company statistic. The principal decision variable ultimately takes form of earning and value with a risk-returns framework based upon earning power and the economic environment. “Fundamental analysts delve into companies’ earnings, their management, economic outlook, firm’s competitor’s market conditions and many other factors.” (Francis; 1986:398)

The objective of fundamental security analysis is to appraise the intrinsic value of a security. The intrinsic value is the true economic work of financial asset. “The fundamentalists maintain that any points of time every stock has an intrinsic value which should in principle be equal to the present value of the future stream of income from the stock discounted at an appropriate risk related rate of interest” (Bhalla; 1983:283) Therefore the actual price of security is considered to be a function of a set of anticipation. Price changes as anticipation changes which in turn change, as a result of new information. In other words, a new piece of news is released, securities’ intrinsic values will change, and the securities’ market prices will adjust towards the new values.

On the basis of such a study fundamentalists project a company ought future profits and earning capacity with reasonable accuracy what the price of a company’s share to be. This estimated price is termed as intrinsic value. The intrinsic value of the stock is generally away from its present market value. Thus there is difference or gap between them. Fundamentalist reaches and investment decision by comparing this value with current market value, it is believed that price will rise. In this situation, fundamentalists will acquire shares as this difference presents them with an opportunity to make a profit. Alternatively, if the intrinsic

value is lower than the market value, the share is overpriced and is an indication to the fundamentalists to sell. Following this rule, they believe, above average return can be attained, given that market is inefficient in pricing the shares.

Therefore “The fundamental analysts work to find new information before other investors so they can get into a position to profit from price changes they anticipate.” (Francis; 1986:603)

“Fundamental analysis uses different models like Top-Down versus Bottom-up forecasting, probabilistic forecasting, econometric models, financial statement analysis etc. to estimate the value of security” (Sharpe, Alexander and Bailey; 2001:850-853) Therefore the fundamental analyst reaches and investment decision on the basis of these analytical tools.

Though fundamental analysis approach is used by many security analysts or prospective investors to make a judgment of the stock’s value with a risk-return framework based upon earning power and the economic environment, it is hard and time consuming work. As stated by Raghu Palat, some of the limitations of fundamental analysis approach are as follows (Raghu; 1991:168)

- The approach though sound and based on basic financial figures does suffer from drawbacks and to make this approach work effectively one must be aware of them.
- It tends to ignore market behavior and assumes that the market will act rationally. The market seldom does. Prices flare or drop on the flimsiest of reasons.
- The entire fundamental approach is based on a rational scientific analysis of data. The market is rarely rational.
- The information and analysis itself may be incorrect.
- Many companies, with the help of creative/innovative accounting and accounting cosmetics disguise real earnings.

- The fundamentalists' estimate of intrinsic value may be incorrect. This is not only possible but also more probable than not as he has to often forecast growth, profit and other factors without having in his grasp all the facts.
- The fundamentalists may not fully understand the economy or the industries, as there are several external factors.
- There is also the possibility always that the market may not move in the manner a fundamentalist expects and conversely towards the intrinsic value.
- It is also difficult to determine corporate action.

In short, the fundamental approach works exceedingly well in determining the intrinsic value of a company. It is not such an effective tool in determining future price movements and hence it is not very dependable for short-term profits. "By nature the fundamentalist is conservative in approach and is generally unwilling to take a quick loss he would rather adopt a buy and hold policy." (Yahasway; 1992:155) Therefore fundamental analysis allows the analyst to forecast holding-period yield and riskiness of achieving that yield, but these figures alone do not necessarily prompt a buy or sell action.

(3) Technical analysis

Technical analysis is one of the important theory of price determination and interpretation of the stock. This is the modern and practical method to analyze the price fluctuation in the security market. Technical analysis is based on the widely accepted premise that securities price are determined by the supply and demand of securities.

Among many tools, technical analysis is one tool is designed to measure demand and supply. Typically, technical analysis record historical financial data on charts, study these charts in an effort to find meaningful pattern and use these patterns to predict future prices. Some charting techniques are used to predict the movements of single security. Some are used to predict the movements of a market index and some are used to predict both the action of individual securities and market action.

“The technician believes the forces of supply and demand are reflected in patterns of price and volume of trading. By examination of these patterns, he predicts whether prices are moving higher or lower, and even by how much.” (Fischer and Jordan; 2000:510) Therefore, the patterns or trend in prices is the basis of technical analysis. Various charts are prepared to determine trends and to determine whether prices are likely to rise or fall. Technicians tend to look backward. “The technician usually attempts to predict short-term price movements and thus makes recommendations concerning the timing of purchases and sales of either specific stock or groups of stocks (such as industries) or stocks in general. It is sometimes said that fundamental analysis is designed to answer the question “what?” and technical analysis to answer the question “when?” (Sharpe, Alexander and Bailey; 2001:844)

Technical analysts discern past pattern or trends, which they believe to repeat in the future and recommend for the timely holding and disposing mechanism, which is profitable. Or that recommend for short-term speculation based on its forecast of profitable pattern.

Technical analysts use different kinds of tools and technique to determine and forecast the stock price on the basis of past data and information. This technique is based on the fundamental technique. Technical analysis is easier, faster, more result oriented and more market oriented philosophy than fundamental analysis. Some important technique of technical analysis is studied below: -

-) The Dow theory
-) Charts
-) Contrary opinion
-) Confidence index
-) Breadth of market
-) Relative theories
-) Moving average.

(i) **The Dow Theory:** - It is one of the oldest and famous techniques which were founded by Charles Dow who was editor of ‘The wall street journal’. The Dow Theory is used to

predict reversals and trends in the market as a whole or for individual securities. According to Dow, the market is always considered as having three movements, all going at the same time. The first is the narrow movement from day to day; the second is the short swing, running from two weeks; the third is the main movement from at least four years.

- (ii) **Charts:** - Technical analysis uses three basic types of charts- line chart, bar chart and point & figure charts. Line charts are used to connect successive day's closing price. Bar charts are used to spoon the distance from the day's highest price to the day's lowest price. A small cross on the bar makes the closing price. Point and figure charts are made on X & Y are more complex than line and bar charts. PFCS are used not only to detect reversal in trends but also to make price forecasts, called price targets.
- (iii) **Contrary opinion:** - Contrary opinion refers the opposite thinking of others. It assumes that the so called man in the street is usually wrong and that it is therefore advantageous to pursue strategies opposite to his thinking two different theories of contrary opinion are: -
 -) The odd-lot theory.
 -) Short sales.
- (iv) **The confidence index:** - "Confidence index is the ration of high-grade bond yields to low grade bond yields. When bond investors grow more confident about the economy, they shift their holdings from high grade to lower-grade bonds in order to obtain the high yields offered by the risk or bond". (Francis; 1983:447)
- (v) **Breadth of market:** - It is this kind of technique of finding the breadth of market that is used to measure the underlying strength of market advance or decline.
- (vi) **Moving average:** - "Moving average is used by technicians who focus on the moving average of price. The moving average is used to provide a smoothed, stable reference point against which daily fluctuations can be gauged. Moving average analysis is used to for individual securities and market indexes.

“Technical analysts maintain that the price of a share at any time (Present price) is the balance struck by buyers and sellers at a point in time price movements take place on account of changes in buying and selling pressures. This occurs in account of diverse internal and external factors (profits, political environment, predictions and the likes). Prices stabilize when equilibrium between buyers and sellers is achieved. They believe that a record of price movements over a period of time in the past. As the whole theory is based on the assumptions that history repeats itself, the human nature does not change and that man is likely to repeat his patterns of past movements will repeat themselves in the future.” (Raghu; 1991:172)

The technical analysts estimate prices instead of values. They largely ignore the fundamental facts such as the firms’ risks and earning growth rates in favor of concentration on various barometers of supply and demand that they have devised.

The premise here is that prices move in trends and that a trend is likely to continue than reverse. It is noteworthy to mention here the quotation of Veteran scientist and inventor, Benjamin Franklin that “Show me the man who does not believe in history and I will show you a fool.” Technical analysts believe in the history and that history repeats itself. Consequently all their predictions and charts are based on history. Past figure and trends are used to predict the future.

According to Edwards and Magee the basic assumptions underlying technical analysis are as under; (Edward and Magee; 1958:86)

- Market value is determined solely by interaction of supply and demand.
- Supply and demand are governed by many rational and irrational factors.
- In disregard of minor fluctuations in the stock market, share price tend to move in trends, which persist for an appreciable length of time.
- Changes in trend are caused by shifts in supply and demand.

- Shifts in supply and demand, no matters why they occur can be detected sooner or later in charts of market action.
- Some chart patterns tend to repeat themselves.

In essence, technical analysts believe that past patterns of market action will recur in the future and can therefore be used for predictive purposes.

(i) Market prices of shares as the output of the demand and supply interaction.

“Stocks and shares mostly traded in the securities market are one of the assets into which money can be invested. The investment further is more attractive to a majority of individuals because it is also liquid in character. But what is the most influencing factor in determining the price of the stock is interaction of demand and supply.” (Doodha; 1962: 10) in relation to the interacting forces of demand and supply, Ackerman opines that, “ the price of a given stock is determined exclusively by the two forces demand and supply, converting one such stock at a given time that the prices and volumes of its past transaction are meaningful indication of profitable relationship of future supply and demand pressure, it is likely to encounter in the market that such relationship is the most important element determining the probable direction of price movement.” (Acerman; 1980: 10)

These are the short conceptual framework about the theories of stock price behavior

“The share price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever-changing new equilibrium. Then market price moves upward and downward. There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and market factors. One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in turns, is strongly influenced by interest

rates. In this way, the most fundamental factor in stock price fluctuations lies in change in corporate earnings, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price. The next influencing factors are non-economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions, and changes in cultural conditions, such as technological advance and the like. Market factors, or internal factors of the market, consisting of the tone of the market and supply-demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationship of supply-demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin transactions, etc. although margin transactions increase purchases when stock price is going up, once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin in finance has not been introduced, so far, in Nepal.” (Sharma; 1996:63-64)

“Securities market in Nepal is witnessed a sharp growth during the past couples of years. The volume of trading has increased. The size of the market has been widened. The number of investing population has grown up in aggregate. The tendency of raising capital from general public is rising. Most importantly the market consciousness has been developed so that investors have begun to think about risks, return and availability or timely corporate information regarding the investment. The market seems losing confidence of investors. There is poor liquidity for the stocks. A scarcity of floating stocks prevails in the market. Professionalism is still lacking in the service on investors and investment management. A system of preponderance of speculative trading is guessed to be prevailed, where the primary motive is to derive benefit from short-term price fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The rest are driven mainly by the speculative motive. The corporate sector is still reluctant on disseminating information timely. The kinds of securities trading in the market are confined only to ordinary and preference shares. These are various major problems observed in the market now-a-days.” (Sharma; 1996: 65-66)

2.7 Thesis review

There are many dissertations written by various researchers in past years. Among them some dissertation are reviewed here for analysis of literature.

Bharat Prasad Bhatta (1997) has also conducted research on the topic “*Dynamics of Stock Market in Nepal*”, the objectives of the research were as follows: -

-) To analyze the trend of the Nepalese stock market.
-) To diagnose and compare sectoral financial status of the stocks in Nepalese stock market.
-) To analyze the market share prices of the Nepalese stock market.
-) To find out the impact of the secondary on primary market and vice versa.
-) To recommend for the improvement of stock market in Nepal.

He has concluded 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 latter. The stock market raises and mobilizes the investable resources to finance 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 better 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 manufacturing sector is the backbone of an economy, which, in turn, assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector

doesn't have a good performance in Nepalese economy. Almost all firms in these sectors have a sustained loss.

The secondary aspect of the stock markets 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 sectors.

Although it has become late to take steps 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 mobilization to finance the productive enterprises in Nepalese economy.

Surya Chandra Shrestha (1999) has conducted research on “*Stock Price Behavior in Nepal*”, this study aims to examine the efficiency of the stock market in Nepal.

The specific objectives of this study were: -

-) To examine the serial correlation of the successive daily price changes of the individual stocks.
-) To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
-) To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.
-) To provide feedback policy input towards institutional development of efficient market.

The main findings of his study were: -

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchange Ltd. (NEPSE). Therefore, the random walk theory is not a suitable description of the stock market price behavior in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under naive buy-and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the naive investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence of successive price changes.”

Mukti Aryal (1999) has conducted a research on “*The General Behavior of Stock Market Price*”. The prime objective of the study was to find the laws of price fluctuation in the stock market. However, the specific objectives of the study were as follows: -

-) To discuss theoretically the movements of stock market prices as predicated by the random walk model.
-) To develop the empirical probability distribution of successive price changes of an individual common stock and a stock market as a whole.
-) To examine whether the successive price change of stocks market are independent to each other or not.

The main findings of the study were: -

The general behavior of twenty-one-security prices on Nepal stock exchange (NSC) is remarkable for to that, mainly the assumption of independence as predicated by random walk model of security (speculative) price behavior. Thus, the model of such kind has been refuted at least for Nepal loon context as a first approximation even on a rough way for early days of stock market operation. Here this rejection of hypothesis makes clear that this knowledge of

past now becomes useful in predicting the future movements of stock market prices, than investors, on the floor of exchange for securities can make higher expected profits in the future based solely on those historical price series under certain systematic trading scheme. (i.e. Market average return) of the general market for securities. Therefore, anomaly of weak form tests of efficient market hypothesis has an important implication bearing interpreting behavior of security price variations in the past and in performing future research in this field. If broadly speaking the implications with respect to conclusions derived by the study are of two natures: statistical and economic.

Statistically, the characteristic feature of stock market movement with respect to distribution of price changes implies that the general shape is platykurtic character has been demonstrated previously, due to higher values of standard deviations for individual price changes. Higher standard deviations are result of frequent large price fluctuation. According to this device of measuring risk, individual stock and aggregate market can be interpreted as highly risk opportunity for investment. The economic reason for higher values of standard deviation implies that the inherent instability of market, change in economic environment.

Government actions, companies developments that causes price changes, ultimately the value of standard deviations for individual price changes has been higher consequently platykurtic character of distribution observed i.e. too few relative frequencies are contained near to mean of the price changes in the central bell and all the relative frequencies are concentrated within higher limits of standard deviations form the mean of the price changes.

Finally, with respect to distribution of price changes, from the investor point of view, the sole interest is in the shape of distribution, that is the only information needs to make meaningful investment decisions.”

Darapana Pokhrel (2002) has conducted the thesis “*A study of Securities Market in Nepal*”. Main objective of her study were as follows.

- J Their main purpose of this study is to examine and analyze the trend as well as the risk and return of different sectors listed in securities market. To achieve this purpose the following specific objectives have been set up.
- J To find out and analyze the risk and return of different sector of securities market.
- J To analyze the inter-relationship between the risk and return of each sector.
- J To examine the trend of different sectors in terms of their total paid up value, annual turnover and capitalization and forecast their trend for future.

She summarized from her study were as follows: -

She has pointed in her study about the risk and return trend of the different sectors i.e. Banking, Finance, Insurance and Manufacturing & service organization. According to her “Among all sectors listed in the securities market, banking sector has the highest expected return (50-33%) followed by the finance sector with 47-36%. The sectors having the lowest expected return are the one categorized as others with just 10.3% and the trading sector with 10.65%.

- J Pokhrel has used the different tools and techniques to analyze and interpret the data to meet the concrete report about securities market but she has not centralized her study on specific subjects matter.

Prabhat Kumar Poudyal (2003) has conducted the thesis “*Share Price Behavior of Joint Venture Banks in Nepal*”. Main objective of his thesis were as follows: -

- J To analyze the market share price behavior of the Nepalese Stock Market.
- J To examine how safe or risky to invest on joint venture banks’ share.
- J To analyze the sensitivity of the shares in relation to the market.
- J To test whether or not the shares in banking companies are blue chips in out context.
To test whether the Nepalese Stock Market is efficient or not.

Major finding of the study of Poudyal were as follows: -

Based on the analysis of data and their interpretation the study's empirical findings in relation to the objectives set could be summarized as follows: -

He writes "Nepal Stock Exchange operates in a weak form an efficient market hypothesis, indicating that the market prices move randomly. The investors while deciding their investment and purchases neglect actual potential of the firm and semi professional advices are functioning at its height. The market values per share don't accommodate all the available historical information because of the in-equilibrium in the stock market is observed". (Only one findings, which is directly related with our study).

CHAPTER –III

RESEARCH METHODOLOGY

3.1 Productive contribution of Securities Board Nepal to Nepal Stock Exchange Limited for the Advancement of Share Market in Nepal

Nepal Government of Nepal has consistently been trying to provide a shape of dynamic and healthy capital market in Nepal. “The government while drafting ninth plan (1998-03), formulated a first comprehensive plan for the development of capital market development. The amendment of Securities Exchange Act, 1983 was affected in 1992, creating a legal basis for the implementation of pronounced policies.”

“The Securities Board was established under the Securities Exchange (first amendment) Act, 1992 and subsequent Securities Exchange Regulation, 1993. It was formally organized on May 26, 1993. It acts as a focal organization for the development and regulation of the securities market.”

It is essential for the corporate bodies to take the proper input and instructions from the securities Board before issuing and selling the securities in the market. Such an exercise of Securities Board, Nepal has created an informal environment of control transactions of securities in Nepalese share market. An important point to note is that the corporate bodies will have to satisfy the board about the “adequacy” and “fairness” of the disclosure. This norms has attempted to create a healthy tradition of issuing and selling the securities in Nepalese share market. The productive exercise on the part of the board after the maintenance of rules and regulations has restricted the over floatation of securities in Nepal.

The overall environment of Nepalese share market seems to be creeping towards the maturity and a large fraction of the citizen of the country have expressed their positive reactions in

injecting the investment in securities without possessing the adequate ideas about the transaction and the fluctuations (in terms of monetary value) of securities.

The newly established Securities Board has not entertained the adequate activities due to the short span of time. In fact, in order to evaluate the activities of the Securities Board, the proper time span must be granted to this integrated body of the share market of Nepal. However, the activities in the initial phase performed by Securities Board will have to be taken under consideration. One of the major happenings in this connection is that the board approved floatation of Rs. 100 millions worth of first mutual fund, sponsored and managed by NIDC Capital Markets Ltd. In view of the absence of special legislation and past experience to run the fund, the board directed the sponsor to make the publish a comprehensive prospectus containing the terms of the issues and also incorporate the following features.

- The manager and sponsor should have at least 15% capital in the corpus of the mutual fund.
- The accounts of the fund should be maintained separately from other accounts of the sponsor/manger.
- The fund should be managed professionally under the supervision of the special investment management unit.
- There must be transparency in transactions and periodic valuation of its investment portfolio.
- Market maker of the fund should be member of Nepal Stock Exchange Ltd.
- The mutual fund must be a growth cum dividend scheme rather than a growth scheme along due to long term uncertainty and lack of any past performance record.

Apart from these activities, Securities Board, Nepal has also approved the floatation of first unit scheme, sponsored and managed by Citizen Investment Trust, which may encourage individual saving to fulfill the financial need for economic development of Nepalese share

market in the years to come. This Citizen Unit Scheme, 2052 also possesses the above almost all features.

3.2 Impact of SEBON on Capital Market in Nepal.

One of the vital wings of SEBON – The securities Exchange Center had been trying to mobilize its own employees to intermediate and facilitate buying and selling of securities without introducing the brokers. After the conversion of Securities Exchange Centre into Nepal Stock Exchange Limited, the recognized stock exchange of the country, applications were invited from the qualified persons and some firms and companies showed a sense of enthusiasm in accepting the membership of this body. Nepal Stock Exchange Limited conducted a test in order to choose the appropriate firms as well as companies to assist the stock exchange body of the country and eventually, 5 market makers and 25 brokers have occupied their places completing genuine procedure placed by Nepal Stock Exchange Limited. They now compete in “Open outcry system” of trading in the floor of the NEPSE.

The volume of trading, number of transactions and prices of stock has significant progress after switching into the new trading system on 13th January 1994. However, the transaction of corporate securities can be listed by the help of the following table.

Table 3.1
Trading of Corporate Securities

	2007 July	2008 June
Market Capitalization of Listed Share	Rs. 96.76 Billions	Rs. 18.63 Billions
Average Monthly Trading	Rs. 34.51 Billions	Rs. 83.60 Billions

Despite the constructive efforts taken by NEPSE, SEBO/N and above all, Nepal Government to boost up the productive exercise of the different wings of the share market yet, some of the vital issues have been placed forwards in order to make the impact of the share market absolutely productive in Nepalese context. If some of the issues are diagnosed with the effective scale of justice, then the share market of Nepal can achieved its destination in

comparison to other established share market of the world economy. However, some of the issues in this connection has been placed as that the investors have not been taken into confidence in order to increase the volume of investment. The genuine investors have not been given the inputs of motivation and the micro effective legal framework of Nepal Stock exchange Limited have also not been placed forward in order to seek the proper perception about share market of Nepal. The outdated legal provisions like Company Act, Security Exchange Act, as well as Nepal Rastra Bank Act are still taken as the basic legal guidelines of the share market. The rigid rules of the acts must be liberalized with a view to obey the global liberal economic policy of the world and this is the way to cope with the situations to provide a new dimensions to the share market of Nepal in the context of growing views and productive exercises of the share market in world economy. Although some of the provision of these acts are not conducive at all but even then these provisions have been given the buffer stock of respect in order to provide an alarming shape of share market in Nepalese context.

The wings of share market of Nepal are scattered and there happens to be the lack of proper co-ordination among them. As long as a collective approach by different share market will not be taken under considerations, the entire mode of share market of Nepal, may not get the healthy input to materialize their efforts into reality. In order to make it effective, proper training facilities to the members of Nepal Stock Exchange Limited should be given at a regular interval of time. There happens to be the lack of professional attitude among the members to justify with their occupation. Moreover, the different members of Nepal Stock Exchange Limited as well as Security Board, Nepal must circulate the latest information to other members with a view to achieve the effective mobilization of opinions and information among the members for the betterment of share market in Nepal.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 An analysis of portfolio approach as money bond model and contribution of NEPSE in formulating a model in the context of Nepalese economy

The diversified portfolio approach is an important concept in money bond model formulated by James Tobin. Accepting the two components of money bond model, money and bond, is affected by the uncertain market rate of interest. As Tobin pointed out the diversified portfolio consists of money and bond and if the portfolio is kept in the form of money then risk does not emerge but if the portfolio is kept in bond, the bond holder has to bear the maximum risk due to uncertainty in the market rate of interest. A stable equilibrium situation in the case of money bond model is obtained at that point where the growth path line is tangent to the indifference curve. The point of tangent is supposed to be the case of static equilibrium because the stable rate of interest is being taken under consideration.

The diversified portfolio approach with alternative rate of interest establishes the points of equilibrium due to the fluctuation in the market rate of interest. Tobin highlighted the concept by identifying the point that as the rate of interest changes there happens to be a change in the growth path line and as growth path line changes the equilibrium situation shifts from one point to another. Thus the mode of equilibrium situation can be different for the different bond holders under the different arrangement of the market. Such a situation has been guided by the approach of money bond model because the economic happenings are clustered around this model if the portfolio is kept only in the form of money and bond. J.M. Keynes's approach of the speculative demand for money is also treated as the money bond model because while identifying the net effective change in the rate of interest on the bond, money has also been included in the analysis. But the Keynesian approach of money and

bond is not productive as the money bond model because it simply highlights the consequences of the change in the rate of interest on the bond. But it does not suggest any equilibrium situations to be maintained by the rational consumer. But Tobin's approach is apparent in this connection because the equilibrium situation has been drawn in the case by the interaction of growth path line in Indifference Curve.

The recently established norms of share market in Nepal are yet to place the apparent rate of interest through the approach of growth line. But a significant point to note is that the initial value of wealth and the desirable equilibrium value of wealth have been placed forward which seems to be absolutely helpful in formulating the equilibrium between the risk and expected value of wealth by the help of money bond model given by James Tobin. The Nepalese context of money bond model in the share market of Nepal can be identified by placing forward Tobin's approach in actual practice by the help of following diagram.

4.2 NEPSE as a source of entertaining risk and brokerage fees in uplifting diversified portfolio in NEPAL

The post era of the great depression of 1920/30 was facilitated by the money bond model given by J.M. Keynes and such a model was culminated in the form of the speculative demand for money. Keynesian analysis of speculative demand for the money totally rests on the analysis of money and bond linked with the rate of interest. But the Keynesian analysis of money bond model of demand for money was criticized by William J. Boumal and James Tobin on the following two grounds: -

- a) Before analyzing money bond model as a part of demand for money, Keynes analyzed transitional and precautionary demand for money by the help of traditional approach. For the simplicity Keynes assumed that transitional and precautionary, both of them, are governed by institutional customs and traditional practices and for the simplicity, it was assumed that these customs and traditions would change over a period of time.
- b) The speculative demand for money was analyzed by J.M. Keynes by the help of utility analysis, capital theoretic approach and budget constraints. These approaches are none

to be the collective form of modern approach. Baumol and Tobin made it clear that the traditional and the modern approaches can not be reconciled and it can not give a new approach in the portfolio theory by demand for money.

The fundamental contribution of Keynes in the analysis of the demand for money is the formulation of money bond model. The Keynesian model of money bond model could be demonstrated by the help of the speculative demand for money. While analyzing money bond model, Keynes took the help of capital theoretic approach, utility analysis and budget constraints which are supposed to be wings of modern concept in this connection.

W.J. Baumol and James Tobin giving a glance on the Keynesian analysis remarked that Keynes presented the unfortunate and inconsistent opinion in the theory of demand for money because the modern and the traditional concepts can not be reconciled. They concluded that such a vague formulation of the approaches can not provide desirable results to the economy.

Baumol and Tobin formulated a concept of money bond model collectively by identifying that money balances held to make expenditure, are considered as a short of inventory.

According to Baumol and Tobin, the desire of the individual is to minimize the cost associated with the inventory. There are two costs associated with inventory.

- a) If the bond is purchased by the help of money, and if the customers, before the maturity period, try to discount the bond then in order to do so, the bank charges certain percentage of commission.
- b) If the amount of money could have deposited in bank, the bank would have given the certain percentages of rate of interest, but when the inventory is kept in money then it means that the customers loose the rate of interest.

According to Baumol and Tobin, these two are the costs associated with the inventory and technically it is known as brokerage fee.

The theoretical formulation of Money Bond Model given by Tobin can be verified in Nepalese domestic condition by presenting the statistics of money supply issued by Nepal Rastra Bank and transaction of bond transacted by the stock exchange of the country. The collective form of money supply and the transaction of bond justify the Money Bond Model as the diversified portfolio approach in the theory of demand for money in Nepalese context too. Such a theoretical formulation in Nepalese context can be highlighted by the help of following statistics of money supply and the bond.

While giving the glance on the table, it is apparent that the share of the currency held by the public seems to be increasing at an increasing rate every fiscal year. But important point to note is that the increase in the share of the money held by the public has not blocked the transaction of the bond in the Nepalese context. In fact, the allocated share and total issued of the bond seems to be fluctuating but neither share nor bond has touched the zero level. It indicates that the money bond model given by James Tobin can be effective in Nepalese context partially through the judgment capacity of the investors between the risk associated with the bond and the expected value of the wealth.

Table 4.1
Nepalese Bond Model

Year (Mid-month)	Currency (in Millions)				Bond (Rs. in Millions)			
					Primary Market		Secondary Market	
	Held by Govt.	Held by Banks*	Held by Public	Total	Allotted Shares	Bond (Total Issued)	Share Turnover (Share Trading with Total Market Value)	Bond Total Volume of Bonds Transactions (NSB + DB)
1999 July	-	391.6	4842.9	5234.5	12.63	860	1.22	149.63
2000 July	-	437.7	5746.1	6183.8	22.18	2417.9	1.22	187.3
2001 July	-	587.5	6374.6	6962.1	41.09	423.8	1.51	277.56
2002 July	-	761.3	7946.6	8707.9	102.97	850	1.56	158.61
2003 July	-	808.2	9718.2	10526.4	8.86	1243	1.36	246.85
2004 July	-	963.9	11654.5	12608.4	2.4	900	1.1	302.44
2005 July	-	1147	13639.7	14786.7	22	700	2.1	324.56
2006 July	-	1360.1	16313.0	17673.1	N.A.	N.A.	N.A.	N.A.
2007 July	-	1859.4	19652.4	21511.8	N.A.	N.A.	N.A.	N.A.
2008 Jan	-	1713.1	21562.5	23275.6	N.A.	N.A.	N.A.	N.A.

*Notes and Coins held by Commercial Banks.

(Source: - Quarterly Economic Bulletin; 2008: NRB 22).

4.3 Leading Issues before Share Market in Nepal

The operation of share market is an advanced exercise in the monetary sector of the economy. Such an exercise gets due respect in the case of developed countries where the adequate infrastructures are already available in the money market of the country. But the picture of developing economy is absolutely different because money market, in such an economy is not in healthy position. The money market in the developing economy, like Nepal, has to face the drawbacks of well established norms in the field of banking as well as financial structures and a complicated problem is about the persistence of unorganized sector. In fact, the money market in developing economy, like Nepal, is being dragged down and pulled up due to the massive ups and down situation in both the sectors.

The Nepalese share market is supposed to be the highly advanced stage of the money market in the Himalayan kingdom. The recently established share market in Nepal is just like an infant enterprise and it has got to be saved and the proper inputs should be injected to it in order to translate the advantage of the healthy surroundings of world economy in Nepalese economy too. But this is an objective which can be achieved or even which can be imagined to materialize only in that case when the Nepalese share market will receive the proper direct and indirect positive attitude of different sectors in actual practice. Thus, some of the leading issues in this connection arise: -

- a) What should be the actual mode of share market in Nepal?
- b) Presently established norms of share market in Nepal are justifiable in the context of Nepalese economy?
- c) What apparent objectives should be formulated for the betterment of share market in Nepal and why?
- d) Whether the provisions of Nepalese share market has been prescribed according to the need of Nepalese economy?
- e) Are the market makers performing their role to justify the establishment of share market in Nepal?

- f) Are the brokers working with a view of establishing the strong foundation of healthy share market in Nepal?
- g) What should be the long run objective of the share market in Nepal?
- h) Whether the Nepalese planner involved in the share market have directly or indirectly connected the task of the development of the Nepalese share market with the betterment of the fate of agriculture?
- i) If the above mentioned issues have not been productively exercised, then should it be a productive enterprise to formulate the idea that the Nepalese share market can take the Nepalese economy towards the economic prosperity?

The above mentioned points are the vital issues before the Nepalese share market which immediately and urgently expect the proper diagnosis from the government, the planners, intellectuals and above all from leading economic thinkers of the country.

4.4 Contribution of NEPSE in developing the stock market in Nepal

While giving a glance on the evolution of securities market in Nepal, it was begun while the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. In order to develop securities marketing system, Nepal Government had introduced the Company Act in 1951 and issued the government bond in 1964. Moreover, Securities Exchange Centre was established in 1976 in this regard with the objective of facilitating and promoting the growth of capital market. At that time, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issues, market making for government bonds and other financial services. Later on, Securities Exchange Centre is converted into Nepal Stock Exchange Ltd. in 1993 by Nepal Government under a program initiated to reform capital market.

In modern era, it is globally realized experience that an efficient capital market is an indispensable pre-requisite to economic development. Its is “essentially and institution of a free economy operating primarily through market mechanism.” The capital market provides an important base for the development of industry, commerce and the market provides an important base for the development of industry, commerce and the economy. The recent adoptions of liberal economic policies and privatization programmes by Nepal Government with the objective of involving extensive private sector participation in the Tenth plan is expected to provide ample investment opportunities in the country and will help maximize the demand for capital. In this context, it will be necessary to develop and expand a healthy capital market.

Although, it was visualized that the previous national plans did not contain comprehensive plans with regard to the security market, the working policies and programmes of Security Exchange Centre were fixed to the mobilization of internal resource necessary in the process of industrialization along with the institutional development of the private sector during the Seventh Plan period (1985-90). “The government while drafting the Eight Plan (1992-1997) formulated the first comprehensive plan for capital market development. Subsequently, the first amendment to the Securities Exchange Act, 1983 was effected in 1992 thus creating a legal basis for the implementation of the pronounced policies.

For the ensurement of a regulated and orderly capital market, the Securities Board, Nepal was established in May 26, 1993 under the Securities Exchange (First Amendment) Act 1992 and subsequent Securities Exchange Regulation, 1993.

Nepal Stock Exchange Ltd. converted from earlier Securities Exchange Centre, is the only stock exchange operating in the country. “The basis objective of Nepal Stock Exchange Limited is to impart free marketability and liquidity to the government bonds and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc. Now there are 24 member broker and 6 market makers, for whom, Nepal Stock Exchange Ltd. has adopted an “Open out-cry system” of trading on the

trading floor. Now, there are 135 listed companies consisting of 8 sectors such as Commercial banks, Manufacturing and processing industries, Insurance companies, Finance companies, Trading industry, Hotel industry, Development banks and other industries.

Nepal stock exchange Ltd. shown a significant progress on the volume of trading, number of transactions and prices of stock, after switching to the new trading system. The figure of the market capitalization of listed share on 2007/08 July was 18.63 Billions and the average annual turnover was 83.60 Billions. The productive contribution made by Nepal Stock Exchange Ltd. in the context of Nepalese economy can be visualized by the help of the following table.

Table 4.2
Stock Exchange Scenario

(Rs. in Million)

Area of Contribution	2007/08	Percent
1. Commercial Bank	9281.9	42.58
2. Development Bank	1630.9	7.48
3. Finance Companies	3100.2	14.22
4. Insurance Companies	1286.7	5.90
5. Hotel	1552.9	7.12
6. Manufacturing & Processing Companies	2602.3	11.94
7. Trading Companies	62.2	0.29
8. Other Company	2281.7	10.47
Total Contribution	21798.8	100.0

(Source: - SEBO Annual Report 2007/08)

The table highlights that the commercial banks has dominated the stock exchange scenario in both years. The contribution of insurance and finance also seems to be productive particularly in 2007/08. The main feature of the table is that the contribution of trade sector in stock exchange scenario does not give better impression to the reader. Despite the under developed infrastructure, the contribution of manufacturing and processing industries also occupies its productive role in this connection as far as the question of contribution is concerned.

4.5 Annual Trend Analysis

One of the important and suitable techniques of data analysis is annual trend analysis. For this purpose NEPSE index of 9 Years were taken, i.e. from 1996/97 to 2006/07. Tabular as well as graphical measures are considered for presenting and analyzing the data in table no. 10.

Table 4.3

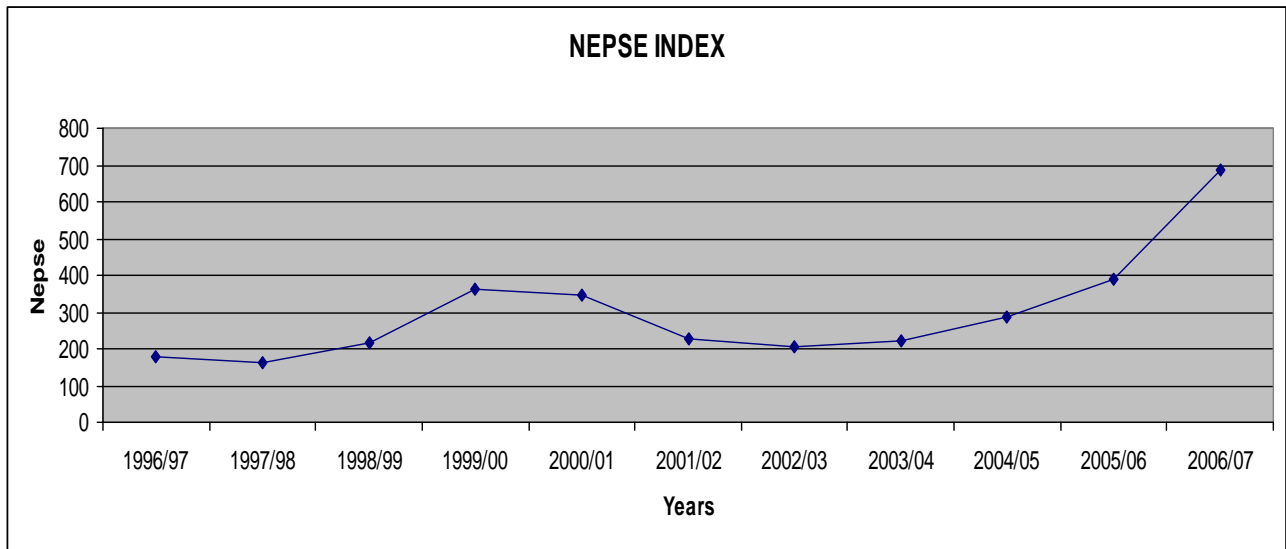
Annual trend analysis from fiscal year 1996/97 to 2005/06

Year	NEPSE
1996/97	176.31
1997/98	163.35
1998/99	216.92
1999/00	360.7
2000/01	348.43
2001/02	227.54
2002/03	204.86
2003/04	222.04
2004/05	286.67

2005/06	386.83
2006/07	683.95

(Source: - NEPSE Annual Report 2006/07)

Figure 4.1



From the table no. 4.3, it was seen that price trend during the different 11 years is not constant. Taking base year as 1996/97 it resulted that there is price movement from the fiscal year 1996/97 to 1997/98 it is in decreasing trend. Then after it is in increasing trend and we can observe that in the year 2001/02 it is in the highest position but then it again starts decreasing up to month 2002/03. But although there has been decreasing trend we can see increasing trend in the year 2003/04 and 2004/05. In the year 2005/06 there has been a vast improvement in the Nepalese Index which has reached to 386.83 points which is 100.16 points higher than that of the last fiscal year 2004/05. In conclusion we can say that there the annual trend in the year 2005/06 is in increasing trend and there has been a very high improvement in the NEPSE Index. In the last fiscal year there has been boom in the Nepse Index. It has increased to 683.95 points which is nearly twice the last fiscal year 2006/07. The Nepse index has increased to 297.12 points in the year 2006/07 as compared to 2005/06.

4.6 The number of listed companies of NEPSE

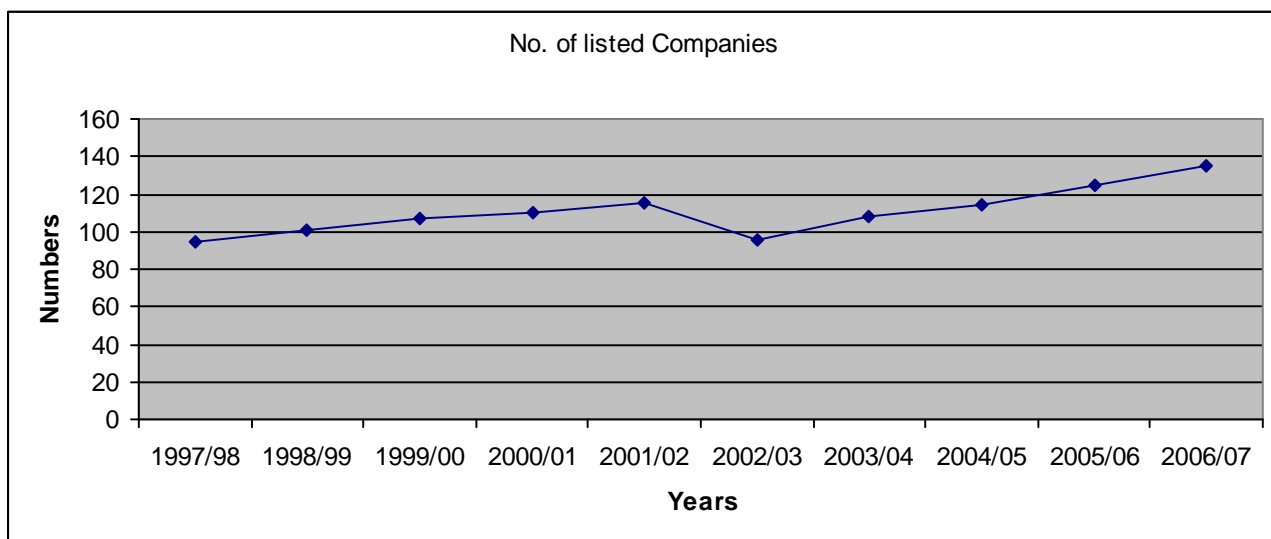
Table no. 11 shows the number of listed companies in Nepal Stock Exchange Ltd. from the Fiscal Year 1997/98 to 2006/07. The table clearly shows that the no. of listed company is increasing in every fiscal year without Fiscal year 2001/02. In the year 2006/07 the number of listed companies is in increasing trend. This shows that there have been some business opportunities and the many investors have listed their companies in NEPSE. These facts about the listed companies are also presented in bar diagram below.

Table 4.4

Number of listed companies in NEPSE

Fiscal Year	No. of listed Companies	Rate of increasing & decreasing in %
1997/98	95	-
1998/99	101	+ 6.31
1999/00	107	+ 5.94
2000/01	110	+ 2.80
2001/02	115	+ 4.59
2002/03	96	- 16.52
2003/04	108	+12.5
2004/05	114	+5.55
2005/06	125	+8.80
2006/07	135	+8.00

(Source: - NEPSE Annual Index 2006/07)



4.7 Number of Securities Business Person

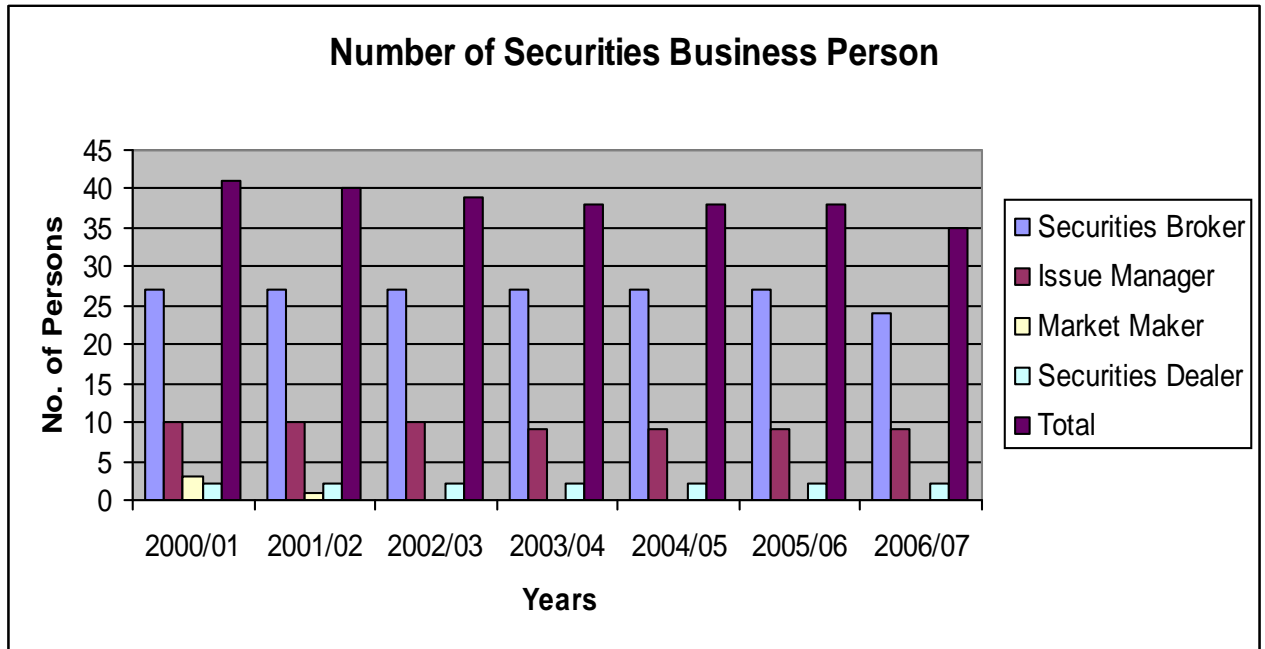
History of the Capital Market in Nepal is not as old as we think. People and organized company are not devoted upon the sector even now. Limited no. of Company and persons is trading in this sector. We can clear this fact by following table.

Table 4.5

No. of Securities Business person from fiscal year 2000/01 to 2006/07

Securities	Fiscal Year						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Business person							
Securities Broker	27	27	27	27	27	27	24
Issue Manager	10	10	10	9	9	9	9
Market Maker	3	1	-	-	-	-	-
Securities Dealer	2	2	2	2	2	2	2
Total	41	40	39	38	38	38	35

(Source: - SEBO, Nepal Annual Report 2006/07)



4.8 Number of transacted companies and Volume of Stock traded

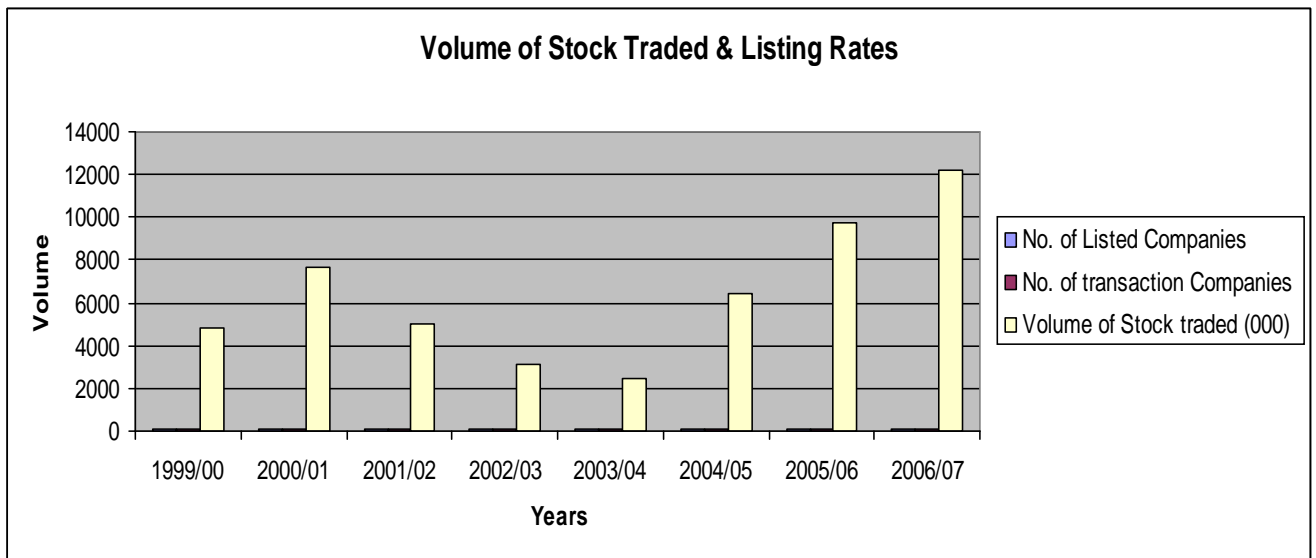
Although the numbers of listed new companies are in increasing trend, the number of transacting companies is in the decreasing trend. Table 4.6 shows the volume of stock traded are in the increasing trend in the second year and from third year onwards it is decreasing trend till year 2001/02 but in the year 2003/04 there has been a rapid increase in the volume of stock traded but again it decreased in the year 2004/05 by 6211.62. Similarly, in the final year 2005/06, the volume of stock traded has increased to 9786.25 which have increased by 3318.07. In accordance, in the fiscal year 2006/07, again there has been boom in the volume of stock traded. It has increased to 12221.93 which have increased by 2435.68 as compared to the last fiscal year 2005/06. So, we can conclude that there has not been satisfactory result in the volume of stock traded.

Table 4.6

No. of transacted Companies and Volume of Stock traded

Years	No. of Listed Companies	No. of transaction Companies	Volume of Stock traded (000)
1999/00	107	69	4857.00
2000/01	110	69	7673.74
2001/02	115	69	4989.15
2002/03	96	67	3141
2003/04	108	80	2427.89
2004/05	114	92	6468.18
2005/06	125	102	9786.25
2006/07	135	125	12221.93

(Source: - Security Board Annual Report 2006/07)



CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In modern era, share is taken as a life blood of the industry or a company and share market is the prerequisite for the development of almost all sectors of the economy. The development of share market ensures the creditability of the monetary systems and banking sectors of the developed as well as developing countries in the international money market. The share market exercise has been commenced in Nepal with the floatation of shares by Biratnagar Jute Mills and Nepal Bank Ltd. in 1937. Later on, it is developed with the introduction of the Company Act in 1951 and the issue of government bond in 1964. A major development step that has been undertaken by Nepal Government in 1976 was with the establishment of Securities Exchange Centre. Later on, the Securities Exchange Centre was converted into Nepal Stock Exchange Ltd. and also established the Securities Board, Nepal. For the development of a healthy stock market in Nepal, government launched the various securities acts and regulations one by one respectively. The government has formulated a comprehensive plan for the development of share market in the Tenth plan.

Nepalese monetary sector is still under the phase of transition and the basic components of the monetary sector are under developed because the adequate infrastructure has not been created in the organized monetary sector in this country. The flow of unorganized activities of unorganized sector has really hindered the flow of the effectiveness of the policy because the effectiveness of this policy is being absorbed by the existence of traditional practices of unorganized monetary sectors. The Nepalese monetary system is guided by the adequate inputs of unorganized sectors which have broken the flow of economic development of the country. For the injection of proper development track in economy, the central monetary

authority and other banking and financial systems as well as different acts have been launched by the government. The organized Nepalese monetary system has been guided by the central monetary authority through the proper injection of genuine instruction and consequently there has been more than 25 Commercial banks, 59 Development banks, 78 Finance Companies and 16 Insurance Companies, 17 Co-operatives, 27 non-governmental organizations as well as Staff Provident Fund, Credit Guarantee Corporation, Citizen Investment Trust and Nepal Stock Exchange Ltd. were established, even though, Nepalese Economy is suffering from the situation of under employment equilibrium.

However, the current data of the money supply of Nepal highlights the consistent increase in money supply which reflects the growing economic activities in the country. Likewise, the growing share deposits indicate the growing activities in the country. Likewise, the growing share deposits indicate the growing economic activities in the country. Likewise, the growing share deposits indicate the growing activities of the employment equilibrium in the economy. The overall increase in deposit also reflects the possibilities of exploiting the productive resources of the country through the enhancement in the money supply which promotes the credit creation. Thus we can say that organized monetary sector of Nepal has performed the productive activities to attain the accelerated pace of economic development through the productive exercise of monetary policy.

While giving a glance on share market as a complementary element in establishing the sound economic foundation for capital market in Nepal, it is evaluated in terms of the performance of financial institutions and the trading figures of NEPSE. Nepalese share market is not properly expanded and is now, in the stage of infancy. The current figures of NEPSE stock market data highlight that the role of commercial banks in stock market transactions is predominant. The role of financial institutions is productive. However, the role of manufacturing and processing have occupied the predominant role in comparison to the insurance and finance sector and the role of hotels is not observed as fruitful in statistical scene. In sum, this fact have clearly been experienced that the scene of different sectors,

however have seen, the capital marketing system is systematized in Nepal despite the hindrances of unorganized monetary sector in Nepal.

The development of diversified portfolio approach is an important landmark in the concept of share market of developed as well as developing countries. James Tobin has defined the relation between the risk and the rate of the return, when the portfolio is kept in different forms. He summarized that when portfolio is kept in money, bond and money plus bond, the level of risk will be zero, maximum and intermediate respectively. While evaluating the sensitivity of the current structure of share market, towards risk and rate of return in the context of Nepalese economy, the same norms, given by James Tobin, have been experienced.

Since the establishment of NEPSE, Nepal has joined the systematic track of the well established norms of the share market in the country. Visualizing the transactions and trading figures of the shares by commercial bank and insurance and finance sectors, the trend of fluctuations has been experienced in this connection. These fluctuations probably have arisen due to the lack of technical knowledge among share holders and members of the share market. The stock market data highlights the facts that in the earlier 2056 the transaction of share, particularly by the commercial banks has approached the peak level of transactions. The cause of this fluctuation is said to be the attraction of shares among people for gaining the unexpected gain, through the speculation of shares. For the speculation of shares, shareholders wanted to hoard more share of more companies. That is why, pressure of the demand of shares approaches to very high level.

For developing a dynamic and healthy capital market in Nepal, Government of Nepal formulated a comprehensive plan in Tenth plan. Respectively, government launched the Security Exchange Act 1983 with amendment in 1992. After that, the Securities Board, Nepal was established as a focal organization for the development and regulation of securities market. The Securities Board, Nepal has created an informal environment to control transactions and over floatation of securities in share market by ensuring about

“adequacy” and “fairness” in trading of securities and has also granted the permission to release the mutual funds and unit schemes.

The present situation of Nepalese share market scenario to be creeping towards the maturity and found that most of the people in the country have generated their positive attractions in investing in securities even though they do not have sufficient ideas about the trend of transactions and fluctuations of securities. However, the Securities Board, Nepal has not played the adequate role due to the short span of time. Even in the initial phase, the Board has approved the floatation of shares, issuance of unit and mutual schemes, direction to publish the brochures and prospects to the corporate bodies even though there is the absence of special acts, legislation and rules in this regard. However, while giving a vision towards the productive contribution of the Securities Board, Nepal to NEPSE for the advancement of share market in Nepal, the role of SEBON is productive even though the absence of acts and legislation are creating some hurdles and hindrances.

In order to set up and establish the regulated and orderly capital market in the country, the Securities Exchange Centre was converted into NEPSE. To adopt the universal norms of share market, NEPSE appointed some selected 25 brokers and 5 market makers after conducting a test and opened the trading floor in Dillibazar, Kathmandu for its smooth and systematic stock market operation. NEPSE adopted the “Open Out-cry System” of trading in its trading floor. This new trading system highlighted a significant progress in this connection when a glance is given in its volume of trading, number of transactions and prices of stock. Despite these all efforts, the share market of Nepal can not achieved its destination yet in comparison to other established share market of the world. Some of the issues in this connection have been clearly seen. Lack of confidence for investment among the investors, lack of motivation, outdated legal provisions are some of the major issues in this connection. The outdated legal acts like Company Act, NRB Act and Securities Exchange Acts should be liberalized to relate the global and newly adopted liberal economic policy in the country. These arrangements may lead the Nepalese share market towards new dimensions in the context of the growing views and productive exercises of the share market in world economy.

The wings of Nepalese share market are scattered and there is the lack of proper co-ordination among them. Collective efforts by the members of the share market should be taken under consideration in order to gear it towards the entire mode of the share market. There is necessary to provide the training facilities to the members of NEPSE in regular time period. Similarly, there is lack of professionalism among the members. The most important thing is that the share market must circulate their latest information so that the wings and the members of share market must circulate their latest information with a view to achieve the effective mobilization of opinions and information for the betterment of share market in Nepal.

While analyzing the diversified portfolio approach as money bond model, given by James Tobin, the explanation of the two components money and bond is affected by the uncertain market rate of interest. If the portfolio is kept in the form of money then the risk does not emerge, but if the portfolio is kept in the form of bond the bondholder has to bear the maximum risk due to the uncertainty of the market rate of interest.

The diversified portfolio approach with alternative rate of interest establishes the different points of equilibrium due to the fluctuation in the market rate of interest. As the rate of interest changes there happens to be a change in the growth path line and as growth path line changes the equilibrium situation shifts from one point to another. In this way, the mode of equilibrium can be different for the different bond holders under the different arrangement of the market.

The Nepalese share market is likely to cross the infant stage. While translating the norms of money bond model under Nepalese domestic arrangement, the actual experience in this connection is that the initial value of wealth and desirable equilibrium value of wealth have been placed forward which seems to be absolutely hopeful in formulating the equilibrium between the risk and expected value of wealth by the help of money bond model given by James Tobin. The current data of NEPSE index shows the big jump in the initial value of wealth, which gives an impression of the productive share market and the productive rise in

the nominal value of shares justifying the norms of money bond model given by James Tobin in Nepalese context.

The concept of money bond model, guided by inventory, explains about to minimize two costs of the inventory. If the bond is purchased by the help of money, and if the customers try to discount the bond before the maturity period, then in order to do so, the bank charges certain percentage of commission. Or, if the amount of money could have deposited in bank, the bank would have given the certain percentage of rate of interest. But when the inventory is kept in money then it means the customers loose the rate of interest. These two costs associated with the inventory, according to the Baumol and Tobin, are technically known as brokerage fees.

The share market operation is an advanced exercise in the monetary sector of the economy. But the developing economy is not in healthy position and there is the lack of adequate infrastructures. That is why, the share market operation in such an economy, like Nepal, has to face drawbacks of well established norms in the field of banking as well as financial structures. Even though, the Nepalese share market is supposed to be the highly advanced stage of the money market and the condition of money market is supposed to be backward due to the dominance of unorganized sector. The newly established Nepalese share market has therefore, needed to save and proper injection of proper inputs in order to translate the advantage of the healthy surroundings of world economy in Nepalese economy too.

The important point to note is that the theoretical formulation of money bond model given by James Tobin can be verified in Nepalese domestic context by presenting the current statistics of money supply by NRB and current figure of transaction of bond transacted by the stock exchange market of the country. The collective form of money supply and transaction of bond justify the money bond model as the diversified portfolio approach in the theory of demand for money in Nepalese context.

The current statistics of the currency held by public seems to be increasing at an increasing rate in every fiscal year but it doesn't make destruction to the transaction of the bond in Nepalese context. This condition reflects the money bond model, given by James Tobin, can be made effective in Nepalese context partially through the judgment capacity of the investors between the risk associated with the bond and the expected value of the wealth.

In order to analyze the contribution of NEPSE in developing the stock market in Nepal, one has to visualize the evolution of securities market of the country. The current stock market statistics of the volume of trading, number of transactions and prices of stock has shown a significant progress in share market operation in the country despite the underdeveloped infrastructure within the existing domestic arrangement of Nepal.

5.2 Major Findings and Conclusions

The current endeavour to highlight and assess the different aspects of Nepalese share market has produced some of the major findings. The healthy conclusions and the bitter experiences in this connection can be summarized in the form of the major findings of the study. However, the major findings of the study can be listed as: -

- a) It is established fact that the monetary sector of Nepal has clearly been guided by the existence of organized as well as unorganized sectors. The infant stage of Nepalese share market faces a lot of problems due to the persistence of unorganized sectors within the country. In fact, the infant stage of share market in Nepal seems to be facing the problem of ill-nutrition due to the existence of unorganized sector as well as the underdeveloped money market of the country.
- b) The emerging role of share market in Nepal has drawn the attention of the leading economic thinkers of the country along with the Nepalese society. One of the leading economic sectors i.e., capital market of the country, has systematized the track of the share market by providing proper material contribution to Nepal Stock Exchange Ltd. The productive example in this connection can be given by placing the examples of NIDC and other financial institutions. Such a logic can be placed

because NIDC and other financial institutions have dominated the stock exchange scenario by investing the adequate fund in the share market of the country.

- c) The norm of share market is fundamentally guided by a productive approach given by Neo-Keynesian economist James Tobin. The investment in the share depends upon the portfolio approach guided by the risk and the expected value of the wealth. But in Nepalese context, the portfolio approach seems to be partially effective due to the lack of common awareness among the people and the nature of the under developed money market of the country. In short, it can be concluded that the portfolio approach in Nepalese share market can not be applicable effectively due to the lack of monetary infrastructures of the country.
- d) The share market in Nepal, till now, has not been able to gain the healthy economic atmosphere due to the lack of technical knowledge among the common Nepalese people. An important point to note is that the Nepalese share holders are unable to capture the unexpected economic advantage investing the adequate funds in the shares; such a scene seems to be happening due to the lower level of incomes as well as the inadequacy of risk bearing capacity of the Nepalese share holders. In short, under developed monetary infrastructure and the lack of the risk bearing capacity and the technical knowledge are the major hurdles of the free flow of the development of share market in Nepal.
- e) The development of share market in Nepal has been supported by the establishment of SEBO/N – a focal organization which ensures to create a healthy tradition in issuing and selling of securities in the share market. SEBO/N has also got a command to check the over floatation of shares in the share market of the country. The SEBO/N also serves the motive to release the mutual funds and unit schemes. The approved securities by SEBO/N are only transacted through open out-cry system in the trading floor of Nepal Stock Exchange Ltd. An important point to note is that the wings of the share market in Nepal are scattered and the lack of proper co-ordination has been experienced among them.
- f) The transaction of share in the share market of the country is guided by the comprehensive approach of money bond model given by James Tobin. But in

Nepalese context, James Tobin's money bond model is not so effective because the majority of the people invest the fund either in equities or in the physical goods of the country. Only a marginal fraction of the income is being invested by the Nepalese investors in bond and shares. Thus, the portfolio selection given by Milton Friedman is more appropriate with a view to operate the mechanism of share market in Nepal.

- g) One of the leading major findings, needless to point out, is that the operation of share market had been unable to occupy its proper place in economic forum of Nepalese society. Such a position of share market has been experienced due to the lack of adequate monetary infrastructure within the country. In fact, inadequate monetary infrastructure is the fundamental drawback of share market of Nepal.

5.3 Recommendation

The recently established share market in Nepal has been experienced the several fundamental problems on the path of the free flow of the healthy development in actual practice. The prime duty of Central Monetary Authority and the other leading thinker is to remove the problems of share market in Nepal. However, being an independent researcher, the following recommendations can be recommended to overcome the problem of recently established share market of the country.

- a) The leading economic thinkers of the country should think about the mode of Nepalese Share Market and its resistance capacity with the well equipped share market of advanced countries. The thinkers should also seriously evaluate the suitability of the different wings and provisions of share market in the context of Nepalese economy. Moreover, they should think about what role upto which extent should be performed by the market makers and the brokers under the domestic arrangement of Nepal. These issues should urgently be treated by the leading thinkers of the economic community of Nepal.

- b) It is an established fact that Nepal is an agricultural predominant economy. The different activities performed in the share market of Nepal should be linked with the prosperity of agriculture sector of the economy. As long as this sector will not receive proper justice from the planners of the country till then the advancement of share market in Nepal does not have any meaning for a common Nepalese people of the grass root level.
- c) The main features of Nepalese share market is that it is still under the pressure of infant stage. The problem has further been made complicated due to the persistence of unorganized monetary sector of the country. The infant stage of the share market must be protected and above all the persistence of unorganized monetary sector should be eradicated within the country. This is the way through which the Nepalese share market can gain the economic energy for the healthy competition with the share market of foreign countries.
- d) Although the Nepalese economy has witnessed and experienced the healthy track of the share market within the nominal span of time, but such a healthy track has not awarded the fruitful benefits the country has as a whole. Because there happens to be the lack of technical knowledge and professionalism among the share holders and members of share market. In order to produce the desirable results, the effective and realistic training should be given to the members at the regular interval of time.
- e) The existing legal provisions of the share market in Nepal have created the unnecessary hurdles in the path of smooth functioning of the different wings of the share market in Nepal. These legal provisions should be revised and should be made them realistic with a view to achieve the fruitful results in the favor of the Nepalese economy as a whole.
- f) There must be certain eligible conditions and minimum qualifications for the appointment of the promoter of the company. Such an exercise helps the share market to establish a healthy linkage with the share market of foreign countries.
- g) The responsible wing of Nepalese share market must create the awareness about the risk and the rate of return of money bond model. Such an action will increase the participation of the different customers in the share market of Nepal, which will

ultimately help the Nepalese society to enjoy with the fruits of healthy share market in the long run.

- h) The share market operation is an advanced exercise and is known as the trading of information. Thus, the members of share market, SEBON, NEPSE must circulate their latest information and data with a view to generate the effective mobilization of opinions and information for the betterment of share market in Nepal. Moreover, there must be the provision of Financial Data Bank within the internal arrangement of share market in Nepal.
- i) In addition to the other recommendations, there must be proper co-ordination among the SEBON, NEPSE, and other members of the share market in Nepal. The coordination will create the smooth and healthy development of the share market within the country.

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ANNEX-I

List of Securities Business Persons

S.N.	Name of Securities Businessperson	Address	Telephone
	Broker		
1.	Kumari Securities (P) Ltd.	Dilibazar	4418036
2.	Arun Securities (P) Ltd.	Putalisadak	4419051
3.	Opel Securities (P) Ltd.	Baluwatar	4426509
4.	Market Securities & Exchange Ltd.	Dharmapath	4248973
5.	Agrawal Securities (P) Ltd.	Shankerdev Marg	4430780
6.	Aashutosh Securities (P) Ltd.	Khichapokhari	4227510
7.	Pragyan Securities (P) Ltd.	Gaushala	4491683
8.	Malla & Malla Securities (P) Ltd.	Dilibazar	4414263
9.	Om Securities Securities (P) Ltd.	New Plaza	4431386
10.	Annapurna Securities (P) Ltd.	Putali Sadak	4491025
11.	Nepal Stock House (P) Ltd.	Anamnagar	4245012
12.	Nikhil Securities (P) Ltd.	Anamnagar	4770726
13.	Primo Securities (P) Ltd.	Putalisadak	4230787
14.	Khandelwal Stock Broking (P) Ltd.	Tahachal	4284943
15.	Sagarmatha Securities (P) Ltd.	Putalisadak	4255782
16.	Nepal Investment & Securities Trading	Maitidevi	4412201
17.	Silpla Securities (P) Ltd.	New Road	4255782
18.	Midas Stock Broking Co. (P) Ltd.	Kalimati	4414263
19.	Siprabi Securities (P) Ltd.	Kupondol	5530701
20.	Shiva Shakti Stock & Investment Ltd.	Kamladi	4221123
21.	Sweta Securities (P) Ltd.	Putalisadak	4444791
22.	Asian Securities (P) Ltd.	Adwait Marg	4240609
23.	Sri Krishna Securities (P) Ltd.	New Road	4224262
24.	Trishul Securities & Investment Ltd.	Putalisadak	4438197

25.	Yeti Securities Co. Ltd.	Putalisadak	4493195
26.	J.F. Securities (P) Ltd.	Putalisadak	4231339
27.	Premier Securities Co. Ltd.	Ramshahpath	4231339

Issue Manager

28.	National Finance Co. Ltd.	New Road	4228380
29.	Ace Finance Co. Ltd.	Kantipath	4266101
30.	NIDC Capital Markets Ltd.	Kamal Pokhari	4423401
31.	Nepal Finance & Saving Co. Ltd.	Putalisadak	4288759
32.	Nepal Merchant Banking Ltd.	Durbar Marg	4246160
33.	Nepal Finance & Saving Co. Ltd.	Kamaladi	4220031
34.	Nepal Share Markets & Finance Ltd.	Putalisadak	4252332

Issue Manager and Securities Dealer

35.	Nepal Sri Lanka Merchant Bank Ltd.	Kamaladi	4440824
36.	United Finance Ltd.	Durbar Marg	4241648

ANNEX-II

Name of Listed Companies from NEPSE

A. Bank

1. Nabil Bank Limited.
2. Nepal Investment Bank Limited.
3. Standard Chartered Bank Limited.
4. Himalayan Bank Limited.
5. Nepal SBI Bank Limited.
6. Everest Bank Limited.
7. Nepal Bangladesh Bank Limited.
8. Bank of Kathmandu Limited.
9. Machhapuchhare Bank Limited.
10. Nepal Industrial Bank Limited.
11. Laxmi Bank Limited.
12. Kumari Bank Limited.
13. Lumbani Bank Limited
14. Nepal Industrial & Commerce Bank.
15. Machapuchhre Bank Limited
16. Kumari Bank Limited
17. Laxmi Bank Limited
18. Siddhartha Bank Limited
19. Global Bank Limited
20. Citizens Bank Limited
21. Prime Commercial Bank Limited
22. Sunrise Bank Limited
23. Bank of Asia Nepal Limited
24. Development Credit Bank Limited
25. NMB Bank Limited.

B. Development Bank

1. Nepal Industrial Development Corporation.
2. Nepal Development Corporation.
3. Nirdhan Uthan Bank Limited.
4. Chhimek Development Bank Limited.
5. Paschimanchal Development Bank Limited.
6. Deprosc Development Bank Limited.
7. Bageshowri Bikash Bank Limited
8. Sahayogi Bikash Bank Limited
9. Gorkha Bikash Bank Limited
10. Swabalamban Bikash Bank Limited
11. Himchuli Bikash Bank Limited
12. Imperial Bittiya Santha Limited
13. Annapurna Bikash Bank Limited
14. ICFC Bittaya Santhan Limited
15. Civil Merchant Bittiya Sanstha Limited
16. Nepal Express Finance Limited
17. Excel Development Bank Limited
18. Birat Laxmi Bikash Bank Limited
19. Malika Bikash Bank Limited
20. Nepal Investment Bank Limited
21. Everest Bank Limited
22. Merchant Finance Limited
23. Peoples Finance Limited
24. Nepal Development Bank Limited
25. Business Development Bank Limited
26. Kist Merchant Banking and Finance Limited
27. Sidhartha Development Bank Limited

C. Finance Company

1. Nepal Finance & Saving Co. Limited.
2. NIDC Capital Markets Limited.
3. National Finance Company Limited.
4. Nepal share Markets Company Limited.
5. Annapurna Finance Company Limited.
6. Kathmandu Company Limited.
7. People Company Limited.
8. Union Finance Company Limited.
9. Citizen Investment Trust.
10. Nepal Abas Bikash Bitta Company Limited.
11. HISEF Company Limited.
12. Narayani Finance Company Limited.
13. Ace Finance Company Limited.
14. Yeti Finance Company Limited.
15. Gorkha Finance Company Limited.
16. Shamjana Finance Company Limited.
17. Universal Finance Company Limited.
18. Nepal Housing & Merchant Finance Company Limited.
19. General Finance Company Limited.
20. Mahalaxmi Finance Company Limited.
21. Lalitpur Finance Company Limited.
22. Goodwill Finance Company Limited.
23. Pashchimanchal Finance Company Limited.
24. Pokhara Finance Company Limited.
25. Lumbani Finance Company Limited.
26. Siddartha Finance Company Limited.
27. Nepal Merchant Banking & Finance Limited.
28. Alpic Everest Finance Limited.
29. Nepal Bangladesh Finance & Leasing Company Limited.
30. International Leasing & Finance Company Limited.

31. United Finance Company Limited.
32. Shree Investment & Finance Company Limited.
33. Central Finance Company Limited.
34. Nepal Srilanka Merchant Bank Limited.
35. Premier Finance Company Limited.
36. Vhajurathna Finance Company Limited.
37. IME Financial Institution.
38. Bhirikuti Finance Company Limited.
39. Navadurga Finance Company Limited.
40. Butwal Finance Company Limited.
41. Janaki Finance Company Limited.
42. Standard Finance Company Limited.
43. Om Finance Company Limited.
44. Cosmic Merchant Banking & Finance Company Limited.

D. Insurance Company

1. Rastriya Beema Sansthan.
2. Nepal Insurance Company Limited.
3. National Life & General Insurance Company Limited.
4. Himalayan General Insurance Company Limited.
5. United Insurance Company Limited.
6. Everest Insurance Company Limited.
7. Premier Insurance Company Limited.
8. Neco Insurance Company Limited.
9. Alliance Insurance Company Limited.
10. Sagramatha Insurance Company Limited.
11. N.B. Insurance Company Limited.
12. Nepal Life Insurance Company Limited.
13. Prudential Insurance Company Limited.
14. Life Insurance Corporation Limited.

E. Hotel

1. Yak & Yeti Hotel Limited.
2. Soaltee Hotel Limited.
3. Taragaon Regency Hotels Limited.
4. Oriental Hotels Limited.

F. Manufacturing and Processing Company

1. Nepal Battery Co. Limited.
2. The Juddha Match Factory.
3. Morang Sugar Mills Limited.
4. Nepal Plywood & Bobbin Company Limited.
5. Himal Cement Company Limited.
6. Bottlers Nepal Limited.
7. Nepal Lube Oil Limited.
8. Biratnagar Jute Mills Limited.
9. Nepal Banaspati Ghee Udyog Limited.
10. Sri Raghupati Jute Mills Limited.
11. Butwal Dhago Karkhana Limited.
12. Gorkhali Ruber Udhdyog Limited.
13. Jyoti Spinning Mills Limited.
14. Bottlers Nepal Limited.
15. Arun Vanaspati Udyog Limited.
16. Sayapatri Colour Lab. Company Limited.
17. Harisiddhi Brick & Tiles Factory Limited.
18. Nepal Lever Limited.
19. Khadhya Udyog Limited.
20. Birat Shoe Limited Ordinary Share.
21. Nepal Med. Limited
22. Ace Laboratories Limited.
23. Himgiri Textile Industries Limited.
24. Shree Bhrikuti Paper Nepal Limited.

25. Fleur Himalayan Limited.
26. Leatherage Bansbari & Shoe Factory Limited.
27. Sri Ram Sugar Mills Limited.
28. Nepal Bitumen and Barrel Udhyog Limited.
29. Himalayan Distillery Limited.

G. Trading Company

1. Bishal Bazar Company Limited.
2. Salt Trading Corporation Limited.
3. Nepal United Company Limited.
4. Plastic Trading Company Limited.
5. Nepal Byapar Bikash Company Limited.
6. Nepal Byapar Company Limited.
7. Nepal Trading Limited.
8. Nepal Welfare Company Limited.

H. Others

1. National Productivity & Economic Development Centre Limited.
2. Necon Air Limited.
3. Nepal Film Development Co. Limited.
4. National Hydro Power Company Limited.
5. Butwal Power Company Limited.