

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is a developing country whose financial market is also at the developing stage. For the development of every country, the financial market as well as the capital market plays a vital role. The capital market is the place or mechanism in which various kinds of financial instruments are issued, which is transferred from one person to another person by means of different ways of trading mechanism. Due to which, the group of people who have excess funds can utilize their funds in productive sectors and the group of people who need funds to run their enterprises can get funding. This process can help the economy of the country rise up. "Debt market may be short-term, intermediate-term and long-term. Short-term and intermediate-term financing include trade credit, bank loan, finance company loan, commercial paper and, inventory financing that includes the issuance of mortgages and bonds"

Bond securities are an important type of financial instrument of the capital market of the nation. The bonds are promises by the issuing firm or government to pay interest and principal on the unpaid balance. The maturity of a debt instrument refers to the length of time. Generally bonds and debentures have a face value of Rs. 1000/- in Nepal.. The bondholders get interest on an annual or semi annual basis on their investment amount. Bondholders get interest before the stock-holders get dividends. There is no restriction to get interest by bondholders whether the issuing agency suffers to loss. The relation between bondholders and issuing bodies is similar to the relation between creditors and debtors. "The holders of a company's long-term debt of course, are creditors. Generally they cannot exercise control over the company and do not have a voice in management. If the company violates any of the provision of the debt contract, then there bodies may be able to exert some influence on the direction of the company. Holders of long-term debt do not participate in the residual earnings of the company instead their return is fixed. Their debt instrument has a

specific maturity preferred share of common or preferred stock does not. In liquidation the claim of debt holder is before that of preferred and common stock."

If the issuing agency cannot provide interest to the bond – holders, then they can take action to liquidate the company. Generally, risk averse investors want to invest in bonds. The bonds are of collateral or non-collateral based, perpetual or redeemable, convertible or non-convertible types. The primary bond market is of government or government agencies or fully government secured bonds and the securities of the corporate bodies are offered to the market. The secondary market for the bonds and debenture stands for once sold securities. The trading floor of the securities once it is issued is called secondary market. Basically, the issuing agency or its issue manager and debt securities holders are the main parties involved in the transaction of the primary market. But the secondary transaction for the bonds and debenture is held more through the over the counter (OTC) or third or fourth market rather than the stock exchanges. In the case of Nepal, the securities exchange center was involved in the transaction of the government bonds and debentures. Later, when it was converted into the stock exchange, the transaction of the government bonds has not been done through the Nepal Stock Exchange (NEPSE).

The transaction of debentures has recently started. The market value of the bond or debenture is determined on the basis of the face value of the bond, coupon rate of the bond and the rate of interest in the market as well as the transaction between the bond buyer and the bond depends upon the market rate of interest if, there exist the regular transaction through the stock exchanges. While talking on the Nepalese market, though the market was re-started from the year 1962 A.D. when the government issued the bonds for the first time. After that period the government issued the debt securities regularly to meet its financial needs.

While talking about the corporate debenture, the debt of NIDC, and the debt of Bottlers Nepal Limited are the early debt securities. Similarly, the first certificates of deposits were issued by the Bangladesh Bank Limited. It is popularly known as BCD (bearer certificates of deposit). It is issued for one year. It is discounted type certificate of deposits. Return from it is not attractive,

so it is not much popular in Nepal. Then in the year 1993, the Shree Ram Sugar Mill issued 14% convertible bonds securities, but lack of insufficient public response it failed in the target. The whole money was refunded before maturity.

Himalayan Bank Ltd. and Nepal Investment Bank Ltd. have issued its bonds in market. Himalayan Bank Ltd. has issued Rs 260 million "Himalayan Bond 2066" having 8.5% semi annual coupon, maturity period of 7 years and par value of Rs. 1000. Similarly Nepal investment bank has issued Rs. 300 million "Investment Bond 2060" having 7.5% coupon interest rate, maturity period of 7 years and par value of Rs. 1000

Now our concern is mainly about bond market. The term bond market simply refers to the demand and supply pattern as well as trading mechanism of bonds and debentures. Basically the issuing agencies and bonds holders are the main parties involved in this mechanism. Transaction between bondholders and bond buyers determines the market value of the bond. Actual bond market value depends on the general level of interest rate. The bond market of Nepal can be classified into two parts.

1. Government bonds market
2. Corporate bonds/ debenture market

"Variety of purpose, government of any country has to collect the financial sources by issuing selling the debt securities to public. Government securities market has great impact in the national economy by mobilization of capital".

Government bonds are those securities, which are issued by the government promises to provide a certain percentage of interest at certain period of time with pre-determined maturity period. The government raises a huge amount of fund by issuing such bonds. "Developed debt market helps to increase the tendency of saving and reduce the poverty Government relies heavily on debt financial. Revenues have seldom covered expenses, and the differences have been financial primarily by issuing debt investments, moreover new debt must be issued in order to get the necessary funds to pay off old debt that comes due".

The government has ascertained various plans for development of the country. These plans are of short-term, medium-term and long-term and must be

completed at a certain period of time. To complete these plans/projects at the pre-determined period, the government must provide the capital required for these plans. To conduct the programmes determined, the government forecast the estimated expenditure and source of income before the fiscal year by means of budget. If the expenditure regarding a fiscal period and the corresponding income is equal, the income – expenditure of the government is balanced and need not exist. In the developing countries like Nepal, usually government's expenditure is greater than corresponding income.

To conduct the regular activities continuously, to conduct the development programmes, the government collects funds through various sources. These sources are of internal as well as external also. The external sources are in the form of loan, subsidies and other kind of cooperatives. The funds collected as internal sources are on the form of loan by means of securities. The government issues various kinds of securities to collect funds from internal sources. The government also guarantees these types of securities and the features of every security are also different.

The process of selling and purchasing the government securities at first time for the collection of capital is called as first market or primary market transaction. Publishing the notice publicly does such transactions of government securities. For selling/distributing the securities certain institutions are specified. Only amount and time duration to which, specified in the notice are sold. In Nepal usually Nepal Government is the seller of the government securities in primary market (except the special bond) and the general public, commercial banks, financial institutions and other institutions are the purchaser of the primary issuance are distributed through NRB and other institutions permitted by NRB. In this process some issuance deals directly with purchasers in this market. But many rely on investment bankers who serve as purchaser of their securities. Government gives authority to such intermediaries for selling the securities within the certain time and price. In Nepal, all the functions about issuing, Nepal Rastra Bank performs accounting and managing of the government securities. Because of the Central Bank of Nepal, Nepal Rastra Bank Act 2058, provide such authority to NRB. Nepal Government proposed the amount of internal debt for every fiscal year in its regular budget. According to that proposed amount,

which securities are to be issued, as per the terms and conditions are determined by NRB.

The process of selling and purchasing the securities after issuing primary market is called secondary market transaction. Before 1976, the secondary market transaction of the government securities was held by NRB in Nepal. After the establishment of securities exchange center in 1976, this transaction is performed by the Citizen Investment fund.

As per the economic liberalization and open market policy adopted by the whole entire world, various economic changes are happened also in Nepal. There are tremendous increases in number of financial institution. At this situation, to make the market of the government securities easy and beneficial, Nepal Rastra Bank has provided permission paper as market maker to different Banks and financial companies for the secondary market transactions of National Saving Certificate, Development Bonds and Citizen Saving Certificate. These permitted market makers sales the government securities at primary issue and selling and purchasing at other times. Such market makers are located at various parts of the country.

Now, Treasury bill is only the short-term government securities, which are sold on the market. It is on discounted basis according to auction sales. After the maturity period, par value is paid to the T- bills holders. This instrument is popular among commercial banks for managing their liquidity position.

## **1.2 Statement of problem**

This Study aims seeing the scoponses of the following questions:

- J What is the investor's attitude about corporate bond and government bonds?
- J What are the prospects of development of bonds market?
- J What are the factors that affect the corporations to take decision about issuing securities?
- J Why do the various types of debt instrument are not properly practice in Nepal?

- J What are the future possibilities of bonds expanded by corporate bodies and by the government?

### **1.3 Objectives of Study**

The main objective of this research is to study about the growth of bond market in Nepal. The specific objectives of the study are as follows:

- J To assess the existing condition of bond Market in Nepal.
- J To examine the potentiality of growth of bonds market in Nepal.
- J To analyze, the trend and ownership pattern of government securities.
- J To study, the weight of bonds in investment.
- J To evaluate the investor's as well as the issuing agency opinion about bonds and debenture.
- J To suggest about bonds and debenture for the development of securities market.

### **1.4 Significance of the study**

The study is concern with the advantages or importance and prospects of bond market growth in Nepal. This study will explain theoretical concept about bonds and debentures, its market, prospects of its growth. The output of the study will help to develop Nepalese bonds market. The investors, individuals, issuers and government will be benefited through this study. It is hoped that the study will actually highlight present Nepalese bond market. Since, no research was conducted regarding this topic "Importance and Prospects of Bond's Market Growth in Nepal". The present study will be more helpful to aware the investors regarding bond market in Nepal.

## **1.5 Limitation of the study**

This is the first study of its kind because no past studies were conducted on this similar topic. Designing the research variables as per requirement is of paramount importance, but the more selection of research variables may lack the important factors. Concerning the study only on the bond market may leave other issues which are indirectly related with bond market. However, this study has following limitation.

1. The study is base on secondary data and the accuracy depends upon the data collected and provided by the organization
2. Focused on the limited area of bond market.
3. Non-availability of the various reference or sources acts as constraint for the study.
4. The data available in published annual reports have been assumed to be correct and true.
5. Inability of collecting views from the individual.

## **1.6 Organization of the study**

### **Chapter I - Introduction**

- 1) Background
- 2) Statement of the Problem
- 3) Objective of Study
- 4) Significance of the Study
- 5) Limitation of the Study
- 6) Hypothesis Formulation
- 7) Organization of the Study

### **Chapter II - Review of Literature**

Chapter two of the study is for review work.

- ) Conceptual Framework.
- ) Reviewing from journals, books and thesis.

### **Chapter III - Research Methodology**

This unit presents methodology used in the study. It consists of following subtopics:

- J Research Design
- J Population and Sample
- J Sources of Data
- J Tools for Analysis
- J Methods of Presentation of Analysis etc.

### **Chapter IV - Data Presentation and Analysis**

Chapter four is the main part of this study; it presents the data and information collected from primary as well as secondary sources. First, the data from the secondary sources are analyzed, where in ownership pattern of government bonds and treasury bills are studied, curvilinear model has been applied to find out the trend of the development of bonds in Nepal. Similarly, it includes the analysis of corporate bonds market and trend of interest rate. The next part of the study includes analysis of primary data. At primary data, analysis of questionnaire survey is included.

### **Chapter V - Summary, Conclusion and Recommendation**

This chapter is for major findings, summary conclusion and recommendation.



## **CHAPTER II**

### **REVIEW OF LITERATURE**

The study about bond market in Nepal has already streamlined to some extent in the first chapter regarding statement of the problem, objectives and significance of study. Now, in this chapter the main focus is given on the review of literature relevant for the study. Moreover, in order to make this study more comprehensive it is important to go through the relevant literature.

This literature review section consist of two parts, firstly it has reviewed literature for theoretical framework which help to develop concept about what is the bond market along with its mechanism and what theories are developed on it. It also helps to researcher to determine the subject matter of the study. It covers the area of the research work and the theoretical concept, which is important to various studies research works; and reviews of journals, articles about debt market and related terms to it in the Nepalese contest as well the international contest also.

#### **2.1 Conceptual Framework**

##### **2.1.1 Meaning and Definition of Bond**

A bond is a written instrument acknowledges a debt and containing a contract for the payment of the principal sum at a specified and for the payment of interest at a fixed rate. So, many scholars have explained the core concept of the bond and its mechanism, such as, Weston & Copeland defined the term bond as: “A bond is simply a long term promissory note”.

*Gittman* defined bond as: “A corporate bond is a certificate indicating that a corporation has borrowed a certain amount of money from an institution or an individual and promises to reply it in future under clear definite terms. Most bonds are issued with maturity of 10 to 30 years and with par or face value of

\$1000. The coupon interest rate on bond represents the percentage of the bond par value that will be paid annually, typically in two equal semi-annual instruments”.

## **2.1.2 Primary Market and Secondary Market**

### **2.1.2.1 Primary Market**

Primary market is new issue market of securities. The primary market deals with those securities, which have been made available to the first time. According to Ravindra Bhattarai: "Primary Market is the market place where instead of goods and services securities are sold to mobilized the savings for the establishment and operation of the business".

### **2.1.2.2 Secondary Market**

Secondary market is that market value where there is trading of outstanding securities of private business organizations and government. Investors can purchase and sell outstanding securities of companies in secondary market. According to Ravindra Bhattarai: "Secondary market is the market place where secondhand securities are traded. It means securities once purchased through primary market are traded in secondary market".

E.g. New York Stock Exchange (NYSE) and (NEPSE).

## **2.2 Government Bonds Market in Nepal**

Government bonds are those securities, which are issued by the government promises to provide a certain percentage of interest at certain period of time with pre-determined maturity period. The government raises a huge amount of fund by issuing such bonds. "Developed debt market helps to increase the tendency of saving and reduce the poverty Government relies heavily on debt financial. Revenues have seldom covered expenses, and the difference have been financial

primarily by issuing debt investments, moreover new debt must be issued in order to get the necessary funds to pay off old debt that comes due" (Sharpe & Jeffery).

The government has ascertained various plans for development of the country. These plans are of short-term, medium-term and long-term and must be completed at a certain period of time. To complete these plans/projects at the pre-determined period, the government must provide the capital required for these plans. To conduct the programmes determined, the government forecast the estimated expenditure and source of income before the fiscal year by means of budget. If the expenditure regarding a fiscal period and the corresponding income is equal, the income – expenditure of the government is balanced and need not exist. In the developing countries like Nepal, usually government's expenditure is greater than corresponding income.

To conduct the regular activities continuously, to conduct the development programmes, the government collects funds through various sources. These sources are of internal as well as external also. The external sources are in the form of loan, subsidies and other kind of cooperatives. The funds collected as internal sources are on the form of loan by means of securities. The government issues various kinds of securities to collect funds from internal sources. The government also guarantees these types of securities and the features of every security are also different.

The main purpose of issuing debt securities by the government is follows:

- i. The capital, which is useless and spread to various sector of the country, is utilized in the productive sector by the government.
- ii. To collect the funds from the potential savers of the society is possible.
- iii. To utilize the unused (i.e. liquid) capital of the organized institutions.
- iv. To achieve the goal directed by the monetary policy.
- v. To avoid the lack of capital for the developments projects.

- vi. To expand the economy activities and productive activities.
- vii. To recover the deficit financing.
- viii. To absorb the over liquidity of the economic sector.

After the enforcement of Public Debt Act 1960, public debt for first time was issued in Nepal in 1962 through T-Bills amounting Rs.7 millions. Now a day five various kinds of government securities are in practices. Another instruments of government securities is development bond was first issued in fiscal year 1963/64 amounting Rs. 131.0 millions. National saving certificate is being issued since January 1984, amounted Rs. 250 millions. Others are citizen saving certificate and various special bonds.

The bonds and T- bills are of regular nature. Some of them are issued with a view to depend the money market. Apart from these, different kinds of special bonds have also been issued. Most of the special bond is held by Nepal Rastra Bank.

### **2.2.1 Government Bonds Primary Market in Nepal**

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securities within the certain time and price. In Nepal, all the functions about issuing, Nepal Rastra Bank performs accounting and managing of the government securities. Because of the Central Bank of Nepal, Nepal Rastra Bank Act 2058, provide such authority to NRB. Nepal Government proposed the amount of internal debt for every fiscal year in its regular budget. According to that proposed amount, which securities are to be issued, as per the terms, conditions and time that determine by NRB.

### **2.2.2 Government Bonds Secondary Market in Nepal**

The process of selling and purchasing the securities after issuing primary market is called secondary market transaction. Before 1976, the secondary market transaction of the government securities was held by NRB in Nepal. After the establishment of securities exchange center in 1976, the Citizen Investment Fund performs this transaction.

As per the economic liberalization and open market policy adopted by the whole entire world, various economic changes are happened also in Nepal. There are tremendous increases in number of financial institution. At this situation, to make the market of the government securities easy and beneficial, Nepal Rastra Bank has provided permission paper as market maker to different Banks and financial companies for the secondary market transactions of National Saving Certificate, Development Bonds and Citizen Saving Certificate. These permitted market makers sales the government securities at primary issue and selling and purchasing at other times. Such market makers are located at various parts of the country.

Now, Treasury bill is only the short-term government securities, which are sold on the market. It is on discounted basis according to auction sales. After the maturity period, par value is paid to the T- bills holders. This instrument is popular among commercial banks for managing their liquidity position.

## **2.3 Corporate Bonds Market in Nepal**

The history of corporate debt securities market in Nepal is very short. Only few corporations have issued debenture prior or after the enactment of Securities Exchange Act 1983. Firstly Bottlers Nepal issued debenture of 5 millions in fiscal year 1986/87 and was redeemed at maturity. Similarly, Shree Ram Sugar mills Ltd. had issued debenture worth Rs 93 million in the fiscal year 1997/98. It was convertible in mature and having 14% coupon rate and it was also redeemed at the maturity. It had provided two options to its debenture holders that they can convert their debenture into equity share or can get principle at maturity. As per these options, it had kept the provision that each debenture of par value Rs. 1,000 will be converted into 10 shares of Rs 100 par value each. Himalayan Bank Limited has issued debenture worth Rs 260 million, which is launched by the name Himalayan Bond 2066. It has coupon rate 8.5% and it was listed on security board of Nepal recently. Recently Nepal Investment Bank Limited has issued bonds in the name of "Investment bonds 2060" which worth Rs. 300 million. It has 7.5% coupon rate and it has maturity period of 7 years, which mature after 7 years in 2067.

Nearly one and a half year after HBL bond, another big Nepali bank, Nepal Investment Bank Ltd, has issued Rs. 300 million "Nepal Investment Bank Bond-2010" with 7.5% coupon interest paid semi-annually in the FY 2003/04. Out of 300 thousand units of issue with par value Rs. 1,000, 100 thousand were issued to the general public and 200 thousand units were privately placed. Though the interest rate offered by NIBL was one percent lower than that of HBL's bond (where it was 8.5% with semi-annual payment arrangement), it had good chances of being over subscribed. Its issue manager was AFCL (Nepal Investment Bank Ltd., Debenture Prospectus, 2005). Again Nepal Investment Bank Ltd. has issued "Nepal Investment Bank Bond-2070" with 6% coupon interest rate paid semi-annually in the FY 2005/06. Out of 250 thousand units of issue, 50 thousand units were issued to the general public and 200 thousand units

were privately placed. The par value of debenture is Rs. 1,000, with maturity period of 7 years. Its issue manager is AFCL (Nepal Investment Bank Ltd., Debenture Prospectus, 2006).

Everest Bank Ltd. has issued debenture of Rs. 300 million with 6 % coupon interest paid semi-annually in the FY 2004/05. The par value of debenture was Rs. 1,000 with maturity period of 7 years (i.e. redeemable after 7 years). Out of 300 thousand units of issue 50 thousand units were issued to the general public and 250 thousand units were privately placed. EBL bond issue date was 2062/01/07. Its issue manager was CIT (Everest Bank Ltd., Debenture Prospectus 2005)

Bank of Kathmandu Ltd has issued Rs. 200 million "Bank of Kathmandu bond, 2069" with 6% interest paid semi-annually in the FY 2004/05. Out of 200 thousand units of issue, 50 thousand units were issued to the general public and 150 thousand units were privately placed. The par value of debenture was Rs. 1,000, with maturity period of 7 years. Its issue manager was NMB (Bank of Kathmandu Ltd., Debenture Prospectus, 2005).

Nepal Industrial & Commercial Bank Ltd has issued Rs. 200 million "NIC Bond-2070" with 6% coupon interest paid semi-annually in the FY 2005/06. Out of 200 thousand units of issue (with par value Rs. 1,000), 50 thousand units are issued to the general public and 150 thousand units are privately placed. Its issue manager is AFCL (Nepal Industrial and Commercial Bank Ltd., Debenture Prospectus, 2006).

Nepal SBI Bank Ltd, has issued Rs. 200 million "6% Nepal SBI Bank Debenture-2070" (with maturity period of 7 years and semi-annual coupon payment) in the FY 2005/06. Out of 200 thousand units of issue, 50 thousand units are issued to the general public and 150 thousand units are privately placed. Its issue manager is CIT (Nepal SBI Bank Ltd., Debenture Prospectus, 2006).

Nepal Investment Bank Ltd, has issued Rs. 250 million "6.25% NIB Bond 2070" (with maturity period of 7 years and semi-annual coupon payment) in the FY 2063/64. Out of 250 thousand units of issue, 50 thousand units are issued to the

general public and 200 thousand units are privately placed. Its issue manager is AFC (Nepal Investment Bank Ltd.,, Debenture Prospectus, 2006/07).

Nepal Electricity Authority has issued Rs. 1500 million "7.75% NEA Bond 2069" (with maturity period of 5 years and semi-annual coupon payment) in the FY 2064/65. Out of 1500 thousand units of issue, 150 thousand units are issued to the general public and 1350 thousand units are privately placed. Its issue manager is NMB (Nepal Electricity Authority, Debenture Prospectus, 2007/08).

Kumari Bank Limited, has issued Rs. 400 million "8% KBL Bond 2070" (with maturity period of 5 years and semi-annual coupon payment) in the FY 2064/65. Out of 400 thousand units of issue, 80 thousand units are issued to the general public and 320 thousand units are privately placed. Its issue manager is ACE (Kumari Bank Limited, Debenture Prospectus, 2007/08).

Himalayan Bank Limited has issued Rs. 500 million "8% HBL Bond 2072" (with maturity period of 7 years and semi-annual coupon payment) in the FY 2064/65. Out of 500 thousand units of issue, 100 thousand units are issued to the general public and 400 thousand units are privately placed. Its issue manager is ACE (Himalayan Bank Limited, Debenture Prospectus, 2007/08).

Nepal Investment Bank Ltd., has issued Rs. 250 million "8% HBL Bond 2072" (with maturity period of 7 years and semi-annual coupon payment) in the FY 2064/65. Out of 250 thousand units of issue, 50 thousand units are issued to the general public and 200 thousand units are privately placed. Its issue manager is ACE (Nepal Investment Bank Ltd, Debenture Prospectus, 2007/08).

Nabil Bank Ltd, has issued Rs. 300 million "8.5% HBL Bond 2072" (with maturity period of 10 years and semi-annual coupon payment) in the FY 2064/65. Out of 300 thousand units of issue, 60 thousand units are issued to the general public and 240 thousand units are privately placed. Its issue manager is ACE (Nabil Bank Ltd, Debenture Prospectus, 2007/08).

## **2.4 Types of Government Securities**



### **2.4.1 Treasury Bill**

Treasury bills are issued to meet short-term financial requirement of the government. It is issued on discount basis. The government has been collecting huge amount of fund through sales of T- Bill every years.

### **2.4.2 Development Bond**

It is a kind of long-term government bond. It has normally had five years maturity periods. Individuals and institutions purchase it. It can be used as collateral when taking loans. The holders normally obtain 90% amount of total value if he keeps them on collateral. It has also fixed and minimum interest rate. The interest amount will be paid on semi- annual basis. The income from these bonds is taxable.

### **2.4.3 National Saving Bond**

The issuance of National Saving Certificate was initiated in order to mobilize savings from the non-banking sectors. It is also a long-term government bond normally issued for five years maturity periods. Except commercial banks, other parties like individuals, financial institutions and others organizations etc are the holders of this bond. It has fixed interest rate payable semi annually. It can be purchased as promissory note. The holders get principal after a certain maturity period. These bonds are normally tax-free bonds and having high interest rates. Therefore the National Saving Bonds have large trading in market. It is obvious that the taxable bonds like National Saving Bonds.

### **2.4.4 Special Bond**

It is issued on special occasions when government falls sort of funds for any special project or programs. The government issues special bonds to make payment, instead of paying cash; the government issues special bonds as a substitute of cash repayment. The holder of this bond can also use it as collateral.

#### **2.4.5 Citizen Saving Bond**

It is also a long-term government bond, which normally matures in five years. The characteristic of the citizen saving certificate is same as the long-term bonds. The only difference is that it cannot be used as collateral. It has also a fixed interest rate. The interest amount is paid on semi annual basis. Individual as well as institutional buyers can purchase it. It is also a taxable government bond.

#### **2.5 Securities which are in practice in U.S.A**

- a. US Treasury Bills
- b. US Treasury Notes
- c. US Treasury Bonds
- d. US Savings Bonds
- e. Zero coupon Treasury security receipts

#### **2.6 Review from Thesis**

Having reviewed the research report, most of the research studies are related with public debt and very few studies are found related with overall debt securities market.

**Subedi (2006)** had studied on “**Problems and prospects on Bond Debt market growth in Nepal**”. This study is mainly concerned with the bond's investment in total securities market along with the trend analysis of government bonds. He found that Nepalese investors are keen to invest in common stock rather than debentures. Tedious and lengthy process of issuing debt securities is another problem that hinders the growth of debt securities market. He also found that

interest on deposit of commercial bank is lower than the coupon rate of debt securities. Therefore he suggest all the investors instead of depositing their saving in commercial bank they should invest in debt securities of Nepalese securities market so that they may earn much more than that. He concluded that government securities market is slightly at the maturity stage as compared to corporate debt securities. He recommended to the government to bring new rules and regulations regarding debt securities.

**Kafle (2005)** had studied on “**Problems and prospects on Debt market growth in Nepal**”. He summarized that, capital market of Nepal is in the infant stage and debt securities market is limited in exercise. The growth debt securities market is growing but not as expected. The heavy reliance of government in foreign debt has created huge problem in the growth of Nepalese debt securities market. He added that, investment made on impulse rather than through market study or credit ratings in Nepalese capital Markey. He pointed that Nepalese investors preferred national saving bond and development bond rather than other government bonds. He concluded that due to over supply of deposits by customers; commercial banks do not issue debt securities. On the other hand, big corporate bodies could get loan easily from banks at lower cost so they didn't need to issue debt securities, but on the other side small corporate firms have been facing the problem of raising the fund by issuing debt securities as well as from banks. Tedious and lengthy process of issuing debt securities is another problem that hinders the growth of debt securities market.

**(Mainali, 2003)**, on “**Problems and prospects on Debenture market growth in Nepal**” was conducted with the objective of existing debentures market, potentiality in growth of debenture market, existing problems of debenture market. A study concludes that Nepalese debentures market is still in initial stage and growth direction. The researcher has pointed out many problems, such as insufficient legislative provisions regarding Nepalese debentures market, political instability, poor price sensitive information disclosure, investors more preference on ordinary shares, lack of listing of debentures, People are not interested on investing in debenture. He also concluded that Nepalese debentures market is in better position than preferred stock market. If problems are cure in

time, its growth prospect is widely felt by the researcher. Nepalese public debentures market is comparatively better than private sector debentures. So that, emphasis should be given in the development of private sector debentures market for the growth of overall debentures market of Nepal.

**(Chhetri, 1984)**, on "**Internal Public Debt in Nepal**", was conducted and the objective of the study was to analyze the contribution of internal borrowing to the financing of development plans and concluded the system of system of internal debt has helps to mobilize the internal financial resources in the productive sector of the country is economy.

**(Joshi, 1982)**, on "**Structure of Public Debt in Nepal**" was conducted and the objective of the study was to find out the role of Public debt in the Nepalese fiscal system, and under plans. He pictured the poor economic performance of the nation, which is due to nation's national topography and human behavioral limitation. He conclude the internal borrowing is most essential to develop the money and capital market in the nations and describes the external debt as supplementary tools for the resources gap in the country's budgetary expenditures. Mr. Joshi has recommended floating or introducing the different public borrowing scheme, which may suit the pocket of the rich as well as poor people. Finally we all are advised the public debt rose by the nation through the techniques of effective debt management system. He concluded, "A Public Debt is one of the best ways of financing development expenditure of the government which helps to control inflation in the country."

## **2.7 Review from Articles and Journals**

Some of the Journals, written by different authors, published from abroad are studied and reviewed to understand present debt market of Nepal as there is not sufficient publication regarding corporate bond/debenture market in Nepal. Review of different approach that can be applied in the context of Nepalese debt securities market. Comparing Nepalese corporate debenture market with respect to international debt market helps to identify issues and prospects on the one

hand, and helps in recommending appropriate measures to overcome present problems on the other.

Some of the relevant articles and journals found to be important and are reviewed.

**(Mikal Kviback, 2009)**, presents an article on "**Issues in Local Bond Market Development (i.e. Nepal Survey)**" and concluded that there is still no position to be satisfied or pleased due to development of Nepalese financial market. Very few debenture or bond markets are in operation as well as very few corporate bonds are issued by corporation till now. Government market is more developed than corporate market but prices are not market oriented. Furthermore, he mentioned that the capacity to develop the local corporate bond or debenture, market is sincerely constrained by a weak supply and demand for the product. The number of potential blue chip issues and size of the collective investors' base are not enough to create an institutionalized market and very few financial alternative instruments are available in the market for the investors to invest.

**Joseph P. Ogden (2009)**, presented a paper on "**Determinants of the Relative Interest Rate Sensitivities of Corporate Bonds**". This paper examines the extent to which the interest rate sensitivity of corporate bond prices is affected by various characteristics. The characteristics examined include default risk, the call option and the sinking fund.

The results of this study indicate that all three characteristics have strong negative interest rate sensitivity. This finding for the sinking fund is consistent with both the call option aspect of the sinking fund and the presence of accumulators. The result indicates that the month end corporate bond price quotations from a standard source, Standard and Poor's bond guide, may be non-synchronous with respect to true month end quotations. This highlights the importance of using the consistent estimation that is available for some such situations. The market of sinking fund bonds and perhaps by extension the entire corporate bond market is only quasi-competitive. Whether this is true and if so what impact this would have no theories to resolve. Another implication of this is that the negative relationship between quality rating and relative interest rate

sensitivity may resolve of long – standing empirical anomaly: the lack of a strong relationship between a bonds quality rating and its system.

**YanAlice Xie, Sheen Liu and Chunchi Wu (2005)** have studied on **“Duration, Default Risk and the Term Structure of Interest Rates.”** They examined the interactive effect of default and interest rate risk on duration of default able bonds. Their results suggest that the duration measures must be adjusted for the effects of default risk and stochastic interest rates to achieve an effective bond portfolio immunization. They have examined the duration of default ale bond by talking into account the interactive effects of default intensity and interest rates. Their study differed from that of previous studies in several aspects. First, instead of assuming flat yield curve, their model incorporates the effect of term structure of interest rates on duration by adopting a stochastic mean-reverting interest rates process. Second, they have employed a reduced form approach to derive a closed-form duration model for default able bonds by allowing for the effect of stochastic interest rate.

**(Elton, Grober, Agrawal and Mann, 2001)**, in their **Article “Explaining the rate spread between rates on corporate bonds”**, explains the spread between rates on corporate and government bonds. The purpose of this article is to examine and explain the differences in the rates offered on the corporate bonds and those offered on government bonds (spreads) and in particular to examine whether there is a risk premium in particular to examine whether is a risk premium in corporate bond spreads and if so why it exist.

They have shown that the spread can almost entirely be explained by three influences; the loss from expected defaults state and local taxes which must be paid on corporate bonds but not on government bonds and a premium required for bearing systematic risk.

Even they account for the impact of default and taxes, there still remains a large part of the differential between corporate and treasuries. Making use of the Fama – French factors, they show that as much as 85 percent of that part of the spread that is not accounted for by taxes and expected default can be explained as a

reward for bearing systematic risk. They had been able to account for almost all of differences between corporate rates and government rates. They had provided explicit estimates of the size of these influences and had shown that both state taxes and risk premiums are more important than the financial economics has suggested.

**Campbell, Lulis and Viceira (2001)**, studied about **“Why should Buy long term bonds?”** According to conventional wisdom, long – term bonds are appropriate for conservation long – term investors. This paper develops a model of optimal consumption and portfolio choice for infinite – lived investors with recursive utility that faces stochastic interest rates, solves the model using an approximate analytical method and evaluation conventional wisdom. In this paper they studied inter temporal portfolio choice in an environment with random real interest rates. For simplicity they assume that investor have only financial wealth and no labor income. They use an approximate problem that can be solved using the method of undermined coefficients. They use approximate solution to understand the demand for long-term bond. They had considered infinite lived investor who uses their wealth to finance stream of consumption. They had shown that such investors might hold long bonds for two reasons. First if long – term bonds offer a term premium then investor may hold them for speculative purpose to increase their expected portfolio return even at the cost of some extra short term risk. This “Myopic demand” for long term bonds can be large when risk aversion is small because long- term investors may hold long – term bonds for hedging purpose. Long terms bonds can finance a stable long run consumption stream even in the face of time varying short – term interest rates and this is no attractive to risk – averse long – term investors. In the extreme case when there is no term premium or whether investors are infinitely risk averse, the myopic demand for long-term bonds is zero and bond demand is accounted for by the hedging demand.

**(Elton, 2001)**, presents an article on **“Explaining the rate spread on corporate Bond”** explains the spread between rates on corporate and government bonds. The purpose of this article is to examine and explain the differences in the rates offered on the corporate bonds and those offered government bonds (spreads)

and in particular to examine whether there is a risk premium in corporate bond spreads and if so, why it exist. They have shown that the spread can almost entirely be explained by three influences: the loss from expected defaults. State and local taxes, which must be paid on corporate bonds but not on government bonds and premium, required for bearing systematic risk.

Even they account for the impact of default and taxes, there still remains a large part of the differential between corporate and treasuries. Making use of the Fama-French factors. They show that as much as 85 percent of that part of the spread that is not accounted for by taxes and expected default can be explained as a reward for bearing explained risk. They had been able to account for almost all of differences between corporate rates and government rates. They had provided explicit estimates of the size of these influences and had shown that both influences had shown that both state taxes and risk premiums are more important than the literature of financial economics has suggested.

**Rameshwori Pant (1997)** in her article, “**Management of Internal Debt and Economic Stability**” concluded that private industrialists and traders would be hesitant and discouraged if the state is also to conduct simultaneously the business and industries. This may create the unhealthy competition between the government and private imitative, government should not interfere the liquidity position exist the market. She recommends the government not to borrow the capital from the public so that private investors will not lack the capital.

## **2.8 Review from Newspapers**

The Kathmandu Post, Wednesday 15 January 2007 reported that, more than 30% of the companies listed with the NEPSE have failed to comply with the working norms of the secondary market. Knowledgeable sources revealed that most companies fall under finance, manufacturing and processing, and trading groups. They have either defaulted in clearing their registration or renewal fees or have not provided the NEPSE with the audited financial statements for over two years. Only 65% of the listed companies do not pay heed to the norms of the



stock exchanges. If the other companies do not pay heed to the repeated warnings they can be suspended or de-listed. So companies must comply with the stock market rules. NEPSE was prompted to de-list the 25 companies in line with the budgetary announcement made by the Former Finance Minister Ram Saran Mahat in July 2001. Former Minister Mahat then announced to de-list those companies that did not provide financial statements for more than two consecutive years. Since de-listing of shares from stock exchange would impact small investors, proper care should be taken when the process is moved ahead. This process impact on debt market as well as equity market growth of Nepal

In the news of Kantipur daily of 27<sup>th</sup> Baishakh 2060, the news about the listing of Nepal's first debenture has given that, NEPSE fixed the T= O system for the bond trading in Nepalese capital market. The bond of the Himalayan Bank 'Himalayan bond 2066' initiated this system. Up to 15 of Shrawan, 2060, only 570 shares of bond at par were traded at the floor of NEPSE. Trading was held between individual to individual. It is the first transaction held at the NEPSE from the corporate/ bank debt security.

In the news of Kantipur daily of 24<sup>th</sup> August 2002, on the topic "**public issue cost high in Nepal**", it has given that, despite huge appetite of investor for investment, inadequate investment opportunities has caused a substantial rise in the cost of issue, concludes a latest study commenced by SEBON. In it the following conclusions are highlighted.

1. Necessary adjustments in laws, by – laws, and directives.
2. During share issue, financial sector is bearing the maximum brunt of investor pressure.
3. Cost ranges from 0.34% to 24.25% of total issued capital but same in non- financial sector ranges from 1.77 to 5.36%
4. Major cause for such huge issue cost in financial sector is the increased cost of processing the huge no. of applications that companies receive during share subscription.
5. Cost of processing is high as share of total issued capital go up when a large number of investor applies for a comparatively small issue.

6. Printing and other expenses and money collection and its refund increase the cost.
7. Underwriting commission, advertisement expenses and issue commission.
8. Issue cost for rights share is lower. Which is only 0.30% to 2.09%
9. Lack of one window policy has caused high issue cost.

## **2.9 Concluding Remarks**

Nepalese bond market is still at under developed stage. Government bond market is slightly at maturity stage as compare with corporate debt securities market. In the recent year, many factors show that it starts to take speed to grow. By reviewing different literatures and articles I come into conclusion that there are a number of advantages of issuing the Bonds. We can classify these advantages as; Advantages from the view point's of issuers like less costly, flexibility in financial structure, having no interference in management and control, facility of trading on the equity i.e. the interest paid on debt can be deducted as tax expenditure. On the other hand, from the viewpoints of investors advantages like bonds and debentures are liquid, security of investment, having fixed maturity period, priority of income. In the same way, number of bonds and the issuers are increasing and government has also decided to trade its bonds through stock exchange which shows the importance of bonds in capital market and prospects of growth of bonds market in Nepal.

## **2.10 Research Gap**

Since very few research works has been conducted on the bonds and debenture, as being such a major part in capital formation; the corporate society, individual and investors are not interested towards bonds and debenture. Corporate society, individual and investors are only interested in issuing and purchasing common

stock but not in issuing and purchasing debenture and bond. The corporate society usually avert the bonds and debenture, it is due to unawareness about its characteristic like not control in management, tax benefit, minimum cost of capital, repayment of debt after the expiration, flexibility in capital structure management, no voting rights, no participation in company profitability distribution and other advantages.

As research, some researcher had highlighted on the problems and prospects of debt and debenture but not on its importance and prospects. The researchers are also lagging behind on the government securities, which are going to be listed on stock exchange in a recent time.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research Methodology is the way of carrying research to derived information about something. It deals with the situation and interpretation of data in meaningful form and helps to generate ideas for further investigation and research. The nature and source of the data and method analysis used in this study are described below:

**Descriptive research:** It includes survey and fact finding inquiries of different questions. The main purpose of descriptive research is the description of the status of affairs, as it exists at present.

**Analytical research:** In this type of research, researchers use the facts and information already available and analyze that data to make a critical evaluation.

#### **3.2 Research Design**

This research study attempts to analyze overall study of Bond market growth in Nepal. Hence to fulfill the objective of the study, it used both primary data as well as secondary data. To fulfill the objectives, the study adopts descriptive research design as well as the analytical and quantitative approaches are used to examine the issue.

To examine the trend of Government bond and examine ownership pattern and interest rate structure, mostly analytical research design is adopted due to which some prospect can be analyzed. Similarly to examine the various sectors' view towards Nepalese bond market and to find out its advantages, descriptive research design is also done. Various statistical tools such as curvilinear Model and chi-square testing hypotheses are applied to interpret and come to conclusion.

### **3.3 Population and Sampling**

From the title of the study, it is obviously clear that the research covers vast area. On one side, the population of this study comprised all the listed organized companies, which are the potential issuance companies of debenture. There are 142 in number at fiscal year 2007/2008 like wise, all the holders of debt securities are also considering as population. This study covers the area of government bodies, concerned staff or experts, the brokerage firm and market makers are considering as the population of this study from which, a questionnaire survey is conducted. In another side there are two practices of corporate debt securities, and many government securities issuance practice are held from 1962. These practices are also taken as population of the study.

A use of 35 listed companies, 15 market maker and brokers, 30 individual investors and 20 experts are taken from various sectors using judgmental sampling, a list of investors included corporate debt holder as well as government securities holders are taken using random sampling. To analyze the trend of government securities a sample of issuance from 1987 to 2008 are taken as sample for study.

### **3.4 Source of Data**

The research study is based on both primary and secondary data. The source of primary data is mainly questionnaire methods. A set of 10 questionnaires is developed for various respondents. These are allocated to them and collected after some times. The main sources of the primary sources of data are,

- ) Listed companies
- ) Brokers and market makers
- ) Individual Investor
- ) Other experts, mainly staffs of SEBON/N and NEPSE

To examine the trend and ownership pattern and for Interest rate analysis

secondary data are also used. The main sources of secondary data are

- J Various Quarterly Economic Bulletins of NRB
- J Various Economic Report
- J Economic Survey
- J Various Budget Speeches
- J Various Statistical Year Book and other publications of Department of Statistics
- J Various Annual Report of Securities Board, Nepal
- J Prospectus of Shree Ram Sugar Mills Ltd.
- J Prospectus of Himalayan Bank Ltd.
- J Prospectus of Nepal Investment Bank Ltd
- J Prospectus of Everest Bank Ltd
- J Prospectus of Nepal SBI Bank Ltd
- J Prospectus of Kumari Bank Ltd
- J Prospectus of Nabil Bank Ltd
- J Prospectus of Nepal Electricity Authority
- J Various publications of NEPSE

### **3.5 Research Methods**

A questionnaire is made and distributed to various respondents through which a field survey is conducted there are analyzed by using various statistical tools like Chi-square test of Hypothesis. A descriptive analysis is also done to find out the overall view and reached to the conclusion.

### **3.6 Testing of Hypothesis**

This study is based on both secondary as well as primary data. The primary data has been collected by questionnaire. Using computers application programs especially MS-Excel has done processing of these data. Some others statistical tools have been used for presentation and make raw data into organized forms

and also for presentation and make raw data into organized forms and also for analysis and interpretation. In this research work some suggested solution called as hypothesis to suggest new observation.

The chi-square test of Hypothesis is useful to examine the Importance of bonds market. The samples are taken to clarify the importance of bonds in investment from various related sectors' persons and organizations. Group of listed companies, which are selected using judgmental sampling, which is randomly selected according to their education, locations, position on various jobs etc. Another group is Brokers and Market Makers, which are also randomly selected, and the last group is staff of SEBON & NEPSE.

With the available data some hypothesis are tested and given the decision accordingly. It may not be proved absolutely but in practice it is accepted if it has stood with a critical testing.

While examine the hypothesis by the Chi-square test, the expected frequencies are calculated by applying the formula;

$$E = \frac{RT \times CT}{N}$$

Where, RT= Row Total, and the calculated values of  $\chi^2$  were calculated by the following formula,

$$\chi^2 = \frac{(O - E)^2}{E}$$

Where, O = Observed frequency

E = Expected frequency

### 3.7 Curvilinear Model

To examine the trend of government securities by using the data of the total amount of issued on previous years curvilinear model is used. With the help of this model, the forecasted amounts of total amount of government securities issuing by government and coming years are calculated.

The equation of curvilinear is as below:

$$y = a + bx + cx^2 \dots\dots\dots 1$$

$$y = Na + b x + c x^2 \dots\dots\dots 2$$

$$xy = a x + b x^2 + c x^3 \dots\dots\dots 3$$

$$x^2y = a x^2 + b x^3 + c x^4 \dots\dots\dots 4$$

By solving the above equations, the value of a, b, c are calculated. The forecasted value can be calculated by using the following equation

$$y = a + bx + cx^2$$

Similarly, to find out the trend line of the individual government securities, a time series is used. A trend line is the diagram by taking years (i.e. time) at X-axis and the amount of issued securities at y-axis.

### 3.8 Research Tools and Instruments

Mainly the following tools are used in this research study

Chi-Square ( 2) test of hypothesis

Curvilinear Model



## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

This chapter "Data Presentation and Analysis" is the main body part of the dissertation. The secondary data have been obtained from Quarterly Economic Bulletin, Current Macroeconomic Situation, Annual Report of SEBO/N and other related newspaper. The primary data have been obtained through field survey. The available data have been tabulated and presented into graphs, charts and analyzed to reach at the findings. So this dissertation has been prepared by using various available data to fulfill its objectives.

Following methods are used to analysis the data:

- ) Chi-Square Model of Hypothesis
- ) Curvilinear Model

#### **4.2 Ownership Pattern of Government Bonds and Treasury Bills**

The ownership pattern of Government Bond and Treasury Bills refers to the proportion of total Government Bonds and Treasury Bills purchased by different financial institutions and individuals. The data shown in Table 1 reveal, the portion of Nepal Rastra Bank in total purchase of bonds and treasury bills from 1994 to 2012 i.e. 47.16%, 50.93%, 51.23%, 50.34%, 41.57%, 44.53%, 38.47%, 29.89%, 34.64%, 33.06%, 22.22%, 19.94% 12.28%, 15.74%, 16.98%, 19.98%, 23.39%, 17.66% and 13.49% Although participation in purchasing Government Bonds and Treasury Bill by NRB in absolute terms has increased from Rs. 14,447 in 1998 to 28223.2 in 2012 but the table clearly shows that NRB is loosing its portion in the purchase of total Government Bonds and Treasury Bills from the year 1996 to 2006 year, but it increased by 3.46 % 1.24%, 2.94% and 3.47% in year 2007, 2008, 2009 and 2010 respectively. Similarly, it has taken decreasing trend in the following years 2011 and 2012.

The next substantial buyers of government bonds and treasury bills are the commercial banks whose purchase has increased from Rs. 10281 million in the year 1998 to Rs.128987.4 million in the year 2012. It clearly shows that the participation of commercial banks in the total purchase has been increasing in absolute terms (except from 1998 to 1999, when it had a decreasing trend). It is also observed that the portion in total purchase has been in increasing trend and reached to 64.85% in 2008. Similarly the trend faced slightly decline in the year 2009, 2010 and 2011.

Similarly, others include the financial institution with Insurance Corporation and provident fund along with Government Business Enterprises, Private Business Enterprises and Non profit organization as well as Individuals whose purchase has increased from 12,161 million in 1998 to 51909.6 in 2012. The amount invested by others were in increasing trend up to year 1998 but the after it was in decreasing trend up to year 2003 and after that amount invested was fluctuation.

**Table 1**  
**Ownership Pattern of Government Bonds & T-Bills**

Debt holder/Year	<i>Rs. In million</i>														
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nepal Rastra Bank	15,965 (41.57%)	22,116 (44.53%)	20,909 (38.47%)	17,950 (29.89%)	25,504 (34.64%)	26,826 (33.06%)	19,139 (22.22%)	17,457 (19.94%)	11049 (12.28%)	15630 (15.74%)	18885 (16.98%)	24082.8 (19.92)	33421.5 (23.39)	31671.3 (17.66)	28223.2 (13.50)
Commercial Banks	10,281 (26.77%)	12,659 (25.49%)	18,177 (33.44%)	25,393 (42.29%)	29,361 (39.88%)	35,883 (44.22%)	43,796 (50.85%)	48,551 (55.45%)	58861 (65.43%)	65836 (66.30%)	72141 (64.85%)	71949.1 (59.52)	82995.8 (58.09)	105940.9 (59.08)	128987.4 (61.68)
Other	12161 (31.66%)	14895 (29.98%)	15271 (28.09%)	16701 (27.81%)	18756 (25.48%)	18439 (22.72%)	23199 (26.93%)	21556 (24.61%)	20045 (22.28%)	17838 (17.96%)	20213 (18.17%)	24841.8 (20.55)	26442.5 (18.51)	41716.2 (23.26)	51909.6 (24.82)
<b>Total</b>	<b>38407</b> (100)	<b>49670</b> (100)	<b>54357</b> (100)	<b>60044</b> (100)	<b>73621</b> (100)	<b>81148</b> (100)	<b>86134</b> (100)	<b>87564</b> (100)	<b>89955</b> (100)	<b>99304</b> (100)	111239 (100)	120873.7 (100)	142859.7 (100)	<b>179328.4</b> (100)	<b>209120.2</b> (100)

Source: NRB, Quarterly Economic bulletin, Volume 46, 2012, Number 4

**Note: Figures in parentheses indicates percentage over total amount.**

### 4.3 Trend and Amount of Government Securities Issued in Nepal

Since 1961, Nepal has started to borrow from the internal sources to bridge the resource gap in the budget, by means of issuing various kinds of securities. In the initial year 1961, the government issued treasury bills for internal borrowings (Budget speech 1961), but a systematic borrowings by issuing T- Bills, Development Bonds, National saving Bonds, Citizen Saving Bonds and Special Bonds.

As stated in the Table 2, substantial changes occurred in the structure of government securities during the period of 1985-2005. The total amount of government securities amounted to Rs 6,031.60 million in 1985, which is in increasing trend, and its growth rate is positive in every year. By the end of 2012 the total amount of it reached to 179328.4 millions. In every year data we can found that the portion of treasury Bills is highest out of the instrument.

**Table 2**  
**Total Bonds & Treasury Bills Issued by Government** *Rs. In million*

Year	Total Bonds & T Bills	Growth rate (%)
1987	8997.4	-
1988	11636	29.33
1989	12887.9	10.76
1990	14673.1	13.85
1991	20855.9	42.14
1992	23234.9	11.41
1993	25456	9.56
1994	30631.2	20.33
1995	32057.9	4.66
1996	34241.8	6.81
1997	35890.8	4.82
1998	38406.6	7.01
1999	49669.7	29.33
2000	54357	9.44
2001	60043.8	10.46
2002	73621	22.61
2003	81148.3	10.22
2004	86133.7	6.14
2005	87564.3	1.66
2006	89954.9	2.73
2007	99303.8	10.39
2008	111239.1	12.02
2009	120873.7	8.66
2010	142859.7	18.19
2011	179328.4	25.53

2012	209120.2	16.61
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Source: NRB, Quarterly Economic bulletin, Volume 46, 2012, Number 4

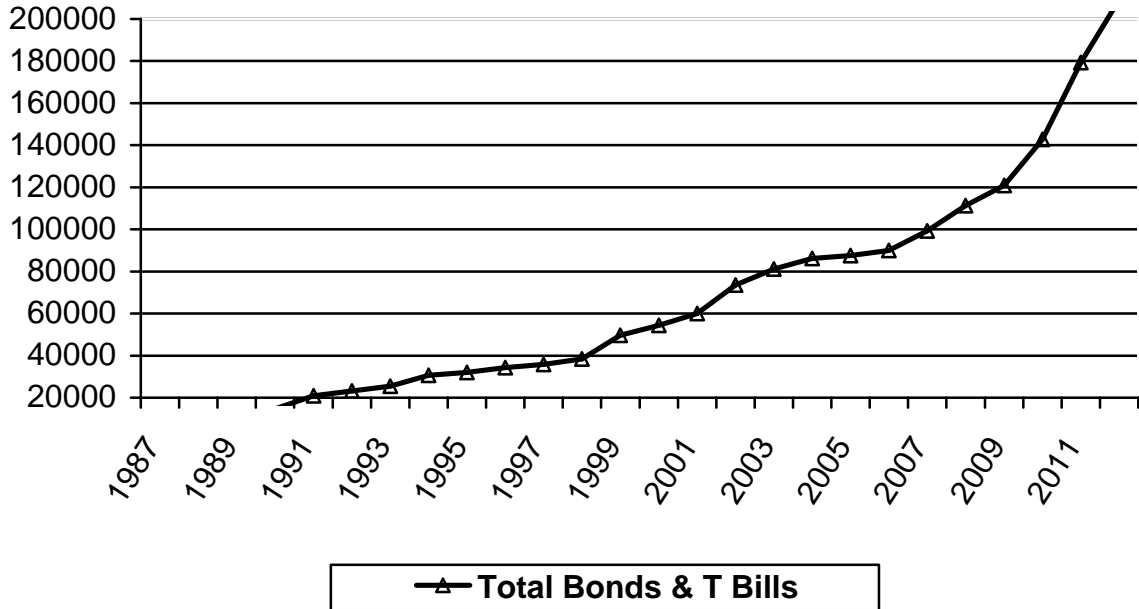


Figure 1: Total Bond & Treasury Bill issued by Government

The above Table 2 and Figure 2 show the total amount of debt issued by the government during the past 26 years (1987-2012), which is in increasing trend. However the growth rate shows the fluctuating trend of total debt. Here the growth rate has calculated by taking the previous year as the base year. From the growth as compared with the previous year, the minimum growth rate of debt is 1.66% in the year 2005.

### **4.3.1 Treasury Bills Issued by Government**

The Table 3 shows the amount of Treasury Bills issued by the government to collect the fund in 26 years periods.

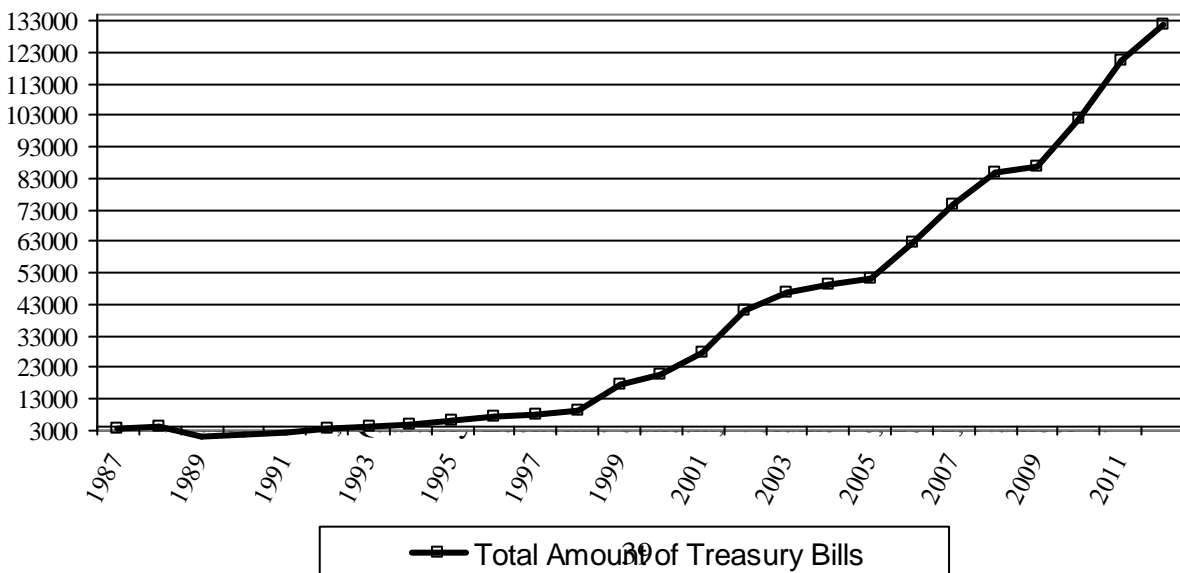
Table 3  
Treasury Bills Issued by Government

Rs. in million

Year	Total Amount of Treasury Bills	Growth rate (%)
1987	3440	-
1988	4090	18.90
1989	1171	-71.37
1990	1821	55.51
1991	2351	29.10
1992	3483.3	48.16
1993	4403.2	26.41
1994	5216.3	18.47
1995	6392.5	22.55
1996	7142.5	11.73
1997	8092.5	13.30
1998	9182.5	13.47
1999	17586.9	91.53
2000	21026.9	19.56
2001	27610.8	31.31
2002	41106.5	48.88
2003	46884.9	14.06
2004	49429.6	5.43
2005	51383.1	3.95
2006	62970.3	22.55
2007	74445.3	18.22
2008	85033.0	14.22
2009	86515.0	1.74
2010	102043.7	17.94
2011	120340.7	17.93
2012	131624.	9.38

Source: NRB, Quarterly Economic bulletin, Volume 44, 2012, Number 4

Figure 2: Treasury Bills issued by Government



The above Table 3 and Figure 3 shows the total amount of treasury Bills issued by the government during the past 26 years (1987-2012), which is in the increasing trend as shown in the line graph except in the year 1989 which is decrease by 71.37% as compared with the previous year amount and a fluctuation trend is observed its growth rate. The growth rate is calculated by taking the previous year's amount as base. Observing the growth rate column in year 1999 shows maximum increase in growth rate by 91%.

#### 4.3.2 Development Bond Issued by Government:

The Table 4 shows the amount of Development bond issued by the government to collect fund in 21 years periods.

Table 4  
Development Bond Issued by Government Rs. in million

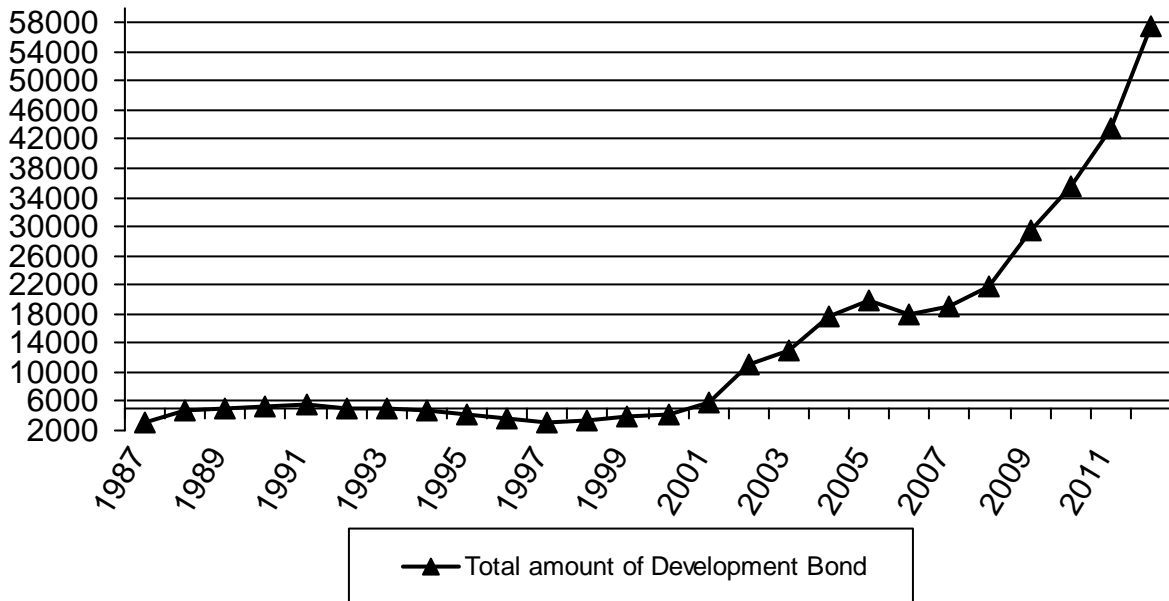
Year	Total amount of Development Bond	Growth rate (%)
1987	2990	-
1988	4651.7	55.58
1989	5088.6	9.39
1990	5388.6	5.90
1991	5482.3	1.74
1992	5132.2	-6.39
1993	5132.2	0.00
1994	4732.2	-7.79
1995	4122.2	-12.89
1996	3672.2	-10.92
1997	3042.2	-17.16
1998	3302.2	8.55
1999	3872.2	17.26
2000	4262.2	10.07
2001	5962.3	39.89
2002	11090.7	86.01
2003	13090.7	18.03
2004	17549.2	34.06
2005	19999.2	13.96
2006	17959.2	-10.20
2007	19177.1	6.78
2008	21735.4	13.34
2009	29478.5	35.62
2010	35519.4	20.49



2011	43519.4	22.52
2012	57519.4	32.17

Source: NRB, Quarterly Economic bulletin, Volume 44, 2012, Number 4.

Figure 3: Development Bond issued by Government



The Table and Figure 4 shows the amount of development bond issued by the government during the past 26 years (1987 to 2012) which is in increasing trend is first five years and reach to Rs. 5,482.30 millions in 1991. But in 1992 year the amount of development bond decreases by 6.39 % however in 1993 year there was no change in the amount. From the year 1994 to 1997 the amount of development bond decreased. From the year 1998 the Development bond growth rate again shows the positive growth trend but in 2006 again there was negative growth rate but in year 2007 till 2012 again the growth rate was positive. The growth rate has been calculated by taking previous year as the base year.

#### 4.3.3 National Saving Bond Issued by Government

The Table 5 shows the amount of National Saving Bond issued by the government to collect fund in 26 years periods.

Table 5

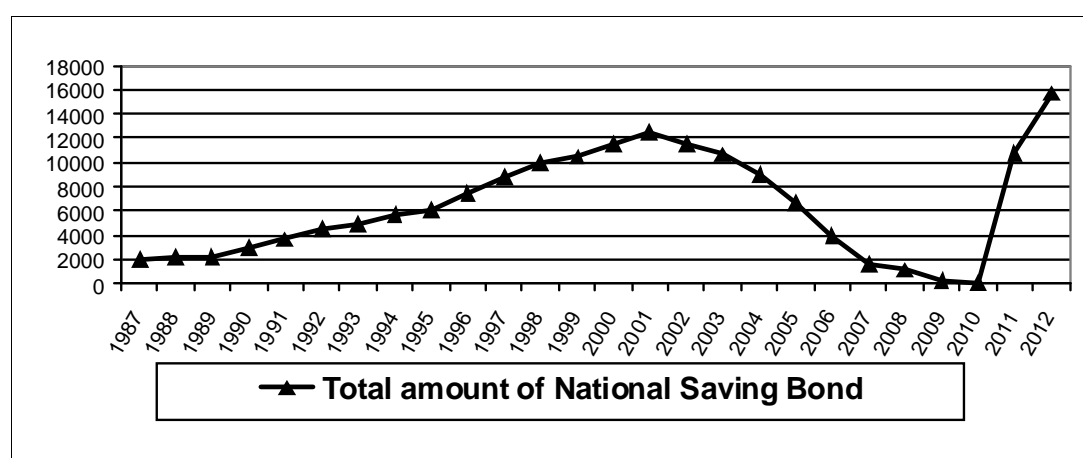
### National Saving Bond Issued by Government

*Rs. in million*

Year	Total amount of National Saving Bond	Growth rate (%)
1987	1940	-
1988	2196.5	13.22
1989	2196.5	0.00
1990	2896.5	31.87
1991	3646.5	25.89
1992	4546.3	24.68
1993	4901.5	7.81
1994	5691.5	16.12
1995	6076.4	6.76
1996	7376.5	21.40
1997	8736.5	18.44
1998	9886.4	13.16
1999	10426.4	5.46
2000	11526.5	10.55
2001	12476.5	8.24
2002	11536.1	-7.54
2003	10659.9	-7.60
2004	9029.8	-15.29
2005	6576.8	-27.17
2006	3876.8	-41.05
2007	1516.9	-60.87
2008	1116.9	-26.37
2009	216.9	-80.58
2010	0.0	-100
2011	10680.0	
2012	15680.0	46.82

Source: NRB, Quarterly Economic bulletin, Volume 46, 2012, Number 4.

Figure 4: National Saving Bond Issued by Government



The Table and Figure 5 shows the amount of National Saving Bond issued by the government during the past 26 years (1987-2012) which is in increasing shows the positive growth trend up to year 2001 but from 2012, there was negative growth rate which means the prospects of National Saving Bonds has been decreasing. The growth rate has been calculated by taking previous year as the base year.

#### 4.3.4 Special Bond Issued by Government

The Table 6 the amount of Special Bond issued by the Government to collect the fund in 26 years period.

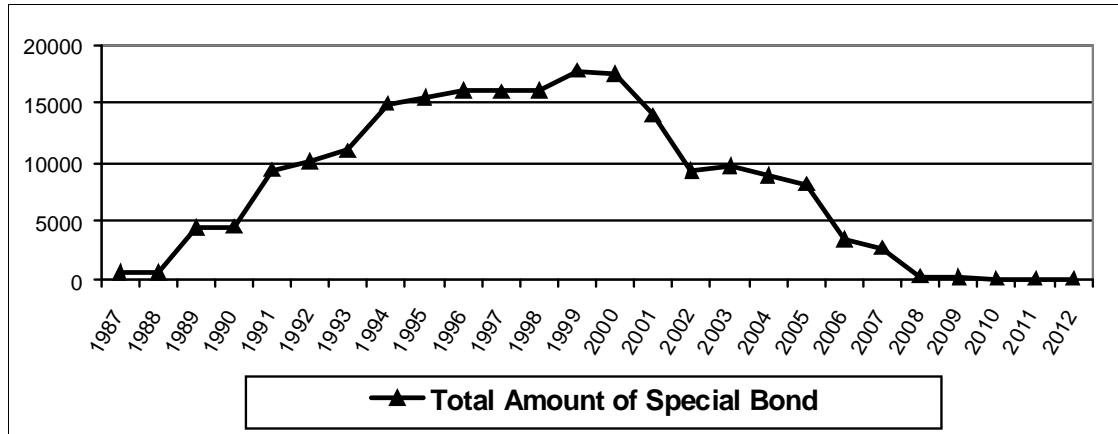
**Table 6**  
**Special Bond Issued by Government**

*Rs. in million*

<b>Year</b>	<b>Total Amount of Special Bond</b>	<b>Growth rate (%)</b>
1987	627.4	
1988	697.8	11.22
1989	4431.8	535.11
1990	4567	3.05
1991	9376.1	105.30
1992	10073.2	7.43
1993	11019.1	9.39
1994	14991.2	36.05
1995	15466.8	3.17
1996	16050.6	3.77
1997	16019.6	-0.19
1998	16035.5	0.10
1999	17784.2	10.91
2000	17541.4	-1.37
2001	13994.3	-20.22
2002	9259.3	-33.84
2003	9621.7	3.91
2004	8946.2	-7.02
2005	8176.3	-8.61
2006	3469.8	-57.56
2007	2773.5	-20.07
2008	339.4	-87.76
2009	229.6	-32.35
2010	169.7	-26.08
2011	158.0	-6.89
2012	157.6	-0.25

Source: NRB, Quarterly Economic bulletin, Volume 46, 2012, Number 4.

Figure 5: Special Bond issued by Government



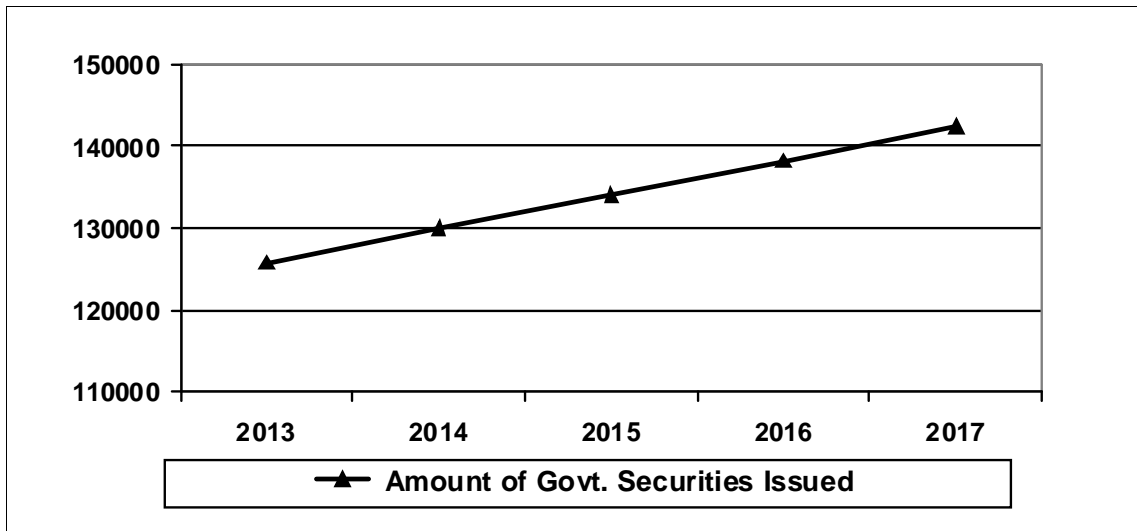
The Table and Figure 6 shows the amount of special bond issue by the government during the past 26 years (1987-2012) which shows lot of fluctuation in its growth rate. In the year 1989 it shows the maximum growth rate i.e. 535.11% as compare to the previous year amount. The first 11 years shows positive growth rate although the growth rate fluctuating large percentage. From the year 1997 to 2005 the growth rate decreased from 0.19% to 33.84% in various span of time except in the year 1998,1999 and 2003. In year 2006, 2007 and 2008 the growth rate remains in negative too by 57.56% 20.07% and 87.76% respectively which shows that the prospects of Special Bonds Market is not in a good stage.

### 3.8.1 Table 7

**Forecasted Total Amount of Debt Securities from 2013 to 2017**

<i>Rs. In Million</i>	
<b>Year</b>	<b>Amount of Govt. Securities Issued</b>
2013	125767.24
2014	129914.21
2015	134057.86
2016	138198.19
2017	142335.2

Figure 7: Forecasted Total Amount of Debt Securities from 2013 to 2017



The figure and table 7 shows the increasing trend of estimated amount of government securities. The curve is upward sloping. The estimated or forecasted value is 125767.24 million in 2013 and increased to 142335.2million in year 2017.

(See ANNEX-3)

**Table: 8,**  
**Growth Trend of Government Debt Securities Fitted in Curvilinear Model (In million)**

<b>Year</b>	<b>X = (year- 1986/87)</b>	<b>Y = Amount of govt. Securities</b>	<b>xy</b>	<b>x<sup>2</sup></b>	<b>x<sup>3</sup></b>	<b>x<sup>4</sup></b>	<b>x<sup>2</sup>y</b>
1987	1	8,997	8,997	1	1	1	8,997
1988	2	11,363	22,726	4	8	16	45,452
1989	3	12,888	38,664	9	27	81	115,992
1990	4	14,673	58,692	16	64	256	234,768
1991	5	20,856	104,280	25	125	625	521,400
1992	6	23,235	139,410	36	216	1296	836,460
1993	7	25,456	178,192	49	343	2401	1,247,344
1994	8	30,631	245,048	64	512	4096	1,960,384
1995	9	32,058	288,522	81	729	6561	2,596,698
1996	10	32,242	322,420	100	1000	10000	3,224,200
1997	11	35,891	394,801	121	1331	14641	4,342,811
1998	12	38,407	460,884	144	1728	20736	5,530,608
1999	13	49,670	645,710	169	2197	28561	8,394,230
2000	14	54,357	760,998	196	2744	38416	10,653,972
2001	15	60,044	900,660	225	3375	50625	13,509,900
2002	16	73,621	1,177,936	256	4096	65536	18,846,976
2003	17	81,148	1,379,516	289	4913	83521	23,451,772
2004	18	86,134	1,550,412	324	5832	104976	27,907,416
2005	19	87,564	1,663,716	361	6859	130321	31,610,604
2006	20	89955	1,799,100	400	8000	160000	35,982,000
2007	21	99,304	2,085,384	441	9261	194481	43,793,064
2008	22	111,239	2,447,258	484	10648	234256	53,839,676
2009	23	120,874	2,780,095	529	12167	279841	63,942,187
2010	24	142,860	3,428,633	576	13824	331776	82,287,187
2011	25	179,328	4,483,210	625	15625	390625	112,080,250
2012	26	209,120	5,437,125	676	17576	456976	141,365,255
<b>Total</b>	<b>∑X=231</b>	<b>∑y=1,731,915</b>	<b>∑xy=32,802,389</b>	<b>∑x<sup>2</sup> =6,201</b>	<b>∑x<sup>3</sup> =123,201</b>	<b>∑x<sup>4</sup> =2,610,621</b>	<b>∑x<sup>2</sup>y =688,329,604</b>

#### 4.4 Forecasting of Government Securities through Curvilinear Model

The trend of amount of government bond and T - bill issued every year is clearly curvilinear model after observing the fitted data in the figure. It shows the increasing trend of the amount of government securities. The curve is upward sloping. Hence, to find out correct result the curvilinear model is suitable according to the nature of the past data. The model has been followed:

The equation of curvilinear model is as below:

$$y = a + bx + cx^2 \dots\dots\dots 1$$

$$y = Na + b x + c x^2 \dots\dots\dots 2$$

$$xy = a x + b x^2 + c x^2 \dots\dots\dots 3$$

$$x^2y = a x^2 + b x^3 + c x^4 \dots\dots\dots 4$$

#### 4.5 Trend of Corporate Bonds

To raise capital corporate bodies of Nepal have issued various kinds of securities out of them is debenture via. Bottlers Nepal Limited, Shree Ram Sugar Mills, Himalayan Banks Ltd, Nepal Investment Bank, Everest Bank, Bank of Kathmandu, NIC Bank, Nepal SBI Bank. The debenture of Bottlers Nepal Limited has already been matured before the observed period here. Shree Ram Sugar Mills had issued debentures amounting Rs.93 millions in fiscal year 1997/98 which was of 14% coupon rate and convertible in nature. Then in the fiscal year 2001/02, Himalayan Bank Ltd. had issued “Himalayan Bond- 2066” of 8.5% coupon rate and in fiscal year 2003/04, Nepal Investment Bank had issued “Investment Bank Bond 2060” of 7.5% coupon rate and which have the maturity period of 7 years. Kumari Bank Limited, Himalayan Bank Limited. Nepal Investment Bank Limited, Nabil Bank Limited and Nepal Electricity Authority (Nepal Bidyut Pradikaran) had issued debenture of Rs. 2,950 Million in this fiscal year 2007/2008 and there are lots of other organization in pipeline to issue debentures in coming days. However, the total no of debenture issued is only 14 but the portion of debenture out of total securities is in increasing trend i.e. it is Rs.93 millions and gradually increased to Rs. 5,103 million and the

portion of debenture issued to the total securities issued is increased from 4.03% to 45.07% from the year 1998 to 2007.

**Table 9**

**Portion of Debenture Out of Total Amount of Securities Till FY 2007/08 (In Million)**

Year	Total No of Issues		Total Approved Amount		Total Cumulative Amount		Debenture & Total Securities (%)
	Securities	Debenture	Securities	Debenture	Securities	Debenture	
1994/95	10		173.96		173.96		
1995/96	12		293.74		1,218.40		
1996/97	5		332.20		1,512.10		
1997/98	12		462.36		1,844.30		
1998/99	5	1	258.00	93	2,306.70	93	4.03
1999/00	6		326.86		2,564.70	93	3.63
2000/01	9		410.49		2,891.60	93	3.22
2001/02	12	1	1441.33	360	3,302.10	453	13.72
2002/03	18		556.54		4,743.50	453	9.55
2003/04	14		1627.50		5,300.00	453	8.55
2004/05	14	1	1626.82	300	6,327.50	753	11.90
2005/06	29	1	2443.28	300	7,954.30	1053	13.24
2006/07	34	5	2295.50	1100	10,397.60	2153	20.71
2007/08	62	5	10668.20	2950	11322.40	5103	45.07
<b>Total</b>	<b>189</b>	<b>14</b>	<b>11,322.40</b>	<b>5103</b>	<b>61,929.6</b>	<b>10,700</b>	

Source: Annual Report of SEBO/N 2007/08



**Table 10 Corporate Bond Issue in Nepal**

S.N.	ISSUING COMPANY	ISSUSING AMOUNT (In Million)		Total	Approval Date	Issue Date	Maturity Period	Coupon Rate	Issue Manager	Remarks
		Public Offering	Private Placement							
1	Shree Ram Sugar Mills Limited	93.00	0.00	93.00	2054/07/07	2054/08/05	4 Years	14%	NCML	
2	Himalayan Bank Limited	100.00	260.00	360.00	2059/02/21	2059/03/04	7 Years	8.50%	NMB	
3	Nepal Investment Bank Limited	100.00	200.00	300.00	2060/06/27	2060/07/17	7 Years	7.50%	AFC	
4	Everest Bank Limited	50.00	250.00	300.00	2061/12/17	2062/01/07	7 Years	6%	CIT	
5	Bank Of Kathmandu Limited	50.00	150.00	200.00	2062/05/22	2062/05/22	7 Years	6%	NMB	
6	Nepal Investment Bank Limited	80.00	170.00	250.00	2063/02/16	2063/02/26	7 Years	6%	AFC	
7	Nepal Industrial & Commercial Bank Limited	50.00	150.00	200.00	2063/02/17	02/29/2063	7 Years	6%	AFC	
8	Nepal SBI Bank Limited	50.00	150.00	200.00	2063/03/11	2063/03/20	7 Years	6%	CIT	
9	Nepal Investment Bank Limited	50.00	200.00	250.00	2064/02/16	2064/02/29	7 Years	6.25%	AFC	NIB BOND 2070
10	Nepal Electricity Authority	150.00	1350.00	1500.00	2064/10/11	2064/11/02	5 Years	7.75%	NMB	NEA BOND 2069
11	Kumari Bank Limited	80.00	320.00	400.00	2065/01/12	2065/02/02	5 Years	8%	ACE	KBL BOND 2070
12	Himalayan Bank Limited	100.00	400.00	500.00	2065/02/19	2065/03/08	7 Years	8%	ACE	HBL BOND 2072
13	Nepal Investment Bank Limited	50.00	200.00	250.00	2065/03/02	2065/03/12	7 Years	8%	ACE	NIB BOND 2072
14	Nabil Bank Limited	60.00	240.00	300.00	2065/03/15	2065/03/29	10 Years	8.5%	NCML	NBL BOND 2075
<b>Total</b>		1063.00	4040.00	5103.00						

Source: Unpublished report of SEBON

#### **4.6 Bond Duration**

The duration is the measure of average maturity of the stream of payments associated with a bond. Bond Duration is concerned to be and appropriate measure of its term structure than its years to maturity as it reflects the amount and time of every cash flow rather than merely the length of time until the final payment occur. This study

has been used the model developed by F.R.Macaulay (1938) for calculating the weighted average time of Nepalese Corporate Bonds.

The sensitivity (duration) of bond price is important in the portfolio management. Therefore various determinants should be considered while determining durations. These determinants are expressed as rules in the following sections:

**Rule 1:** Duration of Zero Coupon (Discount) Bond equals its time to maturity.

$$MD=n \text{ (maturity period)}$$

**Rule 2:** Holding maturity period constant, a bond's duration is higher when the coupon rate is lower.

**Rule 3:** Holding the coupon rate constant; a bond's duration generally increases with its time to maturity.

**Rule 4:** Holding other factors constant, the duration of a coupon bond is higher when bond's yield to maturity is lower.

The duration of bonds can be calculated by using following formula:

$$MD = \frac{1+Y}{Y} - \frac{(1+Y) - T(C-Y)}{C[(1+Y)^T - 1] + Y}$$

The durations of 5 corporate bonds have been taken as sample and the result can be generalized to other issuance too. The duration of 5 different Corporate Bonds are calculated and presented in the following table.

**Table 12**

<b>Duration of Nepalese Corporate Bonds</b>			
<b>S.N.</b>	<b>Issuance Company</b>	<b>Duration</b>	<b>Maturity Period</b>
1	Shree Ram Sugar Mills Limited	3.22 Years	4 Years
2	Himalayan Bank Limited	5.67 Years	7 Years
3	Nepal Investment Bank Limited	5.79 Years	7 Years
4	Everest Bank Limited	5.95 Years	7 Years

5	Bank Of Kathmandu Limited	5.95 Years	7 Years
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Source: ANNEX 5

The result presented in the table 12 indicates that the durations of Nepal Corporate Bonds are lesser than their respective years to maturity years. And so is the case with other bond issuances. It is because when the market rate of interest is lesser than the coupon rate of bonds, the duration is lesser than its maturity period. Therefore, investors receive their income prior to the maturity period, which indicates the higher prospects of Nepalese Bond Market. Also duration and price volatility are directly related and the bonds with the longer duration have more price risk than short duration bonds. Therefore, Nepalese Corporate Bonds face less price risk because of less duration than their terms to maturities. However the result deficit an increasing trend of durations of Nepalese Corporate Bonds as well as increase in risks. The same result can be applied to other bond issuances. Though the terms to maturities of HBL, NIBL, EBL and BOK has same maturity period i.e. 7 years, the duration is in a rising pattern due to increased price risks.

#### 4.7 Valuation of Nepalese Corporate Bonds

The value of bonds can be determined by using following formula:

$$\text{Value of bond} = I [\text{PVIFA } kd\%, n] + M [\text{PVIF } kd\%, n]$$

**Table 13**  
**Valuation Of Nepalese Corporate Bonds**

S.N.	Issuance Company	Value (Rs.)	Market Price (Rs.)
1	Shree Ram Sugar Mills Limited	1105.49	1000
2	Himalayan Bank Limited	1172.33	1000
3	Nepal Investment Bank Limited	1142.43	1000
4	Everest Bank Limited	1064.29	1000
5	Bank Of Kathmandu Limited	1064.29	1000

Source: Annex 5

The table 13 shows that HBL bonds had the highest value among all. However, all the bonds price are under priced due to the higher value in comparison with the market price per bond i.e. Rs. 1000. The table below depicts the bond valuation rules as well as buying and selling decisions.

### **Bond Valuation Rules**

<b>S.N.</b>	<b>Conditions</b>	<b>Pricing</b>	<b>Decisions</b>
1	Market Interest rate > Coupon Rate	Overpriced	Sell
2	Market Interest rate < Coupon Rate	Under priced	Buy
3	Market Interest rate = Coupon Rate	Fairly Priced	No Trading

If a bond is priced below its intrinsic value, the bond is under price and is a good investment opportunity. Similarly if bond price is equals to the value of bond, then it is said to be in equilibrium and if the bond price is lesser than the market price, the bond is said to be overpriced and should be sold to avoid losses. Therefore under price bonds always attract rational investors for investment and encourage the holding position to profit from price gains that should occur from price rises in future.

The bonds in Nepal are usually found to be under priced and deemed good and profitable investment. The calculations proved that the coupon rates were always higher than the market rates for the above-analyzed bonds. Therefore the under price bonds reflect good prospects of Corporate Bond Market in Nepal.

#### **4.7.1 Interest Rate Analysis**

Normally the government issues four types of securities. The interest rates are different in these securities depending upon the nature of securities. The bond with short maturity period has less interest rate than the securities with long maturity periods.

**Table 14:  
Structure of Interest Rate**

Percent Per annum	Mid Jul 1999	Mid Jul 2000	Mid Jul 2001	Mid Jul 2002	Mid Jul 2003	Mid Jul 2004	Mid Jul 2005	Mid Oct 2005	Mid Jan 2006	Mid Apr 2006	Mid Jul 2006	Mid Oct 2006	Mid Oct 2007	Mid Jul 2008	Mid Jul 2009	Mid July 2010	Mid July 2011	Mid Jul 2012	
				<b>A. Government Securities</b>															
Treasury Bill for 28 days	-	-	-	-	-	1.82	-	2.62	1.59	2.54	2.40	2.01	2.97	5.16	4.94	8.70	8.08	0.10	
Treasury Bill for 91 days	3.32	5.36	4.94	3.78	2.98	1.47	3.94	3.10	2.46	2.89	3.25	2.54	2.16	5.13	6.80	8.13	8.52	1.15	
Treasury Bill for 182 days	-	-	-	-	-	-	4.42	3.70	2.57	3.77	3.86	2.78	2.66	5.16	5.91	8.28	8.59	1.96	
Treasury Bill for 364 days	-	-	-	-	4.93	3.81	4.79	3.87	3.42	4.31	4.04	3.78	3.04	6.47	6.55	7.28	8.61	2.72	
National Saving Certificate	8.5-13.25	8.5-13.25	8.5-13.25	8.0-13.25	7.0-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.5-13.0	6.0-13.0	6.0-8.5	6.0-8.5	6.0-8.0	6.0-7.75	6.0-8.0	6.0-10.0	6.0-10.0	6.0-10.0	
Development Bonds	3 - 12	3.0-8.5	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-6.75	3.0-6.75	3.0-6.75	3.0-6.75	5.0-8.0	5.0-9.0	5.0-9.0	5.0-9.5	5.0-9.5	
Refinance Rate (against foreign currency loans)	5.5	5.5	5.5	2	2	2	2	3.25	3.25	3.25	3.25	3.25	3.25	3.25	LIBOR-0.25	LIBOR-0.25	LIBOR-0.25	LIBOR-0.25	
<b>B. Commercial Banks</b>																			
1. Deposit Rates																			
Saving Deposits	5.75-8.0	4.0-6.5	3.5-6.5	2.5-6.25	2.5-6.0	2.0-5.0	1.75-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-5.0	2.0-6.5	2.0-7.5	2.0-7.25	2.0-12.0		
				Time Deposits															
3 months	4.0-7.5	4.0-6.0	2.5-6.0	2.5-5.25	2.0-5.0	2.0-4.0	1.5-4.0	1.5-3.5	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-4.0	1.5-6.75	1.5-6.5	1.75-9.5	1.75-9.5		
6 months	6.0-8.0	5.0-6.75	3.5-6.75	2.5-6.0	2.5-6.0	2.0-4.5	2.5-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-4.5	1.75-6.75	1.75-7.0	2.75-10.5	2.75-10.5		
1 Year	7.25-9.5	6.0-7.75	4.5-7.75	3.5-7.0	3.0-7.0	2.75-5.75	2.25-5.00	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.25-5.0	2.5-6.0	2.5-9.0	4.75-11.5	4.75-11.05		
2 Years and above	7.25-10.25	5.75-8.5	4.25-8.5	3.25-8.0	3.25-7.5	3.0-6.0	2.5-6.05	2.5-6.05	2.5-6.4	2.5-6.4	2.5-6.4	2.5-6.4	2.5-5.5	2.75-9.5	2.75-9.5	5.0-12.0	5.0-12.5		

Source: NRB, Quarterly Economic Bulletin

The Table 14 reveals that the highest interest rate on T-Bills for 28 days was 3.17% on April 2008 and lowest was 1.59% on Mid Jan 2006. Like was highest interest rate on T-Bills for 91 days was 5.36% on Mid-July 2000 and lowest was 1.47% on Mid July 2004. For T-Bills for 182 days the highest interest rate was 4.42% on Mid-July 2005 and the lowest interest rate was 2.57% on Mid Jan 2006 and the T-Bills for 364 days the highest interest rate was 8.81% on April 2011 and the lowest interest rate was 3.04% on Mid Oct 2007.

The interest rate on National Saving Certificate was an average of (3.0-12.0) on mid Jul 1999 and remains the interest rate on National Saving Certificate was an average of (8.5-13.25) from to 2001 to 2002 and then after it remains on average to (7.0-13.0) till the end of Mid April 2004 and decrease and remains on average to (6.5-13.0) till the end of Mid April 2006 and again decrease on average to (6.5-8.5) on Mid July 2007 but it decreases on average to (6.0-7.75) on July 2008. Similarly, the average interest on National Saving Certificate remains 6.0-10.0, 6.0-9.5, 6.0-10.0 and again 6.0-10.0 in the year 2009, 2010, 2011 and 2012 respectively.

The interest rate on development bond was 3-10.5 percent on Mid –July 2001 and decreased to 3-8.5 percent on Mid – July 2002 and again decreased and reached to 3.0-8.0 percent on Mid July 2003 and remains constant till mid Jan 2006 latter on it decreased to 3.0-6.75 till Mid Oct 2007 and increased to 5.0-8.0 in July 2008. Similarly, it increased to 5.0-9.0 in July 2009 and in July 2010. It further increased to 5.0-5.25 in the year 2011 and 2012.

The refinancing rate against foreign currencies loans was 5.5 till Mid July 2001 then it decreased to 2 till Mid July 2005 and it increased up to 3.25 till Mid July 2008. And then, its rate has remained constant at LIBOR+0.025 in the following years till 2012.k

The interest rate on saving deposit of commercial banks was on average 3.5-6.5 percent on Mid July 1999 and continuously decreased every year by fluctuating in various span of time and reached 2.0-5.0 on Mid Jan 2006 and remains constant till Mid Oct 2007 and reached 2.0-6.5 on Mid July 2008. Similarly, it has reached 2.0-7.5 in the year 2009 and 2.0-12.0 in the years 2010 and 2011.

The interest rate on time deposit of 3 months period of commercial banks was on average 2.5-6.0 percent on Mid July 2001 and gradually decreased every year in various span of time and reached 1.5-4.0 on Mid Jan 2006 and remains constant till Mid Oct 2007 and reached 1.50-6.75 on Mid July 2008. Similarly, it has reached 1.5-6.0 in the year in 2009 and 1.75-9.5 in the year 2010 and 2011.

The interest rate on time deposit of 6 months period of commercial banks was on average 3.5-6.75 percent on Mid July 2001 and gradually decreased every year in various span of time and reached 1.75-4.5 on Mid Oct 2005 and remains constant till Mid Oct 2007 and reached 1.75-6.75 on Mid July 2008. Similarly, it has reached 1.75-7.0 in the year 2009 and 2.75 to 10.5 in the year 2010 and 2011.

The interest rate on time deposit for 1 year deposit was 4.5-7.75 percent on Mid –July 2001 and gradually decreased every year in various span of time and reached 2.25-5.0 on Mid July 2005 and remains constant till Mid Oct 2007 and reached 2.5-6.0 on Mid July 2008. Similarly, it has reached to 2.5-9.0 in the year 2009 and 4.75-11.5 in the year 2010 and 2011 respectively.

The interest rate on time deposit for 2 years and above deposit was 7.25-10.25 percent on Mid –July 1999 and gradually decreased every year in various span of time and reached 2.5-6.4 on Mid Jan 2006 and remains constant till Mid Oct 2006 then it again decreased to 2.5-5.5 on Mid Oct 2007 and reached 2.75-6.75 on Mid July 2008. Similarly, it has reached 2.75-9.5 in the year 2009 and 5.0-12.0 and 5.0-12.5 in the year 2010 and 2011 respectively.

#### **4.8 Analysis of Questionnaire**



#### **4.8.1 Existing Legal Provisions Regarding Debt Securities Market**

Out of total 100 respondents, 26% of them believe that the existing legal provisions regarding debt securities market is sufficient where as 74% of them believe that the existing legal provision is not sufficient and that laws needs to be rectify soon.

#### **4.8.2 Problems Regarding Secondary and Primary Market**

Out of 100 respondents, 92% responded that there are many problems although government has taken some steps to solve the problem. But 8% responded there is no any problem in primary and secondary market.

#### **4.8.3 Choice of Various Sectors Debentures**

Out of the total 100 respondents, 59% of them give their opinion that Nepalese investors mostly like to invest on banking sector's debenture. While 12% give their opinion in favor of manufacturing sector's debenture. 15% of the respondents give their opinion that Hotel sector's debenture is mostly like by Nepalese investor's and 14% of them give their opinion that Nepalese investors mostly like to invest on other sector's debenture.

#### **4.8.4 Dominant Prospect of Debenture Issue**

Out of 100 respondents, 59% responded their opinions towards additional capital supply, where as 41% responded their opinions towards tax advantage. Most of them have responded additional capital supply as chief prospect of debentures.

#### **4.8.5 Choice of Securities**

Out of the total 100 respondents 29% of them give their opinion that Nepalese investors most like to invest on debt securities, while 51% agree that Nepalese investors most like to invest on common stock Equity share, 10% choose the preference share and rest 10% of the respondents said that Nepalese investors mostly like to invest on Mutual funds.

#### **4.8.6 Preference of Bank Loan Instead of Issuing Debenture**

Out of 100 respondents, 35% responded their opinions bank loan is easily available, 26% responded as issuing debenture is difficulty process, 30% responded as cost of bank loan is less than issuance debenture, and 9% responded other.

#### **4.8.7 Easier in Issuing of Debenture**

Out of 100 respondents, 62% agreed that issuing stock is easier than issuing debenture and 38% disagreed that issuing stock is easier than debenture.

#### **4.8.8 Reasons for Influencing the Investors to Purchase Debt Securities**

Out of the total 100 respondents, 41% of the respondents give their opinion that because of liquid assets it is important and influence the investors to purchase debt securities. While 26% of them give their opinion that because of lack of appropriate investment opportunity. Investor's are influenced to purchase debt securities. 22% of the respondents gave their opinion that due to less risk on investment they prefer debenture and also the fixed income securities influenced the investors to purchased debt securities where as 11% of the respondents believed that due to other reason they purchase debenture.

#### **4.8.9 Factors Dominating the Growth of Nepalese Bond Market**

Out of total 100 respondents, 39% of them agree that the major factor is lack of investor's awareness towards debt securities; 35% of the respondents agree with the factor that limited supply of quality bonds is main cause and 26% of the respondents say the lack of capital gain opportunity to the investors is main cause. Most of the company's view is lack of investor's awareness; while most of the individual's investor's view is limited supply of quality bonds is the main problems of the debt market of Nepal.

#### 4.8.10 Preference between Government bonds and corporate bonds

Out of the total 100 respondents, 56% of them give their opinion that Nepalese investors mostly like to invest on Government bonds where as 44% of them prefers corporate bonds.

#### 4.9 Testing of Hypothesis

The chi-square test of Hypothesis is useful to examine the Importance of bonds market. The samples are taken to clarify the importance of bonds in investment from various related sectors' persons and organizations. Group of listed companies, which are selected using judgmental sampling, which is randomly selected according to their education, locations, position on various jobs etc. Another group is Brokers and Market Makers, which are also randomly selected, and the last group is staff of SEBON & NEPSE.

##### Hypothesis – 1

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the factors due to which Nepalese bond market cannot grow smoothly. (See ANNEX-4)

**Table 15**  
**Survey Results on Regarding Factor Dominating the Growth of Nepalese Bonds Market**

	Listed Companies	Broker Market Makers	Individual Investors	Other Experts	Total
Lack of investor's awareness	14	7	10	8	39
Limited supply of quality bonds	11	5	11	8	35
Lack of capital gain	10	3	9	4	26

opportunity					
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the drawbacks of bond market of Nepal.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the drawbacks of bond market of Nepal.

**Interpretation:** As per table 15, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 5 d.f. is 0.793302 and tabulated value of  $\chi^2$  is 9.49. Since tabulated value of  $\chi^2$  at 5% level of significance for 4 d.f. is greater than the calculated value ( i.e.  $9.49 > 0.793302$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding factor dominates the growth of Nepalese Bonds Market

### Hypothesis – 2

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the choice of securities by Nepalese investors. (See. ANNEX-4)

**Table 16**  
**Survey Results on Regarding Choice of Securities**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Debenture	10	5	8	6	29
Common Stock	20	7	16	8	51
Preference	3	2	4	1	10
Mutual fund	2	1	2	5	10
<b>Total</b>	<b>35</b>	<b>15</b>	<b>30</b>	<b>20</b>	<b>100</b>

Source: Field Survey conducted by researcher

### **Hypothesis Testing:**

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the choice of securities by Nepalese investors.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the choice of securities by Nepalese investor.

**Interpretation:** As per table 16, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 2 d.f. is 0.98329 and tabulated value of  $\chi^2$  is 5.99: Since tabulated value of  $\chi^2$  at 5% level of significance for 2 d.f. is greater than the calculated value ( i.e.  $5.99 > 0.98329$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the choice of securities by Nepalese investors.

### Hypothesis – 3

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the choice of various sector's bonds. (See. ANNEX-4)

**Table 17**  
**Survey Results on Regarding to Choice of Various Sectors' Bonds**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Banking	21	9	15	14	59
Manufacturing	3	3	4	2	12
Hotel Sector	5	2	6	2	15
Others	6	1	5	2	14
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the choice of various sector's bond.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the choice of various sector's bond.

**Interpretation:** As per table 17, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 1 d.f. is 0.6237 and tabulated value of  $\chi^2$  is 3.84. Since tabulated value of  $\chi^2$  at 5% level of significance for 1 d.f. is greater than the calculated value ( i.e.  $3.84 > 0.6237$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the choice of various sector's bond.

## Hypothesis – 4

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the reasons that the investors are influenced to purchase debt securities. (See ANNEX-4)

**Table - 18**  
**Survey Results on Regarding to the Reason for Influencing to Purchase Debt Securities**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Liquid Assets	12	8	11	10	41
Lack of investment opportunity	8	4	9	5	26
Declining interest rate of deposit	10	1	8	3	22
Other	5	2	2	2	11
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the reasons influenced to investors for purchasing debt securities.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the reasons influenced to investors for purchasing debt securities.

**Interpretation:** As per table 18, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 3 d.f. is 1.743098 and tabulated value of  $\chi^2$  is 3.841. Since tabulated value of  $\chi^2$  at 5% level of significance for 3 d.f. is greater than the calculated

value ( i.e.  $3.841 > 1.743098$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the reasons influenced to investors for purchasing debt.

### Hypothesis – 5

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the importance of bonds in investment. (See. ANNEX-4)

**Table 19**  
**Survey Results on regarding importance of bond in investment**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Additional capital supply	28	8	16	7	59
Tax advantage	7	7	14	13	41
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the importance of bond in investment.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the importance of bond in investment.

**Interpretation:** As per Table.19, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 2 d.f. is 11.74039 and tabulated value of  $\chi^2$  is 5.99 Since tabulated value of  $\chi^2$  at 5% level of significance for 2 d.f. is less than the calculated value ( i.e.  $5.99 < 11.74039$ ), the alternative hypothesis is accepted i.e. there is significant relationship between observed and expected opinion regarding the importance of bond in investment



## Hypothesis – 6

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the use of bank loan instead of issuing debenture or bonds. (See. ANNEX-4)

**Table 20**  
**Survey Results on Regarding To Use of Bank Loan Instead of Issuing Debenture**

	Listed Companies	Broker Market Makers	Individual Investors	Other Experts	Total
Bank loan is easily available	13	5	10	7	35
Issuing debenture is difficult process	7	6	8	5	26
Cost of bank loan is less than issuance debenture	12	3	10	5	30
Other	3	1	2	3	9
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding to the use of bank loan or issuing of debenture.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding to the use of bank loan or issuing of debenture.

**Interpretation:** As per Table 20, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 4 d.f. is 1.887616 and tabulated value of  $\chi^2$  is 9.49. Since tabulated value of  $\chi^2$  at 5% level of significance for 4 d.f. is greater than the calculated value ( i.e.  $9.49 > 1.887616$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding to the use of bank loan or issuing of debenture.

## Hypothesis – 7

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the preference given by the Nepalese investor between Government bonds and corporate bonds. (See. ANNEX-4)

**Table 21**

**Survey Results on Regarding Preference between Government Bonds and Corporate Bonds**

	Listed Companies	Broker Market Makers	Individual Investors	Other Experts	Total
Government bonds	15	8	21	12	56
Corporate bonds	20	7	9	8	44
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the choice between government bonds and corporate bonds.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the choice between government bonds and corporate bonds.

**Interpretation:** As per Table 21, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 5 d.f. is 5.013412 and tabulated value of  $\chi^2$  is 11.070. Since tabulated value of  $\chi^2$  at 5% level of significance for 5 d.f. is greater than the calculated value ( i.e.  $11.070 > 5.013142$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the choice between and corporate bonds.

## **4.10 Major Findings of the Study**

### **4.10.1 Finding from the Analysis of Ownership Pattern of Government Securities**

While analyzing the ownership pattern of government securities it is found that the major holder of T-Bills in the previous years of observation was Nepal Rastra Bank and in the recent years commercial Banks are the Major holders of it and also the other holder's portion is increased, which indicate that the range of T- Bills in the recent years becomes wide and the researcher expect it will cover further wide –range in future. It indicates a well prospect of T- Bills market.

Similarly, the major portion of government securities holders in the previous years of observation was covered by NRB and in the recent years of observation was covered by NRB and in the recent years its range also become wide and the major portion of these bonds hold by commercial banks, finance companies, individuals and other organization. It indicates the broad range of government securities, which can be indicating the importance and prospects of government securities.

### **4.10.2 Findings through Trend Analysis of Government Securities and T-Bills**

The trend of T-Bills as a whole is seems to be increasing trend. Its trend in previous years was slightly increased but in recent years it increased rapidly. It is a prospect to the debt securities market. It indicates that this amount will further increase in coming year due to which the debt securities market will also be wide range.

The trend of development bond was in increasing trend in starting period of observation, decreased in the middle period of observation and again increased in the recent years of the observation and we can expect that it will further increase in coming years. The trend of National saving bond is also increasing the observation periods, which indicated its wide range in the coming years.

The trend of special bond is increased in the previous years but slightly decreased in recent years. The government's budget for the development of various specified sector is also decreased due to which the amount of this bond is decreased.

As a whole, by observing the trend of government bonds, the amount of government securities is increased every year. The size of deficit budget is also increased and the present trend is to reduce the external debt. So we can be expected that it will further be increased. By using the curvilinear Model, the forecasted amount in the coming years also show the increasing trend of amount of government securities every year. It is the sign of a good prospect of government debt securities market. We can estimate that more and more persons and institutions will be involved to invest in government securities in future.

#### **4.10.3 Findings through Trend Analysis of Corporate Debt Securities**

The corporate firm issues various kinds of securities to collect funds. During the observation period from the F.Y. 1994/95 to 2007/08, there are total 189 securities were issued. Out of them, only 14 are debentures. The percentages of debenture on total issued of securities were zero at the first four year. It is 4.03% of total issued after the issuance of debenture by Shree Ram Sugar Mills and reached 45.07% in F/Y 2007/08. From this, it is clearly shown that in the recent year, the issuance of debenture is increased and from this trend we can expect that it will increase in coming years. Thus it is also indicates the bright prospects of the corporate debt market of Nepal. The findings are as follows:

- J The total volume of bond securities issues is an in increasing trend but the issue of the bond was not regular.
- J After enactment of Securities Exchange Act 1983, the first issuance of debenture has been made by Shree Ram Sugar Mills Limited in the Fiscal Year 1997/98 and the issuance of debenture was followed by other 14 corporate sectors till the fiscal year 2007/08.

- J The percentage coverage of Government Bonds is much more than Corporate Bonds. Government Bonds covers nearly 95.60% of the total bond issued in Nepalese Market where as Corporate Bond covers only 4.40 %.
- J The history of Government Bonds in Nepal started with the issue of Treasury Bills in 1962 A.D. Since then the volume of Government Bonds have been growing and the amount outstanding of Government Bonds reached to Rs. 111239 million till 2008 year.
- J The prime characters of Nepalese Corporate Bonds were 1000 par value, long term maturity generally 7 years, unsecured etc. However the bonds from the corporate sectors can be judged as a good quality bonds with brighter prospects.
- J With respect to the present pace of corporate sector's equity securities, the corporate bond market is very weak. The few issuances of bonds from the Corporate Sector have proved it.
- J Investors reflect deep preference for the bonds issued from the Banking and Sector in comparison to other sectors, so issuance of debenture by banking sector indicates the prospects of Bond Market in Nepal.
- J The Nepalese Corporate Bonds were under priced. As stated by Francis, if the price of bond is below its intrinsic value, it is under priced and hence it is a good investment opportunity.
- J The durations of Nepalese Corporate Bonds were less than their maturity periods. As stated by McCauley, less duration are more attractive due to less price risk. Thus due to less duration to maturity period the prospects of Nepalese Bond Market is high.
- J Many weakness of Nepalese Bond Market were found during the research period some of them are: weak governance, fiscal deficit, lack of central market infrastructure, lack of credit rating agencies, lack of trained professionals etc.

#### **4.10.4 Findings from the Analysis of Interest Structure**

The Interest rate on government bonds are different depend upon the nature of the bonds. The securities with lower maturity period have higher interest rate. During the observed

periods, the interest rate on government securities is slightly changed but not substantial change. While the interest rate on deposit of commercial banks is in decreasing trend and substantial rate during this periods. Similarly, the refinance rate of NRB also decreasing this structure of interest rate indicates that by investing on government securities investors can get higher return than deposit on commercial banks. So most of the deposit holders will attracts towards government securities, which is a bright prospects of debenture securities market.

#### **4.10.5 Findings of the Questionnaire Survey**

The majority of the respondent's opinion is that lack of investor's awareness towards debt securities is the main factor that the Nepalese debt market cannot growth smoothly. Also a major portion of them give their opinion that limited supply of quality bonds is also the factor due to which Nepalese debt market cannot growth smoothly.

The common stock is highly popular among the Nepalese investors in comparison to other types of securities. It is a problem of debt securities market and is necessary to change the concept of public.

The banking sector's debenture is most like by Nepalese investors in comparison to other sector's debenture. So issuance of debenture by banking sector indicates the prospects of Nepalese debt market.

Most of the respondents give their opinion that because of liquid assets, investors are influence for purchasing debt securities it shows that most of the investors want to invest on liquid assets. So it seems that investor's attraction towards debt securities is increased, while indicates the well growth prospects of Nepalese debt market.

Most of the respondents give their opinion that because of additional supply of capital, the companies issue debentures. This shows the importance of debenture in capital formation and also shows the prospects of bonds market.

Most of the respondents agree that Nepalese debt market is dominated by the credit-oriented transaction.

Most of the respondents give their opinion that they prefer government securities because of risk associated of not payment of interest and principal by the corporate society.

Most of the respondents agree that there are lots of problems while issuing and while liquidating the bonds in security market.

Most of the respondents that stock issue is easier than debenture issue because investor are not interested and have less knowledge about bonds.

Most of the respondents disagree on issuing debenture when the survey conducted but the view that after certain period the may issue bonds. This shows the importance and prospects of bonds Market growth in Nepal.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

In growth of economic development of a country capital market is extremely necessary and lack of proper development of capital market cannot pump necessary fund to industrialization process. Since, debentures market is being significant contribution in capital market development. The researcher has paid his all attention and efforts to prioritize the bonds as one of the strong part of capital formation and its prospects in Nepal. Bonds market is an important part of capital market of the nation. Development of capital market is essential to develop the national economy and to develop the capital market it is also essential to develop the bonds and debenture market.

While conducting this research, the research analyzed various issue related to the debt securities. From the ownership pattern of government securities and T- Bills it is clearly show that the major portion of government securities is held by NRB, commercial banks and financial institution. The portion of individual on it is not at satisfactory level. The trend of issuing government securities is increasing in nature. Every year the size of deficit budget of government is huge and to fulfill this deficit, government issuer various kinds of securities. It is seemed that it will also increase in coming year. On the other hand the trend of issuing corporate bonds is also increasing in nature. The issuance of Himalayan bond 2066, Investment bond 2060, Bank of Kathmandu bond 2069, NIC Bond 2070 and Nepal SBI Band Debenture-2070, NIB Bond 2070, NEA Bond 2069, KBL bond 2070, HBL Bond 2072, NIB Bond 2072 and Nabil Bond 2075 Because of the increasing public concerned towards banking sector's debenture, it can be expected to increase in future. While analyzing the interest rate structure, the interest rate on deposit of commercial banks for various schemes is going decreased. But the coupon rate on debt securities is not so decreased, which shows the attraction of general investors towards debt securities.



This research study is also based on the field survey. It takes total 100 samples of respondents of various categories using random sampling and judgmental observe their opinion about the various issues of the Nepalese bonds market. The questionnaire contain 10 different questions relating to Nepalese bonds are made. Questionnaires were distributed to the members of bonds market society such as brokers; issue manager, NEPSE and SEBO/N officers, listed companies and individual investors. The personal interviews were also conducted to support the data. The data obtained from questionnaires were analyzed using percentage method, ratio and Chi Square. Like this way, other important statistical analysis such as curvilinear analyses was also made. From this research study, the researcher found lot of prospects of the bonds market of Nepal. Most of the Nepalese investors want to invest in liquid assets and so it can be expected that its market will grow in future. If there is any issuance of debenture, Nepalese investors seem to accept it, which encourage the companies to issue debenture.

The trend of issuance of government securities is rapidly increased in the recent years and the forecasted amount of the debt market of Nepal. Likewise, the trend of issuance of corporate debt securities is also positive and it also shows the growth prospects of Nepalese debt market.

From the opinion of these respondents, it can be summarizing that investors are gradually interested in bonds and number of debenture issuance is also increasing and on the other hand, programs for the trading of government securities in the stock exchange in the major prospects of Nepalese bonds market in Nepal and Nepalese capital market.

## **5.2 Conclusion**

Nepalese bond market is still at under developed stage. Government bond market is slightly at maturity stage as compare with corporate debt securities market. In the recent year, many factors show that it starts to take speed to grow. From this research study the researcher come into conclusion that there are a number of advantages. We can classify

these advantages as; Advantages from the view point's of issuers like less costly, flexibility in financial structure, having no interference in management and control, facility of trading on the equity i.e. the interest paid on debt can be deducted as tax expenditure. On the other hand, from the viewpoints of investors advantages like bonds and debentures are liquid, security of investment, having fixed maturity period, priority of income. In the same way, number of debentures and the issuers are increasing and government has also decided to trade its bonds through stock exchange shows importance of bonds in capital market and prospects of growth of bonds market in Nepal.

The researcher also concluded that there are also some prospects exist, which indicate the growth future of Nepalese debt market. The main factors which indicate the prospects are as investor's attraction towards liquid assets like bonds and debentures, desire to invest on debenture of any potential issuance, declining interest rate on deposit of commercial banks, increasing trend of amount of government securities and the increasing trend of issuance of corporate debenture. The view to implement program for the trading of government securities in the stock exchange as announced in the budget speech for the fiscal year 2011/12, a high level committee has been formed under the convener ship of ministry of finance with representation from SEBO, NEPSE and NRB. The "Public Debt Act, 2002" has delegated authority to the NRB for necessary arrangement of primary and secondary transactions of government securities. In this context, SEBO has been assisting NRB in drafting the necessary regulation. Besides, SEBO has also started to draft a "Government securities trading by laws" base on the draft regulation proposed by NRB. These factors indicate the growth prospect of Nepalese bond and debenture Market.

### **5.3 Recommendations**

The researcher desires to give some recommendations, which are drawn through this study, which can be addressed as the importance and prospects of bond market growth in Nepal.

- J From the field survey, the researcher found that investors are attracted towards bonds and debentures. On the other hand, the government needs huge amount of money for development proposes. So the government to utilize internal source of funds and it is also better to provide the authority to the local bodies to issue securities. Nepal Government used to give tax exemption in debentures income. It should be provided tax rebates more on individual and institutional investor on debentures interest income to promote debenture and bond market.
- J From the field survey, most of the related parties to the bonds market of Nepal give their opinion that the existing rules and regulations for the growth of bonds market are insufficient. So researcher would like to recommend to the government to implement the “Public Debt Act 2002” with the amendment of trading government securities on stock exchange as soon as possible in order to fulfill this gap.
- J From the analysis of ownership pattern of government securities, most of the government securities holders are institutional investors. Ownership part of individual investors is very small. To grow the debt market of Nepal, this limitation should be broadening. Government should encourage individuals to invest on government securities.
- J From the analysis of interest rate deposit on commercial bank are decreases every year. But the interest rate on bonds and debentures is higher to some extent than bank’s deposit rate. On the other hand, investor’s fund is utilized with better way while invest in government bonds, due to which it helps to raise the national economy upwards. So researcher would like to recommend to those depositors to invest their funds on government bonds.
- J Most of the respondents of questionnaire agree that the major factor due to which Nepalese bonds market cannot growth smoothly is lack of public awareness towards debt securities. So the researcher would like to recommend to the investors to change in existing perception and attitude on debenture and bonds. Investors should extend their present investment by properly analyzing risk and

return on debentures and bonds. Investors should call investors protection act and should enforce debentures and bonds issuing companies to enlist debentures and bonds in NEPSE or any other securities exchange companies. They also should make investment decision analyzing profitability of company, return, risk, liquidity of security. All manufacturing and trading companies may not be weak. So that, they should identify strong companies and their debentures issue should take positively.

- J Researcher would like to recommend the brokers and securities dealers to do more efforts to make a smooth transaction of debt securities in the secondary market and to create positive concept to the investors about debenture and bonds.
- J It is observed from the survey and wants to recommend that Security Board of Nepal (SEBO/N) should co-operate NEPSE. SEBO/N should organize conference to discuss about importance and prospects of debentures and bonds market. Research and development activities should be conducted to improve bonds and debentures market.
- J Security Board of Nepal (SEBO/N) should co-operate NEPSE. Procedures of reviewing debentures prospect and issue approval should be quick. SEBO/N should add additional provisions that help to protect investor's interest. SEBO/N should timely disclosure of price sensitivity information.
- J Company Registrar Office should be transparent and open with modern technology. Bureaucratic procedures must be quick and prospectus should be approved strictly reviewing all economic and technical aspect of organization.
- J Bond Markets are more complicated than Equity Market. Therefore, some efforts need to be taken to distinguish it from Equity Market.
- J Legislation and Control mechanism should be made more effective and adequate to provide safety of investment to the investors and hence promote the Nepalese Bond Market.

- J The Government should enlist the government bonds on NEPSE and allow all non-banking financial institutions to participate in the secondary market transactions.
  
- J Finally, the researcher would like to recommend all the concerned persons, agencies and parties to undertake more and strong efforts for the adequate and profitable development of the Nepalese Bond Market.

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# ANNEX - 1

Dear Respondent

I have been writing thesis on “Importance and Prospects of Bond Market Growth in Nepal” in partial fulfillment of the requirements of Masters of Business Studies (MBS). I have some questions regarding bonds market hoping your timely response. Your cooperation has great value for me.

Thanking you,

Researcher, Kailali Multiple Campus

Instructions: please tick ( ) in an appropriate place and put your view in open end question.

1. Do you think existing legal provisions regarding debt securities market is:
  - a. Sufficient ( )
  - b. Insufficient ( )
  
2. Are there problems in primary and secondary market of bonds?
  - a. Yes ( )
  - b. No ( )
  
3. In which sector of debenture would you like to invest?
  - a. Banks ( )
  - b. Manufacturing ( )
  - c. Hotel ( )
  - d. Other ( )
  
4. Which is most dominant prospect of debenture issue?
  - a. Additional Capacity Supply ( )
  - b. Tax advantage ( )
  
5. Which security issue do you prefer most?
  - a. Debenture ( )
  - b. Common Stock ( )
  - c. Preference share ( )
  - d. Mutual Fund ( )
  
6. Why you prefer to bank loan instead of issuing debenture?
  - a. Bank loan is easily available ( )
  - b. Issuing debenture is difficult process ( )
  - c. Cost of bank loan is less than issuance debenture ( )
  - d. Other ( )



7. Is stock issue easier than debenture issue?
  - a. Yes ( )
  - b. No ( )
  
8. What is the reason that influences you to purchase debenture?
  - a. Liquid assets ( )
  - b. Lack of investment opportunity ( )
  - c. Declining interest rate of deposit ( )
  - d. Others ( )
  
9. Which factor dominates the growth of Nepalese bonds market?
  - a. lack of investor's awareness ( )
  - b. Limited supply of quality bonds ( )
  - c. Lack of capital gain opportunity ( )
  
10. Which type of bond do you prefer?
  - a. Government Bonds ( )
  - b. Corporate Bonds ( )

## ANNEX - 2

**Tabulation of Responses to Field Survey Based on Questionnaire**

S.N	Listed Companies	Broker & Market Maker	Individual Investors	Other Expert	Total
1 a	8	2	10	6	26
b	27	13	20	14	74
	35	15	30	20	100
2 a	33	12	28	19	92
b	3	3	2	1	8
	35	15	30	20	100
3 a	21	9	15	14	59
b	3	3	4	2	12
c	5	2	6	2	15
d	6	1	5	2	14
	35	15	30	20	100
4 a	28	8	16	7	59
b	7	7	14	13	41
	35	15	30	20	100
5 a	10	5	8	6	29
b	20	7	16	8	51
c	3	2	4	1	10
d	2	1	2	5	10
	35	15	30	20	100
6 a	13	5	10	7	35
b	7	6	8	5	26
c	12	3	10	5	30
d	3	1	2	3	9
	35	15	30	20	100
7 a	25	8	22	7	62
b	10	7	8	13	38
	35	15	30	20	100
8 a	12	8	11	10	41

b	8	4	9	5	26
c	10	1	8	3	22
d	5	2	2	2	11
	35	15	30	20	100
9 a	14	7	10	8	39
b	11	5	11	8	35
c	10	3	9	4	26
	35	15	30	20	100
10 a	15	8	21	12	56
b	20	7	9	8	44
	35	15	30	20	100

Source: Field Survey

## Annex-3

### Growth Trend of Government Debt Securities Fitted in Curvilinear Model (In Million)

Year	X = (year- 1986/87)	Y = Amount of govt. Securities	xy	x <sup>2</sup>	x <sup>3</sup>	x <sup>4</sup>	x <sup>2</sup> y
1987	1	8,997	8,997	1	1	1	8,997
1988	2	11,363	22,726	4	8	16	45,452

1989	3	12,888	38,664	9	27	81	115,992
1990	4	14,673	58,692	16	64	256	234,768
1991	5	20,856	104,280	25	125	625	521,400
1992	6	23,235	139,410	36	216	1296	836,460
1993	7	25,456	178,192	49	343	2401	1,247,344
1994	8	30,631	245,048	64	512	4096	1,960,384
1995	9	32,058	288,522	81	729	6561	2,596,698
1996	10	32,242	322,420	100	1000	10000	3,224,200
1997	11	35,891	394,801	121	1331	14641	4,342,811
1998	12	38,407	460,884	144	1728	20736	5,530,608
1999	13	49,670	645,710	169	2197	28561	8,394,230
2000	14	54,357	760,998	196	2744	38416	10,653,972
2001	15	60,044	900,660	225	3375	50625	13,509,900
2002	16	73,621	1,177,936	256	4096	65536	18,846,976
2003	17	81,148	1,379,516	289	4913	83521	23,451,772
2004	18	86,134	1,550,412	324	5832	104976	27,907,416
2005	19	87,564	1,663,716	361	6859	130321	31,610,604
2006	20	89955	1,799,100	400	8000	160000	35,982,000
2007	21	99,304	2,085,384	441	9261	194481	43,793,064
2008	22	111,239	2,447,258	484	10648	234256	53,839,676
2009	23	120,874	2,780,095	529	12167	279841	63,942,187
2010	24	142,860	3,428,633	576	13824	331776	82,287,187
2011	25	179,328	4,483,210	625	15625	390625	112,080,250
2012	26	209,120	5,437,125	676	17576	456976	141,365,255

<b>Total</b>	$\sum X=231$	$\sum y=1,731,915$	$\sum xy=32,802,389$	$\sum x^2=6,201$	$\sum x^3=123,201$	$\sum x^4=2,610,621$	$\sum x^2y=688,329,604$

**N=26**

**The equation of curvilinear model is as below**

**Y= a+bx+cx<sup>2</sup>.....1**

**y= Na + by x+c yx<sup>2</sup>.....2**

**$\sum Xy= a\sum x + b\sum x^2+c\sum x^3$ .....3**

**$\sum X^2y= a\sum x^2+b\sum x^3+c\sum x^4$ .....4**

**Where,**

**$\sum y=1,731,915$**

**$\sum X=231$**

**$\sum x^2=6,201$**

**$\sum xy=32,802,389$**

**$\sum x^3=123,201$**

**$\sum x^2y=688,329,604$**

**$\sum x^4=2,610,621$**

Substituting the value in equation 2,3 and 4 equations we got,

$1,731,915=26a+231b+6,201c$ .....5

$32,802,389=231a+6,201b+123,201c$ .....6

$688,329,604=6,201a+123,201b+2,610,621c$ .....7

Solving equation 5 and 6, multiplying 5 by 231 and equation by 26, we get

$6006a+53361b+1432431c = 400072365$

$6006a+161226b+3203226c = 852862114$

$$\begin{array}{r} - \\ - \\ - \\ \hline -107865b-1770759c = -452789749 \end{array}$$

Taking (-) as common, so we get

$107865b+1770759c = 452789749$ .....8

Solving equation 6 and 7, multiplying equation 6 by 6201 and equation 7 by 231 we get

$1432431a+38452401b+763969401c = 203407614189$

$1432431a +28459431b+603053451c = 159004138524$

$$\begin{array}{r} - \\ - \\ - \\ \hline 999270b+160915950c = 44403475665 \end{array}$$
.....9

Solving equation 8 and 9, multiplying equation 8 by 9992970 and equation 9 by 107865, we get

$1077891703050b+176951475600120c=4524714378064530$

$1077891703050b+17357198946750c=4789580902605220$

$$\begin{array}{r} - \\ - \\ - \\ \hline 159594276653370c= -264866504540690 \end{array}$$

$c = -264866504540690/159594276653370$

$$c = -1.66$$

Now, substituting the value of c in equation (8), we get

$$107865b + 1770759c = 452789749 \dots\dots\dots 8$$

$$107865b + 1770759 * -1.66 = 452789749$$

$$107865b = 952907438 + 2939459.94$$

$$b = 455729208.90 / 107865$$

$$b = 4224.99$$

Now, putting the value of b in equation (5), we get

$$1731915 = 26a + 23b + 6201c \dots\dots\dots 5$$

$$26a + 231 * 4224.99 + 6201 * -1.66 = 1731915$$

$$a = 766235.97 / 26$$

$$a = 29470.61$$

Therefore the value of **a = 29470.61**

$$**b = 4224.99**$$

$$**c = -1.66**$$

Now, substituting the value of a, b and c in the equation (1), the curvilinear model will be,

$$y = **29470.61 + 4224.99x - 1.66x^2**$$

Forecast of total bonds

The above equation is to forecast the amount of government bonds and T-Bills for the year, 2013, 2014, 2015, 2016 and 2017. Here the amount of securities issued by government has been estimated below using curvilinear model.

For,

**Year 2013, x = 23**

**Year 2014, x = 24**

**Year 2015, x = 25**

**Year 2016, x = 26**

**Year 2017, x = 27**

The forecasted amount of government securities issued for 2013:

$$\hat{Y} = **29470.61 + 4224.99x - 1.66x^2**$$

$$= 29470.61 + 4224.99 * 23 - 1.66 * 529$$

$$= \text{Rs. } 125767.24 \text{ (In Million)}$$

The forecasted amount of government securities issued for 2014:

$$\hat{Y} = **29470.61 + 4224.99x - 1.66x^2**$$

$$= 29470.61 + 4224.99 * 24 - 1.66 * 576$$

$$= \text{Rs. } 129914.21 \text{ (In Million)}$$

The forecasted amount of government securities issued for 2015:

$$\hat{Y} = **29470.61 + 4224.99x - 1.66x^2**$$

$$= 29470.61 + 4224.99 * 25 - 1.66 * 625$$

$$= \text{Rs. } 134057.86 \text{ (In Million)}$$

The forecasted amount of government securities issued for 2016:

$$\begin{aligned} \hat{Y} &= 29470.61 + 4224.99x - 1.66x^2 \\ &= 29470.61 + 4224.99*26 - 1.66*676 \\ &= \text{Rs. } 138198.19 \text{ (In Million)} \end{aligned}$$

The forecasted amount of government securities issued for 2017:

$$\begin{aligned} \hat{Y} &= 29470.61 + 4224.99x - 1.66x^2 \\ &= 29470.61 + 4224.27*24 - 1.66*729 \\ &= \text{Rs. } 142335.2 \text{ (In Million)} \end{aligned}$$

## ANNEX - 4

### Tet of hyposthesis

#### Hyothesis – 1

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is t draw the factors due to which Nepalese bond market cannot smoothly.

**Table – 15**

#### **Hypothesis Test Regarding Factor Dominating the Growth of Nepal Bonds Market.**

	Listed Companies	Broker Market Makers	Individual Investors	Other Experts	Total
Lack of investor's awareness	14	7	10	8	39
Limited supply of	11	5	11	8	35

quality bonds					
Lack of capital gain opportunity	10	3	9	4	26
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hyothesis Testing :

**Null Hypothesis (H0):** There is significant relationship between observed and expected opinion regarding the drawbacks of band market of Nepal.

**Alternative Hypothesis (H1):** There is significant relationship between observed and expected opinion regarding the drawbacks of bond market of Nepal.

**Test Statistic:** under H0, the test statistics is  $\chi^2 = \sum (O-E)^2/E$

Calculation of expected frequencies

Expected frequency of R1C1 = Row Total \* Column Total/ Grand Total

R1C1	13.65	R3C1	10.5
R1C2	5.85	R3C2	7
R1C3	11.7	R3C3	9.1
R1C4	7.8	R3C4	3.9
R2C1	12.25	R4C1	7.8
R2C2	5.25	R4C2	5.2

Calculation of  $\chi^2$

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
14	13.65	0.35	0.1225	0.008974
7	5.85	1.15	1.3225	0.226068
10	11.7	-1.7	2.89	0.247009
8	7.8	0.2	0.04	0.005128
11	12.25	-1.25	1.5625	0.127551
5	5.25	-0.25	0.0625	0.011905
11	10.5	0.5	0.25	0.02381
8	7	1	1	0.142857
10	9.1	0	0	0
3	3			
9	7.8	0	0	0
4	5.2			
				0.793302

Hence,  $\chi^2$  tabulated at 5% level of significant for (R-1) (C-1)-2

i.e. (3-1) (4-1)-2

i.e. 4 d.f is 9.49

**Interpretation:** As per table no. 15, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for d5 d.f is 0.793302 and tabulated value of  $\chi^2$  is 9.49. Since



tabulated value of  $\chi^2$  at 5% level of significance for 4 d.f is greater than the calculated value (i.e.  $9.49 > 0.793302$ ), null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the drawback of bond market of Nepal.

### Hypothesis – 2

In 100 random samples of respondent it, contains the following distribution, which was noted the basis of related fields. The test is to draw the choice of securities by Nepalese investors.

**Table – 16**  
**Hypothesis Test Regarding Choice of Securities**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Debenture	10	5	8	6	29
Common Stock	20	7	16	8	51
Preference	3	2	4	1	10
Mutual fund	2	1	2	5	10
<b>Total</b>	<b>35</b>	<b>15</b>	<b>30</b>	<b>20</b>	<b>100</b>

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the choice of securities by Nepalese investors.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the choice of securities by Nepalese investors.

**Test Statistic:** under H<sub>0</sub>, the test statistics is  $\chi^2 = \sum \frac{(O-E)^2}{E}$

Calculation of expected frequencies

Expected frequency of R<sub>1</sub>C<sub>1</sub> = Row Total \* Column Total / Grand Total

<b>R<sub>1</sub>C<sub>1</sub></b>	<b>10.15</b>	<b>R<sub>3</sub>C<sub>1</sub></b>	<b>3.5</b>
<b>R<sub>1</sub>C<sub>2</sub></b>	<b>4.35</b>	<b>R<sub>3</sub>C<sub>2</sub></b>	<b>1.5</b>
<b>R<sub>1</sub>C<sub>3</sub></b>	<b>8.7</b>	<b>R<sub>3</sub>C<sub>3</sub></b>	<b>3</b>
<b>R<sub>1</sub>C<sub>4</sub></b>	<b>5.8</b>	<b>R<sub>3</sub>C<sub>4</sub></b>	<b>2</b>

R2C1	17.85	R4C1	3.5
R2C2	7.65	R4C2	1.5
R2C3	15.3	R4C3	3
R2C4	10.2	R4C4	2

**Calculation of  $\chi^2$**

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
10	10.15	-0.15	0.0225	0.002217
5	4.35	0.65	0.4225	0.097126
8	8.7	-0.7	0.49	0.056322
6	5.8	0.2	0.04	0.006897
20	17.85	2.15	4.6225	0.258964
7	7.65	-0.65	0.4225	0.055229
16	15.3	0.7	0.49	0.032026
8	10.2	-2.7	7.29	0.714706
3	3.5	10	0	0
2	1.5			
4	3			
1	2			
2	3.5			
1	1.5			
2	3			
5	2			
				<b>0.98329</b>

Hence,  $\chi^2$  tabulated at 5% level of significant for (R-1) (C-1)-7

i.e. (4-1) (4-1) – 7

i.e. 2 d.f. is 5.99

**Interpretation:** As per table 16, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 2 d.f. is 0.98329 and tabulated value of  $\chi^2$  is 5.99: Since tabulated value of  $\chi^2$  at 5% level of significance for 2 d.f. is greater than the calculated value ( i.e. 5.99>0.98329) , the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the choice of securities by Nepalese investors.

### Hypothesis – 3

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the choice of various sector's bonds

**Table 17**  
**Survey Results on Regarding to Choice of Various Sectors' Bonds**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Banking	21	9	15	14	59
Manufacturing	3	3	4	2	12
Hotel Sector	5	2	6	2	15
Others	6	1	5	2	14
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the choice of various sector's bond.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the choice of various sector's bond.

**Test Statistic:** under H<sub>0</sub>, the test statistics is  $\chi^2 = \sum (O-E)^2/E$

Calculation of expected frequencies

Expected frequency of R1C1 = Row Total \* Column Total/ Grand Total

R1C1	20.65	R3C1	2.4
R1C2	8.85	R3C2	5.25
R1C3	17.7	R3C3	2.25

R1C4	11.8	R3C4	4.5
R2C1	4.2	R4C1	3
R2C2	1.8	R4C2	4.9
R2C3	3.6	R4C3	2.1

#### Calculation of $\chi^2$

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E		
21	20.65	0.35	0.1225	0.005932		
9	8.85	0.15	0.225	0.002542		
15	17.7	-2.7	7.29	0.411864		
14	26	11.8	23.8	2.2	4.84	0.203361
3	4.2					
3	1.8					
4	3.6					
2	2.4					
5	29	5.25	29	0	0	
2	2.25					
6	4.5					
2	3					
6	4.5					
1	2.1					
5	4.2					
2	2.8					
					<b>0.6237</b>	

Hence,  $\chi^2$  tabulated at 5% level of significant for (R-1) (C-1)-8

i.e. (4-1) (4-1) - 8

i.e. 1 d.f is 3.84

**Interpretation:** As per table 17, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 1 d.f. is 0.6237 and tabulated value of  $\chi^2$  is 3.84. Since tabulated value of  $\chi^2$  at 5% level of significance for 1 d.f. is greater than the calculated value ( i.e. 3.84 > 0.6237 ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the choice of various sector's bond.

#### Hypothesis – 4

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the reasons that the investors are influenced to purchase debt securities.

**Table - 18**  
**Survey Results on Regarding to the Reason for Influencing to Purchase Debt Securities**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Liquid Assets	12	8	11	10	41
Lack of investment opportunity	8	4	9	5	26
Declining interest rate of deposit	10	1	8	3	22
Other	5	2	2	2	11
<b>Total</b>	<b>35</b>	<b>15</b>	<b>30</b>	<b>20</b>	<b>100</b>

Source: Field Survey conducted by researcher

### **Hypothesis Testing:**

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the reasons influencing to investors for purchasing debt securities.

Test Statistics: Under H<sub>0</sub>, the test statistics is  $\chi^2 = \sum (O-E)^2/E$

Calculation of expected frequencies

Expected frequency of R1C1 = Row Total \* Column Total/ Grand Total

R1C1	14.35	R3C1	7.7
R1C2	6.15	R3C2	12.3
R1C3	12.3	R3C3	6.6
R1C4	8.2	R3C4	4.4

R2C1	9.1	R4C1	3.85
R2C2	3.9	R4C2	1.65
R2C3	7.8	R4C3	3.3
R2C4	5.2	R4C4	2.2

### Calculation of $\chi^2$

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
12	14.35	-2.35	5.5225	0.384843
8	6.15	1.85	3.4225	0.556504
11	12.3	-1.3	1.69	0.137398
10	8.2	1.8	3.24	0.395122
8	9.1	-1	1	0.076923
4	3.9			
9	7.8	1.2	1.44	0.184615
5	5.2	-0.2	0.04	0.007692
10	7.7	0	0	0
1	3.3			
8	6.6	0	0	0
3	4.4			
5	3.85	0	0	0
11				
2	1.65			
2	3.3			
2	2.2			
				<b>1.743098</b>

Hence,  $\chi^2$  tabulated at 5% level of significant for (R-1) (C-1)-6

i.e. (4-1) (4-1) - 6

i.e. 3 d.f is 3.841

**Interpretation:** As per table 18, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 3 d.f. is 1.743098 and tabulated value of  $\chi^2$  is 3.841. Since tabulated value of  $\chi^2$  at 5% level of significance for 3 d.f. is greater than the calculated value ( i.e. 3.841>1.743098) , the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the reasons influenced to investors for purchasing debt.

### Hypothesis – 5

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the importance of bonds in investment.

**Table 19**  
**Survey Results on regarding importance of bond in investment**

	<b>Listed Companies</b>	<b>Broker Market Makers</b>	<b>Individual Investors</b>	<b>Other Experts</b>	<b>Total</b>
Additional capital supply	28	8	16	7	59
Tax advantage	7	7	14	13	41
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

**Hypothesis Testing:**

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the importance of bond in investment.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the importance of bond in investment.

Test Statistics: Under H<sub>0</sub>, the test statistics is  $\chi^2 = \sum \frac{(O-E)^2}{E}$

Calculation of expected frequencies

Expected frequency of R1C1 = Row Total \* Column Total/ Grand Total

R1C1	20.65	R2C1	14.35
R1C2	8.85	R2C2	6.15
R1C3	17.7	R2C3	12.3
R1C4	11.8	R2C4	8.2

Calculation of  $\chi^2$

<b>Observed Frequency (O)</b>	<b>Expected Frequency (E)</b>	<b>(O-E)</b>	<b>(O-E)<sup>2</sup></b>	<b>(O-E)<sup>2</sup>/E</b>
28	20.65	7.35	54.0225	2.616102
8	8.85	-0.85	0.7225	0.081638

16	17.7	-1.7	2.89	0.163277
7	11.8	-4.8	23.04	1.952542
7	14.35	-7.35	54.0225	3.764634
7	6.15	0.85	0.7225	0.11748
14	12.3	1.7	2.89	0.234959
13	8.2	4.8	23.04	2.809756
				<b>11.74039</b>

Hence,  $\chi^2$  tabulated at 5% level of significant for (R-1) (C-1)-1

i.e. (2-1) (4-1) - 1

i.e. 2 d.f is 5.99

**Interpretation:** As per Table.19, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 2 d.f. is 11.74039 and tabulated value of  $\chi^2$  is 5.99 Since tabulated value of  $\chi^2$  at 5% level of significance for 2 d.f. is less than the calculated value ( i.e. 5.99 < 11.74039), the alternative hypothesis is accepted i.e. there is significant relationship between observed and expected opinion regarding the importance of bond in investment

### Hypothesis – 6

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the use of bank loan instead of issuing debenture or bonds.

**Table 20**  
**Survey Results on Regarding To Use of Bank Loan Instead of Issuing Debenture**

	Listed Companies	Broker Market Makers	Individual Investors	Other Experts	Total
Bank loan is	13	5	10	7	35



easily available					
Issuing debenture is difficult process	7	6	8	5	26
Cost of bank loan is less than issuance debenture	12	3	10	5	30
Other	3	1	2	3	9
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (Ho):** There is no significant relationship between observed and expected opinion regarding to the use of bank loan or issuing of debenture.

Calculation of expected frequencies

Expected frequency of R1C1 = Row Total \* Column Total/ Grand Total

R1C1	12.25	R3C1	10.5
R1C2	5.25	R3C2	4.5
R1C3	10.5	R3C3	9
R1C4	7	R3C4	6
R2C1	9.1	R4C1	3.15
R2C2	3.9	R4C2	1.35
R2C3	7.8	R4C3	2.7
R2C4	5.2	R4C4	1.8

Calculation of  $\chi^2$

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
13	12.25	0.75	0.5625	0.045918
5	5.25	-0.25	0.0625	0.011905
10	10.5	-0.5	0.25	0.02381
7	7	0	0	0

7		9.1		-2.1	4.41	0.484615
6		3.9		2.1	4.41	1.130769
8		7.8		0.2	0.04	0.005128
5		5.2		-0.2	0.04	0.007692
12	15	10.5	15		0	0
3		4.5				
10		9		1	1	0.111111
5	14	6	15	-1	1	0.066667
3		3.15				
1		1.35				
2		2.7				
3		1.8				
						<b>1.887616</b>

Hence,  $\chi^2$  tabulated at 5% level of significant for (R-1) (C-1)-5

i.e. (4-1) (4-1) - 5

i.e. 4 d.f is 9.49

**Interpretation:** As per Table 20, it can be clearly seen that the calculated value of  $\chi^2$  at 5% level of significance for 4 d.f. is 1.887616 and tabulated value of  $\chi^2$  is 9.49. Since tabulated value of  $\chi^2$  at 5% level of significance for 4 d.f. is greater than the calculated value ( i.e.  $9.49 > 1.887616$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding to the use of bank loan or issuing of debenture.

### Hypothesis – 7

In 100 random samples of respondents it, contains the following distribution, which was noted the basis of related fields. The test is to draw the preference given by the Nepalese investor between Government bonds and corporate bonds.

**Table 21**

### Survey Results on Regarding Preference between Government Bonds and Corporate Bonds

	Listed Companies	Broker Market	Individual Investors	Other Experts	Total

		Makers			
Government bonds	15	8	21	12	56
Corporate bonds	20	7	9	8	44
Total	35	15	30	20	100

Source: Field Survey conducted by researcher

### Hypothesis Testing:

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between observed and expected opinion regarding the choice between government bonds and corporate bonds.

**Alternative Hypothesis (H<sub>1</sub>):** There is significant relationship between observed and expected opinion regarding the choice between government bonds and corporate bonds.

Test Statistics: Under H<sub>0</sub>, the test statistics is  $\chi^2 = \sum \frac{(O-E)^2}{E}$

Calculation of expected frequencies

Expected frequency of R1C1 = Row Total \* Column Total/ Grand Total

R1C1	19.6	R2C1	15.4
R1C2	8.4	R2C2	6.6
R1C3	16.8	R2C3	13.2
R1C4	11.2	R2C4	8.8

Calculation of  $\chi^2$

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
15	19.6	-4.6	21.16	1.079592
8	8.4	-0.4	0.16	0.019048
21	16.	4.2	17.64	1.05
12	11.2	0.8	0.64	0.057143
20	15.4	4.6	21.16	1.34026
7	6.6	0.4	0.16	0.024242
9	13.2	-4.2	17.64	1.336364
8	8.8	-0.8	0.64	0.072727
				<b>5.013142</b>

Hence,  $F_{2, 5}$  tabulated at 5% level of significant for (R-1) (C-1)-5

i.e.  $(2-1) (4-1) - 1$

i.e. 5 d.f is 11.070

**Interpretation:** As per Table 21, it can be clearly seen that the calculated value of  $F_{2, 5}$  at 5% level of significance for 5 d.f. is 5.013412 and tabulated value of  $F_{2, 5}$  is 11.070. Since tabulated value of  $F_{2, 5}$  at 5% level of significance for 5 d.f. is greater than the calculated value ( i.e.  $11.070 > 5.01342$  ), the null hypothesis is accepted i.e. there is no significant relationship between observed and expected opinion regarding the choice between and corporate bonds.

## ANNEX – 5

### Calculation of value of Bond

S.N	Issuance Company	Coupon Rate (K)	Maturity Period (Y)	Market Int. Rate (K)
1	Shree Ram Sugar	14%	4 years	10.69%

	Mills Limited			
2	Himalayan Bank Limited	8.50%	7 Years	5.50%
3	Nepal Investment Bank Limited	6%	7 Years	5.06%
4	Everest Bank Limited	6%	7 Years	4.89%
5	Bank of Kathmandu Limited	6%	7 Years	4.89%

**Value of bond (V0) = I(PVIFAkd%,n) + M (PVIFkd%/2, n)**

**For SRSM:**

$$\begin{aligned}
 V0 &= I/2(PVIFAkd\%,n) + M (PVIFkd\%/2, n*2) \\
 &= 140/2 (PVIFA 10.69\%/2, 4*2) + 1000(PVIF 10.69\%/2, 4*2) \\
 &= 70 (PVIFA 5.345\%, 8) + 1000(PVIF 5.345\%, 8) \\
 &= 70*6.3740 + 1000*.6593 \\
 &= \text{Rs. } 1105.49
 \end{aligned}$$

**For HBL:**

$$\begin{aligned}
 &= I/2(PVIFAkd\%,n) + M (PVIFkd\%/2, n*2) \\
 &= 85/2 (PVIFA 5.5 \%/2, 7*2) + 1000(PVIF 5.5 \%/2, 7*2) \\
 &= 42.5 (PVIFA 5.345\%, 14) + 1000(PVIF 5.345\%, 14) \\
 &= 42.5*11.49 + 1000*.6840 \\
 &= \text{Rs. } 1172.33
 \end{aligned}$$

**For NIBL:**

$$\begin{aligned}
 V0 &= I/2(PVIFA kd\%,n) + M (PVIF kd\%/2, n*2) \\
 &= 75/2 (PVIFA 5.06\%/2, 7*2) + 1000(PVIF 5.06\%/2, 7*2) \\
 &= 37.5 (PVIFA 2.53 \%, 14) + 1000(PVIF 2.53\%, 14) \\
 &= 37.5*11.67 + 1000*.7048 \\
 &= \text{Rs. } 1142.43
 \end{aligned}$$

**For EBL:**

$$\begin{aligned}
 V0 &= I/2(PVIFAkd\%,n) + M (PVIFkd\%/2, n*2) \\
 &= 60/2 (PVIFA 4.89 \%/2, 7*2) + 1000(PVIF 4.89 \%/2, 7*2) \\
 &= 30 (PVIFA 2.445 \%, 14) + 1000(PVIF 2.445\%, 14) \\
 &= 30*11.74 + 1000*.7121 \\
 &= \text{Rs. } 1064.29
 \end{aligned}$$

**For BOK:**

$$\begin{aligned}
 V0 &= I/2 (PVIFAkd\%,n) + M (PVIFkd\%/2, n*2) \\
 &= 60/2 (PVIFA 4.89 \%/2, 7*2) + 1000(PVIF 4.89 \%/2, 4*2) \\
 &= 30 (PVIFA 2.445 \%, 14) + 1000(PVIF 2.445 \%, 14) \\
 &= 30*11.74 + 1000*.7121 \\
 &= \text{Rs. } 1064.29
 \end{aligned}$$

## ANNEX – 6

### Calculation of Duration

S.N	Issuance Company	Coupon Rate (K)	Maturity Period (Y)	Market Int. Rate (K)
1	Shree Ram Sugar Mills Limited	14%	4 years	10.69%
2	Himalayan Bank Limited	8.50%	7 Years	5.50%
3	Nepal Investment Bank Limited	6%	7 Years	5.06%
4	Everest Bank Limited	6%	7 Years	4.89%
5	Bank of Kathmandu Limited	6%	7 Years	4.89%

$$\text{Duration (MD)} = 1 + Y/Y - (1+Y) + T(C-Y)/C(1+Y)-1 + Y$$

#### For SRSM:

$$\begin{aligned} \text{MD} &= 1 + Y/Y - (1+Y) + T(C-Y)/C(1+Y)-1 + Y \\ &= 1 + 0.1069/0.1069 - (1+0.1069) + 4 (0.14-0.1069)/0.14(1+0.1069)^4-1 + 0/0.1069 \\ &= 6.4463 \text{ semiannual periods.} \end{aligned}$$

#### For HBL:

$$\begin{aligned} &= 1 + Y/Y - (1+Y) + T(C-Y)/C(1+Y)-1 + Y \\ &= 1 + 0.055/0.055 - (1+0.055) + 7 (0.085-0.055)/0.085 (1+0.055)^7-1 + 0.055 \\ &= 5.67 \text{ semiannual periods.} \end{aligned}$$

#### For NIBL:

$$\begin{aligned} \text{MD} &= 1 + Y/Y - (1+Y) + T(C-Y)/C(1+Y)-1 + Y \\ &= 1 + 0.0506/0.0506 - (1+0.0506) + 7 (0.075-0.0506)/0.075 (1+0.0506)^7-1 = 0.0506 \\ &= 5.7947 \text{ semiannual periods.} \end{aligned}$$

#### For EBL:

$$\begin{aligned} \text{MD} &= 1 + Y/Y - (1+Y) + T(C-Y)/C(1+Y)-1 + Y \\ &= 1 + 0.0489/0.0489 - (1+0.0489) + 7 (0.06-0.0489)/0.06 (1+0.0489)^7-1 + 0.0489 \\ &= 5.9533 \text{ semiannual periods.} \end{aligned}$$

#### For BOK:

$$\begin{aligned} \text{MD} &= 1 + Y/Y - (1+Y) + T(C-Y)/C(1+Y)-1 + Y \\ &= 1 + 0.0489/0.0489 - (1+0.0489) + 7 (0.06-0.0489)/0.06 (1+0.0489)^7-1 + 0.0489 \\ &= 5.9533 \text{ semiannual periods.} \end{aligned}$$

