

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in the present decade both in the developed and developing countries as a result of the emerging equity market phenomenon and of the need to provide liquidity for privatization-linked equity issues. The growing importance of stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth with focus on developmental role of stock markets.

Securities markets facilitate the exchange of financial assets by bringing together buyers and sellers of securities markets provide an effective way of raising money for commercial enterprises and at the same time provide an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. Securities markets provide value and significance to the financial assets.

Practically, the activities of buying and selling securities markets are extremely important for the allocation of capital within economies. The securities markets serve as a reliable guide to the performance of companies, and thereby promoting efficiency.

A country's financial system may be bank-dominated or market oriented. Each of these systems has different mechanisms for handling stakeholders' interest and addressing corporate control issues and agency problems. Though historically countries seem to follow one of these paths for development of its financial system, in recent years, some countries are developing their financial systems through convergence between these two. Empirical studies show that banks and stock market play complementary roles in the initial stage of financial development of

country and neither of these is perfect substitute for the other. Financial system in Nepal is basically bank dominated.

During the last one and half decade in financial sector in Nepal has grown significantly. It is sad that despite a history of almost half a century of developmental efforts under different national plans, conscientious efforts to develop financial sector started quite late in Nepal. Although some efforts were made to develop country's infrastructure during the Rana regime, they were more sporadic and aimed at fulfilling the need and the whims of the rana rulers. Efforts to achieve economic growth in the country in a planned way started only in 1956 with the adoption of the first five –Year plan by the government. Under different plans the government set targets for economic growth and adopted various policies and programs, which were directed towards developing infrastructure necessary for the creation of national wealth. Unfortunately, these policies and programs failed to take into account the need to develop the financial structure that ought of exist side by side with the development of infrastructure necessary for the growth of real sector. In one sense these policies were lopsided because they sought to enhance growth in physical assets of the nation by suppressing the development of the financial sector of the country.

The policy of the government to maintain control of the financial sector by restricting the entry of private sector into financial activities limited the growth of financial sector in the country. As a result the country had limited financial institution to support its developmental activities for quite a long time. Till early eighties the country had only two commercial banks, two development banks, one provident fund few insurance companies. As almost all of these financial institutions were under the government sector they operated more under social welfare concept than under commercial principles. As a result of the restrictive policy of the government, the gaps created in the resources needed for the development of the real sector and the resources available for its were met through foreign grants and loans under different plans. While this increased the country's dependency on the foreign aid, it also made the government less concerned for the

need to mobilize resources locally to meet the resource gap. Apparently, this led to tardy development of financial sector of the country where the real sector lagged behind the financial sector.

The process of stock market development in the country actually started in 1976 when the government established Securities Exchange Center to provide and develop market for securities, both the government bond and corporate Securities. However, visible impact on the development of financial sector was observed only when the government changed its restrictive policy and opened up hitherto closed financial sector to private sector and foreign participation in the establishment of banks. With the adoption of privatization and economic liberalization policy the process got further impetus and the financial institutions in Nepal included 17 commercial banks, 55 finance companies, 23 development banks, 17 insurance companies, 5 regional rural development banks, 34 saving and credit cooperatives, 116 postal saving banks and 44 non governments micro credit institutions. In addition, there is one Employee Provident Fund, one credit Guarantee and Deposit Insurance Corporation, and one Citizen Investment Trust. During this period some discernible improvements took place in the stock market .In 1993, Securities Board Nepal (SEBO) was established with the objectives to regulate, supervise, and monitor the securities market. Similarly, the Securities Exchange Center was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. An open outcry system was introduced by NEPSE for securities transaction, where the investors were allowed to deal in securities only through licensed brokers.

The equity market activities grow with the development and reform in the financial sector. Over the past 15 years the stock market of Nepal has made some progress. For example, between the fiscal years 1993/94 and 2007/08, the number of listed companies in NEPSE increased almost two-fold from 62 to 142 and the market capitalization value rose almost twenty six times from Rs.14 billion to 366.25 billion. Likewise, during the same period the number of securities listed with the exchanged increased eight times from 43 million to 321.13 million and the number

of annual transactions increased from around nine thousands to 150800 thousands. During this period NEPSE index jumped from its base value of 100 to 307. Despite these progresses stock market in Nepal is still at a developing stage and has to make visible impacts on the economic growth of the country.

1.2 Statement of the Problem

The relationship between financial development and economic growth, with focus on developmental role of stock markets, has been in debate for some time in the past. Empirical studies suggest that financial development does matter and stock markets do drive economic growth. Unfortunately, in Nepal, despite a history of about half a decade of planned economic activities to develop real sector of the country, little attention was paid to the development of financial sector. Over the past one and half decade, financial sector, despite many problems has developed significantly in Nepal. However, most of the developments were confined to the banking sector. Stock market has mutually remained stalled because of the low priority in the government's financial reforms polices.

Stock exchanges in many countries have a long history of more than one century. For example, the Indian stock market has a history of more than 130 years. Bombay stock Exchange, the oldest stock exchange in Asian continent, has a history of 138 years.

The market has not a long history, however how the stock market indicators are changing in the over the period of time. The researcher is very much curious to study about the following problems of stock market growth;

1. What is the growth position of the primary market?
2. What is the growth position of listed companies in the secondary market?
3. What is the growth position of market capitalization of the secondary market?
4. What is the growth position of NEPSE index in the secondary market?
5. What is the growth position of number of transactions and number of listed securities in the secondary market?

1.3 Objectives of the study

The main objective of the study is to examine the growth trend of the Nepalese securities market. The specific objectives of this research are as follows:

- i. to analyze the trend of Nepalese stock market in terms of market capitalization, number of transaction, number of securities traded and number of securities listed,
- ii. to examine the space of primary market growth in Nepal
- iii. to examine the growth of listed companies in Nepal
- iv. to analyze the growth pattern of stock market indicators (NEPSE index)
- v. to make recommendation for improving the stock market activities in Nepals perspective.

1.4 Importance of the Study

Securities market in Nepal seems in infancy stage. No long history has developed. Many practices, which have done in the developed market, have yet to be done. However, in this short history how is it growing and what developments in different sectors, like trading mechanism, trading volume, index etc, have the market achieved till that date, these will be discussed in detail and will be beneficial all the stakeholders of the capital market to sense the development of the market.

1.5 Limitations of the Study

The research is made for the partial fulfillment of the requirements for the Master in Business Studies (MBS) and it is not a comprehensive study about the development of the capital market. The other limitations are:

- The accuracy of the research solely depends upon the exactness of data used.
- The data used are basically secondary in nature.
- Variations of data in itself are also found when comparing with different sources.

- The study is fully based on the student's limited financial resources within a limited time frame.
- The study is not a final study on the subject.

1.6 Organization of the study

The study will be divided into the following chapters.

- i. Introduction
- ii. Review of literature
- iii. Research Methodology
- iv. Presentation and Analysis of Data.
- v. Summary, Conclusions and Recommendations.

The first chapter will be about the introductions, problem of the study, objective of the study, importance of the study, limitations of the study.

The second chapter will be concentrated upon review of literature and will be subdivided into various sections such as conceptual framework, review from different studies, review from journals, articles, magazines and review of previous master's thesis.

The third chapter provides the methodology adopted in the research. It comprises research design, sources of data, methods of analysis and its descriptive presentation.

The fourth chapter will be the presentation and analysis of data by using appropriate tools.

The last chapter gives the summary, conclusions and different recommendations regarding it.

CHAPTER – II

REVIEW OF LITERATURE

This chapter devotes to review some of the existing literature concerning the stock market in Nepal. In this regards, various books, journals and articles concerned to this topic have been reviewed. The first part of the chapter deals with the conceptual framework of the study and the second part is concern with the review of articles an dissertation.

2.1 Conceptual Framework

2.1.1 Capital Market

The capital market is concerned with long – term finance. Broadly it consists of series of the channels through which the savings of the community are made available for industrial and commercial enterprises and authorities. It is concerned with those private savings, individual as well as corporate, that are turned into investments though new capital issues and also new public load floated by the government, the semi-government bodies. In capital market, demand for funds comes from agriculture, industry, trade and government while the supply of fund comes from individual or corporate savings, institutional investor and surpluses of governments.

An ideal capital market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile gives the roles of interest (Shakespeare, 2001:07-10).

The capital market serves as a link between supplies and uses of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of

securities and all those agencies and institutions, which assist the sale, and resale of corporate securities (Gupta, 1978:325).

2.1.2 Securities Markets

Holders of stocks and bonds may decide to obtain cash for their investments by selling their securities to other investors. Similarly, others in the economy have cash to invest and are desirous of buying stocks and bonds. The problem is to bring together the order of prospective sellers and prospective buyers so that an exchange of securities for cash may take place. An efficient system whereby investors can convert their securities into cash quickly at or near the current market price makes investors more ready to put their savings into stocks and bonds (**Bradley, 1963:303**)

So far as securities market is concerned, it is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities markets and all the agencies and institutions that assist the sale and resale for corporate securities (**Rugh, 1966:50**)

Securities are traded in a market called Securities markets. Although Securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of Securities by bringing buyers and sellers of Securities together. In other word, people and organizations wanting to borrow money are brought together with those having surplus funds in the Securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc. are the products that are traded in the markets, institutions such as investment bankers and securities firms, Securities issuing institutions such as government and corporate bodies and participants of the Securities issuing institutions such as government and corporate bodies and participants of the securities markets. Securities markets' major function is to provide line between savings and investment there by facilitating the creation of new wealth (**Baral, 1999:8-9**)

Nepal stock exchange has defined the securities market in the following ways "The Securities market is the place where a larger number of financial Securities (shares, bonds, debentures etc.) are traded according to prescribed rules (**Investors Guide, 1978:11**)

2.1.3 Primary Market

The primary markets are media through which new financial assets are issued or generated. They are the media through which the demanders and suppliers of today's funds, the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfying in the part the financial needs of both demanders and suppliers of today's fund. At present concept, it is the market of direct issuance of government securities. The primary market of country is dominated by the government securities due to the existence of insignificant new issue market for industrial securities.

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, government and individuals to be used in the consumption or real capital investment. The participants in this process are many and valued, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for fund. These brokers provide invaluable service. Their principle role is to assist in the pooling of the funds by the creation of security forms that will appeal to the ultimate investors. (**Nancy and Richardson, 1984:147**)

Primary markets are distinguished by the flow of funds between the markets participants. Instead of trading between investors as in the secondary markets, participants in the primary market buy their assets from the source of the asset. Once the securities begin to trade among individuals, business, government or financial institutions, savers and investors, they become part of the secondary market (**Nancy and Richardson, 1984:146**)

2.1.4 Secondary Market

The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides "liquidity" for financial assets making them more attractive. So secondary market is a place where the securities once sold are purchased and repurchased to provide liquidity to the government securities and Securities Exchange Center operates the secondary market.

The trading of government securities in secondary market is very thin because of limited distributors of the securities. Securities Exchange Center in order to promote the market, used to support the market even involving itself in buying and selling activities, if necessary. The secondary market ever operated in the country was on DBs. The SEC initiated the secondary market in the fiscal year 1975-76, since then the volume traded in generally increasing year by year (**Pradhan, 1977:05**)

Secondary markets are markets for existing assets, which are currently traded between investors. It is this market that creates the price and allows for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all. (**Geoffrey, 1983:25**)

Secondary (indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers secondary market comprises the stock exchange, the over-the-counter market (**Rimal, 1994**).

The over the counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. A sophisticated telecommunication network lists active traders in this market. The prices at which securities are traded "over-the-counter" are determined by competitive bids and negotiation. The OTC, in addition to create a resale market

for outstanding securities, is a primary market in which new public issues are sold **(Gitman, 1988:30)**

The over-the-counter market is broader in scope than stock exchanges. It will be recalled that stock exchanges limit their activities to trading in securities already issued. In contrast, the over-the-counter market handles both securities already issued and new securities being sold to the public whereas the stock exchanges are auction markets, the over-the-counter market is primarily a negotiated market that is, buyer and seller may haggle over prices before the transaction is completed. Dealers in the over-the-counter market buy securities with the hope of being able to resell them at a higher price. This process resembles any merchandising activity in which the trader buys goods in the hope of reselling them at a higher price **(Bradley, 1963:310)**

2.2 Historical Background of Nepalese Stock Market

The rapid development of any country in this modern era depends to a large extent on the level of financial activities. Financial activities play a role of catalyst in the process of economic development of a country but for the rapid growth on value of financial activities, enterprises need a huge amount of funds. Capital is the means for development and productivity entities to increase gross domestic product. One of the mechanisms of financing the industries from the external source in modern time is the capital market, through which the industrial enterprises with corporate organization assemble the funds by issuing various forms of securities from the surplus spending units directly and/via financial intermediaries **(Mahat, 1981:25)** for the mobilization of investible resource capital market is an important intermediary through which effective bridging of the deficits and surplus units can be ensured. Capital market institutions are engaged in mobilization of saving from surplus units can be ensured. Capital market institutions are engaged in mobilization of saving from surplus units and supply funds into the deficit units for productive investment **(Shrestha, 1999:1)**. Capital market directly provides liquidity to the investors who provide funds for the establishment of the productive

enterprises and on the other, encourage savers to save more and enterprising economic units to start productive venture **(Bhatta, 1997:1)**. The development of capital market is closely related with the modernization and the development of the financial system. **(Timilsina, 2001:7)**. So, the development and expansion of capital market are essential for the rapid economic growth of the country. Capital market helps for economic development by mobilizing long-term capital and by creating liquidity, which is needed for productive sector **(Ojha, 2001:1)**.

The act of raising by issuing shares to the general public in Nepal started in 1937. Though, the development of securities markets could not be a national policy for a long time, the then industrial policy of Nepal led to institutional development of securities markets with the establishment of securities Exchange Center in 1976. Securities Exchange Center used to manage and operate primary and secondary markets of long-term government securities and corporate securities. After some years of establishment policies and programs were made to develop and promote stock exchange, issue manager, underwriter, securities dealer, stockbroker and portfolio manager in the markets with the objective of avoiding possible conflict of interest various market participants **(Adhikari, 2003)**.

The process of stock market development in the country actually started from 1976 when the government established securities Exchange Center to provide and develop market for securities, both the government bonds and corporate securities. However, visible impact on the development of financial sector was observed only when the government established Securities Exchange Center to provide and develop market for securities, both the government bonds and corporate securities. However visible impact on the development of financial sector was observed only when the government changed its restrictive policy and opened up hitherto closed financial sector to private sector and foreign participation in the establishment of banks, with the adoption of privatization and economic liberalization policy the process got further impetus and the financial institutions in Nepal grew at a faster pace especially in quantitative terms.

The concept of the stock market in Nepal is very new. It is still in infancy stage though Nepal Bank Limited (**NBL**) and Biratnagar Jute Mills (**BJM**) began it with the flotation of shares in 1937 under the company act, 1936. At that time, participation on the ownership structure of the corporate sector was restricted mostly to the Rana family. Consequently, the expansion of the capital market to the desired level has been restricted. No significant attempts had been made in four five years plans to reform the capital market. The establishment of Securities Exchange Center (SEC) in 1976 was the first and most important attempt made by the government to develop the stock market. Initially, bonds and national savings certificates only. Then it acted as an issue manager for corporate securities and started to list and provided market for the corporate stock from fiscal year 1984/85 under the securities Exchange Act, 1983. Thus, the SEC served to promote the primary as well as secondary market for government and corporate securities from fiscal year 1984/85. Although, the growth of the economy, the share of corporate sector in the national economy is still very low due to the negligible size of the corporate sector.

The incorporation of the securities Board, Nepal (SEBO/N) under the Securities Exchange Act, 1983 and conversion of the SEC into the Nepal Stock Exchange (NEPSE) under the government policy on capital market reform has greatly contributed to the development of primary as well as secondary market for the corporate securities. These rise in stock prices and the market liquidity for corporate securities were observed immediately after the incorporate of the SEBO/N and the NEPSE for one year only. This has positive and immediate impact on the primary market (**Sharma, 1996**). But after a year, again downward trend in the primary as well as secondary market is observed and this phenomenon has been continuing till now.

2.3 Stock Market Developments and Long –Term Growth

Although the rule of financial sector in the economic development of a nation remained controversial for sometime, recent theories in finance suggest that stock

market do promote long –term growth. It has been experienced that the development of stock market in the emerging nations passes through four main stages (**Papaioannou and Duke, 1993:36**). Development of equity markets in any country requires political and economic stability and growth-oriented policies as pre-condition .At the second stage, equity prices rise and the investors gradually gain confidence in the equity market. They accept equity as an alternative to traditional banks deposits and government securities. At the second stage, equity markets gain more credibility and market liquidity increases. Investors long for rise in risk adjusted returns and demand a wide variety of securities to match their risk preferences. Rules and regulations are refined and the equity markets start functioning on the basis of self –discipline. Equity markets at this stage gradually get integrated to the international markets and attract foreign investors. At the third stage, equity markets become an integral part of the overall financial system. Investors get higher, less volatile returns and easily absorb new issues of stock and bonds. The volume of trading increases as the equity markets become more liquid and firms go for initial public offerings to replace their debts. At this stage a mechanism for risk transfer develops, creating markets for equity and currency-hedging instruments such as derivatives and index products. At the final stage the equity markets get highly integrated with the global markets and the equity risk premiums match with the internationally competitive levels. Equity markets at this stage achieves stable growth and attain mature state.

Deposit its history of more than 25 years with respect to the above-mentioned observation; the equity market in Nepal has barely entered the first stage of development. Due to current political and economic instability, absence of growth-oriented policies and weak regulatory framework of stock market has failed to gain investors' confidence. Unavailability of timely information and weak supervision and monitoring has made the stock market highly risky for general investors. Investors have not yet accepted investment in stock as an alternative to bank deposits and government securities except in the cases of some commercial banks (**K.C. and Snowden, 1997**).

By encouraging and dissemination of information, stock markets reduce cost of mobilizing savings facilitate investments. Well-developed stock markets enhance efficiency of market for corporate control by mitigating the agency problems between the stockowners and managers. In countries where stock discipline is effective, firms tend to be more productive, there by creating more wealth per unit of money invested (**Diamond and vercecchia 1982; Jensen and Murphy 1990; Greenwood and Smith 1997**).

Stock markets help expansion of economic activity by providing liquidity to financial assets traded in them. Investments in real assets require long term commitment of capital, however, investors are reluctant to commit their investment less risky because they allow savers to by and sell financial assets they hold cheaply and quickly and restructure their portfolios any time according to their risk return preferences. At the same time, firms enjoy permanent access to long-term capital through equity issues. By making assets less risky and providing easy access to permanent source of capital, liquid stock markets improve allocation of resources, boost investment and enhance long -term economic growth. Very liquid stock markets may sometime determine economic growth by encouraging investor myopia. It is argued that such stock markets may weakness investor's commitment to exert corporate control because they prefer to sell the stocks of the misgoverned companies rather than to monitor and force managers to improve their performance. However, empirical studies suggest that greater stock market liquidity boosts and in many cases preceded economic growth.

2.4 Present Status Of Nepalese Stock Market

Equity market has shown impressive recovery from the sharp fall in 1994 with the lag effect elongated till late 1998. At present, it has been performing more strongly than in the earlier years. This improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial

information of the concerned company. Therefore, the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, at the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings.

By the end of 2008 the financial sector in Nepal included 17 commercial banks, 65 finance companies, 18 development banks, 19 insurance companies, 5 regional rental development banks, 34 saving and credit cooperatives, 116 postal saving banks and 44 non-government micro –credit institutions. In addition, there is one Employee provident Fund, one credit Guarantee and deposit Insurance Corporation, and one Citizen Investment Trust. During this period some discernible improvements took place in the stock market. In 1993, securities board Nepal (SEBO) was established with the objectives to regulate supervise and monitor the securities market. Similarly, the Securities Exchange Center was converted into Nepal Stock Exchange Limited (NEPSE) with the objective to provide secondary market for securities transaction, where the investors are allowed to deal in securities only through licensed brokers.

The equity market activities grow with the development and reform in the financial sector. Over the past 15 years the stock market of Nepal has made some progress. For example, between the fiscal year 1993/94 and 2007/08, the number of listed companies in NEPSE increased almost two fold from 66 to 142 and the market capitalization value rose almost twenty six times from Rs.14 billion to Rs.366.25 billion, likewise, during the same period the number of securities listed with the exchange increased to 321131 thousand and the number of annual transactions increased to 150800 thousand. During this period NEPSE index jumped from its base value of 100 to 186.67. Despite these progress stock market in Nepal is still at the developing stage in has to make visible impacts on the economic growth of the country.

2.5 Nepal Stock Exchange Limited (NEPSE)

The history of securities market began with the floatation of shares by Biratnagar Jut Mills Ltd. and Nepal Bank Ltd in 1937. Introduction of the company Act in 1951, the first issue of government bond in 1964 and the establishment of Securities Exchange Center Ltd. In 1978 were other significant development resulting to capital markets.

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was only the capital market institutions undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial service.

His Majesty's Government, under programme initiated to reform capital market, converted Securities Exchange Center into Nepal Stock Exchange in 1993.

Nepal Stock Exchange, in short NEPSE is a non-profit making organization, operating under Securities Exchange Act, 1983.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries such as broker, market makers etc.

NEPSE opened its trading floor on 13th January 1994 through licensed members.

Nepal Government, Nepal Rastra bank, Nepal Industrial Development Corporation and Licensed Members are the Shareholders of the NEPSE.

Board of Directors

The Board of Directors of NEPSE consists 9 (nine) directors in accordance with securities Exchange Act, 1983; six directors are nominated by Nepal Government and different institutional investor nominates the rests. Two from the licensed members and the General Manager of the NEPSE is EX-Official Director of the Board.

Capital Structure

The authorized capital of the exchange is Rs. 50 million. The issued capital is Rs. 30 million of this Rs. 26.39 millions is subscribed by Nepal Government, Nepal Rastra bank, Nepal Industrial Development Corporation and licensed members.

Members

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 28 Member brokers and 3 market makers, who operate on the trading floor as per the securities Exchange Act, 1983, rules and by laws of the exchange.

Besides these NEPSE has also licensed to dealer (primary market) and dealer (secondary market). Dealer (primary market) operates as a manager to this issue and underwriter whereas dealer (secondary market) operates as a portfolio manager.

Presently, NEPSE licensed to 11 dealers (primary market) and four dealers (secondary market)

Listing

This listing fee and annual fee to be paid by the listed company is based on the issued capital of the company.

Trading System

Till the end of this fiscal year, NEPSE is adopting an "Open-Out-Cry" system for the trading purpose. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offers will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floors starts. Once the bid and offer price matches, contacts

between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

Trading Days and Hours

NEPSE has fixed stock trading days and hour during which the numbers are allowed to enter the floor to make the transactions as tabulated below:

Table 1
Stock Trading Days and Hours

Trading Days	Trading Hours	Types of Trading
Sunday - Thurs day	11:00 ~ 13:00 NST	Regular
Monday	14:00 ~ 15:00 NST	Odd lot
Friday	11:00 ~12:00 NST	Odd lot

Source: NEPSE Annual Report 2007/08

Board lot

NEPSE has fixed the board lot of 10 shares if the face value is Rs. 100 shares and 100 shares if the face value is Rs. 10. The transactions on regular trading should be done on at least one board lot. the transaction of less then 10 shares is permitted only one odd lot trading hours.

2.6 Securities Board Nepal (SEBO/N)

SEBO was established as an apex regulator of the securities market in Nepal by HMG/N on Jun 7,1993, under the Securities Exchange Act, 1983. The main objective of SEBO is to regularize and manage the securities market and protect investors' rights.

As per the securities rules and regulations, following are the major functions of SEBO:

- ❖ Frame policies and programmes required in securities market and advice to Nepal government in this aspect.
- ❖ Register securities and grant issue approval.
- ❖ Provide license to corporate bodies to operate stock exchange business.
- ❖ Provide license to operate securities business.
- ❖ Supervise and monitor stock exchange and securities businesspersons.

- ❖ Conduct research, study and awareness programmes regarding securities market.

A board composed of seven members including a chairman governs SEBO. The board has representative from various institutions of the government as well as private sector. The chairman of SEBO is appointed by the Nepal government for the tenure of four years. Other members of the Board include representatives one each from Ministry of Finance, Ministry of law, Justice and Parliamentary Affairs, Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank (the central bank), Federation of Nepalese Chambers of Commerce and Industries and Nepal Chartered Accountants' Association.

SEBO, in order to implement its policies and programs effectively, has two departments, six divisions and ten sections in its organizations structure. Deputy director and each division by officer head each department. Presently, there are 25 staff in SEBO. (www.sebonp.com)

Nepal Government Policies and Programmes

After adopting liberalized economic policy Nepal government has been initiating different programmes for the organized development of securities market. In this context, during the period of Eightth Five year Plan (1992 – 1997), Some infrastructures regarding the securities market regulation were prepared. In the Nineth

Five-year plan (1997 – 2002), efforts were made to develop on organized and credible market. While implementing the programmes of Nineth Five year plan, Nepal government through the budget speech of 2000/01, announced the programmes to amend Securities Exchange Act, initiate necessary steps to bring wider participation in the stock exchange and make its operation more transparent. Similarly, the budget speech has also included the programme to take legal action against those listed companies, not publishing and submitting their audited financial statements of last two years. Accordingly, 25 companies were de-listed for not publishing their financial statements and not paying annual listing fee to the

stock exchange. However, other programmes like amendment of Securities Exchange Act, standardizing stock exchange etc., which were perceived to be more important for the securities market development, could not move ahead concretely.

In the fiscal Year 2001/02, Nepal government came with the Tenth five year plan (2002/2007), which among others also includes various programmes for securities market development. The objective of the securities market development programme is to increase public ownership in the development projects operated by private sector and promote industries by supplying financial resources through securities as well as increase employment opportunities and fulfill the capital requirement to the development projects operated by Nepal government, government enterprises and municipalities issuing debenture in the securities market thereby reducing foreign loan. To meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly and developing the securities market as an important sources of long – term financial growth by increasing its depth and breadth. It has incorporated the programmes of making public issue effective, enhancing regulatory capability of SEBO, making the securities trading process standard and credible, creating a state of transferring ownership immediately after transaction, diversifying securities market instruments, attracting institutional investors, protecting investors interest, expanding the securities market services nationwide and improving the compliance and integrity of the market. (www.sebonp.com)

Securities Market Programmes in 10th Plan (2059 – 2064 BS)

1) Objectives

- a) To increase public ownership through shares in the development projects to be operated by private sector and to provide returns of such projects.

- b) To promote industry and trade by supplying the required financing in competitive cost and to increase employment opportunities.
- c) To issue bonds through securities market to meet the mid- term and long-term financing required by development projects to be operated by Nepal government, government enterprises and municipalities, thereby reducing the foreign loan.

2) Quantitative Goals

- a) To increase number of investors investing in share capital of corporate to at least 3 percent of total population.
- b) To raise at least Rs.5000 million for the corporate bodies through primary market of securities .
- c) To increase the amount of securities trading to at least Rs.10,000 million.
- d) To increase the value of total market capitalization to at least 16 percent of total GDP.
- e) To list additional 40 corporate bodies in the stock exchange.

3) Strategies

- a) Modernizing the stock exchange.
- b) Making the securities market regulatory system more effective.

4) Policies and working policies

- a) Modernization of stock exchange (related to strategy 1).
- b) To make corporate sector dynamic and broad based and to develop effective and investor friendly role of securities market regulators.
- c) To increase allocation and operational efficiency of securities markets.
- d) To make securities market mechanism fully transparent and credible.
- e) Effective securities market regulatory system (Related to strategy 2).

- f) To develop and expand securities market as an important source of long – term funds.
- g) To increase depth and breadth of securities market.

5) Programmes and implementation Structure

- a) Establish one window policy for public issue through SEBO and enhance capability of SEBO.
- b) Arrange for the immediate ownership transfer of securities.
- c) Develop simplified issue and trading system for the securities of privatized government enterprises.
- d) Constitute a permanent committee with representation of ministry of Finance, Nepal Rastra Bank, SEBO and Insurance Board for the coordinated development of healthy and competitive financial market as well as for the development of unified financial regulator in the future.
- e) Expand securities exchange facilities in the other place of the country considering its feasibility for the servers residing there.
- f) Develop clear regulatory benchmark of SEBO and NEPSE.
- g) Make the securities trading process and financial statement of the issuer companies more credible and transparent.
- h) Implement codes of conduct for securities regulators, employees of stock exchange, directors, managers, auditors and advisors of the corporate bodies and for the securities businesspersons.
- i) Provide training and education on different aspects of securities market and make institutional arrangement for regular research and study.
- j) Make provision to take insider trading as a criminal offence so as to control such trading.
- k) Make necessary legal provision for securities trading through nominee system.
- l) Make necessary arrangement for SEBO to take membership of International Organization of Securities Commission (IOSCO)

- m) Private NEPSE and develop it as a self-regulatory organization following good governance practices.
- n) Establish Central depository system for immediate ownership transfer of securities and to protect investors from frauds that may occur on securities trading.
- o) Provide incentives for the promotion of companies having wider ownership and good governance practices.
- p) Make legal provision to encourage mutual funds, debentures and securitization.
- q) Make arrangement for the trading government bonds in the stock exchange and provide benchmark and liquidity.
- r) Develop appropriate legal provision to encourage entry of contractual savings in to capital market as well as develop regulatory system of such instruments under securities jurisdiction.
- s) Simplify entry and exit process of securities businesspersons by following prudential norms.
- t) Assist ICAN for the establishment of international accounting system and establish and operate disclosure review system of issuing companies.
- u) Gradually automate securities trading of NEPSE as per feasibility.
- v) Expand present centralized floor trading system, establish OTC market and develop trading system that can accommodate trading for local area.
- w) Make clearing and settlement system of securities transparent and establish and/or utilize central depository system of securities for clearing and settlement.

(www.sebonp.com)

2.7 Regulations of Stock Market

Securities Exchange Act 2040 is the main law to regulate the securities market in Nepal. But till now this act have been amended 3 times within the 13 years of its history. The 3rd amendment took place recently. Under this act, Securities Exchange

Regulation 2050 and membership of stock exchange and transaction by-laws, 2050 have been formulated and enforced. Recently both regulations as well as by-laws have been amended to suit the changing environment of the securities market.

Companies Act, 2021 have been replaced by new companies act, 2053 with a view to make simple transparency in formation, operation and administration of the companies. Various formats related with articles and Memorandum of Association, prospectus, application form for purchase of shares, balance sheet and profit and loss account have been prescribed.

Securities Investment Trust Act, 2053 have been formulated and enforced for the operation of trust funds such as mutual fund and unit funds.

Major Regulating Agencies

Three government agencies, viz., Securities Board, Company Registrar's Office and Nepal Rastra Bank are involved in approving and registration of public issue. Through Securities Board is the only regulatory body in securities market to supervise and regulate the overall functioning of the market, the functions performed by other two agencies seems to be of duplication of works. Here, how all these three bodies work in approving and registering the public issue are elaborated.

Securities Board

Securities Board is empowered by Securities Exchange Act, 2040 for the development of capital market, protection of investors' interest, approval of stock exchanges, regulation of market intermediaries, secondary and primary markets, mutual funds and conducting investment awareness programmes for various interest groups.

When prospectus is submitted for the registration purpose, the securities board does betting and if disclosures in the prospectus are found adequate then Board registers the securities to be issues in the public and grants permission on it.

Nepal Rastra Bank

Nepal Rastra Bank, the Central bank, approves prospectus when banks and finance companies propose public issue. It also gives permission to issue debentures and bonds. Under NRB directive bank and finance companies are required to issue shares equivalent to at least 30 and 40 percent in both situation if they have foreign joint venture stake. But while in debenture and bonds issue NRB get assured, by vetting the prospectus, about the size of the issue interest rate, collateral and repayment of the lone.

Company Registrar's Office

Company Registrar is only agency where companies are registeredmonitore the operations of the companies and makes arrangements foe winding up the companies when required. Approval on the prospectus is granted by CRO only. Before granting approval it obtains advises/opinion from securities board and for banking and finance companies opinion/advises on prospectus is taken from Nepal Rastra Bank too.

Nepal Stock Exchange

While issuing securities to the general public consent should be obtained from the NSE. For the issuing companies and issue managers are required to submit the prospectus. In the meantime before concluding agreement along with the 4% of commission amount should be forward to the NSE. This is applicable for underwriting arrangements too.

Insurance Board

When an insurance company insurance board makes a public issue also performs the vetting of prospectus as it is done by Nepal Rastra bank.

Concerned Minister of Government of Nepal

The companies which are incorporated by special acts are required to get approved the prospectus from concerned ministers. For example, companies such as Nepal Industrial Development Corporation, Citizen Investment Trust and Rastriya Beema

Sansthan are under the preview of minister of industry and Ministry of Industry and Ministry of Finance instead of Company Registrar's Office.

2.8 Stock Brokers

A broker acts as a middleman who matches buying and selling order, thereby securing both buyers and sellers. A broker does not take title to the securities involved in the transaction. The broker for his assistance in consummating the transaction charges a commission. **(Bradley, 1963:304)**

A stockbroker, as a member of stock exchange and sub-broker as any person who acts on behalf of stock broker as an agent or otherwise assisting the investors in buying, selling on dealing in securities through such brokers (**Bhatta, 1997:23**)

Conditions for granting of certificates to Stockbrokers:

The rules stipulate the registration is necessary for acting as broker or sub-broker. The conditions for grant of a certificate of registration to act as stock brokers are:

- ❑ He holds the membership of a Stock Exchange Act.
- ❑ He shall abide by the rules, regulations and by-laws of the Stock Exchange of which he is a member.
- ❑ He shall pay the amount of fees for registration.

A stockbroker is expected to maintain high standards of integrity, promptitude, and fairness in the conduct of his business. He is expected to exercise due to skill, diligence, and company with statutory requirements and not to indulge in manipulations and practices.

Commission Broker

Almost all members act as commission brokers. the commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage.

Floor Broker

The floor brokers, not large in number, are officially attached to other member. The floor broker executes order for any members and receives as his compensation a share of the brokerage charge by the commission broker to his constituents.

Floor brokers may be described as brokers. They are simply members of the exchange not broker for a member firm. At peak activity periods, they will accept orders from other broker, execute them, and receive part part of the commission in return. Floor brokers are useful in that they present backlogs of orders, and they allow many firms to operate with fewer exchange memberships than would be needed without their services.

Security Dealer

Dealers' buys securities at one price and expect to sell them at a higher price. (Bradley, 1963:304)

Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name. They benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy and sells actions added up liquidity of the securities.

Obviously, when an OTC broker receives an order for a security in which a market is not maintained, they may act as both broker and dealer in executing the trade. However, this does not eliminate the obligation to obtain the best price for the customer (**Raju, 2000:66**)

Market Maker

Market makers, also know as specialists, and facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealer in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market makers (Joshi, 2001:28).

The market maker is any company or corporate body with deals in securities at the stock exchange in its own name or under its name on the basis of a pledge to provide liquidity to the securities issued by Nepal governments, as well as to the securities listed at the stock exchange by concluding necessary contracts with the concerned corporate bodies or to the securities of at least three corporate bodies, and not to let to occur improper instability in the price of such securities, shall be granted membership of securities market maker.

With the change in the legal provision, out of six market makers, five market makers so far registered with the Nepal stock exchange have left the business of market Making and confined there activates as dealers in primary market (new issued market) and as dealers in secondary market they did not operate as market makers. At present, there is purely only one markets makers, Nepal share market similarly, there is only one company dealing as primary dealer and market makers, which is know as Nepal merchant banking and finance .at present, thirteen companies have received license to operate in the primary market and four security dealers have received license to carry on activities as dealers in the secondary markets (CEDA, 1997:7).

2.9 Price and Trading Procedure

The shares price is determined in the floor by the interaction of market forces i.e. demand and supply .The price is determined by the point pf equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of in search of the ever-changing new equilibrium. Then market price moves upward and downward independently.

There are many reasons that causes the stock price fluctuation, major of them are economic, non economic and market factors.

On basis for the determination of stock prices is a dividend. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earning and dividends. Earning power, in turn, is strongly in

fluenced by changing economic trends, which are closely related to interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

The next major influencing factors are non-economic factors, including changes in political conditions, and changes in cultural conditions, such as technological advances and the like.

Market factors, or international factors of the market, consisting of the tone of the market and supply – demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a phenomenon of the excessive expectations, which takes the form of over estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply –demand are reflected directly in the volume of the transactions, but there is also considerable effect from the action of institutional investor, margin transactions, etc. Although, margin transactions increase purchases when stock price is going up, once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin finance has not been introduced, so far, in Nepal **(Sharama, 1996:64)**

2.10 Stock Exchange

The stock exchange provides an organized market place for the investors to buy and sell securities freely. The market for these securities is an almost perfectly competitive one because a larger number of sellers and buyers participate. The shares listed, however, are not really, homogeneous like a commodity in a perfectly competitive market **(Joshi: 33)**

In the stock exchange, there is an active bidding and two-way auction trading takes place. The basic laws of supply and demand determine the bargains that struck the fairest price. The stock exchange provides an auction market in which numbers of

stock exchange participate to ensure continuity of the price and liquidity to investor
(Pant: 93)

In contrast to the bond market, the stock market is basically a securities market. The aggregate amount of new common stock issued by co-operations every year is small compared to the trading on the organized exchanges- Nepal Stock Exchange, New York Stock Exchange, The American Stock Exchange, the Regional Exchanges and the over the counter market.

Stock exchange is the most highly centralized and visible institution where already issued securities are bought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

The establishment of the Securities Exchange Center (SEC) in 1976 was the first attempt made by the government for the institutional development of the stock market in Nepal although the flotation of shares by Nepal Bank Ltd.(NBL) and Biratnagar Jut Mills Ltd.(BJM) had begun in 1937 under the company Act, 1936. The SEC managed five public issues, important medium to allow investment opportunities to the public, made by the corporate bodies till FY 1985/86.

Securities Exchange does not directly buy or sell securities, rather, they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floors on which a continuous auction market is conducted. To transact business on the trading floors of the exchange, an individual must be member, that is, a set on the exchange must be purchased. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed. Rather, they must be transit their orders to an exchange member – usually a commission broker, who sees that they are carried out **(Jacob, 1984:155)**.

The stock market is the only institution on the mobilizes substantial portion of public activity and the public share volume in other markets. This suggests that individual investors recognize the opportunities in those other markets and pursues them. Also, in some cases, institutional investors are restricted from these markets

because the stock is often too small to meet their criteria or legal requirements. As well be seen in other markets,- the AMEX and the over-the counter market hav out performed the NYSE in recent years in New York. Individual investors may know exactly what they are doing by not being the major force on the NYSE.

Some parallels exit between the stock market and the bond market in terms of trading. As we know that although the market for U.S. government and the agency bonds are active, liquid markets, the corporate and the municipal sectors are much less so, at least, for the average investors. In case of stocks, the New York Exchange (NYSE) is a very active, liquid market, with trades occurring smoothly within a carefully monitored framework. Price may fluctuate sharply as a result of changes in investors' expectations, but such changes are orderly and investors can buy or sell with reasonable confidence that the prices are "fair" (i.e. represent orderly transactions with in a monitored environment).

The American Stock Exchange is designed to imitate the NYSE, and thus has similar trading procedures. The role of specialist is initially the same as on the NYSE, although the capital requirements are smaller. Active stocks are usually assigned to specialist firm that may have several partners at the post to handle orders. Certain trading policies are different because of the relatively "Thin" supply of shares for many AMEX stocks.

In over the counter market, the corporations being traded by range from very large (eg. Food Lion Supermarkets and Coors Bell) to very small firms unknown to most investor; the market for particular shares may be very active or very inactive. Bid – ask spreads may range from 1/8 point or more. The small investors can trade in the OTC market more easily than in the corporate or municipal bond markets, investing only a few hundred dollars or less. The OTC market is of increasing importance and continues to enhance its position relative to the organized exchanges. But in Nepal, OTC is not practiced yet.

The extent of active stock market trading by individual investors ahould depend on the several factors. One is their knowledge. Do they understand how stock is

valued, traded and managed? A second factor is their belief about the relationship between a security value and its price. Are the two usually identical, and if not, can typical investor expect to the difference? And the third factor is the trade-offs to be made between direct investing and indirect investing through the purchases of investment company share.

2.11 Review of Empirical Studies

Vast numbers of research studies have been performed in international arena on the stock market. The findings of some of the research studies are as follows:

The study conducted by Bary Borsworth (1975) on industrial production and prices of common stock, 1953-1975 has revealed that the stock market and economic activity move in similar cyclical patterns. This fundamental relationship shows that stock prices are meaningful in the sense of reflecting real economic variables.

The study conducted by the U.S. Department of Commerce (1985) on stock prices and the business cycle, 1948-84 has found that the general correspondence between stock prices and business cycle, where weighted moving average of a stock price index is mapped against the peaks and troughs of business cycle since 1948. The market has reflected all the recessions in the economy since 1948.

The indicators of stock market development reflect the development of an economy. It is important to predict the course of the national economy because economic activity affects corporate profits, investor attitudes and expectations and ultimately security prices. The key for the analyst is that overall economic activity manifests itself in the behavior of stock price or the stock market. This linkage between economic activity and the stock market is critical (**Fisher and Jordan, 1990**)

There are two important aspects of capital market, namely the raising of the funds in the form of shares and debenture and trading in the securities already issued by companies. While the first aspect is obviously is much more important from the point of view of economic growth, the second aspect is also of considerable

importance. In fact, if facilities for transfer of existing securities are abundant, the raising of new capital is considered assisted for the buyer of a new issue of security is confident that whenever he wants to get cash he can find a buyer without much difficulty. This aspect is called the liquidity of the stock market. Thus, the liquidity of the stock market affects the raising of new capital from the market (**Kunt & Levine, 1996**)

Schwert (1975) found in their joint study that government bonds, treasury bills and real estate compensate somewhat for unexpected inflation. The surprising result, however, is that common stock returns are negatively correlated with both expected and unexpected inflation. Rather than being compensated for inflation, investors in common stocks have been penalized.

Levine (1996), a senior Economist in the finance and private Sector Department division of the world Banks' policy Recherche Department, has mentioned in his article that stock markets may affect economic activity through the creation of liquidity. Many profitable investments require a long-term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods. Liquid equity markets make investment less risky –and more cheaply if they need access to their savings or want to alter portfolios. At the same time, companies enjoy permanent access to capital raised through equity issues. By facilitating long term, more profitable investments, liquid market improves the allocation of capital and enhances prospects for long-term economic growth. Further, by making investment less risky and more profitable, stock market liquidity can also lead to more investment.

Levine (1996), at his same study found that stock market liquidity rather than stock market size and volatility of the stock market matters for growth. He has shown that with taking examples of 38 countries with more liquid stock markets in 1976 between 1976 and 1993. Thus stock market liquidity helps to forecast economic growth. He has used three measures of divided by stock price volatility. The study has revealed that countries that had more liquid stock markets in 1976 enjoyed both

faster rates of capital formation and greater productivity over the next 18 years, because liquid stock markets encourage more investment.

Doha (1962), has shown the causal connection between deficit finance, money supply, and the general level of price and the share prices. The relationship being positive and in the same direction, it can be deducted that, *ceteris paribus*, if the deficit finance is low, money supply increase will be small, the general price level will be little and, therefore, the growth in stock market prices will be small.

However, there are various researches performed on the stock market liquidity and its effect on long –term economic growth. Levine & Zeroos (1996) have mentioned in his article that increased liquidity can deter growth through at least three channels. first by increasing the returns to investment, greater stock market liquidity may reduce saving rates through income and substitution effects. Second, by reducing the uncertainty associated with investment, greater stock market volatility may reduce saving rates because of the ambiguous effect on uncertainty on savings. While less uncertainty make an investment more attractive to risk-averse agents, less uncertainty also lowers demand for precautionary savings. Thus, the ultimate impact of lower uncertainty on saving rates produced by greater stock market liquidity is uncertain. Third, stock market liquidity may adversely affect corporate governance; very liquid markets may encourage investor myopia. Because, more liquid markets make it easy for dissatisfied investors to sell quickly, liquid markets weaken investor's commitment and reduce investor's incentives to exert corporate control by overseeing managers monitoring firm performance and potential. According to this view, enhanced stock market liquidity may actually hurt economic growth.

Levine (1996), found that across countries that level of stock market development is positively correlated with the development of financial intermediaries. Thus, stock markets and financial institutions are generally complements; they grow simultaneously. In the book " The stock market: theories and Evidence" by James

H. Lorie, Peter Dood and Marry Hamilton Kimpion, Mainly two points about the stock prices markets and investors are following:

- ☞ The first that it is relatively easy for the individual investors to make substantial returns by investing according to some simple rules so that he can make predication about the market mechanism and its growth prospects.
- ☞ The secondary point is that the individual investors is manipulated or exploited by the financial institutions to such extent that investing in the common stock is intolerably hazardous. This means, the simple rules regarding the prediction of market mechanism whether it is growing or not, for investments cannot be expected to produces extra ordinary returns. Nor is the small individual investor at substantial disadvantages as compared with the professional investors or the financial institutions.

This books helps to evaluate the security price in primary and in secondary market. The use of formal models and empirical inquiry has provided new knowledge and has cost light on the validity of some old and new theories of securities valuation in the recent market condition. So that one can show the condition either the market is in growth from or in declining stage and the share price condition in the point of simple investors are clearly analyzed.

Henderson has analyzed in his book "New issue market and finance for industry" that the new issue market has three important function; they are origination, understanding, underwriting and distribution. The NIM (New issue market) facilitates the capital market to raise long-term funds. Industries, new issues are further classified as "initial" issues and "further" issues. Initial capital can be raised only through equity or preferences shares. When exiting companies raises issues it is called "Further" capital. Such organization can raise debentures (Hunderson, 1995:24). The interplay of these functions helps to transfer resources from the

resources of surplus funds to those who require these funds in ultimate users of these funds.

Levine and Zeroos examine the empirical relationship between measures of stock market development and long –run growth rates. After controlling for the initial level of GDP per capita, initial investment in human capital, political stability, the level of banking development and measures of monetary, fiscal and exchange rate policy, the predetermined component of stock market development remains and significantly with long- run economic growth.

Fischer and Jordan (1990) have distinguished investment from speculation in SM by time horizon of the investors; and often by the risk-return characteristic of the investment. The true investor is interested to seek a good rate of return for a relatively long period of time. The return speculator seeks opportunities of very large returns to earn rather quickly. Thus, the same stock can be purchased as a speculation or as investment, depending on the motivation of purchaser.

Fischer and Jordan (1990) further say that investments generally involve real and financial assets; real assets are tangible while financial assets are pieces of paper representing an indirect claim on real assets held by someone else. Financial assets are liquid, so that they can be sold to acquire real assets. Thus, they encourage investment in financial assets through the stock market.

Shrestha (1992) in this book "Shareholder's Democracy and AGM Feedback" has focused various issues related to protection of shareholder's expectation. "Success of companies directly depends on the protection of their owners. But how can this be accomplished I main question. Thus, it is necessary to develop a possible guidance for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on the hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile. At present, the overall shareholder's democracy in terms of the protection of their interest is basically focused on the payment of satisfactory

dividend and maximization of shares holders' wealth by appreciating the value of shares they hold".

Shrestha has indicated why the share market is inactive and what problems are the main causes for inactiveness and what measures should be done etc. are carefully defined. Similarly, how the securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in shares prices.

The downfall of share market is mainly due to the unfair share market practices that went indicated for a long period in Nepal's share market. There has been a growing tendency to sell worthless and fraudulent securities since promoters were not questioned regarding their moral standing and honest integrity of professionalism. In practice, a handful of Baniya traders (Canny People) began to dominate the share market as they are very little exposed to the managerial and institutional culture of managing share market activities by honest and fair dealings.

Pradhan (1993) has conducted a research, "Stock Market Behavior in small Capital Market: A case of Nepal". For the study, he collected the data of 17 enterprises from the year 1986 to 1990. His research study has carried out to meet the following objectives.

- ❑ To assess the stock market behavior in Nepal.
- ❑ To examine the relationship of market equity, market value to book value, price earnings and dividends with liquidity, profitability, leverage, assets turnover and interest coverage.

After using statistical tools like regression model, he presented the following findings;

- ☞ The stocks with large ratio of dividend per share to market price per share have lower leverage ration.

- ☞ The leverage ratio of dividends per share to market price share has higher liquidity.
- ☞ The liquidity position of stock paying lower dividends is also more variable as compared to the stock paying higher dividends.
- ☞ The stock with larger ratio of dividends per share to market prices per share has higher earnings.
- ☞ There is positive relationship between the ratio of dividends per share and interest coverage.
- ☞ The dividends per share and market prices per share are positively correlated.
- ☞ The dividends payout and profitability has positive relationships.
- ☞ Assets turnover, earning and interest coverage are more variable for the stocks paying higher dividends.

Mahat (2000) in his report "Future prospects of NEPSE in capital mobilization" is able to analyze the situation in Nepal where the industrial sector has very little access to private saving. Also, indicates the availability of industrial securities is nearly absent the development of financial institutions that surplus spending units with the deficit spending ones is in the rudimentary stage.

His study also demonstrated, relatively, very limited financial contribution or other financial institutions to this sector, but he does not indicate those factors, which help to uplift the financial contribution to the other sectors like, provident fund and NIC etc.

It is acknowledged that a greater use of resources available in the financial system of the industrial development of the country may not be very smooth and easy. He also specified the growth and potential measures of security market, capital market regarding primary and secondary market. He just shows the preliminary and basic problems of industrial sector but not in broad way. So, according to his topic, the sufficient future prospects/measures are not available in his study but can find in

basic context. There is not indication in the relations of primary and secondary market with economic condition of the country in his study.

The prices turnover of stocks increased tremendously after the opening of the trading floor. Even prices of stocks with huge accumulate losses and the companies established only a couple of month back went up and up which is not conducive for the healthy growth of market. Such unnatural high prices are accounted for the poor transparency and the pouring large number of people without having a minimum knowledge on shares in the market (**Joshi, 1996**)

It may be appropriate to mention at this stage that the expansion and the growth of the stock market have a direct correlation with the over all growth and expansion of the private sector in the Nepali Economy. If the private sector is to assume a lead role in future economic development, it is necessary to provide a ready source of capital to sustain such efforts. An important component of the capital market is the stock exchange, which performs a pivotal role in channeling individual as well as industrial savings in the private sector (**Peiris, 1992**)

Mahat (2000) in his book "Capital Market, Financial Flows and industrial finance in Nepal"(1981) has said, "There is absence of secondary market to ensure liquidity to the securities on demand. Any attempt to simulate investment in industrial sources would naturally depend on the extent to which the securities are salable in the market. Only the existence of a stock exchange can enable the security holders to sell their securities for cash and purchase alternate securities if they wish. In Nepal, in the absence of such a stock market, and industrial security is an illiquid form of asset, even more illiquid than the real estate for all practical purpose".

According to the journal of SEB named as "Meeting the challenges Ahead (2054 – 2069)" clearly defined the policy development regarding to the growth of the market. As an apex regulatory body for the Nepalese Securities Market. The securities board has adopted following set of strategies policies to handle the strategic issues that are the inhibiting the growth and development of the market. These policies of:

- ❖ Improvements in the statutory and regulatory framework of the capital market.
- ❖ Development of widely participated capital market. Improvement in the securities board's institutional capacity.

SEBO has also made some improvements in the statutory and regulatory framework of the capital market. Such improvements contribute to the development of capital market in the following ways:

- Bring clear demarcation in the role and responsibilities borne by the securities board and other regulatory agencies i.e. Stock Exchange, NRB, ORC etc.
- Reduce the duplication in the role and responsibilities of the Board and other regulatory agencies.
- Show the ways of coordination between the services board and other regulatory agencies.
- Promote public confidence in the regulatory system and market structure.
- Introduce a system of recognizing self-regulatory bodies by encouraging them to share and take responsibilities in certain areas.
- Establish securities board as a central market regulator and rest in with wider investigation and enforcement power.
- Empower the securities board to audit the registered corporate bodies, mutual funds, as custodians and clearing houses in relation to their financial reporting issues.
- Promote the development of "full survive" securities house and,
- Gives focused attentions for the establishment and up grading of necessary legislative infrastructure to address on going needs.

Nepalese capital market offers a wide range of financial services and instruments. It also has to provide the opportunity for a large number of investors to participate directly or through mutual savings schemes. While implementing this policy the securities board:

- Advises the government regarding the development of a secondary market for government securities and the opening of foreign portfolio investment.
- Coordinates with NRB to formulate prudential standards for the primary issue as well as secondary trading of government bonds.
- Studies the possibility of introducing an over the counter exchange system and brings in the concept of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

There is an urgent need for proficient development of the market standard and information system focused mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, security board has a great responsibility as to reviewing and developing regulatory standards to make them a relevant with the need of issuers, investors along with promoting efficient capital formation. **(Business Age, April 1999:15)**

Now the latest slumps in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board, refusing investor's allegations of the market manipulation and insiders' trading of last February, discreetly claimed that Nepalese Stock Market is in a nascent stage. And that, investment are made more on an impulse, rather than market study and credit rating. **(Business Age, June 2001:25)**

"Investors were enlightened and they started inquiring about company's financial health and further prospect before buying or selling shares. People turned to price-earning multiples; NEPSE indexes informed trading became sort of a norm when stock market entered 1995. Many that could not cope with the system of intelligent speculation left the ground. As a result the number of buyers gradually came down and so did the prices. **(The Kathmandu Post, May 18, 1996)**

Shrestha in an article "ISDDC" Bulletin (Volume 8 July 1982 – June 1983) has brought certain policy issues related to stock market development such as lack of suitable financing planning, negligence of working capital management, deviation between turnover and return on net working capital. At the end, he has also made some suggestive measures to over confirm the above policy issues viz. identification of needed funds, developments of management information system, positive attitude towards risk and profit and determination of right combination of short-term sources of fund to finance working capital. "ADB expert have seen many obstacles to the growth of capital market. This includes low level of investor's confidence, disclosure of poor and manipulated financial information, weak enforcement of regulation, absence of institutional investors, lack of diversity in range of financial instruments and the scope of active participation for the various intermediaries limited by vertical barriers." (**The Rising Nepal, January 20th 2001**)

According to the IMF staff country report " A well functioning capital market is important for Nepal to support the efficient channeling of private savings to investment and facilitate the transaction to direct monetary control. Headway has been made though various reforms since the late 1980's while the capital market is still in the early stage of development with many structural weaknesses."

In country economic review , Nepal : ADB recommends efforts to mobilize domestic resources more efficiently in order to develop capital market (primary plus secondary market included)including major tax reforms and further measures to improve efficiency in the financial sectors as well as revitalize the capital market.

In the paper Privatization principal and practice Donaldson David and J. wagle Dilip M, writes there is a symbolic link between privatization and capital market. In most of the cases, privatization represents the first time that private voices are heard on SOE Boards. Indeed, for many, a change in the whole legal structure of company governance is a necessary first step. Borrowings from banks tend to

become more commercial and less the result of political pressure. Often new firms of finance are listed on domestic and international capital markets for the first time. At the same time, a large privatization program often has a dramatic effect in capital market development adding greatly to stock and variety of corporate assets available to public.

Investors in the past years do nothing for the enlistment of the market. NEPSE index is declining since the last years about more than two cores. If this will happen for few more years Nepalese share market may face great problem regarding the primary and secondary market.

The current downtrend in share market is not so easy to recover unless strong regulatory measures are not enforced. The honeymoon days of share market exist no more but there are still market players who have honeymoon days as they have built unlimited financial fortunes by sharp practices that went undetected during the period of share market boom. Among all, the regulation of share market to control on the unfair trade practice would be one of the strong measures to revive the share market in future.

Moreover, the challenge for the regulating authority is to control on hidden establishment of share market corners and pool by some market price manipulators. Surprise inspection and secret vigilance by a professional team (without making known who are its members and advisors) can check on the functioning of the office of such price manipulators interested to corner a share market in the hope of trapping or squeezing short sellers. If found dishonest in share market dealings and actions should be taken against such price manipulators by imposing heavy penalties and punishment depending upon the nature of offence.

Investors were enlightened and they started inquiring about company's financial health, future prospects etc. before buying or selling shares. People turned to price-earning multiples; NEPSE indexes etc. informed trading became sort of a norm when stock market entered 1995. Many who could not cope with the system of

intelligent speculation have left the ground. As a result the number of buyers gradually came down and did the price" (**The Rising Nepal, April 25th 1996**)

" Our small investors need to be educated on the working of the stock exchange. In this task the role of Nepal Stock Exchange and the government and probably also that of the centers, which manage share issues of companies evident. In addition, stock exchange watchers feel that the government should revise its stock market rules to take account of the various aspects of stock market including loopholes in order to prevent share market profilers from fleecing the public. The companies whose shares are listed in the stock exchange should make to follow certain rules in order to inform the public of the state of financial health of the companies" (**The Rising Nepal, January 20th 1995**)

" size of interest rates on the deposits at commercial banks. Experts viewed that public response towards stock market will continue to pick up for some time"(**The Rising Nepal, September 3rd, 1999**)

In its early start, share market proved highly optimistic within a period of six months due to favorable conditions of political stability, economic liberalization, strong commitment of better and prospective return by company management active role of brokers and the market makers, relaxation of control on the operation of the stock exchange by the concerned authorities and growing condition of the investors. there has been a remarkable rise in NEPSE index. But, later on there has been a continuous downtrend in share market due to frequent change in government, poor performance of companies, unfair share market practices and loss of investors' confidence in share market. As a result of these unfavorable developments, share market entered an era of worst bearish trend resulting from tremendous fall in NEPSE index. In order to review the down ward in share market, various reformative measures are urgently necessary to curb on unfair share market practices through the development of comprehensive and transparent stock exchange guidelines by the concerned authorities. The existing company management has to reorient its positive attitude towards investors and share holders

by improving the quality of timely reporting and providing the expected return to win the losing confidence of shareholders. Investors should be self-conscious in the selection of brokers for trading in securities and organize themselves to be active to protect their rights. All these will help in the revival of share market to make it more active by attracting the investing public (**Shrestha, 1996:10-13**).

" viz a viz the growth of the private sector. Securities board has further mentioned that it will improve corporate and financial governance along with tax system procedures. It seems that the plan prepared by Securities Board with a government needs to move very contiguously at this difficult juncture making Securities Board Act quite strong and workable"(**The Kathmandu Post, December, 19th, 1998**)

At the capital market of Nepal is still in the infant stage the regulatory system and regularize securities trading still has deficiencies. This leaves scope for any one to take unfair benefit from the market at the cost of ordinary investor are found to irrational and concerned with short term gains. In this scenario, we can expect perfect behavior from all the market participants. The major problems seen the system are duality and ambiguities in the regulations, inadequate legal provision to control the market. Besides these lack of adequate market infrastructure, lack of clear demarcation of duties of the regulators, poor corporate culture, lack of professionalism of the market participants, poor compliance and lack of clear legal provision for taking action to address the noncompliance cases etc are other problems of Nepalese Stock market.

In this Annual Report for the fiscal year 2001/02, SEBO states that it has made some attempts to address the issues through issuance of guidelines directives and disclosure formats to the market participants, codes of conduct for the stock brokers etc. it has also prepared a draft for the new securities exchange act which was presented to the ministry of finance in 1980 to initiate the necessary legislative process. However, it is still to be enacted by the parliament. Even though SEBO has made attempts to solve the problems, they are still there. It cannot escape of its duty to explain the present state of the market and deficiencies existing in the

system. Taking necessary supports from the government should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to comply and make other comply and make other comply with the prevailing rules and regulation. Only this can create the atmosphere where scandals like this one are not repeated (**New Business Age, April, 2003:44**).

Share Marketplace plays a fundamental role in channeling economy of an individual and a corporate region. On that account, it is a prolific zone of country's financial system. In other words, share market is an important component of financial sector that provides and facilitate an ordinary exchange of long – term economic allegations. The concept of provincial market has also emerged in the stock exchange. If we can't move with the universal expansion we should at least consider the regional components. Establishing Credit Rating Agency (CRA) and central Depository System (CDS) of securities' is another challenge. The ADB has clearly stated in its report that CRA and CDS are essential for the successful operation of the capital market (**The Rising Nepal, January 20, 2003**)

The market at the end of the August had turned bullish trend bullish after the call – off of the indefinite blockade of the valley by the Maoist but the bullish trend could not continue in the month of the September and in the first day of the transaction the market fell by 1.82 points. This trend continued and the NEPSE index dropped to 299.99 points on September 14. The index rose suddenly on the 15th September when the market sensed that the Maoist was calling off the indefinite closure of come 50 industries very soon. This bullish trend continued on the following two days as the industries opened on September 16 and the index reached 237.22 on September 17. But from September 18 onwards the index declined continuously until September 28 due to political demonstration of four parties and two days Maoist called strike in September end. The market gained marginally in the last two days of the month (**New Business Age, October 2004**).

Despite the political turmoil and conflict-hit investment confidence, country's secondary market posted an unpredicted growth in the first quarter of the current fiscal year. The Nepal Stock Exchange's transactions during the review period skyrocketed around 2,400 percent, growth that the NEPSE posted for the first time in its 10 years of operation. According to information released by the NEPSE the total transactions during the period stood at 2.67 billion rupees, up from 110 million in the corresponding period last year.

Mr. Mukunda Dhungel, general manager of the NEPSE attributed the bulk share trading of Standard Chartered Bank for the remarkable growth of the NEPSE's transactions. "The NEPSE witnessed transactions of the bank's shares worth Rs. 2.20 billion during the period," she said.

Talking to the post, **Mr. Ishwori Rimal**, president of securities Brokers' Association said the robust growth at the secondary market is natural at a time when the commercial banks, major trading companies at the NEPSE floor, are performing excellence.

The market capitalization at the NEPSE has stood at around 600 million dollars as compared to market capitalization of over 230 billion dollars on the Bombay Stock Exchange, Nepal's neighboring country's stock exchange. The NEPSE's market capitalization is 11 percent of the total gross domestic product of the country, which is around 470 billion rupees.

Mr securities Act that is waiting for royal seal comes into effect, the standard of stock exchange would be upgraded he said (**The Kathmandu Post, Saturday October 30, 2004: 2**)

Likewise, the market capitalization in the primary market shot up by 81 percent to touch Rs. 1.48 billion-during the period, while it was Rs. 810 million in 2002/03, according to a statement organized here today.

The SEBO further informed that it permitted a total of 16 companies to issue shares during the period. " Of these, 14 companies issued shares worth Rs. 1.02 billion

during the last fiscal years," states the statement. Speaking on the occasion, **Mr. Deepak Raj Kafle**, chairman of the SEBO stressed on the need to enact investors in the capital market. "Lack of necessary laws has been stalling the growth of the capital market, he said. He, however, said that enforcement of the securities Act that is waiting royal seal would help to ameliorate the capital market along with the secondary market (**The Kathmandu Post, Friday November 5,2004:2**)

Bhatta (1997) has conducted a research on the topic of "Dynamics of Stock Market in Nepal", the objectives of the research were as follows:

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

The main conclusion of his research was:

The stock market and economic activities move in similar direction. they influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, can be regarded as a heart of economy. The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should lunch programs to enhance management capability of the entrepreneurs, which may contribute to rise the return from the investment.

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

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

market in order to make it active and supportive, the stock market has good prospect for the resource mobilization to finance the productive enterprises in Nepalese economy.

Shrestha (1999) has conducted research on "Stock Price Behavior in Nepal"; this study aims to examine the efficiency of the stock market in Nepal.

The specific objectives of the study were:

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

The main finding of the study were:

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

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past prices changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the native investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices that establish independence of successive price changes. **(Shrestha, 1999,p.70-80)**

He analyzed 30 listed companies' stock price and found that the successive price changes are dependent. He finally concluded that the NEPSE is not efficient in pricing shares even in its weak form. Shrestha too had used autocorrelation and run test to detect the dependence among the stock price series. The outcomes of both the models were found to be similar and reflecting the null hypothesis that the successive price changes is independent. Though his research was not based on the total market return movement, the result drawn from analyzing the movement of major stocks traded in the market can be generalized for efficiency level of overall NEPSE. Moreover this research work with the analysis of total market return and banking sector return will be useful to verify his findings as well.

Sherpa (2001) has conducted research on " corporate information Disclosure and its Effect on share price". The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies. To attain the mentioned objectives, the following specific objectives were set.

- To highlight the corporate disclosure practice in Nepal.

- To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.
- To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.
- To see the relationship between corporate information disclosure and stock prices.

His research study began with the construction of disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. Thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies to not disclose information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. The important findings of his research are that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Adhikari (1999) has conducted research on " Corporate Dividend Practices in Nepal". The general objectives of the research were to assess corporate dividend practices in Nepal. However, he also attempted to examine the relationship between dividend and stock prices. Hence, it becomes clear that he used dividends as informational variable to see the effect of it to share price.

The study of relationship between dividends and stock prices was accomplished by collecting data on market price per share, dividend per share, retained earning per share and lagged earning price ration of 22 companies for the period of 1992 to 1997 out of 22 companies, 13 companies were from finance sector and remaining 9

companies were from non-finance sectors. Using regression model made the analysis of data.

His research analysis revealed that there is a positive relationship between dividends and stock prices in the sampled companies. Overall, the study suggested that the relationship between dividend and stock prices is in conformity with the relation as assumed in the developed capital markets.(**Adhikari, April 1999:1-105**)

Shrestha (1981) has conducted research on "The Role of Securities Marketing Center (SMC) in the Economic Development of Nepal", asserts that the industrialization is the foundation of the economy. In the absence of it, the economy cannot live on its own foot. To the need of long-term finance occurs sharply to accelerate industrialization. In this respect, the securities market is an important constituents and core of capital market.

No doubt, industrialization is core of the economy, which sustains in the financial and money market along with the productive use of available sources. Thus, the study of securities market should be delimited to primary and secondary market merely indicates the future repercussions of securities market.

Shrestha fails to highlight on the problems of his research work. It is the general principle of the research work that what problems he has observed and why he is interested to pick up the topic to be explored so as to find the remedial measures of the problem. Shrestha states that there is the lack of necessary books, bulletins and other materials concerned to the topic. No adequate information about the stock exchange operation is available due to the absence of organized stock exchange. Basically, two behavioral aspects of securities market i.e. primary and secondary are studied while conducting research on this topic, and problems related to this aspect should be considered.

succeeded in educating public about the investment in securities. This is particularly a cognitive attitude of the investors and many more qualitative elements should also be taken into account for evaluation of investment and

disinvestments of securities on the part of investors. But nowhere in the study, Shrestha thus has explained the investment attitude of the potential investors. Furthermore, Shrestha's statement in relation to measure the success in educating public about investment does not hold true partly because no tremendous transaction were performed during the preliminary day of stock exchange and partly because there was not response of the entire public to the securities market. As a result public awareness as to the securities was premature of the assessment.

Similarly, Shrestha attempts to highlight how far the security- marketing center has helped to increase the transactions of securities investment. In order to support this logic, he has maintained that financial intermediaries are contributing to the development of securities market in Nepal. At present the SMC has been examining the possibility of trading in corporate securities as soon as possible. It has already started dealing in government bonds and treasury bills.

The condition of primary market is very miserable. It is also due to the lack of fiscal and other incentive we know that primary market is the main foundation on which the secondary market is based. So, without the proper development of primary market, the secondary market would not be effective.

Shrestha arrive at the conclusion that the performance of existing companies is not satisfactory; thus, the potential investors are not willing to invest in the present securities. More importantly, now the securities market is functioning independently as primary and secondary market.

Panta (2000) in her thesis "Current problems and prospect of Securities Market in Nepal", studied the trend of the Nepalese stock market and present state of primary and secondary market well as problems and prospects of Nepalese stock market.

The main findings of her study were:

- ☞ The development of stock market primarily depends on the program and their implementation.

- ☞ In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- ☞ Lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- ☞ Restriction on foreign portfolio investment hindered market development.
- ☞ NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
- ☞ In Nepal, Bank dominant primary market in government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.\
- ☞ Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

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

Regarding political instability, she was absent to indicate the Maoist activities, which have made the status/condition of country very poor. These activities have not only affected the political environment but also have affected the tourism; hotel management etc. or we can say that all financial as well and non- financial activities within the country are very poor.

Aryal (1999) has conducted research on The General Behavior Of Stock Market, the Specific objectives of this study were.

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

The main findings of the study were:

- ❖ On the basis of run tests and serial correlation, it seems that the independent assumption of random walk model in stock prices is rejected by the collected sample data of 21 companies at least as a description of price behavior in Nepal Stock Exchange.
- ❖ The stock Price changes are dependent on each other.
- ❖ The random walk of security speculative price behavior has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movement of stock market price.
- ❖ The securities in the past were incorrectly priced either over or under valued, as actual market prices of securities, they are incorrectly adjusted those past information to the present market prices.
- ❖ There exist frequent persistence than reaction in the general stock market climate because of the investors' irrational movement of prices of stock.
- ❖ The general stock market of Nepal for the initial period appeared to the inefficient in incorporating the possible appearances of information into the successive price changes. Therefore, the investing publics are not aware of the information available publicly, appropriate in adjusting with the actual market price.

His research revealed NEPSE to be an inefficient market. He performed a test of weak form efficiency by examining whether the stock price behavior followed a random walk or not. He concluded that the knowledge of past is useful in predicting the future movements of stock market prices. Therefore, investors on the floor of the exchanges for securities can make higher than expected profits in the future based solely on the historical prices series under the existing trading mechanisms than they would be under buy and hold strategy.

Bhattraï, (1990) on his research analyzed stock prices, paying greater attention on dividend policy, generalized that the many companies were paying less cash dividend than expected by investors. In average, most companies were under rating the expected by investors and thereby resulting the low marketability of share on the trading floor of stock exchange. He has also stated that the calculated price could not reflect the quoted price of share. This also supports that the market is not efficient in which stock price reflects the true value of the investment or intrinsic value.

Joshi (2001) has conducted research on "Role of Nepal Stock Exchange in the secondary Market". The main objectives of this study were:

- ❖ To assess the past and present behavior or business operation in the Nepal Stock Exchange Market.
- ❖ To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- ❖ To prescribe way and means by which secondary market would be more effective and meaningful.

The main recommendations in her study were:

- NESPE should introduce digital technology and online marketing in its trading procedure.
- The rules and regulations should be up to date.
- Privatization process needs to be carried out effectively in order to develop Nepalese stock market.

- Tax system should be reformed which should encourage and stimulate capital formation.

Khanal (2002) in his study " Growth and prospects of stock markets" has concluded that transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal, regulatory and supervisory framework are the urgent needs of Nepalese stock market.

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Research methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. The chapter describes research design, population, sampling procedure, and source of data and analysis of data.

3.1 Research Design

A research design is a plan, structure, and strategy to obtain the objectives of the study. The research is based on the secondary as well as primary data and information. Hence, the historical and descriptive research design has been used.

3.2 Population and sample

The population for this study comprised of all listed companies whose shares were traded in the Nepal Stock Exchange (NEPSE) and Securities Board of Nepal (SEBO/N). The required data have been collected from the various sources covering a period of 1992/94 to 2007/08. Therefore, all the companies listed in the stock exchange are taken as samples.

3.3 Nature and Sources of Data

The required data for the study are collected from the secondary sources. Nepal Stock Exchange Ltd. and Securities Board Nepal are the main institution, which provides most of the data required for the study. The web site of NEPSE Ltd. <http://www.nepalstock.com>. and its annual reports are the major sources of secondary data. Besides, these necessary data are also collected from the annual reports of the selected companies and annual report of Securities Board, Nepal.

3.4 Methods of Analysis

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottle1988, 29). This study mostly based the analysis of secondary data with the help of different statistical tools like Trend analysis, Percentage, Tabulation and Diagrammatic presentation etc. The empirical results have been extracted in this study by using annual data of listed companies from 1993/94 to 2007/08.

Statistical Tools

To draw the conclusion by analyzing the collected data simple statistical tool like arithmetic mean, multiple bar diagram, trend analysis, percentage etc. are used and tabulation are made too implicit the comparative result.

Arithmetic Mean Average

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic means and arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set to observation is their sum divided by the number of observations that is denoted by.

Multiple Bar- diagrams and Graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information un a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagrams one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristic of the same set of data have to be presented and compared.

Percentage

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

CHAPTER - IV

PRESENTATION OF ANALYSIS OF DATA

4.1 Introduction

This chapter is basically focused upon the analysis of data collected from different secondary sources. This chapter has been divided in to two parts, the first part of the chapter deals the presentation and analysis of theoretical data and second part is concerned with presentation and analysis of numerical data.

This part of the chapter will reveal the development of Nepalese stock marketing terms of market turnover, paid-up capital, market capitalization, issued approved, and NEPSE index, no.of transaction, market day per year, no. of listed companies, no. of share traded, no. of trading companies, and no. of listed securities etc, with different years.

4.2 Paid of Value of Listed Securities for Different Year

The situation of paid up value in Nepalese stock market in various years in presented below.

Table -4.1
Paid-up Value of Listed Securities

Fiscal Year	Paid-up Value (Rs.in Million)	% increase in Paid-up Value	% of Turnover in Paid-up Capital
1993/94	2182.2	-	20.23
1994/95	2961.8	35.73	36.60
1995/96	3358.5	13.40	6.42
1996/97	4476.5	33.29	9.30
1997/98	4959.8	10.80	4.09
1998/99	6487.4	30.80	23.12
1999/2000	7347.4	13.26	15.75
2000/01	8165.2	11.13	28.71
2001/02	9685.04	18.61	15.91
2002/03	12560.07	29.69	4.84
2003/04	13404.90	6.73	17.85
2004/05	14284.68	6.56	26.88

2005/06	19958.00	39.72	17.29
2006/07	21798.80	9.22	38.35
2007/08	29465.00	35.17	7.75

Source: Annual Report, SEBO 2007/08 and Trading Report, NEPSE 2007/08

By the end of the fiscal year 2007/08, the paid-up value of listed securities increased by 35.17 percent reaching to Rs. 29465 million as compared to a 39.72% increased in fiscal year of 2005/06 and 9.22 percent in fiscal year 2006/07. The highest increased I percentage of paid-up value was in the fiscal year 2005/06 by 39.72 percent and the lowest was in the fiscal year 2004/05 by 6.56 percent.

The percentage of turnover on paid-up capital is highest in the fiscal year 2006/07 by 38.35 percent and the lowest in the fiscal year 1997/98 with 4.09 percent. The percentage of turnover was 20.23 percent in the fiscal year 1993/94, 38.35 percent in the fiscal year 2006/07 and 7.75 percent in the fiscal year 2007/08. It has been decreased from 38.35 to 7.75 percent from the year 2006/07 to 2007/08.

Figure 4.1
Trend of Paid-up Value of Listed Securities

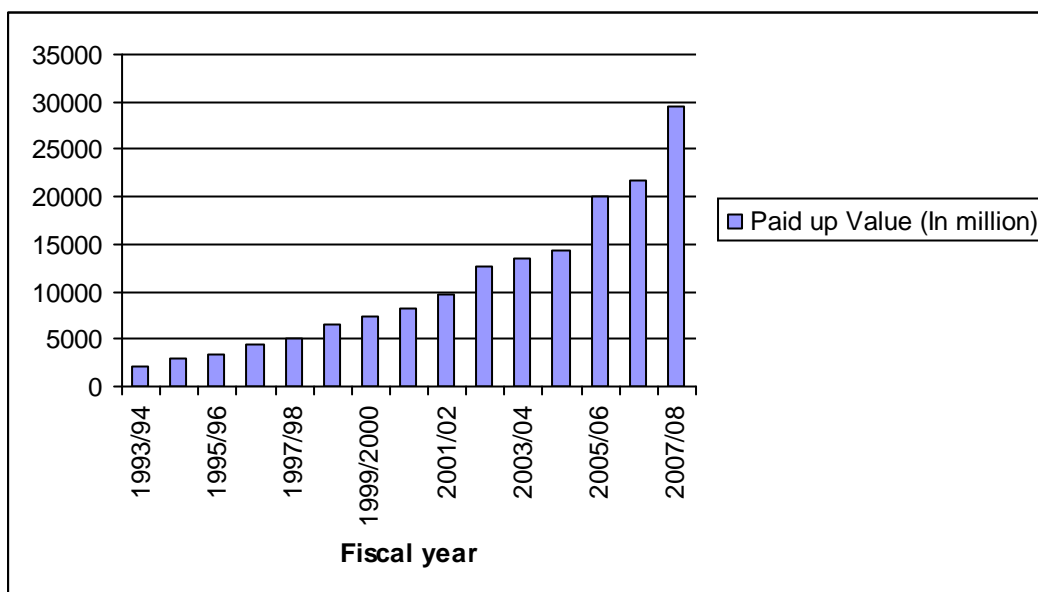
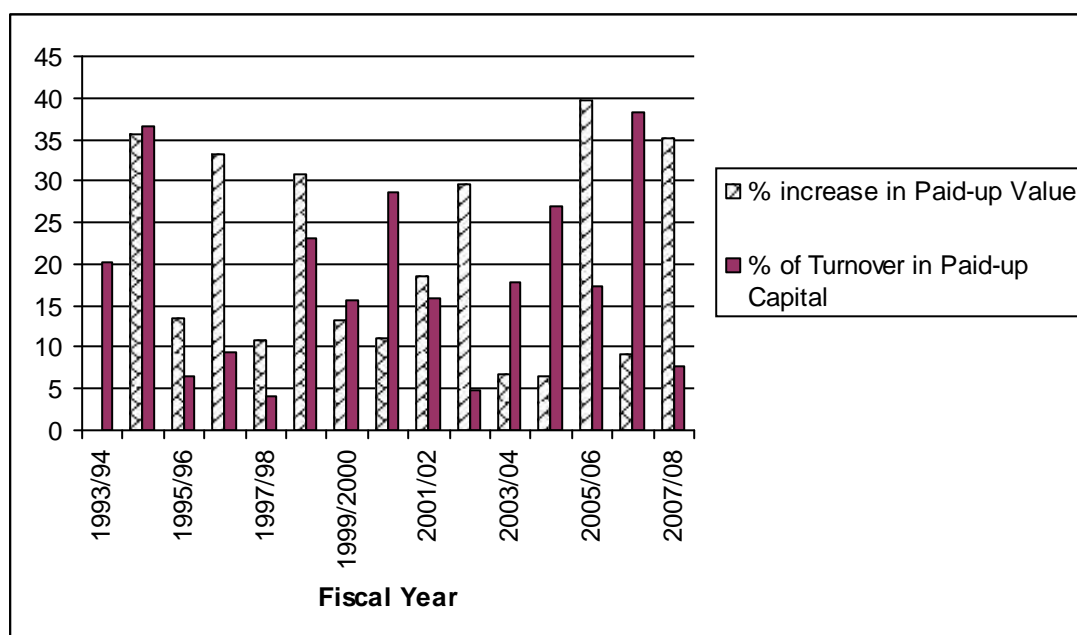


Figure 4.2
Changes in Paid-up Value of Listed Securities



4.3 Market Capitalization of NEPSE

The situation of market capitalization of NEPSE is presented in Table –4.2

Table- 4. 2
Market Capitalization in NEPSE

Fiscal Year	Market Capitalization (Rs. in million)	% Increased in Market Capitalization	% of Turnover to market Capitalization
1993/94	13872	-	3.18
1994/95	12963	-6.55	8.13
1995/96	12295	-5.15	-1.75
1996/97	12698	3.28	3.28
1997/98	14289	12.53	1.42
1998/99	23508	64.52	6.38
1999/2000	43123.3	83.44	2.68
2000/01	46349.4	7.48	5.06
2001/02	34703.87	-25.12	4.44

2002/03	35240.40	1.55	1.63
2003/04	41424.77	17.55	5.18
2004/05	61365.89	48.14	7.35
2005/06	96763.70	57.68	3.57
2006/07	186301.30	92.53	4.49
2007/08	366247.50	96.59	6.23

Source: Annual Report, SEBO, 2007/08 and trading Report, NEPSE 2007/08

The market capitalization of listed securities in the fiscal year 2007/08 is Rs. 366247.50 million and it has increased by 96.59 percent as compared to the fiscal year 2006/07, which was Rs. 186301.30 million. The market capitalization was highest decreased in fiscal year 2001/02 by – 25.12 percent. It was due to the decreased in NEPSE index by highest rate (-34.70%) in that year during the 15 year's of NEPSE. The highest increase in market capitalization rate was 96.59 in the fiscal year 2007/08 and it was due to the highest increase in NEPSE index by 90.66 percent in this year during the 15 years period of NEPSE.

The highest percentage of turnover to market capitalization was 8.13 percent in fiscal year 1994/95 whereas the percentage of turnover to market capitalization is negative in year 1995/96 by –1.75 percent . The percentage of turnover to market capitalization is 6.23 percent in fiscal year 2007/08 and it was 4.49 percent in the previous fiscal year 2006/07.

Figure 4.3
Market Capitalization of NEPSE

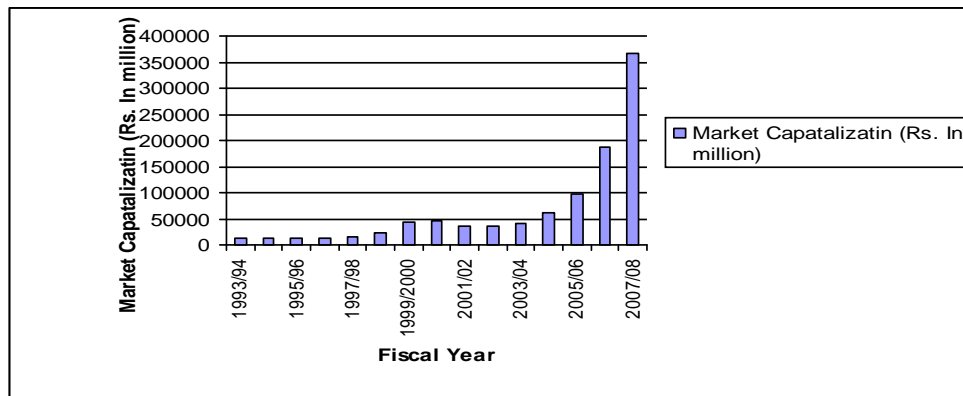
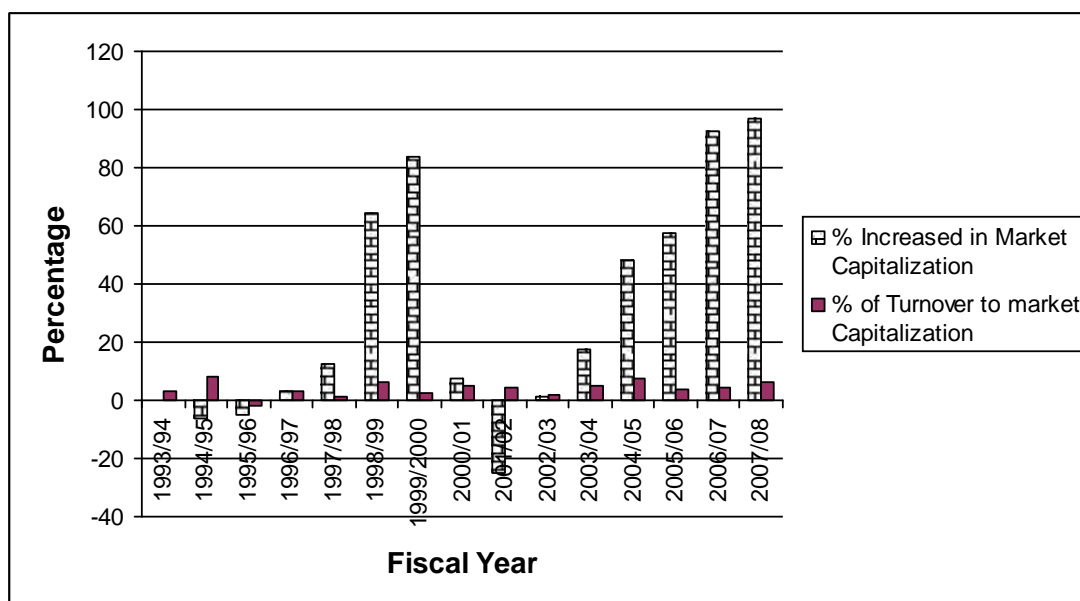


Figure 4.4
Changes in Market Capitalization of NEPSE



4.4 Growth Trend of Nepalese Stock Market

The position of number of listed companies , number of traded company and number of share traded are some important indicators of stock market growth . The situation of such variables is presented in Table –4.3.

Table-4.3
Growth Traded of Stock Market Indicator

Fiscal Year	No.of Listed Companies	% of Growth	No.of Traded Company	%of Growth	No.of Share Traded,000	%of Growth
1993/94	66	-	38	-	993	-
1994/95	79	19.70	53	39.47	3901	292.85
1995/96	89	12.66	59	11.32	2954	-24.28
1996/97	95	6.74	67	13.56	9443	219.67
1997/98	101	6.32	68	1.49	1195	-87.35
1998/99	107	5.94	69	1.47	4857	306.44
1999/00	110	2.80	69	0	7674	58
2000/01	115	4.55	67	-2.90	4989	-34.99
2001/02	96	-16.52	69	-3.00	6005	20.36
2002/03	108	12.5	80	15.94	2428	-59.57

2003/04	114	5.56	92	15	6468.18	166.39
2004/05	125	9.65	102	10.87	18433.55	184.99
2005/06	135	8	110	7.84	12221.90	-33.70
2006/07	135	-	116	5.45	18147.30	48.48
2007/08	142	5.19	136	17.24	28599.80	57.60

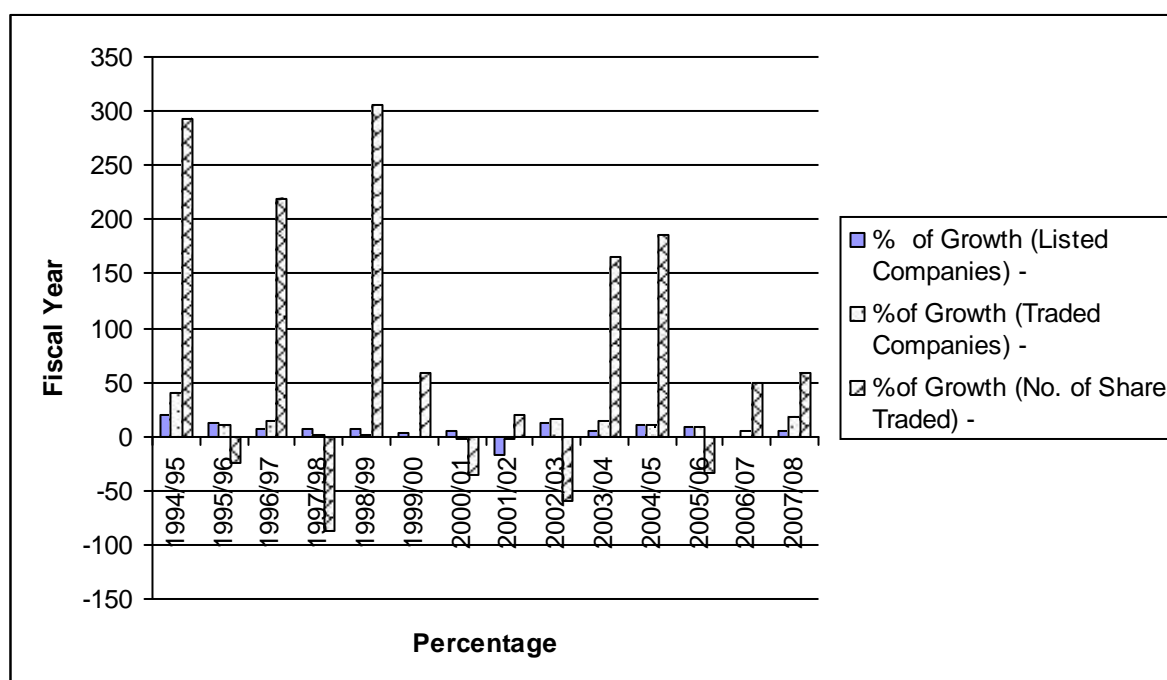
Source: Annual Report, NEPSE, 2007/08

The number of listed companies was 66 in the base year 1993/94, 135 in 2005/06 and 2006/07 and 142 in the fiscal year 2007/08. The growth rate of listed companies is positive in all these years except in the year 2001/02 with the negative growth rate of -16.52. In that year NEPSE deleted some companies from its list because of non – disclosure of necessary information correctly and timely. The growth rate was highest in 1994/95 with 19.70 percent and lowest in 2001/02 with -16.52 percent.

The number of traded companies was 38 in the base year 1993/94 and 110 and 116 in the fiscal year 2005/06 and 2006/07 respectively. Similarly in year 2007/08 it was 136. Though, only 38 companies were traded in the trading floor in base year, it rose up to 136 in the year 2007/08. The number of traded companies decreased in year 2000/01 with the negative growth rate of -2.90 percent. However, the numbers of trading companies are in increasing position in all other years.

The analysis of the number of shares traded in different years indicates that it was very much fluctuating in past. The impact on growth rate is also affected. The number of shares traded in the year 1993/94 was only 993000 where it was 3901000 in the year 1994/95 with the growth rate of 292.85 percent. Again, in the year 1995/96 it was declined and came to 2954000 with the negative growth rate of -24.28 percent. This negative trend of growth rate was continued in the year 1997/98, 2000/01, 2002/03 and 2005/06 with -87.35, -34.99, -59.57 and -33.70 respectively. But in the fiscal year 2006/07 and 2007/08 the growth rate was significantly increased and became 57.60 percent with the shares traded 28599800 in the fiscal year 2007/08.

Figure 4.4
Growth Trend of Nepalese Stock Market



The number of transactions and number of listed securities in various years are presented in Table 4.4

Table - 4.4
The Number of Transactions and Listed Securities in NEPSE

Fiscal year	No. of transactions (000)	% of Growth	No. of Listed Securities (000)	% Growth
1993/94	9357	0	43424	0
1994/95	21472	129.48	58247	34.14
1995/96	17943	-16.44	65880	13.10
1996/97	125428	-30.74	85193	29.32
1997/98	15483	24.58	90107	5.77
1998/99	15814	2.14	105632	17.23
1999/00	29136	84.24	114057	7.98
2000/01	64095	58.21	124971	9.57
2001/02	48028	4.19	134150	7.34
2002/03	69163	44	159958	19.24
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.22	194673	20.81

2005/06	97374	-8.35	226540	16.37
2006/07	120510	23.76	243504	7.49
2007/08	150800	25.13	321131	31.88

Source: Trading Report, NEPSE, 2007/08

The above table shows that the number of transactions is very much varied comparing with different years. In the fiscal year, 1993/94 the number of transaction was 9357 while in the fiscal year 1994/95 it rose up by 129.48 percent with transaction of 21472. There was a negative growth rate in transaction in the fiscal year 1995/96 by 16.44 percent and it was continued by -30.74 percent and -8.35 percent in the fiscal year 1996/97 and 2005/06 respectively. This significant growth rate can be traded in the fiscal year 1999/2000 by 84.24 percent as compared to the growth rate of 2.14 percent of 1998/99. The growth rate in number of transaction in 2002/03 was by 44 percent as compared to the growth rate of 4.19 percent of 2001/02. The growth rate in 2006/07 was increased by 23.76 percent and it was increased by 25.13 percent in 2007/08 with 150800 thousand number of transactions.

The present system is that the securities issued to the public should be listed in stock exchange within 45 days after the allotment data. The growth rate of number of listed securities is all positive. The numbers of listed securities are highest in year 2007/08 with 321131 thousand numbers and lowest in year 1993/94 with 43424 numbers of securities. The highest growth rate is in year 1994/95 by 34.14 percent and the lowest growth rate is 0.74 percent in year 2003/04.

Figure - 4.6
The Number of Transactions and Listed Securities in NEPSE

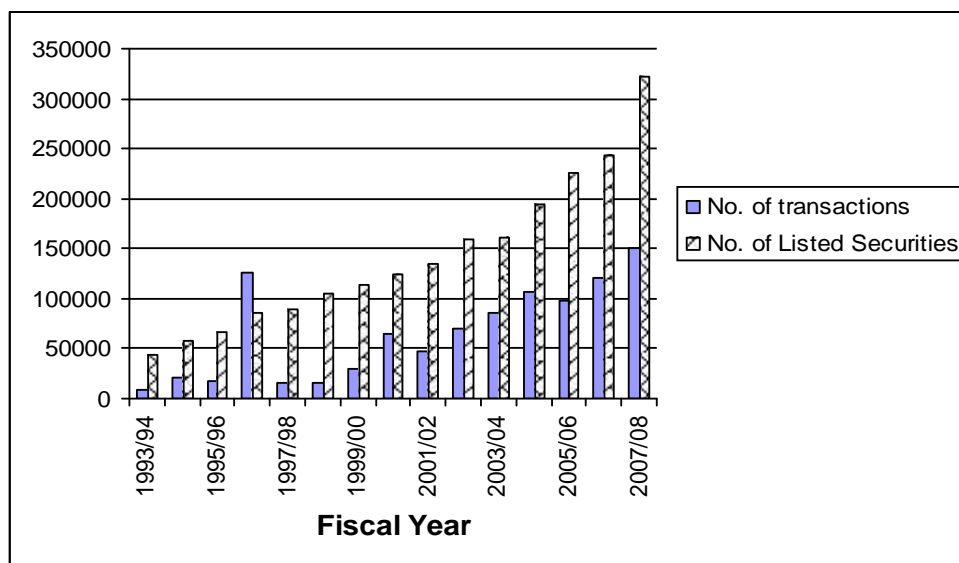
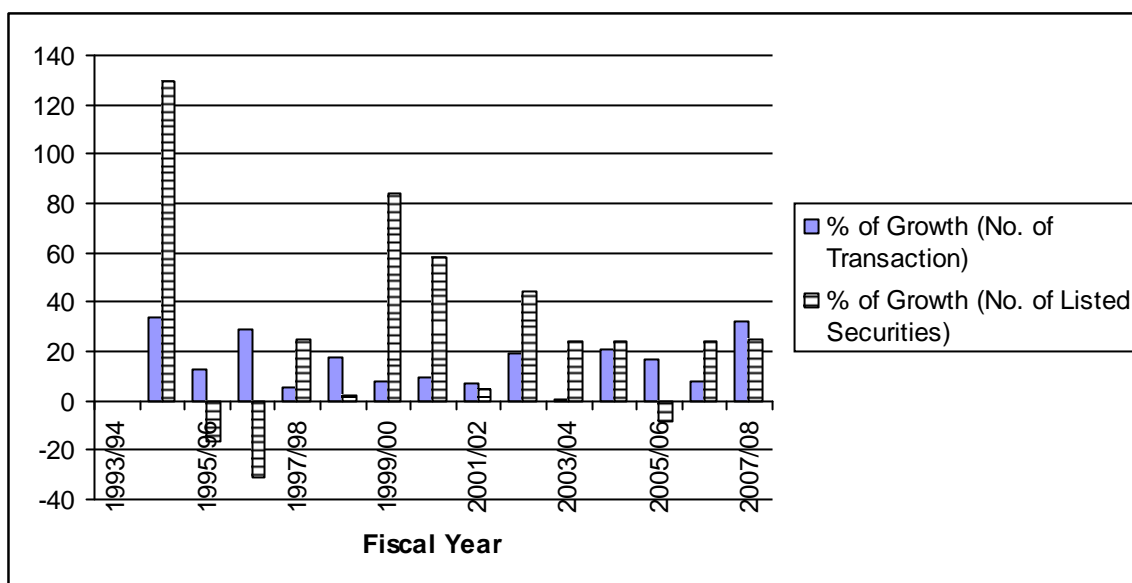


Figure - 4.7
Growth in Transactions and Listed Securities



Market Day Per Year and Daily Turnover in NEPSE

Average daily turnover is one of the most important indicators of stock market development. Daily turnover provides liquidity to the stock market and survive without having transaction in stock market whereas market day affects the average daily turnover in stock market. The stock market day per year and average daily turnover for the period of 1993/94 to 2007/08 are presented in table –4.5

Table -4.5
Market Day Per Year and Average Daily Turnover in NEPSE

Fiscal year	Market Day Per Year	% of Growth	Average Daily Turnover (Rs. in million)	% of Growth
1993/94	121	0	3.65	0
1994/95	242	100	4.36	19.45
1995/96	240	-0.83	0.90	-79.36
1996/97	239	-4.02	1.74	93.33
1997/98	237	-0.84	0.85	-51.15
1998/99	231	-2.53	6.49	663.53
1999/00	240	3.9	4.82	-25.73
2000/01	231	-3.75	10.14	110.37
2001/02	246	-6.50	6.26	-38.26
2002/03	238	-3.25	2.42	-61.34
2003/04	243	2.10	8.82	264.46
2004/05	236	-0.03	19.10	116.55
2005/06	228	-3.39	15.10	-20.94
2006/07	232	1.75	36.00	138.41
2007/08	235	1.29	97.10	169.72

Source: Trading Report, NEPSE, 2007/08

The above table shows the inconsistency of average daily turnover in NEPSE during different years. The average daily turnover was Rs. 3.65 million in the year 1993/94 and it has increased upto Rs. 19.10 million in 2004/05, decreased to Rs. 15.10 million in 2005/06 and again increased upto Rs. 36.00 million and 97.10 million in the fiscal year 2006/07 and 2007/08 respectively. The growth rate is negative during the year 1995/96, 1997/98, 1999/2000, 2001/02, 2002/03 and 2005/06 by -79.36, -51.15, -25.73, -38.26, -61.34 and -20.94 respectively. The highest growth rate is 264.46 percent in the year 2003/04 with the average daily turnover of Rs. 8.82 million as compared to Rs. 2.42 million of 2002/03

The figure 4.8 also shows that the market day is quite consistent expect in the year 1993/94 which is of 121 days per year. the highest number of market days is 246 days in the year 2001/02. In this year the growth rate is 6.50 positive following the negative growth rate of 3.75 in 2001/02 with market days of 231 days. The highest growth rate is 100 percent positive in the year 1994/95 with 242 market days per year. Higher the market days per year, higher will be the chance of stock market growth.

Figure 4. 8
Market Days Per Year and Average Daily Turnover

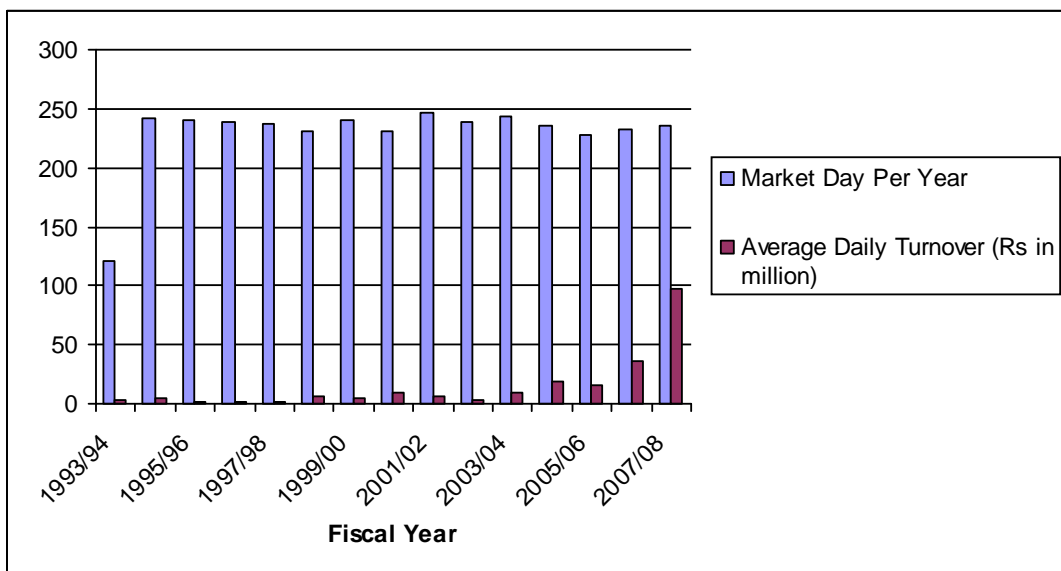
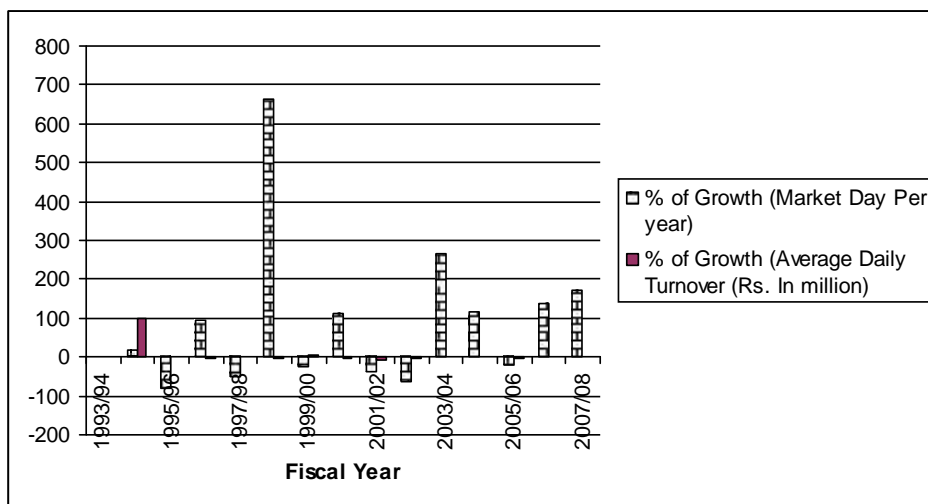


Figure 4. 9
Changes in Market Days and Average Daily Turnover



Market Turnover in Volume and Value

Annual turnover constitutes an important indicator for measuring the nation's economic activity. It also reflects the stock market liquidity as higher the amount of trading of stock market size greater is the stock market liquidity.

Table- 4.6
Annual Market Turnover in Volume and Value

Fiscal year	Annual Turnover in Volume (00,000)	Annual Turnover in (Rs. in million)
1993/94	9.93	441.60
1994/95	39.00	1054.30
1995/96	29.47	215.60
1996/97	91.43	416.20
1997/98	11.95	202.60
1998/99	47.88	1500.00
1999/00	76.74	1157.00
2000/01	49.87	2344.20
2001/02	57.91	1540.60
2002/03	24.28	575.99
2003/04	64.68	2144.27
2004/05	184.34	4507.68
2005/06	122.22	3451.40
2006/07	181.47	8360.10
2007/08	286.00	22820.80

Source; Trading Report, NEPSE, 2007/08

From the Table 4.6 it can be concluded that the annual market turnover in value was highest in the fiscal year 2007/08 and lowest in the fiscal year 1997/98 where as the volume of market turnover was highest in the fiscal year 2007/08 and lowest in the year 1993/94.

Figure 4. 11
Annual Turnover in Volume

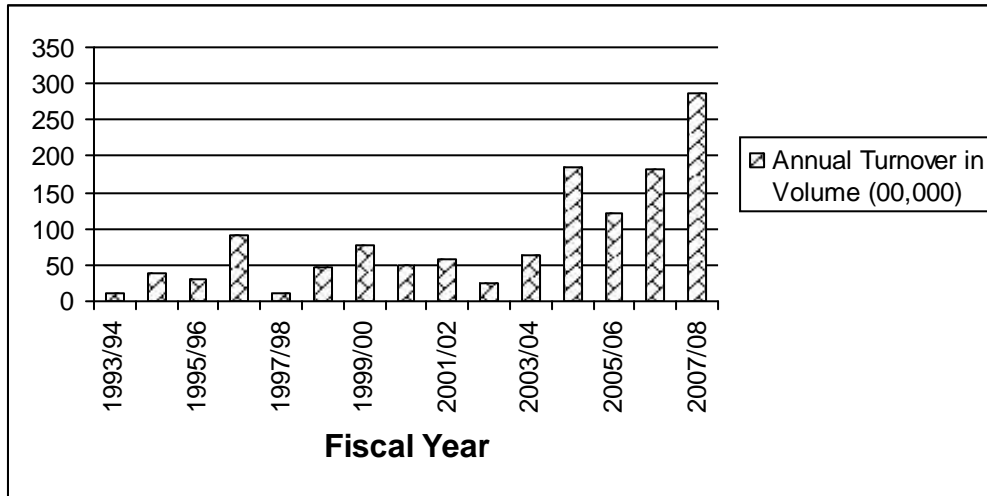
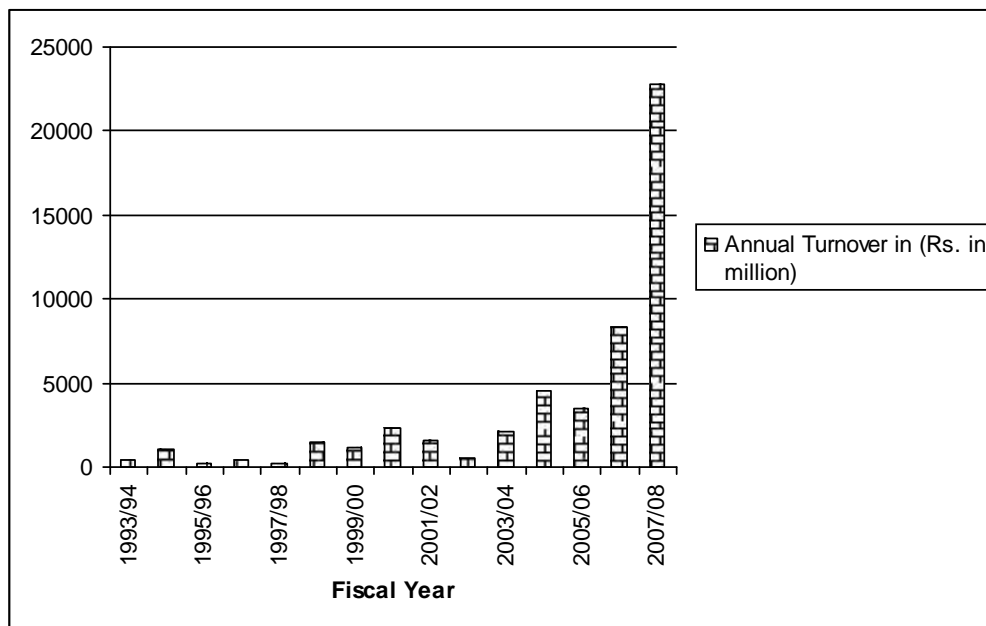


Figure 4.12

Annual Turnover in Value



Number of Issue Approved and Total Amount Of Issue Approved

The number of issue approved, amount of issued and percentage increase in issue approved by SEBON/N for going to public are presented in Table –4. 7

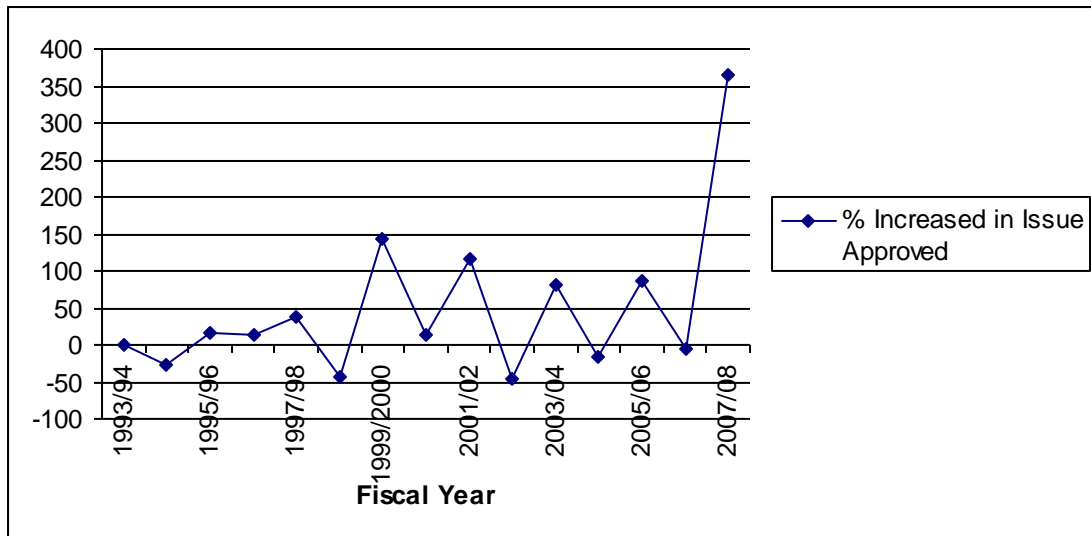
Table -4. 7
Number of Issue Approved and Total Amount of Issue Approved

Fiscal Year	Number of Issue Approved	Amount of Issue Approved (RS. in million)	% Increased in Issue Approved
1993/94	17	34.40	0
1994/95	12	254.21	-26.19
1995/96	12	293.74	15.56
1996/97	5	332.20	13.09
1997/98	12	462.36	39.18
1998/99	5	258.00	-44.20
1999/2000	10	630.31	144.31
2000/01	10	717.20	13.79
2001/02	17	1555.11	116.83
2002/03	18	854.42	-45.06
2003/04	17	1547.79	81.15
2004/05	13	1315.80	-14.99
2005/06	29	2443.30	85.69
2006/07	34	2295.50	-6.05
2007/08	64	10668.20	364.74
Total	275	23662.54	

Source: Annual Report, SEBO, 2007/08

Table 4.7 shows that SEBO/N approved the issue of various types of securities in various volumes at various time. The number of issue approved was 17 in initial fiscal year 1993/94 but at the end of fiscal year 2007/08 the total number of issue approved was reached to the point of 275 issues. The highest number of issue approved was 64 in fiscal year 2007/08. The second highest issue approved was 34 issues in fiscal year 2006/07 which was followed by the third highest issue approved 29 issues in fiscal year 2005/06. Similarly, the least three issues approved during the period were 5 issues in fiscal year 1994/95, 1995/96, 10 issues in 1999/2000, 2000/2001 and 12 issues in 1994/95, 1995/96 and 1997/98 separately.

Figure 4. 13
Changes in Issue Approved



Similarly, from the figure 4.13 – it can be concluded that the amounts of issues approved by SEBO/N vary during the period. The highest amount of issue approved was Rs. 10668.20 million in the fiscal year 2007/08 and it was followed by Rs. 2443.30 million in fiscal year 2005/06, Rs.2295.50, million in year 2006/07. Similarly, the least issue approved for the period was Rs. 34.40 million in fiscal year 1993/94 and Rs. 254.21 million in fiscal year 1994/95 and Rs. 258.00 million in fiscal year 1998/99. The percent increased in issue approved of fiscal year 2007/08 is 364.74 percent , which is very significant than that of the negative rate of –6.05 percent of previous year 2006/07. The highest growth rate in issue approved can be traced in the fiscal year 2007/08, which was 364.74 percent positive. There was a negative increased in issue approved in the fiscal year 1994/95, 1998/99, 2002/03 and 2006/07 by –26.19, -44.20 –45.0 and -6.05 percent respectively.

NEPSE Index

Market indexes are used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities and portfolios.

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period to the previous period as disclosed by index suggests the increase in market price of the stocks and implies the better performance of companies and viceversa. thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

$$\text{Each day's index} = \frac{\text{Base Day's Total Market}}{\text{Each Day's Total Market Value}} \times 100$$

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Stock Price

P_0 = Base Year Price

Q_1 = Listed Shares (i.e. no. of Shares Outstanding)

Q_0 = Base Listed Shares.

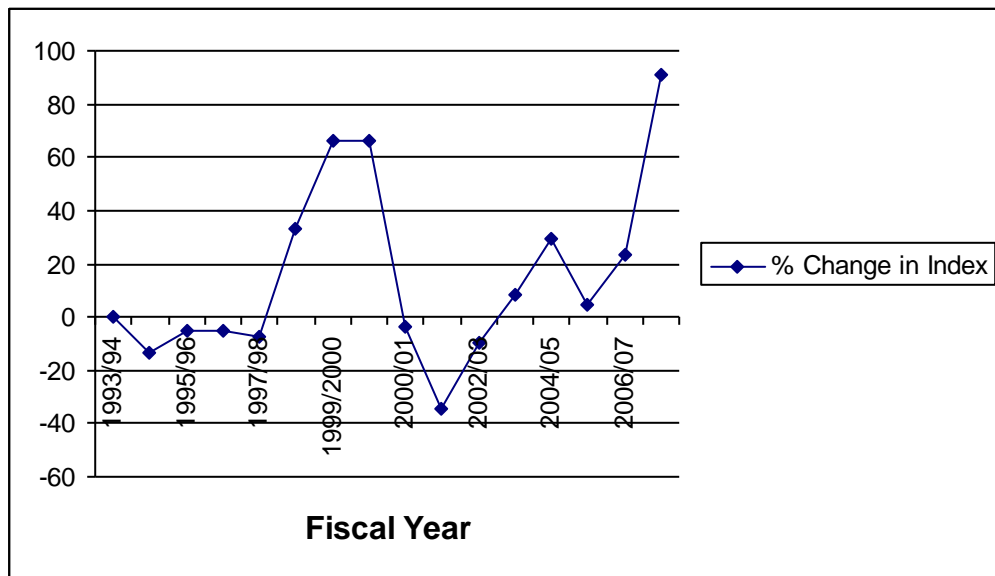
Table 4.8
Trend of NEPSE Index

Year	NEPSE Index	% Change in Index
1993/94	226.03	0
1994/95	195.48	-13.52
1995/96	185.61	-5.05
1996/97	176.31	-5.01
1997/98	163.35	-7.35
1998/99	216.92	32.79
1999/2000	360.70	66.28
1999/2000	360.70	66.28
2000/01	348.43	-3.40
2001/02	227.54	-34.70
2002/03	204.86	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.11
2005/06	287.9	4.29
2006/07	355.6	23.52
2007/08	678.00	90.66

Source: Trading Report, NEPSE, 2007/08

The NEPSE index was highest in the year 2007/08 with 678 and it was lowest in the year 1997/98 by 163.55 points. the NEPSE index for this fiscal year 2007/08 is 678 which is 90.66% higher than the NEPSE index of previous year 2006/07.

Figure 4. 14
Trend of NEPSE Index



4.10 Major Findings of the study

The major findings of the study from the analysis part are described as follows:

1. The highest three percentage of turnover on paid – up capital were 38.35% in year 2006/07, 36.60% in year 1994/95, 78.71% in year 2000/01 whereas the lowest three percentage of turnover on paid-up capital were 4.09%, 4.84% and 6.42% in year 1997/98 2002/03 and 1995/96 respectively. The percentage of turnover on paid-up capital is highest in the fiscal year 2006/07 with 38.35% and lowest in the fiscal year 1997/98 with 4.09% among all of them.
2. The paid-up value of listed securities is highest in year 2007/08 with Rs. 29465 million and lowest in year 1993/94 with Rs.2182.2 million. While the highest percentage increase in paid-up value is 39.72% in year 2005/06 which is followed by 35.73% in year 1994/95, 35.17% in year 2007/08 and

lowest percentage increases in paid-up value is 6.56% in year 2004/05 which is followed by 6.73% in year 2003/04 and 9.22% in year 2006/07.

3. The highest percentage of turnover to market capitalization was 8.13% in fiscal year 1994/95 and it is followed by 7.35% and 6.38% in year 2004/05 and 1998/99 respectively whereas the percentage of turnover to market capitalization is negative in year 1995/96 by – 1.75.
4. The market capitalization of listed securities in the fiscal year 2007/08 is Rs. 366247.50 million and it has increased by 96.59% as compared to the fiscal year 2006/07.
5. The highest increase in market capitalization rate is 96.59 percent in the fiscal year 2007/008 and it was due to the highest increase in NEPSE index by 90.66 percent in this year while the market capitalization was highest and the index decreased by high rate in fiscal year 2001/02 by -25.12% as decreased in the NEPSE index by highest rate -34.70% in that year.
6. The total number of listed companies was reached to 142 companies in 2007/08 against 66 companies in its base year 1993/94. The growth rate of listed companies is positive in all these year except in the year 2001/02 with the negative growth rate of -16.52%. The growth rate was highest in 1994/95 with 19.70 and lowest in 2001/02 with –16.52%.
7. The numbers of trading companies are in increasing trend in most of the years. It was highest in year 2007/08 by 136 companies. However, the number of traded companies decreased in year 2000/01 with the negative growth rate of –2.90%
8. The number of share traded in different years indicates that it was very much fluctuating in past as a result the impact on growth rate is also affected. The number of share traded in the year 1993/94 was only 993000 whereas in 1994/95 it was increased by 292.85% . But in year 1995/96 it was declined and came to 2954000 with the negative growth rate of -

24.28%. This negative trend of growth rate was continued in the year 1997/98, 2000/01 , 2002/03 and 2005/06 with -87.35, -34.99 , -59.57 and -33.70 percent respectively. However in fiscal year 2006/07 and 2007/08 the growth rate was significantly increased and became 57.60% with the shares traded 28599800 in year 2007/08.

9. The number of transactions is very much varied comparing with different years. In 1993/94 the number of transaction was 9357 while in 1994/95 it rose up by 129.48%. There was a negative growth rate in year 1995/96 by -16.44% and it was continued by - 30.74% in the year 1996/97 and -8.35 percent in the year 2005/06. The significant growth rate in number of transaction was 25.13% in 2007/08 with 150800 numbers of transactions.
10. The growth rates of number of listed securities are all positive. It is highest in year 2007/08 with 321131 numbers and lowest in year 1993/94 with 43424 numbers of securities. The highest growth rate is 34.14% in year 1994/95 and lowest growth rate is 0.74% in year 2003/04
11. The situation of daily turnover indicates that there is an inconsistency in average daily turnover of NEPSE during different years. The average daily turnover was Rs. 3.65 million in the year 1993/94 and it was increased in 2000/01, 2004/05, 2006/07 and 2007/08 whereas it was decreased in 2005/06. The growth rate is negative during the years 1995/96, 1997/98, 1999/00, 2001/02 and 2002/03 and 2005/06 by -79.36, -51.15, -5.73, -38.26 , - 61.34 and -20.94 percent respectively. The highest growth rate is 264.46% in the year 2003/04 with the average daily turnover of Rs. 8.82 million as compared to Rs. 2.42 million of 2002/03.
12. The market day is quite consistent except in the year 1993/94 which is of 121 days per year. The highest number of market days is 246 days in the year 2001/02 whereas the highest growth rate is 100% positive in the year 1994/95 with 242 market days per year.

13. The annual market turnover in the value was highest in the year 2007/08 and lowest in the year 1997/98 whereas the volume of market turnover was highest in the year 2007/08 and lowest in the year 1993/94
14. SEBO/N approved the issue of various types of securities in various volumes at various time. The number of issue approved was 17 in initial fiscal year 1993.94 but at the end of fiscal year 2007/08 the total number of issue approved was reached to the point of 275 issues.
15. The amounts of the issues approved by SEBO/N vary during the period. The highest amount of issue approved was Rs.10668.20million in the fiscal year 2007/08 and it was followed by Rs.2443.30 million in fiscal year 2005/06, Rs. 2295.50 million in year 2006/07 while the least issue approved for the period was Rs. 34.40 million in fiscal year 1993/94 and it was followed by Rs. 254.21 million in fiscal year 1994/95 and Rs.258 in fiscal year 1998/99
16. The percentage increased in issue approved of fiscal year 2005/06 is 85.69%, which is very significant than that of the negative rate of -14.99% of previous year 2004/05. The highest growth rate in issue approved can be traced in the fiscal year 2007/08, which was 364.74% positive. There was a negative increased in issue approved in the fiscal years 1994/95,1998/99, 2002/03, 2004/05,2006/07 by -26.19, -44.20 , -45.06 , -14.19 and -6.05 percent respectively.
17. The NEPSE index was highest in the year 2007/08 with 678 and it was lowest in the year 1997/98 by 163.35 points. The NEPSE index for this fiscal year 2007/08 is 678, which is 90.66% higher than the NEPSE index of previous year 2006/07.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Stock market growth is one of the important issues in Nepalese Capital market. Capital market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Capital market provides an effective way of raising money for commercial enterprises and at the same time provides an investment opportunity for individuals and institutions. Thus, stock markets have both theoretical and practical perspectives. This study mainly aims to examine the situation of stock market in Nepal. The specific objectives of this study are:

- i. to analyze the trend of Nepalese stock market in terms of market capitalization, number of transaction, number of securities traded and number of securities listed,
- ii. to examine the space of primary market growth in Nepal
- iii. to examine the growth of listed companies in Nepal
- iv. to analyze the growth pattern of stock market indicators (NEPSE index)
- v. to make recommendation for improving the stock market activities in Nepals perspective.

Although some studies regarding the different issues of capital market are already conducted in Nepal, probably the study of stock market growth in Nepal . This study is based on the secondary data with large sample of listed companies from different sectors this traces study out the position of secondary market growth. All those companies whose issues were approved by SEBO for going to public are used to asses the situation of primary market growth. The study covers almost all sectors i.e. banking, finance, development bank, manufacturing and processing, hotel, insurance, trading and other) and all of such companies are taken as a sample

whose financial data are available in SEBO/N and NEPSE. For the purpose of this study, the necessary secondary data were collected for the period 1993/94 to 2007/08 from the annual reports, bulletin of NEPSE and the annual reports of SEBO/N and their website. This research study is based on historical (financial and Theoretical) data analysis of the sample companies and is used a variety of statistical tools to accomplish its objectives. The arithmetic mean, multiple bar diagram, percentage, trend analysis etc. were computed and compared to trace out the picture of stock market growth in Nepal.

5.2 Conclusion

On the basis of the findings of the present study it can be concluded that the concept of stock market in Nepal was begun with the flotation of Shares of Biratnagar Jute Mills (BJM) and Nepal Bank Limited (NBL) in 1937 and after this to develop the stock market government established the Securities Exchange Center (SEC) in 1976 which was the first and most important attempt made by the government to develop the stock market in Nepal. SEC acts as an issue manager for corporate securities and started to list and provides market for the corporate stock from fiscal year 1984/85 under the securities Exchange Act, 1983 to promote the primary as well as secondary market for government and corporate securities from fiscal year 1984/85. Although, the share of this sector the growth of the economy in the national economy is still very low due to the negligible size of the corporate sector. Similarly, The incorporation of the securities Board and conversion the SEC in to the Nepal Stock Exchange (NEPSE) has greatly contributed to the development of primary as well as secondary market for the corporate Securities in Nepal. By the end of 2007/08 the stock market indicators like; total no. of listed companies had reached to 142 which were 66 in its initial fiscal 1993/94, the amount of paid up value reached to Rs. 29465 million from Rs. 2182.2 million, the amount of annual turnover reached to Rs.22820.80 million from Rs.441.6 million, number of issue approved reached to 275 and number of listed securities reached to 321131 from 43424 securities. In addition, the amount of market capitalization

increased to Rs.366247.50 million from 13872 million. These all indicate that there was a significant development in various stock market indicators during the period of 1993/94 to 2007/08.

Likewise, Nepal Government after adopting liberalized economic policy has been initiating different programmed for the organized development of securities market. However, other programmes like amendment of securities exchange Act, standardizing stock exchange etc., which were perceived to be more important for the securities market development. Furthermore, in 10 th Five Year Plan Nepal Government also developed various objectives and programmes for securities market development and to meet these objectives , it has taken the policy of modernizing stock exchange , strengthening the regulatory system of the securities market , widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly capital market for developing the securities market as an important sources of long-term financing .

5.3Recommendations

To develop and expand the Nepalese capital market more effectively and efficiently the following recommendations have been recommended to the concern authority:

- i. The number of listed companies is increasing every year but the increase is not proportionately among the various sectors. Out of the total increase, the numbers of banks and finance companies have dominated. So, the government should bring new policy to attract more manufacturing and processing, trading and other companies to come in the public and to list their securities in the Stock Exchange.
- ii. The growth of equity market is very high but the growth of debt and preference share is very low, so encouraging processes are needed to increase these instruments from the concern authority to widen the stock market.

- iii. The market is totally dominated by corporate securities but to increase the breadth of the market more government securities must list in the Nepal Stock Exchange.
- iv. The daily transaction amount is not satisfactory ; therefore , to increase the volume of transaction, electronic trading system should be introduced.

BIBLIOGRAPHY

A. BOOKS

-) Benjamin, James J., and Stewart C. Myres, **Principle of Finance** , (USA: International Editions, 1991) .
-) Brigham, Engene F., **Financial Management Theory and Practice**,(New York: The Dryden Press, 1982).
-) Brigham Eugene F. and Louis C. Gapenski, **Intermediate Financial Management**, (New York: The Dryden Press, 1995).
-) Cheney, John M. and Edward A. Moses, **Fundamentals of Investment**, (San Francisco: West Publishing Company).
-) Cheney, P. Jones, **Investment: Analysis and Management**, (New York: John Wiley and Sons, 1988).
-) Cottle, Sidney, Roger F, Murray, and Frank E.Black, **Security Analysis**, (Mc Graw-hill International Editions, 1989).
-) Dowrie George W&Fuller, Rauglas R, **Investment**, (New York John Wiely&Sons, 1995).
-) Edward R.D and John Magee, **Technical Analysis of Stock Trends**, (Mc Graw-Hill Intonation Editions, Finance Series, 1992).
-) Fisher, D.E. and R.J. Jordon, **Security Analysis and portfolio Management**,(New Delhi: prentice Hall of India(P) Ltd.,1992).
-) Gitman, Lawrence j., **principles of Managerial Finance**, (New York: Harper Collins College Publishers, 1994).
-) Gupta S.C., **Fundamental of Statistics**, (New Delhi: Himalayan Publishing House, 1999)

)Gupta S.C., **Fundamental of Statistics**, New Delhi: Himalayan Publishing House, 1999)

)Gupta S.P., **Statistical Methods**, (New Delhi: Sultan chand and sons publications, 1991)

)Kothari, C. R., **Quantitative Techniques**, (New Delhi: Vikas Publishing House Pvt. Ltd., 1994).

)Mahat, R.S. Capital Market, **Financial Flows and Industrial finance in Nepal**, (Lalitpur: Sajha Prakashan, Pulchowk, 19981).

)Pandey, I.M. **Financial Management**, (New Delhi: Vikas Publishing House Pvt. Ltd., 1992).

)Pike, Richaard and Bill Neale, **Corporate finance nad investment: Decision and Strategies**, (New Delhi: prentice Hall of India (P) Ltd.,1998).

)pradhan Surendra, **Basic of financial Management**, (Kathmandu: Educational Enterprises (P.) Ltd. 1992)

)Sharpe, Willioam F., Gordon j, Alexander and Jeffery V. Baily, **Investments**, (New York: Prentice Hall, 1989)

)Shrestha, Sunity and Dhurba Prasad Silwal, **Statical Methods in Management**, (kathmandu: Carriculam Development Centre, 1980)

)Shrestha, Manohar Krishna, **Financial Management: Theory and Practies**, (Kathmandu: Carriculam Development Centre, 1980)

)Solomon, Ezra, **The Theory of Financial Management**, (Colombia University Press, 1963)

)Van Horne, James C., **Financial Management and Policy**, (New Delhi: prentice Hall of India (P) Ltd., 2000).

) Weston, J. Fred and Eugene E. Brigham, *Essential of Managerial Finance*, (New York: The Dryden Press, 1996)

) Weston, J. Fred and Thomas E. Copeland, *Managerial Finance*, (New York: The Dryden Press, 1996)

B. JOURNALS AND PERIODICALS

- ❖ ADB Report "**Capital Market Development Project II. GNA Capital Markets Ltd.**".
- ❖ Agrawal, Jagdish, "**Nepal's Capital Market: What is Take to Improve**", *Business Age* Vol. 2 No. 5(April 2000) pp43-45.
- ❖ Chanayak, "**Securities Niti**", *Business Age* Vol. 3 No. 4(March-April 2001) p66.
- ❖ Chapagain, Bishnu, "**Weak Governance hits Nepalese Stock Market**", *Business Age* Vol. 3 No. 5 (May 2001) pp40-4.
- ❖ Dow James and Gorton Gray, "**Stock Market Efficiency and Economic Efficiency: Is There a Connection**", *The Journal of finance*, Vol. LII, No. 3 (July 1997) pp1087-1096.
- ❖ Fame, F. Eugene, "**Efficient Capital Market**", *The Journal of Finance*, Vol. XVI No. 5(December 1991) pp1575-1585.
- ❖ Gupta, Sunil, "**Insurance Market Customer Perspective**", *New Business Age*,(January 2002)pp 19-20.
- ❖ Mc Donald, J.G. and fisher A.K., "**New Issue Stock Price Behaviour**", *The Journal of Finance*, Vol. XXVII(March 1972) pp 97-103.

- ❖ Markvicka F. Edward, "**The rational investor Common Sense Advice for Winning in the stock Market: Are You right for the Market**", The Journal of finance, 1991).
- ❖ Pokhrel, Nabraj, Stocks, (Kathmandu: NP Investment Group & Research Center, 2004) pp1-7.
- ❖ Pradhan Lokendra, **A Study Report on Stimulating and Development of Primary Issue Market in Nepal**, Citizen Investment Turst, Adwait Mart Kathmandu (1997).
- ❖ SENO/N, "**Annual Reports**", Various volumes, Kathmandu.
- ❖ Shakya, Yagyaman, "Shareholders Rights" The Kathmandu Post, (july,1994Sharma, N.H., **A Relation of secondary and New Issue Market**, Banijya Sansar, Issue 9, vol. 14 (May 2002)
- ❖ Shrestha Manohar Krishna,)."**Misuse of Insider Information – Impavts on Share Market**", Nepal Bank Patrika, Vol. 307(2.54) pp6-15.
- ❖ Timilsina, Yogendra, "**Capital Market Development and Stock Price Behaviour in Nepal**", Economic Review Number 13 (April 2001) pp1-27.

C. DISSERTATIONS.

- ❖ Aryal Mukit, **The General Behaviour of stock Market An unplished Master Degree Dissertation**, (Tribhuvan University: Central Department of Management – Kantipur, 1995)
- ❖ Baral Keshar Jung, **Securities Market in Nepal, An Unplished Master Degree Dissertation** (Tribhuvan University: Central Department of Management – Kantipur, 1999)

- ❖ **Bhatta, Bharat pd., Dynamic of Stock Market In Nepal, An Unplished Master Degree Dissertation** (Tribhuvan University: Central Department of Management – Kantipur, 1997)
- ❖ **Pant Rakha, Stock Exchange: Current Status and Problems of stock Market in Nepal, An Unplished Master Degree Dissertation** (Tribhuvan University: Central Department of Management – Kantipur,2000)
- ❖ **Pathak, Tek Raj, Protection of the Investors in the Capital Market of Nepal, An Unplished Master Degree Dissertation** (Tribhuvan University: Central Department of Management – Kantipur)
- ❖ **Sigdle, Ramesh pd., A Survey on Investment Behaviour of Investors in the Stock Exchange Market in Nepal, An Unplished Master Degree Dissertation** (Tribhuvan University: Shanker Dev Campus, Kathmandu 2002)
- ❖ **Subedi, Badri, A study on Investors Awareness in the Securities Market In the Nepal, An Unplished Master Degree Dissertation** (Tribhuvan University: Shanker Dev Campus, Kathmandu 2003)