

EFFECT OF MACROECONOMIC VARIABLES ON STOCK MARKET OF NEPAL

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By

NANU SHRESTHA

T.U. Registration No.: 7-2-39-166-2010

Exam Symbol No.: 23617/20

Campus Roll No.: 3076/076

Shanker Dev Campus

Kathmandu

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “EFFECT OF MACROECONOMIC VARIABLES ON STOCK MARKET OF NEPAL”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

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

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NANU SHRESTHA

Report of Research Committee

Miss NANU SHRESTHA has defended research proposal entitled “EFFECT OF MACROECONOMIC VARIABLES ON STOCK MARKET OF NEPAL”, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Pitri Raj Adhikari and submit the thesis for evaluation and viva voce examination.

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Dr. Pitri Raj Adhikari
Dissertation Supervisor

Dissertation Proposal Defended Date

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Dissertation Submitted Date

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Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head of Research Department

Dissertation Viva Voce Date

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Approval Sheet

We, the undersigned, have examined the thesis entitled “EFFECT OF MACROECONOMIC VARIABLES ON STOCK MARKET OF NEPAL” presented by NANU SHRESTHA a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Dr. Pitri Raj Adhikari
Dissertation Supervisor

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Internal Examiner

.....

Internal Expert

.....

External Expert

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairman, Research Committee

.....

Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

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Abbreviations

BOD	:	Board of Directors
C.V.	:	Coefficient of Variation
ICAN	:	Institute Of Chartered Accountants of Nepal
IPO	:	Initial Public Offering
INF	:	Inflation Rate
INT	:	Interest Rate
LC	:	Letter Of Credit
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
PER	:	Price Earnings
ROC	:	Registrar of Companies
S.D.	:	Standard Deviation
SEB	:	Securities Exchange Board
SEC	:	Securities Exchange Centre

Abstract

Variability in the inflation and interest rates directly drives the money market from the capital market. Since changes in interest rates and inflation are negatively correlated with stock prices and GDP has the positive relation with the stock exchange the stocks are sensitive to changes in both variables. The study's precise goals are to determine the trends in the GDP, interest rates, inflation rates, and NEPSE index as well as to investigate the connections between these variables. The primary goal of the research is to examine the independent and combined effects of interest rates and inflation rates on the NEPSE index. Causal research approaches have been employed in this analysis to address the many concerns raised in the study. This research includes a wide range of fact-finding explorations and analytical techniques. The main objective of descriptive research is to portray the situation as it is at the moment. This is done in order to identify and characterize the characteristics of the variables of interest. The study discovered that the NEPSE index is significantly impacted negatively by both the interest rate and the inflation rate. Conversely, the NEPSE index exhibits a positive correlation with GDP, one of the other factors. According to the negative relation, the NEPSE index will rise in the event of a decline in lending interest rates and fall in the event of an increase in interest rates. According to the positive influence, the NEPSE index will rise in tandem with an increase in the inflation rate.

Key Words: Inflation rate, Nepal Stock Exchange (NEPSE), Interest Rate, GDP and Stock Market.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The stock index, inflation, and interest rate are the main macroeconomic factors that have a major impact on a country's economic growth. Interest rate and inflation changes on stock indexes have a big impact on government financial market policy, risk management practices, and surveillance systems. Interest rates and inflation are two of the most important economic factors affecting common stock prices. The financial market is directly impacted by interest rates; when rates rise, investment decisions tend to change in structure, typically moving from capital market to fixed income securities. (Hedau, 2024).

Variability in the inflation and interest rates directly drives the money market from the capital market. Because interest rates and inflation are negatively correlated with equities, the stocks are sensitive to changes in these variables (Cassel, 1918). Numerous macroeconomic factors that impact stock indexes have been examined in both historical and contemporary empirical research. While this is important, investors must be aware that different economic sectors respond differently to changes in macroeconomic variables. The majority of earlier research simply looked at the stock market as a whole, neglecting the influence of these variables on other sectors of the economy. (Amanda, 2023).

Until an empirical analysis is conducted, it is not possible to establish a precise correlation between the interest rate and inflation rate and the stock prices of the banking business. Therefore, using empirical data, this study aims to clarify the current link between the interest rate, inflation rate, and stock index. One of the key macroeconomic factors that has a direct bearing on economic growth is interest rates. Interest rates are typically thought of as the cost of capital, or the amount paid to use money for a specific amount of time. Interest rates are the cost of borrowing money from the perspective of the borrower (borrowing rate). From the perspective of the lender, the interest rate is the cost of lending money. An efficient market is what savvy investors always seek out to invest in. Few individuals in an inefficient market are able to make extraordinary profits, which undermines the faith of the wider public in the system (Shrestha & Subedi, 2014).

People move their money from the share market to banks in these situations if the interest rate that banks offer to depositors rises. As a result, there will be less demand for shares, which will drive down share prices as well. Conversely, as the interest rate that banks pay depositors rises, so does the lending interest rate, which in turn causes a decline in economic investments and, consequently, a decline in share price (Laichena & Obwogi, 2015). Thus, in theory, the relationship between share price and interest rate is inverse. Increased interest rates brought on by tighter monetary policy typically have a negative impact on stock market performance. This is because higher interest rates, as shown by the dividend discount model, lower the value of equities and, as a result, increase the appeal of fixed income instruments as a stock substitute. This could therefore lessen investors' inclination to borrow money and buy stocks. It also increases operating expenses, which has an impact on profit margin. However, the expansionary monetary policy's lower interest rates also help the stock market (Farras, 2021).

The rate of inflation is another factor that influences the stock index. A general and gradual increase in prices is called inflation. Everything increases in value except money under inflation. When prices increase and the value of money decreases, this is known as inflation. The price change represented by the monthly or annual price index is known as the inflation rate (Karki, 2018). The annual percentage increase in prices is measured by the rate of inflation. The retail price is the most used metric. Every month, the government releases a consumer price index, and the percentage increase in that index over the preceding 12 months is known as the inflation rate.

Inflation rising is detrimental to the economy. It ought to be lower. A sharp rise in inflation has a detrimental impact on the stock market's performance as well. Growing inflation is viewed negatively by investors since it indicates unfavorable economic conditions in the nation and makes them uneasy about their stock market investments. In the future, they anticipate tight monetary policy from the Fed to limit inflation, which in turn controls the money supply. As a result, businesses find it more difficult to obtain bank financing because borrowing has higher costs and stricter terms. When the rate of inflation declines, the economy is seen to be doing well and investors are drawn to the stock market. (Shrestha & Subedi, 2014).

The goal of this study is to investigate how the interest rate and inflation rate impact the stock market. This study investigates whether changes in inflation and interest rates have an impact on stock market performance.

The performance of the stock market affects the economy as a whole, and empirical data has shown that the expansion of the capital market is essential to economic expansion. The nation's exposure to the outside world is most noticeable during this time. The correlation between the economy and stock price has consistently been a contentious topic of discussion (Malkiel, 1989). The mean-variance portfolio theory, one of Markowitz's foundational works, has brought attention to the pricing implications. Since then, because it can be used as a gauge of risk in financial markets, academics and practitioners have paid close attention to stock price volatility. It has proven to be extremely difficult to establish an empirical relationship between volatility and macroeconomic variables. Strong evidence has been found in certain research to support the idea that stock volatility rises during recessions. It appears that price volatility is unrelated to economic variables and lacks a pattern. It has a close relationship with macroeconomic variables in some situations, yet macroeconomic variables may not affect volatility in others. Diverse indications of the correlation between macroeconomic factors and stock prices have been extensively documented in the extant literature.

Research has shown that there is a correlation between some macroeconomic variables and stock prices; however, the majority of these research were carried out in developed economies. However, because stock markets are unable to properly absorb information about changes in macroeconomic fundamentals, macroeconomic factors may not be accurate predictors of changes in stock market price in less developed nations, such as those in Asia (Hanitha, 2024). It is too early to tell whether research on industrialized economies is still relevant when considering smaller, developing, or undeveloped capital markets.

In the Nepalese economy, stock markets are becoming increasingly important as financial avenues for investment and saving. Generally speaking, stock market volatility is lower than that of other developing nations. The primary cause is the low demand, which results in a low volume of equity trading. However, because of the rise in trading volume brought on by investors' speculative intentions, pricing volatility has grown recently. As a result, macroeconomic stability is now a must for the nation's financial development and economic

expansion. In the light of these facts, it is necessary to examine how far stock market in Nepal is being influenced by macroeconomic variables (Shrestha, 2019).

The intricate relationship that exists between macroeconomic conditions and the stock market is something that both investors and policymakers must understand. Given Nepal's increasing economy and expanding stock market, the impact of macroeconomic factors on stock prices is significant. Variables including GDP growth, inflation, interest rates, currency rates, and government policies all have a big impact on market dynamics. For instance, rapid GDP growth could boost stock prices and market confidence, while rapid inflation could erode purchasing power and depress investor sentiment. Variations in exchange rates can also impact the competitiveness of imports and exports, which can impact companies listed on stock exchanges (Alzoubi, 2022).

Additionally, the monetary policies that are implemented by Nepal Rastra Bank, the country's central bank, have a significant impact on market dynamics. Interest rate decisions have an impact on how much it costs for businesses to borrow money, which has an impact on their profitability and, ultimately, stock prices. Additionally, investment behavior and economic activity can be directly impacted by fiscal policies. The government's tax and expenditure policies are among these policies. Understanding the complex interrelationships between these macroeconomic variables is essential for investors to make informed decisions and for policymakers to develop practical strategies to support long-term economic growth. Read academic studies, financial institution reports, and analyses from reputable think tanks to gain further insight into how macroeconomic issues impact Nepal's stock market. These resources offer perceptive opinions and solid evidence, enabling users to navigate the complexities of the Nepalese market environment with assurance (Parab, 2020)

As a result, the study focuses on the macroeconomic factors that, particularly in emerging countries like Nepal, have a big influence on stock market performance. The relationship between stock prices and variables such as GDP growth, inflation, interest rates, exchange rates, and governmental policies is intricate and dynamic. While high inflation rates have the ability to lower purchasing power and lower investor mood, strong GDP growth has the potential to boost stock prices and market confidence. Additionally, the cost of borrowing for businesses is directly impacted by interest rate decisions made by institutions like the

Nepal Rastra Bank, which in turn has an impact on their profitability and, eventually, stock prices. Government taxes and expenditures, in conjunction with other fiscal measures, impact investment patterns and overall economic activity. Understanding these complex interdependencies is crucial for politicians to create effective strategies for long-term economic growth and for investors to make informed decisions. More study through academic studies, financial reports, and analyses is required to better understand how macroeconomic issues affect the dynamics of Nepal's stock market.

1.2 Problem Statement

The purpose of this study is to determine how the various interest rates and the rate of inflation affect the stock index. We can get a sense of the state of the economy overall from the stock index. The performance of the stock market is affected by a wide range of elements, such as exchange rates, GDP, money supply, monetary and exchange rate policies, and political news and rumors. In this study, however, an interest rate and an inflation rate have been selected. It is anticipated that interest rates and inflation rates will have a bigger influence on stock index. As a result, lower interest rates and higher inflation brought on by an expansionary monetary policy may boost the stock market index through more economic activity. The impact of interest rates and inflation on stock index has long been a subject of interest for financial economists, policy makers, and investors. However, the precise patterns of these interactions are still unknown, and empirical evaluation is necessary to determine the nature and strength of the dynamic interactions between high interest rates and inflation (Amanda, 2023)

Hedau (2024) analyzed the correlations between the NIFTY 50 index of the Indian stock market and the money supply, treasury bill rates, wholesale price index, industrial production index, and exchange rates. According to Naik and Padhi, there is a negative correlation between inflation and stock prices, but a positive correlation between money supply and industrial production. It was discovered that the short-term interest rate and the exchange rate had little influence on stock values.

Barasa (2014) examined the factors that affect the stock exchange's stock market performance. Barasa disclosed that there was no statistically significant correlation between the success of the stock market and inflation as determined by the customer pricing index. This study came to the conclusion that there was no significant and inverse association

between inflation and stock market performance. Karki (2018) conducted an empirical investigation on the macroeconomic determinants of Nepal's stock market performance. Four macroeconomic indicators are considered: real GDP, inflation, interest rate, and broad money supply. Annual statistics are used to calculate these variables by Haider (2018). Research indicates that while interest rates have a negative effect on stock market performance, real GDP, inflation, and money supply all have a positive effect. More significantly, there is no evidence over the long term linking macroeconomic variables to the stock market index, indicating that the macroeconomic variables do not account for changes in Nepali stock prices. The Nepalese stock market's random walk hypothesis is supported by this.

Khatri (2019) investigated on the dynamic relationship between the stock market and macroeconomic variables such Nepal's foreign direct investment, inflation, money supply, interest rate, and gross domestic product. The money supply and stock prices were found to be positively and strongly correlated. The interest rate and real economic activity have a negligible and unfavorable association with stock values. Similarly, the Nepalese stock market is positively and marginally correlated with foreign direct investment, inflation, and the US dollar exchange rate.

Shrestha and Pokhrel (2019) studied the variables influencing the Nepali stock index. According to empirical findings, the rise of broad money has a beneficial impact on the Nepal stock index, whereas interest rates have a negative impact. It was shown that low interest rates and readily available money support the stock index. The stock index has a negative correlation with interest rates and broad money, but a positive correlation with inflation. More crucially, it has been discovered that the stock index reacts strongly to shifts in the political landscape, modifications to Nepal Rastra Bank's lending policy involving share collateral, and partially to increases in paid-up capital. Even still, a considerable portion of the share index's volatility remains unexplained by the models, highlighting the significant influence of rumors, conjecture, and news. Panta (2020) analyzed the macroeconomic determinants of stock market prices in Nepal. The result indicates that the fluctuation of NEPSE Index in long run is strongly associated with broad money supply, interest rate, inflation, and exchange rate. The GDP, money supply and exchange rate can positively define in short run while only money supply holds positive relationship in long run.

Therefore, based on the above discussion, the study aims to identify the dynamic relationship between interest rate, inflation rate, GDP and stock index in order to identify the impact of interest rate and inflation rate changes on stock index.

- i What is the trend of interest rate, inflation rate, GDP and NEPSE index over the period?
- ii Is there any relationship between interest rate, inflation rate, GDP and NEPSE index?
- iii Is there any effect of interest rate, inflation rate, GDP on NEPSE index?

1.3 Objectives of the Study

The general objective of the study is to analyze the relationship between interest rate, inflation rate, GDP and NEPSE. The specific objectives of the study are;

- i To assess the trend of interest rate, inflation rate, GDP and NEPSE index.
- ii To examine the relationship between interest rate, inflation rate, GDP and NEPSE index.
- iii To analyze the effect of interest rate, inflation rate, GDP on NEPSE index individually and jointly.

1.4 Research Hypothesis

Interest rates, GDP, and inflation are employed as independent factors in this study, with NEPSE being the dependent variable. It is anticipated that each of these factors will have a big influence on the stock price.

H1: There is significant impact of interest rate on NEPSE index.

H2: There is significant impact of inflation rate on NEPSE index.

H3: There is significant impact of GDP on NEPSE index.

1.5 Rationale of the Study

This study investigates if changes in Nepal's GDP, inflation rate, and interest rate have an impact on the stock index. Potential and current investors will learn whether and to what degree changes in interest rates, inflation, and GDP impact investment in both markets and the return on the stock index. It will help investors make wise investment decisions and help local businesses choose whether it might be best to list on the stock index. However,

knowing how interest rates, inflation rates, and GDP affect the stock index can help Nepalese policymakers properly plan and predict how their policies would affect the market in order to draw investors into the stock index.

Therefore, both domestic and foreign investors can benefit from an awareness of how Nepal's interest rate and inflation rate behave in relation to the stock market while making investment decisions and managing their portfolios. Not only is it a helpful source of knowledge, but it might also spark interest in more research on this or related topics pertaining to the actions of both domestic and foreign investors.

1.6 Limitations of the Study

The study has following limitations:

- Secondary sources of data, such as Nepal Rastra Bank's annual reports, government publications, and other relevant periodicals, served as the foundation for this investigation. As a result, the information supplied by the concerned offices determines the analysis's outcome.
- The study covers only the latest fourteen fiscal years (2066/67 to 2079/80).
- The study covers the interest rate, inflation rate, GDP and its impact on NEPSE index while others aspect are not include which may affect some extent in our result.

CHAPTER II

REVIEW OF LITERATURE

Since higher stock prices and greater investor confidence are typically the outcomes of a robust economy, changes in GDP have a significant effect on the Nepalese Stock Exchange (NEPSE). Interest rate fluctuations also have a big influence; lower rates tend to encourage investing in stocks rather than fixed-income securities, while higher rates may make people seek for safer alternatives. By changing consumer spending power and the overall cost of doing business, inflation rates also affect NEPSE. This affects stock market performance and company earnings. The first part of this chapter three covers the theories that many researchers in the field have developed in relation to this research. The next is empirical reviews from different journals and articles that have been published. The research gap between this research and earlier research was ultimately discovered in the concluding phase of the study.

2.1 Theoretical Review

Regarding how interest rates and inflation effect stock indexes, there are numerous theories. Cassel (1918) developed the purchasing power parity theory which is also called inflation theory of exchange rates in order to deal with the price relationship of goods with the value of different currencies. According to the Fisher effect theory, nominal interest rates in two or more nations ought to be equivalent to the required real rate of return for investors plus an allowance for each nation's anticipated rate of inflation (Fisher, 1930). The rate of interest at any given time, which is the payment for giving up liquidity, is a measure of how reluctant people are to give up their liquid control over their money, according to the notion of liquidity preference. Fama (1970) describes the efficient market as market price that fully reflects all available information. Financial markets, according to the efficient market hypothesis (EMH), are "informational efficient". Based on the notion that an asset's returns may be forecasted using the linear relationship between the asset's expected return and several macroeconomic variables that represent systematic risk, arbitrage pricing theory (APT) is a multi-factor asset pricing model. According to the random walk theory, it is impossible to forecast a stock's or the market's total price movement based on its previous movement or direction. It is the occurrence of an event that is determined by a sequence of arbitrary motions; happenings that are unpredictable. This theory's specifics are listed below.

Purchasing Power Parity Theory

Purchasing power parity (PPP), commonly known as the inflation theory of exchange rates, is the foundation of exchange rate theory. PPP can be traced back to sixteen-century Spain and early seventeen century England, but Swedish economist (Cassel, 1918) was the first to name the theory PPP. Cassel once stated that without it, there would be no real way to debate whether a currency is valued too highly or too low. When absolute PPP theory was initially introduced, it addressed how the prices of goods related to the values of various currencies. Strong prerequisites are needed for the theory to work. In general, Absolute PPP is predicated on the implicit assumption of a risk-neutral world where items can be freely traded without being subject to export quotas, tariffs, transportation costs, or other restrictions in an interconnected and competitive product market. That being said, assuming that there are no expenses associated with moving items from one location to another is not feasible in a real society. Tens of thousands of commodities and services are produced and consumed by each economy in the real world, and many of them are priced differently between nations due to trade restrictions, tariffs, and transportation expenses. Most people consider absolute PPP to be a requirement for the equilibrium of the goods market. Absolute PPP integrates the domestic and international markets into one market. Due to its lack of attention to money markets and the balance of foreign payments, this theory was only considered to be a partial one, not a general one. Perhaps as a result of its numerous, stringent, and unrealistic preconditions, absolute PPP is unable to adequately explain real-world phenomena, and significant, long-lasting departures from it have been seen.

Fisher Effect Theory

According to the Fisher effect theory, nominal interest rates in two or more nations should match the required real rate of return for investors plus a buffer against each nation's anticipated rate of inflation (Fisher, 1930). That is the connection between changes in exchange rates and interest rates. It proposed that a "real" return plus one predicted rate of inflation make up the expected nominal return on common stocks. Empirical research findings have demonstrated a negative correlation between stock returns and predicted, modified, and unexpected inflation. According to their explanation of the generalized Fisher effect, the market will set the price of common stocks so that the expected nominal return from $t-1$ to t is the sum of the appropriate equilibrium expected real rate and the market's estimate of the expected inflation rate for the same time period, provided that the market is efficient and reflects all available information at time $t-1$. Investors shift from

financial assets to real assets when inflation is predicted to increase significantly. This theory suggests that as stocks are claims on actual assets, they act as inflation hedges. It further suggests that an increase in stock price is positively correlated with predicted inflation and stock price appreciation.

Liquidity Preference Theory

According to liquidity preference theory, the rate of interest at any given time, which is the payment for giving up liquidity, is a gauge of how reluctant people are to give up their liquid control over money. The rate of interest is the cost that balances the desire to hold wealth in the form of cash with the amount of cash that is readily available. People need money for a variety of reasons, including financing planned expenses, making predictions about the direction of interest rates, or simply being unsure of what the future holds and therefore preferring to hold a portion of their resources in the form of pure purchasing power (Keynes, 1936). These reasons for demanding money came to be called as transactional, speculative, and preventative reasons. On the other hand, the central bank's actions determine one of the most important independent variables in the world of money supply. As a result, the majority of the Keynesian literature interpreted liquidity preference as the desire for money, and liquidity preference theory as the idea that the supply and demand of money affect interest rates. However, there is disagreement over this restrictive use of liquidity preference theory. It can also be viewed as an asset choice theory. Liquidity preference, as Keynes highlighted in his dispute with Ohlin, was actually a theory of choice between holding loans and keeping money idle, with the interest rate serving to balance the benefits of either.

Efficient Market Hypothesis (EMH)

Fama (1970) describes the efficient market as market price that fully reflects all available information. Financial markets, according to the efficient-market hypothesis (EMH), are "informational efficient". In other words, using the knowledge that was accessible to the public at the time of the investment, it is not possible to regularly generate returns that are higher than average market returns on a risk-adjusted basis. It's crucial to remember, too, that the typical method used in empirical research up to this point has been to extrapolate market efficiency from the apparent independence of subsequent price movements. Very little real testing has been done to determine how quickly prices adjust to certain types of new information.

Arbitrage Pricing Model

In essence, the arbitrage pricing model analyzes the risk premium that is allocated to various factors impacting asset returns in order to determine the significance of those returns or whether or not those returns are "priced" into stock market returns. As such, it gave us all cause to assume that there is, in fact, a long-standing equilibrium between stock prices and macroeconomic variables. This came about after it was shown that the dynamics of the economy had an impact on discount rates and businesses' ability to provide future cash flows and dividends (Ross, 1976).

Random Walk Theory

Malkiel (1989) stated that the past movement or direction of the price of a stock or overall market cannot be used to predict its future movement. It is the occurrence of an event that is determined by a sequence of arbitrary motions; happenings that are unpredictable. An inebriated individual's gait, for instance, can be regarded as random because they are impaired and their gait does not follow a predictable pattern. When the random walk theory is applied to stocks, it is suggested that there is no way to predict stock prices because they fluctuate at random.

2.2 Empirical Review

Hanitha (2024) investigated a study on cointegration analysis of macro economic factors, index ftse, on the Indonesian Stock Exchange Period 2017-2022. In order to ascertain cointegration between FTSE 100, data on inflation, USD/IDR exchange rates, and interest rates, as well as to analyze and understand the growth of the global exchange stock price, the FTSE index, was analyzed in relation to the Indonesian Stock Exchange (BEI). joined with IHSG. In this study, quantitative research methods were used. Data from five years, beginning in 2017 and ending in 2022, were gathered monthly. Purposive sampling, a nonprobability sampling approach, is used in this sampling method. Using Eviews 10 software, the Johansen Cointegration Test and VECM test were used to conduct the analysis. The Granger Causality Test results indicate that there is no significant short-term association between the Composite Stock Price Index (IHSG), the USD/IDR exchange rates, inflation, interest rates, and the FTSE 100. based on the Trace Test Critical Value > 0.05 , which shows that many research variables have a long-term link, or cointegration. Next, four Max-Eigen Statistics values $> \text{Critical Value} = 0.05$ are contained in the Maximum Eigenvalue. These findings indicate that there is long-term cointegration

between the research variables, which is also the conclusion of the Maximum Eigenvalue Test and the Trace Test. With a short-term R-squared value of 0.881618, the FTSE, inflation, interest rates, and exchange rates can account for 88.16% of the fluctuation proportion. Other factors not included in the estimated model can account for the remaining 11.84%.

Hedau (2024) assess a study on impact of macroeconomic variables on the performance of the Indian stock market. This study examines the macroeconomic variables that affect the NIFTY 50 index of the Indian stock market's performance. The study is distinct since it uses primary and secondary data to arrive at its result. Initially, logistic regression is used to regress monthly performance of the NIFTY 50 index against monthly data of macroeconomic variables spanning nine years. In the second stage, primary data obtained from in-person interviews with stock market experts is used to validate the regression analysis's results. The secondary data analysis verifies that the primary factors influencing the NIFTY 50 index are changes in currency rates and the Dow Jones index. Experts, however, believe that predicting the movement of the NIFTY 50 index also requires consideration of other elements, such as political stability, the state of the developed world's economy, and India's bilateral connections with other nations.

Amanda (2023) examined a study on the effect of inflation, exchange exchange, interest rate on stock price in the transportation sub-sector, 2018-2020. The purpose of this study is to investigate how, between 2018 and 2020, inflation, interest rates, and exchange rates will affect stock prices in the transportation subsector. To analyze the data, quantitative techniques were applied. Secondary data from the website [id.investing.com](https://www.id.investing.com) and statistics released by Bank Indonesia were used. Eleven transportation companies that were listed on the IDX between 2018 and 2020 served as the study's sample. Purposive sampling was the method of sampling. The panel data regression analysis approach is the data analysis technique used in this investigation. According to the study, the dependent variable—the stock prices of transportation businesses that are registered on the IDX between 2018 and 2020—is positively and significantly impacted by inflation, exchange rates, and interest rates.

Hanuransyah (2023) examined a study on The Analysis of Inflation, Exchange rate, and Benchmark Interest Rate (BI rate) Influences on the Indonesia Composite Index (ICI).

Examining the relationship between the Indonesia Composite Index (ICI), Bank Indonesia, and the Dollar Exchange (USD/IDR) in Indonesia between 2001 and 2021 was one of the study's primary goals. This type of research used a quantitative method for explanatory analysis. The Central Statistics Agency (BPS), the Indonesia Stock Exchange (IDX), and Bank Indonesia (BI) provide the study's data. It is secondary statistics derived from the period's ICI, benchmark interest rate, inflation, and US dollar to rupiah exchange rate (KURS). This study's analysis approach made use of Ordinary Least Squares (OLS) and multiple linear regression models. The findings demonstrated that the interest rate based on the Composite IDX's Ordinary Least Square (OLS) depends on the general movement of exchange rates.

Alzoubi (2022) examined a study on stock market performance: Reaction to interest rates and inflation rates. This study examines the wealth effects on the performance of the Amman Stock Exchange of the consumer price index, interest rate, domestic credit, and real economic activity. Utilizing the autoregressive distributed lag (ARDL) bounds test throughout the years 1991–2020. Even though interest rates are an effective monetary tool for combating recession and inflation, investors may suffer as a result of them. The consumer price index (CPI) and interest rate (IDR), the target variables, are both extremely important and have the right indications. All the variables are significant, according to the results, with the exception of domestic credit as a percentage of GDP. Both the interest rate (IDR) and the consumer price index (CPI) have the right indications and are highly significant.

Farras (2021) conducted research on the effects of exchange rates, inflation, and interest rates on the performance of banking companies between 2017 and 2020. The aim of this study is to investigate the relationship between inflation, interest rates, and exchange values from 2017 to 2020 and the performance of banking institutions. When the worldwide COVID-19 pandemic struck in 2020, Indonesia had a surplus in its balance of payments due in part to the decline in the previous year's trade deficit as well as the surplus in capital and financial trade. This study set out to test a hypothesis regarding the impact of variable X on variable Y by statistical analysis. The descriptive technique would be used to explain the aspects that were analyzed, which included the company's performance development as indicated by its stock price. Meanwhile, the verificative technique established a theory if it was undeniable by examining hypotheses. Data panel regression, a combination of data

cross and data time series, was used in the data analysis to calculate the unit cross section at different times. Exchange rates had an impact on banking companies' performance, although the varying effects of inflation and interest rates were not noticeable in the latter. According to these findings, businesses in the banking sector are relatively resilient to macroeconomic factors, with the exception of exchange rates. This is because most businesses in the banking sector use foreign currencies—specifically, the US dollar or the US dollar—instead of Rupiah for their transactions.

Suhadak (2021) investigated on the Influence of Exchange Rates on Inflation, Interest Rates and the Composite Stock Price Index: Indonesia 2015 – 2018. Analyzing how exchange rates affect inflation, interest rates, and the composite stock price index is the study's primary goal. This study uses a quantitative method to provide explanations. The Indonesia Stock Exchange and Bank of Indonesia provided the secondary data that was used. This study used a saturated sample for its investigation. This study employed linear regression, path analysis, classical assumption testing, and descriptive statistics to analyze the data. The study's findings demonstrate that the exchange rate, inflation, and interest rate all have positive but small effects on the composite stock price index; the exchange rate has no effect on the interest rate; inflation has a positive but significant influence on the interest rate; the exchange rate has a negative but significant influence on inflation; and the interest rate has a positive but significant influence on inflation.

Parab (2020) analyzed a study on the dynamics of macroeconomic variables in Indian stock market: a Bai–Perron approach. The impact of a few chosen macroeconomic variables on stock market returns is investigated, and the problem is handled utilizing the Bai–Perron test. To address this issue, the study first examines the impact of particular macroeconomic variables on stock market returns before examining the causal links. The results of the analysis demonstrated that the influence of macroeconomic factors on stock market returns was significant and that it differed throughout structural periods. The results are meant to aid research analysts and market players in their evaluation of the Indian stock market in addition to making a significant contribution to the subject of finance literature.

Ilhan (2020) examined a study on the impact of macroeconomic variables on the stock market in the time of covid-19: the case of turkey. The primary goal of the research is to use a variety of simulations and forecasts to investigate how the COVID-19 epidemic has

affected economies. Therefore, the Flexible Least Squares method—which permits the time-varying coefficient estimation—is used to evaluate the effects of interest rate, exchange rate, CDS premium, VIX, and oil prices on BIST 100 over the period of September 13, 2019, to September 11, 2020. Based on empirical evidence, the BIST 100 was significantly impacted by the interest rate, VIX, and oil prices over specific time periods. Conversely, throughout the whole sample, the exchange rate and CDS premium have a strong negative impact on BIST 100. Furthermore, based on the quantitative magnitude of the coefficients, it is shown that the macroeconomic variable that has the biggest effect on BIST 100 is the exchange rate.

Emenyi (2020) explored on Macroeconomic Variables and Stock market performance: Covid – vectors or Covid - variables? This study looked at the effects of macroeconomic factors on the Nigerian stock market's performance during the COVID-19 lockout in 2020. The research utilized a descriptive research design and the ex post facto research method. It was founded on secondary data gathered from the financial reports of the listed non-financial companies under study that were listed on the Nigerian Stock Market. Daily data from August 20, 2020, to February 20, 2020, were used in this study. The data came from the National Bureau of Statistics (NBS) and the Central Bank of Nigeria (CBN). The findings of the study show that money supply had no discernible impact on the stock market performance of nonfinancial enterprises over the examined period, but exchange rates had a considerable impact on stock market performance during the Corona virus lock down period. The study's conclusions will add to the body of knowledge in the theoretical and applied fields about the macroeconomic variables influencing stock market performance.

Fahleyi (2019) investigated a study on the influence of exchange rate, interest rate and inflation on stock price of LQ45 index in Indonesia. The primary objective of this research study is to investigate the effects of interest rates, inflation rates, and foreign currency rates on Indonesian stock prices. For this research study, monthly data spanning five years, from 2013 to 2017, was utilized. The study's conclusions demonstrated that the independent and dependent variables are related.

Khan (2019) studied on impact of exchange rate on stock returns in Shenzhen stock exchange: analysis through ARDL approach. This study uses the ARDL model to examine the short- and long-term relationships between the study variables in order to examine how

the exchange rate affected the stock returns of the Shenzhen stock exchange from January 2008 to December 2018. According to the predicted ARDL results, the exchange rate significantly and negatively affects the stock returns of the Shenzhen stock exchange. The results for interest rates and inflation show that these factors have a statistically significant negative impact on stock returns. The projected findings of this study suggest that central bank policymakers should implement measures that contribute to exchange rate stabilization.

Mgammal (2018) researched on the effect of inflation, interest rates and exchange rates on stock prices comparative study among two GCC countries. This paper's primary goal is to determine whether or not exchange rates and stock prices are related. The study uses quarterly and monthly data for the period of January 2008 to December 2009 on two gulf countries: the United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA). According to the study's short-term findings, there is no correlation between the exchange rate and the stock market price index for the Kingdom of Saudi Arabia and a positive influence on the stock market price index for the United Arab Emirates. Furthermore, the long-term analysis discovered that the United Arab Emirates' stock market price index is adversely impacted by the exchange rate. In Kingdom Saudi Arabia, however, there is no correlation between these characteristics.

Haider (2018) studied on impact of interest rate, inflation rate, exchange rate and gold prices on Karachi Meezan Index 30. The goal of this study is to determine how macroeconomic and financial factors affect Pakistan's first Islamic stock index, the Karachi Meezan Index 30. This study uses monthly data on the variables KMI Index 30, Interest rate, Inflation rate, Exchange rate, and Gold price from July 2011 to June 2016. It uses a Multiple Regression Model to determine the impact of chosen variables on KMI 30. The empirical finding demonstrates that the KMI 30 Index has a negative association with interest rates and gold prices, while the exchange rate and the KMI 30 Index have a positive relationship. Our regression model indicates that there is no meaningful association between the inflation rate and the KMI 30 Index. The empirical finding demonstrates that the KMI 30 Index has a negative association with interest rates and gold prices, while the exchange rate and the KMI 30 Index have a positive relationship. Our regression model indicates that there is no meaningful association between the inflation rate and the KMI 30 Index.

Yunita (2018) analyzed a study on the influence of inflation rate, bi rate, and exchange rate changes to the financial sector stock price index return in the Indonesian stock market. This study's goal is to determine the impact of macroeconomic variables on the financial sector stock price index in IDX between 2011 and 2017, including changes in the exchange rate, BI rate, and inflation rate. In order to identify the best model, this study used Generalize Autoregressive Conditional Heteroscedasticity (GARCH) as its analysis technique. According to the findings, the sole factor significantly affecting the financial sector stock price index is exchange rate change. The banking sector stock price index is not significantly impacted by inflation or the BI rate.

Balagobei (2017) examined a study on macroeconomic variables and stock market returns in Sri Lanka. The purpose of this study is to look into how macroeconomic factors affect Sri Lankan stock market performance. The All Share Price Index (ASPI) and All Share Total Return Index (ASTRI), which measure stock market return, are the dependent variable in this study. The independent variables are money supply (MS), interest rate (IR), and inflation rate (INF), exchange rate (ER), and factory industry production index (FIPI). The study focuses on every business that was listed and traded on the Colombo Stock Exchange (CSE) between 2006 and 2015. Secondary data for analysis was gathered from yearly reports of the Department of Census and Statistics, Colombo Stock Exchange, Securities and Exchange Commission, and Central Bank of Sri Lanka. The study's findings show that, with the exception of Sri Lanka's money supply, macroeconomic factors affect stock market performance. The production of factories and interest rates have a detrimental impact on the return on the Colombo stock market. The return on the stock market is positively impacted by both the inflation and exchange rates.

Jamaludin (2017) studied on macroeconomic variables and stock market returns: panel analysis from selected ASEAN countries. The purpose of this article is to investigate the impact of three key ASEAN countries—Inflation, Money Supply (MS), and Exchange Rate (ER)—on returns from the conventional and Islamic stock markets. (Singapore, Malaysia, Indonesia). Using panel least square regression techniques, the findings demonstrate that the inflation rate and ER have a considerable impact on both stock market performance. MS is determined to be negligible. This paper's findings also indicate that inflation has a bigger impact and is inversely correlated with stock market returns. In this instance,

monetary policy needs to be changed in order to guarantee that the inflation rate is kept low.

Khalid (2017) explored on effects of macroeconomic variables on the stock market volatility: the Pakistan experience. Using annual time series data spanning the years 1991–2017, this research study empirically examines the impact of interest rates, currency rates, and inflation rates on Pakistan's stock market performance. The purpose of this study was to examine the long- and short-term links between macroeconomic factors and the KSE-100 index. To do this, econometric approaches such as the Error Correction Model (ECM) and autoregressive distributed lag (ARDL) bounds testing procedure to cointegration were employed. Using the ARDL model, the empirical results showed that interest rates have a large negative impact on the market index, whereas long-term stock market volatility is positively impacted by inflation and currency rates.

Özlen (2012) investigated on macroeconomic factors and stock returns. The purpose of this study is to determine how certain macroeconomic factors, such as the rate of inflation, the interest rate, the exchange rate, the current account deficit, and the unemployment rate, affect the stock returns of 45 companies across 11 different industries. We use the autoregressive distributed lag approach using data from February 2005 to May 2012. The research offers the findings' conclusion as well as the outcomes of the empirical analyses. The conclusions discuss the implications for future research and practice.

Table 1

Summary of Review

S N	Author & Year	Variables	Methodolog y	Major Findings
	Hanitha, (2024)	Inflation, Exchange rate, Inflation and FTSE 100	Regression analysis	These findings indicate that there is long-term cointegration between the research variables, which is also the conclusion of the Maximum Eigenvalue Test and the Trace Test.
	Hedau, (2024)	Inflation, interest rate, Dowjones,	Quantitative Method	Analysis confirms that the primary factors influencing the NIFTY 50

	Exchange rate, NIFTY 50 performance		index are changes in currency rates and the Dow Jones index. Experts, however, believe that predicting the movement of the NIFTY 50 index also requires consideration of other elements, such as political stability, the state of the developed world's economy, and India's bilateral connections with other nations.
Amanda (2023)	Inflation, exchange rates, interest rates, stock prices.	Quantitative Method	The dependent variable, which is the stock price of transportation businesses that are registered on the IDX, is positively and significantly impacted by inflation, exchange rates, and interest rates between 2018 and 2020.
Hanuransyah (2023)	Composite Index (ICI), the rates of inflation, Bank interest rate, and Dollar Exchange (USD/IDR).	Quantitative research approach- Multiple linear regression.	The findings demonstrated that the interest rate based on the Composite IDX's Ordinary Least Square (OLS) depends on the general movement of exchange rates.
Alzoubi (2022)	Consumer price index, interest rate, domestic credit, real economic activity and Amman Stock Exchange performance.	Autoregressive Distributed Lag	Everything is significant, with the exception of domestic credit as a percentage of GDP. Both the interest rate (IDR) and the consumer price index (CPI) have the right indications and are highly significant.
Farras (2021)	Banking institutions inflation, interest	Descriptive Technique	These results showed that, except from exchange rates, individuals of the banking business are

	rates, and exchange values.		comparatively resistant to macroeconomic influences. It also shows that the majority of people involved in the financial sector do transactions using foreign currencies—more precisely, the US dollar or US currency—rather than rupiahs.
Suhadak (2021)	Exchange Rates, Inflation, Interest Rates and the Composite Stock Price Index.	Explanatory research with a quantitative approach.	Exchange rates have no effect on interest rates; inflation has a positive and significant influence on interest rates; exchange rates have a negative and significant influence on inflation; and interest rates have a positive and significant influence on inflation. The Composite Stock Price Index is influenced positively and insignificantly by both exchange rates and inflation.
Parab (2020)	Macroeconomic variables (GDP, Inflation, exchange rate and stock market returns.	Causal Relations Method	The study showed that macroeconomic factors have a considerable effect on stock market returns, and that this impact varies with different structural periods. The findings are intended to make a substantial contribution to the finance literature and help research analysts and market players assess the Indian stock market.
Ilhan (2020)	COVID-19 pandemic situation, economies	Least square method of regression	Based on the quantitative magnitude of the coefficients, it is shown that the macroeconomic

	activitiesous simulations and forecasts.		variable that has the biggest effect on BIST 100 is the exchange rate.
Emenyi (2020)	macroeconomic variables and Nigerian Stock Market during the 2020 covid-19 lockdown.	Descriptive Research Design	The study's conclusions will add to the body of knowledge in the theoretical and applied fields about the macroeconomic variables influencing stock market performance.
Fahlevi (2019)	Foreign exchange rates, inflation rates, and interest rates and stock prices in Indonesia	Regression analysis	The study's conclusions demonstrated that the independent and dependent variables are related.
Khan (2019)	Exchange rate and stock returns of Shenzhen stock exchange.	ARDL model	According to the predicted ARDL results, the exchange rate significantly and negatively affects the stock returns of the Shenzhen stock exchange. The results for interest rates and inflation show that these factors have a statistically significant negative impact on stock returns.
Mgammal (2018)	Stock prices and exchange rates	Regression analysis	The United Arab Emirates stock market price index is positively impacted by the exchange rate, however there is no correlation for the Kingdom of Saudi Arabia. Furthermore, the long-term analysis discovered that the United Arab Emirates' stock market price index is adversely impacted by the exchange rate. In Kingdom Saudi

			Arabia, however, there is no correlation between these characteristics.
Haider (2018)	Financial and macro-economic variables on Karachi Meezan Index 30.	Multiple Regression Model	The KMI 30 Index has a negative correlation with interest rates and gold prices, whereas the exchange rate and the KMI 30 Index have a positive correlation. Our regression model indicates that there is no meaningful association between the inflation rate and the KMI 30 Index.
Yunita (2018)	Macroeconomic factors such as exchange rate changes, BI rate, inflation rate and stock exchange.	Generalize Autoregressive Conditional Heteroscedasticity (GARCH) is used as the analysis method.	According to the findings, the sole factor significantly affecting the financial sector stock price index is exchange rate change. The banking sector stock price index is not significantly impacted by inflation or the BI rate.
Balagobei (2017)	Macroeconomic variables and stock market returns in Sri Lanka.	Panel data Regression analysis	With the exception of Sri Lanka's money supply, macroeconomic factors affect stock market results. The production of factories and interest rates have a detrimental impact on the return on the Colombo stock market. The return on the stock market is positively impacted by both the inflation and exchange rates.

Jamaludin (2017)	Macroeconomic variables namely inflation, money supply (MS), and exchange rate (ER)	Panel least square regression techniques.	Both the inflation rate and the ER have a major impact on stock market returns, or ROA and ROE. MS is determined to be negligible.
Khalid (2017)	Interest rates, exchange rates and inflation rates and stock market performance.	Error Correction Model (ECM) and autoregressive distributed lag (ARDL)	In contrast to the currency rate and inflation rate, which have a long-term beneficial effect on stock market volatility, interest rates had a notable negative impact on the market index.
Özlen (2012)	Macroeconomic variables including inflation rate, exchange rate, interest rate, current account deficit, unemployment rate and stock returns.	Autoregressive distributed lag method	The aggregate findings suggest that the two most important variables influencing the companies' stock price swings are the interest rate and the exchange rate. Any industry's stock returns are highly susceptible to fluctuations in interest rates and currency rates.

The effects of interest rates and inflation rates on stock indexes have been discussed in the literature. Advocates for government intervention through fiscal and monetary measures to control inflation and interest rates will benefit from an understanding of inflation, interest rates, and stock index. Studies on the macroeconomic factors under evaluation have been given an empirical evaluation. As is evident, there is ongoing discussion over the correlation between the stock index, interest rate, and inflation. Therefore, the goal of the current work is to close the gap.

2.3 Research Gap

Performance of the stock market is very important to investors and they react to macroeconomic variables which may affect the performance of the stock market. Three of

the most important macroeconomic factors influencing the stock market are interest rates and inflation. By offering actual data on the impact of inflation and interest rates on the stock market, this study will support investors in making decisions. The GDP, interest rates, and inflation rate for the 14-year period from 2066–2067 to 2079–2080 are chosen for this purpose. The fourteen-year stock index will be computed using data from the NEPSE website. The time allotted for producing the report was insufficient to write a thorough investigation. The sample size has also limited the analysis, which may have had an impact on the findings. Regression, correlation, and mean were employed to obtain the research's conclusions. The linear relationship between two variables is measured via correlation and regression analysis, however its accuracy is not always guaranteed. Even though there is a strong nonlinear relationship between two variables, their correlation may be quite low. Certain researchers might have substituted interest rates with Treasury bills, while others might have employed fixed deposits. This causes outcomes, findings, and conclusions to vary correspondingly, which is one of this dissertation's research gaps.

CHAPTER III

RESEARCH METHODOLOGY

This chapter presents the methodology of this study. The foundation of each scientific investigation is research methodology, which offers an organized framework for carrying out studies. It includes all of the methods, approaches, and procedures used in the collection, examination, and interpretation of data. Research technique, which has theoretical and practical roots, helps researchers formulate ideas, organize studies, and come to meaningful findings.

3.1 Research Design

To address the numerous concerns brought up in the study, causal research designs have been used in this investigation. The study was carried out using a descriptive and causal comparative research design, observable data, and fact-finding inquiries. The depiction of the current condition of affairs is the primary goal of descriptive and causal research. It is done so that the features of the variables of interest can be determined and described.

To investigate the relationship between the independent and dependent variables, the causal study design is chosen. Through the observation of current effects and the search for potential contributing elements, causal research examines the potential causes influencing a given situation. This is so because the purported causes and their effects have already materialized. Stated differently, causal research involves starting with the observation of the dependent variable or variables and continuing with the study of the independent variable or variables that have already occurred. Subsequently, examine the independent factors in hindsight to determine any potential relationships with and impacts onto the dependent variable or variables. The purpose of this research design is to investigate the relationship between the GDP, inflation rate, and saving interest rate and the NEPSE index.

3.2 Nature and Sources of Data

The secondary data used in this investigation. The financing constraint position of small vs. large, confined vs. unconstrained, high vs. low interest coverage, high vs. low stock tangibility, and low vs. high influence of interest rate and inflation rate on NEPSE index has been understood via the use of secondary sources of data. The NRB and NEPSE annual reports provided the data needed for this investigation. Interest rates, GDP, and inflation

rates over the fourteen-year period spanning 2066–2067 to 2079–2080 have been gathered in order to investigate the relationship between independent variables and NEPSE, the dependent variable.

3.3 Population and Sampling

Given the complexity of the relationship between macroeconomic variables and stock market performance, sample size and population selection must be carefully considered. According to this viewpoint, the population is made up of all significant macroeconomic factors that collectively influence changes in the stock market. These metrics include interest rates, GDP growth, and inflation rates. Research uses selective sampling techniques to obtain representative samples from this massive population in order to look at connections and causal relationships. The data is merely driven before and after the Nepalese earthquake of 2072. A total of 14 years' worth of data—7 years before and 7 years after—was gathered from secondary sources. Analysts can obtain crucial information for making investment decisions by examining how shifts in macroeconomic variables impact stock market behavior.

3.4 Method of Analysis

Mean

The mean, which is obtained by dividing the total number of values by the number of values, is the arithmetic mean of a range of values or quantities. It's the average that's employed to determine the data's central tendency. The most often used and easily comprehended way to measure central tendency is to utilize the arithmetic mean. To calculate it, sum up all of the population's data points, then divide the total by the total number of points. The mean is computed in this study to determine the average of all long- and short-term interest rates as well as the inflation rate relative to the stock index.

$$\text{Mean} = \frac{\sum fx}{n}$$

Where, X= Value of responses of each independent or dependent variable

N= Number of statements

Standard Deviation

A metric called the standard deviation (SD) is used to express how much a group of data values vary or are dispersed. While a high standard deviation suggests that the data points are dispersed throughout a larger range of values, a low standard deviation suggests that the data points tend to be near the set's mean, also known as the anticipated value. One helpful characteristic of the standard deviation is that, in contrast to variance, it has the same units of measurement as the data. Because of the influence of the dependent variables, the standard deviation is computed in this study to measure the risk factor in the dependent variables.

$$\sigma = \frac{\sqrt{\sum(x-\bar{x})^2}}{N}$$

Where, X = Value of responses of each dependent or independent variable.

\bar{X} = Mean value of responses of each dependent or independent variable.

N = Number of response

Correlation

A statistical method for determining the existence and strength of a relationship between two variables is correlation. As an illustration, taller people typically weigh more than shorter people. The partnership isn't flawless. Because they can reveal a predictive relationship that can be used in real-world situations, correlations are valuable tools. Over time, the nature and degree of any link between two or more variables change concurrently. The correlation coefficient ranges from -1 to +1. A high degree of positive correlation is indicated by numbers around +1, and a high degree of negative correlation is indicated by values near -1. Correlation is computed in this study to determine the strength of the relationship between independent and dependent variables for each sample.

$$\frac{n \sum dx \sum dy - \sum dx \sum dy}{\sqrt{[n \sum dx^2 - (\sum dx)^2]} \sqrt{[n \sum dy^2 - (\sum dy)^2]}}$$

Where, X= Value of independent variable.

Y=Value of dependent Variable

N= Number of responses

Regression

Regression analysis is a statistical method used in statistical tool modeling to estimate the relationship between the variables. When examining the relationship between a dependent variable and one or more independent variables, it encompasses a wide range of modeling and analysis tools. Regression analysis is a popular tool for forecasting and prediction, and it closely overlaps with machine learning in many applications. Regression analysis is also used to investigate the types of correlations between independent and dependent variables and to identify which independent variables are related to which of the latter. Regression analysis is used in this study to determine the direction of the association for each sample between the independent and dependent variables. The model of the study is below

Multiple regressions: $y = a + b_1.X_1 + b_2.X_2 + \dots + b_n.X_n$, for this study the model will be:

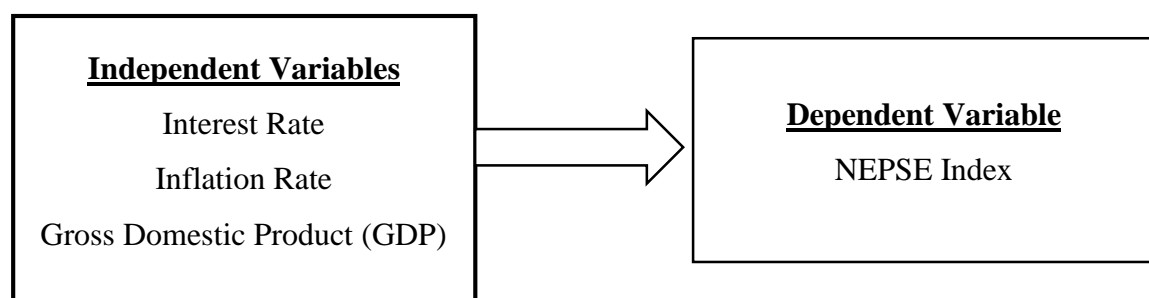
$$\text{NEPSE Index} = \alpha + \beta_1 \text{Inflation Rate} + \beta_2 \text{Interest rate} + \beta_3 \text{GDP} + e$$

3.5 Research Framework and Definition of the Variables

The study's variables have been brought into sharper focus with the aid of a research framework. The stock index is the main subject of this study. An attempt is made to investigate the relationship between four non-equity macroeconomic indicators and the stock index: inflation, saving interest rate, fixed interest rate, and lending interest rate. The loan interest rate, saving interest rate, fixed interest rate, and inflation rate are independent variables, whereas the stock index is the dependent one. The research framework of the study is in Figure 1

Figure 1

Research Framework



(Source: Khatri, 2019)

Figure shows the research framework and objectives of the study which aims to determine the impact of selected variables namely interest rate, GDP and inflation rate towards NEPSE index. The definitions of each variable used in the study are as follows:

Interest Rate

The cost a borrower incurs when using money he does not own and must reimburse to the lender, who benefits from his delayed consumption, is known as the interest rate. Another way to indicate interest is as a percentage of money borrowed over a full year. The rate at which a bank deposit grows over time is called its interest rate. A fee or payment for the use of money is known as interest, and it's commonly stated as a yearly percentage of the principal. The interest rate is a tool that a nation's central bank uses to monitor any significant fluctuations in the value of its currency. Interest rates must rise in order to stop the depreciation of the currency and to reduce inflation, both of which serve to prevent a number of negative economic effects. (Ross, 1976).

Inflation Rate

A persistent rise in the overall or general level of prices within an economy is referred to as inflation. The cost of living has increased due to inflation. There is general consensus that high and fluctuating inflation can be detrimental to the economy overall, as well as to specific enterprises, consumers, and the latter. In general, the economy's price stability is gauged by the inflation rate. A scenario with low inflation will show a rising currency rate because the currency's buying power will rise relative to other currencies. The most common way to assess inflation is by retail prices, which is the annual percentage rise in prices. Every month, the government releases a consumer price index, and the percentage increase in that index over the preceding 12 months is known as the inflation rate. The simple definition of inflation is a persistent increase in the level of general prices (Thapa, 2018).

Gross Domestic Product (GDP)

The GDP growth rate is a statistical measure of the percentage increase in the value of goods and services produced within a country's borders over a certain period of time. It is an essential indicator for evaluating the health and direction of the economy since it shows the pace of economic growth or contraction. The GDP growth rate is closely monitored by governments and decision-makers so they can assess the effectiveness of economic

initiatives and make well-informed decisions. A positive growth rate denotes an expanding economy, while a negative rate denotes a deteriorating economy. A nation's overall prosperity is boosted, jobs are created, and living standards are raised by sustainable GDP growth.

Stock market i.e. NEPSE Index

The transaction index, also known as the NEPSE index, is released by the Nepal Stock Exchange at the conclusion of each day. To put it plainly, the NEPSE index is calculated using the unique base market capitalization. It is the first index that displays how the stock market operates. The market capitalization value rises in tandem with the value and transaction of the transacted shares. The market capitalization is computed by multiplying the entire share value by the share value as of a given day. Since the share price and share number have different values, a separate multiply value is computed and added afterwards to determine the total. Market capitalization is computed in this manner. The total market capitalization is calculated by adding the market capitalization of all the companies. The market capitalization is the basis used by the stock exchange to determine the market index. The NEPSE index rises in tandem with market capitalization expansions and falls in tandem with market capitalization contractions (Shrestha, 2019).

CHAPTER IV

RESULT AND DISCUSSION

Since the purpose of this study is to explain how interest rates, inflation rates and GDP affect the stock market in Nepal and to identify the factors that affect stock market of Nepal i.e. NEPSE by interest rate, GDP and inflation rates. In order to ascertain the relationship between interest rate, inflation rate, GDP and stock index and its important impact, it makes use of a variety of statistical tools and methodologies. In order to achieve this, the necessary secondary data were gathered and thoroughly examined in order to provide the empirical findings and identify the factors that affect stock index i.e. NEPSE.

4.1 Results

This study primarily relies on the analysis of secondary data to derive the empirical findings on the study. For better visibility and clarity, the obtained data were tabulated and displayed as figures. The data set includes the last fourteen years, spanning from 2066–2067 to 2079–2080. Regression analysis, correlation, mean, median, mode, standard deviation, and others have all been used in its analysis. Correlation and regression analysis were utilized to examine the relationship between the dependent and independent variables. The tables below are sourced from software and have been altered in Excel.

To address the different research topics, information on the saving interest rate, GDP, inflation rate, and NEPSE index was gathered and examined using a variety of techniques. A research project's research question is the question it aims to solve. Data are being analyzed to determine whether saving interest rates have a significant or insignificant impact on the NEPSE index, whether fixed interest rates have a significant or insignificant impact, whether lending interest rates have a significant or insignificant impact, and whether inflation rates have a significant or significant impact on the NEPSE index. The following chart shows the trend of the annual interest rate, inflation rate, and NEPSE index for the years 2066–2067 through 2079–2080. Microsoft Excel and SPSS software has been used in order to calculate the descriptive, correlation and multiple regression analysis.

*Table 1**Information regarding inflation rate, interest rate and NEPSE index of last 14 years*

Fiscal year	Inflation rate	Interest rate	GDP	NEPSE
2066/67	9.33	3.66	4.82	477.73
2067/68	9.23	6.57	3.42	362.85
2068/69	9.46	8.22	4.67	389.74
2069/70	9.04	4.1	3.53	518.33
2070/71	8.36	6.3	6.01	1036.11
2071/72	7.87	5.9	3.98	961.23
2072/73	8.79	3.9	0.43	1718.15
2073/74	3.63	4.12	8.98	1583.57
2074/75	4.06	5.28	7.62	1212.36
2075/76	5.57	3.74	6.66	1259.02
2076/77	5.05	4.97	-2.37	1394.77
2077/78	4.09	4.72	4.84	2883.38
2078/79	3.8	7.34	5.6	2001.53
2079/80	7.7	7.24	5.84	2097.1

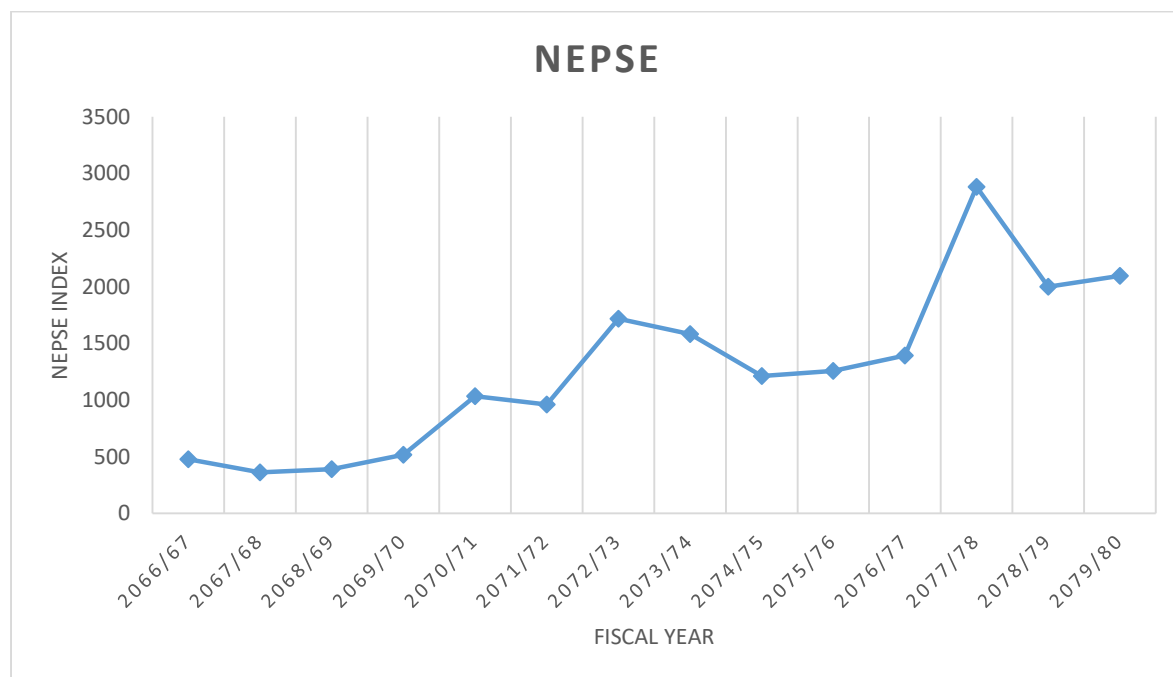
4.2 Trend of NEPSE Index

The Nepal Stock Exchange releases the transaction index, commonly referred to as the NEPSE index, at the end of each day. The base market capitalization is utilized in order to calculate the NEPSE index, or expressed another manner. This index was the first to show activity on the stock market. When the value and volume of traded shares rise, so does the market capitalization value. Market capitalization is calculated by multiplying the total number of shares by the share price on a given day. Since the number and price of a share have different values, the total is determined using independent multiply values that are then summed. The 14-year trend of the NEPSE index is displayed in the following figure.

Table 2 displays the NEPSE index's trend over the course of the investigation. The index shows an increasing tendency over the course of the study, starting in 2066–2067 at 477.73 and reaching 2097.1 in 2079–2080. In 2077/78, NEPSE reaches a greater level of 2883.38 before beginning to decrease. It can be concluded that the bullish tendency of that period was shown by the increasing trend from 2067/68 to 2072/73. This trend then began to drop from 2072/73 to 2073/74, but it then started to rise once again in 2076/77, reaching a peak of 2883.38 in 2077/78. The NEPSE index has been rising during the study period, keeping pace with the capital market's current gradual maturation.

Figure 2

Trend of NEPSE Index

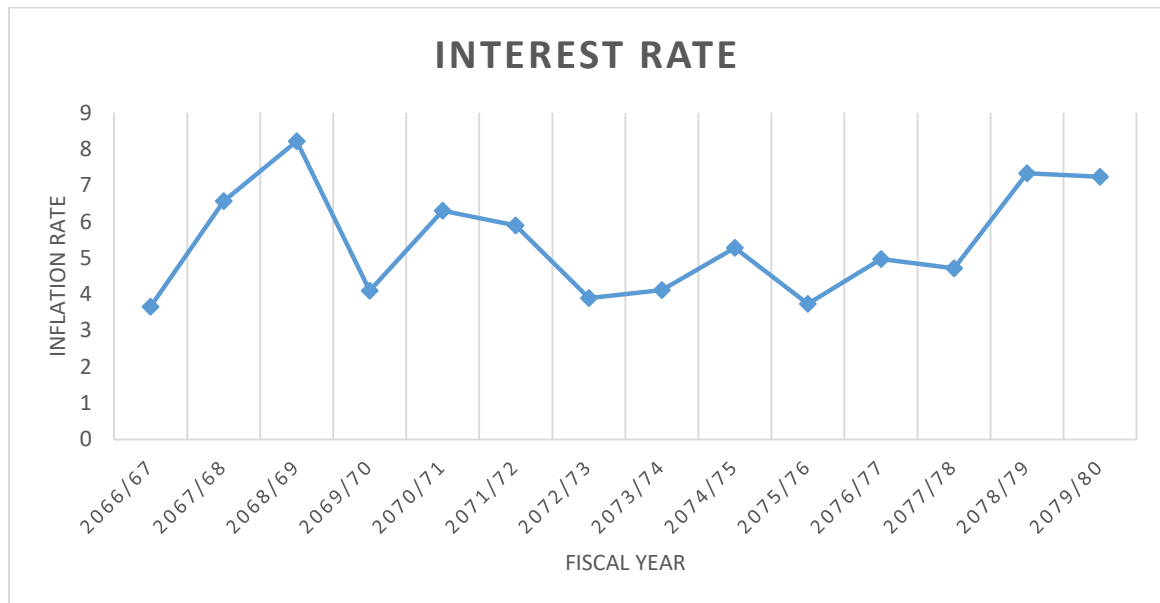


4.3 Trend of Interest Rate

The expense a borrower bears for using money he does not have and has to pay back to the lender by delaying his own consumption through the loan is known as the interest rate. Another approach to indicate interest is as a percentage of the total amount borrowed over a year. The interest rate is the pace at which the value of a bank deposit increases over time. Interest is a fee or payment for the use of money, and it is commonly expressed as a percentage of the principal.

The average interest rate during the study period is shown in Figure 3 below. The interest rate increased from 3.66 percent in 2066–2067 to 7.34 percent in 2079–2080 from the start of the study period to the finish. The Nepal Rastra Bank sets this interest rate. The interest rate begins to decrease in 2068/69, or 8.2 percent, then rises to 3.74 percent in 2075/76 and 7.24 percent in 2078/79. One of the greatest interest rate percentages over the course of the 14-year study period was reached at the end of the study period, at 7.24 percent.

Figure 3
Trend of Interest Rate



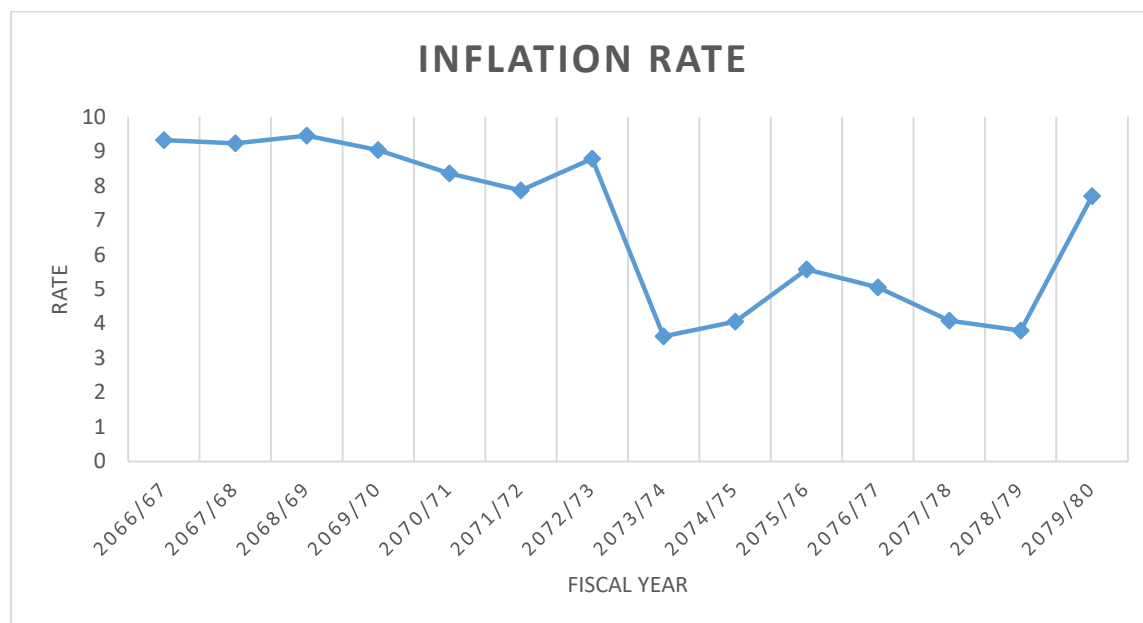
4.4 Trend of Inflation Rate

Inflation is the steady increase in the general level of prices within an economy. Inflation has raised the expense of living. It is widely accepted that high and unstable inflation can affect individual businesses and individuals as well as the economy as a whole. Usually, the inflation rate is used to determine how stable the prices are in the economy. A scenario with low inflation will result in rising currency rates since the value of the currency will increase in comparison to other currencies. Retail prices, which measure the annual percentage growth in prices, are the most often used indicator of inflation. The trend of the inflation rate during the study period is depicted in the following figure.

The trend of the inflation rate during the research period is depicted in Figure 4. There has been a downward trend in the inflation rate from 9.33 percent in 2066–2067 to 3.63 percent in 2073–2074. The Nepalese consumer market was experiencing severe inflation at the beginning of the study period, as seen by the inflation rate, which ranged from 7 to 12 percent. However, after that, the rate began to decline to 3.8 percent in 2078–2079 and then to rise once more, reaching 7.7 percent in 2079–2080.

Figure 4

Trend of Inflation Rate

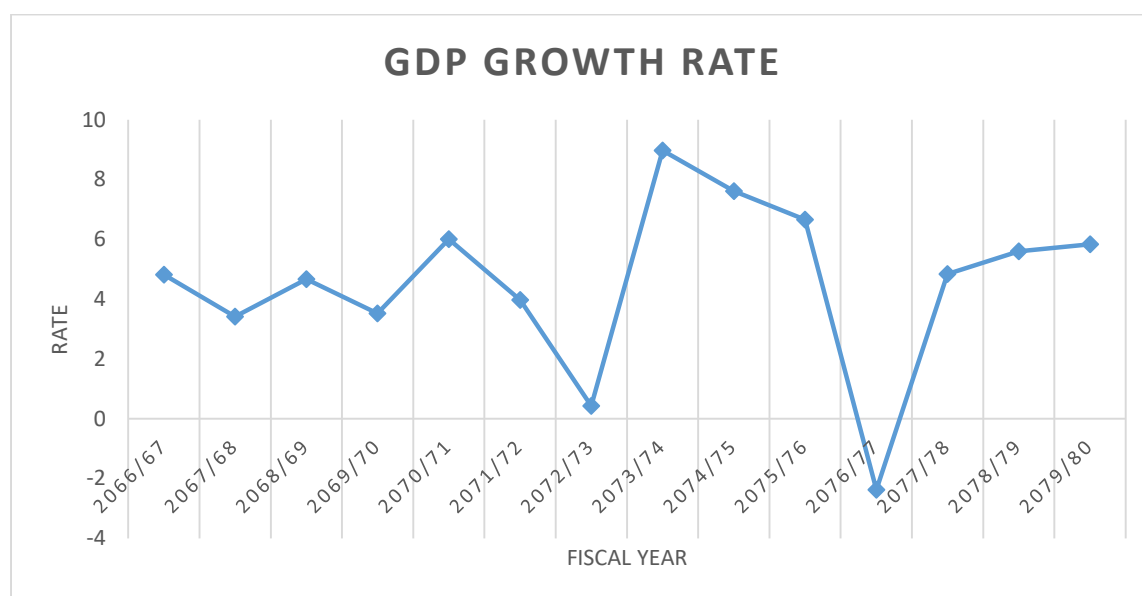


4.5 Trend of GDP

A statistical indicator of the percentage increase in the value of goods and services produced inside a nation's borders over a given time period is the GDP growth rate. Given that it indicates the rate of economic expansion or contraction, it is a crucial statistic for assessing the state and trajectory of the economy. Governments and decision-makers keep a careful eye on the GDP growth rate in order to evaluate the success of economic initiatives and make well-informed choices. An economy that is growing is indicated by a positive growth rate, whereas one that is contracting is shown by a negative rate. Sustainable GDP growth raises living standards, creates jobs, and increases a country's overall prosperity.

The GDP's trajectory across the study period is depicted in Figure 5, which shows a fall from 4.82 percent in 2066–2067 to 3.98 percent in 2071–2022. The GDP varied over this time, peaking at 8.98 percent and occasionally falling into negative territory. These variations show how the Nepalese economy is dynamic, experiencing periods of strong expansion mixed with modest recession. The overall pattern points to a robust economy that can overcome obstacles despite sporadic downturns. This variation is probably caused by a variety of external causes as well as the diversity of economic activity, highlighting the difficulties in evaluating and controlling economic growth in Nepal.

Figure 5
GDP Growth



4.6 Descriptive Analysis

Table 2

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Inflation Rate	14	3.63	11.09	7.138	2.506
Interest Rate	14	3.61	8.22	5.311	1.527
GDP	14	-2.37	8.98	4.571	2.752
NEPSE	14	362.85	2883.38	1242.998	724.141

(Source: Appendix II)

Table 2 reveals the mean, standard deviation, minimum, maximum and number of observation of all independent and dependent variable during the study period. The result were derived from the SPSS software. This average inflation rate during the study period is 7.138 percent with the standard deviation of 2.506 percent. The maximum inflation rate is 11.09 percent and the minimum interest rate is 3.61 percent during the study period. Likewise, the average interest rate during the study period is 5.311 percent with the standard deviation of 1.527 percent. The minimum to maximum rang of inflation is 3.61 percent to 8.22 percent during the study period. In case of NEPSE index, the average index is 1242.998 point during the study period with the standard deviation of 724.141 point. The

minimum NEPSE index during the study period is 362.85 point and maximum index is 2883.38 point during the study period.

4.7 Correlation Analysis

The correlation coefficients are calculated for the period of 2066/67 to 2079/80 on Nepal stock index value (NEPSE), Interest rate (SIR), GDP and Inflation rate (IFR).

Table 3

Correlation between NEPSE, Interest rate and Inflation rate

Variables		INF	INTR	GDP	NEPSE
INF	Pearson Correlation	1			
	Sig. (2-tailed)				
INTR	Pearson Correlation	.149	1		
	Sig. (2-tailed)	.612			
GDP	Pearson Correlation	-.303	.084	1	
	Sig. (2-tailed)	.293	.774		
NEPSE	Pearson Correlation	-.715**	-.130	.087	1
	Sig. (2-tailed)	.004	.659	.768	

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

(Source: Appendix III)

Table 3 indicates the relationship between dependent variable i.e. NEPSE and independent variable i.e. interest rate and inflation rate. The result shows inflation rate is negatively correlated with NEPSE with significant relation ($r = -0.715$) $P < 0.05$. Similarly, interest rate has low degree of negative correlation with NEPSE with insignificant relationship ($r = -0.130$, $P > 0.05$). GDP was found to be low degree of positive relation also insignificant at 0.05 level of significance ($r = 0.07$) $P > 0.05$.

4.8 Regression Analysis

Determining the effect of independent factors on the dependent variable is made easier with regression analysis. The entire sample is used in the regression analysis. Regression analysis is performed in the study for the inflation and interest rates in relation to the NEPSE index. The inflation rate and interest rate are the two factors influencing the NEPSE

index. The purpose of multiple regression models is to determine how various independent factors affect dependent variables.

Table 4

Variables

Model	Variables Entered	Variables Removed	Method
1	INT, INF, GDP		Enter

a. Dependent Variable: NEPSE

b. All requested variables entered.

The study's variable is displayed in Table 4. The GDP, interest rate, and inflation rate are the independent variables, and the NEPSE index is the dependent variable. The goal of the study is to look at how the NEPSE index is affected by interest rates and inflation during the study period.

Table 5

Model Summary of NEPSE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.728a	.531	.390	.51709

a. Predictors: (Constant), GDP, INTR, INF

The model summary's coefficient of determination (R²) value of 0.531 indicates that 53.10% of the variation in dependent variables, such as NEPSE, can be attributed to independent variables like GDP, inflation rate, and interest rate. It displays the aggregate effect of all independent factors on the dependent variables, or the total variance.

Table 6

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.022	3	1.007	3.767	.048
	Residual	2.674	10	.267		
	Total	5.695	13			

a. Dependent Variable: NEPSE

b. Predictors: (Constant), GDP, INTR, INF

The ANOVA results, which have a p-value of 0.048—below the predefined alpha value of 0.05—show a significant relationship between GDP, inflation rate, and interest rate and NEPSE. This shows that the link between these variables is accurately predicted by the model. The results confirm the validity of the model in predicting movements of the NEPSE based on changes in GDP, inflation, and interest rates, and they highlight the significance of economic variables in influencing the Nepalese stock market.

Table 7

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.604	.711		12.100	.000
	Inflation Rate	-.214	.065	-.758	-3.277	.008
	Interest rate	-.002	.097	-.005	-.022	.098
	GDP	.033	.053	-.142	-.620	.039

a. Dependent Variable: NEPSE

(Source: Appendix IV)

The values of the unstandardized beta coefficients (β_1 , β_2 , and β_3) and the constant α , which can be used to write the estimated equation for the impact of independent variables on NEPSE, are also summarized in Table 7. Using the values of unstandardized beta coefficients and constant, it can write the estimated equation as follows:

$$\text{NEPSE} = 8.604 - 0.214 \text{ INF} - 0.002 \text{ INTR} + 0.33 \text{ GDP}$$

The beta coefficients in the regression analysis are used to describe how much the independent variables contribute to the variance in the dependent variable, and in what proportion. Table 7 displays the inflation rate ($\beta_1 = -0.214$, $p = 0.008$) and interest rate (β_2

= 0.002, $p = 0.098$) as the findings. The findings demonstrated that, while holding all other variables equal, a one unit increase in the inflation rate would result in a 0.758 percent fall in the NEPSE index. In a similar vein, the NEPSE index would drop by 0.005 units for every unit increase in the interest rate factor.

Additionally, a one unit increase in GDP results in a 0.142 change in NEPSE. In conclusion, the NEPSE index is significantly impacted positively by GDP and significantly negatively by inflation rate; interest rates have a negligible impact on NEPSE.

4.9 Discussion

The interest rate has a considerable beneficial effect on the NEPSE index. According to the negative relation, the NEPSE index will rise if the interest rate drops and fall if the inflation rate rises. It has been established that the hypothesis that the interest rate and inflation rate have no discernible effect on the NEPSE index is false. A low interest rate encourages investors to transfer their funds from banks and other financial institutions to the stock market, which raises the NEPSE index. Additionally, if interest rates are yielding high returns, they won't take a chance by investing in the stock market. There is significant positive impact of interest rate to the NEPSE index. It is evident from the regression analysis results that there is a precise inverse relationship between it and the NEPSE index. According to the positive relation, the NEPSE index will rise in response to an increase in the lending interest rate and fall in response to a decrease in the lending interest rate. The results on the interest rate and NEPSE index link were found to be in line with Shrestha and Pokhrel's (2019) findings. The NEPSE Index is not significantly impacted by the rate of inflation. The results indicated that there was no relationship at all between the independent and dependent variables. The results of the correlation between the inflation rate and the NEPSE index were found to be in line with those of Laichena and Obwogi (2015).

The interest rate has a negligible negative effect on the NEPSE index. According to the negative relation, the NEPSE index will rise in the event of a decrease in interest rates and fall in the event of an increase in interest rates. It has been established that the hypothesis that the interest rate has no discernible effect on the NEPSE index is correct. A low interest rate encourages investors to transfer their funds from banks and other financial institutions to the stock market, which raises the NEPSE index. Additionally, if fixed deposits are yielding high returns, they won't take a chance by investing in the stock market. The

findings regarding the relationship of interest rate with NEPSE index was found consistent with Suhadak (2021), Parab (2020), Ahmad and Raof (2010), Joseph (2012), Naik and Padhi (2012), Shrestha and Subedi (2014), Khan (2019), Haider (2018) Khatri (2019), Shrestha (2019), Panta (2020) and contradicts with the findings of Rostamy (2013), Goswami and Jung (2013), Hasan and Samarakoon (2013) and Gautam (2018).

The NEPSE Index is significantly impacted by the rate of inflation. The results demonstrated a substantial relationship between the inflation rate and the dependent variable, or NEPSE. NEPSE rises in tandem with an increase in the inflation rate. The inflation rate and the NEPSE Index have a considerable negative relationship, as demonstrated. It has been established that the hypothesis that the inflation rate has no discernible effect on the NEPSE index is false. The conclusions of how the inflation rate and NEPSE index relate was found consistent with Amanda (2023), Farras (2021), Emenyi (2020), Fahlevi (2019), Yunita (2018), Balagobi (2017), Khalid (2017) and Ergun (2012).

A variety of variables, such as the interest rate, inflation rate, money supply, NRB policy, exchange rate, and GDP, can be used to examine the impact of other macroeconomic factors on the stock index. This can be examined in more detail in upcoming studies.

CHAPTER –V

SUMMARY AND CONCLUSION

In this chapter the study summarize the most important results and conclude the statement and suggest the implications for the further study. It offers a concise summary of the study, emphasizing its key findings. The conclusion includes a synopsis of the data and analysis as well as connections between the objectives of the research and the results. This section delves into the wider implications of the findings and their relationship to theory, practice, and future directions in research. Understanding the significance and impact of the research's contributions is crucial.

5.1 Summary

The course starts out with a discussion of interest rates, inflation, and stock indexes. There are three key components to a nation's economic growth. Interest rate and inflation effects on stock indexes have significant effects on government policy on financial markets, risk management procedures, and monitoring policies. Two major economic factors that impact common stocks are interest rates and inflation. It is crucial to research the relationship between macroeconomic variables and stock price for a variety of reasons. First, it assists decision-makers in comprehending the complete impact of current and future laws and regulations. Secondly, investors' exposure to risk would be decreased if they made better-informed investing decisions and were fully aware of this relationship. Finding the dynamic relationship between the interest rate and inflation rate and the stock index is the study's main goal.

Numerous theories and works of literature are reviewed in the second chapter. It is the state of the art, including important discoveries and advances in theory and methodology related to a certain topic. It provides a basic comprehension of the topic. Literature surveys are secondary sources that don't offer any original or recently conducted experimental study. These reviews are linked to books with an academic bent and are usually published in academic journals. It includes both actual data and an examination of pertinent research theories.

The third chapter primarily addresses the study's methodology. The relationship between the interest rate, inflation rate, and NEPSE index will be examined using the causal study

design. It uses a range of quantitative statistical methods, including regression, correlation, and descriptive analysis, to ascertain how an independent variable affects the NEPSE index. In order to arrive at the conclusions, secondary data was gathered and examined systematically. The mean, median, standard deviation, correlation, and regression are the methods used to examine the data. Regression analysis and correlation were performed to determine the significant influence of independent factors on dependent variables.

The results, which demonstrate the inflation rate's little negative impact on the stock index, are derived in the fourth chapter. The NEPSE Index will be negatively impacted by changes in the inflation rate because the relationship has been determined to be significant. The interest rate has a considerable beneficial effect on the NEPSE index. The stock index will be negatively impacted by changes in interest rates since the relationship has been demonstrated to be considerable. Therefore, in the event of low interest rates, depositors may utilize their funds to purchase stock, and individuals may also take advantage of low-interest loans from banks and other financial institutions to engage in the stock market.

5.2 Conclusion

According to the study's findings, GDP, interest rates, and stock index volatility are all related. It is evident that the interest rate is what drives the Nepali stock market. The movement of the stock index and interest rate is going in the opposite way. Because low interest rates result in lower credit costs and less opportunities lost by maintaining bank savings, equities become more appealing.

The GDP and inflation rate have a positive and substantial influence on the NEPSE index. The NEPSE index will rise when inflation rates fall and decline as inflation rises, according to the negative relationship. The results pertaining to the impact of inflation rate on the NEPSE index were discovered. It is evident that other factors than interest rates and inflation also have an impact on the stock index. The stock index is heavily influenced by news, rumors, and conjecture. It is challenging to quantify and use these kinds of variables in a model. Correlation and regression models are only used to ascertain how independent factors affect dependent variables. However, if the models like correlation analysis and ANOVA test had been evaluated to perform the research, correct and consistent results might have been attained. The only factors used to examine the influence on the NEPSE index were the interest rate and the inflation rate. However, a number of other

macroeconomic variables, including as the money supply, exchange rate, NRB policy, news, rumors, and speculation, also have an impact on the stock index.

5.3 Implications

This section focuses on the study's implications, which include recommendations meant to give the important information and potential future research directions to the parties involved, taking into account the other pertinent issues and the study's main findings. Only the most important recommendations—due to time constraints and thesis limitations—are listed below; there are several proposals for different policy makers, management styles, and business areas.

- A number of factors influence the NEPSE index. The main determinants of the NEPSE index are the subject of this study. The study's findings will likely have a significant impact on individuals, institutions, the banking industry, and the NEPSE market. Every factor that influences the NEPSE index, whether directly or indirectly, should be assessed.
- Both local and foreign investors can benefit from an understanding of how inflation, interest and GDP relate to the Nepali stock market in order to properly plan their investments and create portfolio management.
- The elements that impact the stock index are not limited to the interest rate, GDP, and inflation rate. The stock index is also influenced by other factors, such as reserves, money supply, exchange rates, political news, and rumors and speculation. The NRB's share market lending policy has had a positive impact on the share price.
- Rumors, news, and speculation have a significant impact on the NEPSE index; macroeconomic variables like as interest rates and inflation rates are not sufficient to properly anticipate the direction of change in the stock index.
- This market should be more transparent by providing easy access to information about listed companies in order to decrease rumors and speculation. In order to dispel rumors and chatter in the market, the relevant authorities should actually improve transparency and communication.
- In addition to being a useful information source, it could pique interest in further research in this or similar subjects on the actions of both foreign and local investors.

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Appendices

Data Information: - Inflation Rate, Interest Rate, GDP Growth Rate and NEPSE

Fiscal year	Inflation rate	Interest rate	GDP Growth Rate	NEPSE
2066/67	9.33	3.66	4.82	477.73
2067/68	9.23	6.57	3.42	362.85
2068/69	9.46	8.22	4.67	389.74
2069/70	9.04	4.1	3.53	518.33
2070/71	8.36	6.3	6.01	1036.11
2071/72	7.87	5.9	3.98	961.23
2072/73	8.79	3.9	0.43	1718.15
2073/74	3.63	4.12	8.98	1583.57
2074/75	4.06	5.28	7.62	1212.36
2075/76	5.57	3.74	6.66	1259.02
2076/77	5.05	4.97	-2.37	1394.77
2077/78	4.09	4.72	4.84	2883.38
2078/79	3.8	7.34	5.6	2001.53
2079/80	7.7	7.24	5.84	2097.1

(Source: Nepal Rastra Bank, 2024)

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Abstract Variability in the inflation and interest rates directly drives the money market from the capital market. Since changes in interest rates and inflation are negatively correlated with stock prices and GDP has the positive relation with the stock exchange the stocks are sensitive to changes in both variables. The study's precise goals are to determine the trends in the GDP, interest rates, inflation rates, and NEPSE index as well as to investigate the connections between these variables. The primary goal of the research is to examine the independent and combined effects of interest rates and inflation rates on the NEPSE index. Causal research approaches have been employed in this analysis to address the many concerns raised in the study. This research includes a wide range of fact-finding explorations and analytical techniques. The main objective of descriptive research is to portray the situation as it is at the moment. This is done in order to identify and characterize the characteristics of the variables of interest. The study discovered that the NEPSE index is significantly impacted negatively by both the interest rate and the inflation rate. Conversely, the NEPSE index