Asian Journal of
Early Childhood and Elementary Education

e-ISSN : 3025-6917
p-ISSN : 3025-7565

Index : Harvard, Boston, Sydney University, Dimensions, Lens, Scilit, Semantic, Google, etc

https://doi.org/10.58578/AJECEE.v2i3.3003

ANALYSIS OF STOCK MARKET TRENDS FOR MARKET CAPITALIZATION AND SECURITIES MANAGEMENT: AN APPROACH TO NEPALESE STOCK MARKET

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Article Info:

Submitted:	Revised:	Accepted:	Published:
May 11, 2024	May 14, 2024	May 17, 2024	May 20, 2024

Abstract

Attraction towards share market is increasing day by day. Relevance for guiding people towards purchase and sale of share is also increasing everywhere in the world. Nepal is a poor country having well developed share market, but some sort of hurdles and technical disparities are still creating problems in operation of this market. Increasing economic crisis for last two years has made this market critical. Decrease in price of share is caused by increasing losses in business and industry at present. The main objective of the study is to examine the growth trend of the Nepalese securities market. It helps to analyze the trend of Nepalese stock market in terms of market capitalization, number of transaction, number of securities traded and number of securities listed and to examine the space of primary market growth in Nepal. this work is motivated by the works of (see[6-31]).s

Keywords: Securities, Stock Market, SEBO/N, NEPSE, Stock Broker, Market Capitalization

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INTRODUCTION

Background of the Study

The current decade has seen a renewed focus on the relationship between stock market development and economic growth by academics and policy makers in both developed and developing nations. This is due to the emergence of the equity market phenomenon and the necessity of providing liquidity for equity issues linked to privatization. Research on the relationship between financial development and economic growth, with a focus on the developmental impact of stock markets, provides many new opportunities as the importance of stock markets in developing nations grows.

Securities markets serve as a means of obtaining capital for businesses while also offering people and institutions the chance to invest. They promote the exchange of financial assets by connecting buyers and sellers of securities. Theoretical and practical viewpoints are available for securities markets. Financial assets gain significance and value from the securities markets.

Buying and selling securities is a crucial part of the capital allocation process in economies, to put it practically. Efficiency is promoted by the securities markets, which provide a trustworthy indicator of a company's success.

A nation's financial system may be more market-oriented or dominated by banks. Different strategies are employed by each of these systems to manage the interests of stakeholders and tackle challenges related to agency and corporate control. Although historically, nations have appeared to take one of these routes when creating their financial systems, several are now developing their financial systems by combining the two of them in recent years. According to empirical research, the stock market and banks complement each other throughout a nation's early stages of financial development and are not a perfect match for one another. In Nepal, banks essentially control the financial system.

In the past fifteen years, Nepal's financial sector has expanded dramatically. Regretfully, despite over fifty years of development efforts under various national plans, serious attempts to build the financial sector in Nepal began very late. While the country's infrastructure was being developed during the Rana administration, these efforts were more intermittent and focused on meeting the needs and whims of the Rana rulers. The government's adoption of the Frits Five-Year Plan in 1956 marked the beginning of the nation's attempts to attain planned economic growth. The administration implemented a

number of policies and programmes, including aims for economic growth, with the goal of building the infrastructure required to generate prosperity for the country. Regrettably, these policies and initiatives neglected to consider the necessity of creating the financial framework that should have followed the construction of the infrastructure required for the real sector to expand. These policies were unbalanced in that they aimed to boost the nation's physical asset growth at the expense of impeding the growth of its financial sector.

The government's strategy of limiting private sector participation in financial operations in order to retain control over the sector restrained the financial industry's expansion within the nation. As a result, the nation had few financial institutions to sustain its development initiatives for a considerable amount of time. There were just two commercial banks, two development banks, one provident fund, and a few insurance businesses in the nation until the early 1980s. Since practically all of these financial organizations were run by the government, they were more guided by the principles of social welfare than by business principles. Due to the government's restrictive policies, foreign grants and loans under various schemes were used to fill the gaps in the resources available for the real sector's development and the resources required for it. This made the nation more reliant on foreign help, but it also made the government less aware of the need to raise funds locally to close the resource deficit. This appears to have caused the nation's financial sector to develop slowly, with the real economy lagging behind it.

The government founded the Securities Exchange in 1976 with the goal of providing and developing a market for securities, including corporate and government bond securities. This marked the beginning of the country's stock market development process. The government's decision to modify its restrictive policies and allow foreign participation in the construction of banks as well as the private sector to access the previously closed financial sector was the only way to detect a noticeable impact on the development of the financial industry. The process gained additional momentum after the adoption of the policies for economic liberalisation and privatisation. In Nepal, there were 34 credit cooperatives, 116 postal saving banks, 17 commercial banks, 55 finance companies, 23 development banks, 17 insurance companies, 5 regional rural development banks, and 44 non-governmental microcredit institutions. There is also one Citizen Investment Trust, one Credit Guarantee and Deposit Insurance Corporation, and one Employee Provident Fund. The stock market had some noticeable gains at this time.With the aim of regulating, supervising, and monitoring the securities market, the Securities Board Nepal (SEBO/N)

was founded in 1993. Similar to the stocks Exchange Centre, Nepal Stock Exchange Limited (NEPSE) was created with the intention of offering a secondary market for the exchange of stocks. In order to facilitate securities transactions, NEPSE established an open outcry system. This system restricted investors to trading securities through authorised brokers.

The growth and reform of the financial sector are reflected in the operations of the equities market. The Nepalese stock market has advanced a little over the last fifteen years. For instance, the number of listed businesses in NEPSE expanded about twofold from 62 to 142 between the fiscal years 1993/94 and 2007/08, and the market capitalization value climbed nearly twenty-six times, from Rs. 14 billion to 366.25 billion. Similarly, within the same time frame, there were eight times as many securities listed on the exchange—from 43 million to 321.13 million—and there were approximately 1508,000 more transactions annually. The NEPSE index increased from its base value of 100 to 307 throughout this time. Notwithstanding these advancements, Nepal's stock market is still in its infancy and needs to have a discernible influence on the nation's economic expansion.

Historical Background of Nepalese Stock Market

In Nepal, the practice of generating capital by offering shares to the general public began in 1937. Even though it wasn't possible for the growth of the securities markets to be a national strategy for a while, Nepal's industrial policy at the time, which resulted in the establishment of the Securities Exchange Centre in 1976, helped the securities markets institutionalize. The primary and secondary markets for long-term corporate and government securities are managed and run by the Securities Exchange Centre. Following a few years of establishment, in order to prevent any conflicts of interest amongst different market participants, policies and programmes were created to develop and promote stock exchange, issue manager, underwriter, securities dealer, stockbroker, and portfolio manager in the markets.

In Nepal, the idea of a stock market is relatively new. Even though Biratnagar Jute Mills (BJM) and Nepal Bank Limited (NBL) started it with the share flotation in 1937 under the company act, 1936, it is still in its early stages. The Rana family was primarily the only group allowed to participate in the corporate sector's ownership structure at the time. As a result, there has been limited capital market expansion to the intended level. In four five-

year plans, there have been no noteworthy attempts to reform the capital market. The first and most significant endeavour by the government to grow the stock market was the creation of the Securities Exchange Centre (SEC) in 1976. bonds and national savings certificates exclusively at first. Then, in accordance with the Securities Exchange Act of 1983, it began to list and create a market for corporate shares beginning with the fiscal year 1984–1985. It also served as an issue manager for corporate securities. As a result, starting with the fiscal year 1984–1985, the SEC worked to advance both the primary and secondary markets for corporate and government securities. Despite the economy's expansion, the corporate sector's proportion of the country's GDP is still relatively small because of its tiny size.

The development of the primary and secondary markets for corporate securities has been significantly aided by the establishment of the Securities Board, Nepal (SEBO/N) in accordance with the Securities Exchange Act of 1983 and the transformation of the SEC into the Nepal Stock Exchange (NEPSE) in accordance with government policy on capital market reform. Following the SEBO/N and NEPSE's one-year incorporation, these changes in stock prices and market liquidity for corporate securities were noticed right away. The primary market is immediately and favourably impacted by this. However, a year later, there is still a declining tendency in both the primary and secondary markets, and this pattern is still present today.

Present Status of **Nepalese Stock Market**

Equity market has shown impressive recovery from the sharp fall in 1994 with the lag effect elongated till late 1998. At present, it has been performing more strongly than in the earlier years. This improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore, the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, at the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings.

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

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

Nepal Stock Exchange Limited (NEPSE)

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

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

His Majesty's Government, under programme initiated to reform capital market, converted Securities Exchange Center into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE is a non-profit making organization, operating under Securities Exchange Act, 1983.

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

NEPSE opened its trading floor on 13th January 1994 through licensed members. Nepal Government, Nepal Rastra bank, Nepal Industrial Development Corporation and Licensed Members are the Shareholders of the NEPSE.

Board of Directors

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

Capital Structure

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

Members

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

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

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

Listing

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

Trading System

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

Trading Days and Hours

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

Stock Trading Days and Hours

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

Board lot

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

Securities Board Nepal (SEBO/N)

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

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

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

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

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

1) Objectives

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

b) To promote industry and trade by supplying the required financing in competitive cost and to increase employment opportunities.

c) To issue bonds through securities market to meet the mid- term and long-term financing required by development projects to be operated by Nepal

government, government enterprises and municipalities, thereby reducing the foreign loan.

2) Quantitative Goals

a) To increase number of investors investing in share capital of corporate to at least 3 percent of total population.

b) To raise at least Rs.5000 million for the corporate bodies through primary market of securities .

c) To increase the amount of securities trading to at least Rs.10,000 million.

d) To increase the value of total market capitalization to at least 16 percent of total GDP.

e) To list additional 40 corporate bodies in the stock exchange.

3) Strategies

a) Modernizing the stock exchange.

b) Making the securities market regulatory system more effective.

4) Polices and working polices

a) Modernization of stock exchange (related to strategy 1).

b) To make corporate sector dynamic and broad based and to develop effective and investor friendly role of securities market regulators.

c) To increase allocation and operational efficiency of securities markets.

d) To make securities market mechanism fully transparent and credible.

e) Effective securities market regulatory system (Related to strategy 2).

f) To develop and expand securities market as an important source of long – term funds.

g) To increases depth and breadth of securities market.

5) Programmes and implementation Structure

a) Establish one window policy for public issue through SEBON and enhance capability of SEBON.

b) Arrange for the immediate ownership transfer of securities.

c) Develop simplified issue and trading system for the securities of privatized government enterprises.

d) Constitute a permanent committee with representation of ministry of Finance, Nepal Rastra Bank, SEBON and Insurance Board for the coordinated development of healthy and competitive financial market as well as for the development of unified financial regulator in the future.

e) Expand securities exchange facilities in the other place of the country considering its feasibility for the servers residing there.

f) Develop clear regulatory benchmark of SEBON and NEPSE.

g) Make the securities trading process and financial statement of the issuer companies more credible and transparent.

h) Implement codes of conduct for securities regulators, employees of stock exchange, directors, managers, auditors and advisors of the corporate bodies and for the securities businesspersons.

i) Provide training and education on different aspects of securities market and make institutional arrangement for regular research and study.

j) Make provision to take insider trading as a criminal offence so as to control such trading.

k) Make necessary legal provision for securities trading through nominee system.

l) Make necessary arrangement for SEBON to take membership of International Organization of Securities Commission (IOSCO)

m) Private NEPSE and develop it as a self-regulatory organization flowing good governance practices.

n) Establish Central depository system for immediate ownership transfer of securities and to protect investors from frauds that may occur on securities trading.

o) Provide incentives for the promotion of companies having wider ownership and good governance practices.

p) Make legal provision to encourage mutual funds, debentures and securitization.

q) Make arrangement for the trading government bonds in the stock exchange and provide benchmark and liquidity.

r) Develop appropriate legal provision to encourage entry of contractual savings in to capital market as well as develop regulatory system of such instruments under securities jurisdiction.

s) Simplify entry and exit process of securities businesspersons by following prudential norms.

t) Assist ICAN for the establishment of international accounting system and establish and operate disclosure review system of issuing companies.

u) Gradually automate securities trading of NEPSE as per feasibility.

v) Expand present centralize floor trading system, establish OTC market and develop trading system that can accommodate trading for local area.

w) Make clearing and settlement system of securities transparent and establish and/or utilize central depository system of securities for clearing and settlement.

*(*Www.sebonp.com*)*

Regulations of Stock Market

Securities Exchange Act 2040 is the main law to regulate the securities market in Nepal. But till now this act have been amended 3 times within the 13 years of its history. The 3rd amendment took place recently. Under this act, Securities Exchange Regulation 2050 and membership of stock exchange and transaction by-laws, 2050 have been formulated and enforced. Recently both regulations as well as by-laws have been amended to suit the changing environment of the securities market.

Companies Act, 2021 have been replaced by new companies act, 2053 with a view to make simple transparency in formation, operation and administration of the companies. Various formats related with articles and Memorandum of Association, prospectus, application

from for purchase of shares, balance sheet and profit and loss account have been prescribed.

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

Major Regulating Agencies

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

Securities Board

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

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

Nepal Rastra Bank

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

Company Registrar's Office

Company Registrar is only agency where companies are registered to monitor the operations of the companies and makes arrangements foe winding up the companies when required. Approval on the prospectus is granted by CRO only. Before granting approval it

obtains advises/opinion from securities board and for banking and finance companies opinion/advises on prospectus is taken from Nepal Rastra Bank too.

Nepal Stock Exchange

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

Insurance Board

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

Concerned Minister of Government of Nepal

The companies which are incorporated by special acts are required to get approved the prospectus from concerned ministers. For example, companies such as Nepal Industrial Development Corporation, Citizen Investment Trust and Rastriya Beema Sansthan are under the preview of minister of industry and Ministry of Industry and Ministry of Finance instead of Company Registrar's Office.

Stock Brokers

A broker acts as a middleman who matches buying and selling order, thereby securing both buyers and sellers. A broker does not take title to the securities involved in the transaction. The broker for his assistance in consummating the transaction charges a commission (see [1]).

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

Conditions for granting of certificates to Stockbrokers:

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

- He holds the membership of a Stock Exchange Act.
- He shall abide by the rules, regulations and by-laws of the Stock Exchange of which he is a member.

- He shall pay the amount of fees for registration.

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

Commission Broker

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

Floor Broker

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

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

Security Dealer

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

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

Market Maker

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

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

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

Price and Trading Procedure

The shares price is determined in the floor by the interaction of market forces i.e. demand and supply .The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of in search of the ever-changing new equilibrium. Then market price moves upward and downward independently. There are many reasons that causes the stock price fluctuation, major of them are economic, non economic and market factors.

On basis for the determination of stock prices is a dividend. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in turn, is strongly influenced by changing economic trends, which are closely related to interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings,

which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

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

Stock Exchange

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

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

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

The stock market is the only institution on the mobilization of substantial portion of public activity and the public share volume in other markets. This suggests that individual investors recognize the opportunities in those other markets and pursues them. Also, in some cases, institutional investors are restricted from these markets because the stock is often too small to meet their criteria or legal requirements. As well be seen in other markets,- the AMEX and the over-the counter market have out performed the NYSE in recent years in New York. Individual investors may know exactly what they are doing by not being the major force on the NYSE.

The extent of active stock market trading by individual investors should depend on the several factors. One is their knowledge. Do they understand how stock is valued, traded and managed? A second factor is their belief about the relationship between a security value and its price. Are the two usually identical, and if not, can typical investor expect to the difference? And the third factor is the trade-offs to be made between direct investing and indirect investing through the purchases of investment company share.

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

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

Statement of the Problem

The relationship between financial development and economic growth, with focus on developmental role of stock markets, has been in debate for some time in the past. Empirical studies suggest that financial development does matter and stock markets do drive economic growth. Unfortunately, in Nepal, despite a history of about half a decade of planned economic activities to develop real sector of the country, little attention was paid to the development of financial sector. Over the past one and half decade, financial sector, despite many problems has developed significantly in Nepal. However, most of the

developments were confined to the banking sector. Stock market has mutually remained stalled because of the low priority in the government's financial reforms polices.

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

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

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

Objectives of the study

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

1. To analyze the trend of Nepalese stock market in terms of market capitalization, number of transaction, number of securities traded and number of securities listed,
2. To examine the space of primary market growth in Nepal
3. To examine the growth of listed companies in Nepal
4. To analyze the growth pattern of stock market indicators (NEPSE index)
5. To make recommendation for improving the stock market activities in Nepalese perspective.

Importance of the Study

Securities market in Nepal seems in infancy stage. No long history has developed. Many practices, which have done in the developed market, have yet to be done. However, in this

short history how is it growing and what developments in different sectors, like trading mechanism, trading volume, index etc, have the market achieved till that date, these will be discussed in detail and will be beneficial all the stakeholders of the capital market to sense the development of the market.

Limitations of the Study

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

- The accuracy of the research solely depends upon the exactness of data used.
- The data used are basically secondary in nature.
- Variations of data in itself are also found when comparing with different sources.
- The study in fully based on the student's limited financial resources within a limited time frame.
- The study is not a final study on the subject.

REVIEW OF LITERATURE

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

Conceptual Framework

1. Capital Market

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

while the supply of fund comes from individual or corporate savings, institutional investor and surpluses of governments.

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

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

2. Securities Markets

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

So far as securities market is concerned, it is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities markets and all the agencies and institutions that assist the sale and resale for corporate securities (see [2]).

Securities are traded in a market called Securities markets. Although Securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of Securities by bringing buyers and sellers of Securities together. In other word, people and organizations wanting to borrow money are bought together with those having surplus funds in the Securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc. are the products that are traded in the markets, institutions such as investment bankers and securities firms, Securities issuing institutions such as government and corporate bodies and participants of the Securities issuing institutions such as government and corporate bodies and participants of the

scurrilities markets. Securities markets' major function is to provide line between savings and investment there by facilitating the creation of new wealth(see [3]).

Nepal stock exchange has defined the securities market in the following ways "The Securities market is the place where a larger number of financial Securities (shares, bonds, debentures etc.) are traded according to prescribed rules (see [4]).

3. Primary Market

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

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, government and individuals to be used in the consumption or real capital investment. The participants in this process are many and valued, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for fund. These brokers provide invaluable service. Their principle role is to assist in the pooling of the funds by the creation of security forms that will appeal to the ultimate investors(see [5]).

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

4. Secondary Market

The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides "liquidity" for financial assets making them more attractive. So secondary market is a place where the

securities once sold are purchased and repurchased to provide liquidity to the government securities and Securities Exchange Center operates the secondary market.

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

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

Secondary (indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers secondary market comprises the stock exchange, the over-the-counter market (see [9]).

METHODS

Research Design

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

Population and sample

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

Methods of Analysis

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

Statistical Tools

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

Arithmetic Mean Average

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

Multiple Bar- diagrams and Graphs

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

Percentage

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

RESULTS AND DISCUSSION

Introduction

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

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

Paid of Value of Listed Securities for Different Year

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

Table –1 Paid-up Value of Listed Securities

Fiscal Year	Paid-up Value (Rs.in Million)	% increase in Paid-up Value	% of Turnover in Paid-up Capital
1993/94	2182.2	-	20.23
1994/95	2961.8	35.73	36.60
1995/96	3358.5	13.40	6.42
1996/97	4476.5	33.29	9.30
1997/98	4959.8	10.80	4.09
1998/99	6487.4	30.80	23.12
1999/2000	7347.4	13.26	15.75
2000/01	8165.2	11.13	28.71
2001/02	9685.04	18.61	15.91
2002/03	12560.07	29.69	4.84
2003/04	13404.90	6.73	17.85
2004/05	14284.68	6.56	26.88
2005/06	19958.00	39.72	17.29
2006/07	21798.80	9.22	38.35
2007/08	29465.00	35.17	7.75

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

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

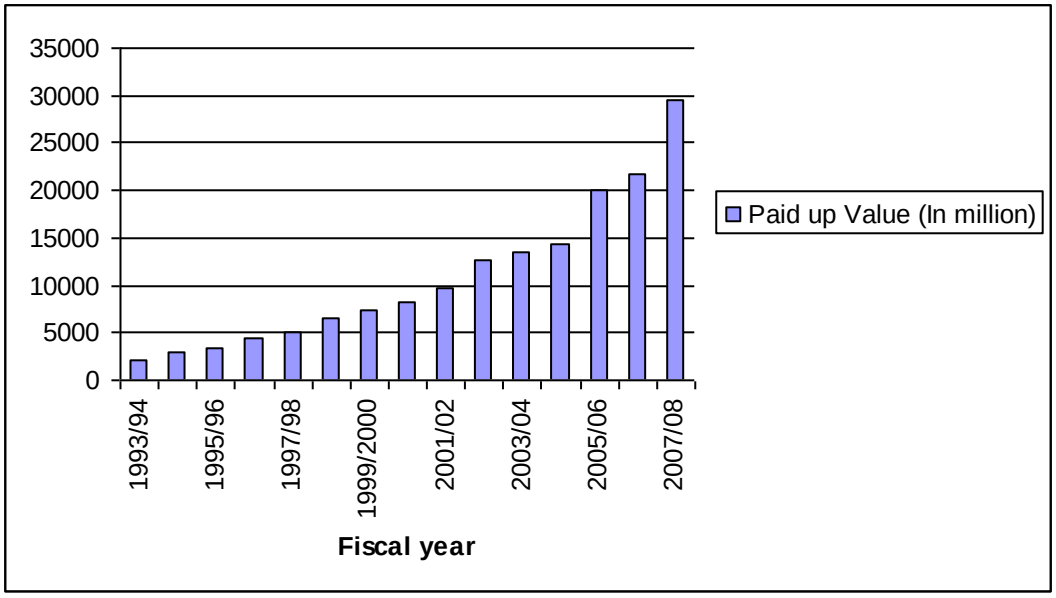


Figure 1 Trend of Paid-up Value of Listed Securities

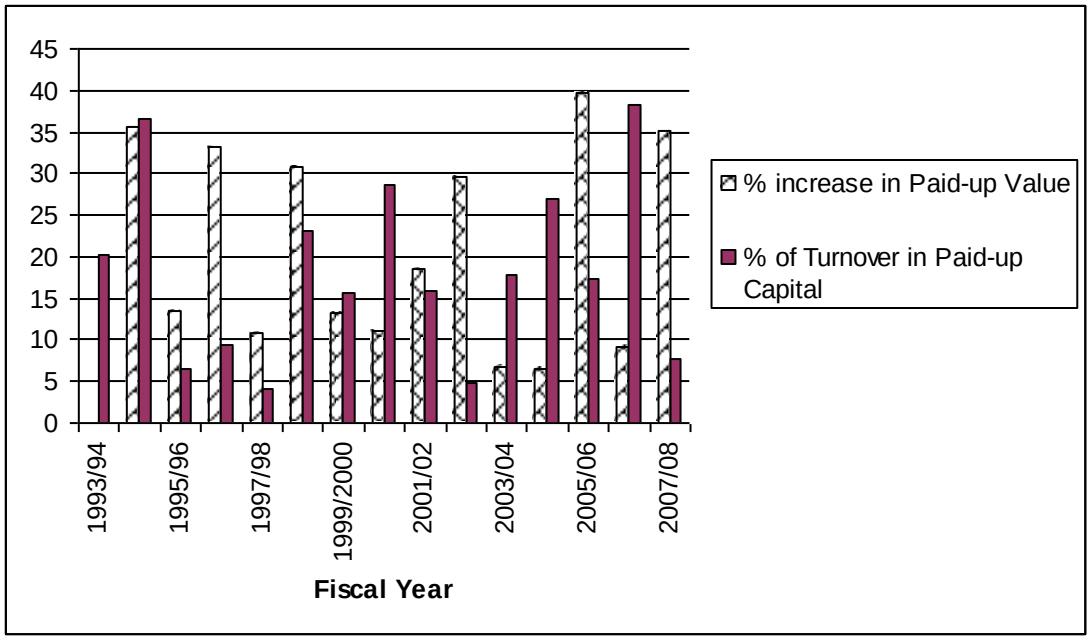


Figure 2 Changes in Paid-up Value of Listed Securities

Market Capitalization of NEPSE

The situation of market capitalization of NEPSE is presented in Table –2

Table- 2 Market Capitalization in NEPSE

Fiscal Year	Market Capitalization (Rs. in million	% Increased in Market Capitalization	% of Turnover to market Capitalization
1993/94	13872	-	3.18
1994/95	12963	-6.55	8.13
1995/96	12295	-5.15	-1.75
1996/97	12698	3.28	3.28
1997/98	14289	12.53	1.42
1998/99	23508	64.52	6.38
1999/2000	43123.3	83.44	2.68
2000/01	46349.4	7.48	5.06
2001/02	34703.87	-25.12	4.44
2002/03	35240.40	1.55	1.63
2003/04	41424.77	17.55	5.18
2004/05	61365.89	48.14	7.35

2005/06	96763.70	57.68	3.57
2006/07	186301.30	92.53	4.49
2007/08	366247.50	96.59	6.23

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

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

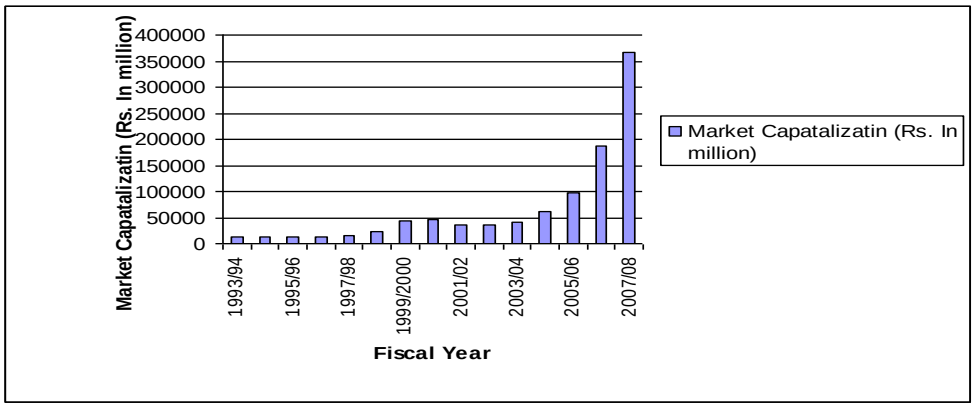


Figure 3 Market Capitalization of NEPSE

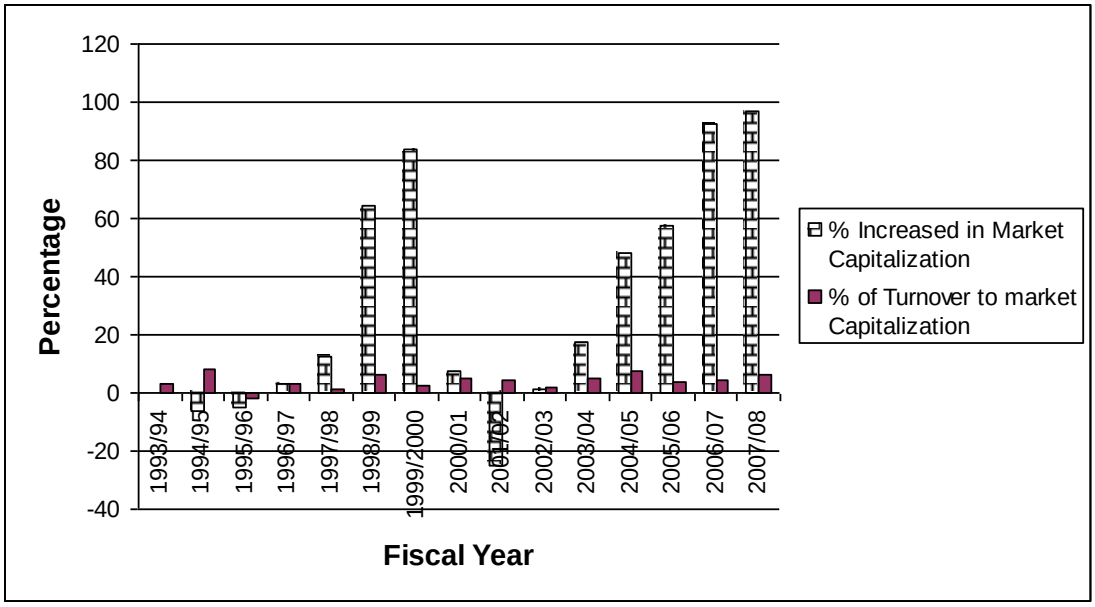


Figure 4 Changes in Market Capitalization of NEPSE

Growth Trend of Nepalese Stock Market

The position of number of listed companies, number of traded company and number of share traded are some important indicators of stock market growth. The situation of such variables is presented in Table –3.

Table-3 Growth Traded of Stock Market Indicator

Fiscal Year	No.of Listed Companies	% of Growth	No.of Traded Company	%of Growth	No.of Share Traded,000	%of Growth
1993/94	66	-	38	-	993	-
1994/95	79	19.70	53	39.47	3901	292.85
1995/96	89	12.66	59	11.32	2954	-24.28
1996/97	95	6.74	67	13.56	9443	219.67
1997/98	101	6.32	68	1.49	1195	-87.35
1998/99	107	5.94	69	1.47	4857	306.44
1999/00	110	2.80	69	0	7674	58
2000/01	115	4.55	67	-2.90	4989	-34.99
2001/02	96	-16.52	69	-3.00	6005	20.36
2002/03	108	12.5	80	15.94	2428	-59.57
2003/04	114	5.56	92	15	6468.18	166.39

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

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

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

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

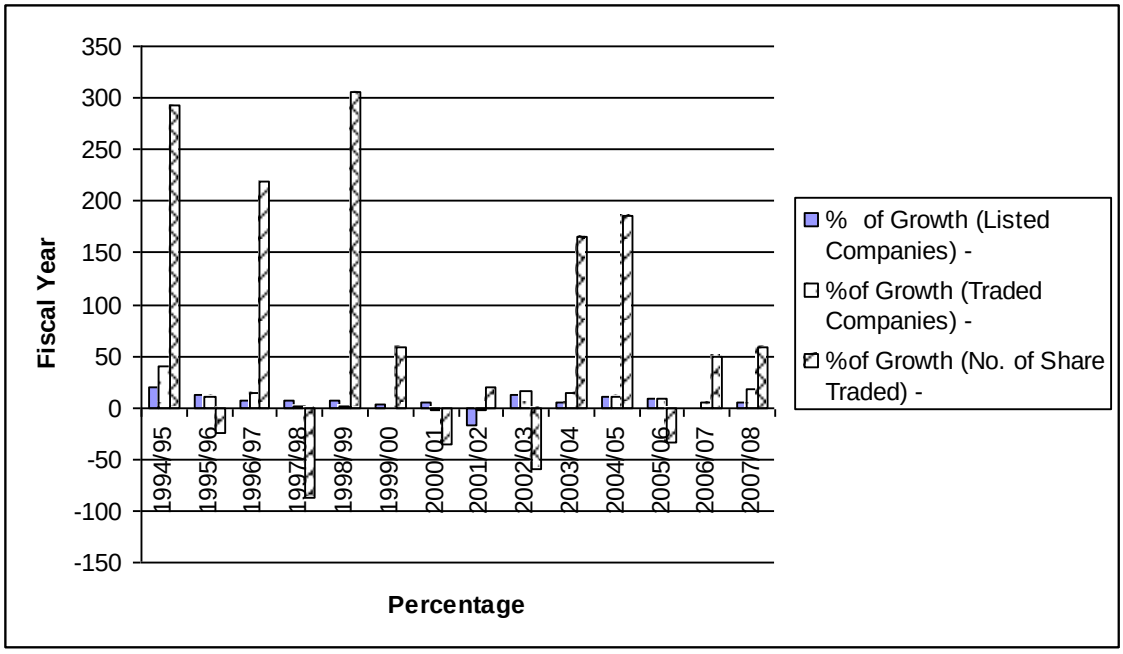


Figure 4 Growth Trend of Nepalese Stock Market

The number of transactions and number of listed securities in various years are presented in Table 4.

Table – 4 The Number of Transactions and Listed Securities in NEPSE

Fiscal year	No. of transactions (000)	% of Growth	No. of Listed Securities (000)	% Growth
1993/94	9357	0	43424	0
1994/95	21472	129.48	58247	34.14
1995/96	17943	-16.44	65880	13.10
1996/97	125428	-30.74	85193	29.32
1997/98	15483	24.58	90107	5.77
1998/99	15814	2.14	105632	17.23
1999/00	29136	84.24	114057	7.98
2000/01	64095	58.21	124971	9.57
2001/02	48028	4.19	134150	7.34
2002/03	69163	44	159958	19.24
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.22	194673	20.81
2005/06	97374	-8.35	226540	16.37

2006/07	120510	23.76	243504	7.49
2007/08	150800	25.13	321131	31.88

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

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

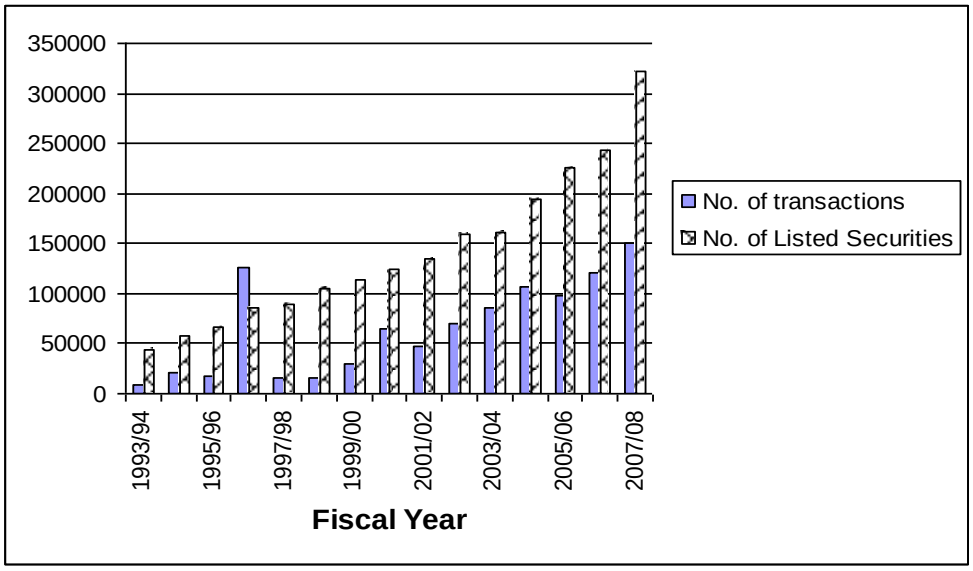


Figure – 6 The Number of Transactions and Listed Securities in NEPSE

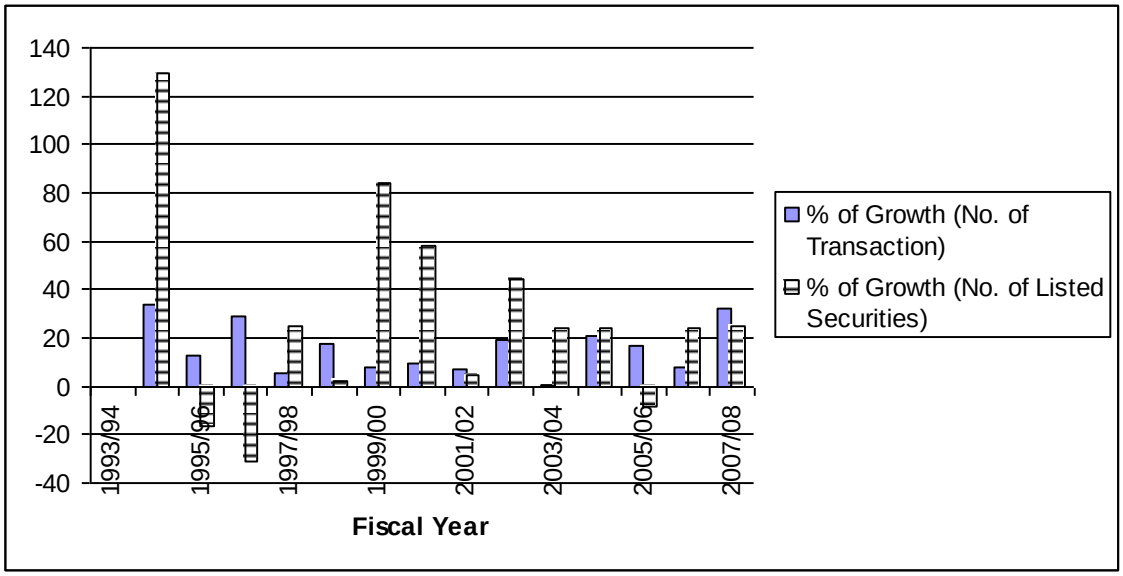


Figure – 7 Growth in Transactions and Listed Securities

Market Day Per Year and Daily Turnover in NEPSE

Average daily turnover is one of the most important indicators of stock market development. Daily turnover provides liquidity to the stock market and survive without having transaction in stock market whereas market day affects the average daily turnover in stock market. The stock market day per year and average daily turnover for the period of 1993/94 to 2007/08 are presented in table –5

Table –5 Market Day Per Year and Average Daily Turnover in NEPSE

Fiscal year	Market Day Per Year	% of Growth	Average Daily Turnover (Rs. in million)	% of Growth
1993/94	121	0	3.65	0
1994/95	242	100	4.36	19.45
1995/96	240	-0.83	0.90	-79.36
1996/97	239	-4.02	1.74	93.33
1997/98	237	-0.84	0.85	-51.15
1998/99	231	-2.53	6.49	663.53
1999/00	240	3.9	4.82	-25.73
2000/01	231	-3.75	10.14	110.37
2001/02	246	-6.50	6.26	-38.26

2002/03	238	-3.25	2.42	-61.34
2003/04	243	2.10	8.82	264.46
2004/05	236	-0.03	19.10	116.55
2005/06	228	-3.39	15.10	-20.94
2006/07	232	1.75	36.00	138.41
2007/08	235	1.29	97.10	169.72

The above table shows the inconsistency of average daily turnover in NEPSE during different years. The average daily turnover was Rs. 3.65 million in the year 1993/94 and it has increased upto Rs. 19.10 million in 2004/05, decreased to Rs. 15.10 million in 2005/06 and again increased upto Rs. 36.00 million and 97.10 million in the fiscal year 2006/07 and 2007/08 respectively. The growth rate is negative during the year1995/96, 1997/98, 1999/2000, 2001/02, 2002/03 and 2005/06 by -79.36,-51.15, -25.73, -38.26, - 61.34 and -20.94 respectively. The highest growth rate is 264.46 percent in the year 2003/04 with the average daily turnover of Rs. 8.82million as compared to Rs. 2.42 million of 2002/03

The figure 8 also shows that the market day is quite consistent expect in the year 1993/94 which is of 121 days per year. the highest number of market days is 246 days in the year 2001/02. In this year the growth rate is 6.50 positive following the negative growth rate of 3.75 in 2001/02 with market days of 231 days. The highest growth rate is 100 percent positive in the year 1994/95 with 242 market days per year. Higher the market days per year, higher will be the chance of stock market growth.

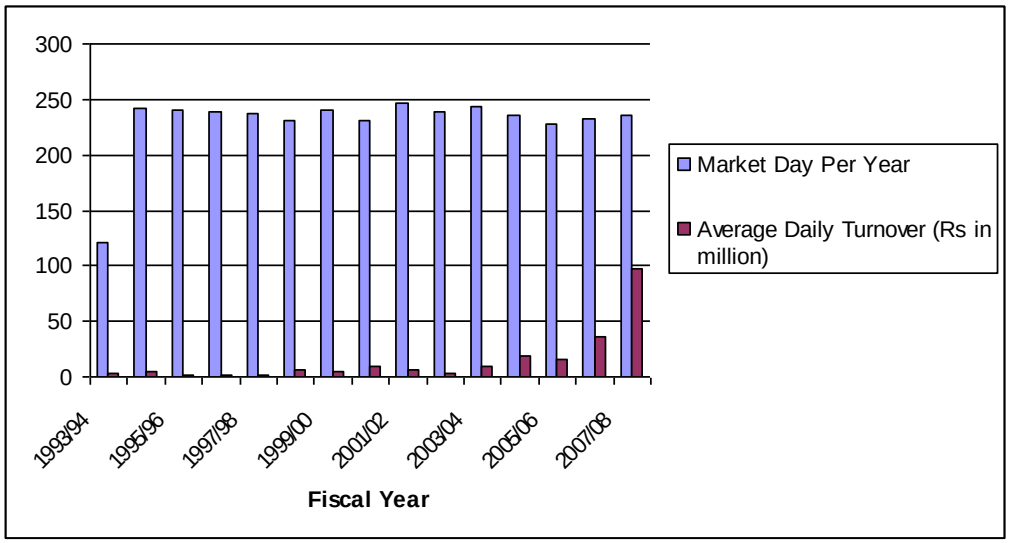


Figure 8 Market Days Per Year and Average Daily Turnover

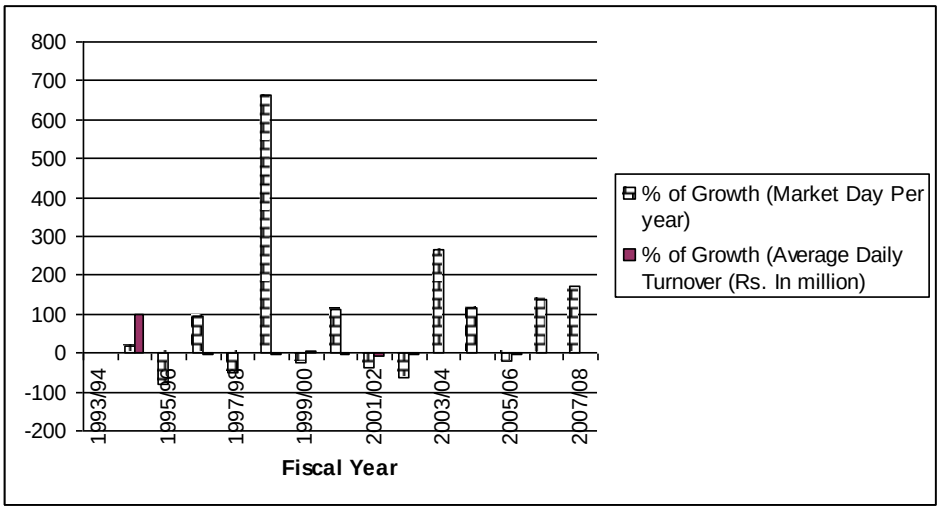


Figure 9 Changes in Market Days and Average Daily Turnover

Market Turnover in Volume and Value

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

Table- 6 Annual Market Turnover in Volume and Value

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

2007/08	286.00	22820.80

From the Table 6 it can be concluded that the annual market turnover in value was highest in the fiscal year 2007/08 and lowest in the fiscal year 1997/98 where as the volume of market turnover was highest in the fiscal year 2007/08 and lowest in the year 1993/94.

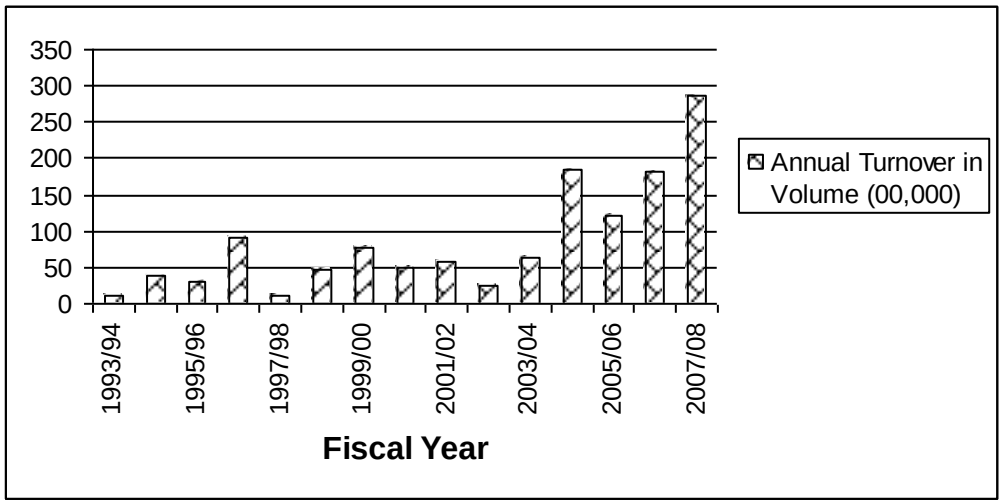


Figure 11 Annual Turnover in Volume

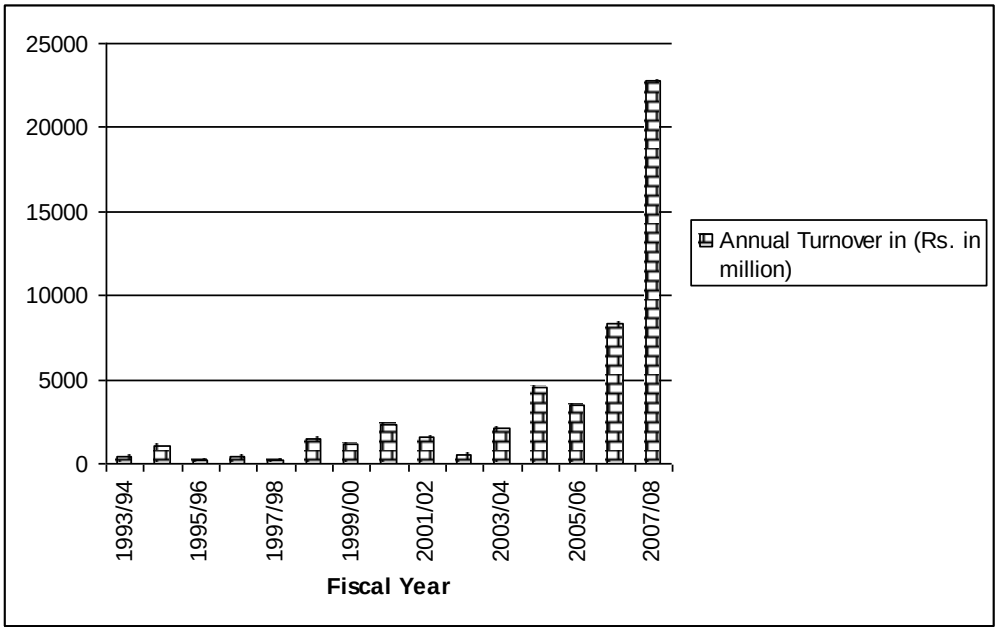


Figure 12 Annual Turnover in Value

Number of Issue Approved and Total Amount Of Issue Approved

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

Table –7 Number of Issue Approved and Total Amount of Issue Approved

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

Table 7 shows that SEBO/N approved the issue of various types of securities in various volumes at various time. The number of issue approved was 17 in initial fiscal year 1993/94 but at the end of fiscal year 2007/08 the total number of issue approved was reached to the point of 275 issues. The highest number of issue approved was 64 in fiscal year 2007/08. The second highest issue approved was 34 issues in fiscal year 2006/07 which was followed by the third highest issue approved 29 issues in fiscal year 2005/06. Similarly, the least three issues approved during the period were 5 issues in fiscal year 1994/95, 1995/96, 10 issues in 1999/2000, 2000/2001 and 12 issues in 1994/95, 1995/96 and 1997/98 separately.

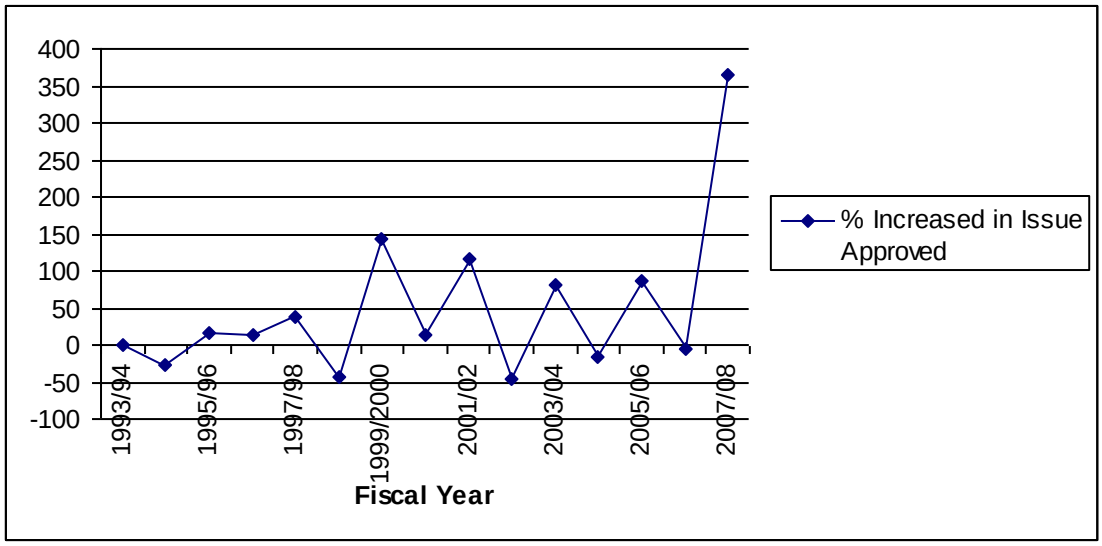


Figure 13 Changes in Issue Approved

Similarly, from the figure 13 – it can be concluded that the amounts of issues approved by SEBO/N vary during the period. The highest amount of issue approved was Rs. 10668.20 million in the fiscal year 2007/08 and it was followed by Rs. 2443.30 million in fiscal year 2005/06, Rs.2295.50, million in year 2006/07. Similarly, the least issue approved for the period was Rs. 34.40 million in fiscal year 1993/94 and Rs. 254.21 million in fiscal year 1994/95 and Rs. 258.00 million in fiscal year 1998/99. The percent increased in issue approved of fiscal year 2007/08 is 364.74 percent, which is very significant than that of the negative rate of –6.05 percent of previous year 2006/07. The highest growth rate in issue approved can be traced in the fiscal year 2007/08, which was 364.74 percent positive. There was a negative increased in issue approved in the fiscal year 1994/95, 1998/99, 2002/03 and 2006/07 by –26.19, -44.20 –45.0 and -6.05 percent respectively.

NEPSE Index

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

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

the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

Each day's index = **Error!**× 100

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Stock Price

P_0 = Base Year Price

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

Q_0 = Base Listed Shares.

Table 8 Trend of NEPSE Index

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

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

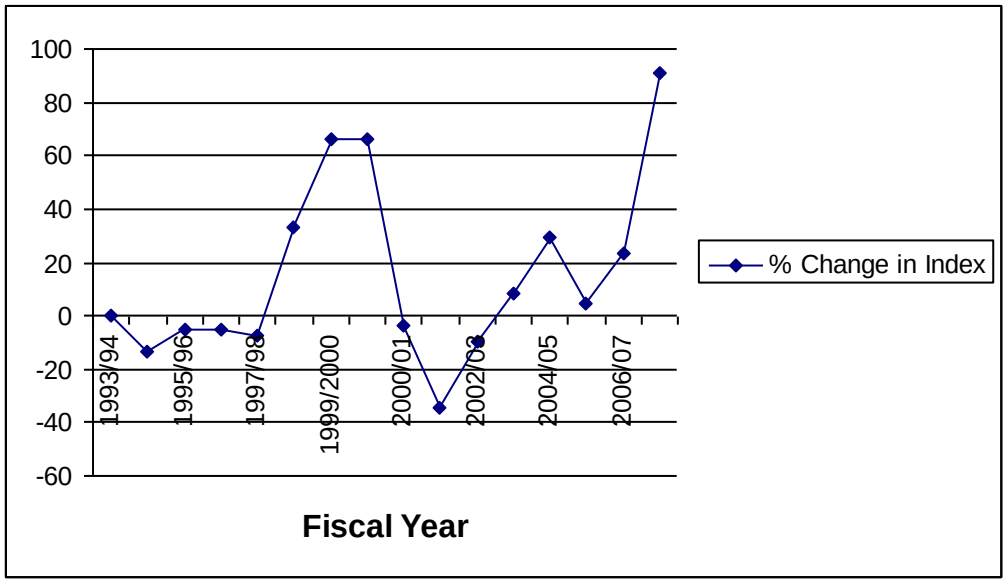


Figure 14 Trend of NEPSE Index

CONCLUSION

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

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

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

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