Scholars Journal of Economics, Business and Management OPEN ACCESS
Abbreviated Key Title: Sch J Econ Bus Manag
ISSN 2348-8875 (Print) | ISSN 2348-5302 (Online)
Journal homepage: https://saspublishers.com

Contribution of Stock Market Development on Economic Growth of Nepal

Rajesh Shahi[1*]

[1]School of Business Management, Noida International University, Greater Noida, India

DOI: https://doi.org/10.36347/sjebm.2026.v13i06.007 | **Received:** 02.05.2026 | **Accepted:** 15.06.2026 | **Published:** 17.06.2026

***Corresponding author:** Rajesh Shahi
School of Business Management, Noida International University, Greater Noida, India. Email: ty88sm@gmail.com

Abstract **Original Research Article**

The evidences to support the link between the development and growth rates of stock markets and real economic output in Nepal's frontier economies are extremely scarce. In this study, the role and importance of stock market development and its relationship with the economic growth in the context of Nepal is explored, which serves as a much-needed contribution to the literature of finance-growth relation for the emerging economies in South Asia. The research approach adopted was quantitative research design with secondary-time series data from 2013 to 2024 from Nepal Stock Exchange (NEPSE), Securities Board of Nepal (SEBON), Nepal Rastra Bank and National Economic Survey. Descriptive statistic, Pearson correlation and multiple regression analysis using SPSS software were used to regress five indicators Market Capitalization, Stock Turnover Value, NEPSE Index, Broad Money Supply, and Digitalization in real GDP. The most important factor on GDP growth was digitalization ($\beta = 2.216$, $p < 0.001$), which captures the technology-enabled market participation – as shown in the increasing number of dematerialized accounts – which happened exponentially. The NEPSE Index showed significant positive relationship ($\beta = 2.053$, $p = 0.025$) while Market Capitalization showed significant negative relationship ($\beta = -2.813$, $p = 0.018$). The model explained 98.5% of GDP variance ($R^2 = 0.985$). The value of Broad Money Supply and Stock Turnover Value were not stand-alone statistical significance. Based on the study, investments in digital infrastructure and transparency in the market with the help of technology are the most powerful factors for capital market-driven economic growth in Nepal and have significant implications for designing regulations, financial literacy promotion and for short- and long-term development strategy.

Keywords: Stock market development, economic growth, NEPSE, digitalization, market capitalization, Nepal, GDP, emerging markets.

CHAPTER 1: INTRODUCTION

One great source of funds to expand the company is the stock market. A pricing procedure motivates effective businesses to allocate a superior percentage of their new investment resources to provide fresh stock (Lazonick, 2018). This in turn improves the capital formation and private investment which facilitates economic growth (Orji *et al.,* 2010). The stock market not only develops the economic growth but also it serves as a pivotal point for the development of companies, sectors, sub sectors and industries all of which contribute to the general slight increase of the economy of the country. Efficient stock market may encourage the saving at domestic level, mobilization of saving, capital formation and it also makes it easier to allocate the capital efficiently in the productive sectors of the economy, claims Dhungana (2013).

These elements could contribute to the increase of employment, output and income in the long run promoting the nation's economic expansion. The expansion of the stock market is essential to the management of the money to the development projects of the country. Consequently, the stock market may act as a great contributor to the country's economic growth (Gupta & Kathy, 2009). However, there has been a few interesting discussions on how the evolution of the stock market impacts economic growth by scholars. Because of this, central banks, technocrats, policy advisors and economists from all over the world keep a close watch and regulation over the stock market activities (Goodhart, 2013). The economy is affected by the stock market in a number of different ways. The value exchanged, stock market turnover, real market capitalization are some examples for these channels as well as stock market liquidity. According to Yatey and Adjasi (2007), the size of the stock market is a very good

indication of the growth of GDP, output, and capital accumulation.

Development of stock market and Economic Growth

Economic literature has investigated the link between expansion of the market and economic growth since the stock market was initiated. Today, it is safe to assume that the effect of changes in the stock market can be felt on the economic expansion. According to Calderon and Liu (2003), the nature of such causal link remains open to controversy. The stock market offers a significant supply of money at a relatively low cost and is an important agent of mobilization of domestic savings through improving the financial instruments and diversifying the portfolio of investors. Theoretically, strong stock markets have the effect of stimulating savings (Donwa & Odia, 2010). It has been shown that savings and GDP growth have favorable connections.

Munro (2000) found that investments with savings are based on the stock market. Financial institutions offer a stage in exchange of financial instruments like debentures. It assists in transferring funds from places where they have surplus capital to areas where there is inadequate capital and is used in productive investments. It is the role of the public and private sectors to improve the production by increasing investments and finally the economy (Kumo, 2009). Many scholars have delved deeply into the topic of the relation between GDP growth and stock performances, and thus concluded that stock performances are essential in raising the GDP growth. Stock performance is critical to the performance of GDP since stocks are a major factor of the hypothesis implemented to increase output (Nazir, Nawaz, & Gilani, 2010). One of the significant areas where wealth building is thought to improve the performance of the GDP is with the stock market. According to experts, there are more rapid increases in the stocks in low-income countries (Bhoyu, 2011). Thus, in the recent years, the stock market has played a major role in the country's economic growth.

The government and authorities are getting more concerned about the stability of the stock market. A number of factors such as low investor awareness, insider trading and manipulation, poor regulatory framework and infrastructure and political instability are among the causes of the underdeveloped and extremely volatile Nepalese stock market (Ghimire, 2022; Panta, 2020). A strong stature and steady stock market helps increase the market capitalization and also helps to increase the integration of the global markets (Pan & Mishra, 2018). For diversity in terms of attracting investors of diverse backgrounds as well as enhancing more possible for investment in stocks, bonds, commodities, and other instruments, Nepal stock market needs to be more diverse (Adhikari, 2013).

Monetary and fiscal policy, growth rate of GDP, inflation rate and money supply are macroeconomic elements which affect the growth of a nation's economy (Timilsina, 2001). The stock market serves for providing information for potential investors, accumulation and mobilization of savings, liquidity and distribution of capital to the many economic sectors (Dabwor *et al.,* 2022; Thaddeus *et al.,* 2022). A strong active and stable stock market can contribute to the growth of the economy (Qamruzzaman and Wei, 2018). The rate of economic growth is usually higher for nations with less political unrest and corruption (Ngare *et al.,* 2014). Significant and more liquid markets are generally linked to stringent information disclosure regulation, world-wide recognized accounting standards, and free capital flow movements (Demirguc-Kunt & Levine, 1996).

The body responsible for managing the country's stock market is Nepal stock exchange (NEPSE). It is commonly believed that rising security prices are the significant factors in boosting the development of GDP and a significant decline in stock values signals the recession (Siong & Thing, 2008). A major factor in the improbability that was especially ingrained during the 2009 economic recession was the sharp drop in stock values that was evident in the international securities markets (Fuentes & Pereira, 2010). the stock markets are usually linked to economic growth since they are a source of capital formation.) Furthermore, the outcomes of the advancement of an economy result in the growth of securities market (Osamwony, 2013).

Several countries have developed the policy to enhance the share market development (SMD) in order to assist in economic growth (Pradhan *et al.,* 2014; Nguyen et al. and Bui, 2019). The growth of the stock market is an integral component of any change in the economy. The stock market is one method of converting savings to investments. In example, the transaction costs and the costs of gathering, processing and disseminating information on companies and possible investment projects can be lowered through securities market (Levine, 1997). Companies may issue stocks in order to get ongoing funds for development. By providing an equity capital, the market is also helping the companies as they avoid over-dependence on debt financing, thus increasing the corporate debt equity ratio (Sylvester & Enabolu, 2011).

Nepalese economic growth as precisely gauged by GDP, examining the influence or contribution of share market development is one of the aims of the study. Money Supply (MS), Market Capitalization (MC), Stock Turnover Value (STV), NEPSE Index (NPI) and the Digitalization of the NEPSE share market (NLC) are the elements or markers of the share market development. Both NEPSE and SEBON monitor the share market, and they monitor and review these share development aspects. The recent change in the structure of the government has resulted in the share market NEPSE index rising to some extent.

It is also expected that certain regulations and plans would be developed in order to make these share markets platforms accountable, transparent and time-sensitive. The Ministry of Finance, NEPSE, SEBON, Nepal Rastra Bank, and many financial advisors and specialists will have to collaborate in a collaborative effort to devise a more stable and succinct plan for how to improve the share market so that both individual as well as institutional investors can attain profits and stimulate the nation's economy.

Statement of the problem

A country's ability to increase the output rates of human and physical capital, to put the resultant productive assets to effective use, and to ensure that all its citizens have access to financial assets, is what determines its long-term economic growth. The rapid economic development deems the demand for some financial agreements or arrangements as revealed by many researches and policymakers (Levine, 2005; Gallagher *et al.,* 2021). The established financial industry in some way will have to cater for these demands. Since the development of growth-led finance hypothesis and finance-led growth hypothesis, there has been intense discussion in the developing and growth literature regarding the nexus between financial development and economic growth.

This research project will thus bridge a gap especially in the context of the relation between the economic growth and financial growth of Nepal (Shrestha & Subedi, 2014). Lack of proper governmental policies, political uncertainty has led to volatility in Nepal stock market. The fact that there are more individual investors than institutional investors in the Nepalese stock market is one of the prime issues with the Nepal stock market during this research study. The effects of the stock market on the economic growth of Nepal is the topic for this study.

The banking industry has been the main concern in past studies (Hui and Jha 2013, Timsina 2014) and thus it has not taken stock performance into consideration as a contributor factor of GDP growth. This would lead policy makers to start to focus on the stock market performances. This study focused on finding the links between the GDP of Nepal and stock in an attempt to bridge a gap in the literature. The association has not been particularly backed up by profound research on the matter.

Examining the impact or contribution of share market development to the economic growth of Nepal as precisely assessed by the GDP is the aim of the study. Money Supply (MS), Market Capitalization (MC), Stock Turnover Value (STV), NEPSE Index (NPI), and Digitalization (DG) are the elements / markers of the development of the share market. Both NEPSE and SEBON monitor the share market, and they monitor and evaluate these share development aspects. The recent change in the structure of the government has led to an increase in the share market with relative increase of its NEPSE index. It is also envisaged specific regulations and plan would be developed so that it would make these share market platforms accountable, transparent and time sensitive. NEPSE, SEBON, Nepal Rastra Bank, Ministry of Finance, and several financial advisors and experts need to join hands and come up with a more stable and succinct plan of enhancing the share market for the benefit of individual and institutional investors, as well as the positive push in the country's economy. For this reason, a study has been made to determine the extent of influence that the stock market factors have on the nation’s economic growth. The following research questions were answered in the present study:

a) What is the status of the Nepal stock market development and economic growth at present?
b) To what extent has the performance of the stock market affected the economic growth in Nepal?
c) So how would stock turnover value and market capitalization affect the economic growth of Nepal?

Objectives of the Study

Analysing the role of elements of stock market development and their impact on the economic market growth of Nepal is the chief aim of the study. The following are some of the specific objectives of the study:

a) To investigate the current status of the stock market development in Nepal in terms of economic growth.
b) To determine the effect of money supply, market capitalization, stock turnover value, share market digitization and NEPSE index on economic growth of Nepal.

Hypotheses

The following are the hypotheses derived from the variables and the goals of the study: The total amount of money in the economy i.e. Bank accounts, cash and coins is called the money supply. This hypothesis will look into whether the changes in the money supply in Nepal have an effect on the economic expansion of the nation. According to the argument, more money may boost spending and investment that would boost economic growth.

H1: There is a positive correlation between money supply (MS) and economic growth of Nepal.
H2: There is a positive correlation between the market capitalization (MC) and the Nepal's economic growth.
H3: There is a positive correlation between the economic growth and value of stock turnover (STV) in Nepal.
H4: Digitalization of the share market (DG) and economic expansion of the country of Nepal have positive correlation.

H5: There is a positive correlation between the NEPSE index (NPI) and the economic growth of Nepal.

Significance of the study

The status of the economy is known to the stock market. When the stock market is growing, the economy is doing well, and when the stock market is in a decline, the economy is not doing well. Stock markets and economic growth are directly interlinked together. Economic growth is followed by opportunities for investment and savings and better potential for earning. It should be noted that the ability of any country to experience an economic growth is highly affected by the level of industrialization. It represents the need for study for identification the problem, future growth prospect and opportunities. What policies might be developed, what laws have to be sanctioned, what rules and regulations need to be modified to enable the market to expand and run smoothly? The significance of the study lies in the fact that it will help investors, government and other stakeholders in making policy decisions and forecasting economy and stock market based on the variables under investigation.

Since this study can be used to estimate economic performance by examining the performance of the NEPSE index and estimating Nepal's per capita income in the future which can be used as a stand-in for the standard of living of the country's citizens, economists can also profit significantly from it. Finally, since the relationship between Nepal's economic growth and stock performance has not been studied by many scholars, the research will be fundamental in empirical studies on the topic. In order to fulfil the information needs of the associated persons the financial statements should be kept up to date. This study will be useful to the university students to understand the current situation, development, issue and challenges of Nepalese stock market.

Limitation of the study

Some of the limitations of the study were following: -

a) All of the data used in this study is secondary and the validity of the data source plays a crucial role.
b) The study covers till data from the year 2013 AD to 2024 AD, only certain statistical tools such as correlation and regression analysis are used, such as market capitalization, trading turnover, digitalization, etc.
c) The NEPSE index in this case is only variables which are considered independent; whereas the real GDP is only variable considered as dependent variable.
d) A 20-year period could not be included in the study due to limitation of resources.

Organization of the study

This thesis has been organized in five chapters which are in brief, mentioned as follows, chapter one deals with general background of the study, the objectives of the study, research questions, and significance of the study, limitations of the study and chapter plan of the study. Chapter two is review of literature, theoretical is and empirical and research gap. Chapter three deals with research methodology which is divided into sub-chapters including introduction of research methodology, research design, population sampling, nature, sources and method of data collection, data processing and analysis, percentage analysis and methodology matrix. Chapter four comprises of results and discussion and major findings. Chapters five contains summary, and conclusion and implications of the study.

CHAPTER 2: LITERATURE REVIEW

Introduction

Capital Markets are required in economic growth. It provides the capital for the venture. The capital market guarantees presence of stable competitive market for purchase and sales of securities by taking into account the marketability and liquidity. Most nations would like to see greater growth in their economies and improve the quality of life for their citizens. Economic growth calls for capital investment, saving, production, conducting and facilitating investment (Bekaert and Harvey, 1998).

In Nepal, secondary financial markets are used for exchange of contracts, securities and assets between individuals and organizations. Capital markets are places through which providers and seekers of capital trade money. To raise money in the economy, buyers and sellers of securities at the capital market exchange financial securities such as bonds, shares, mutual funds, and other long-term financial investments. Capital markets represent the economies of all the countries and mobilizes the capital for the economic growth (Stiglitz, 2000). Additionally, the development of an effective capital market also has to be developed so as to attract ownership and debt capital through appropriate and well-defined instruments. The capital market enables economic growth by placing the assets of investors at the mercy of investors, and therefore, will be able to save every dollar for his or her future.

Companies use the financial markets to raise funds to operate and grow (Bist, 2017). Capital markets eliminate old technologies on the go as the economy changes in real time. The potential in the country has been reflected by the ability of emerging investors in the last three decades. The capital market in Nepal is a very new market. The stock performance over the time reveals that the savings have been mobilized and put in the country's industries and enterprises. It leads to an increase in economic growth and capital formation. Many developing countries like Nepal have not yet developed their capital market, while more players and capital enter into the capital market, the market is increasing and improving.

Theoretical Review

Stock market is an important tool for the production of capital for their growth. Because of this, by selling new stock, a process of pricing will encourage well-run companies to invest more resources in new investments. This increases the level of private investment and capital formation which in total increases the economic growth (Mose, 2023). In addition to promoting economic expansion, the stock market also functions as a vital point for the expansion of industries, businesses, sectors, subsectors, and trade all of which contribute to the overall expansion of a nation's economy to a respectable extent (Ergun, 2012). For this reason, the activity of stock markets is monitored and strictly controlled by technocrats, policy advisors, economic managers and national central banks. There are a number of ways that the impact of the stock market is passed on to the economy. These channels include, among other things, the value transacted, the real market capitalization, the liquidity of the stock market and the turnover on the market.

It has been acknowledged that there is a correlation between GDP and stock performance (Carlin & Mayer, 2003), and size of stock markets are a good indicator of fund accumulation, output level and GDP growth (Yartey & Adjasi, 2007). Financial institutions provide a platform in return for financial instrument such as debentures which helps to transfer capital from the place of excess capital to the deficient capital and used for profitable investment. It helps the public and private sector increase the output by increasing investments which in turn boosts the economy (Kumo, 2009).

The role of financial sector in fostering economic growth has been widely discussed in the literature on development economics. In the historical literature, Gurley & Shaw (1955) provide an argument to the importance of financial sector in the development of the real sector. Buffie (1984) laid a different perspective to financial development economic growth relationship. The importance of financial development on economic growth was laid down during the industrial revolution and is applicable at the present time especially in the developing world (Gupta, 1984). The financial industry, manages a huge amount of working capital, provides entrepreneurs with knowledge, innovative ideas including new to the market, runs the new company, increase the output and employment, promote more consumption and saving (Shrestha, 2005; Perera & Paudel, 2009). Formal financial inclusion helps alleviate poverty and inequality of income. A large segment of the population can afford to participate in financial activities when financial activities are cheap and well accessible and easy to complete (Pant, 2016). There is a close connection between income level and ready access to a comfortable lifestyle. Based on Diener et al (2010), materialistic wellbeing is increased when basic necessities such as food, housing, healthcare and education are met. Subjective wellbeing comes after this.

Conventional economists believe that the more investment and production capacity increased are the main forces behind economic growth (Rousseau & Wachtel 2011). The first half of the 20th century saw the neoclassical economics acknowledge labour, capital, and land as the three major factors in economic expansion. This was enough for capitalist economies and the more they used them the more economic growth they witnessed. In 1957, a growth model known as the Solow-Swan growth model was suggested which said that economic growth is affected greatly by technology. In addition to making resources more efficient and outputs higher quality, technological innovation further increases our knowledge on the industrial processes. Many aspects of the advance of technology have effect on economic growth.

This includes designing, creating and manufacture new and unique inputs and processes as well as restructuring the existing machinery and procedures (Polat et al. 2015). It is not only financial investments in machinery, equipment and real estate. Economic growth is the change in the total output of a country over time, or the production of product and service from one given period to the other (Agarwal, 2019). It is the increase of the use of resources in societies (either from the building of new enterprises or the opening up of undeveloped territory to be used.) Therefore, the fact that per capita income changes most quickly measured yearly makes growth reasonable.

Q- Theory

The idea of how the stock prices can have direct impact on the growth of the economy was invented by Tobin (1969). With a coefficient of "Q" the theory showed the effect of the stock price on the cost of capital. The coefficient of Q or "q" is equal to market price of equity divided by the cost of capital. If the "q" ratio is high, businesses will invest more which will immediately have an impact on prices. By having "q" as the ratio of a company's replacement capital to its market value of existing capital, the theory is rendered even more clear. As a result, businesses who need more money than they can make by selling stocks on the market can raise the money they need by selling stocks. As stocks in question gain value, new investors may be able to profit from capital gains. In general, where the price of stock in the open market was high, companies attempted to raise money by selling shares on the market. Stock valuation measurements serve as a trigger for having investment decisions and in turn enhance economic activity that eventually equals economic growth.

A basic perspective on the direct relation between the stock prices and economic growth is provided by Q-Theory. According to this idea, the so-called "q" ratio is a significant factor in investment

decision making and this ratio is the market value of the current capital of a company to the replacement cost of the assets of the company. Businesses will be encouraged to increase their capital formation expenditures when the market places a higher value on the assets of a company compared with their cost of replacement, a high q ratio will indicate. This rise in investment stimulates economic activity and this ultimately results in economic growth. Metrics such as market capitalization and NEPSE index indicate that the growth of stock market in Nepal can lead to a major enhancement of investment opportunities. Businesses are better able to have capital and issue equity when stocks are valued higher which causes the economy and therefore elevates GDP.

Endogenous Growth Theory

The idea that established a connection between finance and the growth was created by Lucas (1988). By reducing the cost of financial intermediation and thereby boosting saving rates, the model attempted to boost the productivity of capital and stimulate economic growth. The concept is that as the financial systems grow so does the innovation funded through them and ultimately the economic growth. It makes the claim of having a close relationship between financial development and economic expansion. Increasing the share of savings and saving rate, investment and marginal productivity would bring better level of financial development and a high rate of growth. According to the endogenous growth theory, there is a positive correlation between the growth of the economy and the stock market development.

Lucas Endogenous Growth Theory, 1988 has more details about the relation between financial development and economic growth mutualism. This theory is that a growing and sophisticated financial system increases the productivity of capital and saving rates by reducing the costs of financial intermediation. Financial resources are easier accessible and more efficiently spread with the expansion of Nepal's stock market with the increase of stock turnover values, improved financial service digitization. As a result, it can be seen that Nepal's stock market development indicators are feasible to understand as to be crucial in facilitating the growth of the country's economic expansion by establishing better avenues for investment and savings.

The Neo-Classical views of Economics

A measure of economic growth and development, real GDP (GDP) is calculated a function of macroeconomic variables and development of the stock market. Economic growth will be the result of liberalization of the capital market as it will attract investments from outside areas liberalized economy. There is also credit to the private sector (cps) which is calculated by dividing by the GPD the total credit provided by banks to the public sector; this is a barometer for the level of activity and efficacy of financial intermediation. Increased productivity and efficiency developments within the private sector because of the rise in financial resources, particularly lending, is expected to result in economic growth (Owusu & Odhiambo, 2012). The third control variable that is used is foreign direct investment (FDI) which is a useful instrument when it comes to knowledge transfer between countries. Since it has an effect on both the volume and growth of GPD, inflow of FDI usually stimulates economic growth.

Neo-classical models of real GDP as a function of stock market development indicators as well as other macroeconomic variables are commonly used. As evident by the fact that market capitalization has increased and foreign direct investment (FDI) has become prevailing, the liberalization of the capital market is expected to accelerate the growth of the economy because it will attract foreign investment. Also, increasing the productivity of the private sector is to a large extent dependent on the credit extended to the private sector, which is a proxy for financial intermediation. A booming stock market could result in greater productivity and efficiency in the private sector in Nepal, which will improve the economic conditions of the country as a whole. This point of view highlights the ways in which a sound and liberalized economical system of financials can promote economic growth.

The Gurley and Shaw Propositions

After analyzing the relationship between the financial market expansion and the real economic growth, Gurley and Shaw (1960) concluded that financial innovation is a dynamic process that influences and is influenced by the real sector growth. They noted that the human capital generation in underdeveloped and disadvantaged contexts is mainly on account of savings of the entrepreneurs. Self-financed capital investment eventually gives way to bank-intermediated debt finance as the economy grows, and equity markets eventually develop as a further external source of finance. Thus, in the developing countries, the commercial banks are the main financial institutions. According to this theory, as the economy grows, growth both leads to and promotes growth in special financial intermediaries and financial equities markets. Shaw and Gurley proposed that there is a correlation between the development of the economy and the expansion of the financial markets.

The ideas put out by Gurley and Shaw illustrate the dynamic relationship between innovation of the financial sector and economic expansion. They pointed to the fact that as countries grow; the financial sector develops, moving from a point where capital investments are self-financed to a stage when it is financed by bank-mediated debt financing to advanced equity markets. As a result of this development, the early economic growth of Nepal is largely dependent on debt financing of commercial banks and accumulation of savings. With an ageing economy, the growing of the equity markets becomes more and more important. Increased industrial and economic progress is made possible because of the

existence of specialized financial intermediaries and a thriving equity market. Consequently, it can be anticipated that the stock market in Nepal characterized by the rising market capitalization, growing digitization and turnover of stocks would increase and flourish which would result in a significant economic development in the country.

Modern Portfolio Theory (MPT)

The 1950s helped bring a revolution in investing from the works of Harry Markowitz and his Modern Portfolio Theory (MPT) that weighed highly on the importance of diversity. Investors may construct a "efficient frontier" of optimal portfolios that provide the maximum amount of projected return given a certain amount of projected risk, claims MPT. The benefit of combining assets with different correlations is that investors are able to reduce their risk without reducing their returns. The wide availability of investment opportunities offered through the stock markets enable investors to spread themselves across a wide range of sectors and geographical locations as well as types of assets. In order to achieve a more uniform return profile, the process of diversification helps to reduce unsystematic risk, which is the risk that is unique to an individual asset. Because they allow for more diversification, stock markets provide for greater levels of investment. When investors are more secure as risk is reduced, they are more willing to invest in the market and spur economic growth.

Behavioural Finance Theory

The study of the psychological factors and cognitive biases and their effect upon investor behaviour and market outcomes is known as behavioural finance theory. Behavioural finance acknowledges that contrary to the traditional financial theories based on the assumption that investors are rational and that markets are efficient, investors behave in an irrational manner because of emotions and heuristics. Asset mispricing and anomalies in market may result out of the behaviour of the investors. Adopting laws and rules that will encourage greater stability in the market and efficiency can be facilitated by having a better understanding of behavioural finance. For example, an awareness of such typical biases as herd mentality, loss aversion, and overconfidence can facilitate the design of instructional programs designed to reduce these biases. Furthermore, regulations aimed at more transparency and providing proper information shall help in pulling down illogical behaviour. By stimulating more investment action and participation of investors, behavioural finance ideas have the potential to boost economic growth.

Efficient Market Theory

Financial markets are "informationally efficient," according to the Efficient Market Theory (EMT), which is a fundamental theory in finance, and this theory states that asset prices reflect all available information at a given moment in time. This notion has a very important effect on the relation between the financial markets and GDP growth. According to the emt (Eugene Fama's 1970) asset price already takes into consideration all the pertinent information; hence it is difficult to get returns that are higher than the average market return when considering the risk. According to the EMT, active trading methods which aim to beat the market are unsuccessfully as the prices of all the available information are already reflected into the stock and it is thus impossible for an average market return which is risk-adjusted and higher than the average market return is regularly generated. According to the Efficient Market Hypothesis (EMH), assets are always appropriately priced because the prices quickly adjust to new information. Effective pricing and dissemination of information is required for capital markets to function, which plays such a critical role in the allocation of resources and economic growth.

Agency Theory

Agency theory was first developed by Michael Jensen and William Meckling in the 1970s and is concerned with conflicts of interest between principals (owners or shareholders) and agents (managers or executives). The potential for agents to act more in their own best interests rather than the interests of the principals gives birth to these conflicts which may lead to inefficiencies and bad decisions. There are some strategies which are adopted by the stock markets to reduce these agency problems. First, the need for strict rules of corporate governance that are enforced by stock markets to ensure that management decisions are accountable and transparent to ensure they are in the interests of the shareholders. The second stage is the fact that in the face of takeovers and mergers, managers may be encouraged to perform well in order to maintain their positions by the competition of the corporate control and this is a disciplinary mechanism.

Additionally, the pay to managers is based on how well the company's stock performs which creates the integrity of interest of both shareholders and managers through incentives provided by stock-based compensation plans such as stock options. These processes make the economy more efficient as a whole as well as working on economic growth by lowering agency disputes as well as encouraging enhanced company performance and also management techniques. Practices in Share Market There are a number of anomalies in the share market in Nepal that hurt the normal investors, but help in certain specific parties. It is necessary that people and organizations that are in charge of overseeing the market maintain vigilance in order to create a clear and transparent market. The following are some of the anomalies of Nepal mean stock market (Bhattarai, 2016).

a) Pooling

This type of irregularity is practiced when a certain group of people buy and sell shares of a particular

company amongst themselves. By giving the impression to the public that the trading volume is high, this method creates a situation where the price of the shares starts to grow artificially. The members of the group sell their shares as soon as the price reaches its peak. As a result, share price, which was getting inflated based on no real basis, comes down leading to massive losses by the ordinary investors who bought shares thinking price gains will continue.

b) Cornering or Warehousing

An individual or a group of individuals buys all of the stocks of a particular corporation in this type of irregularity. A lack of shares in the market is a consequence of this activity where a concentration of the shares takes place in the hands of one organization or group. As a result, there exists a low supply of these shares but a high demand. The company that is manipulating the shares, then goes ahead and sells them in small quantities of shares, this phenomenon causes the price of shares to go up at the highest point. The rest are then sold at the inflated price.

c) Organized Runs

A coordinated effort is made by a group of people to disseminate false information about a particular firm so that it can have an effect on its share price. This is known as Organized manipulation. The prime goal of such rumours is to lure the investors to buy the shares in order to earn a profit on their own shares that the gang sold. For those involved in the manipulation, such a tactic does produce both quick sales and capital gains.

d) Ramping

The purpose of ramping is to entice the incursion of investors by showcasing the rapid transactions in shares ahead of a major move in the market to profit from it. General investors draw the conclusion that there is a high demand for the company's shares and that this will only grow in the future due to the share price boom.

e) Wash sale

A wash sale is technically not an actual share sale. As an alternative the person sells the shares to friends or family members but fakes the price of the shares. In order to make a profit, the individual buys back the stocks at the lower price after selling to himself at the cheap price and this gives the impression that the market is going down. Usually, a broker helps in the execution of this plan.

f) Matching

A broker can move prices to ensure the execution of buy and sell orders in case they are from the same source. In order to facilitate the transaction, the broker can lower the price if they are dealing with the buyer or vice versa. Since the year Ashad in 2062 B.S., such kind of actions have been forbidden.

g) Insider Training

Transactions using private knowledge of corporations are known as insider trading. This occurs when insiders with access to confidential information including executives, directors, or employees of the company purchase or sell shares on this inside information. Insider trading exists, for example, when the board of a company decides to pay out a dividend, the agreement is not yet public, and people who were aware of this decision bought stocks before this company's price increased or received bonus stocks.

Prospects of Stock Market of Nepal

The efforts to improve the legal and regulatory included new guidelines and revision of the securities exchange act. Numerous such attempts to improve the performance of the stock market are underway. As mentioned below, these enhancements are expected to give promising opportunities for Nepalese stock market:

a) Trading System Automated

The NEPSE Automated Trading System (NATS), which is a 100 per cent automated screen-based trading system, was introduced by Nepal Stock Exchange (NEPSE) on August 24, 2007. Trading in various financial products like shares (equity and preference shares), debentures, government bonds, mutual funds, etc. are supported by this system which uses the order driven market model. The human gaffe that was common in the former open outcry trading systems has been much reduced by NATS. The system has been adapted to meet the country's existing laws and regulations and has incorporated a number of international practices in order to ensure compatibility with other nations. b.

b) Recruitment of new employees

In September 2018, the Nepal Stock Exchange (NEPSE) had conducted open recruitment procedure for engagement of 14 new human resources to enhance the operational efficiency. After a brief orientation 8 of these candidates joined the Trading and Human Resources Management Departments while 6 candidates were placed in the Surveillance, Listing & Finance Departments. To rationalise basic functioning of NEPSE, it has carried out organisational reforms such as a new organisational structure, voluntary retirement plan, which was adopted by 45% of the workforce. To make its operation more efficient, NEPSE began outsourcing less essential business functions, such as cleaning and security. c.

c) Trading between WAN began

On October 13, 2007 member brokers began to trade on line through the Wide Area Network (WAN) after the introduction of the Automated Trading System (ATS) and under the supervision of NEPSE. This development resulted in stock brokers being able to

operate out of their own offices. In order to gain access to WAN, brokers had to meet the infrastructure requirements as stipulated by NEPSE which includes setting up of a pricing board and different computer rooms for the purposes of entering and settling the client orders as well as providing clients with the latest information. Malla and Malla Stock Broking Limited, Nepal Stock House, Nepal Investment and Securities Trading Private Limited, Shree Krishna Securities Limited and Premiere Securities Company Limited were the first few companies that were initially permitted to trade WAN by NEPSE. As mentioned above, all the brokers were using WAN to execute trades from their offices until the end of the 2014-15 financial year. The original meaning is preserved even though the text is rewritten in this version. d.

d) Market Introduced Halt System Introduced

The Nepal Stock Exchange has enforced circuit breakers as a part of their policy to visualize controlling sharp swings in the stock market. Trading will be suspended for 20 minutes in case of change of 4% of the NEPSE index in the first hour of normal trading that is before 12 PM. Trading will be stopped for an additional forty minutes additionally if within the second hour NEPSE index changes five percent, which is around 1 pm in the day. Trading will be stopped during the entire remainder of the day in case of a six percent fluctuation of index at any time following the time. Moreover, channel-level trading is when the price of stocks of a company fluctuates by 10% in one day, either long is short.

e) Trading Hours Extended

In response to the growing trading traffic after trading operations were automated, Nepal Stock Exchange has been extending its trading hours by one hour from July 17, 2016. Trade operations used to take place for three hours. The present hours of operation of the trading floor are 11:00AM - 3: PM. NEPSE believes that investors, particularly the small investors, will benefit from this extension.

f) Real Time Information Disseminated

NEPSE began to give the investors the information relating to the real time trading activities on November 28th 2008. Investors are able to watch the share prices during the hours of trading from the internet from any place thanks to this advancement. Investors are also able to track trading activity on NEPSE's website instantly including top gainers, top losers, and updates on trade halts and resumption on the website.

g) Trading of Promoter's Shares

NEPSE began trading on the promoters' stocks on March 31, 2008, having a unique pricing mechanism. When these shares were first traded, the value of a firm with a positive net worth could not fall below half of the current market value of its common shares, or five times the net worth per share whichever was less. On the other hand, the starting prices of ordinary shares trading may not be less than half of the existing market price for enterprises with a negative net worth.

h) OTC Market Started

In order to provide opportunities for shareholders to buy or sell stocks of delisted or not discussed due to non-compliance of listing requirements of companies, NEPSE started over-the-counter market (OTC) on June 4, 2008. At this time, there are shares twelve from forty-three companies attractive on the OTC market. However, in response to a request from Nepal Rastra Bank, NEPSE, makes decision to prohibit NBL shares from being traded at over-the-counter market since it may have a negative impact on the ongoing Financial Sector Reform Project.

i) CDS and Clearing Limited

Established in the year 2010 under the management of Nepal Stock Exchange Limited (NEPSE) and under the act of the company, CDS and Clearing Limited started its operations on 31st March, 2011. It is the central depository, clearing and settlement services which the company aims to provide in a centralized manner in Nepal is its main goal. It serves as a central place for various financial products in terms of bonds, warrants and stocks, with a focus in the management of dematerialized assets. In accordance with the security rules as per the Securities Board of Nepal (SEBON), the company is responsible for safekeeping, depositing, and withdrawing securities certificates and the transfer of ownership and right of these securities instruments.

Empirical Review

In order to maintain economic growth and development, governments, organizations, and investors need to be able to raise money and conduct a painless transaction. Accordingly, exchange markets are important for the economic expansion and development (Demirguc-Kunt and Levine 1996). According to Levine and Zervos (1998), the size of stock market has a major impact in stabilising the ways that capital can be obtained to better on supporting investments and economic developmental. The empirical literature demonstrates the significant correlation between the growth of economy and the development of the stock market by large number of scholarly investigations in this direction. They found that the connection is usually favourable in developed economies.

Review of Nepalese Articles

According to Karna et al. (2024), the share market is in the preference of each day. Additionally, assisting people to buy and sell shares is also becoming increasingly applicable on a global scale. Despite its poverty level, Nepal has a well-developed share market although the market is still struggling due to various barriers and technological gap. The escalating economic crisis in the past two years has contributed to the importance of this market. Growing losses in business

and industry is the reason for current drop in the share prices. The main goal of this study is to examine the positive trend of securities market in Nepal. It is good to consider the primary market growth area in Nepal and analyze the market capitalization, transactions, traded securities, and listed securities of Nepalese stock market.

Akkutay (2024) has carried out research about the impact of the stock market's evolution on the economic growth of Turkey. Quarterly information from 2006 Q1 to 2023 Q4 was utilized in the study and collected from relevant financial databases. The aim of the study was to determine the short-term and long-term impact of stock market development on economic growth based on Autoregressive Distributed Lag (ARDL) approach. The results showed that for all the significant adverse short-term influence on economic growth, this was not persistent over time. According to the report, the upgrade of Turkey's financial system is extremely important in order to ensure that the stock market facilitates economic growth.

Dorjdagva, X., Yang, N., Esteves, A., & Salience, R. (2024) The link between economic growth and stock market development in China and 11 other post-socialist countries. Unbalanced panel data in the period from 1995 to 2020 were utilized in the study. The study had used the Vector Auto-Regressive (VAR) model to examine the dynamic interdependences between the Composite Index of stock market development and the economic growth rate. The findings indicated independent relation between economic growth and development of stock markets endorsing the Neutrality Hypothesis (NLH). In order to encourage sustainable development in the selected nations, the research proposes changing the economic policies to cover the loopholes between the economic growth and stock market development.

Dhungana (2023) studied the economic growth and stock market growth of Nepal. Market capitalization, trade turnover, NEPSE index, gross capital formation, gross national savings are the stock market developments indicator used in this study. The basis of this research was the usage of secondary data. The India stock market development's relationship with Nepal economy and growth using econometric techniques Granger causality analysis, Johnson Cointegration analysis, and VAR model. Economic growth, trade turnover, market capitalization, gross capital formation, gross national savings or stock market index have all been shown to have positive long-term cointegration with each other. Similarly, the Granger causality test shows a one-way causal interaction between the economic growth and the development of the stock market. It comes to the conclusion that both the short-term and long-term economic growth are affected by the stock market development. For the growth of stock market to continue, the regulatory body may take appropriate decision.

Dhungana (2023) studied how the stock market in Nepal had grown in association with the growing economy. Market capitalization, trade turnover, index NEPSE is gross capital formation and gross national savings are the stock market development markers. The secondary data (1995-2022) used in this study was collected from Nepal Rastra Bank's Quarterly Economic Bulletin in the middle of July, 2023. The inter-relationship between the development of the stock market and economic growth in Nepal was estimated with the help of econometrics data models like Granger causality test, Johnson co-integration test and Variance-Covariance (VAR) model. Economic growth, trade turnover, market capitalization, gross capital formation, gross national savings and stock market index have all been studied and proven to have long term co-integration.

Similarly, the Granger causality test shows a one-way causal interaction between the economic growth and the development of the stock market. It comes to the conclusion that both the short-term and long-term economic growth are affected by the stock market development. By (i) enhancing the level of disclosure and transparency (ii) enhancing investor awareness and education (iii) blunting the shareholder interests (iv) diversifying the trading opportunities for (v) maintaining the macroeconomic stability, the regulatory body can have a proper policy towards the continued growth of the stock market.

Ranjit (2021) tried to examine how the development of the stock market impacted the growth of the economy in Nepal. A good stock market also has the potential of further enhancing the economic growth of the country by encouraging domestic savings, mobilization of savers, capital formation, and efficient allocation of capital in productive sectors of the economy. In the end, these elements are in favour of more levels of output, employment and income. The study involved the use of quantitative analysis and logical reasoned with secondary data from the past 27 years, from 1994 to 2021. The ARDL model, co-integration test, bound test, CUSUM and CUSUMQ test were performed for data analysis.

It has used the real gross domestic product as an indicator for economic growth and the broad money supply, market capitalization, stock market turnover, NEPSE index, and listed enterprises as indicators for stock market development. The real GDP is found to be highly affected by market capitalization, broad money supply, and NEPSE index from the study. The small share of the stock market to the real GDP however demonstrates that there may be liquidity problem in Nepalese stock market. According to the report, the stock market growth has a big impact on the economic expansion of Nepal. Bhattarai et al. (2021) studied the link between the stock market development and economic growth of Nepal using autoregressive

distributed lag (ARDL) model with Bound testing procedures. The years in the study period are between 1994 and 2019 according to the annual time series data. The size, depth and effectiveness of the stock market development are demonstrated, respectively, by the market capitalization as a percentage of GDP, the total value of the shares traded as a percentage of GDP and the total number of shares traded as a percentage of market capitalization. An aggregated index is created and applied in the study when such indicators have high relationships among each other. one indicator of economic growth is the growth in real GDP per capita. The results suggest that there is a long-term unidirectional causal relationship between the stock market development index and the economic growth. The capacity of the market to boost the raising of capital, risk diversification and stock trading easier are showed in its size and liquidity which are important elements. None of the two primary variables being studied are greatly affected by inflation of the markets, the control variable.

Pokharel (2020) studied the causality between the development of capital market and economic growth in Nepal using time series data from 26 years, from 1994 to 2019. The study used market capitalization as a proxy for stock market development and economic development (GDP per capita) as a proxy for economic growth. According to the study, there is a one-way relationship between stock market developmental and economic growth and it shows the capital market developmental in Nepal promotes economic growth.

According to Baral (2019), the financial intermediaries and the stock markets are crucial to the growth of the economy. The correlation between economic growth and stock market development has been studied extensively in the past few years. This study examined relationship between the size and liquidity of the stock market and economic growth of Nepal that was calculated by taking the logarithm of the capital GDP at the constant price, from 2007-2017.

It achieved this with the application of an analytical research strategy which includes the basic regression model and bi-variate research. The official websites of Ministry of Finance (MoF) and Nepal Stock Exchange (NEPSE) were used for the secondary data. For the purposes of data analysis, the development of the stock market is taken to be a function of economic growth. The empirical showing of the study proves a strong relationship between economic growth and stock market growth. Significant differences in the economic growth of Nepal were also brought about by the growth of the stock market; in particular, size of stock market explained 57.7 percent of the variation in economic growth while liquidity of stock market explained 41.6 percent.

Araoye et al (2018) tested the association of the development of Nigeria's stock market to the country's economic expansion. This research examined the impact of the emergence of Nigerian stock market on the country's economic growth between 1985 and 2014. To know if there is a long-term relationship between the economic growth in Nigeria and development in stock market, the study uses a Johansson's counteraction test. Using the error correlation model, the empirical results indicate that stock market plays a substantial role in predicting the economic growth in Nigeria, however the impact of stock market on economic growth was determined to be negligible.

Bista (2017) has examined the actual correlation of the development of Nepal's stock market and economic growth in Nepal from 1993 to 2014. He used real GDP per capita as a proxy for economic growth, the market capitalization of Nepal Stock Exchange (NEPSE) as a proxy for stock market development. His analysis indicates that Nepal economy has grown in one direction in synergy with the growth of stock market.

Review of International Articles

Ukoh (2024) used data spanning the period 2001 to 2022 to examine the economic growth in Nigeria and the performances in the stock market in Nigeria. The focus was to determine the effect of the performance of Nigeria's stock markets on its real gross domestic product. The autoregressive distributive lag model (ARDL) was used in the study for the achievement of the goals. The data shows that the market capitalization, value traded, and the all-share index have a great and good long-term correlation with the economic growth event. Numerous transactions show that it has a large and unfavourable association with the economy growth of Nigeria over the long term. The study said that an atmosphere that encourages investment should be fostered among the people by the government. Enhancing company governance, ensuring transparency of financial reporting and strengthening regulatory frameworks, are ways to do this. In order to increase market liquidity and growth, the government should also provide incentives to the foreign and domestic investors.

Adeleke (2024) examined the link between the development in the capital market and the development of the economy in Nigeria from 1999 to 2022. Data for the study was taken from the Central Bank of Nigeria Statistical Bulletin, 2022. The Autoregressive Distributed Lag Regression Estimate (ARDL) Analysis has been assisted by E-view 10. The outcomes of this study show that the explanatory factors above have a positive and statistically significant impact on RGDP. Also, the growth in Nigerian economic sphere and development of capital market show positive and statistically significant association between 1999 and 2022.

The result of the study corroborates the following suggestions, where the government of Nigeria at all levels and all other stakeholders should make strengthening the capital market a priority. This can be achieved through the creation of a favourable business climate for the continued expansion of the market. Second, to attract more players and potential investors, all players involved in capital market transactions should make the transactions done in the Nigerian Stock Exchange more transparent through accountability and public knowledge. Thirdly, the All-Share Index (ASHI) should be reported on monthly as well as on yearly basis as opposed to monthly. The health of the economy's finances is borne out by the stock market and all its expansion. It conveys the interest of an investor in a country. Therefore, fluctuations in stock market represent an important indicator of the growth of the economy. The present study examines the contribution of stock markets of Pakistan in the country's economic growth based on time series data from 1977 to 2020 and Autoregressive Distributed Lag (ARDL) co-integration technique. As population expands, there is a negative correlation between population and economic growth. The economic growth of Pakistan is positively and significantly affected by investments, stock market, and existence of a military dictatorship.

According to Chikwira and Mohammed (2023), stock markets help in transferring funds and liquidity, both of which are important for stability and economic progress. The aim of this study was to find out whether the effects of the stock market are being shared in a volatile and politically unstable environment and high inflation rate. The research employed a time series data of Vector Autoregressive model (VAR) with quarterly records from year 2013 - 2022.

The result of statistical analysis shows a positive correlation between economic growth and stock market that significant at 10%. Nevertheless, Zimbabwe's economy growth is not affected much by the liquidity in the stock market. As a result, the report recommends that the lawmakers think carefully about the rules that govern the stock market and relax some of the requirements that businesses have to meet in order for them to be allowed to list on stocks. More internal and foreign companies will list being listed because of this increasing stock market's liquidity in view of the wealth of mineral resources and strong agricultural sector in Zimbabwe, the ZSE should also have a plan of progressive launching of commodities derivatives exchange, as far as this is likely to raise a lot of revenue for the country.

Islam et al. (2023), the relationship of the industrial production index, inflation rate, and gross domestic growth rate that is macroeconomic factors on Dhaka stock exchange, i.e., DSE 30 index, by using some statistical methods, including multiple regression analysis and descriptive data, and Pearson correlation analysis. They have found a strong and positive relationship between the GDP rate and Bangladesh Stock Market index. This implies that when the GDP grows, then the stock market grows as well. According to their data, this can be stated that the GDP of Bangladesh has a huge effect on the functioning of their stock markets. As a result of the increase in GDP, this means more investment opportunities that in turn boosts stock markets. Additionally, the conclusions showed that the stock market fosters entrepreneurship and generates new employment opportunities both of which are beneficial to the economy. In addition, Elfeituri et al. stated that stock turnover and capitalization were favorably committed to economic growth in the Gulf countries.

According to Ady et al. (2022), it has become necessary for regulators and academics to focus on the digitalization in financial markets, which is necessary for the current world. Therefore, the present paper investigates the impact of technological adoption and psychological objectivity of investors to the technical improvements on the digitization of the capital market in Indonesia. The study encompasses the digitization of the Indonesian capital market, psychological objectivity of the technological advancement and the mediating effect which has been affected through technical advancement on the adoption of new technologies by investors. Questionnaires were used to get data from the chosen respondents for collecting data to the article.

In addition, the research experiment tested the relationship of the variables with PLS-SEM and smart-PLS. The study results proved that the use of technology and psychological objectivity to technological progress by investors are indicated positively correlated with the growth of the digitization process in Indonesia's capital market. The findings also showed that the development of technology and psychological objectivity work as a mediating factor in the process of digitization of Indonesia capital market and behaviour of investors. The study supports the behavioural approach of investors and psychological subjectivity in adopting technology, which helps legislators in formulating regulations related to the digitization of the capital market. Borteye and Peprah in a study in Ghana, with the use of crescent analysis and forge to study the effect of the development of the stock market on the growth of the economy in Ghana using the SPSS software. To determine whether these factors are conducive to economic growth, specific factors of the stock market such as size, capitalization, and liquidity were the focus of this study.

Their studies show that there is a positive correlation between economic growth and stock market liquidity, but a negative correlation between market size and economic growth. The results of the study that revealed no statistically significant relationship between economic growth in Ghana and stock market development, which implied the ability to determine the overall effect of stock market on the growth was not

ascertained in this study. Their analysis raised concerns about the rise in number of counters listed in the Ghanaian stock exchange.

Algaeed (2021), researched and evaluated the link between GDP growth per capita and capital market development in the Saudi Arabian economy from 1985-2018. The tests of ARDL, FMOLS and Johansen are used. The stock market indicators like share price index, capitalization, liquidity, number of share transactions, number of shares are calculated using log-linear eclectic model that is tailored for the data available. Indicators of capitalization and liquidity were negative which is in contrast to the findings of many research have been published in the economic literature. However, share price index, number of shares and the ratio of share transactions showed the accurate a priori signals. The findings do raise serious questions as to the size of the market, the efforts made to expand it, and how they may affect the capacity of the capital market to support the growth of GDP per capita. Per-capita GDP is not affected by Granger causality test, market capitalization, number of traded shares, and share price index. They are rather notable, even at the five percentiles. The capital market authority (CMA) should formulate a strategy for quickening the deepening of the capital market so as to accelerate economic growth.

Between 1995 to 2015 Osamwonyi and Osaseri (2020) studied the economies of two countries, namely Nigeria and South Africa. The tests of Granger causality, the ordinary least squares and the panel estimation methods were used in the study to determine the impact of the stock market on economic growth. The results show that the economic progress of Nigeria is not a result of the stock exchange and vice versa.

Using the RDL approach, Nathaniel et al. (2020) investigated how the Nigerian economy between 1980 and 2016 and the stocks markets were facilitating the growth and advancement of innovations, which has subsequently pushed economic growth. The test demonstrated that this indeed was true in the short term, but not long term. Out of all the variables that were looked at, only trade openness was determined as being unimportant in the near term. It was discovered to be important in the long run through which king that if it keeps going in the same direction for a long time, it will have an impact on economic growth. Also from this Nigerian study, there is a negative correlation between a trade openness and economic growth. They also suggest certain actions which would lead to market responsibility, stability, and liquidity as well as increased participation of stock exchange.

Elhassan and Braima (2020) studied the relationship between the performance of the Khartoum Stock Exchange (KSE) market and economic growth in Sudan covering the time span of the 1st quarter of 1995 from the 4th quarter of 2018. The study uses an Autoregressive Distributed Lag (ARDL) bounds testing model with the data obtained from the KSE and the Central Bank of Sudan (CBS) to evaluate the impact of the stock market on the economic growth, the results show that the influence of the KSE market performance is not very large on the economic growth. Specifically, the ARDL test results show that after a short-term shock, the speed of adjustment to long-run will only be 24% which shows the stability of the Sudanese economic system through the performance of the stock market.

The results observed in the study were that the market capitalization was found to have a long-term influence which has a positive and significant effect on the economic growth, while the turnover ratio and the value traded stocks had negligible negative effects on the economic growth. Sudanese policymakers should set the right investment regulations in order to oversee the status of the KSE in attracting domestic and international capital to boost its efficiency, making the markets more efficient, which in turn would lead to economic growth.

Considering the period of years from 1996 to 1997 to 2015 to 2016, Shravani and Sharma (2020) studied the relationship between few indicators of Indian Stock Exchange with industrial production index. To determine the long-term association, they used autoregressive distributed lag estimator, vector error correction model. The investigation found there was a long-term relationship between the stock market and economic expansion. Indian regulators are considering relaxing listing requirements for businesses as part of an attempt to increase the number of businesses that decide to get on the stock exchange.

To study the economy of Bangladesh, Qamruzzaman and Wei (2018) studied the topic of financial innovation and the development of the stock market in 1980-2026. Their methodology included a test of the outcomes with the use of Granger causality tests and ARDL tests. The ARDL experiments confirm the long-run relationship between the financial innovation, the stock market, and the economic well-being. In addition, the Granger causality tests showed the existence of bidirectional relationships in both short- and long-term relationship. These results give an air of enthusiasm to the hypothesis that economic growth is primarily driven by financial innovation and development.

Pan and Mishra (2018) analyzed the causation and structural fractures in their effort to find out the short-term and long-term correlation between the stock market and real economy in China. In the case of the study, the volume of stock capitalisation of the stock of "A and B in Shenzhen and Shanghai stock markets was obtained every month. Nevertheless, the research showed no correlation, at least in the short-run, between the stock exchange market and the actual economy due to the fact that China is a giant nation and the stock

exchange market only constitutes a small portion of the entire economy not large enough to cause an effect in the economy.

Silva et al. (2017) examined the association of the stock market performance and growth and found that there was a correlation between them. The data of the listed businesses in the Colombo stock exchange between the period of 2000 and 2015 were analyzed in a correlation analysis and the econometric method of simple regressions modeling, utilizing the SPSS software to determine the correlation between the two variables. The results of the study are consistent with other studies that reveal that there is a high positive correlation between the success of stock markets and economic growth in Sri Lanka. The study forms part of the literature and offers useful information to the developing world scholars and economists.

In the study by Osaskwe and Ananwde (2017), the authors utilized the Autoregressive Distributive Lag (ARDL) model on the Nigerian data between 1989 and 2015 that would test the co-integration relationship between economic development and stock market development. The authors used the market capitalization ratio and the turnover ratio as the indicators of the development of the stock market, as well as the real gross domestic growth rate to act as the proxy of the economic growth. The results revealed that there was a short-term and a long-term positive interaction between the economic growth of Nigeria and development of its stock market.

In his article, Yapatake (2016) observed the stock market effect on the economic growth of Mauritius using the time series secondary data with data between the years 1993 and 2015. The findings indicated that market capitalization, turnover, and value traded ratios did not have a long term cause and effect relationship with the economic growth. The turnover ratio is correlated with the economic growth, but the other variables, including the market capitalization ratio and value traded ratio, are not correlated with economic growth within the nearest future.

Kajuroval and Rozmahell (2016) examined how the economic growth and the development of stock markets are related in EU countries. Specifically, the direction and the nature of causation are explored. The type and direction of causation were determined using the panel data methods, such as, Granger causality tests, co-integration tests and the vector error correction models. The sample of the members of the Euro Area observed the long-term effects of economic expansion on the development of the stock market. In non-euro countries, they have only been able to identify the direct effect of stock market development on the economic growth.

Machuki (2016) aimed at determining the correlation between the performance of stocks and economic growth based on the growth of Kenya measured by the GDP. The research compared the gross domestic product (GDP), which was the proxy of economic growth with the variables of the stock market of stock market capitalization (MC), stock turnover ratio (STO), stock traded value (TVL), number of listed securities (LS), and stock market index (MI). Research asserts that African stock markets are small and affected by various problems, including the inability to have liquidity. Based on these findings, high development of a country through financial markets is also related to high level of income per capita compared to countries with low developed financial markets. The same notion is supported by several concepts that argue that financial markets or stock markets are an important contributor in economic growth as they provide long term project finance and risk diversification services.

The authors Azam et al. (2016) investigated the economic growth of China, Singapore, India, and Bangladesh in relation to the impact of the stock market. The analysis involved annual time series data on time series cross country data of 1991 to 2012 of the World Bank databases. The variables and outcomes of the research demonstrate the long run co-characteristics of inflation, foreign direct investment and economic growth to the development of the stock market.

Summary of Literature

The sources of literature have been made up of international and national journals, publications, and conference papers. The research has tried to establish a correlation between the independent and dependent variables with the help of the literature research. The table below is the list of used literature review that was presented in the second chapter of the research.

Table 1: Summary of Literature Review

Authors (Date)	Journal Name	Research topic	Objectives	Methodology	Findings
Ukoh J. E. (2024)	African Banking and Finance Review Journal, 8(8)	Stock market performance and economic growth in Nigeria	To examine stock market performance and economic growth of Nigeria	The study used autoregressive distributive lag model (ARDL) using data from 2001 to 2022	The result of findings shows that value traded, all share index and market capitalization have a positive relationship with economic growth
Bharat Ram Dhungan a	Journal of Business and	Stock Market Development and	To examine the development of	The study adopted methods such as the	The economic growth and stock market development

(2023)	Social Sciences Research Vol 8(2).	Economic Growth of Nepal	Nepal's stock market and economic growth in Nepal	Johnson co- integration test, Granger causality test, and VAR model.	are causally related in unidirectional manner by the Granger causality test. It concludes that stock market development matters for economic growth in the short and long run.
Ady et al (2022)	International Journal of E-business and E-Government Studies, 14(2),	The role of investors' behaviour and psychological biasedness on the digitization of the capital market in Indonesia	To explore how investors' adoption of technology and psychological objectivity regarding technological advancement s affect Indonesia's capital market's digitalization	The study used smart-PLS to test the association between the variables using PLS-SEM	The findings showed that there is a positive correlation between the Digitalization of Indonesia's capital market and investors' adoption of technology.
Bhattarai et al. (2021)	Global Business Review 1–15	Stock Market Development and Economic Growth: Empirical Evidence from Nepal	To examine the relationship between stock market development and economic growth in Nepal.	The study has employed autoregressive distributed lag (ARDL) model with bound testing procedures. The study period covers annual time series from 1994 to 2019	The findings revealed that stock market size and liquidity are significant contributors. In the same way the control variable market inflation shows no significant impact on either of the primary variables.
Yogesh Ranjit (2021)	The Economi c Journal of Nepal, Vol. 44(1&2)	Contribution of Stock Market Development on Economic Growth of Nepal	To analyze the contribution of stock market development on economic growth of Nepal	The study followed ARDL model, co-integration test, bound test, CUSUM, and CUSUMQ test for data analysis	The study found a significant role of broad money supply, market capitalization and NEPSE index to real GDP. But, there isa weak contribution of stock market turnover to real GDP
Algaeed, (2021)	Journal of Business Economics and Management, 22 (2),	Capital market development not and economic growth: an ARDL approach for Saudi Arabia	The relationship between capital market development and GDP growth per capita in the Saudi Arabian economy	The study adopted Johansen, FMOLS, and ARDL tests to explore relationship among variables.	The results revealed that economic Growth can be attained by increasing the size of the stock markets of a country as well as the market capitalization in a Saudi Arabia market.
Jhabindra & Pokharel (2020)	Westcliffe International Journal of Applied Research Vol. 4(1)	Capital Market Linkage to Economic Growth in Nepal	To examine the causal relationship between capital market development and economic growth in Nepal	The study has adopted Johansen co-integration test and vector error correction method (VECM) in regression analysis	The findings from this study conclude that there is unidirectional causality running from capital market development to economic growth in both the long-run and short-run.
Elhassan,T., & Braima, B. (2020)	Economies, 8(4),	Impact of khartoum stock exchange market performance on economic growth	To examine how Sudan's economic growth is impacted by the performance of the Khartoum Stock Exchange (KSE) market	The study uses Autoregressive Distributed Lag (ARDL) bounds testing model with data from the KSE and the Central Bank of Sudan (CBS).	The results show influence of KSE market performance on economic growth is not very great. The turnover ratio and the value of stocks traded have negligible negative effects on growth, whereas market capitalization has a long-term positive and significant influence on economic growth
Milka Grbic (2020)	Post-Communist Economies, 33(4)	Stock market development and Economic growth: The case	To examine the relationship between stock market	The analysis is carried out Within the Vector Autoregressive model, using the Toda-	The findings show the positive response of economic growth to an unexpected stock market

		of the Republic of Serbia.	development and economic growth in the Republic of Serbia.	Yamamoto- Dolado-Lütkepohl approach to the Granger causality test	shock size, while liquidity shocks lead to alternate positive and negative responses to the economic growth rate in the short term
Krishna Babu Baral (2019)	Effects of Stock Market Development on Economic Growth in Nepal	Janapriya Journal of Interdisciplinary Studies	To analyze the relationship between stock market development and economic growth	This study used analytical research design that involves bi-variate analysis by using simple regression model	This study significant relationship between economic growth and stock market development that explained 57.7 percent variation, and liquidity of the stock market explained 41.6 percent variation in economic growth of Nepal.
Jagadish Prasad Bista (2017)	The Nepalese Management Review	Stock Market Development and Economic Growth in Nepal: An ARDL Representation	To examine the empirical relationship between stock market development and economic growth in Nepal	The study adopted autoregressive distributed lag (ARDL) bounds testing approach for co-integration analysis. To determine the direction of the causality, Granger causality analysis has also been performed	Findings indicate that market capitalization has a significant positive impact on the economic growth in both long as well as in short run. However, results also showed that inflation has negative and significant impact on GDP per capita of Nepal in long as well as short run.
Silva et al. (2017)	Journal for Accounting Researchers and Educators (JARE), 1(1)	Relationship between stock market performance & Economic growth: Empirical Evidence from Sri Lanka.	To investigate the relationship between stock market development and economic growth in Colombo stock exchange.	Data from companies listed on the Colombo stock exchange for sixteen years, from 2000 to 2015, were analyzed using SPSS software using the econometric technique of simple regression model and correlation analysis	The study's conclusions are consistent with earlier research, which shows a substantial positive correlation between Sri Lanka's economic expansion and stock market performance.
Azam et al. (2016)	International Journal of Economicsand Financial Issues Vol 6(3)	Stock Market Development and Economic Growth: Evidences from Asia- 4 Countries	To examine the role of stock markets in economic growth for four Asian countries namely Bangladesh, India, China and Singapore	The study adopted annual time series cross country data over the period 1991 to 2012 and autoregressive Distributed Lag (ARDL) bound testing approaches.	The empirical findings of the study reveal that stock market development and FDI inflows play vital roles in the process of economic growth and Development in these selected countries.

Research Gap

The analysis of the nexus between the capital market of Nepal and its economic growth indicates many research gaps to be filled during research. The correlation between the growth of GDP and market capitalization is one of the key issues of debate and the conflicting research results indicate a complex interaction. Such an ambiguity is a good indication that there is need to further research in detail to determine how different factors mediate or control this relationship, particularly in emerging markets like Nepal. The human development index (HDI) and the Foreign Direct Investment (FDI) also seemingly play different roles in regulating economic growth via the capital market, and this statement also remains a topic of research that is undergoing further examination (Adeyeye, 2016; Okwu *et al.,* 2020).

Their possible negative outcomes imply a promising direction of further research of further economic impact of the financial market. Another gap is the time aspect of the effects of a capital market which is the difference between the short term and the long-term effects. The effect of the capital market on different periods is yet to be agreed upon even though previous studies have employed an array of methods to determine the effects of the capital market. As it was suggested by Poudel and Raut (2022), the lack of data regarding the role of market inflation in the given context implies the need to conduct more research and define how inflationary pressure impacts capital market relations and economic growth in Nepal.

A further study is needed to fully understand how digitalization indirectly influences the investor behaviour as well as market efficiency and access to

capital despite its role in the GDP growth being acknowledged (Chen *et al.,* 2021; Park and Choi, 2019). These attributes might give us an understanding as to the positive effect of digitalization in enhancing economic growth. Finally, the deeper analysis of the effects of the economic growth, however, still lacks proper consideration of the micro-level processes of investor behaviour, especially in response to the financial literacy and digitization. These particular behaviours can be analyzed to reveal the effect of the changing investor preferences and trends on the macroeconomic environment. Considering the changing landscape of Nepal in terms of its economic situation, these gaps in the research may be crucial to understanding how the capital market is a complex phenomenon in furthering economic growth. The initial years of Nepal were also marked with a high level of volatility, as is the case with other emerging markets. In the last section, three critical aspects of the market that affect the market behaviour have been described. Among the challenges that occur in each of the domains, particularly where speculative market activity is witnessed, those that occur are as discussed below. Mutual funds and equity shares are the only marketable instruments provided in Nepal. The government bonds over-the-counter market had long-term bonds but since the trading of bonds was at par value, the investors would retain their bonds and this kept the market stagnant. The number of share demands skyrocketed as the number of other implied investments was low. This added to the price growth of already inflated shares that was particularly an issue at the time of the initial speculative boom.

It had only 50 licensed stock brokers, and three market makers of the active members of the stock market in its early stages. Due to this oligopolistic arrangement, the manipulation of the prices could be easily carried out in a few transactions. This led to the tendency of trades being speculative and not necessarily investment driven. In the realization of their massive strength, market makers decided to speculatively trade as opposed to the ultimate financial stability of the businesses to stabilize the market, resulting in more price inflation. Because of lack of trading volume in financial markets, financial intermediaries such as merchant banks and brokers often played multiple roles. These overlaps gave these intermediaries high power in the market due to this aspect which in more modernized market, they would perceive as a huge conflict of interest. This saw them easily manipulate the market conditions.

CHAPTER 3: RESEARCH METHODOLOGY

This part presented the general strategies and plans that this study endeavour will find useful. The definition of variables, scope of study, research design, type and origin of data, type of analysis tools and procedures were responded to in this topic. Through financial and statistical methods, this paper tried to provide a well-designed quantitative and qualitative research in a simple and comprehensible way. The subsequent subsections present accounts on how certain research methods were applied.

The quantitative research methods have been used in the study to investigate the correlations among its variables. Quantitative research is referred to as numerical data collection and analysis. The applications may include trying to find averages and patterns, prediction, testing of causal associations, as well as extrapolation of the results to larger populations (Johnson, 2004). Quantitative research and qualitative research address the research issues by collecting and analysing numerical data and using other types of data respectively. By means of an open-ended interview question that will help to obtain narratives and a closed one that will be used to obtain numbers, researchers may gather both quantitative and qualitative information in mixed-methods study (Tashakkori and Teddlie, 2003). Thus, this study applied the following methods, processes, and tools to analyze the role of stock market in ensuring the development of the Nepal economy.

Research Design

Different research designs were used to conduct the study and the research designs that were employed included descriptive research, correlational research as well as analytical research. The research design adopted both the descriptive and analytical research designs in conceptualizing and describing the research process. With this said, the relationship between the economic growth factors and stock market development has been studied using a correlational study design to determine the dynamic relationship between the two factors. In addition, the correlation between growth indicators and the stock market indicators is selected and analyzed. The paper also investigated whether this causality test existed between the growth of Nepal stock market and the overall economic growth of the country over a period of twelve years, i. e. between 2013 and 2024.

Population, Sample and Sampling Design

The sample is comprised of companies whose shares are traded at the NEPSE floor and the NEPSE index has been used as the population. The SEBON study shows that NEPSE has 358 listed businesses that fall under 12 sub categories namely, stock (249), mutual funds (35) and non-convertible debentures (74). The paper has cantered its attention in the Nepalese stock market considering its problems, prospects and economic growth. To achieve the objectives of the study, NEPSE was selected as a sample which would reflect all the data of the organizations. The information obtained to determine the sample size is a 2013 to 2024 BS data with information on the supply of money, market capitalization, stock turnover, NEPSE index, and digitization. Sampling technique was adopted as the study involved the time period data and review of its conclusions.

The sample used was the non-probability design in the study. The purpose of the study is to analyze the impact of the development of the stock market in the economic growth of Nepal so an intentional sampling design has been used. The non-probability sampling method will choose the samples required in the study through the subjective judgment of the researcher. As the source of investigation is the stock market, the researcher chose the listed businesses in the NEPSE that make up the overall numbers of the stock turnover, market capitalization and other features.

Nature and Sources of Data

In this research, secondary data was used only. Taking into consideration the fact that the study is examining not only the overall values of the economy but also the overall ones of stock market activities. The variables on which the necessary data is attained include market sum of capitalization, money sum, Real GDP, turnover of selling, and number of listed securities, and NEPSE index. The figures on the variables, such as the stock market volatility have been obtained through the right relationship. The additional data and information were borrowed following various sources and they comprised the following:
NEPSE's annual reports;
SEBON's annual reports;
The annual reports of CDS and Clearing Limited.
The economic survey
The Economic Report of Nepal Rasta Bank.

Methods of Analysis

The SPSS software has been used to determine the relationship between GDP performance and stock performance. This study involved quantitative data analysis techniques such as the descriptive and inferential statistics. The common descriptive statistics were the frequencies, measures of central tendency (mean, middle or mode), and measures of dispersion (standard deviation, range and variance). In order to determine how the variables were related to one another, inferential statistics like correlation, regression and analysis of variance were used. Pie charts, figures and tables have also been used to present the data, which were functional and effective in presenting the conclusions of the research. The data analysis was presented in form of tables and graphs.

Descriptive Analysis

The first phase of analysis of data is descriptive, the aim of which is to summarize and explain the most crucial elements of the stock market development and economic growth in Nepal. Using the measures of central tendency one would be able to comprehend the skewness in the data and the common values through the calculation of mean, median and mode. Standard deviation as well as variance and range are measures of dispersion that give an idea of the variability or dispersion of the data points. By creating charts and graphs tree charts, the line charts and histograms to visually depict the trends and patterns over time, it is easier to identify relationships including the relationships between GDP growth and stock market success.

Correlational Analysis

The Pearson correlation coefficient, the most frequently used, has a range of +1 to -1, when this expression is near +1, it depicts a strong positive relationship, when it is near to -1, it depicts strong negative relationship of the variables, and when it is close to zero, it depicts no linear relationship between the variables. There is close positive relationship between stock market development and economic growth which indicates that in cases where stock market variables are strengthened, economic growth is likely to increase. Correlation analysis is used to indicate the level of relationship between two variables including market capitalization and GDP growth or stock turnover value and economic growth in Nepal.

Regression Analysis

The effect of the independent variables on a dependent variable is possible through the use of regression analysis to determine how the development indicators of Nepal stock market, such as market capitalization, the NEPSE index, stock turnover value, digitalization of the share market and money supply influence the economic growth of this country. Associations caused by regression coefficients can be interpreted regarding the direction and strength of the association; a positive coefficient on market capitalization would indicate that GDP growth is positively related to market capitalization and all other factors remain constant. The P-value and the values of R-squared are used to determine the significance of the model and also indicate the effectiveness of stock market indices in explaining the growth of GDP.

Model Specifications

The following are the regression models in this study:
$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + E_i$ ……. (1)

Where, Y_1 = Dependent variable
X_1 = Variable 1
X_2 = Variable 2
β = Coefficient of Independent Variables
E = Error term
α = Constant

Empirical Model

The model on which the study was founded and used is the following: Y is equal to $\alpha + \beta_1 MS + \beta_2 MC + \beta_3 STV + \beta_4 NPI + \beta_5 DG + E_i$ (1).
Y is used as the gross domestic product in this case.
MS stands for Money Supply.
Market capitalization (MC) Share market digitization (DG) Stock Turnover Value (STV).
NEPSE Index = NPI
E stands for error word.

Research Framework and Variables definition

The market capitalization to real GDP ratio is used in detecting whether the market on average is premium or cheap as compared to the past. The real GDP was increasing in tandem with the size of the market in terms of market capitalization. The trading turnover and the real GDP would have a negative correlation. The average inventory is employed instead of the final inventory due to the extreme changes of inventory of many businesses annually. Consequently, they would not want to take chances by switching to different firms in the event of low Real GDP, they would opt to spend more time in the same firms. Real GDP is likely to rise in countries where there are higher listings securities. This correlation is positive with the real GDP. NEPSE and real GDP have a visible association to each other. The rise in NEPSE would be followed by the rise of the real GDP. The aim of the research is to find out the correlation between the external and dependent variables (Ranjit, 2021). Accordingly, the study will be outlined in the following manner.

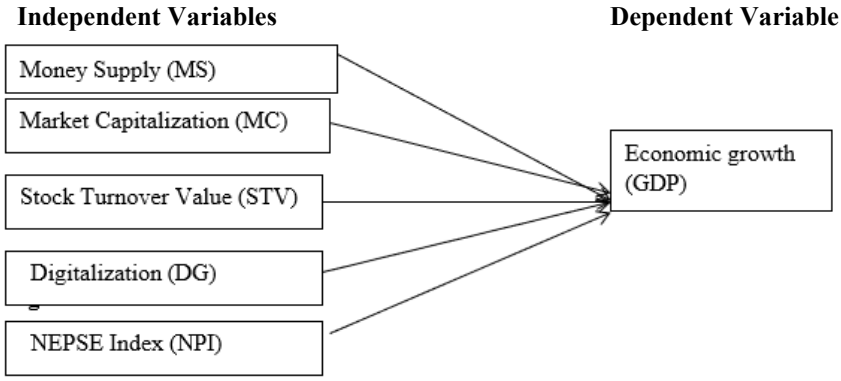

Figure 1: Conceptual Framework

Specification of Variables

Money Supply (MS): The total amount of the cash (C), the demand and time deposits (DD) placed by the general population with the banks constitute the money supply of a certain economy. MS is regarded as a proxy measure of the accumulation of stock markets because it influences the interest rates adversely (Chaitip *et al.,* 2015).

Market Capitalization (MC): Market capitalization, also known as market cap is the sum total of all the monetary values of the outstanding stocks of all listed companies (Pavone, 2019). To arrive at this amount, the existing stock price of the respective listed companies is multiplied with the number of outstanding shares. It decides the market size of the stock market. The stock market size has a positive influence on the growth of the economy. Share turnover (also known as stock turnover value (STV)) is a liquidity ratio that indicates the amount of difficulty in finding a buyer or seller and trading a stock into cash (Wang *et al.,* 2021). Share turnover is determined by taking the total number of shares traded within a given period/time and dividing the amount of shares with the number of shares outstanding within the same period. Low transaction cost in the stock market implies that in case the value of the turnover of the stocks is big, then an investor finds it easy to buy or sell the equities.

The mechanism of developing digital technology into the infrastructure, offerings and services provided to the Nepal stock market is known as digitization (DG) within the parameters of this industry. In this variable, there are several aspects present, which, in combination, improve the functionality, availability, transparency, and overall work of the stock market due to the technological advancement (Pirogova & Loubochkin, 2022). All said and done, these advancements are accredited to the stock market.

NEPSE Index (NPI) the stock index is a statistic that is responsible to determine the performance of the economy in the stock market. NEPSE index is used to demonstrate the overall performance of the Nepalese stock market (Maskey, 2022). An index (NEPSE index) has been approximated by taking the current market capitalization and dividing it by the market capitalization of the base year and multiplying the outcome by 100.

Chapter 4: Data Presentation and Analysis

The chapter presents and analyzes the methods by which the secondary data collected was so. The inquiry relied on several regression and statistical models that were applied in the last chapter. This part is subdivided into three parts. The research contains factors influencing the economic development, in terms of GDP, of Nepal, such as market capitalization, digitalization, NEPSE Index, stock turnover value, as well as broad money supply.

The visible variable names will be used to represent the data of the variables. Stock Turnover Value (STV): It is used to show the liquidity of the stock market in an attempt to show how easy it is to sell or purchase equities. The more this number increases, the more liquid it becomes around and this is one of the reasons why

investors can participate in such a market, which will lead to economic growth. The data is volatile with a spike in 2021 AD and 2022 AD and 2023 AD implying that the market is very liquid in the year. The stock market was attracting investors especially after the pandemic ended because the user-friendly web portals had been introduced and deployed. The value of the stock turnover has also risen due to digitization of capital and share markets where some of the highest records were made in 2020-2021 AD.

Capitalization (MC): The summary has been rising in the last 12 years showing that the aggregate companies of all the listed companies of the stock market have tended to increase in value, demonstrating a growing market. This growth is considered positive to the economy since it implies an enlargement of the stock market that will facilitate economic growth by increasing the number of investment opportunities. Its capitalization is the greatest in the year. The years 2021 AD recorded the highest market value of NEPSE followed by the year 2023 AD and 2022 AD. As shown in the data, the market size increased above the year 2020 AD. This could be attributed to the fact that there were numerous first-time offerings (IPO) floated in the stock exchange. A large proportion of businesses also wished to present first time public offering (IPOs) at the high premium prices. The disposition to premium IPO listings, which started in 2021 AD, may be among the prime reasons behind the increasing market capitalization in the long-run. The nepal share market market capitalization chart of the Nepal share market between the years 2013 AD and 2023 AD is presented in the image below.

Digitalization: This dependent is measured through the number of dematerialized accounts and has increased exponentially becoming especially noticeable already in 2015 AD. This growth signifies that transactions within the stock market have become simpler and clearer and this could increase market efficiency and rate of participation and economic growth. Since the 2021 AD, the demat users have grown tremendously. Demat users in the share market have also grown as the shares of NIFRA firms have been offered to the population at a face value of 100. It has also led to an increase in the number of demat users as 10 share maximum has been applied in each application in case the IPO is oversubscribed. To gather funds, many insurance and microfinance companies and hydropower businesses were attempting to make first issues to the masses. Consequently, the graph demonstrates the steep rise in the number of users of demat since 2020 AD.

Broad Money Supply (MS): This is equal to all money in the economy, cash and other types of deposits. The stable increase in money supply in the course of time can be regarded as the evidence of the emerging economy though it has its effects on inflation and the interest rates both of which affect the economic growth. The money supply has not had much fluctuation. With central banks making sure that money supply is constantly be monitored by Nepal Rastra Bank, the main regulator of the supply and demand of money in the market with the aim of maintaining a stable economy.

GDP: Although there were certain fluctuations in the growth, real GDP, the ultimate measure on economic growth increased significantly between 2012-13 and 2022-23. The final year of the dataset, 2023 AD demonstrates the largest increase, then it is 2022 AD, and 2021 AD, respectively. This may be due to the compounding of the modifications in monetary policy, digitalization, and stock market. These have caused an immense growth in the GDP of the nation due to the increasing remittances. Quite to the contrary, the economy of the country has been wholly dependent on the funds being remitted back home. The government has not managed to sustain tourism and agriculture as these might be the potential income sources and drive the industrial and technological sphere. The table below illustrates the GDP figures between the 2013 AD and 2024 AD.

Descriptive Analysis

Table 2: Descriptive Analysis

Variables	Mean	Std. Deviation	Coefficient of Variation (CV)
Stock turnover	367.24	492.37	134.07
Market capitalization	1915.11	1029.12	53.73
Digitalization	1898370.09	212.92	0.011
Broad Money Supply	88.621	18.95	21.38
NEPSE index	1512.77	648.94	42.89
GDP	2292.61	1145.19	49.95

Our source is Economic Survey, Different issues between 2013 and 2024.

The data provided in Table 2 reveals that the stock market was in moderate trading activities with an average of approximately 367 units per stock turnover. This is further explained by the standard deviation of nearly 492 units that depicts the high changes in the trading volumes on an annual basis. This fluctuation notes the periods of high and low trading and this is due to the dynamic nature of the market which is affected by external economic issues, sentiment of investors and liquidity in the market. Its market capitalization is an average of 1915 units. And this number helps us to

follow the big picture of the size of the stock market and the total value of all the existing listed businesses. The standard deviation is projected to be 1029 units which means that the size of the market is highly fluctuating with variation every two years passing. The impact of changes in stock prices, introduction of new companies and delisting old companies may not have any uniform contribution to the total market capitalization.

The digitalization variable seems to be very spectacular with the impressive average of approximately 1,898,370 units. This may be in terms of the active number of digital users of the market or the number of overall transactions over the internet. But the standard deviation of 212.920 which is recorded does not seem richly high and would call out the occurrence of an error or misconception. Considering the fast pace of development and dynamism of the digital platform in the digital finance sector, higher indicators of fluctuations in digitalization would be expected. The wide money supply of average 89 units informs us of the amount of money present in economy in general, both deposits and in circulation. The standard deviation of 19 units is quite small in comparison to other variables implying that the sum of money to be spent is becoming less and less unstable and year in year out. This unabated growth could be due to the stable economic management and monetary policy to ensure the financial stability.

The NEPSE Index measures the performance of the stock market with the standard deviation approximated at 649 and the mean of 1513. The level of the standard deviation shows that the performance of the market has recorded significant highs and lows which can be due to numerous factors like investor confidence, trends of the global market and economic status. Lastly, having an average of approximately 2293 units, and a standard deviation of approximately 1145 units, GDP variable depicts growth and instability of the Nepal economy. The high variation in GDP growth in the two years shows how the market forces, the domestic and global economic policies and other external elements influence the economic performance of the nation.

Correlation Analysis

The given correlation matrix provides a deep understanding of how the growth of the GDP of Nepal depends on a range of independent variables, which may include stock turnover, market capitalization, digitalization, the broad money supply, and NEPSE index. These correlations are expressed as the magnitude and direction in terms of the coefficients which range between -1 and 1. The correlation between two variables is a measure of the strengths of the linear or straight line between them described through the use of the correlation coefficient terms r. The correlation coefficient (r) shows the extent and the direction of linear association between the dependent and the independent variables. The correlation coefficients have values between +1 to -1 implying that the correlation coefficient can be between-1.0 (completely negative correlation) and +1.0 (completely positive correlation). There can be positive or negative relationships between the independent and the dependent variables (Laerd Statistics, 2022).

Table 3: Correlation Matrix

Variables	STC	MC	DG	MS	NI	GDP
Stock turnover	1					
Market capitalization	.879**	1				
Digitalization	.747**	.838**	1			
Broad Money Supply	.790**	.886**	.960**	1		
NEPSE index	.854**	.986**	.747**	.817**	1	
GDP	.492	.603*	.919**	.818**	.501	1
p-Value	0.278	0.018	0.000	0.167	0.025	

At the level of 0.01 (2-tailed), the correlation level is significant.
There is significant correlation at the level of 0.05 (2-tailed).
Source: This calculation was made by the author through the use of SPSS (SPSS).

Table 3 shows that the correlation coefficient between GDP and the stock turnover is 0.492 that is somewhat positive. This means that in all cases where stock market trading increases, there is the moderate improvement of the growth of the economy though the relationship is not very strong. Market capitalization and GDP are more related to each other at 0.603. One asterisk means that this is a statistically significant linkage. This may indicate that the wealth of all the companies listed in the stock exchange market rises in tandem with the economic growth, which demonstrates the importance of the magnitude of a stock market on the economy.

The most notable positive relation between digitalization and GDP is their 0.919, which is statistically significant through 2 appendages. Such a high relationship is quite indicative of the importance of the capital market in terms of digitalization and suggests that the absorption of digital technologies and its progress make a significant contribution to the economic development. The correlation coefficient of the Broad Money Supply to the GDP is 0.818 implying that there is a high relationship between a boost to the rate of economic growth and an increment in the total amount

of money in the economy, the cash, as well as deposits. Lastly, the correlation of GDP and NEPSE Index is not very positive, which is 0.501. This means that the economic growth of the country benefits moderately through improvement in the performance of the stock market as witnessed in a rising NEPSE Index.

The overall analysis shows that the effect of all the independent variables on the GDP of Nepal is positive but the most significant one is digitalization. The next important factors include market capitalization, NEPSE Index, stock turnover and the broad money supply. These findings coupled with the increasing money supply and a strong performance of the stock market indicate the importance of the healthy and digitalized capital market to the economic growth of the states. Regression Analysis The analysis of the causes and effects of the variables is done using regression analysis in order to determine the causal relationship between the two variables. There is no particular need to ensure that two highly linked variables are causally linked. A regression analysis is required to determine a cause-and-effect relationship among variables or between variables. The outcome of the regression analysis was found through the SPSS by the researchers.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992a	.985	.970	199.08

a. Dependent Variable: GDP

b. Predictors: (Constant), NEPSE index, Digitalization, Stock turnover, Broad Money Supply, Market Capitalization.

Source: This calculation was made by the author through the use of SPSS software.

Table 4 illustrates the effectiveness of a regression model to predict the dependent variable, GDP using a variety of predictors including the NEPSE Index, Digitalization, Stock Turnover, Broad Money Supply and Market Capitalization. Especially, the attention should be given to the value of R Square, which is. 985 or 98.5 percent. This coefficient of determination indicates that the model only accounts a fairly high percentage of the variance in the GDP using only the independent variables used. Practically, this implies that almost all the fluctuations of the GDP can be attributed to the variation in these particular market and economy variables. The value of R squared is high, which denotes a good fit in the model predictions and the actual data, which proves the relevance of the chosen variables and the combination of their influence on the economic growth of Nepal. Since it measures the capability of the model in measuring the variance of the dependent variable, it is a crucial measure that is needed in regression analysis. This has facilitated evaluation of the analysis and forecasting power as well as the explanatory power of the model by the forecasters and analysts.

Table 5: ANOVA

Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	129.428	5	2583.086	65.179	.000
Residual	198.589	5	396.918		
Total	131.017	10			

c. Dependent Variable: GDP

d. Predictors: (Constant), NEPSE index, Digitalization, Stock turnover, Broad Money Supply, Market Capitalization.

Source: This calculation was made by the author through the use of SPSS software.

The interpretation of the statistical significance of the GDP forecast model on digitalization, market capitalization, NEPSE Index and stock turnover as the predictors would need interpretation of the analysis of variance (ANOVA), which is presented in Table 5. One of the characteristics of the present study that should be noted is a significant value, which is represented by the number of 0.000 (or 0.000b) in the ANOVA table. One of the variables that determine validity of the model is the p-value, which relates to F-statistic of 65.179. The F-statistic is calculated by comparison of means square of regression and the means square of residuals. Basically, it assesses whether the predictors of the model make a better fit as compared to the predictor of none. The null hypothesis, which indicates that none of the predictors of the model have had any significant influence on GDP, is highly improbable to have given the F-statistic value as we have as the value of the null hypothesis is signalled by a value of 0.000. This is to mean that the possibility of the correct predictions that could be made by the model to have occurred by chance is very low hence confirming the statistical significance of the connection between GDP and the independent variables. Accordingly, this proves that the model is the best in explaining variations in GDP validating the selection of the predictors and suitability to economic growth. Such level of statistical significance that provides a solid basis of subsequent analysis, policy development, and economic forecasting is required to give one confidence in prediction capabilities of the model.

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2708.839	970.103		2.792	.038
Stock turnover	-.334	.275	-.144	-1.216	.278
Market capitalization	-3.131	.909	-2.813	-3.444	.018
Digitalization	.001	.000	2.216	8.128	.000
Broad Money Supply	-23.032	14.141	-.381	-1.629	.164
NEPSE index	3.622	1.149	2.053	3.152	.025

a. Dependent Variable: GDP

Source: Calculation by the author (SPSS).

The level of significance in the coefficients table of the regression analysis, and the standardized coefficients which are sometimes known as the beta values, are represented in Table 6 and contain vital information on the relative strengths and statistical significance of the effect of the respective predictor's variables on GDP. The standardized Beta coefficient permits us to make the degree of the established effect of every independent variable upon the dependent variable (GDP) to be contrasted on a standard level irrespective of the measure units. To comprehend the aspects, which the model uses to best predict GDP, this contrast is necessary.

The highest beta is 2.216, which means that digitalization has a beneficial effect on the GDP and it is the predictor, which correlates with the GDP growth the most out of all them. This is also supported by the level of significance of 0.000 which proves the statistical relevance of the effect of digitalization on the GDP and virtually discards the idea that this effect is due to the chance factor. The NEPSE Index or the market capitalization have significant functions even though they are against each other. The negative beta of market capitalization of -2.813 at a significant level of 0.018 indicates that the influence on the GDP is enormous. This finding was statistically significant. The NEPSE Index that has a positive Beta value of 2.053 is, on the other hand, significantly affecting GDP at a significance level of 0.025. These values of beta indicate the various impacts of market capitalization and performance of the stock markets to the growth of the economy.

The stock turnover and broad money supply have higher p-values (.278 and 0.164, respectively), which shows that even though it is related to the GDP, they are not statistically significant. This implies that the variables and the relationship between the two and the GDP may be related, but not enough information can be obtained to make any conclusive judgments as to what extent they have an influence under these assumptions.

The digitalization has been found to be the most predictive growth of the GDP on the basis of standardized beta coefficients, yet market capitalization and the NEPSE Index have substantial and opposing impacts. The level of significance shows that digitalization is incredibly essential in economic performance and the complexity of the effects that the market dynamics bring to GDP in the given analysis. They also reflect the degree of the trust that can be placed on such interactions.

Major Findings

The inferences of the study were based on the secondary information obtained through NEPSE, SEBON and other annual reports of other capital market regulatory institutions. According to this, the principal findings of the research are the following:

Stock Turnover Value (STV): One point is that the marketplace was highly liquid since it is reflected in the high liquidity peak in 2021 AD. This index means that it will be easy to buy and sell stocks in future and this may attract more investors and boost the growth of the economy.

Market Capitalization (MC): MC is an interesting measure of a growing stock market in that the overall upward trend of the market has seen its capitalization grow in the last twelve years. This expansion indicates a more stable economic situation that promotes more opportunities of investments and overall economic growth.

Digitization: The proliferation of the number of dematerialised accounts that become especially evident in the 2015 AD period is one of the important indicators of enhanced digitisation in the stock market. This activity highlights the fact that the interaction in the market is shifting towards using more transparency and efficiency that would most likely boost the market involvement and sustain economic growth.

Broad Money Supply (MS): A stable upward trend in money supply with time is one of the notable results, which is used to show an increasing economy. Even though this increase in deposits and cash in the hands increases the inflation and interest rates, this will also increase the likelihood that increased economic activity will be brought about.

NEPSE Index (NPI): The noticeable increased trend of NEPSE Index must be especially the noticeable increase of the NEPSE Index in the later years, which demonstrates that the stock market is stronger. This is a notable observation as it increases investor confidence

and a good sign of the health of the economy which can be used to spur on the growth of the economy further.

GDP: The most terrifying finding in this regard is the significant rise that is witnessed in the final year in the data set. The aggregate positive impacts of the stock market improvements can be the reason why growth in the Real GDP has been realized. Generally, Nepal market, digitization programs and sound monetary policies on market-based trends of economic growth thereof.

According to the table, the relationship between GDP and stock turnover is relatively positive with the correlation coefficient being 0.492. This finding indicates that although the correlation is not that strong, moderate growth in the economic growth is associated with each quarterly increase in the stock market trading activity. The positive correlation between the market capitalization and GDP is more evident at 0.603. A single asterisk shows that the correlation is statistically significant. It means that the positive correlation of economic growth and the sum of the publicly traded companies' values on the stock exchange is possible. This underlines the degree of influence the economy is affected by the magnitude of the stock market.

There is a statistically significant positive correlation = 0.919 between digitalization and GDP and this shows that the two have a strong association. Specifically, close associations have been presented between the technology's development, the implementation of digital technology, and economic development that indicate that the capital market cannot be digitalized.

The correlation coefficient of the Broad Money Supply of 0.818 with GDP indicates that there is a powerful connection between rises in the BMS which incorporates cash and deposits and boom in the economic growth. The coefficient is positive, 0.501, which means that GDP and NEPSE Index have a relatively positive dependency. This implies that development in stock market as indicated by the rise in NEPSE Index moderately supports the economic growth of the nation.

The impact of digitization on GDP is significant, although it has a positive effect on the latter as observed by its Beta value of 2.216 in the table. This is an indication that the strongest relationship by the growth of GDP of all the factors studied lies in the increase of digitalization. The significance of the effect of digitalization on the GDP is proven by its level of significance of 0.000.

The value of the R square is subject to analysis, which is 0.985 or 98.5 percent is a truly high percentage of the GDP variance that can be anticipated to be explained by the model alone with the independent variables. The market capitalization which has a negative beta of -2.813 with a level significance of 0.018 shows that it has a massive negative impact on GDP. This observation is statistically significant. But, NEPSE Index with a positive Beta value of 2.053 seems to have a statistically significant positive effect on GDP with a significance level of 0.025. The variables of Stock Turnover and Broad Money Supply are not statistically significant as indicated by their respective p-values of 0.278 and 0.144, yet, they have some relationship with GDP.

DISCUSSIONS

The paper is an investigation into the impact of the capital market of the nation NEPAL in the growth of its GDP, this research is relevant to the world discussion on the relevance of financial development in the economy of the countries. Among the significant conclusions of the study which have contributed to share market and trading investing are the liquidity or flow of money in the share market in 2021 AD. This finding aligns with the current trend in the world toward the digitalization of financial markets, as Ady et al. (2022) stressed, as a marketer needs technological preparedness and use technology to optimize the market operations.

These relationships and the thorough analysis made the point that the efficiency, liquidity, and transparency of the capital markets need to be raised. All available evidence points to the fact that strong capital markets are the key to the economics of a country, investment opportunities, and the overall financial security. Therefore, as in the case of countries in the world, betterment of the financial market infrastructures of Nepal should be a key aspect of concern. According to the studies done in different regions, including the EU or Sudan, market capitalization is a meaningful one in terms of investor confidence and a factor of economic stability (Vyshnevskyi *et al.,* 2021). This understanding must be used as a guideline of future research and policy-making initiatives in order to fully use financial markets as a source of sustainable economic growth. Specific effects of the economic conditions in the region on these outcomes are different, however.

Capital markets have been identified as important in the process of promoting stability and economic development, as the works of such researchers as Pokharel (2020) and Paudel and Acharya (2020) note, yet strong financial markets are essential in this context. As per the aggregate findings of such studies, the need to be efficient, liquid, and transparent in the market is critical. The future research and policy recommendations in this vital area should be informed by these improvements as they are important to Nepal like other countries to use their capital markets to realize their long-term economic stability and development.

CHAPTER 5: SUMMARY AND CONCLUSION

Summary

The article examined the correlation between the growth of the real GDP and the capital market. The research investigated the impacts of money supply and digitalization, market capitalization, NEPSE Index, and the stock turnover value on GDP. This was because the study revealed that both money supply and stock turnover value did not have much implication in GDP. There are other factors that affect GDP, and they include market capitalization, NEPSE Index, and digitization. The research was able to uncover several important relationships between the NEPSE, SEBON, and other capital market regulating bodies secondary data available in the annual report of the firms revealed that the GDP-based economic growth of Nepal had substantial connections with other features of a capital market. The Stock Turnover Value (STV) was largest between 2021 AD and 2022 AD showing a free market that contributes to the economic growth by enhancing the involvement of investors. The continuous growth of the Market Capitalization (MC) over the term of the decade is an indicator of a thriving stock market and a healthy economy that features a favourable environment to invest in.

One of the most important findings is the exponentially growing digitization as shown by dematerialized accounts in the period between 2014 and 2015. This is an indication of a tremendous shift towards efficient and transparent transactions in the market that ought to Favor market entry and market growth. Though the study accounts on Board Money Supply (MS) which is growing up poses an indication that the economy is growing, it also creates questions of inflation and interest rates. In the post-epidemic period, the interest of investors in the stock market was exceptionally high as the introduction and use of convenient internet portals were introduced and implemented. Most insurance, hydropower and microfinance companies sought initial public offerings in order to raise money. Due to the rapid growth of demat users, the graphic indicates a drastic rise in the number of users after 2020 AD. There is an escalation in remittances that has boosted the GDP. The economy of the country is based on remittances only. The country has not maintained agricultural production and tourism production, which can boost the GDP and initiate industrial and technical progress. This is shown in the figure below of the GDP statistics of 2013 AD to 2023 AD.

The increase in the NEPSE Index (NPI) was especially strong in recent years, which indicates an increase in the strength of the stock market and positivity in investor confidence, which results in positive economic perspectives because of the future growth. Amazingly, the real GDP growth in Nepal was work of spectacular proportions in the past year, probably due to better performance in the stock market, digitization and good money policy. Statistical analysis of the research shows that there is a rather positive correlation between GDP and the rates of stock turnover indicating that the more trading takes place, the more the economy grows. The positivity of the correlation between market capitalization and GDP is also high, which accentuates the importance of the volume of the stock market in the economic growth. Digitalization contributes more to the growth of the economy since it correlates with GDP significantly. The monetary factors impact the economic growth as the close relationship between GDP and the broad money supply underscores. Due to the significance and correlation between the variables, and the large beta value, the digitalization is the most suitable lead indicator of GDP growth.

The model based on the regression is able to explain 98.5 percent of total variation in GDP based on the value of R Square of 0.985. A complex connection between economic growth and the stock market is manifested in the significant negative correlation between the market capitalization and GDP and positive relationship between the NEPSE Index and the GDP. In the paper, the authors explain the association between the capital market factors and the economic growth of Nepal. It focuses on the importance of economic growth, computerization and volume, performance and liquidity of the stock market. The findings provide informative data for investors, decision-makers, and scholars who are interested in knowing about Nepal's economic development and how those factors affect GDP.

CONCLUSION

The correlation between Stock Turnover Value, Market Capitalization, NEPSE Index, Digitalization and Broad Money Supply is analyzed in the study on the impact of capital market on Nepal's Real GDP. By carefully analyzing secondary data available from NEPSE and SEBON, the research has pointed out the complex relationship between the capital market and economic growth. The study comes to the conclusion that the capital market is crucial in the growth of the economy of Nepal. The results of the present study might be concluded that economic growth is driven by digitalization as evidenced by the value of beta and positive association with GDP is high. Dematerialization of the accounts has grown exponentially as a result of the transformation of the market transactions brought about by digital technology in the stock market. Market involvement and economic growth are heightened by this step towards efficiency and openness.

The information also reveals the closeness between the market capitalization, economic growth, and NEPSE Index. The NEPSE Index and GDP have a positive correlation, which indicates that there is a complex relationship that could be deduced into market valuations exceeding the actual economic activity, while the market capitalization and GDP have a substantial negative association. Increased confidence of investors and value of stocks as observed in the NEPSE Index are a sign of good economy and economic growth.

However, there was no correlation with Gross Domestic Product between the capital market fundamentals, broad money supply and stock turnover value. This paper contends that stock market performance, market size, and digitization can be of more importance for the economic growth, in spite of the fact that these factors are part of the necessary market liquidity and monetary stability. The capital market has an impact on the economic growth of Nepal and the most notable factor is digitalization. This shows the importance of financing the digital infrastructure and enacting capital market regulations to support the advancement of technology. Contrary results obtained via market capitalization and benefits offered by NEPSE Index suggest that further research needs to be done to fully understand these links. All things considered, this study provides useful indications to the scholars, investors and decision makers who intend to make use of the capital market dynamics in order to strengthen Nepal's economy. For long-term economic growth, the report supports a highly comprehensive capital market development strategy that focuses on digitalization, efficiency and transparency of markets.

The study examined the performances of NEPSE for the period from 2013 to 2024 as well as its ability to represent the economic activities of Nepal. From the results, a dynamic link between trends in NEPSE and important macroeconomic factors such as sectoral developments, monetary policy, flow of investments and level of remittances can be observed. Depending on the prevailing presence of liquidity, attitude of the policy and the market sentiment of the investors, NEPSE indicated both conformity and deviation with the real economic fundamentals in the analyzed decade.

The performance over this period of NEPSE has reflected the climate of investment in Nepal; especially after 2020 NEPSE index has been increased to a great extent as a result of increased capital mobilization through rights offering and IPOs. More than 40 firms went public during the IPO boom in FY 2021-2022 which was a result of increased investor confidence and encouraged capital formation in industries like banking, insurance and hydropower. As witnessed by exponential growth in the number of demat account holders, this time frame also witnessed a growth in the number of mutual funds participants and diversification of the investor.

Since there is a high representation of financial sector in the stock market, NEPSE is certainly a good indicator to know the condition of the banking and the non-banking financial companies. Between 2013-2019 when credit expanded and interest rates were low, financial indices also soared. Notably, NEPSE almost tripled between 2019 and 2021-mostly because of increased liquidity, which has been supported by strong remittance inflows and relaxation of the monetary policy. As a result of financial deepening and increased public involvement in the formal financial system, stock value of the commercial banks, development banks, and finance companies went skyrocketing. Remittances, a big factor in the macroeconomic stability of Nepal had huge impact on the development of NEPSE.

By 2023, the rate of remittance inflow had exceeded USD 11 billion a year, adding a major life to the liquidity of the economy. These flows made it easier to invest in stocks as well as consume, especially in the case of low alternative returns to savings. Consequently, the growth periods of NEPSE especially in 2016 and 2020-2021 were close to gains in income from remittances, proving the correlation between household surplus and investments in the retail stock market. Monetary policy also had a great impact in determining the NEPSE patterns. Investors moved their capital into stocks as a result of the record low-interest rate environment being in place up until 2019.

However, the stock market witnessed corrections under the policy of tightening after 2021, which was an increase in the policy rate of Nepal Rastra Bank to 8.5%. The inverse-effect of interest rates on the performance of the stock market draws attention to the degree of sensitivity that NEPSE has about the availability of credit and liquidity. Real sector dynamics were also reflected in NEPSE's sectoral indices particularly sector indices that represented banking and hydropower. New investors' optimism and the growth in projects related to renewable energy in Nepal were seen in the spike the index recorded for hydropower.

These changes in sectors provide some information about the broader structural change that is occurring in the economy. The reaction of NEPSE towards shocks outside Nepal exhibited the further degree of sentimentality affecting the market. The market experienced massive dips and then strong returns during the earthquake in 2015 and the Covid-19 pandemic in 2020. These reactions had shown quick changes in investor confidence as well as economic upheavals. For instance, the bull run of the Covid-induced investment markets in 2020-2021 was propelled by a shortage of alternative investment choices, additional liquidity and optimism about recovery. But NEPSE's adherence to the principles of economics wasn't always constant. Overvaluation was often due to herd mentality, speculative activity and false information, particularly with stocks with small cap floats. The market corrections of 2022 and 2023 showed how the hype rallies could exist out of accordance with the underlying state of the economy and make humble investors more volatile and disillusioned.

In summation, the NEPSE index has actually been a useful gauge of the growth of the financial sector also for investment sentiment in Nepal, but unfortunately has oftentimes drifted off of more typical indicators

relating to the growth of the real sector including GDP growth, trade performance or industrial output. Trends in the stock market have been more a function of the retail speculation, patterns of remittance, and the state of liquidity than they have been of any long-term structural changes in the economy. However, NEPSE still plays a great role on financial inclusion, capital mobilization and signalling the sentiments of the investors.

Recommendations

Overall, the entire study has shown that although the capital market plays an important role in the economic growth of Nepal, there should be collaboration among all the players involved in the capital market in order to fully realize the potential of the capital market. Because of its huge influence, both the public sector and the commercial sector should invest in digital infrastructure as a development for economic growth. This includes the cybersecurity of the trading technology platforms and market participants. In order to extract maximum from digitalization and to increase participation in the market, provide financial literacy education as a high priority. By attracting traditional as well as tech savvy investors, the educational efforts can be diversifying the market. The development and implementation of laws that support market efficiency and transparency need to be a top priority of policymakers. An even playing field for investors is provided by the regulations that foster moral behaviour in business and regulate market manipulation. More studies are needed to fully comprehend the complex relationship between the market cap and GDP growth. This may aid policymakers in making judgements as well as investors. New and old companies bringing in innovations could be given financial support by the government. Adoption of technology that improves operations of the market may be faster. The results of the study regarding impacts of capital market on economic growth of Nepal have implications for many industries and point to the need for a multifaceted approach to the development of the capital market.

The results demonstrate the need for policy frameworks that promote technology developments in the capital sector. Lawmakers should pass policies that promote market stability and investor interests, as well as foster digital innovation. In order to ensure a growth and security in the capital market, digitization proposes an approach for regulating the capital market that is an equilibrium between risk management and innovation. The study is unquestionable proof to investors of the benefits of trading with the digital platforms and tools. Because of the complex relation between Market Capitalization, NEPSE Index and economic growth, it advises the customers to be careful while making any investments. To handle the market and benefit from the growth, investors must know of these characteristics. It is necessary to understand the capital market and for this one has to know about banks and other financial entities. These businesses can raise their number of investors by offering digital goods and services. Their support for financial literacy initiatives opens the market and improves market access and participation by allowing more people to participate and benefit from the capital market.

REFERENCES

- Adeleke, O. (2024). The impact of stock market performance on economic growth in Nigeria. *British International Journal of Applied Economics, Finance and Accounting, 8* (1), 59-77.
- Adeyeye, O. P. (2016). Impact of foreign direct investment on economic growth in Africa. *Problems and Perspectives in Management*, *2016*(14 (2)), 289-297.
- Adhikari, N. (2013). Capital market development in Nepal. Reshaping Organizations to Develop. *Responsible Global Leadership, 1*(1), 321–334
- Aigbovo, O., & Izekar, A. O. (2015). Stock market development and economic growth in Nigeria: An empirical assessment. *International journal of business and social sciences, 9*(1).
- Akkutay, E. A. (2024). The impact of stock market development on economic growth in Turkey: ARDL analysis. Business & Management Studies: *An International Journal,* 12(1), 148-160.
- Akram, M. I., & Akram, N. (2024). Impact of stock market development on the economic growth of Pakistan. *Asian Journal of Economics and Finance. 6*(1), 87-98. https://DOI: 10.47509/ AJEF. 2024.v06i01.05
- Algaeed, A. H. (2021). Capital market development and economic growth: an ARDL approach for Saudi Arabia, 1985–2018. *Journal of Business Economics and Management*, *22*(2), 388-409.
- Araoye, F. E., Ajayi, E. O., & Aruwaji, A. M. (2018). The impact of stock market development on economic growth in Nigeria. Journal of business and African Economy, 4(1), 1-15.
- Baral, K. B. (2019). Effects of stock market development on economic growth in Nepal. *Janapriya Research and Consultancy Center (JRCC),* 79.
- Bayar, Y., Kaya, A., & Yildrlm, M. (2014). Effect of stock market development on economic Growth: Evidence from Turkey. *International Journal of Financial Research, 5*(1), 52-70.
- Bekaert, G., & Harvey, C. R. (1998). Capital markets: An engine for economic growth. *The Brown Journal of World Affairs, 5*(1), 33-53.
- Bhattarai, J. K., Gautam, R., & Chettri, K. K. (2021). Stock Market development and economic growth: empirical evidence from Nepal. *Global Business Review*.
- Bhoyu, P. (2011). *Macroeconomic relationship in Indonesia stock market*. Georgia State University.
- Bista, J. P. (2017). Stock market development and economic growth in Nepal: An ADRL

representation. *Journal of Finance and Economic, 5* (4), 164–170.

- Borteye, E. A., & Peprah, W. K. (2022). Correlates of stock market development and economic growth: A confirmatory study from Ghana. *International Journal of Economics and Finance*, *14*(3), 1-1.
- Buffie, E. F. (1984). Financial repression, the new structuralist, and stabilization policy in semi-industrialized economics. *Journal of Development Economics*.
- Carlin, W., & Mayer, C. (2003). Finance, investment and growth of economics. *Journal of Financial Economics,* 69(5), 191-226.
- Chaitip, P., Chokethaworn, K., Chaiboonsri, C., & Khounkhalax, M. (2015). Money supply influencing on economic growth-wide phenomena of AEC open region. *Procedia Economics and Finance, 24,* 108-115.
- Chalise, D. R. (2020). Growth of capital market in Nepal: Impact on capitalization, GDP and NEPSE Index. *Saptagandaki Journal*, *11*, 66-83.
- Chen, Y., Kumara, E. K., & Sivakumar, V. (2021). Invesitigation of finance industry on risk awareness model and digital economic growth. *Annals of Operations Research*, 1-22.
- Chikwira, C., & Mohammed, J. I. (2023). The Impact of the stock market on liquidity and economic growth: Evidence of volatile market. *Economies*, *11*(6), 155.
- Cooper, R. V. (1983). Efficient capital markets and the quantity theory of money. *Journal of Finance, 29*(3), 887-908.
- Demirgüç-Kunt, A., & Levine, R. (1996). Stock market development and financial intermediaries: Stylized facts. *The World Bank Economic Review, 10*(2), 291–321.
- Dhungana, B. (2013). Performance of stock market and reforms in Nepal. *SEBON Journal, 6*, 43–53.
- Dhungana, B. R. (2023). Stock Market Development and Economic Growth of Nepal. *Journal of Business and Social Sciences Research*, *8*(2), 31-50.
- Dhungana, B. R. (2023). Stock market development and economic growth of nepal. Journal of Business and Social Sciences Research, 8(2), 31-50.
- Diener, E., Ng, W., Harter, J., & R. Arora. (2010). Wealth and happiness across the world: Material prosperity predicts life evaluation, whereas psychosocial prosperity predicts positive feeling. *Journal of Personality and Social Psychology, 99*(1), 52 61.
- Dorjdagva, O., Batchuluun, J., Damiran, S., & Natsagdorj, B. (2024). Economic growth and stock market development: Evidence from some selected countries. *Journal of Eastern European and Central Asian Research* (JEECAR), 11(4), 754-767.
- Elbadawi, I. A. (1999). External aid: Help or hindrance to expert orientation in Africa. *Journal of African Economies, 8*(4), 576-616.
- Elfeituri, H., Elgehani, L., & Elkrghli, S. (2023). The Impact of Stock Markets on Economic Growth in the Gulf Countries (1993-2019).
- Elhassan, T., & Braima, B. (2020). Impact of khartoum stock exchange market performance on economic growth: An autoregressive distributed lag ARDL bounds testing model. *Economies*, *8*(4), 86.
- Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *Journal of Finance, 25*(2), 383-417.
- Fuentes, N. R., & Pereira, I. (2010). *Disengage between indicators of sustainability and human development*. Human Development Research paper, 34.
- Gallagher, K. P., Gao, H., Kring, W. N., Ocampo, J. A., & Volz, U. (2021). Safety first: Expanding the global financial safety net in response to COVID-19. *Global Policy*, *12*(1), 140-148.
- Goodhart, C. (2013). From national towards European/global financial regulation. *M. Balling and E. Gnan (eds.)*, *50*, 229-261.
- Gurley, J. G., & E. S. Shaw. (1955). Financial aspects of economic development. *The American Economic Review, 45*(4), 515-538.
- Gurung, J. B. (2004). Growth and performance of securities market in Nepal. *The Journal of Nepalese Business Studies*, *1*(1), 85-92.
- Howells, P., & Keith, B. (2000). *Financial markets and institutions*. Prentice Hall, 3rd Edition.
- Hui, X., & Jha, S. (2013). The impact of commercial banking performance on economic growth. In *Proceedings of the Institute of Industrial Engineers Asian Conference 2013* (pp. 1503-1511). Springer Singapore.
- Irtyshcheva, I., Stehnei, M., Popadynet, N., Bogatyrev, K., Boiko, Y., Kramarenko, I., & Ishchenko, O. (2021). *The effect of digital technology development on economic growth*. Mukachevo State University repository.
- Islam, M. S., Parvin, R., Milon, M., & Das, M. K. (2023). The impact of gross domestic product on the Bangladesh stock market: An empirical analysis. *International Journal of Finance and Accounting*, *12*(1), 1-12.
- Jarrar, F. A. S. (2021). The impact of stock market development on economic growth in Jordan. *Journal of Applied Economic Sciences (JAES)*, *16*(71), 57-73.
- Joshi, L. R. (2010). Stock market development and economic growth: A case of Nepal, *SEBON Journal*, Vol. 4.
- Kalbhor, A., & Jagannathan, U. K. (2020). Bailard, biehl and kaiser five-way model and behavioural biases influencing individual investors' decisions in the Indian capital market. *Mudra Journal of Finance and Accounting, 7*(2), 1-30.
- Karna, S. K., Sahani, S. K., & Sharma, D. K. (2024). Analysis of stock market trends for market capitalization and securities management: An

approach to Nepalese stock market. *Asian Journal of Early Childhood and Elementary Education, 2*(3), 217- 259.

- Kim, H. K., & Lee, C. W. (2021). Relationships among healthcare digitalization, social capital, and supply chain performance in the healthcare manufacturing industry. *International Journal of Environmental Research and Public Health, 18*(4), 1417.
- Kumo, L. W. (2009). *Stock exchange in Africa: Prospects and challenges*. Americian Chronicle.
- Lazonick, W. (2018). The functions of the stock market and the fallacies of shareholder value. *What next for corporate governance*, 117-151.
- Levine, R. (1997). Financial development and economic growth: Views and agenda. *Journal of Economic Literature*, (35), 688-726.
- Levine, R. (2005). Finance and growth: theory and evidence. *Handbook of economic growth*, *1*, 865-934.
- Levine, R., & Zervos, S. (1998). Stock markets, banks, and economic growth. *American economic review*, 537-558.
- Linter, J. (1978). Distribution of incomes of corporations among dividends, retained earnings and taxes. *American Economic Review, 46(*8), 97-113.
- Lucas, R. J. (1988). On the mechanics of economic development. *Journal of Monetary Economics, 22* (1).
- Machuki, D. M. (2016). *Relationship between stock market performance and economic growth in Kenya* (Doctoral dissertation, University of Nairobi).
- Maskey, A. (2022). Predicting NEPSE index using ARIMA model. *International Research Journal of Innovations in Engineering and Technology, 6*(02), 80-85.
- Mose, N. (2023). The link between human capital formation and economic growth in East Africa. *Asian Journal of Economics, Business and Accounting*, *23*(7), 49-55.
- Muktadir-Al-Mukit, D., Uddin, M.M., Islam, M.T. & Arif, M.Z.U. (2014). Stock market development and economic growth: evidence from SAARC countries. *ANVESHAK-International Journal of Management, 3(*1), 45-58.
- Munro, P. (2000). Stock returns and output growth in emerging and advanced economies. *IMF Working Paper*, 89.
- Nathaniel, S. P., Omojolaibi, J. A., & Ezeh, C. J. (2020). Does stock market-based financial development promotes economic growth in emerging markets? New evidence from Nigeria. *Serbian Journal of Management*, *15*(1), 45-54.
- Nazir, M. S., Nawaz, M. M., & Gilani, U. J. (2010). Relationship between economic growth and stock market development. *African Journal of Business Management, 4*(16), 34-73.
- Ngare, E., Nyamongo, E. M., & Misati, R. N. (2014). Stock market development and economic growth in Africa. *Journal of Economics and Business, 74*, 24–39.
- Nguyen, M-L. T., & Bui, T. N. (2019). The stock market, real estate market, and economic growth: an ARDL approach. *Investment Management and Financial Innovations, 16*(4), 290-302.
- Okwu, A. T., Oseni, I. O., & Obiakor, R. T. (2020). Does foreign direct investment enhance economic growth? Evidence from 30 leading global economies. *Global Journal of Emerging Market Economies*, *12*(2), 217-230.
- Orji, A., Mba, P. N., & Peter, N. (2010). Foreign private investment, capital formation and economic growth in Nigeria: a two stage least square approach. *Journal of Economics and sustainable Development*, *6*(8), 57-63.
- Osamwonyi, I. O. (2013). *Capital market imperfections and community economic development in Nigeria*. Being a paper presented at the Academy of Management Nigeria, on the 23rd of November, at Abuja.
- Osamwonyi, I., & Osaseri, G. (2020). A causality study of stock market development and economic growth in Nigeria and Brics. *Acta Universities Danubius. Administration*, *12*(1).
- Owusu, E.L. (2018). Stock market development and economic growth: New evidence from South Africa. *Open Journal of Economic and Commerce, 1*(2), 42-52.
- Pan, L., & Mishra, V. (2018). Stock market development and economic growth: Empirical evidence from China. *Economic Modelling, 68*, 661–673. https://doi.org/10.1016/j.econmod.2017.07.005.
- Pant, B. (2016). Financial inclusion in Nepal: *Policy Review and Prescriptions,* 1-18.
- Panta, B. P. (2020). *Macroeconomic determinants of stock market prices in Nepal* (SSRN scholarly paper 3649368).
- Park, H., & Choi, S. O. (2019). Digital innovation adoption and its economic impact focused on path analysis at national level. *Journal of open innovation: Technology, market, and complexity*, *5*(3), 56.
- Parveen, S., Satti, Z. W., Subhan, Q. A., & Jamil, S. (2020). Exploring market overreaction, investors' sentiments and investment decisions in an emerging stock market. *Borsa Istanbul Review, 20*(3), 224-235.
- Paudel, H. P., & Raut, N. K. (2022). Nonlinear impact of inflation on economic growth in Nepal: a smooth transition regression approach. *Nepal Public Policy Review*, *2*, 235-260.
- Paudel, R. C., & Acharya, C. P. (2020). Financial development and economic growth: Evidence from Nepal. *NRB Economic Review*, *32*(1), 15-36.
- Pavone, P. (2019). Market capitalization and

financial variables: Evidence from Italian listed companies. *International Journal of Academic Research Business and Social Sciences, 9*(3), 1356-1371.

- Pearce, D. K., & Roley, V. V. (1983). The reaction of stock prices to unanticipated Changes in Money: A Note. *Journal of Finance, 38*(4), 1323-1333.
- Perera, N., & R. C. Paudel. (2009). Financial development and economic growth in Sri Lanka. *Applied Econometrics and International Development, 9*(1), 157 164.
- Pirogova, O., & Loubochkin, M. (2022, May). *Digitalization in the global stock market in the post Coronavirus Era. In International Scientific Conference on Agricultural Machinery Industry-Interagromash".* Springer International Publishing.
- Pokharel, J. (2020). Capital market linkage to economic growth in Nepal. *Westcliff International Journal of Applied Research*. https://doi.org/10.47670/ wuwijar202041JP.
- Polat, A., Shahbaz, M., Rehman, I. U., & Satti, S. L. (2015). Revisiting linkages between financial development, trade openness and economic growth in South Africa: Fresh evidence from combined integration test. *Quality & Quantity*, *49*, 785-803.
- Pradhan, R. P., Arvin, M. B., Hall, J. H., & Bahmani, S. (2014). Causal nexus between economic growth, banking sector development, stock market development, and other macroeconomic variables: The case of ASEAN countries. *Review of Financial Economics, 23*(4), 155–173.
- Qamruzzaman, M., & Wei, J. (2018). Financial innovation, stock market development, and economic growth: An application of ARDL model. *International Journal of Financial Studies, 6*(3), Article 3. https://doi.org/10.3390/ijfs6030069
- Ranjit, Y. (2021). Contribution of Stock Market Development on Economic Growth of Nepal. *Economic Journal of Nepal, 44*(1-2), 19-36.
- Regmi, U. R. (2012). Stock market development and economic growth: Empirical Evidence from Kathmandu, Nepal. *Administration and Management Review, 24*(1), 1-28.
- Rousseau, P. L., & Wachtel, P. (2011). What is happening to the impact of financial deepening on economic growth? *Economic Inquiry*, *49*(1), 276-288.
- Shravani, & Sharma, S. K. (2020). Scrutinizing causal relationship between stock market development and economic growth: case of India. *International Journal of Indian Culture and Business Management*, *20(*4), 429-443.
- Shrestha, M. B. (2005). Financial liberalisation in Nepal. *University of Wollongong, School of Economics and Information Systems Faculty of Commerce New South Wales, Australia.*
- Shrestha, M. B., & Bhatta, G. R. (2017). Selecting appropriate methodological framework for time-series data Analysis. *NRB Working Paper*, No. 36.
- Shrestha, P. K., & Subedi, B. R. (2014). Empirical examination of determinants of stock index in Nepal, Kathmandu. *NRB Working Paper* No.24.
- Shrestha, P. K., & Subedi, B. R. (2014). Empirical examination of determinants of stock index in Nepal, Kathmandu. *NRB Working Paper No .24.*
- Silva, N. K., Perera, P. M., & Silva, N. L. (2017). Relationship between stock market performance & economic Growth: Empirical evidence from Srilanka.
- Siong, & Thing, A. (2008). Stock market, financial liberalization and economic development. *Economic journal, 10*(7), 771-782.
- Stiglitz, J. E. (2000). Capital market liberalization, economic growth, and instability. *World development, 28*(6), 1075-1086.
- Strumeyer, G., & Swammy, S. (2017). *The Capital Markets: Evolution of the Financial Ecosystem.* Wiley 1st edition.
- Summers, L. H. (1981). Inflation, the stock market and owner-occupied Housing. *American Economic Review, 71*(2), 429-434.
- Sylvester, O., & Enabulu, G 11). The effect of the stock market on economic growth in Nigeria. *JORIND Journals*.
- Thaddeus, K. J., Ngong, C. A., Nnecka, U. J., Nubong, N. M., Ibe, G. I., Chinyere C, O., & Onwumere, J. U. J. (2022). Stock market development and economic growth in subSaharan Africa (1990–2020): An ARDL approach. *Journal of Economic and Administrative Sciences*. https://doi.org/10.1108/JEAS-04-2021- 0075.
- Timilsina, Y. (2001). Capital market development and stock price behavior in Nepal. *NRB Economic Review*, 1–34.
- Timsina, N. (2014). Bank credit and economic growth in Nepal: An empirical analysis. *NRB Economic Review*, *26*(2), 1-24.
- Tobin, J. (1969). A general equilibrium approach to monetary theory. *Journal of Money, Credit and Banking, 1*(1).
- Ukoh, J. E. (2024). Stock market performance and economic growth in Nigeria. *African Banking and Finance Review Journal*, *8*(8), 103-120.
- Vaidya, R. (2021). Relationship between stock market and economic development: A study on Nepal Stock Exchange Limited. *Khowpa Journal, 4*(1), 62-71.
- Vakidais, A. (2009). Stock market development and economic growth. *American Journal of Applied Sciences, 6* (11). 1932-40.
- Vyshnevskyi, O., Stashkevych, I., Shubna, O., & Barkova, S. (2020). Economic growth in the conditions of digitalization in the EU countries. *Studies of Applied Economics*, *38*(4).
- Wang, Z., Huang, Y., Cai, B., Ma, R., & Wang, Z. (2021). Stock turnover prediction using search engine data. *Journal of Circuits, Systems and Computers, 30*(07), 2150122.

- Yartey, C. A., & Adjasi, C. K. (2007). Stock market development in sub Saharan Africa: critical issues and challenges. *International Monetary Fund*.

APPENDIX

The following table presents the data for the study which consists of data from time period 2013- 2024 AD.

Year (AD)	Stock turnover	Market capitalization	Digitalization	Broad Money Supply	NEPSE index	GDP
2013	22.05	514.49	256	64.3	518.33	1507.2
2014	77.3	1057.17	534	67.5	1036.11	1553.5
2015	65.43	989.4	40934	70.1	961.23	1642.7
2016	164.65	1890.13	392359	77.5	1718.15	1700.4
2017	205.02	1856.82	873237	86.1	1582.67	1700.4
2018	121.4	1435.14	1294758	84.2	1212.36	1846.5
2019	110.1	1567.49	1570572	89.5	1259.02	1982.7
2020	150.03	1792.76	1752228	92.8	1362.65	2109.3
2021	1454.44	4010.96	3789542	108.8	2883.41	2058.1
2022	1202.1	2869.34	5346124	120.5	2009.47	4266.32
2023	467.12	3082.52	5821527	113.5	2097.1	4851.62
2024	11.7	4,670.00	Not Available	7,638.00	2,424.32	42.00

Source: NEPSE, SEBON, CDS and Clearing