Macroeconomic Factors and Stock Market Return in Nepal

By Narayan Kattel

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Abstract- This study examines the relationship between key macroeconomic variables and the stock market return in Nepal, particularly focusing on the NEPSE Index. Using time series data from 2014 to 2023 and employing multiple regression analysis, the study evaluates the influence of interest rate, inflation rate, exchange rate, industrial production, and broad money supply on stock market performance. Results reveal that exchange rate and money supply significantly and positively affect NEPSE, while inflation and interest rates show a negative but statistically insignificant impact. The findings are expected to aid investors and policymakers in understanding economic drivers of market behavior in Nepal.

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MACROECONOMICFACTORSANDSTOCKMARKERETURNINNEPAL

Strictly as per the compliance and regulations of:

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I. Introduction

The stock market plays a crucial role in economic growth by mobilizing capital for investment. In Nepal, the stock market is relatively young and influenced by various internal and external macroeconomic forces. Despite its potential, NEPSE has shown high volatility, raising concerns about investor understanding of these macroeconomic influences.

This study aims to explore the trends and relationships of key macroeconomic variables with the Nepal Stock Exchange Index (NEPSE), offering insight for investors and policymakers.

II. Research Problem

The Nepal Stock Exchange exhibits frequent volatility, partially driven by limited awareness of the macroeconomic forces affecting it. This research seeks to answer:

– What are the recent trends in macroeconomic indicators?
– How do these indicators correlate with and influence NEPSE?

III. Objectives

1. To identify the trends of selected macroeconomic indicators.
2. To examine the relationship between these indicators and NEPSE.
3. To analyze the impact of these variables on stock returns.

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IV. Hypotheses

H1: Broad Money Supply (M2) significantly impacts NEPSE.

H2: Inflation Rate significantly affects NEPSE.

H3: Policy Interest Rate significantly influences NEPSE.

H4: Exchange Rate (USD/NPR) significantly affects NEPSE.

H5: Industrial Production significantly influences NEPSE.

V. Methodology

Design: Quantitative research using time series analysis.

Period: 2014–2023.

Data Sources: Nepal Rastra Bank (NRB), NEPSE, SEBON, and Ministry of Finance (MOF).

Analytical Tools: Descriptive statistics, correlation analysis, and multiple regression.

VI. Variables

Dependent Variable: NEPSE Index (proxy for stock market return).

Independent Variables:

– Interest Rate (IR)
– Inflation Rate (INF)
– Exchange Rate (ER)
– Industrial Production (IP)
– Broad Money Supply (M2)

VII. Results and Discussion

Inflation and Interest Rate: These had a negative but statistically insignificant impact on NEPSE. Exchange Rate and Money Supply (M2): Showed positive and statistically significant impacts. Industrial Production: Positive influence, but statistically insignificant.

These findings suggest that among the variables studied, exchange rate and money supply are the most influential in determining NEPSE movements.

VIII. Conclusion

Macroeconomic variables significantly influence the Nepalese stock market. Particularly, broad money supply and exchange rate exhibit a strong and positive effect on NEPSE. The results underscore the importance

of monetary stability and foreign exchange policy in shaping market behavior.

IX. Recommendations

- For Investors: Monitor macroeconomic trends, especially exchange rates and money supply.
- For Policymakers: Formulate consistent monetary and exchange rate policies to ensure market stability.
- For Researchers: Explore additional variables such as remittance, political stability, and foreign investment in future studies.

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