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ANALYSING THE IMPACT OF INDIAN ELECTIONS ON STOCK MARKET PERFORMANCE

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Abstract

The research entitled "Analysing the Impact of Indian Elections on Stock Market Performance" investigates the correlation between general elections and stock market dynamics in India from 2013 to 2024. It utilises multivariate regression analysis to examine the influence of macroeconomic parameters, including currency rate, inflation, and bank rate, in conjunction with election-related variables on the Nifty index. The results indicate that although the exchange rate has a considerable impact on the stock market, elections do not have a statistically significant effect within this dataset. The study emphasises the complex dynamics of the stock market during politically sensitive periods, indicating that broader economic variables may exert greater influence than election results.

1. INTRODUCTION

The Indian stock market is a dynamic and ever-evolving entity, influenced by a myriad of factors ranging from economic indicators to global events. One of the most important events in the Indian economy is the general elections that are held every 5 years. These elections have power to bring the turbulence in the stock markets. These elections not only determine the country's political landscape but also trigger a series of reactions within the financial markets as foreign and domestic investors behave in precautionary manner before the election. Stock prices are perpetually responsive to new information. Elections are among the most significant events that a nation, its populace, economy, and society experience. The event is periodic and follows a predetermined timetable, resulting in few unexpected occurrences or statements that could significantly influence stock market behaviour during election cycles.

During the Election period, the Stock market serves as an indicator of Political opinion and economic stability. Political events, primarily elections, have a substantial impact on financial markets by introducing shifts in economic policies and creating uncertainty among investors. In emerging markets like India, general elections represent pivotal moments that can result in substantial stock market volatility. The Indian stock market, one of the most dynamic in the world, has demonstrated susceptibility to political changes, reflecting investor sentiment and expectations regarding potential economic reforms (Chakraborty & Yadav, 2023). This research addresses the impact that the general elections in India have had on the performance of the stock market which particularly focuses on market volatility, investor opinions, and price variations during the pre and post-election phase.

2. REVIEW OF LITERATURE

(Qin Jing et al., n.d.) The interpretation discloses a clear syndicate between elections and stock market performance, showing that both returns and volatility are significantly influenced by the political situation of each country. The comprehensive of these effects differs depending on the level of political uncertainty, market dynamics, and the ascribed of the electoral process. (P H & Rishad, 2020) publications probe reinforces the considerable influence of investor sentiment on stock market volatility. They advocate that investor sentiments affect asset valuation and market behaviour. The exploration references observed from both advanced and emerging nations exemplify the supremacy of mood on market volatility, returns and investing behaviour. (Sarkar & Roy, 2024) dig into the highlights of the significant impact of political instability and elections on capital market outcomes over diverse countries. It extracts curiosity about how financial markets are to political events and points out political unrest as a main factor influencing market volatility. It also looks at the negative relationships that exist between economic developments and political unrest. It proclaims how political events could lead to curious results on the stock market and lower investor confidence. The results on stock market returns of macroeconomic factors like industrial production, interest rate, inflation and currency values. Considering such attachment has been done using asset pricing models such as the capital asset pricing model (CAPM) and arbitrage pricing theory (APT), but they repeatedly accumulate challenges, particularly in developing nations marked by market imperfections (Srivastava, 2010). The work stipulates that stock market performance is regulated by political results, basically ameliorating in the years following elections. It enhances volatility intensifying during election time, as investors are inclined to negatively impact news (Chavali et al., 2020). The bring-out exemplifies strengthened stock market volatility during elections, chalk out to investor uncertainty and expectation of policy alterations (Gour & Singh, 2020). The study illustrates that political uncertainty during electoral seasons markedly heightens stock market volatility, especially via macroeconomic policy mechanisms. indicating diminished volatility when Democratic candidates are anticipated to prevail (Mnasri & Essaddam, 2021). The fact finder hinges on no fundamental long-term impact of political parties on U.S. stock markets, noting that companies with political affiliations typically demonstrate enhanced performance during the election period (Souffargi & Boubaker, 2024). The study found strong correlations between political risk and UK stock market prices. According to the study held in the US, macro-economic variables could have a bigger impact than a political event (Hashim et al., 2020).

3. RESEARCH METHODOLOGY

The investigation will assess the alliance between stock market returns and macroeconomic factors throughout election times in India from 2013 to 2024 using multivariate regression analysis. The dependent variable in the regression model will be the stock market returns, represented by indices such as NSE Nifty. To capture the impact of election cycles on market performance, the independent variable also contains election-related dummy variables and important macroeconomic variables such as interest rates, inflation and currency rates. This perspective will help identify how changes in these economic indicators and political events influence stock market behaviour. The model will consider the direct effect of elections on stock returns while accounting for other economic factors by including election periods as dummy variables. This will produce a more rigorous understanding of market dynamics during politically crucial periods.

4. RESULT ANALYSIS

The regression model can be employed to grasp the correlation between stock market returns (dependent variable) and a variety of independent variables, including macroeconomic factors like interest rate, inflation rates and exchange rates and an election as a dummy variable (01 during the election period from march to June and 0 for the remaining periods).

Model Equation:

Stock Market Returns = $\beta 0 + \beta 1(\text{Interest Rate}) + \beta 2(\text{Inflation}) + \beta 3(\text{Exchange Rate}) + \beta 4(\text{Election Dummy}) + \varepsilon$

OLS Regression Results

Dependent Variable	Nifty	R-squared:	0.273
Model	OLS	Adj. R-squared:	0.251

Independent Variable	Coefficient	Standard Error	t	Prob.
Exchange_rate	-1.3248	0.195	-6.8	0.00
Inflation	0.0018	0.002	1.004	0.317
Bank_Rate	-0.0015	0.002	-0.654	0.514
Election_Dummy	0.0077	0.012	0.619	0.537

The regression analysis aimed to examine the impact of several variables—exchange rate, inflation, bank rate, and dummy variable election periods—on the Nifty index. The model yielded an R-squared value of 0.273, indicating that approximately 27.3% of the variability in the Nifty index is explained by the independent variables included in the model. This suggests a moderate level of explanatory power, which is common in financial markets where multiple factors influence index movements. The coefficient for the exchange rate is -1.3248, which is statistically significant with a p-value less than 0.0001. This negative relationship implies that as the exchange rate increases (currency depreciation), the Nifty index tends to decrease. The inflation variable has a coefficient of 0.0018, but it is not statistically significant. The election dummy variable, representing election periods, has a coefficient of 0.0077. However, its p-value of 0.537 suggests that the influence of elections on the Nifty index is not statistically significant in this dataset.

5. CONCLUSION

The study aimed to analyze the impact of Indian general elections on stock market performance, focusing on market volatility, investor sentiment, and price fluctuations in pre- and post-election periods. The regression analysis revealed that among the variables considered—exchange rate, inflation, bank rate, and election periods—only the exchange rate had a statistically significant impact on the Nifty index. The model's R-squared value of 0.273 indicates that 27.3% of the variation in the Nifty index is explained by these variables, which is reasonable given the complexities and multiple factors influencing financial markets. This finding implies that the market does not react consistently to election events or related macroeconomic indicators in the short term. These results underscore the nuanced nature of stock market behaviour, particularly in emerging markets like India. While political events such as elections are anticipated to influence market dynamics, other factors, such as investor sentiment, global market conditions, and economic policies, may play more dominant roles. Therefore, investors and policymakers should consider a broader set of economic and financial indicators when analysing market trends, especially during election periods. Future research could explore additional variables or employ different methodologies to further understand the intricate relationship between elections and market performance.

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