

Indian Democracy, Political Risks and Stock Market Performance

Harshit Agarwal

M.Phil., University of Portsmouth. UK.

Abstract

The policies and the decisions of the political leadership influence the economy of the country in a significant manner. And the economy is directly responsible for the growth of the financial markets of the country. Hence, the political conditions of a country plays a huge role in the determination of the conduct of the nation's stock market. This study was exclusive in the way that it analysed for the first time in the Indian context the stock market's performance evaluation under different political regimes and examined the effects of different domestic and international political events on the returns of the stocks. The right-wing party, BJP's leadership was found to be making a positive effect on the conditions of the stock market whereas the centrist, Congress seemed to be negatively connected with the conditions and the results of the stock market of the country. Both at the domestic and at the international level, events related with terror and escalation of tensions with other countries left an unwanted effect on the returns earned on the stocks. Increase in domestic political stability, state legitimacy and political globalization improved the stock market's performance.

Keywords: Stock Market Development, Political Economy, Government, Terrorism, India, BJP, Congress.

JEL: D72, L51, O17, O18, O43, R11

1. Introduction:

On the general sense of well-being of the citizen and on the economy, imposed by the administration and president the regulations and policies do have significant effects. Financial market's performance is linked with the economic performance and by the political uncertainty, the economic performance gets influenced. Those actions and policies of the government which lead to positive influence on the economy, lead to a positive influence on the stock market. Thus, the role of the political environment in the performance of the economy and the stock market is very crucial.

There is ample literature present in this area on the impact of the political leadership on the financial markets of the countries. (Döpke and Pierdzioch, 2006) analysed in Germany, the interaction of politics and stock market movements. As compared to the left-wing governments stock market perform better under right-wing governments, weak evidence was found of this hypothesis in the case of Germany. (Asongu and Nwachukwu, 2016) assessed the effects of political institutions on stock market performance in 14 African countries. The

findings showed that countries with democratic regimes enjoyed higher levels of financial market development compared to their counterparts with autocratic inclinations.

The behaviour of the stock markets across the countries changes during the election times in their respective countries. Many studies supported this hypothesis. (Lobo, 1999) used jump-diffusion models of daily stock returns and on the stock market returns of U.S. the impact of U.S. partisan politics and elections was analysed. The period of analysis was from 1965 to 1996. For the stock market, elections were found to be an important source of uncertainty. Relative to non-election years, in election year's stock market volatility, was found to be higher and stock returns were found to be lower. (Jensen and Schmith, 2005) analysed the impact of politics on the Brazilian stock market. The Brazilian stock market during election times was found to be more volatile and Lula's rise was found to be making a positive impact on the volatility.

The role of domestic political conditions in affecting the stock markets has also been discussed in some of the studies. (Chang, 1990) analysed the impact of the political conditions of South Korea on the South Korean stock market returns. The stock market returns were found to be highly sensitive towards the changes in domestic socio-political situations. The unfavourable political developments affected the stock market returns negatively. (Chan and John Wei, 1996) considered Honk Kong and analysed the effect of different political news in the stock market. For the Hang Seng index, the favourable political news was found to be correlated with positive returns and unfavourable news with negative returns.

Keeping in mind the high level of political corruption in India, most of the studies which have been done on India in this area have concentrated on finding the impact of political connectedness of the firms in affecting their stock market returns. (Datta and K. Ganguli, 2014) examined in India the existence of political connection of firms. Stock prices did get affected by the political connections as per the findings. (Asher and Novosad, 2017) analysed if political favouritism affects the stock prices. It was found that political favouritism leads to increased output, higher share prices and higher private sector employment of the firms. As compared to opposition candidates significantly better was the performance of the constituencies under ruling party candidates. They witnessed an increased employment rate in the private sector.

Some studies are there in the India context also which have focused upon finding the behaviour of the Indian stock market during the election times. (Savita and Ramesh, 2015) examined around general elections of 2014 the effectiveness of stock market. On the date on which election results were announced, an unexpected rise takes place in the prices of the stock and for many days the stock prices were found continue to climb upward. (Balaji, Kusuma and Kumar, 2018) examined in the pre-election and post-election period, the effect on BSE and NSE returns of the general elections. The elections were found to be making no impact in the long term, weak impact in the medium term and a large impact in the short term.

The impact of the domestic political condition on the Indian stock market was studied by (Joshi, 2013). (Joshi, 2013) did an analysis to find out the importance of economic growth and political environment for the stock market development. Political stability was found to be making a significant impact on the performance of the Indian stock market.

From the review of the literature it is pretty clear that political factors are very crucial in determining the performance of the financial markets. Majority of the examination in this area has been done by taking different governments into consideration and differentiating them according to their ideologies and seeing their impact on the stock market performance. Unfavourable political developments affected the stock market negatively and favourable political news was found to be correlated with positive stock market returns. The stock market was found to be becoming very volatile during election times, many studies found left-wing governments to be favourable for the stock market returns and under democratic regimes as compared to dictatorships the stock market was found to be performing better.

In case of India, the studies are largely concentrated on analysing the impact of political favouritism on the stock market returns and examining the behaviour of the stock market during election times. Many studies reported that political connectedness of the firms help their stocks to perform better when the government which favours them comes into power. The short-run impact of the elections was found to be huge and long-term impact was found to be weak on the stock market performance. We found no study in the Indian context which had tried to evaluate the impact of different governments on the stock market performance. Also, we found no study in the global context as well which had taken into consideration lower level governments and had seen their aftereffects on the returns generated on the stock.

This study took the governments of different parties at the centre and at the state level in India and analyzed the stock market's effectiveness under these governments in India. We found some studies which have analysed the impact of different political events on the stock market but the events were largely concentrated on government fall downs, military coups, elections etc. Theory suggests that events like major financial decisions of governments and decisions of governments that escalate the potential of increasing tensions with other countries also affects the stock market. This study tried to fill this research gap by evaluating the impact of these events on the Indian stock market by taking both domestic and international political events into consideration.

This research will try to analyse the effects on the Indian stock market, of the political conditions prevalent in India. To study this impact we will see the impact of governments of different political parties at the centre and at the states on the efficiency of the Indian stock market. We will analyse the short-run impact of the domestic political events on the Indian stock market. The domestic political events are divided into three categories, the events related with elections and government change, the events related with major decisions taken by the government and the establishment, the decisions related with finance and other major decisions and the events related with terrorism and escalation of tensions with Pakistan. After every terrorist attack in the country, Pakistan is blamed for it and the political decisions are taken after the attacks which sometimes result in escalation of tensions with Pakistan. Since the political decisions making is involved after the terrorist attacks thus these events are kept in the category of political events. The impact of global political events was also evaluated. In the global political events, the events related with elections and government changes were considered, the events related with civil unrest and terrorism were considered and the events involving major financial decisions of the governments were considered. The impact of domestic political environment was also evaluated and the domestic political environment was represented by political stability index, political rights index, political globalisation index and state legitimacy index.

The objectives of the research will be to analyse the effect of the governments of different political parties in the country at the centre and at the major states on the stock market of India, for exploring whether the governments at the major states are making a huge effect on the stock market or not, to find out which kind of political events are affecting the stock market whether the events of protests or some party winning the election make the stronger imprint on the stock market, so as to evaluate if the domestic political events are making more impact or the political events across the world cause greater mark on the Indian stock market, to examine if political environment represented by political stability, political rights, political globalization and state legitimacy has any impact on the stock market.

2. Indian political system:

India is the world's largest democracy with 900 million (2019) electorate in a population of 1.3 billion. For all its flaws and faults, to the Bangladesh and Pakistan democratic failures which until 1947 were an Indian constituent, the democratic system of India stands in marked contrast. Unlike the political conditions prevalent in Britain and America which from centuries have existed in their current status only, the Indian political system, dating from the day it got independence from Britain, in 1947, is much more constructed.

The Lok Sabha, referred to as India's Lower houses, is modelled on the British House of Commons, but the federal system of government has been borrowed from the experience of Australia, Canada and United States. While in the mind of Indian constitution framers the idea of Anglo-Saxon federalism was certainly there, over the regional states there has been historical domination of the central government. Quasi-federal system the mainstream media refer to India as, "Union of States" is referred to India as by the Indian constitution.

In India, a State Party or a National party is referred to as a political party. A political party must be identified in 4 or more states and in these respective states, it needs to be the opposition party or the ruling party so as to be recognised as a National Party. In India, the major political party was the INC (Indian National Congress) and its successor following its incorporation in the year 1885. It campaigned for independence from Britain of India in its first 6 decades. With repeated success, it has sought to be the ruling party of the country since independence in 1947. As a result, the Indian congress party dominated the Lower house of the parliament for the maximum time period in the democratic history and for many years, the congress party ruled the country. Usually short but Congress was also out of power, unlike Japan whereby almost continuously the power has been possessed by the Liberal Democratic Party. Between, 1996 to 2004, 1989 to 1991 and 1977 to 1980 the congress party has been out of power at the centre. After these short periods of out of power came the disaster of 2014 when it was shattered and not just lost power. It won merely 44 seats in the 2014 elections. Its seat count was only marginally improved in the 2019 election, from 44 in 2014 it has 52 members now in the lower house of Indian parliament. It seems that the historic post-independence role of a leader is over for the Congress party.

A planned, mixed economy and moderate socialism were espoused by the original congress party. However, foreign investment, privatisation and deregulation are supported by its successor and spin-off, Congress (I). While historically the Indian politics has been dominated by the Congress party, one family has, in turn, has

dominated the leadership of the congress party. For 17 years Jawaharlal Nehru served, later Indira Gandhi his daughter became the Prime Minister, the grandson of Jawaharlal Nehru and son of Indira Gandhi, Rajiv Gandhi also became the Prime Minister as well as the top leader of the congress for a significant period, after Rajiv his wife Sonia Gandhi who was born and raised in Italy became the leader of the congress party who still holds the post of interim president of the party, Rahul Gandhi, Rajiv and Sonia's son, has also been the party president and expectations are that soon Priyanka Gandhi, the daughter of Sonia Gandhi, will take hold of the party. A group of 36 parties is embraced by the United Progressive Alliance (UPA) that is a Centre-Left political coalition, led by the Indian Congress Party. The UPA had 91 seats in the 2019 election.

Bhartiya Janta Party (BJP) is the other major political party in India but more recently established as compared to the Indian Congress Party. Created in 1980, BJP advocates strong national defence and conservative social policies. As a champion of cultural, religious and social values of the Hindu majority of the country it represents itself. Between, 1998-2004 BJP led the government with several other parties in the alliance. With an overall majority in the parliament, winning 282 seats it stormed to victory in the election of 2014. It increased this number to 303 seats in the election of 2019. The National Democratic Alliance (NDA) is a right-wing coalition of the country, the leading party in this alliance is the Bhartiya Janta Party. Currently, there are 43 parties but only 13 parties were there when the coalition was originally incorporated in the year 1998. With UPA and NDA, there are two other small national alliances as well in the country, a left front of communist leaning parties and regional parties alliance. In a democracy, for politically operating parties, the usage of recognizable symbols is important where there is illiteracy amongst a large proportion of the electorate. The Bhartiya Janta Party uses lotus as its representation and the Indian congress party uses a hand as its representation.

Both geographically and demographically India is a large country and a federal system of government is operated by it consequently. There are 37 entities in which there are 9 union territories and 28 states. Into smaller administrative divisions and districts the union territories and states are further subdivided. Uttar Pradesh (UP) is the largest of Indian state, located in the north direction of the country. With 207 million people, UP is the most populous Indian state. The state would be the 5th biggest country, if it were an independent country.

India has evolved to an immensely bifurcated nation from a centralised state that was dominated by 1 political party. The influence of the regional parties has increased. In most of the states, the national parties, BJP and Congress today face regional parties in the election. In a few of the 28 states, Congress and BJP share tough competition from each other.

As compared to the democracies of North America and Europe, the politics in India is corrupt and much rough. Sometimes threatening its long-standing secular and democratic ethos, regional, caste and communal tensions continue to haunt the politics of India. Beacon to democracies in many surrounding states, India remains a functioning and a vibrant democracy in spite of all its problems.

3. Data and Methodology:

The methodology used for the analysis was the Linear Regression under least square method. For modelling the relationship between one or more independent variables and a dependent variable, the method of linear regression is used. Multiple linear regression is the method in which more than one explanatory variables are used, while in simple linear regression one explanatory variable is used in the regression. Using the least square approach, linear regression models are often fitted. The unknown parameters are estimated using the method of linear least squares or ordinary least squares. Minimizing the differences between the predicted outcome and the observed responses is the goal of ordinary least squares. When the following assumptions are met with the data, the OLS estimator is consistent. The assumptions are serially uncorrelated, Homoscedastic and no perfect multicollinearity. When all the conditions for the data are met then the multiple regression is applied with the following equation.

$$Y = \beta_0 + \sum_{j=1}^p \beta_j X_j + \varepsilon \quad (3.1)$$

where Y is the dependent variable, β_0 , is the intercept of the model, X_j corresponds to the j^{th} explanatory variable of the model ($j= 1$ to p), and ε is the random error with expectation 0 and variance σ^2 .

For doing the event analysis the 10-day effect was seen on the stock market by using the dummy variables of the political events. Political stability index, political rights index, political globalisation index and state legitimacy index, the data of these indices was collected from data.worldbank.org.

4. Empirical Estimation:

4.1. Model Specification:

Following general model specification has been used to analyse the effect of governments of different parties on the stock market, to evaluate the impact of news of domestic political events on the stock market, to find out the impact of news of different international political events on the stock market performance of Indian and to find out the influence of domestic political environment on the stock market performance:

$$SENSEX = \theta_0 + \sum_{N=1}^{M=1} \theta_1 DFGs + \mu_t \quad (4.1.1)$$

Where, *DFGs* is the tenure of governments of different political parties at the centre and at states.

" θ_0 Denotes constant or the intercept of the model."

" μ_t is the white noise error term".

" θ_1 denotes the coefficient of the independent terms."

$$SENSEX = \theta_0 + \sum_{N=1}^{M=1} \theta_1 DPEs + \mu_t \quad (4.1.2)$$

DPEs is the domestic political events.

θ_0 Denotes constant or the intercept of the model.

μ_t is the white noise error term.

θ_1 denotes the coefficient of the independent terms.

$$SENSEX = \theta_0 + \sum_{N=1}^{M=1} \theta_1 IPEs + \mu_t \quad (4.1.3)$$

IPEs is the international political events.

θ_0 Denotes constant or the intercept of the model.

μ_t is the white noise error term.

θ_1 denotes the coefficient of the independent terms.

$$SENSEX = \theta_0 + \sum_{N=1}^{M=1} \theta_1 PSI + \sum_{N=1}^{M=1} \theta_2 PRI + \sum_{N=1}^{M=1} \theta_3 PGI + \sum_{N=1}^{M=1} \theta_4 SLI + \mu_t \quad (4.1.4)$$

Where, *PSI is the political stability index.*

PRI is the political rights index.

PGI is the political globalization index.

SLI is the state legitimacy index.

θ_0 Denotes constant or the intercept of the model.

μ_t is the white noise error term.

“ $\theta_1, \theta_2, \theta_3, \theta_4$ denotes the coefficient of the independent terms.”

4.2. Stock Market performance under governments of different political parties at the centre and at states:

Table 4.2.1 presented the outcome of the efficiency of the Indian stock market under the tenures of different political parties at the centre and at the states. The significance analysis suggested that not just the governments at the centre but governments at different states are also crucial in the determination Nation's stock market capability . The states which have very less contribution to the GDP of the country, the governments of those states were also found to be significant in affecting the stock market of the country. The two major national parties of the country, Congress and BJP were found to be sharing different relationships with the country's stock market.

May it is at the centre or at major states, the Congress regimes seemed to be making a bad impact on the growth of the Indian stock market, while the regimes of the BJP at the centre and at the states as well found to help the stock market in its growth. Except for Delhi, Assam, Chhattisgarh, Uttarakhand, Pondicherry, Meghalaya, Manipur and Arunachal Pradesh, everywhere the congress regimes found to affect the stock market negatively. Except for Delhi, everywhere the regimes of BJP shared a positive relationship with the country's stock market. The communist regimes in the country also seemed to be affecting the country's stock market negatively, the regimes of Communist party of India in the major state of West Bengal where it had ruled for most of the period affected the country's stock market performance negatively. It Tripura as well, the regimes of Communist Party of India shared a negative relationship with the stock market of the country. However, in Kerala, the regimes of Communist Party of India shared a significant positive relationship with the country's stock market. The regimes of less established and smaller parties were also found to be deteriorating the performance of the country's stock market. The examples of such regimes are Janata Dal and Samajwadi Party regimes at the centre, Janata Dal regime in Uttar Pradesh, Janata Party regime in Karnataka, Janata Dal and RJP regimes in Gujarat, TDP regime in Andhra Pradesh, Janata Dal, HVP and INLD regimes in Haryana, Janata Dal regime in Odisha, NNDP and UDP regimes in Nagaland and MPC regime in Mizoram.

Table 4.2.1: Performance of SENSEX under different political parties' governments.

Centre	
Congress (Jan 1980 – Oct 1984, Dec 1984 – Dec 1989, June 1991 – May 1996, May 2004 – May 2014)	-6729.70*** (-6.97)
BJP (May 1996 – June 1996, March 1998 – May 2004, May 2014 – October 2019)	10165.11*** (10.56)
Janata Dal (Dec 1989 – Nov 1990, June 1996 – April 1997, April 1997 – March 1998)	-7083.63*** (-3.77)
Samajwadi Janata Party (Nov 1990 – June 1991)	-8214.09** (-2.16)
Maharashtra	
Congress (9 June 1980 - 14 March 1995)	-13039.36*** (-16.00)
Shivsena-BJP (14 March 1995 - 17 October 1999)	-6463.53*** (-4.33)

Congress-NCP (18 October 1999 - 26 September 2014)	4014.12*** (4.04)
BJP-Shivsena (31 October 2014 - 8 November 2019)	25354.41*** (27.75)

Tamil Nadu

AIADMK (9 June 1980 - 15 November 1984, 10 February 1985 - 30 January 1988, 24 June 1991 - 12 May 1996, 14 May 2001 - 12 May 2006, 16 May 2011 - 15 February 2017)	3177.88*** (3.11)
DMK (27 January 1989 - 30 January 1991, 13 May 1996 - 13 May 2001, 13 May 2006 - 15 May 2011)	-1757.41 (-1.67)

Uttar Pradesh

Congress (9 June 1980 - 5 December 1989)	-11670.62*** (-11.52)
Janata Dal (December 1989 - June 1991)	-8549.91*** (-3.45)
BJP (June 1991 - December 1992, September 1997 - March 2002, March 2017 - Present)	4909.22*** (4.24)
SP (December 1993 - June 1995, August 2003 - May 2007, March 2012 - March 2017)	8015.01*** (7.64)
BSP (June 1995 - October 1995, March 1997 - September 1997, May 2002 - August 2003, May 2007 - March 2012)	3477.52*** (2.76)

Karnataka

Congress (January 1980 – January 1983, November 1989 – December 1994)	-100.19 (-0.10)
Janata Party (January 1983 – December 1984, March 1985 - April 1989)	-10484.18***

	(-8.39)
Janata Dal (December 1994 - October 1999, February 2006 – October 2007, May 2018 – July 2019)	2207.39* (1.80)
BJP (May 2008 - May 2013)	9964.59*** (7.36)

Gujarat

Congress (7 June 1980 - 3 March 1990, 17 February 1994 - 13 March 1995)	-11711.50*** (-12.26)
Janata Dal (March 1990 - October 1990, October 1990 - February 1994)	-7860.55*** (-4.95)
BJP (March 1995 - September 1996, March 1998 - Present)	13608.21*** (17.60)
RJP (October 1996 - March 1998)	-5851.37** (-2.29)

West Bengal

CPI (Jan 1980 - May 2011)	-22146.30*** (-34.63)
TMC (May 2011 - Present)	22102.77*** (34.83)

Rajasthan

Congress (June 1980 - March 1990, Dec 1998 - Dec 2003, Dec 2008 - Dec 2013, Dec 2018 - Present)	-2319.17** (-2.37)
BJP (March 1990 - Dec 1992, Dec 1992 - Nov 1998, Dec 2003 - Dec 2008, Dec 2013 - Dec 2018)	6011.49*** (6.36)

Andhra Pradesh

Congress (Oct 1980 - Jan 1983, Dec 1989 - Dec 1994, May 2004 - Mar 2014)	-215.13 (-0.22)
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TDP (Jan 1983 - Dec 1989, Dec 1994 - May 2004)	-11764.85*** (-14.08)
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Madhya Pradesh

Congress (June 1980 - Mar 1990, Dec 1993 - Dec 2003, Dec 2018 - Present)	-11739.46*** (-14.32)
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BJP (March 1990 - Dec 1992, Dec 2003 - Dec 2018)	12970.95*** (16.53)
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Kerala

CPI (Jan 1980 - Oct 1981, Mar 1987 - June 1991, May 1996 - May 2001, May 2006 - May 2011, May 2016 - Present)	3447.22*** (3.57)
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Congress (Dec 1981 - Mar 1982, May 1982 - Mar 1987, June 1991 - May 1996, May 2001 - May 2006, May 2011 - May 2016)	-3298.69*** (-3.41)
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Delhi

BJP (Dec 1993 - Dec 1998)	-6518.27*** (-4.54)
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Congress (Dec 1998 - Dec 2013)	2357.34** 2.35)
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AAP (Dec 2013 - Feb 2014, Feb 2015 - Present)	24924.22*** (26.57)
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Haryana

Congress (Jan 1980 - June 1987, July 1991 - May 1996, March 2005 - Oct 2014)	-3150.03*** (-3.23)
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Janata Dal (June 1987 - Mar 1991)	-9424.17*** (-5.88)
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HVP (May 1996 - July 1999)	-6214.44*** (-3.52)
INLD (July 1999 - Mar 2005)	-5789.80*** (-4.23)
BJP (Oct 2014 - Present)	25348.29*** (28.26)

Bihar

Congress (June 1980 - Mar 1990)	-11757.03*** (-11.76)
Janata Dal (Mar 1990 - Mar 1995, April 1995 - July 1997, Nov 2005 - Present)	13206.06*** (17.07)
RJD (July 1997 - Feb 1999, Mar 1999 - Mar 2005)	-6399.35*** (-5.32)

Punjab

Congress (June 1980 - Oct 1983, Feb 1992 - Feb 1997, Feb 2002 - Mar 2007, Mar 2017 - Present)	-499.50 (-0.50)
Akali Dal (Sep 1985 - June 1987, Feb 1997 - Feb 2002, Mar 2007 - Mar 2017)	6598.13*** (7.00)

Odisha

Congress (June 1980 - Mar 1990, Mar 1995 - Mar 2000)	-12373.08*** (-14.76)
Janata Dal (Mar 1990 - Mar 1995)	-7678.41*** (-5.39)
BJD (Mar 2000 - Present)	15240.28*** (22.19)

Assam

Congress (Dec 1980 - June 1981, Jan 1982 - Feb 1983, June 1991 - May 1996, May 2001 - May 2016)	2841.75*** (2.91)
AGP (Dec 1985 - Nov 1990, May 1996 - May 2001)	-9348.43*** (-8.97)
BJP (May 2016 - Present)	26450.08*** (21.43)

Chattisgarh

Congress (Nov 2000 - Dec 2003, Dec 2018 - Present)	2256.33 (1.40)
BJP (Dec 2003 - Dec 2018)	15860.76*** (22.63)

Jharkhand

BJP (Nov 2000 - Sep 2006, Sep 2010 - Jan 2013, Dec 2014 - Dec 2019)	12291.67*** (14.07)
JMM (Aug 2008 - Jan 2009, Dec 2009 - June 2010, July 2013 - Dec 2014)	10977.03*** (5.71)

Uttarakhand

BJP (Nov 2000 - Mar 2012, Mar 2007 - Mar 2012, Mar 2017 - Present)	13594.78*** (13.83)
Congress (Mar 2002 - Mar 2007, Mar 2012 - Mar 2016, May 2016 - Mar 2017)	8087.25*** (7.63)

Himachal Pradesh

Congress (Feb 1980 - Mar 1990, Dec 1993 - Mar 1998, Mar 2003 - Dec 2007, Dec 2012 - Dec 2017)	-3268.46*** (-3.29)
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BJP (Mar 1990 - Dec 1992, Mar 1998 - Mar 2003, Dec 2007 - Dec 2012, Dec 2017 - Present)	4284.02*** (4.32)
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J&K

NC (Jan 1980 - July 1984, Nov 1986 - Jan 1990, Oct 1996 - Oct 2002, Jan 2009 - Jan 2015)	-4146.24*** (-4.31)
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PDP (Nov 2002 - Nov 2005, Mar 2015 - Jan 2016, April 2016 - June 2018)	9963.95*** (7.87)
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Goa

Congress (Jan 1980 - Mar 1990, Jan 1991 - July 1998, Nov 1998 - Feb 1999, June 1999 - Nov 1999, June 2005 - Mar 2012)	-11363.62*** (-12.95)
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BJP (Oct 2000 - Feb 2005, Mar 2012 - Present)	14079.00*** (16.61)
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Tripura

CPI (Jan 1980 - Feb 1988, April 1993 - March 2018)	-816.12 (-0.62)
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Congress (Feb 1988 - Mar 1993)	-8975.87*** (-6.42)
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BJP (Mar 2018 - Present)	28886.32*** (14.04)
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Pondicherry

DMK (Jan 1980 - June 1983, Mar 1990 - Mar 1991, May 1996 - Mar 2000)	-9278.51*** (-8.31)
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Congress (Mar 1985 - Mar 1990, July 1991 - May 1996, Mar 2000 - May 2011, June 2016 - Present)	1436.61 (1.43)
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NR Congress (May 2011 - June 2016)	14738.55*** (11.41)
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Meghalaya

Congress (May 1981 - Feb 1983, April 1983 - Mar 1990, Feb 1992 - Mar 1998, Mar 2003 - Mar 2008, May 2009 - Mar 2018)	927.61 (0.84)
UDP (March 1998 - Dec 2001, Mar 2008 - Mar 2009)	-3987.97*** (-2.70)

Nagaland

NNDP (June 1980 - Nov 1982)	-9672.11*** (-4.91)
UDP (Nov 1982 - Oct 1986)	-9885.74*** (-6.32)
Congress (Oct 1986 - Aug 1988, Jan 1989 - May 1990, Feb 1993 - Mar 2003)	-9695.25*** (-10.38)
NPF (March 2003 - Jan 2008, March 2008 - Mar 2018)	13238.24*** (16.38)

Manipur

Congress (Nov 1980 - Feb 1981, June 1981 - Feb 1990, April 1992 - April 1993, Dec 1994 - Dec 1997, Mar 2002 - Mar 2017)	8207.85*** (7.23)
BJP (March 2017 - Present)	27805.08*** (18.68)

Sikkim

SJP (Oct 1979 - May 1984)	-10184.91*** (-6.84)
SSP (March 1985 - Dec 1994)	-10265.85*** (-9.93)
SDF (Dec 1994 - May 2019)	13109.35*** (16.10)

Arunachal Pradesh

Congress (April 2007 - Jan 2016, July 2016 - Sep 2016)	13032.50*** (12.99)
BJP (Dec 2016 - Present)	27297.55*** (19.45)

Mizoram

MPC (Jan 1980 - May 1984)	-10184.91*** (-6.84)
Congress (May 1984 - Aug 1986, Jan 1989 - Dec 1998, Dec 2008 - Dec 2018)	5529.23*** (5.79)
MNF (Aug 1986 - Sep 1988, Dec 1998 - Dec 2008, Dec 2018 - Present)	-1336.46 (-1.29)

Notes: T-statistics are reported in parentheses.

***implies significant at 1% level, **implies significant at 5% level, *implies significant at 10% level.

4.3. Effects of domestic political events on the stock market performance:

Table 4.3.1 presented the results of the consequences of the domestic political events on the effectiveness of stock market. The analyses of significance suggested that the domestic events that were related to elections and government change in the country made a major imprint on the country's stock market in the short-run. But regarding the attributes of the effect of the events the results came were mixed. BJP winning at the centre in 2014 was found to be affected by the stock market negatively but when BJP won in 2019, the stock market reacted to this event positively. Congress winning in the 2019 election of the centre was also found to be affecting the country's stock market positively. The evidence of a crucial role of the political conditions of the states in the determination of the stock market effectiveness was once again provided, the election events of most of the states were found be making a major effect on the stock market of the country. In fact, most of the election events of the centre failed to show an immediate short-run imprint on the returns of the stock market but almost all the state events that were concerned with elections or government change made a prominent mark on the efficiency of the stock market in the short-run.

The events that were concerned with major financial decisions and other important decisions taken by the government, RBI and Supreme Court in the country failed to show any significant immediate short-run effect on the country's stock returns. These decisions involved major deals and pacts done with other countries, RBI's

policies, Supreme Court decisions, parliament bills, social schemes, etc. The decisions and policies of the government failed to show significant short-run effect on the returns on stock whereas the events that were concerned with terrorism and escalation of tension with Pakistan, such events made an immediate significant unwanted imprint on the returns on stock of the nation in the short-run signifying that any act of terrorism or such act which increases the chances of tension with Pakistan is bad for the efficiency of the stock market of the country. These acts involved bombings done by terrorists in the country, other terror attacks, military confrontation escalation between India and Pakistan, etc.

Table 4.3.1: Short-run impact of the domestic political events.

1. Elections.

Manmohan Singh of the Indian National Congress re-elected as Prime Minister of India (2009).	274.67 (0.23)
The election results of Bihar Legislative Assembly were announced. (2010)	1419.47*** (2.92)
The election results of 7 Vidhan Sabhas were announced. (2012)	-84.13 (-0.24)
The election results of Chhattisgarh, Delhi, Madhya Pradesh and Rajasthan were announced (2013)	1258.58*** (4.72)
Result of elections 2014 were declared. UPA was defeated, NDA led by BJP won the elections (2014).	-224.78 (-0.23)
Bihar election results were announced. (2015)	-1619.42*** (-3.68)
Delhi Legislative Assembly election's results were announced, Aam Aadmi Party secured 67 of 70 seats (2015).	1694.93*** (4.13)
Results of 5 state elections were announced, the states were as follows, Tamil Nadu, West Bengal, Assam and Puducherry. (2016).	-1706.67*** (-2.78)

Election results of Chhattisgarh, Goa, Manipur, Punjab and Uttar Pradesh were announced. (2017)	-1450.64* (-1.85)
Nitish Kumar of JDU resigns as Chief Minister of Bihar, breaking the coalition with Indian National Congress and RJD. (2017)	1520.95** (2.24)
The BJP wins majority of the seats in the assembly elections of Himachal Pradesh and Gujarat. (2017)	3003.40*** (4.56)
Madhya Pradesh, Mizoram, Telangana, Chhattisgarh and Rajasthan assembly election results were announced. (2018)	634.31 (1.33)
Counting and declaration of results for the 2019 Indian general elections, Narendra Modi of BJP secured landslide victory. (2019)	1915.67*** (4.30)

2. Major decisions of government.

2.1. Financial

India and the US signed a defence pact. (2009)	1577.03 (1.52)
A nuclear reactor deal was signed between Russia and India under which will see Russia building 16 nuclear reactors in India. (2010)	-842.76 (-1.61)
Saving Bank interest rate decontrolled by Reserve Bank of India. (2011)	-281.42 (-0.67)
Supreme Court cancelled all 122 licences given by A Raja in 2G spectrum case. (2012)	49.09 (0.13)
RBI slashed repo rate by 50 basis points for the 1st time in 3 years. (2012)	-369.39 (-1.14)
Lok Sabha passed the National Food Security Bill. (2013)	-1223.22*** (-5.15)
Australia and India signed a deal under which for energy generation Australia will supply Uranium to India. (2014)	2510.61*** (2.57)

India and Iran signed an agreement which would allow India to develop the Port of Chabahar. (2015)	-287.99 (-0.68)
Three large scale social security schemes were launched, Atal Pension Yojna, Pradhan Mantri Jeevan Jyoti Bima Yojna and Pradhan Mantri Suraksha Bima Yojana. (2015)	4.93 (0.01)
India signed the legal framework of the Asian Infrastructure Investment Bank and pledged US\$8.3 billion towards it. (2015)	571.60 (1.43)
Bombay High Court judged in favour of Vodafone in the alleged tax avoidance case. (2015)	-333.08 (-0.74)
Telecom Regulatory Authority of India (TRAI) mandated that the telecom operator will have to pay ₹1 for each dropped call to the subscriber, from 1 January 2016 onward. (2015)	-18.15 (-0.04)
The Indian government withdraws ₹500 and ₹1000 banknotes with immediate effect. (2016)	410.71 (0.76)
Government approves merger of Dena Bank and Vijaya Bank with Bank of Baroda. (2019)	-1961.84*** (-4.41)
2.2. Other Decisions	
The Lokpal and Lokayuktas Bill was passed by the Rajya Sabha (2013).	1321.75*** (4.64)
Indian state of Andhra Pradesh was split in two new states Telangana and Andhra Pradesh. (2014)	603.21 (0.69)
Supreme court banned instant triple talaq. (2017)	701.85 (1.03)
Article 370 and 35A Article was revoked from the Indian constitution that gave special status to the state of Jammu and Kashmir. The government also bifurcated Jammu and Kashmir and Ladakh into separate Union Territories. (2019)	-736.81 (-1.49)

3. Terrorism & escalation of tensions with Pakistan.

Pune bombing: a bomb exploded at the German Bakery in the city of Pune in western India, killing 17 people and injuring at least 60 others. (2010)	-2014.77*** (-3.93)
Air India Express Flight 812 overshoots the runway at the Mangalore International Airport of India, killing 158 people and leaving only 8 survivors. (2010)	-1632.99*** (-3.58)
India–Pakistan border incidents begin. (2013)	46.39 (0.17)
Terror attacks on Hyderabad in Dilsukhnagar area. Two separate explosions killed 17 people. (2013)	-607.77** (-2.06)
Heavily armed gunmen, reportedly members of Jaish-e-Mohammed, attacked an Indian Air Force base in Pathankot, Punjab. (2016)	-1280.00** (-2.23)
India–Pakistan military confrontation escalated following Uri attack on 19 September. (2016)	2120.60*** (4.29)
Pulwama attack: A convoy of vehicles carrying security personnel on the Jammu-Srinagar National Highway. (2019)	-2142.63*** (-4.53)
Balakot airstrike was carried out by Indian air force crossing the Line of Control directed against a terrorist training camp. (2019)	-1692.55*** (-3.24)

Notes: T-statistics are reported in parentheses.

***implies significant at 1% level, **implies significant at 5% level, *implies significant at 10% level.

4.4. Effects of global Political events on the domestic stock market performance.

Table 4.4.1 presented the results of the effect of the global political events on the efficiency of the Indian stock market. The international events concerned with terrorism and civil unrest also found to be bad for the performance of the Indian stock market. Most of the international events that were concerned with terrorism and civil unrest left a significant negative impact on the Indian stock market. These events involved escalation of tensions between two countries, major protests, terror attacks, large scale violence, etc. Quite interestingly, the domestic financial decisions did not have an impact on the stock market significantly in the short-run but the major international financial deals and pacts were found to be making a significant immediate short-run effect on the returns on stock. The international events that were concerned with elections and government change showed mixed results in the context of their significance in affecting the returns on stock returns, some events were found

significant in affecting the stock market of India in the short-run and some were not found to be affecting the stock market efficiency of India in the short-run, the events of the countries which have more political importance in the world were found to be more connected with the Indian stock market. These involved the US, Russia and China. The election and government change events of Australia, the UK, Brazil, Spain and Philippine were found to be less connected with the stock market of India.

Table 4.4.1 Short-run impact of global political events.

1. Elections.

Barack Obama is sworn in as the 44th President of the United States. (2009)	-4823.37*** (-4.55)
Australian federal election, Julia Gillard's Labour Government is re-elected, defeating the Liberal/National Coalition which is led by Tony Abbott narrowly. (2010)	-46.99 (-0.09)
Vladimir Putin is elected President of Russia. (2012)	-1297.31*** (-4.11)
Barack Obama is re-elected President of the United States. (2012)	1082.42*** (3.20)
Australian federal election: The Liberal/National Coalition which is led by Tony Abbott defeats the Labour Government led by Prime Minister Kevin Rudd. (2013)	123.15 (0.38)
UK General Election results, the first Conservative majority government in 18 years. (2015)	-234.44 (-0.52)
Australian federal election, Malcolm Turnbull's Liberal/National Coalition Government is narrowly re-elected, defeating the Labour Party led by Bill Shorten. (2016)	1020.16 (1.64)
Donald Trump is elected the 45th President of the United States as a Republican after running a campaign widely characterized as populist. (2016)	410.71 (0.76)
A snap general election is held in the UK, resulting in a hung parliament. (2017)	214.75 (0.29)

China's government approves a constitutional change that removes term limits for its leaders, granting Xi Jinping the status of "President for Life". (2018)	-2024.49*** (-4.14)
In the Russian presidential election, Vladimir Putin is elected for a fourth term. (2018)	-2497.34*** (-5.21)
The far-right Jair Bolsonaro is elected as the next President of Brazil, with 55% of the vote. (2018)	-797.51 (-1.59)
Israeli legislative election takes place, for all 120 seats in the Knesset. (2019)	1141.95** (2.33)
A general election takes place in Spain, for all 350 seats in the Congress of Deputies and 208 (of the 266) seats in the Senate. (2019)	845.23 (1.59)
General election in Philippine takes place, for all 297 seats in the House of Representatives and 12 seats in the Senate. (2019)	349.59 (0.79)
Australian federal election: Scott Morrison's Liberal/National Coalition Government is narrowly re-elected. (2019)	1570.55*** (3.24)
British Prime Minister Theresa May announces her resignation as Conservative leader. (2019)	2081.57*** (4.71)
Greek legislative election takes place. (2019)	1109.27** (2.41)

2. Violence, terrorism and unrest.

North Korea shells Yeonpyeong Island, prompting a military response by South Korea. (2010)	1438.05*** (3.14)
Occupy Wall Street protests begin in the United States. (2011)	-1240.33*** (-2.81)
A bombing in Khyber Agency, Pakistan, kills at least 30 people and 78 others injured. (2012)	-1328.83*** (-4.22)
Violent protests takes place in Bucharest, Romania. (2012)	-1269.33***

	(-3.53)
Israel launches Operation Pillar of Defence against the Palestinian-governed Gaza Strip. (2012)	825.02** (2.27)
Amid mass protests across Egypt, President Mohamed Morsi is deposed in a military coup d'état, leading to widespread violence. (2013)	-258.53 (-0.93)
1,429 are killed in the Ghouta chemical attack during the Syrian Civil War. (2013)	-1484.76*** (-5.67)
Bannu bombing: a Taliban vehicle bomb attack on a Pakistani military convoy in the city of Bannu. (2014)	-3718.45*** (-4.14)
Multiple terrorist attacks claimed by Islamic State of Iraq and the Levant (ISIL) in Paris, France, result in 130 fatalities. (2015)	-1649.10*** (-3.75)
Brussels bombings: Suicide bombing attacks at Brussels' Zaventem airport and Maalbeek metro station. (2016)	-1194.47** (-2.08)
France experiences its worst civil unrest since the protests of 1968 due to the yellow vests movement. (2018)	308.67 (0.53)
A mass shooting at a Walmart store in El Paso, Texas, United States, leaves 22 people dead and 24 others injured. (2019)	-773.03 (-1.45)

3. Financial Decisions.

The Eurozone and the International Monetary Fund agree to provide a €110 billion bailout package for Greece. (2010)	-1112.78** (-2.27)
Eurozone countries give consent to rescue package for the Republic of Ireland. (2010)	1379.43*** (2.83)
The European Union agrees to a €78 billion rescue deal for Portugal. (2011)	338.25 (0.85)
The European Union announces an agreement to tackle the European sovereign debt crisis. (2011)	-199.27 (-0.41)

The European Union agrees to a €10 billion economic bailout for Cyprus. (2013)	-1018.90*** (-3.76)
United States President Barack Obama's new economic sanctions against Russia go into effect. (2014)	-2270.78*** (-2.47)
The EU–Japan Economic Partnership Agreement is signed, the world's largest bilateral free trade deal. (2018)	1368.68*** (2.91)

Notes: T-statistics are reported in parentheses.

***implies significant at 1% level, **implies significant at 5% level, *implies significant at 10% level.

4.5. Effect of domestic political environment on the stock market performance:

Table 5.5.1 presented the results of the impact of the domestic political environment on the performance of the stock market. Maintaining a good domestic political environment was found to be beneficial for the country's stock market growth as the stock market responded positively to increase in political stability, political globalisation and state legitimacy.

Table 4.5.1 Impact of domestic political environment.

Political Stability Index	19565.42 (1.58)
Political Rights Index	-3852.45 (-1.31)
Political Globalization Index	604.07*** (7.5)
State Legitimacy Index	-8687.58* (-1.88)

Notes: T-statistics are reported in parentheses.

***implies significant at 1% level, **implies significant at 5% level, *implies significant at 10% level.

5. Conclusion:

The positive impact of BJP regimes and negative impact of the congress and communist party regimes on the stock market performance suggested that under regimes of right-wing parties the stock market flourishes more as compared to the centrist or left ideology regimes in case of India.

The smaller and less established parties whenever came in power, the business community saw their governments negatively and under their tenures, the stock market performed badly. The examples of such parties are Janata Dal and Samajwadi Party at the centre, Janata Dal in Uttar Pradesh, Janata Party in Karnataka, Janata Dal and RJP in Gujarat, TDP in Andhra Pradesh, Janata Dal, HVP and INLD in Haryana, Janata Dal in Odisha, NNDP and UDP in Nagaland and MPC in Mizoram.

The events related to elections and government changes at the centre or at the state level in the country make an immediate prominent mark on the nation's stock returns. The events of elections and government changes of only politically important countries like the US, China and Russia make a impactful effect on the Indian stock returns.

The domestic financial and other important decisions taken by the government, RBI and Supreme Court failed to show significant impact on the stock market performance of the country but major financial deals and pacts between other countries of the world made a significant impact on the stock returns of India.

Domestic events related with terror attacks and escalation of tension with Pakistan found to be bad for the stock market performance of the country, the international events related with terrorism, civil unrest and escalation of tensions between two countries also found to be negatively related with the stock returns of India.

Improvement in the domestic political conditions of India affected the stock market's performance of India positively. Increase in political stability, state legitimacy and political globalization of India improved the performance of its stock market.

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