

Effect of Major Political Change on Stock Market Volatility in Nepal

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Abstract

This study examines the effect of major political change on stock market volatility in Nepal. NEPSE index and market price per share are selected as the dependent variables. The selected independent variables are political events, political stability, consumer price index, broad money supply, control of corruption and regulatory quality. The study is based on secondary data of 15 Nepalese commercial banks with 150 observations for the period from 2014/15 to 2023/24. The data were collected from database maintained by World Bank, Nepal Rastra Bank, Ministry of Finance, NEPSE, SEBON and annual reports of the selected commercial banks. The correlation coefficients and regression models are estimated to test the significance and importance of major political change on stock market volatility in Nepal.

The study showed that consumer price index has a positive impact on NEPSE index and market price per share. It indicates that increase in consumer price index leads to increase in NEPSE index and market price per share. Similarly, political stability has a positive impact on NEPSE index and market price per share. It indicates that stable political environment leads to increase in NEPSE index and market price per share. Likewise, political events has a positive impact on NEPSE index and market price per share. It indicates that political events that support the government lead to increase in NEPSE index and market price per share. However, money supply has a negative impact on NEPSE index and market price per share. It indicates that increase in money supply leads to decrease in NEPSE index and market price per share. In contrast, control of corruption has a positive impact on NEPSE index and market price per share. It indicates that transparent and strong action taken by the government regarding corruption leads to increase in NEPSE index and market price per share. However, regulatory quality has a negative impact on NEPSE index and market price per share. It indicates that standard and transparent regulatory system leads to decrease in NEPSE index and market price per share.

Keywords: political events, political stability, consumer price index, broad money supply, control of corruption, NEPSE, regulatory quality

1. Introduction

An efficient stock market is widely recognized as a key driver of future economic growth, as it plays a vital role in channeling savings from the economy into productive investments. By mobilizing capital and allocating it efficiently to businesses with promising prospects, stock markets enhance capital productivity and support the expansion of industries. This, in turn, fosters innovation, generates employment, and contributes to higher income levels, thereby promoting overall public well-being. Moreover, a well-functioning stock market boosts investor confidence, encourages domestic and foreign investments, and serves

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as a critical mechanism for economic development and financial stability (Pan and Mishra, 2018). In today's dynamic financial environment, stock market performance has served as an essential barometer for economic well-being and investors' confidence. It reflects not only the financial health of listed companies but also the broader economic and political environment in which they operate. As such, stock markets are highly sensitive to both domestic and international events, particularly those involving major political changes. These changes can introduce uncertainty, disrupt expectations, and influence investment behavior, often resulting in sharp movements in market indices and increased volatility (Frijters *et al.*, 2015).

Rashid (2004) investigated the key indicators contributing to rising stock return volatility in emerging markets, using data from Mexico, Korea, South Africa, Turkey, and Malaysia between January 1997 and December 2000. Employing backward multiple regression analysis, the study found that stock trading volume and currency exchange rate exhibit the strongest positive correlation with stock price changes, making them the most significant predictors of volatility. International stock indices, deposit interest rates, and bond trading volumes are moderate predictors, while inflation rate changes show the weakest correlation, indicating minimal influence on stock price volatility. Jawadi and Pondie (2024) empirically examined the impact of political uncertainty on macro-financial variables such as stock prices, inflation, and consumption as well as behavioral dynamics like consumer confidence and anxiety in BRICS countries from 1990 to 2022. Using a panel vector autoregressive (PVAR) model, the study revealed that political uncertainty leads to higher inflation, reduced consumer spending, and declining stock prices. The study also showed that political uncertainty negatively affects consumer confidence and increases investor anxiety, highlighting important policy implications for safeguarding households and investors in politically unstable environments.

Chau *et al.* (2014) examined the impact of political uncertainty, triggered by the Arab Spring, on the volatility of major stock markets in the MENA region. The findings revealed that Islamic stock indices experienced a significant rise in volatility during the political unrest, while conventional indices remained largely unaffected. This disparity is confirmed through a multivariate GARCH analysis. Additionally, the study found limited evidence of increased integration between MENA and international markets post-uprising, and the observed changes are attributed to political tensions rather than broader market movements. Corbet *et al.* (2018) investigated the impact of domestic and international terrorist attacks on the volatility of European stock markets. The findings showed that domestic terrorism significantly increases market volatility in the affected countries, while international terrorism within Europe does not notably affect market volatility in Ireland and Spain. Bombings and explosions lead to volatility across all exchanges, whereas infrastructure attacks, hijackings, and hostage situations have limited market impact. Additionally, the rise of ISIL-inspired terrorism since 2011 has directly influenced stock market volatility in France, Germany, Greece, Italy, and the UK. Ahmed (2017) analyzed the impact of major political events in Egypt between 2011 and 2014 including regime change, elections, and a military coup, on the country's equity market returns and volatility. The findings indicate that political uncertainty significantly affects the risk-return profiles of nearly all market sectors, with the strongest effects observed in banks, non-bank financial services, and chemicals, while sectors like food and beverages and construction and materials show minimal response. Among the events, the 2013 military coup had the most widespread impact on both overall market and sector-specific indices.

Jeribi *et al.* (2015) investigates the impact of political uncertainty stemming from the Tunisian Revolution on the volatility of sectorial stock indices in the Tunisian Stock Exchange (TSE). Using the FIEGARCH model to analyze daily returns across nine sectorial

indices and the benchmark TUNINDEX over three sub-periods (before, during, and after the revolution), the study finds that the revolution caused a permanent increase in volatility for the construction, industries, consumer services, financial services, financial companies indices, and the TUNINDEX. In contrast, the volatility effects on other sectors were transitory. Additionally, a low leverage effect was observed across all indices, underscoring the significant influence of the revolution on the TSE. Alexakis and Petrakis (1991) found stock prices in Greece to be strongly influenced by sociopolitical conditions. Chan and Wei (1996), using GARCH-M models, observed increased volatility in Hong Kong's stock indices due to unfavorable political news. Brooks *et al.* (1997) confirmed the applicability of ARCH models in South Africa, showing a close link between political events and market volatility. Perotti and Oijen (2001) demonstrated that shifts in political risk, particularly in the context of privatization, significantly affect stock market development in emerging economies. Lobo (1999) found that U.S. mid-term elections have a greater impact on stock returns than presidential ones. Chan *et al.* (2001) identified a weak relationship between return volatility and salient political news, but a strong connection with price volatility. Amihud and Wohl (2004) linked rising U.S. stock prices with increased likelihood of Saddam Hussein's fall during the Second Gulf War. Mei and Guo (2004) observed heightened volatility and crisis risk during political transitions in emerging markets. Bialkowski *et al.* (2008) confirmed increased stock market volatility during election weeks in OECD countries. Chesney *et al.* (2011) found that two-thirds of terrorist attacks negatively impacted at least one global stock market. Abdelbaki (2013) showed Egypt's political instability significantly affected its stock market. Lastly, Chau *et al.* (2014) concluded that the Arab Spring led to a substantial increase in stock market volatility across the MENA region.

Soltani *et al.* (2017) investigated the impact of political instability on stock market dynamics by analyzing the interplay between market returns, volatility, and investor sentiment before and after the Tunisian Revolution. Using the GMM 2S method to estimate a system of simultaneous equations, the study found that during periods of political stability, investor sentiment had no significant influence on market returns or volatility. However, during the revolution, a time of heightened political uncertainty, a strong bidirectional relationship emerged between investor sentiment and both market volatility and returns. These findings suggest that investor behavior amplifies the effects of political instability on the Tunisian stock market. Nazir *et al.* (2018) examined the impact of political and terrorist events on stock market returns in the context of South Asian countries. The findings showed that such events significantly affect market returns, demonstrating that South Asian stock markets are inefficient in processing information during a 15-day event window. While the impact is not significant in the 2-day event window, the overall results suggested that political and terrorist incidents introduce uncertainty and risk, which in turn affect investor behavior and market dynamics. This contradicts the assumptions of the Efficient Market Hypothesis (EMH), as markets do not fully absorb the external information during such events. In times of political and civil unrest, stock markets often exhibit heightened volatility, as major political events tend to signal potential shifts in policy direction, regulatory frameworks, or governance structures. These anticipated changes introduce uncertainty regarding future economic conditions, investor sentiment, and corporate profitability, prompting market participants to reassess asset valuations. According to Gagnon and Karolyi (2006), such events can trigger widespread fluctuations in market prices, reflecting the collective response to perceived risks and instability. The uncertainty surrounding policy outcomes and their implications for trade, investment, taxation, and institutional integrity makes markets particularly sensitive during these periods.

In the context of Nepal, Gurung (2025) examines the multifaceted dynamics influencing the performance of the Nepalese stock market using time-series ARDL analysis.

It explores the long- and short-run effects of macroeconomic indicators (GDP, gross domestic savings, interest rates), firm-specific factors (total assets, return on equity), market size (number of listed companies), and event-related factors (political instability, policy changes) on stock market performance, as measured by the stock market index. The ARDL bounds test confirms a long-run relationship among the variables, while the significant negative error correction term indicates convergence to equilibrium over time. In the short run, political instability negatively affects the stock market, whereas favorable policy changes have a positive impact. Rawat (2025) assessed the relationship between political governance and stock market performance in Nepal from 2002 to 2022 using the Autoregressive Distributed Lag (ARDL) model. The findings revealed that, in the long run, political stability and government effectiveness positively and significantly influence stock market performance, while regulatory quality and control of corruption have significant negative effects. The short-term dynamics, analyzed through an Error Correction Model (ECM), indicate a strong adjustment mechanism, where stock market fluctuations quickly revert to equilibrium. Shrestha (2024) investigated the volatility of the Nepalese stock market, specifically focusing on persistence and leverage effects. The study also assessed whether ignoring deterministic structural shifts in volatility leads to biased estimations of persistence and leverage parameters. The findings reveal that when such structural shifts are not accounted for, the estimates of persistence and leverage effects are indeed biased. However, incorporating these structural shifts into the models results in a downward adjustment of the estimated parameters, indicating that structural breaks significantly influence the accuracy of volatility modeling in the Nepalese stock market.

The above discussion shows that empirical evidences vary greatly across the studies on the effect of major political change on stock market volatility. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to examine the effect of major political change on stock market volatility in Nepal. Specifically, it examines the relationship of political events, political stability, consumer price index, broad money supply, control of corruption and regulatory quality on NEPSE index and market price per share of Nepalese commercial banks.

The remainder of this study is organized as follows: Section two describes the sample, data and methodology. Section three presents the empirical results and the final section draws the conclusion.

2. Methodological aspects

The study is based on the secondary data which were collected from 15 Nepalese commercial banks for the study period from 2014/15 to 2023/24, leading to a total of 150 observations. The main sources of data collected from the database maintained by World Bank, Nepal Rastra Bank, Ministry of Finance, NEPSE, SEBON and annual reports of the selected commercial banks. This study is based on descriptive as well as causal comparative research designs. Table 1 shows the list of commercial banks selected for the study along with the study period and number of observations.

Table 1

List of commercial banks selected for the study along with study period and number of

observations

S.N.	Name of Commercial Banks	Study Period	Observations
1	Global IME Bank Limited	2014/15-2023/24	10
2	NIC Asia Bank Limited	2014/15-2023/24	10
3	Kumari Bank Limited	2014/15-2023/24	10
4	Citizens Bank International Limited	2014/15-2023/24	10
5	Himalayan Bank Limited	2014/15-2023/24	10
6	Nepal Bank Limited	2014/15-2023/24	10
7	Agricultural Development Bank Limited	2014/15-2023/24	10
8	Siddhartha Bank Limited	2014/15-2023/24	10
9	Everest Bank Limited	2014/15-2023/24	10
10	NMB Bank Limited	2014/15-2023/24	10
11	Nabil Bank Limited	2014/15-2023/24	10
12	Standard Chartered Bank Nepal Limited	2014/15-2023/24	10
13	Sanima Bank Limited	2014/15-2023/24	10
14	Prime Commercial Bank Limited	2014/15-2023/24	10
15	Nepal SBI Bank Limited	2014/15-2023/24	10
Total number of observations			150

Thus, the study is based on 150 observations.

The model

The model estimated in this study assumes that stock market volatility depends upon major political changes. The selected dependent variables are NEPSE index and market price per share. Similarly, the selected independent variables are political events, political stability, consumer price index, broad money supply, control of corruption and regulatory quality. Therefore, the model takes the following from:

$$\text{NEPSE Index} = \beta_0 + \beta_1\text{PE} + \beta_2\text{PS} + \beta_3\text{RQ} + \beta_4\text{CPI} + \beta_5\text{MS} + \beta_6\text{CC} + e_{it}$$

$$\text{MPS} = \beta_0 + \beta_1\text{PE} + \beta_2\text{PS} + \beta_3\text{RQ} + \beta_4\text{CPI} + \beta_5\text{MS} + \beta_6\text{CC} + e_{it}$$

Where,

NEPSE Index = Nepse index at the end of fiscal year, in Rs.

MPS = Market price per share as measured by the closing price of the stock of banks, in Rs.

PE = Political events as measured by the dummy variable in which 1 denote if there is a negative political event and 0 denotes if no any events against the government.

RQ = Regulatory quality index published by World Bank.

PS = Political stability of the nation data published by World Bank

CPI = Consumer price index of Nepal for each year.

MS = Broad money supply, Rs. in billion.

CC = Control of corruption data published by World Bank.

The following section describes the independent variables used in this study along with the hypothesis formulation:

Political events

Malik *et al.* (2009) examined the impact of political event on trading volume and stock returns in the context of KSE. The study found that political event has positive influence on trading volume and stock returns. Nurlita and Naomi (2024) showed that political events such as elections, policy reforms, geopolitical tensions, revolutions, and leadership changes often introduce uncertainty into the financial markets, as investors attempt to anticipate their potential economic implications. This uncertainty can lead to increased market volatility, as prices rapidly adjust to new information, reflecting shifts in investor sentiment, risk perception, and future economic expectations. In particular, unexpected or destabilizing political developments tend to heighten volatility, as they may signal potential changes in regulatory environments, fiscal or monetary policy, or broader economic priorities (Wisniewski, 2016). Based on it, this study develops the following hypothesis:

H₁: There is positive relationship between political events and stock market volatility.

Political stability

Mai *et al.* (2023) examined the relationship between political instability and stock market performance using MSCI index in the case of Pakistan. The study found a negative relationship between political instability and stock market performance. It indicates that periods of political unrest or uncertainty tend to erode investor confidence, leading to decreased market participation, capital outflows, and overall declines in stock prices. Sustained political stability is crucial for maintaining investor trust, encouraging market participation, and supporting the overall resilience of the stock market (Asteriou and Siriopoulos, 2000). Irshad (2017) revealed that higher political stability tends to reduce stock market volatility, while political instability often increases it. Political stability fosters a predictable environment for economic policymaking, reduces uncertainty, and boosts investor confidence, which in turn encourages long-term investment and leads to more stable financial markets. Based on it, this study develops the following hypothesis:

H₂: There is positive relationship between political stability and stock market volatility.

Regulatory quality

Ullah *et al.* (2024) explored the moderating effect of regulatory quality on the relationship between financial development and economic growth/economic volatility for developed and developing countries. The study showed that high regulatory quality characterized by consistent enforcement of rules, transparent policymaking, and strong investor protections helps create a stable and predictable investment environment. This reduces information asymmetry and speculative behavior, thereby lowering stock market volatility. Eldomyaty *et al.* (2016) examined the institutional quality, economic freedom and stock market volatility in the MENA region. The study found that poor regulatory quality,

marked by weak enforcement, arbitrary policy shifts, or lack of transparency, contributes to uncertainty and increases the risk premium demanded by investors. As a result, markets become more susceptible to sharp price swings and volatility, especially in response to economic or political events. According to Boadi and Amegbe (2017), strong regulatory frameworks play a critical role in stabilizing financial markets and fostering investor trust. Based on it, this study develops the following hypothesis:

H₃: There is a negative relationship between regulatory quality and stock market volatility.

Consumer price index

Zakaria and Shamsuddin (2012) showed a positive relationship between the Consumer Price Index (CPI) and stock market volatility. It implies that increases in CPI inflation can lead to heightened stock market volatility. According to Cai *et al.* (2009), inflation introduces uncertainty about future interest rates, corporate earnings, and monetary policy, prompting investors to reassess asset valuations. As a result, inflationary pressures reflected in CPI growth can cause greater fluctuations in stock prices due to shifting investor sentiment and expectations. Rauf and Rashid (2019) examined the interlinkages among exchange rate, interest rate, consumer price index, and output volatilities. The study found a positive relationship between the Consumer Price Index inflation and stock market volatility indicating that rising inflation levels tend to increase uncertainty in financial markets. Based on it, this study develops the following hypothesis:

H₄: There is a positive relationship between consumer price index and stock market volatility.

Broad money supply

Choi and Yoon (2020) assessed the effect of money supply on the volatility of Korean stock market. The study showed that an increase in the broad money supply can lead to greater liquidity in financial markets. This higher liquidity may reduce stock market volatility by facilitating smoother transactions, increasing investment activity, and supporting economic growth. Similarly, Zakaria and Shamsuddin (2012) showed a negative relationship between stock market volatility and macroeconomics volatility in Malaysia. Moreover, Rogalski and Vinso (1977) suggested that higher liquidity in the financial system may help stabilize markets by enhancing investor confidence and smoothing investment flows. Based on it, this study develops the following hypothesis:

H₅: There is a negative relationship between broad money supply and stock market volatility.

Control of corruption

Lau *et al.* (2013) examined the experience-based corporate corruption and stock market volatility in emerging markets. The results demonstrated a positive association between control of corruption and stock market volatility, indicating that stronger control of corruption tends to stabilize financial markets. Zhang (2012) revealed that weak control of corruption fosters distrust, increases perceived risk, and contributes to erratic market movements, leading to higher volatility. According to Lin *et al.* (2018), when corruption is effectively controlled, it enhances transparency, strengthens investor confidence, and promotes fair market practices, thereby reducing uncertainty and speculative behavior. Based

on it, this study develops the following hypothesis:

H₆: There is a positive relationship between control of corruption and stock market volatility.

3. Results and discussions

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2014/15-2023/24.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 15 Nepalese commercial banks for the study period of 2014/15 to 2023/24. The dependent variables are NEPSE Index (Nepse index at the end of fiscal year, in Rs.) and MPS (Market price per share as measured by the closing price of the stock of banks, in Rs.). The selected independent variables are PE (Political events as measured by the dummy variable in which 1 denote if there is a negative political event and 0 denotes if no any events against the government), RQ (Regulatory quality index published by World Bank), PS (Political stability of the nation data published by World Bank), CPI (Consumer price index of Nepal for each year), MS (Broad money supply, Rs. in billion) and CC (Control of corruption data published by World Bank).

Variables	Minimum	Maximum	Mean	S.D.
NEPSE Index	1142.17	2576.50	1760.96	533.57
MPS	160.00	2900.00	518.68	434.67
CPI	4.50	7.20	6.09	0.93
PE	0.00	1.00	0.50	0.50
PS	-1.50	0.30	-0.43	0.51
MS	1620.00	5300.00	3134.00	1208.25
CC	-1.30	0.20	-0.48	0.45
RQ	-1.00	0.20	-0.36	0.36

Source: SPSS Output

Correlation analysis

Having indicated the descriptive statistics, Pearson’s correlation coefficients are computed and results are presented in Table 3.

Table 3

Pearson’s correlation coefficients matrix

This table shows the correlation coefficients of dependent and independent variables of 15 Nepalese commercial banks for the study period of 2014/15 to 2023/24. The dependent variables are NEPSE Index (Nepse index at the end of fiscal year, in Rs.) and MPS (Market price per share as measured by the closing price of the stock of banks, in Rs.). The selected independent variables are PE (Political events as measured by the dummy variable in which 1 denote if there is a negative political event and 0 denotes if no any events against the government), RQ (Regulatory quality index published by World Bank), PS (Political stability of the nation data published by World Bank), CPI (Consumer price index of Nepal for each year), MS (Broad money supply, Rs. in billion) and CC (Control of corruption data

published by World Bank).

Variables	NEPSE Index	MPS	CPI	PE	PS	MS	CC	RQ
NEPSE Index	1							
MPS	-0.228**	1						
CPI	0.376**	0.055	1					
PE	0.203*	0.005	-0.118	1				
PS	0.763**	0.473**	-0.250**	-0.218**	1			
MS	-0.839**	-0.432**	-0.111	-0.166*	0.955**	1		
CC	0.783**	-0.463**	-0.176*	-0.180*	0.989**	0.983**	1	
RQ	-0.805**	-0.458**	-0.180*	-0.166*	0.984**	0.990**	0.998**	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 3 shows that there is a positive relationship between consumer price index and NEPSE index. It indicates that increase in consumer price index leads to increase in NEPSE index. Similarly, there is a positive relationship between political stability and NEPSE index. It indicates that stable political environment leads to increase in NEPSE index. Likewise, there is a positive relationship between political events and NEPSE index. It indicates that political events that support the government lead to increase in NEPSE index. However, there is a negative relationship between money supply and NEPSE index. It indicates that increase in money supply leads to decrease in NEPSE index. In contrast, there is a positive relationship between control of corruption and NEPSE index. It indicates that transparent and strong action taken by the government regarding corruption leads to increase in NEPSE index. However, there is a negative relationship between regulatory quality and NEPSE index. It indicates that standard and transparent regulatory system leads to decrease in NEPSE index.

Similarly, there is a positive relationship between consumer price index and market price per share. It indicates that increase in consumer price index leads to increase in market price per share. Similarly, there is a positive relationship between political stability and market price per share. It indicates that stable political environment leads to increase in market price per share. Likewise, there is a positive relationship between political events and market price per share. It indicates that political events that support the government lead to increase in market price per share. However, there is a negative relationship between money supply and market price per share. It indicates that increase in money supply leads to decrease in market price per share. In contrast, there is a positive relationship between control of corruption and market price per share. It indicates that transparent and strong action taken by the government regarding corruption leads to increase in market price per share. However, there is a negative relationship between regulatory quality and market price per share. It indicates that standard and transparent regulatory system leads to decrease in market price per share.

Regression analysis

Having analyzed the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4. More specifically, it presents the regression results of political events, political stability, consumer price index, broad money supply, control of corruption and regulatory quality on NEPSE index of Nepalese commercial banks.

Table 4

Estimated regression results of political events, political stability, consumer price index, broad money supply, control of corruption and regulatory quality on NEPSE index

The results are based on panel data of 15 Nepalese commercial banks with 150 observations for the study period from 2014/15 to 2023/24 by using the linear regression model and the model is $NEPSE\ Index = \beta_0 + \beta_1 PE + \beta_2 PS + \beta_3 RQ + \beta_4 CPI + \beta_5 MS + \beta_6 CC + e_{it}$ where, the dependent variable is NEPSE Index (Nepse index at the end of fiscal year, in Rs.). The selected independent variables are PE (Political events as measured by the dummy variable in which 1 denote if there is a negative political event and 0 denotes if no any events against the government), RQ (Regulatory quality index published by World Bank), PS (Political stability of the nation data published by World Bank), CPI (Consumer price index of Nepal for each year), MS (Broad money supply, Rs. in billion) and CC (Control of corruption data published by World Bank).

Model	Intercept	Regression coefficients of						Adj. R ²	SEE	F-value
		CPI	PE	PS	MS	CC	RQ			
1	8.180 (52.954)**	0.124 (4.931)**						0.135	0.286	24.311
2	7.489 (14.930)**		0.124 (2.519)**					0.035	0.302	6.347
3	7.626 (56.984)**			0.464 (14.377)**				0.580	0.199	26.697
4	2.159 (7.673)**				-0.661 (18.742)**			0.702	0.168	51.275
5	7.686 (33.644)**					0.539 (15.312)**		0.610	0.192	34.452
6	7.673 (64.153)**						-0.683 (16.517)**	0.646	0.183	72.819
7	8.316 (53.779)**	0.133 (5.466)**	0.153 (3.381)**					0.192	0.276	18.730
8	8.055 (74.264)**	0.069 (3.960)**	0.047 (1.444)	0.421 (12.799)**				0.617	0.190	80.925
9	3.118 (11.775)**	0.099 (7.911)**	0.066 (2.815)**		-0.620 (20.562)**			0.791	0.140	89.247
10	-9.229 (9.563)**	0.161 (17.952)**	0.117 (7.856)**	0.302 (2.281)*	-2.139 (18.811)**	1.043 (4.849)**		0.933	0.080	413.734
11	-14.537 (8.087)**	0.174 (18.449)**	0.100 (6.558)**	0.145 (1.072)	-2.785 (12.837)**	0.136 (0.405)	-2.023 (3.451)**	0.937	0.077	372.887

Notes:

- i. Figures in parenthesis are t-value
- ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
- iii. NEPSE index is the dependent variable.

Table 4 shows that the beta coefficients for consumer price index are positive with NPESE index. It indicates that consumer price index has a positive impact on NPESE index. This finding is similar to the findings of Zakaria and Shamsuddin (2012). Similarly, the beta coefficients for political events are positive with NPESE index. It indicates that political events have positive impact on NPESE index. This finding is consistent with the findings of Malik *et al.* (2009). Likewise, the beta coefficients for political stability are positive with NPESE index. It indicates that political stability has a positive impact on NPESE index. This finding is similar to the findings of Mai *et al.* (2023). However, the beta coefficients for money supply are negative with NPESE index. It indicates that money supply has a negative impact on NPESE index. This finding is consistent with the findings of Choi and Yoon (2020). In contrast, the beta coefficients for control of corruption are positive with NPESE index. It indicates that control of corruption has a positive impact on NPESE index. This finding is similar to the findings of Lau *et al.* (2013). However, the beta coefficients for

regulatory quality are negative with NPSE index. It indicates that regulatory quality has a negative impact on NPSE index. This finding is similar to the findings of Ullah *et al.* (2024).

Table 5 presents the regression results of political events, political stability, consumer price index, broad money supply, control of corruption and regulatory quality on NEPSE index and market price per share of Nepalese commercial banks.

Table 5

Estimated regression results of political events, political stability, consumer price index, broad money supply, control of corruption and regulatory quality on market price per share

The results are based on panel data of 15 Nepalese commercial banks with 150 observations for the study period from 2014/15 to 2023/24 by using the linear regression model and the model is $NEPSE\ Index = \beta_0 + \beta_1 PE + \beta_2 PS + \beta_3 RQ + \beta_4 CPI + \beta_5 MS + \beta_6 CC + e_{it}$ where, the dependent variable is MPS (Market price per share as measured by the closing price of the stock of banks, in Rs.). The selected independent variables are PE (Political events as measured by the dummy variable in which 1 denote if there is a negative political event and 0 denotes if no any events against the government), RQ (Regulatory quality index published by World Bank), PS (Political stability of the nation data published by World Bank), CPI (Consumer price index of Nepal for each year), MS (Broad money supply, Rs. in billion) and CC (Control of corruption data published by World Bank).

Model	Intercept	Regression coefficients of						Adj. R _{bar} ²	SEE	F-value
		CPI	PE	PS	MS	CC	RQ			
1	5.843 (18.657)**	0.034 (0.666)						0.240	0.579	0.444
2	6.051 (90.380)**		0.005 (0.055)					0.270	0.580	0.324
3	5.817 (106.069)**			0.540 (6.527)**				0.218	0.511	42.601
4	11.150 (12.710)**				-0.640 (5.821)**			0.181	0.523	33.889
5	5.761 (93.299)**					0.601 (6.363)**		0.210	0.514	40.491
6	5.786 (97.351)**						-0.730 (6.266)**	0.204	0.516	39.261
7	5.841 (17.946)**	0.034 (0.662)	0.002 (0.023)					0.311	0.581	0.221
8	5.870 (90.789)**		0.130 (1.531)	0.568 (6.733)**				0.225	0.509	22.665
9	0.479 (0.146)	0.110 (2.070)*	0.197 (2.223)*	1.257 (3.777)**	-0.847 (2.049)*			0.244	0.502	13.045
10	0.764 (0.125)	0.114 (2.024)*	0.197 (2.223)*	1.443 (1.722)	-0.705 (0.980)	0.329 (0.242)		0.239	0.504	10.380
11	5.648 (0.478)	0.130 (2.105)*	0.184 (1.834)	1.254 (1.406)	-1.485 (1.041)	1.425 (0.647)	-2.443 (0.634)	0.236	0.505	8.681

Notes:

- i. Figures in parenthesis are t-value
- ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
- iii. Market price per share is the dependent variable.

Table 5 shows that the beta coefficients for consumer price index are positive with market price per share. It indicates that consumer price index has a positive impact on market price per share. This finding is similar to the findings of Rauf and Rashid (2019). Similarly, the beta coefficients for political events are positive with market price per share. It indicates that political events have positive impact on market price per share. This finding is consistent with the findings of Nurlita and Naomi (2024). Likewise, the beta coefficients for political

stability are positive with market price per share. It indicates that political stability has a positive impact on market price per share. This finding is similar to the findings of Irshad (2017). However, the beta coefficients for money supply are negative with market price per share. It indicates that money supply has a negative impact on market price per share. This finding is consistent with the findings of Zakaria and Shamsuddin (2012). In contrast, the beta coefficients for control of corruption are positive with market price per share. It indicates that control of corruption has a positive impact on market price per share. This finding is similar to the findings of Zhang (2012). However, the beta coefficients for regulatory quality are negative with market price per share. It indicates that regulatory quality has a negative impact on market price per share. This finding is similar to the findings of Eldomiaty *et al.* (2016).

4. Summary and conclusion

Political changes play a significant role in stock market volatility by introducing uncertainty and shifting investor sentiment. Changes in government policies can directly impact corporate profits and market performance. Political instability, including elections or leadership transitions, often increases market uncertainty, causing fluctuations in stock prices. As a result, investors respond to political events, with market fluctuations reflecting their reactions to potential policy changes and the stability of the political environment.

This study attempts to examine the effect of major political change on stock market volatility in Nepal. This study is based on the secondary data of 15 Nepalese commercial banks, leading to a total of 150 observations.

The major conclusion of this study is that political events, political stability, consumer price index and control of corruption have positive impact on NEPSE index and market price per share. It indicates that higher the political events, political stability, consumer price index and control of corruption, higher would be the NEPSE index and market price per share. However, broad money supply and regulatory quality have positive impact on NEPSE index and market price per share. It indicates that higher the broad money supply and regulatory quality, higher would be the NEPSE index and market price per share. Similarly, the study also concluded that money supply followed by regulatory quality is the most influencing factor that explains the changes in NEPSE index in the context of Nepalese commercial banks. Likewise, the study also concluded that political stability followed by control of corruption is the most influencing factor that explains the changes in market price per share in the context of Nepalese commercial banks.

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