

Evaluating the Influence of Political Events on BSE Sensex and NSE Nifty: Pathways Toward Sustainable Investment and Economic Stability

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Abstract

Through the lens of sustainable financial development, this study investigates how significant political events affect the performance of India's key indices, the BSE Sensex and NSE Nifty. To determine their effect on market returns and volatility, political events such as the inauguration of the Ram Mandir, the Supreme Court's ruling on electoral bonds, pre-election dynamics, exit surveys, and election outcomes are examined. Regression analysis was used to evaluate for statistical significance between event dates and index returns using secondary data from the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The long-term trend shows market resilience based on institutional stability and sustainable policy governance, even while some events, including exit polls and election outcomes, cause short-term volatility. By establishing a link between political stability and sustainable financial development, the study adds to the body of knowledge. It suggests that strong regulation, educated investment, and transparent governance are essential for preserving investor trust and economic sustainability.

Keywords: Market Volatility, Investor Behavior, Sustainable Financial Development, BSE Sensex, NSE Nifty, Political Events, and Governance Stability.

1. Introduction

Financial markets are essential for long-term, sustainable economic growth because they make it easier to allocate resources, create capital, and finance innovation. Political developments have a big impact on markets in emerging nations like India by influencing investor confidence and risk perception (Kumar & Singh, 2023). The 30 and 50 most traded firms, respectively, are represented by the BSE Sensex and NSE Nifty, which act as indicators of the state of the economy and the legitimacy of public policies. Elections, court decisions, or significant policy announcements are examples of political transitions that can cause changes in stock indexes, illustrating the interconnectedness of market sentiment and governance. However, it is crucial that these swings do not upset the long-term course of financial growth in the framework of sustainable development.

In order to lessen the negative effects of political volatility, sustainable finance frameworks place a strong emphasis on market resilience, transparency, and inclusivity (UNCTAD, 2022). By evaluating how political events impact short-term returns while influencing long-term financial sustainability, this study incorporates the concept of sustainable development into financial event studies.

2. Literature Review

Since political unpredictability frequently affects investor sentiment and market stability, the relationship between political dynamics and stock market performance has been extensively studied. Early insights into how political announcements and governmental actions cause quantifiable changes in market indices were offered by Kapoor (2013), who emphasized that political stability is a crucial factor in determining investor confidence. His research showed that the Indian stock market responds quickly to news about elections and fiscal policy cues because it is sentiment-driven.

Ved Prakash (2019) looked into the relationship between election results and the BSE Sensex and NSE Nifty. According to his research, market volatility typically spikes during election seasons as a result of speculation before leveling out when the results are announced. The "political cycle hypothesis," which contends that markets predict shifts in the course of policy during election transitions, is consistent with this pattern. Comparably, indexes frequently show transient responses to political news, suggesting that the Indian market swiftly adapts once uncertainties are eliminated, according to Ahluwalia et al.'s (2019) analysis of the Lok Sabha elections.

The impact of the demonetization announcement as a policy shock varied by sector based on investor expectations and liquidity exposure, according to Lodha's (2018) analysis. The study emphasized the significance of transparency and policy communication in reducing unfavourable market reactions, two critical components of long-term financial systems. By analysing how well-known political speeches and abrupt announcements can result in brief market disturbances, Gupta (2019) made a further contribution. In order to protect investor confidence and stop speculation fueled by false information, she underlined the importance of responsible information dissemination.

Recent research has expanded the conversation to include the relationship between sustainable finance and politics. Shah and Patel (2021) discovered that more stable and sustainable capital markets, especially in emerging nations, are a result of transparent governance and consistent policymaking.

Similarly, Dutta and Jain (2023) found that institutional resilience and ESG-oriented market structures are just as important for sustainable financial growth as macroeconomic fundamentals. These elements strengthen investors' long-term trust, which speeds up markets' recovery from political shocks.

According to behavioral finance researchers, market participants frequently overreact to politically sensitive events because of emotional biases rather than logical valuation procedures (Ahluwalia, 2019; Tripathi & Bhatnagar, 2022). But as India's financial system develops, long-term investors are more likely to pay attention to the fundamentals than to speculative activity.

UNCTAD (2022) stresses that transparent institutions, ethical investment practices, and stable governance are essential for directing capital into sustainable sectors in the framework of sustainable development. By

combining responsible investing, financial literacy, and ESG principles, markets can be made more resilient to political unpredictability and support wider socioeconomic growth.

Overall, a recurring theme emerges from the reviewed literature: although political events undoubtedly have an impact on short-term stock performance, institutional framework depth, policy predictability, and the adoption of sustainability-focused governance mechanisms determine the long-term trajectory of financial markets. This knowledge places sustainable finance in a position to reduce political risk in developing nations like India by acting as a buffer and a strategic avenue.

3. Objectives of the Study

To examine how certain political events have affected the BSE Sensex and NSE Nifty performance.
To evaluate the impact of political volatility on investor confidence and long-term financial stability.
To provide methods for improving market resilience by implementing sustainable finance and governance practices.

4. Research Methodology

In order to investigate the connection between significant political developments and the performance of India's two benchmark stock market indexes, the BSE Sensex and the NSE Nifty, this study uses a descriptive and analytical research design. In order to comprehend not only the numerical impact of political events but also their implications for financial resilience and sustainable market growth, the research methodology places a strong emphasis on both empirical study and sustainability interpretation.

4.1 Research Design

The study uses descriptive statistical analysis in conjunction with a quantitative event study methodology. In financial research, event studies are frequently performed to gauge how the market responds to particular news or events over a predetermined period of time. This approach gives a better understanding of cause-and-effect linkages by separating the influence of political events from other market movements.

4.2 Source and Collection of Data

All of the secondary data included in the study came from reliable and authentic sources, including Investing.com, Money control, the National Stock Exchange (NSE), and the Bombay Stock Exchange (BSE). Between January and June 2024, the study period encompasses five noteworthy political events, specifically: Ram Mandir inauguration, Supreme Court verdict on electoral bonds, Pre-election period, Exit poll announcements, and Final election results.

In order to ensure that the dataset covers both the anticipatory and post-event market behavior, the daily closing values of both indices were recorded for each event using an event window of ± 5 trading days.

4.3 Utilized Variables

The daily return of the stock index (for the NSE Nifty and the BSE Sensex) is the dependent variable. Political event indicator (coded as binary: 1 for event days, 0 for non-event days) is an independent variable.

Control Variables: To aid in interpretation, market variables including trade volume and sectoral index performance were taken into qualitative consideration.

The logarithmic formula was used to calculate the daily returns:

$$R_t = \ln (P_t / P_{t-1})$$

where R_t symbolizes the everyday return, P_t represents the closing price on day t , and P_{t-1} is the closing price from the day before. This method guarantees consistent comparability and smoothes out data variance.

4.4 Analytical Instruments and Methods

For regression and correlation analysis, the study makes use of IBM SPSS (Statistical Package for the Social Sciences). For each political event, regression models were used independently to assess statistical significance and gauge the degree of correlation between the occurrence of the event and changes in market returns.

Before and after each event, market behavior was summed up using descriptive statistics (mean, standard deviation, and variance). To illustrate volatility patterns, graphical interpretations were also created, including trend lines and return movement charts.

4.5 The Framework for Research in the Framework of Sustainable Development

This study expands on the traditional event study methodology by incorporating qualitative interpretation pertaining to investor psychology, market transparency, and governance in order to conform to the sustainability perspective. The paradigm acknowledges that markets are socio-economic systems that are impacted by institutional trust, policy continuity, and environmental, social, and governance (ESG) factors in addition to economic performance.

Therefore, in addition to looking at statistical shifts in returns, the study assesses how these shifts represent the long-term sustainability and resilience of India's financial system.

5. Hypotheses

The study is guided by the following hypotheses formulated based on existing literature and the conceptual framework of political event impact on sustainable financial markets:

H₀ (Null Hypothesis):

Political events have no statistically significant impact on the daily returns of the BSE Sensex and NSE Nifty.

H₁ (Alternative Hypothesis):

Political events have a statistically significant impact on the daily returns of the BSE Sensex and NSE Nifty.

Five sub-hypotheses, each of which relates to one of the five chosen political events, were developed in order to guarantee analytical clarity. Regression analysis was used to assess these at a significance level of 5% ($\alpha = 0.05$).

6. Data Analysis and Interpretation

The analysis was conducted using **regression models** to evaluate the impact of five major political events on the **BSE Sensex** and **NSE Nifty** during January–June 2024.

Daily returns were calculated using log differences, and a **±5-day event window** was applied to capture short-term volatility.

The following table presents a brief, event-wise summary of regression results and interpretation.

Sr. No.	Political Event	Regression Coefficient (β)	p-value	Significance	Market Impact & Interpretation
1	Ram Mandir Inauguration	-0.0208	0.414	Not Significant	Market remained stable; event seen as cultural, not economic. Limited investor reaction, reflecting market maturity.
2	Supreme Court Verdict on Electoral Bonds	-0.00015	0.202	Not Significant	No substantial impact; investors viewed it positively as a move toward governance transparency—aligned with sustainable finance principles.
3	Pre-Election Period	0.0018	0.176	Not Significant	Mild anticipation trading; overall stability shows investor confidence and institutional resilience.
4	Exit Poll Announcements	-0.0015	0.000	Significant	Noticeable short-term volatility as markets reacted to speculative results. Sentiment-driven movement observed.
5	Election Results	-0.0551	0.000	Highly Significant	Sharp correction in index values due to uncertainty; however, markets recovered quickly, demonstrating strong financial resilience.

Cultural or non-economic political events do not significantly impact stock returns, as seen by the Ram Mandir inauguration's lack of impact on market performance ($p = 0.414$).

Investor sentiment improved as a result of the Supreme Court's decision regarding electoral bonds ($p = 0.202$). The lack of volatility demonstrates how open governance supports long-term market trust and is consistent with SDG 16: Peace, Justice, and Strong Institutions. Although there were some slight

anticipatory variations throughout the pre-election period ($p = 0.176$), general stability predominated. This indicates that both foreign and domestic investors are becoming more mature, which reflects their confidence in India's democratic and policy system.

The short-term impact of the exit poll announcements was statistically significant ($p < 0.05$). Speculative expectations caused market reactions, but as soon as the real results were revealed, the volatility swiftly decreased.

The biggest significant effect was produced by the final election result ($p < 0.01$; $R^2 = 0.425$). Uncertainty about the formation of the administration caused a momentary dip in the indicators, but they quickly recovered—a sign of strong institutional and financial resilience.

The integrated character of India's capital markets is demonstrated by the high correlation coefficient ($r = 0.98$) between the Sensex and Nifty, which validated coordinated movement.

A distinct pattern emerged from all of the events: a slight upward drift prior to, a strong reaction during, and stability following. This suggests that markets react swiftly and sustain equilibrium in accordance with the principles of sustainable financial development.

7. Implications

According to the results, India's capital markets appear to be moving in the direction of increased stability, which is consistent with the goals of sustainable financial growth. During politically sensitive times, investor understanding, institutional credibility, and political transparency are crucial for preserving market confidence. The study backs up the idea that consistent policies and sound governance not only increase investor confidence but also help accomplish SDG 16: Peace, Justice, and Strong Institutions.

8. Suggestions

The government and regulators should guarantee policy consistency and improve fiscal communication channels in order to encourage sustainable market growth and lower volatility. People will be better equipped to make long-term, logical investing decisions if financial literacy and investor education initiatives are expanded. Transparency may be improved and ethical investors can be drawn in by incorporating Environmental, Social, and Governance (ESG) norms into market and business regulations. Data openness, monitoring mechanisms, and disclosure standards should all be further enhanced by regulatory bodies such as SEBI. Promoting ethical investment products and green bonds can help sustain economic growth.

9. Conclusion

The study comes to the conclusion that although political developments have a short-term impact on market sentiment, India's financial sector is nonetheless robust and flexible. Investor confidence and institutional maturity are reflected in the BSE Sensex and NSE Nifty's quick post-event stability. Transparent governance, predictable policies, and the incorporation of sustainability concepts into financial decision-making are all necessary for India's sustainable financial development. Enhancing these aspects will guarantee inclusive economic growth and long-term market stability.

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