*Corresponding Author's Email: naderalberfanous@yahoo.com
Proceedings of The World Conference on Management, Business, and Finance
Vol. 2, Issue. 1, 2024, pp. 69-84
DOI: https://doi.org/10.33422/worldmbf.v2i1.718

ISSN: 3030-0045 online

Diamond Scientific Publishing

Does Political Stability affect the Stock Market Performance?: A Cross-Continental Comparative Study

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Abstract

This paper examines the impact of political stability on market price performance across countries from four continents: Europe, the Americas, Asia, and Africa. The sample includes ten countries from each continent, selected based on World Bank classifications, for the period 2008-2022. Testing hypotheses has been conducted using GMM technique, where Z-moments are projected into the column space of instrumental variables. This technique minimizes variance and enhances parameter estimate precision by focusing on Z-moments and applying GLS techniques.

The analysis involves independent variables such as political stability, GDP per capita, foreign direct investment (FDI), and inflation rate, measured according to World Bank standards. When controlling for macroeconomic indicators, the results indicate that political stability alone has a minimal impact on market prices in Europe and Africa, but its significance increases when combined with GDP per capita and FDI. In the Americas and Asia, political stability shows a more obvious impact, especially when combined with other economic factors. Overall, the findings have highlighted that while political stability is important, economic indicators like GDP per capita and FDI play a crucial role in influencing market prices across all regions. In addition, results may shed lights for policymakers and regulators to assess the responses of country and industry effects to political instability.

Keywords: Panel Data, Political Stability, Stock Market Performance

JEL Classification: G10, G15, E44, O16, C33, F21

1. Introduction

The stock market is a fundamental pillar of the global economy, guiding growth and helping achieve economic objectives. It is always highly sensitive and responsive to any disruptions, whether economic or political. Thus, Investments always tends to avoid risk and seeks safe, stable environments. Political stability is very essential factor for any investment to settle and grow. However, numerous obstacles can disturb its performance, including political instability, poor decision-making, corruption, and other socio-economic factors. This study investigates the impact of political stability on stock market performance across 40 countries, using political stability, foreign direct investment (FDI), GDP per capita, and inflation rate as key variables, with stock market prices as the dependent variable. The relationship between political instability and market performance is complex and varies by country and specific political circumstances. Political instability typically leads to uncertainty, reduced investment, and slower economic growth.

However, political stability is not a static factor but a dynamic one that can be influenced by various internal and external factors. Poor decision-making by political leaders, corruption, socio-economic challenges, geopolitical tensions, and global economic uncertainties are among the obstacles that can disrupt political stability and, consequently, impact stock market performance negatively.

For instance, in times of political instability or uncertainty, investors may adopt a cautious approach, leading to reduced investment activities, lower FDI inflows, and a reluctance to engage in long-term commitments. This may lead to decreased liquidity, increased market volatility, and slower economic growth. In addition, protracted political unrest can undermine investor confidence, discourage foreign capital, and impede the stock market's overall growth.

Political stability and stock market performance have a complex and diverse relationship that varies greatly between nations and regions. While some nations may show resiliency and flexibility in the face of political difficulties, others can see more noticeable detrimental consequences on their markets. The resiliency of the economy, the efficacy of governance frameworks, institutional strength, transparency, and the rule of law are important factors that influence how political unrest affects the stock market.

While limited studies have explored the relationship between political instability and stock market performance in emerging economies, this research addresses this gap by providing a comprehensive worldwide outlook. Additionally, this paper conducts a cross-continental comparative study that covers 40 stock markets in 4 continents, which may provide a worldwide outlook.

The research objective is to investigate the Relationship Between Political Instability and Stock Market Performance: This objective focuses on examining how fluctuations in political stability affect stock market performance in selected countries, and tries to answer the research question: ***Does political stability affect stock market prices in the presence of the control variables, FDI, GDP per capita and the inflation rates?***

2. Literature Review

This section tries to present the theoretical framework of the research topic, illustrating an overview about the Political Stability, which discusses the issues of Arab spring, The Effect of Political Uncertainty on Financial Market Volatility.

Political events significantly influence stock market dynamics, as demonstrated by various researchers. Manzoor (2013) emphasizes that government stability creates a positive environment for residents and lawful activities, thereby encouraging investors due to perceived lower risks in the financial market. Political stability directly correlates with stock price fluctuations. Murtaza and Ali (2013) also explored this relationship, noting a negative impact on stock returns and trade volumes following the attack on the Sri Lankan cricket team, highlighting the significant influence of both positive and negative political events on stock market prices.

Syed et al. (2005) argued that investors consider political risk a crucial factor in asset valuation and investment opportunities. Beaulieu and Caron (2005) found a positive relationship between political stability and returns on common stocks of Quebec companies. Similarly, Kelly et al. (2009) indicated that stock returns and trading volumes fluctuate in response to political stability, either positively or negatively.

Lee and Ng (2006) investigated the effects of government qualities and stock market governance on market performance. Their findings suggest that better market governance enhances liquidity and growth in the capital market, implying that improved governance reduces risk, prompting investors to require lower returns in well-governed markets. Love (2010) provided an analysis of corporate governance and capital market growth, suggesting that political stability, efficient legal enforcement, and low corruption levels improve capital markets. Li and Filer (2007) also found that countries with robust property rights and transparent legal systems attract more equity investors. Fan, Rui, and Zhao (2008) noted that firms in poorly governed countries face higher transaction and agency costs, discouraging investment and negatively impacting stock market growth.

The literature presents mixed views on the impact of corruption on stock markets. While many researchers agree on its negative effects, some claim it can spur economic growth. Brooks (2016) suggests that corruption positively impacts stock market growth, with Ahlin and Pang (2008) arguing that corruption increases liquidity, which fosters financial development. Some studies even found a positive correlation between corruption and stock market development, suggesting that corruption can attract foreign direct investment (FDI), which in turn benefits stock markets.

However, a majority of studies propose that corruption negatively affects stock market growth. Daouk et al. (2006) argued that corruption hampers market growth by deterring FDI. Wei (2000), Lambsdorff (2003), and Voyer and Beamish (2004) highlighted the adverse effects of corruption on FDI, reducing competition and increasing the costs of conducting overseas operations. Zhu et al. (2012) and Pinheiro (2010) observed that while corruption might positively influence stock markets in underdeveloped countries, it has a negative impact in developed economies. Lee and Ng (2006) noted that corruption raises borrowing costs, reducing stock prices and market growth. Pastor and Veronesi (2012) suggested that investors might mitigate uncertainties about government policies if they view inducements as beneficial, especially in developing markets.

Political instability, characterized by uncertainty and unrest within a country's political system, manifests through wars, elections, conflicts between political parties, and other events that can disrupt the ruling regime. Such political events invariably undermine a country's economic and financial stability. Historically, the influence of political instability on economic performance has garnered significant attention from economists. Cutler, Poterba, and Summers (1989) found that political factors did not significantly impact stock returns in the American stock market. Contrarily, Bittlingmayer (1998) highlighted that major political event, such as the World Wars, had a substantial impact on stock prices and volatility in Germany from 1880 to 1940.

Aggarwal, Inclan, and Leal (1999) noted that political events significantly altered the volatility of the largest emerging stock markets. Kim and Mei (2001) reported that the movements of the Hong Kong stock exchange were closely tied to political events, a finding consistent with Bailey and Chung (1995), as well as Boutchkova et al. (2012), who all concluded that political uncertainty contributes to financial volatility. Besides, Beaulieu, Essadam, and Cosset (2005) examined the effect of political risk in Canada on stock market return and volatility during 1990-1996. They argued that unfavorable political news increased stock return volatility, while favorable news reduced it, with the impact of unfavorable news being more pronounced. Suleman (2012) found similar results for the Karachi stock exchange, where good news increased returns and decreased volatility, whereas bad news had the opposite effect.

Khalid and Rajaguru (2010) discovered that domestic and international political events influenced volatility in Pakistan's financial markets using a Markov Switching process. El-Chaarani (2015) studied the effect of Lebanese political news on the Beirut Stock Exchange (BSE) returns and volatility from 2005-2014, finding that both good and bad political news significantly affected BSE returns.

Lubos and Veronesi (2013), using the policy uncertainty index of Baker, Bloom, and David (2012), argued that political uncertainty's impact on volatility is more pronounced in weaker economies. Dimitrios, Vortelinos, and Shrabani (2016) found that higher political risk led to greater volatility in markets across North America, Greece, Africa, Asia, and other regions. In addition, Dimic, Orlov, and Piljak (2015) examined the relationship between political risk and stock return across developed, emerging, and frontier markets, finding that government actions, as the main source of political risk, negatively impacted stock returns across these markets. Günay (2016) showed that internal political risk significantly influenced the volatility of the Turkish stock market (BIST 100 index) from 2001 to 2014, although its impact had diminished over time. Tuncay (2017) revealed that expected returns in Turkey were significantly affected by risks related to government stability, military involvement in politics, and both external and internal conflicts. Besides, Essaddam and Karagianis (2014) found that terrorism significantly influenced the stock return volatility of American firms targeted by terrorist attacks. Drakos (2010) reported that terrorism led to a decrease in stock returns on the day of the attack across 22 countries. Chesney, Karaman, and Reshetar (2011) further confirmed that terrorism-related events typically had a negative impact on financial markets.

A broad spectrum of literature has documented the adverse effects of political turmoil on macroeconomic variables such as GDP growth, foreign direct investment (FDI), public expenditures, taxation, debt, and inflation. Julio and Yook (2016) used the timing of national elections to show that political uncertainty negatively affected FDI flows from U.S. parent firms to their affiliates in 43 countries. Aisen and Veiga (2013) found that political instability decreased GDP per capita growth rates in a panel of 169 countries. Lehkonen and Heimonen (2015) demonstrated that lower political risks were associated with higher returns in 49 emerging financial markets. Bill, Iftekhar, and Zhu (2014) highlighted that political uncertainty increased the cost of corporate bonds for U.S. firms. Smales (2016) noted that political uncertainty around Australian federal elections raised the implied volatility of equity and bond options.

Numerous studies have investigated the impact of political turmoil particularly that of the Arab Spring, on stock market volatility. Abdelbaki (2013) utilized a vector error correction model to demonstrate that political instability following the Egyptian revolution significantly influenced the movement of Egyptian stock market indices from March 2011 to November 2011. During this period, the main index, EGX30, experienced a sharp decline, losing about 16% on January

26 and 27. Similarly, the EGX70 and EGX100 indices fell by approximately 24% and 22%, respectively.

Chau, Wang, and Deesomsak (2014) employed various GARCH models (GARCH, EGARCH, and GJR-GARCH) to assess the impact of the Arab Spring on stock market volatility in six MENA countries. They found that the volatility of Islamic indices increased during the political turmoil, whereas conventional indices showed little to no impact.Ahmed (2017) analyzed the effect of political uncertainty on the daily data of the EGX market index and eight sectorial indexes during 2011-2014 using an event study method and a VAR-EGARCH model. His results indicated that the major market sectors' risk returns were influenced by political instability. In the context of the Tunisian stock exchange, Jeribi et al. (2015) utilized a FIEGARCH model to examine the volatility dynamics of sectorial indices across three subperiods: before, during, and after the Tunisian revolution. They found that the impact of shocks on return volatility was permanent in the TUNINDEX and sectorial indices such as financial companies, construction, consumer services, financial services, and industries during the political unrest, while its persistence was transitory on other indices. Moreover, Mnif (2017) applied univariate structural unobserved components time series models to monthly data of TUNINDEX from December 31, 1997, to February 28, 2014. The study detected a significant increase in the amplitude and volatility of Tunisian stock market cycles post-revolution.

Based on the abovementioned literature, this research endeavors to empirically investigate the impact of political stability on stock market prices across 40 different countries. The study incorporates a comprehensive analysis that includes several control variables, such as Foreign Direct Investment (FDI), the inflation rate, and GDP per capita. By utilizing annual economic data obtained from the World Bank and various stock market sources, this research aims to provide a thorough understanding of how political stability influences stock market performance. The analysis seeks to identify patterns and correlations that may exist between political conditions and economic indicators, thereby shedding light on the broader implications for investment and economic growth in these countries.

3. Measuring Variables and Developing Hypotheses

This paper tries to investigate the effects of political stability on stock market performance, where political stability has been measured by “The Political Stability and Absence of Violence/Terrorism indicator” published by the Worldwide Governance Indicators (WGI), while stock market performance has been measured by market index return. This has been applied on 40 countries during the period from 2008 to 2022. Countries are from four continents: Europe, the Americas, Asia, and Africa, where from each continent, 10 countries are selected according to each of size (market capitalization) data availability (by the World Bank database).

Table (1): Sample of Countries Group by Continent

Europe			Americas		Asia		Africa	
N	**Country**	**Index Name**	**Country**	**Index Name**	**Country**	**Index Name**	**Country**	**Index Name**
1	**Austria**	ATX (ATX)	**Argentina**	S&P Merval (MERV)	**Lebanon**	Blom stock(BLSI)	**Cote D'Ivoire**	BRVM 10 (BRVM10CI)
2	**Belgium**	BEL 20	**Brazil**	Bovespa (BVSP)	**China**	Shanghai Composite (SSEC)	**Egypt**	(EGX30)
3	**Croatia**	CROBEX	**Canada**	S&P/TSX Composite (GSPTSE)	**Hong Kong**	Hang Seng (HSI)	**Morocco**	Moroccan All Shares (MASI)
4	**Bulgaria**	BSE SOFIX	**Chile**	S&P CLX IPSA (SPIPSA)	**India**	Nifty 50 (NSEI)	**Nigeria**	NSE 30 (NGSE30)
6	**Cyprus**	Cyprus Main Market (CYMAIN)	**Colombia**	COLCAP (COLCAP)	**Indonesia**	Jakarta Stock Exchange Composite Index (JKSE)	**Rwanda**	Rwanda All Share (ALSIRW)
6	**Czech Republic**	PX (PX)	**Ecuador**	Guayaquil Select (BVG)	**Japan**	Nikkei 225 (N225)	**South Africa**	South Africa Top 40 (JTOPI)
7	**Denmark**	OMX Copenhagen 20 (OMXC20)	**Mexico**	FTSE BIVA Index (FTFTBIVA)	**Malaysia**	FTSE Malaysia KLCI (KLSE)	**Tunisia**	Tunindex (TUNINDEX)
8	**Finland**	OMX Helsinki 25 (OMXH25)	**Peru**	S&P Lima General (SPBLPGPT)	**Singapore**	FTSE Straits Times Singapore (STI)	**Uganda**	Uganda All Share (ALSIUG)
9	**France**	CAC 40 (FCHI)	**United States**	Nasdaq 100 (NDX)	**Sri Lanka**	CSE All-Share (CSE)	**Zambia**	Zambia
10	**Greece**	Athens GeneralComposite (ATG)	**Venezuela**	Bursatil (IBC)	**Saudi Arabia**	Tadawul All Share (TASI)	**Zimbabwe**	ZSE All Share (ALSZI)

Source: https://www.investing.com/ indices/

The World Bank database: https://data.worldbank.org/indicator

In this study, the independent variables and the dependent variable will be measured for all sample countries based on the standards of the World Bank as follows:

Table (2): Variables description

INDIC TOR_NAME	SOURCE_NOTE
Political Stability and Absence of Violence/Terrorism: Percentile Rank	The Political Stability and Absence of Violence/Terrorism indicator measures perceptions of the likelihood of political instability and politically motivated violence, including terrorism. The percentile rank indicates a country's position among all countries covered by this aggregate indicator, with 0 representing the lowest rank and 100 the highest. These ranks are adjusted to account for changes over time in the composition of countries included in the Worldwide Governance Indicators (WGI).
Foreign direct investment, net inflows (BoP, current US$)	Foreign direct investment (FDI) refers to the equity flows of direct investment into the reporting economy. It includes the total of equity capital, reinvested earnings, and other capital. FDI involves cross-border investments where a resident of one economy has control or substantial influence over the management of an enterprise in another economy. The ownership of 10 percent or more of the ordinary shares or voting stock is the standard criterion for identifying a direct investment relationship. The data are reported in current U.S. dollars.
GDP per capita (current US$)	GDP per capita is calculated by dividing the gross domestic product (GDP) by the midyear population. GDP represents the total gross value added by all resident producers in the economy, plus any product taxes, and minus any subsidies that are not included in the value of the products. This calculation does not account for deductions related to the depreciation of fabricated assets or the depletion and degradation of natural resources. The data are presented in current U.S. dollars.
Inflation, consumer prices (annual %)	Inflation, measured by the consumer price index (CPI), represents the annual percentage change in the cost for the average consumer to acquire a basket of goods and services. This basket can either remain fixed or be adjusted at specified intervals, such as yearly. The calculation typically employs the Laspeyres formula.
Index Average Price	The **Index Average Price** represents the calculated mean value of a financial index over a specified year. This data was obtained from the Investing website, where the individual daily or prices of the index throughout the year were averaged to provide a comprehensive annual figure. This average price serves as a useful indicator of the index's performance and trend over the year.

Therefore, this paper aims to test the following hypothesis:

$$\textbf{Average Market Price} = \alpha + \boldsymbol{\beta 1}\ \textit{Political Stability} + \boldsymbol{\beta 2}\ \textit{FDI} + \boldsymbol{\beta 3}\ \textit{GDP per Capita} + \boldsymbol{\beta 4}\ \textit{Inflation} + \varepsilon$$

This research study aims to enhance comprehension regarding the influence of Political stability and the economic indicators on the Market price performance, specifically within various countries. The findings of this study will hold significance for policymakers, investors, and scholars, as they can assist in informed decision-making concerning the political stability impacts on the stock market by emphasizing factors that contribute affecting the stock market prices.

This paper aims to test the following four hypotheses:

H1: Political stability has no significant impact on stock market price in presence of control variables FDI, GDP per capita, inflation rate in Europe.

H2: Political stability has no significant impact on stock market price in presence of control variables FDI, GDP per capita, inflation rate in Americas.

H3: Political stability has no significant impact on stock market price in presence of control variables FDI, GDP per capita, inflation rate in Asia.

H4: Political stability has no significant impact on stock market price in presence of control variables FDI, GDP per capita, inflation rate in Africa.

4. Data Analysis and Results

This section concerns with diagnostic and descriptive statistics and testing hypotheses, as follows:

4.1. Diagnostic and descriptive statistics:

Table (3): Descriptive Statistics of the Research Variables

Variables	Europe		Americas		Asia		Africa	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
Index Average Price	1979.86	1488.46	14073.97	24364.45	5616.36	5237.68	8454.07	15301.84
Political Stability	82.28	14.38	50.65	24.29	54.40	30.15	36.49	19.04
Inflation Rate	2.12	2.79	4.07	2.97	6.37	20.07	13.26	50.54
GDP Per capita	34,274	16,739	17,520	18,362	19,679	19,740	2,586	1,828
Foreign direct investment (Million)	13,179	31,065	51,025	97,945	50,912	71,467	2,518	4,085

Source: https://www.investing.com/ indices/
World Bank database: https://data.worldbank.org/indicator

The pervious table presents descriptive statistics for key research variables across four regions: Europe, the Americas, Asia, and Africa. It provides insights into the central tendencies and variability of these variables within each region. In terms of price, Asia shows the highest mean price at $14,073.97, with a relatively high standard deviation indicating significant price variability. In contrast, Europe and the Americas show lower mean prices but with comparatively lower standard deviations, suggesting more stability in price levels. Political stability scores vary across regions, with Europe having the highest mean score (82.28), indicating a more politically stable environment, while Africa records the lowest mean (36.49). Inflation rates also vary notably, with Africa showing the highest mean rate (13.26%), and Asia displaying the lowest mean (6.37%), though with a relatively higher standard deviation. GDP per capita follows a similar trend, with Europe having the highest mean ($34,274) and Africa the lowest ($2,586). Foreign direct investment levels are substantial in Asia and the Americas, while Africa exhibits lower investment figures.

4.2. Testing Hypotheses

4.2.1. Testing the First Hypothesis

Table (4): Results of Europe Model

Dependent Variable: Index Average Price		**Europe Model**				
		Variable Models	***Model 1***	***Model 2***	***Model 3***	***Model 4***
Constant		Coefficient	1523.4	1509.06	2222.88	2002.6
		Std. Error	**(709.59)****	**(712.41)****	**(639.9)*****	**(632.17)*****
Independent	Political Stability	Coefficient	5.5476	5.2514	-24.208	-21.42
		Std. Error	**(8.492)**	**(8.55)**	**(8.83)*****	**(8.713)****
Control Variables	Inflation rate	Coefficient		18.278	34.818	25.884
		Std. Error		**(44.13)**	**(39.13)**	**(38.47)**
	GDP per cap-ita	Coefficient			0.0488	0.046
		Std. Error			**(0.008)*****	**(0.008)*****
	FDI	Coefficient				0.00
		Std. Error				**(0.000)*****
R			.054[a]	.064[a]	.475[a]	51.20%
R-squared			**0.003**	**0.004**	**0.226**	**0.262**
Adjusted R-squared			-0.004	-0.010	0.210	24.18%
Prob.(F-statistic)			**.515[b]**	**.743[b]**	.000[b]	.000[b]
Included observations			150	150	150	150

Source: outputs of data processing using Eviews10.

The table shows the results of a regression analysis examining the impact of political stability and the other control factors that influence the "Index Average Price" in Europe, using four models that progressively include more variables.

Model 1: includes Political Stability with an R-squared of 0.003, meaning Political Stability alone explains 0.3% of the variation in the Index Average Price. This indicates that Political Stability has a very low explanatory power on its own.

Model 2: Adds Inflation Rate to Political Stability, increasing the R-squared slightly to 0.004. This means these two factors together explain 0.4% of the variation in the Index Average Price. However, Inflation Rate is not a meaningful variable in this model.

Model 3: Adds GDP per Capita in addition to Political Stability and Inflation Rate, resulting in an increase in the R-squared to 0.226. This means these three factors explain 22.6% of the variation in the Index Average Price. GDP per Capita is a significant factor in this model, while Political Stability has a negative impact.

Model 4: Adds Foreign Direct Investment (FDI) to the previous variables, increasing the R-squared to 0.262. This means all four factors together explain 26.2% of the variation in the Index Average Price. FDI is a significant predictor in this model, though Political Stability continues to have a negative impact.

The consistently low R-squared values in Models 1 and 2 indicate that Political Stability and Inflation Rate alone do not explain much of the variation in the Index Average Price. The significant increase in R-squared in Models 3 and 4 shows the importance of including GDP per Capita and FDI for better explanatory power. The Prob. (F-statistic) values indicate that Models 3 and 4 are statistically significant overall, while Models 1 and 2 are not. Therefore, for the first hypothesis, the null hypothesis is rejected, and the alternative hypothesis can be accepted.

4.2.2. Testing the Second Hypothesis

Table (5): Results of Americas Model

Dependent Variable: Index Average Price		**Americas Model**				
		Variable Models	***Model 1***	***Model 2***	***Model 3***	***Model 4***
Constant		Coeffi-cient	9471.5	-1888.8	-4368.5	-7167.2
		Std. Error	(4609.9)**	(6538.2)	(6592.8)	(6560.2)
Independent	Political Stability	Coeffi-cient	90.87	175.59	328.86	455.49
		Std. Error	(82.118)	(88.11)**	(116.46)***	(124.42)***
Control Variables	Inflation rate	Coeffi-cient		1737.192	1703.114	1707.971
		Std. Error		(719.97)***	(713.07)***	(699.75)***
	GDP per cap-ita	Coeffi-cient			-0.294	-0.743
		Std. Error			(0.148)**	(0.227)***
	FDI	Coeffi-cient				0.000
		Std. Error				(0.00)***
R			.091[a]	.214[a]	.267a	.334[a]
R-squared			0.008	0.046	0.071	0.112
Adjusted R-squared			0.002	0.033	0.052	0.087
Prob.(F-statistic)			.270[b]	.031[b]	.013[b]	.002[b]
Included observations			150	150	150	150

Source: outputs of data processing using Eviews10.

The table shows the results of a regression analysis examining the impact of political stability and the other control factors that influence the "Index Average Price" in America, using four models that progressively include more variables.

Model 1: Only includes Political Stability, with an R-squared of 0.008, indicating that Political Stability explains 0.8% of the variation in the Index Average Price. This suggests Political Stability alone has minimal explanatory power.

Model 2: Adds Inflation Rate to Political Stability, increasing the R-squared to 0.046. This means these two factors together explain 4.6% of the variation in the Index Average Price. Inflation Rate is a meaningful predictor in this model.

Model 3: Incorporates GDP per Capita in addition to Political Stability and Inflation Rate, resulting in an R-squared of 0.071, indicating these three factors explain 7.1% of the variation. GDP per Capita is also a significant factor in this model.

Model 4: Adds Foreign Direct Investment (FDI) to the previous variables, increasing the R-squared to 0.112. This means all four factors together explain 11.2% of the variation in the Index Average Price. FDI is a significant predictor in this model.

Across all models, the significance of Political Stability increases as more variables are added, underscoring its importance. Despite the R-squared values increasing with additional variables, they remain low, suggesting other factors not included in these models also influence the Index Average Price. The Prob. (F-statistic) values indicate that Models 2, 3, and 4 are statistically significant overall, while Model 1 is not. Therefore, for the second hypothesis, the null hypothesis is rejected, and the alternative hypothesis can be accepted.

4.2.3. Testing the Third Hypothesis

Table (6): Results of Asia Model

Dependent Variable: Index Average Price		**Asia Model**				
		Variable Models	***Model 1***	***Model 2***	***Model 3***	***Model 4***
Constant		Coefficient	3193.2	3462.7	2996.0	3630.6
		Std. Error	(857.8)***	(923.48)***	(1003.4)***	(1011.7)***
Independent	Political Stability	Coefficient	44.540	41.588	66.09	66.89
		Std. Error	(13.80)***	(14.31)***	(25.204)***	(24.697)***
Control Variables	Inflation rate	Coefficient		-17.077	-15.328	-20.701
		Std. Error		(21.503)	(21.526)	(21.18)
	GDP per capita	Coefficient			-0.045	-0.037
		Std. Error			(0.038)	(0.037)
	FDI	Coefficient				-0.000
		Std. Error				(0.000)***
R			.256[a]	.264[a]	.280[a]	.348[a]
R-squared			0.066	0.070	0.079	0.121
Adjusted R-squared			0.059	0.057	0.060	0.097
Prob.(F-statistic)			.002[b]	.005[b]	.007[b]	.001[b]
Included observations			150	150	150	150

Source: outputs of data processing using Eviews10.

The table shows the results of a regression analysis examining the impact of political stability and the other control factors that influence the "Index Average Price" in Asia, using four models that progressively include more variables.

Model 1: Includes only Political Stability and has an R-squared of 0.066, meaning Political Stability alone explains 6.6% of the variation in the Index Average Price.

Model 2: Adds Inflation Rate to Political Stability. The R-squared increases slightly to 0.070, indicating that these two factors together explain 7.0% of the variation. However, the Inflation Rate is not a meaningful predictor in this model.

Model 3: Incorporates GDP per Capita in addition to Political Stability and Inflation Rate. The R-squared increases marginally to 0.079, meaning these three factors explain 7.9% of the variation. GDP per Capita does not significantly impact the Index Average Price in this model.

Model 4: Adds Foreign Direct Investment (FDI) to the previous three factors. The R-squared increases to 0.121, showing that all four factors together explain 12.1% of the variation in the Index Average Price. FDI has a notable impact on the Index Average Price, although the coefficient is very small.

The consistently positive impact of Political Stability across all models underscores its importance in influencing the Index Average Price in Asian countries. Despite the incremental increases in R-squared values, they remain low, suggesting that other unaccounted-for factors may also play a significant role. The overall significance of each model is supported by the Prob. (F-statistic) values, indicating that each model is statistically significant. Therefore, for the third hypothesis, the null hypothesis is rejected, and the alternative hypothesis can be accepted.

5.2.4. Testing the Fourth Hypothesis

Table (7): Results of Africa Model

Dependent Variable: Index Average Price		**Africa Model**				
		Variable Models	***Model 1***	***Model 2***	***Model 3***	***Model 4***
Constant		Coeffi-cient	3692.398	3083.874	-9494.436	-10360.097
		Std. Error	(2680.85)	(2742.1)	(2388.3)***	(2370.2)***
Independent	Political Stability	Coeffi-cient	130.510	137.784	89.133	117.456
		Std. Error	(65.189)**	(65.53)**	(49.706)*	(50.079)**
Control Variables	Inflation rate	Coeffi-cient		25.870	42.438	44.070
		Std. Error		(24.68)	(18.709)**	(18.38)***
	GDP per capita	Coeffi-cient			5.465	4.748
		Std. Error			(0.517)***	(0.582)***
	FDI	Coeffi-cient				6.165
		Std. Error				(0.000)***
R			.162[a]	.183[a]	.673[a]	.690[a]
R-squared			0.026	0.034	0.453	0.476
Adjusted R-squared			0.020	0.020	0.441	0.461
Prob.(F-statistic)			.047[b]	.081[b]	.000[b]	.000[b]
Included observations			150	150	150	150

Source: outputs of data processing using Eviews10.

The table shows the results of a regression analysis examining the impact of political stability and the other control factors that influence the "Index Average Price" in Africa, using four models that progressively include more variables.

Model 1: which only includes Political Stability, the R-squared value is 0.026, meaning that Political Stability alone explains 2.6% of the variance in the Index Average Price.

***Model 2*:** adds Inflation Rate to the analysis, slightly increasing the R-squared to 0.034, thus accounting for 3.4% of the variance. However, the significance level of Inflation Rate is above 0.05, indicating it is not a significant predictor in this model.

Model 3: GDP per Capita is included along with Political Stability and Inflation Rate, resulting in a substantial increase in the R-squared value to 0.453. This suggests that these variables together explain 45.3% of the variance in the Index Average Price, with GDP per Capita showing a highly significant coefficient ($p < 0.001$), highlighting its strong predictive power.

Model 4: incorporates Foreign Direct Investment (FDI) into the analysis, further raising the R-squared value to 0.476, meaning 47.6% of the variance is explained by the combined influence of Political Stability, Inflation Rate, GDP per Capita, and FDI. This model shows that FDI, although its coefficient is very small, is statistically significant ($p = 0.012$), indicating its positive but modest impact on the Index Average Price.

The progressively increasing R-squared values from Model 1 to Model 4 show that including additional relevant economic variables improves the model's explanatory power. Therefore, for the fourth hypothesis, the null hypothesis is rejected, and the alternative hypothesis can be accepted.

5. Summary and Concluded Remarks

This paper tries to investigate the effects of political stability on stock market performance, where political stability has been measured by "The Political Stability and Absence of Violence/Terrorism indicator" published by the Worldwide Governance Indicators (WGI), while stock market performance has been measured by market index return. This has been applied on 40 countries during the period from 2008 to 2022. Countries are from four continents: Europe, the Americas, Asia, and Africa, where from each continent, 10 countries are selected according to each of size (market capitalization) data availability (by the World Bank database).

This research checked how different economic variables and political stability affected the "Index Average Price" in Europe, the Americas, Asia, and Africa. Political stability by itself had little effect in Europe; however, the model was greatly enhanced by the addition of GDP per capita and FDI, demonstrating the critical importance of these economic variables. In the Americas, the importance of political stability rose when combined with GDP per capita, FDI, and inflation rate; this suggests that, despite their modest R-squared values, these factors collectively affect the Index Average Price. Political stability has always had a favorable effect in Asia, and the inclusion of FDI significantly increased the model's explanatory power, even if the Index Average Price is probably influenced by other factors. In addition, political stability alone had little effect in Africa; however, adding GDP per capita and foreign direct investment significantly improved the model's ability to explain the data and shown a significant improvement when other economic factors were taken into account. Overall, all regions benefit greatly from economic indicators like GDP per capita and foreign direct investment, even though political stability is still vital. Although additional factors not included in the models also play a role, the study supports rejecting the null hypothesis for all groups, confirming that these factors collectively have a considerable impact on the Index Average Price.

In countries with high political stability, the perceived risk of investing in the stock market is lower. This means that investors may demand a lower risk premium (the return above the risk-free rate) for holding stocks in these markets. By investing in stable political environments, investors may enjoy lower volatility and potentially higher risk-adjusted returns compared to markets with higher political instability. Besides, Political stability can be a key factor in regional diversification. By investing in politically stable countries, investors can reduce the risk of their portfolio being adversely affected by political turmoil in less stable regions. Investors can build diversified portfolios by including stocks from countries with a history of political stability.

Assessment of the relationship between political stability may provide a more predictable economic environment, which can help businesses, reduce the risks of abrupt changes in fiscal policies, regulations, or taxation, which can adversely affect profits and stock prices. Besides, it encourages investing in markets or sectors located in politically stable countries. Moreover, politically stable countries tend to have better long-term growth prospects. Stability encourages infrastructure development, and business expansion, all of which contribute to the GDP per capita and FDI, and therefore raise the stock market return. Investors can take a long-term view, focusing on stocks in politically stable regions where companies are more likely to experience sustained growth.

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