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FOREIGN REMITTANCES AND EXCHANGE RATE FLUCTUATIONS AS ECONOMIC THREATS TO STOCK MARKET STABILITY IN SOUTH ASIAN COUNTRIES: THE MODERATING ROLE OF POLITICAL STABILITY

[1]Muhammad Nasir Jamal, [2]Sana Asghar, [3]Umm-e-Hani, [4]Muhammad Aftab Rafique, [5]Asif Khan*

[1, 3]Department of Management Science, The Superior University, Lahore (Pakistan).

[2]Institute of Business and Information Technology (IBIT) University of the Punjab, Lahore (Pakistan).

[4]Business Management (Certified faculty of CA), Professionals' Academy of Commerce (PAC).

[5]Department of Economics and Commerce, The Superior University, Lahore.

***Corresponding author:** asifkhan4099@gmail.com*

Article Info

Abstract

This study investigates the impact of key macroeconomic and institutional factors, including global oil prices, foreign remittances, exchange rates, and the interaction between foreign remittances and political stability on stock market performance in South Asian economies from 2005 to 2023. Utilizing a fixed effect model on panel data, the results reveal that global oil prices, foreign remittances, and exchange rates each have a positive and statistically significant effect on stock market performance, highlighting their crucial role in driving financial market behavior. Moreover, the interaction term between foreign remittances and political stability is also significant, suggesting that remittances exert a stronger influence on stock markets in politically stable environments. The model demonstrates a high explanatory power with an R-squared value of 0.91, indicating the robustness of the selected variables. These findings underscore the importance of macroeconomic stability, institutional strength, and governance in enhancing stock market performance. The study offers actionable policy insights, recommending the promotion of formal remittance channels, maintenance of exchange rate stability, effective utilization of oil revenues, and strengthening of political institutions to support sustained financial market growth.

Keywords:

Foreign Remittance, Exchange Rate, Stock Market Performance, Political Stability, Global Oil Price, South Asian Countries.

1. INTRODUCTION

The stock market performance plays a pivotal role in the economic growth of a country, serving as a barometer of economic well-being by reflecting investor confidence, corporate profitability, and overall market stability (El-Diftar, 2023). Therefore, it attracts national and international investment, facilitates capital formation, and provides access to the companies for funds for their growth and innovation. To observe financial stability the role of stock market is crucial to reveal economic uncertainties and risks (Thapa, 2023). On the basis of internal and external events, stock market is highly sensitive for the abrupt changes in economic and social conditions of developing countries.

In developing economies, foreign remittances are generally recognized as a main contributor of economic stability and development (Usman, 2023). Furthermore, policymakers have shown keen interest in how foreign remittances raise economic resilience. But, concerns raise when remittance inflows diminish, particularly during global financial crises. In the COVID-19 pandemic, emerging economies perceived a temporary decline in remittances growth, contributing to market instability and Capital inadequacy (Carare, 2025). Such shortfall reduce income and spending of household, thereby growing unpredictability in the stock market. As stated in the report by World Bank (2023), remittance inflows provide more than $656 billion per annum to developing economies, proposing critical funding. However, the World Bank estimates slower remittances growth in upcoming years owing to international inflation and lengthy economic volatility.

In current scenario, the fluctuations in oil price significantly hit the economic conditions of oil-importing developing economies. Therefore, frequent variations in worldwide oil prices surge inflationary pressure, increase production costs, shake investor confidence, and ultimately influence stock market performance (Alamgir & Amin, 2021). Consequently, the profitability of energy and manufacturing sectors reduce due to changes in oil prices and stock market volatility arises in this situation. Likewise, exchange rates fluctuations is another critical threat of stock market performance, as its fluctuations influence corporate earnings, inflation levels, and trade balances. In 2018- 2023, various developing countries' currencies depreciated by over 60% against the U.S. dollar, prompting high uncertainty level among investors (El-Masry & Badr, 2021).

Political uncertainty additional amplifies economic and social disruptions in developing countries. Frequent government changes, corruption, civil unrest, and policy inconsistency create an unpredictable environment that discourages investor confidence (Hasan et al., 2022). The impact of political instability is especially severe when coupled with external shocks like oil price hikes or currency devaluation. For instance, the KSE-100 index dropped by 12% during Pakistan's 2018 general elections due to investor concerns. Studies also show that instability limits long-term fiscal planning and undermines market confidence (Ali, 2022).

Stock market volatility in developing nations stems from a combination of global economic pressures, social vulnerabilities, and political uncertainties. Factors such as remittance flows, oil prices and exchange rates, when intensified by political instability, significantly affect stock performance. A holistic response is essential—developing alternate energy sources, stabilizing currency policies, and ensuring political

consistency. Strengthening these areas can foster a resilient stock market capable of withstanding both internal and external shocks.

In South Asian countries, maintaining stock market stability is vital for economic growth, financial integration, and investor confidence. However, the region faces dual macroeconomic threats in the form of foreign remittance volatility and exchange rate fluctuations—both of which are increasingly influencing market performance. Foreign remittances are a critical source of household income and national liquidity for many South Asian nations, including the Philippines, Indonesia, and Vietnam. Disruptions in global labor markets or economic slowdowns in host countries can lead to sudden declines in remittance inflows, thereby weakening domestic consumption, reducing investment, and destabilizing financial markets. At the same time, exchange rate volatility—driven by external shocks, capital flow imbalances, and domestic policy uncertainty—affects trade competitiveness, corporate profitability, and investor sentiment. In open economies like those in South Asia, such currency fluctuations not only erode purchasing power but also lead to unpredictable capital movements and increased stock market volatility.

Although foreign remittances and exchange rate volatility have individually been recognized as significant macroeconomic factors influencing financial markets, their combined impact on stock market stability remains underexplored, particularly within the context of South Asian countries. Most existing studies either focus on single-country analyses or examine remittances and exchange rate movements in isolation, failing to capture their synergistic effects on market volatility. South Asian countries, many of which are lower-middle and upper-middle income economies, are highly dependent on remittance inflows and are equally vulnerable to exchange rate fluctuations due to their integration into global trade and capital markets. Yet, there is a lack of empirical evidence assessing how these two variables interact and jointly influence stock market dynamics across the region.
Moreover, the literature offers limited insights into cross-country comparisons within South Asian countries, which are essential for understanding structural differences and policy implications. This gap limits the ability of policymakers to design effective strategies to mitigate financial instability. Therefore, there is a pressing need for comprehensive, region-specific research that investigates the dual economic threat posed by remittance volatility and exchange rate fluctuations to stock market stability in South Asian economies.

1.1 Research Objectives

- To analyze the effect of global oil prices on stock market performance in developing countries.
- To assess the impact of natural disasters on stock market performance in developing countries.
- To analyze the effect of foreign remittances on stock market performance in developing countries.
- To analyze the effect of exchange rate volatility on stock market performance in developing countries.
- To investigate the moderating role of political stability on the relationship between economic and social factors on stock market performance in developing countries.

This paper is organized as follows: The next section reviews earlier studies, section 3 outlines the data collection and methodology. In section 4, results and discussion will present and section 5 concludes the whole study with policy implications.

2. Literature Review

The stability of stock markets in emerging economies, particularly within the South Asian region, has increasingly become a subject of scholarly interest due to the rising influence of global financial flows and macroeconomic volatility. Among the key external factors, foreign remittances, exchange rate fluctuations, and global oil price shocks have drawn significant attention for their role in shaping financial market performance. Foreign remittances, often considered a countercyclical source of income, contribute substantially to household consumption and investment, with potential spillover effects on capital markets. Simultaneously, exchange rate volatility poses risks to investor sentiment and portfolio returns, while oil price dynamics affect inflation, trade balances, and overall market confidence. Despite these established linkages, the existing literature remains limited in addressing how these factors jointly affect stock market stability, particularly under the influence of political instability—a condition that frequently characterizes several South Asian economies. This review critically examines previous empirical and theoretical contributions to understand the multidimensional relationship between these variables and stock market behavior.

Fluctuations in global oil prices have a strong influence on the stock market's performance of oil-importing developing countries. According to Hanif (2020)., the stock market returns are worse off due to higher production costs occasioned by high oil prices. In the presence of high oil prices, operational costs of energy-intensive industries are higher with low profitability and stock prices. In developing countries, oil price shocks are strongly associated with macroeconomic instability (Bhattacharjee et al., 2024). Similarly, the study of Xiuzhen et al. (2022) highlighted that oil price fluctuation affects investor's uncertainty and market performance. They revealed that investors remained puzzled due to frequent changes in oil prices, and markets consequently become more susceptible in this situation. Wei et al. (2023) analyzed the effects of oil price shocks on the stock market, the results indicated that rapid fluctuations in price may only be temporary, while the longer impact is more dependent on the general economic conditions. As such, the connection between international oil prices and the fluctuations in the stock market is complicated and diverse. Although rising oil prices are generally associated with improved performance due to higher operational costs and reduced investor confidence, falling oil prices may offer some relief. However, the interplay of these factors warrants further investigation, particularly in the context of political instability, which may exacerbate their impact

The role of foreign remittances is crucial in stock market performance, particularly the economies deeply reliant on them Qamruzzaman & Karim (2020). These capital inflows often provide liquidity to the financial system, supporting domestic consumption and investment. However, fluctuations in remittances volumes can lead to instability, especially in emerging markets, where they form a significant part of GDP (Abdo et al., 2023). During periods of high remittance inflows, increased liquidity may drive up stock prices and reduce volatility by improving investors' confidence. Conversely, a sudden drop in remittances can heighten uncertainty, leading to greater stock market performance as investors react to potential economic instability (Jewel, 2015). This dynamic highlights the interconnectedness between remittance inflows and stock market performance, specifically in countries with less diversified economic structures.

The study of Qamruzzaman & Karim (2020) examined that remittance inflows permit to the further liquidity in the financial markets, which in turn boosts domestic consumption and investment. In this development, the increase in liquidity generally helps to stabilize stock markets by increasing investor confidence. But remittance flows are also subject to volatility, and in emerging markets remittances play a major role in GDP. A substantial increase in remittance inflows typically channels additional financial resources into domestic markets, driving up stock prices. Paradoxically, this may undermine overall market performance. On the other hand, a dramatic decline in the remittance inflows may increase economic uncertainty, increasing excessive volatility as investors respond to possible economic instability. In countries where the economic structure is not diversified, as relates by Jewel (2015) this dynamic reaches out, that is, the connection between remittances and stock markets.

In particular, these fluctuations are particularly sensitive to the magnitude of remittance inflows in economies heavily dependent on remittance flows. For instance, Khan & Mubashir (2024) explored a link from the perspective of remittances and macroeconomic stability to assess the developing countries' Stock Exchange. The results indicated that remittance volume is associated with more stable markets, especially when economic conditions are favorable. Using Mali as a case, Diallo et al. (2024), demonstrated this phenomenon further. Remittances, they find, reduce financial volatility by providing a stable source of capital to invest. Yet, the reliance on diaspora transfers makes long-term sustainability an issue, as continuing to rely on remittance transfers from the diaspora makes these economies vulnerable to outside shocks, such as global economic downturns or changes to remittance-sending country policy.

Fluctuations in the exchange rates can greatly affect the rates of stock markets especially those economies with strong export destinations. It also has an impact on, imports, exporters' competitiveness, economic stability, and stock market fluctuations in developing countries. The research of Tabash et al. (2022) highlighted that there is a very crucial relationship between exchange rate volatility and they proved the fact that increased exchange rate risk means more fluctuations within the stock market, highlighting the dangers of unpredictable currency fluctuation. Moreover Khalid & Khan (2017) analyzed the participants' behavior concerning the changes in exchange rates and concluded that fluctuations in such rates make the investors react more intensively. The findings showed that uncertainty and risk of variations in future exchange rates may avert trading activity and create fluctuations in stock markets.

In a study, Azid et al. (2005) studied further evidence examining the persistence of fluctuations in exchange rate movements on stock market returns. In their research, those authors evidenced that prolonged variation affects investor confidence hence increased capital flight, and market fluctuations. In their case, the researchers pay much attention to the fact of the necessity of a rational monetary policy to reduce the negative impacts of exchange rates on stock markets. As a last piece, Kousar et al. (2022) prompt understanding regarding the correlation between the exchange rate and the stock market revealing that comprehensive economic policies are necessary to counter the challenges posed by fluctuations in exchange rate. In their views, a stable, favorable investment climate, and stable stock market is given a shot in the arm by stable exchange rates. Altogether, there is a relationship between the fluctuation of the exchange rate and that of the stock market. Though exchange rate volatility creates opportunities for most industries, it poses a severe risk to the general market. To address these features of the economic management environment, investors and policymakers need to grasp these processes.

The important implications for financial stability and economic performance have led to extensive work on the relationship between exchange rate volatility and stock market performance. Economies are affected through exchange rate channels such as their effects on exports, imports, and investment. Another work of Tabash et al. (2022) showed that exchange rate volatility was positively correlated to stock market performance in export-driven economies. Azid, et al. (2005), provide further evidence of the long-lasting effects of exchange rate volatility on stock market performance. The findings underscored how constant swings in a currency weaken investor trust and induce capital flight, and reinforce market instability. The authors suggested rational monetary policies that may limit the damage from exchange rate volatility on the financial markets. In this regard, Kousar et al. (2022) underlined the importance of taking comprehensive economic policies to deal with the drawbacks linked with exchange rate volatility. According to their study, a favorable investment climate, which is important to smooth stock market volatility, is aided by stable exchange rates. In stressing the need for coordinated fiscal and monetary policies that should lead to exchange rate stability and help build economic resilience, the researchers focused crucially on the importance of coordinated fiscal and monetary policies.

For many developing countries, foreign remittances act as a substantial source of income; even at the height of uncertain economic situation buoyant for stocks, they can perform a supportive role. Robust political systems help in moderating the relationship between the amount of remittances and stock market oscillation. In politically stable countries, Chami et al. (2005) revealed that remittance was significant in providing liquidity and impact through the consumption influenced stock market stability. In effect, stability in political contexts ensures that investors both domestic and international hold more faith hence remittance to become a more stable source of economic support. In contrast to stable political conditionality, remittance might not be perceived to have a role in stabilizing the financial position of unstable nation-states. However, in politics, contradictions lead to a gradual erosion of investors' confidence, which makes the remittances less effective in stabilizing stock trading. In places troubled politically, economic loss or depreciation of the currency may reduce the actual value of money remitted (Chami et al., 2005). Therefore, political stability enhances the impact of remittances on stock market behavior while political instability erases all positive impacts.

Earlier studies have extensively explored the individual effects of foreign remittances, exchange rate volatility, and global oil price fluctuations on macroeconomic and financial market stability. While remittances are generally viewed as a stable source of external financing that can stimulate investment and consumption, their influence on stock markets appears mixed and context-dependent. Exchange rate volatility, on the other hand, is consistently associated with market uncertainty and reduced investor confidence. Global oil price fluctuations also play a critical role in shaping market behavior, particularly in economies heavily dependent on energy imports or exports. However, a notable gap exists in understanding how these relationships evolve under conditions of political instability. Political uncertainty may amplify or moderate the impact of remittances and external shocks on financial markets, yet this area remains underexplored, particularly in the context of South Asian countries. Therefore, the present study seeks to fill this gap by investigating the combined effect of foreign remittances, exchange rate volatility, and oil price fluctuations on stock market stability, while examining the moderating role of political instability.

3. DATA COLLECTION & METHOD

3.1 Data Collection

In this research, data have been attained from various renowned databases for the time 2005 to 2023. The target countries were selected from South Asian economies, including Pakistan, India, Bangladesh and Sri Lanka, while Nepal, Bhutan, Afghanistan and the Maldives were excluded from the study due to data limitation (Khan et al., 2024). The below table summarizing the measurement of the variables and sources of the data:

Variables	Symbol	Measurement	Variable Type	Data Source
Stock Market Performance	SMP	Change in price of stock of the company.	DV	Investing.com
Global Oil Price	GOP	Crude Oil Global Average ($/bbl)	IV	WB Commodity Price Data (The Pink Sheet)
Foreign Remittance	FR	Personal Remittance Paid in US$	IV	WDI
Exchange Rate	ER	Annual average based on monthly averages (local currency units relative to the U.S. dollar)	IV	WDI
Political Stability	PS	Perceptions of the likelihood of political instability and/or politically, motivated violence, including terrorism. Range from -2.5 to 2.5	Moderator	WDI

3.2 Econometric Model

$$SMP_{it} = \beta_0 + \beta_1(GOP)_{it} + \beta_2(FR)_{it} + \beta_3(ER)_{it} + \beta_4(FR_{it} \times PS_{it}) + \varepsilon_{it} \text{ ----(1)}$$

Where,

β_0= intercept, β_1, β_2, β_3, β_4 = Slope coefficients, i = Country, t = time, ε_i = error term and $(FR_{it} \times PS_{it})$= Interaction term representing the moderating effect of political stability on the relationship between foreign remittances and stock market performance.

3.3 Estimation Methods

In this panel data study, different statistical techniques were applied to examine the impact of foreign remittances, exchange rate volatility and global oil prices on stock market performance. Further, the moderating role of political stability was also analysed on the relationship between foreign remittances

and stock market performance. For this, descriptive statistics, correlation analysis, and regression analysis were employed on this panel data study.

Firstly, we applied cross-sectional dependence approach to know about the nature and degree of dependence (Cihan et al., 2025). So, it was essential to observe the presence of CSD before conducting the tests, including Panel unit roots, co-integration, and other estimation techniques. Afterward, we employed unit root tests to observe the stationary of variables. For this, Levin, Lin, and Chu (LLC) Test and the Im, Pesaran, and Shin (IPS) Test were utilized to assess stationary (Baltagi, 2021).

The panel unit root tests determine the way for further estimation either we use fixed or random effect models. When data are stationary at level, we apply fixed or random effect technique. Through Hausman test, we decide about the model specification, if the p-value is less than 5% then fixed effects model is the better option for further proceeding (Khan et al., 2022). This deliberate choice guarantees that a model is applied that best fits the fundamental properties of the data, improving the precision and dependability of the analytical results.

4. Results

The results of this study are based on the analysis of key economic and social factors on stock market performance. In this analysis, several statistical techniques, including descriptive statistics, correlation analysis, and regression modeling to uncover important patterns and associations.

4.1 Descriptive Analysis

In table 01, descriptive statistics summary of the study variables was presented. In this regard, the stock market performance (SMP) is moderately skewed, proposing slightly rightward tailed distribution. All independent variable like FR, ER, GOP and PS have relatively normal kurtosis (~2.1 to 2.8), indicating no extreme outliers. Also, interaction term **(**PS × FR) has relatively normal kurtosis.

Table 1 Descriptive Statistics Summary

	SMP	FR	ER	GOP	PS
Mean	7.944012	22.68953	5.036894	4.068412	-0.651063
Maximum	11.18097	25.5068	10.07966	4.654056	0.64
Minimum	5.149701	19.6514	1.118416	3.192532	-2.81
SD	1.303849	1.201047	2.729013	0.459168	0.824788
Skewness	0.484171	-0.03465	0.555394	-0.49451	-0.47092
Kurtosis	2.81318	2.593699	2.166325	2.135571	2.537189

Source: Created by Authors from Eviews 12

Multicollinearity was tested by applying variance inflation factors (VIF). The value of VIF less than 10 indicates the non-existence of multicollinearity as a thumb role and the table 02 shows that all variables

are free from multicollinearity as per VIF values criteria. This table also represents the results of the correlation coefficient analysis. The correlation results show a significant relationship between the stock market performance and other variables. Foreign remittance has a significant positive correlation of 0.30185 with stock market performance, suggesting that the foreign remittances have weak relationship with Stock market performance. There is weak negative correlation -0.17737 between stock market performance and exchange rates. This shows that currency depreciation may have a minute negative effect on stock market performance. Global oil price has a moderate positive correlation 0.32432 on stock market. This indicates that rising global oil price tends to be associated with better stock market performance. The correlation between stock market performance and political stability is moderate negative -0.48367. This indicates that political instability tends to have negative impact stock market performance.

Table 2 Correlation Analysis

	SMP	FR	ER	GOP	PS	VIF
SMP	1.00000					-
FR	0.30185	1.00000				1.86657
ER	-0.17737	0.05632	1.00000			1.135861
GOP	0.32432	0.37696	0.00947	1.00000		1.344721
PS	-0.48367	-0.31041	0.14008	-0.05383	1.00000	1.815757

Source: Created by Authors from Eviews 12

4.3 Cross-Section Dependency Test

Currently, Breusch and Pagan's Lagrange multiplier technique is a most popular to examine cross-sectional dependency in panels (Pesaran, M.H., 2021). To prevent spurious findings, we use this approach prior to performing further main panel analyses.

Table 5 Breusch-Pagan Lagrange Multiplier (LM) Method

Chi-bar Statistic	p-value
702.95	0.1020

Source: Auther's findings by using Eviews12 at 5% level of significance

Table 5 shows the results of the pre-estimation cross-sectional dependence test using the Breusch-Pagan Lagrange Multiplier (LM) method for the variables under consideration. The results of this test indicate that all variables display significance at the 5% level. Thus, the null hypothesis of cross-sectional independence is accepted. Instead, the alternative hypothesis is rejected, confirming the absence of cross-sectional dependency among these countries.

Stationary Test

The use of stationary tests is essential in panel data studies since it is a vital diagnostic tool that guarantees the validity and reliability of econometric analysis. The assumption of stationarity is crucial because panel data, which mixes time-series and cross-sectional data, presents the possibility of individual-specific effects and time-specific trends. In order to accurately estimate parameters and make meaningful conclusions, researchers need to determine if the variables under examination display a stable mean and variation across time. Researchers may determine the time-series features of their variables by using stationary tests, including unit root tests. This helps them make suitable modelling decisions, deal with endogeneity problems, and improve the general robustness of their panel data analysis. In this regard, we use two popular first-generation panel unit root tests like Levin- Lin-Chu and Im-Pesaran-Shin to check the stationary in the variables and the findings of tests are given in table 6.

Table 6 First Generation Panel Unit Root Test

Variable	**Stationary at Level I(0)**	
	Levin-Lin-Chu	Im-Pesaran-Shin
SMP	-5.3625 (0.0000) ***	-1.9548 (0.0253) **
FR	-9.5255 (0.0000) ***	-2.5442 (0.0055) ***
ER	-8.1986 (0.0000) ***	-4.5037 (0.0000) ***
GOP	-2.1493 (0.0158) **	-3.2109 (0.0007) ***
PS	-3.0201 (0.0013) ***	-0.4883 (0.0127) **

Note: For all possible p-values: ***1%; ** 5%.

Using first-generation unit root tests such as LLC and IPF, Table 6 presents the findings of unit root tests conducted in nations belonging to the lower and higher middle-income groups. All variables are stationary at the 1% and 5% level of significance.

4.5 Model Specification Test

Table (3) represents the results of fixed and random effects results which are used to check the consistency of data. To select the mode from fixed we used likelihood test which was significant so we selected the fixed effect model. For further reification of data, we used the random effects test to choose the model between fixed and random. For the final selection of data we used the Hausman Test which was significant and ultimately we chose the fixed test model for running the regression test.

Table 3 Model Specification Test

Test	Ch-square Statistic	p-value
likelihood-based tests	10.44	0.0000 **
Hausman Test	07.55	0.0000**

Note: asterisk indicate * Significant at 1%, ** Significant at 5% and *** Significant at 10%

4.5 Panel Regressions Results

The Fixed Effect Model (FEM) aims to explain the variation in Stock Market Performance (SMP) using the independent variables: Global Oil Price (GOP), Foreign Remittances (FR), Exchange Rate (ER), and an interaction term of Foreign Remittances and Political Stability (FR × PS). The R-squared value of 0.9075 indicates that approximately 90.75% of the variation in SMP is explained by the independent variables included in the model. This reflects a very good model fit.

On the basis of table 04, the coefficient of Global Oil Price (GOP) is 0.2529 with a p-value of 0.001, indicating a positive and statistically significant relationship with Stock Market Performance (SMP). This implies that a one-unit increase in oil prices is associated with a 0.2529-unit rise in SMP, holding other factors constant. The positive association suggests that higher oil prices may stimulate the stock markets of oil-exporting countries by enhancing government revenues, boosting investor confidence, or signaling increased global demand. These findings are consistent with the study by Basher et al. (2012), who emphasized that oil price shocks significantly influence emerging stock markets, particularly in economies that are heavily dependent on oil exports. Firstly, the positive and significant GOP coefficient ($\beta \approx 0.253$, $p < 0.01$) aligns with recent evidence showing that oil price surges boost fiscal revenues, drive liquidity, and lift market valuations in resource-dependent economies (Salisu et al., 2023; Bouri et al., 2021). This finding is supported by studies of oil exposure and bank stability where high oil prices strengthen financial sector resilience over the long term (Umar et al., 2021).

The coefficient for Foreign Remittances (FR) is 0.4071 with a p-value of 0.000, indicating a strong positive and statistically significant relationship with Stock Market Performance (SMP) at the 1% level. This suggests that a one-unit increase in remittance inflows results in a 0.4071-unit rise in SMP, highlighting the role of remittances as a vital source of external finance that enhances household income, boosts consumption and investment, and ultimately supports economic activity and investor confidence. These inflows can increase market liquidity and deepen financial markets, thereby contributing to stock market growth. This finding is supported by Aggarwal, Demirgüç-Kunt, and Pería (2011), who observed that remittances significantly promote financial development and stimulate economic activities, indirectly strengthening capital markets.

The coefficient for Exchange Rate (ER) is 0.8497 with a p-value of 0.000, indicating a highly significant and positive relationship with Stock Market Performance (SMP). This suggests that a one-unit appreciation (or depreciation, depending on the coding) in the exchange rate leads to a 0.8497-unit increase in SMP. The strong positive association implies that exchange rate movements—particularly in the direction of stability or appreciation—may enhance investor confidence, reduce currency risk, and

attract foreign investment, thereby positively impacting stock market performance. These results align with the findings of Caporale et al. (2014), who concluded that exchange rate volatility negatively affects stock market returns, emphasizing the importance of currency stability in supporting financial markets.

The coefficient for the interaction term between Foreign Remittances and Political Stability (FR × PS) is 0.1057 with a p-value of 0.026, indicating a positive and statistically significant relationship with Stock Market Performance (SMP). This finding suggests that the beneficial impact of remittances on SMP is amplified in politically stable environments, where improved governance and institutional quality enhance the effective utilization of remittance inflows. Political stability serves as a moderating factor, allowing remittances to be more efficiently directed toward productive investments and financial activities that support market performance. This result is consistent with the findings of Giuliano and Ruiz-Arranz (2009), who emphasized that the growth-enhancing effects of remittances are more pronounced in countries with stronger institutions and greater political stability.

Fixed Effect Model				
Dependent Variable (SMP)	**Coefficient**	**Standard Error**	**t-statistic**	**p-value**
Intercept	-12.15985	17.95096	-4.35	0.000*
GOP	0.252912	0.3318823	3.28	0.001*
FR	0.407136	0.280337	1.73511	0.000*
ER	0.849769	0.163341	1.721615	0.000**
FR X PS	0.105703	0 .9849718	0.58	0.026**
R-square	0.907529			

Note: asterisk indicate * Significant at 1%, ** Significant at 5% and *** Significant at 10%

In conclusion, the results of the Fixed Effect Model reveal that Government Oil Prices, Foreign Remittances, and Exchange Rates each have a positive and statistically significant impact on Stock Market Performance (SMP), highlighting the critical role of macroeconomic factors and external financial inflows in shaping market dynamics. Moreover, the significant interaction between Foreign Remittances and Political Stability underscores the importance of a stable political environment in maximizing the economic benefits of remittance inflows. The high R-squared value further indicates a strong explanatory power of the model, confirming that the selected variables collectively provide a robust framework for understanding the determinants of stock market performance. These findings offer valuable insights for policymakers and investors, emphasizing the need to ensure macroeconomic stability and institutional strength to foster resilient and vibrant capital markets.

5. Conclusion, Policy Implications & Future Recommendations

5.1 Conclusion

This study empirically examined the effects of Government Oil Prices (GOP), Foreign Remittances (FR), Exchange Rates (ER), and the interaction between Foreign Remittances and Political Stability (FR × PS) on Stock Market Performance (SMP) using a Fixed Effect Model. The results indicate that all these variables have a statistically significant and positive influence on SMP, with the model explaining over 90% of the variance. Notably, the interaction term confirms that the impact of remittances on stock markets is amplified in politically stable environments, highlighting the critical role of institutional quality. These findings emphasize the interconnectedness of macroeconomic indicators and political governance in determining stock market behavior, particularly in emerging and remittance-reliant economies.

5.2 Policy Implications

The results offer important implications for policymakers seeking to stabilize and grow capital markets. First, the positive effect of oil prices on SMP suggests that oil-exporting countries should focus on policies that hedge against global oil price volatility and invest oil revenues in long-term financial market development. Second, the substantial role of remittances indicates that governments must facilitate formal remittance channels and offer incentives for diaspora investments, especially in capital markets. Third, the positive effect of exchange rate stability on SMP highlights the need for sound monetary and foreign exchange policies that curb excessive volatility and build investor confidence. Lastly, the significant moderating role of political stability underscores that without robust governance and institutional frameworks, the benefits of remittances and other economic inflows cannot be fully realized. Therefore, enhancing political stability and governance should be a cornerstone of financial market policy.

5.3 Future Recommendations

In light of the findings, it is recommended that governments of emerging economies adopt a multi-pronged strategy. They should strengthen institutions to ensure transparent, accountable, and stable political environments that foster investor trust. Central banks should aim for exchange rate stability through prudent macroeconomic management and inflation targeting. Policymakers must also create investment instruments tailored for remittance-receiving households to channel inflows into productive avenues, including stock markets. Additionally, sovereign wealth funds or stabilization funds may be established to manage oil revenues effectively and mitigate the risks of commodity price fluctuations. Coordinated fiscal, monetary, and institutional policies will not only enhance stock market performance but also support sustainable economic development. Encouraging financial literacy and investor education among citizens, particularly remittance recipients, can further amplify the positive effects identified in this study.

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