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Nexus between Political Instability and Economic Growth in Pakistan

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Abstract

This study has explored the effect of political unrest on economic of Pakistan and its volatility over the period of last 22 years using annual time series data, which have been further decomposed into different quarters to capture interim effects. Terrorism, election, regime and strikes have been used as political instability proxies. ARCH and GARCH models have been used to examine the outcome of political uncertainty on the economic progress, that is, GDP in Pakistan. From the outcomes of GARCH (1, 1) model through the independent variables in the mean equation, it was found that among terrorism, election, regime and strikes, only terrorism has significant negative effect on the mean equation of the dependent variable. The results of GARCH (1, 1) model with independent variables in the variance equation shows that elections and regimes have significant negative effect on volatility of GDP. The overall results imply that political instability has significant negative effect economic growth and the government should take corrective measures to bring political stability.

1. Introduction

Political stability plays an important role in economic development of a country. An unstable political system could seriously hamper economic growth. The concept of political instability was described by Lipstel (1960). He stated, "a country is considered as stable if it has been a liberal and consistent democracy or dictatorship for 25 years", but recent politico-economic school of thought has changed the tradition of political instability and defined

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the approach of political instability. The main concept is that the efficiency of the government system depends mainly on the consistency of strong political government. A government is considered to be inefficient if policy objectives vary over a short period of time. The relationship between political volatility and economic progress can be investigated in two ways. Firstly, politically unstable environment creates uncertainty and volatility which reduces private investment leading to decrease in growth. Secondly, political uncertainty changes the nature of investment and affects the demand of factors and changes the pattern of spending which has direct effect on economic growth rather than impact on investment (Asteriou & Price, 2001). Prior studies shows that instable and volatile political environment adversely affects the economic growth of a country and causes uncertainty of policies and decision making. For risk averse agents the possibility of change of governments threatens future policies and they would like to invest somewhere else in the safe place rather than to invest in a risky environment (Alesina & Perotti, 1996; Barro, 1991).

Modern politico-economic research finds coalition governments are considered a sever threat and to be more prone to the government survival. Siermann (1998) has called these assumptions as the weak government approach. Another definition of "political instability" was presented in the journalistic usage of the term 'political instability'. However, Journalists used the term political instability to reflect that a government is weak and may not survive. A significant characteristic of this definition is "uncertainty". Modern politico-economic research finds coalition governments are considered a sever threat and to be more prone to the government survival. Siermann (1998) has called these assumptions as the weak government approach. Gyimah-brempong and Traynor (1999) defined political instability as situations, activities or patterns that threaten to change or actually change the political behaviour that threaten to change or actually change the political system in a non-constitutional way. These politically unstable events often bring sudden radical changes in property rights laws and the rules governing business conduct.

Solow growth model depicts that economic growth is a function of savings, capital accumulation and growth itself. However, new growth theory emphasizes upon skills and training in the form of technology and human capital (Sato, 1964). Moreover, political conditions and stability also affect the level of economic growth and development in the country. For instance, economic growth is connected with persistent policies of government and how government implements these policies (Barro, 2013). The government launches policies to improve capabilities and skills of its masses, bring new technology in the country, and increase domestic and foreign investment by developing friendly policies and favourable environment to foster economic growth in a country.

Pakistan has faced variations in growth rate since 1970, where a down turn in economic growth was experienced due to political instability aftershocks of 1971 war. During this war Pakistan lost an ample share of financial as well as human resources. In the latter half of 1970s, Pakistan enjoyed a sustainable growth rate till the year 1988, due to Afghan war, because of consistent and sustained economic policies. After 1988s, downturn has been seen in Pakistan's economic growth rate due to only political instability, inconsistent and irrational political and economic policies. After 2000 again an upward and positive trend in GDP and growth has been observed (Hussain, 2009).

The most significant part of this study is that how political instability discourages economic growth, and consequently adversely affects the socio-economic and political environment of a country. Political instability reduces economic growth and this reduction and slow down of economic activities threaten the local and foreign investors to put their investment in such a risky environment. This fall in investment reduces the productivity, savings, and also consumption level because of fall in earning capacity and purchasing power of masses. The political instability causes inflation and unemployment to rise and this high inflation and unemployment create social un-rest and uncertainty among the people and this un-rest can lead to general strikes and violence not only against employers but also against Government policies. The rationale class of the society starts criticizing on government plans. These social unrest and strikes will pass on a negative signal to the investors. Consequently, investors hesitate to put their huge investments at stake and risk. Political instability is supposed to slow down economic activities and physical human capital adversely affects growth of output, and it disrupts market activities and disturbs macro-economic variables. Political instability is seriously harmful for the economic policy makers and it limits the scope of growth and prosperity. Political instability is measured by various factors and determinants such as elections, terrorist attacks, regime changes and strikes in the country over a period.

In Pakistan almost a few researchers have focused and have even ever tried to explore the causes of low economic growth due to political factors rather they have been trying to find the causes of low economic growth, low productivity, low investment, high inflation and high unemployment because of economic factors. If we look into the

history of Pakistan's economy we would come to the conclusion that political instability has extremely hampered economic growth (Qureshi, 2010). Pakistan has gone through the various phases of governments. It has been led by military regimes for the period of 33 years and rest 30 years have been led by the political regimes. This study uncovers those factors which show the behavior of economic growth in Pakistan with the changes in government due to socio-political instability.

2. Literature Review

The downfall of political system has awakened the interest amongst researchers and induced them to take a close look at the effect of political uncertainty on the economic progress and GDP growth rate. Various studies have examined the existence of inverse relationship between political volatility and economic performance. Hibbs (1977) addressed some political issues which were responsible for poor economic activities. Later on, Gupta (1987) discussed the socio-psychological factors which causes the political instability. He also mentioned the effect of such psychological factors on the economic trend. Adverse economic policies harm and destroy the economic growth. Politicians support and promote those policies which are in their own benefits. Moreover, Alesina and Perotti (1996) commented that as for as private investment is concerned, political instability leads to low growth; it creates risk and uncertainty in the country which results in reduced volume of investment. When the size of investment falls ultimately, the output level also decreases which reduces the size of employment, low income, high prices, stimulates the inflation both of capital and goods markets. Owing to this reduction in domestic productivity the pressure shifts towards imports more and this might shorten the size of foreign exchange.

Cukierman, Edwards & Tabellini (1989) showed that uncertainty about fiscal policies cause risk averse investors a fear of inconsistent government policies and they hesitate to invest rather they prefer to invest abroad. This capital flight will reduce domestic private investment and consequently reduction in economic growth. Tornell & Velasco (1992) argued low investment in protection of the investor's property rights due to terrorism, strikes and civil unrest causes an instable government system. Dimitrious, Asteriou & Simon Price (2001) described that GDP growth and political uncertainty are inversely correlated with each other, showing that casual relation exists. This paper described that this inverse effect causes growth in two ways. Firstly, the political instability causing uncertainty and this uncertain environment reduces private investment, and consequently it reduces economic growth. Secondly, instability changes the investment and factor demands. Moreover, Jong-a-pin. (2009) shed light in the sense that an adverse association has been observed between political volatility and economic performance and growth i.e. GDP.

The study of Alisena et al. (1996) depicted that political instability is the major cause of government's weakness. Political variability creates democratic unrest, frequent elections, intra-party conflicts, and inconsistence regime which leads economic growth to fall. This socio-political instability has various adverse effects. It not only creates uncertainty in political and legal environment but also disrupts markets. Several other studies have also documented political instability adversely affects economic growth. Similarly, these studies also shed light on the relationship between economic crisis and regimes change and government changes. Government crisis and regime changes have significant effects on economic growth and there is a relationship between economic growth and political instability (Campos & Nugent, 2002; Pei & Adesnik, 2010; Görmüş & Kabaskal, 2010).

Alisena, Ozler & Swgel (1992) argued that political instability creates uncertainty of government policies which can discourage existing as well as new potential investor to bring their investment in the economy rather they would prefer to invest their capital in some safe political environment. De Hann & Sierman (1996) also commented on this issue that political instability become the cause of capital out flow and deteriorates economic conditions. This paper explored the significant association of political volatility and growth (GDP). Similarly, Cukierman, Edwards, & Tabellini (1992) tried to explore this cause and effect relation differently. This study includes the tax system in the scenario that any existing tax system remained a hurdle of fiscal policy for any government. The fiscal political instability and political polarization may force the current government to shift the tax on the coming governments.

Alesina et al. (1996) focused on the dependence of per capita income and political variability. They defined this issue that political instability is the propensity of a government failure, and jointly estimated the cause of low growth due to politically instable governments. Their results showed the economies where the propensity of government changes is higher over a period of time the growth is significantly lower. This study showed that the effect of

political instability is not clear because for coups d'état lower growth is stronger during any government downfalls whereas, it is less clear for other government collapses. It means if such government collapses remain consistent then it undermine the long run future economic performance and prosperity. Fosu (2002) described in his research on growth rate. He focused on military coups rather than democratic uncertainty. During his study he stated that unsuccessful coups have inversely affected the economic performance and growth rate. On the other hand, successful coup's improved the economic progress. Porta et al. (2007) founded that the informal political regime inversely affect economy in general and consequently growth. Whereas, the formal instability indirectly influences the rate of economic growth. This study increases the conditional variance flexibility specifications to determine the power of growth in the volatility pattern.

Several other studies have also documented the negative effect of political instability on economic growth (Alesina & Perotti, 1996; Benhabib & Spiegel, 1994; Easterly & Rebelo, 1993; Barro, 1996; Mauro, 1996; Ozler & Rodrick; 1992). These economist have argued that political instability reduces the volume of investment, rises inflation, curtail the size of employment and productivity which turns into slower economic activities and volatile future policies. Several studies view terrorism as the result of tensions and new resources that arise with modernization (Aziz, 1995; Crenshaw, 1981). It has some really damaging consequences in case of utility losses as Frey et al. (2004) suggest that people's utility losses from terrorism far exceed the expected consequences. Adelman (1967) claimed elected governments have been inclined towards relaxed economic pace and growth whereas, dictatorship and authoritarian political governments have been interested in rapid economic performance. Yet, others argue that there is no efficient connection between the democratic authoritarian governments and the long run economic growth rate (Dick, 1974; Goldsmith,1987; Weede, 1983) Number of the investigations regarding economic growth have founded that politically weaker governments raised comparatively slow than authoritarian governments (Alesina & Rodrik, 1994). Finally, the regime dimension has inversely correlated with economic progress (Jong-a-Pin, 2009). Thus, we conclude that regimes instability has an adverse effect on economic growth (Klomp & De Haan, 2009). Zaidi (2006) argued that due to inconsistent government policies the economic growth has not been stable during the period of nationalization. Later on, all the policies have been change during Zia's regime. Aisen & Veiga (2013) analysed that the politically instable environment resulted in lower per capita GDP growth rate. Terrorisms is one of the major cause of slow down the economic activities and growth and it negatively affected it (Ranga, &Pradhan, 2014).

Ali, Hashmi & Hassan (2013) investigated both economic as well as political factors to predict the reasons of volatile economic growth and low investment in Pakistan. The study described that non-economic factors like corruption, political instability, frequent regime changes, energy crisis and political conflicts among parties and institutions have been the major cause of poor economic performance and lower investment. These non-economic factors created uncertainty and made the country risky. Due to this risk and volatility the domestic investors have taken their capital away from Pakistan and they invested in neighbouring countries for better return. This capital movement has become the reason of poor economic growth in Pakistan. Barro (2013) also stressed on corruption free government. He explored that if a country is peaceful and corruption free than investors will be encouraged to invest and it will promote the economic growth of an economy. This will increase the living standard of the masses. Moreover, he has also pointed out that such a peaceful environment and a democratic government is favourable for the investors and general public. Okafor (2015) documented the positive effect of political instability on economic growth by taking good governance, social unrest, corruption, political instability and unrest by using GMM approach.

3. Methodology

In this study economic growth is taken as the dependent variable. In literature to measure the economic growth, gross domestic product (GDP) was widely used. This study uses GDP as a proxy of economic growth in Pakistan. Terrorism is the general violence and unrest in a country. Some researchers are of the view that sometime assassinations of major political leaders or some terrorist attacks create mass violence in general and disrupts political and social environment and consequently disrupts political and economic atmosphere and decisions. Therefore, terrorism is used as a proxy to measure political instability and its effect on GDP. Strikes, labour or political strikes and other sectarian activists imply for a complete or partial resistance against government policies

which remain for a day or for a longer period. Strikes dummies are used as a proxy to measure political instability and its effect on GDP. We give them value "1"when they occur and "0" otherwise. Election, dummy is another factor of political instability. As the investors are not well aware of the outcome of the elections. Election dummy is used as a proxy to measure political instability and its effect on GDP. We give them value "1"when they occur and "0" else. Regime variable is another cause of uncertainty and is called as a change in government from democratic to military or from one party to another party and or military led government. Regime dummy is used as a proxy to measure political instability and its effect on GDP. We give them value "1"when they occur and "0" otherwise.

We have applied ARCH and GARCH model since our data is time-series and having both elements of auto regression and heteroscedasticity in GDP pattern. The concept of Autoregressive Conditional Heteroscedasticity ARCH was developed by .Engle in 1982. ARCH. This model is a powerful tool used in recent finance researches to analyze the variability or volatility in the price of asset over a period of time. In time series data prominent variations have been observed while pricing the assets. On many occasions the variance is high and sometimes it is very low. In econometrics the autoregressive conditional heteroscedasticity model means the variance is the series is an autoregressive, mostly it is linear in nature. It means that in time series data the variance of the error terms or residuals depends upon its lag values; it implies that it is heteroscedastic as the variance will change period to period. Sometimes the error terms are high and sometimes, very low. Such variations are due to the volatility of the stock and financial markets. These variations may be due to the changing government policies. It indicates that the variance will not remain constant. It means that there is serial correlation in the variance of the errors. More specifically, Engle's ARCH (1) specification can be written as:

$$Y_t = \alpha + \beta X_t + \mu_t \tag{1}$$

$$\mu_t \sim iid \quad N(0, \sigma^2)$$

$$\sigma^2 = \gamma_0 + \gamma_1 \mu_t^2 - 1 \tag{2}$$

In this specification equation (1) is the mean equation whereas equation (2) is termed as the variance equation. In the above specification s normally distributed with zero mean. But the variance is not constant as the variance of disturbance term is dependent on previous error term giving the appearance of autocorrelation. The generalized form of ARCH is so-called GARCH, where the conditional variance of error term "at some time period "t" depends not only on "the previous period squared error term but also on the conditional variances of the past. Pointing out the drawbacks of ARCH model again, the Engel (1995) criticized on The ARCH model and argued that it merely looks like a moving average instead of an auto regressive. Bollerslove (1986) did a tremendous work on it and the idea of GARCH (1, 1) has been generalized to GARCH (p, q) model. The general form of GARCH (p, q) model is given by the following form:

$$\sigma^2 = \alpha_0 + \sum_{i=1}^{q} \alpha_i \varepsilon_{t-i}^2 + \sum_{i=1}^{p} \beta_i \sigma_{t-i}^2 \tag{3}$$

The above expression is defined as, the variance is not only dependent of lagged of error terms (the q MA terms), which are analyzed in ARCH model by the square of the past values of error terms, but also the lagged of its own values ,(the p AR terms) which are measured by the past values.

4. Results and Discussion

In this section, the statistical results have been discussed in term of both research hypothesis and literature review in order to determine whether the support from the results is warranted to the supporting theories. The outcomes of this study along with the reasons of the observed outcomes are as follows. Table 1 exhibits the descriptive statistics. This table shows that the average of GDP per quarter is 7.8799 with standard deviation 0.7797. The maximum value of GDP is 9.0719 and that of minimum is 6.4326. The value of skewness is -0.2925 which depicts that the GDP is negatively skewed.

Table 1. Descriptive Statistics

Variables	Mean	SD
GDP	7.879	0.780
Election	0.067	0.252
Regime	0.079	0.270
Terror	0.595	0.493
Strikes	0.134	0.343

Table 2 represents the results of correlation matrix among explanatory variables. Since, the correlation is the measure of association or relationship among variables. It also tells us about the strength and direction of the relationship. The results in the table shows that there is an independence of variables with respect to each other and do not have any strong relationship.

Table 2. Checking Multicollinearity among Explanatory Variables

S.No.	Variables	1	2	3	4
1	Election	1			
2	Regime	-0.0786	1		
3	Terror	-0.1436	-0.0143	1	
4	Strikes	0.02506	0.00687	0.32536	1

To estimate an AR (1) model for GDP growth the only mean equation is used while using simple Ordinary Least Square (OLS). The values in table 4 just shows the confirmation or presence of auto regression in data, not the autoregressive conditional heteroscedasticity (ARCH) effect. This implies that change in the prior values of GDP affects the current or future values of GDP. The ARCH (1) model has therefore been applied to test the lag effect.

Table 3. Testing AR effect in ARCH model

Variable	Coefficient	SE	T-value	Prob.
Constant	0.149	0.035	4.216	0.000
GDP(-1)	0.984	0.005	220.983	0.000
R2	0.9982			
Adjusted R2	0.9982			
F-statistic	48833.630			
Prob(F-statistic)	0.000			

The results of Table 5 can be used to check the ARCH effect in the data or more precisely to check the conditional heteroscedasticity (from which comes the CH part of the ARCH model). The Obs*R-squared is 47.81696 with 0.000 probability limit. This demonstrates obviously that null hypothesis of homoscedasticity will be rejected. It can be said there is no homoscedasticity and the evidence of ARCH (1) is present meaning there is heteroscedasticity in the data.

Table 4. Heteroscedasticity Test: ARCH

F-statistic	103.7296	Prob. F(1,85)		0.000
Obs*R-squared	47.817	Prob. Chi-Square(1)		0.000
Variable	Coefficient	SE	T-value	Prob.

Constant	0.0003	0.000263	1.019243	0.311
RESID^2(-1)	0.7414	0.072793	10.18477	0.000
R2	0.5496			
Adjusted R2	0.5443			
F-statistic	103.7296			
Prob(F-statistic)	0.000			

From the table 6, the ARCH (1) model can be written as:

$$\gamma_t = 0.140952_{(109.8429)} + 0.985759_{(5924.798)}\gamma_{t-1} + \mu_t$$
$$\sigma^2 = 6.72E-07_{(0.610051)} + 4.554301_{(11.4697)}\mu_{t-1}^2$$

The values of Z statistics are given in the parenthesis. In this table the upper part is devoted to the mean equation of GDP and the lower part is for the variance equation (Risk). The lag value of GDP in mean equation is statistically significant at 5% level of significance; it signifies the prior values of GDP have a positive significant effect on the current values of GDP. The lag value of error term in variance equation is statistically significant at 5% level of significance; it implies the prior volatility in GDP values have a positive significant effect on the current values of GDP.

Table 5. Testing ARCH (1) model for GDP

Variable	Coefficient	SE	z-Statistic	Prob.
	Mean Equation			
Constant	0.1410	0.0013	109.8429	0.0000
GDP(-1)	0.9858	0.0002	5924.7980	0.0000
	Variance Equation			
Constant	6.72E-07	1.10E-06	0.6101	0.5418
RESID(-1)^2	4.5543	0.397072	11.4697	0.0000
R2	0.9981			
Adjusted R2	0.9981			

Table 7 presents the results for a GARCH (1, 1) model. From the table 4.5, the GARCH (1, 1) can be written as:

$$\gamma_t = 0.129155_{(17.16386)} + 0.987262_{(1025.489)}\gamma_{t-1} + \mu_t$$

$$\sigma^2 = 3.82E-056_{(3.631628)} + 1.773633_{(5.237964)}h_{t-1} - 0.01274_{(-3.25827)}\mu_{t-1}^2$$

The values of Z statistics are given in the parenthesis. Results of table 7 exhibit that GARCH (1, 1) can be used because the estimate of δ is significant. This model gives the same results to ARCH (1) model. In addition to that GARCH(-1) is statistically significant at 5% and 1% levels of significance, indicating that prior volatility in GDP values have a significant positive impact and brings increase in volatility of current or future GDP values.

Table 6. Testing GARCH (1,1) model for GDP

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.1292	0.007525	17.16386	0.0000
GDP(-1)	0.9873	0.000963	1025.489	0.0000
	Variance Equation			
C	3.82E-05	1.05E-05	3.631628	0.0003
RESID(-1)^2	1.7736	0.338611	5.237964	0.0000
GARCH(-1)	-0.0127	0.00391	-3.25827	0.0011
R2	0.9981			
Adjusted R2	0.9981			

GARCH (1, 1) model also allows the addition of other explanatory variables in the mean equation. The GARCH (1, 1) model was estimated with a set of dummy variables to capture the effect of political instability in the mean equation. The results are presented in the Table 7, and it shows that terrorism has a significant negative effect (significance level is 5%) on GDP growth. This shows that there is an adverse effect of terrorism on economic growth rate of Pakistan. It means that if there is an increase in the terrorist activities in a country the investors lose their confidence regarding the expected return on their investments. Hence, they will always prefer to put their huge sum of money in a relatively stable environment. However, the effect of other three proxies' i.e. election, regime and strikes has an insignificant effect on the economic growth rate of Pakistan.

Table 7. A GARCH (1, 1) with explanatory variables in the mean equation

Variables	Coefficient	Std. Error	z-Statistic	Prob.
C	0.1262	0.0108	11.6965	0.0000
GDP(-1)	0.9879	0.0014	714.7952	0.0000
ELECTION	-0.0016	0.0035	-0.4563	0.6482
REGIME	0.0014	0.0071	0.1998	0.8416
STRIKE	-0.0032	0.0026	-1.2188	0.2229
TERROR	-0.0036	0.0018	-2.0233	0.0430
	Variance Equation			
C	2.11E-05	1.02E-05	2.0746	0.0380
RESID(-1)^2	2.0272	0.5337	3.7982	0.0001
GARCH(-1)	-0.0059	0.0183	-0.3239	0.7460
R2	0.9982			
Adjusted R2	0.9980			

The GARCH model also permits to add the explanatory variable in the specification of the variance equation. Table 4.08 shows the results of the GARCH (1, 1) model with explanatory variable (Terror, Election, Regime, Strikes) in the specification of variance equation. In GARCH (1, 1) the variance equation with a set of explanatory variables can be written as:

$$h_t = \gamma_0 + \sum_{i=1}^{p} \delta_i h_{t-i} + \sum_{j=1}^{q} \gamma_j \mu_{t-j}^2 + \sum_{k=1}^{r} \mu_k X_k$$

Where X_k is a set of explanatory variables and it can help to explain the variance. The left hand side of the variance equation is h_t that is a measure of volatility. If the coefficients γ, μ and δ in the above equation are positive and significant then it increases the volatility and vice versa. The results of table 9 show that the dummy

variables election and regime have statistically significant (significance level is 5%) and have negative coefficients.

Table 8. A GARCH (1, 1) with explanatory variables in the variance equation

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.1507	0.0428	3.5223	0.0004
GDP(-1)	0.9842	0.0057	171.4922	0.0000
Variance Equation				
C	0.0007	0.0002	4.0191	0.0001
RESID(-1)^2	0.1746	0.0697	2.5047	0.0123
GARCH(-1)	0.4819	0.2341	2.0582	0.0396
ELECTION	-0.0008	3.26E-06	-262.215	0.0000
REGIME	-0.0011	0.0005	-2.0218	0.0432
STRIKE	0.0001	0.0003	0.306	0.7596
TERROR	-0.0002	0.0002	-0.901	0.3676
R2	0.9982			
Adjusted R2	0.9981			

5. Conclusion

This research study has investigated the effect of political instability on the economic growth of Pakistan over the last 22 years by using annual data for the period of 1988 to 2010. Terrorism, election, regime and strikes have been used as proxies during this study for political instability. To measure the economic growth of a country, GDP was widely used in the past literature. Therefore, the present study captured the economic growth in terms of GDP. During this study, the explanatory variables (Terrorism, Election, Regime and Strikes) have been taken as dummies.

From the results of GARCH (1, 1) model with the explanatory variable in the mean equation, it was found that among (Terrorism, Election, Regime and Strikes), only terrorism has significant negative effect on the mean equation of the dependent variable. The results of GARCH (1, 1) model with explanatory variables in the variance equation showed that elections and regimes have significant calm effect on the volatility of GDP, whereas terrorism and strikes have insignificant effects at 5% significance level. The rationale behind the adverse impact of terrorism in the mean equation of the dependent variable that is GDP here, that the terrorism has disrupted the market activities. Due to this an uncertain and volatile economic environment gave a bad signal to the local as well as foreign investors not only to curtail investment but also stopped and postponed all investment activities in such a risky situation and they preferred to safeguard their capital while investing in a safer conditions. This resulted low productivity of output which created high pressure of aggregate demand. Eventually, this created high inflation, pushed unemployment and stimulated poverty in the country. On the other hand, the election and regime changes have significant effect on the volatility of growth. Although in some literature review it has been observed that these variables have adverse impact on economic growth but this study supports it.

This study provides policy implications to decision makers, investors, regulatory authorities and financial institutions to set their goals and chalk out their policies and plans, keeping in view the political instability factors while making their decisions. In future, this research recommends while examining investment decisions, productivity and arrangement of the regime expenditures in an important structure which will give more specific kind of this aspect of economy.

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