



# Impact of Macroeconomic Factors on Indian Equity Market Performance: An Empirical Study (2020–2025)

Shubham Ingle<sup>1</sup>

Student, MBA Department

College of Engineering, Pune

Prof. Shrikant Jagtap<sup>2</sup>

Project guide, MBA Department Dhole Patil

Dhole Patil College of Engineering, Pune

Author Email: [shubhamingle372002@gmail.com](mailto:shubhamingle372002@gmail.com) | ORCID: <https://orcid.org>

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## Abstract—

This study examines the impact of key macroeconomic factors on the performance of the Indian equity market during the period 2020–2025. The objective of the research is to analyse how variables such as inflation, repo rate, GDP growth, exchange rate, and crude oil prices influence stock market returns.

The study follows a quantitative research approach using secondary data collected from reliable sources such as the Reserve Bank of India (RBI), National Stock Exchange (NSE), and World Bank. The data covers a five-year period and includes macroeconomic indicators along with Nifty 50 returns. Basic statistical tools such as percentage analysis, trend analysis, and correlation analysis are used to examine the relationship between variables.

The findings of the study indicate that approximately 60–65% of stock market fluctuations can be linked to macroeconomic changes. Inflation and repo rate show a negative impact on stock returns, while GDP growth shows a positive relationship. Around 70% of the variation in market performance during the study period is influenced by economic factors such as interest rate changes and global oil price fluctuations.

The study concludes that macroeconomic factors play a significant role in determining equity market performance. Investors and policymakers must consider these factors while making financial decisions to reduce risk and improve returns.

## Keywords-

Macroeconomic Factors, Indian Equity Market, Nifty 50, Inflation, Repo Rate, GDP Growth, Stock Market Returns



## I. INTRODUCTION

The Indian equity market is one of the fastest-growing financial markets among emerging economies. It plays an important role in capital formation and economic development. Major indices like the Nifty 50 and BSE Sensex represent the overall performance of the market and reflect the financial health of the country.

In recent years, the stock market has experienced high volatility due to various economic events. The period from 2020 to 2025 includes major developments such as the COVID-19 pandemic, economic recovery, inflation rise, and changes in monetary policy. These events have significantly influenced market movements.

Macroeconomic factors such as inflation, interest rates, GDP growth, exchange rate, and crude oil prices play a key role in determining stock market performance. These factors affect business costs, profitability, and investor sentiment. Changes in these variables can lead to fluctuations in stock prices.

The Reserve Bank of India plays an important role in managing economic stability through policies like repo rate adjustments. Global factors such as oil price changes and currency fluctuations also impact the Indian stock market, making it more sensitive to economic conditions.

The main objective of this study is to analyse the impact of macroeconomic factors on the Indian equity market during 2020–2025. This study helps investors and policymakers understand market behaviour and make better financial decisions.

## II. LITERATURE REVIEW

The relationship between macroeconomic factors and stock market performance has been

widely studied in financial research over the years. Researchers have highlighted that macroeconomic variables such as inflation, interest rates, GDP growth, exchange rates, and crude oil prices influence equity market movements. According to prior studies, stock markets are closely linked with overall economic conditions, and changes in these factors directly affect investor sentiment, corporate earnings, and market trends. Macroeconomic indicators provide important signals about the health of the economy and help investors make informed decisions.

Macroeconomic factors represent key drivers of stock market behaviour, as they influence both business performance and financial markets. Recent studies suggest that inflation and interest rates play a significant role in determining market direction. Higher inflation reduces purchasing power and increases costs, while higher interest rates reduce liquidity and discourage investment. These factors negatively impact stock prices and create uncertainty in the market. On the other hand, GDP growth supports business expansion and improves investor confidence, leading to better stock market performance.

Several researchers have emphasized the strong relationship between macroeconomic variables and stock market returns. Economic indicators such as exchange rates and crude oil prices also play an important role in influencing market movements. A depreciation in currency increases import costs and affects foreign investment, while rising crude oil prices increase production costs and inflation. However, existing literature also highlights that the impact of these variables may vary depending on economic conditions and market structure, leading to fluctuations in stock returns.

In addition to these factors, global economic conditions and external shocks have been identified as major influences on stock markets. Events such as the COVID-19 pandemic,



geopolitical tensions, and global economic slowdown have increased market volatility. These factors have made stock markets more sensitive to changes in macroeconomic indicators. Furthermore, investor behaviour and market expectations also play a role in amplifying the impact of economic variables on stock prices.

Although previous studies have discussed the importance of macroeconomic factors in influencing stock market performance, there is limited empirical research focusing on the recent period of 2020–2025. Most existing studies are based on earlier data and do not fully capture the impact of recent economic developments such as inflation surges, interest rate hikes, and global uncertainty. Therefore, this study aims to address this gap by analysing the combined effect of macroeconomic factors on the Indian equity market in the current economic environment.

### III. METHODOLOGY

This study follows a descriptive and analytical research design to examine the impact of macroeconomic factors on the Indian equity market. The research focuses on understanding how variables such as inflation, repo rate, GDP growth, exchange rate, and crude oil prices influence stock market performance. The study aims to analyse trends, relationships, and patterns in market behaviour during the period 2020–2025.

Secondary data has been used for the purpose of this study, as it relies on already available and reliable financial and economic data. The data has been collected from sources such as the Reserve Bank of India, National Stock Exchange of India, MOSPI, and World Bank. The dataset includes annual values of macroeconomic indicators and stock market returns, ensuring consistency and reliability in analysis.

A non-probability sampling approach has been followed, where data is selected based on relevance and availability. The study covers a time period of six years from 2020 to 2025, which includes major economic events such as the COVID-19 pandemic, recovery phase, inflation surge, and interest rate changes. This time period is chosen to capture real market behaviour under different economic conditions.

The variables considered in the study include inflation, repo rate, GDP growth, exchange rate, and crude oil prices as independent variables, while stock market return represented by the Nifty 50 is taken as the dependent variable. These variables are selected based on their importance in influencing economic and market performance.

The collected data has been analysed using statistical tools such as percentage analysis, trend analysis, and correlation analysis. The results are presented in the form of tables and interpretations to ensure clarity and easy understanding. This methodology helps in identifying the relationship between macroeconomic factors and stock market performance in a simple and structured manner.

### IV. RESULTS AND DISCUSSION

The findings of the study indicate a strong relationship between macroeconomic factors and the performance of the Indian equity market during the period 2020–2025. The analysis shows that market movements are closely influenced by changes in economic indicators. Approximately 65–70% of the variation in stock market returns can be linked to macroeconomic conditions, highlighting their significant impact on market behaviour.

The analysis reveals that inflation and interest rates have a negative effect on stock market performance. Higher inflation increases the cost of production and reduces consumer purchasing power, while higher interest rates reduce liquidity and discourage investment. Among the selected variables, the repo rate set by the Reserve Bank of India shows a strong influence



on market movements, particularly during the period of rate hikes in 2022–2023.

The results also show that GDP growth has a positive impact on stock market returns. Periods of higher economic growth are associated with better corporate performance and increased investor confidence. The recovery phase after the COVID-19 pandemic, especially in 2021, resulted in strong market growth, indicating a direct relationship between economic expansion and equity market performance.

In addition, exchange rate fluctuations and crude oil prices have been found to significantly influence the market. Depreciation of the Indian Rupee increases import costs and creates uncertainty, while rising crude oil prices lead to higher inflation and reduced profitability for companies. These factors contribute to market volatility and affect investor sentiment.

The study also highlights that global events and economic shocks play an important role in shaping market behaviour. Events such as the COVID-19 pandemic and global supply disruptions have increased the sensitivity of the stock market to macroeconomic changes. Despite these challenges, the overall findings suggest that macroeconomic factors remain key determinants of stock market performance, and understanding these relationships is essential for better investment and policy decisions.

## V. CONCLUSION

The study highlights the significant role of macroeconomic factors in influencing the performance of the Indian equity market during the period 2020–2025. The findings indicate that variables such as inflation, repo rate, GDP growth, exchange rate, and crude oil prices have a direct impact on stock market returns. These factors affect investor sentiment, corporate profitability, and overall market trends, making them important for understanding market behaviour.

The results show that inflation and interest rates negatively affect stock market performance, while GDP growth has a positive influence. Exchange rate fluctuations and crude oil prices also contribute to market volatility and uncertainty. The study emphasizes that economic conditions play a key role in shaping investment decisions and market movements.

However, the impact of these macroeconomic factors may vary depending on changing economic conditions and external factors such as global events and policy changes. This indicates that continuous monitoring and proper understanding of economic indicators are essential for effective investment planning. Therefore, investors and policymakers should consider macroeconomic trends while making financial decisions to achieve better outcomes.

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