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DRIVERS OF SHARE PRICE MOVEMENTS IN INDIAN PUBLIC SECTOR BANKS: A PANEL DATA EVIDENCE

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ABSTRACT

The study analyses 14 different variables of firm-specific financial indicators, regulatory and liquidity measures, and macroeconomic determinants that influence the share price of Indian public sector banks. Using the data from 2016 to 2025 by employing balanced panel data of fixed-effects and random-effect models. The Hausman test confirms the appropriateness of the fixed-effect model. The results indicate that BVPS and SIZE have a strong positive impact on share price, whereas Bank age shows a negative association. However, monetary policy variables have a significant influence on valuation, while EPS, NIM, CAR, and other macroeconomic variables are found to be insignificant. The finding offers important implications for regulators and policymakers to enhance market confidence and long-term valuation of Indian public sector banks.

KEYWORDS: Indian Public Sector Banks, Share Price Determinants, Panel Data Analysis, Fixed Effects Model and Monetary Policy Impact

1. INTRODUCTION

In recent years, the Indian banking sector has played a crucial role in mediating the Indian economy by mobilising surplus funds into productive investments and disbursing credit to businessmen and entrepreneurs. Various initiatives are introduced by the government and prioritised for a strong and stable banking system (Bhatt, 2018). Thus, the government promotes programs like “Make in India” to support infrastructure development, aiming to increase credit demand among businesses and project developers, thereby expanding their loan portfolios and generating higher interest as revenue.

The impacts of these developments are reflected in the performance of the stock market. Especially, after 2022, as the Nifty Bank index recorded a gain of over 11% as compared to a modest increase of

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1.56% in the benchmark Nifty index. This relative Nifty Bank Index is rising by approximately 15.6% as of August 2025, with an annual return of around 8.8% (Economic Times, 2025; NSE India, 2025). Such an analysis of banking share price behaviours creates new and valuable insights among investors and policymakers.

Thus, the present study adopts a comprehensive framework to understand a holistic influence on share price dynamics. Accordingly, the study examines the key determinants of firm-specific financial indicators, regulatory and liquidity measures and macroeconomic variables influencing the share prices of Indian public sector banks using a panel data approach.

2. REVIEW OF LITERATURE:

Among varieties of firm outcomes regarding share price, our study focuses on a literature analysing the determinants that influence share price. Theories such as Efficient Market Hypothesis suggest that stock prices are predicted by both firm-level fundamentals and economic conditions (Fama, 1970; Fama & Schwert, 1977). Further, signaling theory states that a firm communicates private information with investors through various signals, such as earnings per share (Gea & Tobing, 2022), dividend announcement (Ruhani & Mat Junoh, 2023), net interest margin (Ozturk & Karabulut, 2017), and asset quality factors like non-performing assets (Dubey et al., 2016). In addition to profitability measures, valuation indicators such as book value per share, RONW (Yadav & Kumar, 2024) and firm size (Ghauri, 2014) significantly influence share prices.

From an economic level perspective, the arbitrage pricing theory highlights macroeconomic factors such as GDP, industrial producer price index, inflation, interest rates and export influence stock price movement (Elshqirat, 2019; Oseni, 2009; Madurapperuma, 2023). In the banking context, liquidity and financial stability theories emphasise that adequate liquidity buffers reduce vulnerability during financial stress, thereby enhancing investor confidence (Diamond & Kashyap, 2016). Studies demonstrate that capital adequacy ratios significantly affect banking stock prices by credit risk (Shrestha et al., 2023). Liquidity measures the banks operating under regulatory frameworks (Ghosh & Chatterjee, 2021). However, this study addresses the gap by examining the combined different determinants on public sector bank share prices in India.

3. Data methodology:

Sample:

The study presented here is based on a panel dataset of 12 Indian public sector banks observed over 10 years.

Model Specification:

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To examine the determinants, the panel data regression techniques were employed. Both **Random Effects** and **Fixed Effects** models were estimated. The baseline empirical model is specified as:

$MPS_{it}=\alpha+\beta X_{it}+\varepsilon_{it}$

Where MPS_{it} denotes the share price of bank *i* at time *t*, X_{it}represents firm-specific and regulatory variables and macroeconomic controls, and ε_{it} represents the error term.

The **Hausman specification test** was applied to determine the appropriate

4. RESULT:

Tables 1 present the descriptive statistics of the variables used in the study. The results show that the determinants exhibit substantial variation in share price, firm-specific, regulatory and macroeconomic factors across banks.

Table 1: Descriptive Statistics:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Share Price	120	10.72	795.05	126.5934	142.38293
Repo Rate	120	4.00	7.50	5.8900	1.10182
CRR	120	3.5	4.5	4.000	.3176
LCR	120	64.95	387.13	160.8483	63.97795
CAR	120	9.04	18.54	13.3192	2.29230
EPS	120	-83.01	80.23	2.0133	25.56768
NIM	120	1.52	8.50	2.5117	.95394
RONW	120	-207.99	23.83	-3.2450	25.27069
NET NPA	120	.20	15.33	4.7815	3.32711
BVPS	120	1.78	552.54	126.5969	126.90246
SIZE	120	96643.00	6179694.00	833424.5928	1082368.45897
AGE	120	60	130	100.42	18.251
INF	120	3.41	7.00	5.2450	1.16262
GDP	120	-5.83	9.05	5.7750	4.10379
COVID	120	0	1	.20	.402

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Valid (listwise)	N	120			

Table 2: Regression Analysis

Variables	**Random Effects**	**Fixed Effects**
Repo Rate (RR)	−8.61 (0.440)	−57.34** (0.025)
CRR	34.76 (0.587)	414.73** (0.026)
LCR	−0.09 (0.486)	−0.03 (0.840)
CAR	5.52 (0.364)	1.75 (0.801)
EPS	0.87** (0.012)	0.41 (0.255)
NIM	−6.53 (0.302)	1.44 (0.862)
RONW	−0.04 (0.887)	−0.16 (0.599)
Net NPA	5.09 (0.129)	0.72 (0.859)
BVPS	0.50*** (0.000)	0.30** (0.021)
SIZE	0.00007*** (0.000)	0.00010*** (0.000)
AGE	−0.10 (0.794)	−29.26** (0.025)
Inflation	−0.79 (0.934)	−8.48 (0.541)
GDP	0.15 (0.954)	1.64 (0.506)
COVID	−33.68 (0.426)	161.27* (0.102)
R^2	0.837	0.581
Adj. R^2	0.816	0.469
Model Statistic	$\chi^2 = 541.05$***	F = 9.29***

Table 3: Hausman test

Test	**Statistic**	**df**	**p-value**	**Decision**
Hausman Test	122.14	14	< 0.001	Fixed Effects preferred

Table 2 reveals the analysis results of both random-effects and fixed-effects specifications. The Hausman test strongly rejects the null hypothesis ($\chi^2 = 122.14$, $p < 0.001$) and confirms fixed-effects model is more appropriate for analysing share price movements in Indian public sector banks. The

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table depicts that BVPS and SIZE exert a positive and statistically significant influence at 5% and 1% levels of significance. However, bank age shows a significant negative association at 5% level of significance. Several profitability indicators, such as EPS, NIM, RONW, liquidity measures- LCR, capital adequacy -CAR, and macroeconomic measures like inflation and GDP growth are statistically insignificant. The policy variables, such as repo rate and cash reserve ratio emerge a significant determinants. The dummy variable COVID-19 is also significant in the fixed-effects model, indicating that pandemic-related disruptions exerted a temporary but meaningful influence on public sector bank share prices during the sample period.

5. DISCUSSION AND CONCLUSION:

The results show that firm-specific factors such as BVPS (Yadav & Kumar, 2024) and SIZE (Ghauri, 2014) have a strong and positive influence on the MPS. The finding supports signalling theory, where investors prioritise financial strength and a bank's size as an indicator of stability rather than short-term profitability measures. However, a negative relationship between bank age and share price implies that older public sector banks may suffer from structural rigidities and slower adaptability.

Moving towards the regulatory perspective, monetary policy variables such as the repo rate and cash reserve ratio significantly influence shares. The rising monetary policy reduces bank valuation by increasing the costs of capital and compressing the lending margin. However, higher reserve requirements may be interpreted signal of financial resilience and systemic stability of investors. Meanwhile, the insignificance of profitability measures, liquidity coverage, capital adequacy, and macroeconomic variables suggests that such information may already be priced into stock valuations. The significance of the COVID-19 dummy reflects the extraordinary market uncertainty and policy interventions during the pandemic period. Pandemic-induced stress, moratoriums, and liquidity support measures altered investor expectations, thereby influencing bank valuations beyond conventional financial fundamentals.

Accordingly, the regulators should focus on improving governance efficiency and modernising the legacy system as investors focus more on transparency rather than short-term earnings performance. Furthermore, the regulator should encourage bank management to strengthen the asset quality and adopt digital facilities, similar to private banks, to enhance operating efficiency. Policymakers must also consider the valuation impact of monetary policy on public sector banks while balancing stability objectives. Despite its contributions, the study is limited to public sector banks and does not capture behavioural or market sentiment factors. The future research may extend the analysis to private banks, incorporate dynamic models, or examine crisis-specific effects such as post-COVID adjustments and monetary tightening cycles.

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