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Milica Indić

Ekonomski fakultet u Subotici, Univerzitet u
 Novom Sadu
 Subotica, Srbija

milica.indjic@ef.uns.ac.rs

Participation (direct/virtual):

JEL: G10, G18; C22

Vera Mirović

Ekonomski fakultet u Subotici, Univerzitet u
 Novom Sadu
 Subotica, Srbija

vera.mirovic@ef.uns.ac.rs

direct

THE RELATIONSHIP BETWEEN ECONOMIC POLICY UNCERTAINTY AND SERBIAN STOCK MARKET PERFORMANCE

Abstract: The stock market is often seen as an important indicator of the state of the economy, as it reflects the overall economic environment and the direction of its development, while at the same time it is influenced by numerous factors, including social, environmental and political circumstances. Therefore, it is of particular importance to analyze the impact of global economic policy uncertainty on the performance of stock markets, especially in the conditions of a changing macroeconomic environment. In this context, the aim of this research is to examine the relationship between the uncertainty of economic policy and the performance of the stock market in Serbia. In order to answer the goal of the research, data covering the period from 2012 to 2025 was used. The MSCI index was used as a measure of the performance of the stock market of the analyzed countries. The independent variable in the model is the Global Economic Policy Uncertainty Index (EPU). Also, World Governance Indicators are included in the model as explanatory variables. To examine the relationship between these variables, a regression analysis was conducted using the ordinary least squares (OLS) method. The results showed a significant negative impact of global economic instability on stock market performance, while the impacts of other variables are mostly significantly positive. Reducing global economic policy uncertainty is key to strengthening market stability, increasing investor confidence and encouraging domestic and foreign investment, which requires active measures by policy makers and market participants.

Keywords: Global Index of Economic Policy Uncertainty, MSCI Index, World Governance Indicators, Regression Analysis

1. INTRODUCTION

In the previous years, the world was faced with a series of serious challenges that increased uncertainty on the global political and economic level. As one of the key factors shaping economic performance and movements in financial markets, regardless of the current state of the global economic environment, authors often cite global economic-political uncertainty - GEPU (Yu & Song, 2018; Fang et al., 2018; Phan et al., 2018; Li et al., 2019, 2020; Odionye et al., 2024; Durmaz, 2024; Nguyen et al. al., 2025).

In Europe, as well as in the United States of America, concerns about unpredictable policies, especially in the area of economic and financial decisions, have become increasingly pronounced (Baker et al., 2016). The aforementioned authors describe economic-political uncertainty (EPU) as a condition resulting from changes in monetary, fiscal or regulatory policy, and the EPU index is formed by monitoring how often domestic newspaper articles contain three key

terms: economy (E), politics (P) and uncertainty (U). GEPU can then be considered a global extension of this concept, denoting a situation where economic actors cannot predict changes in government policies, which creates uncertain economic risks (Apergis et al., 2018).

The process of forming the GEPU index includes several stages: national indices are first standardized, then missing data are compensated by regression techniques, and the final index is obtained by calculating a weighted average based on GDP from the IMF database (Cao & Vo, 2025).

The stock market plays a key role in the economy because it allows companies to raise capital for investment and development, while providing investors with the opportunity to invest and diversify risks. Also, it functions as an indicator of economic activity and confidence in the economy, contributing to transparency and efficient allocation of resources. An active stock market therefore encourages the economic growth and financial stability of the country, which makes the monitoring of stock market movements particularly important in analyzing the impact of GEPU.

Numerous empirical studies have addressed the impact of EPU and GEPU on financial markets (Mbanyele, 2023; Pham & Nguyen, 2022; Umore et al., 2025). Studies show a clear connection between economic and political uncertainty and stock market movements, especially when it comes to stocks. Interest in this topic further grew after Baker et al. (2016) calculated the American EPU index, while the works of Christou et al. (2017), Phan et al. (2018), Das and Kumar (2018), Chiang (2019) and Syed and Bouri (2022) confirm that this index strongly predicts the movement of stock market returns.

The relevant literature emphasizes the importance of monitoring the GEPU index in the analysis of financial markets, because uncertainty at the global level can significantly affect volatility, returns and investor behavior. Although there is a large amount of research on the impact of economic and political uncertainty on financial markets, based on a review of the literature, as far as the authors know, there are still no studies that investigate the connection between the index of global economic policy uncertainty and the performance of the Serbian stock market. Bearing in mind the stated subject, this research is the connection between global uncertainty of economic policy and the performance of the stock market in Serbia, while the aim of the research is to examine the influence of the index of global uncertainty of economic policy on the performance of the stock market in Serbia.

The work is divided into six parts. The first part of the paper presents the introductory presentation. The second part of the paper includes a review of the relevant literature. The third part describes the research methodology. The fourth part includes the research results. The fifth part presents a discussion of the results, while the sixth part presents the key conclusions, practical implications, limitations and possible future research directions on this topic.

2. LITERATURE REVIEW

The existing literature clearly indicates that economic uncertainty plays a key role in the formation of movements in financial markets, especially in stock markets. Empirical findings consistently confirm that an increase in uncertainty about economic policies negatively affects domestic capital markets. Accordingly, contemporary literature increasingly emphasizes the need for a deeper understanding of the mechanisms through which economic uncertainty affects stock markets, as well as for conducting empirical research that takes into account its dynamic and time-delayed effects. For example, Chen and Chiang (2015) show that growth in economic AND political uncertainty causes a decline in Chinese stock market returns, while a positive effect is observed in later periods, suggesting a gradual recovery in stock prices.

Dakhlaoui and Aloui (2016) point to strong evidence of a time-varying correlation between economic policy uncertainty (EPU) and stock market volatility in the BRIC countries (China, Russia, Brazil and India). The negative consequences of EPU on stock returns were also noted in the research of Kang and Ratti (2013). Guo et al. (2018) also showed that EPU reduces the stock market returns of the G7 and BRIC countries, except for France and the United Kingdom.

Similarly, Phan et al. (2018), on a sample of 16 countries (China, Italy, Netherlands, India, USA, Russia, Australia, Brazil, Germany, Korea, Japan, France, United Kingdom, Canada, Spain and Ireland) suggest that the ability to predict stock returns by EPU depends mostly on the sector.

Based on the research results of Christou et al. (2017), in Australia, USA, Canada, China, Korea, and Japan, from 1998 to 2014, growth in economic policy uncertainty negatively affects stock returns. Hu et al. (2018) conclude that, in America, with a one-week lag, shocks on the EPU side negatively and significantly affect Chinese A-share returns.

You et al. (2017) on the basis of research, which covered the period from 1995 to 2016, point to a strong connection between shocks on the oil price side and the EPU with the Chinese stock market. Similarly, Xiong et al. (2018) suggest that in China, absolute changes in economic policy uncertainty significantly affect stock returns over the period 1995 to 2016.

Das and Kumar (2018), conclude that the combined effects of the domestic and American EPU significantly affect stock prices when it comes to developed markets, while in developing markets the domestic EPU has a greater impact.

On the example of 823 Chinese companies, Nguyen et al. (2025) showed that an increase in Chinese EPU has a negative, while global EPU has a positive effect on stock returns at the level of the observed companies. Based on the VAR methodology, Kang and Ratti (2013) indicate that the growth of EPU decreases the market returns in the USA. Antonakakis et al. (2013) based on their research suggest that in America, an increase in EPU leads to a decrease in stock returns using the DDC GARCH model. Chang et al. (2015) for a sample of seven OECD countries conclude that economic policy uncertainty in the US and the UK causes stock prices to decline, and that the US EPU significantly affects oil prices internationally.

Tran and Vo used an ARDL model to analyze the impact of EPU on US market volatility and volatility in 11 Asia-Pacific countries, covering the period 1985–2022. They concluded that EPU significantly affects returns in these markets. Li et al. (2019) investigated the effects of the Economic Policy Uncertainty (EPU) indices of China and G7 countries on Chinese stock market volatility and found that the EPU indices of China and some G7 countries show a significantly negative impact on future volatility.

Durmaz (2024) concluded that in the long run, high economic uncertainty is negatively related to stock prices in certain countries, while Odionye et al. (2024) conclude that in the short term EPU significantly reduces the stock market index, while in the long term this impact is negative, but insignificant. Research on global economic political uncertainty (GEPU) largely follows the approach taken by the EPU, with the focus being on analyzing its impact on global financial and commodity markets (Li & Bai, 2023). Yu et al. (2018) point out that, with the further integration of China into the world economy, the uncertainty of global economic policy will become one of the key factors in the instability of the Chinese stock market and significantly contribute to its oscillations.

Umoru et al. (2025) examined the impact of stock market volatility and liquidity on returns in Middle East and North Africa markets, with the role of global economic uncertainty and exchange rate as moderating factors. Panel quantile regression was used on daily data (2000–2024). The results show that global economic uncertainty and exchange rate fluctuations negatively affect stock returns, with higher exchange rate volatility further reducing returns.

Yu & Song (2018) indicate that the inclusion of a regime-switching model can improve the accuracy of forecasting the impact of GEPU on US stock market movements. Namely, the mentioned authors investigated how the GEPU affects the total monthly volatility using a Markov model with changing regimes, and they find that the GEPU amplifies fluctuations while simultaneously improving forecasts. On the other hand, Qin et al. (2020) emphasize that gold can serve as an instrument of protection against risks associated with GEPU during economic crises, while gold prices not only react to changes in GEPU, but also affect the level of this uncertainty, in both directions.

Fang et al. (2018) analyze the information content of GEPU for the variance of gold futures returns through the GARCH-MIDAS model and point out that GEPU can significantly predict future monthly volatility in the gold market. Lee et al. (2020) found that the rise and fall of the GEPU can lead to significant volatility in the stock market in China.

3. RESEARCH METHODOLOGY

Annual data collected from relevant sources, namely the World Bank, the MSCI World Index and the Global Economic Policy Uncertainty Index, were used for the purposes of the research. The dependent variable in the model is the MSCI index that refers to Serbia, while the independent variables are the Global Economic Policy Uncertainty Index (GEPU) and world governance indicators for Serbia: Rule of Law, Government Effectiveness, Political Stability, Voice and Accountability, Regulatory Quality and Control of Corruption. Due to data availability, data for the period from 2012 to 2025 were analyzed, which makes a total of 14 observations. The list of variables, their definitions and data sources are shown in Table 1.

Table 1: List of variables, definitions, and data sources

Variable	Definition	Source
MSCI index (MSCI)	Measure market performance and allow investors to better understand the collective movement of a group of stocks, bonds or other types of securities.	https://www.msci.com/
Global Economic Policy Uncertainty Index (GEPU)	Measures the economic uncertainty associated with economic policy.	https://www.policyuncertainty.com/
Rule of Law (RL)	Measures trust in the rules of society, including the enforcement of contracts, the protection of property, and the quality of the police and courts.	The World Bank https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access
Government Effectiveness (GE)	Measures the quality of public services, state administration and policy implementation, as well as independence from political pressures.	
Political Stability (PS)	Measures the perception of the likelihood that the government will be destabilized. A higher value of the index indicates greater stability.	
Voice and Accountability (VA)	The extent to which citizens can participate in the election of the government as well as the level of freedom of expression, association and media.	
Regulatory Quality (RQ)	Measures the government's ability to enact and enforce quality regulations that encourage private sector development.	
Control of Corruption (CC)	Measures the extent to which public power is used for private gain, including corruption and elite influence over the state.	

Source: Authors

Table 2 shows the descriptive statistics of the variables used in the research. According to the results of descriptive statistics, the data have a normal distribution since the p value of the Jarque-Bera test is greater than 0.05. More detailed information on other measures of descriptive statistics is presented in Table 2.

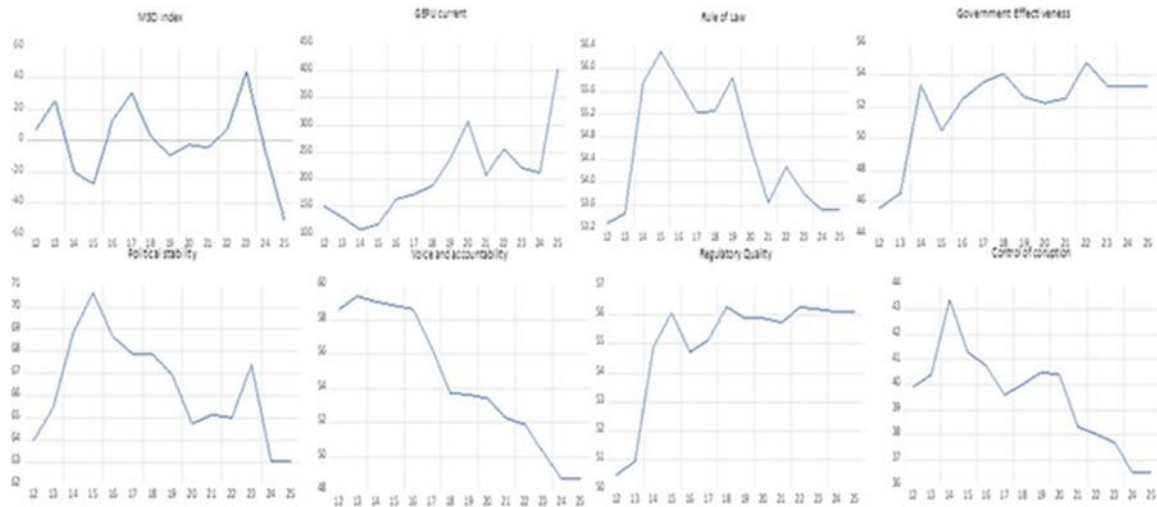
Table 2: Descriptive statistics of variables

	MSCI	GEPU	RL	GE	PS	VA	RQ	CC
Mean	0.487143	205.6253	54.59357	52.03643	66.33429	54.52429	55.05286	39.52286
Median	-0.145000	198.1307	54.46000	52.97500	66.22000	53.66500	55.88500	39.96500
Maximum	44.14000	403.9970	56.30000	54.82000	70.66000	59.36000	56.28000	43.38000
Minimum	-51.46000	107.9592	53.29000	45.65000	63.01000	48.70000	50.50000	36.50000
Std. Dev.	24.50341	79.64608	1.072220	2.709296	2.336683	3.918622	1.903747	1.914798
Skewness	-0.243289	1.057438	0.201787	-1.552031	0.146306	-0.104124	-1.775505	0.012205
Kurtosis	2.983155	3.821004	1.463590	4.116702	2.002597	1.606902	4.565712	2.592552
Jarque-Bera	0.138275	3.002269	1.471999	6.347961	0.630254	1.157385	8.785660	0.097189
Probability	0.933198	0.222877	0.479027	0.061837	0.729696	0.560631	0.072366	0.952567
Observations	14	14	14	14	14	14	14	14

Source: Authors

Figure 1 shows the movement of the observed variables in the period from 2012 to 2025. Based on the data, the variable MSCI shows a pronounced cyclical pattern of movement. After the decline in the period 2013–2015, followed by a phase of growth from 2015 to 2017, and then another decrease. After that, it records an upward trend that lasts until 2023, and then a new decline until the end of the observed period. According to the data, for the period 2012–2025, the movement of the global economic policy uncertainty index indicates an initial decline, then a phase of moderate oscillations and a marked upward trend with occasional sudden changes, whereby, despite occasional phases of stabilization, there is a long-term trend of global uncertainty growth, with increasingly pronounced and frequent shocks towards the end of the observed period. As for other explanatory variables, in the period 2012–2025, year, the variables

Voice and Accountability and Political Stability recorded a decreasing trend at the end of the observed period, while Government Effectiveness and Regulatory Quality showed a slight increase, Rule of Law remained relatively stable with a slight decrease, and Control of Corruption indicated a more pronounced volatility with an overall decrease compared to the initial value.



Picture 1: Movement of the observed variables over the period from 2012 to 2025

Source: Authors

The Ordinary Least Squares (OLS) model was used to measure the influence of independent variables on stock market performance. The model is specified as follows:

$$Y_t = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + \beta_7 X_{7t} + \varepsilon_t$$

Where: Y_t – dependent variable (MSCI index) in year t (t : 1 = 2012,...,14 = 2025), α – constant, $\beta_1, \beta_2, \dots, \beta_7$ – regression coefficients, X – independent variable (X_{1t} – GEPU in year t , X_{2t} – Rule of Low in year t , X_{3t} – Government Effectiveness in year t , X_{4t} – Policy Stability in year t , X_{5t} – Voice and Accountability in year t , X_{6t} – Regulatory Quality in year t , X_{7t} – Control of Corruption in year t), ε_t – random error of the model.

The following econometric diagnostic tests were conducted to confirm the assumptions of the model: ADF and PP unit root test, stability tests (Ramsey RESET test and Ramsey Estimates) and residual tests (histogram-normality test, serial correlation LM test and heteroskedasticity test).

Research hypotheses:

H1: The global index of economic policy uncertainty has a negative and statistically significant effect on the performance of stock market operations in Serbia.

H2: The rule of law has a positive and statistically significant influence on the performance of stock market operations in Serbia.

H3: The effectiveness of the government has a positive and statistically significant influence on the performance of the stock market in Serbia.

H4: Political stability has a positive and statistically significant influence on the performance of stock market operations in Serbia.

H5: Voice and responsibility has a positive and statistically significant influence on the performance of stock market operations in Serbia.

H6: The quality of regulation has a positive and statistically significant effect on the performance of stock market operations in Serbia.

H7: Corruption control has a positive and statistically significant impact on the performance of stock market operations in Serbia.

4. RESEARCH RESULTS

According to the results of the ADF and PP unit root tests, the variables GE and RQ are stationary at the level, while the other variables are stationary at the first differential, which is why the first differential of these variables was used in the further analysis.

Table 3: Results of unit root tests

Variable	ADF – Fisher chi-square		PP-Fisher chi-square	
	Level	1st difference	Level	1st difference
MSCI index	-2.266190	-3.316650**	-2.174266	-4.987658***
GEPU	-0.592925	-3.187446**	-0.141836	-3.262104**
CC	-0.662173	-3.742833***	-0.624138	-4.289560***
GE	-6.287121***		-4.438006***	
PS	-1.522925	-3.302361**	-1.645236	-3.388515**
RQ	-5.351040***		-6.757154***	
RL	-1.644827	-4.459578***	-1.644827	-6.297565***
VA	0.257868	-2.971002**	0.347175	-4.633210***

Source: Authors

According to the results shown in Table 4, the correlations between all observed independent variables are less than 0.7, which means that there is no multicollinearity and that all variables can independently contribute to the analysis.

Table 4: Results of correlation analysis

	GEPU	CC	GE	PS	RQ	RL	VA
GEPU	1	-0.6507	0.4027	-0.6158	0.4462	-0.3557	-0.4805
CC	-0.6207	1	-0.2540	0.5922	-0.2832	0.5975	0.3543
GE	0.4027	-0.2540	1	0.1412	0.6096	0.3170	-0.5782
PS	-0.6158	0.5922	0.1412	1	0.1808	0.4479	0.5810
RQ	0.4462	-0.2832	0.4096	0.1808	1	0.3580	-0.6223
RL	-0.3557	0.5975	0.3170	0.4479	0.3580	1	0.4563
VA	-0.4802	0.3543	-0.5782	0.5810	-0.6223	0.4563	1

Source: Authors

Based on the coefficient of determination (R^2), about 67% of the dependent variable (MSCI) was explained by the independent variables (GEPU, RL, GE, PS, VA, RQ and CC). The value of the F statistic ($F = 7.134849$; $p = 0.020369$) suggests that the proposed model is statistically significant. The results show a negative and statistically significant impact of GEPU on the MSCI index ($p < 0.05$), which means that when GEPU increases by one unit, MSCI would decrease by 0.146806 units and that this decrease is statistically significant. The impact of RQ I CC on MSCI is also negative, but insignificant ($p > 0.05$). On the other hand, the influence of RL, GE, PS and VA on MSCI is positive and statistically significant ($p < 0.05$). This means that an increase in RL by one unit is associated with an increase in the MSCI index by approximately 2.02 units, GE by 0.63 units, PS by 1.10 units and VA by 0.40 units and that this growth is at a statistically significant level. The results of the ordinary least squares model are shown in Table 5.

Table 5: Results of the Ordinary Least Squares model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GEPU	-0.146806	0.054961	-2.671114	0.0204
RL	2.024547	0.509813	3.971156	0.0022
GE	0.629292	0.093414	6.736572	0.0000
PS	1.097112	0.319960	3.428897	0.0050
VA	0.399789	0.162837	2.455150	0.0303
RQ	-0.281760	2.720799	-0.103558	0.9196
CC	-0.033421	1.230846	-0.027153	0.9789
C	27.14320	12.34183	2.199284	0.0482

Source: Authors

Based on Figure 2 and the Jarque-Bera test value of 0.236509 ($p > 0.05$), it can be concluded that the residuals in the model have a normal distribution.

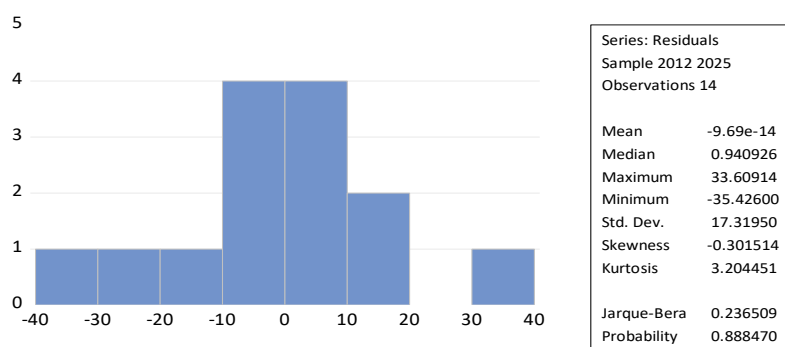


Figure 2: Normality of residuals
Source: Authors

According to the results of the Breusch–Godfrey LM test (Table 6), p-values for F-statistics (0.8591) and Chi-square statistics (0.5993) are greater than the significance level of 0.05, which indicates that the null hypothesis of no autocorrelation cannot be rejected, that is, that the model does not have a problem with autocorrelation of residuals.

Table 6: Breusch-Godfrey Serial Correlation LM test results

F-statistic	0.157831	Prob. F(2,4)
Obs*R-squared	1.024010	Prob. Chi-Square(2)

Source: Authors

The results of the Breusch–Pagan–Godfrey heteroscedasticity test, shown in Table 7, show that the null hypothesis of homoscedasticity cannot be rejected, since all p-values (for F-statistics = 0.1274; Obs*R-squared = 0.1579 and Scaled explained SS = 0.9515) are greater than the 0.05 significance level, indicating that the model does not have a problem with heteroscedasticity.

Table 7: Breusch-Godfrey Serial Correlation LM test results

F-statistic	2.655015	Prob. F(7,6)
Obs*R-squared	10.58330	Prob. Chi-Square(7)
Scaled explained SS	2.142584	Prob. Chi-Square(7)

Source: Authors

The results of the ARCH heteroscedasticity test (table 8) show that the null hypothesis of the absence of autocorrelation in the residual variance cannot be rejected, given that the p-values are greater than the 0.05 significance level (for F-statistics = 0.2736 and Chi-square statistics = 0.2366), which indicates that the model does not show the presence of ARCH-type heteroskedasticity.

Table 8: Results of the ARCH test

F-statistic	1.328230	Prob. F(1,11)
Obs*R-squared	1.400606	Prob. Chi-Square(1)

Source: Authors

The graph of the CUSUM test (Figure 3) shows that the movement of the CUSUM statistic remains within the significance limits of 5% throughout the entire period, which confirms the stability and consistency of the model parameters in the analyzed time frame.

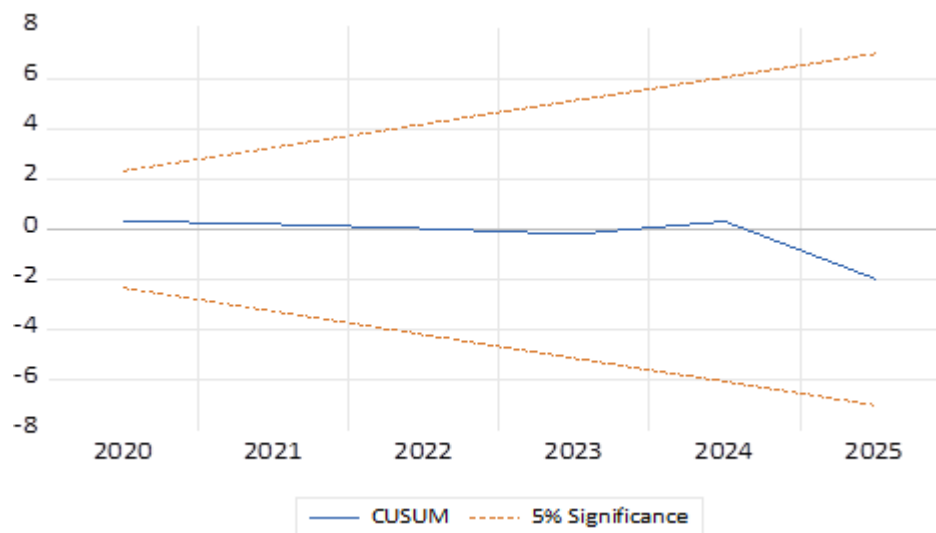


Figure 3: CUSUM model stability test
Source: Authors

The results of the Ramsey RESET (Table 9) test show that the null hypothesis of good model specification cannot be rejected, as the p-values for the t-statistic (0.3000) and F-statistic (0.3000) are greater than the 0.05 significance level, which suggests that the model has no significant problems with omitted variables or inadequate functional form. Although the p-value for the Likelihood ratio is slightly lower (0.0686), it still does not provide enough evidence to reject the null hypothesis.

Table 9: Results of the Ramsey RESET test

	Value	df	Probability
t-statistic	1.155852	5	0.3000
F-statistic	1.335993	(1, 5)	0.3000
Likelihood ratio	3.315321	1	0.0686

Source: Authors

5. DISCUSSION

The results of the conducted empirical research for Serbia showed that the effect of global economic policy uncertainty on stock market performance is negative and significant. The obtained results are consistent with the results of earlier research (Li et al., 2019; Li et al., 2020; Christou et al., 2017).

The results of the empirical research also indicate that the efficiency of the government achieves a statistically significant and positive influence on the movements of the stock market at a significance level of 1%. In other words, the successful implementation of public policies contributes to the growth of financial markets and overall economic prosperity. This finding is consistent with the literature that analyzes the relationship between economic policies and stock market performance (Mai et al., 2023). Generally speaking, research suggests that government measures can have both stimulating and disincentive effects on capital markets. Policies aimed at stimulating economic growth, such as investment in infrastructure or tax breaks for organizations, usually have a positive effect, as do measures that ensure a stable and predictable regulatory environment. Conversely, sudden changes in regulations, trade policies or an increase in the tax burden can generate uncertainty and have a negative impact on stock market movements. However, it should be borne in mind that this relationship is complex and conditioned by numerous additional factors, including macroeconomic indicators (interest rates, inflation, GDP growth), but also global shocks such as natural disasters or geopolitical events.

Furthermore, the results show that political stability has a statistically significant and positive impact on stock market performance. These findings are consistent with previous research (Mai et al., 2023; Akram et al., 2018; Sulehri & Ali 2020).

In addition, the results indicate that the rule of law (RL), as well as the variable voice and responsibility, have a positive and statistically significant impact on the stock market. This implies that the strengthening of the legal system and institutional responsibility contributes to the growth of investor confidence, which is reflected in the better performance of the capital market. Such findings are consistent with the existing literature that emphasizes the importance of good governance for the development of financial markets. For example, studies by Kaufmann & Roesch (2012), as well as Mai et al. (2023) show that the rule of law and voice and accountability are positively related to stock market returns in developing countries, emphasizing that these variables contribute to the creation of a stable and predictable business environment.

The obtained results also indicate that the effect of Regulatory Quality and Control of Corruption is negative and insignificant. Such results are consistent with the research of Mai et al. (2023) who also examined the impact of these variables on stock market performance.

6. CONCLUSION

The purpose of the conducted research was to examine the influence of the global economic policy uncertainty index on the performance of the stock market in Serbia. The obtained results showed that this influence is negative and significant. In addition, the results of the research showed that regulatory quality and corruption control also have a negative impact on stock market performance, but that this impact is not statistically significant. On the other hand, rule of law, political stability and voice and accountability have a significant and positive effect on the performance of the stock market.

The scientific contribution of this work is reflected in the fact that this research is the first to examine the relationship between GEPU and MSCI in Serbia. These findings have important implications for investors and policymakers: investors can use data on global economic policy uncertainty for better risk management and the formation of diversified portfolios, while policymakers can contribute to strengthening market confidence and stimulating foreign and domestic investment by reducing economic risks.

One of the shortcomings of the research is that this research includes data related only to Serbia, while the following research could be focused on other countries, for example in the region. Also, in the research, the OLS method was applied to prove the hypotheses, while other studies could also apply other econometric methods such as panel regression analysis.

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