Political Environment is the state, government and its institutions and legislations and the public and private stakeholders who operate and interact with or influence the system. The political atmosphere should be good and very stable for a firm to operate successfully. Political Environment forms the basis of business environment in a country.

If the policies of government are stable and better then businesses would get impacted in a positive way and vice versa. Changes in government often results in changes in policy.

Political Environment forms an important part of a company's strategy in terms of PESTEL (Political, Economic, Social, Technological, Environmental, Legal) analysis.

**Importance of Political Environment**

Political Environment can be of utmost importance for a business. How a government make policies and what kind of economic measures it takes can determine the success or a failure of a business. Promoting a particular kind of business can lead to increased revenues of industries and players in that sector but can lead to losses for others. Government also considers all these risks and effects because the sudden or prolonged changes to the political environment can lead to impact on GDP and overall economy.

The other important aspect is the foreign investment and companies in a country. If political environment is not good for foreign investment then it can lead to loss of internal business and investments indirectly affect domestic players.

So overall Political environment should be stable and change as per market demands or for safeguarding interests which are suitable for overall stabilization and growth of economy.
Various Political Environment related Factors & Elements

There are various factors which affect political environment:

1. Stability

This is one of the most important factors. The stability of political environment is very conducive to the economy and business in general. If a country is not stable and government keeps changing frequently, the country can never be economically stable as well. The GDP, stock exchange index all would go down leading to a vicious circle.

2. Taxation

The taxation regime is very important when it comes to political environment. If a government is balanced in terms of tax and budget, the companies are motivated to produce more and grow.

3. Foreign Policies

Political Environment should also balance the foreign investments and growth in a particular country. If there is no foreign investment, growth and technical knowledge can be issues but if there is too much foreign investment inflow then it can lead to loss of domestic players.

Examples of Political Environment affecting Business

1. The policies made by the government have a significant impact on any company’s international market

2. Also the tax rates decided by the government impact the firms in different ways

3. Promotion of self-business by the government