

## **Does Union Budget have any Effect on Indian Share Market?: An Analytical Study with reference to Various Indexes in Share Market.**

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### **Abstract:**

Union Budget is the record of the Government Revenues and Expenditures for a particular Fiscal year which runs from 1<sup>st</sup> April to 31<sup>st</sup> March next year. During the Budget Session investors are from various sectors are expecting some positive announcements related to their sectors and hence they are investing money in the share market to get return. In this research the researcher has tried to find out whether the Union Budget announcement has created any return on selected 6 indexes in BSE on 1<sup>st</sup> February, 2020. To analyze the data a T test has been conducted at 95% confidence level. The research concluded that the positive announcements in Union Budget is creating abnormal returns in particular indexes whereas it has created negative return in some indexes where the announcement is negative.

### **I. Introduction**

Union Budget or Annual Budget of any Country is an important statement of developmental work by its Govt. According to Article 112 of Indian Constitution, the Union Budget or Annual Financial Statement referred as an estimated account of receipts and expenditures of Govt, for a particular financial year. The way Union Budget reflects the Developmental Growth of any country, likewise the Stock Market also echoes the economic growth of its. In case of Developing Countries like India, Share Market is playing a significant role for its economic growth.

The Union Budget of India has categorized in two sections-Revenue Budget and Capital Budget. The Revenue Budget shows the revenue receipts and expenditures of the Govt., whereas the Capital Budget combines of Capital Receipts and Payments of Indian Govt.

The Union Budget has its tremendous impact not only on economic growth of the country but also on share market. The share market not only deals with shares but also various bonds, mutual funds and derivatives contracts are too traded in this market. The share market has two sections nature wise which are Primary and Secondary market. In the Primary market a company can sell their shares for the first time, whereas the Secondary market mainly deals with buying and selling of shares which are already listed in the market.

This research study has been opted to find out the effect of announcement of Union Budget of India on the share market. This study will help the investors to invest their money wisely. The earlier studies have shown that the announcement of the Union Budget has an astounding

effect on Indian share market. It also mirrors that the announcements during the Budget session has effect not only on the day of Budget session but it also extends some trading sessions continuously.

## **II. Review of Literature**

P. Varadharajan et al (2011) had studied the movement and volatility of Indian Share market from the year 2002 to 2011. This paper also finds out that whether Union Budget announcement has created any abnormal return or not. The research concluded that though the Budget announcement created abnormal returns for the investors, but simultaneously a high volatility had been seen during the Budget session.

Sisir Kanti Mishra (2015) had studied the effect of Union Budget on Indian Share Market. The study had found that the Budget announcement has a great effect on Share Market. The study also found that during the Budget session the volatility has been seen in the market and its continued in post Budget session also.

Mitesh Patel et al (2016) had studied the effect of announcement of Union Budget on Share Market. This study has been conducted in the year 2016 on BSE 30. During the study t-test has been applied on AAR and CAARS to find out the significant effect of Budget announcement. The study concluded that the investors were not able to earn any abnormal return on the Budget announcement day.

Dr. Shakeel Ahmad and Prof. Mohd. Akbar Ali Khan (2017) had analyzed the effect of Budget announcement of Nifty return from 2010 to 2016. The study had investigated the effect of Budget on Nifty return for short term, medium term and long term. This research resulted that the Budget has more effect on short term, less effect in medium term and did not have any effect on long term.

## **III. Research Methodology**

This study has been done on secondary data which has been collected from BSE websites. To conduct this study an Event Study Methodology has been adopted with 10 days pre and post event window along with Budget announcement day (i.e 1<sup>st</sup> February, 2020). To analyze the effect of Union Budget various indexes has been considered along with BSE. This study has been conducted on BSE IT index, BSE HEALTHCARE index, BSE FINANCE index, BSE CONSUMER DURABLE index, BSE BANEX and on BSE AUTO index. A t-test at 95% confidence level has been conducted on average abnormal return under OLS Market Model to interpret the result. The hypothesis of this study is

**H<sub>0</sub>: The Union Budget Announcement does not create any abnormal return on selected indexes in Indian Share market.**

The main objectives of this study are as follows:

- i. To find out the effect of Union Budget announcement on various selected indexes.

- ii. To determine whether Union Budget announcement has created any abnormal return or not.

The limitations of this study are:

- i. The study is purely based on secondary data.
- ii. To analyze the effect of Budget announcement 6 indexes has been considered.
- iii. The study has considered the Budget session on 1<sup>st</sup> February, 2020 only.

#### IV. Data Analysis

Table 1: Average Abnormal Return during Pre and Post Event Day under OLS Market Model:

Event Window	BSE IT Index		BSE HEALTHCARE Index	
	AAR	AAR-t	AAR	AAR-t
-10	0.0012	0.1199	0.00686	0.94112
-9	0.0029	0.1600	0.01161	0.65157
-8	0.0188	1.5264	0.00964	0.67137
-7	0.0205	0.1584	0.00561	0.09900
-6	0.0152	-0.5064	-0.00454	-0.72200
-5	0.0205	0.5054	0.02001	3.46806
-4	0.0271	0.6346	0.02748	0.30279
-3	0.0251	-0.1878	-0.00246	-0.64006
-2	0.0219	-0.3111	-0.01172	-0.96751
-1	0.0142	-0.7316	-0.01190	-0.66505
<b>0</b>	<b>0.0526</b>	<b>3.6806*</b>	<b>0.00346</b>	<b>1.13937*</b>
1	0.0314	-2.0384	0.00524	-0.42045
2	0.0243	-0.6815	-0.01525	-1.67181
3	0.0212	-0.2963	-0.01664	-0.61130
4	0.0092	-1.1467	-0.00047	0.54641
5	0.0197	1.0014	0.02399	2.74487
6	0.0230	0.3242	0.02104	0.14160

7	0.0173	-0.5481	0.00178	0.10323
8	0.0158	-0.1435	-0.01040	-1.53085
9	0.0272	1.0938	0.00195	1.79893
10	0.0297	0.2376	0.01579	0.36702

**\*at 95% confidence level.**

The above table has shown the average abnormal return during pre and post Budget Announcement day on BSE IT Index and BSE HEALTHCARE Index. On the Union Budget announcement day both BSE IT Index and BSE HEALTHCARE Index has created abnormal return for their investors. From the above table it is clearly shown that before the announcement of Union Budget and after the announcement also BSE IT index has created positive return for their investors. Based on the t-test result on AAR it can be concluded that the Union Budget announcement has significant effect on both the indexes.

Chart 1: Average Abnormal Return on BSE IT Index during Pre and Post Event Day under OLS Market Model:

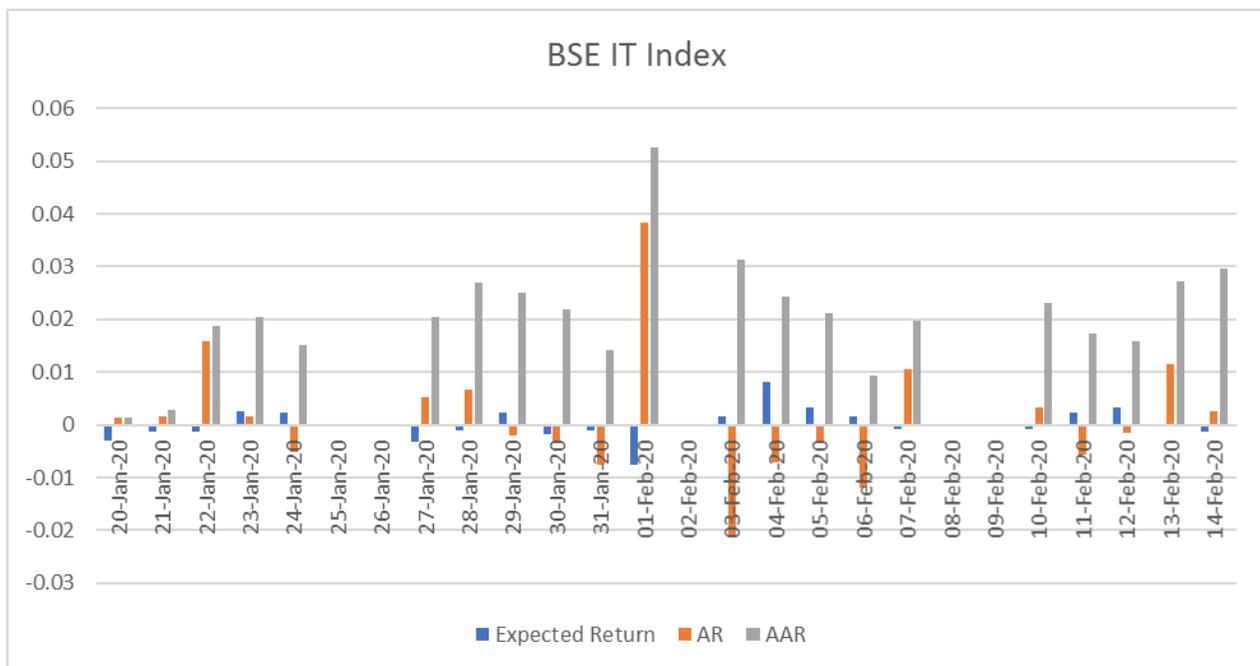


Chart 2: Average Abnormal Return on BSE HEALTHCARE Index during Pre and Post Event Day under OLS Market Model:

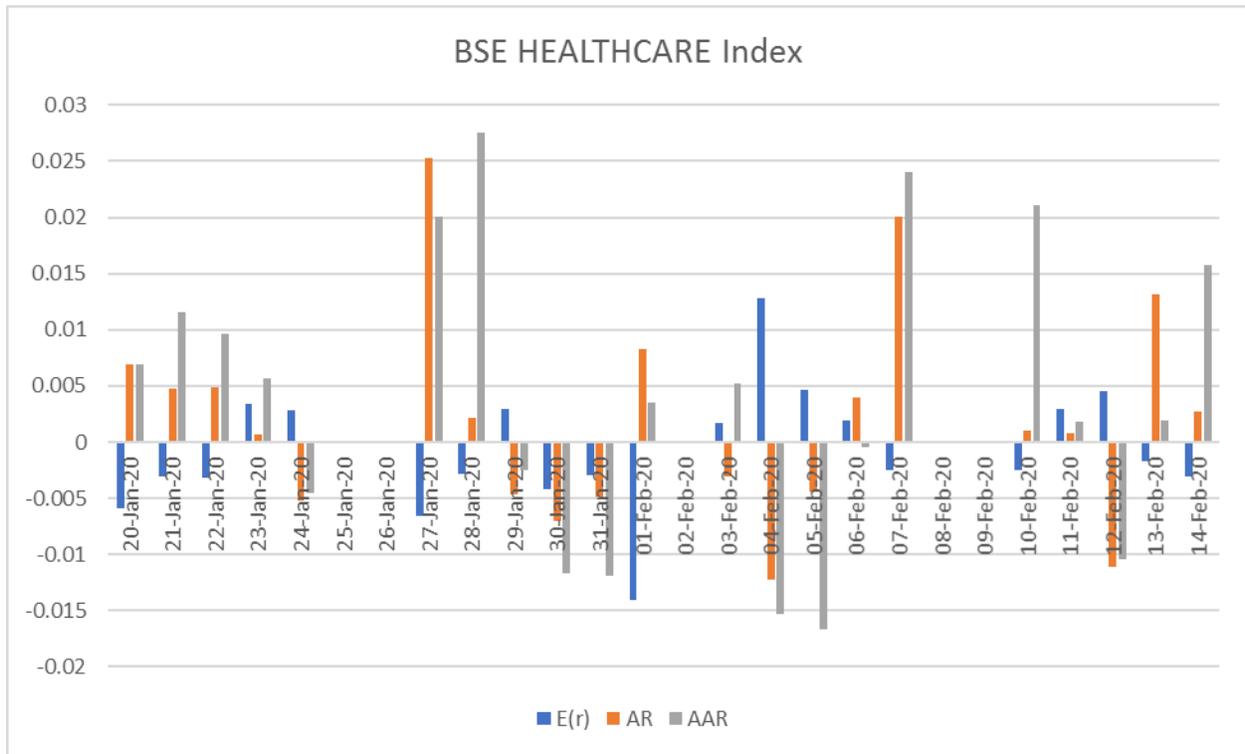


Table 2: Average Abnormal Return during Pre and Post Event Day under OLS Market Model:

Event Window	BSE FINANCE Index		BSE CONSUMER DURABLE Index	
	AAR	AAR-t	AAR	AAR-t
-10	-0.00271	-0.60261	0.00807	0.83887
-9	-0.00041	-0.09065	0.00789	0.82026
-8	-0.00083	-0.18565	0.01193	1.24068
-7	-0.00197	-0.43877	0.02016	2.09682
-6	0.00397	0.88363	0.02794	2.90607
-5	0.00041	0.09062	0.03195	3.32245
-4	0.00411	0.91577	0.03200	3.32838
-3	0.00509	1.13184	0.02155	2.24075
-2	-0.00046	-0.10254	0.02626	2.73134

-1	0.00684	1.52256	0.04171	4.33762
<b>0</b>	<b>-0.00785</b>	<b>-1.74705*</b>	<b>0.05411</b>	<b>5.62771*</b>
1	-0.01277	-2.84133	0.05797	6.02847
2	0.00405	0.90148	0.07019	7.30030
3	0.00741	1.64976	0.06488	6.74729
4	0.01248	2.77672	0.04990	5.18961
5	0.00927	2.06331	0.06717	6.98544
6	0.00288	0.64159	0.05473	5.69154
7	0.00173	0.38406	0.05517	5.73774
8	-0.00402	-0.89381	0.04291	4.46283
9	-0.00940	-2.09110	0.05495	5.71519
10	-0.00910	-2.02608	0.05975	6.21362

**\*at 95% confidence level.**

The above table shows that the announcement day of Union Budget has created positive return on BSE CONSUMER DURABLE index but simultaneously has created negative return on BSE FINANCE index. The BSE CONSUMER DURABLE index has created positive impact as the Finance Minister Mrs. Nirmala Sitharaman has announced tax relief for this sector in the Budget. The BSE FINANCE index has generated negative effect as the investors were expecting a big announcement regarding capital infusion to the banking sector which has not been announced. From the above analysis it can be developed that according to the t-test result the Union Budget announcement has impact on BSE FINANCE index, but does not have any impact on BSE CONSUMER DURABLE index.

Chart 3: Average Abnormal Return on BSE FINANCE Index during Pre and Post Event Day under OLS Market Model:

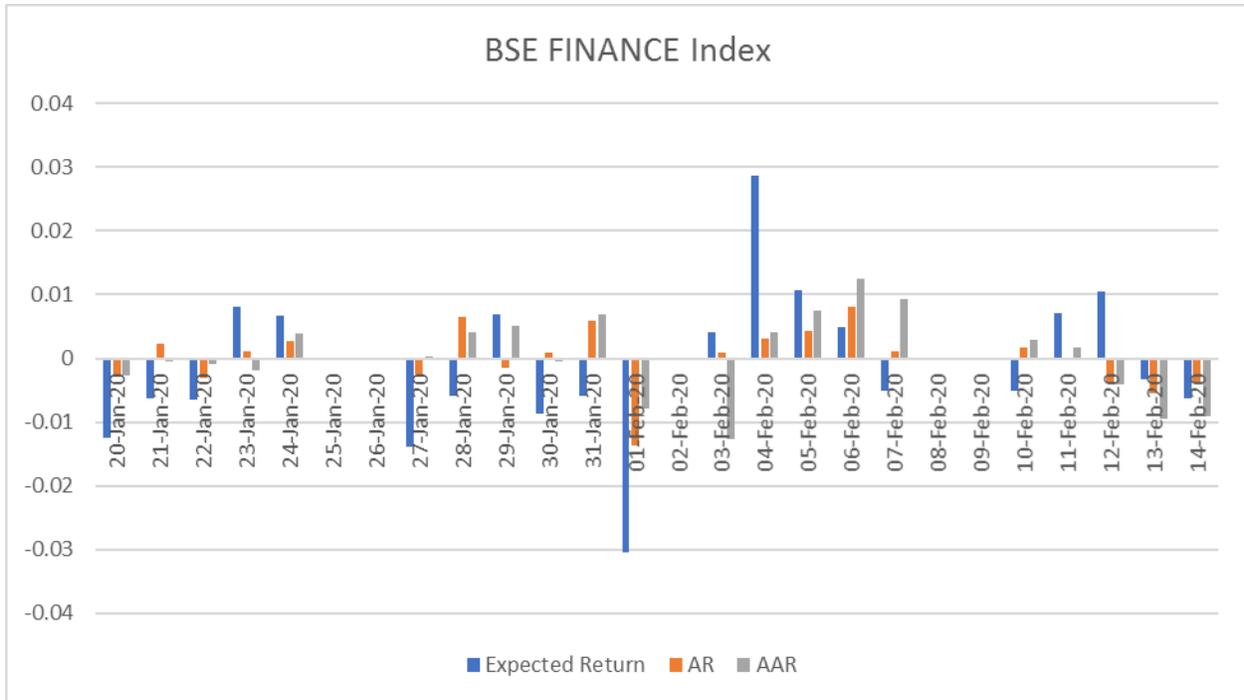


Chart 4: Average Abnormal Return on BSE CONSUMER DURABLE Index during Pre and Post Event Day under OLS Market Model:

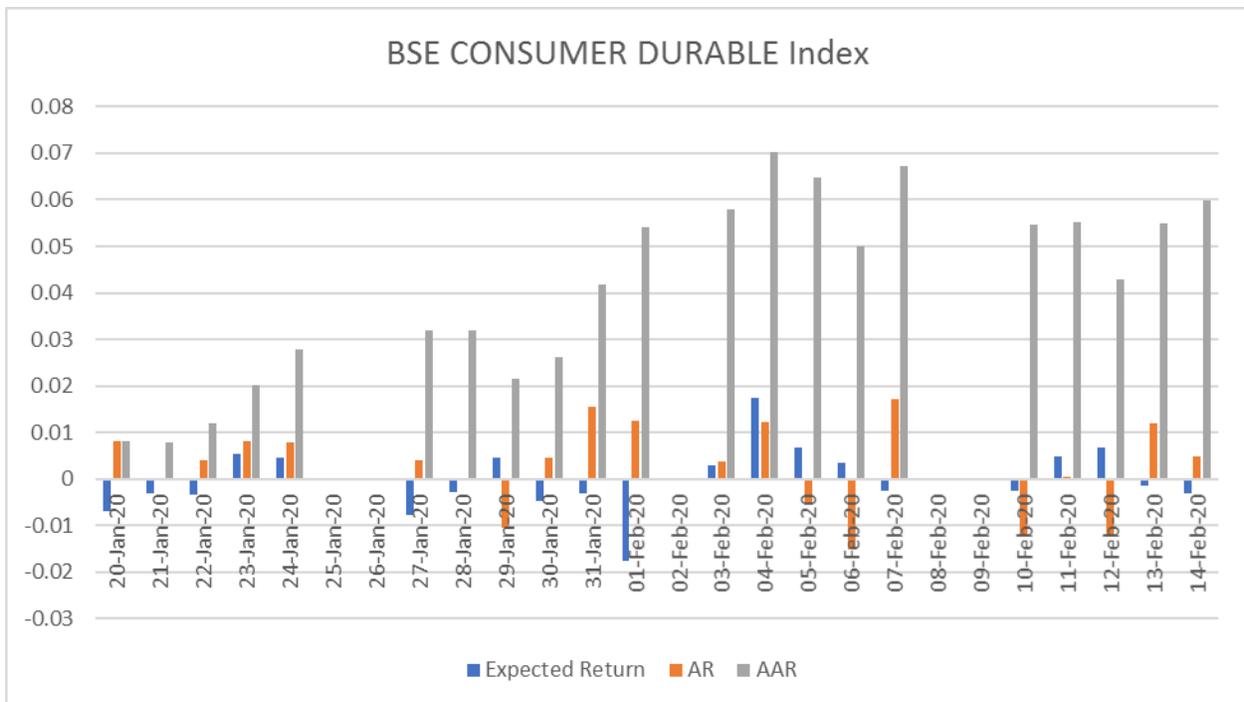


Table 3: Average Abnormal Return during Pre and Post Event Day under OLS Market Model:

Event Window	BSE BANKEX Index		BSE AUTO Index	
	AAR	AAR-t	AAR	AAR-t
-10	-0.00659	-1.11620	0.00141	0.14814
-9	-0.00557	-0.94421	-0.00605	-0.63652
-8	-0.00330	-0.55883	-0.01099	-1.15615
-7	-0.00028	-0.04699	-0.00271	-0.28512
-6	0.00774	1.31190	-0.00026	-0.02740
-5	0.00295	0.50013	0.00847	0.89143
-4	0.00135	0.22895	0.00229	0.24139
-3	-0.00063	-0.10596	-0.00511	-0.53742
-2	-0.00201	-0.33969	0.00407	0.42822
-1	0.01233	2.08808	-0.00484	-0.50878
<b>0</b>	<b>0.00390</b>	<b>0.65997*</b>	<b>-0.00722</b>	<b>-0.75939*</b>
1	-0.00271	-0.45903	0.00979	1.02988
2	0.00212	0.35937	0.00065	0.06824
3	-0.00192	-0.32500	-0.01528	-1.60749
4	0.00652	1.10461	-0.00846	-0.89008
5	0.00553	0.93621	-0.00945	-0.99463
6	0.00001	0.00253	-0.02646	-2.78386
7	0.00231	0.39109	-0.02047	-2.15435
8	0.00136	0.23031	-0.00314	-0.33089
9	-0.00773	-1.30868	-0.00237	-0.24931
10	-0.01302	-2.20563	-0.00690	-0.72560

**\*at 95% confidence level.**

The above table shows that the announcement day of Union Budget has created positive return on BSE BANKEX but simultaneously has created negative return on BSE AUTO index. The BSE BANKEX has created positive impact as the Finance Minister Mrs. Nirmala Sitharaman has

announced to infuse of Rs. 3,50,000 crores to Public Sector Banks along with the implementation merger of various unprofitable banks with profitable one. The BSE AUTO index has generated negative effect as the tax relief has been provided only for the electric vehicles. But the investors in BSE AUTO index also expected GST/Custom Duty relief on lithium-ion cells, which has not been announced, though has created negative impact on the index.

Chart 5: Average Abnormal Return on BSE BANKEX Index during Pre and Post Event Day under OLS Market Model:

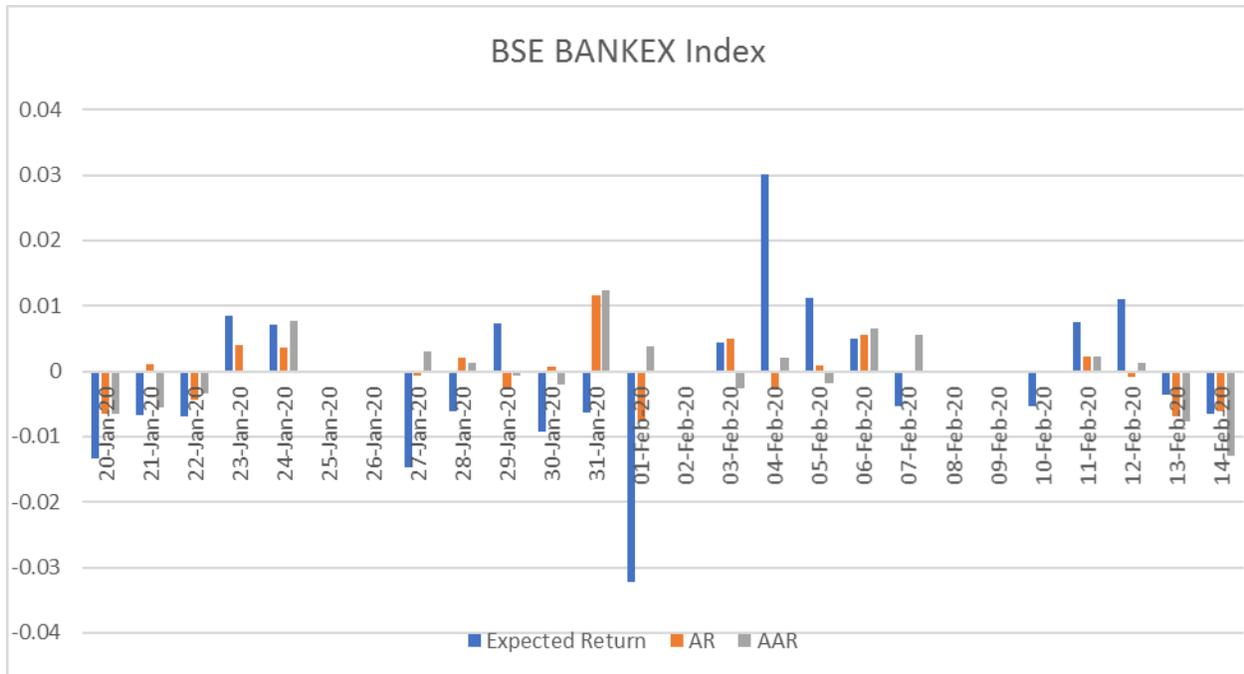
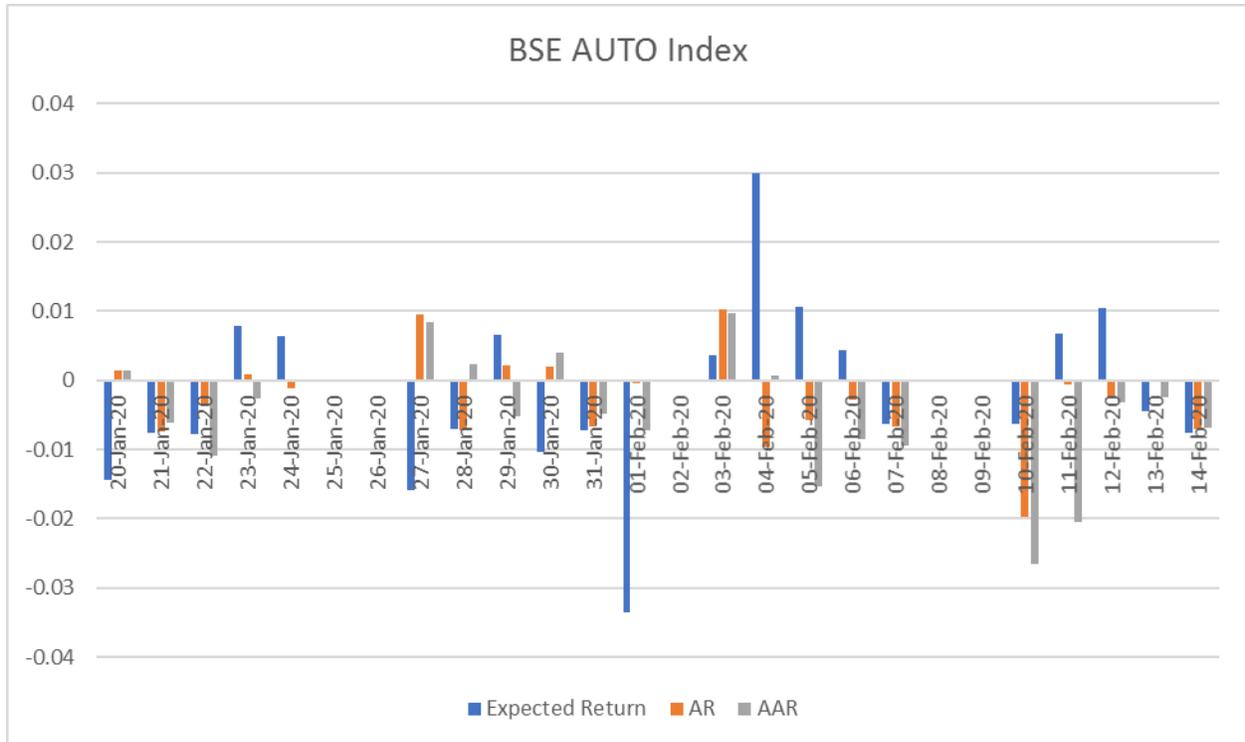


Chart 6: Average Abnormal Return on BSE BANKEX Index during Pre and Post Event Day under OLS Market Model:



## V. Conclusion

This particular research has been conducted to find out the effect of the announcement of Union Budget of India on the Share Market. To analyse effect 6 indexes have been considered. The research resulted that BSE IT, HEALTH CARE, BANKEX & CONSUMER DURABLE indexes have created positive return on the Union Budget announcement day as the Budget announcement has met the expectations of the investors. But simultaneously BSE AUTO & FINANCE indexes have not created positive return on the Budget announcement day. Hence it can be concluded that the announcement of Union Budget is creating returns on the various indexes but the creation of return is totally based on the expected news by the investors related to particular sectors.

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