A STUDY ON THE IMPACT OF UNION BUDGET ON STOCK MARKET

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Abstract

This paper breaks down the effect of Union spending plan on NSE's CNX NIFTY Index. The effect is estimated as far as day by day normal returns and unpredictability over the present moment, medium term and long haul period in pre and post spending period. The information has been gathered for five spending periods from 2011 to 2015.The ramifications of this paper are that the financial specialist should fear from putting resources into the securities exchange around the spending time frame.

Introduction

There is a connection between monetary execution of a country and its money related markets execution. In creating economies like India, securities exchange will in general perform superior to anything economies with lesser development rate. The securities exchange for the most part mirrors the monetary states of a country. When an economy develops, its yield expands which prompts increment in benefit of firms. Higher the benefits, the organization offers become progressively appealing and securities exchange demonstrates an upward pattern in costs. The Union Budget affects the economy and money related market of the nation. It is maybe the most–watched occasion in planning financial arrangements in India.

Union budget

The Union Budget of India, additionally alluded to as the Annual Financial Statement in the Article 112 of the Constitution of India is the yearly spending plan of the Republic of India. The Government presents it on the principal day of February with the goal that it could be emerged before the start of new money related year in April. Until 2016 it was exhibited on the last working day of February by the President in Parliament. The spending limit, which is exhibited by methods for the Finance bill and the Appropriation bill must be passed by Lok Sabha before it can happen on April 1, the beginning of India's money related year.

A between times spending plan isn't equivalent to a 'Decision on Account'. While a 'Decision on Account' manages the use side of the administration's spending limit. A between time spending plan is a finished arrangement of records, including both use and receipts. A break spending gives the total fiscal summary, fundamentally the same as a full spending plan. While the law does not exclude the Union government from presenting expense changes, ordinarily during a decision year, progressive governments have abstained from rolling out any real improvements in personal assessment laws during an interval spending plan.

Stock market

The financial exchange alludes to the gathering of business sectors and trades where customary exercises of purchasing, selling, and issuance of portions of openly held organizations occur. Such money related exercises are led through systematized formal trades or over-the-counter (OTC) commercial centers which work under a characterized set of guidelines. There can be different stock exchanging settings a nation or an area which permit exchanges in stocks and different types of protections.

While the two terms - financial exchange and stock trade - are utilized reciprocally, the last term is commonly a subset of the previous. On the off chance that one says that she exchanges the securities exchange, it implies that she purchases and sells shares/values on (at least one) of the stock exchange(s) that are a piece of the general financial exchange. The main stock trades in the U.S. incorporate the New York Stock Exchange (NYSE), Nasdaq, the Better Alternative Trading System (BATS). what's more, the Chicago Board Options Exchange (CBOE). These driving national trades, alongside a few different trades working in the nation, structure the securities exchange of the U.S.

Despite the fact that it is known as a securities exchange or value advertise and is essentially known for exchanging stocks/values, other budgetary protections - like trade exchanged assets (ETF), corporate securities and subsidiaries dependent on stocks, items, monetary standards, and securities - are likewise exchanged the financial exchanges.

Working of Stock Market

Basically, securities exchanges give a safe and directed condition where market members can execute in offers and other qualified money related instruments with certainty with zero-to low-operational hazard. Working under the characterized principles as expressed by the controller, the securities exchanges go about as essential markets and as auxiliary markets. As an essential market, the securities exchange enables organizations to issue and offer their offers to the basic open just because through the procedure of introductory open contributions (IPO). This movement enables organizations to raise vital capital from financial specialists. It basically implies that an organization isolates itself into various offers (state, 20 million offers) and sells a piece of those offers (state, 5 million offers) to regular open at a value (say, $10 per share). To encourage this procedure, an organization needs a commercial centre where these offers can be sold. This commercial centre is given by the financial exchange. In the event that everything goes according to the plans, the organization will effectively sell the 5 million offers at a cost of $10 per offer and gather $50 million worth of assets. Speculators will get the organization shares which they can hope to hold for their favored term, fully expecting ascending in offer cost and any potential pay as profit installments. The stock trade goes about as a facilitator for this capital raising procedure and gets an expense for its administrations from the organization and its monetary accomplices. Following the first-run through offer issuance IPO exercise called the posting procedure, the stock trade likewise fills in as the exchanging stage that encourages normal purchasing and selling of the recorded offers. This comprises the auxiliary market. The stock trade acquires a charge for each exchange that happens on its stage during the auxiliary market action. The stock trade bears the duty of guaranteeing value straightforwardness, liquidity, value disclosure and reasonable dealings in such exchanging exercises. As practically all significant securities exchanges over the globe currently work electronically, the trade keeps up exchanging frameworks that productively deal with the purchase and sell orders from different market members. They play out the value coordinating capacity to encourage exchange execution at a value reasonable for the two purchasers and venders. A recorded organization may likewise offer new, extra offers through different contributions at a later stage, as through rights issue or through pursue on offers. They may even buyback or delist their offers. The stock trade encourages such exchanges.

The stock trade frequently makes and keeps up different market-level and area explicit pointers, similar to the S&P 500 record or Nasdaq 100 file, which give a measure to follow the development of the general market. The stock trades additionally keep up all organization news, declarations, and budgetary revealing, which can be generally gotten to on their official sites. A stock trade likewise bolsters different other corporate-level, exchange related exercises. For example, gainful organizations may remunerate financial specialists by paying profits which more often than not originates from a piece of the organization's income. The trade keeps up all such data and may bolster its preparing partially.

Functioning of Stock Market

Reasonable Dealing in Securities Transactions: Depending on the standard principles of interest and supply, the stock trade needs to guarantee that all intrigued market members have moment access to information for all purchase and sell arranges along these lines helping in the reasonable and straightforward evaluating of protections. Moreover, it ought to likewise perform productive coordinating of proper purchase and sell orders.

For example, there might be three purchasers who have set requests for purchasing Microsoft shares at $100, $105 and $110, and there might be four venders who are happy to sell Microsoft shares at $110, $112, $115 and $120. The trade (through their PC worked mechanized exchanging frameworks) needs to guarantee that the best purchase and best sell are coordinated, which for this situation is at $110 for the given amount of exchange.

Effective Price Discovery:- Stock markets need to help a productive system for value revelation, which alludes to the demonstration of choosing the correct cost of a security and is generally performed by surveying business sector free market activity and different elements related with the exchanges. State, a U.S. - based programming organization is exchanging at a cost of $100 and has a market capitalization of $5 billion. A news thing comes in that the EU controller has forced a fine of $2 billion on the organization which basically implies that 40 % of the organization's worth might be cleared out. While the securities exchange may have forced an exchanging value scope of $90 and $110 on the organization's offer value, it should proficiently change the allowable exchanging value breaking point to oblige for the potential changes in the offer cost, and else investors may battle to exchange at a reasonable cost.

Liquidity Maintenance:- While getting the quantity of purchasers and merchants for a specific budgetary security are crazy for the financial exchange, it needs to guarantee that whosoever is qualified and willing to exchange gets moment access to place orders which ought to get executed at the reasonable cost. Security and Validity of Transactions: While more members are significant for productive working of a market, a similar market needs to guarantee that all members are confirmed and stay consistent with the important standards and guidelines, ruling out default by any of the gatherings. Furthermore, it ought to guarantee that all related elements working in the market should likewise cling to the guidelines, and work inside the lawful structure given by the controller. Bolster All Eligible Types of Participants: A commercial centre is made by an assortment of members, which incorporate market producers, financial specialists, merchants, theorists, and hedgers. Every one of these members work in the securities exchange with various jobs and capacities. For example, a financial specialist may purchase stocks and hold them for long haul traversing numerous years, while a broker may enter and leave a situation inside seconds. A market producer gives vital liquidity in the market, while a hedger may jump at the chance to exchange subordinates for alleviating the hazard associated with ventures. The securities exchange ought to guarantee that every such member can work flawlessly satisfying their ideal jobs to guarantee the market keeps on working proficiently.

Financial specialist Protection:- Along with well off and institutional speculators, an exceptionally huge number of little speculators are likewise served by the securities exchange for their limited quantity of ventures. These speculators may have constrained money related information, and may not be completely mindful of the entanglements of putting resources into stocks and other recorded instruments. The stock trade must actualize fundamental measures to offer the essential insurance to such speculators to shield them from money related misfortune and guarantee client trust.

For example, a stock trade may order stocks in different fragments relying upon their hazard profiles and permit constrained or no exchanging by basic speculators in high-chance stocks. Subordinates, which have been portrayed by Warren Buffett as money related weapons of mass demolition, are not for everybody as one may lose substantially more than they wager for. Trades frequently force confinements to anticipate people with constrained salary and information from getting into hazardous wagers of subsidiaries.

Adjusted Regulation:- Listed organizations are to a great extent controlled and their dealings are checked by market controllers, similar to the Securities and Exchange Commission (SEC) of the U.S. Furthermore, trades likewise order certain necessities – like, convenient recording of quarterly budgetary reports and moment revealing of any significant improvements - to guarantee all market members become mindful of corporate happenings. Inability to hold fast to the guidelines can prompt suspension of exchanging by the trades and other disciplinary measures.

Participants in Stock Market

Alongside long haul financial specialists and momentary dealers, there are a wide range of kinds of players related with the securities exchange. Every ha a one of a kind job, yet a considerable lot of the jobs are interwoven and rely upon one another to make the market run successfully.

- Stockbrokers, otherwise called enrolled delegates in the U.S., are the authorized experts who purchase and sell protections for the benefit of financial specialists. The agents go about as middle people between the stock trades and the financial specialists by purchasing and selling stocks for the speculators' benefit. A record with a retail intermediary is expected to access the business sectors.

- Portfolio directors are experts who contribute portfolios, or accumulations of protections, for customers. These administrators get proposals from examiners and settle on the purchase or sell choices for the portfolio. Common store organizations, speculative stock investments, and benefits plans use portfolio supervisors to settle on choices and set the venture systems for the cash they hold.

- Speculation financiers speak to organizations in different limits, for example, privately owned businesses that need to open up to the world by means of an IPO or organizations that are associated with pending mergers and acquisitions. They deal with the posting procedure in consistence with the administrative prerequisites of the securities exchange.

- Overseer and warehouse specialist organizations, which are establishment holding clients' protections for care in order to limit the danger of their robbery or misfortune, additionally work in a state of harmony with the trade to move offers to/from the individual records of executing gatherings dependent on exchanging on the securities exchange.
- Market producer, A market creator is an agent vendor who encourages the exchanging of offers by posting offer and ask costs alongside keeping up a stock of offers. He guarantees adequate liquidity in the market for a specific (arrangement of) share(s), and benefits from the distinction between the offer and the ask value he cites.

Objectives

- To Analyse the effect of announcement of Budget on NIFTY Sectoral Indices return in the Pre-Budget and Post Budget period.

Literature Review

Kaur (2004), the study found out that February was one of the most volatile months when compared to April and March, both in cases of NSE & BSE. This, she presumed, was due to the announcement of budget in that month.

Dimensional Securities (2005) observed that Sensex has significantly given negative returns during the post-budget period as compared to a pre-budget time period. The same has been reported in seven occasions in the last 15 years. The study covered all the budgets, presented during the period from 1990 to 2004.

Gupta and Kundu (2006) analyzed the impact of Union Budget on stock market considering the returns and volatility in Sensex. They found that budget have maximum impact in short-term post-budget period, as compared to medium term and long term average returns and volatility does not generally increase in a post-budget situation as the time period increases.

Varadharajan and Vikkraman (2011) studied volatility of four major indices of Indian stock market and the effect of budget on the volatility of stock market from 2002-2011. They found that it is during the post budget, volatility in the stock market is higher in comparison to pre-budget. Return of the indices post-budget is negative when compared to pre-budget. Month of May showed highest volatility followed by October and March showed high volatility. SENSEX and BSE 100 have higher standard deviation as compared to NIFTY and NIFTY JUNIOR in yearly analysis of the indices.

Kutchu(2012) analyses semi-strong efficiency of Indian stock market. The study states the effect of union budget on six selected sectoral indices. The results of the study showed that there is a chance to make abnormal returns by the investor. In light of the results, it seems to be inconclusive evidence about overall impact of budget either on the stock market or on a particular sector, but the results seem to point in the direction that the effect of the Budget may be company-specific.

S.Babu and Dr.M.venkateswara (2013) analysed the impact of Union Budgets on Indian stock prices**.** The period for the study was from 1991 to 2009 and findings say that budgets seem to have effect only up to fifteen trading days from the budget day as far as return is concerned. So investor must be very careful and very swift while investing just around and on the budget day. The authors also reported that a budget exerts the maximum impact in terms of absolute return immediately on and around the budget day which gradually gets reduced as one moves further away from the budget day.

Singhvi (2014),examined the impact of union budgets of index NIFTY of NSE in terms of returns and impact of announcements of union budget on the pre-budget period and post-budget period and have found that budget day returns are more than the returns during the previous 30, 15, and 3 trading days. There is no significant impact of union budget on the average returns provided by Nifty in short term(3), medium term(10) and long term(15) period.

Research Methodology

The daily closing prices of NIFTY index have been collected from the NSE website for a period from 2011 to 2015 which includes a total of 5 Union Budgets and 1 Interim Budget. The time period of the study has been classified into pre-budget and post budget period. A total of 60 trading days' data around the budget period has been taken. The event window is divided into short term (3 days), medium term (10 days), long term (30 days) before and after the declaration of the union budget.

The secondary data have been analysed using the following statistical tools:

- First, the logarithmic daily returns have been found over the previous day's closing value during the entire 5 year period.
- Second, the average returns in pre-budget and post-budget period, during the previous and the next 3, 10 and 30 days are calculated.

The Return is calculated using logarithmic method as follows.
Rt = log (Pt/ Pt-1)
Rt = Market return at the period t
Pt = Closing Price of index at day t
Pt-1 =Closing Price of index at day t-1
log = Natural log
 Third, the standard deviation and variances during the previous and next 3, 10,and 30 days of the budget is calculated.

Analysis And Discussion

Table 1 represents the average daily returns given by CNX NIFTY during various periods around the budget. The estimates indicate that an individual budget has maximum impact (positive or negative) in the short-term(3 days post budget),which diminishes in the medium-term(10 days post budget) and further reduces in the long-term (30 days post budget) in comparison to the pre-budget period.

Table1: AVERAGE RTEURNS OF CNX NIFTY

YEAR	PRE 30 DAYS (X_3)	PRE 10 DAYS (X_2)	PRE 3 DAYS (X_1)	POST 3 DAYS (Y_1)	POST 10 DAYS (Y_2)	POST 30 DAYS (Y_3)
2015	0.00235	0.00196	0.00396	0.00220	-0.00220	-0.00129
2014 (INTERIM)	-0.00072	-0.00024	0.00044	0.00178	-0.00024	0.00340
2014 (UNION)	0.00103	0.00002	-0.00600	-0.00193	0.00290	0.00134
2013	-0.00170	-0.00375	-0.00681	-0.00055	0.00174	-0.00130
2012	0.00050	-0.00037	-0.00195	-0.00072	-0.00145	-0.00080
2011	-0.00244	0.00040	-0.00629	0.01085	0.00247	0.00350

In the short-term there are three cases of positive post-budget returns in 2015, 2014(interim), 2011 and two cases of positive returns during the pre-budget period in 2015, 2014 (interim).In medium term, there are three cases of positive post-budget returns in 2014(union), 2013, 2011 in comparison to three cases of positive returns during the pre-budget period in 2015, 2014(union), 2011. In case of long-term budget effect, there are three cases of positive returns post-budget in 2014(interim), 2014(union), 2011 and three cases of pre-budget returns in 2015, 2014(union), 2012.The above observations have been further corroborated by statistical evidences.

In 2014 (interim budget) pre-budget period, the average daily returns were very low in long-term period (-0.00072) as compared to medium (-0.00024) and short- term (0.00044). Post-budget period, the returns increased in short term (0.00178), became negative in medium-term (-0.00024) and then positive (0.00340) in long-term. This shows that though the interim budget was good enough, but the budget was not impactful for the overall economy in long-run.

In 2014 (union budget), as there was a change in the government of the country, and budget was made in the favour of investors. The announcements made in the Budget were positive, e.g. The increase in investment limits in FDI (foreign direct investment) announced were favourable for the economy. The long term returns in pre- budget and post- budget period were almost same and the budget didn't have a major impact on the returns. This shows that budget have no significant effect in the long run.

In 2015, pre-budget period, in short term the returns were higher than medium term, and long term have higher returns than medium term. Post- budget period, the returns became negative in medium term and long term as compared to short- term i.e. short term have higher returns than medium and long term. This was the first time; the new government has presented the budget so they have brought a very moderate budget to bring the economy back on the track for development. A base was made to support the economy growth in the country. The results show that budget do not have significant impact in long run.

Table 2:VARIANCES OF RETURNS

YEAR	PRE 30 DAYS (X_3)	PRE 10 DAYS (X_2)	PRE 3 DAYS (X_1)	POST 3 DAYS (Y_1)	POST 10 DAYS (Y_2)	POST 30 DAYS (Y_3)
2015	0.00008	0.00007	0.00014	0.00005	0.00009	0.00009
2014(INTERIM)	0.00006	0.00005	0.00009	0.00007	0.00005	0.00004
2014(UNIOIN)	0.00008	0.00010	0.00012	0.00010	0.00006	0.00006
2013	0.00004	0.00008	0.00015	0.00019	0.00011	0.00009
2012	0.00013	0.00014	0.00019	0.00019	0.00023	0.00012
2011	0.00018	0.00025	0.00034	0.00026	0.00021	0.00014

Table 2 represents the variance of returns in CNX NIFTY. A cursory glance at it shows decreased volatility over the long term compared to the medium term and short term in pre-budget period and also a decreased volatility over the long term compared to the medium term and the short term in post-budget period in most of the cases. It implies that volatility & its impact always reduces as we look forward to the long term.

Conclusion

The results seen that the budget has more effect in short term, less in medium term and it diminishes in the long term after the budget announcement retaining the H2 hypothesis.

So, the investors should invest more cautiously around the budget day as volatility in the market is high in short term during the budget announcement days. As a speculator by making investment strategies one can earn extra profits during this time. For the government and regulators, when markets are more volatile they should monitor the market movements on a real time basis and take corrective measures.

There is a scope to carry on further research in this area by doing sector wise impact of budget. Finally it can be concluded that in the Indian scenario in last five years budget had some impact in the short run but no impact of budget is seen in the medium term and long term.

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