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A Study on the Impact of Budget on Stock Market

Lanka Venkata Satya Koushik[1], Kolla Rajesh[2], Dr. Ch. Balaji[3]

[1,2]Student, Koneru Lakshmaiah Education Foundation
[2]Guide, Koneru Lakshmaiah Education Foundation
Email address: [1]2301510009mba1@gmail.com, [2]kollarajesh09@gmail.com

ABSTRACT:

This research deciphers effects of Union Budget announcements on stock market performance, with particular reference to BSE Sensex and Nifty indices. An analysis of historical trends is presented with an emphasis on reactions, both positive and negative, of these indices pre and post the budget. Using event study methodology, the research analyzes abnormal returns and changes in market volatility around big news, in this case, the Budget announcement.

Data indicates elevated market activity conditions in the days leading up to and just after the budget. It is largely from investor sentiment, the general political atmosphere, and economic expectations. Indeed, various sectors respond diversely to different budgetary proposals.

Above all, this study emphasizes the Inescapable importance that the timing of the release of fiscal policies has In shaping market movement. Investors depend on such announcements to predict future market movement and realign their investment strategies accordingly. The research also emphasizes the need for robust policy frameworks to manage post-budget market volatility effectively.

1.INTRODUCTION:

Budget announcements are big events for any economy, as it gets down to sketching out the government's plans of finance and priorities for the coming year. Government spending, where revenues will be generated, and how money would be borrowed, plans laid out which in turn will play a lead role in shaping economic trends and market movement. While the stock market generally responds to policy decisions based on their potential effects on corporate earning potential and industrial growth, much of such reaction depends on factors associated with overall economic sentiment and hence reacts to policy decisions with changes in corporate and business profitability.

This study is revealing itself on the paths through which national budget announcements impinge on the stock markets, focusing on the manifestations of fiscal policy injections on investor sentiment, stock indices, and sector-specific price movements.

1.1 INDUSTRY IMPACT:

- Banking & Financial Services – Changes in interest rates, government borrowing and financial policies directly impact banks and financial institutions.
- Infrastructure and Real Estate – Increased government spending on roads, housing and urban projects boosts growth in these sectors.
- Automobile Industry – Fuel prices, tax policies and incentives for electric vehicles influence car manufactures and sales.
- IT Industry – Policies promoting digital growth, tax benefits and export incentives drive IT performance.
- Consumer Goods & Retail – Personal tax relief and rural income for growth play a key role In shaping demand for everyday goods and retail products.
- Investor Sentiment & Market Volatility – Stock markets react based on budget expectations, media speculation and key fiscal policies.

2.REVIEW OF LITERATURE:

Researchers have long studied the connection between government budget announcements and stock market movements. Budget play a crucial role In shaping investor sentiment, sectoral performance and overall market stability.

While some studies suggest that markets efficiently absorb budget information, others show investor psychology and speculation contribute to volatility. Understanding these patterns help investors and policymakers navigate the impact of budget decisions on financial markets.

3.RESEARCH METHODOLOGY:

3.1 RESEARCH GAP:

While several studies have explored how budget announcements f=influence stock markets, there are still that require deeper investigation. The existing literature primarily focuses on the short- term market reactions, leaving gaps in understanding long term effects and sector specific trends. Below are the research gaps that need further exploration:

- Long term impact of Budget policies

- Sector Wise Performance beyond General Trends

- Role of Behavioral Factors in Market Volatility

- Comparative Analysis with other Economies

- Impact of Policy Implementation and Effectiveness

3.2 OBJECTIVES OF THE STUDY:

- To understand how India's market responds before and after the Union Budget
- To explore how different industries, such as banking, infrastructure, and consumer goods are affected by changes in government spending, taxation and policy decisions.
- To explore how investor expectations, media influence and market speculation contribute to the stock price movements
- To evaluate whether budget decisions lead to sustainable economic growth and stable market performance or if they cause short term fluctuations.

3.3 DATA COLLECTION:

Primary data:

Surveys with Questionnaires with over 179 investors, finance students and experts.

Secondary data:

Financial reports, case studies, and industry trends in the recent times.

3.4 TOOLS OF ANALYSIS:

- **Descriptive statistics**: used to summarize survey responses and identify the impact on Budget announcements on stock markets.
- **Regression analysis:** Applied to measure the impact of budget on stock markets
- **SPSS and Excel**: used for data analysis, graph generation and statistical modeling.
- **Chi-Square test**: Applied to asses relationship between Investment Decision and Market Reaction.

3.5 HYPOTHESIS OF THE STUDY:

H_0 (Null Hypothesis): There is no significant relationship between Investor perceptions of the budget and their Stock Market Growth Expectation.

H_1 (Alternative Hypothesis): There is a significant relationship between investor perceptions of the budget and their Stock market Growth Expectation.

4.DATA ANALYSIS AND INTERPREATATION:

The data collected from 79 investors was analyzed using descriptive statistic, regression analysis and chi-square tests to understand the impact of the budget on stock market expectations ad investment behavior. The key findings are as follows:

Descriptive statistics summary:

Metric	Overall Impact	Stock market Growth Expectation	Risk Appetite Change	Govt Spending Impact	Taxation Policy Influence	Fiscal Deficit Concern
Count	179	179	179	179	179	179
Mean	5.31	5.85	5.45	5.50	5.81	5.03
Standard Deviation	3.02	2.63	2.90	2.73	3.03	2.88
Min	1	1	1	1	1	1
Max	10.0	10.0	10.0	10.0	10.0	10.0

Interpretation:

1. The average rating of Stock Market Growth Expectation is 5.85 which is neutral, so investors are quite comfortable with the budget.

2. On the other hand, the average rating for Fiscal Deficit Concern stands at 5.03, which implies moderate concern among investors about the fiscal deficit.

3. The high standard deviations indicate wide differences of opinion and also lack of consensus among investors.

Regression analysis results:

Variable	Coefficient	Std. Error	t- value	p- value	95% Confidence Internal
constant	5.1078	0.859	5.946	0.000	[3.412,6.803]
Overall Impact	0.0858	0.067	1.290	0.199	[-0.046,0.217]
Risk Appetite Change	0.1256	0.069	1.818	0.071	[-0.011,0.262]
Govt Spending Impact	-0.0021	0.073	-0.029	0.977	[-0.146,0.142]
Taxation policy Influence	-0.0448	0.066	-0.681	0.497	[-0.174,0.085]
Fiscal Deficit CONCERN	-0.0254	0.070	0.364	0.717	[-0163,0.113]

Explanation:

1. The investor context does not appear to devote significant attention to the budget, in this case, our analysis of the stock market.

2. These factors may include, but are not limited to, global economic developments, fluctuations in corporate earnings, and changes in the cost of borrowing.

Chi-Square Test Results:

Investment Decision\Market Reaction	Positive	Negative	Neutral	Row Total
Increase	18	17	21	56
Decrease	19	15	21	55
No Change	22	21	26	69
Column Total	59	53	68	179

Chi-Square Calculation:

$\chi^2 = \sum (O - E)^2 / E$

Where O stands for the frequencies observed in the study, and E represents the frequencies predicted from the study chi-square value of 1.631 and the p-value of 0.803.

df (Degrees of Freedom) = (Rows - 1) × (Columns - 1) = (3-1) × (3-1) = 2 * 2 = 4 p-value = 0.803

Interpretation:

Since the p-value exceeds 0.05, we fail to reject the null hypothesis.

Conclusion: There is no correlation between investment policy and the anticipated market reaction.

Investors do not adjust their investment strategies with regard to the way they expect the market to react to an upcoming budget.

5.CONCLUSION:

1. Risk Appetite Change (p = 0.071) has a weak positive correlation with Stock Market Growth Expectation but is not statistically significant.

2. Other factors, including Overall Impact, Government Spending, Taxation Policy, and Fiscal Deficit Concern, have p-values greater than 0.05, meaning they do not significantly predict stock market growth expectations.

3. R-squared = 0.027, meaning only 2.7% of the variation in stock market growth expectations is explained by these factors, indicating a weak model.

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