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STOCK MARKET VOLATILITY - BASED ON UNION BUDGET

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ABSTRACT:-

Announcement of union budget will bring changes in the investor's wealth.. If investor can take wise and informed decision well in advance before the declaration of budget and after the declaration of budget he may gain good returns out of this. Hence the volatility of the market is very difficult to measure due to various micro and macro level events, considering anyone major event such as budget announcement will give some insight. Volatility refers to the amount of uncertainty or risk about the size of changes in a security's value. A higher volatility means that a security's value can potentially be spread out over a larger range of values. A lower volatility means that a security's value does not fluctuate dramatically, but changes in value at a steady pace over a period of time. The study reveals the impact of budget from 2014 - 2018 in stock markets.

Keywords: - stock market, volatility, budget, risk.

INTRODUCTION:

In developing economies like India, stock market tends to perform better than economies with lesser growth rate. The stock market generally reflects the economic conditions of a country.When an economy grows, its output increases which leads to increase in profitability of firms. Higher the profits, the company shares become more attractive and stock market shows an upward trend in prices. The Union Budget has an impact on the economy and financial market of thecountry. It is an important tool for the government to sustainably use its scarce economic resources and the government announces its plan for the next financial year.. The budget has two parts: one part of budget is an economic survey that gives all the figures on government spending and income, and the remaining part of it, tells what the government intend to do in the coming year. Kenneth et al. (1987) examined the relationship between stock

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returns and stock market volatility. They found evidence that the expected market risk premium is positively related to the predictable volatility of stock returns. They also find the evidence that the unexpected stock market returns are negatively related to the unexpected change in the volatility of stock returns. This negative relation provides indirect evidence of a positive relation between expected risk premiums and volatility.

LITERATURE REVIEW:-

Gupta and Kundu (2006) analyzed the impact of Union Budgets on stock market considering the returns and volatility in Sensex. They found that budgets 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.Porwal and Gupta (2005) examine the hot issue of volatility in the Indian stock markets. The study is based on a daily prices of S&P CNX Nifty for the period of 10 years .They found 1996 was the most volatile year in the past 10 years, this is due to the political instability and absence of proper regulation. Soni Anil (2009) studied the Reaction of the stock market to union budget and monetary policy announcements. This paper sets to examine the impact of the announcement of union budget and monetary policy on the stock market.Mohan, G. et al (2002) investigated the change in volatility in the Indian stock market due to the introduction of future trading using daily closing prices of Nifty and weekly closing prices of Satyam Computers Ltd. The individual stocks seem to be slightly more volatile and their volatility have become less and less dependent on past volatility and more dependent upon news in the current period. The average long-term volatility has decreased at an index level.Agrawal, D. et al (2003) investigated the impact of changes in firms' technological environment on their stock return volatility and dictated a significant and corresponding increase in the idiosyncratic and total stock return volatility when a firm initiates eCommerce. Increase in volatility was due to the changes in the firms' product markets, specifically increased demand uncertainty, resulting from the adoption of a new technology-driven channel.. The study provides strong evidence of the impact of real activity within a firm on its stock return volatility.Varadharajan and Vikkraman

[2015] find that in fourmajor indices of Indian stock market, post-budget volatility in the stock market is higher in comparison to pre-budget volatility. Thomas and Shah [2014] stated that activities of the stock market are greatly influenced by the union budget and the budget has been often viewed as an important summary statistic to reflect the quality of governments' strategies in terms of contribution to macroeconomic development. Many past studies have focused on the reaction to thebudget announcement in the different span of periods, i.e. short term, medium term and longer terms. Gakhar, Kushwaha and Ashok [2004] also finds similar results in India evidencing the maximum impact of the budget in short-term and gradually decreasing in the medium term, and eventually diminishing in the long run. 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, medium term and long term period.

RESEARCH DATA:-

Data Collection: The research is done with the secondary data collected from periodicals, journals, stock market website and newspaper from 2014 to 2018.Budget sources/policy that affects the market volatility –

July 10,2014:-Budget proposes 2 billion (US$31 million) for setting up 2000 producers' organizations across the country. Investments limit under 80C raised from 100,000 (US$1,600) to 150,000 (US$2,300)

Feb 28,2015:-Additional 2 percent surcharge on people earning over Rs 1 crore; to fetch Rs 9,000 crore.To lower Corporate Tax to 25% over next four years.Incentivize use of credit, debit cards; disincentives cash transaction to curb black money.

Feb 29,2016:-Excise duty raised from 10 to 15 per cent on tobacco products other than beedis. Dividend in excess of Rs. 10 lakh per annum to be taxed at 10 per cent.

Feb01,2017:- The Constitution Amendment Bill for GST and the progress for its

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implementation; and of high denomination bank notes. Aadhar Pay, a merchant version of Aadhar Enabled Payment System, will be launched shortly. A Mission will be set up with a target of 2,500 crore digital transactions for 2017-18 through UPI, USSD, Aadhar Pay, IMPS and debit cards.

Feb 01,2018:-Dividend distribution tax of 10% on dividend payout option scheme of mutual funds. Target for 2018-19 is Rs 80,000 crore.Proposed to tax long term capital gains exceeding Rs 1 lakh at 10 per cent without indexation

Figure:1 budget performance in Sensex and Nifty

Period	Sensex	Changes in %	Nifty	Change in %
July 10, 2014	25,372.8	-0.3	7567.75	-0.17
Feb 28,2015	29,361.5	0.5	8901.85	0.57
Feb 29,2016	23,002.0	-0.7	6987.05	-0.42
Feb 01,2017	28,141.6	1.8	8716.40	1.55
Feb 01,2018	35,906.7	-0.2	11016.90	-0.11

This shows the average BSE Index movement and its change in percentage

Figure:2S&P BSE SENSEX -Year and Date wise

Year	Open	High	Low	Close
2014	21222.19	28822.37	19963.12	27499.42
2015	27485.77	30024.74	24833.54	26117.54
2016	26101.5	29077.28	22494.61	26626.46
2017	26711.15	34137.97	26447.06	34056.83
2018	34059.99	36443.98	33703.37	35066.75

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Date	Open	High	Low	Cl
29-Jan-18	36106.36	36443.98	36093.36	3
30-Jan-18	36277.12	36291.82	35993.41	3
31-Jan-18	35951.64	36050.69	35818.41	3
01-02-2018	36048.99	36256.83	35501.74	3
02-Feb-18	35707.6	35738.13	35006.41	3

Figure: 3 NIFTY – Date wise movement

Date	Open	High	Low	Close
29-Jan-18	11079.35	11171.55	11075.95	1113
30-Jan-18	11120.85	11121.1	11033.9	11049.
31-Jan-18	11018.8	11058.5	10979.3	1102
01-02-2018	11044.55	11117.35	10878.8	1101
02-Feb-18	10938.2	10954.95	10736.1	1076

The above data provides the explanation about the movement of stock index due to the impact of budget in all the periodical term from 2014 – 2018. The study shows drastic fall in the value of share, after budget 2018 on February 1st. This fall was mainly due to the LTCG announcement of - exceeding Rs 1 lakh at 10 per cent without indexation and dividend issue for certain mutual fund scheme.

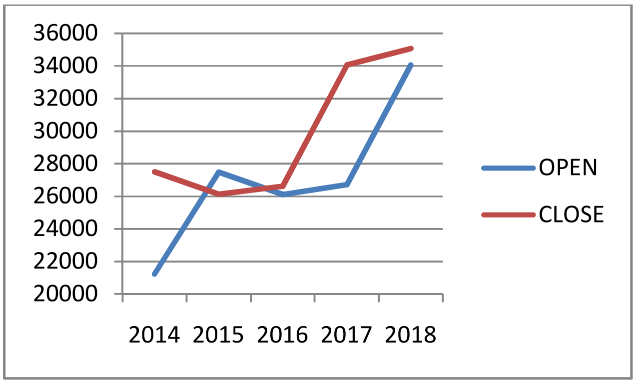

FIGURE- SENSEX AND NIFTY VOLATILITY (BEFORE AND AFTER BUDGET)

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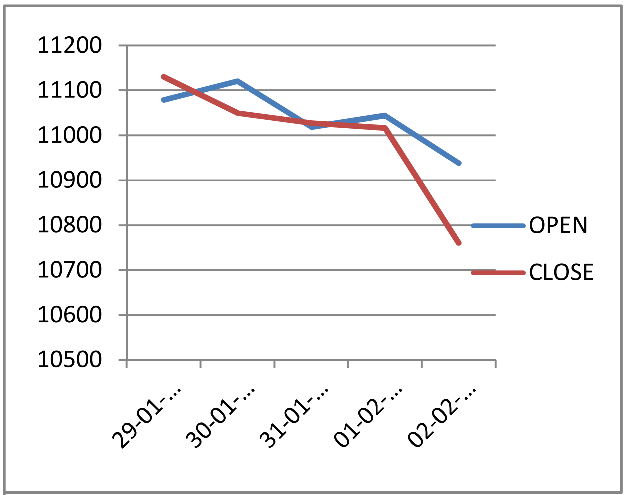

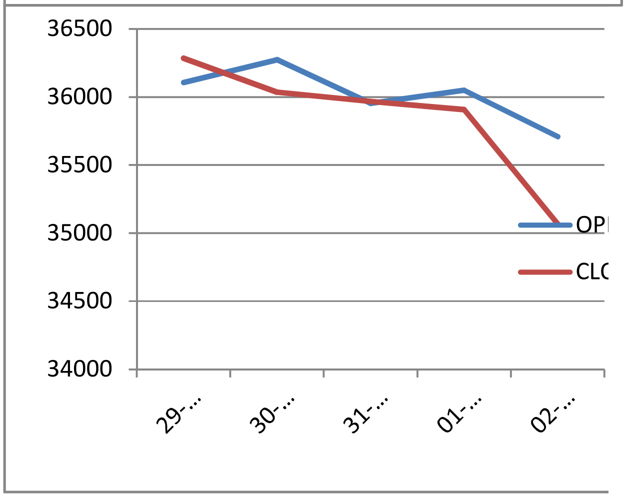

CONCLUSION:

The study proves that the immediate impact of stock market due to the budget proposals during those periods. Simultaneously, it proves that the preferable budget has given preferable movement and gain to the investors. The investors are facing rigorous point of discomfort due to the LTCG proposal announced by finance minister ArunJaitley in 2018 budget.A day after the government announced imposing 10 percent long-term capital gains tax (LTCG) in equity, the Sensex plummeted 840 points -- its biggest single-day slump since August 24, 2015. And a minimum fall of about 120 points in nifty NSE market.

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