An Empirical Study on impact of Union Budget 2020 on Indian Stock Market

Taru Maheshwari
Sr. Asstt.Prof. ABES EC, Gzb

Shubhra Johri
Asstt.Prof, Sandip University, Nashik

Suvarna Kute
Asstt.Prof, Sandip University, Nashik

Abstract

Union budget is a major policy announcement made by the government each year to bring in the waves of changes in the economy as deemed necessary by the economic conditions of a country. It is the annual statement of estimated receipts and estimated expenditure of the government for a year starting from 1st April to 31st March. Capital market efficiency forces information to reflect in stock prices the level and magnitude of which depends on the form of efficiency inherent in the economy. Like any other information stock market reacts rapidly and reflects to this information as well. Depending upon the policy changes made by the government in the union budget the investors make their own perception of the likelihood of and direction of changes pre and post budget announcement date. Event study analysis is a technique used to analyse impact of event be it Social, Economic or political events on the stock market. This paper is an attempt to analyse the impact of budget 2020 announcement on the Indian stock market using the technique of event study analysis. The impact is measured using Market Model of event study and the result of our study shows that the market is semi strong efficient and is negatively affected by Budget announcement. The effect of Budget announcement is not similar across sectors.

Keywords: Abnormal Returns, Event Study Analysis, Semi strong efficiency, Stock market indices.

Introduction

Stock market is vulnerable to numerous information pitched in the market every now and then. How much any information will impact the stocks depends a lot on the market efficiency of the capital markets of the country. Economies be it developed or developing provide ways and means and opportunities to benefit from the abnormal return exhibited therein onus of which lies to the informational efficiency. Like any other event Union Budget, the policy announcement of the government impacts the financial markets as well. Financial Market Performance and union budget have a close relationship. In economies having high growth rate stock market performs better than economies having low growth rate. The market is nothing but financial position of the country. As the
economy grows, its output increases and as a result its profitability increases. As profit increases shares of company becomes more attractive and stock market shows positive changes in the prices of shares.

Many of Economic policies of India are formulated based on union budget. Union budget have impact on financial as well as economic decisions of a country. Union budget is an annual financial statement of the country which shows estimated annual expenditure and estimated revenues of the government for the year starting from 1st April to 31st March. Estimated standards helps in measuring performance and finding variances.

Union budget includes governments plan for next year. Quality budget is a guide to government in framing various policies and it gives direction in investment decisions as well. With the help of union budget Government can forecast the economic growth of country and understand different policies and its impact.

Budget is a policy announcement made by the government to inculcate the expected changes in the economy as required looking into the current circumstances of the economy. As the government announces financial plan for next year union budget is very important to take decisions like changes in tax rates of various commodities and services, Expenditure allocation to various sectors, decisions of changes in monetary policies etc. The information provided in union budget related with different sectors affects the stock prices of listed companies. However, such information helps people to take investment decisions and it affects stock market.

Like any other event Union budget is even expected to bring waves of changes and fluctuations in the stock market performance. The level of impact depends on the capital market efficiency of the economy. This research intends to find out Indian stock market sensitivity to policy announcement of Union Budget 2020. The research is carried out to establish the abnormality in returns exhibited by the stock market in response to the Budget announcement in the pre and post budget period.

Literature Review:

An event study analysis is a technique used to assess the reaction of investors in response to events inherent in the economy which could possibly be political or economic events ranging from policy announcements, change in management structure, dividend declaration or budget announcement etc. A number of studies have been trying to apply event study analysis for analysing the impact of these events. This methodology was used by Fama, Fischer, Jensen, and Roll (1969) initially to study the stock market response to stock splits. Since then the methodology is adopted by various researchers to analyse abnormal returns as reflected by the stock market behaviour. Obaidullah (1990) analysed the efficiency of Indian stock markets in response to half yearly dividend announcement and concludes stock market is semi-strong efficient when analysed in Indian context.

Neetu Mehndiratta, Shuchi Gupta (2010) observed no significant abnormal returns in the period preceding the event date and on the event date. The event under consideration was dividend announcement. The researchers observed a positive impact on stock market in the post announcement period. Mohammad Bayezid Ali, Tanbir Ahmed Chowdhury (2010) examined stock market reaction post dividend announcement using event study technique and observed no significant stock market reaction on dividend announcement. The researcher attributed the results to insider trading. Shaveta Gupta, Balram Dogra, A K Vashisht, Shevata Ghai (2012) found that dividend policy is absolutely a matter of interest for the shareholders. The abnormal reaction of stock market can be due to the difference in information as known to the shareholders and the insiders which can be a cause of the
market inefficiency. Md Lutfor Rahmon, Mohammad Ruhul Amin, Md. Noman Siddikee (2012) analysed stock market reaction to various forms of dividend using even study technique and found no clear evidence of abnormal returns on the event date. The researcher however observed strongly negative returns in case of stock dividend prior to the announcement date. Event study techniques have long been used to analyse stock market reaction to dividend payout. It has been observed that when dividend payout increases it affects stock market positively and an announcement of decrease in dividend payout affects stock market negatively (Dr. Sukhjeet K. Matharu, Dr. Ravi Changle (2015)). Dividend announcement positively impacts the stock market and the reaction is considered positive around the announcement date (Dinh Bao Ngoc, Nguyen Chi Cuong (2016)). The researchers found that Stock price increases prior to ex-dividend date and declines post it. Amit Balkrishna Joshi, Dr. Manas Mayur (2017) on application of event study technique observed that stock dividend announcement tends to inherit a perceived difference in the wealth of the shareholders. The researchers found that stock dividend announcement was perceived as beneficial by the Investors due to the dividend signalling effect. Rane Anjali, Guntur Anjana Raju (2017) observed a significant impact of dividend declaration on stock market when applying event study technique. The researchers found that the information on Dividend announcement has a major impact on share prices. The stock market shows signalling effect of dividends and have a significant influence on abnormal returns of dividend announcement. Mohanty (2004) applied event study technique to analyse impact of declaration of various policy issues on stock market and found a strong reaction of stocks in response to public news Rao (1997) applied event study technique to analyse the impact of macroeconomic events more particularly union budget and the credit policy announcement on stock market. The study spanned for a period from 1991-1995. The researcher found that while budgets had a positive correlation with stock market volatility but no specific behaviour was observed in the stock market in response to credit policy announcements Thomas and Ajay Shah (2002) examined Indian stock market response to union budget announcement and found no clear evidence on stock market reaction in response to budget announcement post it. Also, the researcher observed that stock market does not reflect any overreaction or under reaction pre or post declaration and concluded Indian stock markets to be Semi-strong efficient. Gupta and Kundu (2006) analysed the applied event study to observe the return variation and volatility in Sensex in response to union budget. The researcher analysed the impact in different time periods and found a maximum market reaction in post budget period in a short-term horizon vis-à-vis medium term or long term. Also, the researcher observed that average returns and volatility do not increase post budget period. Ranjani, Sujeewa and Rathnasiri (2009) applied the technique of event study on Colombo stock exchange indices (All Share Price Index (ASPI) and Milanka Price Index (MPI)) to analyse the impact of Sri Lankan government budget announcements. The researcher observed a downgrade in indices in the event window. The researcher attributed these negative responses to changes in tax regimes Anil Soni and Jalandhar (2010) analysed budget announcement and monetary policy changes impact on stock market. The researcher analysed the impact in the event window for 3 different time horizons viz. short term (3days) , medium term (15 days) and long term (30 days) and found the impact to be more prominent in short terms time frame as compared to longer horizons .Event study technique when applied to analyse effect of union budget announcements on stock market using Nifty Index indicate the response to be significant in short and medium term tenures and insignificant in long term (Singh & Kansal (2010)). Varadharajan and Vikraman (2011) studied impact of budget announcement on four major Indian stock market indices viz. SENSEX, BSE 100, NIFTY and NIFTY JUNIOR for a period from 2002-2011 and found volatility to be more significant post budget announcement as and when compared to pre-budget. The researchers
found that returns of the indices were negative in post budget period. Also, the researchers found SENSEX and BSE 100 to be reflecting a higher standard deviation when compared to NIFTY and NIFTY JUNIOR. Kutchu (2012) analysed impact of union budget announcement on six select sectoral indices and found stock market to exhibit abnormal returns. The researcher found no clear evidence of impact of budget announcement on stock market in general or any sector in particular. The researcher concluded semi-strong efficiency of Indian stock market. S. Babu and Dr. M.Venkateswaralu (2013) examined Indian stock price movements in response to announcement of Union Budgets. The researchers observed that impact of budgets can be seen only up to fifteen days post budget announcement. Also, the researchers observed the magnitude of impact to be more immediately on and around the budget day and to be diminishing with time period. Singhvi (2014) applied event study technique to examine the stock market reaction (of Nifty) in response to budget announcement on the pre and post-budget period and observed the returns to be more on event date when compared to pre announcement date. Also the researchers do not find any clear evidence of a major impact on Nifty returns in short term, medium term and long term horizons. Indian, UK and US stock markets in response to budget announcements exhibit significant abnormal returns in short term (Khanna & Gogia 2014). R. Deepak & N. Bhavya (2014) did an extensive study on stock market reactions on union budget announcements for a period of 1993-2014. The study was based on sectoral indices. The researchers found no apparent stock market deviations or abnormal return in the period under study. The researchers inferred that investors cannot rely on shorter time frame reactions as market tends to correct itself in the long run. Divya Verma Gakhar, Ms. Neha Kushwaha and Ms. Vinita Ashok (2015) found that budget does not have a significant impact on the CNX NIFTY. The researchers observed that budget has more effect in short term, less in medium term and it diminishes in the long term after the budget announcement.

Research Gap

Various Reports have shown the stock market performance or investors reaction during Union Budget 2020 announcement but none of the study has done the empirical analyses to capture the effect.

Objective of the Study

The main objective of this study is to examine the impact of Union Budget announcement on the stock market and to understand whether publicly available information really influence the stock market. The study aims to focus on the semi strong efficiency of market across various sectors which helps various traders of stock market to formulate various trading strategies.

The main objective of this study are as follows:

1. To examine the impact of Union Budget announcement on the stock market
2. To investigate whether there are any abnormal returns around the event date.
3. To investigate if the reaction of Indian stock markets reflects the market efficiency in semi strong form or not
4. To analyse whether the impact of the Budget announcement is similar across select sectors.
Research Methodology:

Fama, Fisher Jensen and Roll have used event study methodology to test semi strong form efficiency of market. Brown and Warner (1980) has also conducted event study to test semi strong efficiency on the basis of daily returns. This research study also uses event study to test the semi strong efficiency of market.

Type of Research: The study under consideration is analytical in nature.

Data and Data Sources:

As the current empirical study was analytical in nature, the data for the purpose of the study was dependent on secondary sources. For the purpose of the study sectoral indices of NSE were chosen.

The sectors under consideration include: Auto, Bank, Consumer Durables, financial services, IT, Media, Metal, Pharma, Realty, FMCG. For study purpose, the adjusted closing price for the chosen indices have been collected through NSE website.

Methodology:

Event study methodology is used to capture the impact of Union Budget announcement on security returns. The event of interest for the study is the announcement of Union Budget i.e. 1st February 2020

The event window has been chosen as -10 through zero to +10, where zero represents the Union Budget Announcement date and -10, and +10 are the period before and after the announcement date. The estimation period chosen for the study is 150 days prior to the event. Previous studies have taken maximum of 240 days to capture the effect on abnormal returns. The event window is short to capture the exact impact of announcement of Budget.

The closing prices of various sectoral indices viz. Automobile, Banking, IT, FMCG, Financial Services, Metal, Media, Pharma, Realty, Consumer Durable and the market index Nifty has been taken from NSE India. Various Multivariate Model, Market Model and event clustering method is used in past studies to calculate abnormal returns. In this study the Market Model is used to calculate the expected return. The abnormal return has been calculated by the difference of stock return and normal return. The cumulative (CAGR) has been computed for 1 day, 2 days, 5 days and 10 days.

Tools Used for Analysis: T statistic has been used for CAGR testing in excel. If the computed value is greater than 1.96 null is rejected else null is accepted.

Hypothesis:

H1: The stock market is not semi strong efficient due to Budget announcement.

H2: There is no significant cumulative abnormal return (CAR) during the event window caused by announcement of Union Budget.

H3: Abnormal Returns do not exhibit similarity across various sectors

Data Analysis and Discussions
The return of market index Nifty and stock is calculated by taking the closing prices of nifty and various sectors. The normal return is calculated by using Market Model which is also used in the study of Coutts (1994). The abnormal return is calculated by subtracting stock return from normal return. The value of alpha, beta and standard deviation is shown in Table1 for various sectors. Automobile, Bank and Metal sector are more volatile than market having beta more than 1. Financial Service Sector and Metal are also volatile but less than metal, automobile and banking sector. Consumer Durable, IT, Pharma and FMCG is less volatile than market (https://www.valueresearchonline.com/stories/12465/significance-of-beta). The standard deviation is less than one in all sectors. The abnormal return is the difference between the normal return calculated by the market model and stock return which is depicted in Table2 for one day, two days, five days and ten days prior and post event. The abnormal return is mostly negative in consumer durable and Pharma sector. Also, the abnormal return is not showing any significant trend. Table3 shows the cumulative abnormal return for three days (one day prior and after the event), five days (two days prior and after the event), eleven days (five days prior and after the event) and twenty-one days (ten days prior and after the event). The cumulative abnormal return is almost negative in all the sectors except Banking and Financial Services. The T statistic is calculated to test significant abnormal return in Table 4 for for one day, two days, five days and ten days prior and post event. The T statistic is insignificant for all the sectors except Banking and Automobile sector. The Banking sector is showing significant abnormal return for two days prior to the event date as the T statistic is 2.46 for one day prior to the event and 2.16 for two days prior to the event which is greater than 1.96. This is a depiction of investors positive perception about Banking sector. Auto sector is significant after ten days of the event but have a negative impact as the statistic is -2.1786. Table 5 represent the T statistic for cumulative abnormal return for three days (one day prior and after the event), five days (two days prior and after the event), eleven days (five days prior and after the event) and twenty-one days (ten days prior and after the event) which is not significant in any sector. Thus, the hypothesis2 that there is no significant cumulative abnormal return (CAR) during the event window caused by announcement of Union Budget is accepted. Since, the CAR is insignificant in all sectors the hypothesis1 that the market is not semi strong efficient is rejected. The hypothesis 3 that Abnormal Return does not exhibit similarity across sectors is proved on the ground as the abnormal return is mostly negative except Banking and Financial Services as well as it is significant only for the banking sector for one and two days prior to the event and for auto sector it is significant after ten days of the event.
### Table 1: Alpha, Beta and Standard Deviation of various Sectors of NSE

<table>
<thead>
<tr>
<th>Parameters/Sectors</th>
<th>Auto</th>
<th>Bank</th>
<th>Consumer</th>
<th>Durable</th>
<th>Financial</th>
<th>Service</th>
<th>IT</th>
<th>Media</th>
<th>Metal</th>
<th>Pharma</th>
<th>Realty</th>
<th>FMCG</th>
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<tbody>
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<td>Alpha</td>
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<td>0.394</td>
<td>0.268</td>
<td>-0.264</td>
<td>0.745</td>
<td>-0.112</td>
<td>0.403</td>
<td>0.371</td>
<td>-0.216</td>
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<tr>
<td>Beta</td>
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<td>1.394</td>
<td>0.739</td>
<td>1.264</td>
<td>0.255</td>
<td>1.111</td>
<td>1.403</td>
<td>0.629</td>
<td>1.217</td>
<td>0.721</td>
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<tr>
<td>STDEV</td>
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<td>0.006</td>
<td>0.080</td>
<td>0.005</td>
<td>0.010</td>
<td>0.016</td>
<td>0.012</td>
<td>0.010</td>
<td>0.011</td>
<td>0.005</td>
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</table>

### Table 2: Abnormal Return of various sectors of NSE

<table>
<thead>
<tr>
<th>Window</th>
<th>Auto</th>
<th>Bank</th>
<th>Consumer</th>
<th>Durable</th>
<th>Financial</th>
<th>Service</th>
<th>IT</th>
<th>Media</th>
<th>Metal</th>
<th>Pharma</th>
<th>Realty</th>
<th>FMCG</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1.000</td>
<td>0.002</td>
<td>0.015</td>
<td>0.004</td>
<td>0.009</td>
<td>0.991</td>
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<tr>
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<td>0.018</td>
<td>-0.004</td>
<td>0.015</td>
<td>1.221</td>
<td>0.000</td>
<td>0.016</td>
<td>-0.024</td>
<td>0.023</td>
<td>0.111</td>
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<tr>
<td>-5.000</td>
<td>0.014</td>
<td>0.021</td>
<td>-0.027</td>
<td>0.021</td>
<td>0.633</td>
<td>0.002</td>
<td>0.049</td>
<td>-0.004</td>
<td>0.032</td>
<td>0.006</td>
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<tr>
<td>-10.000</td>
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<td>1.000</td>
<td>0.008</td>
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<td>2.000</td>
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<td>-0.002</td>
<td>0.172</td>
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<td>0.040</td>
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<td>0.004</td>
<td>0.015</td>
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### Table 3: Cumulative (CAR) of various Sectors of NSE

<table>
<thead>
<tr>
<th>Window</th>
<th>Auto</th>
<th>Bank</th>
<th>Consumer</th>
<th>Durable</th>
<th>Financial</th>
<th>Service</th>
<th>It</th>
<th>Media</th>
<th>Metal</th>
<th>Pharma</th>
<th>Realty</th>
<th>FMCG</th>
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<tbody>
<tr>
<td>3.000</td>
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<td>0.019</td>
<td>-0.019</td>
<td>0.001</td>
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<td>-0.006</td>
<td>-0.016</td>
<td>-0.020</td>
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<tr>
<td>5.000</td>
<td>0.005</td>
<td>0.012</td>
<td>-0.028</td>
<td>0.006</td>
<td>-0.191</td>
<td>-0.028</td>
<td>-0.007</td>
<td>-0.027</td>
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<td>-0.008</td>
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<td>0.011</td>
<td>-0.033</td>
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Table 4. T statistic of Abnormal Return of various sectors at National stock Exchange

<table>
<thead>
<tr>
<th>Window</th>
<th>Auto</th>
<th>Bank</th>
<th>Consumer Durable</th>
<th>Financial Service</th>
<th>IT</th>
<th>Media</th>
<th>Metal</th>
<th>Pharma</th>
<th>Realty</th>
<th>FMCG</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1.000</td>
<td>-0.224</td>
<td>2.46934*</td>
<td>0.054</td>
<td>1.723</td>
<td>0.091</td>
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<td>-0.824</td>
<td>1.632</td>
<td>0.165</td>
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<td>2.16169*</td>
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<td>0.496</td>
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Table 5. T statistic of Cumulative Abnormal Return of various sectors at National stock Exchange

<table>
<thead>
<tr>
<th>Window</th>
<th>Auto</th>
<th>Bank</th>
<th>Consumer Durable</th>
<th>Financial Service</th>
<th>IT</th>
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<th>Metal</th>
<th>Pharma</th>
<th>Realty</th>
<th>FMCG</th>
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</thead>
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<td>0.477</td>
<td>-0.191</td>
<td>-0.786</td>
<td>-0.255</td>
<td>-1.232</td>
<td>-0.641</td>
<td>-1.134</td>
</tr>
<tr>
<td>11.000</td>
<td>-0.198</td>
<td>0.902</td>
<td>-0.227</td>
<td>1.038</td>
<td>0.118</td>
<td>-0.166</td>
<td>-0.184</td>
<td>0.432</td>
<td>-0.424</td>
<td>-0.759</td>
</tr>
<tr>
<td>21.000</td>
<td>-0.987</td>
<td>0.258</td>
<td>-0.381</td>
<td>0.550</td>
<td>0.534</td>
<td>0.316</td>
<td>-0.935</td>
<td>0.254</td>
<td>-0.628</td>
<td>-0.442</td>
</tr>
</tbody>
</table>

Impact of Budget Announcement Across various sectors:

All sectors are showing abnormal return which are not statistically significant which says that the market is semi strong efficient and the investor is not able to gain abnormal return. The Banking Sector is showing abnormal return which is statistically significant two days prior to the event and also the automobile sector is statistically significant after ten days of the event. The investor is only able to gain abnormal return from these sectors. All other sectors have not been impacted during Budget announcement which shows that the publicly available information is captured by the stock market and the investor is not able get abnormal return. The result of this study is consistent with Thomas and Ajay Shah (2002), Kutchu Vishal (2012). In this study, most of the returns of various sectors are negatively impacted due to Budget announcement and the same result is analysed by Varadharajan and Vikkraman (2011). Most of the sectoral returns are negative which is
a clear indication of investors non cheerness and is supported by a update of financial express (https://www.financialexpress.com/market/budget-2020-share-market-live-updates-impact-of-budget-2020-on-stock-market/1842590/).

**Impact of Union Budget announcement on the stock market:**

The stock market is inversely affected due to budget announcement and has created selling pressure which laid nifty and Sensex down (https://www.business-standard.com/budget/article/budget-2020-selling-pressurThe drop down in the shares can be used as a weapon e-on-stock-market-may-continue-say-experts-120020300034_1.html). The event study methodology is helpful in buy and hold strategies of various shares when return is negative. Stock and company impact analysis can be done for earning gain (https://www.financialexpress.com/stock-analysis/).

**Conclusion, Limitations & Future Scope**

The study examined the impact of Union Budget announcement on stock market more specifically the reaction of sectoral indices of NSE. A deeper insight into the data shows that there is no significant impact of Union Budget stock market prices for the period of study. It was also observed that none of the sectors were majorly impacted by the event under consideration and the CAR was not very significant. Of the sectors under consideration only two sectors reflected abnormal returns viz. the banking sector and the automobile sector. The impact of Union Budget announcement was only for a shorter time duration, but it recovered soon. So, we can infer from this study that no any significant impact of Union Budget announcement on stock market prices was observed. All sectors are showing abnormal return which are not statistically significant which says that the market is semi strong efficient and the investor is not able to gain abnormal return. The study is adding to the body of knowledge as it can be helpful for traders for their trading strategies as well as it is an implication for efficiency of market. This study’s insight can be further tested for consistency of the results when event of same type reoccurs.

The study is limited to sectoral indices of NSE. Various other thematic indices and broad market index like Sensex can be taken for further study. Also, the individualised return of various companies of different sectors can be taken as an area of future research.

**References:**


https://www.financialexpress.com/stock-analysis/

https://www.business-standard.com/budget/article/budget-2020-selling-pressurThe drop down in the shares can be used as a weapon e-on-stock-market-may-continue-say-experts-120020300034_1.html