

The impact of union budget on indian economy



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\n[[toc title="Table of Contents"](#)]\n

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1. [Description of Project in brief:](#) \n \t
2. [SCALE:](#) \n \t
3. [Objectives Of The Project:](#) \n \t
4. [Methodology:](#) \n \t
5. [Schedule:](#) \n \t
6. [Limitations of the study:](#) \n

\n[/toc]\n \n

The union budget is perhaps the most watched event in economic policy making in India. The core fiscal issues like taxation, expenditure and fiscal deficit are quite important for macro-economics. In addition, the government has chosen the budget speech as a mechanism for announcing new policy initiatives, and for outlining some plans for economic policy in the coming months.

Casual empiricism reveals that stock market is greatly influenced by the budget. The stock market response to a budget is considered to be an important summary statistic measure of the quality of the budget in terms of improving macro-economic prospects.

The research was carried out in the form of Event Analysis and 45 days before and after the budget, were considered to measure the volatility in the stock market.

The results may be summarised as follows:

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The stock market appears to be fairly efficient at information processing about the Union Budget.

Union Budgets add 10% to the stock index, on average, and yield elevated volatility starting from the Budget date for the following 30 trading days or so.

This finding is only a first examination of a wide range of questions on the interplay

between the Union Budget and the stock market. Other areas which merit further

exploration include:

The stock market receives some budgets well and others badly. It would be useful

to test whether, ex-post, it the case that the budgets which were well-received were

actually followed by strong GDP growth.

When the Finance Minister reads out the budget speech, the efficient stock market

should react within seconds to each sentence that is read out, in terms of a direct

impact on stock prices of firms and industries that are either positively or negatively

affected. Given that intra-day stock price information is now available, it should

be possible to test whether such impacts do take place, and whether there is overreaction or under-reaction in these immediate responses.

The Indian economy has seen major changes in the role of Government, and hence

the Union Budget, in the economy from 1991 onwards. The stock market has seen major improvements in liquidity from 1995 onwards. The technologies and

institutional mechanisms for transferring and processing information, which are the

foundation of information processing by financial markets, have been transformed

over the years.

Hence, the research done shows limited relationship between the stock market and the Union Budget. (BY SUSAN THOMAS AND AJAY SHAH)

Description of Project in brief:

On 28th February 2011, Mr Pranab Mukherjee, the finance minister of India, announced the Union Budget for the fiscal period 2011-2012, taking into

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consideration the high fiscal deficit, high inflation and rising commodity prices especially, crude oil prices are affecting India's increasing GDP growth rate over the past 2 years after global financial crisis in 2008.

Since my project is dedicated towards analysing impact of union budget on stock market and on 5 sectors namely, infrastructure, telecom, agriculture, banking and information technology, I'll be doing thorough analysis of how union budget, which is passed every year by the finance minister of India, plays an instrumental role in defining the growth trajectory of India and how the different proposals made by finance minister affect stock market's performance and the above mentioned 5 sectors.

In my project I will be concentrating on the previous three years' budgets, that is, budgets of 2008-2009, 2009-2010 and 2010-2011 and the budget passed this year for the fiscal period 2011-2012. After this I will do comparative analysis on them in order to highlight the impact that different tax rates and duties have on the growth and GDP of Indian economy, on the performance of stock market and above listed 5 sectors.

What I mean by doing analysis on 5 sectors is that I want to quantify the contribution that these sectors make to the GDP of India based on the union budgets passed for the last 3 years and whether more or less emphasis has been put on these sectors over the past 3 years.

I'll be doing comparative analysis on the following things:

Crude oil prices in the past 3 years

Pattern of FII and FDI inflows and outflows

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Wholesale price index by taking 52 weeks' inflation average

Growth rate in imports and exports

Current account balance

Total planned and non-planned expenditure

Primary, fiscal and revenue deficits

Imposition of minimum alternative tax on the 5 sectors

Income tax exemption limits for different categories of Indian citizens

Custom and excise duty rates

Performance of BSE Sensex and NSE S&P CNX Nifty

Corporate tax rates

I will be analysing how increase and decrease in custom and excise duties and service tax affect the GDP and growth of the economy and their influence on stock market performance and on 5 selected sectors.

I will also be concentrating as to why there is so much of talks going on in the country with the implementation of GST in the next fiscal that is goods and services tax and DTC that is direct tax code which is slated to be implemented in 2012-2013 fiscal year.

What are the reasons behind high inflation rate and soaring crude oil prices which are causing so much of volatility in stock market performance and thus worsening current figures of fiscal deficit.

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The benefit that my company, that is Globe Capital Market, will get with my project is that I can provide them intriguing insights about the 5 sectors that I have undertaken for my study. By studying them properly and analysing the budget of the previous 3 years, I can help my company out as to which sectors are projected to contribute more or less to the Indian GDP and thus they can advise their clients to invest in those companies of sectors whose future looks bright and refrain from those companies in sectors whose future looks bleak.

When I'm talking about FIIs and FDIs, I want to study the role that these investors play in making the economy grow further and their impact on stock market. Like if they invest money in India and withdraw money from India, how stock market reacts and performs and how their behaviour impacts the sentiments of other investors like retail investors.

Through this project I also want to study the different fiscal and monetary policies introduced by the government and reserve bank of India in order to make the economy move in the right direction and how these policies affect the FDI and FII inflows into the country and thus impact the stock market in India.

Following techniques I will use in the execution of my project:

I will carry out Event Analysis to study the upward or downward movements in stock market's performance caused by post or pre budget event.

I will also do Event Analysis to study the impact of high crude oil prices on a particular company's scrip performance.

In order to do comparative analysis, I will use statistical techniques like trend analysis in order to fathom out how different sectors have performed over the past years though focus would be on the 5 sectors over the past 3 years.

I will also use Histograms, Bar Charts and Pie charts to analyse the performance of 5 sectors over the past 3 years and thus depicting whether improvements are taking place or not through budget proposals.

I will also formulate a scale in order to highlight the different allocations and rates of tax and duties imposed over the past 3 years, are positive, negative or neutral from 5 sectors' point of view. For example:

SCALE:

POSITIVE+ This shows the announcements lived upto industry's expectations.

SLIGHTLY POSITIVE This shows announcements are positive but not upto industry's expectations.

NEUTRAL Proposals having neither positive nor negative impact.

SLIGHTLY NEGATIVE Proposals which are having a slight negative impact on an industry.

NEGATIVE Proposals which will have a highly negative impact on an Industry's performance.

So these are the different tasks that I will undertake in my project and help my company out, to better guide their clients for investments purpose, with the meticulous work that I'll do in my project and thus ameliorate my skills and knowledge in the process.

Objectives Of The Project:

To study the impact of union budgets on stock market's performance in the last 3 years.

To study the impact of union budgets on 5 sectors namely Infrastructure, Telecom, Agriculture, banking and Information Technology on the basis of allocations and proposals made for these sectors and analyse their performance in the past 3 years.

To study the likely impact of union budget passed in 2011, for the fiscal period 2011-2012, on stock market's and 5 sectors' performance.

To do Event Analysis on the stock market's performance when budget (event) is announced .

To do Event Analysis on a particular company's scrip performance through the impact of crude oil prices.

To carry out sector-wise analysis of the above mentioned 5 sectors after studying budgets of previous 3 years and the budget passed this year for the next fiscal period in order to help my company to advise their clients to take investment decisions on those companies in sectors whose future looks positive.

Methodology:

In this project I will conduct Secondary Research on the basis of reports, data and material gathered from various websites and databases.

Through the reports I will assimilate the information and data mentioned in them, and do trend analysis and draw pie charts, bar charts and histograms to give meaning to the study that I have undertaken.

To carry out event analysis I will resort to statistical technique like testing of hypothesis in order to study the reasons for the volatility in stock market's performance before and after the event, also including the day when event takes place.

As far as primary research is concerned it would be quite restricted, as the project that I have undertaken mainly revolves around secondary data but my primary research would be interaction with my company's management to incorporate their insights into the project.

Schedule:

On or before the date of submission of interim report, I will submit the impact of union budget on stock market and carry out event analysis to analyse the fluctuations in stock market's performance pre and post budget event.

On or before the date of submission of final report I will submit the impact of budget on 5 sectors' performance that I have undertaken and carry out event analysis to highlight the impact of crude oil prices on a particular company's stock price.

Limitations of the study:

Since I will be absolutely depending on secondary information from various websites and databases, so 100% accuracy of the findings, analysis and conclusions might not be attained with my study.

There is a time constraint as budget topic is quite vast and it intertwines miscellaneous things which are interrelated so I might miss out on factors which are indirectly affecting other factors.

There is an absence of primary data and very few research and journal papers are available online that throw light upon the relationship between union budget and stock market.