"Impact of General Election on Stock Exchange with special reference to BSE and NSE index in INDIA"

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Abstract: This study was carried out by considering the movement of the two major Index of stock markets in India called SENSEX and NIFTY of BSE and NSE stock exchanges. For the analysis of the impact of general election on the stock market, the period was considered as of thirty-day span before and after the election. and checked the volatility of return during the selected period of elections. The data was collected for 3 months before and after the last 5 loksabha election related to NSE & BSE. To make the study fruitful data were considered the last five loksabha elections in India to find out the exact impact and to prove the objective of the paper. The authentic source of the date are the websites of NSE and BSE, RBI, Money control etc. To analyze the impact, used the model in which we analyse the opening values and the closing values of stock markets index during the election period and accordingly the return and the volatility of return is calculated. By doing the study it is noticed that there is significant impact of general election on the performance of stock market and its index.

Keywords: BSE, NSE, Volatility, SENSEX, NIFTY etc.

Introduction:

The performance of stock exchanges in the world had some correlation with the major news which had impact on the economy of the country or on the industrial front. The research paper is articulated to find out the impact of the news on the performance of the performance of the share market. In India there were 21 stock exchanges but majorly two stock exchanges are having a wide presence in Indian stock market. Bombay stock Exchange and National Stock Exchange both exchanges had a huge presence in the Indian Stock Market with 5000 plus companies listed in BSE and more than 1600 companies listed in NSE. Bombay stock exchange hand an index called SENSEX and National Stock Exchange had index called NIFTY. The company can be listed on both the stock exchanges simultaneously. For the companies which had listed on National Stock Exchange and Bombay Stock Exchange must have minimum issue and paid up equity capital of Rs.3 crores with profit making track record. There higher no. of companies listed on the stock markets which is directly connected with the economy of India.

The performance of the two indexes called SENSEX and NIFTY is depending upon the market value of the companies which are listed in stock exchanges. Vise a versa the performance of the industry is directly proportional to the economic reforms, financial stability of the country, political stability, social factors, fiscal policies, security of the country, GDP, trade policies, stable government etc.

The research was driven to find out the impact of the various factors on the performance of the stock market. In previous research there were significant impact found out by the researchers but haven't proved any significant relationship between the general election and the performance of the stock markets and its index. This study was carried out to fulfil the gap between the previous research. The stable government will be the foremost important for any country to progress in addition to that if the government comes with the majority it must be added advantage as the decision making for the country will become easier. For the research, last 4 Loksabha elections had considered to analyze the impact of General Election on the stock market. The analysis was based upon the performance of the indexes which were considered for the study. In the study the performance of the index and the result of general election were correlated by considering the stable government as important factor.

Literature Review:

There was various research literature were published which help to find out the path of research and to decide the exact research methodology applicable to analyze the collected data.

Prof. G. Sudarsana Reddy, 2018, "Impact of General Elections 2014 on Indian Stock Market with Special References to the Stock of Select Companies in BSE", The research paper aims to study the effect of general election on the returns from stock market before and after election result with special reference to specific selected companies. Under his research he found that there is positive impact on the performance of stock market. During the election period the market were more volatile, the risk factor was more. The study suggested the investor community should carefully plan and invest during general election period. Mange RN, 20142, "Effects of elections on stock market returns at the Nairobi Securities Exchange", studied the impact of general election result on the share performances of national stock exchange listed companies. The study concluded with the observation that the market return was good predictor of stock returns, the important outcome was the return were higher before election than after election period. Panandiker, 20143, had done PHD on “How election years affect the stock market”, found that the rupee increase as compared to dollar with three months high. In that election year the stock market had higher returns, SENSEX was jumped nearly 17 percent and after 3 month of election again jumped by 6.4 percent. Ling-Chun Hung, 20114, described that the history proved that the politics and the economic reforms had a huge impact on the return from stock markets. Snowberg, Wolfers, and Zitzewitz , 20075, he studied the effect of general election on equity prices, oil prices, nominal and real interest rates and dollar values and found out the positive relation with election outcome. Khemani , 20106, Introduced the concept of correlation between the public Infrastructures spending in various states with different otter turnout and good or bad governance and found out the negative relation which was against the hypothesis of their study. Ch. Balaji , G.D.V. Kusuma , B. Ravi Kumar , 20187, “Impact of General Elections on Stock Markets in India”, had compared the return from the stock market by analyzing the movement of Index of respective stock market for last 5 loksabha elections. The research paper were concluded with the findings that the impact of election were high on short term, moderate on midterm and less on long term. But as in our study which were specifacilly found out the impact within the period of 30 days before and after as it gives the exact correlation between the election outcome and performance of stock market.

Objective:

The objective of the paper is to analyze the impact of Presidential Election on the performance of the stock market and to examine the volatility of the return and the movement of SENSEX and NIFTY, thirty days before and after the result.

Hypothesis:

H1: There is a Significant Impact of election result on the movement of stock market index i.e. SENSEX & NIFTY.

H2: There is significant impact of election result on the volatility of stock market.

Scope of Study:

The Research analysis is specifically emphasis to find out the impact of election result on the movement of stock index of selected stock markets. The research considered the last 5 assembly elections for analysis.

Limitation:

1. There was some limitation to show the data and its relevance with the political environment related to the overall performance of the stock markets in India.
2. Exact data collection for the selected period was tedious task and was not easily available.
3. There was a bit of variation in the data collected from various sources but still managed to take out the best possible data for study.

Research Methodology:

The opening and closing index of BSE & NSE has been collected for a period of 30 days before election and after election i.e. total 60 trading days for last 5 loksabha elections.

The secondary data is collected from yahoo finance, money control, SEBI, Official websites of BSE and NSE for analysis purpose.

The set of data were collected to analyze the fluctuation of index just before election and after election result. The period of data collection was 30 days before election and 30 days after election i.e. 60 trading days.

The model was created to match the objective and to prove the hypothesis of the study

Model:

The return from the market is calculated by the arithmetic equation,

$\mathbf{R = C_{st} - O_{st}}$

Where,

R: Return for a month

Cst: Avg. closing stock of month

Ost: Avg. opening stock of the month

The volatility is calculated by using the arithmetic equation,

$\boldsymbol{\partial = \sqrt{(\Omega/n)}\ 2}$

Where,

∂: Volatility of Return

Ω: Avg. of Percentage of return

n: Number of days

The standard deviation and variances during the selected time frame i.e. 30 days before election and 30 days after election for last 5 loksabha election is calculated.

Data Analysis:

1. **Movement and volatility of NSE Index in the month before assembly election for last 5 elections.**

Year of Election	Month of Election	Avg. of Opening index for 30 days before election	Avg. of Closing index for 30 days before election	Return	Percentage of Return
1999	Sept-October	1482.15	1546.2	64.05	4.14
2004	April - May	2035.9	1902.5	-133.4	-7.01
2009	April - May	3023.85	3473.95	450.1	12.96
2014	April - May	6729.5	6696.4	-33.1	-0.49
2019	April - May	11665.2	11748.15	82.95	0.71
Mean Return	86.12		**Volatility of Return**	0.376	

Table No. 1

2. **Movement and volatility of NSE Index in the month after assembly election for last 5 elections.**

Year of Election	Month of Election	Avg. of Opening index for 30 days after election	Avg. of Closing index for 30 days after election	Return	Percentage of Return
1999	Sept-October	1178.25	1268.15	89.9	7.09
2004	April - May	1483.9	1505.6	21.7	1.44
2009	April - May	4450.4	4291.1	-159.3	-3.71
2014	April - May	7264.05	7611.35	347.3	4.56
2019	April - May	11852.4	11839.0	-13.4	-0.11
Mean Return	57.24		**Volatility of Return**	0.3377	

Table No. 2

Interpretation:

a) The Table 1 and 2 shows the average return for 30 days before and 30 days after the last 5 general elections. It shows that the returns for year 2004 and 2014 before elections are negative and as the election took place the index shows the growth in return. For year 2009 and 2019 have negative returns after general elections for NSE.

b) The table 1 and table 2 shows that the market index of NSE is fluctuated before and after the general elections during last 5 general elections. The volatility of the market before 30 days of election is 0.37 and after the election is 0.33.

c) The decrease in the volatility of the index for NSE were shown by the above analysis as the volatility is towards negative value (-10.1861 approx.), which shows that the range of variation in the index decreased tremendously during the period of 30 days before and after the date of last 5 general elections. That is there is a negative impact of general election on the NSE stock market index.

3. **Movement & volatility of BSE Index in the month before assembly election for last 5 elections.**

Year of Election	Month of Election	Avg. of Opening index 30 days Before election	Avg. of Closing index 30 days Before election	Return	Percentage of Return
1999	Sept-October	3,266.71	3,102.29	-164.42	-5.30
2004	April – May	5,979.25	5,655.09	-324.16	-5.73
2009	April – May	11,492.10	11,403.25	-88.85	-0.78
2014	April – May	22,939.31	22,417.80	-521.51	-2.33
2019	April – May	38,748.54	38,672.91	-75.63	-0.20
Mean Return	-234.914		**Volatility of Return**	0.5239	

Table No. 3

4. **Movement of BSE Index in the Month after Assembly election for last 5 elections.**

Year of Election	Month of Election	Avg. of Opening index 30 days after election	Avg. of Closing index 30 days after election	Return	Percentage of Return
1999	Sept-October	3,954.26	4,140.73	186.47	4.50
2004	April – May	4,792.01	4,795.46	3.45	0.07
2009	April – May	14,746.51	14,493.84	-252.67	-1.74
2014	April – May	24,368.96	25,413.78	1,044.82	4.11
2019	April – May	39,806.86	39,394.64	-412.22	-1.05
Mean Return	113.97		**Volatility of Return**	0.2154	

Table No. 4

Interpretation:

a) The table 3 & 4 shows the fluctuation in the return from BSE for after the last 5 general elections in India. The table 3 shows that for all the years of general election the returns from BSE is on negative side before 30 days of election. Table 4 shows that the return after election for year 1999, 2004 and 2014 was positive. For year 2014 the impact of general election on BSE index was very high that gives highest returns to the investors as compared to 2019.

b) The table 3 and table 4 shows that the market index of BSE was fluctuated before and after the general elections during last 5 general elections. The volatility of the market before 30 days of election is 0.52 and after the election is 0.21.

c) The decrease in the volatility of the index for BSE is shown form the above analysis as the volatility was towards negative value (-58.885approx.), which shows that the range of variation in the index decreased tremendously for the 30 days before and after the date of last 5 general elections. That is there is a negative impact of general election on the BSE stock market index.

From the above analysis we can confirm that the H1 & H2 is accepted by the research. There is a significant impact of general election on the movement and the volatility of the index of both the stock exchanges of India i.e. BSE & NSE.

Findings:

The NSE index NIFTY shows the moderate movement during the 30 days before and after general election. The return from the NSE were decreased in the 30 days of general election as compared to the 30 days before the election.

The BSE index i.e. SENSEX shows huge movement during the 30 days before and after general election. The return from the BSE were increased after 30 days of general election as compared to 30 days before election.

The NIFTY & SENSEX shows the reverse impact of general election on the return. The return for NSE is decreasing i.e. 86.12 average returns to 57.24 average return or variation. But the return from BSE were increasing i.e. form -234.914 average return to 113.97 average return or variation.

The volatility of return through the NSE is decreased during the 30 days after and before the general election in India. This shows that the risk associated with the market increased. The 30 days' period for NIFTY before and after the elections is very fluctuating. Investors are doing their investment as per the parties who are going to lead Indian Government. For year 2014-2019 the Nifty shows slight improvement in volatility of return. As compared to 2014 the average return was -33.1 before election but it increased above 350 after the election. Which shows the faith on investors on BJP government leaded by PM. Narandra Modi.

The volatility of return through BSE is more pleasing than NSE. The BSE index is more volatile to the general election. It shows that the BSE return after election is negative. The growth of the SENSEX is very sensitive towards the election. For general election 2014 BSE showed huge positive response towards the upcoming ruling party as compared to the 2019.

From the above research and analysis it seems that the NSE i.e. National Stock Exchange is less volatile to the impact of general election as compared to BSE i.e. Bombay Stock Exchange. BSE index SENSEX is more responsive towards the general election for last 5 sessions.

Both the hypothesis H1 and H2 is accepted by the research which showed that there was an impact of general election on the movement and the volatility of the return form stock markets in India.

Conclusion:

The movement of the index of all the stock exchanges of India i.e. NIFTY & SENSEX is showed some responses towards the impact of general elections in India. Sometime the Index showed positive or sometimes shows

negative movement for some elections. But on an average the impact is positive and the index of both the stock exchanges shows the impact of general elections on the movement of Index and volatility of return.
It has been seen that the impact also increased and decreases according to the political party's dominance in the election. In year 2014 and 2019 the election in India is dominated by BJP under the leadership of PM. Narandra Modi. It seems that in these years the index showed the increasing trend as compared to the previous years in my study.

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