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IMPACT OF GENERAL ELECTIONS ON BSE SENSEX INDEX IN INDIA

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Abstract - The Stock market is the most unpredictable aspect in the world. Prediction of stock market is a challenging task as it reacts to a great extent to good or bad news. It can be considered a barometer of the overall economy as incident taking place within as well as outside, immediately economy reflects by the stock market index, elections are one of those things. The objective of the study is to analyse and compare the volatility in the stock market index for the short term (30 days), medium term (60 days) and long term (90 days) in the pre and post declaration of Lok Sabha elections results. The analysis has been highlighting to measure the volatility, daily average returns and impact of declaration of results. For the analysis five Lok Sabha elections were considered that is 2004 to 2024. The daily prices of BSE Sensex have been collected for a study period. To analyse the data t-test is used. It is concluded that Change in government has an impact on Sensex and high volatility is observed during the day of result. The study suggests that balanced investment approach is advisable. By balancing investment strategy between pre and post-election period, investor can navigate market volatility effectively and optimising returns.

Key Words: Stock Market, Election, Lok Sabha, Sensex

I. INTRODUCTION

Stock market plays an important role for economic growth of any country. Nowadays Stock market has been impacted by many factors like technical, political, weather condition etc. We all are in technological era where any news can be spread all over the world within short span of time. Stock market fluctuation is based on news.

Elections play a pivotal role in shaping the economic and political landscape of any democratic nation and India is no exception. They serve as crucial indicators of stability, influence market dynamics and capture the attention of strategic investors. The stock market participants always try to position themselves well ahead of this major event, anticipating the outcome of the election.

The present study analyses the impact of stock market on announcement of result. The previous researches suggest that immediate response can be considered important after the declaration of the result. In the light of this effect, election impact has been studied on short term, medium term and long term.

The study will help the investors to invest prudently and act as guidance on their investment decision around the election period. It helps the investors to minimize their overall risk and maximize returns of their investment during this period.

II. LITERATURE REVIEW

This paper is based upon an extensive literature that studies the effect of election on stock market return. In the research conducted by Liew and Rowland (2016) it has been found that investors who had got the right direction could make profitable intraday trading. In addition to a significant before and after election effect, a close competition between the two major political parties resulted in a negative stock market return. The study suggests that the investors will have to pay attention on the influence of macroeconomic variables and political uncertainty on the stock market return during the election year.

Researchers like Ceils and Shen (2015) and Chia (2018) opposed that the election event had a significant effect on the stock market volatility while no significant effect was observed on the stock return. Their findings indicated that the political uncertainty surrounding elections significantly

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affected investor respond. By using the EGARCH model, a significant election effect was found in stock volatility but not in stock returns. Furthermore, lower stock volatility is found in the Sharjah Compliant indices and stock index with greater market capitalization. In a study by (Pantzallis et al. 2000) investigated the reaction of the market indices in relation of elections. Positive abnormal returns were found especially for two weeks prior to the elections. While lower stock returns after the elections were observed as compared to stock returns after the returns. (Menge, 2013).

In India, the study like Deepak Kumar Kedia & Dr. Biswajit Satpathy (2023) has evidenced that market shown more uncertain returns during the election held after the change in government. According to the study the investors should exercise caution during election and adjust their investing strategy appropriately.

Christian Vieri Darmasaputra, Yosia Satya Guna (2021) analysed impact of a big political event on stock market in 2019 Presidential election case. With the paired sample t test, the result revealed that there is no difference in abnormal returns before and after the 2019 Presidential elections. It means that the investors are rational and relied more on the fundamental aspects instead of issues related to the event.

Bodhankar et al. (2021) carried out study by considering the movement of the two major index BSE Sensex and NSE Nifty in India. The data was collected for 3 months before and after the five Loksabha election related to NSE and BSE. From the opening and closing values the return and volatility of return is calculated. The study revealed that there is significant impact of general election on the performance of the stock market and its index.

Objective of the Study:

- To analyse the effect of Lok Sabha elections on BSE Sensex during the study period.
- To compare performance of daily average returns of Sensex for short term (30 days), medium term (60 days) and long term (90 days) in pre- and post-election results outcome.

Hypothesis

Following hypothesis have been framed.

H0: There is no significant impact of elections on BSE returns.

III. Data and Methodology

The study has been adopted event study methodology to find out significant relation of the election results on the performance level of BSE Sensex. The daily closing prices of Sensex Index have been taken from the BSE website for a period from 2004 to 2024 which included a total five Lok Sabha election. Total 90 trading days' pre and post data around announcement of result of election has been taken. The event has been divided in the short term (30 days, t-15 to t+15 days), medium term (60 days, t-30 days to t+30 days), and Long term (90 days, t-45 days to t + 45days) before and after the declaration of results of election. The study sampled the BSE Sensex which is representative of the Securities exchange performance. The secondary data have been analysed with the statistical tools i.e. average returns in pre- and post-election results during 30 days, 60 days and 90 days have been calculated. The daily returns have been found over the previous day's closing price during the entire 5 election period. After that the statistical paired T test using SPSS have been applied on average returns to fulfil the objectives.

Limitation of the Study:

- The study is restricted to only five selected general election affecting BSE Sensex.
- There was some limitation to show the data and its relevance with the political environment related to overall performance of the BSE Sensex in India.

Data Analysis:

Table 1: Descriptive Statistics of Average Returns before and after Election Results

	Pre Event			Post Event		
	T-45	T-30	T-15	T+15	T+30	T+45
2004	-0.2166	-0.1193	-0.5184	-0.5733	-0.3662	-0.1628
2009	0.8486	0.6861	0.8242	1.2636	0.6862	0.5317
2014	0.2379	0.2490	0.3340	0.3822	0.1608	0.1561
2019	0.0970	0.0415	0.0210	0.0575	0.0358	-0.0665
2024	0.0633	0.1547	0.3355	0.1939	0.2082	0.0752
Max	0.8486	0.6861	0.8242	1.2636	0.6862	0.5317
Min	-0.2166	-0.1193	-0.5184	-0.5733	-0.3662	-0.1628
Mean	0.2060	0.2024	0.1993	0.2648	0.1450	0.1067
SD	0.3952	0.3032	0.4935	0.6637	0.3776	0.2677
Skewness	1.2532	1.1314	-0.4380	0.5706	0.1854	1.1300

Source: Calculated by researchers, data collected from www.bseindia.com

The above table 1 provides a detailed comparison of average daily returns for all five general election windows. The data indicates that an election has maximum impact (positive or negative) in short term and reduces in the long term (45 days post result) in comparison to the pre result period. The data reveals that in 2004, before election the market had negative returns with the lowest value -0.5184 in 15 days showing restraint leading up to the event. After election the market

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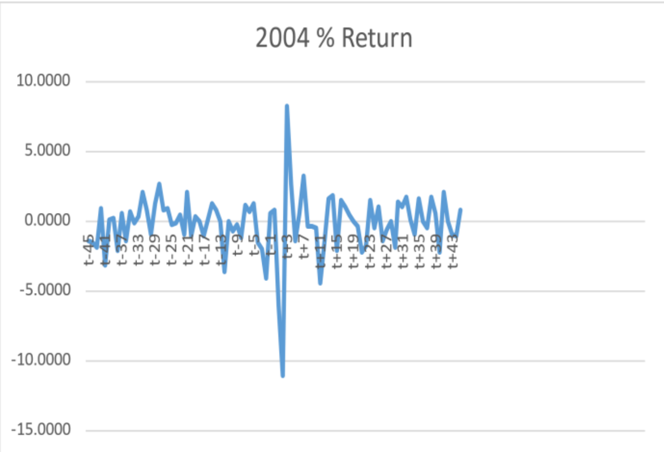
dropped further in 15 days, indicating negative sentiment, but started stabilize in 45 days with -0.1628. In 2009 before the election there was a strong positive returns across all periods, indicating optimism. The post-election period saw even greater returns, peaking at 1.2636 in 15 days suggesting a very positive market response. In 2014 before the election there has been moderately positive returns and after there was a slight post-election boost observed. In 2019 relatively low returns has been observed up to the election. After the election small recovery was seen in 15 days but there was a drop by -0.0665 in 45 days indicating mixed reactions. In 2024 the table shows positive returns but it relatively low as compared to 2014 elections. The post-election period was seen by diminishing returns at 0.0752 in 45 days suggesting less enthusiasm compared to earlier years.

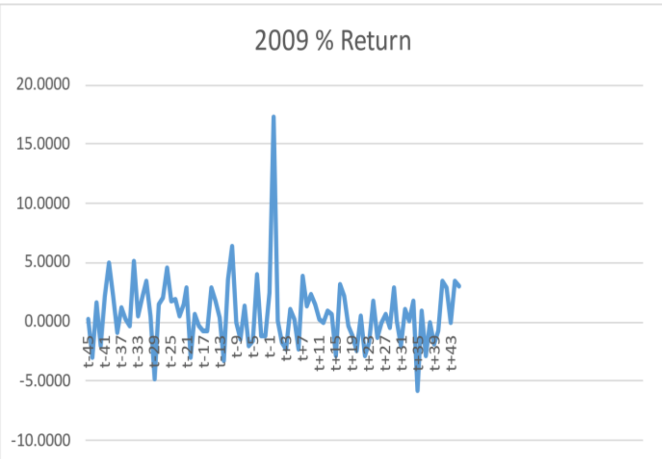
Figure 1: Daily Average Returns of 2004 election event window



Source: Based on calculated data

The above figure 1 shows that there was a negative return in the short term before the event while in post-election period showing increased volatility and more negative returns. Before the election skewness fluctuates, suggesting more extreme negative returns. These may be because the investors were imagining a change in government and the results were not according to market expectations.

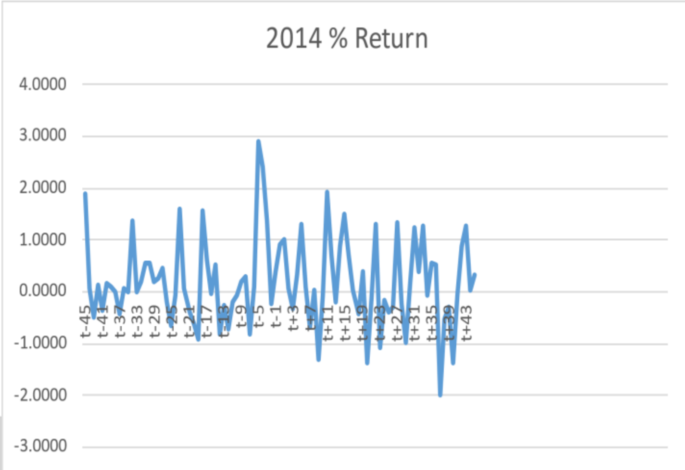
Figure 2: Daily Average Returns of 2009 election event window



Source: Based on calculated data

The above figure 2 indicates that the elections were positively received by the market, with strong returns post-election, especially in the short term. In 2009, UPA came back to power. Even though confidence in the government was low but the market started recovering, by the time India went to the polls.

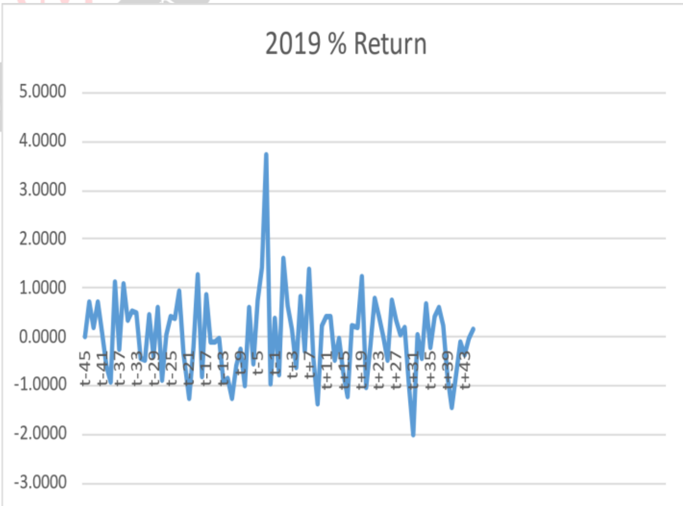
Figure 3: Daily Average Returns of 2014 election event window



Source: Based on calculated data

From the above table it can be clearly visible that before T+1 date market started react positively and become volatile after election results. The above figure 3 shows moderately positive returns. There was a slight boost seen on the day of result. It can be seen that there was reduced volatility, with the dropping standard deviation, indicated more stable trading environment.

Figure 4: Daily Average Returns of 2019 election event window



Source: Based on calculated data

From the above charet it can be observed that market has reacted in positive way ones the exit poles are out and discounted the strong garment formation news in advance.

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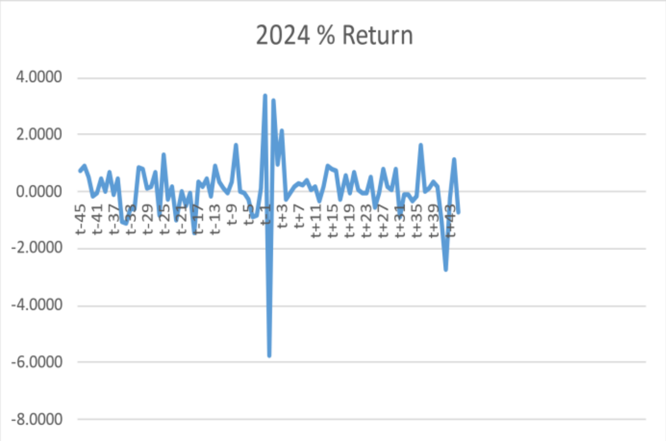
Figure 5: Daily Average Returns of 2024 election event window



Source: Based on calculated data

The above figure indicates the highest level of volatility on the day of declaration of result. Market was expecting higher seats of ruling party, but result was not as exception of market. As a result, market has responded on this uncertainty and become over sold due to panic selling in market. It is bee observe V shape recovery after so much of volatility.

Table 2: Average Returns and t-statistics tested at 5% level of significance

	T45	T 30	T15
t test	0.2078	0.3356	0.5465
Alpha	0.05	0.05	0.05
	Ho : Accepted	Ho : Accepted	Ho : Accepted

Source: SPSS Output

A paired sample t-test has been applied to evaluate whether a statistically significant difference exit between the returns in pre and post declaration of result period. The output of above table gives the t-test value. In all three-time windows t-values are more than 0.05 so the null hypothesis cannot be rejected. The results of all five elections were found to be insignificant at 5% level of significance. So there is no impact of election on the returns of short, medium and long term period in Sensex.

Suggestion and Conclusion:

The results suggests that Lok Sabha Election often led to increase volatility and uncertainty in the stock market, as investors closely watch the results and their potential implications for various sectors. Specially Lok Sabha Polls before results and stock market are closely related to the country's political landscape. It was seen that the event of result has more effect in short term, less in medium term and diminishing in the long term after the declaration of results. So, it is observed that investors should invest more cautiously around the declaration of results for Election as volatility in the market is so high in the market. The findings of the study indicates that the average returns were mostly negative in 2004. In 2004 Congress returned to power, while market was expecting National Democratic Alliance to form the stable government. In 2009, UPA came back to power. However, there was global financial crisis of 2008 brought an end of bull scenario from the market. The year 2014 United Progressive Alliance led by the Indian National Congress lost the election. NDA returned to power with a full majority, the market experienced a significant boost in investors sentiment. The primary reason behind this positive market returns was expectation of economic reforms and anticipation of stable government. In 2019, the BJP-led NDA returned again with stronger mandate. The expectation of bold economic reforms led to a significant rally in the Indian stock market with the benchmark reaching its new hights. In 2024 after elections markets have been nervous and sustained volatility in the run up to the declaration of result day. Fear around a change in government was making markets nervous as the major downfall in Sensex recorded in a single day. However historical data suggests that election results' impact on the market returns does not last beyond long run. The study suggests that investors should always remain aware of the inherent risks associated with electoral outcomes and recommended strategy for long term investor is to stay invested in market even volatile or down. On the other hand, down market during election provide opportunity to long term investors. Conservative investor should allocate their 50% funds as investment in market before the declaration of result period and remaining 50% is to be invested on or after the result as volatility is adjustment and market is stable

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