JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

An Analysis of Effect of General Election on Indian Stock Market

Mr Ramraj Malav[1]
Assistant Professor, P P Savani University, Kosamba, Surat
Ms Nirali Kantharia[2]
Assistant Professor, P P Savani University, Kosamba, Surat
Dr Fatema Saleshbhai[3]
Assistant Professor, P P Savani University, Kosamba, Surat

Abstract:

The stock market is widely utilized as a stand-in for other indicators of an economy's health. This study looks at how the general elections and the government transition affected the Indian stock market. From 2014 to 2024, three Indian general elections are covered by the study. The influence of election results on the stock market is then calculated using the event research approach and secondary data from NSE India. The study first confirms the linear relationship between the market index and securities returns. There is a lot of fluctuation in the daily stock returns during the event period. Significant returns, both positive and negative, are observed, particularly following the announcement of the election results. Regression analysis is used to examine how an event affects a variable. Election period is treated as a dummy variable, with before and post periods being assigned values of 0 and 1, respectively. Results from the elections in 2014 and 2019 indicate noteworthy outcomes, indicating that a shift in the political landscape affects the stock market. The data also reveal that the market exhibits more erratic returns during the 2019 election, which is the first held following the change in government. However, the outcomes of the 2024 election are unimportant. According to the report, investors should be cautious during elections and should modify their investment plan accordingly, especially if a change in administration is predicted.

Keywords: - General Election, Stock Market, SENSEX, Event Study, Investors, Brokers

Introduction

India holds a general election every five years to choose a leader to head the country's government. Political parties with disparate philosophies and perspectives have various meanings for the general public, investors, business owners, financial institutions, etc. There will always be general election cycles, which can impact a nation's political climate as well as its investment climate.

India's stock market has demonstrated maturity in terms of the quantity of listed businesses, market capitalization, and market value of listed companies relative to GDP. By facilitating the trading of securities and offering listed securities as a means of liquidity, the stock market helps businesses raise capital. A healthy stock market reduces production costs for goods and services and generates jobs, which promotes economic growth. Therefore, a more prosperous society is a result of the financial system. Politicians, analysts, and market players continue to be most concerned about the uncertainty that affects stock market performance. This type of risk is known as political risk. Political risk and the capital market have a substantial relationship. Businesses, farmers, professionals, and other groups are among the individuals who are eager to find out about the next government formation.

We have considered an event that has played a significant role in the swings of the Indian stock market. The occasion is the 2024 Indian Lok Sabha Elections. The stock market is typically greatly impacted by political developments. A lot of the time, political announcements like new laws, regulations, and national elections affect the stock market to move.

The Lok Sabha election of 2014 was also the most significant election in Indian political history. India's government has been ruled by the Congress for the past ten years. Indian people changed the government and elected Mr Narendra Modi as Prime minister India. Mr Modi had elected as Prime Minister in Lok Sabha election 2019 and served nation for consecutive two terms 10 years. Mr Modi had taken many actions during his tenure. Both domestic and foreign investors thought that if Modi were to become prime minister third time, there would be potential for economic growth in India. The selection of Mr Modi as prime minister has had a beneficial impact on the Indian stock market.

Literature Review:

International studies related to election impact on stock market:

(Mnasri & Essaddam, 2021) examine the following two theories: Election Uncertainty and Political Uncertainty, since they may provide insight into how elections affect stock market volatility. Our study demonstrates a positive and statistically significant relationship between implied volatility and the likelihood of victory for the candidate of the opposite party.

(Roy & Khan, M. A. 2021) explores how stock market returns are affected by parliamentary general elections in Bangladesh by examining the fifteen days leading up to and following each of the six elections that were held there between 1991 and 2018. The research examined the impact of elections on stock returns by taking into account both anomalous returns, which were determined by selecting 20 equities to represent investors' portfolio motivations, and the wide index returns, which served as a gauge for the overall market environment. By measuring the changes in return series, the study used descriptive statistics, t-tests, and F-tests to analyze the influence of elections. In most cases, it was also discovered that the effects of individual elections on the returns were identical. Better investment plans can be made by regular investors as well as financial industry players.

(Lausegger, 2021) investigates the effects of elections on stock markets in various political contexts. According to a study, party and electoral systems affect the predictability, reliability, and fragmentation of electoral information. This affects the degree of uncertainty that elections resolve and causes different reactions in the stock market. First, compared to elections held in proportional representation systems, majoritarian electoral systems have higher cumulative abnormal returns (CARs). Second, the CARs around elections tend to be larger under less established party systems. These two institutional variables interact, to sum up third. Large (small) CARs are more common in elections held in majoritarian (proportional representation) systems with weak (strong) party system institutionalizations. I perform event studies of the effects of 87 elections on SMs in 21 countries between 1999 and 2016, derive these claims formally, and examine four case studies.

(Osuala et al., 2018) investigates with the cases of Nigeria's 2011 and 2015 presidential elections, how the outcome of a presidential election affects the performance of a developing stock market. The results of the study, which used the Event Study technique to analyze secondary data from the Nigerian Stock Exchange (NSE) and a few national dailies, indicate that the outcome of the 2011 presidential election had a major negative impact on the stock market's performance. However, the average and cumulative abnormal returns on the event date and one day after the event show that the 2015 Presidential election result had a positive but negligible impact on the stock market. This suggests that the election result, which saw the PDP lose its leadership position to the All Progressives Congress (APC), was a welcome development.

(Nippani & Arize, 2005) Their empirical data suggests that the US stock market's performance was impacted by the 2000 presidential election results' postponement. They look at how the same delay affects the performance of the stock markets in Mexico and Canada. There is evidence that suggests there were negative effects on the stock markets in Mexico and Canada during that time. This analysis demonstrates not only how tightly the stock markets in Mexico and Canada are connected with their American counterparts, but also how closely these markets track the U.S. presidential election cycle.

(Crane et al., 2024) The US stock market is very important economically, but its influence on elections is remarkably weak. We document the effect of market returns on election outcomes using variance in stock market participation at the county level. When compared to low-participation counties, high-participation counties are more likely to support the incumbent party in elections. Our results show that there may be a new route by which changes in the stock market could affect the actual economy.

(Wong & Hooy, 2016) investigates if, between the years 2000 and 2013, there were differences in the stock market returns of government-owned and private banks in Indonesia, Malaysia, and Thailand. The cumulative average abnormal return (CAAR) of thirty banks in Malaysia, Thailand, and Indonesia was determined using the event study approach. Regression analysis was performed with CAAR as the dependent variable in order to perform a robustness test. Research findings: The results indicate that both types of banks have a considerably positive CAAR during elections. Comparing commercial banks to government-owned banks reveals that the

CAAR for private banks is lower and less significant. This suggests that state-owned banks react to election outcomes more so than private ones.

(Bash & Al-Awadhi, 2023) utilizes the event-study methodology to examine how the 2023 Turkish presidential elections will affect Borsa Istanbul returns. The study's data set spans the dates June 13, 2022, through June 7, 2023. They examine how two election cycles affect the cumulative abnormal returns (CARs) of the stock market using a market model. The first round of the elections and the second round of the reelections were met with diverse reactions from sectors, according to the results. For instance, during the first presidential elections, the event significantly reduced the returns for the majority of the sectors. Conversely, during the second round of reelections, it significantly boosts the returns for the majority of the sectors.

(Prakash & Padmasree, 2020) Examine how the announcement of the election results affected the NSE (Nifty) and BSE (Sensex) indexes. to calculate the impact of daily average returns and volatility over a three-day period: thirty days, fifteen days, and seven days prior to the election result announcement, and thirty days, fifteen days, and seven days following it. For the last five election cycles, data has been gathered. The average returns of the data, the paired T-test, variance, and correlation coefficient are among the statistical techniques employed in this study. The study discovered that while election outcomes have an immediate influence, they also have a medium- and long-term-decreasing effect. The study's conclusion is that there is no meaningful correlation between the stock market's performance and the announcement of election results. The knowledge causes the stock market to react strangely, which creates an anomaly for a little while before correcting itself in the days that follow. The study's findings advise investors to exercise extra caution during this period of time. By employing a short-term investment strategy, investors can profit immediately.

National studies related to election impact on stock market:

(Balaji et al., 2018) News is the foundation for stock market volatility. The news around the economy, politics, weather, and international relations may have an effect on changes in the stock market. The study's goals are to examine the impact of general elections on the returns of the NSE and BSE during the pre- and post-election periods, as well as to examine and contrast the volatility—that is, the variation of daily stock market returns—for the short (10 days), medium (20 days), and long (30 days) time periods. Measuring election volatility, average returns, and impact has been emphasized by the analysis. Five election cycles, from 1998 to 2014, were taken into consideration for this analysis. F and t tests are used to analyze the data. For a total of five Lok Sabhas, the daily closing prices of the NIFTY and SENSEX index were gathered from the Yahoo Finance website between 1998 and 2014. Pre-election and post-election periods have been defined for the study's time period. It is determined that following the announcement of the election, the impact of the election increases in the short term, decreases in the medium term, and eventually disappears.

(Reddy, 2018) examines to see how FIIs have affected the Indian stock market, specifically mentioning the BSE and NSE index. The information came from a number of sources, including reports from the BSE, NSE, and

SEBI. For the years 2005–06 to 2016–17, the twelve-year data of the BSE and NSE index average is taken into consideration. The variables that are considered are the net investment, sales, and purchases made by FIIs. This research examines the effects of these variables on the BSE and NSE index. In the current analysis, the average SENSEX and average NIFTY 50 index for a 12-year period are used. The data also reveals that the FIIs can fairly explain changes in the Indian stock market.

(Kumar et al., 2015) They emphasized on how the 16th Lok Sabha election affected the performance of the Indian stock market. Numerous variables that impact the performance of the stock market during election season have been examined. The analysis discovered a strong correlation between the performance of the stock market and the Lok Sabha election. During election season, people's sentimental analyses of the companies and portfolio optimization for the companies included in the BSE SENSEX index were conducted. This research investigates the impact of the Lok Sabha election on stock market performance, as well as the endogenous and exogenous factors affecting the company. Furthermore, the outcome of an election is a significant impact in investment decisions, as demonstrated in this study through the use of event analysis.

Research methodology

Objectives of the research

- To analyse the effect of announcement of result of 2014 General Election on Indian Stock Markets.
- To analyse the effect of announcement of result of 2019 General Election on Indian Stock Markets.
- To analyse the effect of announcement of result of 2024 General Election on Indian Stock Markets.
- To compare the impact of General election on Indian Stock Market.

Hypothesis

- H0: There is no relationship between result of general election of 2014 and behaviour of Indian stock market.
  H1: There is relationship between result of general election of 2014 and behaviour of Indian stock market.
- H0: There is no significant effect of result of General Election of 2019 on Indian Stock Markets.
  H1: There is significant effect of result of General Election of 2019 on Indian Stock Markets return on the day of result announcement.
- H0: There is no significant effect of result of General Election of 2024 on Indian Stock Markets.
  H1: There is significant effect of result of General Election of 2024 on Indian Stock Markets return on the day of result announcement.

Data and methodology

The data used in the study is secondary and is collected from official websites of BSE, Election Commission of India and other websites and journals. General election of 2014, 2019 and 2024 are considered for this study.

Following table is represented the study time period.

Election Year	Pre-Period	Result of General Election	Post-Period
2014	5 days before	16-05-2014	5 days after
2019	5 days before	23-05-2019	5 days after
2024	5 days before	04-06-2024	5 days after

Analytical tools of the study

The Daily returns have been found over the Previous Day's Closing Price during the entire 3 election period. After finding the returns regression model is considered to find out the effect.

Limitation of the study

- The study is restricted to only selected general election affecting Indian Stock Markets.
- In this study, the only short-term effects of result of general election on Indian Stock Market are analysed.
- The secondary data of the study are collected from official websites and published report which is not adjusted for this research.

Scope of the study

- To know the impact of Election result on Indian Stock Market other factors such as GDP growth, inflation, interest rates, and global market trends should be included in the regression model.
- To examine the long-term impact of election results on SENSEX to determine if the significance changes over a longer period.
- Conduct a sectoral analysis to see if certain sectors are more influenced by election results than others.
- This approach can help isolate the impact of the election result from other concurrent events.

Data Analysis

- H0: There is no relationship between result of general election of 2014 and behaviour of Indian stock market.

  H1: There is relationship between result of general election of 2014 and behaviour of Indian stock market.

Table 1 Regression Model for election result of 2014

Source	SS	df	MS
Model	.00263379	1	.00263379
Residual	.00134091	9	.00014899
Total	.0039747	10	.00039747

Number of obs	11
F(1, 9)	17.68
Prob > F	0.0023
R-squared	0.6626
Adj R-squared	0.6252
Root MSE	.01221

logIndex	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
Election	.0310761	.0073912	4.20	0.002	.0143561	.0477961
_cons	10.07006	.0054588	1844.75	0.000	10.05771	10.08241

To test the impact of Indian general election result of 2014 on SENSEX, SENSEX is considered as dependent variable while the index return on the day of election result is considered as independent variable for Regression analysis.

It is observed from the table 1 that the explanatory variables, taken together establish a relationship nearly **66.26%** as the coefficient of determination r^2 is **0.6626**. This implies that the changes that have taken place in the SENSEX, due to Election result is **66.26%**. Hence, there are other macro-economic factors which are responsible for changes in SENSEX for short term.

The regression equation **Y**(SENSEX)= **α** + **β** (Election result return of SENSEX) + **€** shows that for every unit change in β there is **0.0310761** unit change in Y. the value of α is 10.07006 which shows that the other factors are less responsible for this relationship. As per table 1 the t – value is **4.20** and significant value is **0.002** which is not more than 0.05, therefore the null hypothesis is fail to accepted. Hence, there is significant effect of election result of 2014 on BSE SENSEX for short term.

- H0: There is no significant effect of result of General Election of 2019 on Indian Stock Markets.
  H1: There is significant effect of result of General Election of 2019 on Indian Stock Markets return on the day of result announcement.

Table 2 Regression Model for election result of 2019

Source	SS	df	MS
Model	.001639794	1	.001639794
Residual	.002383246	9	.000264805
Total	.00402304	10	.000402304

Number of obs	11
F(1, 9)	6.19
Prob > F	0.0345
R-squared	0.4076
Adj R-squared	0.3418
Root MSE	.01627

logIndex	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
Election	.0245206	.0098537	2.49	0.035	.00223	.0468112
_cons	10.55955	.0072774	1451.00	0.000	10.54309	10.57602

To test the impact of Indian general election result of 2019 on SENSEX, SENSEX is considered as dependent variable while the index return on the day of election result is considered as independent variable for Regression analysis.

It is observed from the table 1 that the explanatory variables, taken together establish a relationship nearly **40.76%** as the coefficient of determination r^2 is **0.4076**. This implies that the changes that have taken place in the SENSEX, due to Election result is **40.76%**. Hence, there are other macro-economic factors which are responsible for changes in SENSEX for short term.

The regression equation **Y**(SENSEX)= **α** + **β** (Election result return of SENSEX) + **€** shows that for every unit change in β there is **0.0245206** unit change in Y. the value of α is 10.55955 which shows that the other factors are less responsible for this relationship. As per table 2 the t – value is **2.49** and significant value is **0.035** which is not more than 0.05, therefore the null hypothesis is fail to accepted. Hence, there is significant effect of election result of 2019 on BSE SENSEX for short term.

- H0: There is no significant effect of result of General Election of 2024 on Indian Stock Markets.
  H1: There is significant effect of result of General Election of 2024 on Indian Stock Markets return on the day of result announcement.

Table 3 Regression Model for election result of 2024

Source	SS	df	MS			
Model	.0000724	1	.0000724	Number of obs	=	11
Residual	.003674663	9	.000408296	F(1, 9)	=	0.18
				Prob > F	=	0.6836
				R-squared	=	0.0193
				Adj R-squared	=	-0.0896
Total	.003747063	10	.000374706	Root MSE	=	.02021

logIndex	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
Election	.0051524	.0122355	0.42	0.684	-.0225264	.0328311
_cons	11.22246	.0090365	1241.90	0.000	11.20202	11.2429

To test the impact of Indian general election result of 2024 on SENSEX, SENSEX is considered as dependent variable while the index return on the day of election result is considered as independent variable for Regression analysis.

It is observed from the table 3 that the explanatory variables, taken together establish a relationship nearly **1.93%** as the coefficient of determination r^2 is **0.0193**. This implies that the changes that have taken place in the SENSEX, due to Election result is **1.93%**. Hence, there are other macro-economic factors which are more responsible for changes in SENSEX for short term.

The regression equation **Y**(SENSEX)= **α** + **β** (Election result return of SENSEX) + **€** shows that for every unit change in β there is **0.0051524** unit change in Y. the value of α is 11.22246 which shows that the other factors are more responsible for this relationship. As per table 3 the t – value is **0.42** and significant value is **0.684** which is more than 0.05, therefore the null hypothesis is accepted. Hence, there is no significant effect of election result of 2024 on BSE SENSEX for short term.

Conclusion

The impact of 2014 election result on BSE SENSEX is significant and it was up to 66.26% as the coefficient of determination R^2 is 0.6626. The 2014 election had a significant and substantial impact on SENSEX in the short term. The impact of 2019 Election on SENSEX was up to 40.76% as the value of coefficient of Determination (R^2) is 0.4076 indicates that 40.76% of the variation in SENSEX can be explained by the election result. The t-value of 2.49 and p-value of 0.035 (<0.05) indicate a significant impact of the 2019 election result on SENSEX. Hence it is concluded that the 2019 election had a significant impact on SENSEX in the short term, but the explanatory power was lower compared to 2014. The Impact of 2024 Election on SENSEX was insignificant for short term as the impact was up to 1.93%. The t-value of 0.42 and p-value of 0.684 (>0.05) indicate no significant impact of the 2024 election result on SENSEX. Hence it is concluded that the 2024 election had no significant impact on SENSEX in the short term, suggesting other macro-economic factors played a more substantial role.

Suggestions

Investors should mitigate risks associated with political events, diversify your investments across different sectors and asset classes. This reduces reliance on the outcome of elections and helps balance potential losses with gains in other areas. Brokers should advise clients on the benefits of a diversified portfolio, highlighting sectors that may be less volatile during political transitions. Investors and Brokers should keep a close watch on macro-economic indicators such as GDP growth, inflation, interest rates, and global market trends. These factors often have a more significant and sustained impact on market performance compared to election results alone. Stakeholders should use economic forecasts and reports to inform strategic decisions and adjustments in investment portfolios. While elections can cause short-term market fluctuations, maintaining a long-term investment perspective can help avoid reactionary decisions. Focus on the fundamental strengths of investments.

Reference:

Balaji, C., Kusuma, G. D. V., & Ravi Kumar, B. (2018). Impact of General Elections on Stock Markets in India. *Open Journal of Economics and Commerce*, *1*(2). https://doi.org/10.22259/2638-549x.0102001

Bash, A., & Al-Awadhi, A. M. (2023). Presidential elections and stock market outcomes: An event-study on the effect of Turkey's Presidential Elections on Borsa Istanbul. *Cogent Economics and Finance*, *11*(2). https://doi.org/10.1080/23322039.2023.2265659

Crane, A. D., Koch, A., & Lin, L. (2024). Real Effects of Markets on Politics: Evidence from US Presidential Elections. *American Economic Review: Insights*, *6*(1). https://doi.org/10.1257/aeri.20220240

Kumar, D. B., Sharon, S., & Maria, J. E. (2015). Empirical Study on Effects of the Lok Sabha Election on Stock Market Performance (BSE SENSEX). *Research Journal of Management Sciences Res. J. Management Sci*, *4*(2).

Lausegger, M. (2021). Stock markets in turmoil: political institutions and the impact of elections. *Economics and Politics*, *33*(1). https://doi.org/10.1111/ecpo.12169

Mnasri, A., & Essaddam, N. (2021). Impact of U.S. presidential elections on stock markets' volatility: Does incumbent president's party matter? *Finance Research Letters*, *39*. https://doi.org/10.1016/j.frl.2020.101622

Nippani, S., & Arize, A. C. (2005). U.S. presidential election impact on Canadian and Mexican stock markets. *Journal of Economics and Finance*, *29*(2). https://doi.org/10.1007/BF02761558

Osuala, A. E., Onoh, U. A., & Nwansi, G. U. (2018). Presidential Election Results and Stock Market Performance: Evidence From Nigeria. *Applied Economics and Finance*, *5*(2). https://doi.org/10.11114/aef.v5i2.3016

Prakash, V., & Padmasree, D. K. (2020). Impact of Election Result on the Stock Market, an Analysis of BSE (SENSEX) and NSE (NIFTY) Indexes. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3520090

Reddy, G. S. (2018). Impact of General Elections 2014 on Indian Stock Market with Special References to the Stock of Select Companies in BSE. *International Journal of Management Studies*, *V*(3(1)). https://doi.org/10.18843/ijms/v5i3(1)/15

Wong, W. Y., & Hooy, C. W. (2016). The impact of election on stock market returns of government-owned banks: The case of Indonesia, Malaysia and Thailand. *Asian Journal of Business and Accounting*, *9*(1).

Roy, G., & Khan, M. A. (2021). DOES ELECTION IMPACT ON STOCK MARKET RETURNS IN BANGLADESH?. Asian Finance & Banking Review, 5(1), 1-18. https://doi.org/10.46281/asfbr.v5i1.1256