

6.20 The Impact of the Government Budget Announcement on Colombo Stock Exchange

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ABSTRACT

Stock market is important to the success of any nation's economy and certainly to expand and diversify its economy. If a stock market is shown to be inefficient, the public tends to distrust it and the market may collapse due to eroding investments. In addition if a stock market is shown to be inefficient, it may not provide an important mechanism for valuing financial assets and it may not facilitate for the important economic service of efficiently allocating investible funds among the possible investment project within the economy. Therefore it is the responsibility of the regulatory bodies in any economy to implement proper strategies and policies to develop capital market of the country. Accordingly tax impositions and concessions for different sectors through government budget are being often used to formulate strategies in order to develop efficient capital market.

The purpose of this research is to identify the impact of the announcement of Sri Lankan Government budget on the Colombo Stock Exchange (CSE). This study investigates the behavior of CSE price indices in respect of prior and post period budget announcement information.

The data set includes All Share Price Index (ASPI) and Milanka Price Index (MPI) of all listed companies for the period of 2005 to 2009. The researchers have considered prior and post period of 15 trading dates based on the first speech of budget announcement date to the Parliament. The event study method has been selected for the purpose of data analysis.

The results indicate that the downward trend in ASPI and Milanka price indices in respect of budget announcement period, both prior and post. But it was noted that an upward trend in ASPI and MPI for the year 2007. The results of this study support to make a conclusion that, continuous tax impositions had led to downward trend in ASPI and MPI. However, upward trend in ASPI and MPI for the year 2007 was observed due to significant portion of tax concessions and exemptions from the government budget 2006 in certain sectors such as manufacturing, investment, construction, telecommunication etc. Therefore we can conclude that continuous imposition of taxes cause for downward trend in price indices and significant tax concessions and exemptions for upward trend in price indices in CSE.

Key Words : Government Budget, Colombo Stock Exchange, All Share Price Index, Milanka Price Index, Tax Impositions, Tax Concessions, Tax Exemptions.