

Management Today  
Year : 2018, Volume : 8, Issue : 1  
First page : ( 20) Last page : ( 23)  
Print ISSN : 2230-9764. Online ISSN : 2348-3989.  
Article DOI : [10.11127/gmt.2018.03.05](https://doi.org/10.11127/gmt.2018.03.05)

# The Effect of Budget Announcement on Sri Lankan Stock Prices

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*Online published on 15 February, 2019.*

## Abstract

The stock prices of a stock market reflect all pertinent information available to investors and other participants. If a stock market is efficient, the stock prices will reflect according to the available information of economic, political and social events. So, in an efficient market stock prices reflect all available information. Therefore, the aim of the study is to find out the effect of budget announcement on Sri Lankan stock prices. The study examines the behavior of Sri Lankan stock price indices in respect of pre and post period of budget announcement. The data were collected from Colombo Stock Exchange (CSE) data base. The collected data includes All Share Price Index (ASPI) and all 20 sectors' stock price indices to examine the pre and post budget announcement effect in the year 2017. The event study method was adopted to examine the market efficiency and pre and post period of 15 day-event window was considered on the first budget speech date at Parliament. The Average Abnormal Return (AAR), the Cumulative Abnormal Return (CAAR) and t-statistic were used to test the market efficiency to budget announcement. CAARs are statistically significant from -1 day to +15 day except +5 day. Further, a negative downward trend is observed on the stock price indices. Therefore, the study concludes that the stock market efficiency level is high and investors can not earn abnormal return in the stock exchange without taking additional risk.



## Keywords

Budget announcement, AAR, CAAR, all share price index, CSE.