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The Effect of Fiscal Policy Announcements on Politically Connected Firms in Malaysia: An Event Study

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Abstract: Research Question: To examine the effect of fiscal policy announcements on politically connected firms (PCON) in Malaysia. **Motivation:** There are very limited investigations done to assess the effects of fiscal policy on the stock market returns in emerging markets. The macroeconomic effects of the fiscal policy, including its implications on the stock market remain poorly understood in the context of emerging markets. **Idea:** The paper aims to examine if fiscal policy affects stock market returns as previous studies have found that monetary policies affect stock market returns. **Data:** The sample consists of 376 politically connected and non-connected firms from the year 2002 to 2017. **Method/Tools:** The event study methodology is used to measure cumulative abnormal returns while the ordinary least square estimation is used to test the hypothesis. Larger event window period is also used to further test the reliability of the findings. **Findings:** The paper finds that the market responded most favorably towards government-linked companies during the off-budget announcements but not during the budget announcements. **Contributions:** This article examines how markets perceive various types of politically connected firms differently during budget and off-budget policy announcements. While these policies often require large monetary value, not many studies have focused on this area. Therefore, the paper contributes towards the understanding of these announcements on how they might affect the market, particularly towards PCON. This study also separates PCON into different categories to further deepen our understanding towards market perception towards different types of connection.

Keywords: Fiscal policy, Malaysia, event study, political connection.
JEL Classification: D72, E62, G14

1. Introduction

The impact of macroeconomic policy on the stock market's performance has been widely researched over the past three decades. Macroeconomic policy instruments are directly controlled by economic policymakers, usually, the government and these instruments can be divided into two subsets: monetary policy instruments and fiscal policy instruments. While

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many investigations have been done to determine the role of monetary policy in influencing stock returns particularly in the United States (Jansen *et al.*, 2008; Patelis, 1997; Thorbecke, 1997; Bernanke and Kuttner, 2005), not many studies have investigated on how fiscal policy might influence the stock market (Darrat, 1988, 1990). Among the empirical studies that investigate the impact of discretionary fiscal policy, most focused on the effect of government revenue and government spending on the stock market returns (Afonso and Sousa, 2011; Laopodis, 2009; Arin *et al.*, 2009) in developed countries. In contrast, there are very limited investigations done to assess the effects of fiscal policy on the stock market returns in emerging markets. The macroeconomic effects of the fiscal policy including its implications on the stock market remain poorly understood (Leeper, 2010) in the context of emerging markets. As a result, there is still no consensus on how fiscal policy can affect the stock market's returns. Emerging markets usually have a stronger presence of government control in the business sector, as compared to the arm's length approach in developed countries. Therefore, the role of government in emerging markets is even more important to be investigated as they can adjust the fiscal policies to impact the business sector more severely.

For a developing country like Malaysia, its fiscal policy is expansionary. It focuses on promoting economic growth, creating employment opportunities, improving income distribution, and providing a conducive business environment (Ministry of Finance Malaysia, 2019). Malaysia has achieved significant economic progress in terms of eradicating poverty, building world-class infrastructure, and becoming a major trading nation. The GDP and GNI per capita have grown from RM5.1 billion and RM788 in 1957 to RM1,353.4 billion and RM41,128 in 2017, respectively. The achievement is partly contributed by the expansionary fiscal policy which supports the national development agenda. Its fiscal policy is usually tabled during the annual budget announcement which commences in September or October every year. However, there are also public investment projects which are implemented via an off-budget approach. These off-budget projects include its public infrastructure investment policy particularly on mega projects such as East Coast Rail Link, High-Speed Rail, Trans-Sabah Gas Pipeline, and Multi-Product Pipeline. They are tabled through an off-budget approach due to their high capital requirement and long gestation period, particularly for public transportation. Given the extent to which fiscal policies can affect the stock market, not many studies have attempted to investigate this issue even though much has been examined on the effect of monetary policies. Therefore, this paper attempts to fill this research gap.

In tabling the annual budget announcement and off-budget announcements, there are a lot of firms that are touted to benefit from these handouts. Most commonly, firms that are closely aligned with the government are touted to receive a considerable advantage during the tender for these projects. Using the event study methodology, this study assesses how the budget and off-budget announcements affect the stock return of four different types of politically connected firms in Malaysia. Malaysia offers a unique opportunity to examine the relationship between fiscal policy and the stock market returns due to the perceived number of politically connected firms and the reliance of firms on government handouts (Johnson and Mitton, 2003). The event study methodology is widely used by researchers when estimating the market's reaction due to its clarity and the uncontaminated effect of the market response. This study uses a 5-day and 10-day event window period to estimate the result. Robustness tests are also conducted by using the 20-day and 30-day event windows. Additionally, the cumulative abnormal return (CAR) generated from the event study is used as the dependent variable to run a cross-sectional regression to further strengthen the robustness of the findings. The announcement effects are likely to vary across types of announcements. For example, although politically connected firms are expected to benefit

from both budget and off-budget announcements, the impact of off-budget announcements is likely to be stronger as it is likely to contain more elements of a shock to the stock market.

This paper is written as the following. Section 2 presents the review of the literature and the development of the hypotheses. Section 3 describes the event study methodology and the cross-sectional regression. Section 4 reports the results and discusses the findings. Section 5 presents the conclusion of the study.

2. Literature Review and Hypotheses Development

One of the key considerations in Keynesian economics is that it believes in using the fiscal policy to impact the economy. Though there is literature that investigates the impact of fiscal policy on the economy (see Galí and Perotti, 2003), there are far less that explain the impact of fiscal policy on stock prices, particularly those of politically connected firms. Most of the existing research regarding the relationship between fiscal policy and stock market is done in the western social, economic, and political context. Thus, it may not be generalised to the different conditions in emerging markets. One of the few studies which have done so is Chaudhuri and Koo (2001) who examine the stock return volatility in emerging markets and find them to impact stock return volatility. Furthermore, Abugri (2008) shows that stock returns of emerging countries have higher volatility as compared to developed markets.

In this study, we focus more on how the announcement of government spending affects the stock return of politically connected firms. In Malaysia, there are two instances where the government will announce its spending. First, is the yearly budget announcement in September or October that is tabled in the Parliament of Malaysia. Second, is the off-budget announcement which is announced usually by the Prime Minister on an ad hoc basis. The following sections discuss how these two types of fiscal policy announcements are related to the stock return of politically connected firms in Malaysia.

2.1 Budget Announcements

Literature investigating on the event of budget announcements are significantly lower than other types of more popular event such as elections. Budget announcement involves the redistribution of government funds through fiscal policies on a yearly basis. Based on the literature on rent-seeking, politically connected firms tend to receive more privileges such as subsidies and non-competitive bidding. As such, when the budget announcement is made, the stock return of politically connected firms is expected to record an abnormal return because investors are expecting these firms to receive such privileges. Agreeing to this view is Berry *et al.* (2010), who demonstrate that in the United States, members of Congress who are in the same party as the president are more privileged during budget announcement. Besides that, Larcinese *et al.* (2006) also investigated the factors which influence the United States federal budget distribution to the rest of the country. Results show that states that profoundly supported the incumbent president in past presidential elections obtain more capitals, compared to states which are in the borderline or swing states. In fact, when the governor and president are in a similar party, they also receive more federal funds.

To date, there are only a handful of studies which specifically uses government budget announcement as a study point. One of them is Khanna and Gogia (2014) which states that the announcement of the federal budget is an imperative factor that could affect the economic and financial well-being of all industries in a country. Their study investigates the stock market behaviour on pre and post announcements of federal budgets in India, the United States, and the United Kingdom from 2008 to 2011. Their results suggest that the budget has an impact on the stock market.

In Malaysia, the government budget for the upcoming year is usually tabled in September or October. Although we agree to the rent-seeking literature which states that politically connected firms tend to gain from the redistribution of resources, we postulate that Malaysia may pose a different situation as compared to the study done by Berry *et al.* (2010) and Larcinese *et al.* (2006) with data from the U.S. This is because this event usually does not involve the announcement of big projects that could potentially benefit politically connected firms. Budget announcements in Malaysia are typically focused on gaining the public's support by providing certain handouts and improving the living standards of the people. They may include the decision to alter the income tax level, altering a commodity's subsidy, giving book incentives for students, and also assistance to single mothers.[1] Based on these arguments, we hypothesize that politically connected firms in Malaysia will not be affected significantly by the announcement of the budget.

Hypothesis 1: The stock market will not react much towards PCON firms during budget announcements.

2.2 Off-Budget Announcements

Besides the scheduled budget announcement, the government of Malaysia occasionally have some fiscal policies that are announced ad hoc. These off-budget announcements usually have huge monetary value and brings important economic value to the country. Examples include the implementation of the five economic corridors across the country, and the announcement of the continuation of New Economic Policy (NEP). The five economic corridors established are the Iskandar Malaysia in Johor, the Northern Corridor Economic Region (NCER) covering the states of Kedah, Pulau Pinang, Perlis and Perak, the East Coast Economic Region (ECER) covering the states of Kelantan, Pahang, Terengganu and Johor, the Sarawak Corridor for Renewable Energy (SCORE), and lastly the Sabah Development Corridor (SDC). These corridors require constant collaboration between the private sector and the government organizations and are an important engine for attaining social and economic growth throughout the nation.

To our knowledge, no research has been conducted to examine the influence of these off-budget announcements on the Malaysian stock market. Each of the five corridors has an estimated investment of more than one hundred million Ringgit each, with some exceeding three hundred million Ringgit. Based on the rent-seeking literature, politically connected firms tend to receive more privileges in terms of government contracts. However, the impact of these high monetary projects on politically connected firms is not well-known due to the inadequacy of literature on this issue. This study aims to fill in this gap. If abnormal returns are recorded for politically connected firms when these projects are announced, it signifies that investors are expecting politically connected firms to gain advantages during the handout of these projects.

Usually, the economic policy announcements in Malaysia are considered to be positive announcements for politically connected firms because according to the resource dependence theory, these firms are expected to benefit from these projects through the awarding process. Having said that, we further postulate which type of PCON firms that will benefit the most from these off-budget announcements. We hypothesize that firms that are politically connected through businessmen to benefit the most during economic policy announcements due to historical evidence. For example, in 1994 Malaysian businessmen Ting Pek Khiing, who was reported to be close to the Prime Minister, was awarded the job to build the largest hydroelectric dam in Asia without any open tender, although his firm,

[1] For more information regarding government fiscal policies in Malaysia during the budget announcement, refer to https://www.imoney.my/articles/budget-2018-malaysia

Ekran Berhad, has never built a dam. Another business owner who is well known for its close ties with the ruling party, Wong Thean Soon, manage to secure the contract to serve as the only e-government services provider in the country (Kana, 2018). Based on these evidences, we derive the below hypothesis.

Hypothesis 2: The stock market will react positively towards all PCON firms particularly PCON_BUS firms during economic policy announcements.

3. Research Methodology

3.1 Sample of the Study

The sample data for this study covers the listed firms in Bursa Malaysia from the year 2002 to 2013. The list of politically connected firms is obtained from Wong and Hooy (2018). The stock price and accounting data are obtained from Thomson Reuters Datastream.

3.2 Event Study Methodology

This paper measures the impact of policy announcements on stock return using the event study methodology as it is suitable for measuring the short-run effect on stock prices. This methodology follows the theory of efficient market which states that stock prices are constantly updated based on the exchange of information among the participants in the market. The announcement of fiscal policies presents new information and therefore the market will digest this information and after, reflecting it in the price of the securities (Bodie *et al.*, 2005). This paper uses the market model in measuring the expected return. The length of the estimation period is 250 days.

For the length of the event window, it is made short enough to prevent the analysis from the interference of other unrelated events but long enough so that it allows for more protracted-than-usual absorption of news. Besides preventing the analysis from the contamination of unrelated events, a short event window is can also minimise endogeneity problems associated with policy announcements and market response. As such, event windows of 5-days and 10-days surrounding the event were chosen. To obtain even more accurate results, the two event windows are separated into the pre-event and post-event window. The pre-event windows are (-10, 0) and (-5, 0) while the post-event windows are (0, +5) and (0, +10). Past literature like Bunkanwanicha *et al.* (2013), Chen *et al.* (2013), and Oehler *et al.* (2013) have also chosen similar event windows. As such, the estimation window is stated as (-260, -10).

Abnormal return is calculated by subtracting actual return with the expected return of the stock, represented by the following equation: $A_{i,t} = R_{i,t} - E(R_{i,t})$.Where $A_{i,t}$ represents the excess return of stock *i* for day *t*, *t* is the day relative to the event, *R* is the actual return of a stock, $E(R)$ is the expected return of a stock. It is derived from the following equation: $E(R_{i,t}) = \alpha_t + \beta_t R_{mt}$. Where $R_{mt}$is the return on the FBM KLCI on day *t*, and β_t is the beta of the market model generated from a 250 days estimation period. Using the market model methodology, the expected return on security *i* at day *t* is assumed to be the same as the return on the market portfolio. The value-weighted FBM KLCI is used to calculate the market portfolio to estimate the expected return. Abnormal return is calculated to determine if the cross-sectional distribution of returns at the time of the event is abnormal. The cumulative average abnormal returns (CAR) is measured by adding up the day-to-day average abnormal returns from t_1 to t_2.

3.3 Event Definition

This section defines the type of event that is examined in this study. As mentioned in the previous sections, this paper only investigates budget and off-budget fiscal policy

announcements by the government of Malaysia. The event dates are compiled and shown in Table 1. In this study, (t=0) is described as the first trading day after the event date. For example, if any of the announcement dates falls on a weekend, the (t=0) will be the first Monday when the stock market reopens.

Table 1: Types of fiscal policy announcements and their respective date

No.	Types of fiscal policy announcements	Date
Budget announcements		
1	2013 budget announcement	28/9/2012
2	2012 budget announcement	7/10/2011
3	2011 budget announcement	15/10/2010
4	2010 budget announcement	23/10/2009
5	2009 budget announcement	29/8/2008
6	2008 budget announcement	7/9/2007
7	2007 budget announcement	1/9/2006
8	2006 budget announcement	30/9/2005
9	2005 budget announcement	10/9/2004
10	2004 budget announcement	12/9/2003
11	2003 budget announcement	20/9/2002
Off-budget announcements		
1	Iskandar Malaysia	8/11/2006
2	Northern Corridor Economic Region (NCER)	30/7/2007
3	East Coast Economic Region (ECER)	30/10/2007
4	Sabah Development Corridor (SDC)	29/1/2008
5	Sarawak Corridor of Renewable Energy (SCORE)	11/2/2008
6	New Economic Model	11/6/2012
7	Government Transformation Programme (GTP)	28/1/2010
8	9th Malaysia Plan	31/3/2006
9	10th Malaysia Plan	10/6/2010
10	1Malaysia Development Berhad (1MDB)	30/9/2009

Notes: The format for date is represented by DD/MM/YYYY.

3.4 Regression Analysis

In conducting the regression, this study uses the ordinary least square (OLS) estimation to check the robustness of the results. The CAR that was calculated from the previous section serves as the dependent variable. Firm characteristics such as size, leverage, sales growth, and return on assets are used as the control variables. The definition of the variables used is provided in Table 2. The use of OLS estimation is similar to Bunkanwanicha *et al.* (2013), who also uses it as the robustness check for her event study analysis. To rectify the problems of heteroscedasticity and autocorrelation, the Newey-West test will be conducted. To rectify the problem of clustering, industry cluster is added in the estimation, which is similar to what has been done by studies like Bunkanwanicha *et al.* (2013) and Goldman *et al.* (2009). The relationship between CAR and the types of politically connected firms during fiscal policy announcements is conducted using Equation (1).

$$CAR_i = \alpha_i + \beta_1 PCON_{GLC_i} + \beta_2 PCON_{BOD_i} + \beta_3 PCON_{BUS_i} + \beta_4 PCON_{FAM_i} + \beta_5 SIZE_i + \beta_6 LEVERAGE_i + \beta_7 SGROWTH_i + \beta_8 ROA_i + \varepsilon_i \quad (1)$$

Table 2: Description of the variables

Variable name	Variable description
Dependent variable:	
CAR	Cumulative abnormal return.
Control variables:	
SIZE	Firm size. Natural logarithm of total assets.
LEVERAGE	Ratio of total debt (long-term debt and short-term debt) to total assets.
SGROWTH	Sales growth. Percentage change in sales, averaged over 2 years.
ROA	Return on assets. Ratio of profit before interest and tax to total assets.
PCON_GLC	A dummy variable that identifies a firm as a government-linked company.
PCON_BOD	A dummy variable that identifies a firm with a director of a political or government background.
PCON_BUS	A dummy variable that identifies a firm with business owners having a personal relationship with a leading politician.
PCON_FAM	A dummy variable that identifies a firm with the family members of a leading politician.
Non-PCON	Firms that are not politically connected.

4. Results and Discussion

4.1 Result of the Event Study

The result of the univariate rest is reported in Table 3. Overall, most politically connected firms are not affected by the event of budget announcements as this event does not have a shocking element to the market. Although certain elements in the budget announcement can also surprise the market participants, generally the details of the announcements are more or less similar to previous years. This result supported the earlier conjecture that budget announcement is not touted to benefit politically connected firms as they mainly touch on the bread and butter issues of the people, such as the income tax level and sugar subsidies but less emphasis on implementation of mega projects which could be awarded to politically connected firms. Thus, hypothesis 1 is accepted.

Table 3 also shows the result during the event of off-budget announcements. PCON_GLC seems to be the most affected by this event as it is associated with positive abnormal returns in the 5-days surrounding the announcements. In contrast, PCON_BUS firms are not affected by this event at all. Thus, hypothesis 2 is rejected. This observation could perhaps support the work of Gomez *et al.* (2017) who mentioned that there is a major transition in Malaysia's political economy which has evaded public attention, which is the shift of corporate power from well-connected businessmen to huge business groups controlled by the government.[2] In another point of view, PCON_GLC can be more affected during policy announcements as compared to other types of politically connected firms as they are touted to benefit more from the policies rolled out. These policies, such as the NCER, which is aimed to reduce the economic gap between the urban and rural areas are usually executed by PCON_GLC as they are socially obligated to do so (Menon, 2017). Surprisingly, the CAR recorded in both events is not as large as would be expected. This conforms with Pastor and Veronesi (2012) who stated that positive returns for policy announcement can be small as they could be already anticipated by investors.

[2] Refer to Gomez *et al.* (2017), the first paragraph of page 217.

Table 3: Results of the event study

Event windows	Budget announcements			Off-budget announcements		
	PCON	Non-PCON	Diff.	PCON	Non-PCON	Diff.
Panel A: GLC						
Pre-event						
CAR (-10,0)	-0.13	0.40	-0.53	1.35***	0.78***	0.57
	(0.54)	(0.32)	(0.27)	(0.00)	(0.00)	(0.11)
CAR (-5,0)	-0.24	-0.04	-0.2	1.00**	0.08	0.92**
	(0.44)	(0.18)	(0.44)	(0.00)	(0.39)	(0.02)
Post-event						
CAR (0,+5)	-0.04	0.31	-0.35	0.47**	-0.13	0.60**
	(0.20)	(0.32)	(0.76)	(0.01)	(0.64)	(0.03)
CAR (0,+10)	0.00	0.73*	-0.73	0.53	0.27	0.26
	(0.10)	(0.08)	(0.54)	(0.19)	(0.10)	(0.27)
No. of obs.	319	1320		290	1200	
Panel B: BOD						
Pre-event						
CAR (-10,0)	-0.45	0.40	-0.85	0.35*	0.78***	-0.43
	(0.68)	(0.32)	(0.61)	(0.09)	(0.00)	(0.52)
CAR (-5,0)	-0.22	-0.04	-0.18	0.01	0.08	-0.07
	(0.85)	(0.18)	(0.80)	(0.40)	(0.39)	(0.63)
Post-event						
CAR (0,+5)	0.08	0.31	-0.23	-0.23	-0.13	-0.1
	(0.73)	(0.32)	(0.72)	(0.59)	(0.64)	(0.60)
CAR (0,+10)	0.27*	0.73*	-0.46	0.10	0.27	-0.17
	(0.07)	(0.08)	(0.63)	(0.51)	(0.10)	(0.55)
No. of obs.	2101	1320		1910	1200	
Panel C: BUS						
Pre-event						
CAR (-10,0)	-1.33***	0.40	-1.73	1.43*	0.78***	0.65
	(0.91)	(0.32)	(0.65)	(0.08)	(0.00)	(0.91)
CAR (-5,0)	-0.86**	-0.04	-0.82	0.74	0.08	0.66
	(0.24)	(0.18)	(0.22)	(0.46)	(0.39)	(0.77)
Post-event						
CAR (0,+5)	0.44	0.31	0.13	-0.16	-0.13	-0.03
	(0.15)	(0.32)	(0.59)	(0.29)	(0.64)	(0.74)
CAR (0,+10)	0.55	0.73*	-0.18	0.21	0.27	-0.06
	(0.12)	(0.08)	(0.84)	(0.40)	(0.10)	(0.84)
No. of obs.	242	1320		220	1200	
Panel D: FAM						
Pre-event						
CAR (-10,0)	-0.86	0.40	-1.26	-0.20	0.78***	-0.98
	(0.15)	(0.32)	(0.13)	(0.35)	(0.00)	(0.46)
CAR (-5,0)	-0.76	-0.04	-0.72	0.08	0.08	0.01
	(0.55)	(0.18)	(0.28)	(0.22)	(0.39)	(0.39)
Post-event						
CAR (0,+5)	-0.36	0.31	-0.67	-0.64	-0.13	-0.51
	(0.57)	(0.32)	(0.11)	(0.33)	(0.64)	(0.31)
CAR (0,+10)	0.91	0.73*	0.18	-0.03	0.27	-0.3
	(0.16)	(0.08)	(0.26)	(0.50)	(0.10)	(0.55)
No. of obs.	154	1320		140	1200	

Notes: CAR denotes cumulative abnormal return. GLC denotes firm which is politically connected through government-linked company; BOD denotes firm which is connected through board of director; BUS denotes firm which is connected through businessman; FAM denotes firm which is politically connected through family member. Non-PCON denotes firm which are not politically connected. Diff. denotes difference. No. of obs. Denotes number of observations. Number in parentheses is p-value where *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

4.2 Robustness Checks

Two robustness checks were conducted to test the reliability of the results. First, the CAR that was generated is used as the dependent variable in Equation (1). Firm-specific

characteristics such as firm size, leverage, sales growth, and return on assets are also included as the control variables. Following studies like Bunkanwanicha *et al.* (2013), industry cluster is also added. Table 4 presents the results of Equation (1). The results are similar to Table 3, where PCON_GLC is found to have a positive CAR in the event windows (-5,0) and (0,+5). On the other hand, the other types of politically connected firms do not seem to be affected by the budget and off-budget announcements. This may be caused by the perception of the investors that PCON_GLC stands a better chance than the other types of PCON in obtaining the projects awarded by the government during the off-budget announcements. The second robustness check is conducted using a larger set of event windows of 20-days and 30-days surrounding the event date. Similar to the main analysis, it is divided into the pre-event and post-event windows. The results are reported in Table 5. Similarly, the market reacts to PCON only during the off-budget announcements but not the budget announcements. However, in this longer event window, a larger reaction (due to the bigger coefficient) is recorded for PCON_GLC as compared to the smaller event window. Furthermore, PCON_BOD also recorded positive reactions during this larger event window. Nevertheless, the aforementioned reactions only appear in the (-20,0) pre-event window. This could indicate that the market expects PCON_GLC and PCON_BOD to benefit from these off-budget announcements much earlier. This could be due to the news coverage by media anticipating the government announcing these mega projects soon.

Table 4: Robustness check by using the equation: $CAR_i = \alpha_i + \beta_1 PCON\_GLC_i + \beta_2 PCON\_BOD_i + \beta_3 PCON\_BUS_i + \beta_4 PCON\_FAM_i + \beta_5 SIZE_i + \beta_6 LEVERAGE_i + \beta_7 SGROWTH_i + \beta_8 ROA_i + \varepsilon_i$

	Budget announcements				Off-budget announcements			
	Pre-event windows		Post-event windows		Pre-event windows		Post-event windows	
	(-10,0)	(-5,0)	(0,+5)	(0,+10)	(-10,0)	(-5,0)	(0,+5)	(0,+10)
PCON_GLC	-0.31	-0.16	-0.68	-0.78	0.47	0.85*	0.60*	0.11
	(0.54)	(0.63)	(0.11)	(0.21)	(0.38)	(0.09)	(0.02)	(0.89)
PCON_BOD	-0.62	-0.32	-0.29	-0.50	-0.33	0.00	-0.14	-0.16
	(0.12)	(0.23)	(0.28)	(0.27)	(0.30)	(0.99)	(0.61)	(0.64)
PCON_BUS	-1.57	-1.04	-0.05	-0.40	0.83	0.64	0.08	-0.12
	(0.12)	(0.42)	(0.92)	(0.59)	(0.19)	(0.29)	(0.91)	(0.87)
PCON_FAM	-0.69	-0.71	-1.06	-0.52	-1.13	-0.03	-0.65	-0.24
	(0.34)	(0.22)	(0.11)	(0.44)	(0.12)	(0.95)	(0.33)	(0.73)
SIZE	0.28	0.16	0.28	0.17	-0.20	-0.07	0.17	0.21
	(0.19)	(0.33)	(0.16)	(0.49)	(0.43)	(0.76)	(0.52)	(0.50)
LEV	-0.11***	-0.09***	0.00	-0.03	-2.31*	-1.44	-0.40	0.64
	(0.01)	(0.00)	(1.00)	(0.41)	(0.09)	(0.12)	(0.66)	(0.65)
ROA	0.05***	0.02	0.00	-0.02	0.11***	0.10***	-0.01	0.01
	(0.00)	(0.23)	(0.84)	(0.30)	(0.00)	(0.00)	(0.71)	(0.77)
SGRW	0.00*	0.00	-0.00***	-0.00***	0.02**	0.01	0.00	0.00
	(0.09)	(0.65)	(0.00)	(0.00)	(0.03)	(0.46)	(0.61)	(0.72)
Constant	-0.73	-0.37	-1.41	0.36	1.95	0.44	-1.34	-1.53
	(0.51)	(0.67)	(0.18)	(0.78)	(0.18)	(0.73)	(0.37)	(0.39)
N	360	360	360	360	370	370	370	370
Industry cluster	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.01	0.02	0.00	0.00	0.02	0.04	0.02	0.02

Notes: The dependent variable is the cumulative abnormal returns (CARs). PCON_GLC is a dummy variable that takes a value of 1 if the firm is politically connected through government-linked company, and 0 otherwise. PCON_BOD is a dummy variable that takes a value of 1 if the firm is politically connected through board of directors, and 0 otherwise. PCON_BUS is a dummy variable that takes a value of 1 if the firm is politically connected through business owners, and 0 otherwise. PCON_FAM is a dummy variable that takes a value of 1 if the firm is politically connected through immediate family members of government leader, and 0 otherwise. SIZE is the logarithm of total assets. LEVERAGE is the ratio of total debt to total assets. ROA is the ratio of earnings before interest and taxes to total assets. SGRW is the percentage change in sales, averaged over 2 years. Numbers in parentheses are p-value where *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5: Additional event windows of 30-days and 20-days surrounding the event date by using the equation: $CAR_i = \alpha_i + \beta_1 PCON\_GLC_i + \beta_2 PCON\_BOD_i + \beta_3 PCON\_BUS_i + \beta_4 PCON\_FAM_i + \beta_5 SIZE_i + \beta_6 LEVERAGE_i + \beta_7 SGROWTH_i + \beta_8 ROA_i + \varepsilon_i$

	Budget announcements				Off-budget announcements			
	Pre-event windows		Post-event windows		Pre-event windows		Post-event windows	
	(-30,0)	(-20,0)	(0,+20)	(0,+30)	(-30,0)	(-20,0)	(0,+20)	(0,+30)
PCON_GLC	0.14	0.15	-1.24	-2.72	-0.90	1.48*	-0.18	-0.91
	(0.89)	(0.86)	(0.18)	(0.02)	(0.36)	(0.06)	(0.86)	(0.46)
PCON_BOD	-1.19	-0.71	-1.05	-1.48	-0.17	0.97**	0.02	-0.39
	(0.14)	(0.21)	(0.15)	(0.12)	(0.71)	(0.03)	(0.96)	(0.53)
PCON_BUS	-0.24	-0.79	-0.94	-2.09	-1.59	-1.11	0.66	0.05
	(0.84)	(0.40)	(0.42)	(0.15)	(0.17)	(0.27)	(0.68)	(0.98)
PCON_FAM	-0.86	-0.39	-0.94	-1.13	-0.70	-1.37	-0.44	-0.25
	(0.49)	(0.68)	(0.36)	(0.38)	(0.44)	(0.11)	(0.73)	(0.85)
SIZE	0.23	0.38	0.43	0.66	-0.02	0.34	0.53	0.51
	(0.57)	(0.20)	(0.24)	(0.15)	(0.96)	(0.34)	(0.31)	(0.39)
LEV	-0.05	-0.01	0.02	0.00	0.08	-1.69	-1.44	-0.70
	(0.58)	(0.91)	(0.77)	(0.95)	(0.97)	(0.30)	(0.45)	(0.74)
ROA	0.02	0.03	-0.03	-0.01	0.11***	0.14***	0.01	0.03
	(0.45)	(0.32)	(0.31)	(0.83)	(0.00)	(0.00)	(0.88)	(0.57)
SGRW	0.00***	0.00	0.00	-0.00**	0.01	0.02*	-0.01	-0.01
	(0.00)	(0.13)	(0.78)	(0.03)	(0.32)	(0.07)	(0.44)	(0.51)
Constant	-2.40	-2.31	-1.10	-2.10	2.14	1.64	-3.21	-2.78
	(0.22)	(0.14)	(0.54)	(0.35)	(0.36)	(0.41)	(0.28)	(0.40)
N	360	360	360	360	370	370	370	370
Industry cluster	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.03	0.03	0.00	0.02	0.01	0.03	0.01	0.01

Notes: The dependent variable is the cumulative abnormal returns (CARs). PCON_GLC is a dummy variable that takes a value of 1 if the firm is politically connected through government-linked company, and 0 otherwise. PCON_BOD is a dummy variable that takes a value of 1 if the firm is politically connected through board of directors, and 0 otherwise. PCON_BUS is a dummy variable that takes a value of 1 if the firm is politically connected through business owners, and 0 otherwise. PCON_FAM is a dummy variable that takes a value of 1 if the firm is politically connected through immediate family members of government leader, and 0 otherwise. SIZE is the logarithm of total assets. LEVERAGE is the ratio of total debt to total assets. ROA is the ratio of earnings before interest and taxes to total assets. SGRW is the percentage change in sales, averaged over 2 years. Numbers in parentheses are p-value where *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

5. Conclusion

This study investigates the effect of fiscal policy announcements through the lens of the market's immediate response towards politically connected firms in an emerging market. The analysis was done based on the unique dataset of Malaysian firms using the event study methodology. The main results are supported by the robustness tests using the OLS estimation and a longer event window period. Several conclusions and implications can be derived from the results of the study. First, budget announcements do not trigger any response from the market towards PCON firms. This could be because the government mainly announces policies and initiatives to improve the living standard of the people and thus, the market does not anticipate PCON firms to benefit from these announcements. Second, the off-budget announcement triggers some positive response towards PCON_GLC but the response is milder than expected. However, the positive response still indicates that market participants expect PCON_GLC to gain from the handouts of these new projects.

The results of this study provides some practical contributions, particularly to the market participants. Anticipating the behaviour of the market accurately is valuable knowledge for investors because it provides them with the opportunity to capitalise on short-term profit. In emerging countries like Malaysia, fiscal policy announcement has higher importance as compared to developed countries as the government serves as the catalyst to drive the economy forward. Therefore, these announcements are expected to trigger market response

particularly towards politically connected firms as they are touted to benefit from it. In particular, knowing that a particular type of political connection will benefit from a particular announcement should help investors in their investment decisions (Wong and Hooy, 2020). The results of this study can be generalized to other emerging countries that share the same political setting as Malaysia.

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