Youth Economic Forum
Bridging the Gap Between Youth and Policy Makers

Impact of COVID-19 on the Pakistan Stock Exchange

The Pakistan Stock Exchange is considered a volatile market. Ghufran et al. (2016) deduced that Pakistan's stock market volatility is dependent on investor behavior, which is driven by political situation as the primary factor and herd behavior as the second most important. Pakistan was already facing debt management issues before COVID-19 came into effect and after much resistance, it had enrolled in a 39-month IMF bailout program. The program's stabilization policy or austerity program which consists of policy tools that constrict aggregate demand was also in effect before COVID-19 (Khan A.H., 2019). Hence the high interest rate and devaluation of rupee had already shaken the stock market significantly. Taking the underlying assumptions and previous state of the stock market, it comes as no shock that the impact of COVID-19 on the stock market was unfavorable.

In January, PSX did not face any significant effects of the coronavirus due to Pakistan's general unawareness and little effect on global equity markets. The PSX's market returns show minor decline in February which is considered the spillover effects of the devastating situation of COVID-19 globally, as well as the tight fiscal policy.

The situation worsened around March, the same time when a lockdown was expected in Pakistan, and the market returns dropped considerably. As the lockdown was implemented there was significant decline in returns. The decrease was exaggerated by the Saudi-Russia oil price disagreement which caused the price of oil in the global market to plunge considerably. The uncertainty regarding oil prices was partly caused by reduced demand which is credited to the travel bans implemented by COVID-19 which were effecting the transportation and oil sector already. There was general unpredictability in the global market which was translated in the PSX as a 6.86% drop in the KSE-100 index on 24th March.

There was a little recovery mid-April in the returns which was partly due to aid and relief packages. The lowered interest rate as well as the announcement of The Economic Coordination Committee (ECC) approving a PKR 1.2 trillion relief package to vulnerable groups in the informal sector such as small business owners led to a recovery of 12.5%, increasing the KSE-100 to 3,512 on 5th April. Moreover, the global oil-price crash seeming favorable due to lower oil prices, IMF's $1.4 billion aid and the FATF's 5-month extension for report submission led to a steady small increase in KSE-100, offsetting the negative effects of COVID-19. Furthermore, the relaxation of the lockdown, recovery in global equity markets and the PM's announcement of a PKR 30 billion subsidy pool for the construction sector further aided the increase. However, the last week of April could not sustain the increase as the oil price lowered to -$37.63 which led to global confusion and disruption in equity markets and translated to panic selling in Pakistan. Therefore, the KSE-100 closed on 32,806.

The relief packages led to less volatility in the PSX and comparatively higher returns in May. The Rs. 50 billion agricultural relief package thrusted the market upwards whereas the increasing cases of coronavirus drove the KSE-100 down. However, starting the index at 32,806 and ending it on 33,931 was considered notable improvement in the month of May. Since the easing of lockdown and the $500 million loan by ADB helped reduce volatility in the last few trading days of May.

The apprehension regarding the budget of 2020-2021 to be detrimental for the stock market proved to be true in the following days. Much of June was volatile due to pessimism in the market preceding and following budget 2020-21. The economic survey 2019-20 and the budget being 'unfit' for COVID-19's period increased buyers' reservations which led to panic selling. Moreover, the fresh lockdown in Sindh and Punjab amid increasing cases of coronavirus patients paired with the turbulence among alliances of Pakistan-Tehreek-e-Insaf added to the blow on the market. However, PSX's performance improved towards the end of the fiscal year. The attack on stock exchange on the 29th June was expected to have devastating effects, but trading continued, and surprisingly Pakistan's performance was one of the best in Asia on that day. June ended with the KSE-100 at 33,939 points which is exceptional amid growing patients of COVID-19 and fears of a global second wave of the pandemic.

July's first week showed exceptional performance partly due to the approval of a $1.3 billion commercial loan from China. Moreover, the federal budget 2020-21 announcement, lowered interest rates and expectation of further reduction in the interest rate seemed to encourage trading in the PSX. The global oil price increase also contributed to the positive performance of PSX in July. 10 days into the new fiscal year show favorable trends in the stock market considering the ongoing pandemic.

According to the Pakistan Economic survey, the austerity measures severely hurt investor confidence in the beginning of the fiscal year 2020 hence COVID-19 caused further damage to an already unstable situation. Moreover, Pakistan stock exchange's performance seems to be highly dependent on the country's political stability hence that has also implicated the market performance for the period of January to July. The market has recovered considerably since June-end which is exceptional considering the growing cases of coronavirus in Pakistan. Overall, the relief packages coupled with the SBP's relaxed terms of loans, reducing policy rate to 8% and reducing bank's capital conservation buffers from 2.5 percent to 1.5 percent seemed to have an instantaneous positive effect. Much of PSX's volatility and loss in the times of COVID-19 has been the spillover effect of the activity in international financial markets which may explain the recovery in June and beginning of July regardless of the COVID-19 situation in Pakistan.