

## Impact of the COVID-19 Outbreak on Pakistan's Financial Indicators

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### Abstract

*Across the globe, the financial and health system of the developing and developed countries is shattered by the novel coronavirus COVID-19 since its outbreak. It has affected the financial system of all the countries but has severe consequences on less developed and weak financial system countries. This study investigated the impact of the novel COVID-19 on different sectors concerning the Pakistan economy. This research investigated the impact of COVID-19 on Pakistan Stock Exchange, gold rate, interest rate and exchange rates. The time period used for data analysis was from 27<sup>th</sup> February 2020 to 31<sup>st</sup> March 2020. The outcome confirms that Pakistan stock is severely hit by the COVID-19 and showing the decline in their 100 index and total share index. The results also revealed that the gold rate and exchange rate showed a rapid increase in their prices. This epidemic has devalued the Pakistan rupees from 154 to 166 and showing a decline. The gold rate is also affected by this epidemic and showing an increase in their rates. The results show that the government is taking action to provide some facilities to different sectors to cope with the outbreak, and it will stabilize the financial system in the country.*

**Keywords:** *Stock exchange, exchange rate, Gold rate, Interest rate, Pakistan, COVID-19*

### Introduction

Novel Severe acute respiratory syndrome (COVID-19), a respiratory illness with pneumonia-like symptoms received worldwide attention in Dec 2019. COVID-19 originated in Wuhan, Hubei, in China in late 2019 (Khan, Khan, & Siddique, 2021). World health organization (WHO, 2020) stated that the COVID-19 fatality rate is 2 percent, which is lower than SARS (10 percent) and MERS (34 percent) (World, 2020). The incubation period of the virus may vary from 2 – 14 days (WHO, 2020). COVID-19 infects all groups of people, but older people or people with preexisting medical conditions are more vulnerable to becoming severely ill with the virus. The transmission of COVID-19 from human to human is high-speed and unstoppable and reached to that stage where WHO declared that as a pandemic, having infected more than 900,000 people in

199 countries and more than 36000 deaths. Therefore, the rapid response is needed to prepare and facilitate the health system of the countries to meet the unexpected challenge. Countries that have not taken the precautionary measure to avoid the spreading of COVID-19 are going through a very tough time, such as the USA, Italy, and Iran. The self-distance approach and other measurements are taken by China have stopped the spreading of COVID -19 to 100 percent in China, and there is no new local transmission case in China (Sarwar, Khan, & Sarwar, 2021). But outside China, the highest deaths are in Italy, Spain, because these countries did not take the precautionary measure earlier when they needed it (WHO, 2020).

Pakistan has confirmed 1865 infected cases and 25 deaths on 31st March 2020, according to the health ministry of Pakistan (NHRSC, 2020). The average age of those who died in Pakistan is more than 63 years and having some preexisting health issues, which confirm that this virus affects those who are old and having some medical problems. In Pakistan, the first case is reported on 27<sup>th</sup> Feb 2020, and till now, it's growing at an alarming rate. Figure 1 shows the infected patient's curve of Pakistan, and as for the death case, it is first reported on 20<sup>th</sup> March 2020, and its trajectory is shown in figure 2 given below.

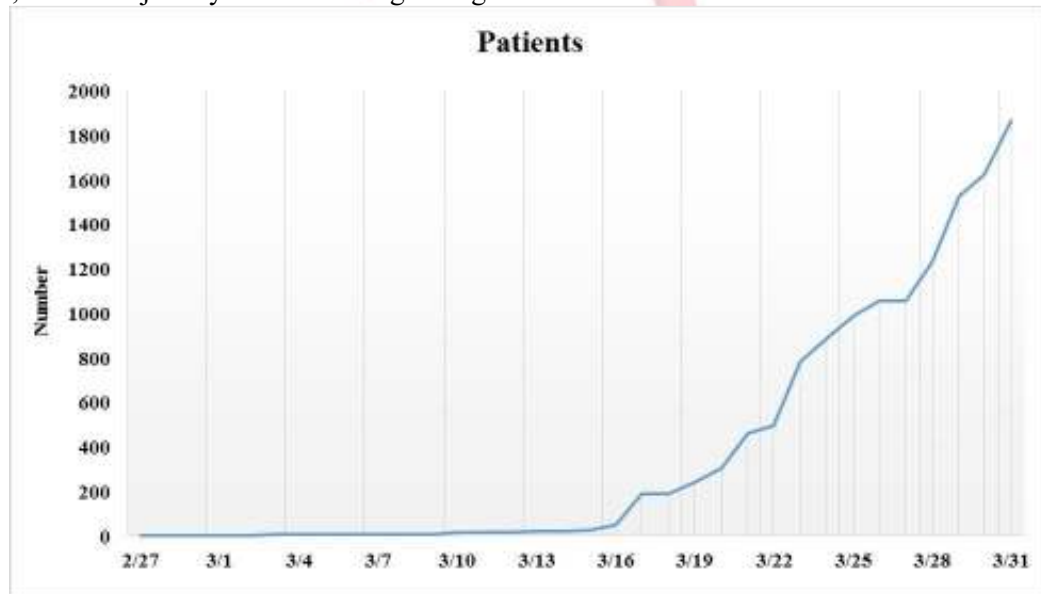
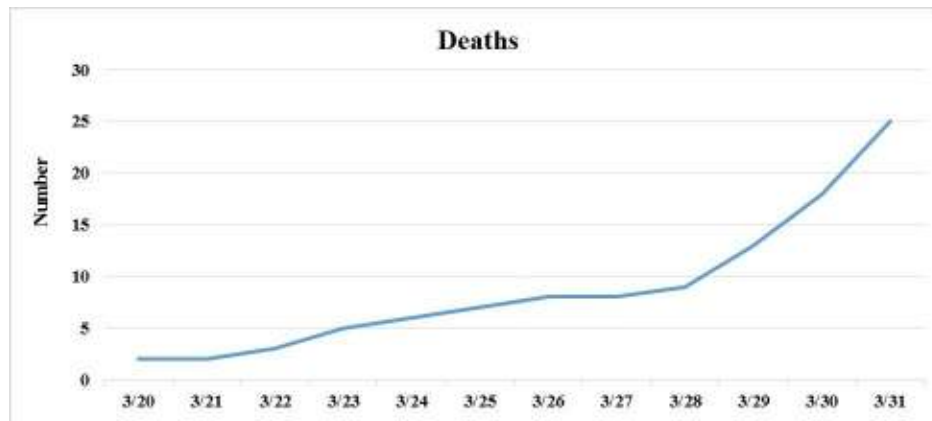


Figure 1 Number of patients infected



**Figure 2** Number of deaths

Along with the loss of life and mental disturbance, the COVID-19 causes severe economic losses around the world. The epidemic has a severe impact on oil prices, stock exchanges, tourism, transportation, and unemployment. According to media reports of the USA, more 33 million peoples of the USA have applied for unemployment allowance due to the loss of their jobs. And world report stated that about 13.3 million to 18.2 million Pakistani would lose their jobs due to coronavirus outbreak. (Burns et al , 2006) noted that the medium epidemic affects the gross domestic product by 3.5 trillion. Epidemic affects the economic growth of the country due to lack of production and lack of working labor force (Bank,2019). All the government resources are allocated to prevent the spread of the virus, so all these have a negative influence on the economic growth of the country. Since the last two weeks, the government of Pakistan has lockdown the different cities and not allowing free movement of the people. The majority of production units, schools, colleges, and offices are closed to stop the spreading of this virus. Epidemics affect the economic growth of the country in different ways. One way is that the cost associated with the cure of infected peoples such as medical bills, the cost of medical staff, medicines, and drugs. The other impact of this epidemic is that the government has to look at the people that lost their jobs, so the government must give bill out packages to different sectors to provide them stability so it will increase the government expenditure (Bank,2019).

This research has studied the impact of COVID-19 on the different sectors of Pakistan, such as stock exchange index, gold rates, exchange rates, and the interest rate on loans. The main objective of this research to find out that how Pakistan stock exchange behaved to COVID-19 pandemic at early stages. And also, the impact of COVID-19 on gold rates and exchange rate in early pandemic situation. To understand the effect of COVID-19 on these sectors stock exchange data was obtained from Pakistan stock exchange, Interest rate data is obtained from the State bank of Pakistan, gold rate and exchange rate data is obtained from Pakistan forex. Temporal trend analysis has been done to scrutinize the data. Trend analysis is helpful in analyzing large data sets, verifiable and accurate.

#### **Impact of the epidemic on the stock market.**

The novel corona COVID-19 not only has affected the health and lives of the people, but it has affected the economic development of the countries across the globe. Countries are most investing in health care facilities, and the policies of the countries change every day. As a result

of this, the whole market is uncertain, and all the stock markets are showing a declining trend (Khan, Siddiq, & Siddique, 2021). Due to this epidemic, the world has seen the lowest price of oil in the last few decades because of less demand for gasoline oil for major consuming countries (Economic, 2020). The pandemic results in a decline in business in every stock market. But the countries with weak financial positions have faced these epidemic economic shocks very severely. Pakistan is a developing country, and its financial situation is not that much reliable as other developed countries, so Pakistan's stock market is affected by this epidemic very severely. Figure 3 shows that the daily business of index 100 and it shows that due to this outbreak, the Pakistan stock exchange 100 index falls from almost 40000 to 27267 points on 26<sup>th</sup> March 2020 (PSX, 2020). Because the future of the market is uncertain due to this epidemic situation, investors are not willing to take the risk. Similarly, figure 4 shows that the business of total shares in the stock exchange of Pakistan is lowest on 26<sup>th</sup> March 2020, which is about 20000, so it shows that the stock exchange of Pakistan is very affected by this epidemic. The government of Pakistan should encourage the investor and provide an incentive to them so that the stock exchange moves upward once again.

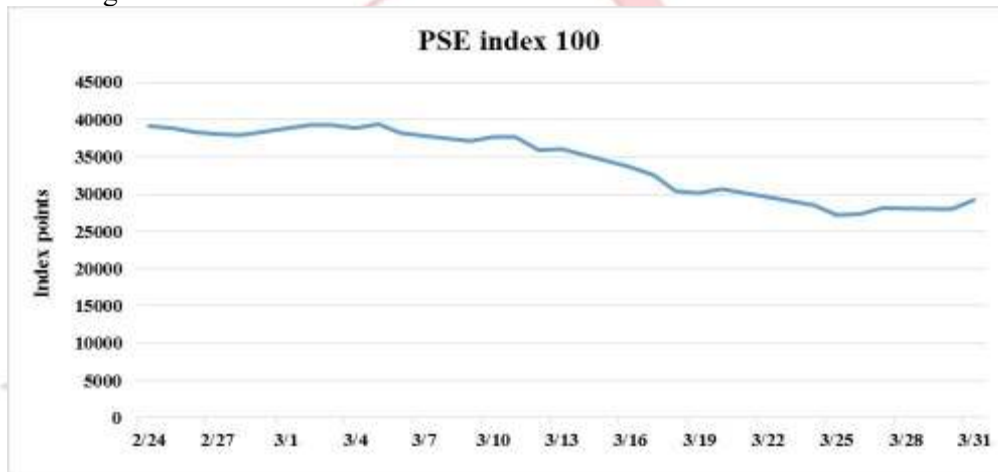


Figure 3 Pakistan stock exchange (PSE) 100 index

Stock exchange total share

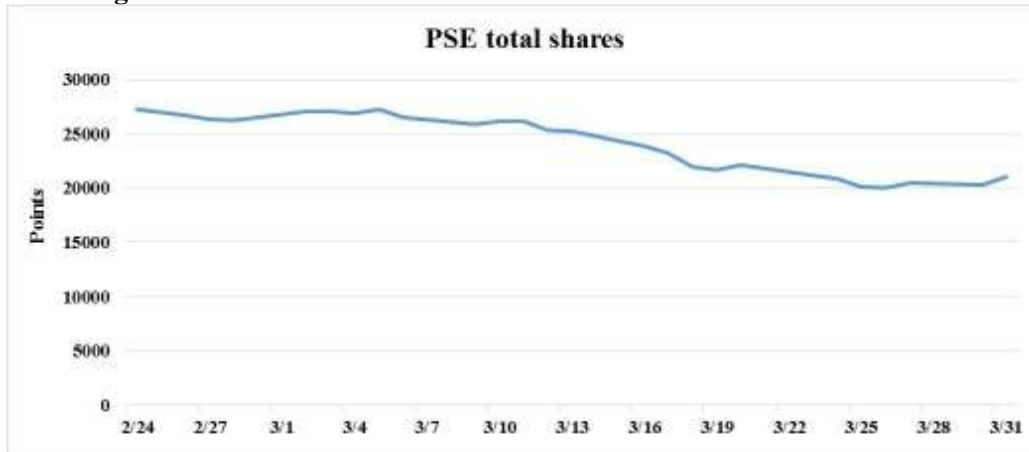
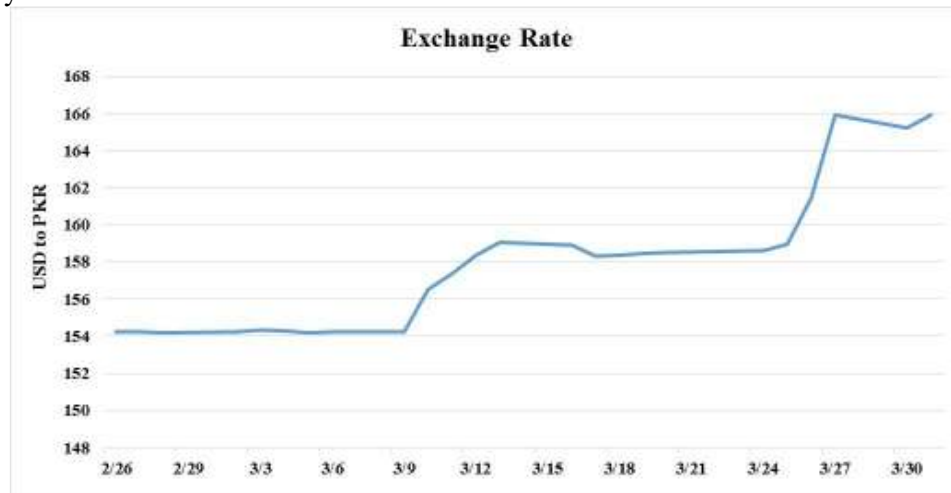


Figure 4 Pakistan stock exchange (PSE) total shares

**Impact of the epidemic on exchange rates**

The epidemic influences the money and capital market of the country. As the majority of cash outflow occurs from the country due to purchases of different things to provide the necessary facilities to the people so the demand for dollar increases, which devalues the local currency of the country (Siddique, Kayani, & Ashfaq, 2021). Figure 5 shows the graph of USD \$ to PKR since the outbreak. The dollar was at 154 PKR when the first case is reported on 27<sup>th</sup> Feb 2020 (SBP, 2020). But since the government started taking severe steps to prevent the transmission of COVID-19, the price of dollar jumps and traded almost 166 PKR on 27<sup>th</sup> March 2020. This shows that there 12 PKR increase in one-dollar since this outbreak, which is adversely affecting the economy of Pakistan.



**Figure 5** USD to PKR exchange rate trend

**Impact of the epidemic on state bank of Pakistan interest rate.**

As already studied that due to epidemic, all types of business stop their activities to control and prevent transmission. So as a result of this, the business faces a lot of losses, so the government should provide an incentive to boosts their business. And give loans to the business at a lower interest rate so that they can run their business to avoid the loss. Because long term suspension of business will affect the economic growth of the country in the long term, so to prevent the loss of business communities, the state bank of Pakistan lowers their interest rate. Figure 6 shows the direct interest rate of the central bank of Pakistan (SBP, 2020). And it shows a decline in interest rate as the epidemic period moves on. On 26<sup>th</sup> Feb 2020, it was 13.75 percent, but now it was 11 percent interest on loans. And as the epidemic situation is going worse so to promote the business, it is advised that SBP should bring lower as much as can as some countries bring at zero interest level to encourage the business sector.

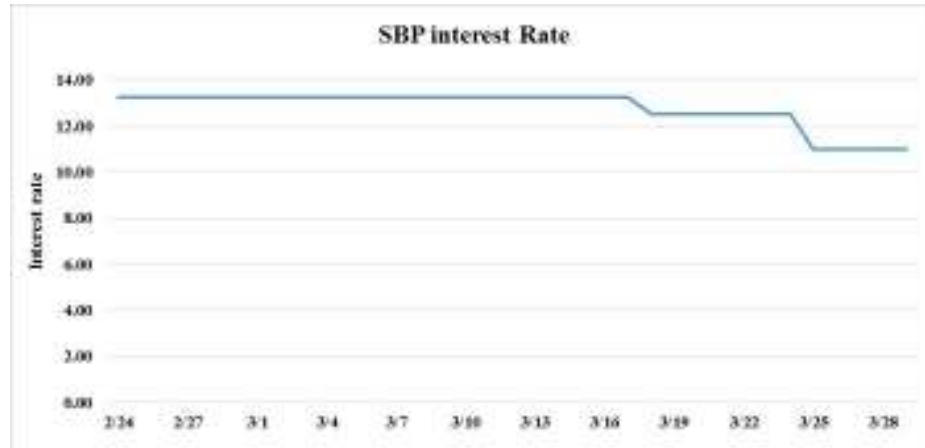


Figure 6 State Bank of Pakistan (SBP) interest rate

**Impact of the epidemic on commodity rate**

As we know that since the outbreak, the world financial markets are facing a recession after the long term since the financial crises of 2008. The impact of the global financial market can be seen in the financial markets of Pakistan, so the investor is looking to invest in more secured securities. Thus the demand for these securities increases because of competition among investors. Since the outbreak, the government of Pakistan is taking measure to stop its spreading, so it affected the daily business activities, and investor is looking for secured investment. Figure 7 shows the gold rate in Pakistan since the outbreak of COVID-19. The graph shows that since the government started the lockdown to limit its transmission, the price of gold moves upward from 75000 PKR to almost 89000 PKR in just ten days because the investment in other securities are risky as compare to Gold investment (SBP, 2020). So it shows tremendous increases in the price of gold; hence it's proved that epidemic increases the prices of gold in a few days.

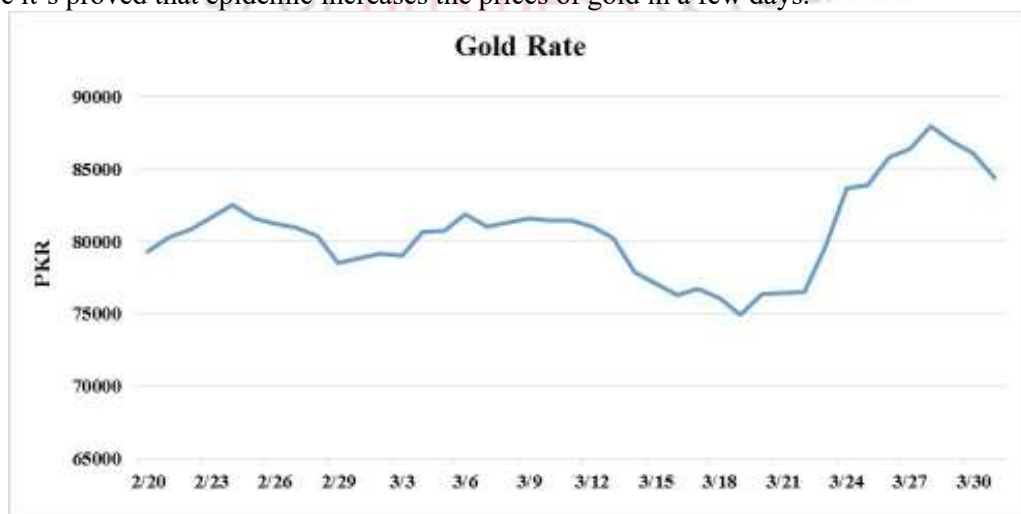


Figure 7 Gold rate in PKR

### **Discussion and conclusion**

The epidemics not only tests the health system of the countries but only the financial position of the countries and creates hurdles in the economic development of the countries. This study investigated the impact of the novel COVID-19 on different sectors of Pakistan. As we know that the COVID -19 has tested the economies of well-developed countries such as the USA, China, and has an adverse influence upon their growth. So, for the developing country like Pakistan, the impact of COVID-19 will be very worse even more if a precaution measure is not taken to boosts the economy. The novel coronavirus is affecting every aspect of the financial and non-financial sectors of economies. The world stock markets are facing recession for the first time since the 2008 financial crises, and about US \$ fifteen trillion is wiped out from world stock markets due to this pandemic. Due to the conflict of Russia and Saudi Arabia on oil prices, the prices of oils is lowest since the last few decades, and the estimates show a sixty percent decline since this pandemic starts because of less consumption and demand at the international markets. The epidemic also influences the employment ratio of the countries because most of the businesses have stopped their operations, and peoples lose their jobs. In the USA, more than 6.6 million people have applied for unemployment allowance due to this epidemic. The World Bank reported stated that in Pakistan, due to COVID-19, about 12.5 million to 18.4 million will lose their jobs. Similarly, to the same as other stock exchanges of the world, the Pakistan stock exchange is severely affected by this epidemic. Figure 3 shows the trend of PSE index 100 since the first case reported in Pakistan. As the cases reported in Pakistan daily increased, and the government started to take precaution measures and lock down the major cities, it also affects the stock markets. Figures 3 show the downward trend since the future is uncertain. Due to COVID-19, the PSE index 100 falls from 40000 points to 27267 on 26<sup>th</sup> March 2020. This shows that more than 12500 points decline in the business in stock exchange due to the effect of this epidemic, and millions of PKR have been wiped out from the investors.

Similarly, figure 4 shows the activity of total shares in the stock exchange of Pakistan, and the same as index 100, the total share graph shows a decline from about 27000 points to around 20000 points due to this epidemic situation in the country. As the outcomes confirm like the developed countries stock exchanges, trading in Pakistan stock exchange is severely affected by this COVID-19 pandemic. The demand for medical equipment in the countries increases to counteract the epidemic, so as a result, the government expenditure increases. The purchases are almost made in dollars, so the government's demand for dollars increases, thus it results in the shortage of dollars in the market, so it increases the price of the dollar. Due to this epidemic, the exchange rate of dollars to PKR moves upward from 154 to 166 in just a few days. As a result of these variations in the prices of dollars, the less developed countries like Pakistan, which mostly rely on foreign debts. The debts amount increased due to these changes in US\$ to PKR. So this epidemic has devalued the currencies of less developed countries, including Pakistan, now they have to pay more due to this in the form of foreign debts, which will be an extra burden on the economy in these countries.

As in the epidemic situation, every sector needs finance to meet its financial obligation, so it is the responsibility of the government to provide a financial incentive to every needy sector. These incentives may be in the form of subsidy, loan writes off, the low-interest rate on loans or other incentives. Developed and financially stable countries have lowered their interest to a minimum

level while some countries are providing free interest loans to cope with the adverse financial losses due to the epidemic. So considering the epidemic condition in the country, the government of Pakistan lower its interest rate from 13.75 to 11 percent. Figures 6 shows the interest rate on loans set by state bank of Pakistan to facilitate the different business sectors. And to avoid the loss of the organization due to this prevailing epidemic situation in the country. So this low-interest rate will help the country as a whole to make sure that the financial system of Pakistan does not collapse due to this epidemic because the survival of the country depends upon continues economic growth and sustainability as we know that more investor invested in more secure securities to avoid any loss due to this epidemic. Figure 7 shows the gold rate in Pakistan in the epidemic period. The graph shows that there is an increase in gold rate as the epidemic situation becomes severe and the government is forcing lockdown in the cities so as the results of this gold rate moves from 75000 to 88000 PKR so its shows that investor is more interested in gold as compared to other securities.

The government of Pakistan should build confidence in the investor to invest in the stock exchange securities so that they provide stability in the financial system of the country. The government should provide incentives and fewer interest loans as much as possible to provide better financial security to all sectors. The state should look at the dollar rate and not allow it to increase its value because it will not only increase the prices of commodities in the country but will also increase the external debt of the country. So overall, the government should take all the decision wisely and timely to cope with the epidemic and maintaining the financial position strong to ensure economic growth and sustainability.

Limitation and future research direction

This research is limited to only one country that is Pakistan. The specific time period is used for analysis in this study. This kind of research can also be done in other countries to understand the impact of COVID-19 on various sectors. Cross country analysis can also be in future.

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