



## Investigation of Political Chaos and Performance of Pakistan Stock Exchange: A Case of KSE 100-Index

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### Abstract

The Stock market is a crucial element of any financial system, and it plays a significant role. It is observed that the stock market's performance is an important indicator of the economic health of any country. Pakistan stock exchange deals with bonds, Shares, debentures, options forwards, etc., that may be affected due to any news and events directly or indirectly. This study explores the effect of certain political events on the stock market performance from 2000-2022. The major events selected for this study regarding political chaos include the assassination of Benazir Bhutto, restorations of judges, rigging in the general elections, Regime changes, long marches, etc. Data was collected from Pakistan magazine NGOs regarding the KSE-100 index, and selected political news/events were identified based on websites, magazines, newspapers, etc. Findings indicate that most of the selected events of political chaos resulted in a negative impact on the performance of the stock market (KSE-100 Index). This study is helpful for various stakeholders, i.e., government, financial institutions and non-financial, SECP, policymakers, and domestic and global investors, practically and theoretically.

**Keywords:** Political chaos, Pakistan Stock Exchange, Performance of KSE100

### 1. Introduction

The stock market is an important part of the financial system of the economy and is considered a vital sign of its financial health. The Occurrences different events could affect the performance of stock market in the positive or negative direction across the world with different magnitude and intensity. It is observed that the stock market plays an essential role in the economy (Ahmad et al., 2011). Every event could create an impact on stock returns favorably or unfavorably depending upon nature and volume of the event. It is observed that decisions in financial market is connected with fear and hope due to price fluctuations among buyers and sellers (Jabarin, Nour, & Atout, 2019). The stock market facilitates the trading of

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financial instruments such as shares, bonds, debentures, and other derivatives. These instruments traded in the market, generating capital for various stakeholders. Performance and outcomes of stock market are associated with news and prediction, forecasting all these forecasting influences on the market positively or negatively.

The stock market of any country, either an emerging, developing or developed economy, could be affected by several economic factors like inflation, interest, capital, FDI etc. Similarly, non-economic factors such as terrorism, political instability, poverty, unemployment a natural disaster etc. could influence the stock exchange significantly. Moreover, it is reported that local, regional, and international events and news could influence the prices and performance of stock exchange (Ahmad et al., 2021). It is reported that several factors affect the investors' financial decision making to choose a specific investment opportunity in the stock market Javaid, M. E. (2020). This study examines the influences of certain political events/news creating chaos on the performance of the stock market during the last two decades approximately. And this study support to literature because many events most of the time indicate impact positively and negatively results of the all are discussed in details. The selection of Political events as political chaos was selected on the based on its extensive coverage in the mainstream media, that were reported as headline in the most of national newspaper and news at specific date.

## 2. Literature Review

Pakistan has experienced very challenging situation since its inception and stock market has no exception. Similarly, every regime posed a unique set of issues, concerns and difficulties during the last couple of decades. Moreover, technological, political, financial, and social diversity in the presence of emerging problems, events and scenarios require empirical investigation of stock market behavior and performance in such situations and events. However, stock markets across the globe have shown diversified and unexpected behavior because of social, technological, environmental, financial, economic and political scenarios even in the presence of modern gadgets, tools, and techniques. Volatile political circumstances and political events non-economic factor affect the performance of the stock market in less developed or developing countries (Bittlingmayer, 1998). The study investigates the impact of the specific political events creating political chaos on the performance of Pakistan Stock Exchange by considering KSE-100 Index. It is reported that Karachi stock market is the biggest commercial hub of the Pakistan and face very experience ups and down during last few decades (Ahmad, Ali, & Humayoun, 2011).

Previous studies reported that stock market is affected by spread of positive or negative news and create direct impact on the economy as compare to any other market (Jaumotte, 2004). Similarly, political factors may create uncertainty due to implications bad policies, governmental changes and elections etc. (Chen, Bin, & Chen, 2005). It is observed that Taiwan's public media has mostly focused on cross strait political and economic link, although internal concerns have gained attention due to their political significance (Chen et al., 2005). It is documented that there are many reasons regarding effect of political factors on the performance of stock market, as well as the mechanism of political institution that could independently play its role in economic growth (Pinto, Weymouth, & Gourevitch, 2010). However, it is reported that mews toward political factors affect the stock return and as well as create abnormality (Nguthi, 2013).

Political stability is desirable for sustainable growth and better performance of the stock markets. It could be protective and good predictable environment in economy where any stakeholder safe himself/herself to mitigate risk and avoid the negative side of stock returns

(Manzoor, 2013). Moreover, it is observed that impact of political factors on the stock return of KSE100 from last few decades are abnormal (Mahmood et al., 2014). However, Political factors are a non-economic factor and play role in any economy not merely in Pakistan across the globe by creating an impact. News has a significant impact on the performance of the stock market either positively or negatively. Stock markets could have direct impact on the sentiments of the investors behaviors because any rational investors invest at the place with the positive mindset, and it may be stock market or any other market. It is found that political news created significant impact on KSE index for short runs especially in the era of terrorism and uncertainty (Mahmood, Irfan, Iqbal, Kamran, & Ijaz, 2014). Similarly, it is reported that Pakistan, in the last decade has been struggling and facing different crisis of war and terrorism (Hassan, Mahmood, Ahmed, & Abbas, 2014).

News always has structural gaps when it is cropped up, and the information disclosed by the media is the happening of event. Political events play an important role in determining the effect the economic policy, prediction for policy making and structure developing by (Murtaza & Ali, 2015). Stock market in any economy provide progressive and entrepreneurial growth as well as play important role for price determination and liquidity (Murtaza & Ali, 2015). Different events create impact economically and psychologically behavior of the investment (Majeed, Raheman, Sohail, Bhatti, & Zulfiqar, 2015). The stock market is considered the backbone for every economy and political stunt plays a crucial role in the economic system. Several economic factor such as inflation and interest etc. affect the performance of the Pakistan stock market (Rahman, Khan, & Malik, 2018).

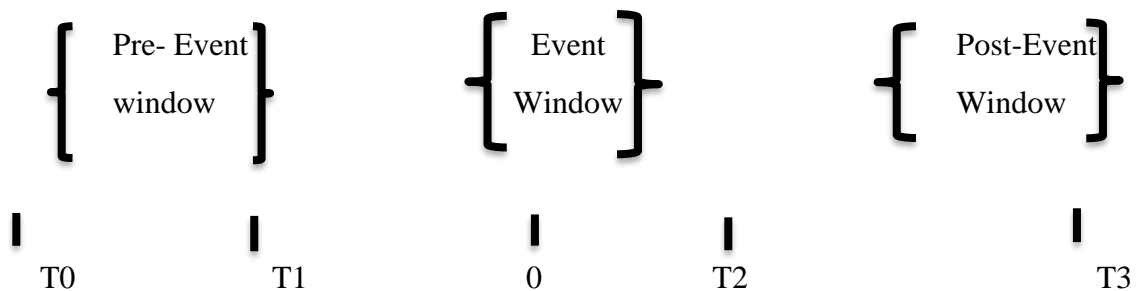
Tiberghien (2019) emphasized the role of political entrepreneurs that could create effect on the soundness of the economy and results. Stock market have a significantly adverse impact of various political events of the Palestine and Amman financial markets (Jabarin et al., 2019). Stability of political factors considered well sounds indicators for any economy and this non-economic factor can create growth and development in any economy. Similarly, events of different level and magnitude could affect the performance of stock markets at both ends i.e. positive events and news for better performance or negative events/news adversely (Ahmad et al. 2021). However, personality traits, personal biases and exposure of investors may influence the financial decision-making regarding selection of specific stocks and financial assets Javaid, M. E. (2020). Existing literature enables the researcher to hypothesize that is a significant negative impact of selected political events creating political chaos on the performance of the KSE-100 Index. However, it may be assumed that there is a no impact of certain events of political chaos on the performance of the KSE-100 Index.

### 3. Method of the Study

This study investigates influence of selected events creating political chaos in Pakistan during the last two decades by considering the performance of Pakistan Stock Exchange based on KSE100 index. This study explores the effect of certain political events on the performance of the stock market during the period of 2000-2022. The major events selected for this study regarding political chaos include assassination Benazir Bhutto, restorations of judges, rigging in general election, Regime changes and long-march etc. Data was collected from the Pakistan Stock Exchange regarding KSE-100 index and selected political news/events were identified based on websites, magazine, and newspapers etc. Several political events were identified with the help of published sources, like different websites newspapers, magazines, and TV channels etc. The selection of Political events as political chaos was selected on the based on its extensive coverage in the mainstream media, that were reported as headline in the most of national newspaper and news at specific date. The major political events are considered independent variables such as assassination of Benazir and political chaos, restoration of

judges, political demonstrations against rigging of various election, ousting of Nawaz Sharif etc. The daily stock return (KSE-100 Index) was considered to assess the role of selected political events for the working days by excluding the official and weekly holidays. In this study researchers try to check the impact on performance of various selected events before and after occurrence of the events with the help of events window study that is invented by (Ball & Brown, 2019). This enables a comparison in the results by delineating the impact of events both before and after their occurrence as well as the actual events. The concept of events window enables to investigate the impact of certain political events that could affect the performance of the stock market (Ahmad, Sohail, Riaz, Hussain, & Ihsan, 2021). KSE100 index was collected from the [www.khistock.com](http://www.khistock.com) and different other sources covering a period of last two decades (a period of 2000 to 2022). Event windows were framed by considering the fifteen days as pre-event and fifteen days after the occurrence of event as post-event. However, the event window covers the actual days indicating the occurrence of selected political event. SPSS was applied to check the impact of certain events on the performance of the stock market through regression analysis that is consistent with past studies based on estimation event window indicating pre-event, event, and post-event windows (Ahmad et al., 2011; Ahmad et al. 2021). Regression analysis was undertaken to examine the direction and extent of influence of selected events on KSE-100 Index.

### 3.1. Estimation Event Windows



Source: (Ahmad et al., 2021)

The major events considered in this study cover the period of the last two decades. Data on all events were collected from various sources including newspaper, Tv channels, websites of the stock markets.

**Table 1: Pre-Post Events**

No.	Events Name	Sources	Events	Pre	Post
1.	Assassination of Benazir and Political chaos	Dawn newspaper	27 Dec 2007 To 10 Jan 2008	12 Dec 2007 To 26 Dec 2007	11 Jan 2008 To 24 Jan 2008
2.	Restorations of Judges movement	Aljazeera	24 Mar 2009 To 09 Apr 2009	09 Mar 2009 To 23 Mar 2009	10 Apr 2009 To 24 Apr 2009
3.	Political demonstration against election rigging 2014	Jung	20 Aug 2014 To 03 Sep 2014	05 Aug 2014 To 19 Aug 2014	04 Sep 2014 To 18 Sep 2014
4.	Ousting of Nawaz sharif due to Panama	BBC	28 Aug 2017 To 12 Aug 2017	13 Jul 2017 To 27 Jul 2017	13 Aug 2017 To 27 Aug 2017
5.	Political protest by opposition against PTI govt	Dawn	20 Sep 2020 To 04 Oct 2020	05 Sep 2020 To 19 Sep 2020	05 Oct 2020 To 19 Oct 2020

No.	Events Name	Sources	Events	Pre	Post
6.	Regime change and political uncertainty	Jung	08 Mar 2022 To 22 Mar 2022	20 Mar 2022 To 07 Mar 2022	23 Mar 2022 To 06 Apr 2022
7.	Political demonstration by PTI 25 May 2022	Express	25 May 2022 To 08 Jun 2022	10 May 2022 To 24 May 2022	09 Jun 2022 To 25 Jun 2022
8.	Long March of PTI	Dawn	27 Oct 2022 To 10 Nov 2022	12 Oct 2022 To 26 Oct 2022	11 Nov2022 To 25 Nov 2022

Source: (Generated)

#### 4. Results and Discussion

This study explores the effect of certain political events on the performance of the stock market that had a direct or indirect impact on the stock market in the last twenty-two years from 2000 to 2022.

**Table 2: Regresson Results**

No	Events	F-Significant	R-Square	Constant value	Pre-Event Value	Post-Event Value
1	Assassination of Benazir and Political chaos	23.033	0.639	14095.540 (77.537) 0.000	525.051 (116.305) 0.000	-242.216 (107.133) 0.000
2	Restorations of Judges movement	83.863	0.848	7071.165 (82.471) 0.000	-1079.284 (128.941) 0.000	643.634 (121.818) 0.000
3	Political demonstration against election rigging 2014	21.282	0.595	28606.170 (141.433) 0.000	319.670 (204.956) 0.130	1258.223 (200.016) 0.000
4	Ousting of Nawaz sharif due to Panama	60.683	0.813	46248.485 (205.587) 0.000	-1038.045 (290.744) 0.000	-3330.869 (306.471) 0.000
5	Political protest by opposition against PTI govt	40.499	0.802	41265.145 (163.330) 0.000	1082.929 (230.983) 0.000	-1915.175 (339.998) 0.000
6	Regime change and political uncertainty	11.353	0.439	43432.897 (158.895) 0.000	1015.354 (219.981) 0.000	775.117 (236.867) 0.000
7	Political demonstration by PTI 25 May 2022	8.915	0.373	42231.065 (172.194) 0.000	645.972 (243.519) 0.013	-369.878 (243.519) 0.000
8	Long March of PTI	30.293	0.676	41892.215 (100.973) 0.000	134.143 (139.515) 0.344	988.226 (139.515) 0.000

Source: Generated

Table 2 reveals the summary of regression results that was undertaken to assess the impact of selected events of political chaos on performance of Pakistan Stock Exchange. Results are self-explanatory and present the entire story of two decades during the estimation windows i.e. pre-event; event window and post-event as an output that indicates the direction and extent of influence of selected events in different timeframes. Findings indicate a negative impact of Assassination of Benazir Bhutto on performance of Stock Market in Pakistan due to pro-longed violations, law & order situation, and aggression-led feelings of deprivation & sorrow. However, restoration of judges' movement revealed a significant positive impact on KSE-100 Index after its occurrence. Similarly, Other pollical events such as the political

demonstration against election rigging in 2014, also indicate the factual result that is 59% impact on dependent variable and as well showing the significantly positive influence on the performance of the stock market pre and post occurrence of the event. But another major political event i.e. ousting of Nawaz sharif reflected negative impact of this event on the performance of the stock market. Moreover, Political protest by opposition against PTI government is most important political events that had a significantly negative influence on the performance of stock market after occurrence of the event. It is observed that political factors have an adverse impact on stock market (Pinto et al., 2010). The Regime change in April 2022 followed by political demonstration by PTI in May 2022 respectively had shown a significant influence on the performance of the stock market during the event windows of both events. On the other hand, factual results of the last event i.e. long march of PTI government indicate the significant negative impact at the time after occurrence of events. It is reported that pre-event and post-event could affect the sock market return adversely due occurrence of specific events (Hassan et al., 2014).

## 5. Conclusion

The Stock market is an important part of the financial system, and it plays an essential role. Positive and growing stock markets are labelled a positive sign of progress and prosperity to facilitate the investors and other stakeholders for better individual and collective well-being. This study explored the effect of certain political events Creating political chaos including assassination Benazir Bhutto, restorations of judges, rigging in general election, Regime changes and long-march etc on the performance of the stock market during the period of 2000-2022.

Data was collected from the Pakistan Stock Exchange regarding KSE-100 index and selected political news/events were identified based on websites, magazine, and newspapers etc. Regression analysis was undertaken to examine the direction and extent of influence of selected events on KSE-100 Index. Findings indicate that most of the selected events of political chaos resulted in a negative impact on the performance of the stock market (KSE-100 Index). Financial system of every economy is plays vital role and stock market is an essential element of the financial market of Pakistan. This study could be helpful for various stakeholders i.e. government, financial institutions and non-financial, SECP, policy makers domestic and global investors practically and theoretically.

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