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Article

Government's responses and performance of stock markets during COVID-19: Evidence from ASEAN stock markets

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Abstract: This study aims to investigate the effects of government interventions on stock market performance of six countries within the ASEAN region that experienced the greatest impact during the COVID-19 pandemic in two aspects: stock returns and stock volatilities. The paper uses government response index and its components, including stringency index, containment and health index and economic support index as proxies for government actions. The paper first applies the GARCH(1,1) model to extract the volatilities of the studied stock markets. Subsequently, a panel regression model with fixed random effect is adopted to analyze how the performance of stock markets is influenced by government policy responses. The empirical results suggest that government's interventions exert positive, significant effect on the stock returns of ASEAN markets. Additionally, the stock markets are more volatile under the implementation of restriction policies and containment and health policies, whereas the economic support policies are associated with decreased volatilities. The overall effect of government response policies also boosts the volatility of ASEAN stock markets. Our findings provide essential and reliable evidence for policymakers and stakeholders to alleviate the profound impact of the widespread COVID-19 outbreak.

Keywords: government's responses; COVID-19; ASEAN countries; GARCH(1,1); stock market performance

1. Introduction

On March 2020, COVID-19, resulting from the SARS-CoV-2 virus, was officially announced as a global pandemic. From the first known case in Wuhan China, SARS-CoV-2 and its variants quickly spread out to over the world. According to Johns Hopkins University, at the end of 2022, there are more than 660 million confirmed cases with over 6.6 million deaths across the globe.

Amid the widespread impact of the pandemic, nearly all economies have experienced significant losses. As per Albulescu (2021), the significant economic repercussions of the deadly coronavirus encompass substantial losses in diverse industries, including trade, tourism, transportation, and even local food sectors. Not an exception, many stock markets over the world have witnessed a dramatic decrease (Morales and Andreosso-O'Callaghan, 2020). When the global pandemic is confirmed on March 2020, the US stock market plummeted with the Down John Industrial Average Index reduced by 6.400 points, approximately 26%. At that time, many other stock markets in ASEAN countries were also heavily damaged, such as Vietnam (dropped by 35%), Philippines (32%), Thailand (30%), Indonesia (28%), Singapore (23%) and Malaysia (15%).

In reaction, governments globally have enacted emergency measures, such as