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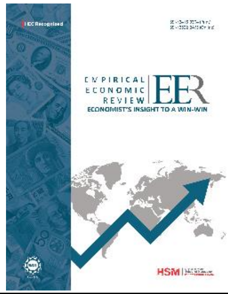

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Effects of IMF Funding Announcement on Pakistan's Stock Market Performance

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Abstract

When the International Monetary Fund (IMF) announces loans to different economies, stock markets often respond differently. These loans are usually drawn with strict terms that may conflict with the political and economic goals of the country borrowing the money. It leads stock market participants to frequently view IMF announcements unfavorably. The current study aimed to investigate how the stock market in Pakistan's heavily indebted economy has performed in relation to the IMF's announcements about funding the country. To conduct this research, a quantitative approach was utilized to collect the data and determine the results. Secondary data was acquired from several websites dealing with IMF loaning as well as its effects on the performance of Pakistani stock market. The researcher subsequently employed descriptive statistics and regression analysis for data analysis. Additionally, secondary information regarding the impact of IMF lending announcement on Pakistan's share market positions was obtained from the IMF platform and other relevant sources. IMF has been one of the main lenders to Pakistan since the late eighties. Therefore, this research sought to help understand the dynamics of how IMF loan announcements have affected Pakistan's stock prices from the time period (2015-2022). The results were established through acquired time series quantitative data. Findings indicate a strong positive correlation between IMF loan announcements and equity security performance indicators in Pakistan. Generally, when the IMF announces loans for Pakistan, the stock market tends to rise, suggesting that investors have confidence in the country's economy. Nevertheless, it must be noted that this relationship is not always consistent; there are instances where stock prices may decline following an IMF announcement. Hence, one may realize that IMF alone cannot account for variations in equity prices. Many other factors, such as political stability and global economic situation also play significant roles in stock market performance.

***Keywords*:** International Monetary Fund, lending announcements, stock

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market performance

Introduction

The lending policies of the International Monetary Fund (IMF) play an instrumental role in influencing the financial performance of the Pakistani stock market. In the current news, the Pakistani stock market, being notoriously volatile, tumbled due to the recent proposition from IMF regarding the restructuring of debts. If the IMF's lending policies lead to financial crises in emerging economies, it would be detrimental to the Pakistani stock market. Similarly, economic stagnation resulting from these policies could negatively impact market performance. The Pakistani capital market responded to all of the IMF programs. The market is centered on publicly traded enterprises and investors, and these two groups frequently object to external sanctions and interference in internal macroeconomic matters (Stubbs et al., 2021). In recent years, the news related to IMF loans is considered as an important driver of the Pakistani stock market. IMF loan news significantly impacts the Pakistani stock market, which is heavily dependent on foreign investment. Historically, news regarding the IMF funding positively influenced the stock market, wherein it resulted in higher prices and a higher volume of activity. However, recent news regarding the IMF funding also led to negative outcomes, characterized by falling prices and low volume of activity (Waheed et al., 2020).

In Pakistan, the stock exchange market has been adversely affected by IMF policies. The stock market often reacts disproportionately to news, leading to temporary adjustments followed by price corrections. For instance, the rumors that surfaced about an imminent loan from IMF) had an adverse effect on the stock exchange as its index dropped by more than 6%. When it was eventually revealed that Pakistan had obtained the loan, the market rebounded a bit, however, still much less than its level before IMF crisis. The precise impact of IMF policies on the stock market in Pakistan is still unknown at this point; nevertheless, it can be concluded that they have not been favorable (Parveen et al., 2021). In Pakistan, the stock market remains largely unregulated and inefficient, making it challenging for foreign investors to engage. Moreover, the nation's economy still relies largely on agriculture, thus it is vulnerable to fluctuations in international commodity markets. News related to IMF lending can have both positive and negative effects on the stock market. For instance, IMF has recognized Pakistan's recent economic reforms and acknowledged its progress with admiration. This information has resulted into more foreign investments directed towards Pakistan which, in turn, has increased the value of shares on the stock market (Azeem et al., 2021). However, Pakistan has also been warned by the IMF that its economy is still prone to shocks which has caused anxiety among traders. Due to the fact that the IMF is a global economic player, its lending decisions can influence share prices everywhere in the world. The stock market in Pakistan increased sharply after the IMF approved provision of urgent financial assistance to Pakistani government (Kutan et al., 2016).

Background

The IMF has rendered monetary aid to countries since its formation in 1947. Its primary goal is to promote worldwide economic balance and solidarity. However, in recent years, lending policies of IMF have come under fire. For instance, some critics argue that these policies are unreasonably stringent and causing additional financial hardships for the countries involved, whereas others claim that the fund is too lax with its loans which are mostly misused.

Pakistanis have largely criticized the IMF's role in 2008's economic crisis (Evrensel & Kutan, 2008). IMF consented to lend Pakistan $7.6 billion in November 2008 on the condition that a series of austerity measures were enforced including the reduction of government expenditure, increase in taxes, and privatization of state-owned enterprises (Evrensel & Kutan, 2008). The IMF loan is widely believed to be one of the causes of the collapse of stock market that followed. This is because it made investors in the Pakistani economy lose hope. The Greek debt crisis has seen the IMF draw extensive criticism. In Greece, the organization provided a combination of loans amounting to $265 billion, which were offered under the condition that austerity measures be implemented. As a result, these measures included a reduction in government expenditure, an increase in taxation, and the sale of publicly owned companies. The IMF lending is thought to have a major hand in the economic decline of the country through a sharp rise in living cost and massive unemployment rate (Brzeszczyński et al., 2015).

Since the late 1950s, the IMF took to extend a helping hand to Pakistan financially and arguably it has been seen as one of the main sources of external economic help in recent times. In 2008, this nation had borrowed more than $18 billion from IMF. The role played by IMF in helping Pakistan stabilize its economy cannot be ignored easily either. Though, during the worldwide financial crisis that took place in 2008-09, it has been claimed that IMF assisted Pakistan in averting the total economic disaster. Moreover, it also provided support to reform the economy of Pakistan. In 2013, Pakistan received its last loan amounting to US$6.7 billion from IMF which formed part of a broader assistance package of USD 11.3 billion from other international aid agencies. This money was actually meant to be used to meet Pakistan's payment drags and also to pave the way for some changes in the country's economy (Abuelfadl & Yamani, 2023).

Pakistan has experienced both positive and negative outcomes from the funds lent by IMF. The monetary institution has played an effective role in protecting Pakistan from economic doom. However, there are claims that it did worsen the country's economic woes as well. The loan demands of this global body have frequently sparked criticism and Pakistan has found it hard to attain its goals outlined in agreements with this financial agency. Despite this situation, IMF continues to be one of Pakistan's main donors pertaining to financial matters. Additionally, its assistance would remain a vital tool to address difficulties in times to come. For generations now, IMF has been funding countries in distress, and its funding mechanisms have positively affected Pakistan's performance in the stock exchange (Copelovitch, 2010). The Pakistani economy has remained stable due to the IMF's financial support in times of need. Consequently, the country kept growing. As Pakistan's economy keeps expanding and changing shape, the role played by IMF would be central in supporting the country achieve its economic objectives (Ali et al., 2020).

Problem Statement

Pakistan's stock market performance was adversely affected by the negative impact of IMF lending. This is because the Pakistani government has not been dedicated to the required reforms. The Pakistani government has always been dependent on IMF for loans. However, no reforms were instituted for less dependence on IMF loans. One of such instances is when it was announced that IMF will be giving a loan to Pakistan worth $6 billion, which caused a decline in its stock market. When countries borrow money from IMF, it always imposes stringent conditions that may deplete their economy (Haroon & Shah, 2013). For instance, it may demand austerity measures from such countries which would result into a high level of unemployment and low economic growth rate. Additionally, another problem arising from IMF intervention is that it makes things even more complicated than before by granting such loans. If a given African nation is unable to pay back the loan given then what will happen next is not pleasing at all as most probably IMF will add more unnecessary regulations and demands; but essentially making things worse. Moreover, these events would be detrimental both for the whole nation’s economy as well as its equity market. Thus, news about how IMF has lent $6 billion to Pakistan would probably have a negative affect on Pakistan’s share prices on various stock bourses around the world. This is because problems exist tied up with lending by different world organizations which do not fit within a proper framework regarding what constitutes healthy developmentally-oriented lending practices among nations (Jorra, 2012).

Significance

After late 1980s, IMF has been addressing numerous monetary crises. In all instances, it provided loans to countries experiencing financial constraints, helping them stabilize their economies. However, there are controversies surrounding IMF’s role during these time periods. While some say that IMF loans had a positive effect on the Pakistani stock market performance, others perceive it negatively. The IMF lending has a mixed bag of positive and negative consequences on Pakistan's stock market performance. Since investors expect favorable economic benefits of the IMF's financial support, the introduction of an IMF loan program frequently causes an early spike in stock prices (Fratzscher & Reynaud, 2011). However, the terms and conditions of IMF loans may occasionally have a detrimental impact on the stock market, such as raising interest rates and reducing government expenditure. The question whether or not the IMF financing announcement impacted the performance of Pakistan’s stock market remains uncertain. On one hand, some argue that the news regarding IMF loans has helped the stock market to recover from its lowest points and attain all-time highs. While, others insist that this information has hindered the growth, leading to massive losses for the market instead. Regardless of what the final decision would be, one thing is evident that any news about IMF borrowing is an important factor in Pakistani bourses, and the implications shouldn’t be ignored (Stubbs et al., 2021).

Literature Review

As stated by Joyo and Lefen (2019), the IMF loan "assists Pakistan's economic strategy that seeks to cut down fiscal deficit, boost taxation, and promote growth". IMF has recently announced its decision to give 6 billion dollars to Pakistan which has considerably affected the economy and stock market of Pakistan. There are several conditions for the IMF loan which include an alteration of tax structure in Pakistan, privatization of state-owned enterprises, and an increase in interest rate. It is likely possible that these factors would have a negative impact on economic development in the short-run and reduction of job opportunities. The Karachi Stock Exchange (KSE) composite index fell by more than 1,000 points due to adverse impact of the IMF loan news on stock exchanges. This is partly attributed to the apprehensions regarding IMF loan conditions together with general insecurity concerning Pakistan's future economic prospects (Al Zaidanin & Al Zaidanin, 2021).

The long-term funding from the IMF could be beneficial in ensuring that Pakistan's economy stabilizes and hence, propels it towards a more sustainable growth. However, there are fears that such an arrangement may worsen the situation for both socio-economic and everyday lives of most people. In Pakistan, the IMF lending announcement had a positive effect on macroeconomics as well as stock market performance. The business sector has applauded this decision, while investors responded positively through increased share prices on the bourse. According to the fund, this loan would help Pakistan make up its deficit in international payments thus, restoring its lost credibility. Consequently, it would trigger off the economic growth and generate new jobs in addition to other benefits including increased foreign investments largely due to improved investor confidence (Andresen & Sturm, 2023).

The increased lending from IMF has been associated with greater economic development in countries, such as Pakistan. In this way, there would be greater demand for goods and services from these countries (Bozdar et al., 2023). Companies that are able to respond to such increased demands would have their profits increased. On the other hand, companies which are unable to supply to the growing market or those relying on imports from developing nations run the risk of seeing their profit margins getting shrink. Hence, different firms have experienced mixed effects as a result of the IMF's lending announcement. An increase in product demand brings some business profits, while others face tougher competition or rising input costs, altogether. The lending announcement from IMF can make a significant difference in various companies' returns. A loan may help companies with superior quality products perform better (Hayo & Kutan, 2005). Conversely, less productive companies or those with inferior products may be adversely affected by the IMF announcement of lending. The IMF lending announcement has extensive effects on different companies regarding their return on investment (ROI). While some businesses have gained profit from it, others have suffered. It highlights the need for careful consideration of all possible consequences before deciding whether to invest based on these types of funding sources (Rahman et al., 2020).

IMF's Strict Lending Conditions and their Negative Effects

According to research conducted by Rahman et al. (2020), Pakistan is already in an unfavorable economic state, characterized by high inflation and a massive deficit. The recently imposed conditions by the IMF Ukraine have made it hard for business operations to survive. These new requirements entail the devaluation of Pakistani rupee, increased interest rates as well as reduction in the expenditure of the government. In these circumstances, it would be hard for companies to find the required funding in order to expand their businesses and create new jobs. Moreover, another example of how international community fails to help Pakistan's economy are IMF lending announcements. Different business organizations criticized the recent loan given to Pakistan by IMF due to its stringent conditions. These conditions negatively affect macroeconomics control in Pakistan, discouraging businesses from thriving (Abuelfadl & Yamani, 2023). The IMF's elevated fee for Pakistan's loans would lead to a backlog in repaying the loans, and businesses may suffer considerably. This also implies austerity measures including cuts in salaries and allowances that adversely affect sectors of the economy. When it comes to banks, these factors are most likely to result into an increase in inflation rates, making it hard for producers to purchase raw materials and market their products. By all means, these factors add up to a hard life for businessmen within dry areas. Due to its complex regulations, the IMF's loan announcement was not received well by companies operating in such regions. This is because it left them unable to borrow money more cheaply. The conditions attached with IMF's propagating loans are expected to worsen the overall macroeconomics of Pakistan. Rising interest rates consequent upon IMF lending would mean higher costs of funds for industries which can potentially discourage investments. Thus, it reduces growth prospects in this sector which would mean impeding monetary policy measures aimed at expanding output within firms (International Monetary Fund, 2022). For instance, reductions in government spending may occur in social welfare programs since certain restrictions have been placed on aid receipt.

Most of the business people and investors believe that the recent $6 billion loan facility announced by the IMF constitutes a risk to the economic stability of Pakistan. They also cite the fierce strings that accompany it (Al Zaidanin & Al Zaidanin, 2021). To enable Pakistan to make use of this assistance, the IMF has demanded that it executes different structural changes like deficit reduction, privatization of public sector enterprises and tax enhancement. Business owners are of the view that these measures would slow down the growth and deter investment, thereby injuring an already frail economy. The value of Pakistani rupee has decreased since this announcement was made, and businesses are at a risk of collapsing (Xie et al., 2022).

Effects of IMF-related News on Macroeconomics and Stock Market in Pakistan

Verma and Bansal (2021), argues that undoubtedly, the IMF has had an impact on Pakistani economy. However, the IMF's policies have had different effects on different stock markets in Pakistan. For instance, the KSE has generally performed well in recent years, despite the IMF's involvement in the Pakistani economy. The stock market has reacted positively to the news that Pakistan would get a loan from IMF. Therefore, it indicates that the IMF believes Pakistan would be able to repay the loan. Investors have shared this confidence which leads towards an increase in the stock prices. An ML-GARCH model can be used to gauge what happens when IMF loan is announced for different sectors or stock markets in Pakistan. Analysis showed that the IMF announcement was followed with positive returns from KSE during this time period, respectively. The sectors that benefited the most include banking and energy. Therefore, it can be stated that the IMF announcement bodes well for Pakistani economy and its decision to seek help from IMF was justifiable.

Media plays a vital role in society by disseminating news and information to the public, educating them about different topics, and keeping them updated on various happenings. Nonetheless, little attention has been paid to the effects that the IMF lending news had on the macroeconomic status of Pakistan. For instance, there exists a direct relationship between heightened awareness of the IMF and Pakistan's macroeconomic environment. In this case, there has been pressure from within the Pakistani government to seek loan from IMF in order to stabilize its economy. Additionally, the fund given by IMF has been helpful for the Government of Pakistan to develop an economic plan for the country (Brealey & Kaplanis, 2004). Being one of the most important institutions globally, this organization is powerful enough to influence the international financial situations. The increased presence of IMF in news reports highlights its growing significance within the global economy. Besides IMF, however, there are other bodies that also support the country, such as the World Bank, Asian Development Bank, and some international organizations. Hence, there are macroeconomic variables, such as interest rate, inflation rate, and corporation tax rate. These variables influence the prices of equities on companies operating in Pakistan due to news about IMF-related matters. These variables, apart from government expenditure, have led to changes in share prices of businesses operating under Pakistan's jurisdiction (Castro et al., 2023).

The current economic situation in Pakistan is still uncertain, despite the IMF trying to help the government in stabilizing it. This uncertainty has made the investors cautious and prices of shares have also dropped. Inflation in Pakistan has been on the rise for the last few months which has reached its peak of over four year's levels. Several reasons may be attributed to this inflationary trend including the depreciation of Pakistani rupee (Verma & Bansal, 2021). According to the IMF's statements on their concerns about growing inflation rates in developing nations, such as Pakistan, they advised against unsustainable development patterns. Corporate taxes are among the world's highest within Pakistan. Corporate tax rate at 35% within Pakistan makes it one of the most lucrative places to invest since corporate tax rates are unsustainable elsewhere (Castro et al., 2023). The IMF has urged the Pakistani government to lower corporate tax rates in order to attract foreign investors.

In Pakistan, the interest rate is likewise high, and in recent months it has risen considerably. This is partly attributed to inflationary woes and also because the Government of Pakistan has been taking on more debt. IMF has asked the Government of Pakistan to take steps towards lowering the interest rates in an effort to stabilize the economy. All these factors have combined to lead to falling stock market prices within Pakistan's borders. Investors are treating businesses within Pakistan as riskier and less profitable (Brealey & Kaplanis, 2004). This trend is likely to continue in the short-run unless there is a greater stability for economic conditions in that country. Therefore, the news related to IMF directly impacts the macroeconomics of Pakistan. Recent monetary crisis in Pakistan is evidence of this truth. The crisis could be attributed to various factors including the fact that IMF chose any reduction of Pakistan's credit line as an option for its agenda, however, left them without financial support since they do not have good credit standing. Thus, the Pakistani nation found itself with dwindling foreign currency reserves, ultimately leading towards a bad financial situation. Another consequence of the crisis was a decline in Gross Domestic Product (GDP), followed by increasing unemployment rates, coupled with inflation (Marwat et al., 2023).

Research Methodology

This research used secondary quantitative data in the data analysis process, since it is mentioned above that the researcher carried out descriptive statistics and regression analysis to determine the results. However, for the data results, EViews software was employed. EViews is a program that has been created using the most up-to-date software technology. It may be used by researchers to conduct cross-sectional, longitudinal, or time series studies. EViews software handles the data in a simpler way and performs both statistical and data analysis. Additionally, it is utilized to make excellent tables, graphs, and charts, as well as forecasts. It has an advanced engine for data processing in addition to an object-oriented user interface with graphic effects (Aljandali & Tatahi, 2018).

The outcomes of quantitative time series data were analyzed with the help of E-views software which also performed regression and descriptive statistics. A regression programmed was applied to establish relationship between the variables in the data. The results of analysis showed how independent and dependent variables were related. Inferences were made that independent variable was a significant predictor of dependent variable. Moreover, based on both clarity and conciseness of the findings, it was noted that, this kind of analysis assisted considerably in understanding the data analysis process (Ma et al., 2018). In essence, considering the final results and discussion, it is evident that the application of regression analysis and descriptive statistics helped considerably. At large, EViews was a valuable tool for the completion of this study's data processing endeavors.

Results

Table 1 presents various descriptive statistics for different financial indicators including mean, maximum, minimum, standard deviation, skewness, and kurtosis. These statistics provide insights into the distribution and characteristics of each indicator.

Table 1

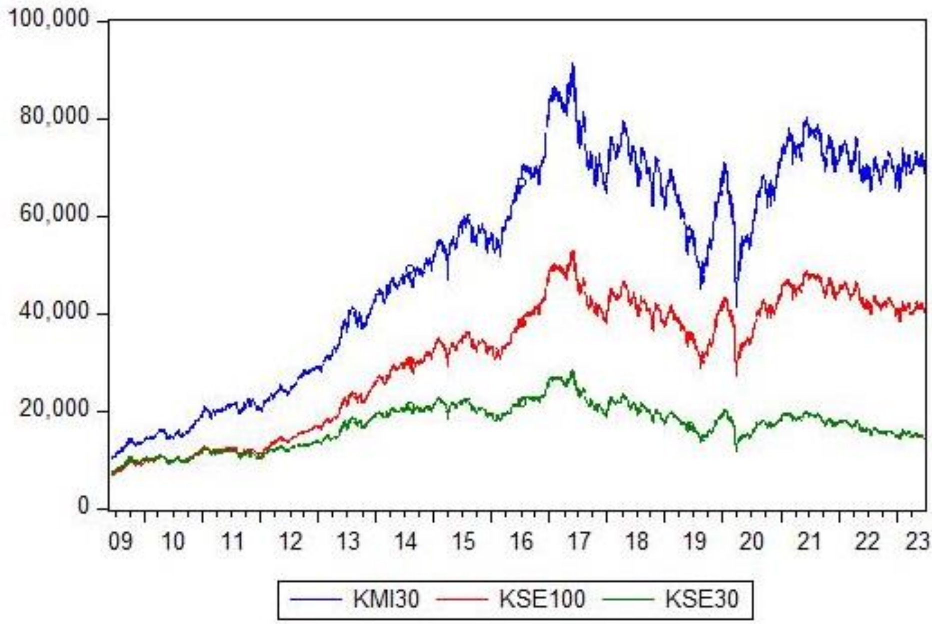
Descriptive Statistics (n = 3486)

	Mean	Max.	Min.	*SD*	Skewness	Kurtosis
IMF	0.615	1.000	0.000	0.487	-0.472	1.222
LKSE100	4.433	4.723	3.837	0.242	-0.856	2.228
LKSE30	4.213	4.450	3.862	0.122	-0.576	2.479
LKMI30	4.652	4.960	4.013	0.247	-0.933	2.504

Starting with the IMF indicator, it has an average (mean) value of 0.615, ranging from a minimum of 0.000 to a maximum of 1.000. The data's variability, as measured by the standard deviation, is 0.487. The distribution of this indicator is slightly negatively skewed (-0.472). Additionally, the kurtosis value here, is of 1.222. Moving on to the LKSE100 indicator, it has a higher mean of 4.433 with a narrower range between its minimum (3.837) and maximum (4.723) values. The relatively low standard deviation (0.242) implies less variability in the data as compared to the IMF indicator. The skewness value of -0.856 indicates a significant negative skew. The kurtosis value of 2.228 suggests that the distribution is moderately peaked as compared to a normal distribution. Similarly, the LKSE30 indicator has a mean value of 4.213, a range from 3.862 to 4.450, and a low standard deviation of 0.122, indicating relatively low variability. The skewness value of -0.576 suggests a minor negative skew in the distribution, and the kurtosis value is of 2.479. For the LKMI30 indicator, the mean is 4.652, with a range between 4.013 and 4.960. The standard deviation (0.247) is slightly higher, indicating slightly more variability as compared to the LKSE30 indicator. The significant negative skewness of -0.933 is achieved, while the kurtosis value is of 2.504.

Figure 1

Graphical Plotting of KSE Indices (June 8, 2009 to June 27, 2023)



The blue line in the graph shows that after the global financial crisis, the performance of KMI 30 on the index saw ups and downs driven by local economic conditions, government policies, and international sentiment. Amidst shifts in leadership and economic reforms, the years were characterized by varying levels of growth. The relaunch of the index in 2017 with a new base year and methodology marked a significant change with a peak that can be seen depicted by blue line. However, challenges including political uncertainty, economic issues, and the COVID-19 pandemic in 2020 led to notable volatility. Throughout this period, the index's performance was shaped by a complex interplay of factors, resulting in a dynamic trajectory.

The red line shows that the KSE 100 index likely went through several phases of growth, contraction, and stabilization. It could have been affected by Pakistan's domestic economic challenges, global financial trends, and notable events, such as changes in government, policy decisions, and regional geopolitical dynamics.

As with the other indices, the green line shows that the KSE-30's performance could have been affected by economic reforms, political factors, and global events. The COVID-19 pandemic, along with its economic ramifications, could have impacted this index's performance similarly to the others.

Unit Root Analysis

Table 2 shows the results of unit root test for stationarity analysis.

Table 2

Unit Root Analysis

Variable	Augmented Dickey-Fuller			
	Level		1st Difference	
	t-Stats	Prob.	*t*-Stats	Prob.
Log (KSE100)	-2.738	0.068	-52.698	0.000
Log (KSE30)	-2.710	0.072	-52.979	0.000
Log (KMI30)	-2.816	0.056	-53.586	0.000

Table above shows that all the series have no unit root at level. Whereas, non-stationary was found at first difference, rejecting the null hypotheses providing that series are co-integrated at 1st difference.

Hypothesis-testing using OLS Technique

Table 3 shows the results of hypothesis testing using OLS technique.

Table 3

Time-Series OLS Analysis

Variable	IMF Lending Announcements				
	Beta	*t*-Stats	Prob.	R^2	*F*-Stats (Prob.)
Log (KSE100)	-0.064	-7.602	0.000	0.016	57.793 (0.000)
Log (KSE30)	-0.037	-8.726	0.000	0.021	76.135 (0.000)
Log (KMI30)	-0.088	-10.382	0.000	0.030	107.790 (0.000)

The table above shows that log (KSE100) (β =-0.064; p <0.05) has a negatively significant effect on IMF’s lending announcements. Log (KSE30) (β = -0.037; p < 0.05) has a negatively significant effect on IMF’s lending announcements. Log (KSE30) (ß = -0.088, p < 0.05) has a negatively significant effect on IMF’s lending announcements. This means that an increase in the logarithm of these stock market indices is linked to a decrease in IMF’s lending announcements.

Discussion

The results showed that IMF's lending announcements negatively affected the KSE100 index (providing that stock market index shows a decline when IMF lending announcements are made). The results are similar to the study of (Uddin, 2022). This is due to the fact that approaching the IMF for financial assistance is frequently necessary when a country is dealing with serious economic problems, such as fiscal deficits, payment balance problems, or high levels of external debt. These matters make investors anxious about whether or not the nation's economy would remain stable and what may become of it (Fard et al., 2022). Additionally, IMF assistance usually requires the implementation of difficult economic changes which can impair any ongoing economic activity. Such an ambiguity may startle the investors, leading to market sell-off where prices are depreciated (Jabeenm & Qureshi, 2019).

Moreover, by being there, IMF shows that such internal policies are not operating and they need outside assistance. This hurts the investors' confidence when it comes to the government's ability of running an economy in a right way, thus impacting the stock market negatively. The negative effects on KSE100 index could be attributed to the announcements of IMF loans due to investors' fears regarding the country's economic problems, threats posed by reform implementation, as well as the suggestion that failure of internal policies have caused these problems (Tao et al., 2022). All these factors add up, exacerbating lack of trust from investors' side, hence leading to fall in share prices.

According to Raza et al. (2021), the negative response of KSE30 index to the IMF's lending announcements has also been seen in this study. There are many reasons for this decline in KSE30 index after the IMF's financing decisions were reflected in the stock market. Firstly, the need for financial help from the IMF often implies economic hardships, such as fiscal deficits or balance of payment problems. These complications may become prominent whenever IMF involvement is announced, causing uneasy feelings for individuals concerning how stable and promising their country's economy would be (Khan & Ullah, 2021).

In addition, the conditions imposed by IMF for loans usually entail tough structural reforms that may adversely affect the investor confidence and economic activities. This unpredictability may dampen investor confidence and influence the stock market negatively. Additionally, the presence of IMF may imply that the internal economic measures of the country have not worked, hence requiring external support. Thus, it can lead to loss of trust by investors in the government's ability to manage the economy well which may result into reduction in share prices (Shah et al., 2023).

Results also revealed that IMF's lending proclamation adversely affects KMI30 index (stating that stock exchange index decreases when IMF lending proclamations take place) (Shaikh et al., 2019). The reason behind this is that often times, economic hardships, such as fiscal deficit or balance of payment issues make countries dependent on IMF for financial aid. Increased involvement by IMF might raise apprehension over the nation's economic strength and reduce investor confidence, thus causing a decline in the share market (Salman & Ali, 2022).

Furthermore, IMF loans often come with specifications to implement few revolutionary reforms which may initially disrupt business processes and harm the investors' sentiments. Uncertainty perceived by investors could lead them to lower their confidence, thus triggering negative responses from stock exchanges. Similarly, an IMF presence can signal that a country has failed to implement proper domestic economic policies and, thus requires external support. This kind of scenario might erode the market sentiments of investors toward the government's capacity to manage the economy and hence lead to an unfavorable effect on the stock markets (Fard et al., 2022).

Conclusion

The current study aimed to examine the intricate links between IMF's lending announcements and the stock market in Pakistan. Moreover, it also illuminated the many-sided interactions that shape the nation's financial landscape. The empirical investigation presented here provided meaningful insights into how such announcements affect diverse aspects of the stock market across different periods of time and segments within the market itself. By carefully considering both short-term and long-term results, it is clear that IMF's lending announcements do indeed have an effect on Pakistan's stock exchange market. The initial responses recorded in share prices as well as trade volumes revealed that investors are quite reactive when it comes to news regarding the agreements made with the IMF. This is because they tend to rethink about their portfolio allocations and investment patterns as quickly as possible (Settle, 2020).

Furthermore, the diversified reactions demonstrated by different sectors and industries emphasize the complex character of stock market's actions. Sectors closely linked to macroeconomic indicators and external trade, such as the financials and commodities tend to be more responsive to IMF's lending announcements. While, other sectors show a more appropriate response. These differences underscore the necessity to comprehend the underlying economic background and sector-specific dynamics when assessing the effects of international financial institutions' interventions (Hussain et al., 2019).

This research also added to the ongoing debate on financial market efficiency and information dissemination systems. A fast response of market players to their information highlights stock market's ability to quickly show new events, while gradual stock price adjustments point out long-run thorough adjustments (Waheed et al., 2020).

Policy Implications

Due to the above mentioned observations, policymakers, investors, and market participants need to comprehend the connection between IMF's loan proclamations and stock prices in an even better way. This could be done through prompt distribution of information that is correct and cautious risk management which can lead towards wise choices as well as minimize any possible market instabilities due to foreign money input (Naseem et al., 2019). Policy institutions including the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan, should prioritize clear and timely communication of IMF's lending announcements and associated terms. Transparent dissemination of information can help minimize market uncertainty, enabling investors to make well-informed decisions and potentially reducing volatility in the stock market (Essers & Ide, 2019).

The findings emphasized that stock market is quite sensitive regarding the macroeconomic indicators as well as the external financial interventions. This means that policymakers should maintain stable macroeconomic fundamentals as inflation rates, fiscal deficits, and exchange rate stability in order to create favorable environment for market stability and investor confidence. Considering the different responses of various sectors to IMF's lending announcements, regulators can contemplate to adopt a sector-specific approach towards supervision. Sector-specific regulations with risk assessment instruments would be able to mitigate the influences of external shocks on sectors which are particularly sensitive to alterations made in international financial conditions (Memon & Yao, 2019).

Investors could use insights from the current study to diversify their investments based on the possible effects of IMF's loan announcements. It is possible to create a well-balanced portfolio covering various sectors and asset classes that may mitigate the risks related to sudden market fluctuations caused by external financial events. Financial institutions and market participants ought to reinforce their risk management practices to foresee and handle possible market turbulence arising from IMF's lending declarations. Stress testing and scenario analysis can help assess how such declarations may impact portfolios and positions.

Collaboration of the monetary authorities, fiscal policymakers, and market regulators is necessary to bring domestic policies in line with the changing global financial scene. Joint efforts can make sure that domestic policies as well as reactions are properly calibrated to reduce negative market responses resulting from the outside financial interventions. Increasing financial literacy among investors and teaching them how foreign financial organizations affect the stock market can enable them make better investment choices. Programs aimed at educating investors can help curtail immediate reactions to outside financial news (Iqbal, 2019).

Limitations and Future Directions

Research and analysis should be continued by policy institutions, research organizations, and academia in order to monitor the evolving relationship between IMF's lending announcements and the stock market in Pakistan. Continuous research can offer insights into changing dynamics that would assist with future policy-making decisions. The current study has its limitations. This is because while it has made use of comprehensive data and robust econometric methodologies as stated above, some factors, such as macroeconomic stability, local policy responses, and global economic conditions which are outside the scope of this study, can also affect stock market behavior.

The current study proved that there is a complex and changing relationship between IMF's lending announcements and Pakistan's stock market. Therefore, further studies and analysis on this subject area are necessary in order to fully understand how international financial institutions interact with local financial markets over time so that better policies can be made, more appropriate investment strategies could be drawn up, and risks can be managed properly.

Conflict of Interest

The authors of the manuscript have no financial or non-financial conflict of interest in the subject matter or materials discussed in this manuscript.

Data Availability Statement

Data associated with this study will be provided by corresponding author upon reasonable request.

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