**Instability and the economy**

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Social unrest takes place when there is dissatisfaction among a segment of the population or a large group of people about a particular event. It happens as a result of collective dissatisfaction or frustration in unusual and sometimes aggressive forms of behaviour that disturb the conventional social order of the society. History has proven that the stability of the financial market depends, to a large extent, on the stability of social order, among other things. Social unrest—sit-ins, riots, massive protests, or other forms of political conflicts and civil disorder—has become a key concern for the participants of financial markets in the last couple of years.
In 2021, comprehensive research was conducted by the IMF under the project title “Pricing Protest: The Response of Financial Markets to Social Unrest” in which they used a dataset of 156 social unrest events from different countries during the last decade to examine how these events influence financial markets. They concluded that the stock markets of economies with democratic and stronger institutions were barely hurt by the political instability and social unrest events. In contrast, stock markets of economies with authoritarian regimes did respond to social unrest and suffered negative impacts. Historically, in Pakistan, the stock market reacts instantaneously to political tensions and social unrest. For example, the stock market of Pakistan lost 42 percent of its market value in 3 months during the political crisis of 2008 that led to the ouster of President Pervez Musharraf. Similarly, Pakistan’s stock market benchmark KSE-100 index plunged by 4.6 percent or 1375 points on 10th August 2014 when the opposition sparked a political crisis by giving a protest call to overthrow the elected government.
Following the motion of no-confidence against Imran Khan, similar kinds of episodes have been observed in the stock and Forex markets of Pakistan. On 3rd April 2022, Deputy Speaker Qasim Suri rejected the no-confidence motion against Imran Khan and President Arif Alvi dissolved the National Assembly. The very next day, the KSE-100 index value plunged by almost 3 percent or 1251 points. These numbers climbed to more than 1500 points again on 11th April 2022 when Shehbaz Sharif took oath as a new Prime Minister. Similar kinds of ups and downs have been observed in the Forex market where Pakistani rupees against the dollar fluctuated in the range of PKR 181 to 188. An unstable political environment undermines regulatory bodies, and these effects are transmitted to the forex and stock markets.
In a recent party convention, Imran Khan urged his supporters to gather in Islamabad once again, to force the government for early elections. “When you go to the people, you have to tell them that an ‘imported government’ has been put in place through conspiracy. It means that now the United States will control Pakistan through these stooges and boot polishers… I want two million people to come to Islamabad when I give the call. I want all of you to go to the people and preach to them about our movement for true freedom” he said. After this call, the civil and social order is once again under the dark clouds of political instability. Once again, the capital city is buzzing with political rumours, hinting that more turmoil lies ahead.
The dollar bonds of Pakistan have already slumped 5 percent this year. The Food and Agriculture Organisation (FAO) has reported the Food Price Index of the country stands at 159 which is the highest since 1990. The inflation rate is forecasted to cross 15 percent by the mid of this summer. The foreign reserves held by the State Bank of Pakistan (SBP) fell to nearly $10 billion which is giving a clear indication that the country may face a more severe balance of payment (BOP) crisis. The PKR exchange rate against the US dollar is revolving around the range of 184 to 188. In these struggling economic conditions, social unrest, political instability, and economic uncertainty are unfolding again across the country. The current and upcoming political instability and social unrest episodes will lead to a reduction in confidence, more uncertainty, and a decline in stocks and asset prices. The new warning signs of social unrest can set off alarm bells among shareholders and investors. Moreover, social unrest may also lead to changes in policy formulation that could obstruct economic development in the long run, with implications for the financial market’s performance.