



Covid-19 pandemic and its effect on capital market development: A literature review

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ABSTRACT

This study aims to see how the COVID-19 pandemic can affect the development of the capital market. This is done by reviewing articles through the literature review method. There are as many as 15 articles that will be studied in this study. The results of the study stated that concerning the theme of discussing the effect of covid-19 on the stock market's performance, which serves as a proxy for the economy, fifteen selected articles discuss the effect of covid-19 on the industrial sector in particular, the country's economy in particular, and even the global economy in general and Event studies are the most widely used methodology for researching the capital market's reaction to the COVID-19 pandemic. This research concludes that investor confidence can remain stable or increase despite the COVID-19 pandemic because of good government policies. Although this policy can help the capital market, the capital market will remain uncertain without medical solutions such as vaccines or drugs sold cheaply. Therefore, it is necessary to have good management from the top in dealing with various shocks in the stock market, which can indicate the quality of corporate governance.



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INTRODUCTION

The world's first spread of the Covid-19 virus was discovered in Wuhan, China, in 2019. The COVID-19 pandemic has created uncertainty for many people as quarantines, mobility restrictions, crowd restrictions, and associated deaths continue to grow. In January 2020, COVID-19 was declared an international health emergency, and The relevant government isolated Wuhan to minimize the spread of the virus (Uğur & Akbıyık, 2020).

Governments from various countries have tried to prevent the spread of the covid virus with various regulations. One of them is related to the regional lockdown. Lockdown is imposed to limit the movement of people so that the economic cycle is disrupted (Han et al., 2020). The implementation of the lockdown impacted the capital market, which reacted negatively in various countries. Furthermore, Vietnam experienced a change with the market reacting positively as investor confidence increased in line with local government policies, which managed to respond well after the implementation of the lockdown (Hoang et al., 2021). Research in India explained that their capital market performance experienced a positive trend in January 2020 but decreased drastically at the beginning of the pandemic, which resulted in India imposing a 3-month lockdown. After the lockdown was over, the market performance began to improve and increased for the recovery of economic conditions (Foley et al., 2022).

The capital market is a concrete or abstract market that brings together parties that offer and need long-term funds, namely one year and above. The capital market provides its services, namely bridging the relationship between capital owners called investors and borrowers of funds called issuers (companies that go public) (Tupper et al., 2018).

On the other hand, numerous research has been conducted to determine the influence of COVID-19 on various businesses. The stock market cannot react to anything other than the worldwide investor sentiment regarding the pandemic. Businesses began to cut costs, resulting in layoffs and unemployment (Kökény et al., 2022). The industries most affected are hotels, airlines, and restaurants because there are restrictions on crowds and travel between regions to prevent transmission of the virus. In addition, in the March 2020 period, the capital market tends to react negatively to the COVID-19 pandemic in the United States, China, Spain, and Italy (Kabadayi et al., 2020). Furthermore, the S&P 1500 company in the United States was the worst performer in its history. However, South Africa, Ivory

Coast and Uganda have not had a significant impact due to the COVID-19 pandemic (Nascimento et al., 2021).

Several findings indicate that the capital market reacts negatively to the COVID-19 pandemic. The research is expected to be one of the government's considerations in making policies during a pandemic. Ahn and Gan, and Kumar's (2020) research proves that the government's role is very important in implementing policies for post-lockdown recovery in areas that limit population mobility. The industries most affected are the hotel, airline and restaurant industries. As of the 2021 article, the industry is still in the process of recovering, although progress is slow due to travel and crowd restrictions. However, none of the articles reviewed have discussed the impact on the health sector. The health sector is critical during the COVID-19 epidemic. Additionally, research on COVID-19's influence is more concentrated in wealthy countries. The developing and growing economies are not extensively examined. This research on the influence of COVID-19 on the health sector in low- and middle-income countries is likely to contribute to future research.

This study aims to examine the extent of research carried out on the impact of COVID-19 in various industries around the world. So, researchers can get a research gap on issues that previous studies have not raised. This research is important because it is expected to provide insights/ideas for the readers to determine which aspects have not been studied by previous studies (research gap). There are various types of research on covid-19 and capital market reactions. Still, this research only focuses on 15 selected articles from the direct science database as a credible, indexed and high-impact factor reference source.

RESEARCH METHODS

This research will use a qualitative approach through the literature review method. The data obtained comes from various studies that are considered to have a fairly high relevance regarding the impact of the COVID-19 pandemic on the capital market in various industries. The selected articles were published between 2020 and 2022, so the data obtained are relevant. The data obtained are then identified to see the novelty of each article so that gaps can then be found that can be filled by further research (Sugiyono, 2018).

RESULT AND DISCUSSION

Number of Articles

There are 15 articles selected from the direct science database. Most of these articles are from two different journals. The journal that is the most widely used source of data from this research is the journal Finance Research Letters, with a total of 5 research articles. The next journal that has more than 1 article used is the Journal of Behavioral and Experimental Finance, with a total number of 3 research articles. The rest of the articles come from different journals.

The details of the article are as follows:

Table 1 Articles that are Material for Literature Review

No	Author	Article Title	Year	Journal
1	Heyden, K. J. & Heyden T.	Market reactions to the arrival and containment of COVID-19: An event study	2021	Finance Research Letters
2	Contessi, S & De Pace, P	The international spread of COVID-19 stock market collapses	2021	
3	Mazur, M., Dang, M. & Vega, M.	COVID-19 and the march 2020 stock market crash. Evidence from S&P1500	2021	
4	Rahman, M. L., Amin, A. & Al Mamun, M. A.	The COVID-19 outbreak and stock market reactions: Evidence from Australia	2021	
5	Carter, D., Mazumder, S., Simkins, B. & Sisneros, E.	The stock price reaction of the COVID-19 pandemic on the airline, hotel, and tourism industries	2022	

No	Author	Article Title	Year	Journal
6	Fernandez-Perez, A., Gilbert, A., Indriawan, I. & Nguyen, N. H.	COVID-19 pandemic and stock market response: A culture effect	2021	
7	O'Donnell, D., Shannon, D. & Sheehan, B.	Immune or at-risk? Stock markets and the significance of the COVID-19 pandemic	2021	Journal of Behavioral and Experimental Finance
8	Al-Awadhi, A. M., Alsaifi, K., Al-Awadhi, A. & Alhammadi, S.	Death and contagious infectious diseases: Impact of the COVID-19 virus on stock market returns	2020	
9	Kumar, M. P. & Kumara, N. M.	Market capitalization: Pre and post COVID-19 analysis	2021	Materials Today: Proceedings
10	Chen, M. H., Demir, E., Garcia-Gomez, C. D. & Zaremba, A.	The impact of policy responses to COVID-19 on US travel and leisure companies	2020	Annals of Tourism Research Empirical Insights Research in
11	Liu, Z., Huynh, T. L. D. & Dai, P. F.	The impact of COVID-19 on the stock market crash risk in China	2021	International Business and Finance
12	Takyi, P. O., & Bentum-Ennin, I.	The impact of COVID-19 on stock market performance in Africa: A Bayesian structural time series approach	2021	Journal of Economics and Business
13	Sobieralsk, J. B.	COVID-19 and airline employment: Insights from historical uncertainty shocks to the industry	2020	Transportation Research Interdisciplinary Perspectives
14	Maneenop, S. & Kotcharin, S.	The impacts of COVID-19 on the global airline industry: An event study approach	2020	Journal of Air Transport Management
15	Anh, D. L. T. & Gan, C.	The impact of the COVID-19 lockdown on stock market performance: evidence from Vietnam	2020	Journal of Economic Studies

Aspects of Article Discussion Theme

Concerning the theme of discussing the effect of covid-19 on the stock market's performance, which serves as a proxy for the economy, fifteen selected articles discuss the effect of covid-19 on the industrial sector in particular, the country's economy in particular, and even the global economy in general.

Rahman et al. (2021) studied the influence of COVID-19 on the Australian continent's stock market performance. Interestingly, the researchers did analyze the influence of COVID-19 on the Australian business sector, as well as the impact of various types of stimulus offered by the Australian government. China, which became the initial epicenter of the spread of COVID-19 throughout the world, also did not escape research. Liu et al. (2021) investigated the effect of the COVID-19 pandemic on the chance of a stock market meltdown in China. Then, Al-Awadhi et al. (2020) conducted a study comparable to Liu, Huynh, and Dai's (2021), but with data from Hong Kong (Hang Seng Index).

Kumar and Kumara (2021) chose India, along with China, to research the effect of COVID-19 on stock market performance in the world's second-largest economy and Asia. Anh and Gan (2020) explore the impact of the COVID-19 epidemic on daily stock returns in Vietnam in the aftermath of the lockdown. Apart from country-specific research, global studies are conducted as well. Heyden and Heyden (2021) explore the short-term market reaction to the outbreak of the COVID-19 pandemic by examining the overall performance of the US and European stock markets. Takyi and Ennin (2021) used data from 13 African countries to assess and quantify the short-term impact of the COVID-19 epidemic on daily stock market performance.

Other research also provides its uniqueness, including research conducted by O'Donnell, Shannon, and Sheehan (2021), which examined the impact of COVID-19 on five countries experiencing the first wave on each continent. China as a representative of the Asian continent, the United States as a proxy for the Americas, Italy and Spain representing mainland Europe, and finally, Britain as a representative of archipelagic Europe. Perez et al. (2021) demonstrate the uniqueness of the COVID-19 study by examining the impact of national culture on stock market performance in 63 nations during the COVID-19 pandemic.

Various research was conducted in the airline industry to ascertain the impact of COVID-19 on specific industries. Airlines are unquestionably one of the fascinating study targets in the COVID-19 pandemic era because of the decline in passenger occupancy. Maneenop and Kotcharin (2020) analyzed the COVID-19 outbreak's short-term impact on 52 listed airlines worldwide, whereas Sobieralski (2020) examined the COVID-19 outbreak's impact on airline data from the United States alone. Additionally, two studies examine the stock market performance of the corporate sector in the travel and entertainment industries, including airlines, restaurants, and hotels, in response to the COVID-19 epidemic (Carter et al., 2022).

During the March 2020 stock market meltdown, Mazur et al. (2021) studied the effects of COVID-19 on the behavior of S&P1500 businesses. Contessi and De Pace (2021) examined stock market crashes using 18 stock market indices showing the largest capitalization levels in the world and belonging to countries affected by the pandemic, such as stock market indexes of Southeast Asia, Europe, Australia, the UK and the United States. From the results of the review of the 15 articles, it can be seen that research on the impact of COVID-19 has mostly targeted developed countries. The developing countries and emerging countries are not widely studied specifically.

Aspects of Methodology Used

Event studies are the most widely used methodology for researching the capital market's reaction to the COVID-19 pandemic. There are five articles that use the case study method. The authors of articles using this method are Rahman et al. (2021), Fernandez-Perez et al. (2021), Mazur et al. (2021), Heyden and Heyden (2021), and Maneenop and Kotcharin (2020). The next method used in this study is the use of panel data regression, either in the form of random-effect or fixed-effect. The authors of the articles using this method are Chen et al. (2020), Anh and Gan (2020), and Al-Awadhi et al. (2020). Finally, the rest of the articles use different types of methods that differ from one another. Sobieralski (2020) uses the vector autoregression method. Then the researchers Contessi and De Pace (2021) used the test of mildly explosive behavior method. Furthermore, Carter et al. (2022) used the multivariate regression method. Then O'Donnell et al. (2021) used the stepwise multiple regression method. Meanwhile, Takyi and Bentum-Ennin (2021) use a Bayesian structural time series approach. Lastly, Liu et al. (2021) used the GARCH-S and Baidu Indel methods in their research.

Aspects of Important Findings in Articles

While the globe has suffered stock market crashes in the past, the impact of Covid-19 is significantly different, as the epidemic spreads swiftly and adds to market volatility. The government's objective of limiting crowding and interregional travel in order to avoid the spread of COVID-19 is detrimental to the stock market (Takyi and Bentum-Ennin, 2020; Al-Awadhi et al., 2020; Rahman et al., 2021; Anh and Gan, 2020; O'Donnell et al., 2021; Contessi and De Pace, 2021; Mazur et al., 2021; Fernandez-Perez et al., 2021; Liu et al., (2021); Kumar and Kumara, 2020).

Two-thirds of the articles discussed directly showed the negative impact of the COVID-19 pandemic on the performance of capital markets in various parts of the world. Furthermore, this negative performance was driven by the weakening of the travel and tourism industry sector covering the hotel, aviation, restaurant and entertainment businesses (Chen et al., 2020; Kumar and Kumara, 2020; Maneenop and Kotcharin, 2020). Big companies are starting to cut costs to stay afloat during a pandemic by terminating employment (PHK) (Joseph 2020; Kumar and Kumara 2020). Smaller firms with more cash reserves can better withstand restrictive policies (Chen et al., 2020).

Government initiatives can assist in restoring investor trust in the stock market in reaction to the pandemic (Anh & Gan, 2020) (Kumar & Kumara, 2021). Until a vaccination or other medicinal remedy is discovered that is 100% effective against COVID 19, the market will likely remain uncertain. How top management responds to stock market shocks, whether by lowering costs, including top

management and board member compensation or by boosting salaries and remuneration, might indicate if corporate governance is excellent or bad. This corporate governance is biased in viewing the stock market response due to the pandemic. Is this negative impact entirely due to the pandemic, or is it bad governance plus the effects of the pandemic that worsen performance?

CONCLUSION

This article examines fifteen articles. Eight of the fifteen articles selected were published in the journals *Finance Research Letters* and *Journal of Behavioral and Experimental Finance*. In terms of research, industrialized countries such as the United States, the United Kingdom, Australia, and countries on the European continent are the most extensively studied in terms of the economic impact of the COVID-19 epidemic. The representation of poor and emerging countries is quite small. In terms of research methodology, event study research methods and panel data regression are widely used by researchers. There are five articles using event studies and three using panel data regression.

The published research publications are not sufficiently balanced in their assessment of the influence of COVID 19 on the capital market, given the small number of study sample countries. Additionally, the selected research focuses more on the negative consequences of the epidemic than on the beneficial consequences of the government's policy for controlling covid (post-lockdown).

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