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Short-Selling Bans in Europe: Evidence from the COVID-19 Pandemic

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Abstract

A number of European countries - Austria, Belgium, France, Greece, Italy, and Spain - responded to the market disruption caused by the COVID-19 pandemic by introducing temporary bans on short-selling activity. These restrictions were imposed on all stocks and remained in place between March 18 and May 18 across all six countries. Other European countries, unlike the 2007-09 global financial crisis, abstained from introducing any form of short-selling constraints. We exploit this cross-country variation in short-sale regimes to identify their effects on liquidity, price discovery, and stock prices. We find that bans were detrimental for liquidity and failed to support prices, in line with the early work of Beber and Pagano (2013).

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