

Discount Rate Changes and Industry Stock Returns in Pakistan

The study examines the short-term and the long-term effect of discount rate changes made by State Bank of Pakistan on aggregate market and industry stocks' returns in Pakistan over the period 2005 to 2014. Findings suggest that the market and the various sector returns in Pakistan do not react significantly on the days when interest rates are changed. The aggregate market and various sectors do perform better during the low-rate period, but there is no evidence of significant inverse relationship between the changes in the discount rate and the market or sector returns. Finally, the financial sector of Pakistan which operates in a less competitive environment, earns positive returns following the rate increase and negative returns following the rate decrease but these returns are not statistically significant.