

**A STUDY ON BANKS' STOCK RETURN REACTION TOWARDS THE
OVERNIGHT POLICY RATE ANNOUNCEMENT**



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Abstract

Overnight Policy Rate (OPR) is one of the monetary policy tools controlled by the central bank, Bank Negara Malaysia (BNM). It is announced by Monetary Policy Committee (MPC) through its monetary policy meetings and through its announcement; news on OPR might affect the behavior of stock prices. This will show whether the stock market is anticipated with the information given by the MPC meeting. The relationship between banks returns and OPR announcement will be investigated during its MPC announcement. Applying an event study methodology which was first introduced by Fama (1969), this paper is conducted to measure the respond of banks return towards the constant OPR announcement made by MPC meetings from January 2012 to December 2013 of 8 local commercial banks that are listed in Bursa Malaysia. The results show that the banks' stock return reacts significant to the announcement of OPR. Perhaps, the central bank can benefit from the outcome of this study in order to apply this policy tool as a means to stimulate the stock market.

Keywords: Overnight Policy Rate, banks' stock return, event study, Efficient Market Hypothesis