

Do Investors React to Surprises?

Further Evidence from Interest Rate Announcements in Poland.

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ABSTRACT:

In this study, we investigate the reaction of the financial market in Poland (in its three main segments: stock market, foreign exchange market and money market) to the National Bank of Poland (NBP) announcements of interest rate changes. Our sample period spans from August 2000 when the NBP started to make on regular basis its announcements regarding the monetary policy data.

We extract the surprise component from the NBP announcements by comparing the actual change of the interest rate with the market expectations, which we capture through the consensus forecasts from Reuters surveys of financial market participants in Poland.

Our findings, relying on GARCH models with dummy variables, suggest that markets respond to interest rate announcements on the same day, with a weaker effect extended to the next day, however the reactions vary across the three investigated market segments.

Keywords: Interest Rates; Central Bank; Public Announcements; Foreign Exchange Market; Stock Market; Money Market.

JEL classification: E5, F3, G1, O2, P3.

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