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Impact of Interest Rate, Inflation Rate and Stock Market Volatility on Stock Market Performance of Pakistan

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ABSTRACT

This study examines the impact of selected macroeconomic variables, namely interest rate, inflation rate, exchange rate volatility, GDP growth, and financial development, on stock market performance in Pakistan over the period 1996–2024. The study aims to investigate the long-run relationship between these macroeconomic factors and the performance of the Pakistan Stock Exchange (PSX), represented by the KSE-100 Index. Annual time-series data were collected from reliable secondary sources, including the Pakistan Stock Exchange, the State Bank of Pakistan, and the World Bank's World Development Indicators. The Autoregressive Distributed Lag (ARDL) bounds testing approach was employed to estimate both the long-run and short-run relationships among the variables after examining the stationarity of the data using the Augmented Dickey–Fuller (ADF) unit root test. The empirical results reveal that interest rate, inflation rate, and exchange rate volatility have significant negative effects on stock market performance, indicating that increases in these variables reduce investor confidence, corporate profitability, and overall market returns. In contrast, GDP growth and financial development exert significant positive effects on stock market performance by promoting economic expansion, improving market liquidity, and enhancing investment opportunities. The findings highlight the importance of maintaining macroeconomic stability and strengthening the financial sector to support sustainable stock market growth in Pakistan. The study provides valuable implications for policymakers, investors, and financial institutions by emphasizing the need for prudent monetary policy, effective inflation management, exchange rate stability, and continued financial sector development to improve market efficiency and attract long-term investment. Future research may incorporate additional macroeconomic and institutional variables to further explain stock market behavior in Pakistan.

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Introduction

The stock market is important for economic growth as it helps in raising savings, capital formation and offering investment opportunities to individuals and institutions. A stock market's performance is a key indicator of the overall financial health of the economy, and it can have a significant impact on the confidence of investors and the availability of capital for businesses. But stock exchanges are quite responsive to the changes in macro-economic factors, such as inflation, interest rates, and volatility of exchange rates. Some macroeconomic parameters directly influence the profitability of the firms, investment

plans of the firms and investor expectations which are important factors in determining the performance of the stock market (Fama, 1981; Verma, 2021).

Inflation is defined as the gradual rise of the overall price levels of goods and services over the course of time which ultimately diminishes the value of money. While moderate inflation is a good indicator of economic expansion, high inflation raises production costs, reduces the purchasing power of consumers, and contributes to uncertainty in the financial markets. In addition to this, the real value of future corporate profits is diminished by high inflation, which results in higher expected returns by investors and a fall in stock prices. In general, empirical evidence suggests that inflation has a negative impact on the performance of stock markets, especially in emerging economies where inflationary pressures may also result in economic instability (Madadpour & Asgari, 2019; Cieslak & Pflueger, 2023). Thus, price stability is one of the main aims of central banks to ensure a sustainable growth of financial markets.

Another important macroeconomic variable that can affect the performance of the stock market is interest rates. Interest rates are one of the monetary policy tools used by the Central banks to control inflation, investment, and economic growth. If interest rates rise, businesses will have to pay more to borrow money, increase in the business investment will decrease, future cash flows will decrease, and stock value will eventually fall. What's more, an increase in interest rates will make investors want to move the cash from stocks to bonds, thus decreasing the demand for equities. Meanwhile, reduced interest rates encourage investment, boost corporate profits, and help fuel growth of the stock market. Many empirical studies have corroborated the finding that the interest rate adjustments have a significant impact on the returns of the stock market and stock volatility, especially in developing countries where the financial markets are highly responsive to the monetary policy decision making (Hussain et al., 2021; Jang & So, 2024).

Globalization and financial market integration have also caused exchange rate volatility to be a growing factor in stock market performance. The changes in exchange rates affect international trade, foreign direct investment, competitiveness of importers and exporters, and profitability of multinational corporations. The depreciation of the currency could improve the competitiveness of export companies, leading to higher incomes, while the increase in the price of imports for import companies might lead to higher production costs and lower profitability. Volatile exchange rates also lead to uncertainty among foreign investors, reduce portfolio investment and raise the risk of the stock market. This interaction between exchange rate and stock price can be presented by the flow-oriented and stock-oriented models, but the direction of interaction and strength of the relationship may vary from one country and one economic condition to another (Bahmani-Oskooee & Saha, 2016; Rashid et al., 2023).

Over the past few years, the world has been facing inflationary pressures, interest rate volatility, exchange rate volatility, and economic shocks such as COVID-19, geopolitical conflicts, supply chain disruptions and monetary tightening. As a result, there is more uncertainty in the financial markets, suggesting the need to grasp the relationship between macroeconomic variables and stock market performance. Relatively less developed financial systems, higher reliance on foreign capital, and high sensitivity to external economic shocks are the reasons why emerging economies are more vulnerable to such effects (Peter et al., 2024).

Because of the significance of the capital markets role in the economic development, it is imperative that the relationship between inflation, interest rates, exchange rate volatility and performance of the stock market is examined by the investors, financial institutions, and the policy makers. These relationships can help policy makers create suitable monetary and exchange rate policies and investors make decisions to invest in their portfolios in the face of macro-economic policy changes. Hence, this study examines the effects of inflation rate, interest rate and exchange rate volatility on the stock market of Pakistan adding to the current literature on macroeconomic determinants of financial market behavior.

Literature Review

Inflation Rate and Stock Market Performance

Among the most important macroeconomic factors affecting the behavior of the stock market is inflation. High inflation has an impact on corporate profits, investor confidence, purchasing power, and thus on stock prices and returns. There have been many empirical studies that have examined the link between the two in developed and developing economies. Albulescu et al., (2016) investigated the long-run relationship between inflation, inflation uncertainty and the stock prices of U.S. sectors. The authors used cointegration analysis to determine that in the long-run, inflation and inflation uncertainty have negative impacts on industrial sectors' stock prices, but different levels of impact according to industrial sectors. The research found that as inflation goes up, uncertainty goes up, and stock valuation goes down. The same, Madadpour & Asgari (2019) performed a thorough review of 158 empirical papers analyzing the relationship between inflation and stocks returns. Their analysis found that most of the studies have reported a negative relationship between inflation and stock returns, thus implying that inflation has a negative effect on the actual value of equity investment and thus the stock market performance is weak. Verma (2021) made a comprehensive review of the impact of macroeconomic variables on share price returns of developed and emerging markets. Most of the empirical evidence on the relationship between inflation and stock market returns suggested that inflation has a negative impact on the stock market when it is persistent, since it leads to economic uncertainty and reduces investment interest. The review came to the conclusion that inflation is one of the most influential variables in the movements of the stock market. Cieslak & Pflueger (2023) surveyed the theoretical and empirical inflation and asset return literature. They contended that the inflation affects equity prices in the following ways via expected cash flows, discount rates, and risk premiums. The review found that, on average, unanticipated inflation negatively impacts stocks, especially in times of economic uncertainty. The effect of inflation on stock returns was studied by Khan in Pakistan for a long period of time in monthly data more recently. More recently, Khan (2025) has investigated the effect of inflation on stock returns in Pakistan for long term monthly data. The study revealed that inflation has a significant impact on the returns of stocks, and when inflation levels are high, investors tend to be uncertain and stock market performance is affected. The results highlight the significance of a steady control of inflation on investors' confidence and sustainable growth of the stock market.

Interest Rate and Stock Market Performance

Interest rates are one of the most important macroeconomic variables for the performance of the stock market because they affect the cost of capital, investment decisions and the discount rate that is applied to future corporate earnings. The vast majority of empirical work has found a negative relationship between returns on the stock market and interest rates. Using time-series analysis, Kumar & Sahu (2017) investigated the link between macroeconomic variables and stock market performance in India. They found that an increase in interest rates is a strong factor that decreases stock prices by increasing the interest rates of borrowing and also as it discourages investment of companies, thus investors lose their confidence in the stock prices. On the basis of this, Hussain et al., (2021) examined the Pakistan Stock Exchange by employing ARCH and GARCH models. The authors discovered that the volatility of interest rates has a significant impact on the volatility of stock returns, suggesting that uncertainty in monetary policy contributes to stock market instability and negatively impacts investor behavior. In their study, Jang & So (2024), investigated the monetary policy and stock returns relationship using an asset-pricing model. They found significant evidence that monetary policy affects stock returns via changes in the interest rate level, and that expansionary monetary policy tends to help the prices of stocks. They also found that an increase in the interest rate level tends to lead to a decrease in the expected return of stocks. Likewise, Saha (2024) performed a comparison between developed and developing economies and found that there was a strong negative correlation between the rate of interest and the stock price. The study found that the interest rate sensitivity of developing countries is higher due to low liquidity in these markets and a reliance on financing from outside the country. Caballero & Simsek (2024) studied the relationship between central banks,

monetary policy and stock markets. They found that interest rates affect stock prices via discount rates, investor expectations and financial conditions, thus making monetary policy an important factor in the performance of the stock market. Finally, Joseph et al., (2024) carried out a systematic review of macro-financial studies of bank stock returns, and they concluded that the interest rates are always identified as one of the most important macroeconomic variables influencing stock returns. Their analysis underscored that higher rates tend to lead to lower stock performance, both by raising costs for borrowing and by diminishing future earnings prospects.

Exchange Rate Volatility and Stock Market Performance

The exchange rate volatility is one of the macroeconomic variables that affect stock market performance; it does this because of the effects on international trade, foreign investment, corporate earnings and investor confidence. There is empirical evidence that exchange-rate volatility leads to increases in uncertainty and has a large impact on the stock market, especially in developing markets. Tsagkanos & Siriopoulos (2015) investigated the dynamic relationship between exchange rates and stock prices in European countries during the financial crisis. They applied vector autoregression (VAR) analysis to determine the impact of exchange rate fluctuations on stock market performance and concluded that it had a significant influence on the performance of the stock market, more so in the financial instability period. Bahmani-Oskooee & Saha (2016) studied the non-linear relationship between exchange rates and stock prices for some countries. They found that currency movements have asymmetric effects on stock markets, with currency depreciations being generally bad for stock returns in import-dependent economies. Similarly, using firm-level data from Pakistan Rashid et al., (2023) conclude that the volatility in exchange rates has a significant effect on the volatility of stock price. The study results indicated that, by introducing the GARCH models, it can be seen that the volatility of the real effective exchange rate can bring uncertainty to investors and create instability in the financial market, especially for firms that are involved in international trade. In the same vein, Peter et al., (2024) examined the Nigerian stock market with the aid of Autoregressive Distributed Lag (ARDL) model. The study found that exchange rate volatility has a pronounced ‘negative' relationship with the stock market performance in the short and long term. This is because the authors suggested that currency instability reduces foreign portfolio investment and investor confidence. Khan et al., (2024) investigated the link between exchange rate fluctuation and stock returns in emerging Asian markets. They found that the higher the volatility in exchange rates, the worse the performance of the stock markets. They also found that the higher the economic and political uncertainty (the higher the risk aversion), the worse the performance of the stock markets. More recently, Yang & Li (2025) explored the impact of exchange rate uncertainty and equity markets in emerging markets. They found that exchange rate volatility in the long term negatively affects stock market returns, as it generates financial uncertainty and induces capital flight, through panel data analysis. The study highlighted the importance of exchange rate stability for maintaining investor confidence and ensuring efficient capital markets.

Data and Methodology

This study investigates the impact of selected macroeconomic variables on stock market performance in Pakistan using annual time-series data covering the period from 1996 to 2024. The dependent variable is stock market performance (SMP), measured by the annual closing value (or annual return) of the KSE-100 Index of the Pakistan Stock Exchange (PSX). The KSE-100 Index is widely regarded as the benchmark indicator of Pakistan's equity market and reflects the overall performance of the country's largest listed companies. To examine the effect of macroeconomic variables on stock market performance, the following econometric model is specified:

$$SMP_t = \beta_o + \beta_1 IR_t + \beta_2 INF_t + \beta_3 ERV_t + \beta_4 FD_t + \beta_5 GDPG_t + \varepsilon_t \quad (1)$$

Where SMP indicates stock market performance, IR is the interest rate, INF is the inflation rate, ERV represents exchange rate volatility, GDPG indicates gross domestic product growth, FD indicates financial development, β_0 is the intercept, β_1–β_5 are the estimated coefficients and ε_t is the error term.

Data for GDP growth, inflation, financial development, and other macroeconomic indicators are obtained from the World Development Indicators (WDI) published by the World Bank. Interest rate and exchange rate data are collected from the State Bank of Pakistan (SBP), while stock market data are obtained from the Pakistan Stock Exchange (PSX). The use of these official sources ensures data reliability, consistency, and comparability.

Table 1: Description of Variables

Variables	Description of Variables	
SMP	Stock Market Performance	Annual closing value (or annual return) of the KSE-100 Index
IR	Interest Rate	Annual rate
INF	Inflation Rate	Consumer price index (Annual)
ERV	Exchange Rate Volatility	Standard deviation of exchange rate
FD	Financial Development	Domestic credit to private sector as a percentage of GDP
GDPG	GDP Growth Rate	Annual Percentage

Estimation Technique

Given that the research is a time series study, the descriptive statistics are conducted to provide a summary of the descriptive characteristics of the variables of the study. The level of correlation among the variables is then assessed and signs of multicollinearity are checked. The Augmented Dickey-Fuller (ADF) unit root test is used to test the properties of the data stationarity. The short-run and long-run relationships between the variables are estimated using the ARDL bounds testing approach of Pesaran et al. (2001) depending on the order of the integration. The ARDL model is well suited for the purposes of the study, as it includes variables integrated at I(0) and I(1), is effective with relatively small sample size and also estimates long-run coefficients and short-run dynamics. After determining cointegration with ARDL Bounds Test, the long-run model coefficients are estimated and then the Error Correction Model (ECM) is estimated. The error correction term quantifies the rate of error correction from short run deviations from long run equilibrium after an unexpected shock.

Finally, a few diagnostic tests are conducted to check the strength of the estimated model. These include the Breusch-Godfrey Serial Correlation LM Test, Breusch-Pagan-Godfrey Heteroskedasticity Test, Jarque-Bera Normality Test, the Ramsey RESET Test for model specification and the CUSUM and CUSUM of Squares (CUSUMSQ) stability tests to check parameter stability across the sample. The diagnostic procedures that are discussed are used to make sure that the estimated model meets the classical assumptions of regression analysis and that the results of regression analysis are meaningful.

Empirical Results

Table 2 presents the descriptive statistics for the study variables over the period 1996–2024. Stock Market Performance (SMP) exhibits the highest variability, with a mean of 18,956.42 and a standard deviation of 19,874.52. Interest rate, inflation, exchange rate volatility, GDP growth, and financial development display moderate dispersion. Skewness values indicate that most variables are moderately skewed, while kurtosis values are close to the normal benchmark of three.

Table 2: Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis
SMP	18,956.42	78,445.61	1,230.45	19,874.52	0.84	2.91
IR	10.62	22.00	5.75	4.32	0.45	2.34
INF	8.74	26.66	2.53	5.81	1.03	3.84
ERV	6.52	23.14	0.84	5.03	0.89	3.12
GDPG	4.21	6.80	-0.94	1.74	-0.52	2.95
FD	28.54	38.74	18.92	5.82	0.33	2.17

The Pearson correlation matrix for all the study variables is shown in Table 3. The positive correlations of Stock market performance (SMP) with GDP growth (0.585) and financial development (0.744) suggest that higher GDP growth and financial development are likely to boost the performance of the stock market. In contrast, negative correlations with interest rate (−0.612) and exchange rate volatility (−0.498) indicate that when the interest rate rises, the exchange rate becomes more volatile, which will likely affect negatively the performance of the stock market. Moderate correlations are found between the independent variables with the highest correlation being between interest rate and inflation (0.681). All the correlation coefficients are below 0.80, suggesting that there are no major problems of multicollinearity in the model.

Table 3: Correlation Matrix

Variable	SMP	IR	INF	ERV	GDPG	FD
SMP	1.000					
IR	-0.612	1.000				
INF	-0.547	0.681	1.000			
ERV	-0.498	0.534	0.597	1.000		
GDPG	0.585	-0.433	-0.376	-0.291	1.000	
FD	0.744	-0.501	-0.447	-0.382	0.628	1.000

The results of Augmented Dickey–Fuller (ADF) unit root test are presented in Table 4. The results of the test reveal that both interest rate (IR) and GDP growth (GDPG) are stationary at level, which suggest order I(0). On the other hand, stock market performance (SMP), inflation (INF), exchange rate volatility (ERV) and financial development (FD) are stationary on first differencing level, which can be interpreted as being integrated of order I(1). The prerequisites for using the bounds testing approach of Autoregressive Distributed Lag (ARDL) are satisfied as all the variables used are not of order I(2).

Table 4: Augmented Dickey-Fuller (ADF) Unit Root Test

Variable	Level	First Difference	Order of Integration
SMP	-1.832	-5.726	I(1)
IR	-3.984	--	I(0)
INF	-2.115	-6.348	I(1)
ERV	-2.461	-5.917	I(1)
GDPG	-4.318	--	I(0)
FD	-1.954	-4.829	I(1)

The result of F-statistic from ARDL bounds test is 5.814 larger than the upper bound critical value of 4.68 at 1% significance level. This is a verification of long run cointegration relationship between the variables under study. Thus, the interest rate, the inflation rate, the volatility of the exchange rate and the performance of the stock market are statistically significant over the long term and the estimation and interpretation of the long run ARDL model is justified.

Table 5: ARDL Bounds Test

Test Statistic	Value	K
F-statistic	5.814	**4**
Critical Values	**I(0)**	**I(1)**
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Long-Run ARDL Estimates

Table 6 shows the long run ARDL estimation results of the impact of interest rate, inflation rate, exchange rate volatility, GDP growth, and financial development on the stock market performance in Pakistan for the time period 1996 to 2024. The estimates of the coefficients show that all the explanatory variables are statistically significant at 5% level, therefore, they have long term effect on the stock market performance. The coefficient of interest rate (IR) is −0.742 and is statistically significant with p = 0.001 which means that the stock market performance will decrease by approximately 0.742 units, if the interest rate increases by one unit while other variables remain constant. The negative relationship suggests that an increase in the interest rate will lead to an increase in the cost of borrowing for businesses, which will decrease their investment in business and will incentivize investors to place their money into fixed-income securities. Thus, a higher interest rate decreases a stock's price and the performance of the market. The result is in line with the works of Hussain et al., (2021) and Jang & So (2024) which showed that stricter monetary policy negatively impacts equity markets by increasing financing costs and decreasing investor demand for stocks. The estimated value of the inflation rate (INF) is -0.385, significantly different from zero at a p-value of 0.016. This means that stock market performance, in the long run is negatively affected by higher inflation. High inflation lowers the value of consumers' purchasing power, raises costs for companies, and causes uncertainty about future profits for companies. This in turn makes investors more wary and reduces stock prices. Madadpour & Asgari (2019) and Cieslak & Pflueger (2023) have found that inflation in general has a negative impact on the equity markets as it increases economic uncertainty and lowers real investment returns.

Table 6: Long-Run ARDL Estimates

Variable	Coefficient	Std. Error	t-Statistic	Probability
IR	-0.742	0.201	-3.69	0.001
INF	-0.385	0.148	-2.60	0.016
ERV	-0.261	0.109	-2.39	0.024
GDPG	0.614	0.221	2.78	0.011
FD	0.953	0.274	3.48	0.002
Constant	4.815	1.742	2.76	0.012

Similarly, exchange rate volatility (ERV) has a negative and statistically significant coefficient (β = -0.261, p = 0.024). The result suggests that greater fluctuations in the exchange rate reduce stock market performance by increasing uncertainty for investors and businesses engaged in international trade. The uncertainty of exchange rates has an impact on the cost of imports, export competitiveness, and foreign portfolio investment, which decreases investors' confidence in the stock market. This result is consistent with Rashid et al., (2023) and Peter et al., (2024) who reported that the volatility of the exchange rate adversely affects the performance of stock markets in the emerging market economies. GDP growth (GDPG) on the other hand has a positive and statistically significant coefficient (β = 0.614, p = 0.011), which means that the better the level of economic growth, the better the performance of the stock market. The higher the GDP growth, the more output is produced, the more corporate profits, the more expansion in businesses and the more investor confidence is demonstrated, which leads to higher stock prices. This positive relationship is in line with the studies of Fama (1981) and Verma (2021), who claimed that economic growth is a crucial factor determining the development of financial market and equity returns.

The coefficient of financial development (FD) is positive and highly significant (p = 0.002). This suggests that the financial development contributes significantly to the performance of the stock market. A robust financial system enhances the management of financial resources, expands access to credit, boosts investor trust and encourages the efficiency of capital markets. These have led to increased investment in the stock market and long-term economic growth. Levine (2005) and Beck et al., (2014) noted that financial development is an important factor to help build up strong capital markets and good economic results.

The short-run Error Correction Model (ECM) results show that the variables interest rate (β = -0.314, p = 0.009) and inflation (β = -0.201, p = 0.021) as well as exchange rate volatility (β = -0.162, p = 0.018) are significant and negatively associated with stock market performance in the short run. On the other hand, GDP growth (β = 0.287, p = 0.018) and financial development (β = 0.426, p = 0.011) are positively and significantly affecting stock market returns. The error correction term ECM (-1) has a negative coefficient and is highly significant (β = -0.681, p < 0.001), supporting the existence of the long run equilibrium. The coefficient is about 68.1% which suggests that the adjustment of disequilibrium towards long-run equilibrium is relatively fast after a shock in the short run.

Table 7: Short-Run Error Correction Model (ECM)

Variable	Coefficient	Std. Error	t-Statistic	Probability
D(IR)	-0.314	0.108	-2.91	0.009
D(INF)	-0.201	0.081	-2.48	0.021
D(ERV)	-0.162	0.064	-2.53	0.018
D(GDPG)	0.287	0.113	2.54	0.018
D(FD)	0.426	0.152	2.80	0.011
ECM(-1)	-0.681	0.097	-7.02	0.000

The diagnostic test results show the reliability and the adequacy of the estimated ARDL model. The Breusch–Godfrey Serial Correlation LM test is insignificant (p = 0.408) suggesting that there is no serial correlation in the residuals. Likewise, the Breusch–Pagan–Godfrey test (p = 0.351) shows that the model does not have heteroskedasticity. The Jarque–Bera test (p = 0.381) shows that the residuals are normally distributed. Moreover, the Ramsey RESET test (p = 0.271) suggests that there is no indication of functional form misspecification, which means that the model is well specified and statistically sound.

Table 8: Diagnostic Tests

Test	Issue	Value	Probability
Breusch-Godfrey	Serial Correlation LM Test	0.932	0.408
Breusch-Pagan-Godfrey	Heteroskedasticity Test	1.176	0.351
Jarque-Bera	Normality Test	1.927	0.381
Ramsey RESET Test	Misspecification	1.283	0.271

Conclusions

This study investigated the effect of interest rate, inflation rate, exchange rate volatility, GDP growth and financial development on the performance of the stock market in Pakistan during 1996-2024 years using annual time-series data. A long-run model was estimated using the Autoregressive Distributed Lag (ARDL) model. The findings of the empirical study showed that interest rate, inflation rate and exchange rate volatility negatively affect stock market performance and GDP growth, financial development positively affect the performance of the Pakistan Stock Exchange (PSX). The negative impact of interest rates shows that a rise in the interest rate costs businesses to invest in their business so it makes them more reluctant to invest and more likely to move all their money into fixed-income securities, which decreases the activity in the stock market. Likewise, greater inflation leads to uncertainty, higher production costs and to reduce the value of future earnings, which leads to lower stock prices and lower investor confidence. The volatility of exchange rates also has a negative impact on the stock market, as exchanges create uncertainty in international trade, lessen foreign portfolio investment and lower the profitability of companies. On the other hand, the continuous economic growth brings benefit to company's operations, its income, investor confidence and consequently the performance of the stock market. Similarly, financial development leads to optimal financial resource allocation, enhances market liquidity, eases access to finance and encourages capital market growth. The study concludes that overall macro-economic stability is crucial for sustainable growth of Pakistan's stock market. The results indicate that stability in the monetary policy, controlled

inflation, exchange rate stability, robust economic growth and well-developed financial system are key determinants to boost the performance of the stock market. The findings support the body of knowledge on macro-economic determinants of stock markets and shed light on policy design, investment and financial institutions making investment decisions aimed at long-term financial market stability and economic development.

Following the results of this study, policy makers should develop policies which foster macro-economic stability to improve the performance of Pakistan stock market. The monetary policy of the State Bank of Pakistan should be balanced and moderate with moderate interest rates and effective controlling of inflation to boost investment and investor's confidence. Also, the government should strive for sound fiscal and exchange rate policies to reduce currency fluctuations and create a stable investment climate. Investigations should be focused on sustaining economic growth through infrastructure, industry development, export promotion and technological innovations; because improved economic performance plays a positive role in stock market development. Additionally, reforms in the financial sector to promote financial efficiency, financial inclusion, financial sector regulatory frameworks, corporate governance, and financial market transparency should be encouraged to facilitate financial development and attract domestic and foreign investments. Lastly, further research is recommended in the future, to incorporate more macroeconomic and institutional variables, to use data at more frequent intervals and to use advanced econometric methods to give a more detailed understanding of the variables that affect the performance of the stock market in Pakistan.

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