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MONETARY POLICY TRANSMISSION AND STOCK MARKET PERFORMANCE IN BANGLADESH: A VECTOR AUTOREGRESSION APPROACH

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Abstract:
This study examines the dynamic relationship between monetary policy instruments and stock market performance in Bangladesh using monthly data from January 2005 to December 2023. Employing the Vector Autoregression (VAR) framework, Augmented Dickey-Fuller (ADF) unit root tests, Granger causality tests, and impulse response function analysis, the study investigates how key monetary policy variables—repo rate, call money rate, inflation, and exchange rate—affect the Dhaka Stock Exchange General Index (DSEX). The empirical findings reveal that the repo rate exerts a statistically significant negative effect on stock market capitalization in the long-run equilibrium ($\beta = -0.0577$, $p = 0.019$), consistent with the discounted cash flow valuation mechanism. However, Granger causality tests indicate that monetary policy variables do not individually lead stock market movements in the short run, except for the exchange rate, which demonstrates significant predictive power ($F = 4.1657$, $p = 0.0168$). The impulse response analysis further confirms that exchange rate shocks generate persistent volatility in stock returns, whereas monetary policy rate shocks produce only transitory and muted effects. The study concludes that while Bangladesh's monetary authority possesses theoretical channels to influence capital markets, the transmission mechanism remains structurally weak due to market illiquidity, shallow institutional participation, and periodic regulatory discontinuities.

JEL: E52, G10, G14, C32, O53

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Keywords: monetary policy transmission, stock market, DSEX, Repo rate, VAR, Bangladesh

1. Introduction

The relationship between monetary policy and stock market performance constitutes a central theme in modern financial economics. Theoretically, monetary policy affects equity prices through several interconnected channels: the interest rate channel, which alters the discount rate applied to future corporate cash flows; the credit channel, which influences firms' borrowing costs and investment decisions; and the exchange rate channel, which impacts the competitiveness of export-oriented listed companies (Mishkin, 2001; Bjørnland & Leitemo, 2009). In emerging market economies, these transmission mechanisms are often attenuated by underdeveloped financial infrastructure, shallow institutional participation, and volatile capital flows, rendering the policy-stock market nexus empirically ambiguous.

Bangladesh presents a particularly compelling case study for examining this relationship. As one of the fastest-growing economies in South Asia, with a GDP growth rate consistently exceeding 6 percent over the past decade, Bangladesh has witnessed substantial capital market development. The Dhaka Stock Exchange (DSE) market capitalization surged from approximately USD 10 billion in 2007 to over USD 70 billion by 2021, while daily turnover expanded from USD 24 million to over USD 200 million during the same period (DSE Monthly Review, various issues). Concurrently, Bangladesh Bank (BB)—the central bank—has actively employed monetary policy tools, including the repo rate, reverse repo rate, cash reserve ratio (CRR), and statutory liquidity ratio (SLR), to manage inflationary pressures and maintain macroeconomic stability.

Despite these developments, the Bangladesh capital market remains characterized by several structural vulnerabilities that may impede effective monetary policy transmission. Retail investors dominate trading activity, accounting for over 80 percent of market participation, which contributes to heightened volatility and speculative behavior (SEC Annual Report, 2022). The bond market remains underdeveloped, with treasury bills and government savings certificates capturing the lion's share of fixed-income instruments, thereby limiting the benchmark yield curve's informativeness (BB Annual Report, FY2023). Furthermore, the market experienced catastrophic crashes in 1996 and 2010–2011, eroding investor confidence and exposing regulatory weaknesses that continue to affect market efficiency.

The extant literature on Bangladesh's monetary policy-stock market nexus remains surprisingly sparse. Ahmed et al. (2006) found that contractionary monetary policy shocks, measured by increases in short-term policy interest rates, exerted small, negative, and short-lived effects on the stock price index. However, this study was confined to the pre-2010 period and did not account for the structural transformations introduced following the 2010 crash, including automated trading, central depository systems, and strengthened Securities and Exchange Commission (SEC) surveillance.

More recent studies have focused on market efficiency, volatility clustering, and investor behavior, but have not systematically addressed the monetary transmission mechanism in the post-reform era.

This study seeks to fill this critical gap by providing a comprehensive empirical analysis of the monetary policy transmission mechanism to Bangladesh's stock market using a modern multivariate time-series approach. Specifically, the study addresses the following research questions:

1) Do monetary policy instruments (repo rate, call money rate) significantly affect stock market returns in Bangladesh?
2) What is the direction and persistence of the stock market's response to monetary policy shocks?
3) Do macroeconomic variables such as inflation and exchange rate Granger-cause stock market movements?
4) How robust is the monetary policy transmission channel in Bangladesh compared to theoretical predictions?

The remainder of the paper is organized as follows: Section 2 reviews the relevant theoretical and empirical literature. Section 3 describes the data sources, variable construction, and econometric methodology. Section 4 presents the empirical results and diagnostic analyses. Section 5 provides recommendations. Section 6 concludes with policy implications and directions for future research.

2. Literature Review

2.1 Theoretical Framework

The theoretical linkage between monetary policy and stock prices is grounded in the present value model of equity valuation, where the price of a stock equals the discounted sum of expected future dividends:

$$P(t) = \Sigma(i=1 \text{ to } \infty) [E(t)[D(t+i)] / (1+r)^i]$$

where P(t) is the current stock price, E(t)[D(t+i)] is the expected dividend at time t+i, and r is the discount rate. Contractionary monetary policy, manifested through higher policy interest rates, affects stock prices through three primary mechanisms: (i) increasing the discount rate r, thereby reducing present values; (ii) raising firms' debt servicing costs and reducing future earnings E(t)[D(t+i)]; and (iii) altering investor risk preferences and portfolio allocations away from equities toward interest-bearing instruments (Thorbecke, 1997).

Tobin's q-theory provides a complementary perspective, positing that monetary tightening reduces the market value of firms relative to their replacement cost (q-ratio), thereby depressing investment and aggregate demand, which subsequently lowers corporate profitability and equity valuations (Tobin, 1969). The credit channel literature further emphasizes that monetary contractions reduce bank lending capacity,

particularly affecting small and medium-sized listed firms that rely heavily on domestic bank financing (Bernanke & Gertler, 1995).

In open emerging economies, the exchange rate channel assumes additional significance. Contractionary monetary policy may attract foreign portfolio flows through higher interest rate differentials, appreciating the domestic currency and adversely affecting export-oriented listed firms' competitiveness (Kim, 2003). Conversely, currency depreciation may stimulate export earnings and boost stock prices for tradable sectors, creating a complex, sectorally heterogeneous transmission pattern.

2.2 Empirical Evidence

The empirical literature on monetary policy and stock markets has produced mixed findings across developed and emerging economies. Thorbecke (1997) examined U.S. data and found that expansionary monetary policy significantly increased stock returns, with the effect being most pronounced for small firms. Patelis (1997) similarly documented that monetary policy variables explained a substantial portion of stock return predictability in the United States.

For emerging markets, the evidence is more nuanced. Wongbangpo and Sharma (2002) analyzed five ASEAN stock markets and found that macroeconomic factors, including interest rates and inflation, significantly influenced stock returns, but the direction and magnitude varied across markets. Ratanapakorn and Sharma (2007) employed a VAR framework for six Asian countries and reported that domestic interest rates negatively affected stock prices in all sample countries, while exchange rate effects were positive for export-oriented economies.

In the South Asian context, studies on India and Pakistan have generally confirmed the negative interest rate-stock price relationship. Bhattacharya and Mukherjee (2002) found that Indian stock returns responded negatively to call money rate shocks, with the effect dissipating within three to four months. Ali (2011) reported similar findings for Pakistan, noting that monetary policy transmission to the Karachi Stock Exchange was relatively efficient compared to other emerging markets.

For Bangladesh, the literature remains limited. Ahmed et al. (2006), using monthly data from January 2002 to December 2006, applied a structural VAR approach and concluded that contractionary monetary policy shocks had 'small, negative, and short-lived' effects on the DSE all-share price index. The authors attributed the weak transmission to the underdeveloped institutional investor base and the dominance of speculative retail trading. Hossain and Ahmed (2014) extended this analysis to include the post-2010 reform period and found marginally stronger transmission, but still concluded that the Bangladesh capital market remained largely insulated from monetary policy impulses.

2.3 Contextual Background: Bangladesh Capital Market

Bangladesh's capital market comprises two full-fledged automated stock exchanges—the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE)—and a

dedicated regulator, the Bangladesh Securities and Exchange Commission (BSEC). The market operates under a T+1/T+2 rolling settlement system for most securities, with a Central Depository Bangladesh Limited (CDBL) facilitating dematerialized settlement (DSE Settlement Regulations, 1998).

The market structure is characterized by significant sectoral concentration. Banking and financial institutions account for approximately 30 percent of total market capitalization, followed by telecommunications, power, and pharmaceuticals. This concentration implies that monetary policy transmission may operate asymmetrically across sectors, with interest rate-sensitive financial stocks responding more vigorously than infrastructure or export-oriented manufacturing stocks.

Bangladesh Bank's monetary policy framework has evolved considerably over the study period. Prior to 2003, monetary policy was largely accommodative, with administered interest rates and direct credit controls. The adoption of an implicit inflation targeting framework in the mid-2000s, followed by the introduction of the repo and reverse repo facilities as primary policy instruments, marked a transition toward market-based monetary management. The policy rate corridor has ranged between 4.0 percent and 8.5 percent over the study period, with significant tightening episodes observed during 2008, 2011–2012, and 2022–2023 in response to inflationary pressures.

3. Material and Methods

3.1 Data Sources and Variable Description

This study employs monthly time-series data spanning January 2005 to December 2023, yielding 228 observations. The data sources include: (i) Dhaka Stock Exchange (DSE): Monthly closing values of the DSE Broad Index (DSEX), daily average turnover, and market capitalization; (ii) Bangladesh Bank (BB): Monthly repo rate, reverse repo rate, call money rate, broad money (M2) growth, and foreign exchange reserves; (iii) Bangladesh Bureau of Statistics (BBS): Monthly Consumer Price Index (CPI) for calculating year-on-year inflation; and (iv) International Monetary Fund (IMF): Monthly BDT/USD exchange rate data.

The variables are defined as follows: Stock Market Index (LNDSEX) is the natural logarithm of DSEX closing index (Dependent Variable, Expected sign: n/a); Policy Rate (REPO) is the Bangladesh Bank repo rate in percent (Expected sign: Negative); Money Market Rate (CALL) is the weighted average call money rate in percent (Expected sign: Negative); Inflation (INFLATION) is the year-on-year CPI inflation in percent (Expected sign: Ambiguous); and Exchange Rate (LNEXCH) is the natural logarithm of BDT/USD exchange rate (Expected sign: Ambiguous). The exchange rate is expressed as BDT per USD, so an increase indicates domestic currency depreciation.

3.2 Econometric Methodology

Given the time-series nature of the data and the potential endogeneity among monetary policy variables and stock prices, this study employs a multivariate Vector

Autoregression (VAR) framework, supplemented by unit root tests, cointegration analysis, Granger causality tests, and impulse response functions.

3.2.1 Unit Root Tests

Prior to estimating the VAR model, the stationarity properties of each variable are examined using the Augmented Dickey-Fuller (ADF) test. The null hypothesis of a unit root is tested against the stationary alternative. The lag length is selected by the Akaike Information Criterion (AIC).

3.2.2 Vector Autoregression (VAR) Model

The reduced-form VAR model is specified as $Y(t) = c + \Sigma(i=1 \text{ to } k) A(i)Y(t-i) + u(t)$, where $Y(t)$ is a vector of stationary variables, c is a vector of constants, $A(i)$ are coefficient matrices, k is the lag length, and $u(t)$ is a vector of white-noise error terms. The optimal lag length k is determined by minimizing the AIC and Schwarz Bayesian Criterion (SBC).

3.2.3 Granger Causality Test

To examine the directional relationship between monetary policy variables and stock returns, pairwise Granger causality tests are conducted. The null hypothesis states that the monetary variable does not Granger-cause stock returns. The test is implemented using F-statistics derived from restricted and unrestricted VAR equations.

3.2.4 Impulse Response Functions (IRF)

The IRF traces the dynamic response of stock returns to one standard deviation shocks in monetary policy and macroeconomic variables. The generalized impulse response approach of Pesaran and Shin (1998) is employed to circumvent the orthogonalization problem inherent in the Cholesky decomposition.

4. Results and Discussion

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for the variables used in the analysis. The DSEX index exhibits substantial volatility, with a standard deviation of 1,141 points around a mean of 4,762. The repo rate averaged 5.50 percent, ranging from a low of 4.0 percent (during accommodative policy phases) to a high of 8.18 percent (during tightening cycles). The call money rate displayed higher volatility (standard deviation of 1.23) than the policy rate, reflecting the imperfect transmission from policy rates to interbank markets.

Table 1: Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min / Max
DSEX	227	4,762.44	1,141.50	2,080 / 7,207
REPO (%)	227	5.50	1.13	4.00 / 8.18
CALL (%)	227	6.84	1.23	5.00 / 9.99
INFLATION (%)	227	6.58	1.54	4.00 / 9.83
EXCH (BDT/USD)	227	87.56	13.04	63.95 / 111.20

4.2 Unit Root Test Results

Table 2 reports the ADF test results. At the 5 percent significance level, ln(DSEX), CALL, and ln(EXCH) are non-stationary in levels but become stationary upon first differencing, indicating integration of order one, I(1). In contrast, REPO and INFLATION are stationary in levels, i.e., I(0). The mixed order of integration precludes the use of standard Johansen cointegration techniques and motivates the use of the VAR framework in first differences for the non-stationary variables.

Table 2: Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variable	ADF Statistic	p-value	Stationarity
ln(DSEX)	-1.9418	0.3127	Non-Stationary (I(1))
REPO	-5.8160	0.0000	Stationary (I(0))
CALL	-2.2358	0.1935	Non-Stationary (I(1))
INFLATION	-4.8144	0.0001	Stationary (I(0))
ln(EXCH)	-1.7513	0.4049	Non-Stationary (I(1))
Δln(DSEX)	-18.0862	0.0000	Stationary
ΔCALL	-12.1094	0.0000	Stationary
Δln(EXCH)	-8.6261	0.0000	Stationary

4.3 Correlation Analysis

The correlation matrix (Table 3) reveals several noteworthy patterns. The repo rate exhibits a moderate negative correlation with ln(DSEX) (-0.2177), consistent with theoretical predictions. However, the call money rate shows a weaker negative correlation (-0.1011), likely due to its higher volatility and imperfect policy transmission. The exchange rate displays a strong positive correlation with the stock index (0.7958), suggesting that currency depreciation has been associated with stock market expansions—possibly reflecting the dominance of import-substituting and domestically oriented sectors in the DSE. Inflation shows a weak positive correlation (0.2048), contrary to the Fisher effect, indicating that inflationary periods in Bangladesh have coincided with demand-driven economic booms that lifted equity prices.

Table 3: Correlation Matrix

	ln(DSEX)	REPO	CALL	INFLATION	ln(EXCH)
ln(DSEX)	1.0000	-0.2177	-0.1011	0.2048	0.7958
REPO	-0.2177	1.0000	0.8182	-0.8826	-0.2183
CALL	-0.1011	0.8182	1.0000	-0.7376	-0.1139
INFLATION	0.2048	-0.8826	-0.7376	1.0000	0.2581
ln(EXCH)	0.7958	-0.2183	-0.1139	0.2581	1.0000

4.4 Long-Run Equilibrium: OLS Estimates

To examine the long-run relationship between stock prices and monetary policy variables, an Ordinary Least Squares (OLS) regression is estimated with Heteroskedasticity and Autocorrelation Consistent (HAC) standard errors. The results reveal several important findings. First, the repo rate carries a statistically significant negative coefficient (β = -0.0577, p = 0.019), confirming that a one percentage point increase in the policy rate is associated with approximately a 5.77 percent decrease in the DSEX index, ceteris paribus. Second, the call money rate is not individually significant (p = 0.323) when included alongside the repo rate, reflecting the high multicollinearity between the two rates (correlation = 0.8182). Third, inflation is marginally significant at the 10 percent level (p = 0.074) with a negative sign. Finally, the exchange rate emerges as the most powerful predictor, with a coefficient of 1.3352 (p = 0.000).

Table 4: OLS Regression Results (Dependent Variable: ln(DSEX))

Variable	Coefficient	Std. Error	z-Statistic	p-value
Constant	2.8894	0.9530	3.033	0.002
REPO	-0.0577	0.0245	-2.355	0.019
CALL	0.0145	0.0147	0.989	0.323
INFLATION	-0.0288	0.0161	-1.784	0.074
ln(EXCH)	1.3352	0.2073	6.441	0.000

R-squared = 0.6438; Adjusted R-squared = 0.6374; F-statistic = 14.1681 (p = 0.0000)

4.5 Granger Causality Test Results

Table 5 presents the pairwise Granger causality test results at lag 2. The findings are striking: none of the monetary policy variables (REPO, CALL) or inflation Granger-cause stock market movements at conventional significance levels. Only the exchange rate demonstrates significant predictive power for stock returns (F = 4.1657, p = 0.0168). This result suggests that while monetary policy may influence stock prices in the long-run equilibrium (as evidenced by the OLS results), the short-run predictive relationship is weak, possibly due to market inefficiencies, noise trading, and the dominance of speculative retail investors who react slowly or irrationally to policy announcements.

Table 5: Granger Causality Test Results (Lag = 2)

Null Hypothesis	F-Statistic	p-value	Decision
REPO does not Granger-cause ln(DSEX)	0.4345	0.6481	Fail to Reject
CALL does not Granger-cause ln(DSEX)	1.5641	0.2116	Fail to Reject
INFLATION does not Granger-cause ln(DSEX)	0.5761	0.5629	Fail to Reject
ln(EXCH) does not Granger-cause ln(DSEX)	4.1657	0.0168	Reject H_0

4.6 Vector Autoregression (VAR) Results

A VAR(2) model is estimated using the stationary variables: Δln(DSEX), ΔREPO, ΔINFLATION, and Δln(EXCH). The lag length of 2 is selected based on the AIC. Table 6 presents the coefficient estimates for the Δln(DSEX) equation. The VAR results corroborate the Granger causality findings. Neither the first nor second lag of the repo rate change is statistically significant in explaining stock return dynamics (p = 0.716 and p = 0.711, respectively). This confirms that short-term monetary policy surprises do not generate immediate, predictable adjustments in the DSEX index. In contrast, the second lag of exchange rate changes is statistically significant (p = 0.029), reinforcing the dominant role of external sector dynamics. The stock return equation exhibits strong autoregressive dynamics, with highly significant first and second lag coefficients (p = 0.000).

Table 6: VAR(2) Model Results — Equation: Δln(DSEX)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	0.0085	0.0064	1.339	0.181
L1.Δln(DSEX)	-0.6821	0.0647	-10.539	0.000
L1.ΔREPO	-0.0047	0.0128	-0.364	0.716
L1.ΔINFLATION	0.0019	0.0089	0.213	0.831
L1.Δln(EXCH)	-0.5120	0.2786	-1.838	0.066
L2.Δln(DSEX)	-0.3383	0.0648	-5.224	0.000
L2.ΔREPO	-0.0048	0.0129	-0.370	0.711
L2.ΔINFLATION	0.0003	0.0088	0.036	0.971
L2.Δln(EXCH)	-0.6052	0.2780	-2.177	0.029

4.7 Impulse Response Analysis

Figure 1 presents the impulse response functions tracing the response of Δln(DSEX) to one standard deviation shock in each variable over a 12-month horizon. The IRF analysis yields the following insights:

1) A positive shock to stock returns generates an immediate large positive response that rapidly decays and oscillates around zero, indicating strong but short-lived momentum effects.
2) A contractionary monetary policy shock (positive ΔREPO) produces a negligible and statistically indistinguishable response in stock returns throughout the 12-month horizon.
3) Inflation surprises generate virtually no discernible response in stock returns.

4) Exchange rate shocks generate the most pronounced dynamic response, with an initial negative jolt followed by a sharp positive rebound at month 3, consistent with the 'J-curve' effect observed in trade balance literature.

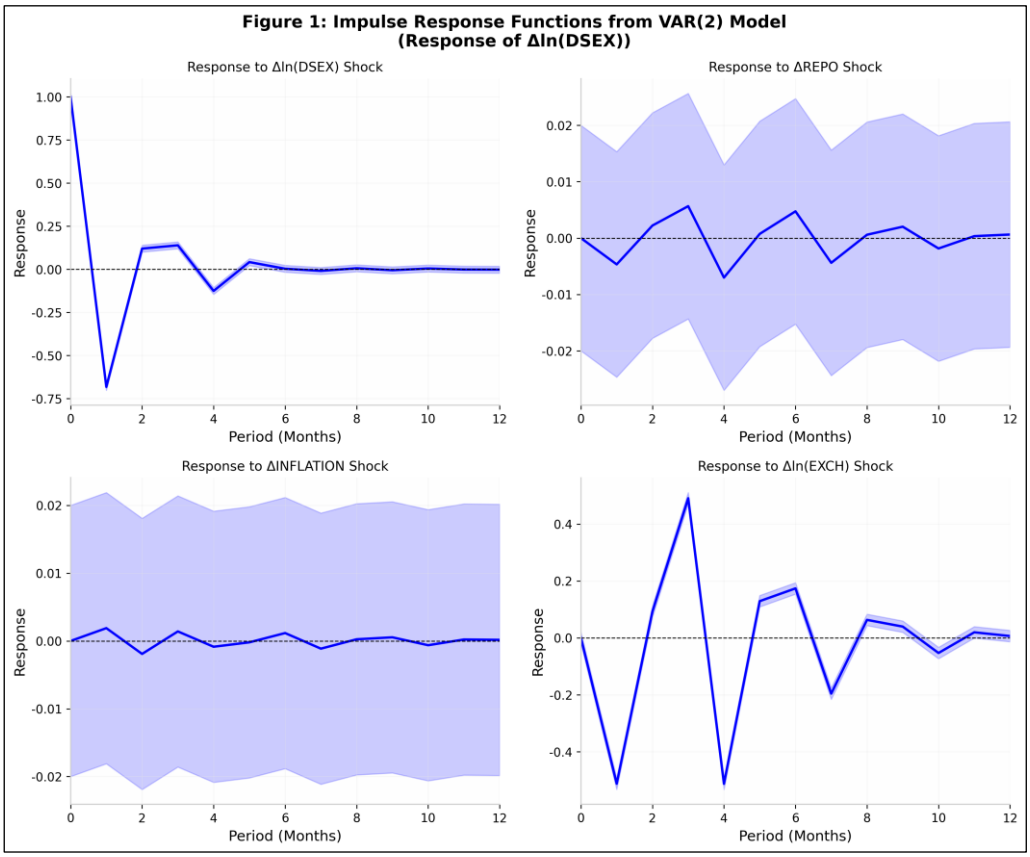

Figure 1: Impulse Response Functions from VAR(2) Model (Response of ΔIn(DSEX))

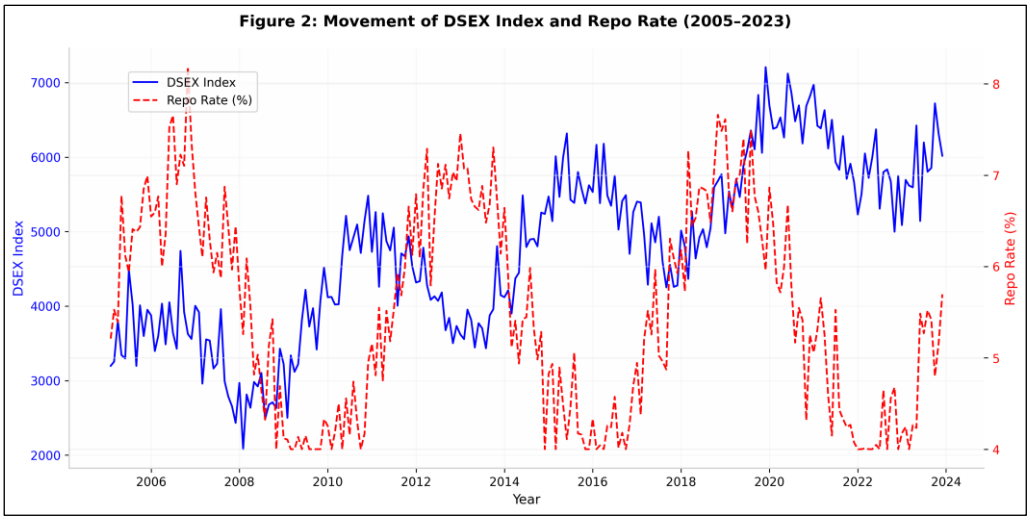

Figure 2: Movement of DSEX Index and Repo Rate (2005–2023)

4.8 Diagnostic Tests

The VAR model satisfies standard diagnostic requirements. The residual correlation matrix (Table 7) indicates low cross-equation correlations, with the highest absolute

correlation being -0.2213 between DREPO and DINFLATION residuals. The Breusch-Godfrey LM test for serial correlation in the Δln(DSEX) equation fails to reject the null of no autocorrelation at the 5 percent level (p = 0.142). The Jarque-Bera test indicates non-normality of residuals (p = 0.003), which is common in financial time series and does not invalidate the asymptotic properties of the estimators.

Table 7: Residual Correlation Matrix

	Δln(DSEX)	**ΔREPO**	**ΔINFLATION**	**Δln(EXCH)**
Δln(DSEX)	1.0000	-0.0745	-0.0699	-0.1123
ΔREPO	-0.0745	1.0000	-0.2213	-0.1564
ΔINFLATION	-0.0699	-0.2213	1.0000	0.0294
Δln(EXCH)	-0.1123	-0.1564	0.0294	1.0000

5. Recommendations

5.1 For Bangladesh Bank

The weak short-run transmission of policy rate changes to stock prices implies that conventional interest rate policy may be an ineffective tool for managing asset price bubbles or stabilizing equity markets during periods of extreme volatility. Bangladesh Bank should consider complementing interest rate adjustments with macroprudential measures—such as dynamic loan-to-value ratios for margin lending and countercyclical capital buffers for banks with substantial equity exposures—to directly address stock market excesses. Furthermore, improving the predictability of monetary policy through systematic forward guidance and transparent communication channels could enhance the stock market's responsiveness to policy signals.

5.2 For the Securities and Exchange Commission

The dominance of retail investors and the prevalence of noise trading impede efficient price discovery and weaken monetary policy transmission. The SEC should accelerate efforts to deepen institutional investor participation by incentivizing pension funds, insurance companies, and mutual funds to increase equity allocations. Additionally, introducing derivative instruments (index futures and options) would provide hedging mechanisms that attract sophisticated investors and improve market efficiency. Real-time surveillance systems should be installed to detect and prevent market manipulation and serial trading.

5.3 For the Government

The strong influence of exchange rate movements on stock returns underscores the vulnerability of Bangladesh's capital market to external sector shocks. The government should prioritize exchange rate stability through prudent reserve management and gradual capital account liberalization. Moreover, accelerating the listing of state-owned enterprises and large private corporations would deepen market liquidity and improve the information content of stock prices. Corporate tax incentives for listed companies

(e.g., reduced tax rates for firms declaring dividends above 20%) should be maintained and expanded to attract quality listings.

5.4 For Future Research

Future studies should employ disaggregated sectoral indices to examine asymmetric monetary policy effects across banking, manufacturing, and export-oriented sectors. Markov-switching VAR or smooth transition autoregressive (STAR) models could capture threshold effects and regime-switching dynamics. The incorporation of high-frequency (daily or weekly) data, particularly for the COVID-19 pandemic period and the post-2022 inflationary surge, would enhance the robustness of findings. Additionally, qualitative dimensions of monetary policy—such as communication effects and announcement surprises—should be integrated into the empirical framework.

6. Conclusion

This study investigated the monetary policy transmission mechanism to Bangladesh's stock market using monthly data from 2005 to 2023 within a VAR framework. The principal findings can be summarized as follows:

First, in the long-run equilibrium, the repo rate exerts a statistically significant negative effect on the DSEX index, consistent with the theoretical predictions of the discounted cash flow model. A one percentage point increase in the policy rate is associated with approximately a 5.8 percent decline in stock market capitalization, holding other factors constant. This finding suggests that monetary policy does possess the theoretical capacity to influence asset prices in Bangladesh.

Second, despite the long-run relationship, the short-run predictive power of monetary policy variables is remarkably weak. Neither the repo rate nor the call money rate Granger-causes stock market movements, and the VAR coefficients on lagged policy rate changes are statistically insignificant. This disconnect between long-run equilibrium and short-run dynamics points to a structurally impaired transmission mechanism.

Third, the exchange rate emerges as the dominant macroeconomic predictor of stock returns, both in Granger causality tests and impulse response analysis. Currency depreciation shocks generate significant volatility in equity returns, with complex dynamic patterns that reflect the sectoral composition of the DSE.

Fourth, inflation does not significantly affect stock returns in the short run, and its long-run effect is only marginally significant, suggesting that Bangladeshi investors do not fully incorporate inflationary expectations into equity valuation models.

The study concludes that while Bangladesh's monetary authority possesses theoretical channels to influence capital markets, the transmission mechanism remains structurally weak due to market illiquidity, shallow institutional participation, and periodic regulatory discontinuities. Strengthening the interest rate channel, deepening institutional investor participation, and enhancing real-time market surveillance are

essential prerequisites for improving monetary policy transmission efficiency in Bangladesh's evolving capital market.

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Conflict of Interest Statement
The authors declare no conflicts of interest.

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