

An Association between Stock Index and Macro Economic Variables in Bangladesh

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Abstract : The aim of this article is to explore whether certain macroeconomic variables such as industrial index, inflation, broad money, exchange rate and deposit rate as a proxy for interest rate are interlinked with Dhaka stock price index (DSEX index) precisely after the introduction of new index by Dhaka Stock Exchange (DSE) since January 2013. Bangladesh stock market has experienced rapid growth since its inception. It might not be a very well-developed capital market as compared to its neighboring counterparts but has been a strong avenue for investment and resource mobilization. The data set considered consists of monthly observations, for a period of four years from January 2013 to June 2018. Findings from cointegration analysis suggest that DSEX and macroeconomic variables have a significant long-run relationship. VAR decomposition based on VAR estimated indicates that money supply explains a significant portion of variation of stock index whereas, inflation is found to have the least impact. Impact of industrial index is found to have a low impact compared to the exchange rate and deposit rate. Policies should there aim to increase industrial production in order to enhance stock market performance. Further reasonable money supply should be ensured by authorities to stimulate stock market performance.

Keywords : deposit rate, DSEX, industrial index, VAR

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