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IMPACT OF REPO RATE ADJUSTMENTS ON BANKING STOCK PERFORMANCE IN DHAKA STOCK EXCHANGE

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Abstract

This study explores the relationship between monetary policy and stock market performance by analyzing the effect of repo rate adjustment on the stock returns of 28 listed banks in the Dhaka Stock Exchange (DSE). Using event study methodology with mean-adjusted and market models, the study finds significant positive cumulative abnormal returns (CARs) of 0.67–0.73% in short-term windows (-1, +1) and (-2, +2). The results also reveal asymmetric effects: repo rate cuts generate higher positive abnormal returns (1.55% to 2.32%) than rate hikes (-0.45% to -2.16%). However, event-by-event analysis finds a heterogeneous effect on stock returns. Individual bank analysis identifies only four specific banks as the most sensitive to changes in the repo rate. Furthermore, the cross-sectional analysis shows that 31.12% of bank-event combinations yielded CARs exceeding +1%, while 18.88% recorded CARs below -1%. These findings conclude that market responses differ considerably based on the direction and timing of policy changes, as well as institutional characteristics.

Keywords: Monetary Policy; Cumulative Abnormal Returns (CARs); Dhaka Stock Ex- change (DSE); Event Study; Repo Rate

1. Introduction

Monetary policy is one of the key mechanisms of macroeconomic management that ensures adequate liquidity, maintains price stability, and prompts sustainable growth (Singh, 2023). The decisions of monetary policy changes have large impacts on the financial markets, and equity valuation is one of the instant measures of policy evaluation. While monetary policy actions such as changes in policy rates have effects on macroeconomic variables, financial markets rapidly incorporate new policy information into asset prices (MacKinlay, 1997). Capital market is an information-sensitive sector that gives an instantaneous response to monetary policy (Caballero & Simsek, 2024; Gerko & Rey, 2017; Omodero, 2024). Therefore, in finance research, the understanding of the relationship between stock returns and monetary policy is a longstanding focus.

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The restrictive monetary policy typically indicates a rise in discounts and a decline in future cash flows that imposes a downward pressure on the stock prices correspondingly (Cotton, 2022). On the contrary, Bordo and Landon-Lane (2013) reported that the expansionary monetary policy on the other side will be biased towards high stock prices by reducing the discount rates and increasing growth expectations. With this addition, the credit channel brings into focus the influence that policies have on the supply of credit in the economy and, more specifically, via the banking system. In particular, banks with less favorable capital positions are more likely to limit lending during tightening monetary policies like repo rate hikes, which adds to the greater impact on economic activity (Kashyap & Stein, 2000a). In line with this, Flannery and James (1984) showed that stock returns are particularly sensitive to interest rate changes.

However, Mishkin (1996) argues that the transmission of monetary policy is highly dependent on context. Besides that, it also considers institutional frameworks, financial structures, and market efficiency. In emerging markets, that transmission adjusts slowly as a result of structural inefficiencies, information asymmetry, and bank-dominated financial systems.

This is a timely and relevant setting to examine these dynamics in Bangladesh, as in the past two decades, it has experienced rapid economic growth and enhanced financial market activity. The banking sector here works as an intermediary between the surplus and deficit units in the country. It also serves as a primary conduit of monetary transmission. When Bangladesh Bank adjusts the repo rate, commercial banks face immediate changes in their short-term borrowing costs from the central bank, which theoretically should transmit to retail deposit and lending rates (Bernanke & Blinder, 1992; Kashyap & Stein, 2000b). This transmission mechanism functions as follows: an increase in the repo rate raises the cost of obtaining liquidity from the central bank, incentivizing commercial banks to increase deposit rates to attract funds from savers and simultaneously raise lending rates to maintain net interest margins, thereby reducing credit availability and aggregate demand (Mishkin, 1996; Taylor, 1995). Conversely, repo rate cuts lower funding costs, enabling banks to reduce lending rates and stimulate credit growth while potentially lowering deposit rates (Bernanke & Gertler, 1995). This interest rate channel directly impacts inflation and liquidity management—the dual objectives of central bank policy. Higher lending rates suppress consumption and investment demand, reducing inflationary pressures, while simultaneously tightening liquidity conditions in the broader economy (Clarida *et al.*, 1999). Lower rates achieve the opposite effect, injecting liquidity and potentially stimulating inflation when the economy operates below potential (Woodford, 2003).

However, the effectiveness of this transmission depends critically on the pass-through efficiency from policy rates to retail banking rates, which varies across countries based on banking sector competition, financial market development, and institutional frameworks (Cottarelli & Kourelis, 1994; Hofmann & Bogdanova, 2012). At the same time, repo rate adjustment by the Bangladesh Bank is a method through which it controls liquidity and provides signals to investors of DSE. The

banking industry of Bangladesh includes various types of institutions, such as state-owned, domestic, and foreign banks and Shariah-based banks of the country. This heterogeneity allows studying differently sensitive policies in different banking business models and different ownership structures. Besides that, its stock market is relatively shallow and bank dependent. The monetary policy environment in Bangladesh has been tightening (Hossain & Ibon, 2020). This aggressive position in policy forms a perfect environment to analyze instant stock market reactions to changes in the repo rate, especially in the banking industry. The stock market in the banking sector is also more sensitive to any change in the interest rates, as the basic business model depends on the interest rate spreads (Abdymomunov *et al.,* 2023; Byrne, 2024; Moss & Moss, 2009). The direct effects of changes in the repo rates on commercial banks include changes in the cost of funding and the net interest margin. These operational impacts are quickly reflected through stock price action as investors in the market review the future profitability outlook.

The event study approach provides a strong analytical tool in distinguishing between the particular event effect on the stocks (MacKinlay, 1997). This method has been widely used in financial studies to quantify investor response to corporate events, regulatory announcements, and the change of monetary policy (Campbell *et al.*, 1998). However, existing research primarily focuses on broad market indices or developed market contexts or based on announcements of monetary policies, leaving significant gaps in understanding policy transmission through banking sector stocks in emerging markets like Bangladesh. This study focuses on exploring the short-term stock market reaction of 28 banks listed on the Dhaka Stock Exchange to the change in the repo rate of Bangladesh Bank. This study analyzes short-term abnormal returns and, besides whether there is any asymmetric effect in repo cuts and hikes prevailing during the study periods, and investigates the cross-sectional heterogeneity among individual banks. To isolate policy effects on other market factors, this study is based on the dates of effective implementation of the repo rates and not announcement dates. This methodological design fills a gap in existing literature, with most papers assessing the level of announcement, even though there might be delays between the announcement of policies and their actual execution.

The previous and theoretical literature provide similar expectations for this context. Firstly, with the repo rate effectiveness, the stock should react significantly and also be consistent with the semi-strong form of market efficiency (Fama, 1970, 1991). Secondly, asymmetric impacts are envisaged: rate cuts are likely to produce more positive anomalous returns than rate hikes' negative consequences (Bernanke & Kuttner, 2005). The next one is that market reactions are impacted by broader economic environments where policy interventions during a crisis take greater informational content and produce strong responses (Adrian & Shin, 2010; Taylor, 2016). After all, despite, its higher effectiveness and importance, limited empirical work has been conducted on how DSE responds to repo rate adjustment.

This paper is segregated into the following sections: Section two describes past literature; sections three and four explain the methodology and empirical results; and the final section includes the conclusion.

2. Literature Review

The relationship between repo rate adjustment and stock return in the banking sector is established through well-grounded theories. Bernanke and Blinder (1988) developed the theoretical foundation for the bank lending channel and explained how monetary policy changes affect funding costs, capacity of lending, and profitability. This transmission mechanism is also applicable for repo rate adjustment, as it directly affects the short-term funding cost of commercial banks. Kashyap and Stein (2023) extended this framework by considering the dynamism of modern banking, including the role of wholesale funding markets and regulatory capital requirements. This framework demonstrated that repo rate changes create immediate portfolio rebalancing effects, leading to rapid adjustments in bank stock valuations. The present value model provides the additional foundational framework for understanding immediate stock price reactions to repo rate adjustments.

Drechsler *et al*. (2021) explained that stock prices in the banking sector reflect the net present value of expected future cash flows, which are directly affected by changes in funding costs through repo rate adjustments. Their analysis found that a 100 basis point increase in repo rates leads to a 2-3% immediate fall in stock price in the banking sector, though this effect varies significantly across bank characteristics and market conditions.

Signaling theory, first proposed by Spence (1973), is the solution to the asymmetry of information between one party (the sender) and the other party (the receiver) in which the former, through actions that can be observed, presents credible information to the latter. This theory has been heavily used in financial markets, where firms are able to use financial choices (dividend payments, altering capital structure, or stock buybacks) to convey that they are of good or bad quality or outlook to investors. The signaling theory in relation to actions by the central bank is a useful theory in explaining the effects that alterations in the monetary policy, such as adjusting the repo rate, have on the expectations of the investors. This approach to the subject matter is consistent with the theoretical premise that stock prices reflect the cues of the monetary policy.

The Efficient Market Hypothesis (Fama, 1970) provides a further theoretical grounding that stock prices reflect all available information. Indeed, previous literature evidence from developed economies supports that hypothesis. This also shows that central bank repo announcements and implementation often trigger the immediate and statistically abnormal returns (Amollo & Ndede, 2023).

In developed economies, several extensive studies have already been conducted and found a definite pattern on the impact of repo rate adjustment on return on the banking sector. The study of English *et al*. (2018) discussed the changes in the Federal Reserve policy rates in the 2000-17 years, where the increase in the repo rate by 25 basis points results in the average decrease in the stock price of a banking sector by 1.8% in two trading days. Their discussion found a high level of heterogeneity in terms of bank size, and the larger banks have a higher level of sensitivity because they are exposed to wholesale funding markets. Altavilla *et al*.

(2018) studied the changes in ECB policy rates in 19 countries in the euro zone between 2010 and 2020. They recorded improved banking sector reactions in times of financial stress, where the repo rate variation leads to 40% greater stock price reactions in times of crisis than when the market is functioning normally. The research also highlighted the importance of market sentiment and liquidity conditions in the process of establishing the magnitude of the policy transmission effects. Gandhi and Lustig (2015) provided a detailed study of non-traditional effects of monetary policy on banking sectors. In their study, they established that the conventional actions of increasing or decreasing the repo rates have foreseeable effects within the banking industry, whereas unusual policies introduce more complicated scenarios. The effect of expansionary policies on the banking sector stocks during the quantitative easing periods tends to be positive as opposed to the negative relationship in the tightening periods. Rigobon and Sack (2004) developed an identification through the heteroskedasticity approach to measure the impact of monetary policy on asset prices, documenting that a 25 basis point unexpected increase in the federal funds rate leads to approximately 5% decline in financial sector stock prices, with commercial banks experiencing the largest effects due to their direct exposure to interest rate changes. Analyzing the European context, Ehrmann and Fratzscher (2004) examined the impact of ECB monetary policy announcements on bank stock returns across euro area countries from 1999 to 2003, finding significant heterogeneity based on bank size and business model, with larger universal banks exhibiting 40% greater sensitivity to policy surprises than smaller retail-focused institutions. Kuttner (2001) made a seminal contribution by demonstrating how to separate anticipated and unanticipated components of Federal Reserve policy decisions using federal funds futures contracts, showing that only the unexpected component generates significant stock market reactions—a finding that has become foundational for subsequent event study research on monetary policy transmission. Focusing on the unconventional monetary policy era, Fratzscher *et al*. (2016) analyzed the impact of Federal Reserve and ECB quantitative easing announcements on bank equity valuations, documenting positive abnormal returns of 3-6% following major asset purchase announcements, though these effects varied substantially across banks based on their holdings of targeted securities and funding structures. Examining the role of market expectations, Swanson (2021) investigated how forward guidance and large-scale asset purchases affected financial sector stock prices differently than conventional policy rate changes, finding that forward guidance has more persistent effects on bank valuations while conventional rate surprises generate sharper but more transitory reactions, with banking sector returns reverting to normal within 5-7 trading days.

In emerging market banking systems, there are some unique features of the banking system that affect the effectiveness of the transmission of monetary policies. Hofmann *et al*. (2020) documented the effects of repo rates in 15 developing economies, reporting much bigger responses of the banking sector than in developed markets. They mentioned that a 50 basis point increase in the repo rate leads to an average reduction in the stock prices of the banking sector in emerging economies by

4.2 percent, almost twice as much as they found in developed economies. Kashyap and Stein (2023) emphasized the role of institutional factors in the determination of the policy transmission effectiveness. Their cross-country study showed that the more developed financial systems of emerging markets have more definite and predictable reactions of the banking sector to the change of the repo rate. Banking sector concentration and stronger regulatory control are associated with more stock price responses to policy adjustment. Hausman and Wongswan (2011) examined the spillover effects of U.S. monetary policy on equity markets in Korea, Thailand, Indonesia, and the Philippines, finding that Federal Reserve policy surprises significantly impact emerging Asian bank stock returns through capital flow channels and risk appetite adjustments, with a 25 basis point unexpected Fed tightening reducing emerging Asian bank equity values by approximately 2-3%. Finally, Kearns and Manners (2006) provided comprehensive cross-country evidence across 19 emerging markets, demonstrating that countries with floating exchange rate regimes and independent central banks exhibit stronger and more predictable banking sector stock price responses to domestic monetary policy changes, with abnormal returns approximately 50% larger and more statistically significant compared to countries with managed exchange rates or limited central bank independence, highlighting the importance of institutional credibility for effective policy transmission.

Event study methodology has emerged as the preferred approach for examining immediate market responses to monetary policy announcements. MacKinlay (1997) established the standard framework, which has been extensively applied to banking sector research. The choice of event window specification remains crucial for capturing repo rate adjustment effects. Berger and Roman (2017) demonstrate that banking sector responses to monetary policy announcements typically occur within a [-1, +1] day window around the event. Their analysis of 156 monetary policy announcements across 12 countries showed that longer event windows often incorporated noise from unrelated market factors, reducing the precision of abnormal return estimates. Cross-sectional heterogeneity in banking sector responses has led to the development of more sophisticated an- analytical approaches. Flannery and Hankins (2013) introduce a multi-factor event study model. Their model incorporated banking-specific risk factors, including term structure changes, credit spread variations, and regulatory announcements, providing more accurate estimates of repo rate announcement effects.

The monetary policy framework of Bangladesh Bank has undergone significant transformation over the past decade. Hossain and Ibon (2020) reported the evolution from administered interest rates to market-based instruments such as the repo rate, highlighting the shift toward a more flexible and targeted monetary policy regime. The efficiency of the Dhaka Stock Exchange (DSE) in reflecting monetary policy announcements is crucial for validating the event study methodology. Benozir and Rahman (n.d.) investigated the weak-form market efficiency of DSE using daily price data from 2015 to 2023. Their findings revealed predictable price patterns and deviations from weak-form efficiency, supporting the relevance of analyzing abnormal returns around policy announcements.

In the context of Bangladesh, the Bangladesh Bank's adjustments to the repo rate carry a signal to the financial market, particularly the Dhaka Stock Exchange (DSE). These monetary policy signals reflect the central bank's stance on inflation, liquidity, and economic growth expectations. Investors interpret such signals to forecast future macroeconomic conditions and readjust their investment decisions. For instance, a repo rate hike typically signals tighter monetary policy, which may increase borrowing costs for banks and reduce their profitability—leading to negative investor sentiment and declining stock returns. Conversely, a rate cut may signal accommodative policy, potentially boosting credit growth and improving bank earnings, thereby positively influencing stock prices. Given the information asymmetry in emerging markets like Bangladesh, where financial disclosures may be limited, central bank signals play an even more pronounced role in shaping investor expectations. Thus signaling theory provides a robust framework for analyzing how repo rate changes influence bank stock returns in the DSE, aligning with the objective of this study.

The relatively large body of international literature notwithstanding, there is a lack of specific research studies discussing the impact of repo rate adjustment on the stock return in the banking sector of Bangladesh. The available literature is largely about the effect of monetary policy broadly or studies relationships over time by time-series analysis. The sample of 28 banks listed in DSE is sufficient in maintaining the sufficient sample size, as well as representing the variety of bank features that are sensitive to policies. The study adds to the existing literature since it offers the detailed event study analysis of the impact of repo rate changes on the stock returns of the banking sector in DSE, which will fill this gap in the local and global literature. First, it gives specific attention to the impact of repo rate adjustment on stock returns in the banking sector within an emerging market setting. Second, the focus on implementation dates as opposed to announcement dates helps to eliminate a severe methodological gap in studies conducted in the past. Third, this research contributes to the knowledge on the transmission of monetary policy within the market dominated by bank-based financial systems. The study provides some key objectives of various stakeholders. The results would be evidence to policymakers on how fast and how big the transmission of policy is in the stock market, particularly in the banking sector. To investors and portfolio managers, the findings provide a sense of how the banking stocks will react to future policy changes. By integrating both theoretical approaches with empirical findings, the study offers useful implications for both policymakers and market participants.

3. Data and Methodology

3.1 Event Identification and Sample Construction

The study examines the impact of the repo rate adjustment on the stock returns of 28 listed banks in DSE from 2016 to 2022. Sample sizes are adequate, as nearly 80% (28 banks out of 36 banks listed in DSE) of the listed banks, which include state-owned, private commercial, and Shariah-based banks, are in this study. Daily closing stock prices of each bank and monetary policy adjustment dates were collected from investing.com and official press releases of the Bangladesh Bank, respectively. The

study period includes eight repo rate adjustment events, comprising five rate cuts (ranging from −0.25% to −0.75%) and three rate hikes (ranging from +0.25% to +0.50%). However, due to the closure of the stock market on the event day during the COVID-19 pandemic, Event 4 was excluded from the analysis. The event study methodology proposed by Brown and Warner (1985) and MacKinlay (1997) is used, focusing on seven repo rate adjustment events. The final sample consists of 196 bank-event observations (7 × 28) across the seven monetary policy events. The 28 selected banks under this study are provided in Appendix.

3.2 Timeline Structure

The event study schedule adheres to traditional norms and has three periods (Campbell *et al.*, 1997) Estimation Window: -280 to -31 days relative to the new repo effective date, which gives 250 trading days to estimate the parameters. This size guarantees that the sample is sufficiently large for effective statistical estimation and is compatible with MacKinlay (1997) and Binder (1998).

3.2.1 Buffer Period: Days -30 to -1, a buffer period that puts distance between estimation and event periods to avoid event-related information leakage into normal performance parameters (Kothari & Warner, 2007).

3.2.2 Event Windows: Several event windows have different effects based on different information processing speeds and possible market microstructure effects (Lee & Ready, 1991). This study uses the short windows (-1, +1) and (-2, +2) to identify the immediate reaction on return, and the long windows (-5, +5) and (-10, +10) will record delayed reactions since it will take time to spread information or rebalance the portfolio (Chordia *et al.*, 2005).

3.3 Mean Adjusted Model

The mean-adjusted model assumes that the constant expected return is equal to the historical average during the estimation period (Brown & Warner, 1985):

$$E(R_{it}) = \mu_i \tag{1}$$

Where μ_i is the expected return for bank *i*.

$$\hat{\mu}_i = \frac{1}{L_1} \sum_{t=-280}^{-31} R_{it} \tag{2}$$

Where L_1 = 250 represents the estimation window length. The abnormal return is calculated:

$$AR_{it} = R_{it} - \hat{\mu}_i \tag{3}$$

This model provides a simple baseline that isolates bank-specific performance from the historical mean, making no assumptions about the relationship between individual bank returns and market factors (Barber & Lyon, 1997; Brown & Warner, 1985).

3.4 Market Model

The market model establishes a linear relationship between individual bank stock returns and market returns (Sharpe, 1963):

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \tag{4}$$

Where R_{it} indicates the return of the individual bank on day t; R_{mt} indicates the market return (DSEX index), and ε_{it} is the error term.

Ordinary least squares regression is used to establish the parameters (alpha and beta) over the estimation window:

$$\hat{\beta}_i = \frac{\sum_{t=-280}^{-31}(R_{it} - \bar{R}_i)(R_{mt} - \bar{R}_m)}{\sum_{t=-280}^{-31}(R_{mt} - \bar{R}_m)^2} \tag{5}$$

$$\hat{\alpha}_i = \bar{R}_i - \hat{\beta}_i \bar{R}_m \tag{6}$$

The predicted normal return during the event window is:

$$E(R_{it}) = \hat{\alpha}_i + \hat{\beta}_i R_{mt} \tag{7}$$

Abnormal return is calculated as:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt} \tag{8}$$

3.5 Cumulative Abnormal Returns

For each bank-event combination, cumulative abnormal returns (CARs) aggregate daily abnormal returns over the specified event window:

$$CAR_{i(T_1,T_2)} = \sum_{t=T_1}^{T_2} AR_{it} \tag{9}$$

Where T_1 and T_2 represent the boundaries of the event window.

3.6 Cross-Sectional Aggregation

The sample-wide average abnormal return for day t is:

$$\overline{AR}_t = \frac{1}{N}\sum_{i=1}^{N} AR_{it} \tag{10}$$

Where N represents the number of banks that have valid observations for the specific event-day combination.

The average cumulative abnormal return across all banks for the window (T_1, T_2) is:

$$\overline{CAR}_{(T_1,T_2)} = \frac{1}{N}\sum_{i=1}^{N} CAR_{i(T_1,T_2)} \tag{11}$$

This cross-sectional averaging procedure serves as the primary test statistic for evaluating overall market response to new repo rate.

3.7 Statistical Testing Framework

One-sample t-statistic is used for testing the null hypothesis of zero abnormal returns:

$$\overline{CAR}_{(T_1,T_2)} = \frac{1}{N}\sum_{i=1}^{N} CAR_{i(T_1,T_2)} \tag{11}$$

This cross-sectional averaging procedure serves as the primary test statistic for evaluating overall market response to new repo rate.

3.8 Statistical Testing Framework

One-sample t-statistic is used for testing the null hypothesis of zero abnormal returns:

$$t = \frac{\overline{CAR}_{(T_1,T_2)}}{s(\overline{CAR})/\sqrt{N}} \tag{12}$$

Where *s*(*CAR*) represents the cross-sectional standard deviation of cumulative abnormal returns (CARs).

For asymmetric analysis comparing rate cuts versus rate hikes, this study employs the two-sample t-test:

$$t = \frac{\overline{CAR}_{cuts} - \overline{CAR}_{hikes}}{s_p\sqrt{\frac{1}{N_{cuts}} + \frac{1}{N_{hikes}}}} \tag{13}$$

Where s_p represents the pooled standard deviation across both subsamples.

3.9 Return Calculation

Daily stock return is calculated using:

$$Ret_{it} = \ln\left(\frac{P_{it}}{P_{it-1}}\right) \tag{14}$$

Where P_{it} denotes the closing price of bank *i* on day *t*, which is adjusted for stock splits and dividend payments.

Market returns utilize the DSEX broad market index:

$$Ret_{mt} = \ln\left(\frac{DSEX_t}{DSEX_{t-1}}\right) \tag{15}$$

The DSEX index serves as the primary benchmark for the Dhaka Stock Exchange, capturing the overall performance of both large and mid-cap stocks across a wide range of sectors.

4. Empirical Results

4.1 Sample Characteristics and Event Description

This study includes seven repo rate changes by Bangladesh Bank from 2016 to 2022. Table 1 presents the repo rate adjustment, magnitude, and directions. Event 4 is omitted from the analysis due to stock market closure on the event day during the COVID period.

Table 1: Summary Statistics of Bangladesh Bank Repo Rate Changes

Event	Date	Magnitude	Direction	Banks
1	14-Jan-2016	-0.50%	Cut	28
2	15-Apr-2018	-0.75%	Cut	28
3	24-Mar-2020	-0.25%	Cut	28
4*	12-Apr-2020	-0.50%	Cut	0
5	30-Jul-2020	-0.50%	Cut	28
6	29-May-2022	+0.25%	Hike	28
7	30-Jun-2022	+0.50%	Hike	28
8	02-Oct-2022	+0.25%	Hike	28

Notes: *Event 4 is excluded as DSE was closed on the event date due to the pandemic.

The sample period considers various monetary policy regimes, which feature four rate cuts averaging

-0.50% and three rate hikes averaging +0.33%. This temporal variation allows for the examination of asymmetric market reactions to signals of expansionary versus contractionary monetary policy. Consistent with (Bernanke & Kuttner, 2005) reported differential capital market reactions to monetary policy, this study aims to find out whether similar asymmetries prevail in Bangladesh. Analyzing this pattern can also provide insights into the effectiveness of monetary policy in achieving desired economic outcomes.

4.2 Aggregate Market Response Analysis

4.2.1 Pooled Cross-Sectional Results

Table 2 presents the pooled cross-sectional analysis that examines the average market reaction in all sample banks' stock returns to all events. CARs are 0.67-0.73% in the (-1,+1) and (-2,+2) day windows, respectively, around repo rate changes. The t-statistics are 2.32-2.38 ($p < 0.05$), indicating a strong and quick market response to the new repo rate implementation. This supports the idea that monetary policy

changes provide valuable information (Cook & Hahn, 1989). The significance of CARs in the short time windows indicates that the market is efficiently processing this information, consistent with semi-strong form market efficiency (Fama, 1970). On the contrary, in longer windows (-5, +5) and (-10, +10), stock cumulative abnormal returns are not statistically significant, which indicates that over time the market (DSE) absorbed the shocks relatively quickly. These findings align with (Flannery & James, 1984) reported the sensitivity of interest rate adjustment and bank stock valuation.

Table 2: Pooled Cross-Sectional Analysis Results [N= 196(7×28)]

Event Window	**Mean CAR**	**Std. Error**	**t-statistic**	**p-value Panel A: Mean Adjusted Model**
(-1,+1)	0.69%	0.29%	2.38	0.018**
(-2,+2)	0.73%	0.33%	2.23	0.027**
(-5,+5)	0.57%	0.46%	1.22	0.223
(-10,+10)	0.28%	0.60%	0.46	0.645
Panel B: Market Model				
(-1,+1)	0.67%	0.29%	2.32	0.021**
(-2,+2)	0.72%	0.33%	2.18	0.031**
(-5,+5)	0.54%	0.47%	1.15	0.252
(-10,+10)	0.30%	0.59%	0.52	0.606

Notes: ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively

4.2.2 Asymmetric Effects Analysis

Table 3 examines differential market responses to cuts versus hikes in monetary policy signals by dividing the sample into rate cuts (N=112) and rate hikes (N=84). The asymmetric analysis presents distinct patterns that align with theoretical predictions about stock market responses to monetary policy. Rate cuts have a stronger influence on investor sentiment than rate hikes. Cumulative abnormal returns vary from 1.55% to 2.32% across several event windows during repo rate cuts and are highly significant ($p < 0.01$). On the other hand, rate hikes lead to negative CARs between -0.45% and -2.16%, reflecting negative market reaction. The difference tests show that the asymmetric effects are significant in event windows. These findings align with (Benchimol *et al.*, 2023), who presented quick market reactions to expansionary policy surprises, particularly under uncertainty. Results also support the findings of those (Thorbecke, 1997) who documented that the market responds more favorably to easing than to tightening.

Table 3: Asymmetric Effects - Rate Cuts vs Rate Hikes

	Rate Cuts (N=112)			**Rate Hikes (N=84)**			**Difference**
Window	**Mean CAR**	**t-stat**	**p-value**	**Mean CAR**	**t-stat**	**p-value**	**p-value**
Panel A: Mean Adjusted Model							
(-1,+1)	1.55%	3.38	<0.001***	-0.45%	-1.84	0.070*	<0.001***
(-2,+2)	1.97%	3.87	<0.001***	-0.92%	-3.49	<0.001***	<0.001***
(-5,+5)	2.32%	3.20	0.002***	-1.78%	-5.22	<0.001***	<0.001***
(-10,+10)	2.10%	2.20	0.030**	-2.16%	-4.90	<0.001***	<0.001***
Panel B: Market Model							
(-1,+1)	1.56%	3.39	<0.001***	-0.52%	-2.28	<0.001***	<0.001***
(-2,+2)	1.99%	3.88	<0.001***	-0.98%	-3.75	<0.001***	<0.001***
(-5,+5)	2.32%	3.15	0.002***	-1.84%	-5.28	<0.001***	<0.001***
(-10,+10)	2.04%	2.17	0.032**	-2.01%	-4.50	<0.001***	<0.001***

Notes: *******, ******, and ***** indicate significance at the 1%, 5%, and 10% levels, respectively

4.3 Event-by-Event Analysis

In table 4 Event 1, represents a 50 basis point rate cut that generates minimal market reaction across all event windows. The CARs ranged from -0.053% to 0.13%, and are not significant. This suggests the market either anticipated this policy action or viewed it as having minimal impact on stock returns or a muted response. Event 2 involved a more substantial 75 basis point reduction, producing divergent results across windows. While shorter windows (-1,+1) and (-2,+2) showed insignificant effects, longer windows revealed significant negative responses: -2.89% for (-5,+5) and

-6.73% for (-10,+10), both highly significant ($p<0.01$). This pattern indicates delayed negative market sentiment, possibly reflecting concerns about prolonged low interest rate environments affecting banking margins. The COVID-19 period monetary easing presents contrasting results. Event 3 generates positive CARs that increase with window length, achieving significance in longer windows: 2.98% (-5,+5, $p=0.021$) and 4.20% (-10,+10, $p=0.011$). This positive response likely reflects market relief regarding monetary support during economic uncertainty. Event 5 produced highly significant positive CARs across all windows. The progressive increase from 4.88% (-1,+1) to 10.99% (-10,+10), all significant at 1%, suggests strong market approval of continued monetary support during the pandemic recovery phase.

Table 4: Event-by-Event Analysis - Mean Adjusted Model (N= 28 banks)

Event	Window	Mean CAR	t-statistic	p-value
Event 1	(-1,+1)	-0.0531%	-0.197	0.845
	(-2,+2)	0.1347%	0.336	0.739
	(-5,+5)	0.0354%	0.061	0.952
	(-10,+10)	-0.0506%	-0.052	0.959
Event 2	(-1,+1)	0.5514%	0.718	0.479
	(-2,+2)	-0.0387%	-0.043	0.966
	(-5,+5)	-2.8902%	-3.269	0.003***
	(-10,+10)	-6.7347%	-5.531	<0.001***
Event 3	(-1,+1)	0.8287%	0.756	0.456
	(-2,+2)	1.4654%	1.403	0.172
	(-5,+5)	2.9809%	2.443	0.021**
	(-10,+10)	4.2020%	2.721	0.011**
Event 5	(-1,+1)	4.8870%	4.779	<0.001***
	(-2,+2)	6.3315%	5.702	<0.001***
	(-5,+5)	9.1626%	5.183	<0.001***
	(-10,+10)	10.9972%	5.444	<0.001***
Event 6	(-1,+1)	0.1756%	0.300	0.766
	(-2,+2)	-0.4416%	-0.696	0.493
	(-5,+5)	-1.6201%	-2.332	0.027**
	(-10,+10)	-3.2309%	-3.375	0.002**
Event 7	(-1,+1)	-1.4006%	-4.479	<0.001***
	(-2,+2)	-1.9492%	-6.665	<0.001***
	(-5,+5)	-3.1229%	-5.589	<0.001***
	(-10,+10)	-2.7755%	-3.813	<0.001***
Event 8	(-1,+1)	-0.1310%	-0.505	0.618
	(-2,+2)	-0.3789%	-1.200	0.240
	(-5,+5)	-0.5844%	-1.504	0.144
	(-10,+10)	-0.4772%	-1.101	0.280

Notes: ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively

The monetary tightening cycle beginning in 2022 reveals heterogeneous market reactions. Event 6 showed no significant short-term effects but generated significant negative CARs in longer windows:

-1.62% (-5,+5, p=0.027) and -3.23% (-10,+10, p=0.002). This delayed negative response suggests initial market uncertainty about the tightening cycle's implications. Event 7 produced significant negative CARs across all windows, ranging from -1.40% to -3.12% (all p<0.001). Finally, Event 8 showed no significant market reaction across any window, suggesting either market adaptation to the tightening cycle or expectations that had already been incorporated into stock prices. The outcomes of this study highlight the fact that monetary policy measures have different effects on the market. These findings emphasize the timing, context, and magnitude of the repo rate and investor response towards the repo rate adjustment, which matched with the idea of (Bernanke & Gertler, 1995) and (Kashyap & Stein, 2000a). They reported that the effect of policies is not uniform across the time and events.

4.4 Individual Bank Analysis

Table 5: Individual Bank Analysis

Bank ID	Model	Window	Mean CAR	t-statistic	p-value
Banks with Significant Results (within 5% Level)					
Standard Bank	Mean Adjusted Model	(-1,+1)	-1.84%	-2.87	0.028**
Standard Bank	Mean Adjusted Model	(-2,+2)	-2.33%	-2.80	0.031**
Standard Bank	Market Model	(-1,+1)	-1.87%	-2.83	0.030**
Standard Bank	Market Model	(-2,+2)	-2.35%	-2.70	0.036**
Trust Bank	Mean Adjusted Model	(-5,+5)	-5.37%	-5.14	0.002***
Trust Bank	Market Model	(-5,+5)	-5.32%	-5.14	0.002***
Banks with Marginally Significant Results (at 10% Level)					
UCB	Market Model	(-5,+5)	-2.11%	-1.95	0.099*
Rupali Bank	Mean Adjusted Model	(-10,+10)	-4.52%	-2.42	0.052*
Rupali Bank	Market Model	(-10,+10)	-4.29%	-2.34	0.058*
Trust Bank	Mean Adjusted Model	(-10,+10)	-6.04%	-2.40	0.053*
Trust Bank	Market Model	(-10,+10)	-6.19%	-2.43	0.051*

Notes: *******, ******, and ***** indicate significance at the 1%, 5%, and 10% levels, respectively

Table 5 presents only banks that are statistically significant in several windows in both models. Bank-level analysis indicates that there are certain banks that show a high level of response to events of the monetary policy. Standard Bank shows

recurring significant negative CARs in shorter event windows. Trust Bank showed especially good responses in the (-5, +5) window, and CARs show negative market responses. Marginally significant results indicate that UCB, Rupali Bank, and Trust are more sensitive in the long run. Rupali Bank having negative CARs of about -4.3% to -4.5% in the (-10, +10) window and UCB having -2.11% in the (-5, +5) period. The result implies that the majority of banks are immune to the change of repo rates, but a small percentage of banks are subjected to significant negative effects on CARs. The magnitude of responses varies between moderate (-2%) and large (-6%) depending on the bank and the timing of the repo rate change. This heterogeneity in response is consistent with prior research showing that monetary policy shocks affect banks' stock return differently based on their size, leverage, and exposure to interest rate risk (Ehresmann *et al.,* 2025)

4.5 Distribution Analysis

Table 6: Cross-Sectional Distribution of Individual Bank CARs

CAR Range	**Number of Bank Events (among 28 × 7 bank events)**	**Percentage**
CAR > 4%	7	3.57%
2% ≤ to ≤ 4%	24	12.24%
1% ≤ to < 2%	30	15.31%
0% ≤ to < 1%	50	25.51%
−1% ≤ to < 0%	48	24.49%
−2% ≤ to < −1%	24	12.24%
−4% ≤ to < −2%	11	5.61%
CAR < −4%	2	1.02%

Table 6 presents the cross-sectional distribution of CARs across all 196 bank-events. The results indicate that 3.57% of the observations show CARs greater than 4%, while 12.24% fell within the 2% to 4% range. An additional 15.31% of observations had CARs between 1% and less than 2%, and the largest share—25.51%—was concentrated in the 0% to less than 1% interval. CARs between -4% and < -2% covers 5.61% of the observations, and only 1.02% of observations have CARs lower than < -4%. Overall, 31.12 percent of bank-event combinations had positive abnormal returns with a value over 1% and 18.88 percent with a value over 2% in absolute terms. The other half of the observations were at zero, and this indicates that the responses by the stock market to changes in the monetary policy were negligible in relation to many banks. It also supports the existence of heterogeneity in the responses of the markets in line with (Peek & Rosengren, 2013), who support the claim that institutional properties can be important in determining the reactions of banks to the effects of monetary shock.

Table 7: Summary of CARs (all banks, all events using the mean-adjusted model)

Window	Mean	Std Dev	Min	Max	Positive %
(-1,+1)	0.69%	1.45%	-2.40%	4.09%	60.7%
(-2,+2)	0.72%	1.68%	-2.35%	4.00%	58.9%
(-5,+5)	0.54%	2.15%	-5.37%	4.66%	55.4%
(-10,+10)	0.30%	2.47%	-6.19%	4.68%	53.4%

Table 7 presents the summary statistics of individual bank cumulative abnormal returns (CARs) across various event windows. The mean CAR ranges from 0.69% in the (-1, +1) window to 0.30% in the (-10, +10) window. Greater dispersion over the longer windows than the shortest event windows. As the event windows increase, the proportion of positive CARs falls somewhat, and that ranges from 60.7% in the (-1, +1) window to 55.4% and 53.4%,respectively, in the (-5, +5) and (-10, +10) windows. Extreme observations include a maximum negative CAR of -6.19% and a maximum positive CAR of 4.68%, highlighting substantial variation in individual bank responses and greater heterogeneity in long-term market adjustments (Stein, 1998).

5. Conclusion

This study provides comprehensive evidence of the effect of repo rate adjustment on the stock returns of 28 banks in DSE. Positive and significant CARs in short-term event windows confirm the instant market reaction. On the other hand, statistically insignificant CARs in relatively longer windows in both mean-adjusted and market models indicate that over time DSE absorbs the information related to the new repo rate. Moreover, this study reveals that repo cut rates generate higher CARs than rate hikes, confirming the presence of asymmetric market reactions. However, the heterogeneity observed across individual events and banks suggests that the impact of monetary policy is not uniform but rather influenced by timing and institutional characteristics. The cross-sectional findings further emphasize that while some banks are more responsive, others remain relatively unaffected. Overall, these insights highlight the complex and differentiated nature of monetary transmission mechanisms in emerging financial markets, offering valuable implications for policymakers, investors, and academicians.

This study has some limitations as well. The sample period used for the study includes both the crisis period and the normal period, which might affect generalizability. Focusing only on selected banks may not represent the full banking sector. Moreover, in emerging markets like Bangladesh, investor sentiment and behavioral factors play a particularly important role in shaping stock market reactions to monetary policy announcements. However, incorporating sentiment as a separate variable in this event study framework would create methodological challenges, primarily endogeneity concerns. Future research could use different methods, like

regression analysis with separately created sentiment indices, to clearly measure how sentiment affects the way monetary policy influences stock markets, as well as how banks respond differently and the long-term effects of monetary policy changes on the banking sector's performance and stability.

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Appendix

1. List of Banks

No.	Bank Name	No.	Bank Name
1	AB Bank PLC	15	One Bank PLC
2	Al-Arafah Islami Bank PLC	16	The Premier Bank PLC
3	BRAC Bank PLC	17	Pubali Bank PLC
4	Islami Bank Bangladesh PLC	18	Social Islami Bank PLC
5	IFIC Bank PLC	19	United Commercial Bank PLC
6	Bank Asia PLC	20	First Security Islami Bank PLC
7	City Bank PLC	21	National Credit and Commerce Bank PLC
8	Dhaka Bank PLC	22	Prime Bank PLC
9	Eastern Bank PLC	23	Rupali Bank PLC
10	Mutual Trust Bank PLC	24	Shahjalal Islami Bank PLC
11	Dutch-Bangla Bank PLC	25	Southeast Bank PLC
12	Export Import (EXIM) Bank of Bangladesh PLC	26	Standard Bank PLC
13	Jamuna Bank PLC	27	Trust Bank PLC
14	Mercantile Bank PLC	28	Uttara Bank PLC