

MONETARY POLICY TRANSMISSION IN LOW INCOME COUNTRIES: DO TRADITIONAL CHANNELS WORK IN BANGLADESH?

A.K.M. ATIQR RAHMAN

North South University

akmatiq@northdouth.edu

TANIMA AHMED

North South University

Abstract

The paper examines the effectiveness of monetary policy transmission in the post reform period of Bangladesh using quarterly data from fiscal year 1999 to 2013. A caveat on standard VAR model is used in assessing the strength of alternative channels of monetary policy transmission. The paper finds that, monetary policy works in the desired direction in affecting both output and price level. Credit channel and exchange rate channel of monetary policy transmission seem to be quite strong. Asset price channel also works, but it is less robust. Interest rate channel of MPT works in desired direction, but it is relatively weak.

Keywords: Monetary policy, GDP, Price level, Exchange rate, Credit, Lending rate, Policy rate, Stock price.

JEL classification: E2, E3, E5.