Analyzing the Capital Market Movements and Saving Patterns of South Asian Countries: Evidence from Pakistan, Bangladesh, and Sri Lanka

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Abstract

This paper examines the role of capital market and saving pattern in the acceleration of economic growth in Sri Lanka, Pakistan and Bangladesh with special emphasis on the impact of financial sector reforms initiated in 2000. The data used in this study was collected from the period of 2000 to 2012 of 3 South Asian countries namely, Pakistan, India and Sri Lanka. The result showed that Pakistan tryed to improve its saving patterns but didn't achieve its goal. Pakistan achieved its higher saving pattern in 2003.Pakistan was trying to strengthen its stock market as it considered as a proxy of economy. Pakistan achieved its goal during the period of 2002-07. Pakistan was trying to focus on its "human development" Pakistan started achieving its goal in 2011 & 2012, which was the period of "Pakistan People's Party (PPP)", as PPP is most dominant in Pakistan in terms of pay structure reforms. Bangladesh was trying to improve its saving patterns and has also achieved its goal. Bangladesh achieved its higher saving pattern in 2009.Bangladesh was trying to strengthen its stock market as it considered as a proxy of economy. Bangladesh was continuously achieving its goals during the period of 2002-11. Bangladesh was trying to focus on its "human development", but Bangladesh didn't achieve its goal because of some mismanagement of policies. Sri Lanka was trying to improve its saving patterns but didn't achieve its goal properly because of too much uncertainty & fluctuations. Sri Lanka was trying to strengthen its stock market as it considered as a proxy of economy. Sri Lanka was continuously achieving its goal during the period of 2002-06. Sri Lanka tryed to focus on its "human development", but Sri Lanka didn't achieve its goal because of some negligence of strategies. Sri Lanka achieved its higher saving pattern in 2005.

Key Words: Capital Investment, Savings

Introduction

Capital markets are the sale and purchase of equity and debt instruments markets. Capital markets channel savings and investment between capital providers, such as individual and institutional investors, and users of capital, such as companies, governments and individuals. Capital markets are vital to the performance of the economy, because the capital is a critical component to generate economic output.

Openness in capital markets unhurried the financial developments which escorts towards domestic savings. Higher saving depends upon higher per capita income but higher per capita income causes to decline in domestic saving (Ding, 2014). Aizenman et al. (2007) showing that developing countries that tend to rely more on domestic rather than foreign finance for their investment do better in terms of growth. These results show that the real constraint to growth in developing economies is not domestic saving, as presumed in the standard neoclassical model, but inadequate investment opportunities due to weak financial systems or other institutional weaknesses.

Saving endorse higher economic performance. Capital market development increases the country economic growth due to the availability of high investment opportunities. High savings can arouse economic growth through investments. Markets react promptly to any news, at times even any forms of instability including but not limited to escalating political tensions, war or even rumors of war, change in regulatory environment (business), deemed as negative by the business (investing) community and interest rate fluctuations in general performance of the economy (Moneybiz, 2008). Some other variables like population, movements in global markets, money supply growth, manufacturing sector growth and aggregate deposits of scheduled banks affect the various economic changes (Gera, 2007). A majority of research has been conducted on household saving and consumption behavior, focusing on the developed as well as developing countries. Yet a few of them have analyzed the capital market movements and saving patterns especially of Pakistan, Bangladesh and Sri Lanka. The rationale for taking these countries among other developing countries is that Pakistan is a country which espoused an upright growth despite of a lot of structural problems, political issues, security issues, capital market volatility. Bangladesh economy has been growing up to 6% per year since 1996 regardless of political issues, meager infrastructure, 2008-9 financial crises, and squat execution of economic reforms.

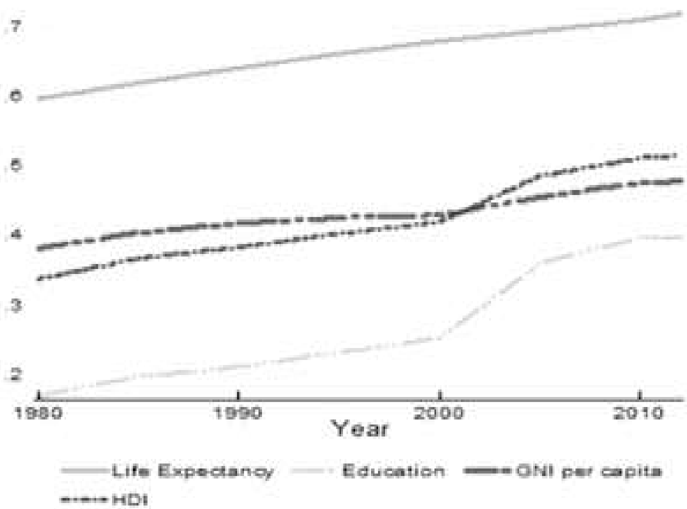
Pakistan economy is facing long run energy issues and security concerns. Pakistan textile industry is affected a lot from these issues and, therefore, has started moving to Bangladesh. Now Pakistan is taking Bangladesh as a competitor. Bangladesh also has energy problems but they are running it able-bodied. However, the cost of doing business in Pakistan has increased due to energy crises (Salamat, Tauseef, & Enterprises, 2011). Pakistan textile industry moved to Bangladesh (Dhaka). Bangladesh not only share common culture with Pakistan, but it also has more investor friendly policies, cheaper labor and tax free access to 37 countries like European union, Canada and Australia. Foreign investors are reluctant to do investment in Pakistan because of security concerns. As textile business moves from Pakistan to Bangladesh, it shows an emerging trend in labor and capital movement in globalizing world: first there was a shift from west to developing countries but now shifts are between frontier markets. The recent surge in economic activity and increased foreign participation in the Sri Lankan market call for an examination of the inter market relationships and dynamic linkages between Sri Lanka and its trading partners because the interdependence structure has implications for market efficiency, profitable investment opportunities, risk diversification, and international policy co-ordination. Pakistan is the second largest trading partner of Sri Lanka in South Asia. Sri Lanka was the first country to sign a Free Trade Agreement with Pakistan, which became operational from June 12, 2005. The relationship also fosters on strong mutual Sino-Pakistan and Sino-Sri Lankan relationship, as China maintains strong mutual interest in the economic and military development of Sri Lanka and Pakistan. Free Trade Agreement FTA between Pakistan and Sri Lanka implemented in year 2005 has opened new avenues for business communities of both countries to expand trade and economic activities utilizing tariff concession being granted to import goods of each other's country. Sri Lankan President on 07 April 2015 said that the two sides have agreed to improve their economic and trade ties and welcomed Pakistani investment in capital markets. Therefore, this study is objectify to cover these gaps in the published literature by emphasizing on the estimation and analysis of dynamic panel models of firms' profitability and consideration of Pakistan's manufacturing sectors in this regard. A country having higher income tends to have higher saving rate- this fact has been taken to correlate saving rate, income per capita, prosperity and poverty (Norman, 2002). Capital Market imperfections, such as unavailability of risk sharing instruments can transpire socially undue saving. Yash, Pal, Davar, Suveera and Gill (2007) cram showed that the growing age factor and experiences lead towards maturity. Individuals used these factors for deciding whether to do investment or not. Yash et al. (2007) study showed that individuals in order to meet their family economic needs used their maturity factor while using their surplus funds that is in the form of savings. In global utter the intermittently pragmatic fact is the co-movements of stock prices across the capital market movements.

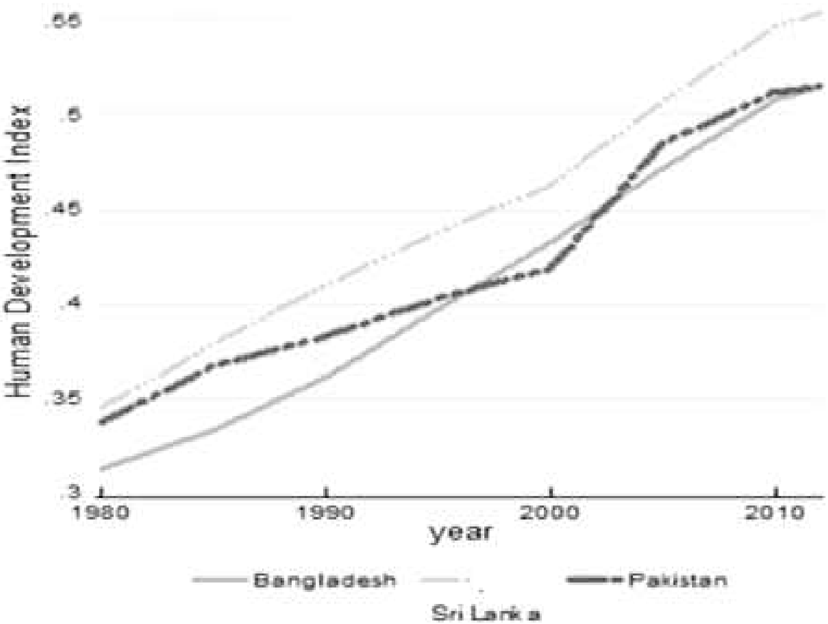
Ali (2011) in his cram investigated that the relationship between individual investors' perceptions about capital market movements and their trading intentions affects their saving behavior. A pilot study was conducted in this area by Rahman (2001), where he put the emphasis on monetary savings. Recently, he presented a discussion paper Chaudhry (2001), with an estimated saving function but with special reference to financial sector reform that began in late 1980. But the relationship between savings and economic growth is not shown in all studies. Lasky (2007) studied the connection between total demand and the propensity to save in the format of "growth pause '. Steindl examined outstanding cases and situations that pressed growth saving rates of economic growth slowed the growth rates of savings have dropped. As a result, the analysis showed that the savings rate increases are not necessarily economic growth accelerators. There has been another study by Religion (2007) to show the impact of economic growth in savings. But there was a technical difficulty, as economic theory suggests that there is synchronization between financial growth and the provision of current researchers trying to study this kind of relationship.

The HDI measures human development in terms of progress in education, health, and living standards. With an HDI score of 0.537, Pakistan is ranked among 'low human development' countries, in the company of Sub-Saharan African countries like Kenya, Angola and Nigeria. At 146, the country is also trailing its regional peers. Sri Lanka was ranked at 73 and termed a 'high human development' country. India (135) and Bangladesh (142) were in the 'medium human development' category (UNDP's latest Human Development Report, 2013).

But that poor regional showing is more than a static snapshot. The report shows that Pakistan's HDI rank has dropped one place between 2008 and 2013. During the same time, Sri Lanka scooped up, India's HDI rank went up one notch, and Bangladesh also improved one slot. What's more, while these countries have improved their HDI scores over this period, Pakistan's score of 0.536 in 2008 is almost the same in 2013 (UNDP's latest Human Development Report, 2014).

Trends in Pakistan's HDI componentindices 1980-2012





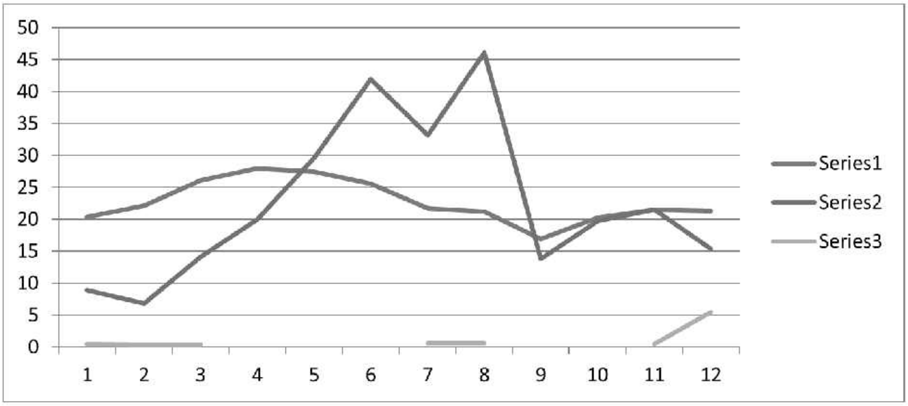
Pakistan's 2012 HDI of 0.515 is above the average of 0.466 for countries in the low human development group and below the average of 0.558 for countries in South Asia. From South Asian countries which are close to Pakistan in 2012 HDI rank and population size are India and Bangladesh which have HDIs ranked 136 and 146 respectively (set Table A).

Table A: Pakistan's HDI indicators for 2012 relative to selected countries and groups

	HDI value	HDI rank	Life Expectancy at birth	Expected Years of Schooling	Mean years of schooling	GNI per capita (PPP US$)
Pakistan	0.515	146	65.7	7.3	4.9	2,566
Sri Lanka	0.383	73	74.9	10.7	4.4	9,778.6
Bangladesh	0.515	146	69.2	8.1	4.8	1,785
South Asia	0.558	—	66.2	10.2	4.7	3,343
Low HDI	0.466	—	59.1	8.5	4.2	1,633

The objective of the study is to investigate the saving patterns effect on the investment in capital markets of Pakistan, Sri Lanka and Bangladesh. This study is organized in three parts. First part represents an introduction, second part represents the graphical analysis and discussion, third part represents the conclusion and recommendations.

Capital market movement and saving pattern of Pakistan

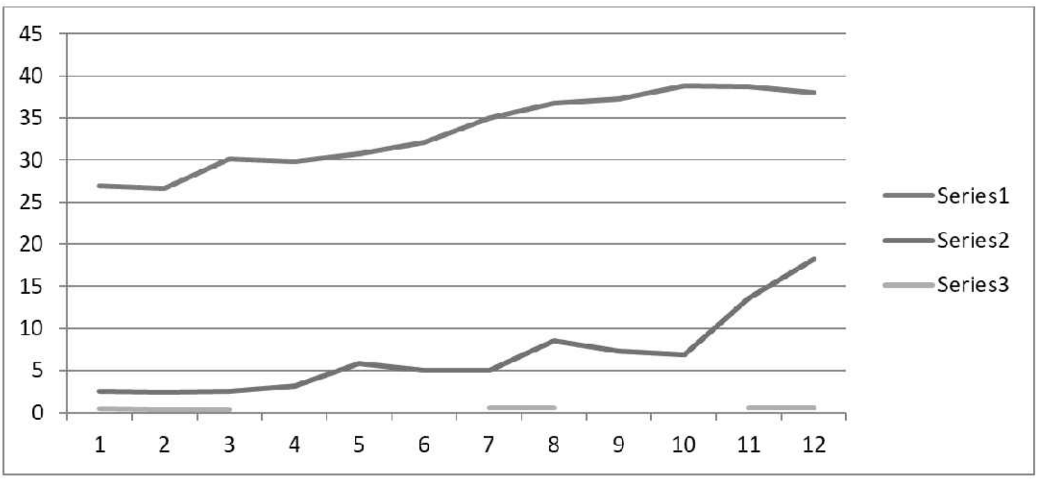


According to the series 1, Pakistan was trying to improve its saving patterns but was unable to achieve its goal as there is just a nominal difference between the values of years 2000 & 2011 which are: 20.35 & 21.29. Pakistan achieved its higher saving pattern in 2003 with the value of 27.95. During 2003, most of the new companies entered in Pakistan through which the rate of unemployment was reduced, thus, resulting in higher saving pattern as the saving patterns are directly associated with employment (Roberto, 2013). Pakistan's economy augmented its great development for the third year in succession in 2004-05 with monetary development achieving its most noteworthy yearly rate of 8.4 for every penny in two decades, the fifth time in the nation's history that it surpassed 8 for every penny development mark. Financial recuperation has raised the apparent abundance of families and in this way helped certainty, prompting higher utilization. The following lifting of total interest thus has prodded credit request. With expanded lending, it has empowered more request, thusly bolstering once more into monetary action and consequently, mirroring a more extensive ethical circle. This positive prospect for shopper request, if managed, will be an urgent backing for the administration's major macroeconomic approach focus for 2005-06.

According to series 2, Pakistan was trying to strengthen its stock market as it is considered as a proxy of economy. The above mentioned graph is showing that Pakistan was achieving its goal during the period of 2002-07 as Pakistan was achieving 46.11% of GDP in the form of stock market capitalization in 2007. It was the ending period of Gen. Retd. Musharraf and during this period a lot of new companies entered in Pakistan and in the stock market of Pakistan too which was the reason of success. Tripathi (2010) study examines that individual perception and preferences leads towards their investing and saving behavior. Real GDP developed by 8.4 % for every penny in 2004- 05 as against 6.4% for every penny a year ago and surpassed the objective (6.6%) for the year by a wide edge. The sharp get in development this year is ably bolstered by a stellar execution in expansive scale producing (15.4%), amazing recuperation in horticulture (7.5%) and a solid development in administrations area (7.9%). The agri-business division developed by 7.5 for every penny in 2004-05, which is higher than genuine development of 2.2 for each penny a year ago and an objective of 4.0 percent. Real yields, representing 37 for every penny of horticultural quality included, developed by 17.3 for each penny as against an insignificant 1.9 for every penny a year ago. Minor yields, which contribute 12 for every penny of quality expansion in farming, developed by 3.1 for each penny in 2004-05 over a year ago 2.6 percent.

According to series 3, Pakistan was trying to focus on its "human development", but Pakistan started achieving its goal in 2011 & 2012, which was the period of "Pakistan People's Party (PPP)", as PPP is most dominant in Pakistan in terms of pay structure reforms.

Capital market movement and saving pattern of Bangladesh



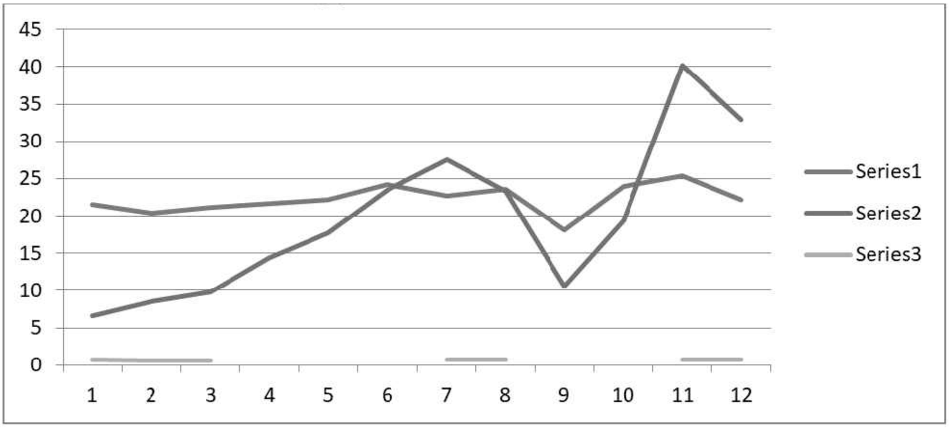
According to the series 1, Bangladesh was trying to improve its saving patterns and ihas also achieved its goal as there is a huge positive difference between the values of years 2000 & 2011, which was: 26.95 & 38.04. Bangladesh achieved its higher saving pattern in 2009 with the value of 38.85. During the period of 2005-10, most of the new companies entered in Bangladesh from other Asian countries because of high energy crisis. Through this high level of industry growth, the rate of unemployment was reduced. The saving patterns are directly associated with rate of employment

(Roberto, 2013). Bangladesh has possessed the capacity to accomplish GDP development at more than 6 percent on a normal notwithstanding amid the time of worldwide budgetary emergency. By definite assessment of Bangladesh Bureau of Statistics, GDP development remained at 6.71 percent in FY 2010-11 which was higher than 6.07 percent development in FY 2010-11. The economy recorded 6.31 percent GDP development rate in the current monetary year 2011-12 according to the temporary assessment. In accomplishing GDP development, three primary areas of the economy such as agribusiness, industry and administration division made real commitments. Due to high base impact prompted by more than 5 percent development in farming division amid the most recent two years, the development of horticulture segment decreased marginally to 2.53 percent in the current financial year, which was still agreeable.

According to series 2, Bangladesh was trying to strengthen its stock market as it considered as a proxy of economy. The above mentioned graph is showing that Bangladesh was continuously achieving its goal during the period of 2002-11 as Bangladesh had achieved 18.3% of GDP in the form of stock market capitalization in 2011.Merchant banks were allowed by regulatory authority to render loans for buying shares. Such loans were considered as major source of funding for all financial institutions including banks and brokerage houses of DSE till 2007(Emerging Markets Monitor, 2007d,p.13).Banks established their brokerage houses and merchant banking wings for participating in capital market (Islam 2007). With huge financial strength in shape of liquid assets banks expands capital market quickly. It was reported that a new stream of investors actively participated in investment activities in capital markets which also encouraged institutions to play their role (Siddiqi, 2010).Bangladesh Capital Market witnessed a very low foreign investment before the global financial meltdown that was only 52.8 Million USD (Ahmed,2008).The main factors for this phenomenon in capital market economy were poor Socio, Economic, Demographic, and Political and Governance indicators in the country (Dhaka Stock Exchange, 2007, p.2). DSE was not crashed or affected at the time of financial meltdown in capital market of world because of low participation of international investors in it. In 2008 DSE witnessed a tremendous increase in foreign investment that is up to 150 % and international investor injected foreign fund in Dhaka Stock Market due to stable government and friendly trade policies while considering it a safe haven for capital investors (Ahmed, 2008). Transfer of funds from foreign market to DSE rescued the capital market and made it more stable though very little outflow of international investment occurred till 2010(Bangladesh Country Review, 2010).

According to series 3, Bangladesh was trying to focus on its “human development”, but Bangladesh was unable achieve its goal because of some mismanagement of policies . If there comes a shock in foreign capital market, people perceive that it would also affect their domestic capital market. Based on their expectations the people used their savings for investment in capital market.

Capital market movement and saving pattern of Sri Lanka



According to the series 1, Sri Lanka was trying to improve its saving patterns but was unable to achieve its goal properly because of too much uncertainty & fluctuations as there is just a nominal difference exist between the values of years 2000 & 2011, which was: 21.53 & 22.14.Sri Lanka achieved its higher saving pattern in 2005 with the value of 24.16. In the background of the enormous human and resource misfortunes coming about because of the tidal wave of December 26, 2004, a lull in the pace of changes and a swelling oil import bill, Sri Lanka is relied upon to see a development rate in the scope of 5-5.5 percent in 2005. The report noticed that a debilitating of the macroeconomic environment - showed in a tenacious develop of inflationary weight from mid- 2004 - will require that proper approaches be embraced to face and resolve developing basic irregular characteristics if the nation is to guarantee a successful post-tidal wave recuperation.

According to series 2, Sri Lanka was trying to strengthen its stock market as it is considered as a proxy of economy. The above mentioned graph is showing that Sri Lanka was continuously achieving its goal during the period of 2002-06 as Sri Lanka was achieving 27.48% of GDP in the form of stock market capitalization in 2006.Sri Lankan economy and capital markets were revitalized by visionary leadership of President Mahindra Rajapaske, when he resolved the terrorist conflicts of almost three decades in May, 2009.

President liberated the Sri Lankan Economy from terrorism and made it as a growing economy. Bloom Berg (2010-11) reported that Columbian Stock Market as best performing stock market due to better sentiment of investors and business community. This splendid growth in capital market of Sri Lanka was due to untiring efforts of the President for resolving long-lasting conflict in North region of the country. However, due to long period of uncertainty accompanied by constraints in all front including political, economic and social failed to mature the Colombian market for absorbing new fruits of growth. First two Years after liberation from terrorism conflict and resolution of issue prevailing in north , CSE takes two years consecutively for correction which ultimately transform into stagnation in Feb, 2011 to August, 2012. But Sri Lanka achieved its higher range in 2010 with the value of 40.20% of GDP.

According to series 3, Sri Lanka was trying to focus on its "human development", but Sri Lanka didn't achieve its goal because of some negligence strategies. There was a very little difference exist among the values of 2000 & 2011, which was: 0.679 & 0.743.

Conclusion and Recommendation

This study examines the capital market movements and saving pattern of South Asian countries (Pakistan, Bangladesh and Sri Lank). In recent decades, economic development experts have stressed the significance of saving and investment in the dynamic progress of the least developed countries. However, as the paint experimental results, and the exchange rate, the savings rate of growth is less important in the economy of Bangladesh, Sri Lanka and Pakistan. The result shows that Pakistan was trying to improve its saving patterns but was unable to achieve its goal. Pakistan achieved its higher saving pattern in 2003. Pakistan was trying to strengthen its stock market as it is considered as a proxy of economy. Pakistan achieved its goal during the period of 2002-07. Pakistan was trying to focus on its "human development" Pakistan started achieving its goal in 2011 & 2012, which was the period of "Pakistan People's Party (PPP)", as PPP is most dominant in Pakistan in terms of pay structure reforms. Bangladesh was trying to improve its saving patterns and has also achieved its goal. Bangladesh achieved its higher saving pattern in 2009. Bangladesh was trying to strengthen its stock market as it is considered as a proxy of economy. Bangladesh was continuously achieving its goal during the period of 2002-11. Bangladesh was trying to focus on its "human development", but Bangladesh didn't achieve its goal because of some mismanagement of policies. Sri Lanka was trying to improve its saving patterns but was unable to achieve its goal properly.

Siri Lanka was trying to strengthen its stock market as it is considered as a proxy of economy. Sri Lanka was continuously achieving its goal during the period of 2002-06. Sri Lanka tryed to focus on its "human development", but Sri Lanka didn't achieve its goal because of some negligence of strategies. Sri Lanka achieved its higher saving pattern in 2005. We believe, economic and environmental damage long-term planning, and the lack of political stability is responsible in this regard. In order to improve the saving pattern and capital market efficiency we must highlight the liberalization of interest rates and the continuance of monetary reform so that it can achieve economic efficiency in the monetary market. In short, the most important challenge faced by Bangladesh, Sri Lanka and Pakistan is a low level of literacy (less human resources) .They need to raise the literacy rate significantly. The State must focus on developing highly educated workforce and train them properly so that they can accelerate the pace of financial growth. Based on the above conversation and analysis you can observe the effects of these policies.

From above mentioned real life examples from Asian Stock Markets, it was concluded that properly managed macroeconomic policies brings the fruits from capital market. For stability at financial front monitoring institutions played vital role along with regulatory authorities for controlling monetary affairs of the country. The invitational role in fiscal and monetary front boosts the confidence of investors and industries. Improvement in Literacy rate contributed significantly in growth of country's GDP.

Relations with neighboring countries count a lot for growth of economies. Firm and consistent policies at economic front saves economies from inflation and collapse of capital and financial markets while promoting savings. Industrial Development in rural areas of any country along with massive infrastructure development enhances the connectivity and finally results in rising living standard. Government should provide better environment along with provision of basic facilities for boosting living standard of public, thus, encouraging domestic savings and investment.

The monetary sector reforms in these countries is an ongoing process which has enhanced in the last decade. Absence of such reforms will cost economy in terms of decreased savings and investments, thus, weakening financial sector. This would endanger the prospects for a wide range of high rates of economic growth in the short and medium term. Financial sector development, therefore, proposed through sustainable reform and effective spread of capital market educational program up to root level needs to be strengthened, as to protect the interest of new investors. Finally setting up a separate judiciary mechanism for settlement of disputes in the share markets (within a specified time limit) and restore the investors' confidence can be considered seriously. To guide and restore the confidence of individual investor in capital market, the regulatory authority should take necessary actions to encourage corporate governance rating among listed companies, which will enable investors to differentiate the good governance companies from the rest and can then attach higher value to those firms. Without improving the governance of the market and eliminating scope of manipulation, it will be difficult to attract good scripts at the desired level. In this endeavor, regulators must adapt continuously to the changes in the economy and the pressures of globalization.

Surplus Labor of Pakistan is a key to generate foreign remittance which ultimately increased the savings of our country. For promoting this key source Government should provide training to build skilled labor by increasing their competency and capability. Government should focus on expenditures relating to development instead on non-development, as development expenditures result in increased income and higher rate of saving. Government should devise stable price policies for facilitating business and industrial sector for enhancement of saving. Investor friendly mechanism of interest rate will increase the savings. Provision of stable fiscal and monetary policy encourages the inflow of foreign direct investment. Interest rate affects savings positively and significantly. So, financial market should provide more incentives in form of high returns to people in order to enhance the savings.

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