BEHAVIOR OF SAVING IN MAJOR SOUTH ASIAN COUNTRIES

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Contents

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Abstract

Saving behavior has important consequences for the effectiveness of fiscal policy. This is because the impact of fiscal policy on aggregate demand depends on the responses of aggregate saving to changes in fiscal stance. There is a paucity of research on saving behavior for South Asian countries. The aggregate saving of a country has three components, namely, those of private, corporate and the public sector. Saving provides the wherewithal for capital formation, which in turn, is essential for economic development. If a country has a low rate of saving over a long period of time, the country's economy would be entrapped in a vicious circle of low investment, low growth, low productivity and low real per capita income. Thus, every country would like to have a higher rate of domestic saving. The determinants of saving rate, the relationships between saving and investment, saving and economic growth, and saving and international trade are significantly different across countries and this is true for South Asian countries. Historical, economic, demographic, and institutional characteristics of the countries are some of the main reasons for the difference in the saving rates and its relationship with other variables across countries. The aim of this research is to add to the understanding of saving behavior of the four South Asian countries, namely, Bangladesh, India, Pakistan, and Sri Lanka. This thesis has two

major objectives. The first is to study the determinants of saving rate for the individual countries as well as for the region using individual and panel studies. The second is to examine the relationships between saving and other variables, namely, investment, economic growth and international trade using individual country and panel data. Data for this study are from two sources. The sources are the *World Development Indicators* of the World Bank and the *International Financial Statistics* of the International Monetary Fund. Time period is different for the countries depending on the availability of data. The OLS method and the fixed effects panel least squares are used for regression analysis for individual and panel data, respectively. We use the error correction model that was used by Jansen (1996) and the Johansen cointegration tests to examine the long run relationship between the variables. If the variables are found to be cointegrated, we use the augmented Granger causality tests. Otherwise, the standard Granger causality tests are performed. We use the moving average processes with exogenous regressors for the panel Granger causality tests. The panel cointegration test in Larsson et al. (2001) is used. Saving and investment rates are found to be not cointegrated for South Asian countries. Thus, there is evidence of international capital mobility for the four countries. The Granger causality tests show that saving and investment rates are statistically independent for India, Pakistan and Sri Lanka.

However, the panel study shows that there is a causality running from saving rate to investment rate for the South Asian countries. The panel study shows that there is a causality running from saving to GDP and there is also a reverse causality. For Bangladesh, India, and Pakistan, saving Granger causes GDP. We find mixed results for the individual countries for the Maizels' hypothesis (Maizels, 1968) that exports promote saving more than non-export part of GDP. However, the panel study shows that Maizels' hypothesis is valid for South Asian countries.

Declaration

I, Kumarasinghe Pivithuru Janak, declare that this thesis, submitted in partial fulfillment of the requirements for the award of Doctor of Philosophy in the Graduate School of Asia Pacific Studies, University of Ritsumeikan Asia Pacific, Beppu, Japan, is wholly my own work unless otherwise referenced or acknowledged. It contains no material which has been accepted for the award of degree or diploma by any university.

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