CHAPTER SIX: CONCLUSION

6.0 INTRODUCTION

In this paper, we have follows a systematic approach to estimated Malaysia savings function with respect to economic growth, interest rate, dependency ratio and foreign capital inflows in both long and short-runs. In our empirical analysis, unit root, co-integration and error correction modeling approaches have been used. We used co-integrating error-correction model on the basis of theoretical model initially developed by **Baharumshah (2003)**.

6.1 SUMMARY OF KEY FINDINGS

The main objective of this paper whether a causal-relation exists between savings and its determinants. In addition, we also try to explore the long run savings function in Malaysia. Based on the empirical results of our findings, a summary of which presented below, it can be said that we have fulfill the objectives.

The paper analyzes the determinants of national savings by using statistical techniques i.e. unit root test, co-integration test and granger-causality test. The unit root test results reveal that all the variables are follows an I(1) process. Thus, co-integration test can be applied to evaluate the long run relationship. The co-integration test results suggest that one co-integrating vector exist in the system, which means that ECM is appropriate to detect the causality relation. In the estimated of ECM, economic growth (lagged one

year) and dependency ratio (lagged four years) have emerged as important determinants of national savings function. The estimated coefficient of the error correction term (-0.55) implies a quite rapid speed of adjustment to equilibrium. The results also reveal that there is a long run relationship between savings and its determinant.

Then, the causality test is performed using an error-correction model to investigate such causal relation between those variables. Granger causality test results suggest that economic growth, dependency ratio and foreign savings appearing as an important influences in the movement of national savings. In contract, interest rate play an insignificant role in the movement of Malaysia national savings.

Our econometric estimation results suggest that national savings in Malaysia is largely influenced by economic growth. The empirical results reveal that any rise in economic growth would have a positive influence on national savings in both long and short-runs. This finding explains why the economics with higher economic growth are saved more on average. Then, the savings function appears to be less sensitive to interest rates movement both in the long and short runs. So, this indicator does not appropriate in formulating policies to enhance national savings. The result may be implies the extent of financial liberalization in Malaysia. But, this is out of the scope of this analysis and may be used as one of the indicators to measure national savings for future researcher.

The estimated savings equation appears to be significant to foreign direct investment movement in the long run. The results reveal that foreign capital inflows have been act as

an obstruction to discourage national savings in Malaysia. According to IMF, the foreign capital flows to the developing countries reached a record of more than USD$200 billion in 1996. Increased amount of those capital inflows has brought substantial advantages to the developing countries but it has also explore to the vulnerable of sudden shifts in international capital flows or investor expectation and attacks on their currencies. The rapid emerging of global financial markets has been accompanied by periodic crises i.e. most recently involving the Asian currencies crises in 1997. So, we can concluded that one of the challenges of the 21st century in developing economies is ensure proper macroeconomic stability and a sound investment environment that would sustain economic growth which in turn will encourage savings.

6.3 CONCLUSION

We begin the paper by identifying the determinants of saving. These include economic growth, demographics-age structures, interest rate and foreign savings. This paper has documented the saving trends and correlations between saving and other variables observed in Malaysia over the period 1970 to 2000. The paper has provided a comprehensive description of correlations saving-related variables based on different financial econometric test. The main findings reported here is the following: economic growth leads to rise in national savings.

One lesson we have learned from the recent financial and currency crises in Asia is that the dependence upon foreign investment will amplify instability of the financial system. If the Malaysian economy expects to sustain growth, how to mobilize national savings to domestic investment will be a more important challenge than it used to be.