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Macroeconomic Stability, Government Policies, and Financial Market Development: A Global Analysis of Transparent Governance, Anti-Monopoly Measures, and Legal Frameworks

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Abstract: *This study explores the interplay between macroeconomic stability, government policies (transparency, anti-monopoly measures, legal frameworks), and financial market development. Drawing data from 125 countries over 11 years (2007-2017) with both parliamentary and presidential systems, various regression models are employed, including Ordinary Least Squares, Random and Fixed Effect Models. Prais-Winsten Regression addresses heteroskedasticity and autocorrelation. Results show a strong positive correlation between macroeconomic stability and financial market development. Transparent governance, anti-monopoly measures, and robust legal frameworks contribute significantly to both stability and financial growth. Transparent governance notably enhances the relationship between macroeconomic stability and financial market development globally and in presidential systems, but not in parliamentary systems. Effective anti-monopoly policies play a notable role in parliamentary systems, while legal frameworks maintain a positive influence across all scenarios. These findings are valuable for policymakers, investors, and researchers, informing their decision-making processes.*

Key Words: Financial Market Development, Macroeconomic Stability, Government Policies, Ceremonial (Parliamentary) System Countries, (Presidential) System Countries, Legal Framework

Introduction

The concept of financial development, as defined by the World Economic Forum (WEF, 2011), encompasses the mechanisms, strategies, and institutions that facilitate efficient financial mediation and markets, alongside widespread access to capital and financial services (P. 13). Financial market development (FMD), on the other hand, involves identifying profitable opportunities, mobilizing savings, and enhancing financial transaction services. This ultimately leads to improved financial intermediation efficiency, which in turn contributes to economic growth (Maswana, 2011).

The economic marketplace plays a crucial function in channelling investments as well as resources efficiently, resulting in increased investments and enhanced productivity for businesses within an economy. A combination of well-structured financial markets and institutions can effectively cater to the financial needs of entrepreneurs and investors, thereby contributing to the overall economic landscape. The robustness of an economy is intrinsically linked to the functionality of its financial system. A strong financial system, in turn, fosters social cohesion and generates employment opportunities (Yu et al., 2012).

The core of a well-organized financial system lies in policies that cater to individual savers seeking better opportunities and foreign investors interested in the economy. This entails allocating resources to projects that offer maximum profit potential rather than those

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rooted solely in political motivations. As such, financial institutions must exhibit reliability, transparency, and integrity, crafting policies that safeguard the interests of individual savers and overall investors (Porter et al., 2012).

However, FMD hinges on multiple factors, including foreign direct investment (Danakil et al., 2013), innovation (Berry, 2019), legal traditions (Porta et al., 2008), and higher education & training (Bazargan et al., 2017). In this study, macroeconomic stability (MES) and other moderating variables are considered, maintaining parsimony for the model's effectiveness. A financial system is divided into financial mediators such as insurance companies, banks and the financial marketplace i.e. trading of bonds and stock. These intermediaries and markets play a significant role in directing a substantial portion of an economy's savings towards productive projects. The rate of capital growth stands as a fundamental driver of long-term progress, thus emphasizing the importance of a robust financial system (Arena, 2008).

Achieving sustainable MES is crucial for businesses and, by extension, the overall economic fortitude of a nation. Ghasemi and Mehregan's study (2014), underscores the importance of macroeconomic growth in boosting efficiency. Moreover, financial growth is improbable without sustainable MES (Muqtada, 2018). Deidda and Fattouh's research (2002), highlights how financial development fosters financial growth, with efficient financial systems mobilizing domestic savings and promoting efficiency through proficient financial markets. Establishing robust financial institutions, including a central bank with autonomy and interest rate liberalization, is essential for sustainable economic growth (Chen, 2002).

Nourzad's study (2002) delves into the impact of financial expansion on innovative efficiency, revealing that enhanced financial depth reduces productive inefficiencies in both developed and developing nations. Similarly, Jalilian and Kirkpatrick (2002) emphasize financial advancements' potential to alleviate poverty in developing countries.

Fiscal and monetary policies aim to achieve growth targets with minimal macroeconomic disruptions. Effective fiscal and monetary policies, like those in China, stabilize and promote economic growth, illustrating the importance of a sound financial system for successful policy outcomes (May et al., 2008).

Globalization's advancement compels nations to formulate resilient macroeconomic strategies to enhance local market effectiveness. Developed and developing economies alike are driven by globalization to attain a competitive edge (Onsel et al., 2008). Michael Porter's competitiveness concept has evolved from enterprise and industry domains to encompass national and comprehensive competitiveness (Schwab & Porter, 2008). The World Economic Forum's Global Competitiveness Reports assess critical factors for sustained economic growth and prosperity (Schwab, 2009).

The association of macroeconomic setting with fiscal marketplace advancement is substantiated by Onsel et al.'s findings (2008). A harmonized strategy is crucial in establishing sub-criteria for the macroeconomic environment and optimizing correlations with financial market development. Transparency within government policies, facilitated through e-government, strengthens financial development by promoting trust and active participation (Keane, 2011; Ruijer& Meijer, 2017).

Zhao and Hu (2017) assert that transparency fosters trust in relationships, promoting optimism in government policies that stimulate economic activities. Good governance and efficiency in public departments inspire public trust and investment in profitable projects (Frankel et al., 2013). Effective fiscal regulations are linked to sustainable fiscal policies, signifying government competence and commitment (Ivaniashvili-Orbeliani, 2009).

China's economy shifting from a centrally designed to a market-based economy emphasizes the significance of competition policies for sustainable economic growth (Wang, 2018). Effective financial regulations enhance corporate governance, reduce corruption, and improve banking functions (Beck et al., 2006). A well-developed and stable financial system is essential for financing opportunities (Seetanah et al., 2009).

Empirical evidence illustrates a positive connection between financial market progress and economic development in economies such as the USA, UK, China, Japan, and Hong Kong (Wong & Zhou, 2011). Financial market expansion improves capital flows, reduces investment risk, and supports long-term projects (Arestis et al., 2002). However, association of FMD with economic growth varies across regions, with mixed evidence in Sub-Saharan African and South Asian countries (Havránek et al., 2013).

In conclusion, this study seeks to explore the influence of MES and government policies on FMD, contributing to informed decision-making and economic enhancement. It emphasizes the importance

of transparent governance, effective competition policies, sound financial institutions, and robust legal frameworks in promoting financial market growth and economic development. The interplay between these factors can be instrumental in shaping prosperous economies worldwide.

In light of current and previous academic literature, it is observed that researchers have not fully explored the determinants of economic growth. Kinds of literature on the underlying factors which are considered in this study are either scarce or nonexistent. Thus, there is an immediate need to explore these factors using a global sample.

According to the author's best knowledge, earlier studies have not yet explored the influence of macroeconomic stability along with the moderating function of effective policies of government on financial market development. It is expected that the results of the study will help decision-makers, governments, policy-makers and economists to enhance the financial market performance of an economy.

Theoretical background

Exogenous Growth Theory: The Solow-Swan growth model, a cornerstone of neoclassical economic development, explains growth through factors like efficiency, capital expansion, population dynamics, and technology. It emphasizes technological progress to counter diminishing returns, addressing declining profits (Knight et al., 1993). It aptly captures the interplay between technological readiness and financial market development.

Endogenous Growth Theory: The Endogenous Growth Theory highlights internal forces like human capital investment and technological innovation as growth drivers. It establishes a positive correlation between economic growth and investment ratios (Aghion and Howitt, 1998).

Intermediation Theory: Financial intermediation involves third-party agents, such as banks, bridging surplus resources with borrowers. Born from perfect market models, intermediaries correct market imperfections, reducing transaction costs through economies of scale. Banks cultivate lasting customer relationships, ensuring reliable interactions (Gwilym, 2008).

Literature Review and Hypotheses Development

Macro-Economic Environment and Financial Market Development

Drawing upon the foundational theory, a noteworthy correlation has been established between the macroeconomic environment and the expansion of financial markets. The endogenous growth theory postulates that heightened macroeconomic stability yields a twofold effect: firstly, it drives amplified employment opportunities within the nation, subsequently augmenting the pool of savings. These accumulated savings, in turn, find application in fostering additional investments on a domestic scale, thereby culminating in the advancement of financial markets. In light of these premises, it is posited that:

H1: A positive correlation exists between the macroeconomic environment and the development of financial markets.

Transparency of Govt. Policies

Transparencies, Comprehensiveness, clarity, and consistency in government policies are vital parts of economic principles. Historically show that where there is continuity in the democracy in the country, there is also transparency as well as consistency in the government policies regarding macro-economic activities. It also shows trust on govt. policies. When the government policies are transparent and all economic information is disclosed to the public then every citizen/businessman in the country will hopefully make a good decision regarding investment. It also diminishes the uncertainty in the govt. policies which are helpful to increase economic activities. Researchers argue that countries with transparent government policies result in a good association of MES with FMD. It is therefore hypothesized that:

H2: Countries having transparent govt. policies are likely to be positive macroeconomic stability and financial market development.

The presence of transparency in government policies is strongly associated with fostering macroeconomic stability and facilitating the growth of financial markets.

Effectiveness of Anti-Monopoly Policy

Research shows that countries have found out the significance of antimonopoly as an institution which now results in the alteration of centrally planned economies into market-oriented economies. Gradually, it comes to recognize that high-quality antimonopoly policies have central importance to economic growth. As a result, many countries conduct experiments with restructuring procedures and ratifying anti-trust rules and regulations which are mainly designed for promoting competition in the country. Anti-monopoly policy (competition policy) is

also used as another mechanism to attain the objective of foreign direct investment in the country.

The anti-monopoly policy includes both open market policies and competition policies designed to defend competition between independent buyers and sellers in comparatively unorganized markets (Boner and Krueger 1991). It also results to enhance macroeconomic activities and financial growth in the country. Countries with effective anti-monopoly policies have a positive relationship between the macroeconomic environment and financial market growth. It is therefore hypothesized that:

Countries having effective anti-monopoly policies are likely to have strong macroeconomic stability and financial market development.

Effective anti-monopoly policies have a positive connection of macroeconomic stability with financial market development.

The efficiency of the legal framework.

Modern national economic success needs to some extent a humble legal framework that main focus is on the security of investor's assets and agreement rights. The fundamental legal modifications require the acceptance of a procedure of comparatively strict legal rules that results in heavy investment and financial growth in improving the state court system. It is the theory of a good business cycle that it begins with modest expenditures on law restructuring rules and regulations will result to enhance the economic growth rate. A logically well-organizing legal system is an essential condition to increase the wealth of a nation. There is an empirical fact show that the rules of law have a positive contribution to the wealth of the nation and its economic growth rate (Baro 1991; Gray 2011). It is therefore, we hypothesized that:

H4: Countries having efficient legal frameworks are likely to have a stronger impact on the macroeconomic environment and financial market development.

Efficient legal frameworks have a positive association between macroeconomic stability and financial market development.

Methodology

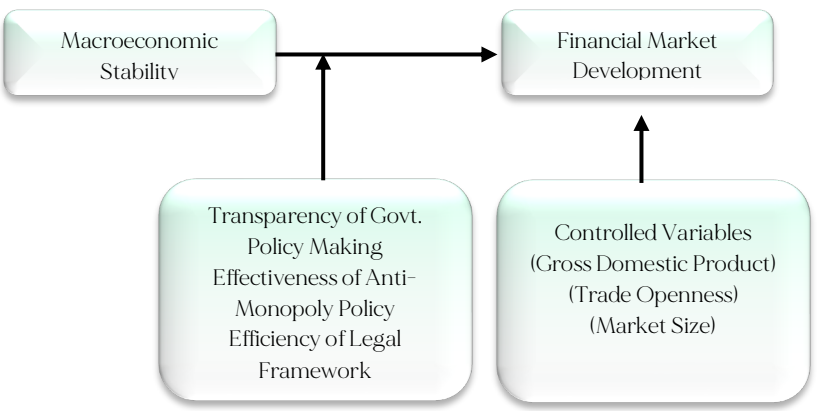
Data Collection and Sampling

This study gathers secondary data from 125 out of 195 countries with parliamentary and presidential systems worldwide, spanning 11 years (2007-2017), using sources like World Bank reports and the Global Competitive Index. It investigates the association of MES (independent variable) with FMD (dependent variable). Prior research, including Levine (2005), suggests a positive link between these factors, with better macroeconomic environments fostering financial market growth. Banga and Rashmi (2003) emphasize the role of effective government policies, while McLeod (2000) highlights the importance of anti-monopoly measures and Ralph et al. (2010) stress effective legal frameworks.

Transparency in government policies, anti-monopoly measures, and legal frameworks are considered moderators in the study's model. Additionally, control variables include GDP, trade openness, and market size. This framework aligns with the study's theoretical focus.

Figure 1

Conceptual Framework



Measurement of Variables

This study makes use of accounting measures in measuring the variables. The following variables are measures in some prior studies as shown in the table below.

Table 1

Variable	Measurement	Sources of measurement
Dependent Variable		
Financial market development	The volume of financial organizations and financial markets (financial strength). To some extent, the lender and borrower make use of financial services (financial access). Competency of monetary mediators and marketplace in the utilization of assets and also assist in economic dealings (financial competency). Stability of financial organizations and markets (financial stability) Financial institutions or organizations include insurance businesses and banks whereas capital markets include trading of stock and bond.	Cihak, Demirguç-Kunt, Feyen, and Levine 2013
Independent Variables		
Macro-economic stability	Consists of national income, unemployment, gross domestic product, economic growth rate, inflation and price levels.	Helen Akers, 2018
Moderating Variables		
Transparency of govt. policies making	Openness, accountability, and honesty in policies are defining government transparency. It enhances the level of trust and confidence in investment	Park and Blenkinsopp (2011) Buehn, Dell'Anno and Schneider (2017)
Effective anti-monopoly policies	Open market competition policies encourage firms to get better firms-competency, increase production volume and also get better the quality of their goods and services. Lifting hurdles to increase competition and business to increase employment situation both at national and international levels and eliminate outstanding limitations on foreign direct investment.	McLeod (2000) Lloyd, P.J. (2000) Thee Kian Wie (2002)
Efficient legal Framework	legal and regulatory framework for attracting private sector investment to improve economic growth and financial development	Shonekan (2011) Adamuet al., (2015)
Control Variables		
Gross domestic product	Gross Domestic Product (GDP) serves as a comprehensive gauge of the entirety of economic activities within a nation. It represents the monetary worth of all finalized goods and services generated within a country during a specific timeframe. Revenue is calculated by (GDP). Analysts measure GDP income as the addition of buyer expenses, government spending, personal investment as well as exports in the country.	Jim Chappelow, (2019) Danielle Kurtzleben, (2014)

Variable	Measurement	Sources of measurement
Trade openness	Imports are as important as exports for *economic progress* in developing countries. The process of trade liberalization enables a more effective distribution of resources by harnessing economies of scale and scope, along with heightened competition Free trade diminishes both taxes and duties in export and import (tariff and non-tariff) to improve the macroeconomic activities and financial growth in the country.	Dollar &Kraay, 2004 Silajdzic, S and Mehic, E (2017)
Market size	It is the capacity of potential buyers and sellers in a specific market segment. It included both domestic and foreign markets. Market size defines the capacity to calculate the potential economic growth in the country.	Jimmy Liew and Maria Vassalou, (2000)

Econometric model

$$FMD = \beta_0 + \beta_1 MES + \beta_2 TGP + \beta_3 AMP + \beta_4 LFW + \beta_5 MESTGP + \beta_6 MESAMP + \beta_7 MESLFW + \beta_8 GDP + \beta_9 MSIZE + \beta_{10} TOP + \varepsilon$$

Whereas

FMD = Financial Market Development
MES = Macro-Economic Stability
TGP = Transparency of Govt. Policies Making
AMP = Effectiveness of Anti-Monopoly Policy
ELFW = Efficiency of Legal Framework
GDP = Gross Domestic Product
MSIZE = Market Size
TOP = Trade Openness

Empirical Results.

Descriptive Statistics

This study has demonstrated the descriptive statistics in the table given below. The table signifies the minimum and maximum values of identified variables. It also shows the mean value and standard deviation values of dependent, independent, moderating as well as control variables. Data consists of over the period of 11 years from 2007-2017. There are 1364 observations for each variable resulting from eleven years of data of 124 countries containing 71 presidential and 53 ceremonial govt. systems from all over the world.

Table 2

Variable	Mean	Std. Dev.	Min	Max
FMD	4.17	0.75	2.13	6.23
MES	4.76	0.90	1	6.84
TGP	4.24	0.78	1.76	6.34
AMP	4.02	0.79	2.21	6.12
LFW	5.59	2.50	0	12
GDP	16589	20590	213	111968
TOP	96.15	82.13	3.71	2164.71
MS	3.91	1.13	1.25	7

The table describes that the average value of financial market development (FMD) is 4.17 with the lowest score of 2.12 from (Mauritania) and the maximum value is 6.23 (Hong Kong SAR, China). This study explains that the average score of MES is 4.76 with the smallest score of 1 from (Zimbabwe) and the highest score is 6.80 (Norway). The data in the table shows that the average value of transparent govt. policies are 4.24 with a lower score is 1.76 (Venezuela, RB) and the highest score is 6.34 (Singapore). The average value of anti-monopoly policies is 4.02 with the smallest score being 2.20 (Venezuela, RB) and the highest score being 6.12 (Germany). The mean value of an efficient legal framework is 5.59 with the smallest score being 0 (Cambodia) and the highest score being 12 (Montenegro). The average score of GDP is 16589 with the lowest score of 213 (Burundi) and the greatest value is 111968 (Luxembourg). The average value of trade

openness is 96.15 with the smallest score of 3.71 (Serbia) and the highest value is 2164.71 (Belgium). The mean value of market size is 3.907113 with the lowest score being 1.247063 (Zimbabwe) and the highest score of market size being 7 (China).

Regression Analysis

This section consists of regression analysis which signifies the statistical results of explanatory variables. Regression is analyzed to calculate the variation in dependent variables due to changes in independent variables and moderating variables. It is a most widely statistical technique to permit scholars to examine the effect of one or more explanatory variables on a predicted variable along with moderating and control variables. It consists of different techniques for modelling and analyzing several variables in this study. Poold OLS, Random Effect Model, Fixed Effect, and GLS Models are used. These models show the result in the form of R^2 "which is a statistical measure that represents the percentage of the variance for a dependent variable that is explained by an independent variable or variables in a regression model".

Table 3

Pooled OLS (Ordinary least square)

	Global		Parliamentary		Presidential	
FMD	Co-efficient	P Value	Co-efficient	P Value	Co-efficient	P Value
MES	.123	0.000	.156	0.000	.095	0.000
TGP	.249	0.000	.196	0.000	.244	0.000
AMP	.361	0.000	.432	0.000	.355	0.000
LFW	.086	0.000	.087	0.000	.083	0.000
MESTGP	.081	0.000	.030	0.332	.065	0.001
MESAMP	-.051	0.005	.025	0.471	-.069	0.000
MESLFW	.025	0.028	.074	0.000	-.005	0.731
GDP	-.000	0.862	-.000	0.243	.000	0.004
TOP	.000	0.058	.000	0.178	.001	0.003
MS	.050	0.000	.014	0.508	.062	0.000
_cons	.327	0.000	.278	0.077	.430	0.000
R-squared	0.7345 or 73%		0.7374 or 74%		0.7261 or 73%	

Pooled OLS Regression Model results show that the R^2 value is about 73% in the global and presidential systems and 74% in the parliamentary system which shows that the explanatory variables explain a substantial level of variation in financial market development. The Table describes the results that at this juncture a positive significant effect of MES on FMD at the global level (β=0.129 and $p<$ 0.01). It has also a positive significant effect in the parliamentary system (β = 0.156 and $p<$ 0.01) and in the presidential system (β = 0.095 and $p<$ 0.01). The results indicate that the countries which make transparent government policies regarding general public matters, it has a positive significant effect on the growth of macroeconomic activities as well as the financial market at the global level (β = 0.249 and $p<$ 0.01). It has also a positive significant effect on the independent and dependent variable in the parliamentary system (β = 0.196 and $p<$ 0.01) and in the presidential system (β = 0.244 and $p<$ 0.01). The result of effective antimonopoly policies shows that the countries where there is competition exists in the market and products/services are delivered to the customers as freely as per their demand it will have a positive significant effect on macroeconomic growth and development of the financial market at the global level (β = 0.361 and $p<$ 0.01), in a parliamentary system (β = 0.432 and $p<$ 0.01) and in the presidential system (β = 0.355 and $p<$ 0.01). The result of an efficient legal framework indicates that the countries where well-organized legal structure exists to protect the interest of investors and support earn more profit domestically as well as internationally, it has also a positive significant effect on MES and FMD at the global level (β = 0.086 and $p<$ 0.01), in parliamentary system (β = 0.087 and $p<$ 0.01) and presidential system (β =0.083 and $p<$ 0.01). The results show that there is a positive significant moderating effect of transparent govt. policies between MES and FMD at global level (β = 0.081 and $p<$ 0.01) and in presidential system (β = 0.065 and $p<$ 0.01). However, it has a positive but insignificant effect on the parliamentary system (β = 0.030 and> 0.1). Data explain that there is a negative but significant moderating effect of anti-monopoly policies between MES and FMD at the global level (β = -0.051 and $p<$ 0.01) and in the presidential system (β = -0.069 and $p<$ 0.01). It has a

positive but not significant effect on the dependent variable in parliamentary systems (β = 0.026 and $p > 0.1$). The table shows there is a positive but significant moderating effect of efficient legal framework between MES and FMD at the global level (β = 0.025 and $p < 0.05$) and in the parliamentary system (β = 0.074 and $p < 0.05$). It has a negative effect on the dependent variable in the presidential system (β = −0.005 and $p > 0.1$). The table also indicates the results of the control variables. The data show that GDP has a negative effect on financial market development at the global level (β = −0.000 and $p > 0.1$) and in the parliamentary system (β = −0.000 and $p > 0.1$). It has a positive and significant effect on the dependent variable in the presidential system (β = 0.000 and $p < 0.01$). The data on trade openness indicates that there is a positive and significant effect on financial market development at the global level (β = 0.000 and $p < 0.1$) and in the presidential system (β = 0.001 and $p < 0.1$). The results show that there is a positive but not significant influence of trade openness on the dependent variable in the parliamentary system (β = 0.000 and $p > 0.1$). The result of market size describes that there is a positive but significant effect on FMD at the global level (β = 0.050 and $p < 0.01$) and in the presidential system (β=0.062 and $p<0.01$). The data show that there is a positive but not significant effect of market size on FMD in parliamentary systems (β=0.014 and $p > 0.1$).

Table 4

Random effect model

	Global		Parliamentary		Presidential	
FMD	Co-efficient	P Value	Co-efficient	P Value	Co-efficient	P Value
MES	.139	0.000	.238	0.000	.086	0.000
TGP	.112	0.000	.054	0.156	.155	0.000
AMP	.316	0.000	.447	0.000	.227	0.000
LFW	.075	0.000	.061	0.000	.083	0.000
MESTGP	−.011	0.473	−.077	0.003	.034	0.044
MESAMP	.046	0.003	.114	0.000	.001	0.944
MESLFW	.031	0.003	.045	0.011	.007	0.568
GDP	.000	0.000	.000	0.372	.000	0.000
TOP	−.000	0.084	−.000	0.266	−.002	0.002
MS	−.082	0.000	−.082	0.048	−.120	0.000
_cons	1.552	0.000	.963	0.000	2.150	0.000
R-squared	0.6764 or 68%		0.6924 or 69%		0.5824 or 58%	

This model describes the R-square value as about 68% at the global level, 69% in the parliamentary system and 58% in the presidential system which illustrates that the explanatory variables explain a substantial level of variation in FMD. The table shows the results that there is a positive but significant effect of MES on FMD at the global level (β = 0.139 and $p < 0.01$). It also has a positive significant effect of the independent variable on the dependent variable in the parliamentary system (β = 0.238 and $p < 0.01$) and in the presidential system (β = 0.086 and $p < 0.01$). The Table describes the results of moderating variables on dependent and independent variables. The data revealed that transparency of effective government policies has a positive significant effect on MES and FMD at the global level (β = 0.112 and $p < 0.01$. It has also a positive and significant effect on dependent and independent variables in the parliamentary system (β = 0.054 and $p < 0.01$) and in the presidential system (β = 0.155 and $p < 0.01$). Data about efficient antimonopoly policies at the global level show, there is a positive significant effect of effective antimonopoly policies on macroeconomic growth and FMD (β = 0.316 and $p < 0.01$), in the parliamentary system (0.447 and $p < 0.01$ and the presidential system (0.227 and $p < 0.01$). The result of the efficient legal framework indicates that a well-organized legal structure has also a positive and significant effect on MES and FMD at the global level (β = 0.075 and $p < 0.01$). It has also a positive and significant effect on MES and FMD in the parliamentary system (β = 0.061 and $p < 0.01$) and in the presidential system (β = 0.083 and $p < 0.01$). The table also describes that there is an insignificant effect of transparent govt. policies between MES and FMD at the global level (β = −0.011 and $p > 0.1$) and has a negative but significant effect in the parliamentary system (β = −0.077 and $p < 0.01$). In the presidential system, it has a positive significant effect between explanatory and outcome variables (β = 0.034 and $p < 0.05$). Data explain that there is a significant effect of antimonopoly policies between MES and FMD at the global level (β = 0.046 and $p < 0.01$) and in the parliamentary system (β = 0.114 and $p < 0.01$). In

presidential systems, it does not have a significant effect between MES and FMD (β = 0.001 and p> 0.1). There is a positive significant moderating effect of efficient legal framework between MES and FMD at the global level (β = 0.003 and p< 0.05) and in the parliamentary system (β = 0.045 and p< 0.05). There is an insignificant effect between the dependent and independent variables in the presidential system (β = 0.007 and p> 0.1). In the case of control variables on the dependent variable. The results indicate that GDP has a positive but significant effect on FMD at the global level (β = 0.000 and p< 0.01) and in the presidential system (β = 0.000 and p< 0.01). It has no significant effect on the dependent variable in the parliamentary system (β = 0.000 and p> 0.1). Trade openness shows a negative significant effect on FMD at the global level (β = -0.000 and p< 0.1) and in presidential systems (β = -0.002 and p< 0.1). While in the parliamentary system, the results show an insignificant effect of trade openness on FMD (β = -0.000 and p> 0.1). The result of market size indicates a negative significant effect on FMD at the global level (β = -0.082 and p< 0.05), in the parliamentary system (β = -0.082 and p< 0.05) and in the presidential systems (β = -0.120 and p< 0.05).

Comparison of Pooled OLS Model & Random Effect Model

Table 5

Breusch and pagan lagrangian multiplier test for random effects

	Global	Parliamentary	Presidential
chibar2(01)	2019.35	722.0	1266.70
Prob > chibar2	0.0000	0.0000	0.0000

After contrasting the data between the Pooled OLS Model and the Random Effect Model, the findings indicate that the Random Effect Model outperforms the Pooled OLS Model, primarily due to the random effect model having a probability of less than 0.01.

Table 6

Fixed effect model

	Global		Parliamentary		Presidential	
FMD	Co-efficient	P Value	Co-efficient	P Value	Co-efficient	P Value
MES	.143	0.000	.258	0.000	.082	0.000
TGP	.086	0.000	.046	0.258	.120	0.000
AMP	.279	0.000	.408	0.000	.206	0.000
LFW	.070	0.000	.058	0.000	.080	0.000
MESTGP	-.011	0.477	-.075	0.003	.037	0.022
MESAMP	.060	0.000	.126	0.000	.015	0.340
MESLFW	.027	0.010	.033	0.058	.001	0.957
GDP	.000	0.832	-.000	0.721	.000	0.856
TOP	-.000	0.014	-.000	0.152	-.004	0.000
MS	-.415	0.000	-.505	0.000	-.403	0.000
_cons	3.225	0.000	2.863	0.000	3.849	0.000
R-squared	0.1700 or 17%		0.1871 or 19%		0.0192or 2%	

The results indicate that the R-square value is about 17% at the global level, 19% in the parliamentary system and 2% in the presidential system which indicate that the explanatory variables explain the substantial level of variation in FMD. This table result shows a positive significant effect of MES on FMD at the global level (β = 0.143 and p< 0.01). It has also a positive significant effect of the independent variable on the dependent variable in the parliamentary system (β = 0.258 and p< 0.01) and in the presidential system (β = 0.082 and p< 0.01). The table also describes that there is a positive and significant effect of transparent govt. policies on MES and FMD at global level (β = 0.086 and p< 0.01), in presidential system (β = 0.120 and p< 0.01). While in a parliamentary system, it has an insignificant effect on MES and FMD (β = 0.046 and p> 0.1). The data of efficient antimonopoly policies at the global level revealed a positive significant effect on MES and FMD (β = 0.279 and p< 0.01). It has also a positive but significant effect on the dependent and independent variables in the parliamentary system (β = 0.408 and p< 0.01), and in presidential systems (β = 0.206 and p< 0.01).

The result of an efficient legal framework indicates that effective legal structure has a positive significant effect on MES and FMD at the global level (β = 0.070 and p< 0.01), in the parliamentary system (β = 0 0.058 and P < 0.01) and in the presidential system (β = 0.080 and p< 0.01). The results revealed that there is an insignificant moderating effect of transparency of govt. policies between MES and FMD at the global level (β = −0.011 and p> 0.1). The result shows a significant effect in the parliamentary system (β=−0.075, p< 0.01) and in the presidential system (β=0.037, p< .05). The data show that there is a positive but significant moderating effect of effective antimonopoly policies between MES and FMD at the global level (β = 0.060 and p< 0.01) and in the parliamentary system (β = 0.126 and p< 0.01). It has no significant effect in presidential systems (β = 0.015 and p> 0.1). The results revealed that there is a positive and significant effect of efficient legal framework between MES and FMD at the global level (β = 0.027 and p< 0.01). It has an insignificant effect in the parliamentary system (β = 0.033 and p> 0.1) and in presidential systems (β = 0.001 and p> 0.1). In the case of control variables on FMD. The results show that GDP has an insignificant effect on FMD at the global level (β = 0.000 and p> 0.1) and in the presidential system (β = 0.000 and p> 0.1). It has also an insignificant effect on the dependent variable in the parliamentary system (β = −0.000 and p> 0.1). The data on trade openness show that there is a negative and significant effect on financial market growth at the global level (β = −0.000 and p< 0.01) and in the presidential system (β = −0.000 and p< 0.01). In the parliamentary system, trade openness has no significant effect on FMD (β = −0.000 and p> 0.1). The result of market size indicates a negative but significant effect of market size on FMD at the global level (β = −0.415 and p< 0.01), in the parliamentary system (β = −0.505 and p< 0.01) and in the presidential system (β = −0.403 and p< 0.01).

Table 7

Comparison of random effect model & fixed effect model

	Global	Parliamentary	Presidential
chi2 (9)	153.01	44.82	107.73
Prob > chibar2	0.0000	0.0000	0.0000

The Hausman test is conducted to select between the Random Effect Model and the Fixed Effect Model, and the outcomes suggest that the Fixed Effect Model is superior in comparison to the Random Effect Model, given that the probability associated with the fixed effect model is below 0.01.

Table 8

Modified wald test

	Global	Parliamentary	Presidential
chi2 (9)	8401.20	2730.69	6840.00
Prob > chibar2	0.0000	0.0000	0.000

In panel data, there is an issue of autocorrelation where p Value < 0.05. There are different ways to detect the issue of autocorrelation with different statistical tools. However, the Wooldridge test has been used to evaluate the autocorrelation in the results. As the p Value < 0.05 use the Modified Wald test for group-wise to detect heteroskedasticity in the fixed effect regression model.

Table 9

Prais-Winston regression, correlated panels corrected standard errors (PCSEs)

	Global		Parliamentary		Presidential	
FMD	Co-efficient	P Value	Co-efficient	P Value	Co-efficient	P Value
MES	.106	0.000	.154	0.000	.067	0.002
TGP	.143	0.003	.101	0.094	.159	0.000
AMP	.287	0.000	.361	0.000	.249	0.000
LFW	.087	0.000	.089	0.000	.085	0.000
MESTGP	.026	0.054	.002	0.954	.025	0.041
MESAMP	.010	0.548	.065	0.024	-.017	0.257

MESLFW	.021	0.006	.024	0.106	.017	0.057
GDP	.000	0.002	.000	0.098	.000	0.000
TOP	.000	0.680	.000	0.998	.001	0.020
MS	.013	0.624	-.003	0.936	.028	0.327
_cons	1.293	0.000	1.018	0.000	1.401	0.000
R-squared	0.9117 or 91%		0.9120or 91%		0.9150 or 92%	

According to the result of the Prais-Winsten Regression, the R-square value is about 91% at the global level and in the parliamentary system and 92% in the presidential system which indicates that the explanatory variables explain a substantial level of variation in FMD. The table shows the results that there is a positive and significant effect of MES on FMD at the global level (β = 0.106 and p< 0.01). It has also a positive significant effect of the independent variable on the dependent variable in the parliamentary system (β = 0.154 and p< 0.01) and in the presidential system (β = 0.067 and p< 0.01) which indicates that there are more saving and investment in those countries where macroeconomic activities are higher as compared to the other countries. Higher FMD leads to the strengthening of the MES due to an efficient financial system to promote domestic and foreign investment in the country. Table findings revealed also describe that there is a positive and significant effect of transparent govt. policies on MES and FMD at global level (β = 0.143 and p< 0.01), in presidential system (β = 0.101 and p< 0.01). While in the parliamentary system, it has also a significant effect on MES and FMD (β = 0.159 and p< 0.01). The data show that transparent and effective government policies have positive results on the expansion of the financial market and macroeconomic growth in the country. Efficient government policies also have good results to increase local as well as foreign direct investment in the economy. This indicates that transparency in govt. policies regarding general public matters have resulted to increase the trust of investors on govt. institutions. It is also formulated to protect the benefits of investors as well as the general public. The result of efficient antimonopoly policies revealed that there is a positive and significant effect on MES and FMD at the global level (β = 0.287 and p< 0.01). It has also a positive but significant effect on the dependent and independent variables in the parliamentary system (β = 0.408 and p< 0.01) and in the presidential system (β = 0.206 and p< 0.01). The data shows that open market policies promote competition among investors that result in increased economic activities in the country. Effective anti-monopoly policies have a good impact to promote the financial system and economic stability in the country. It is designed to defend competition between independent buyers and sellers in unorganized markets. The result of an efficient legal framework indicates that effective legal structure has a positive and significant effect on MES and FMD at the global level (β = 0.087 and p< 0.01), in the parliamentary system (β = 0.089 and p< 0.01) and in the presidential system (β = 0.085 and p< 0.01). This result shows that efficient rules and regulations in the country have strengthened the economic conditions of the country and well-managed the financial system of the economy. Well-organized rules and regulations in the country attract domestic as well as foreign investors to protect their investment and business activities in the country. The results also describe that there is a significant moderating effect of transparency of govt. policies between MES and FMD at global level (β = 0.026 and p< 0.1) and in presidential system (β = 0.025 and p< 0.05). The result shows that insignificant effect in the parliamentary system (β = 0.002 and p> 0.1). The data shows an insignificant moderating effect of effective antimonopoly policies between MES and FMD at the global level (β = 0.010 and p > 0.1) and in the presidential system (β = -0.017 and p> 0.1). It has a significant effect on the parliamentary system (β = 0.065 and p< 0.05). The results revealed that there is a positive but significant moderating effect of efficient legal framework between MES and FMD at the global level (β = 0.021 and p< 0.01) and in presidential systems (β = 0.017 and p< 0.1). It has no significant effect in the parliamentary system (β=0.024 and p> 0.1).

The table also describes the results of control variables on FMD. The results show that GDP has a significant effect on FMD at the global level (β = 0.000 and p< 0.01) and in the parliamentary system (β = 0.000 and p< 0.1). It has also a significant effect on the dependent variable in the presidential system (β = 0.000 and p< 0.01). GDP is the main indicator to measure the economic conditions of the country. This result shows that higher GDP indicates more economic stability and a well-organized financial system in the country. The data on trade openness show that there is a positive but not significant effect on financial market growth at the global level (β = 0.000 and p> 0.1) and in the parliamentary system (β = 0.000 and p< 0.1). In the presidential system, trade openness has a significant effect on FMD (β = 0.001 and p< 0.05). Trade openness is the elimination or decreasing the limitations or

hurdles that are faced by investors in the easy trading of goods and services between countries. This result shows that a large ratio indicates more the country is forwarding to international trade. The result of market size indicates that there is an insignificant effect of market size on FMD at the global level (β = 0.013 and $p>$ 0.1). It has also an insignificant effect on the dependent variable in the parliamentary system (β = −0.003 and $p>$ 0.1) and in the presidential system (β = 0.028 and $p>$ 0.01). Market size indicates potential buyers and/or sellers of a product or service before introducing a new product or service in a specific location. Thus, this result indicates that greater the capacity of buyers and sellers in the market has no positive impact on the macroeconomic environment and financial strengthening in the country.

Conclusion of Study

There are numerous parts of this study. Firstly, this study examined the effect of macroeconomic stability (MES) on financial market development (FMD). Secondly, this study analyzes the moderating effect of transparent govt. policies, effective antimonopoly policies and efficient legal framework to make ensure their role in the growth of macroeconomic activities and strengthening the financial system. The results supposed that supported macroeconomic activities like employment level, standards of living, national income level, inflation rate etc. can influence the development of the financial market in the economy. When there are more savings in the economy due to a high level of income with a high employment ratio and these savings are further invested into more fruitful projects that earn more profit. It results in the enlargement of the financial system of the economy. The positive result for the moderating role of transparent govt. policies conclude that openness and honesty in the govt. policies can result in to increase the level of trust and confidence of investors at domestic as well as internationally. It results to increase financial growth in the economy. The study concludes the result moderating role of efficient antimonopoly policies indicates that open market competition policies encourage firms to get better of firms competency, increase production volume and also get better the quality of their goods and services. Furthermore lifting hurdles to increase competition and business to increase employment situation both at national and international levels and eliminate outstanding limitations on foreign direct investment. It increases the growth of macroeconomic activities and expands the financial market in the economy. The moderating role of efficient legal framework indicated that legal and regulatory framework provides the legal security for attracting private sector investment to improve economic growth and financial development in the economy.

Limitation of Study

This study makes an effort to provide a logical analysis of the determinants of FMD that how the MES and other moderating variables influence financial development in the economy. On the other hand, every study has its restrictions to accomplish moral thought, these limitations should be acknowledged in order to disclose an explanation of the conclusions based on solid reasons.

1. This study has considered 125 countries out of 195 from all over the world. This study was not able to collect the relevant data from some countries. Whereas, the data of some counties relating to the explanatory variables are not available as a secondary source. Therefore, this study examined the results of those countries for which data was available in the Global Competitive Index and World Bank reports.
2. This study has examined the determinants of financial market development and the moderating role of transparent govt. policies, antimonopoly policies and efficient legal framework of these countries over the period of 2011–2017. Whereas, there are some critical factors like security matters, political instability etc. that also influence the growth of macroeconomic activities and strengthen the financial system of the economy.
3. In this study, endogeneity issues exist which can also affect the validity of our estimates.

Future Recommendation

This study presents clear suggestions to guide future studies.

1. Future study is required to analyze the macroeconomic stability and financial growth along with various other moderating variables that can also influence the development of the financial market.
2. The study can be explored to further categorise into developing and developed countries.
3. The current study investigates only the specific explanatory variables. To analyze the financial market development at a wide range, other variables like product market efficiency.

Technological readiness etc. must be considered for better results.

4. This study has used some specific models of regression analysis for panel data.
5. To acquire more realistic results and eliminate the issue of endogeneity, 2LS and GMM models of regression analysis should be tested.

Policy Implication

There are numerous essential implications of this study particularly for policymakers, investors, and researchers. Therefore, this study has divided this part into two sections i.e. theoretical implications and practical implications.

Macroeconomic indicators explain the direction of the economy which is helpful for the domestic as well as foreign investors to invest into more profit-earning projects. It also identifies the honesty as well as the loyalty of the government to the improvement of the standard of living of the common man in society. This study identified that an increase in per-capital income results in to increase in the saving ratio for the general public which ultimately effect to provide more funds for the business to attain constant and long-standing economic prosperity in the country. Healthy economic situations are verified to improve the financial system in the country.

Furthermore, the results for the moderating role of transparent govt. policies can also helpful for new investors to expand their business activities in the country. It gives the direction to the investors to invest in the projects that earn more profit and the businessmen are clear about the economic policies of the government. Transparency in the govt. policies also give optimism to make more investments in various profitable projects Market competition policies are also helpful to boost the business activities in the economy. It ultimately results to build up the financial system of the country. China's basic reforms in market competition policies like AML (Anti-Monopoly Law) result in sustainable economic growth with the help of economies of scale as well as scope. An effective legal framework gives surety to investors about the safety of their investments. Therefore, effective legal documentation gives more protection to investors regarding future investments. More investment in the country results to enhance the macroeconomic activities which finally enlarges the financial market development.

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