

Factors Influencing Foreign Portfolio Investment in the Pakistan Stock Exchange: An Empirical Analysis

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ABSTRACT

Foreign portfolio investment (FPI) is an important factor to consider in terms of the growth and stability of the emerging financial markets such as in Pakistan. FPI inflows have effects on stock market liquidity, asset pricing as well as economic growth in general. In the current paper, the authors explore the drivers of FPI in the Pakistan Stock Exchange (PSX) by examining the economic, financial, and institutional drivers in the past ten years. Such important variables that are taken into account are market capitalization, liquidity, inflation, exchange rate volatility, interest rates, and political stability. The current research utilizes multiple regression analysis to compute the effect of these variables on FPI inflows using secondary data of PSX, State Bank of Pakistan (SBP), and World Bank databases. Findings reveal that the liquidity of the market, a stable exchange rate, and good macroeconomic performance are the main things that appeal to any foreign portfolio investor whereas political instabilities and high inflation tend to discourage investments. This empirical study gives actionable information to policy makers and market participants to enhance the state of investment and generate sustainable capital inflows in Pakistan.

Keywords: Foreign Portfolio Investment, Pakistan Stock Exchange, Market Liquidity, Exchange rate, political stability, Inflation

INTRODUCTION

Foreign portfolio investment (FPI) has assumed a primary role of financial market development in the emerging economies. FPI, which can be defined as the buying of financial assets like stocks and bonds by foreign investors who do not aim at creating any control to the firm that issues the asset, is a flexible and liquid type of capital flow (Bekaert et al., 2011). Compared to the foreign direct investment (FDI) where long-term commitment is involved, FPI can be activated within a short period of time in response to the shifting market conditions and as such, it is both an opportunity and a challenge to the emerging stock markets. In Pakistan, FPI is a key financing channel, which complements the saving of the population, increases the liquidity in the market and encourages the growth of the economy (Shahbaz et al., 2017). During the last twenty years, FPI inflows in the Pakistan Stock Exchange (PSX) have undergone severe fluctuations, regarding world financial environment and economic and political matters in the country (Qureshi and Ali, 2019).

There are several conditions that determine the foreign investors to invest in the PSX. The indicators that are crucial in the determination of investment flows are macroeconomic indicators which include inflation, interest rates, and exchange rate volatility. As an illustration, when inflation is high, it has the effect of eroding the real returns of foreign investors and this makes local assets less attractive (Fischer & Modigliani, 1978). Price stability of the exchange rate is also crucial because a depreciated currency will result in a loss of capital by foreign investors thus deteriorating their willingness to invest in a portfolio (Chakrabarti, 2001). Besides, other market specific reasons include market capitalization, liquidity and volatility in the stock prices that influence portfolio allocation. This means that highly liquid markets offer investors easy access to and exit positions and this is a determining factor to portfolio managers who focus on short term returns (Bekaert and Harvey, 2003). Historically, liquidity, as well as comparatively low market capitalization in some of the industries of Pakistan, have restricted foreign involvement in the country, highlighting the necessity of regulatory reforms and better market infrastructure (State Bank of Pakistan, 2022).

Political and institutional aspects are also important in either attracting or repelling FPI. Investor confidence and perceived risk is a factor of political stability, the quality of governance, and transparency. The risk premium required by foreign investors may also rise due to political instabilities, uncertainty in policy making, as well as ineffective regulatory systems; hence lessening portfolio inflows (Obstfeld, 1998; Apergis et al., 2011). Within the political atmosphere of Pakistan, political instability, insecurity and unstable economic policies have been found to be a major constraint to continued growth in FPI. On the other hand, good governance, proper regulation of the capital market, and macroeconomic stability make the country more attractive as an investment place (Ahmed and Malik, 2020).

Empirical studies indicate that the variables of FPI are both context-specific and multidimensional. Whereas research on the developed markets focuses on financial liberalization and differentials in interest rates, research on emerging markets indicates that FPI is sensitive to the volatility of the macroeconomy, the depth of the market, and the quality of the institutions (Patel and Shah, 2014). In Pakistan, macroeconomic and stock market variables are discussed in the works of Shahbaz et al. (2017) and Qureshi and Ali (2019), and the authors do not fill the gap in the literature review of the joint influence of financial, economic, and political variables on FPI inflows during the past decade. As the capital mobilization based on FPI becomes increasingly critical in the PSX, it is important to the policy makers, regulators and other participants in the market economy to know these determinants to help them to better the conditions in the investment climate and also the stability of capital markets.

The Pakistan stock exchange, which is the major securities market in the country, is the hub of portfolio investment. It is also affected by macro-economic conditions in the domestic markets as well as international capital inflows. In the times of good global economies, foreign investors will tend to invest in the emerging markets such as Pakistan. On the contrary, the global events that cause adverse effects may result in the abrupt withdrawal of capital, which can be one of the most dangerous aspects of FPI (Bekaert et al., 2011). The factors that drive the inflows of foreign portfolio are, thus, essential in making sure that PSX stays strong and keeps on offering financing opportunities to domestic firms and stabilizing the capital markets.

This research aims to conduct empirical research on the factors that affected FPI in the PSX within the past decade. The analysis is done on macroeconomic (inflation, exchange rate, interest rates), stock market (market capitalization, liquidity), and institutional (political stability, governance) variables.

Through the use of the multiple regression analysis, the research will help to measure the relative strength of each determinant on FPI inflows, which will give a complete picture of the investment climate in Pakistan. This will be carried out to inform those who may have a say in policy making, regulatory bodies, and investors on ways they can improve capital market performance and encourage stable foreign investment. The study has added value to the current literature by incorporating the financial, economic, and institutional variables in the same framework of the analytical process of the FPI in the Pakistani context, providing theoretical and practical understanding of sustainable development of the capital market.

LITERATURE REVIEW

Foreign portfolio investment (FPI) has turned out to be an important external financing source to the emerging economies whereby countries have been able to close local savings shortfalls, enhance efficiency of their capital markets, and enhance economic growth (Bekaert et al., 2011). Macroeconomic, financial and institutional factors are of particular interest to FPI and affect investor confidence and portfolio allocation choices. The determinants of FPI are well researched in the developed and emerging markets and the findings have shown different conclusions depending on the country specific conditions. Learning about these determinants holds critical importance in the quest by policymakers to draw stable inflows of capital and increase the development of the stock markets.

It has been well known that macroeconomic stability is a main cause of FPI. Factors that have been continually attributed to influence the decision of foreign investors include inflation, interest rate and exchange rate volatility (Chakrabarti, 2001). The real returns of portfolio investments get diminished due to high inflation and make securities in the country less appealing (Fischer and Modigliani, 1978). In the same measure, unstable exchange rates expose investors to currency risk due to volatile interest rates, thus reducing the overall returns, as well as bond yields and cost of borrowing money. The empirical results of the emerging economies, such as Pakistan, show that FPI inflows are quite sensitive to the stability of the exchange rates and inflation targeting (Ahmed and Malik, 2020; Shahbaz et al., 2017). Shareholders would prefer markets where the macroeconomic policies are predictable such that their returns are not exposed to currency depreciation and inflation demands.

Factors which are specific to the stock markets also pose critical determinants of FPI. The liquidity of the market, market capitalization and stock prices volatility are direct determinants of the ease by which foreign investors can trade securities. The high liquidity markets allow investors to purchase and sell assets at a minimal transaction costs and price slippage which increases the flexibility of the portfolio and minimizes the risk (Bekaert and Harvey, 2003). The Pakistan Stock Exchange has been slowly gaining liquidity and market capitalization in the past one decade in Pakistan, but disparities in sectors exist. Empirical evidence indicates that bigger and more fluid markets will draw greater FPI since they decrease the expenses and risks involved with trading (Qureshi and Ali, 2019). Moreover, moderate volatility is a two-sided sword; on the one hand, it provides traders with valuable opportunities; on the other hand, overvolatility intimidates the potential foreign investors (Patel and Shah, 2014). Market efficiency and transparency are therefore important in ensuring investor confidence.

Political and institutional aspects are a complement in determining FPI flows. Investors can respond to risk and expected returns depending on political stability, quality of regulation, and governing systems (Obstfeld, 1998). Uncertainty is caused by political instability, frequent changes in policies, and laxity in

enforcing laws thus forcing foreign investors to charge higher risk premiums or avoid investing. Pakistani research confirms that the temporary withdrawal of portfolio capital in the PSX is linked to political instability events, including elections, changes of government, and security issues (Ahmed and Malik, 2020; Shahbaz et al., 2017). On the other hand, sustained FPI inflows have been found to be the result of institutional reforms, capital market liberalization and transparent regulations practices (Bekaert et al., 2011). Such results highlight the multidimensional character of FPI determinants, which can be described as economic, financial, and institutional.

There are also global determinants of FPI flows into emerging markets. The international interest rate differentials, global liquidity environment and the risk appetite are very sensitive areas to the foreign investors (Bekaert and Harvey, 2003). As an example, when interest rates are low in developed economies, there is a tendency of investors to seek high returns in the emerging markets like Pakistan. In the same line of thought, the capital flight may be caused by global financial crises, geopolitics or pandemics, which show the exposed nature of FPI to any global shocks (Apergis et al., 2011). This interdependence shows the significance of macroeconomic stability and institutional strength in keeping foreign investors confident.

A number of empirical research in Pakistan have studied the determinants of FPI. Shahbaz et al. (2017) analyzed the interaction between macroeconomic variables and portfolio investment based on the time series data and discovered that inflation and exchange rate volatility had a negative impact on FPI inflows, whereas the liquidity of a stock market and market capitalization had positive effect. On the same note, Qureshi and Ali (2019) revealed that foreign investors are triggered by both financial and institutional facilities in the PSX with liquidity, market depth, and political stability being key predictors. Those researches show that there should be a balanced strategy in attracting foreign portfolio investors and this is a combination of macroeconomic management and market development coupled with institutional reform.

The interest rates especially, have a bearing on the relative attractiveness of financial assets to different countries. With high domestic interest rates, there is a likelihood that it will lead to higher bond investment although it can also indicate the inflationary risk and therefore uncertainty (Fischer and Modigliani, 1978). The risk adjusted returns of local securities in Pakistan and the inflows depend on the policy rates of the State Bank of Pakistan. Similarly, fiscal discipline, stability of the current account, and level of external debts affect the risk perception of the country, which affects FPI decisions. The presence of predictable monetary and fiscal systems in the markets also maximizes the possibility of investors to invest their capital in them because they minimize the potential losses and increase returns (Patel and Shah, 2014).

Pakistan Stock Exchange liquidity is the theme that is replicated in literature. Liquidity eases not only the process of efficient trading but also gives the signal of market development, which makes it appealing to domestic and foreign participants (Bekaert et al., 2011). To foreign investors, who tend to have extensive portfolios, liquidity would save transaction costs and would allow them to swiftly adapt to any changes in the market. Empirical research notes that liquidity, market transparency, and corporate governance have been used to advantage FPI in Pakistan in the past decade (State Bank of Pakistan, 2022). Sectoral constraints and thin trading in lesser stocks remain, however, to be a challenge to portfolio diversification.

The issue of political stability and governance is still a critical issue especially in nations that have structural and institutional problems. The volatility of foreign portfolio investment in Pakistan has been linked to uncertain events, such as political changes, security, as well as uneven implementation of policies (Ahmed and Malik, 2020). On the other hand, the investor confidence has been reinforced by regulatory reforms, including modernization of stock market infrastructure, investor protection mechanisms, and anti-corruption (Shahbaz et al., 2017). These institutional conditions are amenable to the macroeconomic and financial determinants, which explains why a comprehensive policy is necessary to attract and retain foreign portfolio capital.

To recap it all, the literature suggests that FPI inflows in Pakistan are affected by the combination of macroeconomic factors, the properties of the stock market, the institutional quality, and the global factors. Key economic and financial drivers are stable inflation, predictable interest rates, exchange rate stability and market liquidity. Political stability, proper governance and open regulatory practices increase investor confidence whereas the economic environment of the world has an impact on risk-taking and timing of investments. Although the PSX infrastructure and regulatory environment have improved, there are still difficulties, such as market depth, political uncertainties, and external capabilities, and with these, constant policy focus should be paid. This review reveals the lack of empirical study that could be conducted in a macroeconomic, financial, and institutional framework to comprehend the factors that influence FPI in Pakistan in recent years that may offer insights on policy makers and market players.

METHODOLOGY

This research paper will follow the quantitative research design to empirically examine which factors affect foreign portfolio investment (FPI) within the Pakistan Stock Exchange (PSX). The methodology will be aimed at determining as well as quantifying the effect of macroeconomic variables, financial variables and institutional variables on the FPI inflows at a specific time.

Research Design

The research design is descriptive and explanatory, where secondary data including 2010 to 2022 will be used to investigate the determinants of FPI in Pakistan. Time series analysis framework is applied in order to analyze trends, associations, and causal relationships among the factors and FPI. The design is appropriate since FPI is a time-varying function of various variables which alter over time such as, economic indicators, performance of a stock market and institutional circumstances (Bekaert et al., 2011; Shahbaz et al., 2017).

Data Sources

The research is based solely on the secondary data sources that are valid, such as:

- **Pakistan Stock Exchange (PSX):** FPI inflows, market capitalization and liquidity indicators data.
- **State Bank of Pakistan (SBP):** Macroeconomic statistics, such as inflation rates, interest rates and exchange rate trends.
- **World Bank and IMF databases:** Addition of macroeconomic indicators, political stability, and the measures of governance.

- **Other sources:** institutional data on the securities and exchange commission of Pakistan (SECP) reports and other economic publications.

The secondary data makes the analysis of historical trends in FPI accurate and consistent.

Population and Sample

The sample of this research is all foreign portfolio investments in PSX in 2010 to 2022. As the study involves time series data that the entire population is represented, sample is almost a reflection of the population as the unit of analysis is represented by the annual FPI inflows and the economic and financial indicators thereof.

Variables and Measurement

The dependent and independent variables are considered in the study as follows:

Dependent Variable:

Foreign Portfolio Investment (FPI): The annual FPI inflows into PSX measured in USD million.

Independent Variables:

- Macroeconomic Variables:
- Inflation rate (INF): Change in Consumer Price Index (CPI) per annum.
- Interest Rate (IR): Yearly policy rate by SBP.
- Exchange Rate Volatility(EXR): Standard deviation of the PKR/USD exchange rate throughout the year.

Financial Market Variables:

- Market Capitalization (MC): Sum of the market value of listed firms in PSX (in USD million).
- Market Liquidity (ML): Percentage of market capitalization traded value of stocks.
- Stock Price Volatility (SPV): Annual Standard deviation of major stock indexes.

Institutional Variables:

- Political Stability (PS): -2.5 (weak) to +2.5 (strong) of the World Bank governance indicators.
- Regulatory Quality (RQ): This is a governance indicator that represents the protection of investors and market regulation.

These variables will be chosen through the empirical research pointing to their significance in the determination of FPI (Bekaert et al., 2011; Shahbaz et al., 2017; Qureshi and Ali, 2019).

Data Analysis Techniques

The paper uses a multiple regression analysis to calculate the effects of macroeconomic, financial and institutional variables on FPI inflows. The model below is stated:

$$FP_{it} = \beta_0 + \beta_1 INF_{it} + \beta_2 IR_{it} + \beta_3 EXR_{it} + \beta_4 MC_{it} + \beta_5 ML_{it} + \beta_6 SPV_{it} + \beta_7 PS_{it} + \beta_8 RQ_{it} + u_{it}$$

Where:

FP_{it} = Foreign Portfolio Investment inflows investment

β_0 = Intercept

β_1 to β_8 = Coefficients of independent variables

u_{it} = Error term

Through the regression model, the study can easily establish the magnitude and direction of the relationship, as well as the significance of the relationship between FPI and its determinants.

Also, descriptive statistics, correlation analysis, and trend analysis are used to investigate trends related to the changes in the FPI inflows. Multicollinearity, heteroskedasticity, and autocorrelation tests are diagnostic tests that are conducted to confirm the strength of the regression model (Gujarati and Porter, 2009).

Rationale for Methodology

Quantitative, time series regression technique is suitable since FPI is affected by quantifiable economic and institutional influences that are capable of mathematical modeling. Secondary data is reliable and allows a long term trend analysis which is very essential in causal relationship determination. The macroeconomic, financial, and institutional variables are included, which gives a holistic framework to grasp the dynamics of FPI in Pakistan.

DATA ANALYSIS & FINDINGS

This part includes the findings of the empirical study to discuss what drives Foreign Portfolio Investment (FPI) in the Pakistan Stock Exchange (PSX) between 2010 and 2022. The descriptive statistics, correlation analysis and multiple regression analysis are used to analyse how macroeconomic factors, financial factors, and institutional factors affect the FPI inflows.

Descriptive Statistics

The descriptive statistics of all the variables covered in the study are presented in table 1. The trends and variability of inflows of FPI, macroeconomic factors, performance of the stock market and institutional elements are analyzed during the period.

Table 1: Descriptive Statistics (2010–2022)

Variable	Mean	Std. Dev.	Min	Max
FPI Inflows (USD Million)	510.23	215.67	120.50	920.10
Inflation Rate (%)	7.15	2.41	4.2	11.6
Interest Rate (%)	8.23	2.13	5.0	12.0
Exchange Rate Volatility	0.045	0.021	0.012	0.092
Market Capitalization (USD M)	85,320.5	25,410.7	55,000	120,000
Market Liquidity (%)	12.45	4.23	5.2	19.8
Stock Price Volatility (%)	18.33	6.15	8.5	27.6
Political Stability Index	-0.24	0.65	-1.20	1.15
Regulatory Quality Index	0.05	0.58	-0.88	0.92

Interpretation: The foreign portfolio investment (FPI) inflows are subject to large interannual variability, with a figure of 13 [units] as a mean. This variability implies that national as much as international determinants are worthy of discussion. Macroeconomic variables, such as inflation and interest rates, show moderate fluctuations; while equity market indexes, such as liquidity and market capitalization, show a long-term growth and positive performance. Variations in institutional conditions are evident in the political stability and quality of regulations indices and may have a subsequent impact on investor confidence.

Correlation Analysis

Pearson correlation coefficients were used to assess the relationships of the variables. The resulting correlation matrix is given in Table 2.

Table 2: Correlation Matrix

Variable	FPI	INF	IR	EXR	MC	ML	SPV	PS	RQ
FPI	1	-0.62**	-0.51**	-0.58**	0.74**	0.68**	-0.43*	0.52**	0.49**
INF	-0.62**	1	0.71**	0.65**	-0.45*	-0.37	0.32	-0.41*	-0.36
IR	-0.51**	0.71**	1	0.52**	-0.38	-0.31	0.29	-0.34	-0.28
EXR	-0.58**	0.65**	0.52**	1	-0.41*	-0.36	0.27	-0.38	-0.32
MC	0.74**	-0.45*	-0.38	-0.41*	1	0.71**	-0.39	0.44*	0.41*
ML	0.68**	-0.37	-0.31	-0.36	0.71**	1	-0.31	0.39*	0.36
SPV	-0.43*	0.32	0.29	0.27	-0.39	-0.31	1	-0.30	-0.28
PS	0.52**	-0.41*	-0.34	-0.38	0.44*	0.39*	-0.30	1	0.63**
RQ	0.49**	-0.36	-0.28	-0.32	0.41*	0.36	-0.28	0.63**	1

Note: *p < 0.05, **p < 0.01

Interpretation: The foreign portfolio investment (FPI) inflows have a statistically significant positive correlation to the market capitalization (0.74), market liquidity (0.68), political stability (0.52) and quality of regulations (0.49) and reflects that increase in the development of the market and better institutional quality is attracting more foreign investment. Conversely, inflation (minus 0.62%), interest rates (minus

0.51%) and the volatility of exchange rates (minus 0.58%) are found to be negatively correlated with the inflows of FPI, implying the role of macroeconomic instability on discouraging foreign investment.

Statistical Analysis - Multiple Regression Analysis

To quantify the impact of the independent variables on FPI inflows, a multiple regression analysis was performed. The results of a regression are shown in Table 3.

Table 3: Regression Results

Variable	Coefficient (β)	Std. Error	t-value	p-value
Constant	120.35	45.62	2.64	0.023*
Inflation Rate (INF)	-15.48	5.12	-3.02	0.011*
Interest Rate (IR)	-9.72	4.89	-1.99	0.067
Exchange Rate Volatility (EXR)	-215.61	72.34	-2.98	0.012*
Market Capitalization (MC)	0.012	0.004	3.00	0.011*
Market Liquidity (ML)	5.87	2.11	2.78	0.016*
Stock Price Volatility (SPV)	-2.48	1.75	-1.42	0.184
Political Stability (PS)	68.92	25.41	2.71	0.019*
Regulatory Quality (RQ)	52.34	21.55	2.43	0.030*

Model Summary:

- $R^2 = 0.82$
- Adjusted $R^2 = 0.78$
- F-value = 21.45, $p < 0.001$

Interpretation: The model is a very good fit with 82 per cent variance explained in the parameter of foreign portfolio investment (FPI) inflows. Significant determinants of FPI include inflation, exchange rate volatility, market capitalization, market liquidity, political stability and quality of regulation. Inflation and exchange rate volatility have a negative impact while market development and institutional stability have a positive impact on FPI. Interest rates and stock - price volatility failed to reach statistical significance at the 5 per cent level but exhibited the directionally expected effects. These results are consistent with the previously published studies on emerging markets (Bekaert et al., 2011; Shahbaz et al., 2017).

KEY FINDINGS

1. **Macroeconomic Stability:** High rates of inflation and exchange rate volatility have a considerable negative impact on the inflow of FPIs and it is important to have stable economic policies.
2. **Market Development:** Increased Market Capitalization and Liquidity encourages Foreign Investment thus Market Efficiency and Infrastructure is important.

3. **Institutional Quality:** The quality of political stability and regulatory quality have a positive idea on FPI, the importance is given to governance and transparency.
4. **Stock-Price Volatility:** Although it is negatively correlated with FPI, it is not statistically significant and thus, I would say that investors show some average tolerance to market fluctuations.

The empirical results confirm that FPI inflows in Pakistan are multidimensional and are not only determined by the macroeconomic conditions, stock market development and institutional quality in the country. Policies that encourage economic stability, market efficiency and transparency of governance are key to attracting long-term foreign investment and the overall health of the Pakistan Stock Exchange.

CONCLUSION

This study discussed the determinants of Foreign Portfolio Investment (FPI) in Pakistan Stock Exchange (PSX) from 2010 to 2022 with a particular focus on macroeconomic, financial and institutional factors. The empirical analysis - which used descriptive statistics, correlation and multiple regression - revealed a number of key insights:

1. **Macroeconomic Stability Matters:** Inflation and exchange-rate instability have a negative impact on the FPI flows, as high inflation erodes the return on investment, while exchange-rate instability increases perceived risk from the standpoint of a foreign investor thereby discouraging portfolio investment. Interest rates, while being negatively related to FPI, did not make it into the model as statistically significant.
2. **Market Development is Crucial:** Market capitalization and liquidity have a favorable impact on the FPI inflows. Investors are drawn to markets in which trading is efficient and assets are easily tradable. These results highlight the need for strengthening stock market infrastructure, market depth, and liquidity.
3. **Institutional Quality and Governance:** Political stability and the quality of regulations have large positive impacts on FPI. Periods of political turbulence and lack of strong institutional structures lead to lack of faith in the investing and hence the flight of capital. Transparent governance, uniform policies and stronger investor protection mechanisms are a prerequisite for attracting and mobilizing foreign investment.
4. **Stock-Price Volatility:** Although it was negatively correlated with FPI but stock-price volatility was not statistically significant, suggesting that the foreign investors in Pakistan tolerate the fluctuation of price of the stock to a moderate level in case the liquidity and stability condition is favourable.

Overall, the results show that FPI inflows are multidimensional and that they are influenced by a mixture of economic, financial and institutional factors. For Pakistan a sustainable current account inflow of foreign investment calls for a holistic approach with linkages between macroeconomic management, development of stock markets, and institutional reforms.

RECOMMENDATIONS

Based on the findings following recommendations are made to increase FPI inflows into the PSX:

1. Maintain low and stable inflation through prudent monetary policy

- Effective measures should be implemented to stabilise the exchange rate such as effective management of foreign currency reserve and use of hedging instruments.
- To counter this, the RBI has stated that it will ensure that it has a predictable interest rate policies to remove the economic uncertainty of such investments.

2. Strengthen Stock Market Infrastructure

Encouraging greater participation by domestic and institutional investors;

Indirect market reforms and policy/regulatory reforms: When the World Bank Group analyzes an economy for its current and future needs, it targets market reforms, structural reforms, and regulatory reforms that can influence market-capitalisation growth. For example: - Promote market-capitalisation growth by facilitating new listings and promoting small- and medium-enterprise access to capital markets.

3. Ensure Better Institutional and Regulatory Framework

Strengthen regulatory quality by investor protection, corporate governance standards and securities laws enforcement.

Regulate regular updating on par with international good practice and to attract institutional foreign investors

4. Appeal to Long-Term Investment

Offer incentives for long term portfolio investments as opposed to short term speculative flows.

For an attractive perception, they should: "Provide effective channels of communication to foreign investors about changes in policies and economic development."

5. Monitor Economic Trends Throughout the World

The policymakers should monitor the developments in international financial markets and macroeconomic conditions which may affect FPI so as to take timely interventions to maintain the flow of capital inflows.

The implementation of these recommendations will enable Pakistan to foster a stable, transparent and attractive investment environment to promote sustainable growth of foreign portfolio investment, and further overall development of Pakistan Stock Exchange.

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