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Understanding the Factors Behind Low Saving Rates in Pakistan:Insights and Policy Recommendations

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ABSTRACT

Savings play an essential role in economic growth and development as it provides resources for investment and financial stability. Pakistan, like many developing economies, faces challenges in promoting a robust savings culture. This study examines key determinants of savings behaviour, including macroeconomic factors, fiscal policies, interest rates, inflation, remittances, and religious beliefs. Findings suggest that enhancing financial literacy, offering tax incentives, and ensuring economic stability can boost savings. Policies to manage inflation and improve real interest rates are vital for encouraging household savings. The study also highlights theoretical insights, such as the Harrod-Domar model and the Permanent Income Hypothesis, underscoring the link between savings, investment, and long-term growth. To enhance savings, the government should adopt both short- and long-term initiatives, such as expanding financial literacy programs and promoting investment-oriented savings schemes. Tax and duty reductions for productive industries for encouragement may lead to higher savings. Ensuring financial stability, controlling inflation, and strengthening institutions are important for building saver's confidence. Similarly, higher real interest rates encourage savings while inflation erodes their value emphasising effective inflation management essential for to build saving culture in Pakistan. As controlling inflation remains a key policy objective of URAAN project, this study indicates that higher savings are possible with decline in inflation in Pakistan. Consequently, an increase in savings is expected as inflation decreases. Moreover, higher savings can support the government in achieving its economic growth targets.

Keywords: Savings Culture, Savings Behaviour, Harrod-Domar Model, Permanent Income Hypothesis, Savers Confidence, URAAN.

1. INTRODUCTION

Savings are essential components of economic growth and development as they provide resources for investment, bring financial stability, and enable individuals and households to deal with financial shocks. Pakistan, like many developing economies, faces challenges in promoting a robust savings culture.

Pakistan is currently observing a low savings rate and sluggish economic growth. The saving to GDP ratio is recorded at 13.0 percent in FY2024 compared to 13.2 percent in FY2023 (*Pakistan Economic Survey*, 2023-24). Within Pakistan, there exist a noticeable disparity in savings rates across different provinces. The country's inadequate savings levels pose a significant challenge in financing its current account deficit, which floats around 5-6 percent of GDP. The current account deficit as a percentage of GDP, as mentioned by (Mukhtar & Khan, 2016) ranged from 0.83 percent to 5.8 percent between the fiscal years 2004-05 and 2008-09. However, it declined to 2.13 percent in 2009-10. The current account turned into a surplus in 2010-11 but returned to a deficit in the subsequent years. For sustainable economic development, Pakistan requires a savings rate of 22-25 percent, a target that seems far away given the current economic conditions.

In contrast, countries like China, India, and Bangladesh have shown higher savings rates of 45 percent, 32 percent , and 37 percent of GDP, respectively. In 2022, Pakistan's gross savings rate was around 10.6 percent while India and Bangladesh were 30 percent and 34 percent, respectively (*Business Recorder*, 2024). Observing the world and South Asian average for the saving rate remained 28 percent and 26.3 percent, respectively *Business Recorder*, (2024)[1].

1.1. Significant Theories on Savings

A large body of literature exists to address savings, Investment, capital accumulation which is important for capital accumulation and economic growth. This section discusses theoretical literature, models and growth theories with respect to their importance for savings.

The basic and important model of Harrod-Domar Model (1946) addresses the importance of savings, investment in economic growth by creating links in the level of savings to the capital-output ratio. According to this theory, higher savings lead to greater capital accumulation, which in turn causes economic growth. The model emphasises the key role of savings in financing investment, which is very essential for sustainable economic growth and development.

Solow Growth Model (1956) was another important famous breakthrough after Harrod-Domar model. Solow addressed significant impact of savings on economic growth through increased capital formation. A higher savings rate leads to a higher steady-state level of capital and output per worker and contributes in economic growth. The model also emphasised on technological progress that drives sustained growth, and explains how savings are crucial for accumulating capital and higher growth rates.

As the higher savings are necessary for economic growth so after the popularity of Solow model, there was time of emergence of New Growth Theories which were addressed by Romer (1986, 1990) Barro (1990); and Lucas (1988). These new theories captured a lot of attention as they incorporated the role of human capital, innovation, and knowledge spillovers, while emphasising that savings contribute to physical capital

[1] https://www.brecorder.com/news/40301493, accessed on August 25, 2024.

accumulation and also to investments specially in education and technology. Lucas (1988) specifically posits that increased savings and capital formation can lead to a permanent increase in economic growth rates by adopting continuous advancements in production and innovation.

The importance of Keynesian Consumption Theory cannot be unaddressed in context of savings as savings are a residual of income after consumption. With a rise in income of a person, his savings also tend to rise because they do not spend all of their additional income. The theory highlights the relationship between income levels and savings, suggesting that higher income leads to higher savings, which are invested and become a source of economic growth. The hypothesis of Absolute Income (1936) was also given by Keynes where savings are a positive function of current income. This hypothesis stresses the idea of correlation between income levels and the propensity to save. Another advancement was Relative Income Hypothesis (1949) by James Duesenberry which suggests that individual's consumption and savings decisions are persuaded by their income relative to others and their own past income levels. The social context of saving behaviour is specially highlighted where individuals aim to maintain their standard of living in comparison to others.

The theoretical development didn't stop here, and Life Cycle Hypothesis was formulated by Franco Modigliani, which states that individuals plan their savings and consumption over their lifetime, considering their anticipated future income and life expectancy. People usually save during their working years to fund consumption during retirement. During different stages of life the saving pattern varies (Ahmad & Ahmad, 2020). After this Milton Friedman took the lead and his Permanent Income Hypothesis suggests that individuals base their consumption and saving decisions on their expected long-term average income not on their current income. People do save if their current income is higher than their permanent income and dis-save when their current income is lower. In this way he nicely expressed the idea of smoothing consumption over time. Precautionary Saving Hypothesis explains the concept of uncertainty is associated with income as individuals save to protect finances against unexpected downturns. Individuals prefer to accumulate savings as a precautionary measure to fulfill sudden financial liabilities.

The importance of saving is also clear from Paradox of thrift and Buffer Stock. Paradox of Thrift was introduced by Keynes suggests individuals to save more to secure their financial future, if everyone increases their savings simultaneously, it can lead to reduced economic activity and lower overall income, thus negating the benefits of higher individual savings. On the other hand, Buffer Stock theory explains the individuals maintain a buffer stock of savings to smooth consumption in response to income fluctuations.

Summarising the above discussion, these theories offer different perspectives on why and how individuals save, considering various factors such as lifetime income planning, income stability, and uncertainty. Understanding the theoretical foundations is necessary for formulating policies that encourage savings and economic growth.

1.2. Approaches in Literature for Saving Assessments

The various analytical approaches used in the literature to study savings provide a comprehensive understanding of the factors influencing savings behaviour. Intertemporal analysis examines how individuals allocate savings over time, considering future needs and income. Causality tests, including Toda-Yamamoto and Granger non-causality tests, help identify causal relationships between savings and other economic variables (Afzal,

2013); (Sajid & Sarfraz, 2018). Cointegration techniques, such as Johansen's long-run (LR) and short-run (SR) relationships and autoregressive distributed lag (ARDL) models, analyse the long-term equilibrium relationships among variables. Moreover, some studies have used the Vector Error Correction Model (Asghar & Nadeem, 2016) and unrestricted vector autoregression (VAR) with error correction mechanisms (ECM) to explore short and long-term dynamics.

Ordinary least squares (Ahmad & Asghar, 2008) and multiple regressions adopted in many studies provide basic estimation techniques, while two-stage least squares (2SLS) and generalised least squares (GLS) have been used to address potential endogeneity and heteroscedasticity issues. Another common technique, fixed effect models have been adopted to control unobserved heterogeneity. The residual approaches are also tried to analyse savings by examining data discrepancies. It was interesting to find dynamic regression models with autoregressive moving average (ARMA) specifications capture complex temporal patterns. Lastly, some surveys-based studies and comparison methodologies provide empirical support to theoretical models. These diverse methodologies enable a worthy analysis of savings determinants, aiding policymakers in designing effective strategies to boost savings rates in economy.

1.3. Pakistan Specific Saving Structure and Outlook

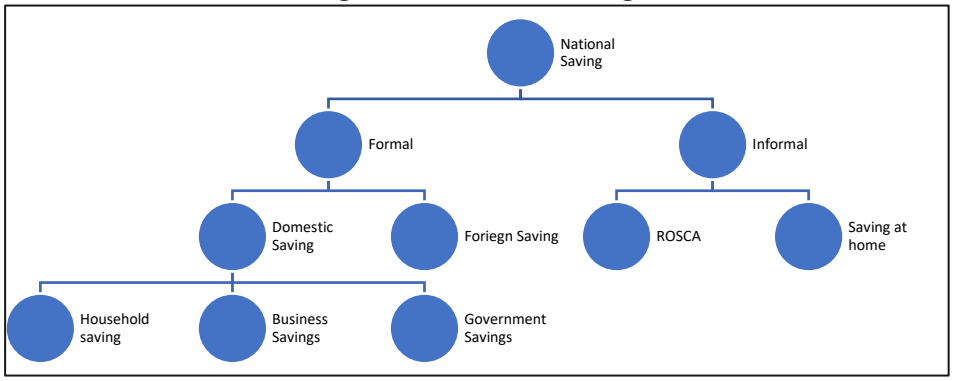
Pakistan's savings structure is characterised by a mix of formal and informal saving systems. Formal channels are Commercial Banks, National Savings and Stock Market. Commercial banks usually offer various savings accounts (savings accounts, fixed deposits, and Islamic banking schemes).The National Savings Directorate provides saving schemes with returns (prise bonds and certificates). Stock market is another channel but shows relatively low participation. Pakistanis invest in stocks and mutual funds for long-term savings and capital appreciation.

Informal Savings channels include ROSCAs (Rotating Savings and Credit Associations), borrowing from friends and family and buying of real estate (Mahmood & Mustafa, 2018; Karandaz[2]). ROSCAs are a predominant informal saving mechanism in Pakistani markets with low financial inclusion ratios. ROSCAs usually count on social networks, facilitate credit and financing needs for individuals and small businesses. Its popular among low-income groups, allowing members to pool their savings and access lump sums periodically. Borrowing from family, friends and social networks are common for large purchases and emergencies. Investment in Real Estate (land and property) is another attractive way to save. Foreign, domestic and national savings of Pakistan showed clear fluctuations while national savings showed downward trend in the last three decades (Azam, et al. 2010).

Keeping in view the savings scenario, the research question is "what are the primary determinants of low savings rates in Pakistan, and what policy measures can be executed to enhance savings behaviour among households and businesses?" In this backdrop, this review paper examines the existing literature on the structure of savings in Pakistan, exploring the factors that influence saving behaviour and the existing saving instruments in Pakistan.

[2] https://karandaaz.com.pk/wp-content/uploads/2019/05/Digitization-of-Rotating-Savings-and-Credit-Associations-in-Pakistan-1.pdf

Fig. 1. Flow Chart of Savings



As shown in flow chart (Figure 1) the saving functions reviewed covers: national saving functions; domestic saving functions; foreign saving functions; private saving functions and public saving functions. In literature, the main objective in estimating these functions is to identify the most important determinants which influence the saving behaviour of overall or sector wise (financial sector, portfolio investments, rural industry, HH) and testing hypotheses of saving behaviour.

The rest of the paper is organised as follows: Section 2 presents comparative analysis of Pakistan with other countries, Section 3 highlights public sector initiatives, Section 4 sets out determinants of savings as extracted from literature. Main findings are reported in Section 5, Section 6 gives important critique, Section 7 comes up with conclusion and recommendations. The final section gives future research direction.

2. COMPARATIVE ANALYSIS: PAKISTAN STANDS LOW IN SAVINGS

To provide a comprehensive understanding of the broader trends, this section presents the results at the regional level, highlighting key patterns across neighboring countries. Following this, the review investigates the provincial-level results, offering a closer look at how different regions within Pakistan compare and the factors influencing these variations.

2.1. Regional Savings Patterns

A comparative analysis of national saving rates among South Asian countries is useful to understand Pakistan's position in South Asian region. The analysis shows that Pakistan lags behind other countries due to its low rates of savings and investment (Hussain, 1995). Six countries are taken into account: Sri Lanka, Nepal, Pakistan, Bangladesh, India, and Bhutan. Reviewing the results, it was observed that inflation, tax, and Gross Domestic Product (GDP) have shown statistically significant positive effects on gross domestic savings. This suggests that higher inflation rates, effective tax systems, and robust GDP growth contribute positively to the savings rates in these countries. Conversely, some other factors such as: per capita income, interest rates, money supply growth, and age dependency ratio exhibit non-significant effects on gross domestic saving.

India has boosted its domestic saving through raising public saving and a strong structural reform program and financial liberalisation. The saving to GDP ratio of India,

Bangladesh and Vietnam is at 31 percent, 35 percent and 24 percent respectively[3]. According to CIEC data, Bangladesh gross Savings rate was measured at 30.4 percent in Jun 2021, compared with 30.4 percent in 2020.

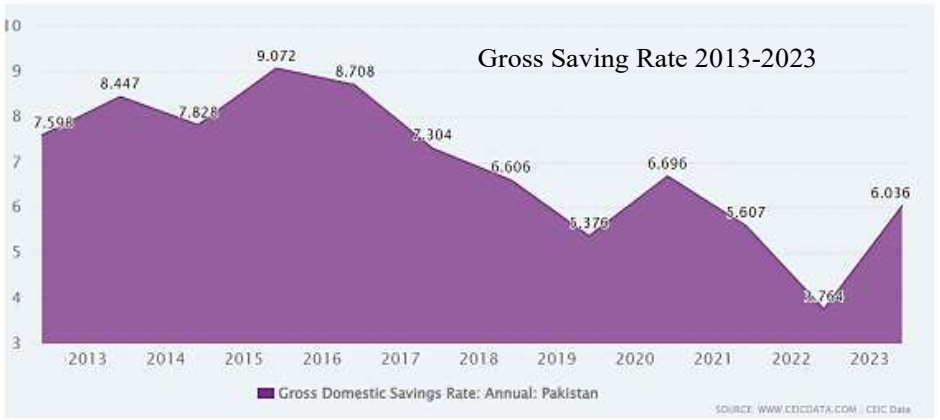
Pakistan's economic performance is particularly a matter of concern as it struggles with lower savings and investment rates compared to its regional competitors. This discrepancy underscores the need for Pakistan to address these identified determinants more commendably to boosts its savings rates and, consequently, its economic growth and stability.

Data on gross domestic savings in Pakistan shows fluctuations (Figure 2), with a record low of 3 percent in June 2022, rising to 6 percent in June 2023. Despite various national savings initiatives and saving schemes offered by the State Bank of Pakistan (SBP), the overall savings rate remains instable and volatile. These saving schemes aim to encourage savings among the public, yet the government's fiscal policies and spending patterns significantly impact the national savings rate. Improving the saving rates requires comprehensive reforms in both government spending and the implementation of effective saving programs through banks.

2.2. Provincial Savings Depiction

People in Pakistan save irrespective of their gender and location. Individuals in rural areas show a higher propensity to save, likely due to the "lumpy" nature of their income, which is tied to agricultural cycles of sowing and harvesting. However, the formal financial sector has struggled to effectively capture these savings for purposes of intermediation and investment. This shows low confidence of investors in financial institutions. Provincial variations are specially observed (Karandaz, 2020) in all provinces

Fig. 2. Annual Gross Domestic Saving Rate



Source: CEIE data .com.

where informal saving in more in Khyber Pakhtunkhwa (80 percent), Sindh (64 percent), Punjab (62 percent) and Balochistan (47 percent). On the other hand, saving in financial institutions is extremely low as Sindh (7 percent), Punjab (6 percent), and Khyber

[3]https://pildat.org/pakistanfact/do-india-bangladesh-and-vietnam-all-have-a-savings-to-gdp-ratio-of-30

Pakhtunkhwa (2 percent) as reported by (Karandaz, 2020). Provincial variations in saving patterns highlight the need to evaluate progress in financial inclusion using more granular standards. In particular, the numbers for Balochistan province demonstrate the necessity for a more innovative approach to enhance outreach, coupled with a sustained and comprehensive campaign to improve financial literacy.

Demand-side surveys provide valuable insights into the savings practices, perceptions, and needs of the people in Pakistan. The Global Findex offers nationally representative data, while the Access to Finance (A2F) survey by the SBP provides data at the provincial level with a sample size and distribution that ensure a lower margin of error for provincial estimates. The Financial Inclusion Insight (FII) survey offers even more granular data at the provincial level, and the biennial Household Integrated Economic Surveys (HIES) conducted by the PBS contribute further to understanding household economic behaviour. On the supply side, publications and databases by the SBP serve as critical resources for analysing financial trends and citisen's inclusion.

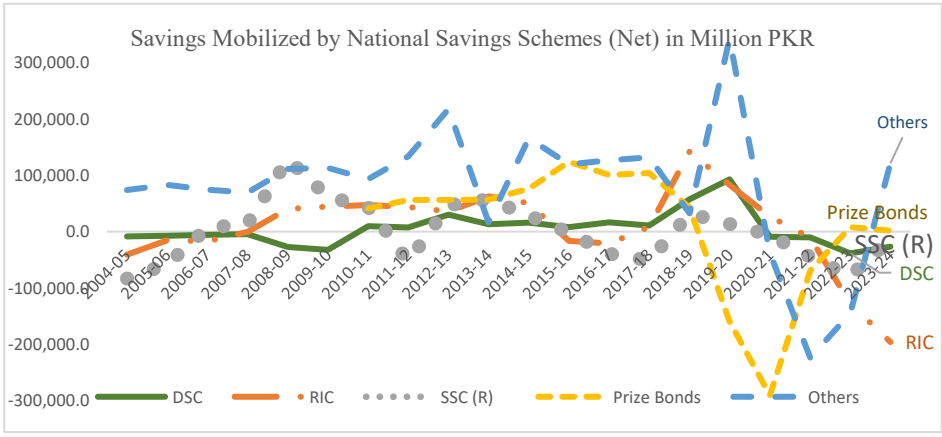
3. PUBLIC SECTOR SAVING INITIATIVES

In Pakistan, government has introduced some saving initiatives through National Savings and SBP. The focus is to boost savings in economy and providing financial literacy to people. Azam, et al. (2010) emphasised on the significance of national saving in the socio-economic development of Pakistan.

3.1. National Savings Schemes, Certificates and Financial Literacy

The schemes introduced by National Savings are National Savings Scheme (NSS), Pakistan Savings Certificates (PSC), Microfinance Initiatives, Financial Inclusion Strategy (2015), National Financial Literacy Program (2018) An initiative to educate people about financial literacy and savings. Financial literacy enables people to make informed decisions about savings, borrowing, investing, entrepreneurship, and protecting themselves from financial risks.

Fig. 3. Savings Mobilised due to National Incentives



Source: Central Directorate of Savings.

National savings schemes, as shown in Figure 3, usually mobilise savings by the product basket of National Savings Scheme (Defence Savings Certificates, Special Savings Certificates, Special Savings Accounts, Regular Income Certificates, Prize Bonds etc.). This product basket has observed an outflow of Rs. 105.0 billion during July-March

FY2024 as compared to an outflow of Rs. 308.2 billion last year (Govt. of Pakistan *Economic Survey*, 2023-24).

National Saving Schemes performed well in the 1990s but its ability to withstand high savings over the long term reduced. As explained by Vincelette, G.A. (2006) the declining saving rates and widening domestic resource gap highlight the need for policy interventions, such as improving returns, diversifying saving instruments, and addressing structural economic issues, to regenerate national savings and sustained economic growth.

3.2. SBP Initiative Towards Savings Through Financial Inclusion

SPB through financial inclusion achieved (60 percent financial inclusion of adult population, 43 percent females. Financial inclusion helps in reducing poverty by increasing access to bank deposits that enables individuals to accumulate savings in a safe environment: educing vulnerability of poorer households via minimising negative impacts of income shocks. Financial inclusion also Increases economic growth by providing investment opportunities to all segments of the population by mobilising savings, facilitating inflows of foreign capital (including FDI, portfolio investment and bonds, and remittances). Financial Inclusion promotes stability through strengthening financial institutions, broadening markets for financial service providers and allocating capital efficiently among competing uses.

SBP– Financial inclusion plans included Financial Inclusion Programme Components, Credit Guarantee Scheme (CGS) for Small and Rural Enterprises, Microcredit Guarantee Facility (MCGF), Technical Assistance Fund, Financial Innovation Challenge Fund, FICF Round 1 Guidelines (Financially Inclusive Government to Person (G2P) Payments), FICF Round 2 Guidelines (Promoting Innovative Rural and Agricultural Finance in Pakistan), FICF Round 3 Guideline) Promoting Excellence in Islamic Finance and ISF (Defunct) (SBP website [4]).

4. DETERMINANTS OF SAVINGS

To promote sustainable economic development and stable financial environment in Pakistan, understanding the key determinants of both public and household savings is essential. In this context, this section discovers the major factors influencing public and household savings and their economic implications based on review of studies.

4.1. Key Determinants of Public Savings

Finding the determinants of savings is important for encouraging economic growth and stability. By understanding what drives savings, policymakers can design strategies to enhance savings rates, which fund investments and incentivise development schemes. The knowledge of determinants helps to maintain financial stability by reducing reliance on external borrowing and enhancing resilience to economic shocks. Furthermore, insights into savings behaviour enable the creation of effective policies that promote inclusive growth and reduce inequality. Encouraging higher savings rates also ensures financial security for individuals and helps maintain healthy external balances by financing current account deficits and stabilising exchange rates. Some common determinants are found as there were enough studies that discussed determinants of saving rates (Ahmad & Mahmood, 2013); (Ali, 2016); (Akhtar,1986); (Khan, 1988); (Khan & Rahim,1993); (Sajid & Sarfras, 2008); (Kazmi, 2001); (Asghar & Nadeem, 2016) and

[4] https://www.sbp.org.pk/finc/About.asp.

identified economic growth, per-capita income, population growth, age dependency ratio, foreign capital, terms of trade, exports, interest rate, inflation, CPI, foreign savings, tax rates, government spending and public loans.

4.2. Key Determinants of Household Savings

Household savings in Pakistan are essential for the country's economic growth and development in the long run. The determinants of household saving are multidimensional and are important for understanding savings behaviour.

The income of households influences their ability to save, as higher income generally allows for greater savings and vice versa. Wealth of households usually includes assets and investments, also impacts saving decisions, as wealthier households are likely to save more. The dependency ratio is another key determinant, reflects the number of dependents relative to working individuals, affects disposable income and savings potential. Another determinant is employment status used in literature. Employed individuals naturally have more stable income streams conducive to saving. Education is another important factor found in literature, plays a substantial role by influencing financial literacy and savings behaviour of households. The age of the household head can also affect saving patterns. At young age individuals save less as compared to at old age. Gender differences also matter, as savings behaviour can vary between men and women due to diverse financial responsibilities and societal roles. Analysing savings across different income groups offers understandings into disparities and helps policy formulation to enhance savings rates among lower-income households. The determinants' role cannot be ignored while reviewing saving behaviour in economy.

Domestic savings contribute to capital formation, which is essential for sustained economic progress. Few studies Ali, (1985); Chandio, et al. (2015) measured saving elasticities. According to Ali (1985), the income elasticity of savings in Pakistan is 2.75, indicating that as income increases, savings also rise substantially. Conversely, the inflation elasticity of savings is –0.5, highlighting that rising inflation tends to reduce savings due to the erosion of the real value of money. While Chandio, et al. (2015) emphasise the importance of domestic savings, noting that both long-run (3.07) and short-run (2.07) elasticities of savings specify a strong relationship between savings and economic growth.

Table 1

Domestic Savings–Elasticities

Description of Elasticity	Elasticity	Source
Income Elasticity of Savings	2.75	(Ali,1985)
Long Run Elasticity of Savings	3.07	(Chandio, et al. 2015)
Short Run Elasticity of Savings	2.07	(Chandio, et al. 2015)

Furthermore, Ahmad, et al. (2016) point out that real interest rates have a positive impact on household savings, while inflation has a negative outcome. The positive impact of real interest rates advocates that higher returns on savings encourage individuals to save more, balancing any potential decrease in savings due to rising incomes. This implies that, in Pakistan, "the substitution effect" where higher interest rates lead to increased savings which dominates the income effect.

Household savings in Pakistan show distinct trends and challenges formed by demographics (Ahmad, et al .2006; Siddiqui & Siddique, 1993), gender, and geographical factors. People in rural areas typically save according to irregular, seasonal agricultural incomes patterns. Conversely, the formal financial sector has difficulty effectively capturing these savings, indicating a need for improved financial intermediation and investment plans. Significant provincial variations, such as those in province Balochistan, emphasise the need for region-specific financial inclusion methods. Improving financial literacy and accessibility through targeted campaigns is important to raise inclusive financial practices and increase household savings in Pakistan.

5. MAIN FINDINGS BASED ON LITERATURE REVIEW

As various determinants have been found in literature, there are many different findings which led to draw certain conclusions. This section highlights the association of determinants with savings in Pakistan.

Impact of GDP growth, and Government Expenditure (1973-2011): According to the study by Jilani, Sheikh, Cheema, and Shaik (2013), several factors influence national savings in Pakistan from 1973 to 2011. They found that the growth of GDP and an increase in government consumption have a positive impact on national savings, suggesting that economic expansion and higher government spending contribute to increased savings.

Impact of Inflation, Interest Rate, and Government Expenditures (1980-2010): Aleemi, et al. (2015) found that inflation, interest rates, and government expenditures have a negative effect on the national savings rate during the period of 1980-2010. High inflation wear away the purchasing power of money, leading to reduced savings as individuals prioritise immediate consumption. Government expenditures, especially when financed by borrowing, can crowd out private savings by increasing the fiscal deficit. Another study by Asghar, et al. (2022) reveal that an increase in the saving-investment gap and output lower the fiscal deficit while an increase in the foreign exchange gap upsurges the fiscal deficit.

On the other hand, Khan, et al. (1993) provides insights that the real interest rates, per capita income, Gross National Product (GNP), changes in the terms of trade (TOT), and economic openness are positively related to national savings. This advocates that higher real interest rates and improved economic indicators raise a more saving-oriented environment.

Positive Association between Real Rate of Return on Deposits and Aggregate Savings: A positive correlation between the real rate of return on deposits and aggregate savings is observed. As the real rate of return on deposits increases, the total amount of savings in the economy also inclines to rise. This relationship suggests that greater returns incentivise individuals to save more, as they expect greater benefits from their deposits.

Inverse Relationship Between Savings and Fiscal Deficit: According to Nasir & Mahmood (2004), an inverse relationship between savings and the fiscal deficit has been observed. A higher fiscal deficit adversely impacts savings, while the real interest rate certainly encourage savings. The finding highlights the substitution effect's significance over the income effect, where higher interest rates boost savings provided that impressive returns on deposits.

Role of Remittances in Savings: Nasir & Mahmood (2004) identify a positive association between remittances and savings. Remittances sent by expatriates to their home countries provide additional income to households, raise their standard of living

and often leads to increased savings. These funds can serve as a financial boost, enabling families to save and invest.

Religious Influences on Savings Behaviour: The literature highlights that individuals follow the Muslim faith are often reluctant to deposit their money into conventional banking system due to religious beliefs and other constraints. However, current structure offers Islamic banking as an alternative source of funds, aligning with Shariah principles. The RAFA saving scheme, which operates under a separate Islamic window led by a Shariah board, is one such initiative that provides savings choices yielding Islamic finance principles.

Savings and Financial Development: According to Ahmad (2015), Financial Development is one of the several policy measures that the government can implement (decrease) to increase private savings. Decreasing Financial Development will reduce excessive regulations that hinder saving behaviour. Additionally, increasing deposit and lending rates can offer more attractive returns on savings, thus encouraging individuals to save. Offering attractive programs related to old age benefits can also incentivise individuals to save for future consumption and investment needs.

High Dependency Ratio and a High Debt-to-GNP Ratio and National Savings: Khan, et al. (1994) highlighted factors such as a high dependency ratio and a high debt-to-GNP ratio are negatively associated with national savings, showing that a larger dependent population and high debt levels constrain savings.

Links can be established among different findings and theoretical models in order to provide a theoretical foundation for understanding how various determinants of savings line up with key economic models, offering important insights into the dynamics of savings behaviour and its role in economic development.

The Harrod-Domar model underlines the importance of savings and investment in economic growth. The positive impact of GDP growth on national savings (Jilani, et al.) is consistent with this model, as economic development enhances resources for further investment. Likewise, government expenditures show positive relation to savings by boosting public investment. Similarly, the inverse relationship between fiscal deficits and savings (Nasir & Mahmood, 2004) highlights how deficits crowd out private resources, potentially delaying growth.

The Permanent Income Hypothesis advocates individual's base savings on their lifetime income expectations. Inflation rates negatively affect savings (Aleemi, et al.) by fading away real incomes and reducing perceived lifetime wealth. Additionally, remittances increase household incomes and encourage higher savings (Nasir & Mahmood). Additionally, high dependency and debt-to-GNP ratios (Khan, et al.) reduce disposable income, forcing households to prioritise consumption over savings.

The Solow growth model links savings to long term capital accumulation and growth. Higher real interest rates positively impact savings (Khan, et al.), emphasising greater capital stock. Economic openness improves productivity through technology diffusion and capital inflows. The reduction of fiscal deficits through savings & investment gaps (Asghar, et al.) and better financial development (Ahmad,) reinforces investment and sustained growth.

Cross-Cutting issues like religious beliefs influence savings behaviour, as reluctance to use conventional banking systems has led to the growth of Islamic finance choices, such as RAFA schemes (Nasir & Mahmood,). Moreover, higher real returns on deposits encourage savings across all models by increasing the rewards of delayed consumption, boosting investment (Harrod-Domar), and enhancing capital accumulation (Solow). These factors collectively form savings behaviour in Pakistan.

Over the next five years, the government, under URAAN programme aims to achieve 6 percent annual GDP growth, boost exports to $50 billion, reduce inflation to 6 percent, and expand the ICT freelancing industry to $5 billion. National savings were significantly below the investment rate, reflecting heavy external dependence of Pakistan (11.3 percent of GDP in 2018-19 and improved to 13.2 percent in 2022-23 as according to Pakistan Economic Survey). As reducing inflation is one of the target under consideration, so it is expected that in Pakistan savings may rise as this study clearly shows savings increase when inflation decreases and vice versa. Similarly, the government will be able to achieve growth targets with increased savings.

6. IMPORTANT CRITIQUES

The economic landscape of Pakistan presents a distinctive set of challenges, particularly in the domain of savings and investment. This critique examines several studies on savings in Pakistan, highlighting the acute factors that influence the savings rate of country and the broader implications for economic growth. Aleemi, et al. (2015) underscore the detrimental effects of inflation, interest rates, and government expenditures on the national savings rate from 1980 to 2010. Nasir and Mahmood (2004) discover the positive relationship between real interest rates and aggregate savings, while also observing the inverse relationship between savings and fiscal deficits. These findings, along with the influence of remittances and religious considerations on savings behaviour, provide a comprehensive foundation for assessing Pakistan's savings dynamics.

Some missing links are also observed in literature about: causality vs. correlation, missing new dimensions, testing the effectiveness of policies, testing of effectiveness of financial system and financial deepening, and effectiveness of capital flows.

The causal relationships are drawn between various factors and saving behaviour in Pakistan. It may be an argument that correlations may exist between variables such as per capita income, inflation rate, and saving rate. Correlations are not taken in discussion in savings literature.

Majority of the studies are focusing on finding determinants and assessing formal theories. New topics, new dimensions need to be explored. Moreover, there is a need to see effectiveness of saving policies in Pakistan. the capacity of the government and financial institutions to enforce the proposed measures, testing of effectiveness of financial system and financial deepening and effectiveness of capital flows in savings.

7. CONCLUSION AND RECOMMENDATIONS

These findings jointly illustrate the various dynamics influencing savings behaviour in Pakistan economy, emphasising the roles of macroeconomic factors, fiscal policies, GDP, interest rate, inflation, remittances, and religious beliefs in shaping national savings rates. Understanding these determinants is important for formulating effective policies to enhance savings and support Pakistan’s economic growth. The government must initiate short term to long term initiatives like expanding financial literacy programs in order to ensure investment oriented savings (Saving certificates, stock Investment, mutual funds). The government can stimulate private savings by providing tax and duty reductions to various industries, which can boost production and incomes for both firms and households. This increased economic activity could, in turn, improve overall savings. To encourage savers, in the long run, the government should also address concerns related to inflation, and the stability of the financial system. Strengthening financial institutions, controlling inflation, and ensuring that market signals

play a significant role in savings and investment decisions are essential measures to build confidence among savers and promote a healthier savings environment. The higher real interest rates raise household savings but the negative impact of inflation presents a challenge by diminishing the value of saved money. Thus, effective policy measures to manage inflation and enhance real interest rates are important for promoting household savings in Pakistan.

The study also concludes multidimensional factors influencing savings and their critical role in economic growth, as emphasised by key economic theories and empirical evidence. The Harrod-Domar model emphasises that savings and investment are essential for growth, supported by the positive impact of GDP growth and government expenditure on national savings. On the other hand, fiscal deficits crowd out private resources, hampering savings and delaying growth. The Permanent Income Hypothesis explains savings behaviour based on lifetime income expectations, where inflation reduces real income, negatively affecting savings. Remittances and lower dependency and debt ratios increase disposable income, encouraging higher savings.

The Solow growth model links savings to long-term capital accumulation and economic openness, enhancing productivity. Higher real interest rates and better financial development incentivise savings, bridging investment gaps and reducing fiscal deficits. Cross-cutting issues like religious beliefs also shape savings behaviour, with the rise of Islamic finance offering alternative avenues for savings. Higher real returns on deposits universally encourage savings by increasing the benefits of deferred consumption.

In the context of Pakistan, the interplay of economic policies, financial development, cultural influences, and external variables (remittances) mutually shape savings behaviour.

8. FUTURE RESEARCH

Future research should focus on several key areas to enhance the effectiveness and inclusivity of saving strategies in Pakistan. Exploring new, modern, and sustainable long-term saving strategies is essential to adapt to evolving financial needs and economic conditions. Research should also investigate the role of Shariah-compliant saving instruments, assessing their inclusivity, accessibility, and appeal across various demographic groups, and their overall contribution to national savings. Additionally, it is important to identify acceptable interest rate levels for the saving population and develop efficient saving pathways that align with their preferences. Financial education initiatives should be tailored to different age groups and socio-economic backgrounds to ensure broad understanding and engagement. Improving consumer rights protection and trust through enhanced transparency, accountability, and consumer protection in the financial sector is crucial. Diversifying saving options to cater to various segments of society, including youth, women, and low-income earners, can further broaden participation in savings. Finally, examining the impact of tax incentives on saving habits and analysing the effectiveness of tax policies in encouraging long-term saving and investment behaviours will provide valuable insights for policymakers aiming to promote a culture of saving.

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