

Impacts on private savings in pakistan's economy



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1. Introduction

The term savings describe the unconsumed disposable income which is kept with intention of stabilizing consumption in some future time. Private savings contribute in overall growth of any country and economists consider it as a gauge to economic health. When people start to rely on debts either than their saved cash much more pressure is found on the financial institutions which reduce the strength of any nation. People save in good times so that they have enough funds in their account for the rainy days which are more likely to come in a very frequent pace in countries developing countries like Pakistan. This issue of insufficient funds lead any country towards poverty which is a big threat for all emerging markets which are trying to become prosperous and want to be counted as developed nation of this impulsive world.

Pakistani economy is in its developing stage, and this is the reason that is facing a very low saving rate. There are various factors behind this phenomenon. Saving is the key factor which increases future consumption (Kim, 2010), this fact made researcher inclined towards the importance of this topic to be researched and discussed comprehensively. Even though this issue was in consideration by many researchers before but it still need to be considered more as no much conclusive results were found for it in the past. Private savings is expected to contribute overall growth of a country by making it more stable and organized. Several economic and demographic variables are expected to have their valuable influence on Private Savings (Hondroyiannis, 2004); variables in this study are selected by keeping this fact in view.

1. Background

Private savings are facing a very consistent decline in Pakistan from so many past decades which are not a common trend as other Southeast Asian countries are having a gradual increase in their Private savings. Private savings which become part of national saving after being summed up with public savings; this gives it a vital role in the overall performance of any country. Savings can create intensions of investment specifically on capital stocks which will cause an increase in nation's productivity, this chain will leads towards raise in wages and consumption and Increased capital stocks also increase employment. Researcher is considering few variables as determinants of private savings which are previously found to have the impactful determinants in past studies.

Incomes of individuals is considered as one of the most influential factors in many past studies but evidence is also available that in 1970s and 1980s private savings of Pakistan was having average of less than 17% of disposable income which was very low in comparison with other Asian economies (Husain, 1996). Another evidence which prove strong relation between income and private savings is as stated that pension plan enhance its importance. Income and employment have significant relation with personal savings (Kim, 2010). FDI is also considered to be desirable and recommended to be increased by researchers (Shahbaz *et al*, 2010). It is stated that whenever remittances increase a very visible increment in National savings is visible, a positive and significant relation was found in the research (Chaudhry *et al*, 2010).

1. 2Problem Statement

In past several studies are done on the topic of private savings (Husain, 1996, Kim, 2010; Lean and Song, 2009; Masson, 1998; Chaudhry *et al*, 2010). Those studies have identified several variables which are influential on private savings in different countries. This study is being conducted by using recent data and this is the reason that this will add latest knowledge. Thus there is a need of such work to be done in Pakistan by making use of latest data.

Dynamic of private savings play a vital role for Pakistan's economy where there is lots of instability in economic conditions. Instability of this economy has made it really essential for all the members of this economy to maintain some funds for crucial times. This study will allow all the readers to understand that what factors are affecting this important element in the selected economy.

1. 3Research Question

Background of this research gives birth to following research question;

Q. What is the determinant of Private savings in economy of Pakistan?

1. 4Research Objective

The core objective of this research is to highlight the importance of private savings in Pakistan and addressing key factors which are controlling the behaviour of private savings in positive or negative manner. In order to achieve this broad objective following specific objectives are pursued in this study;

1. To identify the impact of FDI on private savings of Pakistani economy
2. To identify the impact of ADR on private savings of Pakistani economy
3. To identify the impact of REM on private savings of Pakistani economy
4. To identify the impact of INF on private savings of Pakistani economy

1. 5Scope of the Study

This study will reveal fundamental issues regarding private savings which will be helpful for the economy of Pakistan. Thematic focus of this study is to determine the factors that are affecting private saving. Geographical focus of this study is the economy of Pakistan.

1. 6Limitation of the Study

Researcher is putting all possible efforts in this study, but in spite of that there are always some limitations of research. Limitation of this study is accessibility; due to availability of limited resources data collected for this research is from online sources.

2. Methodology

2. 1. Type of Research

This is a quantitative research in which numeric data is being analysed through application of statistical model. Deductive approach is being applied in this research where, we are dealing with an existing theory and testing its parametric form of data.

Furthermore, this is a descriptive cum explanatory research is being done in this study for understanding the relation between dependent and different independent variables.

2. 2. Data Source

Electronic copies of required data were acquired from official website of state bank of Pakistan, economic survey of Pakistan and hand book of economics. Secondary data is being used in the research which was available on different websites.

2. 3. Sample Size

As per the focus of this study, data collected for this research is of Pakistani economy. Researcher is collecting annual data of past 30 years which is from 1984 to 2013.

2. 4. Statistical Technique

By using SPSS 19. 0 data is imported and descriptive and regression analysis is performed on metric data. Application of descriptive analysis has allowed the researcher to explain the data rigorously. Regression analysis is applied to check out existence of relationship between selected dependent and independent variables.

3. Conclusion and Recommendation

This research which was conducted in order to reveal important and impactful factors influencing private saving is found to be useful and contribute well. Out of the four hypotheses that were established in this research, three are accepted and one is rejected.

Results which were found in the end indicated that, three factors which were foreign direct investment, age dependency ratio and remittance have significant impact on private savings. There is only one variable that has insignificant relation which is Inflation.

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FDI should also be increased and this could only be done if political situation of our country will become stable as it will make our country more lucrative for the foreign investors. Previously there was a very good and appreciable trend as many Multinational companies were coming and investing in Pakistan but this trend is now facing a down trend due to bad political and social conditions of the nation.

Decrease in age dependency is although causing an increase in private saving but there is a need of making sure that this decrease is not because of bad health condition or child labour. Government must make policies for taking a better care of all these dependent effectively.

Remittance is normally considered to be a factor that strengthens economy, but in case of Pakistan, negative relationship is due to ineffective usage of remittance. At this point there is a need of prioritising the needs and wants. Receivers of remittance must ensure that they are using it effectively rather than wasting it. Government can also intervene in this by increasing the taxes on remittance inflow and also assuring that false channels for sending remittance are not being adopted.

Inflation in Pakistani economy is a major problem and insignificant relation between inflation and private savings shows that two extreme situations 1) poverty and 2) extreme richness are on their hype in this economy. There is a need of making policies through which equal distribution of wealth can become possible in the economy.

This research can be continued further by considering other economic factors which were not covered here. Other dependent variables can also be <https://assignbuster.com/impacts-on-private-savings-in-pakistans-economy/>

considered which also contribute in overall growth of any country and thought to be judgemental factor of economic health by economist.