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

ABSTRACT

Savings are extremely important for driving an economy, its financial stability and economic growth. In this connection Pakistan faces various challenges as saving culture lacks in country and investment levels are low. The current study is a review study and it aims to pinpoint factors behind citizen's low saving behavior and lesser adaptability to save. To highlight the link between savings, investment and economic growth, key models are taken into discussion. Harrod-Domar model, the permanent income hypothesis and Solow growth model highlight the key links. Results of the review reveals the saving behavior is influenced by GDP, inflation, interest rate, fiscal policies, remittances, demographic aspects and faith beliefs. The initiatives needed to improve savings must be introduced in the short run and also cover the long run. They include encouraging financial literacy, raising consciousness about saving instruments, offering incentives about tax while ensuring macroeconomic stability. Building consumers' confidence to save and ensuring their trust in financial institutions has become necessary. As monitoring inflation remains a key policy objective of Uraan project and 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.

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1. INTRODUCTION

Savings being an essential component of economic growth as they provide resources for investment bring financial stability and enable individuals and households to deal with financial shocks. Pakistan like many developing economies is currently witnessing a low savings rate and slow economic growth. In FY 2024, the saving to GDP ratio is recorded at 13.0% as compared to 13.2% in FY2023 (Finance Division, 2024).

Within Pakistan, there exists an obvious disparity in savings rates across different provinces. The country's scarce savings levels pose a significant challenge in financing its current account deficit, which floats around 5-6% of GDP. The current account deficit as a percentage of GDP, as mentioned by (Mukhtar & Khan, 2016) ranged from 0.83% to 5.8% between the fiscal years 2004-05 and 2008-09. However, it declined to 2.13% 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%, 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%, 32%, and 37% of GDP, respectively. In 2022, Pakistan's gross savings rate was around 10.6% while India and Bangladesh were 30% and 34%, respectively. Observing the world and South Asian average for the saving rate remained 28% and 26.3%, respectively.

1.1 Significance of the study

A vast variety of literature exists to address savings, Investment, capital accumulation which is important for capital accumulation and economic growth. Savings are fundamental to economic growth because they finance investment, support capital formation, and enhance productivity. Growth models like Harrod–Domar and Solow to modern endogenous theories consistently show that higher savings enable greater investment in physical capital, human capital and technology, which drive long run development. Savings also help household's smooth consumption, manage uncertainty and maintain living standards, contributing to overall economic stability. Understanding this significance is essential for designing policies that strengthen savings and support sustained growth.

1.2 Savings Assessment Approaches

Numerous analytical approaches are being used in the literature to study savings. They provide a comprehensive understanding of the factors influencing savings behavior. Intertemporal analysis studies individuals' allocation of savings over time while considering future needs and income. Causality tests, including Toda-Yamamoto and Granger non-causality tests, help to identify causal relationships between savings and other important 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 analyze the long term equilibrium associations among variables. Likewise, some studies used the Vector Error Correction Model (Asghar & Nadeem, 2016) and unrestricted vector autoregression (VAR) with error correction mechanisms (ECM) to discover short and long term dynamics.

Some more techniques like Ordinary least squares and multiple regressions are adopted in various studies and explain basic estimations, while two-stage least squares (2SLS) and generalized least squares (GLS) have been used to address potential endogeneity and heteroscedasticity matters. It has also been observed that fixed effect models have been adopted to control unobserved heterogeneity. The residual approaches are also tried to analyze savings by examining data discrepancies. It was interesting to find dynamic regression models with autoregressive moving average (ARMA) specifications capture complex temporal patterns. Some surveys based studies and comparison type methodologies also provide empirical support

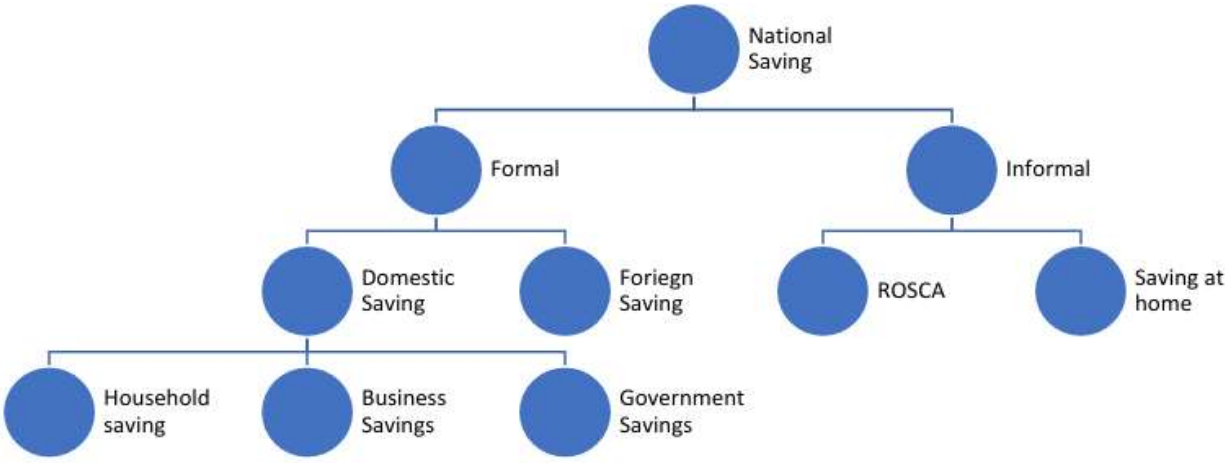
to theoretical representations. These diverse methodologies enable a well-meaning analysis of savings determinants, helping policymakers in designing effective strategies to lift savings rates in economy.

1.3 Pakistan Specific Saving Structure and Outlook

Pakistan's savings structure is a mix of formal and informal saving systems. Commercial banks, National Savings and Stock Market are the formal channels. Commercial banks regularly offer several savings accounts (savings accounts, fixed deposits schemes, and Islamic banking schemes). The National Savings Directorate provides saving schemes with returns (Prize 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. 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 behavior 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 behavior and the existing saving instruments in Pakistan.



Source: Author's Contribution

Figure 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 behavior of overall or sector wise (financial sector, portfolio investments, rural industry, HH) and testing hypotheses of saving behavior.

The rest of the paper is organized 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

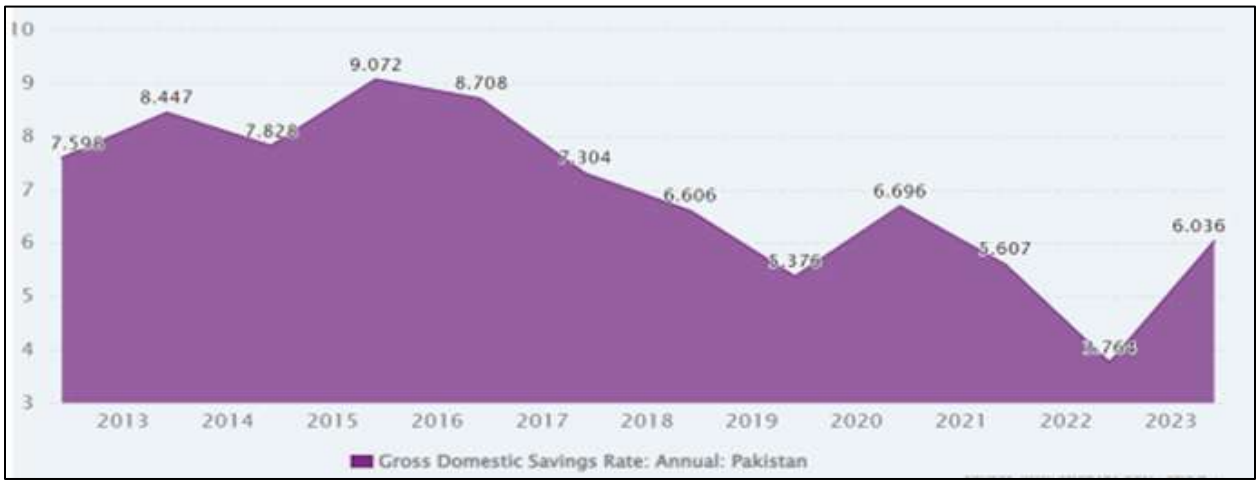
To offer a wide-ranging understanding of the broader trends, this section offers the results at the regional saving patterns highlighting key patterns across neighboring countries. The review covers regional saving patterns and provincial saving picture about factor influencing these variations.

2.1 Regional Savings Patterns

A comparative analysis of national saving rates among South Asian countries is suitable 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. It was observed that inflation, tax, and gross domestic product (GDP) have shown statistically significant positive effects on gross domestic savings. This advocates that higher inflation rates, effective tax systems, and robust GDP growth contribute positively to the savings rates in these countries. On the other hand, some other factors such as: per capita income, interest rates, money supply growth, and age dependency ratio exhibit nonsignificant effects on gross domestic saving.

India has boosted its domestic saving through rising public saving and a strong structural reform program and financial liberalization. The saving to GDP ratio of India, Bangladesh and Vietnam is at 31%, 35% and 24% respectively. According to CIEC data, Bangladesh gross Savings rate was measured at 30.4% in Jun 2021, compared with 30.4% in 2020.

Pakistan's economic performance is mainly a matter of concern as it struggles with lower savings and investment rates compared to its regional competitors. The regional discrepancy points towards the need for Pakistan to address identified determinants to boost its saving rates.



Source: CEIE data

Figure 2: Annual Gross Domestic Saving Rate

Data on gross domestic savings in Pakistan displays fluctuations (Figure 2), with a record low of 3% in June 2022, rising to 6% in June 2023. Despite several national savings initiatives and saving schemes

offered by the State Bank of Pakistan (SBP), the overall savings rate remains volatile and instable. These saving schemes encourage savings among the public, yet the government's fiscal policies and spending patterns significantly impact the national savings rate. Improving the saving rates needs comprehensive reforms in both government spending and the implementation of effective saving programs through banks.

2.2 Provincial Savings Depiction

In Pakistan, savings behavior appears broadly consistent across gender in all provinces. Rural households usually have a higher propensity to save especially due to the irregular or 'lumpy' income patterns associated with agricultural cycles (sowing and harvesting). Though, the formal financial sector is unable to mobilize these savings for investment. This reflects low confidence of citizens in financial institutions. Provincial variations are observed in a study done by (Karandaz, 2020) for all provinces where informal saving appeared as: Punjab (62%), Khyber Pakhtunkhwa (80%), Sindh (64%) and Balochistan (47%). On the other hand, saving in financial institutions is extremely low as observed in Sindh (7%), Punjab (6%), and Khyber Pakhtunkhwa (2%) as informed by (Karandaz, 2020). At provincial level there is a change in saving behavior of citizens.

Demand side surveys also show some insights about saving practices, perceptions and needs of people within country. Some important of surveys are the asset and represent data well. The Global Findex is a national data set, while Access to Finance (A2F) by SBP is provincial level survey. Another important survey is the Financial Inclusion Insight (FI) survey provides more deep data provincially. Moving towards supply side, SBP publications plays a role for analyzing financial trends.

The research gap is identified as low economic performance of the country reflects persistent struggles with weak savings and investment rates relative to its regional competitors. Within country savings behavior appears consistent across gender in all provinces. Rural households typically have a higher propensity to save especially due to the irregular income flows. The formal financial sector is unable to mobilize savings for investment reflecting low confidence of citizens in financial institutions.

3. THEORETICAL FRAMEWORK

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 by (Domar, 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 emphasizes the key role of savings in financing investment, which is very essential for sustainable economic growth and development.

Solow Growth Model by Solow (1956) was another important famous breakthrough after Harrod-Domar model. (Solow, 1956) 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 emphasized 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 emphasizing that savings contribute to physical capital accumulation and also to investments especially 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. Advancement was Relative Income Hypothesis Duesenberry(1949) which suggests that individuals' consumption and savings decisions are persuaded by their income relative to others and their own past income levels. The social context of saving behavior is especially 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 (Ammad & Ahmed, 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 of 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 and it 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.

In a nut shell, these theoretical frameworks provide complementary insights into the mechanisms underlying individual saving behavior while explaining the roles of lifetime income expectations, income stability, and economic uncertainty. A clear elucidation of these foundations is important for designing effective policies that strengthen savings and support sustained economic growth.

4. PUBLIC SECTOR SAVING INITIATIVES

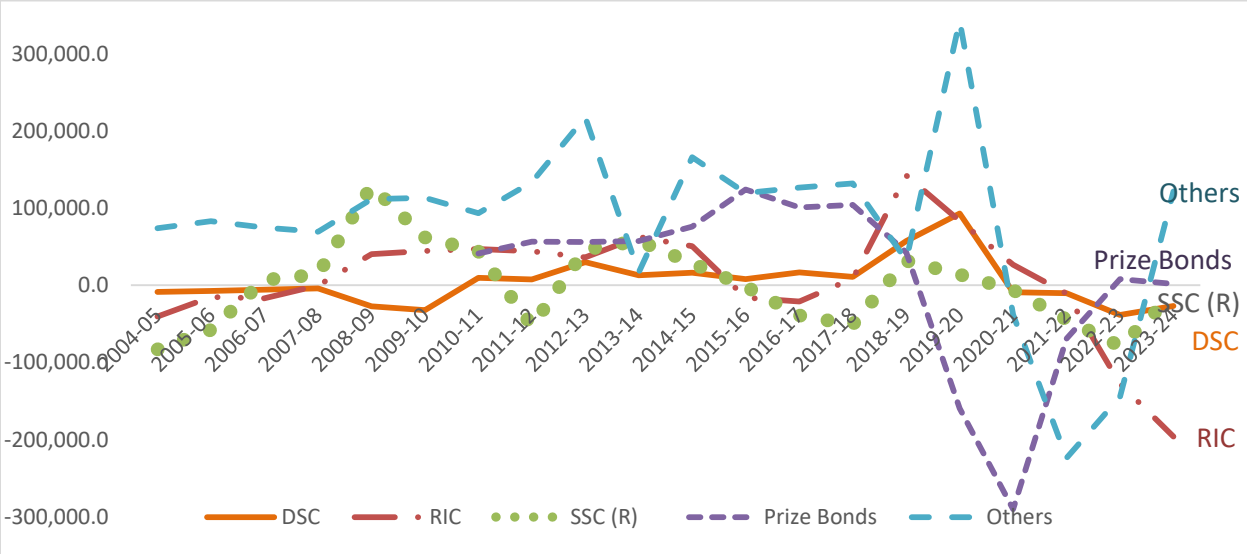
In Pakistan, government has introduced some saving initiatives through National Savings and SBP. The focus is to boost savings in economy and providing financial literacy to people. Azam et al. (2010) emphasized on the significance of national saving in the socio-economic development of Pakistan.

4.1 National Savings Schemes, Certificates & 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.

National savings schemes, as shown in Figure 3, usually mobilize savings by the product basket of National Savings Scheme (Defense 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 (Finance Division, 2024).

Figure 3: Savings Mobilized due to National Incentives (Millions PKR)



Source: Central Directorate of Savings

National Saving Schemes performed well in the 1990s but its ability to withstand high savings over the long term reduced. As explained by Vincelette (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.

4.2 SBP Initiative towards Savings Through Financial Inclusion

SPB through financial inclusion achieved (60% financial inclusion of adult population, 43% 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 minimizing negative impacts of income shocks. Financial inclusion also Increases economic growth by providing investment opportunities to all segments of the population by mobilizing 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 Program 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)[1].

5. 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.

5.1 Key Determinants of Public Savings

Identification of the determinants of savings is much needed for macroeconomic stability. Understanding of such determinants that impact saving behavior enables policy makers to formulate thoughtful policies that can raise national savings, promote investment and contributes to development initiatives. The right solutions strengthen the financial stability and reduce dependence on external borrowings. Knowledge about household's saving patterns help to formulate inclusive policies and mitigate inequality. Encouraging higher savings rates also ensures financial security for individuals and helps maintain healthy external balances by financing current account deficits and stabilizing exchange rates. Some common determinants are found as there were enough studies that discussed determinants of saving rates (Ahmad & Mahmood, 2013; Akhtar, 1986; Khan, 1988; Khan & Rahim., 1993; Sajid & Sarfraz, 2008; Kazmi, 2001; Asghar & Nadeem, 2016) and 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.

5.2 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 behavior.

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 factor which shows the number of dependents relative to working individuals, affects disposable income and savings potential. Employment status is another key determinant as employed individuals certainly have more stable flow of income and have favorable circumstances to save. Similarly, education is also an important factor that influences financial literacy and the saving patterns of the households. Furthermore saving patterns are affected by the age of household head. It has been observed that at young age individuals save less as compared to the old age. Saving behaviors vary between men and women due to diverse financial roles. In this way, investigating savings across various income groups provide an understanding of disparities and help policy makers to formulate policies to enhance saving rates among low income households by attractive offerings.

Domestic savings contribute to capital formation and that is essential for sustained economic progress. Few studies (Ali, 1985) and Chandio et al. (2015) measured saving elasticities. According to Ali (1985),

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

the income elasticity of savings in Pakistan was 2.75 reflecting that as income increases, savings rise substantially. On the other hand, the inflation elasticity of savings is (-0.5) showing that rising inflation tends to reduce savings due to the erosion of the real value of money. While Chandio et al. (2015) emphasize 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)

Moreover, Ahmad et al. (2006) point out that real interest rates have a positive impact on household savings, while inflation has a negative result. 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 infers that "the substitution effect" is there, where higher interest rates lead to increased savings dominates the income effect.

Household savings in Pakistan display dissimilar trends and challenges formed by demographics (SBP, 2025; Ahmad et al., 2006; Siddiqui & Siddique, 1993), gender and geographical factors. People in rural areas naturally save according to irregular and seasonal agricultural incomes patterns. Conversely, the formal financial sector has to face a difficulty to effectively capture savings, indicating a need for improved financial intermediation and sound investment plans. Significant provincial variations, such as those in province Balochistan, underscore the need for region specific financial inclusion systems. Improving financial literacy and accessibility through targeted campaigns is important to raise inclusive financial practices and increase household savings in Pakistan.

6. MAIN FINDINGS FROM REVIEWING LITERATURE

Various determinants have been identified in literature and many different findings led to draw conclusions. This section highlights the association of determinants with savings in Pakistan.

Effect of GDP growth, and Government Expenditure (1973-2011): According to the study by Jilani and Sheikh (2013) several factors influenced national savings in Pakistan from 1973 to 2011. There is a positive influence of growth of GDP and an increase in government consumption on national savings. This reveals that economic expansion and higher government spending contribute to increased savings.

Influence of Inflation, Interest Rate, and Government Expenditures (1980-2010): Aleemi et al. (2015) found that inflation, interest rates and government expenditures shows a negative effect on the national savings rate during the period of 1980-2010. High inflation wipe away the purchasing power of money leading to reduced savings as individuals prioritize immediate consumption. Government expenditures are usually 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. An increase in the foreign exchange gap upsurges the fiscal deficit.

Similarly a study by Khan and Rahim (1993) provide understandings that some factors are positively related to the national savings such as: the real interest rates, per capita income, Gross National Product (GNP), changes in the Terms of Trade (TOT) and economic openness. Higher real interest rates and improved economic indicators add in saving oriented environment.

Positive Influence 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 detected. As the real rate of return on deposits increases, the total amount of savings in the economy also inclines to rise. This connection suggests that greater returns incentivize individuals to save more as they expect greater benefits from their deposits.

Inverse Relationship between Savings and Fiscal Deficit: According to Nasir and Khalid (2004) an inverse relationship between savings and the fiscal deficit is observed. A higher fiscal deficit adversely impacts savings. The real interest rate, on the other hand, encourages savings. The finding points out the significance of substitution effect over the income effect. The interest rates boost savings provided that there are impressive returns on deposits.

Role of Remittances in Savings: Nasir and Khalid (2004) recognize a positive association between remittances and savings. Remittances are sent by expatriates to their home country provide additional income for the households which raise their standard of living and also leads to increased savings. These funds serve as a financial boost and enable families to save and invest more.

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

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

High dependency ratio, 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 which are negatively associated with national savings. It clearly indicates that a larger dependent population and high debt levels constrain savings. Some more links can be established from these findings and theoretical models to seek more understanding of various determinants offering important insights into the saving behavior dynamics. The Harrod-Domer model, Permanent Income Hypothesis and Solow growth model provide those links and theoretical foundations.

The Harrod-Domar model advocates the importance of savings and investment in economic growth. The positive impact of GDP growth on national savings (Jilani & Sheikh, 2013) is consistent with this model as economic development enhances resources for more investment. Likewise, government expenditures show positive association to savings by boosting public investment. Similarly, the inverse relationship between fiscal deficits and savings (Nasir & Khalid, 2004) highlights how deficits crowd out private resources while potentially delaying growth.

The Permanent Income Hypothesis underlines individuals basic savings on their lifetime income expectations. Inflation rates negatively affect savings (Aleemi et al., 2015) by fading away real incomes and reducing perceived lifetime wealth. Furthermore the remittances increase household incomes and encourage higher savings (Nasir & Khalid, 2004). Additionally, high dependency and debt-to-GNP ratios

(Khan & Rahim, 1993) reduce disposable income, forcing households to prioritize consumption over savings.

The Solow growth model connects savings to long term capital accumulation and steady state growth. Higher real interest rates positively impact savings (Khan et al., 1993), emphasizing 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., 2022) and better financial development (Khan, 1988) reinforces investment and sustained growth.

Cross-Cutting issues like religious beliefs influence savings behavior, as reluctance to use conventional banking systems has led to the growth of Islamic finance choices, such as RAFA schemes (Nasir and Khalid, 2004). 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, 1956). These factors collectively form savings behavior in Pakistan.

Over the next five years, the government, under URAAN program aims to achieve 6% annual GDP growth, boost exports to $50 billion, reduce inflation to 6%, 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.

7. IMPORTANT CRITIQUE

The economic landscape of Pakistan presents a distinctive set of challenges, particularly in the domain of savings and investment. This critique inspects some studies on savings in Pakistan, stressing the serious factors that influence the savings rate of country and the broader implications for economic growth. The damaging effects of inflation, interest rates, and government expenditures on the national savings rate from 1980 to 2010 are studied by Aleemi et al. (2015). Nasir and Khalid (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 behavior, 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 & financial deepening, and effectiveness of capital flows. The causal relationships are drawn between various factors and saving behavior 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 & financial deepening and effectiveness of capital flows in savings.

8. CONCLUSION

These review findings jointly illustrate the various dynamics influencing savings behavior in Pakistan economy, emphasizing the roles of macroeconomic factors, fiscal policies, GDP, interest rate, inflation, remittances, and religious beliefs in shaping national savings rates. The analysis shows that savings behavior in Pakistan a complex phenomenon driven by social and demographic culture. Factor like financial development and external factors such as remittances also impact savings in the country. Economic theories also highlight the dominant role of savings in economic stability. Harrod-Domar model, Solow model, and the Permanent Income Hypothesis jointly highlight the role of savings in capital formation and growth. Although higher real interest rates and improved financial development incentivize savings but on the other hand inflation reduces real income and weakens the saving capacity of the households. The national performance of the country also becomes feeble due to fiscal deficits. Religious factor and Islamic financial products offerings by banks also effect saving choices of society. Overall, there exist multidimensional determinants of savings and impact differently.

The study has certain important recommendations so as to improve the saving environment in Pakistan. Expansion of financial literacy programs is important to guide households toward investment oriented savings instruments (e.g. saving certificates, mutual funds, and equity markets). The government must stimulate private savings by offering saving incentives schemes. In the long term some other factors are also important and government must create environment of low inflation, improve real interest rates. Strengthening financial institutions/banking channels is another recommendation for financial development. Ensuring transparent market signals by creating competitive environment, building citizen's trust and promotion of Sharia compliant saving paths is expected to bring more participation in formal channels.

This review of studies provides a future research direction and key areas are: improve community inclusivity and educating them about importance of savings for Pakistan. The awareness of new, sustainable long term savings instruments; inspecting the role of Shariah compliant options; and identifying interest rate importance. Improvement in financial education for different age and socio economic groups is needed. Financial transparency and new savings options for youth, women and low income groups will be beneficial to boost savings in country.

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