

SAVINGS BEHAVIOUR AND ITS IMPACT ON THE ECONOMIC DEVELOPMENT OF PAKISTAN

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Saving means a curtailment of consumption. The total volume of saving depends on the size of income, the propensity to save and to a lesser extent on the rate of interest. Its economic importance lies in its relationship to investment, that is, the production of real capital. Saving is a necessary pre-requisite of investment. In this regard more savings and investment rates are important in view of their strong and positive association with the growth rate of Gross Domestic Product (GDP).⁽¹⁾ Big number of savings can finance more investment and lead to faster growth. Swift GDP growth is needed to generate more employment and better living standards. It is also important for declining poverty, given the existence of inequality in the distribution of income and subsequent lack of affordability by the poor.

The countries of South Asia have low level of domestic savings, which are inadequate to meet the investment requirements, consequently they have to depend on other countries' investment.⁽²⁾ The following table - I shows Domestic Savings as % of Gross Domestic Product (GDP).

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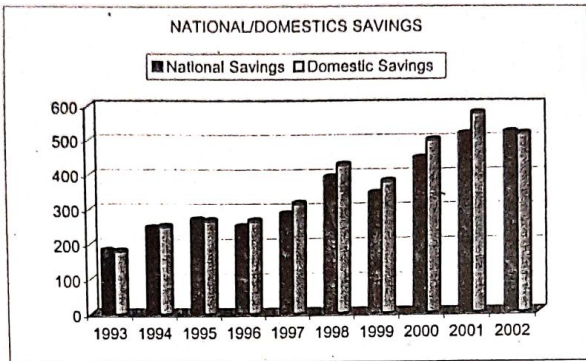
Table -I
Domestic Savings as % of Gross Domestic Product (GDP)

Countries	1998	1999	2000	2001	2002
Bangladesh	21.8	20.8	22.0	21.0	20.7
India	21.7	23.2	23.4	23.0	23.6
Sir Lanka	19.1	19.5	17.3	17.3	17.5
Pakistan	14.3	11.4	13.5	12.8	14.6
Bhutan	12.7	13.5	17.2	27.5	27.5
Malaysia	48.7	47.3	46.8	42.3	41.8
Singapore	50.8	48.8	49.3	45.8	44.5
Hong Kong	30.1	30.4	32.3	31.1	34.9
Korea	34.4	33.5	32.6	31.1	30.5
China	39.8	39.4	38.9	38.1	37.9
Thailand	36.5	29.9	30.2	27.5	26.3
Philippines	16.7	18.7	21.0	22.1	20.2
Indonesia	26.5	20.2	25.7	25.5	23.0
Total	373.1	356.6	370.2	365.1	363
Average					

Source: Asian Development Outlook, 2002, Pp.12-14.

It is clear from the above table-I that during 2002, savings rate in many Asian countries like China, India, Bangladesh, Bhutan, Malaysia, Singapore, Thailand, Hong Kong and Korea ranges between 20.7% to 44.5% but in our country domestic savings rate in the past decade has averaged 14.4% which is the lowest rate of savings in Asia. The rate of national savings in the 1990s remained un-changed at around 14%, while that of domestic savings it ranged between 14%-16%. In the year 2000-2001, there was slight improvement in these rates as these rose to 15.3% and 16.9%. During the 90's decade, growth in domestic savings averaged 11.4% and national savings 11.1%. ⁽³⁾ The following graph I shows the position.

Figure - I



PUBLIC AND PRIVATE SAVINGS

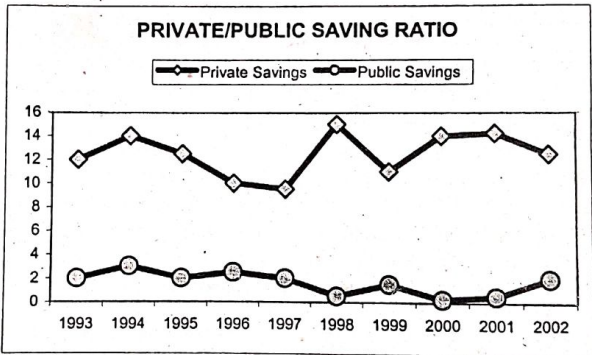
The contribution of Public sector to national savings has been negligible due to the inefficiency of state enterprises and increasing non-development expenditure. In the last decade (1993-02) the public savings have been particularly very less, i.e: 1.3% of G.N.P. In that period, the ratio sneaks away from an average of 1.9% in the five years ended 1996-97 to 0.8% in the five years ending 2001-2002. The ratio fell from a high of 2% in 1996-97 to a low of 0.2% in 1999-2000. While growth in public savings has been some what irregular during the period, there has been some increase in the last two years. Pakistan's effort to increase savings through taxation has not been able to generate adequate revenues from the private sector, due to the inelastic character of the tax system and heavy reliance on indirect taxation⁽⁴⁾.

The contribution of private sector to national savings has however, been encouraging. There has been a gradual increase in private savings in the past decade with growth averaging 12.4%. Private savings increased to a height of 14.3% in 2000-2001, decreased to 12.6% in 2001-2002. Compared with neighboring countries, having similar per capital income, Pakistan's private

saving and continue to be low. Private savings consist of corporate and house hold savings while corporate sectors, contribution to national savings has gone up marginally, it still remains small as the sector is at a developing stage. Women are the major savers. The government of Pakistan has been encouraging greater saving in the private sector through a package of saving schemes and by allowing financial institutions to introduce various saving schemes in the country ⁽⁵⁾.

The Following Figure -II shows the Position.

Figure – II



NATIONAL AND DOMESTIC SAVINGS

In our country savings, organization is the major mobilize of private savings, as it offers lucrative schemes, catering to the demands of various segments of society. Financial Institutions too, offer schemes to mobilize deposits and channel them towards productive avenues ⁽⁶⁾

The Following Table-II shows the National & Domestic Savings.

Table – II
National and Domestic Savings

(Rs. Bn.)

Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
National Saving	182.0	246.2	269.9	249.8	286.1	391.3	343.7	444.8	514.6	519.9
Public	20.2	38.9	35.4	31.3	47.9	9.8	28.6	7.8	32.6	47.9
Private	161.8	207.3	235.5	218.5	238.2	381.5	315.1	437.0	482.0	472.0
Domestic Savings	180.3	250.8	266.9	266.4	315.6	427.5	378.7	498.4	577.4	514.9

Source: Economic Bulletin, Vol. 29, No. 11-12 November - December 2002, Pp.10-15.

MOBILIZING BANK DEPOSITS

In Pakistan, the 20 domestic and 18 foreign banks operating are engaged in mobilizing deposits by offering various schemes. In the last five years, deposits have grown by 24%, averaging 4.5% per annum. Out of it, the nationalized commercial banks account for single highest share of 59% in total deposits, its share has fallen from 80% in the 1980's, in mobilizing the deposits. In this way saving deposits of all banks, which constitute 48% of total deposits have increased by 80% in the past five years from 1997-2001. Commercial Banks offer profits on such savings on six monthly basis, which currently ranges between 3.25% to 11% profits offered by banks are higher, ranging between 7% to 14% on term deposits of 1 to 5 years maturity. Banks' term deposits have, however, declined in the past five years by almost 30% and constitute only 20% of total deposits. Important decline of 19.7% has been recorded in term deposits of nationalized banks during the period from 1997 to 2001.⁽⁷⁾

The following Table-III shows Saving Deposits Mobilization by Banks and Fixed Deposit Mobilization by Banks:

Table - III
Saving Deposits Mobilization and
Fixed Deposit Mobilization by Banks

Years	Saving Deposits Mobilization by Banks	Fixed Deposit Mobilization by Banks
1997	349,545	375,213
1998	442,731	370,205
1999	480,888	358,384
2000	536,568	293,583
2001	631,286	296,476
Total	2,441,018	1,693,861
Average	488203.6	338772.2

Source: Economic Bulletin, Vol. 29, No. 11-12, November - December 2002, Pp. 9-10.

In this way foreign and local banks also offer various saving schemes, which are generally liked by the people of Pakistan.

Table -IV
Monthly Income Schemes

Scheme	Annual Yield (%)	Maturity	Minimum Investment (Rs)
MCB Mahana Khushali	9.50	5 Years	10,000
Paysal Izafa	9.0-10.0	1-6 months	25,000
Askari Bachat Certificates	12.0-13.0	3-5 years	25,000
Platinum Mahana Munafa	12.50-14.0	3-5 years	25,000
Prudential* Mahana Plan	12.0-14.0	2-5 years	25,000
IFIC Super Munafa	11.0-12.0	6-12 months	25,000
IDBP Mahana Munafa	11.35-14.60	1-7 years	25,000

* Prudential Bank's management and control has been acquired, by Saudi Pak Industrial & Agricultural Investment Company. The bank is operating as Saudi Pak Commercial Bank Since September 2001.

Source: Economic Bulletin, Vol. 29, No. 11-12, November - December 2002, p.11.

SAVINGS MOBILIZATION UNDER NATIONAL SAVINGS SCHEME

The national savings as percentage of GDP has gone up from 15.0% in the year 2001 to 15.4% in 2001-2002, mainly on account of a significant improvement in the current account

balance, which eliminated the need for resource to foreign savings to finance domestic investment.

The national savings schemes are also operated through the network of post offices and commercial banks. Post offices offer the largest network of saving bank services in the country. Serving as an agent of ministry of Finance they have been playing a vital role in encouraging and mobilizing savings since long. In fact in most of the remote areas, it is the only service available. Pak Post Saving Bank also offers a number of very attractive savings bank schemes⁽⁸⁾.

Saving schemes offered by the national saving organizations and also operated through the network of commercial banks and Post offices. These schemes are:

Defense Saving Certificates

- i. Certificates are transferable from one city and one person to another city and another person.
- ii. Certificates are issued for ten years, but are en-cashable at any time, after one month.
- iii. Certificates are available in the denominations of Rs.500/- to Rs.1 million.
- iv. There is no maximum limit of investment.

Special Saving Certificates

- i. Three years schemes but investment can be withdrawn at any time, after one month.
- ii. These certificates are available in the denomination of Rs.500, Rs.1000, Rs.5000, Rs.10000, Rs.50000, Rs.100000, Rs.500000, Rs.10, 00000.
- iii. Profit is paid on the completion of each period of Six months from the date of issuance.
- iv. No restriction on the maximum limit of investment.

Regular Income Certificates

- i. Five years regular scheme.
- ii. Rs. 880 monthly profit on amount 100,000 subject to 10% with holding tax.
- iii. Profit is payable on monthly basis.
- iv. Both single and joint purchase permitted.
- v. No maximum limit of investment.
- vi. Exempt from compulsory Zakat deduction.

Special Saving Account

- i. 6.50% per annum on account from which withdrawls are made through cheque.
- ii. 7.00% per annum on other accounts.
- iii. Easy and simple transfer of accounts to any post office branch within the country.
- iv. No maximum limit of investment.

Monthly Income Account

Monthly deposits from Rs.500/= to Rs.5000/= in this account for continuous 72 months entitle the investor to receive an amount equal to his monthly deposit every month, after maturity period (72 months) until the account is closed.⁽⁹⁾

OUTSTANDING PERFORMANCE OF NATIONAL SAVING SCHEMES

The national savings organization showed impressive performance in the year 2001-02. In 2001-02, net saving mobilized by the organization under National Saving Scheme were 97% higher, if compared to 2000-01. The bulk of savings amounting to Rs.57.5 billion or 80% of the total was constituted by Defence Saving Certificates and Special Saving Certificates. Saving mobilized through the National saving schemes had touched a peak of Rs.129.5 billion in 1999. The improvement was primarily due to an increase in the rate of profits offered, on saving accounts, defense saving certificates and special saving certificates, which were mobilized by the National Saving Schemes⁽¹⁰⁾

The evidence is given below in Table V.

Table -V
SAVING MOBILIZED BY NATIONAL SAVINGS SCHEMES
 (Rs.Mn.)

Year	Defence Saving Certificates	Regular Income Certificates	Special Saving Certificates	Others	Total
1993	5490	1120	15439	(19008)	3041
1994	11370	4244	5656	10910	32180
1995	20655	4023	7423	1845	33946
1996	20144	4732	12345	4656	41877
1997	31405	16472	14902	(4014)	58765
1998	32272	54409	20195	(5889)	100987
1999	38350	59099	24957	7155	129561
2000	41212	26112	19396	4687	91407
2001	16580	8643	9431	1698	36352
2002	21217	10909	36300	2490	70916
Total	238695	189763	166044	62352	599032
Average	23869.5	18976.3	16604.4	6235.2	59903.2

Source: Monthly Bulletin, November 2002 State Bank of Pakistan

In our country, saving centers, working under the central directorate of national savings have been effective in mobilizing saving. This office is an attached department of the finance division and performs deposit banks functions by issuing government securities through a network of 366 saving centers. The seven schemes, currently in operation, include defense saving certifies, special savings certificates / accounts, regular income certificates, mahana amdani account and prize bonds.⁽¹¹⁾ They have been the largest saving mobilizers compared to post offices and banks. The Table-VI shows the evidence.

Table - VI
NATIONAL SAVING SCHEMES (OUTSTANDING AMOUNT)

(End June: Million)

Schemes	1998	1999	2000	2001 R	2002 P
A. Accounts (i) to 4)	37,821.9	45,964.4	51,193.7	57,731.2	55,537.4
(i) National Saving Centres	23,783.2	28,647.8	30,841.8	26,738.5	23,539.6
(ii) Post Offices	14,038.6	17,316.6	20,351.9	25,992.7	31,997.8
1. Saving Account	8,024.7	10,321.3	10,124.6	8,019.6	7,752.8
2. Khas Deposit Accounts	486.7	436.2	397.5	360.7	354.1
3. Mahana Admani Accounts	1,869.3	1,885.8	1,899.7	1,952.5	2,371.1
4. Special Saving Accounts	27,441.2	33,321.05	38,771.9	42,398.4	45,054.4
B. Certificates (i,ii,iii,iv, v to 11)	374,981.2	496,435.2	582,608.2	617,430.2	685,642.2
(i) National Saving Centres	270,177.1	353,890.9	410,132.2	438,320.2	484,331.2
(ii) Post Offices	27,918.2	36,005.5	43,679.1	48,198.3	53,378.7
(iii) Banks	76,886.0	106,538.8	128,796.9	130,911.7	147,932.3
5. Defence Saving Certificates	168,840.2	207,190.0	248,401.8	264,982.1	286,199.4
6. National Deposit Certificates	132.1	83.4	57.2	40.7	33.7
7. Khas Deposit Certificates	340.35	320.0	307.1	294.8	290.4
8. Premium Saving Certificates	0.5	0.5	0.5	0.5	0.5
9. Special Saving Accounts (Registered)	118,965.9	143,922.6	163,318.4	172,749.6	209,049.7
10. Special Saving Accounts (Beair)	1,702.3	819.3	312.0	508.3	304.8
11. Regular Income Certificates	85,000.1	144,099.5	170,211.1	178,854.3	189,763.7
C. Prize Bonds	71,058.0	81,183.7	81,151.4	91,542.4	103,130.1
Total (A+B+C)	483,861.1	623,583.3	714,753.3	761,703.2	844,309.7

Source: Annual Report 2001-2002 State Bank of Pakistan, P.78.

(R) Revised

(P) Provisional

REASONS FOR LOW SAVINGS

The low saving rate is due to non-awareness about the savings to the peoples of Pakistan. So, these are cultural & economic factors behind low savings rate. The main reason of lower saving rate is the absence of a savings culture, poor saving habits, particularly among the rural population due to their traditional customs, low level of income, because no job opportunities, low literacy because non-availability of schools and consequent poverty among large majority because rural people depend on agriculture and livestock. Other reasons include a large and growing population, a high dependency ratio, moderate to low economic growth, less prudent fiscal management and the dearth of viable saving products available for public. The varied taxes and declining return on savings schemes is a disincentive⁽¹²⁾.

DECREASING RATE OF RETURN

It is clear that the rates of return on various instruments of National Savings Schemes have also been further reduced up to 2.5% on maturely, effective July 1, 2002. From a peak of 18% per annum 10- years' defense and 3-year special saving certificates now offer net profit of 10.6% and 9.9% per annum. These returns had been linked with the average yields of the Pakistan Investment Bonds of similar maturity to make them more consistent with the prevailing market rates. This was the third adjustment in the rates of return on National Savings Schemes since January 2001, when it was first cut by 2%, followed by another cut of 1.5% in July 2001. The profit from investment in National Savings Schemes has also been subjected to 10% withholding tax since January 2001. The exemption limit of imposing 10% withholding tax has been brought down to Rs.150, 000 from Rs.3 million. Profit of investors in National Savings Schemes has decreased by a third in two years profit rates offered on deposits of various maturities by the banks have also been reduced.⁽¹³⁾

CONCLUSIONS AND RECOMMENDATIONS

It is recommended that attractive investment incentives are needed because our country is a highly consumption oriented society. Attractive investment alternatives should be created to bring about a meaningful change in the attitude of people towards savings. As people lack the choice of investment in national saving schemes money has flown towards the stock market and real estate.

Local banks defunct lottery schemes launched in 1998 were able to attract large sum from deposit holders. These schemes were popular because of high pay off. Prize bonds yield a zero return to their holders unless the holder wins prizes, but a huge amount of funds have been invested in it because these offer a chance to win big prizes. In order to induce people to consume less and save more, there is a need to formulate constructive policies to encourage saving's behavior of the peoples on one hand and on the other hand increase the return on savings and compete with other Asian countries.

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