

THE EFFECTS OF INTEREST RATE ON SAVINGS AND DEPOSITS IN PAKISTAN

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ABSTRACT

The main purpose of the research is, to study the effects of interest rate on savings and deposits of scheduled banks (registered in the list of State Bank of Pakistan) & other financial institutions in Pakistan, during 2002 to 2016. Typically, the interest rate is significantly related with the saving and deposit and it is considered that higher the interest rate, higher the savings and deposit. We will examine the pragmatic of this phenomenon in scheduled banks & other financial institutions of Pakistan. The data is mainly based on secondary sources which have been taken from World Bank and annual reports of State Bank of Pakistan (SBP). Savings & deposit are considered as dependent variable in two different models and deposit interest rate as explanatory variable; the amount of deposits has been taken that is explained in local currency in the financial statements of SBP. Ordinary least square regression method has been applied to investigate the relation between interest rate and savings & deposits in Pakistan with the help of E-views statistical software. The result shows that deposit rate is positively affected by interest rate whereas savings is adversely influenced by interest rate but comparatively interest rate is strongly significant for savings.

KEYWORDS: Deposit, Financial Institutions, Interest Rate, Saving, Scheduled Banks