Determinants of Savings: The Case of Developed and Developing Countries

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Abstract: Over the past 25 years, saving rates have significantly affected development levels of countries especially in both developed and developing countries. This study is based on Loayza et al. (2000) and aims to find out determinants of savings by employing panel data econometric methods, annual data of 1990-2015 period for developed and developing countries. According to model results, there is a strong and negative relationship between public savings and private savings and results also indicate that public savings have a crowding out effect on private savings. GDP per capita, one of the most important determinants of savings, has a statistically significant and positive relationship with private savings. Although term of trade has a positive impact on private savings, there is a significant and negative relationship between private savings and the ratio of M2 to GDP as an indicator of financial depth. Moreover, results indicate that savings with precautionary motive increase when uncertainty in inflation is high. As a result, the policy supporting growth of GDP per capita and term of trade might increase savings while limiting credit usage in order to slow the decline in private savings could be used as a crucial policy tool.

Key words: Savings, Private savings, Public savings, Panel data

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