



**SAVINGS IN THE PHILIPPINES: AN ERROR  
CORRECTION MODEL**

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**RENZ JOVANNI C. NAKPIL**

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**TABLE OF CONTENTS**

	<b>Page</b>
TITLE PAGE .....	I
APPROVAL SHEET .....	Ii
BIOGRAPHICAL SKETCH .....	Iii
ACKNOWLEDGEMENT .....	Iv
TABLE OF CONTENTS .....	Vi
LIST OF TABLES .....	ix
LIST OF FIGURES .....	xi
ABSTRACT .....	xiii
INTRODUCTION .....	1
Background of the Study .....	3
Statement of the Problem .....	6
Objectives of the Study .....	8
Hypotheses of the Study .....	8
Significance of the Study .....	9
Scope and Limitations of the Study .....	10
Definition of Terms .....	10
REVIEW OF RELATED LITERATURE .....	13
Budget Deficit and Domestic Debt .....	13



Interest Rate and Savings .....	18
Remittances and Household Income .....	20
Household Saving and Consumption Behavior .....	22
Investment and Capital Formation .....	26
FRAMEWORKS OF THE STUDY .....	28
Theoretical Framework .....	28
Age-saving profile and life-cycle hypothesis .....	28
Saving function .....	32
Self-adjustment mechanism .....	33
General theory of employment, interest, and money .....	34
Solow growth model .....	36
Conceptual Framework .....	38
METHODOLOGY .....	42
Research Design .....	42
Sources of Data .....	42
Methods of Analysis .....	42
RESULTS AND DISCUSSION .....	48
Trend of Savings in the Philippines .....	48
Factors Affecting Savings .....	55
OFW remittances .....	54
Real disposable income .....	60



Personal consumption expenditure .....	65
Capital formation in the Philippines . . . . .	71
Consumer price index .....	76
Real interest rate .....	77
National Saving Behavior .....	82
Marginal propensity to save and consume .....	82
Average propensity to save and consume .....	85
Short-run and Long-run Multipliers .....	88
<b>SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS</b> .....	109
Summary .....	109
Conclusions .....	112
Recommendations .....	113
<b>REFERENCES</b> .....	115
<b>APPENDIXES</b> .....	120



**LIST OF TABLES**

<b>Table</b>		<b>Page</b>
1	Savings in the Philippines, 1980-2008 .....	49
2	Overseas Filipino Workers Remittances, 1980-2008 .....	55
3	Philippine Real Disposable Income, 1980-2008 .....	61
4	Philippine Real Personal Consumption Expenditure, 1980-2008 .....	67
5	Philippine Capital Formation, 1980-2008 .....	72
6	Philippine Consumer Price Index, 1980-2008 .....	78
7	Real Interest Rate, Philippines, 1980-2008 .....	80
8	Marginal Propensity to Consume and Save, Philippines, 1980-2008 .....	84
9	Average Propensity to Save and Consume, 1980-2008 .....	87
10	Summary of Augmented Dickey-Fuller Test .....	88
11	Summary of Regression Analysis of Savings .....	89
12	Summary of Cointegrating Regressions .....	91
13	Summary of Error Correction Estimates .....	91
14	Adjustment to Achieve Equilibrium Savings and PCE .....	104
15	Adjustment to Achieve Equilibrium Savings and CPI .....	105



16	Adjustment to Achieve Equilibrium Savings and Capital Formation .....	106
17	Adjustment to Achieve Equilibrium Savings and Remittance .....	107
18	Adjustment to Achieve Equilibrium Savings and Real Disposable Income .....	108





**LIST OF FIGURES**

<b>Table</b>		<b>Page</b>
1	Life-Cycle hypothesis .....	29
2	Classical theory of saving and interest rate adjustment .....	35
3	Keynes' excessive saving graph .....	37
4	Conceptual framework showing the determinants of savings in the Philippines .....	41
5	Philippines savings, 1980-2008 .....	50
6	Savings as percentage of GDP, 1980-2008 .....	51
7	Growth rate of savings, 1980-2008 .....	52
8	OFW remittances in the Philippines, 1980-2008 .....	57
9	OFW remittance as percentage of GDP, Philippines, 1980-2008 .....	58
10	Growth rate of OFW remittances, 1980-2008 .....	59
11	Philippine real disposable income, 1980-2008 .....	62
12	Real disposable income as percentage of GDP, 1980-2008 .....	63
13	Growth rate of real disposable income, Philippines, 1980-2008 .....	64
14	Philippine personal consumption expenditure, 1980-2008 .....	68



15	Personal Consumption Expenditure as percentage of GDP, Philippines, 1980-2008 .....	69
16	Growth rate of personal consumption expenditure, Philippines, 1980-2008 .....	70
17	Philippine capital formation, 1980-2008 .....	73
18	Philippine capital formation as percentage of GDP, 1980-2008 .....	74
19	Growth rate of capital formation, Philippines, 1980-2008 .....	75
20	Inflation rate, Philippines, 1980-2008 .....	79
21	Real interest rate in the Philippines, 1980-2008 .....	81
22	Summary of residual, actual, and fitted of the error correction test of PCE .....	99
23	Summary of residual, actual, and fitted of the error correction test of CPI .....	100
24	Summary of residual, actual, and fitted of the error correction test of OFW remittances .....	101
25	Summary of residual, actual, and fitted of the error correction test of capital formation .....	102
26	Summary of residual, actual, and fitted of the error correction test of real disposable income .....	103





## ABSTRACT

**Nakpil, R, C., Savings in the Philippines: An Error Correction Model.**  
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This study investigated the determinants of savings in the Philippines using the error correction model. The study covered the period 1980 to 2008 on an annual basis. It aimed to (a) describe savings in the Philippines and the selected variables affecting it such as consumer prices, personal consumption spending, real interest rate, OFW remittances, capital expenditures, and personal disposable income; and (b) estimate the short-run and long-run behavior of savings.

The Engel-Granger Error Correction Model was used to investigate the short-run and long-run relationships of savings with the selected independent variables. The marginal propensity to consume and save (MPC and MPS) and average propensity to consume and save (APC and APS) tests were used to investigate on the national savings behavior.

It was found that MPC was very high with an average value of 0.67 and MPS was low with an average value of 0.33. Average MPC was more than double the value of average MPS which only shows that private sector will consume 67 percent of the increase in income and only save 33 percent of the increase in real disposable income. Higher MPC than MPS shows that private sector preferred to consume more in the future when income increases than to save more. The average value of APC



was 0.80 while average APS was only 0.20 which means that the private sector is consuming 80 percent of its real disposable income and only saving the 20 percent.

All variables were found to be stationary at different orders of integration. The study found CPI, PCE, and OFW remittances to be very significant in determining the savings in the Philippines. CPI and real interest rate were found to have negative effect on savings. The speed of adjustment of savings resulting from changes in PCE, CPI, remittances, real interest rate, capital formation, and real disposable income were 0.10, 0.09, 0.17, 0.03, 0.05, and 0.07, respectively, showing that the short-run adjustment to the long-run equilibrium savings took a relatively long period of time.

It was found that savings and OFW remittances are positively related and increasing OFW remittances will increase savings. The government, particularly the Department of Foreign Affairs and Philippine Overseas Employment Admission (POEA), should provide a better way for OFW applicants to be accepted in other countries. The Bangko Sentral ng Pilipinas (BSP) can increase its reserve requirement to affect the money supply and interest rate. Minimizing or decreasing taxes will affect the disposable income of the household and also the income of the firms, hence, affecting their savings.