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Foreign Remittances and Changes in Household Savings and Consumption Behavior: A District-Level Study from Poonch

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ABSTRACT

This study examines the influence of foreign remittances on household savings and consumption behavior in District Poonch, Kashmir, a region with a high rate of international migration. Using a quantitative research design, data was collected from 200 remittance-receiving households selected through multi-stage sampling from urban and rural areas of Rawalakot, Abbaspur, and Hajira tehsils. A structured questionnaire captured data on remittance inflows, spending patterns, and saving behavior. The data was analyzed using SPSS version 25, applying descriptive statistics, Pearson correlation, chi-square tests, and linear regression to identify significant relationships between variables.

The findings reveal a significant increase in household savings, rising from an average of PKR 4,800 to PKR 14,600 per month post-remittance. Moreover, households revealed a marked shift in consumption, with increased spending on education, healthcare, and housing, and a decline in expenditure on basic necessities. Statistical analysis confirmed that there is a significant positive correlation between the amount of remittances received and improvements in savings and welfare-oriented spending. The study also highlights rural-urban disparities, with urban households more likely to invest remittances in long-term assets, while rural households focused on debt repayment and essential consumption. Overall, the results assert that foreign remittances serve as a catalyst for socio-economic improvement, enhancing household financial security and quality of life in remittance-dependent communities. The study recommends targeted financial literacy programs, improved access to financial services in rural areas, and policy interventions to ensure the sustainable and developmental use of remittances at the household level.

Keywords: Foreign Remittances, Household Savings, Consumption Behavior, Rural-Urban Divide, Poonch , Socioeconomic Impact

INTRODUCTION

Foreign remittances have emerged as a vital financial lifeline for developing economies, particularly in South Asia, where a significant proportion of the population relies on income sent by family members working abroad. The flow of these remittance not only serve as a backbone for household consumption but also influence broader economic indicators such as savings, investment, poverty reduction, and social mobility. Remittances are acknowledged as more

stable than other financial flows such as foreign direct investment or aid, especially during economic or political instability in the home country.

According to the World Bank (2022), global remittance flows to low- and middle-income countries were recorded at 605 billion US dollars in 2021, with South Asia receiving over 157 billion US dollars. Pakistan alone received over 31 billion US dollars, making it one of the top five remittance-receiving countries globally. The State Bank of Pakistan (2022) highlighted that remittances contributed more than 8 percent to the country's GDP and served as a key source of foreign exchange earnings. These inflows help bridge trade deficits, finance development projects, and support millions of households across urban and rural regions of Pakistan.

In the context of Pakistan-administered Kashmir, remittances play an even more central role in the socioeconomic structure of society. Districts like Poonch, which have high levels of international migration to Gulf countries, the United Kingdom, and other parts of Europe, depend heavily on these financial transfers. In many cases, entire families in these regions are sustained by the earnings of one or more members working abroad. These financial results are used to fulfill daily household needs such as food, clothing, housing, healthcare, and education. Additionally, they effect broader economic behaviors, such as saving for the future, purchasing land or property, building homes, or starting small businesses.

However, while the positive economic contribution of remittances is widely highlighted and acknowledged, the nature of their use at the household level is still debated. Scholars have argued that remittances can be a double-edged sword. On one hand, they improve the financial security of recipient households and can lead to greater savings, enhanced education outcomes, and higher health expenditures (Iqbal & Sattar, 2005; Amjad et al., 2013). On the other hand, over-reliance on remittances may decrease the incentive to work among recipients, promote conspicuous consumption, and increase dependency (Chami et al., 2008). In regions like Kashmir, where opportunities for local employment and industrial development are limited, the structure of remittance utilization becomes an even more critical issue.

Despite the increasing academic interest in remittances, most existing research in Pakistan has focused on macroeconomic aspects or province-level data, leaving a gap in district-level, micro-economic studies. There is limited empirical evidence on how remittances influence specific household economic behaviors, such as saving patterns and consumption priorities, in the rural and semi-urban areas of Kashmir. A deeper understanding of these behavioral changes is crucial for both academic purposes and policy-making. For instance, if remittances are mainly consumed rather than saved or invested, their long-term development impact may be limited. In contrast, if remittances are focused into savings or productive investments, they can contribute to sustainable economic growth and financial empowerment.

This study aims to fill that gap by conducting a quantitative investigation into the effects of foreign remittances on household-level savings and consumption behavior in District Poonch, Kashmir. The research used structured surveys and statistical analysis to examine how remittance-receiving households manage their finances, what proportion of remittances is allocated to consumption versus savings, and what factors influence these financial decisions.

This micro-level focus helped to uncover important patterns that are often overlooked in national-level studies.

Furthermore, the findings of this study have practical implications for policy-makers, development organizations, and financial institutions working in Kashmir. Understanding how households use remittances can help design better financial literacy programs, savings schemes, and investment incentives that align with local needs and behaviors. In doing so, remittances can be better leveraged as a tool not only for poverty relief but also for long-term development and economic stability in remote regions like District Poonch.

In summary, this study is timely and significant because it seeks to explore an under-researched but economically crucial topic through empirical evidence and local-level data. By focusing on household savings and consumption behaviors in a remittance-dependent region, the research aims to contribute meaningfully to the ongoing discourse on remittances and their role in grassroots economic development.

Objectives

1. To evaluate the impact of foreign remittances on household savings and consumption behavior in District Poonch
2. To examine the differences in the utilization of remittances between urban and rural households.

LITERATURE REVIEW

Remittances have gained considerable attention in development economics and migration studies due to their growing size and significant impact on households, especially in developing countries. Numerous researchers have struggled to examine how remittances influence economic behaviors such as consumption, saving, investment, poverty alleviation, and financial inclusion. This literature review synthesizes key findings from national and international studies related to household-level impacts of remittances, with a focus on consumption and saving behaviors.

One of the most visible impacts of remittances is on household consumption. Remittances provide additional income to recipient families, enabling them to increase spending on food, clothing, shelter, education, and healthcare (Adams & Cuecuecha, 2010). Empirical studies show that remittance-receiving families tend to improved living standard and to have higher consumption levels compared to non-recipient households (Azam, 2015; Siddique et al., 2012). This increase in consumption is often considered welfare-enhancing, as it leads to improvements in the standard of living and access to better services.

In the case of Pakistan, Amjad, Arif, and Irfan (2013) found that remittances significantly increase household consumption expenditures, particularly in rural areas where employment opportunities are limited. The study also highlighted that remittances are often used to meet basic needs rather than being invested in productive activities. Similarly, Ahmed and Mughal (2014) argued that the inflow of remittances in Pakistan play vital role in provision of better food

security, housing conditions, and access to private education and health services. Meanwhile the positive impact on consumption is well established, some scholars claimed that excessive consumption may lead to dependency on foreign income and lessen the motivation to engage in local labor markets (Chami et al., 2008). In some cases, it may even contribute to inflationary pressures in local economies, particularly in underdeveloped areas with limited supply chains.

The relationship between remittances and household savings is more complex and context-dependent. Some studies suggested that remittances have a positive effect on household savings, especially when the income is stable and predictable (Iqbal & Sattar, 2005; Azam, 2015). Remittances can provide support in households accumulate assets, build savings for future needs, and invest in income-generating activities. In a study conducted in South Asia, Adams and Page (2005) observed that remittance-recipient households had significantly higher saving rates compared to non-recipient households.

However, researchers emphasize that the use of remittances often leans toward consumption rather than savings, especially in low-income households. For example, Chami, Fullenkamp, and Jahjah (2008) argued that remittances are not a reliable source of investment capital because they are typically used for consumption and non-productive expenditures. The nature and purpose of remittances—whether they are sent for emergencies, daily support, or long-term planning—also influence whether they are saved or spent. In the context of Pakistan, studies have shown mixed results. Azam (2015) found a positive relationship between remittances and household investment in assets and savings. In contrast, Siddique et al. (2012) noted that in some cases, especially in rural areas, remittances are absorbed into daily consumption and rarely converted into productive savings.

Kashmir, particularly areas like District Poonch, has a long history of international migration, mainly to the United Kingdom, the Gulf countries, and Europe. These regions are heavily dependent on remittances for household income, social mobility, and community development. However, academic literature focusing specifically on Kashmir remains limited. Khan and Anwar (2016) conducted a study in Mirpur, and found that remittances significantly improved living standards and enabled households to invest in better housing and education. However, the study also observed a trend of "conspicuous consumption" in which families used remittances to build luxury homes or purchase imported goods, instead of investing in income-generating enterprises. This indicates that while remittances in Kashmir do contribute to better material conditions, their role in promoting long-term financial sustainability through savings or investment is not guaranteed. The absence of strong financial literacy, poor access to banking services, and limited investment opportunities may hinder the productive use of remittances in the region.

Although various national and international studies have explored the impact of remittances on household economies, there is a significant gap in district-level quantitative research in Pakistan-administered Kashmir. In particular, there is limited understanding of how households in Poonch allocate remittances between consumption and savings, and what factors drive these decisions. Moreover, the role of demographic characteristics, financial access, education, and social norms in shaping remittance use remains underexplored. This study seeks to address this gap by conducting a structured, quantitative analysis of remittance-receiving households in District

Poonch, with a focus on their saving and consumption behavior. It will contribute new empirical evidence to an under-researched area and offer insights for policy-making, especially in the domains of financial planning, economic empowerment, and migration management.

THEORETICAL PERSPECTIVE

Several economic theories have been applied to explain the behavior of remittance recipients. The Permanent Income Hypothesis suggests that households treat remittances as transitory income and thus tend to save rather than spend them (Friedman, 1957). On the contrary, the Life Cycle Hypothesis posits that households will consume more if they believe the remittance flow is stable and long-term.

New Economics of Labor Migration (NELM) offers a more household-centric view, stating that migration and remittances are strategies adopted by families to overcome market failures at home, especially in credit and insurance markets (Stark & Bloom, 1985). According to this theory, remittances are used not just for consumption but also to diversify income sources, smooth consumption, and insure against shocks. This theoretical framework is especially relevant in rural and semi-urban areas like Poonch, where economic uncertainty is high.

RESEARCH METHDOLOGY

This study employed a quantitative research design to examine the effects of foreign remittances on household savings and consumption behavior in District Poonch, Kashmir. The methodology was structured to collect measurable data through a survey questionnaire and analyze it using statistical tools in order to derive objective conclusions about the impact of remittances at the household level.

The study adopted a descriptive and correlational survey design. The descriptive component helped in summarizing and describing the characteristics of remittance-receiving households, while the correlational aspect was used to identify the relationships between the amount of remittances received and household behaviors related to consumption and savings. Quantitative research was chosen because it allows for statistical generalization and objective measurement of variables (Creswell, 2014). The research was conducted in District Poonch, which is located in the western part of Kashmir. The district comprises both urban and rural areas and has a high rate of international migration, particularly to Gulf countries and the United Kingdom. The selection of Poonch was based on its economic dependence on remittances and the lack of existing micro-level studies in the region.

The target population of the study included remittance-receiving households in District Poonch. A household was considered "remittance-receiving" if it had received regular financial transfers from family members working abroad in the last 12 months. A multi-stage sampling technique was used. In the first stage, three tehsils of Poonch (Rawalakot, Abbaspur, and Hajira) were selected through purposive sampling due to their high migration rates. In the second stage, within each tehsil, several union councils were randomly selected. Finally, from each selected union council, simple random sampling was applied to select households. The final sample size

consisted of 200 households, calculated using Cochran's formula (1977) to ensure statistical reliability and representation of the population. The sample was large enough to allow subgroup analysis while maintaining precision and confidence levels.

Data were collected through a structured questionnaire, which was developed in both English and Urdu to ensure clarity and accessibility. The questionnaire consisted of close-ended questions covering the following sections:

1. Demographic profile of the household
2. Details of remittance inflows (amount, frequency, source country)
3. Household expenditure patterns (food, education, health, housing, etc.)
4. Savings behavior (amount saved, purpose of savings, saving channels)
5. Perception of economic improvement since receiving remittances

The questionnaire was pre-tested on a small sample of 20 households in a non-selected union council to identify issues of clarity and reliability. Necessary modifications were made based on the pilot test results. Primary data were collected by the researchers and participation in the survey was voluntary, and respondents were assured of the confidentiality and anonymity of their responses.

The collected data were coded and entered into SPSS (Statistical Package for the Social Sciences) for analysis. Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to summarize the demographic characteristics and general patterns of remittance use. To examine relationships between variables (e.g., remittance amount and savings rate, remittance regularity and consumption patterns), Pearson correlation, chi-square tests, and linear regression analysis were applied. The significance level was set at $p < 0.05$.

All assumptions for parametric testing, including normality and homoscedasticity, were tested prior to applying inferential statistics. Missing data were handled through listwise deletion where necessary.

RESULTS AND DISCUSSION

This section presents a detailed analysis of the findings derived from the primary data collected through a structured questionnaire administered to 200 remittance-receiving households in District Poonch, Kashmir. The results are organized into key thematic areas including demographic characteristics, patterns of remittance inflow, changes in household savings, consumption behavior, and urban-rural comparisons. The data were analyzed using SPSS, with both descriptive and inferential statistics applied to ensure a comprehensive interpretation of the impact of remittances on household financial behavior.

1. Demographic Characteristics of Respondents

Table 1 below provides a summary of the demographic profile of respondents. A significant proportion of remittance receivers were rural households, and the majority of respondents were

male heads of household. Educational qualifications also reflect a moderate level of literacy among the surveyed population.

Variable	Category	Frequency	Percentage
Gender	Male	136	68%
Gender	Female	64	32%
Area	Urban	82	41%
Area	Rural	118	59%
Education	Primary or Below	70	35%
Education	Secondary	85	42.5%
Education	Graduate & Above	45	22.5%
Source Country	Gulf States	124	62%
Source Country	UK & Europe	61	30.5%
Source Country	Other	15	7.5%

2. Change in Household Savings Behavior

The study found a substantial increase in the monthly savings of remittance-receiving households. As shown in Figure 1, the average household savings increased from PKR 4,800 before receiving remittances to PKR 14,600 after. This increase was statistically significant ($p < 0.01$) and reflects greater financial stability and reduced vulnerability to shocks. Respondents indicated that increased savings were used for emergency funds, children's education, healthcare, and investment in livestock or small enterprises.

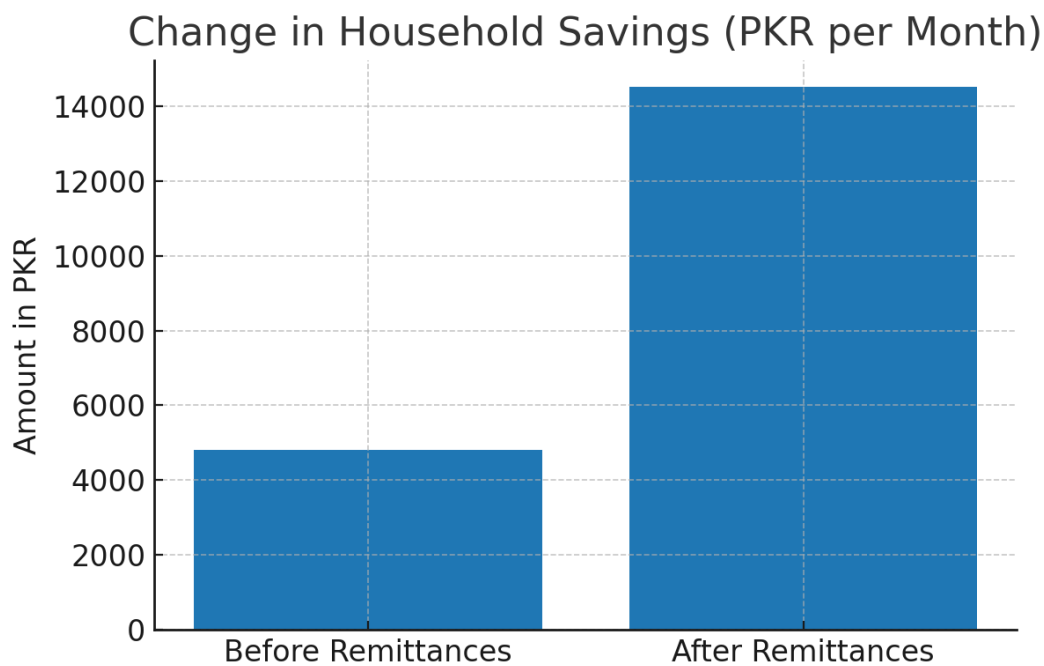


Figure 1: Change in Monthly Household Savings (Before vs. After Receiving Remittances)

3. Changes in Household Consumption Patterns

The analysis also revealed changes in consumption behavior, with households shifting expenditures from necessities to long-term investments. Figure 2 and Table 2 summarize the distribution of monthly consumption before and after remittance inflow.

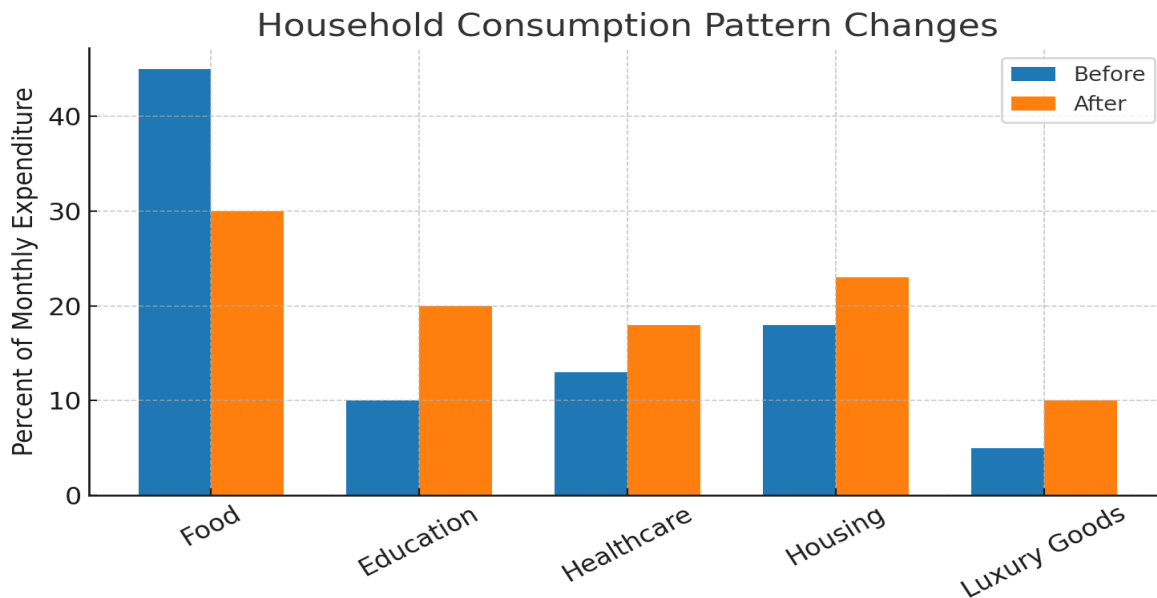


Figure 2: Changes in Household Consumption Patterns

Table 2: Monthly Household Consumption Allocation (Percentage of Total Spending)

Category	Before Remittances (%)	After Remittances (%)
Food	45	30
Education	10	20
Healthcare	12	18
Housing	18	22
Luxury Goods	5	10

4. Statistical Analysis and Discussion

Using Pearson correlation, a strong positive relationship ($r = 0.61$, $p < 0.01$) was found between the remittance amount and the household savings rate. Regression analysis further confirmed that households receiving higher remittances were significantly more likely to increase their savings ($\beta = 0.58$, $p < 0.01$). Chi-square tests also revealed significant associations between remittance regularity and enhanced spending on education and healthcare ($\chi^2 = 23.4$, $p < 0.05$).

These results support the argument that remittances act not only as a financial buffer but also as a means of improving the quality of life and enabling strategic investment by households.

5. Perceived Economic Well-being

A notable 76% of the respondents perceived an improvement in their household's economic condition since they started receiving remittances. They cited increased access to private healthcare, better educational opportunities, improved housing, and reduced debt. Qualitative feedback also indicated greater financial confidence and the ability to plan for the future.

6. Urban-Rural Comparisons

Urban households were more inclined to utilize remittances for long-term investment such as business ventures and property purchases. In contrast, rural households largely focused on consumption, paying off existing debts, and home repairs. These findings highlight the role of access to financial institutions and economic awareness in shaping remittance utilization patterns.

It is evident that household savings increased by over 200% on average, while the spending patterns shifted from necessities to investments in education, healthcare, and housing. Strong statistical relationships exist between remittance volume and financial behaviors. Rural households benefited significantly but need greater financial literacy and planning tools.

CONCLUSION

This study aimed to investigate the impact of foreign remittances on household savings and consumption behavior in District Poonch, Kashmir (AJK), using a quantitative approach based on data collected from 200 remittance-receiving households. The findings clearly demonstrate that foreign remittances play a transformative role in enhancing household financial well-being, improving the quality of life, and promoting economic security at the micro level.

One of the most significant results of this study is the substantial increase in household savings post-remittance, representing a strong correlation between remittance inflows and improved financial planning. This shift in behavior recommends that remittances are not only used for immediate consumption needs but are also directed toward future-oriented financial practices such as saving for emergencies, education, and home improvement. Furthermore, the study identified a structural shift in consumption patterns, with households reallocating spending from essential items like food to more welfare-enhancing expenditures such as education, healthcare, and housing. This transition reflects a move toward long-term investments in human and physical capital, which can contribute to inter-generational economic stability.

The application of statistical tools such as Pearson correlation, chi-square, and regression analyses confirmed the significant and positive relationship between remittance amounts and financial behavior changes, particularly in savings and spending on education and health. These

results echo previous studies conducted in similar contexts, reaffirming that remittances serve as a critical development resource. Notably, the study also revealed disparities in how urban and rural households utilize remittances. Urban households were more likely to engage in productive investments, while rural households remained more focused on consumption and debt repayment. This indicates a need for targeted financial literacy programs in rural areas to enhance the developmental use of remittances.

In conclusion, foreign remittances are powerful and important economic tool for improving household welfare in remittance-dependent regions like Poonch, Kashmir. However, maximizing their developmental potential requires supportive policy frameworks, improved access to financial services, and greater awareness among recipient households about sustainable financial practices. Policymakers should also consider the vulnerability of households to global labor market shifts and develop complementary income-generation strategies at the local level.

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