

creates and sustains the environment that encourages high domestic saving rate. It is also important to highlight the need for strong prudential regulations, supervision, and monitoring. This includes greater transparency and disclosure requirements on banks and other financial institutions.

Another possible way of constructing the common component is through the use of Principal Component Analysis (PCA) which is popular in Statistics. A comparison of the methodologies for constructing the common component suggested in this paper and the PCA method is a potential area for future research.

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