

Determinants of private saving in Sri Lanka 1970-1998

This paper empirically examines the factors affecting private saving behaviour in Sri Lanka in the period 1970-98. A broad set of determinants of private saving in an economy is available in theoretical literature. The fiscal position of the government, GDP growth rate, real interest rate, per capita income, change in the terms of trade (TOT), wealth, inflation and age structure (dependency ratio) of the population are most important factors among them. Although a number of empirical studies have been carried out under this topic, the relationship between private saving ratio and the factors underlined above have not been resolved conclusively. An investigation of private saving/investment behaviour is therefore, important. Table 1 gives the estimated results.

Table 1

Determinants of private saving in Sri Lanka 1970-98

Variables	B	SE B	BETA	T	Sig T
1. Government saving	-1.397	0.297	-0.425	-4.695	.0001
2. Government investment expenditure	-1.631	0.419	-0.324	-3.890	.0008
3. Government current expenditure	-0.483	0.305	-0.149	-1.591	.2335
4. GDP growth	0.639	0.333	0.154	2.107	.0513
5. Percentage change of TOT	0.043	0.037	0.091	1.157	.2643
6. Current account GDP ratio	0.386	0.299	0.209	1.293	.2144

7. Inflation	0.101	0.157	0.095	0.644	.5285
8. Dependency ration	-0.022	0.095	-0.026	-0.237	.8156
9. Real interest rate	0.178	0.172	0.186	1.077	.3153
10. Percapita income	-0.162	0.118	-0.134	-1.363	.1905

Constant	28.4314
Adjusted R Square	0.92569
Significant F	0.0000

The simple regression method used to analyse the factors affecting private saving in Sri Lanka in 1970-98 disclosed that the government fiscal position adversely affected private saving behaviour. A one percent increase of government (dis) saving results in a reduction of private saving by 1.4 percent, while the government investment expenditure causes to reduces private saving by 1.6 percent. The policies directed at the reduction of the budget deficit of the government through management of its expenditure are vital to increase the private saving and in turn to achieve a meaningful economic growth in the country.