

## **Influential factors of aggregate savings in Sri Lanka: an empirical study**

DA Thakshila Kumari<sup>1</sup>

Aggregate savings have significant impact on the growth of economy in any country. There are several arguments for the role of financial factors as determinants of aggregate savings. Financial "repressionist" represented largely by the work of McKinnon and Shaw (1973) argue that real interest rate has significant impact on the aggregate savings. However conventional analysis does not provide an unambiguous answer to the effect of changes in real interest rates on savings. The "structuralist" led by Goldsmith (1969) on the other hand argues that financial intermediation affects savings directly and positively quite apart from the effects of interest rates. In the Sri Lankan economy, there were very little empirical evidences regarding the real contribution of financial intermediation and interest rate to the aggregate savings. Therefore, there has been considerable controversy role of financial factors as determinants of savings in Sri Lanka.

In this background, this study aims to examine the role of interest rates and financial intermediation as determinants of aggregate savings in Sri Lanka. The study based on the secondary data and researcher considered data published by the Central Bank of Sri Lanka for the period of 1976 to 2006. Data were analyzed using multiple regression models. The study revealed that real interest rate plays a significant role in determining financial savings in Sri Lanka.

**Key words:** Aggregate savings, Financial Intermediation, Real interest rate.

<sup>1</sup> Department of Banking and Finance, Wayamba University of Sri Lanka