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EFFECTS OF POPULATION AGEING ON NATIONAL SAVINGS IN SRI LANKA: AN EMPIRICAL ANALYSIS

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Abstract: *This study investigates the impact of population ageing on aggregate national savings in Sri Lanka. The life cycle hypothesis of macroeconomics explains that the working age population tends to save while the elderly population is not likely to save. It states that aggregate saving increases during the working age of a person and falls after a person retired. A number of econometric methods were used including ADF unit root test, Angel-Granger co-integration test, error correction model, and Granger causality test to estimate the relationships. The study used annual data from 1959 to 2008 in Sri Lanka. The data was obtained from the United Nations Population Tables and Central Bank of Sri Lanka. Empirical results of our study indicate that there is a significant relationship between national savings and population structure in Sri Lanka in the short run. Empirical results further reveal that younger population disserves rather than saves. These findings are inconsistent with the life cycle hypothesis that indicates that there is a negative relationship between population ageing and national savings. The positive relationship between population ageing and national savings can be attributed to a number of factors including socio-economic and cultural aspects of the Sri Lankan society.*

Key Words: population ageing, life cycle hypothesis, aggregate savings, sri lanka