

CURRENT TRENDS IN HOUSEHOLD SAVINGS IN RURAL AREA IN THE INFORMAL SECTOR: STUDY FROM SRI LANKA

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Saving is one of the important macroeconomic variables of a country. Savings can be simply defined as what is left after the consumption or differed consumption ($S=Y-C$) within a period of time. With the economic development, the savings of the people tends to be an important factor which determined the investing process of a country. This study considers the household savings in the rural area. Objectives of this study are within a period of time to examine the trends of rural household savings in the informal sector, to identify the variables which affect the household savings and, to identify the policy recommendations for improving the household savings. This study is mostly based on primary data. We used Simple Random Sampling method to choose the sample. The sample size of 50 was chosen based on the size of *Anamaduwa* divisional secretariat. We used a regression model to check the impact of income and education on savings in informal sector. The independent variables we used are, income of the household (Y) and Education of the self-employed person of the household (Edu); and dependent variable is savings (S). According to the analysis 58% from the households participated for *seettu* method to save their money and 42% did not. Results within a period of time reveal that 86% of the households have saved in informal insurance method such as Associations for Funeral Assistance. All the households of the sample have chosen to save their money only in the Banks and Insurance Company. Most of them do not have any idea about many formal sources like Stock, Treasury or Bills. 90% people from the rural area are not aware about the interest rate or any kind of rewards they are given. In the regression analysis, all variables are not significant in any significance level. The value of R^2 is 0.5308. It implies that the dependent variable of savings only explained 53% by the independent variables. There is a negative relationship between informal sector savings and income while having a positive relationship between Education and informal sector savings. It entails that various reasons can be affected the saving in the informal sector and they education, social background, distribution of financial security institution in particular area and awareness about the formal financial instrument. If savings of rural sector directly originate from the formal institutions then policy makers can implement an efficient programme to develop the national savings of the country.