

Saving and Investment Behaviour of Households in Russia

Farida F. Adigamova and Marina E. Orlova
Kazan Federal University, 420008 Kazan, Russian Federation

Abstract: The study covers the issues related to crisis-hit saving and investment behaviour of Russian households. In Russia, the motivation for households that drives them to prefer saving over consumption is finally not formed yet. Therefore, it is essential for the development of organised investments of households to be controlled by the state. The practice has shown that in default of economic growth and insufficient outward investments, one of the requirements for the Russian economy to function is availability of reliable and attractive means for the people to invest in credible domestic financial institutions. The progress analysis of investment and saving spending of Russian households in the circumstances of financial crises at the turn of 20th to 21st centuries shows that the saving and investment spending of the people reduced by 4% only over a crisis period of 2008/2009 and by 14% in 2013. According to the 2016-2018 trend model, the investments of Russian households lean to grow. They are highly dependent on such factors as inflation, households' income and deposit interest rate while living wage and cash in hands have less effect on the households' investment behaviour. For this purpose, a particular instrument to efficiently enhance investment potential of the households needs to be developed.

Key words: Households, population, savings, investments, income, spending, control, state

INTRODUCTION

The quality of life of the Russian people has changed over the last 20 years showing significant growth in population income. Thus, the people had 2.9 trillion Rubles at hand in 1999, over 10.9 trillion Rub. in 2004, 21.3 trillion Rub. in 2007 (pre-crisis year) and 44.2 trillion Rub. in 2013. The population income in GDP of Russia increased from 60% in 1999 to 66% in 2013. The economic and social issues of the Russian households were investigated by Hadiullina *et al.* (2013) and Maksutina *et al.* (2014). The households are getting active financial players in the society and their financial resources are enough attractive for the financial market and the direct investment market. Alongside with that mechanisms for an efficient investment and saving performance are finally not generated in today's Russia as motivations to drive the households to decide on savings but not consumption are not available. Currently, the Russian households prefer non-organised forms of which results in their taking out of the macroeconomic flow and negative structural disparities of the national economy. This owes to the absence of organised saving traditions, poor theoretical and legislative study of private investment issues arising from the specific structure of Russian economy which prevailed not so long ago and to unstable economic processes, lack of warranty for organised savings. Social aspects of financial behaviour

of Russian population, including the middle class of the Republic of Tatarstan are studied in the studies of Safiullin *et al.* (2012).

The enhancement of households' investment activity and rational use of their investment capacity is of great importance in the market economy environment. The practice has shown that in default of economic growth and insufficient outward investments, one of the requirements for the Russian economy to function is availability of reliable and attractive means for the people to invest in credible domestic financial institutions. For this purpose, a particular instrument to efficiently enhance investment potential of the households needs to be developed.

Considering the significance of a psychological factor for individuals to take economic decisions, we assume that one of the primary reasons of saving growth is the expectations that the current recession will have a long-term nature. Evidently, this may lead to revising individual consumer behaviour where the "rainy day saving" becomes increasingly important. This recessionary trend clearly illustrates that the insecurity of Russian population in the future grows steadily.

MATERIALS AND METHODS

Theory: In today's Russia, the state control of households' investments is slightly focused on such

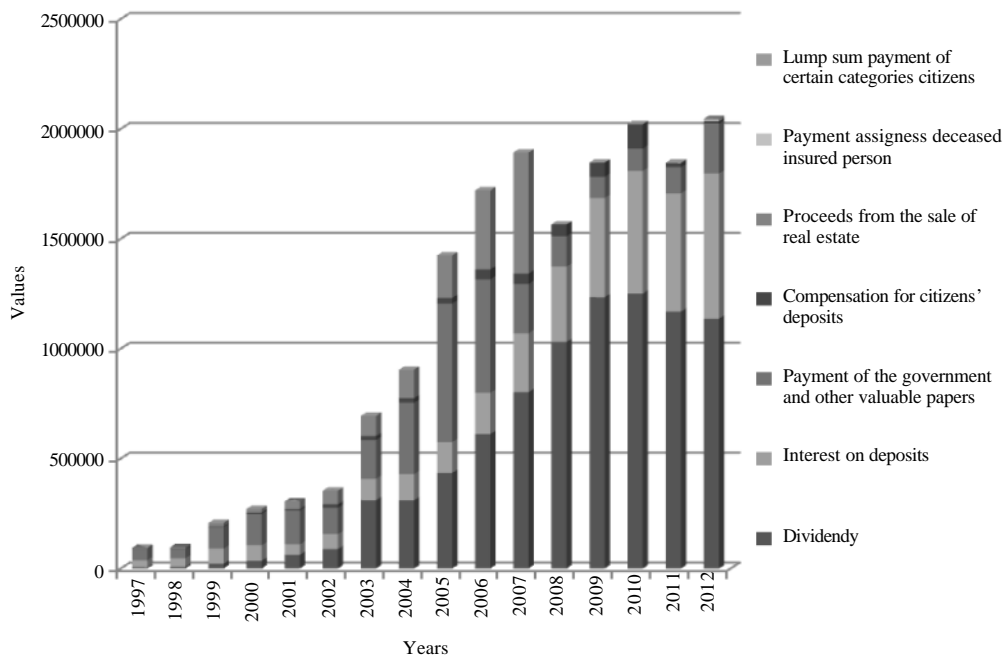


Fig. 1: History of property income of Russian citizens (Based on data provided by Rosstat of Russia) (billion Rub.)

acute problems as stable rates of social and economic development, poverty reduction, steadily increasing disparity of households' income, increase in households' role in the macroeconomic development and saving activation. The financial crisis has an adverse effect on economic status of Russian households. This may be reflective on saving and investment behaviour of Russian citizens.

The investment and saving income also tends to grow. Thus, the income grew from 94 billion Rub. to 2046 billion Rub. over a period from 1997 through 2012 (Fig. 1).

Dividends take larger part in this group (over 55% in 2012, i.e., 1136 billion Rub.). Interests on deposits account for 32% (660 billion Rub.) of the property income and payments of the government and other valuable papers are 11.1% (226.9 billion Rub.). Moreover, at the end of 2012, the property income comes to only 5.2% of the total revenue of the citizens while the dividends just account for 2.8% of the total revenues.

The households' investment spending is slightly lowered in absolute amounts in the time of crises. This spending drops in crisis and post-crisis years. Thus in 1997, people spent 23.8% (345 billion Rub.) of their income for savings and investments, this figure dropped to 14.5% (257 billion Rub.) in 1998. The records say that this kind of spending continued to decrease to 12.5% in 1999, 11.1% in 2000, 10% in 2001. Since 2003, the Russian households boosted their investment activity and channelled up to

16% (3336 billion Rub.) of their income for investments. The 2008-2009 crises also contributed to lowering the share of households' investments (up to 12.5%) (Fig. 2).

As is seen, the investments lowered over the crisis periods of 1998/1999 and 2008/2009. In 1998-1999, the crisis caused the investments dropped by 35% as against the previous year and only by 4% in 2008/2009. At the end of 2013, the investments accounted for 14.4%. By early 2014, the people had 20406 billion Rub. in hands and 20899.6 billion Rub. by 2015. Figure 3 shows the history of saving and investment spending of Russian households. The structure of saving and investment spending has significantly changed from 1997 through 2013 (Fig. 4).

If in the late 1990s the people spent 87.8% of their fund to buy foreign currency and only 9.1% for securities and 3.1% for real estate, then by 2008 they spent only 33% of the funds for purchasing Foreign currency, 25% for real estate and 42% for securities. In 2013, the amounts the people used for buying Foreign currency continued to be reduced, at the same time, they spent more funds for securities. Curiously, the structure of revenues from financial investment has changed from 1997 through 2012. For instance, the securities trading revenues prevailed in 1997-2005, including interests on government papers (90% in 1997 and 59.2% in 2005); however, the dividends of this kind of revenues grew at a fast rate reaching 83.3% in 2012. The dividend gain amounted to 260%.

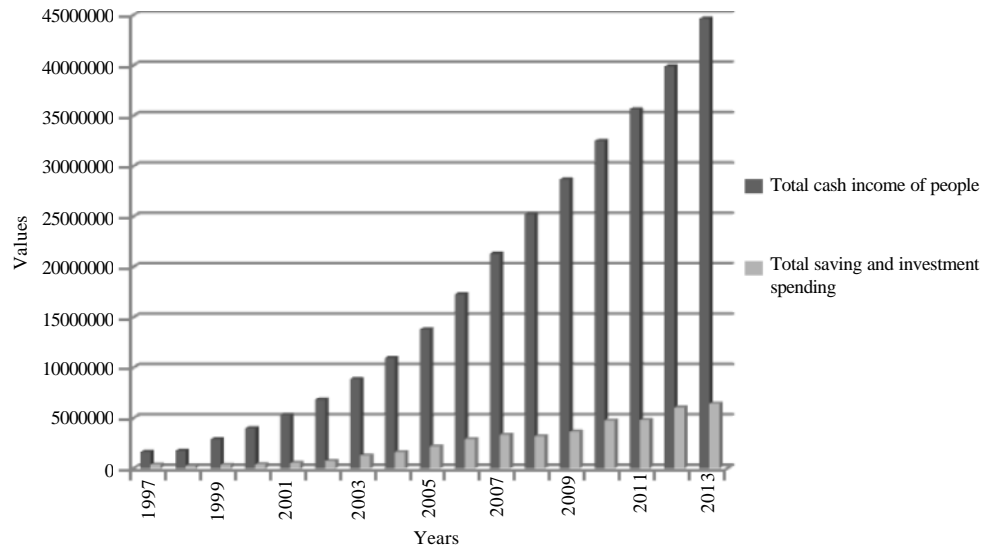


Fig. 2: Comparison of households' revenues with saving and investment spending from 1997 through 2013 (in billion Rub.); Based on data provided by Rosstat of Russia

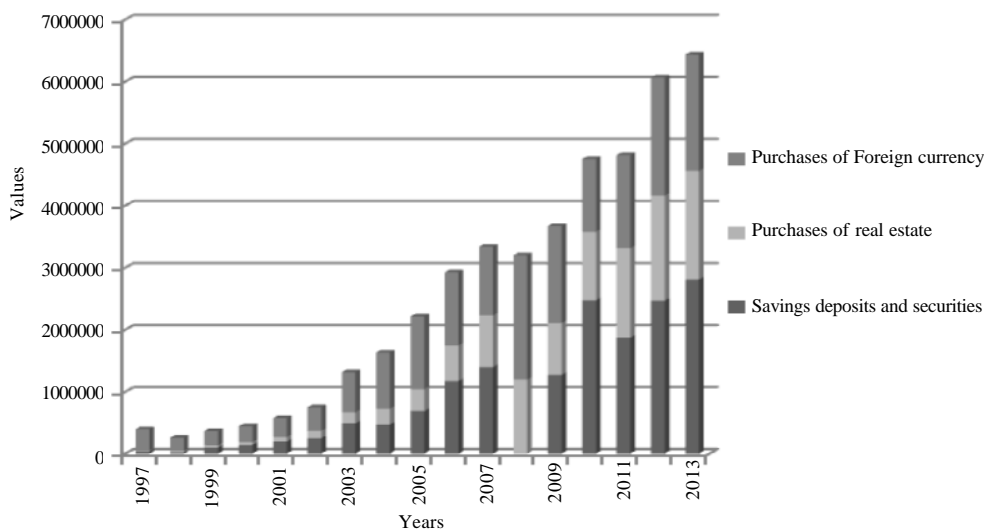


Fig. 3: The history of saving and investment spending for the three crisis periods 1997-2013 (in billion Rubles); Based on data provided by Rosstat of Russia

Considering the significance of a psychological factor for individuals to take economic decisions, we assume that one of the primary reasons of saving growth is the expectations that the current recession will have a long-term nature. Evidently, this may lead to revising individual consumer behaviour where the “rainy day saving” becomes increasingly important. This recessionary trend clearly illustrates that the insecurity of Russian population in the future grows steadily.

In today's Russia, the state control of households' investments is slightly focused on such acute problems

as stable rates of social and economic development, poverty reduction, steadily increasing disparity of households' income, increase in households' role in the macroeconomic development and saving activation. The financial crisis has an adverse effect on economic status of Russian households. This may be reflective on saving and investment behaviour of Russian citizens.

Reviewing the decision models for a household being an economic entity and analysing the types of such decisions resulted in a conclusion that the households require surveys to serve the needs of the analysis of crisis

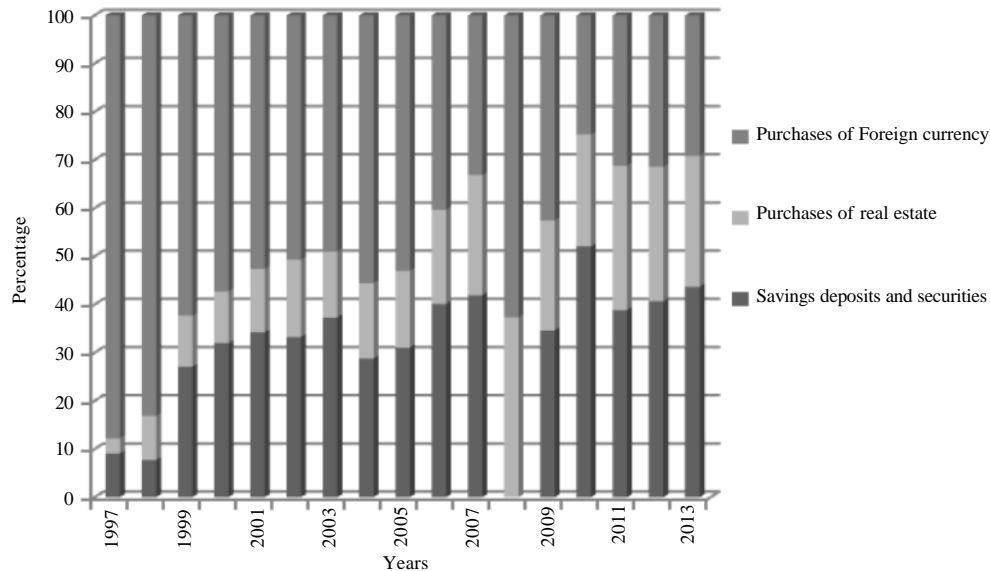


Fig. 4: The history of saving and investment spending of Russian households for the three crisis periods 1997-2013 (in billion Rub.)

Table 1: Effect of external financial environment on conversion of people's savings into investments under crisis-hit conditions

Challenges of external environment	Capabilities of external environment
Uncertainty of financial crisis and prospective state of financial market	Nominal growth of savings due to reduction of consumption makes it possible to attract additional resources as investments
Underdevelopment of financial markets and instruments, disproportional development of individual sectors	The crises encourages the Russian financial market to overcome its organisational and technological backwardness
Narrowing of households' investment opportunities and demand for financial services hit by financial crisis as a result of decline in real income, growth of unemployment, reduction in credit resources	The crisis provides conditions for self-liquidating the inefficient financial intermediaries, so called 'soap bubbles'
Volatility of stock and foreign exchange markets which enhances the risky nature of operations	More rapid (as compared with the foreign institutions) restoration of confidence in domestic financial institutions owing to underdevelopment of speculative and other discredited operations under crisis conditions
Maintenance of consequences of inland crises in the 1990s, particularly, people's trust in financial markets and intermediary agents is not completely recovered	Rapid post-crisis recovery of financial institutions with positive reputation due to cross-flow of passive assets of the households and from unreliable organisations
Preference of short-term investments due to low predictability of long-term risks	Financial crisis stimulates to consider more risk factors when investing
Information asymmetry	
Dominance of Foreign financial resources and technologies in the investment sphere	Unstable exchange rates of major Foreign currencies incentivise the households to make investments in Rubles in the domestic market

consequences and understanding of social power available for modernisation which is number one on the agenda of postcrisis progress. Now a days, the actual consumption pattern is being changed worldwide. The value of the precaution factor, "rainy day savings" steadily grows in the new pattern. This primarily suggests that the people expect a prolonged recession in general. Such researchers as Alekseeva *et al.* (2014) determine the major institutional traps in their papers. In the time of crisis, it is characteristic of well-situated households to use two strategies purchase of high-priced items using their savings and withdrawal of bank account savings. According to Sabitova and Jourkina (2014), the investment capacity of pension coverage is also underestimated in Russia.

In crisis, the external financial environment of conversion of households' savings into investments produces both the challenges and the options (Table 1).

The contribution of the households to the investment process is directly related to the support conditions. Highly needed is a state guarantee system which will ensure return of savings to the investment process. A compulsory backing fund should be established by means of institutional investors which would serve as compensation of investments made by investors if they suffer bankruptcy. Under the country-wide national policy and long-term strategy, conditions should be implemented that facilitate rational usage of household means and provide for their highest return for both the individuals and the entire economy.

When revealing the options and challenges related to the state of investment climate for the Russian households, we took the following aspects into account: performance of bank saving market; interest rates on deposits; state of Russian and global financial markets; changes in macroeconomic environment; real income movement; inflation; behaviour of RF Central Bank rate; exchange rate fluctuation; employment level; legislation and state policy toward investments and savings.

We hold it important to enhance financial competence of the households which includes studying the basic aspects of external environment having an effect on the investment behaviour of the households.

RESULTS AND DISCUSSION

Today, investing takes an essential position in the economy. However, the rapid development of the modern economy raises an acute issue of profitable investments. This relates to many factors that require thorough investigation. We have ascertained factors affecting the households' investments such as: inflation, households' income, fraction of savings in the households' income, deposit interest rate, living wage and cash in hands that will be independent (factorial) attributes to our model. The resulting factor will be the volume of households' investments.

Analysing the descriptive statistics of the factors provided, it may be noted that the volume of investments is highly variable (the coefficient of variation is 56.71%), suggesting significant growth of this figure over the review period, studying the factors affecting, it may provide us with the causes of such variation.

The households' income and living wage have an extremely high effect on the volume of investments with inflation highly affecting them. The volume of investments is tightly close to the deposit interest rate and cash in hands while it less relates to the fraction of savings in the households' income. Therefore, we exclude such factor as the fraction of savings in the households' income.

Using correlation-regression models, we came to a conclusion that inflation, households' income and deposit interest rate have a highest effect on households' investments. No strong dependence is observed towards such factors as living wage and cash in hands.

One of the most popular and commonly used methods of forecasting is the trend technique, we are going to use for determination of the volume of investments in the future. Let us consider the forecasting based on the trend models. The most popular and simple method of trend modelling is the analytical time-series smoothing.

Table 2: Inflation forecast based on trend model

Observations	Forecast	Statistical error	The 95% confidence interval
2016	5.04423	2.42214	(-0.286863, 10.3753)
2017	4.08451	2.49519	(-1.40736, 9.57637)
2018	3.12478	2.57547	(-2.54379, 8.79335)

Table 3: The forecast values of volume of households' investments

Years	Inflation (%)	Households' income (billion Rub.)	Deposit interest rate (%)	Total investment volume (billion Rub.)
2016	5.04423	40819.8	7.23846	6643.985
2017	4.08451	43905.3	6.41099	7113.868
2018	3.12478	46990.8	5.58352	7583.753

A linear trend should be picked for building the forecast. Let us consider every variable and forecast its values for 3 years (i.e., starting from 2016, 2017, 2018). The trend model based inflation forecast is provided in Table 2.

We calculated the forecasts of households' incomes, deposit interest rates using the trend model. The resulting forecasts over independent factors are used to build a forecast for a multiple correlation-regression model:

$$Y(x_1, x_2, x_3) = 2553.93 - 193.677x_1 + 0.11136x_2 + 72.02x_3 \quad (1)$$

Using the Eq. 1, we will determine a forecasting level of investments for 2016-2018. The results of forecasting are listed in Table 3.

Thus, based on the correlation-regression model, we see that the volume of households' investments over 2016-2018 will increase (due to lowered inflation and increased cash incomes). The investment volume will be 7583.753 billion Rub. in 2018. Moreover, the 2013/2014 crisis may make adjustments to the trends, including due to inflationary development.

CONCLUSION

The enhancement of households' investment activity and rational use of their investment capacity is of great importance in the market economy environment. The practice has shown that in default of economic growth and insufficient outward investments, one of the requirements for the Russian economy to function is availability of reliable and attractive means for the people to invest in credible domestic financial institutions. For this purpose, a particular instrument to efficiently enhance investment potential of the households needs to be developed. In addition to the stabilisation of macroeconomic situation, growth of income, welfare of the households, enhancement of the internal mechanism of the financial market, it will require the following factors:

- Increase of protection and information awareness of investors regarding financial structure activity

- Perfection of financial system which mobilises the households' savings through a system of mechanisms that ensures flexible redistribution of households' accumulation funds and their usage in the real sector of the economy for the reproduction on an enlarged scale
- Optimisation of saving and investment environment able to align the influence of foreign economic market macrofactors and reduce speculative tendencies
- Establishment of a regional and municipal financial structure able to attract households' investments on a particular territory

The financial culture of the people needs to be enhanced in order to activate the households' contribution to the financial markets, increase the efficiency of liaison between people and financial institutions and form a responsible and competent attitude of the people toward their financial means before the state. The national strategy to enhance financial competence and build a potential required for it to be implemented at the federal and regional levels should base on the existing international experience and practice taking Russian circumstances into consideration.

ACKNOWLEDGEMENT

The research is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

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