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How household savings in CESEE are related to the past and the future

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Whether people save is influenced by many factors. We analyze whether savings behavior is related to experiences from the past and expectations for the future. Using data from the 2019 OeNB Euro Survey, we focus our analysis on Central, Eastern and Southeastern European (CESEE) economies, where people have repeatedly experienced macroeconomic crises. While people's expectations about the economic situation of their country are positively related to having savings and saving regularly, inflation expectations are negatively related to the amount people save regularly. However, respondents' expectations about the economic situation of their respective countries are mostly mediated by expectations about their own households and trust in institutions, especially in national central banks. Crisis experiences matter less, but if respondents have experienced restricted access to their bank accounts, this discourages savings in general. Crisis experiences become more relevant if we restrict our analysis to older respondents.

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Introduction

Household savings are a key economic variable. Understanding why and how people save is important not only for understanding economic growth and the monetary transmission mechanism but also for assessing the stability of a country's financial system and public finances. Individuals' financial experiences from the past and perceptions of the future might play a crucial role when it comes to savings. Several studies show that there can be a complex interaction between experiences and expectations that establishes a time-varying influence on individual financial decisions (e.g. Malmendier and Nagel, 2016; Leombroni et al., 2020; Soric, 2018). This influence – sometimes clustered at a specific age cohort – reaches beyond the life-cycle hypothesis and the permanent income hypothesis.

Central, Eastern and Southeastern Europe (CESEE) is considered a prime region for studying the interaction between household experiences, expectations and financial decisions. Still, microeconometric evidence on the determinants of savings for this region is scarce. The CESEE region exhibits some special features when it comes to savings. People in CESEE have experienced several negative events in the last 30 years which have eroded the value of their savings, leaving a deep scar on people's trust in banks and local currencies (Beckmann and Scheiber, 2012). These events include national currency crises, banking crises, hyperinflation periods during the transition to market economies, and the Yugoslav Wars; or, more recently, the global financial crisis in 2008–2009 and the ongoing COVID-19 pandemic. Because trust in local currencies is limited, CESEE households prefer foreign currency cash and deposits for storing their savings, if they have any. The share of individuals who report that they do not have any savings has remained relatively high over the last decade.

In our paper, Koch and Scheiber (2022), we analyze the relationship between household savings and future economic prospects as well as negative financial experiences made by individuals in CESEE to narrow this gap in the literature. Drawing on data from the OeNB Euro Survey from 2019, we focus on financial events, like perceptions of a country's economic situation, economic crises and inflation events. We consider two distinct dimensions of savings: having savings of any kind and saving on a regular basis. For the latter, we look at both the propensity to save regularly and the amount that is saved regularly (extensive and intensive margin).

The state of individual savings in CESEE

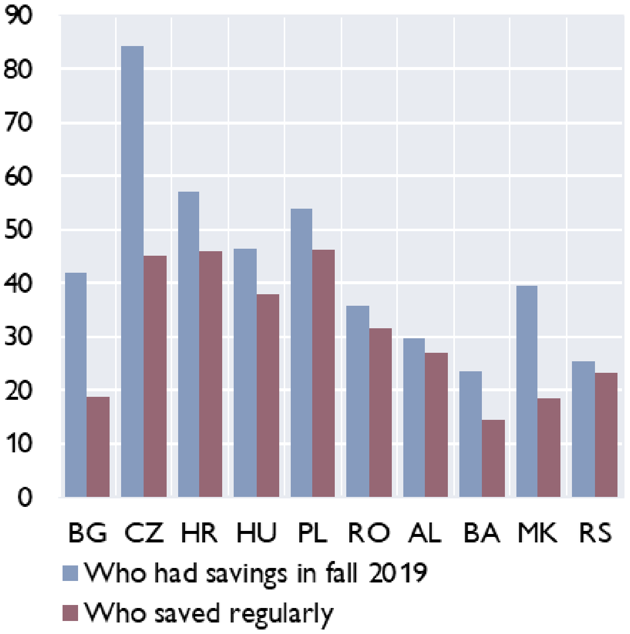
The OeNB Euro Survey is an annual, cross-sectional survey of individuals, conducted by the Oesterreichische Nationalbank (OeNB) to gain insights into euroization and the financial behavior of people in ten non-euro area CESEE countries. 1,000 individuals are interviewed in each country. They are representative of the population if proper weights are applied. Our study is based on data collected in fall 2019. As mentioned, we concentrate our analysis on three different outcomes, which measure various dimensions of savings behavior. First, the propensity to have savings, second, the propensity to save regularly, and third, the monthly amount that is saved regularly.

The left panel of the chart shows the share of individuals who reported that they had savings and that they were able to save on a regular basis in fall 2019. The right panel shows the average amounts in euro reported by those who regularly save (adjusted for purchasing power parity). As can be seen, most persons in CESEE neither have savings nor can they save (much) on a regular basis. In some countries, not even every fifth person can save regularly.

Savings stock and savings flows

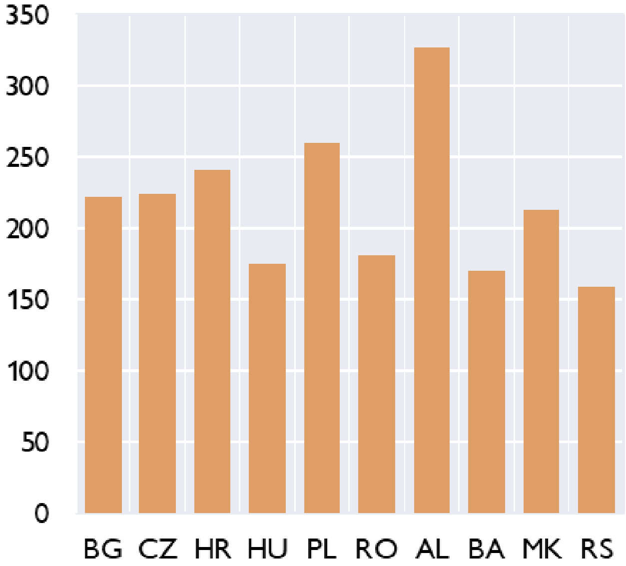
Share of those having savings and being able to save regularly

% of individuals



Average amount saved by those who regularly save

In EUR per month (PPP-adjusted)



Source: OeNB Euro Survey 2019.
Note: Weighted averages excluding respondents reporting "don't know" or who refused to answer. Weights are calibrated on census populations statistics for age, gender and region, and where available, on education and ethnicity (separatly for each country). Reported amounts suffer from rather high incidence of item non-response (on average 18%), which might imply an underestimation in particular for EU member states.

The role of experiences and expectations

Our main explanatory variables of interest are expectations about future financial prospects and past experiences with adverse events related to financial matters. In detail, we consider expectations on the economic situation of the country, the economic situation of the household and on inflation. Regarding people's experiences, we look at the following three self-assessed survey items: having experienced high inflation, having experienced restricted access to one's bank account and having experienced financial losses due to economic crises prior to 2008. All three experience questions, but especially the third, might refer to crisis episodes occurring a long time ago. In general, older respondents are more likely to have experienced at least one period of economic turbulence and are more likely to remember several such instances. In 2008, around 20% of our respondents still had been under 18 years old. This should be kept in mind when including experience-related questions.

To study the relationship between savings on the one side and expectations as well as experiences on the other, we use two different approaches. We start with a standard regression analysis, in which we regress our explanatory variables of interest and a fixed set of covariates on the three savings variables. This means that we predetermine the set of control variables used in the regression analysis. Our choice of variables is based on economic theory and empirical evidence from previous literature. In contrast, our second approach is a more data-driven, machine learning approach, using a double least absolute shrinkage and selection operator (LASSO) regression analysis. Applying this approach, we include much more control variables, and eventually only those with the best predictive power are included in the final regressions.

Our results show that:

- Having savings and saving regularly are significantly positively related to expectations about a country's future economic situation and the household's future financial situation. However, expectations about the future economic situation of the respondent's country are much less relevant if we control for expectations regarding the household AND trust in institutions, especially trust in the national central bank. Thus, expectations about the country are mediated by individuals' expectations about the financial situation of their own household and their trust in institutions.

- There appears to be no significant or large connection between inflation expectations and the propensity to save regularly or to have savings. However, there is a significant negative relation between expected inflation and the amount that individuals save regularly, i.e. respondents who expect high inflation are more likely to save less.

- Expectations about the household are also positively related to the amount regularly saved whereas expectations about a country's economic situation are not.

- For individuals' experiences, we do not find equally strong effects if we look at the full sample, but having experienced restricted access to one's bank account seems to discourage savings a bit. However, coefficients are never significant in the LASSO approach.

- Still, if we restrict our sample to older respondents, i.e. to those who are more likely to have experienced (more) adverse events, especially restricted access to bank accounts, experiences become more relevant.

- Beyond socioeconomic factors like income (shocks), wealth, social status, education, age and employment, we find that higher financial literacy and greater self-control are strongly linked to a larger propensity to have savings and to save regularly.

Conclusion

Policymakers are interested in influencing households' savings behavior as directed by the needs of economic growth and financial stability. In contrast, households rather think about their individual well-being than that of the whole economy or of financial stability when making savings decisions. To understand which instruments are useful in steering savings behavior, we need to have a sound understanding of what exactly determines household savings. In our analysis, we try to shed light on whether, and if so, in what ways people's savings behavior may be affected by their expectations and experiences regarding financial events. Our study focuses on economies in CESEE, where individuals have experienced several adverse economic events since the transition to market economies in the early 1990s and tend to face more economic uncertainty.

Using data from the OeNB Euro Survey from 2019, we find that both the propensity to have savings and the propensity to save on a regular basis are significantly positively related to individuals' expectations about their country's future economic situation. This is mostly because these expectations are mediated by expectations regarding their own households and trust in the national central bank. Expectations of higher inflation are negatively linked to the monthly amount that is being saved regularly. Effects resulting from experiences are in general smaller, but having experienced restricted access to one's bank account does matter for some savings dimensions and subsamples. ■

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