

**Peculiarities of forming
the savings by the
Russian population in
modern conditions**

PECULIARITIES OF FORMING THE SAVINGS BY THE RUSSIAN POPULATION IN MODERN CONDITIONS

PECULIARIDADES DEL AHORRO DE LA POBLACIÓN RUSA EN LAS CONDICIONES MODERNAS.

ABSTRACT

The opportunities for economic growth of a state are largely determined by the level of financial market development and the money supply status. In the economically developed countries, household savings are the main source of temporarily idle funds in financial markets. The article aims to analyze the formation process of savings in households in Russia at the present stage, and to identify the factors that have the greatest impact on this process. It is established that in the economy to date, the effects of shocks from lower energy prices and economic sanctions have been overcome. This is reflected in GDP growth, in the reduction of inflation, and in the positive forecasts of the World Bank. However, the analysis of the indicators of the population cash incomes formation demonstrates that, despite the growth of wages and pensions, real disposable cash income of households is stagnating. In addition, the poverty level of the population does not decrease. All this leads to the fact that the population's savings activity is at a low level. There is also a trend towards an increase in the amount of cash remaining outside the sphere of consumption or investment. This indicates a lack of confidence in the mechanism of the financial market. The paper proposes measures to overcome negative factors affecting the savings activity of households.

KEYWORDS: savings; households; financial market; household budget; unemployment; real disposable income.

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RESUMEN

Las oportunidades de crecimiento económico de un estado están determinadas en gran medida por el nivel de desarrollo del mercado financiero y el estado de la oferta monetaria. En los países económicamente desarrollados, los ahorros de los hogares son la principal fuente de fondos temporalmente inactivos en los mercados financieros. El artículo pretende analizar el proceso de formación de ahorros en hogares en Rusia en la etapa actual e identificar los factores que tienen el mayor impacto en este proceso. Se ha establecido que en la economía hasta la fecha, se han superado los efectos de las perturbaciones de los precios más bajos de la energía y las sanciones económicas. Esto se refleja en el crecimiento del PIB, en la reducción de la inflación y en las previsiones positivas del Banco Mundial. Sin embargo, el análisis de los indicadores de la formación de ingresos en efectivo de la población demuestra que, a pesar del crecimiento de los salarios y las pensiones, el ingreso en efectivo disponible de los hogares se está estancando. Además, el nivel de pobreza de la población no disminuye. Todo esto lleva al hecho de que la actividad de ahorro de la población se encuentra en un nivel bajo. También hay una tendencia hacia un aumento en la cantidad de efectivo que queda fuera de la esfera de consumo o inversión. Esto indica una falta de confianza en el mecanismo del mercado financiero. El documento propone medidas para superar los factores negativos que afectan la actividad de ahorro de los hogares.

PALABRAS CLAVE: ahorro; hogares mercado financiero; Presupuesto familiar; desempleo; Renta real disponible.

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INTRODUCTION

In modern conditions, the status and prospects for the development of the financial market are of great importance for any country. From the point of view of the problem development theory, the financial market is a superstructure to its basis which is the economy. However, this basis should have certain financial sources of its development, which are different financial instruments. The economy develops only in interaction with financial markets, it cannot be self-sufficient in modern conditions, as extended reproduction, technical re-equipment, reconstruction and other technological changes are possible only if the opportunities of financial markets are actively used.

Almost since the second quarter of 2014, Russia lives in a double shock - a fall in oil prices and the imposition of economic sanctions. The recession was expressed in the reduction of GDP in 2015 by 2.8% and in 2016 by 0.2%. The policy of flexible exchange rate formation in the foreign exchange market, the support of the financial sector through its additional capitalization, the policy of import substitution allowed the Russian economy to stabilize. Rising prices in the commodity market allowed support for private investment. The reduction in inflation reinforced the level of disposable incomes of the population and ensured the growth of consumption.

The main source of investment resources in developed financial markets is the savings of the population. From the standpoint of the theory of the problem in question, there is an interdependence between the population's propensity for saving and its motivational behavior [1]. Scientists have identified groups of factors that affect the motivational behavior of the population. These are factors associated with the duration of the accumulation process; associated with the objectives of the formation of savings; factors of the functional

purpose of saving; factors that reflect the economic needs of "savers"; and macroeconomic factors [2].

Obviously, the first four groups of factors either directly or indirectly depend on the fifth group. The duration of the accumulation processes is largely determined by the inflation characteristic of macroeconomic development, the exchange rate of the national currency, and consumer opportunities formed against this background. Based on a component such as the current economic situation, we divide the goals of formation the savings into two large groups: dynamic (which can change depending on changes in macroeconomic factors) and static (still they can be called "eternal values" - that is, for that a person saves always: education of children, health, old age). The dynamic goals of the formation of savings will change over time.

METHODS

The purpose of our work was to study the process of savings formation by the population and to identify the impact factors.

In the process of research, general scientific methods of induction and deduction were used, as well as a hypothetical approach, in which various aspects affecting the savings activity of households were analyzed; proposals that could have a positive impact on this process were formulated.

Scientists from different sides are studying the issues of formation of savings activity of the population. Traditionally, GDP growth per capita has been viewed as a positive factor. However, it is noted that real GDP growth per capita is lower than the real standard of living [3]. A number of researchers note that even a small increase in the remuneration of employees and a decrease in unemployment have a significant impact on the growth of income in general [4].

The demographic component of the savings formation process was also studied. Thus, the relationship between the size of the population and the volume of savings is analyzed. It is concluded that the increase in the population of the country initially reduces the amount of savings, however, as the number of working population increases, their inflow is ensured. Nevertheless, if the population grows significantly and the number of fami-

lies with a large number of members increases, this clearly reduces the amount of savings in the country [5].

Also in this context, factors such as population growth, changes in the age structure of the population, models of family decisions for the formation of savings are investigated [6].

Interesting are the works analyzing consumer behavior of people [7]. It is determined that modern consumption patterns formed largely under the influence of advertising media often do not cause the habit of forming savings [8].

Thus, we formulated the hypothesis that the economic growth of a state, the reduction of unemployment, and the low level of inflation cause a positive influence on the monetary incomes of households. However, the depth of the poverty level can have a deterrent effect on the savings activity of the population.

RESULTS AND DISCUSSION

In the long term, the World Bank gives positive forecasts for the development of the Russian economy. Table 1 shows the indicators of Russia's development in comparison with a number of countries predicted by the European Economic Advisory Group (EEAG).

As you can see, the unemployment rate in Russia is comparable to that of most developed countries. A high proportion of the economically active population with a predictable low level of inflation allows us to draw certain conclusions about the potential for growth in the savings of the Russian Federation's population.

Macroeconomic factors can be divided into direct and indirect. Direct factors are the size of household incomes, their dynamics in both nominal and real terms. The indirect factors are related to the state of the economy (this primarily determines the level of wages in the real sector), the budget deficit (determines the dynamics of incomes of employees in the non-material sphere, the income status of citizens in need of social protection), the level of financial literacy (exposure of the population to financial fraud), and others.

We have studied the dynamics of the incomes of the population of Russia from the point of view of direct factors (Fig.1). This

diagram was compiled by the authors on the basis of Rosstat (Federal State Statistics Service) data [10].

For the analyzed period, per capita incomes of the population have more than doubled. In 2017, compared to 2016, the growth rate was 2.4 %. However, the household disposable income of the population showed a negative dynamics. Their decline was observed in 2014, and in 2015. The largest decrease in household disposable income occurred in 2016 - by 5.8 %. These data show that the investment opportunities of households have been significantly undermined. An analysis of the dynamics of average per capita pensions in the RF shows a similar situation.

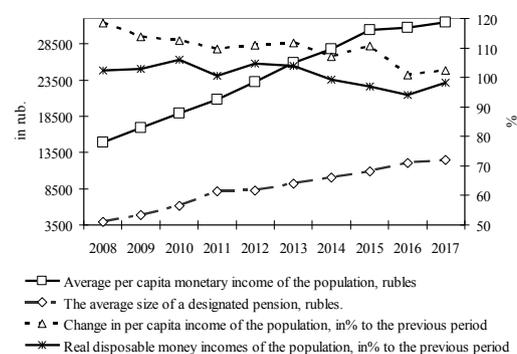


Fig. 1. The main indicators characterizing the monetary incomes of the population in Russia

Thus, in recent years there has been an increase in wages, as well as average pensions against a backdrop of a low level of inflation. Pensions in 2017 were indexed to a value close to the current level of inflation, and remained generally unchanged in real terms. However, the real household disposable income of the population showed stagnation.

The question arises: what is the reason for the discrepancy between the growth in the monetary incomes of the population in the form of wages and pensions and real disposable income? According to the World Bank, the difference between the two indicators is related to the other components of the income of the Russian population in addition to wages (Fig.2)

Wages account for slightly more than a third of income; a large informal labor market is not included in official statistics. This is a quarter of all income. They are estimated as the difference between total consumer spending and observed income [11]. Basically, it is self-employment, employment in the

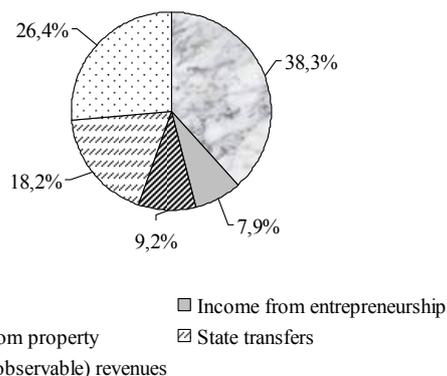


Fig. 2. The structure of household income in Russia [11]

informal sector, and employment without formal registration. These components, as the most socially unprotected, as well as income from entrepreneurial activity, have been declining over the past few years. This led to the stagnation of household disposable income of the population.

Obviously, a decrease in real incomes of the population affects the savings activity. This is demonstrated by the structure of expenditures of the population (Fig. 3). In the period of 2015-2017 the share of savings in the population expenditures structure was steadily declining. At the end of 2017, it was 8.1 %. At the same time, the share of funds remaining in the hands of citizens and not participating either in consumer or investment processes has increased.

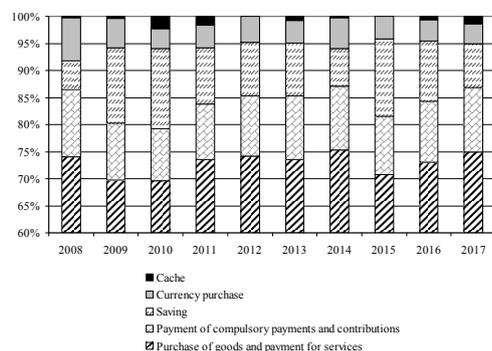


Fig. 3. Changes in the structure of expenditures of the Russian population.

Consequently, the generally improving economic situation does not yet lead to an increase in the population's savings. This is facilitated by the fact that in recent years the proportion of the poor has grown significantly. According to the World Bank methodology, the threshold consumption value in 2005 prices of \$ 10 per day or more at purchasing

power parity (PPP) which corresponds to approximately 11,000 Russian rubles per person monthly in 2016 prices is used as a generally accepted indicator for determining economically prosperous population, while the population with incomes below this indicator is considered vulnerable [11]. Half of this threshold value (\$ 5 per day or less in 2005 prices at PPPs or 5,500 rubles per person monthly in 2016 prices in Russia) defines the border of the international level of moderate poverty. If to apply such criteria, then the population of Russia became more vulnerable in 2015, and in 2016 the situation became even more aggravated. The share of the population with consumption below \$ 5 per day increased from 10% in 2014 to 13.2% in 2015 and to 13.8% in 2016. The share of the vulnerable population that spends between \$ 5 and \$ 10 per day at PPP 2005 prices has increased from 33.5% in 2014 to almost 40% in 2016. At the same time, the proportion of economically advantaged people (whose consumption exceeds \$ 10 per day in 2005 prices at PPP) decreased by 10 percentage points from 56.5% in 2014 to 48.2% in 2015 and to 46.3% in 2016. This reduction was due to a large decrease in disposable income and wages in 2015 and the continued decline in income in 2016 [11].

It is necessary to take into account the fact that a significant part of jobs is occupied by immigrants in our country. Russia's economic growth also allows improving the economic situation in a number of interrelated countries. The World Bank calculated that Russia's GDP growth of 1% allows for growth in other countries by 0.462% [12]. The World Bank called Poland, Ukraine, Armenia, Kazakhstan, Romania, Turkey, Slovakia as the countries interconnected with the Russian economic situation.

SUMMARY

The study confirms our hypothesis that stabilization of the economy, its emergence into a certain growth, inflation targeting, and a decrease in the level of unemployment contribute to an increase in the monetary incomes of households. But this still had a weak effect on the population employed by small businesses, the informal sector, and self-employed citizens. We also consider the poverty level of the population as a significant factor. It is important to take into account the time factor - the longer a person was in poverty, the longer he/she does not save as leaved in poverty.

In general, the emerging favorable macroeconomic situation of the current period should be used to activate the investment process. To this end, it is necessary to stimulate the savings activity of the population.

CONCLUSIONS

To increase the savings activity of the population, we recommend focusing on the following areas:

- assess the efficiency of programs for supporting entrepreneurial activity and maintaining healthy competition for each region;

- simulate the population's saving behavior with an emphasis on the medium-term perspective based on clear inflation targeting;

- continue activities aimed at bringing attractive instruments to the market for the population from the point of view of guarantee and profitability (on the example of federal loan bonds for the population);

- increase the level of citizens' awareness of financial tools alternative to bank deposits, such as, for example, investment life insurance [13];

- increase the financial literacy of the population with a view to reducing the level of deceived citizens and overcoming mistrust of financial institutions;

- It is necessary to think at the country level about the formation of a consumption model by Russian persons providing for the formation within a household budget of not only the consumption fund but also the savings fund;

- To carry out legislative activities which limit the capacity of financial institutions and pseudo-institutions to lend to the population at prohibitive interest rates principally.

The marketplace project, now being implemented by the Bank of Russia as part of the digitalization of the Russian economy, should help bring the savings process to a new level.

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ANNEXES

Country	Share in world GDP, in %	GDP growth, %			Inflation, %			Unemployment rate, in %		
		2016	2017	2018	2016	2017	2018	2016	2017	2018
European Union	24.9	2.0	2.4	2.2	0.3	1.7	1.7	8.3	7.6	7.1
Switzerland	1.0	1.4	1.0	2.3	-0.4	0.5	0.5	4.9	4.8	4.6
Norway	0.6	1.1	2.1	1.8	3.6	2.0	1.8	4.7	4.1	3.9
Eastern and Central Europe	26.5	0.5	0.6	0.6	0.1	0.4	0.4	8.2	7.5	7.0
USA	28.2	1.5	2.3	2.6	1.3	2.1	2.1	4.9	4.4	4.0
Canada	2.3	1.5	2.9	2.4	1.4	1.6	1.9	7.0	6.4	6.2
Japan	7.5	1.0	1.8	1.4	-0.1	0.4	1.0	3.1	2.9	2.8
Developed countries (total)	64.5	1.0	1.5	1.5	0.5	1.1	1.1	6.7	6.1	5.7
China	17.0	6.7	6.8	6.6	2.0	1.5	2.1	4.0	4.1	4.1
India	3.4	7.1	6.2	7.6	4.9	3.3	4.7	3.5	3.6	n.a.
Russia	1.9	-0.2	1.9	2.0	7.0	3.0	3.5	5.2	5.1	5.0
East Asia	6.8	3.4	3.8	3.7	1.6	2.3	2.3	n.a.	n.a.	n.a.
Latin America	6.3	-2.0	0.8	1.6	21.1	43.9	139	n.a.	n.a.	n.a.
Emerging and Developing Countries	35.5	1.5	1.7	1.8	2.1	3.3	9.5	n.a.	n.a.	n.a.
Total	100.0	2.5	3.2	3.2	2.6	4.4	10.6	n.a.	n.a.	n.a.
World Growth	-	1.4	4.4	4.2	-	-	-	-	-	-

Table 1. The main economic indicators of a number of countries and the world economy [9]