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FEATURES OF THE USE OF HOUSEHOLD SAVINGS IN UKRAINE

The article deals with the problems of the household's savings in Ukraine. Today, unfortunately, households haven't become active savers yet. After all, the low level of income, high level of consumer spending, insufficient level of financial literacy of households, high level of tax burden, don't contribute to the ability of households to save. The article clarifies the number of factors, which also have a significant impact on the process of savings formation. In the article the author household savings are divided into organized farms located in banking and non-banking financial institutions: bank deposits, insurance policies, savings accounts, deposit accounts in credit unions, etc.) and unorganized (savings in the "economy of national state funds") and foreign currency outside financial institutions). It is proved that there are direct and indirect methods of converting savings into investment resources of households. Additional features (level of financial literacy, level of trust or non-recognition of the benefits of using financial instruments) that restrain and slow down the process of savings transformation are outlined.

Keywords: households savings, level of trust, level of financial literacy of households, financial instruments, insurance policies, savings accounts.

JEL classification: H31

ОСОБЛИВОСТІ ВИКОРИСТАННЯ
ЗАОЩАДЖЕНЬ ДОМОГОСПОДАРСТВ В УКРАЇНІ

У статті розглядаються проблеми заощаджень домогосподарств в Україні. Низький рівень доходів, високий рівень споживчих витрат, недостатній рівень фінансової грамотності домогосподарств, високий рівень податкового навантаження не сприяють здатності домогосподарств заощаджувати. З'ясовано ряд факторів, які також мають істотний вплив на процес формування заощаджень. Автором обгрунтовано і поділено заощадження домогосподарств на організовані господарства, розташовані в банківських та небанківських фінансових установах: банківські вклади, страхові поліси, ощадні рахунки, депозитні рахунки в кредитних спілках тощо) та неорганізовані (заощадження в економіці національного державні кошти») та іноземна валюта поза фінансовими установами). Доведено, що існують прямі та непрямі методи перетворення заощаджень в інвестиційні ресурси домогосподарств. Окреслено додаткові ознаки (рівень фінансової грамотності, рівень довіри чи невизнання переваг використання фінансових інструментів), що стримують та гальмують процес трансформації заощаджень.

Ключові слова: заощадження домогосподарств, рівень довіри, рівень фінансової грамотності домогосподарств, фінансові інструменти, страхові поліси, ощадні рахунки.

Formulation of the problem. The use of household savings in Ukraine is one of the most important aspects that create opportunities for economic development of Ukraine. Today, the problem of transforming household savings into the investment potential of households is relevant for both developed countries and market economies.

In the scientific literature, household savings are characterized as income that remains after taxes and consumption expenditures. Today, unfortunately, households have not become active savers yet. After all, low levels of income, high levels of consumer spending, insufficient levels of financial literacy of households, high levels of tax burden, do not contribute to the ability of households to save. It should be emphasized that savings

are an important indicator of household well-being and a source of investment.

Analysis of recent research and publication. The researching of household savings of Ukraine devoted to the works of domestic and foreign scientists: L. Abalkin, M. Alekseenko, D. Chernykov, L. Dobryk, Yu. Kashin, I. Karapeyichyk, T. Kizima, S. Kladchenko, S. Kravchenko, O. Mizina, O. Vatamanyuk [1]. They proved the importance of household savings in the economy. At the same time, methodological approaches are insufficiently developed and the evaluation of the household sector from the point of view of savings is analyzed. Practical undisclosed issues of transforming household savings of Ukraine led to the choice of the topic of the article.

The purpose of the article is to open the problem of transforming household savings in Ukraine.

Presenting main materials. Scientist Yu. Kashin interprets savings as “part of income that is used to meet personal needs in the future” [1]. But the author in his definition did not indicate the costs of households, because households in the formation of savings make consumer spending and pay taxes. Therefore, in our opinion, the position of other scholars M. Alekseenko and Y. Melekhin are corrected, who consider savings as part of household income that has not been used for consumption, and remains after payment of tax and other mandatory payments [1].

We share the opinion of T. Kizima, who emphasizes that savings are part of household income, which remains after the payment of mandatory payments and consumption expenditures and goes to financial and non-financial assets to generate income or meet future needs [2].

Domestic economists M. Sverdun, A. Slavkova and T. Efremenko interpret savings from the standpoint of investment costs, namely: savings are investment costs, the use of monetary resources to generate income or provide consumption in the future [1]. It should be noted that the authors do not take into account the formation of unorganized savings by households when interpreting savings, because unorganized household savings are saved for future expenses and they are, first of all, a potential investment resource.

The basis for the formation of savings is the income that remains in the household after paying taxes and mandatory payments, the implementation of consumer spending. According to statistics from the State Statistics Service of Ukraine, domestic households receive incomes insufficient to make savings, as the structure of total household expenditures is dominated by consumption expenditures and is about 90% [4]. A number of factors also have a significant impact on the process of savings formation, which is: psychological, demographic, regional, public policy, economic situation.

These decisions are made by the household depending on the income level of each of its members. Thus, if the level of income (per household member) is equal to or lower than the subsistence level, households will spend their income on current consumption rather than on savings. After all, according to O. Vatamanyuk [2], household expenditures on food have a certain level – the “hunger limit”, so in order not to fall below this level, households need to use savings that were made earlier without opportunities to form current.

Thus, after analyzing the interpretation of savings, we can conclude that savings are the part of income that is not spent on consumption and payment of taxes and mandatory payments (in the current period); use of monetary resources for future income or for future consumption; investment costs.

Household savings are divided into organized (household savings placed in banking and non-banking financial institutions: bank deposits, insurance policies, savings accounts, deposit accounts with credit unions, etc.) and unorganized (savings that households keep in their hands in cash) and foreign currency outside financial institutions).

Organized savings available to households are more cost-effective, as they lead to direct involvement of households in investment, namely, the transformation of

savings into investment potential for the functioning of the household as an investor to generate income. The presence of unorganized savings does not allow receiving these incomes.

By the transformation of household savings we mean the transformation of monetary resources into investment potential that is or can be attracted to banking and non-banking financial institutions, financial and non-financial assets to generate income (on these investments) or preserve their value, as well as formation and growth household assets.

At the same time, there are direct and indirect methods of converting savings into investment resources of households. Using the indirect method, households invest their savings in financial instruments, namely: bank deposits, savings accounts in private pension funds, insurance policies in investment companies, deposit accounts in credit unions, which ensure the transfer of funds from investors to borrowers. The direct method involves the direct mobilization of savings from investors: investment in construction, investments in their own business and agriculture, in education and health care, as well as alternative investment.

The transformation of savings (both organized and unorganized) of households into investment implies an increase in income in the long run “by investing free monetary resources in order to make a profit while minimizing investment risks” [1]. Due to the identified risks, households prefer to keep large amounts of their savings in national and foreign currency outside banking and non-banking financial institutions and believe that this type of savings is safer, especially in conditions of economic and political instability. The experience of developed countries shows that in Ukraine and, above all, in developing countries, the main goal of transforming savings is not only to generate income, but also to preserve its value, especially in high inflation to insure their savings against depreciation.

Another feature that has a negative impact on the transformation of household savings is inflation. After all, the depreciation of the national currency causes a lack of desire to form savings, as it leads to a depreciation of household income. Yes, it is important to emphasize that the middle class also suffers from the devaluation of their income, because they place their capital mainly on credit accounts.

An important problem in the transformation of savings is the trust of households in banking institutions, namely: ensuring the preservation and reimbursement of their savings. Law of Ukraine of 23.02.2012 № 4452-VI “On Deposit Guarantee System for Individuals” [1], which guarantees reimbursement of savings to each depositor of the maximum amount of UAH 200,000, regardless of the number of deposits in participating banks.

The Individual Deposit Guarantee Fund reimburses the amount of the deposit, including accrued interest, which should give households confidence in the security of their savings. However, under this law, the Deposit Guarantee Fund reimburses depositors for liabilities of banks that are subject to liquidation, deposits in which are not available.

The use of investment potential by domestic households is incomplete. According to scientist D. Nekhaichuk, less than 20% of the population use financial instruments to save, and the presence of “extra” funds in the population is

the result of 49% of the population saving money in cash [2]. There are two groups of reasons for this situation:

1. Institutional. Insufficient development of financial institutions, low liquidity, negative experience, etc.

2. Economic. Insufficient level of personal savings of households, high level of shadowing of the economy, low level of financial literacy of households.

The current situation in the financial market in terms of attracting savings of domestic households is characterized by certain features [7]:

- Focus on deposits of large investors, namely: banking and financial institutions;

- The concentration of capital, investment institutions and non-banking financial institutions in large cities;

- A high level of investment risks, as well as political and economic instability;

- A lack of such financial instruments that would be financially attractive for households;

- Imperfection of the tax system, which slows down the process of attracting household savings.

Another feature that slows down the process of transforming the investment potential of households is the low level of household income. Thus, according to a sample survey of living conditions of households of the State Statistics Service of Ukraine, the share of households whose incomes are lower than the subsistence level in 2019 was 1.1% (the statutory subsistence level in 2019 was 1902.08 UAH per person month). The share of the population with an income level below the actual subsistence level (excluding the amount of personal income tax) in 2019 was UAH 3,660.94 per capita (23%, including 20% among urban population and rural population) 30%).

The largest share of the population with incomes below the actual subsistence level was non-working pensioners (28%), working persons (27%) and children under 18–22% (33%, 13% and 28% of all persons in these groups, respectively). The highest share of poverty is in households with three or more children and households with children with at least one unemployed person (61–46%) [3].

Inequality in the distribution of household income is determined by the Lorentz curve and the concentration ratio (Gini index). The Gini index in 2018–2019 in terms of total household income increased to 0.238 and 0.249, respectively (Table 1).

The ratio of the minimum level of total income among the poorest 10% of households to the maximum level among the poorest 10% of the population increased from 2.9 to 3 times. The wealthiest 20% of households in 2019 received 36% of total income, which is 0.9% more than in 2018 (Table 1). All the above indicators show that according to a survey conducted by the State Statistics Service of Ukraine's self-assessment of the level of their income and economic expectations for the future, only 7.8% of households had enough income to save, 49.6% of households had enough income to live, but there were not enough funds to save, 38.1% denied themselves anything but food, and another 4.5% of households failed to provide at least enough food.

As a result, a significant part of households are both taxpayers and receive social assistance from the state (Table 2).

Another factor that hinders and slows down the process of transforming household savings is the low level of financial literacy of the population. According to a USAID survey [6] the indicator of financial literacy of the population indicated insignificant differences in gender and type of settlement (urban and rural areas), and significant differences in age, education and income level.

The availability of knowledge about the compound interest rate in domestic households is lower than in developed countries. This is due to the fact that a small percentage of domestic households receive a high level of interest on their deposits in the form of income. Knowledge of interest rates is an important factor that will cause households to want to save their funds on deposit accounts (Table 3).

The level of financial literacy among those who have a high level of income, higher education, use a bank account and live in urban areas, is higher than the average in Ukraine. Studies have not found the impact of gender on financial literacy.

It is also interesting that domestic households are more inclined to spend than to save, which demonstrates their financial behavior in favor of short-term rather than long-term prospects. This behavior is affected by financial crises.

The attitude of domestic households to the payment of taxes has a significant impact on the formation of their investment potential. According to the data in table 4, about

Table 1

Distribution of population and households by level of average per capita equivalent total income in 2019

With average per capita equivalent total income per month, UAH	Households
до 3000,0	10,7
3000,1-4000,0 ²	19,2
4000,1-5000,0 ³	20,6
5000,1-6000,0 ⁴	16,6
6000,1-7000,0	10,4
7000,1-8000,0	7,9
8000,1-9000,0	4,6
9000,1-10000,0	3,2
10000,1-11000,0	2,3
11000,1-12000,0	1,5
over 12000,0	3,0
The share of the population with per capita equivalent total income per month, lower	
average level of total income	60,7
statutory subsistence level	1,1
the actual subsistence level	23,1

Table 2

Distribution of households according to their eligibility to participate in social assistance programs 2018–2019

	All households	of which households which			
		are entitled to assistance		including (in% to gr. 2)	
		thousand	in% to gr. 1, %	receive help	asked for help, but do not receive
Number of households, total	14934,9	8682,3	58,1	95,2	1,8
Households by place of residence:					
in urban areas	10061,3	5469	54,4	95,7	1,7
in the countryside	4873,6	3213,3	65,9	94,4	2
Households with children	5652,3	3772,9	66,7	96,8	1,3
Households without children	9282,6	4909,4	52,9	94	2,2

Source: compiled by the author for [1; 5]

Table 3

Results of answers to the question about knowledge in the OECD index: by using a bank account in 2019

	Share of population using bank account, %	Share of population who do not use a bank account, %
Determination of inflation	92%	80%
Interest paid on the loan	71%	61%
Risk and return	70%	57%
The cost of money over time	72%	55%
Diversification	64%	54%
The amount of the principal deposit and interest	70%	51%
Compound interest for 5 years	46%	40%

Source: compiled by the author for [4]

half of households in Ukraine agreed with the possibility of tax evasion. More than a third of respondents showed a desire to receive information on how they spend money from taxes paid by them. This attitude towards paying taxes is caused by distrust of banking institutions and the political situation country.

In our opinion, it is important to acquire financial literacy since childhood. However, the results of the survey showed that 91% of respondents believe that parents need to teach their children financial literacy. Interest in financial literacy is present in 61% of domestic households. This will give a positive result in the long run in terms of using its investment potential (Table 5).

A feature of the use of investment potential of households in Ukraine is also the confidence of the population in banking institutions. USAID research shows that 52% of respondents save their money at home in cash. As noted earlier, this type of savings is common in Ukraine. And only 12% of households save on deposit bank accounts. This is also confirmed by the World Bank data, namely: 13% of households in Ukraine spend their savings in financial institutions. The level of this indicator in Ukraine is much lower than in the EU.

Also important is the study on the implementation of savings by households for investment purposes (investing in education, construction and purchase of housing, repair and improvement of housing), namely: 18% of

respondents are willing to invest in education, of them, aged 18–24 – 27% (for themselves), aged 35–44 – 28% (for their children); in the construction and purchase of housing – 17% of respondents, of whom aged 18–24 years – 28%, aged 2–34 years – 23%; in the repair and improvement of living conditions – 15% of respondents, of whom aged 45–59 years, this figure is 23%.

To form its investment potential for the implementation of these investments, the household is aimed at:

- Search for additional income – 50% of households.
- Reduction of spending – 42% of households.
- 30% of households use their savings.

An urgent problem for domestic households in the formation of their savings is the excess of their expenditures over incomes. Answer to the question “Did your income not exceed your expenses during the previous 12 months?” was positive in 58% of respondents. Households solved this problem by obtaining credit or loans from other households or their members, the share of such households was 30%, others – by reducing costs or the possibility of obtaining additional income. It should be noted that the presence of credit behavior in households leads to an increase in debt and, as a rule, reduce the ability to build their investment potential.

If we analyze the level of use of financial instruments by domestic households, we can conclude that this level is quite low. Only 60% of respondents used certain financial

Table 4

Attitudes towards taxes and justice

	Agree	Disagree
Will you take the opportunity to avoid paying taxes?	41%	38% in the
Will you agree to receive part of your salary in an envelope?	48%	33%
For me, information about what tax money is spent on is important	77%	9%

Note: % of neutral responses or those who did not make a decision are not specified

Source: compiled by the author for [2]

Table 5

Attitude to financial literacy

	Agree	Disagree
It is important for me to get more information on how to better manage my money	61%	15%
Parents should teach children financial literacy	91%	3%
Children should be taught financial literacy at school	70%	13%

Note: % of neutral responses or those who did not make a decision are not specified

Source: compiled by the author for [2]

instruments in 2018–2019. World Bank data show that 63% of Ukrainians have accounts in a financial institution

Despite the fact that a significant number of households have at least heard of the main financial instruments, a small part of them use them. Thus, the obstacle to financial inclusion is not only a low level of financial literacy, but also a low level of trust or non-recognition of the benefits of using financial instruments. After all, the accumulation of savings in bank deposit accounts (and not in the form of cash at home) is a solution to the problem of lack of funds in households to lend to their investment activities, purchase housing and more.

Conclusions. The topical issue today is the problem of transforming household savings, among which the insufficient level of household income, trust in banking institutions, in particular guaranteeing the preservation and damage of their savings, low level of financial literacy of households are recognized. To improve, a situation is declared that is necessary to increase the level of income by age, for which the economy should be available for the level of investment and income, increase the level of confidence in banking and non-banking institutions and the level of financial literacy in investment activities.

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