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# Household Savings in Vietnam: Insights from a 2006 Rural Household Survey

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## ABSTRACT

*The aim of this paper is to inform the reader about the rural households' saving situation in Vietnam and the determinants of household saving with special interest in the possible effects of network savings behavior on household savings behavior. In Vietnam households hold capital through informal means. This means prevents it in many cases from being used effectively for investment purposes. Disseminating information about the merits of institutional saving could potentially stimulate formal household savings making. We discuss the extent to which social networks may act as an effective information transmission mechanism, and also argue that the nature and quality of the information disseminated must be carefully considered to expect the desired policy response.*

*Key words: Vietnam, rural household savings, social networks.*

*JEL classification: O12, O16, D91.*

## 1. Introduction

Households save for a variety of reasons such as life cycle savings, precautionary savings, investment savings or bequest savings. In developing countries savings are an important determinant of household welfare. In the (near) absence of a formal social security system, precautionary motivations are a particularly important determinant of household saving. In a very risky environment, where agriculture is the main source of income for the majority of people and insurance against agriculture related risks is rarely available, households often depend on their own consumption smoothing mechanisms, such as saving, in case a negative income shock occurs. In particular, Vietnam, like the other countries of Southeast Asia, is prone to adverse shocks such as avian flu and bad weather events. So it is relevant for (rural) households to consider saving as a possible protection against the occurrence of such bad shocks. Additional to its micro-level effects, household deposits make capital available for investment and as such, contribute to macro-economic growth.

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Domestic savings on GDP was 29.8 percent in Vietnam in 2005 and boosting domestic savings is part of the stated aims in the socio-economic development plan 2006-2010 (Ministry of Planning and Investment, 2006). Increasing the domestic savings rate will be key for Vietnamese economic growth (Sepehri and Akram-Lodhi, 2005), and household savings forms an important component of domestic savings. The rate of saving on income amongst Vietnamese households has been estimated around 13-14 percent.<sup>1</sup> This rate is slightly higher than the average in the European Union countries (11 percent in 2006).<sup>2</sup> But compared to other East Asian countries, the rate is rather low.

Savings held by rural households, with low access to financial institutions or living in traditional societies, can be held as financial savings but are more likely held in the form of physical assets such as cattle, land or jewellery.<sup>3</sup> In Vietnam, the non-state sector is considered as an important financial source for investment, especially households, but they tend to keep cash at home, where it is not available for borrowers/investors: “Local citizens are holding an enormous amount of capital but many people keep cash at home”<sup>4</sup>. Hence, stimulating Vietnamese households to increase their financial savings could make more funds available for investment (and growth).

## **2. Savings in 12 provinces in Vietnam**

The used data in what follows are taken from the Vietnam Access to Resources Household Survey (VARHS) implemented between August and September 2006 in 12 provinces (Ha Tay, Lao Cai, Phu Tho, Lai Chau, Dien Bien, Nghe An, Quang Nam, Khanh Hoa, Dak Lak, Dak Nong, Lam Dong, and Long An) in different regions of Vietnam. The survey was developed by the Department of Economics at the University of Copenhagen in collaboration with the Central Institute of Economic Management (CIEM), the Institute for Labor Studies and Social Affairs (ILSSA), and the Institute of Policy and Strategy for Agriculture and Rural Development (IPSARD), Hanoi, Vietnam.<sup>5</sup> The 2,324 households surveyed are spread over 466 communes and 161 districts. Along with detailed demographic information on household members, the survey includes sections on the financial behaviour of households, in particular in relation to savings and borrowing. Due to the absence of total expenditure data we could not use the standard ‘income minus expenditure’ measure of saving. Furthermore, we do not have information on the value of assets held, only on numbers of certain types of assets (livestock and durables).

### *Low financial savings rate*

The yearly financial savings rate is low amongst the households in the sample, namely at 3 percent of income. Also the percentage of households who save financially is low at 17 percent. (See Table 1, columns 1 and 2). Total financial savings are made up of formal savings, which include postal savings, savings in state - owned commercial banks, private banks and credit organizations; and informal savings which include ROSCAS and saving through a private money lender. Total savings, including home savings (jewellery, cash and gold kept at home), is at 6.5 percent of income. 54 percent

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<sup>1</sup> <http://english.vista.gov.vn/english> (“Savings in Vietnam”; 2005 No.4).

<sup>2</sup> Eurostat (2007) Euro-Indicators, news release 73/2007.

<sup>3</sup> Household savings on income was estimated at 25 and 12 percent for urban and rural households in the 2003 SAM

([http://www.ciem.org.vn/home/en/upload/info/attach/1184309728034\\_A\\_Vietnam\\_Social\\_Accounting\\_Matrix\\_SAM\\_for\\_the\\_Year\\_2003\\_PRG1.06.02.pdf](http://www.ciem.org.vn/home/en/upload/info/attach/1184309728034_A_Vietnam_Social_Accounting_Matrix_SAM_for_the_Year_2003_PRG1.06.02.pdf)).

<sup>4</sup> Vietnam Economic Times, no.132 (2005) [www.vneconomy.com.vn](http://www.vneconomy.com.vn)

<sup>5</sup> [http://www.ciem.org.vn/home/en/upload/info/attach/1194421575609\\_Characteristics\\_of\\_the\\_Vietnamese\\_Rural\\_Economy.pdf](http://www.ciem.org.vn/home/en/upload/info/attach/1194421575609_Characteristics_of_the_Vietnamese_Rural_Economy.pdf). Support from the Danish Embassy in Vietnam and Danida is greatly appreciated.

of households are saving. Although savings kept at home are available for use as a consumption smoothing mechanism, it can not be used by potential investors.

*Importance of informal and home savings*

Home and informal savings make up the major part of households' savings (see Table 1, columns 6 and 7). Three quarter of savings is kept at home and nearly one fifth in ROSCA type organizations and with money lenders. This suggests the presence of institutional constraints with few formal deposit possibilities or lack of information about their existence or use.

*Regional differences*

Large regional differences exist in the level and type of household savings. There are provinces where rural financial savings are almost non-existent (such as Dien Bien) together with provinces where it is as high as 6 percent (Phu Tho). Regional differences are common. Kraay (2000) who analyses differences in household savings across provinces in China links them to different intertemporal considerations (households expecting higher future income growth will tend to raise their current consumption levels hence lower saving). Not only differences in magnitude but also in types of savings exist as observed in Table 1.

In some provinces, nearly all savings are kept at home as cash, gold or jewellery, for example in Dien Bien. Formal savings constitute the smallest part of savings in all provinces with Dien Bien and Khanh Hoa constituting the extreme cases where no formal savings are recorded in the survey. Dien Bien exhibits an interesting case where nearly all households are saving but everything is kept at home. Providing savings opportunities where they are limited and disseminating information about them could free a lot of resources for investment.

**Table 1: Household savings rates (annual savings/annual income)**

	Financial savings		Financial and home savings				
	Mean % (1)	% HHs (2)	Mean % (3)	% HHs (4)	% Formal (5)	% Informal (6)	% Home (7)
<b>By province</b>							
Ha Tay	2.5	16.6	5.30	43.4	10.8	21.9	67.3
Lao Cai	0.8	17.8	4.35	48.9	9.2	24.3	66.5
Phu Tho	6.0	24.9	7.54	36.1	8.8	56.7	34.5
Lai Chau	0.8	4.4	2.99	36.5	6.4	4.8	88.9
Dien Bien	0.0	1.6	4.36	93.8	0.0	0.7	99.3
Nghe An	4.2	20.4	6.48	48.8	13.4	26.2	60.5
Quang Nam	4.6	15.5	9.63	76.4	11.9	5.0	83.1
Khanh Hoa	0.4	6.4	5.72	46.3	0.0	10.3	89.8
Dak Lak	2.6	17.5	7.75	60.8	6.3	14.2	79.5
Dak Nong	0.4	3.7	5.38	41.7	5.3	0.0	94.7
Lam Dong	1.5	8.7	4.68	40.6	3.6	17.6	78.8
Long An	3.0	28.4	7.74	71.2	1.5	27.8	70.8
<b>Total</b>	<b>3.0</b>	<b>17.1</b>	<b>6.5</b>	<b>53.9</b>	<b>7.3</b>	<b>19.4</b>	<b>73.3</b>

*Note:* Summary statistics are averages for the sample of VARHS06 data. Numbers have been rounded.

*Reasons for saving are mainly precautionary*

Most households save out of precautionary considerations (see Table 2). Sixty-two percent of households indicated that an important factor in determining their savings decisions was to protect against bad harvest or drought. Eighty-two percent and 70 percent of households cited health care expenses and other emergency events respectively as important factors.

*Group membership and savings*

There is a high proportion of active group membership of households in Vietnam. Youth unions, women's unions and farmer's unions play a particularly important role. Table 3 shows that some groups seem to induce financial savings. Others seem to be associated with a lower likelihood and magnitude of financial savings. For example, in the case of Youth and Women's Unions, the proportion of households who save that are active members of these groups is higher than the average for all households. The opposite is true for members of Farmer's Associations. The raw data also suggests that average annual savings as a proportion of income is above average for some groups and below average for others. This suggests that network effects may play either a negative or positive role in household savings depending on the type of network. We hypothesize that some groups could serve as an important means of disseminating information on financial saving in some regions and explore this possibility further by analyzing the determinants of household (financial) savings behavior in this context.

**Table 2: Reasons for saving**

Reason	Important factors in savings decisions (% HHs)
As protection against bad harvest or drought	62
To cover health care expenses	82
Other emergency events	70
Holidays	8
Cost of education	58
To buy agricultural inputs/investments	59
To provide for old age	32
Weddings	24
To leave bequests	46
To repair dwelling	28
Expected high returns/interest rates	6

*Note:* Statistics presented are for the sample of data.

**Table 3: Group membership and financial savings**

	Frequency (%)	% of participating HHs who save	Annual Savings/Income (Mean) (%)
Vietnamese Communist Party	9.9	23.1	3.8
Youth Union	22.3	20.3	2.5
Women's Union	53.6	18.8	3.0
Farmer's Associations	39.6	16.3	2.3
Veteran's Associations	13.2	21.2	3.6
Religious Organization	4.2	13.4	0.9
Informal Credit Group	3.7	89.5	11.4

*Note:* Statistics presented are for the sample of data only. Numbers have been rounded.

*Possibilities for saving are limited in rural areas*

The observations made on the household saving behavior have to be balanced by the possibilities of formal saving which are generally low in the rural areas and especially in the communities included in the survey. Table 4 shows that the Bank for Social Policies, the Bank for Agriculture and Rural Development and other state commercial banks do offer savings possibilities to the residents in the communes but they are represented only in a minority of communes making average distance to the banks relatively large. Private banks were hardly present.

**Table 4: Formal saving possibilities**

Bank type	Number of communes	Bank present in commune	Bank provides saving	Average distance
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	responded	(%)	opportunities to residents (%)	to bank (in kilometers)
Bank for Social Policies	426	26	35	10
Bank for Agriculture and Rural Development	425	22	92	9
Other state-owned Banks	132	2	77	19

### 3. Determinants of household savings behavior

Since we do not have complete information on all home savings such as certain type of assets, we investigate mainly one part of savings, namely deposits or financial savings, ignoring savings through other assets such as livestock, grain storage or jewellery. From a productive point of view, financial savings are interesting since raising it could potentially increase resources for investment.

*General determinants of whether to save or not:*

- Wealth effects dominate the participation decision with wealthier households more likely to save.
- Negative effects of the average age of household members are found in line with the lifecycle savings hypothesis.
- Contrary to expectations, no education effects were found.
- Having suffered from an income shock the year before the survey has significant effects. Suffering from an income shock affects the participation decision negatively. This suggests that households are less likely to be able to save in the aftermath of a shock (but if they can they will try to save more, see next point).
- Formal or informal savings: Age has the expected negative life cycle effect on the decision to save informally but no effect on the decision to save formally. Wealth has non-linear positive effects on the informal savings decision but not on the formal savings decision. Education has a positive effect on the decision to save formally.
- These results show that different determinants drive the formal/informal savings decisions.

*General determinants of the magnitude of savings:*

- Income is an important positive factor in determining the level of household savings.
- Household size has a negative effect on household savings suggesting that larger households are more resource constrained than smaller ones with less disposable income and consequentially a lower level of savings.
- Households that receive financial support from children have a lower level of savings suggesting some degree of substitutability between the two, even when age is controlled for.
- Households who suffered an income shock the year before the survey will try to save more (if they can save!).

*Network effects: group savings behavior effects on individual saving*

- Members of the Vietnamese Communist Party and members of Religious Organizations are significantly more likely to save than non-members but *ceteris paribus* save a smaller amount.
- Members of Women's Unions save significantly more than non-members.
- A higher level of savings (formal and informal) by groups positively affects the probability that group members save. The savings behavior of Women's Unions, Religious Organizations and Informal Credit Groups, increases the probability that a household saves even more. There are no significant network effects found for the actual level of saving.
- Informal savings by groups generally has a negative effect on its members' decision to save but the effect is positive for Women's Unions and Religious Organizations.
- Formal savings by groups generally has a positive effect on member decisions to save with significantly larger effects in Women's Groups, Religious Organizations and informal Credit Groups.
- Generally, there are no network effects found on the actual level of savings (only on the probability of saving) but when the effect of informal group savings is investigated separately, a positive effect on the level of saving is found (with negative effects for Women's union and Religious Organizations).
- These results suggest that the savings behavior of households is influenced by the savings behavior of some of their close networks, but only at the margin.
- Formal or informal savings: being a member of any group increases both the probability to save formally and informally. However, members of the Vietnamese Communist Party, Farmers Association, Religious Organizations and Informal Credit Groups are less likely to have formal savings.
- Complementarities exist in that formal group savings appear to affect positively the household decision to save informally and informal group savings affect positively the households' decision to save formally.

#### **4. Policy recommendations**



- Financial savings are very low and needs to be encouraged (while saving at home discouraged), for example, through information dissemination about possibilities and use of the system.
- The share of formal savings is relatively small which may be due to attitudes (traditional ways of saving) or institutional constraints. Increasing availability or accessibility of formal saving institutions can help.
- Group effects exist so groups can be used to transmit information on why, how and where to save. Especially Women's Unions, Religious Organizations, Informal Credit Groups and, to a lesser extent, the Vietnamese Communist Party may be used for the purpose of increasing the households that save.
- Most group affects are favorable to informal rather than formal savings. Hence, if policy is in favor of formal savings, the nature and quality of the information would have to be carefully considered to expect the desired policy responses.
- Improving the savings institutional framework.

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