HOUSEHOLD FINANCIAL STATE AND BEHAVIORAL FEATURES IN THE RUSSIAN FEDERATION

Ivan Kirsanov*
P.G. Demidov Yaroslavl State University,
Faculty of economics,
Russia
investing.kir@gmail.com

Parfyonova Lyudmila
P.G. Demidov Yaroslavl State University,
Faculty of economics,
Russia
mila.pparfenova.2020@mail.ru

Abstract

The article is devoted to features of household financial behavior at the macroeconomic level. The aim of the article is to explain this household behavior through the behavioral financial effects. Thanks to a comprehensive study of scientific publications, it has been found that there are practically no works on the macroeconomic analysis of behavioral qualities. Much attention is given to analysis of statistical data from Rosstat and the Central Bank of the Russian Federation for 2008-2020. The wide range of indicators is used to show the financial condition of households and identify the features of their behavior in Russia. In conclusion, it is evident that this study has shown the deviation of Russian households from a rational model of behavior. They financed consumption with loans, while actively creating savings. As a result, a situation of stagnation has developed with a significant increase in the credit load.

Key Words

Households; household financial behaviour; behavioral financial effects; behavioral economics; Behavioral theory; the rational model of behavior.

*Corresponding Author

INTRODUCTION

Households are at the center of the modern economy. They provide a demand of certain goods and services to consume, creating new trends. Besides, the economies of countries depend on the financial household expectations, which create the limits of economic reality (Nikolaychuk, 2019). What is important here is to study the expectations and behavioral characteristics of households in times of crisis. Dramatic changes in the economy make households choose the irrational consumption model and accept rash financial decisions. The behavioral economics approaches can explain the actions of households in such conditions (Orlov, 2010).

Notably, the current crisis owning to the spread of corona virus hit the household sector hard. The unique consequence of this crisis was the impacted household behavior to some extent. In comparison with the Asian crisis of 1998 or the financial crisis of 2008, this crisis hit the demand and only in a supplementary way the supply of goods and services.

Households in the Russian Federation have perceived painfully this crisis because of a structural economic crisis. It has been lasting for almost 10 years, and the fall in oil prices and the devaluation of the ruble in 2014 made it worse. Meanwhile, real incomes of the population have been falling for 6 years that relates to the unrecovered economy from the global financial crisis in 2008 (Ilyinskaya, 2010). In addition, there are two negative impacts of the corona virus crisis on the Russian economy with regard to Russia as one of oil-producing countries with high resource dependence. On the one hand, in April 2020, the economy had to be quarantined. This measure hit hard on the real sector of the economy, small and micro-businesses. On the other hand, in March 2020, the OPEC deal to limit oil production terminated. This resulted in another wave of ruble devaluation (Belov, 2020).

The behavioral characteristics of households have become much more visible because of crisis. The variety of negative factors creates conditions for shifting of their consumer choice.

PROBLEM STATEMENT

In Russian and Western practice, approaches to the study of behavioral economics differ. The Russian scientists focus on theoretical research to define the role of behavioral finance in economics. There is an active discussion on the division of behavioral economic theory. Behavioral economics consists of behavioral theory and behavioral finance in the Russian literature. Practical research stays away, unfortunately.

In Western practice, most of the research is based on experimental empirical data. Scientists drew conclusions about the existence of behavioral effects based on modeling specific conditions, situations where the behavior of a group of people is studied.

In general, there are not many studies in the scientific community that would combine the analysis of household behavior at the macroeconomic level and the approaches of behavioral economics.

The research objective is a comprehensive study of the financial state and behavioral characteristics of households in the Russian Federation. As a result of the study, the key features of the financial behavior of Russian households are formulated and explained from the point of view of the behavioral theory.

LITERATURE REVIEW

The issue of household financial behavior is complex. To effectively study, it is necessary to combine the following scientific directions.

Consumer behavior
Within the neoclassical paradigm, economic agents are considered as rational figures. They make their financial decisions based on all available information. The preference of diversive financial alternatives from economic agents is given to the best option that suits the needs.

Indeed, this convenient concept allows to clearly assess deviations from a rational model of behavior. However, scientists point out that the economic man model cannot explain the complex trends of the modern economy. This is digitalization, personification, ecologization, aestheticization, and changing the emotional basis of economic activity.

Behavioral Economics
The approaches of behavioral economics allow to explain the economic agents' behavior in the complicated conditions of the modern economy. Scientists study situations of irrational behavior and try to find factors that affect this.

According to the Western scientists, behavioral economics has replaced the classical model. In contrast, the behavioral theory is considered to be a logical addition to the neoclassical model by the Russian scientists. Thus, behavioral theory reveals non-standard and unaccounted situations in the classical theory (Salin et al., 2016; Belozerov, 2008).

In the context of the behavioral theory analysis involves applying the various effects called standard patterns of economic agents' behavior. Western scientists have excellent results in the study of these effects. Over dozen behavioral effects have already been identified. For instance, the theory of planned behavior, the psychology of irrecoverable costs, the effects of consumer choice options, the chameleon effect, the effect of secret consumption, etc. (Ajzen, 1991; Chartrand et al., 1999; Biswas, 2009; Kahneman and Tversky, 1979).

DATA AND METHODOLOGY

This study is based on several fundamental principles. Firstly, the state official statistics data for the Russian Federation are analyzed. Secondly, it's admitted households to act rationally. And, deviations from rational behavior

are considered in terms of the effects of behavioral finance. Thirdly, households are considered as an element of the country's financial system. The article comprehensively examines the official statistics from the Russian government departments. Key data for the study were taken from the official websites of the following departments: the Federal State Statistics Service and the Central Bank of the Russian Federation. The period from 2008 to 2019 is considered, special attention is paid to the crisis period of 2014-2015.

FINDINGS

Since 2008, the Russian economy has been affected by the negative consequences of several crises: the international financial crisis (2008-2009), the devaluation of the rouble and sanctions (2014-2015), the fall in oil prices (2020), and the closure of the economy due to the corona virus pandemic. Even so, the monetary incomes of Russian households have been growing in nominal terms throughout the entire period.

Figure 1: Household income in 2008-2019
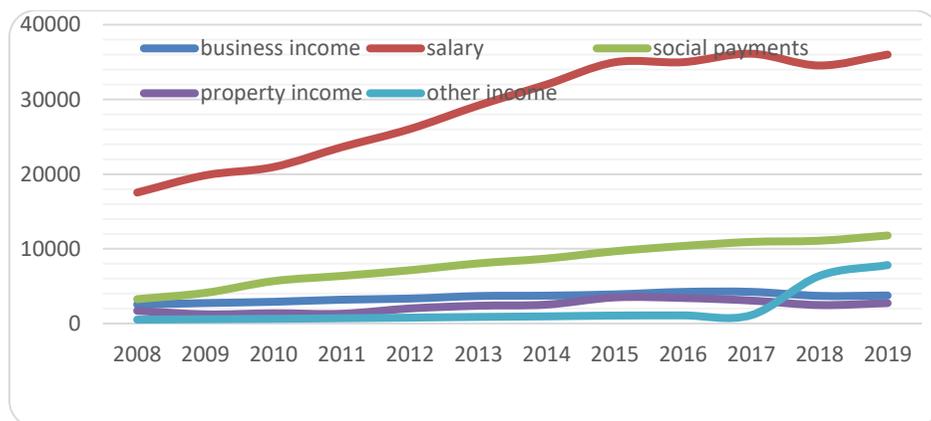
Source: Federal State Statistics Service.

  Regarding the structure of household income, the most significant portion of household income held in wages and social benefits. it is worth mentioning that a series of changes in the structure of income has taken place during the period under review.
  Wages fell from 68 to 58%, while social payments increased from 13 to 19%. All other income changed significantly. Income from entrepreneurship has almost halved, as well as property income. Instead, other income has increased from 2 to 13%. The official statistics office could not estimate directly and determine the source of such other income. And, as is often the case, this is called the shadow household income (Nivorozhkina, 2016).

Real disposable income of households remained mostly unchanged after the crisis of 2008-2009. Instead of the weak growth in 2008-2009, a sharp drop in this income after the crisis of 2014 is not still offset.

This mixed situation with household incomes from 2008 to 2019 is evidenced by the Gini index, which was at the level of 0.41-0.42 during the entire period. Index figure is high enough for such a large country as the Russian Federation that attests to the stratification of society. Although it has managed to reduce the number of people with lower by about three times incomes than the subsistence level.

Expenses on goods and services take the largest share of all expenses. This represented 73 % (2008) and 81% (2019). Moreover, the compulsory payments and other contributions are at the second line of expenses (13% in 2008; 15% in 2019). In total, households spent more than 96% of all disposable funds on current needs in 2019. Whilst, the cost of purchasing real estate was halved from 5 to 2% and the financial asset increment decreased from 8 to 1%.

As well as the composition, the structure of consumer spending by households is found to be almost unchanged since 2008.

Traditionally, Russian households spend little on health care and education (3.8 and 3.5% in 2019). And, over 55% of all expenses were for food, housing and communal services and transport.

Despite the nominal increase in income, the indicators mentioned above show the actual offset by the rise in prices. In physical terms, households consume approximately the same amount of goods.

Relating to loans and deposit placement, Russian households were based on the pronounced trends in 2018-2019.

Between 2008 and 2019, Russian households deposited over 25 trillion roubles in commercial banks. At the same time, the average annual deposit interest rate showed multidirectional dynamics. It can be observed the same interest rate in 2008-2013. The strong growth in 2014 was due to the key rate change by the Central Bank of the Russian Federation. There was the significant drop in 2015-2019.

Another important trend is the systematic growth in the volume of lending to individuals. In this process, there are several stages.

First, the smooth growth at extremely high rates lasted until 2014. Second, that was a period of stagnation with a slight decrease in rates between 2014-2016. Third, the rapid growth with stabilized rates was noticed from 2016 to 2019. The analysis of several household financial behavior trends after the 2014 crisis will be made separately. In recent years, households have become active users of the microfinance services. So, over the past 5 years, the portfolio of microcredits issued to the population has grown by almost 4 times. In addition, Russian households began to extensively invest in securities on their own.

Over the past 3 years, the number of individual clients on brokerage services has increased by more than 4.5 times. Besides, the number of individuals with the fiduciary management agreement increased from 39,100 to 400,100. The number of individual investment accounts increased from 212,000 to 2,386,000.

   In addition, statistics show the same model of Russian household behavior during acute crisis periods (2008-2009, December 2014, March 2020). Thus, they are actively trying to acquire foreign currency (mainly dollars), real estate (mostly by mortgage loans) and non-expendable items (especially, imported household appliances, electronics).

CONCLUSION

The financial condition and behavior of Russian households can be readily appreciated from the submitted summary of available statistics for 2008-2019 in the article. The interest in the subject is mainly stirred by the unusually frequent period of acute crises affecting the behavior of households.
   The data has been presented would indicate that purchase of foreign currency occur during crises. On the one hand, this may be logical due to the strong dependence of the Russian economy on imports of goods. However, households tried to acquire foreign currency in large quantities, that significantly exceeded current needs. For instance, in the period September-December 2014 this was result of the crowd effect.
   The most common household behavior trend is active purchase of non-expendable goods. It wouldn't be a mistake to consider this feature related to the previous effect. However, it is driven by the effect of deliverance from cash. Households try to acquire as many real goods as possible, even if they are not needed.
   In 2014, people had been buying up household items for months. Instead of one device each consumer was purchased by several same goods. In contrast, the household began to get rid of this technique in the summer of 2015 when the situation with the exchange rate stabilized.
   Let's have a final look at purchase of real estate with a mortgage. Traditionally, Russian households find it profitable to invest. In fact, the closure of the economy was due to the corona virus. In April-July 2020, there was the actual trend, when the portfolio of mortgage loans of Russian banks increased by 50%. Despite the problems with job search and its losses, households were actively taking out mortgages. This situation arises with regard to over-estimation of financial capabilities and underestimation of risks by households.

ACKNOWLEDGEMENTS

REFERENCES

Ajzen, I. (1991). The theory of planned behavior. Organizational Behavior and Human Decision Processes, 50, 179–211.

Belov, V. B. (2020). COVID-19 - Game changer of the European economy? Scientific Analytical Bulletin of the Institute of Europe, 3(15), 4–12.

Belozerov, S. A. (2008). Household finance as an element of the financial system. Finance and credit, 1, 29–37.

Biswas, D. (2009). The effects of option framing on consumer choices: Making decisions in rational vs. experiential processing modes. Journal of Consumer Behaviour, 8, 284–299.

Chartrand, T. L., Bargh, J. A. (1999). The chameleon effect: The perception-behavior link and social interaction. Journal of Personality and Social Psychology, 76(6), 893–910.

Ilyinskaya, E. M. (2010). Dynamics of consumption, savings and investments ... in the context of the financial crisis. Bulletin of the St. Petersburg State University of Technology and Design. Series 3: Economic, Humanities and Social Sciences, 1, 3–9

Kahneman, D., Tversky, A. (1979). Prospect theory: An analysis of decision under risk. Econometrica, 47, 263–291.

Nikolaychuk, O. A. (2019). Households in modern Russia: is there any reason to expand financial strategies? Finance and Management, 3, 32–49.

Nivorozhkina, L. I. (2016). Hidden Household Incomes: An Empirical Analysis. Terra Economicus, 4, 42–53

Orlov, L. F. (2010) Study of the role and place of household finance in the modern economy of Russia. Bulletin of the Moscow State Regional University, 1, 35–39

Salin, V. N., Kachanova, N. N., Glebkova, I. Y. (2016). Statistical analysis of household finance. Financial University Bulletin, 3(93). 72–82