UNIVERSITI TEKNOLOGI MARA

DETERMINANTS OF HOUSEHOLD SAVING IN ASEAN COUNTRIES

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ABSTRACT

This study is to examine the determinants of household savings on gross domestic products (GDP), inflation (consumer prices), interest rate, household disposable income, household consumption expenditure, and age dependency ratio in five different groups of ASEAN countries which are Malaysia, Indonesia, Singapore, Thailand and Philippines. Data to be used in this study is panel data collected from World Bank Data and Thomson Reuters from the period of year 2009 to 2018. To achieve this objective, we use descriptive statistics, correlation analysis and regression analysis. The result show based on the Panel Ordinary Least Square method, gross domestic product, household disposable income, and age dependency ratio having positive relationship with household saving meanwhile the rest variables which are inflation (consumer prices), real interest rates and household consumption expenditure are negatively related to household saving. Based on T-test shows that gross domestic product, household disposable income, and age dependency ratio have significant effect towards household saving while inflation (consumer prices), real interest rates, and household consumption expenditure, has no significant effect towards household saving.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

Household sector is the main sector of a national economy that saves. Household are the backbone of any economy as its savings contribute a lot in the economic activities. Household savings is the main domestic source of funds to finance capital investment, which is a major driver of long-term economic growth. According to Levenko (2020), household saving is defines as household gross disposable income less household consumption expenditure as a share of household gross disposable income.

Household savings behaviour is determined by a composite of social, cultural, economic and demographic factors. This is why household savings is very important to the economy of a country where the decisions made by people either individual or household about how much to save is important since it has a powerful effect on economic performance of the country. It shows that savings provide a source of household wealth and a cushion against the unexpected times where allow people to smooth out their consumption expenditures when times are tough in the future.

Any saving including household saving is important because it is a source of capital for a country. The increasing in capital will lead to increase the investment portfolio. Besides, savings can help to reduce liquidity risk that involve with the interbank and the public. The more the savings, the more sources of funds that the bank able to lend out (Yap, Chan, Law, Lim, & Ng, 2012). The tendency to save will increase simultaneously when the household income is increase but it will also depend on the consumption expenditure that the household spend. According to Zhuk (2015), household consumption expenditure is durable and the price of goods and services may increase over the times depends on the market conditions on the country.

In the theory of economic, Keynes (1936) believes that households save in order to keep the money reserve in case of unexpected negative events that may happen in the future; ensure stable expenditures in retirement when income decreases; receive interest payments of the savings from the bank; be able to increase expenditures for a better