

Abstract

This study looks at the determinants of household savings in Vietnam from three aspects, the supply side, the demand side and the expected savings opportunity. An integrated theory of savings is appropriate in the context of Vietnam where household savings are available but are scattered in various forms of informal savings. The weak rate of return on savings, prolonged inflation, thrift habit of rural households, and poor access to financial institutions are the main four reasons which have resulted in households having their savings outside the banking sector. This results in a wide gap between potential and actual household savings, along with other financial resources, which could be a source of development finance. The lack of an effective mechanism to mobilize potential household savings is the major problem. The evidence reported in this study provides several policy implications for policy makers in resolving this problem. It is found that household savings depend strongly on supply-side determinants, like the ability, incentive, opportunity, and the motive for households to save. Interestingly, informal savings, which is representative of the incentive and the opportunity for households to save, is an important determinant of household savings. It is also found that formal savings depends largely on demand-side determinants like the security of savings, deposit transaction cost, reciprocity of financial service, network of financial institutions, quality of financial service, and information on financial institutions. Also, households are not homogeneous, and expect to be served by appropriate financial intermediaries. This results in two categories of savers, small savers and speculative savers. From the point of view of policy-making, a number of recommendations are made for the optimum mobilization of household savings in Vietnam. These include macroeconomic stability, a link between small credit and small deposits, programmes of employment generation, and a current development of the financial intermediaries.