Savings in Central Europe

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Abstract

The monetary system is today essential for any economy. The most important components of the monetary system are: money, payment arrangements as well as institutions supporting monetary flows.

The money sign or money is, in principle, a claim, transmissible, arbitrary, with a forced course and whose essential function is to be able to be exchanged for a certain amount of goods and services.

In society, there are also a number of factors, predominantly of a subjective nature, which can determine and cause individuals to diminish their consumption expenditures. This is about savings-purpose (saving becomes an end in itself, being considered a means of achieving certain goals) as well as certain "forced" economies (individuals do not find the desired consumer goods or the desired quantities and consequently do not have the what they spend their income).

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1. Introduction

Saving is the fuel needed for economic growth (Angus D, 1995). Without saving, capital can not accumulate, productivity can not grow, and wages and living standards suffer. Foreign debt in recent history of Romania is the product of the taxation policy of saving by inflation, the expansion of credit and the uncontrolled expansion of public spending. A country that does not save, that is, a nation that spends more than income, has to cover its expenses by external loans. So, the domestic saving deficit needs to be offset by capital inflows or (which is the same) from a current account deficit in the balance of payments.

The latest savings bank Barometer Erste Group shows that saving money is important for more than three-quarters of the Central Eastern European population. "Savings have become more important for most of the inhabitants of this region than a few years ago. This development is good news because it supports the low level of household indebtedness and also contributes to the increase of the financial sector's liquidity, "says Martin Škopek, CEO of Retail, Erste Group. In the CEE, one in two people is accustomed to putting money aside periodically. Two-thirds of Czechs, Slovaks, Hungarians, Romanians, Croats and having money available to Serbs immediately save.

Most interviewees surveyed said they are saving to have financial, retirement, housing, or renovations. Poles and Slovaks are the champions of saving in the region, putting aside 15% and 12% of net monthly income, followed by Austrians, Czechs, Germans, Romanians and Serbs (9%). By comparison, the British saved only 7% of the income according to mid-2012 data, although their income remained largely stable.

Savings books and home savings are the most popular products The Austrians and the Czechs seem to be less affected by the fact that their governments have considerably reduced subsidies for home-saving savings products under austerity measures. Thus, 67% of Austrians and more than half of Czech Savings remain loyal to their economies through savings-credit contracts. However, three-quarters of economists in the CEE are worried that local currencies will depreciate and therefore economies will be less profitable in the future. Thus, 85% of Romanians and nearly three-quarters of Polish, Austrian and Germans are worried about the depreciation of national currencies, rising inflation and falling purchasing power.

Low degree of satisfaction with the current level of savings in CEE compared to Austria and Germany Only 20% to 30% of CEE citizens are satisfied with the amount they are currently saving compared to over half of Austrians or Germans. Ukrainians are the least satisfied, followed by Romanians, Serbs and Hungarians. This perception reflects proportionally the financial situation of the people. If most Austrians and Germans believe their personal financial situation is good enough, only 16% of the CEE population is satisfied with their financial situation, and 40% of them say they have a "so and so" situation.

In terms of nominal terms, the Germans lead in terms of monthly savings (178 euros), followed by Austrians (164 euros), Poles (90 euros), Slovaks (83 euros) and Czechs (78 euros). The barometer shows a fairly large gap, as Hungarians, Ukrainians, Serbs, Croats, Montenegrins and Romanians put aside less than 50 euros per month.

In the medium term, more than half of Czechs, Slovaks, Croats and Serbs believe they will save more or just as they are now and in five years. Currently, eight out of ten Serbs, Romanians and Hungarians feel personally affected by the negative economic situation in their countries, while less than half of Czechs and Austrians have experienced the impact of the global financial crisis.

Most CEE residents would only have to buy an apartment or a house. "More than half of the CEE residents say they are very careful when it comes to debt. Most of them would only be obliged to buy an apartment or a house and would use it either for a bank or for loans from family members, "explains Škopek. Slovaks and Czechs are most willing to borrow for the purchase of a dwelling (over 70%), with the Romanians standing at the opposite (41%). However, some traditions are not affected by the lack of money. Almost a third of Poles say they would take a credit or pay in installments for the wedding.

All the expectations indicate that banks should deal with financial education. More than half of survey respondents in the 12 countries considered do not have enough information about financial issues. Almost two-thirds of Czechs and Slovaks believe that money management issues should be handed over to children at the latest in primary school. The vast majority of CEE residents want to be better informed about economics and finance in general. Thus, 80% of Romanians and Turks believe they should be better informed about economics and finance, while only about 55% of Croats and Germans think so. One from two Romanians think that it is very important for banks to get involved in financial education for both adults and children. Almost 90% of all respondents believe that a bank should give adults an opportunity to improve their knowledge of financial and economic issues.

2. Motivation for saving

In Eastern Central European countries, saving products rank the second positin in financial services, after bank accounts, and the reasons why people save do not vary greatly from one country to another, and the differences are not even significant between mature and emerging countries (Denizer C., Wolf H., 1999). Despite this trend, in Romania the second position is currently held by credit.

The first motivation, common to all the states under consideration, is "saving for black days" that covers everyday needs, but also unpredictable situations - if, for example, the washing machine or the car is spoiled. The second reason is to support children (for education in general, especially college), followed by "old age reserves" or "reserves for later", as well as savings for holidays. 29% of Romanians chose the first reason, 28% put money aside for children, while 25% are concerned about personal reserves for old age. The real estate agent remains the most attractive investment.

Also in 2009, a common trend emerged in Europe: people prefer to insure against risks. Therefore, it is not surprising that simple and transparent saving methods are preferred in most countries: buying properties or futures. There are still enough Europeans who continue to keep their money at home, as confidence in the financial markets has fallen sharply in most countries. The most attractive investment opportunity for the Romans continues to be the real estate sector - with apartments and houses (25%) and other properties (29%), followed by bank deposits (23%).

The project GfK Financial Market Data Service, which determines the financial behavior of the population, is carried out in 13 European countries: Austria, the Baltic countries (Estonia, Latvia, Lithuania), Bosnia, Bulgaria, Croatia, Poland, and data are representative for the population aged 15 and over, with a sample of at least 1,000 people in each country (Borensztein E., Montiel P., 1991).

3. Savings through bank deposits

Commercial banks' interest rates on ROL deposits decreased in March 2014 as against the previous month, according to data published by the National Bank of Romania (NBR).

For the deposits in lei in balance, the credit institutions have reduced the interest rates with 0.16 percentage points, so that their average reached 3.27% on year in March 2014 to 3.43% on year in February. In new deposits, interest rates fell from an average of 3.02% a year in February to 2.65% per annum in March.

Both BCR and Raiffeisen Bank have various saving deposits, like:

- The savings plan is a 12 month maturity deposit, where customers deposit monthly according to the monthly deposit schedule and can supplement at any time with any amount. Interest is calculated on a daily basis and capitalized annually, added to the balance of the savings plan or paid into the current account designated by the savings account holder. At BCR, the minimum set-up is 50 lei for adults and 40 lei for minors, and for Raiffaisen Bank the savings plan is only for minors and the minimum set-up amount is 150 lei.
- The Savings Account is a flexible product that rewards you with an advantageous interest when saving, and when you need the saved money you are not penalized. You get the interest on the amounts you have in your account, so the more you save the more you get a more consistent interest. The difference between the two banks is that at BCR to open a Maxicont savings account the minimum amount is 500 lei, and at Super Access Plus (Raiffeisen) the minimum amount does not exist.
- Standard 1, 3, 6, or 12-month term deposits are automatically extended at maturity. The customer may choose to capitalize the interest or pay the interest accrued on the current account. Term deposits depend on a current account for the collection of interest and the liquidation of the deposit. Customers who receive a salary / pension in their current account benefit from a 2pp higher interest rate.
- The savings-credit product BCR Bank for Housing and Raiffeisen Bank for Housing is available to any natural person, a Romanian citizen with stable residence in Romania. The system benefits from bank deposit interest and a state premium of 25% of annual deposits, without exceeding 250 euros (equivalent in lei). Upon accruing 40%, 45% and 50% of the contracted amount (depending on the type of contract), the client can claim the credit, which is granted on very advantageous terms. These amounts should be used for residential purposes: redevelopment, renovation, construction, acquisition, repayment of other mortgage / real estate loans, viability, etc.

The main thing that attracted customers is the 25% state premium from the annual deposits, and the only downside to it is that you do not have access to your money for 5 years. If a customer wishes to terminate the contract before the 5-year term, they lose accrued interest over the amount deposited. At the opening of this product, a commission of 1% is paid to BCR and 1.2% of Raiffeisen in the contracted amount.

4. Savings by investing

An investment fund is a collective investment institution without legal personality, which means that an investment fund collects money from more investors and invests it in several types of financial instruments, the most used being shares, fixed income instruments (bonds), deposits.

Investment funds (also known as mutual funds) are of several types, each type of mutual fund investing predominantly in a certain class of financial instruments among those specified above. This means that not all types of investment funds invest in shares, but only equity funds, and, to a lesser extent, diversified funds. Bonds or money funds do not invest in shares.

There are two distinct classes of investment funds: open-end investment funds and closed-end investment funds.

The open-end investment funds allow the issue and redemption of fund units, while in the case of closed-end investment funds the issue and redemption of fund units is discontinuous, that is, there are certain periods when it is possible to invest in these funds or when it can be redeemed .

Investment funds work with the fund unit concept, which represents the unit division of the investment fund. A fund unit is equal to the net asset value of the investment fund, divided by the number of fund units put into circulation at a certain date. In the case of open-end investment funds, the value of the fund unit is calculated on a daily basis. Consequently, the unit price varies depending on the performance of the instruments in which the fund invests.

Basically, when a person invests in an investment fund, they actually buy a number of fund units at their value in the day they make the adhesion. The increase (or decrease) it registers is due to the variation in the value of the fund unit, because if no additional adhesion (investment) or redemption (retirement) operations are done, the number of fund units remains constant.

The degree of risk to which an investor is exposed in mutual funds varies according to the type of investment fund (monetary, bond, diversified, equity) in which he invests. For example, monetary funds have a low risk because they invest predominantly in deposits, while equity funds have a higher risk because of high stock market exposure.

Types of investment funds:

- Monetary funds - invest in state or corporate bonds with fixed or variable interest and short maturity.
- Bond funds - For these funds, assets are invested in bonds. Bonds involve the periodic (eg annual) payment of a coupon, as well as the redemption of the nominal value at maturity. People who invest in bonds turn into creditors for issuers. Example: BCR - Erste Bond Flexible Ron and Raiffeisen Ron Flexi.
- Mixed funds are funds that invest in different asset categories (for example, in shares and bonds) combining the growth potential offered by shares and the stable returns generated by fixed income instruments. These funds give the administrator more freedom of movement. If the stock price stagnates or falls, the trustee may focus on fixed income instruments, returning to equity investments when the market starts to grow again. Example: BCR - Erste Balanced Ron and Raiffeisen Benefit.
- The equity funds invest mainly in shares issued by companies or similar instruments. The quoted market price shows investors' perception of the value of a company's shares. Shareholders can directly benefit from the company's profits and (possible) dividends. Example: BCR- ERSTE Equity Romania and Raiffeisen Romania Shares.

Representatives of the fund management industry, a segment of the economy that had the fastest growth since the beginning of the economic crisis last year, believe that Romania has a good chance to move from border market to emerging market in the next 12-18 months . According to International Financial Corporation, a member of the World Bank Group, the emerging market is "the market that grows in size and sophistication, in contrast to a relatively small, inactive market that gives too few signs of change."

5. Insurance savings

Nowadays, due to the inflation and the economic crisis that Romania is going through, besides protection, the Romanians are looking for some financial stability that can be provided by a good saving plan. Anyone can be exposed to health problems or accidents, regardless of age, social status or profession. Just as we provide our car or home before the risks occur, it is important to do the same with our health and life.

BCR Life Insurance VIG offers its clients two products with a saving role:

1. The investment account with insurance is a two-component insurance:
    - Investment component - involves the acquisition by the insured of units belonging to investment funds set up by the insurance company. Thus, the client can opt for investment funds with different degrees of risk: low, medium, high.
    - Protection component - materialized by life insurance, ie guaranteed amount in case of death; In the event of the Insured's death, the Insurer will pay the Beneficiary the higher amount of the guaranteed amount and the amount of the individual account evaluated on the last trading day prior to the date of the death notification, plus 10% of the guaranteed amount
2. Magister studies Annuity is a flexible savings and protection that children can benefit from older chosen parent of a guaranteed amount of money, plus capitalization performed during the contract;

With Raiffeisen Broker you can find an insurance policy that benefits you from:

- financial protection for you and your family (in case of death, disability, hospitalization, surgery),
- the possibility of saving for important life projects (studies, marriage, starting a business on their own).

6. Conclusions

In our society, money is very important. Money is used almost daily. With the money we buy, we make savings for later purchases or for old age, we can travel and pay anywhere in the world.

The savings are very important for 42% of Romanians, while 41% from them consider important and 4% do not pay attention, according to a survey by IMAS International and published by Banca Comerciala Romana. Thus, the most concerned about saving are people over 50, over half of whom say that savings are very important.

The savings are opposed to mobs that act in the direction of increased consumption (satisfaction thirst, myopia, generosity, foolishness, ostentatiation, wastefulness), and from confrontation they give rise to the concrete size of the total demand and consumption of each individual, of each family, of course with the concrete possibilities of a certain level of personal income available.

Besides the savings accumulated by individuals, there are also savings of central and local authorities, of various organizations and societies, whose main moves are: business spirit (providing resources for investment without making loans); the desire to have liquidity to deal with emergencies or crises; thriving thirst (the desire to ensure a steadily rising income that will keep critical leadership - there will be no difference between revenue growth due to past accumulations and the one due to higher efficiency); financial prudence.

7. References

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