

Chapter 9

Ethnicity and Household Savings in Indonesia

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ABSTRACT

Household saving is very important, not only for securing the future spending of the family but also for the country's economy. Using the logit analysis on data of The Indonesia Family Life Survey (IFLS) wave three, four, and five, this chapter analyzes factors influencing, especially the role of ethnicity, upon the household savings in Indonesia. The result indicates that gender, location, and level of education are the consistent variables affecting the household saving behaviour in Indonesia across the three wave surveys. Meanwhile, as for the ethnic group variable, there are only Sunda, Batak, and Bima-Dompu that can significantly influence the people's saving behavior across the three wave surveys.

INTRODUCTION

Saving is believed to be one of the engines driving the economy of a country. Previous studies have shown that savings are able to boost economic growth in many countries such as Nigeria (Adelakun, 2011), Malaysia (Abduh, Omar, & Duasa, 2011), as well as Bostwana (Jagadesh, 2015). The growth of the economy for countries with high capital accumulation, especially through savings, will be more sustain and higher compared to countries with low capital (Chow, 1993). The low level of capital accu-

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mulation, one of the reasons is due to insufficient savings, is the common problem faced by developing countries (Wollasa, 2011).

To date, Indonesia is still classified as a developing country and grouped under low and middle income countries (World Bank, 2017). Similar to other developing countries in this world, Indonesia is facing challenges on how to improve its capital accumulation, especially through the improvement of household savings which currently still in a considerably low level. It is interesting to see that at the Association of Southeast Asian Nations (ASEAN) level, the amount of household savings in Indonesia that have been collected relatively higher and even better than Singapore and Brunei Darussalam as a high-income country, i.e around 300 trillion US\$ a year. However, it is not surprising because the population of Indonesia is much greater than those two countries. The average percentage of savings to GDP from 2010 to 2015 shows that Indonesia is in the fourth position in ASEAN with only 34.4 percent (World Bank, 2017).

Unlike other low- and middle-income countries in ASEAN region such as Thailand, Cambodia and Laos, the growth of domestic savings in Indonesia is likely to decline since 2013 (World Bank, 2017). After a fantastic increase of 44 percent in 2010, the level of savings in Indonesia continue to fall with the rate of 0.3 percent in 2015. On the other hand, the same report said that domestic savings of Laos, Thailand, and Cambodia had increased dramatically by 34, 12, and 10 percent respectively. Since domestic saving is one of the main components in developing the economy, it is then very important to investigate the determinant of domestic savings behavior in Indonesia especially at the private level since 91.97 percent of domestic savings in Indonesia are private savings (Vibriyanti, 2014).

However, according to (Scott, 2014), there is a link between ethnic group and economic behaviour including saving. Furthermore, (O'Connor, 2017) evidences that ethnicity greatly affects people's savings behaviour in the three countries of Australia, Canada and China, where Chinese descent can save more than Caucasians.

Since Indonesia is a country with more than 100 ethnic groups live together, it is interesting and important to know the saving behaviour of households in Indonesia with regard to their ethnicity. Hence, this study attempts to analyse factors, especially the ethnicity, influencing the households' saving behaviour in Indonesia using nationwide Indonesian Family Life Survey (IFLS) wave 3, 4, and 5 data.

The rest of this paper is structured as follows. In the second section, this study quotes literature reviews about savings, concepts of ethnicity, and how ethnicity can influence the households' saving behaviour. Section 3 presents data and research methods utilized in this study while section 4 describes research finding and analysis. Lastly, Section 5 summarises the main findings and their implications.

LITERATURE REVIEW

Generally, saving is defined as money not spent (Popovici, 2012). According to (Akram & Akram, 2015), the determinants of savings are including demographic factors, macroeconomic variables, and financial variables. The Classical Theory stated that savings have a positive relationship with interest rate (Vieneris, 1977; Mishkin, 2010). The high interest rate encourages people to save because they will earn more interest income through savings. According to Keynesian, savings are highly determined by the disposable income or current income (Crouch, 1972). However, Post-Keynesian argued that savings depended on income ambiguously, but they stressed that savings are more influenced positively by one's income and affected negatively by the consumption at the same time (Grigoli, Herman, & Herbel, 2014).

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