Problems of Economic Transition, vol. 48, no. 5, September 2005, pp. 22–48.

ISSN 1061–1991/2005 $9.50 + 0.00.

D. Strebkov

Household Borrowing Behavior in Russia

During 2001–3 lending to individuals grew fairly rapidly in Russia. For example, in 2001 household debt increased by 112 percent, from 44.7 billion rubles to 94.7 billion rubles. In 2002, a similar increase was seen in real terms: debt rose by almost 50 billion rubles to 142.2 billion rubles, which was about 50 percent for the year. This trend strengthened further in 2003: during the first ten months individuals received loans amounting to 126.1 billion rubles, so we can expect that the total for the year will show a doubling of household debt to lending institutions.[1] More and more banks are developing special programs and offering

 "Osnovnye tipy i faktory kreditnogo povedeniia naseleniia v sovremennoi Rossii," *Voprosy ekonomiki*, 2004, no. 2, pp. 109–28. A publication of the NP "Editorial Board of Voprosy ekonomiki" and the Institute of Economics, Russian Academy of Sciences.

The study was conducted with support from the Independent Institute of Social Policy's program "Social Policy: Realities of the Twenty-First Century," grant No. SP-02-2-10. The program is funded by the Ford Foundation. The author thanks V. Radaev and T. Filippova (State University–Higher School of Economics) for their valuable comments and suggestions made in the process of preparing this study.

The author is a Candidate of Sociological Sciences and senior instructor in the Department of Economic Sociology of the State University–Higher School of Economics

Translated by James E. Walker.

people loans for urgent needs, education, purchasing real estate, durable goods, and so on.

However, in spite of this, only a few Russians have ever received a consumer loan from a bank. Filling out the loan contract requires spending considerable time collecting the necessary papers, documents, guarantees, and so on. In addition, banks impose strict requirements on the borrower, who must have a high, steady, and, most important, legal income. Many banks require collateral exceeding the amount of the loan. And high interest rates make this form of finance less attractive for households with average incomes, who could become the primary consumers of loan services. Many individuals still prefer to turn to relatives, friends, or acquaintances for financial assistance, rather than to banks.

Such conditions make a comprehensive analysis of Russian household borrowing behavior very timely. While many studies of household financial behavior have been done in Russia in the past few years, they have focused primarily on household savings and investment potential. They have focused on determining how people prefer to keep their savings and their motives for investing in particular assets, while broader debt and borrowing behavior has remained in the dark.

Basic approaches to classifying different types of household financial behavior

In the *Financial and Credit Encyclopedic Dictionary* edited by A. Gryaznova, a "loan" is defined as "an economic transaction in which one partner provides money or property to the other on terms of repayment plus interest at a later date."[2] This is the standard definition in economic theory. In this study, we will use a broader meaning of loan as not only institutional but also noninstitutional, interpersonal debt. The most important parameter for us will be that the money has to be repaid. However, in lending/borrowing between individuals there may be no specific repayment deadline, no need to pay interest, and no formal (written) specification of the agreement.

Thus, by *borrowing behavior* we mean an individual or household's actions in the process of which money is borrowed with the expectation that it be repaid at a later date. This behavior can be broken down into its five basic components:

- acts of borrowing and their regularity;
- the choice of a creditor (individual or organization); in this case, it is possible to seek money from various sources at the same time;
- the size of the loan;
- the time for repayment; and
- the amount of interest, if any (the price of the loan).

The financial behavior of Russian households is extremely varied. Some groups willingly borrow money; others would like to take out a loan, but are afraid they will not be able to repay it on time, or think that interest rates are too high; still others, on principle, will never borrow money, and instead try to solve their problems in other ways. We can therefore talk about several models or groups of household borrowing behavior. Each group can be characterized by its own special motives for borrowing (or for not borrowing) money. Each group has its own preferences or constraints in regard to the maximum amount of a loan, interest rates, and time for repayment. Three bases are usually used to construct the typology.

1. *Debt and savings.* P. Lunt and S. Livingstone[3] distinguished six categories of households, depending on (1) whether or not they have debt; (2) whether or not they save fairly regularly; and (3) whether they have previously accumulated savings (if there are no current savings). This typology was analyzed against an array of empirical data collected by the authors (a survey of 279 British households in 1991). They found that only 8 percent of respondents had debts but no savings, while 36 percent had both debts and savings at the same time. J. Gunnarson and R. Wahlund, using data from a survey of Swedish households ($N = 503$), divided respondents into groups depending on the ratio between their debts and savings, on the assets that are included in their investment

portfolio,[4] and especially their debt-to-asset ratio (D/A). The authors distinguished six basic groups, the most interesting of which for us is the cluster called "contractual saving" (22 percent of respondents). These people borrow extensively: their D/A is 4.2. At the same time, the largest cluster, "residual saving" (45.5 percent) includes people who have relatively small savings (primarily in highly liquid, low-risk assets), as well as debts (D/A = 1.0). T. Bogomolova and V. Tapilina used materials from Russian Monitoring of Household Economic Status and Health (PMEZ) to distinguish four basic models of Russian household financial behavior. There are "savers" (15–20 percent of the population), "dissavers" (who primarily borrow money—15–20 percent), the "mixed model" (8–10 percent), and the "passive model" (no financial behavior—50–55 percent). They point out that while wealthy people have the largest debts and savings, there are fairly many lower-income families among the savers. "People show frugality, diligence, and concern for tomorrow regardless of how high their income is, but by virtue of their value system and orientation."[5]

2. *Motivation and preferences in the choice of financial instruments*. Motivation unquestionably plays a key role in determining household financial strategy. In addition to being the starting point from which the need to save or borrow arises, motivation also acts as the finish line. After crossing it, that is, after the required goal is achieved (purchasing real estate, spending on education, medical treatment, etc.) and the debt has been repaid, a new turn of the spiral begins. R. Avraamova and L. Ovcharova have distinguished six groups of households, each of which has its own specific motive for saving.[6] One category focuses only on current consumption; another on creating an emergency reserve; a third is saving to buy expensive goods (durables or real estate), and so forth. Then each group was examined from the point of view of: the amount of money coming into the household, how it is allocated, and the sensitivity of savings to changes in the interest rate. V. Radaev, analyzing the motivation of savings behavior in middle-income households, distinguishes four basic clusters: those who are (1) uninterested,

(2) just getting by or setting something aside, (3) focused on consumption and leisure, or (4) taking care of children. He studied differences in the material circumstances and basic sociodemographic characteristics of these categories of citizens (according to data from a survey of 300 people (managers, specialists, and skilled workers) in Moscow, Nizhnii Novgorod, and Ivanovo in the summer of 1996).[7] Combining questions regarding motives for saving and preferred forms of investment, and using hierarchical cluster analysis, D. Ibragimova constructed a typology that includes six categories differing in the nature of their financial preferences.[8] She conducted a comparative analysis of the clusters that were obtained during the period immediately before the financial crisis of 1998 (June) and immediately after it (September).

3. *Household budget management principles*. Pahl and Vogler looked at different ways of exercising control over family incomes and analyzed the role of money in the distribution of power within a household. The following questions were asked: does the husband or wife have the higher income, who makes the basic financial decisions, and who actually spends the money?[9] Five basic models of control over household income and wealth are distinguished, when: (1) the wife is in charge of them; (2) the husband is in charge; (3) all of the money is at the joint disposal of both spouses; (4) part of the money goes into the family budget, and the husband and wife dispose of the rest independently; (5) the husband and wife have completely separate budgets.

Although constructing a typology for different household groups can be an extremely useful research tool, the clustering methods mentioned above are somewhat limited in their application. The use of actual household financial data lets us analyze behavior directly, but it conceals a number of additional factors. For instance, people may keep their savings in cash not because they do not trust banks and other financial institutions, but because there are no bank offices near their home. The absence of debt may mean that a person is unwilling to borrow money, or that they have no need for a loan, or that they are not very well informed on financial questions.

In addition to analyzing financial behavior, information about value systems in relation to money, savings, debt, and borrowing may also be important. The primary objectives of our study is therefore to construct a typology according to attitude toward debt (and as a result, to distinguish groups that are potentially ready and interested in taking out a loan), and also to determine the factors that have the greatest influence on borrowing behavior. Because just one or two survey questions are often used to classify people, the probability of random error (erroneous classification of an individual in one cluster or another) is fairly high. Much more reliable information can be obtained by comparing a large number of variables reflecting various aspects of the phenomenon under consideration.

The empirical data used in this study came from the results of a survey of households in five Russian oblast centers: Moscow, Samara, Ekaterinburg, Krasnodar, and Pskov. The survey was conducted from September 15 through October 15, 2002. In each household, the individual (over eighteen years old) who makes the basic financial decisions was questioned via a formalized personal interview. A route sample was used, and the total sample size was 976 people.[10] The study focused on household borrowing behavior, identifying basic value systems in relation to debt, and assessing the prospects for the development of household borrowing in Russia.

Current situation in the Russian debt and credit market

The results of the study showed that interpersonal loans are very common in Russia. In the past three or four years, 41.5 percent of the respondents had to borrow money at least once from their relatives, friends, or acquaintances.[11] At the same time, just 17 percent of respondents had the experience of getting a loan from an enterprise, bank, or other financial institution. Of these, 4 percent took out a loan from Sberbank, 1 percent from a commercial bank, 6 percent from a pawnshop, 6 percent at their place of work, and 5 percent made purchases on credit. Many Russians acted as lenders as well as borrowers. During the past three to four years, more than half (56 percent) had been asked to lend money to a relative, friend, or acquaintance. 57 percent always or almost always made the loan; and 35 percent decided on the basis of the specific circumstances. Only 8 percent never or almost never loaned money.

Everyone who refused to loan money to their relatives and acquaintances ($N = 389$) was asked the reason for their decision. The *poverty factor* was the most significant here: 59 percent of the respondents were financially unable to provide assistance, and 13 percent needed financial help themselves. In this case, both the respondents and the people who asked them for help were most likely in the lower-income category. The *trust factor* was the second most significant: 29 percent loaned money only to the people closest to them, while 17 percent did not fully trust those who asked them for a loan. Many people were uncomfortable about the *specific conditions* under discussion: they had been asked for too much money (17 percent), or it would not be repaid for a fairly long time (7 percent). And only 3 percent of the respondents said that they do not loan money on principle. Consequently, there is no obvious bias against loaning money among Russians in general. In Russian families, *large monetary transfers* are fairly common. Many of those who acted as lenders (20 percent) or borrowers (21 percent), respectively, had to loan or borrow a large amount of money, more than their family's average monthly income. At the same time, the practice of *loaning money at interest* is extremely rare in present-day Russia: among lenders, only 3 percent mention this; and among borrowers, only 3.5 percent.

Attitude toward money, savings, and debt: factor analysis. The study shows that most Russians have a highly ambivalent attitude toward borrowing. It may change, depending on whom they see themselves as—the debtor or the creditor, who is the other party to the transaction—another individual, or an institution, or the state. The questionnaire included thirty statements concerning various value systems people may have in relation to money, savings, debt, and borrowing. For example, "It is easier and more pleasant to loan money to others than to ask for a loan for yourself"; "Even if I have a hard time, I will economize, but I will not go into debt." The respondents were asked to indicate how strongly they agree or disagree with these statements on a scale of 1 to 5.

The data obtained were processed by factor analysis (using the principle components method). We distinguished six basic factors determining attitudes toward savings and debt. To make the structure of the components obtained as simple as possible, we used varimax orthogonal rotation of the factor solution. Table 1 presents the factor loads for the thirty variables of our model. These loads show how well each variable correlates with each of the latent measurements distinguished as a result of the analysis. To make it easier to interpret them, only the variables with "high" loads exceeding ±0.25 are shown.

Together, these six factors explain 38 percent of the variation in the thirty initial variables and can quite fully characterize attitude toward money, savings, and debt. With a further increase in the number of factors, the model's additional explanatory capability is no longer significant (+3.7 percent). Increasing the number of factors creates problems with substantive interpretation of the new factors, so it is best to limit them to six.

Six new variables were created by the factor analysis, each of which corresponds to one of the factors. They are normalized: they conform to a normal distribution with a mean of zero and variance of one. The values of these variables are primarily in the range from –3 to +3. In this case, positive values of each factor correspond to a particular individual's positive attitude toward a certain thing (borrowing or loaning money, savings, wealth, etc.); and negative values, to a negative attitude.

Of most interest to us is a detailed examination of the first factor: *individual attitudes toward borrowing money*. To determine the nature of this factor's interrelation with an individual's sociodemographic characteristics, we used the analysis of variance method

Table 1

Variables That Have the Highest Factor Loads

Factor no. 1. Attitude toward borrowing money	
Even if I have a hard time, I will economize, but I will not go into debt	–0.62
I am never embarrassed to ask friends or acquaintances for a loan	0.53
I would not borrow a large amount of money	–0.47
People who go into debt are mostly lazy or cannot take care of themselves	–0.42
It is much easier and more pleasant to loan money to others than to ask for a loan for yourself	–0.37
Savings need to be compulsory, even if it means denying yourself necessities	–0.31
Factor no. 2. Attitude toward loaning money	
If I have spare money, I will gladly give it to someone reliable: you help someone today, tomorrow they will help you	0.71
It is much easier and more pleasant to loan money to others than to ask for a loan for yourself	0.68
It really irritates me when someone asks me for a loan	–0.65
As much as possible, I try not to ask anyone for a loan	–0.65
When waiting for a debt to be repaid, you will always be uneasy, even if the person who borrowed the money is a good friend	–0.36
The people who borrow money want to live better than they actually can	–0.25
Factor no. 3. Attitude toward credit as a social phenomenon	
The opportunity to buy something they need on credit allows people to plan their lives several years ahead	0.69
Thanks to credit, people buy more goods, and this, in turn, promotes growth of production	0.58
People who live on credit are more thrifty; they know how to look after their money; they have confidence in tomorrow	0.46
Every family needs savings in order to have confidence in tomorrow	0.41

People who take out loans will try to work harder to pay them off	0.36
Everyone should set something aside for old age themselves, and not just count on the government	–0.32
Factor no. 4. Attitude toward savings	
Everyone should set something aside for old age themselves, and not just count on the government	0.66
Children should be taught in school to be thrifty and create their own capital	0.55
Only thrifty and economical people can become rich	0.47
People who go into debt are mostly lazy or cannot take care of themselves	0.41
People who take out loans will try to work harder to pay them off	0.37
Savings need to be compulsory, even if it means denying yourself necessities	0.36
Factor no. 5. Attitude toward money and wealth	
It does not make sense to save money now: it will just depreciate as a result of inflation, and there is no guarantee that it can be kept safe	–0.73
Money spoils people, so there are more decent people among the poor than among the rich	–0.53
Everything in our lives now depends on money: If you have money, everything else falls into place	–0.47
Only affluent people can get a bank loan now	–0.42
Every family needs savings in order to have confidence in tomorrow	0.38
The people who borrow money want to live better than they actually can	–0.28
When I was a child, my parents practically did not deny me anything: I always had enough pocket money	0.25
Factor no. 6. Risk propensity, aspiration to greater prosperity	
I often buy things on impulse that I do not really need	0.63
If necessary, I can take a risk and spend "everything I have"	0.61
I am ready to sacrifice my own welfare today in order to achieve a big success in the future	0.47
My parents were thrifty people; they tried to save every nickel	–0.32
Money should be put to work, so a person should try to invest it in various profit-making assets	0.31

(ANOVA). The analysis shows that attitudes toward borrowing money are significantly influenced by the following factors.

Age. People from thirty-one to forty-four years old show the greatest inclination to borrow (mean value of the factor +0.32). Among young people (eighteen to thirty years old), the tendency to live in debt is somewhat weaker (+0.22). This may be because the future looks less certain to them: many do not have steady jobs or confidence in tomorrow. For those between the ages of forty-five and fifty-four, the attitude toward debt is more likely to be neutral (+0.12), and after age fifty-five, it becomes sharply negative: –0.27 for people fifty-five to sixty-four and –0.47 for people older than sixty-four. This is probably due to the pronounced conservatism of the older generation, for which the concept of debt carries a special symbolic load. Debt is a rather negative, shameful thing that is accompanied by a loss of self-respect. It indicates not just poverty, but extreme indigence. Those who can say "We live modestly, but we do not go into debt" see this as an indication of their superiority over others. The absence of debt becomes a source of pride. The relatively low income of this category of individuals also plays a significant role in their judgments: it is extremely hard for them to pay off creditors, so they try to live "within their means."

Education. Individuals with higher, secondary, or specialized secondary education do not have a well-defined attitude toward debt: the numbers of those who support borrowing and those who do not are about equal. But people with primary or incomplete secondary education have an extremely negative attitude toward the possibility of borrowing money: –0.48 and –0.26, respectively.

Type of occupation. Those who are temporarily unemployed and housewives are ready and willing to borrow money (+0.50 and +0.27, respectively), while employees (+0.16) and students (+0.17) also display positive attitudes. Retirees (–0.36) and entrepreneurs (–0.48) have negative attitudes toward borrowing. Retirees' opinions are apparently influenced significantly by their age and low income, while entrepreneurs, whose incomes are relatively high, may not need additional borrowed funds.

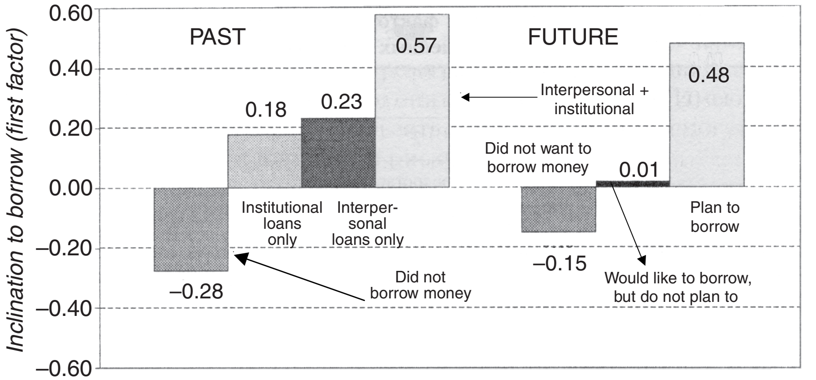
Sector of employment. Among employed respondents, positive attitudes toward borrowing are found among the intelligentsia and public-sector employees working in the culture and art sectors (+0.56), education (+0.28), and public health (+0.17), employees in the financial sector (+0.48), and policemen and employees of the interior agencies (+0.34). Only workers in housing, utilities, and consumer services have negative attitudes (–0.25).

Family income. As average monthly family income rises, the readiness to borrow money increases. Affluent people are much more willing to borrow money than those who live below the poverty line. In households where the monthly income is from 1,000 to 3,000 rubles, the mean value of the first factor is –0.36, while in families with incomes from 20,000 to 30,000 rubles it is +0.39, and where the family income is more than 30,000 rubles, +0.73. Naturally, it is much easier psychologically for people with high incomes to take on debts. In comparison to others, these people are more confident in themselves and in tomorrow. They are not overburdened by the idea that one must live within one's means, and they are accustomed to strive for more. While debt means fear and poverty for poor people, for many well-to-do individuals it has apparently become fashionable, prestigious, and even natural to live on credit.

People's attitude toward borrowing is *not influenced* by such parameters as: gender—for men, the mean value of the first factor is +0.01, for women, 0.00, and the null hypothesis is 0.876; or job title—differences with respect to employment status are not statistically significant.

We will look at how the first factor, which characterizes attitudes toward borrowing money, is related to past borrowing behavior and his future preferences. For respondents who use both interpersonal and institutional loans, the mean values of the factor are much higher than for others: +0.57. Among those who used only assistance from relatives, friends, and acquaintances, this value is somewhat lower: +0.23. It is even lower for those who took out loans only from institutions (including pawnshops): +0.18. Accordingly, citizens who have not borrowed money at all

Figure 1. **Inclination of Individual Categories of People to Borrow**



have a negative attitude toward borrowing: –0.28 (see Figure 1).

For people who believe that now is a good time for their family to take out a loan, the values of the first factor are much higher than they are for those who think it is a bad time: +0.60 as opposed to –0.20. Similarly, people who plan to take out a loan in the next two to three years have a more positive attitude toward debt (+0.48) than do people who would like to take out a loan, but do not plan to do so (+0.01) and those who not intend to take out a loan (–0.15). In all of these cases, analysis of variance shows significant differences between categories of respondents (the significance of the null hypothesis is less than $1 \cdot 10^{-3}$). Consequently, the first factor, which characterizes attitudes toward interpersonal and institutional loans, is obviously related to their current and planned borrowing behavior.

Basic types of Russians' financial behavior

The factors that were obtained to characterize people's attitude toward money, savings, and debt were subsequently used to clus-

Table 2

Mean Values of Factors in the Six Clusters

	Factor number					
	1	2	3	4	5	6
	borrowing money	loaning money	credit	savings	money and wealth	risk pro-pensity
I. Forced consumers	–0.37	–0.67	–0.57	–0.89	–0.65	–0.63
II. Active savers	–0.90	–0.37	0.54	0.75	–0.75	–0.06
III. Cautious savers	–0.29	0.57	–0.58	0.22	0.83	–0.65
IV. Cautious borrowers	0.81	–1.14	0.23	–0.13	0.62	0.07
V. Active borrowers	0.66	0.61	0.61	0.56	0.13	0.60
VI. Active consumers	0.56	0.79	–0.67	–0.97	0.56	0.82

ter respondents—to single out fairly homogeneous groups of respondents who have similar value systems, preferences, and sociocultural characteristics.[12] As for the factors, six basic groups were distinguished. The interrelation between the factors and the clusters is shown in Table 2.

High positive values of the factors (more than 0.50) indicate that this category of respondents has a positive attitude toward a certain thing, while high negative values, in turn, show a negative attitude. For example, we can say that *cautious borrowers* (cluster IV) show heightened interest in interpersonal and institutional loans, consider wealth a good thing, and, on the average, they have neutral risk and savings propensities. However, they have a negative attitude toward loaning money to others. We will examine each of the six groups we have distinguished in greater detail.

Forced consumers (15 percent). These are very poor and desperate people who have no savings. They do not loan money to anyone and never borrow money from anyone or take out bank loans themselves, and under no circumstances are they prepared to take a risk. Virtually all their income goes to buying food and essentials. They do not need anything, do not believe in anything, and do not hope for anything. Life has made them bitter and exasperated. They have an extremely negative attitude toward affluent people. They do not look into financial questions at all.

Active savers (21 percent) are also characterized by fairly meager material circumstances, but if they do get some extra money they try to set it aside and accumulate some savings. Having savings is considered an important sign of stability and security. They almost never loan money, and they try not to borrow because they have no way to pay it back. They separate the concepts of lending and debt; they have a positive attitude toward the former and a negative one toward the latter. They believe that they have to live within their means, frugally, and that only slackers and freeloaders go into debt.

Cautious savers (13 percent) loan money to others, but are themselves not inclined to borrow money. They are more likely to work as much as they have to in order to save up the money they need. They show caution in financial questions, believing that a bird in the hand is worth two in the bush. They are not prepared to take a risk, and they have a careful and attentive attitude toward money. In their opinion, people who borrow money are not slackers or freeloaders, nor are they thrifty citizens who are sure of themselves, but unlucky people who have been forced by circumstances to go into debt, and therefore the people in this group have understanding and sympathy for borrowers.

Cautious borrowers (11 percent) almost never loan money to other people, but they themselves have a positive attitude toward interpersonal and institutional loans. They save money, but they do not believe it is enough to solve the problems they have. They are cautious about large expenditures. These are middle-income people, neither rich nor poor. They are not satisfied with their material circumstances and try to improve them. They need loans and want to obtain them, but they are afraid they will not be able to repay them on time. Their risk propensity is moderate.

Active borrowers (18 percent) are comfortable with money: they loan it to others, and, if necessary, they borrow money from others or take out bank loans. They save money and are capable of taking risk. They are well informed on financial questions. This is the most promising group from the point of view of receiving a loan: they want to obtain one and plan to do so.

Active consumers (13 percent) have relatively high incomes and easy attitudes toward life. They do not know how to be thrifty—they believe that money has to be spent, not saved. They are skeptical about loans and have no desire to use them, since they can enjoy a decent standard of living without borrowing. They prefer not to get involved with banks and financial institutions; they solve their problems through relatives and friends. If necessary, they readily borrow money, since they know that they can always pay it back, and they are just as willing to provide financial assistance to their acquaintances. They demonstrate a very high risk propensity.

Significant differences between these groups are seen in their answers to questions about their family's material circumstances and their expectations about changes in their standard of living in the future. Representatives of clusters V and VI demonstrate pronounced optimism: about 40 percent of them believe that their family will have greater opportunities to save money in the coming year, while for the sample as a whole only 22 percent hope for this (see Table 3).

However, the situation is the opposite in clusters I and II: these people rate their material circumstances much lower than the others, and at the same time they believe that either nothing will change for them in the near future (49–57 percent), or their lives will become even harder (26–27 percent). Their view of life is absolutely pessimistic. The remaining clusters, III and IV, lie in the middle between these two extremes. These individuals assess their situation moderately. Most do not expect quick changes in their material circumstances, either positive or negative; they can be called realistic.

Table 3

How Will Your Family's Opportunities to Save Money Change in the Coming Year?

		Clusters					
		I	II	III	IV	V	VI
			savers		borrowers		
	total	forced consumers	active	cautious	cautious	active	active con-sumers
Increase	22	6	12	18	23	41	38
No change	46	57	49	43	50	34	41
Decrease	19	27	26	23	10	13	11
Hard to say	13	10	13	16	16	12	10

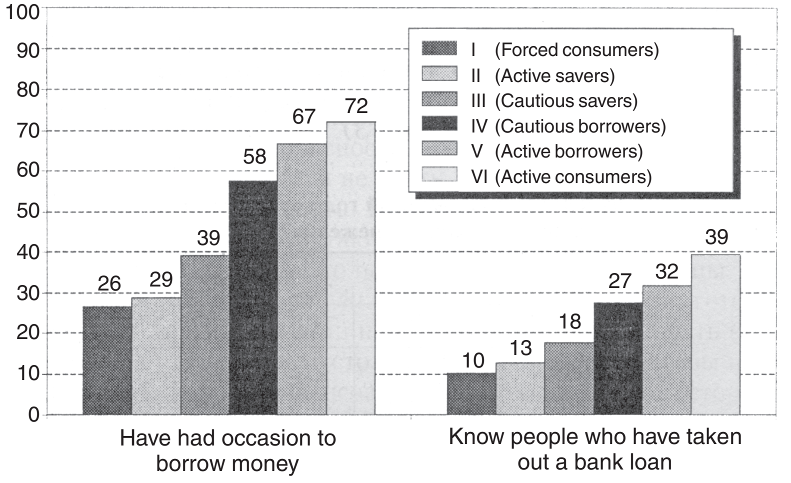
Note: The differences are statistically significant at $p(\chi^2) < 0.001$.

Analysis of individual components of borrowing behavior

Borrowing experience. Active borrowers and active consumers (clusters V and VI) have had occasion to borrow money much more often than others. In cluster V, 67 percent of the respondents have borrowing experience; and in cluster VI, 72 percent (47 percent in the sample as a whole). Moreover, many representatives in these two groups have friends or acquaintances who have taken out loans: 40 and 39 percent, respectively (23 percent in the sample as a whole) (see Figure 2). Similar tendencies, though not as pronounced, are also seen in cluster IV, cautious borrowers.

Prospects for borrowing. Clusters IV, V, and VI are the most promising from a lending point of view. Respondents in these groups have a positive attitude toward taking on debts and a fairly high risk propensity, and they strive to raise their standard of living quickly. Bank loans play a special role for each of these groups.

Figure 2. **Borrowing Experience of the People in Individual Clusters**



For cluster IV, they are an opportunity to solve significant problems, and the demand for loans is high. For cluster V, they are an opportunity to live better right away, and the demand is moderate. And for cluster VI, they are a way to solve problems if they come up, and the demand is low. In fact, 17-22 percent of the respondents in these three groups plan to take out a loan in the next two to three years, while only 3–8 percent plan to do so in the remaining three groups (see Table 4). In clusters IV, V, and VI, 21–34 percent do not intend to take out a loan under any circumstances, while in the remaining clusters the figures are 45–54 percent.

Respondents in clusters IV, V, and VI set priorities in their borrowing behavior somewhat differently from other citizens. For 40 percent of them, the main purpose is to acquire real estate or improve their housing conditions, as opposed to 31 percent for clusters I, II, and III. The need for a loan to pay for a family member's medical expenses is less significant: 9 percent, as opposed to 17 percent. Other reasons for borrowing (education, buying things for the home, remodeling an apartment, etc.) are apparent

Table 4

Prospects for Borrowing in Individual Clusters (as percent)

		Clusters					
		I	II	III	IV	V	VI
			savers		borrowers		
	total	forced consumers	active	cautious	cautious	active	active con-sumers
Plan to take out a loan	12	3	6	8	17	22	19
Would like to take out a loan, but do not plan to do so as yet	48	43	45	47	49	57	46
Do not intend to take out a loan	40	54	49	45	34	21	34

Note: The differences are statistically significant at p (χ^2) < 0.001.

in all clusters with roughly equal frequency. Only some are ready to solve these problems with loans; some prefer to wait while they gradually set money aside; and others do not even hope to solve them.

Choice of lender. The borrower's value system also has a significant effect on the choice of lender (a private individual or an institution) (see Table 5). Active consumers (cluster VI) seek assistance from relatives, friends, and acquaintances considerably more often than others do. In turn, active borrowers (cluster V) are more likely to seek a loan from a bank or other financial institution. These two clusters fairly often use both interpersonal and institutional loans simultaneously.

The majority of individuals planning to take loans from a bank

Table 5

Borrowing Experience in Individual Clusters (as percent)

		Clusters					
		I	II	III	IV	V	VI
			savers		borrowers		
	total	forced consumers	active	cautious	cautious	active	active consumers
Did not borrow	53	74	71	61	42	33	28
Borrowed only from relatives and acquaintances	30	20	19	25	35	33	46
Borrowed only from an institution	6	5	3	4	9	8	7
Institutional and noninstitutional	12	2	6	10	13	25	18

Note: The differences are statistically significant at $p\ (\chi^2) < 0.001$.

or other institution pay attention primarily to the financial terms that are offered. The importance of the *interest rate* is underscored by almost all respondents. Next comes the possibility of *changing the term* of the loan agreement to make it longer (extension) or shorter (repayment ahead of schedule). About two-thirds of respondents pay attention to the *income requirements*, the need to put up *collateral*, and how long the *paperwork* takes. Other factors also play a significant role in choosing a financial institution. Cautious borrowers (cluster IV) pay attention more often than others to the institution's reputation and how much government support it gets. These citizens are not very prosperous, so they try to choose the option that is safest, and, at the same time, most beneficial to them, preferring institutions that have a system of discounts and incentives, and where clients can obtain free consultations with specialists (see Table 6).

Informal (personal contacts, acquaintance with one of the institution's officials) and information factors (transparency of loan conditions and availability of information on the institution's operations) are more important for active consumers (cluster VI). These people rely more on interpersonal loans; if necessary, they prefer to borrow money from relatives or acquaintances. When they do choose a lending institution, they prefer those in which they have established informal relationships. Along with information factors, active borrowers (cluster V) pay attention to the results of the institution's operations: how long it has been in the market, its reputation, and the professionalism of its employees.

Size and term of the loan. The size of the loan and the repayment period are determined, to a significant extent, not by the type of financial behavior, but by the purpose for getting the loan. On average, the largest loans are mentioned by people who want to invest *in their own business or enterprise*: $15,000–20,000. The average term of a loan here is three to four years. Thus, in repaying the debt these individuals expect to have monthly payments of $400–500 (not counting interest). And this figure is the highest among all potential borrowers. The most numerous group of respondents are those who want to acquire *real estate*. On average, they count on getting $12,000–15,000 for seven to eight years (with monthly payments of about $200). Individuals who need an *education* loan want $2,500–3,500 for a term of four to five years ($100–120 per month). On average, loans for medical treatment and consumer loans (to purchase things for the home) require $1,000–1,500 for three years ($50 per month).

These results were not unexpected. Because improving housing conditions, remodeling an apartment, or purchasing a car require larger expenditures, only individuals with fairly high incomes can allow themselves to take such loans. In fact, the total monthly family income in these subgroups is 8,500–9,000 rubles. It is higher (10,000 rubles) only for those who plan to invest money in their own business. At the same time, among households in which the

Table 6

Criteria for Choosing a Financial Institution in Individual Clusters (as percent)

		Clusters					
		I	II	III	IV	V	VI
	total	forced consumers	active savers	cautious savers	cautious borrowers	active borrowers	active consumers
The financial institution's reliability	66	67	60	70	67	67	68
System of discounts and incentives	57	60	57	55	63	53	56
Government support of the institution**	48	50	59	46	49	43	36
Ease of understanding the conditions for receiving a loan*	37	37	28	34	38	46	41
The institution's reputation*	24	20	22	16	34	29	22
How long the institution has been in the market**	22	14	16	31	20	29	25
Personal contacts, acquaintance with one of the officials**	18	11	14	16	15	21	30
Professionalism of the institution's employees	17	11	16	19	16	21	14
Availability of information on the institution's operations**	15	6	10	19	11	20	22
Possibility of free consultation with specialists**	15	17	16	8	26	12	11
Long-time experience with the institution*	12	8	6	16	15	15	11
Proximity of the institution's office to home or work	7	8	5	6	14	7	8
Personality of the financial institution's manager	3	2	4	6	2	2	3

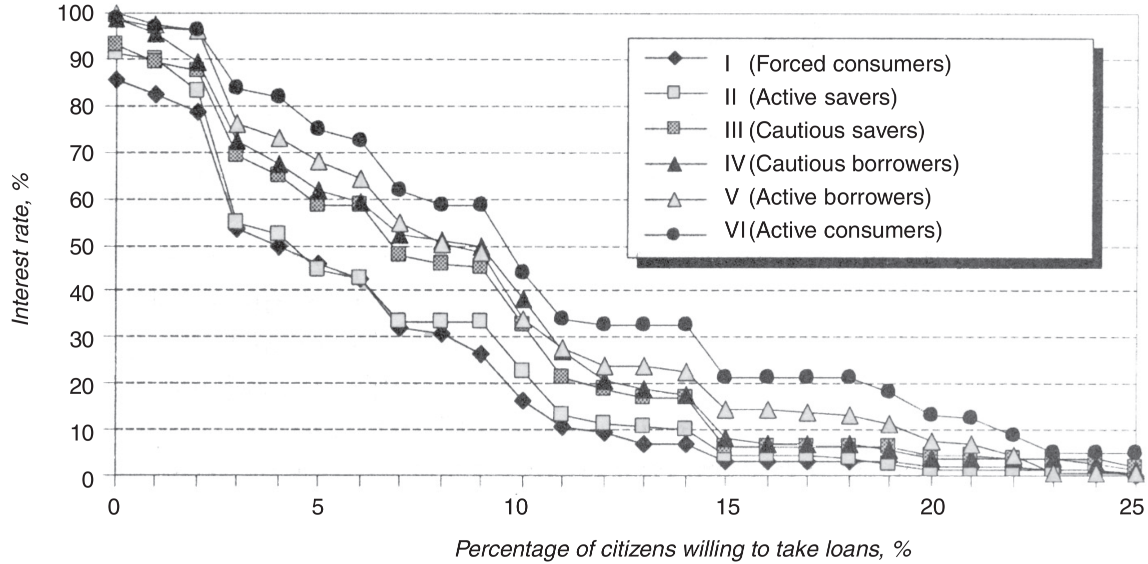
* The differences are statistically significant at $p\ (\chi^2) < 0.05$.
** The differences are statistically significant at $p\ (\chi^2) < 0.01$.

primary purpose for taking out a loan is to get an education or purchase consumer durables, monthly family income is significantly lower: 6,500 rubles. And the people who may need additional money for medical treatment have incomes that are quite low: 4,500 rubles.

Interest rate (price of the loan). The price of the loan (the interest rate) is one of the most important factors determining people's willingness to borrow from lending institutions. Most people, even without a special economic education, understand that loans cannot be given out for free, and that commercial institutions have a right to make a profit. However, various categories of respondents show a different willingness to pay a particular interest rate. The curves in Figure 3 show the sensitivity of demand for lending institutions' services (ruble loans) to the interest rate for individuals demonstrating a certain type of financial behavior. Several tipping points are apparent, at which the numbers of people willing to take out loans increase sharply: 18 percent, 14 percent, 10 percent, 9 percent, and 6 percent APR.

In March 2003, Sberegatel′nyi Bank of Russia (Sberbank) significantly lowered its interest rate on ruble loans, from 23 to 18 percent; and slightly earlier, in January 2003, on foreign-currency loans, from 12 percent to 11 percent APR (for purchase, construction, and reconstruction of real estate, the type of loan in greatest demand). Thus, the first tipping point was reached, and as a result, as the data show, household demand for banks' loans rose significantly in 2003. Among the six clusters described above, the most prosperous category, active consumers (cluster VI), is willing to pay the highest interest rate to get a loan. Forced consumers and active savers (clusters I and II), in turn, name the lowest interest rates (median 4 percent). The remaining three groups are in the middle. For example, at *18 percent* APR, 21 percent of active consumers would take out a loan, 13 percent of active borrowers, 6–7 percent of cautious borrowers and cautious savers, and 3–4 percent of active savers and forced consumers. When the next tipping point is reached (*14 percent* APR), the number of borrowers rises

Figure 3. **Acceptable Interest Rate on a Ruble Loan for Individual Clusters**



to 33 percent among active consumers, 23 percent among active borrowers, 17 percent among cautious borrowers and cautious savers, 10 percent among active savers, and 7 percent among forced consumers.

* * *

The study shows that there is a group of purposeful, energetic Russians who are ready to take reasonable risks and are interested in borrowing. They are younger and better educated than the rest, and their incomes are somewhat higher. They are more sure of themselves and look to the future with optimism. These individuals are inclined to borrow and are potential (or already actual) loan recipients: they have more experience in borrowing (which would be natural) as well as saving. They not only borrow more often than others but also loan money more often. In this case, a loan for them is by no means a direct alternative to savings. The people who take out loans are also those who save systematically: in most cases, a loan does not replace savings, but only compensates for insufficient savings.

Special attention should be given to highly educated employees in the public sector (doctors, teachers) who display greater interest in borrowing. The primary purpose of receiving a loan for them, other than purchasing real estate, is to finance their children's education. Only getting a good higher education can guarantee success and prosperity in the future, particularly as more and more higher education institutions are switching to a paid system of instruction and reducing the numbers of students whose education is state financed. However, due to their relatively low incomes, these potential borrowers are hemmed in by restrictions on the part of banks and other financial institutions and do not have access to bank credit. Consequently, there is a need for additional monetary resources. Since having children increases interest in borrowing (people between the ages of twenty-five to forty are a core group of potential borrowers), it seems reasonable to gradually move away from paying child benefits to a system of loans granted by state institutions. The possibility of giving out loans on special preferential terms (at a low interest rate, less than that charged by banks) to certain categories of borrowers should be studied. It would be advisable to make certain types of loans (for urgent needs, for a term of up to one year) interest-free. Naturally, special requirements should be imposed on the people who seek such loans: they should have fairly steady employment (five years or more in their current job), more cosigners, and so on.

In any case, many borrowers still rely primarily on interpersonal relations. If they need a loan, they prefer to get it from one of their relatives or acquaintances. Most often, this can be done more quickly, more cheaply, and more reliably. They are only interested in an institutional loan when they need a fairly large amount of money for a long time. To some extent, the situation can be influenced by better informing people regarding issues of granting and receiving loans.

Notes

1. Source of the data: RF Central Bank; available at www.cbr.ru/statistics/bank_system/.

2. *Finansovo-kreditnyi entsiklopedicheskii slovar′* [Financial and Credit Encyclopedic Dictionary], ed. A. Gryaznova (Moscow: Finansy i statistika, 2002), p. 440.

3. P. Lunt and S. Livingstone, "Saving and Borrowing," in *Mass Consumption and Personal Identity,* ed. Lunt and Livingstone (Buckingham/Philadelphia: Open University Press, 1992), pp. 26–58.

4. J. Gunnarson and R. Wahlund, "Household Financial Strategies in Sweden: An Exploratory Study," *Journal of Economic Psychology*, 1997, vol. 18, no. 2, pp. 210–11.

5. V. Tapilina and T. Bogomolova, "Kto na chto tratit. . . . Finansovoe povedenie rossiiskikh domokhoziaistv" [Who Spends on What. . . . The Financial Behavior of Russian Households], *EKO*, 1998, no. 10, p. 126.

6. E. Avraamova and L. Ovcharova, "Sberezheniia naseleniia: perspektivy chastnogo investirovaniia" [Household Savings: Prospects for Private Investment], *SOTSIS*, 1998, no. 1, pp. 66–67.

7. V. Radaev, "O sberezheniiakh i sberegatel′nykh motivakh rossiiskogo naseleniia" [Savings and the Savings Motives of Russian Households], *Voprosy sotsiologii*, 1998, no. 8, pp. 39–54.

8. D. Ibragimova, “Predpochteniia naseleniia Rossii otnositel′no motivov i form sberezhenii: analiz situatsii nakanune i posle finansovogo krizisa” [Preferences of Russian Households in Regard to Motives for and Forms of Savings: Analysis of the Situation on the Eve of and After the Financial Crisis], in *Analiz sberegatel′nogo povedeniia Rossii: Otchet po proektu* [Analysis of the Savings Behavior of Russian Households: Project Report], ed. A. Birman and D. Ibragimova (Moscow: IPN-Rossiia Group, 1999), pp. 89–98.

9. See J. Pahl, “His Money, Her Money: Recent Research on Financial Organization in Marriage,” *Journal of Economic Psychology*, 1995, vol. 16, no. 3, pp. 361–76; C. Vogler, “Money in the Household: Some Underlying Issues of Power,” *Sociological Review*, 1998, vol. 46, no. 4, pp. 687–713.

10. The field work was done jointly with the Institute for Situation Analysis and New Technologies LLC (ISANT).

11. Only situations when the debt was forced were considered. In other words, the individual had to obtain additional income in order to repay the debt. One-day loans (to make some purchase right away), when the borrower had enough money and could pay back the debt almost immediately (the same day or the next day) were excluded.

12. Nine percent of respondents do not belong to any group.