

## THE IMPORTANCE OF PRECAUTIONARY SAVING MOTIVE

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### **ABSTRACT**

*In the developing world, the population is frequently faced with numerous natural, economic, institutional and market risks. Because of these uncertainties, many individuals and households experience difficult periods of unexpected reduction in income. Using panel data from the Indonesian Family Life Survey (IFLS), this paper tests the existence of precautionary saving associated with income risk in Indonesia. The results of the estimation show that the uncertainty variable is not significantly related to the growth of consumption which signifies that Indonesian households do not constitute precautionary saving to smooth their consumption. The finding may be explained by the fact that Indonesian households have in their possession other type of support mechanisms based particularly on inter-generational and -communal solidarity.*

**Keywords:** *uncertainty, income risks, precautionary savings, consumption smoothing.*