Factors Influencing Precautionary Wealth of Slovak Households

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Abstract: Household financial stability is a fundamental pillar of overall economic well-being, especially during periods of uncertainty and crisis. Maintaining adequate precautionary wealth not only mitigates financial stress but also fosters more confident financial decision-making. Households with sufficient reserves are less dependent on credit, better protected against debt accumulation, and more capable of preserving long-term savings and investment strategies during short-term disruptions. This paper investigates the key determinants of precautionary wealth held by Slovak households. The study aims to identify and quantify the influence of wealth-related, demographic, and financial variables on the formation of precautionary wealth. We hypothesize that wealth-related factors, particularly the capacity to accumulate personal financial assets (PFA) play the dominant role. Using data from the Slovak sample of the Household Finance and Consumption Survey and employing ordinary least squares (OLS) regression, we estimate four models (full, preferred, factor, and simplified). The preferred model reveals that PFA has the strongest positive effect on precautionary wealth. Together, PFA and income account for over 56% of the total explained variance. Among financial indicators, ECB policy rates show a positive association, while real deposit rates have a negative effect, suggesting behavioral biases in household responses. Demographic variables, such as age, gender, and education, play a comparatively smaller role. The findings emphasize the dominant role of wealth-related and financial variables in precautionary wealth accumulation.

Keywords: personal finance, precautionary wealth, personal financial assets (PFA), income
JEL Classification: D14, D31, G51

1 Introduction

Household financial stability is a fundamental pillar of overall economic well-being, especially during periods of uncertainty and economic shocks. Events such as the global financial crisis of 2008, the COVID-19 pandemic, and recent inflationary pressures have highlighted the importance of households' ability to absorb unexpected income disruptions. A key element of such resilience is the accumulation of liquid financial resources that can be readily used to smooth consumption without relying on debt or the liquidation of long-term assets.

This motive is traditionally captured by the concept of precautionary saving, which reflects behavioral adjustments in current consumption in response to future uncertainty (Carroll & Samwick, 1998). As emphasized by Carroll and Kimball (2008), a distinction must be made between precautionary saving as a flow concept and precautionary savings as a stock concept. While the former describes the decision process that generates additional saving, the latter represents the accumulated wealth resulting from past precautionary behavior. To avoid terminological confusion, Carroll & Kimball (2008) propose the term precautionary wealth to denote this stock dimension.

This paper focuses explicitly on the stock perspective. The primary objective of this study is to identify and quantify the key determinants of precautionary wealth among Slovak households. We examine factors from three domains: wealth characteristics, demographic attributes, and the financial environment. We hypothesize that wealth-related variables, particularly the ability to accumulate personal financial assets (PFA), play the most significant role in the formation of precautionary wealth. While income provides the capacity to save, accumulated financial assets may better reflect long-term financial discipline, liquidity preferences, and past saving behavior.

Our motivation is twofold. First, understanding the drivers of precautionary wealth is essential for assessing household financial resilience. Second, insights into the relative importance of wealth, income, and financial conditions can inform policies aimed at strengthening households' financial preparedness. Enhanced precautionary wealth not only supports

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individual economic security but also contributes to broader macroeconomic stability by reducing households' vulnerability to income volatility.

Using microdata from the Slovak waves of the Household Finance and Consumption Survey (HFCS), we estimate several regression models to assess the determinants of precautionary wealth. Our findings indicate that personal financial assets are the most influential factor, while income has a similarly strong but negative effect, suggesting that rising income does not necessarily translate into increased precautionary wealth. Financial conditions, particularly monetary policy variables, also play a meaningful role, whereas demographic characteristics appear comparatively less important.

The remainder of the paper is structured as follows. Section 2 reviews theoretical perspectives and prior empirical research on precautionary wealth. Section 3 outlines the methodological framework. Section 4 presents the empirical results. Section 5 concludes.

2 Literature review

The study of money holding provides important insights into household financial behavior and the motives underlying the accumulation of liquid assets. In his analysis of the demand for money, Friedman (1969) distinguishes between money as an asset held and income as a flow earned over time. A key concept in his framework is the money-to-income ratio, which is conceptually related to the measure employed in this study. Keynes (1936), through the concept of liquidity preference, argues that households prefer holding money rather than bonds in environments characterized by low interest rates. He later emphasizes that the desired size of liquid holdings depends on income levels and the phase of the business cycle (Keynes, 1963).

Saving theories play a central role in explaining household behavior. Keynes's absolute income hypothesis views consumption as a function of current disposable income, largely ignoring expectations about future income. In contrast, Duesenberry's relative income hypothesis emphasizes the role of social comparison in consumption decisions (Lisý et al., 2016). Friedman's permanent income hypothesis and Modigliani's life-cycle hypothesis introduce a forward-looking perspective, suggesting that households smooth consumption based on expected lifetime income while allowing for temporary imbalances across different life stages (Begg, 2011).

Traditional saving theories often conceptualize savings as a residual of income after consumption. This perspective is extended by theories of intertemporal choice, most notably Fisher's framework, which explains how households optimally allocate resources between present and future consumption. Within this framework, the precautionary saving motive emerges as a key driver of asset accumulation under uncertainty. Carroll and Samwick (1998) show that income volatility and unexpected shocks increase saving behavior and lead to higher levels of accumulated precautionary wealth.

Macroeconomic and demographic factors further shape household saving outcomes. Lower interest rates are often associated with weaker incentives to save, while higher rates tend to support saving behavior (Dirschmid & Glatzer, 2004; Bohdalová & Pažický, 2019). Income uncertainty and adverse macroeconomic conditions also strengthen precautionary motives (Mastrogiacomo & Alessie, 2014; Denizer et al., 2002; Giavazzi & McMahon, 2012). Inflation also plays an important role, as rising inflation erodes the real value of liquid assets and may reduce households' incentives to accumulate precautionary wealth (Marenčák, 2023).

Micro-level heterogeneity is equally important. Empirical evidence suggests that households in transition economies often exhibit higher saving rates due to limited access to credit markets (Denizer et al., 2002). Education and expectations of future income may also influence saving behavior, while psychological characteristics such as self-control and financial discipline significantly affect households' ability to accumulate precautionary wealth (Gerhard et al., 2018).

Financial education provides an important link between theoretical models and real-world household behavior. Lyons and Neelakantan (2008) highlight that insufficient financial literacy can lead to suboptimal financial decisions, while Drexler et al. (2014) show that simple rules of thumb can substantially improve saving outcomes. A commonly cited benchmark recommends precautionary wealth equivalent to three to six months of expenses (Kapoor, 1988; Whittle et al., 2017). While insufficient precautionary wealth exposes households to financial vulnerability, excessively large precautionary wealth holdings may also carry costs, particularly in inflationary environments with negative real returns (Sabat & Gallagher, 2019).

Building on this literature, the present study contributes empirical evidence on the determinants of precautionary wealth among Slovak households, with a particular focus on the relative roles of wealth characteristics, behavioral dimensions, and financial conditions.

3 Methods

This study investigates the determinants of household precautionary wealth using data from the Household Finance and Consumption Survey (HFCS), coordinated by the European Central Bank (ECB) and implemented by national central banks. As the data are not publicly available, we gratefully acknowledge the National Bank of Slovakia (NBS) for providing access. The analysis uses household-level microdata from four survey waves: 2010, 2014, 2017, and 2021. The HFCS survey flags are presented in Table 1.

We analyze precautionary wealth, defined as the stock of liquid financial assets held for precautionary purposes. For practical interpretation, precautionary wealth is expressed as a financial buffer, measured by the number of months a household can sustain its current income level using available deposits. This measure captures the immediate liquidity available to households in the event of unexpected financial shocks.

Precautionary wealth is intended to cover both unexpected income disruptions and unforeseen expenditures. While expenditure-based measures are conceptually valid, this study expresses precautionary wealth relative to income for theoretical, practical, and behavioral reasons. The income-based normalization is consistent with Friedman's money-to-income framework, which treats desired liquidity holdings as a stock relative to income. From a behavioral perspective, households typically assess financial readiness using simple reference points, such as income levels, rather than detailed expenditure structures. Expressing precautionary wealth in months of income coverage therefore provides an intuitive and consistent measure of households' ability to absorb financial shocks, while remaining compatible with the stock-based concept of precautionary wealth and the available HFCS data.

Formally, the dependent variable is defined as the ratio of liquid assets to monthly disposable income, measured in months. Monthly income is derived by converting annual disposable income (DI2100) to a monthly figure, while liquid assets are proxied by deposit holdings (DA2101).

We include explanatory variables from three domains: wealth characteristics, demographic attributes, and the financial environment. This classification follows the precautionary saving literature, which explains the mechanisms underlying the accumulation of precautionary wealth. Wealth variables are expressed in thousands of euros to enhance interpretability and mitigate scale-related distortions in regression coefficients. Demographic variables include gender as a binary indicator (1 for male, 2 for female); age measured in years; education level ranging from 1 (primary education) to 5 (tertiary education, i.e. bachelor's, master's, or doctoral degree); and the number of employed household members, including employees, the self-employed, or individuals on maternity leave. Financial indicators are obtained from NBS and ECB sources at the macro level, as these variables are not captured within the HFCS microdata.

For data consistency and comparability, we exclude households where the reference person is self-employed, due to the potential mixing of household and business finances. We also omit households that did not report deposit holdings or reported zero income. Each observation corresponds to a single household, represented by its designated reference person.

All monetary values related to wealth are adjusted for inflation using deflators published by the HFCS to ensure comparability across survey waves. All values are standardized to 2021 price levels. Specifically, we apply an inflation factor of 1,105 for 2017, 1,111 for 2014, and 1,216 for 2010.

Table 1 Data specification and HFCS flags

Dependent variable					
buffer	own calculation, in months				
Explanatory variables					
Wealth:			*Demography:*		
income	DI2100	in EUR	gender	DHGENDERH1	binary value
pfa	DA2100	in EUR	age	DHAGEH1	in years
wealth	DA3001	in EUR	education	DHEDUH1	multi value
net_wealth	DN3001	in EUR	employed_members	DH0004	numerical value
total_debt	DL1000	in EUR			
mortgage_debt	DL1100	in EUR	*Financial:*		
other_debt	DL1200	in EUR	nom_ir_deposits	NBS	in %
			real_ir_deposits	NBS, ECB	in %
			ecb_main	NBS	in %

The empirical analysis is based on an ordinary least squares (OLS) regression framework. Precautionary wealth (measured as months of income coverage) is regressed on a set of explanatory variables consisting of wealth-related variables, demographic characteristics, and financial environment indicators. This framework allows the estimation of the marginal influence of each determinant on precautionary wealth, while controlling for other factors.

Our empirical strategy follows a multi-step approach. First, we define the precautionary wealth as the ratio of deposits to monthly income. We then estimate regression models incorporating wealth, demographic, and financial variables. To address multicollinearity, we construct a preferred model retaining only statistically significant variables. Subsequently, we apply exploratory factor analysis to reduce dimensionality and uncover hidden structures. Finally, we perform an impact decomposition based on inter-percentile ranges (10th to 90th percentile) to quantify the practical influence of each predictor. This final analysis emphasizes a streamlined four-variable model, optimized for low multicollinearity and high explanatory power.

4 Research results

Household financial stability is a fundamental component of overall economic well-being, particularly in the face of unexpected income shocks. The ability to build and maintain adequate precautionary wealth is a key indicator of this stability, yet achieving such a buffer remains a challenge for many households. This research investigates the determinants of precautionary wealth accumulation among Slovak households.

The dependent variable in our analysis is the precautionary wealth measured as a financial buffer and defined as the ratio of household bank deposits to monthly income. This measure, expressed in months, reflects the number of months a household can maintain its current standard of living in the absence of income. To ensure consistency, we focus on households where the reference person is regularly employed. Observations involving unemployed, retired, or self-employed individuals are excluded, as the latter may mix personal and business finances, introducing potential bias.

Table 2 Summary statistics of dependent and explanatory variables

Variable	Obs	Mean	Std. Dev	Min	Max
buffer	4011	3,917	8,378	-	205,739
income	4011	1,745	1,183	0,055	22,466
pfa	4011	9,656	21,928	-	470,018
wealth	4011	108,793	152,495	-	6 076,995
net_wealth	4011	99,120	150,299	- 62,202	6 076,995
total_debt	4011	9,672	23,340	-	224,523
mortgage_debt	4011	8,548	22,945	-	224,523
other_debt	4011	1,124	4,172	-	79,064
gender	4011	1,422	0,493	1	2
age	4011	44,595	10,901	20	74
education	4011	3,692	1,226	1	8
employed_members	4011	1,703	0,731	-	6
nom_ir_deposits	4011	1,16	0,56	0,50	1,75
real_ir_deposits	4011	- 0,03	1,49	- 2,30	1,63
ecb_main	4011	0,37	0,46	-	1,00

Source: HFCS 2010, 2014, 2017, 2021, NBS 2025, ECB 2025

The set of explanatory variables is grouped into three categories: wealth, demographic, and financial factors. Wealth variables include disposable income, personal financial assets (PFA), total wealth, net wealth, total debt, mortgage debt, and other debt. All wealth variables are expressed in thousands of euros to improve the readability of regression coefficients. Demographic variables include age, gender, education level, and the number of employed household members. The average respondent is 44.6 years old, with approximately 1.7 employed individuals per household, while gender is evenly distributed across the sample. Financial variables include nominal and real interest rates on bank deposits, as well as the European Central Bank's (ECB) main refinancing rate, which averaged 0.37% over the analyzed period, reflecting a low-interest rate environment. Table 2 reports descriptive statistics based on a final sample of 4,011 observations.

The average level of precautionary wealth amounts to 3.92 months, suggesting that households, on average, maintain a reserve within the commonly recommended range of three to six months. The relatively high standard deviation highlights substantial heterogeneity in buffer levels across the population. However, as shown in Table 3, the median buffer is considerably lower at 1.42 months, indicating that at least half of households would be unable to sustain their current consumption beyond six weeks in the event of income loss. This value is well below than commonly suggested minimum

of three months. Notably, the mean buffer corresponds closely to the 75th percentile, reflecting the influence of a relatively small group of households with exceptionally large reserves. At the upper end of the distribution, approximately 10% of households appear to hold buffers that may be excessively high, potentially expose them to erosion of purchasing power, particularly in inflationary environments.

Table 3 Descriptive statistics of the dependent variable

Percentiles	Buffer
10%	0,094
25%	0,396
50%	1,417
75%	4,158
90%	9,311

Source: HFCS 2010, 2014, 2017, 2021, own processing

As a preliminary step prior to regression analysis, we examine the pairwise correlations (Table 4) between the dependent variable and the explanatory variables. No strong linear relationship is observed between precautionary wealth and any single explanatory variable. The highest positive correlation is observed with private financial assets (PFA) ($\rho = 0.569$), highlighting the importance of liquidity in household financial resilience. In contrast, income is virtually uncorrelated with the buffer ($\rho = –0.028$), suggesting that earnings alone are a weak predictor of precautionary adequacy. As expected, net wealth and total wealth exhibit an almost perfect correlation ($\rho = 0.988$), while total debt is highly correlated with mortgage debt ($\rho = 0.983$), indicating potential multicollinearity issues. Among financial variables, nominal and real interest rates are strongly correlated ($\rho = 0.922$), reflecting their shared dependence on inflation.

Table 4 The Pearson correlation matrix of dependent and explanatory variables

	buffer	income	pfa	wealth	net_wealth	total_ debt	mortgage_ debt	other_ debt
buffer	1,000							
income	-0,028	1,000						
pfa	0,569	0,318	1,000					
wealth	0,156	0,428	0,361	1,000				
net_wealth	0,164	0,410	0,359	0,988	1,000			
total_debt	-0,037	0,155	0,043	0,169	0,017	1,000		
mortgage_d	-0,028	0,151	0,045	0,165	0,015	0,983	1,000	
other_d	-0,053	0,036	-0,012	0,040	0,012	0,183	0,004	1,000
gender	0,023	-0,113	0,010	-0,021	-0,008	-0,083	-0,082	-0,013
age	0,088	0,142	0,097	0,175	0,204	-0,168	-0,165	-0,034
education	0,115	0,233	0,217	0,184	0,166	0,131	0,132	0,004
employed_m	-0,063	0,418	0,053	0,105	0,098	0,057	0,047	0,062
nom_ir_depo	-0,043	-0,161	-0,102	-0,106	-0,088	-0,128	-0,130	0,002
real_ir_depo	-0,082	-0,138	-0,086	-0,110	-0,094	-0,116	-0,121	0,016
ecb_main	0,013	-0,161	-0,066	-0,077	-0,059	-0,119	-0,119	-0,010

	gender	age	education	employed_ members	nom_ir _deposits	real_ir _deposits	ecb_main	
gender	1,000							
age	0,038	1,000						
education	0,091	0,018	1,000					
employed_m	-0,146	0,031	-0,031	1,000				
nom_ir_depo	0,020	-0,261	-0,138	0,066	1,000			
real_ir_depo	-0,031	-0,196	-0,083	0,065	0,922	1,000		
ecb_main	0,118	-0,318	-0,119	0,049	0,818	0,591	1,000	

Source: HFCS 2010, 2014, 2017, 2021, own processing

The analysis begins with the estimation of the full regression model, which includes all explanatory variables. As reported in Table 5, this model explains approximately 39.6% of the variance in precautionary wealth (Adjusted $R^2 = 0.3964$). Several variables, such as the number of employed household members, net wealth, and mortgage debt, exhibit limited explanatory power. Multicollinearity is particularly pronounced for total wealth and nominal deposit interest rates,

with a variance inflation factor (VIF) of 229.11, indicating substantial distortion of coefficient estimates and undermining model reliability.

To address these issues, we developed a preferred model by excluding variables with either low statistical significance or high multicollinearity. Specifically, we removed net wealth, mortgage debt, the number of employed members, total wealth, and nominal interest rates on deposits. This specification substantially improvs the multicollinearity profile, with the maximum VIF reduced to 1.28. Despite the reduction in variables, the preferred model retains strong explanatory power, with an Adjusted R^2 of 0.3873. Overall, this specification provides a statistically robust framework for identifying the key determinants of household precautionary wealth.

Table 5 Full, preferred, factor, and simplified OLS regression models. T-statistics in parentheses *p<0,1, **p<0,05, ***p<0,01

FULL			PREFERRED			FACTOR			SIMPLIFIED		
Variable	**Buffer**		**Variable**	**Buffer**		**Variable**	**Buffer**		**Variable**	**Buffer**	
income	-1.854	***	income	-1.781	***	income			income	-1.656	***
	(0,112)			(0,096)						(0,093)	
pfa	0.242	***	pfa	0.241	***	pfa			pfa	0.244	***
	(0,005)			(0,005)						(0,005)	
wealth	-0.059	**	wealth			wealth	0.009	***	wealth		
	(0,024)						(0,001)				
net_wealth	0.060	**	net_wealth			net_wealth			net_wealth		
	(0,024)										
total_debt	omitted		total_debt			total_debt	-0.022	***	total_debt		
							(0,005)				
mortgage_d	0.052	**	mortgage_d			mortgage_d			mortgage_d		
	(0,025)										
other_debt	omitted		other_debt			other_debt	-0.097	***	other_debt		
							(0,031)				
gender	-0.589	***	gender	-0.615	***	gender			gender		
	(0,216)			(0,217)							
age	0.052	***	age	0.059	***	age			age		
	(0,010)			(0,010)							
education	0.421	***	education	0.299	***	education			education		
	(0,090)			(0,089)							
employed_m	0.106		employed_m			employed_m			employed_m		
	(0,159)										
nom_ir_depo	7.368	***	nom_ir_depo			nom_ir_depo	-0.502	**	nom_ir_depo		
	(0,993)						(0,232)				
real_ir_depo	-2.511	***	real_ir_depo	-0.631	***	real_ir_depo			real_ir_depo	-0.599	***
	(0,267)			(0,086)						(0,086)	
ecb_main	-1.763	***	ecb_main	2.068	***	ecb_main			ecb_main	1.456	***
	(0,581)			(0,290)						(0,277)	
_cons	-6.323		_cons	1.002		_cons	3.840		_cons	2.125	
	(1,239)			(0,644)			(0,328)			(0,135)	
Adj R-squared	0.3964		Adj R-squared	0.3873		Adj R-squared	0.0313		Adj R-squared	0.3805	
VIF	229.11		VIF	1.28		VIF	1.04		VIF	1.34	

Source: HFCS 2010, 2014, 2017, 2021, own processing

To further mitigate dimensionality and multicollinearity concerns, we conducted an exploratory factor analysis. Applying the Kaiser criterion (eigenvalues greater than 1), we retained four factors, which together capture the underlying structure among the explanatory variables. Table 6 presents the corresponding factor loadings, with values below an absolute threshold of 0.2 omitted for clarity. Variables highlighted in grey are selected as representative indicators for each factor and subsequently used in the regression analysis to ensure interpretability.

Table 6 Factor loadings

Variable	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Uniqueness
income	0,46	0,30			0,44			0,481
pfa	0,31	0,24					0,22	0,758
wealth	0,65	0,69	-0,23					-0,001
net_wealth	0,60	0,68	-0,37					-0,001
total_debt	0,43		0,89					-0,001
mortgage_d	0,43		0,88					-0,001
other_debt				0,98				-0,001
gender					-0,23			0,868
age	0,25		-0,31					0,780
education	0,25						0,35	0,787
employed_m					0,48			0,680
nom_ir_depo	-0,76	0,62						0,012
real_ir_depo	-0,69	0,56				-0,32		0,054
ecb_main	-0,64	0,52				0,38		0,123

Source: HFCS 2010, 2014, 2017, 2021, own processing

Although the explanatory power of the factor model is limited (Adjusted $R^2 = 0.0313$), it offers the advantage of minimal multicollinearity, as indicated by a VIF of just 1.04. The results, reported in Table 5, illustrate the improved statistical stability achieved through dimensionality reduction.

The next stage of the analysis refines the preferred model to include only four most relevant explanatory variables. The simplified model retains two variables from the wealth domain (income and private financial assets), and two from the financial domain (the real interest rate on deposits and the ECB's main refinancing rate). Together, these variables capture both household-level financial capacity and broader financial conditions. Demographic variables are excluded, as they did not exhibit sufficient explanatory power in earlier specifications. The resulting model maintains strong explanatory power relative to the full and preferred model while preserving low multicollinearity.

In the final step, we assess the contribution of each variable to precautionary wealth by conducting an impact decomposition. This approach combines estimated regression coefficients with inter-percentile ranges, defined as the difference between the 90th and 10th percentiles of each variable. This method captures the effect of realistic changes across the central 80% of observations, providing a more intuitive and behaviorally meaningful interpretation. Absolute impacts are calculated by multiplying coefficients by the inter-percentile ranges, while relative impacts are expressed as percentages of the total impact across all variables. The preferred model is used for this analysis due to its optimal balance between simplicity and comprehensiveness.

Table 7 Impact decomposition of explanatory variables (10th-90th percentile changes)

	Buffer	
	absolute	relative
income	-4.02	23.37%
pfa	5.63	32.71%
gender	-0.62	3.58%
age	1.80	10.44%
education	0.60	3.48%
real_ir_depo	-2.48	14.41%
ecb_main	2.07	12.01%

Source: HFCS 2010, 2014, 2017, 2021, own processing

5 Conclusions

Precautionary wealth represents a cornerstone of sound personal financial management. It functions as a financial cushion, enhances household stability, and enables households to cope with unforeseen expenses without jeopardizing their overall financial health. This study is guided by the hypothesis that wealth-related variables, particularly the capacity to accumulate personal financial assets (PFA), play a central role in the formation of precautionary wealth. To test this hypothesis, we identify explanatory variables from three domains: wealth characteristics, demography attributes, and the financial environment. Using ordinary least squares (OLS) regression, we estimate four models: full, preferred, factor, and simplified.

We further conduct multicollinearity diagnostics to ensure the robustness of the results, and the preferred model is used as the primary basis for interpretation due to its favorable balance between explanatory power and statistical stability.

The empirical findings indicate that PFA exhibit the strongest positive association with the level of precautionary wealth, accounting for 32.7% of the explained variance (see Table 7). This strong relationship reflects more than mere liquidity availability. Households that are able to accumulate PFA are likely characterized by higher financial literacy, more disciplined budgeting behavior, and greater awareness of the importance of maintaining a financial buffer. These results are consistent with Gerhard (2018), who emphasizes the role of financial self-discipline in shaping saving behavior. Income emerges as the second most influential determinant but displays a negative coefficient (–4.02), contributing 23.4% to the total explained variance. This finding suggests that rising income does not necessarily translate into a proportionally higher precautionary wealth, potentially due to lifestyle inflation, relative income considerations (Duesenberry's hypothesis), expanded access to credit, or a tendency of households to target a nominal buffer that becomes relatively smaller as income increases. Together, the two wealth-related variables explain over 56% of the model's explanatory power.

Among financial indicators, the real interest rate on deposits has a statistically significant negative effect (–2.48), while the ECB's main policy rate is positively associated with precautionary wealth. Collectively, financial variables account for nearly 30% of the explained variance. From a theoretical perspective, higher real interest rates should encourage saving by increasing purchasing power. However, the results suggest the opposite: when inflation declines and nominal interest rates remain unchanged, households tend to reduce their precautionary buffers. This pattern is consistent with behavioral responses, where lower perceived inflation reduces the perceived urgency to save (Carroll & Samwick, 1998). In contrast, the positive relationship between ECB policy rates and precautionary wealth aligns with classical monetary theory, according to which higher nominal rates raise the opportunity costs of consumption and thereby promote saving (Friedman's monetarist view). These findings support prior evidence indicating that households respond more strongly to nominal interest rates and perceived inflation than to abstract real rate calculations (Dirschmid & Glatzer, 2004; Bohdalová & Pažický, 2019).

Demographic variables, including age, gender, and education, exhibit comparatively weaker explanatory power, jointly accounting for less than 18% of the total variance. Among these factors, age plays the most prominent role, contributing more than 10%, in line with Modigliani's life-cycle hypothesis (Begg, 2011), which predicts systematic variation in saving behavior over the life course. Overall, the results provide further insight into the mechanisms underlying precautionary wealth accumulation and underscore the dominant role of wealth-related and financial variables relative to demographic characteristics.

In summary, the findings highlight that the primary driver of precautionary wealth accumulation is the household's ability to build and maintain personal financial assets. Rising income alone does not guarantee higher buffer levels, and real interest rates appear to have limited practical influence on household behavior. Instead, households tend to respond more strongly to visible nominal signals and media narratives surrounding inflation. Future research may extend this analysis by incorporating additional explanatory variables and by utilizing forthcoming data from the 2025 wave of the Household Finance and Consumption Survey.

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