WHY DOES CHINA SAVE SO MUCH?*
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Abstract:
In this paper, we present data on saving rates and related variables in China and conduct an
econometric analysis of the determinants of the household saving rate using a life-cycle model with
habit formation and panel data on Chinese provinces for the 1995-2004 period from the household
survey conducted by the Chinese government. To summarize our main findings, we find that
China’s saving rate has been high and that it has generally shown an upward trend over time and that
the main determinants of variations over time and over space in China’s household saving rate are
the lagged saving rate, the income growth rate, and (in some cases) the real interest rate and the
inflation rate. However, we find that the variables relating to the age structure of the population do
not have a significant impact on the household saving rate. These results provide mixed support for
the life cycle hypothesis, are consistent with the existence of inertia, persistence, or habit formation,
and imply that China’s household saving rate will remain high for some time to come.

Journal of Economic Literature classification numbers: D12, D91, E21, J10

Key words: Saving, saving rate, household saving, household saving rate, household, age structure,
demographics, dependency ratio, life cycle hypothesis, life cycle model, permanent income
hypothesis, habit formation, China

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