# Why are Saving Rates so High in China?

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## Summary

The main objectives of this paper are to document historical trends in Chinese aggregate saving using multiple data sources, analyze the forces that contributed to the recent rise in government, corporate and household savings, and assess the prospects for Chinese national savings in the near future.

We define "The Chinese Saving Puzzle" as the persistently high national saving rate at 34-53 percent of gross domestic product (GDP) in the past three decades and a surge in the saving rate by 11 percentage points from 2000 to 2008. We then examine the sources and causes of rising saving in China using data from the Flow of Funds Accounts (FFA) and Urban Household Surveys (UHS) supplemented by the findings from existing studies. The sharp rise in government taxes on production and the collection of social security fees and income taxes were the dominant factors that increased the disposable income of the government. As the growth of income outpaced that of government consumption, the saving rate rose rapidly. For the corporate sector, the rising saving rate was attributable to high firm profitability, the rules of labor compensation and dividend, imperfect capital markets and government policies. In addition, we summarize stylized facts on household saving and explore the factors we believe have driven the recent upward trend in household saving. The role played by unique institutions, policies and reform processes in China is assessed.

Based on the analysis of saving determinants, we argue that systematic forces, such as slower economic growth, moderate export expansion, and government plans to strengthen social welfare and population aging, are already set in to induce a decline in aggregate saving. A saving rate of above 50 percent of GDP could already be a phenomenon of the past, and China would likely enter an era of a more balanced growth.