

# Comments on “ Accounting for Household Saving Rates in China”

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## I. Summary of the Paper

- Major Question: Why Chinese people save so much?”
- Approach: To introducing housing into Bewley model with assumptions of an incomplete market framework where individuals face uninsurable idiosyncratic earning shocks.

## O Major Results:

- Housing in utility is essential to account for the household saving rates in China.
- The change of housing market influence household saving rate slightly.
- A smaller minimum housing value and a less house-selling cost can both lead to a slightly higher saving rate because both of them implies more frequent housing transaction.
- While lessening the downpayment ratio can generate a lower saving rate.

- Homeownership preference has an apparent impact on homeownership ratio yet can not affect the household saving rate obviously

## II. Further Issues to Consider

### 1. What's wrong with the higher saving in China?

- If "Higher Saving → Higher (productive) Investment" →  
"Higher Future Production & Resulted Demand"  
→ Nothing wrong with high saving
- If "Higher saving → Higher housing investment (by  
speculative motivation) → Lower Demand & Distortion of  
Markets → Increased Int'l Imbalances & Financial Weakening

## 2. Housing Markets Matter!

### O Ex: Latest Global Financial Crisis

- The formation of Housing Market Bubbles & the Collapse of the housing bubbles → The collapse of the US financial system and the global financial crisis

### O Moral Hazards in the US mortgage loan market

- Improper credit check by the mortgage loan provider
- Risk pooling by securitizing toxic assets such as subprime MBS

### 3. The Concerns over the possible bubbles in the Chinese Housing markets

#### O Sources of Housing Market Bubbles

- Speculative Motivation in Housing Market targeting the arbitrage profits is the dominant → (Possible Herd Behavior in Home Purchasing including the impacts by foreign investors)
- Higher leveraged investment (purchase) in housing market → Much higher probability in bubble formation & resulted financial instability involved with mortgage loan. (Ex: 70%)

○ Very high preference for homeownership, Why?

- Higher preference for homeownership, just for cultural reason?
- Higher homeownership driven by speculative incentives based on the expectation for possible arbitrage profit?
- ➔ Larger probability for the formation of housing market bubbles & financial instability
- ➔ The paper shows that the higher housing ownership preference induces the Chinese housing markets somewhat vulnerable to bubble formation

## 4. Policy implications: Macroeconomic Policy Coordination Issues

- Macroeconomic Imbalance between China and the US
  - Too high saving → Too little domestic consumption → Increasing international imbalance in Current Accounts
- The necessity for policy coordination in reducing asset market bubbles (such as Housing market bubbles) and related financial market vulnerability due to the asset market bubbles + (in addition to coordination in currency swaps (CMI) and other financial policy coordination)



## 5. Housing Purchase & Saving

- Housing purchase is classified as Household Investment, a part of saving
- Higher saving driven by high demands for housing?
  - Housing purchase is already a part of saving.
- Household Investment, a part of saving, is flow concept, not a stock concept as Saving (How to straighten the possible conceptual structure)

## 6. Further Elaborations

- Closed economy model → To extend the model to a open market model including the foreign investors (speculators) targeting the arbitrage profits (such as many Korean speculators investing in Chinese housing markets.)
- To explain “Why the low income quintile 1’s homeownership is so high (75%), while they save little (9.7%)?”
- To Elaborate the structure of mortgage loan market in China

- To check the market stability of mortgage loan market
- To check the possibility for toxic assets related to mortgage loan and related financial weakening