Causes and Implications of the Recent Increase in the Household Savings Ratio

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The household savings ratio in Korea rose to 24% in the late 1980s before reversing to a trend of decline, falling to 1.0% in 2002. The savings ratio then generally held steady in the 3- and 4-percent range until 2012, but showed an upward trend from 2013 and reached 8.1% in 2016, the highest level since 2000.

An accurate understanding of the causes of the recent rise in the savings ratio is very important in forecasting the Korean economy, including future domestic demand. This paper first looks into major macroeconomic variables, such as household income, taxation and social contributions, the demographic structure, and real interest rates, that affect the savings ratio. These variables, however, do not seem to properly explain the recent pattern, as they are generally acting to lower the savings ratio.

Accordingly, this paper focuses on understanding how the savings ratio is impacted by the housing market, which has recently led the Korean economy. First, the housing market in Korea has the following characteristics with respect to the savings ratio:

① The rate of increase in housing construction investment and the housing savings ratio generally coincide with each other.

② Since 2012, the increase in the savings ratio (decline in propensity to consume) has been pronounced among those in their 30s and those in their 60s and older. These two age groups also show the highest growth rates in real assets and liabilities.

In reflection of these characteristics, this paper sets a general equilibrium model in consideration of housing market preferences and carries out a simulation. The results show that a housing market preference shock has caused housing investment and the savings ratio to rise simultaneously through a constraint on household budgets. In addition, the results of the estimation on the relationship between the housing savings ratio and real investment (home purchases) though various variables and patterns also confirm a significant relationship between the two variables. In other words, recent heightened residential building construction investment is judged to have induced an increase in liabilities and to have caused a rise in the housing savings ratio.

This empirical relationship points to a need for policies to keep housing prices stable over the medium to long term and reduce the housing purchase burden in order to boost private consumption, which has grown more slowly than GDP.

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