

The Impact of Higher Savings Rate of Chinese Consumers Under The Epidemic

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Abstract

This study is to clarify the reasons for the increase in China's savings rate under the impact of the pandemic. Correctly handling the relationship between consumption and savings is of great significance for maintaining the stable and rapid development of the national economy. This study pointed out the reasons for the high savings rate in China, mainly due to the increase in preventive savings and passive savings, respectively, due to the fear of epidemic risk among Chinese consumers and the substitution of goods consumption for service consumption. The Chinese government promote consumption by relaxing epidemic prevention policies to alleviate consumers' fear of risks, To cope with the phenomenon of high savings rates during the Chinese epidemic and quickly adapt to the post epidemic era.

Keywords

Precautionary saving; Passive saving; Monetary policy; Fiscal policy; Epidemic prevention

Introduction

In recent years, as the epidemic continues to

past due to the epidemic, so I decided to clarify the relationship. Economy is closely related to our lives, so the importance of this research is self-evident.

The background of this study is to confirm the importance of this study and find out the relationship between the precautionary savings of Chinese consumers and the epidemic situation. The purpose of this study is to find out which aspects can solve the existing problems, summarize the rules, find out the phenomenon, and explore the reasons behind the high savings rate of Chinese households under the epidemic situation.

This study will be carried out from both the residents and the government. The residents will be carried out from the perspective of precautionary savings and passive savings. The government will be carried out from the perspective of epidemic prevention and control, and the fiscal policy and monetary policy implemented. When analysing these two aspects, we will focus on the impact of epidemic closure and uncertainty, that is, precautionary savings

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affect the world from all aspects, all sectors of society have paid high attention to the epidemic. At the same time, in China, due to the implementation of various epidemic prevention policies, the phenomenon of isolation of Chinese consumers at home is very frequent. In addition to the economic content of news reports, I found that the precautionary savings of Chinese consumers have increased compared with the

and passive savings of residents, And relevant parts of the government's epidemic prevention measures.

This article includes literature review, discussion, result and other parts. I will explain my views through reading and analysing other official documents.

LITERATURE REVIEW

Impact of Epidemic

Since the end of 2019, the disease has spread rapidly around the world, leading to the COVID-19 pandemic. By September 2022, about 680000 people had been diagnosed in China, of which about 26000 died. The COVID-19 has broken out again and again, and China's economy has been hit hard. The impact of the epidemic on China's economy is multifaceted (www.gov.cn). The COVID-19 is the most serious epidemic impact that human society has suffered in the past 100 years. Whether it is the treatment of the virus itself, the impact on economic activities and the response of government policies, all these factors have huge uncertainties. Subsequent developments have shown that our initial understanding of many of these aspects is very inadequate. Over time, our understanding of the epidemic and its impact on economic activity has gradually deepened. A few days ago, the "2022 Financial Statistics Report" released by the Central Bank showed that China's annual RMB deposits increased by 26.26 trillion yuan, an increase of 6.59 trillion yuan compared to the same period last year, including an increase of 17.84 trillion yuan in household deposits; At the end of December, the balance of RMB deposits was 258.5 trillion yuan, an increase of 11.3% year-on-year, 2 percentage points higher than the same period last year (2022 Financial Statistics Report).

China's economy has been affected in investment, trade, labour flow, financial market stability and other aspects, and the economic growth rate is the lowest in recent years. The first is that in the short term, the China economic growth slowed down: the COVID-19 epidemic led to a slowdown in global economic activities, economic growth slowed down, and global economic growth fell to the lowest level in history. Secondly, reduced labour mobility, as the data from 2019 to 2021 in Figure 1 (Prospective Industry Research Institute 2022): The COVID-19 epidemic has led to a reduction in global labour mobility, especially in Europe, the Americas and China which has brought great pressure to the global economy. Thirdly, such situation will make a difference in trade

obstruction: The COVID-19 epidemic has caused global trade obstruction, especially between China and other countries, which has brought great pressure to the global economy. (China Economic Growth Slows Sharply Due to Covid-19. What It Means for the World by Brian Swint 2023) What's more, investment decrease: The COVID-19 epidemic has led to a decrease in Chinese investment, especially foreign investment, which has brought great pressure to the global economy. The last I learn is fluctuations in financial markets: The COVID-19 has led to fluctuations in Chinese financial markets, which has brought great pressure to the Chinese economy. (Prospective Economist application)

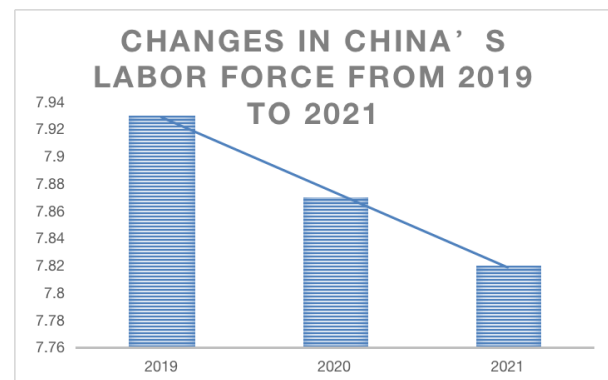


Figure 1

As shown in Figure 2, the savings rate of residents in the first three quarters of 2020 has significantly increased compared with previous years, reflecting the rise of precautionary savings when residents face uncertainty. (Gao Shanwen's Economic Observation)

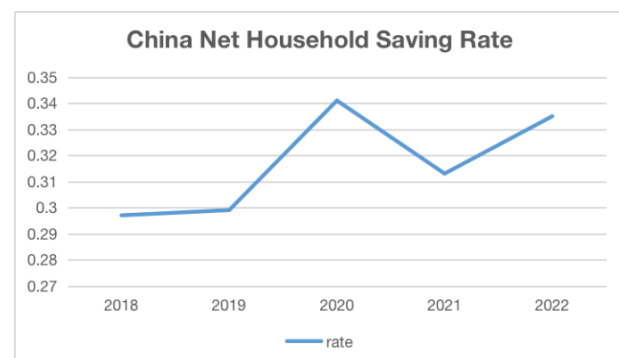


Figure 2(Gao Shanwen's Economic Observation)

Classic Consumption Theory

Foreign research on the increase of precautionary savings of consumers is also mainly based on

consumption and income. For example, the income level proposed by Keynes' absolute income hypothesis determines consumption, the income distribution and the highest level of historical consumption proposed by Dusenbergs relative income hypothesis determine consumption, and the consumption expenditure of consumers proposed by Friedman's persistent income hypothesis is not determined by his current income, It is determined by his lasting income. It can be seen that the relationship between income and consumption determines the increase or decrease of savings. (Wikipedia 2023)

Absolute Income Hypothesis (Keynes)

Keynes (1936) linked consumption with income level and creatively put forward the concept of consumption tendency. He believes that personal consumption is determined by absolute income level. Before he put forward the absolute income hypothesis, many economists believed that investment and consumption were always consistent. Keynes disagreed with this view. He believed that in the short term, the size of consumer spending depends on personal income. His views mainly include: consumption is a function of income, and people's consumption will increase with the increase of disposable income, but the proportion of consumption increase in the proportion of income increase is decreasing, which is the so-called law of diminishing marginal propensity to consume.

The consumption function can be expressed as:

$$C = \alpha + \beta Y$$

Where, C is the actual consumption expenditure, Y is the disposable income, and α is the spontaneous consumption, β It is the marginal propensity to consume (MPC) (Keynesian Economics Theory: Definition and How It's Use by CAITLIN CLARKE 2022). Keynes's absolute income hypothesis was put forward in the context of the Great Depression in the 1930s. At that time, the theory effectively explained the cause of the insufficient effective demand, and its policy implication was simple and clear, that is, to increase consumption, we must increase the disposable income of residents. Although the

absolute income hypothesis solved the problem of insufficient effective demand well in the context of the Great Depression at that time, it has certain explanatory power on consumer behaviour. However, due to the lack of a certain micro-basis of this theory, in empirical research, absolute income leave said that the conclusions obtained have not been well verified in many scholars' studies (THE INVESTOPEDIA TEAM,2022).

Relative Income Hypothesis (Dussenberg)

The relative income hypothesis was put forward by Dussenberg in 1949. The idea of this hypothesis is similar to that of Keynes think differently. Dusenbergs believes that consumption and current income are not stable functional relations. Income is introduced into the consumption function. In this theory, he also proposed demonstration effect and ratchet effect. Among them, demonstration effect means that people's consumption is not only affected by their own income level but also by the income of the people around them. In other words, there is a phenomenon of competition among consumers. Therefore, in order to keep consistent with the consumption of people around them, consumers will increase consumption even if their income level does not increase. Due to the demonstration effect, the decline of marginal consumption propensity proposed by Keynes does not necessarily occur.

The ratchet effect of consumption refers to that once people's consumption habits are formed, it is difficult to change in a short time, and it is irreversible. Consumption expenditure is also affected by current income and past income. Generally speaking, consumption expenditure can increase with the increase of income, but it is difficult for people to reduce consumption because of the decrease of income. People

It is difficult to change their high-income consumption habits in a short time, and the long-term marginal consumption tendency of consumers is greater than short-term marginal propensity to consume. Here, its consumption function can be expressed as:

$$C/Y = (1 - \alpha) Y_0 - \alpha Y_1/Y'$$

C represents consumption, Y represents income, and Y' is the highest income in the past.

Relative income hypothesis is used to analyse consumption. People have made great progress in their consumption behaviour by introducing "past income" into the consumption function. It has expanded the research thinking, but still cannot strictly explain the "Kuznets paradox" (Sarah Brown & Daniel Gray & Jennifer Roberts, 2015).

Persistent Income Hypothesis (Friedman)

The persistent income hypothesis was put forward by Friedman (1956). According to this hypothesis, people's income is mainly divided into two parts, one is permanent income, and the other is temporary income. Persistent income refers to a relatively fixed income that people can expect in the long term, such as stable wages, which can also be expressed as the weighted average of current income; Temporary income corresponds to permanent income. It refers to a sum of income that people get by chance, such as picking up money or winning the lottery. When people consider consumption, they will first consider permanent income, not only based on short-term disposable income, that is to say, consumption is a stable function of permanent income. Expressed as a function:

Among them, C represents consumption expenditure, Y_p represents permanent income, and Y_t represents temporary income. Friedman put forward the concept of "sustainable income" and studied the relationship between consumption and "sustainable income". This is similar to the absolute income hypothesis of Keynes. It is also a study of the relationship between consumption and income in essence, and better reconciles the contradiction between short-term and long-term consumption functions. Friedman put forward in the "persistent income hypothesis" that when the change of consumption expenditure lags behind the change of income, consumers can maintain consumption through overdraft of future income, which also explains the "ratchet effect" of consumption. He

believes that consumers are forward-looking and will pursue the maximization of utility under the constraints of cross-time budget. And this hypothesis emphasizes the relationship between current consumption expenditure and future sustainable income of consumers, which lays the foundation for western rational consumption research (JUIA KAGAN, 2020).

Life Cycle Hypothesis

The life cycle hypothesis was jointly put forward by Modigliani and Brunberg in the early 1950s. According to this hypothesis, the consumption of consumers in a certain period of time is not determined by the current income, but by consumers' expectations of their lifetime income. Under the condition of a certain income, in order to avoid large fluctuations in consumption, consumers will generally rationally arrange the best lifetime consumption and savings, so as to achieve the best consumption in the whole life cycle.

In the young age, consumers' income level is low, resulting in their consumption expenditure may be greater than their income, so they will have a higher consumption tendency. After consumers enter middle age, their income level will generally increase due to the improvement of experience and skill points. At this time, their income will be higher than consumption expenditure. At this time, the wealth and income they have can't only pay off the debts they owe when they are young, but also have some spare funds to save for the elderly. At this time, their consumption tendency will decline. When they reach retirement age, they need to use their previous savings to cope with the decline in income level at this time, and their consumption tendency will rise again. The consumption function of this hypothesis can be expressed as:

$$C_t = k * PV$$

Among them, G_t represents current consumption expenditure and PV_t represents the present value of future income. The life cycle hypothesis is based on the maximization of individual rational behaviour. By maximizing individual utility, the consumption function is derived. This hypothesis further promotes the

development of the consumption function. In the development of consumption theory, the proposition of this hypothesis is of great significance. It links consumption with lifetime income and property, and clarifies the stability of long-term consumption function and the reasons for short-term consumption fluctuations. These traditional consumption models are based on certainty when studying consumer behaviour.

Although it has also explained many phenomena of saving and consumption in real life for a long time. However, in the real economic environment, due to various reasons, there are various uncertainties, so the traditional model is not able to explain consumer behaviour. In order to better explain consumer behaviour in real life, many scholars have been trying to explore, and some of them have tried to take uncertainty into account on. Therefore, in this context, the precautionary savings theory also developed (ADAM HAYES, 2021).

Precautionary Saving Theory

The earliest proposal of precautionary saving motivation can be traced back to 1936. Keynes proposed precautionary saving motivation in his book. He discovered that there are various motivations for residents' savings. Therefore, he divided savings into eight categories according to different saving motivations, namely, precautionary motivation, life cycle motivation, independence motivation, inheritance motivation, greed motivation, enterprise motivation, improvement motivation, and substitution motivation. Currently, the consensus among most scholars is that the main motivations for household savings are life cycle motivation and precautionary motivation.

The life cycle hypothesis believes that consumers are very rational, and their spending and savings arrangements are based on their entire expected income in their lifetime. "They save for future consumption, thereby maximizing utility. On the basis of absorbing rational consumers and maximizing utility, the precautionary demand storage hypothesis was proposed, which assumes that consumers have rational consumption expectations and are risk-

averse.". The environment consumers face is uncertain, and they save to prevent the occurrence of uncertain events. This uncertainty mainly comes from income fluctuations (Long and Zhou ,2000). In 1968, Leland formally distinguished precautionary savings from other savings in his paper. The existence and conditions of precautionary savings were also clearly demonstrated for the first time in this article. He established a two period precautionary savings model and analyzed it. Due to the existence of diminishing absolute risk aversion, he deduced the condition that the deterministic equivalence theory no longer holds, i.e., the marginal utility function is a convex function. At this point, people will choose more conservative behavior than in a deterministic environment and become more cautious to prevent future income uncertainty from bringing greater impact on themselves (Lugilde, Alba& Bande, Roberto& Riveiro, Dolores,2017).

The household sector savings rate is defined as the remaining portion of disposable income minus consumer spending divided by disposable income. Therefore, the theory of saving is actually the theory of consumption. A very natural idea is that rational people will consider their future income, asset appreciation, and time preferences under financial constraints, thereby dynamically adjusting consumption for each period to maximize the sum of utility. This is the basic concept of the most popular life cycle from the 1950s to 1980s - the Persistent Income Model (LC/PIH) - the life cycle –

The basic formula for the persistent income model is as follows

$$a. \max E_t \left[\sum_{j=0}^{T-t} (1 + \delta)^{-j} U(C_{t+j}) \right]$$

$$b. \sum_{j=0}^{T-t} \frac{1}{(1+r)^j} C_{t+j} = A_t + \sum_{j=0}^{T-t} \frac{1}{(1+r)^j} Y_{t+j}$$

Where E_t represents the expectation generated by all information obtained at time t , C_t represents consumption at time t , and Y_t represents t .

Time labor income, A_t represents time t non human wealth, T represents time from death, δ It's time preference.

In February 2021, r is the interest rate, U is the utility, and $U'(\cdot) > 0$, $U''(\cdot) < 0$ is satisfied. (a) The formula represents that after considering time preference expectations, rational people will dynamically adjust consumption to make themselves effective

Using the maximum, the consumption in each period of formula (b) is constrained, and it is necessary to consider current assets and future income

Income and consumption. " $U'(\cdot) > 0$ means that the more consumption, the higher the utility"; " $U''(\cdot) < 0$ indicates risk aversion, and excessive consumption reduces utility.". precautionary savings are reflected in higher order coefficients. Some literatures believe that the third derivative of the utility function represents precautionary savings, while others believe that the value obtained by dividing the third derivative of the utility function by the second derivative represents precautionary savings. In short, using different utility functions can lead to different savings behaviors, and selecting certain specific utility functions can lead to precautionary savings. The life cycle sustainable income model is an upgrade of the consumption function derived by Keynes based on basic psychological principles, successfully linking macro and micro, but still unable to solve a series of problems such as consumption difficulties. The consumption problem mainly refers to the change in total income, which is too slow; Current consumption is too sensitive to current and previous income. Since the 1990s, precautionary savings theory has become the mainstream theory. Academics have recognized that people have additional positive savings to cope with uncertainty, known as precautionary savings. The precautionary savings theory has well explained the difficult consumption problem that was difficult to explain in the previous life cycle persistent income model, but there is no consensus in the academic community on how to measure uncertainty, and there is also a lack of consensus

on the intensity of precautionary savings (the proportion of savings generated in response to uncertainty). The academic research on precautionary savings mainly focuses on three levels. The first level is mainly empirical research on dependent variables in formula (c), using different data sets and observation dimensions to study whether precautionary savings exist and how strong they are.

$$(c) \quad s_t = \frac{r}{1+r} A_t + y_t - c_t$$

S_t represents savings at time t , C_t represents consumption at time t , Y_t represents labor income at time t , A_t represents non human wealth at time t , and r is interest rate.

The second level of research is how to measure uncertainty, mainly from two aspects: data selection and analysis perspective. On the data level, macro and micro data have their respective advantages. Macro data is highly available and lasts for a long time, allowing for cross regional and multinational comparisons. The unemployment rate is a good indicator in macro data to measure uncertainty, but savings behavior is more of a micro entity, and macro data cannot be analyzed at the micro level. Micro data can directly analyze the situation at the individual level of residents, and can analyze the impact of specific events. However, the disadvantage is that the duration is relatively short, and there is a deviation between the uncertainty obtained through analysis and calculation using the data obtained from the questionnaire and the actual uncertainty (Yuan&Shu,2005).

From the perspective of measuring uncertainty, there are mainly three perspectives: revenue, expenditure, and yield. In terms of income, the macro level often uses the variance of GDP to measure, while the micro level uses the variance of income and wealth to measure. It can also use subjective data such as expectations of future income ranges in the questionnaire to measure. In terms of consumption, both macro and micro levels often use the variance of consumption growth to measure. In terms of the

unemployment rate, the micro level uses the expectation of the unemployment rate in the questionnaire survey to measure uncertainty, while the macro level mainly uses the unemployment rate. In the current trend of declining bank deposit rates, household deposits have increased significantly. It can be seen that under the impact of the epidemic, Chinese residents' fear of risk has led to an increase in precautionary savings as a major reason for the increase in the precautionary savings rate of Chinese consumers during the epidemic (Fu, 2023).

Economists have realized significance of precautionary saving long ago. Historically, the precautionary motive for saving has been recognized by economists since before the time of John Maynard Keynes. Moreover, Alfred Marshall stressed the importance of saving to secure against future risks: "The thriftlessness of early times was in great measure due to the want of security that those who made provision for the future would enjoy it". (Ingram, 2016)

Define this concept. individuals save out of their current income to smooth the expected consumption stream over time. The impact of the precautionary saving is realized through its impact on current consumption, as individuals defer their current consumption to be able to maintain the utility level of consumption in the future if income drops. Some examples of events that create the need for precautionary saving include health risk, business risk, unavoidable expenditures, and risk of labor income change, saving for retirement and a child's education.

Precautionary savings are intimately associated with investments, if earnings are not used for purchasing commodities and services; there is a probability that the precautionary savings can be invested to generate fixed capital and achieve economic growth. Precautionary saving is different from precautionary savings. Saving is a flow variable quantity, measured in units of currency per unit of time (such as dollars per year). Conversely the savings denotes the accumulated stock of funds that is present at a single point of time. (Wikipedia, 2023) A higher

rate of precautionary saving would lead to a higher growth in an individual's net worth.

For example, under normal conditions, residents will save 20 yuan and consume 80 yuan for every 100 yuan of disposable income. However, in the face of the impact of the epidemic, savings may rise from 20 yuan to 30 yuan, while consumption expenditure will fall from 80 yuan to 70 yuan, which will increase the savings rate from 20% to 30%. We define this change in the savings rate as an increase in precautionary savings (Chen, 2019).

The rise of precautionary savings corresponds to a sharp decline in consumer spending, which leads to a sharp contraction of the macro economy. Although this is not the whole reason for the economic contraction caused by the epidemic, the impact of this change on the economy is quite significant, and its impact may be ranked first. In the context of the outbreak of the COVID-19 epidemic in 2020, we will observe the changes in household savings rates in China and around the world.

Passive Saving Theory

Why does the savings rate rise during the pandemic? There are two explanations. One is passive saving. The economic blockade has led to many consumer activities that cannot be carried out normally. If you want to spend money but cannot spend it, you have to save passively; Another explanation is that the epidemic has caused people to have greater concerns about uncertainty, become less daring, and have a weaker risk appetite, leading to more precautionary savings.

There is no doubt that in China's first quarter data, passive savings are very large. However, based on the observation of the normal change track of China's economic data, we tend to think that the passive savings in the third and fourth quarters of last year are very small, because the epidemic in the third and fourth quarters of last year has basically disappeared in Chinese Mainland, and the entire economic activity has basically returned to normal. With relatively little passive savings, savings still rose by more than two

percentage points (New Development Stage,2021).

Based on this, in the first quarter of last year, more than three percentage points of the 5 percentage point increase in the savings rate came from passive savings, and two percentage points seemed to be related to precautionary savings, with a ratio of 3:2(Financial Statistics Report,2022).

Why emphasize this ratio? Some literature suggests that two fifths of abnormal savings are precautionary savings and three fifths are passive savings. This is very close to the data observed in China, so we will discuss this data.

This discussion has two important implications: One is that even when the epidemic is under control, there is still strong inertia in the rise of precautionary savings. For a very long time, people still have a stronger motivation for precautionary savings compared to before the pandemic, which creates pressure on the resumption of economic activity. Regardless of the multiplier effect, a two percentage point increase in precautionary savings has an impact on China's GDP growth of nearly one percentage point(2022 Financial Statistics Report,2022).

The other is that people's risk appetite has generally declined after the epidemic, not only affecting consumption, but also investment, which means that the willingness of the private sector to invest has declined over a relatively long period of time compared to before the epidemic.

There is no doubt that the economy is currently recovering, but the power of recovery itself is in part unsustainable. Looking at the true nature of the economy after the recovery forces have exhausted, it will be found that, within a considerable range, the consumption willingness of the residential sector and the investment willingness of the corporate sector cannot return to the pre epidemic level, which has brought significant inhibitory effects on economic activity.

If China's data, especially its performance in the third and fourth quarters of last year, provide some important clues, it is likely that the same will be true for future data from the United States, Europe, and Japan. We undoubtedly need to closely observe this (New Development Stage,2021).

There is another point worth noting in this data, and it is somewhat worrying. In the first quarter of last year, China had at least three percentage points of passive savings, while the savings rate in the United States may have risen by 8 to 9 percentage points, with more passive savings (New Development Stage,2021). It is natural for people to think that after economic activity returns to normal, passive savings will be released. However, in China's data, as of the first quarter of this year, we have not seen the release of passive savings.

We have seen that in the fourth quarter of last year, China's savings rate deviation gradually converged to a level of two percentage points. If we mainly use precautionary savings as an explanation, we will find that the excess passive savings in the first and second quarters of last year have remained there without seeing a release (2022 Financial Statistics Report). This has important implications for our understanding of financial market trends and inflation.

The first important implication is that when the epidemic has hit risk appetite, people need to adjust their balance sheets and adjust their spending behaviour.

Broadly speaking, the goal of adjustment is to enhance people's sense of security, but does the increase in people's sense of security come from higher savings? My view is that under a series of uncertain conditions such as the pandemic, a higher sense of security fundamentally comes from holding more wealth. In the context of the pandemic, people's propensity to consume has decreased, which means that their willingness to hold wealth has significantly increased, and the purpose of increasing savings is to bring wealth to a new desirable level.

Starting from this explanation, the reason why the increased passive savings have not been released is because passive savings have been transformed into a part of wealth, which has accelerated the achievement of a new level of willing wealth holding. If this explanation is correct, it means that passive savings will not soon be converted into consumption after the epidemic resumes.

If passive savings do not translate into consumption, then the inflation that people are now worried about in the United States and Europe may not be as serious. According to Chinese data, if people want to hold more wealth to combat uncertainty, most of the increased passive savings cannot be released.

The second important implication is that when we combine these factors, such as changes in the household savings rate, supply side shocks, and the substitution of global goods consumption, it may be considered that after the second half of this year, the actual growth of China's economy will be significantly weaker than before the epidemic, for example, it may be around 5% in 2022. "(2022 Financial Statistics Report)Due to the difficulty of further suppressing persistent precautionary savings, global goods consumption and export activity are decelerating significantly, and foreign supply chains are recovering.". All these factors mean that the focus of economic activity is relatively lower based on the pre epidemic baseline(New Development Stage: Opening and Outlook "Parallel Forum -" Macro Policy Selection and Risk Response in the Post Epidemic Period ").

The Policies Implemented by the Chinese Government

Epidemic Prevention

In the early stages of the epidemic, the Chinese government often adopts a one-size-fits-all approach in the face of the epidemic, such as home isolation, isolation at isolation points, suspension of work, and suspension of classes. During this period, nucleic acid testing is conducted until the results are normal before mitigating epidemic prevention measures (www.gov.cn 2020). In order to minimize the

impact of the epidemic on all aspects of China during the epidemic period, China has implemented up to 20 epidemic prevention regulations, covering various aspects. In order to protect the lives and health of the broad masses of people and avoid large-scale infection caused by the flow of virus carriers, it is stipulated that close contacts should be subject to centralized isolation for 7 days and home health monitoring and management for 3 days. At the same time, workplaces with sick employees also need to be shut down. In 2020, when the epidemic was the most severe, some regions even shut down for several months.

Although such measures have indeed played a good role in hindering the spread of the epidemic, they have caused a serious impact on economic growth. Some companies and factories have been shut down due to the epidemic, resulting in very little revenue, and they have had to lay off workers on a large scale, even losing their foothold in the market due to financial reasons and declaring bankruptcy. This phenomenon has reduced consumer opportunities for Chinese consumers, Investors are afraid of the uncertainty brought about by risks, and the increase in precautionary and passive savings has led to an overall increase in the precautionary savings rate. The fiscal policies implemented during the pandemic involve various aspects, attempting to minimize the impact of the pandemic on China, including accelerating affordable housing projects, rural infrastructure, and major infrastructure construction such as railways, highways, and airports; Promote the development of medical and health care, culture and education; Strengthening the construction of ecological environment; Accelerating independent innovation and structural adjustment; Increasing the income of urban and rural residents; We will comprehensively implement value-added tax reform in all regions and industries across the country, encourage enterprises to carry out technological transformation, and increase financial support for economic growth.(Financial Observer - Baiyishuo Bank,2023)

The Monetary Policy

Firstly, maintain reasonable and sufficient liquidity; Maintaining reasonable and sufficient liquidity is one of the basic functions of monetary policy. Maintaining reasonable and sufficient liquidity is an important condition for financial support to the real economy. 2. Increase monetary and credit support for hedging the impact of COVID-19 epidemic; Secondly, Dredge the transmission of monetary policy by means of reform; In addition, it also includes the overall stability of the RMB exchange rate and the enhanced flexibility of two-way floating; Cross-border capital flow and foreign exchange supply and demand are basically balanced; Firmly hold the bottom line of risk and effectively prevent and control financial risks. In general, in the first quarter of 2020, China's prudent monetary policy has achieved remarkable results, and the transmission efficiency has been significantly improved, reflecting the forward-looking, accuracy, initiative and effectiveness. (Financial Observer - Baiyishuo Bank,2023)

Discussion

Reasons for China's High Savings Rate

Precautionary Savings

One of the reasons for the rise in China's savings rate is the rise in precautionary savings, which refers to savings activities undertaken in response to possible risks and uncertainties. This type of savings can be traced back to research conducted by Fisher and Friedman in the late 1980s and early 1990s. (Macroeconomics. Science Press, 2010) precautionary savings are aimed at ensuring economic security and stable returns, rather than pursuing high returns. In order to cope with the uncertainty brought about by the epidemic, residents also increased precautionary savings in the following areas to reduce the risk and harm that uncertainty may bring: The first point is the emergency reserve fund, which refers to cash or liquid assets that can be immediately used in unexpected circumstances, such as deposits, monetary funds, etc; The second is pension reserve, which is a long-term investment plan to cope with the increase in living expenses after retirement, such as purchasing pension insurance and investing in pension funds; The third is to prevent inflation:

Due to the devaluation of currencies caused by rising prices, there are some ways to offset the impact of inflation, such as selecting financial products with higher interest rates or linked to inflation, purchasing physical assets (such as real estate), etc; The fourth point is investment diversification: to diversify assets into different areas, different types, and different risk levels of investment varieties to avoid the risks caused by fluctuations in the single market.

The arrival of the epidemic has greatly increased people's fear of risk. Some residents are even troubled by housing and car loans, so the willingness to consume is definitely not too high. In order to keep their wallets, the act of saving money has begun to rise widely in China, As of the end of January this year, the product management scale of the five state-owned large bank wealth management companies, including "China Construction Communications Corporation between Industry and Agriculture", and 11 wealth management companies, including Zhaoyin, Xingyin, Xinyin, Pudong Development, Everbright, and Ping'an, was approximately 16.32 trillion yuan, a decrease of approximately 830 billion yuan compared to the end of December last year. Among them, the scale of the above five major bank wealth management companies decreased by about 760 billion yuan. At the same time, the "strange board" effect is more obvious. According to the central bank's data in January, household deposits increased by 6.2 trillion yuan, a record high for the same period in history, with a year-on-year increase of 790 billion yuan (Hao, 2020). This year, as the first year of the end of the epidemic, the impact of the epidemic on China's savings force is still evident. Although the scale of bank financing continues to shrink, the phenomenon of capital flowing to the savings end has not changed. precautionary savings must have made an outstanding contribution to China's current high savings rate during the epidemic, especially after the end of the epidemic.

Passive Savings

Passive saving is to reduce consumption expenditure and passively increase saving on the

basis of the flat income expectation. Due to the isolation of the epidemic at home and the economic blockade, the money can not be spent, and the consumption of Chinese consumers is reduced. The substitution of goods consumption for service consumption, the impact of supply constraints, and the economic blockade have led to many consumer activities that cannot be carried out normally. Under these comprehensive conditions, passive savings are increasing. Passive saving refers to reducing consumer spending and passively increasing savings on the basis of flat income expectations. From the perspective of consumption, the final consumption rate of residents has seen a new inflection point in the past two years, and residents' consumption willingness is insufficient. Residents' consumption and income are in the same direction, and in the face of declining income, the decline in consumption is greater and the recovery is slower. In 2020, the final consumption rate ended its decade-long growth trend and turned to decline, contrary to the upward trend of the household savings rate.

After carefully studying the data on changes in China's savings rate, it can be found that a very strong tendency is: the more severe the pandemic, the greater the rise in savings rates, and the greater the impact on economic activity. Residents' savings are related to factors such as income expectations, employment expectations, deposit interest rates, returns on other investment products, social security levels, and future uncertainty. In the past two years, on the one hand, residents' risk appetite has declined due to factors such as limited consumption intentions and scenarios, the downward trend in real estate, financial net worth destruction, and fluctuations in equity assets. On the other hand, due to the impact of uncertain events both at home and abroad, the uncertainty of residents' future income expectations has increased, which has in turn increased precautionary savings.

Currently, the increase in household savings deposits is a passive behaviour, and in the future, it is necessary to stabilize expectations, entities, and confidence. Active saving is an expected increase in income, a bigger cake, and a

simultaneous increase in consumption and savings; Passive saving refers to reducing consumer spending and passively increasing savings on the basis of flat income expectations. The phenomenon of increasing passive savings deserves attention. The contraction of residents' risk preferences is not conducive to boosting consumption, broadening credit, and stimulating market vitality. In general, the increase in precautionary savings and passive savings can both be the cause of the rise in China's savings rate during the pandemic.

The Solutions of Problem

To solve the problem of China's high savings rate, the government needs to make policy adjustments, especially fiscal, monetary, and epidemic prevention policies, to alleviate the increase in defensive and passive savings, promote consumption, and thereby reduce household savings.

Fiscal Policy

During the epidemic period, China adopted many proactive fiscal policies to restore the economy. The so-called proactive fiscal policy refers to expansionary fiscal policies, which increase government spending to expand overall social demand. Including increasing government purchases, increasing government transfer payments, and reducing tax rates. For example, accelerate the construction of affordable housing projects, rural infrastructure, railways, highways, airports, and other major infrastructure, and promote the development of health care, culture, and education; Strengthening the construction of ecological environment; Accelerating independent innovation and structural adjustment; Increasing financial support for economic growth has to some extent alleviated the harm caused by the epidemic to the Chinese economy, stabilized residents' income, and played the role originally expected by the government.

Monetary Policy

In order to alleviate the adverse impact of the pandemic on the economy and adapt to the economic situation after the pandemic, China has also improved its corresponding monetary policy.

China should focus on structural monetary policy and actively create new monetary policies to avoid flooding. Structural monetary policy has many benefits for consumers. The implementation of structural monetary policy can stabilize prices, which can reduce the impact of the epidemic on consumers, promote consumer consumption, alleviate the high savings rate of the epidemic, and alleviate the long-standing phenomenon of difficult and expensive financing for small and medium-sized enterprises, stimulate the vitality of small and medium-sized enterprises, and increase support for small and medium-sized enterprises. Improve service quality, reduce credit costs, ease financing constraints, and assist in China's economic recovery. The policy should include: providing certain support to vulnerable groups of consumers to improve their survival and living abilities; Demand for financing and operation provide adequate liquidity support for small and medium-sized enterprises with difficult conditions and development potential; Open more to foreign trade enterprises facing financial difficulties. And provide certain policy support. The objectives of China's monetary policy are diverse, such as maintaining price stability, promoting economic growth, maintaining full employment, maintaining stability, protecting the country, and maintaining balance of income and expenditure, which repeatedly appear in the central bank's policy reports.

Epidemic Prevention Policy

In the face of the situation of the epidemic situation gradually improving, China has reasonably relaxed its epidemic prevention policies, and some areas where the epidemic is not serious have even directly relaxed their policies. They no longer require health codes, travel codes, and accounting certificates as evidence of whether they can enter or leave public areas. It can be said that with the relaxation of such epidemic measures, shopping malls, restaurants, and some public consumption areas have welcomed a large number of consumers again, "People's fear of the risks and uncertainties brought about by the pandemic has also been greatly alleviated, consumption has been stimulated, precautionary savings and

passive savings have decreased, and the phenomenon of the precautionary savings rate of Chinese consumers rising during the pandemic has also been alleviated."

The impact of the epidemic on China's economy is actually relatively large. Therefore, in view of the slowdown in the epidemic situation this year, China has adjusted its epidemic prevention measures, such as adjusting the management measures of "7 days of centralized isolation+3 days of home health monitoring" to "5 days of centralized isolation+3 days of home isolation", no longer determining the close connection, and adjusting the risk area from "high, medium, and low" categories to "high, and low" categories, Minimize the number of control personnel, strictly implement the unified national prevention and control policies, strictly prohibit arbitrary closure and suspension of schools and classes, shutdown and production, unauthorized traffic interruption, arbitrary "silent" management, arbitrary closure and control, long-term non unsealing, arbitrary suspension of diagnosis, and other layered code adding behaviours, increase notification and public exposure, and seriously pursue legal and regulatory responsibilities for serious consequences. The adjustment of epidemic prevention measures aims to maximize consumption while ensuring the safety of people's lives, in order to alleviate the rise in savings and mitigate the impact of the epidemic on China's economy.

Conclusion

In general, the main reasons for the increase in the precautionary savings rate of consumers in China during the epidemic period are precautionary savings and passive savings. The risks generated during the epidemic period make people uncertain about the future, which has led to an increase in precautionary savings. At the same time, due to the epidemic prevention policy adopted by China during the epidemic period, people have very few opportunities to consume in shopping malls, when waste consumption is converted into goods consumption, consumers have to deposit their remaining money into accounts, resulting in an increase in passive

savings. Both of which have overall increased the precautionary savings rate of Chinese consumers during the pandemic.

With regard to this phenomenon, I believe that the Chinese government should promote consumption to alleviate the current high savings rate phenomenon. The reasons why to alleviate the current high savings is that reducing high savings rates is a very effective means of promoting consumption, which can promote the sustainable development of the national economy. The epidemic prevention policy can also be relaxed based on the current situation of the epidemic, which is no longer tense, to increase the possibility of consumers going out to spend, so that consumers are no longer afraid of risks, alleviate passive savings and precautionary savings, and also promote consumption through stabilizing prices and issuing consumption vouchers to alleviate the current situation of China's high savings rate. Some reasonable monetary and fiscal policies are necessary to alleviate the phenomenon of high savings, such as stabilizing various tasks and improving the balance sheet situation, which can to some extent comfort the people, promote consumption, and slow down passive and precautionary savings.

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