



Some Observations and Analyses on Savings Ratio

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Factors Affecting Savings Ratio

- Level of wealth as measured by per capita GDP
- Development of capital market
- National tradition and demographic factor
- Social safety net
- Exchange rate
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Is Exchange Rate Related to Savings Ratio?

- Some correlation exists between exchange rate and savings ratio, but not statistically significant.
- Expanding domestic demand is more effective than adjusting exchange rate in lowering savings ratio.



Reasons Behind High Savings Ratio in East Asia and Oil-producing Countries

- National tradition
- Social and family structure
- Demographic factor and stage of development
- Empirical evidence: comparison between Japan and the U.S.

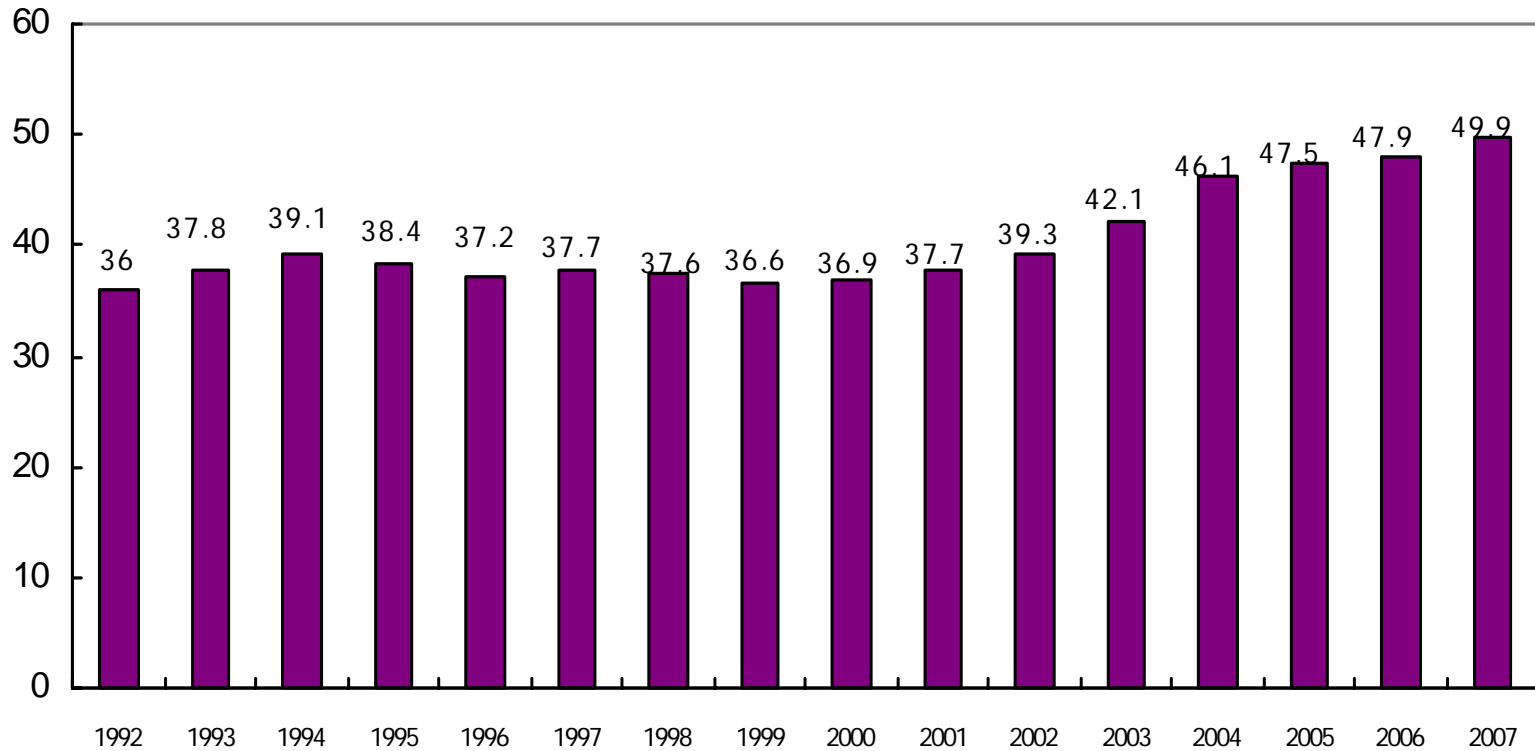


Implications of Asian Financial Crisis on Savings Ratio in East Asia

- High savings ratio, current account surplus in East Asia and the Asian financial crisis
 - Defensive response to predatory speculative capital flows
 - Result of the rescue plan of international financial institutions
- Other problems of the countries in the region



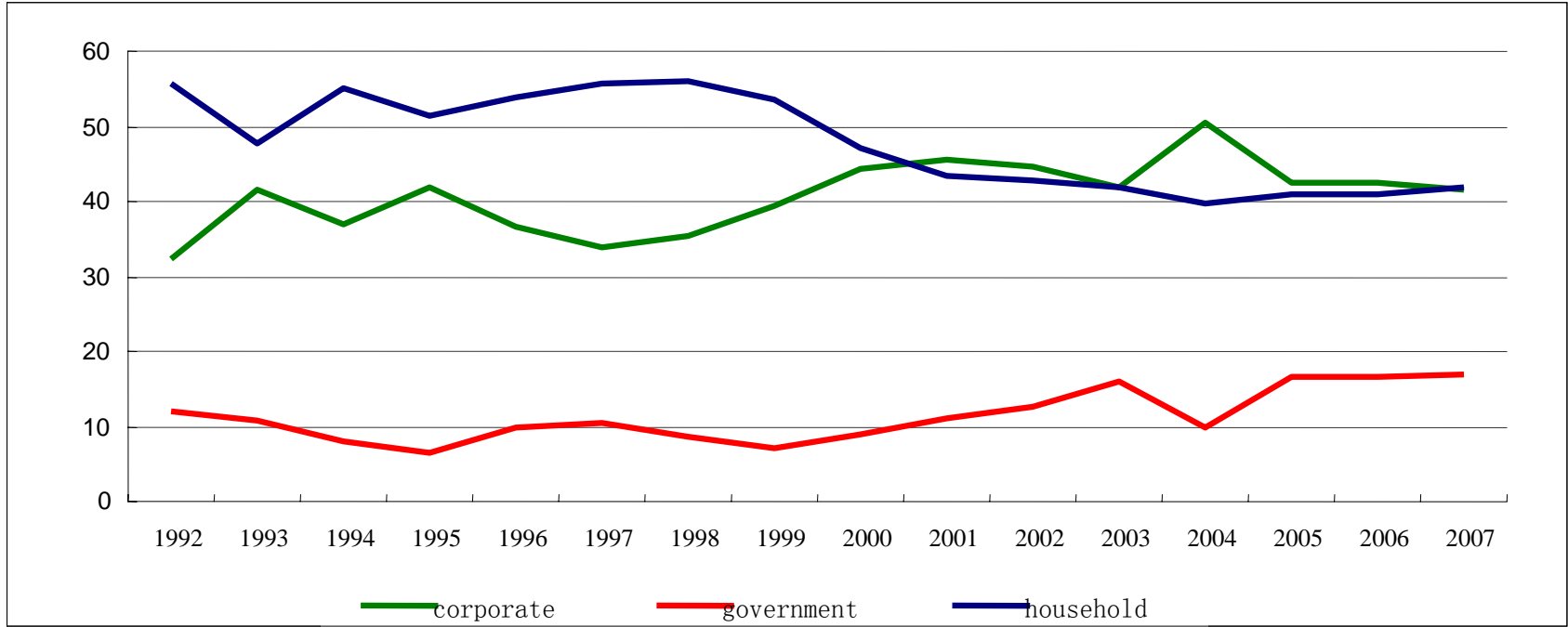
China's Savings Ratio in 1992-2007 (%)



Source: National Bureau of Statistics of China



Shares of Corporate, Government and Household Savings in National Savings (%)



Source: National Bureau Statistics of China; the People's Bank of China



Possible Explanations for China's High Savings Ratio

- Movement of savings ratio: household savings ratio edged up, while corporate savings ratio increased notably
- The problem of cost/profit distortion has not been adequately tackled during the economic transition
 - High household savings ratio: strong incentive of precautionary savings for pension, healthcare and housing
 - High corporate savings ratio: even after market-based reform, liabilities such as the cost of pension, healthcare and housing expenditure are insufficiently provisioned
- **Solution: deepening the reform of government and state-owned sector**

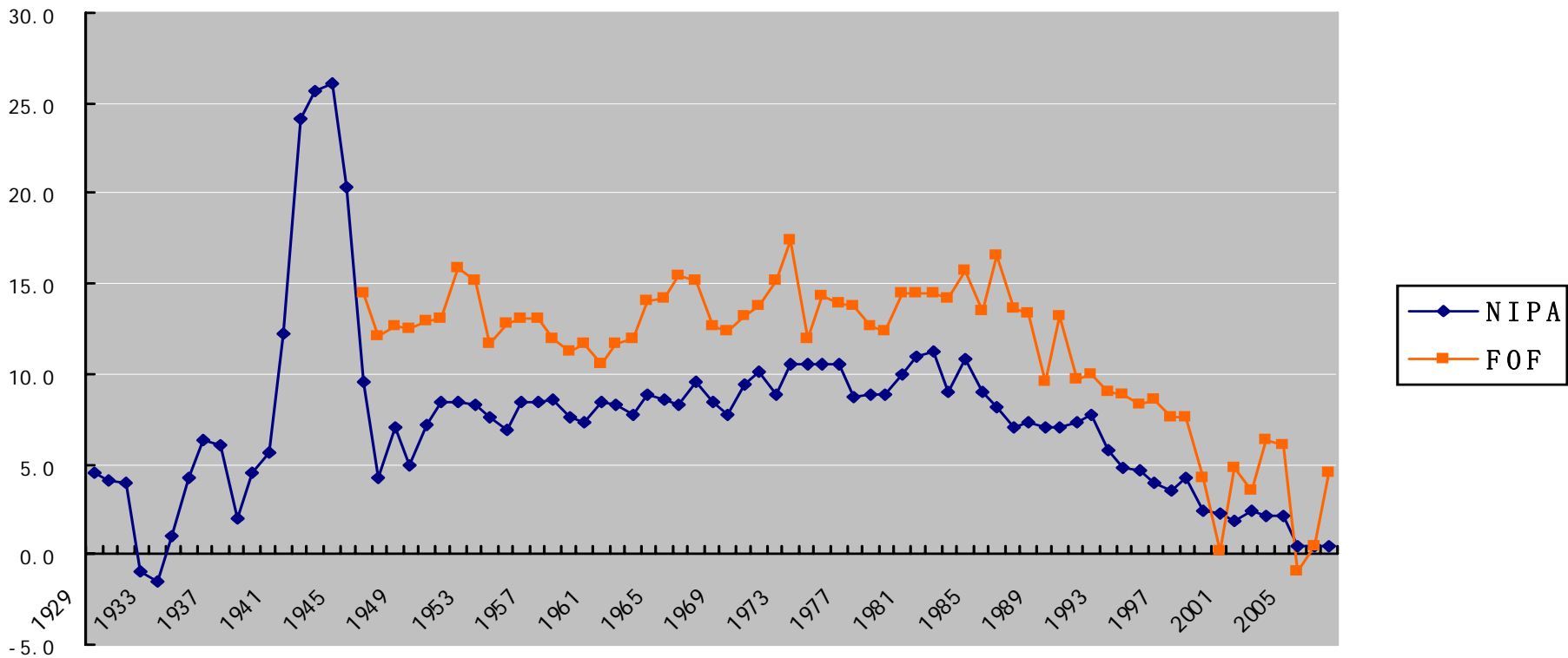


Observations on Low Savings Ratio in the U.S.

- Two stages in the development of household savings ratio in the U.S.
 - Prior to mid-1990s, household savings ratio ranged between 7-10 percent
 - After 1997, household savings ratio declined sharply accompanied by rapid increase in “dual deficit”



Chart 3: Comparison of National Income and Product Accounts and Flow of Funds Accounts Personal Savings Ratio as a Percentage of Disposable Personal Income, 1927-2007



Source: U.S. Department of Commerce, Bureau of Economic Analysis



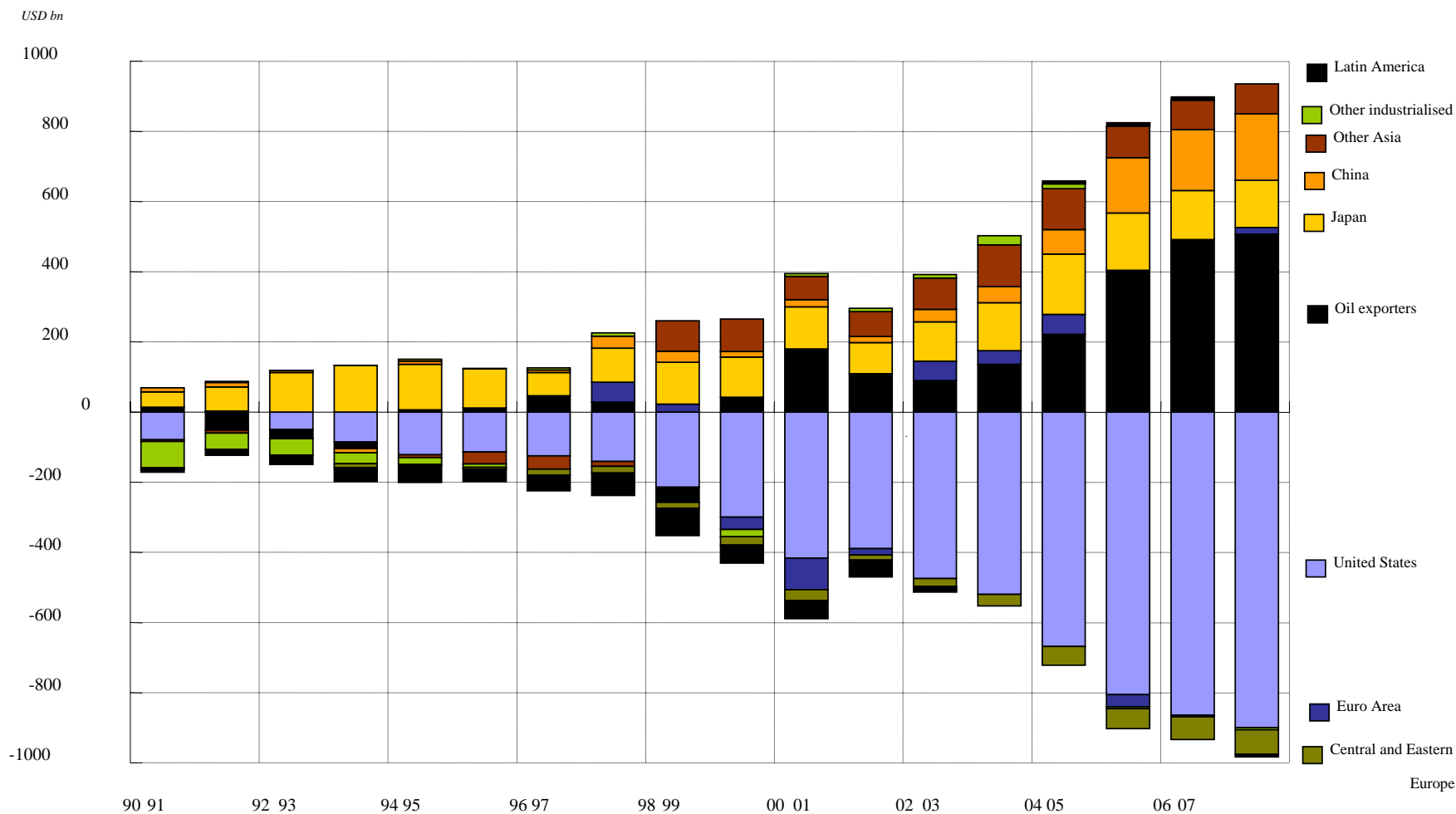
Low Savings Ratio in the U. S. Is Ascribed to Euphoria

- Collapse of central-planning system of the former Soviet Union and Eastern Europe
- Prolonged stagnation in Japan
- Structural problems in Europe
- Criticism of Asian development models by Paul R. Krugman and eruption of Asian financial crisis
- Bursting of the high-tech bubble and quick recovery of U.S. economy in the wake of the 9.11 event

High savings ratio in East Asia has no causal relationship with low savings ratio in U.S.



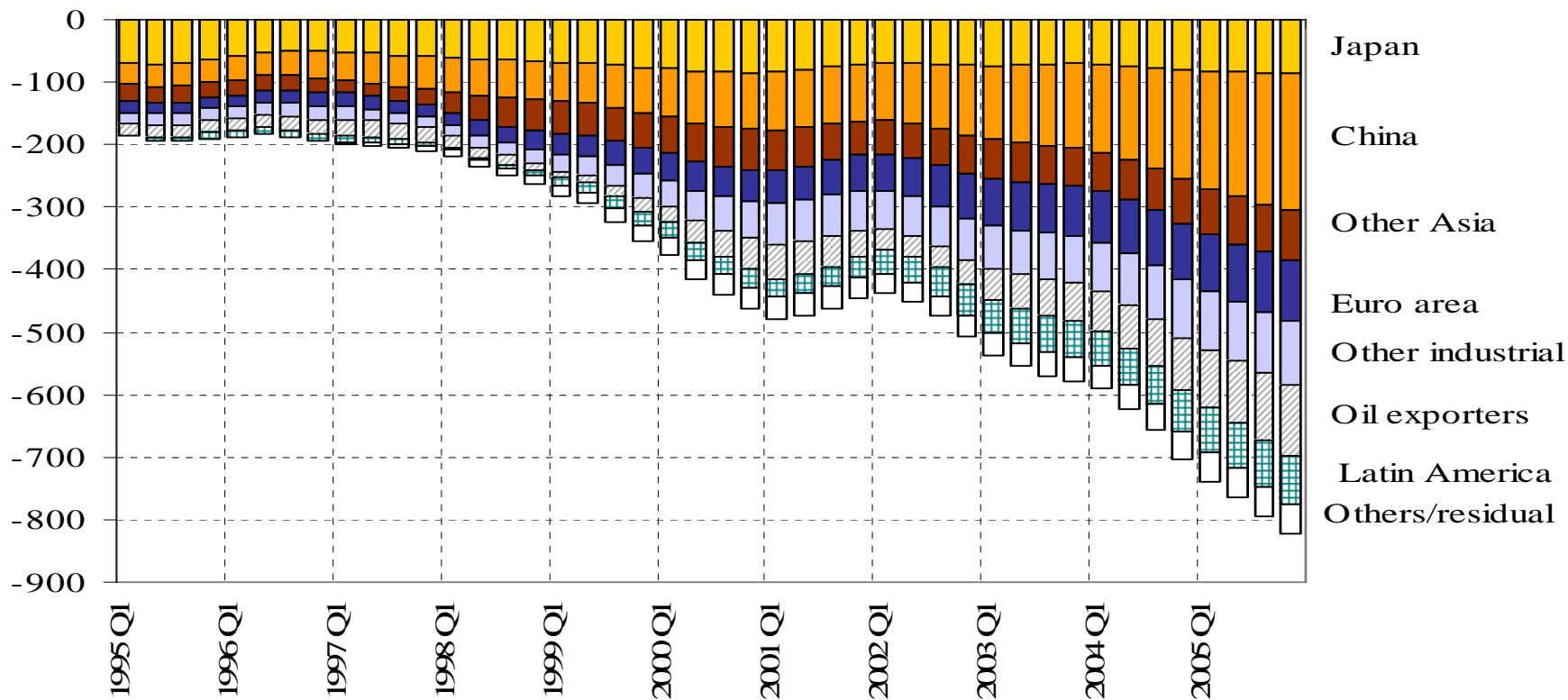
Chart 4. Current account positions (1990-2007, annual data, in USD billion)



Source: IMF (World Economic Outlook and Direction of Trade Statistics) and ECB staff calculations.



Chart5. Bilateral trade position with the US (1998Q1 – 2005Q4, cumulated year-to-date, in USD billion)



Source: IMF (World Economic Outlook and Direction of Trade Statistics) and ECB staff calculations.



Options for Adjusting Savings Ratio

- Coordination of macroeconomic policies
- Countries strengthen regulation, and international institutions set up a prompt and efficient rescue mechanism
- Encourage more savings flow to developing countries
- Continuous reform of the international monetary system



Thank You !