EUROPEAN CENTRAL BANK

EUROSYSTEM

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The Chinese saving rate

Discussion

The views expressed in this presentation are those of the author and should not be attributed to the ECB

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Overview

Main points

- **Rationale**
  - risk of inefficient domestic investment or a global savings glut
- **Overall savings driven by (precautionary) household saving**
  - Demographics (one-child policy)
  - Wage dynamics, repressed interest rates
  - Rising inequality and housing ownership, lower social protection

➢ **Saving largely the outcome of other policy choices**

- **Recommendations**
  - Higher fiscal redistribution: boost spending; progressive taxation
  - Lowering moral hazard and reliance on internal corporate saving
- **National savings to fall going forward**
  - (i) demographics; (ii) preference shift; (iii) higher fiscal spending

Main contributions of the paper

- **Comprehensive, rich analytical framework**
  - Drivers of savings for all sectors are discussed
- **Quantification of different effects**
  - Own estimates (e.g. demographics, inequality,…)
  - Estimates from literature
- **Projections for sectoral saving rates**
  - Useful for macroeconomic projections

Questions and suggestions (i)

- **Rationale**
  - High savings rate only one driver of investment/savings glut
    - Other factors: underpricing and inefficient allocation of capital
  - Mainly result of policy choices in other domains
    - Reforms in other areas will bring savings down (e.g. moral hazard)
    - …and have their own welfare-enhancing effects
    - Partially self-correcting (e.g. demographics, WTO effect)
  - ➢ Should bringing it down be a target in itself?
- **Policy recommendations**
  - Difficult to target savings rate directly
  - ➢ Emphasise more direct benefits of structural reforms
    - Potentially higher traction with policy makers
    - High savings rate more proverbial ‘canary in the coal mine’

Questions and suggestions (ii)

- **Analysis**
  - Corporate savings: elaborate on role of private firms
    - Credit constraints on private firms destroy growth opportunities
    - Make explicit the costs of capital allocation biased towards SOEs
  - Discuss policy implications of projected lower savings
    - Will it constrain domestic investment going forward?
    - Will it have an effect on financing costs?
    - How could the external balance be impacted?