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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

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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?