

Household and Corporate Savings in China

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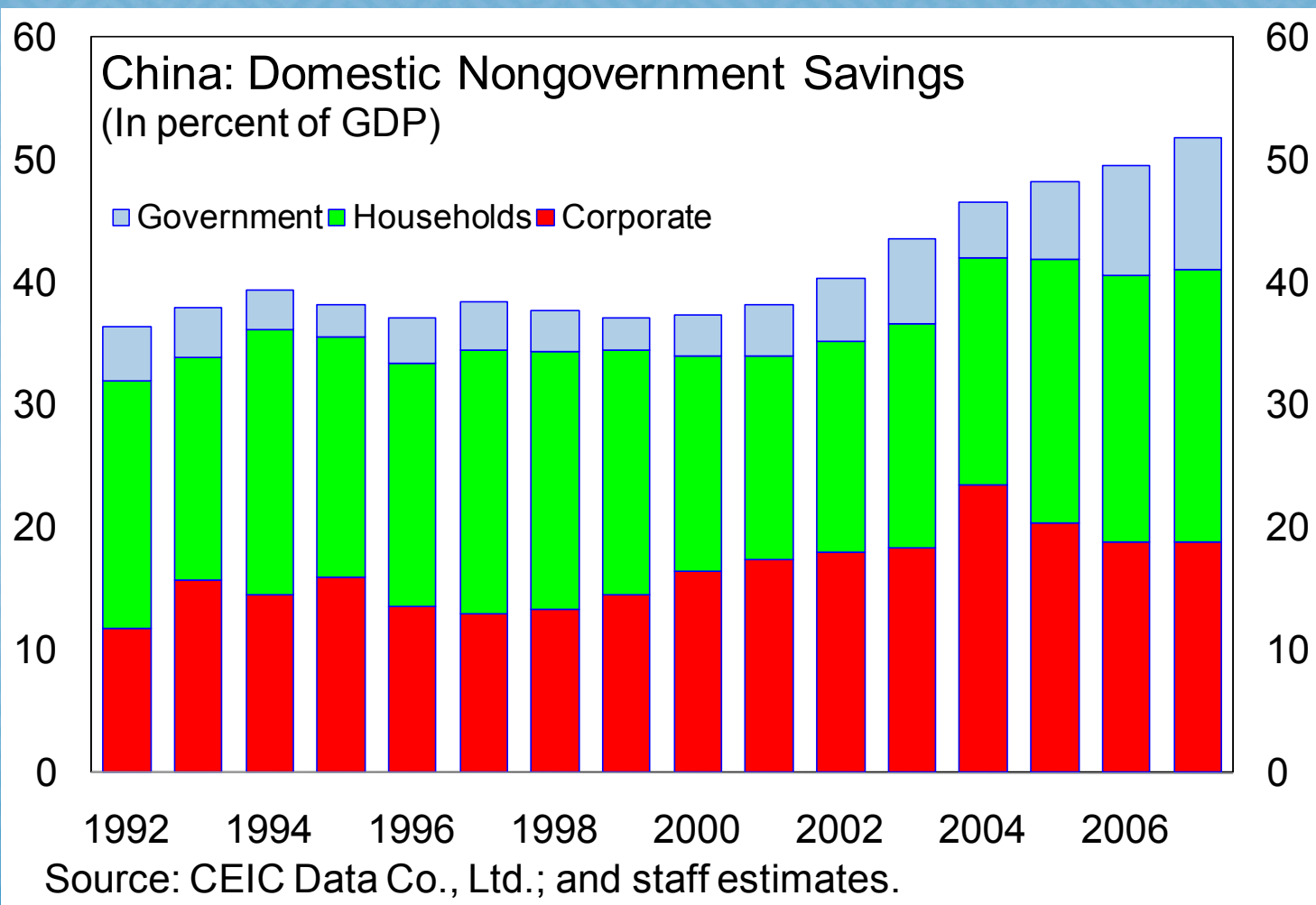
International Monetary Fund

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Who saves in China?

- Everyone, but the recent rise reflects household and government?



Should corporate savings influence household consumption and savings?

- Yes.
 - Corporate saving decisions influence household (real) income, as they are tied to labor demand and pricing decisions.
 - Moreover, households are the ultimate corporate owners.
 - A rise in corporate savings may lower (dividend) income, but ...
 - ... it increases household equity wealth.
- But with caveats.
 - Must not be credit constrained.
 - Households must perceive clear link between their equity wealth and future income, and adjust personal savings to offset wealth-neutral changes in corporate savings.

Today we will discuss...

- Do households offset the savings behavior of corporates?
 - Global picture.
 - Behavior in emerging-Asia.
 - What about China?
- What are the policy implications?

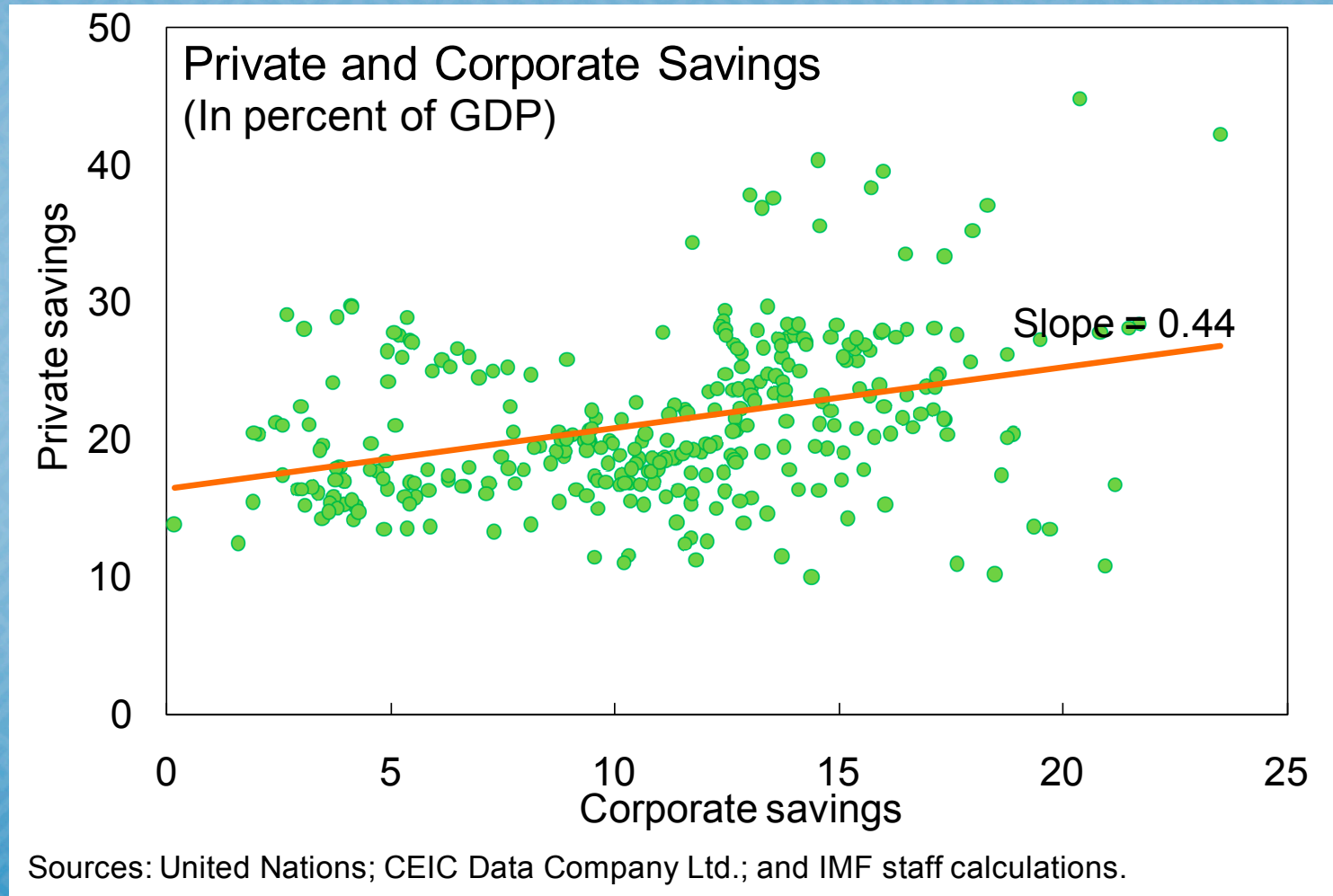
The literature on corporate and household savings looks ...

- ... at both direct evidence of interaction and indirect evidence.
 - **Direct.** Do changes household savings offset changes in corporate saving behavior (Poterba, 1987)?
 - **Indirect.** Does private consumption respond sub-optimally to changing dividend income rather than household wealth (Auerbach and Hassett, 1989)?
- Literature limited, but generally indicates that household and corporate savings are offset in the US.

Do Corporate and Household Savings Offset?

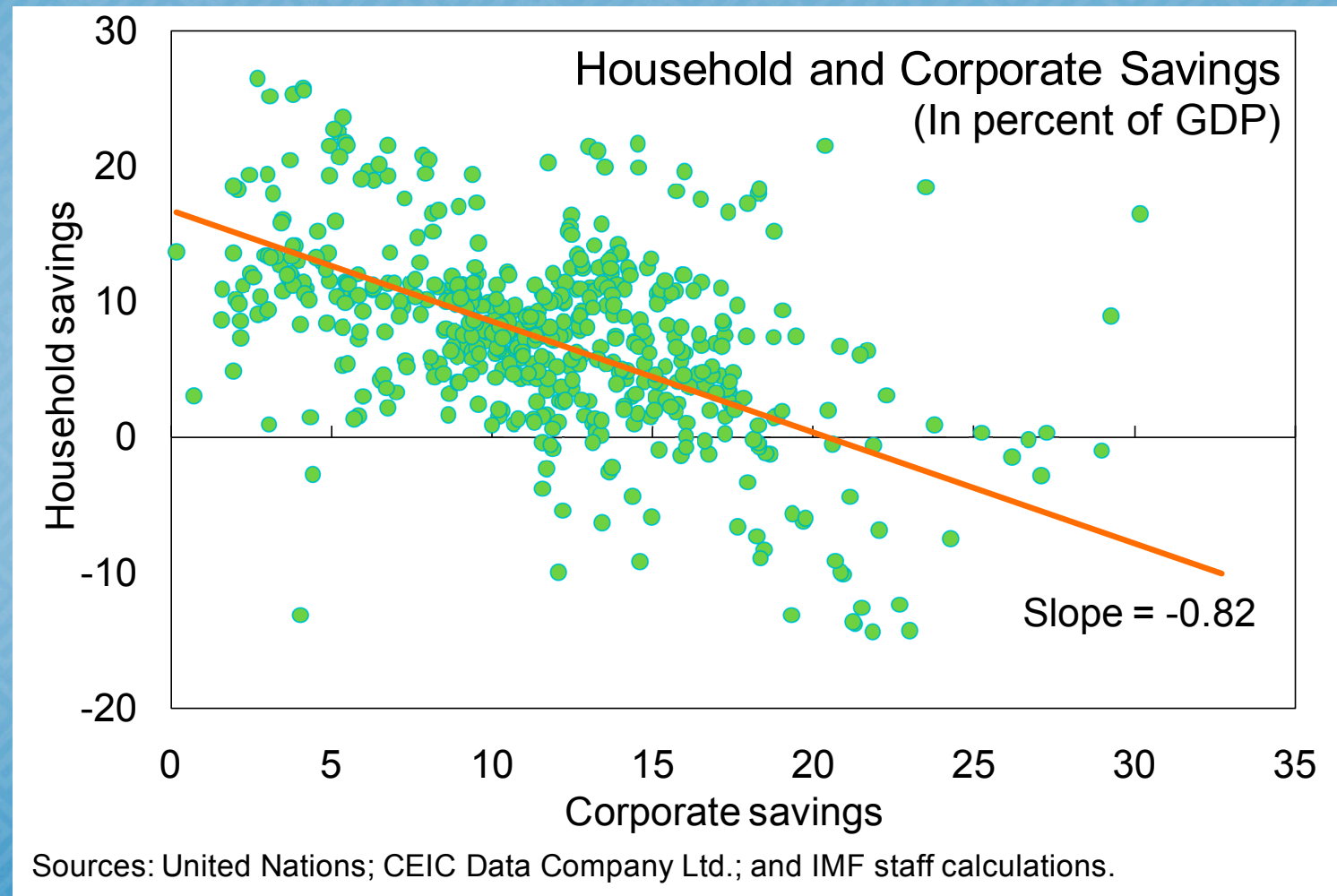
The Global Picture: Private and Corporate Savings.

- Regression line for private on corporate savings should be horizontal if they offset.

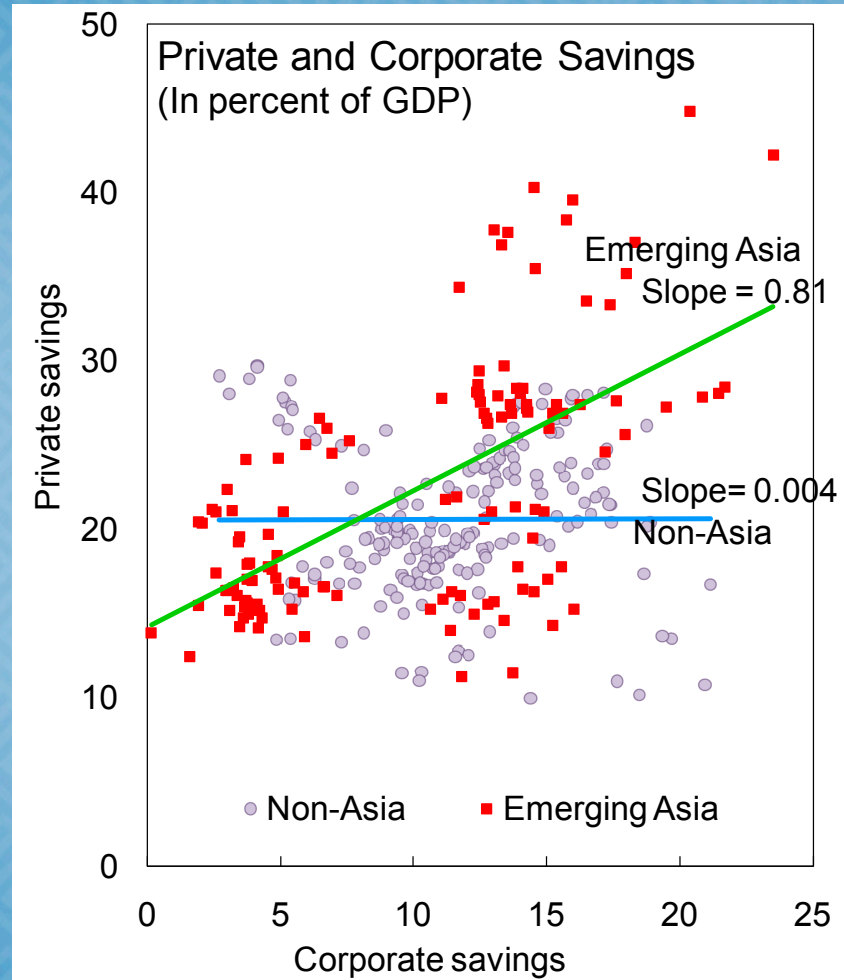


The Global Picture: Household and Corporate Savings.

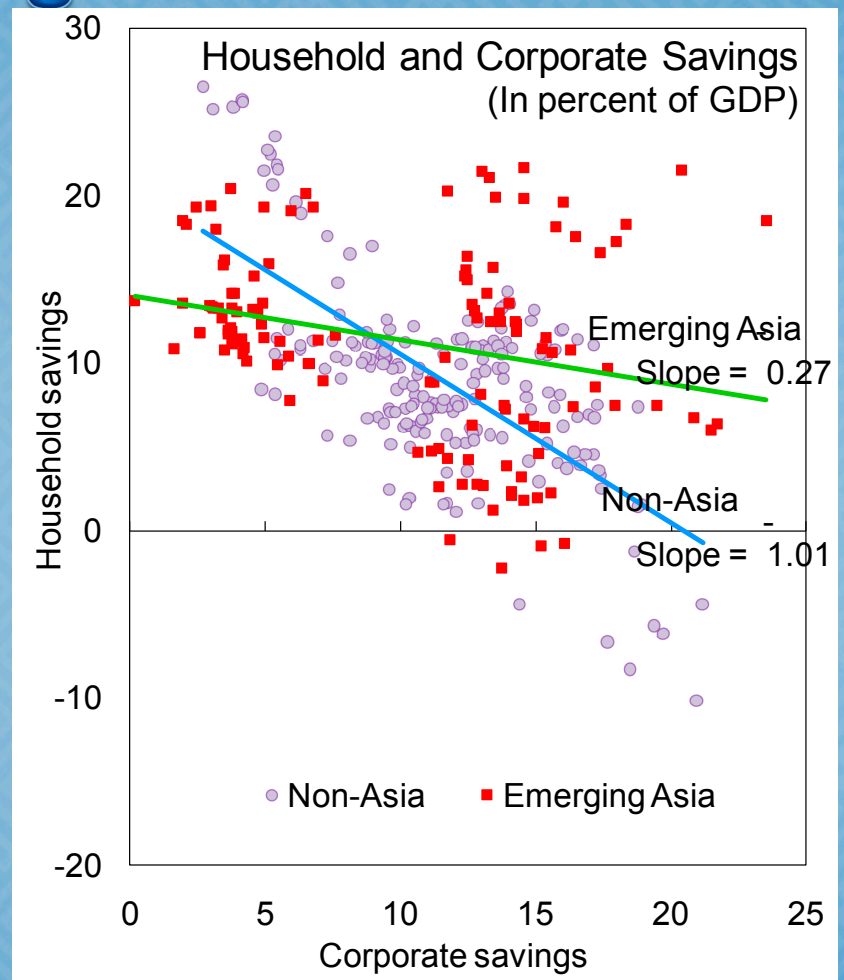
- Regression line for household on corporate savings should have a slope of -1 if they offset.



The Asian picture is very different from that in other regions.



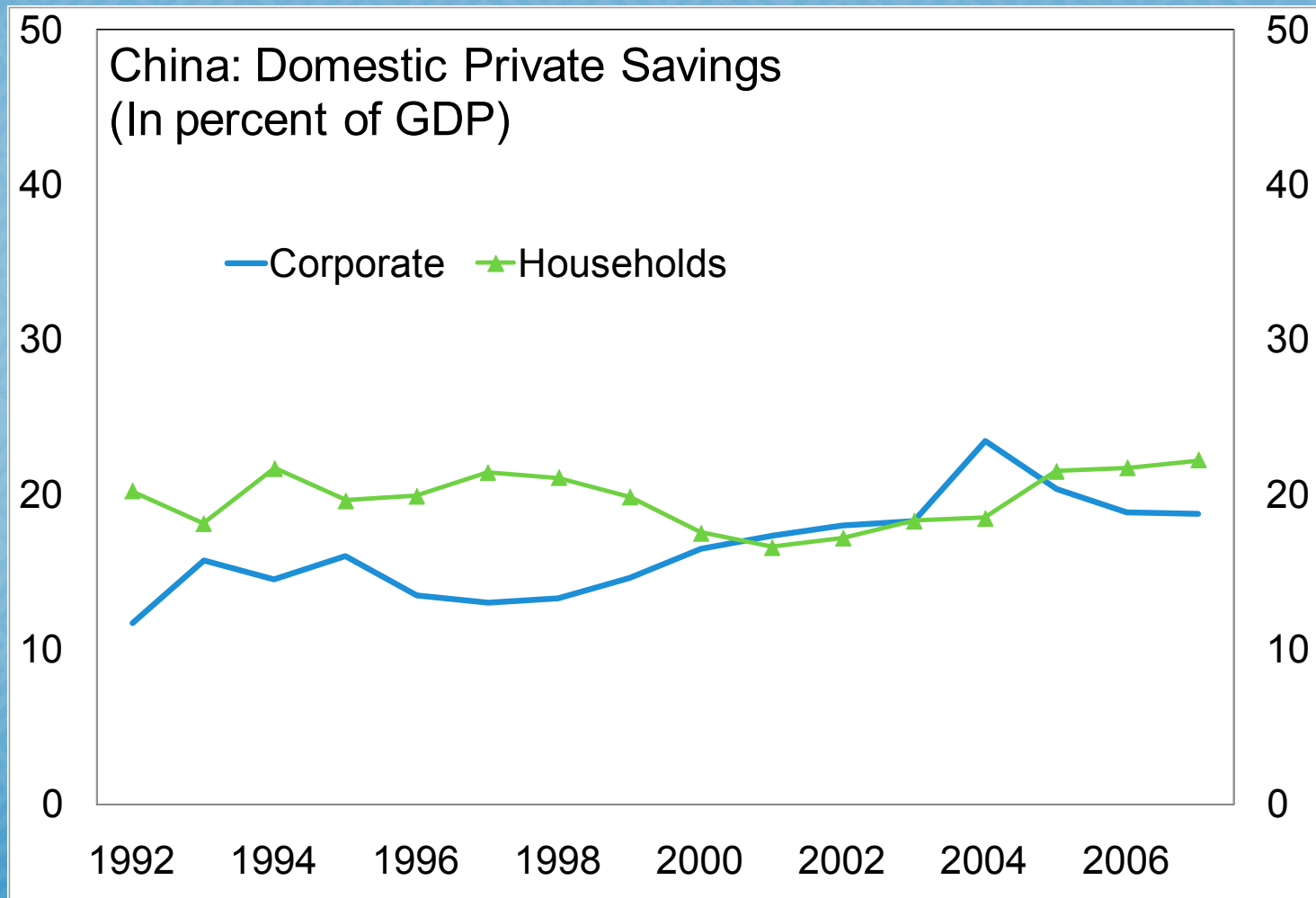
Sources: United Nations; CEIC Data Company Ltd.; and IMF staff calculations.



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What about China?

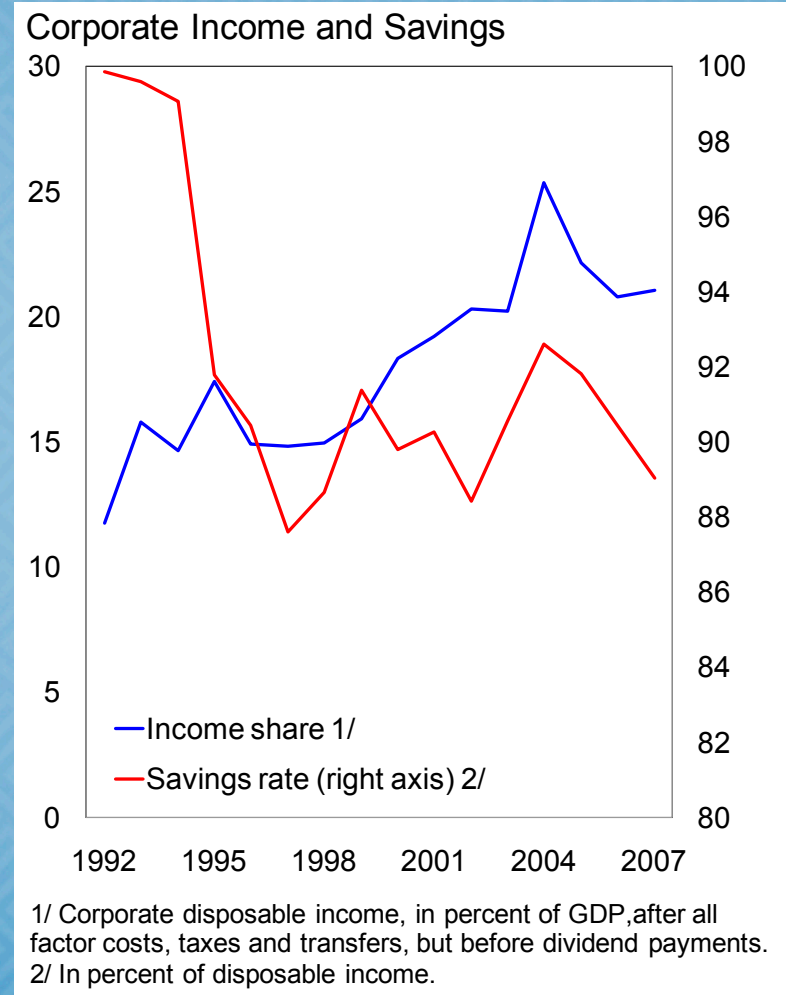
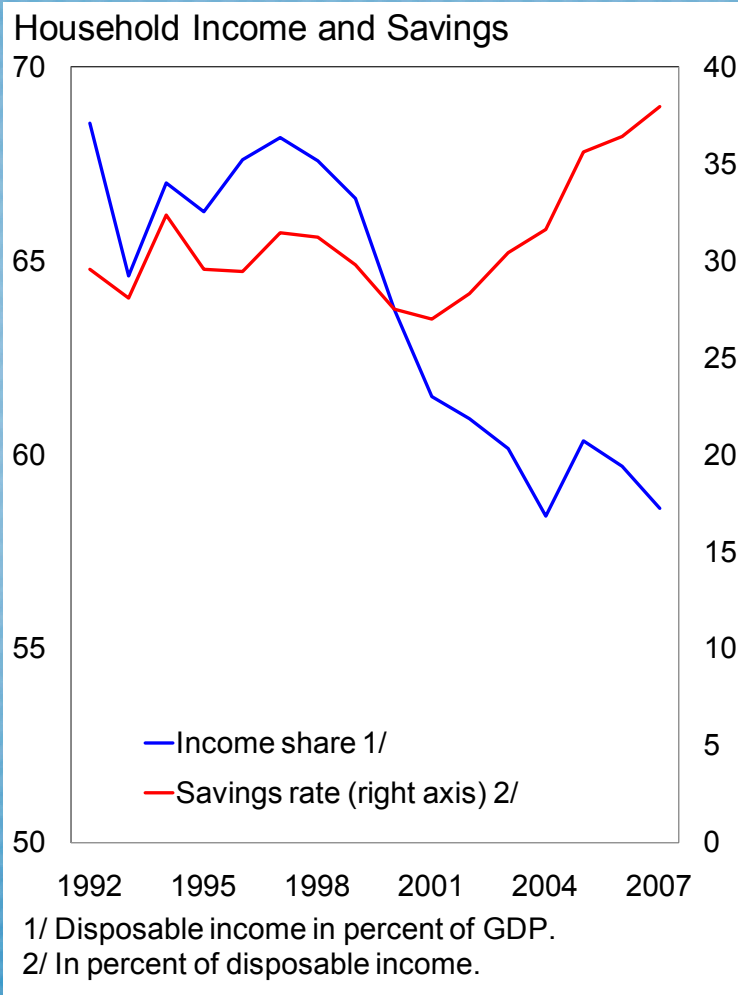
- In China, corporate and household savings do not seem to be offsetting, ...



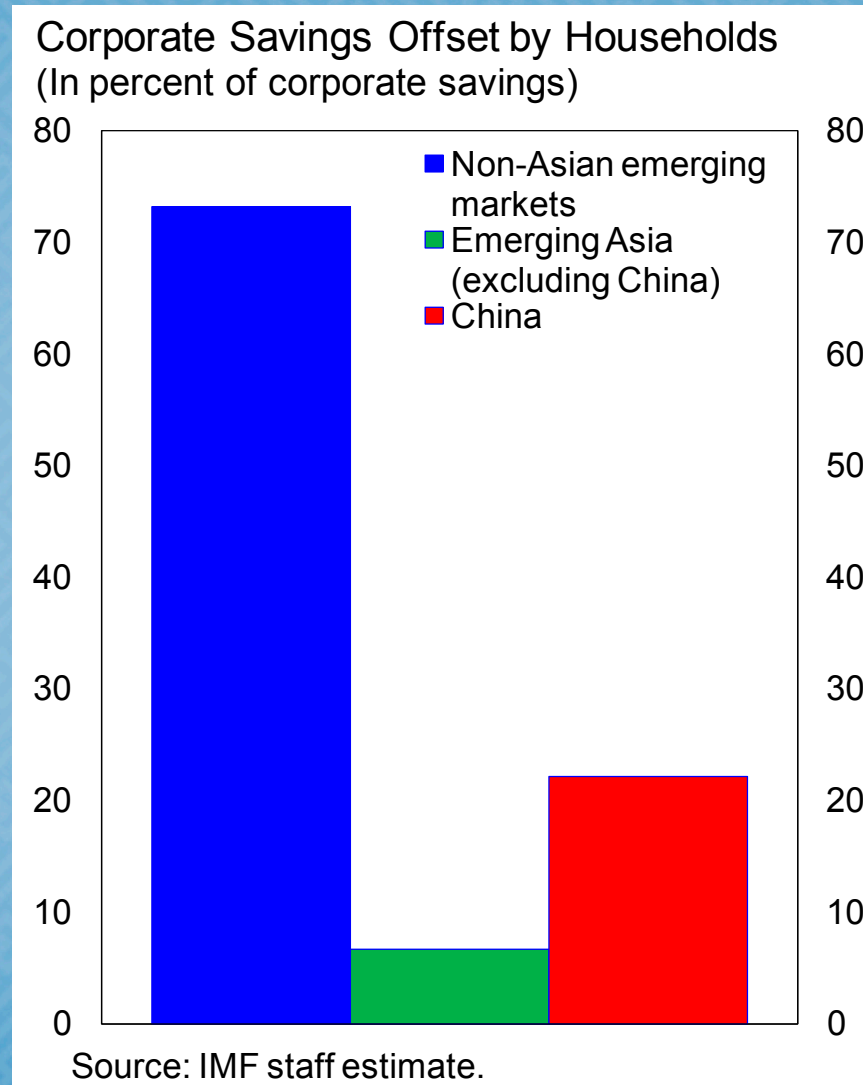
What about China?

For households, the savings rate has increased.

For corporates profits have increased.

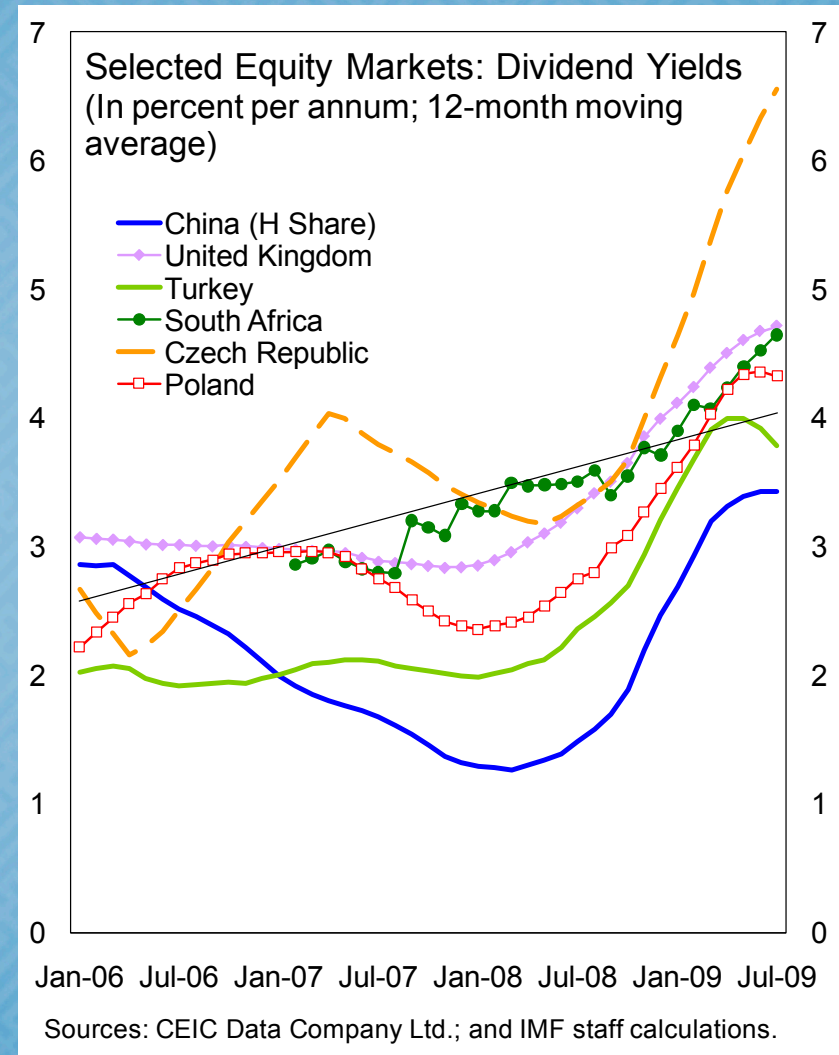


Households appear to offset relatively little of the corporate behavior.



What can explain the difference?

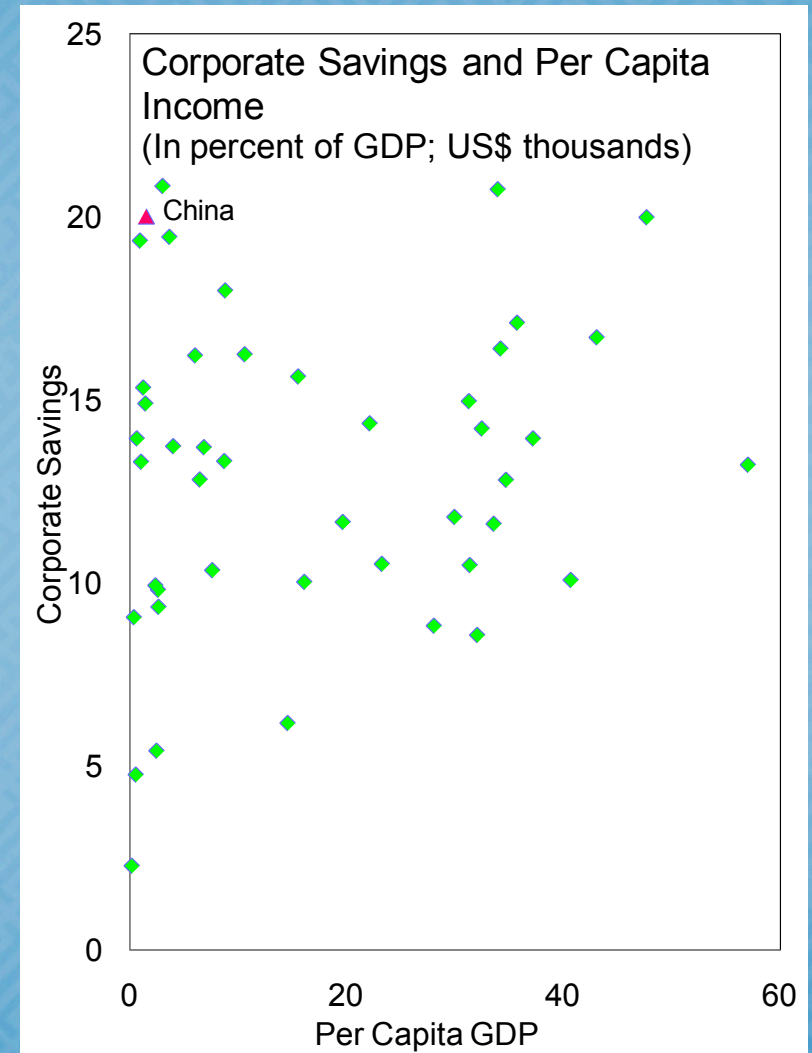
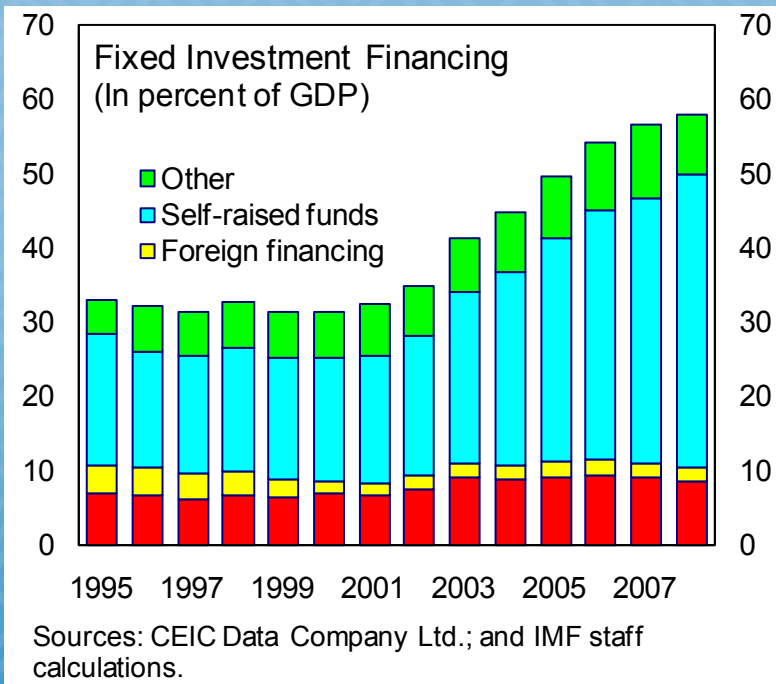
- Limited connection between equity values and household wealth and consumption.
 - Dividend payout rates are low.
 - Equity market participation is still limited.
 - Government dividend income is not linked to public consumption.



What are the policy implications?

1. Reduce reliance on self-generated funds.

- Most investment is self-financed.
- Available savings are large by international standards.

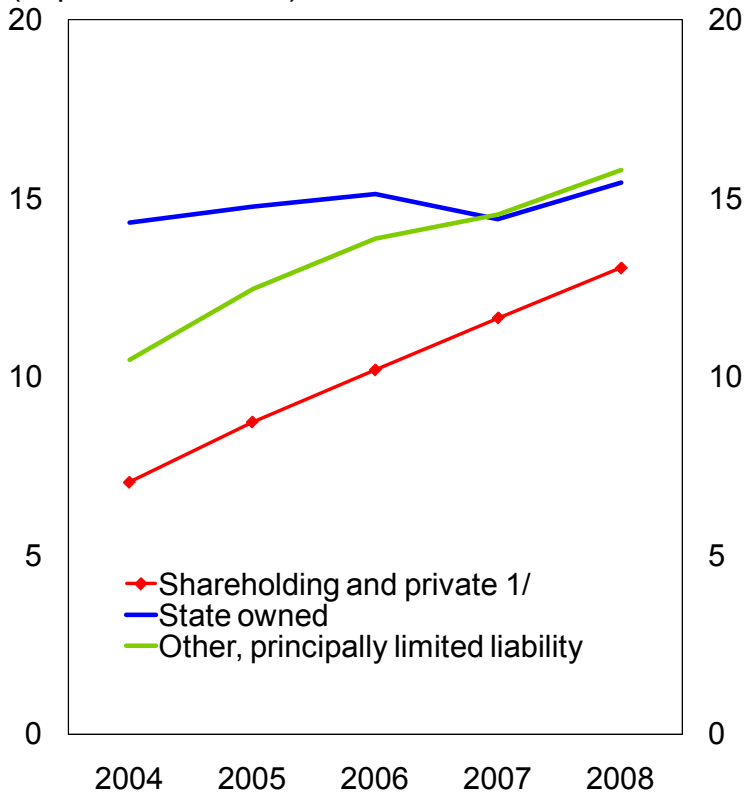


2. Increase corporate financing options and limit credit constraints.

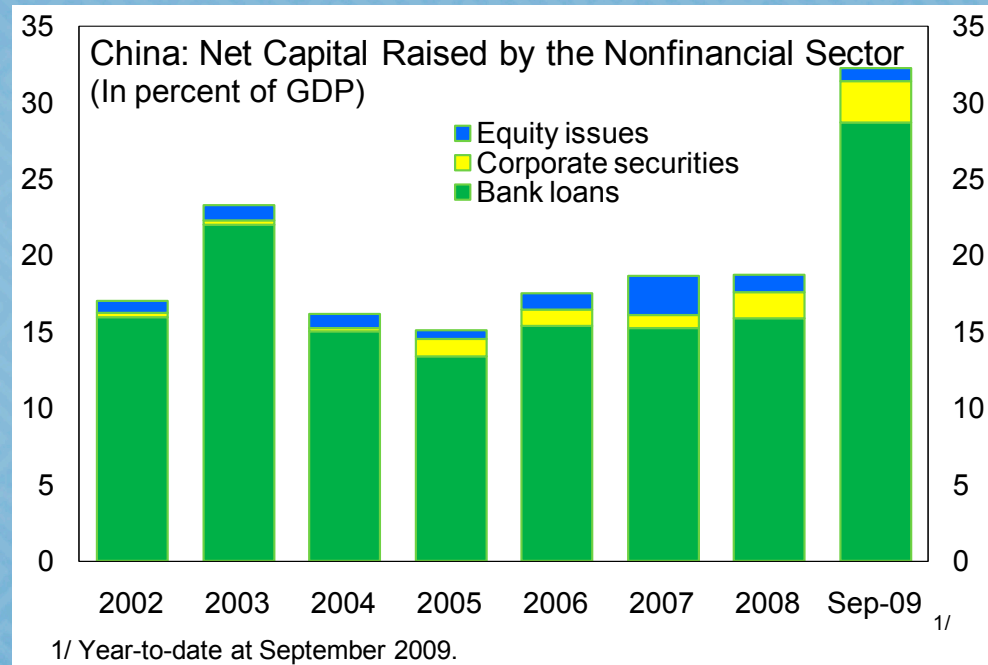
Smaller firms have had the fastest investment growth.

And the system remains almost entirely bank based.

Domestic Enterprise Investment Spending
(In percent of GDP)

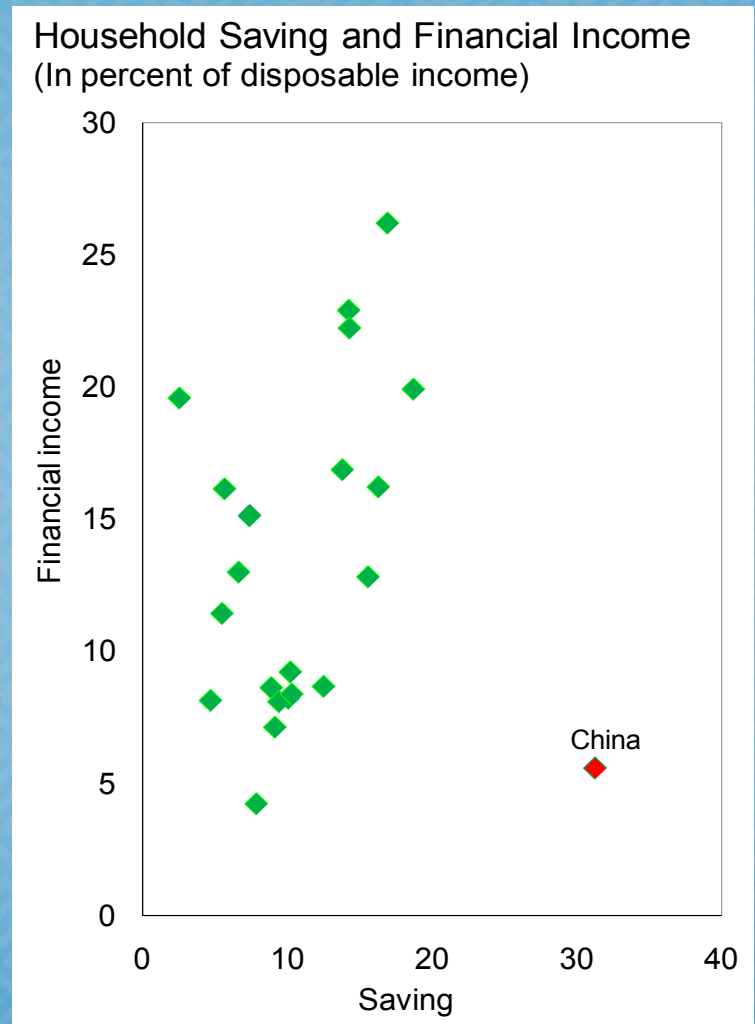


Sources: CEIC Data Company Ltd.; and IMF staff calculations.
1/ Excludes listed corporates.



3. Strengthen the link between households and corporates.

- Expanding retail financial products and share ownership.
 - Financial education needs accompany these reforms.
- Expanding institutional investors and shareholder influence.
 - Household dividend income is only 0.5 percent of disposable income.
- Dividend transfers to government to finance transfers to households and social spending.



Thank you.