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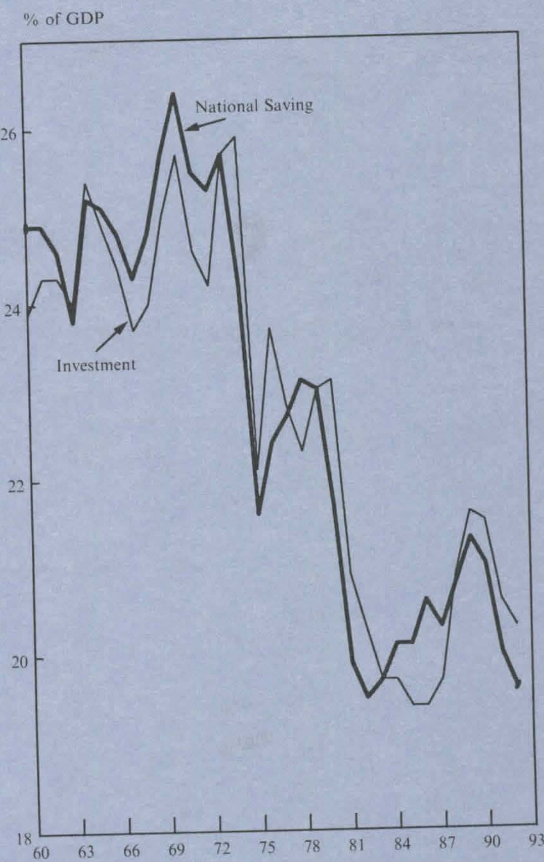
In this number: Trends in and structure of gross national saving in the Community

MAIN POINTS IN BRIEF

- Despite a noticeable improvement over the last decade, following the trough of the early 1980s, national saving as a percentage of GDP remains low compared to the 1970s and, even more so, to the 1960s.
- Private saving has been remarkably stable on average for the Community throughout the last thirty years. Although this stability may embody slightly different developments in the member countries, movements in private saving remain very gradual and limited relative to developments in national saving. Therefore, fluctuations in national saving are mainly generated by developments in public saving.
- The relative stability of private saving masks opposite developments in its two components, household and corporate saving. The resumption of growth in the 1980s took place while corporate saving improved significantly and household saving declined, thus leading to a situation of relatively strong corporate saving and weak household saving, which resembles the high GDP growth situation of the 1960s.
- In view of the sizeable investment needs necessary to support economic growth and employment, an increase in national saving is considered desirable in the medium-term. In this context, the most direct option available to policy-makers is to increase government saving. Policies should also be directed towards further improvement of profitability, supported by moderate wage developments, in order to sustain the generation of high corporate saving going hand in hand with investment.

GRAPH 1: **Gross saving and investment in the Community (*)**



(*) EUR 12.
Source: Commission services.

TRENDS IN AND STRUCTURE OF GROSS NATIONAL SAVING IN THE COMMUNITY

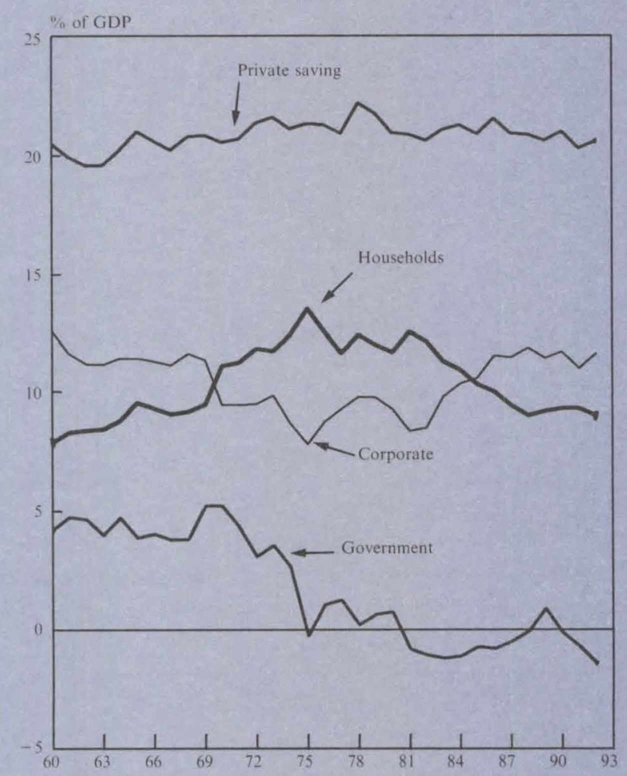
General background

The recent renewed decline in national saving has focused attention on the adequacy of present saving levels and trends. Widespread concern exists that, over the medium-term, a relative shortage of savings could contribute to high real interest rates and constrain investment required for a stronger growth trend in the Community. Higher investment is a prerequisite to reduce the high level of unemployment in the Community, to further macro-economic convergence among member countries and to allow for the full potential effects from the completion of the internal market to take place. Furthermore, investment demands outside the Community are expected to increase substantially over the medium-term, given the continuing needs of the less developed countries and the projected large demands for capital associated with the rebuilding of the Central and East European economies.

Trends in gross national saving

The evolution of gross national saving over the last thirty years may be summarised as follows. Throughout the 1960s, national saving in the Community remained close to 25 % of GDP (see graph 1 on the cover page). After the first oil crisis national saving declined by several percentage points of GDP. It recovered somewhat in the second half of the 1970s until the occurrence of the second oil crisis in 1979 when a renewed decline set in. This decline came to a halt in the early 1980s and national saving recovered hesitantly until the end of the decade. Despite this recovery, present national saving levels remain low compared to the 1970s and, even more so, to the 1960s. Furthermore, the latest estimates point to some renewed decline in national saving.

GRAPH 2: **Structure of Gross National Saving in the Community (*)**



(*) EUR 6: B, D, F, I, NL, UK.
Source: Commission services.

TABLE 1: **Gross national saving in the Community, 1960-1990, as % of GDP**

	1960	1970	1982	1990
Belgium	19.4	27.1	13.7	21.8
Denmark	24.9	21.8	12.1	21.8
Germany	28.9	28.1	20.2	25.2
Greece	12.7	23.4	20.2	11.4
Spain	24.9	27.5	19.0	22.1
France	25.3	27.6	19.7	21.0
Ireland	16.3	20.4	17.2	23.4
Italy	29.4	28.2	21.9	19.3
Luxembourg	35.8	41.3	59.3	60.9
Netherlands	30.0	26.5	21.1	25.4
Portugal	18.5	28.8	20.6	26.6
United Kingdom	18.0	21.1	16.9	15.6
EC	24.9	26.4	19.5	21.0

Source: Commission services.

National saving developments in the member countries reflect trends broadly similar to the Community average in being relatively high throughout the 1960s and, if anything, tending to improve towards the end of the decade (see table 1). Subsequent to both oil crises national saving fell in all member countries, except for Luxembourg. However, whereas national saving recovered in-between the successive oil crises in most member countries, this was not true for Belgium, Denmark and the Netherlands.

By the early 1980s, national saving had fallen to the lowest level since 1960 in most member countries. Following this trough, a gradual recovery set in. In France and Ireland, however, national saving did not stop falling until the mid-1980s. In Greece, Italy and the United Kingdom, the recovery in national saving did not persist; in these countries national saving declined once more during the second half of the 1980s to reach historically low levels by the end of the decade in the case of Italy and Greece.

Despite the recovery observed in the 1980s in most member countries, national saving ratios in 1990 remained weak relative to the 1960s and early 1970s with the exception of Ireland and Luxembourg; in Belgium, Greece, Spain, France, Italy and the UK, national saving in 1990 was more than 5 % points of GDP lower than in 1970.

The structure of gross national saving

The breakdown of Community national saving into its private and public components shows that both remained relatively stable throughout the 1960s (see graph 2). Average private saving for the Community as a whole remained remarkably stable throughout the 1970s and 1980s as well; in 1990 it was marginally lower than in 1970 but higher than in 1960 (see graph 2). Therefore, it appears that the observed decline in national saving in the Community has mainly been generated by the fall in public saving. Developments in the member countries confirm this. Public saving in 1990 was lower than in 1970 in all member countries except for Luxembourg. Private saving was higher in 1990 than in 1970 in all countries except for Spain, France and Italy.

Private saving

The stability of gross private saving observed for the Community in the last 30 years masks slightly different developments in the member countries.[1] In the 1960s only Italy and the Netherlands showed a relatively stable trend in private saving. For the latter country this was also true for the 1970s. The observed stability of average private saving for the Community may, to an important extent, be explained by saving trends in the UK different from those observed in most continental member countries: in the second half of the 1960s private saving fell in the UK, whereas it was on a rising trend in most other countries. In the 1970s and 1980s the divergent behaviour of Italian private saving also appears to have played a role. Private saving increased both in Italy and the UK during the 1970s, whereas it generally declined in the other countries. In the 1980s the reverse occurred.

On the whole, however, movements in private saving appear to have been very gradual and limited relative to developments in national saving. This has been the case in most member countries except for Italy and the UK. Measured over the 1970s and the 1980s, private saving appears to be most stable in Belgium and Germany, whereas the opposite is true for the UK and the Netherlands. The remaining countries occupy a middle ground.

The relative stability of private saving in the Community masks different developments in its two components, household saving and corporate saving. This is very clear for the 1970s and 1980s (see graph 2). In the first half of the 1970s, and particularly after the first oil shock, household saving increased strongly to reach a historically high level in 1975. Trends in corporate saving roughly mirrored this development. Both trends were reversed (household saving decreased, corporate saving increased) in the second half of the 1970s until 1979. The reaction of household saving (increase) and corporate saving (decrease) to this second oil shock was roughly similar to that observed after the first one, albeit somewhat less pronounced. Once the major effects of the second oil shock had petered out, a tendency towards improving corporate saving and declining household saving became very clear in the period of economic recovery marking the 1980s.

[1] The discussion of developments in private saving relates to EUR 6 (B, D, F, I, NL, UK).

Explanations of the fall in household saving during the 1980s mostly relate to i) the disinflation process of the 1980s, ii) the reduced income uncertainty, iii) wealth effects, and iv) the consequences of financial deregulation.

The increase in corporate savings in the 1980s, on the other hand, has been positively influenced by moderate real wage increases with respect to productivity and supply side policies aimed at strengthening corporate profitability.

The broad shifts within private saving, observed for the Community, are also evident in the member countries (see graph 3). However, in line with the earlier observation that private saving in the Community is more stable than in the member countries, examination of trends in household and corporate saving in the latter reveals that these do not exactly mirror each other. Over the past decade only France appears to approach the stability of private saving found for the Community; the increase in corporate saving since 1982 was largely matched by lower household saving, thus leaving private saving rather stable. In Italy, the increase in corporate saving in the 1980s was matched by a more pronounced decline in household saving, actually reducing private saving. In Belgium, Germany and the Netherlands, however, the recovery of corporate saving during the second half of the 1980s was stronger than the decline in household saving so that private saving as a percentage of GDP increased. In the UK, the degree of compensation between corporate and household saving appears to be relatively low. The strong recovery in corporate saving from 1975 until 1979 clearly contributed to higher private saving. Likewise, the decline in corporate saving since 1985 pulled down private saving. In conclusion, whereas developments in corporate and household saving tend to be contrary at times, they do not fully cancel each other out.

Public saving

Public saving accounted for 17 % of gross national saving in the Community in the 1960-1973 period (see table 2 and graph 2). The contribution of public to national saving diminished strongly in the 1974-1981 period. The sharpest fall occurred from 1973 until 1975 when it fell by nearly 4 % points of GDP. In the years thereafter it failed to recover to the levels recorded prior to 1973. In the wake of the second oil shock public saving was once more reduced, albeit less dramatically than in 1973 reflecting less accommodating policies. Public saving became particularly weak in the early 1980s when it was negative at around 1.5 % of GDP. Efforts aimed at budgetary consolidation and a more favourable growth performance contributed to a gradual reduction of public dissaving. It was only in 1989 that a small surplus was recorded. Since then, however, public saving has turned negative again. In 1990, public saving was still some 5 % points of GDP lower than in 1970.

In most member countries public saving is, as in the Community, the main driving force behind changes in national saving. Throughout the 1960s public saving made a substantial contribution to national saving in Germany, France, the Netherlands and the UK (see table 2 and graph 3). Public saving fell sharply in the 1970s. In Belgium and Italy public saving became substantially negative at levels close to 8 % of GDP. In the 1980s most member countries were able to increase public saving somewhat, which did not prevent, however, public saving to be on average still lower than in the 1970s.

The structure of national saving and GDP growth

A country's saving propensity represents the share of national product that can be used either for domestic investment or for investment abroad. A sustained, high and balanced economic growth performance, requires sufficient investment accompanied by adequate national savings so as to avoid unsustainability problems related to accumulation of external debt.

Table 2 presents evidence on growth, saving and investment for the Community and several member countries. Throughout the 1960s and up to the first oil crisis in 1973 average growth was relatively high in all the countries presented. A period of erratic and, on average, weak growth followed from 1974 until 1981. Only when the immediate effects of the second oil crisis had petered out in the early 1980s did growth start to recover. In the first half of the 1980s, average growth remained, however, rather low. Growth regained momentum in the second half of the 1980s.

In most member countries the resumption of sustained growth in the 1980s was achieved while national saving as a percentage of GDP was low relative to the 1960s and 1970s. However, the structure of private saving changed significantly. A sizeable shift within private saving took place in favour of corporate saving while household saving declined. The resulting constellation of relatively strong corporate savings and relatively weak household savings resembles the one typical of the high GDP growth of the 1960s.

Community

In the first period (1960-1973) real GDP in the Community (EUR 6) grew at an annual average of 4.5 %. National savings were relatively high at nearly 25 % of GDP and investment was somewhat lower so that small surpluses on the current account were generated. Public saving made a positive contribution to national savings to the tune of 4 % of GDP. The composition of private saving remained relatively stable for much of this period with corporate saving accounting for some 44 % of national saving.

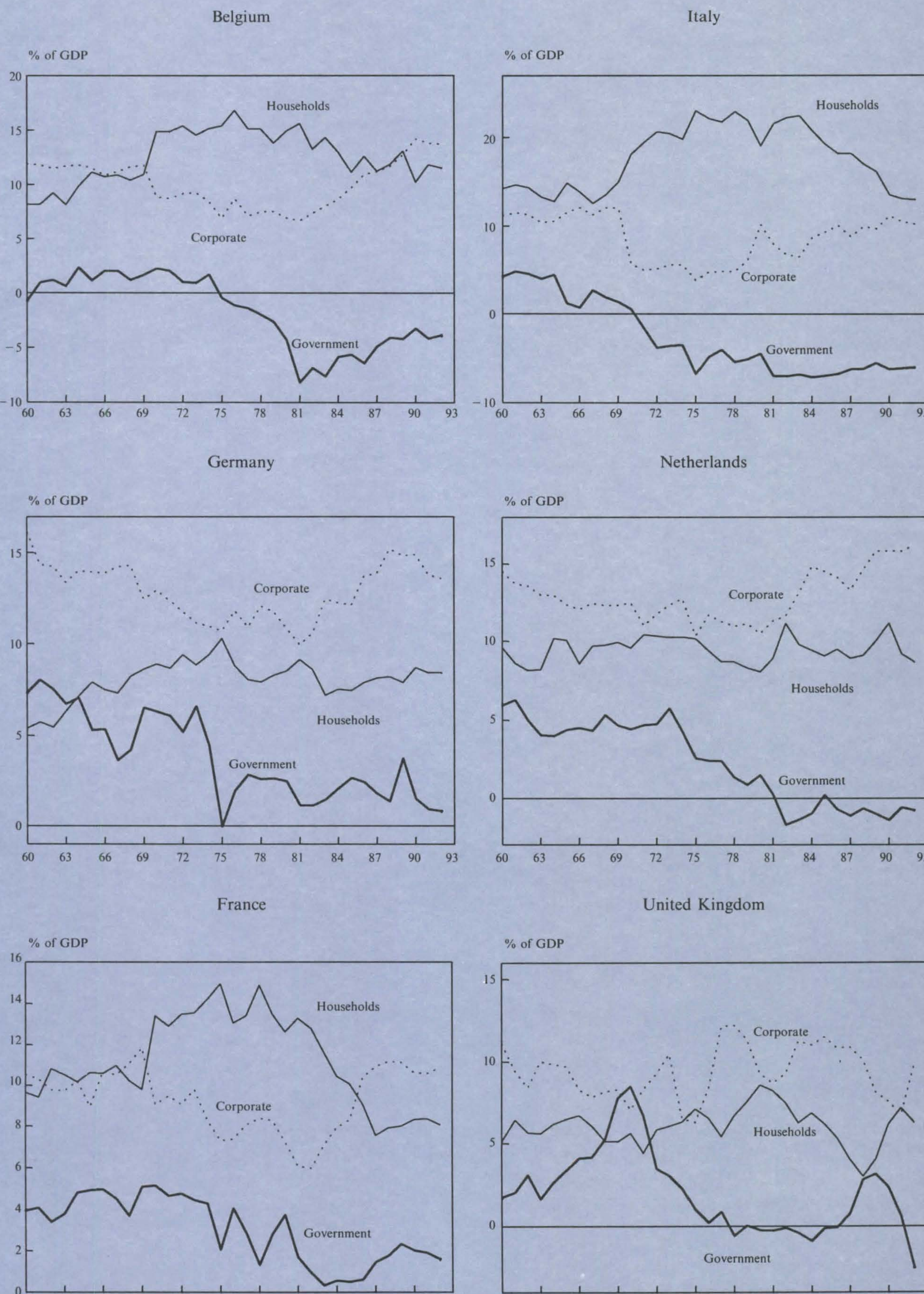
A second period from 1974 until 1981 was marked by the effects of two successive oil shocks. Real growth dropped to an average of 2 % over this period and was characterised by large fluctuations. National saving fell from nearly 24 % of GDP in 1974 to 20 % of GDP in 1981; a decline in public saving from nearly 3 % to minus 1 % of GDP between 1974 and 1981 more than compensated for the slightly higher private saving. The biggest fall in national saving occurred in the wake of the first oil shock when public saving fell from plus 3.6 % in 1973 to minus 0.2 % in 1975. Household saving was the main contributor to private saving in this period averaging 12.3 % of GDP with a peak of 13.5 % of GDP in 1975, whereas corporate saving had declined to an average of 9 %. Thus, the structure of private saving was the reverse of that observed in the 1960s. The adverse movement observed in corporate saving was paralleled by a decline in gross investment and profitability.

In 1982, a period of sustained, though initially weak, economic recovery set in lasting until 1990. Although gradually improving between 1982 and 1985, average annual growth remained very low at 1.7 % of GDP. From 1982 to 1985, national saving increased by 0.5 % of a point of GDP to slightly above 20 % of GDP. However, it remained on average about 2 % points of GDP lower than in the preceding period, again predominantly because of lower public saving. Private saving was slightly lower than in the preceding period, but witnessed a change in its composition in favour of corporate saving which rose from 8.5 % to 10.6 % of GDP between 1982 and 1985, whereas household saving declined simultaneously. Both investment and profitability started to recover.

From 1986 to 1990 average growth was much stronger at about 3 % annually. Gross investment grew by nearly 5.4 % per year, and profitability improved significantly from the low level attained in the early 1980s, but failed to return to the levels recorded in the 1960-1973 period. National saving increased slightly and was on average nearly 1 % point of GDP higher than in 1982-1985, which was entirely due to improved public saving. Within private saving the shift in favour of corporate saving, already observed for the 1982-1985 period, continued. Corporate saving increased from 10.6 % of GDP in 1985 to 11.7 % of GDP in 1990, whereas household saving fell to 9.3 % of GDP in the same year.

The above review raises the presumption that not only the level of national saving but also the structure of private saving is conducive to sustained growth performance, as both in the 1960s and in the second half of the 1980s, the composition of private saving was characterised by strong corporate savings and relatively weak household savings. In contrast to the 1960s, however, public saving remained weak and depressed national saving. The low level of public and national saving may still prevent growth from returning to the levels recorded throughout the 1960s. The above presumption is strengthened by the experience of the 1970s which showed contrasting developments to those of the 1960s.

GRAPH 3: **Structure of National Saving in the Member States**



Source: Commission services.

TABLE 2: **Growth, saving and investment** (Period averages)

Period	GDP growth (real % p.a.)	Gross capital formation (real % p.a.)	Profitability index ('60-'73 = 100) at end of period	National saving (% GDP)	Public saving (% GDP)	Private saving (% GDP)	Corporate saving (% GDP)	Household saving (% GDP)
EUR 6 (*)								
1960-1973	4.5	5.0	91.9	24.8	4.2	20.5	10.9	9.6
1974-1981	2.1	−0.9	64.7	22.0	0.7	21.3	9.0	12.3
1982-1985	1.7	1.7	75.2	20.0	−1.0	21.0	9.8	11.2
1986-1990	3.0	5.4	86.4	20.9	−0.1	21.0	11.6	9.4
Belgium								
1960-1973	5.0	5.8	93.4	23.4	1.3	22.1	10.9	11.2
1974-1981	2.1	−0.9	55.9	20.1	−2.3	22.5	7.2	15.2
1982-1985	1.2	−1.6	67.7	14.8	−6.5	21.3	8.4	12.9
1986-1990	3.2	11.1	89.4	19.3	−4.6	23.9	12.1	11.8
Germany								
1960-1973	4.4	3.9	84.2	27.2	6.1	21.1	13.5	7.5
1974-1981	1.9	−0.6	63.7	22.2	2.3	19.9	11.1	8.8
1982-1985	1.4	0.5	71.9	21.4	1.8	19.5	11.8	7.7
1986-1990	3.1	6.2	86.6	24.9	2.2	22.7	14.5	8.2
France								
1960-1973	5.4	7.1	105.8	25.8	4.5	21.3	10.2	11.2
1974-1981	2.4	−0.5	61.1	24.3	2.9	21.4	7.6	13.8
1982-1985	1.6	−0.8	69.2	19.2	0.6	18.6	7.3	11.2
1986-1990	2.9	6.3	88.1	20.7	1.6	19.1	10.9	8.2
Italy								
1960-1973	5.3	5.0	88.3	26.7	1.5	25.2	9.7	15.5
1974-1981	3.4	1.1	62.3	22.4	−5.1	27.5	6.0	21.5
1982-1985	1.6	1.3	69.0	22.0	−7.0	29.0	7.8	21.2
1986-1990	3.0	3.1	85.1	19.7	−6.2	25.9	9.3	16.6
Netherlands								
1960-1973	4.8	5.2	89.2	27.1	4.9	22.2	12.6	9.6
1974-1981	2.1	−2.5	68.9	22.3	2.0	20.3	11.3	9.1
1982-1985	1.4	5.0	85.8	22.4	−1.0	23.4	13.5	9.9
1986-1990	2.7	4.2	88.3	23.4	−1.0	24.4	14.7	9.7
United Kingdom								
1960-1973	3.2	4.9	88.7	18.9	4.1	14.8	9.0	5.8
1974-1981	1.4	−1.0	70.3	17.2	0.7	16.5	9.5	7.0
1982-1985	2.8	8.0	91.7	17.1	−0.4	17.5	10.8	6.7
1986-1990	3.2	5.6	84.0	15.9	1.8	14.1	9.5	4.5

(*) B, D, F, I, NL, UK.

Source: EUROSTAT, DG II, OECD.

Note: Figures for the 1960's are based on the old System of National Accounts (SNA) for EUR6, B, F, I and NL, which means that the distribution of private saving between household and corporate saving may be somewhat different from those after 1970.

Member countries

The findings for the Community as a whole, being an average for six countries, appear to be confirmed in most member countries.

The national saving ratio in Germany, for example, was very high (average 27 % of GDP) throughout the 1960-1973 period. Public saving made a substantial positive contribution to the tune of 6 % of GDP. Within private saving, corporate saving was much higher than household saving. In the 1970s (1974-1981), average annual growth more than halved to slightly under 2 %. Average national saving fell by 5 % points of GDP, which was mainly due to lower public saving. Average corporate saving fell nearly 2.5 % points of GDP. Higher household saving partially compensated for this. In the early 1980s growth started to recover, but remained weak (1.4 % per year). In this period, the structure of private saving already started to improve in favour of corporate saving. In the second half of the 1980s, growth became much stronger (average 3.1 % per year). Average national saving increased under the influence of, notably, much higher corporate savings. The pattern found for the Community also appears to be confirmed by the developments in Belgium, France and Italy, although corporate saving was relatively slow to recover in France.

The developments in the Netherlands and the UK are slightly different from those observed for the Community. Although growth followed the same pattern as in the Community in both countries, the behaviour of the components of private saving is somewhat different. In the Netherlands household savings declined throughout the 1970s. In the UK corporate saving in the 1970s was on average somewhat higher than in the 1960s in contrast to the experience of the other member countries. This may be due to the strong recovery following the decline subsequent to the first oil shock.

Developments in the member countries strengthen the presumption arrived at for the Community that the structure of national and, in particular, of private saving is closely related to developments in economic growth.

Implications for economic policy

A major issue facing economic policy is how to ensure that, over the medium-term sufficient resources are made available both for investment inside and outside the Community in view of the necessity to make resources available both for international development assistance and for private capital flows to, notably, Central and Eastern Europe.

Whereas at present investment demand may be somewhat dampened by cyclical factors, the tension between demand for resources on the one hand, and the supply of savings, on the other hand, is likely to become more apparent over the medium-term.

Improved government saving is the most direct way to increase national saving in the Community. Although several member countries have already gone some way in consolidating public finances, government saving remains low relative to the 1960s and 1970s. The present low level of government savings (and thus national savings) is likely to act as a medium-term constraint to strong and sustained economic growth.

A further rise in corporate saving is also important as it adds to the resources needed to support increased investment liable to create additional employment. This underlines the importance of moderate wage increases relative to gains in productivity so as to support the profitability of corporate enterprise. Policies should therefore be directed towards further increases in profitability supported by moderate wage developments.

The decline in household saving has drawn much attention over recent years. However, it should be stressed that present household saving ratios are not low compared to the 1960s. Indeed, against the background of the very high household saving ratios observed in the 1970s at times of large economic instability, the return to lower levels may be interpreted as a correction.

5 November 1992

Principal economic policy measures — October 1992

Community (EUR-12)

20.10 The Ecofin Council reached agreement on a packet of directives which will result in the removal of tax barriers from 1 January 1993.

Belgium (B)

7.10 The central bank (BNB) cuts its key rates in two stages (on 7 and 21 October). From 22 October the discount rate is reduced from 8 % to 7.75 % and the rate charged on current-account advances in excess of the ceiling from 10.75 % to 10.50 %. The rate for seven-day advances (considered to be the BNB's real key rate) is reduced from 9 % to 8.75 %.

9.10 The government amends the 'Maribel' scheme (reduction of BFR 17 000 per year and per manual worker in employers' social security contributions). It is decided that all firms will still qualify for a reduction of BFR 7 500 under the scheme. However, for small firms employing fewer than 20 workers, the reduction will be BFR 11 300 for the first five workers in each case. Under the 1993 budget, the government plans to save BFR 11.5 billion by halving the cost of the 'Maribel' scheme. As from 1993, the scheme will still cost BFR 7.5 billion, half of which will be borne by the social security budget.

17.10 The government approves extra savings of BFR 21.8 billion, with BFR 16.6 billion coming from the national budget and BFR 5.2 billion from the social security budget. To achieve this objective, it is planning asset sales totalling BFR 10 billion, specific measures to combat tax avoidance and to improve revenue collection (BFR 4.2 billion), cuts in ministerial budgets (BFR 2.4 billion), and social security measures in the areas of unemployment, health insurance and industrial accidents (BFR 5.2 billion).

Denmark (DK)

None.

Germany (D)

None.

Greece (GR)

30.9 By a decision of the Bank of Greece, the funds reserved by commercial banks for the financing of craft industries are reduced from 7 % to 6.5 % of the increase in deposits.

14.10 The Treasury issues three series of one-, two- and three-year DM-linked bonds. The interest rate for the first year is fixed at 8.506 %, 8.956 % and 9.156 % respectively. For the following years, the interest rates will be calculated according to the formula LIBOR + 0.80 % for the two-year bonds and LIBOR + 1.00 % for the three-year bonds.

16.10 The Treasury issues three series of one-, two- and three-year ECU-linked bonds. The interest rate for the first year is fixed at 10.538 %, 10.988 % and 11.188 % respectively. For the following years, the interest rates will be calculated according to the formula LIBOR + 0.80 % for the two-year bonds and LIBOR + 1.00 % for the three-year bonds.

21.10 By a decision of the Governor of the Bank of Greece, the interest rate for commercial banks' overdraft facilities with the Bank of Greece is reduced by 5 points to 35 %.

Spain (E)

5.10 The Bank of Spain relaxes the capital controls it imposed on 23 September. The compulsory deposit equal to 100 % of peseta desposits and loans to non-residents was ended, but penalties on 'swap' operations against the peseta which are deemed to be speculative remain unchanged.

9.10 The Government approves a new VAT law which will apply from 1 January 1993. The top rate of 28 % will be scrapped and an extra-low rate of 3 % introduced. There will, therefore be three rates of VAT: the standard rate of 15 %, the reduced rate of 6 % and the new extra-low rate of 3 %.

France (F)

26.10 Further upward revision to the estimate of the budget deficit for 1992: from FF 135 billion to FF 180 billion.

29.10 Reduction of the five-to-ten day repurchase rate from 13 % to 10.5 %.

Ireland (IRL)

5.10 The Government announces a temporary Market Development Fund amounting to IRL 50 million and designed to protect employment in the export-oriented and domestic enterprises considered most vulnerable following the depreciation of sterling against the Irish pound. The Fund will be reviewed at the end of the year and again at the end of March if it is extended into 1993.

Italy (I)

None.

Luxembourg (L)

2.10 From 1 January 1993 the government raises the family, education, school, maternity and disabled allowances. The budgetary cost of this measure is LFR 600 million.

Netherlands (NL)

2.10 From 1 January 1993 the government increases family allowances by between HFL 32 and HFL 59 a year depending on the age of the child. The budgetary cost of this measure will be HFL 85 million. As in the past, cost-of-living adjustments will be made on 1 January and 1 July.

7.10 The central bank (DNB) lowers its key rates in two stages (on 7 and 21 October). From 22 October the discount rate is cut from 8 % to 7.75 % and the rate for special advances from 9 % to 8.8 %.

Portugal (P)

14.10 The government presents its draft budget for 1993. The projected deficit is ESC 488 billion. As a proportion of GDP, this represents a decline from around 5 % in 1992 to 4 % in 1993. On the expenditure side, ministries will be asked to exercise great restraint with regard to their operating budgets, and wage rises will be limited to 5.5 %. Against this, capital expenditure will increase by 12 %. The tax burden remains unchanged and privatization receipts are put at ESC 225 billion (1.8 % of GDP). The inflation target is an annual average of 6 % and the budget is based on projected growth in the economy of 3 %.

United Kingdom (UK)

17.10 The Bank of England prompts banks' base rates to fall 1 percentage point to 8 %. Mortgage lenders also announce that mortgage rates will be cut from just under 10 % to about 9.25 %, effective from December.

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