



CORPORATE SAVINGS AND REBALANCING IN ASIA

Presentation for OECD-ADBI 11th Roundtable on
Capital Market Reform in Asia

22-23 February 2010, Tokyo, Japan

Motivation

- In recent years, remarkable rise in corporate saving in Asia, more than in other regions.
- Coincided with the rise in private savings.
- Possible link between corporate savings and governance and financial market development.
- Input into policy strategy for rebalancing growth.

Source: Sonali Jain-Chandra, Malhar Nabar, and Nathan Porter, “Corporate Savings and Rebalancing in Asia,” IMF Asia and Pacific Department *Regional Economic Outlook*, October 2009.



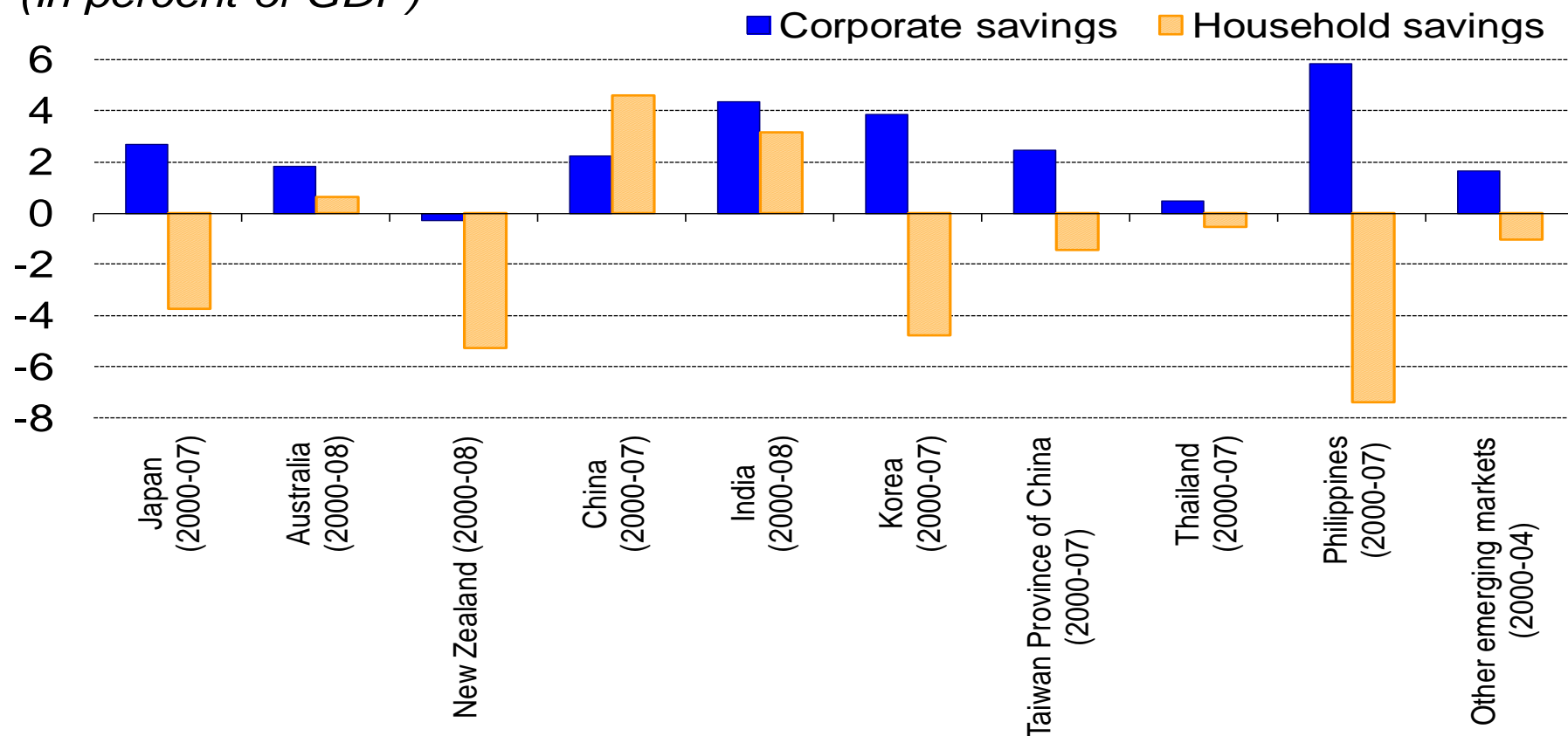
Outline

- How does the pattern of corporate savings in Asia differ from the rest of the world?
- What is the link between corporate and household saving, and how is it different in Asia?
- What influences corporate savings?

Corporate savings across Asia have risen...

Change in Savings since 2000

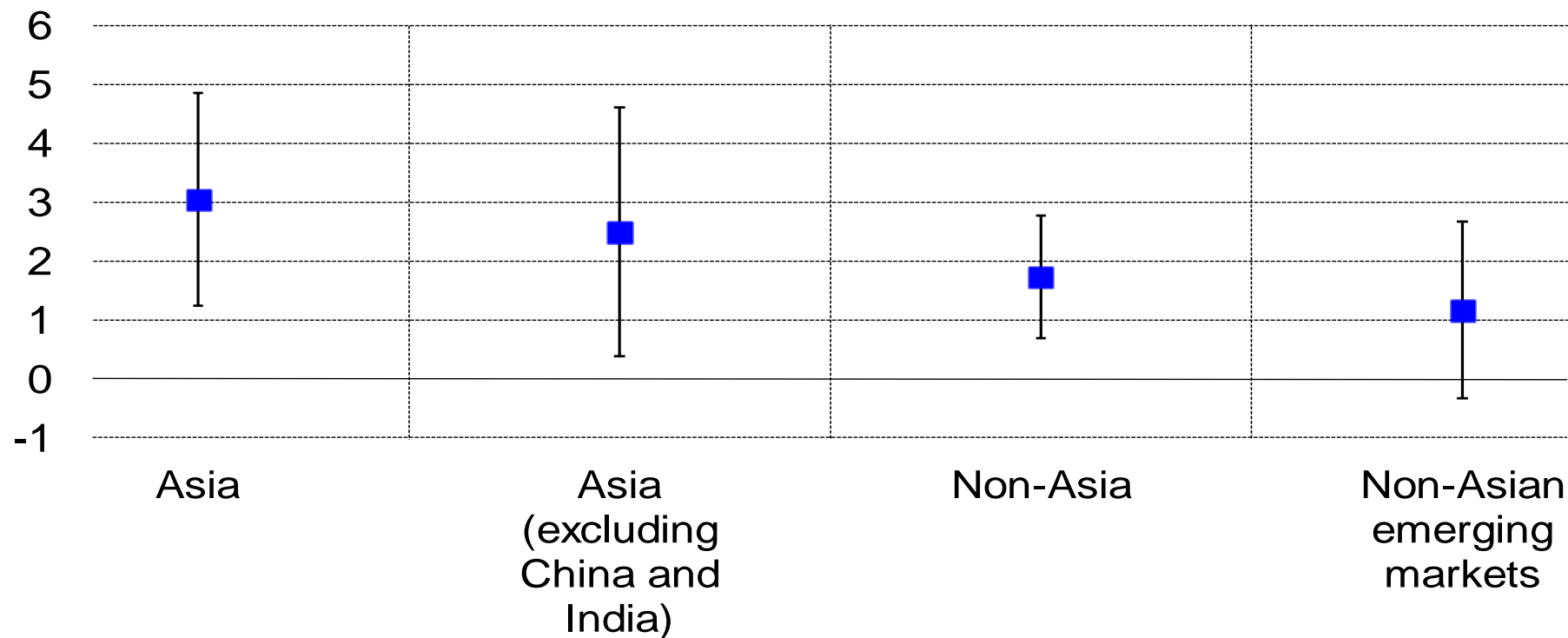
(In percent of GDP)



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

...outpacing the rise in other regions.

Difference in Mean Corporate Savings, Post-2000 versus Pre-2000
(In percent of GDP; regression coefficients and confidence intervals)

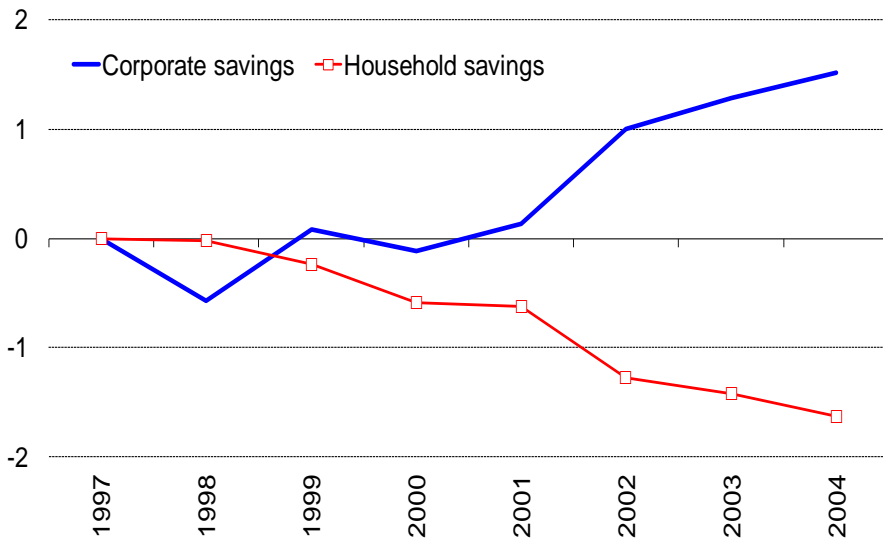


Source: IMF staff estimates.

Unlike elsewhere, EM Asia households have not offset the rise in corporate savings

Non-Asian Emerging Markets: Savings

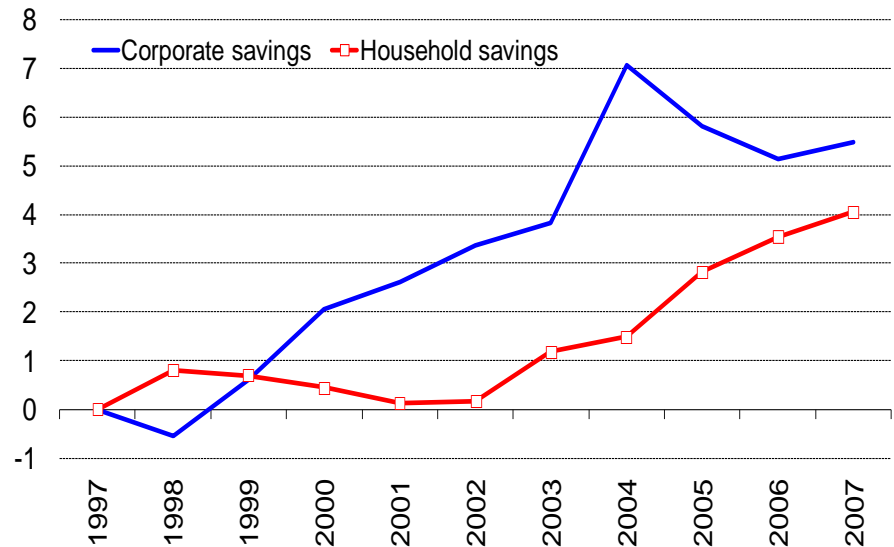
(In percent of GDP, relative to 1997 = zero)



Sources: United Nations; and IMF staff calculations.

Emerging Asia: Savings

(In percent of GDP, relative to 1997 = zero)

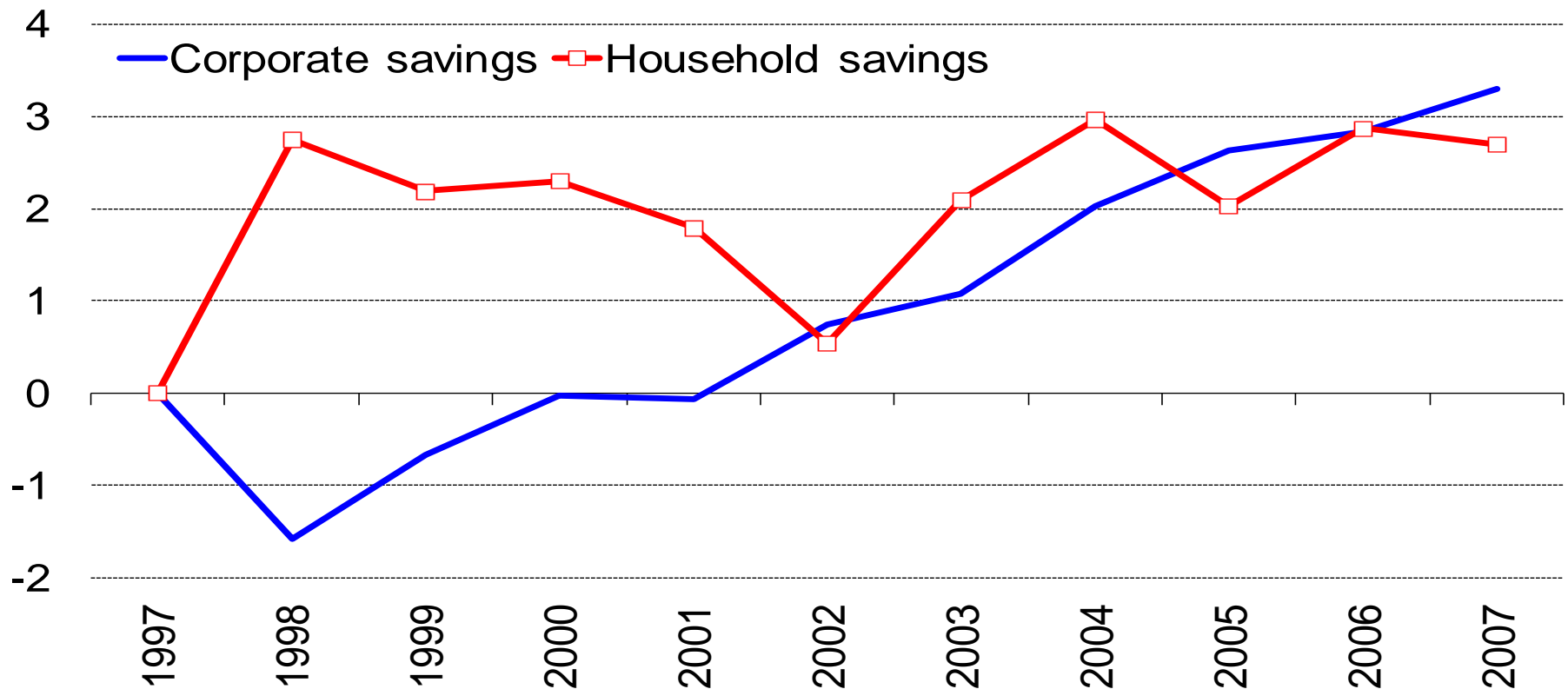


Sources: United Nations; CEIC Data Company Ltd.; and IMF staff calculations.

Same pattern holds even outside China.

Emerging Asia (excluding China): Savings

(In percent of GDP, relative to 1997 = zero)

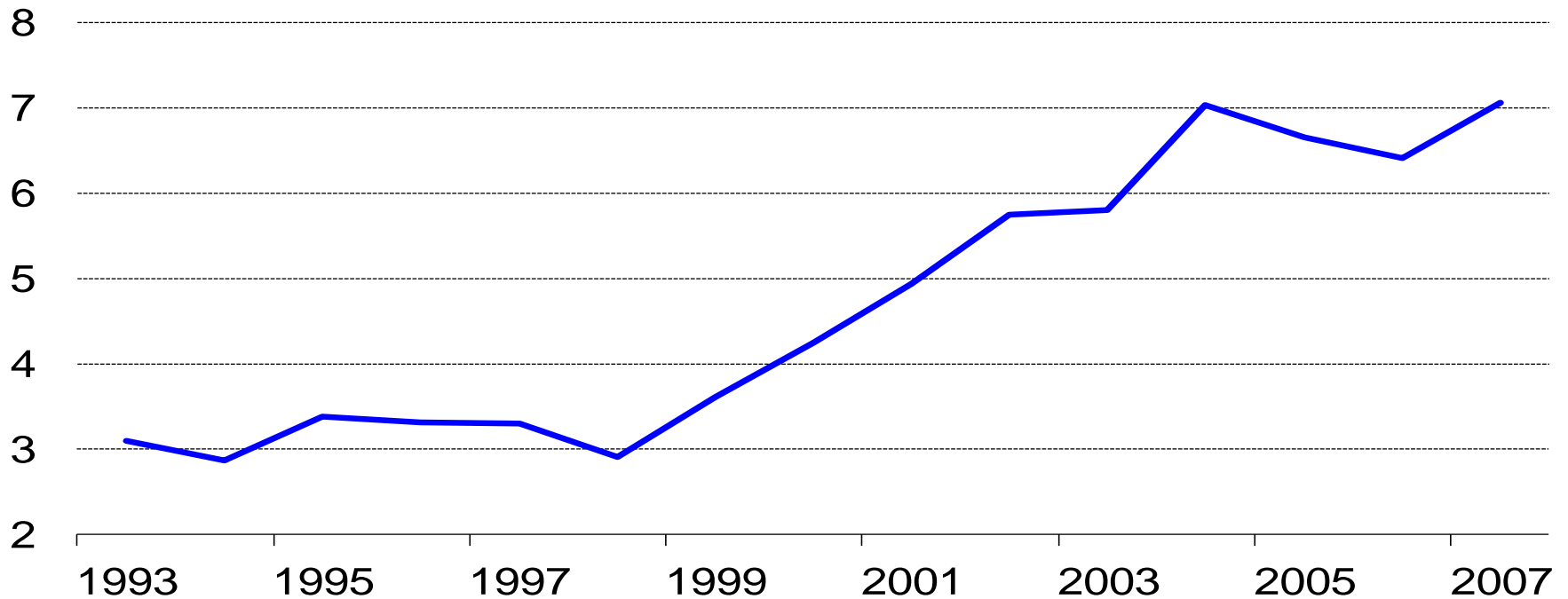


Sources: United Nations; CEIC Data Company Ltd.; and IMF staff calculations.

As a result, EM Asia corporate share in world savings has risen.

Share of Emerging Asia Corporate Savings in World Savings

(In percent)

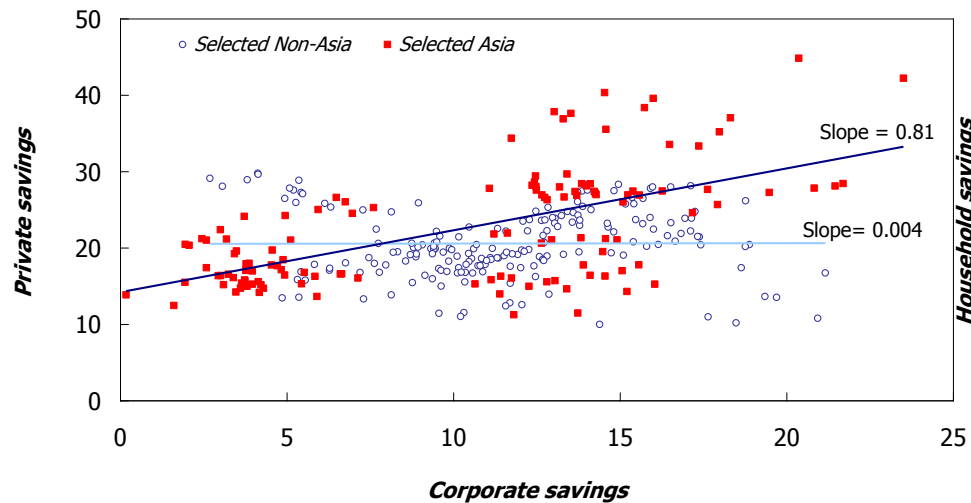


Sources: United Nations; CEIC Data Company Ltd.; and IMF staff calculations.

In Asia, private and corporate savings move together...

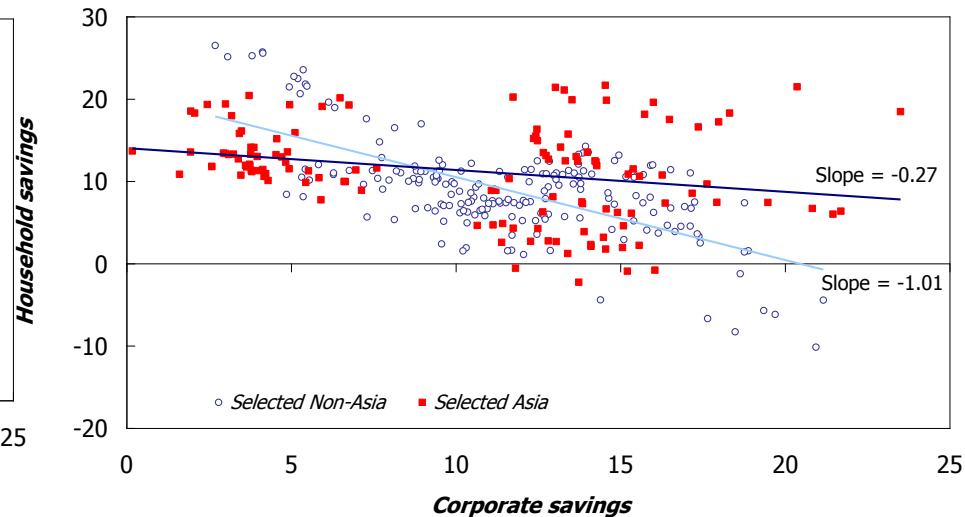
Private and Corporate Savings

(In percent of GDP)



Household and Corporate Savings

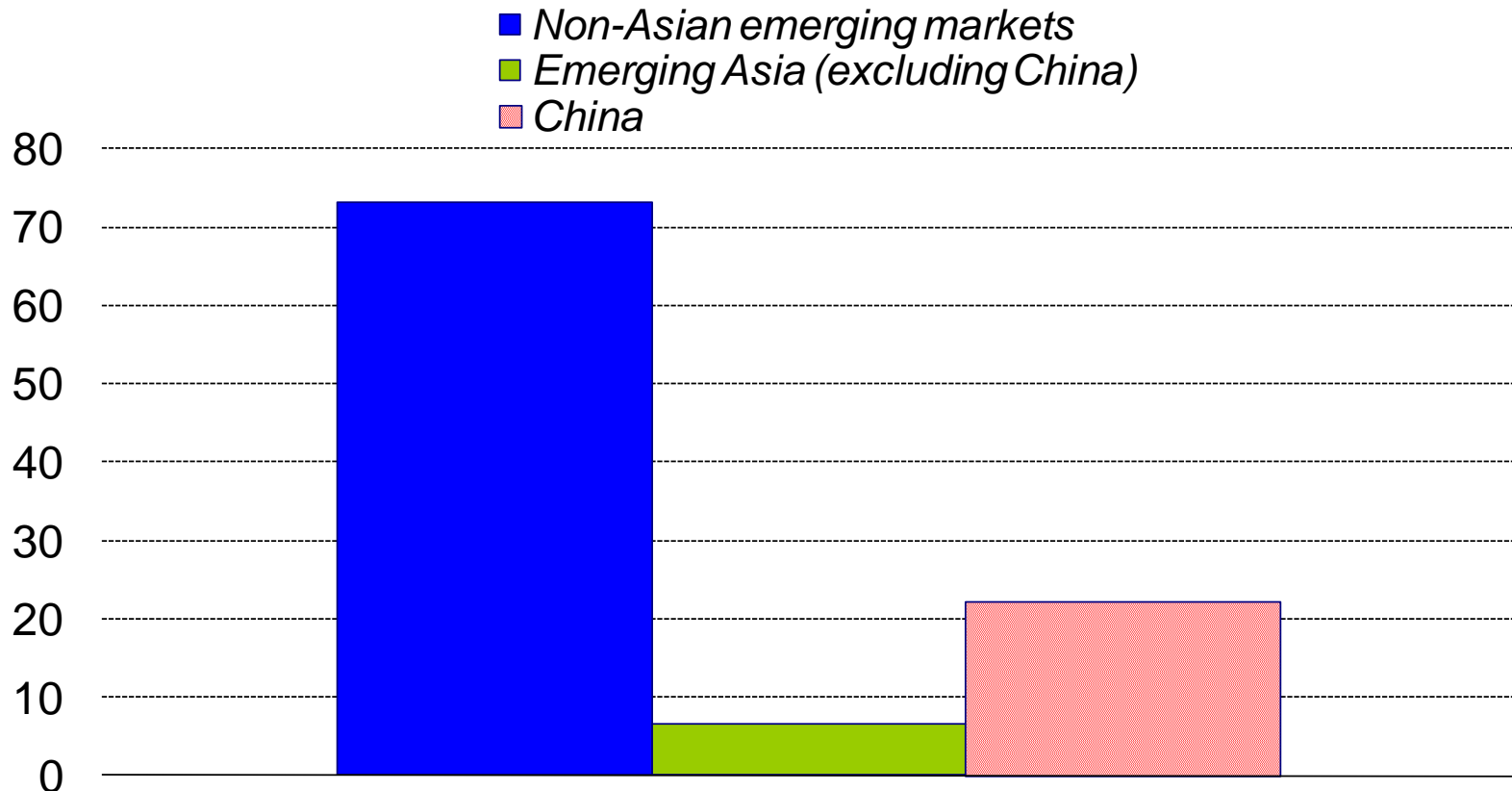
(In percent of GDP)



...as Asian households offset much less of the increase in corporate savings.

Corporate Savings Offset by Households

(In percent of corporate savings)



Source: IMF staff estimate.



What influences corporate savings?

- Firm-level characteristics

- Firm size, leverage, intangible assets, profitability.

- Financial reforms / market access (+/-)

- Abiad, Detragiache, and Tressel (2008).

- Credit /interest rate controls, market infrastructure, barriers to entry, privatization, quality of supervision.

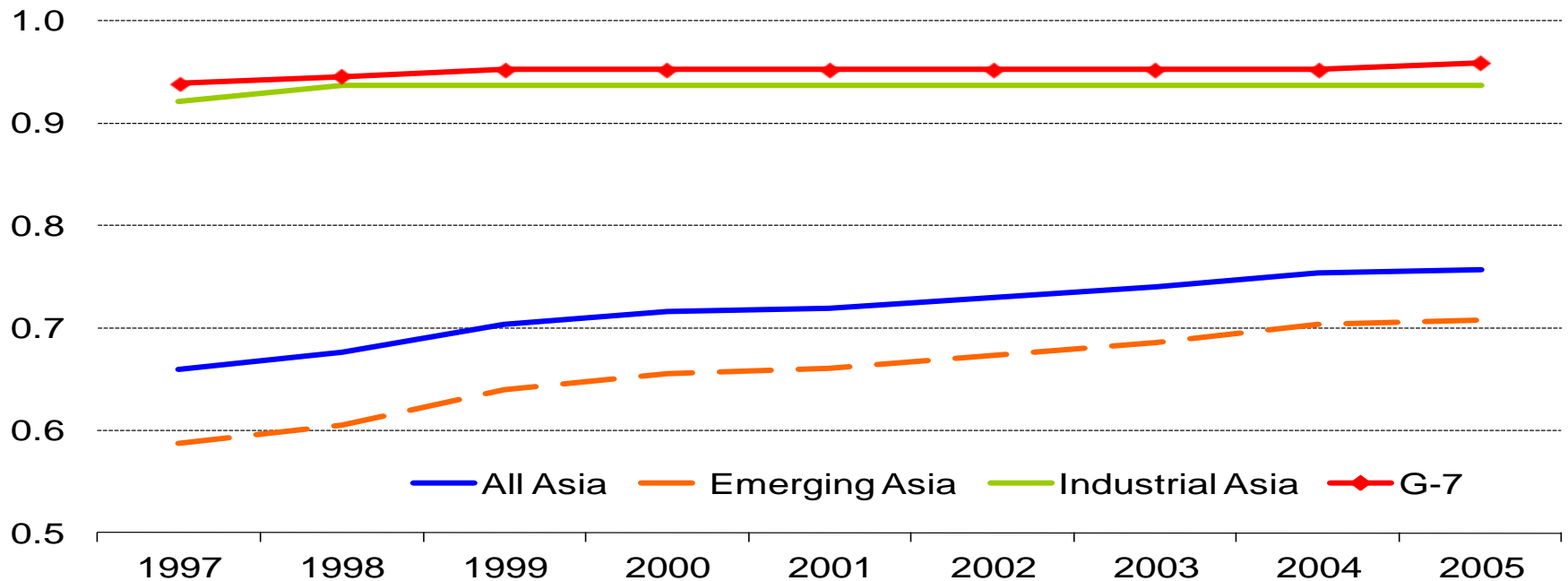
- Corporate governance (+/-)

- De Nicolo, Laeven, and Ueda, 2006.

- Earnings transparency, accounting standards.

Despite improvement, EM Asian financial reforms still lag the industrial world.

Financial Reform since the Asian Crisis

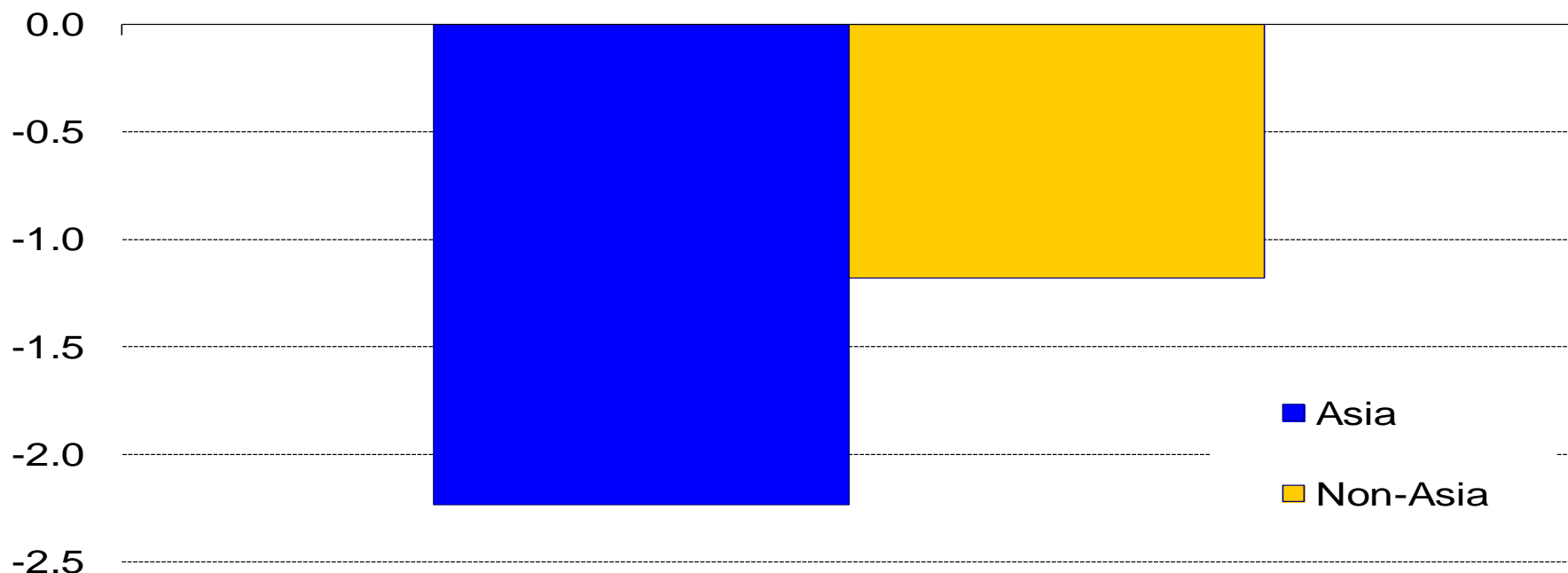


Source: Abiad, Detragiache, and Tressel (2008).

Potential gains from further financial liberalization...

The Effect of Financial Liberalization on Corporate Savings

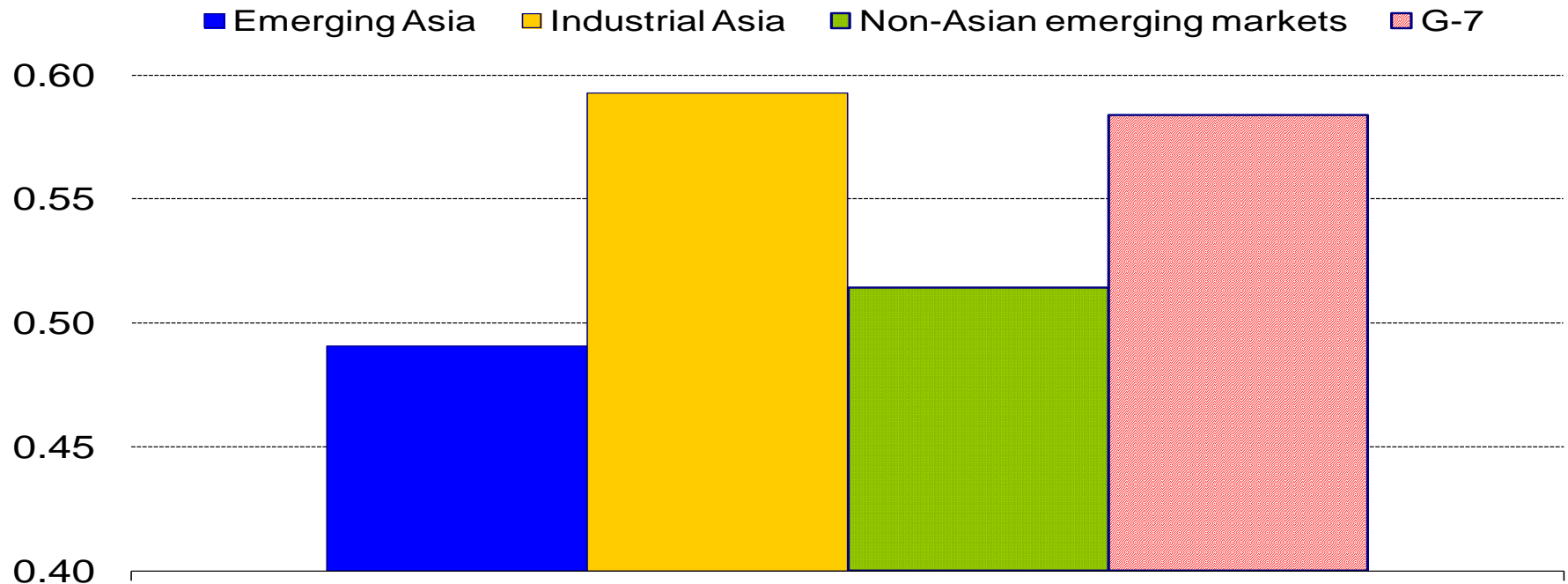
(Regression coefficients)



Source: IMF staff estimates.

Same picture emerges for corporate governance...

Corporate Governance Quality Index, 2008

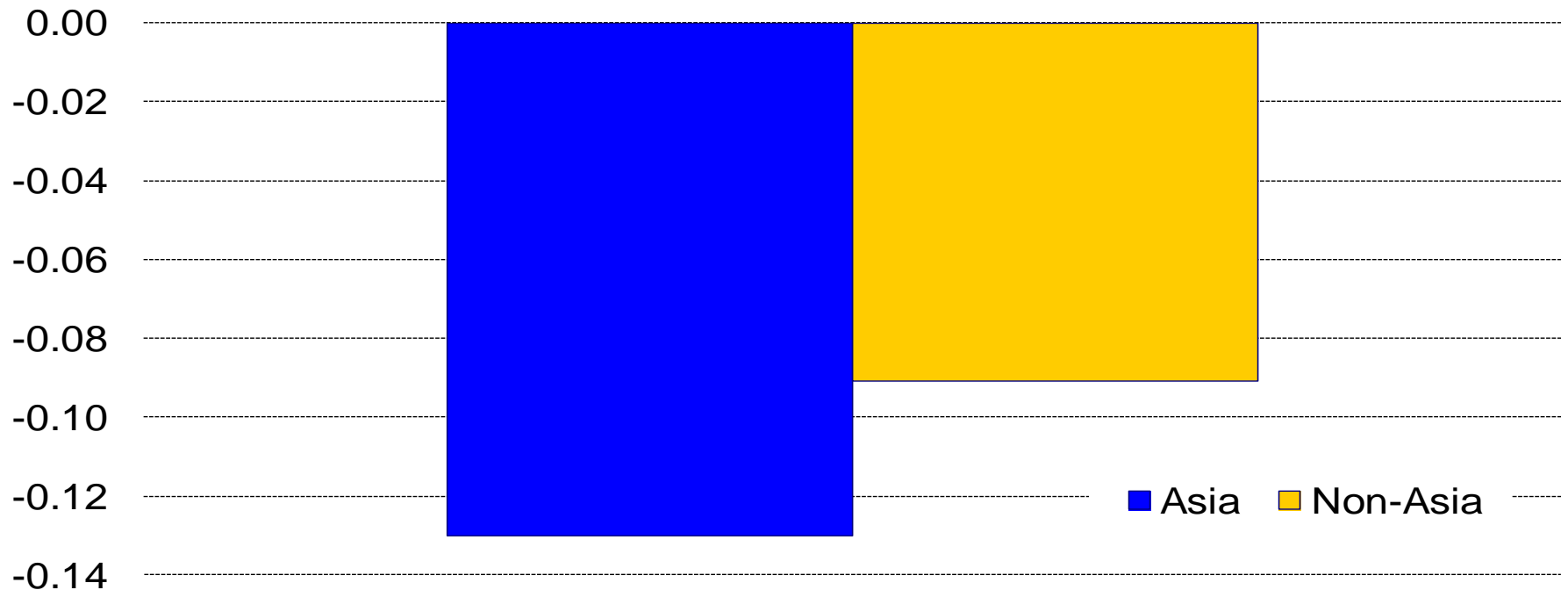


Source: DeNicolo, Laeven, and Ueda (2006).

...as further improvements could reduce corporate incentive to hoard cash...

The Effect of Corporate Governance Reform on Corporate Savings

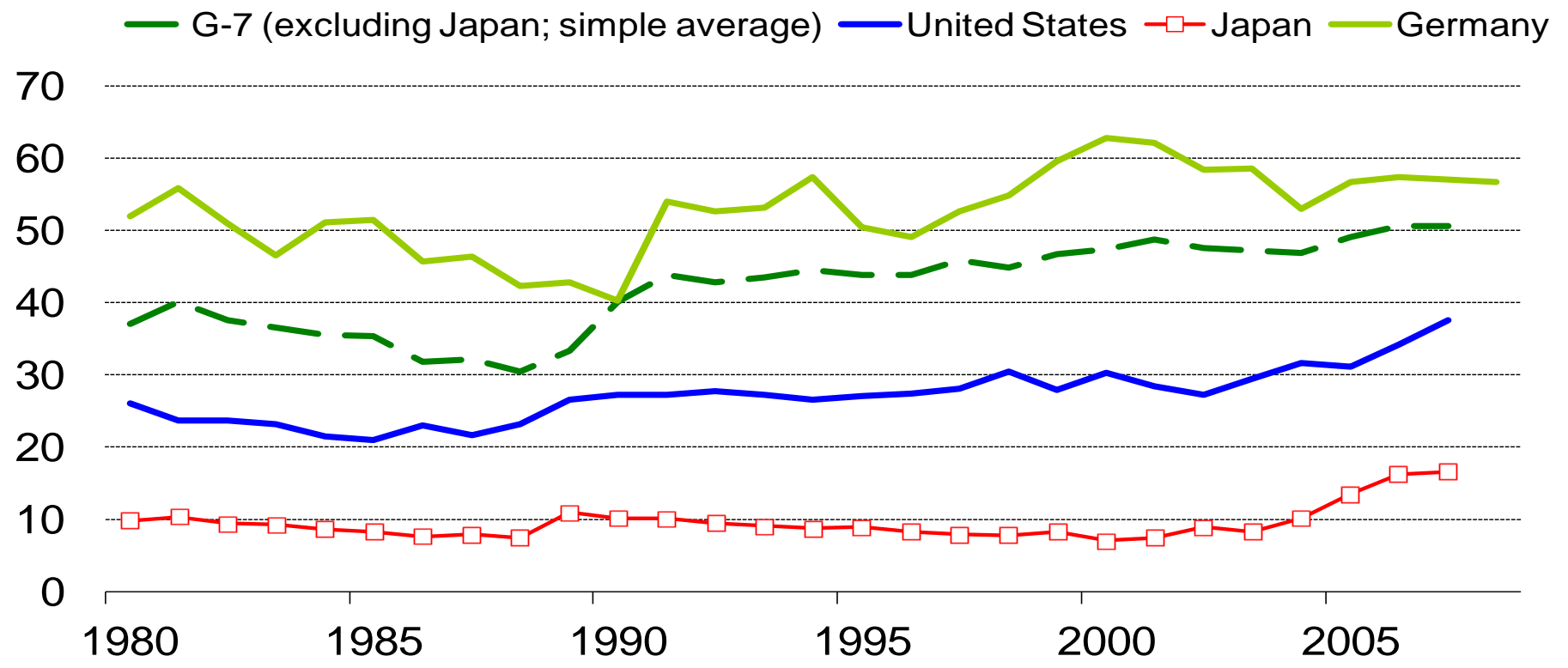
(Regression coefficients)



Source: IMF staff estimates.

...and raise payouts to shareholders.

Non-Financial Corporations: Dividend Payout (In percent of net profit)



Source: OECD, Annual National Accounts.



Conclusions...

- Rising corporate savings has been a major contributor to the surplus buildup in the region...
- ...partly because households have not offset the rise in corporate savings with more spending.
- Further progress in financial development and corporate governance could help reduce savings and promote regional rebalancing.