Flash Economics

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Is the world now characterised by insufficient savings?

For a very long time, the prevailing view held that the world was in a situation of excess savings (*ex-ante*, before the global rebalancing of savings and investment), which explained the very low level of long-term real interest rates. Since 2022, however, these interest rates have risen sharply. Does this reflect a shift to a situation of insufficient savings, again *ex-ante*?

Of course, only the *ex-post* equilibrium is observable (after the equalisation of savings and investment at the global level). However, developments in national saving rates, investment rates, and public deficits are consistent with a situation of *ex ante* insufficient savings. Since 2014 the United States has seen a declining savings rate, a rising investment rate, and very large public and external deficits.

Should the long-term real interest rate rise above potential growth in volume terms – which is already the case in Japan and the euro zone – the result will be a slowdown in investment and an acceleration in the accumulation of both public and private debt.

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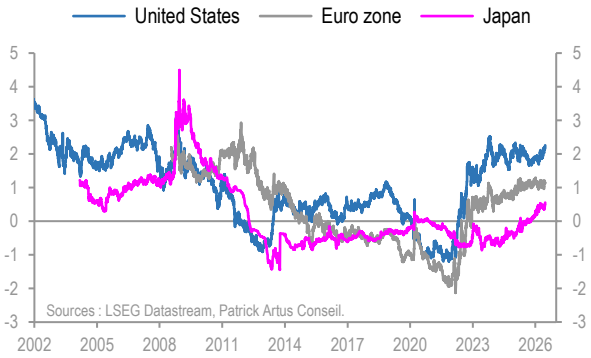
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In the past, an excess of savings, consistent with the level of real interest rates

From 2012 through to 2021, the world was probably **in a situation of excess savings over** investment (*ex-ante*, meaning that, **before** rebalancing, available savings exceeded investment requirements) — what has been termed the "savings glut". This gave rise to very low or even negative **long-term real interest rates (Chart 1)** we calculate **the real** interest rate as the spread between the 10-year nominal interest rate on public debt and the 10-year inflation swap).

Chart 1
Real interest rate on 10-year government bonds (as %)



Since 2022, a probable shift towards an *ex-ante* savings shortfall

We can see that **long-term real interest rates have risen sharply from early 2022**. Furthermore :

- **The national savings rate** (**Chart 2**) is declining in China and in the oil-producing countries of the Middle East, and since 2015 in the United States as well;
- **The investment rate** (**Chart 3**) is rising in all regions except China;

Chart 2
Gross national savings (% of GDP)

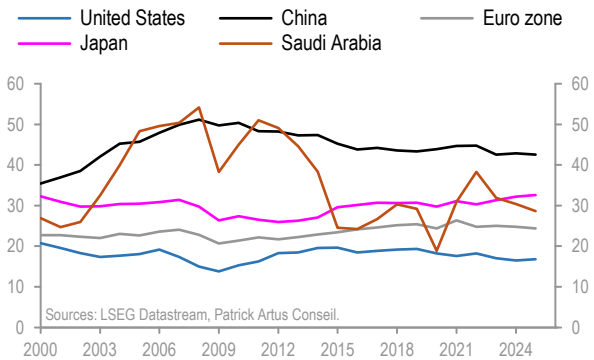
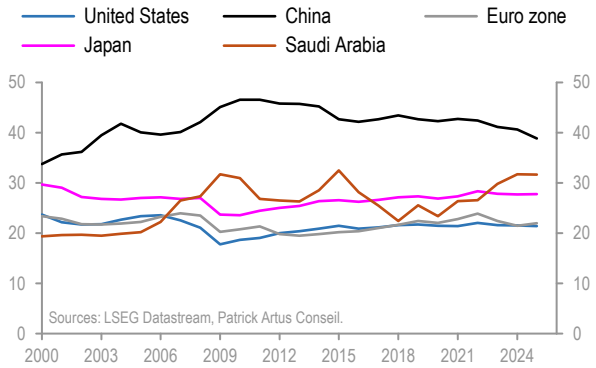
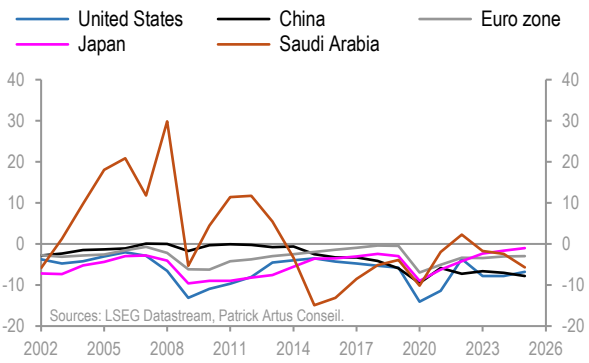


Chart 3
Investment rate (% of GDP)



- **The public deficit** (**Chart 4**) appears in all regions, from 2013 onwards;

Chart 4
Budget surplus or deficit (% of GDP)



- **The current account balance** (**Chart 5**) shows a deficit in the United States and, from 2014, in the oil-producing countries;
- **The trade balance** (**Chart 6**) moves into surplus in China and becomes increasingly in deficit in the United States.

Chart 5
Current account balance (% of GDP)

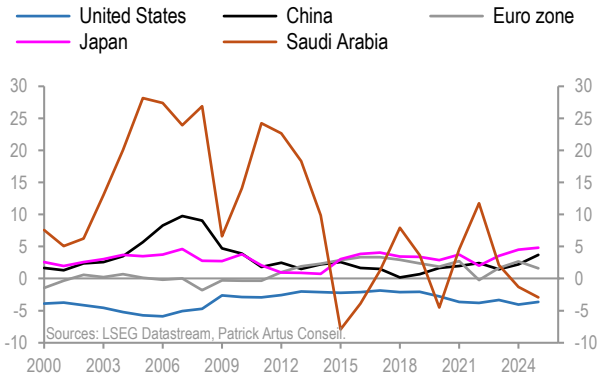
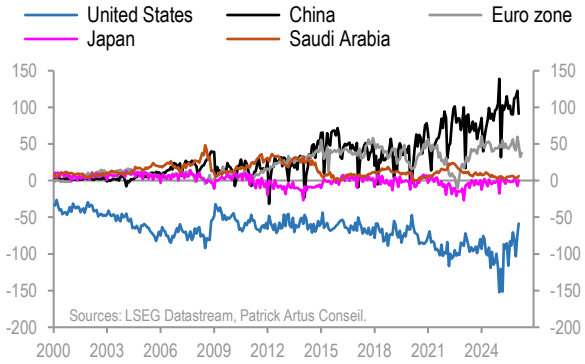


Chart 6
Trade balance in goods and services (monthly, USD bn)



Of course, the observed data is *ex post* data, with saving and investment rebalancing at the global level.

However, since 2022 :

- The national saving rate is declining, except in Japan, and is stable in the euro zone;
- The investment rate is rising in the United States, Japan and the euro zone;
- The public deficit is affecting an increasing number of countries;
- The current account and the trade balance are improving only in China.

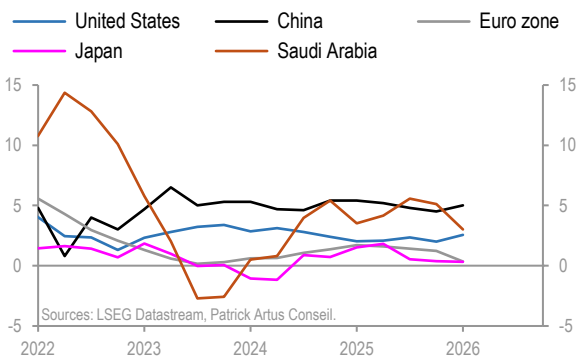
These developments, from 2022 onwards, are consistent with an excess of *ex-ante* investment over savings. In particular, the United States increasingly dependent on savings from other countries to finance its investment and its public deficit.

Summary: what are the consequences of a shift to an *ex-ante* savings deficit relative to investment?

If the world has indeed shifted from a situation of *ex ante* savings surplus relative to investment to one of *ex-ante* savings deficit, a **continued rise in long-term real interest rates** is to be expected.

If the **long-term real interest rate rises above real GDP growth (Chart 7**), which is the case in the recent period in Japan and in the euro zone (in the United States, the long-term real interest rate remains slightly below the GDP growth rate), adverse developments will emerge:

Chart 7
Real GDP (% Y/Y)



- **Declining investment ;**
- **Accelerating accumulation of public and private debt.**

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