Macro Roundup Article

Headline: Japan, Germany and the Challenge of Excess Savings

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Tweet: .@martinwolf_ argues that a savings glut in Japan significantly constrains its policy options and makes loose monetary policy and high deficits its best overall option. Japan's private sector gross savings averaged 29% of GDP from 2010-19 vs 22% in the US.

Summary: Ultra-low interest rates are, for example, intended to raise private investment and reduce private savings. But in practice, the private savings surplus, especially the corporate surplus, has remained huge. Loose monetary policy has facilitated crucial absorption (and offsetting) of surplus private savings via the excess of government investment over savings. These deficits averaged 5 per cent of GDP from 2010 to 2019. Finally, an average of 3 per cent of GDP went into net acquisition of foreign assets via Japan's current account surpluses. So long as Japan continues to run huge excess private sector savings, policy has to find ways of either reducing or offsetting them. Japan's economy is still trapped. It also has no easy way out.

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Primary Topic: Savings Glut/Trade Deficit

Topics: GDP, Op-Ed/Blog Post, Savings Glut/Trade Deficit, Weekly

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