

## Flash Economics

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### The crucial role of the savings rate in emerging countries

Capital flows to or from emerging countries are very volatile. This ought to hurt emerging countries that have a low national savings rate; when these countries grow and invest, they have a large external deficit due to the low savings rate, and this external deficit is difficult to finance due to the volatility of capital flows.

This should normally result in pressure to reduce investment and high exchange rate volatility, both of which are negative for growth and generate major growth fluctuations. We would therefore expect emerging countries with a high national savings rate to have more growth and a more stable economy than those with a low savings rate.

Historical observation actually shows that a low national savings rate in emerging countries is associated with low growth, a low investment rate and major variability in growth and exchange rates.

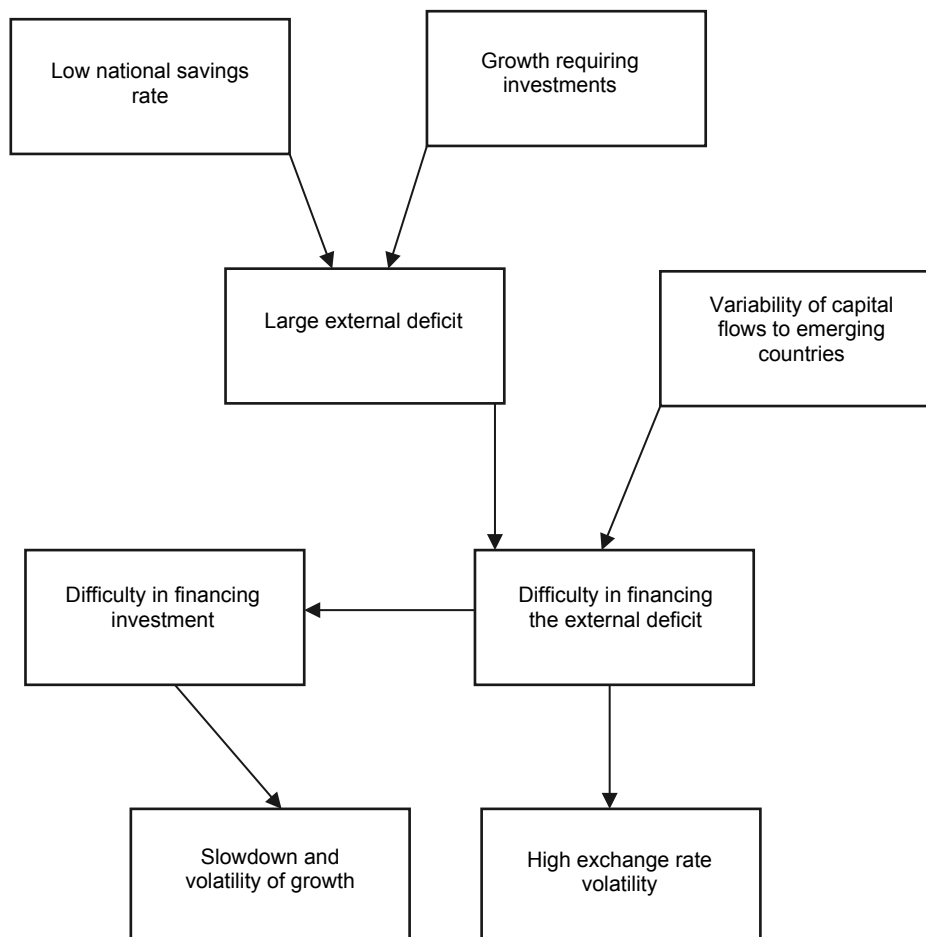
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## It is normally expected that a high national savings rate is positive for emerging countries

Diagram 1 summarises the reasons suggesting that emerging countries with a low national savings rate have difficulties with their growth.

Diagram 1: National savings rate and growth in emerging countries



Can this link between national savings rate, growth and stability of the economy be observed in reality?

## National savings rate, growth and stability of the economy for emerging countries

We will compare the emerging countries in Table 1.

Table 1: Emerging countries analysed

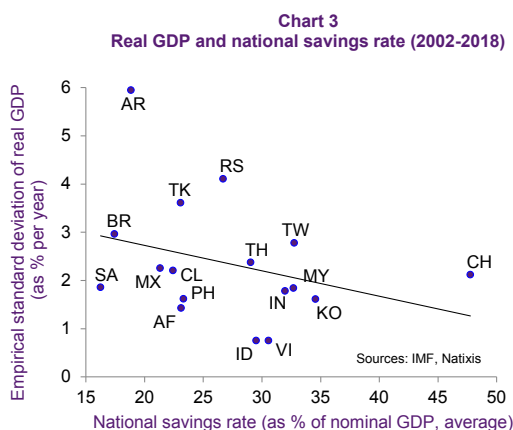
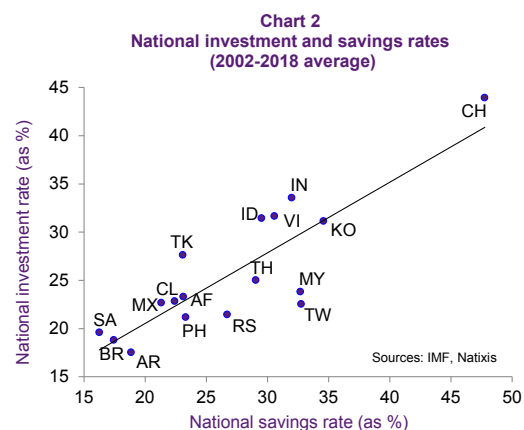
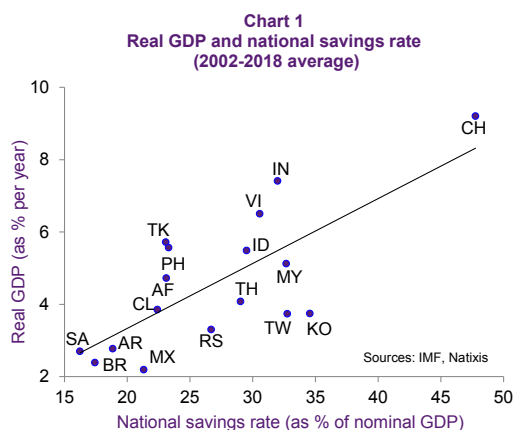
Mexico	Brazil	Chile
Turkey	Russia	South Africa
Africa as a whole	India	Indonesia
South Korea	China	Thailand
Malaysia	Taiwan	Vietnam
Philippines	Argentina	

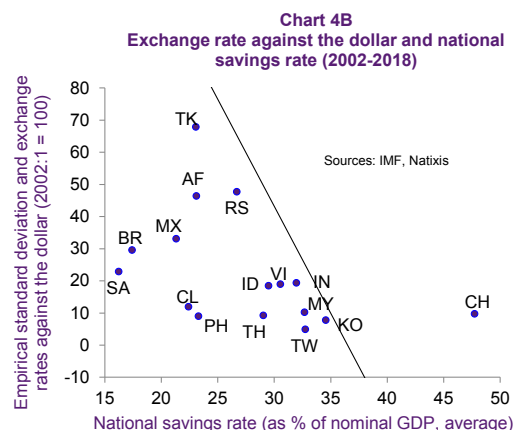
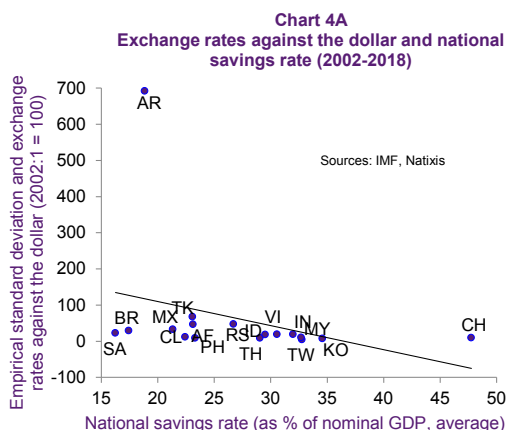
For these countries we compare, on average in the period 2002-2018 and in the period 2010-2018 the national savings rate and:

- The average growth rate;
- The investment rate;
- The variability of growth;
- The variability of the exchange rate.

In the period 2002-2018, Charts 1, 2, 3 and 4A and B show that for emerging countries, a low national savings rate is associated with:

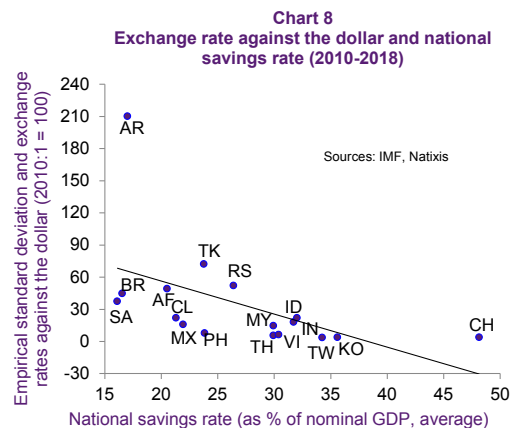
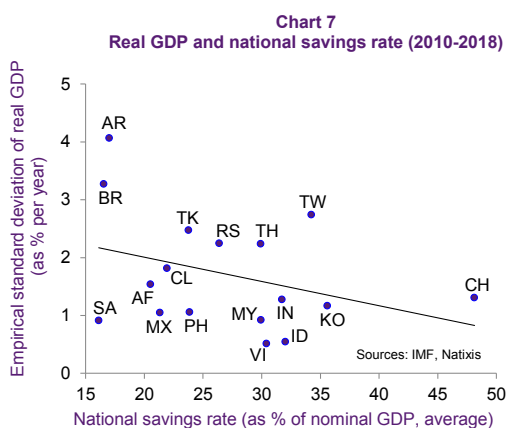
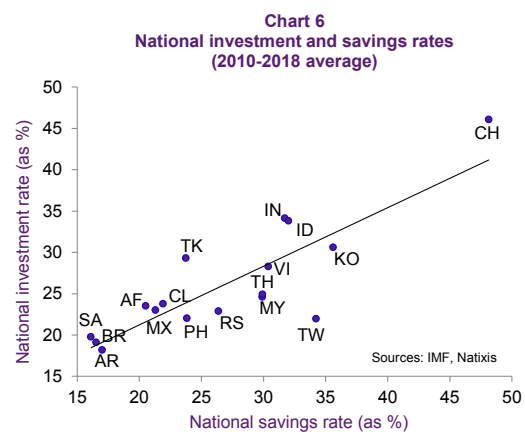
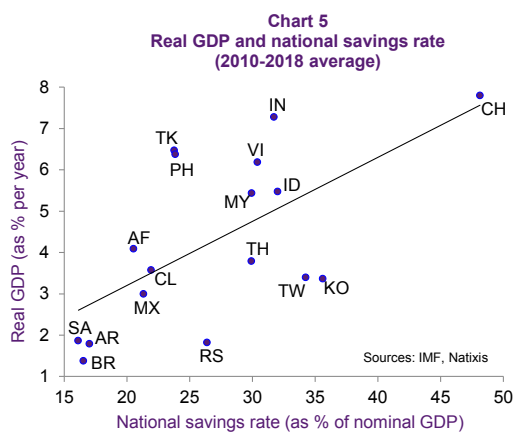
- Low growth;
- A low investment rate;
- High variability of growth;
- High variability of the exchange rate.





Charts 5, 6, 7 and 8 show that in the period 2010-2018, a low national savings rate is associated with:

- Low growth;
- A low investment rate;
- High variability of growth;
- High variability of the exchange rate.



## **Conclusion: Is there really a "curse" on countries with a low savings rate?**

Because of the high variability of international capital flows, we would expect emerging countries where the national savings rate is low to suffer from low and variable growth because of the inability to finance a high investment rate and from volatility in their exchange rates.

The empirical analysis conducted above shows that **this is what can be observed.**

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