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Global Savings and Investment

Measured Real Interest Rates[a]
(Percent)

	1960s	1970s	1980s	1990s[b]	1992	1993	1994	1995[c]
U.S.	2.5	0.7	4.5	3.3	3.2	2.9	4.1	3.4
Japan[d]	3.7	0.7	4.0	3.2	2.7	2.7	3.4	2.6
Germany	4.1	3.2	4.6	4.2	4.0	2.3	3.3	3.8
France	2.3	1.1	4.4	5.8	6.0	4.7	5.5	5.7
Italy	2.1	–1.4	2.8	6.6	7.6	6.2	6.1	6.9
U.K.	3.2	–1.0	3.9	3.8	3.1	3.5	5.3	5.0
Canada	3.3	1.3	4.7	5.7	5.0	6.1	7.5	6.3
G10 average[e]	2.9	0.1	4.2	4.0	3.8	3.4	4.4	3.9

Savings and Fixed Investment
(Percent of GDP)

	Gross savings				Gross fixed investment			
	1960s	1970s	1980s	1990s[b]	1960s	1970s	1980s	1990s[b]
U.S.	20.1	19.8	17.8	15.4	18.3	19.1	19.0	16.0
Japan	34.4	35.3	31.8	33.5	31.6	33.1	29.1	30.6
Germany	27.3	24.4	22.4	22.2	24.8	22.6	20.3	22.3
France	26.3	25.9	20.4	20.1	23.4	24.1	20.6	20.0
Italy	28.3	26.0	21.8	18.4	24.8	24.0	21.3	18.5
U.K.	18.5	17.9	16.5	13.7	18.0	19.2	17.5	16.4
Canada	21.5	22.4	20.1	14.2	22.4	22.8	21.4	19.1
G10 average[e]	24.5	24.1	21.4	20.0	22.6	22.9	21.2	20.0

a. A two-year backward-moving average of inflation is used to proxy inflation expectations.
b. 1990 through 1994.
c. For September 29, 1995. Based on inflation through 1995:IIQ.
d. The table uses the average return on Japanese long-term telephone and telegram coupon bonds from 1961 through 1979. From 1980 to 1984, yields on government bonds and telephone bonds were essentially identical.
e. Weighted by GDP fixed weights. The foreign G10 countries comprise Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the U.K.
SOURCES: Organisation for Economic Co-operation and Development (OECD); International Monetary Fund; and Bank of England.

As global capital markets become increasingly integrated, worldwide influences on savings, investment, and real-interest-rate patterns will tend to dominate country-specific developments, according to a recent study by the Group of Ten (G10) countries. Integration should permit a growing divergence between savings and investment in any single country, and consequently should accommodate wider, more persistent current account imbalances than in the past. Though capital markets are far from completely integrated, real-interest-rate movements around the globe are becoming more closely correlated.

Over the past 35 years, countries have experienced a small increase in real long-term interest rates. The G10 concluded that these higher rates reflect a decline in global saving rates, which stems mainly from a deterioration in the fiscal positions of industrialized countries. The drop in saving rates outpaced a decrease in investment, which the G10 attributed to slower labor-force growth and reduced productivity gains.

While the rise in real capital market rates has been small, the outlook for future saving patterns in developed countries creates uncertainties about their future growth rates and about sustained development in emerging and transitional economies. The fiscal positions of most countries may be slow to improve. Traditionally, a clear link between deficits, or government debt, and

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Global Savings and Investment (cont.)

General Government Fiscal Balance and Net Debt
(Percent of GDP)[a]

	Fiscal Balance[b]				Net debt[c]			
	1960s	1970s	1980s	1990s[d]	1960s[e]	1970s	1980s	1990s[d]
U.S.	−0.1	−1.0	−2.5	−3.1	38.3	24.1	25.6	35.4
Japan	1.0	−1.7	−1.5	0.5	−5.7	0.0	22.0	6.8
Germany	0.7	−1.7	−2.1	−2.8	−12.6	0.1	19.4	29.0
France[f]	0.0	−0.4	−2.1	−4.0	n.a.	−0.2	7.7	23.0
Italy	−2.4	−8.6	−11.0	−9.8	31.2	49.5	76.6	110.2
U.K.[f]	−0.3	−2.4	−2.0	−4.9	75.9	60.2	43.5	36.2
Canada	−0.3	−0.8	−4.5	−6.0	21.4	9.4	28.7	55.4
G10 average[g]	0.0	−1.8	−3.0	−3.3	25.3	19.1	29.1	36.3

Current Account Balance
(Percent of GDP)[a]

	1977–1979	1980–1982	1983–1985	1986–1988	1989–1991	1992	1993	1994
U.S.	−0.7	0.0	−2.3	−3.2	−1.2	−1.1	−1.6	−2.3
Japan	0.8	0.0	2.8	3.5	1.8	3.2	3.1	2.8
Germany	0.5	−0.5	1.7	4.3	2.2	−1.2	−0.8	−1.1
France	0.8	−1.2	−0.6	−0.2	−0.8	0.3	0.8	0.7
Italy	1.6	−2.2	−0.5	−0.2	−1.7	−2.3	1.2	1.3
U.K.	0.2	1.9	0.7	−1.6	−3.0	−1.7	−1.9	−0.1
Canada	−1.9	−0.7	0.1	−2.3	−3.9	−4.0	−4.3	−3.3
G10 average[g]	−0.2	−0.8	0.5	0.5	−0.3	−0.5	0.5	0.8

a. OECD definitions.
b. Negative numbers represent a deficit.
c. Net financial liabilities as defined in the System of National Accounts.
d. 1990 through 1994.
e. 1964–1969 for Japan and Italy, 1966–1969 for the U.K., and 1961–1969 for Canada.
f. Fiscal balance figure is for 1963–1969.
g. The foreign G10 countries comprise Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the U.K.
SOURCE: Organisation for Economic Co-operation and Development.

real long-term interest rates has remained elusive. Many economists contend that the borrowing implications of government deficits may be less intrusive than the distortionary effects of individual tax-and-spend programs. In a global market, however, the individual efforts even of large countries may have little impact on real long-term interest rates. The challenge is to foster public savings worldwide.

Population trends may also adversely affect saving rates in developed countries. Demographers expect dependency ratios—the percentage of young and elderly in a country relative to its working-age population—to rise in industrial countries. Other things equal, nations with high dependency ratios have lower saving rates.

Although unexpected changes in monetary policy may affect real interest rates in the short run, monetary policy—even on a global scale—cannot determine real interest rates. Countries with higher inflation rates experience higher long-term nominal interest rates. The G10 study also finds that in many countries, financial markets set inflation premiums with long memories about past price performance. Monetary credibility may be slow to build and quick to crumble. Monetary authorities contribute to long-term economic growth and development only by consistently fostering price stability.