Did the Japanese saving ratio decline sharply in 2000-2001 in terms of the actual economy?

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Recently, a large number of Japanese economists insist that the Households saving ratio in Japan (SNA basis) shall become lower than that of the USA sometime in the near future. This is because the Japanese saving ratio declined sharply in 2000-2001 and U.S. savings ratio has risen to 4% recently. In Japan, the saving rate was 11.1% in 1999CY, 9.8% in 2000CY, 6.9% in 2001CY. However, the sharp decline of Japanese saving ratio in 2000 and 2001 is greatly influenced by the method of calculation of SNA statistics. With this influence eliminated, the savings ratio increased sharply in 2000 and 2001.

First, I will check from the calculation method of the savings ratio on SNA statistics

A savings ratio (%) = Saving, net ÷ (Disposable income, net + Changes in pension reserves in pension funds, receivable)

Saving, net = Disposable income, net + Changes in pension reserves in pension funds, receivable - Final consumption expenditure (individual consumption expenditure)

Disposable income = Compensation of employees, receivable + Operating surplus and mixed income, net + Property income, receivable + Social benefits other than social transfers in kind, receivable + Other current transfers, receivable - Current taxes on income, wealth, etc, payable - Social contributions, payable - Property income, payable - Other current transfers, payable

Fig. 1 breaks down the year on year difference of the Savings, Household saving decreased 4.1 trillion yen in 2000CY compared to the
previous year, and decreased 9.7 trillion yen in 2001CY. The biggest factor is reduction in Property income, receivable. It decreased 3 trillion yen in 2000CY, and 4 trillion yen in 2001CY. The great portion of the property income was interest income. It decreased 1.4, trillion yen in 2000CY, and 3.7 trillion yen in 2001CY.

Another big factor was Current taxes on income, wealth, etc, payable. An increase in Tax leads to a decline of disposable income. It increased 1.6 trillion yen in 2000CY, and 1.7 trillion yen in 2001CY.

In 2000 and 2001, the sum of Compensation of employees, receivable Operating surplus and mixed income, net and receipt of property income also decreased year on year. There was no increase in taxation. Why did tax payment increase in 2000 and 2001?

In fact, the reason is the method of calculation of SNA statistics. In SNA, the statistics are calculated based on various basic statistics, such as a settlement-of-accounts document from a bank or postal savings, and data of the National Tax Administration Agency. Therefore, interest income is counted as accepted by the Household when the financial institution side has recognized it as having paid interest. It is not necessarily the time period in which the household receives interest (this is called accrual basis). On the
other hand, the tax is counted as paid when a household economy paid the tax, in other words when they received interest.

According to the annual report of the National Tax Administration Agency, the interest income (tax-free income included) which the financial institution etc. paid increased 55% in 2000 CY, 28% in 2001 CY. The interest income in the NTA report includes the interest paid for corporations, but interest rate paid by the postal savings are almost entirely for Households. Interest paid by the postal savings became 7.7 times in 2000 CY, 1.3 times in 2001 CY. This is because there was a concentration due date of a "Teigaku Savings". The tax deducted from the interest income of postal savings became 7.7 times in 2000 CY, 1.3 times in 2001 CY.

Teigaku Savings is a savings certificate which can be closed at any time six months after it is opened; and interest is compounded semiannually. The interest rate at the time the account is opened is fixed at 10 years. An account can be held for up to 10 years with an initial fixed period of six months. Yucho pay interest every six months, so on the SNA basis interest is paid every six months, too. But the Households receive interest and pay tax when they close the account. Teigaku Savings was deposited intensively at 1990-1991 when interest rates reached their peak. It seems that many depositors did not close the accounts till the due date since the level of interest rate fell with stagnation of Japanese economy in the 1990’s.

So in terms of the SNA basis, Household received interest every year and paid interest tax in 2000-2001, but in the actual economy Household received 10 years worth interests and paid interest tax in 2000-2001.

First of all, the amount of consumption on the SNA basis almost equal to the amount that the Households consume in the actual economy. I therefore tried to calculate the saving rate in the actual economy via correcting the receipt of interest income to actual basis. Fig. 2 compares the savings ratio by this calculation versus the official statistics. As for the savings ratio of the 2000 calendar year the year in which the sudden fall occurred, and 2001 calendar year, in official statistics, the figures increase greatly after correction. Most of the interest obtained at the due date of a
fixed deposit is not spent, but goes to savings again. It is a natural occurrence since the future uncertainty of business has become strong.

Of course, in viewing the savings ratio after correction (calendar year), there is a long-term loose fall trend, just as in the official statistics. This is also a natural motion as Japan increasingly becomes an aging society. However, the 2000-2001's sharp saving ratio decline is due to the method of calculation of SNA statistics, not to the Japanese economy. Incidentally, concerning 2002 calendar year, the amount of money of final consumption expenditure of employer remuneration and a household economy is announced as an actual result value. According to some forecasts on the Current taxes on income, payable etc., the savings ratios in 2002 is likely to be 6 - 7%, on the SNA basis and after correction basis. This is because the interest income which the concentration due date of a fixed deposit finishes and a household economy actually receives to decrease greatly. Although it has surely decreased from the 2001 calendar year, the U.S. savings ratio is not yet available.

The Japan-U.S. inversion of a savings ratio could still be far in the future.