



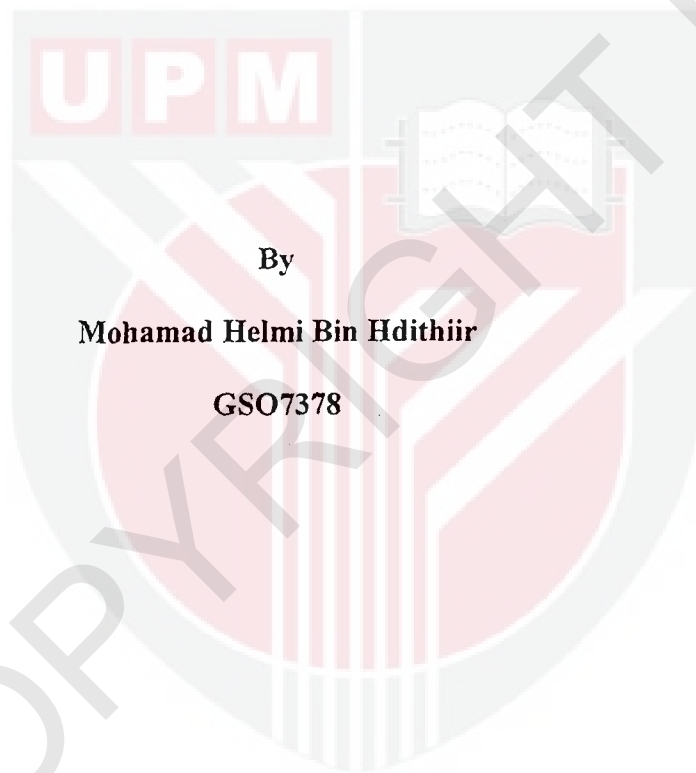
UNIVERSITI PUTRA MALAYSIA

***THE IMPACT OF POLICY-FACTORS AND NON-POLICY
FACTORS ON PRIVATE SAVING IN SELECTED ASEAN***

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**The Impact of Policy-Factors and Non-Policy Factors on Private
Savings in Selected ASEAN Countries**



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Abstract of project paper submitted to the Faculty of Economics and Management, University Putra Malaysia in partial fulfillment of the requirements for the degree of Master of Economics.

ABSTRACT

**The Impact of Policy-Factors and Non-Policy Factors on
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This study analyses trends in private savings behavior of selected ASEAN countries (Indonesia, Philippines, Malaysia, Singapore and Thailand) in period 1971 to 1999 and reviews policy options and non-policy options that have been thought to increase domestic savings. The policy factor variables that have been used under this study are inflation (INR) and financial market development (M2). The non-policy factors are economic growth (GDP) and demographics factors (DEM). The error-correction mechanism model is used to establish empirical relationships between these factors and the rate of private savings.

A separate examination of the coefficients and the trends in the explanatory variables which proxy policy factors and nonpolicy factors for these five ASEAN countries shows that financial development, inflation , economic growth (Growth Domestic Product) is a crucial factor that can foster private saving in ASEAN countries.



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ABSTRAK

Kesan Faktor Polisi Kerajaan Dan Faktor Bukan Polisi Kerajaan Terhadap Tabungan Negara-negara ASEAN Yang Terpilih

By

Mohamad Helmi Bin Hidthiir

March, 2002

Tujuan kajian ini untuk menganalisis secara kuantitatif tren tabungan di negara-negara ASEAN terpilih (Indonesia, Philippines, Malaysia, Singapura dan Thailand) bagi tempoh 1971-1999 dengan menggunakan pemboleh ubah polisi kerajaan dan pemboleh ubah bukan polisi kerajaan sebagai pemboleh ubah bebas. Pemboleh ubah polisi kerajaan yang digunakan dalam kajian ini adalah kadar inflasi (INR) dan pembangunan kewangan (M2). Sementara itu, pemboleh ubah bukan polisi kerajaan adalah pertumbuhan ekonomi (GDP) dan faktor

demografi (DEM). Model "error-correction mechanism" digunakan untuk mengkaji hubungan antara tabungan dengan faktor-faktor yang mempengaruhi tabungan.

Hasil kajian menunjukkan pemboleh ubah bebas seperti pembangunan kewangan(M2), kadar inflasi(INR) dan pertumbuhan ekonomi(GDP) merupakan pemboleh ubah yang penting dalam mempengaruhi tabungan di negara-negara ASEAN tersebut.

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Mohamad Helmi Bin Hidhiir

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CHAPTER 1

INTRODUCTION

1.1 Introduction.

In ASEAN countries, high saving rates drew much attention to researchers and policy makers because it is associated with great economic success from 1975 to 1995. The rate of savings of total GDP (Gross Domestic Product) rose continuously from 15 per cent to 25 per cent, and the region's real capita GDP increased by almost 200 per cent (Dayal and Thiman 1997). This association has given rise to the question of whether there is a causal link among high saving, high growth and rapid development. Such a link seems to be confirmed by the experiences in other developing regions where in Latin America, saving rates have stayed broadly constant since 1970 and real per capita GDP has increased by only 35 per cent; in sub-Saharan Africa, saving rates were actually lower in 1995 than they were in 1970, as was real per capita GDP. Thus, understanding the driving forces behind ASEAN high saving rate might help improve our understandings of the growth performance in that group of countries.

1.2 Private Savings in ASEAN Country.

Most leading development economist considers saving rate as one of the key performance indicators of economic progress of a country. The drift in saving will usually result in the revision of formulation of economic policies design to boost the saving propensity and thus increase the investment resources to finance economic growth.

Private saving rates in ASEAN countries have risen steadily since 1976, from about 22.6 per cent of GDP in 1976 to about 28 percent of GDP in 1999 (Figure 1.1). There is relatively little variation in private saving trends within the ASEAN country over the study period. For all countries except the Philippines, private saving has increased significantly in Singapore, Thailand, Indonesia and Malaysia that is 12 per cent, 8 per cent, 7 per cent and 4 per cent of GDP respectively (see Table 1).

A number of explanations have been advanced in the literature in relation to this phenomenon. Adams and Prazmowski (1999) explain the high saving rates for the region in the context of virtuous cycle. According to the authors, increases in saving will boost economic growth, which in turn, leads to increases in domestic saving. World Bank (1997) reports that most of the East Asian countries restricted the outflow of capital during the periods of their high economic growth in order to encourage domestic investment. However,

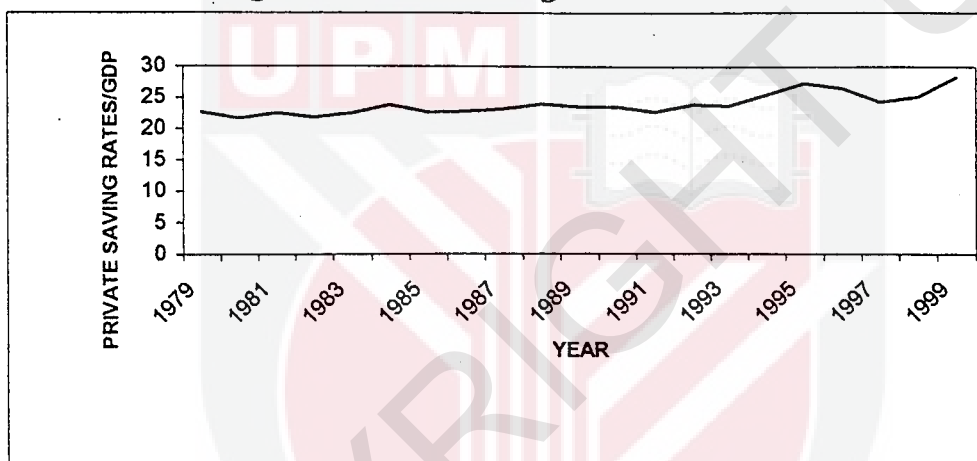
it is important to point out that most of the financial markets in the ASEAN were liberalized beginning in the early 1970s to late 1980s and it is positively affecting the saving rates.

Table 1. Private Saving Rates (Period average in percent of GDP)

Year	Indonesia	Singapore	Philippines	Malaysia	Thailand	Southeast Asia
1976-80	21.0	22.2	24.2	24.2	19.8	22.8
1981-85	16.8	31.0	18.6	23.0	23.6	22.6
1986-90	19.8	28.8	17.0	26.6	25.0	23.4
1991-95	23.0	32.4	17.0	23.8	27.4	24.7
1996-99	25.7	34.0	21.3	28.0	26.1	27.0

Source: IMF. WEO database

Figure 1. Private Saving Rates -ASEAN



Source: IMF. WEO database

1.3 Problem statement

Over the last three decades the world has witnessed that saving rates have risen steadily in ASEAN country. These saving rates that have steadily risen raised a number of questions. Why do high saving rates are still not yet high enough to cover domestic investment needs? For example, high current account deficits in Malaysia, Thailand and Indonesia that are RM 1533 million, 2599 million Baht and 2214 billion Rupiah have indicate out that

domestic savings are not yet enough to cover domestic investment needs. Secondly, how much do public policies contribute to this domestic savings in comparison to other structural and non-policy instrument? Which policy instrument and non-policy instrument that has been crucial in fostering domestic savings in the past and which could be used in the future?

From the policy perspective, there are question about the size and about the sign of the effects of policy variables on private saving rates. How effective is fiscal policy in rising national saving? Does financial liberalization - by raising interest rates, encouraging consumer and raising financial depth - inhibit or encourage private saving? Or perhaps growth-enhancing policies such as macro stabilization would be more effective in rising saving through higher income and growth than any direct saving incentive? Does social security expenditure increase private domestic savings?

From the non-policy perspective, there are also question about the size and the sign of the effects of policy variables on private domestic savings. Is savings has preceded growth and income? Do demographic factors that reduced dependency ratio have raised the private savings? How much do current account balance affects the level of private domestic savings?

This question has been raised because many studies have been done of developed and other developing countries saving rates in different time

periods and estimation techniques. Many conclusion have been drawn, including the following: saving has not preceded growth, but has actually followed it; saving has risen because of demographic factors that reduced dependency ratios; saving has risen because the financial sector has developed rapidly; saving has been high because of macroeconomics stability; and private saving has been high because of prudent government policies and low government transfers, implying the need for higher private saving to protects individuals against unexpected income loss or to provide funds for retirement.

By using the past studies about determinants of private saving rates from policy and non-policy perspectives in other region the world, these studies try to find out whether this policy and non-policy variables also affect private savings in ASEAN country.

1.4 Objectives of the Study

1. General Objective

To study the trends in private saving in the ASEAN countries from period 1980-1999.

2. Specific objectives

a. To study the relationship between policy factors and the private savings in the ASEAN countries.

b. To study the relationship between non-policy factors and private savings in ASEAN countries

1.5 Significance of the Study

This study may have a significant effect in the process of deciding and implementing economic policy that can foster private savings in ASEAN countries. By understanding the policy-factor and non-policy factor that affects saving in the ASEAN countries, policy maker might be able to analyze the behavior of these variables in the past and learn how to improve private savings in the future. For example, high current account deficits in Malaysia, Thailand and Indonesia have pointed out that domestic savings are not yet high enough to cover domestic investment needs and that the current account correction could come about through, among other means, increasing domestic saving further.¹ Thus, the importance of domestic saving gives rise to the question of which policy instruments have been crucial in fostering saving in the past and which could used in the future.

¹ Ostry (1997) shows that the current account deficits in Indonesia, Malaysia, and Thailand are sustainable, but could post risk.

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