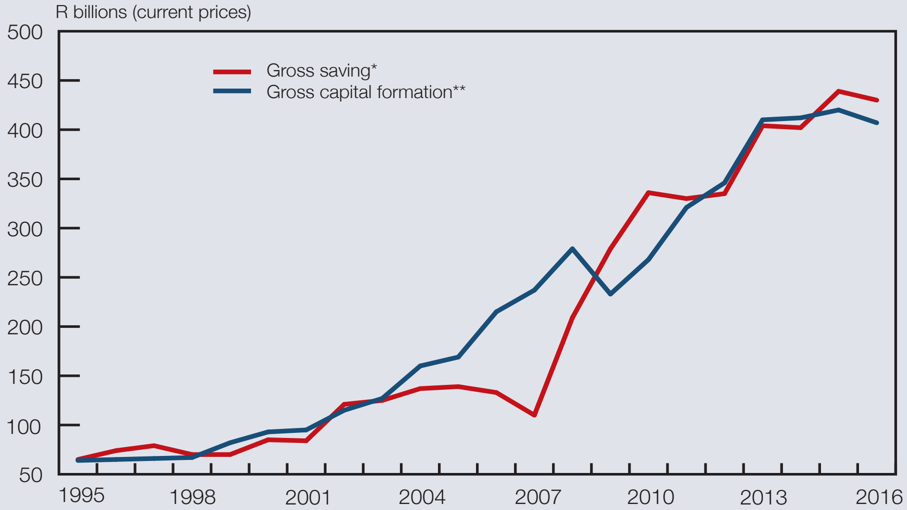
Box 1 Are corporates saving too much and investing too little?

The corporate sector, or more specifically *private non-financial corporate business enterprises* excluding both financial institutions and state-owned enterprises, has been in the spotlight of late. The increase in corporate saving globally should not be viewed separately from how these savings were used. This analysis uses national accounting conventions to guide the interpretation of saving in the economy, particularly in relation to investment, with a focus on the corporate sector in South Africa.

Saving and investment of private non-financial corporate business enterprises



* Gross saving equals net saving plus consumption of fixed capital
** Gross capital formation equals gross fixed capital formation and change in inventories

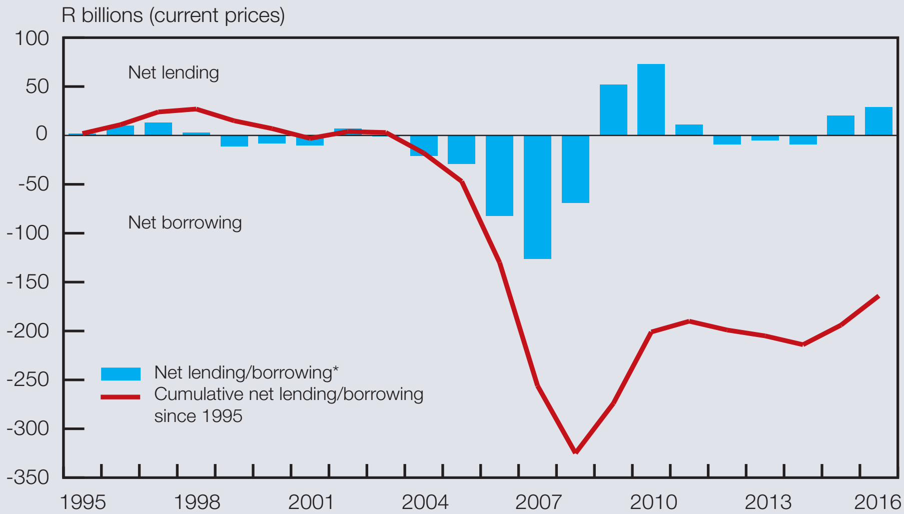
Sources: Stats SA and SARB

Notwithstanding the increase in corporate saving in the country, corporate investment mostly kept up with saving and at times even exceeded saving, as shown in the figure above. An important qualification is that an increase in investment at broadly the same pace as saving does not necessarily mean that the economy is performing adequately. This suggests that investment would have been growing at a faster pace if economic growth was more robust, in which case firms could also have saved more.

Not surprisingly, despite maintaining an average corporate savings ratio of 9.8% to gross domestic product (GDP) since 1995, compared to 16.4% for the domestic economy as a whole, the corporate sector has, on balance, been a net borrower from other sectors in the domestic economy and the rest of the world as its investments exceeded its savings in some years. One way of interpreting this is that although the bulk of South Africa's savings come from the corporate sector, their investments required funding in excess of their savings.

As shown in the accompanying figure, for several years the private non-financial corporate sector was a net borrower despite maintaining its savings as a ratio of GDP. More recently, the corporate sector has been a small net lender, but by and large, has drawn more resources from other parts of the domestic economy, in particular from domestic financial intermediaries and from foreign savings. The cumulative effect of the corporate sector's net lending and borrowing portrays an even starker picture. This implies that the corporate sector has supplemented its savings with credit to fund investment. Consequently, financial liabilities increased on the corporate sector's balance sheet.

Net lending/borrowing by private non-financial corporate business enterprises



* Net lending/borrowing is the difference between goss saving, capital transfers and gross capital formation

Source: SARB

Ironically, this analysis shows that if the corporate sector saved less in the current economic environment, it would have required more foreign funding that would have increased South Africa's external debt. The interplay between the incurrence of foreign financial liabilities and assets by the corporate sector would have put more pressure on the funding of the current account deficit.