Global deleveraging

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outline

- Some stylized facts...
- But big differences across countries
- Implications for global economy

(Ruscher&Wolff 2011)

Table 1: **Consequences of corporate balance sheet adjustment (1)**

	t=0	t=4	Actual change (2)	Average change in entire sample	Effect of balance sheet adjustment	Number of episodes
	(A)	(B)	(C)=(B)-(A)	(D)	(E)=(C)-(D)	(F)
Debt / GDP	60.3	58.4	-1.9	5.2	-7.1	12
Leverage (3)	101.2	85.3	-15.9	-1.2	-14.7	12
Liquidity / VA (4)	30.0	33.4	3.4	0.9	2.5	10
Investment / VA	26.1	23.2	-2.9	-0.2	-2.8	16
Savings / VA	17.2	22.3	5.0	0.4	4.6	16
Compensation of employees / VA	60.2	55.6	-4.6	-0.9	-3.7	20
Real growth			6.6	9.9	-3.3	24

(1) To ensure a constant size of the sample for every year, the table covers only those events which lasted more than 4 years and for which the respective data are available. The number of observations per variable differs due to data availability reasons. Period. t=0 is the year prior to the balance sheet adjustment. ""VA"" is value added.

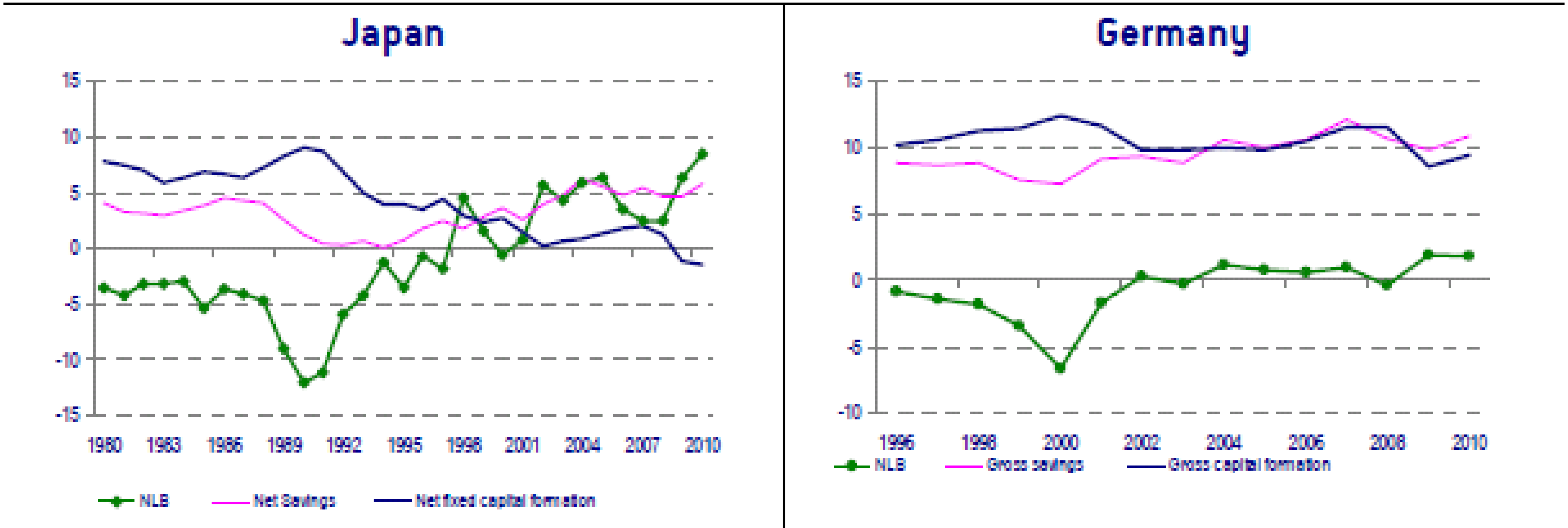
(2) In the case of "real growth" the actual change is the difference between the cumulated growth during the 4-year adjustment period and the cumulated growth in the broader sample during an average 4 year period.

(3) Leverage is measured by the ratio of debt to equity (data from the balance sheet section of national accounts).

(4) Liquidity is measured by corporations"" holdings of ""currency and deposits"" (data from the balance sheet section of national accounts).

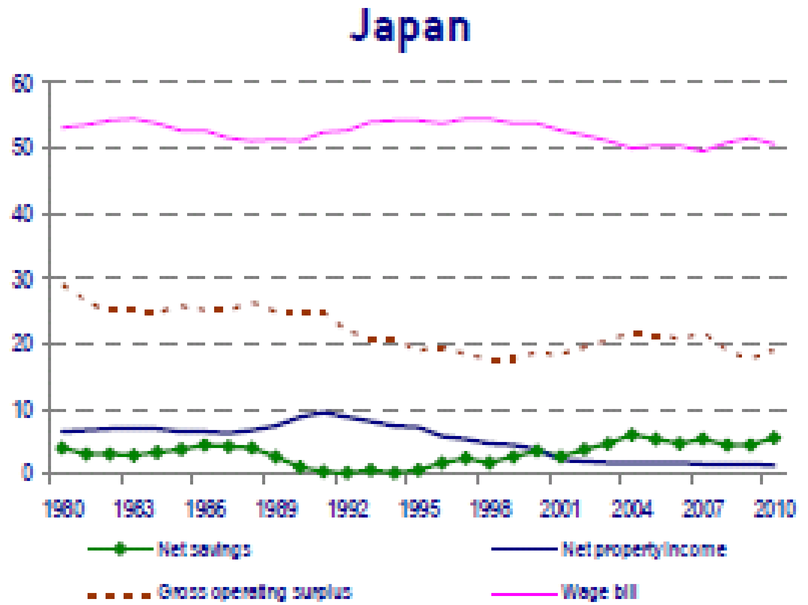
Is it savings or investment that adjust

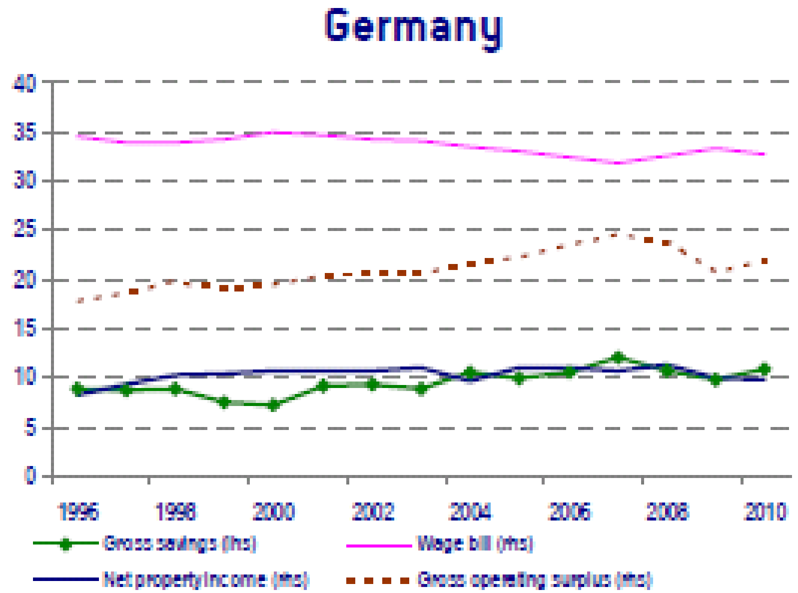
Graph 6: **Determinants of NLB in the non-financial corporate sector**
(% of GDP)



Source: Cabinet office Japan and Eurostat sectoral accounts.

Graph 7: **Determinants of savings in the non-financial corporate sector**
(% of GDP)





Source: Cabinet office Japan and Eurostat sectoral accounts.

Consequences for global deleveraging?

- Debt = Claim; investments=savings
- Are we seeing a shift from global consumption to global investment? (increase in global savings?)
- Are we seeing a shift of investment from capital intensive economies to economies with low capital ratios?

→ Not clear that global economy will slow down for long, on the contrary, deleveraging in industrial economies should help increase global growth

→ Capital market liberalization in China is key (low LT interest rates show global excess of savings)

→ Euro area growth will be lower