Budgetary relief and debt dampening effect from the low interest rate environment

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Not only a German phenomenon!

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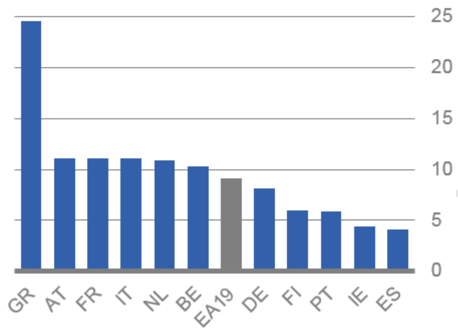
Yields on German government debt securities have fallen rapidly in the aftermath of the global financial and economic crisis and provided a considerable relief to the public sector budget. At the moment, federal government securities have negative yields for maturities up to 6 years and the yield on 10 year German Bunds stands at just roughly 0.4%.

Cumulative interest savings* of selected euro-area governments

% of GDP (2016) (general government level)



* Cumulative difference between the actual and hypothetical interest payments of the general government. Hypothetical interest payments are calculated on the basis of a constant implied interest rate (at the 2007 level) for the period 2008-16.

Sources: Eurostat, AMECO, Deutsche Bank Research

While, during the five years before the financial market crisis in 2007, the government had to pay c. EUR 64 bn per year in interest (c. 2.8% of GDP), this figure dropped to c. EUR 43 bn in 2016 (c. 1.4% of GDP). Without the steep fall in interest rates between 2008 and 2016, the government's interest burden would have accounted for c. 3.2% of GDP in 2016 and hence more than double of the actual figure of 1.4% of GDP. As a result, Germany's general government budget would have still recorded a deficit (of around 1% of GDP) instead of running a budget surplus (of 0.8% of GDP) for the third consecutive year.

Germany's cumulative interest savings between 2008 and 2016 are indeed much larger and amount to almost EUR 260 bn (c. 8.2% of 2016 GDP). In other words: Without the continued fall in the (implicit) interest rate (on government debt), Germany's government debt ratio would have stood at more than 75% of GDP instead of the recorded 68.3% of GDP. The budgetary relief and debt dampening effect from the low interest rate environment are not only a German phenomenon. In fact, many more euro area governments have also benefited to a very large degree from the fall in interest rates. For example, at an estimated EUR 250 bn France's cumulative interest savings are not far below Germany's. As a percentage of national GDP (roughly 11% of GDP), cumulative interest savings in France were even larger than in Germany. Indeed, Germany's cumulative interest savings of just above 8% of 2016 GDP are lower than the euro area average (of c. 9% of GDP) and significantly lower than those of large debtor governments like France, Belgium or Italy.