

Public debt dynamics and monetary policy

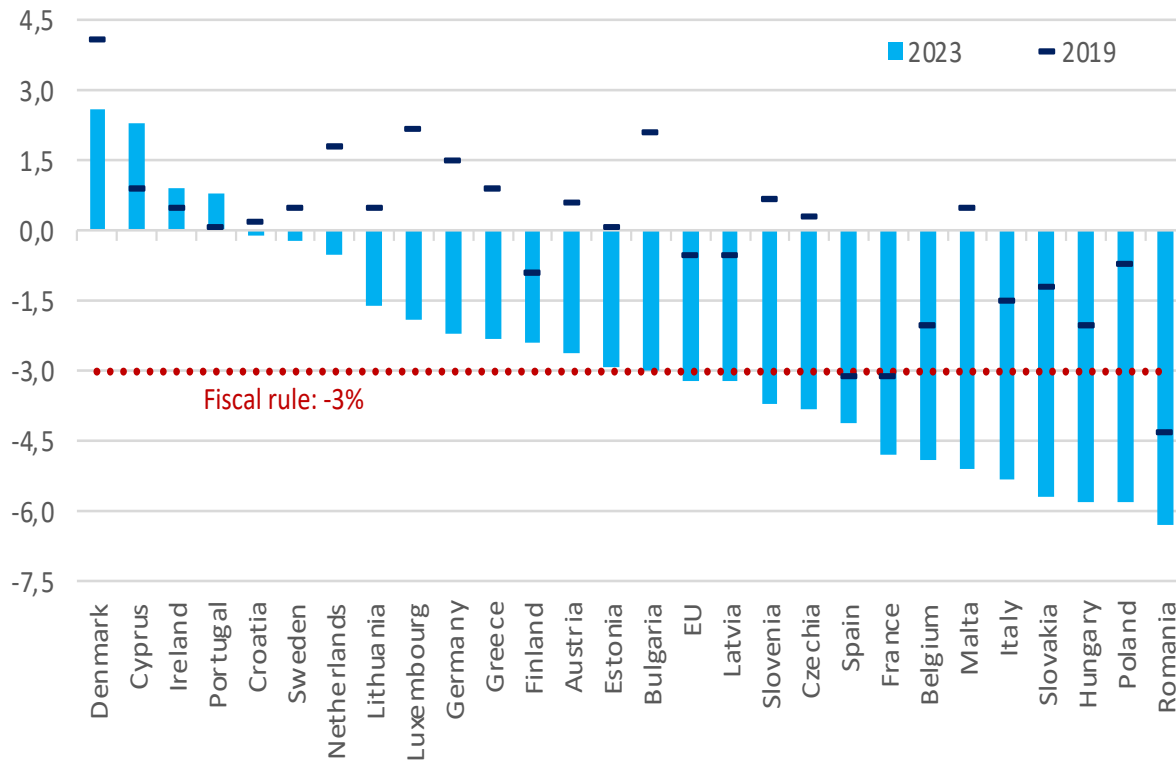
Raymond Torres, Director for Macroeconomic and International Analysis, Funcas

Paris, 28 November 2023

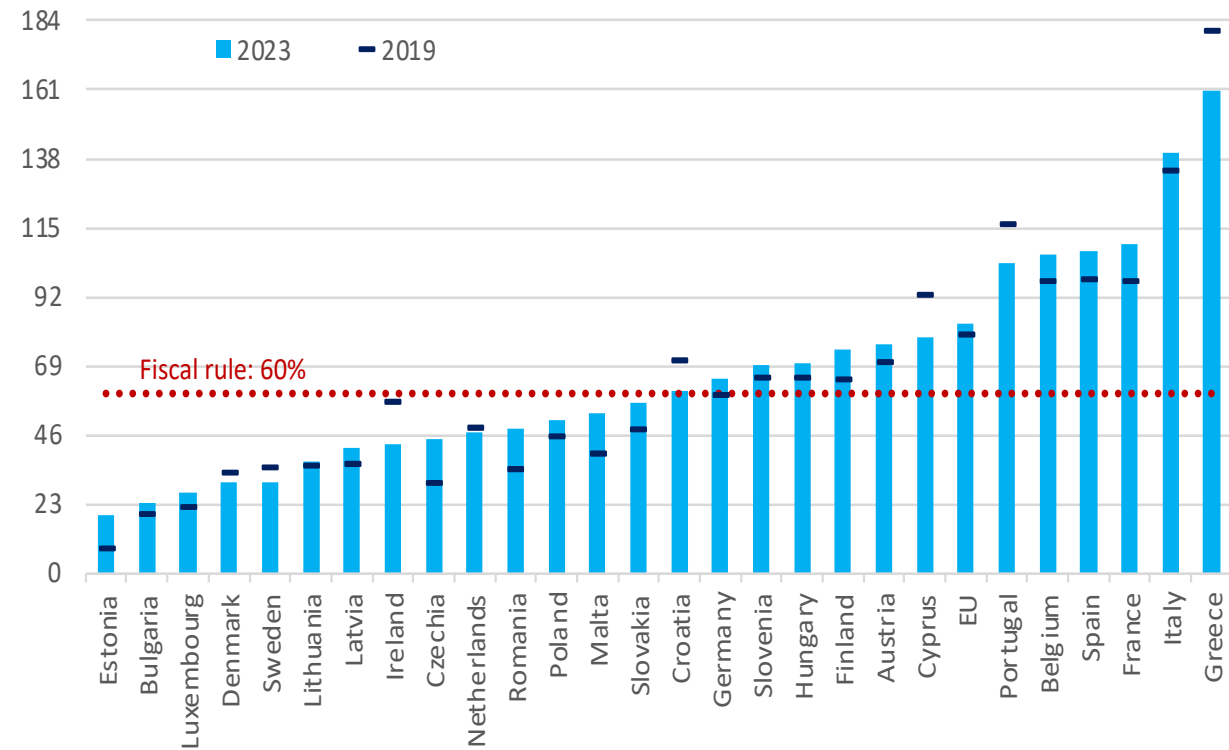


The succession of crises has left public finances in a difficult position in the majority of countries

Public deficit, % of GDP

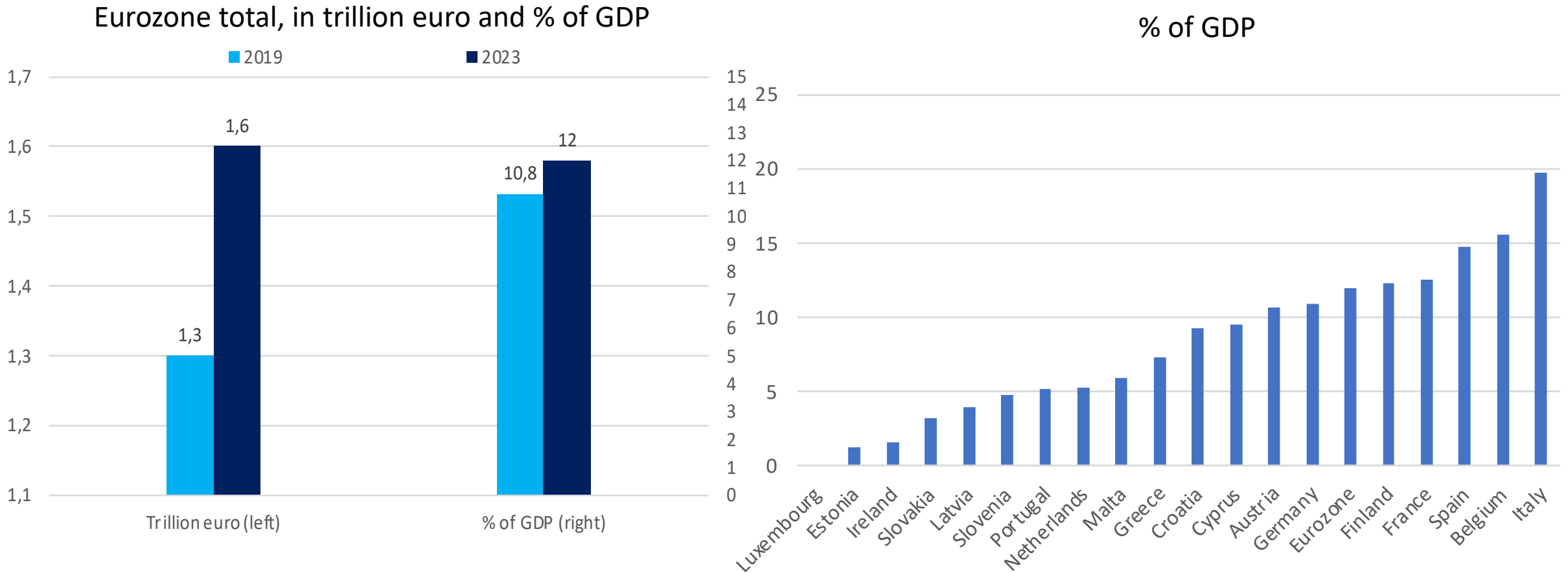


Public debt, % of GDP



Government bonds that come to maturity over the next year amount to 1.6 trillion euro, in total in the eurozone, or 12% of GDP, with significant cross-country differences

Debt which comes to maturity over the next year, % of GDP

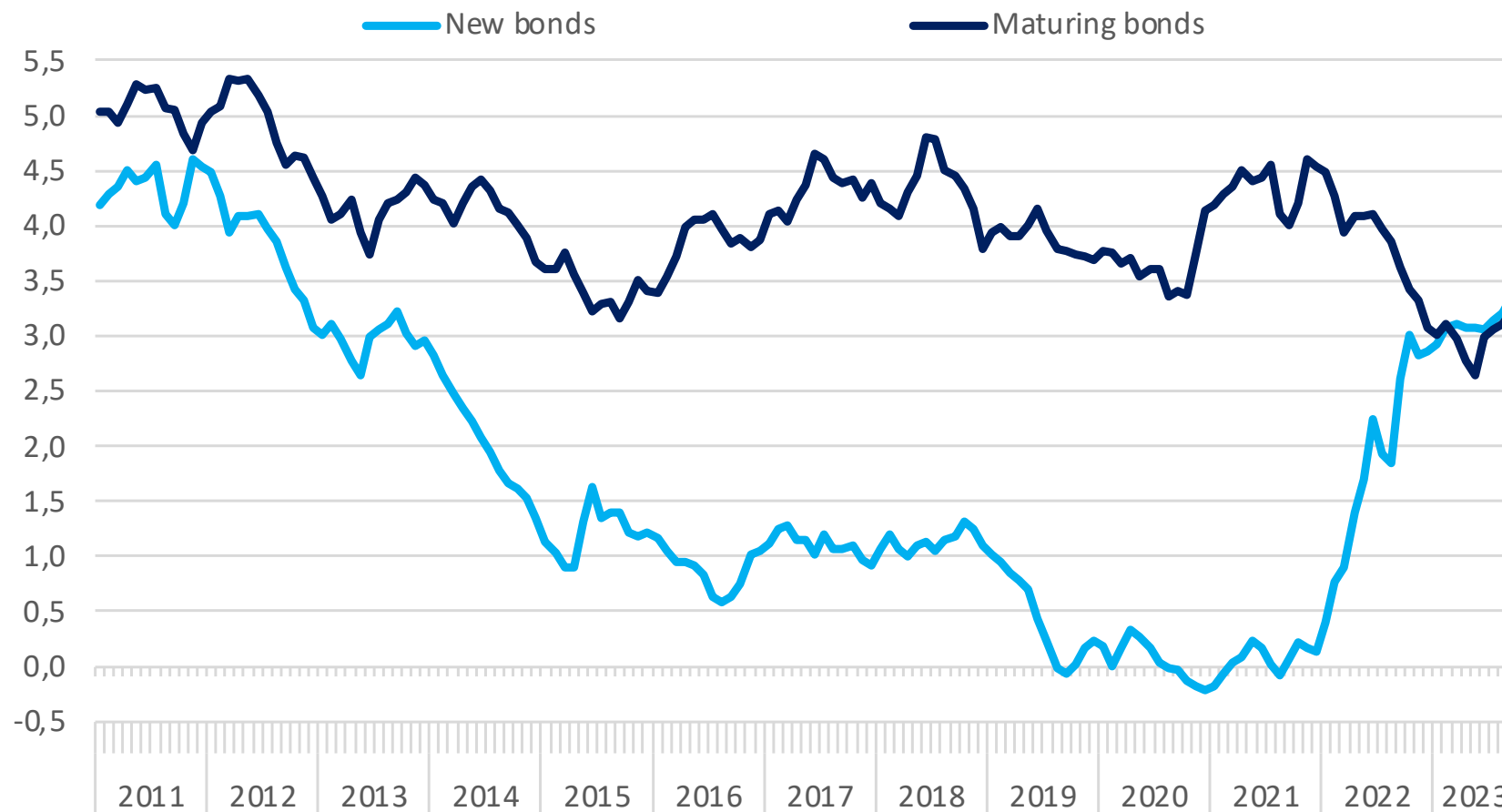


ECB and Funcas estimates



Moreover, practically all the debt that matures will have to be renewed at higher rates. And the ECB will only proceed to partial reinvestments of its bond holdings

Yields of new versus maturing 10-year bonds, eurozone average



Required adjustment to reach debt European fiscal rule

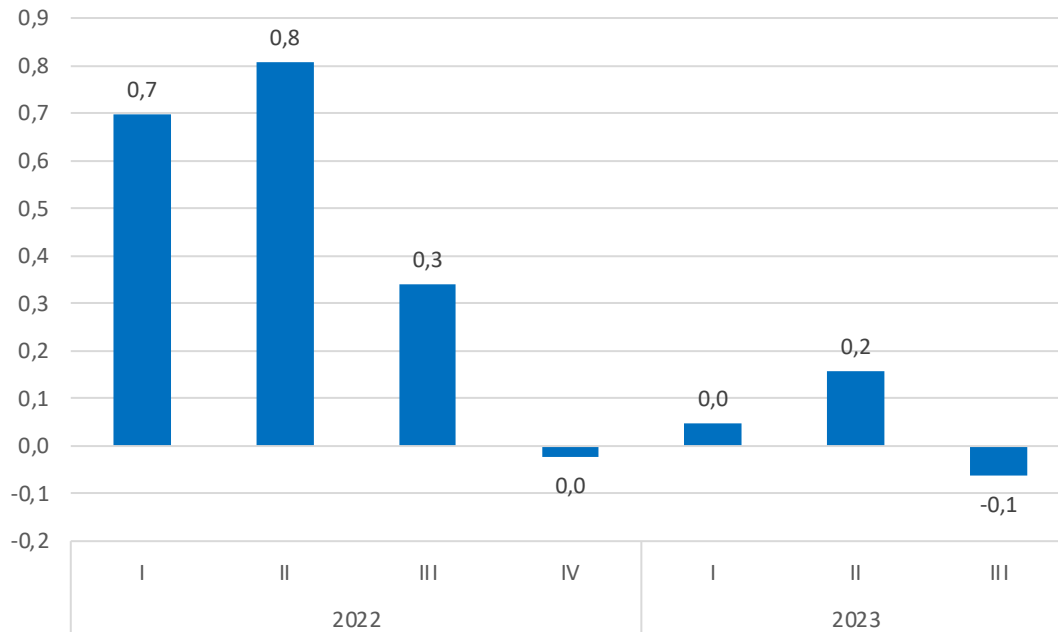
	<u>Present situation</u>	<u>Required adjustment</u>	<u>Past adjustment</u>
	Debt/GDP 2023, Q2	Yearly cut in debt/GDP needed to reach 60% target in 2043	Change in debt/GDP, average 2015-19
Greece	166,5	-5,3	1,0
Italy	142,4	-4,1	-0,3
France	111,9	-2,6	0,5
Spain	111,2	-2,6	-1,3
Portugal	110,1	-2,5	-3,7
Belgium	106,0	-2,3	-1,9
Cyprus	85,3	-1,3	-3,6
Austria	78,6	-0,9	-3,6
Hungría	75,2	-0,8	-2,6
Finland	74,6	-0,7	-0,8
Slovenia	70,5	-0,5	-4,3
Croatia	66,5	-0,3	-3,0
Germany	64,6	-0,2	-3,1

Eurostat and Funcas.

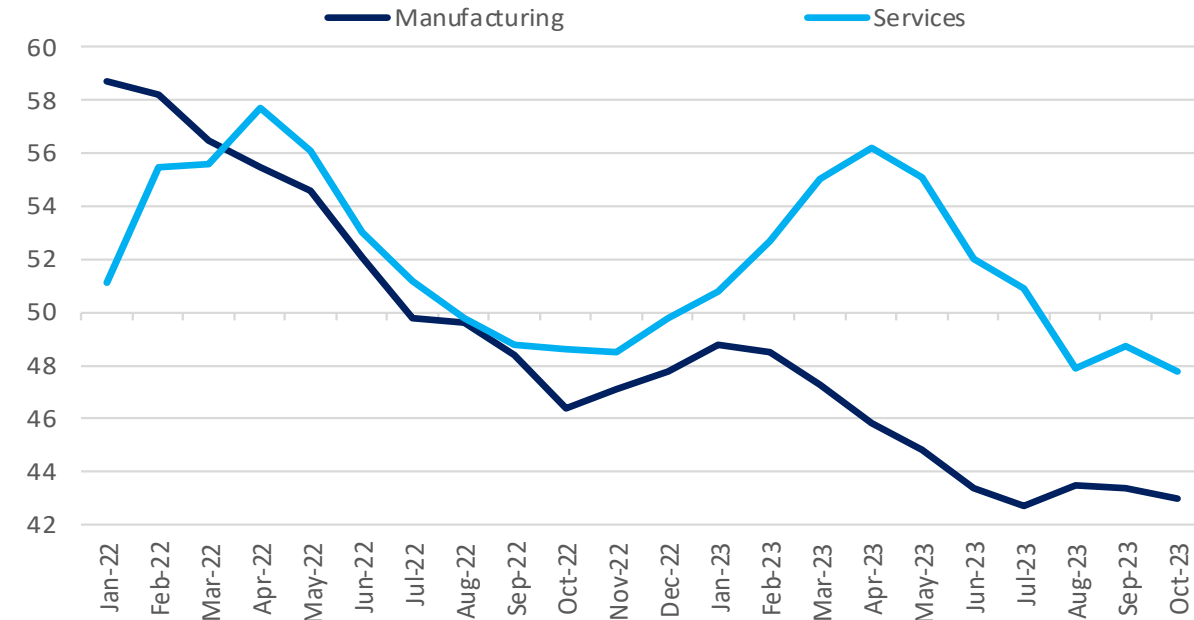


The eurozone economy is stagnating and recent indicators point to continued weakness in the short run, especially in industry

GDP growth, quarter on quarter, eurozone



PMIs



Eurostat, S&P Global.



World trade has practically stagnated, and no strong recovery is foreseen.
Conclusion: growth will probably have to rely on domestic demand

Volume of world trade of goods and services, average annual percentage change

2000-2007	2008-2010	2011-2019	2020-2022	2023
8,4	1,8	3,7	2,7	0,9

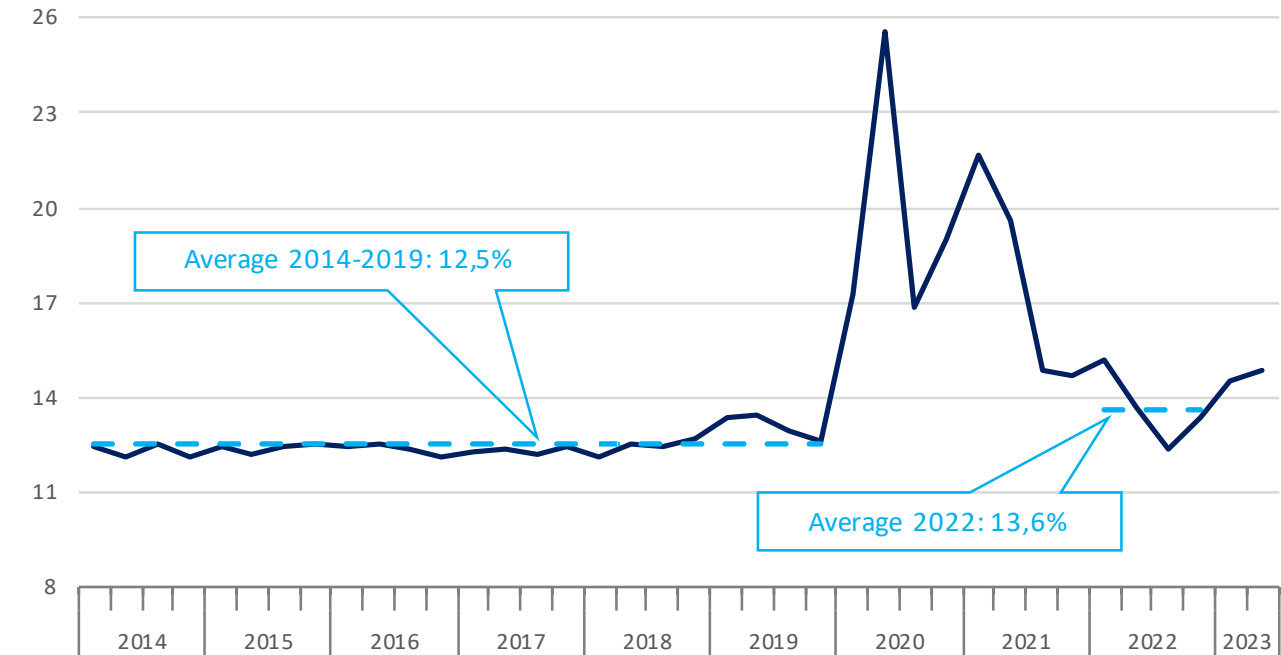
IMF



Private consumption is crucial to sustain growth in the short run

GDP growth and its components, eurozone				
	2022	2023	2024	
GDP	3,4	0,6	1,2	
of which:				
Domestic demand	3,5	0,3	1,2	
Private consumption	2,2	0,3	0,6	
Public consumption	0,3	0	0,2	
Investment	0,9	0	0,4	
Net exports	-0,1	0,3	0	

Household savings' rate, % of gross disposable income



Source: Eurostat and Funcas.

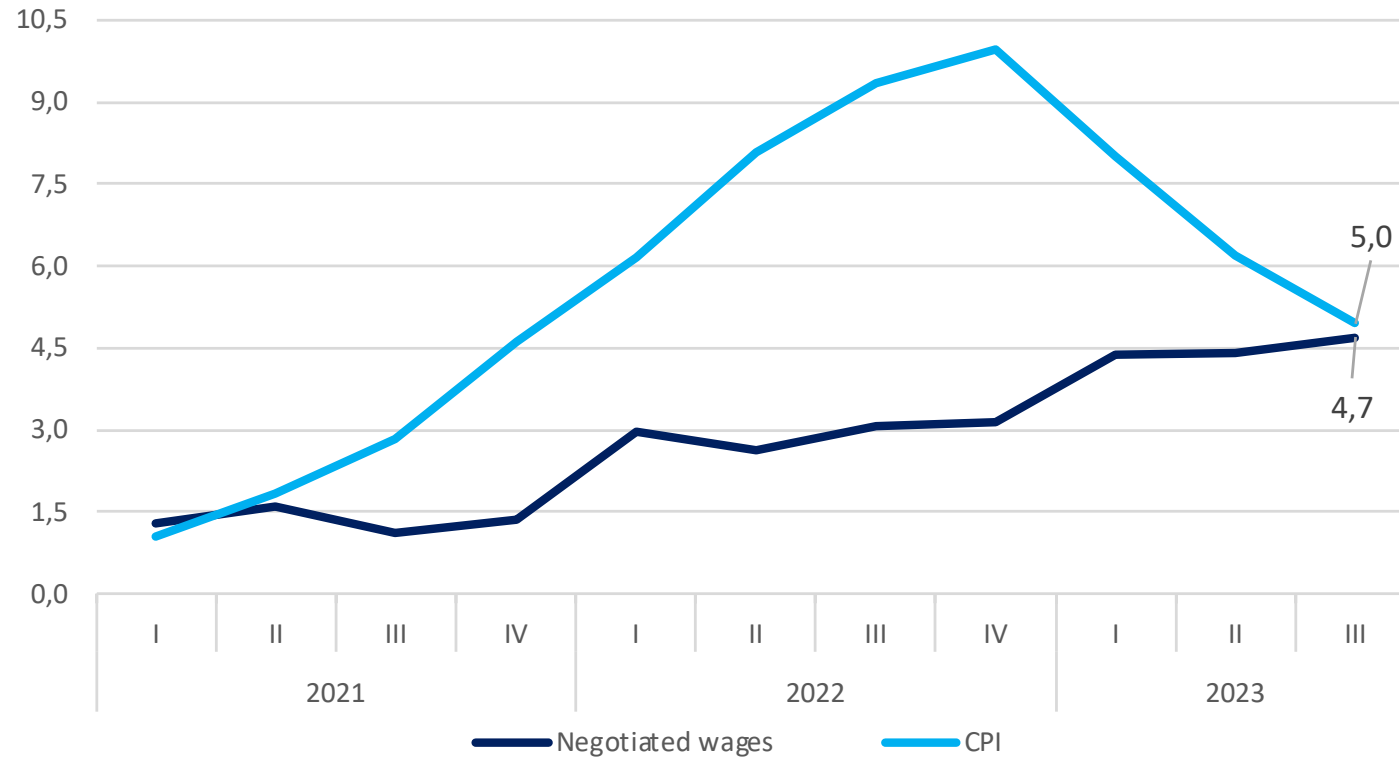
The labour market is crucial. So far, employment has been resilient as a result of job retention practices –will these be sustained? The automobile sector will be a test case

Employment and hours worked, percentage change between 2019 and second quarter of 2023

	Employment	Hours
Eurozone	3,2	2,2
Germany	1,3	-0,1
Spain	2,2	1,3
France	6,6	5,7
Italy	1,8	3,8

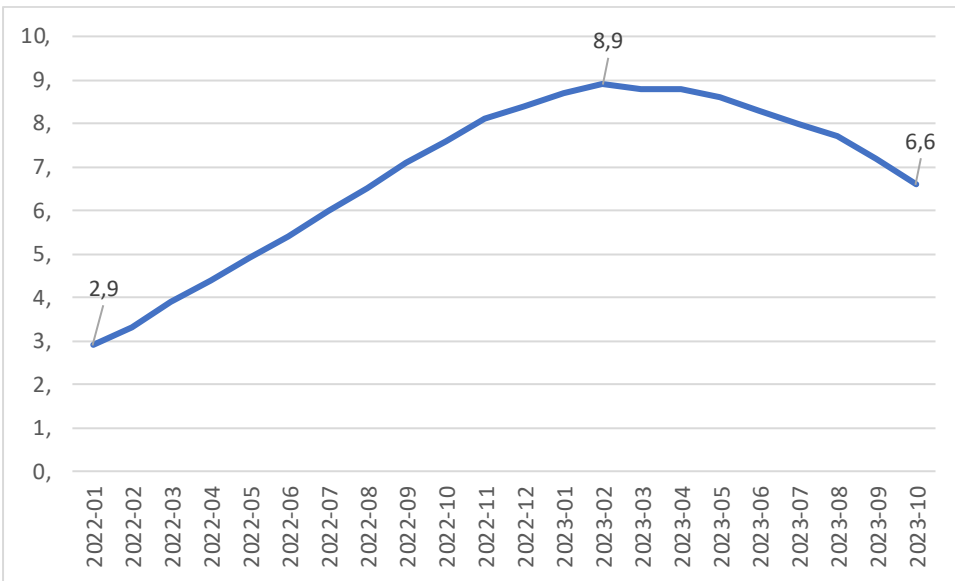


Will wages continue to recover, and what would be the impact on business profits?

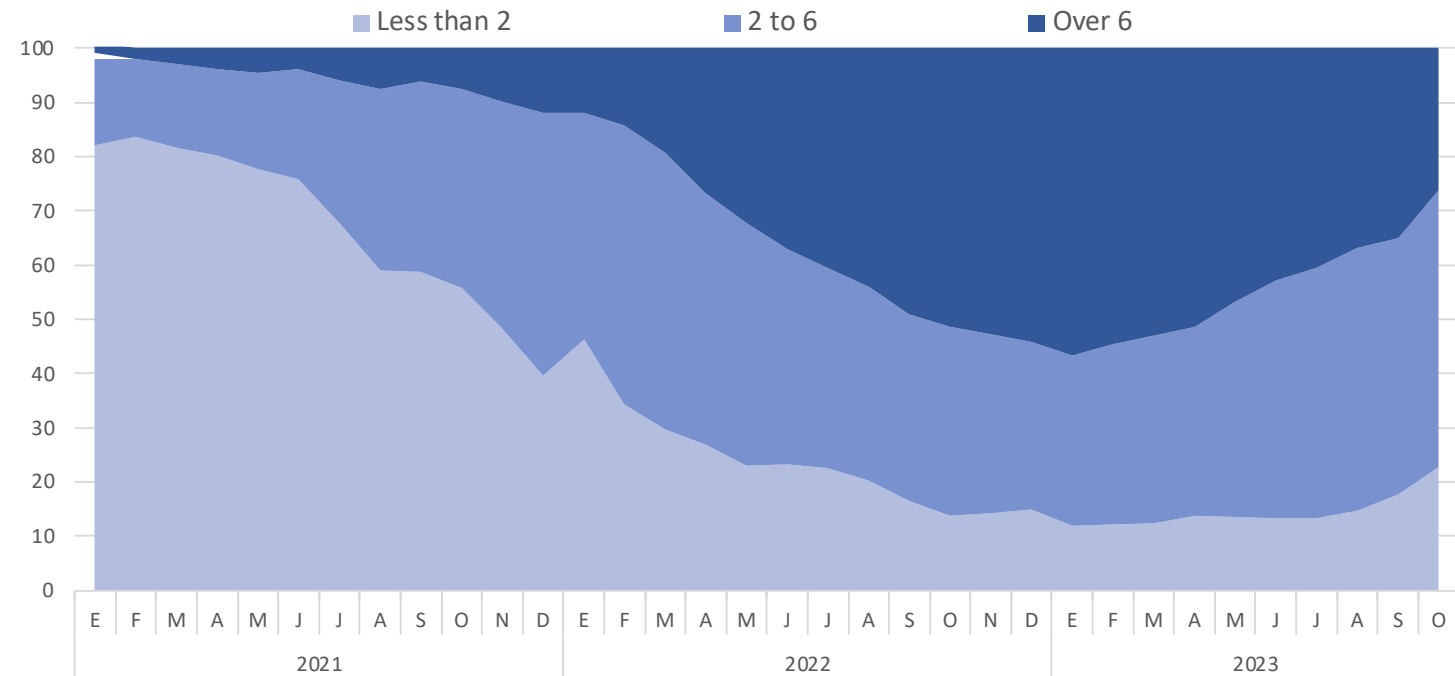


Disinflation seems to be underway, though this will be a gradual process is subject to base effects and a possible reversal of tax measures adopted to countearct the energy crisis

Headline CPI, yearly rates, eurozone



Percent of CPI items, by inflation rate, eurozone



Core inflation continues to decelerate in the majority of countries

	Mar-May	Jun-Aug	Sep-Oct
Euro area	0,8	0,2	0,2
Belgium	0,4	0,5	0,0
Germany	0,6	0,5	0,0
Estonia	0,7	0,5	-0,2
Ireland	0,8	0,5	-0,2
Greece	1,5	-0,3	1,1
Spain	0,9	0,1	0,4
France	0,6	0,4	-0,4
Croatia	1,2	1,1	-0,2
Italy	1,3	-0,6	1,2
Cyprus	1,1	0,8	-0,3

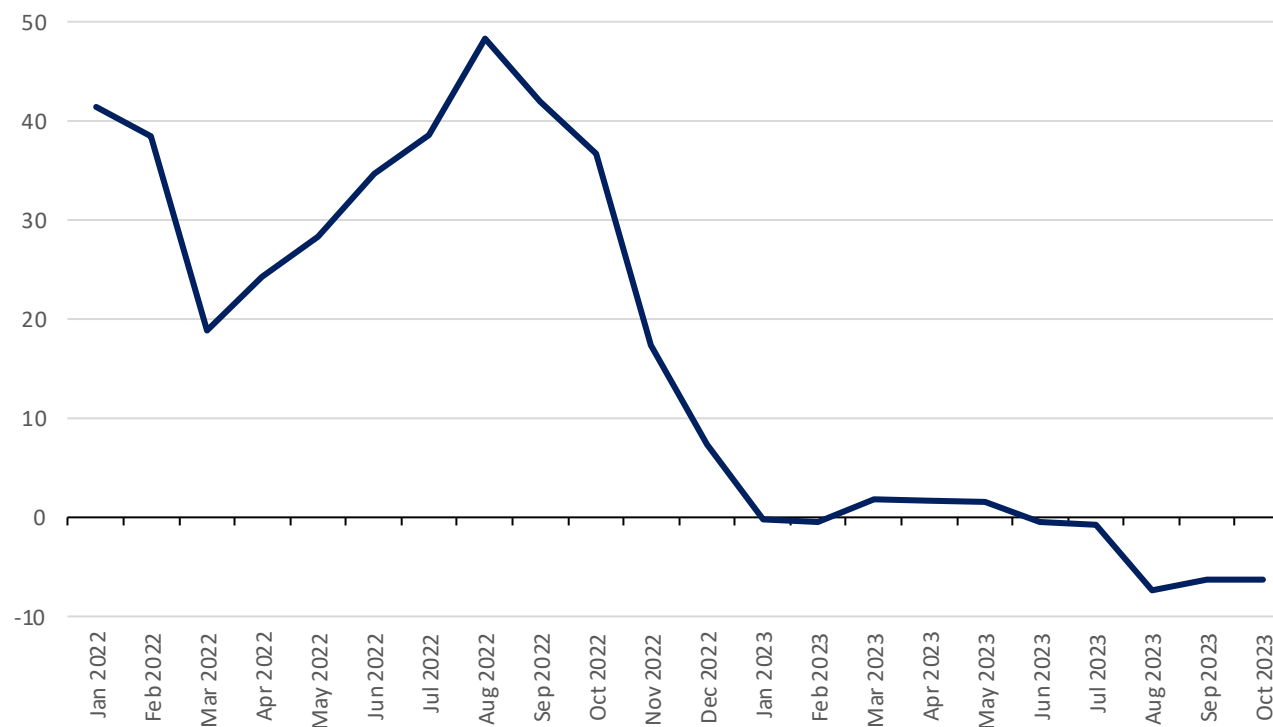
	Mar-May	Jun-Aug	Sep-Oct
Euro area	0,8	0,2	0,2
Latvia	1,4	-0,1	0,0
Lithuania	1,1	0,2	0,7
Luxembourg	0,6	0,3	0,0
Malta	2,6	0,9	-1,6
Netherlands	1,0	0,2	-0,1
Austria	0,7	0,0	0,8
Portugal	1,8	0,0	0,3
Slovenia	1,1	0,1	0,4
Slovakia	0,6	0,1	0,4
Finland	0,6	-0,1	0,4

Fuente: Eurostat.



Credit conditions continue to tighten

New loans to non financial corporations



Concluding remarks

- Fiscal policy will probably move to contractionary territory over the next couple of years –market pressures at least as important as fiscal rules
- Other growth engines will either remain sluggish (e.g. trade) or weak (notably private consumption, despite the pick up in wages). **Risk of employment becoming less resilient in sectors where medium-term prospects are bleak**
- Disinflation is underway, even if the process is likely to be bumpy
- In sum, there is a case for monetary policy easing as soon as wage moderation is confirmed



Thank you for your attention!

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