



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

Not only a German phenomenon!

August 14, 2017

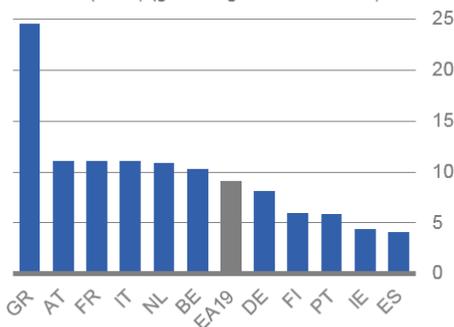
Author  
Sebastian Becker  
+49(69)910-21548  
sebastian-b.becker@db.com

[www.dbresearch.com](http://www.dbresearch.com)

Deutsche Bank Research Management  
Stefan Schneider

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.



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

---

© Copyright 2017. Deutsche Bank AG, Deutsche Bank Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite “Deutsche Bank Research”.

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made. In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK’s Prudential Regulation Authority (PRA) and subject to limited regulation by the UK’s Financial Conduct Authority (FCA) (under number 150018) and by the PRA. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Inc. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.