

CHART OF THE WEEK

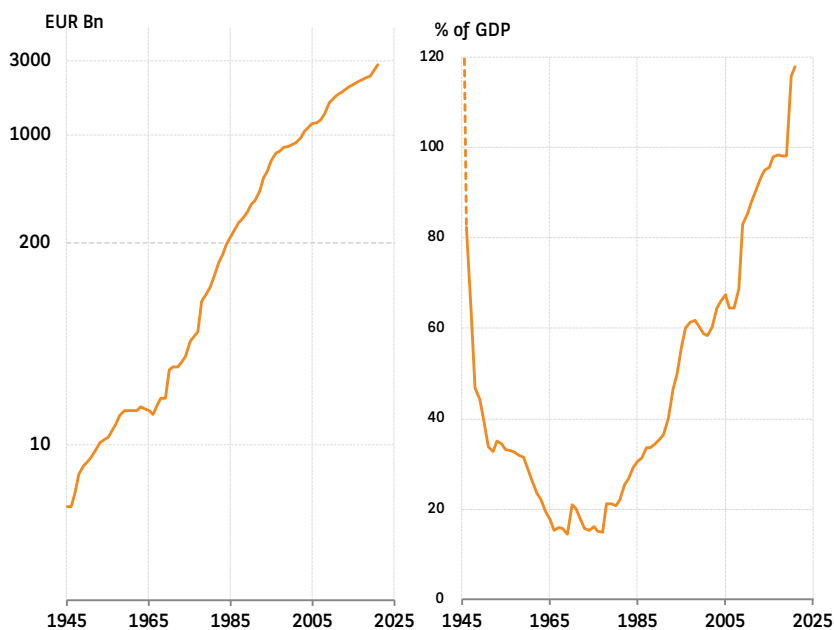
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10 March 2021

DEBT: SIZE IS NOT ALL THAT MATTERS

Jean-Luc Proutat

France: public debt



Source: INSEE, AMECO, BNP Paribas

Proponents of debt cancellation programmes sometimes argue that public debt will never be paid off, but that is not the question. In France, public debt denominated in euros (or in euro-equivalent francs before 1999) has increased constantly throughout the post-war period, without anyone dreaming of cancelling it. The high growth and inflation rates of the Thirty Glorious Years worked their magic. Between 1945 and 1975, debt outstanding increased about 10-fold, with the franc's depreciation bolstering the external component, while the debt ratio plunged from over 100% of GDP to less than 20%. In 2021, following a series of crises (the financial and euro crises, and then the Covid-19 crisis), debt has soared to peak levels again (117.8% of GDP according to European Commission estimates). Even so, public debt is no less sustainable, considering the share of fiscal revenues devoted to interest payments, that has never been so low (2.3%). The real question is what will happen if there is an interest rate shock. In the very short term, higher interest rates are not a problem since they are being driven by brighter growth prospects. On the whole, rate increases have been rather mild. That said, fire prevention is largely a matter of credibility. Future borrowing conditions will depend above all on investors' confidence in the French government, which issues sovereign debt, and in the European Central Bank, which indirectly purchases them.

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