BNP PARIBAS
The bank for a changing world

Paris, 22 April 2024

EcoBrief

Eurozone: the recovery of public accounts stalled in 2023.

After two years – 2021 and 2022 – of significant improvement linked to the post-Covid recovery in activity, 2023 marked a halt in the recovery of public finances in the euro area. According to preliminary results published on Monday by Eurostat, the public deficit narrowed in 2023 by only 0.1 point of GDP, to 3.6%. The primary deficit also fell by the same magnitude, to 1.9% of GDP.

While the increase in the French deficit weighed on the overall figures, almost half of the member countries (9 out of 20) also posted a deterioration last year. Italy remains the country with the largest deficit-to-GDP ratio at 7.4%. Eight Member States recorded a shortfall above 3% of GDP, compared to nine in the previous year. The deficit in Germany was stable at 2.5% of GDP. The deficit in the euro area remains well above the levels reached before the health crisis, when it fell below 0.5% of GDP.

2023 nevertheless confirmed the good trajectory of the public accounts of the countries at the epicenter of the sovereign debt crisis of the 2010s. These countries are today leading the group in terms of fiscal consolidation. Greece, Ireland, Cyprus, and especially Portugal have primary surpluses close to or above 2% of GDP, while three-quarters of the other Member States are in the red.

Another positive point is that the rise in bond yields did not lead to an increase in debt interest payments of the Eurozone last year, which remained stable at 1.7% of GDP. The extension of the maturity profile of government bonds, which currently exceeds eight years (residual), makes it possible to spread out refinancing volumes over time, which cushions the effects of rising interest rates on debt servicing cost.

Finally, while the debt-to-GDP ratio in the euro area decreased less significantly than in 2022, it still fell back below 90% of GDP, to 88.6%.

Guillaume Derrien
Senior Economist, Eurozone – UK
guillaume.a.derrien@bnpparibas.com