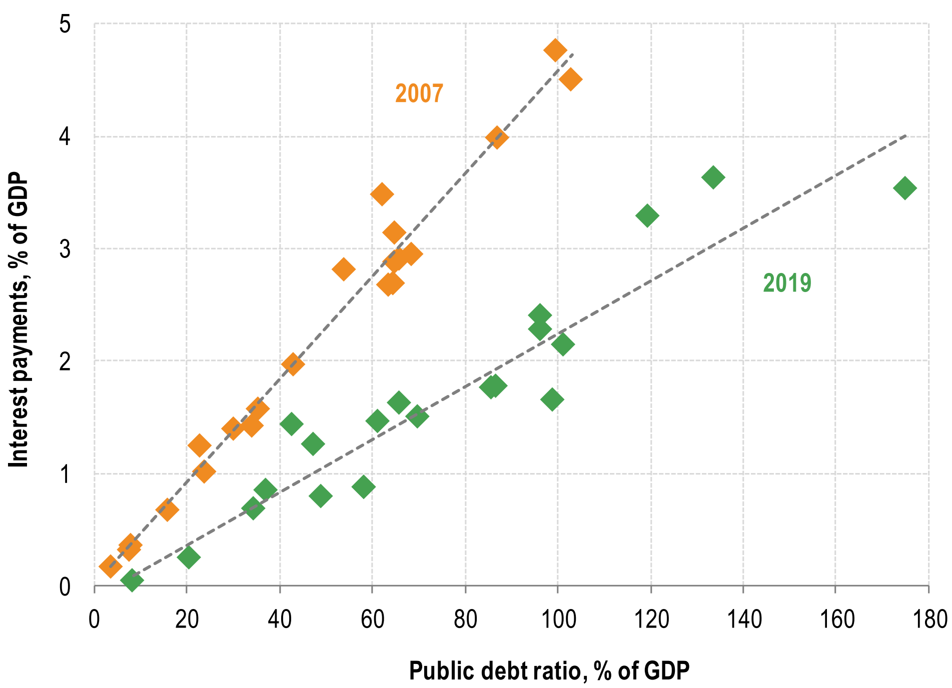
# Public finances in the eurozone: the fall in interest rates increases fiscal space

In the eurozone, current public debt ratios are much higher than before the Great Recession. A proper assessment of the risk that this entails should also take into account other changes in the economic environment, and in particular, the decline in long-term sovereign rates.

This trend has accentuated recently, with long term interest rates in several eurozone countries dropping below zero. But the decline has been at work for a long time and has already produced major effects. On the chart, each point represents a member state. The x axis shows the country's debt ratio and the y axis the interest charge paid each year on its public debt. The rotation of the regression line between 2007 and 2019 shows that although these countries generally have much heavier debt ratios than in 2007, they pay much smaller interest charges than in the past. Considering that interest rates are expected to stay low for a long time and given that maneuvering room for monetary policy is close to exhausted, some countries might turn towards fiscal policies to support activity. The ECB has already made a plea in that sense, at least for those countries with fiscal space.

**Euro area: rising debt ratios and falling interest expenditure**




Source: European Commission