

## Flash Economics

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### Euro zone: What form would a revolt of the savers take?

The fact that interest rates are considerably lower than the growth rate in the euro zone is a significant tax on savers, which they currently accept.

But could they revolt against this tax in the future?

This revolt would take the form of:

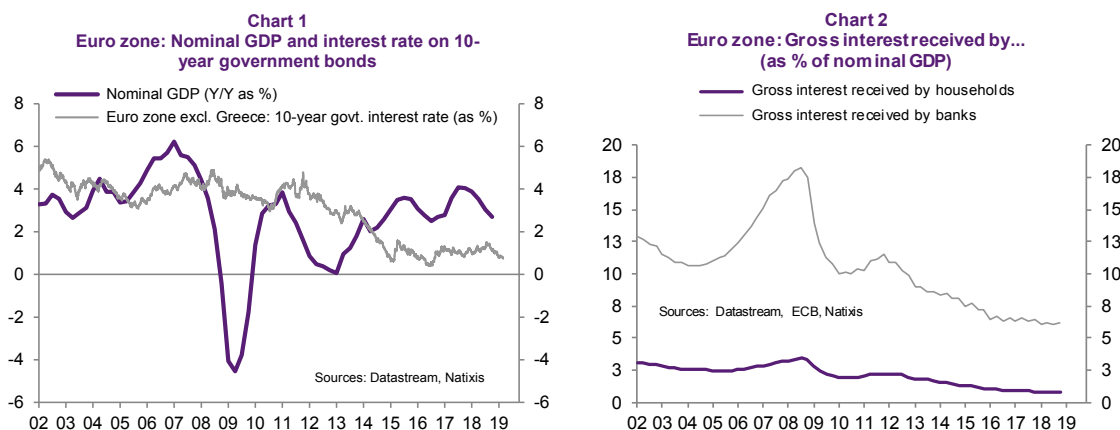
- A refusal to hold bonds with very low yields, which would force the ECB to resume quantitative easing and to buy the bonds sold by investors and savers;
- A portfolio switch into risky euro-zone assets (equities, real estate, high yield), whose prices would then rise sharply despite the rise in long-term interest rates, or into bonds from regions offering higher yields (United States, emerging countries), leading to a steep depreciation of the euro.

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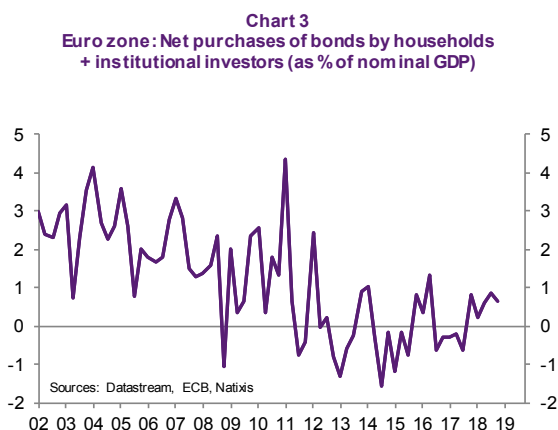
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## The taxation of savers in the euro zone

The fact that long-term interest rates are markedly lower than growth in the euro zone (Chart 1) corresponds to a taxation of all savers and lenders (households, banks, etc. Chart 2), who receive markedly lower-than-normal interest.



Yet, the savers accept this taxation at present, and they continue to buy bonds (Chart 3).

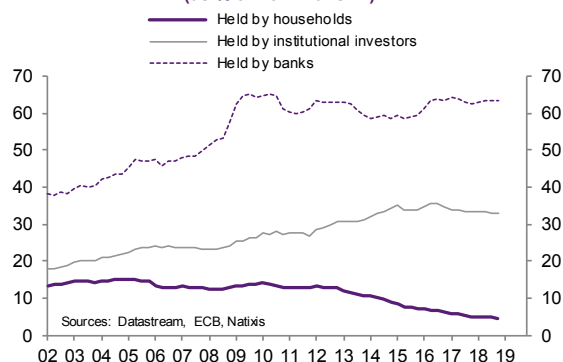


But the savers will perhaps revolt in the future.

## What form would a revolt by the savers take?

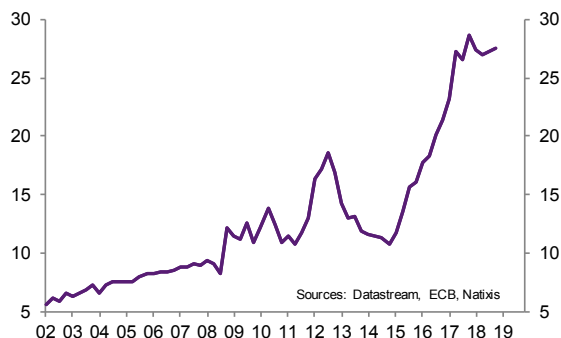
- If savers in the euro zone revolt against the taxation represented by long-term interest rates that are far lower than the growth rate, they would reduce their bond holdings (Chart 4).

**Chart 4**  
Euro zone: Outstanding bonds  
(as % of nominal GDP)



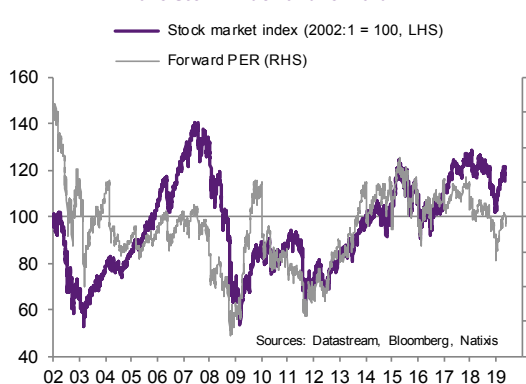
To prevent a dangerous rise in long-term interest rates, **this would force the ECB to resume quantitative easing (Chart 5)** to buy the bonds sold by investors and savers.

**Chart 5**  
Euro zone: Monetary base (as % of nominal GDP)

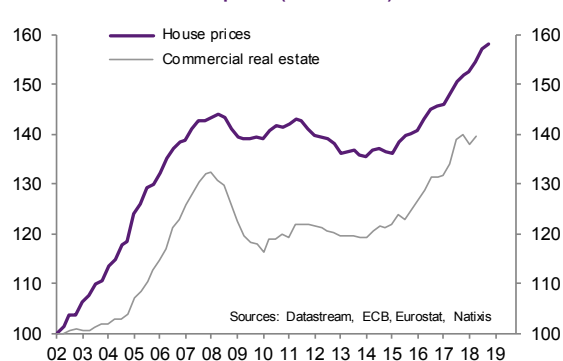


- In exchange for the bond sales, savers could:
  - **Either buy risky euro-zone assets** (equities, real estate, High Yield) whose prices would then rise (**Charts 6A, B and C**);

**Chart 6A**  
Euro Stoxx: Index and forward PER



**Chart 6B**  
Euro zone: House prices and commercial real estate prices (2002:1 = 100)

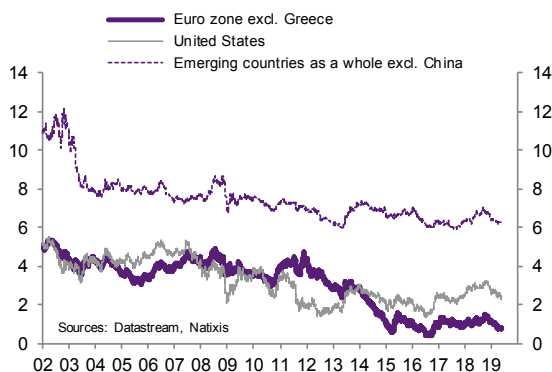


**Chart 6C**  
Euro zone : High Yield creditspread  
(asset swaps, in bp)

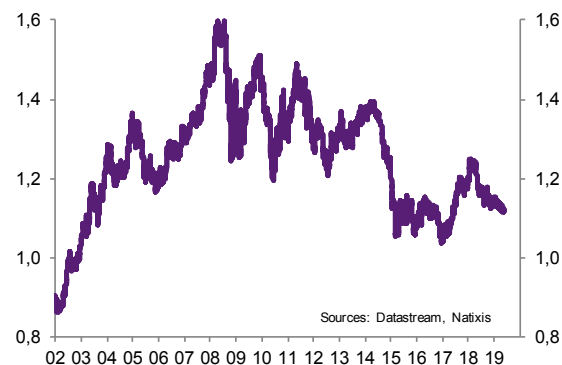


- Or buy bonds in other currencies with a higher yield (United States, emerging countries, **Chart 7**), which would lead to a marked depreciation of the euro (**Chart 8**).

**Chart 7**  
Interest rate on 10-year government bonds (as %)

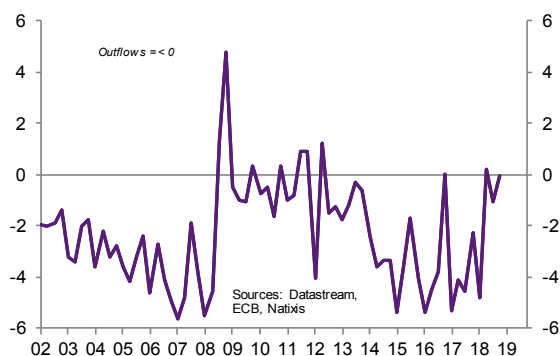


**Chart 8**  
Euro/dollar exchange rate (EUR 1 = USD...)



Currently, it seems that this switch (**Charts 6A, B and C, Chart 9**) is already underway in real estate and foreign bonds.

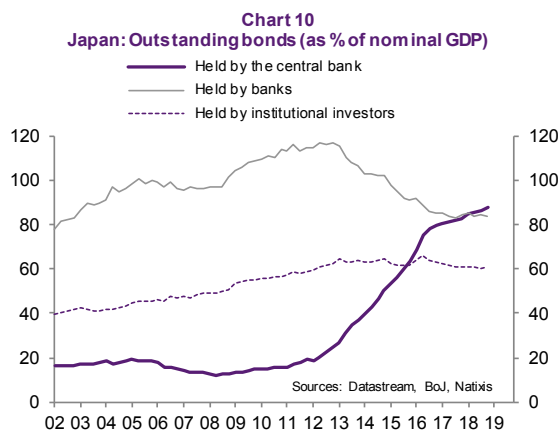
**Chart 9**  
Euro zone: Net purchases of foreign bonds by residents\* (as % of nominal GDP)



## Conclusion: The risk of revolt by the savers in the euro zone

The fact that long-term interest rates are markedly lower than growth is a taxation of savers against **which they could one day revolt by:**

- **Selling their bonds**, which would force the central bank to buy them (which is happening in Japan, **Chart 10**);



- **Buying either euro-zone risky assets or bonds in foreign currencies**; currently, both are already happening simultaneously.

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