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.

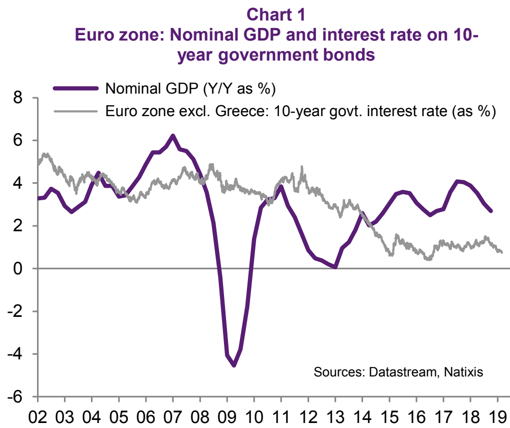
Patrick Artus
Tel. (33 1) 58 55 15 00
patrick.artus@natixis.com
@PatrickArtus

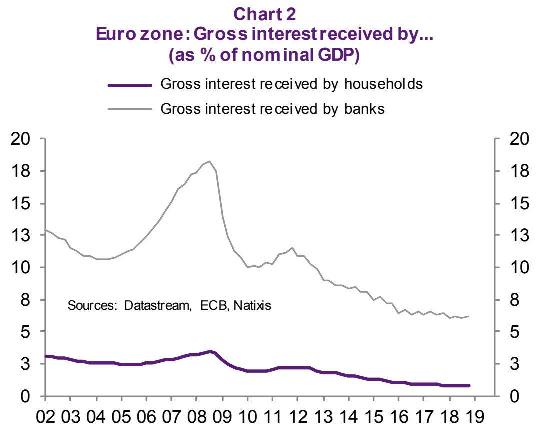
www.research.natixis.com

ECONOMIC RESEARCH

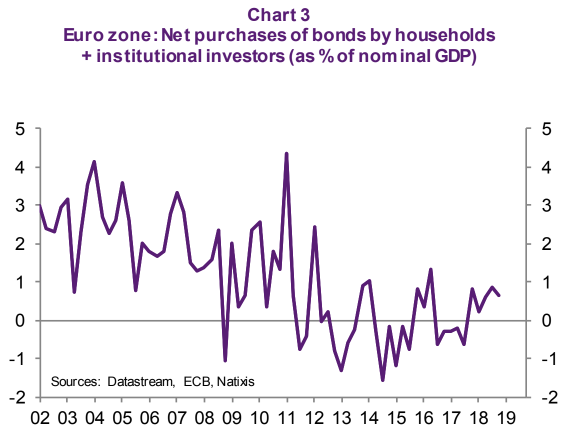
The taxation of savers in the euro zone

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).**

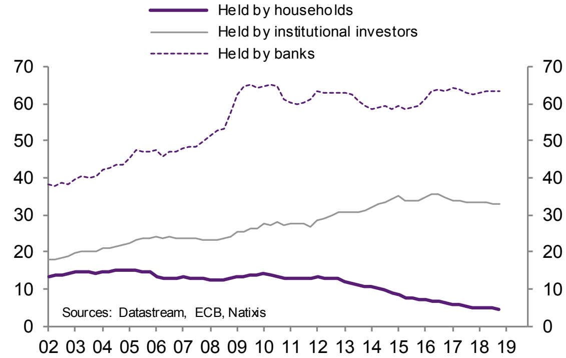


But the savers will perhaps revolt in the future.

What form would a revolt by the savers take?

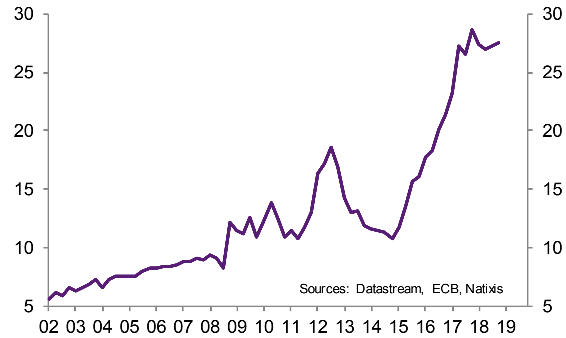
- If savers in the euro zone revolt against the taxation represented by long-term interest rates that are far lower than the growth rate, **they would reduce their bond holdings (Chart 4).**

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

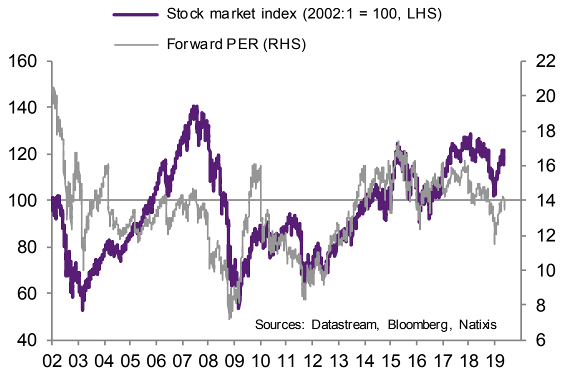


Chart 6B
Euro zone: House prices and commercial real estate prices (2002:1 = 100)

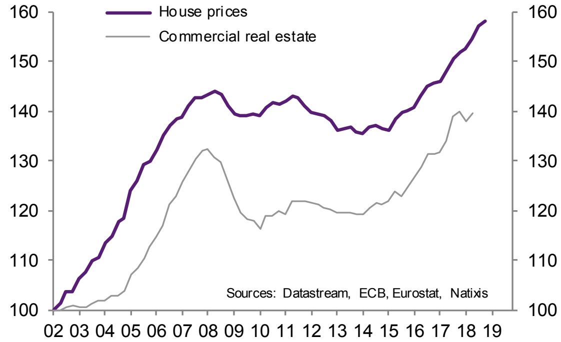
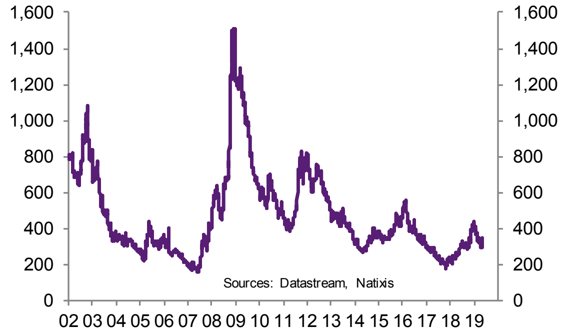


Chart 6C
Euro zone: High Yield credit spread (asset swaps, in bp)



- **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 %)

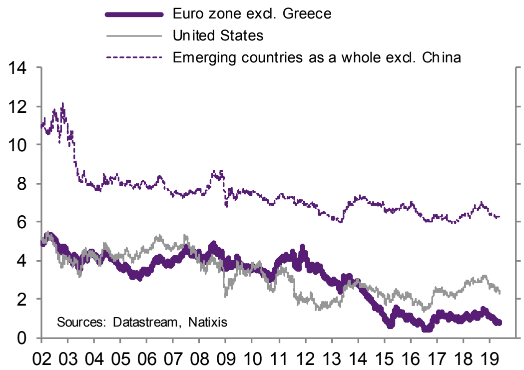
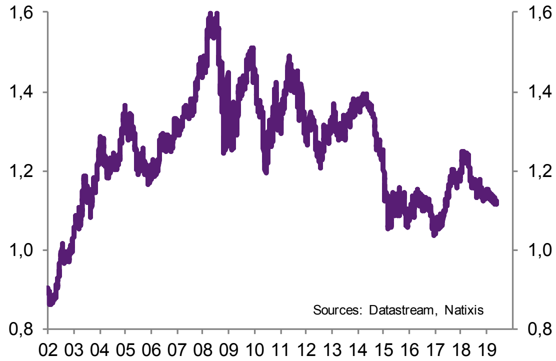
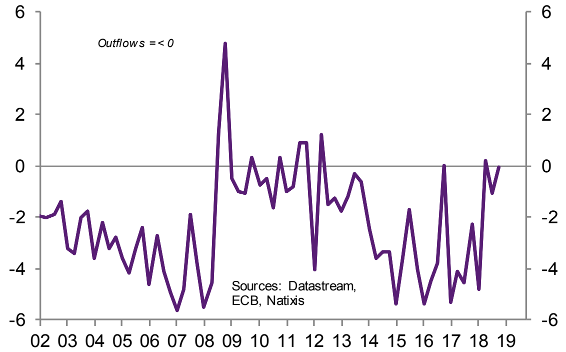


Chart 8
Euro/dollar exchange rate (EUR 1 = USD...)



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)

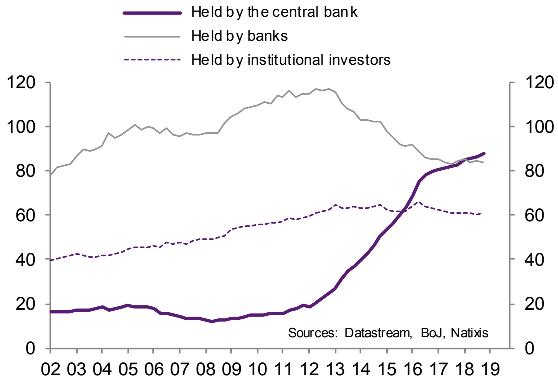


Conclusion: The risk of revolt by the savers in the euro zone

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**);

Chart 10
Japan: Outstanding bonds (as % of nominal GDP)



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

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