Economic Cycle & Growth

Eurozone Barometer is now France

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At a glance

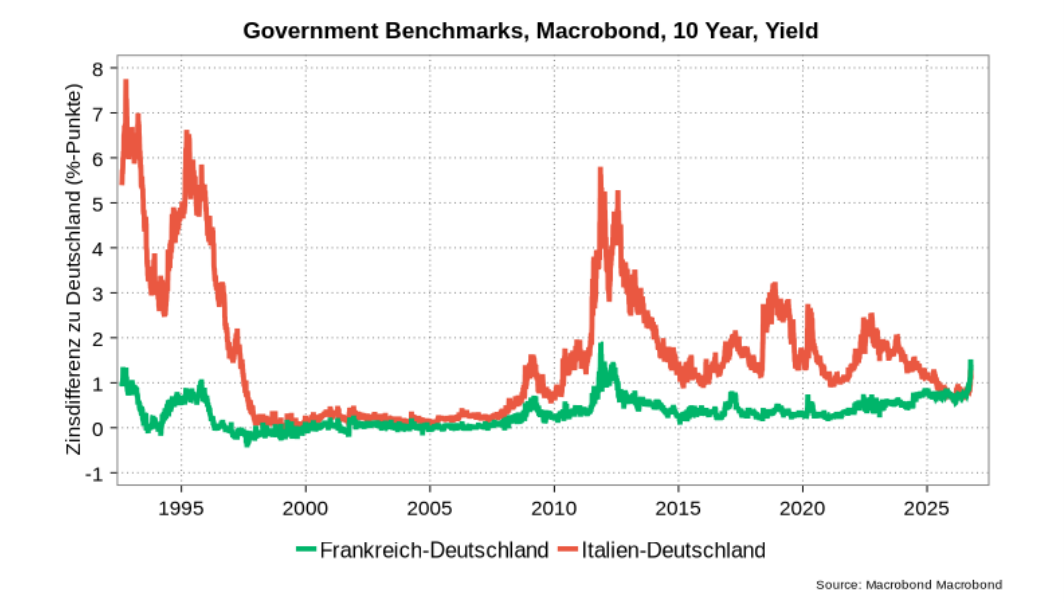
- France now has to pay higher interest rates on its debt than Italy.
- Rising risk premiums make debt servicing more expensive, thereby exacerbating financial problems.
- A “Euro Crisis 2.0” would also affect the closely integrated Swiss economy and must be prevented at all costs.

For a long time, Italy was the "sick man" of the eurozone. Today, another country is on its sickbed: France.

For many years, analysts—and we, too—watched with bated breath the yield spread between German and Italian government bonds. We called it the “fever curve”: When it rises, the markets doubt a country’s solvency and demand a higher risk premium. Italy’s curve is now fairly flat. The country isn’t in perfect health, but the markets believe it can get its financial problems under control.

In France, the trend is moving in the opposite direction. Paris is now paying about 1.4 percentage points more in interest on 10-year bonds than Berlin—the highest spread since the 2011–2012 euro crisis. The symptoms are familiar: public debt is rising inexorably, austerity budgets fail in parliament at regular intervals, and economic growth remains weak. And every attempt to tighten the belt drives new groups onto the streets—most recently, high school and college students.

The insidious thing about this disease is that it feeds on itself. The more nervous investors become, the higher interest rates rise. The higher interest rates rise, the more expensive debt service becomes. And the more expensive debt service becomes, the greater the pressure to cut spending in other areas, such as investments.



Switzerland cannot afford to be indifferent to the events unfolding in our neighboring country: France is one of our most important trading partners, and every time there is a euro crisis, capital flees to the Swiss franc—with noticeable consequences for our export economy. At the same time, looking westward shows just how valuable the debt brake is: those who have their finances under control have no reason to fear the markets.

From the perspective of Europe as a whole, it is to be hoped that France will regain budgetary discipline and that its economy will regain momentum. The remedy for France is well known: budget discipline and reforms that stimulate growth. It just needs to be prescribed at last—before the flu turns into pneumonia. After all, a Euro Crisis 2.0 is the last thing Europe's economy needs right now.

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