Flash Economics

N° 151
December 11th, 2025

Does public debt crowd out business investment?

The worst consequence of rising public debt levels would be if they were to come at the expense of business investment. This would lead to crowding out, with savings being used to finance governments rather than businesses. We wonder whether there are signs of crowding out of business investment in the United States, the Euro zone, and France.

The crowding out effect would be characterized by:

- A low level of corporate debt combined with a rise in public debt;
- The absence of an increase in the nation's savings rate; this increase would make it possible to finance both public deficits and business investment;
- An increase in the real long-term interest rate;
- The absence of an increase in external debt, as recourse to external debt can compensate for the insufficiency of domestic savings available to businesses.

There has been a decline in private investment in the Euro zone and in France, but much less so in the United States, due to the latter's ability to borrow from the rest of the world.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Is the rise in public debt linked to weak business investment?

Here we examine whether there are signs of **crowding out of business investment when public debt levels rise** (looking at the situations in the United States, the Euro zone and France).

The crowding out of business investment stems from the fact that savings are used to finance public deficits rather than business investment.

Chart 1 shows the **sharp rise in the public debt ratio** since 2002.

Chart 1
Public debt (as % of nominal GDP)

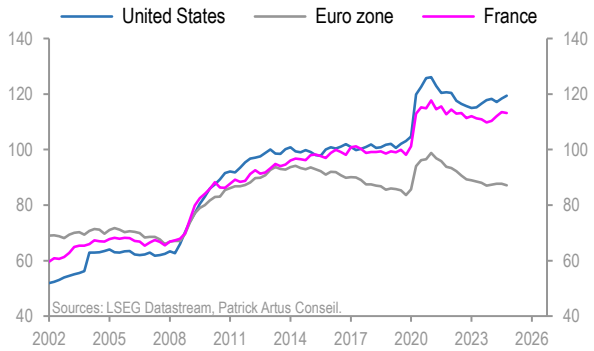
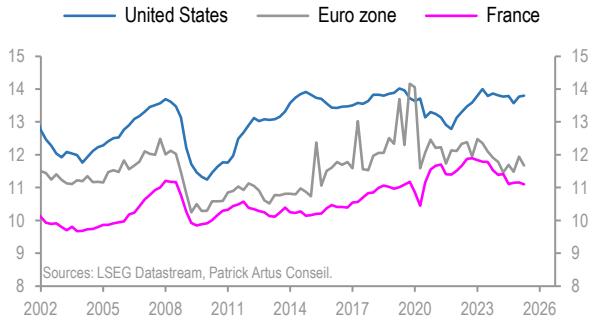


Chart 2 shows the **investment rates of non-financial corporations**.

Chart 2
Investment of corporations
(in value terms, as % of nominal GDP)



We can see that:

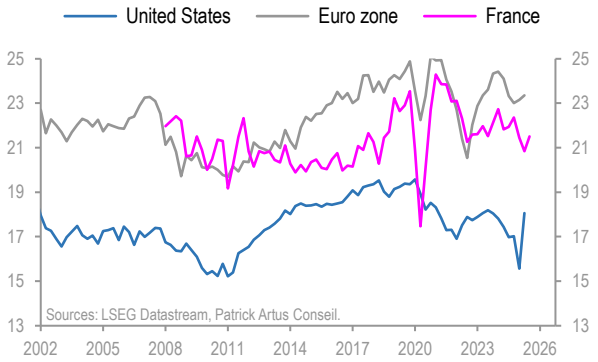
- It has been stagnant in the United States and France since 2008;
- It has been declining sharply in the Euro zone since 2020;
- It is significantly higher in the United States than in the Euro zone or France.

Factors that could prevent the crowding-out effect

Firstly, there is the possibility of an **increase in the nation's savings rate** (the savings rate of all economic agents), which would make it possible to finance both public deficits and business investment.

Chart 3 shows that the **national savings rate** has been falling in the United States and the Euro zone since 2019 and has remained stable in France. **We are therefore not seeing an increase in the national savings rate parallel to that of public debt**.

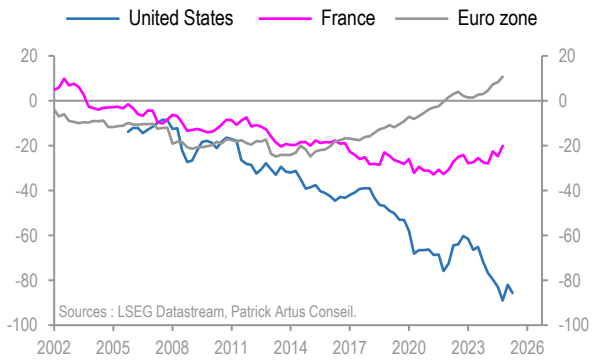
Chart 3
National savings rate (as % of nominal GDP)



Next is **external debt**. An increase in external debt can compensate for insufficient corporate savings and help finance both public deficits and corporate investment.

Chart 4 shows the **net external debt** of the three countries (regions).

Chart 4
Net foreign assets or liabilities (as % of nominal GDP)



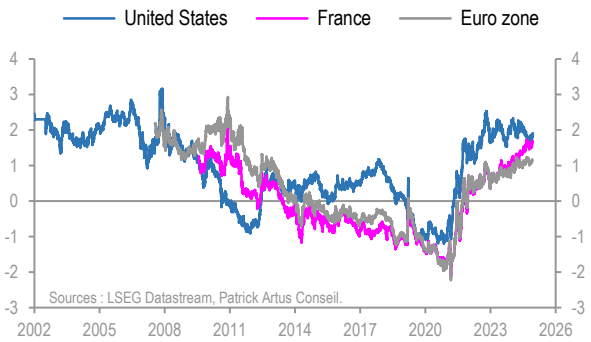
We can clearly see a sharp increase in the net external debt of the United States, a slight increase in the net external debt of France and no net external debt in the Euro zone.

Normally, insufficient savings lead to an increase in the real long-term interest rate

If available savings are insufficient to finance both public deficits and investment, there is an **increase in the real long-term interest rate**.

Chart 5 shows **real 10-year interest rates**, calculated using 10-year inflation swaps.

Chart 5
Real interest rate on 10-year government bonds (as %)



We can see that the real long-term interest rate has now returned to roughly the same level it was at before the 2008 subprime crisis.

Summary: has the worst effect of rising public debt been avoided?

The worst effect of rising public debt ratios is the crowding out of business investment. Indeed, if business investment is crowded out, potential growth slows, leading to a decline in activity and tax revenues, a worsening of public deficits and an acceleration in the accumulation of public debt.

There are signs of crowding out of business investment due to the accumulation of public debt (low investment rates, low growth in external debt, no increase in the national savings rate) in the Euro zone and France. In the United States, the crowding out effect is much less pronounced thanks to the sharp increase in net external debt. Weak business investment (Euro zone, France) and the possibility of borrowing heavily from other countries (United States) have so far prevented long-term interest rates from rising.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.