Flash Economics

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Investors have little concern about public debt levels

The 10-year interest rate in the United States has recently fluctuated between 4 and 4.2%, in Germany between 2.8% and 2.9%, in France between 3.3 and 3.5% and in Japan between 2.1% and 2.3%. Since autumn 2025, there has been no significant rise in long-term interest rates in the United States or the euro zone, and long-term interest rates in Japan have been falling again since January 2026.

This shows that investors are not very worried about the level of public debt. They take it for granted:

- That the US will still be able to attract non-resident capital to the Treasuries market;
- That the ECB cannot accept a debt crisis in a major euro zone country;
- That Japan has a reserve of savings, particularly invested abroad, which would protect it from a sovereign debt crisis.

They are probably right about the ECB, but they do not take into account the fact that if Japan needs to repatriate capital, there will be a problem financing the US budget deficit. It is difficult to be reassured about the public debt situation in Japan and the United States alike.

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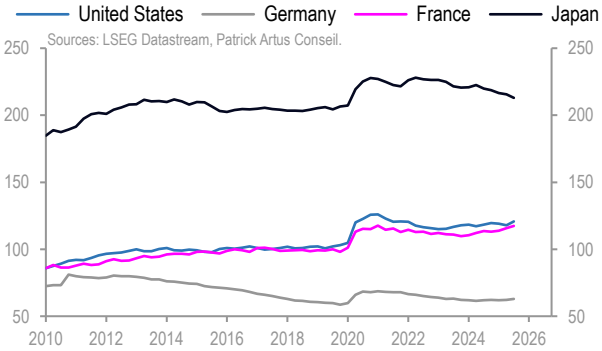
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Long-term interest rates remain fairly low

We look at the situation in the **United States**, **Germany**, **France and Japan**. The United States, France and Japan have **high levels of public debt** (**Chart 1**); Germany's public debt ratio is 64.4% in 2025 and is set to rise to 73.6% of GDP in 2030 with increased public investment in infrastructure and higher military spending.

Chart 1
Public debt (as % of nominal GDP)



Despite this unfavourable outlook for public debt and **public deficits** (in 2026, the public deficit is expected to be 5.8% of GDP in the United States, 4.5% of GDP in Germany, 5% of GDP in France, and perhaps 3 to 4% of GDP in Japan with the stimulus programme to be announced), **long-term** (**10-year**) **interest rates remain fairly low in these four countries**. Charts **2A/B/C/D** compare **10-year interest rates** (**on public debt**) and **inflation rates**.

Chart 2A
United States: Inflation and 10-year government bond yields (%)

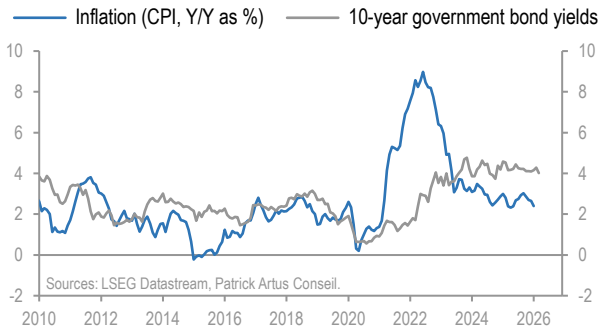


Chart 2B
Germany: Inflation and 10-year government bond yields (%)

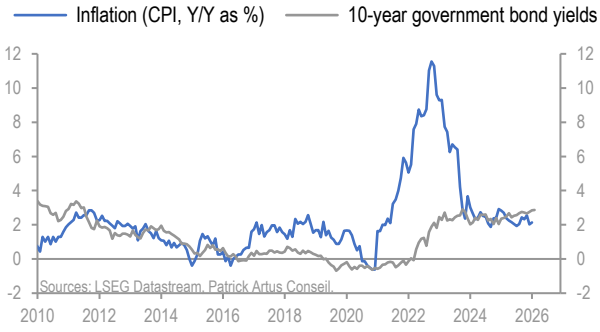


Chart 2C
France: Inflation and 10-year government bond yields (%)

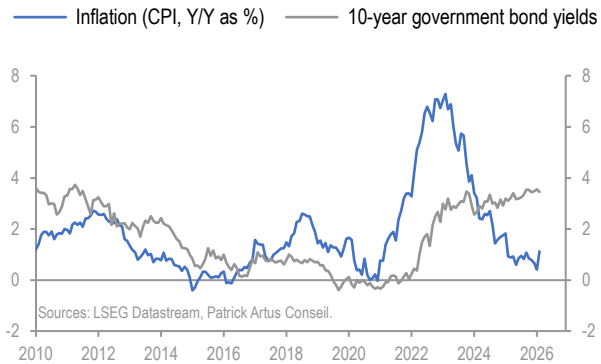
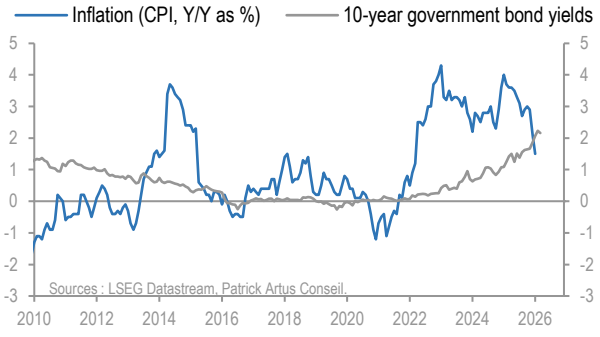


Chart 2D
Japan: Inflation and 10-year government bond yields (%)



The 10-year real interest rate is lower than real growth in the United States and Japan, and close to the volume growth expected in 2026 in Germany. Only France has a long-term real interest rate higher than the growth rate, but this is due to France's particularly low inflation and the fact that long-term interest rates are determined by reference to the average rate for the euro zone.

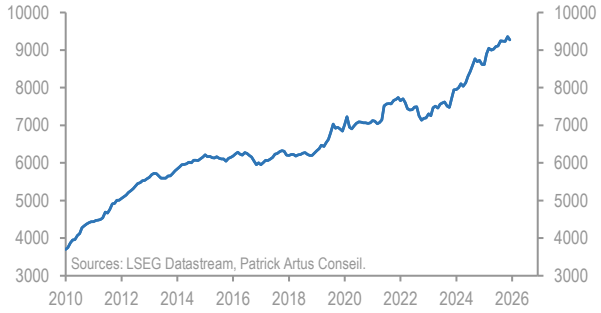
In reality, today's investors are little concerned about the current or future level of public debt.

Why are investors so indifferent to the state of public finances?

Investors are probably thinking:

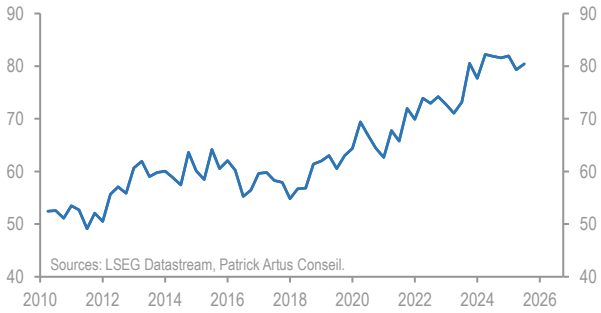
- **That the United States will always be able to attract investors to the Treasuries market** because of the central role of this market and the absence of an alternative risk-free asset (**Chart 3**) ;

Chart 3
United States: Treasury securities held by non-residents
(USD bn)



- **That the ECB cannot accept a public debt crisis in a major euro zone country**, and that it would intervene (using the Transmission Protection Instrument) by buying the public debt of the country in difficulty to avoid a crisis and the risk of default; a default on the public debt of a major euro zone country would lead to a loss of confidence in all euro-denominated financial assets;
- **That Japan has a reserve of savings invested abroad** (**Chart 4**) that protects it from a public debt crisis, with the possibility of repatriating financial assets invested abroad back to Japan.

Chart 4
Japan: Net international investment position
(% of nominal GDP)



Summary: is this lack of investor concern justified?

We saw above that investors were not very concerned about rising public debt levels or high public deficits (in the United States, Germany, France and Japan).

Investors' lack of concern seems reasonable as far as the major euro zone countries are concerned. If one of these countries were to run into difficulties financing its public debt, the ECB would intervene, and it would only be one country, not all the countries in the euro zone.

The problem is the lack of concern about the United States and Japan alike.

If Japan needed to repatriate capital, or even if Japan's current account surplus (**Chart 5**) fell as the public deficit rose, the result would be a drop in purchases of Treasuries by Japanese investors (**Chart 6**).

Chart 5
Japan: Current account balance (as % of nominal GDP)

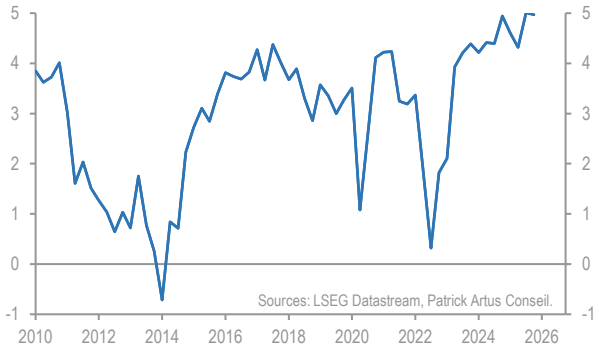


Chart 6
United States: Holdings of Treasuries by Japan
(USD bn)



If Japanese savings need to finance an increase in the Japanese public deficit, they can no longer finance the US public deficit. If Japanese Prime Minister Sanae Takaichi does indeed implement a sharp increase in the public deficit with higher investment spending, higher military spending, lower consumption tax (VAT), **there will either be tension on the Japanese public debt market (JGBs), or tension on the US public debt market (Treasuries)**.

It is very likely that the negative growth (-0.7% in Q3 2025, +0.1% in Q4 2025) recorded in Japan in the second half of 2025 will prompt the Japanese government to implement a stimulus plan based on an increase in the public deficit.

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