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What to watch: 93 years to close the gender pay gap; putting the Eurozone's fiscal genie back in the bottle and the winners and losers of interest income

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Executive summary

- **International Women's Day: no catch-up yet.** Despite the progress in education and political representation of women in the last 30 years, the struggle for gender equality continues. The gender gap remains largely unchanged, influenced by systemic inequalities that hinder women's professional development. At the current pace of progress, we would still need another 46 years for women to reach male labor participation rates, almost twice as much (93 years) to close the gender pay gap and 33 years to bridge the differences in political representation between men and women in OECD countries. In this context, declining financing for gender-equality initiatives is a cause for concern. More public support is the need of the hour to dismantle the barriers that women face.

- **Eurozone: How to get the fiscal genie back into the bottle.** Recent public spending data from Germany, France, Italy and Spain are already raising concerns over the bloc's commitment to fiscal discipline. Avoiding austerity ghouls and managing explosive fiscal trade-offs (social protection, defense, greening) pose serious questions to fiscal pathways. While governments in the Eurozone's four biggest economies are trying to tighten their belts ahead of the reintroduction of the new EU fiscal framework in 2025, we do not see any immediate consolidation efforts that would be enough to make the countries fully compliant. Worse, between reference trajectories sent by the Commission and structural plans submitted by member states, a sobering and untimely list of countries would fall under the excessive deficit procedure this summer. Available projections for 2025 suggest that nine Eurozone countries would have deficit-to-GDP ratios higher than 3% in 2025, while 12 Eurozone countries will have debt ratios wider than 60%.

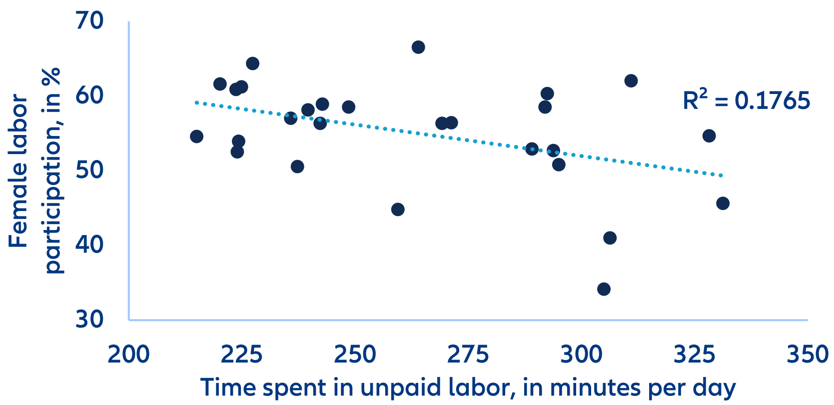
- **Higher rates for European households: win some, lose some.** Higher interest rates are benefiting some European households more than others. While German and French households have seen their interest incomes increase faster than payments, Italian and Spanish households have seen a deteriorating interest balance. Differing savings behaviors and banking environments are to blame for the unequal pass-through of monetary policy.

International Women's Day: no catch-up yet

Women in OECD countries have seen striking improvements in health, education and political participation. This week, France became the first country in the world to enshrine abortion rights in its constitution. But the resurgence of far-right parties has put reproductive rights under pressure in other developed countries, suggesting a fork in the road to global gender equality. Against this backdrop, we assess female economic empowerment in OECD countries by looking at five dimensions: life and health, education, labor, participation in decision-making and retirement. We find that great strides have been achieved in the field of education. For example, 44.7% of women between the ages of 25 and 64 have completed tertiary education compared to only 36.7% of men. This, in turn, has helped with some important development indicators, such as the adolescent birth rate per thousand women (aged 15 to 19), which has massively decreased from almost 30 in 1993 to 13.4 in 2023. More educated women have also translated into more female political representation. In the early 1990s, less than 16% of the seats in national parliaments were occupied by women. Thirty years later, this figure has more than doubled to 32.5%, a non-negligible improvement though it remains below 50%.

But labor and financial outcomes are lagging as women spend more time on unpaid work. The female participation rate has not followed the swift trajectory of education dynamics, increasing roughly 5pps from 48% in 1993 to 53% in 2023. The unsung villain of female labor participation is unpaid labor as women still overwhelmingly take on the responsibilities of running the household. Figure 1 shows the relationship between the female labor participation rate and the unpaid (domestic) labor time spent by women in minutes per day. In OECD countries, women spend 127 minutes more in unpaid labor than men, on average, and roughly half an hour more than men in total labor – paid and unpaid. In China, the only other non-OECD country we looked at, women spend 143 minutes per day more in unpaid labor than men, and 94 minutes more on total labor compared to their male peers.

Figure 1: Female labor participation rate and time spend in unpaid labor by women in OECD countries.



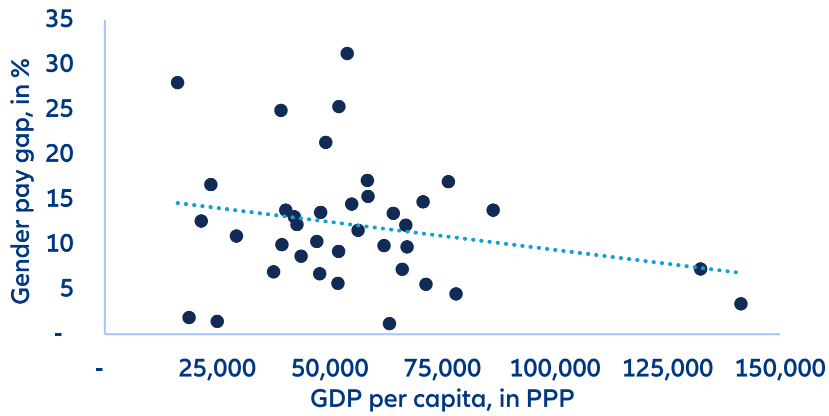
Sources: OECD, World Bank, Allianz Research

The gender pay gap has also not changed much in the last three decades, going from 18.9% to 12.1%. Figure 2 shows the gender pay gap and the GDP per capita in purchasing power parity, which is used as a measure of economic development. Much of the difference in remuneration between men and women is explained by the industry of employment, type of contracts, part-time employment and career breaks. However, these are symptoms of the same malaise: women still face systemic inequalities that create barriers to their professional development. In STEM (science, technology, engineering and mathematics) fields, for instance, women have been driven out of academic careers due to harassment[1]. Female attrition from such fields limits women's earning capacity and prevents the creation of a new generation of female mentors that can usher in even more women to the field.

[1] *Reidy D., Salazar L., Baumler E., Wood L., Daigle L. Sexual Violence against Women in STEM: A Test of Backlash Theory Among Undergraduate Women. J Interpers Violence. 2023 Jul;38(13-14):8357-8376. doi: 10.1177/08862605231155124. Epub 2023 Feb 20. PMID: 36803036.*

Research[2] consistently shows that female mentors play a crucial role in addressing gender imbalances in various professions,[3] providing psychosocial and career development support, sponsorship and coaching.

Figure 2: Gender pay gap and GDP per capita in PPP in OECD countries.



Sources: OECD, IMF, Allianz Research

At the current pace of progress, we would still need another 46 years for women to reach male labor participation rates, almost twice as much (93 years) to close the gender pay gap, and 33 years to bridge the differences in political representation between men and women in OECD countries. Sweden, Denmark and Norway are at the top of our ranking because of the great strides made to level the playing field between men and women, especially in the areas of health and education as well as the world of work, political representation and retirement outcomes for women. But Mexico, China and Turkey have a long road ahead to gender equality.

In this context, more public support is the need of the hour to dismantle the barriers that hinder women from reaching their full potential. Much of the progress seen in the last three decades was the result of financing targeting the sustainable development goals. However, OECD countries' governance-related official development assistance (ODA) with gender-equality objectives is on the decline. ODA to support women's rights organizations and movements and government institutions dropped to EUR684mn on average per year in 2021-2022, from EUR824mn in 2019-2020. Without additional support, closing the gender gap will be a distant dream, especially for the countries at the bottom of our ranking.

[2] Crawford K., Windsor L. Women and Minorities Encouraged to Apply (Not Stay). 2021. SSRN.

[3] Eurofound. European Working Conditions Surveys. 2021.

Figure 3: Female economic empowerment ranking

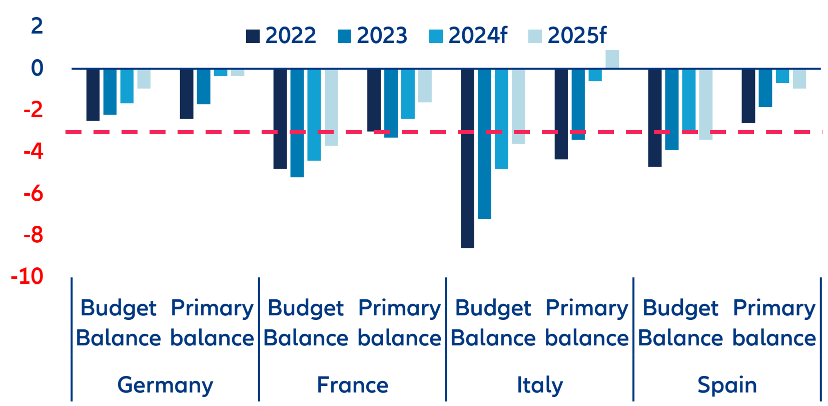
	Life and Health			Education			Labor outcomes		Participation in decision-making			Retirement	
	Fraction of life expectancy at birth spent in good health, %	Women whose need for family planning is satisfied with modern methods, in %	Adolescent birth rate (births per 1,000 women ages 15–19)	Population with secondary education or higher, in %	Expected years of schooling	Gender pay gap	Female labor force participation rates, in % (ages 15 and older)	Female NEET (youth not in education training or employment) rates, in %	Seats held by women in national parliaments, in %	Seats held by women in local governments, in %	Share of managerial positions held by women, in %	Healthy life expectancy at age 60, years	Share of women that are very worried about not having enough money for old age, in %
1. Sweden	85.9	86.7	3	77.9	21	7.2	61.6	4.7	46.4	44.0	43.0	19	7.7
2. Denmark	86.0	87.8	2	80.2	19	5.6	58.9	7.2	43.6	37.0	28.2	19	5.2
3. Norway	85.2	88.6	2	79.3	19	4.5	64.4	5.7	45.0	40.8	33.5	19	6.8
4. Iceland	86.2	80.1	5	73.8	21	9.7	71.2	4.6	47.6	51.3	37.6	19	9.6
5. Finland	85.7	90.5	4	79.4	20	15.3	57.1	6.9	45.5	40.2	36.5	20	6.8
6. Belgium	85.4	90.3	5	72.3	20	1.2	50.6	6.6	42.7	39.0	35.4	19	21.5
7. Switzerland	85.6	88.6	2	84.4	17	13.8	62.4	9.1	41.5	39.0	31.5	20	8.5
8. Netherlands	86.0	88.4	3	69.8	19	14.8	61.3	5.0	40.7	35.0	26.0	19	7.8
9. New Zealand	84.8	87.8	12	74.6	21	9.2	66.5	12.6	50.4	39.4	40.0	19	11.4
10. Australia	84.5	85.3	8	79.1	22	9.9	62.1	9.0	38.4	33.9	39.7	20	12.5
11. Ireland	85.6	88.4	6	75.7	19	7.3	60.3	6.8	23.1	23.9	38.0	19	8.1
12. United Kingdom	85.1	85.9	10	80.1	18	14.5	58.5	10.6	34.6	35.3	36.8	19	7.0
13. Austria	85.8	88.7	5	76.2	16	12.2	56.3	10.3	41.0	26.3	35.5	19	8.9
14. France	85.9	91.2	9	70.9	16	11.6	52.5	10.4	37.3	42.3	37.8	21	16.8
15. Canada	85.6	92.5	7	86.6	17	17.1	60.9	10.6	30.5	26.6	35.5	20	22.2
16. Latvia	86.8	80.9	11	93.5	17	24.9	55.2	9.1	30.0	30.5	45.9	17	24.1
17. Spain	85.0	86.3	6	53.4	19	6.7	52.9	10.1	43.0	38.6	33.3	20	23.5
18. Germany	85.1	87.3	7	80.7	17	13.5	56.4	7.7	34.9	30.3	29.2	20	20.8
19. Costa Rica	85.5	83.7	36	41.5	17	1.4	50.1	22.6	47.4	45.5	40.2	20	44.0
20. Israel	86.2	68.6	7	85.0	17	25.4	60.2	17.2	23.3	17.1	29.0	20	7.0
21. Lithuania	86.6	72.6	10	89.0	17	10.3	58.5	10.9	28.4	29.4	37.0	18	18.0
22. Poland	87.1	72.1	9	85.9	17	8.7	50.8	11.9	28.3	30.4	43.0	19	39.3
23. South Korea	86.7	82.3	2	74.8	16	31.2	54.6	21.0	18.6	30.3	14.6	21	28.9
24. Czechia	86.1	83.3	9	87.8	17	13.6	52.3	8.4	25.5	29.0	28.4	18	19.0
25. Japan	86.8	68.0	3	91.6	15	21.3	54.0	3.8	9.9	15.6	12.9	22	34.2
26. Luxembourg	85.5	80.1	4	72.5	15	3.4	58.2	7.4	33.3	25.1	21.9	19	21.0
27. Portugal	85.6	78.8	7	44.4	17	12.2	54.7	7.4	37.0	31.7	38.0	20	40.7
28. Slovakia	86.9	78.2	27	85.0	15	13.8	56.0	11.5	21.3	26.9	38.0	18	24.8
29. Italy	85.5	74.1	4	51.8	17	5.7	41.0	20.0	32.3	32.4	28.6	20	15.9
30. Chile	85.4	84.8	23	62.9	17	10.9	48.8	18.3	35.5	33.6	30.4	19	43.6
31. United	83.0	80.3	15	91.3	17	17.0	56.5	11.7	28.7	26.2	41.0	17	23.8
32. Hungary	87.0	79.2	22	76.4	15	13.1	52.7	13.2	14.1	30.5	36.6	17	20.8
33. Greece	86.0	66.0	8	62.3	20	6.9	44.8	12.0	21.0	21.8	29.6	20	53.5
34. Colombia	86.1	87.0	58	55.4	15	1.9	50.9	35.7	28.9	17.9	35.3	19	56.7
35. Mexico	85.2	81.6	54	35.2	15	16.7	45.7	26.7	50.0	47.5	38.5	17	40.0
36. China	87.0	92.0	11	32.4	12	12.6	61.1	18.5	24.9	32.2	25.0	17	18.6
37. Turkey	85.5	61.4	16	37.7	18	10.0	34.2	32.4	17.4	10.1	19.7	17	59.4

Sources: OECD, World Bank, Our World in Data, Allianz Research

How to get the fiscal genie back into the bottle

Ahead of the reintroduction of the new EU fiscal framework, signs of fiscal slippage are undermining Eurozone countries' fiscal credibility. After the grace period granted for 2024, and the expected final approval in April by the EU Parliament, the new rules will set a slow but steady pace of deficit and debt reduction from 2025 over a period of four to seven years (the extended option available if a member state undertakes reforms and investments in key priority EU areas). But government budget numbers and relative revisions for 2023 are raising concerns about future compliance (Figure 4).

Figure 4: Government budget balance (% of GDP)

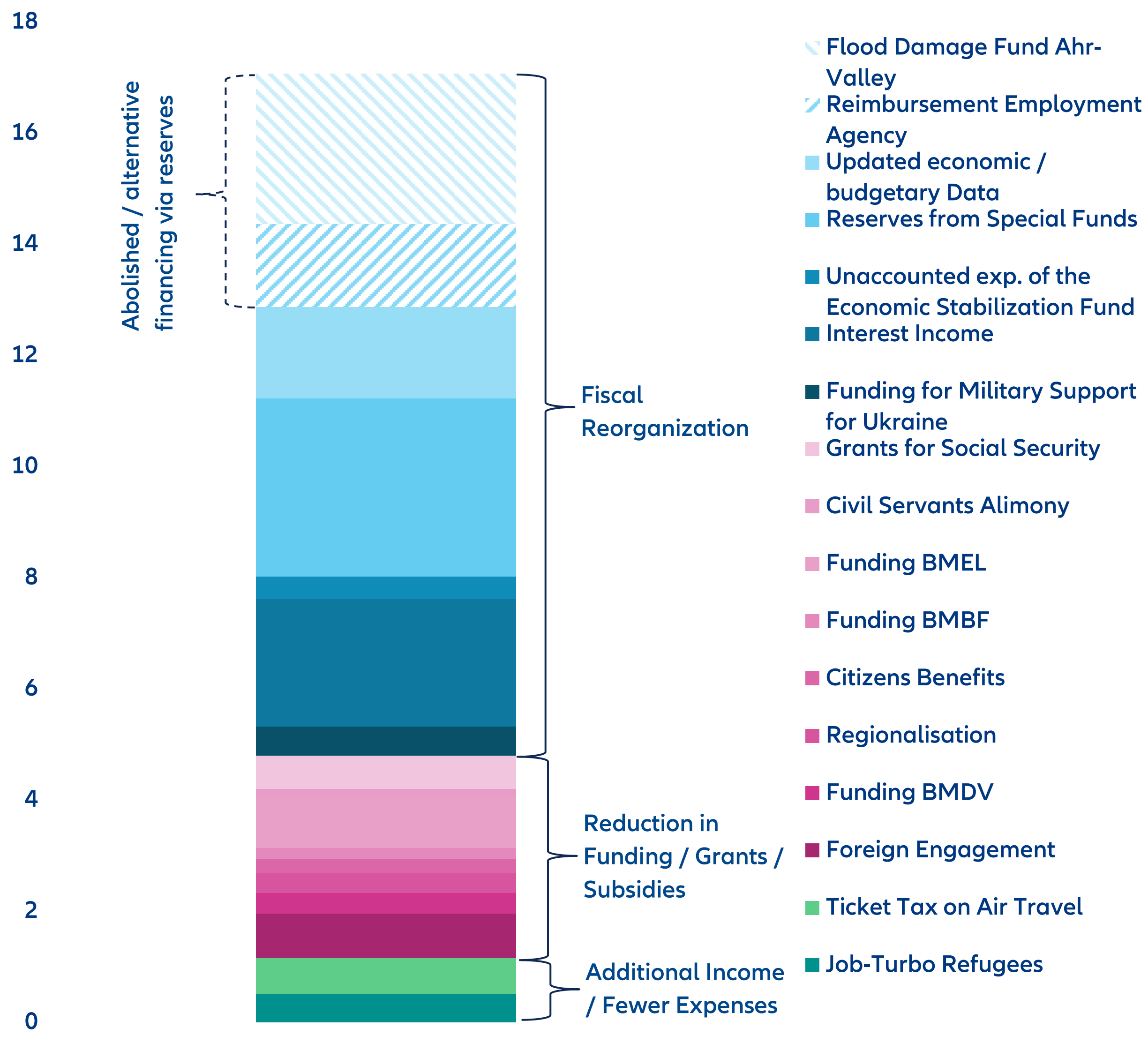


Sources: LSEG Datastream, Allianz Research. Note: France's 2023 numbers are estimates

Despite multiple crises, Germany is pursuing a deficit reduction that is neither appropriate from a macroeconomic perspective nor for reasons of debt sustainability. The 2023 deficit ratio came in at 2.1%, while the debt-to-GDP ratio stands at 65.9% and is forecasted to decline further under the current debt rule. Yet, the federal court ruling in fall 2023 forced the German government into cutting and shifting resources. In 2024, Germany will tighten its belt and net borrowing will be guided by adherence to the debt brake as alternatives are currently not politically viable. But the really hard times are still to come. The need for action for the core budget was set at EUR17bn, with the agreement reached by the coalition leaders defining an additional savings requirement of

EUR12.7bn in the climate and transformation fund (KTF). Despite the supposedly tough framework, the decisions ultimately taken were largely of a budgetary nature. There were only small effective cuts (less than EUR4bn) in the core budget (Figure 5), largely made possible by using up existing reserves. But this will not be possible again. In addition, there are EUR4.5bn in actual savings in the KTF and EUR5.5bn in the Economic Stabilization Fund (WSF). In other words, there was not much left of the announced austerity measures, especially in relation to the heated political and public debate. The actual funding cliff is now imminent for the 2025 budget negotiations and the years to follow. For 2025, the Federal Ministry of Finance expects a financing gap of EUR40bn. The pressure to save will increase dramatically under the current budget rules. At the same time, the already extremely high pressure to stimulate the economy and foster the green transformation continues to increase. Expenditure on climate protection is already falling short of what is necessary.

Figure 5: Agreement between the coalition leaders on the 2024 federal budget, EURbn

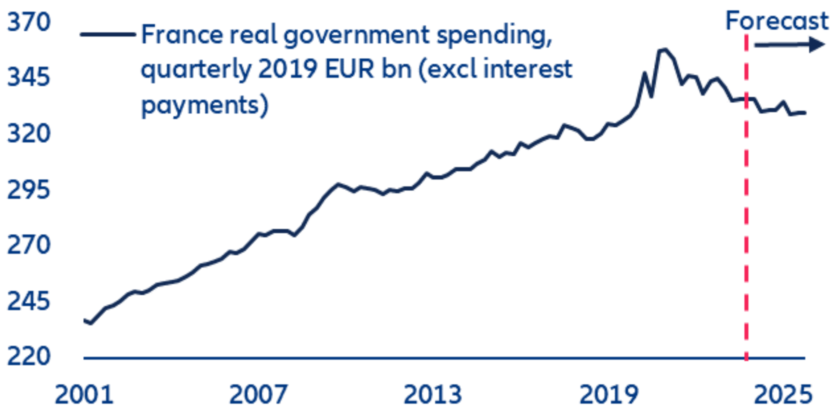


Sources: BPA, Allianz Research

In France, lower GDP growth is forcing the government to start fiscal consolidation earlier than expected to preserve credibility. The 2023 fiscal deficit has not been published yet, but incoming monthly fiscal data for the end of 2023 and recent government statements suggest that it has overshot the government's target of -4.9% of GDP significantly. For 2024, the authorities are targeting a deficit of -4.4% of GDP. Last month, the Ministry of Finance lowered its forecast of real GDP growth from +1.4% to +1.0%. However, to preserve its credibility, the government re-affirmed its commitment to achieve the -4.4% target. Credit ratings agencies have France under watch, with a decision expected in April and May. To stick to its deficit target in the face of lower growth, Minister of Finance Bruno Le Maire announced EUR10bn of savings (0.4% of GDP), passed by issuing an executive order. These savings consist of widespread cutbacks in budgets but no tax increases, as President Macron has pledged not to push up the overall tax burden. Prior to announcing these new savings, the French government was banking on the ''painless'' phasing out of most of the cost-of-living protection measures, thanks to lower energy prices, to bring the deficit down to -4.4%, i.e. EUR16bn (0.6% of GDP).

We expect the French government to announce further savings measures of at least EUR4bn this year. The government announced EUR20bn of new savings in 2025. That would represent the sharpest spending-based fiscal consolidation in recent times. The government's updated real GDP forecast of +1% for this year still looks a bit optimistic; we expect +0.7%, which would mean that around EUR4bn (0.15% of GDP) of additional savings would need to be found. Furthermore, the 2023 deficit slippage may mean a couple more billions to find. The government would probably get away with additional budget cutbacks this year. For 2025, it has announced it will seekEUR20bn of new savings (0.7% of GDP) - a much larger amount that was projected in last years' budget draft (EUR12bn). Social spending and financial handovers to businesses could be cut back. We would not rule out the possibility of tax increases skewed towards wealthy households to fill the budget hole – some MPs in the coalition supporting the government have indeed advocated for this policy. In all, under a scenario of no tax increases, we estimate that aggregate real government spending (net of interest payments) will decrease by -1.4% in 2024 and by -0.3% in 2025 (Figure 6). That would be the sharpest spending-based fiscal consolidation in decades, with real spending going well above trend.

Figure 6: France real government spending, quarterly 2019 EUR bn (excluding interest payments)

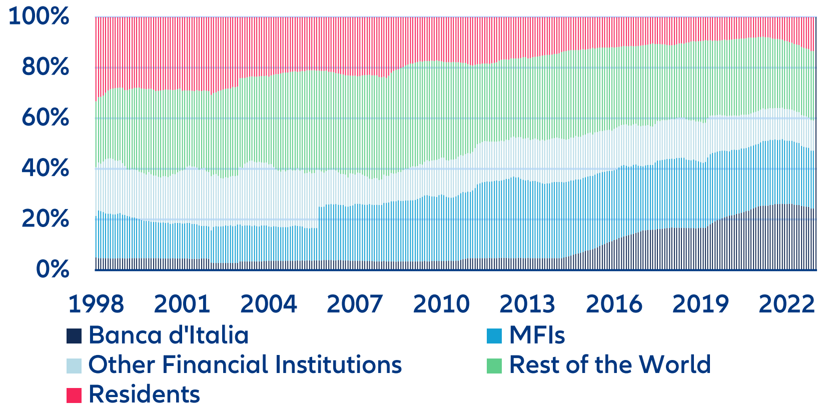


Sources: Insee, Allianz Research

Meanwhile, Italian fiscal credibility has returned to the spotlight. Italy's 2023 budget deficit came out higher than expected (-7.2% vs. -5.3% Allianz Research and government estimates) from a downward revised -8.6% in 2022. As feared, the large uptake of the *Superbonus* tax credit scheme for home renovation had a large impact on public finances – and way larger than initially estimated by the government. By December 2023, around EUR102 bn of total housing investment was eligible for tax credits, resulting in a fiscal cost of EUR112bn. The generous and untargeted scheme boosted the construction sector over its lifespan. The gross value added of construction expanded massively, recording an average yearly growth of +12% in the period 2021-2023, compared to -3% per year between 2010 and 2019. As a result, we expect a sharp slowdown as the scheme fades.

Despite old fears, financial markets seem to have become more lenient towards Italy's fiscal moves. Indeed, the market reaction has been quite muted and the BTP spread did not increase following the data release (on 01 March) as it would have done in "pre-pandemic" times. The concomitant upward revised GDP figure and the end of the BTP Valore offer have possibly reassured international investors; 2023 GDP has been revised to +0.9% from the +0.7% previously estimated, while the retail government bond (at its third issuance) has reached record orders of EUR18.3bn. The great appetite of domestic private investors is also reassuring the 2024 funding outlook, when more than EUR300bn of governments bonds need to be rolled over, at the same time as the central bank unwinds its portfolio of assets. As of December 2023, Italian retail investors held 13.4% of total government debt, from 9.5% at the end of 2019 (Figure 7).

Figure 7: Italy – Share of government debt holdings by investor (%)



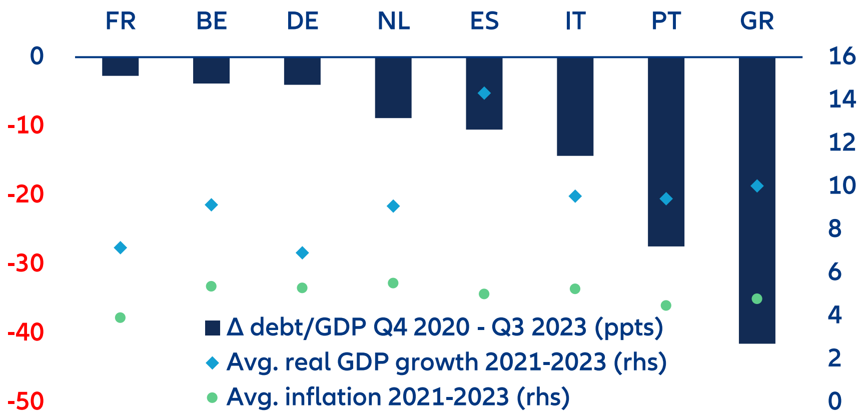
Sources: Banca d'Italia, Allianz Research

Despite the broadening deficit, Italy's government debt-to-GDP ratio declined, thanks to strong inflation and higher economic growth (Figure 8). Public debt managed to fall more than projected to 137.3% of GDP in 2023 from 140.5% the previous year (and from its peak of around 155% of GDP in 2020). However, we do not expect any convincing fiscal consolidation in 2024 (government deficit expected at 4.3% by the government and 4.8% by Allianz Research). We foresee the deficit-to-GDP ratio below 3% only in 2026, together with an only marginal reduction of the debt ratio as both inflation and growth rates normalize, cutting down the so-called "snowball effect".

Finally, Spain's fragile political situation may impact future fiscal decisions. We expect the debt-to-GDP ratio to gradually decline in the coming years, albeit at a slow pace. Based on current projections, the debt-to-GDP ratio is expected to remain above 100% for the next four years, declining from an estimated 108.4% in 2023 to 104% in 2027. The budget deficit is projected to remain relatively stable at around 3.5% of GDP throughout the forecast period. The government has committed to gradually reducing the budget deficit over the next three years, starting from around 4% in 2023 and targeting 2.5% in 2026. We note that political stability in Spain is fragile and the risk of policy paralysis is high, given the large number of regional parties, all of which have their own competing interests. Such a fragmented political environment poses risks to the budget deficit as the Sanchez government may have to contend with demands for more social spending from the socialist parties, for example.

Available projections for 2025 suggest that six Eurozone countries could breach both deficit and debt-to-GDP, but we will have to wait until next year to assess the effectiveness of the new fiscal framework. Poor compliance with the rules and weak enforcement were the major issues of the original fiscal framework. As of today, nine Eurozone countries would have deficit-to-GDP ratios larger than 3% in 2025, which would require an annual structural adjustment equivalent to 0.5% of GDP. Moreover, 12 Eurozone countries will have their debt ratio wider than 60% in 2025. Therefore, without considering mitigating factors that the Council and EC will start considering, six Eurozone countries (France, Spain, Italy, Belgium, Finland and Slovakia) will likely breach the 3% deficit and 60% debt criteria next year, potentially triggering an Excess Deficit Procedure. But to make the framework more applicable and flexible, a new debt safeguard will differentiate the consolidation path of countries with public debt between 60% and 90% of GDP and of those above 90%. Looking ahead, new elements (i.e. safeguards, country-specific plans) could complicate the application of the rules. At the same time, some temporary flexibility will also be offered in the first years (i.e. exclusion of interest expenses from the deficit, exclusion of some expenses from the net expenditure path). The June 2023 European election could also politically influence countries' stance towards the EU, and in turn their commitment to the fiscal rules.

Figure 8: Change in debt-to-GDP ratio, 2020-2023

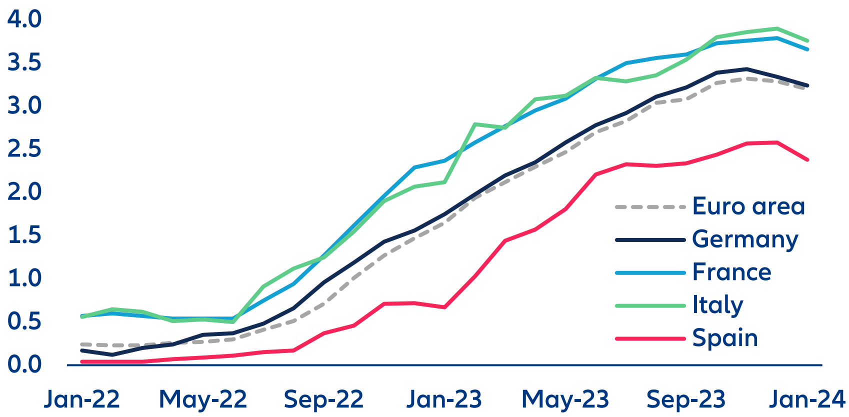


Source: LSEG Datastream, Eurostat, Allianz Research

Interest income: A win-lose scenario for European households

To the delight of savers and the chagrin of debtors, the interest rate turnaround initiated by the ECB in the fight against inflation led to significant increases in customer interest rates. On average in the Eurozone, deposit rates on new business rose by a whopping 290bps from the end of June 2022 to January 2024, though they recently fell by 9bps from their peak in December in all four major Eurozone economies (Figure 9). However, there are noticeable differences between these countries: While savers in France and Italy saw an increase of 312bps and even 326bps, respectively, the rise for Spanish households stood at "only" 227bps; in Germany, rates rose by 287bps.

Figure 9: Average interest rates on bank deposits* - new business, in %

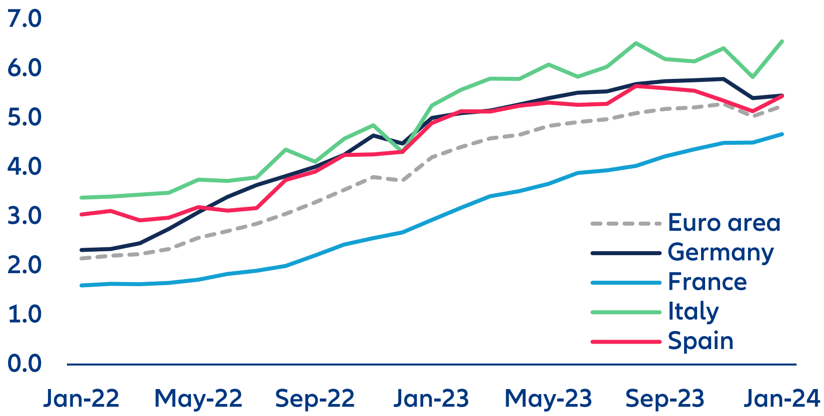


*Sources: ECB, Allianz Research. *Deposits with agreed maturity.*

With the exception of Spain, the rise in interest rates was passed on much less strongly on the lending side than on the deposit side, which led to a noticeable decline in margins. In the Eurozone as a whole, the increase in average lending rates amounted to 253bps by the end of January 2024, 37bps less than on the deposit side (Figure 10). The interest rate differential decreased in Germany (81bps), Italy (42bps) and France (29bps), but rose by 6bps in Spain.

Bad news for (future) borrowers. Following a decline or at least a stabilisation (France) in December, average lending rates increased again in January: by 21bps in the Eurozone as a whole, and by a whopping 70bps in Italy. This is due to a rise in interest rates on consumer loans and other lending, while interest rates on housing loans have fallen in all four countries.

Figure 10: Weighted average interest rates on bank loans* - new business, in %



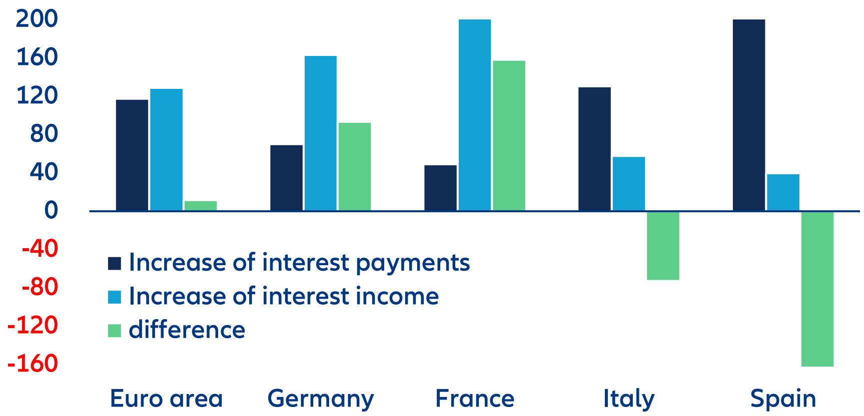
*Sources: ECB, Allianz Research. *Lending for house purchase, credit for consumption, other lending.*

Who benefits and who pays the price? Private households in the big four are clearly feeling the effects of the turnaround in interest rates – albeit with different signs (Figure 11). The Germans and French are benefiting quite handsomely: In the course of 2023, interest income on outstanding amounts increased by EUR163 and EUR207 per capita, respectively, significantly stronger than the rise in interest payments (by EUR70 and EUR49, respectively). This created a "windfall profit" for households to the tune of EUR93 (Germany) and EUR158 (France). The situation is exactly the opposite in Italy and Spain, which have seen a significant worsening of the interest balance by EUR73 and EUR164 per capita, respectively.

German households' gains are mainly a story of agile savers flocking to attractive offers en masse. Outstanding deposits with agreed maturity rose by more than EUR270bn (EUR3,280 per capita) or almost 90% within a year and their share in overall deposits nearly doubled to around 21%. In France, on the other hand, the shift away from overnight deposits towards (higher-yielding) deposits with agreed maturity was less pronounced (+15%) because overnight deposits play a much smaller role to start with: only 30% of all deposits are parked there, compared to 63% in Germany, 69% in Italy and 87% in Spain. The most popular bank accounts are savings accounts such as the "livret A", which offer tax-free competitive rates (but only to a certain limit of savings). No wonder then that France saw the sharpest increase in rates of all countries considered, and hence the biggest windfall gains for households. Moreover, on the liability side, the proportion of variable-rate loans is very low, falling by 1.1pps to only 2.7% over the course of the year. In Germany, this share stood at 13.0% at the end of 2023 – 6.4pps less than a year earlier.

On the other hand, Italian and Spanish households are facing a significantly higher interest burden – primarily due to the relatively high (but significantly shrinking) proportion of variable-rate loans (Spain: 17.7%, Italy: 40.6%). In addition, both countries benefit less on the assets side: Although Spanish and Italian households have almost doubled their savings held in the form of deposits with agreed maturity, the involved sums are much smaller (on average EUR1,440 per capita in Italy and EUR2,730 per capita in Spain) and these deposits only account for nearly 13% and 7% of total bank deposits, respectively. Moreover, deposit rates in Spain have risen by "only" 247bps since the end of June 2022, significantly less than the Eurozone average (+299bps).

Figure 11: Increase in interest income and payments (on outstanding amounts)*, 2023 over 2022, in EUR per capita



*Sources: ECB, Allianz Research. *Deposits: overnight deposits, deposits with agreed maturity, deposits redeemable at notice; loans: lending for house purchase, credit for consumption, other lending.*

But the honeymoon period for some households will not last forever. Loans with fixed interest rates will someday come due and need refinancing at much higher rates. And interest rates on deposits have already reached their peak, while even the most frugal of German households can only shift so much of their savings into higher-yielding deposits. French and German households are likely to join their Italian and Spanish peers in feeling the pinch of higher interest rates – at least in their dealings with banks.

These assessments are, as always, subject to the disclaimer provided below.