Truba Arina
Master Student,
Odesa I. I. Mechnikov National University
Odesa, Ukraine
Yakubovskiy Sergiy
Doctor of Economic Sciences, Professor,
Head of the Department of World Economy
and International Economic Relations,
Odesa I. I. Mechnikov National University
Odesa, Ukraine

DOI: https://doi.org/10.36059/978-966-397-431-6-44

BUDGET DEFICITS AND PUBLIC DEBT OF THE EU COUNTRIES IN AN UNSTABLE ENVIRONMENT [1]

The state budget deficit was normally a feature of the war period. In such circumstances, the expenditures on war outweighed the country's budget revenues. However, at the end of the 20th century, budget deficits began to be observed in many countries without a good reason. This phenomenon is not always an indicator of an unhealthy economic environment. During a recession, when private investors reduce funding and a drop in supply and demand occurs, the government spends more to stimulate the economy.

Nevertheless, the prolonged and growing public deficit further leads to higher taxes and cuts in public funding of education, healthcare, and other important areas. As the deficit accumulates, public debt also grows. Over the past five years, there have been enough shocks to increase these indicators. COVID-19 was the first to cause an increase in public debt, particularly in developed countries. In 2020, it average value reached the same level as right after World War II. Protocol 12 of the EU Stability and Growth Pact states that public debt should not exceed 60% of GDP [1].

The main problem of the EU's budget policy has been and remains the imbalance in contributions and expenditures. This difference is particularly

[1] The research supporting this article, was partly sponsored by Central European University Foundation of Budapest (CEUBPF). The theses explained herein represent the ideas of the authors, and do not necessarily reflect the views of CEUBPF.

pronounced between the Western and Eastern countries, adding to tensions within the European Union. An illustrative example was overcoming the consequences of COVID-19, when Germany managed to support the economic and social spheres on its own using its financial resources [2, p. 56]. In contrast, Eastern countries, including Poland and Hungary, have received significant financial support from the EU's common funds. The situation where more developed countries are regular donors and the new EU members are mostly regular recipients leads to the emergence of populist trends and even Euroscepticism within countries. New budget rules were introduced in response to the problems, which were only highlighted by the new crises. The main trajectory for countries is now to reduce the deficit by 0.5-1% and maintain a buffer in the budget balance to keep the deficit below 3% of GDP. The new rules should be considered by countries when designing their fiscal policies. However, these measures will only help in the short term and will not have a real effect in the long term, as they will not ensure the EU's permanent fiscal solvency [3, p. 10].

According to Fig. 1, 12 out of 27 countries exceeded the 60% level in 2020. The countries with the largest debts were Greece (207%), Italy (155%), Portugal (1349%), and Spain (120.3%). However, this situation is common for Southern European countries after the European debt crisis in the 2010s. On average, the growth of public debt in Europe amounted to 17.02%, but the country with the highest level of this indicator was Estonia (54% of GDP). In 2021, after the full lockdown, most EU countries experienced a revival of economic activity, which led to a 3.75% reduction in debt on average across countries. Despite significant financial assistance to Ukraine in 2022, the EU's debt continued to fall. However, it has not been possible to return to the level of 2019.

At the onset of COVID-19, governments had to dramatically increase social benefits, especially in the healthcare sector, which undoubtedly led to an increase in the deficit. In compliance with the Protocol mentioned above, the public deficit of the EU countries should not exceed 3% of GDP. However, in 2020, only two countries met these criteria – Denmark and Sweden – whereas Denmark had a surplus of 0.3%.

In the European Union as a whole, the deficit increased from 0.4% to 6.7%. The countries with the highest rates were Spain (10.1%), Greece (9.8%), and Italy (9.4%). In 2021, the EU approved twelve countries, including the 3 mentioned above, to use EU Recovery and Resilience Funds for a total of €672.5 billion to restore economic activity after the devastating effects of COVID-19 [5].

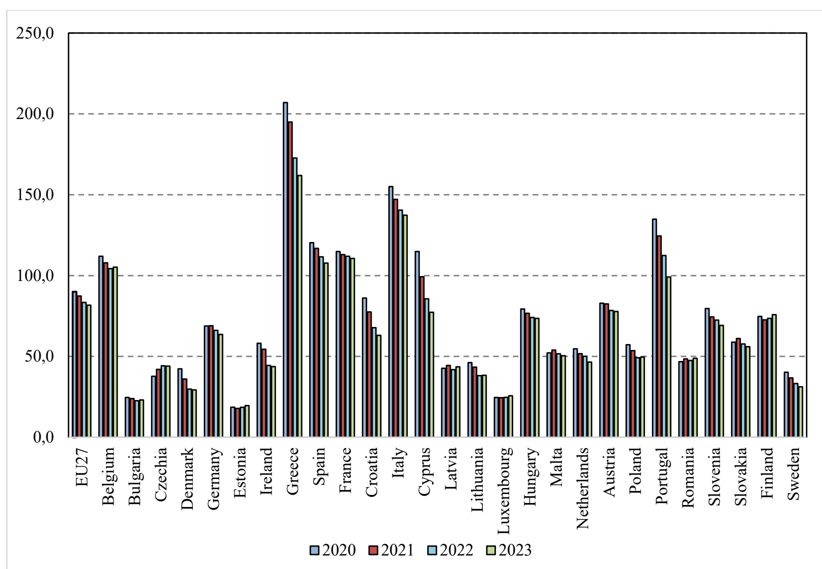

Figure 1. Budget debt of EU countries, % of GDP

Source: compiled by the author based on Eurostat [4]

Already in 2021, 11 countries managed to reach the mark of less than 3%, although they were unable to return to the pre-crisis period. In addition, despite the beginning of Russia's full-scale invasion of Ukraine, which provoked significant financial assistance from foreign countries, primarily the EU and the US, the EU countries' public deficit continued to decline in 2022. The largest deficit was observed in Italy (8.6%), while in Greece and Spain it fell to -2.5% and -4.7%, respectively.

Thus, it can be stated that the pandemic crisis has had much worse consequences for the EU countries than the military actions in Ukraine. This fact can be easily explained by the direct impact of COVID-19, which brought economic activity to a standstill, especially in the first months, and forced governments to inject huge funds into business recovery and healthcare support. Although the European Council has created favourable conditions, most countries have not yet been able to return to 2019 levels. While the new budget rules are aimed at tackling large public deficits and debt, long-term stability is impossible without the EU's fiscal capacity.

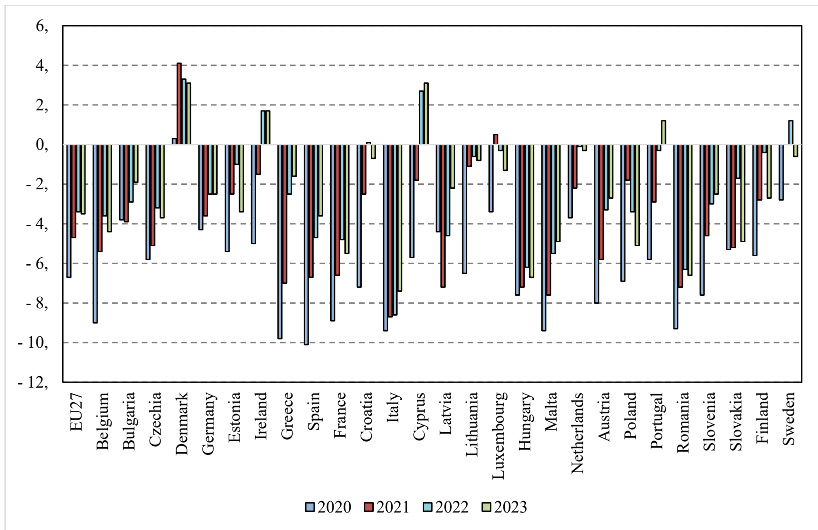

Figure 2. Budget deficit of EU countries, % of GDP

Source: compiled by the author based on Eurostat [4]

References:

1. Consolidated version of the Treaty on European Union – PROTOCOLS – Protocol (No 12) on the excessive deficit procedure of 09.05.2008 No. 12008M/PRO/12. Available at: http://data.europa.eu/eli/treaty/teu_2008/pro_12/oj (accessed October 12, 2024).

2. Crespy A., Schramm L. Breaking the Budgetary Taboo: German Preference Formation in the EU's Response to the Covid-19 Crisis. *German politics*. 2024. Vol. 33. No. 1. P. 46–67. DOI: https://doi.org/10.1080/09644008.2021.2020253

3. Wijffelaars M., van Harn E.-J., Koopman S. *SUERF Policy Note*. 2024. No. 349. P. 1–10.

4. Eurostat: official website. URL: https://ec.europa.eu/eurostat/en/ (accessed October 8, 2024).

5. COVID-19: the EU's response to the economic fallout. *Official website of the European Council*. URL: https://www.consilium.europa.eu/en/policies/coronavirus-pandemic/covid-19-economy/ (accessed October 12, 2024).