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

Between 2015 and 2024, the government debt-to-GDP ratio in the countries of the European Union (EU) and the euro area experienced significant fluctuations due to major external shocks. In particular, the COVID-19 pandemic and Russia's full-scale aggression against Ukraine prompted governments to implement extensive fiscal support measures, thereby increasing the burden on national budgets [1].

The dynamics of public debt in the EU and the euro area can be broadly divided into three distinct periods: 2015–2019, 2020, and 2021–2024 (Table 1).

Table 1

Public debt-to-GDP ratio in the EU and the euro area, in %

Year	EU-27	Euro area	Difference (p.p.)
2015	85,0	91,0	+6,0
2019	77,4	83,7	+6,3
2020	89,5	96,5	+7,0
2024 (Quarter 3)	81,6	88,3	+6,7

Source: compiled by the author based on Eurostat [2]

During 2015–2019, the average debt burden in the EU declined steadily from 85.0% to 77.4% of GDP; the euro area exhibited a similar trend, decreasing from 91.0% to 83.7%, albeit at consistently higher levels. This decline in public debt was driven by moderate fiscal discipline, sustained

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economic growth, and lower debt servicing costs due to historically low, and in some cases negative, interest rates.

In 2020, there was a sharp increase in the debt-to-GDP ratio to 89.5% in the EU, driven by the economic fallout of the COVID-19 pandemic, which compelled governments to raise borrowing in support of their economies. The euro area saw an even greater surge to 96.5%, reflecting a higher reliance on debt financing. This spike serves as a textbook example of countercyclical fiscal policy, whereby governments increased borrowing to counteract the socio-economic shock of the pandemic. From 2021 to 2024, a gradual decline in government debt was observed across the EU – from 86.7% to 81.6% – reflecting economic recovery and GDP growth; a similar trend occurred in the euro area, where the ratio fell from 93.9% to 88.3%.

However, the debt levels remain elevated compared to the pre-pandemic period, raising concerns over the attainment of medium-term fiscal targets as stipulated in the Stability and Growth Pact.

Within the EU, there is a clear dichotomy between a group of highly indebted countries requiring structural reforms and countries with lower debt burdens that exhibit greater resilience to external shocks (Table 2).

Table 2

Public debt to GDP ratio for selected EU countries, in %

Countries	2015	2019	2020	2021	2023	2024 (Q_3)
Denmark	44,6	38,3	46,3	40,5	33,6	33,6
Estonia	10,8	9	19,1	18,4	20,2	24
Greece	179,6	183,2	209,4	197,3	163,9	158,2
Spain	102,5	97,7	119,3	115,7	105,1	104,3
France	97	98,2	114,9	112,8	110	113,8
Italy	134,7	133,8	154,3	145,7	134,8	136,3
Luxembourg	21,1	22,3	24,5	24,4	25,6	26,6
Sweden	44,5	35,7	40,1	36,7	31,4	31,6

Source: compiled by the author based on Eurostat [2]

From 2015 to 2024, the countries with the highest government debt-to-GDP ratios – Greece, Italy, France, and Spain – faced similar macro-financial challenges stemming from structural budget deficits and the pandemic-induced shock. Greece remained the most vulnerable, with debt peaking at 209.4% of GDP in 2020, followed by a notable decline to 158.2% in 2024. Italy maintained persistently high debt levels, exceeding 130% throughout the period, despite a gradual decrease post-2020. France and Spain exhibited more moderate but still elevated debt burdens, consistently exceeding 100% of GDP.

All four countries experienced a sharp increase in debt due to fiscal stimulus measures during the pandemic; however, the pace of debt stabilization varied, reflecting differences in fiscal consolidation strategies and levels of budgetary discipline.

In contrast, countries with the lowest debt burdens – Estonia, Luxembourg, Bulgaria, and Sweden – maintained comparatively low debt-to-GDP ratios, indicative of prudent fiscal management. Estonia, with a record low of 8.5% in 2018, remains the least indebted EU member even after rising to 24.0% in 2024. Luxembourg continued to exhibit consistently low debt levels (21–26%), despite some fluctuations during the pandemic. Bulgaria and Sweden also demonstrated favorable trajectories: Bulgaria's debt fell to 20.1% by 2019, while Sweden's declined from 44.5% to 31.6% by 2024. These patterns highlight the presence of fiscal space, limited borrowing needs, and greater macroeconomic flexibility in these countries.

Table 3

Ratio of budget deficit to GDP for individual EU countries, in %

Countries	2015	2019	2020	2021	2022	2023
Belgium	-2,5	-2	-9	-5,4	-3,6	-4,2
Greece	-5,9	0,8	-9,6	-6,9	-2,5	-1,3
Spain	-5,3	-3,1	-9,9	-6,7	-4,6	-3,5
France	-3,9	-2,4	-8,9	-6,6	-4,7	-5,5
Italy	-2,5	-1,5	-9,4	-8,9	-8,1	-7,2
Hungary	-2	-2	-7,5	-7,1	-6,2	-6,7

Source: compiled by the author based on Eurostat [3]

The budget deficit is a key factor influencing the dynamics of countries' external debt. Table 3 presents data on its evolution over the period 2015 – 2023 for countries with the highest levels of public debt or budget deficits in recent years.

Between 2015 and 2019, most of the analyzed EU countries gradually reduced their budget deficits or achieved temporary improvements in their fiscal positions. The most notable progress was made by Greece, which moved from a deep deficit of -5.9% in 2015 to a surplus of 0.8% in 2019, reflecting the country's efforts under external financial assistance programs. France, Spain, Belgium, and Hungary maintained moderate yet stable deficits in the range of -2% to -3%, while Italy managed to reduce its deficit to -1.5% by 2019. Although structural weaknesses in public finance management persisted, these countries generally demonstrated a commitment to fiscal stability within the framework of European budgetary rules prior to the pandemic.

However, 2020 marked a turning point: all countries experienced a sharp increase in their budget deficits due to the COVID-19 pandemic. The most pronounced fiscal gaps were recorded in Spain (-9.9%) and Greece (-9.6%), both of which were severely affected by the economic downturn and rising expenditures. Italy and France also reported deep deficits exceeding -8%, while in Belgium and Hungary the figures reached -9% and -7.5%, respectively.

In the subsequent years, a gradual stabilization was observed: Greece managed to reduce its deficit to -1.3% in 2023, while Spain and Belgium also exhibited positive fiscal dynamics. Nonetheless, France, Italy, and Hungary remain among the EU countries with the highest deficits, indicating their vulnerability to external shocks and persistent structural challenges in fiscal policy. Overall, although most countries have been narrowing their fiscal gaps since the pandemic, the level of fiscal pressure remains high, particularly in those with chronic debt instability.

Based on the analysis of government debt-to-GDP ratios and budget deficits in the EU and the euro area from 2015 to 2024, it is evident that external shocks, such as the COVID-19 pandemic and the war in Ukraine, significantly impacted national fiscal policies. These events caused a sharp increase in debt in 2020, with recovery efforts leading to a gradual decline in debt levels from 2021 to 2024. However, debt remains elevated compared to pre-pandemic years, particularly in countries like Greece, Italy, France, and Spain, which still face structural budget deficits and fiscal vulnerabilities.

In contrast, countries with lower debt burdens, such as Estonia, Luxembourg, Bulgaria, and Sweden, have demonstrated stronger fiscal resilience and greater capacity to absorb future shocks. Overall, while most EU countries have made progress in fiscal stabilization, disparities in debt levels and fiscal resilience remain, posing ongoing challenges for achieving long-term fiscal sustainability within the EU.

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