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**FISCAL POLICY UNDER PRESSURE: GOVERNMENT EXPENDITURE, REVENUE,
AND DEBT DYNAMICS IN THE EU AND EURO AREA (2021–2024)**

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The analysis of budget deficits and public debt in the European Union (EU) has gained heightened significance in the context of overlapping global and regional crises. In the aftermath of the COVID-19 pandemic, EU member states have faced the dual challenge of stimulating economic recovery while managing the long-term fiscal consequences of

unprecedented public spending. This challenge has been further compounded by the Russian Federation’s full-scale invasion of Ukraine in 2022, which has triggered geopolitical instability, energy price shocks, inflationary pressures, and increased defense and humanitarian expenditures across the EU. As a result, the dynamics of fiscal policy have become a critical area of concern for policymakers, economists, and international institutions alike. Investigating the trends, causes, and sustainability of budget deficits and public debt is essential not only for assessing economic resilience and compliance with EU fiscal rules but also for formulating effective responses to evolving security, social, and economic threats. Understanding these fiscal dynamics is key to ensuring financial stability and strategic autonomy within the Union.

Table 1

Budget Deficit and Debt Data for Euro area and EU

Indicators	Area	Unit	2021	2022	2023	2024
GDP market prices	EU	bln euro	14 795	16 143	17 209	17 950
	Euro area	bln euro	12 614	13 723	14 605	15 161
Government deficit (-) / surplus (+)	EU	bln euro	-683	-519	-595	-568
	Euro area	bln euro	-643	-475	-516	-469
	EU	% of GDP	-4.6	-3.2	-3.5	-3.2
	Euro area	% of GDP	-5.1	-3.5	-3.5	-3.1
Government expenditure	EU	% of GDP	51.1	49.2	49.0	49.2
	Euro area	% of GDP	52.0	50.0	49.5	49.6
Government revenue	EU	% of GDP	46.5	46.0	45.5	46.0
	Euro area	% of GDP	46.9	46.5	46.0	46.5
Government debt	EU	bln euro	12 835	13 320	13 901	14 544
	Euro area	bln euro	11 840	12 288	12 754	13 258
	EU	% of GDP	86.8	82.5	80.8	81.0
	Euro area	% of GDP	93.9	89.5	87.3	87.4

Source: [2].

The EU and EA experienced strong nominal GDP growth across the 2021-2024. In the EU, GDP rose from 14 795 billion euros in 2021 to 17 950 billion euros in 2024 – an increase of approximately 21.3%. Similarly, the EA's GDP increased from 12 614 billion to 15 161 billion euros (approximately +20.2%).

This upward trend reflects a post-pandemic economic recovery, as well as inflationary effects that boosted nominal GDP. However, this growth took place under the pressure of geopolitical instability, rising energy prices, and supply chain disruptions following Russia’s aggression against Ukraine. The economic expansion is therefore only partially indicative of improved productivity, as it was also driven by inflationary dynamics and increased public spending in response to external shocks.

In absolute terms, both the EU and EA saw a significant reduction in government deficits in 2022 compared to 2021, followed by a moderate worsening in 2023, and a slight recovery in 2024: EU - from -683 billion euros in 2021 to -519 billion (2022), -595 billion (2023), and -568 billion (2024); EA - from -643 billion euros in 2021 to -475 billion (2022), -516 billion (2023), and -469 billion (2024).

While the initial decrease in 2022 reflects the phasing-out of COVID-19 support measures, the subsequent increase in deficits in 2023 can be linked to several pressures, including: emergency fiscal responses to the energy crisis, particularly subsidies and price caps for households and businesses; increased defense spending in light of the Russian threat;

humanitarian and financial assistance to Ukraine; support for the integration and accommodation of Ukrainian refugees across EU member states. These factors have significantly influenced budgetary outcomes, often requiring governments to adopt expansionary fiscal stances despite economic recovery.

As a percentage of GDP, government deficits in both the EU and EA show a net improvement over the period, despite temporary setbacks: EU - from -4.6% in 2021 to -3.2% (2022), -3.5% (2023), and back to -3.2% (2024); EA - from -5.1% in 2021 to -3.5% (2022 and 2023), and -3.1% (2024). These figures suggest that, despite increased fiscal burdens due to external geopolitical shocks, including the war in Ukraine, the EU and EA have managed to move toward fiscal stabilization. The moderate improvement in 2024 signals efforts to realign public finances with the Maastricht deficit ceiling of 3% of GDP, while still addressing ongoing security and humanitarian obligations. The EA consistently exhibits larger deficits (both in absolute terms and relative to GDP) than the EU as a whole.

Government expenditure in the EU decreased from 51.1% of GDP in 2021 to 49.0% in 2023, before slightly rising to 49.2% in 2024. This reflects a consolidation trend following the fiscal expansion during the COVID-19 pandemic. The slight rebound in 2024 was due to social spending and geopolitical factors (e.g., support related to the war in Ukraine and energy subsidies). A similar pattern is evident for the Euro area: a drop from 52.0% in 2021 to 49.5% in 2023, followed by a marginal rise to 49.6% in 2024. The consistently higher level in the Euro area compared to the broader EU suggests a more expansive fiscal stance among Eurozone members.

Government revenue for the whole EU declined from 46.5% of GDP in 2021 to 45.5% in 2023, then slightly recovered to 46.0% in 2024. Revenues in the Euro area also fell from 46.9% to 46.0%, before recovering to 46.5% in 2024. The Euro area maintained a slight revenue advantage over the EU throughout.

Nominal EU countries debt grew from 12 835 bln euro in 2021 to 14 544 bln euro in 2024, a 13.3% increase. Euro area debt rose from 11 840 bln euro to 13 258 bln euro, a 12.0% increase. These increases highlight ongoing borrowing needs, driven by post-pandemic recovery measures, inflation support, defense spending, and green transition investments.

EU debt-to-GDP declined from 86.8% in 2021 to 80.8% in 2023, with a small uptick to 81.0% in 2024. Euro area debt-to-GDP also decreased from 93.9% to 87.3%, before stabilizing at 87.4% in 2024. The falling debt ratios, despite increasing nominal debt, suggest GDP growth outpaced debt accumulation, indicating a relatively healthy macroeconomic environment.

Overall, the fiscal developments in the European Union and the Euro Area over 2021–2024 reveal a delicate balance between economic recovery and fiscal discipline amid unprecedented external shocks. In the wake of the COVID-19 pandemic and amid the profound geopolitical disruption caused by Russia's full-scale invasion of Ukraine, EU member states have demonstrated a cautious balancing act between fiscal consolidation and the need for sustained public support.

A key observation is the recovery-driven growth in nominal GDP, which increased by over 20% in both the EU and EA. This expansion facilitated a reduction in deficit and debt ratios, even as governments continued to engage in significant borrowing. However, this nominal growth was fueled not only by improved economic performance but also by inflationary pressures and extraordinary public expenditures, indicating that the underlying productivity gains may be modest.

The data show a phased withdrawal of pandemic-era fiscal supports in 2022, followed by a temporary fiscal deterioration in 2023, attributable to new expenditure pressures related to energy subsidies, defense, refugee support, and humanitarian aid. Nonetheless, both the EU and

EA managed to maintain a trajectory of gradual fiscal stabilization, with deficits narrowing in terms of GDP share and debt ratios declining moderately despite increasing nominal debt levels.

The return to near-Maastricht-level deficit thresholds (around 3% of GDP) by 2024 reflects a strategic effort to re-anchor public finances without undermining socio-economic resilience. The Euro Area, while consistently exhibiting slightly higher spending and deficit ratios, mirrored the broader EU trend, suggesting common policy responses to shared challenges.

In sum, the period 2021–2024 illustrates the EU's capacity to navigate fiscal pressures stemming from external shocks while sustaining macroeconomic stability. The moderate re-consolidation of public finances, amid rising geopolitical tensions and structural transformations (e.g., energy transition), reflects both the adaptability of fiscal frameworks and the ongoing need for careful policy calibration to safeguard long-term sustainability and strategic autonomy within the European Union.

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