Brussels says Eurozone countries at risk over debt and spending

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Rising public deficits and debt levels in the Eurozone pose “sustainability risks” in several countries, the European Commission has warned.

In its latest assessment of Eurozone countries’ compliance with EU fiscal rules — which aim to keep public deficits within 3 per cent of annual GDP — the commission found that owing to “immense demands on public finances” several countries were “having [fiscal] sustainability risks”, EU economy commissioner Valdis Dombrovskis said.

“After declining substantially in previous years, aggregate euro area deficit levels and debt levels have started to edge up again, so we need to remain vigilant,” he added in an interview with the Financial Times.

The commission found that the 2026 budgets of both the Netherlands and Malta were not complying with EU fiscal rules — which also aim to keep debt-to-GDP ratios below 60 per cent — with planned expenditure significantly in excess of spending limits previously agreed with the commission. It is a similar case for Spain, Croatia, Lithuania, Slovenia, Bulgaria and Hungary, though by a smaller margin.

The commission also recommended yesterday that Finland be placed under an excessive deficit procedure for surpassing the 3 per cent deficit threshold. It would become the tenth EU country to be placed under the punitive process, which for Eurozone members can eventually result in fines if corrective measures are not taken by governments.

Finland’s deficit came in at 4.5 per cent of GDP last year, and is projected to be 4.3 per cent this year, though Dombrovskis noted that the Nordic country faced “exceptional circumstances”, such as geopolitical risks and the closure of its border with Russia, “which has led to very slow economic growth, basically economic stagnation”.

If a majority of EU countries confirm that Helsinki is in breach of the bloc’s fiscal rules, the commission will recommend spending cuts “taking into account the difficult situation in which Finland finds itself” and also the “need to increase defence expenditure”, he added.

France, which was placed in an excessive deficit procedure last year, and which last Saturday failed to pass a budget that would have reined in spending, is “compliant with the requirement of the fiscal rules” based on a draft budgetary plan submitted by Paris, Dombrovskis said.

But, he warned, the outcome of the country’s fraught budget process should be “to the extent possible close to the draft budgetary plan”, which targets a deficit of 4.7 per cent of GDP for 2026, in line with spending limits already agreed with the commission.

“We’ll be reassessing the situation once we see the outcome of budgetary discussions in France,” Dombrovskis said.

Meanwhile, Italy, whose budget deficit is projected by Prime Minister Giorgia Meloni’s government to decline to 3 per cent this year and to 2.8 per cent next, looks set to exit the excessive deficit procedure next spring, the commissioner said.