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States do not go broke; citizens do



Back in February 2025, I wrote an **article** titled “How Do Countries Fall into a Debt Spiral?” In that piece, I made a simple warning: public debt may look like a technical issue on paper, but once it starts feeding on itself, it quickly becomes a social, political and human problem. Apparently, this point needs to be made again.

Public debt is often treated as a problem of developing countries. History tells us otherwise. When fiscal discipline weakens, interest costs rise and market confidence fades, even advanced economies can find themselves under pressure.

Sometimes they suffer even more, because societies that are used to prosperity react more painfully when living standards begin to fall.

A recent study compares government interest expenditures across European countries as a share of GDP. Its headline is dramatic: “France, Italy and Belgium are heading into a debt crisis.”

That may sound too strong, but the warning behind the numbers should not be ignored. The study adds the expected increase in interest costs by 2034 to the 2024 level and shows which countries may face the heaviest pressure on their budgets.

The top of the list

France stands at the top of the list. Its government interest expenditure could rise to 6.1 per cent of GDP. Belgium follows with 5.6 per cent and Italy with 5.5 per cent. Slovakia is shown at 4.8 per cent and Finland at 4.5 per cent. Greece, Austria and Latvia are around 3.7 per cent.

Spain and Slovenia stand at 2.9 per cent, Lithuania and Germany at 2.7 per cent, Portugal at 2.4 per cent, Estonia at 2.2 per cent, Croatia at 1.9 per cent, Bulgaria at 1.8 per cent, Malta at 1.6 per cent, Luxembourg at 1.0 per cent and Ireland at 0.8 per cent.

Without action, debt becomes harder and more expensive to manage over time

Cyprus is the only country in the chart where the interest burden is expected to decline.

The notes in the chart are just as important as the numbers. Higher interest costs crowd out investment, growth and social spending. Rising debt service makes economies more vulnerable to shocks.

Without action, debt becomes harder and more expensive to manage over time. The proposed remedies are also familiar: control spending, design a pro-growth tax framework, improve productivity and strengthen fiscal frameworks.

States do not collapse first

All of this is true. But something crucial is often missed: debt crises are not experienced only inside budget tables. They are experienced at home, in supermarkets, hospitals, schools and unemployment queues.

This is where an old rule becomes relevant again: states do not collapse first; citizens do.

A state can raise taxes, restructure debt, extend maturities, sell assets, cut spending, print money or seek international support. Ordinary citizens do not have those options. Their salaries are fixed, their rents are real, their bills arrive on time and supermarket prices do not wait.

The Greek state remained standing on paper, but Greek citizens paid a heavy price for years

Sooner or later, the bill of a sovereign debt crisis lands on citizens through weaker purchasing power, job losses, lower pensions, higher taxes and reduced social services.

Greece is one of the clearest examples. When its **debt crisis erupted in the 2010s**, it was not merely a government bond story. Wages fell, pensions were cut, taxes rose, unemployment exploded and young people left the country.

The Greek state remained standing on paper, but Greek citizens paid a heavy price for years. Greece is now recovering, growing again and improving its fiscal performance. Yet behind that recovery lie severe social costs, a long period of austerity and a major loss of income.

Escaping a debt trap

Portugal offers a quieter but very instructive case. During the crisis, it received external assistance, restored fiscal discipline, repaired parts of its banking system and implemented painful reforms in wages and competitiveness.

Today Portugal is often cited as a country trying to reduce its debt ratio while preserving fiscal discipline. But this came with a cost: years of low wages, youth emigration, pressure on public services, rising housing costs and fatigue among the middle class.

Spain's crisis began less as a sovereign debt problem and more as the collapse of a banking and real estate bubble

Spain's story is slightly different. Its crisis began less as a sovereign debt problem and more as the collapse of a banking and real estate bubble. Public debt was not initially as frightening as Greece's, but private sector debt, weak bank balance sheets and mass unemployment shook the country deeply.

The banking system was supported, labour market reforms were introduced, and tourism and exports regained strength. Today Spain is one of the better growth stories in Europe. Still, youth unemployment, temporary employment, housing pressure and regional inequalities have not fully disappeared.

The common lesson from these three countries is clear: it is possible to escape a debt trap, but it is neither fast nor painless.

First, market confidence must be rebuilt. Then the budget must be disciplined. Banks must be cleaned up. Tax collection must improve. Growth sectors must be revived. Tourism, exports, services, energy, technology and European funds can all help. But the social cost is rarely light.

Debt risk is no longer only a Southern European story

What is striking in the chart is that yesterday's problem countries are no longer at the very top. Greece, at 3.7 per cent, is still high but below France, Belgium and Italy. Spain is at 2.9 per cent and Portugal at 2.4 per cent. Ireland stands at a very comfortable 0.8 per cent. Cyprus even shows a possible decline in interest costs.

This tells us something important. Countries that have experienced debt crises can, through painful or disciplined policies, bring their interest burden under control. Meanwhile, advanced economies that spend too long saying "this cannot happen to us" may eventually move to the top of the risk list.

That is Europe's real problem today. France, Belgium and Italy are advanced economies. They have strong institutions, deep financial markets, the European Union framework and the European Central Bank behind them. But none of this abolishes fiscal reality.

When interest expenditure approaches 5 or 6 per cent of GDP, every budget decision becomes harder. Education or defence? Pensions or infrastructure? Healthcare or debt interest? This is how a debt spiral begins.

Italy has lived with high debt for decades. It has a large domestic savings base, strong industrial regions, export capacity and weight inside the European system. But if growth remains weak and the population continues to

age, carrying high debt becomes more expensive. Italy's problem is not only the size of its debt; it is the weakness of its growth.

In small and medium-sized European economies, if growth slows while defence and social spending rise, the interest burden can quickly tighten budgets

France faces a newer and more political risk. It has a strong state tradition, major companies, agriculture, industry, technology and diplomatic capacity. But public spending is high, the welfare state is expensive and reform is politically difficult.

Even pension reform can bring people onto the streets. In such a country, rising interest costs quickly become more than an economic issue. They become a domestic political crisis.

Belgium carries a different kind of risk because of its fragmented political structure. Debt is high, coalition politics are complex and regional balances are sensitive. In such countries, reform becomes difficult not because the technical answer is unknown, but because political decision-making is slow. When decisions are delayed, markets demand higher interest rates.

Germany's position at 2.7 per cent is also worth noting. Germany is known for fiscal discipline, but weak growth, industrial competitiveness problems, energy costs and rising defence spending are creating pressure there as well. In other words, debt risk is no longer only a Southern European story. Core Europe's fiscal model is also being tested.

The position of Slovakia and Finland near the upper end of the chart is another warning. In small and medium-sized European economies, if growth slows while defence and social spending rise, the interest burden can quickly tighten budgets. In the Baltic countries, the story is somewhat different. Debt stocks are generally lower, but security spending and geopolitical risks are putting pressure on budgets.

Lessons from the past

So what have countries learned from the past?

The first lesson is that acting before a debt crisis is much cheaper than acting after one. Greece reformed under market pressure and paid a very heavy price. Portugal moved in a more controlled way and suffered less disruption.

Spain recovered by repairing the banking wound. Ireland rebounded faster through low taxation, technology investment, exports and multinational companies. But every model has its own cost and risk.

The same debt ratio can be manageable in one country and dangerous in another

The second lesson is that austerity alone is not enough. Spending cuts may sometimes be necessary, but austerity that kills growth can make the debt ratio worse rather than better.

If GDP shrinks, debt as a share of GDP can rise even when spending is cut. Smart fiscal discipline means reducing wasteful spending while protecting productive investment, education, technology and competitiveness.

The third lesson is that growth is essential for debt sustainability. Spain, Portugal and Greece have recently improved thanks to tourism, exports, European funds, reforms and employment recovery. But they are not completely out of the woods. Ageing populations, weak productivity, youth emigration, housing pressure and wages that fail to keep up with living costs remain serious issues.

The fourth lesson is that confidence matters enormously. Markets do not look only at the size of the debt. They look at the quality of governance. The same debt ratio can be manageable in one country and dangerous in another. The question is not only "How much debt is there?" It is also "Who is managing it, with which institutions, under which

programme and with how much social tolerance?"

Europe's biggest challenge

That is why the solutions listed in the chart are broadly correct: spending must be controlled, tax systems must support growth, productivity must rise and fiscal frameworks must be strengthened. But each of these ideas needs to be understood properly.

Controlling spending should not mean destroying the welfare state. On the contrary, it means making the welfare state sustainable. Governments must separate necessary spending from wasteful spending. Not every subsidy is useful. Not every investment is productive. Public money is limited; every resource spent badly is taken away from a better use.

**Without productivity growth,
Europe cannot carry this burden
simply by collecting more taxes**

A pro-growth tax framework does not simply mean higher taxes. Relying too heavily on indirect taxes hurts citizens. A tax system that punishes production, investment, employment and entrepreneurship weakens growth. What is needed is a system that reduces informality, considers wealth and income distribution, but does not destroy the incentive to produce.

Productivity is perhaps Europe's biggest challenge. Populations are ageing, defence spending is rising, the energy transition is costly, and healthcare and pension systems are becoming heavier.

Without productivity growth, Europe cannot carry this burden simply by collecting more taxes. Digitalisation, artificial intelligence, industrial transformation, energy efficiency and labour market reform are no longer luxuries. They are fiscal necessities.

Not an accounting issue

The recommendation for the future is clear: Europe should stop treating debt merely as an accounting issue and start treating it as a growth model issue. France must reform its welfare state while preserving social balance.

Italy cannot manage its debt comfortably unless it raises growth and productivity. Belgium must strengthen its ability to make political decisions. Germany must admit that its old industrial model is no longer enough. Spain, Portugal and Greece must not become complacent after recovery; they must continue to diversify their productive base.

Debt crises do not happen only because debt is high. They happen when growth is weak, interest rates are high, politics is indecisive and society is impatient.



States do not collapse first; citizens do. History has shown this many times - Emre Alkin

So the alarm in the chart should be taken seriously but not turned into panic. France, Belgium and Italy are not yet at the point where Greece once stood. But if interest burdens rise quickly, if social and defence spending grow at the same time and if growth remains weak, Europe's core countries may move to the centre of the debt debate.

States do not collapse first; citizens do. History has shown this many times. The state restructures debt, raises taxes, cuts spending or extends maturities. Citizens lose jobs, see wages erode, face lower pensions, watch their

children emigrate and experience weaker health and education services. That is the real face of a debt crisis.

Still, the final point should be made calmly: beyond a certain level, the risk is no longer only the debtor's risk. The creditor also becomes exposed. Because debt that grows too large to be repaid is no longer only the borrower's problem; it becomes the lender's problem as well. A sensible creditor does not want to strangle the debtor. A sensible creditor wants the debtor to grow again.

That is the healthiest way out of debt crises: less populism, more productivity; less delay, more reform; less panic, more confidence.

Debt management ultimately rests on a simple truth. If a country can grow, debt can be carried. If a country inspires confidence, interest rates can fall. If a country can reform, it can buy time. But without these, even the strongest state eventually sends the bill to its citizens.