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The debt sustainability dashboard: Who comes off worst?

Sovereign debt concerns are on the rise with yields heading higher. This means higher interest costs, further worsening the fiscal outlook. We look at how countries are faring and what the prospects are for credible action

A trader monitors market volatility during the sovereign debt turmoil of the early 2010s

Rising government borrowing costs reflect fiscal fears

The latest bond market developments have revived memories of the sovereign debt crisis of the 2010s and brought debt sustainability back into focus. Whether this marks the beginning of a new sovereign debt crisis is not a question that can be answered with a simple yes or no.

The latest concerns have been triggered by rising government debt ratios across developed markets. Most industrialised economies are facing pressure to increase spending on defence, infrastructure, and AI, as well as for healthcare and pensions. Agreeing on additional spending has been politically easier than cutting spending elsewhere.

And, indeed, with the exception of the pandemic, most developed economies currently have government debt ratios at record-high levels. Admittedly, not all developed economies. Southern European countries remain the noteworthy exemption, with Greece and Portugal having reduced their debt ratios to levels last seen almost 20 years ago.

However, let's not forget that debt-to-GDP ratios are only one – very simple – way of looking at debt sustainability. Japan carries gross debt of roughly 250% of GDP and borrows at rates that would embarrass a corporate treasurer. Argentina defaulted in 2001 with a ratio in the mid-50s. Sri Lanka defaulted in 2022 at around 100%; Zambia in 2020 with a ratio that almost would have qualified for eurozone membership.

Economists Carmen Reinhart, Kenneth Rogoff and Miguel Savastano called this "debt intolerance": the tendency for serial defaulters to hit their borrowing limits at debt ratios that rich countries would regard as entirely normal. The threshold is not a physical constant. It is a reflection of everything the ratio leaves out – revenue capacity, institutional credibility, the depth of the domestic investor base, the track record.

The eurozone made the same point in reverse. Ireland entered 2007 with public debt around 24% of GDP, the model fiscal pupil. Spain was running fiscal surpluses. Both ended up in crisis anyway, because the sovereign balance sheet was not where the risk was sitting. Greece, at the other extreme, had genuinely and openly over-borrowed. Same monetary union, same year, three completely different diagnoses.

All of the above conveys one message: the headline number is just the start of any credible debt sustainability analysis. What matters even more is the primary deficit, the level of interest rates and also who holds the sovereign bonds.

r minus g: the snowball nobody sees until it rolls in

The one piece of arithmetic that does most of the work is the gap between the effective interest rate (r) on the debt and nominal GDP growth (g). When growth exceeds the interest bill, the debt burden can shrink gradually even with a small primary deficit. When the relationship reverses, debt dynamics begin to work against you, and the primary surplus needed to stabilise it becomes a political question rather than a fiscal one.

Latin America in the 1980s is the textbook example, and the crisis was not triggered by overspending in the year it erupted. Rather, it was the result of a dramatic shift in the arithmetic. As Federal Reserve Chair Paul Volcker fought inflation with double-digit interest rates, a region that had borrowed cheaply during the petrodollar recycling of the 1970s suddenly found its interest costs soaring just as growth collapsed.

Greece met the same mechanism from the opposite direction. Nominal GDP fell by around a quarter between 2008 and 2013. No plausible primary surplus stabilises a debt ratio against that denominator, which is why the debt ratio kept climbing through the austerity years and why the 2012 restructuring – around €200bn of privately held bonds, with a nominal haircut above 50% – was arithmetically unavoidable long before it was politically mentionable.

Next to the debt ratio, r-g and the primary fiscal balance, debt ownership and the debt calendar of when bonds mature and need to be rolled over do matter.

Where do we currently stand?

Let's have a brief look at what the numbers are telling us currently.

Debt sustainability dashboard: Who scores worst?

	US	UK	JP	DE	FR	NL	IT	ES
Current borrowing situation (2025 data)								
Gross debt (% of GDP)	124	102	207	63	116	43	137	100
Net lending/borrowing (% of GDP)	-6.8	-5.4	-1.1	-2.7	-5.1	-1.8	-3.1	-2.5
Primary balance (% of GDP)	-3.2	-2.8	-0.9	-1.8	-3.1	-1.2	0.5	-0.4
Interest costs (% of GDP)	4.7	3.4	1.3	1.1	2.2	0.7	3.9	2.4
Size of the state (2025 data)								
Expenditure (% of GDP)	38	44	37	51	57	45	51	45
Revenue (% of GDP)	31	38	36	48	52	43	48	42
Improvement required to stabilise debt-to-GDP ratio (Based on IMF forecasts)								
Primary balance in 2030 (% of GDP)	-3.4	1.0	-2.0	-2.6	-1.0	-1.4	1.6	0.3
Improvement in primary balance to stabilise debt/GDP ratio in 2030	2.7	-1.4	-2.1	1.8	0.2	0.9	-1.2	-1.5
Planned fiscal consolidation/expansion								
Percentage-point change in structural budget balance from 2025	-0.3	2.8	-1.7	-2.0	0.9	0.0	1.3	0.5
Debt management								
Average maturity (years)	5.8	13.6	8.5	7.1	8.2	8.5	7.0	7.6
Share of debt held by non-residents	26	24	12	40	43	36	30	41

Source: Macrobond, ING

Most data is from the IMF World Economic Outlook. Improvement in primary balance required is calculated as the IMF's 2030 primary balance forecast, less ING's calculation of the primary balance that would be required to stabilise the debt to GDP ratio.

At current levels, interest rates do not pose a solvency issue for governments. For most countries, the real 10y interest rate is still below real GDP growth. However, many countries (US, UK and France) do need austerity measures to at least stabilise government debt ratios. At the current juncture, the latest turmoil on bond markets is a reminder that debt-fuelled growth has reached its limits. We have reached a point at which governments will have to take more painful political decisions, cutting expenditures elsewhere as interest rate payments are increasing. Currently, the US pays nearly 5% of GDP on interest costs, while Germany pays some 1.5% of GDP. For comparison, Greece paid some 8% of GDP during the sovereign debt crisis before it went into default.

It won't take long before markets will focus on central banks and their willingness or unwillingness to eventually bail out governments and purchase government bonds again.

Different countries, different attitudes

In the US, Treasury Secretary Scott Bessent is set to release a deficit reduction plan, yet there appears to be little appetite from the Republican-controlled Congress to make budget cuts that would impact voters in key swing states ahead of November's mid-term elections. That prospect will become even more dim if, as opinion polls currently suggest, the Democrats win control of the House of Representatives. Secretary Bessent set a goal of delivering a fiscal deficit of 3% (last achieved in 2015), yet the Congressional Budget Office now projects it to average over 6% per year over the coming decade.

In fact, the current administration has made the US fiscal position more vulnerable. President Donald Trump's One Big Beautiful Bill Act (OBBBA) did include over $1tr of healthcare spending cuts for the coming decade, but the permanent extension and expansion of tax cuts and more spending on other areas, including border security, led the Congressional Budget Office to conclude that OBBBA will in fact add $2.8tr to the national debt by 2034. Tariffs were meant to plug the gap, but the revenues fell well short of government projections and the Supreme Court's decision to strike down the initial 'Liberation Day' tariffs and insist on refunds means there is currently a net cash outflow from the Treasury.

Oft-mentioned fraud prevention and efficiency savings will not move the needle based on the underwhelming savings achieved by the Department for Government Efficiency. In reality, it will likely be wiped out by proposals for more spending on defence. This means we are unlikely to see any course correction over the next two years. Interest costs, already the third-largest expenditure item after health and social security, are set to climb further. It will be the next administration that will inevitably face pressure to take real action.

As is so often the case, the eurozone is more complicated. Looking at the aggregate, eurozone government debt is at 90% of GDP. However, public finances in Europe need to be looked at through national glasses and here the divergence of public finances as well as public finance sustainability is still striking. With France, Italy, Spain, Belgium and Greece, five out of 21 member states have debt-to-GDP ratios of above 100%. While the former periphery countries have built up fiscal cushions, even allowing for some slippage, France and Germany would currently need austerity measures worth some 2% of GDP to keep debt ratios stable. At the same time, interest payments take a growing share of government revenues in most countries, currently around 5% in France and Portugal but 9% and 6% in Italy and Greece, respectively. For now, no single eurozone country seems to be in the red zone.

However, with growing pressure on many governments to increase spending, higher interest payments and little willingness to cut expenditures elsewhere to implement fiscally sound structural reforms, eurozone divergence could soon become a theme again. Politically, the return of sovereign woes means that more fiscal burden sharing in the monetary union is highly unlikely to happen. It will be hard for countries like Germany, with a relatively sound fiscal starting position due to austerity in the past, to agree on anything that smells even remotely like a bailout. Instead, more differentiating bond markets will eventually test the ECB's willingness to restart asset purchases.

Meanwhile, the UK's fiscal backdrop is better than commonly assumed. Britain may have had a fiscal deficit of around 5% in 2025, but an ongoing freeze in tax thresholds means the UK is the only economy in our dashboard above that is undergoing a major fiscal consolidation. Britain is projected to run a primary budget surplus by the end of the decade and debt-to-GDP is expected to start falling. But like any projections, these are susceptible to change. Britain is not immune to either the structural spending pressures or the political challenges in taking tough decisions.

We don't expect major fireworks at the October budget – and think a desire to retain the existing fiscal rules will limit the room for a material increase in borrowing. But as we approach the next election in 2029 – a year when both tax hikes and austere spending plans feature in the budget plans – the political pressure to support the economy will inevitably grow. Beyond the next 12 months, borrowing projections are liable to upward revision.

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