

# ANNUAL REPORT

## 2024



APRIL 2025



**BANK OF GREECE**  
EUROSYSTEM



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## 2024

Presented to the 92nd General Meeting of Shareholders  
on 8 April 2025 by Governor Yannis Stournaras



APRIL 2025



**BANK OF GREECE**  
EUROSYSTEM

## **BANK OF GREECE**

### **Address**

21, E. Venizelos Avenue  
GR-102 50 Athens

### **Website**

<http://www.bankofgreece.gr>

### **Telephone**

+30 210 320.2393

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# FOREWORD BY THE GOVERNOR

In 2024, the world economy was faced with multiple and serious challenges. The protracted geopolitical tensions in Ukraine and the Middle East, elections in major economies, geo-economic fragmentation and rifts in global trade integration triggered by the looming imposition of new tariffs by the United States heightened uncertainty, discouraged investment and dented global economic growth. In the euro area, growth remained muted, as increased uncertainty and the generally restrictive economic policy mix weighed on expectations and economic activity. In June 2024, the Governing Council of the ECB embarked on a rate-cutting cycle, taking into consideration the marked decline in inflation as a result of the smooth and effective transmission of the single monetary policy to the euro area real economy. Interest rate cuts, which continued into early 2025, signalled a transition to a more neutral monetary environment. However, risks to the global and the European economies have increased.



The Greek economy continued to demonstrate strong resilience and record positive performance, accelerating the convergence of Greece's real GDP per capita towards the average European level. Real GDP in 2024 grew at an annual rate of 2.3%, more than double compared with the European average, driven by rises in private consumption, investment and exports of services. Headline inflation kept receding, mainly reflecting lower food inflation, while persistently high services inflation prevented a faster decline. Labour market conditions improved further, as the rise in employment quickened and unemployment dropped to a 15-year low, although growing tightness is observed in most sectors. Despite mounting uncertainty, the Greek economy is projected to continue expanding in 2025 at a solid pace well above the euro area average, while inflation is expected to further edge down slightly.

In 2024, confidence in the performance and the prospects of the Greek economy consolidated further, on the back of a prudent fiscal policy and the improving fundamentals of the banking sector. Public debt kept declining fast, while risks to its sustainability remain contained over the medium term. In the banking sector, the ratio of non-performing loans to total loans has declined to its lowest level since Greece's entry into the euro area, dividend distributions by significant banks resumed for the first time in 15 years, while the so-called "fifth pillar" was established, through capital increases in smaller banks and, above all, the merger of Pancreta Bank with Attica Bank, boosting competition among banks.

Nevertheless, amid growing challenges in the international environment, it is crucial to preserve and reinforce the favourable domestic factors supporting Greece's economic growth over the past few years, as well as to lay the groundwork for medium-term sustainable growth. Sustained fiscal credibility and adherence to the creation of adequate fiscal space over time, political stability, bolstering of institutions, acceleration of reforms, as well as effective use of available resources to increase productive investments will deliver synergies that will help mitigate risks in the short term and shield the economy against future shocks.

Monetary policy cycles in 2025 are expected to be less synchronised across major economies. In a volatile global environment, maintaining a credible monetary policy is crucial for safeguarding its efficiency and ensuring economies' stabilisation. Furthermore, immediate and coordinated action is required at the national and European levels. We need more Europe, with the adoption of joint risk mitigation and risk sharing policies across Member States in order to sup-

port economic recovery and social welfare. The promotion of a single capital market, the completion of the Banking Union and targeted fiscal interventions in key sectors, such as defence, security and the climate, will act as catalysts for a more competitive, inclusive and sustainable European economy.

The Bank of Greece in 2024 remained committed to its mandate to safeguard not only price stability, but also financial stability, by strengthening the resilience of the financial system, reducing the build-up of systemic risks and ensuring smooth liquidity conditions. Its supervisory mandate expanded, as the Bank was entrusted with the supervision of Occupational Pension Funds. This is expected to ensure greater flexibility, stability and transparency compared with the former supervisory model. Throughout the year, the Bank of Greece had been monitoring economic developments, contributing to the formulation of the single monetary policy. It continued to conduct high-level research and to disseminate statistical data and in-depth analyses to the wider public. Moreover, it invested further in the upskilling of its staff, encouraging continuous training and participation in Eurosystem research networks.

The Bank is evolving, modernising and transforming itself, in order to meet the demands of a constantly changing environment, with a focus on transparency and accountability. It has further restructured and upgraded its procedures and policies, with an emphasis on compliance and corporate governance. The Bank has completed organisational changes to its Directorates and Branch Network, with a view to increasing effectiveness, efficiency and meritocracy. Meanwhile, it adopted modern human resources management systems aiming to raise productivity and support staff development. Furthermore, it accelerated its digital transformation and launched awareness campaigns on cybersecurity, addressing present-day challenges in a responsible and credible manner. Demonstrating its strategic commitment to incorporating sustainability principles in every aspect of its operations, the Bank continued to take relevant actions, with a focus on climate change, circular economy and environmental management. Finally, it fulfilled its role in disseminating Greek culture through the activities of its Centre for Culture, Research and Documentation and continued to promote financial literacy through a series of educational programmes at the Bank of Greece Museum and by participating in similar initiatives at the national and European levels.

2025 is expected to be a challenging year, so stability and responsible economic policies become more crucial than ever. The Bank of Greece will remain true to its vision to be an effective, credible and innovative central bank, trusted by society. This vision becomes a reality thanks to the loyalty and professionalism of the Bank's staff, to whom I wish to express my gratitude for their valuable contribution, urging them to keep up the good work. Lastly, I would also like to thank the members of the General Council for their support and cooperation.

Yannis Stournaras

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# THE GREEK ECONOMY ON A CONVERGENCE PATH – FISCAL CREDIBILITY, REFORMS AND TRUST IN INSTITUTIONS ARE PILLARS OF ECONOMIC STABILITY

## 1 INTRODUCTION

**In 2024, the world economy experienced a mild slowdown in growth and a decline in inflation.** Global economic activity proved resilient, despite restrictive monetary policies and geopolitical tensions, while labour markets in most economies remained strong, supporting domestic demand. Overall, the world economy fared better in 2024 than initially expected, and severe recessions were avoided in major economies.

**However, the world economy appears to be entering a period of mounting uncertainty, fuelled by geopolitical tensions and rising trade protectionism.** The fundamental principles that had underpinned economic stability over the past few decades are being challenged and trade conflicts are escalating, increasing the risk of slower global economic growth and tighter global financial conditions. Trade tensions between the United States and major trading partners are weighing on confidence and market sentiment, adversely affecting exports, consumption and business prospects worldwide.

**Monetary policy has proved effective in reducing inflationary pressures, but in 2025 central banks are faced with increased challenges.** The restrictive monetary policy stance of recent years has played a decisive role in anchoring inflation expectations and gradually bringing down inflation, without significant rises in unemployment, while worst-case recession scenarios have not materialised. In 2024, monetary policy normalisation began, with several central banks gradually lowering their key interest rates. Yet, monetary policymaking in 2025 has to confront a highly complex environment, amid divergent developments in inflation and growth across countries. Central banks need to deal with the impacts of trade tensions and tariffs on energy and goods prices. Possible setbacks in central banks' disinflationary efforts could slow or halt the cycle of policy rate cuts, thereby worsening global financial conditions, weakening growth dynamics and exacerbating uncertainty. A potential further decoupling of monetary policies among major economies could lead to sharp adjustments in foreign exchange rates and capital flows. At the same time, a prolonged restrictive monetary policy stance could affect vulnerable sectors of the economy. In this complex environment, it is crucial to preserve the credibility of monetary policy, while also maintaining the necessary flexibility and readiness to adjust its stance in a timely manner, so as to ease uncertainty and support economic stability.

**In a context of heightened uncertainty, the Greek economy continues to demonstrate strong resilience and positive performance.** Its growth rate has consistently outpaced the EU average since 2019, accelerating the convergence of Greece's real GDP per capita towards the average European level. Improvements are observed in the labour market, with employment rising and unemployment having dropped to a single-digit rate since mid-2024. Meanwhile, the decline in inflation, mostly food inflation, boosts real disposable income, contributing to a lower share of population at risk of poverty or social exclusion.

**Since 2019, investment in Greece has been steadily increasing, covering part of the large investment gap that emerged during the debt crisis.** Gross fixed capital formation in real terms grew overall by about 60% in 2024 relative to 2019, as opposed to a marginal decline (-0.4%) in the euro area. As a result, the contribution of investment to annual GDP growth has averaged 1.6 percentage points post-pandemic, well above the euro area average of just 0.3 percentage point in the same period. Importantly, there has also been a qualitative improvement

in the composition of investment. Before the debt crisis, almost half of private investment was directed towards residential construction, while productive investment remained insufficient, weighing on the long-term growth prospects. Today, however, this pattern has been reversed: four-fifths of private investment is channelled into productive capital and the remaining one-fifth in housing. If this continues and is accompanied by a further increase in the total investment volume, it could act as a catalyst in restructuring the country's productive model, boosting competitiveness and the growth momentum.

**Achievements on the fiscal front have been remarkable, playing a pivotal role in Greece's successive sovereign credit rating upgrades, amid unprecedented external shocks and heightened international uncertainty.** The prudent fiscal policy pursued over the past years, coupled with the efforts to combat tax evasion, is now yielding tangible results, as high primary surpluses are steadily generated without a need for restrictive measures. The public debt-to-GDP ratio continues to decline rapidly. On a cumulative basis since 2020, Greece has recorded the fastest public debt reduction among advanced economies, of over 50 percentage points of GDP in just four years. Also, with the exception of the pandemic period (2020-21), it has maintained primary surpluses for seven years – above 2% of GDP in six of those years – while consistently overachieving its fiscal targets for nine consecutive years. This performance is clear evidence of the country's responsible fiscal policy and restored credibility; it reflects the outcomes of the structural adjustment achieved over the past decade as well as of the reforms in public financial management, effectively belying earlier concerns about a potential fiscal fatigue.

**In the context of the implementation of the EU's new fiscal rules, as reflected in Member States' national medium-term fiscal-structural plans (MTPs), Greece stands out as an example of fiscal resilience.** The country exhibits lower adjustment needs compared with other high-risk countries. General government debt is expected to decline faster than in most European economies over the coming years, remaining on a steady downward path even in severe scenarios. This dynamics underscores the Greek economy's ability to withstand fiscal shocks, supporting the sustainability of public debt even under adverse conditions. At the same time, the consistently high primary surpluses without new measures confirm Greece's favourable structural-fiscal position and effective public financial management in recent years.

**The restructuring of the domestic banking sector also made a crucial contribution to the successive sovereign credit rating upgrades, by bolstering financial stability and helping to restore market confidence.** Key positive developments in the banking sector included: a drastic reduction in non-performing loans; banks' restored profitability and balance sheet clean-up; improvements in capital adequacy and in the quality of regulatory capital; high liquidity and regained full access to capital markets; the divestment of the Hellenic Financial Stability Fund (HFSF) from significant banks, which signalled their return to normality and helped attract institutional investors; and the consolidation of less significant banks, through capital increases, mergers and acquisitions, which strengthens competition and the stability of the entire financial system. These developments have resulted in a healthy, reliable and robust banking sector that can actively support the financing of the real economy and strengthen its resilience.

**Alongside the strong economic performance of the past few years, it is also important to highlight the marked progress that has been achieved on the institutional front relative to the crisis period.** The past few years have seen improvements in the quality of governance institutions, as reflected in several indicators that are closely monitored by credit rating agencies, and this has been an additional driver of the Greek sovereign credit rating upgrade. Enhanced political stability, a more effective public administration, improvements in the quality of the regulatory environment, democratic institutions and the rule of law, as well as progress in the fight against corruption, have underpinned market confidence in the country's ability to implement

credible policies and attract investment.<sup>1</sup> Institutional efficiency is also seen as an important determinant of the Greek economy's sustainable growth and stability.

**In spite of this improvement, Greece's ranking remains low compared with the European average, highlighting the need for further structural reforms towards safeguarding economic stability.** Greece still lags behind other European countries, particularly in areas such as the rule of law, the speed in the delivery of justice and the predictability of law enforcement, as well as in the efficiency of public administration. This stresses a need for pressing ahead with the reforms, in order to further strengthen trust in institutions and support economic prosperity.<sup>2</sup> A strong rule of law is fundamental to economic growth, as a stable and reliable legal system ensures equality before the law, protection of property rights, effective contract enforcement and investment safety. Thereby, it supports citizens' and investors' trust in a well-functioning economy, creating conditions of stability and predictability that are essential for attracting new investment. Moreover, trust in institutions is a critical factor for shielding the economy against future crises, as it promotes transparency, accountability and consistency of political decisions. Further improving institutional quality is necessary not only for safeguarding democracy and the institution of justice, but also for preserving social cohesion and ensuring a stable environment conducive to national economic prosperity.

**In an environment of successive crises and heightened uncertainty, the continuation of reforms is a key pillar for maintaining economic stability.** The implementation of structural reforms and the strengthening of the economy's competitiveness through higher productivity, coupled with adherence to responsible fiscal policies and a focus on medium-term planning, are essential prerequisites for ensuring resilience, further sovereign credit rating upgrades and faster real convergence to the European average.

## 2 WORLD ECONOMY

**In 2024 the world economy continued to grow, albeit at a rather slow pace, and the outlook for 2025 remains positive, despite relatively subdued dynamics.** According to the latest IMF projections, world GDP growth is estimated to have slowed marginally to 3.2% in 2024 (from 3.3% in 2023), falling short of its long-term average for the 2000-2019 period (3.7%). In **advanced economies**, growth remained unchanged from 2023, but with significant divergence across major economies. The US economy, despite a marginal slowdown, continued to post the highest growth rate among large economies. By contrast, the Japanese and German economies experienced mild recessions. In the euro area and the United Kingdom, growth remained muted, despite a modest pick-up relative to 2023. A marginal slowdown was recorded in **emerging market and developing economies**. In this group of countries as well, macroeconomic developments were quite uneven, with China and India losing their growth momentum, whereas in Brazil buoyant economic activity picked up further. The **outlook for 2025**, despite downward revisions, remains positive. More specifically, recovery is anticipated in Germany, the United Kingdom and Japan, while growth in the two largest economies, the United States and China, is set to decelerate further.

- 1 According to the World Bank's Worldwide Governance Indicators, Greece has improved its scores on: "Political Stability and Absence of Violence/Terrorism" (lower likelihood of political instability and politically-motivated violence, creating a more predictable and safer macroeconomic environment); "Voice and Accountability" (enhanced ability of citizens to participate in political processes, freedom of expression, as well as higher transparency and accountability of public authorities, with democratic control and social dialogue mechanisms in place); "Government Effectiveness" (better quality of public services and of policy implementation); "Regulatory Quality" (a regulatory environment that fosters entrepreneurship and investment); "Control of Corruption" (systematic effort to curb public sector corruption); and "Rule of Law" (reforms aimed to speed up the delivery of justice and reinforce judicial independence).
- 2 The introduction of digital tools, the reorganisation of first-instance courts through the New Judicial Map, as well as the upskilling of judges are reforms in this direction.

**Global inflation continued to decline in 2024, amid uneven developments between advanced and emerging market economies.** The fall in global inflation was mainly due to the still restrictive monetary policies and the waning impact of aggregate supply shocks, as well as the unwinding of the energy crisis. According to the IMF, global inflation dropped by about one percentage point relative to 2023, reaching 5.7%, and is expected to decline further to 4.2% in 2025. Disinflation was more pronounced in advanced economies (2.6% from 4.6% in 2023) in spite of persistently high core inflation driven by services prices in several large economies. Conversely, inflation in emerging market and developing economies remained high and broadly unchanged (at 7.8%).

**Global trade rebounded strongly in 2024, supporting foreign demand, despite increased transport costs, geopolitical tensions and uncertainty.** According to IMF estimates, global trade volume growth strengthened markedly to 3.4% (from 0.7% in 2023), exceeding initial forecasts and offsetting weak domestic demand in several economies. Nevertheless, projections for 2025 suggest that world trade growth will moderate somewhat (to 3.2%), remaining significantly below its long-term average for the 2000-19 period (4.9%).

**International energy prices kept falling in 2024, despite fluctuations due to geopolitical developments, whereas non-fuel commodity prices rose.** In particular, the international price of **natural gas** of all types dropped by 15% compared with 2023, showing high volatility during the year. The average international price of **crude oil** fell by 1.9% in 2024 in annual terms according to the IMF, as weak global demand and the economic slowdown in China and India led to lower prices towards the end of the year, despite geopolitical tensions and temporary price hikes owing to developments in the Middle East. For 2025, energy prices are projected to decline further, as a result of reduced demand by China and increased supply by non-OPEC+ countries. On the other hand, the average international price of **non-energy commodities** rose by 3.4% and is projected to move upwards in the current year, reflecting the impacts of climate change on global production.

**Fiscal policies in 2024 turned contractionary in advanced economies and expansionary in emerging market and developing economies.** Government debt increased slightly in both groups of countries, remaining above pre-pandemic levels, at 109% of GDP in advanced countries and 70% of GDP in emerging market and developing economies. For 2025, tight fiscal policies are expected in most countries, aimed to rein in government debt and mitigate medium-term fiscal risks.

**Monetary policy in advanced economies turned gradually less restrictive in 2024, on the back of easing inflationary pressures.** In the course of the year, central banks decided to gradually lower their policy rates, taking into account the decline in inflation, waning wage pressures and, in certain cases, subdued economic activity. Still, despite a gradual normalisation, monetary policy in advanced economies remained restrictive. Overall, the monetary policy transmission mechanism proved to be effective, containing inflation expectations with limited impacts on growth and the labour market.

**The euro area economy continued to expand at a subdued pace in 2024.** Euro area real GDP grew by a mere 0.9% (compared with 0.4% in 2023), supported by rising consumption and easing financial conditions, while the strengthening of global trade also made a positive contribution. Conversely, persistently high uncertainty about international geopolitical and domestic political developments acted as a drag on growth, leading to a recession in Germany and a decline in investment. Services, especially tourism-related, were a driver of growth, unlike manufacturing that was weighed down by weak demand and increased regulatory burden. Economic activity in 2025 is expected to be supported by rising real incomes and consumption on the back of a further decline in inflation and wage increases, as well as by a recovery in investment largely thanks to improved credit conditions and utilisation of NextGenerationEU (NGEU) funds.

On the other hand, net exports are expected to make a negative contribution to GDP growth. According to the ECB staff projections (March 2025), the growth rate is expected to remain unchanged at 0.9% in 2025.

**The euro area labour market remained resilient, with employment rising further, albeit at a slower pace, and unemployment hovering at historically low levels.** Euro area employment growth moderated to 1.0% in 2024 (from 1.4% in 2023), while for 2025 it is projected to decelerate further to 0.4%. Weaker employment dynamics reflects the waning of the cyclical factors that had boosted labour demand in past years. The unemployment rate dropped further to 6.4% (from 6.5% in 2023), with a marginal decline to 6.3% expected for 2025.

**During 2024, both headline and core inflation in the euro area declined markedly, although domestic inflationary pressures remained strong. Headline HICP inflation** dropped by 3 percentage points to 2.4% (from 5.4% in 2023), driven down by: lower energy and food prices; the still restrictive monetary policy stance, which was instrumental in anchoring inflation expectations around 2%; and the economic slowdown (or even recession) in certain economies, such as Germany, which dampened aggregate demand. On the other hand, wage growth contributed to sustained upward pressures on prices, mainly in the services sector, where inflation remained high. **Core inflation** declined to 2.8% (from 4.9% in 2023), due to sluggish economic activity and slower unit labour cost growth. Profit growth weakened, partly buffering the pass-through of labour costs to prices. According to the March 2025 ECB staff projections, headline inflation is expected to moderate only marginally to 2.3% in 2025, largely reflecting developments in food inflation, while the withdrawal of energy-related support measures will exert temporary upward pressures on energy inflation. Core inflation is projected to drop to 2.2% in 2025.

**Global financial conditions eased in 2024, as investors priced in expectations of interest rate cuts by major central banks.** In the euro area, short-term bond yields declined and stock prices rose amid lower inflation expectations, with investors increasingly anticipating further interest rate cuts by the ECB within 2025. Conversely, inflation expectations in the United States rose significantly after the Fed's first interest rate cut in the third quarter of 2024, driving up US federal bond yields. More generally, expectations regarding the economic outlook and the path of policy rates are quite different between the United States and the euro area. This also reflects the uncertainty about the impacts of the US tariffs imposed on its major trading partners. Despite the initial interest rate cuts by the ECB and the Fed, investor expectations about US interest rates were revised upwards at the end of 2024. The subsequent rise in US bond yields also drove up the yields of euro area government bonds. All in all, although financial conditions are now more favourable compared with one year earlier, heightened geopolitical and economic uncertainty is causing market volatility, weighing on investment flows and on bond and stock market valuations globally.

### 3 THE SINGLE MONETARY POLICY

**The interest rate policy of the Eurosystem in 2024 was based on a dynamic assessment of economic conditions, following a meeting-by-meeting and data-dependent approach.** At each monetary policy meeting, the Governing Council of the ECB assessed all incoming economic and financial data for the euro area and decided accordingly. In particular, the Governing Council stressed that its decisions depended on three main factors: the inflation outlook; the dynamics of underlying inflation; and the strength of monetary policy transmission to the real economy. Since April 2024 the Governing Council has made clear that it was not pre-committing to a particular rate path.

**In June 2024, the Governing Council of the ECB began to gradually lower its key interest rates, judging that the disinflation process remained well on track.** After nine months of holding rates

steady, it was seen as appropriate to moderate the degree of monetary policy restriction, in line with increased confidence that inflation was converging towards the 2% target in a timely and sustained manner. Against this backdrop, the first rate cut of 25 basis points occurred in June 2024, as inflation had declined visibly compared with September 2023 and inflation expectations had been revised downwards. Financing conditions remained restrictive, given that the past monetary policy tightening continued to be transmitted to the financing costs of the euro area real economy. In September, October and December 2024, the ECB lowered again interest rates by 25 basis points each time, in response to signs of a sustainable decline in inflation and weakening economic activity. The Governing Council reiterated that monetary policy would remain adaptable to economic developments, while committing to the objective of price stability and ensuring the smooth transmission of monetary policy to the euro area real economy.

**Interest rate cuts continued into early 2025, marking a transition to a more neutral monetary environment.** In January and March 2025, the Governing Council cut policy rates by 25 basis points at each meeting, continuing to moderate monetary policy restriction. At the end of March 2025, the deposit facility rate stood at 2.5%, down from 4% in September 2024. Financial conditions are gradually easing, as policy rate cuts have started to translate into lower borrowing costs for firms and households, but remain restrictive, while still high debt servicing costs continue to reflect past interest rate hikes. The ECB remains cautious, noting that its decisions will continue to be based on the available incoming data and on inflation developments, ensuring a smooth adjustment of the euro area economy to the new monetary reality. According to the latest assessment, inflation is expected to converge towards its 2% target by the end of 2025.

**At the same time, in 2024 the ECB started to gradually reduce reinvestments under the Pandemic Emergency Purchase Programme (PEPP), intended to be discontinued by the end of the year.** More specifically, in the second half of 2024, the size of the PEPP portfolio was reduced by a monthly average of EUR 7.5 billion, as only part of the maturing securities was reinvested, and by the end of the year reinvestments had ceased. This process aimed at a gradual normalisation of monetary policy, through the contraction of the Eurosystem balance sheet.

**The Governing Council of the ECB noted that, despite the resilience of euro area banks, risks to financial stability remained elevated.** In this context, in June and December 2024, it conducted an in-depth assessment of the interaction between monetary policy and financial stability. The findings suggested that, although financial stability had benefited from an improving economic outlook, rising geopolitical tensions could pose considerable downside risks. Furthermore, the Governing Council stressed that macroprudential policy remained the first line of defence against the build-up of financial vulnerabilities.

**In March 2024, the Governing Council of the ECB decided on changes to the operational framework for implementing monetary policy, to ensure that it remains appropriate as the Eurosystem balance sheet normalises.** In particular, it determined the core principles and key parameters that will guide monetary policy implementation and liquidity provision to banks, as excess liquidity gradually declines from very high levels. Moreover, the Eurosystem deposit facility rate (DFR) was recognised as the key interest rate through which the ECB steers the monetary policy stance.

**The ECB posted losses for the second year in a row, as a result of past monetary policy measures that were adopted in order to ensure price stability in the euro area.** The losses are expected to have a negative effect on profit distribution to euro area national central banks. It should be pointed out though that central banks are public institutions, with the specific mandate of ensuring price and financial stability, and are not profit-oriented. Such losses are expected to be temporary and to be offset by future profits. Besides, the losses are undeniably lower than the macroeconomic cost that would have arisen if the ECB had not taken resolute action against price stability challenges and recession risks. The credibility of central banks mainly hinges on

their ability to achieve their primary objective and contribute to macroeconomic and financial stability, while any temporary losses do not prevent them from fulfilling their mandate.

**In the money market, excess liquidity in the banking system continued to decline in 2024, although remaining elevated overall.** The decline was mainly due to the full repayment of TLTROs, as well as to maturing securities which were acquired by the Eurosystem under the asset purchase programmes.

## 4 THE GREEK ECONOMY: DEVELOPMENTS AND PROSPECTS

### *Macroeconomic environment*

**The Greek economy expanded at a satisfactory rate in 2024, well above the euro area average for the fourth consecutive year. Annual GDP growth** in real terms stood at 2.3% in 2024 (the same level as in 2023) and was around 2.5 times higher than the respective euro area figure. The main drivers of GDP growth were private consumption, investment and exports of services. In greater detail, **private consumption** increased at an accelerating pace, supported by the rise in household disposable income. In particular, dependent labour income rose markedly, on the back of higher compensation per employee and stronger headcount employment, reflecting the positive dynamics of the labour market and rising wages. The downward trend in inflation also contributed to a strengthening in real incomes. **Investment** continued its upward path in 2024, especially in machinery equipment. As a percentage of GDP, investment reached its highest level since 2010, pointing to a gradual narrowing of the investment gap that emerged over the past decade. By contrast, the contribution of net trade was negative, as **exports** of goods grew modestly, dragged down by a worsening international environment, while **imports** of goods and services increased sharply. A negative contribution to economic growth also came from lower **government consumption**. **Activity indicators** in the industrial sector, construction and services recorded positive yet decelerating rates of change, whereas the volume of retail sales edged downwards slightly. Business **confidence** remained high, as opposed to consumer confidence, which stabilised at low levels.

**Household savings shrank further, as consumer spending remained solid in 2024.** Despite the inflation-induced loss in purchasing power in the past few years, consumer demand continued to be strong. This resulted in a gradual reduction in savings accumulated during the pandemic period, with the saving ratio falling back to pre-pandemic levels. However, this trend bottomed out and, in the third quarter of 2024, a marginally positive saving ratio was seen for the first time after two years of continuous decline. At the same time, the withdrawal of the pandemic- and energy-related support measures, the ongoing release of pent-up demand and repayments of loan and tax obligations also weighed heavily on household savings.

**Headline inflation declined further in 2024, but persistently high services inflation prevented a faster disinflation.** **Core** inflation started receding for the first time in two years, as inflation of non-energy industrial goods (NEIG) slowed markedly. **Headline HICP inflation** fell to 3% in 2024 (from 4.2% in 2023), compared with 2.4% for the euro area average. This was mainly driven by: (i) the downward path of **food** inflation (+2.8%, marginally below the euro area average); (ii) a moderation in **NEIG** prices (+1.7%); and (iii) **energy goods** deflation (-1.4%), mainly reflecting the fact that international oil prices remained at relatively low levels. Conversely, **services** inflation was high in annual terms (4.4%), without significant changes from the two previous years. Persistently high services inflation reflects increases in unit labour costs, strong foreign demand, as well as the upward effect of indirect tax hikes in food and accommodation services during 2024. Rising services inflation in the second half of the year sustained core inflation to levels above the headline index. For the year as a whole, core inflation fell by 1.7 percentage points relative to 2023 and stood at 3.6%.

**The labour market remained robust in 2024, with unemployment falling further and labour force participation increasing.** Total employment grew by 2% in 2024 (2023: 1.3%). The share of part-time employment dropped further to 6.6% (from 7.5% in 2023). Importantly, **labour force participation** in 2024 rose to a post-2011 high, supporting the sustainability of the social security system given the challenges posed by population ageing. It should be noted that the rise in employment was stronger for women and for the 45-65 age group, increasing their respective shares in total employment. The **unemployment rate** fell further to 10.1% (from 11.1% in 2023), reaching a post-2010 low, while the long-term unemployment rate declined considerably. Nevertheless, labour market **tightness** has increased relative to the pre-pandemic period. Many firms, especially in tourism, professional services, construction and manufacturing, are facing difficulties in meeting their staffing needs, even after the strong wage growth in 2024. The only sector with a lower job vacancy rate year-on-year was the ICT sector.

**Wage growth in 2024 was significantly higher than in 2023, boosting households' disposable income.** In particular, total compensation of employees grew at an annual rate of 7.4% (2023: 5.3%), while compensation per employee rose by 6% (2023: 3.7%). Wage growth in 2024 was driven by: (i) the rise in public sector salaries; (ii) the reinstatement of seniority-based benefits for private sector employees; and (iii) the increase in the minimum wage. At the same time, annual growth in productivity per employee was unchanged from the previous year (1%), while unit labour cost growth quickened markedly compared with 2023 (4.9%, against 2.5% in 2023).

**Corporate profitability declined between January and September 2024, as wage costs grew faster than gross value added.** As a result, the net profit share (which reflects the performance of the business sector in terms of operating profits) slightly decreased; however, it still remains significantly higher than the average of the pre-pandemic period 2017-19, confirming that the solid expansion of the Greek economy helped maintain high profits despite elevated labour costs.

**In 2024, the Greek tourism sector hit new records in travel receipts and tourist arrivals, but faced challenges due to reduced average expenditure per trip and staff shortages.** Travel receipts from non-residents came to about EUR 21.6 billion (+4.8% on an annual basis), exceeding the levels seen in previous years, while international passenger traffic increased considerably. Still, average expenditure per trip decreased, as a result of lower household disposable income globally amid inflationary pressures, as well as higher numbers of visitors staying for shorter periods. On the supply side, although the shares of tourism-related activities in GDP and employment increased, the job vacancy rate in Greece was the highest in the EU, posing significant challenges to the operation of the sector.

**After a visible improvement over the past few years, the international competitiveness of the Greek economy showed a small deterioration in 2024.** The appreciation of the euro had an adverse effect on the **price competitiveness** of the Greek economy, outweighing the gains from a favourable inflation differential vis-à-vis Greece's main trading partners. **Unit labour cost competitiveness** also worsened in 2024 (after a slight deterioration in 2023). This was due to slower unit labour cost growth in the euro area, as a result of lower wage increases and higher labour productivity growth relative to Greece. In terms of **structural competitiveness**, Greece's ranking in the relevant composite indicators remained broadly unchanged at rather low levels in 2024. Gaps in digitalisation, innovation and productive investment as a percentage of GDP persist, and so does Greece's distance from most other advanced economies in global competitiveness scores.

**The current account deficit widened in 2024 (to 6.4% of GDP from 6.2% of GDP in 2023).** This development mainly reflected deterioration in the non-fuel goods balance, as imports outpaced exports; the fuel balance, as exports fell more than imports; and the primary income account. These were partly offset by a higher surplus in the services balance, mainly due to increased travel receipts and, to a lesser extent, a slightly higher surplus in the sea transport balance; and an improvement in the secondary income account. **Foreign direct investment**

**(FDI)** rose strongly, coming to EUR 6 billion or 2.5% of GDP (2023: EUR 4.4 billion or 1.9% of GDP), the second highest level in the past 20 years. This rise was chiefly due to investment in new equity and real estate, with the real estate sector absorbing more than 45% of total FDI inflows. Meanwhile, sectors such as manufacturing, transportation and storage, communication and financial activities continue to attract foreign investor interest. Overall, FDI was supported by the improved business environment after the recent credit rating upgrades of the Greek economy, as well as by the completion of privatisation projects.

**In 2024, the real estate market continued to attract interest from domestic and foreign investors, and property prices moved further up.** Investor demand was broadly based across all property uses, with an undersupply of properties meeting modern standards. The **housing** market remained buoyant, with a particular focus on investment housing, where prices rose sharply. Residential construction activity increased markedly, and positive construction confidence improved moderately relative to 2023. Residential investment, although on an upward trend, remains low as a percentage of GDP, while building activity has not yet returned to pre-crisis levels. The overall cost of building new residential properties rose further in 2024, albeit at a slower pace. Turning to the **commercial real estate** sector, property prices kept on rising, especially in the prime segment. Total construction activity for commercial properties continued to record positive growth rates.

### ***Fiscal developments***

**In 2024, fiscal stability was significantly enhanced.** The fiscal stance is estimated to have remained contractionary in 2024, for the third year in a row. Key developments included further improvements in public finances, continued reforms and implementation of targeted measures to support vulnerable households and businesses, while at the same time safeguarding public debt sustainability. Fiscal measures focused on three key areas: (i) social policy interventions aimed at raising citizens' disposable income; (ii) actions to combat tax evasion, coupled with a strengthening of electronic governance and digital payments; and (iii) an increase in government investment.

**Efforts to combat tax evasion are bearing fruit, leading to consistent overperformance of tax revenue in recent years, a broadening of the tax base and enhanced tax fairness.** Tax revenue continued to exceed budget targets in 2024, enabling the financing of additional public expenditure on investment and on support to vulnerable social groups. Improved incomes, increased corporate profitability and strong employment growth underpinned the overachievement of fiscal targets. Recent reforms, such as the interconnection of cash registers with POS terminals, the digitalisation of business transactions and financial data by the Independent Authority for Public Revenue through the myData platform, as well as the newly introduced presumptive taxation of the self-employed, have enhanced tax compliance, demonstrating the effectiveness of policies to curb tax evasion. Besides, revenue overperformance, as a result of reduced tax evasion and the associated lasting increase in tax revenue, has made possible an upward adjustment of Greece's net primary expenditure growth ceiling for 2024, thus creating extra fiscal space for additional discretionary measures during the year without jeopardising fiscal sustainability or compliance with fiscal rules.

**Taking into account all latest data about the evolution of tax revenue, it is estimated that annual budgetary targets have once again been overachieved.** According to the revised projection of the Bank of Greece, the general government **primary balance** in 2024 is expected to turn out at a surplus of 3.5% of GDP, significantly higher than projected in the MTP 2025-2028 (2.4% of GDP) and the 2025 Budget (2.5% of GDP).

**In 2024, public debt declined markedly not only as a percentage of GDP, but also in absolute terms.** Debt reduction was driven by a higher primary surplus, the further early repayment of

official sector loans and the continued expansion of the Greek economy. Specifically, the general government debt ratio is estimated to have declined by 10.1 percentage points of GDP compared with 2023, reaching a post-2010 low of 153.8% of GDP. Moreover, the absolute size of public debt is estimated to have decreased for the first time since 2019 and for just the fourth time in the 29-year period for which national accounts data are available. Thus, Greece has outperformed most euro area member countries for yet another year, despite an upward revision of its debt under Eurostat's new methodology for the statistical treatment of deferred interest.

**The public debt management strategy in 2024 focused on reducing borrowing costs, maintaining high cash reserves and enhancing liquidity in the Greek government bond market, while at the same time limiting risks to the debt portfolio.** New debt issues had lower yields compared with respective past issues, as well as high oversubscription ratios. In the course of the year, the Public Debt Management Agency (PDMA) also reopened past bond issues, with lower yields relative to the original launches, further increasing the liquidity of the bond market and confirming investors' strong demand for Greek medium-term debt securities. Overall, the PDMA raised EUR 9.6 billion at a lower weighted average cost and with a longer weighted average maturity relative to 2023, thereby supporting public debt sustainability.

**The absorption of funds from the Recovery and Resilience Facility (RRF) is well on track.** By the end of 2024, Greece had received EUR 18.2 billion or 51% of its total allocation, having completed 28% of the agreed milestones and targets. Concerning the RRF loan component, there has been substantial progress in the signing of loan agreements. Disbursements to final beneficiaries account for 32% of total loan amounts received, as loans are disbursed gradually, according to project implementation, over a three-year horizon. In the grant component, disbursements to final beneficiaries have accelerated significantly (estimated at 77% of total grant funding received up to December 2024), increasing the contribution of public investment to economic growth.

**Fiscal responsibility and policy credibility have been acknowledged by all international credit rating agencies in their assessments of the Greek economy and its outlook.** Their improved assessments reflect rating agencies' expectations of further declines in the debt-to-GDP ratio in the years ahead, as well as the systematic overshooting of the primary surplus targets in the past few years.

### **Financial developments**

**Greece's return to investment grade was confirmed by all major rating agencies, attesting to the robust performance of the economy and restored confidence.** During 2024, S&P, Morningstar DBRS and Moody's changed the outlook on the Greek economy from stable to positive, while in December Scope Ratings upgraded Greece's sovereign credit rating to BBB (from BBB-), one notch above the investment grade threshold, with a stable outlook. In March 2025, Morningstar DBRS also upgraded Greece's creditworthiness to BBB, changing its outlook to stable. In the same month, Moody's assigned investment grade status (at Baa3) to the Greek sovereign for the first time in 14 years. Thus, all ECB-recognised credit rating agencies have now assigned investment grade status to the Greek economy, signalling the country's return to European normality.

**Greek government bond yields declined significantly in 2024, influenced by euro area trends as well as favourable domestic developments.** Initially, they mirrored the general downward path of euro area government bonds; subsequently, however, they fell stronger than their euro area counterparts, largely thanks to Greece's upgrade to investment grade. From the third quarter onwards, yields edged up, in line with global trends, although their increase was weaker than elsewhere. The favourable domestic economic developments and the successive credit rating upgrades eased upward pressures on Greek government bond yields; at the same time, other factors such as strong fiscal performance, a reinforced banking sector, faster economic

growth compared with the euro area average, political stability and continuation of the reform effort bolstered investor confidence. The positive assessments of rating agencies regarding the prospects of the Greek economy led to increased investor participation in the new issues of Greek government bonds, helping to keep their yields contained, thus cushioning the impact of international developments and bringing down yield spreads vis-à-vis the other euro area countries. As a result, the spread between Greek and other euro area sovereign bond yields is now comparable with the levels prevailing before the debt crisis, confirming the role of positive domestic developments as a counterbalance to heightened international uncertainty.

**Greek corporate and bank bond yields trended downwards, contributing to lower funding costs for firms and financial institutions.** Greek banks, having already met their MREL targets, continued to issue bonds in international markets on favourable terms, as the yields on new issues declined despite the recent upward trend in European bank bond yields. This can be explained by banks' credit rating upgrades. Bond issuance by non-financial corporations (NFCs) also increased, as the improved sovereign credit rating and expectations of interest rate cuts resulted in lower financing costs. After a rise observed in the first half of 2024, Greek NFC bond yields trended down, eventually converging with the yields on European bonds with ratings close to the investment grade threshold.

**In 2024, the Greek stock market remained buoyant, with reduced volatility and increased investor interest.** Banks, the industrial sector and consumer goods firms were the main drivers of the rise in the Athens Exchange composite share price index (Athex), reflecting the momentum of the Greek economy. International investors' strong demand for Greek shares considerably facilitated the divestment of the HFSF from systemic banks, further boosting the stock market. Meanwhile, trading activity grew markedly.

### **Banking sector**

**Bank lending rates in 2024 edged downwards in most loan categories, with varying degrees of adjustment depending on the borrower sector and the type of financing.** More specifically, bank borrowing costs for NFCs declined, in line with monetary policy rate cuts and lower interest rates in the euro interbank market. This was also due to the fact that NFC loans as a rule carry variable rates. As a result, the weighted average interest rate on **loans to NFCs** stood at 5.5% on average, down by 32 basis points relative to 2023. For small and medium-sized enterprises (SMEs), bank lending rates remained almost unchanged in average annual terms, standing at slightly higher levels than for the average of total NFCs, mirroring increased risk management requirements. However, borrowing terms and conditions for NFCs, particularly for SMEs, were in fact more favourable than what is suggested by bank interest rate statistics, owing to the supply of low interest rate loans through the financing tools of the European Investment Bank (EIB) Group and the Hellenic Development Bank (HDB), as well as through the RRF loans. Turning to **households**, the pass-through of policy rate cuts to bank lending rates has been more limited than for NFCs. Besides, a significant part of new loans to households was fixed-rate loans. The weighted average interest rate on loans to households was 6.1% on average in 2024 (against 6.2% in 2023), more than 0.5 percentage point higher compared with loans to NFCs. In greater detail, interest rates on **housing loans** remained broadly unchanged relative to 2023, averaging 4.1%, as reductions in variable rates in 2024 offset to a great extent the past increases of the policy rate hiking cycle. Conversely, the weighted average interest rate on **consumer loans** with a fixed maturity declined by around 0.5 percentage point in 2024 to 10.8%. In real terms, bank lending rates in 2024 increased slightly year-on-year. Moreover, the differential in lending rates between Greece and the euro area narrowed further in 2024 for both sectors (NFCs and households).

**During 2024 bank deposit rates followed a downward trend, though remaining higher on average relative to 2023.** More specifically, interest rates on NFCs' time deposits tracked the

Eurosystem policy rate cuts, while the adjustment in the respective interest rates for households was slower and more limited. This relative stickiness in household deposit rates is attributed to banks' efforts to maintain a strong deposit base, particularly after the repayment of ECB financing, as well as to depositors' shift towards alternative investment options, such as Greek Treasury bills. Despite their downward trend, on average in 2024 the weighted average **interest rates on time deposits** stood at higher levels than in 2023. In particular, the weighted average interest rate on households' time deposits came to 1.8% on average (against 1.4% in 2023) and the respective interest rate for NFCs reached 3% (against 2.3% in 2023). On the other hand, **interest rates on overnight deposits** remained almost unchanged relative to 2023 (0.03% for households and 0.18% for NFCs).

**The annual growth rate of bank credit to the private sector as a whole accelerated markedly in 2024 (6.2%) compared with 2023 (3.2%).** This development reflects an increase in bank credit to both firms and households.

**Credit expansion to firms quickened considerably, with particularly enhanced credit support to SMEs.** The growth rate of bank credit to NFCs rose to 9.5% on average in 2024 (from 6.5% in 2023). The rise in economic activity, coupled with a gradual decline in bank lending rates, contributed to stronger demand for new loans, while banks, enjoying ample liquidity and having reduced their reliance on the Eurosystem, raised credit supply. Manufacturing, trade, energy and tourism had the highest shares in the total flow of business loans. Developments in new bank loans to businesses in 2024 were mostly driven by the contribution of credit to large firms. Nevertheless, it should be noted that the average monthly gross flow to SMEs increased substantially (25%) relative to 2023. In addition, the co-financing and loan guarantee schemes of the HDB and the EIB Group as well as the RRF loans further boosted credit to firms (SMEs in particular), increasing their shares in the total outstanding amount of business loans.

**Bank credit to households continued to contract, albeit at a weaker pace than one year earlier, reflecting a pick-up in consumer credit growth and a slower decline in housing loans.** More specifically, the outstanding amount of bank loans to households shrank by 1% in annual terms, against a decrease of 2.4% in 2023. The average annual growth rate of **consumer credit** edged up to 5.5% (from 2% in 2023), while the rate of decline in the outstanding amount of **housing loans** moderated to -2.9% (from -3.7% in 2023). Meanwhile, gross flows of both consumer and housing loans increased markedly. The rise in consumer credit was associated with households' higher consumer spending, while the full impact of lower interest rates on housing loans had not yet been reflected in demand for housing loans, owing to the high share of new fixed-rate loans.

**Bank deposits by the private sector kept growing in 2024, at a faster pace than in 2023.** Overall, a cumulative increase of EUR 8.6 billion was recorded (2023: EUR 5.8 billion), bringing the stock of deposits to EUR 204 billion, the highest level since February 2011. Domestic private sector deposits accounted for 85% of GDP, surpassing the 2003-08 period average. Still, the bulk of banks' deposit base continues to consist of liquid assets held in overnight accounts (75% of private sector deposits).

**The increase in deposits was primarily driven by firms. Corporate deposits** grew substantially, reflecting stronger credit growth to NFCs and higher turnovers. A more moderate increase was observed in **deposits held by households**, which shifted towards alternative investment options, such as Greek Treasury bills and mutual fund units/shares, which offer higher returns.

**The shift from overnight deposits to time deposits halted in 2024, as the interest rate differential between them narrowed.** The annual growth rate of time deposits slowed considerably, with time deposits held by firms rising only marginally and those held by households increasing much less compared with 2023. By contrast, overnight deposits grew markedly for both firms and households, reversing the previous year's decline.

**Greek banks' fundamentals strengthened further in 2024, as profitability and capital adequacy ratios increased, liquidity remained high and loan portfolio quality improved.** Positive developments in banks' fundamentals are attributable to the strong growth rate of the Greek economy, upgrades in Greece's sovereign credit rating and in the ratings of Greek significant banks, the continuously improving quality of their loan portfolios and the restructuring of less significant banks. **Profitability** grew, supported by a further increase in net interest and fee income. Greek banks' **capital adequacy ratios** improved significantly, converging towards the respective European ratios, as the increase in regulatory capital through internal capital generation and issuance of bonds accounted for as equity more than offset a rise in risk-weighted assets. In particular, the Common Equity Tier 1 (CET1) ratio rose to 15.9% in December 2024 (euro area<sup>3</sup>: 15.9%), from 15.5% in December 2023, and likewise the Total Capital Ratio (TCR) came to 19.6% (euro area: 20%), against 18.8% in December 2023. **Liquidity ratios** remained broadly unchanged relative to end-2023, still well above prudential requirements and the respective euro area averages, despite the full repayment of the Eurosystem's TLTROs. The aggregate **non-performing loan (NPL) ratio** fell significantly year-on-year, moving closer to the European average. According to the latest available data, NPLs dropped further to 3.8% of total loans in December 2024 (from 6.7% in December 2023), compared with a euro area average of 2.3%.

**The restructuring of less significant banks added to the stability of the financial system.** The merger between Pancretia Bank and Attica Bank with a capital increase and the participation of a private investor, as well as the resolution of two cooperative banks in Northern Greece, with no impact whatsoever on financial stability, signalled the consolidation of the Less Significant Institutions (LSI) sector as well, thereby enhancing competition in the banking sector and increasing the availability of financing options to SMEs.

**Greek banks' credit rating upgrades continued throughout 2024 and into early 2025, reflecting improvements in their fundamentals and enhancements in the institutional framework.** The upgrade of three significant banks by S&P in January 2025 is seen as an important development, with two of those banks now rated to investment grade category (BBB-) with a stable outlook. Subsequently, in March 2025 Moody's upgraded the ratings of all four systemic banks. These upgrades are associated with the introduction of macroprudential borrower-based measures that bolster the stability of the financial system, as well as with positive spillovers from the sovereign credit rating upgrade.

### **Private insurance undertakings**

**The domestic private insurance market has proved its resilience, successfully addressing multiple challenges in recent years.** Such challenges included interest rate changes, inflationary pressures, the consequences of weather extremes like storm Daniel, as well as consolidating past mergers and acquisitions. In January-September 2024, **gross written premiums** across the main market segments increased year-on-year, by 17% for life insurance and by 9% for non-life insurance.

**Over the same period, the balance sheets of insurance undertakings improved compared with end-2023, posting increases in their assets, liabilities and own funds.** In greater detail, total assets of supervised insurance undertakings grew by 3%, mainly on account of a rise in investments linked to insurance whose investment risk is borne by policyholders. Total liabilities increased by 2%, with life insurance accounting for their bulk, while total own funds rose by 5%. The sector's capital adequacy remained elevated, as 92% of eligible own funds rank in the highest quality class (Tier 1), while all supervised insurance undertakings maintain solvency

3 Banking groups in the Banking Union directly supervised by the ECB.

capital requirement coverage ratios above 100%, despite macroeconomic challenges and financial market volatility.

**In 2024 and in early 2025, the institutional framework for private insurance in the EU was significantly enhanced through legislative and regulatory actions.** The revised “Solvency II” Directive and the new Insurance Recovery and Resolution Directive were published in January 2025, with a view to ensuring the robustness of the insurance sector and to strengthening its resilience and supervision. At the national level, the Bank of Greece issued new Executive Committee Acts regarding the submission of supervisory reports on Pan-European Personal Pension Products (PEPP); audit procedures concerning solvency and financial condition reports; and adjustments in the minimum amounts of compulsory insurance cover against civil liability for insurance intermediaries. These interventions aim to enhance the transparency, supervision and smooth functioning of the insurance market.

### **Projections**

**The Greek economy is projected to continue expanding in 2025 at a steady rate, well above the euro area average.** According to Bank of Greece estimates, economic activity is projected to expand by 2.3% in 2025, with private consumption and investment remaining the key drivers of growth this year as well. In more detail, **private consumption** (+2%) is expected to continue its upward path, supported by households’ higher real income. The projected further rises in employment and wages, coupled with a decline in inflation and the implementation of targeted fiscal measures, are set to boost disposable income. **Investment** (+6%) should continue growing at relatively high rates, backed by European resources, which, along with the banking sector’s high liquidity and the continued upgrades of the Greek economy, will attract new private funds. **Exports** (+3.8%) are expected to rise further, reflecting the recovery of foreign demand and the improved competitiveness of Greek exports. However, the contribution of net trade to GDP growth will be negative overall, as buoyant investment activity and strong consumption will considerably raise **imports** (+3.5%).

**The prospects of Greek tourism appear to be favourable for 2025 as well.** Leading indicators of tourism activity, such as seat scheduling in incoming international flights, international tourist arrivals and investment in the tourism industry, are encouraging signs for demand, confirming the positive outlook.

**The outlook for the labour market remains positive in 2025, with a rise in employment and a further decline in unemployment.** An increase in employment (+1.3%) and a drop in the unemployment rate (to 9.9%) are associated with the sustained growth momentum of the economy, which supports job creation.

**Disinflation in 2025 is expected to be limited, while core inflation should remain unchanged.** More specifically, headline HICP inflation is projected to slow marginally to 2.9%, while core inflation is expected to remain at 3.6%. Upward pressures will be exerted by energy inflation returning to positive territory and an expected rise in services inflation. By contrast, food inflation and NEIG inflation are projected to decline.

**The sustained growth momentum of the economy is expected to have a (marginally) positive effect on labour productivity, while easing wage growth should favour competitiveness.** In particular, productivity growth is projected to remain muted in 2025 (at 1%, same as in 2024). On the other hand, total compensation, as well as average earnings and unit labour costs should continue growing, also reflecting the increase in the minimum wage, albeit at a slower pace than in 2024. According to Bank of Greece estimates, in 2025 **total compensation** is expected to grow by 5.6% (2024: 7.4%), **average earnings** by 4.5% (2024: 6%) and **unit labour costs** by 3.4% (2024: 4.9%).

**The current account deficit is projected to narrow to 5.7% of GDP in 2025 (against 6.4% of GDP in 2024).** Underlying this improvement will be the following: (i) **Exports** of goods, despite their weak growth in 2024, did not lose a sizeable market share, which augurs well for the years ahead. (ii) A higher surplus in the **services balance** is anticipated, as **travel receipts** are expected to rise further – albeit moderately – in 2025, mainly on the back of an extended tourist season, the promotion of alternative forms of tourism and a stronger cruise industry. The prospects of **sea transport receipts** are relatively positive, owing to an estimated – slight – increase in global demand and a moderate growth in the world fleet. (iii) The expected downward course of interest rates, coupled with the impact from the Greek economy's successive upgrades, is set to contribute to lower interest payments, improving the **primary income account**. (iv) **EU funding**, when provided in the form of grants (e.g. NGEU resources), should improve the primary and secondary income accounts. On the other hand, needs for **imports of intermediate and investment goods** are expected to weigh on the current account deficit. **Foreign direct investment** is projected to maintain its momentum, reflecting an improved business climate.

**The outlook for the Greek real estate market remains positive in 2025.** Limited supply and high demand for houses, particularly for investment purposes, should continue to push property prices upwards, but at a weaker pace than before.

**Monetary policy is expected to become gradually less restrictive in 2025, as policy rates will continue to decline.** Inflation at the euro area level has fallen and is now much closer to the 2% target, with the ECB's projections suggesting its sustainable return to levels consistent with price stability. Against this backdrop, there is room for further monetary policy normalisation, with additional policy rate cuts during 2025.

**The fiscal stance is projected to turn expansionary in 2025,** due to increased RRF-backed public investment. Net of this impact, the fiscal stance is estimated to be neutral and therefore consistent with monetary policy objectives.

**Thanks to the country's favourable fiscal position, adjustment needs under the new EU economic governance framework are limited.** According to the MTP, the cumulative fiscal adjustment (in terms of structural primary balance) that is required over the 2025-28 period in order to meet all sustainability criteria of the new fiscal rules is estimated at just 0.4 percentage point of GDP (or 0.1 percentage point of GDP per year). So as to achieve this small adjustment, the average annual growth rate of nationally financed net primary expenditure must not be higher than 3.4% (2025: 3.7%; 2026: 3.6%; 2027: 3.1%; and 2028: 3.0%).

**Fiscal aggregates are expected to remain robust in 2025.** Based on available data and the policy measures announced so far, the Bank of Greece forecasts a **primary surplus** of 2.6% of GDP and a **budgetary deficit** of 0.4% of GDP, well below the 3% benchmark under the Stability and Growth Pact. This forecast has taken into account fiscal measures aiming to strengthen disposable income, reduce social inequalities and address social issues, such as adverse demographics and the housing crisis, as well as the impacts of natural disasters. At the same time, account has been taken of a projected increase in revenue from taxes and social security contributions, reflecting continued economic growth and a new increase in the minimum wage, as well as a moderation in primary expenditure growth (within the limits that ensure compliance with the new EU fiscal rules).

**Public debt is projected to continue declining, although at a weaker pace.** The public debt-to-GDP ratio is estimated to decrease further to 144.4% of GDP in 2025, supported by the ongoing recovery of economic activity, which should maintain the strong dampening effect of nominal GDP. However, the rate of decline in public debt is expected to weaken (9.4 percentage points of GDP) compared with the past years, because of an anticipated smaller primary surplus and a reduced use of cash reserves, which offset the slight acceleration in the GDP deflator. In

the medium term, provided that fiscal targets are met and EU funding is effectively utilised, public debt should continue its steady downward path, declining by a cumulative of 12.1 percentage points of GDP in 2026-27. These forecasts satisfy the sustainability criteria of the new fiscal framework with a safe margin, overshooting by a wide mark the minimum average annual reduction (1 percentage point) required for countries with a debt above 90% of GDP.

**In 2025, bank borrowing costs for the domestic private sector are expected to decline further, as a result of the ongoing pass-through of policy rate cuts.** This positive development is supported by the improved fundamentals of domestic (significant and less significant) banks and the Greek economy's favourable outlook. On the other hand, increased demand for lending and a possible rise in medium-term bond yields are set to push up bank interest rates, partly limiting the gains from lower policy rates.

**The outlook for bank credit to the private sector for 2025 is positive.** The expected further decline in key ECB interest rates along with the robustness of the Greek economy should gradually boost demand for new loans by firms and households. At the same time, bank credit supply should strengthen through the co-funded schemes of the NSRF (2021-2027), the RRF, as well as the financing tools of the EIB Group and the HDB.

**In parallel, deposit demand is expected to evolve in lockstep with GDP and household disposable income growth.** However, depositors' shift towards alternative investments should keep denting bank deposit growth, especially if the differential between the returns on these assets and bank deposit rates widens.

**The outlook for the Greek banking sector remains favourable, owing to the upgrade of banks' credit ratings and improvements in bank fundamentals.** The further upgrade of Greece's sovereign credit rating to levels above the investment grade threshold, paired with a resilient domestic economy, contributes to positive ratings for the banking sector. Greek banks' improved loan portfolio quality, stronger capital adequacy and profitability, as well as sustained high liquidity levels work in the same direction. On the other hand, further reductions in interest rates are estimated to have a limited impact on bank profitability.

## 5 SOURCES OF RISK AND UNCERTAINTY

**Risks to the global economy in 2025 remain significant, enveloping the outlook for growth and inflation with further uncertainty.** The ongoing geopolitical tensions, military conflicts, geoeconomic fragmentation and rising trade protectionism, spearheaded by US tariff policies and major trading partners' retaliatory measures, are adding to uncertainty about the future path of the world economy. These developments threaten economies' resilience, dampening global trade and investment, and heighten the risks of a resurgence in inflationary pressures and a global economic slowdown. As a result, the current projections for the world economy are surrounded by a high degree of uncertainty, as it is not yet possible to fully assess the impacts of recent developments.

**Geopolitical tensions and uncertainty about the trade policies pursued by major economies compound the risks to global trade.** Since the first quarter of 2025 the United States have imposed tariffs on major trading partners, including Canada, Mexico, China and the EU, forcing the affected economies to retaliate. In the event of a further escalation, major challenges include possible global supply chain disruptions, reduced trade flows, increased economic uncertainty and a global economic slowdown.

**Fiscal policy worldwide is facing severe challenges.** Over the medium term, despite the need for increased public investment in critical sectors – such as the green and the digital transition,

national security and productivity growth – many economies are required to implement fiscal adjustment policies with a view to ensuring the sustainability of public debt and the build-up of fiscal buffers against possible future crises. At the European level, the implementation of structural reforms and the stimulation of productive investment in research and innovation are vital if productivity growth and competitiveness are to increase. In the same vein, adherence to multilateral cooperation and international trade rules are crucial for effectively addressing global challenges and bolstering stability.

**In 2025, monetary policies globally will be affected by a varied and volatile economic environment, in which central banks are called upon to strike an appropriate balance between the need to maintain their credibility and the need to support economic activity.** Cross-country divergence of inflation and growth prospects adds to economic uncertainty and complicates monetary policymaking. There is a growing divergence in the monetary policy outlook between the euro area and the United States, as investors expect more interest rate cuts by the ECB than by the Fed in 2025. Against this background, global monetary policy cycles are expected to be less synchronised, as central banks need to balance the pursuit of their inflation targets against the management of the impact on energy costs and import prices from trade tensions and the imposition of new tariffs. The risk of a resurgence in inflation or inflation expectations could slow or reverse the process of monetary policy normalisation, with negative implications for fiscal sustainability and financial stability. On the other hand, a prolonged restrictive monetary policy stance weighs on vulnerable sectors of the economy. In addition, geopolitical tensions and heightened volatility in financial markets are posing new challenges, while the rise in euro area bond yields makes financing conditions even tighter. In this increasingly complex environment, in order to remain credible, monetary policy needs adequate flexibility and agility, so as to ease uncertainty and bolster macroeconomic stability.

**Mounting uncertainty about monetary policy, especially in the United States, increases market volatility and creates an unstable international financial environment.** The upward revision of investors' inflation and interest rate expectations in the United States has led to a significant increase in US federal bond yields, dragging along government bond yields in the euro area, despite the ECB's interest rate cuts. Meanwhile, weak growth prospects and persistently high fiscal deficits in some European economies make their borrowing conditions more vulnerable to market developments. Recent geopolitical and trade tensions, such as tariff announcements by the United States, caused large swings in equity markets, revealing the sensitivity of investor sentiment. Although financial conditions have improved, they are still sensitive to adverse developments that could compromise the euro area economic outlook. Increased volatility and asset overvaluation in a number of sectors exacerbate the risk of sharp market swings, underscoring the uncertainty surrounding investor expectations.

**The mutable environment related to US, Chinese and EU trade policies is expected to add to exchange rate volatility in 2025.** Geopolitical and trade tensions, compounded by limited import substitution for raw materials and intermediate goods, will affect exchange rates by provoking relative price divergences depending on the composition of trade in each economy.

**The euro area economy is facing a number of upside and downside risks to growth in the coming years.** The recent downward revision of the ECB's projections about GDP growth in the euro area reflects the strong impact of widespread uncertainty. More specifically, downside risks include: (i) prolonged geopolitical tensions and the ensuing supply chain disruptions and energy price volatility; (ii) the lagged effects of past monetary policy tightening, which may dampen consumption and investment more than currently expected; (iii) fiscal adjustment efforts in some Member States, which could further dent demand; (iv) the impacts of US trade tariffs, which might disrupt trade flows more severely than anticipated, thereby weighing on exports, especially in critical industrial areas; and (v) lasting structural weaknesses, such as low productivity, reduced competitiveness and demographic challenges. On the upside, risks include: (i) a stronger-than-

expected recovery in domestic demand, due to the resilience of the labour market and rising real incomes; (ii) a faster rebound in global trade and investment; (iii) higher-than-projected foreign demand from major trading partners, which could provide additional support to euro area exports; and (iv) an acceleration in the digital and the green transition, potentially leading to higher productivity and supporting a more sustainable long-term growth. On balance, the euro area economic outlook remains uncertain, relying on the interplay between these factors.

**The outlook for euro area inflation is subject to significant upside and downside risks, adding to uncertainty about its future path.** On the one hand, the main upside risks include: (i) an unexpected rise in energy prices and transport costs, as well as a weakening in global trade caused by geopolitical tensions; and (ii) possible upward pressure on food prices from climate change-related extreme weather events. On the other hand, weaker-than-expected demand, due to a worsening international environment or declining confidence, as well as longer-lasting effects of restrictive monetary policy are seen as downside risks. Besides, an aggravation of global trade frictions could raise volatility and exacerbate uncertainty about the path of inflation.

**For the Greek economy, maintaining strong growth rates and accelerating real convergence towards the EU average are the key challenges.** The risks surrounding the GDP growth forecast are mainly tilted to the downside and relate to: (i) the uncertainty surrounding global trade as a result of trade protectionist policies; (ii) worsening geopolitical tensions and their implications for the global and the European economy; (iii) a lower-than-anticipated rate of absorption and utilisation of RRF funds; (iv) the increasing frequency and severity of climate-related natural disasters; and (v) a tighter labour market and stronger wage pressures.

**Challenges to the labour market persist.** The drop in the unemployment rate limits staff availability, leading to increased labour market tightness. In several important sectors of the economy, such as tourism, manufacturing, construction and the primary sector, firms find it difficult to recruit workers with the desirable skills, adding to upward wage pressures. Furthermore, despite the considerable fall in unemployment in the past few years, a number of labour market distortions persist, with female, youth and long-term unemployment rates remaining significantly above the EU averages.

**The improvement of the current account balance is subject to significant uncertainties and risks.** The most important risk relates to a potential weakening in global demand and the imposition of tariffs by the United States, which may dampen the anticipated increase in exports in 2025. Additional risks are associated with adverse geopolitical developments, a rise in fuel prices and a resurgence of inflationary pressures. At the same time, tourist arrivals and travel receipts could be negatively impacted by factors such as: (i) political instability in large European countries that constitute main countries of origin of visitors; (ii) higher transportation costs; and (iii) the recent earthquake activity in the Southern Aegean.

**The US tariffs imposed on EU imports are expected to have a limited direct impact on the Greek economy.** The small share of Greek exports to the United States (around 5% in 2024) and the composition of goods exports suggest a mild impact on the country's foreign trade. With regard to shipping, the consequences are expected to be limited for the key sectors, with the exception of the container ship sector, which is expected to be harder hit. With safety in the Red Sea being gradually restored, the return of sea transport to normalcy should be easier. This notwithstanding, US tariffs on the EU are expected to have an indirect effect on the Greek economy, via slower growth in the euro area and higher uncertainty, impacting on exports and investor sentiment.

**Turning to the Greek real estate market, there are certain challenges that could weaken its momentum in 2025, despite positive expectations.** Conditions of geopolitical uncertainty, international economic and political developments and high construction costs are weighing on

the investment climate. Besides, the expected changes in the legislative framework on the construction and development of new properties are creating additional risks to the market, in particular its commercial segment.

**The medium-term planning of fiscal policy should incorporate risk assessment to ensure economic resilience in times of crisis.** The accumulation of adequate fiscal buffers over time is an integral part of a risk management strategy, capable of shielding the economy in times of crisis. Such a fiscal policy framework should: (i) encourage the build-up of buffers, even when debt sustainability is not directly compromised; and (ii) set more ambitious fiscal adjustment targets, while at the same time avoiding a procyclical policy that would act as a drag on economic activity.

**Risks to the sustainability of Greek public debt remain contained over the medium term, as debt appears to be greatly resilient even to adverse scenarios.** The evolution of public debt and gross financing needs shows little variation between alternative adverse scenarios and the baseline scenario of the Bank of Greece. Over the medium term, the likelihood of a reversal in the downward course of the debt-to-GDP ratio is estimated to be slim, as is the likelihood of gross financing needs exceeding the 15% and 20% of GDP limits. This resilience is largely due to the favourable repayment profile of official sector debt, which accounts for the bulk of total debt, coupled with past hedging swap contracts, which locked in low interest rates for a large part of the debt. Yet for debt sustainability to be maintained, constant adherence to the achievement of fiscal targets and an effective use of available European resources are required.

**In the long term, however, there is increased uncertainty, and fiscal prudence and responsibility are needed in the face of growing fiscal challenges.** Commitment to a fiscal position that ensures long-run sustainability is vital, as an increase in borrowing costs and slower growth rates could dampen the favourable contribution of the snowball effect. As a consequence, to keep debt on a downward trajectory, prudent fiscal management is warranted. Besides, it should be stressed that the current favourable characteristics of accumulated debt are not permanent. The gradual refinancing of official sector debt on market terms will increase the exposure of Greek government debt to interest rate risk, market risk and refinancing risk, limiting the potential for fiscal policy relaxation. Therefore, the period ahead provides a critical window of opportunity to rapidly reduce public debt. Safeguarding fiscal credibility and utilising EU resources are central to tapping this opportunity. Meeting these targets will not only ensure the maintenance of investment grade status, but also contribute to further gradual improvements in Greece's sovereign credit rating.

**Lower interest rates are a major challenge to the profitability of Greek banks, reducing the share of net interest income and compressing the net interest margin.** With the gradual decline in ECB policy rates, banks are expected to adjust lending rates accordingly, which may lead to lower interest income, especially if this adjustment is symmetric to past hikes. Despite a potential increase in outstanding loans, as lower borrowing costs encourage credit growth, shrinking interest income is likely to more than offset gains from the expansion of the loan portfolio. This in turn may put pressure on banks' operating results. Against this background, Greek banks are called upon to calibrate their strategies with a view to reducing the sensitivity of their financial results to an environment of falling interest rates, diversifying their income sources and safeguarding sustainable profitability.

**Adjusting to the revised "Solvency II" framework is a key challenge for the private insurance market, despite the introduction of improvements to support the sector's sustainability and robustness.** While the new framework reduces supervisory requirements and the administrative burden on smaller insurance undertakings in line with the principle of proportionality, increased requirements for risk management and compliance with new regulations, such as the liquidity risk management and sustainability risk plans, are putting pressure on larger undertakings. Fur-

thermore, the need for enhanced cooperation between supervisory authorities in the management of cross-border activities, as well as the incorporation of long-term climate scenarios into risk assessment make compliance more complex. In this context, timely adjustment to the new institutional framework, high capital adequacy, introduction of new systemic risk management mechanisms and effective implementation of macroprudential tools are key to insurance undertakings' competitiveness and resilience going forward.

**Enhancing the pension system through Occupational Pension Funds is an important challenge for the private insurance market, with the Bank of Greece playing a leading role in their regulation and supervision.** The goal is to make Occupational Pension Funds an important pillar for tackling the consequences of an ageing population and adverse demographic developments. The assumption of their supervision by the Bank of Greece as from January 2025, replacing the former tripartite scheme, is expected to ensure greater flexibility, stability and transparency. A broader coverage and the build-up of capital buffers through Occupational Pension Funds require sizeable investment and effective risk management. In this context, the fast and smooth adaptation of Occupational Pension Funds to the new regime should contribute to a sustainable pension system and economic growth in Greece.

## 6 POLICY RECOMMENDATIONS

In an environment of heightened uncertainty, credible medium-term economic policy planning is crucial. In order to strengthen the resilience of the Greek economy and effectively address its medium-to-long-term challenges and structural weaknesses, economic policy must focus on the following key areas:

- **Reforms**

**Developing a sustainable growth model for the Greek economy is vital for maintaining strong growth rates in an uncertain international environment.** To achieve this, the following actions are warranted: (i) continuation of reforms for enhancing the country's competitiveness and attractiveness as an investment destination in key areas, such as cutting red tape in the public sector, increasing competition, by removing all entry barriers for newcomers into business sectors, and speeding up the delivery of justice; (ii) full utilisation of European and national resources for investment, e.g. in infrastructure related to the green transition and climate resilience, as well as in infrastructure improving the quality of life, such as in transportation, healthcare and education; (iii) promotion of research, innovation and human capital skills, so as to reverse the long-run trend of declining productivity; and (iv) further strengthening the economy's extroversion, by increasing the production of tradable goods and services, which will contribute to the gradual correction of structural imbalances in the current account.

**Boosting investment in high technology is a strategic priority for upgrading the Greek economy and increasing high-skilled employment.** The development of infrastructure such as data centres, fibre optics networks and green energy grids amplifies the role of Greece as a regional hub of digital infrastructure. The finalisation of the legal framework on the operation of data centres as well as investments by large high-tech companies will bring direct and indirect growth-enhancing benefits, supporting technological progress and assisting the "brain retain and regain" effort. Attracting flagship investment projects, which will transfer knowhow and new technologies into the country, is expected to upgrade its production model, raise its competitiveness and strengthen its growth dynamics.

**The current account deficit remains a major imbalance of the Greek economy and requires targeted interventions for its reduction.** More than half of Greek exports depends on just a few sectors – travel services, sea transport and fuels. At the same time, exports' high import

content lowers their contribution to the current account balance. To unwind this imbalance, it is necessary to expedite reforms, increase import substitution, utilise RRF funding, expand export sectors and deploy high-technology productive activities. In addition, domestic saving (by households in particular) must be incentivised so as to close the saving-investment gap, which weighs on the balance of payments.

**Further expansion of the tourism sector requires targeted actions geared towards improving competitiveness and upgrading the services offered.** Crucial to this are improving price competitiveness vis-à-vis other tourist destinations, upgrading infrastructure and supporting investment that helps to modernise tourist accommodation and attract higher-quality visitors.

**Addressing the housing crisis warrants coordinated interventions aimed at increasing the affordability and the supply of residential properties.** Strong house price growth in recent years has had a negative impact on the affordability of housing for middle- and lower-income households. The latest legislative interventions limiting investor demand, such as measures regarding short-term property rentals and Golden Visas, aim to release housing stock for primary residence. In parallel, cutting red tape and resolving chronic institutional issues in property transactions and development are key to increasing the supply of new housing. Of paramount importance is also a national strategic planning which would include actions to support the regions, decongest large urban centres and ensure a more evenly balanced demand for housing across the country.

**Enhancing the structural competitiveness of the Greek economy hinges upon targeted interventions in key areas.** These include simplifying the regulatory framework for doing business; boosting investment to upgrade the quality of the production base; revamping vocational education and training to address labour shortages and skills mismatches; supporting the green and digital transitions; and reforming the judiciary system. In this context, the elimination of the remaining market entry barriers in several business sectors is set to lower prices, increasing competition, as well as the production of tradable goods and services, with positive spillovers to the current account.

**In the long run, a reorientation of social policy towards a “social investment” model is deemed necessary to strengthen human capital and thus tackle poverty and inequality in a proactive manner.** Strengthening education and healthcare can contribute to social cohesion and ultimately lead to sustainable economic growth.

#### • *Labour market*

**Raising labour force participation is crucial for safeguarding the viability of the social security system, as demographic ageing weighs on population structure and limits labour supply.** Increasing employment, especially of youth and women, calls for the adoption of measures that would facilitate work-life balance, such as upgrading early childhood education and elderly care or further developing flexible forms of employment, e.g. part-time and remote work. Furthermore, the reform of the tax system and the gradual overhaul of the unemployment benefit system can augment labour incentives. Moreover, reducing incentives for early retirement would make it easier for workers to rejoin and remain in the labour market. In parallel, creating more jobs in high-value-added sectors and professions, attracting foreign investment and increasing the openness of the Greek economy are key to raising labour market participation.

**Addressing labour market tightness is crucial for maintaining the growth momentum of the Greek economy and enhancing competitiveness.** Declining unemployment and rising employment have limited the availability of workers, with firms experiencing shortages in both skilled and unskilled labour. The tightening of the labour market over the past few years is likely to hamper the effort of the Greek economy to further catch up with the euro area average. In order

to reduce tightness, headcount employment must be raised, while the existing labour force, unemployed persons in particular, must be upskilled to meet firms' needs. The rapid penetration of artificial intelligence (AI) into the labour market entails the risk of wider skills mismatches. To close this gap, new educational and training programmes are needed for both employed and unemployed persons. In general, vocational training and continuous upskilling of workers and long-term unemployed persons must be strengthened. At the same time, it is necessary to implement effective policies for the integration of immigrants into the labour market and particularly in sectors and activities with serious labour shortages, such as agriculture, construction and tourism. What is also needed is the establishment of an institutional framework and the provision of competitive pay and incentives which would help attract skilled workers from abroad, with a view to reversing the brain drain that was observed during the economic crisis. In addition, mechanisms should be put in place to match the skills of the labour force with the needs of the labour market. Finally, policies for tackling undeclared labour and further reducing wage costs (by lowering or subsidising social security contributions) are needed so as to support employment and enhance the competitiveness of Greek firms.

- **Fiscal policy**

**In an environment of heightened uncertainty, credible medium-term fiscal policy planning is crucial.** Geopolitical tensions, geoeconomic imbalances, persistently high – albeit declining – core inflation and constantly changing international economic relations call for a prudent and flexible fiscal strategy. With price stability, financial stability and fiscal sustainability as their primary objectives, monetary and fiscal policies must remain closely aligned and flexible. Their efficient interaction should strengthen the stabilisation of euro area economies, particularly at a time of rising global protectionism.

**The year 2025 marks the launch of the EU's new economic governance framework, which focuses on public debt reduction and sustainability.** The new fiscal rules place emphasis on containing public expenditure growth, envisaging that any fiscal space will be exclusively used to either build up buffers or reduce public debt. Meanwhile, any extraordinary fiscal measure on the expenditure side should be financed by revenue-increasing measures of an equal size. For Greece, maintaining fiscal credibility and complying with the revised framework is of vital importance. Sustaining primary surpluses and accumulating fiscal buffers must remain top priorities. Under such a binding framework, national fiscal policy should also focus on reforms that ensure the sustainability of public finances.

**Combating tax evasion and broadening the tax base must continue to be key priorities of fiscal policy.** This will ensure a fairer and more proportional distribution of the tax burden. For example, the continuous upgrading of the electronic tools of the Independent Authority for Public Revenue (AADE), coupled with other recent reforms, is bearing fruit and is expected to further strengthen tax compliance and public revenue. In 2025, it is crucial to complete the 2024 actions that have led to the containment of tax evasion, improvement of tax compliance and further automation of the tax collection process. Key actions include: (i) reporting of revenue/expenses on the myData platform by all firms; (ii) universal application of digital clienteling; (iii) mandatory use of a digital consignment note; (d) universal application of digital invoicing. At the same time, the automation of tax audit and collection procedures through AI applications, the development of new systems to monitor arrears and the use of customised software to combat the smuggling of marine fuel will enhance tax transparency and collectability.

**To enhance tax compliance, a comprehensive system of incentives and targeted policies is needed.** The aforementioned measures can deliver even greater gains if combined with tax incentives that encourage consumers to use electronic payments in high tax evasion sectors, as well as with a review of the current tax exemptions based on their growth-enhancing potential and social efficiency. The implementation of a modern and stricter tax compliance framework

can ensure a steady increase in tax revenue, enhance tax fairness and contribute to the country's fiscal stability and economic growth in the long term.

**On the expenditure side, the establishment of regular reviews of public spending is instrumental in improving expenditure efficiency and ensuring an optimal allocation of fiscal resources.** The dissemination of the review findings would allow to identify expenditures with low social and financial returns, facilitating their re-design and channelling to more productive and targeted uses. This would enhance transparency, accountability and efficiency in fiscal management.

**The effective use of RRF funds is crucial for strengthening economic resilience in a constantly changing environment.** Given the limited lifespan of the NGEU recovery instrument, there is a need to press ahead with the implementation of investment plans and necessary reforms, with a view to maximising the positive effects of NGEU on economic growth and productivity in the coming years. The timely absorption of EU funds is key to mobilising private investment. Special emphasis should be placed on the implementation of projects in strategic areas, such as green energy, environmental protection, digital technologies and artificial intelligence, so as to enhance the country's competitiveness and sustainable growth.

**The ReArm Europe plan offers Greece a strategic opportunity to strengthen its domestic defence industry and productive base.** The activation of the national escape clause under the Stability and Growth Pact in the context of the ReArm Europe initiative only refers to defence investment expenditure. Greece, already spending about 3% of its GDP on defence (above NATO's 2% of GDP benchmark), could benefit from joint EU funding of defence programmes and military equipment. At the same time, to take full advantage of the ReArm Europe plan, an active participation of the Greek defence industry in international co-production partnerships is required, thereby supporting the country's military self-sufficiency and boosting exports. In parallel, higher defence spending should be channelled into well-designed, growth-enhancing investment projects – in infrastructure, energy, research and innovation – with positive spillovers to other sectors of the economy. Overall, a more effective use of defence spending can create a more solid and resilient productive base.

**Adherence to reforms and fiscal prudence is critical for further upgrades in Greece's sovereign credit rating.** Improved public finances and strong growth rates have already led to the assignment of positive ratings by international credit rating agencies, strengthening the position of the Greek economy. However, amid heightened global uncertainty, rating agencies are expected to be more cautious in their decisions, which makes it all the more necessary to continue reforms and safeguard fiscal stability. Enhancing the institutional parameters and improving the current account balance are of paramount importance, as these factors can help sustain the upward trend in credit ratings. Pressing ahead with these policies would increase investor confidence and thus ensure the long-term resilience of the Greek economy.

- **Banking sector**

**Developments in the global macro-financial environment affect the Greek economy and the banking sector, so it is crucial for domestic banks to sustain their profitability.** Bank profitability is strengthened by the upgrades in Greece's sovereign credit rating, as well as banks' ratings, leading to higher demand for Greek bank bonds and reduced funding costs on international markets. Meanwhile, the improved fundamentals of the banking sector pave the way for further upgrades, bolstering the sector's stability and resilience against exogenous shocks.

**To remain profitable, Greek banks must take full advantage of the new funding instruments and diversify their income sources, so as to reduce their reliance on net interest income.** First of all, they should increase the supply of credit, especially to businesses, through the

available EU funds, such as the Recovery and Resilience Facility (RRF). Next, the increase in fixed-rate loans can in the longer term provide banks with a stable income stream that is less sensitive to future interest rate changes. Furthermore, banks can turn to other sources of core profitability, such as the promotion of bank assurance products and investment banking services, with a view to increasing their non-interest income. The above strategies, coupled with an optimisation of operating costs and more efficient asset management, should enable banks to sustain their profitability, despite the challenges posed by declining interest rates.

**Further improving the quality of banks' regulatory capital is another major challenge for the Greek banking sector.** Higher profitability will also help banks to accelerate the amortisation of deferred tax credits (DTCs) and strengthen their capital base, which will eventually make them more capable of continuing to finance the real economy.

- *European Union*

**Strengthening the EU's competitiveness is key to addressing the growing geopolitical and technological challenges after the pandemic and energy crises.** This need was also highlighted in the Draghi report, which outlines the competitiveness challenges posed by shifts in global trade, geopolitical developments and technological transformation. Such challenges call for an overhaul of Europe's strategy, most notably by closing the innovation gap vis-à-vis the United States and China; promoting the energy transition; increasing strategic autonomy; and bolstering security and defence. The European Commission's Competitiveness Compass sets a clear time schedule and envisages concrete actions to enhance the EU's competitiveness, such as simplifying the regulatory framework, facilitating access to the single market, increasing financing, upgrading job quality and better policy coordination at the European level. In addition, the Letta report contains proposals on deepening the EU's single market, with a focus on strengthening the capital market, promoting the green and digital transitions, supporting innovation and improving the investment environment.

**Bolstering the resilience of the euro area economy and its financial system to future shocks, especially on the supply side, requires faster progress towards deeper European integration and better policy coordination.** Establishing a fully functional Capital Markets Union and completing the Banking Union, as part of the broader strategy for a Savings and Investment Union, are expected to facilitate the mobilisation of investment resources that are required for addressing the EU's competitiveness challenges. In tandem with the development of a concrete strategy for a Fiscal Union, the initiatives towards deeper European integration would visibly improve monetary policy cohesion and effectiveness, reinforcing its stabilising role.

**In the context of promoting the EU's defence autonomy, the European Council took initiatives which mark a shift towards expansionary fiscal policies.** The ReArm Europe plan aims to increase the EU's defence capabilities through major investments and structural changes. The plan envisages the mobilisation of up to EUR 800 billion, of which EUR 150 billion will be made available under a new financial instrument called SAFE (Security Action for Europe), which will provide long-term loans for common defence procurement. Furthermore, the activation of the national escape clause under the Stability and Growth Pact is recommended for the 2025-28 period, allowing Member States to increase their defence expenditure by up to 1.5% of GDP per year without violating the fiscal rules. Moreover, the plan provides for the EIB's participation as well as the mobilisation of private funds to support defence and security projects.

**It should be noted that the temporary easing of the "debt brake" in Germany marks a historic shift in the country's fiscal philosophy, aiming to implement major investment projects.** The historic agreement reached in the German Bundestag on the suspension of the debt brake rule paves the way for fiscal expansion of up to EUR 500 billion, with a view to stimulating the economy's recovery and reinforcing its geopolitical resilience. This new debt deal allows Ger-

many to finance critical investment in defence, green growth and infrastructure. This development represents a break with German fiscal orthodoxy and is anticipated to have significant positive spillovers to Europe's economic stability, supporting a joint European response to geopolitical and economic challenges.

**The increase in defence expenditure in Europe is expected to have a positive growth impact, with mild inflationary pressures and a short-lived deterioration in fiscal indicators.** Defence investment contributes to economic growth by increasing demand for military equipment, mobilising domestic industries and raising employment, especially when accompanied by policies that promote innovation and enhance defence capacity. Covering defence needs with own resources, so as to eliminate import dependence, would be beneficial to the domestic productive base. Meanwhile, strains on supply chains and increased demand for raw materials are likely to exacerbate inflationary pressures over the medium term. On the fiscal front, higher expenditure is expected to weigh on debt, even though flexibility in the application of fiscal rules and European co-financing partly mitigate adverse effects, particularly for high-debt countries that already invest heavily in defence.

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**In an international environment of mounting new uncertainties, the continuation of the reform effort will be catalytic for maintaining economic stability and further bolstering the resilience of the Greek economy.** Geoeconomic challenges, technological advances, green transition and the utilisation of artificial intelligence call for an adaptive economy, capable of withstanding exogenous shocks, thereby ensuring strong growth rates in the medium term. To this end, economic policy must maintain and step up its reform impetus, as well as foster broader social and political support to the necessary reforms.

**Implementing the necessary reforms and consolidating trust in institutions are the cornerstone of sustained economic stability and prosperity.** The implementation of the recommended structural reforms is crucial for raising the economy's productivity, potential GDP and competitiveness. At the same time, trust in institutions helps attract investment, supports the labour market and contributes to social cohesion. The synergy between reforms and strong institutions underpins economic resilience and sustainable growth rates amid global uncertainty.

**Europe is confronted with crucial challenges to its international economic standing and stability.** Slowing productivity, demographic pressures, market rigidities and weak investment momentum erode the competitiveness of the European economy. Furthermore, geopolitical instability, energy dependency and delayed green and digital transitions undermine its resilience. Such shortcomings, compounded by fragmented financial markets and inadequate integration and coordination in strategic sectors such as defence and innovation, exacerbate risks, making Europe vulnerable to external shocks and competitiveness losses relative to other major economies.

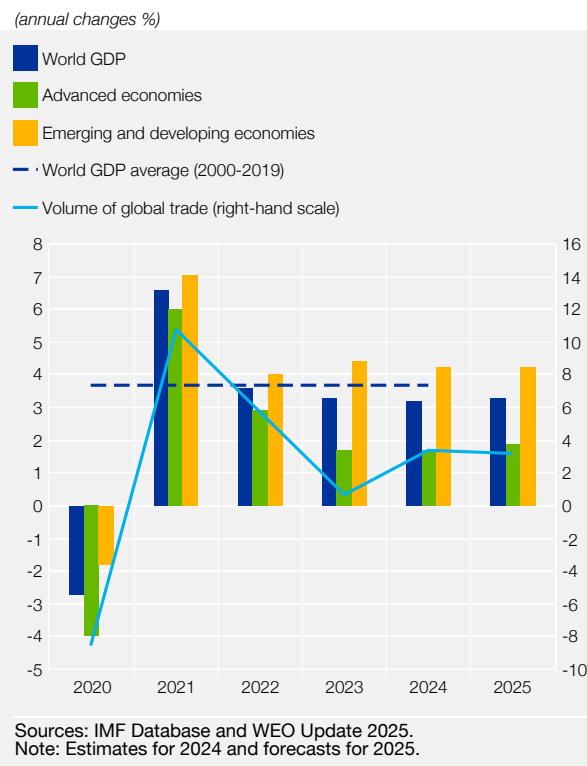
**The current global upheavals, while posing a threat, also serve as a wake-up call for Europe.** To address the above challenges, immediate and coordinated action is required for deepening European integration and bolstering the EU's strategic and defence autonomy. Proposals have already been formulated towards the completion of the Banking Union and the Capital Markets Union, the creation of a permanent fiscal capacity at the EU level, the speeding up of the green and the digital transition, the promotion of innovation and the strengthening of defence. Besides, Europe has to revise and simplify its regulatory framework and to press ahead with deepening the single market and reinforcing its international trade alliances. The effective implementation of these initiatives can enhance the resilience of the European economy, laying the groundwork for sustainable growth, security, sound democratic institutions and long-term prosperity.



# THE EXTERNAL ENVIRONMENT OF THE GREEK ECONOMY

The world economy grew in 2024 at a rate marginally lower than in 2023 and well below the average of the period 2000-2019. GDP growth varied considerably among the major advanced economies, while emerging and developing market economies as a whole recorded a marginal slowdown. Uncertainty remained elevated, fuelled, on the one hand, by geopolitical tensions and continued military conflicts in Ukraine and the Middle East and, on the other hand, by uncertainty about the economic policy to be pursued by the new US administration. Headline inflation declined further to 2.6% in advanced economies, in spite of persistently high services inflation, allowing monetary authorities to embark on a rate-cutting cycle. Nevertheless, notwithstanding the change in the monetary policy stance, this remained restrictive in advanced economies. External demand and global trade recovered in 2024, offsetting the small contribution of domestic demand to GDP, while international energy and other commodity prices largely stabilised. In the euro area, economic growth gathered pace, but remained low, constrained on the one hand by persistently high uncertainty regarding international geopolitical and domestic political developments, which led to recession in Germany and lower investment in the euro area, and on the other hand by the generally restrictive economic policy mix, which is necessary in order to rein in inflation and restore fiscal sustainability. The outlook for 2025, although revised downwards, remains positive, yet with continued divergence among individual economies. Nevertheless, the risks surrounding the forecasts are particularly elevated, mainly concerning the effects on global GDP and inflation from the imposition of tariffs by the United States on major trade partners in the beginning of the year, as well as from the countermeasures these were forced to take against the United States.

Chart II.1 World GDP and international trade



## 1 OVERVIEW OF DEVELOPMENTS<sup>1</sup>

The world economy grew at a steady but relatively low rate in 2024. It has shown remarkable resilience in the face of successive crises (the most severe pandemic in 100 years, wars and extreme weather phenomena). Fiscal and monetary authorities across the world were forced since 2020 to take unprecedented measures to address the crises in employment, energy and supply chains, which weighed heavily on growth and inflation. The direct consequences of these crises were mitigated, yet the impacts on income, the price level and public finances linger on. At the same time, geo-economic fragmentation and, more recently, the adoption of tariffs, even

<sup>1</sup> The cut-off date for information and data used in this chapter is 28.3.2025.

the threat of their imposition, are increasing uncertainty in international trade and global economic activity. These factors, compounded by the mild, protracted and structural slowdown of the Chinese economy, are leading the global economy, post-pandemic, to lower GDP and international trade growth rates as compared with their average in the period 2000-2019 (see Chart II.1).

Headline inflation declined markedly in 2024 in all economic regions, with goods inflation having fallen to almost zero, while services inflation continues to persist at high levels. The monetary policy transmission mechanism proved effective. Central banks' decisive and almost synchronised disinflationary effort, through monetary policy tightening, seems to have anchored inflation expectations, with only a minor impact on growth and the labour market, confirming the findings of a steeper Phillips curve.<sup>2</sup>

The economic policy mix is gradually changing. Over the course of 2024 and in early 2025, the monetary policy stance shifted to less contractionary in most advanced economies, as inflationary pressures and core inflation declined. The ECB embarked on a rate-cutting cycle on 12 June 2024, with the Bank of England and the Federal Reserve following suit on 1 August and 18 September, respectively. By contrast, the fiscal stance turned contractionary in advanced economies as a whole, although the general government deficit as a percentage of GDP is estimated to have slightly widened, as the favourable evolution of the cyclically adjusted primary balance was offset by increased public debt servicing costs and other extraordinary expenditure.

For 2025, it is expected that the economies of Germany, the United Kingdom and Japan will recover, but their growth rates will remain very low. On the contrary, the US economy is expected to slow down, while the Chinese economy, the largest among emerging and developing economies, will continue to decelerate smoothly. These forecasts, however, are surrounded by a high degree of uncertainty, as it is hard for the time being to estimate the extent of the impact on global GDP and inflation from the imposition of tariffs announced and levied by the US in early 2025 on Mexico, Canada, China and the EU, as well as from these economies' retaliatory tariffs against the US. Recent OECD estimates, which were published in mid-March 2025 and include the tariffs that have already been imposed, revised the global GDP outlook from a mild acceleration to a smooth slowdown for 2025 and 2026, as it appears that the trade war will affect growth both in the US and in almost all major economies.<sup>3</sup>

The euro area economy, despite gathering pace in 2024, continued to present a low growth rate, and investment declined. The acceleration of global trade and the easing of financial conditions contributed positively, while geopolitical uncertainty and political instability in certain major economies had a dampening effect. Private consumption was underpinned by a still resilient labour market, as the unemployment rate fell to historical lows and real income was boosted by both substantial increases in nominal wages and a new noticeable decline in inflation.

The technological gap and the productivity gap of the EU vis-à-vis the US and China have considerably widened since 2009, a trend that strengthened further following the Covid-19 pandemic, trapping Europe in lower growth rates. Artificial intelligence is a new opportunity for boosting European productivity and competitiveness. Box II.1 examines recent developments

<sup>2</sup> IMF, *World Economic Outlook*, October 2024, Chapter 2 "The Great Tightening: Insights from the recent inflation episode".

<sup>3</sup> Global GDP growth was revised downwards by 2.0 percentage points (pps) for 2025 and by 0.3 pps for 2026, as compared with the December 2024 forecasts, mainly due to the impact on export volumes from the imposition of tariffs by both sides. The largest downward GDP revisions for 2025, according to the OECD, are faced by Mexico (-2.5 pps), Canada (-1.3 pps), South Korea (-0.6 pps), India (-0.5 pps) and Japan (0.4 pps).

regarding the incorporation of artificial intelligence into the production process and investigates the potential effects that its rapid development and adoption could have on economic growth, inflation and the labour market.

The institutional policy responses decided upon in the EU-27 and the euro area in 2024 to address the European Union's major issues are briefly presented in Box II.2. The box also briefly examines the three additional packages of sanctions against Russia; military, humanitarian and economic aid to Ukraine; the measures to boost long-term competitiveness, productivity and economic resilience of the EU; cyber security and initiatives for the progress of the Capital Markets Union and the Banking Union.

GDP growth varied across the Balkan countries and the EU candidate countries, with the largest of these economies, Türkiye and Ukraine, having slowed down, the former due to the economic stabilisation policy and the latter owing to the continuing war. Inflation declined markedly in 2024 in all the economies with the exception of Türkiye, while current account deficits and fiscal deficits generally deteriorated. Low growth in the EU, the war in Ukraine and geopolitical tensions have a major impact on the countries of the region. Box II.3 examines the high degree of economic interconnectedness of EU candidate countries with the EU, in terms of external trade and foreign direct investment.

## 2 DEVELOPMENTS AND PROSPECTS IN THE WORLD ECONOMY AND THE EURO AREA – POLICY RESPONSES

### 2.1 The world economy

The world economy has been growing at a broadly steady rate in the last two years; however, economic performance varies considerably among the major economies. Global GDP growth is estimated by the IMF to have slowed down marginally to 3.2% in 2024 from 3.3% in 2023, as economic activity in advanced economies maintained its momentum, while in emerging and developing market economies it declined (see Table II.1). Global economic growth continues

Table II.1 Key macroeconomic aggregates of the world economy

|                                             | Number of countries | Share in GDP <sup>1</sup> (%) | GDP (volume, annual percentage changes) |      |      | Inflation <sup>2</sup> (annual percentage changes) |      |      | Fiscal balance <sup>3</sup> (% of GDP) |      |      | Gross government debt (% of GDP) |       |       | Current account balance (% of GDP) |      |      |
|---------------------------------------------|---------------------|-------------------------------|-----------------------------------------|------|------|----------------------------------------------------|------|------|----------------------------------------|------|------|----------------------------------|-------|-------|------------------------------------|------|------|
|                                             |                     |                               | 2023                                    | 2024 | 2025 | 2023                                               | 2024 | 2025 | 2023                                   | 2024 | 2025 | 2023                             | 2024  | 2025  | 2023                               | 2024 | 2025 |
| World total                                 | 196                 | 100.0                         | 3.3                                     | 3.2  | 3.3  | 6.7                                                | 5.8  | 4.3  | -                                      | -    | -    | -                                | -     | -     | -                                  | -    | -    |
| 1. Advanced economies                       | 41                  | 40.7                          | 1.7                                     | 1.7  | 1.9  | 4.6                                                | 2.6  | 2.2  | -4.7                                   | -5.0 | -4.5 | 108.7                            | 109.4 | 111.0 | 0.2                                | 0.4  | 0.4  |
| United States                               |                     | 15.0                          | 2.9                                     | 2.8  | 2.7  | 4.1                                                | 3.0  | 1.9  | -7.1                                   | -7.6 | -7.3 | 118.7                            | 121.0 | 124.1 | -3.3                               | -3.3 | -3.1 |
| Japan                                       |                     | 3.5                           | 1.5                                     | -0.2 | 1.1  | 3.3                                                | 2.2  | 2.0  | -4.2                                   | -6.1 | -3.1 | 249.7                            | 251.2 | 248.7 | 3.6                                | 3.8  | 3.6  |
| United Kingdom                              |                     | 2.2                           | 0.3                                     | 0.9  | 1.4  | 7.3                                                | 2.5  | 2.7  | -5.7                                   | -5.6 | -4.5 | 100.0                            | 103.0 | 104.8 | -2.0                               | -2.8 | -2.6 |
| Euro area                                   | 20                  | 11.9                          | 0.4                                     | 0.9  | 0.9  | 5.4                                                | 2.4  | 2.3  | -3.6                                   | -3.2 | -3.2 | 87.4                             | 87.7  | 88.4  | 1.5                                | 2.6  | 2.0  |
| 2. Emerging market and developing economies | 155                 | 59.3                          | 4.4                                     | 4.2  | 4.2  | 8.0                                                | 7.9  | 5.9  | -5.3                                   | -5.6 | -5.5 | 68.5                             | 69.9  | 71.9  | 0.6                                | 0.4  | 0.3  |
| China                                       |                     | 18.7                          | 5.2                                     | 4.8  | 4.6  | 0.2                                                | 0.4  | 1.7  | -7.0                                   | -7.4 | -7.6 | 84.4                             | 90.1  | 93.8  | 1.4                                | 1.4  | 1.6  |
| Russia                                      |                     | 7.9                           | 8.2                                     | 6.5  | 6.5  | 5.4                                                | 4.4  | 4.1  | -8.3                                   | -7.8 | -7.6 | 83.0                             | 83.1  | 82.6  | -0.7                               | -1.1 | -1.3 |

Sources: IMF, World Economic Outlook database and *Fiscal Monitor*, October 2024, and *WEO Update*, January 2025. For the UK: OECD, *Economic Outlook*, 4.12.2024, and *Interim Report*, 17.3.2025. For the euro area: ECB, "ECB staff macroeconomic projections for the euro area", March 2025.

Note: Estimates for 2024 and projections for 2025.

1 Percentage share in world GDP in 2023, based on purchasing power parities (PPP).

2 HICP for the euro area and CPI for the other countries. Annual averages.

3 General government.

to fall short of the 2000-2019 average (3.7%), with the exception of the strong post-pandemic recovery period, mainly due to the normalisation of growth rates in China. International trade, which recovered faster than expected in spite of increased transport costs, boosted external demand in several economies, partly compensating for subdued domestic demand in economic activity.

Uncertainty regarding the economic policy to be pursued, particularly concerning international trade and less about public finance, has heightened noticeably since the second half of 2024, undoubtedly representing the main constraint on supply and demand, both domestic and international. Global financial conditions, according to the IMF, eased during 2024, as a rate-cutting cycle began, while equity valuations reached new highs in the last quarter of the year.<sup>4</sup> However, the imposition of tariffs by the US on Mexico, Canada, China and the EU in early 2025 is already causing a correction in equity markets, as it is expected to impact on the international environment and corporate profitability.

In advanced economies as a whole, GDP growth is estimated by the IMF to have remained at 1.7% in 2024, albeit with marked divergence among the major economies. The US economy, despite slowing down marginally, continued to record the highest growth rate among the major advanced economies. The economies of Japan and Germany eventually landed in a minor recession. In the euro area as a whole and in the United Kingdom, GDP growth rates, despite picking up in 2024, remained very low.

In the US, GDP grew by 2.8% in 2024, against 2.9% in 2023. Domestic demand remains strong, supported by the wealth effect from increased asset values and generally supportive financial conditions. A strong labour market and improved disposable income due to the decline in inflation boosted private consumption, which gathered pace constantly during the year as spending on goods, particularly durables, recovered, while spending on services remained high. On an annual basis, private consumption picked up to 2.8% in 2024 from 2.5% in 2023. Private fixed investment, in spite of the downturn of the fourth quarter, sped up to 4% in 2024, after remaining stagnant in 2023, being favourably affected by – in addition to the aforementioned more supportive financial conditions – the Inflation Reduction Act (IRA) and the CHIPS and Science Act.<sup>5</sup> The year-on-year rate of change in the consumer price index (CPI) fluctuated during the year, but fell on an average annual basis by approximately one percentage point compared to 2023. The unemployment rate increased marginally during the year and in December it stood at 4.1%. The improvement of financial conditions, mainly as a result of the US Federal Reserve's key interest rate cuts in September and November 2024, is expected to bolster domestic demand in 2025. According to the IMF (January 2025), GDP growth is estimated to slow down only slightly, to 2.7%, in 2025, as a looser monetary policy and a strong labour market will offset downside risks. The continuation of geopolitical tensions and the effects of the imposition of US tariffs on other countries, as well as their expected retaliation, represent significant risks to growth and inflation, while the extension of tax relief measures that had been implemented in 2017 may have a positive impact. The latest OECD estimates (March 2025), which incorporate the effects of the tariffs imposed, already forecast a larger slowdown than the IMF estimate, with GDP growing by 2.2% in 2025 and by 1.6% in 2026.

In Japan, the economy ultimately landed in a marginal recession in 2024 as, despite an increase in public consumption, private consumption remained stagnant due to high energy and food inflation, while investment slowed and net exports are estimated to have had a negative contribution to GDP. A recovery is expected for 2025, with real GDP growth estimated by the IMF and OECD at 1.1%.

4 See: IMF, *World Economic Outlook Update*, "Global Financial Markets Update", 17.1.2025.

5 There are also contrary views regarding their impact on investment: see Tax Foundation, "[White House Right on Importance of Business Investment, Wrong on Relevant Policy](#)", 10.7.2024.

In emerging and developing economies as a whole, GDP growth is estimated by the IMF to have slowed to 4.2% in 2024 from 4.4% in 2023, although developments vary significantly across countries. In China, GDP growth slowed in 2024 (to 4.8% from 5.2% in 2023), which is expected to continue in 2025, as the recovery in industrial production and exports and the new fiscal stimulus measures announced in November cannot overcompensate for the weakening of private consumption, which is adversely affected by the ongoing correction in the real estate market. In India, despite the economic slowdown, GDP growth has been strong (6.5% in 2024) and will remain at these levels also in 2025, being a driver of growth for all of Southeast Asia. According to the IMF's estimates for 2024, in Argentina the recession deepened to -2.8% from -1.6% in 2023, in Brazil strong economic activity accelerated further, to 3.7% from 3.2% in 2023, while in Mexico it is estimated that there was a noticeable slowdown to 1.8% from 3.3% in 2023.

Global inflation continued to decline in 2024, as a result of restrictive monetary policies and the waning impact of supply disruptions (cost increases due to higher prices, forced diversifications of energy supply networks, etc.) due to the energy crisis. Headline inflation fell more in advanced economies, despite the persistence of core inflation, primarily driven by services inflation, which remains high in many major economies. Despite the slight loosening of the labour market and the low rate of productivity growth, nominal wages continued to increase in 2024 at a rate of around 4% in the major advanced economies in order to compensate for the losses in real income from increased inflation during the period 2021-2023. CPI Inflation in advanced economies, according to the IMF, declined further to 2.6% in 2024 from 4.6% in 2023, while in emerging and developing economies it remained high and almost unchanged at 7.8%.

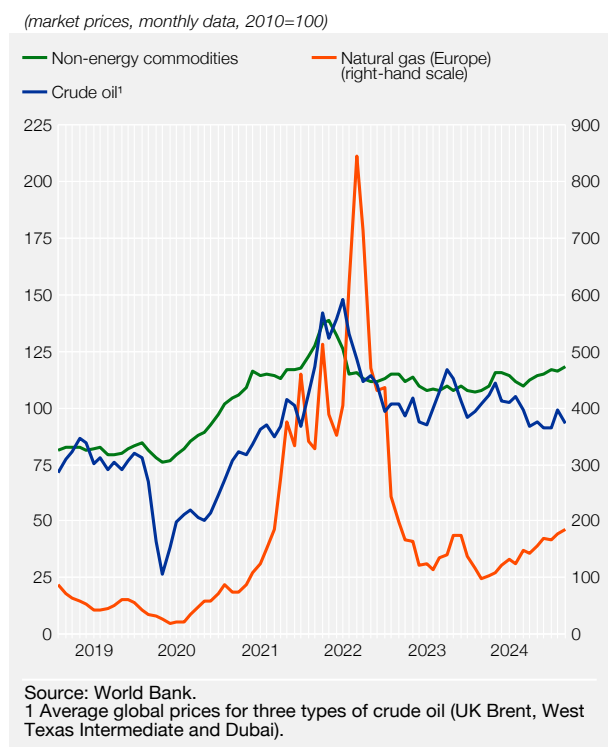
Risks to the world economy remain significant. Geopolitical rifts, geo-economic fragmentation and new protectionist trends could lead to a resurgence of import prices, hurting global trade and investment and undermining the economies' productivity and resilience in the long run. Any disruptions in central banks' disinflationary efforts may slow down or even suspend the rate-cutting cycle, exacerbating uncertainty, making it more difficult to rebuild fiscal buffers and increasing risks to financial stability. Major challenges for economic policy include: (i) a return to fiscal stability with a view to ensuring fiscal sustainability and the creation of buffers to address potential future risks; (ii) particularly in the EU, implementing reforms and increasing productive investment in research and innovation to raise low productivity growth and improve competitiveness; and (iii) a commitment to multilateral cooperation and multilateral international trade rules to end trade conflicts and protectionism with the aim of jointly addressing the major challenges and threats of the future.

### **Global trade and international commodity prices**

Geopolitical tensions and uncertainty regarding the trade policies of the major countries have continued to shape the dynamics of global trade over the past three years. These factors, although now an inherent feature of global economic activity, may have more severe consequences on the world economy and inflation should protectionist policies further intensify, in the form of a new wave of tariffs. Already, in the first quarter of 2025, the US announced and levied a barrage of tariffs initially on Canada, Mexico and China and subsequently on EU steel and aluminium exports. As expected, all these economies retaliated with equivalent counter-measures. Downside risks from the wide escalation of trade protectionism may materialise in the form of disruptions in international supply chains, a decline in international trade flows between rival states, an increase in economic uncertainty worldwide and a slowdown in global economic growth.

The increase in the volume of international trade of goods and services is estimated to have accelerated to 3.4% in 2024 from 0.7% in 2023. International trade of services grew more strongly by 7% and of goods by 2%. Despite the imposition of more stringent trade restrictions between opposed geopolitical blocs, in 2024 increased intra-bloc trade and trade with third, neutral countries appear to have offset the negative effects of these trade restrictions. According

**Chart II.2 Global commodity prices  
(January 2019 - February 2025)**



to IMF estimates (January 2025), international trade volume growth will slow down to 3.2% in 2025, i.e. will significantly fall short of the 2000-2019 average (4.9%).

International energy prices continued to fall in 2024, despite fluctuations in the evolution of geopolitical tensions. The armed conflict and the mounting crisis in the Middle East, disruptions in the operation of refineries in Russia, the initially more positive expectations for the Chinese economy, as well as the decision for a voluntary reduction in production by OPEC+, temporarily drove the average international price of crude oil of all types to USD 88.1 per barrel in April 2024 (see Chart II.2). Subsequently, however, on the back of weak international demand and due to, among other things, the economic slowdown in China and India, its price gradually decelerated to USD 72.3 in December 2024, a post-June 2021 low. According to the World Bank, in 2024 the average crude oil price stood at USD 78.7 per barrel, down by 2.5% compared to 2023. According to IMF estimates (January 2025), it is expected to decline further to USD 69.8 per barrel in 2025, as a result

on the one hand of lower demand by China, the economy of which is expected to slow down further, and on the other hand of the increase in supply by non-OPEC+ countries.

The natural gas market in 2024 was characterised by lower international price levels, albeit with noticeable volatility during the year. The annual average price of natural gas of all types fell by 15% compared to 2023 and by 63.5% compared to the historically high levels of 2022. The price of natural gas in Europe in 2024, although increasing almost continuously during the year, fell by 16.4% on an average annual basis (see Chart II.2). The decline in energy demand in Europe, primarily due to milder weather conditions, combined with a sufficiently supplied market, led to the creation of high energy reserves, exerting downward pressures on the average annual price of natural gas in Europe in early 2024. Nevertheless, after the first quarter, the average monthly price of natural gas showed an upward trend throughout the rest of the year. The relatively small increase in global liquefied natural gas (LNG) supply, by 2.5% in 2024 compared to 8% on average in the five-year period 2016-2020, the underlying geopolitical tensions and extreme natural phenomena fuelled the volatility of LNG prices throughout the year.

The international prices of industrial metals showed considerable fluctuations in 2024, due to the interaction of various factors. 2024 began with a rise in their international prices, mainly owing to optimism regarding the Chinese economy, but also to the continuing growth of the electric vehicles market globally. By contrast, in the second half of 2024, concerns about a slowdown of the world economy and the Chinese real estate sector led to reduced demand for industrial metals, causing a correction of prices. On an annual average basis, base metal prices increased by 2.8% compared to 2023, while in December 2024 they were higher by 3.5% year-on-year. International food prices fell by 7.6% on an average annual basis, mainly due to increases in production and inventories.

Overall, the average international price of non-fuel commodities increased by 3.4% in 2024 (in USD), against a decrease of 5.7% in 2023. According to IMF estimates (January 2025), the

price of commodities is expected to rise, mainly due to climate change, which will adversely affect a large part of global production.

### Fiscal policy

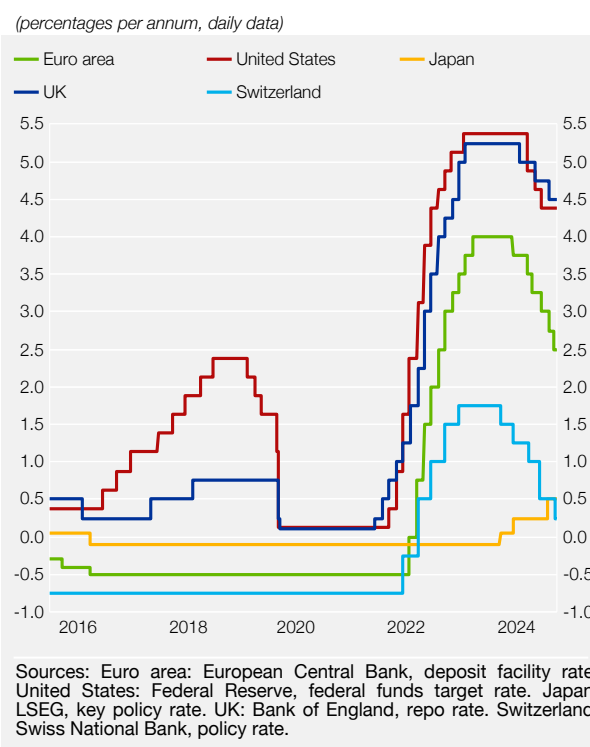
In 2024, the fiscal stance, measured by the structural primary balance of general government, was reversed to a restrictive one in advanced economies as a whole and to an expansionary one in emerging and developing economies. Nevertheless, the general government deficit slightly widened to 5.0% and 5.6% of GDP, respectively, in the two groups of economies according to IMF estimates (October 2024). The general government gross debt-to-GDP ratio, which is estimated to have turned out at 109% in advanced economies and at 70% in emerging and developing economies, deteriorated slightly (see Table II.1). In 2025, the fiscal stance is expected to become more restrictive in most economies, including the US. However, new policies and geopolitical developments have, since the beginning of the year, significantly increased uncertainty regarding the fiscal policy that will ultimately be pursued, mainly by the major economies, with the German Bundestag approving a long-term military spending plan of EUR 1 trillion in mid-March. In the medium term, despite an overall environment of pressures for increased public investment related to the green and digital transitions, national security, population ageing and productivity boosting, fiscal consolidation remains necessary in many economies if they are to rebuild fiscal buffers in a growth-friendly manner and improve debt sustainability prospects.

### Monetary policy

Monetary policy remained restrictive in 2024 in most economies, in spite of the gradual reduction in key policy rates decided upon by central banks all over the world, taking into account the significant disinflation, the fading-out of wage pressures and, in certain countries, subdued economic activity. In 2025, global monetary policy cycles are expected to be less synchronised in an environment of high political and economic uncertainty and diverging inflation and growth prospects across countries. Monetary authorities remain committed to achieving their inflation targets, closely monitoring, among other things, developments in global trade and the effects of the imposition of tariffs on the cost of energy and other imports. Any resurgence of inflation or inflation expectations could delay further interest rate cuts or even reverse the monetary policy stance to a more restrictive one, generating new challenges for fiscal sustainability and financial stability.

In 2024, the US Federal Reserve (Fed) reduced the target range for the federal funds rate three times, by a total of 100 basis points (bps), setting it as from December 2024 to 4.25%-4.50% and maintaining a wait-and-see attitude ever since. The Bank of England, after two equal cuts of 25 bps each during the previous year, further reduced its key interest rate to 4.5% in February 2025. In the euro area, the ECB Governing Council cut its key interest rate in four occasions last year and in another two this year, by a total of 150 bps, setting the deposit facility rate at 2.50% as from March 2025 (see Chart II.3). At the same time, the Eurosystem continued to reduce the asset purchase programme (APP) and the emergency purchase

Chart II.3 Central bank key interest rates  
(1 January 2016 - 28 March 2025)



programme (PEPP) portfolios at a measured and predictable pace. On 18 December 2024, banks repaid the remaining amounts they had borrowed under the targeted longer-term refinancing operations, thus concluding this part of the Eurosystem's balance sheet normalisation process. The Swiss National Bank continued to cut its policy rate, to 0.5% in December 2024 and to 0.25% on 20 March 2025. In contrast with the other advanced economies, the Bank of Japan increased its policy rate from -0.10% in February 2024 to 0.50% in January 2025, the highest since 2008.

## 2.2 Euro area

The euro area economy, although gathering pace in 2024, continued to present a low growth rate. The acceleration of global trade, a strong labour market and the easing of financial conditions contributed positively, while geopolitical uncertainty and political instability in certain major economies had a dampening effect. Relatively improved consumer confidence and increased household consumer spending and government spending boosted domestic demand; however, investment declined. The services sector, particularly tourism, contributed significantly to growth, while the manufacturing sector faced challenges as a result of low domestic and international demand and increased regulatory burden. The labour market remained resilient, with stable employment levels and historically low unemployment helping to boost consumption. Inflation in the euro area generally continued to decelerate, from 2.9% in December 2023 to 2.4% in December 2024, further approaching the ECB target. This development allowed the ECB to cut its interest rates in four occasions during 2024, thus underpinning economic recovery. Despite these positive developments, external risks, such as prolonged political and geopolitical uncertainty and the impact of the imposition of tariffs and retaliatory measures on international trade, are expected to continue to affect the fragile recovery in 2025. In the recent ECB staff projections (March 2025), the outlook for GDP growth was revised downwards by 0.2 percentage points for both 2025 and 2026. Thus, euro area GDP is expected to grow by 0.9% in 2025 and by 1.2% in 2026. This revision reflects the stronger impact of uncertainty, mainly through weaker exports and, to a lesser extent, reduced investment activity. Moreover, it reflects expectations that competitiveness challenges will most likely last longer than initially estimated.

Economic activity in the euro area strengthened compared to 2023, reflecting an improvement in the economic sentiment, increased private consumption and disinflation. In the first half of 2024, the main contribution to growth came mainly from the external sector, with very positive net exports, while in the second half from consumption and investment. Real GDP increased by 0.3% in the first quarter and by 0.2% in the second quarter, while in the third quarter it picked up to 0.4%, the highest rate observed in the last two years. Nevertheless, in the fourth quarter GDP growth slowed down to 0.2%, reflecting the shrinking of the largest two economies of the euro area, Germany (-0.2%) and France (-0.1%). Euro area GDP grew by 0.9% in 2024, compared with 0.4% in 2023. In the medium term, real GDP is expected to post positive rates of change, supported by an increase in real income and a recovery of investment due to the waning impact of monetary policy on borrowing costs.

Private consumption was relatively sluggish in the first half of 2024, before picking up strongly, at a growth rate of 0.6% quarter-on-quarter in the third quarter. This recovery is attributable to a gradual decline in households' saving ratio and an improvement of real disposable income. The increase in income came mainly from strong wage growth, but also from rising income from self-employment and financial and non-financial assets. These developments were instrumental to supporting consumption, boosting overall economic activity. The quarter-on-quarter growth of consumption declined in the fourth quarter of the year (0.4%), as the favourable, temporary factors that had supported it during the summer faded out. Overall in 2024, private consumption is estimated to have grown by 1.0%, compared with 0.5% in 2023. In 2025, further disinflation and nominal wage growth are expected to support real incomes and consumption, which is projected to accelerate to 1.4%. Public consumption, in spite of further reductions in support measures to address inflation and increases in direct taxes and social security contributions as part

of fiscal restraint, contributed to the acceleration of growth in 2024, rising by 2.8%, compared with 1.4% in 2023. In 2025, public consumption growth is anticipated to fall to 1.2%.

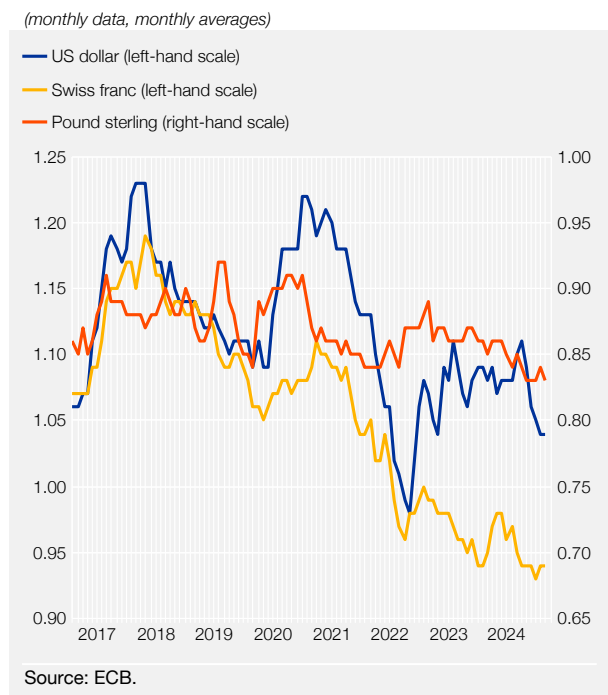
Euro area fixed capital formation contracted markedly in the first half of 2024, due to high borrowing costs, geopolitical uncertainty and weak demand in the housing market. Nevertheless, in the third quarter it rebounded at a quarterly growth rate of 1.8%, owing to increases in spending on public infrastructures and investment in green technology and a relative improvement of investment sentiment, as declining inflation began to fuel expectations of interest rate cuts. In the fourth quarter it slowed down at a growth rate of 0.6% quarter-on-quarter. Total investment in the euro area eventually decreased by 1.9% in 2024, as against an increase of 1.7% in 2023. Strong corporate financial results, improving credit conditions and the boost from the European recovery instrument NextGenerationEU create favourable conditions for a recovery in investment in 2025.

Euro area exports, which recorded a strong upward trend in the first half of 2024, mainly due to the strengthening of services exports, declined in the third quarter. Their slowdown confirms continued competitiveness challenges faced by euro area exporters, even amid global demand recovery. In the fourth quarter, exports remained almost stagnant and the related estimates suggest that they will continue to be subdued in the near future. In 2024, the current account surplus of the euro area as a whole is estimated to have widened to 2.6% of GDP, from 1.6% in 2023, reflecting a rise in exports, but also a stabilisation of imports due to subdued domestic demand. Euro area exports of goods and services increased by 1.0% in 2024, against a decrease by 0.8% in 2023. Net exports' contribution to GDP was slightly positive in 2024, as the volume of exports increased, while that of imports remained almost unchanged. For 2025, however, imports are expected to rise faster than exports, as, according to the ECB's recent projections, export growth for 2025 is expected to slow down somewhat due to significant uncertainty regarding trade policies globally.

The labour market remained resilient in 2024, although employment dynamics seems to weaken compared with previous years, as factors that positively affected the increase in labour demand are fading. The job vacancy rate declined to 2.5% in the third and the fourth quarter, from 2.6% in the second quarter and 2.9% in the first quarter of 2024. The employment growth rate decelerated to 1.0% from 1.4% in 2023, while for 2025 it is forecast to slow down further to 0.4%. Unemployment as a percentage of the labour force remained at historically low levels during 2024, while for the entire year it declined further to 6.4% (from 6.6% in 2023). In the individual Member States, according to the latest monthly data (January 2025), it ranged from 3.0% in Malta to 10.4% in Spain. Spain, which has the highest unemployment rate among euro area Member States, is followed by Finland and Greece, with an unemployment rate of 8.7%. For 2025, the unemployment rate in the euro area is estimated to marginally decline to 6.3%.

Headline inflation fell further in 2024. Disinflation is attributable to a set of interacting factors. Despite the fluctuations observed, the fall in energy and food prices contributed decisively to an easing of inflationary pressures, while the restrictive monetary policy of the ECB was instrumental to anchoring inflation expectations. Furthermore, the low GDP growth rate or even the recession in economies such as Germany, Austria and Finland led to a restraint in aggregate demand, feeding into the slowdown in inflation. In spite of all this, continued wage growth remained a factor exerting upward price pressures. Unit labour cost growth in the total economy remained high, although it fell to 4.5% in 2024 from 6.3% in 2023, due to a slowdown in wage increases and a mild recovery of labour productivity. Euro area inflation, as measured by the Harmonised Index of Consumer Prices (HICP), fell from 2.8% in January 2024 to 2.4% in December, while on an average annual basis it stood at 2.4% in 2024, down from 5.4% in 2023. According to the ECB staff projections (March 2025), inflation is expected to decline marginally to 2.3% in 2025, primarily driven by receding food inflation, while the withdrawal of energy-related support measures will exert temporary upward pressures on energy inflation. Over the first months of 2025, inflation recorded a temporary marginal increase, reaching 2.5% in Janu-

**Chart II.4 US dollar, pound sterling and Swiss franc exchange rates vis-à-vis the euro (January 2017 - February 2025)**



credit to firms and households picked up further in the first two months of 2025. According to the ECB Bank Lending Survey for the fourth quarter of 2024, euro area banks reported a new net tightening of credit standards (loans or credit lines) to firms, which is attributable to higher risks related to the economic outlook and banks' lower risk tolerance.<sup>6</sup> In loans to households, there was no change in the standards for house purchase after three quarters of easing, but there was a further tightening of standards for consumer credit. For the first half of 2025, banks expect that credit standards will continue to be tight for most sectors of the economy, excluding services. Moreover, they expect reduced demand for loans in all categories of loans with the exception of housing loans, for which they anticipate a moderate increase.

The fiscal stance, as measured by the cyclically adjusted primary balance, is estimated to have become considerably more restrictive in 2024, after a mild easing in 2023, mainly due to the withdrawal of a large part of the support measures that had been taken to address high energy costs and inflation. According to the ECB staff macroeconomic projections (March 2025), it is estimated that the fiscal deficit in the euro area decreased from 3.6% of GDP in 2023 to 3.2% in 2024, while in structural terms it declined by 0.8 percentage points to 3.0% of GDP. By contrast, public debt is estimated to have slightly increased to 87.7% of GDP in 2024, from 87.4% in the previous year, and is projected to continue its marginally upward course in the three coming years. This trend is attributed to the fact that primary fiscal deficits, albeit decreasing, continue to offset the debt-reducing contribution of a positive snowball effect.

The nominal effective exchange rate of the euro (against 41 trading partners) appreciated by an annual average of around 1.9% in 2024, following an appreciation of 4.9% in 2023. While the appreciation in 2023 was mainly a result of key ECB interest rate hikes and the diminishing interest rate differential vis-à-vis other central banks, for 2024 it is related to the improved course of the euro area economy compared with its trading partners. In bilateral terms, the euro, despite depreciating noticeably in the last quarter of the year against the US dollar, appreciated mar-

ary, from 2.4% in December, before dropping to 2.3% in February, with the prices of food and services showing the highest annual percentage changes compared to the other components and with energy inflation decelerating. At the same time, core inflation, i.e. the headline index without energy and food, at average annual levels was 2.8% in 2024, from 4.9% in 2023, mainly owing to subdued economic activity and declining unit labour cost growth. In 2025, core inflation is anticipated to fall to 2.2%.

In 2024, credit growth in the euro area remained weak, due to high borrowing costs, sluggish economic activity and banks' tight credit standards. The overall financial environment continued to be restrictive, with average interest rates on corporate loans and new housing loans, although reduced, standing in December at 4.4% and 3.4%, respectively. The growth rate of bank credit to non-financial corporations increased to 1.7% in December 2024, up from 0.2% in January. Similarly, the growth rate of loans to households, from 0.3% in January, rose to 1.1% in December, the highest level of the year. Bank

6 See Box VI.3 "The Bank Lending Survey" in this Report.

ginally by 0.1% at average annual levels in 2024, after appreciating by 2.7% in 2023. Against the pound sterling and the Swiss franc, the euro depreciated by 2.7% and 2.0%, respectively, in 2024, after appreciating in 2023 by 2.0% against the pound sterling and depreciating by 3.3% against the Swiss franc (see Chart II.4). These developments reflect mainly the changing expectations regarding central banks' monetary policy, the uncertainty surrounding geopolitical developments and the trade policy of major countries, as well as the divergence of economic performance across these regions.

The euro area economy faces a number of upside and downside risks that could affect its growth in the coming years. Persistent geopolitical tensions and the resulting supply chain disruptions and volatility in energy prices represent major threats to economic recovery. Furthermore, the lagged effects of past monetary policy tightening may constrain consumption and investment for longer than expected, while fiscal consolidation efforts in certain Member States could adversely affect demand. Another downside risk is associated with the effects of the imposition of new US tariffs, which could further disrupt trade flows and negatively affect euro area exports, particularly in key industrial sectors. Structural weaknesses, such as sluggish productivity growth and demographic challenges, represent additional vulnerabilities in the long term. On the other hand, upside risks include a stronger than expected recovery of domestic demand, underpinned by resilient labour markets and increases in real income owing to a further decline in inflation. Moreover, a faster-than-expected recovery of global trade and investment, particularly if external demand by key trading partners strengthens, could provide additional support to euro area exports. The acceleration of the green and digital transitions can also lead to an increase in productivity, promoting more sustainable long-term growth. The overall economic outlook remains uncertain, hinging on the interaction of these factors.

### Box II.1

## ARTIFICIAL INTELLIGENCE: MACROECONOMIC IMPACT AND RISKS

Productivity in Europe has slowed down significantly over the past 40 years, with the productivity gap of the euro area vis-à-vis the United States and China widening after 2009,<sup>1,2</sup> a trend that further accelerated following the COVID-19 pandemic.

This box reviews recent developments in the integration of artificial intelligence (AI) into the production process, explores its potential impact on productivity, growth, inflation and the labour market, and analyses the resulting policy challenges. AI is a set of IT technologies that mimic elements of human behaviour and ingenuity, such as learning, problem solving, planning and creativity. It has multiple applications across economic sectors and social activities and there is no single, universally accepted definition of it. As a result, there is as yet no uniform measurement methodology, making it difficult to assess its uptake and, thus, to quantify its economic impact with any certainty.

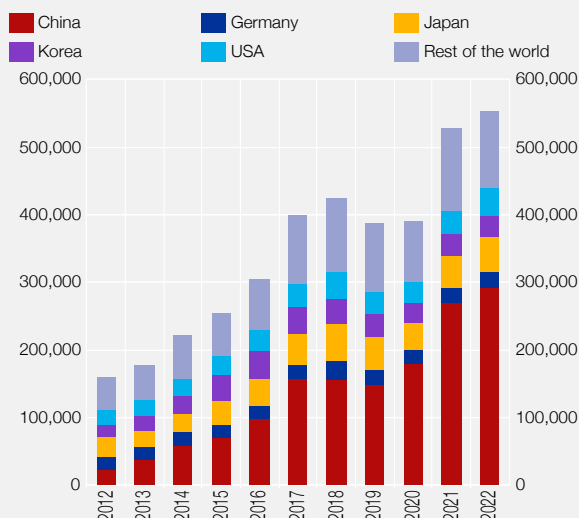
### AI applications globally and the EU institutional framework

AI has gradually penetrated various aspects of economic activity and has triggered structural changes in several sectors over the past decade. Moreover, the use of AI extends to social and cultural life, although its impact is not always directly measurable in economic terms. The increasing integration of AI technologies into current production processes, with the inclusion of automated, programmable machinery (robots) carrying out various tasks in industrial settings (see Chart A), has fuelled intensive efforts to innovate, research and develop this technology globally. Over time, investing in AI has been absorbing an increasing proportion of total investment worldwide, leading to a massive surge in investment in 2023 (see Chart B). International R&D on AI has grown exponentially over the past decade, with China and the United States leading the way; however, both innovation efforts and the final number of AI

1 See Draghi, M. (2024), "The future of European competitiveness. A competitiveness strategy for Europe".

2 See Bank of Greece, *Monetary Policy – Interim Report 2024*, Box II.3, Chart A, December 2024.

**Chart A Number of industrial robots installed worldwide (2012 - 2022)**



Sources: International Federation of Robotics; Stanford Institute for Human-Centered Artificial Intelligence (HAI); AI Index Report 2024; and Bank of Greece calculations.

of innovative products and services in line with consumers' evolving needs. Examples include applications that personalise consumers' online shopping experience or help prevent fraudulent practices,<sup>6</sup> self-driving vehicles and optimised traffic management systems in the transport sector,<sup>7</sup> as well as interactive leisure experiences.<sup>8</sup>

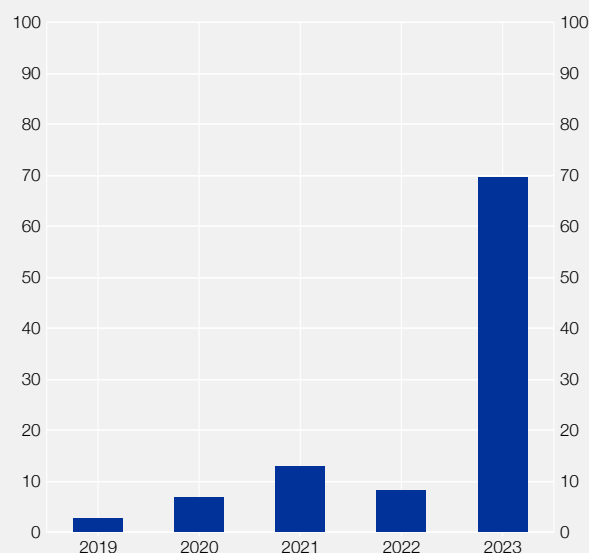
The broad scope of AI created – within the EU – the need for a legislative act regulating AI on the basis of potential risks arising from its ever-increasing use. Regulation (EU) 2024/1689 (EU AI Act) was thus adopted and is the first global comprehensive effort to balance out the benefits and risks of AI by establishing an appropriate legal framework that fosters innovation, while protecting fundamental rights and security. In particular, it categorises AI systems based on the level of risk they pose to society. Systems considered to entail an unacceptable level of risk are prohibited, while high-risk systems are subject to strict regulation. The cross-border nature<sup>9</sup> of

patents granted appear to have been declining since 2021 (see Chart C1). In the EU, the largest number of AI patents is registered in Germany and France, while the corresponding number for Greece is low but has been increasing with a lag since 2021 (see Chart C2).

The ability of AI to analyse large datasets has revolutionised decision-making processes in sectors such as finance, in terms of credit scoring,<sup>3</sup> marketing, i.e. the analysis of consumers' behaviour and preferences in order to optimise targeting strategies,<sup>4</sup> and healthcare, among other things for early diagnosis, development of new medicines and personalisation of treatment schemes.<sup>5</sup> In addition, AI has facilitated the development

**Chart B Share of global investment in generative AI (2019 - 2023)**

(% of total investment globally)



Sources: Quid via AI Index (2024); U.S. Bureau of Labor Statistics (2024); OWID; and Bank of Greece calculations.  
Notes: Data expressed in constant 2021 US dollars. Inflation adjustment is based on the US Consumer Price Index (CPI). The data likely underestimate total global AI investment, as they only capture certain types of private equity transactions, excluding other significant channels and categories of AI-related spending.

3 See Lessmann, S., B. Baesens, H.-V. Seow and L.C. Thomas (2015), "Benchmarking state-of-the-art classification algorithms for credit scoring: An update of research", *European Journal of Operational Research*, 247(1), 124-136.

4 See Davenport, T.H., A. Guha, D. Grewal and T. Bressgott (2020), "How artificial intelligence will change the future of marketing", *Journal of the Academy of Marketing Science*, 48(1), 24-42.

5 See Jiang, F. et al. (2017), "Artificial intelligence in healthcare: past, present and future", *Stroke and Vascular Neurology*, 2(4), 230-243.

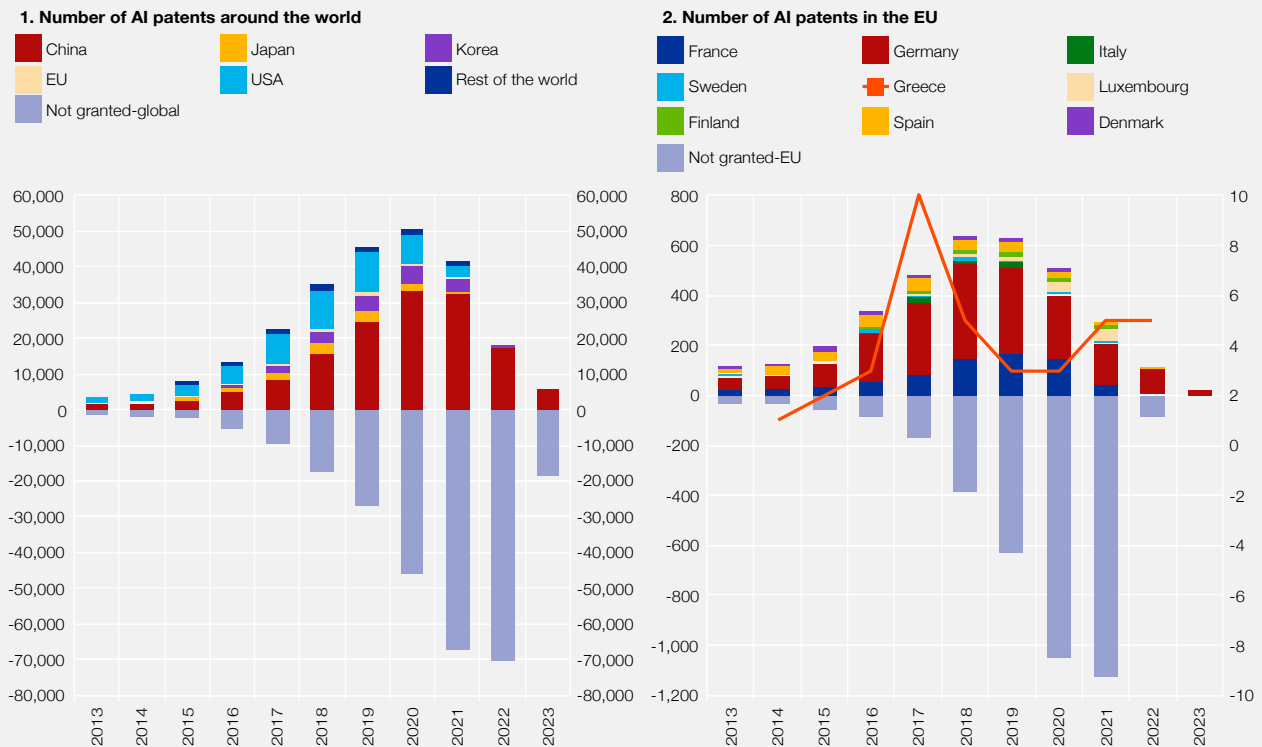
6 See Ricci, F., L. Rokach and B. Shapira (2011), "Introduction to Recommender Systems Handbook", in: Ricci, F., L. Rokach, B. Shapira and P. Kantor (eds), *Recommender Systems Handbook*, Springer, Boston, MA.

7 See Bojarski, M. et al. (2016), "End to end learning for self-driving cars".

8 See Yannakakis, G.N. and J. Togelius (2018), *Artificial Intelligence and Games*, Springer.

9 Although being an EU regulation, it is expected to have a marked impact worldwide, as companies active in global markets would have to comply with it in order to provide AI products or services in the EU market.

Chart C Patents granted around the world and in the EU



Sources: Center for Security and Emerging Technology and Bank of Greece calculations.

this regulation could make it a global standard, significantly affecting the way in which other countries approach AI governance.

### AI impact channels on growth and inflation

To quantify the impact of AI in terms of productivity growth, the current academic literature has adopted two alternative approaches. The first perceives AI as a “general purpose technology” (GPT), with horizontal effects on total productivity, similar to those attributable to the extensive development of Information and Communication Technologies or the introduction of electricity into production.<sup>10</sup> Specifically, GPTs are technologies that simultaneously affect several sectors, have been improving steadily and enable innovational complementarities.<sup>11</sup> The second approach to quantification borrows microfoundation elements, divides economic activity into a set of individual production activities (tasks) and looks at how AI can complement or even replace some of them. The macroeconomic impact is then determined by multiplying the share of individual AI-affected tasks in an economy by the average cost-reduction achieved per task due to AI. This process helps quantify the extent to which AI impacts productivity and ultimately contributes to growth.<sup>12</sup>

10 See Brynjolfsson, E. and A. McAfee (2014), *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies*, W.W. Norton & Company.

11 See Bresnahan, T.F. and M. Trajtenberg (1995), “General purpose technologies: ‘Engines of growth’?”, *Journal of Econometrics*, 65(1), 83-108.

12 The research work by Acemoglu and Restrepo (2018, 2019) and Acemoglu (2024) deviates from the strict concept of microfoundation, although adopting some of its elements. It models the economy as a set of individual tasks produced by the factors of production, i.e. labour and capital. Many of these models, although incorporating different types of tasks (e.g. expert vs. unskilled), still rely on a “representative household” framework. This hybrid approach deviates from the strict principle of microfoundation in the modelling of heterogeneous individuals. See (a) Acemoglu, D. and P. Restrepo (2018), “Artificial intelligence, automation and work”, NBER Working Paper No. 24196; (b) Acemoglu, D. and P. Restrepo (2019), “Automation and New Tasks: How Technology Displaces and Reinstates Labor”, *Journal of Economic Perspectives*, 33, 3-30; and Acemoglu, D. (2024), “The simple macroeconomics of AI,” NBER Working Paper No. 32487.

The full economic impact of AI is likely to materialise over a time horizon of several decades. Current estimates may not fully capture its long-term impact, as is typically the case with any attempt to quantify radical innovations and structural changes in an economy. The relevant literature<sup>13</sup> estimates that the annual impact of AI on productivity ranges from 0.07% to 1.3%, with a median value of 0.68% over the next decade and varying effects across sectors and economies. The most optimistic 50% of the estimates comes from studies that take the first AI impact analysis approach, while the most pessimistic 50% comes from studies that follow the second approach. The positive impact on productivity translates into an acceleration of GDP growth, depending on an economy's level of development. Advanced economies prevail in terms of logistical and technical infrastructure already in place and workforce educational level over less developed economies, which only have a starting-position advantage. The underlying fertile ground lends strong leverage to advanced economies, allowing faster adoption of new technologies and, thus, greater growth benefits. Lastly, it is difficult to identify causality between productivity growth and GDP growth, as productivity is a component of GDP; nevertheless, an interactive relationship between them cannot be excluded.

To quantify the impact of AI on inflation, macroeconomic models incorporate such determinants as productivity growth, labour market dynamics and inflation expectations of both consumers and firms in an economy.<sup>14</sup> Productivity growth tends to be deflationary by reducing unit labour costs. However, competition in the labour market and the input substitution ratio affect the balance of changes in wages and profits and thus shape final inflationary pressures. The associated energy costs and changes in competition play a significant role in quantifying the impact of AI on inflation. The global surge in energy demand, owing to the computing power needed to maintain increased use of AI, and pricing discretion on the part of businesses, due to real-time analysis of consumer demand and price elasticity, pose upward risks to inflation.

#### **Labour market and artificial intelligence: demand, supply and working experience**

The rapid advancement of AI brings profound and multi-faceted changes to the structure and functioning of the labour market. Automation and application of intelligent systems in production processes transform both the demand for and the supply of labour, have an impact on the quality of working experience and reshape the occupational landscape. AI affects labour demand by replacing existing jobs and creating new roles that require high skills and specialisation. Automation primarily affects low-skill occupations<sup>15</sup> in routine-intensive sectors, such as manufacturing, retail and administrative support, owing to the use of robots, self-service cash registers and chatbots.<sup>16</sup> Conversely, occupations requiring human interaction, such as healthcare and cleaning services, remain less exposed.<sup>17</sup>

13 For alternative quantification methods, readers may refer to the following studies. See (a) Guerrón-Quintana, P., T. Mikami and J. Nosal (2024), "The macroeconomic implications of the Gen-AI economy"; (b) Aghion, P. and S. Bunel (2024), "AI and growth: Where do we stand?"; (c) Aghion, P., B.F. Jones and C.I. Jones (2018), "Artificial intelligence and economic growth", NBER Working Paper No. 23928; (d) Schoenherr, T., S.M. Wagner and H.C. Pfohl (2020), "The impact of artificial intelligence on gross domestic product", *International Journal of Production Economics*, 225, 107573; (e) Babina, T., A. Fedyk, A. He and B. Yan (2024), "Artificial intelligence, firm growth, and innovation", available at SSRN 4302257; (f) Baily, Martin Neil, James Manyika, and Shalabh Gupta, "US productivity growth: An optimistic perspective," *International Productivity Monitor*, number 25, spring 2013; and (g) Goldman Sachs (2023), "The economic impact of generative AI: The future of work".

14 A recent study by the Bank for International Settlements (BIS) finds that the inflation response depends crucially on households' and firms' anticipation of the impact of AI on productivity. Unanticipated increases in productivity put downward pressure on prices in the short term, while anticipated increases in productivity push up prices. See Aldasoro, I., S. Doerr, L. Gambacorta and D. Rees (2024), "The impact of artificial intelligence on output and inflation", BIS Working Paper No. 1179.

15 (a) According to a survey by Frey and Osborne (2017), up to 47% of US jobs are at risk of automation, with the greatest threat being identified in administrative and support work. See Frey, C.B. and M. Osborne (2017), "The future of employment: How susceptible are jobs to computerisation", *Technological Forecasting and Social Change*, 114, 254-280. See also (b) Acemoglu and Restrepo (2019), op. cit. and (c) Gmyrek, P., J. Berg and D. Bescond (2023), "Generative AI and jobs: A global analysis of potential effects on job quantity and quality", ILO Working Paper No. 96.

16 See (a) OECD (2024), "How is AI changing the way workers perform their jobs and the skills they require?", *Policy Brief*, and (b) McKinsey & Company (2023), "The economic potential of generative AI: The next productivity frontier".

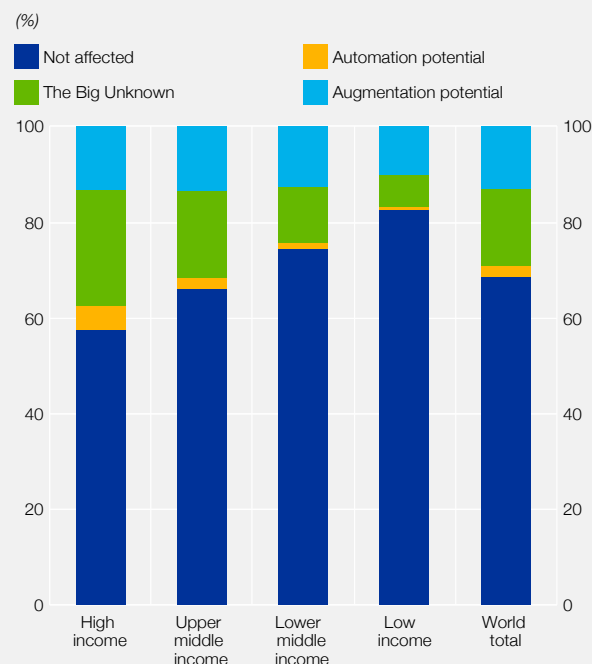
17 See World Economic Forum (2025), *The Future of Jobs Report 2025*.

The risk of job replacement gradually extends to more complex tasks, such as legal analysis and medical diagnoses, thereby increasing the need for continuous learning and upskilling. While automation has led to the creation of new high-skill jobs, particularly in areas such as programming and data analysis,<sup>18</sup> the ongoing development of AI constantly challenges the relevance of skills even in these areas, reducing demand mainly for certain supporting roles. Nevertheless, in these areas AI generally acts in a complementary manner, boosting productivity<sup>19</sup> and enabling workers to focus on more creative and strategic tasks. The human-machine collaboration enhances creativity, improves decision-making processes and facilitates cooperation, leading to more efficient and flexible teams.<sup>20</sup> At the same time, AI opens new career opportunities, especially in areas such as data science, machine learning, algorithm development and cybersecurity. Moreover, progress in the development of self-driving vehicles, smart cities and robotic systems raises new requirements for specialised labour.<sup>21</sup>

According to the International Labour Organisation (ILO), the share of labour exposed to automation is highest in high-income countries, reflecting their more advanced technological systems and multiplicity of industries and activities, while low-income countries are less exposed, due to their high dependence on human labour in sectors such as agriculture and transport (see Chart D).<sup>22</sup> Based on ILO analysis, potential benefits from AI appear to be unevenly distributed, with high-income countries and skill-intensive groups benefiting more, and low-income countries facing constraints due to inadequate infrastructure.<sup>23</sup>

The International Monetary Fund (IMF) estimates that 40% of jobs worldwide will be affected by AI, with advanced economies facing more intense challenges such as the replacement of traditional occupations and the need for labour reallocation. Especially in developing economies, lack of access to upskilling programmes increases the risk of unemployment.<sup>24</sup> This inequality could exacerbate the digital divide and cross-country income disparity.<sup>25</sup>

**Chart D Percentage of jobs potentially affected by generative AI, by country-income group**



Source: International Labour Organization (ILO).

Note: An occupational group referred to as "The Big Unknown" stands at the junction of automation, meaning that these occupations could either be transformed through job augmentation or suffer displacement by AI.

18 See Lin, J. (2011), "Technological adaptation, cities, and New Work," *Review of Economics and Statistics*, 93(2), 554-74.

19 The human-machine collaboration, while requiring initial investments and adjustments in businesses, may at first present lower productivity levels; nevertheless, once these changes yield results, productivity increases rapidly. This pattern is called the "productivity J-curve" and means that progress at the outset may appear slower than it is in reality. See Brynjolfsson, E., D. Rock and C. Syverson (2021), "The Productivity J-curve: How intangibles complement general purpose technologies", *American Economic Journal: Macroeconomics*, 13(1), 333-372.

20 See McKinsey Global Institute (2018), "AI, automation, and the future of work: Ten things to solve for"; and World Economic Forum (2025), op. cit.

21 See World Economic Forum (2023), *The Future of Jobs Report 2023*; and (2025), op. cit.

22 An occupational group referred to as "The Big Unknown" stands at the junction of automation, meaning that these professions could either be transformed through job augmentation or suffer displacement by AI.

23 See Gmyrek, P., J. Berg and D. Bescond (2023), "Generative AI and Jobs: A global analysis of potential effects on job quantity and quality", ILO Working Paper No. 96.

24 See Brollo, F. et al. (2024), "Broadening the gains from generative AI: The role of fiscal policies", IMF Staff Discussion Note No. 2024/002.

25 See Cazzaniga, M. et al. (2024), "Gen-AI: Artificial Intelligence and the future of work", IMF Staff Discussion Note No. 2024/001.

Furthermore, according to the OECD, around 14% of jobs in OECD member countries are at high risk of automation and 32% of workers are likely to see substantial change in how their jobs are performed, while the risk of automation is highest among low-skill jobs.<sup>26</sup>

Interestingly, the World Economic Forum (WEF) report on the future of jobs concludes that, between 2025 and 2030, structural labour market transformation due to broader developments, as well as automation and the uptake of AI, will affect 22% of current jobs. This involves the creation of 170 million new jobs (amounting to 14% of today's total employment) and the offshoring of 92 million jobs (8% of today's total employment), which results in a net benefit of 78 million new jobs (7% of today's total employment), ultimately making a positive contribution to employment.<sup>27</sup>

AI also has positive effects on labour supply, as it contributes to upskilling, improved health and more efficient job matching. In the field of education, technologies such as "AI tutors" improve learning performance, providing students with a tailored experience and enhancing skills such as critical thinking and creativity. Technologies such as immersive learning offer realistic scenarios and simulations, honing these skills in secure environments.<sup>28</sup> In terms of workers' health, AI accelerates medical diagnosis and treatment, reducing absence from work due to health issues, thus resulting in a more productive workforce. As regards finding a job, AI platforms better match labour force skills with labour market needs, contributing to lower unemployment and facilitating transition into new roles through tools that predict future trends.<sup>29</sup>

AI is reshaping the overall working experience, reducing the burden of routine tasks and improving the accuracy of decision-making. On the other hand, it exacerbates work strain due to algorithmic surveillance, increased adaptation requirements and continuous assessment of workers' performance. In addition, AI widens pay inequalities, as it enhances the remuneration of high-skilled labour, while increasing the risk of displacement or wage stagnation for low-skill jobs.<sup>30,31</sup> At the same time, it intensifies labour market polarisation, raising demand for contact-intensive highskill and low-skill occupations that call for human interaction, while weakening demand for middle-skill positions (e.g. administrators). Inequalities in terms of access to education and technological skills exacerbate the problem, particularly affecting vulnerable social groups.<sup>32</sup>

## Conclusion

The key parameters that determine the total estimated benefit of AI to an economy are the following: (1) the potential of AI, as determined by the speed of technological advancement; and (2) the pace and extent of AI uptake in an economy.

AI contributes to increasing both labour productivity and overall productivity, which is key to the evolution of the per capita disposable income of an economy. Effective integration of AI depends on removing structural, logistical and regulatory barriers, as well as on facilitating labour and capital reallocation.

26 See OECD (2019), *Artificial Intelligence in Society*.

27 See World Economic Forum (2025), op. cit.

28 See Dede, C., A. Etemadi and T. Forshaw (2021), "Intelligence augmentation: Upskilling humans to complement AI", *Next Level Lab Brief Series*, The Next Level Lab at the Harvard Graduate School of Education. President and Fellows of Harvard College: Cambridge, MA.

29 See Broecke, S. (2023), "Artificial intelligence and labour market matching", OECD Social, Employment and Migration Working Paper No. 284, OECD Publishing.

30 See (a) Acemoglu, D. and P. Restrepo (2022), "Tasks, automation, and the rise in US wage inequality", *Econometrica*, 90, 1973-2016; (b) Autor, D. (2019), "Work of the Past, Work of the Future", *AEA Papers and Proceedings*, 109, 1-32; and (c) Cornelli, G., J. Frost and S. Mishra (2023), "Artificial intelligence, services globalisation and income inequality", BIS Working Paper No. 1135.

31 See Georgieff, A. (2024), "Artificial intelligence and wage inequality", OECD Artificial Intelligence Paper No. 13, OECD Publishing.

32 According to another study, the introduction of AI does not seem to bring about significant changes in wage inequality. See Goos, M., A. Manning and A. Salomons (2014), "Explaining job polarization: routine-biased technological change and offshoring", *American Economic Review*, 104(8), 2509-2526.

The main economic risks involve the downgrading of unskilled labour, growing energy costs and the impact on firms' pricing policies. Although the overall impact of AI on economic growth is estimated to be positive, it might be more gradual than initially projected.

The structural transformation of the labour market is expected to accelerate, with routine jobs becoming more vulnerable to automation and occupations requiring specialised skills increasing. The final outcome depends on the degree of AI integration as well as on investment in education and upskilling. However, according to several research bodies, *inter alia* the World Economic Forum, McKinsey and Oxford Economics, AI-attributable job creation is estimated to outdo the loss of existing jobs.

In any event, a smooth integration of AI into the labour market calls for targeted policies that enhance lifelong learning and reskilling of workers, especially for those employed in occupations at high risk of automation. Investing in educational programmes and promoting technological training are essential for reducing social inequalities and facilitating transition to the new digital economy.

## Box II.2

### EU AND EURO AREA POLICY RESPONSES

#### Russia-Ukraine war

In 2024, the EU adopted three additional packages of economic and individual sanctions against Russia aimed at further weakening its economic and technological base in response to Russia's continuation of the war against Ukraine. These included severer restrictions on bilateral trade in goods between the EU and Russia, a ban on Russian liquefied natural gas reloading on EU territory and a ban on access to ports and provision of maritime transport services for vessels that are part of Russia's "shadow fleet" and circumvent sanctions. On 24 February 2025, three years after Russia's invasion of Ukraine and with talks to end the war still ongoing, the Council of the European Union adopted a new broad set of economic and individual restrictive measures against Russia. This package extended the bans on Russia's shadow fleet and financial institutions, as well as restrictions on exports of goods and technology to Russia. It also suspended the broadcasting activities and licences of eight more Russian media outlets in an effort to tackle disinformation. Since the outbreak of the war, the EU has adopted a total of 16 packages of sanctions, targeting more than 2,400 individuals and entities in Russia and in third countries, in response to their support for Russia.

Meanwhile, military, humanitarian and financial support to Ukraine continued. The suspension of all import duties and quotas on Ukrainian exports to the EU has been renewed until June 2025. In March 2024, the Ukraine Facility entered into force, providing for up to EUR 50 billion in grants and loans to support Ukraine's recovery, reconstruction and modernisation for 2024-2027. Also, in October 2024, the Council of the EU adopted a new financial assistance package to Ukraine consisting of: (i) a cooperation mechanism between the EU and its G7 partners which collectively aims to provide approximately EUR 45 billion in financial support to Ukraine, as agreed in the G7 in June 2024 with the Extraordinary Revenue Acceleration (ERA) loans initiative; and (ii) an exceptional macro-financial assistance (MFA) loan to Ukraine of up to EUR 35 billion, representing the EU's contribution to the G7-led ERA loans initiative. The repayment of these loans will be ensured through the extraordinary profits from immobilised Russian state assets in the EU, which will be passed over to Ukraine. The aim is for the MFA loan to be disbursed in 2025 and repaid within 45 years. Since the outbreak of the war, the EU, its Member States and European financial institutions have provided a total of approximately EUR 139 billion in grants and loans to Ukraine.

In March 2025, EU leaders stressed the need for a comprehensive, just and lasting peace based on the principles of the UN Charter and international law. They highlighted the EU's readiness to further contribute to security guarantees (together with like-minded and NATO partners), including by exploring the use of instruments under the European Common Security and Defence Policy.

### Competitiveness, productivity and economic resilience

Strengthening the EU's long-term competitiveness and productivity became a major policy priority in 2024 in the face of the new geopolitical reality and complex global challenges. The Letta report<sup>1</sup> on the future of the Single Market in April 2024 and the Draghi report<sup>2</sup> on the future of European competitiveness in September 2024 laid the groundwork for the preparation of a new European Prosperity Plan. At the same time, the Internal Market Emergency and Resilience Act (IMERA) was adopted in September 2024, intended to anticipate, prepare for and respond to the impact of future crises, thus ensuring coordinated responses at EU and member state level.

In summary, the European Commission's 2024-2029 priorities to enhance competitiveness focus on: (i) further deepening the Single Market, especially in the energy, financial and telecommunications sectors; (ii) increasing collective investment, mobilising both public and private funding, and streamlining the regulatory framework; (iii) an open and sustainable trade policy, coupled with diversified and resilient key supply chains; and (iv) promoting innovation and skills in key digital and green technologies. In this context, the European Commission introduced in January 2025 the "Competitiveness Compass", a roadmap for boosting competitiveness, which builds on the Draghi report to form concrete actions on innovation, decarbonisation and economic security and resilience. It then published in February 2025 the Clean Industrial Deal, a business plan focusing on EU energy-intensive industries and green technologies, which aims to help bring down high energy costs, boost demand for clean products, finance the clean transition and ensure industries' access to critical raw materials – also ensuring that they are used and reused efficiently – and to highly skilled workforce.

In addition, in February 2025 the European Commission presented two Omnibus legislative packages aimed at simplifying existing legislation in the field of corporate sustainability and investment programmes. In March 2025 these packages were discussed in the Council of the EU as a matter of priority and with a high level of ambition, with a view to finalising them as soon as possible in 2025.

### The future of the Capital Markets Union

Open, efficient and integrated European capital markets are key to deepening the Single Market, improving access to finance for start-ups, scale-ups and small and medium-sized enterprises and providing households with more attractive savings opportunities. Acknowledging the contribution of these factors to boosting investment, competitiveness and innovation in Europe, the Council of the EU adopted in 2024 a series of policy initiatives to speed up work and make real progress in this field, also building on the recommendations of the Noyer Report<sup>3</sup> (April 2024) on the development of European capital markets. Key priorities identified include harmonising national corporate insolvency frameworks, further converging capital market supervision across the EU, integrating financial services infrastructures and advancing the development of European securitisation and retail investment markets. Among the more targeted decisions taken in 2024 to cut red tape was a package of measures aimed at simplifying the listing process for European firms of all sizes, including small and medium-sized enterprises. This package also introduced enhanced rules for clearing services in the EU by streamlining and shortening procedures, improving regulatory consistency and strengthening the supervision of central counterparties (CCPs). Finally, the Council of the EU adopted two legislative acts aimed at strengthening the role of the insurance and reinsurance industry in providing long-term private capital to European firms for investment, while also enhancing the sector's resilience to severe financial distress.<sup>4</sup> Overall, the creation of a European Savings and Investments Union is a step in the right direction, as it can facilitate the smooth flow of investment by mobilising both EU savings and foreign capital.

### Banking Union

In June 2024, the Council of the EU agreed on a negotiating mandate for the review of the Crisis Management and Deposit Insurance (CMDI) framework for banks. This development paved the way for the start of inter-insti-

1 Letta, E. (2024), "[Much more than a market](#)".

2 Draghi, M. (2024), "[The future of European competitiveness](#)".

3 Noyer, C. (2024), "[Developing European Capital Markets to finance the future: Proposals for a Savings and Investment Union](#)".

4 See also Box 14 herein.

tutional negotiations with the European Parliament. In addition, new rules were introduced in May 2024 to increase the resilience of banks to economic shocks, which transpose the Basel III standards into EU legislation and update the legislative acts on banks' capital requirements. The key feature of the reforms is the introduction of a "capital requirements floor" designed to limit the risk of excessively low capital requirements and enhance comparability across banks. Alongside the implementation of the Basel III standards, the new rules also harmonise the minimum requirements for authorising third-country bank branches and supervising their activities within the EU. They also establish a transitional prudential regime for crypto-assets and introduce amendments to strengthen banks' management of environmental, social and governance (ESG) risks.

#### **Landmark Pact on Migration and Asylum**

In May 2024, the Council of the EU adopted ten legislative acts that fully reshape the European framework for asylum and migration management. The new rules will contribute to the orderly management of migrant arrivals, establish efficient and uniform procedures and ensure fair burden-sharing across Member States. Additionally, in April 2024 the Council approved the introduction of a single work and residence permit for third-country nationals. This measure seeks to attract the skills and talent necessary for the EU's digital transition and to help address labour shortages in specific sectors.

#### **Cybersecurity**

With cyberspace becoming an area of strategic competition, risks to EU security and defence are rising at a time of mounting geopolitical tensions and reliance on digital technologies. Cyberattacks can disrupt IT systems connected to critical infrastructures and operations, including those within the financial sector. In 2024, the Council of the EU adopted regulations on security requirements for digital products and measures to bolster cybersecurity capabilities across the EU, with the aim to enhance Europe's cyber resilience and improve cooperation mechanisms.

### **3 ECONOMIC DEVELOPMENTS IN THE BALKAN AND THE EU CANDIDATE COUNTRIES**

In 2024, growth developments varied across the economies of the region, with the largest of them (Türkiye and Ukraine) registering a slowdown, while the Western Balkans, with the exception of Montenegro, maintained growth rates despite a decline in external demand. Inflation continued to decelerate in all the economies with the exception of Türkiye, while current account deficits and fiscal deficits deteriorated in all countries. Geopolitical developments understandably have a strong impact on Ukraine's economy, while in Türkiye the adoption of a more "orthodox" monetary policy after March 2023 has led to a small, but steady de-escalation of hyperinflation.

In Bulgaria, despite an estimated acceleration of GDP to 2.4% in 2024, economic growth remained moderate in comparison with the past, as political instability (lack of governmental stability) led to delays in the absorption of European funds under the national Recovery and Resilience Plan. The current account balance, although dropping as a percentage of GDP, is still in surplus, while the unemployment rate remained low at 4.3%. Inflation decreased by 6 percentage points to 2.5% in 2024, in spite of the fact that compensation per employee continued to increase at a double-digit rate (13.7%). In 2025, GDP growth is expected to pick up slightly, with private consumption remaining the main driver, underpinned by higher real disposable incomes as a result of a significant easing of inflationary pressures (see Table II.2). The fiscal deficit as a percentage of GDP is estimated to widen further in 2025, mainly due to an increase in the wage and pension bill and government investment, but will remain below 3% of GDP.

In Romania, economic growth weakened in the last quarters, leading to an estimated slowdown to 1.4% in annual terms. During 2024 industrial production, construction, and information and transport services suffered a considerable loss of momentum, mainly owing to subdued external

Table II.2 Macroeconomic and banking indicators in Balkan and EU candidate countries

|                             | GDP<br>(volume, annual<br>percentage<br>changes) |      |      | Inflation<br>(averages, annual<br>percentage<br>changes) <sup>3</sup> |      |      | Current<br>account<br>balance<br>(% of GDP) |       |       | Fiscal<br>balance<br>(% of GDP) |       |       | Credit<br>growth (annual<br>percentage<br>changes) <sup>3</sup> |       |                   | Capital<br>adequacy<br>ratio<br>(%) |       | NPLs<br>(%) |       |
|-----------------------------|--------------------------------------------------|------|------|-----------------------------------------------------------------------|------|------|---------------------------------------------|-------|-------|---------------------------------|-------|-------|-----------------------------------------------------------------|-------|-------------------|-------------------------------------|-------|-------------|-------|
|                             | 2023                                             | 2024 | 2025 | 2023                                                                  | 2024 | 2025 | 2023                                        | 2024  | 2025  | 2023                            | 2024  | 2025  | 2022                                                            | 2023  | 2024 <sup>2</sup> | 2023                                | 2024  | 2023        | 2024  |
| Bulgaria <sup>1</sup>       | 1.9                                              | 2.4  | 2.9  | 8.6                                                                   | 2.5  | 2.3  | 0.9                                         | 0.3   | -0.2  | -2.0                            | -2.6  | -2.8  | 12.0                                                            | 14.6  | 17.9              | 21.4                                | 22.5  | 3.6         | 3.6   |
| Romania <sup>1</sup>        | 2.4                                              | 1.4  | 2.5  | 9.7                                                                   | 5.5  | 3.9  | -7.3                                        | -8.3  | -7.6  | -6.5                            | -8.0  | -7.9  | 12.8                                                            | 8.3   | 11.5              | 22.8                                | 24.1  | 2.3         | 2.6   |
| EU candidate countries      |                                                  |      |      |                                                                       |      |      |                                             |       |       |                                 |       |       |                                                                 |       |                   |                                     |       |             |       |
| Georgia                     | 7.5                                              | 8.5  | 5.8  | 2.5                                                                   | 1.2  | 3.2  | -5.6                                        | -4.4  | -3.9  | -1.9                            | -2.3  | -2    | 12.1                                                            | 17.11 | 17                | 22                                  | 24    | 3.7         | 2.6   |
| Moldova                     | 0.7                                              | 2.6  | 3.8  | 13.4                                                                  | 4.7  | 4.8  | -11.5                                       | -10.4 | -9.0  | -5.2                            | -4.5  | -3.4  | -7.7                                                            | 20.2  |                   | 29.9                                | 28.8  | 7.1         | 4.8   |
| Ukraine                     | 5.3                                              | 3.5  | 2.8  | 12.8                                                                  | 5.7  | 9.2  | -5.1                                        | -8.7  | -14.6 | -19.6                           | -18.6 | -19.1 | -3.5                                                            | -1    | 12.7              | 12.24                               | 15.72 | 37.35       | 32.34 |
| Türkiye                     | 5.1                                              | 3.0  | 3.2  | 53.9                                                                  | 58.5 | 30.8 | -3.7                                        | -1.3  | -1.6  | -5.2                            | -4.5  | -3.6  | 56.0                                                            | 55.7  | 43.6              | 18.5                                | 17.0  | 1.6         | 1.7   |
| Western Balkans (WB)        |                                                  |      |      |                                                                       |      |      |                                             |       |       |                                 |       |       |                                                                 |       |                   |                                     |       |             |       |
| Albania                     | 3.9                                              | 3.8  | 3.6  | 4.8                                                                   | 2.3  | 3.2  | -0.9                                        | -3.1  | -3.2  | -0.4                            | -2.3  | -2.4  | 11.2                                                            | 1.0   | 2.3               | 19.6                                | 19.3  | 4.7         | 4.7   |
| Bosnia and Herzegovina      | 1.9                                              | 2.3  | 2.4  | 6.1                                                                   | 2.0  | 1.8  | -2.3                                        | -2.8  | -3.5  | -1.1                            | -2.6  | -2.5  | 4.2                                                             | 5.0   | 10.1              | 19.5                                | 19.6  | 3.8         | 3.5   |
| Republic of North Macedonia | 2.1                                              | 2.0  | 2.6  | 9.4                                                                   | 3.4  | 2.2  | 0.4                                         | -2.5  | -2.3  | -4.6                            | -4.8  | -4.1  | 9.6                                                             | 5.9   | 13.8              | 18.2                                | 18.9  | 2.8         | 3.1   |
| Montenegro                  | 6.3                                              | 3.9  | 4.2  | 8.6                                                                   | 3.8  | 4.1  | -11.2                                       | -12.5 | -12.4 | 0.4                             | -2.9  | -3.9  | 6.1                                                             | 10.0  | -6.4              | 20.1                                | 19.3  | 5.0         | 4.0   |
| Serbia                      | 3.8                                              | 3.9  | 4.2  | 12.4                                                                  | 4.7  | 3.7  | -2.4                                        | -5.1  | -5.4  | -2.1                            | -2.9  | -3.0  | 10.9                                                            | -5.7  | -3.0              | 21.4                                | -     | 3.2         | 2.9   |
| WB average                  | 3.6                                              | 3.2  | 3.4  | 8.3                                                                   | 3.2  | 3.0  | -3.3                                        | -5.2  | -5.4  | -1.6                            | -3.1  | -3.2  | 8.4                                                             | 3.2   | 3.4               | 19.8                                | 19.3  | 3.9         | 3.6   |

Sources: European Commission, *European Economic Forecast, Autumn 2024*, November 2024; EU Candidate Countries' & Potential Candidates' *Economic Quarterly (CCEQ) – Western Balkans and Türkiye, 3rd Quarter 2024*, and national central banks.

Note: Estimates for 2024 and projections for 2025.

1 Credit growth for the private sector in Bulgaria and Romania, total credit growth for the other countries.

2 Last available month.

3 Inflation and credit growth averages exclude Türkiye (as an outlier).

demand compounded by a rapid increase in production costs (mainly wage and energy costs). An improvement is expected in 2025, with the growth rate returning to the 2023 level, on the back of a gradual recovery of external demand, a further easing of financial conditions and strong private consumption, combined with an increase in public investment due to the faster absorption of European funds. The high fiscal deficit is estimated to have widened significantly to 8.0% of GDP.

As from January 2025, Bulgaria and Romania have joined the Schengen<sup>7</sup> area as full members, which is expected to have a positive impact on trade, tourism and competitiveness, reducing the costs of cross-border transactions.

The economies of the Western Balkans<sup>8</sup> in 2024 managed, with the exception of Montenegro, to maintain and/or improve slightly their growth rates despite subdued external demand by their key trading partners, i.e. the EU Members States (see Box II.3). The driver of growth was domestic demand, with private consumption as the main component, supported by an improvement in real disposable income, which in turn is due to a further drastic de-escalation of inflation and a simultaneous significant increase in wages and pensions. Average inflation is estimated to have stood at 3.2% at the end of the year, compared with 8.3% in 2023. The economy of Serbia is estimated to have continued to grow at a rate close to 4% in 2024, with the significant contribution of public and foreign direct investment, while inflation decreased by almost 8 percentage points. In Albania the growth rate remained almost unchanged in 2024; however, both the fiscal and the

7 [Schengen: Council decides to lift land border controls with Bulgaria and Romania](#), press release, 12 December 2024.

8 Albania, Bosnia and Herzegovina, Republic of North Macedonia, Montenegro and Serbia.

current account deficit increased. GDP growth accelerated in Bosnia and Herzegovina, and the European Council approved the opening of accession negotiations with the country in March 2024. In Montenegro, economic activity slowed down markedly in the first half of 2024 (3.4% on an annual basis), mainly due to a decline in export activity (electricity and aluminium) and a decrease in tourism receipts; however, at an annual level it remained strong. In the Republic of North Macedonia, the growth rate is estimated to have remained low in 2024 at 2.0%, largely affected by the recession of the German economy, which absorbs more than 40% of its exports.

Among the EU candidate countries, the growth momentum of Georgia remained strong in 2024 due to high domestic demand, its main driver being consumption, private and public. GDP growth picked up to 8.5%, while inflation declined to 1.2%, the lowest percentage among all the economies under review for 2024 (see Table II.2). In 2025, the high growth rate is expected to relatively slow down owing to a weakening of the effect of wage increases, but also due to heightened inflationary pressures as a result of, among other things, the pass-through of the lari depreciation to domestic prices. Inflation is expected to temporarily exceed the central bank's target of 3% in spite of the restrictive monetary policy.<sup>9</sup> The current account deficit as a percentage of GDP dropped in 2024, despite strong domestic demand, with the recovery of exports of metals and metal products having a positive effect. Increased services receipts (tourism and transport) and enhanced capital flows from the US and the EU are expected to bring down the deficit to 3.9% of GDP in 2025.<sup>10</sup>

The economy of Moldova accelerated significantly in 2024, as it progressively recovers from the hit it took in 2022, when it underwent a deep recession (-4.6%) due to the Russian invasion of Ukraine, the surge of energy prices and the severe draught. The spectacular de-escalation of inflation by about 9 percentage points in 2024 enabled the easing of monetary policy through a gradual decrease in the base rate to 3.6% in May 2024.<sup>11</sup> The current account deficit remains particularly high (more than 10% of GDP), primarily due to reduced external demand by key trading partners (such as Ukraine), compounded by the country's high dependence on energy imports, mainly Russian natural gas. Generally, geopolitical risks remain elevated, particularly in relation to the impact of a potential disruption in natural gas transit through Ukraine.

The economy of Ukraine, following the 28.8% slump it suffered in 2022, managed to return to positive growth rates in 2023 and 2024 (5.3% and 3.5%, respectively). The continuation of the war<sup>12</sup> and the further exacerbation of its catastrophic consequences are constantly pushing back any expectations for rebuilding infrastructure, labour force returning to productive work and export activity expanding. As a result, growth is expected to slow down further in 2025. Inflation is expected to rise anew in 2025, as the destruction of energy infrastructures and wage increases (due to the severe labour shortage) weigh on production costs and prices.<sup>13</sup> The fiscal deficit remains high at around 20% of GDP, owing to wartime defence spending (see Table II.2).

Türkiye's shift, since May 2023, to a more "orthodox" disinflationary monetary policy of high interest rates and limited credit expansion began to yield tangible results in the second half of

9 The central bank of Georgia decided on 29 January 2025 to keep its benchmark interest rate at 8%, with the prospect of reducing it to 7% at the next meeting of the Monetary Policy Council.

10 Forecasts for Georgia are subject to a high degree of uncertainty, given domestic political instability and the observed backtracking in the country's path towards the EU, which negatively affect business and household confidence.

11 Nevertheless, in 2025 the central bank, promptly responding and remaining firmly committed to the target of 5% ( $\pm 1.5$ ) for inflation, decided to increase the base rate to 5.6% on 10 January 2025 and to 6.5% on 5 February 2025, in order to address first- and second-round inflationary pressures caused by the sharp increase in domestic energy prices in December 2024.

12 The latest geopolitical developments, with the new US administration's shift on the Ukrainian issue, are generating new uncertainties.

13 The central bank of Ukraine deemed it necessary to increase its benchmark interest rate by 100 basis points (bps) to 14.5% on 22 January 2025 and by another 100 bps to 15.5% on 7 March 2025, in order to maintain exchange rate stability, reverse the upward trend in inflation and control inflation expectations.

2024 by reining in prices, reducing the current account deficit, creating higher foreign exchange reserves and containing domestic demand (private and public).<sup>14</sup> In 2025, average annual inflation is expected to decelerate to 30.8%, from 58.5% in 2024. The current account deficit is estimated to have narrowed significantly in 2024 to 1.3% of GDP. Last October, the European Commission highlighted the effectiveness of the “new” economic policy and recognised the important steps taken in the economic sector and in the creation of a functioning market economy, as well as the good level of preparation of the country as concerns its capacity to cope with competitive pressure and market forces within the EU. At the same time, however, the European Commission also noted significant delays in the areas of fundamental rights and the rule of law, including the independence of the judiciary. The dialogue on the rule of law and fundamental rights remains an integral part of EU-Türkiye relations.<sup>15</sup>

Finally, the banking systems of the countries under review, excluding Ukraine, remained strong in 2024, with capital adequacy ratios and non-performing loans ratios remaining at very satisfactory levels (see Table II.2).

14 On 6 March 2025, the central bank’s monetary policy council cut the benchmark rate for a third time by 25 bps to 42.5%, taking into account the decline in inflation (to 39.1% year-on-year in February 2025, below 40% for the first time in almost two years) and the decrease in domestic demand to 2.6% of GDP in 2024 (from 10.5% in 2023).

15 [Türkiye 2024 Report, 2024 Communication on EU enlargement policy](#), 30.10.2024.

### Box II.3

## THE DYNAMICS OF CANDIDATE COUNTRIES’ ECONOMIC INTEGRATION WITH THE EUROPEAN UNION AND GREECE

The European Commission’s new Growth Plan for the Western Balkans (WB),<sup>1</sup> under the Reform and Growth Facility, aims *inter alia* at accelerating the economic convergence of candidate countries<sup>2</sup> with the European Union (EU), as their continuing trade deficits and low GDP per capita levels compared to the EU average pose a serious challenge. The per capita income convergence of candidate countries towards the EU started from very low levels. For instance, Moldova’s and Albania’s GDP per capita in 2000 stood at 14% and 17%, respectively, of the EU average, while that of Türkiye corresponded to 43%. Since then, all candidate countries have achieved a significant rise in their per capita living standards, while Türkiye’s economy has continued, despite episodes of monetary instability, to grow comparatively faster (see Chart A). In Ukraine, also due to the war conditions (Russia annexed Crimea in 2014 and invaded the south-eastern regions in 2022), the convergence path was put on hold, with GDP per capita in 2023 standing at the level of 2007, at just 32% of the EU average (see Chart A). As a consequence, in new and past candidate countries, although some income convergence was achieved throughout the 25-year period, the gap vis-à-vis EU economies remains significant, with some exceptions.

This box aims to investigate over time the degree of economic integration of the WB and the other candidate countries with the EU in terms of external trade and foreign direct investment. In particular, it will highlight the countries’ key trading partners, with a more specific focus on the interconnection with Greece. It will also explore the implications for their trade relations with the EU and Russia, following the latter’s invasion of Ukraine.

### The evolution of candidate countries’ trade relations with the EU and Greece

The EU appears to be the main trading partner for all candidate countries in 2019-2023. Their exports to the EU accounted for more than 58% of their total exporting activity on average and their imports from it accounted for more than 45% of their total imports. Lower trade shares with the EU are observed in Ukraine and Türkiye (see

1 See Bank of Greece (2024), *Annual Report 2023*, p. 68.

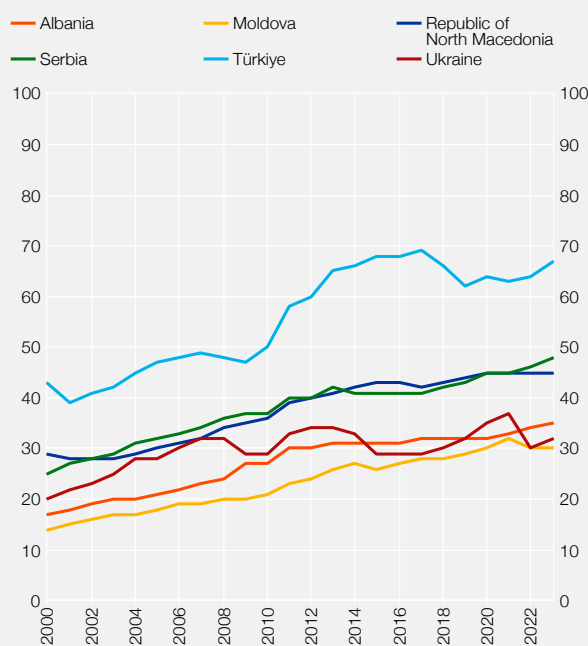
2 Western Balkans (Albania, Republic of North Macedonia, Serbia, Montenegro, Bosnia and Herzegovina), Moldova, Türkiye and Ukraine. Georgia is also a candidate country, but it is not reviewed herein due to data unavailability.

Charts B and C). As regards Ukraine, both imports from and exports to the EU before Russia's invasion amounted in 2021 to 39% of its total imports and exports, while in 2023 the respective share of imports increased to 51% and that of exports to 65%.

Albania, Bosnia and Herzegovina, and the Republic of North Macedonia hold the highest trade shares with the EU. The EU's share in Albania's exports has decreased since 2009, due to a gradual contraction in the latter's exports to Italy (main export partner), Germany and Greece. Part of this contraction was offset by a strengthening in its exports to China. As regards Albania's imports from the EU, the corresponding share has also shrunk since 2009 (due to lower imports from the main import partners, i.e. Italy and Greece), whereas the share of imports from non-EU countries (China, Türkiye and the United States) has been increasing. A similar picture is observed in Serbia, the largest economy of the WB. Its lower trade share with the EU is due to a contraction (a) in the share of its exports to Italy and Greece, despite the country's growing shares of exports to Germany and Hungary, and (b) in the share of its imports from Italy and Slovenia, despite its higher shares of exports from Poland, Romania and Spain.

**Chart A GDP per capita of EU candidate countries at current prices (USD)**

(PPP-adjusted; EU-27 average=100)



Source: IMF, WEO Database, October 2024.

The Republic of North Macedonia has recorded a significant acceleration of its exports to the EU in 2019-2023, supported by its closer trade relationship with Germany. Its trade relationship with Greece has been gradually losing momentum, maintaining, however, a considerable weight until 2023 (imports from Greece: 9.4% and exports to Greece: 3.7% in terms of total imports and exports, respectively). By contrast, the shares of the country's imports from the EU (Germany, Italy, Slovenia, Greece) and Ukraine have been declining throughout the reviewed period. Russia does not constitute an important trading partner for the Republic of North Macedonia.

It should be noted that for all WB countries except Serbia the share of their exports to and imports from Russia has been gradually decreasing to become practically negligible following Russia's invasion of Ukraine in 2022 and the trade sanctions imposed. At the same time, all WB countries have very strong trade links with each other.

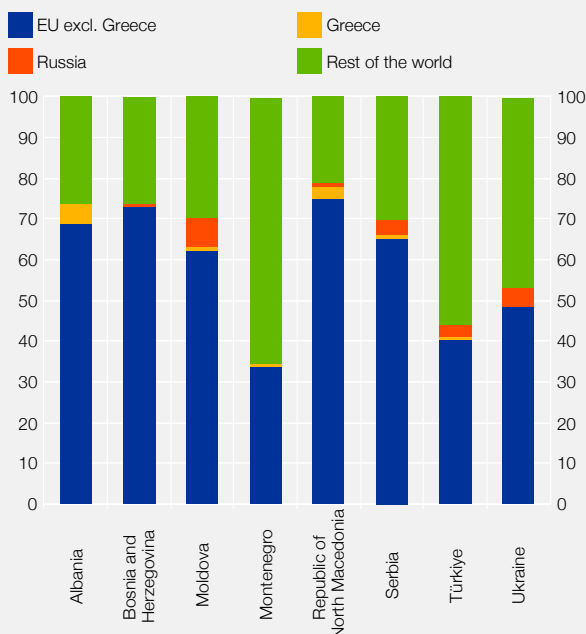
For Türkiye, the region's largest economy, the EU is an important trading partner but not its main one. The major share of its exports and imports lies with non-EU countries. The country's share of exports to the EU in 2019-2023 stood at 41% and mainly pertained to Germany (8.6%), Italy (5.0%), France (4.2%) and the Netherlands (3.1%). Apart from the EU, Türkiye's main export destinations over the past five years have been the United Kingdom (6.0%), the United States (5.8%) and Iraq (4.9%). Over the same period, the country's share of imports from the EU shrank to 30.0%, due to lower imports from its three main partners (Germany, France, Italy).<sup>3</sup> By contrast, the share of the "rest of the world" (main trading partner) in Türkiye's total imports grew, owing to an increase in import shares from Russia (11.9%), China (11.1%), the United States (4.8%) and South Korea (2.7%) (see Charts B and C).

As with Türkiye, the EU is not Ukraine's main trading partner. However, the share of Ukrainian exports to the EU (mainly to Poland, Romania, Germany and the Netherlands) has grown significantly in recent years (2019-2023),

3 The shift in Türkiye's trade flows towards non-EU countries reflects, to a significant extent, the country's geopolitical choices and strategic goals in relation to Russia, China and neighbouring Arab countries.

**Chart B Geographical breakdown of EU candidate countries' exports**

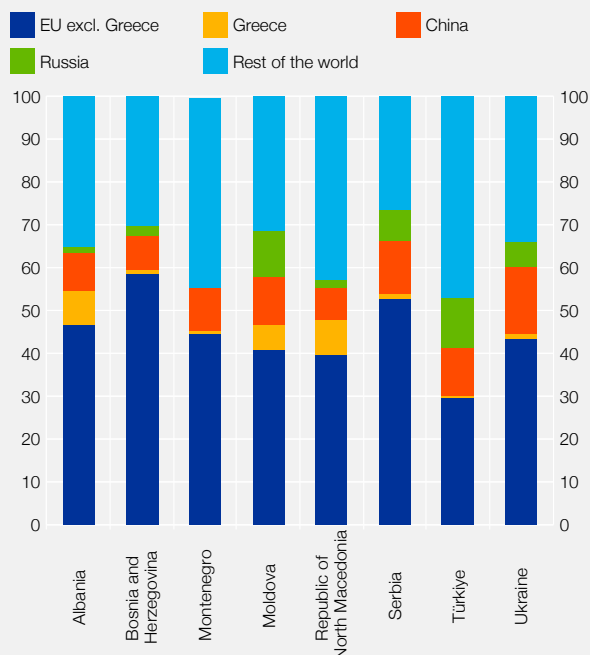
(% of total; 2019-2023 average)



Source: WIIW database.

**Chart C Geographical breakdown of EU candidate countries' imports**

(% of total; 2019-2023 average)



Source: WIIW database.

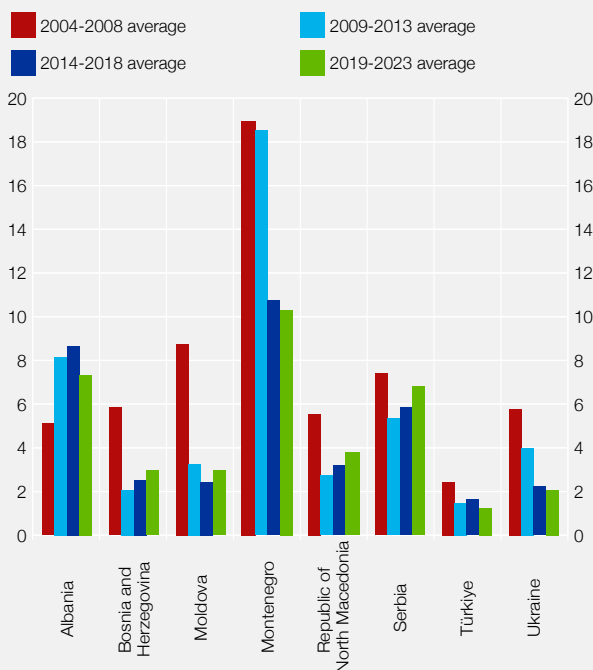
also on account of geopolitical developments. China and Moldova are Ukraine's main export partners apart from the EU. Over the same period, the share of the country's imports from the EU (mostly from France, Greece, Italy, Lithuania and Slovakia) increased significantly. Apart from the EU, Ukraine imports from China, Türkiye and the United States, Moldova's share of exports to the EU is high. Its main export partners are Bulgaria, the Czech Republic and Romania, as well as non-EU Ukraine. The share of its imports from the EU is smaller. As expected, the war and international sanctions led in 2023 to the collapse of Russia's shares of exports and imports in Ukraine's and Moldova's external trade.

### The evolution of candidate countries' investment relations with the EU, Greece and Russia

The WB generally received significant annual foreign direct investment (FDI) inflows over the entire 20-year period 2004-2023, ranging from 2% to 18% of GDP on average (see Chart D). In particular, Albania, Montenegro (also due to the small absolute size of the economy) and Serbia attracted the highest FDI flows, which averaged 7.4%, 10.3% and 6.8% of their corresponding GDP, respectively, in 2019-2023. In the Republic of North Macedonia and in Bosnia and Herzegovina, FDI inflows declined to 3%-4% of GDP in 2019-2023 relative to the first sub-period 2004-2008.

**Chart D Foreign direct investment inflows in EU candidate countries as % of GDP**

(average annual inflows)



Source: WIIW database.

As a percentage of GDP, FDI inflows into Türkiye have been declining and reached an average of 1.3% in 2019-2023, although, in absolute terms, the level of FDI in Türkiye is the highest among all countries (EUR 10.1 billion per year, on average). The slightly reduced FDI inflows (relative to GDP) into Türkiye can be attributed to some extent to the significant monetary and exchange rate stability challenges facing the Turkish economy in recent years.

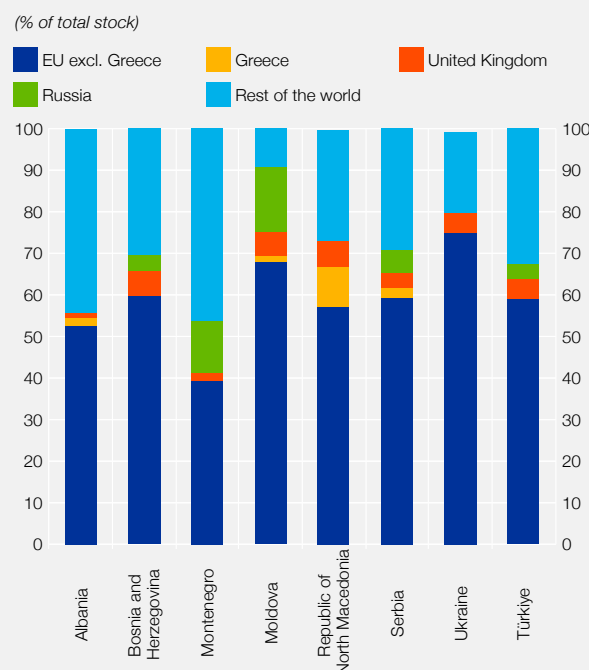
As regards the degree of FDI integration of the countries under review with the EU, a similar pattern as in their trade integration (import-exports) is observed. As shown in Chart E, the EU (mainly Austria, Germany, Italy and France) is the most important economic area of FDI origin<sup>4</sup> for the candidate countries, with the EU's share in total FDI stock in 2023 ranging between 54.4% (Albania) and 74.9% (Ukraine),<sup>5</sup> very close to the EU's FDI shares in Bulgaria (74.4%) and Romania (86.7%), which have already joined the EU.

However, in recent years the FDI share of non-EU countries has increased. In particular, Canada invests in Albania; Serbia and the United Kingdom invest in Bosnia and Herzegovina; Russia and the United Kingdom invest in Moldova; the United Arab Emirates, the United States, the United Kingdom and Russia invest in Montenegro; the United Kingdom and Türkiye invest in the Republic of North Macedonia; China and the United Kingdom invest in Serbia; and, finally, the United Kingdom and the United States are the main investors in Türkiye.

Greece had invested strongly in the past in a number of candidate countries, mainly in financial and insurance activities and in manufacturing. Despite its gradual withdrawal from the countries of the region during the economic crisis of the 2010s, Greece maintained its presence as a percentage of the total outstanding FDI stock, which in 2023 stood at 10% in the Republic of North Macedonia, 6.6% in Bulgaria and 3.4% in Romania.

As regards sectoral breakdown of FDIs in 2023 (see Chart F), in the manufacturing sector, Türkiye has attracted the highest FDI flows from the EU, accounting for 41.7% of its total FDI stock from the EU, followed by the Republic of North Macedonia (32.8%), Serbia (31.3%) and Bosnia and Herzegovina (30.2%). Significant FDI inflows have been channelled to the financial sector in most of the countries under review, led by Moldova, the Republic of North Macedonia, Bosnia and Herzegovina, and Türkiye, with shares above 20%. In the energy sector, Albania ranks first, followed by Moldova. Chart G shows that, over time and throughout the period under review, Türkiye, Ukraine and Serbia attract the largest amounts (in absolute terms) of greenfield FDIs, i.e. investment for the establishment of new productive firms or new facilities.

**Chart E Foreign direct investment (stock) in EU candidate countries by country of origin in 2023**



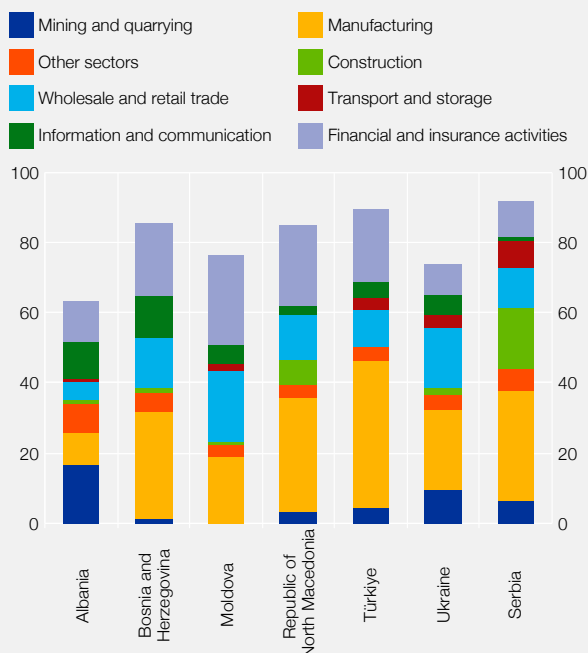
Source: WIIW database.

4 Determining the actual origin of FDI is difficult, as some EU countries feature prominently as central hubs for global tax avoidance, thus distorting officially recorded FDI statistics (Darvas, Z., M. Demertzis, C. Martins, N.F. Poitiers, L.L. Moffat, E. Ribakova and B. McWilliams (2023), "EU trade and investment following Russia's illegal invasion of Ukraine", study requested by the European Parliament's Committee on International Trade (INTA)). At the global level, up to 40% of FDI can be classified as "phantom FDI", whereby intermediate countries are used to benefit from favourable tax frameworks or increased investor protection, thus concealing the actual country of origin of FDI funds (Damgaard, J., T. Elkjaer and N. Johannesen (2024), "What is real and what is not in the global FDI network?", *Journal of International Money and Finance*).

5 With the exception of Montenegro, where the EU's share in the country's FDI stock decreased to 39.4% in 2023 from 54.4% in 2010.

**Chart F Sectoral breakdown of EU candidate countries' foreign direct investment stock in 2023**

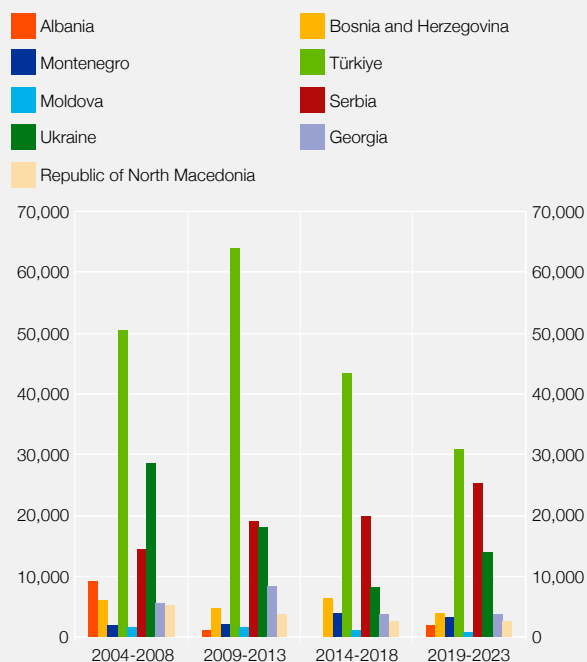
(percentages %)



Source: WIIW database.

**Chart G Greenfield foreign direct investment in EU candidate countries**

(announced projects in USD millions)



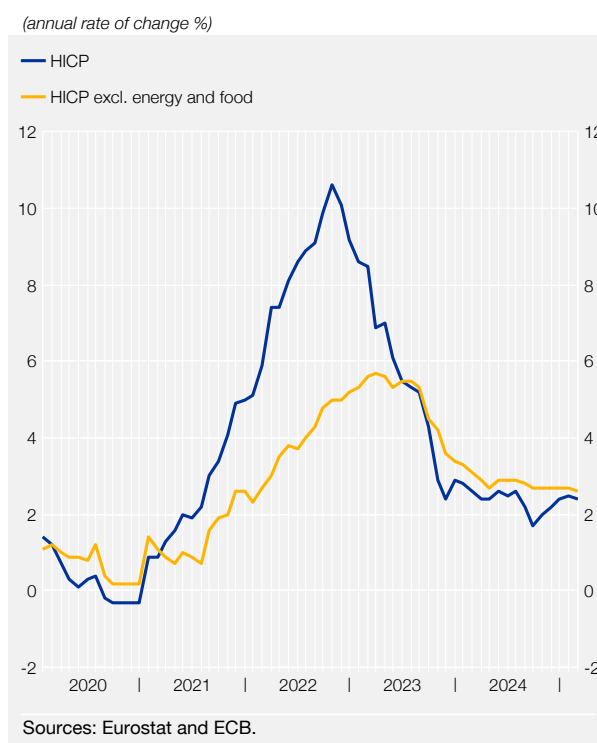
Source: WIIW database.

In conclusion, the trade and FDI integration of candidate countries into the EU's single market has already reached very high levels. As regards Greece in particular, its economic interconnection with the Balkan countries weakened considerably in the decade of the economic crisis. The economic convergence gap of candidate countries vis-à-vis the EU is wide. The economic growth rates of candidate countries need to be further strengthened, thus the EU is already implementing the new Growth Plan for the Western Balkans. Moreover, EU accession requires economic as well as institutional convergence, notably on issues related to the rule of law, the protection of human rights, etc., where there is still a long distance to be covered towards the EU averages, hence the long delays in closing negotiations on individual chapters of the *acquis communautaire*. Stepping up institutional reforms will help candidate countries to improve social conditions and boost the efficiency of their economies, so as to meet the criteria for EU membership and reap even greater socio-economic benefits.

# THE SINGLE MONETARY POLICY IN THE EURO AREA

Headline inflation and most underlying inflation measures in the euro area followed a downward path (see Chart III.1). After September 2023 and until the first few days of June 2024, the Governing Council of the ECB kept key interest rates on hold. In line with its growing confidence that inflation was steadily and sustainably converging towards its target, it considered it appropriate to moderate the level of monetary policy restriction. Accordingly, in June, September, October and December 2024, the Governing Council cut policy rates by 25 basis points each time. This was also the case in late January and early March 2025. These decisions were based on a favourable assessment of the inflation outlook, the dynamics of underlying inflation and the smooth monetary policy transmission to the real economy of the euro area. The Governing Council made it clear that it is not pre-committing to a particular rate path. In the money market, excess liquidity decreased owing to the repayment of all TLTRO III operations and the maturing of securities purchased by the Eurosystem under asset purchase programmes.

Chart III.1 Inflation in the euro area  
(January 2020 - February 2025)



## 1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS<sup>1</sup>

In 2024, headline inflation followed a mild downward path. By contrast, services inflation remained elevated. Wage increases moderated, resulting in a slowdown in unit labour cost growth, which nevertheless remained strong. In addition, firms absorbed wage increases to some extent without passing on these costs to consumers through higher prices. Overall, the Governing Council still identified domestic inflationary pressures as strong.

Most measures of longer-term inflation expectations, on the other hand, stood at around 2%. Overall, this state of the affairs continued in early 2025.

The Governing Council of the ECB expected (from early last year through to its January 2025 meeting) that the inflation rate in the euro area would approach the 2% target in 2025. It attributed the projected decline in inflation to a further moderation of wage increases and to the continued impact of past monetary policy tightening. Adding to this would be the fading impact of (i) the energy crisis (2021-2022), (ii) the input shortages caused by the pandemic and geopolitical developments (2020-2023) and (iii) the post-pandemic reopening of the economy (2022-2023).

<sup>1</sup> The cut-off date for data and information used in this Chapter is 14.3.2025.

After successive quarters of stagnation in 2023, euro area GDP increased (quarter-on-quarter) in the course of 2024. Labour market conditions in the euro area were favourable throughout 2024 and in early 2025, with the unemployment rate hovering at historically low levels and employment continuing to expand, albeit at a slowing pace.

As regards monetary developments, in 2024 and early 2025 interest rates on business and housing loans followed an overall downward trend. Both corporate and household credit growth progressively strengthened. Broad money (M3) growth recovered from exceptionally low levels.

In March 2024, as the Eurosystem balance sheet was expected to normalise, the Governing Council of the ECB decided on necessary changes to the operational framework for implementing the single monetary policy. Thus, the interest rate on the ECB's deposit facility was recognised as the key interest rate through which the Governing Council steers the monetary policy stance.

The Eurosystem's interest rate policy in 2024 (and early 2025) was based on a wide range of economic data and information (data-dependent approach). In principle, the ECB Governing Council reassesses the conditions of the euro area economy on a meeting-by-meeting basis. The Governing Council clarified that its approach to determining the appropriate level and the required duration of monetary policy restriction in the euro area is based on (i) the inflation outlook, (ii) the dynamics of underlying inflation and (iii) the strength of the single monetary policy transmission to the real economy of the euro area. It has been underlining since April 2024 that it is not pre-committing to a particular rate path.

In June 2024, the ECB Governing Council lowered its policy rates by 25 basis points (see Table III.1). Policy rates had not changed since September 2023, as stated above, while inflation had fallen by more than 2.5 percentage points and the inflation outlook had improved markedly. Therefore, it was determined that the timing was appropriate to moderate the degree of monetary policy restriction. Underlying inflation had also fallen, and inflation expectations had broadly declined at all horizons. Besides, it was stressed that financing costs had plateaued at restrictive levels as the past policy rate increases had worked their way through the financial system.

In September 2024, the Governing Council of the ECB decided to further reduce the interest rate on the Eurosystem's deposit facility by 25 basis points. The latest assessment of the inflation outlook at that time had confirmed that the 2% target would be reached in 2025.

In October 2024, it cut key interest rates by 25 basis points. It stressed that the decision to lower interest rates was largely due to the fact that the disinflation process had remained well on track, while the inflation outlook had been positively influenced by (i) recent downside surprises in indicators of economic activity and (ii) the fact that financing conditions remained restrictive.

In December 2024, the Governing Council of the ECB again cut key interest rates by 25 basis points. It reaffirmed that the disinflation process was well on track and that most underlying inflation measures suggested that headline inflation would settle at around the 2% medium-term target on a sustained basis. However, it noted that financing conditions were gradually easing, as the cut in policy rates in previous months had gradually made new borrowing less expensive for firms and households. Financing conditions were nevertheless still perceived as tight, mainly because past interest rate hikes were still transmitting to the outstanding stock of credit.

Key interest rates were reduced by 25 basis points at the end of January and at the beginning of March 2025. The Governing Council of the ECB then reiterated that the process of disinflation was well on track. It also noted that inflation had developed broadly as expected and that the

Table III.1 Eurosystem key interest rates

(percentages % per annum)

| Date of interest rate change <sup>1</sup> |                      | Deposit facility | Main refinancing operations (fixed-rate tenders) | Marginal lending facility |
|-------------------------------------------|----------------------|------------------|--------------------------------------------------|---------------------------|
| 2019                                      | 18 Sep.              | -0.50            | 0.00                                             | 0.25                      |
| 2022                                      | 27 July              | 0.00             | 0.50                                             | 0.75                      |
|                                           | 14 Sep.              | 0.75             | 1.25                                             | 1.50                      |
|                                           | 2 Nov.               | 1.50             | 2.00                                             | 2.25                      |
|                                           | 21 Dec.              | 2.00             | 2.50                                             | 2.75                      |
| 2023                                      | 8 Feb.               | 2.50             | 3.00                                             | 3.25                      |
|                                           | 22 Mar.              | 3.00             | 3.50                                             | 3.75                      |
|                                           | 10 May               | 3.25             | 3.75                                             | 4.00                      |
|                                           | 21 June              | 3.50             | 4.00                                             | 4.25                      |
|                                           | 2 Aug.               | 3.75             | 4.25                                             | 4.50                      |
|                                           | 20 Sep.              | 4.00             | 4.50                                             | 4.75                      |
| 2024                                      | 12 June              | 3.75             | 4.25                                             | 4.50                      |
|                                           | 18 Sep. <sup>2</sup> | 3.50             | 3.65                                             | 3.90                      |
|                                           | 23 Oct.              | 3.25             | 3.40                                             | 3.65                      |
|                                           | 18 Dec.              | 3.00             | 3.15                                             | 3.40                      |
| 2025                                      | 5 Feb.               | 2.75             | 2.90                                             | 3.15                      |
|                                           | 12 Mar.              | 2.50             | 2.65                                             | 2.90                      |

Source: ECB.

1 Changes in the deposit facility and the marginal lending facility rates are effective from the first main refinancing operation following the relevant Governing Council decision (when the fixed rate on the main refinancing operation changes), rather than the date of the Governing Council meeting on which the relevant decision is made.

2 Based on the changes announced by the Governing Council of the ECB in the operational framework for the implementation of monetary policy in March 2024, as of 18 September 2024, the rate on the marginal lending facility would be adjusted to keep the spread between such rate and the rate on the main refinancing operations unchanged at 25 basis points.

latest macroeconomic projections closely aligned with the previous inflation outlook. The Governing Council stressed that most underlying inflation measures suggested that inflation would settle at around its 2% medium-term target on a sustained basis. It emphasised anew that domestic inflation remained high, mainly because, in some sectors of economic activity, wages and prices were adjusting to the inflation surge of the previous years with a substantial delay. The Governing Council of the ECB considered that the single monetary policy was now becoming meaningfully less restrictive, as the interest rate cuts were making new borrowing less expensive for firms and households and loan growth was picking up. At the same time, past interest rate hikes were still transmitting to the stock of credit and lending remained subdued overall.

In June and December 2024, the Governing Council of the ECB conducted a comprehensive analysis of the interactions between monetary policy and financial stability. It concluded that euro area banks were still resilient, nonetheless financial stability risks remained elevated. However, the analysis pointed out that macroprudential policy was the first line of defence in safeguarding financial stability and against the build-up of financial vulnerabilities.

In 2024 the ECB recorded losses on its balance sheet for the second consecutive year, which negatively affect the profit distribution to euro area national central banks and are expected to be offset by future profits. Losses are related to the Eurosystem's monetary policy measures,<sup>2</sup> which were necessary to fulfil its primary mandate of maintaining price stability. The credibility

2 See Bank of Greece, *Annual Report 2023*, Chapter III, Special Feature "The monetary policy in the euro area and its effects on the profitability of central banks".

of central banks mainly hinges on their ability to achieve their primary objective and contribute to macroeconomic and financial stability, while any temporary losses do not prevent them from fulfilling their mandate.

## 2 THE SINGLE MONETARY POLICY: FORMULATION AND IMPLEMENTATION

### Analysis of economic and financial developments in the euro area by the ECB Governing Council

The analysis of the Governing Council of the ECB in 2024 focused on the following developments. Headline inflation followed a mild downward path. In particular, goods inflation, including food inflation, was mostly decelerating. By contrast, services price inflation remained high (see Chart III.2). Wage increases eased, despite the contraction in labour productivity recorded in the first half of the year, resulting in a slowdown in unit labour cost growth, which nevertheless remained strong (see Chart III.3). Moreover, the concurrent moderation in profit growth indicates that firms absorbed wage increases, to some extent, without passing on these costs to consumers through higher prices. Overall, and particularly in the light of wage growth, the Governing Council still identified the domestic inflationary pressures as strong and, for the most part, this was still the case at the beginning of this year.

The Governing Council of the ECB recalled that in the past<sup>3</sup> many euro area countries had taken fiscal measures which reduced the risk of an excessive burden on households and businesses from the then sharp rise in energy prices<sup>4</sup>. According to the Governing Council of the ECB, these measures should be rapidly withdrawn, otherwise a further tightening of the single

**Chart III.2 Specific measures of inflation in the euro area**  
(January 2021 - February 2025)

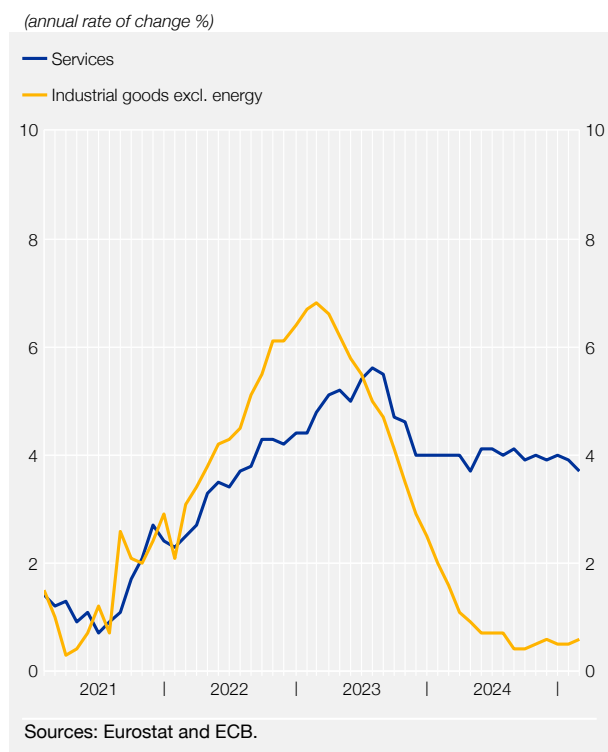
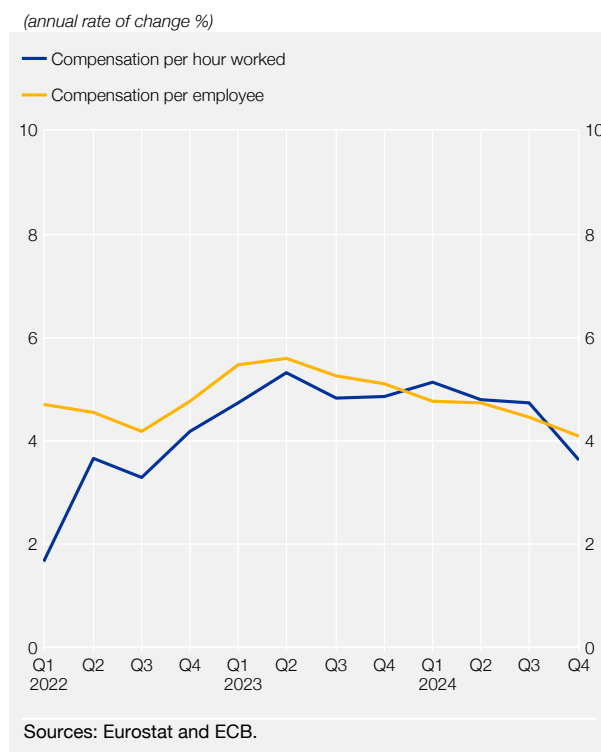


**Chart III.3 Compensation per employee in the euro area**  
(Q1 2022 - Q4 2024)



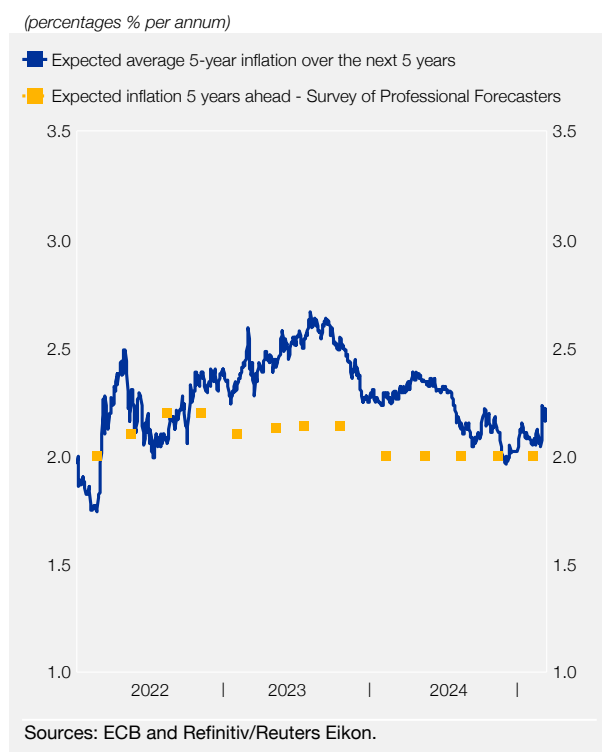
<sup>3</sup> Mainly in the year 2022.

<sup>4</sup> In 2021 and 2022 for final consumers.

**Chart III.4 Medium-term inflation expectations  
in the euro area  
(3 January 2022 - 13 March 2025)**



**Chart III.5 Long-term inflation expectations  
in the euro area  
(3 January 2022 - 13 March 2025)**



monetary policy would be necessary to avert the risk of such measures fuelling inflationary pressures in the medium term.

Most measures of longer-term inflation expectations stood at around 2% (see Charts III.4 and III.5). The Governing Council noted a sharp decline in near-term inflation expectations in early 2024, while towards the end of the year market-based measures of medium to longer-term inflation expectations fell and converged towards the 2% target. In January 2025, the Governing Council of the ECB took note of the recent – at that time – reversal of said fall in market-based measures of inflation expectations; however, most measures of longer-term inflation expectations remained consistent with the 2% target.

In December 2024, the Governing Council estimated that the inflation rate would not change significantly during the early months of 2025, partly because the sharp falls in energy prices recorded in the previous months (in the second half of 2024) continued to drop out of the annual rates. Thereafter, the inflation rate should settle at around the 2% target. The Governing Council noted that easing labour cost pressures and the continuing impact of past monetary policy tightening should help this process. Adding to this will be the fading impact of (i) the energy crisis (2021-2022), (ii) input shortages caused by the pandemic and recent geopolitical developments (2020-2023), and (iii) the post-pandemic reopening of the economy (2022-2023).

However, on the basis of the latest ECB staff macroeconomic projections (March 2025), the Governing Council now expects that headline inflation will rise at an annual rate of 2.3% in 2025, 1.9% in 2026 and 2.0% in 2027. For core inflation, staff projected an annual rate of 2.2% in 2025, 2.0% in 2026 and 1.9% in 2027 (see Table III.2).

Regarding the upside risks to the current inflation outlook, the Governing Council of the ECB underlined that increasing friction in global trade is adding more uncertainty. A general esca-

Table III.2 Macroeconomic projections for inflation in the euro area

(average annual rate of change)

|                            | March 2025 |      |      |      | December 2024 |      |      |      | September 2024 |      |      |      | June 2024 |      |      |      |
|----------------------------|------------|------|------|------|---------------|------|------|------|----------------|------|------|------|-----------|------|------|------|
|                            | 2024       | 2025 | 2026 | 2027 | 2024          | 2025 | 2026 | 2027 | 2023           | 2024 | 2025 | 2026 | 2023      | 2024 | 2025 | 2026 |
| HICP                       | 2.4        | 2.3  | 1.9  | 2.0  | 2.4           | 2.1  | 1.9  | 2.1  | 5.4            | 2.5  | 2.2  | 1.9  | 5.4       | 2.5  | 2.2  | 1.9  |
| HICP excl. energy and food | 2.8        | 2.2  | 2.0  | 1.9  | 2.9           | 2.3  | 1.9  | 1.9  | 4.9            | 2.9  | 2.3  | 2.0  | 4.9       | 2.8  | 2.2  | 2.0  |

Source: ECB/Eurosystem staff macroeconomic projections for the euro area.

lation of trade tensions could see the euro depreciate and import costs rise, which would put upward pressure on inflation. Of course, lower demand for euro area exports as a result of higher tariffs and a re-routing of exports into the euro area from countries with overcapacity would put downward pressure on inflation in the euro area. The Governing Council moreover recognises that geopolitical tensions create two-sided inflation risks as regards energy markets, consumer confidence and business investment activity. It also added that extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than currently expected. Moreover, inflation could turn out higher if wages or profits increase by more than expected. A boost in defence and infrastructure spending could also raise inflation through its effect on aggregate demand. On the other hand, inflation might surprise on the downside if the single monetary policy dampens aggregate demand by more than expected.

After successive quarters of stagnation in the course of 2023, euro area GDP increased during the first, second and third quarters of 2024 (see Chart III.6). The Governing Council of the ECB

Chart III.6 GDP and value added in key sectors of the euro area (Q1 2022 - Q4 2024)

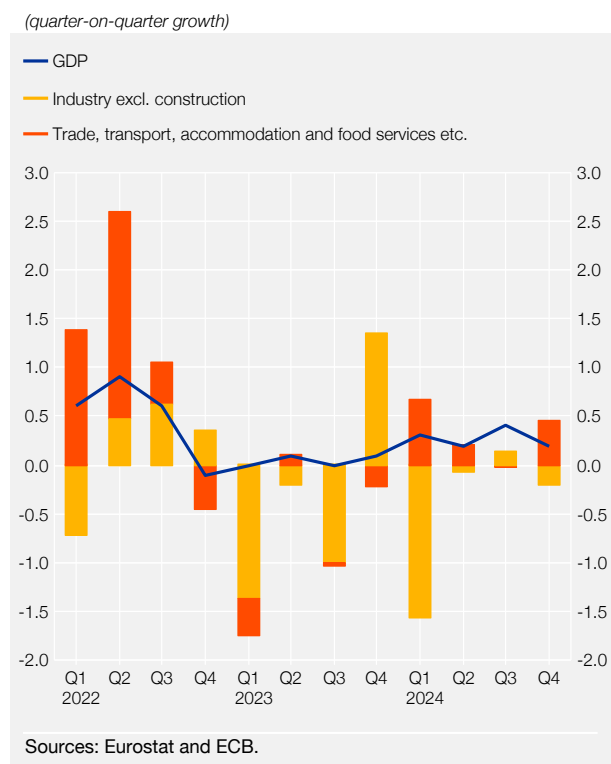
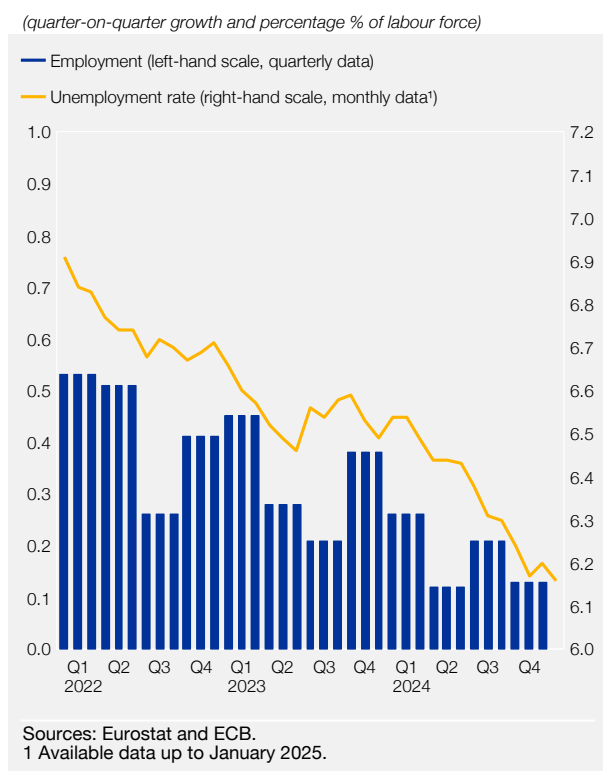


Chart III.7 Employment and unemployment rate in the euro area (Q1 2022 - Q4 2024)



considered that euro area growth in the fourth quarter was still positive, albeit modest. Growth remained weak in the euro area, as manufacturing was still a drag, even if survey indicators were improving. In March 2025, the Governing Council stressed that high uncertainty, both in the euro area and globally, was holding back investment, while competitiveness challenges were weighing on exports. Exports should be supported by rising global demand so long as trade tensions did not escalate further. The Governing Council repeated that the services sector showed resilience. It also reiterated, in March 2025, that rising household incomes, along with a robust labour market, were supporting a gradual pickup in consumer spending, although consumer confidence was still fragile and saving rates were high. Finally, the Governing Council stressed that growth should be supported by lower borrowing costs.

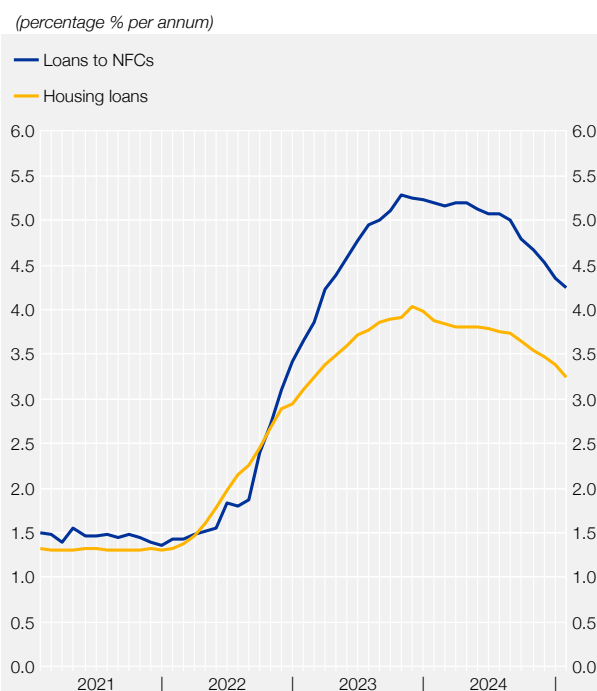
In 2024, as well as in early 2025, labour market conditions in the euro area were favourable, with the unemployment rate hovering at historically low levels, while employment continued to expand, albeit at a decelerating pace (see Chart III.7). In the course of 2024 job vacancies fell close to pre-pandemic levels. Recent surveys point to subdued employment growth at the beginning of 2025.

Repeatedly in 2024 and early 2025, the Governing Council of the ECB stressed that implementing the EU's revised economic governance framework fully and without delay will help governments bring down budget deficits and high debt ratios on a sustained basis. Besides, it argued that government policies to enhance the euro area's supply capacity, especially in the energy sector, can help reduce price pressures in the medium term. To that end, governments should swiftly implement their investment and structural reform plans under the Next Generation EU programme, which also promotes the green and digital transitions in the European economy. In addition, the Governing Council stressed that the Single Market should be reinforced with a view to further promoting innovation and investment. The reports published in 2024 on the future of European competitiveness (Draghi report) and on the strengthening of the Single Market (Letta report) underline the need for reforms and make concrete proposals towards that end. The Governing Council called for an acceleration of progress towards completing the Capital Markets Union and the Banking Union, which is all the more crucial in the face of the growing need for investments to meet common challenges such as the green and digital transitions. Finally, in January 2025 it welcomed the European Commission's Competitiveness Compass and its concrete roadmap for action, while in March 2025 it recognised that strategic public investment should be prioritised.

At its meetings in 2024, the ECB Governing Council's analysis focused on monetary policy developments:

First, interest rates on both business and housing loans followed an overall downward trend, despite some fluctuations (see Chart III.8).

**Chart III.8 Cost of borrowing indicator for businesses and households in the euro area (January 2021 - January 2025)**



Source: ECB.

Note: This indicator is compiled by the ECB for housing loans to households and for loans to non-financial corporations (NFCs). It is calculated on the basis of the weighted average interest rates on new short- and long-term loans in these categories, with certain adjustments which improve comparability of borrowing costs across euro area countries.

**Chart III.9 Loans to non-financial corporations and households in the euro area<sup>1</sup>**  
(January 2021 - January 2025)

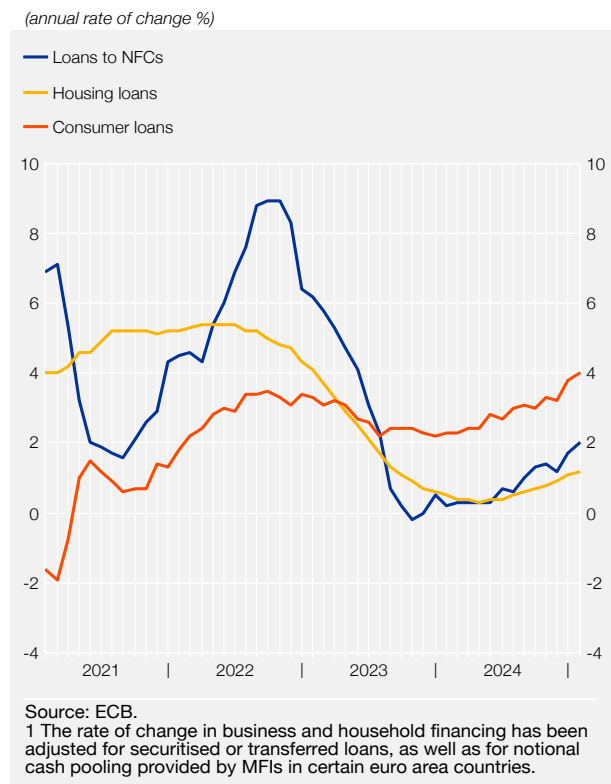
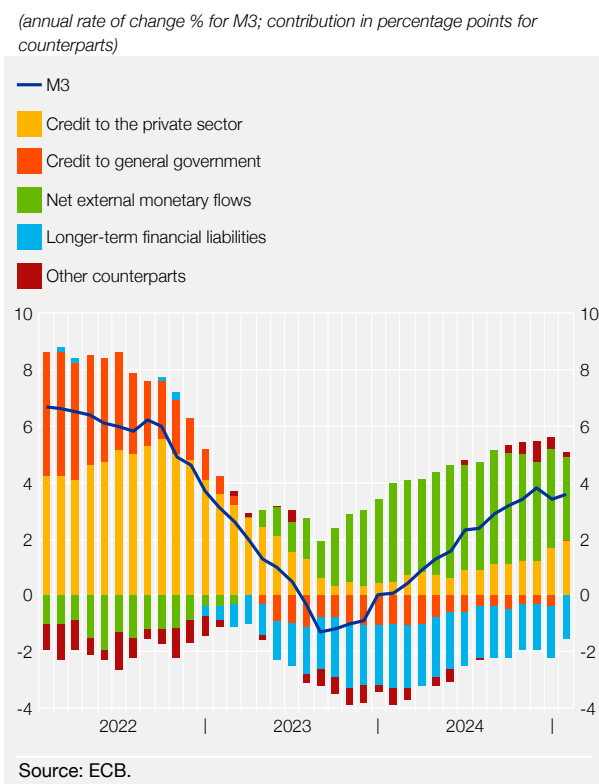


**Chart III.10 Counterparts of the broad monetary aggregate M3 in the euro area**  
(January 2022 - January 2025)



Second, credit growth progressively strengthened for both businesses and households (see Chart III.9). These trends continued in early 2025.

Third, the Governing Council of the ECB noted that growth in broad money (M3) had picked up from extremely low levels (see Chart III.10). Finally, it was noted that financing conditions in the euro area remained restrictive, despite a general decline in short-term money market rates and, towards the end of 2024, in other market interest rates on account of the perceived deterioration of the economic outlook in the euro area. By contrast, in January 2025 the Governing Council noted that market interest rates had risen, partly mirroring higher rates in global financial markets, while in early March 2025 it noted that market rates had risen over recent days in response to the latest fiscal developments in the euro area.

In mid- and late 2024, as required by the monetary policy strategy, the Governing Council carried out a comprehensive analysis of the interactions between monetary policy and financial stability. According to this analysis, euro area banks remained resilient. Nonetheless, it considered that financial stability risks remained elevated. It stressed that the improved economic outlook supported financial stability, whereas the intensification of geopolitical tensions has an adverse effect. Already in early 2024, however, the Governing Council had warned that an unexpected worsening of international financing conditions and a consequent fall in asset prices could have an adverse impact on the economy. It pointed out that macroprudential policy was the first line of defence in safeguarding financial stability and against the build-up of financial vulnerabilities. It recalled that macroprudential measures that have already been adopted or are expected to enter into force enhance the resilience of the financial system and create macroprudential space.

### Monetary policy decisions

In the first half of 2024, the Governing Council of the ECB continued to reinvest in full the principal payments from maturing securities already purchased by the Eurosystem under the PEPP, which was introduced at the onset of the pandemic. Subsequently, over the second half of 2024, this securities portfolio was allowed to contract by EUR 7.5 billion per month on average. At end-2024, such reinvestments were terminated.

In March 2024, the Governing Council of the ECB decided on necessary changes to the operational framework for implementing the single monetary policy, as the Eurosystem balance sheet normalised. It set out both the fundamental principles and the key parameters for the implementation of monetary policy and the provision of central bank liquidity to the banking system, against the background of a gradual decline in excess liquidity that previously stood at remarkably high levels. The interest rate on the ECB's deposit facility was recognised as the key interest rate through which the Governing Council steers the monetary policy stance. Effective 18 September 2024, the spread between the rate on the main refinancing operations and the deposit facility rate was reduced to 15 basis points (compared with 50 basis points before the adjustment to the operational framework). The rate on the marginal lending facility was also adjusted such that the spread between the rate on the marginal lending facility and the rate on the main refinancing operations remains unchanged at 25 basis points.

The Eurosystem's interest rate policy was based on a wide range of economic data and information (data-dependent approach). In principle, the ECB Governing Council reassesses the conditions of the euro area economy on a meeting-by-meeting basis. In fact, in March 2025 the Governing Council underlined the need for such regular reassessment in the current conditions of rising uncertainty.

Throughout 2024 and early 2025, the Governing Council clarified that its approach to determining the appropriate level and duration of monetary policy restriction in the euro area is based on (i) the inflation outlook, (ii) the dynamics of underlying inflation, and (iii) the strength of the single monetary policy transmission to the real economy of the euro area.

Between September 2023 and early June 2024, the key Eurosystem interest rates were not raised, amid easing inflation and a decline in underlying inflation measures. On several occasions, it was underlined that the effect of past interest rate hikes remained strong. The Governing Council recalled on several occasions that setting key interest rates at restrictive levels would, with a lag, lead to an easing of inflationary pressures by dampening aggregate demand and anchoring inflation expectations.

At the beginning of 2024, the Governing Council of the ECB had made it clear that its future decisions would ensure that its policy rates would stay sufficiently restrictive for as long as necessary to ensure a timely return of inflation to the 2% target. In April 2024, the Governing Council of the ECB announced that key interest rates were at levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to its medium-term target. In addition, it argued that, if inflation converged to target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. Since this meeting, the Governing Council has been underlining that it is not pre-committing to a particular rate path.

Against this background, in June 2024 it lowered its policy rates by 25 basis points. It was assessed that the timing was appropriate to moderate the degree of monetary policy restriction, given that policy rates had not changed since September 2023, while inflation had fallen by more than 2.5 percentage points and the inflation outlook had improved markedly. Underlying inflation had also fallen and inflation expectations had broadly declined at all horizons. Besides, it was stressed that financing costs had plateaued at restrictive levels as the past policy rate increases had worked their way through the financial system.

In September 2024, the Governing Council of the ECB decided to further reduce the interest rate on the Eurosystem's deposit facility by 25 basis points.<sup>5</sup> According to the latest assessment of the inflation outlook at the time, which had confirmed that the 2% target would be reached in 2025, it was deemed appropriate for the Governing Council to take this second step in reducing monetary policy restriction.

On the other hand, in September 2024 and in the following months the Governing Council did not cease to stress that domestic inflationary pressures remained elevated. Wages continued to grow rapidly (albeit now easing) in an attempt to recoup purchasing power losses due to higher inflation. Wage growth would remain high and volatile until the end of 2024, given the significant role of one-off payments in some countries and the staggered nature of wage adjustments. However, unit labour cost growth was expected to moderate eventually.

In October 2024, the interest rate on the deposit facility was lowered by a further 25 basis points (which in turn brought the remaining key interest rates down by 25 basis points). The Governing Council of the ECB stressed in particular that the decision to lower interest rates was largely due to the fact that the disinflation process was well on track, while the inflation outlook had been positively influenced by (i) indicators of economic activity having surprised somewhat to the downside and (ii) financing conditions remaining restrictive.

In December 2024, the Governing Council further reduced the interest rate on the Eurosystem's deposit facility by 25 basis points, as well as the other key interest rates. It reaffirmed that the disinflation process remained well on track and that most underlying inflation measures suggested a sustained return of headline inflation to the 2% medium-term target. Domestic inflation had again eased somewhat, but remained elevated, reflecting strong wage pressures and the fact that prices of some services had still been adjusting to the past inflation surge. The Governing Council also noted that financing conditions were gradually easing, as the ECB's past interest rate cuts were gradually making it less expensive for firms and households to borrow. Nevertheless, financing conditions remained restrictive, as the fixed-rate loans were repriced at higher levels reflecting past increases in key ECB interest rates.

In late January 2025, it was judged that the disinflation process remained well on track, inflation continued to develop broadly in line with the ECB's projections and was set to return to target by 2025, while most underlying inflation measures indicated that inflation would settle around the target on a sustained basis. In this context, the Governing Council of the ECB lowered its key interest rates by a further 25 basis points. It noted that the recent policy rate cuts were gradually making new borrowing less expensive for firms and households. However, financing conditions in the euro area remained tight, with some maturing loans being rolled over at higher rates. The Governing Council underlined its determination to stabilise inflation around its 2% target on a sustained basis.

In early March 2025, key interest rates were further cut by 25 basis points. The Governing Council of the ECB noted that inflation had developed broadly as its staff expected and that the latest (March) ECB staff macroeconomic projections closely aligned with the previous inflation outlook. It stressed that most underlying inflation measures suggested that inflation would settle around its 2% target on a sustained basis. It also emphasised anew that domestic inflation remained high, mainly because, in certain sectors of economic activity, wages and prices were adjusting to the past inflation surge. The Governing Council of the ECB considers that the single monetary policy is now becoming meaningfully less restrictive, as the interest rate cuts are making new borrowing less expensive for businesses and households, and loan growth is picking

<sup>5</sup> As the spread between the main refinancing operations rate and the deposit facility rate was changed at the same time, the main refinancing operations and the marginal lending facility rates were cut by 60 basis points.

up. On the other hand, past interest rate hikes are still being transmitted to the stock of credit, and lending remains subdued overall.

Finally, as in previous years, the Governing Council recalled repeatedly in 2024 and early 2025 that it stood ready to adjust all of its monetary policy instruments within its mandate to ensure that inflation returned to its target over the medium term or to support the smooth functioning of the monetary policy transmission mechanism.

In 2024, the ECB posted losses on its balance sheet for the second consecutive year, which negatively affect the profit distribution to euro area national central banks and are expected to be offset by future profits. Losses are related to the Eurosystem's monetary policy measures,<sup>6</sup> which were necessary to fulfil its primary mandate of maintaining price stability. The credibility of central banks mainly hinges on their ability to achieve their primary objective and contribute to macroeconomic and financial stability, while any temporary losses do not prevent them from fulfilling their mandate.

### 3 THE EURO AREA MONEY MARKET

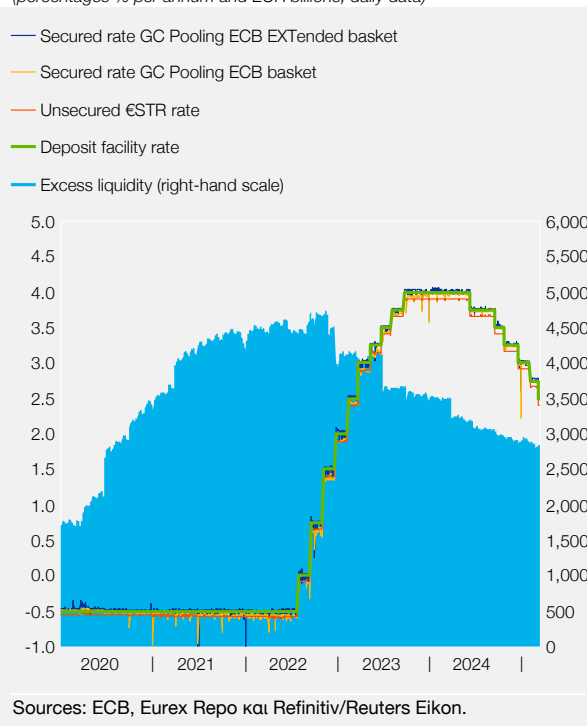
Excess liquidity<sup>7</sup> in the banking system continued to fall throughout 2024, but remained generally high (see Chart III.11). This decline was driven mainly by the repayment of the total liquidity raised through targeted TLTRO III operations, but also by a further reduction of the maturing portfolio of the Eurosystem's securities holdings.<sup>8</sup>

The contraction of APP holdings accounted for most of the decline in the Eurosystem's holdings. APP holdings averaged around EUR 2,760 billion in the second half of 2024, down from EUR 3,170 billion in the previous year.

The share of the asset purchase programmes (PEPP and APP) in total liquidity provided to Eurosystem counterparties hovered at 99% on average over the second half of 2024, against 85% in 2023. The remaining share in total liquidity consisted of Eurosystem refinancing operations (TLTROs III, LTROs and MROs), and its decline in the course of the year reflects, as mentioned above, the full repayment of the liquidity raised through TLTROs III, which, at end-2023, stood at about EUR 400 billion. Liquidity raised through MROs and 3-month LTROs increased occasionally during 2024, immediately after the TLTRO III repayment dates and during the last quarter of the year.

**Chart III.11 Deposit facility rate, money market interest rates and excess liquidity in the euro area (2 January 2020 - 13 March 2025)**

(percentages % per annum and EUR billions, daily data)



<sup>6</sup> See footnote 2 above.

<sup>7</sup> Excess liquidity can be defined as the sum of credit institutions' deposits in Eurosystem current accounts and in the deposit facility, net of minimum reserve requirements and the marginal lending facility.

<sup>8</sup> It should be noted that the reinvestments under the APP had already been discontinued as of July 2023, while PEPP reinvestments were discontinued after the end of 2024.

Short-term money market rates tracked the ECB policy rate cuts (see Chart III.11). Repo rates rose and became more closely aligned with the Eurosystem's deposit facility rate (DFR) compared with the period from 2020 onwards. On the contrary, in the unsecured market segment the spread between the DFR and €STR remained relatively stable at 9 basis points (2023: 10 basis points). Specifically, the GC Pooling ECB basket rate stood on average at 3.48% in the second half of 2024, compared with 3.95% in the first half of the year (2023: 3.22%), while the €STR in the unsecured market segment stood at 3.42% in the second half of 2024 and at 3.88% in the first half of the same year (2023: 3.21%, see Chart III.1 and Table III.1).

# IV MACROECONOMIC DEVELOPMENTS AND PROSPECTS IN GREECE

The Greek economy grew at a satisfactory pace in 2024, well above the euro area average. GDP growth – 2.3% in 2024 against 2023 – was mainly driven by private consumption, services exports and investment, while exports of goods had a negative contribution. Activity in industry, construction and services remained in positive territory, although some economic activity indicators fluctuated or fell slightly. Business expectations remained high, in contrast with consumer confidence, which stabilised at low levels.

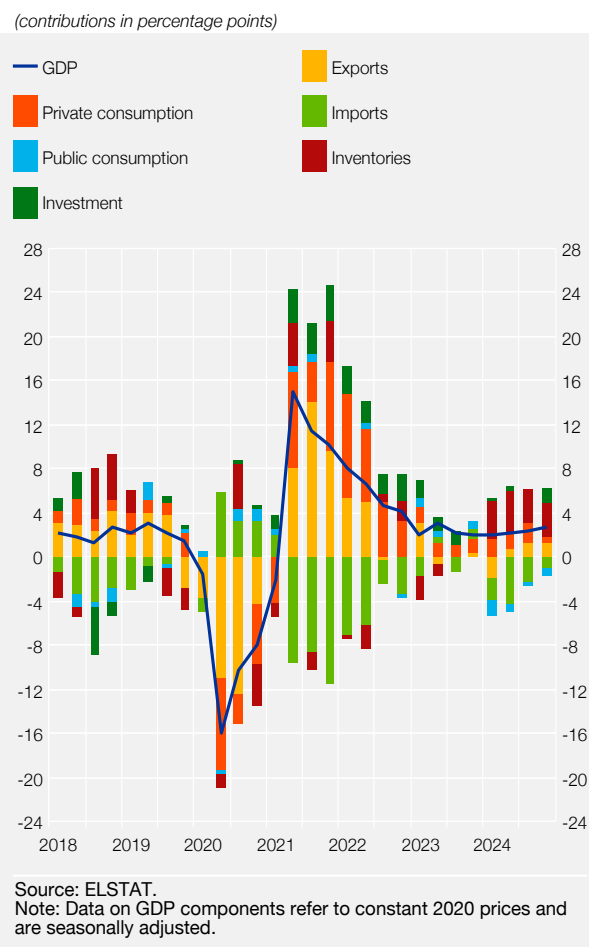
Headline inflation decelerated also in 2024, but persistent services inflation hindered a further reduction. In the labour market, employment recorded positive rates of change also in 2024, unemployment dropped further to 10.1% and job vacancies continued to increase.

The current account deficit deteriorated year-on-year, due to a worsening in the balance of goods and, to a lesser extent, the primary income account, which was only partly offset by an increase in the surpluses of the services balance and the secondary income account.

In an environment of particularly heightened international uncertainty, trade protectionism and geopolitical shifts, maintaining a satisfactory growth rate on the basis of a sustainable production model is the greatest challenge for the Greek economy. Pressing ahead with reforms in critical sectors, speeding up the implementation of actions under the National Recovery and Resilience Plan, particularly infrastructure projects associated with the green transition and with tackling climate change, as well as further strengthening the economy's extroversion should help in this direction.

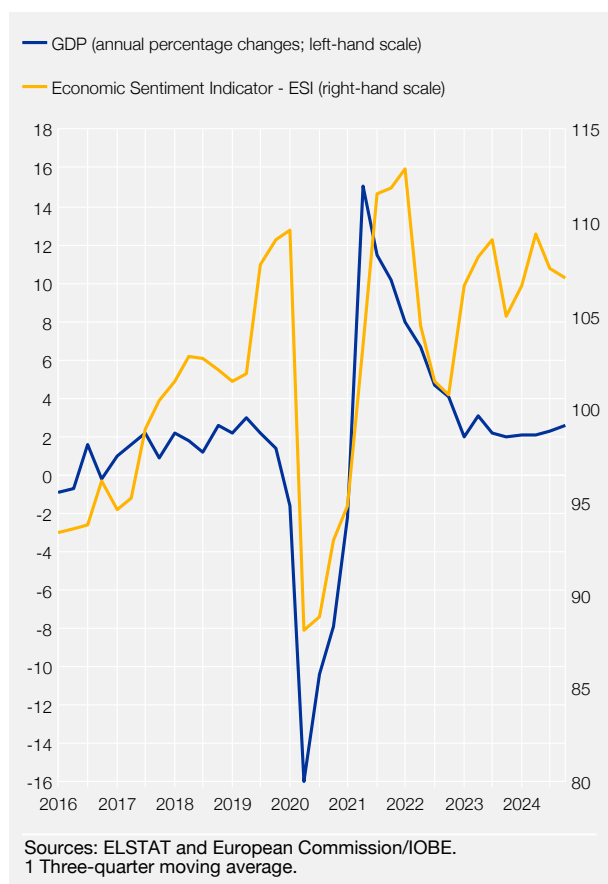
The Greek economy is expected to grow by 2.3% in 2025 and 2.1% in 2026, while inflation should stand at 2.9% and 2.3%, respectively. The risks surrounding the GDP growth forecast remain tilted to the downside and are chiefly associated with the extent of the effect of trade protectionism measures in Europe and across the globe; worse than expected geopolitical developments and their impact on the European economy; tightness in the labour market and possible wage pressures; as well as catastrophic events, mainly associated with the climate crisis.

**Chart IV.1 Contributions to annual GDP growth on the demand side (Q1 2018 - Q4 2024)**



## 1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS<sup>1</sup>

Chart IV.2 GDP and ESI<sup>1</sup>  
(Q1 2016 - Q4 2024)



Economic activity grew by 2.3% in 2024, well above the growth rate in the euro area (0.9%). The key drivers of growth were private consumption, gross fixed capital formation and services exports. By contrast, the total contribution of net trade was negative, as exports of goods underperformed due to the deterioration of the international environment, while imports of goods and services grew substantially. Lastly, lower government consumption made a negative contribution to GDP growth (see Chart IV.1 and Table IV.1).

Throughout 2024, activity indicators in industry, construction and services registered positive, albeit decelerating rates of change, while the volume of retail sales declined slightly. According to balance of payments data, total exports of goods also followed a downward path, although non-oil exports of goods rose slightly.

Compared with the euro area, business expectations hovered at high levels (see Chart IV.2); however, consumer confidence remained subdued. Moreover, the Purchasing Managers' Index (PMI) was in positive territory, above the euro area average, but fluctuated and even decelerated, mostly over the last months of the year.

In 2024, the real estate market continued to attract interest and capital from Greece and abroad, with property prices rising. Constrained supply, together with rising demand for modern standard properties, mainly residential properties, is expected to maintain the upward trend in prices, albeit at a slower pace than in the preceding period.

The labour market improved further in 2024, with employment growing significantly (by 2.0% in 2024, compared with 1.3% in 2023) and the unemployment rate declining to 10.1% in 2024 from 11.1% in 2023. Labour market tightness in several important sectors, such as tourism, manufacturing, construction and the primary sector, makes it difficult for firms to hire workers with the desired skills, leading to rising wage pressures.

HICP inflation declined in 2024 compared with 2023, but the persistent average growth rate of services prices (see Box IV.2) prevented a faster decrease in headline inflation. Further disinflation in 2025 is expected to be very limited, as energy inflation, which is projected to return to positive territory, combined with the persistence of services inflation, should have an upward effect on inflation.

The current account deficit increased in 2024, following a significant improvement in 2023. This development is mainly associated with a rise in imports of goods, while exports of goods

<sup>1</sup> The cut-off date for information and data used in this analysis is 20.3.2025.

Table IV.1 Demand and GDP (2021-Q4 2024)

(annual percentage changes and percentage point contributions; at constant market prices of 2020)

|                                                    | 2021           | 2022           | 2023          | 2024           | 2024<br>(Q1)    | 2024<br>(Q2)   | 2024<br>(Q3)   | 2024<br>(Q4)   |
|----------------------------------------------------|----------------|----------------|---------------|----------------|-----------------|----------------|----------------|----------------|
| Private consumption                                | 5.1<br>(3.7)   | 8.6<br>(6.2)   | 1.8<br>(1.3)  | 2.1<br>(1.5)   | 2.3<br>(1.6)    | 2.0<br>(1.4)   | 2.5<br>(1.8)   | 0.8<br>(0.6)   |
| Public consumption                                 | 1.8<br>(0.4)   | 0.1<br>(0.0)   | 2.6<br>(0.6)  | -4.1<br>(-0.9) | -6.9<br>(-1.4)  | -4.2<br>(-0.9) | -1.8<br>(-0.4) | -3.4<br>(-0.7) |
| Gross fixed capital formation                      | 21.7<br>(2.7)  | 16.4<br>(2.3)  | 6.6<br>(1.0)  | 4.5<br>(0.7)   | 2.6<br>(0.4)    | 4.3<br>(0.7)   | 1.3<br>(0.2)   | 9.0<br>(1.4)   |
| <i>Housing investment</i>                          | 31.8<br>(0.3)  | 57.8<br>(0.7)  | 24.7<br>(0.5) | 2.7<br>(-2.4)  | -13.7<br>(-2.5) | -6.8<br>(-2.4) | 7.5<br>(-2.4)  | 29.1<br>(-2.1) |
| Domestic final demand <sup>1</sup>                 | 6.3<br>(6.8)   | 7.9<br>(8.5)   | 2.6<br>(2.9)  | 1.3<br>(1.3)   | 0.5<br>(0.6)    | 1.2<br>(1.2)   | 1.5<br>(1.6)   | 1.2<br>(1.3)   |
| Inventories and statistical discrepancy (% of GDP) | 2.1%           | 1.9%           | 1.0%          | 4.1%           | 2.4%            | 3.9%           | 4.9%           | 5.3%           |
| Domestic demand                                    | 7.2<br>(7.9)   | 7.5<br>(8.1)   | 1.9<br>(2.0)  | 4.0<br>(4.3)   | 5.6<br>(5.9)    | 5.1<br>(5.5)   | 3.2<br>(3.5)   | 2.2<br>(2.4)   |
| Exports of goods and services                      | 24.4<br>(7.5)  | 6.6<br>(2.5)   | 1.9<br>(0.8)  | 1.0<br>(0.3)   | -4.9<br>(-1.9)  | 2.3<br>(0.8)   | 3.3<br>(1.2)   | 3.6<br>(1.3)   |
| Imports of goods and services                      | 17.4<br>(-6.7) | 11.0<br>(-4.8) | 0.9<br>(-0.5) | 5.5<br>(-2.3)  | 4.6<br>(-2.0)   | 9.7<br>(-4.1)  | 5.4<br>(-2.4)  | 2.4<br>(-1.0)  |
| Foreign demand                                     | ...<br>(0.8)   | ...<br>(2.3)   | ...<br>(0.3)  | ...<br>(-2.1)  | ...<br>(-3.8)   | ...<br>(-3.3)  | ...<br>(-1.2)  | ...<br>(0.2)   |
| GDP at market prices                               | 8.7            | 5.7            | 2.3           | 2.3            | 2.1             | 2.1            | 2.3            | 2.6            |

Source: ELSTAT, Quarterly annual accounts, 7 March 2025. Annual data are not seasonally adjusted. Quarterly data are seasonally adjusted.

Note: Percentage point contributions in brackets.

<sup>1</sup> Excluding inventories and statistical discrepancy.

dropped, despite a small increase in non-oil exports of goods, and, to a lesser extent, with an increase in the deficit of the primary income account. This deterioration was partly offset by a rise in travel receipts and an improvement in the secondary income account.

After improving strongly in previous years, the international competitiveness of the Greek economy deteriorated slightly in 2024 according to real effective exchange rate indices, in terms of both relative prices and relative unit labour costs. Moreover, structural competitiveness, despite significant progress in recent years, as reflected in the improved ranking of Greece in the relevant composite indicators, remained essentially stagnant in 2024.

The outlook for the Greek economy is positive; however, broader European and international uncertainties, in particular the possibility of a rise in trade protectionism, warrant maintaining strong growth rates based on a sustainable production model. In this respect, particular emphasis should be placed on: (i) continuing reforms, particularly in areas crucial to the attractiveness of the economy as an investment destination, such as faster delivery of justice and more competition in goods and services markets; (ii) further utilisation of the funds under the European Recovery Instrument NextGenerationEU (NGEU), as well as domestic fiscal resources, in order to enhance, inter alia, infrastructure linked to the climate crisis and the green energy transition; (iii) strengthening research, innovation and human capital in order to reverse the long-term trend of dropping labour productivity (see Box IV.1); and (iv) enhancing the economy's extroversion, chiefly by increasing the share of goods exports in GDP, in order to address medium-term weaknesses in the current account balance.

According to the current projections of the Bank of Greece, the GDP growth rate is expected to reach 2.3% and 2.1% in 2025 and 2026, respectively. Inflation will ease to 2.9% in 2025 and 2.3% in 2026. Risks to the Bank of Greece's growth forecasts are tilted to the downside and are associated with: (i) the impact of the implementation of strong protectionist policies and the associated heightened uncertainty in international trade; (ii) an aggravation of the geopolitical

crises in Ukraine and the Middle East and their effects on the international economic environment; (iii) weaker than expected absorption and utilisation of RRF funds; (iv) potential natural disasters, notably as a result of the climate crisis; and (v) a tightening of the labour market and possible wage pressures.

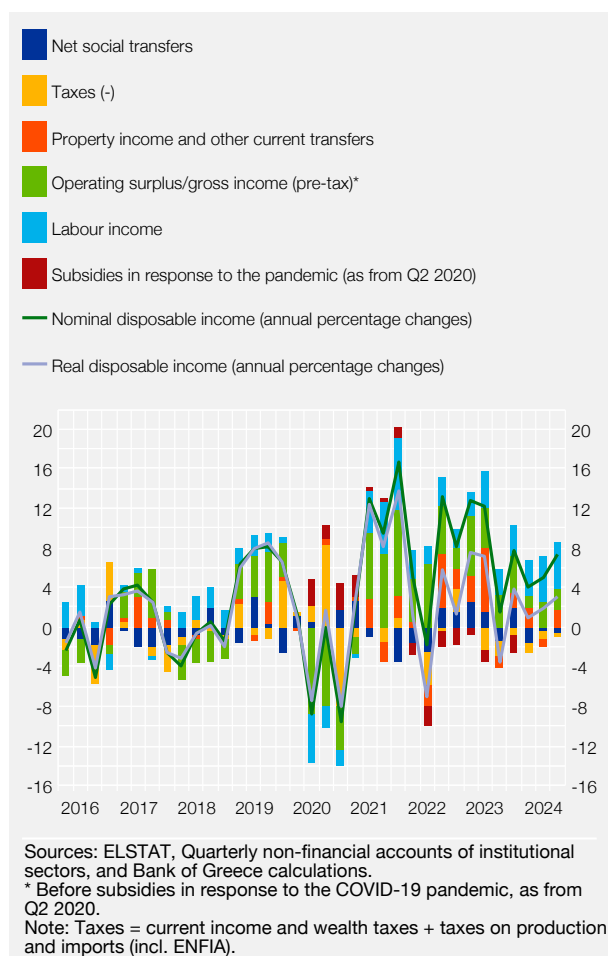
## 2 ECONOMIC ACTIVITY: DEVELOPMENTS AND PROSPECTS

### 2.1 Developments on the demand side

Private consumption was the main driver of growth in 2024 (2.1%, from 1.8% in 2023), supported by a rise in households' real disposable income. According to the latest available data from the quarterly non-financial accounts of institutional sectors compiled by ELSTAT, nominal disposable income of households and non-profit institutions serving households (NPISHs) increased by 5.6% on average in the first nine months of 2024 year-on-year, mainly due to the positive contribution of labour income (i.e. compensation of employees and self-employed income, see Chart IV.3). Real disposable income grew by 2.0% in the same period due to lower inflation. According to national accounts data for 2024 as a whole, nominal compensation of employees strengthened significantly (+7.4%, against +5.3% in 2023) and was supported by an increase in compensation per employee (+6.0%) and in the number of employees (+1.4%), reflecting positive labour market developments and wage growth, especially at the bottom of the distribution. Government measures, such as higher minimum wages, active employment

policies and targeted measures to support vulnerable social groups, made a significant contribution to improving household incomes.

**Chart IV.3 Contributions to changes in disposable income**  
(Q1 2016 - Q3 2024)



Consumer spending in 2024 was fuelled by stronger demand, as suggested by a significant increase in VAT revenue at constant prices (see Table IV.2). As a result of sustained consumer demand, despite a drop in households' purchasing power due to inflation, households' savings accumulated during the pandemic declined as from 2022. The households' average saving ratio (defined as the ratio of gross savings to gross disposable income) rolling over four quarters shows that the high saving ratios registered during the pandemic dropped in the 2022-2024 period, returning to pre-pandemic levels (see Chart IV.4). However, the rate of decline in savings gradually decelerated and a marginally positive saving ratio of 0.8% was recorded in the third quarter of 2024, for the first time in the last two years.

Private consumption should continue to grow this year, reflecting stronger household real income, on the back of projected increases in employment and wages in a tight labour market, and a further increase in minimum wages. At the same time, the expected decline in inflation should bolster households' real income. In addition, according to the 2025 Budget, fiscal measures are planned, effective from 2025, aiming to boost disposable income, such as a 1 percentage point reduction in social security contribu-

Table IV.2 Indicators of consumer and investment demand (2019-2025)

(annual percentage changes)<sup>1</sup>

|                                                                 | 2019        | 2020        | 2021        | 2022        | 2023        | 2024<br>(available period) | 2025<br>(available period) |
|-----------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|----------------------------|----------------------------|
| Retail trade volume (overall index)                             | 0.8         | -4.0        | 10.2        | 3.3         | -3.3        | -1.6                       | -                          |
| Retail trade confidence indicator                               | 6.0         | -20.6       | 15.2        | -5.3        | 21.9        | -9.8                       | -14.6 (Jan.-Feb.)          |
| Consumer confidence indicator                                   | -19.6       | -32.5       | -35.4       | -50.7       | -40.0       | -46.0                      | -42.8 (Jan.-Feb.)          |
| VAT revenue at 2020 prices <sup>2</sup>                         | 3.3         | -14.6       | 14.6        | 12.2        | 5.5         | 9.6                        | 8.7 (Jan.)                 |
| New private passenger car registrations                         | 13.2        | -26.6       | 22.2        | 6.7         | 16.5        | 3.4                        | -7.2 (Jan.-Feb.)           |
| Consumer credit <sup>3</sup>                                    | -1.6 (Dec.) | -2.2 (Dec.) | -0.3 (Dec.) | 1.2 (Dec.)  | 3.4 (Dec.)  | 6.3 (Dec.)                 | 6.0 (Jan.)                 |
| Capacity utilisation in the capital goods industry              | 69.8        | 70.1        | 74.7        | 68.7        | 71.0        | 75.1                       | 74.5 (Q1)                  |
| Production of capital goods                                     | 6.0         | 0.2         | 13.8        | 5.5         | 6.0         | 0.2                        | 13.9 (Jan.)                |
| Public Investment Programme (PIP) disbursements                 | -9.5        | 88.7        | -15.5       | 22.5        | 1.6         | 18.9                       | -25.3 (Jan.)               |
| Bank credit to domestic non-financial corporations <sup>3</sup> | 1.7 (Dec.)  | 9.8 (Dec.)  | 2.8 (Dec.)  | 11.9 (Dec.) | 5.8 (Dec.)  | 13.6 (Dec.)                | 15.9 (Jan.)                |
| Housing credit <sup>3</sup>                                     | -3.4 (Dec.) | -2.7 (Dec.) | -3.0 (Dec.) | -3.6 (Dec.) | -3.5 (Dec.) | -2.6 (Dec.)                | 2.5 (Jan.)                 |
| Construction output index (at constant prices)                  | -           | -           | -           | 12.7        | 9.6         | 19.9                       | -                          |
| Volume of building activity on the basis of permits             | 9.8         | 5.9         | 45.9        | -2.2        | 15.9        | 10.2 (Jan.-Nov.)           | -                          |
| Construction confidence indicators                              | 0.0         | 7.9         | 103.5       | -10.2       | 24.3        | 6.2                        | -0.2 (Jan.-Feb.)           |

Sources: ELSTAT (retail trade, cars, production of capital goods, volume of building activity, construction output); Ministry of Finance, General Accounting Office (VAT revenue); IOBE (confidence indicators, capacity utilisation); IOBE and European Commission (consumer confidence) and Bank of Greece (consumer and housing credit, business credit and PIP disbursements).

1 Excluding the consumer confidence (weighted percentage balances of positive and negative answers) and capacity utilisation in the capital goods industry (percentages).

2 CPI deflated (ELSTAT).

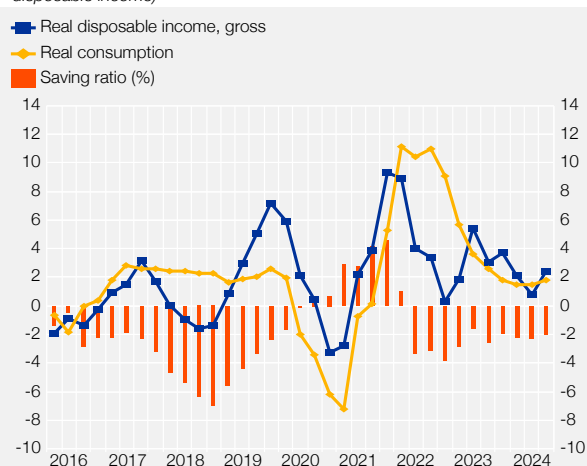
3 Reflecting changes in balances adjusted for loan write-offs/write downs, exchange rate changes and reclassifications.

tions, abolition of the fixed charge on the self-employed, an increase in pensions and an across-the-board raise in the public sector pay scale. Risks to developments in private consumption are heightened uncertainty, as suggested by low levels of consumer confidence (see Chart IV.5 and Table IV.2), which reflects consumer uncertainty about broader economic conditions in the country,<sup>2</sup> as a result of protectionist policies and geopolitical developments with a potential impact on global growth.

In 2024, investment continued its upward course, although at a relatively subdued growth rate. Specifically, gross fixed capital formation grew by 4.5% in 2023, against 6.6% in 2023. A positive contribution to this development came mainly from “machinery and weapon systems” (8.0%) and, to a lesser extent, from “other construction”, which rose by 7.7%. In addition, housing investment increased by 2.7%, following its impressive growth in 2023. By contrast, invest-

Chart IV.4 Private consumption, households' disposable income and saving ratio<sup>1</sup> (Q1 2016 - Q3 2024)

(annual percentage changes in private consumption and in households' disposable income)



Source: ELSTAT, Quarterly non-financial accounts of institutional sectors.  
1 Four-quarter moving average.

2 According to the article “Why are euro area households still gloomy and what are the implications for private consumption?” (ECB, *Economic Bulletin*, Issue 6/2024), consumer confidence in the euro area plummeted when Russia launched its invasion of Ukraine and has remained at a relatively low level ever since, largely owing to households' uncertainty about the broader economic situation.

**Chart IV.5 Private consumption and consumer confidence**  
(Q1 2016 - Q4 2024)

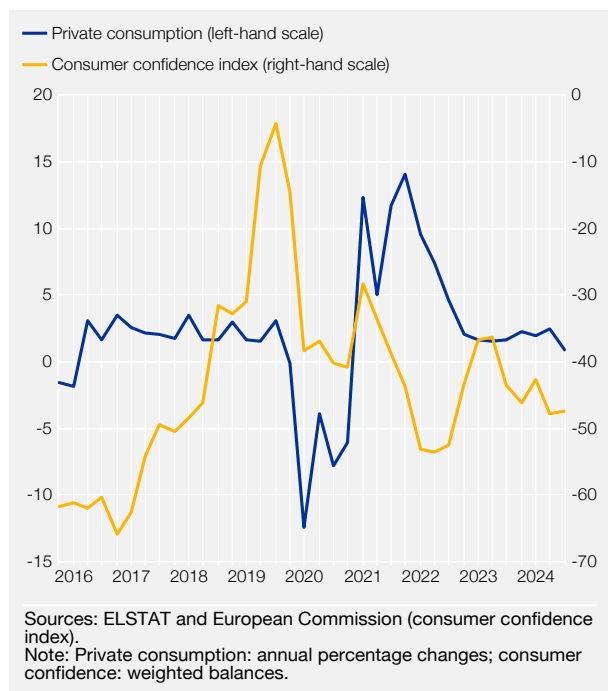
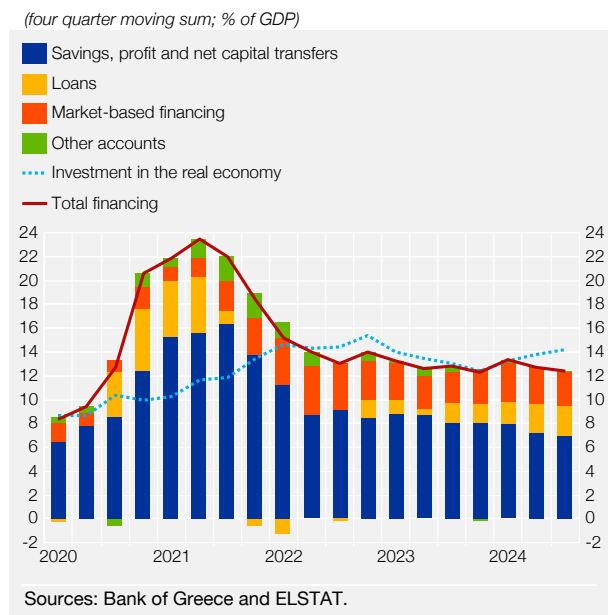


**Chart IV.6 Sources of private sector financing and real investment**  
(Q1 2020 - Q3 2024)



ment in “transport equipment” fell by 2.0%. Lastly, investment in “ICT equipment” and “Other products” grew by 1.2% and 2.0%, respectively.

Looking at credit to the private sector (see Chart IV.6), total private sector financing dropped slightly to 12.4% of GDP in the third quarter of 2024,<sup>3</sup> from 12.7% of GDP in the second quarter, due to lower internal financing<sup>4</sup> (private savings). Specifically, in the third quarter of 2024, private savings available for investment amounted to 6.9% of GDP, continuing to decline, from 8.4% of GDP in 2022 and 8.0% of GDP in 2023. By contrast, over the same period, external financing remained stable at 5.5% of GDP.

In more detail, private savings available for investment fell on the back of continued negative household savings, as well as declining business savings. Specifically, in the third quarter of 2024 (as a four-quarter moving sum), household savings turned less negative (-1.1% of GDP) than in the second quarter of 2024 (-1.3%), as disposable income growth was stronger than consumption growth. Withdrawal of support measures in response to the pandemic and the energy crisis, continued release of pent-up demand, rising prices and paying off of taxes continued to weigh on household savings, keeping them in negative territory. Moreover, business savings (retained earnings) dropped to 8.0% of GDP in the third quarter of 2024 from 8.5% in the second quarter. After peaking in 2022, business savings have been declining gradually (from 10.6% of GDP to 8.9% in 2023 and 8.0% in the third quarter of 2024). This reflects a variety of factors, including the withdrawal of government support measures in response to the pandemic and the energy crisis, the rise in business labour costs (see Section 5.3 below), as well as falling inflation expectations, which no longer facilitate an increase in profit margins;<sup>5</sup> however, solid performance in tourism and the economy in general in recent years, combined with grants under the Recovery and Resilience Facility (RRF), helped offset a slowdown in business savings dynamics. RRF grants are included in net capital transfers, which add to

corporate savings. Notably, in the third quarter of 2024 savings of both households and businesses remained slightly improved compared with their pre-pandemic levels in 2019.

<sup>3</sup> This analysis is constructed as a four-quarter moving sum.

<sup>4</sup> Internal financing is defined as the sum of households' gross savings, businesses' retained earnings and net capital transfers.

<sup>5</sup> See Bank of Greece (2024), *Annual Report 2023*, Box IV.3.

In the third quarter of 2024 (as a four-quarter moving sum), private sector gross capital formation in the real economy increased for the third consecutive quarter to 14.3% of GDP (or EUR 33.4 billion), from 12.4% of GDP in 2023, after reaching a post-2009 high (15.4% of GDP) in 2022. S&P's upgrade of Greece to investment grade on 20 October 2023 contributed significantly to this increase. Also in 2022, net capital formation by enterprises had registered a historical high (6.4% of GDP), reflecting a strong expansion of firms' productive capital base. In the third quarter of 2024, this momentum partly moderated.

In the years 2020 and 2021, the private sector had registered financial surpluses; however, since 2022 internal savings have been inadequate to finance investment in the real economy. As a result, the third quarter of 2024 saw a financing gap of 7.3% of GDP (a deficit of 4.5% of GDP for households and 2.8% for businesses).

Higher investment in Greece is also accompanied by a qualitative upgrade of investment, with an increasing share of high-tech investments, such as data centres, fibre networks and green energy infrastructures, making the country an important digital infrastructure hub in South-Eastern Europe. Joint Ministerial Decision 96038/2024 was published in December 2024, setting out the notification procedure for the operation of data centres, thus completing their institutional framework. The construction of Microsoft's first data centre in Spata, region of Attica, is already well under way, while two more data centres by the same company are expected to be completed by 2028.<sup>6</sup> Creation of new data centres, in addition to directly benefiting Greece's economic activity through higher investment, is expected to have a multiplier effect, as it should create new high-skill jobs that will attract qualified labour and help repatriate young Greek scientists that had been forced to seek employment abroad (brain regain). Investment growth is expected to continue into 2025, as the recovery of investment grade from all rating agencies and continued interest rate cuts by the ECB should lead to a more favourable investment climate. Moreover, banks' higher profitability in previous years may, under certain conditions (see Box IV.4), lead to increased financing of the real economy by the financial sector.

In 2024, there was a significant increase in privatisation revenue, as according to the 2025 Budget, revenue from the privatisation programme for 2024 amounted to EUR 4.180 million, mainly stemming from the new 25-year concession agreement for Attica Tollway (EUR 3.270 million) and the listing of Athens International Airport on the Athens Exchange's regulated market (EUR 784.7 million). For 2025, EUR 1,881.1 million of revenue is anticipated, coming mainly from the long-term concession (35 years) of Egnatia Highway (EUR 1.350 million). In December 2024, the Government Economic Policy Council (KYSOIP) approved HRADF's updated (30.6.2024) Asset Development Plan, which includes 41 projects, such as the utilisation of the Athens Water Supply and Sewerage Company (EYDAP) and the Thessaloniki Water Supply and Sewerage Company (EYATH); the sale of a stake in HelleniQ Energy; and the utilisation of ports, marinas and other real estate.

## 2.2 Developments on the supply side

Gross value added in the economy continued to grow in 2024, driven by the positive performance of the industrial sector including energy, construction and services. By contrast, output in the agricultural sector declined (see Table IV.3).

Industrial output, including energy, grew substantially in 2024 (6.4%). The positive performance of the industrial sector is confirmed by a significant increase in the industrial production index

<sup>6</sup> Similar investment plans for the construction of new data centres have also been announced by other major providers such as Digital Realty and Data4. Additionally, several Greek companies are entering the market, such as the Public Power Corporation (DEH) in cooperation with DAMAC, as well as the Independent Power Transmission Operator (ADMIE) in cooperation with Serverfarm, seeing good prospects in the development of new infrastructure.

Table IV.3 Gross value added at basic prices (2022-Q4 2024)

(annual percentage changes and sectoral contributions, at constant prices of 2020)

|                                                      | 2022          | 2023            | 2024           | 2024<br>(Q1)    | 2024<br>(Q2)   | 2024<br>(Q3)   | 2024<br>(Q4)  |
|------------------------------------------------------|---------------|-----------------|----------------|-----------------|----------------|----------------|---------------|
| Agriculture, forestry and fishing                    | 16.0<br>(0.6) | -26.8<br>(-1.2) | 0.0<br>(-0.1)  | -11.9<br>(-0.4) | -3.9<br>(-0.1) | 0.8<br>(0.0)   | 9.6<br>(0.3)  |
| Secondary sector                                     | 1.9<br>(0.4)  | 4.7<br>(0.7)    | 6.1<br>(1.0)   | 5.4<br>(0.9)    | 9.5<br>(1.6)   | 4.6<br>(0.8)   | 4.8<br>(0.8)  |
| Industry including energy                            | 1.7<br>(0.3)  | 3.9<br>(0.5)    | 6.4<br>(1.0)   | 5.8<br>(0.8)    | 11.3<br>(1.6)  | 4.7<br>(0.7)   | 4.0<br>(0.6)  |
| Construction                                         | 2.8<br>(0.1)  | 11.2<br>(0.2)   | 4.2<br>(0.1)   | 2.4<br>(0.0)    | -2.9<br>(-0.1) | 3.7<br>(0.1)   | 11.0<br>(0.2) |
| Tertiary sector                                      | 5.5<br>(4.3)  | 3.3<br>(2.7)    | 1.0<br>(0.8)   | 0.4<br>(0.3)    | 0.8<br>(0.7)   | 1.5<br>(1.2)   | 0.8<br>(0.7)  |
| Trade, hotels and restaurants, transport and storage | 9.4<br>(2.2)  | 1.8<br>(0.5)    | 1.5<br>(0.3)   | -0.6<br>(-0.1)  | 1.8<br>(0.4)   | 1.8<br>(0.4)   | 1.7<br>(0.4)  |
| Information and communication                        | 7.6<br>(0.3)  | 4.7<br>(0.2)    | 3.4<br>(0.1)   | 5.0<br>(0.2)    | 3.9<br>(0.2)   | 3.4<br>(0.1)   | 1.4<br>(0.1)  |
| Financial and insurance activities                   | 4.7<br>(0.2)  | 4.0<br>(0.2)    | 2.5<br>(0.1)   | 2.4<br>(0.1)    | 1.3<br>(0.1)   | 3.4<br>(0.2)   | 3.4<br>(0.2)  |
| Real estate activities                               | 2.2<br>(0.4)  | 5.1<br>(0.9)    | 0.4<br>(0.1)   | 0.4<br>(0.1)    | 0.4<br>(0.1)   | 0.4<br>(0.1)   | 0.4<br>(0.1)  |
| Professional, scientific and technical activities    | 10.9<br>(0.6) | 7.8<br>(0.5)    | 1.8<br>(0.1)   | 0.5<br>(0.0)    | 0.1<br>(0.0)   | 6.7<br>(0.4)   | 0.1<br>(0.0)  |
| Public administration and defence                    | 1.4<br>(0.3)  | 1.0<br>(0.2)    | -0.4<br>(-0.1) | -0.3<br>(-0.0)  | -0.5<br>(-0.1) | -0.8<br>(-0.2) | 0.0<br>(0.0)  |
| Arts, entertainment and recreation                   | 8.8<br>(0.3)  | 5.9<br>(0.2)    | 1.2<br>(0.0)   | 2.8<br>(0.1)    | 1.4<br>(0.1)   | 2.1<br>(0.1)   | -1.1<br>(0.0) |
| Gross value added at basic prices                    | 5.3           | 2.2             | 0.0            | 0.9             | 2.2            | 2.1            | 2.1           |

Source: ELSTAT, Quarterly national accounts, 7 March 2025. Annual data are not seasonally adjusted. Quarterly data are seasonally adjusted.

Note: Percentage point contributions in brackets.

in 2024, owing to stronger manufacturing production and electricity supply. Manufacturing production maintained its positive momentum, thanks to good performance by most sectors, such as the food and beverage industry, manufacture of coke and refined petroleum products, production of chemicals and chemical products and manufacture of other non-metallic mineral products. In addition, the PMI continues to point to an increase in manufacturing production and outperforms the euro area PMI (see Chart IV.7).

Output in construction grew by 4.2% in 2024. Positive performance in construction is reflected in the construction output index, while developments in the building permits index, which is a leading indicator for activity, suggest continued growth in construction activity also in 2025 (see Table IV.2).

In 2024, the gross value added of the services sector grew at an annual rate of 0.9% and had a contribution of 0.7 percentage point to the change in total gross value added (GVA). Individual services sectors made different contributions to total GVA growth. A broader sector including wholesale and retail trade, tourism and transport, which accounts for 25% of total GVA, contributed by 21% to the increase in total GVA growth in 2024. This is generally in line with turnover developments by sector (see Table IV.4). Specifically, the turnover of accommodation and food service activities (nominal values) grew by 7.5% in 2024 against 2023. In addition, a stronger tertiary sector is also reflected in business confidence in the services sector, with the related indicator rising by 9.3% in 2024 against 2023. It should be noted that high prices in the services sector also contributed to the improved performance of the tertiary sector (see Box IV.2 and Section 5.1 for more details).

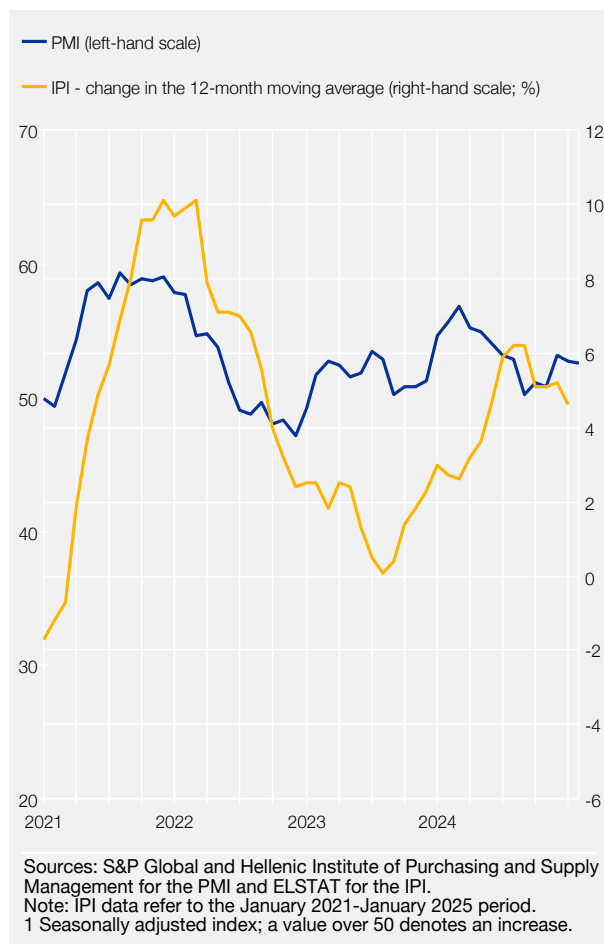
According to a report by the European Commission (2024), small and medium-sized enterprises (SMEs) in the services sector in Greece account for 44.1% of total GVA produced by SMEs and 48.4% of employment, representing almost half of all SMEs in the country.<sup>7</sup> Compared with the EU27 average, the share of employment in SMEs in the tertiary sector is 4.3 percentage points higher in Greece, while their contribution to GVA is 2.6 percentage points higher. Regarding trade, in Greece the contribution of SMEs is greater compared with the European average, in terms of both GVA (29.4% vs 24.1%) and number of enterprises (31.3% vs 23.2%) and employment (29.6% vs 23%).

Turning to services in tourism, on the demand side, travel receipts from non-residents as a percentage of GDP have been on an upward trend in recent years (excluding the pandemic period), reaching 9.1% of GDP in 2024 (see Charts IV.8 and IV.9). More specifically, travel receipts from non-residents stood at EUR 21.6 billion, topping their levels in the years 2023 (EUR 20.6 billion) and 2019 (EUR 18.2 billion). However, non-residents' average expenditure per trip decreased by 5.1% year-on-year (to EUR 572.7, from EUR 603.2), owing to (a) inflationary pressures, which have a negative impact on households' disposable income worldwide; and (b) an increase in travel flows from neighbouring Balkan markets and eastern European countries – although still below pre-pandemic levels – which traditionally represent shorter stays and thus lower average expenditure per trip. In addition, international passenger traffic at all Greek airports increased by around 10% year-on-year, exceeding its 2019 performance by 24%.

On the supply side, the share of tourism-related sectors – accommodation and food services – in total GVA has increased in recent years, reaching 7.1% in 2023. The contribution of those sectors to total employment is also significant, as they account for a share of 9.1%. However, the job vacancy rate in these sectors in Greece has been on an upward trend in recent quarters, whereas it has been declining in most EU27 Member States. In 2024, the job vacancy rate in the accommodation and food sector in Greece stood at 8.0%, the second highest in the EU27 after the Czech Republic (8.7%). It was also noted that in other Mediterranean countries, where tourism plays a key role in economic activity, the respective job vacancy rates are quite lower (Cyprus: 6.4%; France: 4.6%; Italy: 3.2%; Croatia: 2.5%; Portugal: 1.5%; and Spain: 0.6%).

For this year, the outlook for Greek tourism appears positive, despite external challenges such as geopolitical tensions, weak economic growth in the euro area, political uncertainty in major European countries that are key countries of origin, as well as the implications of US trade pol-

**Chart IV.7 Purchasing Managers' Index<sup>1</sup> (PMI) and Industrial Production Index (IPI) (January 2021 - February 2025)**



<sup>7</sup> European Commission (2024), *Annual Report on European SMEs 2023/2024*; and “2024 SME Country Fact Sheet: Greece”, 4.7.2024.

Table IV.4 Activity indicators in the services sector (2020-2024)

(annual percentage changes)

|                                                                        | 2020  | 2021  | 2022 | 2023  | 2024  |
|------------------------------------------------------------------------|-------|-------|------|-------|-------|
| <b>A. Services turnover indices</b>                                    |       |       |      |       |       |
| <b>1. Trade</b>                                                        |       |       |      |       |       |
| Wholesale trade                                                        | -10.8 | 4.7   | 21.4 | -2.2  | -7.2  |
| Retail trade                                                           | -3.9  | 11.5  | 12.4 | 3.7   | 1.6   |
| Trade and repair of cars and motorcycles                               | -13.0 | -16.1 | 15.8 | 21.2  | 7.0   |
| <b>2. Transport</b>                                                    |       |       |      |       |       |
| Land transport                                                         | -17.8 | 10.6  | 21.3 | 15.8  | 7.7   |
| Sea and coastal passenger transport                                    | -25.8 | 6.3   | 32.9 | 1.7   | 5.3   |
| Air transport                                                          | -65.9 | 64.1  | 94.2 | 22.6  | 48.0  |
| Storage and supporting transport activities                            | -14.6 | 13.6  | 23.2 | -2.7  | 4.1   |
| <b>3. Hotels and restaurants</b>                                       |       |       |      |       |       |
| Accommodation and food service activities                              | -62.7 | 80.0  | 50.6 | 9.8   | 7.5   |
| <b>4. Information and communication</b>                                |       |       |      |       |       |
| Telecommunications                                                     | -2.6  | 7.3   | 5.8  | 5.5   | -0.5  |
| Film, video and TV programme production, recordings and music products | -17.5 | 10.6  | 20.6 | 12.8  | -18.2 |
| Programming and broadcasting activities                                | 0.4   | -0.3  | 12.6 | -23.7 | -6.6  |
| <b>5. Professional-scientific-technical activities</b>                 |       |       |      |       |       |
| Legal, accounting and management consulting services                   | -68.4 | 52.8  | 84.1 | 24.0  | 13.1  |
| Architectural and engineering services                                 | -65.5 | 38.9  | 73.3 | 25.9  | 4.0   |
| Advertising and market research                                        | -59.3 | 34.7  | 45.5 | 16.4  | 5.4   |
| Travel agencies and related activities                                 | -22.2 | 37.8  | 1.9  | 2.7   | 9.3   |
| <b>B. Passenger traffic</b>                                            |       |       |      |       |       |
| Athens International Airport                                           | -68.4 | 52.8  | 84.1 | 24.0  | 13.1  |
| Aegean Airlines <sup>1</sup>                                           | -65.5 | 38.9  | 73.3 | 25.9  | 4.0   |
| Piraeus Port Authority                                                 | -59.3 | 34.7  | 45.5 | 16.4  | 5.4   |
| <b>C. Services confidence indicator</b>                                | -22.2 | 37.8  | 1.9  | 2.7   | 9.3   |

Sources: ELSTAT (services turnover), Athens International Airport, Aegean Airlines, Piraeus Port Authority and IOBE (services confidence).

<sup>1</sup> Including charter flights.

icy.<sup>8</sup> Moreover, heightened uncertainty due to the strong seismic activity in the Southern Aegean islands in the first two months of the year,<sup>9</sup> elevated ferry ticket prices as from 1 May 2025 due to the use of cleaner and more expensive fuel, as well as the persistence of services price inflation (see also Box IV.2), could affect the upward course of Greek tourism. Nevertheless, initial indications are positive, as in the first two months of 2025 international tourist arrivals at the Athens International Airport were 15.3% higher year-on-year, while according to data by Fraport Greece, international tourist arrivals at the country's regional airports were 10.5% higher year-on-year. In addition, continued investment by major international hotel chains presents an ad-

8 Greek tourism as an export service does not appear to be directly affected by US policy changes and may show low sensitivity to new measures. It should be noted that the US market appears to have steadily increased its share in total Greek travel arrivals and receipts over the past decade (excluding the pandemic period). Specifically, US arrivals as a percentage of non-residents' arrivals to Greece rose from 2.7% in 2014 to 4.3% in 2024, while the corresponding receipts from the United States as a percentage of Greece's total travel receipts rose from 5.0% to 7.3% in 2014-2024. Annual receipts from the United States, which stood at EUR 0.7 billion in 2014, exceeded EUR 1.5 billion in 2024, while average expenditure per trip stood at EUR 1,022 in 2024, compared with EUR 653 for arrivals to Greece from the euro area countries. In addition, scheduled flights from the US to Greece, combined with new routes that have been added, suggests a renewed increase for 2025, reflecting an upward momentum from the US market.

9 See Kasimati et al. (2025), "A case study for Santorini: Demand for and supply of its tourism product", ENA Institute.

**Chart IV.8 Inbound traveller flows and business confidence in tourism (January 2020 - December 2024)**

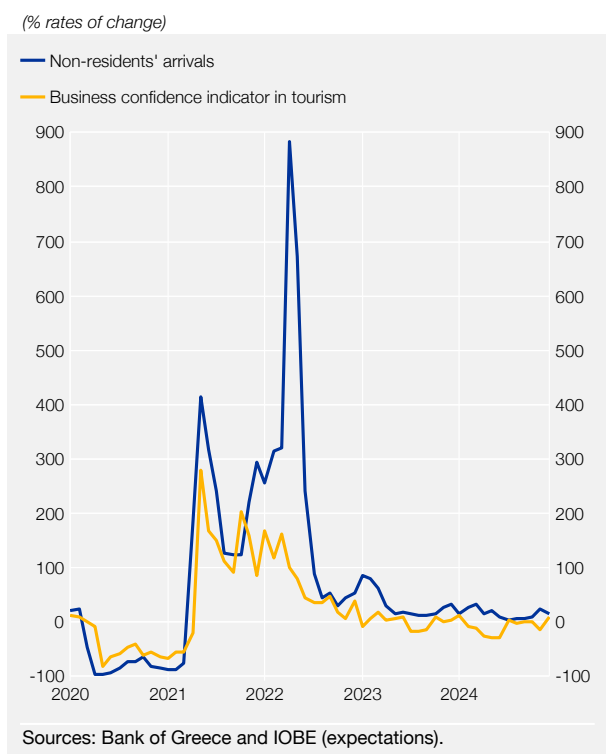
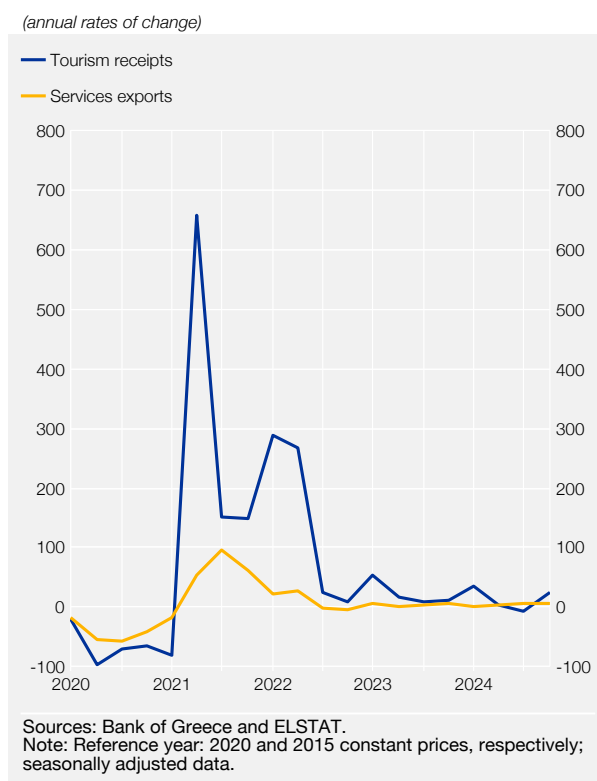


**Chart IV.9 Tourism receipts and services exports (Q1 2020 - Q4 2024)**



vantage for Greek tourism, while flight seat scheduling for the March-October 2025 period shows an increase of 5%.<sup>10</sup> The main challenges for further development of tourism are improving price competitiveness against major competitors, upgrading infrastructure and investing in the modernisation of accommodation.<sup>11</sup>

<sup>10</sup> Airdata Tracker data, Institute of Greek Tourism Confederation (INSETTE).

<sup>11</sup> See also Y. Stournaras, "Total contribution to the economy at 19.2% of GDP – Structural weaknesses, objectives and opportunities", *Money & Tourism*, 7.2.2025.

#### Box IV.1

### ECONOMETRIC ESTIMATION OF LONG-TERM TRENDS IN THE GREEK ECONOMY

Since joining the euro area in 2001, the Greek economy has gone through all phases of the economic cycle and has experienced a series of strong shocks, including the global financial crisis (2007-2009), the domestic debt crisis (2010-2018), the COVID-19 pandemic (2020-2021) and the recent energy crisis (2022-2023). Studying the impact of these shocks on short-term changes in the main macroeconomic aggregates of the Greek economy, such as GDP or inflation, has become a hot topic for analysts and economic policy-makers. By contrast, long-term trends in the Greek economy, while playing an important role in the conduct of monetary and fiscal policy, have not been adequately and thoroughly studied.<sup>1</sup> In this box, we apply modern econometric techniques in order

<sup>1</sup> For instance, Orphanides, A. (2003), "The quest for prosperity without inflation", *Journal of Monetary Economics*, 50(3), 633-663, focuses on mistakes that may arise in the conduct of monetary policy because of a distorted picture of long-term economic growth, while Auerbach, A.J. (2011), "Long-term fiscal sustainability in major economies", BIS Working Paper No. 361, argues that small changes in long-term assumptions may have a large impact on fiscal sustainability exercises.

Chart A Long-term trend of the rate of change in real GDP and private consumption in the Greek economy

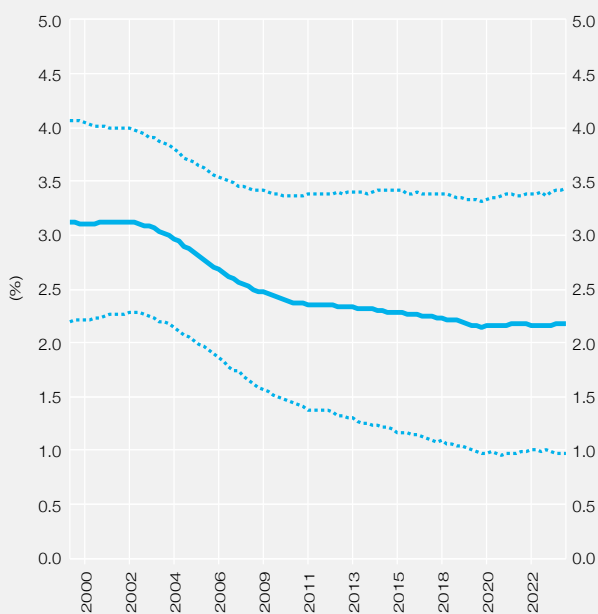
(annualised data in real terms)

**GDP**

Lower bound of the 90% confidence interval

Long-term trend of GDP

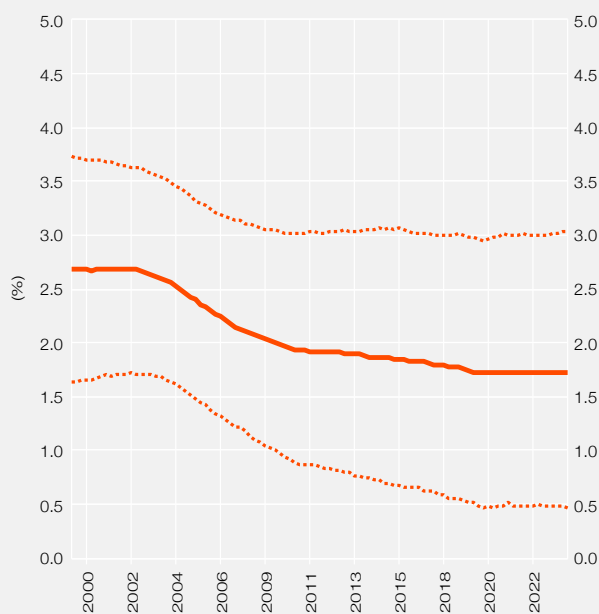
Upper bound of the 90% confidence interval

**Private consumption**

Lower bound of the 90% confidence interval

Long-term trend of consumption

Upper bound of the 90% confidence interval



Source: Bank of Greece econometric estimates.

to gauge the long-term trend of key macroeconomic aggregates and thus investigate whether these economic shocks have brought about a structural change in the long-term trends of the Greek economy.

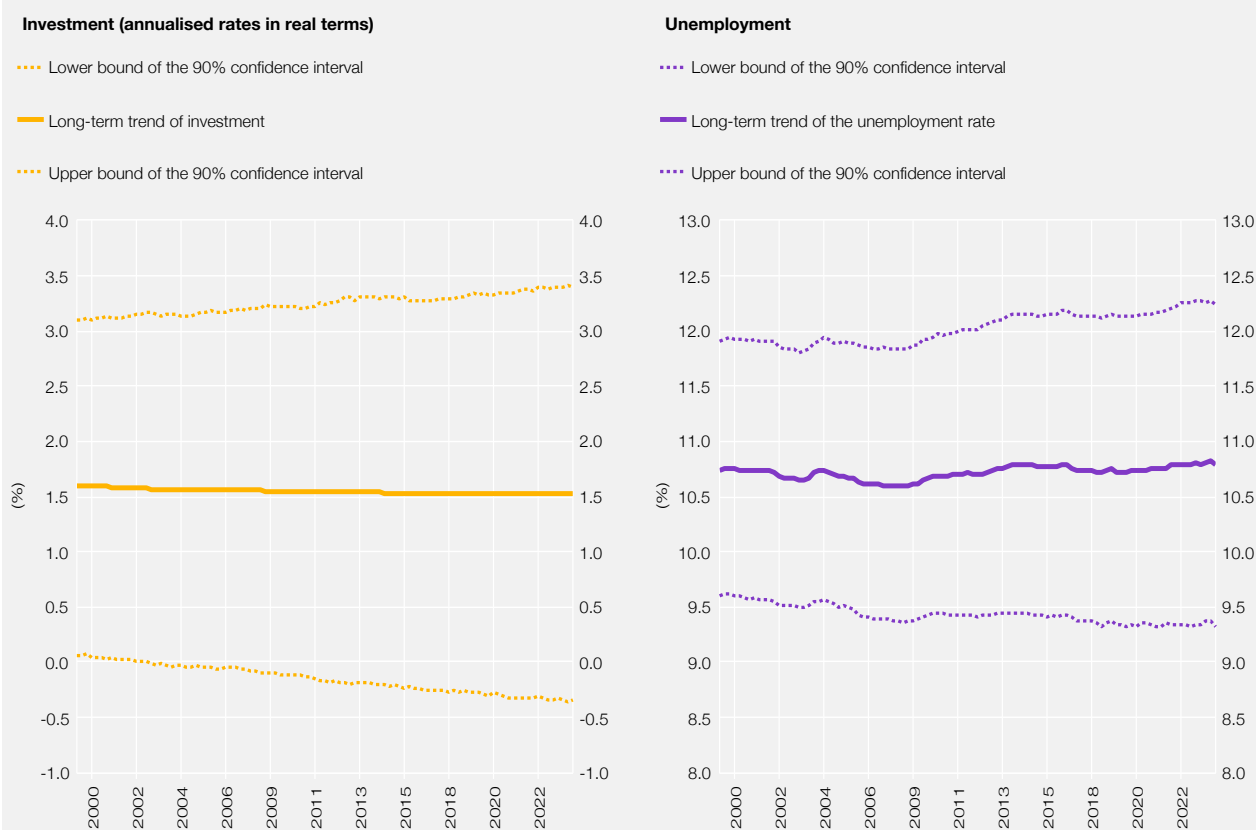
### Econometric model and empirical analysis

In general, in order to reliably estimate the long-term trends of macroeconomic variables and identify any structural changes, we use time series models, which meet a number of technical features, such as: (i) decomposition of variables into trend and cycle components;<sup>2</sup> (ii) non-linear and time-varying trend modelling; (iii) use of a large number of explanatory variables, which adequately explain short-term (cyclical) changes in the variable under examination, so as to enable a more reliable estimate of the long-term trend; and (iv) use of stochastic volatility in model residuals, which allows us to take into account the time-varying macroeconomic uncertainty in coefficient and trend estimates. The Bank of Greece has developed a number of Bayesian vector autoregression models (BVARs), which meet all these features and allow a more reliable estimation of the long-term trends of the main macroeconomic variables of the Greek economy.<sup>3</sup>

<sup>2</sup> The cyclical component of a series refers to short-term movements around its long-term trend without periodicity (as is the case for the seasonal component).

<sup>3</sup> In greater detail, the model used herein is a Hybrid Common-Trend Vector Autoregression (HCT-VAR) model, based on Louzis, D.P. (2024), "Large Hybrid Common-Trend Vector Autoregressions", *mimeo*. This model belongs to the trend-cycle VAR family proposed in the literature and is being developed by the Bank of Greece through a series of research papers. See (a) Louzis, D.P. (2016), "Macroeconomic forecasting and structural changes in steady states", Bank of Greece Working Paper No. 204, (b) Louzis, D.P. (2019), "Steady-state modeling and macroeconomic forecasting quality", *Journal of Applied Econometrics*, 34(2), 285-314, and (c) Louzis, D.P. (2023), "Trend inflation and inflation expectations in high dimensional vector autoregressions", *Conference on Research on Economic Theory and Econometrics (CRETE) 2023*, <https://www2.aueb.gr/conferences/Crete2023/papers/Louzis.pdf>.

Chart B Long-term trend of the rate of change in investment and the unemployment rate in the Greek economy



Source: Bank of Greece econometric estimates.

On the basis of these models, which use the information content of a large number of variables, we estimate the long-term trend of ten key macroeconomic variables of the Greek economy. The sample extends from Q2 1998 to Q2 2024 inclusive and comprises annualised rates of change for variables relating to economic activity (in real terms), inflation and nominal interest rates for the Greek economy, in accordance with literature on neo-Keynesian vector autoregression models.<sup>4</sup> The model results are presented, focusing on the variables for economic activity and the level of prices.<sup>5</sup>

In more detail, Chart A presents the long-term trend for the annualised rates of change in real GDP and household consumption. The results of the econometric estimation show that the long-term trend of both variables gradually decreased by almost one percentage point (pp) during the sample under review. As a result, the trend in real GDP

4 In particular, the variables included in the model are: (1) real GDP at 2015 prices (GDP); (2) real household consumption at 2015 prices (private consumption); (3) total hours worked; (4) real gross fixed capital formation at 2015 prices (total investment); (5) unemployment rate; (6) GDP deflator; (7) Consumer Price Index (CPI); (8) Harmonised Index of Consumer Prices (HICP); (9) short-term interest rates (as from Q1 2001 this index essentially coincides with the 3-month Euribor); and (10) long-term interest rates (a measure indicating 10-year Greek government bond yields). For all variables (except for the unemployment rate and the interest rates), we use annualised quarter-on-quarter growth rates (QoQ), while for non-seasonally adjusted variables we use the Tramo-Seats seasonal adjustment. The model is estimated by using Bayesian methods and 4 lags (for more details, see footnote 3).

5 The long-term trend in nominal interest rates generated by the model is less relevant than the long-term trend in real interest rates, which is used in literature as an indicator of the so-called *natural rate of interest* (or *r-star*). Due to space and time considerations, the results for the long-term trend in nominal interest rates are not shown. In any case, the long-term trend in nominal interest rates had been declining up to 2020, when it reversed and started a slightly upward course up to the end of the sample period (Q2 2024), reflecting the ECB's monetary policy.

**Chart C Long-term trend of the rate of change in the Consumer Price Index and the Harmonised Index of Consumer Prices**

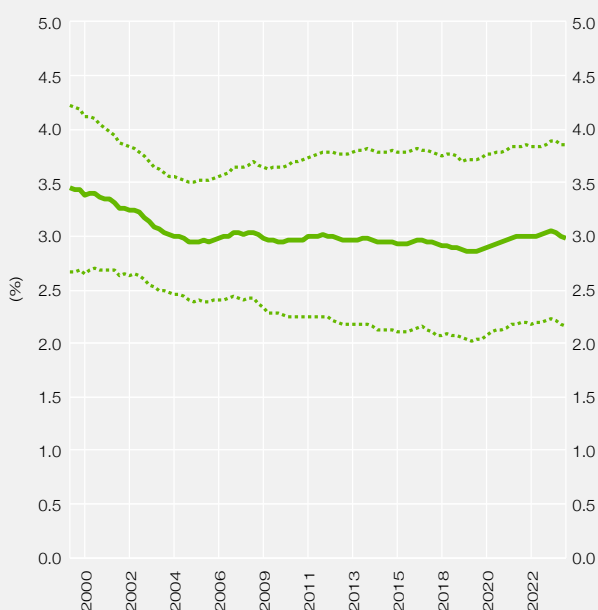
(annualised data)

**Consumer Price Index (CPI)**

..... Lower bound of the 90% confidence interval

—— Long-term CPI trend

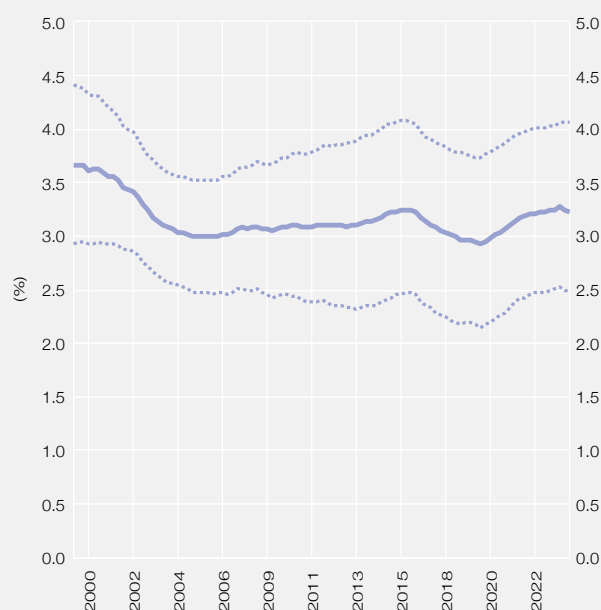
..... Upper bound of the 90% confidence interval

**Harmonised Index of Consumer Prices (HICP)**

..... Lower bound of the 90% confidence interval

—— Long-term HICP trend

..... Upper bound of the 90% confidence interval



Source: Bank of Greece econometric estimates.

growth gradually declined from 3.1% (2.7% for private consumption) up to around 2003 to 2.15% (1.72% for private consumption) in 2020.<sup>6</sup> It is worth noting that the largest decline in the average rate of change in both variables had occurred by 2011 (0.74 and 0.67 pp for GDP and private consumption respectively), reflecting the impact of the Greek debt crisis and the start of the economic adjustment programmes. By contrast, the COVID-19 shock did not negatively affect the long-term trend of GDP and private consumption; all the more so, the respective long-term trends stabilised both during the pandemic and during the current post-pandemic period. Financial support programmes for households and businesses that were implemented during the pandemic and the energy crisis that followed contributed to this, preventing a further downward trend in these variables.

Chart B shows estimates of the long-term trend in the growth rate of gross fixed capital formation in real terms (or, in summary, total investment) and the unemployment rate. The long-term trend in investment has seen a slight linear decrease of 0.08 pp throughout the sample period (from 1.6% to 1.52%), while the long-term trend in unemployment increased slightly by 0.18 pp (from 10.6% to 10.78%). It is worth noting that the 90% confidence interval for the long-term trend in investment growth is around 0.5 pp higher than that of long-term trend GDP and private consumption. This finding suggests greater uncertainty surrounding the estimates due to the high volatility in the rate of change in investment.

However, the results of the estimate do not point to any structural change in long-term trends, as may have been expected owing to the high volatility of these variables during the domestic debt crisis. This can be attributed to the

<sup>6</sup> The long-term trend in GDP growth can be translated into the percentage change in potential GDP. This means that, had there been no permanent structural changes, potential GDP in the Greek economy could grow by around 2.1% annually over the following years.

following reasons: (i) the ability of the model to account for factors that affect cyclical changes in the variables and to produce filtered – net – estimates of long-term trends; (ii) a careful elicitation of prior distributions in order to minimise non-material change (the “noise”) in estimates of long-term trends;<sup>7</sup> and (iii) the decline in unemployment and the return of the rate of change in investment to pre-crisis levels, as a result of both labour market and institutional reforms aiming at attracting new investment.<sup>8</sup>

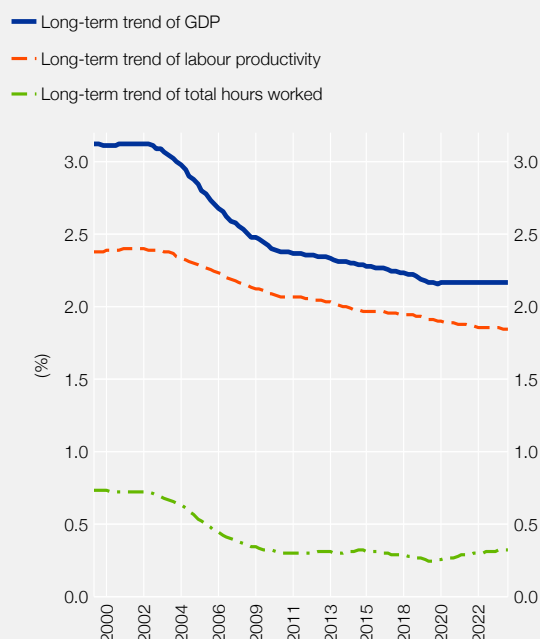
Finally, Chart C shows the long-term trend inflation, as proxied by the annualised rate of change in the Consumer Price Index (CPI) and the Harmonised Index of Consumer Prices (HICP). The long-term trend of both measures of inflation follows a common and steady pattern, with the HICP exhibiting comparatively higher volatility. In particular, the CPI trend inflation has declined from 3.5% at the beginning of the sample period to around 3% in 2004 and remains close to these levels throughout the period under review. The long-term HICP trend inflation followed a similar pattern up to 2004, but with relatively larger fluctuations, with its values ranging between 3% and 3.25% until the end of the period. It should be noted that, in general, despite individual fluctuations, we cannot identify any overall upward or downward movement of a permanent nature that could be seen as a structural change in the long-term trend inflation of the Greek economy. Even the strong inflationary pressures during the recent energy crisis, or even during the current post-pandemic period, did not substantially affect the long-term trend inflation. This underlines the effectiveness of the monetary policy pursued by the ECB, which manages to contain the long-term trend inflation to slightly rising levels, despite persistent inflationary challenges in recent years.<sup>9</sup>

### Decomposition of long-term trend GDP growth

The findings of the econometric estimation of the long-term trend GDP growth (see Chart A) show that the footprint of economic developments over the past two decades exhibits the features of a permanent structural change in the rate of change in the Greek GDP. The model allows for the long-term trend to be broken down into two aggregate components: (i) the long-term labour productivity growth trend; and (ii) the long-term labour input growth trend, which is not related to labour productivity and is proxied by total hours worked in the Greek economy.<sup>10</sup>

**Chart D Analysis of the long-term trend of the rate of change in GDP**

(annualised rates of change in real terms)



Source: Bank of Greece econometric estimates.

7 For the elicitation of prior distributions, see Del Negro, M., D. Giannone, M.P. Giannoni and A. Tambalotti (2017), “Safety, liquidity, and the natural rate of interest”, *Brookings Papers on Economic Activity*, 48(1), 235-316. In any case, the elicitation of prior distributions reflects an economist’s beliefs as regards the level and evolution of the (time-varying) model coefficients. The results presented in the present box do not substantially change when we use alternative elicitation of prior distributions (robustness checks).

8 Further analysis to explain the evolution of long-term trends in total investment and unemployment is not possible with this model. Nevertheless, labour market reforms, mainly aimed at reducing structural unemployment, seem to have played an important role in containing the long-term trend in unemployment.

9 Estimates of the long-term trend of the GDP deflator are qualitatively similar to those for the CPI and the HICP.

10 For more details, see Antolin-Diaz, J., T. Drechsel and I. Petrella (2017), “Tracking the Slowdown in Long-Run GDP Growth”, *The Review of Economics and Statistics*, 99(2), 343-356. In summary, using total hours worked enables us to identify and estimate the long-term trend in labour productivity, which (in the present model) includes technological and other factors. Further analysis of long-term trend labour productivity, as well as the identification of technological and non-technological factors that may affect labour productivity, call for the use of new variables, such as total factor productivity (TFP), etc. (see also Appendix K of the aforementioned study). The model does not allow for such an analysis, which would also be outside the scope of this box.

The results of the estimates (see Chart D) show that the decline in long-term trend growth of the Greek economy up to 2011 is attributable to a decline in both the long-term labour productivity and total hours worked trend. In fact, the contribution of hours worked to the overall decline in the long-term trend growth up to 2011 is slightly larger than the contribution of labour productivity.<sup>11</sup> As from 2011 however, we notice a reversal, with the long-term trend change in hours worked stabilising at close to 0.30% and recovering slightly from 2020 to date.<sup>12</sup> By contrast, the long-term labour productivity growth trend continues its almost linear downward path until the end of the sample (from 2.35% to 1.80%). This implies that since 2011 the decline in long-term trend labour productivity has contributed almost exclusively to the fall in the long-term GDP growth trend.<sup>13,14</sup>

### Conclusion and monetary policy proposals

This box explores the long-term trend of key macroeconomic aggregates of the Greek economy, including GDP, investment, unemployment and inflation, for a period spanning about 25 years. Although strong macroeconomic volatility owing to severe economic shocks can be observed over the sample period, estimation results indicate that, overall, the long-term trend of the variables under examination remain relatively unaffected, with the exception of growth in GDP and private consumption. For these variables, the results show a permanent decline in the long-term trend of one (1) percentage point, which is mainly due to the declining long-term labour productivity trend.

Recent empirical findings show that labour productivity is a particularly critical factor for sustainable economic growth in view of the challenges associated with climate change and the green transition.<sup>15</sup> Moreover, an appropriate monetary policy can contribute to improving labour productivity. An accommodative monetary policy can, under the right conditions (*ceteris paribus*), improve labour productivity in the long run by stimulating demand for investment in new, innovative and more productive technologies.<sup>16</sup>

11 Specifically, the trend GDP growth declined by 0.74 pp up to 2011, with 0.34 pp being attributable to a decline in labour productivity growth and 0.40 pp to a decline in trend hours.

12 According to the European Commission (2023), *Labour Market and Wage Developments in Europe, Annual Review 2023*, the growth rates of total hours worked and employment tend to react in the same way to the various phases of the euro area business cycle (at least up to 2019). Also, according to the same source, total hours worked do not usually return to pre-crisis levels and this is because of the use of new technologies after severe recessions. It should also be noted that part of the increase in average weekly hours worked in the post-pandemic period is attributable to teleworking.

13 Antolin-Diaz et al. (op. cit.) draw similar conclusions for the euro area economy (as a weighted average of the economies of Germany, Italy and France).

14 See also Lopez-Garcia, P. and B. Szörfi (2021), "Key factors behind productivity trends in euro area countries", ECB, *Economic Bulletin*, Issue 7/2021.

15 Yu, X., A. Dilanchiev and S. Bibi (2024), "Enhancing labor productivity as a key strategy for fostering economic growth and resource efficiency", *Heliyon*, 10(3) (e24640).

16 See footnote 14. In the same work, the authors state that a second channel through which an accommodative monetary policy increases the overall productivity of the economy is by boosting business profits, thus preventing the death of highly productive firms that become financially constrained. Empirical results from this work also suggest that accommodative monetary policy shocks have a positive impact on total factor productivity in the long term in euro area countries.

## 3 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

During 2024, the real estate market remained very buoyant, attracting interest and capital from Greece and abroad. Real estate prices moved upwards, with the prime segment of the market recording strong growth rates. Investment interest spanned across property uses, with demand for modern properties still exceeding the supply of the existing stock. Conditions of geopolitical uncertainty in the past few years and increased energy and material costs, together with recent developments directly affecting the construction sector,<sup>12</sup> are posing constraints on the smooth supply of the market with new properties. Given these supply constraints, prices, especially for

12 Ruling 146/2025 of the Council of State Plenum on the unconstitutionality of the New Building Regulation's incentive system.

residential properties, are expected to continue rising in the period ahead, provided that the current levels of foreign and domestic demand are sustained.

According to the apartment price indices published by the Bank of Greece, the housing market in the country as a whole continues to record robust annual growth rates of nominal apartment prices, which, however, have slowed over the last seven quarters. In more detail, the data (appraisals) collected from domestic credit institutions point to a price increase in the housing market at the country level in 2024, with apartment prices rising by 8.7% on an annual basis, compared with significant increases of 13.9% in 2023 and 11.9% in 2022 (see Chart IV.10).<sup>13</sup> The prices of new apartments (aged up to 5 years) in 2024 increased at an average annual rate of 10.1%, outpacing the prices of old apartments (7.8%). Looking at geographical breakdowns, strong annual growth rates of apartment prices were recorded in Thessaloniki (11.2%) and the rest of the country (10.6%), while in Athens and the other major cities the corresponding growth rates were lower than the average annual growth rate for the country as a whole (8.2% and 7.1%). It is worth noting that in the fourth quarter of 2024 the real estate price index for the whole of Greece stood at 101.9, falling short of its historical high in the third quarter of 2008 by 0.4%, while the index for new apartments came to 108.8, exceeding its respective historical high by 5.6%.

The housing market continued its positive performance. Foreign investment interest remained solid, as confirmed by Golden Visa data<sup>14</sup> as well as by foreign direct investment data on real estate purchases,<sup>15</sup> with net receipts in 2024 increasing by 28.9% year-on-year. In January–November 2024, residential construction activity in the country as a whole (ELSTAT data) recorded a significant increase in terms of both number and construction volume of new housing building permits, with annual growth rates of 30.3% and 22.7% respectively, but remained subdued compared with pre-crisis levels. Also, positive business expectations about residential construction (IOBE data) rose modestly in 2024 on an annual basis by 7.7%, compared with a rise of 18.1% in 2023. Housing investment (ELSTAT data at constant prices) grew by 2.7% in 2024, compared with a 24.7% increase in 2023, but remained low as a percentage of GDP (2.4%). Total construction costs for new residential buildings (ELSTAT data) continued to rise in 2024, albeit at a weaker annual rate (3.7%, against 6.2% in 2023). Based on Bank of Greece data on bank financing, the total amount of new housing loans increased by 20.4% in 2024, but still remained below pre-crisis levels, while the outstanding amount of housing loans declined by 2.6%. Finally, according to Bank Lending Survey data (fourth quarter of 2024), demand for housing loans has been declining for almost three years (with the exception of the second

Chart IV.10 House price index  
(Q1 2018 - Q4 2024)



<sup>13</sup> Looking at each quarter of 2024, annual price growth rates were 10.8%, 9.6%, 8.1% and 6.6% in the first, second, third and fourth quarters, respectively.

<sup>14</sup> Under the Golden Visa programme, in 2024 residence permit applications (both granted and pending) reached 9,381 (Ministry of Migration and Asylum data on legal immigration: February 2025), compared with 8,426 in 2023, up by 11.3% year-on-year.

<sup>15</sup> Bank of Greece data: in 2024, net receipts from real estate purchases by non-residents remained high as a percentage of total investment in the country, amounting to EUR 2,750 million, compared with EUR 2,133 million in 2023.

**Chart IV.11 Office indices**  
(H1 2018 - H1 2024)

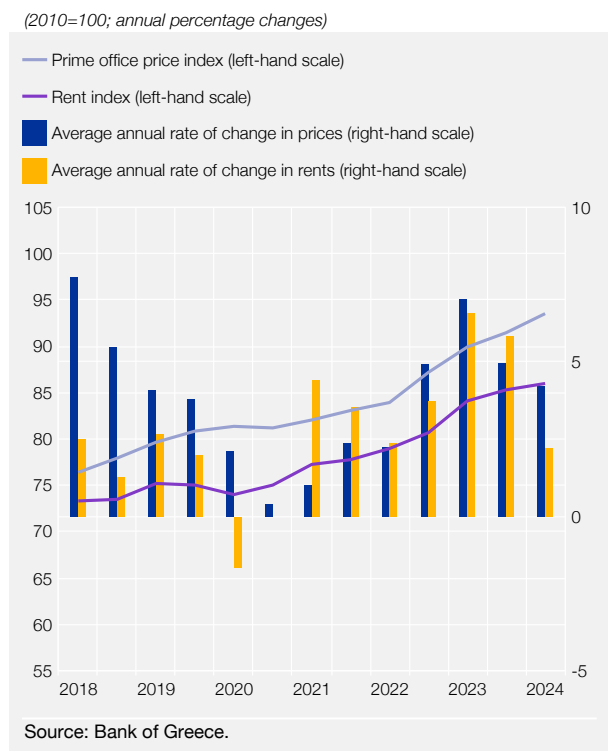
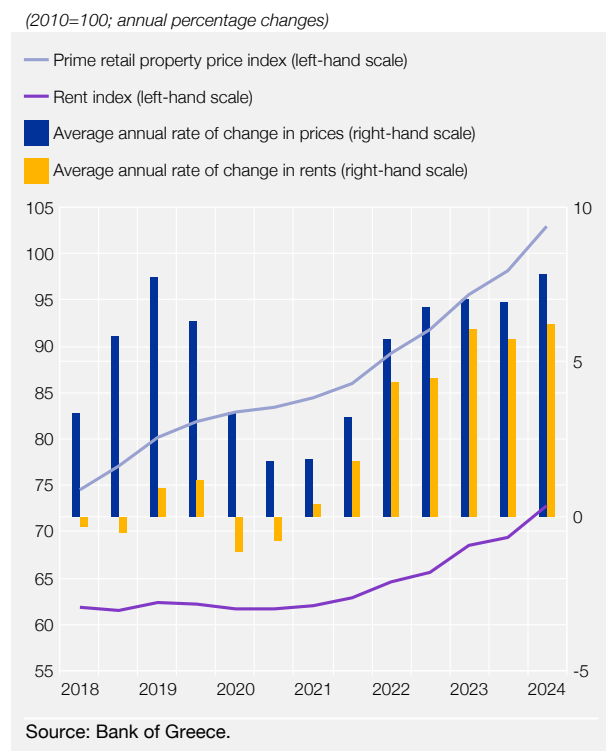


**Chart IV.12 Retail property indices**  
(H1 2018 - H1 2024)



quarter of 2023) owing to, among other things, the level of interest rates on mortgage loans (see Box VI.3).

Regarding the commercial real estate sector, on the basis of the indices published by the Bank of Greece, in the first half of 2024 prime office prices rose by 2.3% half-on-half, while prime retail property prices increased by 4.8% (see Charts IV.11 and IV.12). In Athens, the respective growth rates for both prime offices and prime retail properties were higher than in the country as a whole, at 3.6% and 6.4%. The Greek capital attracts strong interest from investment funds, real estate developers, but also users who are seeking modern bioclimatic spaces for relocation, especially in downtown Athens, as well as along the north axis of the city.

In January-November 2024, total construction activity for commercial real estate (ELSTAT data) increased in terms of both number and construction volume of building permits (2.9% and 0.4%, respectively). At the same time, although the number of new building permits for office spaces decreased by 15.0%, the overall construction volume showed an increase of 116.2%, suggesting a launch of large-scale construction projects. The number of new building permits for retail properties grew by 8.4%, while their construction volume decreased by 33.1% year-on-year. Finally, new hotel building permits fell by 20.3%, with the corresponding construction volume showing an increase of 15.5%.

On the basis of Bank of Greece data and as suggested by the results of the Commercial real estate market survey,<sup>16</sup> during the second half of 2024 the funds of Real Estate Investment Companies (REICs) and other investment portfolios and real estate developers were mostly directed to the purchase and development of hotels and hospitality uses, as well as prime office spaces. Minimum returns on prime offices in the Central Business District (CBD) of Athens

16 See the Bank of Greece's Commercial real estate market survey – H2 2024 (April 2025) (in Greek).

ranged between 5.6% and 6.7%, unchanged from the first half of the year, while minimum returns on prime retail properties centrally located in Athens ranged between 5.2% and 6.0%. The outlook for the Greek real estate market in the first half of 2025 remains positive, albeit slightly weaker than in the previous half-year, for most commercial uses. Current risks relate to geopolitical instability, global political and economic developments, high construction costs despite some decline in inflation, but also recent developments and the anticipated further changes in the legislation governing the construction and development of new properties.

For the housing market in particular, especially for prime investment housing, as well as special-use and serviced housing, the outlook remains very favourable. However, fast rising house prices in recent years have had a negative impact on housing affordability for middle- and lower-income households. The activation of the so-called “My Home II” programme, while ensuring access to housing for vulnerable households, further exacerbates demand for older properties meeting the programme’s specifications. Legislative initiatives to reduce investment demand for specific locations, with the introduction of stricter frameworks for short-term property rentals and Golden Visas, aim to release housing stock for primary residence use. However, chronic red tape in property transfers and frequent changes to the legislative and tax frameworks continue to affect the attractiveness of new development projects, ultimately limiting the inflow of modern properties into the market. Tackling the housing crisis requires further interventions to simplify and speed up procedures related to real estate purchases and development. In the same direction, a national strategic planning is also needed so as to strengthen regional economies and businesses, decongest metropolitan areas and ensure a more even distribution of housing demand across the entire country.

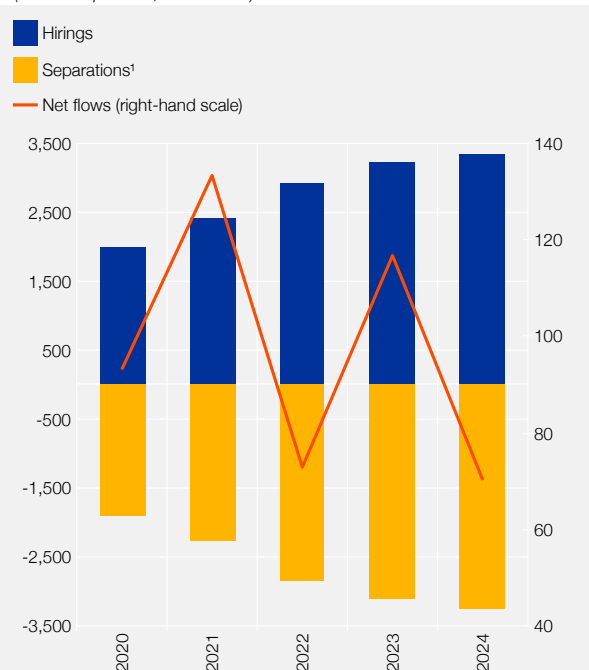
#### 4 EMPLOYMENT AND UNEMPLOYMENT: DEVELOPMENTS AND PROSPECTS

The labour market has maintained its upward trend since 2014 and improved substantially in 2024, offsetting the negative effects of the economic crisis on employment in the first half of the previous decade. Total employment continued to increase strongly (by 2.0% in 2024, against 1.3% in 2023), while the unemployment rate decreased to 10.1% in 2024, from 11.1% in 2023. Furthermore, dependent employment, based on dependent employment flows data from the ERGANI information system, increased again. Employment prospects remained in positive territory, above the euro area average. However, the labour market is very tight in several important sectors of the economy, such as tourism, manufacturing, construction and the primary sector, making it difficult for firms to find and hire workers with the desired skills, and leading to rising wage pressures.

Employment growth is also reflected in ERGANI information system data, as the balance of dependent employment flows in the private sector was positive in 2024, albeit hovering at lower levels compared with the previous year. Specifically, 2024 saw the creation of 70,349 new

**Chart IV.13 Dependent employment flows in the private sector (2020-2024)**

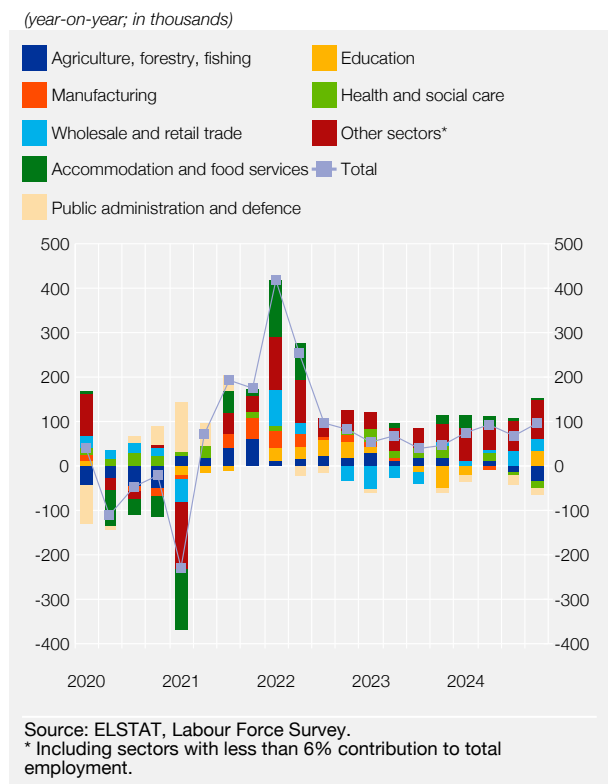
(thousand persons; annual data)



Sources: Manpower Employment Organisation (OAED) and "ERGANI" information system.

<sup>1</sup> Including termination and expiration of contracts and voluntary quits.

**Chart IV.14 Changes in the number of the employed: total and by sector of the economy (Q1 2020 - Q4 2024)**



jobs, against 116,649 in 2023 (see Chart IV.13), while the positive balance is mainly attributable to the contribution of tourism. Full-time employment contracts (52.0% of total hirings, from 51.4% in 2023) exceeded flexible forms of employment.

Based on electronic reporting data from the ERGANI information system, both the number of employees and the number of enterprises with employees increased. In particular, the number of employees under private-law contracts increased by 4.1% in 2024 on an annual basis, while the number of enterprises with employees grew by 1.0%. However, the data demonstrate the small size of enterprises and highlight the need to promote greater extroversion and business growth. 53.5% of the employees worked in small and medium-sized enterprises (i.e. with up to 49 employees). Specifically, 15.5% of employees worked in micro enterprises (with fewer than 5 employees), which represent 71.9% of total enterprises; 11.3% in enterprises with 5-9 employees (14.5% of the total); 26.7% in enterprises with 10-49 employees (11.8% of the total); 18.1% in enterprises with 50-249 employees (1.5% of the total); and 28.3% of the employees worked in enterprises with over 250

employees, which account for a very small share (0.3%) of total enterprises.

According to ELSTAT Labour Force Survey (LFS) data, in 2024 the number of employees grew by 2.0% relative to 2022. Similarly, dependent employment increased by 2.3% and the number of other employees rose by 1.2%, mainly reflecting an increase in the self-employed without staff, and family workers.

An increase in employment over the same period was driven by a rise in the number of persons employed in construction (12.0%), tourism-related activities (4.8%) and wholesale and retail trade (2.9%). By contrast, a decline in persons employed in agriculture and financial and insurance activities reversed the positive results of 2023, contributing to a drop in those sectors' share in total employment. The public administration and defence sector also followed a downward trend (see Chart IV.14).

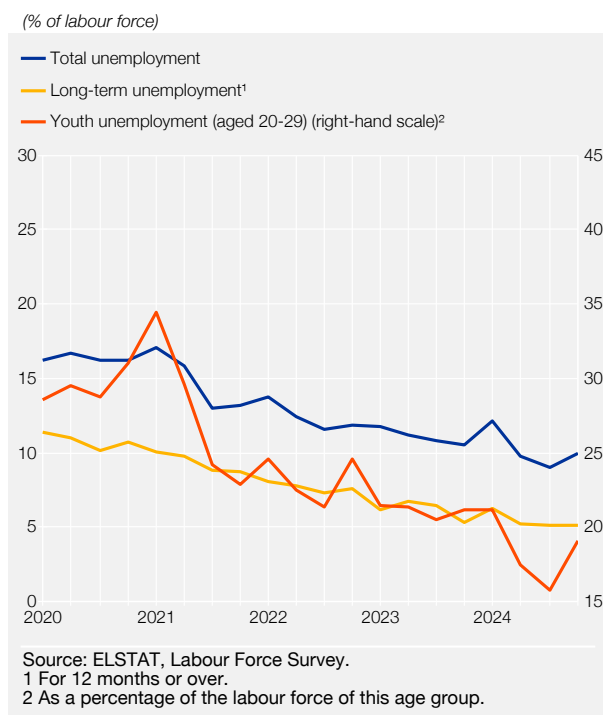
A breakdown by gender shows that in 2024 employment growth was stronger for women than for men (2.5% and 1.6%, respectively). Regarding annual changes by age group, persons aged 45-64, which account for the largest share in total employment for both men and women, registered strong increases (2.2% and 5.9%, respectively). By contrast, men aged 20-24 and 30-44 and women in the 30-44 age group saw their respective shares decline.

The share of part-time employment fell to 6.6% of total employment in 2024 (7.5% in 2023), mainly owing to a drop in the fourth quarter of 2024 (5.6%).

The labour force participation rate for the 15-64 age group grew in 2024 (to 70.5%, from 69.5% in 2023), reflecting an increase in the labour force participation rate for both men and women. Moreover, labour force participation rates saw an increase for almost all age groups. In particular,

the participation rate for the 25-29, 30-44 and 45-64 age groups grew by 1.7, 0.2 and 2.5 percentage points, respectively. Labour force participation rates, especially female and youth participation, are of particular importance, as an ageing population may put pressure on the social security system. A survey by ELSTAT on people aged over 65, which was based on data from the last two population censuses carried out in 2011 and 2021, suggests that, within a decade, the number of people in this age group increased by 13.3%, while their share in the total population rose to 22.8%. Therefore, as the number of people aged over 65 increases due to ageing and the country's population is declining due to low birth rates, the challenges arising from higher shares of older people in the total population are increasingly relevant. Policies promoting reconciliation of family and work life and investing in the education and training of human capital, along with tax system reforms and the removal of incentives to early retirement, are important in this respect, as they help to reintegrate and keep more workers in the labour market.

**Chart IV.15 Unemployment rates  
(Q1 2020 - Q4 2024)**



The unemployment rate in 2024 dropped further to 10.1%, decreasing for both men and women, although the female unemployment rate (12.8%) remained significantly above the male unemployment rate (8.0%). In addition, both the unemployment rate for the young aged 20-29 years and the long-term unemployment rate fell to 18.4% and 5.4%, respectively (see Chart IV.15). A further increase in employment and labour market participation of young people requires, inter alia, boosting demand in high value-added sectors and occupations, attracting foreign direct investment and increasing the extroversion of the Greek economy.

The short-term prospects for employment (IOBE/European Commission business surveys) reflected positive developments in 2024, improving against 2023, mainly in services and manufacturing. Employment prospects in construction and trade declined slightly, albeit remaining in positive territory. The weighted employment outlook index remained unchanged compared with 2023.

Labour market tightness, which reflects an excess of job vacancies over persons looking for a job and is expressed as the job vacancy rate, increased following the pandemic, continuing to rise in 2024 (2.2%, against 1.6% in 2023) and moving closer to the EU27 average (2.4% in 2024, against 2.8% in 2023). Overall, the labour market appears to be tighter than in the pre-pandemic period. Specifically, by sector of economic activity, accommodation and food (job vacancy rate: 8.0%), construction (3.0%), manufacturing (1.8%) and professional, scientific and technical activities (4.0%) recorded the highest levels of tightness. By contrast, financial and insurance activities recorded the lowest job vacancy rates. Information and communications recorded a drop in the job vacancy rate vis-à-vis 2023.

For the Greek economy to grow and households' disposable income to rise, a stronger labour market is needed. For this reason, concrete policies to boost overall employment and reduce the unemployment rate are urgently needed, especially in an environment of a tightening labour market and skilled labour shortages. Growing labour market tightness observed in recent years may hamper further convergence of the Greek economy towards the euro area average. For

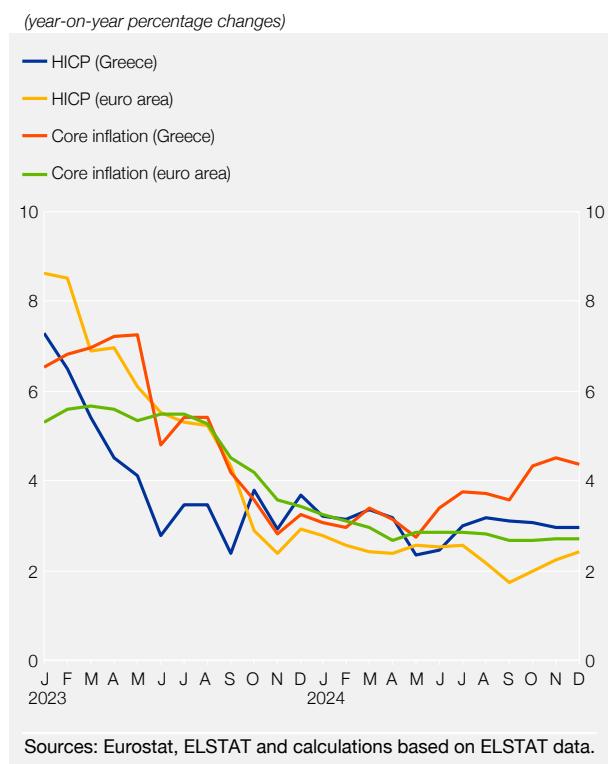
the labour market to ease, both the labour force must rise and the existing workforce – particularly the unemployed – must be retrained, so as to meet the needs of enterprises. To increase the labour force, further incentives should be offered, particularly to groups with low participation rates, such as women and the young, to enter the workforce pool. Such measures include strengthening early childhood education and care structures for older people, as well as further developing flexible forms of employment, such as parttime work and teleworking. Moreover, additional incentives are needed to reverse the brain drain of the last economic crisis, as well as to attract immigrants, who will be employed in sectors with significant labour shortages, such as agriculture, construction and tourism. Accordingly, it is necessary to further support the technical upskilling and training of the long-term unemployed, as the rapid spread of artificial intelligence in the labour market risks exacerbating skill supply and demand mismatches. To close this gap, new educational and training programmes for both the employed and the unemployed should be designed. Lastly, implementation of policies to tackle undeclared work and further reduce labour costs should continue, following the recent reduction in employers' social security contributions as from 1 January 2025.

## 5 INFLATION, WAGES AND BUSINESS PROFITS: DEVELOPMENTS AND PROSPECTS – INCOME INEQUALITY AND POVERTY

### 5.1 Inflation

Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), dropped to 3.0% in 2024. This development essentially follows the disinflationary path that started in the fourth quarter of 2022. After harmonised headline inflation surged to 9.3% in 2022, inflation fell sharply to 4.2% in 2023 and further to 3.0% in 2024 (see Chart IV.16 and Table IV.5).

**Chart IV.16 Harmonised index of consumer prices (HICP) and core inflation (HICP excluding energy, food, alcoholic beverages and tobacco) in Greece and the euro area (January 2023 - December 2024)**



Both food components (processed and unprocessed food), non-energy industrial goods and energy goods contributed to the decline in HICP inflation. By contrast, services inflation (see also Box IV.2) recorded a high annual rate (4.4%), not significantly different from the annual rates recorded for services in the past two years (4.5%).

Average annual inflation on energy goods remained in negative territory in 2024 (-1.4%). This primarily reflects the fact that international oil prices remained at relatively low levels, particularly in the second half of 2024. As a result, negative inflation on transport and heating fuels, mainly in the second half of 2024, more than offset the upward course of electricity and gas prices, keeping average energy inflation in negative territory (see Chart IV.17).

Both processed and unprocessed food inflation have been on a sharply downward trajectory. Processed food inflation hovered from 5.3% in January 2024 to -0.3% in December and followed a steady downward path. Unprocessed food inflation also showed a similar pattern, dropping to 0.0% in December 2024 from 11.5% in January. Inflation rates on a number of

Table IV.5 Price developments in Greece and the euro area

(annual percentage changes)

|                                                                      | 2020 | 2021 | 2022 | 2023  | 2024 |
|----------------------------------------------------------------------|------|------|------|-------|------|
| <b>A. Euro area</b>                                                  |      |      |      |       |      |
| <i>Harmonised Index of Consumer Prices (HICP) and its components</i> |      |      |      |       |      |
| Overall index                                                        | 0.3  | 2.6  | 8.4  | 5.4   | 2.4  |
| Goods                                                                | -0.4 | 3.4  | 11.9 | 5.7   | 1.1  |
| Food                                                                 | 2.3  | 1.5  | 9.0  | 10.9  | 2.9  |
| Processed food <sup>1</sup>                                          | 1.8  | 1.5  | 8.6  | 11.4  | 3.2  |
| Unprocessed food                                                     | 4.0  | 1.6  | 10.4 | 9.1   | 1.9  |
| Industrial goods                                                     | -1.8 | 4.5  | 13.6 | 2.9   | 0.0  |
| Non-energy industrial goods                                          | 0.2  | 1.5  | 4.6  | 5.0   | 0.8  |
| Energy                                                               | -6.8 | 13.0 | 37.0 | -2.0  | -2.2 |
| Services                                                             | 1.0  | 1.5  | 3.5  | 4.9   | 4.0  |
| Overall index excluding energy and food <sup>2</sup>                 | 0.7  | 1.5  | 3.9  | 4.9   | 2.8  |
| <b>B. Greece</b>                                                     |      |      |      |       |      |
| <i>Harmonised Index of Consumer Prices (HICP) and its components</i> |      |      |      |       |      |
| Overall Index                                                        | -1.3 | 0.6  | 9.3  | 4.2   | 3.0  |
| Goods                                                                | -1.1 | 2.0  | 12.9 | 3.8   | 1.7  |
| Food                                                                 | 1.3  | 1.2  | 9.7  | 9.9   | 2.8  |
| Processed food <sup>1</sup>                                          | -0.1 | 0.7  | 9.5  | 9.3   | 2.5  |
| Unprocessed food                                                     | 4.5  | 2.2  | 10.1 | 11.1  | 3.4  |
| Industrial goods                                                     | -3.3 | 2.7  | 15.9 | -1.0  | 0.8  |
| Non-energy industrial goods                                          | -0.4 | -0.7 | 5.0  | 6.4   | 1.7  |
| Energy                                                               | -9.8 | 12.4 | 41.0 | -13.4 | -1.4 |
| Services                                                             | -1.4 | -1.0 | 4.5  | 4.5   | 4.4  |
| Overall index excluding energy and unprocessed food <sup>2</sup>     | -1.2 | -1.1 | 4.6  | 5.3   | 3.6  |

Sources: Eurostat, ELSTAT and calculations based on ELSTAT data.

<sup>1</sup> Including alcoholic beverages and tobacco.<sup>2</sup> Includes all food products, non-alcoholic beverages, alcoholic beverages and tobacco.

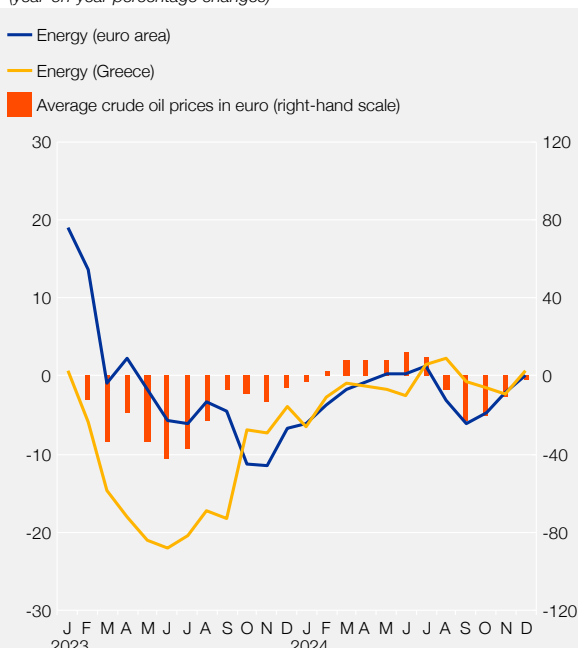
food items registered a sharp decline, for example: olive oil (0.6% in December 2024 from 67.4% in January), fresh fruit (3.5% from 15.9 %), fresh vegetables (0.3% from 23.4%), meat (1.3% from 6.0%), fish (1.2% from 7.7%), the “coffee-cocoa-tea” item (1.3% from 5.0%), “mineral water, refreshments, fruit juices” (4.2% from 11.7%) and alcoholic beverages (0.3% from 4.4%). Total food inflation (which includes food, non-alcoholic beverages, alcoholic beverages and tobacco) decreased sharply from 7.1% in January 2024 to -0.2% in December. Thus, the overall food component, which recorded an average annual growth rate of 9.9% in 2023, fell to 2.8% in 2024.

The average annual rate of change in the prices of non-energy industrial goods decelerated to 1.7% in 2024, from 6.4% in 2023, contributing to a decline in harmonised headline inflation. Although average annual inflation declined strongly in 2024 compared with 2023, the annual rates per month exhibited strong volatility over the year: after falling continuously from January 2024 to July 2024, they picked up again in the next few months of the year. This, together with a similar increase in the annual growth rates of services inflation in the second half of 2024, contributed to a further divergence between headline HICP inflation and core inflation (HICP excluding energy and food).

Services are essentially the only HICP component to have remained in 2024 at levels close to those of 2023 and 2022, thus preventing a further decline in harmonised inflation. The persist-

**Chart IV.17 Evolution of energy prices in the euro area and in Greece and of Brent crude oil prices in euro (January 2023 - December 2024)**

(year-on-year percentage changes)



Sources: Eurostat; calculations based on ELSTAT data; for crude oil prices (UK Brent), calculations based on ECB data.

ently high inflation of the services component reflects increases in unit labour costs, strong external demand and an additional burden from increases in indirect taxes on food and accommodation services in the course of 2024. The rise in services inflation over the year (from 3.7% in the first half of 2024 to 5.1% in the second) spilled over to core inflation, which increased from 3.1% in the first half of 2024 to 4.0% in the second half. As a result, core inflation diverged from headline harmonised inflation by 1.0 percentage point in the second half of 2024, compared with a negligible 0.1 percentage point in the first half of the year (see Table IV.6).

Harmonised inflation is expected to further decline slightly in the course of 2025. Food inflation and non-energy industrial goods (NEIG) inflation are projected to decline. Energy inflation is expected to return to positive territory, with an upward effect on headline inflation, together with services inflation, which is expected to strengthen, as its drivers should continue to rise this year.

**Table IV.6 Price indices**

(annual percentage changes)

| Consumer price index (CPI) |               |       |          |                                                 |                             |                                |                          |       |
|----------------------------|---------------|-------|----------|-------------------------------------------------|-----------------------------|--------------------------------|--------------------------|-------|
| Sub-indices                |               |       |          |                                                 |                             |                                |                          |       |
| Years                      | Overall index | Goods | Services | CPI excluding fresh fruit & vegetables and fuel | CPI excluding food and fuel | Food & non-alcoholic beverages | Fresh fruit & vegetables | Fuel  |
| 2020                       | -1.2          | -1.6  | -0.8     | -0.4                                            | -0.6                        | 1.4                            | 6.5                      | -12.3 |
| 2021                       | 1.2           | 2.4   | -0.5     | 0.2                                             | -0.1                        | 1.4                            | 1.2                      | 14.9  |
| 2022                       | 9.6           | 14.0  | 2.4      | 7.1                                             | 5.7                         | 11.8                           | 10.3                     | 34.7  |
| 2023                       | 3.5           | 3.3   | 3.8      | 5.1                                             | 3.4                         | 11.6                           | 11.5                     | -11.4 |
| 2024                       | 2.7           | 1.6   | 4.4      | 3.2                                             | 3.1                         | 3.4                            | 3.4                      | -2.0  |

| Industrial producer price index |               |                                |                    |                |                 |                                |                                |                                |
|---------------------------------|---------------|--------------------------------|--------------------|----------------|-----------------|--------------------------------|--------------------------------|--------------------------------|
| Domestic market                 |               |                                |                    |                | External market |                                | Import price index in industry |                                |
| Sub-indices                     |               |                                |                    |                |                 |                                |                                |                                |
| Years                           | Overall index | Overall index excluding energy | Intermediate goods | Consumer goods | Overall index   | Overall index excluding energy | Overall index                  | Overall index excluding energy |
| 2020                            | -4.6          | -0.1                           | -0.6               | 0.2            | -15.5           | -0.3                           | -10.8                          | -0.9                           |
| 2021                            | 11.9          | 2.3                            | 4.1                | 0.8            | 20.0            | 5.5                            | 20.0                           | 2.8                            |
| 2022                            | 33.5          | 6.6                            | 10.1               | 4.7            | 39.8            | 15.2                           | 27.7                           | 7.1                            |
| 2023                            | -6.5          | 5.0                            | 3.4                | 6.5            | -9.0            | 4.0                            | -12.3                          | 1.2                            |
| 2024                            | -2.4          | 1.6                            | 0.6                | 2.4            | -1.5            | 2.2                            | -2.0                           | 0.0                            |

Source: ELSTAT and calculations based on ELSTAT data.

## Box IV.2

## SERVICES INFLATION IN GREECE AND ITS MAIN COMPONENTS

In the period 2023-2024 it can be seen that for the Greek economy the key determinant of headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), was the services component. Consequently, it is of particular interest to investigate and identify those categories of services that make the largest contributions to services inflation.

## The main components of services inflation

The HICP consists of five main components: unprocessed food, processed food, non-energy industrial goods, energy and services. Over time, the services component carries the highest weight. Headline HICP inflation started its upward course in mid-2021 and mainly in the last quarter. As of the second quarter of 2021 energy inflation strengthened, recording annual rates above 10%, while as of the third quarter of the same year food inflation also began to pick up. Major increases in the prices of services and non-energy industrial goods followed with a time lag of several months and became strongly felt in mid-2022. Table A presents the average annual rates of change in the HICP as well as the contributions of its five main components in the period 2020-2024.

Table A Headline HICP inflation and contributions of its main components<sup>1</sup>

(headline inflation: annual percentage changes; contributions: percentage points)

|      | Headline inflation | Unprocessed food | Processed food | Non-energy industrial goods | Energy | Services |
|------|--------------------|------------------|----------------|-----------------------------|--------|----------|
| 2020 | -1.3               | 0.33             | -0.02          | -0.07                       | -0.79  | -0.71    |
| 2021 | 0.6                | 0.17             | 0.12           | -0.12                       | 0.79   | -0.39    |
| 2022 | 9.3                | 0.74             | 1.56           | 0.91                        | 4.47   | 1.62     |
| 2023 | 4.2                | 0.90             | 1.71           | 1.22                        | -1.69  | 2.01     |
| 2024 | 3.0                | 0.31             | 0.47           | 0.33                        | -0.12  | 2.02     |

Sources: ELSTAT and Bank of Greece.

<sup>1</sup> The second column presents the annual rates of change in prices for headline HICP inflation, while the following columns show the contributions of each component to the annual change in headline inflation. Therefore, the sum of these contributions per year equals the annual headline inflation of the corresponding year.

The annual change in the energy component peaked in May 2022 (61.0%), contributing 4.47 percentage points to the average increase in headline inflation, which stood at 9.3% in 2022. Both food components contributed 2.61 percentage points in 2023 and, along with services (2.01 percentage points) and non-energy industrial goods (1.22 percentage points), kept headline inflation at high levels (4.2%) in spite of a considerable decline in the energy component (-1.69 percentage points). The contribution of services inflation to headline inflation was substantial both in 2023 (2.01 percentage points) and in 2024 (2.02 percentage points).

The persistence of high services inflation throughout 2024 (4.4% against 4.5% in 2023) is attributable to several factors. The surge in energy inflation in 2022, the large increases in food prices and the supply bottlenecks during the COVID-19 lockdown period fed into services inflation with a time lag. Furthermore, rising wages, partly due to minimum wage increases, are also reflected in the high and persistent services inflation.

Among the many sub-indices that make up the services component, specific indicators that are mainly related to tourism stand out, such as accommodation and food service activities, as well as airline tickets and rents. Table B shows the average annual rates of change in the services component along with the contributions of its four main sub-indices.

In terms of their weighting in the HICP, the above four services sub-indices together carry a weight of 223.06%, accounting for slightly less than 50% of the total weight of the services component in the HICP, which was

**Table B Inflation of the services component and contributions of main services sub-indices<sup>1</sup>**

(inflation: annual percentage changes; contributions: percentage points)

|      | Services inflation | Food services | Accommodation services | Airline tickets | Rents |
|------|--------------------|---------------|------------------------|-----------------|-------|
| 2020 | -1.4               | 0.08          | -0.53                  | -0.50           | 0.01  |
| 2021 | -1.0               | -0.20         | 0.09                   | -0.17           | -1.67 |
| 2022 | 4.5                | 1.54          | 2.29                   | 0.57            | -0.55 |
| 2023 | 4.5                | 2.24          | 0.76                   | 0.31            | 0.32  |
| 2024 | 4.4                | 1.83          | 0.69                   | 0.34            | 0.34  |

Sources: ELSTAT and Bank of Greece.

<sup>1</sup> The second column presents the annual rates of change in prices for the services component, while the following columns show the contributions of selected services sub-indices to the annual change in services inflation. The sum of these contributions per year does not equal the corresponding inflation rate of the services component, as the table comprises a small sample of only four services sub-indices out of a large number of services sub-indices that make up the services component.

463.79‰ in 2024. Specifically, their total contribution to services inflation, which stood at 4.5% in 2023, came to 81% and to 72% in 2024.

Food services as well as accommodation services carry high weights, strongly reflect wage increases as a large share of the people employed in the sector earn the minimum wage, incorporate food and energy costs, and capture high tourism demand. Airline tickets exhibit high volatility, incorporate energy costs and reflect high tourism demand. House rents are mainly limited to domestic factors, although to some extent they are also linked to the availability of housing for long-term rental, as opposed to short-term rentals that are associated with high tourism demand.

The persistence of services inflation in 2024, most likely also in 2025, is attributable to wage increases, hikes in indirect taxation and strong demand due to increased tourism activity. Wages and particularly the minimum wage are expected to rise further this year. Meanwhile, tax increases have already taken effect with the imposition of a climate resilience levy, while 2025 is expected to be another strong tourism year, which will maintain external demand at high levels.

### Comparison of services inflation between Greece and the euro area

In the euro area as well as in Greece, services have the highest weight among inflation components (448.83‰ in 2024). The euro area countries with the highest weights for services are Austria (487.54‰), France (482.38‰) and Spain (469.17‰), while those with the lowest weights are Slovakia (272.79‰), Latvia (273.34‰) and Croatia (320.91‰). Services in Greece are assigned the fourth highest weight among euro area countries.

From January 2020 to April 2022 (see Chart A), services inflation in Greece was lower than that of the euro area, even turning negative between June 2020 and August 2021. Since June 2021, a steady upward trend in services inflation had been observed both in Greece and in the euro area, mainly as a result of the easing of pandemic-related measures, which had had a disproportionately negative impact on the consumption of services compared to the consumption of goods. During that period, the rise in services inflation was much more pronounced in Greece than in the euro area. Between May 2022 and May 2023, services inflation in Greece exceeded that of the euro area, peaking at 7.4% in September 2022, compared with a peak of 5.2% in April 2023 for the euro area.

According to Corsello and Neri (2025)<sup>1</sup> and Michail and Louca (2024)<sup>2</sup>, the rise in euro area services inflation in 2021 and 2022 was mainly attributable to the categories of food and travel services (“fast-movers”), which were greatly affected by higher fuel and food prices, especially during 2022. In 2023, rising services inflation in the

<sup>1</sup> Corsello, F. and S. Neri (2025), “Catch me if you can: fast-movers and late-comers in euro area inflation”, *SUERF Policy Brief*, No. 1070.

<sup>2</sup> Michail, N.A. and K.G. Louca (2024), “Wages and Inflation in the Euro Area”, *CESifo Economic Studies*, ifae014.

euro area was mostly driven by the categories of rents, insurance, health and education, which generally react with a time lag (“late-comers”).

In a recent study by Karakitsios et al. (2025)<sup>3</sup> investigating the persistence of HICP inflation and its components in Greece and the euro area, it is found that in Greece the persistence of services inflation appears to have been comparatively greater until the beginning of the inflation crisis in 2021. Nevertheless, the persistence of services inflation also grew significantly in the euro area, particularly from 2020 onwards. It is pointed out that the high persistence parameters in both Greece and the euro area can be attributed to supply chain disruptions and primarily to labour market tightness, which can drive prices and services inflation upwards, with wage increases being the main determinant (Schwartzman 2023; Shapiro 2023; Sanchez 2008).<sup>4</sup>

From June to December 2023, a decline in services inflation was observed both in Greece and in the euro area. Due to its stronger downward trend, services inflation in Greece was again comparatively lower. Subsequently, services inflation stabilised at approximately 4% in the euro area, while in Greece it steadily followed an upward trend, reaching 5.6% in December 2024.

On the basis of the latest available data for the first two months of 2025, services inflation in Greece remained high (5.4%), well above the European average (3.8%).

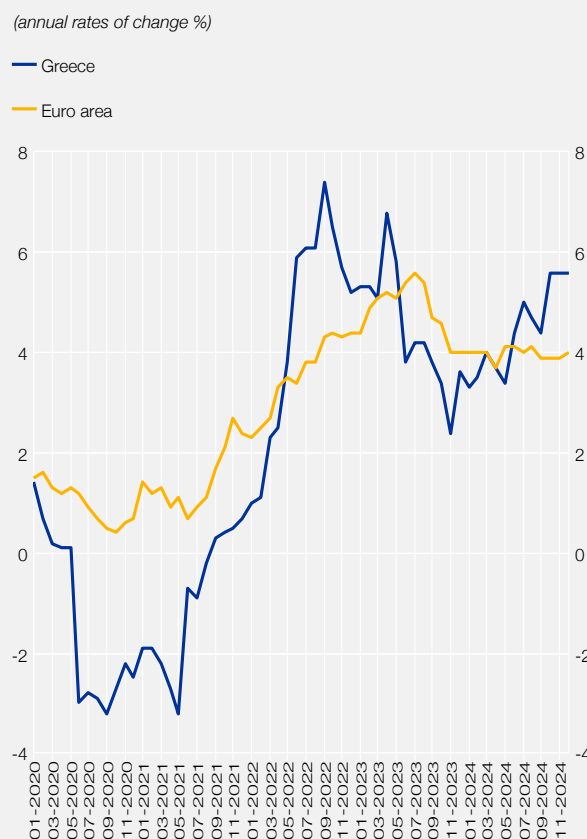
Among euro area countries, those with the highest services inflation for the period January-February 2025 were Estonia (8.7%), Croatia (8.0%) and Slovakia (also 8.0%), while the lowest services inflation was recorded in Luxembourg (2.0%) and France (2.5%).

### The contribution of the main components of services inflation

Services as a whole have the highest weighting among the components of inflation over time, since spending on services exceeds 40% of total household spending. Consequently, services inflation significantly affects headline inflation. The services carrying the highest weights are considered to be main components. On the basis of 2024 data on total consumption expenditure (derived from 2023 consumer spending), services are assigned a total weight of 463.79%, while the services sub-indices with the highest weights – in terms of total consumption expenditure – are restaurants (118.78%), hotels (41.75%), actual rents paid by tenants (31.07%), mobile telephony services (23.19%), fast-food services (22.02%), secondary education (18.02%) and hospital care (17.38%).

Thus, the aforementioned services sub-indices shape to a large extent the behaviour of services inflation, accounting all together for more than 27% of total consumption expenditure. For this reason, an examination of their evolution and an analysis of their contribution to services inflation are particularly useful in order to compre-

**Chart A Evolution of services inflation in Greece and the euro area (2020 - 2024)**



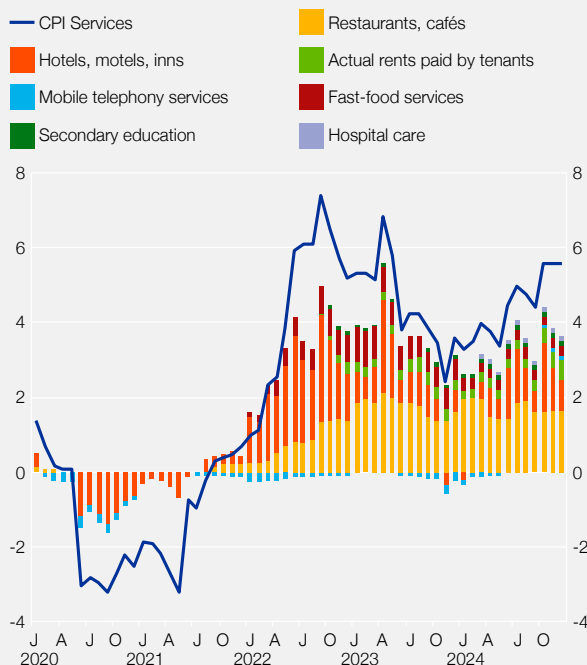
Sources: Eurostat and Bank of Greece calculations.

3 Karakitsios, A., E. Kasimati, E. Kondelis and Z. Bragoudakis (2025), “Investigation of the persistence of Harmonised Inflation and its components in Greece and the euro area, *Greek Economic Outlook*, Issue 56, pp. 66-81, Athens: KEPE.

4 Schwartzman, F. (2023), “Untangling persistent inflation: underlying the factors at work”, Federal Reserve Bank of Richmond, Economic Brief, 23-31; Shapiro, A.H. (2023), “How much do labor costs drive inflation?”, Federal Reserve Bank of San Francisco, *FRBSF Economic Letter*; and Sanchez, M. (2008), “Why is services inflation higher than goods inflation in the euro area?”, available at SSRN, <http://dx.doi.org/10.2139/ssrn.1328827>.

**Chart B Evolution of CPI services inflation and contributions of its main components (January 2020 - December 2024)**

(annual percentage changes % and percentage point contributions)



Sources: ELSTAT and Bank of Greece calculations.

hend the possible determinants of a major component of headline inflation.

Chart B presents the evolution of services inflation and the contributions of the aforementioned services sub-indices in 2020-2024.

As shown by data analysis, the selected services explain a significant part of services inflation particularly over the years 2023 and 2024. Specifically, inflation rates for restaurants, hotels and house rents account for the largest part of services inflation, since their contribution over time is higher than 50% of total services inflation, with this percentage even exceeding 70% in 2023 and 2024. This reflects both the high weights of the specific services and their very high inflation rates since end-2021. The large contribution of these services was also observed during the pandemic period, when services inflation was negative.

From mid-2022 up until early 2024, the contribution of fast-food services inflation (not included in the restaurants sub-index) was also significant, which chiefly reflects the very high inflation rates of these services rather than their weighting. By contrast, the contributions of mobile telephony and secondary education services were notably smaller.

## Conclusions

The above analysis demonstrates that the contribution of services prices to the evolution of inflation at the current juncture is of paramount importance. Data show that the increase in the prices of services is attributable to the following factors:

(a) A rise in demand and, by extension, in the prices of services. Private consumption has been recording a continuous increase since 2021, exhibiting remarkable resilience to multiple external shocks. Following a decrease of 6.1% in 2020 due to the pandemic, private consumer expenditure (at constant prices) increased by 5.4% in 2021, 8.8% in 2022 and 1.7% in 2023. Furthermore, in the first nine months of 2024, real private consumption recorded an annual increase of 1.8%, supported by the rise in employment, the upward trend of travel receipts and higher incomes.

(b) A time lag in the adjustment of services prices to the general price level. Compared with other price categories, such as energy and food, services prices adjust more slowly. This became evident during the energy crisis, as the HICP increased by 9.3% in 2022 and 4.2% in 2023, while the prices of services recorded a milder rise (4.5% in both years). Conversely, food prices surged by 12.0% and 11.7% respectively.

(c) Labour intensity in the services sector. The production of services is characterised by higher labour intensity, with wages accounting for a larger share of total costs in comparison with goods. Thus, the prices of services are more strongly affected by wage increases, which result to a certain degree from increases in the minimum wage (Bank of Greece 2024)<sup>5</sup> and labour market tightness (Antonopoulos et al. 2022)<sup>6</sup>.

<sup>5</sup> See "Assessment of applicable statutory minimum wages", Bank of Greece, 2024 [in Greek].

<sup>6</sup> Antonopoulos, C., S. Anyfantaki, H. Balfoussia, T. Kosma, E. Papapetrou, F. Petroulakis, P. Petroulas and P. Zioutou (2022), "The Greek labour market before and after the pandemic: slack, tightness and skills mismatch", Bank of Greece, *Economic Bulletin*, 56.

(d) Increased weighting of services in the HICP. The weights of each HICP component differ across euro area countries and are updated annually on the basis of household consumption expenditure. For 2024, services in Greece represented the fourth highest weight across the euro area, exceeding its respective average. This means that the HICP in Greece is more sensitive to the increases in services prices that have been recorded since early 2024.

### Box IV.3

## CONSUMERS' INFLATION PERCEPTIONS AND EXPECTATIONS IN GREECE AND THE EURO AREA. INSIGHTS FROM THE ECB CONSUMER EXPECTATIONS SURVEY

The ECB Consumer Expectations Survey (CES) enables to gauge, in a timely manner, the inflation perceptions and expectations of consumers in eleven euro area countries. In April 2022 wave, the initial sample of six countries (Belgium, France, Germany, Spain, Italy, and the Netherlands) was expanded to include five additional euro area countries, namely Austria, Finland, Ireland, Greece and Portugal.<sup>1</sup> Accordingly, the CES has since then been collecting on a monthly basis also Greek data on consumers' perceptions of the percentage change in prices over the previous 12 months, as well as their expectations for price changes over the next 12 months and three years ahead. The purpose of this box is to examine whether, and to what extent, consumers' inflation perceptions in Greece and the euro area affect their short and medium-to-long-term inflation expectations. This would deepen our understanding of how consumers' inflation expectations are formed. Such understanding is key to effective monetary policy-making, as consumers' inflation expectations influence their economic behaviour, including consumption, saving and investment decisions.<sup>2</sup>

### Evolution of inflation and consumers' inflation perceptions and expectations in Greece compared with the euro area

Chart A (left-hand panel) illustrates inflation developments based on the Harmonised Index of Consumer Prices (HICP) in Greece and the euro area over the period from April 2022 to November 2024.<sup>3</sup> A spike in inflation can be observed in 2022, due to global supply chain disruptions caused by the pandemic, as well as inflationary pressures on energy prices that intensified with the war in Ukraine. In Greece, HICP inflation increased from 9.1% in April 2022 to a peak of 12.1% in September 2022; in the euro area, it increased from 7.5% in April 2022 peaking at 10.6% in October 2022. Subsequently, inflation in the euro area fell substantially from that peak to 2.2% by November 2024, as a result of the ECB's monetary policy, moving closer to the 2% target. Greek HICP inflation fell from its September 2022 peak of 12.1% to 3.3% by November 2024. It is noteworthy that inflation in Greece rose from 2.5% in June 2024 to 3.2% in August 2024, mainly driven by higher energy and services prices.

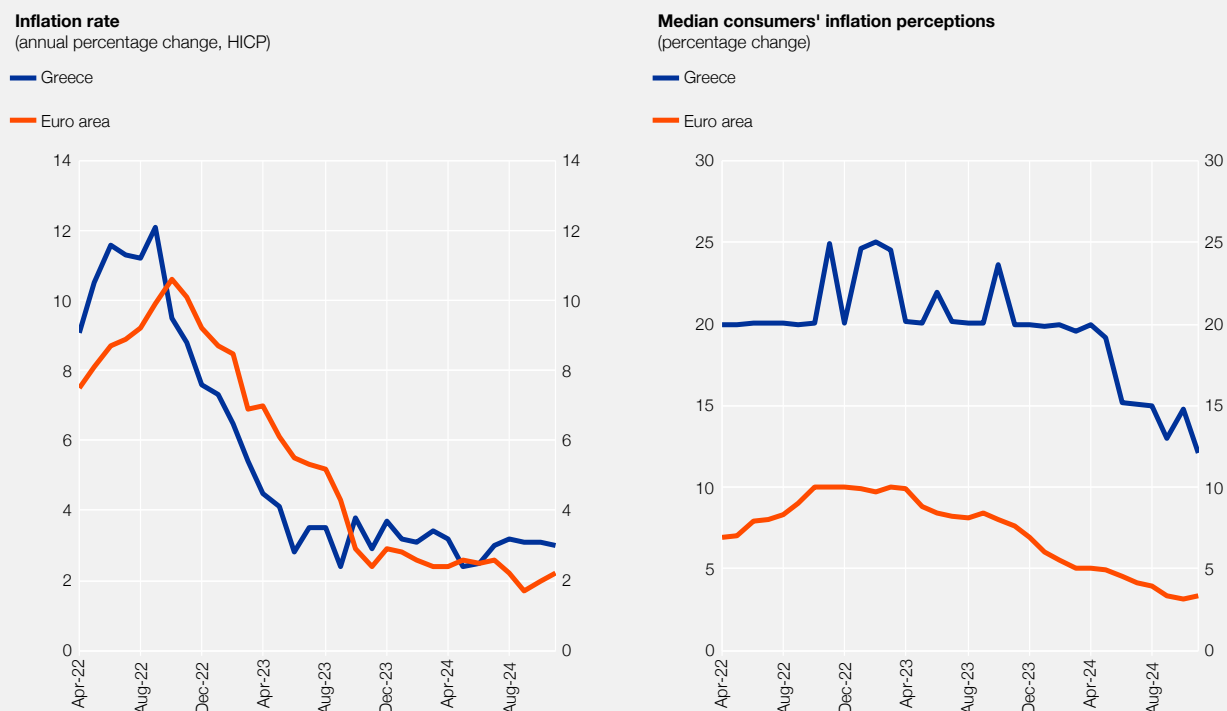
Chart A (right-hand panel) shows the evolution of consumers' inflation perceptions in Greece and the euro area between April 2022 and November 2024 based on CES data. Consumers' median inflation perceptions are higher than official HICP values in both Greece and the euro area. It can be observed that, initially, consumers' median inflation perceptions in Greece, although elevated (20%), remained stable until the first quarter of 2022. Thereafter, they rose sharply, peaking at 25% in February 2023, before declining at a steady pace from April 2024 onwards to reach 12.1% by November 2024. Median inflation perceptions in the euro area exhibited a similar

1 For a detailed description of the CES, see Bańkowska et al. (2021), "Consumer Expectations Survey: an overview and first evaluation", ECB Occasional Paper No. 287, December; and Georgarakos, D. and G. Kenny (2022), "Household spending and fiscal support during the COVID-19 pandemic: Insights from a new consumer survey", *Journal of Monetary Economics*, Vol. 129, Supplement, pp. S1-S14.

2 See e.g. Weber et al. (2022), "The Subjective Inflation Expectations of Households and Firms: Measurement, Determinants, and Implications", *Journal of Economic Perspectives*, 36(3):157-184, and D'Acunto et al. (2024), "Household inflation expectations: an overview of recent findings for monetary policy", ECB Discussion Paper No. 24.

3 November 2024 was the latest available month at the time of writing.

Chart A Inflation rate and consumers' inflation perceptions



Sources: Eurostat (inflation rate) and ECB, Consumer Expectations Survey (CES) (median perceptions).

Note: Harmonised Index of Consumer Prices (HICP) in Greece and the euro area. Median inflation perceptions, weighted data for the period from April 2022 to November 2024. Latest observations: November 2024.

pattern, initially rising strongly and peaking at 10%, followed by a gradual decline to 3.4% by November 2024. Notably, the decline in median inflation perceptions began in the first quarter of 2023 in the euro area, whereas in Greece, the downward trend started nearly a year later.

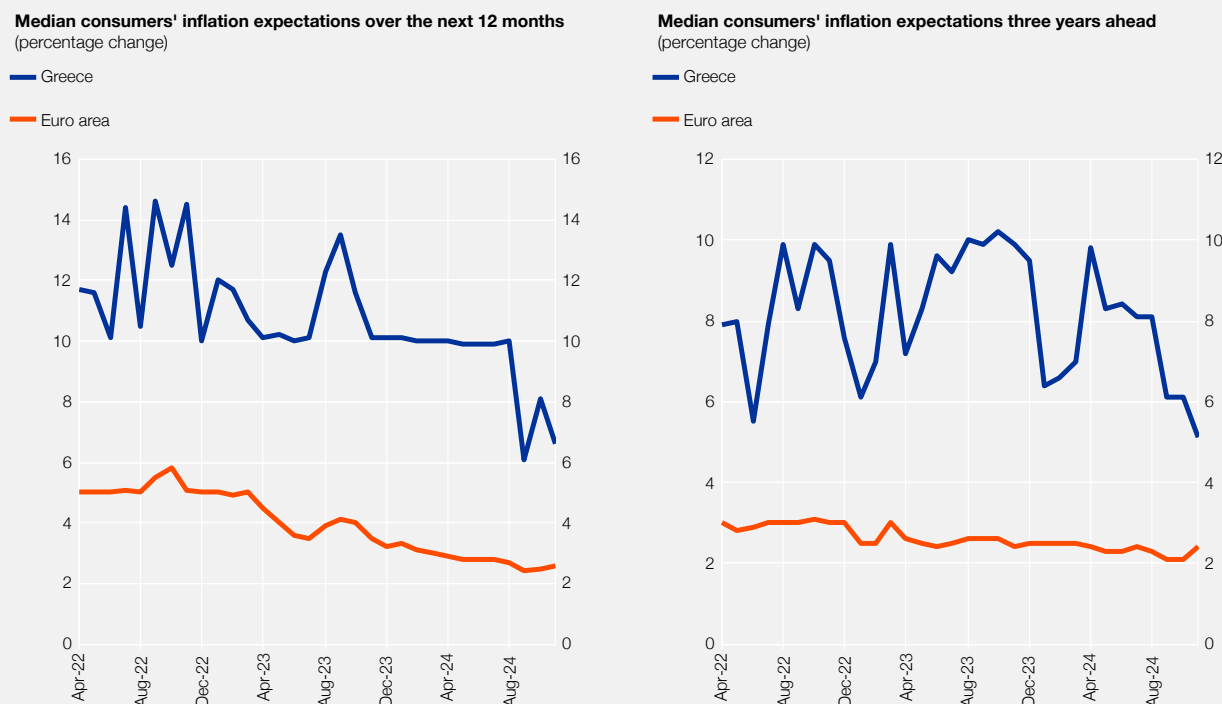
Chart B depicts the evolution of consumers' median inflation expectations over the next 12 months and three years ahead, in Greece and the euro area. Short-term expectations (over the next 12 months) seem to closely mirror the pattern of consumers' current inflation perceptions; however, they are significantly lower than the latter. Moreover, as with perceptions, consumers' inflation expectations in Greece are higher than in the euro area.<sup>4</sup> Also, the peaks in short-term inflation expectations in both Greece and the euro area (at 14.5% and 5.8%, respectively) coincided with the respective peaks of HICP inflation, in September 2022 for Greece and in October 2022 for the euro area. Median short-term expectations declined from 13.5% in September 2023 to 6.6% in November 2024 for Greece, while they fell from 4.1% to 2.6% for the euro area over the same period. These strong declines in consumer inflation expectations can largely be attributed to the ECB's monetary policy tightening, with significant increases in policy rates for ten consecutive months from July 2022 to September 2023.

Consumers' medium-to-long-term inflation expectations, i.e. three years ahead, are markedly lower than their short-term expectations both in Greece and in the euro area. As in the case of short-term expectations, they are higher and more volatile in Greece than in the euro area.<sup>5</sup> Greek consumers' median inflation expectations three years ahead increased and peaked at 10.2% in October 2023, but declined significantly thereafter; a new peak

4 This is also confirmed by the European Commission's consumer survey, which shows that consumers' inflation perceptions and expectations are higher in Greece than in the euro area.

5 Higher inflation expectations of consumers in Greece relative to the euro area are correlated with a more pessimistic view of Greek consumers regarding their income, own financial situation, liquidity and access. See Box IV.2 "ECB survey on Greek consumer expectations", Bank of Greece, *Annual Report 2023*, April 2024.

Chart B Consumers' inflation expectations



Source: ECB, Consumer Expectations Survey (CES).

Note: Median inflation expectations over the next 12 months and three years ahead, weighted data for the period from April 2022 to November 2024. Latest observations: November 2024.

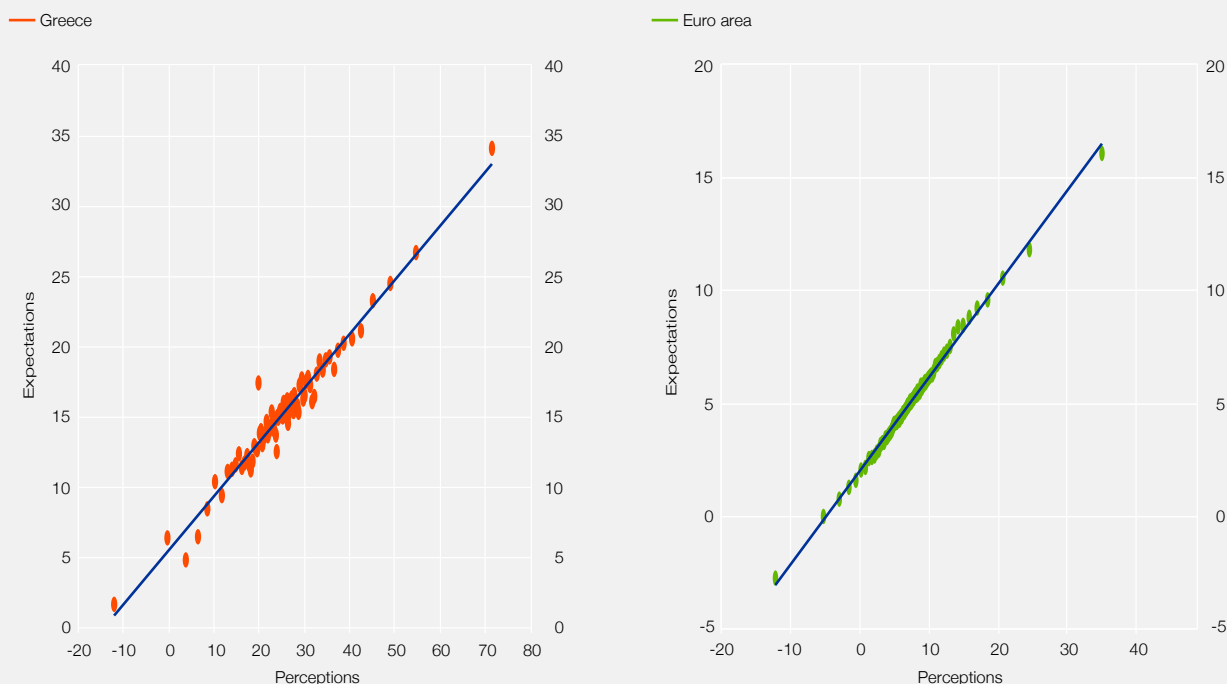
at 9.8% in April 2024 was followed by a fall to 5.1% by November. In the euro area, the respective expectations peaked in October 2022 (3.1%). In April 2023, they decreased to 2.6% and further to 2.1% by October 2024, very close to the ECB's 2% medium-term inflation target; however, they increased to 2.4% in November 2024.

### The impact of consumers' inflation perceptions on their inflation expectations

Chart C plots consumers' inflation perceptions against their inflation expectations over the next 12 months in Greece and the euro area, based on CES data from April 2022 to November 2024, taking into account individual-specific fixed effects (time-invariable characteristics such as educational level) and wave effects. A clear positive and linear relationship can be observed between inflation perceptions and short-term inflation expectations. Chart D illustrates the relationship between consumers' inflation perceptions and three-years-ahead expectations in Greece and the euro area. Despite the longer horizon, consumers' inflation perceptions still have a positive impact on their three years ahead inflation expectations, both in Greece and in the euro area.

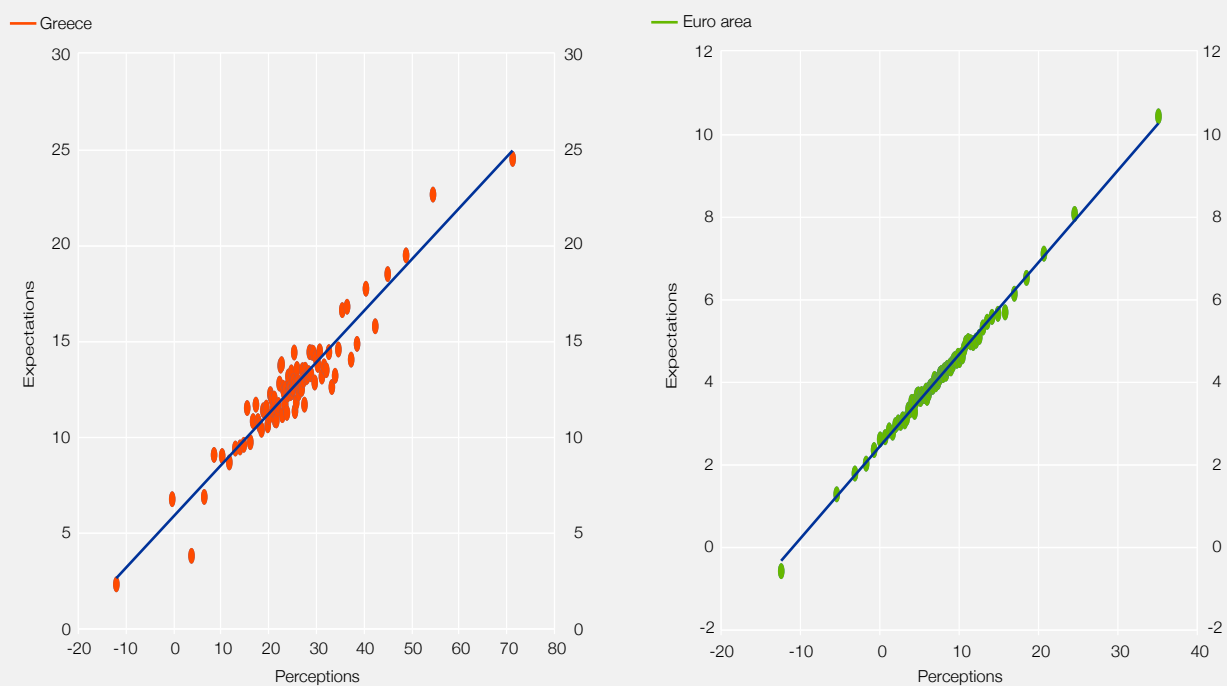
To empirically quantify the impact of consumers' inflation perceptions on short-term and medium-to-long-term inflation expectations, we use a linear regression model. Following the relevant literature, several additional independent variables are incorporated, namely: age group; gender; presence of a partner in the household; educational level; financial literacy; income quintiles; employment status; home ownership; mortgage liabilities; liquidity constraints; own financial situation compared with one year earlier; and access to credit from financial institutions (e.g. banks).

The empirical results, reported in Table A, point to a positive and statistically significant impact of consumers' inflation perceptions on their inflation expectations for the next twelve months in Greece and the euro area. The estimated coefficient of inflation perceptions is 0.56 for Greece and 0.51 for the euro area. This implies that a one percentage point increase in inflation perceptions leads to a 0.56 and 0.51 percentage point increase in short-term inflation expectations, respectively.

**Chart C Relationship between consumers' inflation perceptions and expectations over the next 12 months**

Source: ECB, Consumer Expectations Survey (CES).

Note: To identify the relationship between inflation perceptions and expectations over the next 12 months, individual-specific fixed effects (time-invariable characteristics such as educational level) and wave effects are taken into account. Data refer to the period from April 2022 to November 2024. Latest observations: November 2024.

**Chart D Relationship between consumers' inflation perceptions and expectations three years ahead**

Source: ECB, Consumer Expectations Survey (CES).

Note: To identify the relationship between inflation perceptions and expectations three years ahead, individual-specific fixed effects (time-invariable characteristics such as educational level) and wave effects are taken into account. Data refer to the period from April 2022 to November 2024. Latest observations: November 2024.

**Table A Empirical model of short-term expectations:  
Greece and euro area-11**

|                                                   | Greece              | Euro area-11        |
|---------------------------------------------------|---------------------|---------------------|
| Consumers' inflation expectations 12 months ahead |                     |                     |
| Inflation perceptions                             | 0.556***<br>(0.059) | 0.507***<br>(0.008) |
| Observations                                      | 33,291              | 919,266             |
| R-squared                                         | 0.501               | 0.466               |
| Other variables                                   | YES                 | YES                 |
| Wave effects                                      | YES                 | YES                 |

Source: ECB, Consumer Expectations Survey (CES).

Note: The table depicts the estimated coefficients deriving from a linear regression model of short-term expectations with clustered standard errors. The data refer to the period from April 2022 to November 2024. Latest observations: November 2024.

**Table B Empirical model of medium-to-long-term  
expectations: Greece and euro area-11**

|                                                     | Greece              | Euro area-11        |
|-----------------------------------------------------|---------------------|---------------------|
| Consumers' inflation expectations three years ahead |                     |                     |
| Inflation perceptions                               | 0.477***<br>(0.059) | 0.359***<br>(0.011) |
| Observations                                        | 33,291              | 919,267             |
| R-squared                                           | 0.3327              | 0.2577              |
| Other variables                                     | YES                 | YES                 |
| Wave effects                                        | YES                 | YES                 |

Source: ECB, Consumer Expectations Survey (CES).

Note: The table depicts the estimated coefficients deriving from a linear regression model of medium-to-long-term expectations with clustered standard errors. The data refer to the period from April 2022 to November 2024. Latest observations: November 2024.

With respect to medium-to-long-term inflation expectations, the results (see Table B) show that consumers' inflation perceptions continue to have a positive and statistically significant impact on consumers' expectations for inflation three years ahead, both in Greece and in the euro area, with the estimated coefficients being 0.47 and 0.36, respectively.<sup>6</sup> It is observed that the impact of consumers' inflation perceptions on their medium-to-long-term expectations is relatively weaker compared with the impact on their short-term inflation expectations.

### Concluding remarks

In conclusion, consumers' inflation perceptions and expectations in Greece and the euro area show a similar pattern, although they are significantly higher in the case of Greece. Inflation perceptions and expectations rose during 2022, primarily due to global supply chain disruptions caused by the pandemic, as well as inflationary pressures on energy prices, exacerbated by the war in Ukraine. Subsequently, as a result of the ECB's monetary policy tightening, both perceptions and expectations declined significantly, although with some lag in the case of Greece. Overall, consumers' inflation perceptions are found to be positively and strongly correlated with their short-term and medium-to-long-term inflation expectations. Therefore, we need to understand the formation mechanism of consumers' inflation expectations and perceptions in order to design an effective monetary policy.

6 This positive relationship between consumers' inflation perceptions and expectations has often been identified in the literature, see e.g. D'Acunto et al. (2021), "Exposure to Grocery Prices and Inflation Expectations", *Journal of Political Economy*, 121(5), 1615-1639; Arioli et al. (2017), "EU consumers' quantitative inflation perceptions and expectations: an evaluation", ECB Occasional Paper No. 186; and Huber et al. (2023), "The pass-through from inflation perceptions to inflation expectations", Deutsche Bundesbank Discussion Paper No 17/2023.

## 5.2 Labour costs

In 2024, according to provisional annual national accounts data, both total wages and compensation per employee increased noticeably more than in 2023. Productivity growth was almost the same as in 2023, but the increase in unit labour costs accelerated significantly (see Table IV.7).

Wage growth in 2024 was driven by: (i) a rise in public sector salaries; (ii) the abolition of the suspension of seniority benefits for private sector employees, which had been legislated under the economic adjustment programmes; and (iii) a 6.4% increase in the minimum wage as from 1 April 2024.

In particular, in the total economy (excluding the primary sector and households), the ELSTAT labour cost index grew by 4.4% in 2024. Moreover, the year 2024 witnessed the conclusion of

Table IV.7 Compensation of employees and labour costs (2022-2025)

(annual percentage changes)

| Greece                                                           | 2022 | 2023 | 2024            | 2025 (forecast) |
|------------------------------------------------------------------|------|------|-----------------|-----------------|
| Total compensation of employees                                  | 4.9  | 5.3  | 7.4             | 5.6             |
| Compensation per employee                                        | 1.8  | 3.7  | 6               | 4.5             |
| Labour productivity (GDP/total employment)                       | 3.2  | 1.1  | 1               | 1.2             |
| Unit labour costs (total economy)                                | -1.4 | 2.5  | 4.9             | 3.2             |
| Total compensation of employees in the general government sector | 0.8  | 3.2  | 4.7 (9 months)  | ...             |
| Total compensation of employees in the business sector           | 6.8  | 6.2  | 10.4 (9 months) | ...             |

Sources: For 2022-2024: ELSTAT, data from annual and quarterly national accounts (17.10.2024 and 7.3.2025) and accounts of institutional sectors (24.10.2024 and 24.1.2025). For 2025: Bank of Greece forecasts.

238 new firm-level agreements in the business sector, covering 171,161 employees. Of these agreements, 82 provided for salary increases, while for the rest wages remained unchanged.<sup>17</sup> In the general government, compensation of employees grew by 6.0% in 2024 (based on cash data).

A slowdown in total wages and compensation per employee is expected in 2025, as well as a small pick-up in productivity growth – which would help reduce the growth rate of unit labour costs.

Lastly, implementing Directive (EU) 2022/2041 on adequate minimum wages, the government promoted the adoption of Law 5163/2024. It provides that, for the setting and updating of the statutory minimum wage and daily wage as from 2028, wages will be automatically indexed to the sum of (a) the annual rate of change in the consumer price index between 1 July of the previous year and 30 June of the current year for the lowest 20% of the household income distribution; and (b) half of the annual rate of change in the purchasing power of the general wage index over the same period. In the years 2025, 2026 and 2027, the minimum wage increase will be determined taking into account the opinions of the Consultation Committee (where the social partners are represented) and the Academic Committee (independent experts).<sup>18</sup> In addition, the government will announce, within a year after the adoption of the law, an Action Plan to strengthen collective bargaining.

### 5.3 Business profits

Following a significant increase in the profitability of Greek non-financial corporations in 2022, profitability declined in 2023 and the first nine months of 2024. The gross operating surplus of non-financial corporations fell in nominal terms by 1.4% in the first nine months of 2024 (compared with a change of 4.0% in the same period of 2023), while net operating surplus (after subtracting the consumption of fixed capital) declined further, by 4.1% (8.2% in the first nine months of 2023) (see Chart IV.18). This decrease is mainly due to the fact that gross value added (GVA) grew at a lower rate (+5.1%) than dependent labour income (+10.7%). Moreover, the impact of taxes less subsidies on production was negative. At the same time, in the first nine months of 2024, the net profit share (defined as the ratio of net operating surplus to net value added), which expresses the performance of the business sector in terms of operating profits, declined slightly to 30.2%, from 33.2% in the same period of 2023. However, it remained significantly above the three-year average (2017-2019) for the pre-pandemic period (24.3%) (see Chart IV.19). Nevertheless, corporate profits remained – despite rising labour costs – higher than in the pre-pandemic period.

17 The main sectoral or occupational agreements affecting wages in 2024 were reported in *Monetary Policy 2023-2024*, Executive Summary and Boxes, June 2024.

18 Already, the Ministry of Labour and Social Security has sent invitations to set up the committees for 2025.

**Chart IV.18 Profit share of non-financial corporations  
(2017 - Jan.-Sep. 2024)**

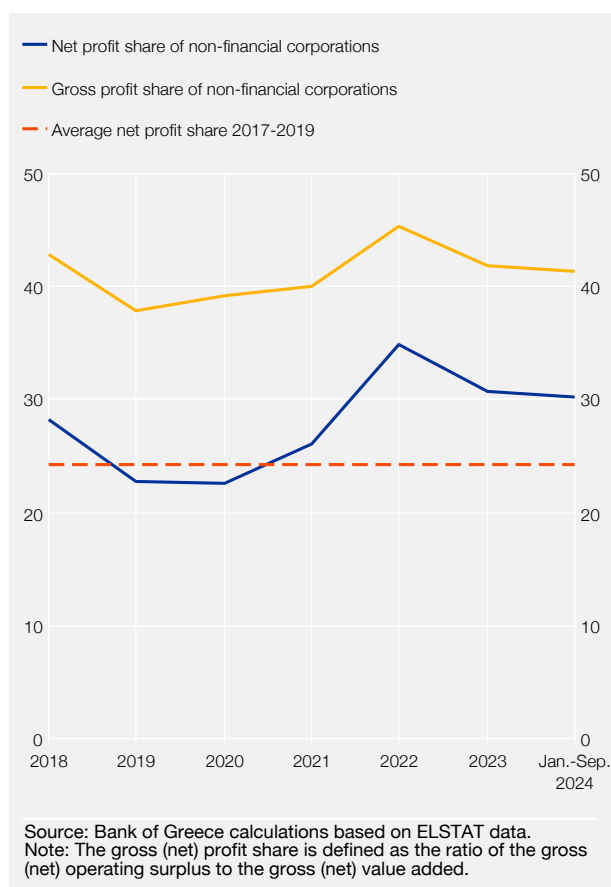
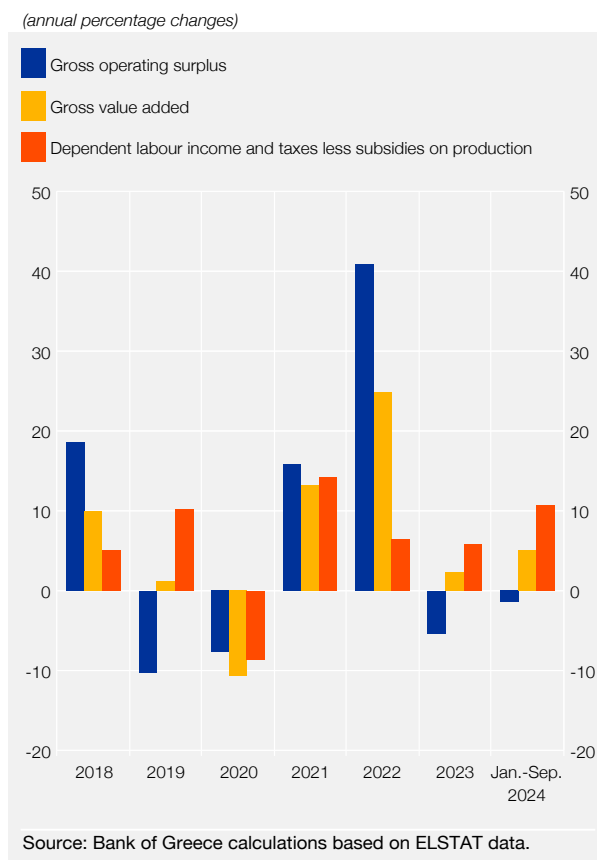


**Chart IV.19 Contributions to the profit share of  
corporations  
(2017 - Jan.-Sep. 2024)**



#### 5.4 Income inequality and poverty

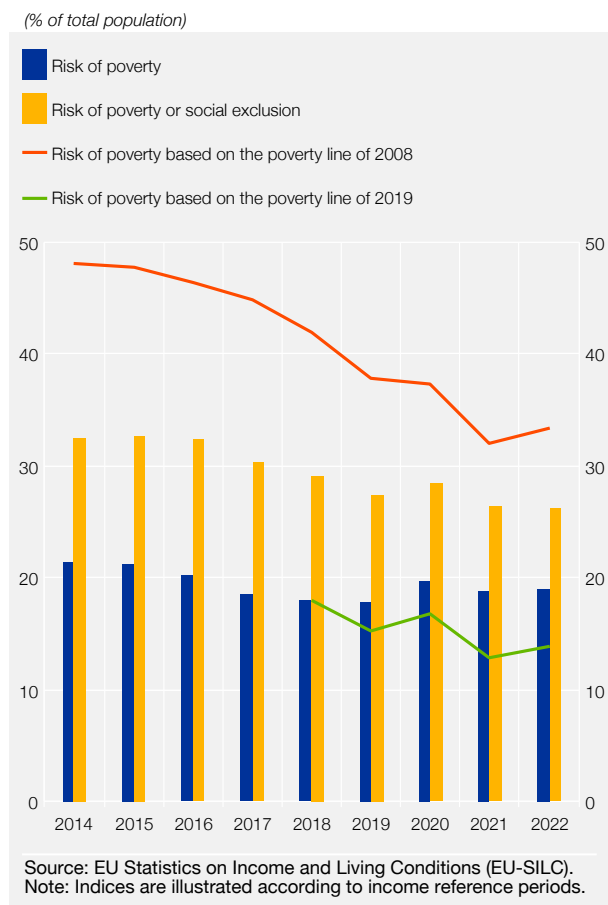
The most recent annual data on inequality, poverty, social exclusion and living conditions in Greece come from ELSTAT, specifically from the 2023 Income and Living Conditions of Households (EUSILC) Survey for 2022 incomes and the 2023 Household Budget Survey on consumer spending in 2023. As a result of the economic fallout of the pandemic, poverty and inequality indicators deteriorated in 2020. In 2021, however, the strengthening of economic activity and positive labour market developments (lower unemployment rate and employment growth) contributed significantly to a pick-up in incomes and an improvement in poverty and inequality indicators, while there were small changes in these indicators in 2022.

Specifically, data on household incomes in 2022 derived from the EU-SILC 2023 survey show a marginal shift for the following indicators:

- 1) The at-risk-of-poverty rate increased marginally to 18.9%, from 18.8% for 2021 incomes (EU-SILC 2022),<sup>19</sup> remaining above pre-pandemic levels. At the same time, the relative risk of poverty in Greece remains above the EU27 average (16.2%) and is the ninth highest in the EU27 (see Chart IV.20).

<sup>19</sup> The relative poverty line, which helps calculate the risk of poverty, changes in accordance with the population's average living standards and is set at 60% of the median equivalised disposable income of all households (Eurostat definition). To calculate the equivalised household income, the first adult is given a weight of 1.0, the second and each subsequent person aged 14 and over are given a weight of 0.5 and each child under 14 is given a weight of 0.3. In the 2023 survey, the relative poverty threshold was EUR 6,030 for a single-person household and EUR 12,663 for a four-person household with two adults and two children under 14.

Chart IV.20 Risk of poverty (EU-SILC)



2) The Greek population living at risk of poverty or in social exclusion, in accordance with the revised definition,<sup>20</sup> decreased to 26.1% (or 2,658 thousand persons), from 26.3% in 2021 and 28.3% in 2020. According to the same survey, Greece registered the fourth highest risk of poverty or social exclusion among the EU27 countries in 2022. The EU27 average was 21.3%.

3) Income inequality indicators in Greece show a mixed picture in 2022. The Gini inequality coefficient increased to 31.8% for 2022 incomes (EU27: 29.6%) from 31.4% for 2021 incomes. The S80/S20 indicator remained broadly unchanged at 5.2 for 2021 and 2022 incomes (EU27: 4.7) (See Chart IV.21).<sup>21</sup>

In addition, the poverty indicator in absolute terms, which refers to a consistent poverty line set in terms of real purchasing power for 2019, increased to 13.8% for 2022 incomes (from 12.8% for 2021 incomes), up for the second time since 2019. However, it should be noted that the risk of poverty measured on the basis of the above poverty line was higher for 2019 incomes (17.9%). The corresponding EU indicator stood higher (14.3%) for 2022 incomes.

The gap or depth of relative poverty also developed favourably,<sup>22</sup> dropping further to 22.1% in 2022 (from 23.8% in 2021 and 26.4% for 2020 incomes).

The marginal changes in poverty and inequality indicators in 2022 reflect the combined effect of a reduction in employees' social security contributions, two increases in the minimum wage in 2022 (cumulatively from EUR 650 to EUR 713) and the associated increase in unemployment benefits, as well as the impact of measures to address the consequences of the energy crisis. In terms of income support to vulnerable households, there were two main fiscal packages, disbursed in April and December 2022. As in 2021, these packages targeted low-paid pensioners, uninsured elderly people who receive allowances from the OPEKA (Organisation of Welfare Benefits and Social Solidarity) and recipients of disability benefits. In addition, the beneficiaries of the minimum guaranteed income and child benefit received twice and one and a half times the subsidy amount respectively in April and December. The long-term unemployed received support of

<sup>20</sup> Revised definition under the "Europe 2030" programme; it refers to the share of population at risk of poverty or in material or social deprivation (that is, lacking at least 7 out of a list of 13 goods and services) or living in households with low work intensity.

<sup>21</sup> The Gini coefficient receives values between 0%, when the national income is equally distributed (i.e. the poorest x% of the population receives x% of national income for  $0 < x \leq 100$ ), to 100% when the national income is distributed to a single person. The S80/S20 indicator refers to the ratio of total income received by the 20% of the country's population with the highest income to that received by the 20% of the country's population with the lowest income. Both indicators receive higher values as income inequality increases. However, the Gini coefficient takes into account the whole spectrum of income inequality, while the S80/S20 index focuses on differences in the extremes of the income distribution.

<sup>22</sup> The poverty gap measures the difference between the median income of the poor and the poverty line as a percentage of the latter, i.e. it provides the average income deficit of the poor.

EUR 250 in December. Overall, according to the EU-SILC 2023, the average equivalised personal disposable income increased by 6.6% in 2022 against the previous year, compared with a corresponding annual increase of 8.8% in 2021. Given the 2022 inflationary shock, this comparison implies a meagre adjustment of wages.<sup>23</sup>

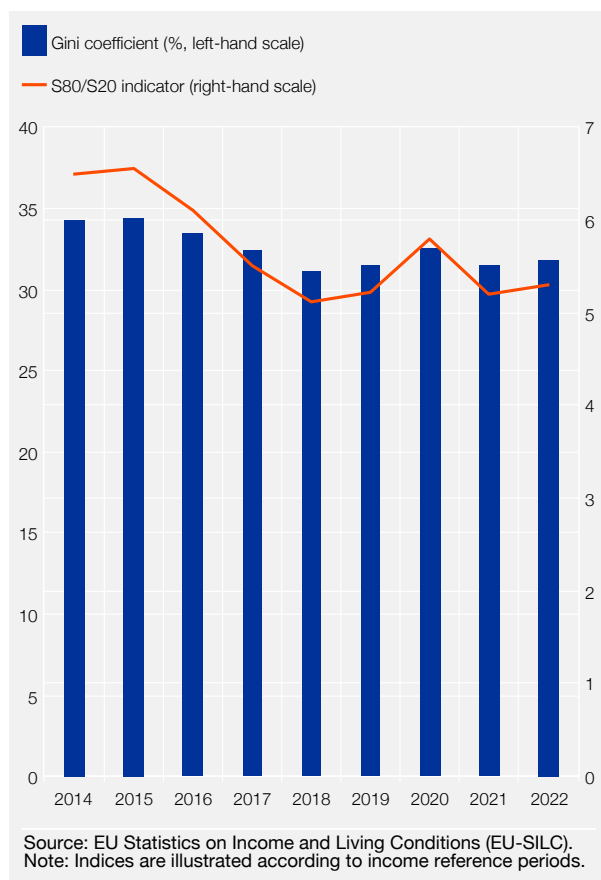
The examination of EU-SILC 2023 data identifies specific population groups as more vulnerable to the risk of poverty: the unemployed (48.2%), the economically inactive population excluding pensioners (31.1%), households with dependent children (22.0%), single-parent households (37.1%) and children aged up to 17 (22.1%). These findings are consistent with another conclusion drawn from the survey results, namely that the main contribution of social policy to reducing the poverty rate comes from pensions (by 22.1 percentage points), while social benefits helped reduce the poverty rate by a mere 4.2 percentage points.

However, in recent years progress can be seen in social policy targeting. For example, for the unemployed, according to ELSTAT quarterly data on the number of unemployed and monthly data from the Public Employment Service (DYPA, previously OAED) on the number of subsidised unemployed, the average subsidy coverage rate for the unemployed in January-September 2024 reached for the first time the 2010 level (35.1%), most likely as a result of recent changes in the obligations of the unemployed and in the management of unemployment more generally.<sup>24</sup>

As regards very poor households, the amount of the guaranteed minimum income has increased since 1 December 2023 by 8% and the income criteria applied have been adjusted, increasing the coverage of the benefit. This positive development aims to consistently close protection gaps, adding to the extraordinary financial support granted in the past few years under pandemic and energy support measures, mainly to vulnerable households.

Another relevant permanent legislative measure is an 8% increase in welfare benefits as from 1.5.2023.<sup>25</sup>

Chart IV.21 Income inequality indices (EU-SILC)



23 See Theodoropoulou, S., C. Pierros and M. Matsaganis (2024), "The political economy of inflation management: the case of Greece", *Transfer: European Review of Labour and Research*.

24 See Law 4921/2022, which renamed OAED to Public Employment Service (DYPA) and introduced arrangements such as new digital tools (register, card, individual action plan); the payment of a one-off benefit of EUR 300 to the long-term unemployed for over five years who draw up a Digital Individual Action Plan; income criteria for persons registered in the Digital Register of the DYPA for more than 12 months, in order to prevent benefit abuse; removal from the register after 3 refusals of suitable jobs; continued granting of 50% of the unemployment benefit even to those searching for work that find a job during the unemployment benefit period, up to and including the end of the period; a governance system for continuing vocational training of the workforce; creation and set up of workplace childcare facilities, etc. There is yet not enough evidence to assess how these changes could affect the share of the unemployed covered by an unemployment subsidy.

25 See Law 5043/2023 "Provisions on Local and Regional Authorities – Provisions on the welfare of companion animals – Provisions on human resources in the public sector – Other provisions within the authority of the Ministry of the Interior, and other emergency provisions".

For families with children, recent favourable reforms involve a EUR 1,000 increase in the tax-free threshold as from 2024 for taxpayers with dependent children; introduction of a maternity allowance for sole proprietors, self-employed and farmers; and an increase of the birth allowance retroactively from 2023.

Complementary measures aimed at improving the targeting and effectiveness of social benefits include the introduction of prepaid cards for the payment of social benefits by OPEKA and the DYPA, as well as the upgrading of the OPEKA platform so that beneficiaries have access to all social protection schemes and related benefits.<sup>26</sup>

The latest data available for Greece are those of the Household Budget Survey 2023 and refer to consumer spending in 2023. These figures show an increase in the risk of poverty based on purchases made by households (18.7%, from 17.4% in 2022) and on total consumption expenditure (13.8%, from 13.4% in 2022), including the value, in cash, of the goods and services the household received in kind (from own production, own store, the employer or elsewhere). A similar trend emerges for the S80/S20 inequality indicator based on both household purchases and total consumption expenditure, which also increased (to 5.7 from 5.4 in 2022 and 4.5 from 4.2 in 2022, respectively).

The adverse trends emerging from the Household Budget Survey 2023 data can be interpreted in light of the recent inflationary crisis which peaked in 2022. Inflation affects disproportionately the purchasing power of lower-income households, given that their consumption basket includes a larger share of basic goods, such as energy and food (which have recorded the strongest price increases), and that they allocate a bigger share of their income to consumption.

The inflationary crisis has had a significant negative redistributive effect, which was largely offset by the support measures adopted.<sup>27</sup> An increase in the minimum wage in 2023 (from EUR 713 to EUR 780) also supported the disposable income of vulnerable households. As a result of this increase, the share of employees under private-law contracts with gross monthly earnings below EUR 800 decreased to 30.9% in 2023, from 37.3% in 2022, according to the special annual census survey by the Hellenic Labour Inspectorate, DYPA and the National Social Security Fund (EFKA).<sup>28</sup>

Moreover, a further increase in the minimum wage to EUR 830 in 2024, combined with the abolition of the suspension of seniority benefits, had a significantly positive redistributive effect, as the share of employees under private-law contracts with gross monthly earnings of less than EUR 800 decreased significantly from 30.9% in 2023 to 17.75% in 2024, while the share of those with earnings below EUR 900 fell from 39.32% in 2023 to 31.36% in 2024.<sup>29</sup>

In the long term, a reorientation of social policy towards a “social investment state”<sup>30,31</sup> is necessary, which will proactively contribute to tackling poverty and income inequality through in-

26 See Law 5078/2023 “Overhaul of occupational insurance, rationalisation of insurance legislation, pension arrangements, system of appointment and recruitment of teachers of the Public Employment Service, and other provisions”.

27 For an empirical investigation of how inflation, the income support measures, as well as the measures aimed at containing prices affected households’ purchasing power and welfare in 2022 see: (a) for Greece, Bank of Greece (2023), “[The distributional impact of fiscal measures to compensate for consumer inflation in Greece in 2022](#)”; *Economic Bulletin*, No. 58; and IMF (2024); “The cost-of-living crisis: Impact and policy support to households, Evidence from micro-level data: Greece”, IMF Country Report No. 2024/24 – Selected Issues Paper No 2024/007; (b) for the euro area, Amores et al. (2025), “Inflation, fiscal policy and inequality: the impact of post-pandemic price surge and fiscal measures on European households”, *Review of Income and Wealth*, 71(1).

28 Special annual issue – Electronic reporting data for total enterprises and employees/wage-earners on private-law contracts, 1 October to 15 December 2023.

29 Special annual issue – Electronic reporting data for total enterprises and employees/wage-earners on private law contracts, 1 October to 6 December 2024.

30 Matsaganis, M. (2021), “The welfare state as an accelerator of sustainable growth”, *diaNEOsis* (in Greek).

31 Hemerijck, A. and M. Matsaganis (2024), *Who is Afraid of the Welfare State Now?*, Oxford University Press.

vestment in human capital, e.g. in education and health.<sup>32</sup> In this way, social policy will also be conducive to achieving strong and sustainable growth rates.<sup>33,34</sup>

In this light, the IMF<sup>35</sup> recommends reforms that will increase labour force participation and ensure upskilling. In particular, while the labour force participation rate has gradually increased in Greece, it remains among the lowest in the EU, especially for women. Increasing the availability of childcare facilities and nursing homes can enable women to participate more productively in the economy. Reducing the still high tax burden, together with an intensification of job search and a gradual overhaul of the unemployment benefit system,<sup>36</sup> can strengthen labour incentives. Upgrading and scaling up the lifelong learning system by involving the private sector, in particular in digital and green skills and health professions, can reduce skills mismatches and help remove barriers to youth and female employment and support youth and women's employment.

Emerging challenges with regard to poverty and inequality include adverse effects on employment from the growing use of artificial intelligence in production processes.<sup>37</sup> Addressing them requires a timely design and roll-out of an appropriate policy, which will take time to deliver results.

Lastly, Greece is presented with an excellent opportunity, as it can tap funding available under the European Recovery and Resilience Facility for actions associated with employment, skills and social cohesion. It is important to ensure effective absorption and utilisation of available resources by 2026. On the basis of the information available so far, the outlook seems rather positive, but efforts should be stepped up. In particular, in the period from 2021 to the first nine months of 2024, the disbursements of grants related to the Employment, Skills and Social Cohesion pillar reached EUR 444 million, which represents more than one-third of the total grants awarded and directed mainly towards retraining programmes.

## 6 COMPETITIVENESS

After improving strongly in previous years, the international competitiveness of the Greek economy deteriorated slightly in 2024 according to real effective exchange rate indices, in terms of

32 Regarding growth-enhancing benefits from reforming the Greek educational system, see Bank of Greece, *Annual Report 2019*, Box IV.2, pp. 120-125 (available in Greek). The establishment of a National System for Vocational Education and Training and Lifelong Learning by Law 4763/2020 may also help in this direction.

33 See Aiyar et al. (2017), *Euro Area Policies, Selected Issues*, IMF Country Report No. 17/236. See also (a) OECD (2018), *Opportunities for all: OECD Framework for Policy Action on Inclusive Growth*, OECD Publishing, Paris, (b) OECD (2018), *A broken Social Elevator? How to Promote Social Mobility*, OECD Publishing, Paris, (c) Hufe, P., R. Kanbur and A. Peichl (2018), "Measuring Unfair Inequality: Reconciling Equality of Opportunity and Freedom from Poverty", CESifo Working Paper No 7119; and (d) World Bank (2018), *Growing United – Upgrading Europe's Convergence Machine*, World Bank Report on the European Union.

34 A step in this direction is the "National Strategy for Social Inclusion and Poverty Reduction", published in July 2022. It suggests actions under 4 pillars, with a view to making better use of national and European resources in 2021-27: (a) access to adequate resources and basic goods for persons living in extreme poverty (with a focus on the homeless); (b) access to services for persons living in extreme poverty, people with disabilities, children, the elderly, women that are victims of abuse and violence, the homeless and other vulnerable social groups; (c) integration into the labour market, improved employability and access to employment for the unemployed; and (d) horizontal governance of the strategy.

35 IMF (2025), "Greece: Staff Concluding Statement of the 2025 Article IV Consultation Mission".

36 It is worth noting that an overhaul of the unemployment benefit system is under way, the pilot phase of which starts in February 2025. The main changes are an increase in the minimum insurance days for granting the benefit (to 175, from 125 so far) and the staggered setting of the amount of the benefit as well as of the benefit period based on the beneficiary's insurance and remuneration history.

37 Useful proposals on this issue are included in the recent Opinion of the European Economic and Social Committee (22.1.2025) "[Pro-worker AI: levers for harnessing the potential and mitigating the risks of AI in connection with employment and labour market policies](#)".

both relative prices and relative unit labour costs. The deterioration was largely due to the appreciation of Greece's nominal exchange rate, which – despite fluctuations in individual bilateral exchange rates – continued in 2024 on average. This appreciation had a negative impact on Greece's competitiveness indicators, outweighing the favourable inflation differentials vis-à-vis its main trading partners, in terms of both prices and unit labour costs. However, the cumulative competitiveness gains since 2010 on the basis of prices and (mainly) unit labour costs remain significant relative to the euro area countries.

At the same time, despite significant progress in recent years, as reflected in the improvement of Greece's ranking in composite indicators, structural competitiveness generally stagnated in 2024. The gap in terms of digital transformation, innovation and total productive investment as a percentage of GDP between Greece and most advanced economies persists, thus maintaining the country's poor showing in international competitiveness classifications.

### **Price and labour cost competitiveness**

According to national harmonised competitiveness indicators (HCIs) compiled by the ECB for both Greece and the rest of the euro area, relative price competitiveness indicators in 2024 mainly reflect the impact of exchange rate developments. The appreciation of the US dollar over the past three months has had a depreciative (favourable) impact on HCIs, although at year level they appreciated (see Chart IV.22). Looking at HCIs on the basis of relative labour costs, there was greater variance in developments across euro area countries in 2024, with Greece showing a small increase (deterioration) of the index, although the cumulative competitiveness gains since 2010 have reached around 30% (see Chart IV.22).

The nominal effective exchange rate of Greece appreciated by 3.8% in 2023 and an additional 2.0% in 2024 at annual average levels, according to the ECB's HCIs. In 2024, despite fluctuating over the course of the year, the euro recorded a small depreciation mainly against the pound sterling and the Swiss franc at average annual levels, while it appreciated mainly against the Japanese yen, the Norwegian krone and the Turkish lira.

The broad real effective exchange rate index based on relevant consumer price indices (CPIs), as calculated by the Bank of Greece, recorded an increase (deterioration) of 0.4% in 2024, i.e. of a smaller magnitude than the nominal effective exchange rate index, suggesting that the domestic inflation differential from its main trading partners remains favourable for Greece (see Table IV.8).

The broad real effective exchange rate index based on relative unit labour costs in the total economy for 2024 is estimated to have risen by 1.9% according to Bank of Greece calculations, compared with a smaller increase (deterioration) in 2023. The differential between unit labour costs in Greece and the weighted average of its main trading partners remains positive for Greece, but is gradually narrowing due to the slowdown in unit labour cost growth observed in its main trading partners, as a result of lower wage growth and higher labour productivity growth. In particular, according to the European Commission, nominal unit labour costs in the total economy are estimated to have increased in Greece by 3.1% in 2024,<sup>38</sup> while the corresponding increase in the euro area was 4.7%.<sup>39</sup>

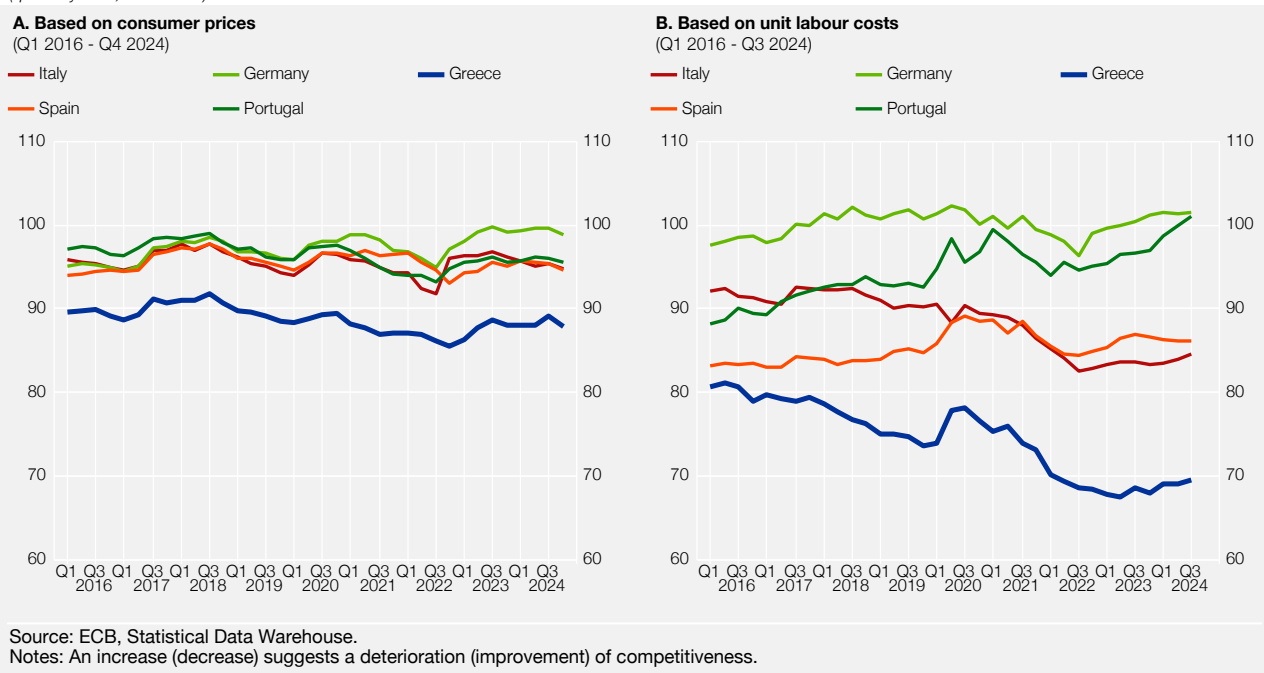
Regarding the outlook for 2025, conditions of increased economic policy uncertainty, in particular the US and China's tariff policies, both bilateral and vis-à-vis the EU, are estimated to lead to volatility in the main bilateral exchange rates. At the same time, an impact on relative prices is expected, depending on the elasticity of demand for imports of basic materials and interme-

38 European Commission, "European Economic Forecast, Autumn 2024", November 2024.

39 ECB, "ECB staff macroeconomic projections for the euro area", December 2024.

**Chart IV.22 Harmonised competitiveness indicators  
(real effective exchange rates)**

(quarterly data; 2000=100)



diate goods in each economy. In fact, dependence on imports of consumer and intermediate goods will amplify these effects, as import substitution possibilities are limited.

However, in 2025, unit labour costs in the major trading partners are expected to grow faster than in Greece.

**Table IV.8 Nominal and real effective exchange rate (EER) indices for Greece**

(index: 2000=100)

| Year   | Nominal EER             |      | Real EER                |      |                   |      |                   |      |                   |      |
|--------|-------------------------|------|-------------------------|------|-------------------|------|-------------------|------|-------------------|------|
|        | Broad NEER <sup>1</sup> |      | Broad NEER <sup>1</sup> |      |                   |      | REER-euro area    |      |                   |      |
|        |                         |      | CPI-deflated            |      | ULCT-deflated*    |      | CPI-deflated      |      | ULCT-deflated*    |      |
|        | Percentage change       |      | Percentage change       |      | Percentage change |      | Percentage change |      | Percentage change |      |
| 2000   | 100.0                   |      | 100.0                   |      | 100.0             |      | 100.0             |      | 100.0             |      |
| 2010   | 112.4                   | -2.8 | 118.3                   | -0.4 | 123.7             | 2.6  | 118.3             | -0.4 | 116.3             | 4.6  |
| 2015   | 110.6                   | -2.7 | 106.5                   | -4.6 | 105.1             | -4.7 | 106.5             | -4.6 | 101.6             | -3.5 |
| 2020   | 117.4                   | 1.5  | 105.8                   | -0.8 | 97.2              | 2.1  | 105.1             | -1.6 | 97.8              | 2.8  |
| 2021   | 118.7                   | 1.1  | 104.4                   | -1.4 | 94.4              | -2.8 | 103.1             | -2.0 | 95.3              | -2.5 |
| 2022   | 117.5                   | -1.0 | 102.4                   | -2.0 | 86.5              | -7.9 | 103.6             | 0.5  | 91.7              | -3.6 |
| 2023   | 122.0                   | 3.8  | 103.6                   | 1.2  | 87.1              | 0.6  | 102.5             | -1.1 | 89.4              | -2.3 |
| 2024** | 124.4                   | 2.0  | 104.0                   | 0.4  | 89.0              | 1.9  | 103.1             | 0.6  | 90.7              | 1.3  |

Sources: Indices are calculated by the Bank of Greece on the basis of ECB and European Commission data. An increase (decrease) in EER indices suggests a deterioration (improvement) of competitiveness. Data on exchange rates, consumer prices (CPI) and unit labour costs (ULCT) are provided by the ECB and the European Commission.

\* The index is subject to regular revisions.

\*\* Estimate.

<sup>1</sup> Broad REER indices include Greece's 28 major European or non-European trading partners. Weights are calculated on the basis of imports and exports of manufacturing goods (SITC 5-8).

### Structural competitiveness

Greece's relative ranking in global composite structural competitiveness indicators, despite the progress made in recent years, remains low. The innovation, technology and productive investment-to-GDP gaps should shrink in order to narrow the competitiveness gap from most advanced economies. Improving competitiveness is also a key issue for the EU as a whole, due to geopolitical and technological changes, especially after the pandemic and energy crises. The crucial importance of competitiveness among the EU's priorities was also highlighted by the Draghi report,<sup>40</sup> which describes competitiveness challenges.<sup>41</sup> Given these challenges, it is essential for the EU to strengthen its competitiveness by reducing the innovation gap, promoting decarbonisation and increasing its strategic autonomy, while strengthening security and defence. The broader blueprint, as presented in the Draghi report, for closing the EU's competitiveness gap vis-à-vis the US and China was transferred by the EU to a concrete roadmap ("Competitiveness Compass"),<sup>42</sup> with specific implementation steps, including simplification of procedures, facilitation of Single Market entry,<sup>43</sup> financing, qualitative improvement of jobs and better coordination among Member States. To this end, it is important for Greece to use available European resources in a timely and efficient manner,<sup>44</sup> as well as to attract flagship foreign investment that will transfer know-how and new technologies, so as to upgrade the productive model of the Greek economy, increase productivity and boost economic growth.

The new World Bank Entrepreneurship Report, *Business Ready 2024* [PT1](replacing the previous *Doing Business*), lists the comparative advantages and disadvantages of the Greek economy among 50 economies in total. For each economy, 2,000 data points covering 10 major topics related to a firm's life cycle are assessed, structured under three pillars: (i) the regulatory framework; (ii) the provision of related public services directed at firms and markets; and (iii) the efficiency with which regulatory framework and public services are combined in practice. According to the report, Greece ranks high in Pillars I and II (8th and 10th, respectively) and low in Pillar III (35th); however, among the topics examined, Greece has a very positive performance in business entry and international trade. At the other end of the spectrum, poor performance is recorded in business insolvency and taxation.

On the basis of the Tax Foundation's International Tax Competitiveness Index 2024 (22.10.2024), which examines more than 40 tax policy variables, Greece's ranking remained at 27th among 38 countries. However, its performance in absolute terms decreased slightly, as according to the report, its ranking in consumption taxes and property taxes worsened, while it improved in corporate taxes and cross-border tax rules.

According to the international competitiveness ranking of the IMD (World Competitiveness Ranking, 20.6.2024), Greece moved up two places in the overall ranking, to 47th among 64 economies. An improvement was recorded in "government efficiency" (52nd from 53rd), "business efficiency" (44th from 48th) and "economic performance" (52nd from 58th), while in "infrastructure" its position remained stable (40th). As the main challenges for Greece, the IMD points out *inter alia*: simplifying the regulatory framework concerning entrepreneurship; increasing investment aimed at expanding the country's production base; reforming the vocational education and training system to address labour shortages and skills mismatches; introducing policies that support the green and digital transition of enterprises; and reforming the judiciary system.

40 Draghi, M. (2024), "The future of European competitiveness".

41 Bank of Greece (2024), *Monetary Policy – Interim Report 2024*, Box 3 "The Draghi report on the future of European competitiveness: findings and proposals".

42 European Commission (2025), "An EU Compass to regain competitiveness and secure sustainable prosperity".

43 European Commission (2025), *The 2025 Annual Single Market and Competitiveness Report*.

44 Through either the Recovery and Resilience Facility or the Multiannual Financial Framework 2021-2027, the implementation of which falls short of the previous MFF (see Box IV.5).

Finally, Greece maintained the same ranking in the Transparency International Corruption Perception Index (11.2.2025) and ranked 59th among 180 countries under review.

#### Box IV.4

### MACROECONOMIC IMPLICATIONS OF A TAX ON BANKS' PROFITS

Since 2022, European banks have been experiencing increased profitability, fuelled by the post-pandemic economic recovery and the rise in inflation. At the same time, the tightening of monetary policy, together with the slow pass-through of policy rate increases to deposit rates, widened the interest rate spread between loans and deposits, further boosting bank profits. Faced with rising budget deficits, many European countries have already imposed or are considering imposing additional or temporary taxes on banks. This development has recently triggered discussions in academia and international institutions about the potential effects of such a policy on the financial sector and the real economy.<sup>1</sup>

Against this background, the objective of this box is to investigate the potential macroeconomic effects of a tax on banks' profits for the Greek economy. To this end, a Dynamic Stochastic General Equilibrium (DSGE) model is employed, which allows to identify and understand the propagation channels through which a tax on bank profits may affect the real economy and the financial sector.

#### Methodology

To study the transmission mechanisms of a tax on banks' profits, the theoretical model of Clerc et al. (2015) is employed.<sup>2</sup> This is a DSGE model, suitable for studying the transmission of exogenous shocks from the real economy to the financial sector, and vice versa. In particular, the model incorporates a detailed financial sector, with banks providing business and housing loans to firms and households, respectively. Firms and households use physical and residential capital, respectively, as collateral to acquire loans. Bank funding is made through equity funding and household deposits. The novelty of this model is that it includes three "layers of default", establishing the conditions under which default on outstanding loan obligations becomes the optimal "strategic" choice for financial institutions, firms and households, with knock-on effects on the financial system and the real economy.

The model is calibrated for the Greek economy on a quarterly basis and, for the purposes of the analysis, it is assumed that a temporary tax of 1% is imposed on bank profits.<sup>3</sup> At the same time, it is assumed that the resulting tax revenues are distributed to households. The calibration of the size and duration of the tax is illustrative and aims to investigate the sensitivity of macroeconomic variables to the imposition of the tax. Given that the shock is temporary, all macroeconomic variables will gradually converge back to their initial levels.

#### Dynamic effects of a tax on banks' profits

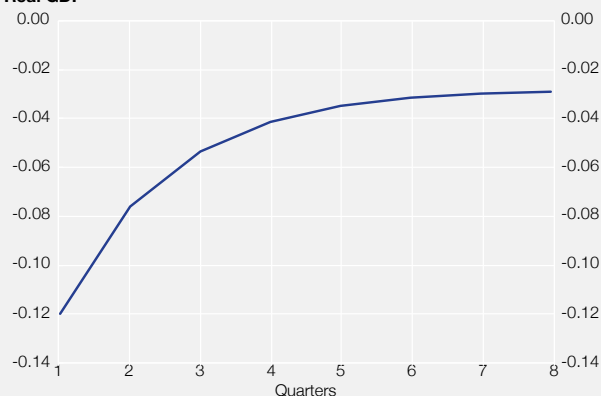
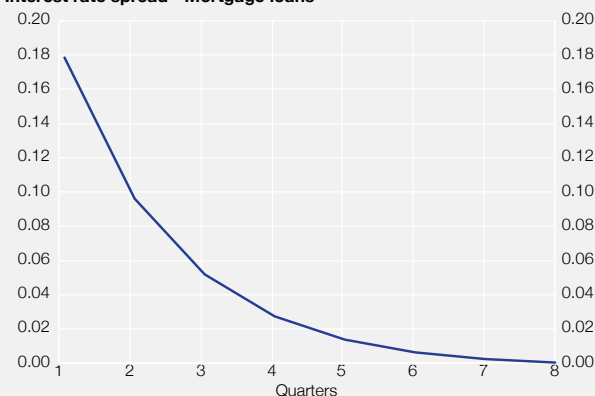
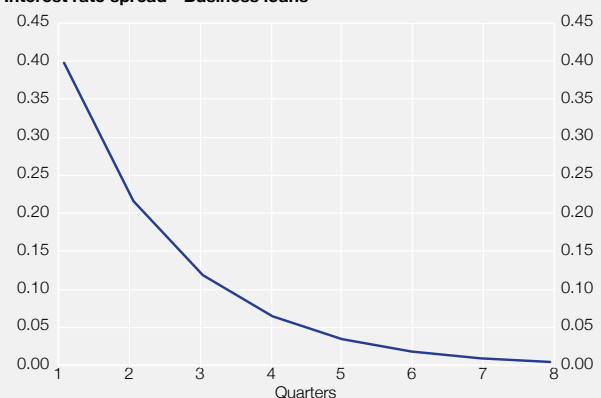
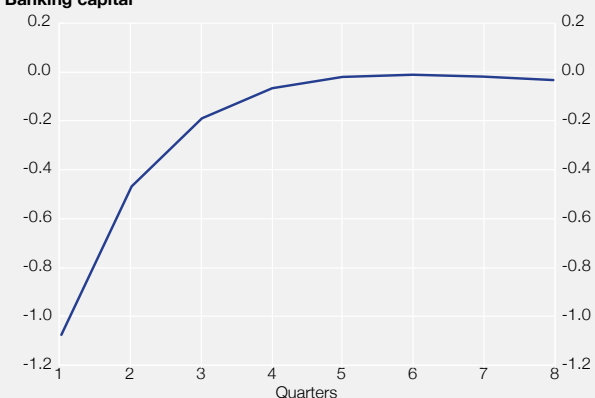
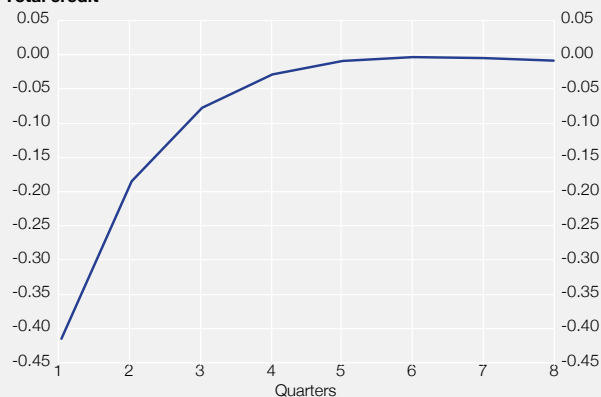
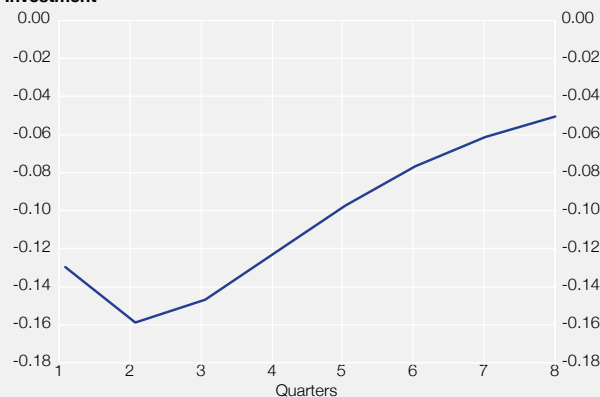
The chart shows the dynamic effects of a tax on banks' profits. According to the model's results, the tax affects the economy through two main channels.

The first channel operates through banking capital. The tax reduces banks' profits, negatively affecting the return on equity and thus the ability of banks to raise new equity. This limits the supply of loans in the model, exerting

- 1 See Maneely, M. and L. Ratnovski (2024), "Bank profits and bank taxes in the EU", IMF Working Paper No. 143, and Chen, R., V. Guzzo, F. Jamaludin, A. Mohommad, R. QU and Y. Zhao (2024), "Bank profitability in Europe: Not here to stay", IMF Working Paper No. 142.
- 2 Clerc, L., A. Derviz, C. Mendicino, S. Moyon, K. Nikolov, L. Stracca, J. Suarez and A.P. Vardoulakis (2015), "Capital regulation in a macroeconomic model with three layers of default", *International Journal of Central Banking*, 11(3), 9-63. For details regarding the calibration of the model for the Greek economy, see Balfoussia, H. and D. Papageorgiou (2016), "Insights on the Greek economy from the 3D macro model", Bank of Greece Working Paper No. 218, and Balfoussia, H., H. Dellas and D. Papageorgiou (2019), "Fiscal distress and banking performance: The role of macroprudential regulation", CEPR Working Paper No. 14003.
- 3 In the model, banks' profits are equal to the difference between the returns on loans granted and the repayment obligations on deposits.

## Dynamic effects of a tax on banks' profits

(percentages %)

**Real GDP****Interest rate spread - Mortgage loans****Interest rate spread - Business loans****Banking capital****Total credit****Investment**

Source: Bank of Greece estimates.

Note: All variables are expressed as percentage deviations from the steady-state, except for the interest rate spreads that are expressed as percentage point changes (annualised). Interest rate spreads are calculated as the difference between lending and deposit rates.

a negative impact on investment expenditure and, consequently, on the output of the real economy. At the same time, the tax creates an incentive for banks to increase lending rates on business and mortgage loans in an effort to offset the decline in profits caused by the tax burden and to attract new equity funding. However, higher lending rates dampen demand for business and residential investment, leading to a further decline in output and a further widening of the interest rate spread between loans and deposits.

In addition, the decline in GDP negatively affects the prices of physical and residential capital. Given that in the model these assets are used as collateral to provide business and mortgage loans respectively, the fall in their

value leads to an increase in the share of non-performing loans of households and businesses, as it is now more advantageous to grant the mortgaged asset to the bank rather than repay the loan. This development deteriorates the quality of banks' loan portfolios, weakens banks' balance sheets and leads to a further decline in banking capital. As a result, the adverse effects of the policy measure under consideration on the financial sector, as well as on the real economy and household incomes, are amplified.

The second channel through which the tax affects the economy relates to the cost of bank funding through deposits. Higher default rates by households and firms negatively affect the creditworthiness of banks in the context of the model, leading to an increase in the interest rate demanded by depositors. As a result, the cost of funding through new deposits increases, leading to a further decline in banking capital and total credit. The increase in the deposit rate is in turn passed on to lending rates, further reducing credit demand and exacerbating the contraction of economic activity.

It should be noted that the redistribution of tax revenue to households acts as a compensating mechanism, partially offsetting the negative effects on their income and on aggregate demand. However, it is not sufficient to fully offset the negative impact of the tax, and the net effect on aggregate demand and GDP is negative.<sup>4</sup>

These results are consistent with recent findings in the relevant literature. For instance, as confirmed by empirical studies for European countries, the imposition of a tax on banks leads to an increase in lending rates and a decline in bank credit. Reduced lending, in turn, causes a drop in business investment.<sup>5</sup> Nevertheless, it should be noted that the channels identified in this study occur in the context of a theoretical model of the economy. In practice, in the case of the Greek banking system, the direct impact of these channels may be limited, given that Greek credit institutions have high levels of capital adequacy and liquidity, well above the regulatory minimum required. Therefore, they have a considerable degree of flexibility, and any decline in their profitability may not directly affect their capacity to raise funds from the financial markets. Nonetheless, the model highlights the potential implications of a tax on banks' profits as well as the channels through which such a policy could affect Greece's real economic aggregates, thus underlining the importance of including a range of factors in the assessment of the policy measure under consideration.

## Conclusions

This box explores the potential macroeconomic effects of a tax on banks' profits, using a DSGE model calibrated for the Greek economy. It is found that the imposition of such a tax affects the economy through two main channels: banking capital and bank funding. These channels may constrain the supply of credit and reduce the value of banking collateral, leading to a contraction in economic activity. It is concluded that a tax on bank profits could potentially have negative effects on both the financial sector and the real economy. At the current juncture, Greek banks have high levels of capital adequacy and liquidity, therefore any decrease in their profitability is not expected to directly affect their ability to raise new capital. However, the theoretical transmission channels identified in the model highlight the need to take into account a number of factors for an evaluation of the policy measure under consideration.

4 The decline in household income also leads to a reduction in household consumption expenditure, further dampening aggregate demand and thus real GDP.

5 See, among others, Borsuk, M., J. Przeworska, A. Saunders and D. Serwa (2024), "The macroeconomic costs of the bank tax", *Journal of Financial Stability*, Vol. 72, and Buch, C.M., B. Hilberg and L. Tonzer (2016), "Taxing banks: An evaluation of the German bank Levy", *Journal of Banking and Finance*, 72, 52-66.

## 7 BALANCE OF PAYMENTS: DEVELOPMENTS AND PROSPECTS

According to Bank of Greece data, the current account deficit in 2024 increased to EUR 15.3 billion (6.4% of GDP), from EUR 13.9 billion (6.2% of GDP) in 2023. This development is mainly attributable to a deterioration in the non-oil balance of goods, since the increase in the relevant imports was higher than that in exports. In addition, the oil deficit also increased, as the decline

Table IV.9 Balance of payments

(EUR millions)

|                                                              | 2021             | 2022             | 2023             | 2024             |
|--------------------------------------------------------------|------------------|------------------|------------------|------------------|
| <b>I CURRENT ACCOUNT BALANCE (I.A + I.B + I.C + I.D)</b>     | <b>-12,271.6</b> | <b>-21,225.6</b> | <b>-13,930.6</b> | <b>-15,263.2</b> |
| <b>I.A BALANCE OF GOODS (I.A.1 - I.A.2)</b>                  | <b>-26,719.1</b> | <b>-39,557.6</b> | <b>-33,026.9</b> | <b>-35,665.5</b> |
| <i>I.A.1 Exports of goods</i>                                | <i>39,327.9</i>  | <i>53,755.0</i>  | <i>50,031.6</i>  | <i>48,612.8</i>  |
| Fuel                                                         | 10,210.2         | 17,601.7         | 14,562.1         | 12,802.1         |
| <i>I.A.2 Imports of goods</i>                                | <i>66,046.9</i>  | <i>93,312.6</i>  | <i>83,058.5</i>  | <i>84,278.3</i>  |
| Fuel                                                         | 16,087.3         | 30,853.2         | 21,627.1         | 20,421.1         |
| <b>I.B BALANCE OF SERVICES (I.B.1 - I.B.2)</b>               | <b>12,845.0</b>  | <b>19,391.3</b>  | <b>21,818.5</b>  | <b>22,618.3</b>  |
| <i>I.B.1 Receipts</i>                                        | <i>35,056.4</i>  | <i>47,761.9</i>  | <i>49,040.7</i>  | <i>51,461.7</i>  |
| Travel                                                       | 10,502.7         | 17,676.2         | 20,593.6         | 21,592.3         |
| Transport                                                    | 18,728.1         | 23,434.0         | 20,999.8         | 21,214.9         |
| <i>I.B.2 Payments</i>                                        | <i>22,211.5</i>  | <i>28,370.7</i>  | <i>27,222.3</i>  | <i>28,843.5</i>  |
| Travel                                                       | 1,112.5          | 1,924.6          | 2,431.7          | 2,805.3          |
| Transport                                                    | 15,078.7         | 19,609.7         | 17,825.5         | 18,179.0         |
| <b>I.C PRIMARY INCOME ACCOUNT (I.C.1 - I.C.2)</b>            | <b>368.7</b>     | <b>-757.7</b>    | <b>-4,047.6</b>  | <b>-4,292.3</b>  |
| <i>I.C.1 Receipts</i>                                        | <i>6,608.1</i>   | <i>7,875.5</i>   | <i>10,100.3</i>  | <i>11,121.2</i>  |
| Labour (wages, salaries)                                     | 220.2            | 224.7            | 208.8            | 232.5            |
| Investment (interest, dividends, profits)                    | 3,019.2          | 4,177.7          | 6,547.2          | 7,914.6          |
| <i>I.C.2 Payments</i>                                        | <i>6,239.4</i>   | <i>8,633.1</i>   | <i>14,147.9</i>  | <i>15,413.5</i>  |
| Labour (wages, salaries)                                     | 1,309.7          | 1,493.8          | 1,327.1          | 1,372.3          |
| Investment (interest, dividends, profits)                    | 4,433.3          | 6,478.8          | 12,304.9         | 13,544.1         |
| <b>I.D SECONDARY INCOME ACCOUNT (I.D.1 - I.D.2)</b>          | <b>1,233.8</b>   | <b>-301.6</b>    | <b>1,325.5</b>   | <b>2,076.4</b>   |
| <i>I.D.1 Receipts</i>                                        | <i>5,008.2</i>   | <i>4,390.6</i>   | <i>5,541.5</i>   | <i>6,822.2</i>   |
| General government                                           | 3,561.7          | 2,642.7          | 3,255.8          | 1,514.1          |
| <i>I.D.2 Payments</i>                                        | <i>3,774.4</i>   | <i>4,692.2</i>   | <i>4,216.1</i>   | <i>4,745.8</i>   |
| General government                                           | 2,297.1          | 3,058.7          | 2,381.9          | 2,817.0          |
| <b>II CAPITAL ACCOUNT (II.1 - II.2)</b>                      | <b>4,000.9</b>   | <b>3,111.6</b>   | <b>2,677.0</b>   | <b>-21.0</b>     |
| <i>II.1 Receipts</i>                                         | <i>4,915.0</i>   | <i>3,857.0</i>   | <i>3,367.7</i>   | <i>947.3</i>     |
| General government                                           | 4,055.5          | 2,523.2          | 2,824.7          | 638.8            |
| <i>II.2 Payments</i>                                         | <i>914.1</i>     | <i>745.3</i>     | <i>690.8</i>     | <i>968.3</i>     |
| General government                                           | 5.0              | 7.2              | 7.0              | 7.2              |
| <b>III FINANCIAL ACCOUNT (III.A + III.B + III.C + III.D)</b> | <b>-7,107.6</b>  | <b>-16,152.0</b> | <b>-9,024.3</b>  | <b>-13,468.3</b> |
| <b>III.A DIRECT INVESTMENT<sup>1</sup></b>                   | <b>-4,412.6</b>  | <b>-4,988.9</b>  | <b>-602.9</b>    | <b>-4,329.8</b>  |
| Assets                                                       | 1,147.7          | 2,538.5          | 3,757.8          | 1,655.1          |
| Υποχρεώσεις                                                  | 5,560.4          | 7,527.5          | 4,360.7          | 5,984.9          |
| <b>III.B PORTFOLIO INVESTMENT<sup>1</sup></b>                | <b>23,829.9</b>  | <b>8,934.9</b>   | <b>-3,020.4</b>  | <b>-7,531.0</b>  |
| Assets                                                       | 27,316.7         | 10,206.3         | 2,601.4          | 4,473.2          |
| Liabilities                                                  | 3,486.7          | 1,271.4          | 5,621.8          | 12,004.2         |
| <b>III.B PORTFOLIO INVESTMENT<sup>1</sup></b>                | <b>-29,060.9</b> | <b>-18,252.5</b> | <b>-5,931.6</b>  | <b>-1,346.6</b>  |
| Assets                                                       | 3,713.7          | -3,688.1         | -2,301.7         | -146.0           |
| Liabilities                                                  | 32,774.6         | 14,564.4         | 3,630.0          | 1,200.6          |
| (Loans of general government)                                | -957.9           | -4,496.0         | -3,501.3         | -7,635.8         |
| <b>III.D CHANGE IN RESERVE ASSETS<sup>1</sup></b>            | <b>2,536.0</b>   | <b>-1,845.4</b>  | <b>530.6</b>     | <b>-261.0</b>    |
| <b>IV BALANCING ITEM (I + II - III + IV = 0)</b>             | <b>1,163.1</b>   | <b>1,962.0</b>   | <b>2,229.3</b>   | <b>1,815.9</b>   |
| <b>RESERVE ASSETS (STOCK)</b>                                | <b>12,770</b>    | <b>11,341</b>    | <b>12,324</b>    | <b>14,649</b>    |

Source: Bank of Greece.

1 (+) increase, (-) decrease.

in the respective exports exceeded that in imports. The deficit of the primary income account deteriorated, as lower net receipts from other primary income partly offset lower net interest, dividend and profit payments. However, the above developments aggravating the current account were to some extent offset by an increase in the surpluses of the services balance – mainly as a result of higher travel receipts – and the secondary income account (see Table IV.9 and Chart IV.23).

For 2025, a number of factors will contribute to an improvement of the current account balance. Despite a meagre rise in non-oil exports of goods, exports did not lose a significant market share, which augurs well for future performance. An increase in the services surplus is also expected, as travel receipts are expected to rise further, although not significantly, in 2025, mainly through an extension of the tourist season, the promotion of alternative forms of tourism and the strengthening of the cruise sector. There is a relatively positive outlook for sea transport receipts, owing to an estimated – albeit small – increase in global demand and limited growth in the world fleet. Finally, the expected downward trend in interest rates will contribute to lower interest payments, improving the primary income account.

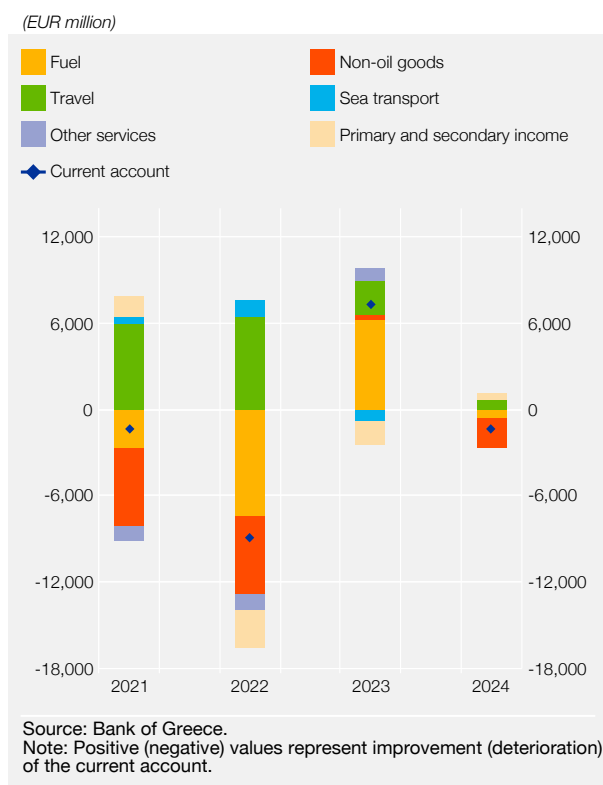
However, a further improvement of the current account balance remains subject to significant risks, most notably a slowdown in global demand compounded by US tariffs, which may dampen the expected improvement of exports in 2025. Adverse geopolitical developments, rising fuel prices or renewed inflationary pressures may pose additional risks. In addition, recent geodynamic developments in the Southern Aegean region may weigh on tourist arrivals and receipts in the region.

The openness of the Greek economy has improved considerably in recent years. According to balance of payments data, in 2024 exports of goods and services as a share of GDP almost doubled compared with 2010 and the economy's openness to international trade stood at around 90%, compared with 50% in 2010.<sup>45</sup> However, the combined current account remains in deficit and still reflects an imbalance of the Greek economy. In addition, more than 50% of the country's exports come from three sectors: travel services, sea transport and fuel. Moreover, the import content of exports remains high, exceeding 30% of total exports (compared with 18% in the euro area) over the period 2017-2020, according to available OECD data. Reducing the current account deficit through a further increase in exports of goods and services requires accelerating reforms; making efficient use of the European Recovery and Resilience Facility (RRF) resources; enhancing the diversification of exports of goods and services; and developing high-tech goods industries.

### Balance of goods

The deficit of the balance of goods widened by EUR 2.6 billion in 2024, as total imports rose, while exports declined. More specifically, about 80% of this deterioration is attributable to an

**Chart IV.23 Contributions to the annual change in the current account balance**



45 Trade openness is defined as the sum of exports and imports as a percentage of GDP.

Chart IV.24 Exports of goods by sector

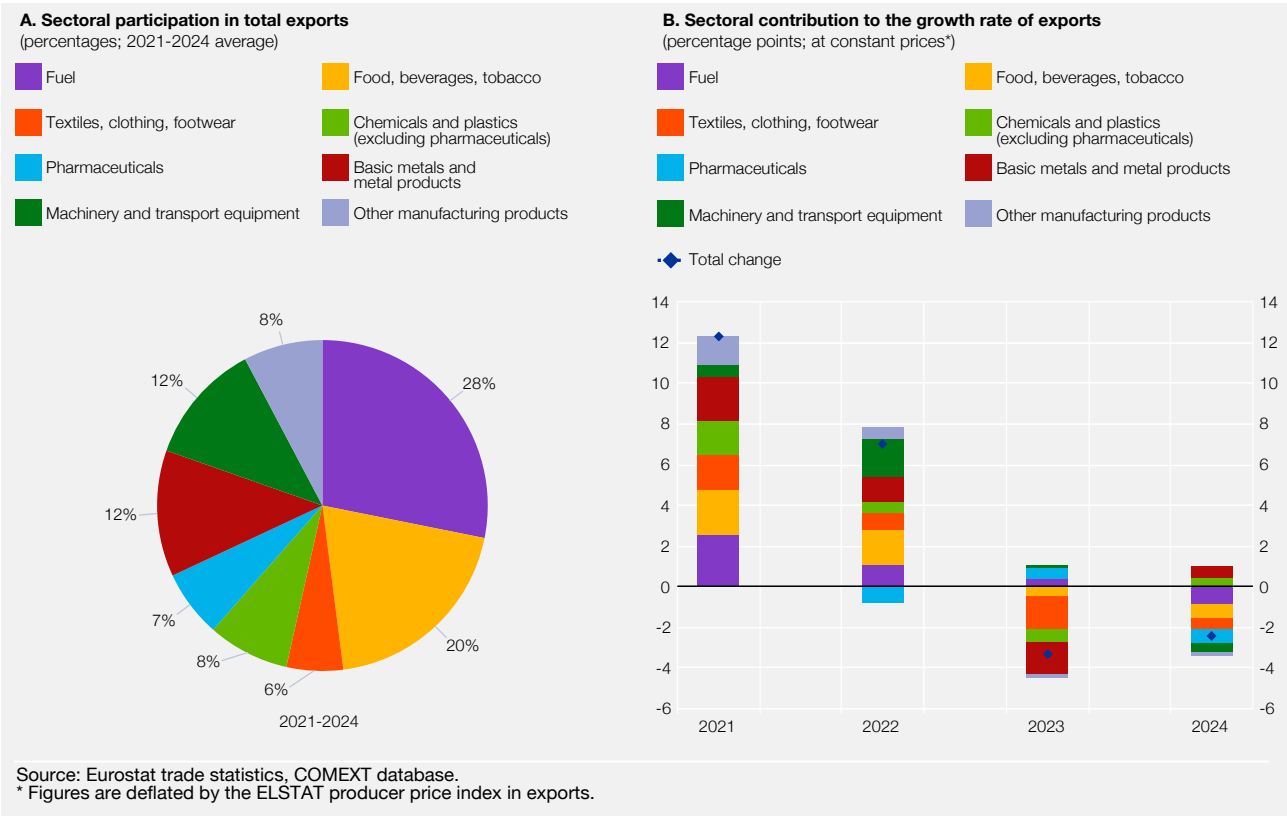


Chart IV.25 Exports of goods by destination

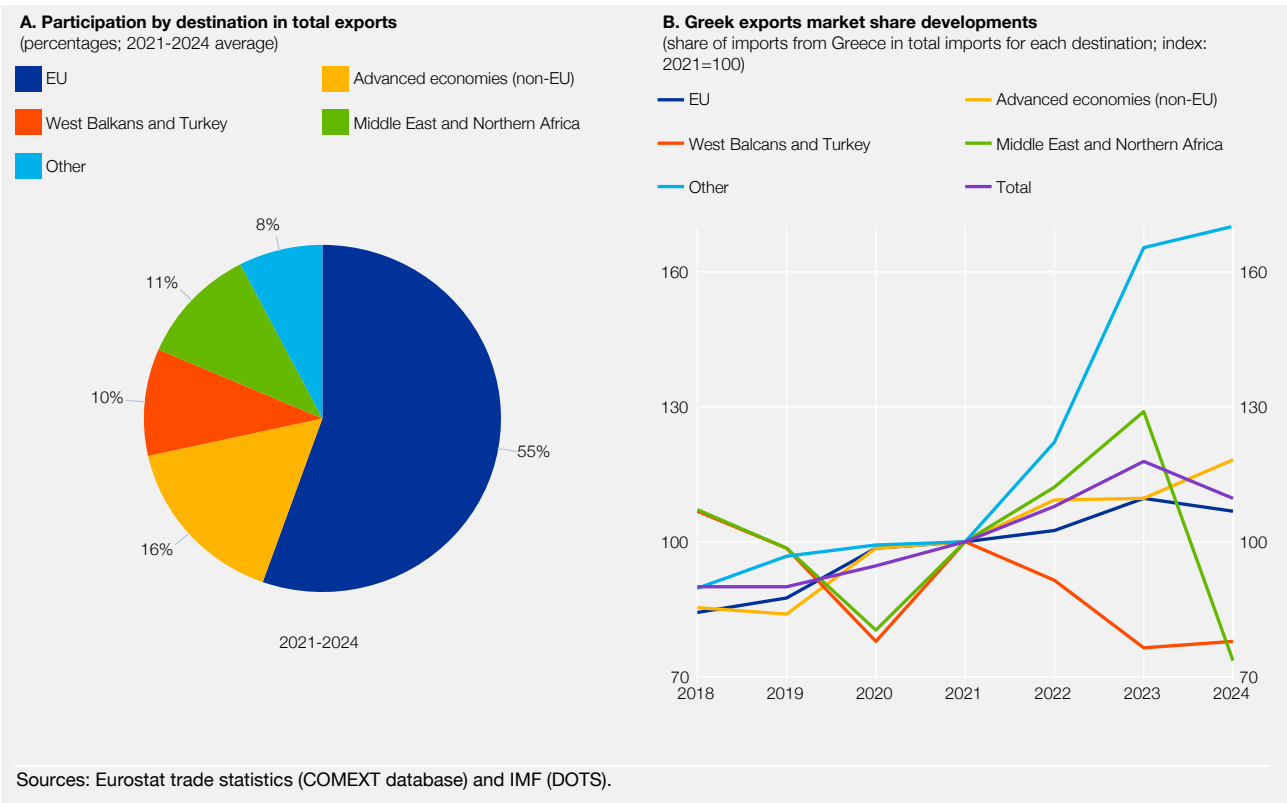
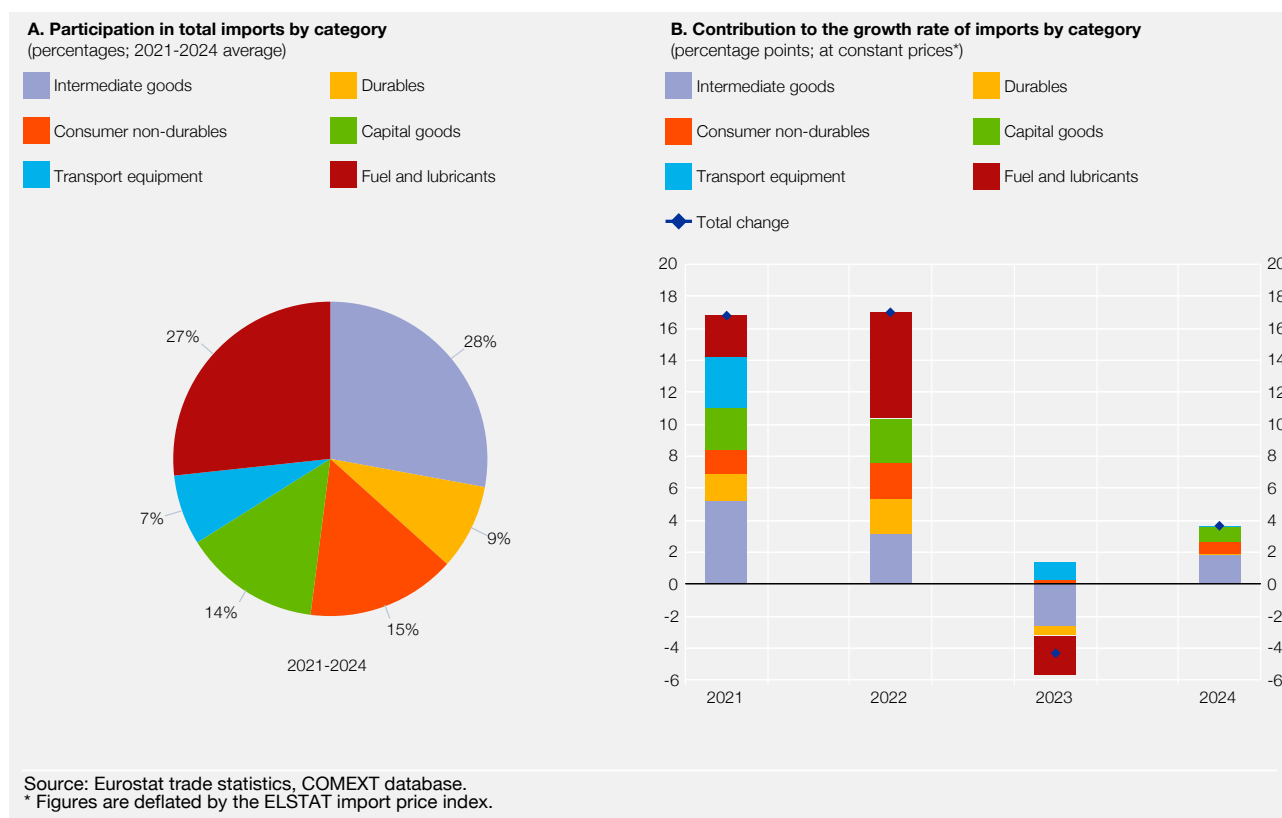


Chart IV.26 Imports of goods by use



increase in the deficit of the non-oil balance of goods, as the relevant imports rose more than the corresponding exports. At the same time, as a result of lower international energy goods prices, both oil exports and imports declined in nominal terms. However, the decrease in oil exports outpaced the fall in imports, leading to a worsening of the oil balance.

At constant prices, non-oil exports of goods declined by 1.2 %, as the negative contributions from pharmaceuticals, food and beverages and textiles were partly offset by a positive contribution from basic metals and chemicals (see Chart IV.24). Similarly, the increase in non-oil imports of goods (by 4.0% at constant prices) was associated with higher imports of intermediate and investment goods and, to a lesser extent, consumer non-durables (see Chart IV.26).

A decline in the value of exports of goods, also reflecting lower international prices for energy products, contributed to a shrinking of the market share of Greek exports in 2024. In particular, the market share in the EU countries decreased slightly, while an increase was recorded in advanced (non-EU) economies and the Western Balkan countries (see Chart IV.25).

The imposition of tariffs by the US on imports of goods from the EU is expected to have a limited direct impact on Greek exports, as the share of Greek exports to the US amounted to around 5% in 2024. The main categories of Greek products exported to the United States are fruit and vegetables (manufactured), fuels (oil products), non-metallic minerals (mainly construction materials) and non-ferrous metals (e.g. aluminium).

### Balance of services

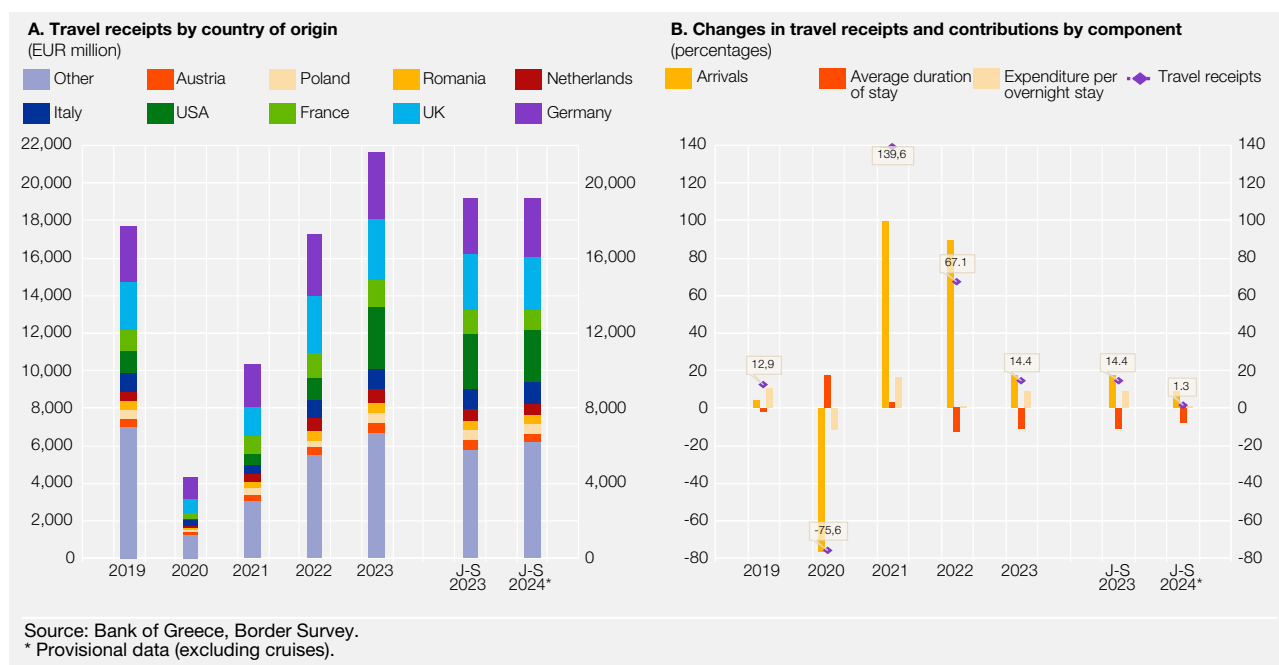
The surplus of the services balance increased by 3.7% in 2024, as a result of higher net travel receipts (primarily) and other services receipts (secondarily), which were offset to some extent by lower net transport receipts.

Global tourism has now returned to pre-pandemic levels on the basis of arrivals,<sup>46</sup> while in the Mediterranean region arrivals exceeded those of 2019 and increased further in 2024 compared with the previous year. Among the Mediterranean countries, Spain recorded the strongest growth in inbound travellers compared with 2023, while the increase in visitors to Albania and, to a lesser extent, Morocco was also notable. Greece has consistently ranked fourth among the Mediterranean countries in terms of tourist arrivals for 2024, recording the highest concentration of arrivals in the summer months in relation to competitor countries, despite the recent extension of the tourist season.

Travel arrivals and receipts continued to increase in 2024 (by 9.8% and 4.8%, respectively), although at a slower pace than in 2023. Average expenditure per trip declined by 5.1%, while at the same time the average length of stay declined, contributing to a drop in the growth rate of receipts. In addition, higher inflation squeezed travellers' disposable income and led to a moderation in travel spending. In particular, the tourism price index rose by 7.0% in 2024, exceeding the 2.7% increase recorded in the consumer price index (CPI).<sup>47,48</sup>

Half of total travel receipts continue to originate from five main travel markets (Germany, France, Italy, the United Kingdom, the United States), while the share of travellers from non-euro area EU countries grew. At the same time, efforts to extend the tourist season seem to have yielded positive results, with increased rates of arrivals recorded in months outside the traditional tourist season. More specifically, in the periods January-March and October-December 2024 taken together, receipts and arrivals rose by 28.2% and 16.4%, respectively, compared to 2023, and contributed 20% in 2024 (compared with 16% in 2023) to total receipts and 22%, up from 21%, to total arrivals. The cruise sector continued to grow, registering positive growth rates also in 2024, as receipts rose by 31.2% compared with 2023, increasing their share in total receipts (5.1% in 2024, from

Chart IV.27 Breakdown of and changes in travel services (2019-2023 and January-September 2023-2024)



46 UNWTO (2025), *World Tourism Barometer*, 23(1), January.

47 The corresponding figure based on the weighted price index for tourism stood at 13.5% in 2022 and 5.7% in 2023, up from 1.8% in 2019 (compared with a growth rate of 9.6%, 3.5% and 0.3% of the overall CPI, respectively).

48 Bank of Greece (2023), *Annual Report 2022*, Box IV.3 "The Greek tourism sector: performance and changes following the pandemic".

4.1% in 2023). Geopolitical developments in the Mediterranean region worked positively in this direction, together with the improvements in domestic port infrastructures (see Chart IV.27).

According to the January-September 2024 border survey, more than half of total receipts are generated by the Southern Aegean islands regions (Cyclades and the Dodecanese), Crete and the Ionian Islands, which are popular tourist destinations. The share of the Attica region continues to grow, by 3 percentage points year-on-year, while among the other regions, Epirus showed the largest increase. Average expenditure per trip increased significantly in the regions of Central Greece and the Peloponnese, while a decline was recorded in Crete.

The surplus of the transport balance contracted in 2024, mainly on account of higher net payments for other transport services, despite a rise in net sea transport receipts. Sea transport receipts rose slightly by 0.6% year-on-year in 2024, resulting in a 2.3% increase in the surplus of the sea transport balance. The evolution of receipts reflects both a rise in freight rates (+6.0 % compared with 2023, according to the ClarkSea index) and a small increase in the active Greek-managed commercial fleet (see Chart IV.28). In particular, freight rates for dry cargo ships rose by 23% on account of stronger demand and longer routes, while oil tanker freight rates fell by 13% due to lower demand. The widening of the deficit of the other transport balance is mainly due to payments for the transportation of imported goods, which increased in 2024.

As regards the implications for shipping from the imposition of tariffs on the basis of announcements so far, the impact on the main sectors where Greek shipping is active, i.e. dry cargo ships and tankers, is expected to be limited, while in the container ship sector it is estimated to be more significant. In addition, as the attacks on commercial ships in the Red Sea have declined since the end of 2023, the use of this maritime route is expected to gradually be restored.

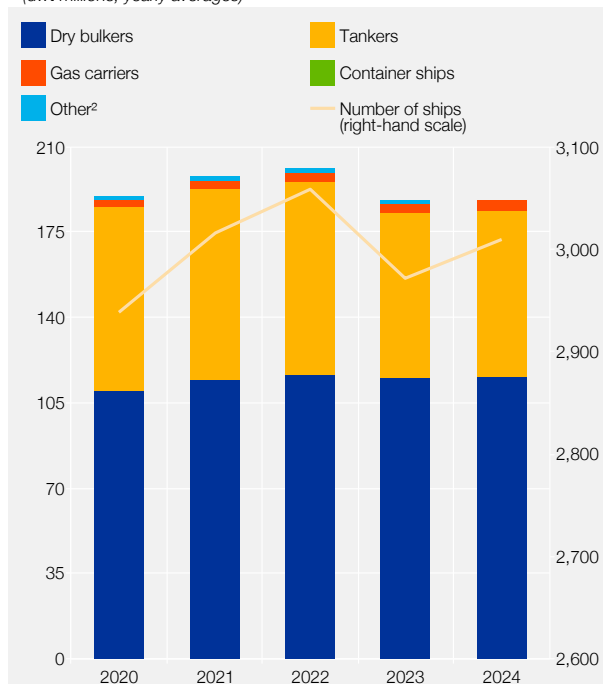
The surplus of the other services balance widened significantly in 2024 compared with 2023, owing to a stronger increase in receipts than in payments. This is mainly attributable to a strengthening mainly of the balance of other business activities, as well as of the insurance and financial services balance. However, this was partly offset by an increase in net payments for intellectual property services. The bulk of total receipts in 2024 was recorded by other business services, followed by telecommunications, computer and information services, while payments are dominated by other business services and insurance services.

#### Primary and secondary income accounts – Capital account

In 2024, the primary income account deteriorated year-on-year. The main reason was lower net receipts from other primary income, as a result of lower agricultural subsidies from the EU, which were partly offset by lower net interest, dividend and profit payments. The latter development reflects the downward trend in interest rates and associated interest payments. By contrast, the secondary income account recorded a higher surplus, mainly on account of higher

**Chart IV.28 Developments in the merchant fleet<sup>1</sup> managed by companies located in Greece**

(dwt millions; yearly averages)



Source: Bank of Greece calculations. For the set-up methodology of the fleet managed by Greece, see Papaspyrou, M. and A. Petralias (2019), "The Greek shipping estimation model", Bank of Greece, *Economic Bulletin*, No. 49, July.

<sup>1</sup> Merchant ships in operation (excluding recreational and fishing) with gross tonnage of over 100.

<sup>2</sup> Including passenger ships, barges, etc.

net receipts in the sectors other than general government, associated with an inflow from the reallocation of the Eurosystem's monetary income to the Bank of Greece.

The capital account deteriorated, recording a small deficit, against a surplus in 2023, mainly due to lower general government net receipts, combined with higher net payments of the sectors other than general government.

Inflows from EU structural and investment funds in 2024 amounted to EUR 2.2 billion (according to EU data),<sup>49</sup> while inflows from direct agricultural subsidies under the Common Agricultural Policy amounted to EUR 1.9 billion. Progress in disbursing RRF funding to Greece is linked to the fulfilment of the associated milestones and the implementation of reforms. In particular, two tranches were disbursed under the RRF in 2024, while pre-financing of EUR 158.7 million was disbursed under the REPowerEU programme.<sup>50</sup> Overall, the absorption of RRF funds amounted to 47.1% for grants and 54.3% for loans.<sup>51</sup>

For 2025, according to the planning of the Ministry of Economy and Finance, two tranches of RRF financing are expected to be paid, subject to the fulfilment of the relevant milestones. As mentioned above, Greece has received EUR 2.2 billion through the Multiannual Financial Framework (MFF) for 2021-2027. However, the absorption of MFF funds is expected to accelerate, as typically observed at the end of each programming period. The completion of the RRF in 2026 – the year when this programme ends – is also projected to contribute to this acceleration, as priority has been given to the implementation of RRF-funded projects (see Box IV.5). It should be noted that Greece ranks 7th, exceeding the EU average in terms of disbursements under the new MFF.

### Financial account

In 2024, residents' external liabilities under direct investment, which represent non-residents' direct investment in Greece, registered a EUR 6.0 billion flow (2.5% of GDP), compared with EUR 4.4 billion (1.9% of GDP) in 2023. The level of flows is the second highest in 20 years after 2022, supported by stronger investment in new equity and real estate in Greece. In particular, more than 45% of total flows were directed towards the real estate sector, reflecting the strong investment interest attracted by this industry, supported in part by the fact that many foreign investors rushed to buy real estate ahead of the change in the Golden Visa minimum investment threshold.<sup>52</sup>

Manufacturing, transport and storage, communications, financial activities and real estate (management and private purchases) attract, as in the previous two years, foreign investors' interest (see Chart IV.29). The bulk of foreign direct investment (FDI) comes from the United Arab Emirates, Germany, Italy, Hong Kong and France. For example, the most important transactions, such as Masdar's foreign direct investment in TERNA ENERGY S.A.,<sup>53</sup> Avialliance's acquisition of an additional equity stake in the Athens International Airport S.A. offered by the Hellenic Republic Asset Development Fund (HRADF); and the partial acquisition of ACS Postal Services S.A. by General Logistics Systems BV.

For 2025 as a whole, FDI is estimated to remain high, supported by the improved business environment following the upgrades of Greece's sovereign credit rating in March 2025 and possibly

49 Source: European Commission, Open Data Portal for the European Structural Investment Funds.

50 On 21 November 2023, the European Commission approved Greece's revised national recovery and resilience plan, which includes a new chapter related to the REPowerEU programme, providing for additional resources amounting to EUR 5.8 billion (EUR 5.0 billion in loans and EUR 0.8 billion in grants).

51 By the end of 2024, RRF financing (in the grant component and including REPowerEU) amounted to EUR 8.6 billion, of which EUR 3.9 billion were recorded under the secondary income account (general government sub-account) and EUR 4.7 billion were recorded under the capital account (fixed capital formation), boosting the financing of the current account.

52 See also Section 3 in this chapter.

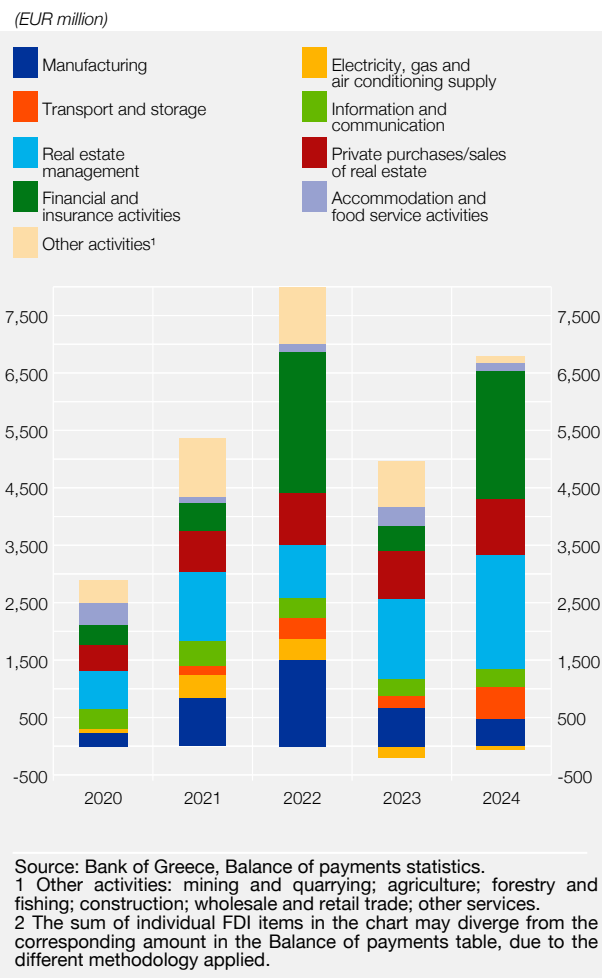
53 [TERNA ENERGY, Financial Press Releases, Announcement 27.11.2024.](#)

by the completion of privatisation projects at an advanced stage in line with the Introductory Budget Report published in late 2024.

Turning to residents' external assets, which concern Greece's foreign direct investment abroad, flows in 2024 were halved compared with the previous year and amounted to EUR 1.7 billion. The most important transactions concern the purchase of shares of Hellenic Bank Public Company Limited by Eurobank S.A. and the capital increase of Spark Wind Park SPL by PPC Renewables S.M.S.A.

Under portfolio investment, an increase in residents' external assets resulted mainly from a rise of EUR 3.4 billion in residents' holdings of foreign bonds and Treasury bills and, to a lesser extent, in non-residents' shares (up by EUR 1.8 billion). An increase in residents' liabilities was driven by a rise of EUR 10.0 billion in non-residents' holdings of Greek bonds and Treasury bills, as well as in holdings of shares of domestic firms (by EUR 2.0 billion). Under other investment, a drop in residents' external assets is mainly attributable to a decline of EUR 6.1 billion in residents' deposit and repo holdings abroad, which was partly offset by a EUR 4.1 billion statistical adjustment related to the issuance of banknotes and a EUR 2.0 billion rise in loans extended to non-residents by domestic financial institutions. An increase in residents' liabilities is related to a rise of EUR 6.1 billion in non-residents' deposit and repo holdings in Greece (the TARGET account included) and a EUR 4.1 billion statistical adjustment related to the issuance of banknotes. This development was partly offset by a EUR 8.9 billion drop in the outstanding debt to non-residents.<sup>54</sup> At end-2024, Greece's reserve assets stood at EUR 14.6 billion, compared with EUR 12.3 billion at end-2023.

**Chart IV.29 Breakdown of FDI flows in Greece by sector of economic activity**



<sup>54</sup> This includes the early partial repayment of the bilateral loans under the first Greek Loan Facility (GLF) by the Greek State.

#### Box IV.5

### IMPLEMENTATION OF REGULAR EU FUNDING PROGRAMMES FOR 2014-2020 AND 2021-2027 AND THEIR IMPACT ON THE CURRENT ACCOUNT BALANCE

Regular funding from the European Union (EU) budget is integrated into successive programmes. The aim of these programmes is to provide support to Member States – subject to conditionality<sup>1</sup> – in order to reinforce the EU's economic, social and territorial cohesion through investment and structural reforms. The current Multiannual Financial

<sup>1</sup> Such conditionalities relate either to the deviation of each region's GDP per capita from the EU average for the European Regional Development Fund and the European Social Fund or to a Gross National Income (GNI) per capita below 90% of the EU average for the Cohesion Fund.

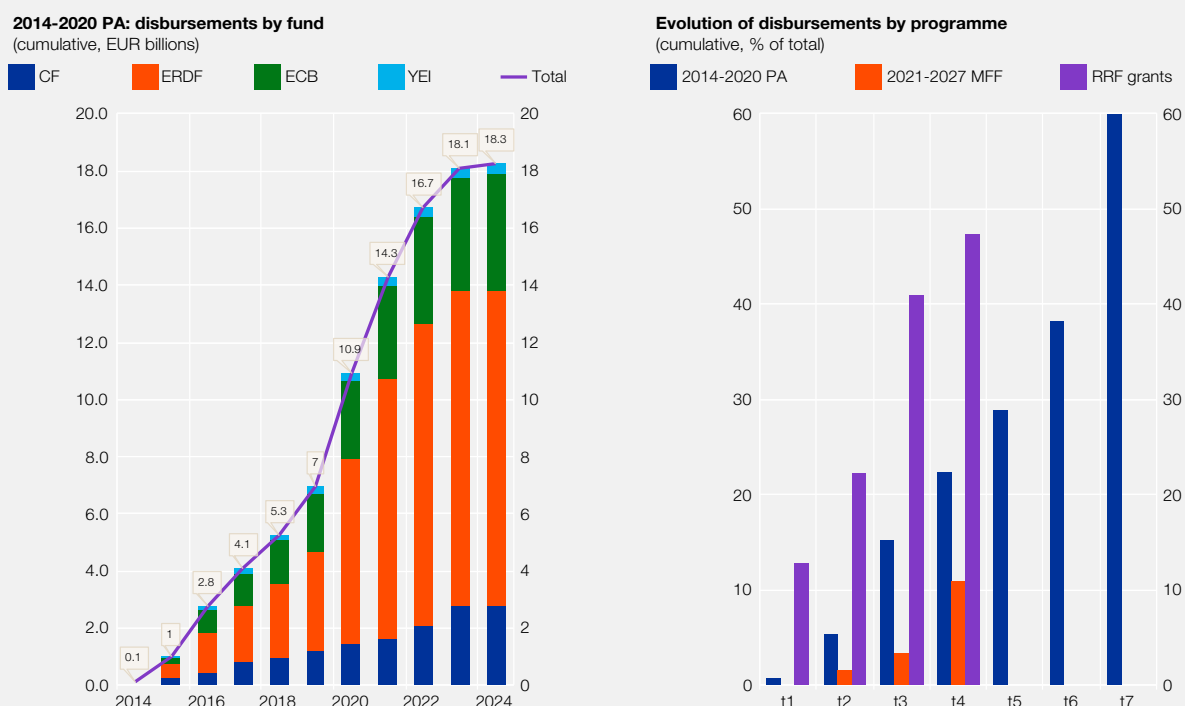
Framework (MFF) concerns the period 2021-2027, while the Partnership Agreement (PA) covered the period 2014-2020. However, in accordance with the rules, each programme allows for a full disbursement within three years after the end of the programme (n+3 rule), i.e. until the end of 2030 for the current MFF. In the balance of payments, receipts from EU programmes' structural funds are recorded under the primary and secondary income accounts, which are included in the current account, as well as under the capital account, depending on the recipient and type of financing. In terms of receipts, the implementation of the 2021-2027 MFF falls short of the previous 2014-2020 programme, possibly also due to the introduction of the Recovery and Resilience Facility (RRF). So far, the slower implementation of the 2021-2027 MFF has resulted in lower-than-expected inflows into the current account over the first years of the programme. This box reviews and compares the last two programmes, while projecting the medium-term absorption of the current MFF funding and its impact on the current account balance in Greece.

### Stocktake on the implementation of the 2014-2020 PA, description of the 2021-2027 MFF and comparison of the disbursement timeline between the two programmes

The 2014-2020 PA secured resources of a cumulative EUR 18.3 billion for Greece.<sup>2</sup> These resources were mainly directed at enhancing the competitiveness of small and medium-sized enterprises (EUR 3.5 billion), environmental protection and the efficient management of available natural resources (EUR 2.1 billion), resilience and crisis response (EUR 2.0 billion), as well as employment (EUR 1.9 billion). The funds that allocated the resources included the European Regional Development Fund (ERDF), accounting for 60% of total EU resources, the European Social Fund (ESF), the Cohesion Fund (CF) and the Youth Employment Initiative (YEI).

In the context of the 2021-2027 MFF, Greece has been allocated EUR 20.5 billion from EU funds. MFF priorities include actions on: a more competitive and smarter Europe; a greener, low carbon transitioning towards a net

Chart A Evolution of disbursements under EU funding programmes



Sources: European Commission, Cohesion Open Data Platform, Ministry of Finance and Bank of Greece calculations.

Note: On the horizontal axis of the right-hand panel, t1 to t7 refer to the first seven years of each programming period (2014-2020 and 2021-2027). The additional three years provided to complete the full disbursement for the 2014-2020 PA are not reflected in the chart.

- 2 Excluding resources mostly relating to rural development interventions or projects contributing to the sustainable exploitation and management of water resources promoted by the European Agricultural Fund for Rural Development and/or the European Maritime and Fisheries Fund.

zero carbon economy; a more connected Europe by enhancing mobility; a more social and inclusive Europe; and a Europe closer to citizens by fostering the sustainable and integrated development of all types of territories. The funds financing these projects are roughly corresponding to those of the 2014-2020 programme.<sup>3</sup> Compared to all other funds, the ERDF continues to pool most of the EU resources allocated to Greece (52% of total EU resources), followed by the ESF+, which accounts for 27.1% of the resources.

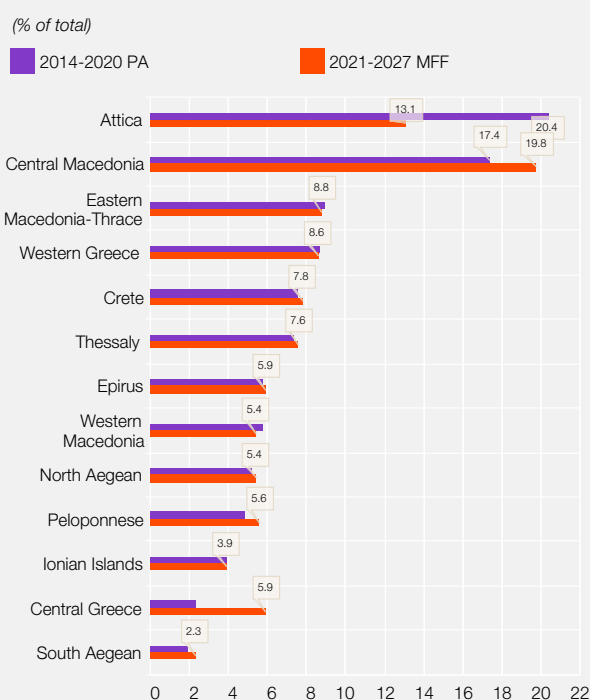
Experience with the implementation of past EU funding programmes in Greece shows that the programmes are back-loaded and that the bulk of resources is disbursed either in the last years of the programme's duration or in the additional three years provided for the completion of the full disbursement (see Chart A1). Specifically, in the 2014-2020 programme, only 22% of total resources (EUR 4.4 billion) had been disbursed over the first four years, with disbursements significantly accelerating from the programme's seventh year of implementation onwards. Over the corresponding four-year period, 2021-2027 MFF disbursements amount to 11% of total available MFF resources (EUR 2.2 billion), i.e. half the absorption compared to the 2014-2020 PA. In this context, it is evident that the implementation of the 2021-2027 MFF is lagging behind relative to the previous 2014-2020 programme. This is largely due to the introduction of the temporary recovery instrument to address the impacts of the pandemic (RRF). As this instrument ends in 2026, priority may be given to the implementation of projects that use RRF resources. It should be noted that in the first four years of its implementation, the 2021-2027 MFF coincided with the RRF, through which a cumulative of EUR 8.6 billion was disbursed in the form of grants over the same period. It is worth pointing out that across all EU Member States, progress in implementing the 2021-2027 MFF so far translates into disbursements amounting to only 5.4% of the committed resources, whereas in the first four years of the 2014-2020 programming period absorption had reached 24.5%. Besides, the competent authorities responsible for the administration of approved RRF and MFF projects fall under the scope of the same Ministry with a view to enhancing cooperation and the exchange of know-how and experience.

### Summary of funded areas to be supported and comparison by lines of action and region between the two EU programmes

EU programme resources are allocated according to the lines of action to individual structural and special purpose funds,<sup>4</sup> as well as to operational and regional programmes. Chart B shows the percentage distribution of resources across the 13 regions of Greece. Regarding actions to support regional development, compared to the previous programming period, resources intended for Attica decreased from 20% to 13%, while those intended for Central Greece and Central Macedonia were reinforced (by an additional 3.5 and 2.4 percentage points, respectively), followed by the Peloponnese region. In the 2021-2027 MFF, EU financial support to regions has increased by a total of EUR 2.1 billion compared to the previous programme, with the aim of strengthening regional GDP and value added by region.

Operational programmes vary between the two programmes, as illustrated in Chart C. In the 2021-2027 MFF, competitiveness remains among the priority areas

Chart B Allocation of EU programme resources by region

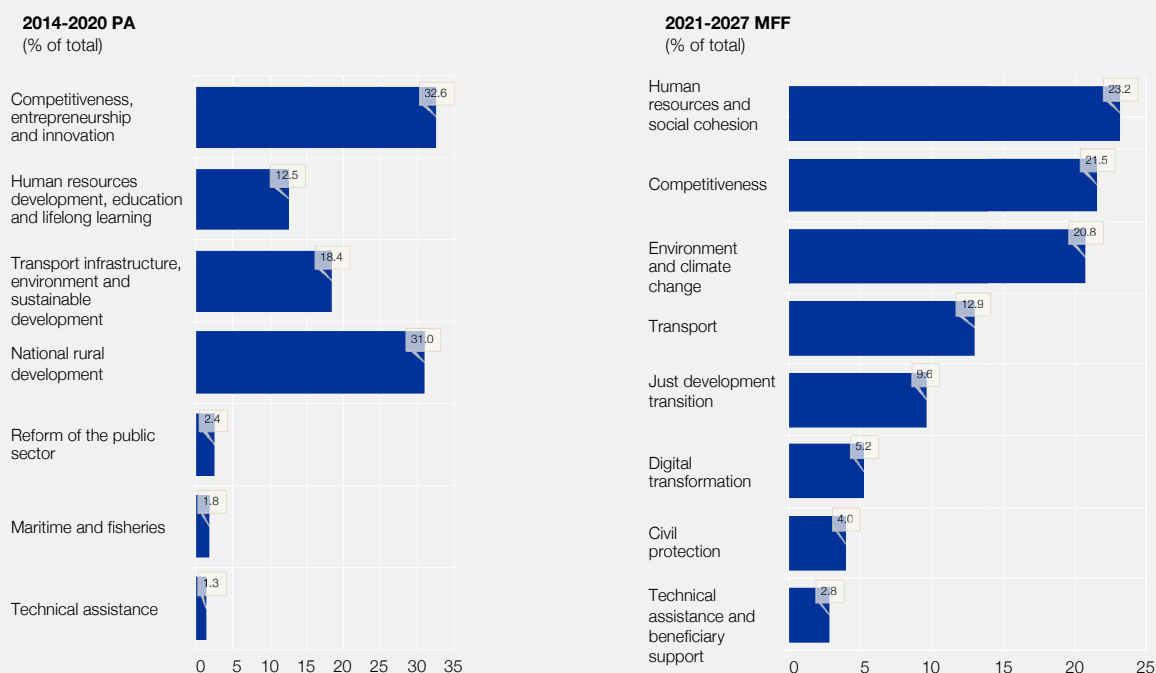


Sources: European Commission, Cohesion Open Data Platform, Ministry of Finance and Bank of Greece calculations.

<sup>3</sup> The only difference is that the Youth Employment Initiative fund has been replaced by the Just Transition Fund.

<sup>4</sup> These include, for example, the new fund for the transition to delignitisation (under the Just Transition Fund) and the Asylum, Migration and Integration Fund.

Chart C Breakdown of EU programme resources by lines of action



Sources: European Commission, Cohesion Open Data Platform, Ministry of Finance and Bank of Greece calculations.

to be supported, although its share in allocated resources has shrunk. At the same time, additional resources were transferred towards actions to reskill and upskill workers, tackle climate change, promote green growth and enhance transport efficiency (see Chart C).

### Impact on the current account balance as a percentage of GDP from current receipts and expected EU payments

In the balance of payments, receipts from the structural funds of EU funding programmes, such as the MFF, are recorded under the primary and the secondary income accounts, which are included in the current account, as well as under the capital account, depending on the recipient and type of financing.<sup>5</sup> Past recording experience with regard to EU programmes shows that around 70% of the structural funds' budget is recorded under the current account and the remaining 30% under the capital account.

Based on the progress of the 2014-2020 PA and considering the upcoming end of the RRF's duration, the implementation of the 2021-2027 MFF in Greece is expected to accelerate from 2027 onwards and for the next three years after the end of its implementation period (n+3 rule), with a positive impact on GDP and the current account balance (see Chart D).

It is projected that, within 2025-2026, the 2021-2027 MFF will disburse around 17% of its total resources,<sup>6</sup> i.e. EUR 3.5 billion, which will be allocated to the balance of payments between the current account and the capital account in more or less the same proportion as in previous programmes. EU resources are estimated to average

5 The primary income account records taxes on production and imports, as well as subsidies and rents from natural resources. The secondary income account records current taxes on income and wealth, social security contributions, social benefits, current transfers from international cooperation programmes, miscellaneous current transfers and EU own resources based on VAT and GDP. The capital account records unrequited transfers related to fixed capital formation, i.e. contracts, leases and licences for land, real estate and other capital equipment, compensation for extensive damages in the context of natural disasters, large projects for the construction of infrastructure, hospitals, schools, etc.

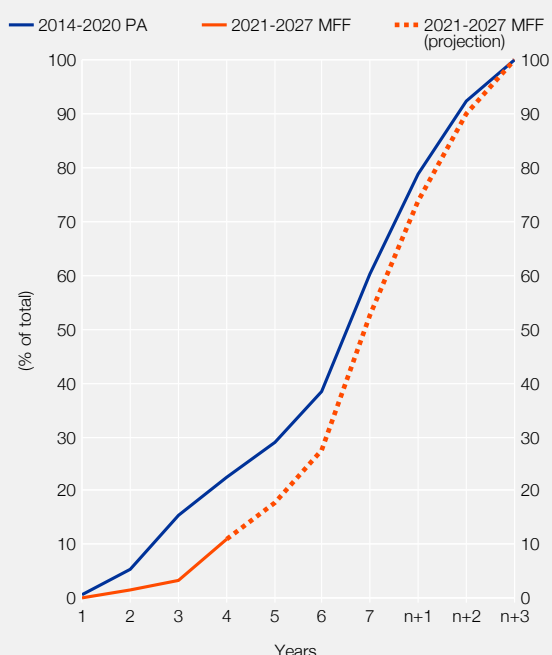
6 Including resources under the Common Agricultural Policy (CAP).

around 1.1% of GDP annually for 2025-2027. Of course, apart from the direct impact of disbursed resources on the current account balance, there is also an indirect impact that is associated with spillover effects from other sectors, such as increased imports of capital goods, which are a key component of infrastructure projects. Against this backdrop, the mobilisation of synergies may temporarily weigh on the current account deficit at the early stages. In particular, RRF disbursements to be recorded under the current account balance as a percentage of GDP are expected at around 0.8% and 1.1% of GDP in 2025 and 2026, respectively. Overall, in 2025-2027 the direct impact of total EU resources is expected to reduce the current account deficit by 1.7% of GDP per year on average.

### Conclusion

Funding programmes backed by EU budget resources have over time supported the development and upgrading of infrastructure in those EU regions and sectors that are lagging behind others, targeting convergence in priority areas. The resources allocated on the basis of the structural reforms needed must be fully absorbed and utilised. For this reason, it is necessary to strengthen administrative infrastructure and procedures, in order to speed up the implementation of the 2021-2027 programme and, by extension, ensure a full and timely absorption of the relevant resources. At the same time, resources under EU programmes are important inflows that reduce the country's balance of payments deficit and external financing needs, both of which are indicative of the evolution of the Greek economy over time.

**Chart D Progress in the implementation of EU funding programmes**



Sources: European Commission, Cohesion Open Data Platform, Ministry of Finance, Bank of Greece calculations and estimates.

## 8 INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT

At end-2024, Greece's net external liabilities fell by EUR 2.2 billion to EUR 312.6 billion, mainly on account of lower net liabilities of general government and, secondarily, higher net assets of the Bank of Greece and other financial institutions (see Table IV.10).<sup>55</sup> This development was offset to some extent by an increase in the liabilities of the other sectors of the economy. As a percentage of GDP, the net international investment position (NIIP)<sup>56</sup> improved from -139.8% in 2023 to -131.6% in 2024, although it remains the highest in the EU, and Greece continues to exceed the threshold (-35% of GDP) foreseen under the Macroeconomic Imbalance Procedure.<sup>57</sup>

55 Changes in the International Investment Position (IIP) are primarily attributable to current account flows and, to a lesser extent, revaluations of portfolio investment items (mainly securities). The changes resulting from valuation effects are difficult to estimate precisely, as they are associated with fluctuations in the market prices of portfolio investment items (shares, bonds) that make up the country's external liabilities, as well as with exchange rate fluctuations.

56 The net IIP is the difference between the country's assets and liabilities vis-à-vis non-residents. A positive (negative) IIP value indicates that the country is a net creditor (debtor) vis-à-vis the rest of the world. The IIP reflects, at a given point in time, the level of a country's assets and liabilities vis-à-vis non-residents. Assets and liabilities are broken down by main category into direct investment, portfolio investment, other investment and foreign reserve assets, as well as by sector of the economy, into general government, Bank of Greece, other financial institutions and other sectors. It should be noted that, in compliance with international reporting requirements, direct investment, bonds and equities are valued at market prices as at the last day of the reference period.

57 European Commission, Statistical Annex of *Alert Mechanism Report 2025*, December 2024.

Table IV.10 International investment position by type of investment and sector

(EUR millions)

|                                                            | 2021            | 2022            | 2023            | 2024*           |
|------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>I. DIRECT INVESTMENT</b>                                | <b>-25,257</b>  | <b>-33,460</b>  | <b>-40,146</b>  | <b>-43,985</b>  |
| <i>I.1 Assets</i>                                          | <i>18,342</i>   | <i>20,697</i>   | <i>24,183</i>   | <i>25,905</i>   |
| <i>I.2 Liabilities</i>                                     | <i>43,599</i>   | <i>54,157</i>   | <i>64,329</i>   | <i>69,890</i>   |
| <b>II. PORTFOLIO INVESTMENT<sup>1</sup></b>                | <b>138,084</b>  | <b>163,942</b>  | <b>151,488</b>  | <b>151,931</b>  |
| <i>II.1 Assets</i>                                         | <i>192,622</i>  | <i>211,431</i>  | <i>213,258</i>  | <i>224,965</i>  |
| <i>II.2 Liabilities</i>                                    | <i>54,538</i>   | <i>47,489</i>   | <i>61,770</i>   | <i>73,034</i>   |
| <b>1. General government</b>                               | <b>-21,553</b>  | <b>-7,810</b>   | <b>-11,433</b>  | <b>-13,885</b>  |
| 1.1 Assets                                                 | 906             | 7,529           | 6,549           | 5,619           |
| 1.2 Liabilities                                            | 22,459          | 15,339          | 17,982          | 19,504          |
| <b>2. Bank of Greece</b>                                   | <b>112,955</b>  | <b>122,593</b>  | <b>122,749</b>  | <b>121,793</b>  |
| 2.1 Assets                                                 | 112,955         | 122,593         | 122,782         | 121,825         |
| 2.2 Liabilities                                            | 0               | 0               | 33              | 32              |
| <b>3. Other financial institutions</b>                     | <b>44,765</b>   | <b>51,186</b>   | <b>42,919</b>   | <b>39,600</b>   |
| 3.1 Assets                                                 | 55,498          | 59,849          | 56,519          | 58,714          |
| 3.2 Liabilities                                            | 10,733          | 8,663           | 13,600          | 19,114          |
| <b>4. Other sectors</b>                                    | <b>1,917</b>    | <b>-2,027</b>   | <b>-2,747</b>   | <b>4,423</b>    |
| 4.1 Assets                                                 | 23,263          | 21,460          | 27,408          | 38,807          |
| 4.2 Liabilities                                            | 21,346          | 23,487          | 30,155          | 34,384          |
| <b>III. OTHER INVESTMENT</b>                               | <b>-439,632</b> | <b>-439,920</b> | <b>-438,521</b> | <b>-435,216</b> |
| <i>III.1 Assets</i>                                        | <i>78,214</i>   | <i>75,273</i>   | <i>76,650</i>   | <i>81,927</i>   |
| <i>III.2 Liabilities</i>                                   | <i>517,847</i>  | <i>515,192</i>  | <i>515,171</i>  | <i>517,143</i>  |
| <b>1. General government</b>                               | <b>-260,842</b> | <b>-255,902</b> | <b>-252,497</b> | <b>-245,961</b> |
| 1.1 Assets                                                 | 3,424           | 3,915           | 3,710           | 2,700           |
| 1.2 Liabilities                                            | 264,265         | 259,817         | 256,207         | 248,661         |
| <b>2. Bank of Greece</b>                                   | <b>-99,993</b>  | <b>-109,295</b> | <b>-111,656</b> | <b>-111,786</b> |
| 2.1 Assets                                                 | 17,225          | 21,786          | 26,999          | 30,965          |
| 2.2 Liabilities                                            | 117,218         | 131,081         | 138,655         | 142,750         |
| <b>3. Other financial institutions</b>                     | <b>-7,001</b>   | <b>-16,000</b>  | <b>-13,933</b>  | <b>-8,753</b>   |
| 3.1 Assets                                                 | 28,841          | 23,892          | 23,429          | 29,233          |
| 3.2 Liabilities                                            | 35,842          | 39,891          | 37,362          | 37,986          |
| <b>4. Other sectors<sup>2</sup></b>                        | <b>-71,796</b>  | <b>-58,722</b>  | <b>-60,434</b>  | <b>-68,716</b>  |
| 4.1 Assets                                                 | 28,725          | 25,681          | 22,513          | 19,030          |
| 4.2 Liabilities                                            | 100,521         | 84,403          | 82,947          | 87,746          |
| <b>IV. RESERVE ASSETS</b>                                  | <b>12,770</b>   | <b>11,341</b>   | <b>12,324</b>   | <b>14,649</b>   |
| <b>NET INTERNATIONAL INVESTMENT POSITION (I+II+III+IV)</b> | <b>-314,036</b> | <b>-298,096</b> | <b>-314,855</b> | <b>-312,621</b> |
| <b>Net IIP as a % of GDP</b>                               | <b>-170.1</b>   | <b>-143.4</b>   | <b>-139.8</b>   | <b>-131.6</b>   |

Source: Bank of Greece.

\* Bank of Greece estimates on the basis of provisional balance of payments and IIP data.

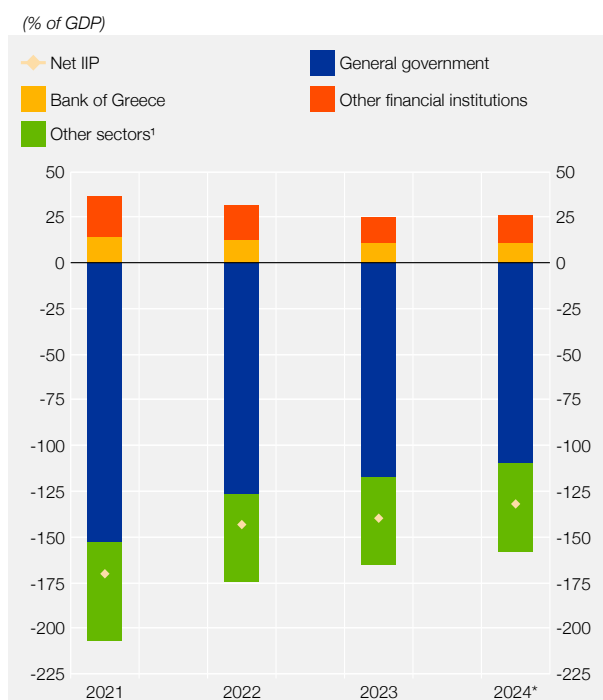
1 Portfolio investment includes financial derivatives.

2 As from the fourth quarter of 2022, according to the monetary and banking statistics methodology of the Bank of Greece, the nominal value of loans serviced by Credit Servicing Firms (CSFs) does not include off-balance-sheet interest and the amounts of write-offs/write-downs of loans made by the credit institution that transferred the loan portfolio.

Nevertheless, the risks for the country are currently limited, as the main component of the negative net IIP is loans from the Support Mechanism, which are characterised by low interest rates and long maturities. However, in recent years there has also been an increase in the net liabilities of the other sectors of the economy, mainly related to the sale of loans to foreign financial institutions and other financial corporations, as well as to a strengthening of non-residents' net FDI flows to Greece. If the net IIP is to improve over the medium term, in addition to gradually reducing the general government external debt, high economic growth rates are required, and/or lasting and satisfactory current account surpluses.

Looking at the breakdown of the net IIP by type of investment, net direct investment liabilities increased, mainly as a result of the strengthening of FDI inflows to Greece (see Section 7 above). Net portfolio investment assets rose slightly (by EUR 443 million), as a decrease in net assets of other financial institutions and the Bank of Greece, as well as an increase in general government liabilities, were more than offset by net assets, against net liabilities in 2023, of the other sectors of the economy. Under other investment, the negative net worth declined by EUR 3.3 billion in 2024 compared with 2023, as a drop in net liabilities of both general government and other financial institutions was partly offset by a rise in the liabilities of the other sectors of the economy. Lastly, Greece's reserve assets increased.<sup>58</sup>

Chart IV.30 Net international investment position by sector



Source: Bank of Greece.

\* Bank of Greece estimates based on provisional balance of payments and IIP data.

¹ As from the fourth quarter of 2022, according to the monetary and banking statistics methodology of the Bank of Greece, the nominal value of loans serviced by CSFs does not include off-balance-sheet interest and the amounts of write-offs/write-downs of loans made by the credit institution that transferred the loan portfolio.

Table IV.11 Gross and net external debt (current prices)

(EUR millions)

|                                                       | 2021           | 2022           | 2023           | 2024*          |
|-------------------------------------------------------|----------------|----------------|----------------|----------------|
| A. General government                                 | 285,347        | 275,033        | 273,878        | 267,886        |
| B. Bank of Greece                                     | 117,218        | 131,081        | 138,655        | 142,750        |
| C. Other financial institutions                       | 40,394         | 45,698         | 45,110         | 49,405         |
| D. Other sectors¹                                     | 103,603        | 87,424         | 86,603         | 93,098         |
| E. Direct investment – total economy                  | 8,702          | 9,651          | 9,756          | 9,727          |
| <b>Gross external debt (A+B+C+D+E)</b>                | <b>555,265</b> | <b>548,887</b> | <b>554,002</b> | <b>562,866</b> |
| Gross external debt as % of GDP                       | 300.8          | 264.1          | 246.0          | 236.9          |
| Gross external debt of general government as % of GDP | 154.6          | 132.3          | 121.6          | 112.8          |
| <b>Net external debt</b>                              | <b>291,659</b> | <b>281,341</b> | <b>278,755</b> | <b>274,732</b> |
| Net external debt as % of GDP                         | 158.0          | 135.4          | 123.8          | 115.6          |

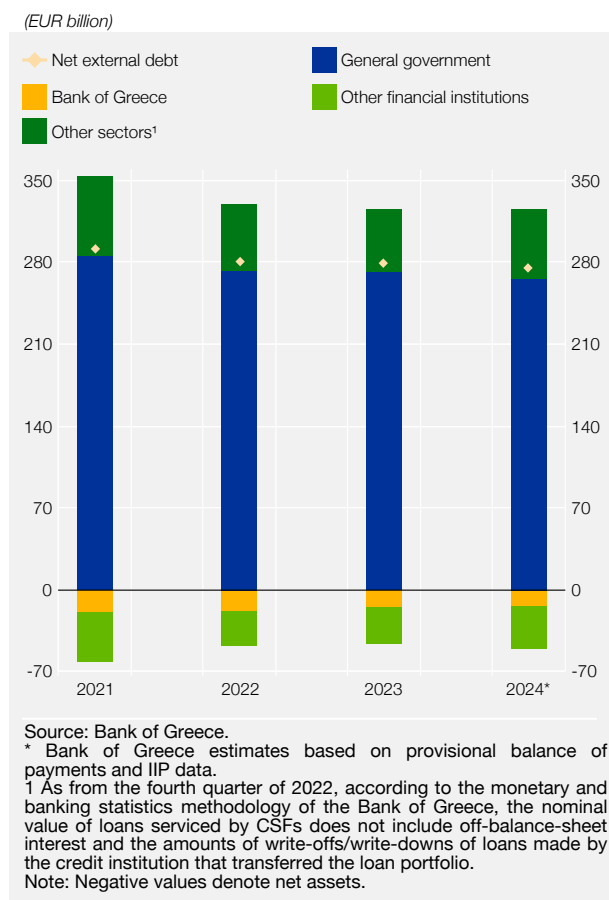
Source: Bank of Greece.

\* Bank of Greece estimates on the basis of provisional balance of payments and IIP data.

¹ As from the fourth quarter of 2022, according to the monetary and banking statistics methodology of the Bank of Greece, the nominal value of loans serviced by Credit Servicing Firms (CSFs) does not include off-balance sheet interest and the amounts of write-offs/write-downs of loans made by the credit institution that transferred the loan portfolio.

58 The increase in foreign reserve assets primarily reflects the rise in the price of gold.

Chart IV.31 Net external debt by sector



GDP, net external debt declined more significantly, owing to nominal GDP growth in 2024 (see Chart IV.31).

Turning to the sectoral breakdown (see Chart IV.30), the improvement in the net IIP in 2024 is mainly attributable to a decrease in general government net liabilities and, secondarily, to an increase in the net assets of the Bank of Greece and other financial institutions, which were partly offset by a rise in the net liabilities of the other sectors of the economy.

The country's gross external debt,<sup>59</sup> at current prices, grew by EUR 8.9 billion to EUR 562.9 billion (236.9% of GDP) at the end of 2024. This increase was driven by a rise in the liabilities of the other sectors of the economy, as well as of the Bank of Greece and other financial institutions. This deterioration was partly offset by a decline in general government liabilities (see Table IV.11). However, the gross external debt-to-GDP ratio improved, due to the significant nominal GDP growth in 2024.

Net external debt<sup>60</sup> stood at EUR 264.7 billion (115.6% of GDP) in 2024, down by EUR 4.0 billion from 2023. This development is attributable to lower net general government debt, as well as to an increase in the net assets of other financial institutions, which was partly offset by a deterioration of the net worth of, primarily, the other sectors of the economy and, to a lesser extent, the Bank of Greece. As a percentage of

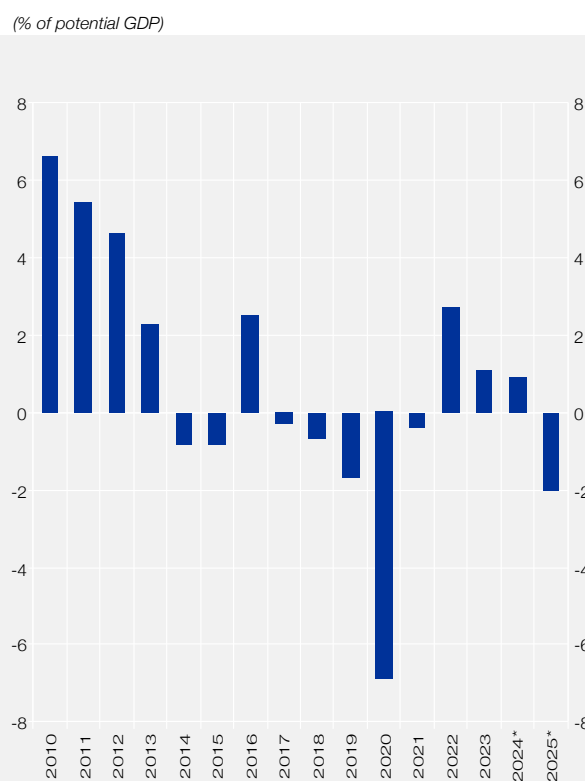
59 A country's gross external debt equals IIP liabilities minus the liabilities in equity and financial derivatives.

60 The net external debt equals the net IIP minus the net position in equity from direct investment and portfolio investment, as well as the net position in derivatives, gold and equity included in reserve assets.

# V FISCAL DEVELOPMENTS AND PROSPECTS

2024 was a year of fiscal responsibility, as recognised by all international rating agencies in their assessments of the state and outlook of the Greek economy. Also, several important fiscal reforms were promoted during the year, while the benefits of earlier reforms in the areas of combatting tax evasion, strengthening tax administration and improving tax compliance were solidified. Greece's favourable fiscal situation is manifested by the fact that, in the context of the EU's revised fiscal rules, Greece shows the lowest fiscal adjustment needs and its expenditure benchmark (the ceiling on net primary expenditure growth) is relatively high, compatible with a steady downward path of public debt and a build-up of fiscal buffers. The achievements so far should motivate continued prudent fiscal management, helping to move the Greek sovereign further up the credit rating scale. In an environment of successive crises and high uncertainty, with elevated geopolitical risks and with the impacts of climate change increasingly visible, policy credibility and clear medium-term planning become crucially important. Key elements in designing an appropriate medium-term fiscal path are risk assessment and a focus on building sufficient fiscal buffers over time, capable of shielding the economy in downturns. An additional supportive factor will be the timely implementation of the national reform plan, helping to further improve the structural characteristics of the economy and thus safeguard public debt sustainability through strong and durable growth.

**Chart V.1 Change in the cyclically adjusted general government primary balance**



Source: Bank of Greece.

\* Forecast.

Notes: The cyclically adjusted general government primary balance is calculated according to Eurosystem methodology. It excludes support to the financial sector and receipts from the NGEU.

## 1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS<sup>1</sup>

In 2024, tax revenue was once again above target, enabling the financing of additional public expenditure on investment and on support to vulnerable social groups. The repeated outperformance of tax revenue targets in the past few years is strong evidence that efforts to address tax evasion are bearing fruit. Tackling tax evasion broadens the tax base, leading to a permanent increase in tax revenues, while also enhancing tax fairness. The fiscal stance is estimated to have been contractionary in 2024, but is projected to turn expansionary in 2025, reflecting the fiscal impulse from RRF-financed investment expenditure (see Chart V.1). Net of this impact, the fiscal stance is estimated to be neutral in 2025 and therefore consistent with monetary policy objectives. Overall for the period 2024-2025, the fiscal policy stance is in line with European

<sup>1</sup> The cut-off date for the data and information used in this chapter is 21.3.2025.

Commission's guidance on the coordination of national fiscal policies:<sup>2</sup> on the one hand, it includes a gradual reduction of fiscal deficits and, on the other, safeguards the fiscal impulse from RRF-financed investment spending so as to support both the recovery of the economy and the green and digital transitions.

Public debt declined markedly in 2024, both as a percentage of GDP and as absolute amount, thanks to a larger primary surplus, a further early repayment of official loans and continued real GDP growth. Thus, Greece has outperformed most euro area member countries for yet another year, despite an upward revision of its debt under Eurostat's new methodology for the statistical treatment of deferred interest.<sup>3</sup>

Under the revised EU fiscal framework, Greece needs to keep up credible fiscal consolidation efforts. Maintaining primary surpluses, building fiscal buffers and achieving further upgrades of the sovereign credit rating should be key policy priorities. Continued reforms to further improve the structural characteristics of the Greek economy are essential in this regard. The focus should be on increasing those productive investments that are conducive to sustainable growth, higher productivity and a steady downward path of public debt.

## 2 FISCAL DEVELOPMENTS IN 2024

In 2024, fiscal data for the year 2023 were notified to Eurostat, showing a significant improvement in the primary balance, stronger than projected in the Introductory Report on the 2024 Budget, as well as a drastic reduction in the debt-to-GDP ratio. Among euro area countries, Greece recorded the second largest improvement in terms of primary balance and the pace of debt reduction.

Specifically, according to the second EDP notification of fiscal data for 2020-2023 by the Hellenic Statistical Authority (ELSTAT) in October 2024, the general government primary balance for 2023 was a surplus of 2.1% of GDP, compared with a balanced position in 2022 (see Table V.1). Relative to the first EDP notification of April, the primary surplus was higher by 0.2% of GDP, due to an upward revision in subsidy receivables from the EU. In nominal terms, 2023 public debt was higher than reported in the first EDP notification, as well as relative to 2022 on account of a methodological change in its recording. However, as a percentage of GDP, it dropped markedly, to 163.9% from 177.0% in 2022 (see also Section 6).

**Table V.1 General government balances**

| (% of GDP)                                                                                        | 2020        | 2021        | 2022       | 2023       |
|---------------------------------------------------------------------------------------------------|-------------|-------------|------------|------------|
| <b>General government balance<sup>1</sup></b><br>(national accounts data – convergence criterion) | -9.6        | -6.9        | -2.5       | -1.3       |
| - Central government                                                                              | -9.9        | -7.7        | -3.6       | -1.5       |
| - Social security funds, local government, legal entities in public law                           | 0.4         | 0.8         | 1.2        | 0.2        |
| <b>General government primary balance</b>                                                         | <b>-6.6</b> | <b>-4.5</b> | <b>0.0</b> | <b>2.1</b> |

Sources: Ministry of Finance and ELSTAT.

1 ELSTAT data, as notified to the European Commission (Excessive Deficit Procedure). Totals/subtotals may not add up due to rounding.

2 Communication from the Commission to the Council, [Fiscal policy guidance for 2024](#), 8.3.2023, and Eurogroup statement on fiscal policy orientation for 2025, 11.3.2024.

3 An interest deferral for 20 years has been granted on EUR 96 billion of EFSF loans made to Greece between 2012 and 2014.

Table V.2 Medium-term Fiscal-Structural Plan 2025-2028

|                                                                        | 2024  | 2025  | 2026  | 2027  | 2028  |
|------------------------------------------------------------------------|-------|-------|-------|-------|-------|
| Net nationally financed primary expenditure <sup>1</sup> (growth rate) | 2.6   | 3.7   | 3.6   | 3.1   | 3.0   |
| General government balance (% of GDP)                                  | -1.0  | -0.6  | -0.8  | -1.1  | -1.2  |
| General government primary balance (% of GDP)                          | 2.4   | 2.5   | 2.4   | 2.4   | 2.4   |
| General government structural primary balance <sup>2</sup> (% of GDP)  | 1.9   | 2.0   | 2.1   | 2.2   | 2.3   |
| General government gross debt <sup>3</sup> (% of GDP)                  | 153.7 | 149.1 | 143.1 | 138.0 | 133.4 |

Source: Ministry of Finance, Medium-term Fiscal-Structural Plan 2025-2028.

1 "Net primary expenditure" means nationally financed expenditure, net of interest expenditure, expenditure on national co-financing of programmes funded by the Union and cyclical expenditure on unemployment benefits, minus discretionary revenue measures.

2 "Structural primary balance" means the cyclically adjusted balance, net of one-offs and other temporary measures.

3 The projections do not take into account a methodological change, whereby deferred interest on EFSF loans is now included in public debt.

The primary balance improvement between 2022 and 2023 is a combined result of increased revenue and reduced primary expenditure, reflecting, respectively, higher direct tax receipts and the non-recurrence of past energy support expenditure. The better primary balance than projected in the 2024 Budget was driven by higher-than-budgeted tax revenue on the back of stronger economic activity, as well as by more extensive use of electronic payments and tax audits that enhanced tax collectability.

Based on stronger-than-expected economic activity and tax revenues in 2023, further temporary fiscal support measures, amounting to 0.2% of GDP, were introduced in early 2024, in addition to those already included in the 2024 Budget. The initial forecast in the Introductory Report on the 2024 Budget for a primary surplus of 2.1% of GDP in 2024 remained unchanged in the April 2024 Stability Programme. This figure incorporates the additional support measures and a positive carry-over effect from 2023 on tax and social security contribution revenues.

After April 2024, tax revenue continued to outperform the targets set in both the 2024 Budget and the 2024 Stability Programme, benefiting from reduced tax evasion, improved incomes and business profits and higher-than-projected employment growth.

The repeated outperformance of tax revenue targets in the past few years is evidence that the effort to curb tax evasion is yielding measurable results. Recent reforms on the tax evasion front that are likely to have significantly improved tax compliance and collection notably include the introduction of imputed (presumptive) taxation of self-employed and sole proprietor income; interconnection of cash registers with POS terminals; and automation and digitalisation of businesses' tax accounting and invoicing through the "myData" platform of the Independent Authority of Public Revenue (AADE).

In July, the windfall tax on oil refineries was reinstated for 2024, further boosting tax revenue and widening the fiscal space. This enabled the granting of a one-off allowance, announced in September and disbursed in December, to low-income pensioners still subject to the so-called "personal difference" and to vulnerable social groups.

These developments were incorporated in the projections of the Medium-Term Fiscal-Structural Plan (MTP) 2025-2028, published in September and prepared for the first time under the reformed economic governance framework (see Table V.2 and Special Feature in this chapter). In the MTP, the primary surplus for 2024 was projected at 2.4% of GDP, up from 2.1% of GDP in the Stability Programme of April. In addition, based on revenue overperformance, the expenditure benchmark (i.e. the ceiling on net primary expenditure growth) for 2024 was set at 2.6%, higher than the 2.1% estimate of the Stability Programme.

The primary surplus projection was subsequently revised further upwards, in light of incoming data on tax revenue. Specifically, the Introductory Report on the 2025 Budget, published on 21 November 2024, projected a general government primary surplus (based on ESA methodology) of 2.5% of GDP, greater than forecast earlier in the year. For general government debt, the new estimates pointed to a substantial decline of 9.9 percentage points of GDP in 2024 relative to 2023, to 154% of GDP. It should be noted that, even though 2024 was a year of transition to the new fiscal rules, the projections for the key fiscal aggregates met the majority of the new sustainability criteria, with debt reduction above the minimum required by the debt sustainability safeguard (annual average of 1% of GDP as long as the debt ratio exceeds 90% of GDP), the general government deficit, projected at 0.7% of GDP, well below the 3% limit, and growth of net nationally financed primary expenditure at the level (2.6%) recommended by the European Commission.<sup>4</sup>

However, available State Budget execution data for January-December 2024 suggest that the primary surplus in 2024 could turn out higher still, as tax receipts and Public Investment Programme revenue are likely to exceed even the revised targets (see also Section 5). According to the revised projections of the Bank of Greece, the general government primary surplus is expected at 3.5% of GDP in 2024 and general government debt at 153.8% of GDP, overachieving the fiscal targets of the 2024 Budget by a safe margin. For 2025, based on available data and announced fiscal measures, the primary surplus is projected at 2.6% of GDP, and general government debt is set to decline further to 144.4% of GDP.

Yields on Greek government bonds fell significantly in 2024, in line with a trend also seen in other euro area Member States. This was supported by an easing of the ECB's monetary policy stance as of the second half of the year in response to falling inflation.

In 2024, amid improved market sentiment towards Greece after it regained investment grade credit rating in 2023, and also given monetary policy relaxation in the second half of the year, the Greek public debt management agency (PDMA) reopened past bond issues and launched new bonds. The success of these operations testifies to investors' keen interest in Greek securities. Overall issuance activity during 2024 brought in a total of EUR 9.6 billion, helping to maintain high levels of cash reserves and deepening the domestic market for Greek government bonds across the maturity spectrum.

More specifically, in 2024, the PDMA reopened past issues at lower yields than the original issues, further increasing market liquidity and confirming strong investor demand for Greek medium-term debt. Specifically, PDMA reopened the 2023 5-year bond issue, raising EUR 950 million, several 10-year bond issues, raising a total of EUR 1.4 billion, as well as the February 2020 15-year bond issue, raising EUR 200 million. In February 2024, a new ten-year bond issue brought in EUR 4 billion at a yield of 3.478%, significantly lower than for the previous ten-year issue in January 2023. Importantly, this issue hit a triple record: (1) the largest orderbook ever for Greek debt issues, at more than EUR 35 billion, with an oversubscription ratio of 8.75 times (compared with 6.26 times in the previous ten-year issue); (2) the tightest final spread (country premium); and (3) the largest deal size for a ten-year bond since 2010. Finally, in May, the PDMA raised EUR 3 billion by launching a 30-year bond issue at a yield of 4.241% and with a high oversubscription ratio, reflecting strong demand especially from international investors. The issue was intended to establish a fair pricing for this specific maturity in the long-term segment of the yield curve.<sup>5</sup> Overall, in weighted average terms, the new bond issues had a lower borrowing cost and a longer maturity compared with those in 2023.

In the course of the past year, Standard & Poor's, Morningstar DBRS and Moody's changed the credit outlook for Greece from stable to positive. In December 2024, Scope Ratings up-

<sup>4</sup> [Commission Opinion on the Draft Budgetary Plan of Greece](#), 21.11.2023, point 14.

<sup>5</sup> The issuance details are available from the PDMA website (<https://www.pdma.gr/en/>).

Table V.3 Financing sources of the net cash state budget deficit

(change in EUR millions)

|                                                                                              | 2021          | 2022          | 2023         | 2024          |
|----------------------------------------------------------------------------------------------|---------------|---------------|--------------|---------------|
| Greek government Treasury bills                                                              | -1            | 0             | 188          | -3,572        |
| Greek government bonds                                                                       | 14,800        | 3,850         | 5,457        | 6,333         |
| General government cash reserves <sup>1</sup><br>("-" indicates an increase, "+" a decrease) | 696           | -848          | -3,490       | 1,710         |
| Short-term borrowing (repos)                                                                 | 1,601         | 12,968        | 4,615        | 2,405         |
| External borrowing <sup>2</sup>                                                              | -1,215        | -3,305        | -4,083       | -7,907        |
| <b>Total</b>                                                                                 | <b>15,880</b> | <b>12,664</b> | <b>2,685</b> | <b>-1,031</b> |

Sources: Bank of Greece and PDMA (Public Debt Bulletins).

1 Including changes in the central government accounts with the Bank of Greece and other credit institutions, as well as changes in the debt management account. Excluding changes in the OPEKEPE (Payment and Control Agency for Guidance and Guarantee Community Aid) account.

2 Comprising loans from abroad – from the European Investment Bank, the SURE scheme and the Recovery and Resilience Facility – and securities issued abroad, irrespective of their currency denomination. Excluding non-residents' holdings of securities issued in Greece.

graded Greece's sovereign credit rating to BBB (from BBB-), one notch above investment grade, and revised its outlook to stable. The main factors behind this upgrade were expectations of a steady decline in the debt-to-GDP ratio in the years ahead and stronger-than-anticipated primary fiscal surpluses in recent years. In December, the Greek government made an early repayment of the 2026, 2027 and 2028 instalments on bilateral loans under the Greek Loan Facility (GLF), in an amount of EUR 7.9 billion, with EUR 5 billion drawn from its cash buffer.<sup>6</sup> By this move, the PDMA sought to reduce not only the stock of outstanding debt and the related servicing costs, but also medium-term financing needs.

Meanwhile, short-term government borrowing continued to take place through the issuance of 13-, 26- and 52-week Treasury bills, bringing the stock of outstanding short-term securities to EUR 8.5 billion, down by EUR 3.6 billion from 2023, as well as through cash management operations in the form of repurchase agreements (repos), mostly with entities within general government to utilise their cash surpluses (see Table V.3).

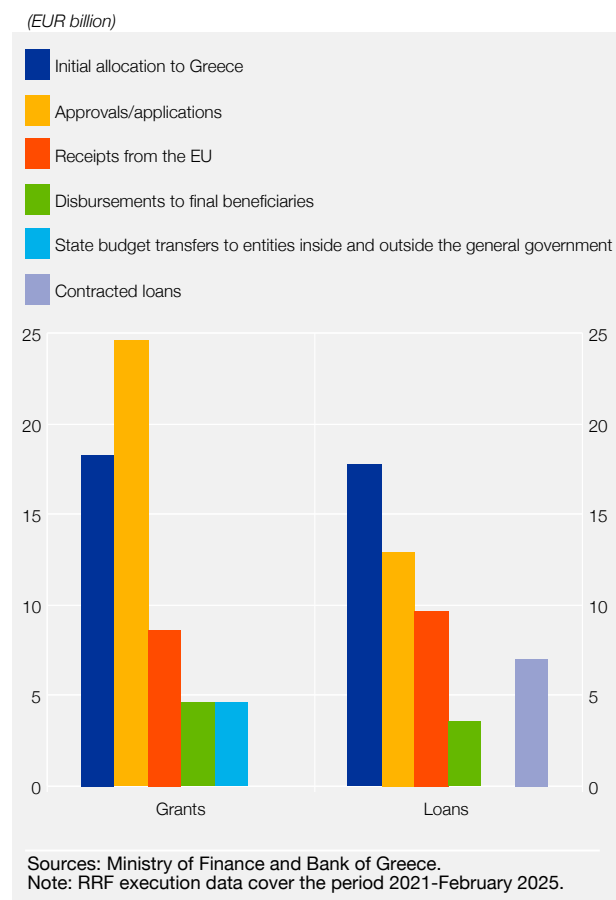
The general government's cash reserves remained at a high level, coming to EUR 36.3 billion at end-2024 from EUR 33.6 billion a year earlier.<sup>7</sup> They were boosted by EUR 4 billion in privatisation proceeds, of which EUR 760 million stemmed from the sale of a stake in Athens International Airport S.A. and EUR 3.2 billion from the concession agreement for the Attica Motorway.

During the first quarter of 2025, the Greek government covered around 91% of its total borrowing requirements for the year, by raising EUR 7.25 billion on international markets. Specifically, in January 2025, it raised EUR 4 billion by a new 10-year bond issue at a yield of 3.64% and an additional EUR 250 million through the reopening of this issue in February. In March, the PDMA reopened the 2023 15-year bond (at a yield of 4.057%) and the 2024 30-year bond (at a yield of 4.408%), raising EUR 2 billion and EUR 1 billion, respectively. These reopenings were made at lower yields than that the original issues and with high oversubscription ratios, confirming strong investor demand for Greek debt and confidence in the prospects of the Greek economy and further increasing market liquidity. It is worth noting that the two March reopenings were executed in tandem with a switch and tender offer on two notes maturing in 2026. Of the total EUR 3 billion raised from these combined operations, EUR 1.5 billion came from the switch and tender offer. The remaining EUR 1.5 billion (new money) was added to cash reserves, helping to reduce debt by lowering general government financing needs for next year. Finally, in March 2025, Morningstar

6 This refers to an amount of EUR 15,697 million from the ESM loan under the third economic adjustment programme for Greece, which has been earmarked for debt repayment.

7 See PDMA, Public Debt Bulletin No. 116, December 2024.

Chart V.2 Recovery and Resilience Facility



DBRS upgraded its credit rating of the Greek economy to BBB, changing its outlook to stable, while Moody's gave Greece investment-grade credit rating for the first time in 14 years. Thus, all ECB-recognised rating agencies have now assigned investment grade status to the Greek economy, signalling the country's return to European normality. Rating agencies' improved assessments reflect their expectations of a further decline in the debt-to-GDP ratio in the years ahead, as well as the systematic outperformance of primary balance targets in the past few years.

As regards the absorption of funds available under the Recovery and Resilience Facility (RRF), Greece has so far made satisfactory progress in fulfilling the agreed targets and milestones and in receiving the corresponding payments. Specifically, in July it received a fourth instalment of RRF loans, in the amount of EUR 2.3 billion. This was followed in September by the fourth instalment of RRF grants, amounting to EUR 1 billion. Overall, the country has received EUR 18.2 billion of RRF funding (or 51% of its total allocation), of which 54% (EUR 9.6 billion) in loans and 47% (EUR 8.6 billion) in grants, having completed 28% of the agreed targets and milestones.<sup>8</sup> In December 2024, Greece submitted its 5th RRF payment request for an amount of EUR 3.1 billion (of which EUR

1.3 billion in grants and EUR 1.8 billion in loans). The request met with a positive preliminary assessment from the European Commission in March 2025. With the disbursement of the fifth instalment of RRF funding, Greece will have received EUR 21.3 billion, or 59% of its total allocation, after fulfilling 35% of related prior actions.

Concerning the RRF loan component, there has been substantial progress in loan signatures. It is worth noting that the volume of contracted loans is one of the targets monitored as a condition for a payment request for RRF loans. In particular, by the end of February 2025, 988 projects, with a total budget of EUR 16 billion, had been submitted for RRF loans, for 420 of which, with a total budget of EUR 7 billion, loan contracts had been signed. Over the same period, disbursements to firms amounted to EUR 3.5 billion (36% of total RRF loan receipts). It should be noted that, under the RRF Operational Arrangements between the European Commission and Greece, all RRF loans must have been contracted by the end of 2026. Disbursements to firms are expected to go on until 2029, as funds are released gradually, according to progress in the implementation of investment projects, over a period of three years (consistent with the typical average construction time) (see Chart V.2).

In the grant component, disbursements to final beneficiaries progressed at a rather slow pace in the first nine months of 2024, reaching EUR 4.6 billion, or 54% of total grant receipts, by end-September. They picked up thereafter, as a further EUR 4.0 billion was transferred from the

<sup>8</sup> Overall, by March 2025, EUR 307.4 billion (or 47% of the total RRF funding available), of which 56% in grants and 37% in loans, had been disbursed by the European Commission to EU countries, after they fulfilled 28% of the agreed targets and milestones.

state budget to entities within and outside general government in connection with approved RRF projects, bringing the disbursement rate to an estimated 77% of the total allocation by the end of the year. According to the European Commission,<sup>9</sup> delays in final payments of RRF grants are observed in all Member States. The causes of delays in the execution of RRF-funded expenditure are difficult to pinpoint and vary across countries. Based on Eurosystem staff analysis, possible causes include: shortcomings in the administrative capacity of implementing bodies at local and regional level; costing challenges, in view of the energy crisis and the surge in inflation from 2022 onwards; supply-side bottlenecks affecting the sourcing of material (also due to geopolitical uncertainty) and labour inputs.<sup>10</sup>

To speed up RRP implementation procedures and ensure full absorption of available RRF funds, Greece submitted a revised Recovery and Resilience Plan in October 2024, which was endorsed by the European Commission in December. The new plan modified certain milestones and targets and replaced projects with others that are more close to completion.

Given the limited lifespan of Next Generation EU, Greece needs to step up efforts to implement investments to ensure that the positive effects of this instrument on growth and total factor productivity fully materialise in the years ahead.

### 3 INSTITUTIONAL FRAMEWORK AND FISCAL REFORMS

Greece's fiscal policy in 2024 focused on three key areas: (i) social policy interventions aimed at increasing people's disposable income; (ii) actions to combat tax evasion, coupled with a strengthening of electronic governance and digital payments; and (iii) an increase in public investment.

Specifically, the windfall tax on oil refineries was reinstated in 2024, giving a further boost to tax revenue and enabling to finance additional support measures. Thus, a one-off allowance of EUR 200 was announced in September and paid in December to low-income pensioners and vulnerable social groups. Also in September, a EUR 900 million Supplementary Public Investment Budget was adopted.

Other legislative initiatives adopted in autumn 2024 included: abolition of the stamp duty and its replacement by a digital transaction fee; permanent exemption of agricultural diesel oil from the excise tax on fuels; and enactment of a new VAT Code to update and simplify the VAT regime.

The omnibus tax bill, voted into law in late 2024, provided for (i) tax cuts for 2025, as envisaged in the Introductory Report on the 2025 Budget; (ii) income support measures, effective from 2025, for low-income pensioners, vulnerable social groups and military and law enforcement personnel; (iii) reforms to modernise tax legislation; (iv) tax incentives to promote mergers and acquisitions, innovation and scientific and technological research; (v) measures to modernise AADE's (Independent Authority of Public Revenue) administrative model; and (vi) the tax and social security treatment of tips; (vii) actions to strengthen the economy's resilience to climate change.

Other legislation in late 2024 introduced provisions on the out-of-pocket pharmaceutical costs of low-income pensioners and reformed the hazard pay scale for military and law enforcement personnel (see the Annex "Fiscal Policy Measures" to this chapter).

In April 2024, the European Parliament and the Council adopted the EU's revised economic governance framework (Stability and Growth Pact).<sup>11</sup> In May 2024, the European Commission

9 See European Commission, *Mid-term evaluation for the Recovery and Resilience Facility*, February 2024.

10 See Bank of Greece, *Monetary Policy 2023-2024, Executive summary and boxes*, June 2024, Box 7.

11 See Bank of Greece, *Annual Report 2023*, Chapter V, Special Feature "The new fiscal rules in the context of the EU economic governance reform", p. 169.

published its Ageing Report 2024 (AR 2024), including projections on public pension expenditure in EU Member States for 2022-70 based on Eurostat's EUROPOP2023 population projections. In the baseline, Greece's public pension expenditure is set to fall by 2.5 percentage points, from 14.5% of GDP in 2022 to 12.0% of GDP by 2070, which is the largest decline among the EU Member States and in sharp contrast to a projected average increase of 0.4 percentage point of GDP for the EU as a whole. Still, the decline projected in this report is one percentage point lower than that projected in AR 2021, mainly due to base effects stemming from higher-than-expected GDP growth in 2022, and relies on the assumption that the statutory retirement age increases by one year in each of the years 2027, 2036, 2045 and 2066 in line with rising life expectancy at 65. The analysis suggests that the reforms implemented in recent years safeguard the sustainability of the Greek public pension system, despite the adverse demographic trends.

In September, the Greek government published its Medium-Term Fiscal-Structural Plan (MTP) 2025-2028, on the basis of the reformed European economic governance framework. The plan was later endorsed by the European Commission and the Council.<sup>12</sup> According to the MTP, the cumulative fiscal adjustment (measured as the change in the structural primary balance) that is required over the 2025-2028 period to meet all fiscal sustainability criteria is estimated at just 0.4 percentage point of GDP (or 0.1 percentage point of GDP per year). To achieve this small adjustment, the growth of nationally financed net primary expenditure must not exceed 3.4% on average per year (2025: 3.7%, 2026: 3.6%, 2027: 3.1% and 2028: 3.0%) (see Special Feature in this chapter).

In June and November 2024, respectively, the European Commission published its fourth and fifth post-programme surveillance reports on Greece, confirming that Greece retains the capacity to service its debt. The reports also reveal the resilience of the Greek economy, despite global geopolitical uncertainty. As regards fiscal policy, the Commission recognises the Greek government's efforts to fight tax evasion and improve compliance through the digitalisation of payments and tax procedures, but notes that the clearance of general government arrears remains a challenge. The Commission also offers an update to its debt sustainability analysis, taking into account the Eurostat's methodological change regarding the recording of deferred interest and confirms that it does not affect the assessment of Greece's debt sustainability.

## 4 POLICY RECOMMENDATIONS

In an environment of uncertainty, stemming from geopolitical tensions and geoeconomic challenges, moderating, but still relatively persistent, underlying inflation and ongoing shifts in international economic relations, fiscal policy credibility and medium-term planning remain crucial. To support price and financial stability and fiscal sustainability, monetary and fiscal policies need to remain closely coordinated with each other, as well as flexible, thereby helping to stabilise euro area economies at a time of mounting protectionism around the world.

2024 was a year of transition to the new European economic governance framework. At the core of the new rules is a requirement on Member States to reduce public debt, while also mitigating risks to its medium-to-long term sustainability by controlling public expenditure growth. Under the new framework, any fiscal space should be used to build up buffers and/or to reduce public debt, while any extraordinary fiscal measure on the expenditure side should be financed by a revenue-increasing measure of an equal size.

<sup>12</sup> European Commission, Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Greece, 26.11.2024. Council of the European Union, Council Recommendation endorsing the national medium-term fiscal-structural plan of Greece, 10.2.2025

In such a binding framework, national fiscal policy must over time prioritise structural fiscal reforms, such as combatting tax evasion and broadening the tax base, which are conducive to a fairer and more proportionate distribution of the tax burden and more efficient use of public resources. The continuous upgrading of AADE's electronic tools and the recent more specific measures in this direction have already yielded tangible results and are expected to make a further contribution towards these goals.

For 2025, it is crucial to fully implement the reforms introduced in 2024, which have helped dent tax evasion, and to press ahead with government plans to further automate tax collection. These reforms, to take effect from 2025, include: automated transmission of business cash flows on AADE's myData platform by all firms and universal application of digital clienteling; mandatory use of digital shipping note; new systems enabling real-time monitoring of arrears per individual taxpayer; utilisation of artificial intelligence to further cut red tape; universal application of e-invoicing; use of inflow/outflow software to curb smuggling of marine fuels, etc.

These measures could have a multiplier effect if accompanied by tax incentives for consumers to help avoid concealment of revenue in high tax evasion sectors, and by a review of existing tax exemptions based on considerations of economic efficiency, growth-enhancing potential and better social policy targeting. Such an approach would not only boost tax revenue, but also enhance tax fairness and, in the long run, make a decisive contribution to fiscal stability and economic growth.

On the expenditure side, additional reforms, such as regular public expenditure reviews and disclosure of their results could help identify expenditure items with small social and economic returns and facilitate a reallocation towards greater efficiency.

A further potential fiscal reform would be to delegate, in full or in part, the Unified Property Ownership Tax (ENFIA) to local governments (see Box V.1). The main arguments in favour have to do with the economies of scale to be achieved, given that ENFIA revenue is used to finance a large part of central government transfers to Greek municipalities, and the tax is levied on properties located within the geographical jurisdiction of a municipality. This would be a challenging endeavour, requiring careful planning during the transition phase to avoid inefficiencies that could erode net value to citizens.

Finally, to improve economic resilience in a volatile environment, effective use of RRF funds is essential. Timely absorption of available EU funds is key to mobilising private investment, especially in strategic areas such as clean energy, environmental protection, digital technologies and artificial intelligence.

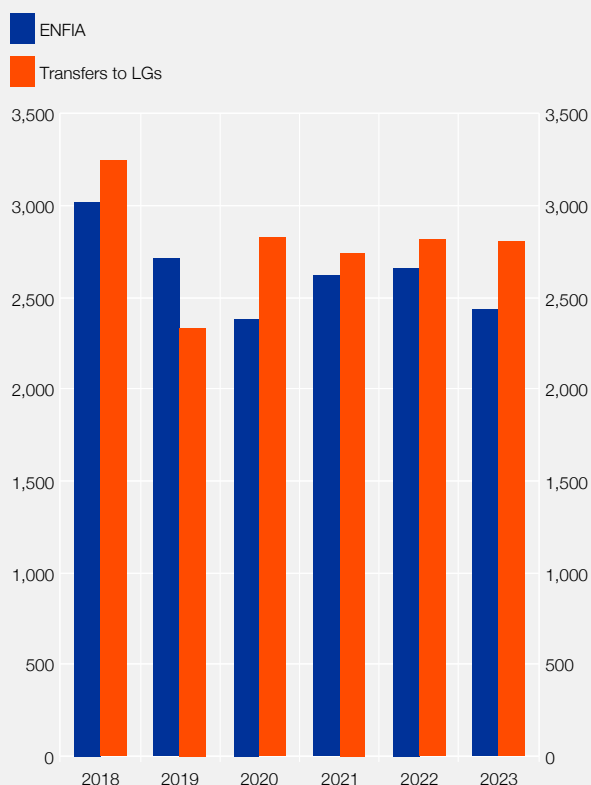
#### Box V.1

### DECENTRALISATION OF PROPERTY TAX: ADVANTAGES AND DISADVANTAGES

Rationalisation and control of public expenditure are key to the planning and execution of the State Budget (SB) respectively. They are linked to the efficient use of public funds, to which simplified and transparent management mechanisms also contribute. Decentralisation of responsibilities,<sup>1</sup> where possible, could create significant economies of scale in the management of the expenditure side, but also of the revenue side of the SB. This could be so because local authorities have better knowledge of both the tax base (and can therefore cut red tape related to the levying and control of taxes, reducing the associated costs) and the local needs to which revenues will be channelled.

<sup>1</sup> It should be noted that the reduction in the number of municipalities to 332 in 2019, from 910 in the 2000s, facilitates any decentralisation endeavour.

ENFIA revenue and transfers to LGs  
(2018 - 2023)



Source: Ministry of Economy and Finance, General Accounting Office of the State, State Budget Execution, Monthly Bulletins.

A step in this direction could be, in particular, the collection and management of revenues from ENFIA (Unified Property Ownership Tax),<sup>2</sup> or parts thereof, by local governments<sup>3</sup> (LGs). On the one hand, this tax concerns real estate that lies within the geographical limits of each municipality in the country and, on the other hand, ENFIA revenues could replace a large part of the transfer payments<sup>4</sup> from the SB to LGs (see the chart), thus freeing up SB resources to other uses linked to the provision of public goods and services, such as health, education, etc.

#### Advantages and disadvantages of the management of ENFIA by local governments

Starting from the advantages, it should be stressed that it is a tax with limited scope for tax evasion because the tax base, i.e. the property, cannot easily be misreported in tax returns.<sup>5</sup> Property tax is also a neutral tax in the sense that changes in tax rates are not associated with distortions in the tax base.<sup>6</sup> Thus, local governments, by assuming the collection of ENFIA, would not have to bear the high costs of a tax control mechanism, as they would have the advantage of better knowledge of the real estate and its use within the limits of their geographical areas. This knowledge would allow LGs to contribute to combating tax evasion by helping to better track property income (e.g. undeclared income).

The tax revenues would help strengthen the economic independence of LGs and allow for a more targeted response to local needs (e.g. development of local infrastructure and services), ensuring that taxes are used for the benefit of taxpayers. At the same time, transparency in the use of resources and accountability of local authorities to taxpayers would be enhanced. In turn, this would help to nurture tax responsibility and compliance. This tax tool could be used by LGs for redistribution purposes, based on the horizontal and vertical equity criterion,<sup>7</sup> so that taxpayers with the same property and tax capacity are taxed the same.<sup>8</sup> For example, real estate taxation could include<sup>9</sup> ex-

2 The Unified Property Ownership Tax (ENFIA) in Greece is levied on all properties and is a function of many factors, such as the surface of buildings, the age rate, the floor level, the zone price, etc. It was introduced in 2013 and replaced the Special Emergency Property Tax (EETA).

3 As part of this logic, LGs already collect taxes related to the ownership of real estate (e.g. the Real Estate Fee – TAP) through utility bills.

4 Without disregarding the role of transfers in reducing inequalities (economic, social and local) associated with the provision of public goods and services.

5 Of course, account should be taken of the impact on the tax-paying capacity of property owners from possible large increases in property prices.

6 This is why historically classical economists such as Adam Smith and Ricardo, as well as later ones (see, for example, Mirrlees et al. (2011), *Tax by Design: The Mirrlees Review*, Institute for Fiscal Studies, and Schwerhoff et al. (2022), "Equity and Efficiency Effects of Land Value Taxation", IMF Working Paper No 2022/263), have been advocates of a property tax.

7 See, for example, Rosengard, J.K. (2012), "The Tax Everyone loves to Hate: Principles of Property Tax Reform", Harvard Kennedy School M-RCBG Faculty Working Paper No. 2012-10.

8 Of course, the financial capacity of each taxpayer (income, other assets, etc.) should also be centrally assessed in order to avoid levying high taxes, for example on pensioners who have acquired a property during their working life or on employees who have inherited a property but their income does not match the value of the property.

9 It should be noted that such a change in Greece would require an amendment to the Constitution allowing municipalities to exercise fiscal power.

## Real estate taxes in selected European countries

| Country        | Tax name                                                               | Basis of calculation                                                                                                                                                       | Enforcement/collection body                                                                                                                                                                                            |
|----------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Austria        | Grundsteuer                                                            | Various factors such as land value, property type, location                                                                                                                | Local authorities (enforcement and collection)                                                                                                                                                                         |
| France         | Impôt sur la fortune immobilière (IFI)                                 | Value of real estate above EUR 800,000. Imposed at a progressive scale with rates of 0.5%-1.5%                                                                             | Central Tax Authority (Direction générale des finances publiques-DGFIP)                                                                                                                                                |
| Germany        | Grundsteuer                                                            | Value of land and buildings                                                                                                                                                | Local authorities (municipalities – Gemeinden) (calculation and collection)                                                                                                                                            |
| Denmark        | Ejendomsvaerdiskat (Real estate Tax)                                   | Real estate value                                                                                                                                                          | Central government (enforcement and collection)                                                                                                                                                                        |
|                | Grundskyld (annual land tax)                                           | Land value                                                                                                                                                                 | Local authorities (enforcement and collection)                                                                                                                                                                         |
| Switzerland    | Vermögenssteuer                                                        | Net real estate value<br>Rates: depending on the canton                                                                                                                    | Local authorities<br>Imposed by the cantons<br>Every canton has its own tax authority which manages property tax                                                                                                       |
| Greece         | Unified Property Ownership Tax (ENFIA)                                 | Objective value of the property. It has two parts:<br>1) Main tax separately for each property<br>2) Supplementary tax (total real estate above a certain value threshold) | Central government<br>Independent Authority of Public Revenue (AADE)                                                                                                                                                   |
| United Kingdom | Council Tax                                                            |                                                                                                                                                                            | Local authorities (Local Councils)                                                                                                                                                                                     |
| Ireland        | Local Property Tax (Annual Local Property Tax)                         |                                                                                                                                                                            | Central government (enforcement and collection)                                                                                                                                                                        |
| Spain          | Impuesto Sobre el Patrimonio                                           | Imposed on persons with total assets of more than EUR 700,000<br>Rates: 0.2 %-2.5 % depending on the value of the property                                                 | Central government (Agencia Tributaria, the national tax office of the country)                                                                                                                                        |
| Italy          | Imposta Municipale Unica (IMU)                                         | Rates: depending on the location and type of property (decided by each municipality separately)<br>Exemptions for principal residence                                      | Local authorities<br>Imposed by the municipalities                                                                                                                                                                     |
| Cyprus         | Property tax abolished in 2017                                         | (There is a property transfer tax, purchase of principal residence tax and capital gains tax)                                                                              |                                                                                                                                                                                                                        |
| Norway         | Property tax exists only at local level if the Municipality chooses it |                                                                                                                                                                            | Local authorities (if imposed)                                                                                                                                                                                         |
| Netherlands    |                                                                        | There is a tax on the net worth of wealth, but this is levied in the context of total income and not as separate property tax                                              | Central government<br>The tax on the wealth net worth is integrated into income taxation and is imposed by the central administration<br><br>Local authorities<br>Local authorities collect other local property taxes |
| Portugal       | Imposto Municipal sobre Imóveis (IMI)                                  |                                                                                                                                                                            | Local authorities (enforcement and collection)                                                                                                                                                                         |
| Sweden         | Kommunal fastighetsskatt was repealed in 2007                          | Property owners pay annual property tax (fastighetsskatt).<br><br>Imposed on residences<br>Cap on taxation                                                                 | Central government<br><br>Local authorities<br>Municipal property tax                                                                                                                                                  |
| Finland        | Kiinteistovero<br>Property tax levied only at local level              |                                                                                                                                                                            | Local authorities<br>Imposed and collected by municipalities                                                                                                                                                           |

Sources: National competent authorities, <https://theluxuryplaybook.com/what-are-the-property-taxes-in-every-european-country-2024/> and [Taxheaven](#).

emptions and rebates for specific categories of citizens (e.g. elderly people, low-income people, etc.) and/or a progressive tax rate depending on the value of the property, as is the case in France, Denmark and Ireland.<sup>10</sup>

<sup>10</sup> See Tatsos, N. and M. Zoi (2021), “Proposals for strengthening the economic independence and efficiency of Municipalities. Taxation of real estate as a source of finance” [in Greek], diaNEOsis.

In addition, good management by local authorities would enhance their credibility, potentially expanding their financing horizons and their ability to take actions to improve the everyday lives of local residents. Such a reform would thus create a need for LGs to evolve into bodies with technocratic infrastructure and know-how, capable of contributing to the modernisation and development of local societies and, by extension, the country.

As regards the implementation of the SB, the effective management of ENFIA by LGs could help rationalise and save public expenditure, as well as administrative costs arising from intra-governmental transfers.

Turning to the drawbacks of the management of ENFIA by municipalities, there is a visible lack of technocratic infrastructure in the majority of municipalities, which need to be trained and become familiar with the relevant tools. This is not only the case for small municipalities – moreover, it is a challenge as effective property tax management requires know-how, expertise and specialised staff, the implementation of which also depends on the willingness of the municipalities themselves. Such an effort would inevitably be associated with increased administrative costs in the medium term and possibly with a risk of mismanagement, which however would be compensated for by more direct accountability to local societies. Finally, it should be noted that poor management of tax tools could lead to inequalities between municipalities, while at the same time it could also contribute to tax competition (in terms of the property tax), thus making it necessary for the state to step in and supervise the transitional phase.

### International experience

The management of property taxes solely or primarily by local authorities is international practice and concerns different kinds of taxes and control mechanisms (local or state-wide). The table provides summary information on the responsibilities for levying and managing property taxes in European countries.

It is worth noting that Greece ranks low among European countries as regards the management of tax revenues by local governments. Using as a decentralisation indicator tax revenues<sup>11</sup> (including, where appropriate, property taxes) collected at local and regional level (sub-central tax revenue) as a percentage of total tax revenues (a part of which is property taxes), it can easily be seen that in Greece the share of tax revenues managed by local authorities in 2016 was 2.94% of total tax revenue, when the European average was 12.64%. Since ENFIA is managed by the Central Government and involves a large part of property tax revenue, entrusting the local authorities with the management of ENFIA would change Greece's ranking with regard to the tax decentralisation index.

### Conclusions

As part of the need for a broader reform effort, in particular as regards the country's tax system and better management of the SB's expenditure, this box briefly presents the (positive and negative) aspects of decentralised activities linked to the execution of the SB, such as the management (or aspects of the management) of the property tax by LGs. At the same time, the importance of modernisation (administrative and technocratic) of LGs is highlighted, so that they can cope with the new challenges and thus contribute to the transformation of the Greek economy and to economic growth. Nevertheless, it is recognised that such a "difficult" endeavour requires careful planning to be successful.

<sup>11</sup> See Tatsos and Zoi, op. cit.

## 5 DEVELOPMENTS IN FISCAL AGGREGATES DURING 2024

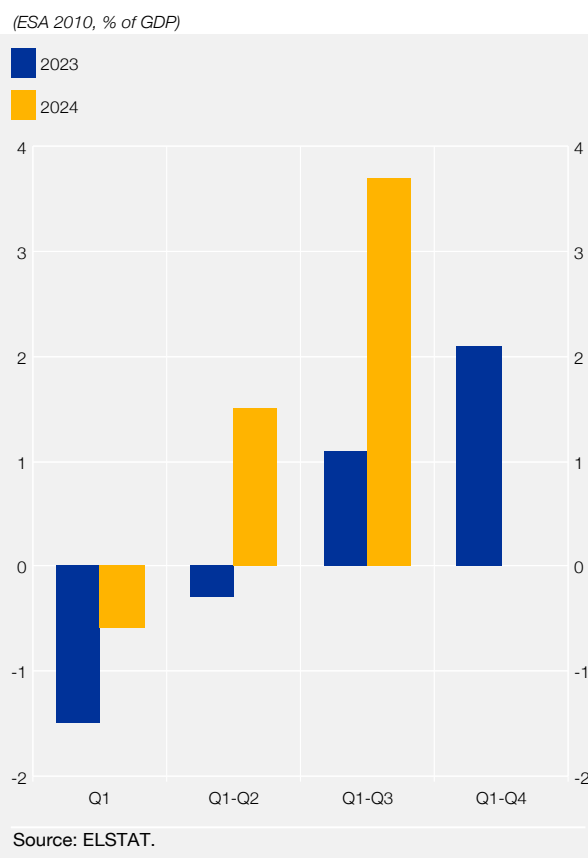
### 5.1 General government (ELSTAT, national accounts data)

According to national accounts data for the first nine months of 2024, the general government primary balance improved by 2.6 percentage points (pps) year-on-year to a surplus of 3.7% of GDP, as a combined result of a 0.8 pp of GDP increase in revenue and a 1.8 pp of GDP decrease in expenditure (see Chart V.3).

In nominal terms, revenue rose by 7.7% year-on-year, on the back of improved economic activity, reduced tax evasion and rising prices. This increase was broadly based across all revenue components. In greater detail, revenue from direct taxes grew by 8.1%, driven primarily by higher business profits, wage growth (partly as a result of the revised public sector pay scale), as well as by a decline in tax evasion. Revenue from VAT rose by 8.7%, reflecting reduced tax evasion and, to a lesser extent, increased prices. Other current revenue was up by 33.7%, due to higher interest income from rising interest rates. Revenue from social security contributions rose by 8.8%, as a result of an increase in the minimum wage and higher employment. Finally, capital revenue grew by 10.2%, supported by increased receipts from the EU.

In the first nine months of 2024, primary expenditure edged down by 0.6% year-on-year. Downward contributions to this change came from subsidies (-33.0%), reflecting an unwinding of pandemic and energy-related measures; capital transfers payments (-14.8%), due mainly to base effects from non-recurring 2023 expenditure of EUR 369 million for the recapitalisation of Attica Bank; and intermediate consumption (-5.7%) due to lower energy prices. By contrast, upward contributions came from: compensation of employees (+4.6%), following the revision of the public sector pay scale; social transfers (+2.0%), also because of the clearance of pending pension applications; other expenditure (+3.4%); and public investment (+0.4%).

**Chart V.3 General government primary balance on a national accounts basis**



## 5.2 General government (State General Accounting Office data)

According to general government cash data collected by the State General Accounting Office, in January-December 2024 the general government cash balance improved substantially, shifting from a deficit of 0.3% of GDP in 2023 to a surplus of 2.4% of GDP in 2024. The primary cash balance also improved, from a surplus of 2.4% in 2023 to a surplus of 5.1% of GDP.

The stronger primary balance of general government relative to 2023 resulted from the improved primary balances of: (i) the State Budget (central government), with its surplus rising by EUR 4,417 million or 1.8 percentage points of GDP, mainly driven by increased privatisation proceeds (EUR 3,241 million) from the Attica Motorway concession agreement, higher direct tax revenue, due to growth in business profits and wages, as well as by stronger VAT receipts stemming from enhanced tax compliance and higher prices (see Section 5.3); (ii) central government entities, with an increase of 0.8 pp of GDP in its surplus; (iii) social security funds, showing a marginally higher (+0.1 pp of GDP) surplus, as an increase in revenue from social security contributions<sup>13</sup> more than offset higher benefit payments arising from annual pension indexation and clearance of pending pension applications; and (iv) local government, also showing marginal improvement of 0.1 percentage point of GDP (see Chart V.4).

13 Higher social security contribution revenue came both from dependent employment, reflecting economic growth, the concomitant rise in employment, and the increase in the minimum wage, and from self-employment, for which contribution rates were adjusted to inflation.

Chart V.4 General government primary balance on a cash basis

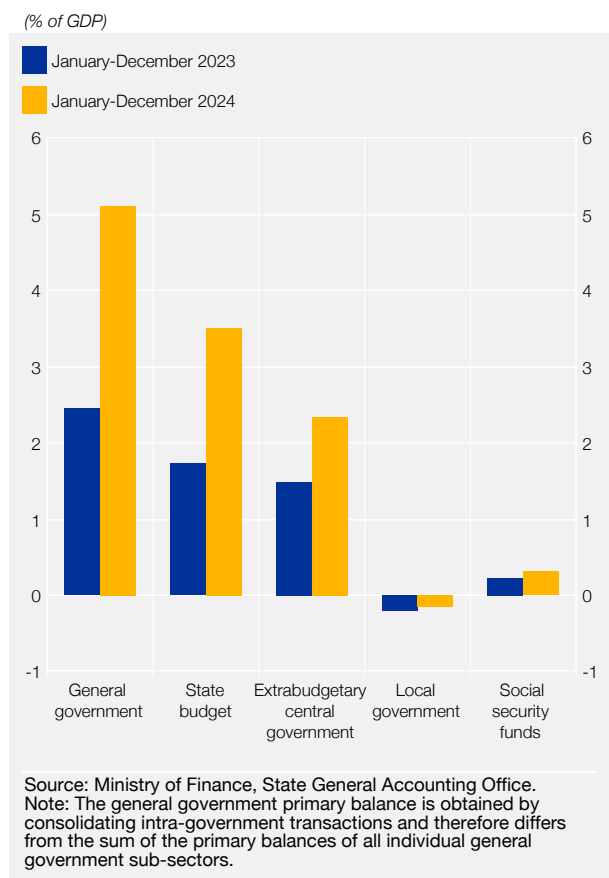
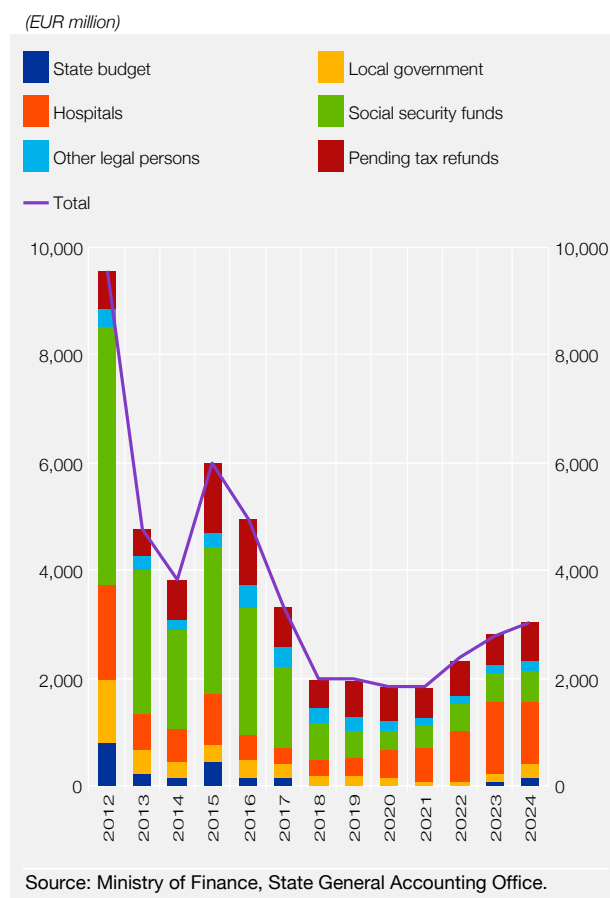


Chart V.5 General government arrears



Arrears of general government<sup>14</sup> at the end of 2024 were EUR 246 million higher than a year earlier (arrears to suppliers: +EUR 73 million, pending tax refunds: +EUR 173 million) and totalled EUR 3 billion (end of 2023: EUR 2.8 billion), of which EUR 2.3 billion were owed to suppliers and EUR 731 million related to tax refunds (see Chart V.5). Hospitals accounted for the largest share (50.3%) of arrears to suppliers. The increase in arrears, which are gradually being paid, is largely explained by the high inflation rates of the past few years: new arrears accumulation in nominal terms exceeds the arrears of the pre-inflation period. It is worth noting that hospital arrears are significantly lower (and declining) when netting out pharmaceutical clawbacks.<sup>15</sup> Also, social security funds are in the process of clearing arrears relating to supplementary pensions and lump-sum retirement benefits.

### 5.3 State Budget (on a modified cash basis)

The State Budget showed an improved overall balance relative to 2023, shifting to a surplus of 0.2% of GDP in 2024 from a deficit of 1.7% of GDP a year earlier (see Table V.4). Its primary balance also improved to a surplus of 3.7% of GDP from a surplus of 1.7% of GDP in 2023.

<sup>14</sup> These include tax refunds and pending applications for lump-sum retirement benefits and supplementary pensions, but exclude pending main pension applications.

<sup>15</sup> The clawback mechanism, introduced in 2012 in an effort to control healthcare overspending given its adverse impact on public debt, ensures that government's total expenditure on pharmaceuticals and hospital care remains below a specified ceiling. Any amount in excess of this ceiling is clawed back, i.e. reclaimed by the National Healthcare Organisation (EOPYY) from hospital care providers and pharmaceutical companies. Hospital arrears to suppliers, as reported before this clawback, appear higher as they do not take into account these claims.

Table V.4 State Budget balances (State General Accounting Office – modified cash basis)

(EUR millions)

|                                                                 | January-December |        | Change (%) | Deviation from the 2024 budget estimates <sup>1</sup> |
|-----------------------------------------------------------------|------------------|--------|------------|-------------------------------------------------------|
|                                                                 | 2023             | 2024   | 2024/2023  |                                                       |
| <b>1. State budget net revenue (a-b)</b>                        | 67,005           | 74,110 | 10.6       | 1,221                                                 |
| <b>a. State budget revenue (I+II+III+IV)</b>                    | 73,998           | 82,121 | 11.0       | 1,911                                                 |
| I. Taxes                                                        | 61,627           | 68,787 | 11.6       | 1,885                                                 |
| II. Transfers                                                   | 7,530            | 5,738  | -23.8      | 695                                                   |
| III. Sales of goods and services                                | 848              | 3,448  | 306.6      | -786                                                  |
| IV. Other revenue                                               | 3,994            | 4,149  | 3.9        | 117                                                   |
| <b>b. Tax refunds</b>                                           | 6,993            | 8,011  | 14.6       | 689                                                   |
| Memo items:                                                     |                  |        |            |                                                       |
| Revenue from the Public Investment Programme (PIP) <sup>2</sup> | 3,507            | 4,427  | 26.2       | 612                                                   |
| Revenue from the Recovery and Resilience Facility <sup>3</sup>  | 3,405            | 1,157  | -66.0      | 0                                                     |
| <b>2. State budget expenditure (I+II+III+IV+V+VI+VII+VIII)</b>  | 70,765           | 73,741 | 4.2        | -2,749                                                |
| <b>State budget primary expenditure (2-VI)</b>                  | 63,059           | 65,368 | 3.7        | -2,841                                                |
| I. Compensation of employees                                    | 14,039           | 14,869 | 5.9        | -70                                                   |
| II. Transfers                                                   | 33,400           | 32,598 | -2.4       | -1,191                                                |
| III. Purchases of goods and services                            | 2,145            | 2,199  | 2.5        | -188                                                  |
| IV. Acquisitions of fixed assets                                | 1,691            | 1,857  | 9.8        | -778                                                  |
| V. Other primary expenditure                                    | 584              | 530    | -9.2       | -779                                                  |
| VI. Interest payments (gross)                                   | 7,706            | 8,373  | 8.7        | 92                                                    |
| VII. Public Investment Programme expenditure                    | 9,112            | 9,913  | 8.8        | 63                                                    |
| VIII. Recovery and Resilience Facility expenditure              | 2,089            | 3,401  | 62.8       | 101                                                   |
| <b>3. State budget surplus/deficit (1-2)</b>                    | -3,760           | 369    |            | 3,970                                                 |
| % of GDP                                                        | -1.7             | 0.2    |            |                                                       |
| <b>4. State budget primary balance (3+2.V)</b>                  | 3,920            | 8,698  |            | 4,063                                                 |
| % of GDP                                                        | 1.7              | 3.7    |            |                                                       |

Source: Ministry of Finance/State General Accounting Office, State Budget Execution Bulletin, December 2024.

<sup>1</sup> Deviation from the 2024 Budget targets as adjusted for the estimated total outcomes shown in the Introductory Report on the 2025 Budget.<sup>2</sup> Revenue from the Public Investment Programme (PIP) is included in the categories "Transfers" and "Other revenue".<sup>3</sup> Revenue from the Recovery and Resilience Facility is included in the category "Transfers".

The higher primary surplus of the State Budget was attributable to a rise of 11% in revenue (before tax refunds), underpinned by higher revenue from taxes, sales of goods and services, and the Public Investment Programme (PIP). These developments more than offset a 3.7% rise in primary expenditure, resulting mainly from increases in RRF payments, PIP expenditure and compensation of employees.

The revised primary surplus target of the Introductory Report on the 2025 Budget was over-achieved by EUR 4 billion, largely as a result of: (i) higher-than-budgeted tax revenue, mostly related to a temporary accounting entry (EUR 785 million in VAT receipts from the Attica Motorway concession agreement) that will drop out of this category in January 2025;<sup>16</sup> (ii) higher-

16 In October 2024, EUR 3,241 million was received as the price from the new concession agreement for the Attica Motorway. This amount included VAT of EUR 784.8 million, which was initially recorded under tax revenue, but was subsequently, in December 2024, reclassified to other subcategories as an interim step to a more accurate recording of privatisation proceeds from a national accounts perspective. Such internal reclassifications are fiscally neutral, but affect several revenue subcategories and, on the expenditure side, tax refunds. All affected revenue items are therefore subject to individual adjustments to enable comparison with the respective targets.

Table V.5 State Budget tax revenue

(EUR millions)

|                                            | January-December |               | Change (%)  | Deviation from the 2024 annual targets <sup>1</sup> |
|--------------------------------------------|------------------|---------------|-------------|-----------------------------------------------------|
|                                            | 2023             | 2024          | 2024/2023   |                                                     |
| <b>Total taxes (A+B+C+D)</b>               | <b>61,627</b>    | <b>68,787</b> | <b>11.6</b> | <b>1,885</b>                                        |
| <b>A. Taxes on goods and services</b>      | <b>33,970</b>    | <b>37,552</b> | <b>10.5</b> | <b>1,172</b>                                        |
| <i>of which:</i> 1. VAT (1.a + 1.b + 1.c)  | 23,385           | 26,346        | 12.7        | 1,029                                               |
| 1.a VAT on fuel                            | 2,271            | 2,226         | -2.0        | -2                                                  |
| 1.b VAT on tobacco                         | 687              | 619           | -9.9        | -11                                                 |
| 1.c VAT on other goods and services        | 20,427           | 23,501        | 15.0        | 1,041                                               |
| 2. Excise taxes (2.a + 2.b + 2.c)          | 7,018            | 7,252         | 3.3         | 26                                                  |
| 2.a Excise tax on energy                   | 4,086            | 4,216         | 3.2         | 16                                                  |
| 2.b Excise tax on tobacco                  | 2,235            | 2,318         | 3.7         | 10                                                  |
| 2.c Excise tax on other goods and services | 697              | 718           | 3.0         | 0                                                   |
| <b>B. Property taxes</b>                   | <b>2,491</b>     | <b>2,467</b>  | <b>-1.0</b> | <b>34</b>                                           |
| <i>of which:</i> ENFIA                     | 2,435            | 2,443         | 0.3         | 30                                                  |
| <b>C. Income tax</b>                       | <b>20,885</b>    | <b>23,992</b> | <b>14.9</b> | <b>270</b>                                          |
| <i>of which:</i> 1. Personal income tax    | 12,439           | 14,277        | 14.8        | -21                                                 |
| 2. Corporate income tax                    | 6,782            | 7,664         | 13.0        | 221                                                 |
| <b>D. Other</b>                            | <b>4,281</b>     | <b>4,776</b>  | <b>11.6</b> | <b>410</b>                                          |

Source: Ministry of Finance/State General Accounting Office, State Budget Execution Bulletin, December 2024.

<sup>1</sup> Deviation from the 2024 annual targets as adjusted for the estimated total outcomes shown in the Introductory Report on the 2025 Budget.

than-projected transfer revenue, due to a rise in PIP receipts and an unbudgeted amount of revenue collection from the extraordinary levy on electricity suppliers; (iii) under-execution of transfer payments to social security funds; (iv) a deferral of defence spending to 2025); and (v) under-execution of purchases of goods and services.

Interest payments increased substantially by EUR 667 million, or 8.7%, year-on-year. The rise is attributed to the fact that interest payments are recorded on a gross basis, i.e. without netting interest income from swap operations that hedge against interest rate risk, and are hence affected by the current rise in interest rates.

On the revenue side of the State Budget, tax revenue rose by 11.6% year-on-year (see Table V.5), mainly underpinned by income tax and taxes on goods and services, and outperformed the target by EUR 1,885 million. As mentioned above, this category includes VAT received in connection with the new concession agreement for the Attica Motorway. Net of this amount, the increase in tax revenue falls to 9.1% and outperformance of the target is limited to EUR 316 million.

More specifically, developments in the main revenue categories of the State Budget in 2024 relative to 2023 were as follows:

- Taxes on goods and services increased by 10.5% and exceeded the target by EUR 1,173 million. After adjusting for the abovementioned VAT amount, VAT revenue rose by 9.3%, mainly driven by higher VAT receipts on other goods and services (excluding oil, energy and tobacco products), associated with strong economic activity, action to address tax evasion and more extensive use of electronic payments. Also net of this VAT amount, outperformance of the target comes to EUR 244 million, stemming again from higher-than-targeted VAT on the other goods and services component.

- Annual property taxes fell by 1.0%. In particular, ENFIA receipts rose by a marginal 0.3%, as some frontloading of the payment schedule meant that more instalments were collected in 2024 (9 out of 11, compared with 8 of 10 in 2023). The target for this category was slightly exceeded.
- Income tax revenue was up by 14.9%, comprising income taxes both for 2023, payable in instalments until the end of February 2024, and for 2024. Income taxes for 2024 were boosted by the imputed (presumptive) taxation of the self-employed and sole proprietors, wage and pension growth, falling unemployment, the increase in the minimum wage, improved tax compliance and higher corporate profitability. They overshoot the target by EUR 270 million, mainly due to higher-than-budgeted corporate income tax receipts.
- Other current taxes (included in the category “Other” taxes) increased by 41.7%, reflecting higher receipts from road duties, in the absence of an extension to the deadline unlike in 2023. The target for this item was exceeded by EUR 496 million.
- Transfer revenue fell by 23.8%, as a decrease in RRF receipts (2024: EUR 1,157 million, 2023: EUR 3,405 million) was only partly offset by a EUR 206 million revenue windfall from the extraordinary levy on electricity suppliers. The latter, together with higher-than-budgeted PIP receipts, led to an outperformance of the target by EUR 695 million.
- Revenue from sales of goods and services rose by EUR 2.6 billion, underpinned by privatisation proceeds of EUR 3,241 million received in October, related to the new concession agreement for the Attica Motorway. A shortfall of EUR 786 million against the target is explained by the reclassification of VAT for this transaction. Net of this amount, the shortfall is eliminated and the relevant target is met.
- Other revenue increased by 3.9% and exceeded the target by EUR 117 million, partly owing to higher-than-budgeted PIP receipts.
- Overall, PIP revenue increased by 26.2% and exceeded the target by EUR 612 million.

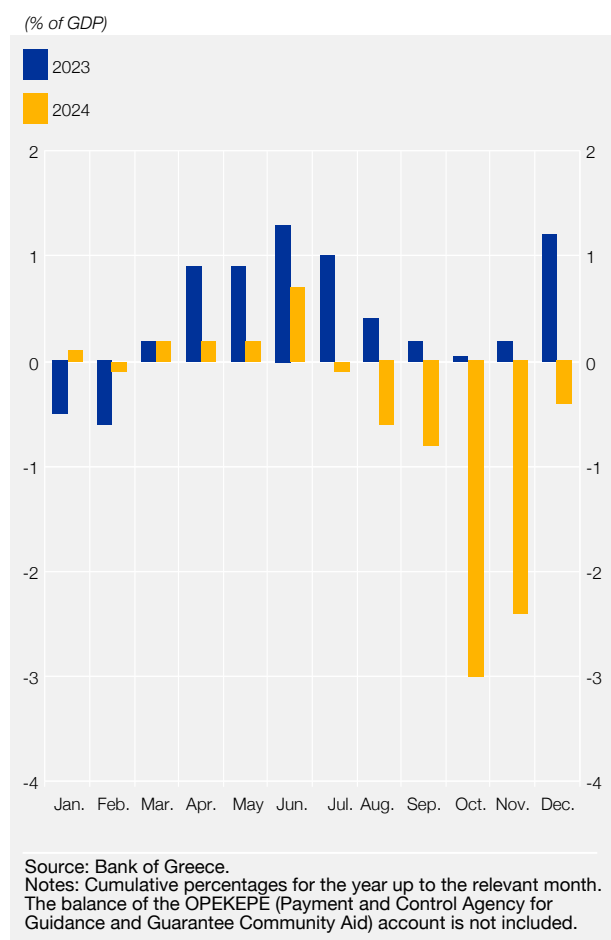
Finally, tax refunds in 2024 were 14.6% higher than in 2023 and EUR 689 million above target. This overrun was due to the abovementioned VAT reclassification. Net of this amount, tax refunds fell short of the target by EUR 96 million.

Primary expenditure of the State Budget was 3.7% higher in 2024 than in 2023, mainly as a result of increases in RRF-related expenditure, compensation of employees and PIP expenditure. It fell EUR 2.8 billion short of the annual target, due to less than full absorption of reserve appropriations related to unallocated primary expenditure and under-execution of expenditures on transfers to social security funds, purchases of goods and services and procurement of military equipment (see Table V.4).

Based on available disaggregated data, developments in the main categories of state budget primary expenditure relative to 2023 were as follows:

- Compensation of employees rose by 5.9% and fell EUR 70 million short of the annual target.
- Transfers paid fell by 2.4% and also undershot the budgeted amount by EUR 1,191 million, due to the deferral of EUR 1,907 million in transfer payments to social security funds.
- Purchases of goods and services grew by 2.5%, but remained below target by EUR 188 million.

**Chart V.6 Central government net borrowing requirement on a cash basis (January 2023 - December 2024)**



– Expenditure on the acquisition of fixed assets increased by 9.8%. It fell short of the budgeted amount by EUR 778 million, as EUR 740 million in payments on military equipment were deferred to 2025.

– PIP expenditure grew by 8.8% and overshot the budgeted amount by EUR 63 million.

– Finally, total RRF-related expenditure rose by a substantial 62.8% (or EUR 1,312 million) to EUR 3,401 million, from EUR 2,089 million in 2023. Against the revised target, they showed an overrun of EUR 101 million.

#### 5.4 State Budget on a cash basis

The net cash balance of the State Budget improved significantly in 2024, shifting to a surplus of 0.4% of GDP from a deficit of 1.2% of GDP in 2023 (see Table V.6 and Chart V.6). It also improved in primary terms, with its surplus rising from 1.7% of GDP in 2023 to 3.4% of GDP in 2024.

The Ordinary Budget improved on the previous year, as increased tax revenue more than offset higher primary expenditure.

By contrast, the Public Investment Budget (PIB), which includes RRF receipts and payments, deteriorated due to lower revenue as well as higher expenditure.

**Table V.6 State budget net balance on a cash basis**

(EUR millions)

|                                         | 2021    | 2022    | 2023   | 2024   |
|-----------------------------------------|---------|---------|--------|--------|
| State budget <sup>1</sup>               | -15,880 | -12,664 | -2,685 | 1,031  |
| % of GDP                                | -8.6    | -6.1    | -1.2   | 0.4    |
| - Ordinary budget                       | -13,780 | -6,950  | 1,781  | 8,760  |
| - Public Investment Budget <sup>2</sup> | -2,100  | -5,714  | -4,466 | -7,729 |

Source: Bank of Greece.

1 Based on changes in the State's accounts with the Bank of Greece and other credit institutions, as well as changes in the public debt management account. Excluding changes in the OPEKEPE account.

2 This also includes RRF revenue and expenditure.

## 6 GENERAL GOVERNMENT DEBT

The Introductory Report on the 2025 Budget projects a further significant decline in the debt-to-GDP ratio, by 9.9 percentage points to 154.0% in 2024, the lowest since 2010.<sup>17</sup> The largest

17 The Introductory Report on the 2025 Budget takes into account a methodological change, implemented in October 2024, whereby deferred interest on EFSF loans is now included in public debt.

Table V.7 Decomposition of changes in the general government debt-to-GDP ratio<sup>1</sup>

(percentage points of GDP)

|                                                  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024* | 2025* |
|--------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| General government debt as % of GDP              | 179.6 | 183.1 | 182.1 | 189.0 | 183.2 | 209.4 | 197.3 | 177.0 | 163.9 | 154.0 | 147.5 |
| Changes in the debt ratio                        | -3.1  | 3.5   | -1.0  | 6.9   | -5.9  | 26.2  | -12.1 | -20.2 | -13.1 | -9.9  | -6.6  |
| - Effect of the primary balance                  | 2.3   | -3.4  | -3.9  | -4.3  | -3.8  | 6.6   | 4.5   | 0.0   | -2.1  | -2.5  | -2.4  |
| - Interest-growth differential (snowball effect) | 4.3   | 4.2   | 0.1   | 0.1   | -1.7  | 22.2  | -16.9 | -19.6 | -10.3 | -4.9  | -3.6  |
| - Deficit-debt adjustment <sup>2</sup>           | -9.6  | 2.8   | 2.7   | 11.1  | -0.4  | -2.6  | 0.3   | -0.6  | -0.8  | -2.5  | -0.6  |

Sources: Introductory Report on the 2025 Budget and ELSTAT.

\* Forecasts.

1 The formula used for the decomposition of changes in the public debt-to-GDP ratio is the following:

$$\left( \frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} \right) = \frac{PB_t}{Y_t} + \left( \frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - g_t}{1 + g_t} \right) + \frac{SF_t}{Y_t}$$

where  $D_t$  = general government debt $PB_t$  = primary balance (deficit (+) or surplus (-)) $Y_t$  = GDP at current prices $g_t$  = nominal GDP growth rate $i_t$  = average nominal interest rate on government debt $SF_t$  = deficit-debt adjustment

2 The deficit-debt adjustment includes expenditure or assumption of liabilities that do not affect the deficit but increase debt, as well as receipts (e.g. from privatisations) that do not affect the deficit but reduce debt.

contribution (4.9 percentage points) to this decrease is expected to come from the interest rate-growth differential, reflecting the outstanding stock of debt and continued expansion in nominal GDP. Deficit-debt adjustments and an increased primary surplus should make smaller contributions of 2.5 percentage points each. Public debt is estimated to have declined significantly also in nominal terms by EUR 4.1 billion, from EUR 369,099 million in 2023 to 365,000 million in 2024 (see Table V.7), also due the early repayment in December 2024 of three instalments (for 2026, 2027 and 2028), totalling EUR 7.9 billion, on bilateral GLF loans. Thus, 2024 will be a fourth year of nominal debt reduction since 1995, when ESA national accounts statistics began.<sup>18</sup> The latest PDMA estimates point to a general government debt of EUR 365,494 million at the end of 2024, confirming a significant nominal decline relative to 2023.<sup>19</sup>

According to the Introductory Report on the 2025 Budget, continued improvement in economic activity, albeit at a slower pace, should sustain the strong dampening effect of nominal GDP growth on the debt-to-GDP ratio in 2025. This partly reflects a slowdown in the GDP deflator, likely to offset a marginal pick-up in real GDP growth, as well as smaller use of cash reserves and a marginal deterioration in the primary balance. Specifically, public debt is projected to decline by 6.5 percentage points to 147.5% of GDP in 2025, remaining unchanged at EUR 365,000 million in absolute terms. Over the medium term, the debt-to-GDP ratio is projected in the Medium-Term Fiscal-Structural Plan (MTP) 2025-2028 to continue its downward trend, falling by a cumulative 15.8 percentage points in 2026-2028, conditional on the maintenance of primary surpluses of 2.4% of GDP annually and positive, although declining, nominal GDP growth rates.<sup>20</sup> These projections comfortably meet the requirements of the new rules of the revised Stability and Growth Pact.

According to the projections of the Bank of Greece, the general government debt ratio is expected to come to 153.8% in 2024 and 144.4% in 2025. In the baseline scenario, assuming

18 The other three years were 2012, 2015 and 2019. Prior to the October 2024 methodological change, 2014 was also among the years with a decline in the debt level.

19 PDMA, Public Debt Bulletin No. 116, December 2024.

20 The MTP 2025-2028 projections do not take into account the methodological change regarding the recording of deferred interest.

Chart V.7 Public debt

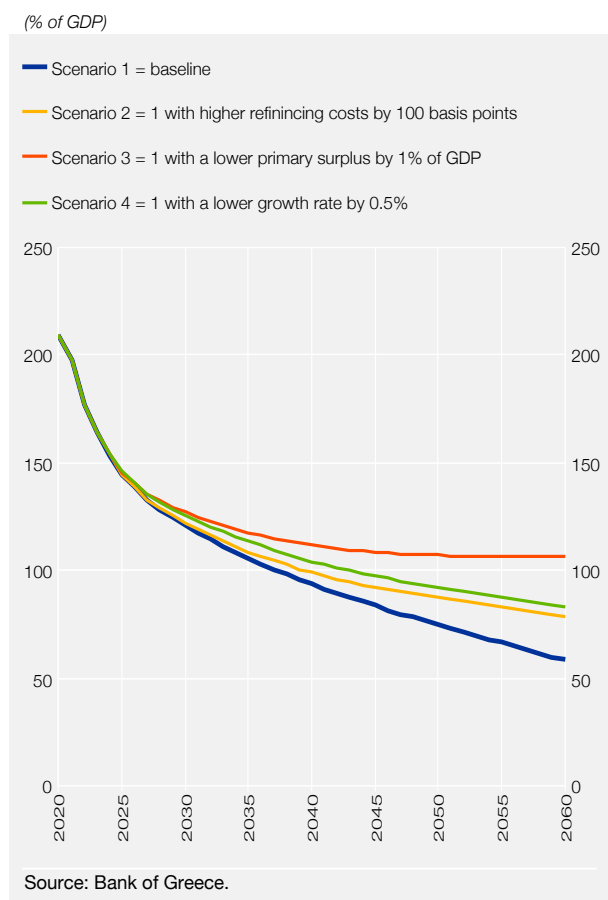
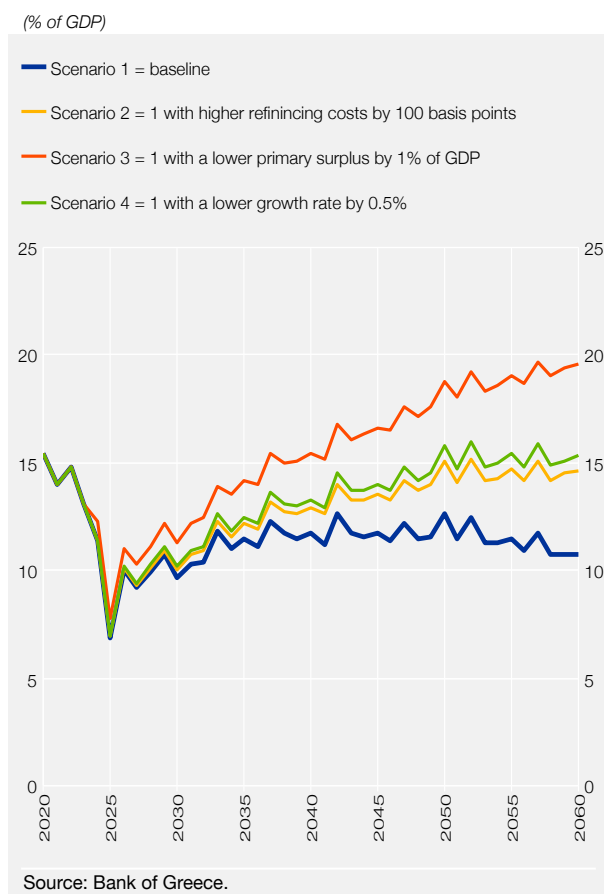


Chart V.8 Gross financing needs



commitment to fiscal targets and effective utilisation of EU funds, the debt-to-GDP ratio is put on a steady downward path.<sup>21</sup> Charts V.7 and V.8 show the projected paths of public debt and gross financing needs (GFN), respectively, as percentages of GDP in the baseline scenario, as well as in three standard alternative scenarios, illustrating the sensitivity of baseline projections to more adverse assumptions on refinancing costs, GDP growth and the primary balance. The projected evolution of the debt-to-GDP and GFN-to-GDP ratios up to the early 2030s shows little variation across the different scenarios considered, demonstrating strong debt resilience to a number of potential adverse risks over the medium term. In the long term, however, there is increased uncertainty, as the gradual refinancing of accumulated debt to the official sector on market terms will increase the exposure of Greek government debt to interest rate and market risks, leaving no room for fiscal policy relaxation. This assessment is also supported by stochastic debt sustainability analysis,<sup>22</sup> which shows a probability of over 80% of the debt ratio being lower in 2029 than its 2024 level, confirming the respective European Commission projection,<sup>23</sup> and also a probability of over 80% of the debt ratio being lower in 2033 than its 2028 level, confirming the respective MTP projection.

In light of the above, risks to public debt sustainability are estimated to remain contained over the medium term, conditional on commitment to fiscal targets and effective utilisation of EU

21 The baseline also assumes a full use of the cash buffer by the end of 2026.

22 The projections are based on stochastic simulations of 100 thousand alternative scenarios using a small-scale BVAR model. See Papoikonomou, D. (2025), "Stochastic debt sustainability analysis: a methodological note", Bank of Greece Working Paper No. 338, March.

23 See Table A2.2, p. 20 in European Commission, "[Post-Programme Surveillance Report. Greece, Autumn 2024](#)".

Table V.8 General government consolidated debt<sup>1</sup>

(EUR millions)

|                                              | 2020           | 2021           | 2022           | 2023           |
|----------------------------------------------|----------------|----------------|----------------|----------------|
| Short-term liabilities                       | 13,372         | 12,860         | 16,480         | 14,024         |
| – securities                                 | 11,122         | 10,811         | 11,089         | 11,339         |
| – loans                                      | 2,250          | 2,049          | 5,391          | 2,685          |
| Medium- and long-term liabilities            | 330,771        | 344,524        | 344,277        | 347,789        |
| – securities                                 | 56,065         | 70,187         | 74,157         | 80,703         |
| – loans                                      | 274,706        | 274,337        | 270,120        | 267,086        |
| Coins and deposits                           | 6,655          | 6,757          | 7,248          | 7,286          |
| <b>Total</b>                                 | <b>350,798</b> | <b>364,141</b> | <b>368,005</b> | <b>369,099</b> |
| <b>% of GDP</b>                              | <b>209.4</b>   | <b>197.3</b>   | <b>177.0</b>   | <b>163.9</b>   |
| – euro-denominated debt                      | 346,632        | 362,968        | 367,975        | 369,093        |
| of which:                                    |                |                |                |                |
| to the Bank of Greece                        | (1,421)        | (950)          | (477)          | (0)            |
| to the Financial Support Mechanism           | (244,133)      | (241,481)      | (235,571)      | (228,528)      |
| – non-euro-denominated debt <sup>2</sup>     | 4,166          | 1,173          | 30             | 6              |
| of which: to the Financial Support Mechanism | (4,128)        | (1,139)        | (0)            | (0)            |

Sources: ELSTAT and PDMA.

<sup>1</sup> According to the Maastricht Treaty definition.<sup>2</sup> Valuation based on the exchange rates prevailing on 31 December of each year.

funds. This is largely due to the favourable repayment profile of official sector debt, which accounts for the bulk of total debt (see Table V.8), coupled with past hedging swap operations, which locked in historically low interest rates. It should be noted, though, that the current favourable characteristics of the debt will not be permanent; they merely provide an important window of opportunity for public debt to remain sustainable going forward, as the concession loans under the economic adjustment programmes gradually mature and are replaced by new borrowing on market terms. Exploiting this window of opportunity requires safeguarding fiscal credibility and effective use of EU funds. That, in turn, will ensure not only the maintenance of investment grade status, but also a further gradual improvement of the country's credit rating.

## 7 THE BUDGET FOR 2025

According to the Introductory Report on the 2025 Budget submitted to Parliament in November 2024, the fiscal policy stance is projected to be expansionary in 2025, due to an increase in RRF-backed investment spending. Net of this impact, the fiscal stance is assessed to be neutral and therefore consistent with monetary policy objectives. As of 2025, a new EU economic governance framework is implemented, and the Introductory Report's macroeconomic and fiscal projections are in line with those in the Medium-Term Fiscal-Structural Plan (MTP) 2025-2028 published in September on the basis of the new fiscal rules.

In particular, a general government primary surplus of 2.4% of GDP is expected in 2025, down from 2.5% of GDP in 2024. This projection is supported by an anticipated marginal pick-up in real GDP growth (2025: 2.3%, 2024: 2.2%) along with a slowdown in the GDP deflator (2025: 2.2%, 2024: 3.0%). Public debt is projected to decline to 147.5% of GDP in 2025, down from 154.0% of GDP in 2024, mainly due to the dampening effect of the interest rate-growth differential (snowball effect) and, to a lesser degree, the achievement of a primary surplus of 2.4% of GDP. In absolute terms, general government debt is set to remain unchanged at EUR 365.0 billion.

This projection incorporates new fiscal policy measures with effect from 2025, implying a net budgetary burden of EUR 1.1 billion (0.5% of GDP), aiming to strengthen disposable income, reduce social inequalities, address major social problems (such as housing and demographic problems) and tackling the impact of natural disasters. In greater detail, measures on the revenue side notably include: (i) a one percentage point cut in social security contributions; (ii) abolition of the fixed business levy for self-employed persons and sole proprietors, further to its 50% cut in 2024; (iii) permanent exemption of agricultural diesel oil from the excise tax on fuels; (iv) separate taxation of overtime compensation for National Healthcare System (ESY) doctors; (v) lower the stamp duties for a number of transactions; and (vi) tax incentives to promote innovation and M&As. On the expenditure side, key measures include: (i) GDP- and inflation-indexation of pensions; (ii) across-the-board increase in the public sector pay scale as from April 2025, so that the entry-level salary is not below the statutory minimum wage; (iii) higher night work pay compensation for military and law enforcement personnel; and (iv) introduction of a cruise tax intended to fund infrastructure projects.

The budget also envisages expenditure of up to EUR 4.9 billion (EUR 1.6 billion more than in 2024) on actions to be funded by RRF grants in 2025. Privatisation proceeds of EUR 1.9 billion are expected in 2025, mostly relating to the concession agreement for the Egnatia Motorway (EUR 1.4 billion). Finally, deliveries of military equipment are projected to increase by EUR 0.7 billion in 2025, whereas defence cash payments are set to remain at their 2024 level of EUR 2.5 billion.

These projections are in line with the revised European fiscal framework, as they imply net primary expenditure growth of 3.6% between 2024 and 2025, which is below the maximum level recommended by the European Commission (3.7%). Moreover, the projection for a budget deficit of 0.6% of GDP is far below the 3% limit, and the estimated debt reduction of 6.5 pps of GDP in 2024 well exceeds the minimum (1 pp per year) required for countries with debt levels above 90% of GDP.

## CHAPTER V SPECIAL FEATURE

# THE FIRST IMPLEMENTATION CYCLE OF THE NEW EU FISCAL RULES: CHALLENGES, STRATEGIES AND CONCLUSIONS

### I. Introduction

**The Medium-Term Fiscal-Structural Plans (MTPs) are the foundation of the EU's new economic governance framework.** They outline both a fiscal path for Member States and priorities for public investment and reforms. These policies should ensure a gradual and sustained reduction in public debt, as well as sustainable and inclusive growth, while avoiding procyclical policies.

**Pursuant to the new revised fiscal rules,<sup>1</sup> most EU Member States submitted their national MTPs to the European Commission in October 2024 for the first time.<sup>2</sup>** This was preceded by a three-month technical dialogue between national and European authorities to determine fiscal adjustment needs and the maximum growth rate of nationally financed net primary expenditure that meets the various sustainability criteria under the new fiscal framework. In November 2024, the European Commission assessed and approved the national MTPs, thereby setting out the fiscal adjustment that Member States should deliver over the 4-year period 2025-28 (or 2025-31 in the case of 7-year MTPs).<sup>3</sup>

**The aim of this special feature is to conduct a comparative analysis of EU Member States' fiscal strategies over the coming years based on national MTPs and their assessment by the European Commission.** In particular, we focus on: (a) the fiscal adjustment, in structural primary balance terms, required to meet the various fiscal sustainability criteria; (b) the growth rate of nationally financed net primary expenditure, which is the operational indicator used for assessing compliance with the new fiscal rules, and the available fiscal space, as this arises from net primary expenditure growth (as a percentage of GDP); (c) the level of the required primary balance; (d) the rate of public debt reduction and the long-term projections of the debt-to-GDP ratio; and (e) the fiscal stance for 2025 implied by the required adjustment. For the purposes of the analysis, countries are classified according to their level of medium-term fiscal risk, as assessed by the European Commission.

### II. Assessment of medium-term fiscal risks

**The new EU fiscal rules incorporate the European Commission's medium-term fiscal risk assessment, as this is analysed in its annual Debt Sustainability Monitor (DSM).** The DSM provides a detailed risk assessment, classifying countries as *low*-, *medium*- and *high-risk* according to their debt trajectories, fiscal policies and macroeconomic conditions. The new rules allow for a differentiated pace of fiscal adjustment, depending on the country risk profile, instead of applying a single (horizontal) approach across Member States. By incorporating these assessments, the new fiscal rules aim to ensure that Member States pursue fiscal policies that lead to a permanent and sustainable reduction in public debt (or prevent excessive debt accumulation), while preserving macroeconomic stability. At the same time, the objective of the re-

1 For more details, see Chapter V Special Feature "New fiscal rules in the context of the EU economic governance review", Bank of Greece, *Annual Report 2023*, April 2024, p. 169.

2 By end-November 2024, a total of 22 MTPs had been submitted by an equal number of EU Member States, while 5 countries (Austria, Belgium, Bulgaria, Germany, Lithuania) delayed the submission of plans due to general elections and the formation of new governments.

3 For more details regarding national MTPs and the European Commission's assessments, see [National medium-term fiscal-structural plans](#), November 2024. A 7-year fiscal adjustment period is foreseen for 5 of the 22 MTPs (in particular, for the MTPs of Finland, France, Italy, Romania and Spain).

duction of fiscal deficits is pursued without imposing procyclical tightening, which allows for a more gradual adjustment depending on the level of fiscal risk (risk-based fiscal adjustment) and provides flexibility in the design of MTPs by Member States. Moreover, the use of these risk assessments under the new fiscal framework enhances the predictability and transparency of policy decisions regarding the fiscal strategy pursued, while also improving market confidence in European economies, as the DSM is a public report based on detailed fiscal and macroeconomic data.

**The following analysis uses the classification of countries according to the level of medium-term fiscal risk, in accordance with the Debt Sustainability Monitor 2023.<sup>4</sup>** Overall, 9 Member States are classified as high-risk, 11 Member States as medium-risk and 7 Member States as low-risk.<sup>5</sup>

### III. Fiscal adjustment needs

**Fiscal adjustment needs are determined on the basis of five sustainability criteria designed to ensure both long-term public debt sustainability and government deficits below the 3% of GDP reference value** (see the table). Countries where fiscal adjustment is needed are required to comply with one or more binding or non-binding criteria. According to the European Commission's guidance,<sup>6</sup> under the new framework, **debt sustainability analysis (DSA)-based criteria** are central to determining fiscal adjustment needs, particularly for high-risk countries. By contrast, for low-risk countries, where no adjustment is needed, the key criterion is compliance with the requirements of the **Stability and Growth Pact (SGP)**. In some countries subject to an Excessive Deficit Procedure (EDP)<sup>7</sup> (such as Italy, France and Malta), the **deficit benchmark** is binding for specific years of the adjustment period. The **debt sustainability safeguard**, which requires a minimum reduction of debt over the adjustment period, is binding upon Finland. In the case of Greece, fiscal adjustment needs were determined mainly on the basis of debt sustainability, while in particular for 2025 the **deficit resilience safeguard** was also taken into account as an important element of fiscal strategy planning, in order to build up fiscal buffers.

**Fiscal adjustment is defined in terms of improvement in the structural primary balance.<sup>8</sup>**

According to the national MTPs, high-risk countries are required to implement a significant adjustment to meet the fiscal sustainability criteria. This is why many of these countries chose to implement a 7-year plan to ensure a gradual adjustment and avoid any possible procyclical effects of fiscal policy. On a *cumulative basis*, the adjustment for Romania, France and Slova-

4 European Commission, "[Debt Sustainability Monitor 2023](#)", Institutional Paper No. 271, March 2024 (pp. 39-58).

5 The classification of countries according to fiscal risk over the medium term is as follows: **High-risk countries:** Belgium, Greece, Spain, France, Italy, Portugal, Romania, Slovakia, Finland. **Medium-risk countries:** Bulgaria, Czechia, Germany, Croatia, Cyprus, Lithuania, Hungary, Malta, Austria, Poland, Slovenia. **Low-risk countries:** Denmark, Estonia, Ireland, Latvia, Luxembourg, the Netherlands, Sweden. In particular, the *high-risk* classification is mainly driven by the debt dynamics under the no-fiscal-policy-change baseline scenario, due either to currently high and rising debt ratios (Belgium, France, Italy), debt rising above 90% of GDP (Romania, Slovakia, Finland), or debt falling but remaining high and with only limited room for additional consolidation (Greece). In several cases, the stochastic analysis confirms the high risk of a further increase in debt over five years (Belgium, Spain, France, Italy, Finland) and points to considerable uncertainty surrounding the baseline projections (Greece, Portugal, Romania). Vulnerability to more adverse scenarios, in particular in case of less favourable macro-financial conditions or a weaker fiscal position, is also a high-risk factor (Portugal). Furthermore, projected financing needs suggest that countries with the highest debt ratios could also be potentially exposed to liquidity challenges.

6 See [Commission prior guidance](#), June 2024.

7 In total, 8 countries are subject to an EDP: Belgium, France, Italy, Hungary, Malta, Poland, Slovakia and Romania (Source: [2025 European Semester: bringing the new economic governance framework to life](#), European Commission, 26.11.2024).

8 According to the European Commission, the structural primary balance is defined as the primary deficit/surplus adjusted for the effects of the economic cycle (i.e. the cyclically adjusted primary balance), net of one-off and other temporary fiscal measures. It is used as a key fiscal policy indicator in the European Fiscal Framework for the assessment of Member States' fiscal adjustment, as it allows to assess a country's *underlying fiscal position*, net of the impact from fluctuations of the economic cycle and one-off measures.

### Fulfilment of the fiscal sustainability criteria used for determining the adjustment needs<sup>1</sup>

|                       | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|-----------------------|------|------|------|------|------|------|------|
| High-risk countries   |      |      |      |      |      |      |      |
| Greece (EL)           | 3/1  | 1    | 1    | 1    |      |      |      |
| Portugal (PT)         | 1    | 1    | 1    | 1    |      |      |      |
| Romania (RO)*         | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Spain (ES)*           | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Italy (IT)*           | 1    | 1    | 1    | 4/1  | 4/1  | 4/1  | 1    |
| Slovakia (SK)         | 1    | 1    | 1    | 1    |      |      |      |
| Finland (FI)*         | 2/1  | 2/1  | 2/1  | 2/1  | 2/1  | 2/1  | 2/1  |
| France (FR)*          | 1    | 1    | 1    | 4/1  | 4/1  | 4/1  | 4/1  |
| Medium-risk countries |      |      |      |      |      |      |      |
| Hungary (HU)          | 1    | 1    | 1    | 1    |      |      |      |
| Croatia (HR)          | 5    | 5    | 5    | 5    |      |      |      |
| Czechia (CZ)          | 5    | 5    | 5    | 5    |      |      |      |
| Cyprus (CY)           | 0    | 0    | 0    | 0    |      |      |      |
| Poland (PL)           | 1    | 1    | 1    | 1    |      |      |      |
| Slovenia (SI)         | 4/1  | 4/1  | 4/1  | 4/1  | 1    | 1    | 1    |
| Malta (MT)            |      |      |      |      |      |      |      |
| Low-risk countries    |      |      |      |      |      |      |      |
| Denmark (DK)          | 5/0  | 5/0  | 5/0  | 5/0  |      |      |      |
| Latvia (LV)           | 5/0  | 5/0  | 5/0  | 5/0  |      |      |      |
| Luxembourg (LU)       | -    | -    | -    | -    |      |      |      |
| Ireland (IE)          | -    | -    | -    | -    |      |      |      |
| Netherlands (NL)      | 5/0  | 5/0  | 5/0  | 5/0  |      |      |      |
| Estonia (EE)          | 0    | 0    | 0    | 0    |      |      |      |
| Sweden (SE)           | 5/0  | 5/0  | 5/0  | 5/0  |      |      |      |

Sources: European Commission prior guidance, June 2024, and [National medium-term fiscal-structural plans](#).

Notes: Fiscal sustainability criteria:

**0. No adjustment required.**

**1. Debt sustainability analysis (DSA)-based criteria:** The debt-to-GDP ratio is put on a plausible downward path (or stays at prudent levels) in the baseline scenario of no-policy-change after the adjustment period. (a) By the end of the adjustment period and over the following 10 years, debt declines or stays below 60% of GDP both in the adjustment scenarios and under the stress tests; (b) in the 5 years following the adjustment period, debt declines with a sufficiently high probability (at least 70%), in line with the European Commission's stochastic analysis methodology set out in the DSM; (c) the deficit is brought and remains below 3% of GDP in the medium term.

**2. Debt sustainability safeguard:** (a) Countries with debt above 90% of GDP are required to reduce their debt by at least 1 pp of GDP on average per year during the adjustment period; (b) countries with debt between 60% and 90% of GDP are required to reduce their debt by at least 0.5 pp of GDP on average per year during the adjustment period.

**3. Deficit resilience safeguard:** Convergence towards a structural fiscal deficit of 1.5% of GDP.

**4. Deficit benchmark:** The government deficit should be below 3% of GDP (for countries subject to the Excessive Deficit Procedure-EDP).

**5. Compliance with SGP requirements** (the government deficit is maintained below 3% of GDP and public debt remains below 60% of GDP after the adjustment period).

In some countries, fiscal adjustment needs are determined based on the fulfilment of more than one criterion (the binding criterion is indicated in bold).

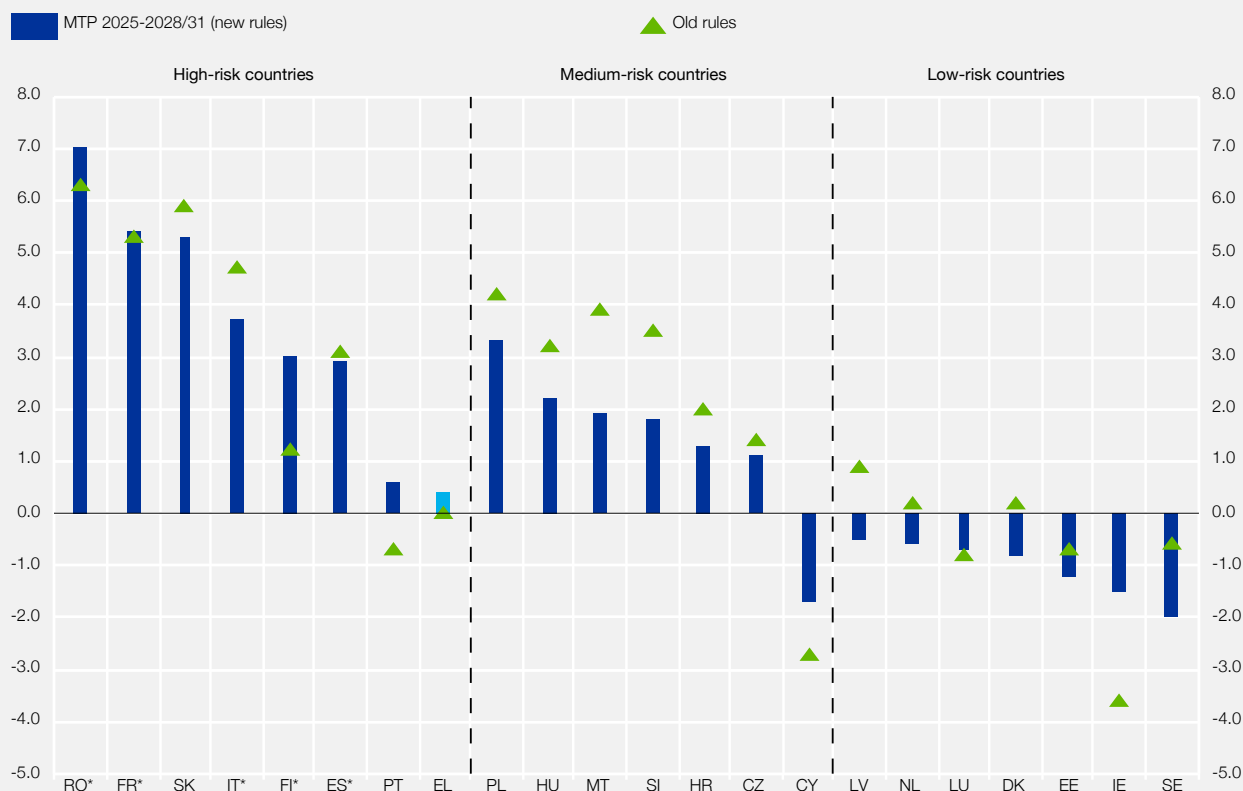
- : No available data.

\* 7-year MTP.

<sup>1</sup> In June 2024, Member States with public debt above 60% of GDP or a government deficit above 3% of GDP received guidance from the European Commission on the risk-based "reference trajectory", which determined their fiscal adjustment needs measured in structural primary balance terms for the different fiscal sustainability criteria set out in the new framework to be fulfilled. For Member States with a government deficit below the 3% of GDP reference value and public debt below 60% of GDP, the European Commission provided (upon request) "technical information" regarding the structural primary balance level required to ensure that the headline deficit is maintained below 3% of GDP over a 10-year no-policy-change period after the end of the national MTP.

kia exceeds 5 percentage points (pps) of GDP. By contrast, in low-risk countries, compliance with the new fiscal framework is compatible with fiscal loosening. Compared with the old fiscal framework, the adjustment required is smaller for most countries (mainly medium- and low-

Chart A Change in structural primary balance (cumulative)



Sources: European Commission, National medium-term fiscal-structural plans, November 2024, AMECO database and Bank of Greece calculations.  
\* 7-year MTP.

risk ones)<sup>9</sup> (see Chart A). On an *annual basis*, on average, almost all high- and medium-risk countries are required to achieve a larger amount of fiscal adjustment compared with 2016-19, which reflects the increased fiscal challenges facing Member States. However, in most cases this annual adjustment is lower than that implied by the old fiscal framework.<sup>10</sup> Low-risk countries are allowed to loosen their fiscal policy, while in 2016-19 they had undertaken fiscal adjustment (see Chart B). Greece shows the lowest adjustment needs among countries required to make a fiscal effort (0.4 pp of GDP cumulatively). On an annual basis, it is the only country where the average required adjustment is lower than that achieved in the past and marginally higher than that implied by the old rules. This highlights the resilience of Greece's public finances, as a result of the structural nature of the adjustment over the past decade and prudent fiscal management in the 2020-24 period.

#### IV. Nationally financed primary expenditure and fiscal space

**Compliance with the new fiscal rules is monitored through a single operational expenditure rule, which is the main tool of fiscal policy surveillance.** MTPs set out the key fiscal commitment of Member States, ensuring that the annual growth rate of net primary expenditure<sup>11</sup> does

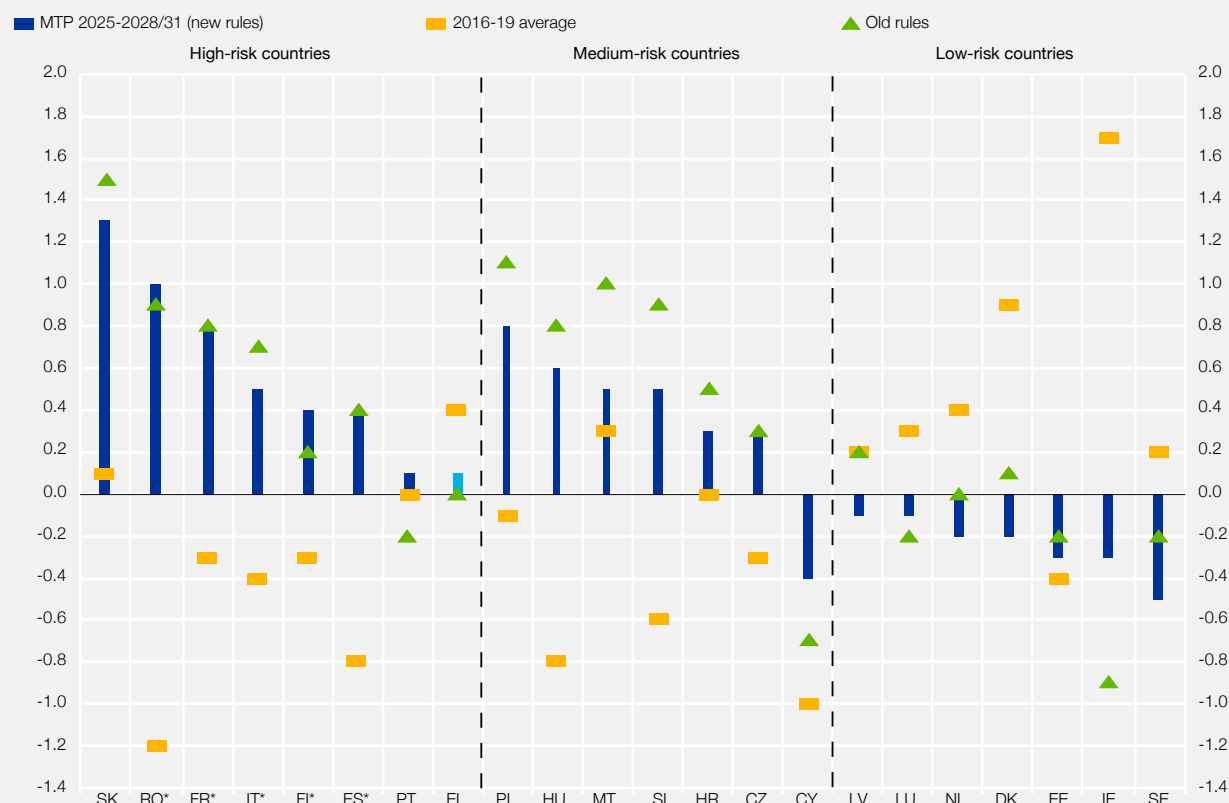
<sup>9</sup> For high-risk countries, the new framework requires a higher adjustment (with the exception of Slovakia, Italy and Spain).

<sup>10</sup> Except for Romania, Finland, Portugal, Greece and Cyprus.

<sup>11</sup> Net primary expenditure is defined as nationally financed expenditure excluding interest payments and cyclical elements of unemployment benefit expenditure, minus discretionary revenue measures. It should also be noted that national expenditure on co-financing of programmes funded by the EU is also excluded. The upper limit on the annual growth rate of net primary expenditure (NPE) is calculated as follows:

$$\% \Delta (NPE) = \% \Delta (nom. potential GDP) - \left( \frac{\Delta (structural primary balance)}{primary expenditure as \% of GDP in the year before the adjustment} \right) * 100$$

Chart B Change in structural primary balance (average annual rate)



Sources: European Commission, National medium-term fiscal-structural plans, November 2024, AMECO database and Bank of Greece calculations.  
\* 7-year MTP.

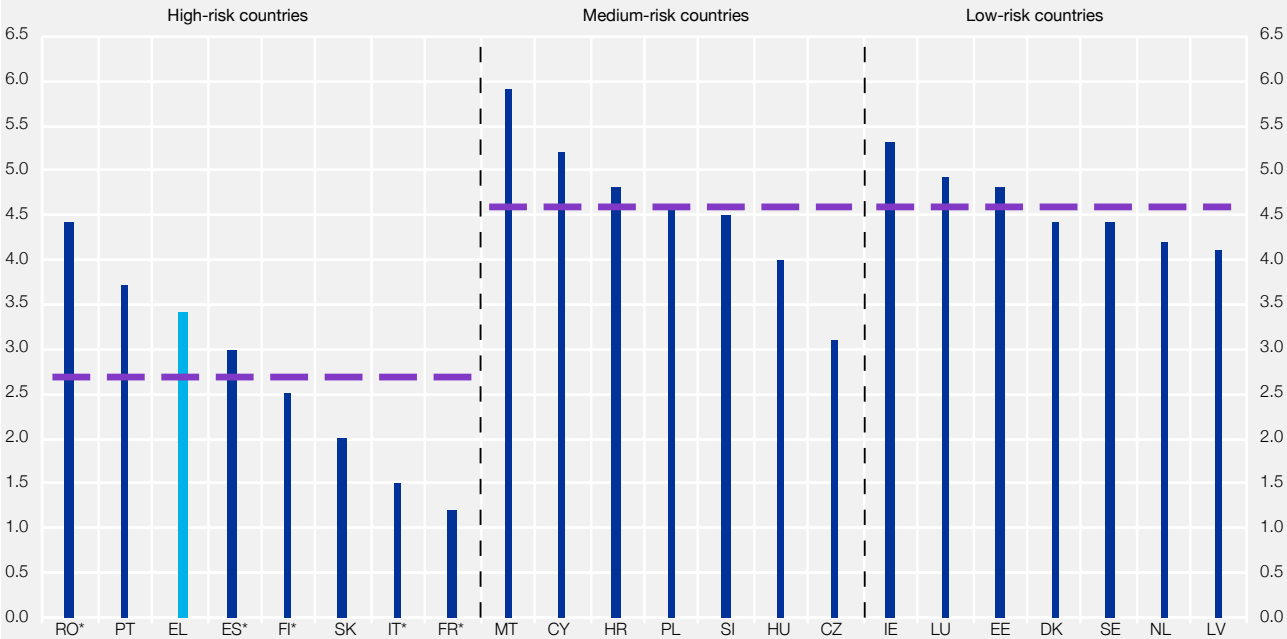
not exceed pre-defined limits to meet the requirements of the new framework. Consequently, the annual growth rate of net primary expenditure as a percentage of GDP determines the **available fiscal space** for each country, thus affecting the room for expansionary measures in the coming years. According to national MTPs, countries facing high fiscal challenges show, on average, a lower annual rate of change in net primary expenditure compared with medium- and low-risk countries (see Chart C). As a result, fiscal space in high-risk countries is relatively limited compared with that of other countries (see Chart D). In the case of Greece, net primary expenditure is projected to rise by an average of 3.4% annually over the period 2025-28, above the average for this group of countries (2.7%). This translates into a fiscal space corresponding to an average primary expenditure growth rate of around 1.3% of GDP per year, higher than that of high-risk countries (1.1% of GDP), which allows for more flexibility in the country's fiscal strategy.

## V. Public debt – Primary balance

**Fiscal adjustment and the limit on net primary expenditure result in a primary balance sufficient to set the debt-to-GDP ratio on a firm downward path or on a path of gradual stabilisation (see Chart E).** Several high-risk countries must improve their primary balances compared with the past either by achieving higher surpluses (Portugal, Italy) or by switching from a deficit to a surplus (Spain, Finland) or by reducing their deficits (France). By contrast, countries facing significant fiscal challenges, but with a relatively low level of debt, can follow a more gradual adjustment and are allowed to maintain primary deficits (Slovakia, Romania). Greece is expected to achieve a primary surplus of 2.4% of GDP per year on average during the adjustment period, lower than in 2016-19. It is worth noting that Greece's primary surplus is expected to be one of the highest in Europe – also in view of the level of its debt – and yet it

Chart C Net primary expenditure

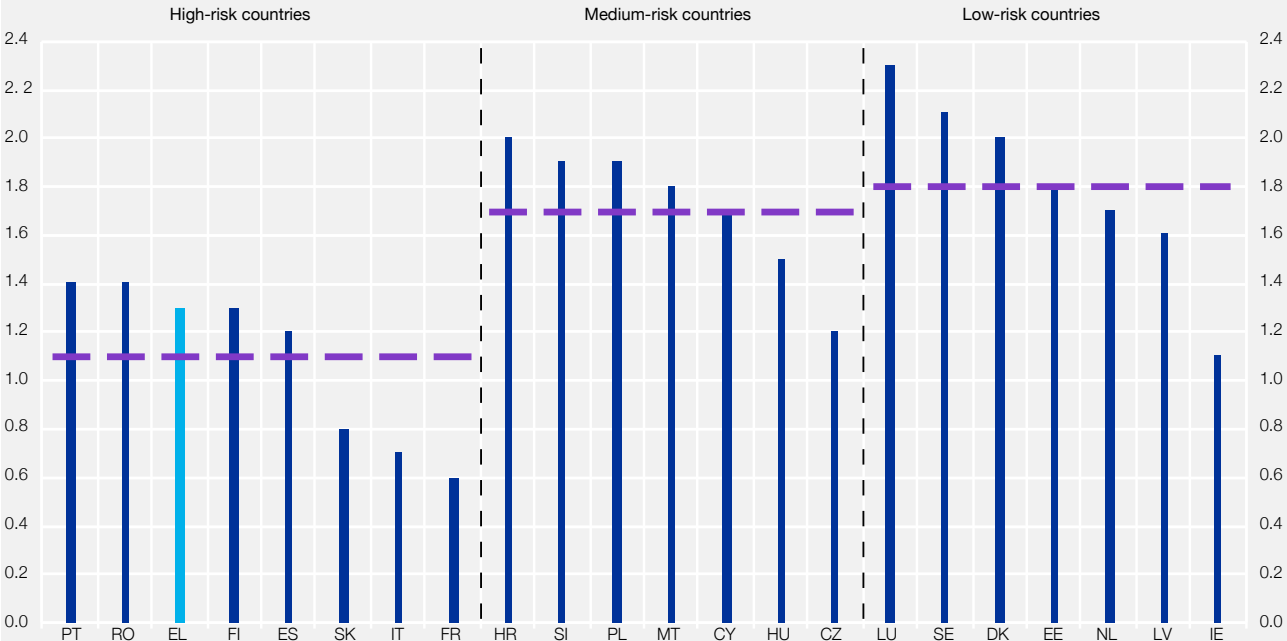
(annual rate of change, average over the adjustment period 2025-2028/31)



Sources: European Commission, National medium-term fiscal-structural plans, November 2024, and Bank of Greece calculations.  
\* 7-year MTP.

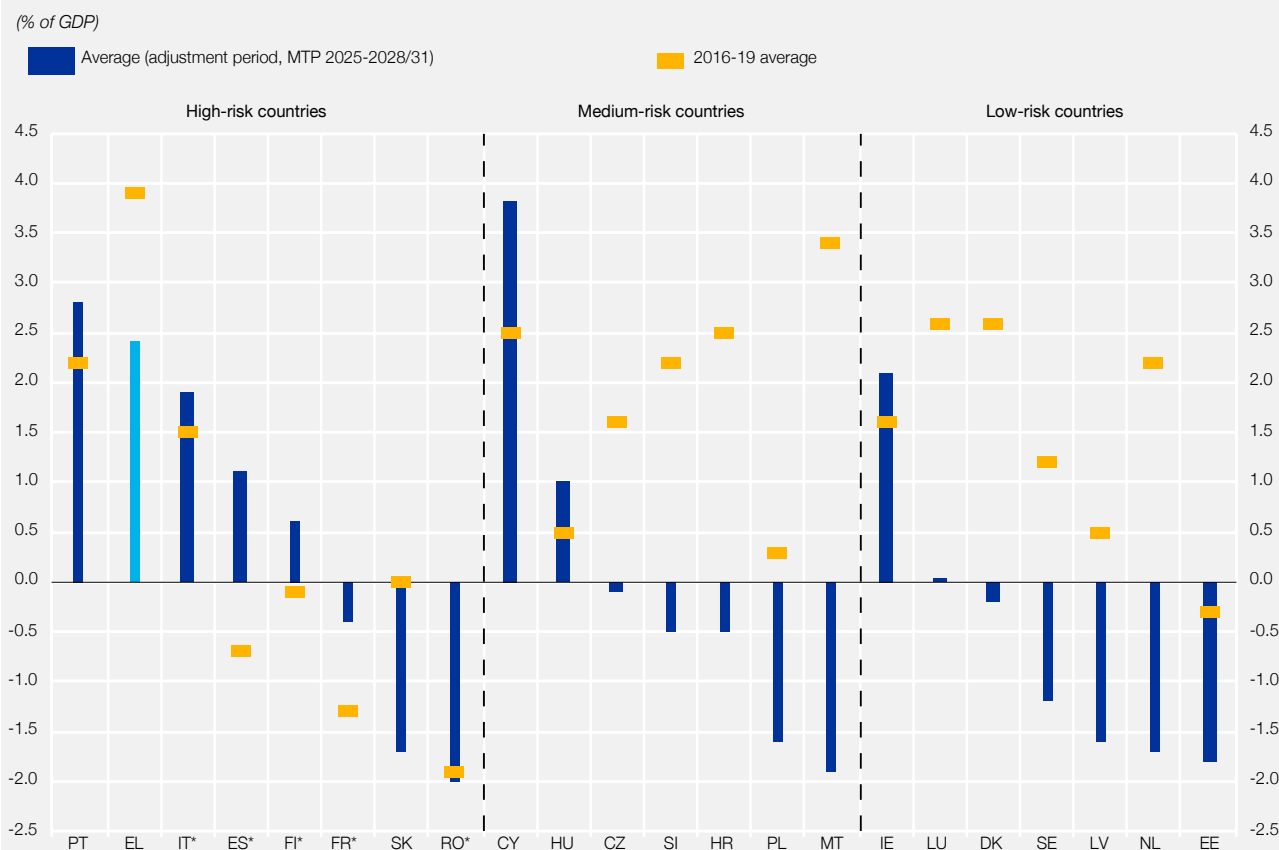
Chart D Change in net primary expenditure

(% of GDP, average over the adjustment period 2025-2028/31)



Sources: European Commission, National medium-term fiscal-structural plans, November 2024, and Bank of Greece calculations.  
\* 7-year MTP.

Chart E Primary balance



Sources: European Commission, National medium-term fiscal-structural plans, November 2024, AMECO database and Bank of Greece calculations.  
\* 7-year MTP.

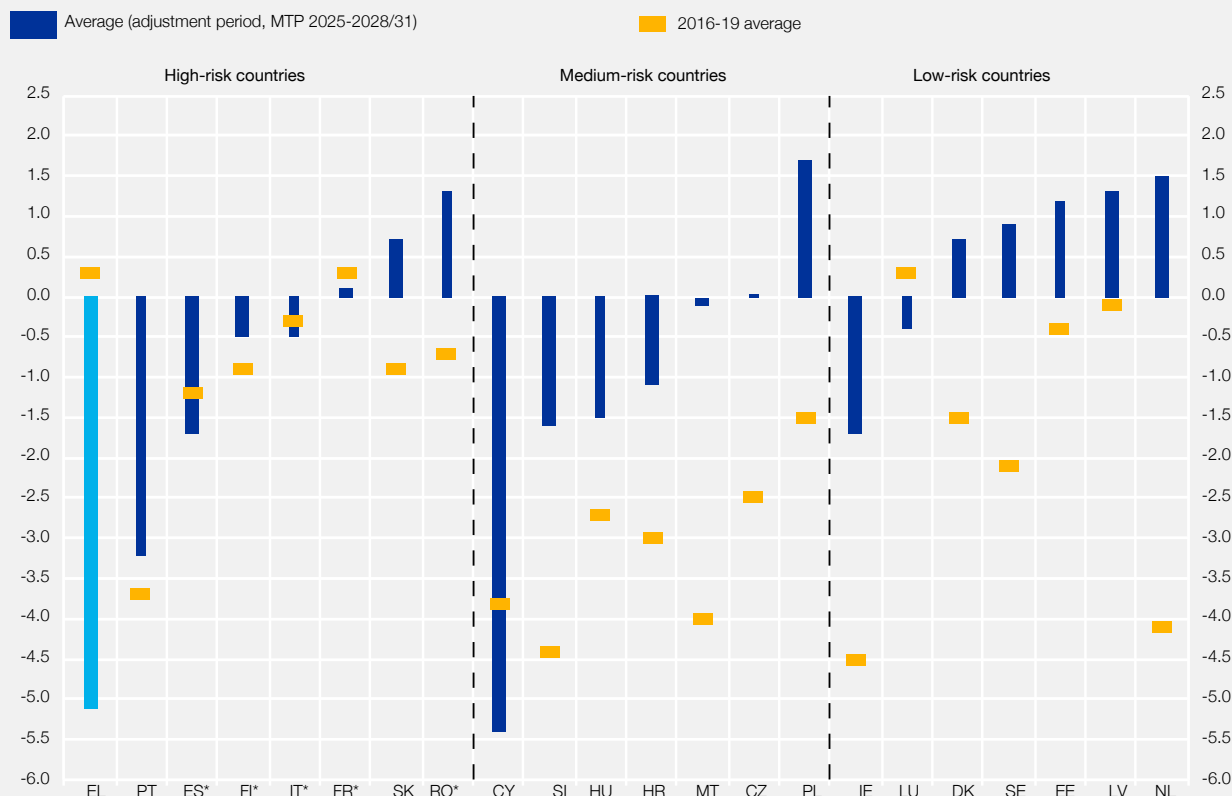
should be achieved by making the smallest fiscal effort (as implied by the change in the structural primary balance; see Charts A and B). This reflects the country's favourable starting fiscal position, thanks to the economic adjustment over the past decade. The requirements of the new fiscal rules allow most medium- and low-risk countries to move from surpluses to primary deficits. This reflects the differentiated fiscal strategy approach towards each Member State, which allows more flexibility in public finance management.

**The planned fiscal policy leads to a gradual and milder debt reduction compared with the past, with the exception of some high-risk countries (see Chart F).** Greece and Spain are expected to record a higher average annual debt reduction rate over the adjustment period than in 2016-19. By contrast, in Italy and France the public debt is projected to broadly stabilise over the 7-year adjustment period, without any significant downward trend. On the other hand, some low-debt (mainly low-risk) countries are expected to see an increase in their debt-to-GDP ratios, reflecting a looser fiscal stance. At the same time, in medium-risk countries debt is projected to decline at a slower pace than in the previous period, as these countries take advantage of their larger fiscal space, the only exception being Cyprus, where debt reduction is projected to accelerate. Greece is expected to achieve one of the sharpest reductions of public debt in the EU over the coming years, confirming the continuously improving resilience of its public finances.

**The new approach under the revised fiscal framework ensures the long-term sustainability of public debt, as reflected in the relevant analyses included in the MTPs.** Chart G illustrates

Chart F Change in debt-to-GDP ratio

(percentage points of GDP, annual change)



Sources: European Commission, National medium-term fiscal-structural plans, November 2024, AMECO database and Bank of Greece calculations.  
\* 7-year MTP.

the differentiated debt paths under the baseline and three alternative scenarios,<sup>12</sup> according to the level of fiscal risk. Under all scenarios considered, the debt-to-GDP ratio follows a downward path, mostly in high-risk countries, as a result of the structural adjustment. In most medium-risk countries, debt is either on a moderately downward trend, declining at a slower pace than in high-risk countries, or exhibits an almost stable trend. By contrast, in low-risk countries there is room for even increasing debt, provided that it remains within the limits set, which reflects the fiscal flexibility and the lower need for strict adjustment.<sup>13</sup> Greece stands out as an example of fiscal resilience among European countries, due to both its favourable structural fiscal position and its favourable debt profile. In particular, under the baseline scenario, Greece is expected to record the largest cumulative debt reduction in Europe over the next 14 years, with an overall decrease of about 40 pps of GDP (same as Cyprus). It should be noted that this performance

12 The DSM 2023 sets out three deterministic stress scenarios, which must satisfy the requirement for a continuous decline in the debt-to-GDP ratio. (1) **Financial stress scenario**: market interest rates are assumed to temporarily increase in the first year following the adjustment period. Interest rate increases are not the same for all countries, as a horizontal 1 pp increase applies to all Member States, while a country-specific risk premium burdens only Member States with a debt ratio above 90% of GDP. (2) **Lower structural primary balance scenario**: the structural primary balance is assumed to be reduced by 0.5 pp of GDP in total in the first two years after the end of the adjustment period (0.25 pp per year) and to remain at that lower level for the remaining period considered. (3) **Adverse interest rate-growth differential scenario**: this differential is assumed to be permanently increased by 1 pp after the end of the adjustment period. This increase comes in half from lower growth and in half from higher interest rates.

13 Low-risk countries were required to provide long-term projections for the debt-to-GDP ratio only under the baseline scenario of fiscal adjustment according to the new rules. As a result, Chart G does not include stress scenarios for this group of countries.

remains strong under all stress scenarios considered, which confirms the capacity of the Greek economy to withstand fiscal shocks, strengthening the prospect of public debt sustainability even under adverse conditions.

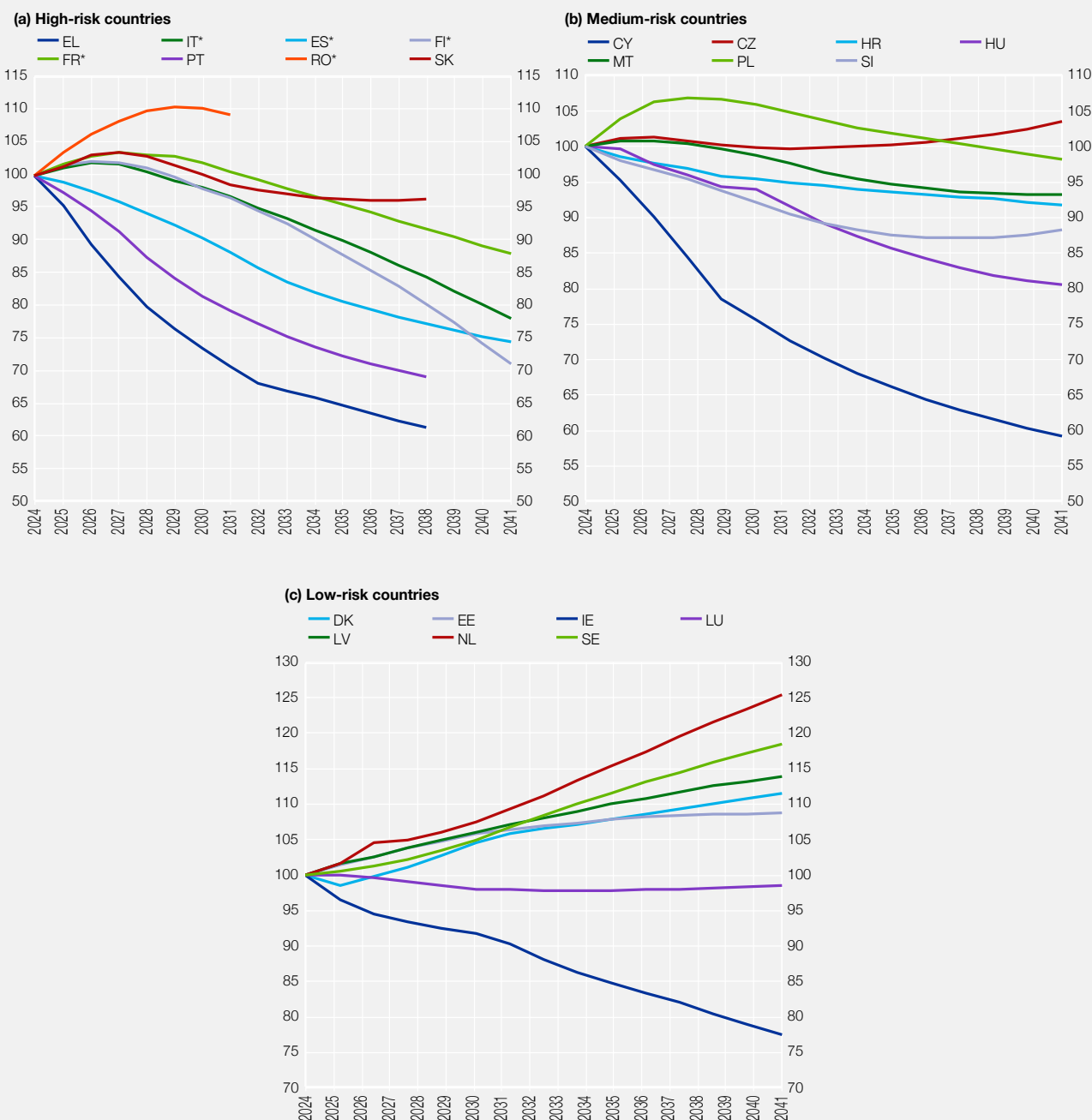
## VI. Fiscal stance

The fiscal stance in 2025 is expected to be heterogeneous across Member States, reflecting the new spirit of the revised fiscal rules, which adopt a risk-based approach (see Chart H).

Chart G Debt-to-GDP ratio - Baseline scenario

(2024=100)

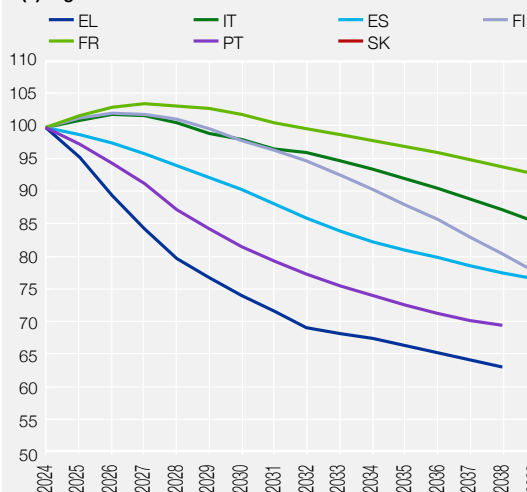
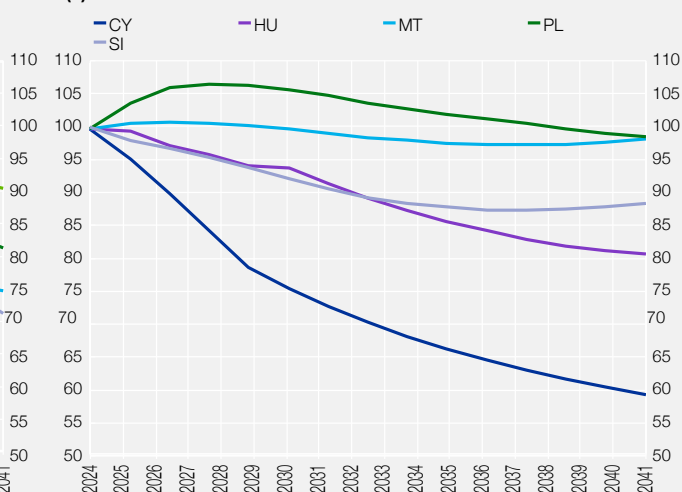
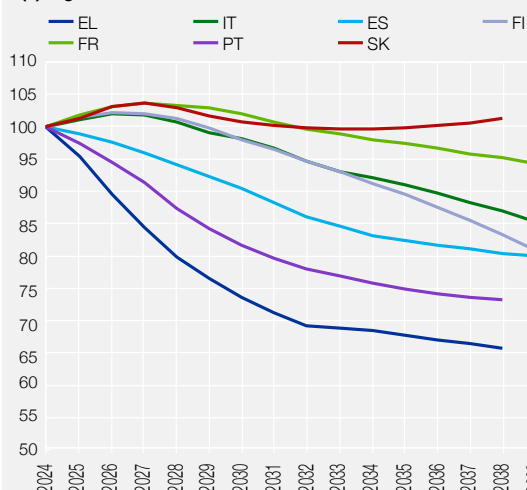
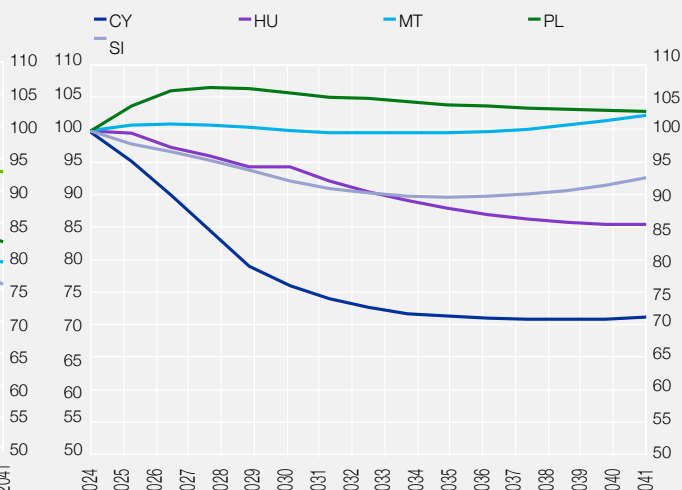
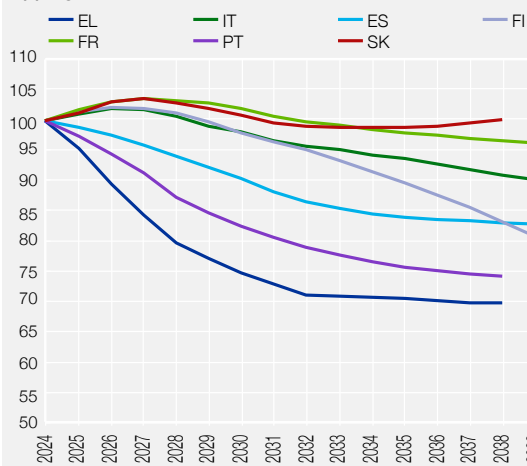
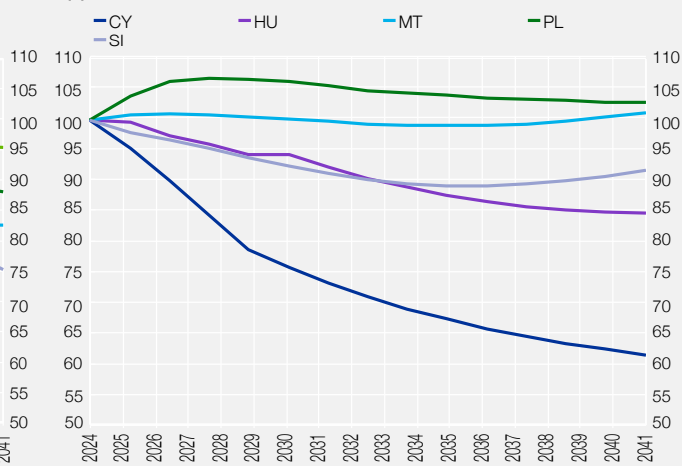
Baseline scenario – Fiscal adjustment (new rules)



Sources: National medium-term fiscal-structural plans, November 2024, AMECO database and Bank of Greece calculations.  
\* 7-year MTP.

Chart G Debt-to-GDP ratio - Alternative scenarios

(2024=100)

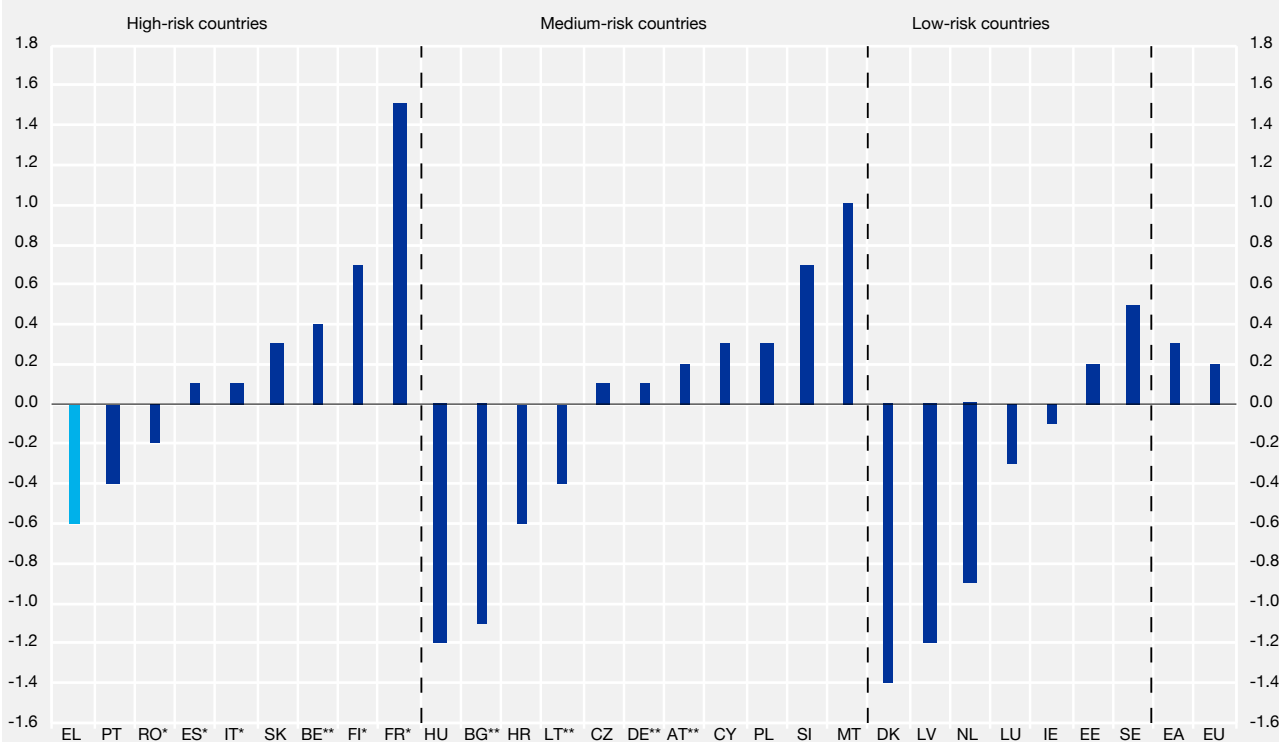
**Alternative scenario 1: Financial stress****(a) High-risk countries****(b) Medium-risk countries****Alternative scenario 2: Lower structural primary balance****(a) High-risk countries****(b) Medium-risk countries****Alternative scenario 3: Adverse interest rate-growth differential****(a) High-risk countries****(b) Medium-risk countries**

Sources: National medium-term fiscal-structural plans, November 2024, AMECO database and Bank of Greece calculations.

\* 7-year MTP.

Chart H Fiscal stance

(% of GDP, 2025)



Sources: European Commission, National medium-term fiscal-structural plans, November 2024, and Autumn 2024 Economic Forecast, November 2024.  
 \* 7-year MTP.  
 \*\* No MTP submitted.

Based on the definition of the European Commission,<sup>14</sup> the fiscal stance is projected to be expansionary in about one-third of EU Member States,<sup>15</sup> restrictive in 9 Member States<sup>16</sup> and broadly neutral in the remaining Member States.<sup>17</sup> Among the high-risk countries, Greece is expected to pursue the most expansionary policy, while on the other hand, the fiscal stance in France is estimated to be the most restrictive. This heterogeneity of the fiscal stance is an indication of the differentiated approach to fiscal consolidation in accordance with the specificities of each country (country-specific fiscal consolidation), in line with the new fiscal framework. At the EU and the euro area level, the fiscal stance is estimated to be slightly restrictive, in parallel with continued growth in public investment. Therefore, the new framework confirms the basic principle that fiscal adjustment is not carried out at the expense of public investment. At the same time, the projected fiscal stance for the euro area as a whole in 2025 should support the

14 Traditionally, the fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It may serve to assess the impact of fiscal policy on an economy's aggregate demand, as well as the speed at which the underlying budgetary position converges towards budgetary targets. The European Commission defines the **fiscal stance** as the change in general government primary expenditure, net of the incremental impact of discretionary revenue measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by Recovery and Resilience Facility grants and other EU funds, relative to the 10-year average potential GDP growth rate, in nominal terms. A *negative sign* indicates an excess of primary expenditure growth over medium-term potential GDP growth, which corresponds to an **expansionary fiscal stance**. A *positive sign* indicates a shortfall of primary expenditure growth over potential growth, which corresponds to a **contractionary fiscal stance** (see European Commission, "[Commission Staff Working Document](#)", 26.11.2024).

15 Greece, Portugal, Hungary, Bulgaria, Croatia, Denmark, Latvia, the Netherlands, Luxembourg, Lithuania.

16 Slovakia, Belgium, Finland, France, Cyprus, Poland, Slovenia, Malta, Sweden.

17 Romania, Spain, Italy, Czechia, Germany, Austria, Ireland, Estonia.

monetary policy effort for a return of inflation to the 2% target, contributing to the stability of the macroeconomic environment.

**The new fiscal rules are expected to boost the implementation of counter-cyclical fiscal policies, thus avoiding the self-defeating effects of fiscal adjustment.**<sup>18</sup> The new approach provides more flexibility, abandoning horizontal numerical rules and taking into account the specific economic and structural characteristics of each country in the determination of the fiscal effort needed. Therefore, rather than adopting a strictly contractionary fiscal policy, the new framework follows a rules-based approach to fiscal discipline. This avoids excessive levels of fiscal adjustment that could lead to ineffective procyclical policies and hamper economic growth. A key mechanism to avoid procyclical episodes is the new expenditure rule, which allows to maintain fiscal flexibility. In particular, an expansionary fiscal stance in the face of adverse economic shocks is feasible when fiscal buffers have been built up from revenue windfalls in periods of growth. Moreover, the countercyclicality of the new rules is enhanced by the fact that automatic stabilisers (mostly expenditure) are excluded from the operational monitoring indicator, and, thus, can still be effective in downturns. At the same time, compliance with the expenditure rule does not preclude growth-enhancing investment with a high fiscal multiplier, such as public investment, which is considered crucial for long-term economic growth.

## VII. Conclusions

**The first implementation cycle of the new EU fiscal rules, as reflected in the national MTPs, marks a more flexible and differentiated approach to fiscal policy, taking into account country-specific circumstances and the level of fiscal risk it faces.** High-risk countries are required to achieve a larger amount of fiscal consolidation in order to put the debt-to-GDP ratio firmly and durably on a sustainable downward path in the long term, curbing public expenditure growth. By contrast, medium- and low-risk countries have more fiscal flexibility and broader fiscal space. Compared with the past, most countries are required to make a larger fiscal effort. However, in most cases the consolidation required remains smaller than would have been the case under the old rules. This highlights, on the one hand, the fiscal challenges facing European countries following a period of successive exogenous shocks and, on the other hand, the need to revise the Stability and Growth Pact to make it more flexible and allow for more gradual fiscal consolidations than in the past, as well as to strengthen countercyclical policies.

**Greece stands out as an example of fiscal resilience.** Compared with other high-risk countries, Greece has lower fiscal consolidation needs, as these are defined in terms of improving the structural primary balance, while it is also expected to register one of the fastest rates of public debt reduction in the EU over the coming years. Greece's anticipated relatively high primary surpluses, to be achieved with the smallest fiscal effort, reflect its favourable structural position and prudent fiscal management in the previous period, while at the same time stressing the need to reduce the high public debt level.

**At the EU and euro area levels, fiscal policy is projected to be slightly restrictive,** but to be accompanied by an increase in public investment, confirming the principle that fiscal consolidation does not take place at the expense of investment. At the same time, the projected fiscal policy for 2025 is expected to support the monetary policy effort for a return of inflation to the 2% target over the medium term, contributing to the stability of the macroeconomic environment.

**Overall, the new approach to fiscal rules allows for a more balanced and countercyclical adjustment,** avoiding the procyclical policies of the past, while enhancing transparency, predictability and confidence in European economies.

<sup>18</sup> The term "self-defeating effects" refers to cases where fiscal adjustment measures lead to results contrary to the intended objectives, such as a deterioration in the fiscal balance or an increase in public debt.

## ANNEX TO CHAPTER V

# FISCAL POLICY MEASURES

During 2024, targeted interventions were legislated with the aim to support economically vulnerable groups, while two Supplementary Budgets totalling EUR 1.3 billion were adopted to boost public investment. For 2025, as outlined in the omnibus tax bill voted into law in December 2024, the fiscal strategy is focused on the following main areas: (a) further supporting disposable income; (b) enhancing the Greek economy's resilience to the climate crisis impacts; (c) modernising tax legislation; and (d) providing incentives for business mergers and acquisitions, innovation, and scientific and technological research.

In more detail:

Law **5100/2024**, passed in April, transposed into Greek law Council Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups. The law also permanently exempts from the fixed business levy farmers subject to the regular VAT regime, as well as coastal fishermen. Also, effective from 1.9.2024, the framework for granting permanent residence permits to third-country nationals who invest in real estate in Greece ("Golden Visa" programme) has been tightened through: (a) an increase in the required value of real estate ownership from EUR 250,000 to EUR 800,000 for the Region of Attica, the Regional Units of Thessaloniki, Mykonos and Santorini, as well as for islands with a population of over 3,100, and to EUR 400,000 for the rest of the country; (b) a requirement that the main spaces of the investment property have a minimum surface area of 120 sq.m.; and (c) a ban on using "Golden Visa" properties for short-term rentals.

Law **5122/2024** of July reinstated a windfall tax ("solidarity contribution") at a rate of 33% on the surplus profits of refineries and other businesses in the energy sector (coal and lignite extraction, etc.) whose profits for the year 2023 exceeded 20% of their average turnover for the period 2018-2021.

Under Law **5135/2024**, passed in September, stamp duty was abolished and replaced with a Digital Transaction Fee at rates ranging between 0.3% and 3.6%, effective from 1.12.2025. In particular, the stamp duty was permanently abolished for more than 600 cases, and the transactions within the scope of the new Digital Transaction Fee were explicitly defined. The provision aims to modernise the legislative framework governing transaction taxation, simplify and digitalise the relevant procedures, rationalise the tax base and reduce the administrative burden. By other provisions of the same law, the exemption of agricultural diesel oil from the excise tax on fuels was made permanent by applying a zero tax rate as from 2025; tax incentives were provided for donations to the Greek State by legal entities; new digital tools were introduced, enabling the Independent Authority for Public Revenue (AADE) to monitor and impose sanctions on e-invoicing service providers; and the exemption of natural disaster affected areas (in the North Aegean, Euboea and Thessaly) from the Unified Property Tax (ENFIA) was extended to 2024.

In the same month, Law **5140/2024** introduced a Supplementary State Budget for fiscal year 2024 amounting to EUR 900 million, of which EUR 600 million was allocated to the nationally funded component of the Public Investment Programme and EUR 300 million to the national participation in the EU co-funded component. The law also addressed matters relating to luxury tax.

In October, the new VAT Code was enacted by Law **5144/2024**. The new Code aims to establish a unified, updated and simplified framework that will facilitate transactions for citizens and businesses, streamline tax administration procedures and cut red tape.

In December, omnibus law **5162/2024** was passed, introducing tax cuts, income support measures and provisions to modernise tax legislation, as well as a further Supplementary Budget for 2024. In more detail, the following measures were adopted:

(1) Tax cuts for the year 2025:

- A cut in social security contributions for healthcare by an additional one percentage point (0.5 pp lower for employees and 0.5 pp lower for employers).
- Abolition of the fixed business levy for all natural persons.
- Tax exemption, for 36 months, of rental income of natural persons from residential properties formerly declared as vacant or under short-term lease.
- Tax exemption of premiums for private health insurance contracts where the beneficiary is a minor.
- As from 2025, a 20% cut in ENFIA (2024: 10%) for homes insured against earthquake, fire and flood, with a taxable value of up to EUR 500,000.
- Abolition of the landline fee for optical fibre connections offering speeds of 100 Mbps and over.
- Tax exemption of income from voluntary employer-paid benefits to new parents (namely child benefits and nursery subsidies).
- Application of a 22% tax rate to the remuneration of physicians' on-call services.
- Tax incentives for business mergers and acquisitions.
- Extension until 26.12.2026 of the suspension of capital gains tax on property transfers.
- Reduction of 50% in the imputed net taxable income of self-employed persons active and residing in communities with a population of less than 1,500.

(2) Income support measures:

- One-off allowance of EUR 200 in December 2024 for low-income pensioners who are subject to the "personal difference".
- One-off allowance of EUR 200 in December 2024 for vulnerable social groups.
- A 20% increase in night work pay for military and law enforcement personnel, effective from 2025.
- Wage increase for students of Armed Forces Academies.

(3) Reforms to modernise tax legislation:

- Determination of a fixed, non-extendable period for the submission of personal and corporate income tax returns every year, starting on 15 March and ending on 15 July.
- Incremental tax discounts for early submission of income tax return, as follows:
  - (a) a 4% discount for submission between 15 March to 30 April;
  - (b) a 3% discount for submission between 1 May to 15 June;
  - (c) a 2% discount for submission between 16 June to 15 July.

The tax may be paid in eight equal monthly instalments, with the first instalment due by 31.7.2025.

- Designation of officers (within general government) responsible for submitting data to AADE to enable timely cross-checking and pre-filling of income tax returns, with fines envisaged for delayed submission of such data. Fines are also envisaged for the respective officers at entities outside the public sector failing to comply with the data submission requirement.
- (4) Provisions on tax incentives designed to foster business transformation, innovation, startup entrepreneurship, as well as scientific and technological research, expenditure for which is deductible from the gross income of enterprises and investors.
- (5) Provisions to restructure AADE and safeguard its operational independence.
- (6) Tax exemption of tips up to EUR 300 per month and full exemption from social security contributions.
- (7) Measures to strengthen the resilience of the Greek economy to the impacts of the climate crisis: mandatory insurance against natural disasters for businesses with annual gross revenues exceeding EUR 500,000; mandatory vehicle insurance against natural disasters based on current market value; reform of the climate crisis resilience fee introduced in 2023 and levied on tourist accommodation per stay and per room/apartment, with an increase in rates and a shortening of the summer season by one month; and introduction of a cruise tax as from 2025.
- (8) A further Supplementary Public Investment Budget of EUR 400 million for 2024 to finance infrastructure and projects in progress.
- (9) Extension, until 31.12.2025, of VAT suspension for sales of newly built properties.
- (10) Permanent exemption from ENFIA for listed buildings with a value of up to EUR 400,000.
- (11) Tax exemption of debt forgiveness income of businesses (corporations and sole proprietors) for debts to financial institutions written off as part of out-of-court settlement.
- (12) Authorisation of executive managers of businesses jointly and severally liable for corporate debts to request a restoration of forfeited instalment plans for tax arrears exceeding EUR 50,000.

Law **5167/2024** of December addressed, among other things, the following matters:

- (a) Out-of-pocket pharmaceutical costs of low-income pensioners, expanding the scope of zero co-payment to include pensioners meeting the income eligibility criteria of the former Social Solidarity Allowance (EKAS).
- (b) Reform of the “special conditions allowance” for military and law enforcement personnel, renamed to “special working conditions and hazard allowance”, with an increase of EUR 100 per month, effective from 1.7.2025.
- (c) Doubling of ENFIA on vacant residential properties owned by banks and Credit Servicing Firms for the years 2026, 2027 and 2028, unless the property was rented for at least six months during the respective previous fiscal year.

In early 2025, Law **5177/2025** of February, consolidated into a single code twelve individual laws related to indirect taxation (transaction taxes, telephone fees, taxation of pleasure boats, luxury goods, road duties, etc.) aimed to rationalise tax legislation and ensure legal clarity and certainty.

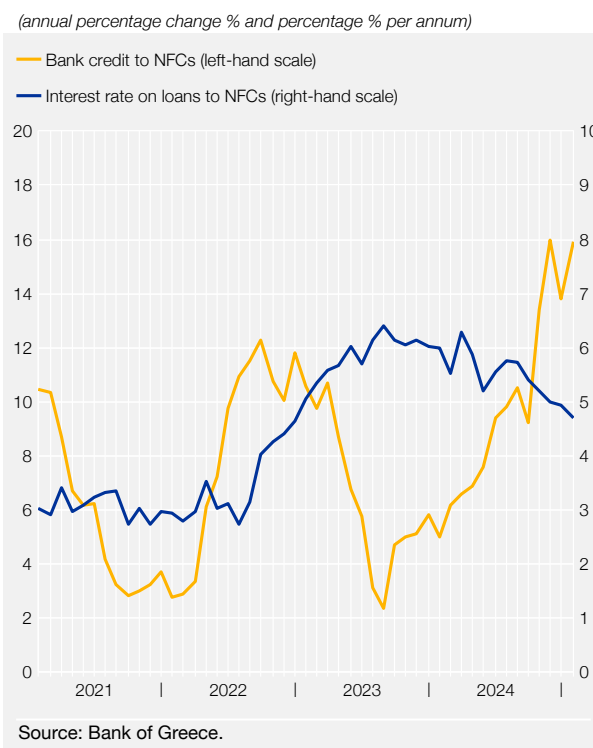
Finally, Law **5184/2025** of March included fiscal measures aimed at boosting employment and increasing the disposable income of workers, businesses and pensioners, as well as supporting vulnerable social groups and those affected by natural disasters. In particular, the fiscal provisions of the law concern: lower social security contributions in cases of extra working hours overtime, night and holiday work; extension of social security eligibility to vulnerable groups from 1.3.2025 to 28.2.2026; arrangements to settle social contribution arrears arising from independent employment of pensioners; and extension until 30.7.2025 of the suspension of tax and social security debts, originally ending between 28.2.2025 and 31.3.2025, for those affected by Storm Daniel.

# VI MONEY, CREDIT AND BANKS

Over the course of 2024, bank credit growth to both non-financial corporations (NFCs) and households (consumer credit as well as housing credit) strengthened compared with 2023. Interest rates on loans and credit lines to NFCs, as well as interest rates on consumer and housing credit for the most part declined. The stock of private sector deposits with domestic banks increased more than in the previous year, owing to rising corporate deposits.

In 2024 credit rating upgrades of Greek banks continued, reflecting the improvement of their fundamentals, the strengthening of the regulatory framework for banks, following the adoption of macroprudential borrower-based measures by the Bank of Greece, and the positive impact of Greece's sovereign credit rating upgrades. Greek banks' upgrades continued also in the first quarter of 2025, leading their most favourable credit ratings to levels within investment grade territory. Regarding banks' fundamentals, profitability and capital adequacy ratios improved further in 2024, while liquidity ratios remained high, despite the full repayment of the Eurosystem's TLTROs. The ratio of non-performing loans (NPLs) to total loans, on a solo basis, improved noticeably compared with end-2023, narrowing the gap from the European average. In this context, banks continue to face challenges as they need to improve the quality of their own funds, while also having to address – since mid-2024 – pressures on their net interest income from the reduction in key ECB interest rates.

**Chart VI.1 Bank credit and interest rate on new loans to NFCs**  
(January 2021 - January 2025)



## 1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS<sup>1</sup>

During 2024, deposit rates declined more on time deposits of non-financial corporations (NFCs) and comparatively less on those of households. Interest rates on overnight deposits (current, sight and savings accounts) remained almost unchanged.

Bank borrowing costs for NFCs decreased (see Chart VI.1). For loans with an agreed maturity, the weighted average interest rate fell on an average annual basis. By contrast, the interest rate on loans without agreed maturity stood in 2024 at the same average level as in 2023. Interest rates on loans to small and medium-sized enterprises (SMEs), which accounted for one-quarter of the gross flow of business loans with an agreed maturity in 2024, remained almost

<sup>1</sup> The cut-off date for information and data used in this chapter is 26.3.2025.

unchanged on an average annual basis. The overall conditions of SMEs' financing by banks or other sources are described in the regular SAFE survey, the findings of which, for both Greece and the euro area, are summarised in Box VI.2.

It is pointed out, however, that a large part of enterprises, mainly small and medium-sized, enjoy better borrowing terms than what is suggested by the series of interest rates used in this chapter, as these enterprises come under the schemes of the European Investment Bank (EIB) Group and the Hellenic Development Bank or due to their financing through the Recovery and Resilience Facility (RRF) (see Box VI.1).

For households, the pass-through of key policy rate cuts to bank lending rates was more limited than for enterprises. Besides, a substantial part of new loans carried fixed rates. In consumer loans with an agreed maturity, the interest rate on an average annual basis stood lower in 2024. By contrast, the weighted average interest rate on housing loans remained on average unchanged vis-à-vis the previous year. Nevertheless, a significant part of housing credit (1/5) was granted on better terms than what is suggested by the available series of interest rates, as it was linked with the co-financed programme “My Home” of the Hellenic Development Bank.

In real ex post terms, the weighted average interest rates on bank loans to businesses and households appear slightly increased in 2024. Furthermore, the lending rate differential between Greece and the euro area narrowed further in 2024 for both sectors (NFCs and households).

In 2025, a further reduction in the domestic private sector's bank borrowing costs is expected, as the pass-through of the Eurosystem's policy rate cuts will continue in an environment of domestic banks' improved fundamentals and the Greek economy's positive prospects. On the other hand, the ensuing expansion of demand for loans and any increase in medium-term bond yields will exert upward pressure on bank interest rates.

Bank credit to NFCs accelerated in terms of year-on-year rates during 2024 and the gross flow of new loans with an agreed maturity increased considerably compared with 2023. Furthermore, the increase in the gross flow of loans to SMEs was large. In fact, in terms of year-on-year rates, the net and gross flows of credit underestimate the supply of credit through the banking sector, as they do not include the loans provided (in the context of co-financing with commercial banks) by the Hellenic Development Bank and the EIB Group, as well as the loans under the Recovery and Resilience Facility (“RRF loans”), which constitute public resources.

The largest contribution to the total flow of business loans in 2024 (as was also the case in the previous year) was recorded by the sectors of industry, trade, energy and tourism, which continued to have the highest shares in the total outstanding balance of bank loans to NFCs.

The average annual growth rate of the outstanding balance of consumer credit was positive and accelerating, while the average rate of change in housing loans became less negative and stood at -2.9%, compared with -3.7% in 2023. The gross flows of both consumer and housing loans recorded a remarkable increase. Credit institutions' perceptions of the evolution of supply and demand for bank financing with regard to NFCs and households, in Greece and in the euro area as a whole, are captured by the Bank Lending Survey (BLS), the findings of which are briefly discussed in Box VI.3.

The lowering of key ECB interest rates during 2025 and the favourable economic outlook for Greece will progressively have a positive effect on demand for new credit in 2025 and will contribute to strengthening the supply of credit. The financial instruments of the Hellenic Development Bank (including the “My Home II” programme and the Microcredit Fund) and the EIB Group, and more generally the NSRF programmes (2021-2027), as well as the RRF, are expected to play an important supportive role.

In 2024, the stock of private sector deposits recorded an increase due to a significant rise in corporate deposits, which is consistent with a strengthening of credit expansion to NFCs and an increase in firms' turnover during the year under review. The growth of household deposits was more limited owing to a shift to other saving options offering better returns in the past two years.

In 2025, demand for deposits is expected to track the evolution of GDP and households' disposable income. On the other hand, the shift of savers to other assets will continue to dampen deposit growth, especially if the difference between the returns on these assets and bank deposit rates is maintained or even widens.

The fundamentals of Greek banking groups improved further in 2024. Specifically, profitability strengthened, reflecting a further increase in net interest and fee income, liquidity remained high, while capital adequacy ratios improved significantly. The NPL ratio decreased markedly compared with the previous year, reducing the gap from the European average, as a result of the securitisation of NPLs – under the “Hercules” asset protection scheme – of the entity that resulted from the merger of Attica Bank with Pancreta Bank. The improvement in fundamentals, combined with the strengthening of the institutional framework, as a result of the adoption of macroprudential borrower-based measures,<sup>2</sup> resulted in the upgrading of credit ratings of significant Greek banks by S&P, which now rates two of them within the investment grade category (BBB-), with stable outlook. Moody's and Morningstar DBRS (March 2025) also upgraded domestic banks, following upgrades of the Greek sovereign credit rating.

The recent policy rate cuts by the ECB are expected to intensify pressures on European banks' profitability (see Box IX.3). Greek banks' net interest income resilience is anticipated to be supported, among other things, by the increase in credit to businesses, taking into account also disbursements under the RRF.

## 2 BANK INTEREST RATES

During 2024, interest rates on NFCs' time deposits followed the cuts in Eurosystem policy rates, while the adjustment for households' time deposits was slower and smaller (see Chart VI.2). The stickiness demonstrated by household deposit rates during the downward phase of the policy rate cycle is thought to be explained by credit institutions' eagerness to maintain a strong deposit base, particularly after the repayment of almost all their liabilities vis-à-vis the ECB, but also given the shift of many depositors to alternative holdings, such as Greek Treasury bills. Besides, it should be noted that deposit rates had only partially tracked policy rate hikes in the upward phase of the cycle.

Overall, the weighted average deposit rates in 2024 stood higher than the 2023 average. In more detail, in 2024 the weighted average interest rate on households' time deposits stood at 1.8% on average (2023: 1.4%, January 2025: 1.6%) and the corresponding rate for NFCs stood at 3% (2023: 2.3%, January 2025: 2.3%). Interest rates on overnight deposits (current, sight and savings accounts) remained at about the same level (2024: 0.03% for households, 0.18% for NFCs). In real ex post terms, the interest rate on time deposits became less negative for households (2024: -1.2%, 2023: -2.8%) and was zero for NFCs (2024: 0%, 2023: -1.9%).

The cost of bank lending to businesses decreased during 2024, in line with the downward adjustment of monetary policy interest rates and euro interbank market rates. Underlying this was also the fact that the bulk of new loans carried a floating or fixed interest rate for up to one year (95% of new agreed-maturity business loan contracts for 2024). Thus, in 2024 the weighted

2 See Bank of Greece, *Financial Stability Review*, October 2024.

**Chart VI.2 Bank interest rates on new time deposits and interest rate on the Eurosystem's main refinancing operations (MRO rate) (January 2019 - January 2025)**

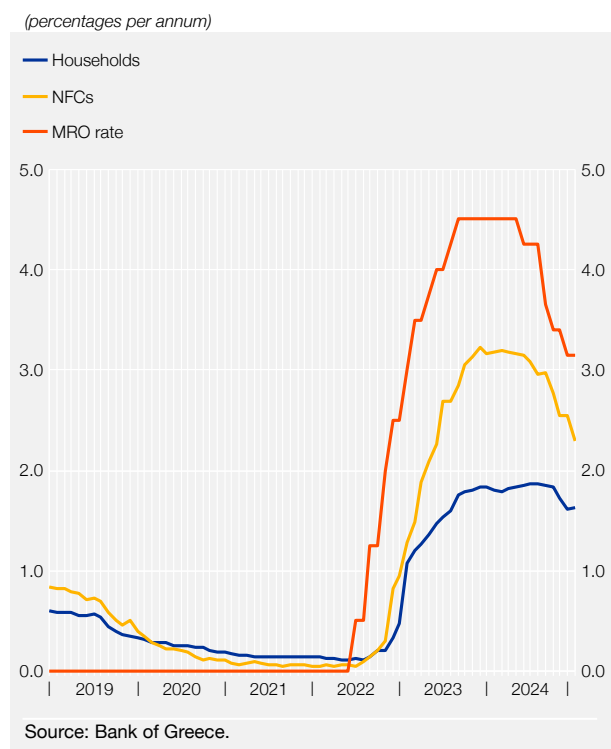
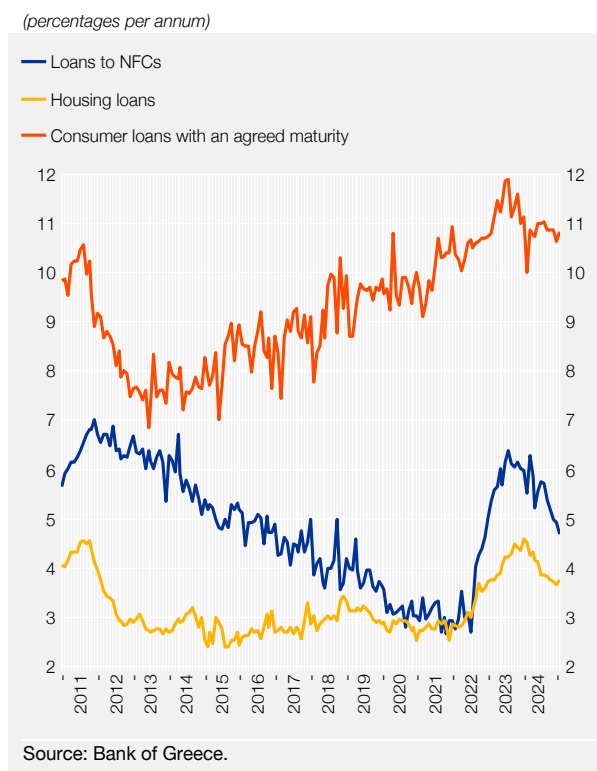


**Chart VI.3 Interest rate on new business, housing and consumer loans (January 2011 - January 2025)**



average bank lending rate for NFCs stood at 5.5% on average, 32 basis points lower than the 2023 average (January 2025: 4.7%; see Chart VI.3). The decrease was faster in loans with an agreed maturity, whose weighted average interest rate fell to 5.4% on average in 2024, 37 basis points lower than the 2023 average. The reductions in interest rates on business loans without agreed maturity came later than on loans with an agreed maturity, thus maintaining the weighted average interest rate for this loan category in 2024 on average at the same level as the 2023 average (6.4% for the entire category; credit lines: 6.4%, bank overdrafts: 6.8%).

Among the individual categories of loans with an agreed maturity, interest rates on loans of over EUR 1 million recorded a relatively higher decline. In greater detail, the weighted average interest rate stood in 2024 on average at: (i) 5.9% on loans of up to EUR 250,000 (2023: 6.2%); (ii) 5.8% on loans between EUR 250,000 and EUR 1 million (2023: 5.8%); and (iii) 5.3% on loans of over EUR 1 million (2023: 5.8%). The share of new loans of over EUR 1 million stood close to 90% of the annual gross flow of business loans with an agreed maturity over the period under review (against 87% in 2023).

The interest rates charged by credit institutions on loans to SMEs, which represented 25% of the gross flow of business loans with an agreed maturity in 2024, remained throughout the year slightly higher than the weighted average interest rate for all businesses. Specifically, the weighted average interest rate for SMEs stood on average at 5.8% on loans with an agreed maturity and at 6.7% on loans without agreed maturity, i.e. almost unchanged compared with the 2023 average.

A large part of domestic enterprises, mainly small and medium-sized ones, benefited from better lending terms than the aforementioned ones, as they came under the EIB Group and Hellenic Development Bank schemes or obtained RRF financing. It is estimated that in 2024

about 25% of new loans to NFCs and 40% to SMEs were supported by co-financing or guarantee schemes or by RRF loans.<sup>3</sup> Loans linked to co-financing schemes are offered at low interest rates or are even interest-free in the public resources financing component, while in some cases they are exempt from the 0.60% levy that applies to common bank loans.<sup>4</sup> Similarly, RRF loans are exempt from the levy and have a minimum fixed interest rate of 0.35% for small and micro enterprises and 1% for other enterprises in the public resources financing component. It is noted that in 2024, even in guarantee schemes, which generally mitigate banks' collateral requirements, additional favourable pricing terms were offered. Consequently, the borrowing terms enjoyed by the beneficiaries of these schemes are considerably more favourable than the terms stipulated in credit institutions' pricing policies for common bank credit and are therefore improved compared to what is suggested by the statistical series of bank loan interest rates.

For households, the pass-through of policy rate cuts to bank lending rates in 2024 was more limited than for enterprises. It is pointed out that a substantial part of new loans carried fixed rates.<sup>5</sup> The weighted average interest rate on bank lending to households stood at 6.1% on average in 2024, more than half a percentage point higher than the corresponding rate for businesses (January 2025: 5.9%).

Among the individual categories, reductions in housing loan interest rates were notable, especially in the floating rate category. As these reductions offset increases that had taken place a year earlier, the weighted average interest rate on housing loans (see Chart VI.3) remained at 4.1% on average in 2024, unchanged from the 2023 average. As in the case of businesses, a significant part of household loans was granted with more favourable lending terms than common bank credit. This is not reflected in the interest rate series used in this chapter. It is estimated that in 2024 more than 25% of new mortgage contracts, worth around EUR 0.4 billion, were linked to the "My Home" co-financing programme of the Hellenic Development Bank, which provides for a zero interest rate for 75% of total financing and an exemption from the 0.12% levy.

Regarding consumer loans with an agreed maturity, interest rates kept falling in early 2024, with the weighted average interest rate on consumer loans with an agreed maturity (see Chart VI.3) coming to 10.8% on average, approximately half a percentage point lower than the 2023 average. Consumer loans continued to attract strong demand and accounted for over 50% of the value of new agreed-maturity loan contracts to households in 2024. Finally, the weighted average interest rate on loans without agreed maturity, comprising, in order of magnitude of outstanding balances, credit cards, open-end loans and bank overdrafts, stood at 15%, almost equal to the 2023 average.

In real ex post terms, the weighted average interest rates on bank loans rose slightly in 2024. The average real lending rate for NFCs stood at 2.5% in 2021, against 1.7% in 2023 (2022: -5.8%). Similarly, the average real lending rate for households stood at 3.1%, up from 2% in 2023 (2022: -4.1%).

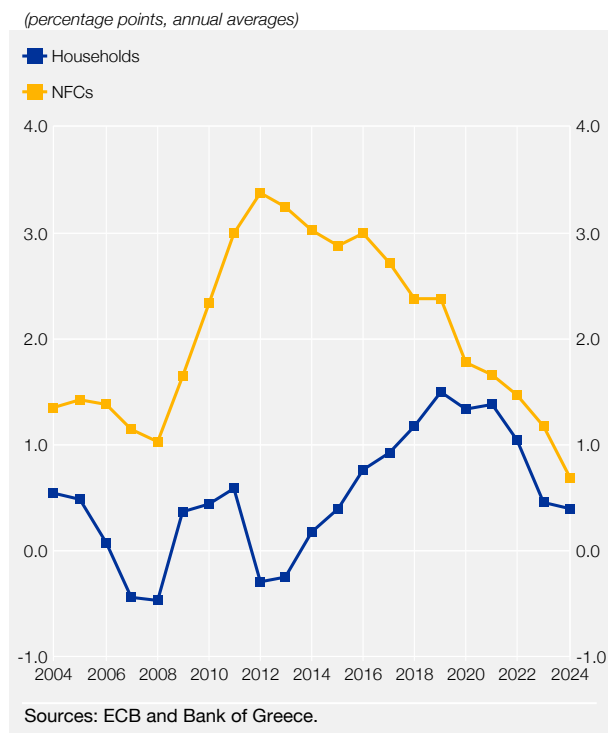
The bank lending rate differential between Greece and the euro area narrowed further in 2024 in both sectors (NFCs and households; see Chart VI.4). The cost of bank borrowing for households in Greece for house purchase stood on average 39 basis points higher in 2024 than the corresponding European average (2023: 45 basis points, 2022: 104 basis points). Similarly, the

<sup>3</sup> For further details, see Box VI.1

<sup>4</sup> Nominal interest rates on bank loans to businesses are subject to a levy of 0.6% per year (under Law 128/1975). Similarly, consumer and housing loans are subject to a levy of 0.6% and 0.12%, respectively.

<sup>5</sup> 56% of new agreed-maturity housing and consumer loan contracts in 2024 carried a fixed interest rate for a period of more than one year.

**Chart VI.4 Differential in the cost of borrowing for NFCs and households (for house purchase) between Greece and the euro area (2004 - 2024)**



differential in the weighted average cost of bank borrowing for NFCs between Greece and the euro area narrowed to 69 basis points (2023: 118 basis points, 2022: 147 basis points).

In 2024, the interest rate margin, i.e. the difference between the weighted average lending rate and the weighted average deposit rate, continued to narrow. By the end of the year, approximately half of the margin widening that had occurred during the upward phase of the lending rate cycle had been reversed. Underlying this were an improvement in the quality of domestic credit institutions' loan portfolios and favourable liquidity conditions.<sup>6</sup>

In 2025, the cost of bank borrowing for the domestic private sector is expected to ease further, driven by an expected continued pass-through of the Eurosystem policy rate cuts to bank interest rates, as well as by the impact from domestic banks' improved fundamentals and the positive outlook for the Greek economy. Of course, to some extent the resulting increase in loan demand will exert upward pressure on the cost of borrowing.

6 For more details, see Box IX.3.

### Box VI.1

## CONTRIBUTION OF FINANCIAL INSTRUMENTS AND LOANS UNDER THE RECOVERY AND RESILIENCE FACILITY TO BANK CREDIT TO DOMESTIC ENTERPRISES

Credit growth to domestic non-financial corporations (NFCs)<sup>1</sup> accelerated in 2024 due to the significant contribution of loans linked to modern financial instruments (FIs) and the Recovery and Resilience Facility (RRF). Their share in total business financing increased compared with the previous year, as they were associated with 24% of new bank loans to enterprises, against 18% in 2023 (see Chart A). In terms of disbursement values, the contribution of guarantee or co-financing schemes offered by development banks were larger, while disbursements related to the loan segment of RRF accelerated.

### Developments in 2024

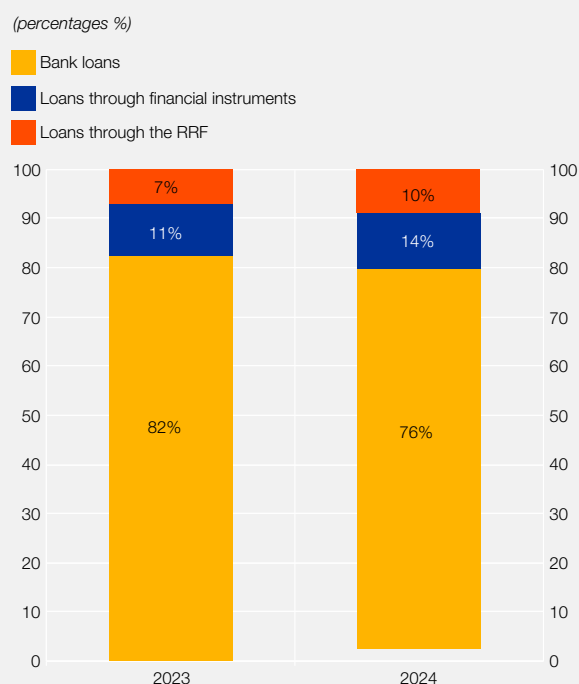
#### (a) Financial instruments (FIs)

In 2024, as in previous years, bank credit related to FIs was mainly linked to schemes offered by the European Investment Bank (EIB) Group<sup>2</sup> and the Hellenic Development Bank (HDB) with the intermediation of domestic credit institutions. Under these schemes, bank credit amounting to EUR 3.7 billion was provided to NFCs and sole proprietors, i.e. EUR 1.7 billion more than a year earlier (see Chart B). The share of loans related to FIs in total new bank loans to enterprises reached 14%, up from 11% in 2023. The bulk of funding (around 3/4 of total

<sup>1</sup> Including sole proprietors.

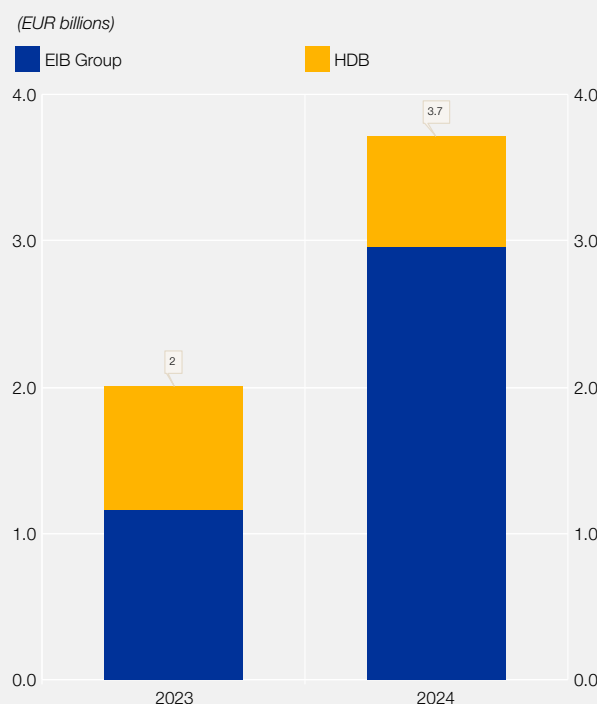
<sup>2</sup> The EIB Group consists of the European Investment Bank (EIB) and the European Investment Fund (EIF).

**Chart A Shares of financial instruments and the Recovery and Resilience Facility in bank credit to non-financial corporations**



Sources: Hellenic Development Bank, Hellenic Bank Association and Bank of Greece calculations.  
 Note: Shares calculated as a ratio of bank loan disbursement value per individual financing scheme to total bank loans disbursed (including amounts originating from public funds).

**Chart B Disbursements of bank loans associated with financial instruments to NFCs and sole proprietors**



Sources: Hellenic Development Bank, Hellenic Bank Association and Bank of Greece calculations.  
 Note: HDB: Hellenic Development Bank; EIB Group: European Investment Bank (EIB); and European Investment Fund (EIF).

disbursements) was directed to micro-, small- and medium-sized enterprises. This is in line with European and national SME support policies, which are incorporated at a national level by (a) adopting restrictions regarding beneficiaries<sup>3</sup> and (b) expanding the forms of SME financing with equity financing and microcredit schemes. As a result, in 2024 the share of new bank credit to SMEs and sole proprietors supported by FIs stood at 40% (2023: 26%), i.e. almost three times the corresponding share for all businesses.

Among scheme categories, the largest share in terms of disbursement value (60%) corresponded to guarantee schemes and the rest (40%) to co-financing schemes and microcredit. Regarding loans associated with guarantee schemes, as the Greek State assumes part of the credit risk, credit institutions are obliged to reduce their collateral requirements. However, as higher borrowing rates in 2023 emphasised the importance of providing low-interest financing, several guarantee schemes were designed to also offer favourable pricing conditions.

As regards individual programmes, the most significant programme in terms of disbursement value in 2024 was “InvestEU SME Competitiveness” of the EIF, representing over 40% of bank loan disbursement value through financial instruments (EUR 1.5 billion).

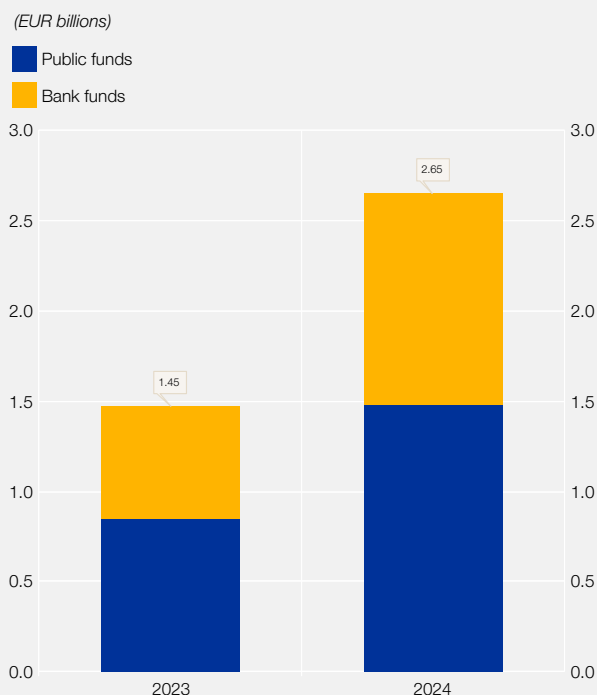
### (b) Recovery and Resilience Facility

In addition to financial instruments, in the previous year domestic enterprises received low-interest financing through the RRF. Overall, in 2024, EUR 2.65 billion of business loans were disbursed under the loan segment<sup>4</sup> of RRF (2023: EUR 1.45 billion; see Chart C), of which EUR 1.5 billion were public funds and the rest were bank

<sup>3</sup> In fact, all the funds made available through the HDB programmes were entirely targeted at SMEs.

<sup>4</sup> Including disbursements of business loans granted by domestic and foreign banks and co-funded by public and bank resources. Excluding equity financing.

Chart C Disbursements of bank loans related to NRRP



Sources: Ministry of Economy and Finance, Hellenic Bank Association and Bank of Greece.

funds. Banks' and private investors' participation in the total investment costs was above the minimum defined by the programme's characteristics, which implies higher leverage of public funds.<sup>5</sup> The bulk of funds, over 95%, were channelled through six domestic commercial banks. Disbursements to final beneficiaries accelerated in 2024, as expected, considering that loans under the RRF are credit lines disbursed gradually according to the process of investment projects. In total, aggregate loan disbursements reached 40% of the total amount to be disbursed in December 2024, against 22% at end-2023.

Available data so far do not suggest significant supply-side constraints as regards RRF loans. Timely payment requests submitted by the Ministry of Economy and Finance to the European Commission and rapid disbursement of relevant funds to credit institutions helped gradually increase the balance of public resources available to MFIs, which stood at EUR 5 billion at end-2024. The percentage of concluded applications fluctuated throughout the year at around 50% of the value of submitted applications, while the percentage of rejected applications was significantly below the corresponding share for typical bank loans. By contrast, a drop in new applications from mid-2023 to October 2024 suggests a moderation on the demand side.

This development was chiefly attributable to the Eurosystem's monetary policy tightening cycle during July 2022–September 2023. Although credit through public resources is linked with favourable pricing terms,<sup>6</sup> the interest rate may, under certain conditions, be set above the minimum, when aggregated payments to the borrower exceed the maximum defined in the General Block Exemption Regulation (EU) 651/2014.<sup>7</sup> In this case, the interest rate is set on the basis of IBOR<sup>8</sup> plus a fixed spread, while co-funded loans as a rule carry variable rates. Lower demand for new RRF loans was also driven by lack of investment projects under specific pillars, coupled with restrictions in the allocation of resources per pillar and per credit institution.

Cumulatively, from June 2022 (when the first loan agreement was signed) to end-2024, 405 loan agreements were concluded, amounting to EUR 11.8 billion.<sup>9</sup> Over half of the loan agreements and roughly 15% of their value were related to SMEs. The weighted average interest rate on RRF loans stood at 1.86%, i.e. around 350 basis points below the corresponding average annual rate on typical bank loans to businesses in 2024.<sup>10</sup>

5 The programme determines the co-financing arrangement in total investment expenditure as follows: up to 50% participation of public resources (RRF loans), a minimum of 30% banking leverage (bank loans) and a minimum of 20% own participation.

6 The minimum fixed rate on loans financed by public resources (RRF loans) is set at 1%, while in the case of small and micro enterprises it is set at 0.35%. According to the provisions of Article 197(4) of Law 4820/2021, loans funded by RRF resources are exempt from the 0.60% levy on typical bank credit under Law 128/1975.

7 As provided for in Article 198 of Law 4820/2021, investment projects receiving state aid under the loan support regime of the National Recovery and Resilience Plan (NRRP) may also be subject to another state aid regime.

8 A benchmark rate used by the European Commission within the framework of the Community rules on state aid. Benchmark rates apply as representative of market rates, to calculate the grant equivalent of state aid. The basis for the calculation of benchmark rates is the annual IBOR (Interbank Offered Rate), which is in turn calculated on the basis of the annual money market rates, available in almost all Member States, while the European Commission reserves the right to use shorter or longer maturities (see Communication of the Commission 2008/C 14/02, 19.1.2008).

9 Press release by the Ministry of Economy and Finance "Public investment: Projects and reforms improving citizens' everyday life", 16.1.2025 (in Greek).

10 The weighted average interest rate on bank loans with an agreed maturity to NFCs for common bank credit was 5.4% on average in 2024.

## Outlook

Support to firms' liquidity is expected to continue in the near future, both through the supply of RRF funds and through current and new initiatives anticipated in the context of modern financial instruments. Specifically:

(a) Following the European Commission's approval of the revised National Recovery and Resilience Plan (NRRP) "Greece 2.0", the total European funds for the loan component of the RRF amounted to EUR 17.7 billion, of which EUR 11.4 billion have already been disbursed (including the 5th payment request) and over EUR 5 billion are available to cooperating banks for granting business credit. As mentioned previously, there appear to be no supply-side constraints, while recent ECB policy rate cuts are estimated to have a positive effect on demand for new credit, mainly by large enterprises, which face a more limited supply of other low-interest financing programmes.

(b) In the context of the implementation of the NSRF 2021-2027 and the Development Law (4887/2022) new programmes should be created, aiming to provide co-financed loans, guarantees, microcredit and equity financing. In addition to supporting SMEs, in the coming years particular emphasis will be placed on investment projects by large enterprises, in order to facilitate investment that contributes to changing the production model of the Greek economy. In this context, a new loan guarantee fund for large enterprises should be expected, as well as an expansion of activities that qualify as iconic investment, by including the shipbuilding industry, circular economy and critical raw materials. Moreover, equity financing should grow in the context of Equifund II, particularly for firms investing in life sciences and healthcare, as well as in sustainability and social impact projects. Lastly, co-financing of loans and grants should be expected, to the extent that they promote innovation, use of modern technology and green growth.

## 3 BANK CREDIT

Bank credit to NFCs recorded double-digit growth rates over the course of 2024 (January 2025: 15.9%, December 2024: 13.8%, 2023 average: 6.5%; see Chart VI.5) and new loans with an agreed maturity to NFCs averaged EUR 2 billion in 2024 on a monthly basis, against EUR 1.4 billion in 2023.<sup>7</sup> Three-quarters of this flow regarded new loans to large enterprises (EUR 1.5 billion, 2023: EUR 1.0 billion; see Chart VI.6). The remaining flow of business loans, which was channelled to SMEs (EUR 495 million), increased by 25.2% compared with 2023.

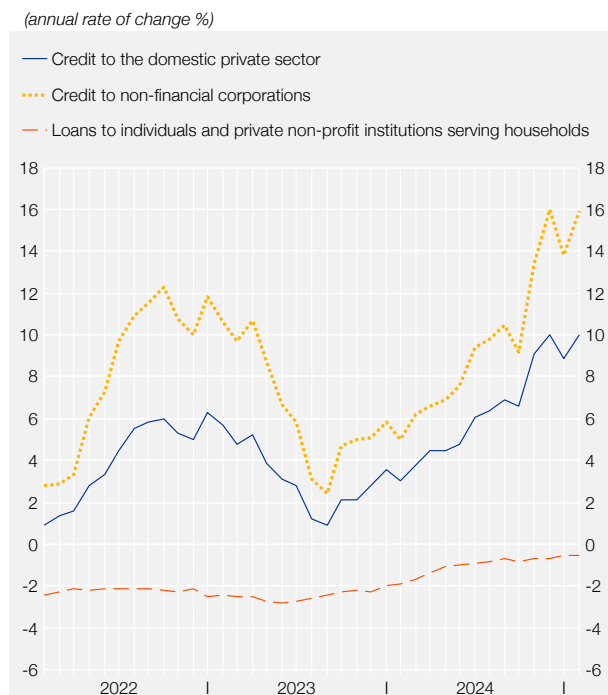
The rise in economic activity supported demand for loans in 2024. The gradual decline in interest rates on loans to NFCs over the course of 2024 is estimated to have started to have a positive impact on demand for new loans to NFCs – as captured by the Bank Lending Survey (see Box VI.3). On the loan supply side, Greek credit institutions have liquidity levels well above regulatory limits, so as to comfortably provide credit to the private sector. In 2024, banks raised funds, among other things, through bond issuance, as well as on the foreign interbank market, while significantly reducing their outstanding borrowing from the Eurosystem.

The co-financing and loan guarantee schemes of development organisations supported bank credit expansion to NFCs and especially to SMEs also in 2024, as did bank loans under the RRF (see Box VI.1). In particular, new lending through EIB Group and Hellenic Development Bank financial instruments increased significantly last year to 4.7% of the outstanding balance of loans to businesses (including sole proprietors), from 2.8% in 2023.<sup>8</sup> Moreover, the share of RRF loans in new bank lending to NFCs grew. It should be noted that commercial banks grant

<sup>7</sup> Annual NFC credit growth in 2024 increased slightly as a result of disbursements of individual syndicated bank loans of a considerable amount.

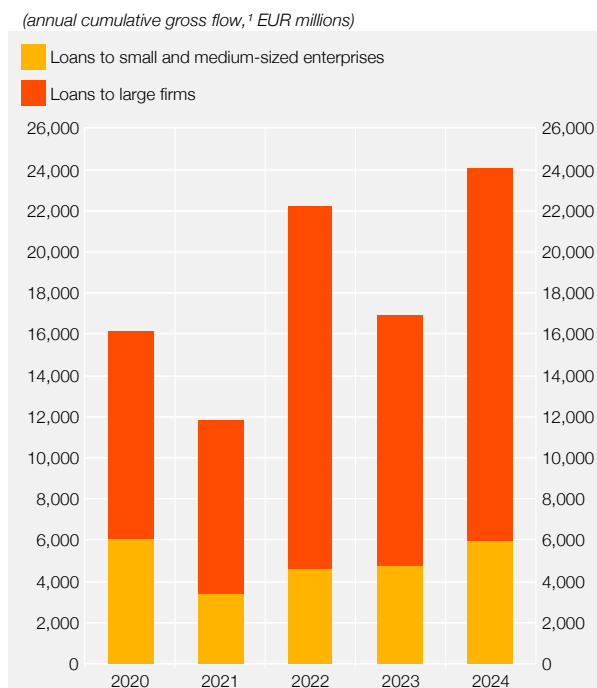
<sup>8</sup> Bank credit growth includes bank loans granted to businesses through these financial instruments, but does not include the amounts granted as co-financing by the Hellenic Development Bank and the EIB Group (which are added to such loans of commercial banks, and the total amount is channelled to borrowers).

**Chart VI.5 Bank credit to the private sector  
(January 2022 - January 2025)**



Source: Bank of Greece.

**Chart VI.6 Bank loans with an agreed maturity to NFCs  
(2020 - 2024)**



Source: Bank of Greece.

<sup>1</sup> Gross flow equals the amounts agreed in new bank loan contracts, as captured by interest rate statistics. Under Bank of Greece Governor's Act 2672/5.5.2014, effective since June 2014, forbearances are not included in the amounts of new loans.

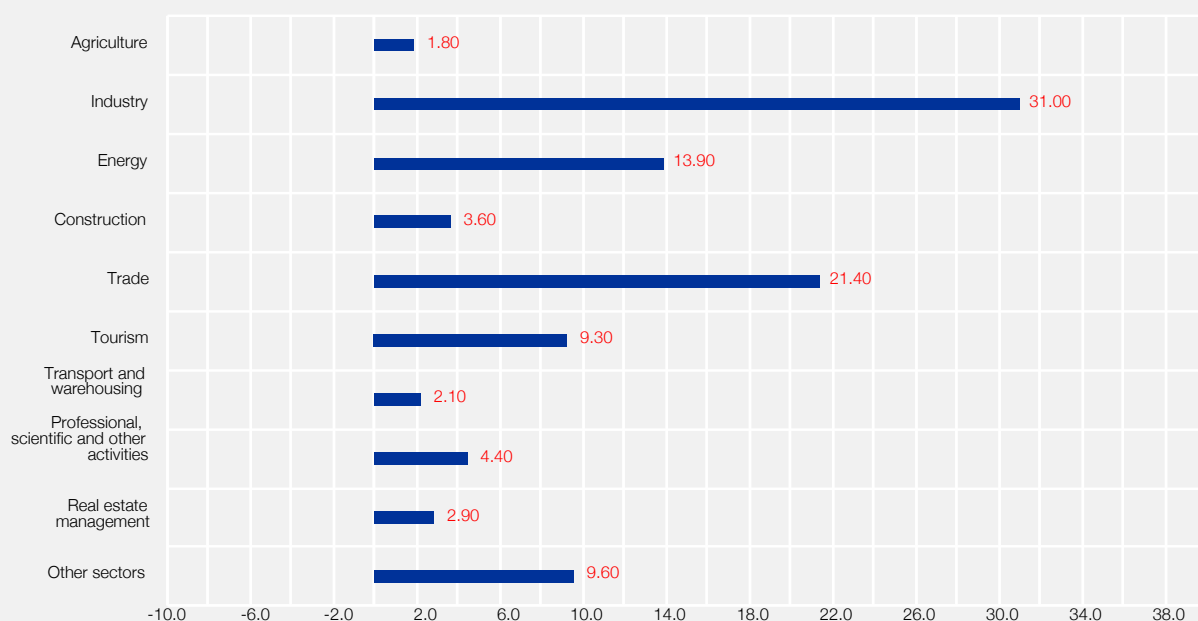
co-financing loans. In addition to them, “RRF loans” are granted, which are public resources. “RRF loans” constitute financing channelled to businesses through banks, but are not included in the bank credit growth aggregate examined (in this section) (which is compiled based on credit institutions’ financial statements), as the credit risk is not assumed by banks, but by the Greek State. The same holds true for similar credits granted under the RRF by European development banks, i.e. the EIB Group and the European Bank for Reconstruction and Development (EBRD), which are also not included in bank credit growth.

Chart VI.7 shows the percentage share of each economic sector in the total gross flow of loans to NFCs in 2024 (according to the Bank of Greece’s AnaCredit database).<sup>9</sup> The largest shares in the total flow of business loans in 2024, as in the previous year, were recorded by industry, trade, energy and tourism, which also continued to have the largest shares in the total outstanding amount of bank loans to NFCs. In particular, new loans to the industrial sector in 2024 amounted to EUR 3.8 billion, representing 31.0% of the total flow of loans to NFCs, and those to the trade sector amounted to EUR 2.6 billion (21.4%), compared with EUR 1.7 billion (13.9%) and EUR 1.1 billion (9.3%), respectively, for the energy and tourism sectors. The first three sectors also attracted the bulk of new loans to large businesses in 2024, followed by “transportation-warehousing”. Regarding loans to SMEs, as was to be expected, the most important sectors were trade and tourism. The shares of individual sectors in the total outstanding amount of bank loans to NFCs as of December 2024 were: industry: 19.6%, energy: 16.9%, trade: 16.6% and tourism: 13.5%. It is worth noting that, if we look at the ratio of the annual gross flow of NFC loans per sector (for 2023) to the sector’s gross value added for

<sup>9</sup> It is pointed out that the definition of new loans in the AnaCredit database differs from that in the MFI Interest Rate Statistics (MIR) base, which is the source of the data used herein, and therefore the total annual gross flows of lending are different.

Chart VI.7 Shares of individual sectors in the cumulative gross flow of total bank credit to NFCs in 2024

(percentages %)

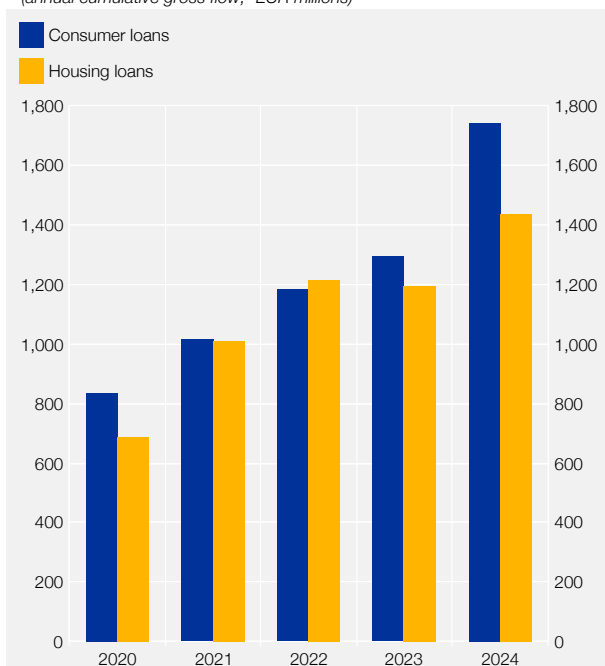


Sources: Bank of Greece and AnaCredit database.

Note: Total gross flow of bank credit to NFCs in 2024 amounted to EUR 12.2 billion.

2023 (which is the last year for which national accounts data are available, with 64 sectors recorded in detail), the ranking of the sectors changes, as it turns out that the energy sector received the largest financing share per value added produced, i.e. 16.4% (2022: 19.6%), followed by industry with 12.8% (2022: 14.6%), tourism with 9.1% (2022: 10.2%) and trade with 7.0% (2022: 7.4%).

As regards bank loans to households, the average annual growth rate of the outstanding amount of consumer credit picked up to 5.5% in 2024, from 2.0% in 2023, while the average rate of change in housing loans became less negative and stood at -2.9%, compared with -3.7% in 2023 (January 2025: consumer credit: 6.0%, housing loans: -2.5%). The average gross flow of consumer loans with an agreed maturity was EUR 145 million on average in 2024, up by 34% compared with 2023, and remained higher than the corresponding flow of loans for house purchase. The gross flow of housing loans also increased by 20.4% to EUR 119 million from EUR 99 million in 2023 (see Chart VI.8). The acceleration of consumer credit growth in 2024 is associated with the upward path of household consumer spending. The decrease of interest rates on housing loans in 2024 is estimated to have not yet fully affected demand for housing loans. Furthermore, in recent years – initially during the pandemic period and even more so during the upward phase of the ECB's policy rate cycle – the share of new loans with a fixed interest rate (in total new housing loans) has increased, and remains high, further limiting to a certain extent the expected impact of the downward trend in short-term interest rates (2011-2019 average: 15%, July 2022-December 2024 average: 68%). A high absorption rate was recorded in 2024 for housing loans under the “My Home” programme (with new contracts worth EUR 0.7 billion cumulatively during the programme period, April 2023-January 2025), which were covered by 25% by bank funds, as 75% of the amount channelled to borrowers was public funds. The provision of funds under this programme, on the one hand, bolstered total household demand for housing loans and, on the other hand, may have at the same time substituted part of the demand for housing loans granted by banks (exclusively with bank funds).

**Chart VI.8 Bank loans with an agreed maturity to households (2020 - 2024)***(annual cumulative gross flow,<sup>1</sup> EUR millions)*

Source: Bank of Greece.

<sup>1</sup> Gross flow equals the amounts agreed in new bank loan contracts, as captured by interest rate statistics. Under Bank of Greece Governor's Act 2672/5.5.2014, effective since June 2014, forbearances are not included in the amounts of new loans.

The outlook for bank credit to the private sector in 2025 is positive. The lowering of key interest rates over the course of 2025 will progressively have a stronger positive effect on demand for new credit. In the same vein, the projected growth of the Greek economy in 2025 should also boost loan demand by both businesses and households. Co-financing bank loans under the NSRF (2021-2027) and the RRF are expected to continue playing an important supportive role. Disbursements of new co-financing loans by commercial banks under the RRF are expected to be significant in 2025 and even higher than in 2024, given (a) the recent acceleration in the disbursement rate in 2024 and (b) the support from the further reduction in bank interest rates (as the already low subsidised interest rates concern only the supplementary component of RRF loans with public funds). Housing loans are expected to be bolstered by the forthcoming continuation of the decline in interest rates and by the implementation (as from January 2025) of the new "My Home II" programme, which provides for the channelling of loan funds of EUR 1 billion by banks, complemented by equal RRF loans (the latter are not included in bank credit growth).

**Box VI.2****FINANCING CONDITIONS FOR SMEs: INSIGHTS FROM THE SAFE SURVEY**

Since the first quarter of 2024, the Survey on the Access to Finance of Enterprises (SAFE) has been conducted both on a six-month and on a quarterly basis.<sup>1</sup> The results of the latest quarterly round point to a negative bank loan financing gap in Greece for most of the year, i.e. firms' bank loan financing needs are lower than the availability of fixed-maturity bank loans, whereas in the euro area this indicator shows a widening of this gap in the first and fourth quarters of 2024. The responses of small- and medium-sized enterprises (SMEs) in Greece and the euro area as a whole reflect the effectiveness of the ECB's policy rate reduction decisions, as in the April-September 2024 round the percentage of enterprises reporting an increase in bank interest rates declined, and also in the fourth quarter of 2024 the majority of enterprises reported a decrease in interest rates.

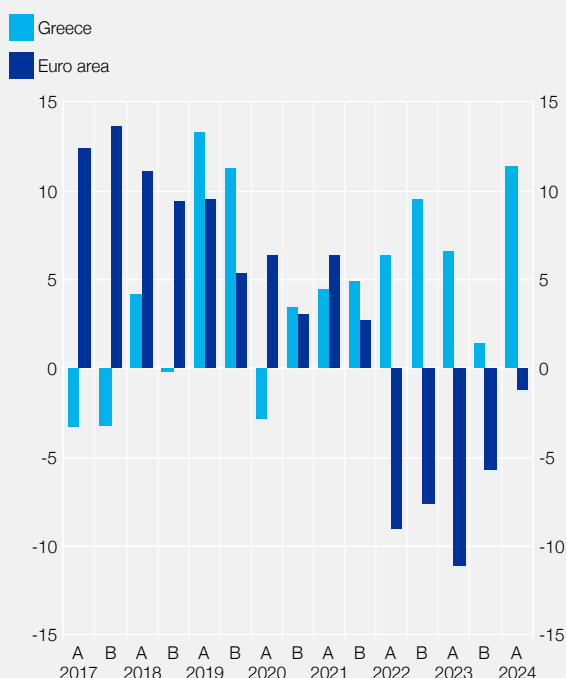
**Availability (supply) of bank financing to SMEs**

In the most recent six-month survey round covering the April-September 2024 period,<sup>2</sup> a positive net percentage of SMEs in Greece continued to report<sup>3</sup> increased availability (supply) of fixed-maturity bank loans (11%) (see Chart A), as well as credit lines or overdrafts (13%). On a quarterly basis, in the fourth quarter of 2024 firms in Greece

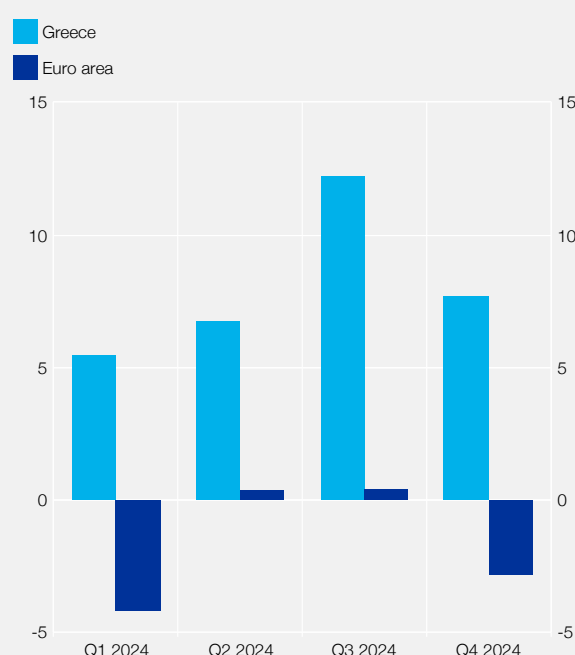
<sup>1</sup> The survey rounds that review developments in the first and third quarters, alongside the quarterly results, also describe changes relating to the six-month periods of October-March (round B) and April-September (round A) respectively. The rounds relating to the second and fourth quarters only describe developments relating to the calendar quarters concerned.

<sup>2</sup> Hereinafter referred to as the "2024:A round".

<sup>3</sup> The results refer to net percentages of respondents, which are defined as the percentage of firms reporting that a given factor (e.g. availability of bank loans) increased minus the percentage of those reporting that it declined.

**Chart A Six-month change in the availability of bank loans to SMEs in Greece and the euro area**(in the corresponding period,<sup>1</sup> net percentage of respondents<sup>2</sup>)

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).  
 1 The survey is conducted every six months and covers the periods of April-September (round A) and October-March (round B).  
 2 The net percentage is the percentage of firms reporting that the availability of bank loans increased minus the percentage of firms reporting that it decreased.

**Chart B Quarterly change in the availability of bank loans to SMEs in Greece and the euro area**(in the corresponding period,<sup>1</sup> net percentage of respondents<sup>2</sup>)

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).  
 1 Since 2024 the survey has also been conducted on a quarterly basis and covers the corresponding calendar quarters.  
 2 The net percentage is the percentage of firms reporting that the availability of bank credit increased minus the percentage of firms reporting that it decreased.

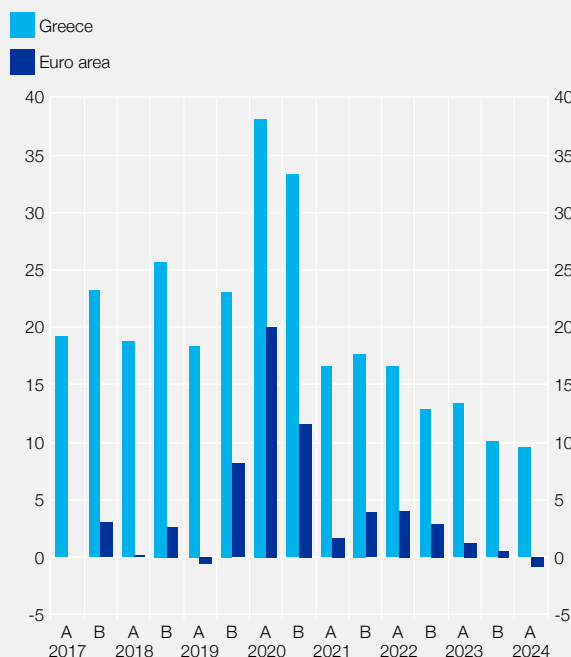
continued to report improved availability of fixed-maturity bank loans (8%) (see Chart B), as well as credit lines or overdrafts (10%). By contrast, for the third consecutive round, in the 2024:A round euro area enterprises reported a reduction in the availability of bank loans (-1%), as well as credit lines or overdrafts (-3%). In addition, in the fourth quarter of 2024, firms' responses in the euro area continued to imply a negative net percentage in relation to the evolution of the availability of fixed-maturity bank loans (-3%), as well as credit lines or overdrafts (-1%).

With respect to factors affecting the availability of external financing, firms in Greece continued to perceive the impact from banks' willingness to provide credit as significantly positive (2024:A: 20% and 2024:Q4: 25%), while in the euro area firms continued to report a muted positive impact (2024:A: 3% and 2024:Q4: 4%). In Greece, the overall impact of the factors determining firms' creditworthiness<sup>4</sup> was also significantly positive, while in the euro area firms perceived the impact of some of these factors to be negative. Regarding the direction of the impact of the general economic outlook,<sup>5</sup> firms in Greece reported mixed signs (2024:A: 2% and 2024:Q4: -4%), while firms in the euro area continued to report a significant negative impact (2024:A: -20% and 2024:Q4: -23%). Unlike successive previous findings after the April-September 2020 round indicating a stimulative role of public financial support<sup>6</sup> during the pandemic, from the April-September 2022 round until

4 The percentage for "firm's creditworthiness" is a sum of the net percentages of three factors: (a) firm's credit history; (b) firm's capital position; and (c) firm-specific outlook.

5 The indicator measures the difference between the percentage of firms reporting that (a) the general economic outlook contributed to an increase in the availability of external financing over the six-month period under review and the percentage of firms reporting that (b) the general economic outlook did not contribute to an increase in the availability of external financing.

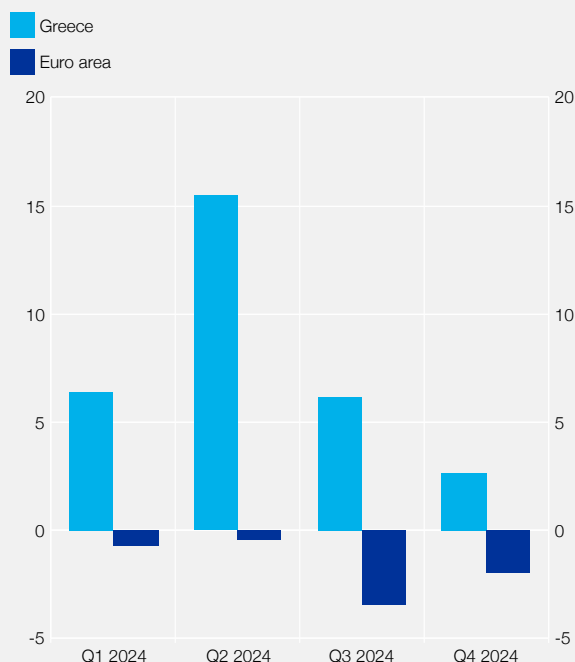
6 Firms' access to public financial support includes, *inter alia*, public co-financing or guarantee schemes for bank loans.

**Chart C Six-month change in SMEs' needs for bank loans in Greece and the euro area***(in the corresponding period, <sup>1</sup> net percentage of respondents<sup>2</sup>)*

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 The survey is conducted every six months and covers the periods of April-September (round A) and October-March (round B).

2 The net percentage is the percentage of firms reporting that their needs for bank loans increased minus the percentage of firms reporting that their needs decreased.

**Chart D Quarterly change in SMEs' needs for bank loans in Greece and the euro area***(in the corresponding period, <sup>1</sup> net percentage of respondents<sup>2</sup>)*

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 Since 2024 the survey has also been conducted on a quarterly basis and covers the corresponding calendar quarters.

2 The net percentage is the percentage of firms reporting that their needs for bank loans increased minus the percentage of firms reporting that their needs decreased.

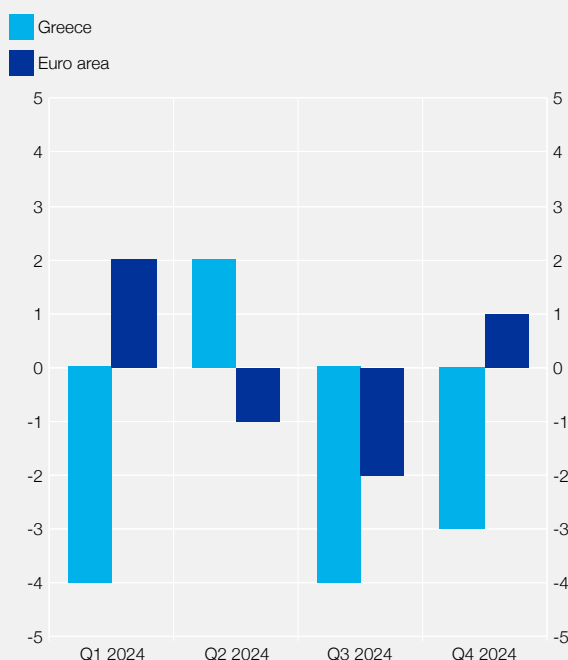
the last six-month round in the corresponding period of 2024, firms reported that access to public financial support did not help improve the availability of external financing (Greece: -5%, euro area: -11%), while a negative impact was perceived in all four available quarterly rounds of 2024.

### SMEs' bank financing needs (demand)

On a six-month basis, in the 2024:A round firms in Greece reported a weaker increase in their needs (i.e. demand) for fixed-maturity bank loans (9%) (see Chart C), but also a stronger (compared to the previous six months) increase in their needs for credit lines or overdrafts (19%). On a quarterly basis, in the fourth quarter of 2024 firms in Greece reported a weaker increase in their needs for both fixed-maturity bank loans (3%) (see Chart D) and credit lines or overdrafts (3%). In the euro area, in 2024:A SMEs reported a decrease in their needs for fixed-maturity bank loans (-1%) for the first time since the April-September 2019 round, while at the same time they continued to report an increase in their needs for credit lines or overdrafts (10%). In all quarterly rounds of 2024, firms in the euro area reported a decrease in their needs for fixed-maturity bank loans (2024:Q4: -2%) combined with a small increase in their needs for credit lines or overdrafts (2024:Q4: 4%).

### External financing gap and financing obstacles

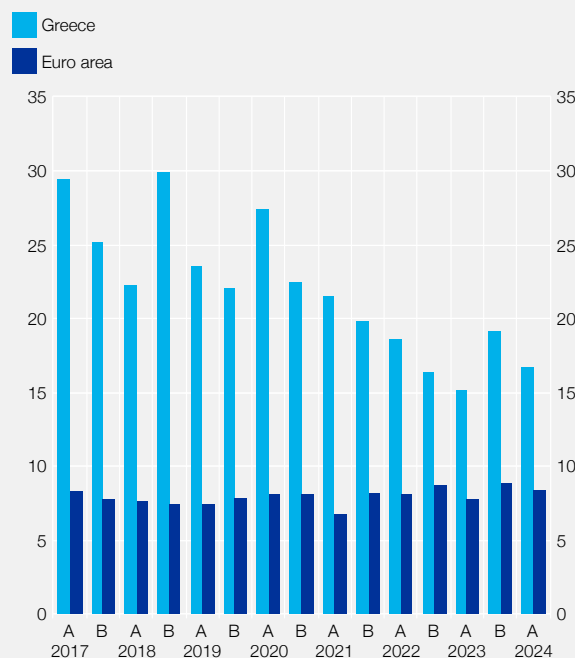
In the fourth quarter of 2024, an improvement in the availability of bank credit, coupled with firms' lower needs for fixed-maturity loans, contributed to a negative bank loan financing gap (-3%) in Greece, while over the same period in the euro area this indicator increased slightly (1%) (see Chart E). In addition, in the 2024:A round, firms reported that the overall financing obstacles indicator in Greece (17%) fell almost to an all-time low (2023:A: 15%) since the launch of the survey in 2009, while this indicator also declined slightly in the euro area (8%) (see Chart F).

**Chart E Quarterly change in the SMEs financing gap indicator in Greece and the euro area***(in the corresponding period,<sup>1</sup> weighted net percentage of respondents<sup>2</sup>)*

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 Since 2024 the survey has also been conducted on a quarterly basis and covers the corresponding calendar quarters.

2 On a quarterly basis, the indicator calculates the financing gap (needs minus availability) for fixed-maturity bank loans.

**Chart F Six-month change in the SMEs overall financing obstacles indicator in Greece and the euro area***(in the corresponding period,<sup>1</sup> sum of net percentages of respondents<sup>2</sup>)*

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 The survey is conducted every six months and covers the periods of April-September (round A) and October-March (round B).

2 The overall financing obstacles indicator is the sum of the percentages of firms reporting the rejection of loan applications, loan applications for which only a limited amount was granted, and loan applications which resulted in an offer that was declined by the firms because the borrowing costs were too high, as well as the percentage of firms that did not apply for a loan for fear of rejection.

### Outcome of bank loan applications

In Greece, the percentage of enterprises that applied for a bank loan increased in both the 2024:A round (to 20%) and the fourth quarter of 2024 (to 19%). The survey results show that the percentage of firms that were discouraged from applying for fear of rejection fell in the 2024:A round (to 12%), but rose in the fourth quarter of 2024 (to 11%). The percentage of firms that did not apply because of sufficient availability of internal funds in the last six-month survey round reached the highest level (42%) recorded since the April-September 2010 round, while on a quarter-on-quarter basis this figure increased significantly in the fourth quarter of 2024 (52%). As regards firms in the sample that applied for bank loans in Greece, in the 2024:A round there was a decline in the percentage of firms reporting rejection (to 12%) as well as in the percentage of fully or mostly successful loan applications (to 40%). In the fourth quarter of 2024, a lower rejection rate coupled with an enhanced success rate was recorded: 52% of firms reported that their bank loan application was mostly, if not fully, successful, while 7% of firms reported a rejection of their application.

In the euro area, the percentage of firms that applied for a bank loan increased marginally in the 2024:A round (to 19%), while it remained unchanged in the fourth quarter of 2024 (at 13%). The percentage of firms that were discouraged from applying for fear of rejection remained unchanged in both the 2024:A round (6%) and the fourth quarter of 2024 (4%), while the percentage of firms that did not apply because of sufficient availability of internal funds declined slightly in the 2024:A round (48%) and remained unchanged in the fourth quarter of 2024 (53%). As regards the outcome of bank loan applications, the rejection rate remained unchanged in the 2024:A round (9% of the firms that applied), while it decreased marginally in the fourth quarter of 2024 (to 5%, from 6% in the third quarter). A higher percentage of firms reported that their application was fully or mostly

successful in the 2024:A round (72%) compared to the 2023:B round (69%), while this rate was marginally lower in the fourth quarter of 2024 (66%).

### Bank financing terms and conditions

As regards bank financing terms and conditions, the survey results reflect the reduction in ECB policy rates, as the net percentage of SMEs reporting an increase in bank interest rates<sup>7</sup> declined significantly in the 2024:A round (Greece: 7%, euro area: 27%), while in the fourth quarter of 2024 firms reported a decrease in bank interest rates (Greece: -13%, euro area: -1%). For other costs of financing (charges, fees and commissions), although remaining at high levels, the net percentage of firms reporting an increase in the 2024: A round fell marginally in Greece (45%) and more in the euro area (38%), while in the fourth quarter of 2024 it decreased significantly compared with the previous quarter in both Greece (to 22%) and the euro area (to 22% as well).

### Conclusions

SMEs in Greece perceived the availability of bank loans to have increased, attributing this to banks' growing willingness to provide credit and to an improvement in the factors determining firms' creditworthiness. By contrast, firms in the euro area perceive the availability of bank loans to have declined on account of banks' reduced willingness to provide credit and the negative impact of some factors determining firms' creditworthiness, as well as the ongoing deterioration in the general economic outlook. According to the latest quarterly survey results, a negative bank financing gap is recorded in Greece, while this indicator increased marginally in the euro area. In the April-September 2024 round, firms in Greece reported that the overall financing obstacles indicator remained close to historical lows; they also reported a reduction in the rejection rate in the fourth quarter of 2024 and an increase in the success rate. In the April-September 2024 round, firms in the euro area reported a small decline in the overall financing obstacles indicator, while in the fourth quarter of 2024 a marginal decrease was recorded for both the rejection rate and the success rate. As regards financing terms and conditions, in Greece and the euro area as a whole the survey results reflect the effectiveness of the ECB's policy rate cuts, as in the April-September 2024 round a decline was recorded in the percentage of firms reporting an increase in bank lending rates; moreover, in the fourth quarter of 2024, the majority of enterprises reported a decrease in these bank rates.

<sup>7</sup> Respondents were asked to report whether banks increased the level of interest rates on bank loans, overdrafts and credit lines.

## Box VI.3

### THE BANK LENDING SURVEY<sup>1</sup>

The latest rounds of the Bank Lending Survey, which look at developments in 2024 on a quarterly basis, provide mixed evidence of loan demand in Greece, as corporate loan demand increased, while consumer loan demand remained broadly unchanged. For housing loans, a decline in demand was reported in the last two quarters of the year compared with the immediately preceding quarters. In the euro area, there was overall a slight decrease in corporate loan demand in 2024, while for loans to households, banks reported some increase in both housing and consumer loans. On the supply side, banks in Greece reported that credit standards remained broadly unchanged,<sup>2</sup> but overall terms and conditions on loans to enterprises<sup>3</sup> eased somewhat. Terms and conditions re-

<sup>1</sup> The Bank Lending Survey (BLS) is conducted by the Eurosystem on a quarterly basis, using a sample of about 150 banks across the euro area, including the four Greek systemic banks.

<sup>2</sup> The survey defines credit standards as the internal guidelines and loan approval criteria shaping each bank's credit policy, such as new loans sought, geographical areas of activity, type of eligible collateral, etc.

<sup>3</sup> Loan terms and conditions are defined as the actual terms and conditions agreed in loan contracts, such as the loan margin, the level of fees/commissions or other non-interest rate charges, maturity and size of loans, other loan clauses, etc.

mained broadly unchanged for consumer and housing loans. In the euro area, banks mostly reported a slight tightening in credit standards and a marginal easing of terms and conditions on corporate loans, while, overall, banks reported some easing in housing loans and a slight tightening in consumer loans in terms of both credit standards and terms and conditions.

### Loan demand

Credit institutions in Greece reported an increase in corporate loan demand in 2024 (see Chart A). Regarding the determinants of demand for loans to enterprises in Greece, banks reported a positive impact from the increase in firms' needs for financing fixed investment and for financing inventories and working capital, as well as in their need for financing mergers/acquisitions and corporate restructurings. At the same time, they reported some negative impact from firms' improved ability to finance their activities internally, while, as regards the impact of the general level of interest rates, credit institutions reported a mixed impact in the first half of the year and a slight positive impact in the fourth quarter of 2024.

Euro area banks reported a decline in corporate loan demand in the first half of 2024 (see Chart A), mainly stemming from the still high overall level of interest rates and a decrease in firms' needs for financing fixed investment and, to a lesser extent, their improved ability to finance their activities internally and lower needs to finance mergers/acquisitions and corporate restructurings. In the second half of 2024, credit institutions in the euro area reported a stabilisation in corporate loan demand and, at the same time, a neutral impact from all its determinants.

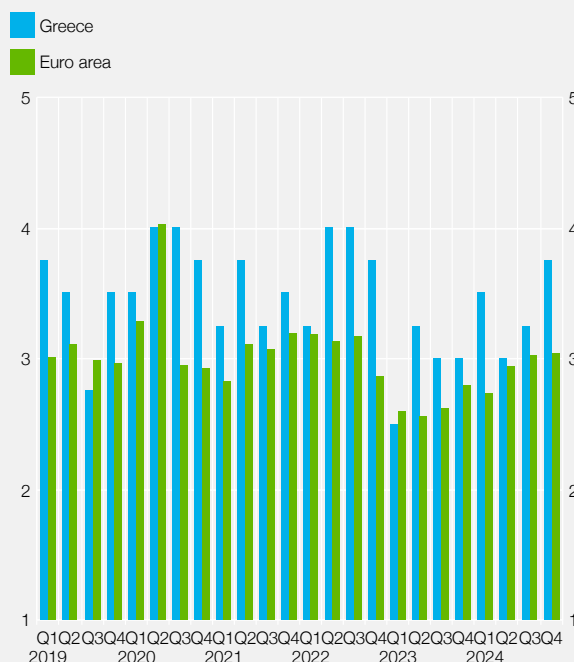
Banks reported mixed changes in households' demand for loans. Specifically, demand for housing loans in Greece stabilised in the first half of the year, while a decline was observed in the second half, which was mainly due to the still high general level of interest rates and the use of alternative sources of financing. In the euro area, demand for housing loans mostly rose in 2024, driven mainly by the lower general level of interest rates and an observed improvement in housing market prospects. As regards demand for consumer loans, credit institutions in Greece reported changes in both directions, leaving demand broadly unchanged and also reflecting the neutral impact of its determinants. In the euro area, demand for consumer loans increased slightly in all quarters of 2024, mainly driven by improved consumer confidence and rising consumer spending, as well as a decline in the general level of interest rates.

### Loan supply

According to the banks surveyed, credit standards in Greece remained mostly unchanged across all loan categories, except for some easing reported in the third quarter in housing and consumer loans (see Chart B). Credit standard determinants had a broadly neutral impact, with the exception of the first quarter, for which banks reported that pressure from competition contributed to an easing in credit standards across all loan categories, and that an increase in risk tolerance led to an easing in credit standards for loans to households. In the euro area, credit standards for loans to enterprises recorded an overall slight tightening in 2024 (see Chart B), mainly due to the deteriorating general economic outlook, as well as due to industry- or firm-specific outlook. As regards loans for house purchase, credit standards in the euro area have eased somewhat overall, mainly reflecting pressure from competition and banks' slightly higher risk tolerance. By contrast, with regard to con-

**Chart A Change in demand for loans by non-financial corporations in Greece and the euro area<sup>1</sup>**

(in the corresponding calendar quarter; average<sup>2</sup>)



Source: ECB/Bank of Greece, Bank Lending Survey.  
 1 Banks' perceived changes in demand for loans over the corresponding calendar quarter.  
 2 Average of banks' responses using a five-point scale, where demand for loans 1 = "decreased considerably", 2 = "decreased somewhat", 3 = "remained unchanged", 4 = "increased somewhat", and 5 = "increased considerably".

**Chart B Change in credit standards on loans to non-financial corporations in Greece and the euro area<sup>1</sup>***(in the corresponding calendar quarter; average<sup>2</sup>)*

Source: ECB/Bank of Greece, Bank Lending Survey.

1 Banks' perceived changes in credit standards on loans over the corresponding calendar quarter.

2 Average of banks' responses using a five-point scale, where credit standards 1 = "tightened considerably", 2 = "tightened somewhat", 3 = "remained unchanged", 4 = "eased somewhat", and 5 = "eased considerably".

**Chart C Change in terms and conditions on loans to non-financial corporations in Greece and the euro area<sup>1</sup>***(in the corresponding calendar quarter; average<sup>2</sup>)*

Source: ECB/Bank of Greece, Bank Lending Survey.

1 Banks' perceived changes in terms and conditions on loans over the corresponding calendar quarter.

2 Average of banks' responses using a five-point scale, where terms and conditions on loans 1 = "tightened considerably", 2 = "tightened somewhat", 3 = "remained unchanged", 4 = "eased somewhat", and 5 = "eased considerably".

sumer credit, in the euro area credit standards tightened somewhat throughout the year, mainly driven by the deterioration in the general economic outlook and in consumers' creditworthiness, as well as banks' lower risk tolerance.

As regards terms and conditions on loans to enterprises in Greece, banks reported an easing in the first half (see Chart C), mainly stemming from reduced lending rates, as well as the narrowing of margins on medium- and high-risk loans. For the second half of the year, credit institutions reported a stabilisation of these terms and conditions. As for loans to households, banks in Greece reported that terms and conditions on consumer loans remained broadly unchanged, except for some tightening in the first quarter owing to an increase in non-interest rate charges. They also reported that terms and conditions on housing loans tightened in the first quarter, also on account of increased non-interest rate charges, but stabilised during the second and third quarters. In the fourth quarter, there was an easing in terms and conditions on housing loans, driven by a contraction in the interest rate margin on average loans, as well as by a decline in non-interest rate charges. In the euro area, credit institutions reported a marginal easing of terms and conditions on loans to enterprises in 2024 (see Chart C), mainly because of a small decrease in the interest rate margin on average-risk loans. For consumer loans, banks in the euro area reported some tightening of terms and conditions, associated with banks' risk perceptions and lower risk tolerance. By contrast, for housing loans, banks in the euro area reported some easing of terms and conditions, mainly driven by competitive pressures and a narrowing of the interest rate margin on average loans.

Credit institutions in Greece responded that the share of rejected applications for loans remained unchanged in 2024 across all loan categories, with the exception of some increase in the first quarter for housing loans. In the

euro area, the share of rejected applications increased slightly across all 2024 rounds of the survey for corporate and consumer loans, while for housing loans banks reported a small decline overall in 2024.

### Survey results on ad hoc questions

In response to ad hoc questions, credit institutions in Greece reported mostly improved access to wholesale funding but, as regards access to retail funding, they reported some deterioration in short-term deposits in the first half of 2024. Credit institutions in Greece reported that changes in banks' excess liquidity holdings with the Eurosystem had a neutral impact on credit volumes, credit standards and terms and conditions. In addition, credit institutions in Greece and on average in the euro area reported that the evolution of the NPL ratio had a neutral impact on credit standards or terms and conditions across all loan categories. With regard to their profitability, they reported that it was negatively affected to some extent by their participation in TLTRO III operations,<sup>4</sup> while changes in the ECB's monetary policy asset portfolio<sup>5</sup> had no impact. At the beginning of the year, credit institutions in Greece reported that key ECB interest rate decisions had a positive impact on their profitability, as net interest income improved due to widened interest rate margins, while banks reported a neutral impact from the second quarter of 2024 onwards. To the question gauging the impact of climate change on bank credit in mid-2024, banks reported a stronger increase in loan demand over the past 12 months by "green firms" (firms that do not contribute or contribute little to climate change) and "firms in transition" (firms that contribute to climate change, but are making considerable progress in the transition), while they reported a small tightening of credit standards towards "brown firms" (firms that contribute significantly to climate change and have not yet started the transition or have made little progress).

In the euro area, banks mostly reported improved access to wholesale and retail funding, with the exception of some slight deterioration in short-term deposits. Credit institutions noted that in the first half of 2024 changes in banks' excess liquidity with the Eurosystem had a small negative impact on credit volumes, as well as on credit standards and terms and conditions, while in the second half of the year their impact was neutral for credit standards and marginally supportive for credit volumes, as well as for terms and conditions. In the euro area, banks reported that the NPL ratio contributed to a slight tightening of credit standards and terms and conditions on corporate and consumer loans, while it had a broadly neutral impact on housing loans. In 2024, credit institutions in the euro area overall reported that their profitability benefited from their participation in TLTRO III operations, while changes in the ECB's monetary policy asset portfolio negatively affected it in the first half of the year, but had a marginally supportive impact in the second half of 2024. At the beginning of the year, credit institutions in the euro area reported that key ECB interest rate decisions had a positive impact on their profitability, as their net interest income grew due to wider interest rate margins, but from the second quarter of 2024 onwards banks recorded a small negative impact. In addition, banks reported an increase in loan demand and an easing in credit standards, as well as in terms and conditions on loans to "green firms" and "firms in transition", while with respect to "brown firms" they recorded a decline in loan demand and a tightening in credit standards and terms and conditions.

### Conclusions

In 2024, Greek banks reported an overall neutral change in credit standards across all loan categories and terms and conditions to households, while an easing was recorded on loans to enterprises. Over the same period, credit institutions in the euro area reported overall a slight tightening of credit standards, coupled with a marginal easing of terms and conditions on loans to enterprises, while some easing was also recorded on housing loans and a slight tightening on consumer loans in both credit standards and terms and conditions. In terms of demand for loans, credit institutions in Greece reported that demand for loans to enterprises increased in 2024, while de-

4 In 2024, the conditions for liquidity provision to banks by the Eurosystem remained restrictive. Excess liquidity declined, as banks continued to repay the liquidity raised through TLTRO III operations and, by the end of 2024, these operations had been fully repaid.

5 Reinvestments of the principal payments from maturing securities purchased by the Eurosystem under the pandemic emergency purchase programme (PEPP) started to decrease from the second half of 2024 on and were discontinued at the end of the year. It should be noted that reinvestments under the expanded asset purchase programme (APP) had already been discontinued in July 2023.

mand for housing loans declined somewhat and demand for consumer loans remained broadly unchanged. Over the same period, the euro area reported overall a small decline in demand for loans to enterprises, whereas banks recorded a slight increase for housing and consumer loans.

In response to ad hoc questions, credit institutions in Greece and the euro area mostly reported improved access to wholesale funding, while for retail funding banks reported some deterioration in their access to short-term deposits. In addition, banks in Greece reported that the evolution of the NPL ratio had a neutral impact on credit standards and on terms and conditions across all loan categories, while in the euro area it contributed to a slight tightening of credit standards and of terms and conditions on corporate and consumer loans, but had a broadly neutral impact on housing loans. At the beginning of the year, credit institutions in Greece and overall in the euro area reported that key ECB interest rate decisions had a positive impact on their profitability, but since the second quarter of 2024 banks in Greece have reported a neutral impact, while in the euro area they reported a small negative impact.

## 4 BANK DEPOSITS

In 2024, the stock of private sector deposits recorded a cumulative increase of EUR 8.6 billion, due to a significant rise in corporate deposits, while the increase in household deposits was more limited (see Chart VI.9). Outstanding private deposits reached a post-February 2011 high of EUR 204 billion in December 2024. As a percentage of GDP, domestic private sector deposits stood at 85% in 2024, which is higher than the average for the 2003-2008 period, i.e. the first years after the euro cash changeover and prior to the financial crisis. The bulk of banks' deposit base continues to consist of household liquid assets (75% of private sector deposits), held mainly in overnight accounts.

In particular, domestic household deposits increased by EUR 3.5 billion in 2024, compared with a rise of EUR 5.0 billion in 2023. Their annual growth rate slowed until around the middle of the year but recovered to some extent thereafter (January 2025: 3.1%, December 2024: 2.4%, December 2023: 3.5%; see Chart VI.10). Apart from the pressure on family budgets due to the higher cost of living, the modest increase in household deposits is also associated with the shift, observed in the last two years, to other saving options that offer better returns than deposits. According to financial accounts data, domestic households' net holdings of Greek Treasury bills reached EUR 2.9 billion in the January-September 2024 period, while the respective holdings of investment fund shares/units amounted to approximately EUR 4 billion.

Deposits by firms grew by EUR 5.1 billion in 2024, against a small increase of EUR 0.8 billion in 2023 (see Chart VI.9). Specifically, following a slowdown observed in the last quarter of 2023, the annual rate of increase in deposits by firms recovered gradually over the course of 2024 (January 2025: 11.2%, December 2024: 11.5%, December 2023: 0.7%; see Chart VI.10), a development consistent with the considerable strengthening of credit expansion to NFCs (see the previous section) and the rise in firms' turnover during the year under review.

**Chart VI.9 Annual flow of domestic bank deposits (2019 - 2024)**

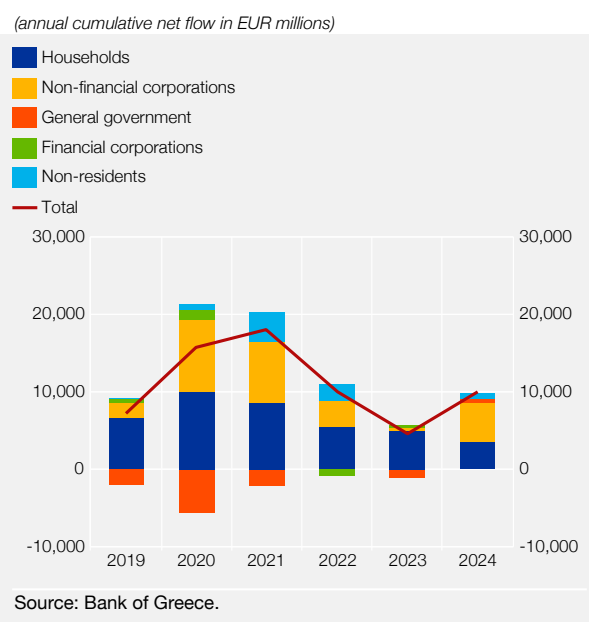


**Chart VI.10 Deposits with domestic banks  
(January 2021 - January 2025)**

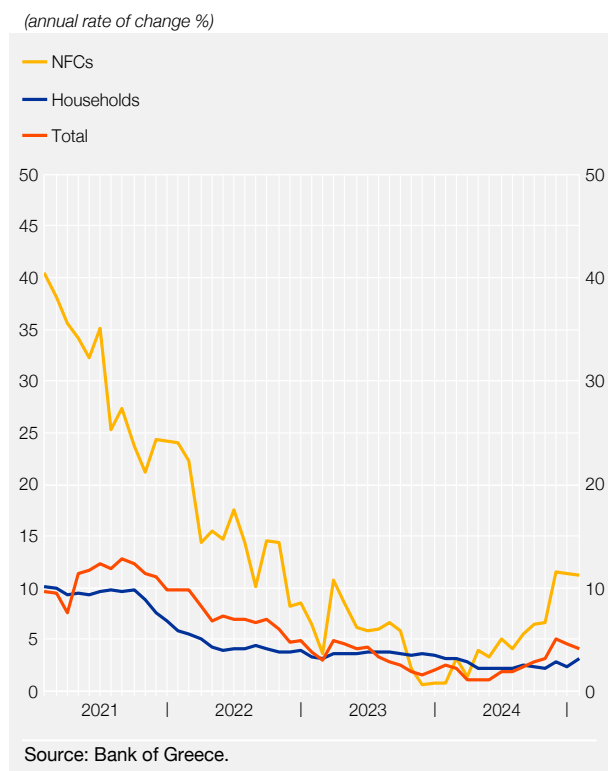
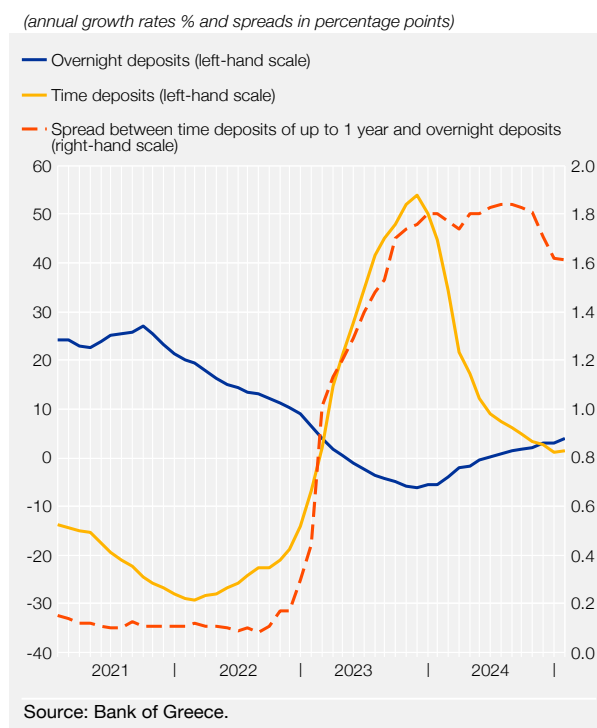


**Chart VI.11 Household deposits based on their  
liquidity and interest rate spread between  
time and overnight deposits  
(January 2021 - January 2025)**



The annual growth rate of deposits with an agreed maturity (time deposits) by businesses and households continued to decelerate in 2024, and the trend of substituting savings/overnight deposits with time deposits, which was recorded due to the past policy rate hikes by the ECB in the July 2022-September 2023 period, has halted (see Chart VI.11). Indicatively, the interest rate spread between deposits with an agreed maturity (of up to one year) and overnight deposits by households in 2024 shrank by 18 basis points, compared with an increase of 150 basis points in 2023, while for deposits with an agreed maturity of over one year this spread narrowed in 2024 by 50 basis points, down from 81 basis points in 2023. In particular, NFCs' time deposits increased by a mere EUR 0.1 billion in 2024, compared with an increase of EUR 3.1 billion in 2023, while households' time deposits recorded an increase of EUR 0.4 billion, compared with a rise of EUR 12.1 billion in 2023. By contrast, NFCs' deposits held in overnight accounts increased by EUR 5.0 billion, against a decrease of EUR 2.8 billion in 2023. In the same vein, households' overnight deposits grew by EUR 3.2 billion, against a decline of EUR 6.4 billion in the previous year.

In 2024, central government deposits with commercial banks grew by EUR 0.3 billion, while central government deposits with the Bank of Greece decreased by EUR 0.8 billion. Deposits with commercial banks by social security funds and local government, which together with central government make up the general government sector, increased by EUR 0.3 billion in 2024. With regard to the other sectors, their contribution to banks' deposit base was overall positive, as deposits by insurance undertakings and other financial institutions recorded a marginal increase of EUR 0.1 billion, while total deposits by non-residents and residents of other euro area countries rose by EUR 0.8 billion.

In 2025, demand for deposits is expected to move in lockstep with the evolution of GDP and household disposable income. On the other hand, savers' shift to other assets will continue to contribute to dampening deposit growth, especially if the difference between the returns on these assets and bank deposit rates widens amid rising medium-to-long-term yields.

## 5 DEVELOPMENTS IN THE BANKING SECTOR

Developments in the international macro-financial environment affect the Greek economy and specifically the performance of the domestic banking sector. Thus, the profitability of Greek banks benefited from the upgrades of the sovereign credit rating and bank ratings. This development leads to stronger demand for Greek bank bonds and lower borrowing costs for Greek banks. The improvement in bank fundamentals creates favourable conditions for further upgrades and therefore for a further bolstering of the Greek banking sector against external factors of uncertainty.

Greek banks significantly increased their net interest income during the key ECB interest rate hiking period, while also maintaining a high level of profitability in the current environment of interest rate cuts (for more details, see Box IX.3). Especially in anticipation of further interest rate cuts, improvements in the institutional operating environment of banks lead to reduced funding costs for Greek banks as a result of upgrades in their credit ratings. Specifically, on 31 January 2025, S&P upgraded the credit ratings of three systemic banks by one notch. This decision reflects both the strengthening of their operating profitability and improvements in the regulatory environment of banks, following the adoption of macroprudential borrower-based measures by the Bank of Greece. Also, Moody's and Morningstar DBRS (March 2025) upgraded banks' credit ratings, in line with the upgrades of the Greek sovereign credit rating. Following these upgrades, the most favourable credit ratings assigned to the four significant Greek banks are now within the investment grade category.

In 2024, Greek banks' profitability increased significantly, mainly due to higher net interest income, as well as fee and commission income, while loan-loss provisions decreased (see Table VI.1). Regarding the significant banks of the euro area, 2024 saw a rise in net profitability and return-on-equity, including due to a continued rise in net interest income, although at a slower pace than in 2023. Moreover, significant euro area banks increased their loan-loss provisions, reflecting a marginal deterioration in the quality of banks' loan portfolios in certain countries and a generally low level of credit risk provisioning.

The capital adequacy ratios, on a consolidated basis, of significant euro area banks remained broadly unchanged in December 2024 compared with end-2023. Greek banks' capital adequacy ratios improved in 2024, converging towards the respective European ones, as the increase in regulatory own funds, as a result of internal capital generation and the issuance of securities included in own funds, more than offset an increase in risk-weighted assets over the same period. It should be noted that half of Greek banks' total Common Equity Tier 1 (CET1) capital consists of deferred tax credits (DTCs). However, the quality of capital is expected to improve in the medium term, due to the anticipated high profitability, with an acceleration in the amortisation of DTCs, as already announced by banks.

The capital adequacy of Greek banking groups also benefits from both the issuance of Additional Tier 1 (AT1) capital instruments of EUR 300 million and the issuance of Tier 2 bonds (of a nominal value of EUR 2.5 billion). Another positive development is the completion of the EUR 735 million share capital increase of Attica Bank in the context of its merger with Pancretia Bank.

The quality of the loan portfolio of significant euro area banks as a whole remained unchanged in 2024 compared with end-2023, while that of Greek banks improved further during the same period. As a result, the asset quality of Greek banks has converged, to a significant extent, with that of the other European banks, on average.

More specifically, the non-performing exposures (NPE) ratio at the euro area level remained close to historic lows in December 2024, while the ratio of non-performing loans whose credit risk has increased significantly since initial recognition (Stage 2 loans under International Fi-

Table VI.1 Financial results of Greek banks

(amounts in EUR millions)

|                                                           | 2023          | 2024          | Change (%)  |
|-----------------------------------------------------------|---------------|---------------|-------------|
| <b>Operating income</b>                                   | <b>11,013</b> | <b>11,830</b> | <b>7.4</b>  |
| Net interest income                                       | 8,511         | 9,002         | 5.8         |
| – Interest income                                         | 14,203        | 16,279        | 14.6        |
| – Interest payments                                       | -5,692        | -7,277        | 27.8        |
| Net non-interest income                                   | 2,502         | 2,828         | 13.0        |
| – Net fee and commission income                           | 1,801         | 2,137         | 18.6        |
| – Trading income                                          | 306           | 421           | 37.7        |
| – Other income                                            | 395           | 270           | -31.7       |
| <b>Operating expenses</b>                                 | <b>-3,901</b> | <b>-4,280</b> | <b>9.7</b>  |
| Staff costs                                               | -1,923        | -2,177        | 13.3        |
| Administrative costs                                      | -1,363        | -1,436        | 5.4         |
| Depreciation                                              | -616          | -666          | 8.3         |
| <b>Net income (operating income – operating expenses)</b> | <b>7,112</b>  | <b>7,550</b>  | <b>6.2</b>  |
| Loan-loss provisions                                      | -1,689        | -1,216        | -28.0       |
| Other impairment losses <sup>1</sup>                      | -386          | -803          | >100        |
| Non-recurring profits/losses                              | 97            | 108           | 11.5        |
| <b>Profits/losses before tax</b>                          | <b>5,134</b>  | <b>5,638</b>  | <b>9.8</b>  |
| Taxes                                                     | -1,212        | -1,313        | 8.3         |
| Profit/losses from discontinued operations                | -89           | 50            | -           |
| <b>Profit/losses after tax</b>                            | <b>3,832</b>  | <b>4,375</b>  | <b>14.2</b> |

Source: Bank of Greece.

<sup>1</sup> Impairment of securities and of tangible and intangible assets.

Table VI.2 Key financial and supervisory indicators

(percentages)

|                                      |           | 2023  | 2024  |
|--------------------------------------|-----------|-------|-------|
| <b>Profitability</b>                 |           |       |       |
| Return on equity                     | Greece    | 12.0  | 12.2  |
|                                      | Euro area | 9.3   | 9.5   |
| Return on assets                     | Greece    | 1.2   | 1.3   |
|                                      | Euro area | 0.6   | 0.7   |
| <b>Loan portfolio quality</b>        |           |       |       |
| Non-performing exposures (NPE) ratio | Greece    | 6.7   | 3.8   |
|                                      | Euro area | 2.3   | 2.3   |
| NPE ratio in Stage 2 (IFRS 9)        | Greece    | 9.3   | 7.3   |
|                                      | Euro area | 9.7   | 9.9   |
| <b>Capital adequacy</b>              |           |       |       |
| CET1 ratio                           | Greece    | 15.5  | 15.9  |
|                                      | Euro area | 15.9  | 15.9  |
| Total capital ratio                  | Greece    | 18.8  | 19.6  |
|                                      | Euro area | 19.9  | 20.0  |
| <b>Liquidity</b>                     |           |       |       |
| Liquidity coverage ratio             | Greece    | 220.7 | 218.3 |
|                                      | Euro area | 164.3 | 158.0 |
| Net stable funding ratio             | Greece    | 135.2 | 138.5 |
|                                      | Euro area | 126.7 | 126.9 |
| Loan-to-deposit ratio                | Greece    | 67.5  | 67.1  |
|                                      | Euro area | 102.7 | 100.4 |

Sources: Bank of Greece and ECB.

Note: The indicators refer to data for the significant and less significant banks in Greece on a consolidated basis and data for the major banking groups in the Banking Union directly supervised by the ECB, with the exception of the portfolio quality indicators for Greece, which are calculated on a solo basis.

nancial Reporting Standard 9 – IFRS 9) to total loans rose slightly. For Greek banks, the NPE ratio, on a solo basis, declined markedly in 2024 compared with end-2023. This is attributable to the securitisation of NPLs – under the Greek government’s “Hercules” asset protection scheme – of the entity that resulted from the merger of Attica Bank with Pancreta Bank. Moreover, the share of Stage 2 loans in total loans on a solo basis also shrank (see Table VI.2).

Bank liquidity remained high for euro area banks, with the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) showing mild changes in December 2024 compared with end-2023. For Greek banks, the LCR and the NSFR remained almost unchanged, well above the prudential requirements and the respective euro area averages. It is worth noting that Greek banks remain sufficiently liquid, despite the full repayment of the Eurosystem’s TLTRO operations. In addition, the loan-to-deposit ratio remains significantly lower for Greek banks than for euro area banks.

In brief, the Greek banking sector in 2024 increased its profitability and capital adequacy ratios, maintained high liquidity ratios and improved the quality of its loan portfolio. The positive developments in banks’ fundamentals are attributable to the strong growth rate of the Greek economy, the upgrade of the credit rating of Greece and the significant Greek banks, the continued improvement in the quality of their loan portfolio and the restructuring of the less significant banks. Thus, Greek banks’ creditworthiness has improved, with the credit ratings of some of

them already within investment grade. However, challenges remain for the Greek banking sector, most importantly the rapid amortisation of DTCs, but also dealing with the negative pressures on operating income from the environment of decreasing key interest rates. Thus, banks should focus on credit policies that will reduce the sensitivity of their financial results to an environment of declining interest rates (see also Box IX.3). Achieving this objective will contribute to a faster reduction of DTCs and a strengthening of their capital base and, ultimately, of their ability to continue to provide financing to the real economy.

# VII OVERVIEW OF THE PRIVATE INSURANCE MARKET

*In recent years, the insurance market has successfully managed a diverse set of challenges (such as inflationary pressures, the resultant interest rate changes and the impact of storm Daniel), demonstrating its resilience over time to unforeseen events, while highlighting the importance of the private insurance industry for the economy and society. For the year 2024, the operationalisation of mergers and acquisitions that took place during the immediately preceding years was the most notable achievement.*

*One of the challenges facing the private insurance market is the timely adaptation to the requirements stemming from the institutional framework, in particular the revised “Solvency II” Directive for insurers and reinsurers, to be implemented as from January 2027 (see Box VII.1).*

*Another important development is the assumption of the supervision of Occupational Pension Funds (OPFs) by the Bank of Greece as from 1.1.2025, which is expected to contribute to the strengthening of the OPFs institution (as part of the effort to bolster the pension system). OPFs are intended to become an important pillar for dealing with the impact of population ageing on pensions, as well as for maintaining post-retirement living standards (see Box VII.2).*

## 1 KEY MARKET AGGREGATES<sup>1</sup>

On 30 September 2024, the Greek private insurance market consisted of 34 active insurance undertakings,<sup>2</sup> which are classified on the basis of their authorisation and insurance business as follows:

- 2 life insurance undertakings;
- 19 non-life insurance undertakings; and
- 13 undertakings (composites) pursuing both life and non-life insurance business (including life insurance undertakings underwriting only non-life business of the “Accidents” and “Sickness” classes).

Of the 34 insurance undertakings listed above, 31 operate and are supervised in accordance with the European Directive “Solvency II”, which is applicable in all countries of the European Union (EU) since 1 January 2016, while 3 undertakings are exempt, due to their size, from a number of requirements relating to all three main pillars of Solvency II.<sup>3</sup> Of the 31 insurance undertakings subject to the provisions of Solvency II, 11<sup>4</sup> belong to insurance groups with their parent undertaking in other Member States, 5 to insurance groups that are under the supervision of the Bank of Greece and the remaining 15 are not part of an EU-based group. In addition,

<sup>1</sup> The cut-off date for information and data used in this chapter is 31.1.2025.

<sup>2</sup> Excluding the mutual insurance cooperatives referred to in the first subparagraph of Article 7(1) of Law 4364/2016.

<sup>3</sup> The Bank of Greece, on the basis of the principle of proportionality, has allowed 3 insurance undertakings that meet the required size and business criteria to be exempted from certain Solvency II provisions on solvency requirements, the system of governance and public disclosure.

<sup>4</sup> Insurance undertakings which belong to groups with their parent undertaking in other Member States now amount to 11, due to the acquisition of more than 50% of the share capital of Ydrogios Insurance and Reinsurance S.A. by Società Reale Mutua di Assicurazioni.

with reference date 31.12.2023, 6 insurance undertakings based in Greece operate in other EU countries under the freedom to provide services.

In addition, according to the latest available data from the European Insurance and Occupational Pensions Authority (EIOPA), as at 31 December 2023, 185 insurance undertakings with their head office in another EU Member State are active in Greece, either under the freedom of establishment (branch) or the freedom to provide services, the financial supervision of which is the responsibility of the competent supervisory authorities of their home countries. The annual gross written premiums of these undertakings at the end of 2023 amounted to EUR 336 million for branches and EUR 1,076 million for business conducted under the freedom to provide services, corresponding to 5% and 17% of the total Greek insurance market. With regard to the motor third-party liability insurance market in particular, in the first nine months of 2024, the market share of insurance undertakings based in another Member State which are writing insurance business in Greece, either under the freedom to provide services or the freedom of establishment, rose, in terms of number of vehicles, to 22% (up from 21% on 31 December 2023).

The financial data presented below relate only to the 31 undertakings operating in the domestic insurance market that are subject to supervision by the Bank of Greece under Solvency II.

The domestic insurance market is characterised by significant concentration, in particular with regard to life insurance undertakings and undertakings pursuing both life and non-life insurance business, as the largest 5 hold 87% of the relevant market in terms of technical provisions, while the largest 5 non-life insurance undertakings have a share of 61% of the relevant market in terms of gross written premiums.

Gross written premiums in life insurance in the period January-September 2024 stood at EUR 2.1 billion, up by 17% compared with the same period a year earlier. Of this amount, EUR 0.9 billion is linked to investments, up by 31%, and accounts for 45% of total gross written premiums of life insurance business, compared with 40% in the same period of 2023. At the same time, gross written premiums in insurance with a profit share rose by 3% and increased by 7% in other life insurance business. The premiums for non-life insurance business in the same period amounted to EUR 1.9 billion, up by 9% year-on-year. Of this amount, the largest market shares are held by motor third-party liability insurance (29%), fire insurance (23%) and hospital expenses insurance (17%), with premium changes of 2%, 22% and 11%, respectively, compared to the first nine months of 2023. Over the same period (January-September 2024), claims incurred amounted to EUR 1.7 billion for life insurance, up by 33% year-on-year, and to EUR 0.8 billion for non-life insurance, marginally down by 1% (see Table VII.1).

In non-life insurance, the loss ratio on 30.9.2024 stood at 52% of premiums earned in the same period (compared with 56% on 30.9.2023), while the cost ratio (administration expenses and commissions) remained unchanged year-on-year at 47%.

**Table VII.1 Gross written premiums and claims incurred**

(EUR billions)

|                        | Life insurance |                | Non-life insurance |                |
|------------------------|----------------|----------------|--------------------|----------------|
|                        | Jan.-Sep. 2023 | Jan.-Sep. 2024 | Jan.-Sep. 2023     | Jan.-Sep. 2024 |
| Gross written premiums | 1.8            | 2.1            | 1.8                | 1.9            |
| Claims incurred        | 1.3            | 1.7            | 0.8                | 0.8            |

Source: Bank of Greece.

The total assets of insurance undertakings supervised by the Bank of Greece stood at EUR 21 billion on 30.9.2024, up by 3% compared with 31.12.2023. Of total assets, EUR 7.5 billion (36%) were held in government bonds and EUR 3 billion (14%) in corporate bonds. Turning to the credit rating of these assets, 97% of government bonds and 86% of corporate bonds were rated BB- and above. In addition, an amount of EUR 5.3 billion (25%) concerned insurance investments whose investment risk is borne by policy holders (see Table VII.2).

Total liabilities of insurance undertakings amounted to EUR 17.1 billion on 30.9.2024, compared with EUR 16.7 billion on 31.12.2023, with total technical provisions standing at EUR 15.7 billion on 30.9.2024, of which EUR 12.1 billion related to life insurance and EUR 3.6 billion to non-life insurance. Of life technical provisions, 40% refer to investment-linked life insurance (compared with 37% on 31.12.2023) (see Table VII.3).

The equity of the insurance market stood at EUR 3.9 billion on 30.9.2024, up by 5% compared with 31.12.2023. The total Solvency Capital Requirement (SCR)<sup>5</sup> amounted to EUR 2.1 billion and total eligible own funds stood at EUR 3.8 billion. As regards the quality of the eligible own funds of the insurance market, 92% of these own funds rank in the highest quality class (Tier 1). Despite the challenges of the macroeconomic environment and the current financial market conditions, all insurers remain solvent, with SCR ratios significantly above 100%. The Minimum Capital Requirement (MCR)<sup>6</sup> for the entire insurance market amounted to EUR 0.8 billion and the corresponding total eligible own funds to EUR 3.5 billion.

**Table VII.2 Structure of assets of insurance undertakings**

(EUR billions)

|                                                                                 | 31.12.2023  | 30.9.2024   |
|---------------------------------------------------------------------------------|-------------|-------------|
| Government bonds                                                                | 7.2         | 7.5         |
| Corporate bonds                                                                 | 2.9         | 3.0         |
| Undertakings for collective investment                                          | 1.6         | 1.4         |
| Deposits, cash and cash equivalents                                             | 0.7         | 0.5         |
| Assets held against index-linked insurance or investment-linked insurance plans | 4.7         | 5.3         |
| Other assets                                                                    | 3.4         | 3.3         |
| <b>Total assets</b>                                                             | <b>20.4</b> | <b>21.0</b> |

Source: Bank of Greece.

**Table VII.3 Structure of liabilities of insurance undertakings**

(EUR billions)

|                                                                                    | 31.12.2023  | 30.9.2024   |
|------------------------------------------------------------------------------------|-------------|-------------|
| Technical provisions – life insurance                                              | 7.4         | 7.3         |
| Technical provisions – index-linked insurance or investment-linked insurance plans | 4.3         | 4.8         |
| Technical provisions – non-life insurance                                          | 3.6         | 3.6         |
| Other liabilities                                                                  | 1.5         | 1.4         |
| <b>Total liabilities</b>                                                           | <b>16.7</b> | <b>17.1</b> |

Source: Bank of Greece.

## 2 REGULATORY DEVELOPMENTS

In January 2025, following the conclusion of consultations among EU legislators, the revised “Solvency II” Directive was published. The revised legal framework incorporates innovations aiming to enhance the robustness of the insurance sector and the sustainability of private insurance in the European Union. In particular, the application of the principle of proportionality, group supervision as well as cooperation among national supervisory authorities in cases of cross-border activities are strengthened. Finally, the introduction of macroprudential tools for supervision enhances the industry’s resilience to long-term and, in particular, systemic risks.

In parallel with the publication of the revised “Solvency II” Directive, the Insurance Recovery and Resolution Directive was published in January 2025. This new Directive requires insurance undertakings to draw up a recovery plan and, under certain conditions, a resolution plan, after consultation of the resolution authority with the supervisory authority.

Both of these Directives are expected to be transposed into national legislation in the EU Member States within the next two years.

<sup>5</sup> The Solvency Capital Requirement reflects the capital that an insurance undertaking must have in order to be able to absorb losses at a confidence level of 99.5% over a one-year horizon.

<sup>6</sup> The Minimum Capital Requirement reflects the capital an insurance undertaking must have in order to be able to absorb losses at a confidence level of 85% over a one-year horizon and represents a level of capital below which policy holders’ interests would be seriously jeopardised if the undertaking were allowed to continue to operate.

In addition, the following Bank of Greece Executive Committee Acts (ECAs) pertaining to the insurance market were adopted in 2024:

- **ECA 227/2/08.03.2024 “Adoption of the European Insurance and Occupational Pensions Authority (EIOPA) Guidelines on pan-European Personal Pension Product (PEPP) supervisory reporting (EIOPA-BoS-21/260)”**

On 15 March 2024, the decision of the Executive Committee of the Bank of Greece adopting the European Insurance and Occupational Pensions Authority (EIOPA) Guidelines on pan-European Personal Pension Product (PEPP) supervisory reporting was published in the Government Gazette. In particular, the Act defines the purpose and content of the PEPP supervisory reports, as well as the reporting frequency and deadlines. The said reports describe the nature of the PEPP providers' business, the employed investment strategy and its performance. Finally, the reports cover the relevant implications of the PEPP provider's prudential framework, as well as the risk management systems and risk mitigation techniques.

- **ECA 229/1/10.05.2024 “Procedures for the audit of the solvency and financial condition report by statutory auditors or audit firms – Amendment to Executive Committee Act 105/12.12.2016”**

On 23 May 2024, the decision of the Executive Committee of the Bank of Greece on the procedures for the audit of the solvency and financial condition report (SFCR) by statutory auditors or audit firms was published in the Government Gazette. The said Decision amends previously applicable Executive Committee Act 105/12.12.2016, due to the repeal of Commission Implementing Regulation (EU) 2015/2452 and its replacement by Commission Implementing Regulation (EU) 2023/895, in order to update the templates to be audited with regard to capital requirements.

- **ECA 230/2/17.06.2024 “Adjustment of the compulsory professional indemnity insurance amounts for (re)insurance intermediaries and the relevant deductible”**

On 26 June 2024, the decision of the Executive Committee of the Bank of Greece adjusting the compulsory professional indemnity insurance amounts for (re)insurance intermediaries and the relevant deductible was published in the Government Gazette. Specifically, as regards the professional indemnity insurance necessary for the registration of the (re)insurance intermediaries concerned in the special register provided for in Article 19 of Law 4583/2018, the minimum coverage thresholds per year are adjusted from EUR 1,250,618 to EUR 1,564,610 per claim and from EUR 1,875,927 to at least EUR 2,315,610 for all claims. In addition, the deductible is adjusted from EUR 18,760 to EUR 23,480.

#### Box VII.1

### THE REVISED EUROPEAN FRAMEWORK FOR THE OPERATION AND SUPERVISION OF INSURANCE UNDERTAKINGS (SOLVENCY II REVIEW)

Directive 2009/138/EC on the taking up and pursuit of the business of insurance and reinsurance (Solvency II) needed to be reviewed, after a reasonable period of implementation. The starting point for this review was an opinion of the European Insurance and Occupational Pensions Authority (EIOPA) in 2019, which led, following a lengthy negotiating process between the European Commission, the Council and the European Parliament, to the adoption and publication of the revised Directive<sup>1</sup> in January 2025.

<sup>1</sup> Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024 amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macroprudential tools, sustainability risks, group supervision and cross-border supervision, and amending Directives 2002/87/EC and 2013/34/EU.

The revised framework for the operation and supervision of insurance and reinsurance undertakings contributes significantly to enhancing the proportionality, sustainability and soundness of the insurance industry in the European Union (EU). In line with the principle of proportionality, it reduces supervisory requirements and the administrative burden for “small and non-complex insurance undertakings”, while, where necessary, processes are simplified and the frequency of reporting is reduced. At the same time, cooperation between supervisors for the supervision of significant cross-border activities and of insurance groups is enhanced. In addition, new requirements are introduced, such as short-term liquidity risk management plans and sustainability risk plans, while long-term climate scenarios will be part of the Own Risk and Solvency Assessment (ORSA) report. Overall, the adaptability of both insurance undertakings and supervision to current and future insurance and financial sector challenges is enhanced.

**The key aspects of the revised supervisory framework for the operation and supervision of insurance undertakings are:**

- Application of the proportionality principle to small and non-complex undertakings: Supervisory requirements and administrative obligations are reduced, which will help alleviate administrative costs for these insurance undertakings. Moreover, by reducing unnecessary complexity in the supervisory monitoring of these undertakings, supervisors will be able to allocate their resources more efficiently, applying more adequately risk-based criteria to the prioritisation of their supervisory activities.
- Compared to the current regime and in order for insurance undertakings to improve their competitiveness and their ability to take up insurance risks, changes are foreseen to increase their capital efficiency. Indicative changes in this direction include: (a) the reduction of the cost of capital (CoC) rate in the risk margin; (b) improvements in the functioning of the volatility adjustment; and (c) the introduction of simplified criteria for the classification of equity holdings as long-term investment, contributing to the long-term financing of the economy as a whole.
- Strengthening cooperation between supervisory authorities: Priority shall be given to improving cooperation between supervisory authorities in monitoring cross-border activities and for more effective supervision of insurance groups. Moreover, through well-structured communication between supervisors, the exchange of expertise on supervisory practices is favoured and financial stability is further safeguarded.
- Monitoring of systemic risks: New tools are adopted for macroprudential considerations, building on the experience of the recent past (pandemic impact, low-for-long interest rates, inflationary pressures), which can affect the insurance market as a whole. In addition, mechanisms are introduced for the management of liquidity and sustainability risks, as well as financial risks related to the impacts of climate change (higher incidence of floods and wildfires).

Finally, it should be noted that, in parallel with the changes introduced by the review of Solvency II, the insurance market will have to comply in the near future with the requirements of the Insurance Recovery and Resolution Directive.<sup>2</sup> The magnitude of the challenge is increased by the fact that these Directives should be transposed uniformly into the national laws of the EU Member States within the next two years, with a view to enhancing the resilience of the industry and maintaining a high level of protection of policyholders and beneficiaries.

<sup>2</sup> Directive (EU) 2025/1 of the European Parliament and of the Council of 27 November 2024 establishing a framework for the recovery and resolution of insurance and reinsurance undertakings and amending Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 and Regulations (EU) No 1094/2010, (EU) No 648/2012, (EU) No 806/2014 and (EU) 2017/1129.

## Box VII.2

**OCCUPATIONAL PENSION FUNDS AND THEIR CONTRIBUTION TO THE GREEK PENSION SYSTEM**

Occupational Pension Funds (OPFs) are part of the second pillar of insurance and were introduced in Greece under Law 3029/2002. OPFs are non-profit legal entities governed by private law which are established by social partners (employers, employees) of individual professional sectors. Their objective is to provide the insured and beneficiaries with occupational insurance protection, in addition to that provided by compulsory social security, indicatively, for the risks of old age, death, disability, accident, illness or dismissal. The benefit involves periodic or lump-sum payment or a combination thereof. OPFs follow a funded financing system, i.e. accumulation of capital through contributions, which is then invested and, together with returns, finances pensions.

There are currently 28 OPFs in Greece, which manage EUR 485 million and comprise around 55 thousand members from the public, the shipping and the banking sectors, along with more specialised sectors, such as those of economists, geotechnical engineers, police officers/fire service/coast guard personnel, urban transport employees, etc.

As Greece faces demographic challenges, such as a declining birth rate and an ageing population, the public social security system is under strong pressure. OPFs contribute to a long-term and sustainable solution in the face of these challenges, as they can enhance the income of pensioners, thereby improving their living standards, while at the same time contributing to nurturing a savings and investment culture, especially among younger employees.

Moreover, it is expected that the development of this institution will result in the accumulation of a significant capital stock, which can enhance productive investment in the country. This will contribute to increasing productivity and boosting GDP. It is worth noting that the Foundation for Economic and Industrial Research (IOBE) estimates that, if 50% of the country's workforce were insured in OPFs, this could lead to a higher GDP by EUR 2.7 billion per year over a 20-year period.

New Law 5078/2023, which introduced uniform rules of good governance and new transparency requirements, similar to those required for other entities in the financial sector, aims to shield and strengthen the institution of occupational insurance. In addition, organisational changes are introduced, broadly transposing the requirements of the European legislator.<sup>1</sup> Finally, a number of provisions are introduced to enable timely and modular supervisory intervention, at all stages of the operation of these funds, proportional to the degree of non-compliance and with a view to protecting the members and beneficiaries.

In particular:

Provision was made for the establishment of multi-employer occupational funds. Thus, employees of small and medium-sized enterprises can now reap the benefits of occupational insurance at an affordable cost, taking advantage of the economies of scale that these funds can develop. This arrangement effectively removes internal restrictions, which distorted healthy competition between domestic OPFs and OPFs based in other EU countries.

In addition, the new law introduces a modern OPF governance system. One of the innovations envisaged in this context is the adoption of the dual governance model, with the establishment of a Supervisory Board, a body independent from the respective Board of Directors, which acts as a safety valve for the sound and transparent management of the fund.

With regard to the key functions, i.e. actuarial, risk management and internal audit, whose role is crucial to the protection of OPF members and beneficiaries, conditions are set for the independent exercise of the relevant duties, while the key function holders will be scrutinised for their knowledge and reliability.

<sup>1</sup> Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs).

In addition, transparency requirements are specified, such as the obligation to provide information to OPF members and beneficiaries both in the pre-retirement phase and in the pay-out phase of pensions.

A significant change introduced by Law 5078/2023 is the assignment of OPFs' supervision to the Bank of Greece as of 1.1.2025. The transition from trilateral supervision, applicable under the previous legislative regime, to single supervision by the Bank of Greece ensures greater flexibility and stability, providing legal clarity and simplifying the communication of OPFs' managements with the supervisor.

The Bank of Greece can play a key role in the development of the institution in Greece, indicatively by speeding up the procedures for establishing occupational pension funds and for the provision of supervisory approvals, so as to avoid delays in the smooth operation of the funds and enhance their adaptability.

In conclusion, the institution of Occupational Pension Funds has room for development in Greece and can become a tool for enhancing the Greek economy's growth and the sustainability of the country's pension system. At the same time, it is expected to open up new prospects for improving workers' living standards, as it will significantly boost their post-retirement income. In addition, it can contribute to raising labour productivity, by allowing employers to provide additional incentives to employees, as well as to attracting and retaining a competent workforce.



# VIII MACROPRUDENTIAL POLICY

*The ultimate objective of the macroprudential policy of the Bank of Greece is to contribute to safeguarding the stability of the financial system as a whole, by strengthening its resilience and reducing the build-up of systemic risks.*

*In this context, the Bank of Greece has already activated three macroprudential policy tools. Regarding the countercyclical capital buffer (CCyB), the Bank of Greece has adopted a framework for its implementation in Greece, according to which the buffer is activated during periods of a standard risk environment in the economic and financial cycle until it reaches the target rate, which has been set at 0.5%. In the first three quarters of 2024, the CCyB rate was maintained at 0%. For the fourth quarter of 2024, cyclical systemic risks in Greece were assessed as low and the risk environment as standard. Therefore, the Bank of Greece set the CCyB rate at 0.25%, effective from 1 October 2025.<sup>1</sup>*

*In addition, the Bank of Greece identified Other Systemically Important Institutions (O-SIIs) in Greece for the year 2024 and set the O-SII buffer rate for 2025 at 1.25% for Eurobank Ergasias Services and Holdings S.A. on a consolidated basis and at 1% for the other O-SIIs: National Bank of Greece S.A. (on a solo and a consolidated basis), Piraeus Financial Holdings S.A. (on a consolidated basis) and Piraeus Bank S.A. (on a solo basis), Eurobank S.A. (on a solo basis), Alpha Services and Holdings S.A. (on a consolidated basis) and Alpha Bank S.A. (on a solo basis).*

*Finally, on 1 January 2025, the macroprudential borrower-based measures adopted by the Bank of Greece – applicable to loans and other credit to natural persons secured by residential real estate – came into effect.<sup>2</sup>*

## 1 SETTING THE COUNTERCYCLICAL CAPITAL BUFFER RATE

The CCyB aims to prevent or mitigate the build-up of cyclical systemic risks and to address the procyclicality of credit growth and leverage, i.e. to ensure that both credit growth and leverage remain at appropriate levels through all phases of the economic and financial cycle. The CCyB rate ranges between 0% and 2.5%, calibrated in steps of 0.25 percentage points or multiples of 0.25 percentage points.<sup>3</sup> The CCyB consists of Common Equity Tier 1 (CET1) capital and is expressed as a percentage of the total risk exposure amount of credit institutions and investment firms that are exposed to credit risk in Greece.<sup>4</sup>

The Bank of Greece, under Law 4261/2014 (Article 127),<sup>5</sup> assesses the intensity of cyclical systemic risks and the appropriateness of the countercyclical capital buffer (CCyB) rate for Greece on a quarterly basis and sets or adjusts it, if necessary.

<sup>1</sup> The CCyB rate is determined by an Executive Committee Act and takes effect 12 months after its official announcement.

<sup>2</sup> The cut-off date for information and data used in this chapter is 31.3.2025.

<sup>3</sup> For the purposes of paragraph 2 of Article 130 of Law 4261/2014, the designated authority may set the CCyB rate in excess of 2.5% of the total risk exposure amount, where justified on the basis of the considerations set out in paragraph 3 of Article 127 of Law 4261/2014.

<sup>4</sup> The total risk exposure amount is calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013.

<sup>5</sup> As currently in force, after being amended by Article 44 of Law 4799/2021, which transposed the provisions of Article 136 of Directive 2013/36/EU as amended by Directive (EU) 2019/878.

The appropriateness of the CCyB rate is assessed by taking into account, among other things, the level of the “standardised credit-to-GDP gap”, as defined in Recommendation ESRB/2014/1. In greater detail, the ratio of short-term and long-term debt securities and loans (i.e. credit), as reported in the financial liabilities of the private non-financial sector, to the sum of the figures of the last four quarterly observations of GDP is calculated (in nominal terms, non-seasonally adjusted). In a second phase, the long-term trend of the credit-to-GDP ratio is calculated by applying a Hodrick-Prescott filter. The “standardised credit-to-GDP gap” is the difference between the credit-to-GDP ratio and its long-term trend. A high positive value of the “standardised credit-to-GDP gap” indicates excessive credit growth relative to GDP growth, which poses increased risks to the financial system, thus requiring the setting of the countercyclical capital buffer rate at a level above 0%.

In addition to the “standardised credit-to-GDP gap”, the Bank of Greece also examines a number of additional indicators to monitor the emergence and build-up of cyclical systemic risk.<sup>6</sup> These indicators can be grouped into the following categories: credit developments, private sector indebtedness, potential overvaluation of property prices, the soundness of credit institutions, external imbalances and the pricing of risk.

In Greece, the “standardised credit-to-GDP gap” has remained in negative territory since 2012. In the third quarter of 2024, it stood at -30.8 percentage points, compared with -31.7 in the previous quarter, mostly due to the rise in nominal GDP. It should be noted that the third quarter of 2024 is the latest available quarter for the financial liabilities of the private non-financial sector. For this value of the “standardised credit-to-GDP gap”, the benchmark buffer rate<sup>7</sup> (buffer guide), as defined in para. 3(a) of recommendation B of Recommendation ESRB/2014/1, is zero.

In the first three quarters of 2024 the Bank of Greece maintained the CCyB rate at 0%, reflecting its analysis of additional variables, which pointed to emerging cyclical systemic risks in specific areas, such as residential real estate prices and the current account, while confirming the absence of excessive credit growth and leverage.

In October 2024, by Executive Committee Act 235/1/07.10.2024,<sup>8</sup> the Bank of Greece adopted a framework for a positive neutral countercyclical capital buffer (PN CCyB). In this context, setting the CCyB rate above 0% begins during a phase of the economic and financial cycle characterised by a standard risk environment – that is when risks are neither subdued nor particularly elevated (see Chart VIII.1, Phase B). The aim is to enable credit institutions to absorb potential losses and ensure the smooth flow of credit to the real economy in the event of unexpected shocks. These shocks may be either endogenous or exogenous, i.e. unrelated to the economy or the financial system (e.g. COVID-19 pandemic). The activation and gradual build-up of a positive countercyclical capital buffer will continue until the buffer reaches the target level (PN CCyB target rate). In Greece, the PN CCyB target rate is set at 0.5%.

In addition to the standard risk environment, three distinct phases of the economic and financial cycle can be identified, with the use of the countercyclical capital buffer being adjusted based on the severity of cyclical systemic risks.

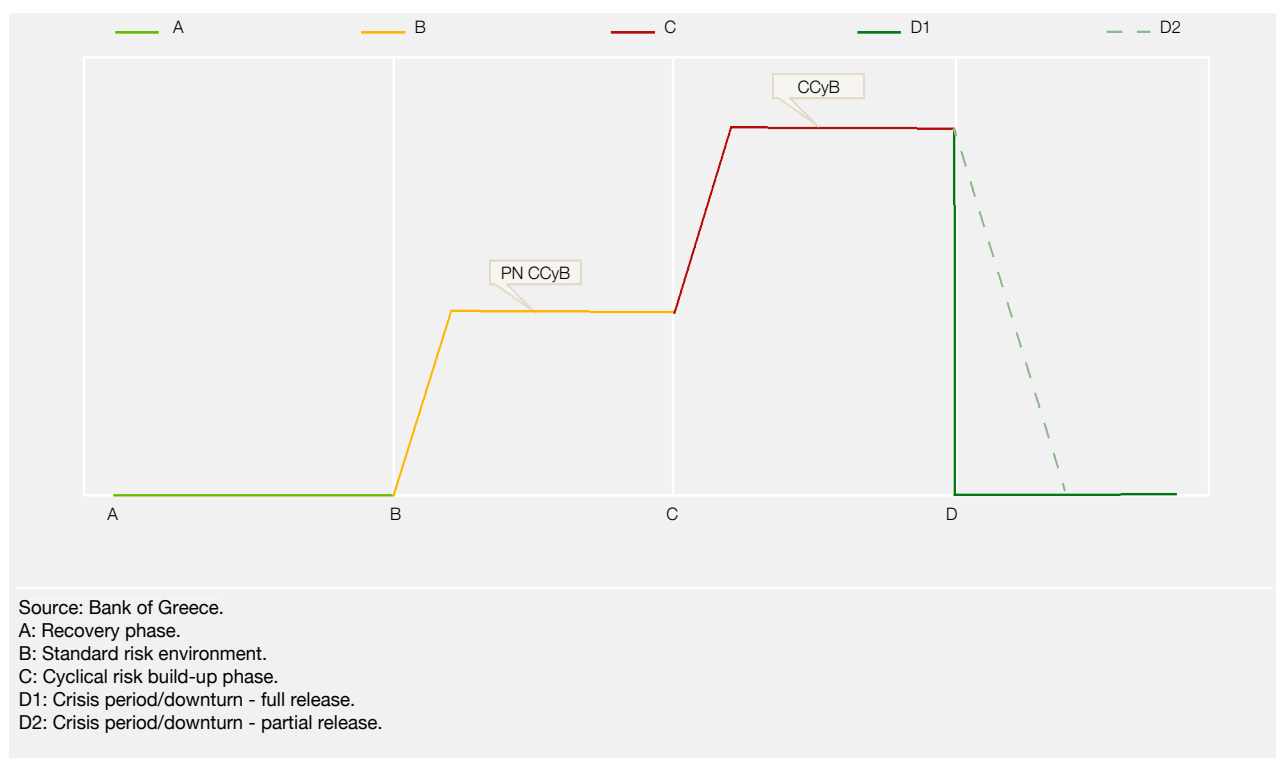
During Phase A, when the economy or the financial system is recovering from severe endogenous or exogenous shocks, or in the aftermath of a systemic crisis, the CCyB rate is maintained

<sup>6</sup> For detailed definitions, see [Bank of Greece Executive Committee Act 235/1/07.10.2024](#).

<sup>7</sup> The Bank of Greece uses the benchmark buffer rate defined in recommendation B paragraph 3(a) of Recommendation ESRB/2014/1, calculated according to the provisions of Part II of the Annex to that Recommendation, which is used as a “buffer guide”.

<sup>8</sup> “Application of the countercyclical capital buffer in Greece – Repeal of Executive Committee Act 202/1/11.03.2022”.

Chart VIII.1 Countercyclical Capital Buffer (CCyB) and the economic cycle



at zero to support credit supply and facilitate the smooth flow financing to the real economy. The CCyB rate remains at zero until the intensity of cyclical systemic risks is assessed to be at a standard level.

If the Bank of Greece's assessment of cyclical systemic risks points to an accumulation of cyclical systemic risks (Phase C), the Bank of Greece has the discretion to decide whether or not to increase the CCyB rate above the PN CCyB target rate, with a view to preventing or mitigating the build-up of cyclical systemic risks and excessive credit expansion and leverage in the upward phase of the economic and financial cycle.

Finally, in the event of shocks or during the downturn of the cycle (Phase D), the Bank of Greece may decide – depending on the severity and nature of the shocks – to partially or fully release the applicable CCyB (i.e. by setting it to zero) in order to encourage credit supply and thereby ensure the smooth financing of the real economy. The partial or full release of the CCyB takes immediate effect.

Cyclical systemic risks in Greece for Q4 2024 were assessed as low and the risk environment as standard. Having regard to the above framework and the advisability of gradually creating macroprudential space, alongside the favourable macroeconomic environment and improved bank fundamentals, the Bank of Greece set the CCyB rate at 0.25%, effective from 1 October 2025.<sup>9</sup> As the assessment of cyclical systemic risks in Greece for the first quarter of 2025 indicated that these risks remain limited, no adjustment to the CCyB rate was deemed necessary.

9 See [Bank of Greece Executive Committee Act 235/2/07.10.2024](#).

## 2 IDENTIFICATION OF OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS (O-SIIS) IN GREECE AND SETTING OF THE O-SII BUFFER RATE

An O-SII buffer<sup>10</sup> aims to reduce moral hazard and strengthen the resilience of O-SIIs. In this context, moral hazard arises when an institution expects not to be let to fail given its systemic importance (“too big to fail”). Imposing additional capital requirements in the form of an O-SII buffer limits excessive risk-taking by a systemically important institution, thus reducing moral hazard. Moreover, it cushions the systemic impact of moral hazard by strengthening the systemically important institution’s capital buffer to absorb potential losses and thus reduces contagion risk.

Under Law 4261/2014 (Article 124), the Bank of Greece is responsible for identifying other systemically important institutions (O-SIIs) among the institutions authorised in Greece. O-SIIs are identified on an annual basis so as to determine whether to apply an O-SII buffer, which consists of Common Equity Tier 1 (CET1) capital.

The Bank of Greece identifies O-SIIs using the methodology set out in the relevant guidelines of the European Banking Authority (EBA/GL/2014/10), as adopted under Bank of Greece Executive Committee Act 56/18.12.2015. According to this methodology, the competent authorities calculate a score indicating the systemic importance of each credit institution based on specific criteria. These criteria relate to size, importance for the Greek economy, cross-border activity and interconnectedness of the institution with the financial system (see Table VIII.1). These four criteria each consist of one or more mandatory indicators, which will be used as a minimum by the competent authorities in calculating the score of each institution. The score of each institution is expressed in basis points (bps). Each competent authority sets a threshold in bps; institutions with a score equal to or higher than that should be identified as O-SIIs. This threshold can be set from 275 bps to 425 bps to take into account the specificities of each Member State’s banking sector and to ensure the homogeneity of the group of O-SIIs designated in this way based on the OSIIs’ systemic importance. The EBA proposes 350 bps as an indicative threshold. Moreover, the competent authorities may designate further relevant entities as O-SIIs based on additional qualitative and/or quantitative indicators of systemic risk.

On the basis of the above, the following credit institutions were designated as O-SIIs for 2024: Alpha Services and Holdings S.A., Eurobank Ergasias Services and Holdings S.A., National Bank of Greece S.A. and Piraeus Financial Holdings S.A.

**Table VIII.1 Mandatory scoring indicators**

| Criterion             | Indicators                                        | Weight (%) |
|-----------------------|---------------------------------------------------|------------|
| Size                  | Total assets                                      | 25         |
| Importance            | Value of domestic payment transactions            | 8.33       |
|                       | Private sector deposits from depositors in the EU | 8.33       |
|                       | Private sector loans to recipients in the EU      | 8.33       |
|                       | Value of OTC derivatives (notional)               | 8.33       |
| Cross-border activity | Cross-jurisdictional liabilities                  | 8.33       |
|                       | Cross-jurisdictional claims                       | 8.33       |
| Interconnectedness    | Intra-financial system liabilities                | 8.33       |
|                       | Intra-financial system assets                     | 8.33       |
|                       | Debt securities outstanding                       | 8.33       |

Source: EBA, [EBA/GL/2014/10](#).

Pursuant to Bank of Greece Executive Committee Act 234/1/23.09.2024, the Bank of Greece decided to set the O-SII buffer rate for 2025 as follows:

- 1.25% for Eurobank Ergasias Services and Holdings S.A. on a consolidated basis; and
- 1% for the following O-SIIs: National Bank of Greece S.A. (on a solo and a consolidated basis), Piraeus Financial Holdings S.A. (on a consolidated basis) and Piraeus Bank S.A. (on a solo basis), Eurobank S.A. (on a solo basis), Alpha Services and Holdings S.A. (on a consolidated basis) and Alpha Bank S.A. (on a solo basis).

<sup>10</sup> Other systemically important institutions are contrasted with those identified as global systemically important institutions (G-SIIs).

### 3 MACROPRUDENTIAL BORROWER-BASED MEASURES

Macroprudential borrower-based measures (BBMs) aim to mitigate the accumulation of systemic risks stemming from the property market and related to private sector (household or business) financing. The activation of BBMs helps prevent excessive easing of credit standards, thereby strengthening borrower resilience and reducing credit risk for lenders.

The Bank of Greece is responsible for enacting macroprudential borrower-based measures under Article 133A of Law 4261/2014, which was inserted by Article 54 of Law 5036/2023, effective from 29 March 2023. Within its macroprudential mandate, the Bank of Greece may adopt a decision laying down, inter alia, the type of borrower-based measures, the ratios or features of credit to which caps apply, as well as the cap percentages, the type of loans to which borrower-based measures apply, and the terms and conditions of their implementation.

The Bank of Greece introduced borrower-based measures (BBMs) for loans and other credit extended to natural persons and secured by residential real estate located in Greece under Executive Committee Act 227/1/08.03.2024, effective from January 2025. More specifically, the cap on the loan-to-value ratio at origination (LTV-O ratio) is set at 90% for first-time buyers<sup>11</sup> and 80% for second and subsequent buyers. Also, the cap on the debt service-to-income ratio at origination (DSTI-O ratio) was set at 50% for first-time buyers and 40% for second and subsequent buyers. More relaxed caps for first-time buyers were set to facilitate their access to the mortgage lending market. Furthermore, credit providers are allowed to exempt up to 10% of the total number of new loans and other credit approved and at least partially disbursed in each quarter at the institution or entity level from each of the abovementioned caps. Compliance with the exemption quotas is assessed separately for first-time buyers and for second and subsequent buyers. The abovementioned BBMs shall not apply to non-performing loans and forborne loans, portfolios of re-performing loans purchased by credit institutions from NPL servicers, as well as to loans disbursed under national housing policy or green transition programmes.

<sup>11</sup> First-time buyer is a borrower who, at the time of approval of the loan, does not have an existing loan relating to residential property.



Global financial conditions improved in 2024, as stock and bond valuations priced in expectations of interest rate cuts by major central banks. In the euro area, short-term bond yields declined, as did investors' inflation expectations. In particular, euro area market-based measures of expected inflation have stabilised at levels below 2%, remaining there into the first quarter of 2025. Therefore, investors in 2024 expected further sizeable interest rate cuts by the ECB in the course of 2025. In the United States, investors' inflation expectations have increased markedly since the end of the third quarter of 2024, driven by higher-than-expected inflation readings, as well as by the recent announcements of US tariffs on trading partners. Against this background, US Treasury yields have risen since the end of the third quarter of 2024, with their rise significantly outstripping the upward revision of investor expectations about key interest rates.

Overall, expectations about the paths of inflation and policy rates vary between the euro area and the United States (see Chart IX.1). Nevertheless, the rise in US Treasury yields observed in the fourth quarter of 2024 was also transmitted to euro area government bond yields, which increased further at the end of February 2025 in anticipation of higher defence spending in the EU. Yields on Greek government, bank and corporate bonds were on a downward trajectory for most of 2024. From the last quarter of 2024 onwards, Greek government bond yields started rising, albeit by less than other euro area sovereign bond yields. Upward pressures on Greek government, corporate and bank bonds have been contained by the positive developments in

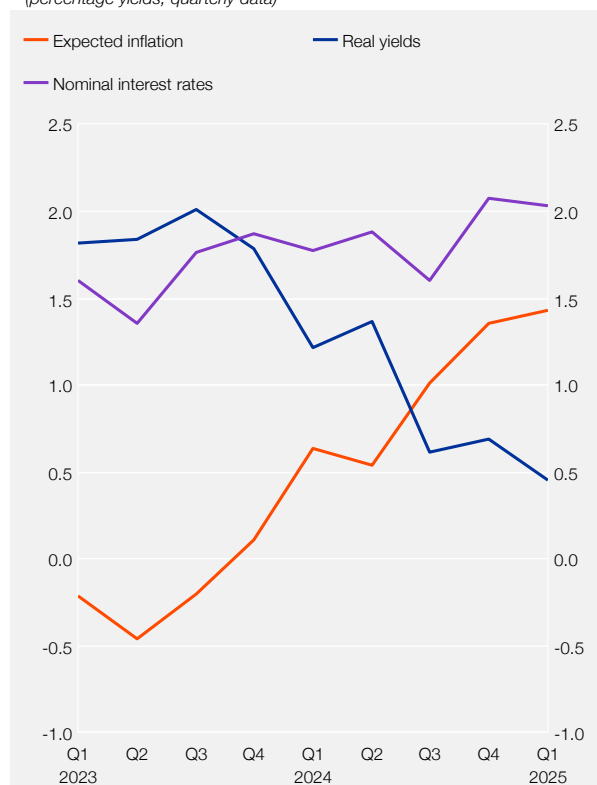
Greece's sovereign credit rating, mainly reflecting the strong performance of public finances and economic activity (see Box IX.1). It is therefore evident that the favourable domestic developments are helping buffer the mounting uncertainty that prevails in the global financial environment.

## 1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS<sup>1</sup>

Investors' expectations about inflation and interest rates in the euro area declined markedly in 2024, leading to lower (mainly short-term) bond yields and higher equity prices. As a result, in-

**Chart IX.1 Divergences in the parameters of expected interest rates between the United States and the euro area**

(percentage yields, quarterly data)

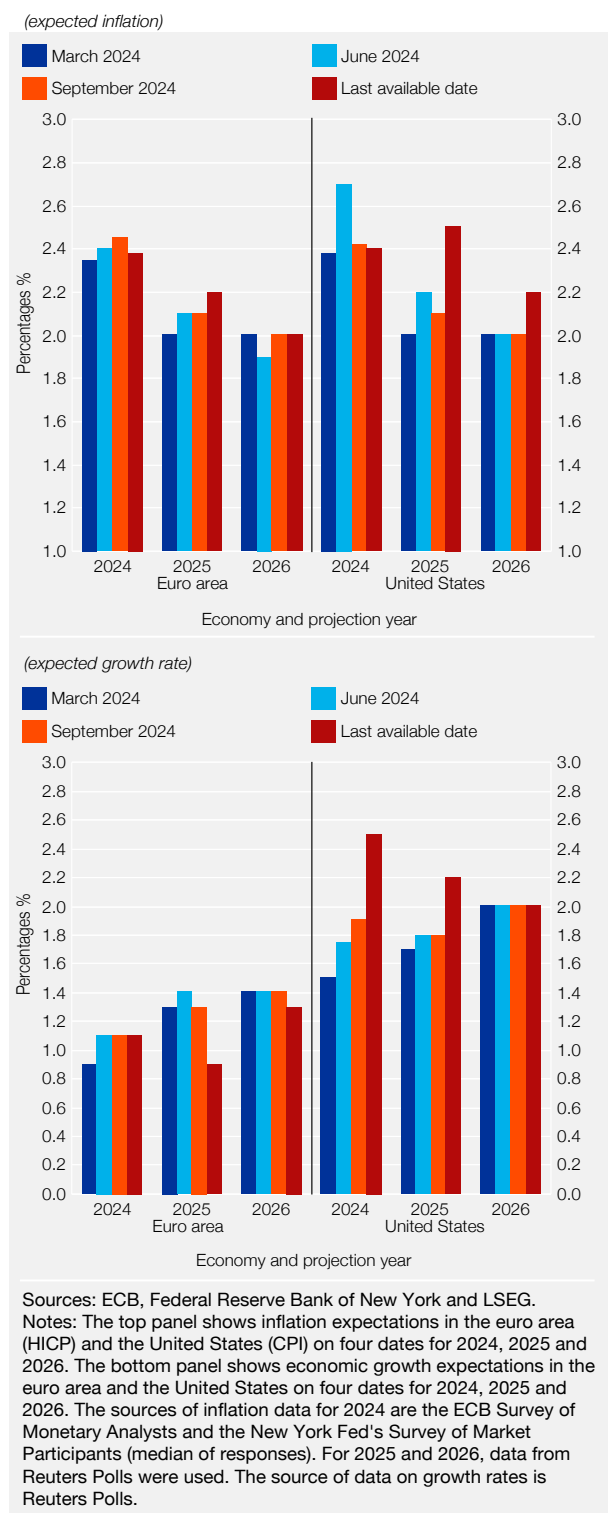


Sources: LSEG and Bank of Greece calculations.

Notes: The chart illustrates the divergences in investor expectations about real yields (blue line), inflation rates (orange line) and nominal interest rates (purple line) between the United States and the euro area over a time horizon of 2 years. For real yields, account is taken of the yield spread between US and euro area 2-year inflation-linked benchmark bonds. For nominal interest rates, the spread between US and euro area 2-year benchmark bond yields is taken into account. For expected inflation rates, the spread between 2-year breakeven inflation rates in the United States and the euro area is considered. Median values were calculated for each quarter on the basis of daily data.

<sup>1</sup> The cut-off date for information and data used in this chapter is 26.3.2025.

**Chart IX.2 Expectations about inflation and growth rates**



investor expectations about euro area inflation over the medium term have converged with the ECB's 2% medium-term inflation target. For 2025, investors are expecting an average annual inflation rate close to target (see Chart IX.2, top panel). On the other hand, expected inflation rates in the United States remain quite distant from the 2% target, while the recent tariff announcements have driven up the market-based measures of inflation expectations.

In this environment, investor expectations about the path of key interest rates in the United States and the euro area have been diverging since the end of September 2024. Although both the ECB and the Fed began reducing interest rates in June and September 2024, respectively, investor expectations about US interest rates have been revised upwards since mid-September, in contrast with expectations about euro area interest rates. In line with this revision, US government bond yields have increased considerably over the same period, also pushing upwards euro area government bond yields.

All in all, global financial conditions are now more favourable compared with one year earlier. However, as equity valuations for a number of companies in specific sectors appear to exceed the levels that are explained by their fundamentals, financial conditions are vulnerable to revisions of the assumptions embedded in valuations, such as on the level of interest rates or the economy's growth rate. Thus, given that the current environment of heightened international geopolitical and economic uncertainty is conducive to revisions in investors' expectations about the future path of key interest rates, this has an adverse effect on equity markets and heightens the volatility of stock and bond prices. Besides, the interest rate and economic growth outlook strongly affects investment fund flows into bonds and equities worldwide (see Box IX.2).

Turning to Greece, government bond yields have largely tracked developments in the other

euro area sovereign bond yields. While Greek government bond yields in 2024 had been declining until the end of the third quarter, they started rising ever since, in line with other euro area sovereign bond yields. Certainly, the upgrades of Greece's sovereign credit rating, along with its favourable outlook, are leading to considerably stronger investor participation in new issues of Greek government bonds, easing the upward pressure of international developments on their yields.

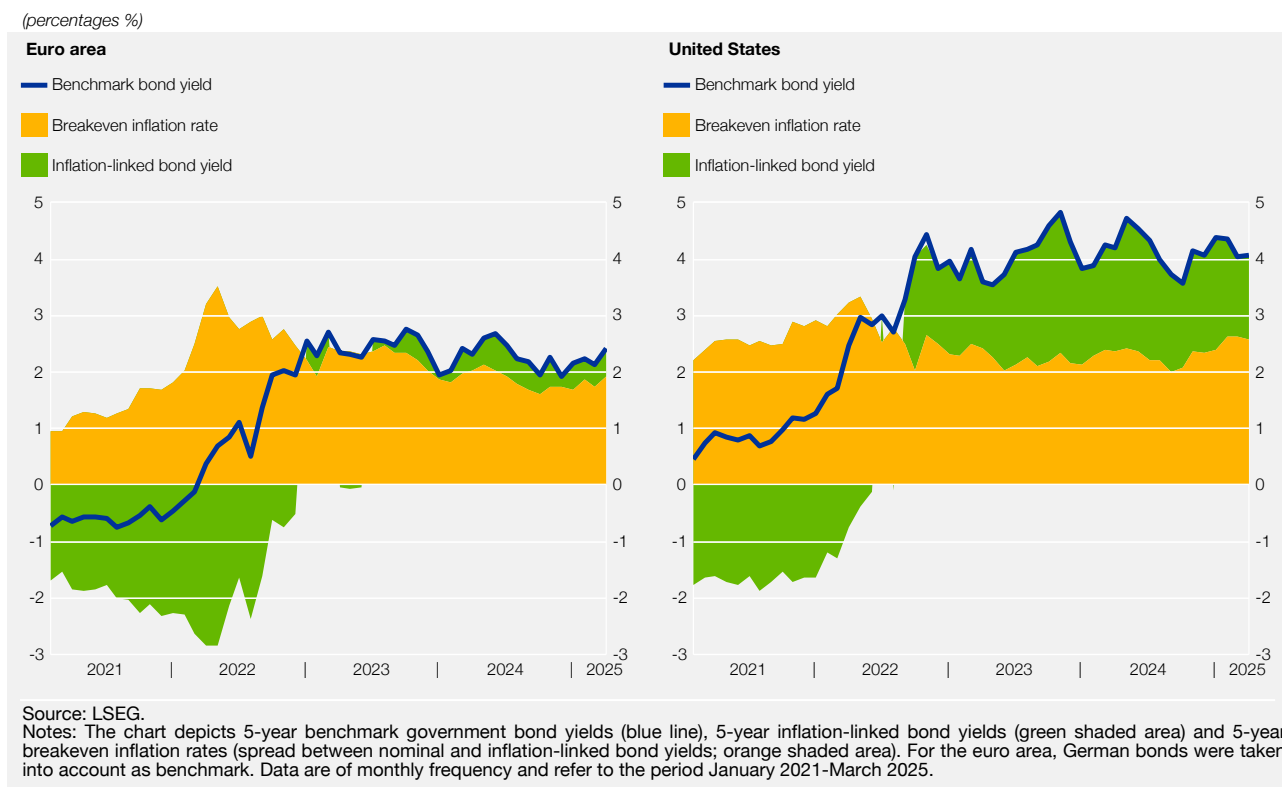
Last but not least, the credit ratings of Greek significant banks were upgraded in 2024 and in the first months of 2025. This reduces their funding costs in global markets, benefiting their net interest income (for a more detailed analysis, see Box IX.3).

## 2 GLOBAL MONEY AND CAPITAL MARKETS

Investors' expectations about euro area inflation over the medium term declined further in 2024, with the 5-year breakeven inflation rate averaging close to but below the Eurosystem's 2% medium-term inflation target. As shown in Chart IX.3, left-hand panel (orange shaded area), market-based measures of medium-term inflation expectations in the euro area have stabilised at levels below the 2% target since the first quarter of 2024. Yet, their downward trend was reversed in mid-February 2025, amid uncertainty in global markets following the announcement of US tariffs on major trading partners and on steel and aluminium imports.<sup>2</sup> Over the longer term, market-based measures of inflation expectations in the euro area remain anchored around the 2% inflation target.<sup>3</sup>

On the other hand, as the US economy turned out to be more resilient and inflation proved more persistent than initially expected by investors, market-based measures of medium-term inflation expectations in the United States rose in the last quarter of 2024. In the first months of 2025, inflation expectations exhibited strong volatility, as their initial rise, following the US tariff

Chart IX.3 Market-based measures of expected inflation and real interest rates



- 2 On 26.3.2025, the 5-year breakeven inflation rate in the euro area stood at 1.92%, down by 0.72 percentage points from the level seen before the ECB started to raise its key interest rates in July 2022. On average, it dropped by 18 basis points in 2024, while for the first months of 2025 it has risen by 24 basis points since the beginning of the year.
- 3 On 26.3.2025, in the euro area, the 10-year breakeven inflation rate stood at 2.08% (broadly as in July 2022), while the 5-year, 5-year forward inflation-linked swap rate was 2.14%.

announcements, was subsequently reversed due to the postponement of tariffs. Overall, bond markets expect that inflation in the United States will miss the Fed's target of 2% on average over the next 5 years by a significant margin.<sup>4</sup> A positive deviation from the 2% inflation target appears to be entrenched over a longer time horizon.<sup>5</sup>

Against this backdrop, investors' inflation expectations vary markedly between the United States and the euro area. This development is significant, as it contributes to a divergent monetary policy outlook between the two economies.

Furthermore, investor expectations about growth rates in the United States and the euro area were largely different in 2024, suggesting that investors were anticipating stronger average growth rates for the US economy than for the euro area.<sup>6</sup> Yet, during the first months of 2025, US government bond yields in real terms declined sharply after disappointing data releases on economic activity and the labour market, while uncertainty about the economic impact of tariffs was also a drag.<sup>7</sup> By contrast, real yields on euro area benchmark bonds have increased in the year to date, narrowing the gap vis-à-vis their US counterparts, with the increase becoming pronounced in early March, when EU countries announced their intention of modifying fiscal rules to allow for higher defence spending.

Therefore, it appears that both expected inflation rates and expected growth rates imply divergent investor expectations about the future path of key interest rates in the euro area and the United States. With regard to the euro area, investors on 26 March 2025 expected further interest rate cuts of 50 basis points cumulatively by the ECB during 2025, on top of the cuts of a total 50 basis points that had taken place in January and March (see Chart IX.4, left-hand panel). Turning to the United States, expectations about the policy rate had already been revised upwards by the end of 2024, pointing to a higher interest rate level compared with the end of the third quarter. Investors currently expect additional interest rate cuts by the Fed ranging between 50 and 75 basis points in the course of 2025, indicating a sizeable downward revision of investor expectations, as in September 2024 the Fed was expected to lower the policy rate within 2025 by 125 basis points.

The revised investor expectations about the path of US interest rates, compounded by the upward revision of expected inflation, have added to market uncertainty about the monetary policy outlook. For instance, out of the total increase of around 110 basis points in the 10-year US Treasury yield that was recorded in 2024, 80 basis points are accounted for by the term premium, which is associated with the uncertainty surrounding the evolution of interest rates.<sup>8</sup> As US Treasuries are benchmark bonds in global markets, their rising yields triggered an increase in the yields of other bonds around the world (see Chart IX.5).

For euro area government bonds in particular, the transmission of the rise in US government bond yields more than offset the downward effect of the ECB's interest rate cuts, resulting in higher yields from the fourth quarter of 2024 onwards. This increase is more pronounced for

4 On 26.3.2025, the 5-year breakeven inflation rate in the United States stood at 2.59%, down by 0.68 percentage points from the level seen before the Fed started to raise its policy rates in March 2022. On average, it rose by 28 basis points in 2024 and by a further 19 basis points in the first months of 2025.

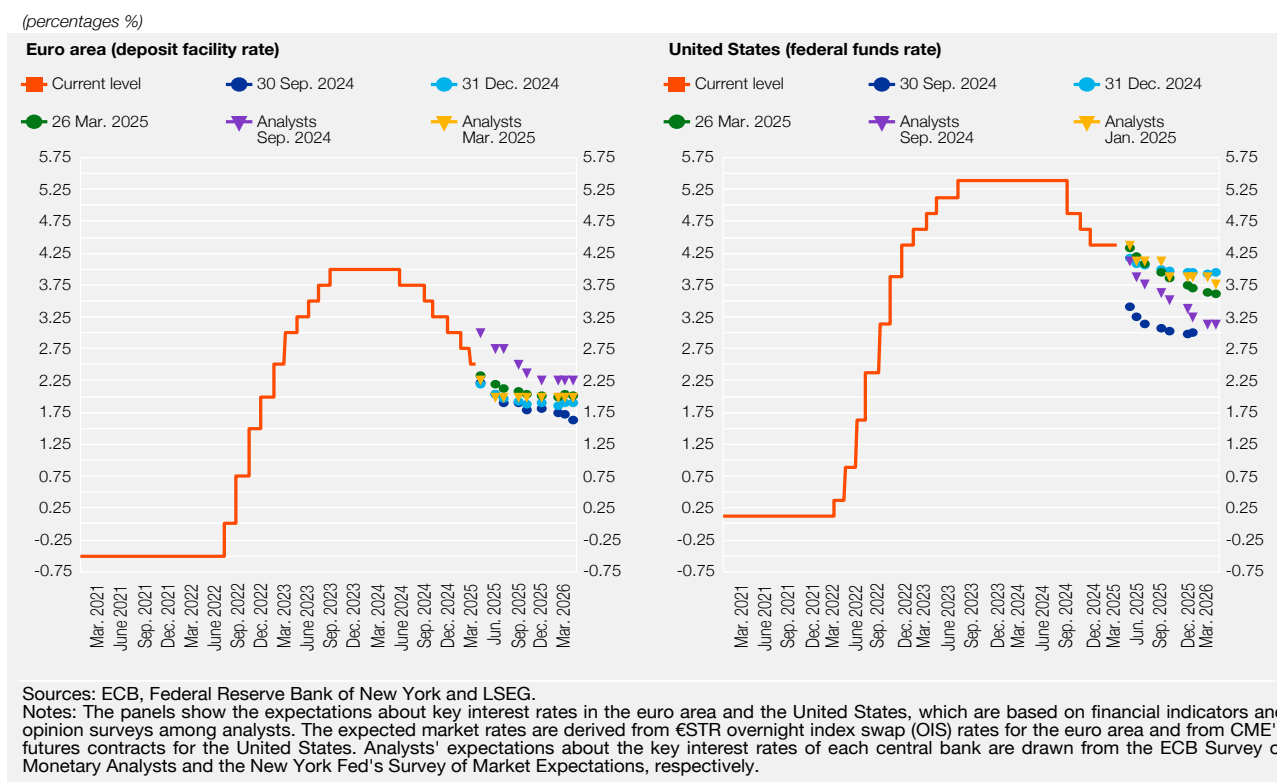
5 On 26.3.2025, in the United States, the 10-year breakeven inflation rate stood at 2.35% (against 2.86% in March 2022), while the 5-year, 5-year forward inflation-linked swap rate was 2.43%.

6 According to international literature, real yield curves mainly reflect expectations about the growth rates of the underlying economy (see e.g. Bauer, M.D. and G.D. Rudebusch (2020), "Interest rates under falling stars", *American Economic Review*, 110(5), 1316-1354).

7 5-year inflation-linked bond yields stood at 1.99% on 31.12.2024 and at 1.47% on 26.3.2025 in the United States, whereas in the euro area they were 0.46% and 0.5%, respectively.

8 The term premium on 10-year US Treasuries reached 81 bps on 13.1.2025, against just 4 bps on 16.9.2024. The surge moderated thereafter and on 21.3.2025 this indicator came to 51 bps. Source: Federal Reserve Bank of Saint Louis.

Chart IX.4 Expected key interest rates in the euro area and the United States



long-term bond yields, as the prospect of a policy rate cut affects more strongly yields across shorter maturities. As a consequence, the yield curves have turned positive (see Chart IX.6).<sup>9</sup> At the same time however, higher government bond yields in the euro area are also driven by developments in specific member countries. Indicatively, occasional bouts of volatility were observed in European bond markets due to political developments in large euro area economies.<sup>10</sup>

Global equity prices surged in 2024, with the US equity market posting strong positive returns, mainly driven by the rising prices of technology stocks.<sup>11</sup> Yet, this surge occurred amid conditions of low, by historical standards, volatility. Euro area equity prices have kept rising into the first months of 2025. Meanwhile, in the United States, after the announcement of the new administration's plan to impose tariffs on trading partners, a substantial increase in implied volatility indices has been observed, reversing since mid-February the past rise in equity prices that was recorded at the beginning of the year. As a result, it appears that in an international environment of valuations exceeding what some listed companies' fundamentals justify, market sentiment has been adversely affected by the uncertainty over the US economic policy and its potential impact on inflation and economic activity.

In sum, an environment has emerged where the macroeconomic assumptions embedded in equity and bond valuations are subject to considerable uncertainty. Specifically, expected growth

9 Spread between 10-year and 2-year US Treasuries: +33 bps on 26.3.2025. The respective spread for German bonds was +67 bps on 26.3.2025.

10 For example, French government bond yields rose sharply when the fiscal deficit reduction plan contained in the Barnier government's 2025 draft Budget was rejected by the Assemblée Nationale.

11 Specifically, the S&P 500 rose by 23.3% in 2024. On the other hand, the EURO STOXX in Europe and the MSCI World Index increased by 6.5% and 17.0%, respectively. Since the beginning of 2025, the S&P has declined by 1.81%, whereas the MSCI World and EURO STOXX indices have risen by 1.1% and 11.8%, respectively. The technology and banking sectors in the United States and the banking and industrial sectors in the euro area led the rally in the composite stock market indices in 2024. Meanwhile, the VIX and VDAX volatility indices in 2024 averaged below their 2023 levels.

**Chart IX.5 Ten-year government bond yields**  
(January 2021 - March 2025)

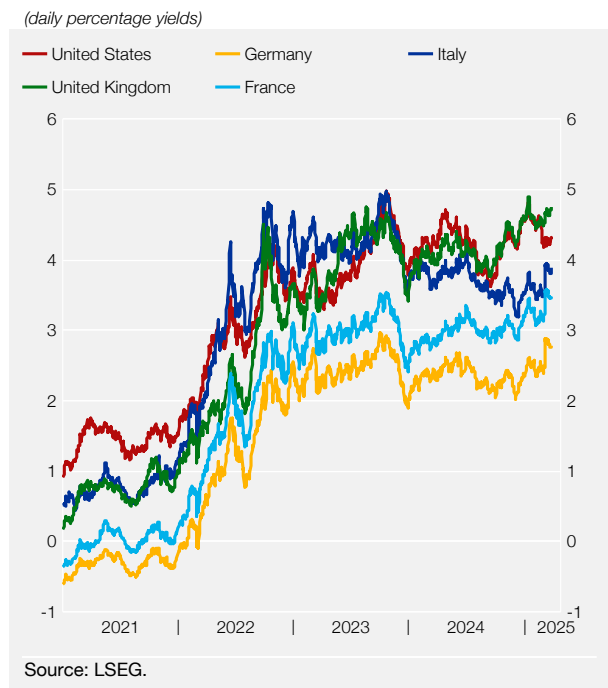
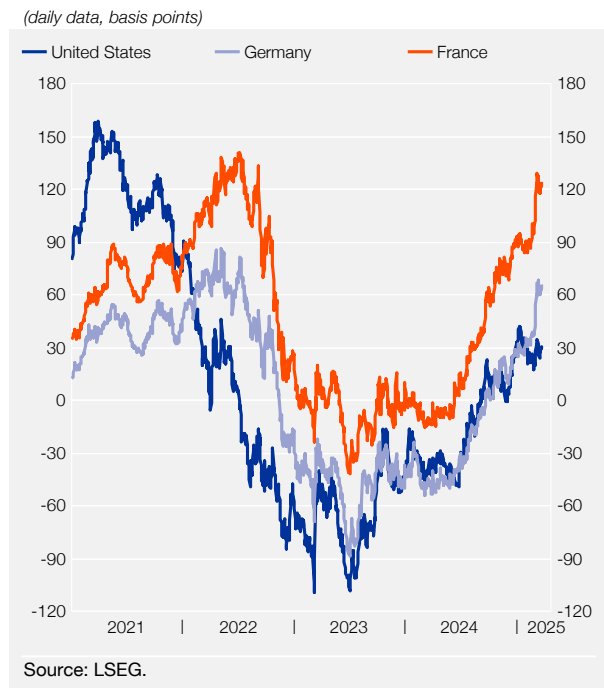


**Chart IX.6 Yield spreads between ten-year and two-year benchmark bonds**  
(January 2021 - March 2025)



rates for the euro area and the United States are vulnerable to changes in the US economic policy, whereas investors' inflation expectations, especially in the United States, have been pushed upwards by the tariff announcements. In this environment, as investors have revised upwards their expectations about key interest rates in the United States relative to the end of the third quarter of 2024, government bond yields, hence borrowing costs, both in the United States and in the euro area have increased markedly. On balance, financial conditions in 2024 improved globally, including in the euro area, but are highly vulnerable to developments that may weigh on the growth or inflation outlook across the globe.

### 3 GREEK GOVERNMENT BONDS

The upgrade of Greece's sovereign credit rating to investment grade contributed to a considerably larger reduction in Greek government bond yields than in other euro area sovereign bond yields during 2024 up until the third quarter. Thereafter, Greek government bond yields have largely followed the rising yields of the other euro area sovereign bonds for the reasons mentioned above. Nevertheless, the rise in Greek government bond yields has since then been significantly smaller than that in other euro area bonds, reflecting further positive developments in Greece's credit rating (see Box IX.1).

#### 3.1 Credit rating developments

Greece's sovereign credit rating has been substantially upgraded over the past few years, with further positive developments in 2024 and a favourable outlook for 2025. More specifically, all credit rating agencies that are accepted by the Eurosystem under its monetary policy implementation framework (i.e. Fitch, Moody's, Morningstar DBRS, Scope Ratings and S&P) have already assigned investment grade ratings to Greece (see Chart IX.7). Scope Ratings further upgraded the Greek economy from BBB- to BBB at the end of 2024. The upgrades continued into the first months of 2025, with Morningstar DBRS upgrading the Greek economy to BBB (from BBB (low), which is equivalent to BBB-) in early March. In mid-March, Moody's also up-

graded Greece's rating from Ba1 (equivalent to BB+) to Baa3 (equivalent to BBB-). Before the aforementioned upgrades, these agencies had changed their credit outlook on Greece to positive, suggesting a high probability of further upgrades within a short period of time.<sup>12</sup>

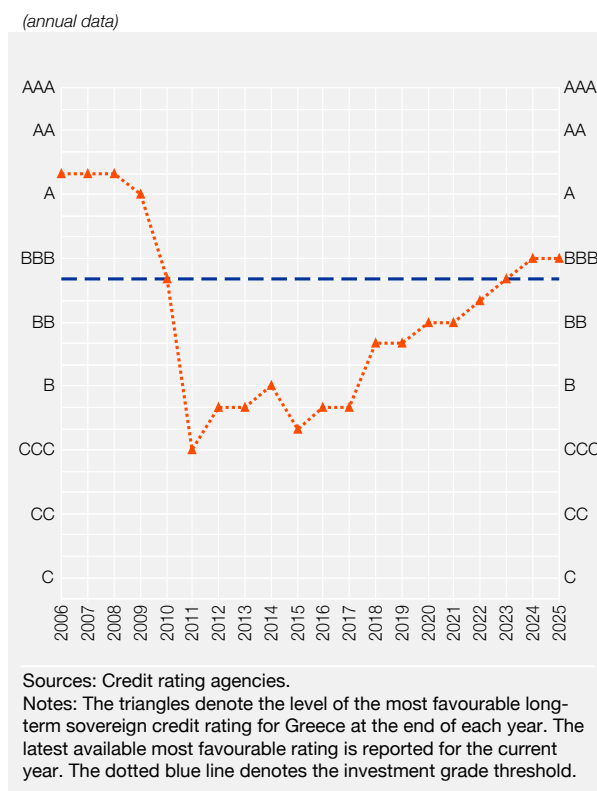
According to the agencies, the drivers of upgrades included the stronger-than-expected growth rate of the Greek economy, the overachievement of fiscal targets, the sizeable decline in the debt-to-GDP ratio, the reduction of non-performing loans and political stability. This development has already had visible broader positive effects, as evidenced by the subsequent upgrades of Greek banks and corporations, which contribute to reduced borrowing costs for the Greek economy in general, as well as by international investment funds' increased holdings of Greek bonds and equities. The further improvement of public finances, the sustained strong performance of the Greek economy and the continuation of structural reforms are expected to underpin credit ratings, leading to further upgrades (see Box IX.1).

### 3.2 Market developments

Credit ratings are a key determinant of international investment funds' portfolio allocation. Thus, demand for Greek government bonds by international investors had been growing since the prospect of the Greek economy's upgrade to investment grade became visible, leading to a large increase in holdings of Greek government bonds.<sup>13</sup> Since then, on the basis of international investment position data, investment funds' holdings of Greek government bonds have grown by more than EUR 7 billion. By increasing demand for Greek securities, the upgrades have a downward effect on Greek government bond yields, which is explained by the significant reduction in the credit risk component of Greek bonds.<sup>14</sup>

As a consequence, the spreads of Greek government bonds against other euro area sovereign bonds have narrowed to levels comparable with those seen before the debt crisis (see Chart IX.8).<sup>15</sup> In particular, the spread of the Greek 10-year bond vis-à-vis the German Bund was around 86 basis points on 26 March 2025, about 110 basis points lower than its average level in the first quarter of 2023, i.e. before investors began anticipating Greece's imminent upgrade to investment grade. Furthermore, Greek government bonds continue to have lower yields than other euro area bonds with comparable ratings, such as Italian government bonds

Chart IX.7 Greece's sovereign credit rating (2006 - 2025)



<sup>12</sup> For the time being, S&P has maintained a positive outlook on the Greek economy since 19.4.2024. Overall, in 2024 all credit rating agencies except Fitch changed the outlook for Greece's upgrade from stable to positive, before actually assigning higher credit ratings.

<sup>13</sup> See Giannakidis, H., L. Karathanos, A. Kontinopoulos, A. Lampousis and P. Migiakis (2024), "The investment grade and funds' portfolio allocation in Greek assets", Bank of Greece, *Economic Bulletin*, No. 59, 7-24.

<sup>14</sup> See Box 9 "The impact of policy rate expectations on yield curves in the euro area and the United States", Bank of Greece, *Monetary Policy 2023-2024, Executive Summary and Boxes*, June 2024.

<sup>15</sup> The spread between Greek 10-year government bonds and the respective German bonds averaged 87 bps over the period 1.1.2007-30.9.2009.

Chart IX.8 Ten-year government bond yield spreads  
(January 2021 - March 2025)

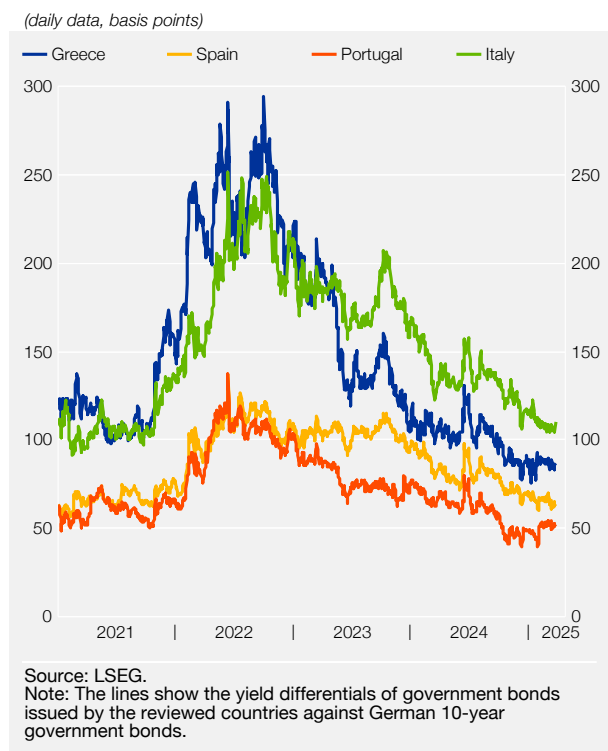
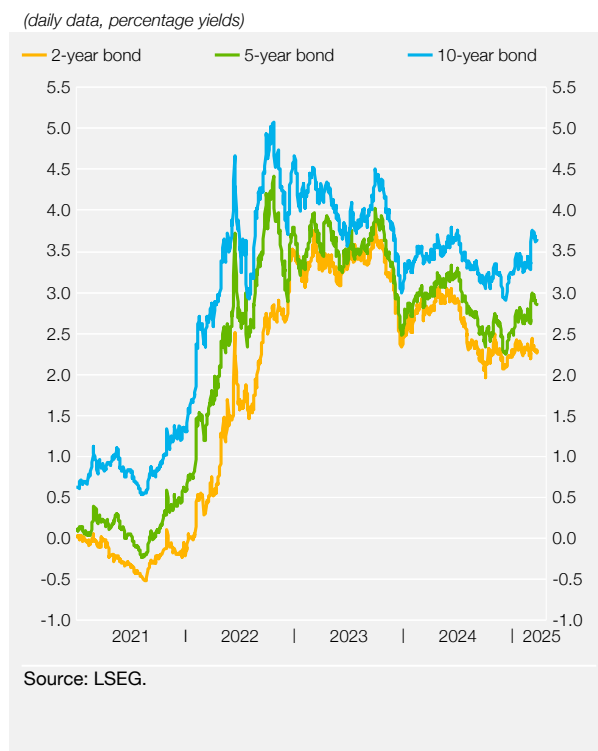


Chart IX.9 Greek government bond yields  
(January 2021 - March 2025)



(indicatively, the spread between the Greek and the Italian 10-year bond was -34 basis points in 2024 on average and -24 basis points on 26 March 2025, against -11 basis points on 1 January 2023).

Since spring 2024, Greek government bond yields have been closely tracking developments in other euro area sovereign bond yields, initially declining, amid expectations of forthcoming policy rate cuts, and lately increasing, as the rising trend of US Treasuries was transmitted to euro area sovereign bonds. Overall, yields across the entire maturity spectrum of Greek government bonds were lower on 26 March 2025 than before expectations of upgrades emerged and eventually materialised in 2023 (see Chart IX.9).

The Greek government raised more funds with a medium-to-long-term maturity on international capital markets in 2024 than in 2023, while strong demand for the issues of 2024 continued into early 2025. Bond issues in 2024 had a lower weighted average yield compared with 2023, which is associated with the upgrade to investment grade and the ensuing increased demand for Greek securities, Greek government bonds in particular, by international investors. Specifically, in 2024 the Greek government launched 11 bond reopenings amounting to EUR 2.55 billion and two new bond issues totalling EUR 7 billion. The weighted average coupon and yield of the new issues in 2024 stood at 3.7% and 3.6%, respectively, while their weighted average maturity came to 16 years, up by around five years relative to 2023. In 2023, fixed-rate bonds amounting to a total of EUR 11.5 billion were issued, with a weighted average yield of 4.2%. In January 2025, the Greek government issued a 10-year bond and raised EUR 4 billion; the issue was oversubscribed by ten times and the yield stood at 3.637%. On 12 February 2025, the EUR 250 million bond issue of January 2025 was reopened with a yield of 3.24%. In mid-March 2025, the Greek government reopened its 15-year and 30-year bonds, with a yield of 4.057% and 4.408%, respectively, raising a total of EUR 3 billion. These issues were oversubscribed by 17 and 20 times, respectively. As a result, the Greek government has almost fully met its market-based debt funding target for the year 2025.

It should be noted that reduced borrowing costs have facilitated public debt management by the PDMA, resulting in the gradual replacement of debt, mainly higher-cost loans with bonds issued at lower interest rates, as well as in the replacement of short-term securities with longer-term issues. In 2024, short-term securities (i.e. 3-month, 6-month and 12-month Treasury bills) totalling EUR 16.3 billion were issued, down from EUR 24.1 billion in 2023, with lower weighted average issue costs (3.36%, against 3.49% in 2023). Between 1 January and 11 March 2025, short-term securities worth EUR 3 billion were issued, down from EUR 4.1 billion year-on-year, with weighted average issue costs decreasing to 2.4% from 3.8%, respectively.

Lastly, transaction volumes on the secondary market shrank modestly in 2024. In more detail, the average daily value of transactions on the Electronic Secondary Market for Government Securities (HDAT) came to a weighted average of around EUR 107 million, compared with EUR 106 million in 2023. The average daily trading volume on the Dematerialised Securities System (DSS), which settles both domestic and international transactions in Greek government bonds, reached EUR 487 million in 2024, down from EUR 582 million in 2023. During the first two months of 2025, the weighted average daily value of transactions on HDAT was around EUR 218 million, up from EUR 84 million over the same period of 2024. On DSS, the corresponding figures were EUR 823 million and EUR 610 million, respectively.

## 4 GREEK CORPORATE BONDS

### 4.1 Greek bank bonds

Greek banks largely meet their funding needs by issuing bonds on the international market. In fact, funding is raised on favourable terms, as yields on new issues, despite the recent rise in European bank bond yields, continue to decline as a result of the upgrades in Greece's and Greek banks' credit ratings. The above developments have compressed funding costs for Greek banks on international capital markets, as senior bank bond yields have declined on average by about 430 basis points since April 2023, when S&P, by changing its credit outlook on the Greek economy to positive, signalled Greece's imminent upgrade to investment grade (see Chart IX.10).

In 2024, bond issue costs kept falling for the four Greek significant banks, with the weighted average yield on new issues standing at 4.3% for senior bonds and at 6.2% for subordinated bonds, i.e. down by about 240 basis points and 350 basis points, respectively, compared to 2023. Meanwhile, bond issuance more than doubled in 2024: banks issued senior debt worth EUR 5 billion and subordinated debt worth EUR 2.75 billion, whereas total bank bonds issued in 2023 amounted to EUR 3.5 billion.

The declining trend in Greek banks' borrowing costs was sustained throughout the first few months of 2025, despite the recent rise in European bank bond yields, as the upgrades of Greek significant banks' ratings are still ongoing.

**Chart IX.10 Yields on senior bonds issued by Greek and European banks (January 2022 - March 2025)**

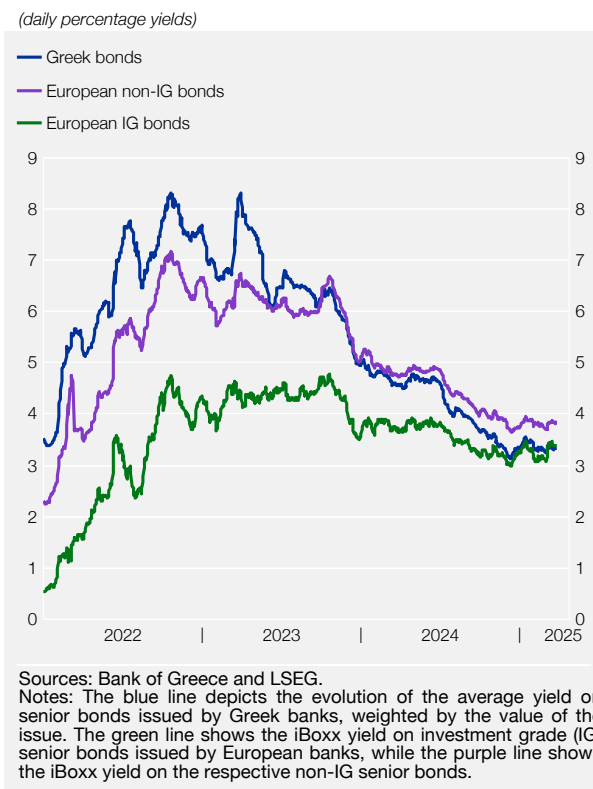
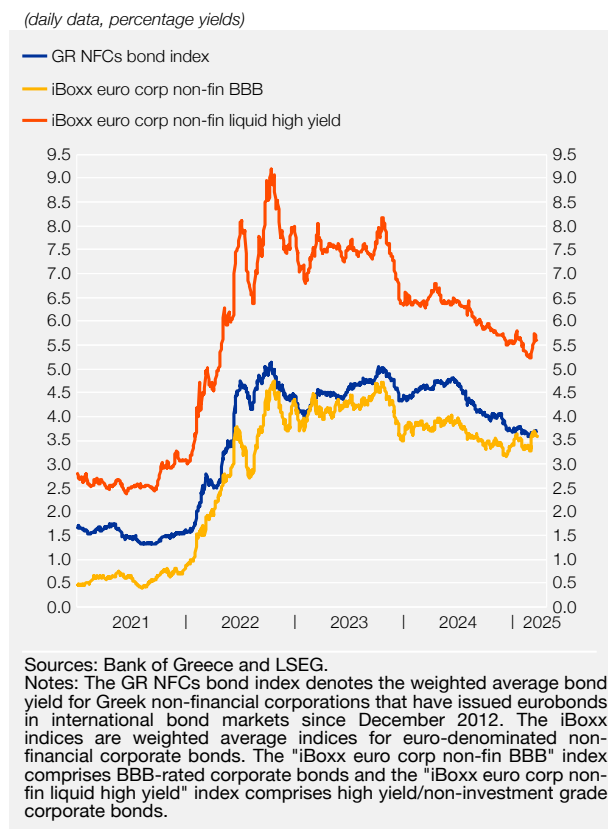


**Chart IX.11 Greek and other European non-financial corporate bond yields**  
(January 2021 - March 2025)



towards those of European bonds with ratings above but close to the investment-grade threshold (BBB), particularly after the first half of 2024 (see Chart IX.11). On 26 March 2025, yields on bonds issued by Greek non-financial corporations remained broadly unchanged compared with the beginning of the year, whereas yields on European BBB-rated bonds increased by 20 basis points.

## 5 STOCK MARKET

Global equity markets in 2024 continued to follow an upward path, as in 2023, driven among other things by investor expectations of policy rate cuts. Despite this upward trend, the episodes of

ing.<sup>16</sup> Bond issuance activity continues in 2025, amounting to EUR 0.9 billion so far. The issuance of new bonds at a relatively lower cost also enables the repayment of bonds issued at a higher cost, thereby contributing to a structural improvement in banks' net interest income without an increase in borrowing costs for the real economy.<sup>17</sup>

As expected, credit rating upgrades are still ongoing for Greek significant banks,<sup>18</sup> which are already investment grade-rated.<sup>19</sup>

### 4.2 Bonds issued by Greek non-financial corporations

In 2024, five bonds were issued by Greek non-financial corporations, with funds raised amounting to EUR 2.13 billion.<sup>20</sup> Non-financial corporate bond yields declined by 73 basis points in 2024, as the gains from the successive positive developments in the sovereign credit rating, coupled with expectations of policy rate cuts, reversed the upward trend seen in the first half of the year. Over the same period, yields on European corporate bonds rated around the investment-grade threshold (BBB) decreased by 16 basis points.

Against this background, the yields of Greek non-financial corporate bonds continued to converge

<sup>16</sup> In the year to date, yields on new senior and subordinated bonds are 4.0% and 4.3%, respectively.

<sup>17</sup> The four Greek significant banks have issued bonds worth around EUR 21.6 billion since 2018. Out of the outstanding amount of about EUR 18.5 billion, EUR 11.9 billion was raised through the issuance of senior debt, while the remaining EUR 6.6 billion was raised through the issuance of subordinated debt.

<sup>18</sup> See Box 6 "Greek banks' credit rating upgrades", Bank of Greece, *Monetary Policy – Interim Report 2024, Executive Summary and Boxes*, December 2024. Further upgrades have taken place in 2025. On 31.1.2025, S&P upgraded by one notch the credit ratings of National Bank of Greece (to BBB- from BB+), Eurobank (to BBB- from BB+) and Piraeus Bank (to BB+ from BB). In addition, on 13.3.2025, Morningstar DBRS upgraded National Bank of Greece's and Eurobank's deposit credit ratings to BBB from BBB (low). Lastly, Moody's upgraded National Bank of Greece and Eurobank to Baa1 from Baa2, Alpha Bank and Piraeus Bank to Baa2 from Baa3, and Attica Bank to Ba2 from B1.

<sup>19</sup> It should be noted that Moody's assigns investment-grade ratings to the four significant banks for their deposits and their senior long-term debt. The most favourable issuer ratings assigned so far by the other two major agencies are: BBB- (S&P) for National Bank of Greece; BBB- (S&P) for Eurobank; BB+ (S&P) for Alpha Bank; and BB+ (S&P) for Piraeus Bank.

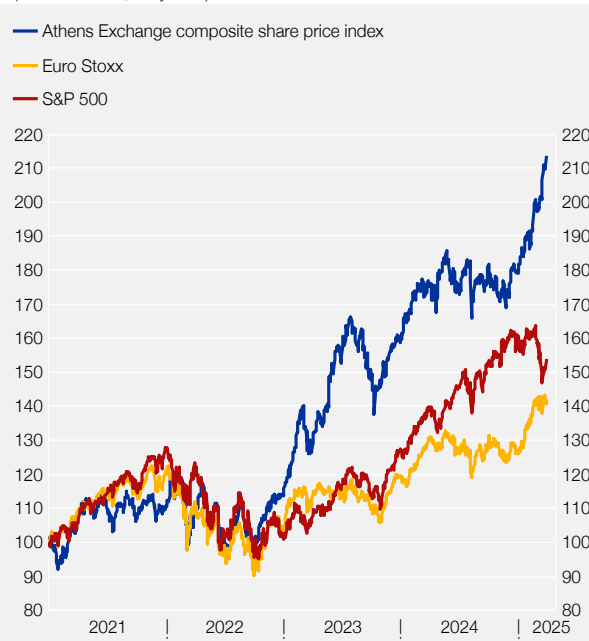
<sup>20</sup> Since 2013, Greek non-financial corporations, through their subsidiaries, have issued on international markets bonds amounting to a total of around EUR 14.5 billion, with their outstanding balances coming to EUR 4.9 billion. On the domestic market, bonds totalling around EUR 4.9 billion have been issued since 2016, with their outstanding balances standing at around EUR 3.9 billion.

heightened volatility in the US market in August 2024 and in January-February 2025, the downward revisions of corporate earnings forecasts in the euro area and the upward adjustments in expectations about the Fed's and the ECB's key interest rates in the fourth quarter of 2024 suggest that stock valuations remain volatile.<sup>21</sup>

Share prices on the Athens Exchange (Athex) kept rising in 2024 and early 2025 (change in the composite index: 2024: +13.7%; 2025-to-date: +17.5%; see Chart IX.12), with volatility in 2024 standing at lower levels year-on-year (the annualised average monthly volatility of daily stock returns in 2024 subsided by 3.5 percentage points to 14.6% compared with 2023). The shares of Greek banks, industrial companies and consumer goods companies made the largest contributions to the positive performance of the Athex index. In greater detail, the FTSE/Athex Banks index, which accounts for about one-fourth of the composite index's market capitalisation, rose by 21.1% in 2024 and by 31.1% in 2025 to date, mostly in connection with Greece's upgrade to investment grade, as well as with Greek banks' credit rating upgrades, increased profitability and resumed dividend distribution.

**Chart IX.12 Share price indices  
(January 2021 - March 2025)**

(1.1.2021=100, daily data)



Source: LSEG.

Note: The indices were rebased to the beginning of 2021, i.e. the share prices as of 1 January 2021 are set at 100 and all other observations capture the evolution of the indices relative to the reference value.

The considerably stronger demand for Greek shares by international investors has greatly facilitated the divestment of the Hellenic Financial Stability Fund's stakes in Greek systemic banks. At the same time, stock market-based financing was made easier for Greek companies. In 2024, four companies were listed on the primary market of the Athens Exchange, attracting strong investor interest, while eight companies were delisted. Respectively, since the beginning of 2025 two companies have been listed and one company has been delisted. Moreover, share capital increases were effected in 2024 by Athex-listed non-financial corporations. Including the newly-listed companies, the total amount of funds raised came to around EUR 371 million, against approximately EUR 494 million in 2023. In the first two months of 2025, share capital increases amounted to EUR 277 million, up from EUR 75 million over the same period of 2024.

Lastly, trading activity on the Athens Exchange (average daily volume of transactions) in 2024 amounted to EUR 132.2 million, up by about 19.5% in 2023. In early 2025, trading activity increased by 24% year-on-year to EUR 182 million.

<sup>21</sup> For instance, according to the I/B/E/S Global Aggregates database by LSEG, analysts on 26.3.2025 expected a slightly lower growth rate of EURO STOXX firms' earnings for the financial year 2025 compared with the beginning of 2024 (6.3% and 9.2%, respectively).

#### Box IX.1

### THE OUTLOOK OF THE GREEK ECONOMY'S SOVEREIGN CREDIT RATINGS

Credit ratings are a crucial criterion in international investors' decisions to invest both in securities (bonds and equities) and directly in the real economy. Thus, studies about the impact of credit ratings on the structure of in-

vestment portfolios, as well as on foreign direct investment (FDI) flows, find that both investment categories grow significantly following an upgrade of the sovereign credit rating of the underlying economy.<sup>1</sup>

As regards the Greek economy, the impact of the sovereign credit rating upgrades to investment grade status is already visible. Specifically, international investment funds increased their positions in Greek bonds and equities by EUR 5 billion from the fourth quarter of 2022 to the third quarter of 2023. This rise is explained by expectations of an upgrade of the sovereign credit rating to investment grade.<sup>2</sup> Furthermore, based on Greece's international investment position data, from the third quarter of 2023 up to the third quarter of 2024 investment portfolios increased their positions in Greek equities by EUR 5.6 billion and in Greek bonds by EUR 7.7 billion. Heightened demand for Greek bonds and equities by international investment funds owing to the aforementioned upgrades is estimated to have greatly contributed to reducing the cost of borrowing for the Greek government, banks and non-financial corporations, as well as to improving financing conditions through these funds' participation in the share capital of Greek firms, thereby supporting investment activity in the real economy. Hence, also in the case of the Greek economy, the major impact of credit rating upgrades on both portfolio investment and the real economy is confirmed.<sup>3</sup>

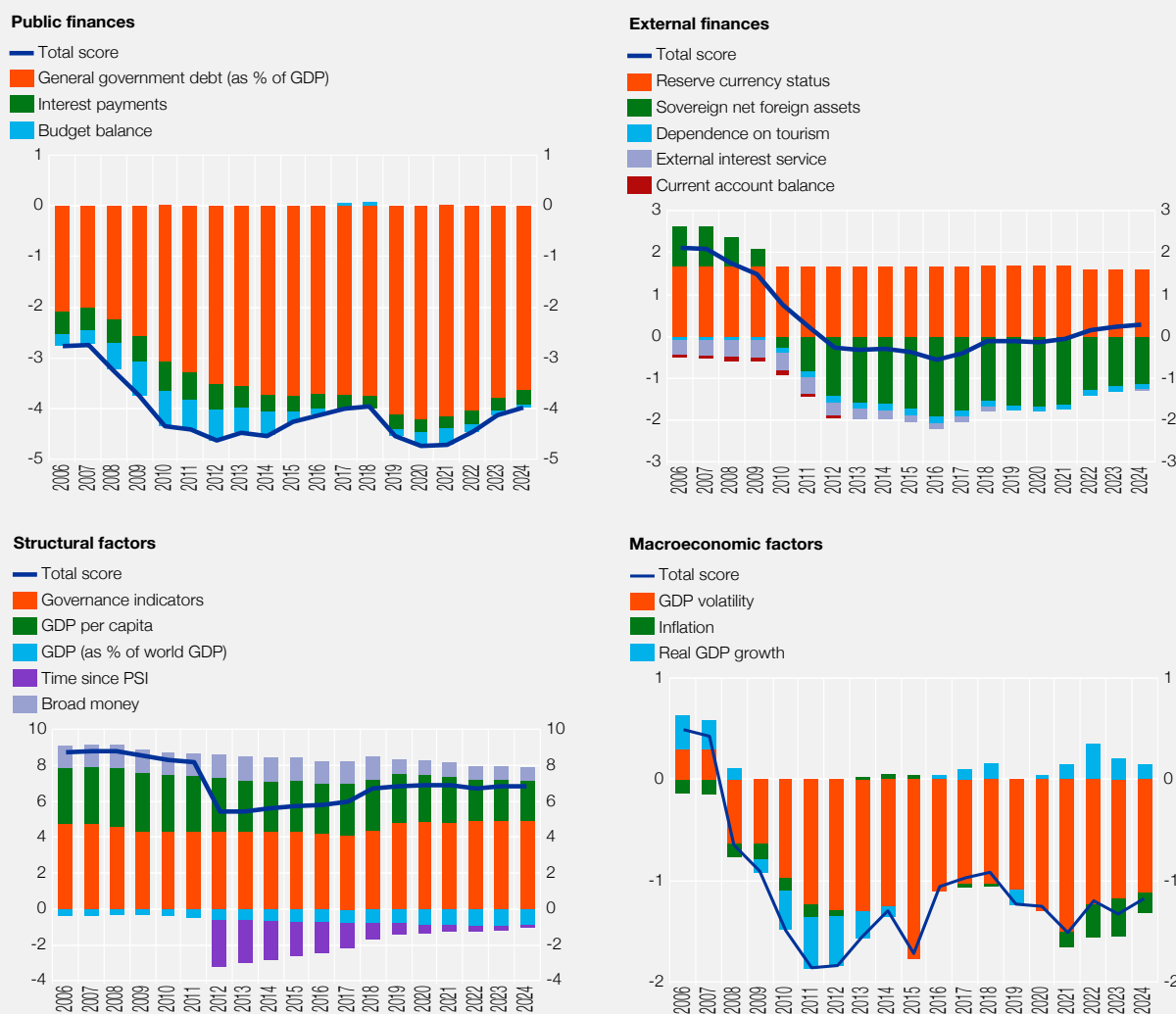
### Outlook for Greece's sovereign credit ratings

The prospects for further upgrades of the sovereign credit rating are mostly positive. In particular, S&P has changed its outlook on Greece's rating to positive, while Moody's, Morningstar DBRS and Scope recently upgraded Greece's credit rating, having assigned a positive outlook before the upgrades.<sup>4</sup> This box analyses the parameters and their outlook, taking into account expected developments in economic activity and public finances, in order to draw conclusions on the upgrades of the Greek economy in the course of 2025 and their potential evolution. The analysis focuses on the three major rating agencies (Fitch, Moody's and S&P), for each of which a relevant econometric model has been constructed for estimating the scores assigned to the fundamental indicators of rated sovereigns, including Greece. These scores form the quantitative component of credit ratings.<sup>5</sup>

Despite methodological differences among the three agencies, the fundamental indicators considered in sovereign credit assessments can be classified as follows: (a) macroeconomic factors; (b) external finances; (c) public finances; and (d) structural factors. Nevertheless, it should be pointed out that these categories carry a different weight for each credit rating agency, while differences also exist in the methods they use for extracting their scores.

- 1 For investment portfolio holdings and their relationship with credit ratings, see, inter alia, Baghai, R., B. Becker and S. Pitschner (2023), "The use of credit ratings in the delegated management of fixed income assets", *Management Science*, 70(5), 3059-3079. As regards investment in the real economy, the study by Chen, S.-S., H.-Y. Chen, C.-C. Chang and S.-L. Yang (2013), "How do sovereign credit ratings affect private investment?", *Journal of Banking and Finance*, 37, 4820-4833, suggests that FDI increases by 5 pps as a percentage of total private investment in the year during which an upgrade has taken place, and by +8 pps three years later. Similar findings are presented in Cai, P., Q. Gan and S.-J. Kim (2018), "Do sovereign credit ratings matter for foreign direct investments?", *Journal of International Financial Markets, Institutions and Money*, 55, 50-64, suggesting that upgrades have a significant and positive effect on FDI flows, while in high income economies (OECD members) investors show greater risk aversion and, as a result, economies with a higher credit rating attract greater FDI flows.
- 2 This increase is calculated net of the effect of the rise in equity and bond prices over the same period. See Giannakidis, H., L. Karathanos, A. Kontinopoulos, A. Lampousis and P. Migiakis (2024), "The investment grade and funds' portfolio allocation in Greek assets", Bank of Greece, *Economic Bulletin*, 59, 7-24.
- 3 Besides, based on past experience with upgrades to investment grade, the positive effect is expected to be a 2.5% higher GDP level and a 0.48% lower GDP volatility level. See Anastasatou, M., H. Balfoussia, Z. Bragoudakis, D. Malliaropoulos, P. Migiakis, D. Papageorgiou and P. Petroulas (2023), "Effects of a sovereign credit rating upgrade to investment grade on the Greek economy", Bank of Greece, *Economic Bulletin*, 58, 7-28.
- 4 In particular, Moody's had assigned a positive outlook in its rating for the Greek economy before upgrading it to Baa3 (corresponding to BBB-) from Ba1 (corresponding to BB+) on 14 March 2025. Similarly, a positive outlook was assigned by Scope Ratings and Morningstar DBRS in their ratings for the Greek economy, before they upgraded it to BBB from BBB- on 6 December 2024 and on 7 March 2025, respectively.
- 5 For more details, see Malliaropoulos, D. and P. Migiakis (2020), "Sovereign credit ratings and the fundamentals of the Greek economy", Bank of Greece, *Economic Bulletin*, 51, 43-72. In summary, the final credit rating for each debt issuer is the result of quantitative criteria combined with a qualitative assessment. The quantitative component yields individual scores, based on fundamental economic indicators, and is followed by a qualitative assessment, resulting in an overall score which corresponds to one of the rating scales used by international credit rating agencies.

Chart A Evolution of the scores of the Greek economy's variables



Sources: Credit rating agencies and Bank of Greece calculations.

So, for simplification purposes, the scores shown in Chart A are the average scores of the three rating agencies for each category. As clearly illustrated in Chart A, after the pandemic, i.e. since 2021, a continuous upward trajectory is observed in the public finances and macroeconomic factors scores and, to a lesser extent, in the external finances score.

In this respect, the improvement in these four parameters over the years 2022-2024 has added around 1.4 notches to the score, with almost half of the increase (0.74 notch) stemming from the reduction in the public debt-to-GDP ratio and the improvement in the budget balance. Moreover, lower GDP volatility and positive real GDP growth rates have reduced the negative contribution of macroeconomic factors by around 0.33 notch, while the external finances parameter has also made a positive contribution of around 0.35 notch.<sup>6</sup>

In order to draw conclusions for upcoming developments, the rating agencies' assumptions on the key parameters of macroeconomic factors and public finances are analysed. Specifically, credit rating agencies incorporate macroeconomic forecasts in the quantitative component of their sovereign credit rating assessments (see table).

<sup>6</sup> The improvement in the external finances parameter is almost entirely explained by the gradual repayment of the official sector debt, which has mitigated the negative contribution of sovereign net foreign assets.

## Estimates of macroeconomic factors

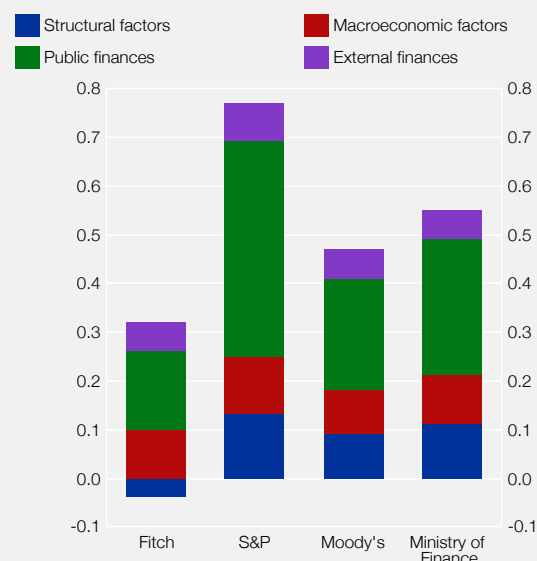
|                                   | Fitch    |       |       | S&P        |       |       | Moody's       |       |       | Ministry of Economy and Finance (MTP 2025-2028) |       |       |
|-----------------------------------|----------|-------|-------|------------|-------|-------|---------------|-------|-------|-------------------------------------------------|-------|-------|
| Date of forecasts                 | 6.1.2025 |       |       | 21.10.2024 |       |       | November 2024 |       |       | October 2024                                    |       |       |
|                                   | 2024     | 2025  | 2026  | 2024       | 2025  | 2026  | 2024          | 2025  | 2026  | 2024                                            | 2025  | 2026  |
| GDP growth (% , constant prices)  | 2.2      | 2.4   | 1.9   | 2.6        | 2.5   | 2.4   | 2.1           | 2.3   | 2.0   | 2.2                                             | 2.3   | 2.0   |
| Inflation (%)                     | 2.7      | 2.1   | 1.9   | 2.8        | 2.1   | 2.0   | 2.8           | 2.2   | 2.1   | 2.8                                             | 2.1   | 2.0   |
| Government debt (% of GDP)        | 159.3    | 152.9 | 148.5 | 150.9      | 142.1 | 134.2 | 156.1         | 149.2 | 143.1 | 153.7                                           | 149.1 | 143.1 |
| Interest payments (% of revenues) | 6.9      | 6.6   | 6.4   | 6.6        | 6.1   | 5.9   | 6.9           | 6.9   | 6.7   | 6.9                                             | 6.6   | 6.3   |
| Budget balance (% of GDP)         | -1.1     | -1.0  | -0.9  | -1.0       | -0.8  | -0.6  | -1.3          | -1.3  | -1.3  | -1.0                                            | -0.6  | -0.8  |

Sources: Credit rating agencies and Ministry of Economy and Finance.

Note: In the columns that refer to the forecasts of the Greek Ministry of Economy and Finance, data are drawn from the Medium-Term Fiscal-Structural Plan 2025-2028 (MTP 2025-2028) published by the Ministry of Economy and Finance on 16 October 2024, except for interest payments as a percentage of revenues, a field for which the simple arithmetic average of the forecasts of Fitch, Moody's and S&P is taken for each year.

As shown in the table, the forecasts on economic activity and the fiscal indicators of the Greek economy vary considerably among the three credit rating agencies, especially for 2026, while they also differ from the projections included in the Medium-Term Fiscal-Structural Plan of the Greek Ministry of Economy and Finance. Hence, the inclusion of forecasts on the course of the Greek economy has a positive contribution to the quantitative component of the assessment of around 0.3 notch in the case of Fitch and of about 0.8 and 0.5 notch in the case of S&P and Moody's, respectively (see Chart B). In all three cases, the positive contribution to the assessment is mainly explained

**Chart B Expected changes in parameters for 2025 in relation to the BBB- credit rating**



Sources: Credit rating agencies and Bank of Greece estimates.  
Notes: The chart shows the additional contribution of the scores of public finances, macroeconomic factors, structural factors and external finances to the credit ratings assigned by Fitch, Moody's and S&P, based on their forecasts for the corresponding fundamental indicators for 2025. The last bar shows the respective contribution of these parameters, after taking into account the projections of the Ministry of Economy and Finance in the Medium-Term Fiscal-Structural Plan 2025-2028.

by the improvement in the public finances parameter (by 0.16 notch for Fitch, 0.44 notch for S&P and 0.23 notch for Moody's). Macroeconomic factors add another 0.1-0.12 notch to the scores of the rating agencies for 2024. Finally, based on the projections contained in the Medium-Term Fiscal-Structural Plan (MTP) 2025-2028, an improvement of around 0.3 notch is expected due to a higher score in public finances, and, additionally, an overall improvement of around 0.28 notch in the remaining parameters. Therefore, achieving the MTP targets is expected to bring about a considerable improvement in the scores of the fundamental indicators used by the agencies, contributing positively to the final rating of the Greek sovereign.

All the above help explain why S&P has recently changed its outlook on the Greek economy to positive and why Moody's has proceeded to an upgrade, as the anticipated improvement in public finances will positively affect Greece's credit ratings. On the contrary, the improvement in public finances expected by Fitch is not as large as the one expected by the two other rating agencies, and its effect on the score of this parameter in Fitch's model is not the same as the effect in the models used by the other two agencies. As a result, the improvement in the quantitative component of Fitch's rating is expected to be smaller.<sup>7</sup>

<sup>7</sup> As far as Fitch is concerned, a very important parameter is the one calculated on the basis of structural factors. Therefore, reforms that will improve Greece's relative position in the World Bank's governance indicators are expected to have a particularly positive effect on the scores of this rating agency.

Finally, in order to estimate the impact of expected changes in the scores of Greece's fundamental indicators on its final sovereign credit rating, the existing gap between each agency's scores and final ratings ("adjustment gap") needs to be taken into account. In particular, based on the credit rating agencies' reports, the quantitative assessment currently corresponds to the following ratings: BBB- for Fitch, BBB+ for S&P and from Baa3 (corresponding to BBB-) to Baa1 (corresponding to BBB+) for Moody's. The final ratings assigned for the time being, after having taken under consideration the qualitative factors at the agencies' rating committees level, are: BBB- from Fitch, BBB- from S&P and Baa3 (corresponding to BBB-) from Moody's. Therefore, the adjustment gap for the Greek sovereign is 2 notches for S&P and 0 to 2 notches for Moody's. This being so, the expected macroeconomic and fiscal developments will have a significant upward effect on the scores assigned by S&P and Moody's, leading to further improvements in the creditworthiness of the Greek economy. In today's global environment of heightened uncertainty, achieving the macroeconomic and fiscal targets becomes even more essential, as any further upgrades would act as a backstop to possible adverse developments in international financial markets.

### Conclusions

The improvement in public finances and the strong growth rates of the Greek economy have led to enhanced fundamental indicators considered by credit rating agencies, resulting in the upgrades of the Greek sovereign credit ratings in recent years. A further improvement is expected for 2025 in, mainly, the public finances parameter and secondarily in the macroeconomic factors parameter. Of course, in the current environment of heightened international uncertainty, credit rating agencies are expected to adopt a more cautious stance. In such an environment, potential further upgrades are expected to contribute to strengthening the resilience of investment in the Greek economy. Therefore, further improvements are crucial for upgrades to continue. As regards the structural factors and external finances parameters, in particular, there is considerable room for improvement; this could be achieved by pushing forward with structural reforms and improving the current account balance, respectively.

### Box IX.2

## FINANCING FLOWS TOWARDS INVESTMENT FUNDS AND MONETARY POLICY

Investment funds are pooled investment entities that source individual investors' capital and invest it collectively in equity shares, bonds and other securities portfolios, while the management of these portfolios is delegated to professional fund managers. This box examines the dynamics of global flows into investment funds and their relationship with economic and monetary developments over the 2021-2024 period. In particular, we analyse capital flows to non-bank financial intermediaries, focusing on the positions of fund management companies investing in bonds, equities and the money market in the euro area and the United States. The aim is to analyse flows into investment funds in relation to policy rate changes by the European Central Bank (ECB) and the Federal Reserve System (Fed).

### Investment fund flows estimation on the basis of portfolio allocation

Investment funds (IFs) are financed by means of capital inflows by investors who purchase shares/units, whereas liquidation of these shares/units leads to capital outflows. Net flows to IFs are positive when demand for their shares/units is greater than supply, and they become negative when share/unit-holders liquidate their shares/units to an extent that exceeds demand. Therefore, capital flows to IFs provide information on demand by institutional and retail investors for each IF.<sup>1</sup>

An important question that arises with regard to net capital flows is how these can be linked to the purchase of securities (bonds and equity shares) and other assets of a particular country or group of countries. For this

1 Demand for IF shares/units is not necessarily equal to demand for every single asset in the IF portfolio, as it is affected by a number of factors, including past performance, the size of assets under management, etc. Net capital inflows to an IF constitute a proxy measure based on changes in net assets under management and its portfolio performance. The return on the IF portfolio is calculated on the basis of IF assets and their allocation, while capital gains/losses, dividend or interest income, exchange rate differences, reinvestments and management fees are taken into account.

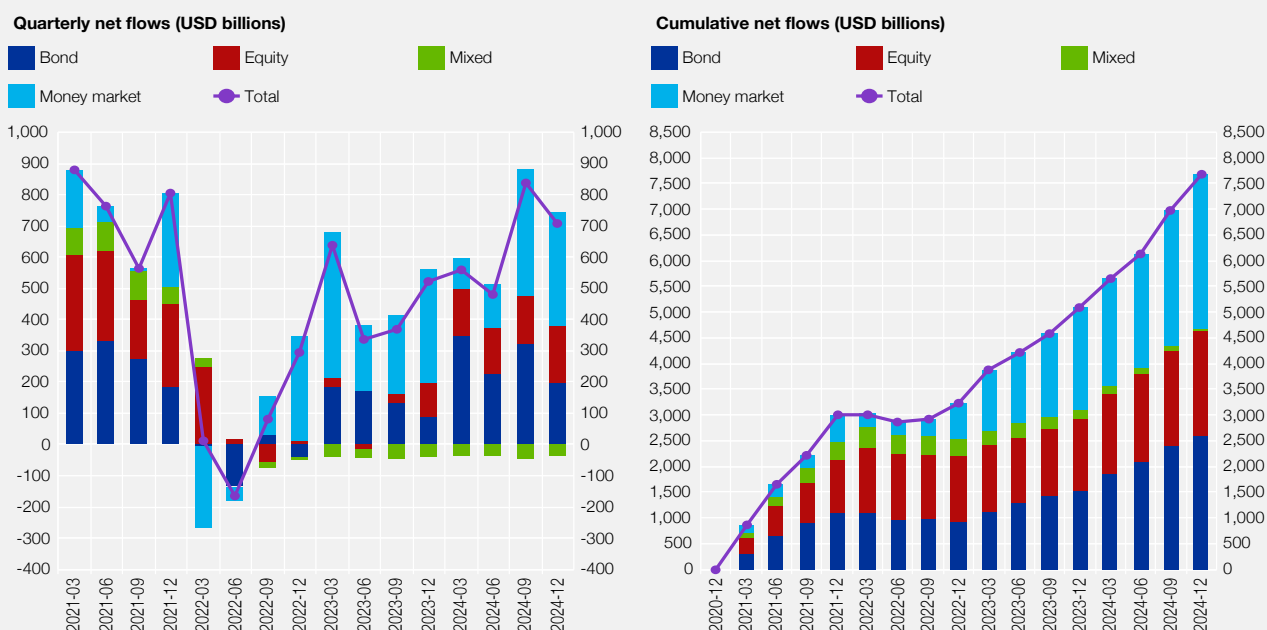
reason, net flows are calculated as the difference between inflows and outflows for each IF. The analysis is carried out for IFs investing in the money, bond and equity markets in the euro area and the United States, using monthly data for the period from December 2020 to December 2024.<sup>2</sup> We analyse data from 77,197 IFs of various categories, such as mutual funds, pension funds, exchange-traded funds (ETFs), insurance and hedge funds, which invest in bonds, in equity, in a combination of these and in the money market.

In more detail, total net flows to a particular economy are calculated as the sum of net flows towards each IF ( $KPK_{j,t}$ ) multiplied by the portfolio share invested by the IF in that economy over the previous period ( $\omega_{j,t-1}^i$ )<sup>3</sup>. This measure captures quite accurately the portfolio structure of securities in terms of country of risk, as it is based on the IFs' overall investment positions in each economy. Geographical focus data for each IF identify the country or countries where the largest share of IF assets is invested. The countries/group of countries analysed herein include the United States, the euro area, Greece, France and Germany.

### Net investment fund flows

During the monetary tightening cycle (2021-2024), capital flows to IFs rose by about USD 7.5 trillion (see Chart A). The increase was mainly driven by flows into money market funds between Q4 2022 and end-2024, supported by higher inflation expectations and interest rate hikes by the Fed. Following the fall in bond market prices in early 2022, bond funds attracted significant capital flows in 2023, as lower bond valuations (higher yields) encouraged investors to increase their bond positions. Out of the total global net capital flows to bond

Chart A Flows to investment funds worldwide



Sources: Lipper and Bank of Greece calculations.

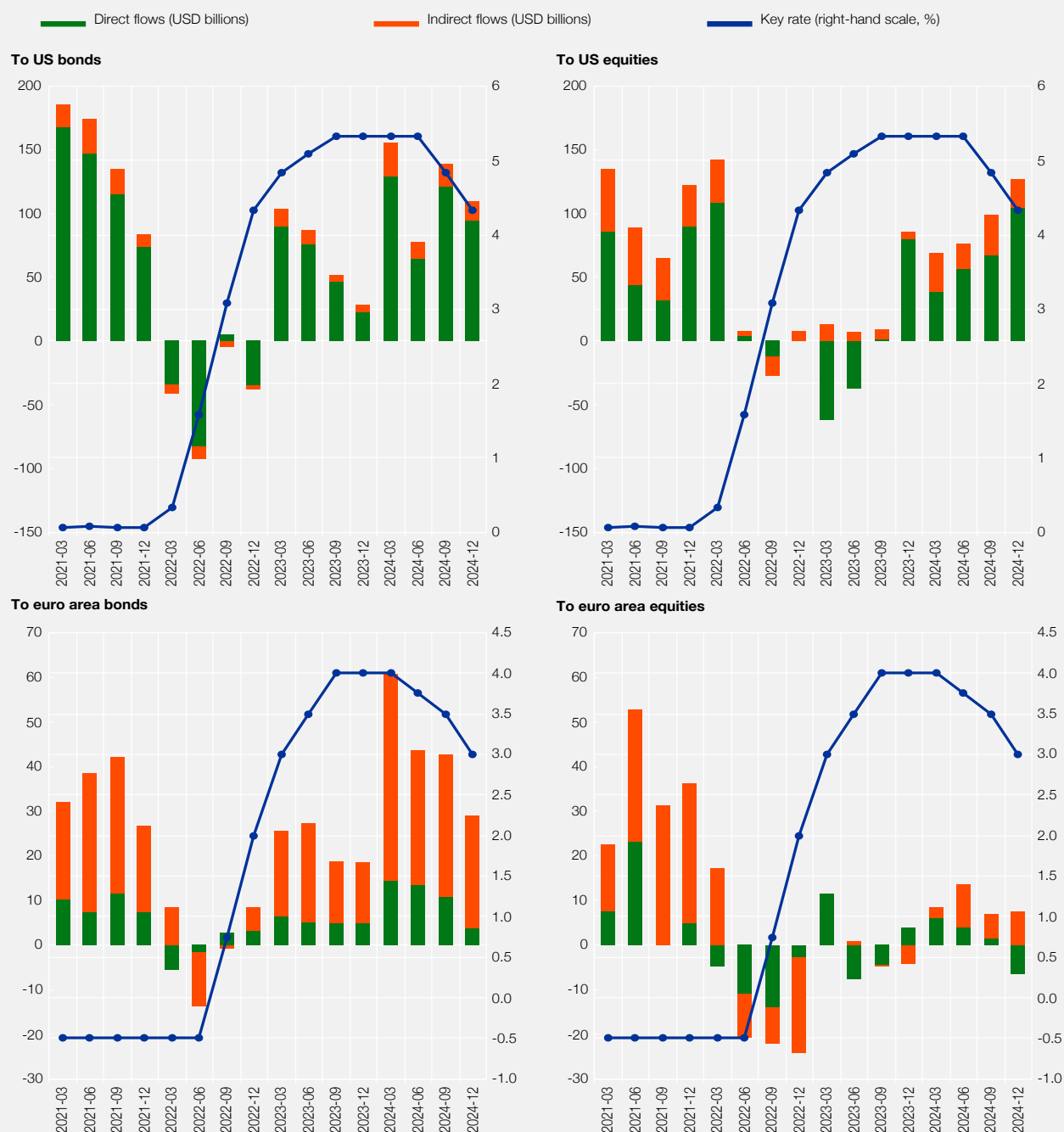
Notes: On the left-hand side panel, net flows to investment funds (IFs) worldwide are calculated as the sum of monthly data for each quarter of the December 2020-December 2024 period. The right-hand side panel shows cumulative flows for the specific period. Flows in bond IFs are shown in dark blue, in equity IFs in red, in mixed IFs in green and in money market IFs in light blue. The purple line shows total flows for all these IF categories.

- 2 Data were provided by LSEG Lipper for Investment Management. The dataset includes estimates of net flows into IFs in US dollars, adjusted for total costs, entry and exit charges and taxes. In addition, income from capital gains as well as dividend or interest income are reinvested on the ex-dividend date. The analysis includes IFs with assets under management or total net assets of at least USD 100 million. In the case of incomplete reporting, missing data are approximated to the latest available data.
- 3 Based on the estimated net flows in period  $t$  for IF  $j$ ,  $KPK_{j,t}$ , the proxy of net capital flows is constructed for its portfolio allocation towards a particular economy  $i$  using its portfolio share of the previous month  $\omega_{j,t-1}^i$ . In general, for the available investment funds  $j=1, \dots, N$ , we compute the following equation:  $KPK_{j,t}^i = KPK_{j,t} \times \omega_{j,t-1}^i$ .

funds in 2021-2024, 45% was directed to the United States, while the euro area attracted 16%. With regard to equity funds, net flows to the euro area represented only 5.7% of the corresponding global flows by the end of 2024, while the share of net flows to US equities was much higher, reaching 46%.

Chart B shows aggregate net flows into investment funds by country of risk and type of security. This breakdown takes into account net flows to IFs as well as their portfolio allocation with respect to security type and country of risk.

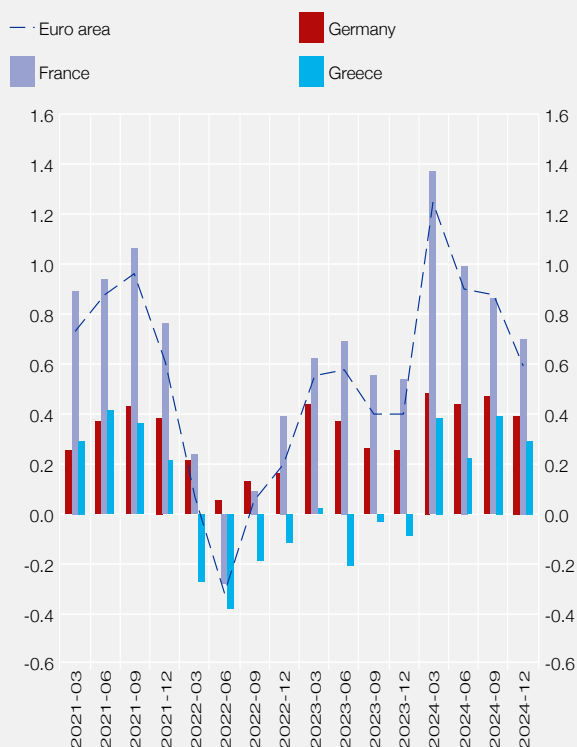
**Chart B Net flows to US and euro area bonds and equities**



Sources: Lipper and Bank of Greece calculations.

Notes: The panels show quarterly net flows to bond IFs (left-hand side panels) and equity IFs (right-hand side panels), investing in US (top panels) or European securities (lower panels). The blue curved line in each panel shows the Fed and ECB policy rates respectively. Moreover, green bars (direct flows) show flows to IFs investing the largest share of their portfolios in the US or euro area economy, times the respective portfolio allocation, while orange bars (indirect flows) show the corresponding flows to both economies' securities that are calculated on the basis of the product of net inflows in such funds, multiplied by the share they invested in US and euro area bonds and equities.

**Chart C Annualised net flows to bond IFs as a percentage of nominal GDP**



Sources: Lipper and Bank of Greece calculations.

Notes: The chart shows the moving 4-quarter sum of net flows in bond IFs according to the level of their investment in French (purple bars), German (red bars), Greek (light blue bars) and euro area bonds (blue dashed line) as a percentage of the annual nominal GDP of each country or of all countries respectively.

Net flows to IFs investing in bonds, both in the United States and in the euro area, increased significantly since the end of Q1 2024, i.e. when investors shifted their expectations towards interest rate cuts. This observation is consistent with the fact that bond prices, and therefore the market value of IFs investing in them, increase with the decline in their yields. At the same time, in an environment of interest rate cuts, bond yields are expected to decline.

On the other hand, there is a significant rise in inflows to IFs that invest their portfolios in US equities, while the same is not the case for IFs investing in euro area equities. This observation may indicate that investors opt for these funds on the basis of the outlook for economic activity in the United States, as the US economy has so far been showing growth rates significantly above expectations. By contrast, as the large euro area economies have fallen significantly short of investor expectations, there are no considerable inflows to IFs investing in euro area equities.

Demand for IFs investing in Greek bonds followed demand for IFs investing in other European bonds, though with a time lag (see Chart C). Specifically, from Q1 2022 to Q4 2023, a net decline was observed in investor flows into IFs holding Greek bonds. Of course, the flows of share/unit-holders to IFs do not reflect the IFs own positions in Greek bonds, which had risen over the same period in anticipation of the Greek economy's upgrade to investment grade.<sup>4</sup> By contrast, in 2024, i.e. after the upgrade, demand for IFs investing in Greek bonds rose significantly.

At the same time, it is quite interesting to note that the large gap observed between net flows to IFs investing in German bonds and IFs investing in French bonds exhibits a clear downward trend since the beginning of 2024. This gap is possibly associated with the higher yields on French bonds compared with German bonds, combined with the relative safety offered by the latter vis-à-vis other euro area bonds.

## Conclusions

Global flows into investment funds rose by USD 7.5 trillion between 2021 and 2024. These flows were initially channelled towards money market funds and, more recently, when investors started to anticipate interest rate cuts in the euro area and the United States, towards IFs investing in US and euro area bonds. This observation is consistent with the expectation that, in an environment of declining interest rates, bond prices will rise. On the other hand, net flows into IFs investing in equity markets seem to be mainly related with the economic outlook. Thus, there is an increase in inflows to IFs investing in US equities, while flows into IFs investing in euro area equities are very weak. Finally, it appears that inflows to IFs investing in Greek bonds have increased significantly since the upgrade to investment grade. In this connection, we highlight the importance of this development, in relation to the significantly strengthened role of investment funds in financing the world economy through global capital markets. This trend is indeed expected to continue, especially because further interest rate cuts are expected in the euro area.

<sup>4</sup> See Box IX.1 "The allocation of investment funds' portfolios in Greece and internationally", Bank of Greece (2024), *Annual Report 2023*.

## Box IX.3

**MONETARY POLICY IMPACT ON BANKS' NET INTEREST INCOME**

Banks' net interest income<sup>1</sup> is a key source of total bank income and is determined by various factors, including the flow of lending to the economy, the level of credit risk and the level of policy rates. In economies with stable credit flows and low credit risk, the level of policy rates is the key determinant of banks' net interest income. In this context, the ECB's rate hiking cycle that started in 2022 triggered a recovery in net interest income, which in turn made a larger contribution to banks' performance indicators. Meanwhile, as Greek banks had already largely improved the quality of their loan portfolios, they were more affected than in the past by changes in the single monetary policy.

Thus, against the backdrop of higher policy rates, the net interest income of Greek and other European systemically important institutions followed an upward path (see Chart A, left-hand panel), with the increase for Greek banks being significantly larger than the European average – almost double in size. At the beginning of the review period (2016-2024) the net interest margin of Greek banks was well above that of other European banks (on average 2.8%, compared with 1.4% in the euro area), as it is calculated as the ratio of net interest income to total interest-bearing assets, i.e. mainly loans, largely reflecting the weak financing of the economy rather than the pricing of loans. This becomes more visible if credit expansion is also taken into account, as the increase in the net interest income of Greek banks is reduced by about 25%. By contrast, the net interest income of Greek banks from 2022 onwards has increased to roughly the same extent as that of other European banks with similar asset size and business model classification, that is small (by European standards), retail-oriented banks benefitting, among other things, from a stronger transmission of monetary policy to their lending rates than to their funding costs (see Chart A, left-hand panel).<sup>2</sup>

At the same time, given that the credit risk stemming from the Greek economy is higher compared with the rest of the euro area, Greek banks take this into account when pricing their loans, so they incorporate a higher risk premium in their interest rates on new loans. This box summarises the evolution of Greek banks' net interest income in the context of the European banking market and the prevailing monetary policy conditions, while highlighting the challenges for banks from recent and prospective interest rate cuts.

**Banks' net interest income and profitability**

Banks determine their interest rate policy taking into account both idiosyncratic elements and external factors, including the level of economic activity and the monetary policy stance. Thus, in periods of low short-term interest rates and a relatively flat yield curve, the margin resulting from the conversion of short-term liabilities (deposits) into long-term assets (loans) narrows, depressing net interest income.<sup>3</sup> However, overall bank profitability is also determined by other factors that may be positively affected by low interest rates, such as the cost of funding in capital markets and the level of credit risk.<sup>4</sup>

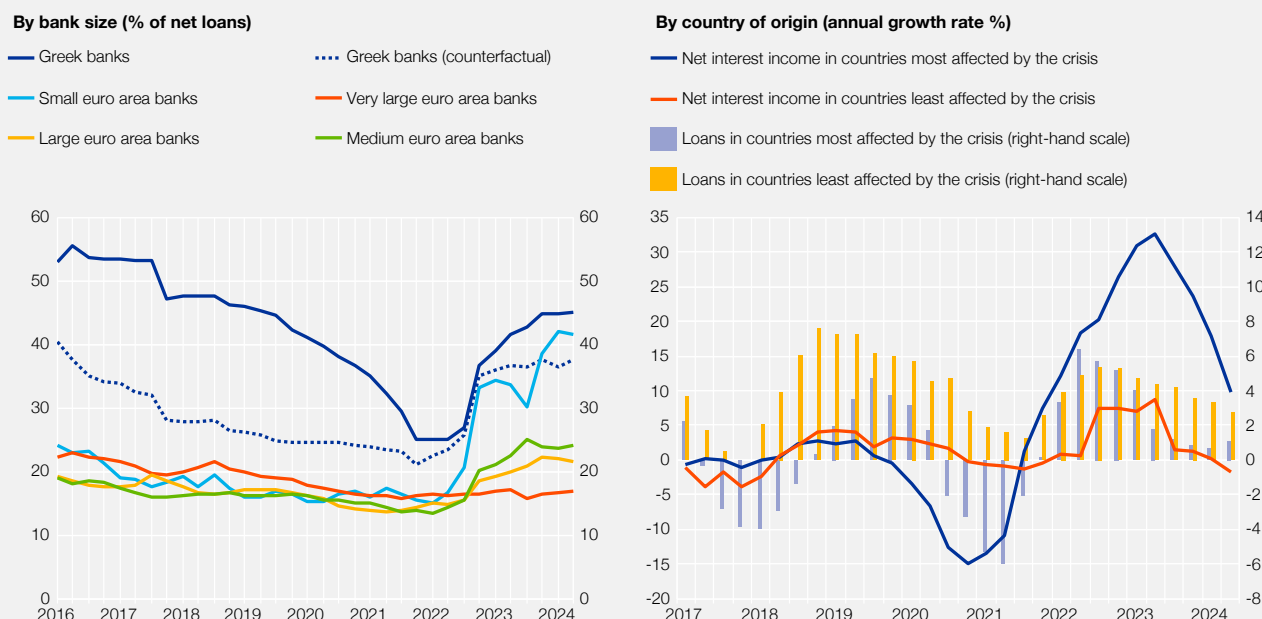
1 Net interest income is the revenue generated from interest on loans and other assets minus interest expenses on deposits, debt securities issued and other financial liabilities.

2 The weaker transmission to deposit rates in the euro area is related, *inter alia*, to liquidity and competition conditions. This has been empirically investigated in related studies (see, for example, Beyer, R.C.M., R. Chen, C. Li, F. Misch, E.O. Ozturk and L. Ratnovski (2024), "Monetary policy pass-through to interest rates: Stylized facts from 30 European countries", IMF Working Paper WP/24/9).

3 The relationship between monetary policy and banks' profitability is evidenced by relevant studies: see, *inter alia*, Flannery, M.J. (1981), "Market interest rates and commercial bank profitability: An empirical investigation", *The Journal of Finance*, 36(5), 1085-1102; and Hancock, D. (1985), "Bank profitability, interest rates, and monetary policy", *Journal of Money, Credit and Banking*, 17(2), 189-202. Empirical studies also highlight the negative effects of low interest rates and unconventional monetary policies on banks' net interest margin (see, for instance, Claessens, S., N. Coleman and M. Donnelly (2018), "Low-For-Long' interest rates and banks' interest margins and profitability: Cross-country evidence", *Journal of Financial Intermediation*, 35, 1-16; and English, W.B., S.J. Van den Heuvel and E. Zakrajšek (2018), "Interest rate risk and bank equity valuations", *Journal of Monetary Economics*, 98, 80-97).

4 See Altavilla, C., M. Boucinha and J.-L. Peydró (2018), "Monetary policy and bank profitability in a low interest rate environment", *Economic Policy*, 33(96), 531-586.

Chart A Net interest income of European banks



Sources: ECB and Bank of Greece calculations.

Notes: In the left-hand panel, calculations are based on the ECB's grouping of banks by asset size (Small: banks with assets up to EUR 30 billion; Medium: banks with assets of EUR 30-200 billion; Large: banks with assets above EUR 200 billion; and Very large: global systemically important banks, G-SIBs). The dashed line refers to the hypothetical evolution in Greek banks if their net loans at the beginning of the period had followed the path of comparable European banks (with assets of EUR 30-100 billion). In the right-hand panel, calculations are based on a grouping of countries most affected by the debt crisis (Greece, Ireland, Spain, Italy and Portugal) and those least affected (other European countries with available data). Weighted averages are calculated for net interest income and loans for the period Q2 2017-Q3 2024 on a 4-quarter rolling basis, with weights being total bank assets per country.

In the period following the euro area debt crisis, banks' core profitability faced headwinds from weak macroeconomic conditions and high levels of cost of risk, especially in the hardest hit countries. As a result, euro area banks' net interest income rose only modestly, mostly supported by credit growth in countries that were relatively less affected by the crisis, as low interest rates and increased competition exerted downward pressure on net interest margins (see Chart A, right-hand panel). However, the shift of the monetary policy stance to expansionary led to a widening of banks' net interest margin, particularly due to higher lending to corporates, which has so far remained above the ten-year average, thus improving net interest income. Greek banks' profitability has also strengthened significantly, initially and to a large extent driven by lower loan-loss provisions, reflecting improvements in the quality of their loan books, and, since the start of the hiking cycle, by rising net interest income to levels above the decade average (see Chart B, left-hand panel).<sup>5</sup>

Greek banks' net interest income was driven by an increase in interest-earning assets (of around EUR 0.7 billion during the rate hiking cycle) and by a cumulative widening of around 110 basis points in net interest margin over the same period (see Chart B, right-hand panel). Indeed, for Greek banks, the interest rate margin, although comparatively higher than the European average (as it largely reflected adverse changes in banks' loan portfolios and the relatively higher cost of risk), was on a downward path during the adjustment period of the Greek banking system, before being lifted by the rapidly increasing policy rates (see Chart B, left-hand panel). Prior to interest rate hikes, the favourable pricing terms of TLTROs also contributed positively to interest rate margins.

Overall, the strengthening of Greek banks' net interest income was mainly underpinned by the positive macroeconomic environment and the features of the Greek banking system that favour the generation of net interest

<sup>5</sup> As a result, Greek banks' net profitability increased by around EUR 2.3 billion between the fourth quarter of 2021 and the third quarter of 2024, with reduced credit risk and increased net interest income contributing almost entirely to this development (by EUR 1.2 billion and EUR 0.8 billion, respectively).

Chart B Profitability and net interest income of Greek banks



Sources: ECB and Bank of Greece calculations.

Notes: The left-hand panel shows the components of Greek banks' net income for the period Q4 2017-Q3 2024 on a 4-quarter rolling basis. The net interest margin is calculated as the ratio of net interest income to interest-bearing assets. The right-hand panel shows quarterly changes in net interest income for the period Q4 2021-Q3 2024, decomposed into the estimated change in interest-bearing assets (volume effect) and their respective pricing (pricing effect).

income amid high policy rates. Thus, the financing of the economy, largely through business loans with floating rates (directly linked to a benchmark rate, e.g. the 3-month Euribor), resulted in a staggered increase in interest income as policy rates kept rising. In addition, continued improvements in the quality of banks' loan portfolios reduced the drag from provisions for credit risk on their profit and loss accounts and, coupled with the significant footprint of net interest income in total operating income (80%, against 60% in the euro area), led to an increase in the net profitability of Greek banks. On the other hand, as Greek banks have adopted the traditional bank business model, i.e. they rely heavily on deposits for funding, and as the pass-through of interest rate hikes was smaller to deposits than to new loans, the impact of policy rate increases on interest expenses was weaker than on interest income, thereby increasing Greek banks' net interest income.<sup>6</sup> This was also supported by smaller increases in banks' market funding costs following upgrades in their credit ratings.<sup>7</sup>

### Challenges for banks' profitability levels amid declining interest rates

The successive cuts in ECB monetary policy rates since mid-2024 have worsened the outlook for the profitability of European banks, as perceived by market analysts. The contribution of net interest income is expected to ease, to the extent that banks transmit policy rate cuts to lending rates similarly to past hikes. In this case, the reduction in net interest margin, owing to the pricing of new loans with lower interest rates, is expected to outweigh any positive impact from the expansion of banks' loan portfolios.

Greek banks should therefore manage the challenges posed by lower interest rates to their operating income. The resilience of Greek banks' net interest margin is expected to be supported, *inter alia*, by higher lending to corporates, including through disbursements under the Recovery and Resilience Facility. It is worth noting that long-term financing with fixed rates contributes to increases in net interest income directly, by raising the level of

<sup>6</sup> See Box VI.4 "Determinants of Greek banks' funding costs", Bank of Greece, *Annual Report 2023*, April 2024.

<sup>7</sup> See Box 6 "Greek banks' credit rating upgrades", Bank of Greece, *Monetary Policy – Interim Report 2024, Executive Summary and Boxes*, December 2024.

interest-bearing assets, as well as indirectly, by reducing the sensitivity of the interest rate income to policy rate changes. Fixed-rate financing also entails significant benefits for borrowers (corporates and households), facilitating the assessment of future cash flows and investment projects in present value terms, while protecting their balance sheet positions from unexpected inflationary pressures.

Moreover, the higher contribution of income from other core profitability items is also expected to mitigate the impact of interest rate cuts on banks' operating income. Such a development could result both from the benign economic environment and from greater market penetration of insurance products and investment portfolios, which could partially compensate for the lower yields of interest-bearing items (e.g. deposits) amid interest rate cuts.<sup>8</sup>

### Conclusions

Greek banks continue to post positive financial results in an improved operating environment, having succeeded in making major improvements to the quality of their loan portfolios. This has reduced the drag from increased credit risk provisioning and associated costs and has allowed a closer link between banks' profitability levels and their net interest income. This development is particularly important, as bank profitability is crucial for the economy, not only in order to maintain a robust and resilient banking system, and reinforce its intermediation capacity, but also to preserve financial stability. The transition from low interest rates and unconventional monetary policy measures to the post-pandemic period, marked by high interest rates, facilitated an increase in the interest rate margins of European and Greek banks, which in turn supported higher levels of net interest income. However, with the reversal of interest rate hikes, Greek banks need to focus on pricing policies that will reduce the sensitivity of their financial results, with a view to maintaining their profitability indicators at sustainable levels.

<sup>8</sup> Only 20% of Greek banks' fee and commission income comes from investment, insurance and other advisory activities, compared with an average of 49% for euro area banks.

# X ENVIRONMENT, ENERGY AND CLIMATE CHANGE

*Humanity's fight to prevent catastrophic climate change is still at a critical phase, all the more so in an environment that has worsened over the past 12 months. However, the 29th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP29, November 2024), despite taking place under adverse conditions, set a new, higher New Collective Quantified Goal on Climate Finance to developing countries. In the EU, important legislative acts on green transition that had been pending were adopted in mid-2024, while in February 2025 the European Commission announced its proposals for combining competitiveness and climate neutrality ("Clean Industrial Deal", a set of measures for simplifying rules and reducing the administrative burden). Finally, the latest report of the International Energy Agency underscores the need for faster expansion of global renewable energy capacity, in view of geopolitical tensions.*

## 1 GLOBAL DEVELOPMENTS AND POLICIES ON CLIMATE CHANGE AND ENERGY, SCIENTIFIC PROGRESS AND REPORTS<sup>1</sup>

Humanity's fight to prevent catastrophic climate change is still at a critical phase, all the more so in an environment that has worsened over the past 12 months, given that:

First, the fallout of the wars in Ukraine and the Middle East continue to affect energy supply and prices, as well as the free movement of raw materials and commodities.

Second, protectionism, which hampers global trade in critical raw materials or products necessary for green transition, e.g. electric cars, has markedly risen following the US President's announcements and decisions on tariffs after he assumed office on 20 January 2025.<sup>2</sup>

Third, on 20 January 2025, the newly elected US President decided the United States' immediate withdrawal from the Paris Agreement and from any agreement, pact, accord, or financial commitment made under the United Nations Framework Convention on Climate Change (UNFCCC), as well as the immediate revocation of the US International Climate Finance Plan.<sup>3</sup>

Fourth, as regards the EU, the adoption and entry into effect of three important legislative acts<sup>4</sup> was completed in mid-2024, which constitutes a very positive development; however, Member States' efforts to implement the comprehensive package of measures that had already been decided upon in order to achieve climate neutrality in the medium term continue to come up against restrictive fiscal rules and fiscal tightness, making it difficult to finance relief measures for those affected by climate actions – these difficulties are considerably mitigated by the focus of the Recovery and Resilience Facility (RRF) on green transition. More recently, on 26 February 2025, the European Commission took major initiatives, proposing: (a) the Clean Industrial Deal,

<sup>1</sup> The cut-off date for information and data used in this chapter is 24 March 2025. For information on the Bank of Greece's sustainability and climate actions in 2024, see the Bank's Annual Financial Report (in Greek).

<sup>2</sup> See <https://www.whitehouse.gov/presidential-actions>.

<sup>3</sup> See <https://www.whitehouse.gov/presidential-actions/2025/01/putting-america-first-in-international-environmental-agreements/>.

<sup>4</sup> [European Critical Raw Materials Act](#), [Net-Zero Industry Act](#) and [Nature Restoration Law](#). As regards the subject matter of these legislative acts, see Bank of Greece, Annual Report 2023, p. 230.

with the dual aim of strengthening competitiveness and achieving climate neutrality,<sup>5</sup> and (b) a package of measures to simplify EU rules, reduce administrative burdens, boost competitiveness and unlock additional investment capacity.<sup>6</sup>

Fifth, global average temperature continues to rise. According to the Copernicus Climate Change Service, 2024 was the warmest year on record and the first calendar year during which the increase in global temperature exceeded 1.5°C above pre-industrial levels (1.60°C increase).<sup>7</sup> Also, January 2025 was the warmest on record, with the Arctic sea ice extent falling to a record low and the ocean temperature reaching a peak.<sup>8</sup> These developments were coupled with widespread and intensifying extreme weather events associated with climate change around the world,<sup>9</sup> that led to the loss of human lives, destruction of infrastructure and severe consequences for the economy, the environment and biodiversity, while at the same time burdening government budgets and the private insurance sector.<sup>10</sup>

Sixth, public opinion is increasingly discontent with policies for tackling climate change, voicing concern about who will bear the brunt of the green transition; thus, extreme political forces that deny climate change are gaining ground in some countries.

The 29th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP29), hosted in Baku, Azerbaijan, from 11 to 22 November 2024, took place under adverse circumstances,<sup>11</sup> due to the worsening conditions mentioned above. Yet, important decisions were made following tough negotiations. (a) The Conference called on all actors to work together to scale up financing to developing countries, from both public and private sources, to at least USD 1.3 trillion per year by 2035, setting a goal (New Collective Quantified Goal on Climate Finance) of at least USD 300 billion annually for this purpose by 2035.<sup>12</sup> (b) It was decided to proceed with the long pending implementation of Article 6 of the Paris Agreement on a centralised carbon market under the UN and on country-to-country trading of carbon credits.<sup>13</sup> (c) Following strong pressure from oil-producing countries, the general stance adopted in COP28 in favour of eliminating fossil fuels was not expressly reiterated, nor was it reversed though.

On 7 November 2024, ahead of the COP29, the United Nations Environment Programme (UNEP) released its *Adaptation Gap Report 2024: Come hell and high water*, highlighting the

5 See [https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal\\_en](https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_en) and [https://commission.europa.eu/document/download/9db1c5c8-9e82-467b-ab6a-905feeb4b6b0\\_en?filename=Communication%20-%20Clean%20Industrial%20Deal\\_en.pdf](https://commission.europa.eu/document/download/9db1c5c8-9e82-467b-ab6a-905feeb4b6b0_en?filename=Communication%20-%20Clean%20Industrial%20Deal_en.pdf).

6 The proposals “cover a far-reaching simplification in the fields of sustainable finance reporting, sustainability due diligence, EU Taxonomy, carbon border adjustment mechanism, and European investment programmes”. See [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_25\\_614](https://ec.europa.eu/commission/presscorner/detail/en/ip_25_614).

7 See <https://climate.copernicus.eu/copernicus-2024-first-year-exceed-15degc-above-pre-industrial-level>.

8 See <https://climate.copernicus.eu/january-2025-warmest-january-and-lowest-arctic-sea-ice-extent-month>.

9 Notable examples over the past 12 months are the floods in Valencia, Spain, and the wildfires in the metropolitan area of Los Angeles, US.

10 On 18 December 2024, the European Insurance and Occupational Pensions Authority (EIOPA) and the ECB released a joint paper with a proposal designed to reduce the economic impact of natural catastrophes in the EU, envisaging an EU public-private reinsurance scheme to increase and diversify the insurance coverage for natural disaster risk and an EU Fund (financed by contributions from Member States) for public disaster financing. See also footnote 43 below.

11 Indicatively, the G20 Rio de Janeiro Leaders' Declaration of 19 November 2024, despite advocating sustainable development, did not contain any specific quantified commitments by major countries finance developing countries, or an explicit reference to decarbonisation. See <https://www.gov.br/planalto/pt-br/media/18-11-2024-declaracao-de-lideres-g20.pdf>.

12 See <https://unfccc.int/news/cop29-un-climate-conference-agrees-to-triple-finance-to-developing-countries-protecting-lives-and> and [https://unfccc.int/sites/default/files/resource/cma2024\\_L22\\_adv.pdf](https://unfccc.int/sites/default/files/resource/cma2024_L22_adv.pdf). The UN Climate Change Executive Secretary, Simon Stiell, characterised the decision as “an insurance policy for humanity” – see <https://unfccc.int/news/this-new-finance-goal-is-an-insurance-policy-for-humanity-simon-stiell-at-close-of-cop29>.

13 See <https://unfccc.int/news/cop29-un-climate-conference-agrees-to-triple-finance-to-developing-countries-protecting-lives-and> and [https://unfccc.int/sites/default/files/resource/cma2024\\_L22\\_adv.pdf](https://unfccc.int/sites/default/files/resource/cma2024_L22_adv.pdf).

need for a massive scale-up of climate adaptation efforts and finance to avert a catastrophic temperature rise.<sup>14</sup>

Also, on 12 November 2024, ECB President Christine Lagarde warned that complacency in fighting climate change and preserving biodiversity is endangering our economic survival.<sup>15</sup>

After the 15th UN Biodiversity Conference (COP15, Montreal, December 2022), the 16th Conference (COP16) was held in Cali, Colombia, from 21 October to 1 November 2024. Although no agreement was reached on financial aid to developing countries for the preservation of biodiversity,<sup>16</sup> progress was made on a number of other issues.<sup>17</sup> As ECB representative Frank Elderson pointed out in his contribution, 72% of non-financial businesses in the euro area would experience significant problems as a result of ecosystem degradation.<sup>18</sup> After a suspension of discussions, the COP16 resumed in Rome on 25-27 February 2025, mainly focusing on funding issues. Using as a starting point the proposals of COP16 President Susana Muhamad<sup>19</sup> and then of Brazil, an agreement was reached<sup>20</sup> on a strategy for resource mobilisation (as part of existing funding instruments, but also new ones that could be created), in order to achieve by 2030 the targets set in 2022.<sup>21</sup> The outcome of COP16 was seen as a success for international cooperation.<sup>22</sup>

As regards the evolution and prospects of power generation capacity worldwide, the latest report of the International Energy Agency<sup>23</sup> stresses that geopolitical tensions reinforce the need for faster expansion of clean energy. Among other things, the report foresees, based on alternative scenarios, an increase in nuclear capacity and generation, albeit at a slower pace than other low-emissions power technologies. It should be recalled that nuclear energy qualifies as “green” in the EU’s investment taxonomy, subject to specific criteria.

Progress in nuclear energy was mixed in 2024. The UK is leading the way by its long-established Joint European Torus, to be replaced by the Spherical Tokamak for Energy Production (STEP), as announced in February 2024 (see *Bank of Greece Annual Report 2023*, p. 231), aspiring to supply fusion-based electricity to the grid by the 2040s. On 16 January 2025, the British government announced GBP 410 million investment in 2025-2026, to accelerate the development of fusion energy.<sup>24</sup> On the other hand, France’s fusion power project ITER (International Thermonuclear Experimental Reactor), which began years ago in southern France with the collaboration of 35 countries, faced numerous setbacks (both internal and external) and, as announced in summer 2024, will not be ready to operate before 2034, nine years behind schedule.<sup>25</sup>

For more information on the financing of climate change adaptation and the role of central banks and supervisory authorities, see Box X.1. For the social implications of the new EU emissions trading system (EU ETS2), due to become fully operational by 2027, see Box X.2.

14 See <https://www.unep.org/news-and-stories/press-release/huge-uplift-needed-climate-adaptation-starting-finance-commitment>.

15 See <https://www.ecb.europa.eu/press/blog/date/2024/html/ecb.blog20241112~8eff6b9405.en.html>.

16 For finance issues over the period 2015-2022, see OECD report *Biodiversity and Development Finance 2015-2022*, 18.9.2024.

17 For COP16 decisions, see <https://www.cbd.int/conferences/2024>.

18 See <https://www.bankingsupervision.europa.eu/press/speeches/date/2024/html/ssm.sp241028~b3c4437ba0.en.html>.

19 See <https://www.cbd.int/article/reconvene-cop16-rome-2024> and <https://www.cbd.int/doc/c/7d83/4cc1/1674fb979f6c6f9351ab816/cop-16-inf-43-rev1-en.pdf>.

20 See <https://www.cbd.int/doc/press/2025/pr-2025-02-27-cop16-en.pdf>.

21 These targets refer to closing the biodiversity finance gap by mobilising USD 200 billion per year by 2030, of which USD 30 billion (up from USD 15 billion in 2022, based on OECD data) as aid to developing countries.

22 It should be noted that the United States has not ratified the UN Convention on Biological Diversity and, unlike the previous Conferences that it had attended as an observer, was totally absent from the COP16.

23 See International Energy Agency, *World Energy Outlook 2024*, October 2024. See also <https://www.iea.org/news/geopolitical-tensions-are-laying-bare-fragilities-in-the-global-energy-system-reinforcing-need-for-faster-expansion-of-clean-energy>.

24 See [statements](#) by the UK’s Energy Secretary and Minister for Climate.

25 See “Giant international fusion project is in big trouble”, *Science* (AAAS), 3.7.2024.

Below is a list of noteworthy activities, studies and other publications on incorporating climate change considerations into financial, regulatory and supervisory frameworks:

**– Network of Central Banks and Supervisors for Greening the Financial System (NGFS):**

(a) research reports, including on financial institutions' transition plans,<sup>26</sup> the macroeconomic impacts of climate change and the implications for monetary policy,<sup>27,28,29</sup> and climate adaptation finance,<sup>30</sup>

(b) issuance of recommendations and practices for the incorporation of sustainable and responsible investment principles in central banks' portfolios,<sup>31</sup> as well as for central banks' climate-related disclosures,<sup>32</sup> and publication of the final framework for integrating nature-related financial risks into the actions of central banks and supervisors;<sup>33</sup>

(c) development of tools, such as new climate stress testing scenarios<sup>34</sup> and a handbook for climate macroeconomic modelling.<sup>35</sup>

**– Basel Committee on Banking Supervision (BCBS):** discussion paper on the role of scenario analysis in the management and supervision of climate-related financial risks.<sup>36</sup>

**– European Banking Authority (EBA):** guidelines on the management of environmental, social and governance (ESG) risks<sup>37</sup> and publication of an analysis on greenwashing monitoring and supervision.<sup>38</sup> Also, jointly with the ECB and the other European Supervisory Authorities (the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA)), scenario analysis of the impact from the implementation of the EU transition package (Fit for 55) on the financial system.<sup>39</sup>

**– European Central Bank (ECB):** publication of research papers on the EU's green investment needs, the existing transition finance framework and policy proposals for increasing transition finance,<sup>40</sup> the intersection between climate transition policies and geoeconomic fragmentation<sup>41</sup> and the design of a macroprudential capital buffer for climate-related risks.<sup>42</sup>

26 NGFS, [Transition Plan Package](#), 17.4.2024.

27 NGFS, [Acute physical impacts from climate change and monetary policy](#), 29.8.2024.

28 NGFS, [The green transition and the macroeconomy: a monetary policy perspective](#), 21.10.2024.

29 NGFS, [Climate change, the macroeconomy and monetary policy](#), 29.10.2024.

30 NGFS, [NGFS Conceptual Note on Adaptation](#), 13.11.2024.

31 NGFS, [Sustainable and responsible investment in central banks' portfolio management – Practices and recommendations](#), 16.5.2024.

32 NGFS, [Guide on climate-related disclosure for central banks – Second edition](#), 19.6.2024.

33 NGFS, [Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors](#), 2.7.2024.

34 NGFS, [NGFS Climate Scenarios for central banks and supervisors – Phase V](#), 5.11.2024.

35 NGFS, [Climate macroeconomic modelling handbook](#), 24.10.2024.

36 BIS, [The role of climate scenario analysis in strengthening the management and supervision of climate-related financial risks](#), 16.4.2024.

37 EBA, [Final Report: Guidelines on the management of ESG risks](#), 8.1.2025.

38 EBA, [Report on greenwashing monitoring and supervision](#), 31.5.2024.

39 EBA, [Transition risk losses alone unlikely to threaten EU financial stability. "Fit-For-55" climate stress test shows](#), 19.11.2024.

40 ECB (2025), ["Investing in Europe's green future: green investment needs, outlook and obstacles to funding the gap"](#), Occasional Paper No. 367, January.

41 ECB (2025), ["The intersection between climate transition policies and geoeconomic fragmentation"](#), Occasional Paper No. 366, January.

42 ECB (2024), ["Designing a macroprudential capital buffer for climate-related risks"](#), Working Paper No. 2943, May.

– **European Insurance and Occupational Pensions Authority (EIOPA):** jointly with the ECB, release of an EU-level proposal based on two pillars to reduce the insurance protection gap for natural catastrophe risks.<sup>43</sup>

– **European Securities and Markets Authority (ESMA):** jointly with the ECB and the other European Supervisory Authorities, publication of an opinion on the improvement of the Sustainable Finance Disclosure Regulation (SFDR).<sup>44</sup> Also, publication of guidelines on the enforcement of the European Corporate Sustainability Reporting Directive (CSRD) and public statement on the first application of the European Sustainability Reporting Standards (ESRS).<sup>45</sup>

– **European Commission:** agreement between the Council and the European Parliament on a new Regulation on environmental, social and governance (ESG) ratings.<sup>46</sup>

43 ECB/EIOPA, [EIOPA and ECB propose European approach to reduce economic impact of natural catastrophes](#), 18.12.2024.

44 ESAs, [ESAs propose improvements to the sustainable finance disclosure regulation](#), 18.6.2024. [ESMA puts forward measures to support corporate sustainability reporting](#), 5.7.2024.

45 ESMA, [ESMA puts forward measures to support corporate sustainability reporting](#), 5.7.2024.

46 European Commission, [Environmental, social and governance \(ESG\) ratings: Council and Parliament reach agreement](#), 14.2.2024.

### Box X.1

## FINANCING CLIMATE CHANGE ADAPTATION AND THE ROLE OF CENTRAL BANKS AND SUPERVISORY AUTHORITIES

Climate change mitigation refers to actions aimed at limiting greenhouse gas emissions and preventing further increases in the planet's average temperature.<sup>1</sup> Climate change adaptation focuses on managing and reducing the adverse social, environmental and economic impacts caused by climate change. These impacts are expected to intensify as long as greenhouse gas concentrations in the atmosphere remain high and as environmental degradation and the climate crisis continue to escalate.<sup>2</sup>

Adaptation to climate change can yield multiple benefits. In particular, it helps reduce the losses associated with climate change, increases resilience and strengthens the capacity of society, the economy and the ecosystem to recover from extreme weather events. These benefits are often referred to as the “triple dividend” of resilience, which includes: (i) avoiding losses, (ii) stimulating economic activity and development, and (iii) delivering broader social and environmental co-benefits.<sup>3</sup> According to studies, investments in adaptation measures can yield substantial economic gains, especially over the long term. Notably, it is estimated that every US dollar invested in adaptation could generate up to USD 12 in total economic gains within this decade.<sup>4</sup>

Adaptation is not only necessary but also a legal obligation under European legislation. Specifically, the EU's Strategy on Adaptation to Climate Change, which was adopted in 2021,<sup>5</sup> aims to promote smarter, more systemic and swifter adaptation, while stepping up international action. This strategy complements the EU's mitigation efforts and its targets for climate neutrality by 2050. It is also fully aligned with the Paris Agreement and the European Climate Law.<sup>6</sup>

1 IPCC (2022), [Climate Change 2022: Mitigation of Climate Change](#) (see also [FAQs](#)).

2 IPCC (2022), [Climate Change 2022: Impacts, Adaptation and Vulnerability](#) (see also [FAQs](#)).

3 Tanner, T., S. Surminski, E. Wilkinson, R. Reid, J. Rentschler and S. Rajput (2015), [The Triple Dividend of Resilience: Re-aligning development goals through the multiple benefits of disaster risk management](#).

4 United Nations Office for Disaster Risk Reduction (UNDRR), Standard Chartered Bank and KPMG International (2024), “Guide for adaptation and resilience finance”.

5 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, “Forging a climate-resilient Europe – the new EU Strategy on Adaptation to Climate Change”, 24 February 2021.

6 [Questions and Answers: New EU strategy on adaptation to climate change](#).

Additionally, at the national level, Greece's revised National Energy and Climate Plan (NECP) was approved in December 2024. The NECP serves as a strategic framework and a key tool for planning and implementing climate and energy policies. It outlines the country's priorities for adaptation to climate change and for transition to a sustainable energy system, while providing a detailed roadmap to achieve specific energy and climate targets by 2030, ultimately leading to climate neutrality by 2050. The NECP aims to ensure the social and environmental efficiency as well as the cost-effectiveness of policy measures by reducing energy costs, protecting consumers and enhancing the climate resilience of energy infrastructure, while also safeguarding the adaptability of the energy system to changing climate conditions.<sup>7</sup>

The analyses and reports of the Bank of Greece's Climate Change Impacts Study Committee (CCISC) consistently highlight the benefits of adaptation to climate change. As early as 2011,<sup>8</sup> the CCISC stressed the need for Greece to address the adverse effects of the climate crisis with timely actions – aimed not only at mitigating these effects but also at ensuring that key sectors of the economy, such as agriculture, tourism and infrastructure, adapt effectively to climate change.

Despite the growing need of adapting to climate change, adaptation finance remains disproportionately low compared to mitigation finance. It is estimated that in 2021-2022, only 5% of total global climate finance (USD 1.3 trillion) was allocated to adaptation.<sup>9</sup> Moreover, adaptation finance is predominantly sourced from public funds.<sup>10</sup> At the national level, Greece's climate adaptation efforts rely almost entirely on public resources, including European and national funding mechanisms, such as the Partnership Agreement for Regional Development (NSRF) 2021-2027, the Common Agricultural Policy (CAP) Strategic Plan 2023-2027, the Recovery and Resilience Facility (RRF), EU competitiveness programmes (notably Horizon and LIFE) and the Green Fund. A key initiative in this effort is the project "LIFE-IP AdaptInGR – Boosting the implementation of adaptation policy across Greece", which supports central government, regional and local authorities, research institutions and civil society in implementing the National Strategy for Adaptation to Climate Change.<sup>11</sup>

One reason explaining why climate adaptation financing remains low is the lack of adequate data to evaluate the costs and benefits of adaptation projects. Additionally, the complexity and specificity of financing needs for such projects, coupled with the absence of suitable financial instruments, likely reduce their appeal to investors.<sup>12</sup> Furthermore, recent actions by the newly elected US administration, which undermine global efforts to address climate change, could hinder international cooperation in securing the necessary financing for adaptation. In early 2025, the United States formally announced its withdrawal from the Paris Agreement and its intention to further invest in fossil fuels, while the Federal Reserve withdrew from the Network for Greening the Financial System (NGFS).<sup>13</sup> Moreover, several major US financial institutions pulled back from key international banking and investment initiatives, including the Net Zero Banking Alliance and the Net Zero Asset Managers initiative.

Studies indicate that insufficient adaptation to climate change could negatively impact, among other things, economic growth, price stability and financial stability, posing challenges for central banks and supervisory authorities. For instance, natural disasters may disrupt supply chains, damage infrastructure and increase inflation, while also reducing output and disposable income. In contrast, investment in adaptation and increased insurance coverage for natural catastrophe risks can deliver substantial benefits by mitigating the impacts of the climate

7 [National Energy and Climate Plan – Revised Edition, Government Gazette B 6983/19.12.2024](#) (in Greek).

8 Climate Change Impacts Study Committee (CCISC) (2011), [The environmental, economic and social impacts of climate change in Greece](#), Bank of Greece.

9 The remaining 95% of total global climate finance was allocated to climate change mitigation (91%) and to actions addressing both mitigation and adaptation (4%) (see ["Global Landscape of Climate Finance 2023"](#), Climate Policy Initiative).

10 Global Center on Adaptation and Climate Policy Initiative (2024), ["State and Trends in Climate Adaptation Finance 2024"](#).

11 IOBE (2023), ["Climate change adaptation: Challenges and opportunities for the Greek economy"](#) (in Greek).

12 NGFS (2024), ["Conceptual Note on Adaptation"](#).

13 Federal Reserve Board, [press release, 17.1.2025](#)

crisis, supporting faster recovery after disasters, easing fiscal burdens and strengthening the resilience of both the financial system and the wider economy.<sup>14</sup>

Central banks and supervisors can play a pivotal role, within their mandates, in supporting adaptation to climate change; however, the primary responsibility for addressing climate change and its impacts rests with governments. In the ECB's updated action plan on climate change and nature-related risks, adaptation is identified as an important area of research, particularly for analysing the economic impact of adaptation measures and the associated financing needs.<sup>15</sup> The NGFS has recently published the Conceptual Note on Adaptation, outlining the challenges of adaptation finance and the role of central banks and supervisors in climate change adaptation.<sup>16</sup> In particular, this publication highlights that central banks and supervisors can promote the adoption and implementation of enhanced risk management practices within the financial system, as well as support insurance uptake,<sup>17</sup> in order to strengthen economic resilience to the impacts of climate change. Four key areas of future actions are proposed for central banks and supervisors to address climate change adaptation: (i) developing metrics and tools to measure and disclose the impact of adaptation measures; (ii) incorporating these issues into the institutional and supervisory framework of the financial system; (iii) fostering conditions that encourage the financing of adaptation actions;<sup>18</sup> and (iv) collaborating with local, national and international bodies.

The Bank of Greece actively underscores the importance to strengthen the financing of climate change adaptation. Specifically, as a partner in the project "LIFE-IP AdaptInGR – Boosting the implementation of adaptation policy across Greece", it contributes to an initiative focused on mobilising resources for adaptation finance. As the Greek competent supervisory authority for insurance undertakings, the Bank of Greece is progressively incorporating climate change adaptation issues into its supervisory responsibilities and has consistently emphasised the critical role of private insurance in mitigating the effects of climate change and the necessity of reducing the insurance gap for natural catastrophes. In addition, the Bank of Greece participates in the Council for Private Insurance against Natural Disasters (Law 5116/2024).

There is a growing need to scale up adaptation finance, and the involvement of the financial system is crucial to this end. Mobilising private sector resources is of paramount importance, but it requires an enabling environment that encourages and supports the funding of adaptation projects. Against this background, central banks and supervisors are increasingly focused on enhancing the financing of climate change adaptation through a broad range of initiatives.

14 Mongelli, F.P., A. Ceglar and B.A. Scheid (2024), "[Why do we need to strengthen climate adaptations? Scenarios and financial lines of defense](#)", ECB Working Paper No. 3005.

15 "ECB steps up climate work with focus on green transition, climate and nature-related risks", press release, 30 January 2024.

16 NGFS (2024), "[Conceptual Note on Adaptation](#)".

17 ECB and EIOPA (2024), "[Towards a European system for natural catastrophe risk management](#)".

18 For example, through relevant research, data reporting on risks and opportunities related to climate change adaptation and the establishment of common standards, disclosure rules and an adaptation finance taxonomy.

## Box X.2

### SOCIAL IMPLICATIONS OF THE NEW EU EMISSIONS TRADING SYSTEM

The Emissions Trading Scheme (EU ETS),<sup>1</sup> introduced in 2005 by the European Union (EU), is central to reducing greenhouse gas (GHG) emissions and generating revenues to support the green transition and is therefore often referred to as the cornerstone of the EU's climate policy. The EU ETS applies to all EU Member

1 [Directive 2003/87/EC](#) of the European Parliament and of the Council.

States, as well as Iceland, Liechtenstein and Norway, and has been linked to the Swiss ETS since 2020. The system covers key sectors of the economy, such as electricity production, manufacturing, aviation and shipping, which together are responsible for around 40% of total EU emissions. Since its introduction in 2005,<sup>2</sup> the EU ETS has contributed to a 37.3% reduction in GHG emissions from these sectors.

The EU ETS operates on the “cap-and-trade” principle, establishing a ceiling on GHG emissions from key sectors of the economy. This limit corresponds to a fixed number of GHG emission allowances, each of which permits the holder to emit one tonne of carbon dioxide equivalent (CO<sub>2</sub>eq). Allowance prices are set by the market through supply and demand, with two main mechanisms enhancing market stability: the Linear Reduction Factor (LRF) and the Market Stability Reserve (MSR).<sup>3</sup> The LRF sets the annual rate at which the cap is reduced, thereby contributing to the achievement of the EU’s annual GHG emission reduction targets. The MSR stabilises the supply of GHG emission allowances in the market, absorbing surplus allowances during periods of oversupply and releasing additional allowances when demand exceeds supply, thus helping to stabilise prices within desired limits.

As climate change is a global issue, the risk of “carbon leakage” could significantly undermine global climate efforts. Specifically, European companies may relocate their operations to countries with looser environmental standards, or carbon-intensive products may be imported from third countries, replacing European-made goods. To address carbon leakage and ensure fair carbon pricing for goods produced outside the EU, the Carbon Border Adjustment Mechanism (CBAM) was introduced as a complement to the EU ETS. Scheduled to become fully operational by 2026, the CBAM will equalise the carbon costs between EU products and imported goods, ensuring that the EU’s climate objectives are not compromised by the relocation of production to countries with less stringent climate policies.

As part of the EU’s efforts to achieve the GHG reduction targets outlined in the European Green Deal,<sup>4</sup> a new Emissions Trading System (EU ETS2) was introduced in 2023, scheduled for full implementation by 2027.<sup>5</sup> This new system builds on the existing framework by extending coverage to sectors such as building heating, construction and road transport, which are major “polluters” in the EU, accounting for approximately one-third of its total emissions.<sup>6</sup>

The full economic and social impacts of the EU ETS2 remain uncertain, as inflation and economic growth are likely to be affected in the coming years,<sup>7</sup> depending however on multiple factors. National green discretionary fiscal measures, particularly those related to carbon pricing and energy taxes, are expected to increase inflation by approximately 0.2 percentage points (pp) in 2025 and by 0.1 pp in 2026, with their impact coming close to zero in 2027. Moreover, these measures are expected to dampen real GDP growth by 0.05 pp in 2025 and by 0.1 pp in 2026 and 2027. In particular, upstream producers will need to pay for emissions from their products, and the costs are likely to be passed on to consumers. Vulnerable groups<sup>8</sup> and consumers, who spend a large share of their income on energy and transport or lack access to affordable alternatives, are at risk of being disproportionately affected by carbon price volatility. These impacts may be stronger in geographically isolated communities, such as islands, rural and mountainous areas, or in remote and less developed regions.

In this context, unless effective social protection mechanisms are put in place and revenues from GHG emissions trading are redistributed, significant pressures on heating and transport costs may arise. Measures to mitigate and adapt to climate change, along with each country’s energy mix – which shapes energy production costs – will play a key role in this regard. Economies experiencing delayed energy transitions and a strong reliance on lignite reserves or other fossil fuels may be more vulnerable to the risks associated with rising carbon pricing.

2 European Commission, [Report on the functioning of the European carbon market in 2022](#).

3 European Commission, [Market Stability Reserve](#).

4 European Commission, [The European Green Deal](#).

5 European Commission, [ETS2: buildings, road transport and additional sectors](#).

6 LIFE ETX (2024), [EU ETS 101 – A beginner’s guide to the EU’s Emissions Trading System](#).

7 ECB, [“Eurosystem staff macroeconomic projections for the euro area, December 2024”](#).

8 WWF (2022), [SCF and ETS2 impact studies](#).

To address the social impacts of the EU ETS2 and ensure a fair transition to climate neutrality, EU Member States have established the Social Climate Fund.<sup>9</sup> This Fund provides financial assistance enabling Member States to support the green transition of vulnerable groups affected by “energy and transport poverty,” such as micro-enterprises, transport users and households.<sup>10</sup> The Fund’s revenues will be used, *inter alia*, to improve buildings’ energy efficiency, support the decarbonisation of buildings’ heating and cooling, including through the integration of renewable energy generation and storage, and enhance access to zero- and low-emission mobility and transport solutions.

Each Member State is invited to submit a Social Climate Plan to the European Commission by June 2025, setting out a coherent package of existing or new national measures and investments aimed at addressing the social implications of climate change. To support Member States in developing their plans, the European Commission has launched a dedicated initiative under the Technical Support Instrument.<sup>11</sup> Funding from the Social Climate Fund will be disbursed once Member States meet the milestones and targets set out in their approved plans. National authorities responsible for preparing the plans have been designated by each Member State, so as to facilitate the Fund’s operation;<sup>12</sup> in Greece, the Ministry of Environment and Energy has been appointed as the competent authority.

The Fund is expected to mobilise approximately EUR 65 billion from the auctioning of emission allowances under the new EU ETS2 for the period 2026-2032.<sup>13</sup> An additional EUR 50 million in allowances will be made available from the current EU ETS. Member States will be required to contribute at least 25% of the estimated total cost of their Social Climate Plans. In total, the Fund’s budget for the 2026-2032 period is expected to reach no less than EUR 86.7 billion.

As an evolution of the EU ETS, the EU ETS2 is poised to become a driving force in the EU’s transition to a low-carbon, sustainable economy. While the system has proven effective in reducing emissions, its extension to sectors with direct social impacts presents a new, complex challenge. To ensure a smooth transition, it is crucial for Member States to closely monitor carbon price developments, assess the economic and social costs and take appropriate preventive and mitigating measures. The implementation of transition plans towards climate neutrality, together with the adoption of sustainable practices and energy-efficiency measures, will enhance economic resilience and mitigate climate change impacts.

9 [Regulation \(EU\) 2023/ 995](#) of the European Parliament and of the Council.

10 European Commission, [Social Climate Fund](#).

11 European Commission, [2024 Flagship Technical Support Project](#).

12 European Commission, [List of Member States authorities responsible for the preparation of the Social Climate Plans](#).

13 European Commission, [Social Climate Fund: Structural set-up of the programme](#).

## 2 GREENHOUSE GAS EMISSIONS IN THE EU AND IN GREECE

Total greenhouse gas emissions in the EU-27 (including “land use, land use changes and forestry” and indirect CO<sub>2</sub> emissions) decreased by 2.6% in 2022 (-83.3 million tonnes of CO<sub>2</sub> equivalent (MtCO<sub>2</sub>e)) compared to 2021, reaching 3,132.7 MtCO<sub>2</sub>e (see Table X.1). The largest decline was observed in the buildings sector (residential and retail properties) and is mainly attributed to lower consumption of natural gas compared with one year earlier. According to the Copernicus Climate Change Service, 2022 was the second warmest year on record in Europe. Relative to 1990, total greenhouse gas emissions in the EU-27 dropped by 32.6% in 2022 (-1,516.3 MtCO<sub>2</sub>e). The downward course over this 32-year period is attributed to a number of factors, including the increasing share of renewable energy in the overall energy mix; the use of less carbon-intensive fossil fuels; improvements in energy efficiency, e.g. due to better insulation standards in buildings; structural changes in the economy, with a higher share of services in total GDP; the economic recession during the COVID-19 pandemic; and high

Table X.1 Greenhouse gas emissions<sup>1</sup>*(in million tonnes of CO<sub>2</sub> equivalent)*

|                | 1990                  | 2022    | Change<br>2021-2022  | Change<br>2022-2023 | Change<br>1990-2022 | Change<br>1990-2023 |
|----------------|-----------------------|---------|----------------------|---------------------|---------------------|---------------------|
| Country        | (MtCO <sub>2</sub> e) |         | (percentage changes) |                     |                     |                     |
| Austria        | 67.4                  | 68.4    | 3.1                  | -6.8                | 1.4                 | -5.5                |
| Belgium        | 142.9                 | 103.1   | -6.1                 | -4.2                | -27.8               | -30.8               |
| Bulgaria       | 81.0                  | 48.9    | 10.0                 | -27.4               | -39.7               | -56.3               |
| Croatia        | 25.2                  | 19.7    | 5.4                  | -8.5                | -21.9               | -28.5               |
| Cyprus         | 5.4                   | 8.5     | -0.1                 | 0.3                 | 56.3                | 56.8                |
| Czech Republic | 192.5                 | 121.1   | -3.9                 | -13.2               | -37.1               | -45.4               |
| Denmark        | 78.3                  | 41.7    | -4.8                 | -5.7                | -46.8               | -49.8               |
| Estonia        | 35.0                  | 14.3    | 6.7                  | -18.6               | -59.2               | -66.8               |
| Finland        | 48.2                  | 50.1    | -1.8                 | -21.7               | 4.1                 | -18.4               |
| France         | 521.2                 | 377.2   | -3.9                 | -6.6                | -27.6               | -32.4               |
| Germany        | 1,283.4               | 754.3   | -1.0                 | -10.2               | -41.2               | -47.2               |
| Greece         | 101.7                 | 72.9    | -0.1                 | -9.5                | -28.3               | -35.1               |
| Hungary        | 91.8                  | 52.7    | -6.7                 | -9.5                | -42.5               | -47.9               |
| Ireland        | 60.2                  | 64.6    | -2.7                 | -6.1                | 7.2                 | 0.6                 |
| Italy          | 518.7                 | 391.8   | 1.4                  | -7.4                | -24.5               | -30.5               |
| Latvia         | 13.7                  | 15.1    | 16.4                 | -16.3               | 10.3                | -7.7                |
| Lithuania      | 42.7                  | 12.6    | -14.5                | -2.8                | -70.6               | -71.4               |
| Luxembourg     | 12.7                  | 7.5     | -14.0                | -7.0                | -40.8               | -44.9               |
| Malta          | 2.6                   | 2.3     | 7.8                  | -5.8                | -13.5               | -18.5               |
| Netherlands    | 228.1                 | 158.4   | -7.6                 | -7.3                | -30.5               | -35.6               |
| Poland         | 447.4                 | 344.9   | -8.1                 | -8.2                | -22.9               | -29.2               |
| Portugal       | 66.1                  | 50.5    | 0.3                  | -7.6                | -23.7               | -29.5               |
| Romania        | 230.4                 | 63.5    | -5.7                 | -7.1                | -72.4               | -74.5               |
| Slovakia       | 64.6                  | 29.8    | -12.3                | -2.4                | -53.8               | -54.9               |
| Slovenia       | 14.4                  | 15.4    | -1.9                 | -6.4                | 7.1                 | 0.2                 |
| Spain          | 253.4                 | 246.8   | 2.4                  | -7.6                | -2.6                | -10.0               |
| Sweden         | 19.9                  | -3.4    | -215.7               | -25.6               | -117.2              | -84.9               |
| EU-27          | 4,649.0               | 3,132.7 | -2.6                 | -8.8                | -32.6               | -38.4               |

Sources: European Environment Agency, "Annual European Union greenhouse gas inventory 1990-2022 and inventory document 2024", December 2024. For 2023: European Environment Agency, "Approximated EU greenhouse gas inventory-Proxy GHG emission estimates for 2023", ETC CM Report 2024/06, October 2024.

<sup>1</sup> Total GHG emissions, including land use, land use changes and forestry, and international aviation.

energy prices in 2022.<sup>47</sup> The largest decreases in pollutants<sup>48</sup> were observed in the sectors of energy production, in manufacturing and construction, including combustion emissions from iron and steel production, as well as in the buildings sector (-498, -370 and -222 MtCO<sub>2</sub>e, respectively). Conversely, an increase in emissions resulted from road transport, refrigeration and air conditioning, forest land, due to the ageing of forests since the late 2000s and a lower annual increment, as well as increased harvesting (+147, +54 and +40 MtCO<sub>2</sub>e, respectively).

<sup>47</sup> European Environment Agency, "Annual European Union greenhouse gas inventory 1990-2022 and inventory document 2024", December 2024.

<sup>48</sup> European Environment Agency, op. cit.

Chart X.1 Shares of energy products in total available energy in the EU-27

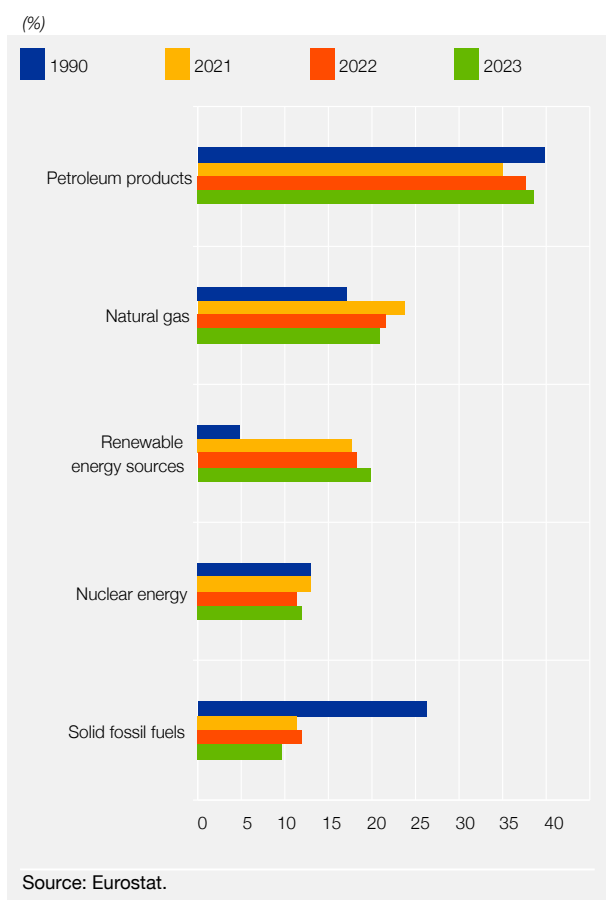
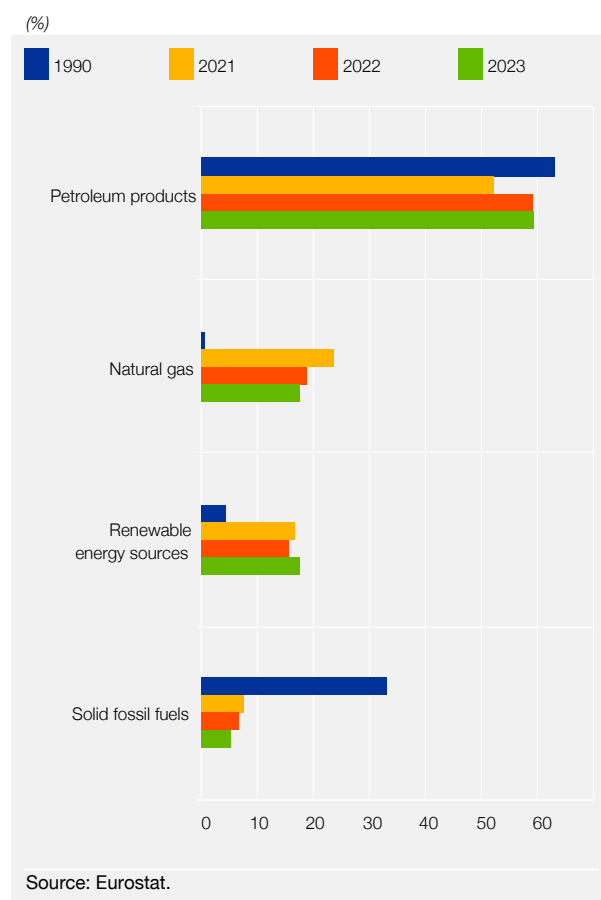


Chart X.2 Shares of energy products in total available energy in Greece



In 2022, almost all EU-27 Member States reduced emissions relative to 1990, thus contributing to the positive performance of the EU as a whole. Germany, Romania, Italy and France accounted for about two-thirds of the overall emissions reduction in the EU over the past 32 years. Certain policies, both in the EU and in individual Member States, have contributed to the overall reduction in greenhouse gas emissions, such as key agricultural and environmental policies in the 1990s and climate and energy policies since 2005. Specifically, the main factors behind the significant emissions reduction in Germany were increased efficiency of heating systems and economic restructuring, particularly in the iron and steel sector. Other important factors were a switch from coal to natural gas, a strong increase in the use of renewable energy sources (RES) and waste management measures. Emissions in France were below 1990 levels, reflecting drastic reductions in N<sub>2</sub>O emissions in the chemical industry, while lower emissions in Italy are due to a contraction in industrial production. As regards Poland and other Member States, the main drivers of the drop in emissions were a shrinking of the energy-inefficient heavy industry sector and the overall restructuring of the economy towards services. In general, common factors that supported the reduction in greenhouse gas emissions in most EU-27 countries over the past 32 years, excluding the short-term impacts of the pandemic-related economic downturn, were the use of less carbon-intensive fuels due to the switch from coal to natural gas, a considerable increase in the use of RES, as well as significant improvements in energy efficiency. In 2022, the largest emitters in the EU-27 were Germany (24.1%), Italy (12.5%) and France (12.0%), followed by Poland (11.0%) and Spain (7.9%).

The downward trend in greenhouse gas emissions continued in 2023 as well, with an estimated drop of -8.8% relative to 2022 (-38.4% relative to 1990), while 26 EU Member States reduced

pollutants (the only exception being Cyprus, where emissions remained unchanged). However, the regional breakdown of changes differs significantly across Member States. Specifically, the greatest emissions reduction, in absolute terms, in 2023 compared to 2022 was observed in Germany, where emissions decreased by 76.8 MtCO<sub>2</sub>e. High emissions reductions were also recorded in Italy and in Poland (-28.6 and -28.1 MtCO<sub>2</sub>e, respectively).<sup>49</sup> In annual terms, the highest reductions were recorded in Bulgaria (-27.4%) and in Sweden (-25.6%).<sup>50</sup>

In the EU-27, the most important greenhouse gas is CO<sub>2</sub>, which accounted for 79.2% of total emissions in 2022, including “land use, land use changes and forestry”. In particular, CO<sub>2</sub> emissions in 2022 were 2,481 million tonnes, 32% below 1990 levels. Methane (CH<sub>4</sub>) and nitrogen oxide (N<sub>2</sub>O) emissions also declined considerably relative to 1990. By contrast, hydrofluorocarbon (HFC) emissions were higher than in 1990, but significant decreases have been reported over the past years. As regards the emissions breakdown by source of origin, the biggest contributor is energy (77% of total EU-27 emissions in 2022), followed by agriculture and industrial processes with 11% and 9%, respectively.<sup>51</sup>

A breakdown of the energy mix in both the EU-27 and Greece in 2023 compared to 1990 highlights the considerable progress achieved in RES penetration, with a concomitant decrease in the share of fossil fuels in total energy. Specifically, in 2023, according to Eurostat data, the energy mix in the EU-27 (see Chart X.1) consisted mainly of five different sources: petroleum products, including crude oil (37.7% of total available energy, from 39.0% in 1990), natural gas (20.4%, from 16.8% in 1990), RES (19.5%, from 4.8% in 1990), nuclear energy (11.8%, from 12.7% in 1990) and solid fossil fuels (9.4%, from 25.7% in 1990). As far as Greece is concerned (see Chart X.2), the respective shares were 58.5% for petroleum products (1990: 62.1%), 17.3% for natural gas (1990: 0.6%), 17.2% for RES (1990: 4.5%) and 5.1% for solid fossil fuels (1990: 32.6%).

49 European Environment Agency, “Approximated EU greenhouse gas inventory – Proxy GHG emission estimates for 2023”, ETC CM Report 2024/06, October 2024.

50 In Greece, the decrease in emissions primarily resulted from energy-related activities. Higher living standards owing to economic growth, the significant expansion of the services sector, as well as the introduction of natural gas and the increased share of RES in the Greek energy system, constitute the key factors behind the reduction of emissions. Moreover, the large drop observed in 2023 can be mainly attributed to the limited operation of lignite-fired plants, which were replaced with a higher share of natural gas and RES than in past years.

51 In Greece, in 2022, greenhouse gas emissions from energy accounted for 67.9% of total emissions, down by almost 29.4% compared to 1990 levels. Respectively, emissions from industrial processes accounted for 12.3% and declined by 11.8%, while emissions from agriculture, with a share of 10.2%, decreased by almost 24.2% between 1990 and 2022. Conversely, emissions from the waste management sector, accounting for 7.9% of total emissions in 2022, rose by almost 15.9% against 1990 (Ministry of Environment and Energy, *National inventory report of Greece for greenhouse and other gases for the years 1990-2022*, December 2024).



