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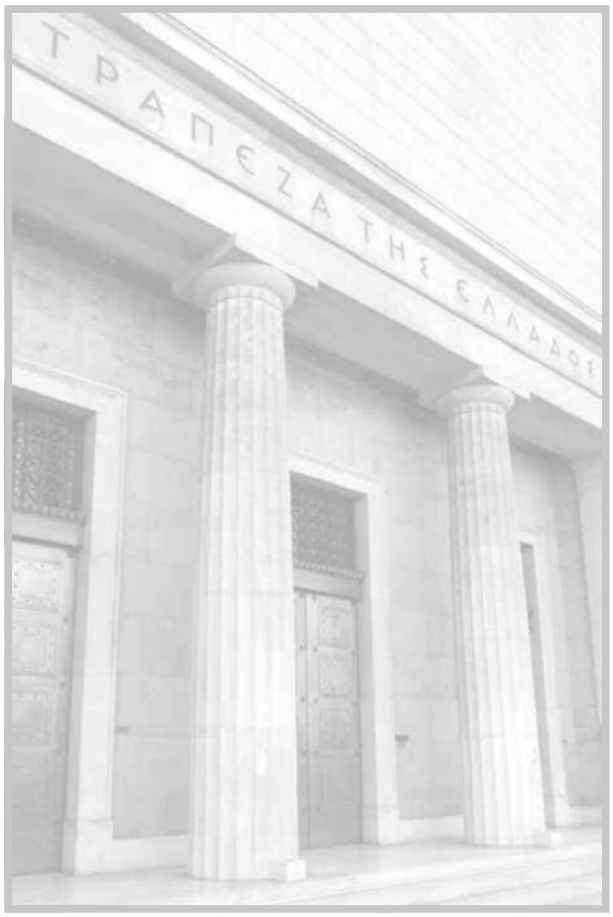


APRIL 2026

BANK OF GREECE
EUROSYSTEM

ANNUAL REPORT
2025

Presented to the 93rd General Meeting of Shareholders
on 6 April 2026 by Governor Yannis Stournaras



APRIL 2026

BANK OF GREECE
EUROSYSTEM

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FOREWORD BY THE GOVERNOR



The world economy has entered yet another period of pronounced instability amid the Middle East conflict escalation since February 2026. Soaring energy prices, supply chain disruptions and risk repricing in financial markets are testing the resilience of economic activity. The year 2025 had already been marked by heightened uncertainty and growing trade and geoeconomic challenges. Setbacks to global economic integration caused by higher US tariffs, a restructuring of international trade flows as well as continued geopolitical instability weighed on economic sentiment. On the other hand, AI investment, accommodative policies and benign international financial conditions underpinned global growth, which turned out unchanged in 2025. In the euro area, economic activity accelerated, driven by investment and private consumption, despite counteracting pressures from structural competitiveness weaknesses, the appreciation of the euro and weaker foreign demand. In the first half of 2025, the Governing Council of the ECB continued its rate-cutting cycle, which had started in June 2024, taking into account the sustained disinflation process. In the second half of 2025, the convergence of inflation towards the medium-term target of 2% consolidated a more neutral monetary environment. However, the geopolitical shock in the Middle East is exacerbating inflationary pressures in the euro area because of its strong energy reliance. Against this backdrop, downside risks to the global and the European economy have increased.

In spite of the volatile international environment, the Greek economy continued to expand in 2025, outperforming the euro area average for the fifth consecutive year. Real GDP grew by 2.1%, as in 2024, driven by investment, consumption and net exports. However, headline inflation declined only marginally to 2.9% from 3.0% year-on-year, owing to persistent services inflation and higher unprocessed food inflation. The labour market remained robust, with employment rising, labour force participation increasing, especially among young people and women, and unemployment falling to a 16-year low. Although the outlook for the Greek economy remains favourable, the recent surge in geopolitical uncertainty is set to dampen the growth momentum in 2026 mainly on account of higher international energy prices, which are expected to push inflation up and dent disposable income and consumption to some degree.

In 2025, adherence to fiscal prudence, coupled with improved tax compliance, created permanent fiscal space and ensured a further reduction in public debt. With regard to the baking sector, the ratio of non-performing loans to total loans has declined to its lowest level since the country joined the euro area, while capital adequacy and liquidity ratios remained elevated. These developments led to further upgrades in Greece's sovereign credit rating and contributed to lower yields on Greek government, bank and corporate bonds. Cuts in key interest rates and the use of financing instruments brought down borrowing costs, allowing an expansion of bank credit to households for the first time in 15 years.

Amid successive global shocks, strengthening the Greek economy calls for more productive investment as well as the elimination of lingering distortions, in particular obstacles to competition. Political stability, continued fiscal discipline, bolstering of institutions and acceleration of reforms are essential for enhancing the economy's structural competitiveness, reducing the current account deficit and absorbing short-term shocks. At the same time, an efficient use of available European resources will contribute to a sustainable growth path.

For 2026, monetary authorities must navigate a complex international landscape that makes the economic outlook less predictable. Safeguarding its credibility remains fundamental for monetary policy to ensure its effectiveness and anchor inflation expectations. Meanwhile, Europe, building on the lessons learnt from past crises, must proceed with bold risk sharing policies in response to current challenges and lasting structural weaknesses. Boosting competitiveness and increasing strategic autonomy as well as deepening European integration, through a Banking Union and a Savings and Investments Union, will lay the groundwork for turning Europe into an autonomous geoeconomic pole.

At a time when institutions are put to a test, the Bank of Greece has never ceased to be a beacon of confidence and stability, acting as an anchor for the economy and citizens. In 2025, it continued with firmness and determination to deliver on its mandate, which is to safeguard price and financial stability, by bolstering the resilience of the financial system and maintaining smooth liquidity conditions. Throughout the year, it contributed to the formulation of a credible, agile and pragmatic single monetary policy.

The Bank of Greece is evolving into an innovative and extrovert organisation, with transparency and accountability at the core of its operation. With a view to upgrading its procedures and to effective corporate governance, it pressed ahead with an organisational and digital transformation that promotes meritocracy and operational efficiency. Adoption of novel human resources management systems and ongoing staff recruitment were necessary for meeting the Bank's increased responsibilities, including the takeover of Occupational Pension Funds' supervision since the beginning of 2025. The Bank of Greece continued to produce high-level scientific research, also as part of various Eurosystem research networks, and provide in-depth analyses and economic data to the general public. Moreover, the Central Credit Register was completed in 2025, aspiring to serve as a national database on credit, with a view to enhancing the financing of the real economy and safeguarding financial stability. The Bank advanced its sustainability agenda, with a focus on climate change research and environmental management. Last but not least, it remained a custodian and disseminator of Greek culture through the activities of its Centre for Culture, Research and Documentation, while further promoting financial literacy.

2026 is set to be a year of significant challenges, calling for adherence to responsible economic policies. The Bank of Greece will keep up fulfilling its institutional role with consistency and credibility. Its work relies on the dedication, ethos and professionalism of its staff, to whom I am deeply grateful for their invaluable contribution. Lastly, I would like to thank the members of the General Council for their support and cooperation.

Yannis Stournaras

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FROM CRISIS TO RESILIENCE: THE GREEK ECONOMY AMID HEIGHTENED GLOBAL UNCERTAINTY AND SUCCESSIVE SHOCKS

1 INTRODUCTION

The world economy is once again confronted with a severe negative supply shock, which has reignited the risk of stagflationary pressures. The recent escalation of the Middle East conflict has already affected international energy markets and has exacerbated uncertainty, pushing upwards oil and gas prices and heightening volatility in financial markets. As in past periods of tension, disruptions in energy flows and supply chains as well as mounting uncertainty are acting as major transmitters of stress, with direct impacts on production costs and consumer prices. The experience of the past few years has shown that such disruptions can quickly tip the balance of risks to growth and inflation, especially in an environment where stability has not yet taken hold.

Compared with the previous energy crisis of 2022, this time there are essential differences in both the cyclical position of the economies and the economic policy stance. In 2022 the world economy had just emerged from the pandemic amid pent-up demand, which exerted upward pressures on energy prices, while fiscal and monetary policies were broadly supportive and financial conditions were relatively loose. Today, on the contrary, the energy crisis is chiefly related to supply-side constraints, while economies are losing momentum, with comparatively weaker demand and visibly tighter financial conditions. Monetary policy has tightened to curb inflationary pressures, while fiscal space is more limited in many countries. Furthermore, although inflation is on track to settle at around central banks' targets after the disinflation seen over the 2024-25 period, economies are still vulnerable to renewed upward pressures on energy prices.

Besides, the current shock has occurred against a backdrop of increased geoeconomic uncertainty and rising global trade fragmentation. The ongoing trade tensions, the restructuring of international value chains and the cost of adjustment ensuing from the need to enhance energy security are denting economies' capacity to effectively absorb external supply shocks. As a result, the spillover effects of the recent crisis in the Middle East – via increased uncertainty, reduced confidence and worsened financial conditions – may now be stronger than in the past. Against this background, risks to growth are clearly tilted to the downside, while upside risks to inflation have risen markedly.

How heavily the world economy is affected by this new shock will greatly depend on the duration and scope of the conflict in the Middle East, as well as on the strength of its transmission to energy prices and inflation expectations. Under a mild scenario, the impacts should be limited to temporary rises in energy prices and inflation and to a modest slowdown in economic activity. Conversely, in the event of a protracted war or a severe disruption in energy flows, the implications could be far-reaching, leading to more persistent inflationary pressures and a stronger slowdown in growth, especially in economies with high energy import dependence. In addition, the path of inflation expectations and the intensity of second-round effects, particularly through wage dynamics and services prices, are set to play a decisive role in the medium-term inflation outlook.

For the euro area economy, this new shock adds to already subdued growth dynamics, bringing to the fore wider structural vulnerabilities. Strong reliance on energy imports, compounded by high exposure to foreign demand, makes the euro area particularly vulnerable to increases

in international energy prices and to a deterioration in global trade conditions. In contrast with other major economies, the euro area has limited room to swiftly counterbalance such pressures, because of its energy dependence and weaker domestic demand. At the same time, in an environment where financing conditions remain relatively tight, the economy's ability to absorb new external shocks is reduced. The short-term impact of the crisis is estimated to be significant, while the eventual extent of the medium-term implications will largely depend on the duration and intensity of the war in the Middle East. As a result, growth is expected to remain muted, with the downside risks mostly coming from private consumption, investment and the external sector.

Meanwhile, this new supply disruption sharpens the upside risks to euro area inflation, especially in the short term, complicating its stabilisation around the 2% target. The surge in energy prices caused by the war in the Middle East is expected to drive inflation higher in the short run, halting its decline, while its medium-term path will depend both on the duration and intensity of the crisis and on how energy prices affect the entire economy. Relative to other major economies, strong energy reliance and the substantial weight of energy in the consumption basket make euro area inflation more sensitive to disruptions in global energy markets. In the event of a prolonged conflict, persistent energy inflation may translate into more lasting inflationary pressures, particularly if accompanied by stronger wage pressures, higher inflation expectations, a greater pass-through to non-energy prices or broader disruptions in global supply chains.

Against this background, the role of monetary policy becomes critical, calling for flexibility, credibility and full independence in decision-making. Central banks have to operate amid heightened uncertainty, facing supply-side inflationary shocks which are inherently more complex, given that these are coupled with an economic slowdown and are not demand-driven. Therefore, institutional independence, agility and data-dependent decision-making are key to preserving the credibility of monetary policy. This will help anchor inflation expectations and forestall second-round inflationary pressures, averting an economic downturn.

In this uncertain global setting, the Greek economy is much better placed than in the past to meet these new challenges, having outperformed European average growth for the fifth year in a row. The economic activity mix improved in 2025, with the positive contribution of investment exceeding that of consumption. Investment activity strengthened markedly, with the investment-to-GDP ratio reaching new highs, suggesting a gradual closing of the investment gap of the previous period. Of particular importance is the rise in productive investment (excluding construction), which is inextricably linked with improved productivity. Meanwhile, foreign direct investment (FDI) reached an all-time high, reflecting improvements in both the investment climate and international investors' confidence in the Greek economy. Moreover, the effective use of European resources acted as a catalyst for investment growth. Such evidence points to more resilient growth, with an increased contribution from investment, which enhances the economy's capacity to cope with a more demanding and uncertain global environment.

In comparison with past periods of pronounced instability, the Greek economy now has a much stronger shock-absorbing capacity thanks to solid fundamentals, more efficient markets and accumulated experience from managing successive crises. Today's resilience is not conjunctural, but rather a result of structural improvements in the economy and enhanced economic policy credibility. Return to investment grade, uninterrupted access to international markets, the consolidation of the banking sector and restored investor confidence have reduced the economy's vulnerability to abrupt shifts in the external environment, while signalling a transition from crisis mode to business as usual. In parallel, the diversification of energy sources and the drive for greater energy autarky, flexibility and resilience in the wake of the 2022 episode are further strengthening the economy's energy shock-absorption capacity. As a consequence, exogenous shocks no longer automatically translate into sharp macroeconomic imbalances, thereby enabling a smoother adjustment of the economy to conditions of increased uncertainty, while the

risk of economic destabilisation is now lower. However, high energy imports dependence, a persistent current account deficit and sustained inflationary pressures continue to be sources of vulnerability, especially in the event of protracted shocks. On balance, despite its structural weaknesses, the Greek economy is entering this new period of uncertainty with considerably stronger defences, as increased market confidence and the country's improved sovereign credit rating are key drivers of resilience.

Furthermore, Greece's robust structural fiscal position allows greater flexibility in addressing the fallout of the new crisis. The substantial fiscal adjustment of the past few years has led to high primary surpluses and a rapid reduction in the debt-to-GDP ratio, enhancing economic policy credibility and limiting exposure to changing financial conditions. Besides, the profile of public debt – notably, its long average maturity and the high share of fixed, low-interest-rate debt – mitigates the direct impact from increases in servicing costs, while the high cash buffers provide an additional safety net. The active management of public debt in recent years, including early repayments, has helped lower future financing needs and enhance debt sustainability. In this context, the favourable fiscal position creates the necessary space for the implementation of targeted and temporary measures, if needed, allowing a more agile response to the crisis compared with the past, without jeopardising the stability of public finances.

Lastly, in times of heightened uncertainty, political stability is a key pillar of economic resilience. Pursuing a coherent and credible economic policy, along with maintaining the reform drive, strengthens market and investor confidence. The experience of recent years has shown that political stability and a predictable institutional environment are essential for maintaining macroeconomic balance and for effectively managing exogenous crises.

2 THE WORLD ECONOMY

In 2025 the world economy exhibited remarkable resilience, despite mounting geoeconomic uncertainty and rising trade protectionism. According to the IMF, global GDP growth remained unchanged at 3.3% in 2025, resulting from the balancing of divergent forces. Headwinds stemmed from higher US tariffs and uncertainty about the final outcome of newly signed trade agreements. By contrast, tailwinds came from a broadly expansionary fiscal policy, a front-loading of imports ahead of tariffs, further monetary policy easing and accommodative global financial conditions, as well as surging investment related to artificial intelligence (AI).

– In advanced economies, growth decelerated marginally in 2025, but with significant divergence across major economies. The US economy, despite a slowdown, maintained the highest growth rate among large advanced economies, mainly on account of fiscal support and strong technology investment. So far, the experience in the United States suggests that tariffs had a limited effect in correcting external imbalances, as the deficit in the goods balance widened slightly in 2025, while the inflationary impact of tariffs, albeit subdued until now, is likely to strengthen with a time lag. Growth in the euro area, despite edging up modestly, remained weak in 2025, owing to structural weaknesses and the appreciation of the euro, while Japan's economy recovered from the mild recession of the previous year.
– Growth in emerging market and developing economies picked up slightly. China, in spite of the strong geopolitical shocks and the trade war with the United States, saw its growth rate remain unaffected, whereas in India economic activity expanded visibly.
– As regards the outlook for 2026, the IMF estimates that global growth will remain steady (at 3.3%). This mainly reflects a broadly similar growth rate as in 2025 for advanced economies, which is partly offset by a slight slowdown in developing economies. However, downside risks have increased markedly as a result of escalating geopolitical tensions in the Middle East and resurgent uncertainty about US trade policy. Higher energy prices, increased inflationary pressures, tighter financial conditions and possible new disruptions in global trade are highly likely to lead to a downward revision of the above estimates.

Global inflation declined further in 2025, but at an uneven pace across economies and with persistent pockets of rising prices, especially in advanced economies. According to the IMF, global inflation receded visibly to 4.1% in 2025 (from 5.8% in 2024), mostly reflecting a further drop in energy prices, weaker demand and the gradual adjustment of global supply chains and trade flows to tariff-related disruptions. Nevertheless, developments were uneven across countries. Inflation remained broadly unchanged in advanced economies, as rising food prices and persistent services inflation stalled its downward course, whereas in emerging market and developing economies disinflation was stronger. For 2026, the IMF forecasts a slight further drop in global inflation (to 3.8%). Yet these forecasts are subject to heightened upside risks, especially in the event of prolonged geopolitical tensions in the Middle East and a renewed abrupt and persistent surge in global commodity prices, in particular oil prices.

The impact of rising trade protectionism on international trade turned out to be limited, despite earlier pessimistic projections, which confirms the adaptability of global supply chains and strong foreign demand. According to the IMF estimates, world trade volume (goods and services) growth accelerated to 4.1% (from 3.6% in 2024), pointing to relative resilience of trade flows amid international trade uncertainty. However, for 2026 a marked slowdown in world trade growth is projected (to 2.6%) – well below the long-term average of the 2000-19 period (4.9%) – on account of adjustments to the new trade environment and ongoing geopolitical tensions.

International energy prices in 2025 were affected by a combination of structural and conjunctural factors, leading to increased volatility and divergent trends between oil and natural gas, while the prices of (non-fuel) commodities moved upwards. More specifically, the average international price of crude oil dropped sharply relative to 2024 (-14.2%), reflecting increased global production and a subdued rise in global demand that created conditions of relative oversupply, despite transient upward pressures from the geopolitical tensions in the Middle East. On the other hand, the international price of natural gas of all types surged (+23.3%), on the back of increased liquefied natural gas (LNG) reliance, fiercer global competition for available shipments and the gas market's high vulnerability to geopolitical shocks. Meanwhile, the average international price of (non-fuel) commodities rose (+9.4%), as a result of strong demand in connection with the energy transition and investment in related infrastructure (renewable energy sources, electric mobility, infrastructure networks). For 2026, energy prices (in average annual terms) are expected to stand considerably higher than in 2025, while the prices of non-fuel commodities are projected to surge further amid exceptionally high uncertainty. Risks remain clearly on the upside due to the ongoing war in the Middle East and the high sensitivity of global energy and non-energy commodity markets to supply disruptions.

Fiscal consolidation broadly weakened in 2025, with the fiscal stance turning neutral in advanced economies and expansionary in emerging market and developing economies. Public debt continued to rise in both groups of countries, reaching 110% and 73% of GDP respectively. For 2026, the fiscal stance is anticipated to remain neutral in advanced economies and to tighten slightly in emerging market and developing economies, while the public debt-to-GDP ratio is expected to continue rising globally, reflecting persistent fiscal imbalances.

Monetary policy in advanced economies gradually eased, as central banks pushed on with the rate cuts they had started in 2024, mirroring the progress in the disinflation process. Progressively lower key interest rates contributed to mildly looser financial conditions, but without fully neutralising the impact from past monetary policy tightening. Meanwhile, the monetary policy transmission mechanism remained effective, helping to contain inflationary pressures and to gradually restore price stability. However, the monetary policy stance continued to be determined by incoming data, as persistent services inflation and increased geopolitical risks reduced the scope for faster monetary policy easing.

The euro area economy showed resilience in 2025, with growth accelerating to 1.4% (from 0.9% in 2024), despite global challenges. Stronger domestic demand, mostly on the back of rebounding investment, was the main driver of growth. In greater detail, investment – mainly in defence and infrastructure – has slowly recovered, supported by improvements in financing conditions and confidence, though still constrained by the relatively high cost of capital and heightened uncertainty in the economic and geopolitical environment. Private consumption benefited from improved real disposable income, which was due to continued wage growth and sustained high employment levels. Conversely, net exports made a negative contribution to growth, reflecting competitiveness structural weaknesses, subdued foreign demand and the impacts of tariffs and trade uncertainty, while the appreciation of the euro further weighed on export performance. Growth relied chiefly on services, while manufacturing continued to expand in spite of trade tensions and geopolitical instability. According to the ECB's projections (March 2026), growth is set to decelerate markedly to 0.9% in 2026, affected by recent geopolitical developments in the Middle East, heightened uncertainty and weaker foreign demand. The downward revision of this year's growth outlook relative to the December 2025 projections is primarily attributed to energy market disruptions – which are estimated to be short-lived – and the impact of stronger stagflationary pressures. Domestic demand is anticipated to remain the key driver of growth, in large part via private consumption and, to a lesser degree, investment. On the external side, the contribution of net exports is projected to remain negative, given trade uncertainty and a stronger euro, while developments in the energy market should weigh mainly on imports.

The euro area labour market remained resilient, with employment rising further, albeit at a slower pace, and unemployment still hovering at historically low levels. Specifically, euro area employment growth declined to 0.7% in 2025 (from 0.9% in 2024), while in 2026 it is projected to decelerate further to 0.5%. This development reflects a gradual reduction in job vacancies and a weakening in labour demand. Meanwhile, labour productivity improved, despite a slowdown in employment growth, adding to the overall resilience of the labour market. The unemployment rate came to 6.3%, unchanged relative to 2024, and is anticipated to stand at similar levels in 2026.

Looking at prices, both headline and core inflation in the euro area subsided further in 2025, to levels consistent with the ECB's medium-term target (2%). Headline inflation as measured by the Harmonised Index of Consumer Prices (HICP) dropped to 2.1% (from 2.4% in 2024), reflecting a gradual decline in wage growth and labour productivity gains. These factors contained inflationary pressures, contributing to a moderation in unit labour cost growth. Moreover, the euro appreciation limited increases in import prices, while lower energy prices during 2025 were also supportive. At the same time, core inflation fell to 2.4% (from 2.8% in 2024), mainly owing to receding services inflation, in an environment of milder wage pressures, muted demand and weakened external cost pressures. Long-term inflation expectations remained at levels consistent with price stability. For 2026 a transient resurgence in inflation is projected owing to the recent conflicts in the Middle East. According to the ECB's projections (March 2026), headline HICP inflation should rise to 2.6% in 2026, revised upwards by 0.7 percentage points relative to the previous projections (December 2025), on account of the steep increase in energy prices associated with the war in the Middle East. By contrast, core inflation is projected to stand at 2.3% in 2026, exhibiting trends of stabilisation and revised upwards only marginally (by 0.1 percentage points) compared with the December 2025 projections.

Global financial conditions improved further in 2025, despite mounting uncertainty. This improvement reflects a gradual easing of monetary policies in the euro area and the United States, as well as ample liquidity conditions in the international system. Declining interest rates and expectations of more accommodative monetary conditions supported valuations overall. Nevertheless, the shift in the geoeconomic policy of the new US administration and the challenges to institutions, in the form of government interference with the functioning of the US Federal Reserve (Fed), led to a surge in market uncertainty and occasional spikes in volatility during 2025.

The turmoil of April-May 2025 that was triggered by the announcement of plans to impose high tariffs on US trading partners resulted in a diversion of international capital flows to the euro area, strengthening the relative position of European securities. This is in stark contrast with the historical normal of safe-haven flows to US Treasuries in times of international capital market turbulence. Flows away from US Treasuries and into euro area government securities can be attributed to flight-to-safety effects and have greatly contributed to the appreciation of the euro vis-à-vis the US dollar in 2025. This highlights the exceptionally high uncertainties surrounding the international financial system, especially when constants (such as the Fed's independence in conducting monetary policy) are called into question.

Government bond markets in the United States and the euro area moved along highly divergent paths, strongly reflecting structural factors. In the United States, long-term federal bond yields declined less than short-term yields. This development mirrors growing concerns regarding the growth outlook, the country's fiscal path and the institutional framework, as well as worries about the decoupling of long-term yields from the downward course of key interest rates. Across the Atlantic, yields on euro area benchmark government bonds increased, though not across the board: in Germany the rise in bond yields was mainly associated with the announcement of fiscal expansion, giving rise to expectations of stronger growth, whereas in France yields went up more sharply owing to political instability and fiscal policy concerns.

Equity markets in the United States and the euro area posted solid gains in 2025, despite a bout of uncertainty in spring. In April, volatility surged and share prices plunged – particularly in the United States, but also globally – after the tariff announcements, reflecting an abrupt re-pricing of risk and a deterioration of investor sentiment. Subsequently, share prices fully recovered by end-April, as tariff implementation did not proceed as expected, and the recovery was largely driven by AI-related technology shares. Behind the return to a positive climate were also the releases of corporate earnings in the United States and stronger expectations of sizeable interest rate cuts by the Fed, which boosted valuations and whetted investors' risk appetite.

3 THE SINGLE MONETARY POLICY

The monetary policy of the Eurosystem became gradually less restrictive in 2025, given that inflation returned close to the medium-term target of 2%. The cuts in key interest rates, which had started in June 2024, continued into the first half of 2025, adding up to a cumulative 200 basis points decline by June. Since July 2025, the Governing Council of the ECB has kept interest rates unchanged, considering that inflation has converged towards the target and that its medium-term outlook has not changed. Specifically, the deposit facility rate has remained at 2% since July 2025.

In June 2025, the Governing Council of the ECB published the results of its monetary policy strategy assessment, confirming the suitability of the symmetric 2% inflation target and the effectiveness of the existing toolkit. The assessment highlighted the lessons learnt from the rapidly changing environment of the 2021-25 period. It stressed that the timely and forceful tightening of monetary policy, followed by a gradual easing, helped bring inflation back to the target without causing a recession and enabling the euro area economy to achieve a soft landing. It also underscored the primary role of key interest rates and the complementary function of the other monetary policy instruments (e.g. refinancing operations and asset purchase programmes) both in steering the policy stance and supporting the monetary policy transmission. In addition, it clarified the decision-making process, into which the risks surrounding the inflation outlook are also incorporated.

The Governing Council continued to make decisions following a data-dependent approach and based on its risk assessment, without pre-committing to a particular rate path. Decisions are

based on three criteria: (i) the inflation outlook and the risks surrounding it; (ii) the dynamics of underlying inflation; and (iii) the strength of monetary policy transmission. In an environment of heightened uncertainty, related to trade tensions and geopolitical developments in particular, this approach provides the Governing Council with flexibility in decision-making and adaptability to available data.

4 THE GREEK ECONOMY: DEVELOPMENTS AND PROSPECTS

- ***Macroeconomic environment***

The Greek economy continued to grow in 2025 at a satisfactory pace, outperforming the euro area average for a fifth year in a row. Real GDP increased by 2.1% in 2025 year on year (unchanged from 2024). The expansion in economic activity was mainly driven by rising investment and private consumption, coupled with a positive contribution from the external sector. In more detail:

– Investment maintained its momentum that had started in 2020, nearly doubling its annual growth rate relative to 2024. The investment-to-GDP ratio reached a 16-year high, signalling the gradual closing of the investment gap of the previous period, also assisted by the stimulus from the effective use of RRF funds. The rise in investment stemmed mainly from construction, especially in housing, contributing to a gradual increase in the supply of residential properties. Besides, the quality of the investment mix improved further. Productive investment (excluding construction) as a percentage of GDP came to a 30-year high, reflecting increased spending in categories that deliver strong productivity gains. Overall, it should be noted that the contribution of investment to growth exceeded that of private consumption. This development, which is observed for the first time during an economic upturn since 2006, suggests a gradual rebalancing of the economy towards a more investment-led growth model.
– Private consumption grew, albeit at a slower pace, on the back of households' rising disposable income. Rising income is largely associated with ongoing improvements in labour market conditions, as employment increased, unemployment dropped further and real wages rose during the year. At the same time, certain targeted fiscal measures to support households helped keep consumer spending in positive territory.
– Total exports grew faster year on year. This development was mostly due to buoyant goods exports, which hit a three-year peak and were broadly unaffected by higher tariffs. Exports of services increased marginally, as the sustained momentum of tourism was in large part offset by lower freight rates in shipping.
– On the other hand, total imports declined as a result of weaker imports of goods, which are associated with a substantial drop in the imports of refined oil products, whereas imports of services rose.
– The economy's gross value added remained on the rise, although at a slower growth rate. Both services and the secondary sector contributed to higher output. Industrial output, including energy, kept growing, but at a markedly slower pace, while construction expanded strongly.

Private sector savings available for investment shrank further in 2025 (as suggested by the latest data), mainly because household savings became more negative. In greater detail, higher house prices and the rise of households' financial wealth to a 25-year high, as well as the stable improvement of the broader macroeconomic environment, helped maintain consumer spending at relatively high levels. Increased consumption, despite the inflation-induced losses in purchasing power, compounded by the withdrawal of support measures in response to the energy crisis of 2022-23 and the repayment of tax and social security obligations, led to a further decline in household savings, as consumption outgrew disposable income. As a result, households' saving ratio remained negative, close to its pre-pandemic levels. By contrast, corporate savings (retained earnings) remained resilient, reflecting the positive performance of key economic sectors, such as tourism, construction and the industrial sector, as well as the support provided by RRF grants. On balance, domestic private sector savings continued

to fall short of the level of investment in the economy, sustaining the financing gap and the current account deficit.

Inflation in the Greek economy was more or less unchanged in 2025 year on year, with a significant slowdown in the disinflation process of the 2023-24 period, mostly on account of persistent services inflation. Headline HICP inflation fell marginally to 2.9% (from 3% in 2024) and remained almost one percentage point higher than the respective euro area average (2.1%). This marginal fall was due to the disinflationary effects of processed food, non-energy industrial goods and energy. Conversely, headline inflation was prevented from falling further by rises primarily in services inflation and secondarily in unprocessed food inflation. Persistently high services inflation reflects strong tourist demand, as well as increases in wages, hotel accommodation taxes and rents. Rising services prices also kept core inflation close to the 2024 high (3.6%). The large inflation differential between Greece and the euro area average reflects, among other things, the positive output gap of the Greek economy.

The labour market remained strong in 2025, with unemployment falling to a 16-year low and labour force participation rising further – especially among young and female workers.

– Total employment increased by 1.5% in 2025 (compared with 2% in 2024), with stronger rises for women and persons aged 45-64, who saw their respective shares in total employment grow. The share of part-time employment dropped further to 5.5% of workers, indicating an improvement of job quality, as the creation of new jobs mainly refers to full-time (and dependent) employment.
– It is of particular importance that the labour force participation rate rose further in 2025, chiefly as a result of higher participation by female workers and younger age groups, thereby expanding labour supply and supporting the viability of the pension system given the challenges posed by population ageing.
– Against this background, the unemployment rate dropped further to 8.9% (from 10.1% in 2024), returning to single-digit levels after 15 years. Another important development was the improvement of indicators for women and young people. Female unemployment declined to an all-time low (11.2%), while the gap vis-à-vis male unemployment narrowed to a post-2001 trough, reflecting the significantly improved situation of women in the labour market. At the same time, youth (aged 15-24) unemployment fell further (to 19.1%), signalling the improved integration of young workers into the labour market. It should be noted that the differential vis-à-vis the respective European average narrowed drastically relative to the exceptionally high level that had been observed during the debt crisis, with a remarkable decline over the past five years.
– Lastly, the labour market continued to be tighter than in the pre-pandemic period, although it showed signs of easing in 2025, as the job vacancy rate decreased year on year across almost all sectors, but remained relatively high in construction and in the accommodation and food sector.

Labour market data suggest that the recent economic recovery was accompanied by a pronounced rise in employment, which mirrors the effect of reforms that enhanced the functioning and flexibility of the labour market.

Wage growth moderated in 2025, contributing to an easing of inflationary pressures from labour costs. In more detail, total compensation of employees grew at an annual rate of 6.6% (compared with 7.3% in 2024), whereas growth in compensation per employee slowed to 3.5% (against 5.8% in 2024). However, while real compensation per employee increased marginally, net real compensation grew faster, mainly owing to a reduction of 0.5 percentage points in social security contributions for employees, as well as lower contributions in the cases of extra working hours and overtime. Meanwhile, slower growth in compensation per employee, coupled with a broadly steady productivity growth rate (1.2%), led to a marked deceleration in unit labour cost growth (2.3%, against 4.6% in 2024).

Corporate profitability remained elevated in 2025, despite slightly higher labour costs and a worsening international macroeconomic environment. Over the January-September period, the net profit share (i.e. the ratio of net operating surplus to net value added) increased somewhat relative to 2024 and remained above the pre-pandemic three-year average for 2017-19. This trend was noticeable across most economic sectors and reflects, among other things, the rise in FDI, the effective use of RRF resources, gradually improving financing conditions and the successive sovereign credit rating upgrades. These factors boosted investment activity and helped firms upgrade their productive capital.

The tourism sector remained buoyant in 2025, boasting a third consecutive year of strong performance and hitting a new record in travel receipts, and thus confirmed its status as growth champion. Non-resident travel receipts amounted to EUR 23.6 billion (+9.4% on an annual basis), outperforming past years and reflecting hikes in both arrivals and average expenditure per trip. The extension of the tourist season continued on the back of increased activity also during months beyond the typical summer period. The aggregate contribution of the broader tourism sector to the Greek economy, both direct and indirect, is estimated to have grown further in 2025 (approaching 21% of GDP). Yet, despite the dynamic performance of the tourism industry, the job vacancy rate in the accommodation and food sector remains the highest in the European Union (EU), posing major challenges to its smooth functioning and further expansion.

The international competitiveness of the Greek economy presented a mixed picture in 2025, as the deterioration in price competitiveness because of the euro appreciation was partly offset by an improvement in labour cost competitiveness. On the one hand, price competitiveness worsened, given that Greece's real effective exchange rate appreciated further, mainly owing to the appreciation of the euro, despite a favourable – albeit narrowing – inflation differential vis-à-vis its main trading partners. On the other hand, competitiveness in terms of unit labour costs improved, as unit labour costs in Greece grew at a weaker pace than in the euro area, reflecting wage moderation and relatively stronger productivity growth. In terms of structural competitiveness, Greece's ranking in international composite indices remained relatively low. Progress has indeed been made in areas such as the tax framework, the functioning of the justice system and starting a business. Yet significant weaknesses persist in other areas, including innovation, business effectiveness, the speed of administrative and judicial procedures, labour shortages and skill mismatches in critical sectors, energy costs for businesses, as well as business insolvency.

The current account deficit decreased markedly in 2025 to 5.7% of GDP, after worsening in 2024 (7.2% of GDP). This development is mainly due to the following factors: (i) a lower oil deficit, mostly as a result of a sharp decline in imports, which reflects both reduced global energy prices and lower import volumes; (ii) a slightly higher surplus in the services balance, as the rise in travel receipts was in large part offset by a drop in sea transport receipts, owing to lower freight rates in the sectors where Greek shipping is active and a stronger euro; (iii) an improvement in the primary income account, on the back of reduced net interest payments as a result of interest rate cuts; and (iv) an improvement in the secondary income account, which is associated with RRF disbursements. Nevertheless, these trends were partly offset by a worsening in the goods balance, as import growth outpaced export growth. FDI maintained its upward path (about EUR 12 billion, or 4.8% of GDP), reaching an all-time high. Foreign investors' interest primarily focused on manufacturing and services, with increased investments especially in energy, construction, communications, trade and tourism.

The real estate market continued to attract investor interest, both domestic and foreign, in 2025, though at a weaker pace relative to the past few years. Interest spanned across all property uses, with demand still outstripping the supply of modern properties. The housing market remained buoyant, with the relevant price indices rising further, yet at a slower pace compared with one year earlier. This development can be chiefly attributed to strong demand for residential

properties, limited supply of modern and affordable houses, increased investor interest and the implementation of the subsidised housing programme “My Home II”. Housing investment surged in 2025, while total construction costs for new residential buildings continued to rise, albeit a weaker pace. In the segment of commercial properties, prices maintained their upward trend, showing signs of moderation compared with the previous period. Investments were recorded in commercial property uses related to tourism and hospitality, storage and distribution, as well as in prime offices.

- ***Fiscal developments***

Fiscal policy in 2025 maintained a prudent stance, with an emphasis on safeguarding fiscal stability and supporting economic activity. Public finances remained strong and part of the extra fiscal space that was created in 2024 was effectively used, allowing the financing of additional permanent public expenditure, both for investment and to support vulnerable social groups. Against this backdrop, the fiscal stance is estimated to have turned expansionary after three years of tightening. This development deviates from an initial forecast of marginal fiscal adjustment included in the Medium-Term Fiscal-Structural Plan (MTP) 2025-28 and reflects the considerable overachievement of fiscal targets in 2024, the fiscal policy support measures of 2025 and the RRF-backed rise in investment spending.

The overperformance of tax revenues against the Budget’s targets continued in 2025, mirroring stronger economic activity and improved tax compliance. Increases in incomes and consumption, the rise in employment and high corporate profitability contributed to strong tax revenue growth. In parallel, structural measures to curb tax and social security contribution evasion widened the tax base and enhanced transparency in the tax system. Such measures raised tax compliance and led to a continuous broadening of the tax base, creating additional and largely permanent fiscal space.

As a result, it is estimated that this year’s fiscal targets will be met much more comfortably than initially projected. According to the revised projection of the Bank of Greece, the general government primary surplus in 2025 will stand at around 4.4% of GDP (against 4.7% of GDP in 2024), higher than projected in the Annual Progress Report of the MTP 2025-28 (3.2% of GDP) and the 2026 Budget (3.7% of GDP). If the better-than-expected budgetary performance is confirmed and comes from additional permanent revenues stemming from structural measures to curb tax evasion and/or from reduced primary expenditure, the growth rate of net primary expenditure in 2025 is estimated to turn out lower than the 2026 Budget’s forecast (4.4%). This is set to create fiscal space to raise net primary expenditure over the following years, in line with the constraints arising from the new European fiscal framework. The overall budget balance is estimated to turn out at a surplus of 1.3% of GDP.

In 2025 public debt continued to decline rapidly, both as a percentage of GDP and in nominal terms. Debt reduction was driven by a higher primary surplus, further early repayments of official sector loans and the continued expansion of the Greek economy. Specifically, general government debt is estimated to have declined by 8.1 percentage points compared with 2024, reaching 146.1% of GDP, its lowest level since 2010. At the same time, public debt also shrank as an absolute amount for the second year in a row, which is relatively uncommon for a euro area economy after 2020.

The public debt management strategy in 2025 focused on ensuring favourable financing conditions and maintaining high cash buffers, which resulted in keeping portfolio management risks well contained. The new issues of Greek government bonds were floated with favourable yields and amid conditions of strong demand, while the reopenings of past bond issues on improved terms deepened the liquidity of the government bond market, corroborating a vivid investor interest in medium-term Greek securities. Overall, the Public Debt Management Agency raised

EUR 7.7 billion on the markets at a similar weighted average cost of borrowing as in 2024, but with a shorter weighted average maturity. This is consistent with developments in international bond markets, where long-term bond yields remained elevated relative to short-term ones, leading to a heavier concentration of issues in shorter maturities. Meanwhile, the stock of outstanding Treasury bills continued to gradually shrink, lowering the Greek State's annual gross financing needs, limiting the exposure to refinancing risk and slowing the decrease in the weighted average maturity of the total portfolio. Cash buffers grew further year on year (despite initial estimates pointing to a decline), even after the early repayment of official sector loans. At end-2025 they totalled EUR 39.6 billion (around 16% of GDP), an amount high enough to meet the government's financing needs for about three years.

The overall fiscal performance of the recent period led to further upgrades of the Greek economy's sovereign credit rating by major international rating agencies. In the course of 2025, Morningstar-DBRS, S&P and Fitch upgraded Greece's sovereign rating to one notch above the investment grade threshold (after Scope Ratings, which had already upgraded Greece since December 2024), while Moody's assigned for the first time in 14 years an investment grade rating to Greek government bonds. As a result, all ECB-approved rating agencies have now reinstated the Greek economy to investment grade, signalling the country's fully restored creditworthiness and return to European normality. These upgrades reflect the strong fundamentals of the Greek economy, in particular solid economic growth, the continuous overachievement of fiscal targets, the marked reduction of the public debt-to-GDP ratio and the improved robustness of the financial system. Besides, they capture the benefits stemming from political stability and the progress in the implementation of reforms, as well as the increased resilience of the Greek economy to global uncertainty.

The absorption of RRF resources outpaced the European average, contributing to a surge in public and private investment. By the end of 2025, Greece had received 65% of its total allocation (EUR 23.4 billion), having completed 46% of the agreed milestones and targets. With regard to the RRF loan component, contracted loan growth slowed and disbursements to firms accounted for 46% of total funds received. Turning to the grant component, payments to final beneficiaries picked up markedly relative to 2024 and were estimated at 76% of total grants received by end-2025, as the delays related to administrative and other constraints were reduced visibly in the recent period.

- ***Financial developments***

The further upgrade of the economy's sovereign credit rating by international rating agencies in 2025 has bolstered the status of Greek government bonds in global markets. Although Greek bond yields increased, broadly tracking the upward movement of benchmark bond yields in the euro area, their respective spread narrowed. Specifically, the yield spread of the 10-year Greek bond vis-à-vis its German counterpart stood at considerably lower levels compared with the period before the debt crisis, while Greek bond yields have now converged with the yields on bonds issued by higher-rated member countries. Investor demand for new issues remained exceptionally high, with significant oversubscriptions and favourable financing terms, while liquidity in the secondary market deepened, reflecting a broadening of the investor base and international investors' enhanced confidence in Greek securities.

Greek corporate and bank bond yields continued to follow a downward path, increasing the capacity of firms and financial institutions to tap the capital markets for funding. Consistent with the sovereign credit rating upgrades, the credit rating upgrades for Greek systemic banks continued throughout 2025, with all of them now rated within investment grade territory. This development is associated with a strengthening in profitability, capital adequacy and asset quality, which enabled Greek banks to carry on their successful issues of both senior and subordinated debt. It should be stressed that the yields on senior bonds issued by Greek banks

are now lower than the average yield on bonds issued by comparable BBB-rated European banks. The significant reduction of funding costs facilitates Greek banks not only in raising funds without significant losses on net interest income, but also in complying with MREL requirements. At the same time, non-financial corporations (NFCs) launched new bond issues at a lower cost relative to the past, while corporate bond yields in the secondary market further converged towards the levels of European BBB-rated corporate bonds. This development boosts NFCs' profitability, widens their scope for investment and increases their contribution to economic activity.

The stock market posted strong gains in 2025, reflecting firms' improved financial results and the Greek economy's favourable outlook. The Athens Exchange composite share price index rose substantially, outperforming European and international equity markets, with the banking index leading the rally. Listed companies' financial results improved, while capital expenditure and outstanding corporate borrowing increased in line with the pick-up in investment. Furthermore, transaction activity and the amount of funds raised through new listings and share capital increases strengthened visibly, indicating the enhanced role of the equity market in financing the economy. A particularly important development driving Greek equity performance has been the increase in international investment funds' holdings of Greek shares. Lastly, Euronext's full acquisition of Athex Group S.A. marks a development of strategic importance for the Greek capital market. The integration of the Greek equity market into one of the largest European stock market groups is expected to amplify its international visibility, liquidity and institutional reach, expanding the investor base and ensuring Greek firms' easier access to funds. Against this backdrop, the deal paves the way for increasing and more competitive opportunities of market-based funding, benefiting the long-term growth dynamics of the domestic economy. Besides, it can be seen as contributing to the planned Savings and Investments Union.

- ***Banking sector***

Bank lending rates kept decreasing in 2025 across all loan categories, mainly reflecting a gradual decline in key policy rates and a normalisation of financing conditions in the euro area. The reduction in borrowing costs was more pronounced for loans to firms, whereas interest rates on loans to households declined to a lesser extent. More specifically:

– The weighted average interest rate on loans to firms stood at 4.1% on average, down by 139 basis points relative to 2024. Similarly, lending rates for small and medium-sized enterprises (SMEs) fell considerably, although they remained higher than for the average of total firms, mirroring increased credit risk assessment and management requirements. However, actual borrowing terms and conditions for firms, particularly for SMEs, were 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 the RRF loans. The contribution of the HDB has been significant, given that its financing tools eased SME access to bank financing.
– For households, the pass-through of policy rate cuts to bank lending rates was more limited than for firms. This development is associated, among other things, with the high share of new fixed-rate loans. The weighted average interest rate on loans to households was 5.7% on average in 2025 (against 6.1% in 2024), more than 1.5 percentage points higher compared with loans to firms. In greater detail, mortgage rates fell by about 47 basis points, year on year, to 3.6% on average, while a large part of housing loans enjoyed more favourable terms thanks to HDB schemes. The weighted average interest rate on consumer loans with a defined maturity came to 10.5% on average, down by 33 basis points year on year.
– In real terms, the weighted average interest rate on bank loans declined in 2025 both for firms and households.

– Moreover, the differential in bank borrowing costs between Greece and the euro area narrowed further in both segments, reflecting a gradual easing of financing conditions in the Greek economy.

Interest rates on time deposits followed a downward trend throughout 2025, in contrast with unchanged interest rates on overnight deposits. More specifically, interest rates on time deposits by NFCs tracked the Eurosystem policy rate cuts, while the adjustment in the respective interest rates for households was slower and more limited. In more detail, the average time deposit rate stood at 1.9% in 2025 (against 3% in 2024) for NFCs and at 1.3% (against 1.8%) for households. On balance, the milder decline in time deposit rates relative to policy rates is estimated to reflect the current conditions of ample liquidity in the banking sector. On the other hand, interest rates on overnight deposits remained almost unchanged, compared with 2024, at very low levels (0.03% for households and 0.1% for NFCs), suggesting banks' reluctance to further cut deposit funding costs.

The annual growth rate of bank credit to the private sector as a whole declined markedly in 2025 (7.9%) compared with 2024 (8.9%). This development largely captures a slowdown in bank credit to firms and sole proprietors, which was only in part counterbalanced by faster credit growth to households.

The annual growth rate of bank credit to firms slightly weakened in 2025 (11.3%) compared with 2024 (13.8%). The average monthly net flow of financing to NFCs decreased by 10% year on year. Despite its weakening, credit growth to firms remained elevated throughout the year, although the last quarter witnessed a decline. This picture reflects a strengthening in both demand for and supply of bank financing. In particular, rising economic activity, paired with lower bank interest rates, underpinned demand for new lending, while on the supply side banks, enjoying adequate liquidity, offered firms more favourable terms and conditions of financing. Manufacturing, energy, trade, tourism and transport-warehousing were the sectors with the highest shares in the total stock of business loans. The co-financing and loan guarantee schemes of the HDB and the EIB Group along with the RRF loans continued to support the financing of firms.

Besides, for the first time in about 15 years, there has been an expansion of bank credit to households. This reflects a slower rate of contraction in housing loans and their gradual return to a positive growth rate, as well as a further pick-up in consumer credit. In more detail, the annual growth rate of consumer loans quickened to 7% (from 6.3% in 2024), while housing loans grew marginally (+0.7%) against a decline (-2.6%) one year earlier. The average monthly net flow of consumer loans rose in 2025 relative to 2024 and, respectively, that of housing loans turned positive from negative. The rise in consumer credit is associated with a continued increase in households' consumer spending, while the recovery in housing credit is related to lower mortgage rates as well as the implementation of the "My Home II" programme.

Bank deposits by the private sector continued growing in 2025, at a faster pace than in 2024. Overall, a cumulative increase of EUR 10.4 billion was recorded (up from EUR 8.6 billion in 2024), the largest since the pandemic. As a result, the total balance of private sector deposits amounted to EUR 213 billion, a post-June 2010 peak. Domestic private sector deposits accounted for 85% of GDP, surpassing the 2003-08 period average. In addition, the composition of the deposit base remained largely unchanged, as the bulk of deposits is still held with overnight accounts (76% of private sector deposits).

The rise in deposits stemmed in almost equal parts from firms and households. Higher household deposits are associated with improved economic activity and favourable labour market developments, but were also underpinned by government income support measures, as well as by bank credit growth to households returning to positive territory for the first time since 2011. At the same time, deposits by firms increased, reflecting the strong momentum of the economy, solid credit growth to NFCs and higher turnovers.

Turning to the structure of deposits, the increase in their total balance in 2025 was mostly due to overnight deposits, whereas households' time deposits shrank. The rise in overnight deposits came predominantly from households and to a lesser extent from NFCs, in line with stronger economic activity and a greater volume of transactions in the economy. On the other hand, time deposits declined overall, as the rise in time deposits by firms was offset by a decrease in households' respective deposits. This development is consistent with lower interest rates, as well as a shift in households' savings to alternative investments, such as mutual fund shares/units.

Amid heightened uncertainty in the world economy, Greek banks maintained their strong performance, improving their profitability and keeping their capital adequacy and liquidity ratios high. The further improvement of banks' fundamentals reflects not only the adjustment and consolidation of the Greek banking sector in recent years, but also the strong growth of the Greek economy. In more detail:

– During 2025, the profitability of Greek banks strengthened considerably, mainly on account of credit expansion, a marked rise in net fee and commission income and reduced loan-loss provisions. Thus, return-on-equity remained elevated.
– Capital adequacy ratios remained high, having largely converged with the respective European ratios on average, as a result of internal capital generation and the issuance of capital instruments accounted for as equity.
– Liquidity ratios declined slightly in 2025 relative to end-2024, but are still well above the regulatory minimum and the respective ratios of euro area banks.
– The non-performing exposures ratio dropped further to 3.3% in 2025 (from 3.8% in December 2024), coming even closer to the euro area average (2.2%).

The robust performance of the Greek banking sector is evidenced by the successive upgrades of banks' credit ratings by international rating agencies, which are linked to the strengthening of the macroprudential supervisory framework and the improvement of Greece's sovereign credit rating. As a result, the highest ratings assigned to the systemic banks are now within investment grade territory.

Meanwhile, improvements can also be seen in all key ratios of the less significant institutions (LSIs), including cooperative banks. This has enhanced competition in the banking sector and financial stability, while it has also helped strengthen credit expansion to SMEs throughout the country. Lastly, the results of the 2025 EU-wide stress test exercise confirmed the resilience of Greek banks, which, even under the severe macroeconomic scenario, would maintain capital levels above regulatory requirements and higher than the European average.

- ***Projections***

Economic growth in Greece is projected to moderate in 2026, mainly due to slower consumption growth and a negative contribution from the external sector, in an environment of heightened geopolitical tensions. According to the projections of the Bank of Greece, growth is expected to slow to 1.9% (from 2.1% in 2025), though remaining faster than the euro area average and on track for real convergence. Despite mounting global uncertainty, the growth momentum remains relatively strong, reflecting the enhanced resilience of the Greek economy, with investment being the key driver of growth for yet another year. Investment growth (+8.8) is projected to be supported by the effective use of RRF resources, rapid credit expansion and increased FDI flows, in spite of an expected relative tightening in financing conditions. Private consumption (+1.9%) is also anticipated to continue rising, reflecting further rises in employment and wages, as well as the impact of the new permanent fiscal measures to support households' disposable income. The expected inflationary pressures are projected to slow the pace of consumption growth somewhat relative to the previous year. By contrast, the external sector is expected to make a negative contribution to growth, as solid domestic demand and rising energy prices should lead to faster growth in imports (+3.4%) relative to exports (+1.6%), in an environment of subdued foreign demand and increased global instability.

The disinflation process is projected to be halted in 2026, due to a resurgence of external cost pressures from international energy markets, with headline inflation rising and remaining above the euro area average. Headline HICP inflation is estimated to stand at 3.1% (up from 2.9% in 2025), mainly reflecting renewed and stronger pressures on energy and food prices. By contrast, core inflation is expected to continue to ease, falling to 3% (from 3.6% in 2025), as a result of a gradual decline in services inflation, which had remained persistently high in the past few years. However, geopolitical developments and ongoing pressures from global energy markets are expected to push upwards the energy component once again and lead to faster increases in food prices, dampening the downward effect of core inflation on headline inflation.

The outlook for the labour market remains favourable in 2026, with employment rising and unemployment declining further. The projected increase in employment (+1.1%) and drop in the unemployment rate (to 8.2%) are associated with the sustained growth momentum of the economy, which continues to support job creation.

The outlook for the international competitiveness of the Greek economy in 2026 appears to be mixed. The favourable for the Greek economy differential in unit labour costs vis-à-vis all major trading partners is expected to maintain its positive dynamics, boosting labour cost competitiveness. However, this effect may be partly offset by less favourable movements in relative prices and exchange rate volatility. Therefore, the final impact on competitiveness will to a considerable degree hinge upon the evolution of the euro's exchange rate and the volatility related to international geopolitical and trade uncertainty.

The current account deficit is not expected to improve further in 2026. This reflects the effect of offsetting forces and depends on the severity and duration of the war in the Middle East. More specifically:

1) Non-oil exports of goods are expected to maintain their market share in the main export destinations and increase it in countries outside the EU, despite geopolitical developments. A materialisation of the downside risks to global growth and foreign demand for Greek products would adversely affect the path of exports of goods.
2) Travel receipts are expected to rise further in 2026, mainly due to the extension of the tourist season, the promotion of alternative forms of tourism and the strengthening of the cruise industry. Nevertheless, the development of travel receipts will heavily depend on how long the war in the Middle East lasts, how travellers' disposable income is affected and whether travellers opt for safer or closer destinations.
3) The outlook for sea transport receipts in 2026 appears to be mixed, but overall it is expected to remain relatively resilient. On the one hand, slowing international trade growth and increased global uncertainty are likely to dent demand for sea transport. On the other hand, geopolitical developments and the rerouting of sea vessels, coupled with the limited growth in the world fleet, are projected to support freight rates. As a result, net sea transport receipts are estimated to remain relatively satisfactory, but the strong dynamics seen in the previous years will weaken.
4) The absorption of a sizeable part of the remaining RRF resources and other European funds is set to improve the secondary income account.
5) FDI inflows are expected to maintain their momentum, supported by the improved macroeconomic, business and banking environment.
6) The projected rise in international energy prices is estimated to worsen the oil balance, raising the value of oil imports.
7) Higher imports of investment goods related to buoyant investment activity are set to weigh on the current account deficit.
8) Renewed inflationary pressures may lead to increases in the relative prices of domestic products and import prices in general, limiting the competitiveness of exports and widening the trade deficit.

The prospects of the Greek real estate market remain moderately positive in the period ahead. Provided that the war in the Middle East de-escalates soon, global economic conditions stabilise and the positive growth rates of the Greek economy are sustained, the real estate market is projected to continue to grow, albeit at a milder pace than in the past few years. Furthermore, investor interest is expected to focus more on construction quality, buildings' improved energy efficiency and locations with well-developed infrastructures.

The outlook for the ECB's monetary policy in 2026 is characterised by increased uncertainty, but also the need to maintain a high degree of flexibility, as geopolitical developments and fluctuations in energy prices have made the inflation and growth outlook less predictable. Markets can no longer price in the monetary policy stance with the same degree of certainty as before the recent escalation of geopolitical tensions in the Middle East, given that soaring energy prices are most likely to reignite inflationary pressures and at the same time weigh on economic activity. Meanwhile, recent developments in international energy markets have led to a revision of financial market expectations regarding the future path of monetary policy in the euro area. Markets now see an increased probability of policy rate hikes during 2026, reflecting the risk of stronger and more persistent inflationary pressures. In this context, the case for tightening monetary policy is becoming stronger, especially if upward pressures on energy prices prove more persistent and start affecting medium-term inflation expectations and wage developments. In such an environment of mounting uncertainty, the Governing Council of the ECB is expected to maintain its data-dependent, meeting-by-meeting approach to determining the appropriate monetary policy stance, as well as a high degree of flexibility. The intensity and duration of geopolitical developments will affect the medium-term path of inflation and thus the Governing Council's decisions on the level of its policy rates.

Fiscal policy is projected to remain expansionary in 2026, making effective use of the additional fiscal space that was created by the overachievement of the MTP targets over the past two years. The systematic effort to combat tax and social security contribution evasion in recent years, along with expenditure restraint, contributed to the creation of sustainable fiscal space in line with the new fiscal rules. This structural improvement in public finances increased the room for targeted fiscal measures, without jeopardising fiscal stability, and enhanced the credibility and effectiveness of economic policy. In this context, permanent expansionary measures were adopted, effective from 2026, with an emphasis on reducing the tax burden on middle-income brackets, families with children and young workers. Fiscal expansion is also anticipated to benefit from an increase in public investment financed by European funds.

Fiscal aggregates are expected to remain robust in 2026 as well. According to the estimates of the Bank of Greece and on the basis of available data and the policy measures announced, the general government primary surplus will stand at 3.2% of GDP and the overall budget balance will marginally remain in surplus (0.2% of GDP), more than meeting the 3% of GDP deficit threshold set under the Stability and Growth Pact.

The downward trajectory of public debt is projected to be sustained. The debt-to-GDP ratio is estimated to decrease further by 8.4 percentage points to 137.7% of GDP in 2026, supported by economic growth, the sustained high primary surplus and the favourable impact of the interest rate-growth differential (snowball effect). Besides, debt is also expected to continue shrinking in nominal terms, reflecting among other things the use of cash buffers for early repayments of official sector loans. The favourable dynamics of public debt is projected to lead in 2026 to a debt-to-GDP ratio that will no longer be the highest among European countries. These projections meet with a comfortable margin the requirements of the new EU fiscal framework, under which countries with a debt above 90% of GDP must achieve an average annual reduction of at least 1 percentage point in their debt-to-GDP ratio.

Bank financing of the economy is anticipated to remain buoyant over the coming years, driven by the expected expansion of economic activity, the relatively more accommodative interest rate environment and the continued use of EU funding resources. More specifically, expected GDP growth in 2026 and reduced bank borrowing costs (compared with the previous years) are estimated to continue supporting bank financing of NFCs. At the same time, the further absorption of RRF funds, combined with the financing instruments of the EIB Group and the HDB, should continue to underpin credit growth. Credit to households is projected to increase further at a mild pace, given the continued disbursement of funds under the "My Home II" programme. In general, factors such as credit demand conditions, credit risk and the availability of financing instruments will be the key determinants of both the cost and the volume of bank lending. However, a tightening of global and domestic financial conditions, due to mounting uncertainty and a repricing of risk in markets, would dampen credit growth dynamics.

In parallel, deposit demand is expected to evolve in lockstep with developments in the economy, the labour market and household disposable income. The implementation of tax relief measures for households in the current year is also anticipated to boost deposit growth dynamics. Nevertheless, the fact that deposit rates are still very low, in both nominal and real terms, makes bank deposits less attractive as a saving instrument and a store of wealth. Against this backdrop, depositors' shift to alternative forms of investment is projected to keep dampening deposit growth, especially if the differential between the yields on such investment assets and deposit rates widens amid rising medium-to-long-term yields.

The outlook for the Greek banking sector remains positive, despite the heightened uncertainty prevailing in the external environment, as banks' strong performance in 2025 has created favourable conditions for a further strengthening of their resilience. The anticipated rise in loans, paired with the benign domestic macroeconomic environment, is projected to support net interest income growth, offsetting to a great extent the downward pressures on the net interest margin from the ECB's policy rate cuts in the previous period. In addition, a solid growth in fee and commission income and operating cost cuts are expected to contribute to sustained satisfactory profitability. In this environment, systemic banks are estimated to continue to expand their loan portfolios, strengthen their regulatory capital and accelerate the amortisation of deferred tax credits (DTCs). Yet recent developments in the Middle East introduce an additional factor of uncertainty, which may raise funding costs for banks, deteriorate broader financial conditions and, in the event of protracted tensions, adversely affect the quality of their loan portfolios and credit growth dynamics. On balance, banks' improved fundamentals and credit ratings are supporting the resilience of the Greek banking sector and enhancing the outlook for the financing of the real economy in an environment of heightened international uncertainty.

5 SOURCES OF RISK AND UNCERTAINTY

- ***International environment***

Risks to the global growth outlook remain tilted to the downside and have risen, reflecting an escalation of geopolitical tensions and heightened uncertainty about trade policies, thereby weighing on the supply side and aggravating stagflationary pressures. In particular, the exacerbation of geopolitical tensions, especially in the Middle East, is increasing the risk of new disruptions in the supply of energy and other commodities, leading to higher production costs and prices, along with a slowdown in economic activity. The intensity of the adverse effects from the war in the Middle East on inflation and economic activity will depend on the duration and magnitude of disruptions in energy markets, as well as on their pass-through to prices. The response of monetary policy, on the one hand, to ensure the anchoring of inflation expectations, and of fiscal policy, on the other, to address the impacts from increased energy costs, will play a crucial role. Meanwhile, renewed uncertainty about US trade policy may disrupt in-

ternational trade flows and value chains, adding to intermediate input costs. Rising tariff and non-tariff barriers to trade, in critical raw materials in particular, are likely to further reduce global supply, raising production costs in key industries, increasing inflationary pressures and slowing investment. Extreme climate-related events are another possible source of supply-side shocks, exacerbating volatility in energy and food prices. Lastly, pressures on the independence of institutions, like the Fed, could undermine monetary policy credibility and drive inflation even higher.

The outlook for the euro area economy is subject to downside risks, reflecting the structural vulnerability of the European economy to energy shocks. Amid such mounting uncertainty, stagflationary pressures have strengthened. As a net importer of energy, the euro area is disproportionately affected by increases in international energy prices, which compress real disposable income and add to production costs, denting consumption and investment. At the same time, rising protectionism and trade tensions are acting as a drag chiefly via the external sector, depressing exports and worsening business expectations, especially in an environment of already weak foreign demand. A tightening of financial conditions or a sharp repricing of risk in financial markets could further weaken domestic demand. With regard to inflation, the outlook is mainly characterised by upside risks, which however are associated primarily with the evolution of supply disruptions caused by the war in the Middle East. Soaring energy prices, rising protectionism and fragmented global supply chains, compounded by a slower easing of wage pressures, could keep inflation higher for longer. On the other hand, weakening foreign demand and slowing economic activity may dampen inflationary pressures. Overall, the balance of risks implies that the European economy is exposed to an environment of protracted low growth and persistent inflation, especially if supply shocks turn out to be more severe and longer-lasting.

Global financial conditions have become more volatile, as resurgent geopolitical uncertainty and disruptions in energy markets make the case for tightening stronger. The steep rise in energy prices, due to global supply constraints, has pushed up inflation expectations and has led to a revision of the expected path of monetary policy towards a more restrictive stance. Against this background, government bond yields have increased, volatility in international markets has surged and corrections are observed in equity markets, reflecting a broad-based risk repricing amid heightened uncertainty. Such developments suggest that, in spite of adequate liquidity, financial conditions are set to remain volatile, with an increased likelihood of tightening further, especially in the event of longer-than-expected geopolitical tensions or an aggravation of energy shocks. At the same time, long-term government bond yields exhibit increased sensitivity to structural and institutional factors (such as the credibility and independence of monetary authorities). Besides, growing concerns about fiscal sustainability in large economies, coupled with high public debt levels, may possibly lead to an abrupt repricing of risk in international financial markets and tighter financing conditions. An additional source of risk is the rapid growth of non-bank financial institutions, which are subject to less stringent supervision relative to the banking system. Furthermore, high valuations in equity markets – especially in the United States and in the AI sector in particular – raise the likelihood of corrections, which could undermine financial stability.

Fiscal policy is faced with major challenges arising from multiple structural weaknesses. The need to increase public spending in critical areas, such as the green and digital transitions, bolster national security and tackle the impacts of population ageing puts a significant fiscal strain on many economies. Meanwhile, several countries must keep pursuing fiscal adjustment policies to ensure public debt sustainability and create adequate fiscal buffers for future crises. At the EU level, the implementation of structural reforms and the stimulation of productive investment in research and innovation are vital if productivity growth and competitiveness in the European economy are to increase.

- ***The Greek economy***

The balance of risks surrounding the Bank of Greece forecasts about the Greek economy remains tilted to the downside, mainly reflecting unfavourable developments in the external environment, which could be compounded by domestic structural factors. An escalation of geopolitical tensions and prolongation of conflicts in the Middle East, rising protectionism and heightened global uncertainty could weigh on both demand and supply. Meanwhile, domestic challenges, such as persisting inflationary pressures, labour market tightness, possible natural disasters and slower-than-expected absorption of EU funds, could weaken economic growth. Upside risks mostly relate to a faster implementation of reforms and stronger investment activity, but are assessed as less probable.

Downside risks to Greece's macroeconomic prospects relate to a synchronised further slowdown in economic growth and persistence of inflationary pressures. More specifically:

– Inflationary pressures are likely to prove more persistent, as a result of both direct and second-round effects on prices and costs. In particular, rises in the prices of raw materials, energy and transport gradually feed into all prices, while second-round effects via wage pressures might increase unit labour costs. This scenario raises the risk of higher-for-longer inflation, with negative consequences for both households' real income and the economy's competitiveness.
– The projected rise in prices erodes households' purchasing power and weighs on confidence, depressing consumption.
– At the same time, a possible increase in financing costs induced by worsened financial conditions as well as uncertain future conditions discourage investment activity.
– On the external side, the protracted war, a possible slowdown in global growth and higher trade restrictions negatively affect exports of goods and services, especially for an economy that is highly concentrated in a few sectors. More specifically, tourism receipts and other exports of services remain vulnerable to geopolitical and exogenous shocks. Mounting uncertainty in the wider region of the Middle East may adversely affect tourist flows, especially from non-EU and high-spending markets, while possible disruptions in transport and world trade could hit sea transport. In parallel, fuel imports remain vulnerable to international price movements and geopolitical developments with an impact on trade. The high concentration of exports in a limited number of sectors implies that unfavourable developments in these sectors can have a disproportionately large impact on the current account balance.
– Furthermore, increased production costs, coupled with possible supply chain disruptions, hamper business operations and squeeze output.

In such an environment, weaker economic activity coupled with persisting inflation raise the risk of stagflationary pressures if the war in the Middle East escalates, spreads across the region and lasts longer.

Despite downside risks, the Greek economy presents significant features of resilience, which have already played their part in effectively absorbing exogenous shocks over the past few years. The country's robust public finances, paired with high cash buffers, limited short-term financing needs and the favourable profile of public debt, reinforce fiscal stability and allow a prudent management of the heightened uncertainty that arises from the current geopolitical juncture, provided that this is short-lived. In addition, RRF funds can be seen as a major stabilisation mechanism, providing support to economic activity and mitigating the impacts of external instability. Speeding up investments and reforms, with a view to maximising the absorption and effective use of available funds, could further boost investment growth and alleviate any short-term negative effects.

The medium-term planning of fiscal policy must systematically incorporate risk assessment to ensure economic resilience in times of crisis. Maintaining adequate fiscal buffers in times of economic stability is essential for an effective risk management strategy, as it enables the timely

support of the economy as soon as it is affected by negative shocks. In this context, fiscal policy should encourage the build-up of fiscal buffers even when debt sustainability is not directly threatened.

Fiscal projections are subject to risks and uncertainties that are linked not only with international developments, but also with the progress of the National Recovery and Resilience Plan. Developments in the global economic environment – such as geopolitical developments and energy price swings, trade tensions between major economies and fluctuations in the exchange rate of the euro – might adversely affect economic activity and, through this channel, the path of public revenue. Besides, a deviation of euro area inflation from the target and a tightening of monetary policy could weigh on consumption, investment and financing conditions, also dragging down fiscal performance. An additional source of uncertainty is associated with the progress in the implementation of the National Recovery and Resilience Plan. The full absorption of available funds hinges upon the timely fulfilment of several milestones and targets within 2026, which makes the relevant time schedule very ambitious. Possible delays in the receipt of EU grants for the completion of contracted projects may lead to their transfer to the national Public Investment Programme and their financing with national resources, which would strain public finances.

Risks to public debt sustainability remain contained over the medium term, but in the long run uncertainty is expected to increase. 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. More specifically, the likelihood of a reversal in the downward course of the debt-to-GDP ratio is estimated to remain low over the medium term, as remains the likelihood of gross financing needs overshooting the 15% of GDP (medium-term) threshold and the 20% of GDP (long-term) threshold. This fact actually reflects the increased resilience of Greek public debt to adverse shocks, which is attributable to the highly favourable profile of the loan portfolio (such as exceptionally long maturities, low and largely fixed interest rates, as well as the large share of official sector debt and the relatively small share of market debt). However, over the long term the gradual refinancing of official sector debt on market terms is expected to increase the exposure of Greek government debt to interest rate risk, market risk and refinancing risk, calling for continued prudence in fiscal management.

6 POLICY RECOMMENDATIONS

- ***Reforms***

Developing a sustainable and more investment-led growth model is vital for the Greek economy to maintain high and sustainable growth rates in an environment of increased international uncertainty. This shift warrants a rise in productive investment and effective use of available European and national funds, especially in the context of the RRF, with a focus on areas that relate to digital transformation, the green transition and climate resilience. At the same time, the development of research, innovation and human capital remains key to achieving sustainable productivity gains and upgrading the production base of the economy.

Boosting the structural competitiveness of the Greek economy is a complementary yet necessary condition for the country's sustainable growth and improved resilience in a more challenging international environment. Despite the considerable progress achieved over the past few years, Greece's ranking in key indicators relating to digitalisation, innovation and productive investment as a percentage of GDP is still low compared with other advanced economies. In this context, it is crucial to push through and deepen the reforms that cut red tape, improve public administration efficiency, speed up the delivery of justice and enhance competition in goods and services markets. Furthermore, providing incentives for the adoption of innovative techno-

logies, combating tax evasion and bringing energy costs down for businesses can greatly contribute to boosting the productivity and international competitiveness of the Greek economy.

The current account deficit continues to pose a major challenge for the macroeconomic balance of the Greek economy; a coherent set of measures to reduce it and to increase production's extroversion is therefore required. In spite of a considerable rise in exports over the past ten years, the country's export base still displays a high degree of concentration, as more than half of its exports come from a limited number of sectors – mainly tourism services, sea transport and fuels. Moreover, the relatively high import content of domestic output reduces the positive contribution of exports to the improvement of the external balance. Even though high-tech exports have grown in value terms relative to 2010, their share in total exports of goods remains among the lowest in the EU. Besides, more than 65% of Greek non-oil exports is directed to EU countries, without any notable variation over the past few years. Although the country's goods export dependence on the EU acts as a stabilising factor in times of heightened geopolitical uncertainty, the expansion of exporting activity into third-country markets can contribute to a further rise in exports. Against this backdrop, the gradual reduction of the current account deficit calls for a swifter implementation of reforms, the development of new export industries with higher value added, a growing production of high-tech goods, the use of European resources for productive investment and gradual import substitution where possible.

Sustaining the strong momentum of Greek tourism in the period ahead requires the continuation of policies that will boost competitiveness and enhance the quality of the country's tourism product. In this regard, it is very important to stimulate investment that helps modernise tourist accommodation and upgrade the services provided, as well as to improve key infrastructures (energy, water supply, transport) that are essential for the sector's sustainable growth. In the same vein, the promotion of new destinations and the development of alternative forms of tourism (such as cultural, sports and culinary tourism) could contribute to a better allocation of tourism activity across the country and around the year, thereby favouring a longer tourist season. Still, the tourism sector continues to face significant labour market challenges, as the job vacancy rate remains higher than in other EU countries. Addressing labour shortages and improving employment conditions in tourism are prerequisites for high-quality services and the sector's sustainable growth in a highly competitive international environment.

The strengthening of financial intermediation, with banks and capital markets complementing each other, is a key pillar for financing investment and improving resource allocation across the economy. A more efficient functioning of the banking system and capital markets can facilitate the mobilisation of savings from both domestic and international sources, especially through an enhanced corporate bond market and an expanded investor base. At the same time, the development of venture capital and private equity is vital to support startups and innovative firms, which have limited access to bank lending. It is equally important to improve SME access to finance, through the appropriate financing instruments and risk-sharing mechanisms. Finally, the effective use of RRF funds, in conjunction with a further strengthening in credit growth, could act as a catalyst for channelling resources to high value added investments.

Speedier delivery of justice and overall improvements in judicial system efficiency are crucial for boosting productivity and supporting growth. Despite recent progress, Greece is still below the EU average in the time needed to conclude court procedures, which increases uncertainty and weighs on the business climate. Faster and more predictable dispute resolution can contribute to stronger economic activity in multiple ways: (i) through a rise in investment, as more efficient contract enforcement reduces business uncertainty, while increasing expected returns; (ii) through improved productivity, as it facilitates market entry and exit of businesses, strengthening their dynamism as well as competition and helping them to grow and innovate more; and (iii) through easier access to credit, as faster NPL resolution increases the supply of credit and improves bank lending terms and conditions for firms and households. The advancement of re-

forms aimed at faster delivery of justice and higher institutional efficiency can bring sizeable gains to an economy with a lingering investment gap, a still high stock of private debt (which remains to a considerable extent outside the banking system) and a flawed resource allocation.

Stepping up the energy transition, with a focus on reducing reliance on fossil fuels and securing affordable energy, should be a top economic policy priority. To this end, an acceleration of investment in renewable energy sources, coupled with an upgrading of electricity grids, is required to facilitate the uptake of new production capacity. In parallel, reinforcing energy interconnections with neighbouring countries and improving the functioning of the energy market could contribute to lower costs and stronger competition. In this context, a review of administered costs in energy bills and of energy taxation, especially for energy-intensive sectors, is of growing relevance. Meanwhile, transition planning should be mindful of social cohesion considerations, including targeted measures that ensure vulnerable households' access to affordable energy and prevent an exacerbation of energy poverty. Last but not least, the optimal use of the appropriate financing instruments and incentives can expedite the implementation of investments related to the green transition.

Strengthening social cohesion and tackling poverty and inequalities call for a gradual re-orientation of social policy towards a more modern and better-targeted social protection model. To this end, it is necessary to further improve the targeting of social transfers, so that the available resources are more efficiently channelled to the most vulnerable households. Social protection systems must also be revamped to better meet new social and economic challenges which relate to demographic ageing, labour market shifts and the impacts of technological advances. In the long run, the transition towards a "social investment state", focused on education, healthcare and skills development, can play a decisive part in reducing social inequalities and maintaining social cohesion. In this regard, it is of particular importance to utilise European resources with a view to enhancing social protection and supporting the most vulnerable social groups.

Raising the productivity, resilience and competitiveness of the primary sector requires a shift of agricultural policy towards investment, innovation, high skills and novel business vehicles. The overhaul of the Greek primary sector calls for a holistic strategic plan that is fully aligned with the EU's Common Agricultural Policy (CAP) and aimed at sustainable agricultural growth through modernisation, technological upgrading, production restructuring and economies of scale. In this context, it is imperative to invest in state-of-the-art agricultural infrastructure, in particular irrigation projects and systems of more effective natural resource management, as well as to adopt new technologies – such as AI, digitalisation, robotics, automation and smart farming – which can increase output, lower costs, reduce the environmental footprint and promote adaptation to climate change. What is also needed is to bridge the "know-ledge gap" in the agricultural sector through the training and reskilling of human capital; update agricultural education curricula and link studies to food manufacturing; establish synergies with technology companies; and mobilise investment capital. In addition, initiatives are needed to restructure crops in response to demand developments and changing climate conditions, as well as to merge small holdings into cooperative schemes based on private economy criteria, by accelerating land registration and reparcelling, with a view to tackling farmland fragmentation and promoting vertical integration. Lastly, it is necessary to redefine farmers as modern professionals and to recast the CAP as a driver of modernisation, innovation and sustainable agricultural growth, rather than an income support tool.

- ***Housing market***

Improving housing affordability requires policies to increase the supply of available housing and contain upward pressures on prices. Over the past few years, house prices and rents have risen faster than incomes, weighing heavily on low- and middle-income households and limiting access to affordable housing. Tackling the housing problem relies mainly on increasing housing

supply through stronger investment in the residential property sector and better utilisation of the existing stock. To this end, initiatives such as exploiting public real estate for housing purposes, facilitating the repurposing of vacant commercial properties into residential properties and providing incentives for bringing idle or abandoned properties back onto the market. At the same time, incentivising investment in the development of residential properties which are mainly intended to be used as primary residences, and not for investment purposes, can contribute to increased supply of housing.

A well-functioning housing market would also require the removal of institutional and administrative barriers that hamper the development of new housing projects and reduce supply. Simplifying and speeding up procedures in the fields of real estate transfers, regularisation of unauthorised buildings, planning permission and new construction development could greatly contribute to raising supply. Ensuring a stable and predictable legal and tax framework can also strengthen incentives for bringing idle properties back onto the market and encouraging new housing investment. Moreover, recent reforms that restrict certain forms of investment demand – such as measures relating to short-term rentals and the Golden Visa programme – seek to release a larger stock of houses. Over the medium term, a comprehensive strategic planning for housing, which would support regional growth and help decongest large urban centres, could lead to a more even distribution of demand and improved housing affordability across the country. For instance, enhancing the connection of regional towns and settlements with big cities could gradually increase the attractiveness of non-urban areas as places of residence. Finally, targeted interventions in the urban fabric, including the expansion and operational re-design of track-based transport networks, as well as the gentrification and re-purposing of areas for housing use, could enlarge housing possibilities within the boundaries of cities.

- ***Labour market***

Raising labour force participation is crucial for maintaining the growth momentum of the Greek economy and safeguarding the viability of the social security system, as demographic ageing weighs on population structure and limits labour supply. Despite improvements in the recent years, labour force participation in Greece is still below the EU average, especially among women and young people. Closing this gap requires the adoption of policies that facilitate participation in the labour market, such as the expansion and upgrading of childcare facilities and nursing homes, flexible work arrangements and the promotion of a better work-life balance. In parallel, providing incentives to work, through appropriate changes in the tax and social security systems, as well as reducing incentives to retire early from the labour market can contribute to increasing labour force participation rates.

Addressing labour market tightness is a major challenge for economic policy. The sharp drop in unemployment and the rise in employment in recent years have reduced labour force supply, leading to workforce shortages in several economic sectors, especially for middle- and high-skill jobs. In order to attenuate such pressures, it is imperative not only to increase labour supply, but also to better match the skills of the labour force with firms' needs. In this regard, it is very important to advance technical education and lifelong learning, to promote reskilling – especially in sectors related to digital transformation and the adoption of AI technologies – as well as to develop mechanisms to link labour supply and demand. Furthermore, the implementation of policies that facilitate the integration of migrants into the labour market, particularly in sectors with significant labour shortages (such as agriculture, construction and tourism), but also the provision of incentives for a brain regain, could make a material contribution to increasing labour supply.

- ***Fiscal policy***

The expected rise in inflation due to high energy and food prices puts pressure on governments to adopt additional fiscal measures. If the impacts of the new energy crisis are such that fiscal

support is required, the measures should be targeted, temporary and fully consistent with fiscal sustainability. Specifically, given that inflation has significant distributional effects on different income brackets, disproportionately hitting low-income groups with a higher propensity to consume, the measures should be targeted to the most vulnerable. Support to firms should also be targeted, depending on their exposure to energy price hikes and energy supply disruptions. Any tax rate cuts, given the high dependence of tax revenue on indirect taxes, should be combined with structural measures to broaden the tax base and strengthen tax collectability, so that fiscal sustainability is safeguarded. Across-the-board measures should be avoided, as they entail a high budgetary cost and their effectiveness is limited. Besides, the measures should be designed with a clear time horizon and sunset clauses, so that structural pressures on public finances are not entrenched and the risk of demand-pull inflation is reduced. In any event, the decision to adopt emergency measures should also consider whether there is sufficient fiscal space or not. Appropriate targeting, proportionality and flexible implementation are key to effectively mitigating the impacts of the crisis without impairing the medium-term sustainability of public finances.

Faster reduction of public debt is a top priority if fiscal sustainability is to be further enhanced. Using part of the high cash buffers for the early repayment of official sector loans can help lower meaningfully the debt-to-GDP ratio, without jeopardising the Greek State's access to international bond markets. The earlier repayment of debt obligations under the Greek Loan Facility (GLF) and of ESM/EFSF loans could reduce future gross financing needs and debt-servicing costs, while making the fiscal strategy even more predictable. This strategy minimises the economy's exposure to possible interest rate hikes and enhances investors' confidence, increasing the prospects of further sovereign credit rating upgrades. At the same time, it lowers structural adjustment requirements and creates permanent fiscal space in the medium-to-long term, favouring countercyclical fiscal policies. Above all, it is a choice of great macroeconomic relevance and symbolism, which mirrors a forward-looking economic policy and incorporates the principle of intergenerational fairness, as a faster decline of public debt not only alleviates future fiscal burdens, but also reduces the required future primary surpluses.

Stepping up the implementation of investment plans and reforms included in the National Recovery and Resilience Plan is instrumental for strong and sustainable economic growth in the years ahead. The utilisation of available European resources can boost the economy's productivity and potential output, while contributing to the improvement of its structural characteristics and long-term fiscal sustainability. As the NGEU recovery instrument is set to expire within 2026, it is of paramount importance to ensure the completion of investment projects and reforms which are under way, as well as to continue the reform effort beyond the end of the RRF. As part of this effort, taking advantage of alternative European sources of funding – including the EU's next Multiannual Financial Framework (2028-34) and specialised EU funds – would help maintain the economy's investment impetus over the coming years.

The continuation of reforms to combat tax evasion and broaden the tax base is a top priority, in order to increase public revenue and create sustainable fiscal space. The solid overperformance of tax revenue and social security contributions in recent years reflects the progress that has been achieved, thanks to a set of measures that enhance tax compliance and curb the shadow economy. Despite this significant improvement, the size of the shadow economy in Greece still remains larger than the EU average, while tax evasion tends to be concentrated in activities with an increased participation of sole proprietors and self-employed persons, where transactions are largely cash-based. To this end, a wider use of digital technologies, a simplification of the tax system, an intensification of tax audits as well as cutting red tape and curtailing administrative costs for businesses can improve tax compliance. At the same time, efforts to instil a tax compliance culture and promote financial literacy, especially among younger people, can nurture tax responsibility, based on transparency, trust and citizens' active engagement.

The systematic review and rationalisation of existing tax exemptions could substantially improve the effectiveness of fiscal policy. The current structure of tax expenditure comprises a string of piecemeal arrangements, some of which have a limited growth footprint or are accompanied by complex and burdensome implementation procedures. A regular assessment of tax exemptions on the basis of concrete growth and social criteria could lead to the minimisation or abolition of outdated tax incentives with low value added. A reallocation of resources towards measures with a higher growth multiplier would strengthen the efficiency of fiscal policy, while supporting the economy's strategic priorities and long-term growth dynamics.

The recent tax reform that came into effect in 2026 is expected to strengthen incentives to work and invest, boosting the potential growth of the economy. A lower tax wedge incentivises firms to create jobs and encourages the working age population to participate in the labour market, thus reducing workforce shortages. Tax incentives for young workers, including income tax credits and relief, help to retain and attract human resources. Measures regarding the disclosure of rental income enhance transparency in the real estate market and limit the scope for tax evasion. Lastly, tax measures aimed at regional support should reduce inequalities across regions and strengthen social and economic cohesion.

Addressing demographic challenges is a key economic policy priority, as it directly affects the economy's potential growth as well as the long-term sustainability of public finances and the pension system. The recent utilisation of available fiscal space for permanent tax reductions from 2026 onwards, on the basis of the number of children, is a step in the right direction, as it contributes to partly offsetting demographic pressures and the higher tax burden faced by households with children. However, in order to tackle adverse demographics, it is imperative to develop a comprehensive family support framework combining tax incentives with improved infrastructure that favours work-life balance for working parents. It is highly important to expand and upgrade childcare units, improve access to health and education services, as well as deal with housing insecurity, which has a disproportionately larger impact on younger households. Remaining in the family home longer because of high housing costs prevents young adults from starting their own families and aggravates the brain drain. Meanwhile, the effective integration of migrants into the labour market and society, as well as the promotion of policies facilitating the repatriation of Greeks that emigrated during the debt crisis can help ease demographic pressures, increasing the labour force and the economy's growth potential. Family support policies, investing in human capital and actions to facilitate a brain regain would materially improve the demographic outlook, preserving social and economic cohesion.

- ***Banking sector***

To remain profitable in an environment of normalising monetary conditions, Greek banks must further diversify their income sources and reduce their reliance on net interest income. In this context, strengthening credit growth, especially to firms, by using the available European funding resources, such as RRF funds, can play an important role. In addition, developing activities that raise non-interest income, such as investment banking, bancassurance products and payment services, can widen the range of core profitability sources. Such actions are all the more relevant, given that the recent policy rate cuts are expected to have a lagged impact on bank interest rates and thus on net interest rate margins. Coupled with operating cost restraint and more efficient asset management, they can help keep bank profitability at satisfactory levels.

The resilience of the Greek banking sector and an even stronger financing of the economy hinge upon continued prudent risk management and on taking advantage of improved bank fundamentals to develop new strategic options. Banks' strengthened capital base and successive credit rating upgrades create favourable conditions for expanding their business, increasing their extroversion and developing partnerships or investment initiatives in the broader financial

sector. This momentum is already evident in the recent mergers between smaller banks, such as the absorption of Pancreta Bank by Attica Bank, the significant capital increase of Credia-Bank (the new, merged bank) or the new partnerships and transactions with foreign financial institutions. Furthermore, in an environment of heightened global financial uncertainty, maintaining adequate capital buffers, employing prudent credit standards and ensuring sustainable efficiency ratios remain crucial. In this direction, macroprudential policy has an important role to play, as the gradual build-up of countercyclical capital buffers, the setting of buffers for systemically important institutions and the implementation of borrower-based measures bolster the resilience of the banking system, limit the accumulation of systemic risks and support the smooth financing of the real economy. These factors can act as a bulwark against potential exogenous shocks and further enhance market confidence, allowing banks to continue supporting entrepreneurship, investment activity and economic growth in Greece.

- ***European Union***

Enhancing the EU's competitiveness and strategic autonomy is a necessary condition for tackling growing geopolitical, economic and technological challenges. Recent developments in the Middle East, compounded by mounting uncertainty in the external environment, have brought into sharp relief the European economy's vulnerability to supply shocks, especially from the energy sector and global supply chains. The Draghi report outlines the competitiveness challenges posed by shifts in global trade, geopolitical developments and technological transformation. 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. These challenges call for a coherent EU-wide strategy, with an emphasis on bridging the innovation gap vis-à-vis major competitors, expediting the green and digital transitions and bolstering the Union's industrial base. To this end, crucial actions include a simplification of the regulatory framework, ensuring easier access to finance, improvements in the investment environment, the creation of quality jobs and more effective policy coordination at the European level, with a view to boosting productivity and raising the resilience of the European economy.

Faster European integration, especially in the sectors of financing and fiscal policy, is key to stimulating investment and underpinning macroeconomic stability in the euro area. Completing the Banking Union and making progress towards a fully-fledged Savings and Investments Union can facilitate the cross-border allocation of capital and enhance the financing of large-scale investments. At the same time, the further development of joint EU financing instruments, through a European safe asset with a solid institutional framework, clear governance rules and reliable repayment mechanisms, could reinforce the international role of the euro, improve the effectiveness of fiscal policy and reduce market fragmentation. The NGEU experience demonstrates that joint EU financing, subject to appropriate conditions, can greatly contribute to overcoming shared European shocks and enhancing the EU's cohesion, while preserving the necessary incentives for fiscal prudence. Initiatives promoting European integration will considerably increase the cohesion and effectiveness of monetary policy, bolstering its stabilising role.

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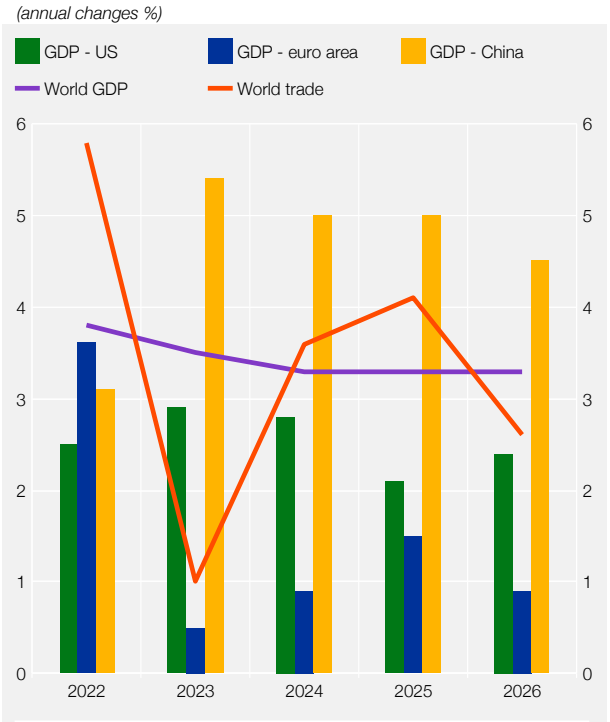
In an international environment where geopolitical crises and energy shocks keep emerging with increasing frequency and intensity, sustaining economic stability and further strengthening resilience have become constant challenges. The recent developments have shown that external shocks tend to become more lasting, directly affecting energy costs, supply chains and financial conditions. Against this background, enhancing the economy's adaptability to crises and maintaining the reform drive are essential for ensuring macroeconomic balance and sustainable growth. Economic policy must remain coherent and credible, increasing social acceptance and political consensus on the implementation of the required changes.

Last but not least, the successive geopolitical crises, energy supply disruptions and rising trade tensions are a clear wake-up call for Europe. Europe is confronted with critical challenges to its international economic standing and stability. Low productivity, demographic pressures, structural rigidities and subdued investment dynamics weaken competitiveness. Energy reliance, delays in the green and digital transitions, financial market fragmentation and incomplete integration in strategic areas (such as defence) all exacerbate risks and make Europe more vulnerable to an increasingly unstable and unpredictable global environment. Addressing these challenges requires a forceful acceleration in European integration and a strengthening of strategic autonomy as the mainstays of a strong economy. In an environment where external shocks become increasingly frequent and complex, timely and coordinated action will determine Europe's ability to preserve its stability and fortify its position in the international economy.

II THE EXTERNAL ENVIRONMENT OF THE GREEK ECONOMY

Global economic activity remained resilient in 2025, despite headwinds from rising geoeconomic uncertainty and trade protectionism. The impact of higher US tariffs and uncertainty surrounding the outcome of the trade agreements ultimately concluded were offset by generally supportive economic policies, frontloading of imports and strong investment in artificial intelligence. The frontloading of goods imports in the US in early 2025 ahead of the imposition of tariffs boosted global trade in goods initially, but caused sharp fluctuations in quarterly GDP growth rates, notably in the United States and the euro area. Global GDP growth remained unchanged in 2025; however, economic performance continued to diverge across major economies. Growth dynamics varied considerably across major economies, as GDP growth decelerated in the United States, accelerated in the euro area, returned to positive territory in Japan, while it eventually remained unchanged in China (see Chart II.1). Increased trade protectionism had a muted impact on global trade, despite initial pessimistic estimates, confirming the adaptability and resilience of international supply chains as well as robust external demand. Inflation in advanced economies as a whole continued to decline in 2025, as the impact of tariffs in the United States was smaller than initially estimated, while in most major economies labour markets showed signs of cooling. The impact of tariffs on inflation varies across economies, as they represent a negative supply shock for the country imposing them and a negative demand shock for the countries exporting to it. In advanced economies, rising food prices and persistent services inflation have been holding back faster disinflation.

Chart II.1 Diverging GDP growth across major economies amid stable global GDP growth



Sources: IMF and ECB for the euro area.
Note: Estimates for 2026.

In the euro area, there was a mild recovery, supported by a less restrictive monetary policy. The growth momentum was dented by trade uncertainty and higher tariffs, as well as by heightened geopolitical tensions. Fixed investment, which had declined, rebounded in 2025, labour productivity increased and, although employment growth slowed, the unemployment rate remained at a historically low level. Headline inflation in the euro area continued to decline towards the ECB's medium-term target of 2%, owing to the lagged impact of past monetary policy tightening and supported by waning inflationary pressures from commodity and energy prices, as well as by import prices more generally due to the appreciation of the euro. The inflation outlook for 2026 will depend, among other things, on the impact on international energy prices from the intensification of geopolitical tensions in the Middle East in the early months of the year.

1 DEVELOPMENTS AND PROSPECTS IN THE WORLD ECONOMY AND THE EURO AREA – POLICY RESPONSES[1]

1.1 World economy

During 2025, the global economy remained resilient despite the rise in geoeconomic uncertainty and trade protectionism. Global GDP growth is estimated by the IMF (January 2026) to have stood at 3.3% in 2025, unchanged from the previous year, reflecting a balancing of offsetting forces. On the one hand, the US trade war with almost all countries significantly increased economic policy uncertainty, especially in the first half of 2025. On the other hand, strong growth in technology investment, including in artificial intelligence infrastructure and applications – particularly in North America and Asia, favourable global financial conditions, further monetary policy easing and expansionary fiscal policies in several economies (the US, Japan, China) supported global demand. However, growth dynamics varied considerably across major economies. After October 2025, trade tensions eased partially following an agreement between the US and China to reduce bilateral tariffs by November 2026 and to lift export restrictions on semiconductors and rare earths. At the same time, shifts in trade relations and the rerouting of trade flows, which increased China's exports to countries other than the United States, coupled with a significant rise in technology exports from Asian countries, offset the impact of tariff restrictions on global trade. However, in February 2026, the US Supreme Court's decision to strike down all reciprocal tariffs imposed under the International Emergency Economic Powers Act (IEEPA) in April 2025, followed by the subsequent introduction by the US of a new universal 10% tariff based on a different statutory foundation, renewed uncertainty surrounding trade policy.

In addition to trade disruptions, the intensification of geopolitical tensions, especially in early 2026, driven mainly by developments in Venezuela and later the Israel/US-Iran conflict and the generalised geopolitical tension in the Middle East, as well as the US push to take over Greenland, once again increased uncertainty. As a result, the global geopolitical risk indicator has followed an upward trend since November 2025, remaining at high levels in the first months of 2026.[2] On the other hand, global financial conditions, according to the IMF, were generally supportive in 2025, despite episodes of heightened volatility linked mainly to economic policy uncertainty and concerns over attempts to undermine the Fed's independence in the United States. Investors' risk appetite supported equity prices, while continued key interest rate cuts in several advanced economies boosted demand for financial assets, thereby contributing to higher business investment. According to the latest available IMF projections (January 2026), global growth is estimated at 3.3% in 2026, revised upwards by 0.2 percentage points compared with the October 2025 forecast. However, the escalation of geopolitical tensions in the Middle East in March 2026 has significantly increased downside risks to global growth, as well as to growth in individual regions and countries.

According to the IMF, global inflation continued its downward trend in 2025, falling to 4.1% from 5.8% in 2024, mainly reflecting a further decline in energy prices, weaker demand and the gradual adjustment of international supply chains and trade flows to tariff-related shocks. Nevertheless, the pattern of inflation remained heterogeneous across countries, with inflationary pressures proving more persistent in some advanced economies, particularly the United States, owing to an expansionary fiscal policy, resilient domestic demand and a partial pass-through of tariff-related costs to final consumer prices. Overall, in 2025, inflation in advanced economies remained almost unchanged at 2.5%, partly on account of rising food prices and persistent services inflation, while in emerging and developing economies it declined to 5.2%, from 7.9% in 2024. According to the IMF (January 2026), global inflation is estimated to decline slightly further to 3.8% in 2026 (see Table II.1). However, these estimates may be revised upwards

1 The cut-off date for information and data used in this Chapter is 20 March 2026.

2 Geopolitical Risk (GPR) Index, according to Caldara, D. and M. Iacoviello (2022); "Measuring Geopolitical Risk", *American Economic Review*, April, 112(4), 1194-1225.

Table II.1 Key macroeconomic aggregates of the world economy

	Number of countries	Share in GDP[1]	GDP (volume, annual percentage changes)			Inflation[2] (annual percentage changes)			Fiscal balance[3] (% of GDP)			Gross government debt (% of GDP)			Current account balance (% of GDP)		
			2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
World total	197	100.0	3.3	3.3	3.3	5.8	4.1	3.8	-	-	-	-	-	-	-	-	-
1. Advanced economies	*42*	*39.6*	*1.8*	*1.7*	*1.8*	*2.6*	*2.5*	*2.2*	*-5.0*	*-4.6*	*-4.9*	*109.1*	*110.2*	*111.8*	*0.1*	*-0.1*	*0.1*
United States		14.8	2.8	2.1	2.4	3.0	2.7	2.4	-8.0	-7.4	-7.9	122.3	125.0	128.7	-4.0	-4.0	-3.6
Japan		3.3	-0.2	1.1	0.7	2.7	3.3	2.1	-1.5	-1.3	-2.0	236.1	229.6	226.8	4.8	3.9	3.6
United Kingdom		2.2	1.1	1.4	1.3	2.5	3.4	2.5	-5.7	-4.3	-3.6	101.2	103.4	104.8	-2.7	-3.1	-3.0
Euro area	20	11.5	0.9	1.4	1.2	2.4	2.1	1.9	-3.1	-3.0	-3.3	86.6	87.3	88.1	2.6	1.9	1.7
2. Emerging and developing economies	*155*	*60.4*	*4.3*	*4.4*	*4.2*	*7.9*	*5.2*	*4.8*	*-5.5*	*-6.1*	*-5.9*	*69.0*	*72.7*	*76.0*	*1.0*	*1.0*	*0.6*
China		19.3	5.0	5.0	4.5	0.2	0.0	0.7	-7.3	-8.6	-8.5	88.3	96.3	102.3	2.3	3.3	2.8
Russia		8.2	6.5	7.3	6.4	4.6	2.8	4.0	-7.9	-7.1	-7.2	81.6	81.4	80.8	-0.6	-1.0	-1.4

Sources: IMF, *World Economic Outlook*, October 2025, and *World Economic Outlook Update*, January 2026. For the euro area: ECB, "ECB staff macroeconomic projections for the euro area", March 2026, and "Euro area monthly balance of payments: December 2025", Press release, 19.2.2026 and Eurostat (for 2024-25 GDP).
Note: Estimates for 2025 and 2026.
1 Percentage share in world GDP in 2024, based on purchasing power parities (PPP).
2 HICP for the euro area and CPI for the other countries. Annual averages.
3 General government.

amid the possibility of a prolonged war in the Middle East and the related upward effects on global commodity prices.

In advanced economies as a whole, GDP growth is estimated by the IMF at 1.7% in 2025, compared with 1.8% in 2024. There have been, however, significant differences across major economies. The US economy, despite the slowdown, recorded the highest rate of growth among major advanced economies in 2025, driven by fiscal support and strong investment in the technology sector.

By contrast, the euro area, despite accelerating growth, had a comparatively weaker growth momentum reflecting structural weaknesses and the appreciation of the euro, which weighed on competitiveness. Japan's economy recovered from the mild recession of 2024. The outlook for advanced economies as a whole remains moderate, with growth projected to remain at a similar pace in 2026 (1.8%), as supportive economic policies are expected to offset the impact of higher tariff barriers. In the medium term, however, factors such as demographic ageing will continue to dent the growth momentum.

The productivity slowdown in advanced economies has brought renewed attention to the role of product market regulation as a key structural determinant of economic performance. Particular importance is attached to network industries – energy, transport and communications – which are positioned upstream in the production chain. Box II.1 examines how the degree of regulation in network industries affects the economic performance of downstream sectors in the euro area and Greece, using the OECD's REGIMPACT (Regulatory Impact) index. The institutional policy responses adopted in the EU-27 and the euro area in 2025 to address the European Union's major challenges are briefly presented in Box II.2.

In the United States, GDP growth slowed to 2.1% in 2025 from 2.8% in 2024, amid high uncertainty for the new administration's economic and trade policy, while it is projected by the IMF (January 2026) to partially recover to 2.4% in 2026, supported by fiscal loosening and a lower policy rate. Private consumption remained robust, especially in services and among high-in-

come households, supported by the use of savings and the wealth effect stemming from higher asset prices. However, the weaker labour market and subdued consumer confidence are expected to dampen private consumption dynamics in the coming quarters. Private fixed investment growth slowed in 2025 despite increased investment spending on artificial intelligence. At the same time, the contribution of net trade in goods and services to GDP growth was slightly negative last year, as exports grew more slowly than imports. Focusing solely on goods trade, a slight widening of the trade deficit was observed in 2025 based on both balance of payments and customs data, raising questions about the effectiveness of tariffs in addressing US external imbalances. Annual average consumer price inflation declined to 2.7% in 2025 from 2.9% in 2024, but remained relatively high, reflecting a slow disinflation process. The upward impact of tariffs on consumer prices has so far been milder than initially expected, but may intensify with a lag, keeping inflation above the central bank's target also in 2026.

In Japan, the economy rebounded by 1.1% in 2025 following a mild recession in 2024, despite tariffs and domestic political uncertainty over the course of the year. Private consumption and non-residential private investment were the main drivers of growth in 2025, while net exports made a negative contribution to GDP growth. The IMF estimates that economic growth will moderate to 0.7% in 2026 amid high uncertainty and weakening global demand, while anticipated fiscal support is expected to underpin growth. Inflation accelerated to 3.2% in 2025, while in 2026 it is projected to decline towards the Bank of Japan's 2% inflation target.

In the United Kingdom, growth accelerated to 1.4% in 2025, but is expected by the IMF to remain subdued and broadly unchanged in 2026, reflecting continued labour market slack, weak business confidence, higher domestic taxation as part of fiscal consolidation and an expected slowdown in global goods trade owing to tariffs and heightened uncertainty. Annual inflation increased sharply to 3.4% in 2025 from 2.5% in 2024, driven mainly by increases in administered prices and food prices. The Bank of England estimates that disinflation, which slowed in the final quarter of 2025, is expected to stall over the short term in 2026, driven by rising international energy and other commodity prices.

In emerging and developing economies, economic activity strengthened slightly, reflecting upward revisions by the IMF (January 2026) of GDP growth rates for China and India by 0.2 and 0.7 percentage points, respectively. Despite strong geopolitical shocks and the trade war with the United States, China's economy showed remarkable resilience also in 2025. The world's second-largest economy is estimated to have grown by 5% in 2025, unchanged from 2024. Domestic demand in China remained subdued, partly reflecting continued pressure in the real estate sector. This has dampened consumer confidence, leading to weak consumption and deflationary pressures. Significantly lower inflation relative to its main trading partners (see Table II.1) has resulted in a marked depreciation of the real effective exchange rate, thereby strengthening price competitiveness and further exacerbating global trade imbalances and competitive pressures. Given the size of its domestic market (with a population of 1.4 billion), China's 15th Five-Year Plan places particular emphasis on boosting private consumption as a driver of economic growth. In particular, the Chinese authorities are taking practical steps to strengthen labour supply by raising retirement ages, expanding social protection through fiscal policy and increasing subsidies for elderly care and childcare, with the aim of supporting the services sector. For 2026, GDP growth is projected to slow slightly to 4.5%, reflecting declining exports and still relatively weak consumption and investment, while the adequacy of energy supply will remain a key factor for the overall supply-side conditions, given the country's significant dependence on tankers crossing the Strait of Hormuz.

In India, real GDP is estimated to have grown by 7.8% in 2025, up from 6.5% in 2024, while inflation declined to 2.8% from 4.6% in 2024. Despite external headwinds (trade war with the United States), growth is expected to remain robust also in 2026 (6.4%), supported by favourable domestic conditions. Moreover, the aggregate fiscal policy stance was broadly neu-

tral. The general government deficit declined to 7.1% of GDP in 2025, from 7.9% in 2024 and 8.1% in 2023. In addition, the fiscal authorities implemented major reforms, simplifying the indirect tax system by grouping most goods into two main VAT categories with rates of 5% and 18%, while introducing a third 40% rate for super luxury and sin goods (tobacco, etc.). India's long-term goal of becoming an advanced economy will require sustained high rates of economic growth over the coming decades.[3]

In Türkiye, growth in the third quarter of 2025 was robust at 3.7% year-on-year (1.1% quarter-on-quarter). Private consumption recovered from the previous quarter, increasing by 4.8% year-on-year. Investment growth also remained strong at 11.7%, driven by "machinery and equipment" (+11.3%) and the construction sector (+13.3%) and supported by reconstruction following the 2023 earthquake. Türkiye's real GDP growth is expected to accelerate to around 4.2% over 2025-26. The current fiscal and monetary policy mix appears to be working effectively. The estimated decline in the government deficit to 3.6% of GDP in 2025, from 4.7% in 2024, mainly reflects continued expenditure restraint and improved tax administration and compliance. Inflation gradually eased from 49% in September 2024 to 31% in December 2025 (although it remained well above the 2025 target of 21%), while positive real interest rates, even after recent cuts in key policy rates, helped maintain confidence in the Turkish lira. However, the longer it takes for inflation expectations to stabilise at low levels, with the medium- to long-term target set at 5%, the greater the risk of a new shock that could trigger renewed inflationary pressures.

Average GDP growth in the Western Balkan economies is estimated to have slowed to 2.8% in 2025 from 3.3% in 2024, reflecting heightened global uncertainty as well as domestic political developments in most countries of the region. The slowdown was more pronounced in Serbia due to a sharp drop in foreign direct investment inflows. In the first three quarters of 2025, growth in the region remained robust (averaging 2.3% in the first quarter and 2.6% in the second and third quarters year-on-year), with stronger growth in Albania and the Republic of North Macedonia, which are at an advanced stage of EU accession negotiations. Inflation increased in 2025 in almost all countries mainly owing to higher food and housing costs. An exception is Serbia, where inflation declined although it remained at a relatively high level (see Table II.2), reflecting government intervention in the retail sector through temporary reductions in profit margins for a broad range of food products and some basic goods over six months. In 2026, GDP growth in the region is expected to strengthen, supported mainly by a recovery in domestic demand, as well as by country-specific factors, such as Albania's accession to the Single Euro Payments Area (SEPA). Risks to the outlook for the region remain subject to existing geopolitical risks that could affect trade relations, a potential surge in inflation with adverse implications for real income and fiscal slippages.

Risks to the global growth outlook remain tilted to the downside. The prolonged geopolitical tensions in the Middle East are likely to push up commodity prices, with adverse effects on inflation and consumption. At the same time, a possible escalation of tariffs, particularly in upstream industries, could disrupt international trade flows, with disproportionately strong effects on economic activity and prices. The reinforcement of non-tariff barriers, notably in critical raw materials, could reduce global supply, raising production costs in key industrial sectors such as energy, automotive and technology. This would weigh on investment and productivity and add to inflationary pressures. Climate extremes are also likely to exert further upward pressure on inflation. Moreover, the increasing dependence of equity market developments on a small number of high-tech companies, together with a possible sharp correction in technology valuations due to a lower-than-expected impact of AI on productivity, could weigh on overall market valuations and investment in the technology sector. Growing concerns about the fiscal sus-

3 IMF, "India: Article IV Consultation-Press Release", November 2025.

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

	GDP (volume, annual percentage changes)			Inflation (averages, annual percentage changes)			Current account balance (% of GDP)			Fiscal balance (% of GDP)			Credit growth (annual percentage changes)[1]		Capital adequacy ratio (%)	NPLs (%)
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2025	2025
Türkiye	3.3	4.1	4.2	58.5	34.9	24.8	-0.8	-0.8	-1.6	-3.2	-3.7	-3.8	43.6	34.9	19.2	2.4
Western Balkans (WB)																
Albania	4	3.6	3.5	2.2	2.4	3.0	-2.5	-2.6	-2.7	-0.7	-2.2	-1.9	10.2	12.2	20.3	4.3
Bosnia and Herzegovina	2.5	1.8	2.2	1.7	4.0	3.3	-4.3	-3.9	-4.1	-1.9	-2.5	-3.0	9.0	10.7	19.8	2.7
Republic of North Macedonia	3	3.2	3.3	3.5	3.9	3.2	-2.2	-2.3	-2.1	-4.4	-4.3	-3.8	7.6	12.7	19.5	2.3
Montenegro	3.2	3.0	3.1	3.3	3.8	3.2	-16.8	-17.1	-17.4	-3.1	-3.5	-3.3	13.3	15.2	-	2.8
Serbia	3.9	2.2	3.3	4.7	4.0	4.1	-4.7	-5.3	-6.1	-2.0	-3.0	-3.0	4.5	14.1	21.0	2.2
WB average	3.3	2.8	3.1	3.1	3.6	3.4	-6.1	-6.2	-6.5	-2.4	-3.1	-3.0	8.9	13.0	20.2	2.9

Sources: European Commision, *European Economic Forecast, Autumn 2025*, November 2025, and *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – Western Balkans and Türkiye*, *4th Quarter 2025*, January 2026, IMF, *World Economic Outlook*, October 2025, and *World Economic Outlook Update*, January 2026, and national central banks.
Note: Estimates for 2025 and 2026.
1 Last available month.

tainability of major economies and high levels of public debt may lead to a sharp repricing of risk in international financial markets, thereby resulting in tighter financing conditions and lower growth. Finally, potential strains on the independence of key institutions such as the Federal Reserve could undermine the credibility of monetary policy, leading to higher inflation. On the other hand, a faster removal of trade restrictions, broader adoption of AI technologies and an acceleration of structural reforms would boost investment, productivity and medium-term growth prospects.

1.1.1 Global trade and international commodity prices

The international trade environment in 2025 was shaped by rising geopolitical tensions, the reshuffling of trade flows and alliances, and the increasing weaponisation of economic and political leverage in geopolitics. Against this background, significant changes occurred in existing trade and strategic agreements among countries amid reciprocal threats, restrictive measures and selective exclusions, particularly between the US and China. These developments heightened instability and reduced the predictability of international economic relations, while reinforcing trends towards regionalisation and greater strategic autonomy. The temporary increase in global trade in the first half of 2025, driven by the anticipated implementation of new US tariffs, ultimately boosted average global trade growth throughout the year.

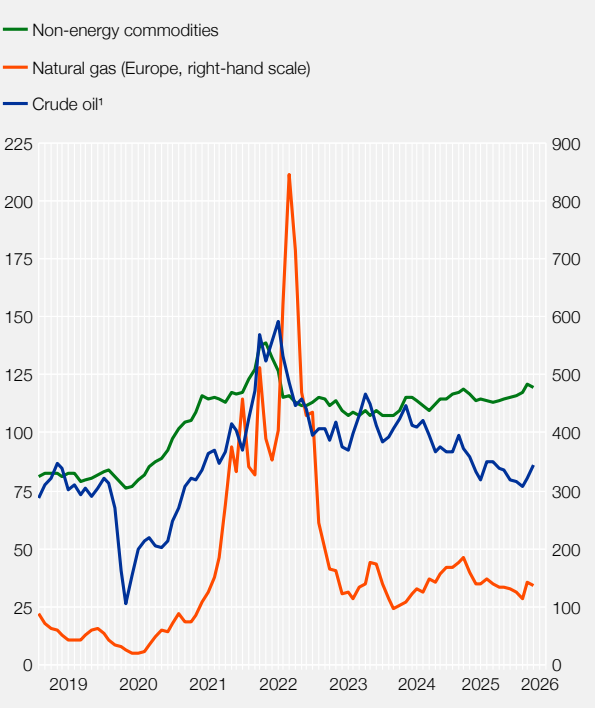
According to the latest IMF forecasts (January 2026), global trade volume growth in goods and services accelerated to 4.1% in 2025 from 3.6% in 2024, reflecting the relative resilience of trade despite uncertainty surrounding international trade. However, global trade growth is projected to slow to 2.6% in 2026, reflecting transitional adjustments to new trade policies and ongoing geopolitical tensions.

International energy prices in 2025 were shaped by a combination of structural factors, including oversupply, targeted policy interventions and temporary geopolitical shocks. Overall, international oil prices were lower than in 2024, reflecting increased global production and moderate growth in global demand, which resulted in excess supply. The summer period saw temporary price increases due to tensions in the Middle East and heightened supply chain uncertainty, with the average international crude oil price rising to USD 69.2/barrel in June, compared with USD 62.8 /barrel in May (see Chart II.2).

Key oil-producing countries implemented strategic production adjustments, initially reducing output and gradually increasing it over the summer, with the aim of stabilising the market and containing price volatility. In the absence of significant supply disruptions, oil prices resumed their downward trend in the second half of the year, declining to USD 60.9 /barrel in December, their lowest level since March 2021. The annual average price was USD 67.4 /barrel, down by 14.2% from 2024. According to the IMF's technical assumptions (January 2026, i.e. prior to the outbreak of the new conflicts in the Middle East), oil prices were expected to decline further to USD 62.1 /barrel in 2026, driven by weakening global energy demand and increased supply. Since the closure of the Strait of Hormuz and the attacks on ships and infrastructure in the greater region in March 2026, international crude oil prices have increased by more than 40%, while the ECB's technical assumptions (March 2026) project an 18% increase in the annual average Brent price in 2026.

Chart II.2 Global commodity prices (January 2019 - February 2026)

(market prices, monthly data, 2010=100)



Source: World Bank.
1 Average global prices for three types of crude oil (UK Brent, West Texas Intermediate and Dubai).

The European gas market in 2025 was characterised by increased reliance on liquefied natural gas (LNG), reflecting the continued decline in demand for pipeline gas supplies from Russia. Global LNG production remained ample, increasing by more than 5% in the first nine months of 2025, compared with 2% in the same period of 2024. However, a significant share remained committed under long-term contracts, limiting the flexibility to redirect LNG shipments to the European market. Increased demand in Asia and geopolitical tensions have further intensified international competition for available LNG cargoes, keeping European gas prices (TTF) elevated to attract LNG suppliers. On an annual average basis, European natural gas prices increased by 9.1% in 2025 compared to 2024, reflecting the market's increased vulnerability to supply shocks (see Chart II.2). The price of natural gas of all types increased by 23.3% in 2025 compared to 2024 (annual average), remaining however 77.1% below its historical peak in 2022. For 2026, following missile attacks on gas extraction facilities in Iran and Qatar, the third- and sixth-largest gas producers in the world, the ECB baseline projections (March 2026) assume an average annual increase of 28% in TTF gas prices.

International industrial metal prices followed an upward trend in 2025, supported by demand related to the energy transition, investment in renewable energy, the roll-out of electric vehicles and the expansion of infrastructure networks. On an annual average basis, base metal prices increased by 7.1% in 2025 compared to 2024. At the same time, international food prices declined by 5.7%, driven by increased supply, stabilising inventories and the normalisation of transport and fertiliser costs.

Overall, the average international price of non-fuel commodities increased by 9.4% in 2025 (in USD terms), against an increase of 3.7% in 2024. According to the IMF's latest official technical assumptions (January 2026), a further significant increase is projected for 2026. However, the ECB's updated assumptions following the outbreak of the conflict in the Middle East point to a more limited increase of 0.8%.

1.1.2 Fiscal policy

In 2025, fiscal consolidation efforts weakened in major advanced and developing economies. The IMF (October 2025) estimates that the fiscal stance, as measured by the change in the general government structural primary balance, shifted from contractionary, as initially expected, to broadly neutral in advanced economies and expansionary in emerging and developing economies. The general government deficit is estimated to have narrowed to 4.6% of GDP in advanced economies, while widening to 6.1% of GDP in emerging and developing economies. The general government gross debt-to-GDP ratio deteriorated in both groups of economies. In 2026, the fiscal stance in advanced economies is expected to remain neutral, while fiscal policy in emerging and developing economies is expected to tighten slightly. Overall, the fiscal deficit is expected to increase in most major economies, including the United States, the euro area, Japan and China. The government debt-to-GDP ratio is estimated to continue to rise in almost all economies, bringing global debt above 100% of GDP in 2030 if current policies are maintained.

Strengthening fiscal capacity by rebuilding fiscal buffers and preserving public debt sustainability are key priorities, especially amid mounting pressures on public spending related to the green and digital transitions, national and energy security, population ageing and productivity boosting. Medium-term fiscal consolidation should be based on realistic and balanced plans combining revenue generation and expenditure rationalisation, while any new support measures should be temporary, well-targeted and fiscally neutral. Subsidies and industrial policies require careful design, clear targeting and regular cost-benefit assessments to avoid inefficient allocation of resources. Reallocating expenditure from public consumption towards productive public investment, e.g. in critical infrastructures and innovation, together with improved spending efficiency, can significantly raise long-term GDP and facilitate fiscal adjustment.

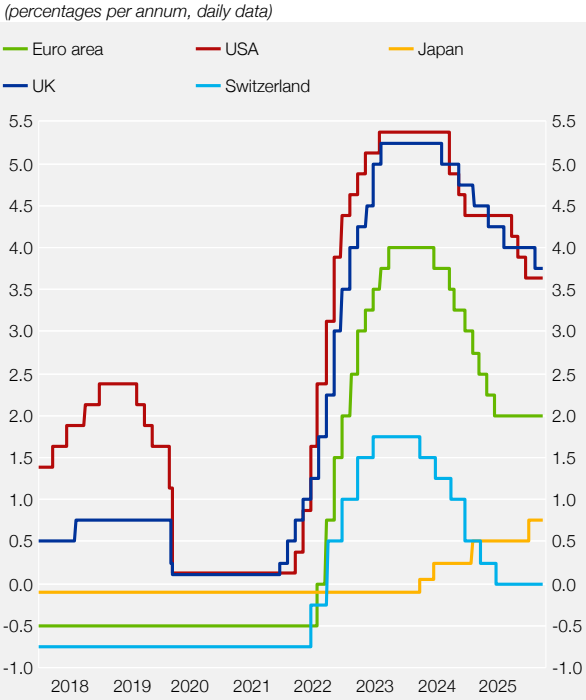
1.1.3 Monetary policy

The continuation of global monetary policy easing in 2025 is now uncertain following the conflicts in the Middle East, while significant decoupling of economies is expected due to differing inflation outlooks. Monetary policy remains data-dependent and takes into account country-specific circumstances amid heightened international geopolitical and economic uncertainty. Maintaining central bank independence and clear communication of monetary policy objectives remain crucial for anchoring inflation expectations, achieving price stability, supporting economic growth and avoiding fiscal dominance. Risks to financial stability include excessive exchange rate volatility, an abrupt repricing of risk in financial asset valuations, higher refinancing costs for high public debt and financial vulnerabilities related to non-bank financial institutions and crypto-currency markets.

In 2025, the US Federal Reserve (Fed) reduced the target range for the federal funds rate in three occasions, each time by 25 basis points (bps), bringing it to 3.50-3.75% in December 2025. The Bank of England lowered Bank Rate in four occasions during 2025, by 25 basis points each time, bringing it to 3.75%. In the

Chart II.3 Central bank key interest rates (1 January 2018 - 25 March 2026)

(percentages per annum, daily data)



Sources: Euro area: European Central Bank, deposit facility rate. United States: Federal Reserve, federal funds target rate. Japan: Bank of Japan, short-term target policy rate. UK: Bank of England, Bank Rate. Switzerland: Swiss National Bank, policy rate.

euro area, the ECB Governing Council continued to ease monetary policy, lowering the deposit facility rate four consecutive times in 2025 and bringing it to 2.00% in June 2025 – the eighth reduction since the start of the easing cycle in June 2024. The Swiss National Bank continued to lower its policy rate, bringing it to 0.00% in June 2025. In contrast to other advanced economies, the Bank of Japan raised its short-term policy rate target to 0.50% in January and 0.75% in December 2025, the highest level in 30 years, where it has remained since (see Chart II.3).

1.2 Euro area

1.2.1 Economic activity and labour market

The euro area economy grew at a stronger pace in 2025 than in the previous year, despite an adverse international environment. Disinflation and lower key interest rates, combined with resilient labour markets and improving real incomes, supported domestic demand, leading to a pick-up in economic activity on an annual basis, despite ongoing geopolitical tensions, the impact of tariffs on competitiveness and subdued global demand. Real GDP growth fluctuated strongly over the course of the year, with GDP growing by 0.6% quarter-on-quarter in the first quarter of 2025 – the strongest growth rate in two years – mainly driven by buoyant export growth ahead of the implementation of US tariffs. In the second quarter, growth slowed markedly to 0.1%, as the temporary factors that had boosted activity at the beginning of the year gradually faded. In the third quarter, growth picked up again to 0.3%, supported mainly by private consumption and investment, while net external demand remained negative. In the fourth quarter of 2025, GDP grew by 0.2%, confirming that growth remained on track towards the end of the year. For 2025 as a whole, GDP grew by 1.4%, compared with 0.9% in 2024.

Stronger domestic demand, driven primarily by a recovery in investment, was the main driver of faster economic growth in 2025, while net exports made a negative contribution. Private consumption was supported by rising real wages and continued high employment, while government consumption, although growing at a slower pace, continued to support activity, particularly through higher infrastructure and defence spending in some large euro area economies. Investment recovered gradually, supported by improving financing conditions and stronger business confidence, although the recovery continued to be constrained by the relatively high cost of capital and persistent uncertainty. By contrast, net exports made a negative contribution to GDP growth, reflecting ongoing competitiveness challenges and weak international demand. The labour market remained highly resilient throughout the year. Employment continued to grow at a moderate pace, while the unemployment rate remained at a historically low level of 6.3% in 2025, unchanged from 2024.

Euro area GDP growth accelerated in 2025, but the outlook is affected by intensifying geopolitical risks and elevated energy prices. According to the baseline scenario in the ECB staff projections (March 2026), euro area GDP growth is expected to slow to 0.9% in 2026, before picking up again to 1.3% in 2027, assuming that energy prices gradually ease in the second half of the year, in line with futures prices, and that domestic demand remains resilient. Against this background, the slowdown in growth is expected to be temporary, while over the medium term domestic demand is projected to remain the main driver of euro area growth, supported by a resilient labour market and increased public spending in infrastructure and defence, particularly in Germany.

Private consumption in the euro area remained moderate and stable in 2025, reflecting continued caution among households. It made a positive contribution to economic activity, while its overall momentum remained subdued. On a quarter-on-quarter basis, private consumption increased by 0.3% in both the first and second quarters of the year, slowed to 0.2% in the third quarter and strengthened to 0.4% in the fourth quarter. This moderate recovery was supported by improvements in real disposable income, primarily reflecting continued wage growth and labour market resilience. However, the elevated saving rate and uncertainty surrounding the economic outlook have dampened consumer spending. Private consumption increased by 1.5%

in 2025 as a whole and is estimated to moderate to 1.0% in 2006. Private consumption is expected to weaken in the near term in 2026, reflecting losses in purchasing power, heightened uncertainty and softer employment dynamics following the outbreak of the war in the Middle East. Over the medium term, consumption is projected to recover, supported by real wage growth and resilient labour market conditions. The household saving rate is expected to decline slightly, despite the upward pressure from heightened uncertainty. Government consumption, in a context of marginally expansionary, but broadly neutral fiscal policy, increased at a slower pace, rising by 1.6% in 2025, compared with 2.3% in 2024. In 2026, public consumption growth is anticipated to pick up to 1.8%.

Euro area fixed investment in 2025 exhibited strong short-term volatility. In the first quarter it increased sharply by 2.7%, reflecting the implementation of previously postponed investment plans. In the second quarter, however, a significant correction was recorded (-1.5%), as high financing costs and, in particular, uncertainty dampened investment activity. In the third quarter investment growth returned to positive territory, rising by 1.3% quarter-on-quarter, suggesting a gradual improvement in investor sentiment. In the fourth quarter, investment increased by 0.6%. Total gross investment grew by 3.0% in 2025, exceeding previous projections, after declining by 2.5% in 2024. Investment is expected to decelerate in the short term due to heightened uncertainty and weaker demand following the outbreak of the conflict in the Middle East. It is projected to remain positive, but to grow at a slower pace than in 2025, by 1.9% in 2026 and 1.7% in 2027, supported by higher defence and infrastructure spending, as well as stronger domestic and external demand. These factors are expected to partly offset the decline in public investment following the expiry of NextGenerationEU (NGEU) in 2026.

Euro area export activity in 2025 displayed strong intra-year fluctuations. The temporary pick-up in exports at the beginning of 2025, linked to the frontloading of orders ahead of higher US tariffs, proved short-lived. Exports grew strongly in the first quarter (+2.4% quarter on quarter), declined slightly in the second quarter (-0.5%) and returned to positive territory in the third quarter (+0.8%), reflecting changes in the global trade environment and tariff arrangements. In the fourth quarter, exports declined by 0.4%. Against the backdrop of weak external demand and increased trade volatility, the outlook for exports remains subdued. Higher US tariffs, the appreciation of the euro since early 2025 and intensifying international competition are denting demand for European goods. Despite lower tariff barriers compared to other suppliers, the competitive position of European firms in the US market remains fragile, limiting export growth dynamics in the medium term. Over the medium term, euro area exports are projected to grow at a slower pace than global demand, as persistent structural competitiveness constraints and the impact of the conflict in the Middle East will weigh on export performance. Consequently, further losses in export market shares are expected. Euro area exports of goods and services increased by 2.0% in 2025, following a muted increase of 0.5% in 2024. According to the March 2026 ECB staff macroeconomic projections, they are expected to increase in real terms by 1.2% in 2026 and 2.4% in 2027. By contrast, imports, which were broadly unchanged in 2024, accelerated significantly in 2025 (by 3.6%) and are expected to slow in 2026 (to 2.0%), reflecting the projected impact of the conflict in the Middle East on domestic demand. As a result, the contribution of net exports to economic growth turned negative in 2025 (-0.6%), from positive (0.3%) in 2024, and is projected to remain negative in 2026 (-0.3%), before turning marginally positive in 2027.

The euro area labour market remained strong in 2025, although employment growth slowed slightly compared to 2024, in line with developments in most advanced economies, as the number of vacancies continued to decline. Specifically, annual employment growth dropped from 0.9% in 2024 to 0.7% in 2025. The March 2026 ECB staff projections foresee a further decline in 2026 and 2027 to 0.5% and 0.4%, respectively. The unemployment rate remained at historically low levels, standing at 6.3% of the labour force in 2025, unchanged from 2024. It is projected to remain stable at 6.3% in both 2026 and 2027.

1.2.2 Inflation

Headline inflation declined further in 2025, reaching levels consistent with the ECB's medium-term inflation target of 2%. In particular, euro area inflation continued to decline, falling from 2.4% in December 2024 to 2.0% in December 2025 and dropping further to 1.7% and 1.9% in January and February 2026, respectively. Overall, annual average HICP inflation declined to 2.1% in 2025, from 2.4% in 2024. According to the latest projections, annual HICP inflation is expected to increase markedly to 2.6% in 2026, mainly reflecting higher energy prices associated with the conflict in the Middle East. Factors such as the gradual slowdown in wage growth, stronger labour productivity growth and the past appreciation of the euro are expected to dampen inflationary pressures over the medium term, containing the increase in unit labour costs. Headline inflation is projected to decline in 2027 (to 2.0%), as the upward effects of the conflict in the Middle East on energy prices are expected to unwind. Core inflation (HICP excluding energy and food) is expected to decrease marginally to 2.3% in 2026 and 2.2% in 2027, from 2.4% in 2025, mainly reflecting a gradual moderation in services inflation, easing unit labour cost pressures and the impact of the euro's appreciation.

1.2.3 Financing of the economy

In 2025, bank loan growth to firms and households continued to recover gradually, supported by lower lending rates, although it remained below its historical average. The average interest rates on new corporate loans declined over the course of the year, while those on housing loans remained stable, standing at 3.4% and 3.3%, respectively, in November. The growth rate of bank credit to non-financial corporations increased gradually to 3.1% in December 2025, from 2.0% in January. Similarly, the growth rate of loans to households, from 1.3% in January, rose to 3.0% in December, the highest level of the year. According to the ECB Bank Lending Survey for the fourth quarter of 2025, 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 outlook of both firms and the broader economy, combined with banks' lower risk tolerance. Loans to households for house purchase unexpectedly saw a slight easing of credit standards, whereas banks had initially anticipated a tightening trend. By contrast, credit standards for consumer credit recorded a modest net tightening. For the first half of 2026, euro area banks expect a moderate further net tightening of credit standards for loans to firms, a mild tightening for housing loans and a more pronounced tightening for consumer credit and other lending to households. Banks expect a further rise in firms' demand for loans, as well as a slight additional increase in demand for housing loans. Households' demand for consumer credit and other lending is expected to recover slightly.

1.2.4 Fiscal developments

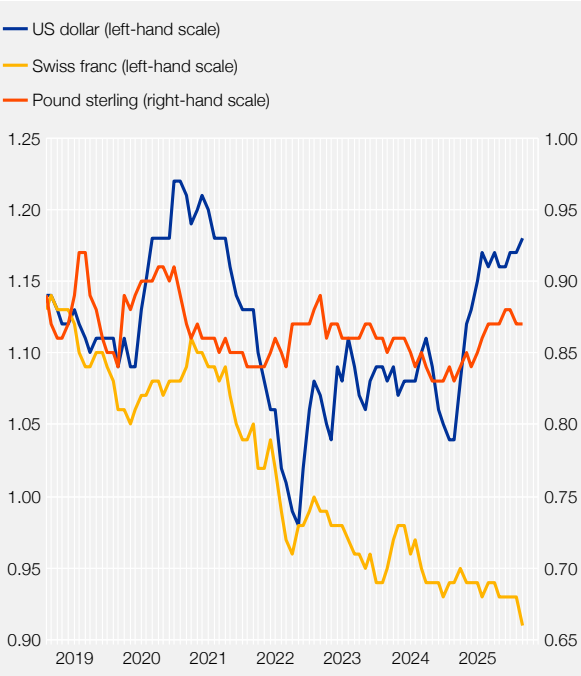
The euro area fiscal stance is estimated to have tightened slightly in 2025, mainly reflecting discretionary revenue-side measures, such as increases in social security contributions and, to a lesser extent, in direct and indirect taxes. The impact of these measures was partly offset by continued growth in government expenditure. A loosening of the fiscal stance is projected in 2026, mainly reflecting higher public investment in defence and infrastructure. In 2027 the fiscal stance is expected to tighten, reflecting the gradual withdrawal of NGEU funding and the associated reduction in public spending, although this will be partly offset by fiscal support measures and the implementation of NGEU-funded deferred spending in some countries. The fiscal deficit in the euro area remained stable at 3.1% of GDP in 2025, while the structural deficit increased marginally from 3.0% of GDP in 2024 to 3.1% in 2025. According to the March 2026 ECB staff projections, the fiscal deficit is projected to increase gradually to 3.4% in 2026 and 3.6% in 2027. The structural deficit is also expected to follow an upward path. By contrast, public debt is estimated to have slightly increased to 87.5% of GDP in 2025, from 86.6% in 2024, and is projected to continue its marginally upward course until 2028. This trend is attributed to the fact that primary fiscal deficits, albeit decreasing, continue to offset the debt-reducing contribution of the snowball effect.

1.2.5 Euro exchange rate

The nominal effective exchange rate of the euro (against 40 trading partners) appreciated by an annual average of around 3.1% in 2025, following an appreciation of 1.9% in 2024. This mainly reflects the appreciation of the euro against the US dollar, owing, on the one hand, to a comparatively smaller deterioration in the outlook for the euro area economy than that for the US and, on the other hand, to a decline in investor confidence in the international dominance of the US dollar, particularly following attempts to challenge the independence of the Fed and heightened uncertainty surrounding US economic policy. In bilateral terms, the euro appreciated strongly against the US dollar in 2025, by 4.4% on average, following a marginal appreciation of 0.1% in 2024. Against the pound sterling, the euro appreciated by 1.2% in 2025, after depreciating by 2.7% in 2024, while it depreciated further against the Swiss franc by 1.6%, following a depreciation of 2.0% in 2024 (see Chart II.4). These developments reflect mainly the changing expectations regarding 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.

Chart II.4 US dollar, pound sterling and Swiss franc exchange rates against the euro (January 2019 - February 2026)

(monthly data, monthly averages)



Source: ECB.

1.2.6 Risks to the economic outlook

Following the outbreak of the conflict in the Middle East, the balance of risks to the euro area economic outlook has shifted to the downside for growth and to the upside for inflation.

Downside risks to growth stem from the conflict with Iran and the uncertainty surrounding its duration, the extent of its regional spread and its implications for energy prices. The existing scenarios are based on information available up to 11 March 2026, but the ground is shifting rapidly and developments are difficult to predict. In addition to the baseline scenario, on 19 March the ECB presented two further scenarios for GDP growth, headline and core inflation – an adverse and a severe scenario – based on different assumptions regarding increases in international crude oil and gas prices. At the same time, a deterioration in global financial market sentiment could lead to tighter financing conditions, increased risk aversion and weaker economic activity. Geopolitical tensions remain the most critical source of uncertainty. In addition to Russia's ongoing war against Ukraine, the escalation of the conflict in the Middle East between the US/Israel and Iran generates additional pressure, entailing a risk of energy disruptions and further destabilisation of international trade routes. On the other hand, there are also factors that could support economic activity. Planned increases in defence and infrastructure spending, together with productivity-enhancing reform initiatives, could boost growth beyond the baseline projection. Moreover, improving confidence could support private spending and accelerate the recovery in domestic demand.

The inflation outlook for the euro area remains subject to high uncertainty. Downside risks could arise if higher US tariffs weakened external demand for euro area exports or if countries with excess capacity redirected exports towards the euro area, intensifying competitive pressures and putting downward pressure on prices. A further appreciation of the euro could also contribute to lower inflation, while increased volatility and risk aversion in financial markets could

dampen demand and thus inflationary pressures. At the same time, upside risks to inflation remain. Further fragmentation of global supply chains, compounded by uncertainty in international energy markets due to tensions in the Middle East, could trigger sharp increases in oil prices. Such a development would significantly raise import costs, limit the availability of critical raw materials and further constrain euro area production capacity, thereby fuelling inflationary pressures. A slower-than-expected easing of wage pressures could delay the decline in services inflation. Moreover, stronger defence and infrastructure spending could add to inflationary pressures over the medium term. Finally, weather extremes could result in higher-than-expected increases in food prices.

Box II.1

THE IMPACT OF THE REGULATION OF ENERGY, TRANSPORT AND TELECOMS ON THE ECONOMY

The slowdown in productivity growth in advanced economies has brought the regulation of product markets back into focus, as their operating framework, being a crucial structural determinant of economic performance, should become more competition-friendly.[1] Particular importance is attached to upstream network sectors – energy, transport and telecommunications – which provide key intermediate inputs to downstream sectors. Energy, transport and telecoms are central to production networks, implying that existing regulatory distortions affect overall economic performance. The international empirical literature has documented that stricter regulation of upstream sectors is associated with lower productivity and weaker economic performance in dependent downstream sectors, with this negative impact becoming more pronounced as the intensity of cross-sector input-output linkages increases.[2]

The main transmission mechanism concerns the propagation of the effects of regulatory distortions or restrictions, such as entry barriers and administrative burdens, across production chains. Regulatory barriers in upstream sectors constrain competition and efficiency by increasing the cost of intermediate inputs and thus lead to higher prices of final products in downstream sectors. At the same time, regulatory barriers in upstream sectors can slow innovation and the diffusion of new technologies, denting productivity growth in dependent downstream sectors. As a result, the negative impact of the regulatory burden goes beyond directly regulated sectors and extends to the whole economy.

This box examines how the regulation of upstream network sectors affects downstream sectors in the euro area and Greece, in terms of value added, employment and productivity, using the OECD's REGIMPACT indicator. This indicator captures the degree of indirect exposure of downstream sectors to regulatory barriers imposed on upstream network sectors.

Data

The empirical analysis is based on the OECD's REGIMPACT indicator, which quantifies the indirect effects on downstream sectors from regulatory constraints to upstream sectors. The indicator is calculated by weighting the stringency of regulation in upstream network sectors – namely energy, transport and telecommunications – by the intensity of intermediate input usage by downstream sectors. In particular, the indicator is constructed by multiplying

1 According to a recent study by the Bank of Greece, reforms that enhance competition in goods and services markets create an economic environment that favours the entry of more productive firms into the market and facilitates the reallocation of resources from less productive to more productive firms (Mavrogiannis, C. and A. Tagkalakis (2024), "From policy to capital: assessing the impact of structural reforms on gross capital inflows", Bank of Greece Working Paper No. 328).

2 See Barone, G. and F. Cingano (2011), "Service regulation and growth: evidence from OECD countries", *The Economic Journal*, 121(555), 931-957, and Bourlès, R., G. Cette, J. Lopez, J. Mairesse and G. Nicoletti (2013), "Do product market regulations in upstream sectors curb productivity growth? Panel data evidence from OECD countries", *The Review of Economics and Statistics*, 95(5), 1750-1768.

the level of anti-competitive regulation of upstream network sectors (measured by the ETRC indicator on a scale of 0: fully deregulated sectors to 6: fully regulated sectors) by the degree of exposure or dependence of a downstream sector, as calculated by the share of intermediate inputs originating from those upstream sectors.

The evolution of the REGIMPACT indicator in euro area countries over time reflects the general trend towards product market liberalisation recorded since the mid-1990s.[3] For the vast majority of euro area countries and downstream sectors, the indicator shows a clear downward trend, reflecting the gradual reduction in regulatory stringency in upstream network sectors and its transmission across the economy through production linkages. The liberalisation of product markets in European economies varied in timing, but there is general convergence to particularly low levels. This development is consistent with existing literature, which links competition-enhancing reforms in upstream sectors with cost savings and efficiency gains in dependent downstream sectors, and confirms REGIMPACT as a reliable indicator of the propagation of deregulation through production networks.

The dataset used covers 15 euro area countries and 18 sectors over the period 1995-2023. The economic performance of downstream sectors is measured through standard indicators such as labour productivity, gross value added and employment. Employment and labour productivity are defined in terms of hours worked or number of employees.

Econometric analysis and results

The econometric analysis is based on Andrews et al. (2025), exploring the relationship between the degree of regulation of network sectors and economic performance in OECD countries.[4,5] The analysis uses both time-series and cross-sectional data (panel data), covering three complementary levels: a cross-country panel for the euro area countries, a sectoral dimension and, finally, a specialised panel for Greece. This multidimensional tructure allows the identification of cross-country and cross-sector structural differences over time. Particular emphasis is placed on robustness of results across alternative models.

At country level, the results show a consistent negative relationship between the degree of regulation and gross value added. Thus, when the degree of regulation of network sectors decreases, economies' gross value added increases. This relationship holds across most specifications and estimation methods, which enhances its robustness. It should be noted that pooled estimates tend to show that the degree of regulation of network sectors has strong negative effects on gross value added. However, these negative effects are weaker when panel analysis is used, i.e. when taking into account cross-country structural differences (country-fixed effects).[6] This finding suggests that part of the observed negative correlation between the degree of regulation and gross value added can be attributed to institutional or other idiosyncratic cross-country differences. A similar pattern is observed for employment, with most models pointing to a negative relationship between the degree of regulation of network sectors and employment, especially when the latter is measured in persons. Productivity displays the highest sensitivity, with mixed signs and variations in the size of estimates, warranting further investigation of the relationship.

The above relationships are then assessed at sectoral level for the euro area countries. Most sectors show a negative, but often statistically insignificant and not robust, relationship between the regulation of network sectors (energy, transport and telecoms) on the one hand, and value added and employment on the other. In particular, two conclusions can be drawn from the relationship between the degree of regulation and employment. First,

3 See New time-series data shed light on regulatory trends in energy, transport, and telecoms since 1975 – ECOSCOPE.
4 See Andrews, D., B. Égert, C. Castle and C. de La Maisonneuve (2025), "Regulation and growth: lessons from nearly 50 years of product market reforms", OECD Economics Department Working Paper No. 1835.
5 It should be noted that, in the relevant literature, the indicator is often used as the only explanatory variable, while the other parameters of the economy are described by fixed effects.
6 Pooled estimates treat all observations as a single sample, ignoring time-constant cross-country differences, such as institutional features, administrative practices or cultural factors. On the contrary, panel models with country-fixed effects control for these unobserved specificities, thereby limiting estimate bias. As a result, it is likely that an initially strong negative relationship in pooled estimates will fade, suggesting that part of it reflects unobservable but time-constant cross-country differences, rather than a purely causal effect of the exogenous variable.

the relationship is more often statistically significant and robust across models when employment is measured by the number of employees rather than hours worked. Second, the effects appear strong in sectors highly dependent on network sectors (e.g. manufacturing), as expected.

In the case of Greece, in the panel model, the degree of regulation of upstream sectors negatively affects the added value. For employment, the effect is negative in terms of both number of employees and hours worked. Finally, the relationship between the degree of regulation and productivity is sensitive to model selection.

Conclusion

Overall, the results at all levels of analysis converge to a coherent picture. Value added and, more significantly, employment in euro area economies show the most robust negative correlation with the degree of regulation network sectors. Productivity is more sensitive to the methodology and measurement used. This suggests that increased regulation of network sectors acts as a constraint mainly on value creation and the level of employment in the broader economy. At the same time, the effects on productivity also depend to a large extent on other parameters, such as the capital stock or total factor productivity.[7]

It should be noted that the labour market effects of downstream sectors may vary depending on how each sector adjusts to the deregulation of network sectors. In sectors where regulation mainly affects the number of workers, the deregulation of network sectors can foster job creation. In sectors that adjust to deregulation by changing working hours, the percentage of full-time employees and/or the working hours per employee may increase. Further investigation is needed to understand whether economies are responding with this dual mechanism.

A targeted and gradual regulatory easing in network sectors is more likely to deliver better results than a horizontal approach. For sectors with not very robust results, pilot rollout of measures would be preferable, so as to assess impacts before the full implementation of reforms. Therefore, policy interventions should focus on clarity, consistency and simplification of rules in specific network sectors instead of generalised deregulation.

7 For the relationship of labour productivity with the capital stock and total factor productivity, see Bank of Greece, *Monetary Policy – Interim Report 2025*, Box 4, December 2025.

Box II.2

EU AND EURO AREA POLICY RESPONSES

International trade and international economic partnerships

In 2025, the EU worked to make international trade fairer, stronger and more predictable for everyone, in a context of increased uncertainty and trade protectionism. Following the successive US announcements of higher tariffs on trading partners, but also on specific industries such as automotive, steel and aluminium, in the first half of 2025, the EU agreed in July a trade deal with the United States on a 15% tariff ceiling on most products.[1] At the same time, the EU signed trade or comprehensive economic partnership agreements with Mexico, Indonesia, Mercosur (Brazil, Argentina, Paraguay, Uruguay) and India, opening up new opportunities for European businesses, while the relevant agreements with Australia, Malaysia, the Philippines and the United Arab Emirates are being negotiated. The EU also launched digital partnerships with third countries in the context of its new International Digital Strategy (June 2025), such as the Digital Trade Agreements with Singapore, the Republic of Korea and Canada (the latter under negotiation).

1 It is noted that in February 2026 the US Supreme Court ruled against the US reciprocal tariffs. Following the subsequent imposition of a new 10% global tariff by the US administration, under a different legal basis, the final ratification of the agreement by the European Parliament is subject to terms and conditions related to US trade policy.

European defence and security

At a time of rapid geopolitical shifts and a radically changed security situation, the EU and its Member States committed to increasing Europe's defence readiness and boosting their defence spending. Building on the Versailles Declaration and the political priorities set by the European Council, in March 2025 the European Commission and the High Representative for Foreign Affairs and Security Policy presented the "White Paper for European Defence", a strategic framework for defence industry, accompanied by the "ReArm Europe Plan/Readiness 2030", which outlines the legal and financial means to achieve defence objectives. In May, the Council of the EU adopted a Regulation establishing the Security Action for Europe (SAFE) instrument, which will provide loans of up to EUR 150 billion to Member States to rapidly and significantly increase their defence investment through common procurement. Canada became the first non-European country to participate in SAFE. At the same time, the national escape clause of the Stability and Growth Pact was activated in July for 16 EU Member States, including Greece, which provides additional fiscal flexibility to move to higher levels of defence spending, without breaching the EU's fiscal rules. The flexibility would be available for four years, starting from 2025, with the annual deviation through 2028 from the maximum growth rates of net expenditure not exceeding 1.5% of GDP of the Member States. The ReArm Europe Plan also envisages enhancing the flexibility of other EU financial instruments, such as cohesion funds, complementing public funding with contributions from the European Investment Bank and mobilising private capital.

Competitiveness, economic resilience and innovation

Strengthening the EU's economic resilience, competitiveness and productivity remained a key policy priority in 2025. With its "Competitiveness Compass" roadmap published in January 2025, the European Commission presented over the past year a total of ten omnibus proposals aimed at simplifying existing legislation in the areas of corporate sustainability, investment, the Common Agricultural Policy, defence, small and medium-sized enterprises, the environment, digitalisation, chemicals, automotive, and food and animal feed, which are estimated to have reduced recurrent administrative burdens by EUR 11.9 billion.[2]

In February 2025, the Clean Industrial Deal, a business plan focusing on EU energy-intensive industries and green technologies, was launched to help bring down high energy costs, boost demand for clean products, support financing for green investments and ensure industries' access to critical raw materials and a skilled workforce. Meanwhile, the European Commission presented a new Affordable Energy Action Plan, which focuses on reducing energy costs for households and businesses, completing the Energy Union, attracting investment in energy projects and preparing for potential energy crises. Building on this action plan and in the aftermath of the fallout from the Israel-US war against Iran, in March 2026 the European Commission presented measures to increase the EU's energy independence and ensure affordable energy, among other things, through a clean energy investment strategy and a strategy to develop and deploy small modular reactors' nuclear technology.

In parallel, in 2025 the European Commission presented a European Affordable Housing Plan focusing on boosting housing supply, mobilising additional housing investment, promoting reforms in areas such as spatial planning, social housing and taxation, and addressing short-term rentals. It also announced a Quality Jobs Roadmap and launched the first-stage consultation on the upcoming Act. The ultimate aim of the above is to strengthen both competitiveness and social cohesion.

The focus was also on developing the EU's human capital. The Union of Skills (March 2025) includes initiatives such as supporting basic skills, maintaining talent, enhancing skills portability and improving skills in science, technology, engineering and maths (STEM). In January 2026, the European Commission adopted its first-ever EU Visa Strategy together with a Recommendation on attracting talent for innovation, to make the EU more attractive for highly skilled professionals, students, researchers and innovative entrepreneurs. Attracting and retaining talent is at the heart of the EU Startup and Scaleup Strategy (May 2025), as it is crucial for boosting competitiveness, creating quality jobs and attracting investment in innovation. The strategy also includes other key actions

2 Simplification – European Commission.

to promote innovation-friendly regulation, improve access to finance, accelerate market uptake and facilitate access to infrastructure, networks and services for startups and scaleups.

Finally, as regards critical technologies, in October 2025 the European Commission set out strategies to speed up the uptake of artificial intelligence (AI) in European industry and science, including robotics and space, as well as its proposal for a European Data Union. In January 2026, it proposed a Regulation for the Digital Networks Act to modernise, simplify and harmonise EU rules for advanced fibre and mobile telecommunication networks. High-capacity and advanced connectivity networks enable the development of innovative technologies, such as AI and cloud, and are the foundation of Europe's competitiveness. The Council of the EU also adopted an amended Regulation to facilitate the creation of AI gigafactories in Europe and the promotion of quantum computing. Furthermore, in July 2025 the European Commission launched a strategy to make the EU a global leader in life sciences by 2030.

Long-term EU budget 2028-2034

In July 2025, the European Commission presented its proposal for the Multiannual Financial Framework (MFF) 2028-2034 worth almost EUR 2 trillion (or 1.26% of EU gross national income on average). Key features of the new MFF are greater flexibility and simpler, streamlined and harmonised EU financial programmes, consolidating cohesion and agricultural policies (EUR 865 billion in total) and boosting competitiveness with the new European Competitiveness Fund (EUR 409 billion). In parallel, the funds for migration and border management, as well as those of the Solidarity Fund for disaster response are tripled, with national and regional partnership plans based on investments and reforms. On the revenue side, the proposal includes five new "own resources": (a) revenue from the EU Emissions Trading System; (b) revenue from the Carbon Border Adjustment Mechanism; (c) tax on non-collected electronic and electrical waste (e-waste); (d) revenue based on a tobacco excise duty; and (e) an annual lump-sum contribution from companies, other than small and medium-sized ones, with a net annual turnover of at least EUR 100 million. Negotiations at national and EU level are ongoing and are expected to last for about two years.

Savings and Investments Union

In March 2025, the European Commission presented the Savings and Investments Union strategy that aims to improve how the EU financial system channels savings into productive investments, creating economic opportunities for citizens and businesses, and helping to boost the EU's competitiveness, strategic autonomy and economic security. European households' bank savings are estimated at EUR 10 trillion, which could be invested in capital markets, with higher potential returns.

In this context, the European Commission presented a number of legislative initiatives in 2025. In June, it proposed measures to revitalise and simplify the EU securitisation framework as an instrument to strengthen the lending capacity of European banks and, thus, help increase EU investment and competitiveness, while maintaining strong safeguards for financial stability. In September, it announced a package of measures to enhance financial literacy and investment opportunities for citizens, introducing a blueprint for savings and investment accounts (SIAs), a tool to make financial investment simpler and more accessible for all. In November, it adopted measures to strengthen the supply of and demand for supplementary pensions. Given the long-term nature of pensions' liabilities, the supplementary pension sector can be a key potential supplier of long-term capital for investment in the EU economy. Finally, in December it published an extensive package of proposals to deepen the integration of EU capital markets. In particular, the measures aim to remove obstacles related to: (a) Member States' trading and post-trading systems, thereby reducing cost differentials between domestic and cross-border transactions; (b) innovation in distributed ledger technology, thereby encouraging the adoption of new technologies in the financial sector; (c) streamlining and strengthening supervision by transferring direct supervisory responsibilities to the European Securities and Markets Authority (ESMA) over important market infrastructures, such as certain trading venues, central counterparties, central securities depositories and all crypto-asset service providers; and (d) simplifying and reducing the administrative burden for all parties involved. These elements are interlinked and form a coherent set of reforms necessary to create a true single market throughout the investment chain.

Also, in December 2025, the Council of the European Union and the European Parliament agreed on an updated retail investment framework to empower and protect consumers, offering them the same level of clear information, fair treat-ment and high protection, regardless of the investment products and the marketing and distribution channels they use.

Banking Union

In June 2025, EU legislators agreed to strengthen the Crisis Management and Deposit Insurance (CMDI) framework for banks in the EU. The reform improves the resolution process for small and medium-sized banks by giving them access to industry-funded safety nets as an additional tool to finance their resolution, without burdening their depositors or taxpayers, so as to reduce reliance on bail-ins of uninsured depositors. The agreement marks another step towards completing the EU's banking union.

Capital Markets Union

In June 2025, the Council of the EU and the European Parliament agreed on new rules in the area of payment services to fight fraud more effectively, increase transparency on fees, enhance consumer protection and foster technological innovation. They also agreed to shorten the settlement cycle for securities transactions from two business days to one after the trade date (T+1). In November they adopted a Directive harmonising certain aspects of insolvency law across EU Member States. The new measures seek to maximise the value that creditors can recover from the insolvent company and increase the efficiency of proceedings, facilitating cross-border investment.

Russia-Ukraine war

In 2025, the EU adopted four additional packages of economic and individual restrictive measures against Russia and, in February 2026, the European Commission proposed another one, reaching the 20th package since the start of the war in Ukraine against approximately 2,600 legal and natural persons, and extended the sanctions until mid-September 2026. Measures included lowering the price cap for Russian crude oil from USD 60 to USD 47.6 per barrel, a ban on imports of refined products produced from Russian crude oil and originating from any third country, a full transaction ban on Rosneft and Gazprom Neft, new import bans on metals, chemicals and critical minerals from Russia, and a port access ban on 597 vessels altogether of the Russian shadow fleet. The EU also imposed a transaction ban on additional Russian banks in Russia and in third countries, strengthened anti-circumvention measures by targeting rouble-backed stablecoin developers and offshore crypto exchanges, and restricted transactions with entities in Russia's special economic zones. In January 2026, EU Member States gave the green light to phase out Russian natural gas (LNG and pipeline gas) imports by the end of 2027.

Meanwhile, military, humanitarian and financial support to Ukraine continued. Since the outbreak of the war, the EU and its Member States have made available EUR 195 billion to support Ukraine, of which 65% in grants or in-kind assistance and 35% in loans. In December 2025, the European Council agreed to grant a new support loan of EUR 90 billion to Ukraine for 2026 and 2027 which will be financed by EU borrowing on capital markets and backed by the EU's fiscal space. The loan will only be repaid when Russia pays reparations to Ukraine. Until then, Russian assets (mainly foreign reserve assets of Russia's central bank) that the G7, the EU and other partners have frozen following Russia's invasion of Ukraine in February 2022 will remain immobilised. The EU reserves its right to use them for the repayment of the loan, in line with EU and international law. The EU has suspended import duties and quotas on all exports from Ukraine, while in October 2025 an upgraded EU-Ukraine trade agreement entered into force.

At the political level, the EU is engaged in ongoing diplomatic efforts to end the war and stands ready to contribute to security guarantees, having repeatedly expressed its continued support for Ukraine's independence, sovereignty and territorial integrity within its internationally recognised borders.

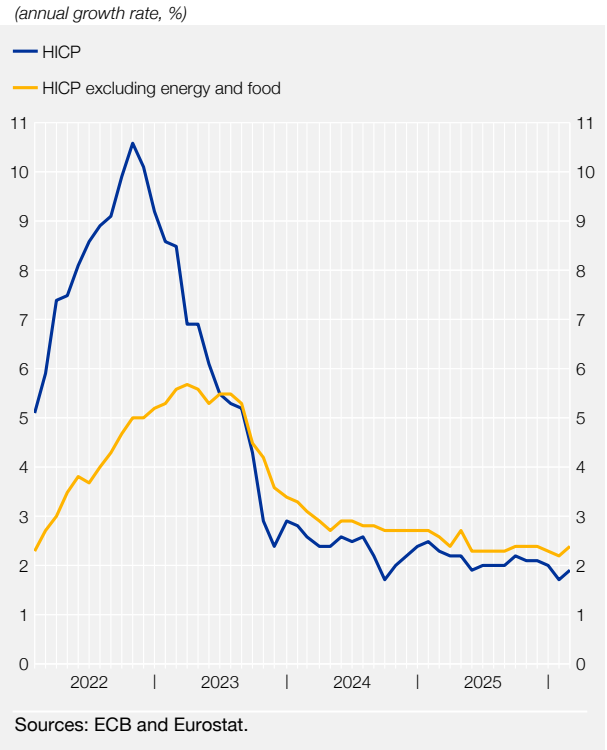
III THE SINGLE MONETARY POLICY IN THE EURO AREA

The ECB Governing Council aims to ensure that inflation stabilises at its 2% medium-term target on a sustainable basis. To this end, decisions on Eurosystem policy rates are taken considering a wide range of available financial data and information.[1]

The Eurosystem policy rate cuts, which had started in June 2024, continued into the first half of 2025. Policy rates were reduced for the last time in June 2025, when inflation was assessed to have returned close to the 2% target (see Chart III.1), while Eurosystem staff projections also indicated that inflation had stabilised at the 2% medium-term target.

At its other monetary policy meetings in 2025, i.e. in late July, early September, late October and mid-December, as well as in Q1 2026, early February and mid-March, the ECB Governing Council decided that policy rates should remain unchanged. This decision was based on the fact that headline inflation remained close to target and on the Governing Council's assessment that its outlook had not changed.

Chart III.1 Inflation in the euro area (January 2022 - February 2026)



Sources: ECB and Eurostat.

At its last meeting in March, the Governing Council stressed that the war in the Middle East has significantly increased uncertainty, creating upside risks to inflation. In the short term, higher energy prices will have a significant impact on inflation. The impact over the medium term, however, will depend on the intensity and duration of the conflict, and the extent to which high energy prices will affect both the prices of goods and services and the economy.

Over 2025 and early 2026, the Governing Council stated that it was not pre-committing to a particular policy rate path. Instead, it would reassess its policy at each new relevant meeting based on its respective assessment of three main factors: (i) the inflation outlook and the risks surrounding it, in light of more recent economic and financial data; (ii) the dynamics of underlying inflation; and (iii) the strength of monetary policy transmission. In particular, in view of the current uncertainty about the inflation outlook arising from the war in the Middle East, the Governing Council considered that it was well positioned to navigate the situation and that its approach would help reach the appropriate decisions on Eurosystem policy rates.

The analysis of the ECB Governing Council in 2025 focused on the following developments. For much of the year, headline inflation continued to decelerate, while most measures of underlying inflation indicated that inflation in the euro area would stabilise at the 2% medium-term target.

1 The cut-off date for information and data used in this chapter is 20.3.2026.

Wage growth moderated and is expected to decelerate further in the coming months. Combined with a recovery of labour productivity, the slowdown in wage growth has led to a decline in unit labour cost growth. In 2025, quarter-on-quarter GDP growth in the euro area stood at 0.6% and 0.1% in Q1 and Q2 respectively, while Q3 and Q4 stood at 0.3% and 0.2% respectively. Even though labour demand moderated, labour market conditions remained favourable, with the unemployment rate remaining close to historical lows and labour income strengthening. Interest rates on corporate loans stabilised after having declined significantly until mid-2025, in parallel with the stabilisation of mortgage rates that had been observed already in early 2025. Both corporate and household credit growth increased rapidly.

At the end of October 2025, the ECB Governing Council decided to move on flexibly to the next phase of the digital euro project, which will ensure technical readiness for potential issuance once the relevant legislation has been adopted. Developments on the progress of the adoption of the digital euro are summarised in Box III.1 in this chapter. In addition, Box III.2 describes the potential for central banks to leverage AI.

Finally, it is noted that on 1 January 2026 Bulgaria became the 21st country to join the euro area.

1 MONETARY POLICY MEASURES

Interest rate policy

The ECB Governing Council is committed to ensuring that inflation stabilises at its 2% medium-term target on a sustainable basis. To fulfil this commitment, the Governing Council examines a wide range of incoming financial data and information to determine the Eurosystem's monetary policy stance. The ECB Governing Council reassesses the conditions of the euro area economy on a meeting-by-meeting basis; its interest rate decisions are based on its assessment of: (i) the inflation outlook and the risks surrounding it, in light of incoming economic and financial data; (ii) the dynamics of underlying inflation; and (iii) the strength of single monetary policy transmission.

The Governing Council clarified throughout 2025 and in early 2026 that it was not pre-committing to a particular policy rate path. In more detail, from March to June 2025, it underlined that in view of the prevailing environment of heightened uncertainty regular reassessment was necessary.

The Eurosystem policy rate cuts, which had started in June 2024, continued into the first half of 2025 (see Table III.1). In late January 2025, the Governing Council lowered its policy rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which the Governing Council steers the monetary policy stance – was based on the fact that the disinflation process was well on track and inflation was set to return to the 2% target in the course of the year. In addition, most underlying inflation measures suggested that inflation would settle around the target on a sustained basis (see Chart III.1). The Governing Council noted that recent interest rate cuts (from June 2024 onwards) were gradually making new borrowing less expensive for firms and households. However, financing conditions continued to be tight, also because past interest rate hikes were still transmitting to the stock of credit, with some maturing loans being rolled over at higher rates.

In early March 2025, policy rates were lowered further by 25 basis points. In particular, the Governing Council's decision was taken on the grounds that inflation had developed broadly as expected and that the latest macroeconomic projections (i.e. those of March) closely aligned with the previous inflation outlook. It stressed that most underlying inflation measures suggested that inflation would settle around its 2% medium-term target on a sustained basis. Domestic inflation remained high, mainly because wages and prices in some sectors were still adjusting to

Table III.1 Key Eurosystem interest rates

(percentages % per annum)

Date of change in interest rates[1]			Deposit facility	Main refinancing operations (fixed rate tenders)	Marginal lending facility
2019	18	Sept.	-0.50	0.00	0.25
2022	27	July	0.00	0.50	0.75
	14	Sept.	0.75	1.25	1.50
	2	Nov.	1.50	2.00	2.25
	21	Dec.	2.00	2.50	2.75
2023	8	Febr.	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	Sept.	4.00	4.50	4.75
2024	12	June	3.75	4.25	4.50
	18	Sept.[2]	3.50	3.65	3.90
	23	Oct.	3.25	3.40	3.65
	18	Dec.	3.00	3.15	3.40
2025	5	Febr.	2.75	2.90	3.15
	12	Mar.	2.50	2.65	2.90
	23	Apr.	2.25	2.40	2.65
	11	June	2.00	2.15	2.40

Source: ECB.
1 Changes in the deposit facility and the marginal lending facility 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 ECB Governing Council in the operational framework for the implementation of monetary policy in March 2024, as of 18 September 2024, the spread between the interest rate on the main refinancing operations and on the deposit facility was reduced to 15 basis points. The interest rate on the marginal lending facility was adjusted to keep the spread between such rate and the rate on the main refinancing operations unchanged at 25 basis points.

the past inflation surge with a substantial delay. It was also stated that wage growth was moderating and profits were partially buffering the impact on inflation. The Governing Council argued that monetary policy was 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. On the other hand, past interest rate hikes were still transmitting to the stock of credit (between July 2022 and September 2023), and lending, although accelerating, remained subdued overall.

Policy rates were cut again by 25 basis points in April 2025. The ECB Governing Council reiterated that the process of disinflation was well on track and inflation was evolving as expected. In March 2025, there was a slowdown in both headline and core inflation, while services inflation had also eased markedly over recent months. It was stressed that most measures of underlying inflation suggested that headline inflation would settle at around the 2% medium-term target on a sustained basis. At the same time, the outlook for economic activity in the euro area had deteriorated owing to rising trade tensions. Increased uncertainty was likely to reduce confidence among households and firms, and the adverse and volatile market response to the trade tensions was likely to have a tightening impact on financing conditions in the euro area.

Finally, policy rates were reduced by another 25 basis points in June 2025. Inflation was now close to the 2% target, while the latest Eurosystem staff projections at the time had been revised

downwards from the previous round in March 2025, indicating that inflation in the euro area was projected to stand at 2% also in 2027.[2]

According to the Governing Council, the decision to lower interest rates in June was based on the facts that wage growth continued to moderate visibly and most measures of underlying inflation suggested that headline inflation would settle at around the 2% medium-term target on a sustained basis. It was also noted that the concerns that increased uncertainty and a volatile market response to the trade tensions in April would have a tightening impact on financing conditions had eased.

At its other rate-setting meetings, i.e. in late July, early September, late October and mid-December 2025, as well as in early February and mid-March 2026, the Governing Council considered that policy interest rates should not be changed. The Governing Council justified its decision on the grounds that headline inflation was still close to target and that its assessment of the inflation outlook remained unchanged.

In March 2026, the Governing Council stressed that the war in the Middle East has made the economic outlook significantly more uncertain, creating upside risks for inflation and downside risks for growth. It will have a material impact on near-term inflation through higher energy prices. However, its medium-term implications will depend on the intensity and duration of the conflict and on how energy prices affect consumer prices and the economy. Inflation remained close to the 2% target, longer-term inflation expectations were firmly anchored around this level, and the economy has shown considerable resilience in recent quarters. At the same time, however, the Governing Council firmly believes that it is well positioned to navigate this uncertainty and that its data-dependent, meeting-by-meeting approach will contribute to appropriate monetary policy decisions.

As in previous years, the ECB Governing Council has repeatedly stressed that it stands ready to adjust all of its monetary policy instruments within its mandate, if necessary, to ensure that inflation returns to its 2% target in the medium-term and to preserve the smooth functioning of monetary policy transmission.

2 THE ECB GOVERNING COUNCIL'S ANALYSIS UNDERLYING MONETARY POLICY DECISIONS

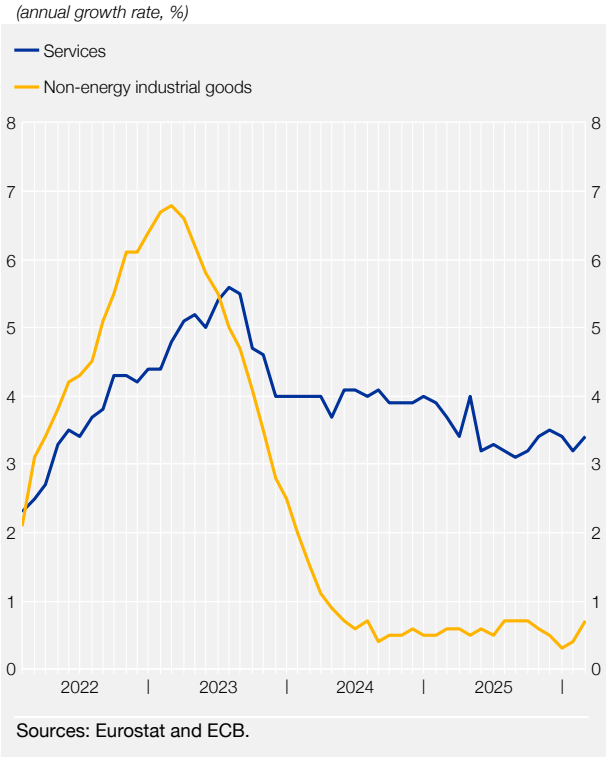
The ECB Governing Council's analysis in the monetary policy meetings in 2025 and early 2026 focused on the following developments:

Evolution of prices and inflation expectations

Headline inflation followed a downward path, although it fluctuated slightly between spring and November 2025. In more detail, goods inflation, including food, declined only slightly in 2025 and strengthened recently, while services inflation declined markedly (see Chart III.2). Wage growth moderated, and this trend is expected to continue into 2026 (see Chart III.3). Combined with the recovery in labour productivity, the slowdown in wage growth has led to a decline in unit labour cost growth. By mid-year, the Governing Council noted a moderation in corporate profitability growth, as profits for a significant period of time had been partially buffering the impact of wage growth on inflation. Subsequently, however, the profit margin started to recover. At two meetings in December 2025 and February 2026, the Governing Council noted that the contribution to overall wage growth from payments over and above

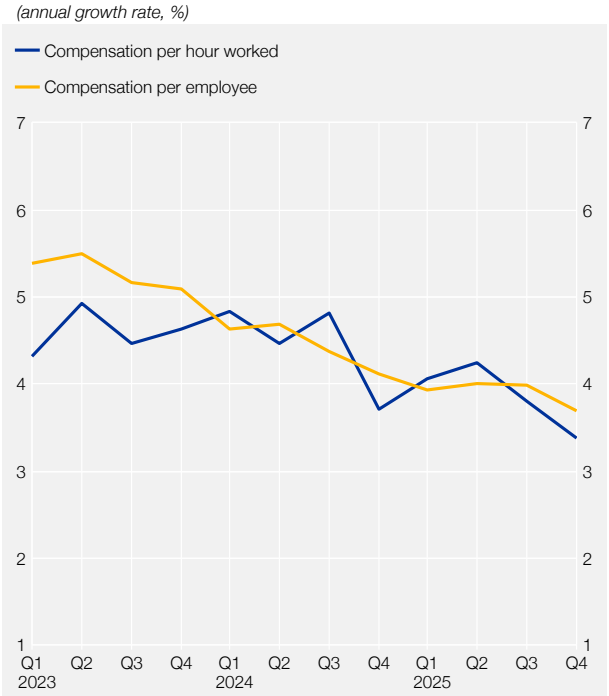
2 Moreover, in June 2025, the ECB Governing Council published the results of its monetary policy strategy assessment. For more details on the Eurosystem's updated monetary policy strategy, see Bank of Greece, *Monetary Policy – Interim Report, Executive Summary and Boxes*, Box III.1 "The assessment of the Eurosystem's monetary policy strategy", December 2025.

Chart III.2 Sub-indices of inflation in the euro area (January 2022 - February 2026)



Sources: Eurostat and ECB.

Chart III.3 Labour compensation in the euro area (Q1 2023 - Q4 2025)



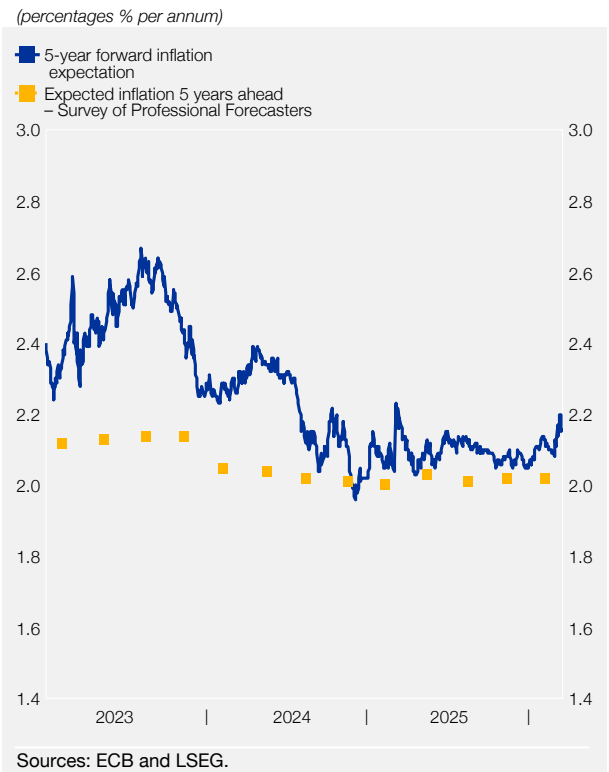
Sources: ECB and Eurostat.

the negotiated wage component remained uncertain.

After Q1 2025, the Governing Council no longer described domestic inflationary pressures as strong. Rather, it pointed out that most measures of underlying inflation suggested that inflation in the euro area would settle around its 2% medium-term target. Between June and October 2025, the Governing Council reiterated that headline inflation was now close to its 2% medium-term target; core inflation remained consistent with this development, as the slowdown in wage growth was expected to continue.

In December 2025 and February 2026, the Governing Council confirmed its assessment that inflation would stabilise at 2% over the medium term, despite the fact that headline inflation was then expected to fall below target owing to high volatility in energy prices. It stressed that most measures of longer-term inflation expectations continue to stand at around 2%, supporting the sustained stabilisation of headline inflation around the Eurosystem's target (see Chart III.4).

Chart III.4 Long-term inflation expectations in the euro area (2 January 2023 - 19 March 2026)



Sources: ECB and LSEG.

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

(average annual growth rate %)

	March 2026				December 2025				September 2025				June 2025			
	2025	2026	2027	2028	2025	2026	2027	2028	2024	2025	2026	2027	2024	2025	2026	2027
HICP	2.1	2.6	2.0	2.1	2.1	1.9	1.8	2.0	2.4	2.1	1.7	1.9	2.4	2.0	1.6	2.0
HICP excluding energy and food	2.4	2.3	2.2	2.1	2.4	2.2	1.9	2.0	2.8	2.4	1.9	1.8	2.8	2.4	1.9	1.9

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

In March 2026, the Governing Council estimated that the rise in energy prices due to the war in the Middle East would drive near-term inflation above 2%. Close monitoring by the Governing Council will be important, as the energy shock – especially if it turns out to be strong and persistent – has the potential to trigger material indirect and second-round effects. Market-based inflation expectations have strengthened significantly over shorter horizons. However, most measures of longer-term inflation expectations remain around 2%, pointing to a stabilisation of inflation around the 2% target.

Macroeconomic projections for inflation

On the basis of the latest ECB staff macroeconomic projections (March 2026), annual headline inflation is projected to average 2.6% in 2026, 2.0% in 2027 and 2.1% in 2028. The upward revision of inflation particularly for 2026 results from rising energy prices due to the war in the Middle East. Core inflation is expected to stand at 2.3% in 2026, 2.2% in 2027 and 2.1% in 2028 (see Table III.2), i.e. it has also been revised upwards compared with December 2025, mainly due to the transmission of higher energy prices to the prices of other goods and services.[3]

In March 2026, the Governing Council noted that risks to the inflation outlook were tilted to the upside, especially over shorter horizons. A prolonged war in the Middle East could lead to a larger and longer-lasting upward shift in energy prices than currently expected, raising euro area inflation further. This could be reinforced and become more persistent if inflation expectations and wage growth were to rise in response, if the energy price increase were to spill over to non-energy inflation to a larger extent than assumed in the baseline, or if the war disrupted global supply chains more broadly. Ongoing trade tensions could also give rise to more fragmented global supply chains, curtail the supply of critical raw materials and tighten capacity constraints in the euro area economy.

By contrast, inflation could turn out to be lower if the economic repercussions of the war in the Middle East proved to be more short-lived or if indirect and second-round effects proved less pronounced than currently expected. Inflation could also be lower if tariffs reduced demand for euro area exports by more than expected and if countries with overcapacity increased further their exports to the euro area. More volatile and risk-averse financial markets could weigh on demand and thereby lower inflation as well.

Evolution of economic activity, employment and unemployment

It was noted that in Q4 2025 GDP growth in the euro area stood at 0.2% (compared with 0.3% in Q3, 0.1% in Q2 and 0.6% in Q1, see Chart III.5). The euro area economy has shown resilience despite challenges stemming from the international environment. Growth was driven

3 The high uncertainty surrounding the outcome of the war in the Middle East, its impact on energy prices and how the prices of non-energy goods and services will be affected called for the baseline staff projections of March 2026 to be supplemented with alternative illustrative scenarios assuming different degrees of severity of the impact of the war on the euro area economy.

mainly by domestic demand and the services sector; in the last quarter, in particular, by the information and communications industries. Manufacturing output continued to strengthen despite trade tensions and geopolitical uncertainty. This was partly due to frontloading, as firms rushed to get ahead of the new trade barriers in the early months of the year, giving European manufacturing a temporary lift in Q1 2025. That boost faded as tariffs took hold (see Chart III.5). Towards the end of 2025, construction activity started to recover, supported by public investment, while firms invested more, particularly in research and development, software and databases. The ECB Governing Council assessed that weak external demand was largely offset by developments in domestic demand in the euro area. These developments were satisfactory owing to a significant strengthening of private consumption and investment. In the last quarter of the year, growth was no longer weighed down by net exports. However, geopolitical uncertainty and the challenging global environment, including in light of volatile trade policies, may continue to weigh on economic growth in the coming period. Moreover, the war in the Middle East is disrupting commodity markets and weighing on real incomes and confidence.

Labour market developments in 2025 remained favourable, despite labour demand moderating. Indeed, the job vacancy rate stood at its lowest level since the pandemic and the unemployment rate remained close to historical lows (see Chart III.6). Further strengthening of labour income and real incomes in general is expected to continue to support private consumption, especially if the propensity to save, which is currently very high, decreases at the same time, leaving significant room for further increases in household expenditure.

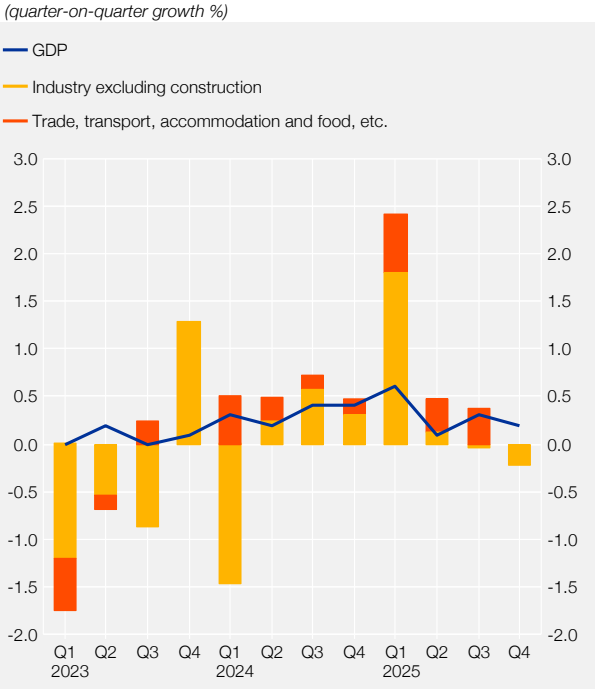
Money and credit developments

The ECB Governing Council's analysis of financial conditions focused on the following:

First, interest rates on bank loans to firms remained stable following their significant decline until the summer of 2025. At the same time, mortgage rates stabilised almost throughout the year (see Chart III.7). The cost of corporate bond issuance on the markets generally fluctuated and increased slightly towards the end of

Chart III.5 GDP and value added in key sectors in the euro area (Q1 2023 - Q4 2025)

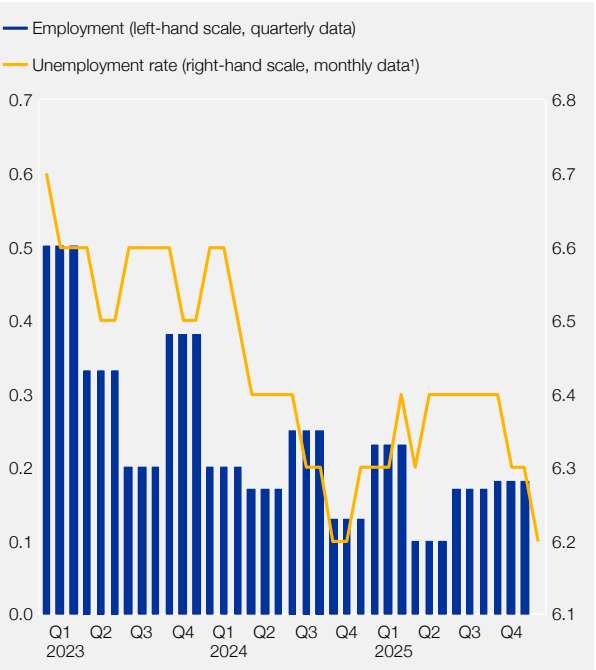
(quarter-on-quarter growth %)



Sources: Eurostat and ECB.

Chart III.6 Employment and unemployment rate in the euro area (Q1 2023 - Q4 2025)

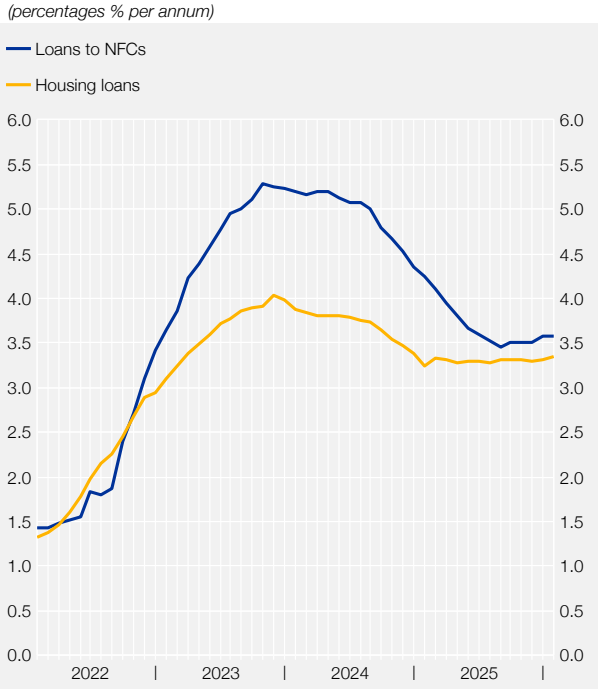
(quarter-on-quarter growth % and percentage of labour force)



Sources: Eurostat and ECB.
1 Data on the unemployment rate are presented on a monthly basis up to January 2026.

Chart III.7 Cost of borrowing indicator for businesses and households in the euro area (January 2022 - January 2026)

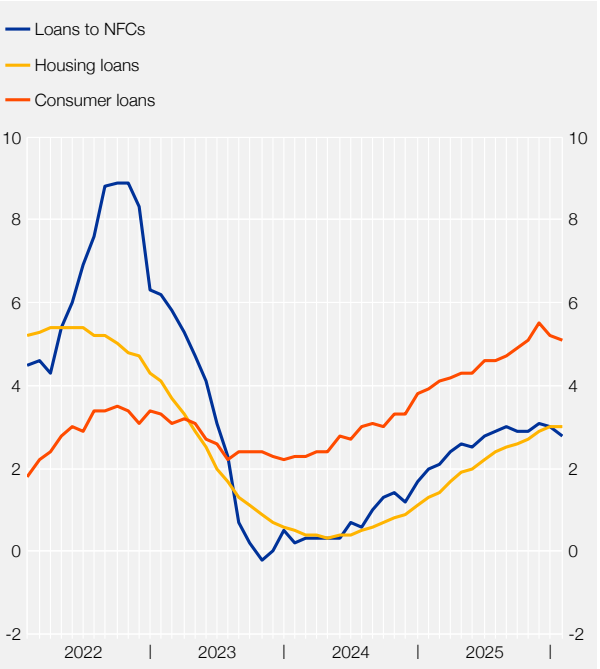
(percentages % per annum)



Source: ECB.
Note: The index is compiled by the ECB for household housing loans and loans to non-financial corporations (NFCs). It is calculated based on the weighted average of interest rates on new short-term and long-term loans in these categories, with certain adjustments to improve the comparability of borrowing costs across euro area Member States.

Chart III.8 Loans to non-financial corporations and households in the euro area[1] (January 2022 - January 2026)

(annual rate of change %)



Source: ECB.
1 The rate of change in business and household financing has been adjusted for securitised or transferred loans, as well as for notional cash pooling provided by NFCs in certain euro area countries.

the year. In March 2026, interest rates in international financial markets increased as a result of the war in the Middle East, particularly at short-term maturities.

Second, bank credit growth rose markedly for both firms and households over the course of the year (see Chart III.9), while the growth rate of corporate debt securities initially exhibited volatility, but accelerated towards the end of the year and in early 2026.

According to the Bank Lending Survey for the euro area,[4] banks reported a slight tightening in corporate credit standards in 2025, mainly due to a deterioration in the economic outlook, in particular to the industry- or firm-specific outlook, as well as to banks' lower risk tolerance. A slight easing was also recorded in credit standards for housing loans, mainly reflecting competitive pressures. The Survey also noted an increase in demand across all loan categories, which was more pronounced for housing. The expansion of demand for housing loans was mainly driven by a decline in the general level of interest rates and an improvement in housing market prospects, and, to a lesser extent, an improvement in consumer confidence.

The Governing Council is committed to making retail and wholesale central bank money fit for the digital age. In this vein, it decided to move to the next stage of the digital euro project at the end of October 2025, to ensure technical readiness for potential issuance and support Europe's digital sovereignty.

4 A more detailed presentation of the results of the Bank Lending Survey for Greece and the euro area for 2025 is presented in Chapter VI, Box VI.3.

Single monetary policy and financial stability

In June and December 2025, as required by the single monetary policy strategy, the Governing Council thoroughly assessed the links between monetary policy and financial stability. Banks in the euro area were found to remain resilient. However, in June it was noted that broader financial stability risks remained elevated, in particular owing to highly uncertain and volatile global trade policies. In December, it was noted that geopolitical uncertainty and the possibility of a sudden repricing in global financial markets posed risks to financial stability. The Governing Council stressed that macroprudential policy remains the first line of defence against the build-up of financial vulnerabilities, enhancing resilience and preserving macroprudential space.

The ECB Governing Council's non-monetary policy recommendations

Repeatedly in 2025, and particularly in the current context of heightened uncertainty and geopolitical developments, the ECB Governing Council emphasised the role of fiscal and structural policies in fostering a more productive, competitive and resilient euro area economy. Any fiscal responses to the energy price shock should be temporary, targeted and tailored. The current energy crisis underscores the imperative to further reduce dependence on fossil fuels. The Governing Council urged the adoption of the action programmes and proposals (among others, those relating to simplifying procedures and reducing the administrative burden on businesses) included in the European Commission's Competitiveness Compass. These proposals also concern the completion of the Savings and Investments Union on the basis of a clear and ambitious timetable. The Savings and Investments Union will help widen the range of saving instruments available to savers. At the same time, it will enhance capital market integration and facilitate firms' access to financing, in particular to venture capital, supporting innovation as well as the green and digital transitions. It is especially important to make full use of the potential of the Single Market. Simplifying and harmonising rules across the EU's Single Market will help firms grow faster. Moreover, there is a need to follow up, with further concrete and ambitious structural policies, on Mario Draghi's proposals for enhancing European competitiveness, and to accelerate implementation in compliance with the European Commission's Roadmap. The digital euro will enhance Europe's strategic autonomy, competitiveness and financial integration, and will boost innovation in payments; it is thus essential to swiftly adopt the legislation on the establishment of the digital euro. Governments were urged to fully implement their commitments under the EU's economic governance framework, prioritising growth-enhancing reforms and strategic investment. The Governing Council welcomed the Eurogroup's commitment to improving the composition and quality of public spending. It also stated its support for the efforts of European authorities to preserve the mutual benefits stemming from international trade.

Box III.1

DIGITAL EURO: A SIGNIFICANT CONTRIBUTION TO THE FUTURE OF PAYMENTS IN THE EURO AREA

The digital euro constitutes one of the most important Eurosystem initiatives in the retail payments area. This initiative aims to create a safe and innovative means of payment available to all citizens as a complement to cash, strengthening Europe's monetary sovereignty and competitiveness.

An important step towards the adoption of a digital euro was the agreement reached in the Council of the European Union on the related legislative package, which is now under consultation in the European Parliament. At the same time, the European Central Bank (ECB) continues technical preparations in cooperation with market participants and relevant EU institutions, ensuring alignment with the legislative process.

The main stages of the Eurosystem's digital euro project are as follows:

- Investigation phase (October 2020-October 2023): The first phase focused on examining the feasibility of a digital euro and defining its key features, as well as setting out the fundamental principles for its adoption and use: maximum protection of user privacy; accessibility and usability for all social groups; and cash complementarity. This phase was successfully completed with the adoption of a robust strategic framework, paving the way for the next steps.

- Preparation phase (November 2023-October 2025): This period marked the transition from theoretical investigation to practical design. During this phase, the Eurosystem worked on identifying the functional and technical features of the digital euro, exploring pilot solutions and cooperating with banks and other payment service providers. A milestone in the second phase was the delivery of a draft Rulebook for the digital euro scheme, outlining the basic rules for its use and operation as well as the roles and obligations of all actors in the digital euro ecosystem. The Rulebook, which is still under development, serves as a common reference framework, enhancing transparency, consistency, legal certainty and a robust governance framework.

- From design to technical implementation (October 2025-September 2027): The Governing Council of the ECB has decided to initiate the next phase, which focuses on the further development and operational preparation of the digital euro. The three workstreams include: (a) advancing technical readiness by developing infrastructure and standards; (b) preparing pilot tests; and (c) deepening market engagement to finalise the Rulebook. This phase is crucial, as it constitutes the bridge between design and practical implementation, seeking to ensure that the digital euro is safe, reliable and widely accepted across the euro area.

- Digital euro pilot (September 2027-September 2028): Provided that the digital euro legislative package is adopted by the end of 2026, a 12-month pilot exercise will be conducted. As part of the exercise, selected payment service providers will cooperate with the Eurosystem to test the technical, functional and operational readiness of the system within a controlled environment.

- Potential first issuance of the digital euro (2029 onwards): The final decisions on the introduction of a digital euro with legal tender status will be taken by the competent bodies provided for by the relevant legislation, once adopted. The final decision on the issuance will only be taken by the Governing Council of the ECB after the legislative act has entered into force.

If integrated into the economy, the digital euro should be a modern means of payment designed to meet the needs of all European citizens in the digital age.

- It will be accessible to all euro area citizens, who will be able to obtain and use it on equal terms.

- It will be universally accepted for payments throughout the euro area and, under certain conditions, also in other countries, inside or outside the EU.

- It will make maximum use of existing infrastructures and technical standards for its acceptance and settlement, minimising market adjustment costs.

- It will increase competition in the European payments landscape, while reducing dependence on non-European providers.

- It will introduce new usage possibilities, such as offline payments.

- It will encourage banks and other payment service providers to develop innovative products in combination with the digital euro.

- It will operate with the most demanding security standards and within a strict protection framework for users' personal data.

The digital euro is of particular importance for Europe's future, as it reinforces monetary sovereignty in the euro area and strengthens the resilience of the European payments area. It offers a reliable public alternative to available private means of payment in the form of central bank money and supports innovation. At the same time, it contributes to financial inclusion by enabling all citizens to participate in the digital economy.

Box III.2

ARTIFICIAL INTELLIGENCE AND CENTRAL BANKS

Artificial Intelligence (AI) has been the most widely discussed technology in recent years. It is being increasingly used by central banks to facilitate the exercise of monetary policy, supervision and, more generally, their internal operations.

Specifically, central banks use AI in areas such as information and data processing, macroeconomic analysis and timely forecasting (e.g. of financial crises), supervision of supervised institutions and oversight of payment systems, as well as identification of suspicious or illegal transactions. Moreover, AI is used to enhance the internal operations of central banks, e.g. through digital assistants and other tools that, *inter alia*, can process, draft and analyse texts.

In addition to bringing multiple benefits, the use of AI by central banks also entails risks, such as:

- dependence on third-party AI system providers (especially located across borders/outside the European Union);
- cyberattacks that make use of AI systems or take advantage of their weaknesses;
- biases, i.e. errors leading to inaccurate or non-objective outcomes;[1]
- poor quality of data used by AI to draw conclusions;
- lack of transparency, explainability and understanding of how AI models function;
- AI feedback loops, leading to progressive bias amplification (e.g. a central bank uses AI to assess AI-generated data provided by supervised institutions);
- replacing in-depth and independent risk assessment with the use of AI, especially without adequate human oversight; and
- possible breach of data confidentiality and privacy.

Pre-empting these risks requires a prompt response and concrete actions by central banks, such as: (1) training and upskilling personnel; (2) establishing an internal strategy that promotes responsible and rational use of AI; (3) collaboration and exchange of views with other relevant domestic and foreign authorities; and (4) promptly investing in AI technology, as present inaction translates into increased future costs.

Intra-Eurosystem use of AI

Within the Eurosystem, AI already serves various functions.

1 Biases in AI models can arise from the use of non-representative or non-objective datasets (data bias); application of poorly designed, flawed or distorted code (algorithmic bias); reliance on easily available data to stand in for hard-to-measure metrics (measurement bias); or the fact that AI systems amplify human tendencies to favour information that aligns with pre-existing beliefs (confirmation bias).

For example, the European Central Bank (ECB) uses AI to support the conduct of both central banking and supervisory tasks.

In the domain of statistics,[2] AI helps improve dataset quality, from identifying and matching observations across datasets to using modern machine learning techniques for quality assurance. This allows the ECB to recognise and prioritise anomalous observations and outliers that require further attention, assessment and potential intervention. Moreover, large language models (LLMs) can support statistical processes in novel ways, such as unlocking new and non-traditional data sources – e.g. unstructured data like text, image, video or audio.[3]

The ECB also explores possible uses of AI in the economic analysis underlying its monetary policy.[4] AI can detect data patterns and trends that might not be visible using traditional methods. This is particularly true for non-linear relationships, which play a greater role in an increasingly volatile environment as a result of potential disturbances (geopolitical, economic, environmental, etc.). AI also enables real-time processing of economic indicators and can thus provide timely insights and rigorous analysis, allowing central banks more flexibility in decision-making.

Specific examples of the ECB's exploration of AI applications for the purposes of economic analysis include: (1) inflation nowcasting by web scraping data on individual product prices[5] and the use of LLM models for data classification; (2) inflation forecasting in the euro area by utilising machine learning models that capture possible non-linearities;[6] (3) exploiting machine learning techniques to nowcast world trade;[7] (4) application of innovative datasets, e.g. combining text data and machine learning techniques to quantify risks and tensions in the global economy and exploring the use of satellite data to track economic activity;[8] and (5) use of news sentiment analysis for nowcasting euro area GDP.[9]

In the field of communication,[10] the ECB uses AI for tasks such as: swifter analysis of large-volume media data and market commentary; understanding how the ECB's choice of words in communications, studies, etc. affects financial markets and the real economy;[11] large volume translation into the 24 official EU languages; and simplification of the ECB's communication with the public, particularly social groups not familiar with the work of a central bank.

The ECB has recognised that AI offers value also in other central banking areas, such as oversight of payment systems (through early identification of risks), but also in new payment solutions available to the public, such as personalised payment methods, as well as payment methods serving people with disabilities and sensitive social groups (e.g. voice payments). For this reason, the ECB continues to invest in relevant tools and infrastructures to foster broader safe and responsible adoption of AI internally and, more widely, throughout the Eurosystem.

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2 Cipollone, P. (2024), "Artificial intelligence: a central bank's view", Keynote Speech at the National Conference of Statistics on official statistics at the time of artificial intelligence.
3 For example, the experimental Project Gaia, developed in collaboration with the Eurosystem centre of the BIS Innovation Hub, explores the use of LLM models that extract data from text-based sources to draw conclusions on climate-related risks in the financial system: https://www.bis.org/about/bisih/topics/suptech_regtech/gaia.htm.
4 Cipollone, P. (2024), op. cit. and Stournaras, Y. (2025), "Central banks: Opportunities and implications posed by artificial intelligence", Speech at the ECONDAT Conference.
5 Particularly noteworthy is the experimental Project Spectrum, developed in cooperation with the Eurosystem centre of the BIS Innovation Hub: https://www.bis.org/about/bisih/topics/suptech_regtech/spectrum.htm.
6 Lenza, M. et al. (2023), "Forecasting euro area inflation with machine learning models", ECB, *Research Bulletin*, No. 112.
7 Chinn, M. et al. (2023), "Nowcasting world trade with machine learning: a three-step approach", ECB, *Working Paper Series*, No. 2836.
8 d'Aspremont, A. et al. (2024), "Satellites turn 'concrete': tracking cement with satellite data and neural networks", ECB, *Working Paper Series*, No. 2900.
9 Ashwin, J. et al. (2024), "Nowcasting euro area GDP with news sentiment: a tale of two crises", *Journal of Applied Econometrics*, 39(5), 887-905.
10 Cipollone, P. (2024) and Stournaras, Y. (2025), op.cit.
11 Gebauer, S., Th. McGregor and J. Schumacher (2024), "How central bank communication affects the economy", *The ECB Blog*.

The ECB also makes use of AI in the exercise of its supervisory powers[12] and is modernising its supervisory framework through four strategic AI pillars. First, data is brought together in one place with the system Agora, a centralised "data lake" which integrates supervisory and statistical data,[13] allowing supervisors' natural language access and swift data retrieval. Second, knowledge management is further enhanced with the tool Athena, which automates search across millions of pages and instantly summarises key points for supervised banks. The ECB's Athena platform is further refined with specialised AI assistants[14] that optimise drafting and content processing. Third, the Virtual Lab, a platform that serves as a cloud collaboration space allowing supervisors and data scientists to develop LLM models and practical applications. The collaborative approach is completed with the fourth pillar, Project Olympus, a single supervisory cockpit that produces dashboards with information from multiple systems. It combines structured indicators and unstructured information, ensuring workflow transparency and a comprehensive supervisory overview in a digital environment. The innovation ecosystem of the Single Supervisory Mechanism (SSM) described above is complemented by a number of smaller projects covering various aspects of supervision.

AI and the Bank of Greece

The Bank of Greece has also embarked on an AI integration journey, starting with the creation of an AI community within the Bank and appointing AI representatives for each business area. The Bank of Greece has developed an AI roadmap, including actions to prepare an AI strategy; the definition of a relevant internal governance framework; staff training; and AI use cases. Practical applications are at different stages of implementation, including a digital assistant which answers staff questions on HR issues, as well as automated extraction of unstructured data from financial statements, which are then used for risk management purposes.[15]

Moreover, AI is the subject of a theoretical study by Bank of Greece staff, whose research identified a number of possible applications.[16]

Looking ahead, the Bank of Greece aims to make full use of AI to improve the Bank's operations, while ensuring its responsible and rational use.

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12 Machado, P. (2025), "Artificial intelligence and supervision: innovation with caution", Speech at the 10th Anniversary Ethics and Conduct Framework, Banco de Portugal, Lisbon.

13 Data are reported by supervised institutions as provided for under the relevant Implementing Technical Standards (for supervisory data) and AnaCredit (for statistics).

14 Such as Briefings Generator, SSM Drafter and Agora Retriever.

15 The latter uses optical character recognition (OCR) technology in combination with LLM models that extract tabular data from scanned images, as well as natural language processing (NLP) technology for data identification and matching according to specific risk management standards.

16 The research papers are available on the Bank of Greece website. See e.g. Malliaropulos, D. et al. (2024), "Unpacking commodity price fluctuations: reading the news to understand inflation", Bank of Greece Working Paper No. 334; and Angelopoulos, G. et al. (2025), "A new proposal for forecasting inflation in the eurozone. A global model", Bank of Greece Working Paper No. 350.

IV MACROECONOMIC DEVELOPMENTS AND PROSPECTS

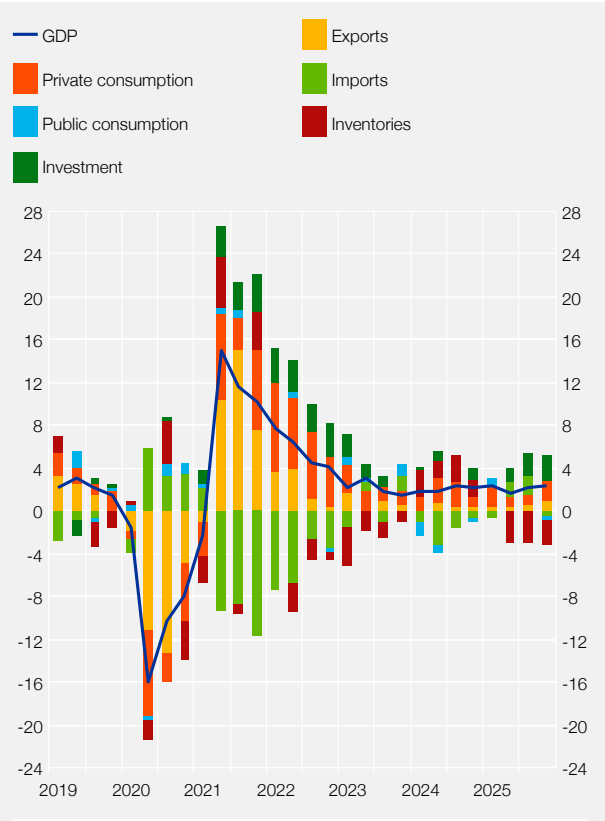
Domestic economic activity continued to expand in 2025 (2.1% compared with 2024) at a stronger pace than in the euro area (1.5%), mainly driven by investment in production equipment and construction, particularly from the second quarter onwards, as well as by private consumption. Net exports also made a positive contribution to GDP, as exports of goods and services increased while imports dropped. Most short-term indicators suggest that activity in industry and services remained in positive territory also in the first quarter of 2026.

Headline inflation hovered at around the previous year's levels. Services inflation persisted, registering a strong upward course in the first eight months of the year, thus preventing a rapid decline in the average annual inflation rate, unlike in 2023 and 2024.

The Greek real estate market continued to attract investor interest – both domestic and foreign – also in 2025, although more muted than in previous years. House prices increased further; however, supply of modern housing remains limited, and housing affordability is at the heart of both social interest and government initiatives.

Chart IV.1 Contributions to annual GDP growth on the demand side (Q1 2019 - Q4 2025)

(contributions in percentage points)



Source: ELSTAT.
Note: Data on GDP components refer to constant 2020 prices and are seasonally adjusted.

In the labour market, employment remained in positive territory and the unemployment rate declined further in 2025. Labour market tightness appears to have eased slightly compared with the previous year, but challenges to the labour market persist, most notably keeping unit labour costs at levels that do not undermine the country's competitiveness and, in the medium term, demographic developments.

The profitability of Greek non-financial corporations remained high in 2025, despite a deterioration of the international environment.

The most recent national accounts data suggest that, in 2025, labour cost growth decelerated substantially, while labour productivity remained unchanged. As a result, unit labour cost growth declined and stood lower in Greece compared with the euro area average, thus supporting the competitiveness of the economy in terms of unit labour costs relative to Greece's trading partners.

Regarding the price competitiveness of the Greek economy, exchange rate developments in 2025, combined with the course of inflation, led to a slight deterioration, although a large cumulative improvement vis-à-vis European competitor economies has been registered since 2010.

The current account deficit improved markedly in 2025, following a significant deterioration in 2024. This is attributable primarily to a drop in the oil deficit, despite a worsening in the non-oil balance of goods, and secondarily to an improvement in the primary income account.

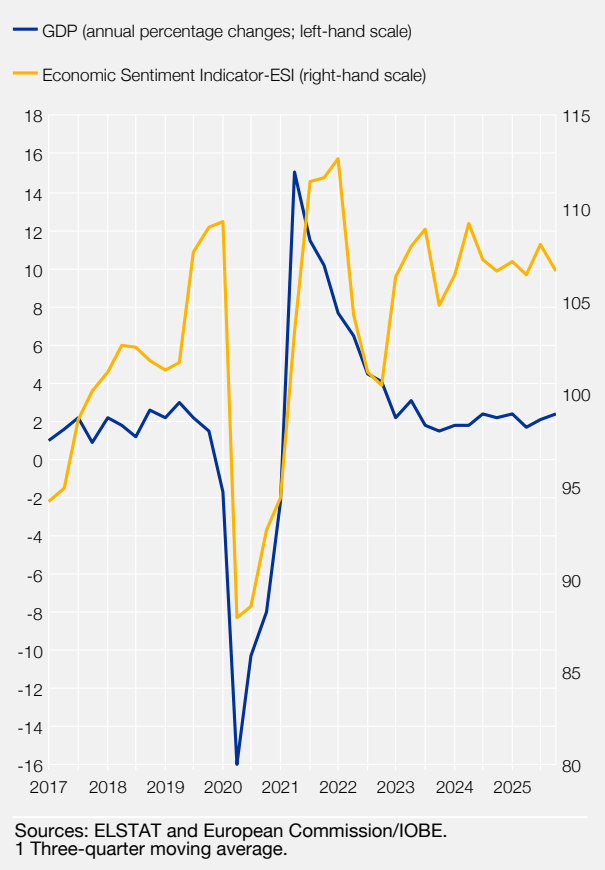
The Greek economy is expected to grow by 1.9% in 2026 and by 2.0% in 2027, with inflation projected at 3.1% and 2.4%, respectively. The risks surrounding the GDP growth forecast remain tilted mainly to the downside and are associated with a prolongation of the war in the Middle East and its implications for global economic developments (see Box IV.1). Other downside risks reflect exogenous factors, such as uncertainty arising from international geopolitical tensions and protectionist policies, catastrophic events mainly associated with the climate crisis, as well as with domestic factors, such as the persistence of inflationary pressures, tightness in the labour market and possible wage pressures. Upside risks to growth in the next two years include a higher-than-expected fiscal multiplier, a faster-than-expected implementation of the necessary reforms, with positive effects on the productivity of the Greek economy, and a further strengthening of tourism.

1 ECONOMIC ACTIVITY: DEVELOPMENTS AND PROSPECTS[1]

1.1 Developments in GDP

Economic activity continued to expand at a satisfactory pace in 2025 (2.1%), well above the euro area average (1.5%). Key drivers of growth were investment in production equipment and construction, which strengthened since the second quarter of the year, private consumption and net exports, as exports of goods and services increased while the relevant imports dropped (see Chart IV.1 and Table IV.1). Economic activity indicators (see Chart IV.2 and Table IV.2) confirm the sustained growth momentum in the first quarter of 2026.

Chart IV.2 GDP and ESI[1]
(Q1 2017 - Q4 2025)



Sources: ELSTAT and European Commission/IOBE.
1 Three-quarter moving average.

1.2 Developments in GDP components

1.2.1 Consumption

Real private consumption remained the primary driver of growth in 2025, increasing (2.0% against 2.4% in 2024) on the back of stronger household real disposable income. Based on the latest available data from the quarterly non-financial accounts of institutional sectors compiled by ELSTAT, the nominal disposable income of households and nonprofit institutions serving households (NPISHs) grew by 3.7% on average in the first nine months of 2025, due to a positive contribution from labour income (primarily compensation of employees and secondarily selfemployed income, see Chart IV.3). Positive developments in compensation of employees played a key role in supporting households' nominal disposable income. National accounts data for 2025 suggest that nominal compensation of employees continued to increase

1 The cut-off date for information and data used in this analysis is 20 March 2026.

Table IV.1 Demand and GDP (2022-2025)

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

	2022	2023	2024	2025	2025 (Q1)	2025 (Q2)	2025 (Q3)	2025 (Q4)
Private consumption	9.3 (6.5)	2.3 (1.7)	2.4 (1.7)	2.0 (1.4)	2.6 (1.9)	1.2 (0.9)	1.4 (1.0)	2.5 (1.8)
Public consumption	0.0 (0.0)	2.8 (0.6)	-2.6 (-0.6)	0.3 (0.1)	3.5 (0.7)	0.8 (0.2)	-0.3 (-0.1)	-2.2 (-0.4)
Gross fixed capital formation	22.1 (3.1)	6.5 (1.1)	4.5 (0.7)	8.9 (1.4)	-1.3 (-0.2)	7.7 (1.3)	13.2 (2.2)	14.0 (2.4)
Housing investment	60.1 (0.8)	22.1 (0.5)	12.9 (0.3)	22.4 (-2.6)	0.4 (0.0)	16.2 (0.4)	26.2 (0.7)	41.2 (1.2)
Domestic final demand[1]	9.0 (9.5)	3.0 (3.4)	1.8 (1.9)	2.8 (3.0)	2.1 (2.3)	2.2 (2.3)	2.9 (3.1)	3.5 (3.7)
Inventories and statistical descrepancy (% of GDP)	0.8%	-1.2%	0.7%	1.4%	-0.0%	-2.3%	-1.6%	-1.1%
Domestic demand	7.4 (8.1)	1.3 (1.4)	3.6 (3.8)	0.8 (1.0)	2.5 (2.7)	-0.1 (-0.1)	-0.2 (-0.2)	1.8 (1.9)
Exports of goods and services	6.2 (2.3)	2.2 (0.9)	1.0 (0.3)	1.7 (0.6)	1.3 (0.5)	1.1 (0.4)	1.5 (0.6)	2.7 (1.0)
Imports of goods and services	10.9 (-4.8)	0.0 (-0.1)	4.8 (-2.0)	-1.3 (0.5)	1.7 (-0.7)	-3.1 (1.4)	-3.9 (1.7)	1.1 (-0.5)
Foreign demand	… (-2.4)	… (0.8)	… (-1.7)	… (1.1)	… (-0.3)	… (1.8)	… (2.3)	… (0.5)
GDP at market prices	**5.5**	**2.1**	**2.1**	**2.1**	**2.4**	**1.7**	**2.1**	**2.4**

Source: ELSTAT, Quarterly national accounts, 6 March 2026. Annual data are not seasonally adjusted. Quarterly data are seasonally adjusted.
Note: Percentage point contributions in brackets.
1 Excluding inventories and statistical discrepancy.

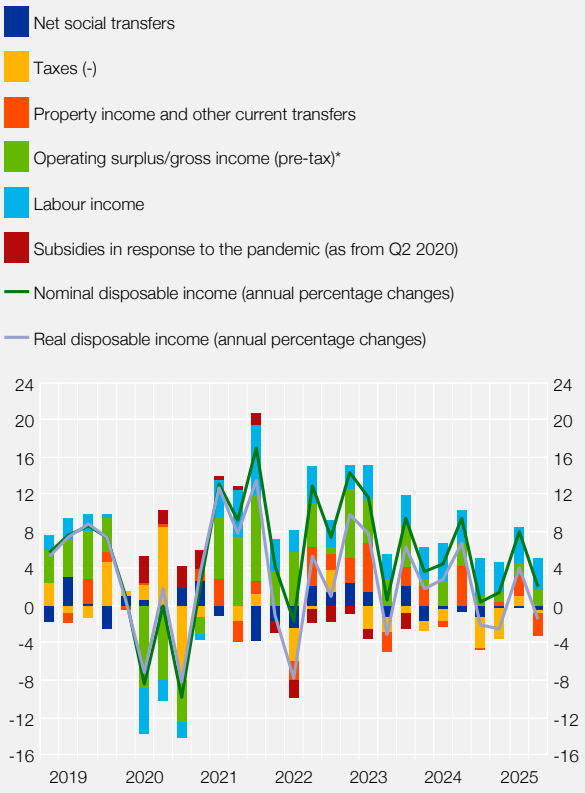
Table IV.2 Indicators of consumer and investment demand (2022-2026)

(annual percentage changes)[1]

	2022	2023	2024	2025 (available period)	2026 (available period)
Retail trade volume (overall index)	3.3	-3.3	-1.6	2.1	-
VAT revenue at 2020 prices[2]	12.2	5.5	6.4	6.0	2.0 (Jan.)
Retail trade confidence indicator	-5.3	21.9	-9.8	-4.9	10.2 (Jan.-Feb.)
Consumer confidence indicator	-50.7	-40.0	-46.0	-46.1	-49.8 (Jan.-Feb.)
New private passenger car registrations	6.7	16.5	3.4	5.3	-0.6 (Jan.-Feb.)
Consumer credit[3]	1.2 (Dec.)	3.4 (Dec.)	6.3 (Dec.)	7.0 (Dec.)	7.0 (Jan.)
Capacity utilisation in the capital goods industry	68.7	71.0	75.1	74.8	67.4 (Q1)
Production of capital goods	8.0	7.6	2.1	6.8	-
Public Investment Programme (PIP) disbursements	22.5	1.6	18.9	9.7	-41.9 (Jan.)
Bank credit to domestic non-financial corporations[3]	11.9 (Dec.)	5.8 (Dec.)	13.6 (Dec.)	11.7 (Dec.)	11.3 (Jan.)
Housing credit[3]	-3.6 (Dec.)	-3.5 (Dec.)	-2.6 (Dec.)	0.7 (Dec.)	1.0 (Jan.)
Construction output index (at constant prices)	12.7	9.6	19.9	2.5	-
Volume of building activity on the basis of permits	-2.2	15.9	8.7	-4.8 (Jan.-Nov.)	-
Construction confidence indicators	-10.2	24.3	6.2	8.6	10.6 (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 disbrursements).
1 Excluding the consumer confidence index (weighted percentage balances of positive and negative answers) and capacity utilisation in the capital goods industry (percentages).
2 CPI deflated (ELSTAT). The years 2024 and 2025 have been adjusted for the base effect associated with VAT receipts from the privatisation of Attiki Odos.
3 Reflecting changes in balances adjusted for loan write-offs/write downs, exchange rate changes and reclassifications.

Chart IV.3 Contributions to changes in disposable income (Q1 2019 - Q3 2025)



Sources: ELSTAT, Quarterly non-financial accounts of institutional sectors and Bank of Greece calculations.
* Before subsidies in response to the COVID-19 pandemic, as from Q2 2020.
Note: Taxes = current income and wealth taxes + taxes on production and imports (incl. ENFIA).

(6.6%, against 7.3% in 2024), supported by increases in both compensation per employee (3.6%) and the number of employees (3.0%). This reflects positive developments in the labour market and wage growth, particularly at the bottom of the income distribution. Government interventions, such as higher minimum wages, active employment policies and targeted measures to support vulnerable social groups, made a significant contribution to improving household incomes. Real disposable income growth stabilised in the first nine months of 2025 at 0.02% as a result of inflation.

Growing consumer demand, despite the fact that households' purchasing power remains unchanged due to inflation, led to lower household savings. 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 observed during the pandemic (4.6% in 2021) dropped in 2022-25 and returned to pre-pandemic levels (-4.0% in the third quarter of 2025, see Chart IV.4).

Private consumption is expected to remain a key driver of growth in 2026, supported by stronger household income, as employment is projected to continue recovering and wages to rise further.

Risks to private consumption growth are mostly associated with the impact of the war in the Middle East. Specifically, higher energy prices are expected to have an adverse effect on households' real disposable income and to dampen household demand. Moreover, heightened uncertainty, as reflected in the low levels of the consumer confidence indicator (see Chart IV.5) – mainly attributable to consumer uncertainty as a result of the war and international protectionist policies – could dent consumer demand. However, government emergency support measures, i.e. the digital fuel voucher (fuel pass), as well as measures to prevent price gouging amid international shocks, such as the immediate imposition of a cap on the profit margins on fuel, food and essential household items, are expected to shield consumers' purchasing power.

Government consumption grew marginally in 2025, making a positive contribution to GDP growth (see Table IV.1).

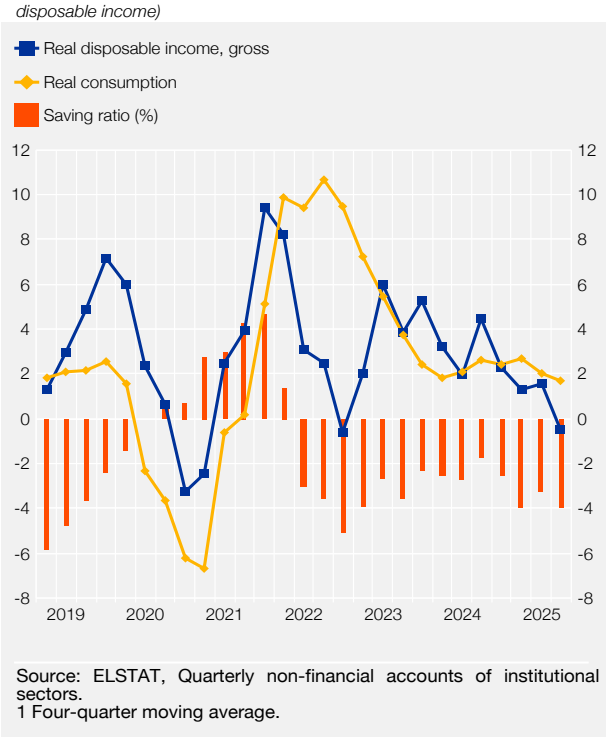
1.2.2 Investment

In 2025 investment increased across all major fixed asset categories. Specifically, gross fixed capital formation rose by 8.9%, up from 4.5% in 2024, with positive contributions from investment in "Transport equipment" (20.8%), "Housing" (22.4%), "Machinery and weapon systems" (7.8%) and "Other construction" (8.3%). Investment in "Other products" registered a slight increase (1.8%). By contrast, investment in "ICT equipment" declined strongly by 8.6%.

In the third quarter of 2025, private sector gross capital formation in the real economy as a four-quarter moving sum stood at 13.7% of GDP (or EUR 33.6 billion), down from 14.3% in 2024. It

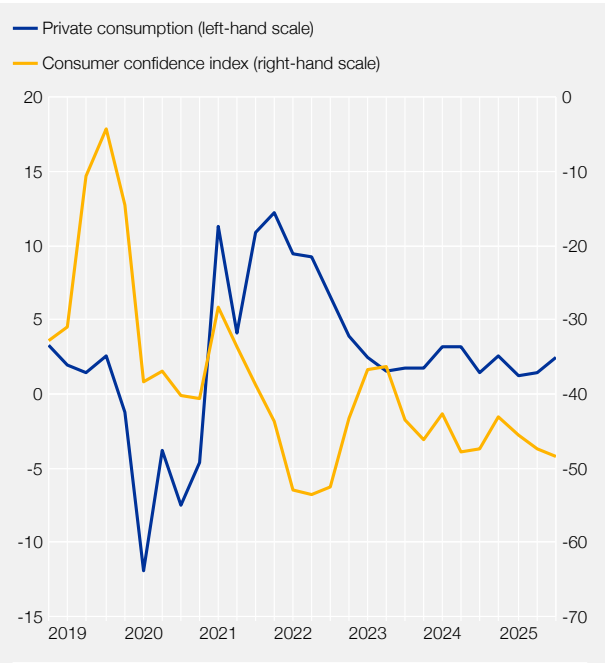
Chart IV.4 Private consumption, households' disposable income and saving ratio[1] (Q1 2019 - Q3 2025)

(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.

Chart IV.5 Private consumption and consumer confidence (Q1 2019 - Q4 2025)



Sources: ELSTAT and European Commission (consumer confidence index).
Note: Private consumption: annual percentage changes; consumer confidence: weighted balances.

should be noted that firms' net capital formation,[2] which reflects an expansion of their productive capital base, accounted for 4.1% of GDP in the third quarter of 2025, compared with 4.8% in 2024. Interestingly, over the same period, households' net capital formation, i.e. investment in real estate and equipment (sole proprietors, self-employed and farmers), moved to marginally positive territory for the first time in 15 years and stood at 0.1% of GDP (see Chart IV.6).

In recent years, Greece has attracted sizeable investment, not only in specific sectors, but rather in the economy as a whole. Solid economic growth, resources under the Recovery and Resilience Facility (RRF), improved access to finance for Greek businesses, low interest rates, upgrades by rating agencies and increased foreign direct investment have created a particularly favourable environment for stronger investment activity, which is essential for the recovery of the productive capital stock and for sustainable economic growth. Investor interest mainly focuses on energy, in particular development of renewable energy sources; shipping; technology, especially setting up data centres; pharmaceuticals; tourism, e.g. establishment of large luxury hotel units; and the real estate market. Lastly, pressing ahead with the privatisation programme is expected to have a positive impact on investment growth.[3]

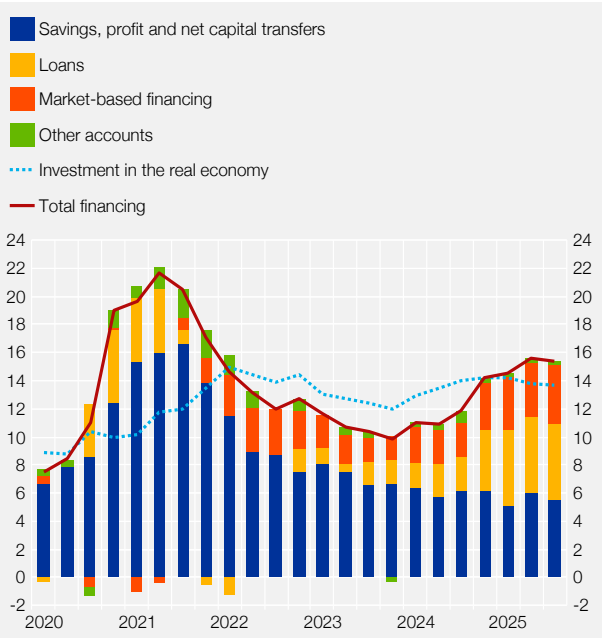
1.2.3 Financing of the private sector

In the third quarter of 2025,[4] total financing to the private sector rose to 15.4% of GDP, from 14.3% in 2024, driven by strong growth in external financing, while internal financing (private savings)[5] declined (see Chart IV.6).

2 Defined as investment less depreciation.
3 According to the 2026 Budget, privatisation receipts in 2025 amounted to EUR 1,561.4 million, mainly stemming from the long-term concession (35 years) of Egnatia Odos (EUR 1,350 million), while receipts for 2026 are expected to reach EUR 322.1 million.
4 This analysis is constructed as a four-quarter moving sum, to control for seasonality.
5 The calculation of savings also includes net capital transfers, under which RRF grants to firms are recorded.

Chart IV.6 Sources of private sector financing and real investment (Q1 2020 - Q3 2025)

(four-quarter moving sum; % of GDP)



Sources: Bank of Greece and ELSTAT.

Specifically, in the third quarter of 2025, private savings available for investment fell to 5.5% of GDP, from 6.1% in 2024. Household savings turned more negative (-2.2% of GDP) than in 2024 (-1.5% of GDP), since disposable income, as a four-quarter moving sum (2.9%), grew at a significantly slower pace than consumption (5.1%). In this context, the withdrawal of energy-related support measures, persistent inflationary pressures and payment of tax and social security liabilities continued to weigh on households' savings, keeping them at their pre-pandemic (2016-19) average negative level (-2.2% of GDP). It should also be stressed that the continued increase in house prices over recent years and the rise in household net financial wealth to a new 25-year high (EUR 233.2 billion) in the third quarter of 2025, coupled with a stable macroeconomic and domestic political environment, greatly contributed to the resilience of consumption and, consequently, to a further drop in savings.

By contrast, business savings (retained earnings) remained almost unchanged in the third

Table IV.3 Gross value added at basic prices (2023-2025)

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

	2023	2024	2025	2025 (Q1)	2025 (Q2)	2025 (Q3)	2025 (Q4)
Agriculture, forestry and fishing	-14.1 (-0.6)	0.5 (0.0)	1.0 (0.0)	7.0 (0.2)	4.5 (0.2)	3.1 (0.1)	9.3 (0.0)
Secondary sector	2.9 (0.5)	10.1 (1.7)	3.9 (0.7)	2.0 (0.4)	1.7 (0.3)	5.3 (1.0)	6.3 (1.1)
Industry including energy	2.3 (0.3)	10.6 (1.5)	2.6 (0.4)	3.6 (0.6)	0.2 (0.0)	2.5 (0.4)	4.4 (0.7)
Construction	7.0 (0.1)	6.4 (0.1)	12.8 (0.3)	-8.2 (-0.2)	11.9 (0.3)	25.8 (0.6)	20.1 (0.5)
Tertiary sector	3.1 (2.4)	0.0 (0.0)	0.8 (0.6)	0.5 (0.4)	0.8 (0.6)	1.1 (0.8)	0.7 (0.6)
Trade, hotels and restaurants, transport and storage	1.4 (0.3)	0.9 (0.2)	-1.2 (-0.3)	-0.6 (-0.1)	-1.3 (-0.3)	-0.9 (-0.2)	-2.3 (-0.5)
Information and communication	2.6 (0.1)	8.1 (0.3)	2.8 (0.1)	0.7 (0.0)	2.4 (0.1)	3.8 (0.2)	4.6 (0.2)
Financial and insurance activities	9.7 (0.5)	-1.6 (-0.1)	5.0 (0.2)	2.6 (0.1)	4.4 (0.2)	5.5 (0.3)	5.5 (0.3)
Real estate activities	5.1 (0.9)	-4.1 (-0.7)	0.5 (0.1)	0.4 (0.1)	0.5 (0.1)	0.5 (0.1)	0.5 (0.1)
Professional, scientific and technical activities	7.8 (0.5)	-1.2 (-0.1)	2.7 (0.2)	4.6 (0.3)	4.9 (0.3)	0.4 (0.0)	2.3 (0.2)
Public administration and defence	-0.4 (-0.1)	1.0 (0.2)	0.9 (0.2)	0.0 (0.0)	-0.2 (0.0)	2.8 (0.5)	1.0 (0.2)
Arts, entertainment and recreation	6.5 (0.2)	3.3 (0.1)	2.7 (0.1)	0.7 (0.0)	5.5 (0.2)	1.1 (0.0)	5.0 (0.2)
Gross value added at basic prices	**2.3**	**1.7**	**1.3**	**1.2**	**1.2**	**1.7**	**1.4**

Source: ELSTAT, Quarterly national accounts, 6 March 2026. Annual data are not seasonally adjusted. Quarterly data are seasonally adjusted.
Note: Percentage point contributions in brackets.

quarter of 2025 (7.7%, from 7.6% of GDP in 2024) and close to the pre-pandemic (2016-19) levels (7.8%). The resilience of business savings in recent quarters reflected strong performance in industry, construction, tourism, and the economy as a whole; high inflation; and buoyant consumer demand, coupled with RRF grants.

In the third quarter of 2025, private sector internal savings were still inadequate to finance investment in the real economy, resulting in a financing gap of 8.2% of GDP, larger than in 2024 (8.1% of GDP). This translates in a deficit of 6.4% of GDP for households and of 1.8% of GDP for businesses.

1.2.4 Net exports

Net exports made a significant positive contribution to GDP growth in 2025, due to a rise in exports of goods and services (1.7%) and a drop in imports (-1.3%). The rise in exports was mainly driven by a rebound in exports of goods (3.0%, against -1.2% in 2024). Exports of services rose slightly (0.4%), as a significant increase in tourist receipts was partly offset by lower transport receipts.

1.3 Sectoral developments in the economy

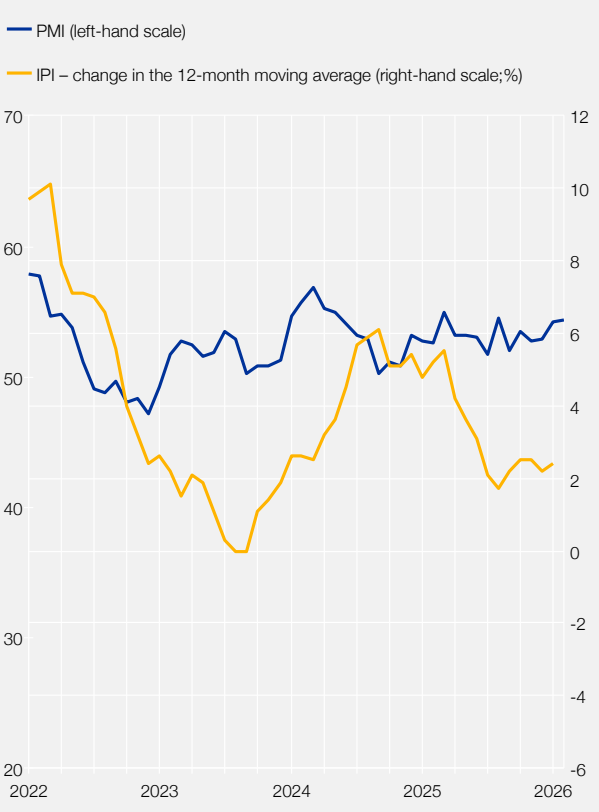
Gross value added (GVA) in the economy maintained its positive momentum in 2025, thanks to the strong performance of all sectors of economic activity. Output growth was driven both by the services and the secondary sector. Output in industry, including energy, continued to expand, albeit at a decelerating pace, while construction registered a marked increase (see Table IV.3).

1.3.1 Industry and construction

Output in industry, including energy, grew in 2025 (2.6%), though at a lower rate than in 2024 (10.6%). Weaker growth in the industrial sector is confirmed by the course of the industrial production index, which increased in 2025 (2.2%) at a slower pace than in 2024 (5.4%), mainly as a result of lower growth in manufacturing production (3.1%, down from 4.0%) and reduced electricity production (-1.8%, against 12.1%). The deceleration in manufacturing production growth can be largely explained by a drop in oil product output. Nevertheless, most manufacturing sectors continued to grow, with the food industry and the manufacture of chemicals and chemical products being the champions. Moreover, the Purchasing Managers' Index (PMI) suggested strong growth for manufacturing output over the year as a whole and outperformed the euro area PMI (see Chart IV.7).

Construction output grew substantially by 12.8% in 2025, up from 6.4% in 2024. The positive performance of the construction sector is in line with the course of the construction output index, while construction confidence, a leading indicator of activity, points to a further increase in construction activity. However, the volume of building permits, although recording positive growth rates in the May-September 2025 period, decreased in January-November 2025, possibly reflecting uncertainty surrounding the

Chart IV.7 Purchasing Managers' Index (PMI) and Industrial Production Index (IPI) (January 2022 - February 2026)



Sources: S&P Global and Hellenic Institute of Purchasing and Supply Management for the PMI and ELSTAT for the IPI.
Note: IPI data refer to the January 2021-January 2026 period.
1 Seasonally adjusted index; a value over 50 denotes an increase.

Table IV.4 Activity indicators in the services sector (2021-2025)

(annual percentage changes)

	2021	2022	2023	2024	2025
1. Trade					
Wholesale trade	4.7	21.4	-2.2	-7.2	1.4
Retail trade	11.5	12.4	3.7	1.6	3.2
Trade and repair of cars and motorcycles	-16.1	15.8	21.2	7.0	3.1
2. Telecommunciations and transport					
Telecommunications	7.3	5.8	5.5	-0.5	1.8
Land transport	10.6	21.3	15.8	7.7	3.0
Sea and coastal passenger transport	6.3	32.9	1.7	5.3	3.2
Air transport	64.1	94.2	22.6	48.2	-2.8
Storage and supporting transport activities	13.6	23.2	-2.7	4.1	-1.4
3. Hotels and restaurants and Travel agencies					
Accomodation and food service activities	80.0	50.6	9.8	7.5	33.1
Travel agencies and other activities	102.3	96.6	24.1	10.5	2.7
4. Professional-scientific-technical activities					
Legal, accounting and management consulting services	13.2	22.2	6.9	4.6	8.3
Architectural and engineering services	21.7	8.8	12.1	-4.4	36.5
Advertising and market research	12.0	11.5	11.6	15.7	11.3

Source: ELSTAT (services turnover).

implementation of the New Building Regulation, as well as increased construction costs (see Table IV.2 and Section IV.2 below).

1.3.2 Services

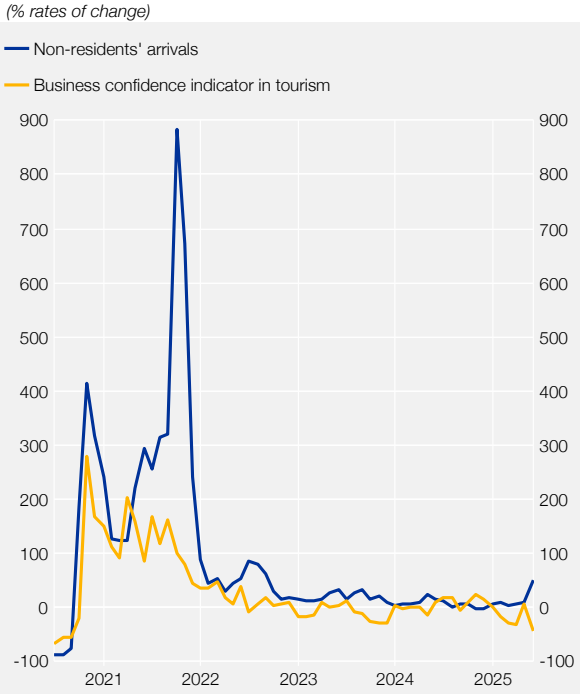
In 2025, output in the services sector grew by 0.8% year-on-year, contributing 0.6 percentage points (pps) to total output growth. Available data on services turnover at current prices for 2025 confirm the positive performance of most services industries (see Table IV.4). Moreover, according to the latest Eurostat data, Greece's services output recorded the strongest growth in the EU, at an annual rate of 14.6% in 2025, compared with 2.2% in the EU and 2.1% in the euro area. This is mainly attributable to a buoyant accommodation and food sector, with the services output growing by 45.2% in 2025 year-on-year, against a mere 1.4% in the EU and the euro area.

In particular, Greek tourism recorded a third consecutive year of positive performance in 2025. In more detail, non-residents' arrivals and the corresponding receipts grew by 6.4% and 9.4%, respectively, year-on-year (see Charts IV.8 and IV.9), with broadly positive performance in major markets, such as the United Kingdom, Germany, Italy and the United States. Although seismic activity in Santorini was a drag in the first half of the year, the sector's momentum in the second half confirmed its robust trajectory.[6] In addition, passenger traffic both in the Athens International Airport and in the regional airports remained on an upward path. In particular, international arrivals at the Athens airport reached 24.4 million in 2025, up by 8.6% against 2024. At regional

6 This was largely supported by such factors as increased flight connections and improved quality of the country's tourism product (the share of 4- and 5-star beds reached 55% in 2024, up from 42% in 2015).

Chart IV.8 Inbound traveller flows and business confidence in tourism (January 2021 - December 2025)

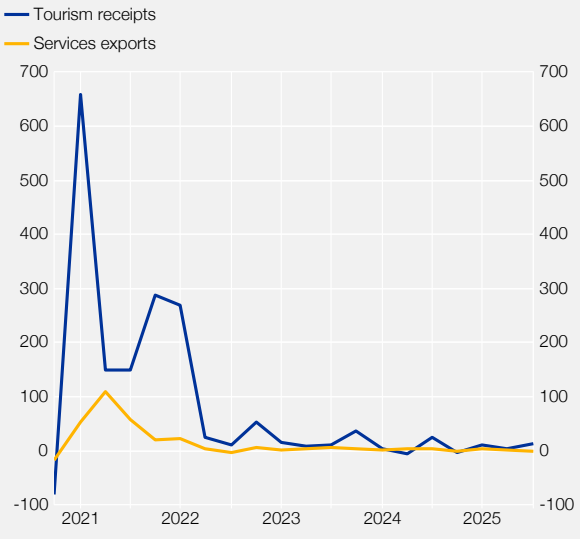
(% rates of change)



Sources: Bank of Greece and IOBE (expectations).

Chart IV.9 Tourism receipts and services exports (Q1 2021 - Q4 2025)

(annual rates of change)



Sources: Bank of Greece and ELSTAT.
Note: Reference year: 2020, seasonally adjusted data.

airports, the number of international passengers increased by 3.6% year-on-year. It is worth noting that this momentum is showing no signs of abating, with flight seat scheduling for the first quarter of 2026 standing 9.1% higher year-on-year.[7]

On the supply side, the share of tourism-related sectors – accommodation and food services – in total GVA has been increasing in recent years and reached 7.3% in 2024. The contribution of those sectors to total employment is also significant, as they accounted for a share of 9.2% in 2025.

However, in 2025, the job vacancy rate in the accommodation and food services sector in Greece stood at 3.4%, one of the highest in the EU-27. Meanwhile, in other Mediterranean countries where tourism is a key driver of economic activity, the corresponding job vacancy rates in the accommodation and food sector services paint a mixed picture (Cyprus: 4.8%; France: 4.5%; Italy: 2.9%; Croatia: 2.2%; Portugal: 1.5%; and Spain: 0.6%).

For the current year, the outlook for Greek tourism appears to be positive, despite the war in the Middle East.[8] In the first two months of 2026, international tourist arrivals at the Athens airport grew by 11.7% year-on-year, while Fraport Greece reports that international tourist arrivals at the country's regional airports increased by 5.7% year-on-year. However, for the positive course of Greek tourism to be sustained in a competitive neighbourhood and in the light of emerging new trends, it is crucial that the country adapts to evolving circumstances through structural changes. Promotion of "hidden gems", i.e. alternative destinations and activities (culture, sport, gastronomy), can contribute to a smoother distribution of arrivals across the country and throughout the year. At the same time, the Greek tourism promotion strategy should be accompanied by investment in key infrastructure (e.g. energy, water, roads, internet access) to support the growth potential of tourism investment in accommodation and air transport.

7 *Airdata tracker*, Seat distribution per month in Greece; % change, INSETE, accessed on 18.3.2026.
8 Although Greece is not at the heart of the conflict, its location and linkages with the Eastern Mediterranean and the Gulf markets suggest that the country is indirectly exposed to relevant disruptions.

Box IV.1

MACROECONOMIC EFFECTS OF AN OIL PRICE RISE ON THE GREEK ECONOMY

Recent geopolitical developments, particularly the escalating conflicts in the Middle East, have increased uncertainty in international energy markets and heightened oil price volatility. Given the significant role of energy in production costs and household consumption, fluctuations in international oil prices are a major source of inflationary pressures and macroeconomic shocks for economies reliant on energy imports. Rising oil prices affect economic activity through multiple transmission channels. On the one hand, they increase firms' production costs and put upward pressure on domestic prices of goods and services. On the other hand, they reduce households' disposable income by raising the general price level and increasing expenditure on energy goods and services, thereby dampening aggregate demand.

Against this background, the present box examines the macroeconomic effects of an exogenous increase in the price of Brent crude oil on the Greek economy. The analysis is based on simulations conducted using two complementary models of the Bank of Greece: the annual macroeconomic model (BoG model)[1] and the dynamic stochastic general equilibrium (DSGE) model.[2] The scenario under consideration assumes an average annual increase of 22% in oil prices in 2026, consistent with the scenarios used in the March 2026 ECB staff macroeconomic projections.[3] Despite the methodological differences between the two models, the simulation results converge, suggesting that such a shock would lead to higher inflation and a slowdown in economic activity.

Transmission channels of the shock in the models

The increase in the international price of oil affects economic activity and inflation through several transmission channels linked to both supply and demand. In this context, despite methodological differences between the two models, the main transmission mechanisms of the shock can be summarised as follows:

First, the production cost channel. Rising oil prices lead to higher production costs for firms, as energy is a key input in the production process. These higher costs are gradually passed through to the prices of final goods and services, exerting upward pressure on the general level of domestic prices and contributing to inflationary pressures. Second, the disposable income channel. Higher energy prices, combined with the increase in the general price level, reduce households' disposable income. As a result, private consumption is dampened and aggregate demand declines. Third, the external demand channel. The increase in international oil prices adversely affects economic activity in Greece's trading partners, boosting global inflation and weakening foreign demand for Greek goods and services. At the same time, higher domestic prices are likely to reduce the competitiveness of Greek products in international markets, further dampening export demand.

These transmission channels are captured differently in the two models used in this analysis. In the annual macroeconomic model, the effects of the shock are transmitted mainly through its impact on production costs, consumer prices and households' real disposable income. In the DSGE model, which incorporates price rigidities and interactions with the external sector, higher oil prices affect firms' production costs and pricing decisions, domestic price dynamics, and consumption and investment demand.

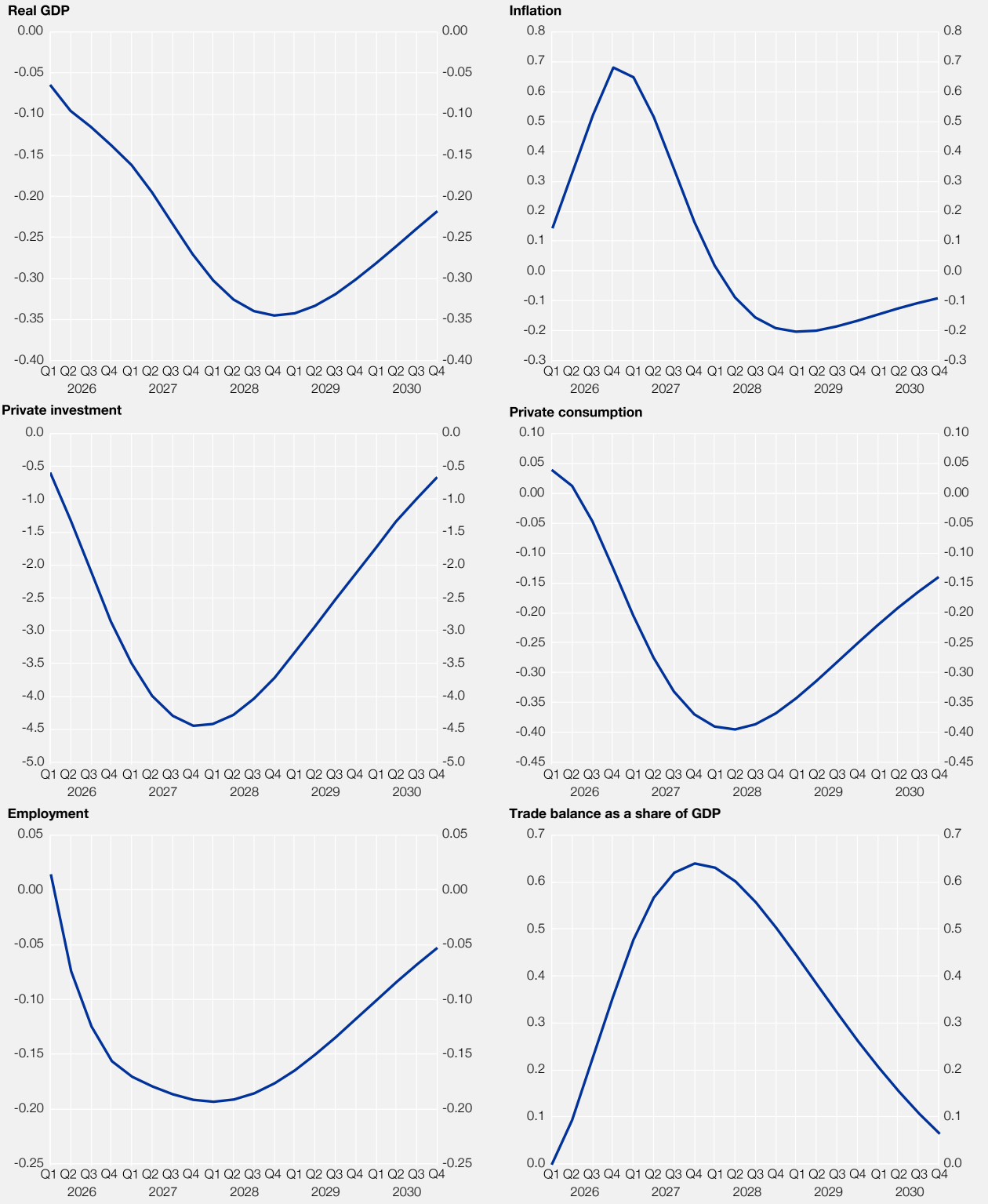
Methodology and empirical results

The analysis considers a 22% increase in oil prices, in line with the scenarios underlying the recent March 2026 ECB staff macroeconomic projections. The shock is assumed to be temporary and to persist for one year.

1 See Zonzilos, N. (2004), "Econometric modelling at the Bank of Greece", Bank of Greece Working Paper No. 14.
2 See Papageorgiou, D. and E. Vourvachaki (2017), "Macroeconomic effects of structural reforms and fiscal consolidations: Trade-offs and complementarities", *European Journal of Political Economy*, 48, 54-73.
3 For more details, see "ECB staff macroeconomic projections for the euro area", March 2026 (Chart 11 and Table 5).

Dynamic effects of an oil price increase

(%)



Source: Bank of Greece estimates.
Note: All variables are expressed as percentage deviations from the steady state, except for inflation and the trade balance as a share of GDP, which are expressed in percentage point changes. Inflation is annualised and calculated based on the CPI.

In the annual macroeconomic model, the time horizon for the simulation covers the period 2026-27. According to the model results, inflation increases by 0.38 percentage points in 2026 and by 0.27 percentage points in 2027 relative to the baseline scenario without an increase in oil prices. At the same time, GDP growth declines by 0.07 percentage points in 2026 and by 0.12 percentage points in 2027. These effects are transmitted through both demand-side and supply-side channels. On the demand side, higher oil prices feed into inflation and reduce households' real disposable income, thereby depressing private consumption. On the supply side, higher oil prices increase firms' production costs, leading to higher final goods prices and weaker domestic demand for goods.

The DSGE model was calibrated on a quarterly basis to accurately capture the key features of the Greek economy. The oil price is assumed to increase by 22% for four quarters (one year), before gradually returning to its original level by the end of 2027. Given the temporary nature of the shock, all endogenous variables gradually converge to their initial equilibrium levels. Simulation results show that Consumer Price Index (CPI) inflation increases by 0.42 percentage points in 2026 and by 0.41 percentage points in 2027. At the same time, real GDP growth declines by 0.10 percentage points in 2026 and by 0.12 percentage points in 2027. Regarding the effects on individual macroeconomic variables, private investment and employment growth decline by 1.72 and 0.08 percentage points respectively in 2026 and by 2.34 and 0.10 percentage points respectively in 2027, while private consumption remains broadly unchanged in 2026 before declining by 0.27 percentage points in 2027. The trade balance of goods (exports minus imports) as a share of GDP improves by 0.18 percentage points in 2026 and by 0.40 percentage points in 2027.

The chart shows the dynamics of key macroeconomic variables generated by the DSGE model. As regards the transmission mechanism of the shock, higher oil prices increase the production costs of domestically produced consumer and investment goods, prompting firms to raise prices, which in turn leads to an increase in the general price level. At the same time, higher prices generate a negative income effect for households, dampening consumption and investment demand and, consequently, real GDP. In the short run, the negative effects on GDP are mitigated by domestic price rigidities, which result to a gradual pass-through of the oil price increase to final prices. In subsequent periods, as the pass-through strengthens, the adverse effects on consumption and investment demand intensify, leading to a further contraction in GDP.

At the same time, higher oil prices trigger spillover effects through external demand. In particular, they weigh on the economic activity of Greece's trading partners, boosting global inflation and exerting downward pressure on foreign output. Combined with higher domestic prices, this leads to a decline in foreign demand for Greek exports, negatively affecting GDP. However, simulation results show that the trade balance (exports minus imports) as a share of GDP improves, as the decline in imports exceeds that in exports.

Overall, taking into account the quantitative results of the two models, a 22% oil price increase is estimated to raise inflation by around 0.40 percentage points on average in 2026 and by 0.34 percentage points in 2027. At the same time, real GDP growth is expected, on average, to decline by around 0.10 percentage points in 2026 and by about 0.12 percentage points in 2027.

Conclusion

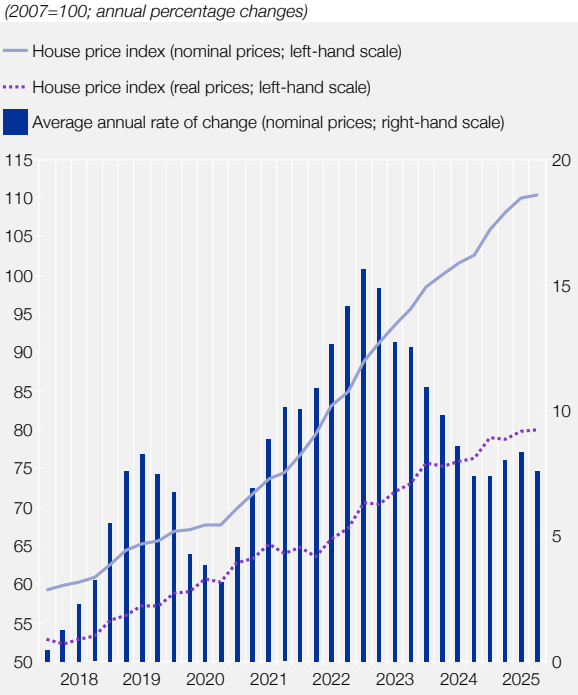
The analysis shows that an increase in the price of oil adds to inflationary pressures and dampens economic activity. These effects arise mainly through higher production costs and reductions in households' disposable income, while external transmission channels further amplify the adverse effects through weaker foreign demand. The findings underscore the importance of developments in international energy markets, especially in times of heightened geopolitical uncertainty, such as the recent tensions in the Middle East, for the inflation and economic activity outlook. Therefore, monitoring energy prices and their impact on inflation and economic activity is particularly important for risk assessment and economic policymaking.

2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

During 2025 and the first months of 2026, the Greek real estate market continued to grow, albeit at a more moderate pace than in the previous period. Buying and investment interest remained strong, demand for residential real estate in particular was high, but the supply of modern affordable housing remained limited. Mounting housing pressure in major urban centres and the significant increase in prices in recent years are estimated to have diverted households' demand to more affordable, lower-priced areas, as well as to older properties (see Special Feature 1 in this chapter). In addition to housing, investors were attracted by commercial real estate related to tourism and hospitality, storage and distribution, as well as prime offices. Both companies and investors turned to modern and energy-efficient properties, gradually disinvesting from non-prime properties.

Chart IV.10 House price index (Q1 2018 - Q4 2025)

(2007=100; annual percentage changes)



Source: Bank of Greece.

In the housing market, according to the apartment price indices published by the Bank of Greece, the annual growth rate of apartment prices continued to increase, driven by, among other factors, limited housing supply, increased investment interest, as well as the subsidised housing programme ("My Home II"). In more detail, according to data (appraisals) collected from domestic credit institutions, apartment prices rose by 7.8% (in nominal terms) at country level in 2025, down from 9.1% in 2024 (see Chart IV.10).[9] The prices of old apartments (aged over 5 years) rose at an average annual rate of 8.1% in 2025, exceeding that for new apartments (7.4%). Looking at geographical breakdowns, high annual growth rates of apartment prices were recorded in Thessaloniki (9.6%), in other major cities (9.8%) and in the rest of the country (8.8%). By contrast, in Athens average annual price growth was weaker than in the country as a whole (6.2%).

Although apartment prices continue to post high annual growth rates, a mild momentum was recorded in 2025 in relevant housing market indices. More specifically, foreign investor interest was moderate, based on net foreign direct investment receipts from real estate transactions,[10] as well as Golden Visa data.[11] Country-level residential construction activity (ELSTAT data) declined in the first eleven months of 2025 year-on-year, in terms of both number of new housing building permits and construction volume (-16.7% and -9.1%, respectively). At the same time, the total cost of building new residential properties (ELSTAT data) for the year as a whole increased by 2.7% on an annual basis, down from 3.7% in 2024, having grown by a cumulative 23.1% over the past five years (2021-25). Based on Bank of Greece data on bank financing, in 2025 the total amount of new housing loans increased by 49.8% but remains low. Moreover,

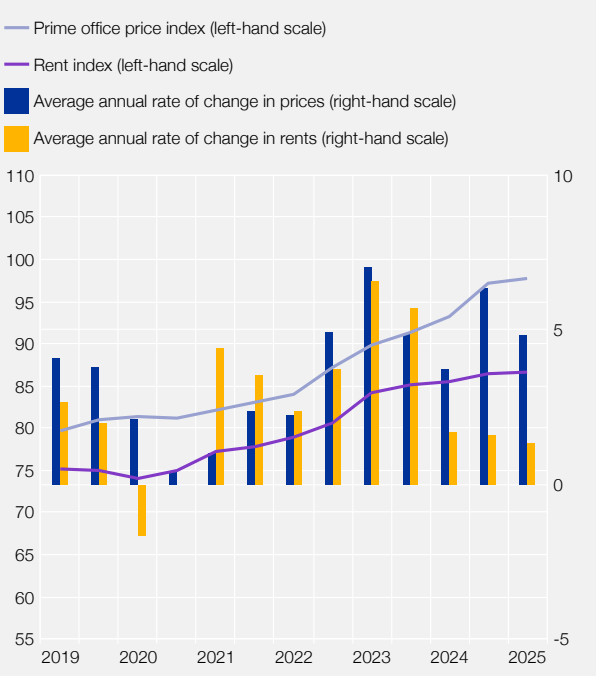
9 Looking at each quarter of 2025, annual price growth rates were 7.4%, 8.0%, 8.3% and 7.6% in the first, second, third and fourth quarter, respectively.

10 According to Bank of Greece data, in 2025 net receipts from real estate purchases by non-residents dropped by 25.3% in relation to the previous year to EUR 2,055.6 million, from EUR 2,750.3 million in 2024.

11 According to Ministry of Migration and Asylum data on the Golden Visa programme (January 2026), requests for 2025 amounted to 7,031, down by 25.1% from 9,387 in 2024.

Chart IV.11 Office indices (H1 2019 - H1 2025)

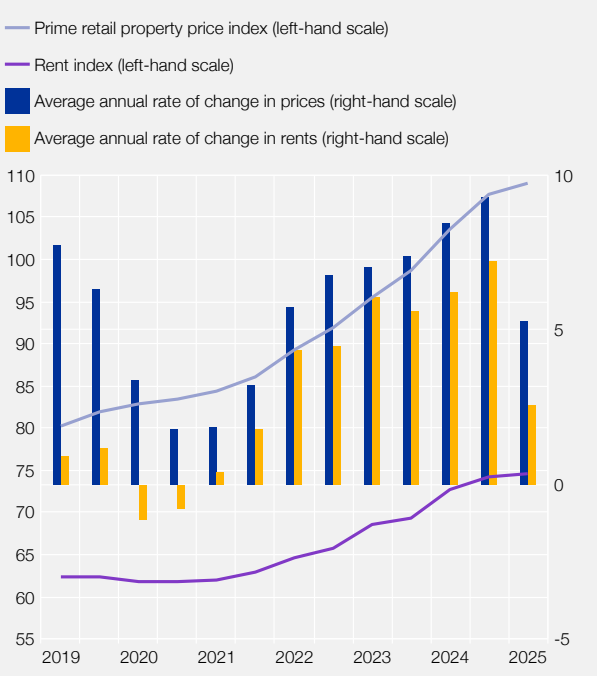
(2010=100; annual percentage changes)



Source: Bank of Greece.

Chart IV.12 Retail property indices (H1 2019 - H1 2025)

(2010=100; annual percentage changes)



Source: Bank of Greece.

according to Bank Lending Survey data (Q4 2025), demand for housing loans remained unchanged, after having declined in the previous two quarters. By contrast, positive developments were recorded in residential investment (ELSTAT data, at constant prices), which grew at an annual rate of 22.4% in 2025, significantly higher than in 2024 (12.9%), and stood at 3.1% as a percentage of GDP. Finally, business expectations for residential construction (IOBE data) remained positive and increased further in 2025 by 9.7% (compared with 7.7% in 2024).

Regarding the commercial real estate sector, on the basis of the indices published by the Bank of Greece, in the first half of 2025 prime office and prime retail property prices rose by 0.5% and 1.1% respectively, half-on-half, having decelerated year-on-year (see Charts IV.11 and IV.12). In Athens, the corresponding growth rates for both prime offices and prime retail properties were slightly higher than in the country as a whole, at 0.9% and 1.5%. Office and retail property rents at country level remained almost unchanged compared with the previous half-year, recording marginal increases (0.3% and 0.4% respectively).

In the first eleven months of 2025, construction activity for commercial property (ELSTAT data) in the country as a whole fell by 4.6% year-on-year in terms of the number of new building permits and rose by 7.7% in terms of construction volume. Commercial real estate investment by use showed divergent trends. More specifically, the number of new office building permits increased by 37.2%, while construction volume (in cubic metres) decreased by 40.3%. For retail properties, the number of new building permits grew by 2.3% and construction volume rose by 25.5%. Finally, new hotel building permits decreased both in number and total construction volume, by 33.3% and 16.7% respectively.

According to the data collected by the Bank of Greece and the results of the Commercial Real Estate Market Survey,[12] in the second half of 2025 the minimum return on prime offices situated

12 See Commercial Real Estate Market Survey – H2 2025.

in the capital's business centre (Central Business District – CBD) ranged between 5.6% and 6.6%, around the same levels as in the previous half-year, while minimum returns on prime retail properties centrally located in Athens ranged between 5.2% and 6.0%. The survey participants' outlook for the Greek commercial real estate market in the first half of 2026 was predominantly neutral for both offices and retail properties and positive for prime hotels and prime warehousing facilities.

The outlook for the Greek real estate market in the coming period remains moderately positive. New uncertainties arising from the war in the Middle East, which add to already existing ones from global geopolitical tensions and shifting political balances, may affect investor interest and real estate market developments. The impact of the global turmoil on construction costs, demand and investment activity in the Greek real estate market will depend on the duration and intensity of the conflict. At the same time, inside the country, high construction costs, rising housing values and deteriorating housing affordability, especially for low-and middle-income households, are expected to gradually dampen price growth. As part of its efforts to address the housing problem, the State has recently announced a number of measures aimed at boosting supply, such as the utilisation of public property and the facilitation of the repurposing of vacant commercial buildings for modern residential use. However, as most measures will take time to deliver results, more immediate solutions would include a simplification and speeding up the procedures related to real estate transfers and development; protecting both tenants and landlords; and providing incentives for putting vacant properties back on the market. Subject to stabilisation of international conditions and sustained growth of the Greek economy, the real estate market is expected to continue to grow at a slower pace, while investor interest will focus on construction quality, improved energy efficiency and locations with well-developed infrastructures.

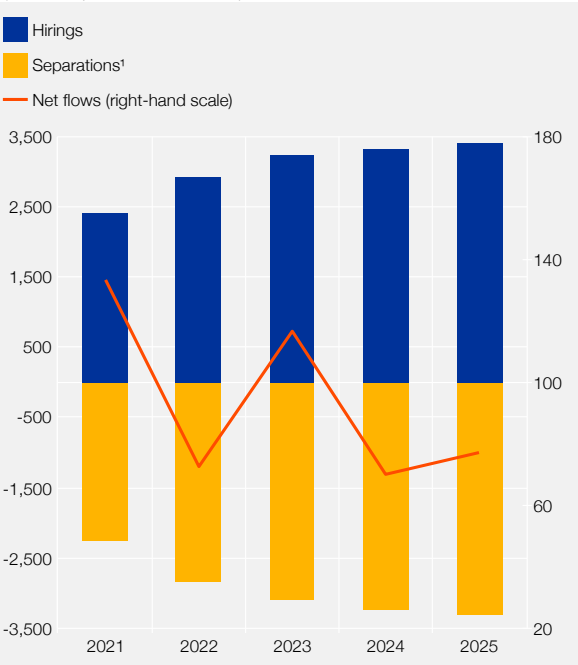
3 EMPLOYMENT AND UNEMPLOYMENT: DEVELOPMENTS AND PROSPECTS

The labour market remained strong in 2025, with employment increasing at a slower pace than in 2024 and the unemployment rate declining to 8.9%. Data from the ERGANI information system paint a similar picture, with a positive balance for dependent employment flows in 2025. However, the significant challenges facing the labour market (low participation of women and youth in the labour force; high long-term unemployment; expected decline in the labour force due to low birth rates and population ageing; a high rate of labour underutilisation) need to be addressed by implementing further structural reforms and upskilling workers.

ERGANI data suggest an increase in employment, as the balance of dependent employment flows in the private sector was positive in 2025, hovering at slightly elevated levels compared with the previous year. Specifically, 77,074 new jobs were created in 2025, compared with 70,349 in 2024 (see Chart IV.13). Full-time employment contracts (53.5% of total hirings, from 52.0% in 2024) exceeded flexible forms of employment.

Chart IV.13 Dependent employment flows in the private sector (2021-2025)

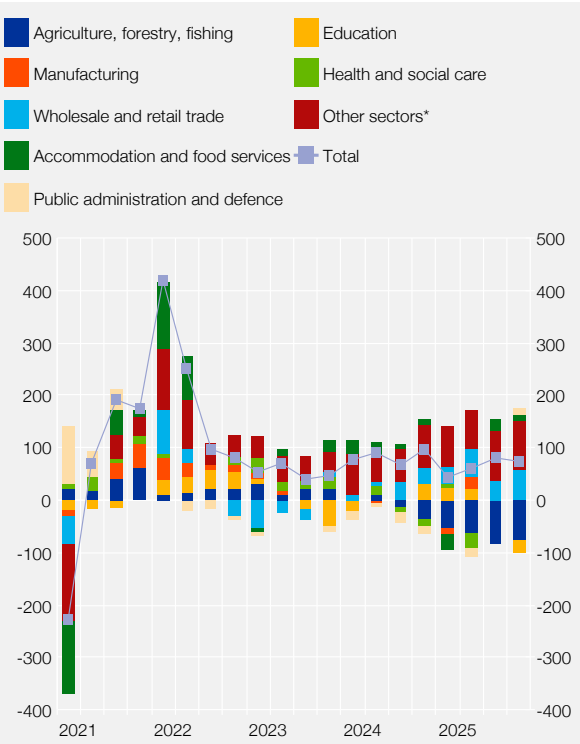
(thousand persons; annual data)



Sources: Manpower Employment Organisation (OAED) and "ERGANI" information system.
1 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 2021 - Q4 2025)

(year-on-year; in thousand persons)



Source: ELSTAT, Labour Force Survey.
* Including sectors with less than 6% contribution to total employment.

Based on electronic reporting data from the ERGANI information system, both the number of employees and the number of enterprises with employees increased. Specifically, the number of employees under private law contracts rose by 2.9% and the number of enterprises with employees grew by 1.1% year-on-year in 2025. However, the data reveal the small size of enterprises and highlight the need to promote greater extroversion and business growth. Specifically, 52.8% of employees work in small and medium-sized enterprises (i.e. with up to 49 employees). In more detail, 15.3% of employees work in micro enterprises (with fewer than 5 employees), representing 71.6% of total enterprises; 11.2% in enterprises with 5-9 employees (14.7% of the total); 26.3% in enterprises with 10-49 employees (11.8% of the total); 18.3% in enterprises with 50-249 employees (1.6% of the total); and 28.9% of the employees work in enterprises with over 250 employees, which however represent a very small share (only 0.3%) of total enterprises.

According to ELSTAT Labour Force Survey (LFS) data, in 2025 the number of employees grew by 1.5% relative to 2024. Dependent employment increased by 5.6% and the number of other employees fell by 7.8%, mainly reflecting a significant drop in the self-employed without staff, and family workers; on the other hand, the number of the self-employed with staff rose slightly.

Employment growth over the same period was driven by an increase in the number of persons employed in trade (6.3%); construction (8.1%); education (1.4%); professional, scientific and technical activities (11.0%); and administrative and support activities (12.7%). On the other hand, employment in agriculture (-14.8%) and human health activities (-2.0%) dropped (see Chart IV.14).

Broken down by gender, employment growth in 2025 was stronger for women than for men (2.6% and 0.6%, respectively) compared with 2024. As regards annual developments by age group, people aged 45-64, who account for the largest share in total employment, registered positive growth (2.5%), while people aged 30-44, representing the second largest share in total employment, also recorded positive annual growth (0.5%). Over the same period, the share of part-time employment dropped to 5.5% of total employment (6.6% in 2024).

The labour force participation rate for the 15-64 age group rose in 2025 (70.9%), reflecting an increase in the female labour force participation rate. Moreover, the participation rate for the 20-24 and 45-64 age groups grew by 2.5 and 1.3 pps, respectively. By contrast, the participation rate of the 25-29 age group fell by 2.3 pps. Raising labour force participation rates, especially youth participation, is of particular importance, as an ageing population may undermine the sustainability of social security systems. Policies promoting reconciliation of work and family life and investing in the technical education and training of human capital are important in this direction.

The unemployment rate dropped to 8.9% in 2025. The decline referred to both men and women, although the female unemployment rate (11.2%) is still well above the male unemployment rate (7.0%). In addition, the unemployment rate for the young aged 20-29 and the long-term unemployment rate fell to 16.1% and 4.9%, respectively (see Chart IV.15). A further rise in employment and youth participation in the labour market requires boosting demand in sectors and jobs with high value added; continuing to attract foreign direct investment; and increasing the openness of the Greek economy.

Chart IV.15 Unemployment rates (Q1 2021 - Q4 2025)



Source: ELSTAT, Labour Force Survey.
1 For 12 months or over.
2 As a percentage of the labour force of this age group.

The short-term outlook for employment (IOBE/European Commission business surveys) improved in 2025 in construction, trade and, most notably, manufacturing, while in services it deteriorated, albeit remaining in positive territory. The weighted employment expectations indicator hovered around marginally lower levels compared with 2024.

Labour market tightness[13] in 2025 showed signs of easing compared with 2024. In particular, the job vacancy rate fell to 1.7%, from 2.2% in 2024, while almost all sectors witnessed a decline, with tourism recording the largest drop (-4.6 pps year-on-year) and only construction registering an increase (+1.4 pps). The highest job vacancy rates by sector of economic activity over the same period were seen in construction (4.4%); accommodation and food services (3.4%); professional, scientific, technical and administrative activities (2.6%); manufacturing (1.8%); and trade (1.5%). By contrast, financial and insurance activities, as well as information and communications activities, recorded the lowest job vacancy rates (0.4% and 0.6%, respectively).

At the institutional level, Law 5278 of the Ministry of Labour and Social Security ("National Social Agreement for the promotion of Collective Labour Agreements") was adopted, to enhance stability and security of the working environment and to increase employee coverage by collective agreements. The new Law aims to facilitate the expansion of collective agreements, to fully protect workers following termination and to speed up dispute resolution through the Organisation for Mediation and Arbitration (OMED). In more detail, the coverage rate for workers in a sector or profession required for the collective agreement to become binding on all employers in the sector is reduced from 50% to 40%, while the quantitative criterion of 40% will be waived when a collective agreement is signed by national social partners. Moreover, collective agreements are extended by three months, while, following termination, their terms and conditions remain valid until the conclusion of a new collective agreement or an individual employment agreement (post-termination effect). In addition, to speed up dispute resolution through OMED, a pre-arbitration screening mechanism for unilateral appeals is set up, while the second instance of arbitration by OMED is abolished.

Despite a significant improvement in 2025, challenges facing the labour market have multiplied. Perhaps the greatest challenge is to maintain unit labour costs at levels that do not hamper the

13 Labour market tightness reflects an excess of job vacancies over persons looking for a job and is expressed as the job vacancy rate, which is defined as the ratio (number of job vacancies)/(number of occupied posts + number of job vacancies) and expressed as a percentage.

competitiveness of the Greek economy. A reduction in tax rates this year is a step in the right direction, as it should boost households' disposable income; however, employers' social security contributions need to be further downsized, in order to improve the purchasing power of households and lower costs for firms. Increasing the labour force participation rate, especially for the most vulnerable social groups, is also a significant challenge. It remains imperative to establish additional incentives appealing to people outside the labour force, especially women and youth. At the same time, fiscal and institutional measures are needed in order to repatriate highly skilled people who had to migrate and who could be employed in jobs with high value added. The need to attract migrants to be employed in sectors experiencing labour shortages, such as agriculture, construction and tourism, remains essential. Particularly critical challenges are low birth rates and population ageing, which over time are expected to erode the labour force, impacting on both economic growth and the long-term sustainability of the social security system. Moreover, it is imperative to complete the family support framework – with a focus on working women – and to introduce financial and institutional incentives to encourage higher birth rates. Persistent labour market tightness, despite a slight easing, is chiefly due to skill mismatches. This is why lifelong learning, technical education and workers' upskilling, particularly in using AI, are essential for matching workers' skills to labour market needs, as lack of skills can exclude workers from the labour market. Nevertheless, recent developments in the Middle East, especially if they persist in the long term, may both push upwards raw material and energy prices and hamper the smooth movement of goods, with negative implications for production costs and domestic output. The expected rise in inflation is likely to add to the pressures for additional wage increases, weighing on unit labour costs.

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

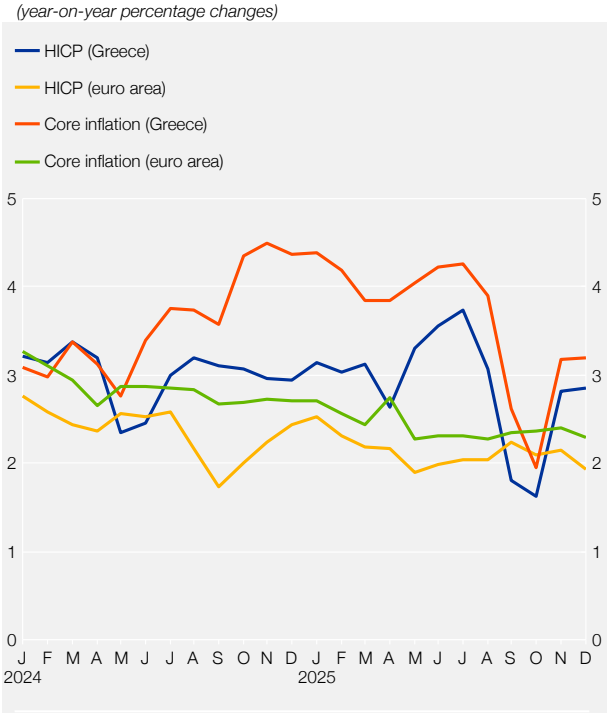
4.1 Inflation

Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), decreased marginally to 2.9% in 2025, from 3.0% in 2024. Core inflation (HICP excluding energy and food) remained unchanged at 3.6%. Thus, the rapid decline in HICP inflation observed in 2023 and 2024 decelerated sharply in 2025 to 0.1 pp. Unlike in Greece, headline inflation in the euro area fell to 2.1% in 2025 and core inflation to 2.4%, from 2.4% and 2.8%, respectively, in 2024, resulting in a wider inflation differential between Greece and the euro area (see Chart IV.16).

The marginal easing of HICP inflation was attributable to developments in the processed food, nonenergy industrial goods (NEIG) and energy components (see Table IV.5). Specifically, inflation of processed food declined sharply to 0.1% in 2025 (from 2.6% in 2024), NEIG inflation fell to 0.7% (from 1.7%), while inflation of energy goods remained in negative territory (-0.7%), contributing for the third consecutive year to disinflation. A further decline in headline HICP inflation was hampered primarily by higher services inflation (4.8% in 2025, from

Chart IV.16 Harmonised index of consumer prices (HICP) and core inflation (HICP excluding energy and food) in Greece and the euro area

(year-on-year percentage changes)



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

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

(annual percentage changes)

	2021	2022	2023	2024	2025
A. Euro area					
Harmonised Index of Consumer Prices (HICP) and its components					
Overall index	**2.6**	**8.4**	**5.4**	**2.4**	**2.1**
Goods	3.4	11.9	5.7	1.1	1.0
Food	1.6	9.0	10.9	2.9	2.8
Processed food[1]	1.6	8.7	11.4	3.2	2.6
Unprocessed food	1.5	10.0	9.5	2.1	3.4
Industrial goods	4.5	13.6	2.9	0.0	0.0
Non-energy industrial goods	1.5	4.6	5.0	0.8	0.6
Energy	13.0	37.0	-2.0	-2.2	-1.4
Services	1.5	3.5	4.9	4.0	3.4
Overall index excluding energy and food	**1.5**	**3.9**	**4.9**	**2.8**	**2.4**
B. Greece					
Harmonised Index of Consumer Prices (HICP) and its components					
Overall index	**0.6**	**9.3**	**4.2**	**3.0**	**2.9**
Goods	2.0	12.9	3.8	1.7	1.1
Food	1.2	9.7	9.9	2.8	2.1
Processed food[1]	0.8	9.5	9.4	2.6	0.1
Unprocessed food	1.9	10.0	10.7	3.2	5.8
Industrial goods	2.7	15.9	-1.0	0.8	0.4
Non-energy industrial goods	-0.7	5.0	6.4	1.7	0.7
Energy	12.5	41.0	-13.4	-1.4	-0.7
Services	-1.0	4.5	4.5	4.4	4.8
Overall index excluding energy and food	**-1.1**	**4.6**	**5.3**	**3.6**	**3.6**

Sources: Eurostat, ELSTAT and calculations based on ELSTAT data.
1 Including alcoholic beverages and tobacco.

4.4% in 2024) and, to a lesser extent, volatile and perishable unprocessed food inflation (5.8%, from 3.2%).

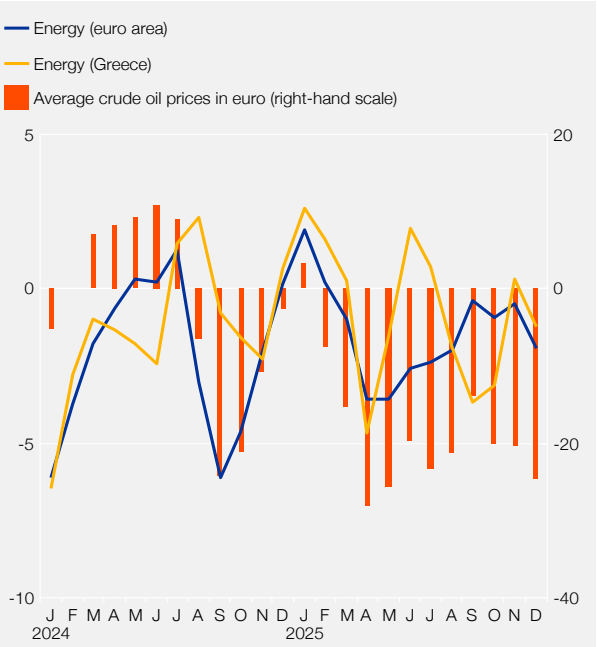
HICP inflation in 2025 was marked by persistent services inflation, which increased strongly to 5.2%, on average, in the first eight months of the year, before dropping to 3.9% in the last four months. The sub-indices contributing to the persistence of services inflation in 2025 were rents paid by tenants (10.0%); food services (6.5%); canteens (6.5%); and airline passenger transport services (11.2%) (see also Box IV.2).

By contrast, the accommodation services sub-index registered an average annual inflation rate of 2.4%, as it decelerated to -5.3% in the last five months of 2025, from 9.3% in the first seven months of the year. As a result, the downward course of the accommodation services sub-index in the latter part of the year helped to contain services inflation.

The other component that also contributed to keeping average HICP inflation at high levels in 2025, preventing its further decline, was unprocessed food (see also Box IV.3). Unprocessed food Inflation reached 5.8% in 2025, rising above the euro area level (3.4%), mainly due to the sub-indices of meat (8.5%) and fresh fruit (7.9%). High meat inflation is associated with elevated imported beef prices, as well as sheep and goat diseases in Greece.

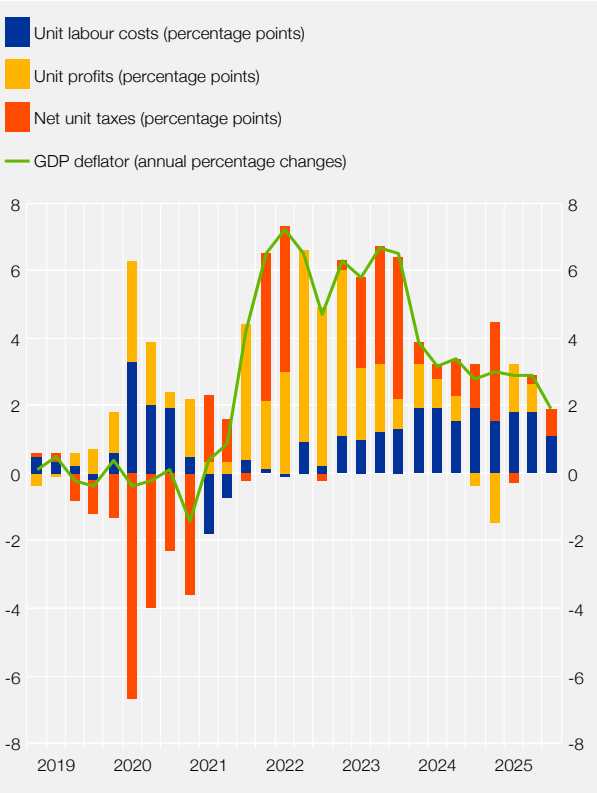
Chart IV.17 Evolution of energy prices in the euro area and in Greece and of Brent crude oil prices in euro (January 2024 - December 2025)

(year-on-year percentage changes)



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

Chart IV.18 Domestic inflationary pressures (Q1 2019 - Q4 2025)



Sources: ELSTAT and Bank of Greece calculations.

The remaining three key components (energy, NEIG, processed food) had a dampening effect on headline HICP inflation. Energy inflation remained in negative territory on the back of moderate Brent oil prices. The relevant subindices, i.e. heating oil and motor fuel, recorded negative average annual inflation rates of -8.9% and -4.4%, respectively. By contrast, the sub-indices of natural gas and electricity moved upwards (8.1% and 7.6%, respectively), preventing energy prices from falling further (see Chart IV.17).

NEIG inflation was also low in 2025 (see Table IV.6). The decline seen in the past three years (6.4% in 2023; 1.7% in 2024; 0.7% in 2025) suggests both a normalisation of supply chains and a weaker US dollar against the euro. Processed food inflation also stood at very low levels (0.1% in 2025, from 2.6% in 2024), having a strong dampening effect on inflation; however, this rate is unsustainable, as it was determined by a limited number of items (mainly olive oil and alcoholic beverages). In particular, the prices of olive oil decreased rapidly and, combined with downward base effects, were a key determinant of low processed food inflation. With the expected turnaround in base effects in the current year, a relative strengthening of inflation in these items is expected.

Besides contributing to continued high headline inflation, the persistence of services inflation also kept the annual rate of core inflation unchanged in 2025 vis-à-vis 2024 (3.6%). The slow decline in services inflation also in 2026 was expected to have a similar impact on both headline HICP and core inflation. However, geopolitical developments are preventing a decrease in HIPC inflation, as they have a strong upward impact on the energy component and, consequently, on the other inflation components. Thus, in light of international developments and under the baseline projections, HICP inflation is expected to increase slightly compared with last year's levels.

Domestic inflationary pressures are typically analysed in the context of national accounts, using the GDP accounting identity on the income side. Changes in the GDP deflator (nominal GDP divided by real GDP) are reflected in profits per unit of real GDP (unit profits); compensation of employees per unit of real GDP (unit labour costs); and taxes on production less subsidies per unit of real GDP (net unit taxes).

Table IV.6 Price indices

(annual percentage changes)

	Consumer price index (CPI)							
		Sub-indices						
Year	Overall index	Goods	Services	CPI excluding fresh fruit & vegetables and fuel	CPI excluding food and fuel	Food & non-alcoholic beverages	Fresh fruit & vegetables	Fuel
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
2025	2.5	0.9	4.7	3.2	3.5	2.0	2.4	-4.9

	Industrial producer price index						Import price index in industry	
	Domestic market				External market			
		Sub-indices						
Year	Overall index	Overall index excluding energy	Intermediate goods	Consumer goods	Overall index	Overall index excluding energy	Overall index	Overall index excluding energy
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
2025	2.2	3.1	3.2	3.3	-5.6	-2.0	-2.8	0.7

Sources: ELSTAT and Bank of Greece calculations based on ELSTAT data.

Domestic inflationary pressures, as captured by changes in the GDP deflator (see Chart IV.18), started to intensify in 2021 and further escalated in 2022 and 2023. Until mid-2023, unit profits made the largest contribution to the growth of the GDP deflator, indicating that firms passed on cost increases related to the surge in energy and other intermediate goods prices to final prices. In 2024 and 2025, the GDP deflator maintained a relatively elevated level, largely on account of rising unit labour costs.

Box IV.2

HOUSING INFLATION IN GREECE AND THE EURO AREA

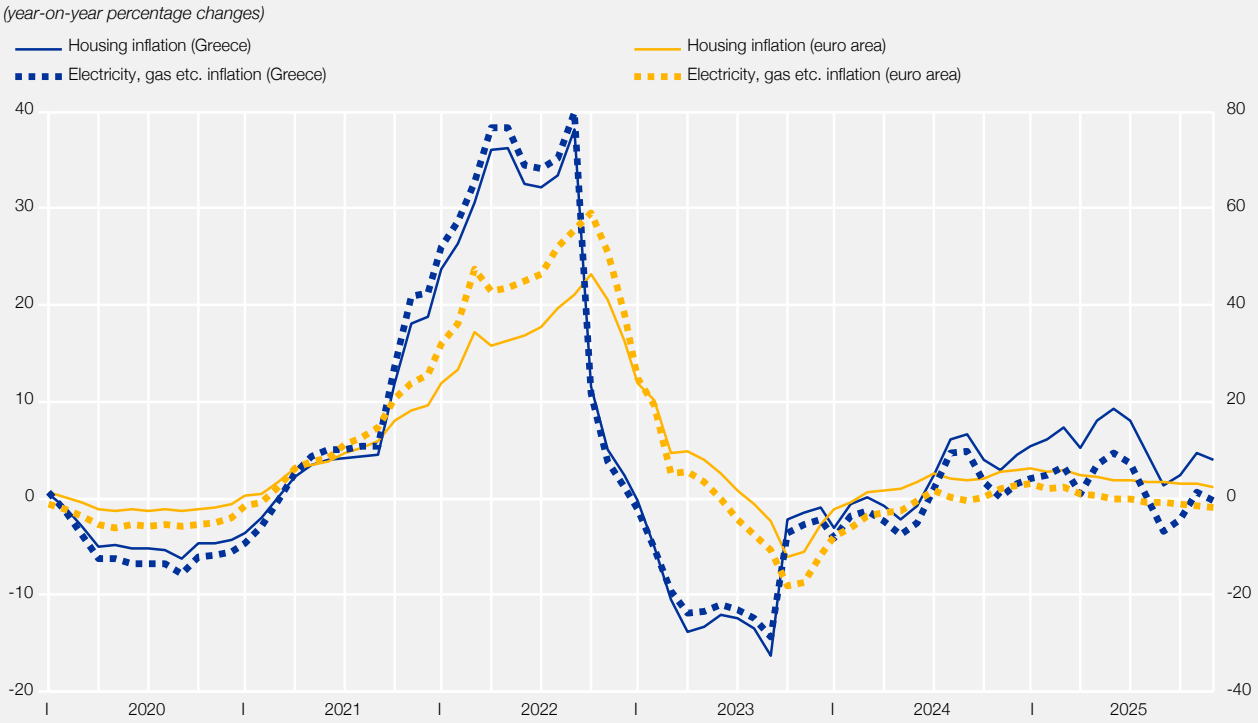
Housing inflation developments in Greece and the euro area

Housing inflation has always been of great interest, as it concerns one of the most fundamental living needs, together with food inflation. Of the 13 expenditure categories included in the Harmonised Index of Consumer Prices (HICP), the fourth relates to housing[1] and is one of the largest categories of household expenditure. According to the latest available data from the Household Budget Survey (HBS) for 2024, housing expenditure accounts for 14.4% of households' average monthly spending.[2] As a result, housing carries a large weight in the HICP, which was 117.16‰ in Greece and 149.23‰ in the euro area in 2025 (the weight being lower in Greece due to higher owner occupancy rate).

1 The sub-indices that make up the fourth HICP expenditure category are actual rents paid by tenants, house repair and maintenance categories, plumbing, electrician and painter work, water supply, sewerage, municipal taxes, communal services, as well as energy-related sub-indices, such as electricity, natural gas, LPG, heating oil and solid fuels.

2 https://www.statistics.gr/en/statistics/-/publication/SFA05/2024.

Housing inflation in Greece and the euro area
(January 2020 - December 2025)



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

Over the past five years, fluctuations in housing inflation have been particularly large both in Greece and the euro area (see Table A). The surge in energy costs at the end of 2021 also affected overall housing costs significantly. Housing-related energy goods inflation in the euro area soared in 2022, to as high as 59.2% in October of that year, peaking at 79.8% in Greece in September 2022 (see the Chart herein).

Starting from late 2022 in Greece and mid-2023 in the euro area, housing inflation declined steeply. This development was mainly driven by lower energy prices, while increases in rents and other sub-indices remained moderate. Therefore, the main driver of housing inflation until 2024 was the cost of electricity, gas, oil and other fuels used by households.

In 2025, however, housing inflation in Greece recovered significantly, with an annual average rate of 5.5%, while in the euro area it was significantly lower (2.1%). In particular, rent inflation was three times higher than in the euro area (10.0% against 2.9%). Similarly, inflation in electricity, gas, oil and other fuels stood at 2.3%, compared with 0.2% in the euro area.

Key housing inflation components in Greece and the euro area

In Greece, housing inflation increased strongly in 2021 (5.4%), reaching 25.0% in 2022. In both years, the increases were solely attributable to the energy sub-indices under that category, namely electricity, natural gas and heating oil. Similar strong hikes were recorded in the euro area (see Table A).

After 2022, housing inflation fell visibly in Greece, before picking up again in 2025 to stand at 5.5%. However, as opposed to 2021 and 2022, in that year housing inflation was mainly affected by the rent sub-index, while the energy component had a limited impact. Rent inflation started its strong upward trend in 2023 (4.8%), which continued in 2024 (5.1%) and peaked in 2025 (10.0%). Electricity (7.6%) and natural gas (8.1%) recorded significant price increases in 2025, which however were largely offset by a sharp fall in the price of heating oil (-8.9%).

Table A Housing inflation in Greece and its breakdown into key sub-indices

(annual percentage changes and percentage point contributions)

	Category 4 of HICP: HOUSING	Actual rents paid by tenants		House repair and maintenance		Various house-related services		Electricity, natural gas, heating oil and other fuels	
	(%)	(%)	Contribution	(%)	Contribution	(%)	Contribution	(%)	Contribution
2020	-4.1	0.0	0.00	0.8	0.02	0.3	0.06	-10.4	-4.16
2021	5.4	0.1	0.04	0.7	0.01	0.2	0.04	12.2	5.32
2022	25.0	1.3	0.30	2.6	0.04	0.2	0.03	50.8	24.63
2023	-8.7	4.8	1.82	3.8	0.09	0.3	0.06	-17.0	-10.73
2024	1.6	5.1	1.69	3.4	0.06	0.1	0.02	-0.5	-0.20
2025	5.5	10.0	4.26	5.8	0.09	2.1	0.26	2.3	0.87

Sources: ELSTAT and Bank of Greece calculations.

Table B Housing inflation in the euro area and its breakdown into key sub-indices

(annual percentage changes and percentage point contributions)

	Category 4 of HICP: HOUSING	Actual rents paid by tenants		House repair and maintenance		Various house-related services		Electricity, natural gas, heating oil and other fuels	
	(%)	(%)	Contribution	(%)	Contribution	(%)	Contribution	(%)	Contribution
2020	-0.8	1.3	0.53	1.4	0.13	1.1	0.19	-4.6	-1.62
2021	4.6	1.2	0.50	3.0	0.26	1.8	0.30	10.8	3.53
2022	17.4	1.7	0.61	8.4	0.67	2.3	0.34	46.0	15.81
2023	1.6	2.7	1.19	7.0	0.75	4.1	0.75	-2.3	-1.12
2024	1.4	2.9	1.11	2.5	0.23	4.1	0.64	-1.6	-0.62
2025	2.1	2.9	1.16	2.5	0.22	4.0	0.62	0.2	0.06

Sources: Eurostat and Bank of Greece calculations.

In contrast to Greece, euro area housing inflation in 2025 (see Table B) was only 2.1%, with actual rents paid by tenants making the largest contribution (1.16 percentage points).

Tables A and B show that, at the current juncture, the inflation of actual rents paid by tenants is elevated across Europe, but in some countries, such as Greece, it is particularly high. Apart from Greece, in 2025 rent inflation increased significantly in Croatia (17.6%), Estonia (4.9%), Ireland (4.5%), Lithuania (5.6%), Latvia (5.7%), the Netherlands (5.1%), Portugal (5.3%) and Slovakia (5.1%). Specifically, in 2025 rent inflation had a share of 77.8% in housing inflation in Greece, 85.5% in Portugal, 69.2% in the Netherlands and almost 100% in Ireland.[3]

The strong upward trend in rent inflation in Greece primarily reflects the limited supply of residential real estate that does not match increased demand.[4] A large number of properties are used in short-term leases. In addition, many apartments remain closed and are not exploited. The debt crisis and the ensuing surge in non-performing loans seriously constrained bank lending for house purchase. Therefore, the properties available on the market are not nearly enough to meet increased demand.

The economic measures already taken, such as the suspension of new property registrations in the short-term rental registers of some districts, the “My Home I” and “My Home II” programmes, the reimbursement of one rent

3 The rent sub-index has always had a high weight in the Greek HICP. In the decade 2001-10, rents grew at an average annual rate of 4.3%, while in the decade 2011-20 they recorded a negative average annual rate of change (-2.8%). In 2020-22, rent inflation returned to strong growth rates, which continued in 2023 (4.8%), 2024 (5.1%) and 2025 (10.0%). In most euro area countries, the highest annual rates of change for rents were recorded in 2023 and 2024, whereas Greece saw its highest rates in 2025.

4 See Vettas, N. et al. (2026), “Housing in Greece: Trends, challenges and prospects”, DiaNEOsis, January (in Greek).

per year and the increase of the Golden Visa thresholds, are aimed at mitigating the problem and driving down rent inflation and thus housing inflation. However, their impact appears to be rather limited.

Conclusions

Housing inflation in Greece is persistent and well above the euro area figures. While in 2021-22 inflationary pressures on housing in Greece were almost exclusively due to the energy crisis, a shift has been observed since 2023 – and in particular 2025 – and inflation of actual rents paid by tenants is now the key determinant. This is in line with the results of recent research,[5] which suggest that certain services components react quickly and extensively to cost shocks ("fast-movers"), while other services components exhibit a delayed and gradual acceleration ("late comers"), with rents being a typical late-comer.

Strong rent growth in Greece mainly reflects structural imbalances in the housing market. As highlighted in a recent study,[6] the debt crisis initially led to a significant drop in property prices, a large stock of vacant houses, household debt overhang and a decline in residential investment. However, economic recovery after 2017 came with a steady rise in residential property prices, which was further boosted by an increase in foreign direct investment and the rapid growth of short-term rentals.

These developments, while contributing to tourism growth and capital inflows, compounded by reduced housing investment have resulted in a significant decline in the supply of housing for long-term rentals. Increased demand, especially in urban areas, and high house maintenance and renovation costs, which are largely passed on to rents, have led to upward pressures on rental prices. Recent economic policy measures, such as rent subsidies and housing support programmes, are aimed at mitigating these pressures, helping to support financially vulnerable households in particular.

5 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.
6 Vettas, N. et al. (2026), op. cit.

Box IV.3

RECENT INFLATION DEVELOPMENTS IN GREECE: AN ANALYSIS USING THE MICRO-PRICE DATASET FOR THE GREEK CPI

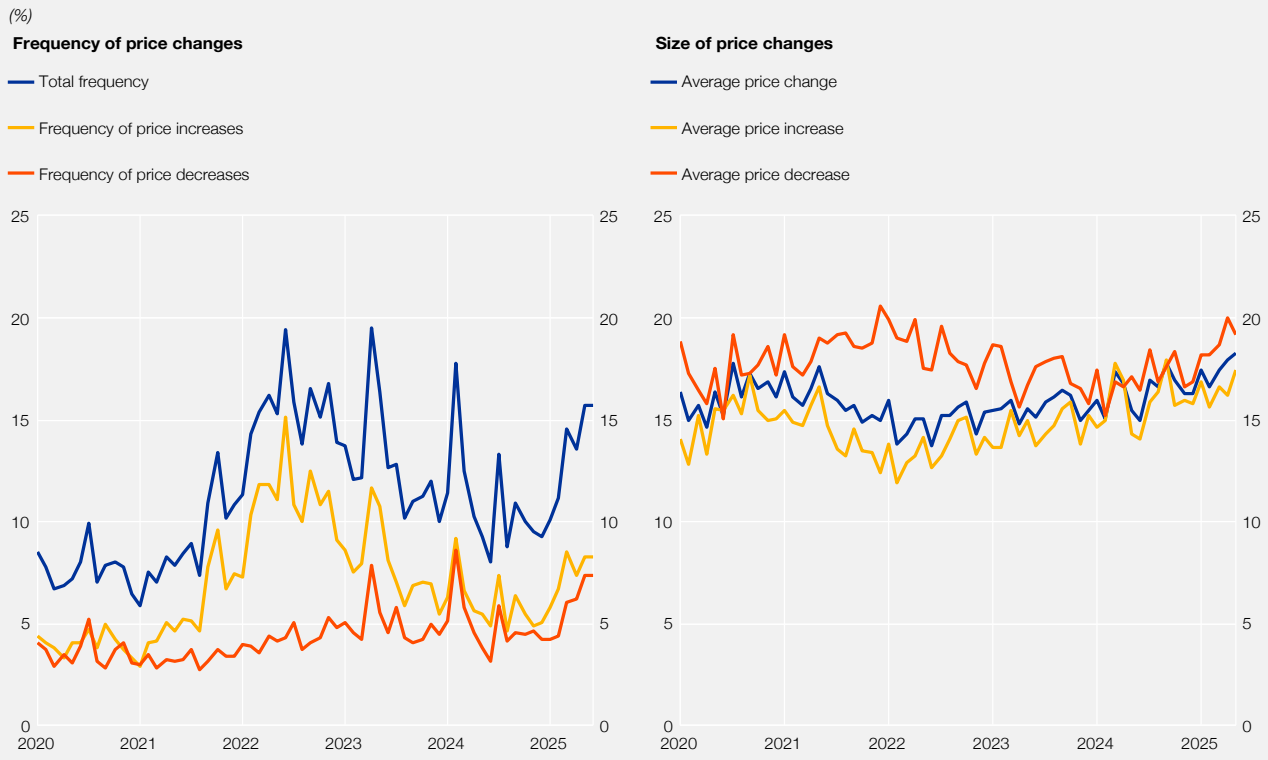
During 2025, inflation was higher in Greece than in the euro area, mainly on account of unprocessed food and services inflation. This box analyses recent inflation developments in light of the frequency and size of price changes.[1]

The analysis utilises the micro price dataset developed by the Hellenic Statistical Authority (ELSTAT), which is used to compile the Greek Consumer Price Index (CPI). The raw data are monthly, from January 2002 to May 2025, and cover more than 80% of core CPI. In total, the database has more than 10.5 million price quotes. The micro database does not include seasonal items (like fresh fruit and vegetables), energy products, administered prices and certain services (in particular, transport and accommodation services). Price changes that are a result of sales and promotions are excluded from the raw data using filters that have been developed in international literature.[2]

Monthly inflation can be calculated as the product of the share of prices that change in a given month (frequency of price changes) multiplied by the average size of this change: $\pi_t = f_t * \Delta p_t$, where π_t is the monthly inflation, f_t the

1 The present analysis uses unweighted data. The main conclusions are not affected by weighting.
2 See Nakamura, E. and J. Steinsson (2008), "Five facts about prices: A reevaluation of menu cost models", *The Quarterly Journal of Economics*, 123(4), 1415-1464, and Gautier, E. et al. (2024), "New facts on consumer price rigidity in the euro area", *American Economic Journal: Macroeconomics*, 16(4), 386-431.

Chart A Frequency and size of price changes



Sources: ELSTAT and Bank of Greece calculations.

frequency of price changes and Δp_t the size of the average percentage price change. Furthermore, as price changes can be broken down into price increases and decreases, the above equation can be written as follows: $\pi_t = f_t^+ \Delta p_t^+ - f_t^- |\Delta p_t^-|$.[3] Since there are monthly price quotes at product level, both the average frequency of price changes and the average percentage price change (increase/decrease) can be calculated. Annual inflation can then be approximated on the basis of monthly inflation.

There are some stylised facts associated with inflation and the frequency of price changes. In particular, high inflation is associated with higher frequency of price changes. By contrast, periods of low inflation or deflation are associated with lower frequency of price changes.[4] Previous research both regarding Greece and the euro area shows that inflation is driven by the frequency, rather than the size, of price increases and decreases.

Recent data for Greece show that the frequency of price changes remained high during 2024 and increased during 2025. Even so, inflation was on a slow but steady declining path during 2024 and 2025. At the same time, the average size of price changes remained constant at about 17% (see Chart A).

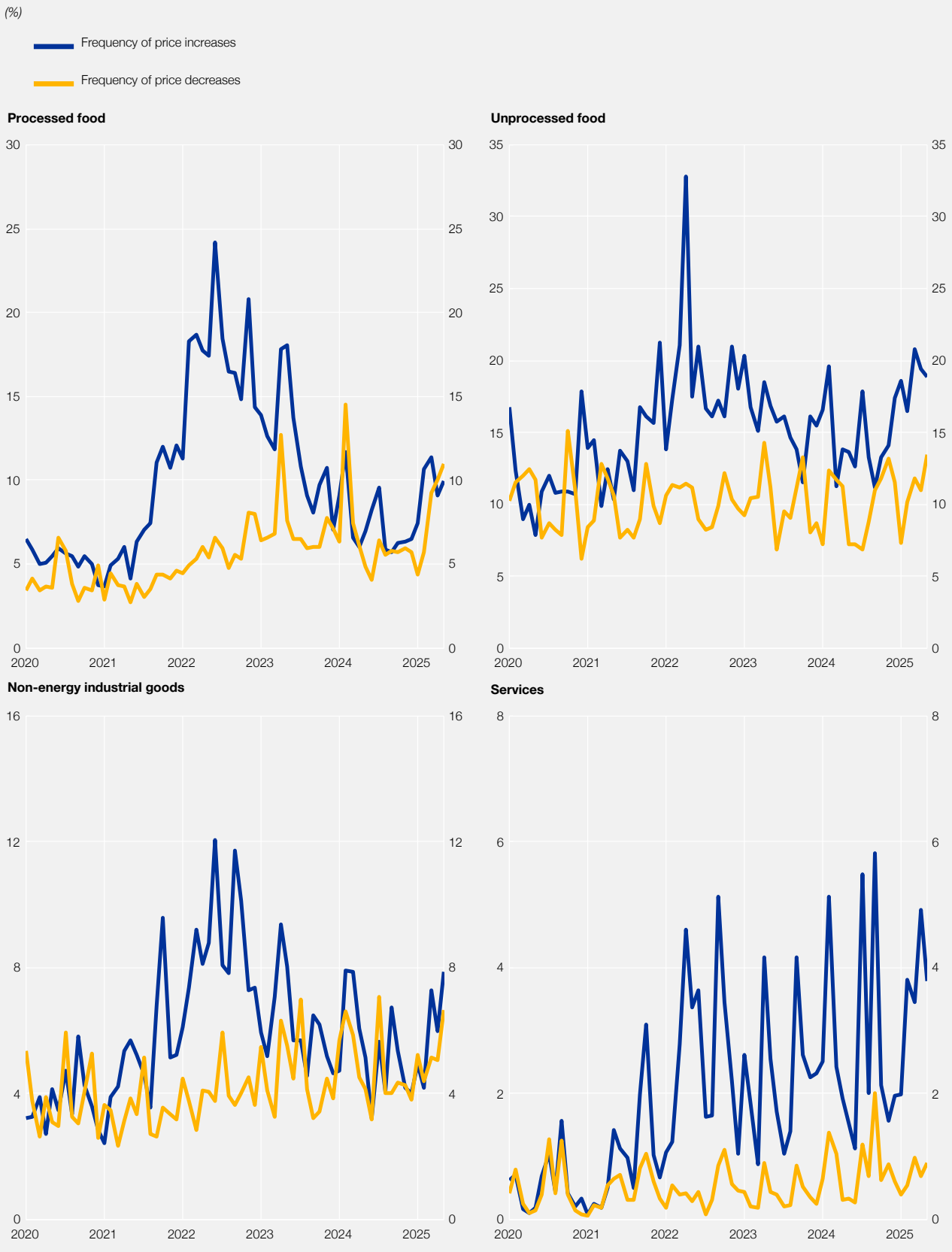
Main aggregates and subcomponents

The main aggregates of the CPI show that lately (from mid-2024 onwards) inflation in Greece was mainly driven by unprocessed food and services. For these two aggregates, the frequency of price increases has trended upwards, while the frequency of price decreases has remained constant (see Chart B), having thus an upward impact on inflation. For processed food and non-energy industrial goods, the frequency of increases and decreases have both trended up, which had a balanced impact on inflation.

3 "+" and "-" in the superscripts of the equation refer to price increases and decreases, respectively.

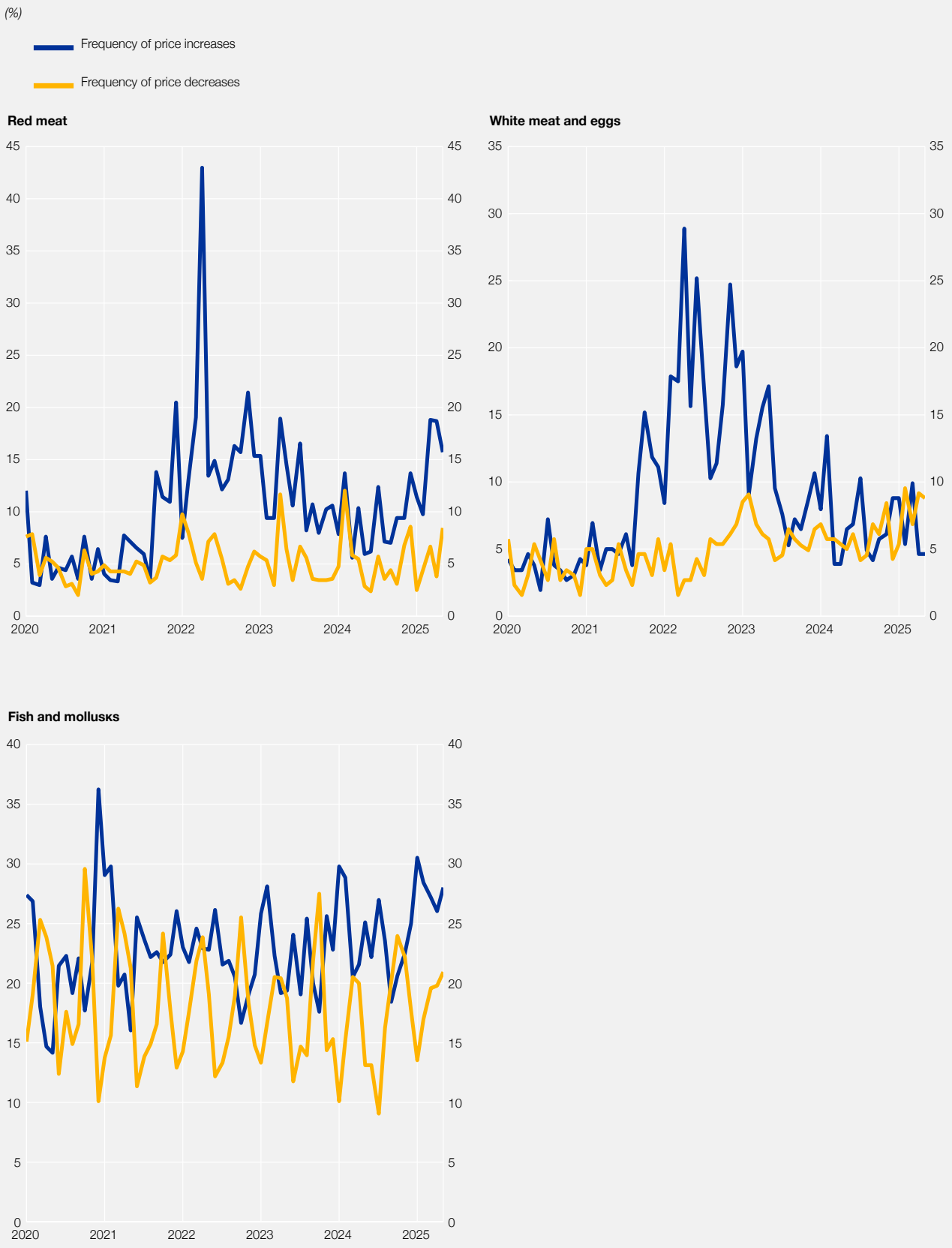
4 See e.g. Dixon, H., T. Kosma and P. Petroulas (2023), "Endogenous frequencies and large shocks: Price setting in Greece during the crisis", Bank of Greece Working Paper No. 312, and Wulfsberg, F. (2016), "Inflation and price adjustments: Micro evidence from Norwegian consumer prices 1975-2004", *American Economic Journal: Macroeconomics*, 8(3), 175-194.

Chart B Frequency of increases and decreases, main aggregates



Sources: ELSTAT and Bank of Greece calculations.

Chart C Frequency of price increases and decreases, unprocessed food subcomponents



Sources: ELSTAT and Bank of Greece calculations.

Looking first at processed food and non-energy industrial goods, it is evident that the frequency of both price decreases and increases has been trending upwards since late 2024. It is very uncommon for both frequencies to co-move in the same direction and at the same pace for a prolonged period of time as shocks tend to be unidirectional, i.e. shocks push frequencies either up or down, not both ways at the same time. The increased co-movement may reflect the fact that high uncertainty has made optimal pricing difficult for firms and has increased mispricing, i.e. price reversals, affecting thus the volatility in the frequencies. However, it may also indicate a response to recent government attempts to drive down prices in Greece. Specifically, firms may decrease some prices in line with government initiatives and at the same time increase others in order to maintain aggregate profit margins.

As regards unprocessed food and services, which were the main drivers of inflation in Greece during 2025, the following can be noted. For unprocessed food, while only a few products are included in the sample,[5] it appears that mainly one subgroup of products is driving recent outcomes, namely red meat products (goat, lamb and beef), while the remaining products have maintained fairly constant frequencies of price increases and decreases (see Chart C).

The upward trend in the frequency of red meat price increases may be linked to recent supply-side restrictions due to disease outbreaks from mid-2024 onwards, which have led to livestock culls to prevent transmission of the disease.

Finally, for services the surge in the frequency of price increases has been broad-based. In fact, compared to the frequency of price increases for the period 2012-20, it has increased threefold. However, it should be noted that the frequency of price increases for services had been depressed for more than a decade prior to the inflation surge and was the lowest in the euro area. Despite the recent spike, the frequency of price increases for services is still below the levels observed prior to the sovereign debt crisis.

The recent decline (from September 2025 onwards) of services inflation can potentially be seen as a base effect that may indicate a lower inflation trajectory for services going forward. The two main reasons for this conjecture are the following: 1) For services in Greece there is a “September effect”. In September, the average frequency of price changes is almost twice as large as in any other month. As such, the inflation generated each September for services will matter for the annual inflation outcome in the near future. 2) Services exhibit a very low frequency of price changes compared to other aggregates and a significant share of services prices have price spells with a duration of 12 and 24 months, that is, prices change only once every one or two years.

Conclusions

The analysis based on the CPI micro price dataset shows that lately inflation in Greece was mainly driven by unprocessed food and services. For these two aggregates, the frequency of price increases has trended upwards, while the frequency of price decreases has remained constant. For unprocessed food, only one subcomponent in the sample has been the main driver of inflation developments, namely red meat, with a high frequency of price increases. It is reasonable to suspect that supply-side effects of livestock disease outbreaks are driving the surge in the frequency of price increases for red meat. For services, the surge in the frequency of price increases has been broad-based and almost three times the size prior to 2020. The recent decline in services inflation, in particular from September 2025 onwards, may reflect a decline in the frequency of price increases. This could lead to a lower inflation trajectory for services in the coming months. Finally, as regards developments in processed food and non-energy industrial goods, a surge in the frequency of both price increases and decreases is observed. This occurrence may be linked to government initiatives to drive down inflation.

5 The database includes 27 products that contain different kinds of meat, fish, mollusks and eggs.

4.2 Labour costs

In 2025, growth in both total compensation and compensation per employee in nominal terms decelerated (the latter increased only marginally in real terms). However, growth in net real compensation per employee was stronger owing to a half-a-percentage-point cut in employee social security contributions as of 1 January 2025, as well as to lower social security deductions

Table IV.7 Compensation of employees and labour costs (2023-2025)

(annual percentage changes)

Greece	2023	2024	2025
Total compensation of employees	5.4	7.3	6.6
Total compensation of employees in the general government sector	3.3	4.4	2.2*
Total compensation of employees in the business sector	6.3	8.6	8.8*
Compensation per employee	3.3	5.8	3.5
Labour productivity (GDP/total employment)	0.2	1.1	1.2
Unit labour costs (total economy)	3.2	4.6	2.3

Source: ELSTAT, data from annual and quarterly national accounts (16.10.2025 and 6.3.2026) and from annual and quarterly accounts of institutional sectors (23.10.2025 and 26.1.2026).
* Data for the general government and the business sector refer to the January-September 2025 period.

on compensation for labour overtime and overrun. Slower wage growth and effectively stable productivity growth led to a marked deceleration in unit labour cost growth.

Specifically, in January-December 2025, 208 new firm-level agreements were concluded in the business sector, covering 130,669 employees. Of these agreements, 80 provided for salary increases, while for the rest wages remained unchanged. Moreover, according to the non-financial accounts of institutional sectors, in January-September 2025, the general government wage bill grew at an annual rate of 2.2%, while wage costs in the business sector increased at an annual rate of 8.8% (see Table IV.7).

According to other data, the annual electronic reporting for total enterprises and employees/wage-earners on private-law contracts[14] shows that, in 2025, gross monthly fulltime and parttime earnings per capita grew by 1.53%, with the corresponding fulltime earnings increasing by 2.57%. In addition, based on cash data from the Ministry of Economy and Finance, the general government wage bill grew at an annual rate of 3.5% in January-December 2025.

Under Law 5163/2024 (implementing EU Directive 2022/2041 on adequate minimum wages), as of 1 April 2025, minimum wages, now also applicable to civil servants, were raised by 6.0%.

Following consultation with social partners, the National Social Agreement between the Ministry of Labour and Social Security and the national social partners was concluded on 26 December 2025, providing for concrete measures to strengthen collective bargaining. On 17 December 2025, a Ministerial Decision[15] was published, presenting the agreed Action Plan for the Promotion of Collective Bargaining in Greece 2026-2030, while after Parliament passed the draft law, Law 5278/2026 “Social Accord for Enhancing Collective Labour Agreements” was published.[16]

For the current year, the consultation process under the new legislation became applicable as from January, and on 26 March 2026 the Cabinet decided to raise the minimum wage by 4.55% as from 1 April 2026.

4.3 Business profits

In January-September 2025, the profitability of Greek non-financial corporations remained strong, despite a worsened global macroeconomic environment on the back of rising protec-

14 Excluding employees under public law contracts. See “Special annual issue – Electronic reporting data for total enterprises and employees/wage-earners on private-law contracts, 1st October to 1st December 2025” [in Greek].
15 Decision No 33093 of the Minister for Labour and Social Security No 33093, Government Gazette, Issue B, No 6789, 17.12.2025.
16 Government Gazette, Issue A, 22/16.2.2026.

Chart IV.19 Profit share of non-financial corporations (2019 - Jan.-Sep. 2025)



Source: Bank of Greece calculations based on ELSTAT data.
Note: The gross (net) profit share is defined as the ratio of the gross (net) operating surplus to the gross (net) value added.

tionism and geopolitical risks related to international developments. Specifically, the net profit share (i.e. the ratio of net operating surplus to net value added), which reflects the business sector's performance in terms of operating profits, stood at 29.5%, up from 29.1% year-on-year, despite a mild increase in labour costs. Corporate profits stabilised well above pre-pandemic levels (25.2% on average over 2017-19) (see Chart IV.19).

Business profitability improved in most sectors of the economy, reflecting stronger foreign direct investment, utilisation of RRF funds and a gradual improvement in financing conditions. These developments also helped support investment activity and upgrade firms' productive capacity, boosting profitability. Meanwhile, continued growth in tourism activity made a positive contribution to business profitability in the tourism sector. In addition, persistent inflationary pressures pushed upwards the prices of goods produced, particularly in services industries characterised by a relatively low degree of competition, improving profitability. Lastly, businesses' adoption of digital technologies and AI applications is estimated to have enhanced – and should continue to do so – their productivity and profitability in the medium term.[17]

The gross operating surplus of non-financial corporations grew by 7.6% in nominal terms in the first nine months of 2025 (compared with 1.1% in the same period of 2024), while the net operating surplus (after subtracting consumption of fixed capital) increased by 9.7% (-1.1% in the first nine months of 2024). This improvement is mainly due to a 7.5% rise in gross value added, despite a significant increase of 8.5% in compensation of employees. Lastly, the impact of taxes less subsidies on production was slightly negative.

4.4 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 2025 Income and Living Conditions of Households (EUSILC) Survey for 2024 incomes and the 2024 Household Budget Survey on consumer spending in 2024. Despite a temporary deterioration of poverty and inequality indicators in 2020 as a result of the economic fallout of the pandemic, these indicators have been broadly stable ever since. The strengthening of economic activity and positive labour market developments (lower unemployment rate and employment growth) were instrumental in the pick-up of incomes and the relative stability of poverty and inequality indicators in the past few years (see Charts IV.20 and IV.21).

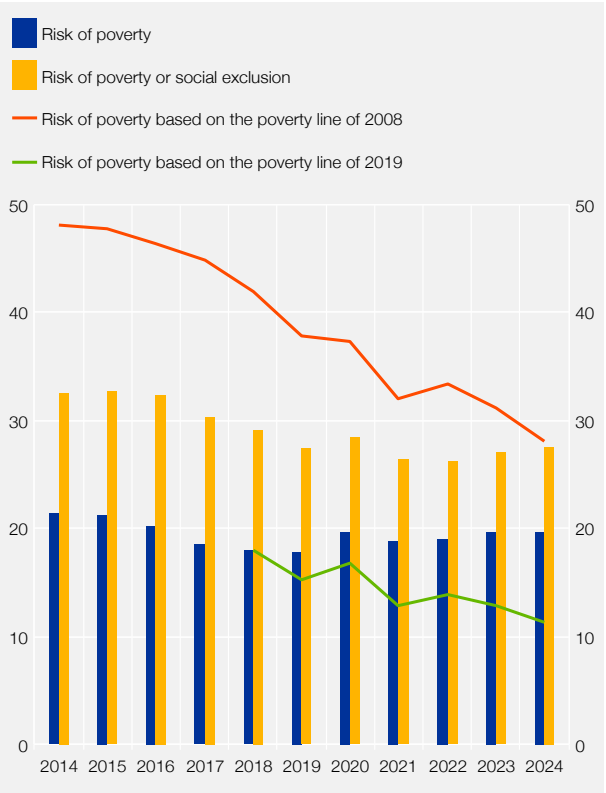
In particular, according to the EU-SILC 2025 survey that provides data on household incomes in 2024, the relevant indicators changed as follows:

1) The at-risk-of-poverty rate stood at 19.6% in 2024, as was also the case for 2023 incomes

17 OECD/BCG/INSEAD (2025), *The Adoption of Artificial Intelligence in Firms: New Evidence for Policymaking*, OECD Publishing, Paris.

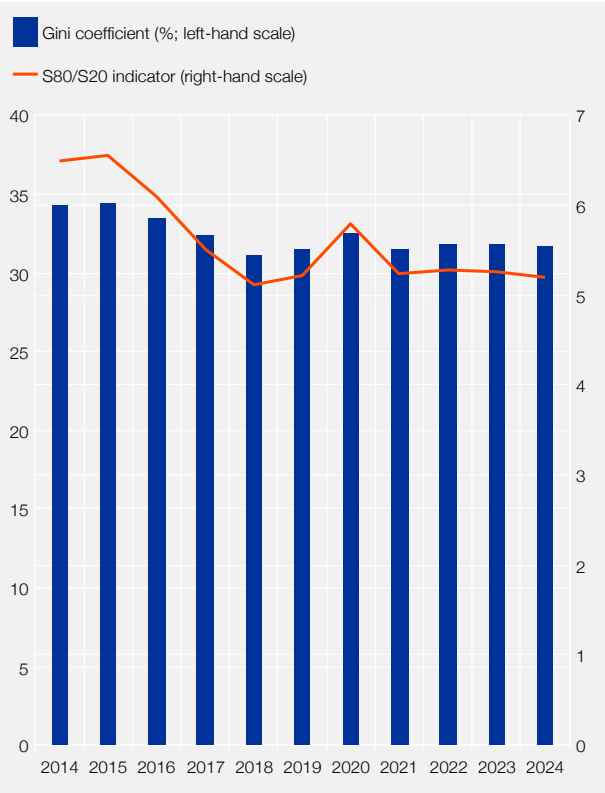
Chart IV.20 Risk of poverty (EU-SILC)

(% of total population)



Source: EU Statistics on Income and Living Conditions (EU-SILC).
Note: Indices are illustrated according to income reference periods.

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



Source: EU Statistics on Income and Living Conditions (EU-SILC).
Note: Indices are illustrated according to income reference periods.

(EU-SILC 2024),[18] still above pre-pandemic levels. Moreover, based on 2024 incomes (latest available data at EU level), the risk of poverty in Greece remains above the EU-27 average (16.2%) and is the seventh highest in the EU-27.

2) The Greek population living at risk of poverty or in social exclusion, in accordance with the revised definition,[19] increased to 27.5% in 2024 (or 2,797 thousand persons), from 26.9% in 2023 (or 2,744 thousand persons). According to the same survey, Greece registered the third highest risk of poverty or social exclusion among the EU27 countries in 2023. The EU27 average was 21%.

3) Income inequality indicators in Greece declined in 2024. The Gini inequality coefficient decreased to 31.6% for 2024 incomes (EU27: 29.4%). The S80/S20 indicator dropped to 5.2 for 2024 incomes (for 2023: EU27: 4.7).[20]

18 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 2024 survey, the poverty threshold was set at EUR 7,020 for a single-person household and at EUR 14,742 for a four-person household with two adults and two children under 14.

19 Revised definition under the "Europe 2030" programme; it refers to the proportion of the population at-risk-of-poverty or in material or social deprivation (that is, experiencing an enforced lack of at least 7 out of 13 deprivation goods and services) or living in households with low work intensity.

20 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 $0<x\leq100$), 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.

4) The poverty gap or depth[21] has been falling and reached 21.7% (from 23.3% in 2023).

In addition, the poverty indicator in absolute terms, which refers to a consistent poverty line set in terms of real purchasing power for 2019, decreased to 11.3% for 2024 incomes (from 12.8% for 2023 incomes), registering a sharp decline compared with 2019 (17.9%). The corresponding EU indicator was higher (14.1%) for 2023 incomes.

The combined developments in poverty and inequality rates in 2024 reflect an increase in the minimum wage (from EUR 780 to EUR 830) and an ensuing rise in unemployment benefits; an 8% increase in pensions; abolition of the solidarity levy for pensioners and civil servants; and higher wages in the public sector. For families with children, favourable reforms included an increase in the tax-free threshold for taxpayers with dependent children; introduction of a maternity allowance for self-employed and farmers; and a rise in the birth allowance retroactively from 2023.

Income support measures in 2024 included a one-off allowance granted to pensioners who are subject to the so-called "personal difference", as well as support to people with disabilities, low-income pensioners and the uninsured elderly. Moreover, employee social security contributions were reduced by an additional half percentage point and the fixed business levy on all natural persons subject to it was abolished. Pensions were adjusted for inflation and GDP by 3%. By contrast, the disposable income of the self-employed was negatively affected by an increase in social security contributions based on inflation. For families with children, favourable reforms included a EUR 1,000 rise in the tax-free threshold for taxpayers with dependent children; introduction of a maternity allowance for self-employed and farmers; and a retroactive increase in the birth allowance as from 2023. As a whole, according to the EU-SILC 2024, the average equivalised personal disposable income grew by 8.0% in 2024.

EU-SILC 2024 data highlight the relative contribution of pensions and social benefits to reducing the risk of poverty, as the poverty rate would be 20.7 pps higher if pensions were not accounted for, and 3.6 pps higher when not accounting for social benefits.

Despite the high poverty rates witnessed in 2024, developments in social policy in recent years suggest that coverage has been expanded to include certain particularly vulnerable population groups. For example, according to ELSTAT quarterly data on the number of the unemployed and monthly data from the Public Employment Service (DYPA, previously OAED) on the number of the subsidised unemployed, the average subsidy coverage rate for the unemployed in January-September 2025 reached 40.0%, a 15-year high, most likely as a result of recent changes in the obligations of the unemployed and in unemployment management in general.[22]

As regards very poor households, the amount of the guaranteed minimum income has been raised by 8% since 1 December 2023 and the relevant income criteria have been adjusted, expanding the coverage of the benefit. This positive development aims to consistently deal with protection gaps, beyond the extraordinary financial support granted in the past few years under support measures to vulnerable groups in response to the pandemic and the energy shock.

Another relevant permanent legislative measure was an 8% increase in disability benefits as from 1.5.2023.[23]

21 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.

22 See Law 4921/2022 "Jobs Again: Reorganisation and digitalisation of the Public Employment Service, upskilling and reskilling in line with labour market demands, and other provisions".

23 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 remit of the Ministry of the Interior, and other emergency provisions".

More recently, a new tax scale was introduced, applicable as from 2026, providing for special tax rate reductions for families with children and for the young aged up to 30 years.

Complementary measures for improved targeting and increased efficiency of social benefits include the introduction of prepaid cards for the collection of social benefits from the Organisation of Welfare Benefits and Social Solidarity (OPEKA) and DYPA, as well as an upgrade to the OPEKA platform, giving beneficiaries access to all social protection programmes and benefits.[24]

Available information for Greece for the year 2024 come from the Household Budget Survey 2024. Consumption expenditure in 2024 shows an increase in the S80/S20 inequality indicator based on expenditure, as the average equivalised expenditure of the wealthiest 20% of Greece's population is 5.68 times larger than the average equivalised expenditure of the poorest 20% of Greece's population (5.64 in 2023). By contrast, the inequality index fell to 4.38 (4.43 in 2023), on the basis of final consumption expenditure.[25]

Persistent inflation since 2022 has been disproportionately affecting the purchasing power of low-income households, given that their consumption basket includes a larger share of basic goods, such as food (which has recorded the most persistent inflation: 11.6% for 2023 and 3.4% for 2024), and that they allocate a bigger share of their income to consumption. According to Household Budget Survey 2024 data, the average equivalised food expenditure for the poorest 20% of the population amounts to 33.5% of their total expenditure, compared with 12.7% for the wealthiest 20% of the population.

However, a more recent survey for 2025[26] shows that financial pressures affect not only the economically most vulnerable groups, but also middle incomes, with 62.1% of households reporting that their monthly income does not last until month-end. Across all households surveyed, monthly income is sufficient for an average of 23 days, whereas among households whose income runs out before the end of the month, income suffices for an average of 18 days.

Nevertheless, the negative distributional effects of the inflationary shock were partly offset by support measures.[27] An increase in the minimum wage in 2024 (from EUR 780 to EUR 830) also supported the disposable income of vulnerable households. As a result, the share of employees on private-law contracts with gross monthly earnings of less than EUR 800 dropped to 17.8% in 2024, from 30.9% in 2023, according to the special annual census survey by the Hellenic Labour Inspectorate, DYPA and the National Social Security Organisation (EFKA).[28]

However, according to Eurostat data,[29] in 2024 Greece (together with Bulgaria) registered the highest shares (19%) of people struggling to keep their homes adequately warm among the

24 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".

25 Household final consumption expenditure is the value, in cash, of the goods and services a household purchased or received in kind (from own production, own store, the employer or elsewhere) to cover family or social needs.

26 IME GSEVEE, Annual survey, Household income - Living expenses 2025.

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", Selected Issues Paper No. 2024/007; (b) for the euro area: Amores, A. et al. (2024), "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 6 December 2024". It should be noted that in 2025, following a new increase in the minimum wage to EUR 880, the share of employees on private-law contracts with monthly earnings of less than EUR 800 dropped further to 15.4% (see footnote 14).

29 Eurostat, "9.2% of EU population struggled to keep their home warm", 2.2.2026.

EU countries. In particular, the share for lowincome households reached 43.6%, up from 39.8% in 2023, highlighting the ongoing challenge of energy poverty. Moreover, the housing crisis has become a major social and economic concern both in Greece and in Europe in recent years. House prices and rents are growing faster than incomes, leading to a severe deterioration of housing affordability, especially for the young and for low- and medium-income households.

In general, according to the UN World Social Report 2025,[30] the world is facing a deep social crisis. Progress in recent decades (e.g. lower extreme poverty rates) has been fragile, threatened by growing economic insecurity as a result of successive crises; income and social inequalities; little or no trust in governments and public institutions; and structural pressures, i.e. climate change, population ageing, technological transitions and labour market transformations. The report proposes a policy consensus built around three fundamental principles: (a) equity, through fair access to opportunities, resources and basic services for all, by actively reducing inequalities; (b) economic security for all, through universal access to comprehensive social protection systems, decent work and protection against economic and social disruptions; and (c) solidarity, by strengthening social cohesion, cooperation and trust, both within and between countries.

The OECD[31] analyses how underlying trends, such as ageing populations, changing patterns of labour supply, the effects of new technologies and the climate crisis, have outpaced the capacity of traditional social protection systems, which are designed for stable labour markets and predictable social risks. The report proposes modernisation, expanded coverage and preventive policies, focusing on the sustainability of social protection systems and on enhanced skills.

In the same vein, the IMF[32] recommends structural reforms that will raise labour force participation and ensure a better skilled workforce. Specifically, although the labour force participation rate in Greece has gradually risen, it still stands among the lowest in the EU, especially for women. Increasing the availability of childcare and elderly care facilities can enable women to engage more productively in the economy. Upgrading and upscaling the lifelong learning system through effective private sector participation, particularly with regard to digital and green skills and healthcare, can reduce skill mismatches and help alleviate bottlenecks for youth and female employment.

In the long term, a reorientation of social policy towards a "social investment state"[33,34] would proactively contribute to tackling poverty and income inequality through investment in human capital, e.g. in education and health.[35] In this manner, social policy is beneficial in achieving strong and sustainable growth rates.[36]

Lastly, Greece can release an amount of EUR 5.4 billion – available under the RRF – to finance actions related to employment, skills and social cohesion. It is important to ensure effective ab-

30 United Nations (2025), *World Social Report 2025: A New Policy Consensus to Accelerate Social Progress*.
31 OECD (2024), *Megatrends and the Future of Social Protection*, OECD Publishing, Paris.
32 IMF, "Greece: Staff Concluding Statement of the 2025 Article IV Consultation Mission", 30.1.2025.
33 Matsaganis, M. (2021), "The welfare state as an accelerator of sustainable growth", *diaNEOsis* (in Greek).
34 Hemerijck, A. and M. Matsaganis (2024), *Who's Afraid of the Welfare State Now?*, Oxford University Press.
35 Regarding growth-enhancing benefits from reforming the Greek educational system, see Bank of Greece (2020), *Annual Report 2019*, Box IV.2, p. 120-125 (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.
36 See Aiyar, S. 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.

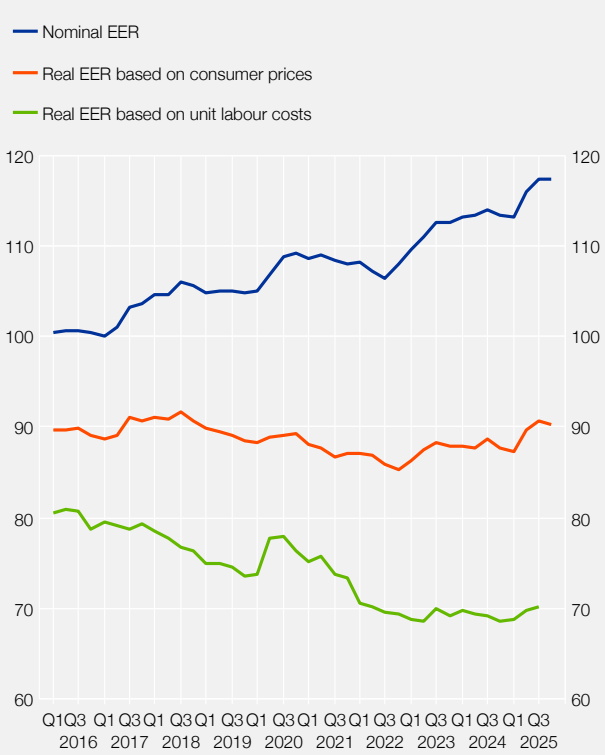
sorption and utilisation of available resources within 2026. From 2021 up to and including the first half of 2025, disbursement of RRF grants relating to the "Employment, skills and social cohesion" pillar reached EUR 2.2 billion, or around 40% of total grants under this pillar.

5 COMPETITIVENESS

The international competitiveness of the Greek economy continued to be adversely affected by the appreciation of the euro in 2025 (see Chart IV.22). The strong appreciation of the nominal effective exchange rate in 2025 more than offset the favourable – for Greece – differential vis-à-vis the country's major trading partners, whether larger (in terms of both unit labour costs) or smaller (in terms of relative prices). However, the significant cumulative improvement in competitiveness registered during the Greek crisis and beyond remains almost unchanged, keeping Greece's share in the main markets (EU, Western Balkans and Türkiye) constant.[37]

Chart IV.22 Harmonised competitiveness indicators for Greece (nominal and real effective exchange rates)

(Q1 2016 - Q4 2025; quarterly data; 2010=100)



Source: ECB, Statistical Data Warehouse.
Note: An increase (decrease) suggests a deterioration (improvement) of competitiveness.

Price competitiveness

Greece's broad nominal effective exchange rate index for 2025 continued to increase by 2.2%, against 1.8% in 2024, according to the ECB's harmonised national competitiveness indicators (HCIs). In 2025, the euro appreciated vis-à-vis the US dollar, the Australian dollar, the Japanese yen, the pound sterling, the Norwegian krone and the Turkish lira, while it depreciated vis-à-vis the Swedish krona and the Swiss franc. Geopolitical developments and heightened economic and trade policy uncertainty related to the United States, China and other major jurisdictions led to volatility in the main bilateral exchange rates.

After increasing (appreciating) by 0.6% in 2024, according to ECB and Bank of Greece data (see Table IV.8), the broad real effective exchange rate index based on relevant consumer price indices is estimated to have strengthened further by 1.7% in 2025, due to a continued appreciation of the nominal effective exchange rate and despite a favourable, albeit shrinking, domestic inflation differential vis-à-vis an extended group of major trading partners. This appreciation appears to be smaller vis-à-vis intra-euro area trading partners, as the impact of the appreciation of the euro is eliminated.

According to Bank of Greece calculations, the broad real effective exchange rate index based on relative unit labour costs in the total economy (ULCT) continued to increase (appreciate) mildly as in the previous year (by 0.3% in 2025, against 0.2% in 2024) in average annual terms, driven by the appreciation of the euro (see Chart IV.23). For 2025, unit labour cost growth remained lower for Greece compared with the country's trading partners (2.0%,[38] against 3.1%[39]

37 IMF Data, International Trade in Goods (by partner country) (IMTS).
38 European Commission, "European Economic Forecast, Autumn 2025", November 2025.
39 ECB, "ECB staff macroeconomic projections for the euro area", March 2026.

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

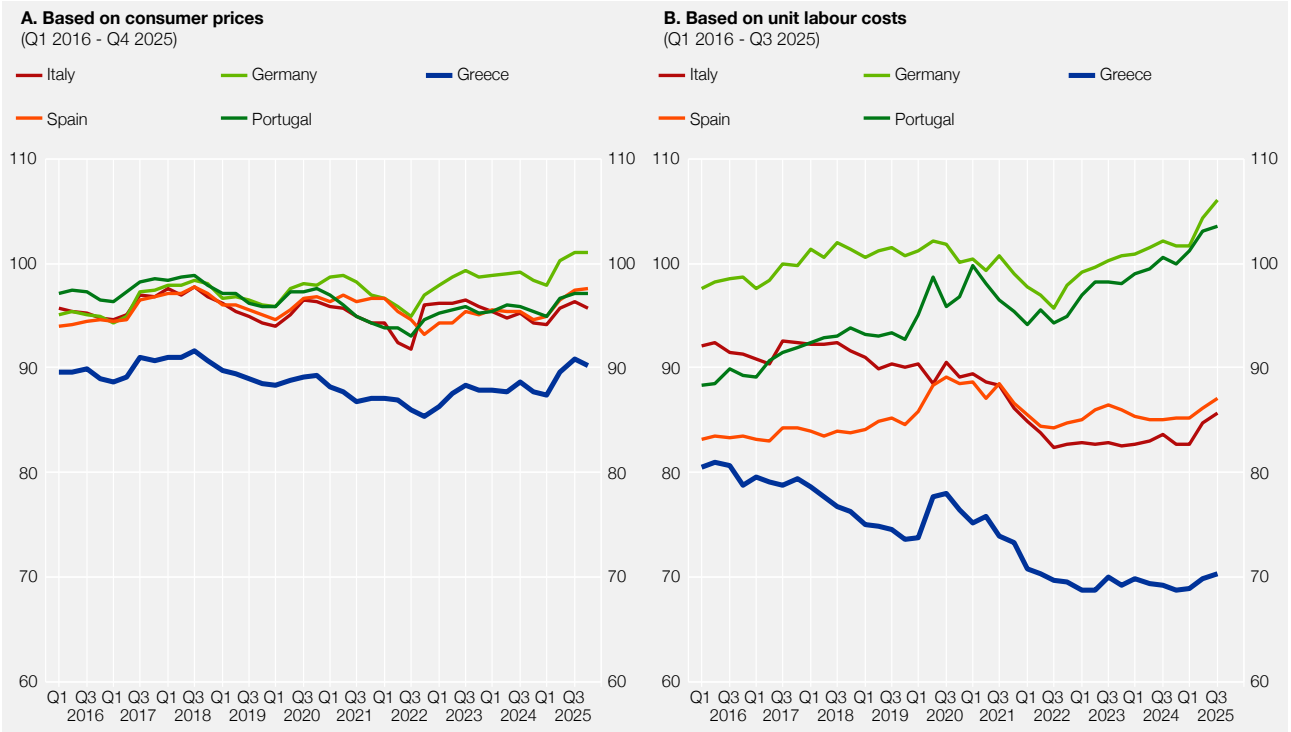
(index: 2000=100)

	Nominal EER		Real EER					
	Broad NEER[1]		Broad NEER[1]				REER-euro area	
			CPI-deflated		ULCT-deflated*		CPI-deflated	ULCT-deflated*
Year		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	95.2	-2.0	103.1	-2.0	96.8	-1.0
2022	117.5	-1.0	102.4	-2.0	89.2	-6.0	103.6	0.5	93.6	-3.2
2023	122.0	3.8	103.6	1.2	88.0	-1.2	102.5	-1.1	90.3	-3.3
2024	123.8	1.8	104.2	0.6	88.2	0.2	103.1	0.6	90.4	0.1
2025**	126.0	2.2	105.9	1.7	88.5	0.3	103.7	0.6	89.7	-0.7

Source: 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.
1 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).

Chart IV.23 Harmonised competitiveness indicators (real effective exchange rates)

(quarterly data; 2010=100)



Source: ECB, Statistical Data Warehouse.
Notes: An increase (decrease) suggests a deterioration (improvement) of competitiveness.

for the euro area and 3.2%[40] for the EU-27), mainly due to higher labour productivity growth in Greece (1.0%,[41] against 0.7% in the euro area[42]). Nevertheless, net of the impact of the euro exchange rate, the relevant index vis-à-vis euro area trading partners alone, after temporarily stagnating in 2024, improved in 2025.

The outlook for 2026 suggests that, due to geopolitical developments and uncertainty surrounding trade policies, volatility in bilateral exchange rates should persist. Moreover, the favourable differential for Greece's relative prices is likely to endure, albeit on a shrinking trend, vis-à-vis the extended group of trading partners, combined with increased prices for food, agricultural products and low-substitution imported goods, as well as stronger imports of intermediate goods associated with RRF-financed investment. However, when taking into account solely the euro area trading partners, the differential appears to be unfavourable for Greece, as the EU absorbs a significant part of the country's exports. Additionally, the favourable – for the Greek economy – unit labour cost is expected to maintain its positive momentum vis-à-vis all major trading partners (extended group and euro area countries) and the final outcome should be determined by euro exchange rate developments.

Structural competitiveness

Greece's ranking in most of the global composite structural competitiveness indicators remained relatively low in 2025, despite improvements in taxation and delivery of justice. Strengthening competitiveness is another key EU priority which, prompted by the Draghi and Letta reports, is closely monitored by dedicated committees tasked with removing concrete barriers stemming from European regulations and reducing red tape.[43] The EU's single market can also partially function as a shock absorber and resilience driver amid geopolitical crises or other international pressures,[44] including the impact of the expanding integration of artificial intelligence and the wider technological transformation. In the EU, these efforts aim at closing the competitiveness gap, particularly in terms of innovation, technology and productive investment. The process is closely monitored through performance indicators regarding the functioning of the single market; closing the innovation gap; decarbonising industry and investment; increasing security; and reducing dependences.

Specifically, according to the World Competitiveness Ranking compiled by the IMD (June 2025), Greece dropped by 3 places, same as the geographic group of 45 countries to which Greece belongs, as a whole. The performance of the domestic economy and international investment improved, the sub-indicator of business efficiency deteriorated, while the relative ranking of the government efficiency and infrastructure sub-indicators remained broadly unchanged. The main challenges for Greece include: reforming the labour market to meet labour shortages and skill mismatches in critical sectors; promoting job-generating investments in the manufacturing sector; increasing the resilience of the economy; improving efficiency of the justice system (especially by reducing the length of proceedings of commercial disputes); and introducing policies that facilitate the twin (green and digital) transition of enterprises, with a special focus on reducing energy costs and the administrative burden on businesses.

According to the Tax Foundation's International Tax Competitiveness Index (October 2025), which examines more than 40 tax policy variables, Greece's ranking improved by 3 places, with the country ranking 23rd out of 38 countries. The report suggests that the country's ranking improved in terms of individual taxes and consumption taxes and, to a lesser extent, corporate taxes, while it deteriorated regarding property taxes and cross-border rules.

40 European Commission, "European Economic Forecast, Autumn 2025", November 2025.
41 European Commission, "European Economic Forecast, Autumn 2025", November 2025.
42 ECB, "ECB staff macroeconomic projections for the euro area", March 2026.
43 European Commission (2025), "Single Market Enforcement Taskforce Report 2024 – 2025".
44 European Commission (2026), "The 2026 Annual Single Market and Competitiveness Report".

The comparative structural advantages and disadvantages of the Greek economy are analysed in the second edition of the new World Bank Entrepreneurship Report (January 2026), Business Ready 2025 (successor to Doing Business), which spans 101 economies (against 50 in the inaugural report), and will expand the coverage to 180 economies next year in the final phase of the project. Approximately 2,000 criteria for each economy are analysed, for 10 core business lifecylce topics; the Report does not draw up a single composite indicator, but rather aggregates the results into three pillars: (I) regulatory framework, (II) public services and (III) operational efficiency. Data in the report are not comparable with last year's data. Nevertheless, according to the World Bank, Greece ranks very high, 2nd in Pillar I, and 27th and 45th in Pillars II and III, respectively. In more detail, with regard to the specific 10 topics under review, Greece performs very well in terms of business entry, utility services and international trade. On the other hand, poor performance is recorded in business insolvency, taxation and business locationconnectivity. In addition, the best-performing sub-indicators include operational efficiency of court processes and judicial quality; cost and time to start a domestic or foreign firm; total cost to comply with import requirement; time to resolve a reorganisation proceeding; procedural certainty; and consumer protection provisions. By contrast, the lowest-performing subindicators include firms' perceptions on the ease of bidding; time to obtain an environmental permit; time to award public contracts; product and process innovation; time to transfer a property; time to obtain a construction-related permit; obstacles to hiring and dismissing workers; analysis and publication of sex-disaggregated data; and expertise of courts with jurisdiction in reorganisation and liquidation proceedings.

Challenges

Improving competitiveness is among the top priorities of both Greece and the EU, and this can be achieved through the utilisation of EU funds. In terms of structural competitiveness, despite significant progress in recent years, Greece's comparative ranking among advanced economies remains relatively low, with the exception of continued progress in tax competitiveness and the speed of delivery of justice. Although the gap between Greece and most advanced economies – in terms of digitalisation, innovation and total productive investment to GDP – has been narrowing, it persists. Effective implementation of reforms to cut red tape in the public sector; speed up delivery of justice; incentivise the adoption of new innovative technologies; combat tax evasion; and reduce the energy costs for businesses can contribute to improving the productivity and competitiveness of the Greek economy, as well as the country's resilience to international geopolitical shocks.

6 BALANCE OF PAYMENTS: DEVELOPMENTS AND PROSPECTS

Current account balance

According to Bank of Greece data, the current account balance improved in 2025 compared with the previous year (see Table IV.9), with its deficit narrowing to 5.7% of GDP, from 7.2% of GDP in 2024.[45] The main drivers of the improvement were a decrease in the net oil import bill and higher travel receipts, which led to a decline in the deficit of the balances of goods and services, despite a deterioration in the non-oil goods balance and lower transport and other services surpluses. A positive effect came from the primary and secondary income accounts, mainly as a result of lower net interest, dividend and profit payments and the disbursement of two tranches by the RRF, respectively (see Chart IV.24).

Following a significant deterioration of the current account deficit in 2022, when it reached 10.7% of GDP, mainly driven by increased energy prices and rising interest rates, an improving

45 Balance of payments and international investment position data have been revised from 2013 onwards, pursuant to Eurostat's decision No 6577784/17.09.24, which requires the incorporation of deferred interest on EFSF loans in the stock of debt. See also Bank of Greece, *Monetary Policy – Interim Report 2025, Executive Summary and Boxes*, Box 6 "The incorporation of deferred interest on EFSF loans into the external sector accounts", December 2025.

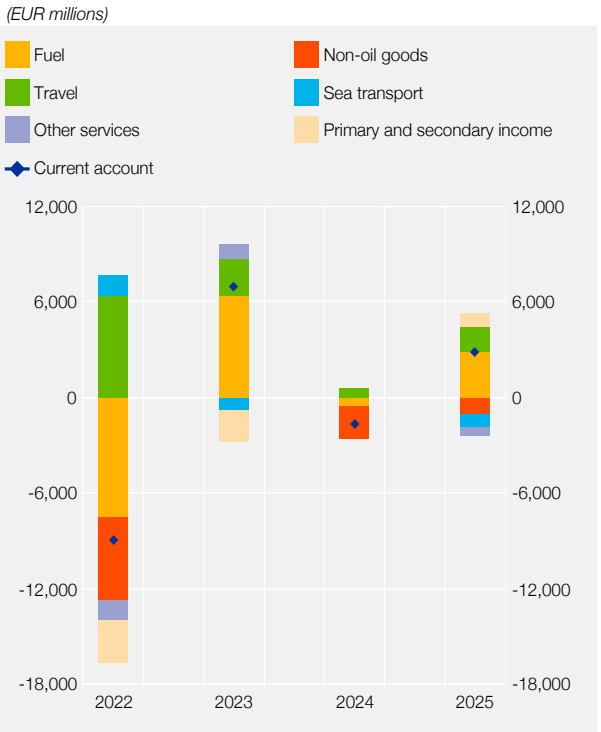
Table IV.9 Balance of payments

(EUR millions)

	2022	2023	2024	2025
I CURRENT ACCOUNT BALANCE (I.A + I.B + I.C + I.D)	**-22,247.6**	**-15,281.5**	**-16,943.6**	**-14,078.1**
I.A BALANCE OF GOODS (I.A.1 - I.A.2)	**-39,508.4**	**-33,062.1**	**-35,665.5**	**-33,818.7**
I.A.1 Exports of goods	*54,749.0*	*50,056.5*	*48,612.8*	*47,391.9*
Fuel	18,489.4	14,562.1	12,802.1	10,674.1
I.A.2 Imports of goods	*94,257.4*	*83,118.6*	*84,278.3*	*81,210.7*
Fuel	31,855.5	21,628.2	20,421.1	15,418.9
I.B BALANCE OF SERVICES (I.B.1 - I.B.2)	**19,320.1**	**21,807.7**	**22,671.5**	**22,784.5**
I.B.1 Receipts	*47,761.9*	*49,040.7*	*51,445.9*	*51,129.2*
Travel	17,676.2	20,593.6	21,592.3	23,626.8
Transport	23,434.0	20,999.8	21,214.9	18,664.8
Payments	*28,441.9*	*27,233.1*	*28,774.3*	*28,344.7*
Travel	1,924.6	2,431.7	2,805.3	3,339.0
Transport	19,666.7	17,833.9	18,179.0	16,584.1
I.C PRIMARY INCOME ACCOUNT (I.C.1 - I.C.2)	**-1,757.7**	**-5,352.6**	**-6,025.9**	**-5,215.9**
I.C.1 Receipts	*7,875.5*	*10,100.3*	*11,282.5*	*10,495.5*
Labour (wages, salaries)	224.7	208.8	232.5	253.3
Investment (interest, dividends, profits)	4,177.7	6,547.2	8,075.9	7,399.4
I.C.2 Payments	*9,633.1*	*15,452.9*	*17,308.4*	*15,711.4*
Labour (wages, salaries)	1,493.8	1,327.1	1,372.3	1,318.9
Investment (interest, dividends, profits)	7,478.8	13,609.9	15,439.0	13,839.8
I.D SECONDARY INCOME ACCOUNT (I.D.1 - I.D.2)	**-301.6**	**1,325.5**	**2,076.4**	**2,171.9**
I.D.1 Receipts	*4,390.6*	*5,541.5*	*6,822.2*	*7,512.7*
General government	2,642.7	3,255.8	1,514.1	2,502.2
I.D.2 Payments	*4,692.2*	*4,216.1*	*4,745.8*	*5,340.8*
General government	3,058.7	2,381.9	2,817.0	3,131.7
II CAPITAL ACCOUNT (II.1 - II.2)	**3,111.6**	**2,677.0**	**-21.0**	**1,729.7**
II.1 Receipts	*3,857.0*	*3,367.7*	*947.3*	*3,125.4*
General government	2,523.2	2,824.7	638.8	2,501.5
II.2 Payments	*745.3*	*690.8*	*968.3*	*1,395.7*
General government	7.2	7.0	7.2	6.5
IIII FINANCIAL ACCOUNT (III.A + III.B + III.C + III.D)	**-17,152.0**	**-10,329.3**	**-14,628.4**	**-9,856.6**
III.A DIRECT INVESTMENT[1]	**-4,988.9**	**-602.9**	**-4,198.9**	**-6,576.6**
Assets	2,538.5	3,757.8	2,052.4	5,284.4
Liabilities	7,527.5	4,360.7	6,251.3	11,860.9
III.B PORTFOLIO INVESTMENT[1]	**8,934.9**	**-3,020.4**	**-6,544.0**	**-11,904.8**
Assets	10,206.3	2,601.4	5,460.2	2,025.3
Liabilities	1,271.4	5,621.8	12,004.2	13,930.1
III.C OTHER INVESTMENT[1]	**-19,252.5**	**-7,236.6**	**-3,624.6**	**6,842.8**
Assets	-3,688.1	-2,301.7	-396.0	8,489.7
Liabilities	15,564.4	4,935.0	3,228.6	1,647.0
(Loans of general government)	-3,496.0	-2,196.3	-6,057.8	-5,139.8
III.D CHANGE IN RESERVE ASSETS[1]	**-1,845.4**	**530.6**	**-261.0**	**1,782.0**
IV BALANCING ITEM (I + II - III + IV = 0)	**1,984.0**	**2,275.2**	**2,336.2**	**2,491.8**
RESERVE ASSETS (STOCK)	**11,341**	**12,324**	**14,649**	**20,287**

Source: Bank of Greece.
1 (+) increase; (-) decrease.

Chart IV.24 Contributions to the annual change in the current account balance



Source: Bank of Greece.
Note: Positive (negative) values represent improvement (deterioration) of the current account.

trend was seen, bringing the deficit down to 5.7% of GDP in 2025. This development also reflects an improvement in its non-cyclical part (see Boxes IV.4 and IV.5), although the saving gap persists (see Box IV.6). Nevertheless, the lower current account deficit in 2025 should not lead to complacency, as non-oil imports of goods continued to grow, despite the positive performance of the corresponding exports. Moreover, although travel receipts grew substantially in 2025, the improvement in the services balance was small, as the transport and other services balances deteriorated due to lower sea transport receipts.

In 2026, as a result of the war in the Middle East, the current account deficit is not anticipated to improve further. Rising energy prices are expected to have a negative impact on the oil balance. Although non-oil exports of goods, despite geopolitical developments, increased and maintained their market share in the main destination countries in 2025, any materialisation of downside risks to global growth and to foreign demand for Greek products should make a further negative contribution to the current account. Before the war in the Middle East, the services surplus was expected to increase, mainly through the extension of the tourist season, the promotion of alternative forms of tourism and the stronger cruise sector. However, developments in travel receipts will be determined by the duration of the war, the impact on travellers' disposable income, as well as on travellers' preferences for safer or shorter-haul destinations. A positive contribution is also estimated to come from RRF funds, which are expected to be disbursed in the course of 2026, while the anticipated rise in imports of investment goods should weigh on the current account deficit. Therefore, depending on the intensity and duration of the war in the Middle East, the current account is not projected to improve in 2026, but is expected to resume a positive track next year.

Although the extroversion of the Greek economy has improved markedly since 2010, it appeared to stagnate in the 2024-25 period. Specifically, according to balance of payments data, total exports of goods and services as a percentage of GDP stood at around 40% in 2025, which was slightly lower than in 2024, but almost double their level in 2010.[46] In addition, over 50% of the country's exports is concentrated in three sectors: travel services, sea transport and fuel; as a result, any adverse developments in these sectors has a direct negative impact on the current account.[47] Moreover, although the value of high-tech exports has increased compared with 2010, their share in the country's total exports of goods remains among the lowest in the EU.[48] It should also be noted that, excluding fuel, over 65% of Greek exports is directed

46 The trade openness index of the economy – defined as the sum of exports and imports of goods and services as a percentage of GDP – followed a similar course.

47 It should be noted that the volatility index for fuel exports and transport receipts is elevated. See Bank of Greece, *Monetary Policy – Interim Report 2021*; Box IV.3 "Indicator of volatility of exports of goods and services – The impact of the pandemic", December 2021.

48 See for instance Eurostat, High-tech exports – Exports of high technology products as a share of total exports (from 2007, SITC Rev. 4).

to EU countries, with no notable change in this share in recent years. While Greece's heavy reliance on EU goods exports provides a buffer in times of geopolitical instability, an expansion into third country markets could give a further boost to the country's total exports.[49]

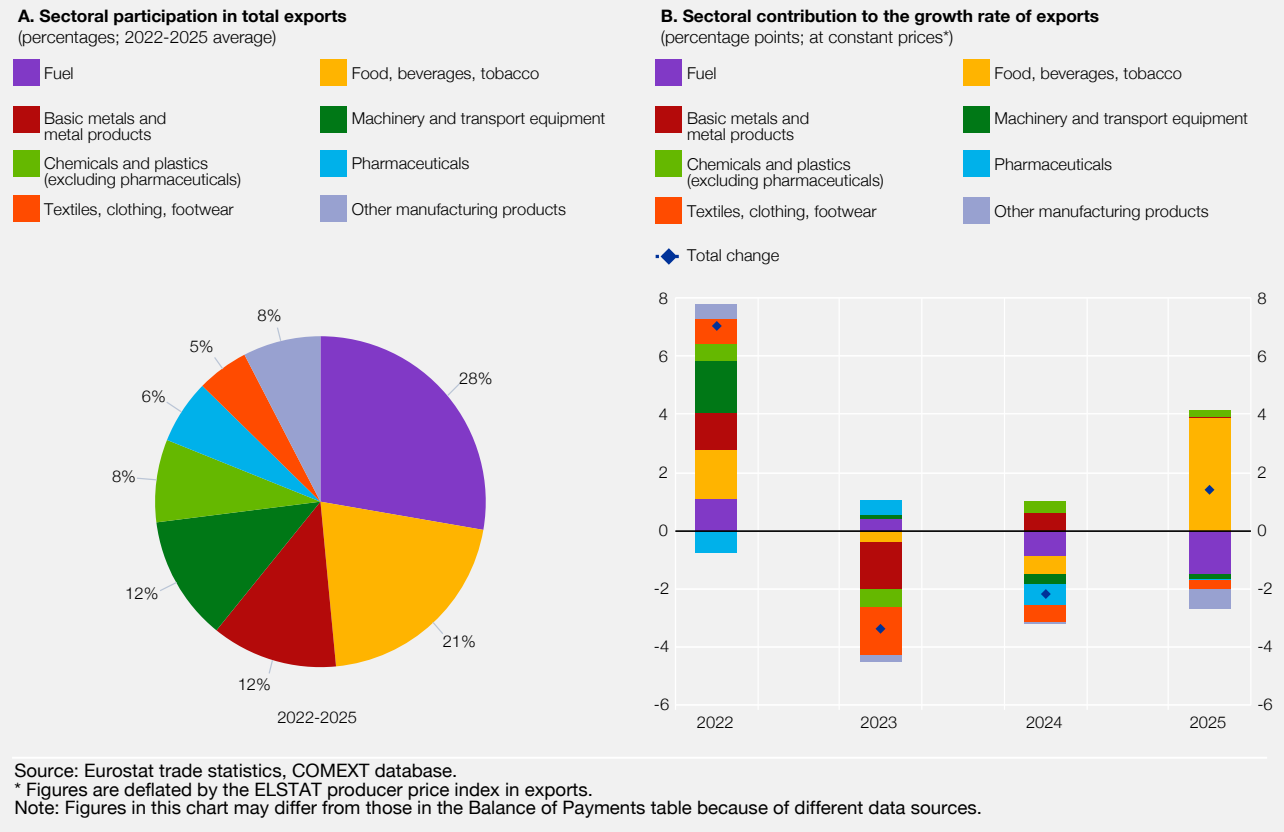
Therefore, reducing the current account deficit through a further increase in total exports of goods and services requires enhancing the diversification of exports of goods and services and developing high-tech goods industries.

Balance of goods

The goods deficit narrowed in 2025, due to a larger drop in total imports than in exports. This reflects a decline in the oil balance, which was partly offset by a widening deficit of the non-oil balance of goods. In particular, fuel imports fell by more than the corresponding exports, reflecting both a drop in international prices of energy goods and the fact that the volume of fuel imports decreased by more than that of exports. Regarding other goods, although exports increased, the corresponding rise in imports was stronger, leading to a deterioration of the relevant balance.

At constant prices, non-oil exports of goods grew by 4.7%, on account of a positive contribution, primarily, from food, beverages and tobacco and, secondarily, from chemicals and basic metals (see Chart IV.25). In the same vein, nonoil imports of goods rose by 2.4%, which is associated with an increase in imports of non-durable consumer goods and transport equipment, while imports of investment goods declined (see Chart IV.27).

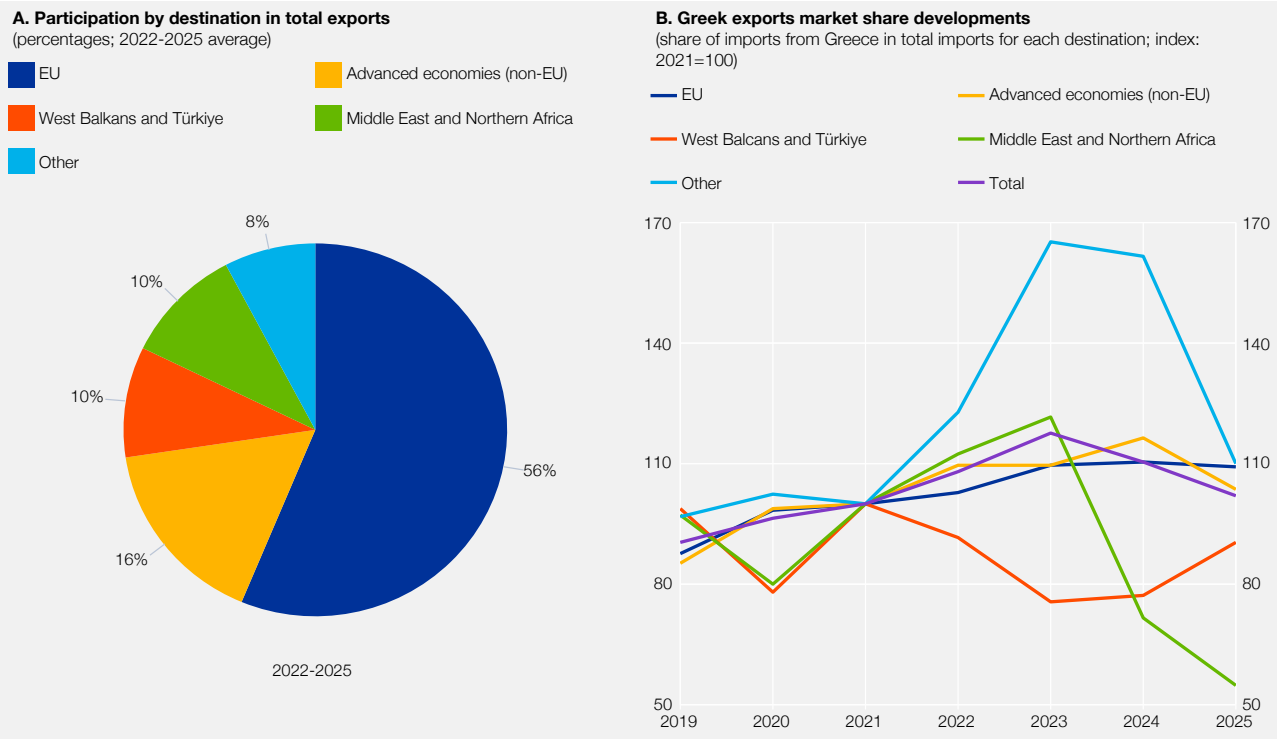
Chart IV.25 Exports of goods by sector



Source: Eurostat trade statistics, COMEXT database.
* Figures are deflated by the ELSTAT producer price index in exports.
Note: Figures in this chart may differ from those in the Balance of Payments table because of different data sources.

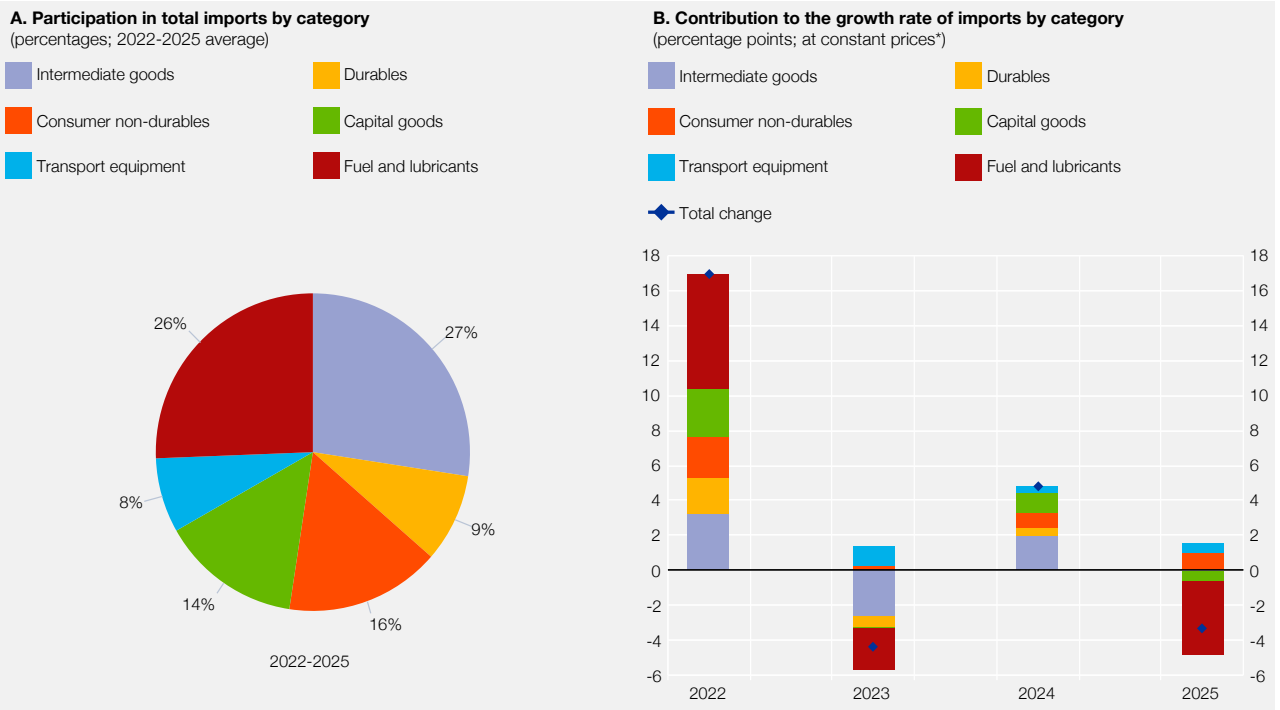
49 See for instance Panagiotou, St. and Ch. Papazoglou (2025), "Revisiting Greece's potential trade flows: a gravity model approach", in *Essays in Honour of Professor Yannis Stournaras*, S. Kotsios, E. Papapetrou, G. Dotsis, and P. Tsalaporta (eds.), Nicosia: Broken Hill Publishers Ltd, pp. 337-346.

Chart IV.26 Exports of goods by destination



Sources: Eurostat trade statistics (COMEXT database) and IMF (IMTS).

Chart IV.27 Imports of goods by use



Source: Eurostat trade statistics, COMEXT database.
* Figures are deflated by the ELSTAT import price index.
Note: Figures in this chart may differ from those in the Balance of Payments table because of different data sources.

In 2025, Greece's market share increased in non-euro area EU countries, while a marginal decrease was recorded in euro area countries.[50] Greek exports to the Western Balkans improved, but fell short of compensating for the decline in Greece's share in the rest of the world, especially in developed non-EU countries, leading to a drop in the country's overall market share.

However, the share of non-oil exports of goods remained at almost the same level as in 2024, as a decline in international energy prices has an adverse effect on the market share of Greek exports of goods mainly to nonEU countries (see Chart IV.26).

Balance of services

The surplus of the services balance rose slightly by 0.5% in 2025, as higher net travel receipts were largely offset by lower net transport and other services receipts.

In 2025, global tourism, based on arrivals, grew by 4%,[51] topping 2024 levels, while the Mediterranean region also registered a continued upward trend, with a 3% increase in international arrivals and an almost unchanged share in global tourism. Nevertheless, the growth rate of tourist arrivals worldwide in 2025 stood at lower levels than in the previous year, as a recovery in Asia led to a partial recoupment of that region's share. Among Mediterranean countries, the largest increase in inbound travellers compared with 2024 was recorded by Türkiye, Egypt and Morocco. Greece consistently ranked fourth among the Mediterranean countries in terms of tourist arrivals for 2025 (following Spain, Italy and Türkiye), recording the highest concentration of arrivals in the summer months in relation to competitor countries, despite the continuous extension of the tourist season.

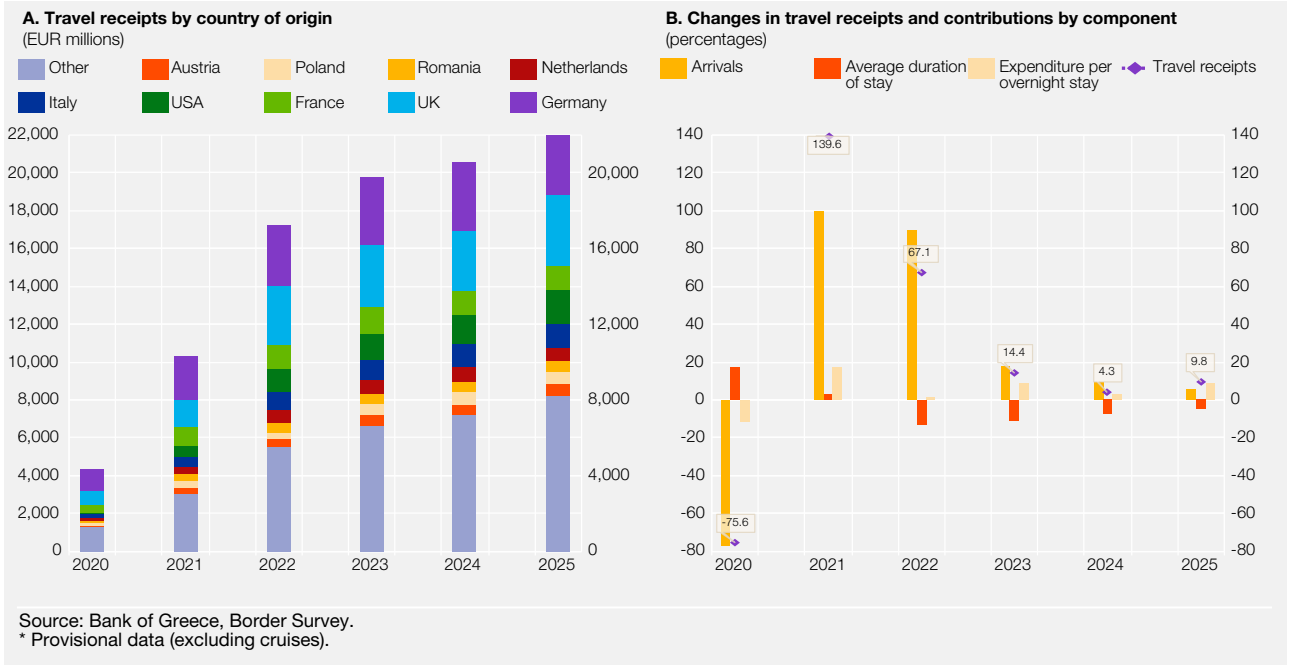
In Greece, travel arrivals and receipts continued to grow in 2025. The rise in receipts (by 9.4% year-on-year) was due to a 6.4% increase in arrivals and a 3.9% rise in average expenditure per trip. It should be noted that a slight decrease in the average length of stay was more than offset by an increase in average expenditure per overnight stay, resulting in the above rise in average expenditure per trip. Moreover, the growth rate of the tourism price index dropped to 1.3% in 2025 (compared with 7.0% in 2024) and was lower than the growth rate of the consumer price index (CPI).[52,53] According to the World Travel and Tourism Council (WTTC), the overall impact of the broader tourism sector on the Greek economy is estimated to have increased from 19.4% in 2024 to 20.6% in 2025.[54]

Over half of total travel receipts still originate from five main travel markets (Germany, France, Italy, the United Kingdom and the United States). The euro area's share declined, while the share of visitors from non-euro area EU countries increased. Moreover, the tourist season continued to expand, with higher rates of arrivals recorded in months outside the traditional tourist season. Specifically, taking together the January-March and October-December 2025 periods, receipts and arrivals rose by 9.1% and 11.7%, respectively, compared with 2024 and contributed by 19.5% and 23.3%, respectively, to total receipts and total arrivals in 2025. The cruise sector continued to expand, registering positive growth rates also in 2025, with a further rise of 3.9% in receipts compared with 2024 and a share of 4.4% in total receipts (see Chart IV.28).

According to the 2025 border survey, over half of total receipts are generated by the Southern Aegean islands' regions (Cyclades and the Dodecanese), Crete and the Ionian Islands, which

50 This refers to the composition of the EA-20, before Bulgaria's entry on 1 January 2026.
51 UNWTO (2026), *World Tourism Barometer*, 24(1), January.
52 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% for the overall CPI, respectively).
53 The weighted price index for tourism is described in Bank of Greece (2023), *Annual Report 2022*, Box IV.3 "The Greek tourism sector: performance and changes following the pandemic".
54 WTTC (2025), *Travel & Tourism Economic Impact*, 2025 Annual Research: Key Highlights.

Chart IV.28 Breakdown of and changes in travel services (2020-2025)



Source: Bank of Greece, Border Survey.
* Provisional data (excluding cruises).

are popular tourist destinations. The share of the Attica region continued to increase, by 3 pps against 2024. Average expenditure per trip grew substantially in the regions of the Southern Aegean and Attica, while a decline was recorded in Crete.

The transport balance surplus shrank in 2025, almost entirely due to lower net sea transport receipts. Specifically, receipts from sea transport services fell by 14.9%, as a result of reduced freight rates in the sectors where Greek shipping is active, as well as the euro's appreciation against the US dollar,[55] combined with a small decrease in the active Greek-managed merchant fleet (see Chart IV.29). In particular, freight rates for dry cargo ships fell by 7% and for oil tankers by 1%.[56]

The surplus of the other services balance shrank almost by half in 2025 compared with 2024, owing to a stronger increase in payments than in receipts. This is attributable to higher net payments for insurance services and lower net receipts from telecommunications, computer and information services, despite a rise in net receipts from other business activities. The bulk of total receipts in 2025 was accounted for by other business services, followed by telecommunications, computer and information services, while most payments are accounted for by other business services and insurance services.

Primary and secondary income accounts – Capital account

In 2025, the primary income account improved year-on-year, mostly driven by lower net interest payments, reflecting a downward trend in interest rates. This improvement was contained by higher net dividend and profit payments. The secondary income account registered a higher surplus, as general government net payments halved relative to 2024, following the disbursement of two tranches by the RRF. However, this improvement was offset by lower net receipts of the other sectors of the economy excluding general government. It should be noted that the

55 The US dollar is the main trading currency in the merchant shipping industry.
56 Reduced demand for iron ore and coal by China contributed to a decrease in dry freight rates in the first half of 2025. Freight rates for tankers reflect lower demand for oil by China in the first half of 2025. From mid-2025, the drop in freight rates for both dry cargo ships and tankers started to decelerate, moderating their decline at an annual level.

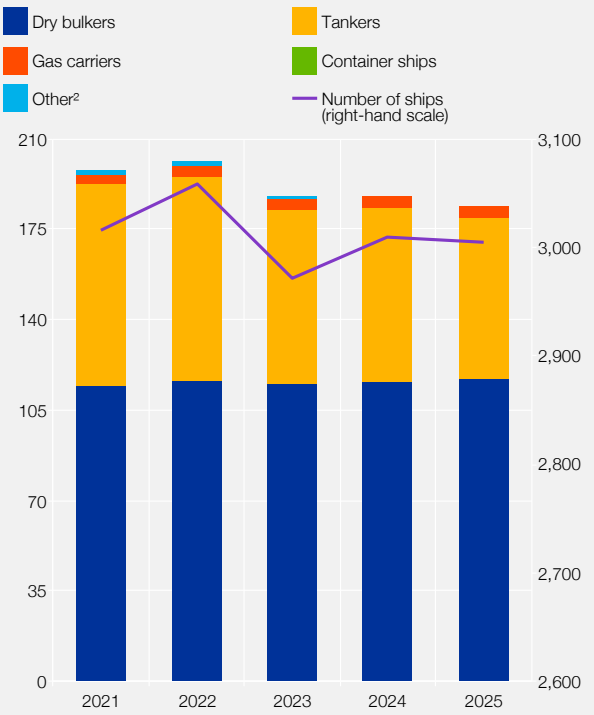
part of RRF grants related to direct transfers is recorded under the secondary income account, while that related to fixed capital formation is recorded under the capital account.

The capital account showed a surplus in 2025, against a small deficit in 2024, mainly due to higher general government net receipts from RRF inflows.

Progress in disbursing RRF funding to Greece is linked to the fulfilment of the relevant milestones and the implementation of reforms. Specifically, on 2 May 2025, EUR 1.3 billion was disbursed in the form of grants and EUR 1.8 billion in the form of loans, while on 26 November 2025, EUR 2.1 billion was disbursed solely in the form of RRF grants. Overall, the absorption of RRF funds reached 66.1% for grants and 64.3% for loans.[57] It should be noted that 2026 is the last year to see disbursements of RRF tranches. According to the planning of the Ministry of Economy and Finance, the three remaining tranches of RRF financing are expected to be disbursed by the fourth quarter of 2026, subject to the fulfilment of the relevant milestones.[58]

Chart IV.29 Developments in the merchant fleet[1] 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.
1 Merchant ships in operation (excluding recreational and fishing) with gross tonnage of over 100.
2 Including passenger ships, barges, etc.

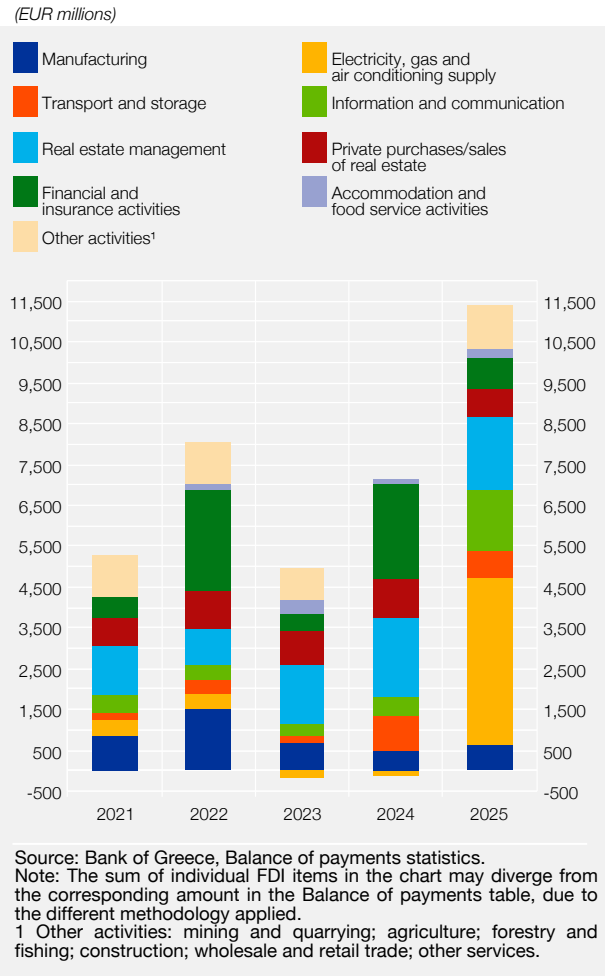
Inflows from EU structural and investment funds[59] in 2025 amounted to EUR 2.0 billion (according to EU data),[60] while inflows of direct agricultural subsidies under the Common Agricultural Policy amounted to EUR 2.5 billion. Through the Multiannual Financial Framework (MFF) 2021-2027 Greece received EUR 4.3 billion in 2021-25. However, the absorption of MFF funds is expected to accelerate, as is typically the case at the end of each programming period.[61] The completion of the RRF in 2026 is also projected to contribute to this acceleration, as priority was given to the implementation of RRF-funded projects. It should be noted that Greece ranks above the EU average in terms of disbursements under the MFF 2021-2027.

Financial account

Under direct investment, residents' external liabilities, which represent non-residents' direct investment in Greece, registered a EUR 11.9 billion flow (4.8% of GDP), compared with EUR 6.3 billion (2.6% of GDP) in 2024. The flows in 2025, not including the corporate restructuring of

57 By the end of 2025, RRF financing (in the grant component and including REPowerEU) amounted to EUR 12.0 billion, of which EUR 5.4 billion were recorded under the secondary income account and EUR 6.6 billion under the capital account, boosting the financing of the current account. Loans from the RRF are recorded in the financial account (under other investment).
58 On 22 December 2025, Greece submitted its seventh payment request for grants amounting to EUR 0.9 billion and the sixth payment request for loans in the amount of EUR 0.3 billion. In total, nine requests for grants and eight requests for loans had been scheduled.
59 These amounts are recorded under the primary and secondary income accounts, as well as under the capital account.
60 Source: European Commission, Open Data Portal for the European Structural and Investment Funds.
61 Bank of Greece (2025), *Annual Report 2024*, Box IV.5 "Implementation of regular EU funding programmes for 2021-2024 and 2021-2027 and their impact on the current account balance".

Chart IV.30 Breakdown of FDI flows in Greece by sector of economic activity



Source: Bank of Greece, Balance of payments statistics.
Note: The sum of individual FDI items in the chart may diverge from the corresponding amount in the Balance of payments table, due to the different methodology applied.
1 Other activities: mining and quarrying; agriculture; forestry and fishing; construction; wholesale and retail trade; other services.

Metlen Energy & Metals, were larger than in 2024.[62] In absolute terms, the flows stood above the 2022-24 three-year average, closer to their 2022 level, reflecting stronger dynamics of foreign direct investment in new equity and in intragroup loans.

During 2025, foreign investors' interest in Greece continued to focus on manufacturing and services. Nevertheless, it varied considerably, as more funds were directed towards energy (electricity, gas and air conditioning); construction; communications; wholesale and retail trade; accommodation and food services; and administrative activities for rentals and leases (recorded under "Other activities", see Chart IV.30). Transport and in particular real estate (management and private purchases/sales) continued to attract funds, though at a lower intensity. Foreign investors' interest in the real estate sector dropped for the first time since 2020,[63] which may be attributable to high construction costs and, most notably, the rise in the Golden Visa minimum investment threshold. The bulk of foreign direct investment (FDI) originates from the United Kingdom, the United States, Germany and the United Arab Emirates.

In 2026, FDI in Greece is estimated to remain high, supported by the country's improved macroeconomic (satisfactory GDP growth, RRF-supported public investment), business (digitalisation) and banking (increased resilience) environment.[64] However, heightened geopolitical uncertainty and a decline in global cross-border M&As[65] may affect direct investment in Greece.

Turning to residents' external assets, which refer to Greece's FDI abroad, flows in 2025 strengthened compared with the previous year and amounted to EUR 5.3 billion.[66]

Under portfolio investment, an increase in residents' external assets was mainly due to a rise of EUR 5.6 billion in residents' investment in foreign equities, which was offset by a decline of EUR 3.4 billion in residents' holdings of foreign bonds and Treasury bills. An increase in residents' liabilities resulted from a rise of EUR 13.9 billion in non-residents' holdings of Greek bonds and Treasury bills.

62 The most important transactions for the year are related to the participation of Euronext N.V. (Netherlands) in the share capital of Hellenic Exchanges – Athens Stock Exchange S.A. (ATHEX) and the participation of Bally's Corporation (USA) in the capital increase of Intralot S.A., in the context of the acquisition of Bally's International Interactive by the Intralot Group.
63 See also Section IV.2 above.
64 Speech by Bank of Greece Governor Yannis Stournaras, "Banking and financial outlook for Greece & Europe in 2026", Economist event "The World Ahead 2026: Athens Gala Dinner", 31 January 2026.
65 UNCTAD, "Global Investment Trends Monitor", No. 50, 20.1.2026.
66 The most important transactions concern the purchase of shares of Hellenic Bank Public Company Limited (Cyprus) by Eurobank S.A. and the acquisition of shares of Edison International Shareholdings S.p.A. (Italy) by HELLENiQ ENERGY Holdings S.A.

Under other investment, a rise in residents' external assets is attributable primarily to a EUR 6.5 billion statistical adjustment related to the issuance of banknotes and, secondarily, to a EUR 2.6 billion increase in loans extended to non-residents by domestic financial institutions. A rise in residents' liabilities is associated, on the one hand, with the above-mentioned statistical adjustment of EUR 6.5 billion and, on the other, with an increase of EUR 2.4 billion in non-residents' deposit and repo holdings in Greece (the TARGET account included). This was largely offset by a drop of EUR 7.2 billion in the outstanding debt to non-residents (including the early partial repayment of the bilateral loans under the first economic adjustment programme).[67] At end-2025, Greece's reserve assets stood at EUR 20.3 billion, compared with EUR 14.6 billion at end-2024.

67 On 2 December 2025, the Boards of Directors of the ESM and the EFSF approved the use of funds from a dedicated cash buffer account for an early partial repayment of the bilateral loans under the Greek State's first economic adjustment programme (Greek Loan Facility – GLF) amounting to EUR 5.3 billion.

Box IV.4

THE CYCLICALLY ADJUSTED CURRENT ACCOUNT BALANCE OF GREECE

Cyclical and non-cyclical (structural) factors have an impact on the current account deficit. A cyclical adjustment is related to the phase of an economy's business cycle compared with its main trading partners and is reflected in the output gap of that economy vis-à-vis that of its trading partners. Cyclical factors include weak domestic and external demand, the output gaps of the domestic economy and its trading partners, the oil balance and the financial cycle. By contrast, structural factors reflect fundamental shifts in the economy and are of a long-term nature. These indicatively include competitiveness, institutional quality and the country's demographics. The present analysis aims at estimating the two main components of the Greek current account deficit, in order to investigate whether its changes are of a temporary or a permanent nature.

Estimation of the cyclically adjusted current account balance

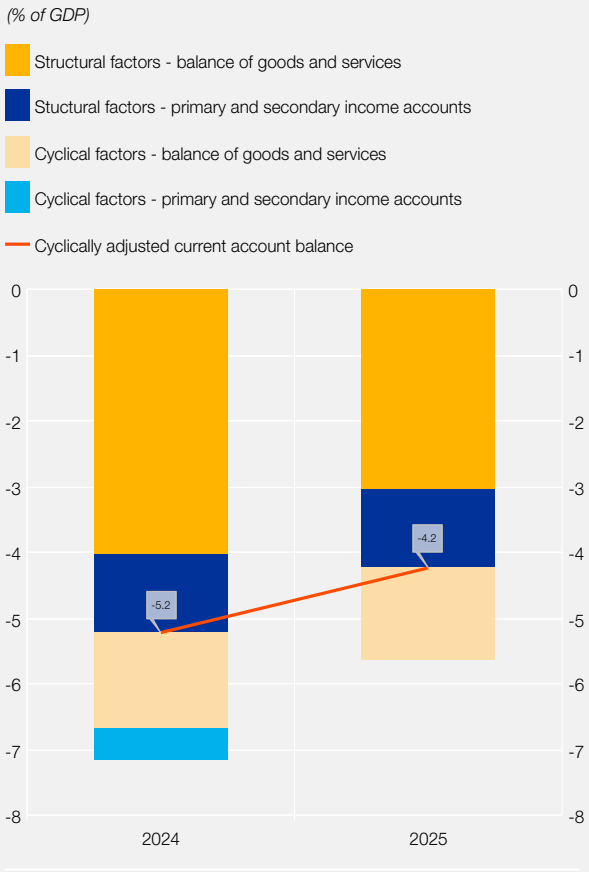
There is plenty of literature on the current account balance that seeks to identify the drivers of change and estimate the part of the adjustment of external imbalances that is interpreted by structural and cyclical factors. A key difference observed in the literature lies in the estimation methodology employed. The first approach is based on a review of the current account balance over time and, using a set of parameters including macroeconomic variables, demographics, as well as metrics on the financial, political and institutional environment, directly estimates the structural part of the balance (see Box 9). The second approach, followed in the present box, calculates the cyclically adjusted balance of goods and services indirectly, after estimating the cyclical component. This cyclical component is estimated on the basis of the output gaps of the domestic economy and its trading partners, as well as the income elasticities of imports and exports.

For the purposes of this box,[1] the estimation of the cyclical component is derived from the cyclical part of the balance of goods and services, on the one hand, and of the primary and secondary income accounts, on the other. The estimation of the former requires the use of two main sources of information. First, it is necessary to estimate the relative intensity of the business cycle in the domestic economy, which is determined by the size of the output gap of the Greek economy compared to that of its main trading partners. Bank of Greece calculations are used to estimate the output gap of the Greek economy, while the output gap of the trading partners is weighted by the share of Greek exports to the respective countries.[2] Second, it is necessary to estimate the impact of changes

1 The analysis follows the methodology presented in Backinezos, C., S. Panagiotou and C. Papazoglou (2020), "The current account adjustment in Greece during the crisis: cyclical or structural?", Bank of Greece, *Economic Bulletin*, No. 51, 73-90.

2 The data from the output gap of the country's trading partners has been drawn from the European Commission's AMECO and the IMF's World Economic Outlook databases, October 2025. The weights have been calculated on the basis of the exports of manufactured products (sections 5-8 of the Standard International Trade Classification – SITC) of Greece's main trading partners for which potential output data were available in the above databases.

Chart A Greece's cyclically adjusted current account balance



Source: Bank of Greece calculations.

in the output gap on the balance of goods and services. This impact is directly related to the income elasticity of domestic exports to the GDP of trading partners and of imports to the GDP of Greece.[3,4]

The cyclical part of the overall primary and secondary income account balance is approximated by its deviation from its long-term average (as a percentage of GDP), which was -1.2% of GDP in 2016-25.[5]

On the basis of these estimates, in 2024 the cyclically adjusted current account balance amounted to -5.2% of GDP, against a recorded deficit of -7.2%. In 2025, it stood at -4.2% of GDP, with the cyclical component contributing 1.4 percentage points of GDP. In particular, the cyclically adjusted deficit of the balance of goods and services alone was 3.0% of GDP, with the cyclical part corresponding to around -1.4 percentage points of GDP. The negative contribution of the cyclical part reflects the country's positive output gap vis-à-vis its trading partners. By contrast, the zero deviation of the primary and secondary income account balance from the long-term average had no impact on the current account deficit (see Chart A).

Therefore, the improvement in 2025 reflects not only the decline in the cyclical component, but also the lower cyclically adjusted deficit of the balance of goods and services. The cyclical component of the current account deficit, which is not of a permanent nature, is expected to be reversed once the cyclical factors that caused it have faded. However, the cyclically adjusted deficit of the current account balance remains above the corresponding structural level of the current account balance,[6] as estimated by international organisations (e.g. the

3 The impact of the economic cycle on the external sector is mainly reflected in its impact on the balance of goods and services, which is the most important part of the current account balance and is summarised in equation (1):
$$\Delta\left(\frac{TB}{GDP}\right)_{cycl.} = e_x * \frac{X}{GDP} * TPGAP - e_m * \frac{M}{GDP} * GAP$$
where:
$\frac{TB}{GDP}$: the balance of goods and services as a percentage of domestic GDP;
e_x: foreign income elasticity of Greek exports;
e_m: domestic income elasticity of imports;
$\frac{X}{GDP}$ and $\frac{M}{GDP}$: exports and imports, respectively, of goods and services expressed as a percentage of domestic GDP;
GAP and TPGAP: the output gap of Greece and its trading partners, respectively.
The cyclical part of the balance of goods and services is calculated on the basis of equation (1).

4 Income elasticities of exports e_x and imports e_m were set at 1.5 according to prevailing estimates in international literature. Indicatively, see Salto, M. and A. Turrini (2010), "Comparing alternative methodologies for real exchange rate assessment", European Commission, Directorate-General for Economic and Financial Affairs, *European Economy, Economic Papers*, No. 427, September.

5 An alternative approach would be to consider the change in the primary and secondary income account as being of a structural nature, see for example Bank of Greece (2020), *Annual Report 2019*, Box IV.3 "Adjustment of the current account deficit during the crisis: cyclical or structural?" (in Greek).

6 The structural level of the current account balance (CA norm) is the one considered consistent with the long-term fundamentals of the economy.

IMF).[7] This finding highlights the need to continue with structural reforms, in order to achieve a sustainable reduction of the current account deficit.

In order to investigate the sensitivity of the results to the income elasticity of imports and exports, the cyclically adjusted current account balance was calculated for a range of elasticities (1.0-2.0) around the central value used (1.5). The sensitivity analysis shows that the impact of the income elasticity of imports is greater than that of exports, without, however, substantially altering the estimated cyclically adjusted current account balance (see the table).

Sensitivity to income elasticity of imports and exports

(cyclically adjusted current account balance, 2025)

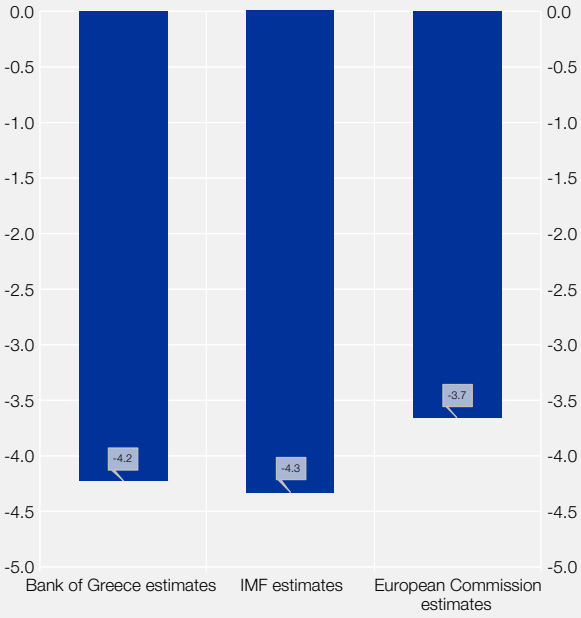
Income elasticity of imports (e_m)	Income elasticity of exports (e_x)		
	1.0	1.5	2.0
1.0	-4.7	-4.6	-4.5
1.5	-4.3	-4.2	-4.1
2.0	-3.9	-3.8	-3.7

Source: Bank of Greece estimates.

As mentioned above, a key parameter in estimating the cyclically adjusted current account balance is the calculation of the output gap of the Greek economy. In order to assess the sensitivity of the results to the estimates of the output gap, the cyclically adjusted current account balance was calculated using alternative measures of the output gap for Greece, as published by the IMF (World Economic Outlook database) and the European Commission (AMECO). The differences do not turn out to be particularly significant for 2025 and therefore the conclusions remain robust (see Chart B).

Chart B The cyclically adjusted current account balance in 2025 based on alternative estimates of Greece's output gap

(% of GDP)



Sources: Bank of Greece, IMF, European Commission and Bank of Greece calculations.

Conclusions

The above analysis showed that the improvement in the current account balance in 2025 reflects a decline in both the cyclically adjusted deficit of the current account balance and its cyclical component. Further sensitivity analysis in terms of the income elasticities of exports and imports as well as of the estimates of Greece's output gap does not materially change the results. However, the level of the cyclically adjusted current account deficit is still high and hence does not allow for complacency. In order to reduce the current account deficit, a wider export base is required, together with sectoral diversification and further strengthening of the economy's structural competitiveness.

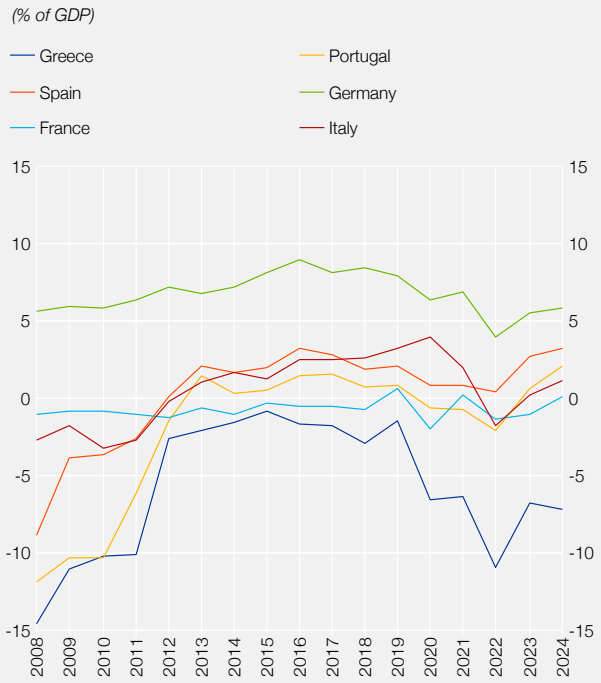
7 See IMF (2025), "Greece: 2025 Article IV Consultation", IMF Country Report No. 25/85, April.

Box IV.5

STRUCTURAL AND CYCLICAL COMPONENTS OF THE CURRENT ACCOUNT BALANCE – THE CASE OF GREECE

Since 2020, the evolution of the current account balance of the European Union economies has been characterised by strong fluctuations, as a result of a series of exogenous shocks. In particular, the negative effects on economic activity from the COVID-19 pandemic, disruptions in supply chains and, subsequently, the surge

Chart A Current account balance for select EU countries



Sources: World Bank and Bank of Greece.

in energy and basic imported goods prices weighed on the external balance of EU countries. As shown in Chart A, many European economies recorded a deterioration in their current account balances in 2021-22, primarily due to rising energy costs and import prices. However, since 2023, many economies have shown signs of a gradual normalisation of their balances, mainly reflecting the partial easing of inflationary pressures and, in particular, the decline in energy and import prices due to the recovery of supply chains.

Against this background, Greece's current account deficit, after a significant correction in 2013-19, widened again in 2020-22, as a result of the pandemic-related restrictions on economic activity and the rise in energy prices.[1] In 2023, a correction to -6.8% of GDP was recorded, from -10.7% of GDP in 2022. However, in 2024 the current account deficit expanded by 0.4 percentage points to -7.2% of GDP. This development was primarily attributable to a widening of the deficit in the trade of goods, as exports of goods declined, while the corresponding imports increased, reflecting, on the one hand, an economic slowdown in Greece's main trading partners and, on the other, higher imports of capital goods and a low degree of import substitution.

This box examines whether changes in the current account balance of Greece are due to temporary cyclical effects and/or permanent structural factors affecting the external balance of the economy.

Methodology

To this end, an econometric approach is adopted whereby changes in the current account are broken down into their cyclical and structural components, following the empirical methodology used in the relevant literature.[2] Specifically, in a first step, the key drivers of the current account balance are identified both over a long-term horizon, in which case the underlying determinants are assessed as structural, and in the short term, in which case the relevant factors are assessed as cyclical. Furthermore, panel data econometric models are used for the EU countries. This approach allows the econometric estimation of the coefficients that capture the size and sign of the impact of individual drivers on the current account for all economies in the sample. In a second step, the coefficients derived from the estimation of short-term (cyclical) factors for the EU countries are applied to the Greek data, in order to derive the contribution of the cyclical component to changes in the Greek current account balance in the recent period (2023-24). The residual part of the changes, obtained after deducting the contribution of the cyclical component from the change in the current account balance, is attributable to structural factors. Therefore, this methodology allows quantifying the cyclical and structural components of the change in the current account balance for the Greek economy.

1 For an analysis of the trend in Greece's current account balance in the post-pandemic period and at the onset of the energy crisis, see Bragoudakis, Z. (2024), "Imbalances in the current account of the Greek economy: causes and policy recommendations", SUERF Policy Brief No. 831. For an analysis of its trend until the pandemic, see Backinezos, C., S. Panagiotou and C. Papazoglou (2020), "The current account adjustment in Greece during the crisis: cyclical or structural?", Bank of Greece, *Economic Bulletin*, No. 51, 73-90.

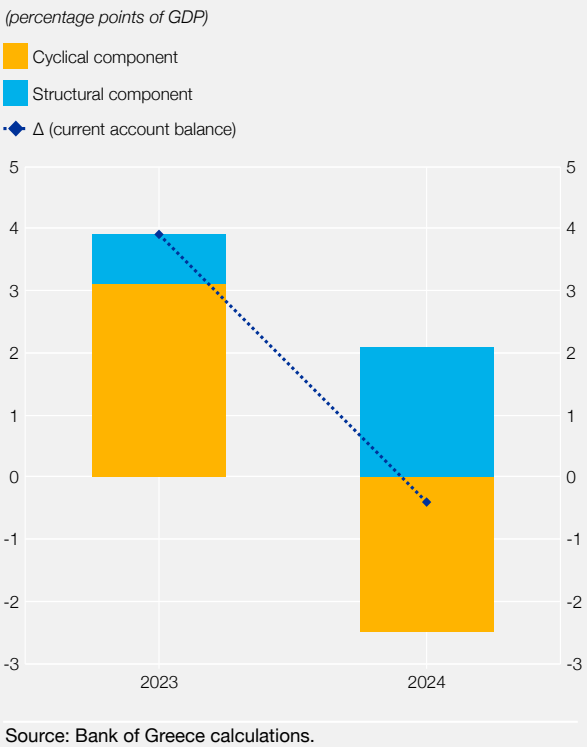
2 For a detailed description of the relevant empirical methodology, see Cheung, C., D. Furceri and E. Rusticelli (2013), "Structural and cyclical factors behind current account balances", *Review of International Economics*, 21(5), 923-944, and Chinn, M.D. and E.S. Prasad (2003), "Medium-term determinants of current accounts in industrial and developing countries: an empirical exploration", *Journal of International Economics*, 59(1), 47-76.

Structural and cyclical components

The results of the above empirical approach show that the fluctuations in the current account balance of Greece in 2023-24 are explained, to a significant extent, by cyclical factors. In particular, econometric model estimates for the EU countries identify the following statistically significant structural factors behind current account balances: net foreign asset position, fiscal balance, relative income, the long-term trend of productivity growth, trade openness and regulatory quality. In addition, statistically significant short-term drivers include the cyclical components of credit to GDP and unit labour costs.[3]

Applying the coefficients estimated for the EU countries to data for the Greek economy shows that the 0.4 percentage point widening of the current account deficit in Greece in 2024 is primarily driven by cyclical factors. As illustrated in Chart B, the cyclical component made a negative contribution of 2.5 percentage points to the change in the current account balance, possibly reflecting weaker external demand and higher imports. By contrast, the contribution of structural factors to the change in the current account balance in 2024 was positive, estimated at 2.1 percentage points, but not sufficient to offset the negative impact of the cyclical component.

Chart B Change in the current account balance of Greece, structural and cyclical components



Source: Bank of Greece calculations.

Overall, Greece's current account balance stood at -7.2% of GDP in 2024, and this deficit is estimated to be driven mainly by structural features of the economy.[4] However, as illustrated in Chart B, the contribution of the structural component to changes in the current account balance has remained positive over the past two years, reflecting significant improvements in competitiveness, the investment environment and the fundamentals of the Greek economy. There has been a notable increase in investment in recent years, which, with the support of the Recovery and Resilience Facility (RRF), has been channelled to critical sectors such as infrastructure, energy and digital networks, contributing to a direct increase in economic activity and an improvement in the current account balance as well as to better medium-term growth prospects.

Conclusions

The above findings lead to the conclusion that Greece should remain committed to primary fiscal surpluses and structural reforms so as to enhance the competitiveness and export orientation of Greek enterprises, as these factors have a favourable impact on Greece's current account balance, as suggested by the estimates. In addition, improved productivity and fixed capital formation, as well as a reduction in import dependency through gradual import substitution with domestic products, would help reduce the sensitivity of the current account to short-term (cyclical) fluctuations.

3 It should be noted that, according to the empirical methodology employed, the determinants are broken down into their structural and cyclical components, where the structural component is defined as the non-overlapping 4-year average, while the cyclical component is constructed as the annual deviation from its overlapping 4-year average.

4 This estimate is derived from the calculation of the cumulative contribution of the cyclical and structural components to the change in the current account balance in recent years. The result suggests that most of the current account deficit as a percentage of GDP is attributable to structural features of the economy, despite the fact that the short-run change in the balance over the past two years is primarily due to cyclical factors.

Box IV.6

DEMOGRAPHIC AGEING AND INTERACTION WITH THE CURRENT ACCOUNT BALANCE

Demographic ageing represents a complex structural challenge for both the Greek and the European economy in the coming decades. The decline in births, the increase in life expectancy and the shrinking of the working age population are expected to impact on the growth momentum of the economy, fiscal sustainability and the functioning of the labour market in the euro area. At the same time, the Greek economy is characterised by persisting weaknesses in its external position, with its current account balance remaining in deficit for most of the years following the exit from economic adjustment programmes, as a result of a weak increase in saving and a strong rise in investment.

Both demographic trends and external imbalances constitute key areas of analysis of the Greek economy in reports of the Bank of Greece,[1,2] research institutes,[3] as well as European and international institutions.[4] International literature[5] suggests that demographic developments materially impact the evolution of the current account balance through saving and investment, also affecting the competitiveness of an economy. This box investigates the key channels through which demographic ageing can affect the current account balance, with a focus on the Greek economy and a comparative reference to the euro area, presenting empirical findings from a panel data analysis and aiming to quantitatively assess this relationship.

1 Main interaction channels between demographic developments and the current account balance

Household saving, investment and the life-cycle hypothesis

Central to the study of the impact of a country's demographic evolution on the current account balance is the life-cycle hypothesis (LCH),[6] which posits that individuals tend to save more during their working life (e.g. by accumulating employer and pension contributions, savings etc.) and dissave during retirement. At a macroeconomic level, the higher share of the elderly in the population tends to reduce the saving ratio of an economy, adversely affecting the saving-investment balance and, by extension, the current account balance. However, this effect is neither linear nor deterministic, as a number of factors seem to also affect the evolution of the current account balance and its interconnection with the demographic developments of an economy. Although the classical life-cycle hypothesis posits that the elderly dissave,[7] modern literature points to a more complex set of interactions, suggesting a positive impact of age dependency ratios on the current account balance. Under

1 See Bank of Greece (2025), *Annual Report 2024*, p. 32.
2 See Bank of Greece (2024), *Annual Report 2023*, Box IV.5 "The twin deficits in the Greek economy: recent developments and prospects", p. 134-137.
3 Foundation for Economic and Industrial Research (IOBE) (2022), "The demographic issue in Greece: Challenges and policy proposals".
4 European Commission (2024), "Commission Staff Working Document: 2024 Country Report – Greece", SWD(2024) 608 final; IMF (2025) "Greece: 2025 Article IV Consultation-Staff Report"; and OECD (2025), *Pensions at a Glance* 2025.
5 For additional information see: 1) Domeij, D. and M. Floden (2006), "Population aging and international capital flows", *International Economic Review*, 47(3),1013-1032; 2) Gerigk, J., M. Rinawi and A. Wicht (2018), "Demographics and the current account", *Aussenwirtschaft*, 69(1), 45-76; 3) Higgins, M. (1998), "Demography, national savings, and international capital flows", *International Economic Review*, 39(2), 343369; 4) Börsch-Supan, A., A. Ludwig and J. Winter (2006), "Ageing, pension reform and capital flows: a multi-country simulation model", *Economica*, 73(292), 625-658; 5) Sposi, M. (2022), "Demographics and the evolution of global imbalances", *Journal of Monetary Economics*, 126, 1-14; and 6) Chinn, M.D. and E.S. Prasad (2003), "Medium-term determinants of current accounts in industrial and developing countries: an empirical exploration", *Journal of International Economics*, 59(1), 47-76.
6 For additional information see: 1) Modigliani, F. and R. Brumberg (1954), "Utility analysis and the consumption function: An interpretation of cross-section data", in: Kurihara, K.K. (ed.), *Post-Keynesian Economics*, 388-436; 2) Ando, A. and F. Modigliani (1963), "The 'life cycle' hypothesis of saving: Aggregate implications and tests", *The American Economic Review*, 53(1), 55-84; and 3) Modigliani, F. (1986), "Life cycle, individual thrift, and the wealth of nations", *The American Economic Review*, 76(3), 297-313.
7 And ultimately termination of saving upon completion of life expectancy.

the extended life-cycle hypothesis (ELCH), increased longevity leads to higher saving rates (in the form of investments, e.g. in real estate or a pension plan) during the working life, as employees prepare for a longer period of retirement.[8] The elderly's high saving rates can also be attributed to bequest saving motives (as evidenced by the example of the Japanese economy),[9] but also to heightened uncertainty about income and medical expenses, which give a precautionary saving motive to households, more than offsetting the tendency to dissave posited by the classical life-cycle hypothesis.[10] Such a perspective is better aligned to demographic developments in high-income countries and implies that demographic ageing leads to higher national saving, ultimately improving the current account balance.[11]

Labour supply, productivity and competitiveness

Population ageing also affects labour supply, denting the growth momentum of the economy. The reduction in the labour force, through pressures for wage increases compounded by low productivity growth, may generate inflationary pressures associated with higher unit labour costs, leading to international competitiveness losses.[12] According to this view, the larger number of elderly households results in increased spending on healthcare services, medicines and medical equipment, leading to higher inflation. For economies with a narrow export base and a high import content of production, such a consumption mix can be reflected in weaker export performance and a widening of the current account deficit.

Public finance and the twin deficits

Under this channel, demographic ageing raises public spending on pension payments, health and long-term care, which, unless offset by a corresponding increase in public revenue or a commensurate decline in the share of other expenditures, translates into fiscal deficits and subsequently into current account deficits, due to increased domestic demand and external borrowing.[13]

2 Empirical investigation

For the quantitative investigation of the relationship between demographic developments and the current account balance, a panel data model is employed for the euro area countries,[14] with annual data covering the period 1995-2025. The main empirical model used in economic analysis is based on Higgins (1998) and Chinn and Prasad (2003).[15] The current account balance (as a percentage of GDP) is defined as a dependent variable,

8 Bloom, D.E., D. Canning and B. Graham (2003), "Longevity and life-cycle savings", *The Scandinavian Journal of Economics*, 105(3), 319-338.

9 Horioka, C.Y. (1991), "The determinants of Japan's saving rate: The impact of the age structure of the population and other factors", *The Economic Studies Quarterly*, 42(3), 237-253.

10 Carroll, C.D. (1997), "Buffer-stock saving and the life cycle/permanent income hypothesis", *The Quarterly Journal of Economics*, 112(1), 1-55.

11 The positive impact predicted by the extended life-cycle hypothesis shows that the economy reacts to ageing through precautionary saving.

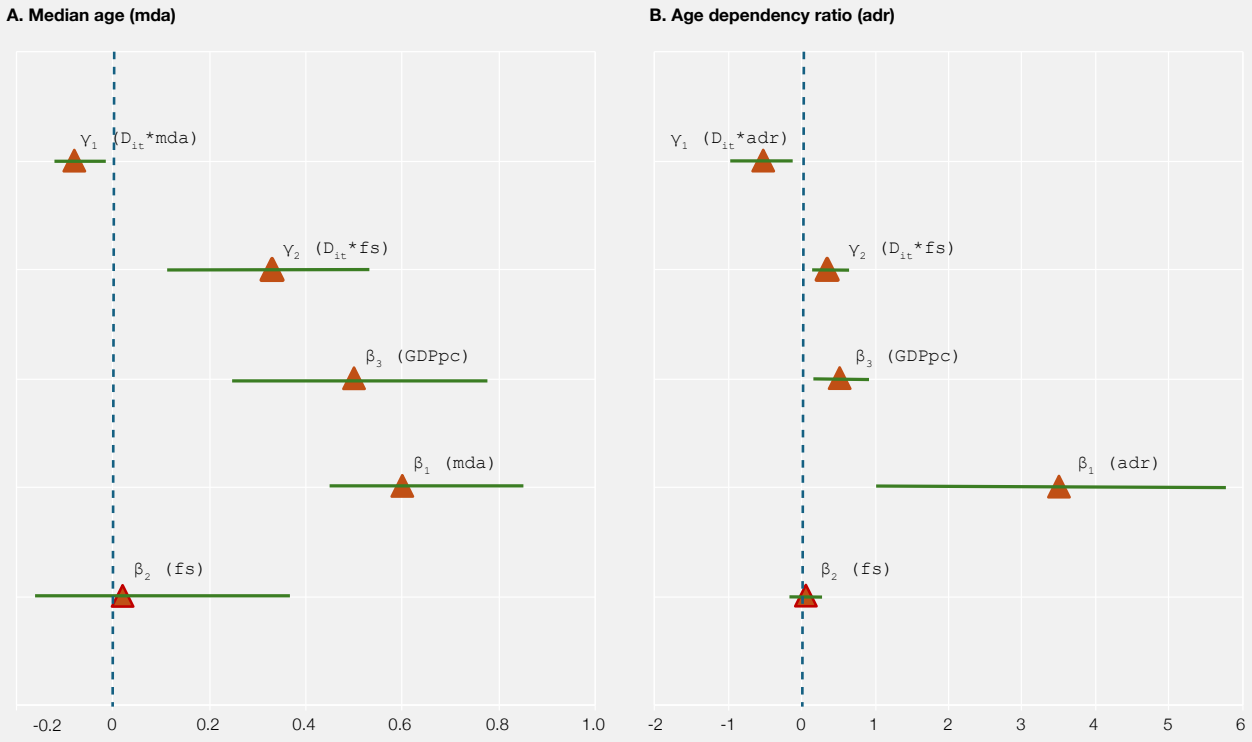
12 For additional information see: 1) Goodhart, C. and M. Pradhan (2020), *The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival*, London: Palgrave Macmillan; 2) Acemoglu, D. and P. Restrepo (2017), "Secular stagnation? The effect of ageing on economic growth in the twenty-first century", *American Economic Review: Papers & Proceedings*, 107(5), 174179; and 3) Maestas, N., K.J. Mullen and D. Powell (2023), "The effect of population ageing on economic growth, the labor force, and productivity", *American Economic Journal: Macroeconomics*, 15(2), 306332.

13 For additional information see: 1) Blanchard, O. and F. Giavazzi (2002), "Current account deficits in the euro area: the end of the Feldstein-Horioka puzzle?", *Brookings Papers on Economic Activity*, 2:2002, 147-186; 2) Bernheim, B.D. (1988), "Budget deficits and the balance of trade", *Tax Policy and the Economy*, 2, 1-31; and 3) Fleming, J.M. (1962), "Domestic financial policies under fixed and under floating exchange rates", *IMF Staff Papers*, 9(3).

14 The euro area sample includes the following countries: Austria, Belgium, Cyprus, Germany, France, Greece, Italy, Portugal, Latvia, Lithuania, Spain, Ireland, Slovenia, Slovakia, Malta, Luxembourg, Finland, the Netherlands. Source: Eurostat.

15 The model has the following general form: $CA_{it}=\beta_0+\beta_1*Z_{it}+\beta_2*fs_{it}+\beta_3*GDP_{pc_it}+\gamma_1*D_{it}*Z_{it}+\gamma_2*D_{it}*f_{sit}+u_{it}$ (1) where CA_{it}: the current account balance (% of GDP), f_{sit}: the fiscal balance (% of GDP), GDP_{pc_it}: GDP per capita (euro area=100), D_{it}: the dummy variable for the case of the Greek economy, Z_{it}: the demographic variables mda_{it} (median age in years) and adr_{it} (age dependency ratio).

Determinants of the current account balance: the role of demographic developments (euro area and Greece)



Source: Bank of Greece econometric estimates.
Notes: The orange triangle represents the coefficient estimate and the green line represents the confidence interval (statistically significant at 5%) on the basis of model (1) in footnote 15. For variables where this interval includes zero on the horizontal axis, the corresponding explanatory variable is statistically non-significant.The constant term in the above representation has been omitted. The econometric investigation of the determinants of the current account balance was carried out using a random effects model, as the control between fixed effects and random effects through Hausman and Sargan-Hansen tests determined that a random effects model is appropriate. The model has significant explanatory power for both estimates (R^2: 0.61 and 0.68 respectively), while the robustness of estimators against heteroscedasticity and multicollinearity problems has been ensured, allowing a safe interpretation of coefficients.

while the demographic variables, i.e. the median age and the age dependency ratio,[16] are used as key explanatory variables. GDP per capita (euro area=100) and the fiscal balance (as a percentage of GDP) are used as additional control variables, while D_{it} indicates the disturbance term.

The above configuration of the model estimates the main impact of demographic variables and the fiscal balance on the current account balance (while controlling for the twin-deficits hypothesis) through the coefficients β_1 and β_2. To distinguish the respective additional effects of the demographic variables and of the fiscal balance in the case of the Greek economy, a dummy variable (D_{it}) is used, whose value is set at 1 for Greek economy data and at 0 for the observations regarding the other countries in the sample. The additional marginal effect regarding the Greek economy in relation to the baseline scenario is covered through the remaining coefficients.[17]

The estimation of the empirical model suggests that demographic developments and in particular population ageing, as measured by the median age and the age dependency ratio, have a positive (i.e. improving) and statistically significant effect on the current account balance (at a 1% significance level). This finding (see coefficient β_1 in Charts A and B) is consistent with the extended life-cycle hypothesis and proves that developed economies

16 The age dependency ratio (adr_{it}) comes from Eurostat and measures the ratio of children and adolescents (aged 0-14, who are considered financially dependent) as well as elderly people (aged 65+) to the working age population (aged 15-64). Specifically, *age dependency ratio = [population (aged 0-14) + population (aged 65+)]/population aged 15-64*.

17 The estimated overall impact on the Greek economy from the demographic variables and the fiscal balance results from the sums of $\beta_1 + \gamma_1$ and $\beta_2 + \gamma_2$ respectively.

Overall effects of factors on the current account balance (% of GDP) on the basis of model (1)

Variable		Demographic variable (mda)		Demographic variable (adr)		Fiscal balance
	Coefficients		Coefficients		Coefficients	
Euro area	β_1	0.63*** (0.108)	β_1	0.036*** (0.012)	β_2	0.02/0.06
Greece	$\beta_1+\gamma_1$	0.55*** (0.106)	$\beta_1+\gamma_1$	0.029*** (0.011)	$\beta_2+\gamma_2$	0.33***/0.35***

Source: Bank of Greece econometric estimates.
Notes: Standard deviations in parentheses. Range of estimates between models when using alternative demographic variables (***: p<0.01, **: p<0.05, *: p<0.1).

with ageing populations[18] (such as those of the euro area in the sample under review) tend to exhibit higher saving rates relative to consumption.

Despite the general positive trend in the euro area, the use of marginal effects (through the dummy variable D_{it}) provides an interesting insight into Greece. Even though the overall impact of the demographic variables remains positive, the negative and statistically significant (at a 1% significance level) coefficient of the interaction term (see coefficient γ_1 in Charts A and B) implies that Greece enjoys a comparatively more limited benefit for the current account balance from demographic ageing in comparison with the other euro area countries (see the table). This shortfall probably reflects a number of structural characteristics of the Greek economy, such as the high tax wedge and high excise taxes, the major contribution of the State Budget to the social security and health system, as well as reduced propensity to save, which combine to depress national saving and, by extension, limit the improvement of the current account balance.

As concerns the impact of the fiscal balance on the current account balance, for all euro area countries it appears to be statistically non-significant (see coefficient β_2 in Charts A and B) at a 10% significance level. The positive and statistically significant interaction coefficient for the Greek economy (see coefficient γ_2 in Charts A and B) confirms, on a weighted average basis, the historical validity of the twin-deficits hypothesis in the period under review.[19] Finally, the GDP per capita variable (*GDPpc*) confirms the role of economic growth in the improvement of the external balance, with the coefficient β_3 remaining positive and statistically significant in Charts A and B.

3 Conclusions

The empirical analysis confirms that population ageing leads to higher national saving and an improved current account balance for the euro area in line with the extended life-cycle hypothesis. However, in the case of the Greek economy, this benefit is impaired by a number of structural characteristics related to a set of factors, such as the high tax wedge and excise taxes, the contribution of the State Budget to the national social security and health system, the reduced propensity of Greek households to save, the comparatively low rate of financial literacy and, finally, the relatively less mature domestic capital market compared to other countries, which, to a certain extent, limits private saving options. At the same time, the confirmation of the twin-deficits hypothesis for the Greek economy underscores the importance of maintaining fiscal discipline for gradually balancing and improving Greece's current account.[20]

18 It should be noted that in developed countries the volatility of the age dependency ratio expresses mostly the pressures of ageing population (65+) and therefore is mainly determined by the variable expressing the old-age dependency ratio.
19 See Bank of Greece (2024), op. cit.
20 Given the fiscal overperformance in recent years and the projections of sustained fiscal surpluses in Greece, no significant further contribution to the improvement of the current account balance through this channel should be expected over the medium-to-long term.

7 INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT

At end-2025, Greece's net external liabilities grew by EUR 13.9 billion to EUR 339.7 billion, mainly as a result of lower net liabilities of other financial institutions, which were partly offset

Table IV.10 International investment position by type of investment and sector

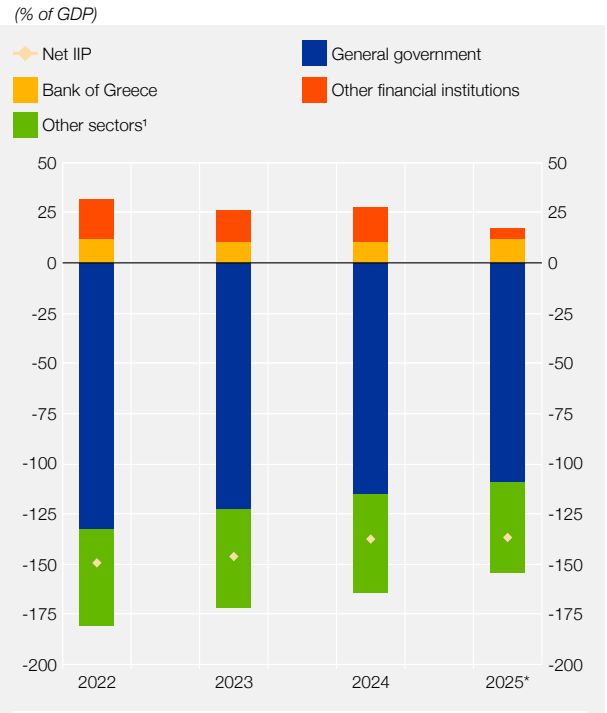
(EUR millions)

	2022	2023	2024	2025*
I. DIRECT INVESTMENT	**-33,460**	**-40,757**	**-47,205**	**-58,585**
I.1 Assets	*20,697*	*23,923*	*26,884*	*32,118*
I.2 Liabilities	*54,157*	*64,680*	*74,089*	*90,703*
II. PORTFOLIO INVESTMENT[1]	**163,942**	**151,488**	**153,301**	**137,005**
II.1 Assets	*211,431*	*213,258*	*226,789*	*235,057*
II.2 Liabilities	*47,489*	*61,770*	*73,488*	*98,052*
1. General government	**-7,810**	**-11,433**	**-13,885**	**-17,239**
1.1 Assets	7,529	6,549	5,619	5,987
1.2 Liabilities	15,339	17,982	19,504	23,226
2. Bank of Greece	**122,593**	**122,749**	**121,793**	**113,045**
2.1 Assets	122,593	122,782	121,825	113,071
2.2 Liabilities	0	33	32	26
3. Other financial institutions	**51,186**	**42,919**	**40,970**	**12,392**
3.1 Assets	59,849	56,519	60,538	65,961
3.2 Liabilities	8,663	13,600	19,568	53,569
4. Other sectors	**-2,027**	**-2,747**	**4,423**	**28,807**
4.1 Assets	21,460	27,408	38,807	50,038
4.2 Liabilities	23,487	30,155	34,384	21,231
III. OTHER INVESTMENT	**-451,039**	**-450,946**	**-446,488**	**-438,365**
III.1 Assets	*75,273*	*76,650*	*83,409*	*95,555*
III.2 Liabilities	*526,311*	*527,596*	*529,897*	*533,920*
1. General government	**-267,021**	**-264,922**	**-259,964**	**-254,747**
1.1 Assets	*3,915*	*3,710*	*2,700*	2,500
1.2 Liabilities	*270,936*	*268,632*	*262,664*	257,246
2. Bank of Greece	**-109,295**	**-111,656**	**-111,786**	**-104,603**
1.1 Assets	21,786	26,999	30,965	37,236
1.2 Liabilities	131,081	138,655	142,750	141,839
3. Other financial institutions	**-16,000**	**-13,933**	**-7,253**	**-3,997**
3.1 Assets	23,892	23,429	29,232	37,755
3.2 Liabilities	39,891	37,362	36,486	41,752
4. Other sectors[2]	**-58,722**	**-60,434**	**-67,484**	**-75,018**
4.1 Assets	25,681	22,513	20,513	18,065
4.2 Liabilities	84,403	82,947	87,997	93,083
IV. RESERVE ASSETS	**11,341**	**12,324**	**14,649**	**20,287**
NET INTERNATIONAL INVESTMENT POSITION (I+II+III+IV)	**-309,215**	**-327,891**	**-325,742**	**-339,658**
Net IIP as a % of GDP	**-149.4**	**-145.9**	**-137.6**	**-136.8**

Source: Bank of Greece.
* Bank of Greece estimates on the basis of provisional balance of payments and IIP data.
1 Portfolio investment includes financial derivaties.
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.

by an improvement in the net position of the other sectors of the economy and the Bank of Greece and, to a lesser extent, of the general government (see Table IV.10).[68,69] This outcome is associated with both transactions and revaluations, mainly of liabilities, which reflects a rise in the value of equities. As a percentage of GDP, due to a significant increase in nominal GDP in 2025, the net international investment position (NIIP)[70] fell to -136.8% in 2025, from -137.6% in 2024, though remaining the highest in the EU, and Greece continues to stand above the threshold (-35% of GDP) set under the Macroeconomic Imbalance Procedure.[71]

Chart IV.31 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.

Nevertheless, the risks for the country are currently limited, as the main component of the negative net IIP represents loans from the Support Mechanism, which have low interest rates and long maturities. However, in recent years there has 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. In addition to a gradual reduction in the general government external debt, the needed improvement in the net IIP over the medium term also calls for high economic growth rates 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 IV.6 above). Net portfolio investment assets declined (by EUR 16.3 billion), since a decrease in the net assets mainly of other financial institutions and, to a lesser extent, the Bank of Greece, as well as an increase in general government liabilities were partly offset by a rise in the net assets of the other sectors of the economy. Specifically, an increase in the liabilities of other financial institutions and a drop in the liabilities of the other sectors of the economy reflect corporate restructuring processes of Greek financial groups completed in 2025. Under other

68 Data on the international investment position have been revised since 2013, see footnote 45.
69 Changes in the International Investment Position (IIP) are primarily attributable to financial account flows and, to a lesser extent, revaluations of portfolio investment items (mainly securities). Changes resulting from valuation effects are difficult to estimate precisely, as they are associated with fluctuations in the market prices of portfolio investment items (equities, bonds) that make up the country's external liabilities, as well as with exchange rate fluctuations.
70 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.
71 European Commission, Statistical Annex of "Alert Mechanism Report 2026", November 2025.

Table IV.11 Gross and net external debt (current prices)

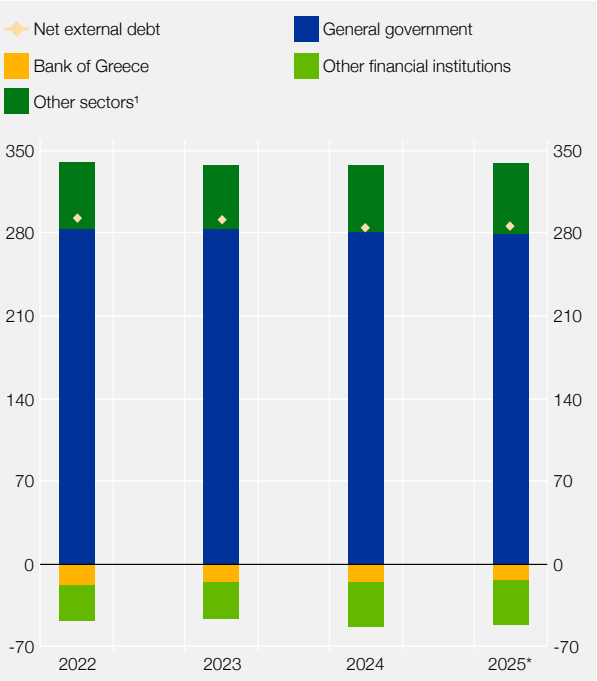
(EUR millions)

	2022	2023	2024	2025*
A. General government	286,152	286,303	281,889	280,472
B. Bank of Greece	131,081	138,655	142,750	141,839
C. Other financial institutions	45,698	45,110	47,905	61,747
D. Other sectors[1]	87,424	86,603	93,349	95,393
E. Direct investment – total economy	9,651	9,933	10,149	10,915
Gross external debt (A+B+C+D+E)	**560,006**	**566,604**	**576,042**	**590,366**
Gross external debt as % of GDP	*270.5*	*252.2*	*243.3*	237.7
Gross external debt of general government as % of GDP	*138.2*	*127.4*	*119.1*	112.9
Net external debt	**292,460**	**291,300**	**284,517**	**286,366**
Net external debt as % of GDP	*141.3*	*129.6*	*120.2*	115.3

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.

Chart IV.32 Net external debt by sector

(EUR billions)



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.
Note: Negative values denote net assets.

investment, the negative net position declined by EUR 8.1 billion in 2025 compared with 2024, as a drop in the net liabilities of both the Bank of Greece and the general government and other financial institutions was partly offset by a rise in the liabilities of the other sectors of the economy. Lastly, foreign reserve assets increased, primarily reflecting a rise in the price of gold.

Turning to the sectoral breakdown (see Chart IV.31), a deterioration in the net IIP in 2025 is mainly attributable to a decrease in the net assets of other financial institutions, associated with the aforementioned corporate restructuring processes, which was offset primarily by a decline in the liabilities of the other sectors of the economy and an increase in the net assets of the Bank of Greece and, secondarily, by a decrease in general government net liabilities.

The country's gross external debt,[72] at current prices, grew by EUR 14.3 billion to EUR 590.4 billion (237.7% of GDP) at end-2025. This was almost exclusively a result of a rise in the liabilities of other financial institutions (see Table IV.11). However, the gross external debt-to-GDP ratio improved, due to strong nominal GDP growth in 2025.

72 A country's gross external debt equals IIP liabilities minus the liabilities in equity and financial derivatives.

Net external debt[73] stood at EUR 286.4 billion (115.3% of GDP) in 2025, up by EUR 1.8 billion compared with 2024. This is attributable chiefly to an increase in the net debt of the other sectors of the economy and, to a lesser extent, to a decrease in the net assets of other financial institutions and the Bank of Greece. This deterioration was partly offset by a decline in net general government debt. As a percentage of GDP, due to a rise in nominal GDP in 2025, the net external debt shrank (see Chart IV.32).

73 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.

SPECIAL FEATURE 1 TO CHAPTER IV

HOUSE PRICE DRIVERS IN GREECE AND HOUSEHOLDS' HOUSING FINANCE CAPACITY

1 INTRODUCTION

Over the recent period, the Greek real estate market, and more particularly the housing market, has shown robust dynamics and has attracted strong investor interest. The significant rise in house and rental prices has made house affordability a crucial social issue, which needs to be tackled through both short- and long-term solutions. The term "housing affordability" describes the ability of households to obtain and maintain decent housing which meets their basic needs. Affordable housing implies that its cost does not impair the household's ability to meet other basic needs, such as food, energy, healthcare, insurance and education.

The issue of housing affordability, which is also increasingly highlighted by international organisations, is no longer treated as a conjunctural market phenomenon, but as a structural issue affecting social cohesion and the demographic outlook. Higher house prices make it harder for lower-income households to access home ownership and, given that housing is a key asset for households, their limited ability to buy a house exacerbates inequalities. Young people are particularly affected by worsening housing affordability, which is delaying their ability to become financially independent and start a family. Finally, unaffordable housing has wider economic implications, as it discourages the geographic mobility of workers towards areas with high labour demand, causes labour shortages, increases labour costs and, ultimately, undermines the efficient allocation of resources and the productivity of the economy.[1]

This box presents the factors currently driving residential real estate prices in Greece, examines households' capacity to finance house purchase by bank loans and puts forward policy recommendations for addressing the housing issue.

2 THE HOUSING ISSUE IN GREECE

Since 2018, the Greek housing market has been growing steadily and with increasing dynamics, fuelled by both domestic and foreign demand. Following the period 2008-17, which saw a cumulative 42.0% drop in house prices, in 2018-24 prices rose by 67.7% at country level and by 84.2% in Athens.[2] On the basis of ELSTAT data, over the same period rents grew cumulatively by 11.7%, while the nominal disposable income of households increased by 35.7% (16.3% in real terms).

The faster rise in residential real estate prices relative to incomes makes it harder for households to buy a dwelling that meets their housing needs and is within their financial capacities. At the same time, the cost of renting has also increased as a result of, inter alia, the rapid growth of short-term rentals and housinginvestment. According to Eurostat,[3] the share of the population spending over 40% of their disposable income on housing costs (housing cost overburden rate)[4]

1 See European Commission (2025), "Housing in the European Union: Market developments, underlying drivers, and policies", European Economy Discussion Paper No. 228, Publications Office of the European Union.
2 Bank of Greece data.
3 See Eurostat (2024), *Housing in Europe – 2024 edition*.
4 The housing cost overburden rate is defined as the percentage of the population or households that spend more than 40% of their disposable income on housing, including rent or mortgage payments, as well as basic housing expenses (e.g. heating and electricity/water supply).

in Greece stood at 28.9% in 2024, with the corresponding European average estimated at 8.2%, thereby placing Greece first as regards the housing burden in the EU. This rate has been estimated at 29.1% for large urban centres and at 27.7% for rural areas. The percentage of renters who appear to spend over 40% of their income on housing is estimated at 37.4%, while for homeowners with a housing loan the overburden rate stands at 20.9%.

On the basis of Organisation for Economic Cooperation and Development (OECD) data, in 2024 the average percentage of households' disposable income[5] allocated to housing costs relating to rent or mortgage payments stood at 23.7% in Greece, against an EU average of 17.9%.[6] The ratio of housing costs over income was higher for households living in a rented dwelling (24.3%) and slightly lower for households with mortgage payments (20.0%). Finally, according to the findings of an OECD survey, Greece ranks particularly high with regard to the respondents' level of difficulty to pay their rent or mortgage, as well as their level of concern about being able to find and maintain adequate housing, particularly among young people and financially vulnerable households.[7]

2.1 Drivers of house prices in Greece

Exploring the conditions and factors that have led to the deterioration in housing affordability in Greece is key to designing policies that offer solutions both in the short and long term. The causes of the housing problem can be found on the demand as well as the supply side of the residential real estate market, with the latter appearing to be of particular relevance recently and significantly difficult to address.

The drivers of increased demand for housing are associated with both macroeconomic conditions and the structural characteristics of the economy and the market. The gradual improvement of disposable income in recent years has boosted domestic demand. Households seek modern housing for purchase or rent, particularly in areas meeting higher standards in terms of infrastructures and residential environment quality. At the same time, the dissipation of domestic uncertainty during the economic crisis period and the steady expansion of the real estate market from 2018 onwards have enhanced the attractiveness of real estate as an investment, both for individuals and for firms active in real estate development, management and operation.

The tight financing conditions for households introduced after the onset of the sovereign crisis to ensure the stability of the banking system, coupled with the rise in interest rates in 2022-23, have weighed on demand for new loans. However, in 2023 and particularly in 2024 the number of new loans granted by credit institutions saw an annual increase of 3.9% and 29.6%, respectively, also driven by the "My Home" programme. Although socially in the right direction, this programme is estimated to have further boosted demand, especially for older houses and apartments.

Greece's high urbanisation rate and the demographic changes of 2011-21[8] partly explain higher housing demand, particularly in major urban centres. Although Greece's population has been declining both overall (3.1%) and at local level (in most regions), the number of single-person households has been rising throughout the country. Especially in Attica, where the registered population declined marginally by 0.4%, the number of households rose by 8.4%, or 127,300 in absolute terms, mainly because of a 36.9% increase in single-person households. This development is in line with the housing pressure on the capital city and also suggests a change

5 It refers to households that either rent a dwelling or repay a housing loan. Housing costs relate only to mortgage expenses (principal and interest payments) and rent expenses (for both the private market and the subsidised rental housing).
6 See OECD (2025), "HC1.2. Housing costs over income", OECD Affordable Housing Database.
7 See OECD (2025), "HC1.4. Subjective Measures on Housing", OECD Affordable Housing Database.
8 ELSTAT data.

in the characteristics of demand, which shifts towards dwellings within the urban areas, possibly smaller than in the past.

In parallel with domestic demand for housing, foreign demand also rose for prime residential properties in terms of location and technical characteristics. Foreign direct investment in house purchases, in particular the Golden Visa programme, took available properties off the primary residence market. At the same time, significantly higher tourist flows in urban centres and booming short-term rentals have had an upward effect on rents and property values in tourist locations. Moreover, infrastructure and building stock improvements in such locations as well as the development of complementary commercial, food and beverage, and leisure uses have upgraded these areas, driving further up demand and house prices.

Despite strong demand for housing, a number of factors holds back the supply of new residential properties. Residential construction activity, which experienced historically high growth rates in 2001-08, fell sharply during the economic crisis, while its gradual recovery after 2020 remains insufficient. Indicatively, the average annual number of new building permits issued for residential construction in 2021-24 is around 35,000, while the corresponding number for 2004-08 was around 125,000.[9] Housing investment (at constant prices) in 2024 accounted for 2.6% of Greece's Gross Domestic Product (GDP). This is significantly below the pre-crisis level, as the respective figure for 2004-08 is estimated at 8.5%.

The sharp increase in construction costs after 2021, initially because of global supply chain disruptions and then due to geopolitical instability, which affected the cost of energy and materials, as well as financing costs, dampened the dynamics of construction activity. New real estate development projects were postponed or modified, while additional construction costs pushed up prices for newly built housing. Furthermore, frequent changes in the institutional framework have a negative impact on construction activity and the supply of new properties, and reduce market attractiveness for new investment.

In addition to the shortfall in the supply of new housing, constraints are also identified in the availability and adequacy of the existing residential stock. The available stock is, to a large extent, old with outdated specifications and poor energy efficiency. In low-demand or deprived areas, renting often generates negative net returns, which discourages owners from renting out vacant properties under a long-term lease. Moreover, in several instances, multi-ownership makes it difficult to make a decision on any form of exploitation.

Transfers, especially of older properties, are strongly affected by the complexity of procedures and by institutional and administrative delays, resulting in a significant number of dwellings remaining out of the market until legal fine-tuning is achieved. Although several steps have been taken towards the simplification of procedures through the digitalisation of numerous public services and the enactment of relevant individual legal measures, delays still exist.

The parameters weighing on the supply of real estate also include delays in organising the registration of property. The completion of a National Cadastre and the related digitalisation projects are expected to enhance market transparency and reduce red tape.

Finally, it should be noted that balancing supply and demand requires the adoption of a long-term strategy for urban planning. Demographic, social and economic changes both at national and local level should be integrated into spatial and urban planning so that needs are identified and addressed in a timely and organised manner.

9 ELSTAT data.

3 HOUSE PURCHASE FINANCING CONDITIONS IN ATTICA

The issue of housing affordability does not affect the whole country, at least not with the same intensity. In the greater Athens area, pressure is clearly stronger due to an over-concentration of population,[10] a limited and old housing stock, as well as elevated demand for tourist and other special high-yield residential uses, which make part of the housing stock unavailable for use as primary residence.

Households' capacity to secure the necessary funds to buy a primary residence by bank loan depends on real estate prices, disposable income and credit conditions, in particular the level of mortgage rates.

In order to capture households' ability to buy a primary residence by bank loan in the greater Athens area, an indicator which measures whether a median-income household can finance the purchase of appropriate and adequate housing through borrowing was estimated. The Housing Finance Capacity Index (HFCI) presented below is based on methodology drawing on international literature,[11] according to which the capacity to service loans for house purchase at national level is a key measure of housing affordability. This approach allows to identify the distinct effects of income, financing conditions and house prices on the capacity to purchase housing, thus providing useful information for effective policymaking. This box draws on residential property valuation data for the greater Athens area in order to investigate the capacity of households to obtain housing by bank loan.

3.1 Data

The compilation of the HFCI for 2024 was based on data from Bank of Greece[12] and Eurostat databases. In greater detail:

Average home value (HV): In order to determine the average annual value of a dwelling in individual submarkets in Attica, data from the Bank of Greece valuation database for 2024 were used.[13] The analysis was based only on the prices of apartments and maisonettes. Detached houses have not been included, as there are insufficient data on the share of land in the total value of the property.

Average annual mortgage interest rate (IR): The average annual interest rate[14] on housing loans in 2024 was compiled from Bank of Greece data.[15,16]

Loan-To-Value (LTV) at origination ratio: The loan-to-value ratio at the time of origination for 2024 was compiled from Bank of Greece data.[17]

Median Disposable Income (MDI): To estimate household disposable income, data from Eurostat's Survey on European Union Statistics on Income and Living Conditions (EU-SILC) were

10 According to the latest ELSTAT census, 36.4% of the country's population resides permanently in the capital city.
11 See Biljanovska, N., C. Fu and D. Igan (2023), "Housing affordability: A new dataset", CEPR Discussion Paper No. DP18678, Centre for Economic Policy Research.
12 According to Bank of Greece Governor's Act 2610/31.10.2008, data on residential property valuations are collected by the Bank of Greece upon submission by all credit institutions operating in Greece.
13 The analysis is based on available Bank of Greece data for the residential property price index up to the third quarter of 2025.14 Weighted average based on new business volumes on a monthly basis, excluding commission fees and other charges, relating to all new loans irrespective of maturity and type of interest rate.
15 Data compiled on the basis of Bank of Greece Governor's Act 2688/24.05.2021.
16 During the reference period (2024), published figures on housing loans are affected by the "My Home" programme. See Bank of Greece, *Financial Stability Review*, Box II.2, May 2024.
17 Data collected on the basis of the Bank of Greece Executive Committee Act 231/3/07.10.2024.

used. Data on the median annual equivalised disposable income were adjusted to reflect the income of a four-member household.[18]

3.2 Methodology

The HFCI for the greater Athens area and its individual districts was estimated using the following methodology:

1. First, Attica was divided into broader geographical sections – submarkets – based on geographical and urban planning similarities, as well as similarities in price levels. The division into submarkets was carried out by grouping the postcodes in which the properties in the sample are located. The following were identified as distinct submarkets: "Municipality of Athens," "Northern Suburbs," "Southern Suburbs," "Piraeus," "Western Suburbs" and "Rest of Attica." A further division was made specifically for the Municipality of Athens in order to highlight the significant variation in value levels. Specifically, the Municipality was divided into three sub-areas: the first comprises the areas at the very heart of Athens that fall within the lower real estate price range;[19] the second includes the rest of downtown Athens within the 1st Municipal District; and the third includes the remaining areas of the Municipality of Athens, which make up the "typical" residential areas of the city centre (e.g. Ambelokipi, Kypseli, Pangrati, etc.).

2. A "typical dwelling" was defined as an apartment or a maisonette valued at the median price per square metre in each submarket in 2024.[20]

3. Next, the monthly mortgage loan payment (PMT) that a household is required to make for a typical dwelling in each submarket during the reference year was calculated:

$$PMT = AK * LTV * \frac{IR}{12} * \left[1 - \frac{1}{\left(1 + \frac{IR}{12}\right)^{n}}\right]^{-1}$$

where:

- PMT = monthly loan instalment
- AK = average value of a typical dwelling
- LTV = loan-to-property value ratio
- n = total number of monthly instalments over the entire maturity of the loan = years × 12 months
- IR = average annual mortgage interest rate

4. In the next step, the household's minimum required disposable income (MRDI) – which ensures the regular repayment of the mortgage – was calculated as follows:

$$MRDI = PMT * 4 * 12$$

where:

- MRDI = minimum required disposable annual income, so that the monthly mortgage loan instalment (PMT) does not exceed 25% of the monthly income.

18 The median equivalised disposable income based on the EU-SILC Survey for 2024 refers to the previous year (2023). The figure for 2024 was calculated by increasing the 2023 figure by 4%, which falls within the range of Eurostat's provisional estimate.

19 Parts of the 1st and 3rd Municipal Districts, namely the postcodes near and west of Omonia Square, Metaxourghio, Vathi Square, etc.

20 It should be noted that the typical dwelling has the characteristics (floor and age) of the average property in the sample used for the analysis.

5. Finally, the Housing Finance Capacity Index (HFCI) was calculated as the ratio of the household's median disposable income (MDI) in the reference year to the minimum required disposable income:

$$HFCI = \frac{MDI}{MRDI}$$

where:

- MDI = the annual median disposable income of a four-member household. It should be noted that the analysis uses the MDI to (i) assess the capacity of a four-member household residing in any area of Attica or elsewhere in the country to purchase a home in the greater Athens area, and (ii) to explore the range of housing options available to that household within Attica.

The HFCI measures the extent to which a household can afford to repay a mortgage for an average-value typical dwelling in the reviewed area. When the index is equal to or higher than 1, the submarket under consideration is affordable for an average-income household, as the mortgage payment for purchasing a typical dwelling does not exceed 25% of its income. Conversely, when the index falls below 1, purchasing real estate by bank loan becomes unaffordable.

For the purposes of the analysis, the following assumptions were made:

- A 25% income percentage cap was used for mortgage repayments, in line with the housing affordability index methodology suggested in the international literature.[21] This cap is lower than those used in alternative approaches by the OECD and Eurostat, which range between 30% and 40% of gross household income. The difference lies in the fact that the 25% cap applies solely to the cost of the monthly loan payment, unlike the higher caps in other methodologies, which also include other housing expenses (e.g. energy, maintenance, services).
- The number of instalments was set at 300, which corresponds to an average repayment period of 25 years.
- For a family with two children, the appropriate living space to meet their housing needs was determined at 100 square meters (sq.m.).[22]
- The average LTV used to calculate the HFCI is 60.9% (Bank of Greece data).
- Median disposable income was used to assess the ability to repay the mortgage, as recommended in the methodology followed, which may underestimate the impact of expenses related to the education of the two children on the family budget.[23]

3.3 Results

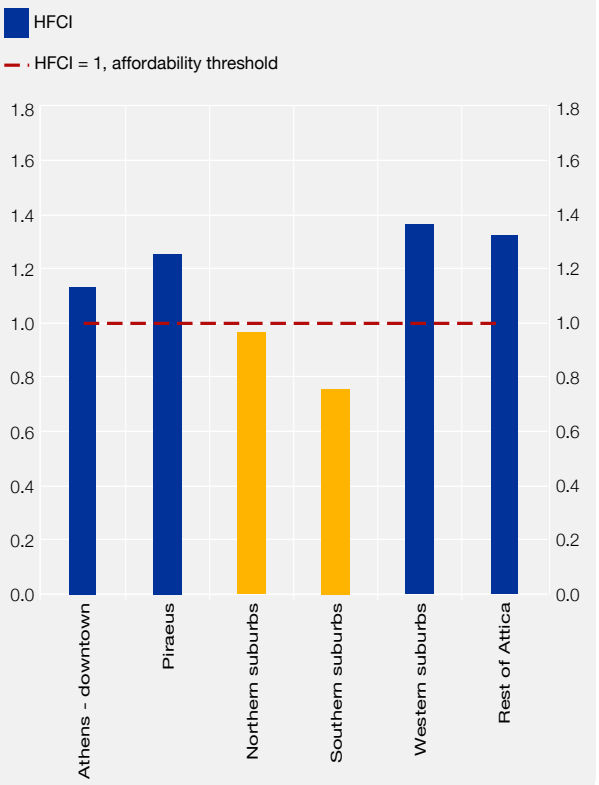
The HFCI was initially calculated for the various submarkets of Attica and subsequently for sub-areas of the Municipality of Athens, for the year 2024. The aim of this analysis is to identify locations in Attica where an average-income four-person household can purchase a home

21 See Bourassa, S.C. and D.R. Haurin (2017), "A dynamic housing affordability index", *International Real Estate Review*, 20(2), 251-286.

22 According to Eurostat data (2023), the average living space for couples with dependent children (one or more) in Greece is 97.4 sq.m. In urban areas, the average living space per household with at least one dependent member is slightly smaller (92.7 sq.m.). The analysis was based on 100 sq.m., as the study concerns a couple with two children; however, the result does not change significantly even when the living space is set between 95 and 105 sq.m.

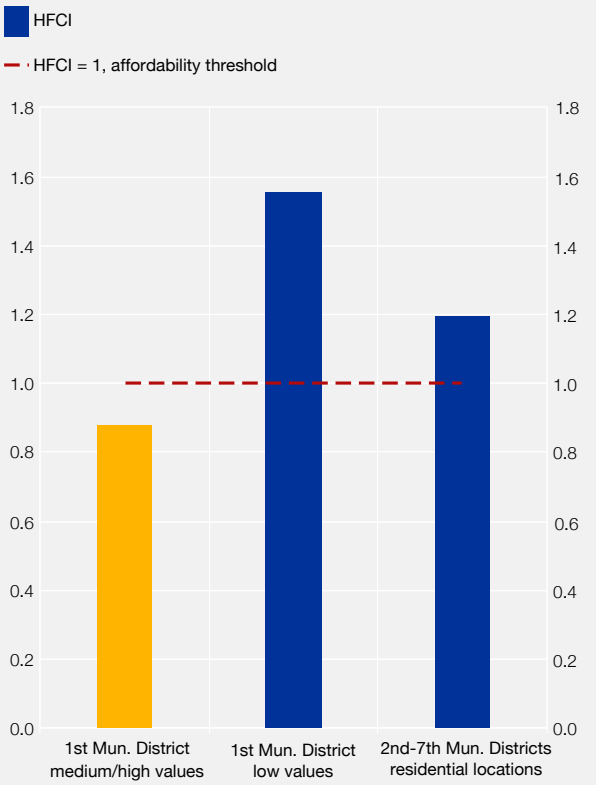
23 According to the Household Budget Survey (ELSTAT 2024), the additional average monthly cost for households with two minor children amounts to approximately EUR 1,000, compared to a childless couple, which suggests that the remaining portion (75%) of income allocated for expenses other than mortgage payments is likely insufficient to fully meet the household's educational and other needs.

Chart A Housing Finance Capacity Index (HFCI) in Attica in 2024



Source: Bank of Greece data and calculations.
Note: HFCI>1: geographical submarket affordable for house purchase by bank loan.

Chart B Housing Finance Capacity Index (HFCI) in the Municipality of Athens in 2024



Source: Bank of Greece data and calculations.
Note: HFCI>1: geographical submarket affordable for house purchase by bank loan.

by bank loan and service a mortgage, without compromising their ability to meet other basic needs.[24]

The analysis showed that in 2024, the HFCI for a typical 100 sq.m. dwelling in the greater Athens area is close to the 1 threshold, ranging between 0.7 and 1.4 (see Chart A), which indicates marginal or low affordability. More specifically, based on the index results, the best opportunity to purchase a home by bank financing is found in the housing market of the western suburbs, whereas the southern suburbs are identified as the least affordable option. The index for the northern suburbs is also estimated to be below 1, while the indices for Piraeus and the rest of Attica are estimated to be slightly above 1. Finally, for downtown Athens as a whole, the index is estimated to be just above the threshold for households' housing finance capacity.

A more detailed analysis of the data in specific areas of downtown Athens, where there is significant variation in housing prices, shows that there are affordable locations, but also areas where the index is well below 1 and thus beyond the capacity of households to repay a mortgage (see Chart B). Specifically, within the 1st Municipal District, average-income households can afford a housing loan only in areas with lower property values. However, in the typical residential neighbourhoods of the greater Municipality of Athens (2nd-7th Municipal Districts), the HFCI is estimated to be higher than 1. In any event, local demand for real estate and, conse-

24 It should be noted that purchasing a home by bank loan assumes the capacity to provide the necessary own funds, as well as an adequate supply of housing (see footnote 23 and the text below).

quently, property prices are influenced by a number of factors, such as distance from the city's tourist attractions/landmarks, proximity to universities and access to track-based transport.

The analysis of the sample provides further insight into the quality characteristics of the typical dwelling that households could afford in 2024. The average property in downtown Athens (Municipality of Athens) dates back to the mid-1970s, while the average property in the city's suburbs and the rest of Attica was built in the early 1990s. In other words, in the suburbs of Athens – which were developed later than the city centre – the housing stock meets more modern technical standards and is in better condition. Consequently, the difficulty faced by average-income households in affording housing in certain areas is not solely due to the quality characteristics of the locations, but also to the higher technical standards of the properties available. Conversely, dwellings in downtown Athens, even those being within households' financial capabilities, may require sizeable additional funds to become up-to-date and functional so as to adequately meet housing needs, thereby reducing their actual level of affordability. This means that, although the affordability of an area may be rated higher than 1, it is the age of the average typical property that determines the potential need for additional expenses to meet basic housing standards.

It should be noted that this index does not reflect the difficulty in securing housing faced by lower-income households,[25] which are the most constrained, but it is rather based on the assumption that the average household has, in addition to the capacity to repay a mortgage, the required amount of own funds to purchase a typical dwelling.[26] Finally, the analysis did not examine the distribution of houses in the sample, which might have revealed a shortage of dwellings with the characteristics of the average typical property.

4 CONCLUSIONS – POLICY RECOMMENDATIONS

The recent deterioration in housing affordability is largely attributable to the rapid rise in real estate prices, which is exacerbated by excess demand relative to supply, especially in major urban centres. Growing housing pressure, particularly in the greater Athens area, is gradually limiting households' options for affordable and suitable housing.

In order to assess the capacity of an average-income four-member household to repay a mortgage across different areas of Attica, the Housing Finance Capacity Index (HFCI) was calculated. The analysis revealed that there were affordable locations in the greater Athens area in 2024; however, the eligible properties may not meet the required technical specifications in all locations. In the unaffordable submarkets of Attica, higher house values are due not only to the better characteristics of these areas, but also to more modern building standards.

Since housing affordability is a crucial social issue, it is essential to seek solutions to support particularly the most vulnerable households. Housing support programmes that have been recently implemented or are currently under way, such as "My Home I and II" and rent subsidies, are a step in the right direction; however, it is estimated that they further boost demand. Interventions aimed at financing the renovation of existing older housing stock also have a twofold effect: on the one hand, they help modernise houses and, on the other, they drive house prices and rents up. The recent restrictions on the Golden Visa programme and the provision of incentives for utilising vacant listed properties, repurposing abandoned commer-

25 In the future, it would be useful to estimate these indicators while taking into account the distribution of household income.

26 According to Bank of Greece Executive Committee Act 227/1/08.03.2024, the cap on the loan-to-value ratio at origination (LTV-O ratio) is set at 90% for first-time buyers and at 80% for all other borrowers. The average LTV-O for 2024, which was used to calculate the HFCI, is 60.9% (Bank of Greece data).

cial properties and investing in real estate development for residential, non-investment use are positive developments that could contribute to increasing the housing supply, as well as to revitalising the urban environment more broadly. Finally, the new regulatory framework for short-term rentals has likely freed up properties for long-term leasing in those areas where restrictions were imposed (central Municipal Districts of Athens), but it may have shifted investor interest to other areas.

To address the housing crisis, additional measures could be adopted to optimise the use of the available housing stock in a way that benefits both owners and tenants, as well as prospective buyers. Cutting red tape and minimising delays in property transfers, regularisation of unauthorised buildings and urban planning permissions, as well as in related court proceedings, along with a stable legal and tax framework, can provide incentives to reintroduce vacant properties into the housing market and stimulate new residential investment.

The use of State-owned properties to develop affordable housing with the involvement of the private sector can provide a sustainable solution for the most vulnerable households. To this end, the properties to be made available by the State must be located in areas with a housing shortage and the final volume of development projects should be large enough to provide housing for a sufficient number of households.

The housing problem is extremely complex to resolve, requiring broader strategic planning aimed at balanced economic growth and a more even distribution of housing demand across the entire country. Upgrading regional infrastructures and services, completing local urban plans, with a potential inclusion of new areas in city planning, and improving the connection of regional towns and settlements with large cities could gradually enhance the attractiveness of non-urban areas as places of residence. Finally, targeted local interventions in urban areas, including the expansion and operational re-design of fixed-track public transport networks, or the gentrification and repurposing of areas for residential use, could enlarge housing possibilities within the boundaries of cities.

SPECIAL FEATURE 2 TO CHAPTER IV

THE GREEK AGRICULTURAL SECTOR: CHALLENGES AND PROSPECTS

1 INTRODUCTION

Over the years, agricultural policy has mainly focused on ways to support the income of people employed in the primary sector by reducing energy and production costs, by ensuring minimum selling prices for their products and profit margins, as well as by direct payments in the form of subsidies and compensations. The implementation of agricultural policy in Greece has followed the same rationale, with measures primarily aimed at supporting rural income.

However, the primary sector in Greece faces chronic structural weaknesses, which negatively affect its productivity and competitiveness. In addition, it is faced with unprecedented challenges, which are directly linked to labour shortages resulting from the demographic crisis and the widespread destruction of infrastructure and crops due to climate change.[1] It is therefore necessary to approach the problems in a holistic manner, in order to help design a new agricultural policy geared towards the development of rural infrastructure and the introduction of new technologies, aiming to enhance the sector's adaptability and resilience. The ultimate goal should be an improvement in productivity and competitiveness through the modernisation of the agricultural sector, which would, in turn, lead to a permanent increase in agricultural income.

The present analysis aims, first, to present key metrics of the Greek primary sector, second, to briefly describe its special features, structural weaknesses and challenges, and, third, to formulate policy proposals.

2 THE GREEK AGRICULTURAL SECTOR IN FIGURES

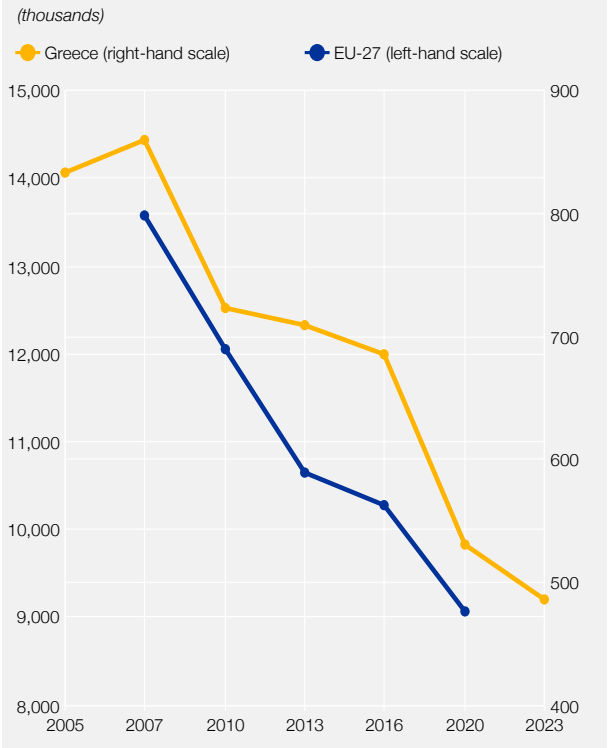
In terms of gross value added, the contribution of the agricultural sector in Greece is particularly low (4.3% – ELSTAT data, March 2026). In terms of employment, agricultural workers make up 11.5% of total employment (World Bank data 2024).

The agricultural sector is weakened by structural imbalances, which have led to low productivity and competitiveness both over the years and against other European economies (see Charts A-F and the table). As shown in Chart A, the number of agricultural undertakings is constantly decreasing, indicating the shrinking of the sector, which is a common feature in both Greece and EU-27.

The main difference between Greece and EU-27 or other European countries is that the sector is overwhelmingly dominated by small holdings. As shown in Chart B, 73% of the total number of agricultural undertakings in Greece does not exceed 50 stremmas (approximately 12.3 acres). Although small holdings account for 62.4% of the total in EU-27, the corresponding share is higher in Greece and this is also true compared with other southern European countries with a similar rural economy structure (Italy and Spain). By contrast, the share is significantly lower in economies with technically advanced agricultural economies, such as Germany, the Netherlands and France. Small holdings have dominated because of the terrain, as mountains interrupt the lowlands, while the State has repeatedly failed to offer appropriate incentives for land consolidation.

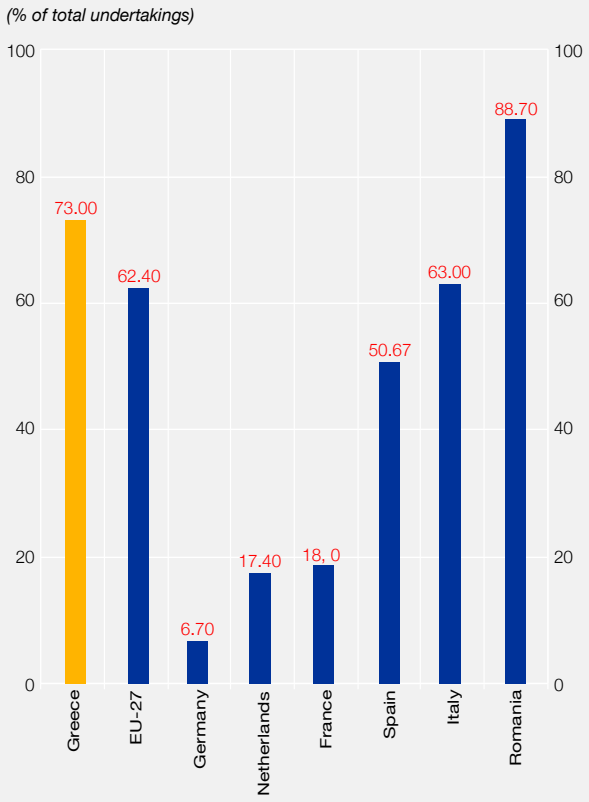
1 For more information on the impact of climate change, see Box A herein.

Chart A Number of agricultural undertakings in Greece and in the EU-27



Source: Eurostat.
Notes: This includes agricultural undertakings engaging in all agricultural activities (crop and animal production, fishing). For the EU-27, the variable refers to the sum of the undertakings of the 27 Member States (first observation: 2007, latest available observation: 2020).

Chart B Percentage of small agricultural undertakings in Greece (compared to the EU-27 and other countries in 2020)



Source: Eurostat and Bank of Greece calculations.
Note: Land area ranging from 0 to 50 stremmas.

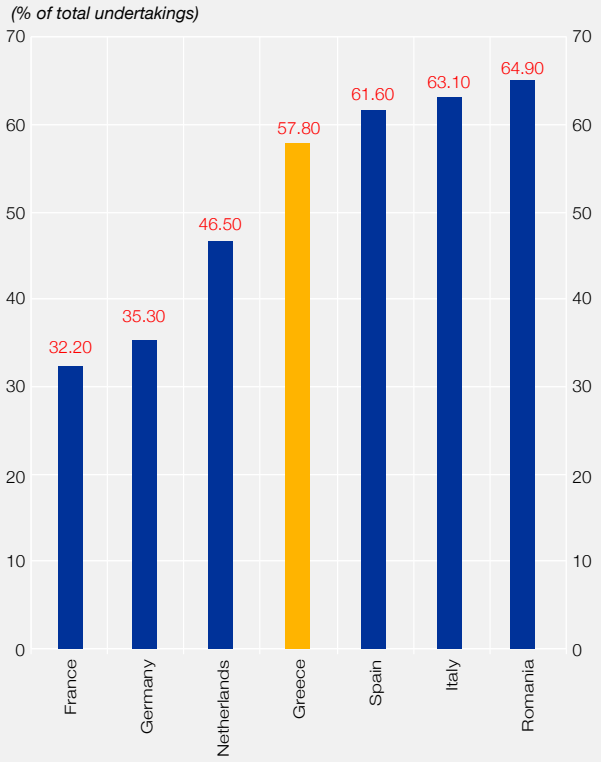
Furthermore, more than half of rural undertakings are managed by people over 55 years of age. Although Greece is not the only country with an ageing agricultural workforce, a normal consequence of an ageing population, the sector's demographics are far worse than in other European countries such as Germany, France or the Netherlands, which, while also suffering from unfavourable demographics, have a much smaller share of people over 55 employed in the agricultural sector (see Chart C).

This difference is even more pronounced when also taking into consideration the level of agricultural training.[2] Only 0.7% of all agricultural undertakings in Greece (compared to 10% for EU-27) employ people of all age groups with a full agricultural training (see Chart D).

The result of these peculiarities, i.e. small holdings, as well as aged and extremely unskilled workforce, lead to a low value added and a very low share of agricultural value added in total economy in Greece. Indeed, as shown in Chart E, the gross value added (GVA) of the agricultural sector (at constant prices) is highly volatile and does not show a steady upward trend. Moreover, its share in total real GVA of the Greek economy dropped from 6.2% in 2000 to 3.3% at the beginning of the Greek debt crisis in 2008 and has since remained close to these levels (4.3% in 2025), recording a marked stagnation.

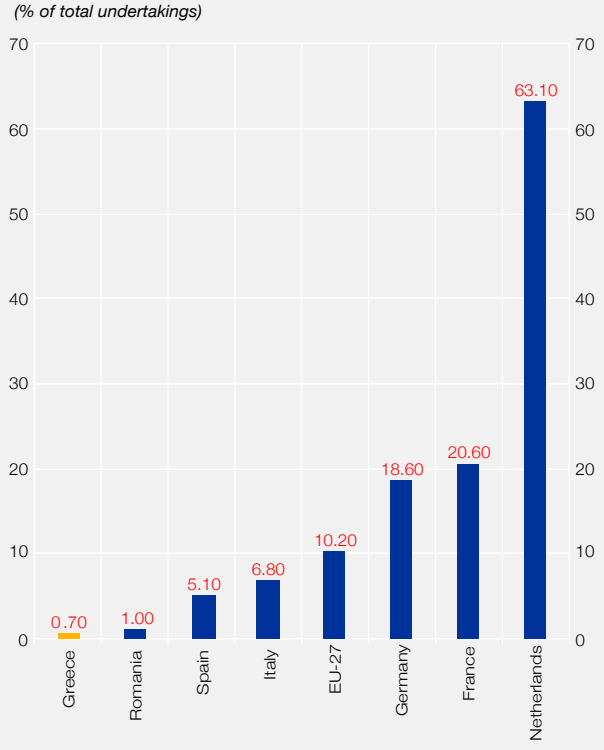
2 Full agricultural training: the farmer has completed a comprehensive training programme (equivalent to at least two years full-time) following compulsory education at an agricultural college, university or higher education institution (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Farmers_training_level).

Chart C Percentage of agricultural undertakings where the farmer (owner or tenant) is over 55 years of age in Greece (compared to other countries)



Sources: Eurostat and Bank of Greece calculations.
Notes: Number of agricultural undertakings in operation where the farmer (owner or tenant) belongs to the 55-and-over age group, as a percentage of total undetakings for all agricultural activities (crop and animal production, fishing). The data refer to 2013 (latest available observation).

Chart D Percentage of agricultural undertakings where the farmer (owner or tenant) has completed formal training in Greece (compared to the EU-27 and other countries)



Sources: Eurostat and Bank of Greece calculations.
Notes: Number of agricultural undertakings in operation where the farmer (owner or tenant) has completed formal training, as a percentage of the total undertakings for all agricultural ctivities (crop and animal production, fishing). EU-27 and Italy data refer to 2020, while data for the remaining countries to 2023 (latest available observation).

Chart F illustrates the stagnant productivity and, consequently, stagnant competitiveness of Greece's agricultural sector against the euro area average. The chart shows the evolution of value added per person employed in the agricultural sector since 1995, which is an indicator of productivity. This indicator measures the economic value generated on average by each worker in the specific economic sector. High values are associated with greater economic growth and prosperity, attractiveness for investment and rising average rural income.

Up until 2005, value added per person employed in Greece was lagging behind, but still followed, the pattern of the corresponding euro area indicator. However, this co-moving pattern was interrupted after 2005: the Greek indicator has remained stagnant at low levels, while the euro area one has followed an upward path; as a result, the "productivity gap" has widened. Indeed, value added per person employed was almost three times lower in Greece in 2023 (compared to less than twice in 1995) than the average value added per person employed in euro area economies.

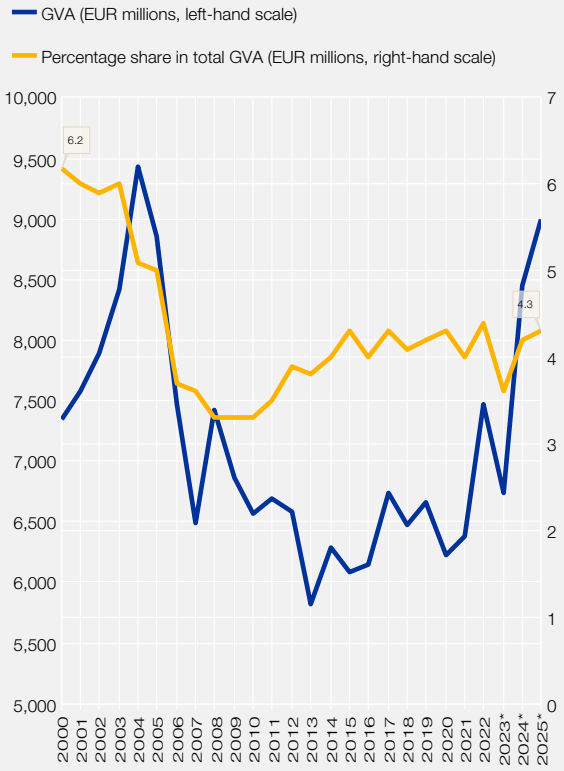
The same picture emerges from the table, which shows the structural imbalances of the Greek agricultural sector compared to (a) other economies in southern Europe with a similar agricultural structure (Italy and Spain); (b) an economy with a less developed agricultural sector (Romania); and (c) an economy with a technologically advanced agricultural economy (the Netherlands). The ratio of employment in agriculture to its contribution to GDP (column 3) for Greece is 3.05, well above the corresponding indices for Italy, Spain and the Netherlands, which are around 1, and half of Romania's. This shows the high concentration

Structural imbalances in Greece's agricultural sector (compared to other countries)

Countries	Employment (% of total employment) (1)	Contribution to GDP (%) (2)	Concentration of labour (1/2) (3)	Value of produced quantity (2/1) (4)
Greece	11.48	3.77	3.05	0.33
Italy	3.59	2.00	1.8	0.56
Spain	3.62	2.75	1.3	0.76
Romania	17.89	2.81	6.4	0.16
Netherlands	1.91	1.72	1.1	0.90

Sources: World Bank, World Development Indicators database, and Bank of Greece calculations.
Notes: Column 1= persons employed in the agricultural sector (all activities and age groups) as a percentage of the total number of persons employed (in total economy), Column 2= gross value added of the agricultural sector as a precentage of GDP (%). Data refer to 2024 (latest available observation).

Chart E Gross value added of the agricultural sector in Greece (2000–2025)



Source: ELSTAT.
Notes: GVA = Gross value added of the agricultural sector at basic prices, before taxes and after subsidies, at constant prices of the previous year. The agricultural sector is classified under NACE Rev. 2: 1=crop and animal production, and related service activities, 2=forestry and logging, 3=fishing and aquaculture.
* Provisional data.

of labour in the Greek agricultural sector in relation to value added and therefore its low productivity.

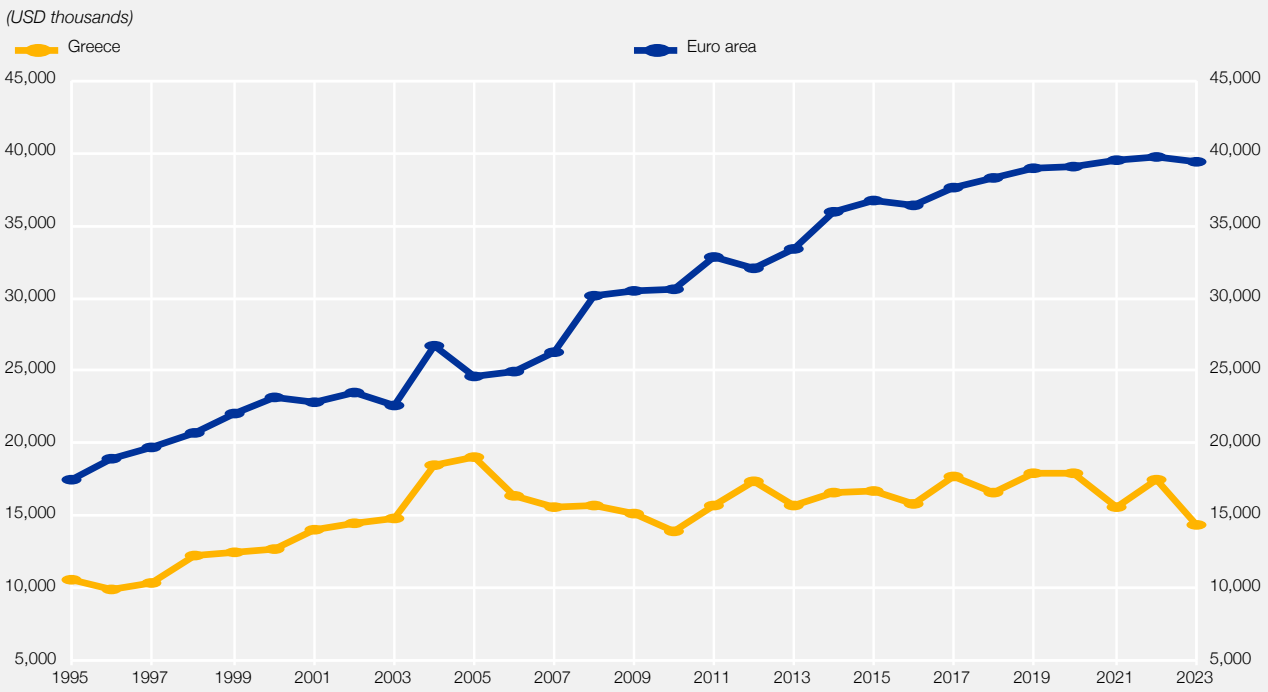
Equally revealing is the inverse of the previous indicator, i.e. the ratio of the contribution to GDP to the rate of employment in agriculture (column 4), which measures the value added by an agricultural worker in relation to the value added by a worker in total economy. This indicator is only 0.33 in Greece, the second lowest after Romania, quite far from other countries. To put it plainly, this means that the value created by an agricultural worker in Greece is only 29% of the value created by an average worker in total economy (against 90% in the Netherlands).

3 POLICY RECOMMENDATIONS

The national agricultural policy, also linked to the climate change strategy, is implemented under the EU Common Agricultural Policy (CAP) with the primary objectives of ensuring fair income and economic viability for farmers through financial aid schemes and safeguarding food security in the EU by promoting quality, cheap and stable food production. Over time, these objectives have been enriched by focusing on sustainability, rational management of natural resources, competitiveness and extroversion of the agricultural sector, as well as preservation of rural areas while adapting to changing economic and climate conditions.[3] Taking into account the specificities of agricultural production, the CAP emphasises policies that reduce

3 See World Economic Forum (2023), "Scaling agritech at the last mile: converging efforts for farmers' prosperity", *Insight Report*, June.

Chart F Value added per person employed in the agricultural sector in Greece and the euro area (1995–2023)



Source: World Bank, World Development Indicators database.
Notes: Value added in USD at constant 2015 prices, for all agricultural activities (crops and animal production, fishing). 2023 is the latest available observation.

both business uncertainty and the negative impact on the environment, while fostering sustainability objectives.[4]

The primary sector in Greece remains trapped in a vicious circle of low productivity and structural distortions. Also taking into consideration stagnation, as measured by all available indices, and the challenges posed by population ageing and climate change, it is crucial to immediately prepare a holistic strategic plan within the framework of the CAP, with an emphasis on adapting to changing circumstances and sustainable rural development. Such a plan should clearly define the policy objectives and the means to achieve them.

The overarching objective should be sustainable rural development, which is essential for: (a) facilitating the food supply chain; (b) securing adequacy in terms of food quantity and quality; (c) increasing agricultural income; and (d) boosting food exports. On the demand side, financial support, following transparent and consistent procedures, will help achieve this goal. On the supply side, investing in rural infrastructure, incentivising the pooling of small holdings and encouraging the entry of young, well-trained professionals can play a key role.

Although governments often resort to financial aid schemes to directly support farmers' income, in the form of subsidies or compensations, the effect of this policy is short-term and cannot resolve structural distortions, which have harmful effects of a more permanent nature. Without underestimating financial support as a policy measure, investment in rural in-

4 European Commission (2025), "EU agricultural outlook 2025-2035", December, Directorate-General for Agriculture and Rural Development, Brussels.

frastructure is the policy instrument that corrects distortions and builds resilience through adaptation, with a positive and permanent impact. An improvement of rural infrastructure includes: (a) modern public infrastructure with a focus on more efficient management of natural resources (e.g. irrigation projects); (b) new technologies with a focus on digitalisation, automation and sustainability, in order to increase production and reduce production costs;[5] and (c) eliminating the "knowledge gap" through training activities for new entrants, aiming to promote innovation, competitiveness, entrepreneurship and cooperation.[6]

More specifically:

First, artificial intelligence and digital tools can be used to enhance:

(a) research and development (R&D);

(b) reliable monitoring and forecasting of soil suitability for agricultural production;

(c) means and procedures to safeguard agricultural production;

(d) best practices for a more efficient management of natural resources and of cultivable land; and

(e) supply chain management, in order to plan ahead and avoid overproduction and waste by balancing supply and demand, as well as to improve the transportation of products.

Second, robotics and computer vision – using autonomous machinery, specialised harvesting robots and drones to detect diseases and perform precision spraying – reduce the problem of labour shortages and allow crops to be managed accurately.

Third, intelligent agriculture (precision farming), including smart irrigation,[7] variable rate fertiliser and remote sensing applications (e.g. Gaiasense),[8] which offer real-time insights, improve economic performance for producers while reducing the environmental footprint.[9]

Fourth, cultivating in a controlled environment, such as vertical agriculture,[10] hydroponics[11] and aeroponics,[12] saves natural resources. The adoption of new technologies provides farmers with the necessary data for preventive actions, thus reducing the cost of reactive action (crop failure, waste of resources). Synergies between new technologies and sustainable farming enable far-

5 For more details on new technologies, see World Economic Forum (2025), "Shaping the deep-tech revolution in agriculture", *Insight Report*, November, and (2021), "Artificial intelligence for agriculture innovation", *Community Paper*, March. See also Moysiadis V. et al. (2020), "Mobile robotics in agricultural operations: a narrative review on planning aspects", *Applied Sciences*, 10, 3453.

6 For such measures at EU level, see European Commission (2025), "Assessments of generational renewal strategies across EU Member States – Report", Directorate-General for Agriculture and Rural Development, Unit A.3, October.

7 Smart irrigation is an advanced, automated irrigation system that uses data (soil sensors, weather forecasts, satellites) to accurately determine when, where and how much water is needed, thereby optimising water use.

8 Gaiasense is a Greek smart farming system developed by Neuropublic. It is an innovative digital farm advisory tool that combines cutting-edge technologies with scientific knowledge to optimise production. The system is supported by the "Gaia Epicheirein" network and is addressed to both individual farmers and agricultural cooperatives.

9 For more on new technologies and the environment, see IOBE (2025), "Soilless Greenhouse Agriculture in Greece: challenges, prospects and the cases of Central and Northern Greece", June.

10 Vertical agriculture is a form of urban agriculture that works by placing plants in vertically stacked layers within specialised greenhouses, allowing a significant increase in planting density without reducing access to light and air.

11 Hydroponics is a method of growing plants outside the soil, without the use of soil but with alternative substrates.

12 Aeroponics, an advanced form of hydroponics, is used for growing soilless plants, where roots are suspended in a closed environment and periodically sprayed with nutrient solutions.

mers to manage climate change while improving productivity. However, the integration of new technologies requires the cooperation of all stakeholders, such as legislators, governments, farmers, agricultural cooperatives, investors and high-tech companies.

In more detail, exploiting the potential of agrotechnology requires recognising the challenges that arise from the application of new technologies, especially for smallholders or small and medium-sized agricultural enterprises. Multistakeholder collaboration is essential in order to effectively bridge the gaps in awareness, access and widespread adoption of new technologies.[13] In particular, it is necessary to: (a) establish a governance framework in order to set up a data sharing infrastructure, as well as a regulatory framework for the use of new technologies; (b) facilitate the cooperation with tech firms in the development and adaptation of applications to address the challenges in accordance with national priorities; (c) re-engineer the rural business model by encouraging the adoption of new ways of production; (d) integrate agricultural training and strengthen its link with food processing; and (e) mobilise investment and properly evaluate both risks and economic and social benefits.

Furthermore, initiatives should immediately and jointly be taken by institutional bodies and farmers with the aim of restructuring crops, taking into account not only the changes in consumption over time, as expressed by the forces of demand, but also the effects of climate change, as reflected in the forces of supply.

Given the very small size of agricultural undertakings and farms, it is necessary to encourage land consolidation and the creation of large cooperatives that will operate on the basis of private economy criteria, in order to take full advantage of economies of scale. These, in turn, require faster completion of cadastral registration and acceleration of reparcelling. This is the way to address property fragmentation.

Economies of scale are important for economies with very small agricultural holdings, such as Greece, as they can render small farms more effective and profitable. There are multiple benefits in increasing the size of agricultural undertakings. First, production volume increases, average production costs decrease, and fixed operating costs are shared. At the same time, this ensures better raw material prices for the producer and more competitive prices for the final consumer, increases the bargaining power of producers vis-à-vis suppliers and strengthens resilience to price fluctuations. Also, the workforce becomes more specialised and production more vertical, thereby increasing value added with the ultimate benefit of improving productivity and efficiency in the primary sector. At the same time, however, it is necessary to clearly redefine the farming profession: farmers will operate in an environment where they will be able and willing to introduce modern business models and take investment risks. In this context, recasting the CAP as a lever for modernisation and innovation of the agricultural sector, rather than a simple rural income support tool, is considered crucial.

13 See also World Economic Forum (2025), op. cit., p. 37.

Box A

ASSESSMENT OF THE IMPACT OF CLIMATE CHANGE ON AGRICULTURE

The impact of climate change is already apparent and is expected to significantly affect the type, quantity and quality of agricultural products. In this context, agro-climatic zones might move northwards and the start of the growing season might change. In addition, climate change is gradually degrading the soil quality, affecting its fertility and increasing its erosion, which is expected to reduce the nutritional value of agricultural products, in-

crease the occurrence of agricultural pests and diseases, and worsen the health and metabolic activity of animals. In addition, higher temperatures and prolonged droughts, compounded by limited rainfall, restrict the availability of water resources and the possibility of irrigation, which, in turn, causes uncertainty for the future of agriculture and increases food insecurity.[1,2]

Overall, climate change increases output volatility, amplifies price fluctuations, undermines food security and turns agricultural risk into fiscal risk in the form of more frequent compensations and emergency measures. On the economic side of the impact, climate risks for the agricultural sector in the EU are already translating into significant and recurrent economic losses. The current estimated average annual loss for the EU is EUR 28.3 billion, corresponding to around 6% of annual crop and animal production.[3] In addition, 50% of the damage to agriculture related to climate risks is due to drought episodes.[4] In terms of labour force, climate change also directly affects agricultural labour productivity. The European Commission's Joint Research Centre (JRC) estimates a 1.6% decline in labour productivity in Europe by 2080 due to heat stress among workers, with the southern and eastern regions most affected (down by up to 5.4% in Greece).[5]

Proposals for climate adaptation measures

The above impact makes it imperative to adopt adaptation measures that strengthen the resilience of agriculture. At national level, in 2016 the National Adaptation Strategy (NAS)[6] was adopted as a central policy-making framework to strengthen Greece's resilience, setting the main directions and priorities at sectoral level, including in the agricultural sector. These guidelines are specified and implemented at regional level through the Regional Adaptation Action Plans (RAAPs), which take into account the specific climatic, geomorphological and production conditions of each region. Below are indicatively the proposed adaptation measures described in both the NAS and the published RAAPs.[7]

- Adaptation of farming practices: (a) introduction and diffusion of resistant varieties and hybrids; (b) adaptation of planting and harvesting dates; and (c) promotion of agroforestry systems.

- Water resources management: (a) construction and improvement of reservoirs, tanks and micro-dams for reserve water supply; (b) review of irrigation zones and prioritisation of sectors and crops in water scarcity conditions; and (c) implementation of rain and treated water reuse measures for irrigation.

- Improving soil health and addressing desertification and erosion: (a) soil conservation and erosion control measures (terraces, vegetative strips and protective buffer zones); (b) recovery and improvement of soil organic matter; and (c) implementation of bio-waste management practices.

- Integrated monitoring of climate change indicators, information systems and early warning: (a) creation and enhancement of agricultural data recording systems (drought monitoring, yield monitoring, plant health, invasive alien species); (b) disease and pest monitoring and prediction networks; and (c) digital information and early warning platforms for farmers.

- Research, innovation and transfer of know-how: (a) vulnerability assessment studies of specific crops and areas; (b) promotion of research into resistant varieties, water loss mitigation techniques and digital agriculture;

1 European Environment Agency (EEA), *Climate change adaptation in the agriculture sector in Europe*, Report 04/2019.
2 Karamanos, A. et al. (2026), "Study of the projected impact of climate change on crop farming", forthcoming (in Greek).
3 |The current estimate of the average annual loss includes losses of EUR 17.4 billion on crops (6.4% of total crop production in the EU) and EUR 10.9 billion on livestock (5.1% of animal production in the EU). The sample includes the simulation of no-loss, medium-loss and very high-loss years.
4 fi-compass (2025), "Insurance and risk management tools for agriculture in the EU", May.
5 Szewczyk, W., I. Mongelli and J.-C. Ciscar (2021), "Heat stress, labour productivity and adaptation in Europe – A regional and occupational analysis", *Environmental Research Letters*, 16(10).
6 Law 4414/2016 on a new support scheme for renewable energy sources power plants and high efficiency combined heat and power plants – provisions on the legal and functional unbundling of the supply and distribution sectors in the natural gas market and other provisions (in Greek).
7 Karamanos, A. et al. (2026), op. cit.

and (c) creation and enhancement of gene banks and preservation of local varieties adapted to drought and elevated temperatures.

- Spatial planning, infrastructure and access to markets: (a) development of local units for the exploitation of agricultural residues (composting, bioenergy) to improve the soil and reduce dependence on inputs; (b) development of protected cultivation with the application of new modern technologies (e.g. hydroponics); and (c) protection of rural infrastructure (roads, storage areas) from extreme events.

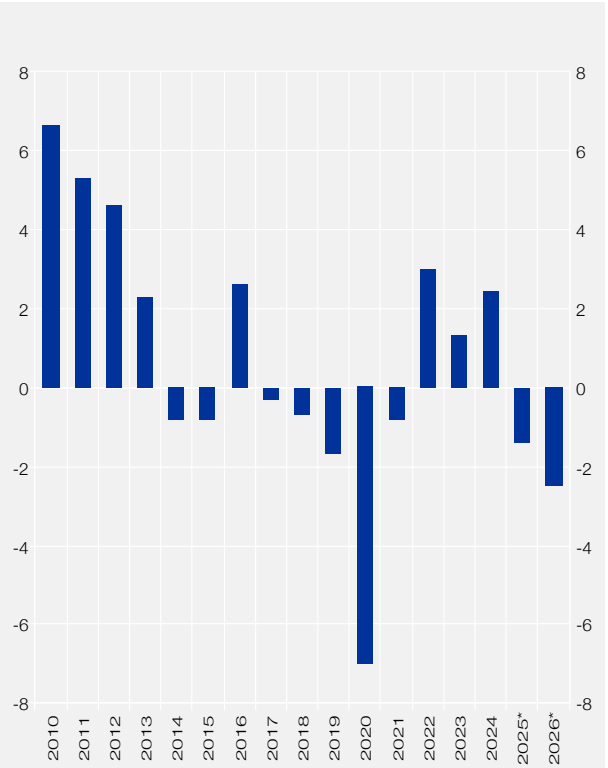
- Financial instruments and risk insurance: (a) design and promotion of insurance products for climate risks (floods, drought, frost); and (b) incentives and subsidies for adaptive investments with a focus on prevention (e.g. precision irrigation, greenhouses).

V FISCAL DEVELOPMENTS AND PROSPECTS

In 2025, positive fiscal momentum was sustained, and part of the additional fiscal space created in the previous year was used to finance permanent expenditure measures aimed at supporting investment and vulnerable social groups. At the same time, revenue continued to outperform budget forecasts, mainly reflecting stronger tax and social security contribution compliance, resulting from efforts to combat tax and contribution evasion, as well as more efficient tax collection, supported by ongoing digitalisation and the expansion of electronic transactions. As a result, the fiscal surplus in 2025 is expected to exceed the annual target. This favourable fiscal performance has also created room for permanent expansionary fiscal measures from 2026 onwards, with a focus on reducing the tax burden on middle-income earners, families with children and young workers.

Chart V.1 Change in the cyclically adjusted general government primary balance

(% of potential GDP)



Source: Bank of Greece.
* Forecast.
Notes: The cyclically adjusted general government primary balance is calculated in accordance with the Eurosystem methodology. It excludes support to the financial sector and receipts from the NGEU.

This has been made possible because, under the revised fiscal rules, a portion of the additional permanent revenue generated by discretionary revenue measures introduced in 2024 and 2025 is used to reduce net primary expenditure, thereby creating room for higher expenditure growth in subsequent years, provided that cumulative net primary expenditure remains within the agreed maximum growth rates. In turn, this creates scope for further permanent expenditure measures without compromising debt sustainability. The overall strong fiscal performance recorded in recent years has also prompted further sovereign credit rating upgrades by credit rating agencies. In 2026, a primary surplus is projected to be maintained, albeit at a lower level than in 2025.

Given the significant challenges facing the Greek economy and the EU amid heightened global uncertainty, particularly from geopolitical developments and the climate crisis, medium-term fiscal policy planning should emphasise effective risk management while maintaining sufficient flexibility. In this context, containing expenditure growth and maintaining adequate fiscal buffers can enhance economic resilience, while a faster pace of debt reduction would strengthen fiscal sustainability.

This would also be underpinned by the continued implementation of the national reform agenda, which, following the expiry of the Recovery and Resilience Facility, will need to draw on alternative sources of EU funding to further strengthen the economy's fundamentals and support strong and sustainable growth.

1 FISCAL DEVELOPMENTS AND PROSPECTS[1]

Following three years of contractionary fiscal policy, aligned with monetary policy tightening in response to the inflation surge, fiscal policy is estimated to have turned expansionary in 2025-2026, driven by discretionary tax-relief measures and stronger investment expenditure, partly supported by financing from the Recovery and Resilience Facility (RRF) (see Chart V.1).

1.1 General government balance in 2024

In 2024, Greece not only achieved a significant improvement in its fiscal position, but also ranked among the top fiscal performers in the EU. Specifically, according to the second EDP notification of fiscal data for 2021-2024 by the Hellenic Statistical Authority (ELSTAT) in October 2025, the general government balance shifted to a surplus of 1.2% of GDP in 2024 from a deficit of 1.4% of GDP in 2023 (see Table V.1). This not only marked a return to surplus for the first time since 2019 but also represented the highest general government surplus[2] recorded since 1995, when ESA-based national accounts data began to be compiled. The general government primary balance also reached a historic high, standing at a surplus of 4.7% of GDP in 2024, up from a surplus of 2.0% of GDP in 2023 and significantly overshooting the 2025 Budget forecast of 2.5% of GDP, a performance marking a historic milestone by the standards of at least the past three decades. Among EU Member States, Greece recorded the fourth highest primary surplus as a percentage of GDP and was one of only six countries to post an overall budget surplus.

1.2 Fiscal developments in 2025

Tax revenue in 2025 significantly outperformed the budget targets, as revised in the 2026 Budget, driven by sustained economic growth and improved tax compliance. This is also reflected in the general government national accounts data for the first nine months of 2025, according to which the primary balance recorded a surplus of 4.5% of GDP, up by 1.1 percentage points compared with the same period of the previous year. This improvement was primarily driven by stronger income growth, higher corporate profitability, rising employment and enhanced tax compliance, and, to a lesser extent, higher-than-expected inflation (for a detailed discussion of developments in 2025, see Section V.4).

Revenue overperformance largely reflected improved compliance resulting from measures to combat tax and social security contribution evasion, including the wider use of digital tools and electronic payments, which enhanced tax collection efficiency, as well as the expanded implementation of the Digital Work Card, which contributed to higher social security contribution revenue. This, in turn, created scope for the adoption of a EUR 1.76 billion package of permanent expansionary fiscal measures for 2026, including tax relief, such as reductions in direct tax rates primarily benefiting middle-income earners, families with children and young workers, as well as income support initiatives, including the phasing-out of the personal difference in pensions and increases in the special pay scales for military and law enforcement personnel (see also the Annex to Chapter V).

1.3 General government balance projections for the period 2025-29

The sustained fiscal momentum in 2025 led to successive upward revisions of the projected primary balance for 2025, from 2.4% of GDP in the 2025 Budget to 3.2% in the Annual Progress Report[3] and subsequently to 3.7% in the 2026 Budget.

However, as tax revenue developments in 2025 have proven even more favourable, the Bank of Greece estimates that the primary surplus for the year could ultimately turn out higher still,

1 The cut-off date for the data and information used in this chapter was 23.3.2026.
2 Budget surpluses – albeit lower – had also been recorded in fiscal years 2016-2019.
3 Hellenic Republic, Ministry of Economy and Finance, Greece: Annual Progress Report 2025, 30.4.2025.

Table V.1 General government balances

(% of GDP)

	2021	2022	2023	2024
General government balance[1] *(national accounts data – convergence criterion)*	**-7.2**	**-2.6**	**-1.4**	**1.2**
- Central government	-8.0	-3.7	-1.6	0.8
- Social security funds, local government, legal entities in public law	0.8	1.2	0.2	0.5
General government primary balance	**-4.8**	**-0.1**	**2.0**	**4.7**

Sources: Ministry of Economy and Finance and ELSTAT.
1 ELSTAT data, as notified to the European Commission (Excessive Deficit Procedure). Totals/subtotals may not add up due to rounding.

reaching around 4.4% of GDP. For 2026, the Budget envisages a loosening of the fiscal stance, made possible by the significant outperformance of the tax revenue targets set out in the Medium-Term Fiscal-Structural Plan 2025-2028 (MTP) over the past two years (see Table V.2). In particular, the primary surplus is projected at 2.8% of GDP in 2026, compared with an MTP target of 2.4% of GDP, while the overall general government balance is expected to record a marginal deficit of 0.1% of GDP, against an initial MTP forecast of a deficit amounting to 0.8% of GDP. In structural terms, the primary surplus is projected at 2.0% of GDP, broadly consistent with the MTP projection of 2.1% of GDP. According to the revised projections of the Bank of Greece, the primary balance in 2026 is expected to turn out at a surplus of 3.2% of GDP, also reflecting a positive carry-over effect from stronger-than-expected tax revenue in 2025.

The 2026 Budget projections for the net primary expenditure path confirm compliance with the new European fiscal rules, as they satisfy both the deficit resilience safeguard over the medium term and the requirement to put the debt-to-GDP ratio on a credible and continuous downward path. The flexibility of the new fiscal framework is demonstrated by the fact that public finance sustainability over the period 2025-2026 remains unaffected, despite annual primary expenditure growth exceeding the initial MTP projections. In particular, according to the 2026 Budget, general government net nationally financed primary expenditure is expected to grow by 4.4% in 2025 and 5.7% in 2026, compared with MTP target growth rates of 3.7% and 3.6%, respectively. However, net primary expenditure declined by 0.2% in 2024, compared with an initial MTP target increase of 2.6%, mainly reflecting the impact of discretionary revenue measures to combat tax evasion and the activation of the national escape clause for defence expenditure.[4] As a result, cumulative net primary expenditure growth over the period 2024-2026 is projected to amount to around EUR 10 billion. Therefore, although annual net primary expenditure growth in 2025-2026 exceeds the corresponding MTP projections, cumulative growth relative to the 2023 base year remains within the maximum allowable growth rates under the MTP, reflecting the lower-than-targeted expenditure growth recorded in 2024.

Should the stronger-than-expected fiscal performance in 2025 be confirmed and shown to reflect permanent revenue gains from structural anti-tax evasion measures and/or expenditure restraint, as in 2024, the growth rate of net primary expenditure in 2025 could prove lower than projected in the 2026 Budget. This, in turn, would create additional fiscal space for higher net primary expenditure in subsequent years, while remaining consistent with the constraints of the new fiscal framework.

This reflects the flexibility embedded in the new fiscal framework, which, rather than assessing Member States' fiscal policies solely on the basis of annual compliance with a strict expenditure

4 By definition, the nationally financed net primary expenditure aggregate excludes the effects of discretionary measures that permanently increase tax revenue, including anti-tax evasion measures, while defence expenditure may justify deviations from the maximum net expenditure growth rates.

Table V.2 Fiscal projections

	2024	2025	2026	2027	2028	2029
Medium-term Fiscal-Structural Plan 2025-2028[1]						
General government primary balance (% of GDP)	2.4	2.5	2.4	2.4	2.4	
Net nationally financed primary expenditure[2] (growth rate)	2.6	3.7	3.6	3.1	3.0	
2026 Budget / Multiannual Fiscal Planning 2026-2029						
General government primary balance (% of GDP)	4.7	3.7	2.8	2.7	2.7	2.7
General government gross debt (% of GDP)	154.2	145.9	138.2	131.7	124.6	119.0
Net nationally financed primary expenditure[2] (growth rate)	-0.2	4.4	5.7	2.9	2.7	2.4

Sources: Ministry of Economy and Finance and ELSTAT.
1 Debt projections in the Medium-term Fiscal-Structural Plan 2025-2028 are not presented, as they do not reflect the methodological change under which deferred interest on EFSF loans is now included in public debt.
2 "Net primary expenditure" means nationally financed expenditure, net of interest expenditure, expenditure on national co-financing of programmes funded by the European Union, cyclical expenditure on unemployment benefits and expenditure to deal with unforeseen emergencies, minus discretionary revenue measures.

ceiling, also allows for deviations in net primary expenditure from the endorsed medium-term reference trajectory. Deviations of up to 0.3% of GDP annually or 0.6% of GDP cumulatively relative to 2023 are permissible and do not constitute a departure from the net expenditure path. Within these limits, deviations can be accommodated without triggering immediate corrective action (see Box V.1).

Looking further ahead, the Multiannual Fiscal Planning 2026-2029, based solely on fiscal measures implemented or announced to date, projects a broadly balanced budget and a stable primary surplus of 2.7% of GDP over the period 2027-2029, with net primary expenditure growth in 2027 and 2028 remaining within the applicable expenditure growth limits.

1.4 Greek government borrowing

In 2025, market sentiment towards Greece remained favourable. Scope Ratings' upgrade of Greece's sovereign credit rating in December 2024 to one notch above investment grade was followed by further positive developments in 2025. In March 2025 Morningstar-DBRS also upgraded Greece's rating to the same level and revised the outlook to stable from positive, while Moody's assigned an investment-grade rating to Greek government bonds for the first time in 14 years. In April, Standard & Poor's followed suit by upgrading Greece's sovereign credit rating to one notch above investment grade. As a result, all ECB-recognised credit rating agencies now assign Greece an investment-grade rating, marking the country's full return to European financial normality. In May, Fitch upgraded Greece's outlook to positive (from stable), acknowledging progress in the country's public finances. Finally, in November Fitch upgraded Greece's credit rating to BBB (from BBB-), one notch above investment grade, with a stable outlook, while Scope Ratings revised the economy's outlook to positive. These positive developments reflect the enhanced credibility of the Greek economy, underpinned by primary surpluses that have repeatedly outperformed targets in recent years and by expectations of a further decline in the debt-to-GDP ratio in the years ahead.

Against this favourable backdrop, the Greek government raised a total of EUR 7.74 billion in international capital markets, while the Public Debt Management Agency (PDMA) pursued a proactive debt management strategy, completing 93% of its 2025 borrowing programme within the first four months of the year. Specifically, in January 2025, it raised EUR 4 billion by a new 10-year bond issue (at a yield of 3.637%) and an additional EUR 250 million through the reopening of this issue in February (at a yield of 3.24%). In March, the PDMA

Table V.3 Financing sources of the net cash State Budget deficit

(change in EUR millions)

	2022	2023	2024	2025
Greek government Treasury bills	0	188	-3,572	-447
Greek government bonds	3,850	5,457	6,333	3,923
General government cash reserves[1] ("-" indicates an increase, "+" a decrease)	-848	-3,490	1,710	-2,727
Short-term borrowing (repos)	12,968	4,615	2,405	5,460
External borrowing[2]	-3,305	-4,083	-7,907	-7,181
Total	**12,664**	**2,685**	**-1,031**	**-973**

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.

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.[5] These reopenings were conducted at lower yields than the original issues and were heavily oversubscribed, reflecting strong investor demand for Greek government debt and confidence in the prospects of the Greek economy, while further contributing to the deepening of the Greek government bond market. Lastly, in April, a 5-year bond originally issued in 2023 was re-opened, raising EUR 200 million at a lower yield than the original issue. In September, a total of EUR 257 million was raised through the reopening of the January 10-year bond, at a yield of 3.26%.

Similarly, by early 2026, more than half of the EUR 8 billion borrowing requirement for 2026 had already been raised.[6] Specifically, in January 2026, the PDMA raised EUR 4 billion through a new 10-year bond issuance at a yield of 3.47% and with an oversubscription ratio of 12 times. This was followed in February by a reopening of the issue, which raised an additional EUR 300 million at a lower yield of 3.34%.

Meanwhile, short-term government borrowing continued through the issuance of 13-, 26- and 52-week Treasury bills, reducing the stock of outstanding short-term securities to EUR 8.1 billion, EUR 0.4 billion below its 2025 level, and building on the significant reduction achieved in 2024. These operations lower the annual gross financing needs of the general government, mitigate the refinancing risk and support a more gradual decline in the weighted average maturity of public debt. Apart from Treasury bill issuance, short-term financing continued to be obtained through through cash management operations in the form of repurchase agreements (repos), mostly with entities within general government, allowing for the efficient utilisation of their cash surpluses (see Table V.3).

At the general government level, cash reserves increased by EUR 3.3 billion to EUR 39.6 billion in 2025, against an initially projected decline of EUR 3.7 billion,[7] reflecting, inter alia, a primary surplus on a cash basis, EUR 1.18 billion in RRF borrowing and privatisation proceeds of

5 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 through these combined operations, EUR 1.5 billion resulted from the switch and tender offer, while the remaining EUR 1.5 billion constituted new funding. This strategy improves the efficiency of public debt management and strengthens debt sustainability by reducing financing needs in the coming year and contributing to a further decline in public debt.
6 PDMA, Hellenic Republic – Funding Strategy for 2026.
7 See PDMA, Public Debt Bulletin No. 120, December 2025.

EUR 2.1 billion.[8] Overall, these cash reserves are sufficient to finance the government's borrowing requirements for approximately the next three years.

It should be noted that cash reserves increased despite the release of EUR 5.3 billion in December 2025 to finance the planned early repayment of EUR 31.6 billion in outstanding Greek Loan Facility (GLF) loans by 2031, i.e. ten years ahead of their original maturity. As discussed in the following section, this operation is expected to generate multiple benefits for debt management and debt sustainability.

1.5 General government debt

The Introductory Report on the 2026 Budget projects the continuation of the downward trajectory in the general government debt-to-GDP ratio observed since 2021. In particular, the ratio is projected to decrease by 8.3 percentage points to 145.9% in 2025. The favourable interest rate-growth differential (snowball effect) is expected to account for the largest share of the decline (4.3 percentage points), with the primary surplus contributing a further 3.7 percentage points. Deficit-debt adjustments are expected to account for a modest 0.3 percentage point of the reduction in the debt-to-GDP ratio, as the debt-reducing impact of the early repayment of EUR 5.3 billion in GLF loans is partly offset by, inter alia, borrowing under the Recovery and Resilience Facility (RRF). The projected decrease significantly exceeds the 6.6 percentage point-of-GDP decline initially forecast in the 2025 Budget, mainly reflecting the upward revision of the projected primary surplus.

In 2026, the debt-to-GDP ratio is projected to decline further by 7.7 percentage points to 138.2%. Of this reduction, 3.4 percentage points are projected to stem from the favourable (debt-reducing) impact of the interest rate-growth differential, 2.8 percentage points from the primary surplus and 1.5 percentage points from stock-flow adjustments, mainly reflecting the extensive use of cash reserves to finance, inter alia, further early repayments of GLF loans. While the favourable impact of the interest rate-growth differential remains significant, it is expected to gradually diminish, reflecting both the mechanical effect of the declining debt ratio and the moderation in nominal GDP growth to 4.6%, from 5.1% in 2025, owing to slower growth in the GDP deflator. By contrast, the implicit interest rate is expected to remain stable at 2.1% in 2026.[9] Strong nominal GDP growth was a major factor behind the decline in the debt-to-GDP ratio over the period 2021-2025, generating a substantial denominator effect that lowered the ratio by 70.5 percentage points. Of this effect, 34.3 percentage points were attributable to the increase in the GDP deflator following the energy crisis, while 36.1 percentage points reflected real GDP growth associated with the post-pandemic recovery and reopening of the economy, supported by the continued absorption of Next Generation EU (NGEU) funds.

Alongside the continued decline in the debt-to-GDP ratio, the Introductory Report projects a reduction in the nominal stock of debt of EUR 2.2 billion in 2025 and EUR 3.5 billion in 2026, partly reflecting the use of cash reserves to finance early repayments of GLF loans. The PDMA's 2026 funding strategy projects an even larger reduction in the nominal stock of debt, amounting to EUR 5.5 billion.[10] It is worth noting that, apart from Greece, only three euro area

8 Of this amount, EUR 784.8 million reflected an accounting reclassification within the general government sector of VAT receipts arising from the privatisation of the Attica Motorway. A further EUR 759 million stemmed from privatisation proceeds related to the Egnatia Motorway concession agreement, while EUR 303.5 million came from the sale of a stake in the Athens Water Supply and Sewerage Company (EYDAP).

9 The implicit interest rate, calculated as the ratio of current-year interest payments (on a national accounts basis) to the previous year's debt stock (Maastricht definition), measures the average effective cost of servicing accumulated public debt under ESA rules. Interest expenditure on a national accounts basis exceeds debt-servicing costs measured on a cash basis, as it is calculated before accounting for the effects of interest rate swaps and includes the accrued cost of deferred interest payments on EFSF loans. After accounting for interest rate swaps and excluding deferred interest payments on EFSF loans, the implicit interest rate is estimated by the PDMA to have stood at 1.33% at end-2025.

10 See footnote 6.

Table V.4 Decomposition of changes in the general government debt-to-GDP ratio[1]

(percentage points of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025*	2026*
General government debt as % of GDP	183.1	182.1	189.0	183.2	209.4	197.3	177.8	164.3	154.2	145.9	138.2
Changes in the debt ratio	3.5	-1.0	6.9	-5.9	26.2	-12.1	-19.5	-13.5	-10.1	-8.3	-7.7
- Effect of the primary balance	-3.4	-3.9	-4.3	-3.8	6.6	4.8	0.1	-2.0	-4.7	-3.7	-2.8
- Interest-growth differential (snowball effect)	4.2	0.1	0.1	-1.7	22.2	-16.9	-18.9	-10.6	-4.9	-4.3	-3.4
- Deficit-debt adjustment[2]	2.8	2.7	11.1	-0.4	-2.7	0.0	-0.7	-0.9	-0.5	-0.3	-1.5

Sources: Introductory Report on the 2026 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.

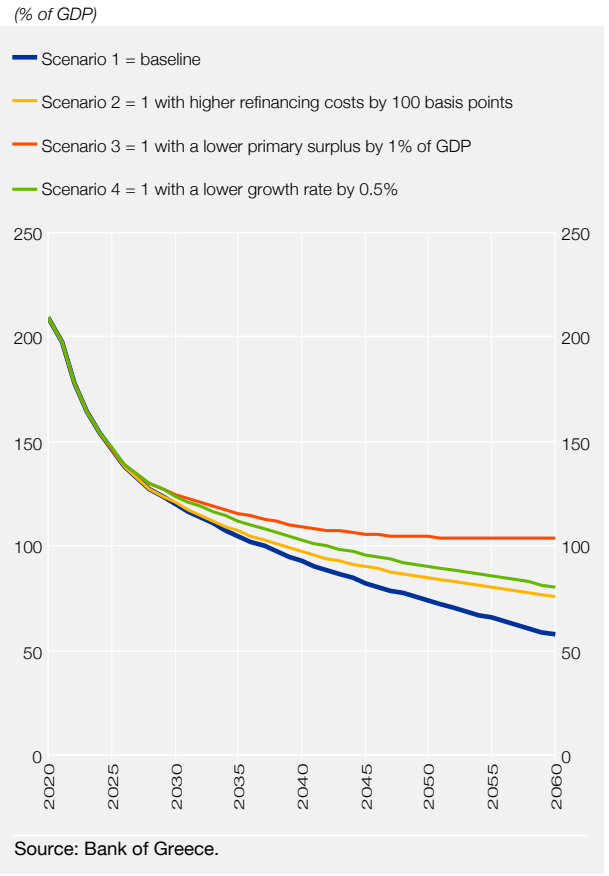
countries, namely Cyprus, Ireland and Portugal, have reduced their public debt in nominal terms since 2020.

The use of part of the cash reserves for early debt repayments accelerates debt reduction without compromising the government's regular presence in sovereign debt markets. Early repayment of both GLF and ESM/EFSF loans would reduce future gross financing needs, lower debt-servicing costs and strengthen debt sustainability. It would also enhance the predictability of the fiscal strategy, alleviate structural adjustment requirements and create permanent fiscal space in the years ahead. This fiscal space could be used to support targeted social measures without undermining long-term fiscal sustainability or the countercyclical role of fiscal policy. Such operations would also send a strong signal to markets of the country's firm commitment to sustainable debt reduction. At the same time, they could provide a hedge against future interest rate increases and support further upgrades to Greece's sovereign credit rating by strengthening investor confidence. Finally, such operations would be of both symbolic and substantive importance, reflecting the foresight of economic policy and the principle of intergenerational solidarity. By reducing the primary surpluses needed in the future to ensure long-term debt sustainability, they would ease future fiscal constraints, thereby creating scope for future generations to enjoy higher disposable income.

2026 is expected to mark another milestone year in the country's fiscal trajectory, since Greece's public debt as a percentage of GDP is projected to approach Italy's, meaning that Greece will no longer stand out as an outlier among European countries. According to the Multiannual Fiscal Planning (MFP) 2026-2029, public debt is projected to decline further over the period 2027-2029, supported by sustained primary surpluses and early debt repayments. The expectation of a continued decline in public debt over the medium term is underpinned by forecasts from international institutions, including the European Commission and the IMF, and is consistent with the positive or stable outlooks assigned to Greece's sovereign credit rating by major rating agencies.[11]

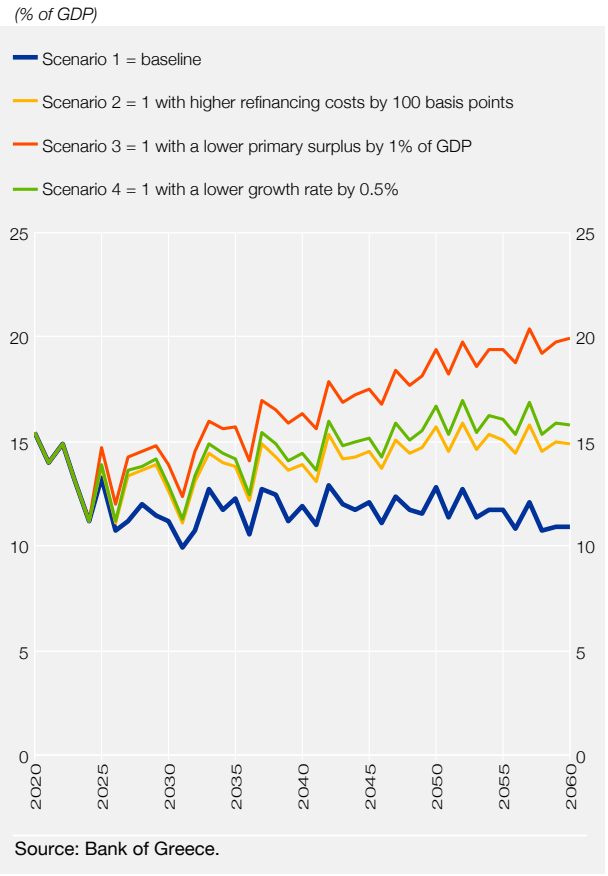
11 See European Commission, "European Economic Forecast, Autumn 2025" and "Debt Sustainability Monitor 2025", and IMF, *Fiscal Monitor*, October 2025.

Chart V.2 Public debt



Source: Bank of Greece.

Chart V.3 Gross financing needs



Source: Bank of Greece.

Bank of Greece projections also support the expectation of a continued decline in public debt in the years ahead, with debt becoming more resilient over the medium term but gradually more exposed to risks over the long term owing to the transition towards market-based financing. According to these projections, the general government debt ratio is expected to reach 146.1% in 2025 and 137.7% in 2026. Assuming continued commitment to fiscal targets and effective utilisation of EU funds, the debt-to-GDP ratio is put on a steady downward path and gross financing needs decline below the 15%-of-GDP and 20%-of-GDP benchmarks in the medium and long term, respectively, while debt remains highly resilient to a range of adverse shocks over the medium term (see Charts V.2 and V.3). An analysis of historical uncertainty surrounding the determinants of public debt dynamics suggests that the probability of the debt-to-GDP ratio falling below its current level within five years exceeds 80%.[12]

In the long term, however, uncertainty increases, as the current favourable characteristics of public debt are not permanent. Public debt continues to benefit from the favourable financing conditions associated with the loans extended under the financial support programmes. These loans feature exceptionally long maturities, with some not maturing until 2070, as well as below-market interest rates and other concessional terms that significantly reduce annual gross financing needs. In addition, past hedging swap contracts concluded by the PDMA have virtually eliminated exposure to interest rate risk over the medium term, locking in historically low interest rates and effectively converting almost the entire debt stock into fixed-rate debt. These characteristics provide a unique window of opportunity for public debt to remain sustainable going forward, as the

12 The projections are based on stochastic simulations of 100 thousand alternative scenarios using a small-scale BVAR model, see Papaoikonomou, D. (2025), "Stochastic Debt Sustainability Analysis: A Methodological Note", Bank of Greece Working Paper No. 338.

Table V.5 General government consolidated debt[1]

(EUR millions)

	2021	2022	2023	2024
Short-term liabilities	12,860	16,480	14,023	9,708
– securities	*10,811*	*11,089*	*11,338*	*7,919*
– loans	*2,049*	*5,391*	*2,685*	*1,789*
Medium- and long-term liabilities	344,524	344,277	347,801	347,678
– securities	*70,187*	*74,157*	*80,703*	*86,927*
– loans	274,337	270,120	267,098	260,751
Coins and deposits	*6,757*	*7,248*	*7,286*	*7,579*
Total	**364,141**	**368,005**	**369,110**	**364,965**
% of GDP	***197.3***	***177.8***	***164.3***	***154.2***
– euro-denominated debt	362,968	367,975	369,104	364,959
of which:				
to the Bank of Greece	*(950)*	*(477)*	*(0)*	*(0)*
to the Financial Support Mechanism	*(241,481)*	*(235,571)*	*(228,528)*	*(218,823)*
– non-euro-denominated debt[2]	1,173	30	6	6
of which: to the Financial Support Mechanism	*(1,139)*	*(0)*	*(0)*	*(0)*

Sources: ELSTAT and PDMA.
1 According to the Maastricht Treaty definition.
2 Valuation based on the exchange rates prevailing on 31 December of each year.

concession loans granted under the MoUs (see Table V.5) gradually mature and are replaced by new borrowing on market terms. Exploiting this window of opportunity requires safeguarding fiscal credibility, sustaining reform efforts and ensuring the effective absorption of EU funds.

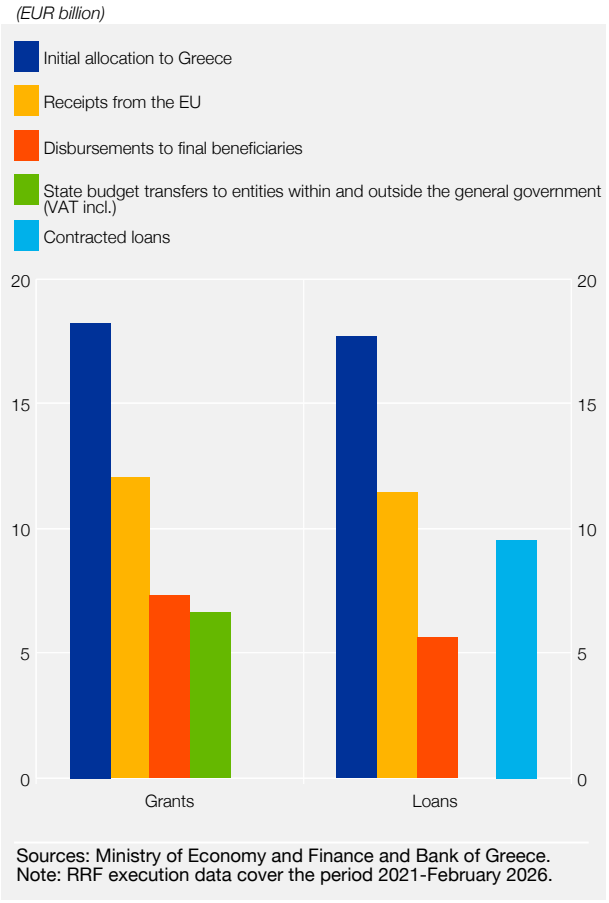
1.6 Recovery and Resilience Facility

With regard to the absorption of funds available under the Recovery and Resilience Facility (RRF), Greece has thus far made strong progress relative to other EU countries in achieving the relevant milestones and targets and securing the associated disbursements, as reflected in the European Commission's implementation report.[13] Overall, following the European Commission's disbursement of the sixth instalment of RRF grants in November 2025, Greece has received a total of EUR 23.4 billion of RRF funding (or 65% of its total allocation, compared with an EU average of 59%), of which 66% (EUR 12 billion) in grants and 64% (EUR 11.4 billion) in loans,[14] having completed 46% of the agreed targets and milestones, compared with an EU average of 45%. In December 2025, Greece submitted a double payment request under the RRF amounting to EUR 1.17 billion, comprising its seventh grant request (EUR 883.9 million) and sixth loan request (EUR 293.8 million). The European Commission approved the request in March 2026 following Greece's successful fulfilment of 26 agreed targets and milestones. Following the disbursement of this additional EUR 1.17 billion, Greece will have absorbed 68.3% of its total RRF allocation and completed 53% of the agreed targets and milestones.

Concerning the RRF loan component, it is worth noting that the volume of contracted loans constitutes one of the targets monitored as a prerequisite for the submission of a payment request for RRF loans. In particular, by the end of February 2026, loan contracts covering projects with a total budget of EUR 9.5 billion had been signed, accounting for 86% of Greece's total RRF loan allocation. It should be noted that, under the revised National Recovery and Resilience Plan, Greece's

13 See European Commission, COM(2025) 637 final, October 2025.
14 Overall, by 10 March 2025, EUR 381 billion (59% of the total RRF funding available) had been disbursed by the European Commission to EU Member States, of which approximately 60% was in grants (64% of total grant allocations) and the remainder in loans (52% of total loan allocations), following the fulfilment of 45% of the agreed targets and milestones.

Chart V.4 Recovery and Resilience Facility



Sources: Ministry of Economy and Finance and Bank of Greece.
Note: RRF execution data cover the period 2021-February 2026.

requests for RRF loans are conditional on the cumulative signing of loan contracts amounting to EUR 13.3 billion.[15] However, this target now appears highly ambitious, given the pace at which loan agreements have been signed to date and the limited time remaining until the 29 May 2026 deadline agreed with the European Commission.[16] Disbursements to firms are expected to go on until 2029, as funds are released gradually according to progress in the implementation of investment projects. By end-February 2026, cumulative disbursements to firms had reached EUR 5.6 billion (see Chart V.4).

Turing to the RRF grant component, disbursements to final beneficiaries also accelerated significantly compared with 2024. By September 2025, EUR 7.3 billion, or 61% of total grant receipts, had been disbursed to final beneficiaries, while by February 2026 a further EUR 6.6 billion (including VAT) had been transferred from the State Budget to entities within and outside the general government sector.

However, achieving full absorption of RRF funds would require Greece to secure EUR 11.3 billion in disbursements in 2026 (EUR 5.3 billion in grants and EUR 6.0 billion in loans), conditional on the successful completion of 164 milestones and targets, an objective that now appears highly ambitious. Failure to secure the EU grant disbursements required for the completion of contracted projects could necessitate their financing through the national Public Investment Programme, thereby placing additional pressure on budgetary aggregates.

In order to accelerate implementation and ensure the full absorption of available funds, Greece submitted an amended National Recovery and Resilience Plan in November 2025, which was approved by the European Commission. The revised plan provides for adjustments to certain milestones and targets and the replacement of projects with more mature ones, while keeping the overall budget, as well as the mix of projects supporting the green and digital transitions, unchanged.[17] Moreover, a new law (Law 5233/2025) was passed in September, with the aim of

15 Of the EUR 17.7 billion available under the RRF loan component, EUR 1 billion is earmarked for the provision of guarantees and equity support, a further EUR 2 billion is to be transferred to the Hellenic Development Bank, while EUR 1 billion is to be allocated to the housing loan subsidy programme ("My Home II").

16 See press release, Ministry of Economy and Finance "29 May 2026 set as the closing date for signing agreements on business loans funded by the Recovery and Resilience Facility", 16 March 2026 (in Greek).

17 The amended National Recovery and Resilience Plan "Greece 2.0" introduces additional actions under the Spiros Doxiadis National Public Health Prevention Programme ("Prolamvano"), launches the Antinero 5 programme to strengthen forest fire prevention, and further enhances the Digital School (D-School) initiative through the integration of AI-enabled technologies. The amendments also expand the "Gigabit Voucher Scheme" to support the rollout of optical-fibre connectivity to households, introduce measures for natural disaster risk monitoring and management, and broaden the scope of the Smart Bridges project. Furthermore, they strengthen ongoing road safety and wastewater treatment projects implemented by local authorities. At the same time, the revised plan adjusts funding targets for private investments in energy storage and energy-saving programmes to reflect applications volumes, while redirecting public-sector contributions for public-private partnership (PPP) irrigation network projects to other priority areas.

strengthening the state services responsible for development programmes, particularly by addressing operational and staffing issues, in order to accelerate the absorption of European and national funds.

Given that the EU's recovery instrument, Next Generation EU (NGEU), is due to expire in August 2026, any structural reforms and investment projects financed under the National Recovery and Resilience Plan that remain unfinished at the end of the programme will need to be financed through alternative sources of EU funding. The effective absorption of resources available under the EU's next Multiannual Financial Framework (2028-2034), together with funding from the Social Climate Fund, the Modernisation Fund and the Island Decarbonisation Fund (2026-2032), will be essential for maintaining investment momentum in the years ahead.

2 BUDGETARY AND INSTITUTIONAL REFORMS

2025 marked a year of significant fiscal reforms in Greece, with measures focused on safeguarding fiscal stability, enhancing transparency and strengthening social support. Throughout the year, fiscal policy rested on three main pillars: (a) advancing digitalisation and enhancing tax compliance; (b) strengthening fiscal governance and supervision; and (c) implementing social and development policies, including tax relief measures, regional support initiatives and recovery assistance for those affected by natural disasters, as well as a package of four temporary, targeted fiscal measures introduced in March 2026 to cushion the impact of rising fuel prices resulting from the war in the Middle East (see the Annex "Fiscal Policy Measures" to this chapter).

Specifically, a set of significant reform measures, enacted in July, laid the foundations for a more modern and credible fiscal governance framework. These included strengthening the role of the Hellenic Fiscal Council as an independent body responsible for monitoring and assessing public finances, updating the mandates of fiscal policy institutions and introducing new medium-term and multiannual fiscal planning tools. Another initiative introduced around the same period was the pilot launch of a National Benefits Registry for monitoring social expenditure. Meanwhile, further reforms focused on: (a) modernising and consolidating the legislation governing the taxation of movable and immovable property, with a view to enhancing legal clarity and taxpayer compliance; (b) aligning domestic provisions with the Union Customs Code through the digitalisation and streamlining of customs procedures; and (c) strengthening tax audit procedures through the regional centralisation of the AADE's (Independent Authority for Public Revenue) audit operations, as well as the creation of a Property Ownership and Management Registry (MIDA) designed to improve the efficiency of public and private property management. Other measures adopted around the same period aimed to support disposable incomes, particularly among vulnerable social groups, and to attract investment.

These objectives were further advanced by the enactment of the omnibus tax law (Law 5246/2025) in the autumn, which introduced a broad package of reforms relating to personal income and property taxation, alongside provisions for regional tax relief. These included an overhaul of the personal income tax scale, providing significant tax relief to middle-income households, families with children and young workers; a reduction in the taxation of rental income through the introduction of an intermediate tax rate; a relaxation of income imputation criteria; the phased abolition of ENFIA for individuals residing in villages and small rural settlements; tax relief for residents of border regions; special tax exemptions for new mothers; a reduction in the separate taxation of on-call compensation for National Health System (ESY) doctors; and a revised pay scale for law enforcement personnel. Subsequently, a law passed in December laid down a comprehensive recovery framework for those affected by the natural disasters in Mati and Mandra (Attica), including full financial and social support, debt forgiveness and health care coverage.

These new measures came alongside ongoing efforts to implement a broader reform agenda launched in recent years to modernise and digitalise public administration, with a view to enhancing operational efficiency, transparency and tax compliance. These efforts gathered pace in 2025 with the upgrade of AADE's digital clienteling platform, the "Digital Client List"; the extension of eligibility for the optional monthly VAT return submission scheme to self-employed persons, businesses using single-entry bookkeeping and newly established enterprises; and the mandatory adoption by businesses of the QR code-based IRIS payment service. Further progress was achieved through the promotion of the universal use of electronic invoicing, which enhanced the security and reliability of invoicing processes, and the economy-wide rollout of the Digital Work Card, which significantly contributed to reducing undeclared and under-declared work. The digitalisation drive was also advanced through the introduction of new digital fuel inflow-outflow monitoring tools and the upgrade of e-EFKA to facilitate digital cross-checks of data and simplify pension-related procedures. Additional measures included the digitalisation of business closure procedures for firms and self-employed persons, as well as the introduction of an automated fining system for the late submission of tax returns. Collectively, these measures enhanced data reliability, promoted transparency and further advanced the digitalisation of administration.

As regards the European institutional framework, in March 2025 the European Commission allowed Member States to exclude increases in defence expenditure of up to 1.5% of GDP per year from the application of the fiscal rules during the period 2025-2028.[18] Against this background, in April 2025 Greece submitted a request to the European Commission and the Council of the European Union to activate, from 2026 onwards, the national escape clause for defence expenditure. The activation of the clause is expected to increase the applicable expenditure ceilings, thereby creating additional fiscal space estimated at 0.3% of GDP per year over the period 2025-2028.[19]

Finally, in November 2025, as part of the Autumn 2025 European Semester Package, the European Commission published its Autumn 2025 Post-Programme Surveillance Assessments for the Member States still subject to post-programme surveillance. The report confirms the resilience of the Greek economy despite heightened geopolitical uncertainty and notes that, according to the European Commission's Autumn 2025 Economic Forecast, Greece's fiscal outlook is projected to remain favourable over 2026-27. It also highlights that the country's gross financing needs are expected to remain below 10% of GDP per year through the end of 2027, reflecting, in part, the debt-reducing effect of early repayments of official-sector loans. Modest financing needs, high cash reserves, favourable public debt characteristics and the projected increase in potential growth are identified as key factors underpinning Greece's debt sustainability.

3 POLICY RECOMMENDATIONS

Pursuing a time-consistent fiscal policy is essential for consolidating international market confidence in the Greek economy and attracting investment capital. Successive upgrades of the country's sovereign credit rating by international rating agencies underscore the effectiveness of its economic policy. Together with the return to a sustainable fiscal position, these developments are contributing to more favourable financing conditions in the real economy and helping to reduce borrowing costs for domestic firms amid heightened global uncertainty.

A strong fiscal starting position, high cash reserves, favourable public debt characteristics and modest financing needs projected for the remainder of the year underpin Greece's fiscal re-

18 See Special European Council, 6.3.2025.
19 See Ministry of Economy and Finance, "Multiannual Fiscal Planning 2026-2029", November 2025 (in Greek).

silience and enhance its capacity to navigate uncertainty arising from ongoing geopolitical tensions, provided that such tensions prove temporary.

Structural reforms and rapid debt reduction provide the fiscal space needed to implement expansionary measures while preserving long-term fiscal sustainability. The consistent outperformance of tax revenue and social security contribution targets, reflecting the effectiveness of reforms aimed at combating tax and contribution evasion, points to a steady decline in the shadow economy, a conclusion also supported by recent European Commission data.[20] This creates scope for additional permanent fiscal expansion, since under the new fiscal framework the expenditure benchmark (the ceiling on net primary expenditure growth) is adjusted for the effects of permanent discretionary revenue measures.

Efforts to combat tax evasion and further broaden the tax base must continue. Despite the remarkable progress made in tackling VAT and income tax evasion, the shadow economy remains relatively large in Greece compared with the EU average and most other EU countries and is now concentrated in sectors with a high share of independent professionals and self-employed individuals, where cash transactions remain widespread and inherently difficult for tax authorities to audit.

Efforts to further reduce the shadow economy should focus on simplifying the tax system, reducing tax compliance costs and administrative burdens, streamlining business start-up and licensing procedures, and strengthening tax morale through the incorporation of financial education into the school curriculum. In particular, enhancing financial literacy, especially among young people, will be crucial to fostering a tax culture based on transparency, trust and active citizenship.

Alongside these efforts, additional fiscal space could be created through a review and rationalisation of public expenditure in general and of existing tax expenditures (tax exemptions) in particular. The current system of tax exemptions is based on a fragmented set of provisions whose contribution to economic growth appears limited. This includes investment incentives provided under the Development Law, which often lack coherence and involve complex eligibility and verification requirements, thereby increasing compliance and administrative costs for businesses.

A rationalisation of the current system of tax exemptions, based on an assessment of their contribution to economic growth and social welfare, would facilitate the reallocation of resources away from outdated tax incentives with limited growth-enhancing effects, thereby freeing funds for new strategic priorities and policy areas with high development multipliers.

Such an approach, fully aligned with the new European economic governance framework, would create the fiscal space required for further tax relief measures aimed at easing the significant tax burden on labour income, thereby supporting household incomes and enhancing the resilience of the economy. This, in turn, would allow the current fiscal overperformance to be leveraged to strengthen medium-term resilience in the face of current and future challenges, including demographic ageing.

The recent use of available fiscal space to introduce permanent tax reductions from 2026 onwards linked to the number of children in a household represents a step in the right direction, as it seeks to address both demographic challenges[21] and the comparatively higher tax burden borne by families with children. At the same time, however, continued efforts are required to develop a

20 European Commission, *Mind the Gap Report*, December 2025.

21 Demographic change poses a critical structural challenge that directly affects the country's potential growth trajectory and the sustainability of its pension system. According to economic literature, the structure of tax policies and the marginal cost of raising children are key determinants of household decisions concerning family formation (see Becker, G.S. (1991), *A Treatise on the Family*, Harvard University Press).

comprehensive family support framework that combines pro-family tax incentives with enhanced support infrastructure and measures to address housing insecurity. The prolonged stay of young people in the parental home in Greece, largely driven by elevated housing costs, prevents them from starting a family and may further intensify the outflow of highly skilled human capital abroad (brain drain). To reverse this trend, it is necessary to expand the supply of social housing and enhance the social safety net through the upgrading of healthcare, education and childcare services (e.g. crèches). Investment in human capital and the promotion of work-life balance are essential for ensuring long-term population growth and strengthening social and economic cohesion.

Box V.1

THE RULE OF NATIONALLY FINANCED NET PRIMARY EXPENDITURE: AN OPERATIONAL TOOL FOR MONITORING FISCAL PERFORMANCE

The recent reform of the European economic governance framework marks a significant shift in the rationale and practice of fiscal surveillance in the European Union. For a long time, the fiscal framework was based on complex and often unobservable indicators – such as the structural balance and the estimated output gap – while the fiscal targets set were criticised for not taking sufficient account of Member States' specificities. The revised framework seeks to enhance the effectiveness and credibility of fiscal rules by focusing on a single monitoring indicator, which serves as a tool for conducting and monitoring fiscal policy towards the achievement of the targets set separately for each Member State.[1]

At the heart of the new framework lies the nationally financed net primary expenditure rule, which serves as a single operational indicator of compliance with the new fiscal rules. This rule directly links the conduct of short- and medium-term fiscal policies to a sustainable reduction of public debt, while ensuring that budget deficits remain comfortably below the thresholds set by the Stability and Growth Pact.

The choice of an expenditure rule as a key fiscal surveillance tool reflects the effort to focus on that part of the budget that is under the direct control of the government. Net primary expenditure is not automatically affected by the economic cycle or by factors unrelated to fiscal policy such as debt-servicing costs. This allows for a clearer assessment of the fiscal stance, reduces uncertainty associated with unobservable variables and enhances the transparency of fiscal surveillance.[2]

This box aims to highlight the practical application of the expenditure rule as the main operational tool for monitoring fiscal performance. To this end, it provides a brief overview of how the rule is calculated and applied. Particular emphasis is placed on monitoring compliance with medium-term budgetary commitments. Finally, the recent Greek experience is used to demonstrate how the rule can combine fiscal discipline with flexibility, as well as how permanent improvements on the revenue side can create fiscal space within the existing rules.

Net expenditure rule: definition and operation

The operational definition of the expenditure rule aims to isolate discretionary fiscal policy from exogenous or cyclical factors. The growth rate of net primary expenditure is calculated in four steps:[3]

1 Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97.

2 See Eyraud, L., X. Debrun, A. Hodge, V. Lledó and C. Pattillo (2018), "Second-generation fiscal rules: Balancing simplicity, flexibility, and enforceability", IMF Staff Discussion Note SDN/18/04, and Arnold, N., R. Balakrishnan, B. Barkbu, H. Davoodi, A. Lagerborg, R.W. Lam, P. Medas, J. Otten, L. Rabier, C. Roehler, A. Shahmoradi, M. Spector, S. Weber and J. Zettelmeyer (2022), "Reforming the EU fiscal framework. Strengthening the fiscal rules and institutions", IMF Departmental Paper DP/2022/014. For more details, see Box V.1 "The key features of fiscal expenditure rules", *Annual Report 2023*, Bank of Greece, April 2024.

3 See Box 1: Derivation of the new net expenditure indicator and of the control account, "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, SWD(2025) 951 final, 25.11.2025.

1) Calculation of the level of net primary expenditure (before discretionary revenue measures):

$$NPE_t = E_t - I_t - U_t - E_t^{EUfunded} - E_t^{nat.cofinanced} - Oneoff_t^E$$

where NPE_t denotes nationally financed net primary expenditure (before discretionary revenue measures); E_t total general government expenditure; I_t interest payments; U_t cyclical expenditure on unemployment benefits; $E_t^{EUfunded}$ expenditure on programmes fully funded by EU resources; $E_t^{nat.cofinanced}$ national expenditure on co-financing of EU programmes; and $Oneoff_t^E$ one-offs and other temporary expenditure (e.g. for natural disasters).

2) Calculation of the change in net primary expenditure (before discretionary revenue measures):

$\Delta NPE_t = NPE_t - [NPE_{t-1}/(1+g_t)]$, where g_t denotes the nominal GDP growth rate.

3) Calculation of the change in net primary expenditure (after discretionary revenue measures):

$$\Delta NPE_t^* = \Delta NPE_t - DRM_t + (Oneoff_t^R - Oneoff_{t-1}^R)$$

where DRM_t (Discretionary Revenue Measures) denotes additional discretionary revenue measures[4] and $Oneoff_t^R$ denotes one-offs and other temporary revenue measures.

4) Calculation of the growth rate of net primary expenditure (after discretionary revenue measures):

$$growth\ rate\ (\Delta NPE_t^*) = \{\Delta NPE_t^*/NPE_{t-1}/(1+g_t)\} * 100$$

In the revised economic governance framework, the net expenditure rule is applied through the maximum allowed growth rate for net expenditure and translates fiscal adjustment into a specific expenditure growth ceiling. The rule sets out in advance the maximum permitted growth rate of net primary expenditure, which is included in the national medium-term fiscal-structural plan (MTFSP). The "reference trajectory" of net primary expenditure is set in a way that ensures government debt sustainability over the medium term, as the required fiscal adjustment is determined on the basis of debt dynamics and translates into an expenditure growth ceiling.[5] In particular, the maximum permitted growth rate of net primary expenditure is determined by the required structural adjustment implied by the Debt Sustainability Analysis (DSA):

$$growth\ rate\ (\Delta NPE_t^{max}) = g_t^{pot} + \pi_t - \beta_t,$$

where $\beta_t = [\Delta SPB_t^{req}/(PE_{t-1}/GD_{t-1})]$; $growth\ rate\ (NPE_t^{max})$ is the maximum permitted growth rate of net primary expenditure; g_t^{pot} is potential GDP growth (in real terms); π_t is inflation (GDP deflator); ΔSPB^{req} is the annual required change in the structural primary balance[6] (in percentage points (pps) of GDP); and (PE/GDP) is the ratio of primary expenditure to GDP. The above formula also clarifies the relationship between the net expenditure indi-

4 The deduction of discretionary revenue measures works in both directions: revenue-increasing measures have a dampening effect on net expenditure, while revenue-decreasing measures increase net expenditure. Additional expenditure above the defined threshold can only be financed through additional discretionary revenue measures.

5 For more details on the identification of fiscal adjustment needs in line with the new European economic governance framework, see Chapter V Special Feature "The new fiscal rules in the context of the EU economic governance reform", Bank of Greece, *Annual Report 2023*, April 2024.

6 According to the European Commission, the structural primary balance is defined as the primary balance adjusted for the effects of the economic cycle (i.e. the cyclically adjusted primary balance), net of one-off and other temporary fiscal measures. Under the new European fiscal rules, the fiscal adjustment required to meet the various sustainability criteria is defined in terms of an improvement in the structural primary balance. For more details, see Chapter V Special Feature "The first implementation cycle of the new EU fiscal rules: challenges, strategies and conclusions", Bank of Greece, *Annual Report 2024*, April 2025.

cator and the structural primary balance, as it implies that the latter remains unchanged as a percentage of GDP when net primary expenditure grows in line with the nominal potential GDP.[7]

The effect of discretionary revenue measures on the expenditure growth ceiling depends solely on their permanent or temporary nature. Discretionary revenue measures are legislative or administrative responses on the revenue side and are estimated in terms of annual change in revenue. Where they are permanent, they affect the structural primary balance and, consequently, the size of the adjustment required to ensure public debt sustainability. Through this mechanism, they alter the expenditure growth ceiling without jeopardising fiscal stability. By contrast, temporary revenue measures cannot support a sustainable change in expenditure. This highlights the importance of permanent revenue-increasing measures for the credibility and sustainability of fiscal policy, especially when such measures result from systematic efforts to combat tax evasion and social security contribution evasion, which create permanent fiscal space by broadening the tax base while also strengthening social equity.

Monitoring and compliance: the control account

The control account is the main mechanism for monitoring compliance with the reference trajectory of net primary expenditure. It is an indicator systematically monitored by the European Commission in the context of the European Semester's fiscal surveillance. Under the new fiscal framework, the assessment of fiscal policy is not based on strict annual adherence to the expenditure growth ceiling but, rather, provides a margin for net primary expenditure to deviate from the approved reference trajectory over the medium term. The control account records the deviations (as a percentage of GDP) of net expenditure outturns from the recommended path, allowing to track the overall fiscal performance against the MTFSP commitments. A negative balance denotes a shortfall (under-execution) relative to the agreed trajectory (implying a positive carryover effect and thus additional fiscal space), while a positive balance indicates an excess (over-execution) and a potential risk of non-compliance with the rule.

The operation of the control account combines flexibility with clear safeguards. A deviation is considered acceptable provided that it does not exceed 0.3% of GDP on an annual basis or 0.6% of GDP cumulatively. Within these limits, deviations can be absorbed without an immediate activation of corrective measures, allowing a smooth adjustment of fiscal policy to the economic cycle. Once the cumulative deviation exceeds the determined limits, the obligation to take corrective measures is triggered, in order to bring the net expenditure path back onto a trajectory consistent with public debt sustainability.

The limits of the control account explain why fiscal overperformance does not automatically translate into additional fiscal space for expenditure. Under the new rules, compliance is assessed not on the basis of the annual budget balance, but on the basis of the cumulative deviation of net expenditure growth from the reference trajectory approved in the MTFSP. Even when a better-than-expected fiscal performance is recorded, the possibility of converting it into a higher expenditure growth ceiling in subsequent years depends on whether the cumulative deviation reflected in the control account remains within the pre-defined limits. This prevents temporary fiscal space from being automatically converted into permanent expenditure increases and ensures that fiscal flexibility is linked only to sustainable (i.e. permanent/structural) improvements in public finances.

The deviations recorded in the control account directly affect the future expenditure growth ceiling. Cumulative upward deviations imply stricter constraints on the maximum allowed growth rate of expenditure in the following years. On the contrary, cumulative downward deviations can create additional room for flexibility, provided that the overall fiscal adjustment is not jeopardised.

Overall, the control account transforms the expenditure rule from a narrow annual constraint into a medium-term compliance mechanism, with an enhanced countercyclical nature compared to the previous fiscal framework. Thus, flexibility in annual budget implementation allows the absorption of temporary economic fluctuations, while

7 See also Box 5.1 "Technical assumptions for the MTP scenario", European Commission (2026), "Debt Sustainability Monitor 2025", Institutional Paper 332, p. 116.

ensuring that the fiscal path (in cumulative terms) remains consistent with fiscal discipline and the sustainable downward path of public debt.

The implementation of the expenditure rule in Greece in 2024-25: empirical conclusions

Greece's fiscal overperformance in 2024-25 is clearly captured by the application of the expenditure rule. The assessment of fiscal performance is reflected both in higher primary surpluses and faster debt reduction than initially projected, as well as in the actual path of nationally financed net primary expenditure relative to the reference trajectory under the 2025-28 MTFSP.

In 2024 – the year of transition to the new revised fiscal framework – there was a significant underperformance of net expenditure relative to the reference trajectory. The growth rate of net primary expenditure stood at -0.2% (compared with a projected growth of 2.6% according to the reference MTFSP trajectory) (Table, rows: 12, 13). In nominal terms, net expenditure decreased by around EUR 0.2 billion, compared with a projected increase of EUR 2.5 billion, which represents a substantial deviation of primary expenditure below the agreed ceiling (Table, rows: 10, 13b). This deviation was mainly due to the additional discretionary revenue measures of 2024. More specifically, revenues of EUR 2 billion (or 0.8% of GDP) were recorded in 2024 (Table, rows: 9, 9a) on the back of permanent policy measures, including structural interventions to combat tax evasion and social security contribution evasion, which dampened the growth rate of net expenditure under the expenditure rule. As a result, higher revenues translated into lower growth (or even a decline) in net expenditure. Fiscal performance in 2024 is reflected in the control account as a significant carryover effect, creating additional fiscal space. More specifically, the control account stood at -1.2% of GDP (or EUR 2.8 billion) in 2024 (Table, rows: 14, 15). Approximately two-thirds of this space came from the additional discretionary revenue measures of 2024, while the remainder is attributable to the shortfall of net expenditure relative to the reference trajectory.

According to the European Commission estimates, the annual expenditure growth ceiling is projected to be slightly overshot in 2025, without compromising cumulative compliance. Net expenditure growth in 2025 is expected at 3.9%, marginally above the reference trajectory of 3.7%. On a cumulative basis, however, net expenditure is projected to increase by 3.7% over 2024-25, significantly below the 6.4% MTFSP ceiling (Table, rows: 12, 13), while, in nominal terms, the cumulative increase (EUR 3.6 billion or 1.4% of GDP) remains almost 40% below the original forecast (Table, rows: 10, 10a, 13b, 13c).

The control account explains why fiscal space should be used gradually rather than automatically. The room for increasing nationally financed net primary expenditure, as recorded in the control account, was largely created by the 2024 permanent discretionary revenue measures. The cumulative balance of the control account remains negative in 2025 (-1.0% of GDP or EUR 2.5 billion) (Table, rows: 14, 15), suggesting that only a small part of the 2024 fiscal space was used in 2025 (0.1% of GDP), within the limits set.[8] Most of the fiscal overperformance in 2024 is still available and is estimated to have been caried over into 2025. In line with the measures announced at the latest Thessaloniki International Fair (September 2025) and included in the 2026 Budget, the estimated fiscal space (as reflected in the control account) is projected to be gradually used over 2026-27 (subject to the constraints of the expenditure rule).

The application of the expenditure rule and permanent discretionary revenue measures translate into higher and sustainable primary surpluses. Keeping the growth of nationally financed net primary expenditure below the reference trajectory, together with strengthening revenue through permanent discretionary revenue measures, improves the structural primary balance and enhances the overall fiscal performance.[9] In this way, the expenditure rule does not operate in isolation; rather, it is linked to key fiscal variables, explaining why the overperformance recorded in primary surpluses reflects permanent fiscal improvements rather than cyclical developments. In particular, the primary surplus stood at 4.7% of GDP in 2024 and at 4.3% of GDP in 2025, according to European

8 According to the European Commission, the flexibility provided by the activation of the national escape clause for increased defence spending adds 0.1% of GDP to the balance of the control account.

9 Overall, the net primary expenditure path affects the budget balance as follows: a lower (higher) growth rate of the expenditure indicator implies a higher (lower) primary surplus.

Expenditure rule (European Commission estimates)

	Expenditure rule	Unit count	2023 (a)	2024 (b)	2025 (c)	2024-25 (d)
1	General government public expenditure	(EUR billions)	111.5	114.2	120.4	
2	Interest payments	(EUR billions)	7.6	8.2	8.1	
3	Cyclical unemployment expenditure	(EUR billions)	0.3	0.1	0.0	
4	Expenditure fully funded by European resources	(EUR billions)	5.7	6.1	8.5	
5	National co-financing of European programmes	(EUR billions)	0.7	0.7	0.8	
6	Exceptional/temporary expenditure	(EUR billions)	0.3	0.4	0.4	
7=1-2-3-4-5-6	**Nationally financed net primary expenditure (before discretionary revenue measures - DRMs)**	**(EUR billions)**	**96.9**	**98.7**	**102.6**	
8	Δ (Nationally financed net primary expenditure) (before discretionary revenue measures)	(EUR billions)		1.8	3.9	5.7
9	Discretionary revenue measures (additional)	(EUR billions)		2.0	0.1	2.1
9a=9/16*100	Discretionary revenue measures (additional)	(% of GDP)		0.8	0.0	0.8
10=8-9	**Δ (Nationally financed net primary expenditure) (after discretionary revenue measures - DRMs)**	**(EUR billions)**		**-0.2**	**3.8**	**3.6**
10a=10/16*100	**Δ (Nationally financed net primary expenditure) (after discretionary revenue measures - DRMs)**	**(% of GDP)**		**-0.1**	**1.5**	**1.4**
11=7+100	Nationally financed net primary expenditure (after discretionary revenue measures)	(EUR billions)	96.9	96.7	100.5	
12	**% Δ (Nationally financed net primary expenditure) (after discretionary revenue measures - DRMs)**	**Change (in %)**		**-0.2**	**3.9**	**3.7**
13	**Reference trajectory: % Δ (Nationally financed net primary expenditure)**	**Change (in %)**		**2.6**	**3.7**	**6.4**
13a	Reference trajectory: Nationally financed net primary expenditure (after discretionary revenue measures)	(EUR billions)	96.9	99.4	103.1	
13b	Reference trajectory: Δ (Nationally financed net primary expenditure) (after discretionary revenue measures)	(EUR billions)		2.5	3.7	6.2
13c=13b/16*100	Reference trajectory: Δ (Nationally financed net primary expenditure) (after discretionary revenue measures)	(% of GDP)		1.1	1.5	2.5
14=(12-13)*7	**Deviation**	**(EUR billions)**		**-2.8**	**0.2**	**-2.5**
15=14/16	**Control account**	**(% of GDP)**		**-1.2**	**0.1**	**-1.0**
16	Nominal GDP	(EUR billions)		236.7	248.3	

Source: Table 8.4 Net expenditure (outturn and forecast), annual and cumulated deviations vis-à-vis the recommendation, "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, SWD(2025) 951 final, 25.11.2025.

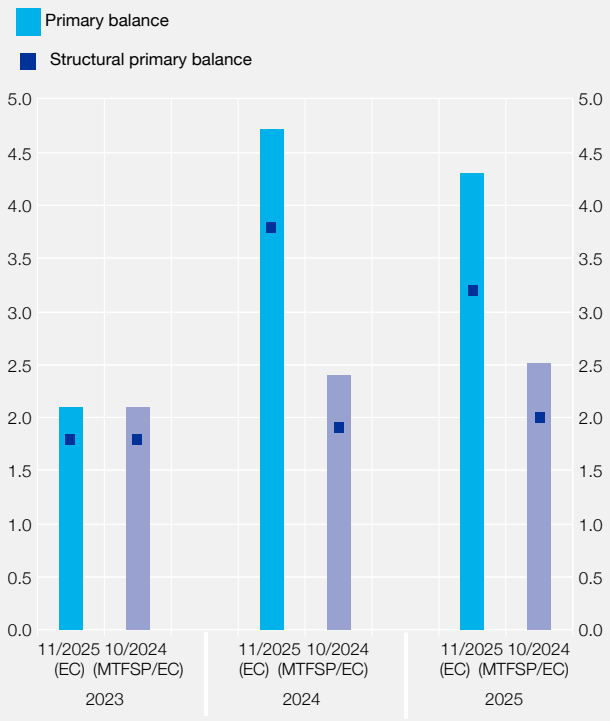
Commission estimates (November 2025), compared with forecasts of 2.4% and 2.5% respectively in the MTFSP. In structural terms, the primary surplus is estimated at 3.8% of GDP in 2024 and at 3.2% of GDP in 2025, significantly exceeding the initial forecasts by 1.9 and 1.2 pps of GDP in 2024 and 2025 respectively (see Chart A).[10] As a result, the fiscal stance[11] was much more restrictive in 2024 and more expansionary in 2025 than initially estimated.

10 It should be noted that the fiscal adjustment in terms of improvement in the structural primary balance Δ(SPB) realised in 2024 (2 pps of GDP) more than covered (almost by 5 times) the adjustment required to comply with the debt sustainability criteria under the new fiscal rules.

11 According to the European Commission, the fiscal stance is defined as a measure of the annual change in the underlying budgetary position of general government and can be used to assess the impact of fiscal policy on an economy's aggregate demand. It aims to capture the fiscal impulse resulting from fiscal policies, both those financed by national resources and by the EU budget (see Box 2: Derivation of the indicator of the fiscal stance, "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, SWD(2025) 951 final, 25.11.2025).

Chart A Primary balance and structural primary balance

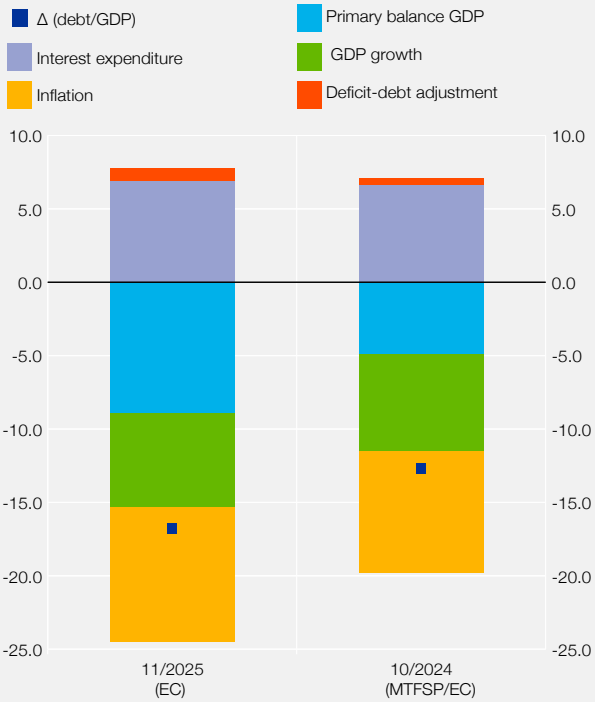
(% of GDP – European Commission estimates)



Sources: European Commission (EC), "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, 25.11.2025, "Fiscal Statistical Tables providing relevant background data for the assessment of the 2025 Draft Budgetary Plans", European Commission Staff Working Document, 26.11.2024, and Greek Ministry of Economy and Finance, MTFSP 2025-2028, October 2024.

Chart B Cumulative change in the debt-to-GDP ratio and components (2024-2025)

(percentage points of GDP – European Commission estimates)



Soucres: European Commission (EC), "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, 25.11.2025, "Fiscal Statistical Tables providing relevant background data for the assessment of the 2025 Draft Budgetary Plans", European Commission Staff Working Document, 26.11.2024, and Greek Ministry of Economy and Finance, MTFSP 2025-2028, October 2024.

Improved public finance dynamics confirm a faster-than-expected reduction in public debt. The cumulative decline in the debt-to-GDP ratio over 2024-25 is estimated to be larger than initially expected (by 4 pps of GDP), mainly reflecting the strong contribution of higher primary surpluses, as well as favourable effects from higher inflation (see Chart B). It is worth noting, however, that the build-up of cash buffers (as reflected in the “deficit-debt adjustment”), which is directly linked to the rationale of the new rules, is projected to partly offset the debt-reducing effect of higher surpluses and the favourable interest rate-growth differential (snowball effect).

Conclusions

The Greek experience of 2024-25 shows how the expenditure rule works in practice, combining fiscal discipline with flexibility. The significant shortfall of net expenditure in 2024, together with the expected fiscal outcomes in 2025, are assessed through the control account on a cumulative basis, allowing for a gradual use of fiscal space. This mechanism ensures that flexibility in annual budget implementation does not undermine medium-term fiscal adjustment and the sustainable downward path of public debt.

The expenditure rule provides an operational framework for the conduct of fiscal policy that rewards permanent fiscal improvements. The Greek case highlights that the systematic fight against tax evasion and social security contribution evasion, through structural measures, can create sustainable fiscal space in the context of the new rules. The structural improvement in public finances translates into higher primary surpluses, faster debt reduction and the possibility of adopting targeted expansionary fiscal policy interventions, without compromising fiscal stability, while also enhancing the credibility and effectiveness of economic policy.

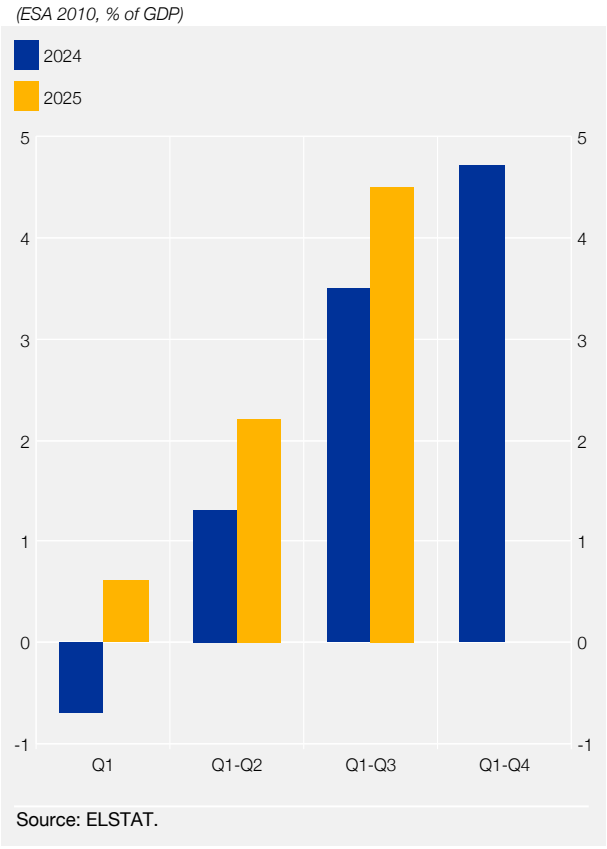
4 DISAGGREGATED FISCAL DATA

4.1 General government (ELSTAT, national accounts data)

According to national accounts data for the first nine months of 2025, the general government primary balance improved by 1.1 percentage points year-on-year to a surplus of 4.5% of GDP, as a result of a 1.3 percentage point-of-GDP increase in revenue, which was slightly offset by a 0.3 percentage point-of-GDP increase in expenditure (see Chart V.5).

In nominal terms, revenue rose by 9.1% year-on-year, on the back of stronger economic activity, reduced tax evasion and rising prices. This increase was broad-based across all revenue components. More specifically, direct tax revenue grew by 9.3%, driven primarily by higher corporate profits, growth in wages and pensions, lower unemployment and reduced tax evasion. Indirect tax revenue rose by 7.0%, mainly driven by a 10.4% increase in VAT revenue. Sales revenue increased sharply by 20.5%, reflecting higher hospital revenue from reimbursements by the National Healthcare Organisation (EOPYY).[22] Revenue from social contributions rose by 4.4%, supported by increases in the minimum wage, economic activity and employment. Finally, capital revenue grew by 68.5%, partly reflecting the national accounts treatment of RRF grants, whereby expenditure financed through those grants is matched by an equivalent amount of imputed RRF revenue, in accordance with the principle of the neutrality of EU flows.

Chart V.5 General government primary balance on a national accounts basis



Source: ELSTAT.

In the first nine months of 2025, primary expenditure rose by 5.9% year-on-year, driven by: (a) a 2.4% increase in compensation of employees, reflecting the overhaul of the public sector pay scale and the linking of public sector wages to increases in the minimum wage; (b) a 23.8% increase in government intermediate consumption, reflecting price increases and expenditure recorded in relation to EOPYY reimbursements to hospitals (which are not consolidated between general government entities); (c) a 1.5% increase in benefit payments, reflecting higher main pensions, an increase in the number of pensioners and the clearance of pending pension applications; and (d) a 38.2% increase in capital transfers, reflecting higher RRF grant-related expenditure and the recording of EUR 427 million in expenditure related to an EU fine associated with the Payment and Control Agency for Guidance and Guarantee Community Aid (OPEKEPE).[23]

22 This revenue is not consolidated between general government entities and is matched by a corresponding increase in capital transfer expenditure.

23 The fine was imposed by the European Commission on Greece in June 2025 in relation to OPEKEPE's systematic mismanagement of agricultural subsidies between 2016 and 2023, notably its failure to carry out adequate controls and on-site inspections relating to the allocation of subsidies, resulting in widespread irregularities and payments to allegedly ineligible beneficiaries.

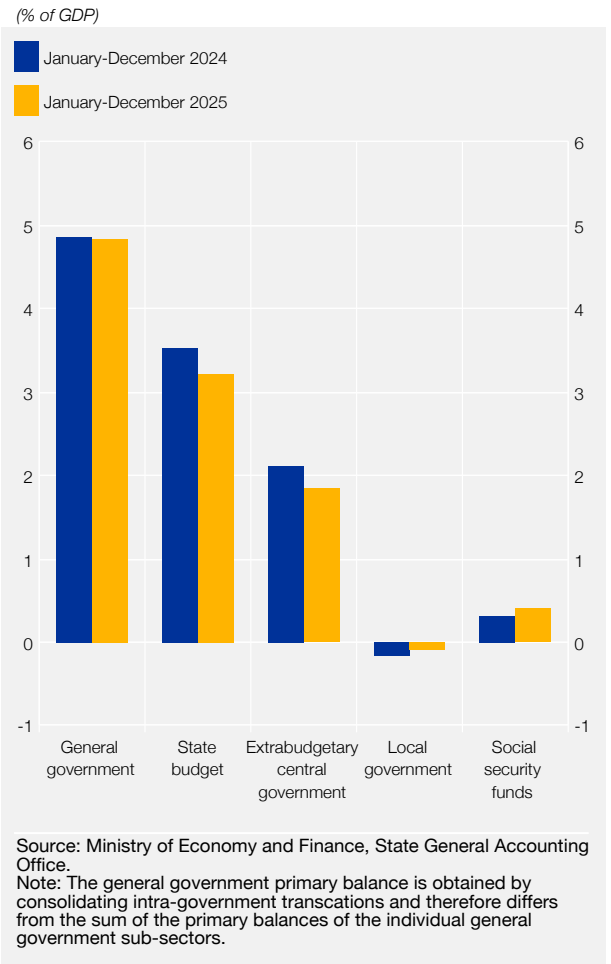
4.2 General government (State General Accounting Office data)

According to general government cash data collected by the General Accounting Office of the State, the general government cash balance deteriorated only marginally in January-December 2025, from a surplus of 2.1% of GDP in 2024 to a surplus of 2.0% of GDP. Similarly, the primary cash balance weakened only slightly, from a surplus of 4.9% of GDP in 2024 to a surplus of 4.8% of GDP in 2025.

The slight weakening of the general government primary balance relative to 2024 reflected: (a) a deterioration in the primary balance of the State Budget by EUR 372 million or 0.3 percentage point of GDP; (b) a deterioration in the primary surplus of central government entities by 0.3 percentage point of GDP; (c) a broad stabilisation of the primary balance of local government; and (d) a marginal improvement in the primary balance of social security funds by 0.1 percentage point of GDP (see Chart V.6).

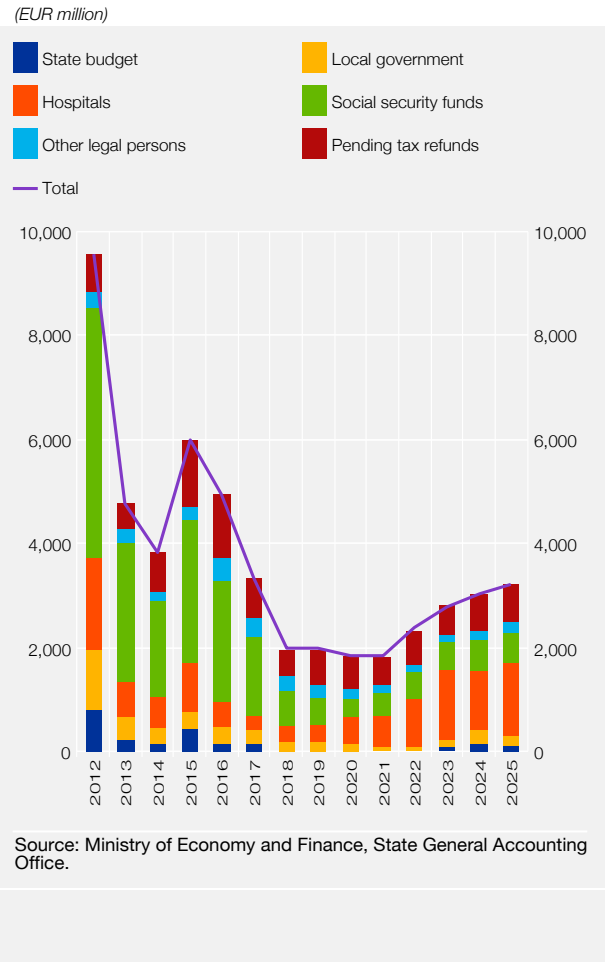
General government arrears[24] at end-2025 were EUR 170 million higher than a year earlier (arrears to suppliers: +EUR 179 million; pending tax refunds: -EUR 9 million), reaching EUR 3.2 billion (end-2024: EUR 3.1 billion), of which EUR 2.5 billion to suppliers and EUR 722 in pending tax refunds (see Chart V.7). The increase in arrears is to a great extent attributable to the higher

Chart V.6 General government primary balance on a cash basis



Source: Ministry of Economy and Finance, State General Accounting Office.
Note: The general government primary balance is obtained by consolidating intra-government transcations and therefore differs from the sum of the primary balances of the individual general government sub-sectors.

Chart V.7 General government arrears



Source: Ministry of Economy and Finance, State General Accounting Office.

24 These include tax refunds and pending applications for lump-sum retirement benefits and supplementary pensions, but exclude pending main pension applications.

inflation seen in recent years, as the accumulation of new arrears of greater nominal value has more than offset the gradual clearance of arrears accumulated prior to the inflation surge. It is worth noting that hospital arrears, which account for 56% of total arrears, are substantially lower once pharmaceutical clawbacks are netted out.[25] Furthermore, social security funds continue to make steady progress in clearing arrears related to supplementary pensions and lump-sum retirement benefits.

4.3 State Budget (on a modified cash basis)

In January-December 2025, the State Budget recorded a weaker overall balance relative to 2024, shifting from a surplus of 0.2% of GDP in 2024 to a balanced position in 2025 (see Table V.6). Similarly, its primary balance deteriorated, from a surplus of 3.7% of GDP in 2024 to a surplus of 3.3% of GDP in 2025. Interest payments decreased by EUR 288 million, or 0.1 percentage point of GDP, year-on-year.

The deterioration in the primary balance in 2025 relative to 2024 mainly reflected higher primary expenditure, owing to the acceleration of RRF-funded expenditure and increased transfers, as well as lower Public Investment Budget (PIB) revenue and privatisation proceeds. By contrast, the primary balance benefited from stronger-than-expected tax revenue performance, including the collection in 2025 of the final two instalments of income tax for 2024, as well as higher RRF receipts.

The annual target of the State Budget (on a modified cash basis) was revised upwards twice during 2025, first in April as part of the 2025 Annual Progress Report and again in November in the context of the 2026 Budget, largely reflecting better-than-budgeted tax revenue performance in 2024, with carry-over effects into 2025, as well as stronger-than-budgeted revenue developments in 2025 itself (see also Section 1.3 above). Nevertheless, the primary balance ultimately surpassed even the revised target of the Introductory Report on the 2026 Budget by EUR 2.8 billion, or 1.1% of GDP, mainly reflecting significant under-execution in several expenditure categories, including non-investment expenditure, transfers and fixed asset acquisitions, together with the continued outperformance of tax revenue targets.

Tax revenue rose by 4.5% year-on-year (see Table V.7), mainly underpinned by income tax and taxes on goods and services, and outperformed the revised target by EUR 393 million.

More specifically, developments in the main revenue categories of the State Budget in 2025 relative to 2024 were as follows:

- Taxes on goods and services increased by 5.1% and exceeded the revised target by EUR 325 million. In percentage terms, VAT revenue recorded the strongest growth (5.4%), primarily owing to higher VAT receipts from other goods and services (excluding oil, energy and tobacco products), supported by stronger economic activity, efforts to combat tax evasion and the wider use of electronic payments. Taxes on goods and services also include other taxes on services, such as the resilience fee, which increased substantially relative to 2024, as a result of higher rates, as well as the cruise tax, which was first introduced in mid-July 2025. The target for this revenue category was exceeded by EUR 204 million, mainly owing to higher-than-budgeted VAT revenue from other goods and services.

- Annual property taxes fell by 0.6%. In particular, revenue from the Unified Property Tax (ENFIA) decreased by 0.2%, on the back of lower receipts from ENFIA tax arrears relating to

25 The clawback mechanism, introduced in 2012 as part of efforts to curb healthcare overspending and contain its adverse impact on public debt, ensures that total government expenditure on pharmaceuticals and hospital care remains below a specified ceiling. Any expenditure exceeding this ceiling is clawed back, i.e. recovered by the National Healthcare Organisation (EOPYY) from pharmaceutical companies and hospital care providers. Hospital arrears to suppliers, as reported before the deduction of clawback claims, appear higher because they do not take these claims into account.

Table V.6 State Budget balances (State General Accounting Office – modified cash basis)

(EUR millions)

	January-December		Change (%)	Deviations from the 2025 budget estimates[1]
	2024	2025	2025/2024	
1. State Budget net revenue (a-b)	**74,110**	**77,065**	**4.0**	**-796**
a. State Budget revenue (I+II+III+IV)	**82,121**	**85,484**	**4.1**	**-850**
I. Taxes	68,787	71,909	4.5	393
II. Transfers	5,738	7,524	31.1	-773
III. Sales of goods and services	3,448	2,918	-15.4	-576
IV. Other revenue	4,149	3,134	-24.5	106
b. Tax refunds	**8,011**	**8,419**	**5.1**	**-55**
Memo items:				
Revenue from the Public Investment Programme (PIP)[2]	4,427	3,557	-19.7	-658
Revenue from the Recovery and Resilience Facility[3]	1,157	3,455	198.6	0
2. State Budget expenditure (I+II+III+IV+V+VI+VII+VIII)	**73,741**	**76,965**	**4.4**	**-3,482**
State Budget primary expenditure (2-VI)	**65,368**	**68,880**	**5.4**	**-3,559**
I. Compensation of employees	14,869	15,343	3.2	-141
II. Transfers	32,598	33,977	4.2	-1,133
III. Purchases of goods and services	2,199	2,343	6.5	-138
IV. Acquisitions of fixed assets	1,857	1,914	3.1	-750
V. Other primary expenditure	530	691	30.4	-1,411
VI. Interest payments (gross)	8,373	8,085	-3.4	77
VII. Public Invesment Programme expenditure	9,913	9,711	-2.0	11
VIII. Recovery and Resilience Facility expenditure	3,401	4,900	44.1	0
3. State Budget surplus/deficit (1-2)	**369**	**100**		**2,686**
% of GDP	*0.2*	*0.0*		
4. State Budget primary balance (3+2.VI)	**8,698**	**8,089**		**2,761**
% of GDP	*3.7*	*3.3*		

Source: Ministry of Economy and Finance/State General Accounting Office, State Budget Execution Bulletin, December 2025.
1 Deviation from the 2025 Budget targets as adjusted for the estimated total outcomes presented in the Introductory Report on the 2026 Budget.
2 Revenue from the Public Investment Programme (PIP) is included in the categories "Transfers" and "Other revenue".
3 Revenue from the Recovery and Resilience Facility is included in the category "Transfers".

previous fiscal years and the granting of tax exemptions for properties insured against natural disasters. The revised target for this revenue category was nevertheless slightly exceeded.

– Income tax revenue increased by 10.6%, underpinned by higher receipts from personal income tax and, to a lesser extent, corporate income tax.

  - Personal income tax revenue rose by 12.1% year-on-year, reflecting the collection of income tax liabilities for both 2024, payable in instalments until end-February 2025, and 2025. Income taxes for 2025 were boosted by the imputed (presumptive) taxation of self-employed individuals and sole proprietors, rising wages and pensions, declining unemployment, increases in the minimum wage, improved tax compliance and higher corporate profitability. They overshot the target by EUR 240 million.

  - Corporate income tax revenue was bolstered by the windfall tax (solidarity contribution) on the profits of refining companies, the bulk of which was collected in February 2025. Nevertheless, revenue from this category remained EUR 86 million below the revised target, largely reflecting weaker-than-expected growth in corporate profits reported in 2025 for fiscal year 2024.

Table V.7 State Budget tax revenue

(EUR millions)

	January-December		Change (%)	Deviation from the 2025 annual targets[1]
	2024	2025	2025/2024	
Total taxes (A+B+C+D)	**68,787**	**71,909**	**4.5**	**393**
A. Taxes on goods and services	**37,552**	**39,480**	**5.1**	**324**
of which: 1. VAT (1.a + 1.b + 1.c)	26,346	27,775	5.4	204
1.a VAT on fuel	2,226	2,045	-8.1	-43
1.b VAT on tobacco	619	608	-1.8	9
1.c VAT on other goods and services	23,501	25,122	6.9	238
2. Excise taxes (2.a + 2.b + 2.c)	7,252	7,438	2.6	35
2.a Excise tax on energy	4,216	4,360	3.4	24
2.b Excise tax on tobacco	2,318	2,361	1.9	18
2.c Excise tax on other goods and services	718	717	-0.1	-6
B. Property taxes	**2,467**	**2,453**	**-0.6**	**41**
of which: ENFIA	2,443	2,438	-0.2	44
C. Income tax	**23,992**	**26,542**	**10.6**	**181**
of which: 1. Personal income tax	14,277	16,011	12.1	240
2. Corporate income tax	7,664	8,126	6.0	-86
D. Other	**4,776**	**3,434**	**-28.1**	**-153**

Source: Ministry of Economy and Finance/State General Accounting Office, State Budget Execution Bulletin, December 2025.
1 Deviation from the 2025 annual targets, as adjusted for the estimated total outcomes presented in the Introductory Report on the 2026 Budget.

- "Other" taxes decreased by 28.1%. This category includes other current taxes, revenue from which fell by 37.5%, reflecting lower receipts from road duties in 2025 relative to 2024. The decrease was attributable to a base effect. Specifically, road duties for 2025 were collected in full in December 2024, whereas the payment deadline for road duties for 2024, originally set for the end of December 2023, had been extended by two months, until February 2024. Revenue from other taxes fell short of the target by EUR 153 million.

- Transfer revenue increased by 31.1%, mainly driven by higher RRF receipts, which more than offset the decline in PIB revenue. Nevertheless, it remained EUR 773 million below the revised target, owing to the under-execution of PIB revenue.

- Revenue from sales of goods and services decreased by 15.4% (or EUR 530 million), as privatisation proceeds fell from EUR 3.5 billion in 2024 to EUR 2.1 billion in 2025. The decline largely reflects the exceptionally high privatisation receipts recorded in 2024 (EUR 3.2 billion) from the new concession agreement for the Attica Motorway. By contrast, privatisation receipts in 2025 comprised EUR 784.8 million from the completion of that agreement, EUR 759 million from the concession agreement for the Egnatia Motorway and EUR 303 million from the sale of a stake in the Athens Water Supply and Sewerage Company (EYDAP). Revenue in this category fell short of the revised target by EUR 576 million.

- Other revenue decreased by 24.5%, partly owing to lower PIB revenue. Nevertheless, it exceeded the revised target by EUR 106 million.

- Overall, PIB revenue fell by 19.7% and remained EUR 658 million below target.

– Finally, tax refunds increased by 5.1% in 2025, mainly reflecting higher refunds (EUR 784.8 million) associated with the completion of the new concession agreement for the Attica Motorway. However, they fell EUR 55 million short of the budgeted amount.

Primary expenditure of the State Budget increased by 5.4% in 2025 compared with 2024, primarily reflecting higher RRF-related expenditure and transfer payments. Nevertheless, it remained EUR 3.6 billion below the annual target, owing to the less-than-full absorption of reserve appropriations related to unallocated primary expenditure, together with the under-execution of spending on transfers to social security funds, purchases of goods and services, and military equipment procurement (see Table V.6).

Based on available disaggregated data, developments in the main categories of State Budget primary expenditure in 2025 relative to 2024 were as follows:

– Compensation of employees increased by 3.2%, but remained EUR 141 million below the budgeted amount.

– Social benefits increased by 52.4% compared with 2024, reflecting the introduction, from November 2025 onwards, of a housing benefit scheme providing tenants with an annual payment equivalent to one month's rent, as well as a one-off allowance for pensioners, uninsured elderly persons and persons with disabilities. Nevertheless, expenditure in this category fell short of the target by EUR 50 million.

– Transfers paid increased by 4.2%, but undershot the target by EUR 1.1 billion, owing primarily to the deferral of EUR 1.9 billion in transfer payments to social security funds.

– Purchases of goods and services increased by 6.5%, but remained EUR 138 million below the budgeted amount.

– Expenditure on the acquisition of fixed assets rose by 3.1%, but remained EUR 750 million below the budgeted amount, largely reflecting the deferral of EUR 705 million in payments for military equipment to 2026.

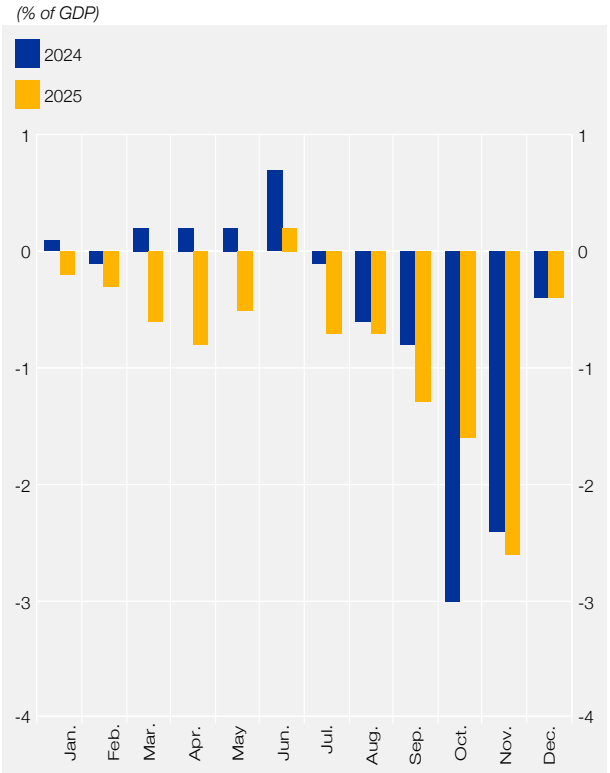
– PIB expenditure decreased by 2.0%. Nevertheless, it exceeded the revised target by EUR 11 million.

– Finally, RRF-related expenditure increased by EUR 1,499 million, from EUR 3,401 million in 2024 to EUR 4,900 million in 2025, in line with the target.

4.4 State Budget on a cash basis

The net cash balance of the State Budget remained unchanged from its 2024 level, at a surplus of 0.4% of GDP in 2025 (see Table V.8). However, it deteriorated in primary terms, from a surplus of 3.4% of GDP in 2024 to a surplus of 3.3% of GDP in 2025 (see Chart V.8).

Chart V.8 Central government net borrowing requirement on a cash basis (January 2024 - December 2025)



Source: Bank of Greece.
Notes: Cumulative percentages for the year up to the relevant month. The balance of the OPEKEPE (Payment and Control Agency for Guidance and Guarantee Community Aid) account is not included.

Table V.8 State Budget net balance on a cash basis

(EUR millions)

	2022	2023	2024	2025
State Budget[1]	**-12,664**	**-2,685**	**1,031**	**973**
% of GDP	*-6.1*	*-1.2*	*0.4*	*0.4*
- Ordinary budget	-6,950	1,781	8,760	8,622
- Public Investment Budget[2]	-5,714	-4,466	-7,729	-7,649

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 Includes RRF revenue and expenditure.

The Ordinary Budget deteriorated marginally relative to the previous year, reflecting an increase in primary expenditure that more than offset higher tax revenue. By contrast, the Public Investment Budget (PIB), which includes RRF receipts and payments, improved marginally, as stronger revenue growth more than compensated for higher expenditure.

ANNEX TO CHAPTER V
FISCAL POLICY MEASURES

The year 2025[1] was marked by the ongoing efforts towards the digitalisation and modernisation of administrative, tax and customs procedures, through a set of significant legislative and administrative measures that enhanced transparency and improved tax compliance. At the same time, targeted reforms were implemented to strengthen fiscal governance, focusing on fiscal audit, medium-term planning and supervision of public finances. Finally, the country's stable fiscal performance, underpinned by sustained primary budget surpluses and an increase in revenues through the reduction of tax evasion, enabled the adoption of a coherent framework of measures that boosted disposable income, supported middle-income households, families and young workers, increased the budget for public investment and contributed to regional development and tax fairness.

In more detail, **Law 5217/2025**, enacted in July, established a comprehensive framework to enhance fiscal governance and supervision in line with the new European fiscal framework, with a view to ensuring long-term fiscal sustainability. In particular, its provisions strengthened the role of the Hellenic Fiscal Council (HFISC) as an independent body responsible for monitoring and assessing public finances and updated the mandates of the authorities involved in the planning, implementation and supervision of fiscal policy in order to ensure accountability, accuracy of fiscal projections and compliance with national and EU rules. The law also includes provisions on planning instruments, such as the Medium-Term Fiscal-Structural Plan and the Multiannual Fiscal Planning Framework, as well as corrective mechanisms activated where budgetary limits are exceeded. At the same time, it launched a pilot version of the National Benefits Registry established to record and monitor social benefits, thereby enhancing transparency, the monitoring of cumulative expenditure and the effectiveness of fiscal policy. Finally, a package of permanent and targeted measures was introduced to increase disposable income and boost investment. More specifically:

- The Law provides that the State will pay tenants, on a permanent annual basis, the equivalent of one month's rent, amounting to one-twelfth (1/12) of the annual declared rent, for both primary and student residences, capped at EUR 800 and increased by EUR 50 for each dependent child, based on specified income criteria.
- It also introduces permanent means-tested financial assistance of EUR 250 per annum to low-income pensioners, uninsured elderly persons and persons with disabilities.
- It extends income tax deduction for expenditure on the renovation and upgrading of buildings for 2025 and 2026.
- It increases the annual allocation to the national Public Investment Programme by EUR 500 million in order to enhance the country's investment capacity.

Law 5219/2025, passed in July, introduced the New Property Tax Code and consolidated into a single legislative instrument the main provisions governing the taxation of both immovable and movable property. The Code includes provisions on the Unified Property Ownership Tax (ENFIA), the property transfer tax, the inheritance, gift and parental grant tax, as well as the tax on winnings from games of chance. This codification aims to enhance the transparency and clarity of the tax framework, thereby improving taxpayer compliance and the effectiveness of tax administration.

1 The fiscal policy measures legislated up to March 2025 are described in the *Annual Report 2024*, Annex to Chapter V, "Fiscal Policy Measures", p. 197-200.

In the same month, Law 5222/2025 was adopted. This Law marks a significant step towards modernising the country's customs and tax framework, harmonising the national legislation with the Union Customs Code and fostering digitalisation, transparency and improved services for businesses and citizens. The Law provides for, inter alia: (a) the full digitalisation of customs procedures; (b) the establishment of new monitoring mechanisms and penalties to combat smuggling; (c) the centralisation of key audit functions within the Independent Authority for Public Revenue (IAPR/AADE); and (d) the establishment of the Property Ownership and Management Registry (MIDA) to enable more effective supervision and management of private and public property. Moreover, VAT exemptions were extended to small businesses with an annual turnover of up to EUR 10,000, allowing them to carry out intra-EU transactions of up to EUR 100,000 per year without incurring VAT obligations. Tax compliance and the digitalisation of transactions were also strengthened through: (a) the mandatory payment of rents via bank account; (b) the introduction of mandatory electronic invoicing for businesses and the self-employed; (c) the mandatory acceptance of payments via IRIS or POS terminals; and (d) the simplification of the procedure for obtaining a tax clearance certificate. Another provision introduced a secured payment deferral of up to 5 days (later extended to 15 days by Law 5259/2025) for the payment of the Excise Duty, VAT and other collectible charges on energy products, calculated from the date of submission of the Excise Duty and other taxes declaration. In addition, the Law contains specific provisions on tax arrears, including the partial or full write-off of taxes, penalties and interest, the assessment of tax debts as uncollectible, and the possibility of paying tax arrears in instalments. Other provisions of the same law amended the taxation of vessels by introducing a new method for calculating tax based on gross tonnage, establishing a minimum tax of EUR 200 and scaling tax rates by vessel category. The tax treatment of short-term rentals was also amended through the introduction of an annual levy of EUR 60 per property for short-term rentals operated by legal entities. Lastly, incentives were introduced for investors relocating permanently to Greece, along with measures facilitating the repatriation of Greeks. These included extending tax incentives to the family members of foreign investors, granting exemptions from gift and inheritance tax on their movable property located abroad, and reducing from ten to five years the required period of residence abroad for repatriated Greeks to qualify for an inheritance tax exemption in Greece on their movable property located abroad.

In November, **omnibus Law 5246/2025** was adopted, introducing significant tax relief measures for all taxpayers, with a particular focus on the middle class, families with children and young workers, as well as measures aimed at supporting regional development. Among its key measures were the following: (a) an overhaul of the personal income tax scale applicable to employees, pensioners and self-employed (see Table A); (b) targeted cuts of income tax rates for families with children and for young people up to 30; (c) a reduction of the tax burden on rental income from immovable property through the introduction of an intermediate tax rate of 25% (see Table B); (d) a gradual abolition of ENFIA for primary residences located in settlements with a population of up to 1,500 (1,700 in the Regional Unit of Evros), excluding residences with a total taxable value of over EUR 400,000; (e) a reduction of the presumed living expenditure based on ownership of dwellings and passenger vehicles; (f) a 30% cut in the VAT rate applicable to border islands in the Aegean with a population of up to 20,000; (g) a 50% reduction in the minimum presumed income of the self-employed in small settlements, together with a special provision for new mothers; (h) a cut in the tax rate applicable to physicians' on-call remuneration from 22% to 20%; and (i) salary increases and an overhaul of the pay scale for the Hellenic Police, the Fire Service and the Hellenic Coast Guard.

Law 5259/2025 of December introduced a package of measures aimed at modernising the management of charitable estates, boosting philanthropic activities and supporting persons affected by natural disasters. Specifically, the law established a unified and digitalised framework for the operation and supervision of charitable estates, including an electronic register and procedures designed to ensure transparency and expedite their effective utilisation. It also introduced tax incentives and new instruments to facilitate the utilisation of idle properties and real estate

Table A Income tax scale for wage-earners, pensioners and sole proprietors for income earned as from 1 January 2026

Income band (in euro)	Tax rate for 2025	Standard tax rates for 2026	No children	1 child	2 children	3 children	4 children
0-10,000	9%	9%	9%	9%	9%	9%	0%
Young persons < 25			0%	0%	0%	0%	0%
10,000-20,000	22%	20%	20%	18%	16%	9%	0%
Young persons >25 <30			9%	9%	9%	9%	0%
Young persons < 25			0%	0%	0%	0%	0%
20,000-30,000*	28%	26%	26%	24%	22%	20%	18%
30,000-40,000	36%	34%	34%	34%	34%	34%	34%
40,000-60,000	44%	39%	39%	39%	39%	39%	39%
Over 60,000		44%	44%	44%	44%	44%	44%

* The tax rate for income between EUR 20,000 to EUR 30,000, which will now stand at 26% for taxpayers without children, is reduced by 2 percentage points for each child, regardless of the number of children.

Table B Tax scale for rental income from land and properties

Income band (in EUR)	Tax rate	Scale tax (in EUR)	Total income (in EUR)	Total tax (in EUR)
0-12,000	15%	1,800	12,000	1,800
12,000-24,000	25%	3,000	24,000	4,800
Over 24,000	35%			

forming part of vacant estates. The Law also introduced a unified framework for the economic, social security and social rehabilitation of those affected by the natural disasters in the areas of Mati and Mandra, Attica, providing that the State will waive remedies against final court rulings that award the victims compensation payments, which will not be subject to any charge; pay a special monthly pension; write off debts; and provide comprehensive healthcare and psychological support. Another provision extends the secured deferral of payment of the Excise Duty, VAT and other co-collected charges on energy products to 15 days from the date of submission of the Excise Duty and other taxes declaration (from 5 days previously under Law 5222/2025). Finally, the offsetting of the "personal difference" in pensions against pension raises will be phased out as from 2026, so that by 2027 the pensioners concerned will receive actual cash payments.

In the same month, Circular **E. 2107/23.12.2025** provided clarifications, effective from tax year 2024, regarding the tax treatment of contributions to voluntary Occupational Pension Funds and supplementary pension funds converted into Occupational Pension Funds, and of premiums paid under group pension insurance policies under Law 5078/2023.[2] Specifically, exempt contributions and insurance premiums were capped at 20% of gross remuneration per annum, including benefits in kind, applicable to amounts paid by both the employee and the employer, with the exception of mandatory contributions and operating expenses. An additional tax exemption of up to EUR 1,500 per year applies to medical and pharmaceutical coverage and life/disability insurance (for the employee, spouse and children). Existing defined benefit group pension schemes remain fully exempt from taxation, while benefits paid from 1

2 For more details regarding Law 5078/2023, see Bank of Greece, *Annual Report 2023*, Annex to Chapter V "Fiscal policy measures", 204-205.

January 2024 onwards are subject to a new separate tax regime based on the duration of insurance coverage.

Additionally, Decision **A.1200/31.12.2025** specified the new special VAT exemption scheme for small businesses, in accordance with Articles 44A and 44B of the VAT Code. The scheme applies retroactively from 1 January 2025 and covers both domestic and cross-border transactions within the EU. The scheme provides for cumulative annual turnover thresholds of up to EUR 100,000 at EU level and up to EUR 10,000 within Greece, for both the current and the previous year. Greek businesses with an annual turnover of up to EUR 10,000 are exempt from VAT on domestic transactions and may carry out VAT-free intra-EU transactions, provided that their total turnover in the EU does not exceed the EUR 100,000 threshold. Businesses established in other Member States may apply the exemption in Greece, provided that they have submitted a prior notification to the tax authority of the home Member State, expressly designating Greece as the Member State in which they wish to apply the exemption scheme. Compliance is monitored through mandatory quarterly reports submitted to the home Member State, while failure to meet the relevant conditions may result in termination of the scheme and the possibility of a retroactive VAT assessment. In pursuance of the above, Decisions No **A.1010/28.1.2026** and **A.1011/29.1.2026** were issued, addressing the procedural and technical modalities for the implementation of the special VAT exemption regime for small businesses.

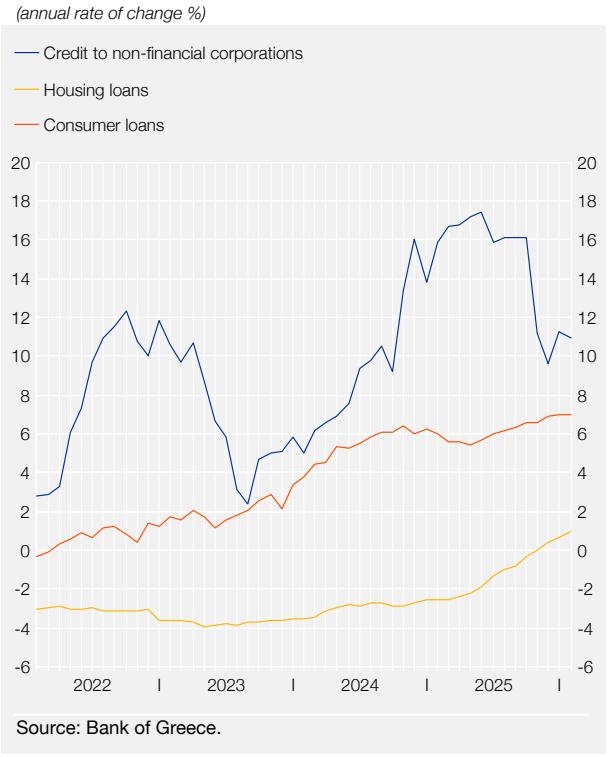
In January 2026, a new package of six measures was announced for the primary sector, aimed at providing support to farmers, safeguarding agricultural production and modernising the sector. Specifically, these measures provide for the reallocation of subsidies amounting to EUR 160 million, of which EUR 80 million shall be allocated to livestock producers and EUR 80 million to cotton and cereal producers. Insurance coverage through the Hellenic Agricultural Insurance Organisation (ELGA) is strengthened, now covering 100% of the value of production, with a cap of EUR 200,000, without any increase in social security contributions. The “GAIA” agricultural electricity tariff shall be offered at a fixed and low rate of up to EUR 0.085/kWh for two years for farmers with no tax arrears, while the excise duty on diesel fuel will be refunded directly “at the pump”. Measures were also announced to strengthen investment in, inter alia, new infrastructure and technologies, aiming at leveraging EUR 3 billion of investment, as well as to establish a product traceability system.

Finally, in March 2026, a package of four temporary and targeted support measures was announced to strengthen households’ disposable income against the increase in fuel prices resulting from the war in the Middle East, covering the two-month period of April-May 2026, with an estimated fiscal cost of EUR 300 million. Specifically, the following measures were adopted: (a) a subsidy of EUR 0.16 per litre on diesel fuel at the distribution network level; (b) targeted support in the form of a digital fuel card for households under expanded income eligibility criteria; (c) a subsidy covering 15% of farmers’ fertiliser purchase invoices; and (d) special compensation for ferry operators, conditional on mandatory discounts on ferry fares. At the same time, in order to partially offset the fiscal cost of these measures, it was decided to increase the tax rate on online casino-type games from 15% to 20% for winnings between EUR 100 and EUR 500, and from 20% to 30% for winnings exceeding EUR 500, with an estimated fiscal gain of approximately EUR 50 million in the second half of 2026 and thereafter EUR 100 million on an annual basis.

VI MONEY, CREDIT AND BANKS

The cost of bank borrowing for businesses maintained for the most part of 2025 the downward path it had been following since early 2024 and, as a result, it stood at 3.7% in December, against 4.9% at end-2024. Among the individual categories of loans, decreases were stronger in loans without a defined maturity and in loans with an agreed maturity of over EUR 250,000.[1]

Chart VI.1 Bank credit to non-financial corporations and households (January 2022 - January 2026)



Source: Bank of Greece.

The favourable impact on businesses' borrowing costs from the programmes offered in the context of the modern financing instruments of the European Investment Bank (EIB) Group, the Hellenic Development Bank (HDB) or the Recovery and Resilience Facility (RRF) continued. As the interest rate subsidy granted for loans through public resources is not captured by bank lending rate statistics, the borrowing terms and conditions for the beneficiaries of many of the aforementioned programmes are considerably more favourable than what is suggested by the said statistical series. Besides, in 2025 more than 35% of the value of the new mortgage contracts was linked to the co-funded programmes "My Home II" and "Upgrade My Home". The funds offered to borrowers from public resources under such housing credit programmes constitute interest-free financing, which, similarly to the aforementioned cases of corporate loans that are supported by programmes linked to public resources, is not captured by interest rate statistics.

Furthermore, it is pointed out that for households, the pass-through of policy rate cuts in 2025 to bank lending rates was more limited than for enterprises. This development is associated with the significant share of new fixed-rate loans.

In 2025, the stock of domestic private sector deposits recorded a cumulative increase of EUR 10.4 billion, which was stronger compared with 2024 (EUR 8.6 billion) but also the largest since the end of the pandemic. The rise stemmed from a notable increase in overnight deposits, while households' time deposits declined. Outstanding private sector deposits stood in December 2025 at EUR 213 billion, reaching their highest level since June 2010.

The annual rate of increase in bank credit to non-financial corporations (NFCs) (which is calculated on the basis of the net flow of credit) moderated slightly in 2025 to 11.3%, compared with 13.8% in 2024 (see Chart VI.1). The average monthly net flow of bank credit to NFCs fell from EUR 774 million in 2024 to EUR 698 million in 2025. The annual growth rate of bank credit to households turned positive in 2025 – for the first time since 2011. This development reflects a

1 The cut-off date for information and data used in this chapter is 20 March 2025.

slower rate of decline in housing loans and their gradual return to a positive growth rate – in November 2025 – as well as a further pick-up in consumer credit. The average monthly net flow of consumer loans increased in 2025, year on year, and that of housing loans turned positive, compared with a negative flow in 2024. A factor that decisively contributed to the higher net flow of housing loans was the programme "My Home II".

Amid heightened uncertainty in the world economy and geopolitical tensions, Greek banks maintain their strong performance, improving their profitability and keeping capital adequacy and liquidity ratios at high levels on the basis of end-2025 data. The non-performing exposures (NPE) ratio declined slightly for the Greek banking sector, further narrowing the gap with the European average. The results of the 2025 EU-wide stress test exercise confirmed the resilience of Greek banks, which, even under the severe macroeconomic scenario, would maintain capital levels comfortably above regulatory requirements and higher than the European average. The strong performance of the Greek banking sector is reflected in the ongoing upgrades of banks' credit ratings by international rating agencies, a development that is also linked to the strengthening of the macroprudential supervisory framework and the positive effects of sovereign credit rating upgrades. Banks' improved fundamentals and credit ratings are supporting the resilience of the Greek banking sector and enhancing the outlook for the financing of the real economy in an environment of increased international uncertainty.

1 BANK INTEREST RATES

1.1 Bank deposit rates

Bank interest rates on time deposits declined over 2025, in line with the Eurosystem policy rate cuts and lower euro interbank market rates (see Chart VI.2). The milder decline in time deposit rates relative to policy rates is estimated to be associated with credit institutions' aspiration to maintain enhanced liquidity conditions. As credit institutions' experience has shown in 2025, households' time deposits shrank considerably despite the fact that declines in time deposit rates were, as already mentioned, limited. Nevertheless, in 2025 the level of total deposits rose substantially (see Section 3 of this chapter).

The weighted average interest rate on NFCs' time deposits stood in December 2025 at 1.7%, against 2.6% in December 2024. The corresponding interest rate for households was 1.1%, against 1.6%. Interest rates on overnight deposits (current, sight and savings accounts) declined slightly for NFCs (December 2025: 0.10%, December 2024: 0.16%) and stabilised at a marginally positive level for households (December 2025: 0.03%). In real ex post terms, time deposit rates had negative values (December 2025: households: -1.8% and NFCs: -1.1%, December 2024: households: -1.3% and NFCs: -0.4%).

1.2 Bank lending rates

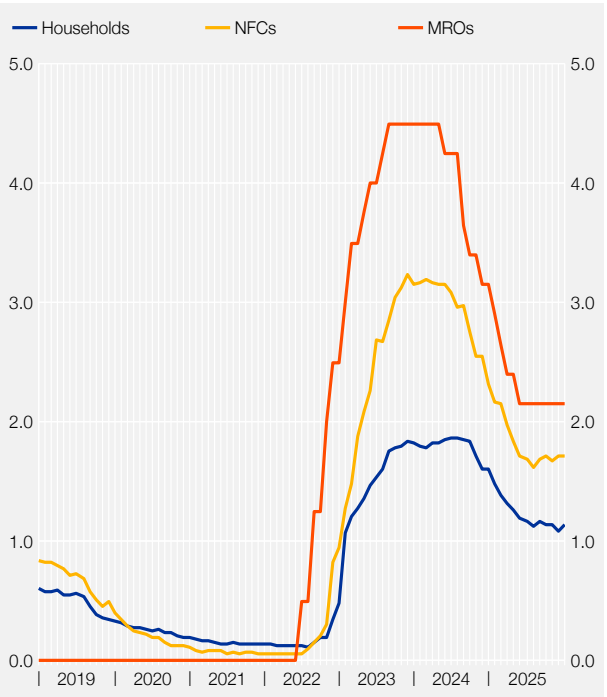
The cost of bank borrowing for businesses maintained for the most part of 2025 the downward path it had been following since early 2024 (see Chart VI.3) and, as a result, in December 2025 it was more than one percentage point lower compared with December 2024. Among the individual categories of loans, decreases were stronger in loans without a defined maturity and in loans with an agreed maturity of over EUR 250,000.

In greater detail, the weighted average interest rate on bank loans to NFCs stood in December 2025 at 3.7%, compared with 4.9% in December 2024. The weighted average interest rate on loans without a defined maturity, which in their vast majority concern credit lines (94% of the average outstanding amount of loans without a defined maturity for 2025), fell to 4.5% in December 2025, about 1.5 percentage points lower than in December 2024.

As regards loans with an agreed maturity, declines in interest rates ranged close to one percentage point, with the exception of the category of loans under EUR 250,000. Specifically, by

Chart VI.2 Interest rates on new time deposits and on Eurosystem main refinancing operations (MROs) (January 2019 - January 2026)

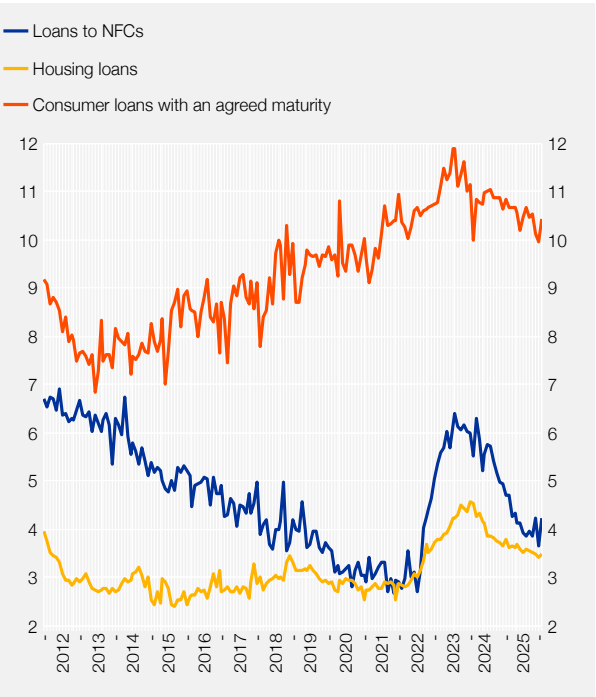
(percentages % per annum)



Source: Bank of Greece.

Chart VI.3 Interest rate on new corporate, housing and consumer loans (January 2011 - January 2026)

(percentages % per annum)



Source: Bank of Greece.

category of loan size, the weighted average interest rate stood in December 2025 at: (i) 5.3% on loans of up to EUR 250,000 (December 2024: 5.4%); (ii) 4.3% on loans between EUR 250,000 and EUR 1 million (December 2024: 5.1%); and (iii) 3.5% on loans of over EUR 1 million (2024: 4.7%). In terms of value of loan agreements, the bulk of new loans (88%) concerned loan agreements of over EUR 1 million.

Bank lending rates for small and medium-sized enterprises (SMEs) recorded smaller declines in loans with an agreed maturity. The weighted average interest rate on this category of loans to SMEs stood in December 2025 at 4.3%, down by 73 basis points compared with December 2024. On loans without a defined maturity to SMEs, the weighted average interest rate fell to 4.9% in December 2025 from 6.1% in December 2024.

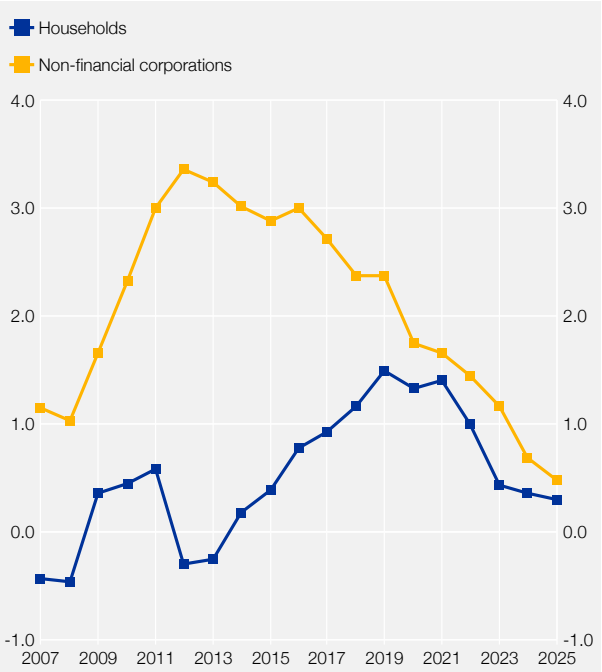
The favourable impact on businesses' borrowing costs from the programmes offered in the context of the modern financing instruments of the EIB Group, the HDB or the RRF continued throughout 2025. It is estimated that during the year, 17% of the value of new loans to NFCs by domestic credit institutions and about 40% to SMEs were supported by co-financing or guarantee schemes. Respectively, more than 10% concerned RRF loans.[2] As the interest rate subsidy granted for loans through public resources is not recorded in the statistical series of bank lending rates, the borrowing terms and conditions for the beneficiaries of these programmes are much more favourable than what is suggested by the statistical series, which in essence presents credit institutions' pricing policy.

For households, the pass-through of policy rate cuts in 2025 to bank lending rates was more limited than for enterprises. This development is associated with the significant share of new

2 For more details, see Box VI.1.

Chart VI.4 Differential in the cost of bank borrowing for non-financial corporations and households for house purchase between Greece and the euro area (2007-2025)

(percentage points, annual averages)



Sources: ECB and Bank of Greece.

fixed-rate loans,[3] as well as with credit institutions' expectations regarding mainly the future path of medium-to-long-term interest rates.

Specifically, the weighted average interest rate on housing loans decreased over the reviewed period by a mere 22 basis points to 3.4% (see Chart VI.3). A sizeable share (about 25%) involved loans with an interest rate fixation period of more than ten years, the pricing of which remained at the same level as in December 2024.

It is worth noting that a significant part of housing credit to households was granted with more favourable lending terms than common bank credit backed by HDB schemes. It is estimated that in 2025 more than 35% of the value of new mortgage contracts was linked to the co-financed programmes "My Home II" and "Upgrade my Home". The funds offered to borrowers from public resources under such programmes constitute interest-free financing, which is not recorded in the interest rate statistics used in this chapter.

Regarding consumer loans with an agreed maturity, the weighted average interest rate in December 2025 stood at 9.9%, down by more than half a percentage point compared with December 2024 (see Chart VI.3). Consumer loans continued to attract strong demand and accounted for approximately half of the value of new agreed-maturity loans to households in 2025. Finally, the weighted average interest rate on consumer loans without a defined maturity, comprising, in order of magnitude of outstanding balances, credit cards, open-end loans and bank overdrafts, stood at 14.6%, against 15% a year earlier.

In real ex post terms, the weighted average interest rate on bank loans declined over the reviewed period in both sectors. Specifically, the real bank lending rate for households stood at 2.6% in December 2025, down from 2.9% in December 2024. Respectively, the real bank lending rate for NFCs fell by more than one percentage point to 0.83% (December 2024: 2%).

The differential in the cost of bank borrowing between Greece and the euro area narrowed further in 2025 in both key institutional financing sectors (see Chart VI.4). The cost of bank borrowing for households in Greece for house purchase was on average in 2025 as a whole only 29 basis points higher than the corresponding euro area average (2024: 39 basis points). Similarly, the differential in the cost of bank borrowing for NFCs narrowed to a historically low level of 47 basis points (2024: 69 basis points).

1.3 Prospects of bank interest rates

In the near future, as the impact of previous Eurosystem policy rate cuts on bank lending terms and conditions for the domestic private sector gradually wanes, other factors such as, among other things, credit demand conditions, credit risk and support from financial instruments will

3 40% of new agreed-maturity consumer loan contracts and 65% of new mortgage contracts for 2025 carried a fixed interest rate for a period of more than one year.

become increasingly important to shaping borrowing costs. Thus, developments in bank borrowing costs may be uneven across loan categories and economic sectors. Any future tightening of the single monetary policy will exert upward pressure on domestic interest rates.

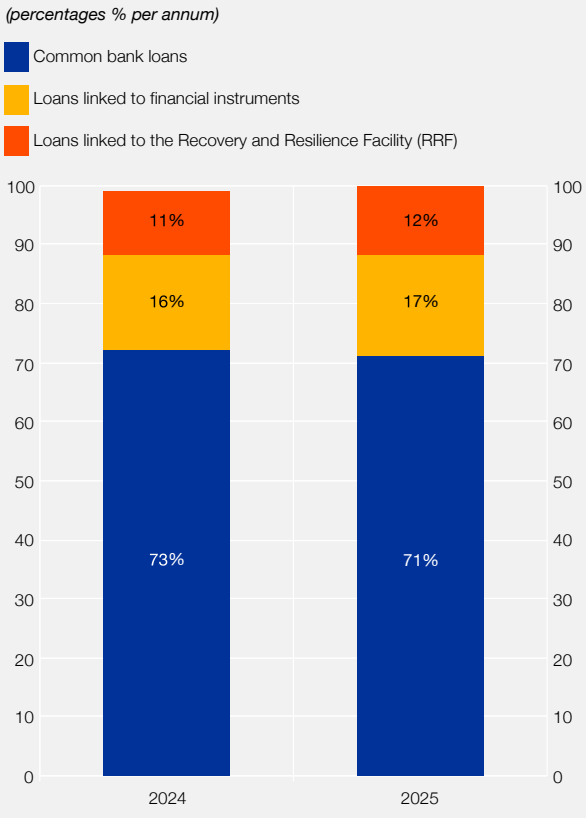
Box VI.1

THE CONTRIBUTION OF FINANCIAL INSTRUMENTS AND THE RECOVERY AND RESILIENCE FACILITY LOANS TO BANK FINANCING OF DOMESTIC CORPORATIONS

During 2025, bank financing to domestic non-financial corporations (NFCs) and sole proprietors was supported by the ongoing utilisation of modern financial instruments, as well as the acceleration in disbursements under the loan component of the Recovery and Resilience Facility (RRF). The share of these schemes in credit expansion to domestic NFCs was slightly enhanced compared with previous years.

More specifically, disbursements of corporate loans by domestic credit institutions associated either with financial instruments or the RRF loan component accounted for 29%[1] of the value of new bank financing to NFCs and sole proprietors in 2025 (see Chart A), compared with 27% in 2024. This implies a gradual shift in the financing mix towards a combination of private, public and European resources. Between the two sub-categories – financial instruments and RRF loans – the contribution of the former was slightly higher. It should be noted that a significant share of RRF loan disbursements related to contracts signed in previous years.

Chart A Contribution of financial instruments and the Recovery and Resilience Facility to bank financing of non-financial corporations



Source: Hellenic Development Bank, Hellenic Bank Association and Bank of Greece calculations.
Note: The contribution is defined as the value of loan disbursements linked to the financial instruments (or RRF) relative to the value of all new bank loans to NFCs granted by domestic credit institutions (including fiduciary loans).

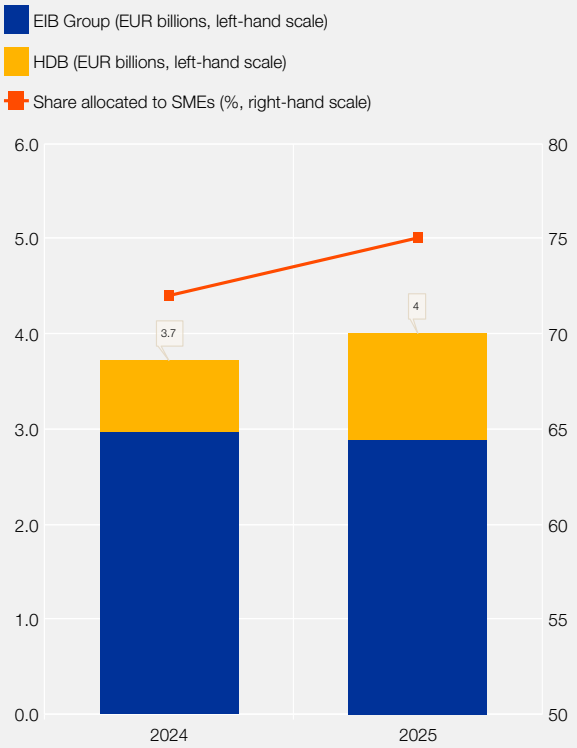
Developments in 2025

(a) Financial instruments

Financial instruments maintained a significant role in the financing of domestic NFCs during the past year. Loan disbursements to NFCs and sole proprietors under programmes offered by the European Investment Bank Group (EIB Group)[2] and the Hellenic Development Bank (HDB) amounted to EUR 4.0 billion, slightly higher compared with 2024 (EUR 3.7 billion, see Chart B) and substantially above the level recorded in 2023 (EUR 2.0 billion). The share of business loans related to financial instruments in total new business bank financing stood at 17%[3] (see Chart A), compared with 16% in 2024 and 11% in 2023.

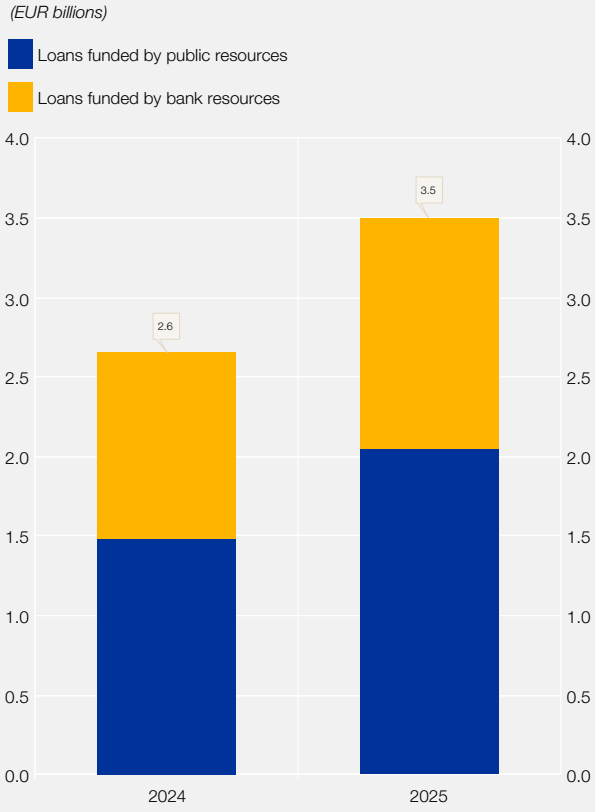
1 The ratio is calculated as the value of disbursed bank loans granted by domestic credit institutions with the support of the financial instruments or the RRF (including loans financed through public resources – fiduciary loans) relative to the total value of new fixed-maturity bank loan agreements. The total value of new contracts excludes amounts related to debt restructuring, while includes amounts granted through public resources.
2 The EIB Group consists of the European Investment Bank (EIB) and the European Investment Fund (EIF).
3 The ratio calculated in the manner defined in footnote 1, with the exception that the numerator includes only loans granted with the support of financial instruments.

Chart B Disbursements of bank loans to NFCs and sole proprietors linked to financial instruments and the share of these loans allocated to SMEs



Source: 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). NFCs: Non-financial corporations. SMEs: Small- and medium-sized enterprises.

Chart C Disbursements of bank loans linked to the Recovery and Resilience Facility



Source: Hellenic Bank Association and Bank of Greece.
Note: Amounts include loans granted by domestic credit institutions and partner banks abroad (EIB and EBRD).

Out of the total amount disbursed, EUR 3.0 billion (75% of the amount, see Chart B) was directed to micro, small and medium-sized enterprises (SMEs). This development confirms the pivotal role of financial instruments in improving smaller firms' access to bank financing, particularly in an environment characterised by higher borrowing costs and stricter lending criteria. Loan disbursements linked to financial programmes for these firms accounted for 40% of the value of new business loans to SMEs, close to the share recorded in 2024 and substantially above the share (25%) recorded in 2023. The share for SMEs is more than double the respective share for all NFCs. Indicatively, under the TEPIX III programme alone more than 90% of granted loans targeted enterprises with an annual turnover below EUR 10 million and fewer than 50 employees.[4]

By category of instrument, the largest share (approximately 70%) concerned guarantee schemes, while the remaining 30% involved co-financing schemes and micro-credit facilities. Under guarantee programmes, the Greek State or European organisations (e.g. the EIB Group) assume part of the credit risk, thereby contributing to lower collateral requirements and facilitating access to financing. In 2025, additional reductions in interest rate margins were introduced in several programmes, contributing to the containment of nominal borrowing costs for beneficiary firms.

Among the individual programmes, the largest contributions in terms of disbursements were related to the "InvestEU SME Competitiveness" programme of the EIF, the guarantee component of the "Entrepreneurship Fund" of the

4 See press conference of the Alternate Minister of Economy and Finance on the quarterly review and planning of the utilisation of European and national resources, 22.10.2025.

HDB and the "EIB Loan Risk Sharing Enhanced Support" programme to mid-caps of the EIB. Taken together, these programmes accounted for almost half of the total value of disbursements through financial instruments in 2025.

(b) Recovery and Resilience Facility (RRF)

During 2025, disbursements of business loans granted under the RRF continued to increase relative to previous years, reflecting the gradual maturation of investment projects included in the programme. More specifically, such business bank loans amounted to EUR 3.5 billion,[5] compared with EUR 2.6 billion in 2024 (see Chart C) and substantially lower amounts in 2023. Out of the above disbursed amount, approximately EUR 2 billion concerned public funds, while the remainder originated from bank funds under the envisaged co-financing arrangements.[6]

On a cumulative basis, by the end of 2025 loan disbursements exceeded 50% of the total value of signed loan agreements, compared with approximately 40% at end-2024 and 22% at end-2023. This suggests that the observed acceleration in disbursements is strongly associated with a release of loan instalments linked to agreements concluded in previous years. Given the investment orientation of RRF loans and their characteristic of gradual disbursement process (depending on the implementation progress of investment projects), the increased disbursement activity in 2025 mainly reflects progress in projects approved at earlier phases of the programme.

Overall, from June 2022, when the first loan agreement was signed, to February 2026, the number of loan agreements signed amounted to a total of 601, with a total value of EUR 16.4 billion.[7] Approximately half of the agreements concerned SMEs, which accounted for nearly one-sixth of the total value of RRF loans. This distribution points to a higher participation of smaller enterprises in terms of number of contracts while also confirming the larger average scale of investment projects, which in most of cases are implemented by larger enterprises.

The weighted average interest rate on RRF loans stood at 1.72%, significantly below the corresponding average interest rate on common business bank loans. Indicatively, the weighted average interest rate on common fixed-term bank loans to NFCs stood at 5.06% in 2023-25. The reduction in financing costs through the RRF is significant not only in terms of strengthening demand for external financing, but also for ensuring the viability of investment projects.

Demand for RRF loans remained strong during 2025, as evidenced by the number of new applications, although it generally concerned lower loan sizes compared to previous years. In particular, the average loan size in new applications declined markedly in 2025 compared to 2024,[8] suggesting some degree of saturation in demand for large-scale investment projects.

Conclusions and prospects

Overall, 2025 further consolidated the importance of blended financing schemes combining public, European and banking resources. Financial instruments and RRF loans complemented traditional bank financing, strengthening credit flows to the business sector and supporting investment. As regards RRF loans, the acceleration in dis-bursements mainly reflects the maturation of investment projects submitted in previous years. Their future momentum will depend on the capacity to broaden the pool of beneficiary enterprises with greater participation of SMEs on overall lending activity.

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5 Including disbursements of business loans granted by domestic and foreign banks through public and bank resources. Equity financing/venture capital is not included.

6 According to the programme framework, the co-financing scheme for total investment expenditure is defined as follows: up to 50% participation through public resources (RRF loans), a minimum of 30% bank leverage (co-financing loans) and a minimum of 20% own participation.

7 Source: Press conference of the Alternate Minister of Economy and Finance: "Greece among the top absorbers of EU funds" (20.2.2026, in Greek).

8 According to data on loan applications submitted to domestic credit institutions, the average loan size declined from approximately EUR 22 million in 2024 to around EUR 16 million in 2025.

Although the contracting process of RRF loans is expected to be completed in 2026, their impact on corporate liquidity is expected to extend beyond this horizon, given that disbursement activity is projected to continue up to 2029. Further strengthening of financing conditions for domestic enterprises is expected to arise from new European financial schemes associated with green transition, energy upgrading and enhancement of social cohesion. In addition, an important role is expected to be played by financial institutions developed under the new Multiannual Financial Framework (2028-2034) which based on currently available indications, is expected to maintain a level of resources comparable to the current NSRF, directing investment towards sectors such as transport, energy and digital networks.

2 BANK CREDIT

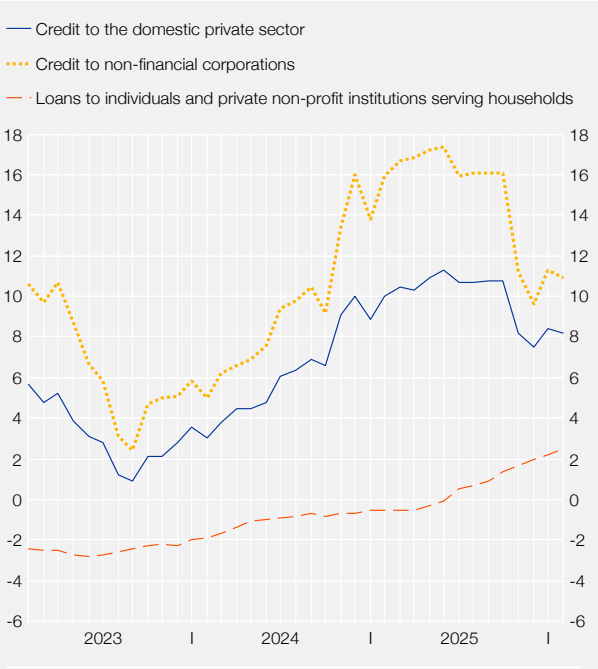
2.1 Bank credit to NFCs

The annual growth rate of bank credit to NFCs[4] in 2025 recorded a mild slowdown and at the end of the year it came to 11.3%, from 13.8% in December 2024. In more detail, bank credit expansion to NFCs remained at high double-digit annual rates during 2025 (see Chart VI.5). It is noted that in the fourth quarter of 2025 the growth rate of bank credit to NFCs slowed, as the impact of the historically high net flow that had been recorded in October 2024[5] faded out. Indeed, in 2025 the average monthly net flow of bank credit to NFCs declined to EUR 698 million from EUR 774 in 2024 but remained elevated (see Chart VI.6).

Continued strong credit expansion to businesses reflects both demand conditions and banks' lending capacity. On the demand side, the rise in economic activity continued to make a strong contribution, as it increases firms' financing needs. Furthermore, reduced borrowing costs on the back of lower bank interest rates had a positive impact on the evolution of demand.

Chart VI.5 Bank credit to the private sector (January 2023 - January 2026)

(annual rate of change %)



Source: Bank of Greece.

On the supply side, in 2025 Greek banks raised substantial funds, chiefly from increased customer deposit inflows, but also on the foreign interbank market and the bond market. Banks' Eurosystem funding recorded only a small positive net flow during this period, with total out-

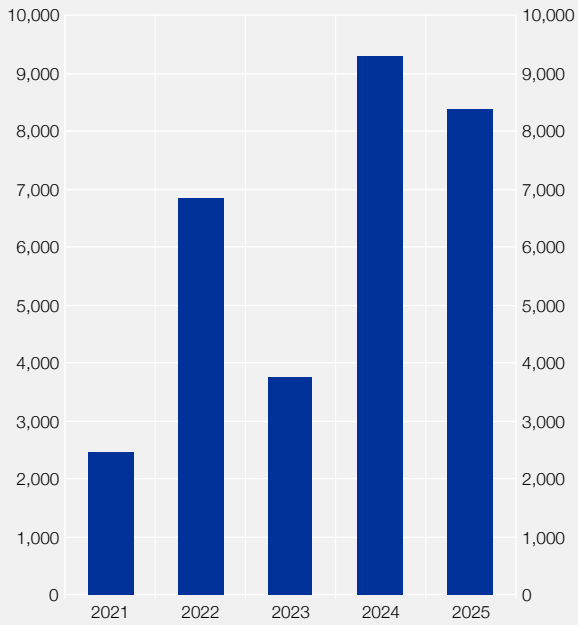
4 The annual growth rate of bank credit is calculated on the basis of the annual net flow of credit and is expressed as a percentage of outstanding credit a year earlier. Net flows reflect changes in outstanding credit (i.e. loans and corporate bonds in banks' portfolios) on credit institutions' balance sheets, adjusted for loan write-offs/write-downs, corporate bond price revaluations, changes in exchange rates and loan reclassifications/transfers. For instance, in order to calculate net credit flow, loan write-offs/write-downs are added to the change in outstanding credit, as they continue to constitute loans already granted to the economy. In general, net bank credit flow reflects the amounts of new loan disbursements net of the amounts of principal payments on existing loans during the period of its calculation (e.g. within a given month in the case of monthly flows).

5 During the October 2024-September 2025 period the annual net flow – and respectively the annual growth rate – of credit to NFCs had strengthened thanks to the contribution of an individual, syndicated bank loan of a particularly high amount, which had been disbursed in October 2024.

standing borrowing remaining at a very low level. Overall, commercial banks offered firms more favourable lending terms and conditions, in particular with regard to borrowing costs, as shown by the results of the Bank Lending Survey (see Box VI.3).

Chart VI.6 Bank credit to non-financial corporations (2021-2025)

(annual cumulative net flow, EUR millions)



Source: Bank of Greece.

Bank lending to firms continued to be supported in 2025 by the co-financing and loan guarantee schemes of the HDB and the EIB Group as well as the RRF loans.[6] New lending through the financial instruments of the EIB Group and the HDB increased relative to 2024, while as a percentage of the total outstanding amount of bank lending to NFCs (including sole proprietors) in December 2025, it remained unchanged, year on year, at 4.7%. This percentage includes both co-financing loans by banks to firms through such instruments and the amounts granted as co-financing by the HDB (as well as by the EIB Group in previous years). Bank credit growth, as published in monetary and financial institutions' (MFIs) balance sheet statistics and presented in this chapter, does not include co-financing loans by development agencies to firms. Moreover, the contribution to bank credit expansion to NFCs from co-financing bank loans under the RRF[7] (i.e. cumulative disbursements of co-financing loans by commercial banks in January-December 2025) was the same as in 2024 and accounted for 1.4% of the total outstanding amount of bank credit to NFCs (including sole proprietors) in December 2025, as the corresponding disbursements recorded a marginal increase in 2025 compared with 2024 (see Box VI.1).

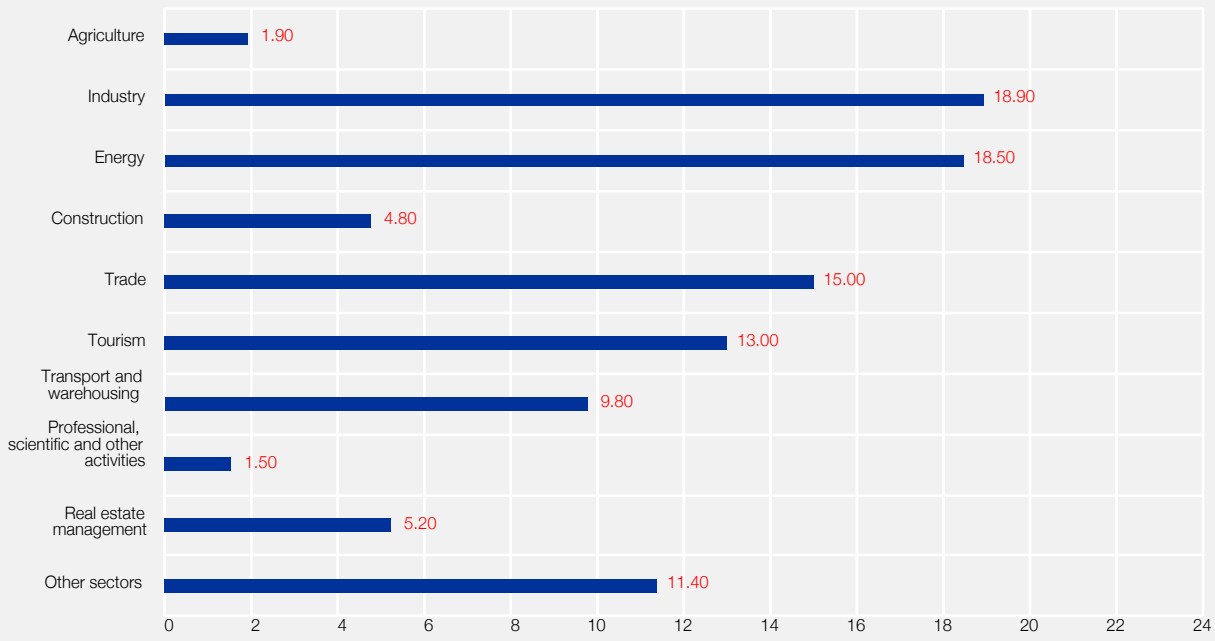
Chart VI.7 shows the percentage share of each economic sector in total outstanding bank credit to NFCs in December 2025 (according to the Bank of Greece's AnaCredit database). The five highest shares in total outstanding business loans in December 2025 – as in 2024 – were recorded by the sectors of industry, energy, trade, tourism and transport-warehousing. Specifically, the outstanding amount of credit to the industrial sector was EUR 15.2 billion, i.e. 18.9% of the total outstanding amount of loans to NFCs, while the energy sector accounted for EUR 14.8 billion (18.5%), trade EUR 12.0 billion (15.0%), tourism EUR 10.4 billion (13.0%) and transport-warehousing EUR 7.9 billion (9.8%), respectively. A comparison of loan shares by sector of economic activity between end-2025 and end-2024 shows declines for the following sectors: industry (-1.2 pps), trade (-1.2 pps), tourism (-0.4 pps) and transport-warehousing (-1.0 pps). By contrast, the share of the energy sector increased (by 1.6 pps) (and that of construction by 0.2 pps). The same sectors were the top rankers as concerns loans to large firms – with transport-warehousing outranking tourism – while as regards lend-

6 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 HDB and the EIB Group (which are added to such loans of commercial banks, and the total amount is channelled to borrowers).

7 Domestic commercial banks grant co-financing loans. In addition to them, "RRF loans" are granted, which are public resources. "RRF loans" are channelled to firms through the banking system but are not included in the bank credit growth aggregate examined – which is compiled based on MFIs' financial statements – as the credit risk is not assumed by banks, but by the Greek State. This is also the case with financing granted under the RRF by European development banks, i.e. the EIB Group and the European Bank for Reconstruction and Development (EBRD), which is also not included in bank credit growth.

Chart VI.7 Shares of individual sectors in the outstanding amount of total bank loans to NFCs in 2025

(percentages %, December 2025)



Sources: Bank of Greece and AnaCredit database.
Note: The contribution of each sector is calculated as a fraction, with the numerator being the outstanding loans to this sector and the denominator being the total outstanding loans to NFCs.

ing to SMEs, the sectors, in order of importance, were the following: energy, tourism, trade, industry and transport-warehousing.

It is worth noting that, looking at the ratio of the annual change in the outstanding amount of loans[8] to NFCs per sector to each sector's gross value added for 2024 (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 Greek credit institutions increased the supply of financing – per value added produced – to the sectors of transport-warehousing, by 23.2%, and energy, by 22.4%, (tourism: 3.9%, industry: 2.3% and trade: -1.6%), possibly supporting their growth prospects to a greater degree compared with the other sectors. A high ratio of the annual change in loans to the gross value added for a given sector suggests that the sector absorbs a larger volume of financing relative to the size of its output. An increased flow of credit, to the extent that it helps cover investment needs – beyond operating needs – more comfortably, can support the sector's production capacity, thereby improving its medium-term growth prospects.

2.2 Bank credit to households

Annual growth in bank loans to households turned positive in 2025 (December: 2.2%) from negative in 2024 (December: -0.5%) – for the first time since 2011 (see Chart VI.5). This reflects a slower rate of decline in housing loans and their gradual return to a positive growth rate, as well as a further pick-up in consumer credit (housing loans: December 2025: 0.7%, December 2024: -2.6%; consumer credit: 7.0% and 6.3%, respectively) (see Chart VI.1). The

8 Some changes in outstanding amounts may not reflect new transactions, as these may have been affected either by loan write-offs and reclassifications or by loan sales or transfers made by the loan originating bank.

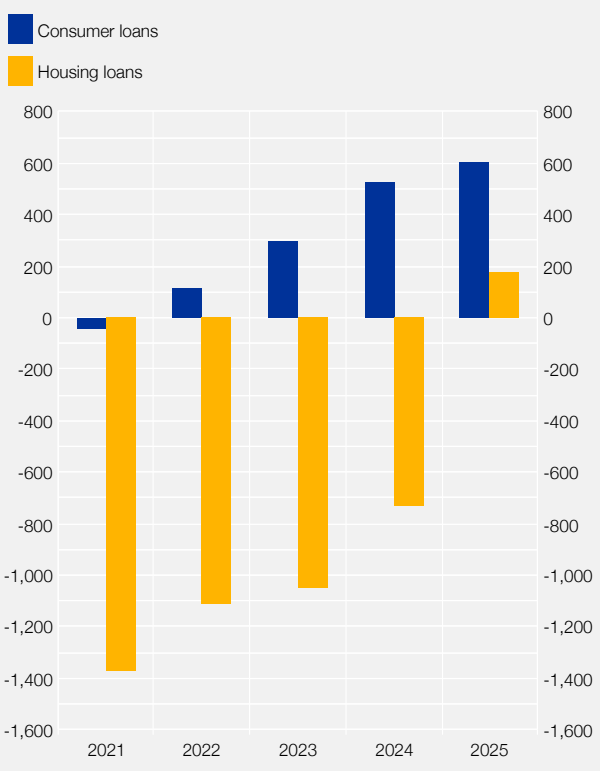
average annual net flow of consumer loans increased in 2025, year-on-year, and that of housing loans turned positive compared with a negative net flow in 2024 (consumer loans: 2025: EUR 50 million, 2024: EUR 44 million; housing loans: EUR 15 million and EUR -61 million, respectively) (see Chart VI.8).

The strong annual growth rate of consumer credit continues to be associated with the upward trend of private consumption and spending, among other things, on consumer durables. The annual increase in the average net flow of housing loans reflects the continued rise in house prices and the decline in bank lending rates for house purchase in 2025. Both of these developments are estimated to have boosted demand for housing credit.

Moreover, net flows of housing loans increased due to the implementation of the new programme "My Home II". In particular, sizeable funds of the said programme (an extension of the first programme, which had been largely absorbed in 2024) were made available in 2025 under the management of the HDB.

Chart VI.8 Bank loans to households (2021-2025)

(annual cumulative net flow, EUR millions)



Source: Bank of Greece.

The budget of the "My Home II" programme foresees that co-financing loans of up to EUR 1 billion will be made available by banks and will be complemented with loans of an equal amount through public resources under the RRF (the latter are not captured by the published flow of bank loans for house purchase). Data on the disbursements of the programme show that the share of the co-financed new housing loans provided by banks was more than double the total annual net flow of housing loans in 2025. This means that the total annual net flow of housing loans without the contribution of this programme would have remained negative.

2.3 Prospects of bank credit to NFCs and households

Looking ahead, the anticipated rise of GDP in 2026 is set to continue supporting bank credit to NFCs. At the same time, the absorption of loan amounts under the RRF is expected to increase further in 2026. The financing programmes of the EIB Group and the HDB are also expected to have a positive impact and maintain their significant supportive role.

As concerns future developments in loans to households, the more favourable dynamics is expected to continue in 2026, with moderate rates of increase. Specifically for housing loans, the lower level of bank lending rates is estimated to keep supporting demand for loans, while the disbursement of the remaining funds of the "My Home II" programme should continue to strengthen net flows of housing loans. A tightening of the single monetary policy in the future may adversely affect bank credit to households.

Box VI.2

FINANCING CONDITIONS FOR SMEs: INSIGHTS FROM THE SAFE SURVEY

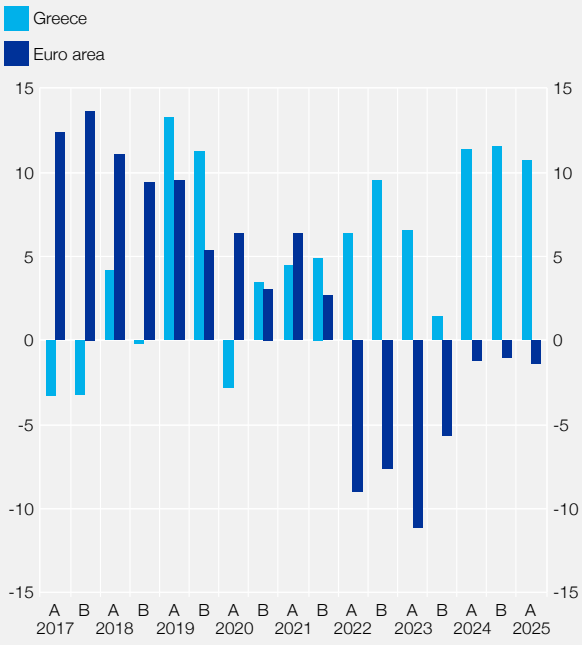
Since the first quarter of 2024, the Survey on the Access to Finance of Enterprises (SAFE) has been conducted both on a six-month and on a quarterly basis.[1] According to the results of the latest rounds, which cover the six-month period between April and September 2025 (2025:A) and the fourth quarter of 2025 (2025:Q4), SMEs in Greece continued to report lower bank lending rates, while an increase was reported in the euro area. At the same time, SMEs in Greece continued to report increased availability of bank loans, while a decline was reported in the euro area. In addition, SMEs' needs for bank loans increased in Greece, while they remained unchanged in the euro area. Most SMEs in Greece and in the euro area as a whole continued to consider availability of skilled staff or experienced managers to be their most important problem.

Availability (supply) of bank financing to SMEs

In the most recent six-month survey round (2025:A), SMEs in Greece continued to report in net terms[2] increases in the availability (supply) of bank loans (11%) (see Chart A), as well as credit lines or bank overdrafts (7%). On

Chart A Six-month SME estimates of the change in the availability of bank loans to SMEs in Greece and the euro area

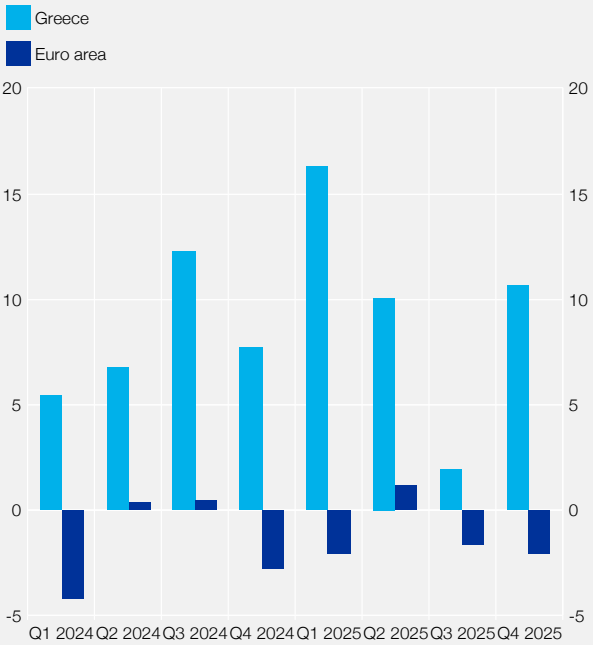
(in the corresponding period,[1] net percentage of respondents[2])



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 indicator (e.g. availability of bank loans) increased minus the percentage of firms reporting that it decreased.

Chart B Quarterly SME estimates of the change in the availability of bank loans to SMEs in Greece and the euro area

(in the corresponding period,[1] net percentage of respondents[2])



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 indicator (e.g. availability of bank loans) increased minus the percentage of firms reporting that it decreased.

1 The SAFE survey is conducted by the ECB on a quarterly basis, while an expanded round is conducted for the third quarter of each year in collaboration with the European Commission. 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.

2 The results refer to net percentages of respondents, which are defined as the percentage of SMEs reporting that a given factor (e.g. availability of bank loans) increased minus the percentage of those reporting that it declined.

a quarterly basis, in the fourth quarter of 2025, SMEs in Greece reported a strong further rise in the availability of bank loans (11%, from 2% in the previous quarter) (see Chart B), as well as increased availability of credit lines or bank overdrafts (6%, from -1% in the previous quarter). By contrast, in 2025:A, euro area SMEs continued to report a marginal decline in the availability of bank loans (-1%), while the availability of credit lines or bank overdrafts is estimated to have remained unchanged after having declined for six consecutive six-month rounds. In addition, in the fourth quarter of 2025, SMEs' responses in the euro area continued to show decreased availability of both bank loans (-2%) and credit lines or bank overdrafts (-3%).

As regards the factors that have an impact on the availability of external financing, SMEs in Greece continued to perceive the impact from banks' willingness to provide credit as significantly positive (2025:A: 20% and 2025:Q4: 20%), while in the euro area SMEs continued to report a muted positive impact (2025:A: 4% and 2025:Q4: 4%). In Greece, the overall impact of the factors determining SMEs' creditworthiness[3] was also very significant, while in the euro area SMEs perceived the impact of some of these factors to be negative. Regarding the sign of the impact of the general economic outlook,[4] SMEs in Greece reported a neutral impact for the 2025:A round and a negative impact for the fourth quarter of 2025 (-3%), while SMEs in the euro area continued to report a significant negative impact both in the 2025:A round (-20%) and the 2025:Q4 round (-22%).

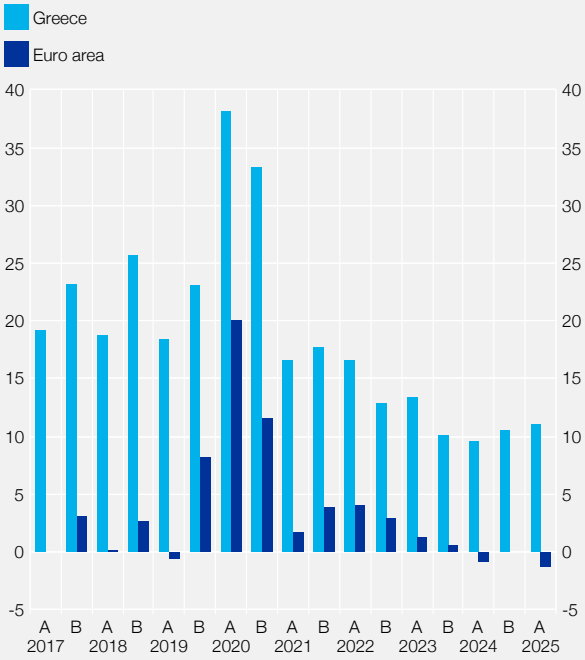
SMEs' bank financing needs (demand)

On a six-month basis, in the 2025:A round SMEs in Greece continued to report increased needs (i.e. demand) for bank loans (11%) (see Chart C) and a weaker (compared to the previous six-month period) increase in their needs for credit lines or bank overdrafts (7%). In the fourth quarter of 2025, SMEs in Greece also reported an increase in their needs for both bank loans (15%) and credit lines or bank overdrafts (15%) (see Chart D). In the euro area, in the 2025:A round SMEs reported a marginal decrease in their needs for bank loans (-1%), while continuing to report increased needs for credit lines or bank overdrafts (5%). Moreover, in the fourth quarter of 2025, SMEs in the euro area reported that their needs for bank loans remained unchanged, while continuing to report an increase in their needs for credit lines or overdrafts (6%).

In Greece, the percentage of SMEs that applied for a bank loan rose both in the 2025:A round (to 25%) and in the fourth quarter of 2025 (to 25%). Among the SMEs that applied for bank loans in Greece, in the 2025:A round, the percentage of those reporting that their application was rejected increased (19%, compared with 16% in the 2024:B round), while the percentage of applications that were fully or largely successful declined but remained high (47%, compared with 59% in the 2024:B round). In the fourth quarter of 2025, a markedly lower rejection rate coupled with a lower acceptance rate was recorded: 53% (compared with 59% in the third quarter)

Chart C Six-month SME estimates of the change in their needs for bank loans in Greece and the euro area

(in the corresponding period,[1] net percentage of respondents[2])



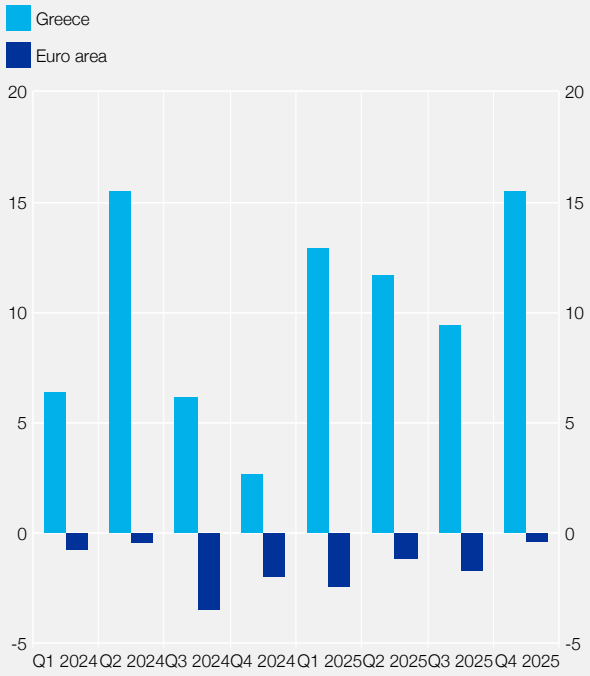
Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).
1 The survey is conducted every six months and covers the periods of April-September (round A) and October-March (round B).
2 The net percentage is the percentage of firms reporting that the indicator (e.g. needs for bank loans) increased minus the percentage of firms reporting that it decreased.

3 The percentage for "firm's creditworthiness" is a sum of the net percentages of three factors: (a) firm's credit history; (b) firm's own capital; and (c) firm-specific outlook.

4 The indicator measures the difference between (a) the percentage of SMEs reporting that the general economic outlook contributed to an increase in the availability of external financing over the six-month period under review and (b) the percentage of SMEs reporting that the general economic outlook did not contribute to an increase in the availability of external financing.

Chart D Quarterly SME estimates of the change in their needs for bank loans in Greece and the euro area

(in the corresponding period,[1] net percentage of respondents[2])



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 indicator (e.g. needs for bank loans) increased minus the percentage of firms reporting that it decreased.

of SMEs reported that their bank loan application was mostly, if not fully, successful, while a mere 3% (compared with 27% in the third quarter) of SMEs reported that their application was rejected by the bank.

In the euro area, the percentage of SMEs that applied for a bank loan increased marginally in the 2025:A round (to 19%), while it came to 17% in the fourth quarter of 2025. As regards the outcome of bank loan applications, the rejection rate declined in the 2025:A round (to 6% of the SMEs that applied, compared with 8% in the 2024:B round), while it remained unchanged in the fourth quarter of 2025. A higher percentage of SMEs reported that their application was fully or mostly successful in the 2025:A round (75%), but this percentage declined in the fourth quarter of 2025 (67%).

Bank financing terms and conditions

As regards bank financing terms and conditions, following successive increases between the 2021:B and the 2024:A rounds, SMEs in Greece reported a net decrease in bank interest rates[5] for the second six-month round in a row in the 2025:A round (-10%, compared with -17% in the 2024:B round) (see Chart E) and, similarly, in the fourth quarter of 2025 (-23%, compared with -24% in the third quarter) for the fifth quarter in a row (see Chart F). By contrast, in the euro area, SMEs reported a net increase in interest rates on bank loans both on a six-month (2025:A: 5%, 2024: B: 7%) and on a quarterly basis (2025:Q4: 13%, 2025:Q3: 5%). The results of the SAFE survey for Greece are consistent with the responses provided by credit institutions in the context of the Bank Lending Survey (see Box 15), in which banks also reported an easing of corporate loans' terms and conditions throughout 2025, stemming mainly from lower lending rates and a narrowing of the interest rate margin. For other costs of financing (charges, fees and commissions), the net percentage of SMEs reporting an increase in the 2025:A round declined significantly in Greece (7%, compared with 19% in the 2024:B round) and, to a lesser extent, in the euro area (27%, compared with 30% in the 2024: B round), while in the fourth quarter of 2025 a higher number of SMEs reported increases in Greece (net percentage 18%, compared with 14% in the third quarter), compared with a marginally higher number of SMEs in the euro area (net percentage 28%, compared with 27% in the third quarter).

Most important problems for SMEs

In the 2025:A round, most SMEs in the sample considered availability of skilled staff or experienced managers to be their main problem (26% of the SMEs in Greece and a similar percentage in the euro area). The next most significant problem reported by SMEs in Greece was rising production or labour costs (15%), as well as competition, which ranked alongside access to finance (14%), while the problems reported by SMEs in the euro area were finding customers (19%), production or labour costs (15%) and regulation (13%).

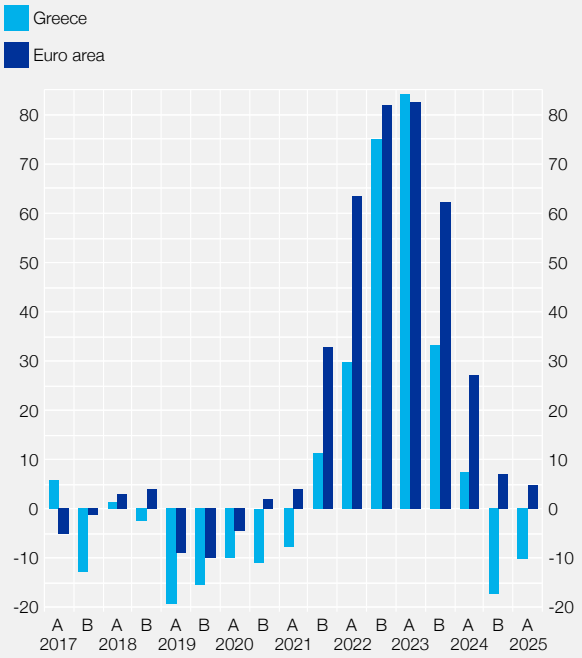
Conclusions

SMEs in Greece reported in 2025 increased availability of bank loans, attributing this to banks' growing willingness to provide credit and to an improvement in the factors determining SMEs' creditworthiness; at the same

5 Respondents were asked whether the bank had changed the level of interest rates on bank loans, overdrafts and credit lines.

Chart E Six-month SME estimates of changes in bank lending rates in Greece and the euro area

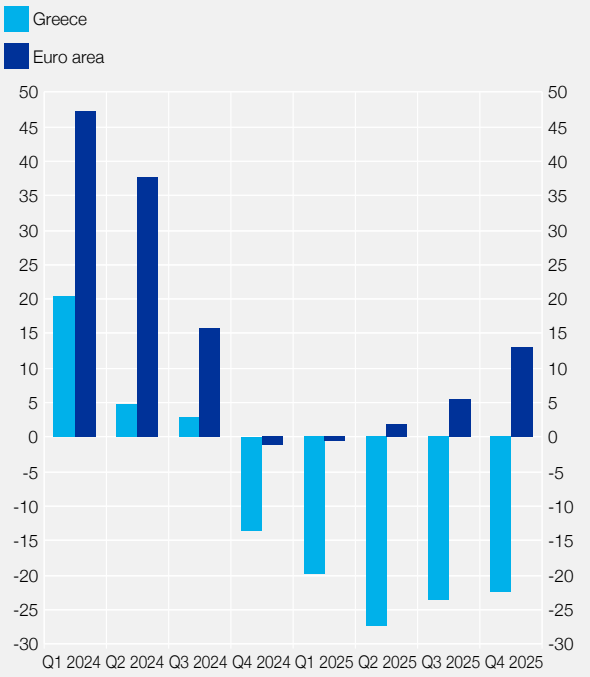
(in the corresponding period,[1] net percentage of respondents[2])



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 from April to September (Round A) and from October to March (Round B).
2 The net percentage is defined as the percentage of firms reporting that the indicator (e.g. the level of bank lending rates) increased, minus the percentage of firms reporting that the indicator decreased.

Chart F Quarterly SME estimates of changes in bank lending rates in Greece and the euro area

(in the corresponding period,[1] net percentage of respondents[2])



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 defined as the percentage of firms reporting that the indicator (e.g. the level of bank lending rates) increased, minus the percentage of firms reporting that the indicator decreased.

time, the impact of the general economic outlook was reported to be overall neutral. By contrast, SMEs in the euro area perceive the availability of bank loans to have marginally declined on account of banks' reduced willingness to provide credit and the negative impact of some factors determining SMEs' creditworthiness, while the impact of the general economic outlook was particularly negative. In addition, increased demand for bank loans was recorded in Greece, while bank loan demand in the euro area remained unchanged. As regards bank financing terms and conditions, SMEs in Greece continued to report a decline in the level of interest rates, reflecting the direct pass-through of recent ECB policy rate cuts, but reported increased charges, fees and commissions, while simultaneous increases in interest rates and in charges, fees and commissions were reported in the euro area.

Box VI.3

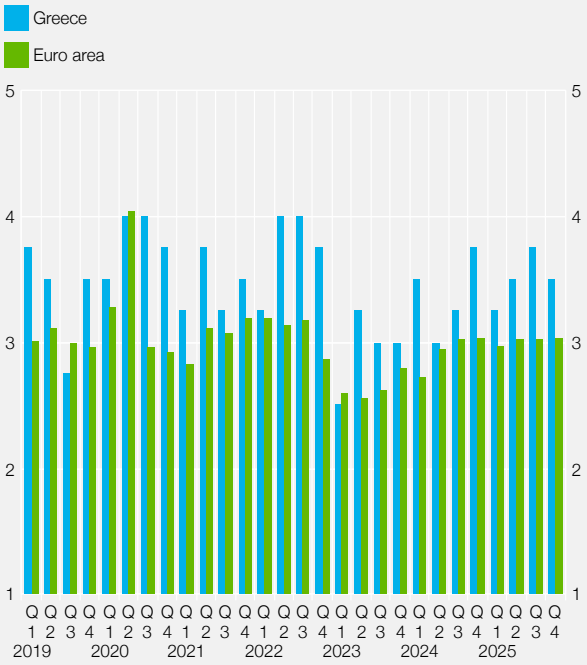
THE BANK LENDING SURVEY[1]

According to the latest rounds of the Bank Lending Survey, which look at developments in 2025 on a quarterly basis, credit institutions in Greece report increased demand, mainly for corporate and consumer loans. In the euro area, increases in demand across all loan categories were mostly reported. On the supply side, banks in

1 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.

Chart A Change in demand for loans by non-financial corporations in Greece and the euro area[1]

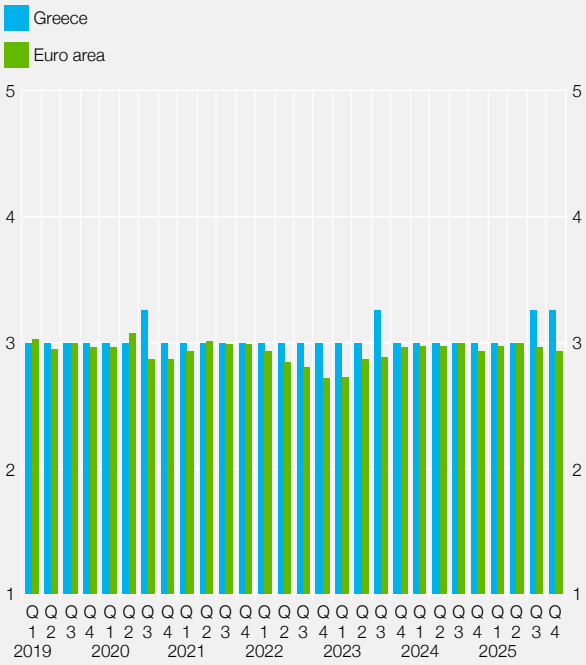
(in the corresponding calendar quarter; average[2])



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[1]

(in the corresponding calendar quarter; average[2])



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".

Greece did not report any substantial changes in credit standards[2] and terms and conditions[3] on loans to households, while terms and conditions on loans to enterprises eased somewhat throughout 2025, as did credit standards in the second half of the year. 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, in terms of both credit standards and terms and conditions, banks reported some easing in housing loans and a slight tightening in consumer loans.

Loan demand

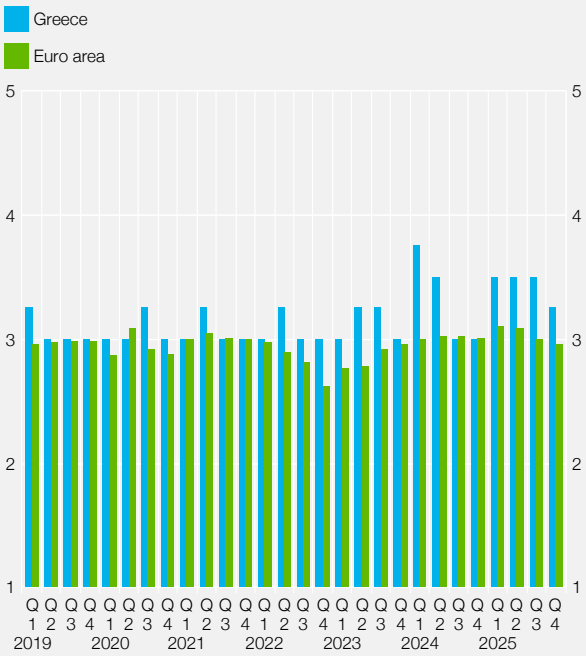
Credit institutions in Greece reported an increase in corporate loan demand in 2025 (see Chart A). Regarding the determinants of demand for loans to enterprises in Greece, banks reported a positive impact from lower interest rates overall and firms' increased financing needs for fixed investment, inventories and working capital, as well as for mergers/acquisitions and debt restructuring. At the same time, they reported that firms' relatively reduced use of alternative finance (such as loans from other banks and issuance of debt securities and, to a lesser extent, loans from non-banks, issuance of equity and internal financing) had a largely positive impact on loan demand. Euro area banks reported a marginal increase in corporate loan demand in 2025. At the same time, there was a marginally positive impact on demand from the lower general level of interest rates and from increased financing needs for debt restructuring.

2 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.
3 Loan terms and conditions are defined as the actual terms and conditions agreed in loan contracts, such as the interest rate margin, the level of fees/commissions or other non-interest rate charges, the maturity and size of loans, other loan clauses, etc.

As regards demand for housing loans, banks in Greece reported an increase in the first quarter of 2025, while they reported reduced demand for the next six months and stabilisation in the last quarter of the year. As regards the determinants of demand, a small positive impact was recorded in early 2025 from the lower general level of interest rates and improved consumer confidence. In the euro area, demand for housing loans rose in 2025, driven mainly by the lower general level of interest rates and better housing market prospects and, to a lesser extent, improved consumer confidence. As regards consumer loans, credit institutions in Greece reported mostly increases in demand, mainly reflecting improved consumer confidence and increased consumer spending and, to a lesser extent, the lower general level of interest rates. In the euro area, demand for consumer loans increased slightly in early 2025, mainly on account of the lower general level of interest rates.

Chart C Change in terms and conditions on loans to non-financial corporations in Greece and the euro area[1]

(in the corresponding calendar quarter; average[2])



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".

Loan supply

According to the banks surveyed, credit standards in Greece remained mostly unchanged for loans to households, except for some easing reported in the first quarter in housing loans. At the same time, throughout 2025, credit standard determinants for loans to households remained unchanged. As regards credit standards for loans to firms, credit institutions in Greece reported a slight easing in the second half of the year (see Chart B), mainly attributed to pressure from competition and improved borrower creditworthiness due to better prospects in specific sectors or businesses. In the euro area, credit standards for loans to enterprises mostly recorded a slight tightening in 2025 (see Chart B), mainly due to the deteriorating general economic outlook, as well as due to industry- or firm-specific outlook, as well as banks' reduced risk tolerance. As regards loans for house purchase, credit standards in the euro area have eased marginally overall, mainly reflecting pressure from competition. By contrast, with regard to consumer credit in the euro area, credit standards tightened somewhat throughout the year, mainly driven by the deterioration in consumers' creditworthiness and in the general economic outlook.

As regards terms and conditions on loans to enterprises in Greece, banks reported an easing throughout 2025 (see Chart C), mainly stemming from lower interest rates and a narrower interest rate margin, as well as improved other conditions (collateral requirements, loan maturity and covenants) and reduced non-interest rate charges. The responses from credit institutions are consistent with the results of the SAFE survey (see Box 14), according to which SMEs in Greece reported successive bank interest rate decreases. As for loans to households, banks in Greece reported that terms and conditions remained broadly unchanged. In the euro area, credit institutions reported a slight easing of terms and conditions on loans to enterprises in 2025 (see Chart C) in the first half of the year, mainly because of a small decrease in the interest rate margin on average-risk loans and a marginal decrease in non-interest rate charges. For consumer loans, banks in the euro area mostly reported some tightening of terms and conditions, associated with banks' risk perceptions and lower risk tolerance, as well as with increased interest rate margins on high-risk loans. By contrast, for housing loans, banks in the euro area reported some easing of terms and conditions, mainly driven by competitive pressures and a narrower interest rate margin on average-risk loans.

Conclusions

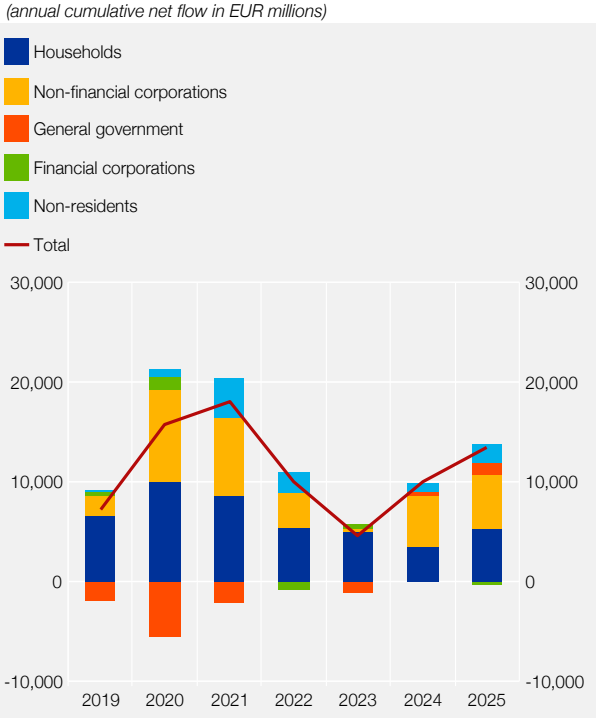
In 2025, Greek banks reported overall no change in credit standards and terms and conditions on loans to households, while some easing was recorded in both credit standards and terms and conditions on loans to enterprises. Credit institutions in the euro area reported overall a slight tightening of credit standards, coupled with a marginal easing of terms and conditions on loans to enterprises, while some easing was also recorded in both credit standards and terms and conditions on housing loans, along with a slight tightening on consumer loans. In terms of demand for loans, credit institutions in Greece reported increases for loans to enterprises and mostly for consumer loans. Over the same period, euro area banks reported increased demand, mainly for housing loans.

3 BANK DEPOSITS

In 2025, domestic private sector deposits recorded a cumulative rise of EUR 10.4 billion,[9] which was stronger than in 2024 (EUR 8.6 billion) but also the largest seen after the pandemic. The rise resulted from a significant and almost equivalent increase in corporate deposits and household deposits (see Chart VI.9). Outstanding private sector deposits stood in December 2025 at EUR 213.2 billion, the highest level recorded since June 2010. In 2025, domestic private sector deposits accounted for 85% of GDP, roughly as much as in 2024, which is higher than the average for the 2003-08 period, i.e. the first years after the euro cash changeover and prior to the global financial crisis. The bulk of banks' deposit base consists of household liquid assets (76% of private sector deposits), held mainly in overnight accounts.

Chart VI.9 Annual flow of domestic bank deposits (2019-2025)

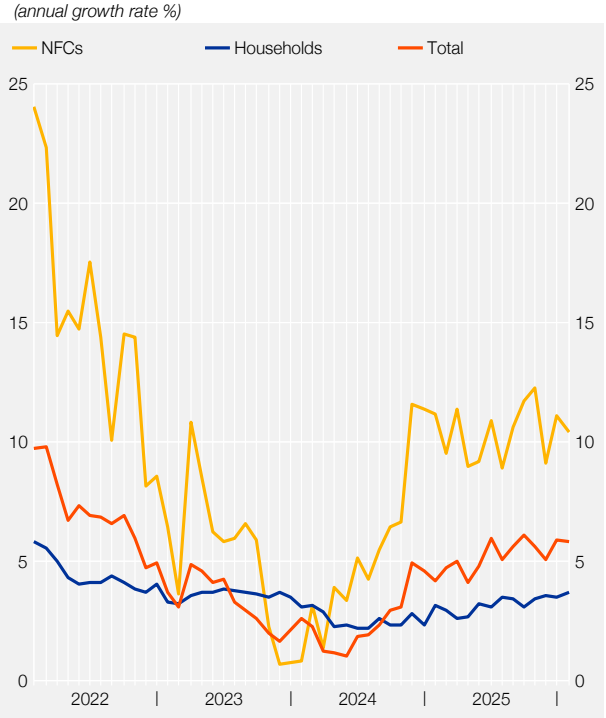
(annual cumulative net flow in EUR millions)



Source: Bank of Greece.

Chart VI.10 Deposits with domestic banks (January 2022 - January 2026)

(annual growth rate %)



Source: Bank of Greece.

9 Domestic private sector deposits include deposits by households, non-financial corporations, insurance undertakings and pension funds, and other financial institutions (excluding banks).

3.1 Households' and NFCs' deposits

In 2025, domestic households' deposits increased by EUR 5.3 billion, against an increase of EUR 3.5 billion in 2024, and their annual growth rate gathered pace (December 2025: 3.5%, December 2024: 2.4%; see Chart VI.10). The significant increase in households' deposits is associated with the rise in economic activity and favourable developments in the labour market. It was also underpinned by government measures to support households' income, as well as developments in bank loans to households, as in 2025 the years-long deleveraging of this sector finally ended and a positive net flow of lending was posted for the first time since 2010.

Deposits by firms grew by EUR 5.4 billion in 2025, compared with EUR 5 billion in 2024 (see Chart VI.9). Specifically, following an acceleration observed in the last quarter of 2024, the annual rate of increase in corporate deposits remained high over the course of 2025 (January 2025: 11%, December 2024: 11.4%; see Chart VI.10), a development which is in line with the strong rate of economic growth, firms' higher turnover and the robust credit expansion to NFCs over the reviewed year.

3.2 Overnight deposits and time deposits

In 2025, private sector overnight deposits recorded an increase (EUR 11.1 billion), coming mainly from households EUR 7.9 million and to a lesser extent from NFCs (EUR 3.2 billion). By contrast, time deposits recorded an overall slight decline, as the increase that came from NFCs (EUR 2.1 billion) was offset by a decrease (EUR 2.6 billion) in households' time deposits. It is noted that firms' time deposits rose despite a further decline in the interest rate on these deposits during 2025.[10]

On an annual basis, the twelve-month growth rate of private sector overnight deposits, which has turned positive since mid-2024, accelerated further in 2025 (December 2025: 7.5%, December 2024: 5.7%), in line with the rise in economic activity and the higher volume of transactions in the economy, while the corresponding rate of time deposits recorded a gradual slowdown, turning negative in April-December 2025 (December 2025: -0.8%, December 2024: 0.9%). The observed decline in time deposits is consistent with the lower ECB key interest rates, which led to a drop in the interest rate on time deposits, as well as with the observed shift in households' savings to alternative investments such as mutual fund shares/units. Indicatively, the interest rate spread between time deposits with an agreed maturity (of up to one year) and overnight deposits by households narrowed further by 56 basis points in 2025, compared with a decrease of 18 basis points in 2024.

3.3 Deposits of the general government and other sectors

In 2025, central government deposits with commercial banks increased by EUR 1.1 billion, while central government deposits with the Bank of Greece rose by EUR 1.4 billion. Deposits with commercial banks by social security funds and local government, which together with central government make up the general government sector, remained unchanged during the period under review. With regard to the other sectors, deposits by insurance undertakings and other financial institutions declined by EUR 0.3 billion, while total deposits by non-residents and residents of other euro area countries rose by EUR 2 billion (see Chart VI.9).

3.4 Prospects of private deposits

Demand for bank deposits is expected to move in lockstep with the rise in economic activity over the coming years. Specifically for households, demand for deposits will be affected by developments in the labour market and disposable income. Tax relief measures for households that will be implemented this year should also support deposits. On the other hand, the very

10 Specifically, the interest rate on new deposits with an agreed maturity of up to one year for NFCs declined by 85 basis points and stood at 1.7% at year-end, against 1.1% for households.

low level of bank deposit rates, both in nominal and in real terms, generally reduces the attractiveness of bank deposits as a store of wealth.

4 DEVELOPMENTS IN THE BANKING SECTOR

4.1 Profitability

The resilience of the Greek economy amid geopolitical tensions and economic uncertainty underpins the whole banking sector. As a result, banks continue to perform well, improving their profitability ratios. In 2025, net profits of Greek banks (both significant and less significant) as a whole increased considerably, mainly as a result of higher net lending to the real economy and improved net income from fees and commissions and other sources, as well as some exceptional factors.[11] Thus, Greek banks' return on equity (RoE) remained high. European banks' results for the same period were also positive, with net profitability rising, however, to a lesser extent than in previous years.

Table VI.1 Financial results of Greek banks

(amounts in EUR millions)

	2024	2025	Change (%)
Operating income	**11,804**	**11,861**	**0.5**
Net interest income	9,002	8,662	-3.8
– Interest income	16,279	14,850	-8.8
– Interest payments	-7,277	-6,188	-15.0
Net non-interest income	2,801	3,200	14.2
– Net fee and commission income	2,126	2,387	12.3
– Trading income	417	340	-18.5
– Other income	258	473	83.1
Operating expenses	**-4,250**	**-4,554**	**7.2**
Staff costs	-2,191	-2,274	3.8
Administrative costs	-1,396	-1,598	14.4
Depreciation	-662	-682	3.0
Net income (operating income – operating expenses)	**7,554**	**7,307**	**-3.3**
Loan-loss provisions	-1,216	-1,152	-5.3
Other impairment losses[1]	-814	-282	-65.3
Non-recurring profits/losses	-80	-49	-39.4
Profits/losses before tax	**5,444**	**5,824**	**7.0**
Taxes	-1,313	-1,123	-14.5
Profit/losses from discontinued operations	50	15	-70.0
Profit/losses after tax	**4,181**	**4,716**	**12.8**

Source: Bank of Greece.
1 Impairment of securities and of tangible and intangible assets.

During the same period, core operating income (i.e. net interest income and net fee and commission income) remained almost unchanged, as the increase in net fee income offset the decrease in net interest income, which resulted from the Eurosystem key interest rate cuts (see Table VI.1). Net interest income was mainly supported by net credit expansion, among other things, due to increased credit combined with the use of RRF resources. Net fee and commission income rose notably, boosted by fees from portfolio management and payments, contributing to the diversification and resilience of income. Higher net income after tax was also supported by reduced provisions for credit risk, in line with the improvement in the quality of banks' assets, while it was mitigated by higher operating costs. Nevertheless, the cost-to-income ratio remained almost unchanged, below the European average.

The strong performance of Greek banks in 2025 creates the conditions for them to continue to improve their profitability in the current year as well, enabling significant banks to achieve their medium-term objectives for an increase in their loan portfolios and supporting their plans to step up the amortisation of deferred tax credits (DTCs). In this context, banks' results are expected to be supported, among other things, by the resilience of net interest income, as increased lending amid favourable domestic economic conditions is estimated to largely offset pressures on net interest margin due to the ECB policy rate cut in the previous period.

11 Specifically, the positive contribution came from extraordinary deferred tax income arising from the merger by absorption of Alpha Services and Holdings by Alpha Bank, as part of a hive-down reversal, as well as from lower asset impairments due to one-off factors in 2024.

4.2 Capital adequacy

In 2025 Greek banks' capital adequacy ratios remained high, despite strong credit expansion. The total capital ratio benefited, in addition to increased net profitability, from the issuance of Additional Tier 1 (AT1) capital instruments and Tier 2 bonds. In 2025, AT1 securities amounting to EUR 2.2 billion and Tier 2 bonds of a nominal value of EUR 1.4 billion were issued, while in the year to date the corresponding amounts are EUR 0.5 billion and EUR 0.4 billion. Moreover, significant banks continued to issue senior bonds, in line with the minimum requirement for own funds and eligible liabilities (MREL). In 2025 they issued bonds totalling EUR 3.8 billion, while since the beginning of 2026 bonds amounting to EUR 1.4 billion have been issued on favourable financing terms (see Chapter IX). It is noted that Greek banks have accelerated green bond issuance in recent years, with the nominal value of green bonds amounting to EUR 5.5 billion, which corresponds to about one-third of total outstanding senior bonds.

Table VI.2 Banks' key financial indicators

(percentages)

		2024	2025
Profitability			
Return on equity	Greece	11.6	11.7
	Euro area	9.5	9.5
Return on assets	Greece	1.2	1.3
	Euro area	0.7	0.7
Loan portfolio quality			
Non-performing exposures (NPE) ratio	Greece	3.8	3.3
	Euro area	2.3	2.2
Stage 2 loans ratio	Greece	7.4	6.6
	Euro area	9.9	9.3
Capital adequacy			
CET1 ratio	Greece	16.0	15.2
	Euro area	16.0	16.2
Total capital ratio	Greece	19.8	19.7
	Euro area	20.1	20.3
Liquidity			
Liquidity coverage ratio	Greece	215.2	200.0
	Euro area	158.3	158.6
Loan-to-deposit ratio	Greece	68.8	70.6
	Euro area	100.3	100.5

Sources: Bank of Greece and ECB.
Note: The indicators refer to data on a consolidated basis for the significant and less significant banks in Greece as well as for the significant banks in the euro area, with the exception of the portfolio quality indicators for Greece, which are calculated on a solo basis.

4.3 Asset quality

The quality of the loan portfolio of significant euro area banks as a whole remained unchanged in December 2025 compared with end-2024, while that of Greek banks improved slightly during the same period. More specifically, the non-performing exposures (NPE) ratio at the euro area level remained close to historic lows at end-2025. For Greek banks, the NPE ratio on a solo basis declined at end-2025, moving even closer to the European average (see Table VI.2). Moreover, the ratio of performing loans whose credit risk has increased since initial recognition (Stage 2) to total loans also dropped (on a solo basis), remaining steadily below the European average. It is noted that banks in their medium-term plans expect a further convergence of the NPE ratio towards the European average.

4.4 Liquidity

The liquidity of euro area and Greek banks remained high. Specifically for Greek banks, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) fell slightly in 2025 compared with the end of 2024. Both ratios, however, stood well above the prudential requirements and the respective euro area averages. Furthermore, the loan-to-deposit ratio remains significantly lower for Greek banks than for euro area banks, reflecting on the one hand the favourable liquidity conditions in the domestic banking sector and on the other hand a possible acceleration of credit growth.

4.5 Prospects

The enhanced resilience of Greek banks has been recognised both in institutions' official reports and in the reports of credit rating agencies. Specifically, the results of the 2025 EU-wide stress test exercise confirmed the resilience of Greek banks, which, even under the severe macroeconomic scenario for the euro area, would maintain capital levels comfortably above regulatory

requirements and higher than the European average. Additionally, the positive developments in Greek banks' credit ratings in 2025 (upgrades by S&P in January by Morningstar-DBRS in March and April by Moody's in March and October and by Fitch in April and October) continued also into 2026. In particular, S&P upgraded the outlook of Greek banks to positive in January, reflecting a projected increase in profitability, which will positively affect capital adequacy and liquidity ratios as well as asset quality. More recently, Moody's revised the Greek banking system's outlook to stable (from positive), underscoring, however, that it expects banks' fundamentals to remain robust in the medium term and their asset quality to improve further amid favourable macroeconomic conditions. As a result of the aforementioned developments, credit ratings for the four significant banks are within investment grade territory, with the most favourable ratings being at BBB+, i.e. one notch below A category.

Greek banks' enhanced resilience is supporting the expansion of their activities and the formulation of new extroversion strategies. Three significant banks have already completed in the second half of 2025 mergers through absorption of holding companies. Furthermore, new partnerships were observed, as well as acquisitions and mergers with foreign banks and companies of the greater financial sector. These developments reflect banks' improved fundamentals and ongoing upgrades by credit rating agencies, creating favourable prospects for their activities in the future, despite heightened risks from the external environment.

In conclusion, the financial results of the banking sector as a whole are expected to improve further in 2026, as banks will remain committed to raising net interest income, containing operating costs and further increasing income from fees and commissions. Nevertheless, uncertainties surrounding the international financial system are elevated and seen as sources of potential risks for euro area banks and the Greek banking sector. In the face of such external risks, it is important for banks to maintain high capital buffers, apply prudent lending standards and achieve sustainable profitability ratios, so that continued improvements in their financial results and potential further credit rating upgrades can act as a bulwark against an environment of mounting uncertainty. Banks' strong performance is in turn expected to provide a solid foundation for the smooth financing of businesses, contributing to rising investment and faster economic growth rates.

VII INSURANCE MARKET OVERVIEW

The insurance market has been in a process of transformation in recent years, partly as a result of its efforts to respond to economic conditions, geopolitical developments and the – rapidly increasing – demands for innovation and digital adaptation. It is significant that, in 2025, decisions were taken to approve the acquisition of holdings in the share capital of insurance undertakings, which in many cases reflect their dynamic relationship with the credit institutions acquiring the holdings.

At the same time, the insurance industry has to deal with the challenges of rising compensation and operating costs, as well as the increasing incidence of climate extremes affecting the resilience of its business models.

In the context of its supervision of the private insurance sector, the Bank of Greece ensures, inter alia, the compliance of insurance distribution networks with their legal obligations and the protection of policyholders from the business practices of insurance market operators, within the framework of the supervisory legislation provisions. Since April 2025, the Bank of Greece has been able to use mystery shopping as a supervisory tool by carrying out anonymous inspections on supervised entities (see Box VII.1). This practice allows for more effective monitoring of compliance with legislation, the immediate detection of infringements as well as increased transparency, and can contribute decisively to improving supervision and enhancing confidence in the private insurance institution.

1 KEY AGGREGATES OF THE PRIVATE INSURANCE MARKET[1]

On 30 September 2025, the Greek private insurance market consisted of 34 active insurance undertakings,[2] 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.[3] Of the 31 insurance undertakings subject to the provisions of Solvency II, 11 belong to insurance groups with their

1 The cut-off date for information and data used in this chapter is 31.1.2026.
2 Excluding the mutual insurance cooperatives referred to in the first subparagraph of Article 7(1) of Law 4364/2016.
3 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.

Table VII.1 Gross written premiums and claims incurred

(EUR billions)

	Life insurance		Non-life insurance	
	Jan.-Sep. 2024	Jan.-Sep. 2025	Jan.-Sep. 2024	Jan.-Sep. 2025
Gross written premiums	2.06	2.09	1.93	2.14
Claims incurred	1.69	1.68	0.79	0.85

Source: Bank of Greece.

parent undertaking in other Member States, 7 to insurance groups that are under the supervision of the Bank of Greece and the remaining 13 are not part of an EU-based group.

In addition, with reference date 31.12.2024, 8 insurance undertakings based in Greece operate in other EU countries under the freedom to provide services.

Furthermore, according to the latest available data from the European Insurance and Occupational Pensions Authority (EIOPA), as at 31 December 2024, 186 insurance undertakings with their head office in another EU Member State were 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 2024 amounted to EUR 416 million for branches and EUR 1,219 million for business conducted during the above reference period under the freedom to provide services, corresponding to 6% and 17% of the total Greek insurance market.

The financial data presented below (with reference date 30.9.2025) 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[4] in the period January-September 2025 stood at EUR 2.1 billion, up by 1% compared with the same period a year earlier. Of this amount, EUR 1.0 billion is linked to investments, up by 5%, and accounts for 47% of total gross written premiums of life insurance business, compared with 45% in the same period of 2024. At the same time, gross written premiums rose by 2% in insurance with a profit share and decreased by 17% in other life insurance business. The premiums for non-life insurance business[5] in the same period amounted to EUR 2.1 billion, up by 11% year-on-year. Of this amount, the largest market shares are held by motor third-party liability insurance (28%), fire insurance (23%) and hospital expenses insurance (18%), with premium changes of 7%, 13% and 15%, respectively, compared to the first nine months of 2024. Over the same period (January-September 2025), claims incurred amounted to EUR 1.7 billion for life insurance, marginally down by 0.8% year-on-year, and to EUR 0.8 billion for non-life insurance, up by 8% (see Table VII.1).

In non-life insurance, the loss ratio on 30.9.2025 remained unchanged at 52% of premiums earned in the same period, while the cost ratio (administration expenses and commissions) also remained unchanged year-on-year at 47%.

The total assets of insurance undertakings supervised by the Bank of Greece stood at EUR 21.8 billion on 30.9.2025, up by 3% compared to 31.12.2024. Of the total assets, EUR 7.4 billion

4 Including life insurance business of composite insurance undertakings.
5 Including non-life insurance business of composite insurance undertakings.

(34%) were held in government bonds and EUR 3.1 billion (14%) in corporate bonds. Turning to the credit rating of these assets, 97% of government bonds and 89% of corporate bonds were rated BB- and above. In addition, an amount of EUR 6.1 billion (28%) concerned insurance investments whose investment risk is borne by policy holders (see Table VII.2).

Total liabilities of insurance undertakings amounted to EUR 17.6 billion on 30.9.2025, compared with EUR 17.5 billion on 31.12.2024, with total technical provisions standing at EUR 16.0 billion on 30.9.2025, of which EUR 12.4 billion related to life insurance and EUR 3.6 billion to non-life insurance. Of life technical provisions, 44% refer to investment-linked life insurance (compared with 40% on 31.12.2024) (see Table VII.3).

The equity of the insurance market stood at EUR 4.2 billion on 30.9.2025, up by 11% compared with 31.12.2024. The total Solvency Capital Requirement (SCR)[6] amounted to EUR 2.3 billion and total eligible own funds stood at EUR 4.1 billion. As regards the quality of the eligible own funds of the insurance market, 93% 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)[7] for the entire insurance market amounted to EUR 0.8 billion and the corresponding total eligible own funds to EUR 3.8 billion.

Table VII.2 Structure of assets of insurance undertakings

(EUR billions)

	31.12.2024	30.9.2025
Government bonds	7.5	7.4
Corporate bonds	2.9	3.1
Undertakings for collective investment	1.4	1.4
Deposits, cash and cash equivalents	0.5	0.5
Assets held against index-linked insurance or investment-linked insurance plans	5.4	6.1
Other assets	3.5	3.3
Total assets	**21.2**	**21.8**

Source: Bank of Greece.

Table VII.3 Structure of liabilities of insurance undertakings

(EUR billions)

	31.12.2024	30.9.2025
Technical provisions – life insurance	7.3	7.0
Technical provisions – index-linked insurance or investment-linked insurance plans	4.9	5.4
Technical provisions – non-life insurance	3.6	3.6
Other liabilities	1.7	1.6
Total liabilities	**17.5**	**17.6**

Source: Bank of Greece.

2 KEY AGGREGATES OF OCCUPATIONAL INSURANCE

As at 30.9.2025, 27 Occupational Pension Funds (OPFs) from the public sector, shipping, banking and other professional sectors (such as those of economists, geotechnical engineers, police officers, fire service and coast guard personnel) were active in Greece, numbering more than 55 thousand members. As of 1.1.2025, the supervision of OPFs, which fall under the second pillar of insurance, has been assigned to the Bank of Greece.

The total assets of OPFs supervised by the Bank of Greece stood at EUR 576.6 million on 30.9.2025, up by 14% compared to 31.12.2024.

Of the total assets, EUR 98.1 million (17%) were held in bonds (compared with EUR 131.5 million on 31.12.2024), of which EUR 81.7 million in government bonds (compared with EUR 112.4 million on 31.12.2024) and EUR 16.4 million in corporate bonds (compared with EUR 19.1 mil-

6 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.

7 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.

Table VII.4 Structure of assets of OPFs

(EUR millions)

	31.12.2024	30.9.2025
Bonds	131.5	98.1
Undertakings for collective investment	331.9	442.0
Cash and cash equivalents	15.0	12.2
Stocks	8.7	11.3
Other assets	19.3	13.1
Total assets	**506.5**	**576.6**

Source: Bank of Greece.
Note: Figures may not add up due to rounding.

Table VII.5 Structure of liabilities of OPFs

(EUR millions)

	31.12.2024	30.9.2025
Technical provisions	471.1	549.6
Other liabilities	18.8	8.0
Total liabilities	**489.9**	**557.6**

Source: Bank of Greece.

lion on 31.12.2024). In addition, EUR 442.0 million (77%) were held in undertakings for collective investment (compared with EUR 331.9 million on 31.12.2024) (see Table VII.4).

Total liabilities amounted to EUR 557.6 million (compared with EUR 489.9 million on 31.12.2024), with technical provisions amounting to EUR 549.6 million (compared with EUR 471.1 million on 31.12.2024), i.e. 98.6% of total liabilities (see Table VII.5).

3 REGULATORY DEVELOPMENTS

In 2025, there were several important legislative developments concerning the insurance market and occupational insurance. Thus, the following Bank of Greece Executive Committee Acts (ECAs) pertaining to the insurance market were adopted:

3.1 ECA 243/4/07.07.2025 "Reporting mechanism for potential or actual breaches of the provisions of Law 4583/2018 (Government Gazette A 212)"

Following the publication of Article 76 of Law 5193/2025, which replaced a previous provision of Law 4583/2018 on the reporting of breaches to the Bank of Greece, a decision of the Executive Committee of the Bank of Greece was published on 10.7.2025 in the Government Gazette, by authority of the said provision. This decision establishes a reporting mechanism for potential or actual breaches (whistleblowing), through which complaints may be submitted about impending or already committed breaches of the provisions of Law 4583/2018, with a view to detecting, investigating and addressing them in a timely manner. In this context, the Bank of Greece website was enriched with a webpage dedicated to the relevant procedure,[8] to inform policyholders and any interested parties.

3.2 ECA 245/3/02.09.2025 "Amendment to Bank of Greece Executive Committee Act No 60/12.02.2016 'Adoption of Guidelines of the European Insurance and Occupational Pensions Authority (EIOPA) on the system of governance (EIOPA-BoS-14-253/28.1.2015)' (Government Gazette B 405)"

On 8.9.2025, a decision of the Executive Committee of the Bank of Greece was published in the Government Gazette, amending ECA No 60/12.02.2016 as regards the fit and proper questionnaire for persons proposed as members of the management of an insurance undertaking and as key function holders. These amendments enhance transparency and compliance with the General Data Protection Regulation (GDPR), as they provide for data subjects to be informed about the processing, storage and possible transmission of their personal data by the Bank of Greece in the exercise of its supervisory responsibilities.

8 Insurance distribution – Reports of breaches of article 45 of Law 4583/2018 (in Greek).

3.3 ECA 245/4/02.09.2025 "Amendment to Bank of Greece Executive Committee Act No 120/11.07.2017 'Prudential assessment of the acquisition and increase of qualifying holdings in an insurance or reinsurance undertaking' (Government Gazette B 2619)"

On 11.9.2025, a decision of the Executive Committee of the Bank of Greece was published in the Government Gazette, amending ECA No 120/11.07.2017 as regards the prudential assessment procedure for the acquisition and increase of qualifying holdings in an insurance or reinsurance undertaking. The amendment aims to update the questionnaires and documentation to be submitted and to clarify procedural issues.

Box VII.1

INVESTIGATIONS AND INSPECTIONS WITH ANONYMITY BY THE BANK OF GREECE (MYSTERY SHOPPING)

In the context of private insurance supervision, the Bank of Greece is responsible, *inter alia*, for the compliance of insurance distribution networks with the requirements of the legislation in force, as well as for the supervision of their business practices, with a view to consumers' protection.

In order to carry out its responsibilities, the Bank of Greece has in place processes and supervisory tools, such as remote or physical visits to insurance undertakings and/or insurance intermediaries. Mystery shopping has been included in the Bank's supervisory toolkit since April 2025, following the revision of Law 4583/2018 (Government Gazette A 212/18.12.2018) on insurance distribution.

In particular, the Bank of Greece may assign its staff or external associates to visit supervised entities, as well as any entity carrying out activities that fall within its supervisory remit, as potential or existing insurance customers without divulging their identity or the purpose of their visit. The external associates of the Bank of Greece are bound by official and professional secrecy and use the data collected exclusively for the purpose of the assignment.

Prior to the launch of each investigation, a relevant announcement is posted on the Bank of Greece's website, stating the relevant legal provisions, the start date and the duration of the exercise, while the Bank may notify the European Insurance and Occupational Pensions Authority (EIOPA) of the investigations carried out, providing information on the scope and findings of the exercise, while maintaining the anonymity of the supervised entities. Mystery-shopped entities include distributors of insurance and reinsurance products active in Greece, irrespective of their home country.

The main advantage of this new supervisory tool is that it enhances the effectiveness of supervision of the insurance market, with a direct benefit for customers (existing or new). More specifically, mystery shopping enables the Bank of Greece to carry out a more realistic market supervision, as it can verify in practice whether supervised entities comply with the legislation on the distribution of insurance products by providing the required documentation or information. In addition, consumer protection is strengthened, as any misleading practices, inadequate information and breaches of transparency obligations towards consumers are identified in a timely manner.

The findings and conclusions drawn from the use of the new supervisory tool are an important input to the Bank of Greece's supervisory work. In this context, once breaches of the provisions of insurance distribution legislation have been identified, the Bank may take appropriate supervisory action to ensure that supervised entities comply with the relevant legislation in force.

In summary, the ability to conduct unannounced and anonymous inspections serves as a prudential supervisory tool, strengthening supervised entities' compliance with the regulatory framework. Effective supervision contributes to enhancing confidence in the private insurance sector. Finally, the revision of the legal framework is in line with modern supervisory methods already applied in other EU Member States and enhances cooperation with EIOPA.

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 2025, the CCyB rate was maintained at 0.25%, effective from 1 October 2025. In the fourth quarter of 2025, the Bank of Greece increased the CCyB rate for Greece by 0.25% to 0.5%, and, in January 2026, maintained it at this level, i.e. at the positive neutral countercyclical capital buffer (PN CCyB) target rate, effective from 1 October 2026.[1]

In addition, the Bank of Greece identified Other Systemically Important Institutions (O-SIIs) in Greece for the year 2025 and set the O-SII buffer rate for 2026 at 1.25% for Eurobank Ergasias Services and Holdings S.A. on a consolidated basis, and at 1% for the other O-SIIs: Alpha Bank S.A. on a solo and consolidated basis, National Bank of Greece S.A. on a solo and consolidated basis, Piraeus Financial Holdings S.A. on a consolidated basis and Piraeus Bank S.A. on a solo basis, and Eurobank S.A. on a solo basis.

Finally, the Bank of Greece has activated macroprudential borrower-based measures applicable to loans and other credit to natural persons secured by residential real estate, which came into effect on 1 January 2025.[2]

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 at 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.[3] 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.[4]

In October 2024, by virtue of Executive Committee Act 235/1/07.10.2024,[5] the Bank of Greece adopted a framework for a positive neutral countercyclical capital buffer (PN CCyB). In this context, the CCyB rate is set over 0% during a phase of the economic and financial

1 The CCyB rate is determined by an Executive Committee Act and takes effect 12 months after its official announcement.
2 The cut-off date for information and data used in this chapter is 31.3.2026.
3 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.
4 The total risk exposure amount is calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013.
5 "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



Source: Bank of Greece.
A: Recovery phase.
B: Standard risk environment.
C: Cyclical risk build-up phase.
D1: Crisis period/downturn - full release.
D2: Crisis period/downturn - partial release.

cycle in which risk is at a standard level (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 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 wake of a systemic crisis, the CCyB rate is maintained at zero to encourage credit supply and facilitate the smooth flow of 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.

The Bank of Greece, under Law 4261/2014 (Article 127),[6] assesses the intensity of cyclical systemic risks and the appropriateness of the CCyB rate for Greece on a quarterly basis, and sets or adjusts it, if necessary.

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 step, 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 Greece, the "standardised credit-to-GDP gap" has remained in negative territory since 2012. In the third quarter of 2025, it stood at -21.0 percentage points, compared with -21.8 in the previous quarter. It should be noted that the third quarter of 2025 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[7] (buffer guide), as defined in paragraph 3(a) of recommendation B of Recommendation ESRB/2014/1, is zero.

In addition to the "standardised credit-to-GDP gap", the Bank of Greece also examines a number of additional indicators to monitor the build-up of cyclical systemic risks.[8] 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 October 2024, the Bank of Greece set the CCyB rate for Greece at 0.25%, effective from 1 October 2025.[9] In the first three quarters of 2025 the Bank of Greece maintained the CCyB rate unchanged at 0.25%, reflecting its analysis of additional variables, which pointed to emerging cyclical systemic risks in specific areas, such as financing to non-financial corporations, residential real estate prices and the current account, while confirming the absence of excessive credit growth and leverage.

Cyclical systemic risks in Greece for Q4 2025 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, the further improvement of bank fundamentals and prudential ratios, as well as the restructuring of less significant banks, the Bank of Greece raised the CCyB rate for Greece by 0.25 % to 0.5 %, i.e. the PN CCyB target rate, effective from 1 October 2026.[10] In the first quarter of 2026, the CCyB rate remained unchanged at 0.5%, given that the assessment of cyclical systemic risks in Greece for that quarter showed that they remain limited in a standard risk environment.

6 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.

7 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".

8 For detailed definitions see Bank of Greece Executive Committee Act 235/1/07.10.2024.

9 See Bank of Greece Executive Committee Act 235/2/07.10.2024.

10 See Bank of Greece Executive Committee Act 248/1/06.10.2025.

2 IDENTIFICATION OF OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS (O-SIIS) IN GREECE AND SETTING OF THE O-SII BUFFER RATE

An O-SII buffer[11] 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 and specified further by ECA 221/1/17.10.2023. In accordance with 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. Competent authorities may designate further relevant entities as O-SIIs based on additional qualitative and/or quantitative indicators of systemic importance.

Table VIII.1 Mandatory scoring indicators for O-SIIs in Greece

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
Cross-border activity	Value of OTC derivatives (notional)	8.33
	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.

In calculating the systemic importance scores for credit institutions authorised in Greece, the Bank of Greece used the mandatory indicators only (see Table VIII.1) and selected a threshold of 350 bps.

On the basis of the above, the following credit institutions were designated as O-SIIs for 2025: Alpha Bank S.A., National Bank of Greece S.A., Piraeus Financial Holdings S.A. and Eurobank Ergasias Services and Holdings S.A.

By Bank of Greece Executive Committee Act 246/1/15.09.2025, the Bank of Greece decided to set the O-SII buffer rate for 2026 as follows:

11 Other systemically important institutions are contrasted with those identified as global systemically important institutions (G-SIIs).

- 1.25% for Eurobank Ergasias Services and Holdings S.A. on a consolidated basis;[12] and
- 1% for the following O-SIIs: Alpha Bank S.A. (on a solo and consolidated basis), National Bank of Greece S.A. (on a solo and consolidated basis), Piraeus Financial Holdings S.A. (on a consolidated basis) and Piraeus Bank S.A. (on a solo basis), and Eurobank S.A. (on a solo basis).

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. In the context of 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, the cap percentages, the types of credit to which BBMs apply, as well as 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[13] and 80% for second and subsequent buyers. Additionally, the cap on the debt service-to-income ratio at origination (DSTI-O ratio) is 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 above-mentioned caps. Compliance with the exemption quotas is assessed separately for first-time buyers and for second and subsequent buyers. The above-mentioned BBMs shall not apply to non-performing loans and forborne loans, portfolios of re-performing loans purchased by credit institutions from credit servicers, as well as to loans disbursed under national housing policy or green transition programmes.

12 It should be noted that, on 12 December 2025, the merger by absorption of Eurobank Ergasias Services and Holdings S.A. by Eurobank S.A. was completed, and the rate of 1.25% is therefore applied to Eurobank S.A. on a consolidated basis.

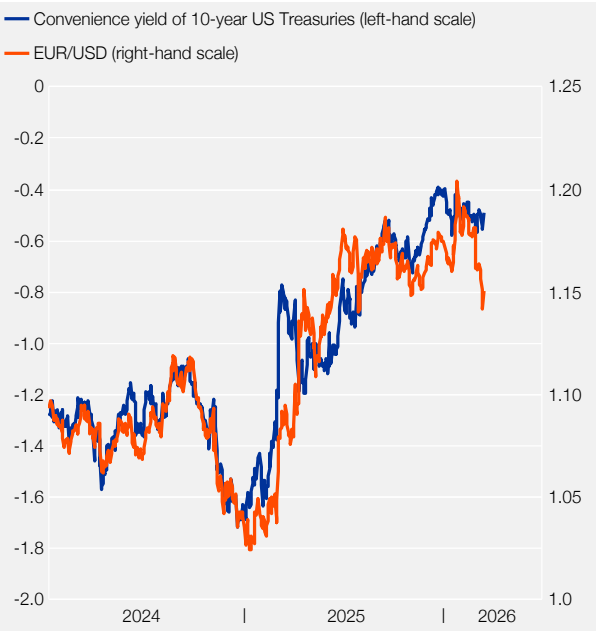
13 First-time buyer is a borrower who, at the time of approval of the loan, does not have an existing loan relating to residential property.

IX CAPITAL MARKETS

In 2025, global financial conditions improved further, mainly as a result of monetary policy normalisation in the euro area and the United States over the past few years.[1] *At the same time, long-term US Treasury yields declined less than short-term yields, amid uncertainty related to institutional interventions and an economic policy pivot in the United States. In April-May 2025, after the announcement of planned US tariffs on trading partners, a market sell-off in the United States and outflows from US Treasuries as well as inflows into euro area government bonds were observed, followed by weak inflows into US Treasuries compared with euro area government bonds. This led to a decline in the convenience yield of US Treasuries, explaining almost entirely the appreciation of the euro vis-à-vis the US dollar during that time. Both these developments continued until the end of 2025 (see Chart IX.1).*

Chart IX.1 Convenience yield of US Treasuries and EUR/USD exchange rate

(daily data, yields in percentages %)



Source: Bank of Greece using LSEG data.
Note: The convenience yield captures the premium that arises from holding a US federal bond rather than a German bond with the same maturity, after converting cash flows into US dollars. Negative values refer to the extra cost or penalty that investors holding US Treasuries are willing to pay, relative to investing in bonds of the same maturity and quality, with payments in US dollars (using foreign exchange derivatives) adjusted for the coupon differential.

During the turmoil of April 2025, euro area government bond yields decreased, thanks to inflows of funds into European bonds and equities after selloffs in US securities markets. Greek government and corporate bonds as well as shares have also benefited from this development, highlighting international investors' enhanced confidence in Greek securities. Since the beginning of 2026, volatility in international financial markets has risen sharply, mainly due to the upward revision of investor expectations about inflation and key interest rates in the euro area and the United States, especially after the outbreak of the war in the Middle East. Furthermore, global doubts about the return on investment in high-tech companies has driven down the prices of technology stocks, also affecting the entire financial system, in particular that of the United States.

In the current environment of increased uncertainty worldwide, it becomes all the more important to maintain and enhance the improved status of Greek securities. A key contributor to this goal would be further upgrades of Greece's sovereign credit rating, resulting from the expected continuation of prudent fiscal policies, reforms and improvements in macroeconomic aggregates (see Box IX.1), with very positive spillovers to the economy as a whole (see Box IX.2). Thus, it is clear that the improved domestic economic environment in recent years has played its part, especially in a highly volatile external environment.

1 The cut-off date for data and information used in this chapter is 23 March 2026.

1 INTERNATIONAL MONEY AND CAPITAL MARKETS

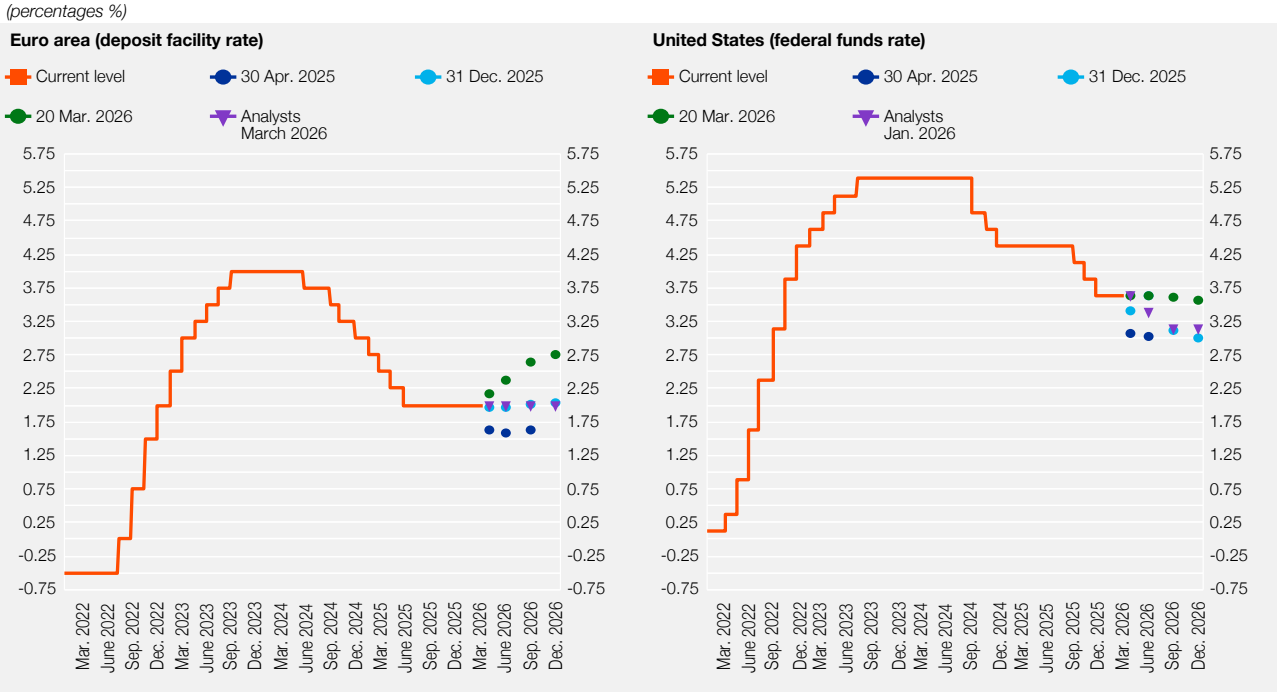
1.1 Money markets

Until late February 2026, global monetary conditions were anticipated to remain neutral or turn accommodative within the year. Until 27 February 2026, interest rate derivative (IRD) markets had been expecting that in the euro area the ECB would keep key interest rates unchanged until end-2026, whereas the US Federal Reserve (Fed) would lower its policy rate by 25 and/or 50 basis points (bps) during the year.

However, after the outbreak of the Middle East conflict, IRD prices have been pointing to revised investor expectations of higher key interest rates in both the euro area and the United States relative to late February. In the euro area, €STR overnight index swap (OIS) rates had changed considerably by late March, suggesting that investors are factoring in two interest rate hikes of 25 bps each, without ruling out a third one until the end of 2026 (20.3.2026: implied probability of a 25 bps hike until June: 85%; probability of a second 25 bps hike until July: around 75%; and probability of a third hike until December: around 70% – see Chart IX.2, left-hand panel). In the United States, as implied by federal funds futures contracts, investors expect that the Fed's policy rate will remain unchanged until the end of 2026 (see Chart IX.2, right-hand panel). It is noted that, on the basis of the latest surveys among analysts of major financial institutions that incorporate information released until early March, analysts expected that the ECB would keep its interest rates unchanged and the Fed would cut its policy rate twice during 2026.[2]

Chart IX.2 Expected key interest rates in the euro area and the United States

(percentages %)



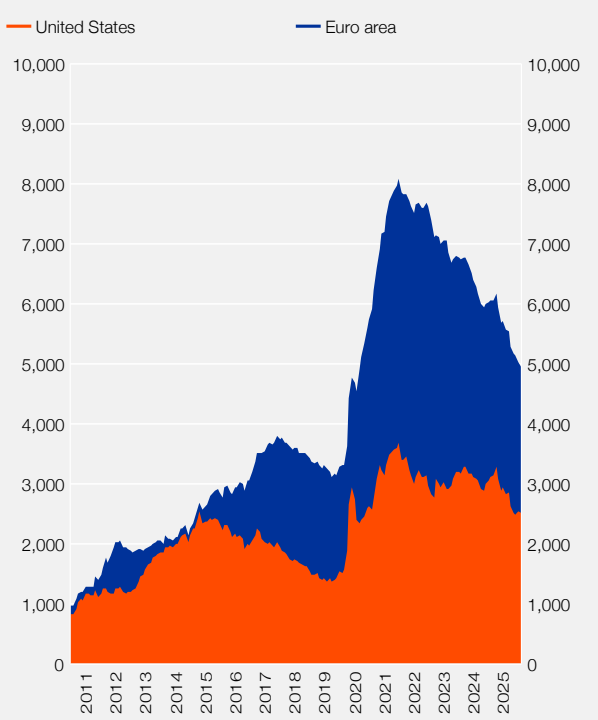
Sources: ECB, Federal Reserve Bank of New York and LSEG.
Note: The panels show the expectations about key interest rates in the euro area and the United States, which are based on financial indicators and opinion surveys among analysts. The expected market rates are derived from €STR overnight index swap (OIS) rates for the euro area and from CME's futures contracts for the United States. Analysts' expectations about the key interest rates of each central bank are drawn from the ECB Survey of Monetary Analysts and the New York Fed's Survey of Market Expectations, respectively.

2 Regarding analysts' estimations, see ECB Survey of Monetary Analysts for the euro area and Fed Survey of Market Expectations for the United States.

The liquidity of the international financial system is ample in nominal terms (see Chart IX.3). Excess liquidity in the US and euro area banking systems is estimated at about EUR 5.0 trillion, contributing to easy global financial conditions. Yet available liquidity in the banking systems of both the United States and the euro area has almost halved since end-2021. For this reason, the Fed decided in October 2025 to re-invest the principal payments from maturing securities acquired under its asset purchase programmes. Later on, in December, it began purchasing short-term US Treasuries, at a monthly pace of USD 40 billion, to increase the available liquidity.

Chart IX.3 Available liquidity in the financial system

(EUR billions)



Sources: Federal Reserve Economic Data (FRED) and ECB Data Portal.
Notes: The chart shows excess liquidity in the US and euro area banking systems in absolute terms (in euros). Excess liquidity is the money in the banking system that is left over after commercial banks have met minimum reserve requirements. The series refers to credit institutions' reserves for the United States, while for the euro area it refers to the balances of current accounts and deposit facility accounts of the banks that are subject to the minimum reserve requirement.

1.2 Capital markets

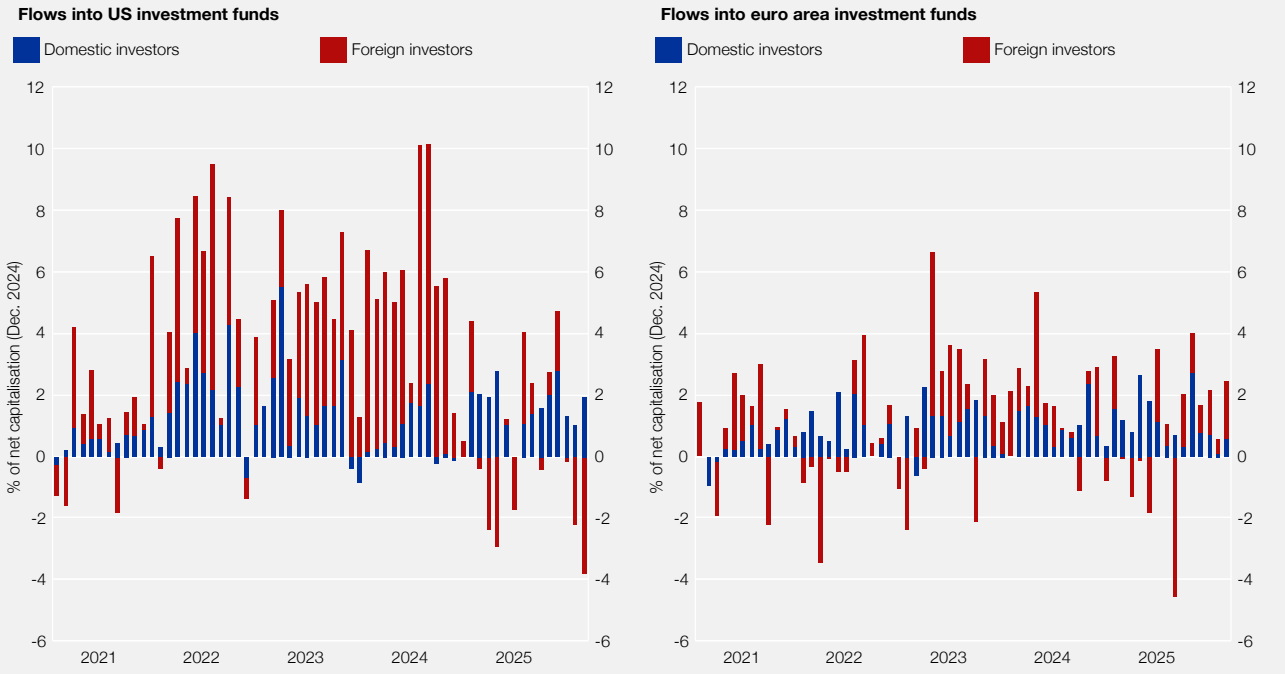
Accommodative monetary conditions globally supported favourable financial conditions in 2025. But at the same time, the surge in uncertainty about the US economic policy, particularly after the announcement of planned high tariffs on trading partners in April, led to an overall tightening in global financial conditions. The geoeconomic pivot of the new US administration and the questioning of institutions, in the form of political interference with the Fed's operations, triggered a sharp rise in market uncertainty and occasional bouts of volatility during 2025. These developments were mirrored in a market sell-off in the United States during April-May 2025 and outflows of funds, mostly by international investors, followed by inflows into US Treasuries, which however were subdued not only relative to the months before the April turmoil, but also compared with inflows of international investors' funds into euro area government bonds (see Chart IX.4, left-hand panel).

This fact is noteworthy, since investors traditionally flock to US Treasuries as safe haven assets in times of financial market turbulence. By contrast, outflows from US Treasuries in April-May and an ensuing relatively modest increase in investment positions point to international investors' cautiousness in view of the ongoing shift in US economic policy. Meanwhile, investment positions in European government bonds have increased (see Chart IX.4, right-hand panel).

This is due to flight-to-safety movements and largely explains the euro's appreciation vis-à-vis the US dollar, as well as a relatively slight rise in euro area government bond yields in April-May, especially compared with US federal bond yields (see Chart IX.5). The appreciation of the euro was sustained thereafter, while long-term US Treasury yields declined, though not as much as short-term yields, which were more strongly affected by the Fed's interest rate cuts. The limited decline in long-term bond yields, compared with short-term bond yields, has raised concerns about their decoupling from the downward path of key interest rates.[3]

3 For instance, see Acharya, V. and T. Laarits (2026), "Tariff War Shock and the Convenience Yield of US Treasuries – A Hedging Perspective", NBER Working Paper No. 34640, and Jiang, Z., A. Krishnamurthy, H. Lustig and R. Richmond R. (2025), "Dollar Erosion: Understanding the Loss of Reserve Currency Status", Stanford Graduate School of Business Research Paper.

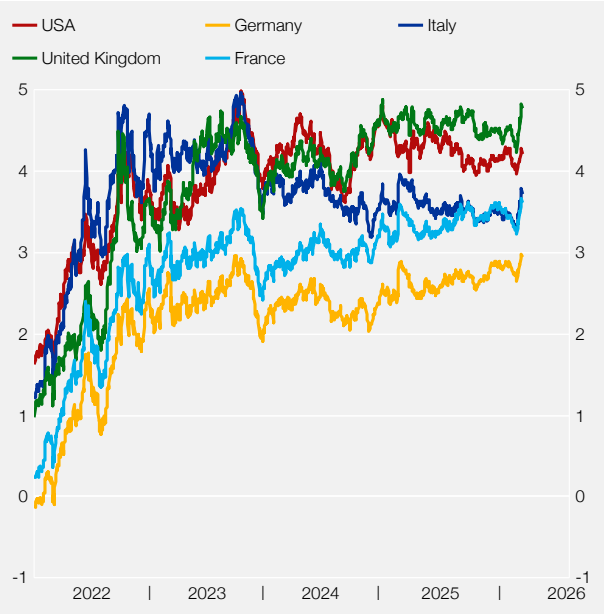
Chart IX.4 Investment fund flows, by investors' geographical area of origin



Sources: Lipper for Investment Management and Bank of Greece calculations.
Notes: Net capital flows into funds investing in government bonds in the United States and the euro area by domestic investors (blue bars) and foreign investors (red bars). For comparability reasons, flows are illustrated as a percentage of total capitalisation of investment funds as at end-December 2024.

Chart IX.5 Ten-year government bond yields (January 2022 - March 2026)

(daily yields in percentages %)



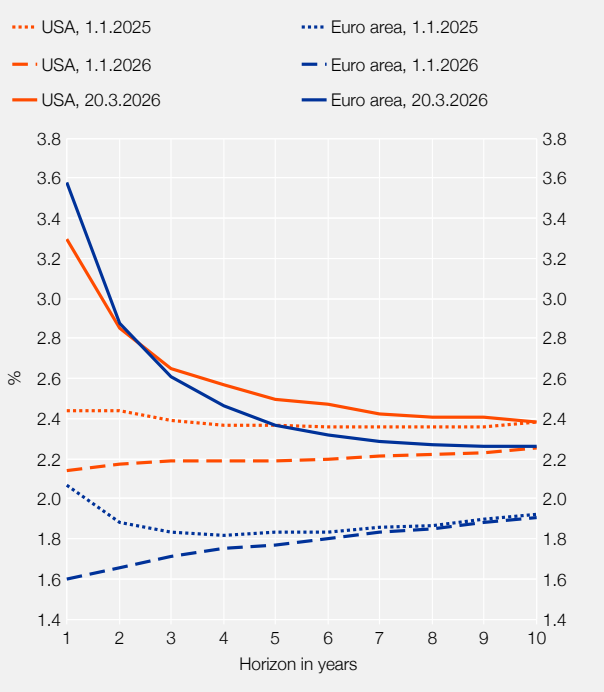
Source: LSEG.

This reflects the sensitivity of long-term bonds to structural factors, such as the economy's growth outlook, the country's fiscal position and the institutional framework, e.g. the Fed's independence.[4]

In the euro area, benchmark bond yields rose during 2025 in connection with developments in Germany and France. In particular, German government bond yields surged in March 2025, after the government's announcement of a planned fiscal expansion. It should be stressed, though, that this surge is attributable to real interest rates, implying that markets expect economic activity to strengthen in Germany. Moreover, French government bond yields rose in the third quarter, as government instability exacerbated investors' concerns over fiscal policy and political uncertainty in France. Yet this development led to much more limited and temporary rises in bond yields for the remaining euro area countries.

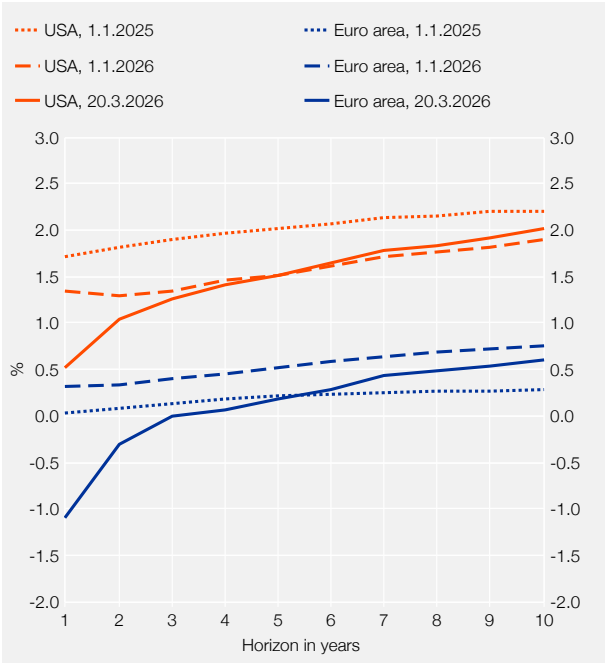
4 See Bauer, M. and G. Rudebusch (2020), "Interest rates under falling stars", American Economic Review, 110(5), 1316-1354. This study links long-term US federal bond yields to the structural factors that determine the levels of the equilibrium real interest rate (r*) and inflation (π*) in the US economy.

Chart IX.6 Fixed income markets' inflation expectations



Sources: LSEG and Bank of Greece calculations.
Note: The chart shows the expected inflation rate derived from inflation-linked swap rates.

Chart IX.7 Real interest rates



Sources: LSEG and Bank of Greece calculations.
Note: The chart shows the real interest rates which are derived after deducting expected inflation (inflation-linked swap rates over a horizon of 1-10 years) from euro overnight index swap rates with a respective maturity for the euro area and from the nominal yields on government bonds with a respective maturity for the United States.

With regard to market-based inflation expectations, up until the outbreak of the war in the Middle East, euro area inflation was expected to remain close to and below the ECB's target, while for the United States markets were pricing in a significant upward deviation from the Fed's 2% inflation target. However, since the conflict broke out, the deviation of expected inflation from the target has widened in the United States and inflation expectations have increased markedly in the euro area (see Chart IX.6).[5] The revision of market-based inflation expectations in the euro area and the United States because of the war in the Middle East not only explains the revised expectations about key interest rates, but has also driven bond yields upwards in both economies. More specifically, after the start of the war in the Middle East, bond yields in the United States and the euro area increased across all maturities (USA: 2-year: +52 bps and 10-year: +66 bps; Germany: 2-year: +43 bps and 10-year: +39 bps).

Turning to economic activity, in 2025 a sharp drop in real interest rates was observed in the United States; it took place during the April turmoil and persisted in spite of a rebound in stock and bond market valuations. In the euro area, expected growth rates proved more resilient (see Chart IX.7). However, it should be noted that, since early 2026, real yields have been on a steep decline on both sides of the Atlantic.[6] In combination with an upward repricing in market-based

5 On 31.12.2025, inflation-linked swap (ILS) rates in the euro area were broadly unchanged at their end-2024 levels (for instance, 2-year: 1.66%, 5-year: 1.77%, 10-year: 1.91%), while breakeven inflation rates in the United States had declined slightly over shorter horizons, but their levels were still well above 2% across all maturities (for instance, 2-year: 2.33%, 5-year: 2.27%, 10-year: 2.26%). Since late February 2026, inflation expectations have been significantly revised upwards in the euro area and the United States, even over longer horizons: a) euro area average ILS rates – 2-year: 2.89% (1.1.-20.3.2026 change: +124 bps), 5-year: 2.38% (+60 bps), 10-year: 2.26% (+35 bps); b) US average breakeven inflation rates – 2-year: 2.96% (1.1.-20.3.2026 change: +63 bps), 5-year: 2.69% (+42 bps), 10-year: 2.39% (+13 bps).

6 1.1.-20.3.2026: euro area (euro OIS rates minus euro ILS rates): 2-year -65 bps, 5-year -37 bps, 10-year -17 bps; USA (Treasury Inflation-Protected Securities – TIPS): 2-year -20 bps, 5-year -12 bps, 10-year +11 bps.

measures of inflation expectations, this means that geopolitical instability is likely to have stagflationary effects on the world economy.

Yet the reaction of the stock market has been relatively muted since end-February. Specifically, key share price indices worldwide have dropped somewhat since the start of the war in the Middle East.[7] Nevertheless, it is not clear whether negative returns in stock markets are exclusively due to geopolitical developments, as since the fourth quarter of 2025, when tech companies released their earnings, several investors had already aired concerns about the prospects of heavy investment in data centres, triggering large falls in the prices of technology shares even before the end of February 2026.[8]

Lower stock valuations for tech companies translated into heavy losses in the private credit sector and thus to a plunge in share prices for the US financial sector in the year to date.[9]

2 GREEK GOVERNMENT BONDS

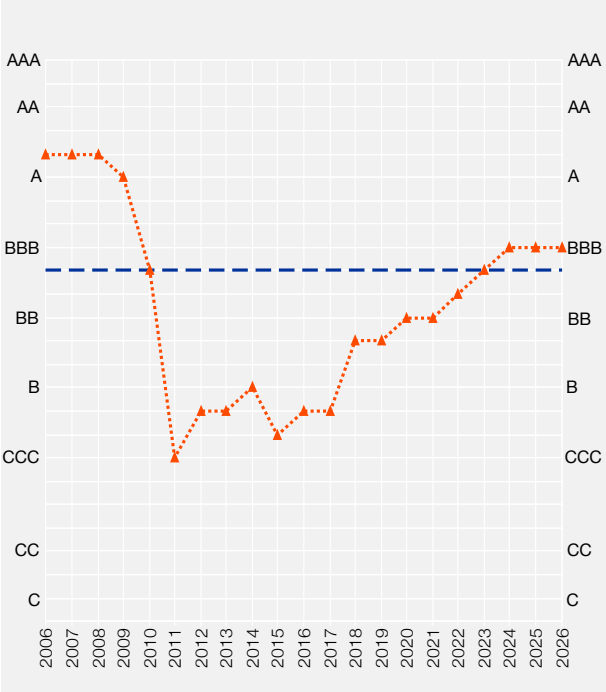
2.1 Developments in credit ratings

Greece's sovereign credit rating has improved significantly in recent years with continuous upgrades by international rating agencies, leading to considerable financial savings for both the public and the private sector. More specifically, the sovereign credit ratings assigned by all credit rating agencies accepted under the Eurosystem framework (i.e. Fitch, Moody's, Morningstar-DBRS, Scope Ratings and S&P) are within the investment grade category (see Chart IX.8). Upgrades continued throughout 2025, with Morningstar-DBRS upgrading the Greek economy from BBB (low) to BBB in early March, while in mid-March Moody's upgraded Greece from Ba1 (equivalent to BB+) to Baa3 (equivalent to BBB-). In April, S&P upgraded the Greek economy further to BBB from BBB-. Finally, in November Fitch upgraded Greece's rating to BBB from BBB- and Scope Ratings changed the outlook on the Greek economy to positive.

Upgrades mainly resulted from the resilience of the Greek economy to international uncertainty, as well as from fiscal overperformance and a declining public debt-to-GDP ratio. In the years ahead, upgrades are expected to continue, although at a milder pace, provided that the re-

Chart IX.8 Greece's sovereign credit rating (2006-2026)

(annual data)



Sources: Credit rating agencies.
Notes: The triangles denote the level of the most favourable long-term sovereign credit rating for Greece at the end of each year. The latest available most favourable rating is reported for the current year. The dotted blue line denotes the investment grade threshold.

7 In 2026, the year-to-date return of the S&P 500 Growth, mostly comprising high-tech shares, is -7.4% and that of the S&P 500 is -5%. Meanwhile, composite share price indices in the euro area have also declined (for example, Euro Stoxx: -4.3%, DAX: -8.6%, CAC 40: -5.9%). Besides, the VIX and VDAX volatility indices rose moderately over the period 1.1.-20.3.2026 compared with the same period of 2025 (+6% and +12% respectively).

8 30.10.2025-27.2.2026: S&P information technology: -10.3%, Magnificent Seven: -8.1%.

9 1.1.-27.2.2026: S&P financials: -6.3%. The Office for Financial Research (OFR) estimates that the financing of private credit firms by the US financial sector amounts to USD 400-500 billion in the form of loans and to USD 300 billion in the form of equity capital.

silience of the Greek economy remains high and a prudent fiscal policy is pursued, allowing a further reduction in the debt ratio. According to an analysis of the drivers of upgrades (see Box IX.1), an improvement in the country's ranking on institutional indicators capturing the efficiency of the justice system and public administration would considerably help obtain upgrades sooner than expected, thereby contributing to the return of the sovereign credit rating to the A category.

2.2 Market developments

In 2025, Greek government bond yields rose slightly year-on-year, incorporating only in part the upward trend of euro area benchmark bond yields.[10] This was due to international investors' increased demand for Greek government bonds, on the back of the country' ongoing sovereign credit rating upgrades.[11] This confirms the material improvement of international investors' perceptions of Greek government bonds, and the Greek economy overall, which is of particular relevance, especially in the current environment of heightened global uncertainty.

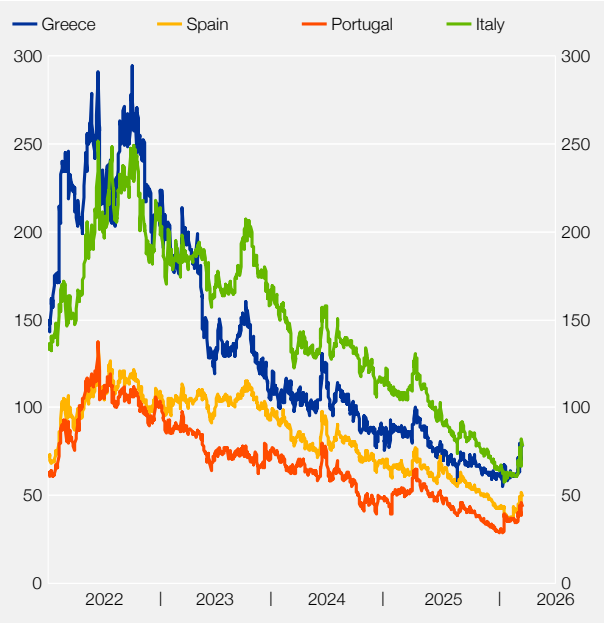
In this context, yield spreads are now lower than before the sovereign debt crisis (see Chart IX.9).[12] In particular, the spread of the Greek 10-year bond vis-à-vis vis the German Bund was 84 bps on 20 March 2026, about 113 bps lower than its average level in the first quarter of 2023, i.e. before investors began anticipating Greece's imminent upgrade to investment grade. Furthermore, Greek government bond yields are broadly similar to those on other, higher-rated euro area bonds, such as Italian or French government bonds (spreads vis-à-vis German bonds on 20.3.2026: Italian 10-year bonds: 93 bps and French 10-year bonds: 72 bps).

In 2025, Greek government bond yields tracked developments in the other euro area government bonds. As a result, they rose in mid-March, driven upwards by the higher yields on German government bonds. But during the April turmoil, owing to the US announcement of planned high tariffs on trading partners, global yields declined, suggesting that Greek government bonds attracted investment flows in a period characterised by investors' flight to safety.

In the third quarter of 2025, limited and transient upward pressures were observed, reflecting spillovers from higher French government bond yields (1.5.-30.9.2025 change: French 10-year +37 bps, Greek 10-year +7 bps). Of course, after the outbreak of the war in the Middle East, Greek government bond yields increased roughly as much as yields on euro area government bonds with a similar rating (27.2.-20.3.2025 change: Greek 10-year: +58 bps, French 10-year: +54 bps,

Chart IX.9 Ten-year government bond spreads (January 2022 - March 2026)

(daily data, basis points)



Source: LSEG.
Note: The lines show the yield differentials of 10-year government bonds issued by the reviewed countries against German 10-year government bonds.

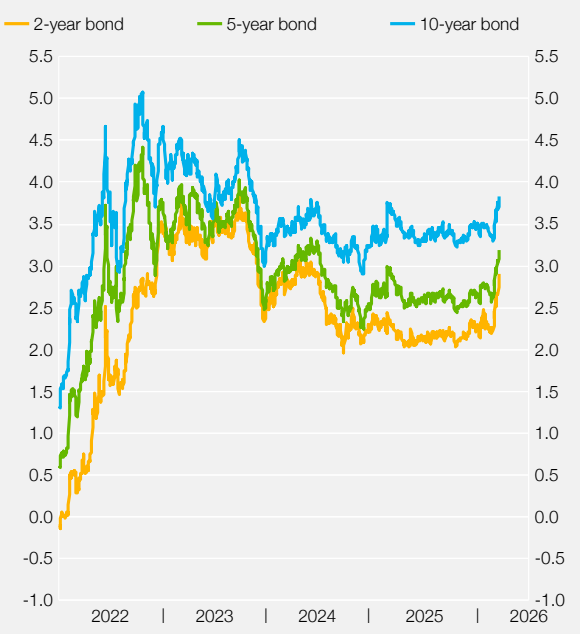
10 In particular, changes in 10-year government bond yields between 31.12.2024 and 31.12.2025 amounted to +50 bps for Germany, +37 bps for France and +23 bps for Greece.

11 On the basis of international investment position data, in the third quarter of 2025, international investors' holdings of Greek government bonds increased by EUR 8.8 billion or 70% relative to the first quarter of 2023, i.e. just before the first upgrade to investment grade. It is estimated that net inflows into Greek government bonds amount to about EUR 7 billion, while EUR 1.8 billion accounts for their increased valuations.

12 The spread between Greek 10-year government bonds and their German counterparts averaged 87 bps over the period 1.1.2007-30.9.2009.

Chart IX.10 Greek government bond yields (January 2022 - March 2026)

(daily data, yields in percentages %)



Source: LSEG.

Italian 10-year: +69 bps, Portuguese 10-year: +50 bps). It can thus be assumed that the rise in Greek government bond yields is explained by the same factors that also led to increased bond yields in the remaining euro area countries, namely higher inflation expectations and a shift in market expectations towards policy rate hikes by the ECB (Greek government bond yields on 20.3.2026: 10-year: 3.88%, 5-year: 3.28% and 2-year: 2.98%, against 3.48%, 2.89% and 2.36%, respectively, on 31.12.2025; see Chart IX.10).

Against this backdrop, new issues of Greek government bonds in 2025 and 2026 met with strong demand and were oversubscribed by ten up to 20 times. The bond issues launched in 2025 had a weighted average yield of 3.8% and a weighted average maturity of 13.4 years. In the current year to date, the Greek government issued a ten-year bond in January and raised EUR 4 billion; the issue was oversubscribed by 12 times and the yield stood at 3.47%. In February, the same issue was reopened, raising EUR 300 million, at a lower yield (3.34%).

Liquidity in the secondary bond market was higher in 2025, year-on-year, with the average daily value of transactions on the Electronic Secondary Market for Government Securities (HDAT) coming to EUR 143 million, compared with EUR 107 million in 2024. The average daily trading volume on the Dematerialised Securities System (DSS), which settles both domestic and international transactions in Greek government bonds, reached EUR 608 million in 2025, up from EUR 487 million in 2024.

Box IX.1

GREEK SOVEREIGN RATING: HOW TO REGAIN THE "A" CATEGORY

This box aims to examine the prospects for further upgrades of the sovereign credit rating of Greece to the "A" category,[1] where Greece's rating stood until 2009. To this end, it estimates the evolution of sovereign credit ratings assigned to Greece by the three major credit rating agencies, namely Fitch, Moody's and Standard and Poor's/S&P, on the basis of macroeconomic and fiscal projections. By developing scenarios related to reforms that affect the institutional parameters of the ratings, the necessary conditions and timeline for an upgrade to the "A" category are identified.

Why are upgrades important?

Greek government bond yields are closely linked to the country's credit ratings. Since 2019, the aforementioned credit rating agencies, as well as the other two agencies accepted by the Eurosystem as external credit assessment institutions (Scope and Morningstar-DBRS), have upgraded Greece's sovereign credit rating multiple times.[2]

1 The A-rating category comprises of the following notches: A-/A3, A/A2 and A+/A1.

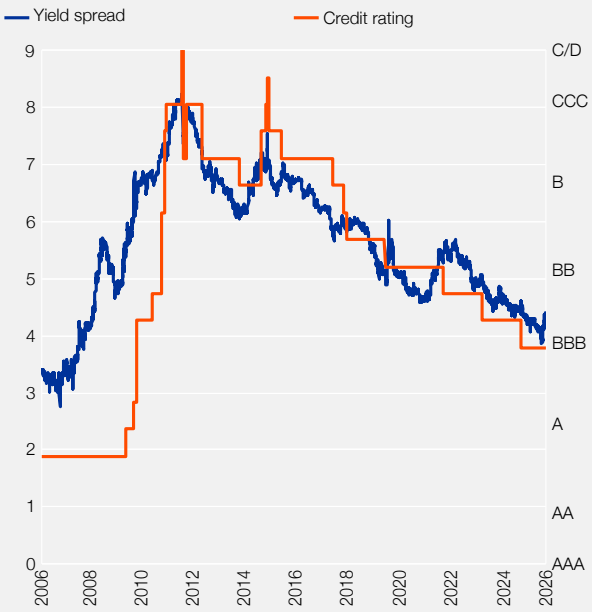
2 At end-2025, Greece's sovereign credit rating assigned by Fitch and S&P was BBB, while that by Moody's was Baa3 (which equals BBB-). The other two agencies accepted by the Eurosystem, namely Scope and Morningstar-DBRS, assigned the Greek economy a BBB rating.

As seen in Chart A, following these upgrades, the yield spread of Greek government bonds over the corresponding German bonds has declined significantly.

2023 was a pivotal year, as Greece's sovereign credit rating returned to investment grade; as a result, international investors once again see Greek government bonds as a relatively low-risk investment, a status that had been lost in 2011. The spread between Greek and German 10-year government bond yields has narrowed by around 65 basis points (bps) since October 2023, when the first of the three major agencies (S&P) upgraded Greece. This drop is even larger (around 115 bps) if compared with the end of the first quarter of 2023, i.e. before S&P indicated a possible upgrade to investment grade.[3] Moreover, bank and corporate bond yields have declined significantly, as the sovereign credit rating upgrades were followed by upgrades of Greek banks and a number of large exporters.

Chart A Credit ratings and yield spreads of Greek sovereign bonds

(left-hand scale: yield spreads; bps in logs; right-hand scale: credit rating)



Sources: LSEG (daily data) and Bank of Greece calculations.
Note: The blue line represents the spread between Greek and German 10-year government bond yields, expressed as basis points in logs. The orange line shows the most favourable credit rating assigned to the Greek sovereign by Fitch, Moody's and S&P.

Thus, the upgrades are presumed to lead to lower debt servicing costs for the Greek government, domestic banks and Greek enterprises, playing a key role in increasing aggregate demand in the Greek economy and boosting economic activity (e.g. for Greek enterprises, see Box IX.2). Consequently, possible further upgrades should deliver even greater benefits to the Greek economy, with even lower financing costs for the public and private sectors and improved resilience for the Greek economy in an environment of heightened global uncertainty.

The outlook for sovereign ratings

The following analysis employs the econometric model of the Bank of Greece, which estimates the scores assigned by Fitch, Moody's and S&P, based on the fundamentals of the Greek economy that form the quantitative component of credit ratings.[4] Then, assuming that the adjustment related to the qualitative component of the ratings remains at current levels, the imputed sovereign credit rating for Greece is estimated for each agency, based on projections for key macroeconomic and fiscal variables. To estimate the evolution of the sovereign credit rating, the available projections by the three agencies for the years 2025, 2026 and 2027 are used, as well as projections by the Ministry of Economy and Finance up to and including 2029. Some of these projections are set out in the table.

To sum up, the three major agencies expect positive GDP growth rates for 2026 and 2027, amounting to 2-2.3% for 2026 and between 1.9% and 2.1% for 2027. Based on the assumptions of the Ministry of Economy and Finance's Multiannual Fiscal Programming (MFP) for 2026-2029, economic activity is expected to gradually dece-

3 This decline is consistent with past experience from upgrades to investment grade (a cumulative 88 bps drop in spreads) and confirmed the expected impact derived from the relevant econometric model of the Bank of Greece. See Anastasatou, M. et al. (2023), "Effects of a sovereign credit rating upgrade to Investment Grade on the Greek economy", Bank of Greece, *Economic Bulletin*, No. 58, 9-28.

4 For more details, see Malliaropulos, D. and P. Migiakis (2020), "Sovereign credit ratings and the fundamentals of the Greek economy", Bank of Greece, *Economic Bulletin*, 51, 43-69. In summary, the final credit rating for each debt issuer is derived from quantitative criteria combined with a qualitative assessment. The quantitative component yields individual scores based on fundamental economic indicators and then a qualitative assessment is incorporated, resulting in an overall score that corresponds to one of the notches applied by international credit rating agencies.

Macroeconomic and fiscal projections 2025-2029

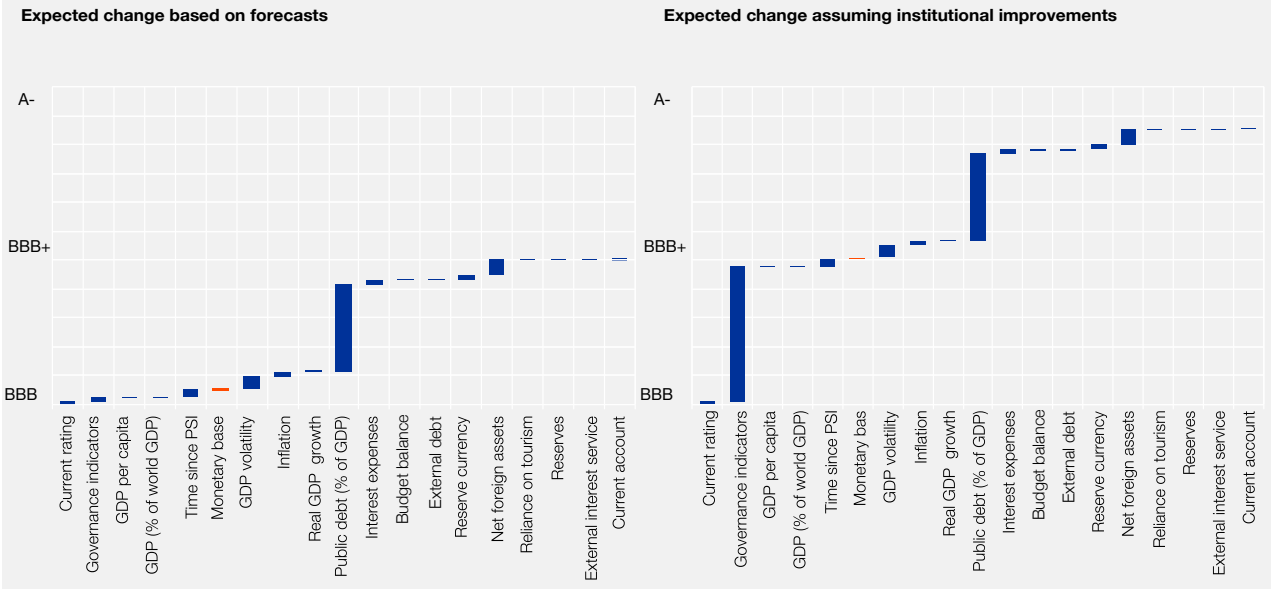
	Fitch			S&P			Moody's			Ministry of Economy and Finance (MFP 2026-2029)				
Forecast date	16.1.2026			17.10.2025			5.11.2025			November 2025				
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027	2028	2029
GDP growth rate (%, constant prices)	2.3	2.3	2.1	2.3	2.0	1.9	2.0	2.1	2.1	2.2	2.4	1.7	1.6	1.3
Inflation (%)	3.0	2.3	2.2	2.6	2.4	2.2	2.7	2.3	2.0	3.0	2.2	2.2	2.3	2.3
Public debt (% of GDP)	145.5	138.9	133.3	139.3	133.0	127.8	149.3	144.8	139.7	145.9	138.2	131.7	124.6	119.0
Interest expenses (% of revenue)	6.4	6.2	6.7	7.1	7.8	8.1	6.5	6.8	6.8	6.2	6.0	6.3	5.9	5.7
Budget balance (% of GDP)	0.9	0.4	0.3	-0.3	-0.7	-0.8	0.0	0.0	-0.5	0.6	-0.2	-0.2	0.0	0.1

Sources: Credit rating agencies and Ministry of Economy and Finance.
Note: The columns referring to Ministry of Economy and Finance forecasts draw on the Multiannual Fiscal Programming (MFP) for 2026-2029 published by the Ministry on 28 November 2025.

lerate, with growth rates set to fall from 2.4% in 2026 to 1.7% in 2027, 1.6% in 2028 and 1.3% in 2029. Fiscal projections by credit rating agencies are relatively homogeneous and assume prudent fiscal management until 2027. Thereafter, based on the MFP 2026-2029 projections, the general government budget is expected to remain close to balance, i.e. fiscal revenue should cover expenditure. Supported by lower interest payments, the public debt ratio should drop to 119% of GDP by end-2029, from around 146% at end-2025.

Overall, as shown in Chart B, the improved public debt-to-GDP ratio is expected to make an upward contribution of around 0.6 notch to the total score of the Greek economy. This also translates into a positive change in sovereign net foreign assets, adding an extra 0.12 notch. Lastly, 0.15 notch is added by improved macroeconomic aggregates, mainly as a result of positive growth rates and lower GDP volatility. Consequently, a significant im-

Chart B Expected changes in credit rating parameter scores until 2029



Source: Bank of Greece econometric estimates.
Notes: The left-hand panel reflects the expected effect of credit rating parameters, based on forecasts by agencies and the Ministry of Economy and Finance, for the years up to and including 2029. The right-hand panel also takes into account the impact from a hypothetical improvement of institutional parameters as a result of reforms, based on the assumption that Greek governance indicators converge towards the euro area average. The impact is calculated as changes in parameters against their respective current levels (positive changes in blue; negative changes in red).

provement in the Greek sovereign credit rating is expected, which should equal almost one notch, i.e. from BBB to BBB+. In other words, it is estimated that the expected improvement in the public debt ratio and the fact that rating parameters reflect the stability of the Greek economy should lead to further upgrades in the coming years, albeit at a slower pace than so far.

However, if the institutional parameters were to improve through reforms, the Greek sovereign could be upgraded to as high as category "A" by end-2029. Specifically, as shown in the right-hand panel of Chart B, an improvement in the institutional parameters – closing the gap between Greece and the euro area average – would lead to an additional improvement in the overall score of the Greek economy by around one notch, bringing it within reach of the "A" category. This is so because institutional (or structural, depending on the definition used by each agency) parameters taken into account by rating agencies have an increased weight, i.e. 3 (Moody's) to 4 (Fitch) times higher than the weight on each of the other variables.

Chart C Greece's ranking in the World Bank's Governance Indicators



Source: World Bank, Worldwide Governance Indicators (WGI).

As to what reforms would contribute to improving the ranking of the Greek economy in terms of the institutional parameters used as input for credit ratings, the information provided by the indicators used by rating agencies shows the way. Specifically, all three major agencies report factoring the World Bank Governance Indicators in their assessments.[5] Chart C shows Greece's ranking for each individual sub-index at the time of the latest indicator releases (i.e. for the year 2025), along with the outliers for Greece and the average values for the euro area.

Chart C shows that, for all governance indicators, the Greek economy stands well below both the euro area average (2025 composition) and the best ranking ever achieved by Greece. In particular, the country's ranking fell significantly during the debt crisis and, while on some dimensions, such as political stability and control of corruption, there has been a marked improvement since 2017-18, the country's ranking has stagnated at low levels for most criteria.

Yet, as these indicators capture developments with a lag, recent improvements, such as the digitalisation of public services and reforms in the justice system, may significantly elevate Greece's ranking in the governance indicators and thus contribute to higher credit ratings, thereby further strengthening the upward momentum of sovereign credit ratings. For instance, benefits from the recent reform of the justice system and amendments to the Code of Civil Procedure (Law 5221/2025) with a view to accelerating the delivery of justice are expected to become visible by 2029 and should make a positive contribution to the Rule of Law indicator. In any case, maintaining or further improving the Political Stability indicator, coupled with possible further reforms in the area of justice and other institutional parameters, would strengthen the upward trajectory of the Greek economy and make a decisive contribution to an upgrade of the sovereign credit rating, further adding to the positive effects expected from the prudent fiscal and economic policies pursued.

Conclusions

The improved fiscal aggregates and strong growth rates of the Greek economy have enhanced the fundamentals considered by credit rating agencies, resulting in upgrades of Greece's sovereign credit rating in recent years. Further

5 For the purposes of the compilation of the Worldwide Governance Indicators, the World Bank assesses individual economies based on criteria under six dimensions of governance: Rule of Law, Political Stability and Absence of Violence/Terrorism, Control of Corruption, Regulatory Quality, Government Effectiveness, and Voice and Accountability.

progress in the relevant parameters is expected in 2026-29, primarily in public finances and secondarily in macroeconomic aggregates. If this improvement materialises, it will lead to further upgrades of the sovereign credit rating, with positive effects on the Greek State as well as banks and businesses. The expected improvements in public finances and macroeconomic aggregates should certainly contribute to achieving the targeted upgrade to category "A", which was Greece's credit rating prior to the debt crisis. However, to achieve this goal, further progress is necessary, especially regarding the institutional parameters that are used as inputs for the assessments and carry an increased weight in the process. In fact, there is considerable room for improvement in the Greek economy compared with the euro area average. Therefore, maintaining political stability and continuing reforms in institutions such as the justice system and public administration are considered essential, with tangible results for the Greek economy.

3 GREEK CORPORATE BONDS

3.1 Greek bank bonds

Improvements in the credit ratings of Greek banks continued throughout 2025, supported by sovereign credit rating upgrades and banks' stronger fundamentals.[13] The successive upgrades have considerably reduced market-based funding costs for Greek banks, which is a very important development given that they continue to tap international capital markets at a solid pace.[14] More specifically, issuing activity continued into 2026 for both senior and subordinated debt (EUR 1.4 billion and EUR 0.9 billion respectively), on top of the 2025 issues which had totalled EUR 7.4 billion, including issues by less significant banks. However, Greek bank bond yields have increased since the outbreak of the conflict in the Middle East, in line with developments in the European bank bond market.

After the upgrades, all significant Greek banks are now investment grade-rated. This provides support amid heightened global uncertainty, with yields on senior preferred bonds issued by Greek banks moving in line with the respective yields for BBB-rated European banks (see Chart IX.11). As a consequence, Greek banks, which already enjoy reduced funding costs on average, can focus on raising funds to meet their financing needs and fulfil their MREL requirements, while also taking into account the prevailing market conditions.[15]

3.2 Bonds issued by Greek non-financial corporations

Greek non-financial corporations (NFCs) in 2025 launched eight new issues, amounting to a total of EUR 3.67 billion, at a substantially lower cost relative to previous issues.[16] On the one hand, this highlights the prospects of market-based financing as an alternative to bank financing for large and extrovert Greek corporations and, on the other hand, it supports the profitability of Greek firms, making a positive contribution to domestic economic activity (see Box IX.2).

13 In brief, Greek banks in 2025 were assigned upgrades by S&P (January), Moody's (March and October), Fitch (April and October) and Morningstar-DBRS (March and April). In January 2026, S&P upgraded the credit outlook on Greek significant banks to positive, on the back of the robust performance of the domestic economy and banks' higher profitability prospects. In March, following the aggravation of geopolitical tensions caused by the Middle East war, Moody's changed the outlook on the Greek banking system to stable (from positive), stressing however that banks' fundamentals should be expected to remain strong and asset quality to improve further.

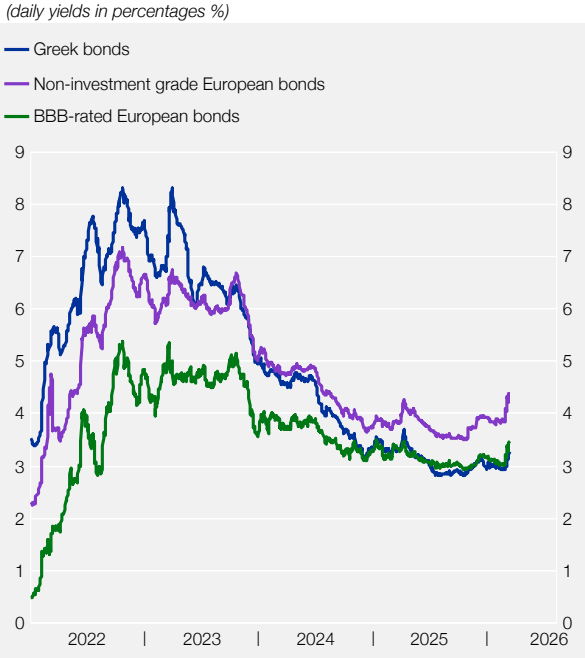
14 Greek banks have issued bonds worth around EUR 30 billion since 2018. With regard to outstanding bonds, around EUR 15.2 billion refers to senior preferred bonds, of which EUR 5.5 billion concerns green bond issues, and around 8.6 billion refers to subordinated debt.

15 In the year to date, the yields on new issues of senior and subordinated bonds by the four significant Greek banks stand at 3.3% and 5.1% respectively (average yield at issue: 2025: 3.1% and 5.8%, 2024: 4.3% and 6.2%, respectively).

16 In 2024, EUR 2.13 billion was raised through five bond issues. Since 2013, Greek NFCs, through their subsidiaries, have issued on international markets bonds totalling around EUR 16.74 billion, with their outstanding balances coming to EUR 6.43 billion. On the domestic market, bonds worth around EUR 6.27 billion have been issued since 2016, with their outstanding balances standing at around EUR 4.76 billion.

Chart IX.11 Yields on senior preferred bonds issued by Greek and European banks (January 2022 - March 2026)

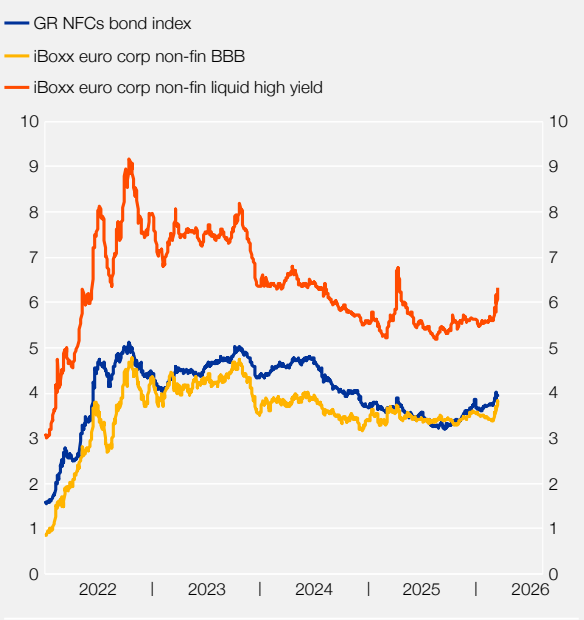
(daily yields in percentages %)



Sources: Bank of Greece and LSEG.
Notes: The blue line depicts the evolution of the average yield for senior bonds issued by Greek banks, weighted by the value of the issue. The green line shows the iBoxx yield for senior bonds issued by BBB-rated European banks, while the purple line shows the iBoxx yield for the respective non-investment grade bonds.

Chart IX.12 Greek and other European non-financial corporate bond yields (January 2022 - March 2026)

(daily data, yields in percentages %)



Sources: Bank of Grecce and LSEG.
Notes: The GR NFCs bond index depicts the weighted average bond yield for Greek non-financial corporations that have issued Eurobonds since December 2012. The iBoxx indices are weighted average indices for euro-denominated non-financial corporate bonds. The "iBoxx euro corp non-fin BBB" index comprises BBB-rated corporate bonds and the "iBoxx euro corp non-fin liquid high yield" index comprises high-yield/non-investment grade corporate bonds.

The reduced cost of market-based debt financing for Greek NFCs arises from significantly lower yields in the secondary market. In particular, corporate bond yields in the secondary market have been following a downward trend since the second half of 2025, gradually converging towards yields on European bonds with ratings above but close to the investment grade threshold (BBB). Greek corporate bond yields declined further in 2025, with their downward trend continuing into early 2026. After the war broke out in the Middle East, Greek corporate bond yields in early March recorded a rise that was broadly similar to that of their European counterparts.

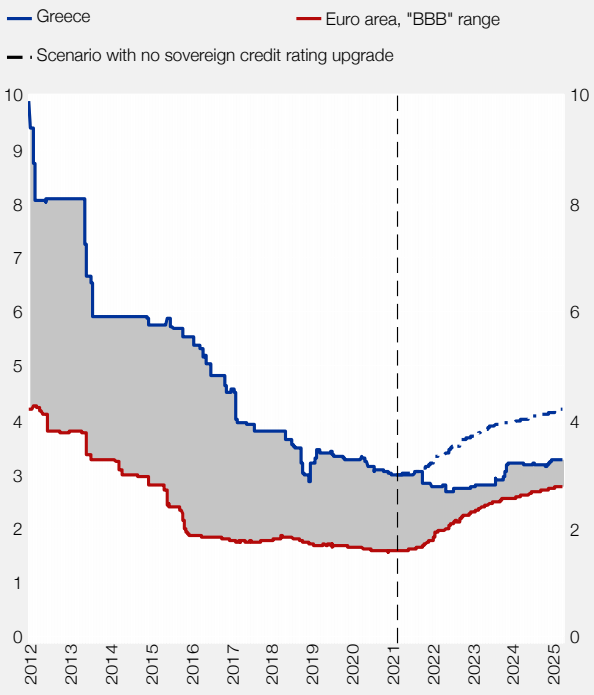
In greater detail, the weighted average yield at end-2025 was 3.66%, slightly higher than that on European BBB-rated corporate bonds (iBoxx euro corp non-fin BBB: 3.55%) and somewhat lower relative to the beginning of the year, whereas European BBB-rated corporate bond yields increased (see Chart IX.12). On 20 March 2026, the weighted average yield rose compared with end-2025, by almost as much as that on European BBB-rated bonds.

Box IX.2

GREEK CORPORATE BONDS AND THE ECONOMIC IMPACT OF GREECE'S SOVEREIGN CREDIT RATING UPGRADES

During the period 2021-25, large Greek non-financial corporations (NFCs) made consistent use of international and domestic bond markets to refinance existing debt or finance investments and/or other activities. Despite a series of Eurosystem policy rate hikes between June 2022 and April 2024, the cost of market-based debt financing

Chart A Weighted average bond issuance costs for non-financial corporations



Sources: LSEG, and Bank of Greece calculations.
Notes: Blue solid line: weighted average coupon rate of bonds issued by Greek NFCs. Blue dashed line: weighted average coupon rate of bonds issued by Greek NFCs under a counterfactual scenario in which the yield differential vis-à-vis comparable EU firms did not decline. Red line: weighted average coupon rate of all bonds issued by euro area NFCs with credit ratings in the "BBB" range ("BBB-" to "BBB+"). The weights are calculated using the net issuance of each bond. Bonds issued before 1 January 2012, bonds with a residual maturity of less than one year, or zero-coupon bonds are not included.

for these firms declined, alongside a narrowing of their yield differentials vis-à-vis comparable euro area firms that issued bonds over the same period. During the period under review, Greece's outlook and sovereign credit rating were upgraded on successive occasions, culminating in a milestone upgrade to investment grade in autumn 2023. This box analyses the effects of the sovereign credit rating upgrades on NFCs' market-based debt financing costs and issuance volumes, while also highlighting the contribution of bond-issuing NFCs to overall economic activity. The analysis additionally considers how the resulting expansion in financial resources has affected NFC bond issuers' value added.

Developments in Greek NFC bond financing costs

Bond issuance costs directly influence Greek NFCs' access to financing and investment decisions. The lower these costs, the more efficient it becomes for Greek NFCs to raise market-based debt to fund new investments or refinance existing obligations. By contrast, higher financing costs have a dampening effect on profitability (raising financial risk), constrain investment activity and ultimately impair firms' overall productivity. As shown in Chart A, weighted average borrowing costs for Greek NFC bond issuers declined steadily relative to "BBB" range rated euro area counterparts up to 2022. The pace of this decline has accelerated since the sovereign upgrade to investment grade in autumn 2023. This pattern stands in sharp contrast to the rise in borrowing costs directly faced by euro area firms since 2022, primarily driven by the ECB's monetary tightening cycle.

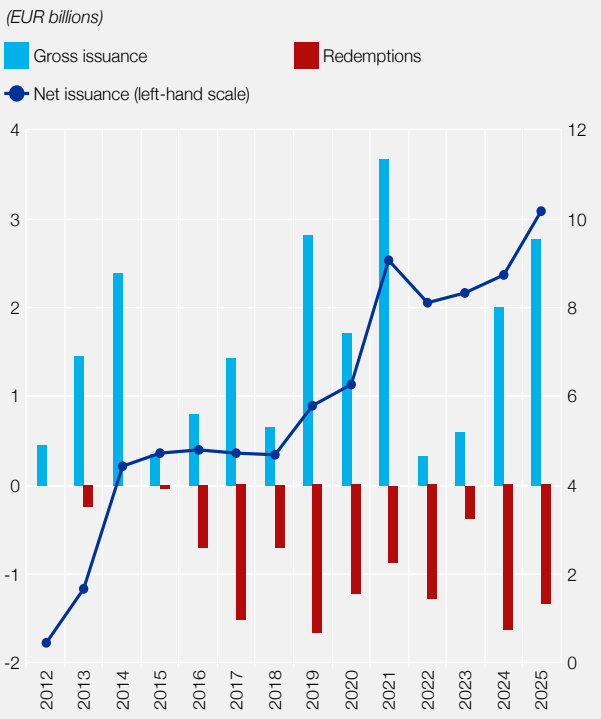
Specifically, in early 2022 the financing cost differential between Greek bond-issuing firms and their euro area counterparts[1] stood at 142 basis points (bps). As relative borrowing costs for Greek NFCs declined between June 2022 and July 2024, this differential narrowed markedly, reaching a historical low of 36 bps in July 2024. Since then, it has remained at broadly similar levels, standing at 55 bps in early 2026. The onset of this downward trend largely coincided with the sovereign credit rating upgrade to investment grade.

Greece's sovereign credit rating upgrades have translated into both lower borrowing costs and higher market-based debt financing volumes for domestic firms. Chart B shows the flow of market-based debt financing to Greek NFCs – as captured through net issuance (defined as gross issuance minus redemptions) – over the period 2012-25. Although net issuance was modest in 2022 – reflecting expectations of tighter monetary conditions – it has increased markedly since the upgrade to investment-grade status, exceeding EUR 2 billion over the 2023-25 period.

The savings resulting from lower financing costs for Greek bond-issuing NFCs relative to euro area NFC bond issuers over the period 2023-25 are shown in Chart C. Had borrowing rate differentials relative to "BBB" range rated euro area peers remained at their 2022 levels, Greek firms' interest payments would have been roughly EUR 275 million (or 20% per annum) higher over the three-year period. In other words, Greek NFCs that issued bonds during 2023-25 achieved interest savings of approximately EUR 90 million as a result of the upgrades to

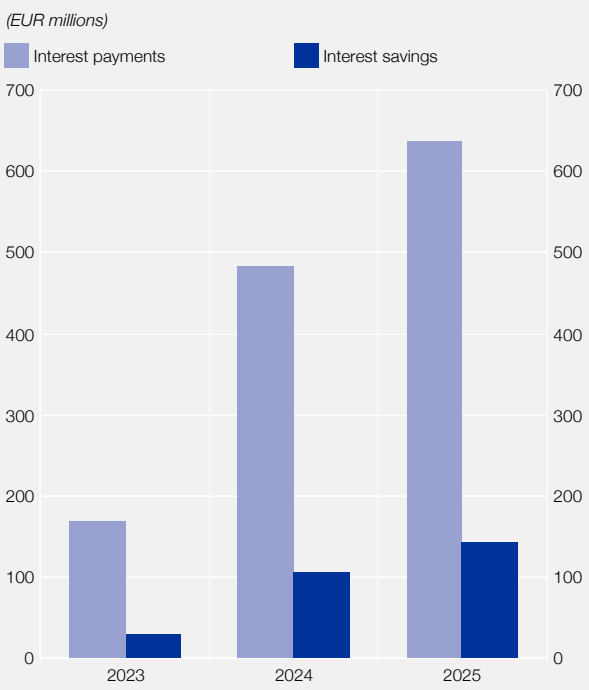
1 The financing cost differential is calculated as the difference in weighted average coupon rates between all Greek NFCs that issued bonds during this period and their euro area peers rated in the "BBB" range.

Chart B Net flow of market-based debt financing



Sources: LSEG and Bank of Greece calculations.
Notes: The chart shows gross issuance (blue bars) and redemptions (red bars) of bonds issued by Greek NFCs. Left-hand scale: gross issuance and redemptions; right-hand scale: net issuance.

Chart C Market-based debt financing cost savings resulting from Greece's sovereign credit rating upgrade



Sources: LSEG, and Bank of Greece calculations.
Notes: The chart shows the annual amounts of market-based debt financing cost savings for Greek NFC bond issuers since the upgrade to Greece's sovereign creditworthiness outlook. The light blue bars refer to the actual interest payments made by Greek bond-issuing NFCs, calculated by multiplying the coupon amount at issue by the maturity of each bond. The dark blue bars depict the additional interest payments Greek NFC bond issuers would have incurred under a counterfactual scenario in which the weighted average issuance cost differential between Greek NFC bonds and euro area NFC bonds rated in the "BBB" range remained at pre-upgrade levels.

Greece's sovereign creditworthiness. These savings materialised amid increasingly tight financing conditions for euro area firms, suggesting that the factors compressing financing costs for Greek firms also enhanced their competitiveness relative to euro area peers.

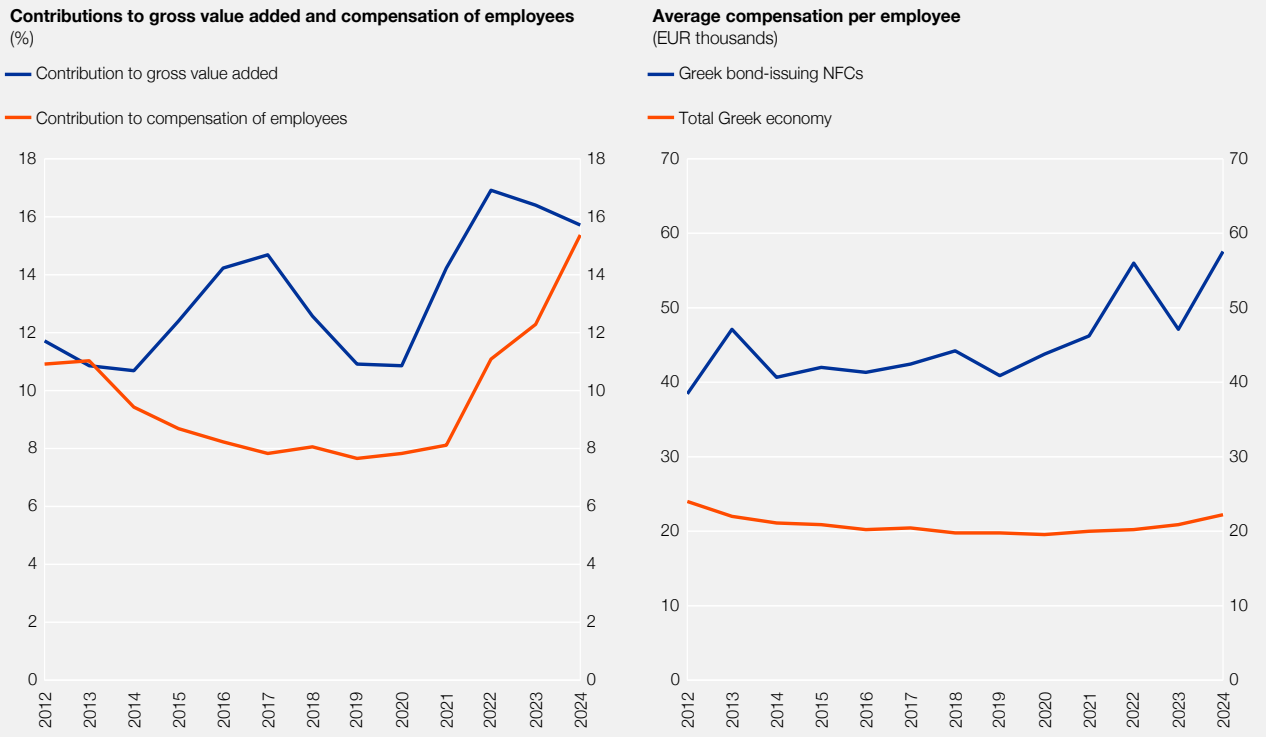
Benefits in terms of economic boost

Financing cost savings directly strengthened firms' operating results. Improved access to financial resources is therefore also likely to have had a positive impact on key firm-level indicators – such as employment, investment and value added – thereby supporting overall economic activity.

This hypothesis is tested against evidence on the evolution of Greek NFC bond issuers' gross value added (GVA) and employment. Empirical evidence shows that Greek NFC bond issuers have considerably expanded their footprint in the Greek NFC sector's employee compensation. Specifically, as illustrated in Chart D (left-hand panel), bond-issuing firms' share in Greek NFCs' overall employee compensation rose from around 8% in 2021 to nearly 16% in 2024 (based on the latest available data on NFC financial statements). In short, bond-issuing NFCs' contribution to the Greek NFC sector's compensation of employees has risen markedly over the past few years.

This is consistent with the strong employment growth observed in these firms. Specifically, between 2022 and 2024, employment in Greek NFC bond issuers grew by 24%, compared with an increase of just 3.5% in dependent employment in total economy. At the same time, as shown in the right-hand panel of Chart D, bond-issuing firms' average compensation per employee has consistently remained well above the economy-wide average

Chart D Amounts and shares of employee compensation for Greek NFC bond issuers



Sources: LSEG, Orbis Europe (NFC bond issuers' financial statements), ELSTAT and Bank of Greece.
Notes: Left-hand panel: (a) ratio of Greek bond-issuing NFCs' gross value added (GVA) to the Greek NFC sector's GVA (blue line) and (b) ratio of Greek bond-issuing NFCs' employee compensation to the Greek NFC sector's employee compensation (orange line). NFC bond issuers' GVA is calculated as the sum of compensation of employees, net profits, depreciation, taxes and net financial expenses, less subsidies. Only domestically generated GVA is taken into account. It is derived by allocating the total GVA based on (a) the number of employees in Greece relative to the total number of employees and (b) the amount of non-current assets in Greece relative to total non-current assets. The Greek NFC sector's GVA is calculated as the sum of compensation of employees, gross operating surplus, and other taxes, less subsidies on production and imports. Right-hand panel: (a) average compensation per employee (defined as a ratio of compensation of employees to employment) for Greek bond-issuing NFCs (blue line); (b) average compensation per employee (defined as a ratio of compensation of employees to employment) for the total Greek economy (orange line).

and has even increased further in recent years, implying that employment growth has translated into not only more jobs, but also higher wages.

Moreover, Greek NFC bond issuers' overall contribution to the Greek NFC sector's GVA increased by approximately 25% in the period 2023-24 compared with the period 2012-22 (see Chart D, left-hand panel). A similar pattern is observed at the total economy level, where bond-issuing firms' share of GVA rose from an average of 4% during 2012-22 to 5.2% in 2023-24 – an expansion of about 30% – primarily reflecting higher employment and investment among these firms. Specifically, between 2022 and 2024, bond-issuing NFCs' capital expenditure (CapEx) increased by 67%, compared with a rise of just 9% across the entire Greek NFC sector.[2] This shows that NFC bond issuers have leveraged improved access to bond markets to scale up investment, either by expanding productive capacity or by upgrading and replacing fixed assets. Such investments are expected to raise firm-level productivity, with beneficial effects on aggregate economic growth.

Overall, bond-issuing firms now account for a larger share of the Greek NFC sector's GVA. Combined with their higher capital expenditure and employment, this is consistent with a transmission mechanism whereby improved financing conditions and access to bond markets enhance productivity and support overall economic activity.

2 NFC bond issuers' capital expenditure (CapEx) is calculated by adding depreciation to the change in net fixed tangible assets (net property, plant & equipment). The respective aggregate at a wider sectoral level (covering all Greek NFCs) is approximated by gross fixed capital formation, as recorded in the non-financial sector accounts (S.11).

Conclusions

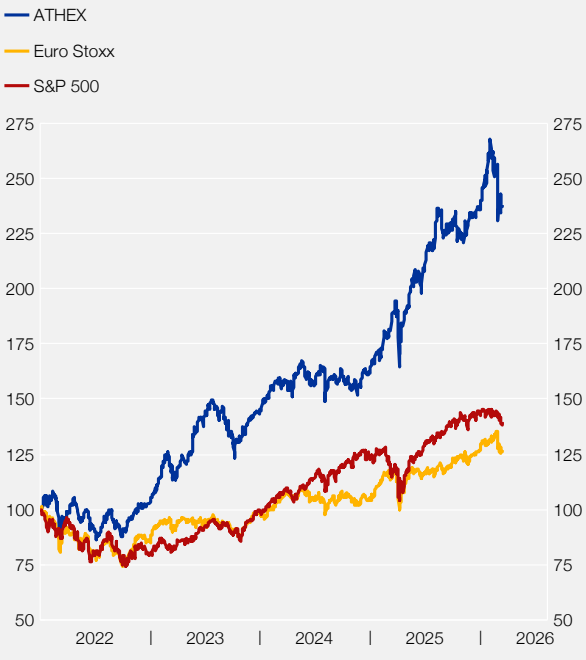
The sovereign credit rating upgrades have significantly increased the financial resources of Greek NFC bond issuers by improving their access to cheaper and more abundant financing. Specifically, over the 2022-25 period, Greek NFCs narrowed their borrowing cost differential relative to comparable euro area firms by 87 basis points, while simultaneously expanding their net market-based borrowing, despite the restrictive monetary policy environment. This enhanced their net profitability and freed up financial resources for investment and broader business expansion. Indeed, following the upgrades to Greece's sovereign creditworthiness, Greek NFC bond issuers have recorded significant increases in investment, employment and overall activity, strengthening their contribution to the domestic economy. Their share in Greek NFC sector GVA increased to about 16% in 2023-24, from roughly 12.5% before the sovereign credit rating upgrade to investment grade, offering compelling evidence of an indirect channel linking sovereign credit rating improvements to stronger real economic activity.

4 THE STOCK MARKET

The shares of companies listed on the Athens Exchange (ATHEX) posted considerably stronger gains in 2025 than their European or global peers and continued to overperform in early 2026, despite falling valuations and surging volatility in international stock markets because of the war in the Middle East (change in ATHEX 1.1.-31.12.2025: +44.3%; see Chart IX.13).[17] At a sectoral level, the positive performance of the ATHEX composite share price index was driven by the shares of Greek banks, while all sectoral indices showed gains. It should be noted that, on the basis of the latest available data, ATHEX-listed companies' financial results and key financial indicators strengthened in 2025 year-on-year. It is also worth mentioning that capital expenditure and outstanding corporate borrowing increased, in tune with the Greek economy's robust performance.

Chart IX.13 Share price indices (January 2022 - March 2026)

(1.1.2022=100, daily data)



Source: LSEG.
Note: The indices were rebased to the beginning of 2022, i.e. the share prices as at 1 January 2022 are set at 100 and all other observations capture the evolution of the indices relative to the reference value.

Seven companies were listed on the Athens Exchange markets and six companies were delisted in 2025, while one company was delisted in the first months of 2026. Furthermore, larger capital increases were carried out by ATHEX-listed companies of the non-financial sector. Including the newly listed companies, the total amount of funds raised came to EUR 2.15 billion in 2025, against EUR 0.3 billion in 2024. Lastly, trading activity on the Athens Exchange (average daily volume of transactions) in 2025 amounted to EUR 217 million, up by about 57% in 2024. In early 2026, trading activity grew substantially, as the average daily volume of transactions stood at EUR 376 million during 1.1.-20.3.2026, i.e. more than doubled compared with the respective period of 2025.

17 Amid heightened uncertainty in international capital markets, volatility levels increased in 2025, with the annualised volatility of daily returns standing at 18.3%, up by 4.2 percentage points, year-on-year. During 1.1.-20.3.2026 the level of volatility came to 26.2%, up by 13.4 percentage points, year-on-year, owing to inflation expectations related to the war in the Middle East.

X ENVIRONMENT, ENERGY AND CLIMATE CHANGE

Humanity's timely adoption of policies aimed at mitigating climate change and preventing a climate catastrophe has become, over the past twelve months, an even less consensual issue among governments worldwide, in an environment of rising trade and geopolitical tensions that is not conducive to international cooperation.

Indicatively, the final text (known as the Global Mutirão) of the 30th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC COP30, November 2025) was essentially limited to observations and declarations of intent, without any explicit reference to the goal of transitioning away from fossil fuels. While in the United States policies for tackling climate change and protecting the environment are being systematically rolled back, the European Union (EU) promotes the simplification of established climate and environmental rules, taking into account the interests of sectors such as agriculture or the automotive industry.

The hostilities in Iran and the wider Gulf region that broke out on 28 February 2026, with the effective closure of the Strait of Hormuz, have led to the greatest disruption in the history of the global oil market, according to the International Energy Agency.

A definitely positive exception to this negative picture is the continuing rapid expansion of global renewable power capacity, as highlighted in a report by the International Energy Agency.

1 GLOBAL DEVELOPMENTS AND POLICIES ON CLIMATE CHANGE AND ENERGY, SCIENTIFIC PROGRESS AND REPORTS[1]

The factors that have adversely affected humanity's fight to prevent a catastrophic climate change over the past twelve months were the same as those identified in the *Annual Report 2024*. In particular:

First, the fallout of the wars in Ukraine and the Middle East continued to affect energy supply and prices (albeit to a lesser extent), as well as the free movement of raw materials and commodities. On account of the hostilities in Iran and the Gulf region, the 32 member countries of the International Energy Agency agreed on 11 March 2026 to make 400 million barrels of oil from their emergency reserves available to the market to address disruptions in oil markets.[2] In addition, the shift towards nuclear power for electricity generation was further reinforced.[3]

Second, the more protectionist stance of US trade policy hampers global trade in critical raw materials or products necessary for the green transition, e.g. rare earths or electric cars, although this is partly counterbalanced by the conclusion of bilateral or multilateral trade agreements among countries.

1 The cut-off date for information and data used in this chapter is 17 March 2026. For information on the Bank of Greece's sustainability and climate actions in 2025, see the *Bank's Annual Financial Report* (in Greek).

2 See https://www.iea.org/reports/oil-market-report-march-2026 and https://www.iea.org/news/iea-member-countries-to-carry-out-largest-ever-oil-stock-release-amid-market-disruptions-from-middle-east-conflict.

3 See the statement of 34 countries (including France, the United Kingdom, Italy, Greece, Canada and Japan) at the Nuclear Energy Summit held on 10 March 2026, the speech by the President of the European Commission at the same summit and the opposite opinion of the German government.

Third, on 7 January 2026, the US President specified (through a presidential memorandum[4]) the executive order of 4 February 2025,[5] detailing the withdrawal of the United States from 66 international organisations and bodies (31 of which are linked to the UN), including the UN Framework Convention on Climate Change (UNFCCC) and the Intergovernmental Panel on Climate Change (IPCC). The refusal of the United States to undertake any financial commitments towards these organisations poses an additional challenge. These actions are also accompanied by major domestic policy measures, such as the repeal of legislative regulations on emissions and the environment, the termination of funding for wind and solar energy projects (even by revoking licences that had already been granted), the promotion of fossil fuels and the discontinuation of funding for scientific research on climate change. Notably, on 12 February 2026, the US Environmental Protection Agency "revoked" the 2009 scientific finding that greenhouse gas emissions pose a threat to human health, as well as all regulations that had been based on that finding and imposed emission limits on cars and other vehicles.[6] This decision paves the way for the abolition of measures concerning industrial emissions.

Fourth, on 26 February 2025, the European Commission put forward a package of proposals to simplify EU rules and reduce the administrative burden, boost competitiveness and unlock additional investment capacity,[7] many of which were legislated in February-December 2025.[8] As mentioned previously, some regulations introduce adjustments to the currently applicable climate and environmental rules, also taking into account the interests of sectors such as agriculture or the automotive industry. In early November 2025, Member States agreed on a target of a 90% reduction in emissions compared to 1990 levels by 2040, subject to the possibility of partially using carbon emission credits. Besides, preparations have advanced for the EU's expanded Emissions Trading System (ETS2), which will be fully implemented in 2027, covering the sectors of buildings, road transport and small industry that are not covered by the existing scheme. Under the new ETS2 scheme, allowances will be traded by fuel suppliers rather than by end-users (e.g. households or car users).[9] Finally, on 17 January 2026, after 25 years of efforts, the EU signed the landmark free trade agreement with Mercosur countries (Brazil, Argentina, Paraguay and Uruguay). Prior to this, certain Member States and farmers' associations (mostly in France) had voiced their opposition, concerned about competition from imports of agricultural products from these countries, which may have not been produced under strict environmental standards (e.g. with respect to the use of pesticides). Besides, on 21 January 2026, the European Parliament decided to refer the agreement to the EU Court of Justice, seeking its opinion on the agreement's compatibility with the EU Treaties. However, on 27 February 2026, the President of the European Commission announced the provisional application of the agreement (pursuant to Article 218 of the Treaty on the Functioning of the EU), pending its formal entry into force after approval by the European Parliament.

Fifth, global average temperature continues to rise. According to the latest report of the EU's Copernicus Climate Change Service, global average temperature exceeded pre-industrial levels by more than 1.5°C in the three-year period 2023-25, while the same is expected for the ten-year average before 2030 (whereas in 2015, when the Paris Agreement was signed, it was pro-

4 https://www.whitehouse.gov/presidential-actions/2026/01/withdrawing-the-united-states-from-international-organizations-conventions-and-treaties-that-are-contrary-to-the-interests-of-the-united-states/.

5 https://www.whitehouse.gov/presidential-actions/2025/02/withdrawing-the-united-states-from-and-ending-funding-to-certain-united-nations-organizations-and-reviewing-united-states-support-to-all-international-organizations/.

6 See https://www.epa.gov/newsreleases/president-trump-and-administrator-zeldin-deliver-single-largest-deregulatory-action-us and https://www.govinfo.gov/content/pkg/FR-2026-02-18/pdf/2026-03157.pdf for the relevant press release and the decision.

7 The proposals covered "a far-reaching simplification in the fields of sustainable finance reporting, sustainability due diligence, EU Taxonomy, carbon border adjustment mechanism and European investment programmes".

8 See https://commission.europa.eu/law/law-making-process/better-regulation/simplification-and-implementation/simplification_en and https://taxation-customs.ec.europa.eu/news/cbam-successfully-entered-force-1-january-2026-2026-01-14_en.

9 See https://climate.ec.europa.eu/eu-action/carbon-markets/ets2-buildings-road-transport-and-additional-sectors_en.

jected that, in the absence of policy measures, this would not occur until 2040).[10] The expected – "inevitable" as described – overshooting of the target had already been mentioned by the UN Secretary-General at the Extraordinary Session of the World Meteorological Congress on 22 October 2025.[11] These developments continue to be coupled with extreme weather events around the world,[12] resulting in the loss of human lives, destruction of infrastructure and severe consequences for the economy, the environment and biodiversity. Government budgets and the private insurance sector are similarly burdened.[13]

At the 30th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP30), hosted in Belém, Brazil, on 10-21 November 2025, no important decisions were taken for the first time. The final text[14] (Global Mutirão: Uniting humanity in a global mobilisation against climate change) that was adopted in the above conference on climate change acknowledges the progress achieved during the first ten years of implementing the Paris Agreement, reaffirms the decisions of previous Conferences and stresses the need for their swifter implementation. Nevertheless, as in COP29, there is no explicit reference to the general direction of transitioning away from fossil fuels that was adopted in COP28.

Before COP30, the UN Environment Programme (UNEP) published two reports: (a) on 29 October 2025, the *Adaptation Gap Report 2025 – Running on empty*, the key message of which was that, amid rising global temperatures and intensifying climate impacts, a yawning gap in adaptation finance for developing countries is putting lives, livelihoods and entire economies at risk;[15] and (b) on 4 November 2025, the *Emissions Gap Report 2025 – Off Target*, which finds that by 30 September 2025 only a third of parties to the Paris Agreement had submitted their reports on their planned contribution to emissions reduction and that these climate pledges only slightly lower dangerous global warming projections.[16]

Moreover, according to a key finding of the International Rescue Committee's *2026 Emergency Watchlist – New World Disorder*,[17] while conflicts are escalating at historically high levels and their consequences are compounded by climate change and poverty, international humanitarian aid is collapsing. It should be noted that, according to the study by Chrysanthakopoulos and Tagkalakis (2026), reconstruction expenditure covered by international financial assistance can mitigate the negative effects of natural disasters on economic development in the medium term, especially in emerging market economies.

Finally, according to the report *Renewables 2025 – Analysis and forecasts to 2030* (7 October 2025) of the International Energy Agency,[18] the installed power of renewable energy sources will more than double by 2030, with 80% of the increase being driven by solar energy.

10 See *2025 Global Climate Highlights*, 14.1.2026.
11 https://www.un.org/sg/en/content/sg/statements/2025-10-22/secretary-generals-remarks-the-high-level-event-early-warnings--for-all-the-extraordinary-session-of-the-world-meteorological-congress.
12 For instance, the natural disasters that hit Vietnam during 2025, with successive episodes of heavy rainfall, mudslides and floods, causing a significant human toll.
13 According to a recent study by the Bank of Greece (Bank of Greece Working Paper No. 354), which was based on 116 economies with data spanning the period from 1990 to 2022, natural disasters weigh on economic activity and primary balances, with the effects on real GDP being more pronounced in the case of extreme weather events and especially in developing economies. See Chrysanthakopoulos, C. and A. Tagkalakis (2026), "Natural disasters and the effects of reconstruction expenditure on output", *Economic Modelling*, Volume 156, March, 107458, https://doi.org/10.1016/j.econmod.2025.107458.
14 https://unfccc.int/sites/default/files/resource/cma2025_L24_adv.pdf.
15 See "Key Messages", 29.10.2025.
16 See https://www.unep.org/news-and-stories/press-release/new-climate-pledges-only-slightly-lower-dangerous-global-warming and https://wedocs.unep.org/rest/api/core/bitstreams/b95235f9-ab3d-4f30-9db8-2c24065de3ad/content.
17 https://www.rescue.org/eu/watchlist2026.
18 See https://www.iea.org/news/global-renewable-capacity-is-set-to-grow-strongly-driven-by-solar-pv and https://iea.blob.core.windows.net/assets/76ad6eac-2aa6-4c55-9a55-b8dc0dba9f9e/Renewables2025.pdf.

For nature as a risk factor for the economy and the financial system of the euro area, as well as for the need to manage water resources, see Box X.1 (for the interlinkages between nature and the economy, see also the keynote speech by Frank Elderson, Member of the Executive Board of the ECB, entitled "Nature's bell tolls for thee, economy!", at the Biodiversity Center in Leiden).[19] For the impact and the socio-economic implications of the green investment gap in the EU, see Box X.2. Finally, for an assessment of the impact of climate change on agriculture and proposals for climate change adaptation measures, see Box A in Special Feature 2 of Chapter IV.

Below is a list of noteworthy actions, 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, such as a comparative analysis of macroeconomic forecast models for assessing the macroeconomic effects of the increase in energy prices[20] and an analysis on the integration of adaptation and resilience into credit institutions' transition plans;[21]

(b) release of a declaration, on the occasion of the COP30, about the economic cost of climate inaction[22] and publication of an updated practical guide for carrying out climate stress testing exercises;[23]

(c) development of tools, such as short-term climate stress testing scenarios,[24] and publication of explanatory notes on the use of NGFS long-term scenarios.[25]

— **Basel Committee on Banking Supervision (BCBS):** publication of a voluntary framework for the disclosure of climate-related financial risks by banks.[26]

— **European Banking Authority (EBA):** guidelines on conducting environmental risks scenario analysis,[27] jointly published with the other European Supervisory Authorities (the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA)). Publication of guidelines on the stress testing of environmental, social and governance (ESG) risks by supervisors.[28] Also, publication of indicators on climate risk (ESG dashboard) across European Economic Area credit institutions[29] and of a report on the availability and accessibility of data related to ESG risks.[30] It is worth mentioning the publication of proposals put forward to public consultation about the identification of exposures within sectors and geographical areas to which a systemic risk buffer may be applied.[31]

— **European Central Bank (ECB):** announcement of the integration of climate-related transition risks (by introducing a climate factor) into the Eurosystem's corporate bond collateral framework, publication of a study on nature-related risks that affect the economy and financial sta-

19 https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250522~b371549cb6.en.html.
20 NGFS, Macroeconomic effects of carbon-intensive energy price changes: A model comparison, 23.9.2025.
21 NGFS, Input paper on Integrating Adaptation and Resilience into Transition plans, 22.7.2025.
22 NGFS, NGFS Declaration on the Economic Cost of Climate Inaction, 5.11.2025.
23 NGFS, Guide to climate scenario analysis for central banks and supervisors – 2025 version, 19.11.2025.
24 NGFS, Short-term Climate Scenarios for central banks and supervisors, 7.5.2025.
25 NGFS, 2025 Explanatory notes on NGFS long-term scenarios, 7.11.2025.
26 BCBS, Basel Committee publishes framework for voluntary disclosure of climate-related financial risks, 13.6.2025.
27 EBA, Final Guidelines on environmental scenario analysis, 5.11.2025.
28 EBA, Final Report on Joint ESAs Guidelines on ESG Stress Testing, 8.1.2026.
29 EBA, The EBA publishes key indicators on climate risk in the EU/EEA banking sector, 25.4.2025.
30 EBA, Report on data availability and feasibility of common methodology for ESG exposures, 24.2.2025.
31 EBA, EBA launches consultation on amendments to Guidelines on the systemic risk buffer, 29.1.2026.

bility in the euro area[32] and publication of updated climate change-related statistical indicators for Member States.[33] In addition, the ECB published an updated future action plan for further integrating considerations related to climate change and ecosystem degradation.[34]

— **European Insurance and Occupational Pensions Authority (EIOPA):** proposal for the development of a publicly accessible tool addressed to property owners that will raise awareness and promote prevention of natural catastrophe risks[35] and publication of an analysis on the integration of climate change scenarios into the Own Risk and Solvency Assessment (ORSA) of (re)insurance undertakings across Europe.[36] In addition, publication of the Insurance Risk Dashboard, which assesses ESG indicators to be overall at a medium level with a stabilising trend.[37]

— **European Securities and Markets Authority (ESMA):** publication of (a) European common enforcement priorities for the 2025 annual corporate sustainability reporting;[38] and (b) guidelines on enforcement of corporate sustainability information.[39] Jointly with the other European Supervisory Authorities (EBA and EIOPA): publication of an annual report on the disclosure of sustainability information under the Sustainable Finance Disclosure Regulation (SFDR)[40] and publication of implementing technical standards for the Green Bonds Regulation.[41]

— **European Commission:** publication of a package of proposals to simplify the requirements of EU laws on sustainable finance, e.g. the EU Taxonomy Regulation and the Corporate Sustainability Reporting Directive (CSRD),[42] and of proposals to simplify disclosures related to sustainable financial products under the SFDR Regulation.[43]

32 ECB (2025), "Nature at risk: Implications for the euro area economy and financial stability", Occasional Paper No. 380, December.
33 ECB, Climate change-related indicators.
34 ECB, "ECB advances climate and nature work after delivering on 2024-2025 plan", 16.1.2026.
35 EIOPA proposes natural catastrophe risk scores for buildings to encourage proactive risk prevention by home and business owners, 3.12.2025.
36 EIOPA, Public Statement on the monitoring exercise on the use of climate change scenarios in the ORSA, 23.7.2025.
37 EIOPA, Insurance Risk Dashboard, 30.01.26.
38 ESMA announces 2025 European Common Enforcement Priorities and results of fact-finding on materiality considerations in sustainability reporting,14.10.2025.
39 ESMA, Guidelines on Enforcement of Sustainability Information, 29.4.2025.
40 ESMA, Report on the Principal Adverse Impact disclosures under the Sustainable Finance Disclosure Regulation, 9.9.2025.
41 ESMA, "Final Report – Technical Standards on the European Green Bonds Regulation" (14.2.2025 and 15.10.2025).
42 European Commission, Omnibus I package – Commission simplifies rules on sustainability and EU investments, delivering over €6 billion in administrative relief, 26.2.2025.
43 European Commission, Commission simplifies transparency rules for sustainable financial products, 20.11.2025.

Box X.1

NATURE AS A RISK FACTOR FOR THE ECONOMY AND THE FINANCIAL SYSTEM OF THE EURO AREA AND THE NEED TO MANAGE WATER RESOURCES

The euro area economy heavily relies on nature and the ecosystem services it provides.[1] ECB surveys have shown that approximately 72% of non-financial corporations in the euro area are highly dependent on at least one ecosy-

1 Ecosystem services are categorised as follows: provisioning services (such as food, water, wood), regulating services (such as climate regulation), cultural services (such as recreation) and supporting services (such as soil formation, pollination). Source: Ecosystem services – EUR-Lex.

stem service. These corporations account for three quarters of total corporate bank lending in the euro area.[2,3] However, nature is increasingly threatened by anthropogenic factors that cause its degradation and reduce its ability to adequately support human activities, posing, among other things, risks to financial stability and the economy.

Indeed, in a relevant study,[4] the ECB, in collaboration with the academic and the research community, developed a methodology to estimate the dependency of euro area economies on services provided by nature. The methodology determines an indicator called Nature Value-at-Risk (NVaR), which captures the financial risk arising from degradation and the loss of services provided by nature for the euro area economies, by economic sector. The NVaR indicator measures the share of the value of sectoral economic output that might be at risk, based on extreme (but probable) scenarios of ecosystem-service degradation.

This methodology highlighted water scarcity (both surface water and groundwater scarcity),[5] combined with regionally declining water quality, as highly material nature-related risks that represent the most significant threat to the euro area economy. Three main drivers are at play in this context: continued climate change; the overexploitation of water resources; and pollution. In addition, pressure on water resources can provoke cascading effects on many sectors of the economy. For instance, dry soils reduce agricultural crop yields and increase the need for efficient irrigation, while reduced river flows limit hydro-electric power generation and hamper inland navigation in certain countries.

The above ECB analysis also showed that in cases of extreme, but probable, drought events (with a 100-year return period, or 1% annual probability), almost 24% of aggregate euro area economic output would be exposed to risk. This risk concerns all euro area countries, though being greater in Southern countries. Agriculture emerged as the most exposed sector, with potential output losses reaching 30% under a moderate drought scenario (corresponding to a 1-in-25-year event, or 4% annual probability) and 38% under an extreme drought scenario. In other sectors, such as manufacturing, mining, water supply, construction, publishing, and accommodation and food services, more than 20% of their output is at risk of loss even under moderate drought conditions.

Mapping these results to euro area bank portfolios revealed that around 19% of loans are exposed to surface water scarcity and 22% to groundwater scarcity, while 12% are linked to risks from degraded water quality. The loans that seem to be most affected by surface water and groundwater scarcity are those related to activities in real estate, manufacturing, wholesale and retail trade, mining and construction. At the same time, loans affected by declining water quality are mainly linked to activities in manufacturing and mining, as these sectors are heavily dependent on water quality.

Greece presents a serious vulnerability due to the lack of adequate, high-quality water resources. The Climate Change Impacts Study Committee (CCISC) of the Bank of Greece, in a relevant study, has highlighted the crucial role of water resources, especially for agriculture which is a prime consumer of water. In climate change conditions, water resources are under strain, due to, among other things, decreased rainfall, increased irrigation needs, the higher concentration of pollutants in a smaller volume of water resources and aquifer salination. In the coming years, the agricultural sector is estimated to face increasingly lower crop yields and rising irrigation costs due to the lack of adequate – in terms of both quality and quantity – water.[6] The Bank of Greece, in the context of the CCISC's research activities and the eight-year long project "LIFE-IP AdaptInGR – Boosting the implementation of adaptation policy across Greece" (2019-26), will publish a new study assessing the

2 ECB/ESRB (2023), *Towards macroprudential frameworks for managing climate risk – December 2023*.
3 See Box X.2 "The degradation of ecosystems and biodiversity loss pose risks to the economy and the financial system", Bank of Greece (2024), *Annual Report 2023*.
4 ECB (2025), "Nature at risk: Implications for the euro area economy and financial stability. Economic and financial risks stemming from degradation of ecosystem services", Occasional Paper No. 380. These scenarios constitute vulnerability assessments rather than forecasts.
5 According to the definitions in Article 2 of Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy (Water Framework Directive).
6 CCISC (2011), *The environmental, economic and social impacts of climate change in Greece*.

impacts of climate change on water resources, as well as on natural processes and human activities that are linked to or rely on them.

To address these challenges, policies are pursued and significant adaptation actions and measures are implemented at national and regional level. More specifically, Greece implements the EU Water Framework Directive and has taken important steps towards the integrated and reliable recording, assessment and management of water resources, with the aim of balancing water supply and demand.[7] Meanwhile, policies are pursued for the management of flood risks, marine protection, and the management of drought and water scarcity. Particular emphasis is also placed on protecting human health through quality standards for drinking water, as well as on reducing pollution from urban wastewater, in the context of the European Green Deal.[8] Moreover, targeted investment programmes are currently under way, such as "Hydor 2.0", an integrated programme[9] that aims to solve chronic problems related to the lack of irrigation water in many areas of the country, to improve water resource management, as well as to restore the quality of groundwater.

At the same time, there is significant scope for implementing interventions, economic policies and adaptation actions, such as introducing an appropriate pricing policy according to the principles of cost recovery and providing incentives for the efficient use of water resources, the reuse of treated wastewater and the implementation of new agricultural practices. The recent government announcements about its future interventions to fight the intensifying water scarcity in the primary sector and to further secure the country's water supply, should they be implemented, are expected to help address this challenge.[10]

The aforementioned studies and actions highlight the significant degree of vulnerability of both the euro area and Greece to risks arising from the degradation of nature and, particularly, from the lack of sufficient and high-quality water resources. In addition, these risks can also affect the economy and financial stability. Therefore, alongside the need for governments to adopt policies and take measures to address this challenge, it is also essential that relevant risks are duly incorporated into the work of central banks and supervisory authorities. Indeed, these risks are increasingly embedded into the actions of the central banks of the Eurosystem and the national supervisory authorities of the euro area. After the completion of the ECB's climate and nature plan for 2024-25, a priority for the ECB is to further assess the economic and financial consequences arising from nature- and water-related risks.[11] A deeper understanding of these risks will help assess the potential impacts of nature degradation on financial stability, inflation and the transmission of monetary policy. To achieve this goal, the research and development of appropriate risk analysis tools is crucial, as is cooperation with the scientific community, with a view to enhancing the data and methods for conducting risk analysis and assessment.

7 See River Basin Management Plans, Greek Ministry of Environment and Energy (in Greek).
8 See Water Resources, Greek Ministry of Environment and Energy (in Greek).
9 See Investment in the National Irrigation Network through PPP – "Hydor 2.0" Integrated Programme (in Greek).
10 See press release of the Greek Ministry of Rural Development and Food, 13 June 2025 (in Greek).
11 See "ECB advances climate and nature work after delivering on 2024-2025 plan", ECB press release, 16 January 2026.

Box X.2

THE GREEN INVESTMENT GAP: ITS IMPACT AND SOCIO-ECONOMIC IMPLICATIONS IN THE EUROPEAN UNION

The European Union (EU) set climate neutrality as one of its key objectives in 2019, under the European Green Deal. The need to achieve this is all the more urgent in the current period, as climate risks have increased and climate-related disasters are increasing in frequency and severity. Accelerating the green transition towards 2030 and beyond, and strengthening the EU's adaptive capacity to climate change are important challenges, given the particularly high investment needs in areas such as energy, sustainable infrastructure, decarbonisa-

tion, new technologies and climate change adaptation. However, there is a significant shortfall between the current funding of sustainable investment and the amount of finance required to achieve international and European climate targets. This shortfall is referred to as the green investment gap and mainly reflects challenges in channelling available funds into mature, investable and economically viable green projects. The green investment gap is one of the most significant obstacles to the green transition and is considered to have social, economic and environmental implications.

At EU level, total green investment necessary to achieve climate neutrality by 2030 is estimated at EUR 1.2 trillion per year, around 8.3% of its GDP in 2023. Historically, between 2011 and 2020, an average of EUR 764 billion per year was invested in projects related to reducing the EU's carbon footprint, equivalent to 5.1% of its GDP in 2023.

However, additional green investment is needed in order to align greenhouse gas emissions with the 55% reduction target.[1] The European Commission estimates that the annual green investment gap – defined as the investment needs in excess of past expenditure – amounts to EUR 477 billion of additional green capital investment per year, equivalent to 3.2% of the EU's GDP in 2023.[2]

The investment gap is larger for climate change adaptation projects, which account for around 10% of global climate investment,[3] with the bulk of funding directed towards mitigating the effects of climate change. Mitigation projects, such as renewable energy and electromobility, are easier to define and deliver more immediate and predictable returns, which is why they attract more resources, particularly private capital. By contrast, adaptation finance, although increasing in recent years, remains insufficient and focuses on long-term projects whose benefits are difficult to quantify. The provision of distorted incentives by governments,[4] the insufficient financing instruments and the difficulties in pricing climate risks, combined with the complex institutional financing frameworks, are key obstacles to mobilising capital and closing the green investment gap, particularly in adaptation projects.

To date, funding from the banking system and available public or European financial instruments have played a key role in implementing green projects. Most of the public funding available for the green transition comes from the Recovery and Resilience Facility (RRF), which allocates EUR 275 billion of the EUR 650 billion envelope to support climate objectives, in the form of grants and loans.[5] The investment gap may, eventually, be narrowed only to a limited extent due to the relatively low absorption rate of RRF funds, as only 28% of the funds available for the green transition – around EUR 77 billion – had been absorbed by early 2026.[6] The main reasons for the limited absorption of funds appear to be insufficient administrative capacity and complex governance structures, as well as the performance-based nature of the RRF, which disburses funds only upon the satisfactory fulfilment of specific targets and milestones. 2026 is considered a pivotal year for the EU, as major temporary financing instruments supporting the green transition, such as the RRF, are set to expire. The gradual transition from the RRF to new European support programmes for 2026-32, such as the Social Climate Fund,[7] which aims to tackle energy poverty, and the Modernisation Fund,[8] which supports infrastructure upgrades, will play an important role in mitigating the risk of a slowdown in green investment.

Looking ahead, mobilising private investment in large-scale projects through blended finance – where public funds are deployed to scale up private investment – will be key to narrowing the green investment gap.[9] In addi-

1 Council of the EU, Fit for 55 package.
2 Andersson, M., P. Köhler-Ulbrich and C. Nerlich (2025), "Green investment needs in the EU and their funding", ECB, *Economic Bulletin*, Issue 1/2025.
3 World Resources Institute, Adaptation Finance, Explained.
4 OECD (2025), "Scaling up finance and investment for climate change adaptation", OECD Net Zero+, Policy Paper No. 7.
5 European Commission, Recovery and Resilience Facility for clean energy.
6 European Commission, Recovery and Resilience Scoreboard.
7 European Parliament, Social Climate Fund: Parliament's ideas for a just energy transition.
8 Climate-ADAPT, Funding opportunities at EU and Member State level | Funding | Portal of the EU mission on Adaptation to Climate Change.
9 European Commission, Finance and the Green Deal.

tion, private investment can be indirectly supported by the public sector through subsidies and government guarantees. Public sector incentives also play a key role in lowering financing costs and tax burdens for borrowers, as well as in de-risking green investments through partial risk-sharing mechanisms.

The mobilisation of private investment requires continuous and sustainable financing; however, unlocking it requires eliminating existing barriers, establishing a stable institutional framework and improving transparency. Frequent changes in regulation, subsidies and taxonomies can create a vicious circle of persistent underinvestment.[10] Finally, skills shortage among the implementing entities, together with limited capacity to develop mature projects, results in low absorption of available funds.[11]

The economic implications of the green investment gap

The green investment gap is not merely an accounting or financial measure, but a critical economic and development risk with implications for macroeconomic and financial stability,[12] market functioning and beyond. A widening green investment gap raises the cost of inaction, as it leads to higher future spending on repairing damage caused by extreme weather events, lower GDP in affected countries and increased pressure on their public finances. In addition, it raises the cost of capital for green projects and discourages the reallocation of capital towards sustainable solutions, leaving the financial system exposed to climate-related risks.[13] Delayed and insufficient funding for environmentally friendly innovations increases the risk of stranded assets (i.e. assets that become obsolete due to regulatory changes) and may lock economies into carbon-intensive practices. Furthermore, the risk of "greenwashing" – where investments are classified as "green" without delivering substantial environmental benefits – should not be overlooked, as it may undermine the effectiveness of sustainable finance and further slow the transition.[14]

The social implications of the green investment gap

The green investment gap is neither socially nor geographically neutral, as insufficient financing for green investments disproportionately affects the most vulnerable social groups and regions, which are most exposed to the impacts of climate change.[15] At the global level, the investment gap brings to the fore climate justice issues and generates geopolitical tensions, as developing countries, despite contributing less to global emissions, are confronted with higher investment needs and limited access to affordable finance. Moreover, many vulnerable communities are located in high-risk areas, including regions affected by conflict or other forms of instability.[16]

It is estimated that the investment gap for adaptation projects in developing countries will amount to USD 310-365 billion per year by 2035, while current adaptation finance flows from developed to developing countries amount to only around USD 26 billion – 12 to 14 times less than needed.[17] This lack of investment in adaptation projects, such as resilient infrastructure, social services and early warning systems, exacerbates social vulnerability and places lives, incomes and entire economies at risk, heightening the risk of poverty and social exclusion. It also increases exposure to the impacts of climate change, including diseases related to rising temperatures, housing degradation and limited access to essential services.

More generally, countries' growth prospects are critically affected by the green investment gap, as it delays the creation of sustainable jobs and undermines a smooth transition to a green economy.[18] Moreover, limited funding for clean technologies and green skills reduces employment opportunities, especially in regions reliant on carbon-intensive industries.

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11 European Investment Bank (2023), "Skills shortage is delaying the green transition, EIB Municipality Survey shows".
12 Climate-ADAPT, Financial | Adaptation in EU policy sectors.
13 OECD (2024), "Bridging the clean energy investment gap: Cost of capital in the transition to net zero emissions", OECD Environment Working Paper No. 245.
14 OECD (2024), "Aligning finance with climate goals", OECD Net Zero+ Policy Paper No. 4.
15 World Resources Institute (2025), Adaptation Finance, Explained.
16 European Commission, Peace and security – International Partnerships.
17 UNEP (2025), Adaptation Gap Report 2025.
18 OECD/UNDP (2025), *Investing in Climate for Growth and Development: The Case for Enhanced NDCs*.

In conclusion, the green investment gap is a key determinant of future economic, social and environmental sustainability globally. Timely, well-designed and regulation-consistent mobilisation of public and private capital is necessary to mitigate climate and economic risks and ensure the transition to a sustainable and resilient economy for societies. Managing and addressing this gap requires clear policies, transparency and credibility in green investments, as well as enhanced know-how and administrative efficiency among the actors involved. Early action is expected to strengthen competitiveness and create a strategic advantage for firms and economies that choose to move in this direction.

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_2 emissions) decreased by 8.9% in 2023 (-285.0 million tonnes of CO_2 equivalent ($MtCO_2e$)) compared to 2022, reaching 2,908.0 $MtCO_2e$ (see Table X.1). The largest decline in emissions in 2023 was observed in the energy sector, especially in public electricity and heat production, where emissions dropped by 22%, and represents the greatest decrease in emissions from electricity and heat production in the EU over the last 33 years. Emissions reduction in the energy sector was achieved under conditions of lower total energy consumption in 2023 and was attributed both to a marked decrease in coal and natural gas consumption and to a considerable increase in energy consumption from renewable sources (RES). The use of RES rose significantly in 2023, mainly owing to hydroelectric, wind and solar energy. Relative to 1990, total greenhouse gas emissions in the EU-27 dropped by 37.3% in 2023 (-1,727.0 $MtCO_2e$). The downward course over this 33-year period is attributed to a number of factors, including the increasing share of RES in the overall energy mix; the use of less carbon-intensive fossil fuels; improvements in energy efficiency due to better insulation standards in buildings; as well as structural changes in the economy, with a higher share of services and a lower share of industries (which are more energy-intensive) in total GDP. The largest decreases in pollutants resulted from energy production, manufacturing, the buildings sector, and iron and steel production (-658, -273, -175 and -133 $MtCO_2e$, respectively). Conversely, an increase in emissions was observed in road transport, in forest land, due to the ageing of forests and a smaller annual increment, as well as in refrigeration and air conditioning (+139, +101 and +51 $MtCO_2e$, respectively).[44]

The countries with the highest emissions in the EU-27 in 2023 were Germany (25.5%), France (11.7%) and Italy (11.4%). The majority of EU Member States contributed to the significant decrease in greenhouse gas emissions between 1990 and 2023, with Germany, Italy, France and Romania accounting for 63% of the overall emissions reduction. Common factors that supported the reduction in greenhouse gas emissions in most EU countries were the use of less carbon-intensive fuels, the switch from coal to natural gas and the considerable increase in the use of RES, as well as improvements in energy efficiency.

In general, certain policies both in the EU and in individual Member States have contributed to an overall reduction in greenhouse gas emissions, such as key agricultural and environmental policies in the 1990s and climate and energy policies over the last two decades. These policies include the implementation of the EU Emissions Trading System, as well as national policies for the sectors that do not fall under this system.

In Greece, greenhouse gas emissions dropped by 6.6% in 2023 compared to 2022, coming down to 67.8 $MtCO_2e$, a decrease that resulted mainly from energy-related activities. Higher living standards owing to economic growth, the significant expansion of the services sector, the

44 European Environment Agency, "Annual European Union greenhouse gas inventory 1990-2023 and inventory document 2025", EEA Report 12/2025.

Table X.1 Greenhouse gas emissions[1]

(in million tonnes of CO_2 equivalent)

Country	1990 ($MtCO_2e$)	2023	Change 2022-2023 (percentage changes)	Change 2023-2024	Change 1990-2023	Change 1990-2024
Austria	65.9	76.2	4.0	-2.3	15.7	13.1
Belgium	142.8	97.9	-4.4	0.7	-31.4	-30.9
Bulgaria	81.8	36.8	-25.4	-3.6	-55.0	-56.7
Croatia	25.2	19.9	1.2	-5.3	-21.1	-25.3
Cyprus	5.4	8.2	1.9	4.7	50.9	58.0
Czech Republic	186.7	98.9	-15.1	-6.4	-47.0	-50.4
Denmark	79.2	38.8	-8.4	-5.2	-51.0	-53.6
Estonia	35.3	13.0	-9.4	-3.3	-63.2	-64.4
Finland	49.4	53.1	-8.1	-1.4	7.5	6.0
France	524.2	339.0	-8.2	-2.1	-35.3	-36.7
Germany	1,288.4	740.7	-10.2	-5.4	-42.5	-45.6
Greece	101.7	67.8	-6.6	-4.1	-33.3	-36.0
Hungary	91.6	48.5	-8.4	-0.6	-47.1	-47.4
Ireland	60.8	58.8	-6.0	-2.0	-3.3	-5.2
Italy	519.1	331.2	-11.4	-3.5	-36.2	-38.4
Latvia	13.5	14.6	-7.6	-12.9	7.9	-6.1
Lithuania	43.2	12.6	0.2	10.6	-70.7	-67.6
Luxembourg	12.8	7.1	-5.0	-1.5	-44.5	-45.3
Malta	2.6	2.2	-0.6	-3.1	-14.1	-16.8
Netherlands	227.5	146.4	-6.7	-0.6	-35.6	-36.0
Poland	442.9	315.8	-8.3	-5.4	-28.7	-32.5
Portugal	63.3	51.2	-8.5	0.5	-19.1	-18.7
Romania	230.4	57.4	-10.2	19.3	-75.1	-70.3
Slovakia	64.6	28.3	-4.4	-1.3	-56.1	-56.7
Slovenia	14.5	10.5	-7.3	7.3	-27.3	-22.0
Spain	250.5	218.9	-9.4	-0.2	-12.6	-12.8
Sweden	11.9	13.2	24.3	23.5	11.0	37.0
EU-27	**4,635.0**	**2,908.0**	**-8.9**	**-2.8**	**-37.3**	**-39.0**

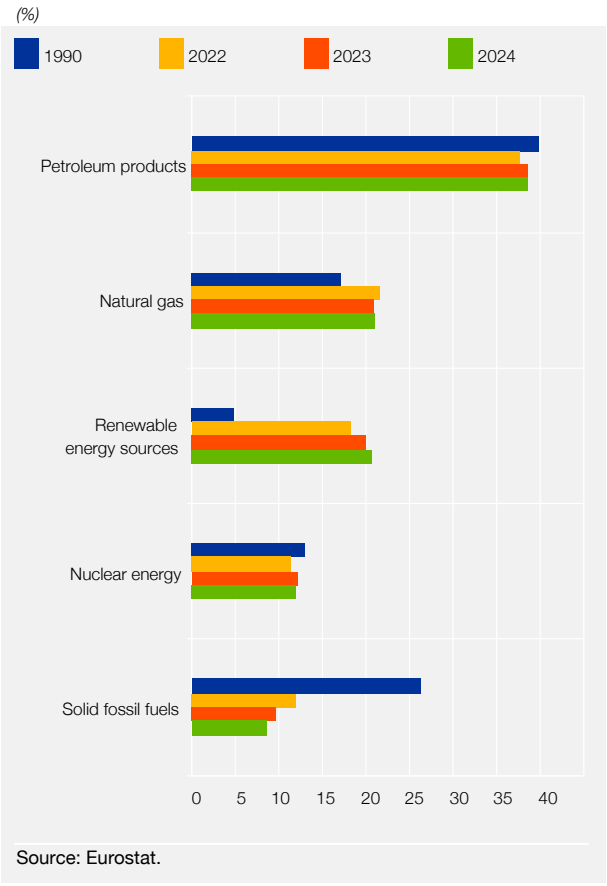
Sources: European Environment Agency, "Annual European Union greenhouse gas inventory 1990-2023 and inventory document 2025", EEA Report 12/2025. For 2024: European Environment Agency, "Approximated EU greenhouse gas inventory – Proxy GHG emission estimates for 2024", ETC CM Report 2025/03, October 2025.
1 Total GHG emissions, including land use, land use changes and forestry, and international aviation.

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 decrease in emissions can also be attributed to the significantly limited operation of lignite-fired plants, which were replaced with a higher share of natural gas and RES than in past years.[45]

The downward trend in greenhouse gas emissions in the EU-27 continued in 2024 as well, with an estimated drop of 2.8% relative to 2023 (-39.0% against 1990). Changes in 2024 are attrib-

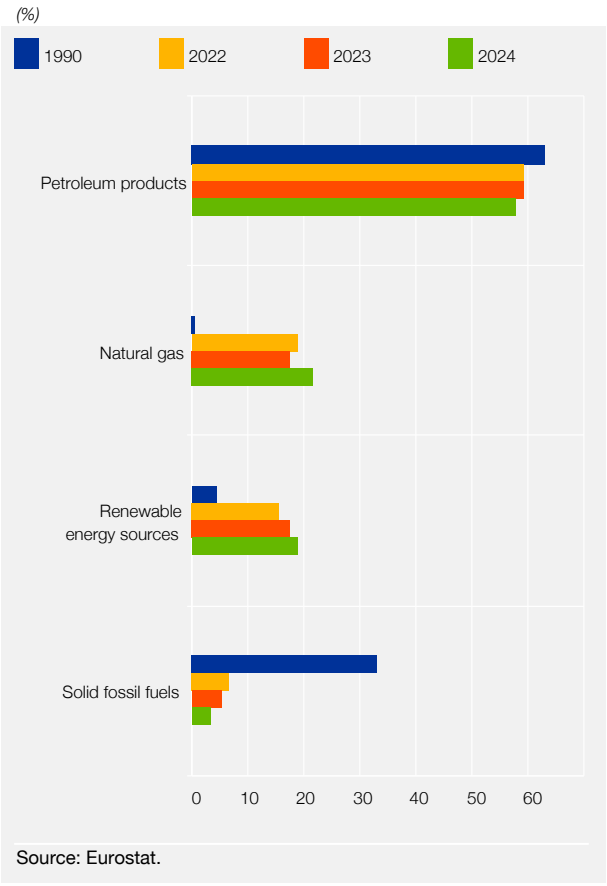
45 Hellenic Republic, Ministry of Environment and Energy, "National inventory report of Greece for greenhouse and other gases for the years 1990-2023", April 2025.

Chart X.1 Shares of energy products in total available energy in the EU-27



Source: Eurostat.

Chart X.2 Shares of energy products in total available energy in Greece



Source: Eurostat.

uted to various reasons, most notably the reduction in total final energy consumption. The shifts in fuel consumption in 2024 are mainly due to the energy crisis triggered by Russia's invasion of Ukraine. According to the Copernicus Climate Change Service, 2024 was globally the warmest year on record and the first with an average global temperature exceeding 1.5°C above the pre-industrial level. In the EU-27, warm days were fewer by 4% and cold days were more by 17% compared to 2023. Moreover, 23 Member States saw fewer warm days in 2024 relative to 2023, while 16 Member States saw more cold days. Total greenhouse gas emissions decreased in 19 Member States of the EU in 2024; however, the regional breakdown of changes differs significantly across Member States. Specifically, the greatest emissions reduction, in absolute terms, in 2024 compared to 2023 was observed in Germany, where emissions decreased by 40 $MtCO_2e$. Large emissions reductions were also observed in Poland and in Italy (-17 and -12 $MtCO_2e$). Romania registered the greatest change in absolute terms (+11 $MtCO_2e$), followed by Sweden and Lithuania (+3 and +1 $MtCO_2e$, respectively). As regards emissions percentage changes in 2024 compared to the previous year, the highest decreases were recorded in Latvia (-12.9%), in the Czech Republic (-6.4%) and in Poland (-5.5%), while the greatest increases were recorded in Sweden (+23.5%), in Romania (+19.3%) and in Lithuania (+10.6%).[46]

In the EU-27, the most important greenhouse gas is carbon dioxide (CO_2), which accounted for 78% of total emissions in 2023, including "land use, land use changes and forestry". In particular, CO_2 emissions (including "land use, land use changes and forestry") in 2023 amounted to 2,266 million tonnes, 37% below 1990 levels. Compared to 2022, CO_2 emissions dropped

46 European Environment Agency, "Approximated EU greenhouse gas inventory-Proxy GHG emission estimates for 2024", ETC CM Report 2025/03, October 2025.

by 11%, methane (CH_4) emissions dropped by 1.9% and nitrogen oxide (N_2O) emissions dropped by 0.5%.[47] As regards the greenhouse gas emissions breakdown by source of origin, the most polluting sector is energy (81% of total EU-27 emissions in 2023), followed by agriculture and industrial processes with shares of 13% and 9%, respectively.[48]

A breakdown of the energy mix in both the EU-27 and Greece in 2024 compared to 1990 highlights the considerable progress that has already been achieved in RES penetration, with a concomitant decrease in the share of fossil fuels in total energy. Specifically, in 2024, 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, against 39.0% in 1990); natural gas (20.6%, against 16.8% in 1990); RES (20.3%, against 4.8% in 1990); nuclear energy (11.7%, against 12.7% in 1990); and solid fossil fuels (8.4%, against 25.7% in 1990). As far as Greece is concerned (see Chart X.2), the respective shares were 56.9% for petroleum products (1990: 62.1%), 21.3% for natural gas (1990: 0.6%), 18.5% for RES (1990: 4.5%) and 3.3% for solid fossil fuels (1990: 32.6%).

47 European Environment Agency, "Annual European Union greenhouse gas inventory 1990-2023 and inventory document 2025", EEA Report 12/2025.

48 In Greece, carbon dioxide emissions accounted for 72.27% of total greenhouse gas emissions in 2023 (excluding "land use, land use changes and forestry") and were 37.69% lower than in 1990. Respectively, methane emissions accounted for 16.20% of total emissions, down by 7.0%, while nitrogen oxide emissions accounted for 5.16% of total emissions, down by 45.85%. As regards the breakdown of emissions by source of origin in 2023, the most polluting sector was energy (43.1%). Emissions from industrial processes accounted for 12.67% of total emissions, while emissions from agriculture and the waste sector accounted for 11.08% and 8.62% (Hellenic Republic, Ministry of Environment and Energy, "National inventory report of Greece for greenhouse and other gases for the years 1990-2023", April 2025).

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