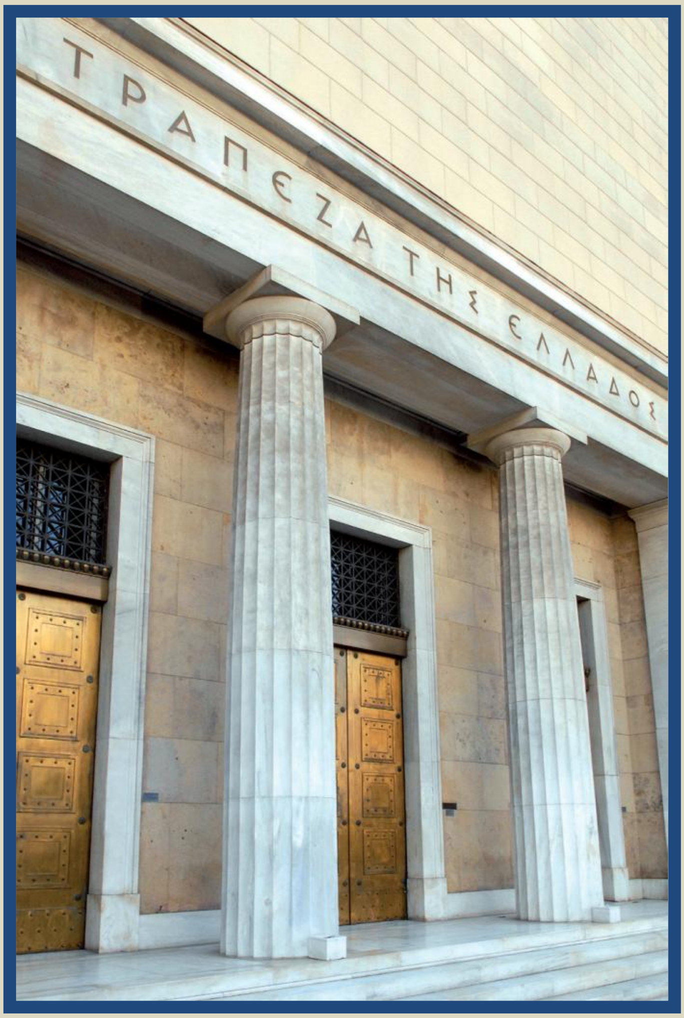
FINANCIAL STABILITY REVIEW

EXECUTIVE SUMMARY



May
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I. EXECUTIVE SUMMARY

Risks to the global and the European economies have intensified. Rising trade protectionism, heightened geopolitical tensions, particularly in the Middle East, and ongoing supply chain disruptions are weighing on the growth outlook. Mounting uncertainty in international energy markets has led to oil and gas price hikes, resulting in stronger inflation pressures and higher volatility in financial markets. In this environment, the risk of a sharp repricing of financial assets internationally remains elevated, compounded by a risk of stagflationary pressures. The implications for macroeconomic aggregates and the financial condition of businesses and households will largely depend on the duration and intensity of the conflict.

The Greek economy grew at a satisfactory pace also in 2025, despite the challenges stemming from the international environment. Real gross domestic product (GDP) growth stood at 2.1% (same as in 2024), outperforming the euro area average (1.4%). Economic growth was mainly driven by higher investment (which grew almost twice as much as in 2024) and private consumption, while the external sector also had a positive contribution. The significant strengthening of investment activity improved the investment-to-GDP ratio, indicating a gradual closing of the investment gap of the previous period. At the same time, foreign direct investment reached an all-time high, reflecting the improved investment sentiment and the confidence of international investors in the Greek economy. In addition, employment picked up in 2025, albeit at a milder pace than in 2024. Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), marginally declined to 2.9% in 2025, compared with 3.0% in 2024, remaining significantly above the euro area average (2.1%).

The Greek banking sector's fundamentals further strengthened in 2025. Profitability and asset quality improved further, while the capital adequacy of Greek banking groups remained at satisfactory levels. Moreover, liquidity remains high, above the Banking Union average. The successive credit ratings upgrades of banks during 2025 provided new momentum and attracted investor interest, as all Greek significant institutions are now within investment grade territory.

In 2025, Greek banking groups continued to benefit from favourable liquidity conditions, further tapping alternative sources of funding. The liquidity ratios of Greek banking groups remain well above prudential requirements. More specifically, in December 2025, the Liquidity Coverage Ratio (LCR) stood at 200.0% and the Net Stable Funding Ratio (NSFR) at 136.3%. The liquidity of Greek credit institutions and their smooth access to the interbank market and capital markets have enhanced their resilience to potential shocks.

The quality of credit institutions' loan portfolios improved. In December 2025, non-performing loans (NPLs) on a solo basis stood at EUR 5.7 billion, down by 5.2% from December 2024, mainly due to loan recoveries, sales and write-offs. The ratio of NPLs to total loans stood at 3.3% in December 2025 (from 3.8% in December 2024), as credit growth was accompanied by a decline in NPLs. This is the lowest level of the NPL ratio since Greece joined the euro area, having largely converged with the average for significant institutions within the Banking Union.

In 2025, Greek banks made progress in strengthening their operational risk management framework. Digital transformation, increased and sophisticated cyber threats, as well as significant dependence on third-party Information and Communication Technology providers necessitate the transition to a modern digital business resilience model.

Greek banking groups further improved their profitability. In 2025, Greek banking groups posted profits, after tax and discontinued operations, amounting to EUR 4.7 billion, compared with profits of EUR 4.2 billion in 2024. More specifically, the operating income of Greek banking groups in 2025 increased by 0.5% year-on-year. Despite credit growth, net interest income fell by 3.8%, affected by the cuts in key ECB interest rates, which started in June 2024 and continued into the first half of 2025. By contrast, net fee and commission income rose by 12.3%. As a result, core operating income (i.e. net interest income and net fee and commission income) fell by 0.7%. At the same time, gains from financial transactions decreased, while other operating income followed an upward path. Additionally, operating costs increased by 7.2%, mainly owing to higher administrative costs, while loan loss provisions declined by 26.4%. Banking groups' return on assets (RoA) and return on equity (RoE) stood at 1.3% and 11.8%, respectively.

The capital adequacy of Greek banking groups remained at satisfactory levels in 2025. Specifically, the Common Equity Tier 1 (CET1) ratio on a consolidated basis declined to 15.3% in December 2025, from 16% in December 2024, while the Total Capital Ratio (TCR) fell marginally to 19.7%, from 19.8% in December 2024. The differentiation in the development of these ratios mainly reflects the issuance of capital instruments that qualify as prudential own funds but are not classified under CET1 capital. Also, although Deferred Tax Credits (DTCs) still represent a substantial proportion of CET1 capital (December 2025: 40.1%, December 2024: 47%), their gradual amortisation has accelerated due to the implementation of a voluntary DTC amortisation plan.

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In the current macroeconomic and financial environment, implementing an appropriate macroprudential policy to prevent the build-up of systemic risks and to strengthen banking sector resilience is crucial. The Bank of Greece assesses on a quarterly basis the intensity of cyclical systemic risks and the appropriateness of the Countercyclical Capital Buffer (CCyB) rate for Greece and sets or adjusts it, if necessary. The analysis of the indicators examined by the Bank of Greece confirms that, overall, there is no excessive credit growth; however, the analysis points to emerging cyclical systemic risks in certain areas, such as credit to non-financial corporations, residential real estate prices and the current account. Moreover, the domestic macroeconomic environment, the further improvement of the banking sector's fundamentals and prudential ratios, as well as the restructuring of less significant institutions still favour the creation of macroprudential space to ensure financial stability over the medium term. Against this backdrop, the Bank of Greece decided to raise the CCyB rate for Greece by 0.25%, setting it at 0.5%, i.e. at the Positive Neutral Countercyclical Capital Buffer (PN CCyB) target rate, applicable from 1 October 2026.

In addition, the Bank of Greece identified Other Systemically Important Institutions (O-SIIs) in Greece for the year 2025, applying the relevant European Banking Authority (EBA) guidelines, 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 1.00% for the other three O-SIIs.[1]

Lastly, the Bank of Greece has put in place macroprudential borrower-based measures (BBMs) for loans and other credit to natural persons secured by residential real estate located in Greece, effective from January 2025. In more detail, a cap was introduced on the loan-to-value ratio at origination (LTV-O) of 90% for first-time buyers and 80% for second and subsequent borrowers, as well as a cap on the debt service-to-income ratio at origination (DSTI-O) of 50% for first-time buyers and 40% for second and subsequent borrowers.

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During 2025, the insurance sector stood up to the challenges deriving from the international environment, while successfully managing the growing demands for innovation and digital transition. The interest of credit institutions in acquiring qualifying holdings in the share capital of insurance undertakings reflects the sound fundamentals and the positive outlook of the sector.

Credit servicers play an important role in managing non-performing private debt in Greece. As of December 2025, the total value of exposures under management by credit servicers stood at EUR 91.5 billion, up by EUR 4.1 billion compared with December 2024, following the assumption of the management of new portfolios, mainly on behalf of credit acquirers. Of the total exposures under management, EUR 81.5 billion (or 89.1%) concern exposures managed on behalf of credit acquirers and the remaining EUR 10 billion (or 10.9%) concern exposures managed on behalf of credit/financial institutions. Regarding the portfolio structure managed by credit servicers, the largest share (84%) concerns non-performing exposures and the remaining (16%) performing exposures.

In 2025, Payment Institutions (PIs) and Electronic Money Institutions (EMIs) strengthened both their operating results and their capital base. The total value of payment transactions carried out in 2025 by PIs stood at EUR 66.1 billion, up by 6% compared with 2024. By contrast, the total value of payment transactions carried out by EMIs came to EUR 10.8 billion, down by 68.4% (EUR 23.5 billion) year-on-year. This drop is attributable to a merger by absorption of the largest EMI by the credit institution of the same group, resulting in payment services now being provided directly by the absorbing credit institution.

[1] It should be noted that on 12.12.2025 and 19.12.2025, respectively, the merger by absorption of Eurobank Ergasias Services and Holdings S.A. by Eurobank S.A. and the merger by absorption of Piraeus Financial Holdings S.A. by Piraeus Bank S.A. were completed. Consequently, the 1.25% rate is applicable to Eurobank S.A. on a consolidated basis and the 1% rate is applicable to Piraeus Bank S.A. on a consolidated and a solo basis.

In 2025, the financial system infrastructures, i.e. payment, clearing and settlement systems, operated effectively, ensuring secure and reliable transactions. A considerable year-on-year increase (73%) was recorded in the number of instant credit transfer transactions. Most of these transactions were carried out through the IRIS Payments service, which complies with Regulation (EU) 2024/886 and advances instant payments, while ensuring speed and security of transactions in Greece. Card fraud transactions and their related indicators also decreased, mainly due to enhanced prevention measures, effective cooperation between stakeholders and increased awareness of users of payment instruments.

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The outlook for the Greek economy remains favourable; however, the recent surge in geopolitical uncertainty is expected to dampen the growth momentum in 2026. According to the latest Bank of Greece projections, in 2026 the economy is expected to grow by 1.9%, while inflation is estimated to turn out at 3.1%. Risks to the Bank of Greece's growth forecasts are mainly tilted to the downside and relate primarily to the ongoing international geopolitical tensions, particularly the war in the Middle East. Therefore, the duration and intensity of the conflict will largely determine the domestic growth outlook. Nevertheless, the Greek economy is now better placed to absorb external shocks, owing to stronger fundamentals, structural reforms, and the accumulated experience from managing successive crises.

The strong fundamentals of the banking sector are critical for supporting the real economy. The outlook for the banking sector remains positive, despite heightened uncertainty, as banks are now much better placed than in the past to absorb potential shocks. In addition, enhanced competition in the domestic banking sector, thanks to the restructuring of less significant banks, also has a benign impact. However, the highly volatile external environment may affect the financial condition of firms and households in Greece. Rising raw material, energy and transport costs push up overall production costs, squeeze profit margins for businesses and, combined with supply chain shortages, hamper their operation. At the same time, heightened uncertainty and potentially higher financing costs are impacting on the investment sentiment and may lead to a postponement of business decisions. Also, rising inflation erodes household disposable income and dampens consumption. Therefore, a prolongation of the conflict in the Middle East for a protracted period could adversely affect banks' asset quality and the implementation of their credit growth targets. At the same time, it would increase cybersecurity risks and the possibility of a sharp repricing of financial assets worldwide.

The implementation of coherent policies by all stakeholders serves as a shield against exogenous risks. Banks must ensure the smooth financing of the real economy by applying prudent credit standards, taking advantage of their strong liquidity and further enhancing their capital adequacy. In addition, it is necessary to accelerate the processes for completing the Banking Union and to promote the Savings and Investments Union, as they are expected to deepen financial integration as well as enhance financial stability and competitiveness in the European Union.

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