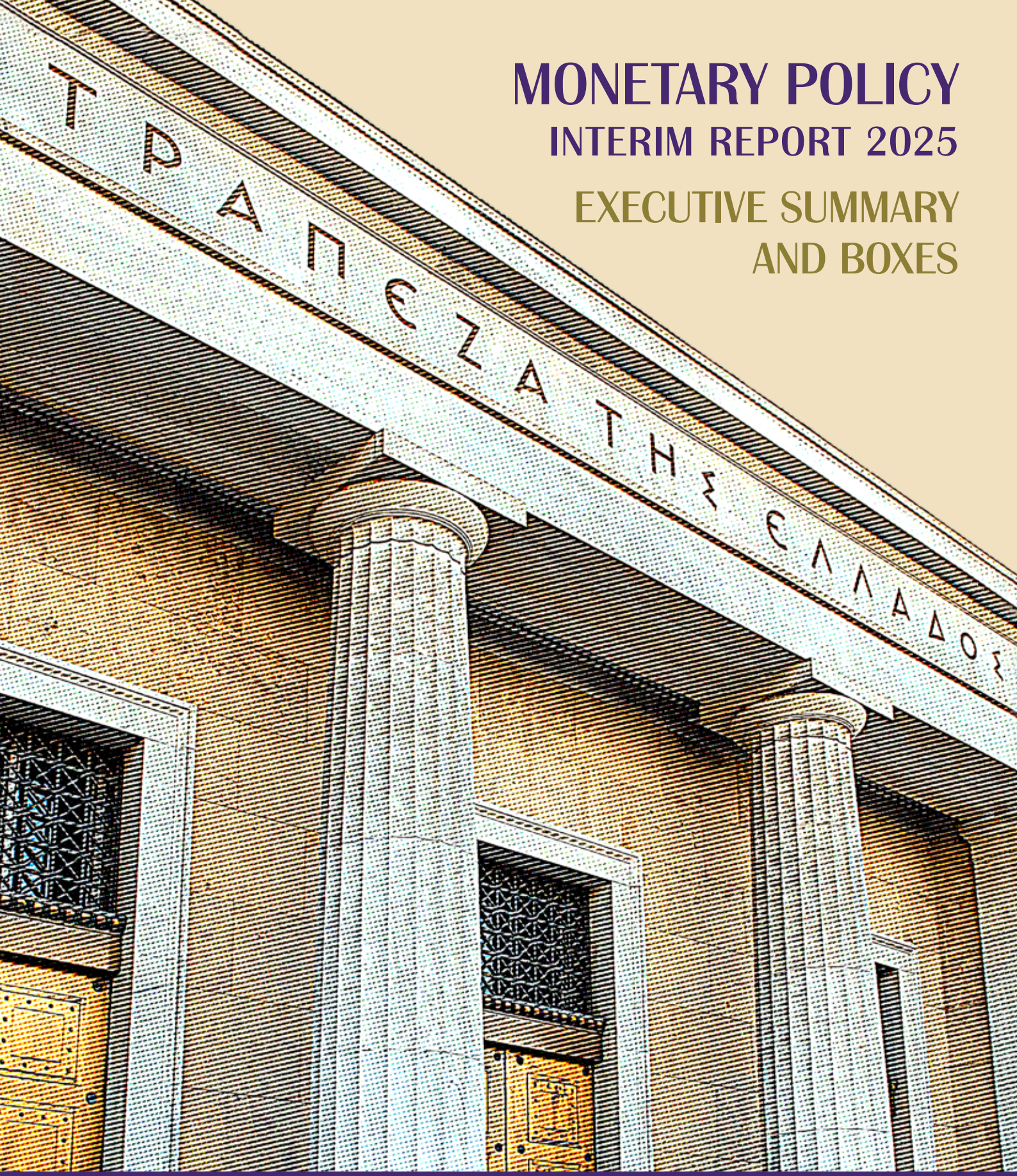
MONETARY POLICY
INTERIM REPORT 2025
EXECUTIVE SUMMARY AND BOXES



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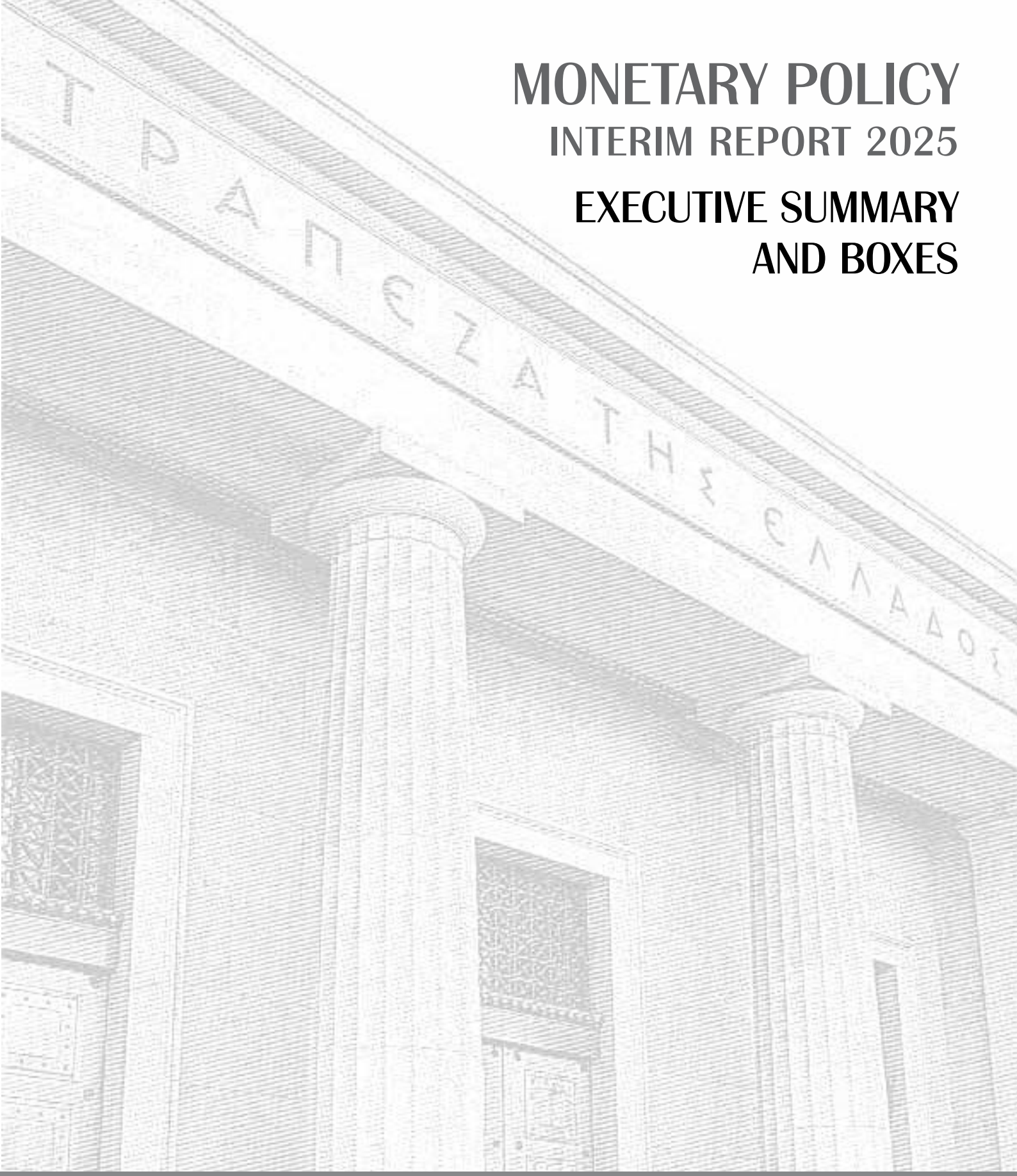

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Economic Analysis and Research Directorate

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EXECUTIVE SUMMARY

GREEK ECONOMY: ADDRESSING UNCERTAINTY AND TARIFFS AND ENSURING SUSTAINABLE GROWTH

1 INTRODUCTION

In 2025, the global economy proved more resilient than expected, despite the imposition of high US tariffs and heightened uncertainty. This year has witnessed a shift in US trade policy towards a protectionist stance after decades of commitment to free trade; this has given rise to turbulence and acute uncertainty in the global economic environment. At the same time, inside the US, fiscal choices and attempts to interfere with the conduct of monetary policy sustain uncertainty.

In the first quarter of the year, global economic developments were driven by a frontloading of industrial production and exports by countries other than the United States in response to a sharp increase in import demand ahead of the implementation of higher US tariffs, as well as by a spectacular rise in US investment in artificial intelligence. Subsequently, further support was provided by the easing of uncertainty, as a result of trade agreements concluded between the United States and its major trading partners (EU, China, UK).

Global trade also proved more resilient than the pessimistic forecasts of April 2025, confirming the adaptability of international supply chains and the robustness of foreign demand. However, the US weighted average tariff rate, although reduced compared to April, remains at a post-1930s high and, on a bilateral basis, now ranges between 10% and 20% for most countries. Therefore, although the initial trade policy uncertainty has markedly receded, in the course of time high tariffs are expected to have implications for global trade and growth, and for inflation, notably in the US.

In addition to trade restrictions, geopolitical tensions and economic policy uncertainty in major advanced economies are expected to keep global growth fragile and below the trend projected before the start of the trade war. In the euro area, economic activity showed significant fluctuations during the first half of 2025, followed by a marginal acceleration of GDP growth in the third quarter compared with the second quarter. The easing of uncertainty thanks to the trade agreements has helped strengthen economic confidence and is expected to further support the recovery. The short-term outlook for the euro area economy remains broadly positive: the labour market remains strong, with unemployment standing at historic lows. Over the medium term, real GDP is projected to keep growing, supported by rising real incomes due to lower inflation, an expected boost from increased defence and infrastructure spending, and the gradual unwinding of the restrictive effects of monetary policy. Inflation is close to the ECB's target and is set to stabilise at 2% over the medium term, as slowing wage growth, rising productivity and a stronger euro help contain inflationary pressures.

In an uncertain global environment, the Greek economy continued to expand in the first nine months of 2025, outperforming the euro area average. Domestic demand outpaces supply growth, particularly in sectors such as services, tourism and housing. In other words, the Greek economy is growing above potential, resulting in a positive output gap and inflationary pressures. Thus, headline inflation stood around the same level as last year, since the persistent rise in services and unprocessed food inflation prevented a faster decline in average annual inflation. The Greek real estate market continued to attract investor interest, both domestic and foreign. However, the issue of housing affordability remains at the heart of the social dialogue and at the top of the government's agenda. Turning to the labour market, in the first nine months of 2025 employment recorded a positive, albeit slowing, rate of change year-on-year, the un-

employment rate declined to a 17-year low, while labour market tightness is showing signs of moderate easing. The current account deficit declined markedly in the first ten months of 2025, mostly due to improvements in the balance of goods and the primary income account and, to a lesser extent, the services balance.

Fiscal indicators remain positive and the public debt as a percentage of GDP is declining rapidly. The overperformance of tax revenue against budget targets continued in 2025, reflecting improved tax and social security compliance as a result of the combatting of tax and contribution evasion, and a more efficient collection of taxes and social security contributions thanks to the digitalisation of procedures and the expansion of electronic transactions. This sustained positive momentum allowed the adoption of permanent expansionary fiscal measures effective from 2026, with a focus on reducing the tax burden on individuals and especially on the middle class, families with children and young workers.

In the banking sector, the cost of borrowing for non-financial corporations fell significantly in January-October 2025. Bank credit to firms strengthened over the same period, with its average annual growth rate picking up. The annual growth rate of credit to households turned positive in June 2025 for the first time since October 2010. Private sector deposits grew much more strongly than in the corresponding period of 2024. Greek banks recorded improved profitability, high capital adequacy and strong liquidity. The non-performing loans ratio decreased further, while the results of the 2025 EU-wide stress test confirmed the resilience of the Greek banking sector.

Satisfactory growth rates, overperformance of fiscal aggregates and a significant decline in the debt-to-GDP ratio, as well as the overall resilience of the Greek economy amid global uncertainty, all led to further significant upgrades of Greece's credit rating in 2025. Indicatively, the overall positive fiscal performance led to Greece's sovereign credit rating upgrade by Fitch Ratings in November 2025 to one notch above the investment-grade threshold. Thus, by now Greece has obtained that rating from most international rating agencies.

At the same time, traditional fundamental principles of US economic policy – such as the independence of institutions and commitment to free trade – are being challenged, and this has led to a reallocation of international capital and a repatriation of European funds, showing that Europe is an attractive destination for international investors. Inflows into European equity and bond markets increased considerably for the first time since the debt crisis, enhancing the role of the euro area as an alternative safe investment destination. In this context, Greece attracted a proportionally larger share of investment inflows compared to the other euro area economies, on the basis of outstanding investment positions in Greek securities. As long as the euro area continues to be considered a safe haven in times of global instability, the Greek economy can continue to benefit, achieving a further fall in funding costs for the Greek government, the domestic banking system and Greek firms. Any further upgrades of the Greek economy will contribute to this, leading to a convergence of the country's credit rating with the European average. Therefore, maintaining macroeconomic and financial stability and a strong fiscal position are key to the continuation of the country's positive course.

2 GREEK ECONOMY: DEVELOPMENTS AND PROSPECTS

2.1 Real economy: Sustained growth momentum, limited disinflation

Economic activity: Economic activity continued to expand at a satisfactory pace during the first nine months of 2025 (2.0% year-on-year), outperforming the euro area average (1.5%). The main drivers of growth were private consumption and net exports, the latter reflecting an increase in exports of goods and, to a greater extent, of services, alongside a decline in imports. Investment also made a positive contribution to growth, on the back of stronger fixed investment in both production equipment and construction in the second and third quarters of the year.

Short-term indicators of economic activity and confidence indices point to continued growth momentum for 2025 as a whole. In particular, according to most short-term indicators, activity in industry, construction, agriculture and services remains in positive territory. For the fourth quarter of 2025, business expectations remain high, in contrast to consumer confidence, which still hovers around low levels.

Inflation: Headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), averaged 2.9% in the year to November (2024: 3.0%), driven mainly by persistent services inflation and by unprocessed food inflation, with pronounced fluctuations: it fell markedly in September-October, but returned to its eleven-month average in November. The slight easing of inflation was supported by developments in the processed food, non-energy industrial goods and energy components.

Real estate market: In the course of 2025, the Greek real estate market continued to attract investment interest, both domestic and foreign, particularly in the residential, hospitality and prime office with bioclimatic features sectors. House prices rose further, but the supply of new housing remained constrained, as the start of new construction projects was affected by regulatory backlogs and elevated construction costs. Investment interest and upward trends in real estate prices are expected to continue in the near term, albeit at a more moderate pace, as long as demand is not affected by global macroeconomic and geopolitical developments. The issue of housing affordability remains highly relevant due to increases not only in the market values of residential properties, but also in rents, especially in major urban centres. Government measures so far (e.g. "My Home II" programme, rent subsidies), as well as the recent measures announced towards the end of the year and expected to be specified in 2026 (e.g. tax incentives for renovating residential properties for long-term lease ("Renovate and Rent"), a new framework for repurposing vacant properties into residential units), are steps in the right direction, but additional measures are needed to boost the supply of residential real estate.

Labour market: The labour market continued to improve in the first nine months of 2025, albeit at a slower pace compared with the corresponding period of 2024. More specifically, total employment grew by 1.4% in the first nine months of 2025 (compared with 1.9% in the corresponding period of 2024), while the unemployment rate dropped to 9.0% from 10.3%. Employment growth came from trade, education, professional, scientific and technical activities, construction, and administrative and support activities. Favourable labour market developments are also reflected in ERGANI data, as in the first ten months of 2025 net dependent employment flows in the private sector were positive and higher year-on-year. The largest increase in hirings was recorded in tourism-related activities. In the first eleven months of 2025, the short-term employment outlook improved in construction, trade and, most notably, manufacturing, while in services it declined, albeit remaining in positive territory. Labour market tightness, which characterises key sectors of the economy such as tourism, construction, manufacturing and the primary sector, appears to be easing slightly, but remains a significant challenge for the economy.

Competitiveness: The international competitiveness of the Greek economy continued to deteriorate in the first nine months of 2025 in terms of relative prices, while the slight improvement in terms of labour costs continued into the first half. Greece's nominal and, therefore, real effective exchange rate is negatively affected by the appreciation of the euro, which continued into 2025, as a result of the US trade policy and expectations about short-term growth. By contrast, in the first half of 2025, a positive contribution came from lower unit labour cost growth in Greece relative to its trading partners in the euro area and the EU, a development expected to continue into the second half, further improving Greece's international labour cost competitiveness.

In terms of structural competitiveness, despite substantial progress in recent years, Greece's ranking among advanced economies has stagnated at relatively low levels, with the exception of a continuing improvement in tax competitiveness. Nevertheless, in the first nine months of

2025, foreign direct investment (FDI) was on the rise. FDI is now directed primarily to manufacturing and secondarily to real estate, while it has also strengthened in wholesale and retail trade, as well as in construction.

Current account balance: In the first ten months of 2025, the current account deficit narrowed by EUR 1.8 billion year-on-year to EUR 8.1 billion. This development is attributable to improvements mainly in the balance of goods and the primary income account and, to a lesser extent, in the services balance. More specifically, the deficit of the goods balance shrank due to a decrease in the deficit of the oil balance, which was partly offset by the higher deficit in the non-oil balance, as imports rose more – in absolute terms – than the corresponding exports. The balance of services registered a higher surplus, associated with an improvement in the travel balance, although its positive effects on the current account balance were dampened by a deterioration in the transport and the other services balance. In more detail, in the first ten months of 2025, travel receipts grew by 8.9% year-on-year at current prices, on account of a 4.4% rise in non-residents' arrivals and a 3.9% increase in average expenditure per trip. In January-October 2025, the deficit of the primary income account contracted year-on-year, mainly due to a decline in net interest payments. The secondary income account posted a lower surplus compared to the corresponding ten-month period of 2024, as net receipts of the other sectors of the economy declined, while general government net payments increased.

2.2 Fiscal developments: Higher-than-expected primary surplus – Rapid decline in the public debt-to-GDP ratio

Following the milestone year of 2024, when Greece's overall and primary surplus as a percentage of GDP reached an all-time high, the country's very strong fiscal performance continued into 2025. Contrary to the initial forecast of a marginal fiscal contraction, fiscal policy is estimated to turn out expansionary in 2025, reflecting the overperformance of the previous year and stronger-than-projected revenue growth. In January-October 2025, tax revenue overshot both the budget targets and the estimates in the Annual Progress Report of the Medium-Term Fiscal-Structural Plan (MTP) 2025-2028. This development was primarily driven by positive developments in income growth, corporate profitability, employment and tax compliance, while it is also partly linked to the impact of higher-than-expected inflation. This enabled the adoption of a package of permanent expansionary fiscal measures effective from 2026.

According to the Introductory Report on the 2026 Budget, for 2025 the general government primary balance is estimated at a surplus of 3.7% of GDP, better than estimated earlier in the year, and the general government debt-to-GDP ratio is projected to fall by 8.3 percentage points to 145.9% (much more than initially projected in the 2025 Budget). The estimates of the Introductory Report regarding the 2025 primary balance are consistent with the fiscal projections of the Bank of Greece. According to the Bank of Greece estimates, the general government debt ratio is expected to come to 145.3% in 2025.

As regards the absorption of funds available under the Recovery and Resilience Facility (RRF), Greece has so far made good progress in meeting the relevant milestones and targets and in receiving the corresponding payments, as also reflected in the European Commission's report on the implementation of the RRF. In particular, following the disbursement of the sixth instalment of non-repayable support in November 2025, Greece has received a total of EUR 23.4 billion (65% of available funds), of which EUR 12 billion in grants (66% of total grants) and EUR 11.4 billion in loans (64% of total loans), having completed 48% of the agreed targets/milestones.

2.3 Financial developments: Volatile international financial conditions – Sovereign credit rating upgrades

Interest rate cuts by major central banks in 2025, as well as the prospects of further cuts by the US Federal Reserve (Fed), led to an easing of international financial conditions. Nevertheless, financial conditions globally remain uncertain and vulnerable to economic policy shifts and in-

terference with institutions in the United States, as suggested by bouts of volatility in international bond and equity markets, while the strong expansion of the "shadow" financial sector (i.e. non-bank financial institutions) also poses major risks, since it is not as tightly regulated as commercial banks. Moreover, stretched valuations in stock markets, particularly in the United States, with AI companies leading the way, are an additional risk to financial stability to be considered. At the same time, euro area bond markets were affected by an increase in French government bond yields this year, amid political uncertainty in France.

Demand for Greek government bonds by international investors has strengthened markedly, supported by the continued upgrades of the country's sovereign credit rating, which led to a strong rise in holdings of Greek government bonds. At the same time, these upgrades and increased investment in Greek bonds are estimated to have contained upward pressures on yields arising from developments in other euro area economies, such as France. Thus, the spreads for Greek securities are at levels comparable to those seen before the debt crisis.

Regarding upgrades, it should be noted that Morningstar DBRS upgraded the Greek economy from BBB (low) to BBB in early March 2025, while in mid-March, Moody's upgraded Greece from Ba1 (equivalent to BB+) to Baa3 (equivalent to BBB-). In April 2025, S&P further upgraded the Greek economy from BBB- to BBB, while in November Fitch Ratings also upgraded the Greek economy from BBB- to BBB. According to international rating agencies, the upgrades were driven by stronger-than-anticipated growth rates, overachievement of fiscal targets and a drastic reduction in the public debt-to-GDP ratio, as well as the overall resilience of the Greek economy amid international uncertainty.

In line with the sovereign credit rating upgrades, the credit ratings of Greek banks have continued to improve, leading to a significant drop in their funding costs on international capital markets. This contributes to a decrease in Greek banks' overall funding costs, which feeds into lower lending rates, while making it easier for them to meet the minimum requirements for own funds and eligible liabilities (MREL).

In 2025, issuance activity by large Greek enterprises both in the international and in the domestic bond market increased remarkably; as a result, financing had a positive contribution to investment by these enterprises. At the same time, non-financial corporate bond yields have been decreasing since early 2025, benefiting from upgrades of the country's creditworthiness. Consequently, savings on interest allowed issuers to further increase investment.

Equity prices now exceed the levels prevailing before the April 2025 turmoil (following the announcement of high reciprocal tariffs by the United States), driven upwards mainly by the high-tech sector, particularly US AI companies. Underlying this development were both the release of solid earnings reports by US listed companies and expectations for further interest rate cuts by the Fed. Against this background, equities of companies listed on the Athens Exchange have strongly outperformed European and global benchmarks in 2025. Looking at individual sectors, the robust performance of the composite share price index (Athex) since the beginning of 2025 has been driven mainly by the banking subindex, although all sectors have posted positive returns. A particularly important development supporting Greek equity performance has been the increase in international investment funds' holdings of Greek shares. The recent proposal by Euronext to fully acquire Athex Group S.A. is expected to contribute to a more expanded investor base for equity shares of Greek listed companies, hence to more market-based funding opportunities for Greek firms.

2.4. Banking sector

Interest rates, deposits and credit: Lower interest rates, increased deposits and lending

Interest rates on time deposits followed a downward trend from January to October 2025, in line with the Eurosystem policy rate cuts. The declines were slightly more pronounced for cor-

porate deposit rates, which had previously recorded larger increases during the monetary policy tightening cycle. In more detail, in October 2025, the weighted average interest rate on time deposits by households stood at 1.1%, down by 50 basis points (bps) compared with the end of 2024, and by nonfinancial corporations (NFCs) at 1.7%, down by 80 bps, respectively.

Over the first ten months of 2025, private sector deposits grew cumulatively by EUR 3.1 billion, compared with an increase of EUR 0.7 billion in the corresponding period of 2024, reaching EUR 206 billion in October 2025. Household deposits increased markedly, supported by a rise in nominal disposable income in 2025, as well as developments in credit to households, which recorded mostly positive net flows. NFCs' deposits also increased, mainly overnight deposits, consistent with continued credit expansion to NFCs for the largest part of the year.

Interest rates on bank loans to NFCs fell significantly during the current year across all loan categories, but more strongly on loans exceeding EUR 250,000, which typically concern larger firms. The weighted average interest rate on new corporate loans stood at 3.9% in October 2025, around 110 bps lower than at end-2024. Overall, since corporate lending rates started falling in August 2023, the weighted average rate on corporate loans has decreased by 2.5 percentage points (pps) or more, thus reversing by around 70% the increase seen at the peak of the Eurosystem's tightening cycle. It should be noted that the cost of bank credit to businesses was lowered through schemes offered by the European Investment Bank (EIB) Group and the Hellenic Development Bank (HDB), as well as through loans granted under the RRF. SMEs benefited the most, as it is estimated that over 40% of the new bank lending they received is associated with loans at lower interest rates and/or subject to less strict collateral requirements.

Household lending rates also declined over the year, though less than in the case of business loans. Specifically, the weighted average interest rate on new housing loans stood at 3.5% in October 2025, a mere 15 bps below its end-2024 level. In fact, the cost of housing credit was lower than suggested by interest rate statistics, as a significant share (around one third) of housing loans granted from January to October 2025 was associated with low-interest loans co-funded under HDB programmes.

The annual growth rate of bank credit to NFCs averaged 16.0% in the January-October 2025 period, up from an average of 8.5% one year earlier. However, over the same period, the average monthly net flow of bank credit to NFCs fell from EUR 557 million to EUR 438 million. The strength of credit expansion to businesses reflects stimulated demand for bank loans, due to rising economic activity and lower bank lending rates. On the supply side, Greek banks raised substantial funds from January to October 2025, chiefly from customer deposit inflows, but also on the foreign interbank market and the bond market. Raising liquidity through the refinancing operations of the Eurosystem decreased over the same period, with total outstanding borrowing from the Eurosystem now standing at a very low level. Once again this year, bank lending to businesses received substantial backing from the co-financing and loan guarantee schemes of the EIB Group and the HDB. This was also supported by bank loans co-financed under the RRF, with disbursements increasing slightly year-on-year in the first ten months of 2025.

Credit to households recorded a smaller contraction during the first ten months of 2025 year-on-year, with its annual rate of change turning positive from June 2025 onwards – for the first time since October 2010. Overall, from January to October the rate of change averaged at a low positive value (0.3%), as against a negative average value (-1.1%) in the same period of 2024 (October 2025: 1.7%; December 2024: -0.5%). This development reflects a further easing of the annual rate of decline in housing loans, which reached zero in October 2025, as well as an acceleration in consumer credit growth to 6.6% in October, further to its strengthening in 2024. The upward trend of consumer credit is consistent with positive developments

in private consumption, including spending on durable goods, as consumer confidence strengthened. The annual increase in the average gross flow of housing loans is associated with the upward trend of the residential property price index and with a year-on-year decline in bank mortgage rates in the first ten months of 2025, which boosted demand for loans, as well as with the impact of the "My Home II" programme. It should be noted that the first ten months of 2025 saw a gradual increase in the absorption rate of housing loans under the new "My Home II" programme (following the first programme, which was largely absorbed in 2024) managed by the HDB.

With regard to credit growth prospects, the projected increase in GDP, along with lower levels of interest rates on bank loans compared with the immediately preceding years, is estimated to continue supporting bank credit to NFCs. The low-interest loans under the RRF, as well as the co-financing and guarantee programmes of HDB and the EIB Group, are expected to continue to contribute to improving the terms and availability of business and housing credit.

Banking system: Strong fundamentals

Greek banks are posting strong fundamentals, with improved profitability and with capital adequacy and liquidity ratios remaining at high levels. The non-performing loans (NPL) ratio declined slightly for the Greek banking sector over the year, 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.

In more detail, in the first nine months of 2025, net profits of Greek banks (both significant and less significant) as a whole increased, mainly as a result of higher net lending to the real economy and improved net income from fees and commissions and other sources. A positive contribution to this development came from the one-off recognition of a deferred tax asset resulting from the merger by absorption (reverse merger) of Alpha Services and Holdings by Alpha Bank in the context of corporate transformation.

Greek banks' capital adequacy ratios remained high, having converged on average with the corresponding European ratios. A positive contribution to this came from increased net profitability, as well as the issuance of Additional Tier 1 (AT1) and Tier 2 bonds.

The asset quality of Greek banks improved slightly in the first nine months of 2025 compared with the end of 2024. In more detail, the NPE ratio on a solo basis, having declined markedly in December 2024 compared with September 2024, remained low also in September 2025. The ratio of performing exposures whose credit risk has increased since initial recognition (Stage 2) to total loans also dropped (on a solo basis).

With regard to bank liquidity, although the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) fell slightly compared with the end of 2024, they both still stand well above the prudential requirements and the respective euro area averages. In addition, the loan-to-deposit ratio remains significantly lower for Greek banks than for euro area banks.

Altogether, the Greek banking sector continues to improve its profitability and resilience, amid heightened risks and uncertainty in the overall environment. The strengthened resilience of Greek banks creates favourable conditions for them to expand their activities. New partnerships are already under way, as well as acquisitions and mergers with foreign banks and other financial institutions.

2.5 Projections: Sustained growth momentum, disinflation, high primary surpluses and lower public debt

According to the current projections of the Bank of Greece, GDP growth is expected to reach 2.1% in each year from 2025 to 2027, before a marginal slowdown to 2.0% in 2028, exceeding the projected euro area average, thus fostering a further catching-up with European income levels. The main driver of growth is expected to be consumption, while investment and exports should continue to contribute positively. In the short term, investment should be supported by the remaining available RRF resources, as only one-third of these funds has been channelled into the real economy so far. Thus, investment growth is projected at a strong 7.3% in 2025-26, moderating in 2027-28 after the expiry of the NextGenerationEU recovery instrument. The contribution of net trade to GDP is expected to be slightly negative in the near term, due to strong investment activity leading to a rapid increase in imports, as well as to the high import content of domestic consumption and goods exports.

The unemployment rate is projected to turn out at 9.2% in 2025, before dropping further to 8.0% in 2028, reflecting the ongoing recovery of economic activity in the years ahead. In terms of labour costs, in the near future and for the economy as a whole, nominal compensation per employee should keep rising strongly at an annual rate of around 4.0%, mainly on the back of labour market tightness. It should be stressed that labour productivity in total economy is estimated to grow at a weaker pace than real compensation per employee. This means that, barring similar developments in the country's trading partners, these trends might dent the international competitiveness of the Greek economy.

HICP inflation will continue to decline during the forecast period. In 2025, it is expected to remain high at 2.8%, reflecting the persistence of services inflation – primarily due to anticipated increases in wages and property rents, pressures from strong tourist demand and higher indirect taxes on food services and accommodation – as well as unprocessed food inflation. Inflation is forecast to decrease significantly to 2.1% in 2026 and to remain virtually unchanged at 2.2% in 2027, while a one-off acceleration to 2.5% is expected in 2028 as the impact of the EU Emissions Trading System 2 will become visible in the energy component of the HICP.

The current account deficit as a percentage of GDP is expected to narrow in the coming years, due to stronger exports of goods and services and to inflows from both the RRF and the Multi-Annual Financial Framework (MFF) 2021-27, despite an increase in imports of investment goods. Particularly for 2026, the pick-up of domestic investment, partly supported by RRF-funded projects, should contribute to increased imports of investment goods, thereby weighing on the balance of goods. On the other hand, the rise in tourist arrivals, combined with the extension of the tourist season and the opening-up to new markets, as well as the sustained cruise momentum, should help boost travel receipts, albeit at a lower rate.

Turning to fiscal aggregates, according to the Introductory Report on the 2026 Budget, the primary surplus is estimated at 2.8% of GDP for 2026, while general government debt is set to decline by 7.7 pps of GDP in 2026 to 138.2% of GDP. It is worth noting that 2026 will be another landmark year for the country's fiscal path, since Greece's public debt as a percentage of GDP is projected to approach Italy's; thus, Greece will no longer be an outlier in Europe. Projections under the Introductory Report regarding the primary balance in 2026 are in line with the fiscal projections of the Bank of Greece, which also suggest a steady downward path of public debt over the coming years.

2.6 Risks and uncertainties: Heightened external risks

The risks surrounding the Bank of Greece's growth forecasts are predominantly tilted to the downside. In more detail, risks to the short-term outlook for the Greek economy include: (a) uncertainty over the fragile negotiations to end the Russia-Ukraine war; (b) persistent inflation; (c) potential stronger wage pressures amid labour market tightness; (d) possible natural disas-

ters linked to the effects of the climate crisis; (e) lower-than-expected absorption and utilisation of RRF funds; and (f) slower-than-expected implementation of the necessary reforms, which could have adverse effects on the productivity of the Greek economy.

Risks to the sustainability of public debt are estimated to remain contained in the medium term, contingent upon a commitment to meeting the fiscal targets and to making efficient use of EU resources. In the long term, however, increased uncertainty is projected, as the gradual refinancing of accumulated official sector debt on market terms will increase the exposure of Greek government debt to interest rate and market risks, leaving less room for fiscal policy relaxation in the years to come.

3 THE EXTERNAL ENVIRONMENT OF THE GREEK ECONOMY

3.1 Developments and prospects outside the euro area: Global economy resilient, global trade growing

In 2025, the global economy proved more resilient than expected, despite heightened uncertainty due to trade protectionism. More specifically, in the first half of 2025, global GDP grew at an annual rate of 3.2%, while leading economic indicators for the third quarter suggest that growth continues close to 3%. Private consumption growth was subdued in many advanced economies (the United States, Japan, Italy), reflecting weak consumer confidence. This was partly driven by an increase in food prices, while heightened uncertainty kept investment weak. Political instability in major European economies has added to concerns about increased budget deficits. At the same time, the attempt to curb the Federal Reserve's independence increased market expectations that the Fed would prove more tolerant of inflation. By contrast, in emerging market economies, conjunctural factors, such as a substantial increase in agricultural production in Brazil, the strong performance of the services sector in India and the easing of uncertainty in Türkiye, contributed to maintaining relatively high growth rates. According to IMF projections (October 2025), global GDP growth will slow marginally to 3.2% in 2025 from 3.3% in 2024, revised upwards compared with the April 2025 projections. This is mainly due to a smaller than expected trade shock. In advanced economies as a whole, growth is estimated at 1.6% in 2025, compared with 1.8% in 2024. On the other hand, in emerging and developing economies as a whole it will slow marginally to 4.2% in 2025, from 4.3% in 2024.

In the first half of 2025, global trade grew despite initial pessimistic estimates, confirming that international supply chains are adaptable and resilient. Based on IMF estimates (October 2025), annual global trade growth in volume terms will increase marginally to 3.6% in 2025, from 3.5% in 2024, but will remain significantly lower than its pre-pandemic historical average (2000-19: 4.9%). In the medium term, risks to the outlook for global trade stem from both increased geoeconomic fragmentation and persistent structural challenges, including population ageing and weak productivity growth.

The rise in trade protectionism had a moderate upward impact on global inflation in 2025, partly reflecting robust profit margins in previous years that allowed for some of the increased tariff costs to be absorbed. However, the impact on prices varies across economies, as tariffs represent a negative supply shock for the country imposing them and a negative demand shock for the countries exporting to it. At the same time, the depreciation of the US dollar contributed to even higher inflationary pressures in the United States and lower import prices in the other economies. In advanced economies, rising food prices and persistent services inflation have been holding back faster disinflation. For the whole of 2025, global consumer price index (CPI) inflation is expected to decline to 4.2%, compared with 5.8% in 2024. In advanced economies, it is estimated that CPI inflation will fall from 2.6% in 2024 to 2.5% in 2025, as a gradually larger pass-through of tariffs to US consumer prices has offset labour market cooling. By contrast, inflation in developing and emerging market economies is set to ease more significantly to 5.3% in 2025 from 7.9% in 2024.

3.2 Euro area developments and prospects: The EU-US trade deal reduced uncertainty, boosting growth – Inflation is close to the ECB's target

In the third quarter of 2025, the euro area economy grew at a rate of 0.3%, compared with 0.1% quarter-on-quarter. Growth was higher than in the September ECB staff projections, following strong volatility in the first half of the year, which reflected the impact of frontloaded GDP growth amid uncertainty about US trade policy and large fluctuations in Ireland's GDP. Despite some favourable indicators, in the fourth quarter real GDP is expected to increase at a marginally slower rate, amid downward effects from Ireland.

Over the medium term, domestic demand should remain the main driver of growth, reinforced by rising real wages and employment, against a background of resilient labour markets with historically low unemployment rates. The additional government expenditure on infrastructure and defence announced in 2025, especially in Germany, as well as improved financing conditions (mainly resulting from the cuts in policy rates since June 2024), are expected to support the domestic economy as well. Export growth is expected to accelerate in 2026, supported by a recovery in foreign demand and the easing of uncertainty following recent trade agreements. Under the baseline scenario in the Eurosystem staff macroeconomic projections (December 2025), GDP is estimated to grow by 1.4% in 2025, compared with 0.9% in 2024. In 2026, GDP growth is projected to slow to 1.2%, before picking up to 1.4% in 2027 and 2028.

HICP inflation stood at 2.1% in November 2025, close to the ECB's target. According to the baseline scenario of the December 2025 Eurosystem staff projections, HICP inflation will decline to 2.1% in 2025, from 2.4% in 2024, before falling further to 1.9% in 2026 and 1.8% in 2027, and finally returning to 2.0%, the ECB's medium-term target, in 2028. The decline in inflation below the target in the coming years will be due, inter alia, to a downward base effect from energy prices and a slowdown in the other components. However, energy prices may become more volatile and gradually follow an upward trend following upcoming policy changes, including the launch of the new EU Emissions Trading System (EU ETS2) in 2028. Core inflation (excluding energy and food) is projected to ease to 2.2% in 2026, 1.9% in 2027 and 2.0% in 2028, from 2.4% in 2025, mainly reflecting lower services inflation, the previous appreciation of the euro and declining pressures from unit labour costs.

The nominal effective exchange rate of the euro (against 41 trading partners) continued to appreciate overall. In November 2025, it was 5.7% higher compared with December 2024 and 5.0% higher year-on-year. In November, the euro appreciated by 10.4% against the US dollar compared to December 2024 (monthly averages). These developments reflect lower investor confidence in US dollar-denominated assets, as well as the relative stability of the euro area economy as against a tariff-driven deterioration in the United States.

3.3 Risks and uncertainties: Geopolitical fragmentation and trade tensions

There are still significant risks that may affect growth and inflation in the global and the European economy. A new deterioration of trade relations could hit exports and negatively affect investment and consumption. The appreciation of the euro vis-à-vis other currencies could lead to a larger-than-expected fall in inflation and a reduction in euro area exports. Moreover, growth and inflation could turn out lower if higher tariffs dampened euro area export demand and induced countries with overcapacity and low production costs to increase their exports to the euro area. A deterioration of financial market sentiment could lead to tighter financing conditions, weighing on domestic demand and thereby also lowering inflation. On the other hand, inflation could turn out to be higher if more fragmented global supply chains pushed up import prices and added to capacity constraints in the domestic economy. Moreover, sharp movements in commodity prices due to extreme weather events or a continuation of geopolitical tensions are additional upside risks to inflation. At the same time, higher spending on defence and infrastructure in the euro area could have an upward effect on growth and inflation. Finally, possible

lower trade restrictions and geopolitical tensions could limit volatility in energy markets and enhance medium-term growth prospects.

4 THE SINGLE MONETARY POLICY

In the second half of 2025 policy rates remained unchanged – Inflation has returned close to the medium-term 2% target

Cuts in key Eurosystem interest rates, which had started in June 2024, continued until June 2025, with key interest rates having decreased by 200 basis points cumulatively. At its subsequent meetings, namely in late July, early September, end-October and mid-December 2025, the Governing Council decided that key interest rates should remain unchanged, as annual headline inflation was still at target and its outlook remained virtually unchanged.

The Governing Council of the ECB is determined to ensure that inflation stabilises at its 2% target in the medium term. To this end, it follows a data-dependent and meeting-by-meeting approach to determining the monetary policy stance. The Governing Council's interest rate decisions are based on its assessment of (i) the inflation outlook and the risks surrounding it, in the light of incoming economic and financial data; (ii) the dynamics of underlying inflation; and (iii) the strength of single monetary policy transmission to the real economy of the euro area.

According to the Governing Council of the ECB, headline inflation is now close to the medium-term target of 2%, while core inflation remains at levels consistent with this development. The slowdown in wage growth and the appreciation of the euro will exert downward pressure on core inflation in the short term, which is expected to ease further in the coming years. Headline inflation will return to target in 2028 due to the upward effects of the launch of the EU ETS2. Moreover, most measures of longer-term inflation expectations continue to stand at around 2%, supporting the stabilisation of inflation around the Eurosystem's target.

According to the Governing Council, the inflation outlook is surrounded by uncertainty, exacerbated by trade tensions worldwide that are posing upside risks. Inflation in the euro area could turn out higher if more fragmented global supply chains, as a result of stronger protectionism, pushed up import prices and added to capacity constraints in the domestic economy. Planned defence and infrastructure spending could also raise inflation over the medium term. A slower reduction in wage pressures could delay the decline in services inflation, while extreme weather events, and the unfolding climate and nature crises more broadly, could drive up food prices more than expected. Finally, a resurgence of inflation in the United States due to tariffs and to a possible easing of monetary policy could also push up global inflation due to the dollar's role in the global economy (e.g. global trade in commodities is denominated in US dollars).

On the other hand, the decline in global energy prices and, in addition, the recent strengthening of the euro exchange rate have a downward impact on euro area inflation. Similarly, inflation in the euro area could turn out to be lower if the rise in US tariffs reduces demand for euro area exports and if countries with overcapacity divert their trade to the euro area. A deterioration of financial market sentiment due to trade tensions could lead to higher asset price volatility and greater risk aversion, weighing on domestic demand and thereby also lowering inflation.

5 THE GREEK ECONOMY: CHALLENGES AND POLICY RECOMMENDATIONS

Challenges

Despite the considerable progress made in recent years, the Greek economy faces a set of structural challenges that will determine its future course. According to the Multiannual Financial Framework for 2026-2029, the growth rate of the Greek economy is projected to fall

below 2% in 2027-2029. This highlights the risk of economic activity returning to moderate growth if temporary EU support measures are not substituted by sustainable private investment and endogenous sources of growth momentum, as well as by long-term growth-enhancing structural reforms. The Bank of Greece suggests that this slowdown can be averted, provided that private investment increases and necessary reforms are implemented in order to boost productivity.

The key challenge is low labour productivity relative to the EU average. Productivity is adversely affected by the structure of the domestic economy, which still relies heavily on low-productivity sectors, such as accommodation and food services. The predominance of small and micro enterprises, which often find it difficult to expand, go international or invest in research and innovation, has a dampening impact as well. Agriculture in particular is marked by very low productivity compared with other countries that do not have Greece's comparative advantages, which should serve as a model for drastically increasing productivity. Extensive disinvestment during the debt crisis left Greece undercapitalised; the capital stock remains around 20% below pre-crisis levels, while capital per worker is even below pre-euro area entry levels. In this context, capital shallowing continues to impact negatively productivity. Adding to this is the deterioration of human capital due to the brain drain, as well as an institutional environment that does not always support economic activity adequately.

Investment is critical in this respect. Despite a significant rise since 2019 (60% until 2025), gross fixed capital formation growth in recent years has been lower compared with initial forecasts, while the investment gap between the EU and Greece remains quite wide – although it has already narrowed, partly thanks to the contribution of RRF funds. Closing this gap requires further steady investment growth. The key challenge now is to fully exploit the growth momentum from recent investment so as to bring about a lasting effect on the Greek economy.

Closely linked to the investment gap – despite the mobilisation of substantial private and foreign direct investment under the RRF – is also the rather slow evolution of the productive model. In recent years, investment and exports of goods and services have increased considerably as a percentage of GDP, however private consumption still accounts for some 70% of GDP, compared with approximately 53% in the euro area. On the supply side, sectors such as "Manufacturing" have improved in terms of total value added. Nevertheless, the main drivers of value added growth in recent years have been tourism and food services, increasing the country's reliance on industries vulnerable to exogenous shocks and climate change.

In the short term, the decline in unemployment has tightened the labour market, making it considerably difficult for firms to find workers, particularly in tourism, food services and other booming industries. The need to attract and retain workers leads to wage increases that often exceed productivity growth, raising unit labour costs and exerting pressure on competitiveness. In the long term, the demographic crisis further exacerbates the situation, as low birth rates and population ageing should lead to a contraction in the labour force, with negative effects on growth, investment and the overall sustainability of the social security system. At the same time, the need to increase social spending leaves less room for public investment in infrastructure, research and innovation, while a shrinking student population and a decline in the dynamics of local communities undermine the future supply of labour.

Finally, Greek households have low purchasing power compared to the EU average, which adds to the challenges. Despite the increase in employment and nominal incomes, purchasing power in Greece remains one of the lowest in the EU, as real incomes have not yet recouped the losses incurred during the debt crisis. Price hikes – especially in rents, services and unprocessed food – have led to negative household savings, with the corresponding index having declined anew into negative territory after the pandemic. This development reduces domestic savings available to finance investment and results in persistent current account deficits.

Against this background, the affordability of housing is becoming a central socio-economic challenge. Increased domestic and international demand, compounded by constrained supply, has led to a strong rise in property prices and rents due to inflation. Government support schemes for housing, additional allowances, tax relief and the utilisation of public real estate for social housing are steps in the right direction. However, they focus more on the demand side, rather than on increasing supply, which remains limited in the short term. The difficulties in finding affordable housing have a decisive impact on young people and families alike, and, by extension, on demographic behaviour and labour mobility.

In addition, the Greek economy has to complete the twin (green and digital) transition in a setting of stagnant structural competitiveness. Despite improvements in tax competitiveness, the country's overall ranking in global structural competitiveness indicators remains relatively low. Chronic weaknesses such as delays in the delivery of justice, administrative burdens, slow adaptation of skills to match the needs of the economy, as well as the limited ability of firms – especially small enterprises – to invest in green and digital technologies, all hamper the resilience of the economy and the growth momentum. Finally, the public debt-to-GDP ratio remains exceptionally high, despite declining rapidly. Risks are under control in the medium term; but in the long term, as the country becomes increasingly dependent on market-based financing, maintaining robust growth, sound public finances and high credibility will be key to safeguarding macroeconomic stability.

Overall, the risk of a slowdown in growth rates after the expiry of the RRF, low productivity, the existing investment gap, potential delays in absorbing remaining EU funds, slow changes in the productive model, pressures on the labour market and real incomes, housing affordability issues, the demographic crisis, stagnant structural competitiveness and the very high public debt make up a complex set of challenges.

Policy recommendations

In an environment of uncertainty, heated trade rivalries and ongoing geopolitical tensions, addressing the above challenges requires a coherent strategy, steadfast commitment to reforms and targeted use of available European resources, so that the current macroeconomic stability can translate into sustainable and inclusive prosperity. In this context, the policy recommendations for the Greek economy should simultaneously serve three objectives: (a) enhancing productivity and competitiveness; (b) strengthening macroeconomic and fiscal stability; and (c) ensuring social cohesion and sustainability over the long term. These considerations also shape the rationale of the proposed interventions, which are not isolated, but mutually reinforcing.

Enhancing labour productivity lies at the core of these proposals, so that sustainable wage growth can be supported without loss of competitiveness. Continuing and deepening the reforms in goods and services markets, more effective public administration, faster delivery of justice, combatting corruption and cutting red tape improve the institutional environment and increase total factor productivity. At the same time, encouraging new productive investments increases the capital stock and the capital-to-labour ratio, directly and indirectly delivering productivity gains, provided that such investments are channelled to high value-added sectors. In the same vein, it is crucial to upgrade workforce skills through systematic reskilling, upskilling and job creation that will allow a "brain regain". The uptake of artificial intelligence in all sectors, while training employees in the use of relevant applications, can act as an accelerator of productivity in an environment where technology is reshaping global value chains. The agricultural sector is, as already stated, a special case, where productivity could be raised substantially if successful productive models (e.g. of the Netherlands) were followed.

Strengthening investment and exports and rebalancing the productive model towards export-oriented tradable activities is a second fundamental pillar. In an international environment of rising protectionism, Greece cannot rely solely on domestic consumption and a few services

industries. Full and effective use of the European funding tools – the RRF, the MFF 2021-2027 and 2028-2034 and the EUR 8 billion package for 2026-32 (Social Climate Fund, Modernisation Fund, Islands Decarbonisation Fund) – is needed. These resources should be directed towards high value-added productive investments, in sectors that strengthen the country's position in European and global value chains and create quality jobs.

Against this background, the timely full absorption and disbursement of RRF funds to the private sector is a key condition. The submission of the third revised National Recovery and Resilience Plan in November 2025 – including a revision of milestones and a maturity-based replacement of projects – along with the institutional strengthening of government services under Law 5233/2025 are specifically aimed at accelerating the implementation of investment plans. Given that the European recovery instrument NextGenerationEU has a finite lifespan and despite Greece being one of the top absorbers in the EU, the country needs to speed up investment so as to maximise its positive impact on growth and productivity in the coming years.

Improving the business environment is a complementary and indispensable condition. Faster delivery of justice, addressing the problem of complexity and poor quality of legislation, further digitalisation of public administration and ensuring contract enforcement and protection of property rights reduce the risk for investors. A stable tax system and the provision of targeted incentives (accelerated depreciation, increased tax credits for R&D investments) enhance the attractiveness of the country vis-à-vis competitors. Reforms in goods and services markets – by reducing barriers to entry and oligopolistic structures – can increase competition, lower prices to the benefit of consumers and exporters and facilitate the creation of new, dynamic business vehicles.

Strengthening and diversifying firms' funding sources is also critical at a time of volatile international financial conditions. Better functioning of financial markets, utilisation of the new Microfinance Fund and access to alternative forms of market-based financing – especially for start-ups and SMEs lacking sufficient collateral – can unlock significant investment potential. In this regard, it is essential that Greek banks keep up their positive performance and remain on track to meet their medium-term targets, so that they can continue to adequately support the financing of the real economy and achieve further credit rating upgrades, which would act as a shield against an environment of heightened uncertainty.

At the same time, maintaining and enhancing the positive momentum of foreign direct investment – which exceeded EUR 6 billion in 2024, having increased by almost 40% since 2019 – is conditional on stability, institutional credibility and continuation of privatisations and effective utilisation of public property. Especially in sectors such as energy, logistics, infrastructure and high technology, foreign investment can act as a bridge for entry and further integration into European value chains at a time when Europe strives for strategic autonomy amid growing geoeconomic tensions worldwide.

Against this background, speeding up privatisations is not only a fiscal tool, but can also provide leverage for modernising the productive model. Projects such as the Ellinikon development, with estimated investments of EUR 8 billion, and investments in the major ports (Piraeus Port Authority, Thessaloniki Port Authority), the 14 regional airports, the national natural gas system via DESFA (the system operator) and the Egnatia Odos Motorway are creating new infrastructure networks, strengthening the country's role as a transport and energy hub and making it more attractive to private funds. Full development of such projects, combined with smaller-scale privatisations (ports, marinas, etc.), can shield the country from possible shifts in trade flows due to protectionism, making it part of the restructuring of supply chains in the wider region.

As mentioned above, the issue of affordable housing calls for additional interventions on the supply side. For example, simplification of procedures is needed at all stages of real estate development – licensing, urban planning and land-use regulations – so as to unlock idle properties

and facilitate private and public investment in housing. Such a strategy would reduce pressures on the real estate market, facilitate geographical mobility of workers and support demographic goals, at a time when the cost of living influences family decisions.

In the labour market, wage growth must be consistent with productivity developments in order to avoid excessive increases in unit labour costs that would undermine competitiveness. At the same time, it is necessary to raise labour force participation of women, young people, older workers and pensioners, as well as to promote the "brain regain" movement. Strengthening technical education, expanding full-day school and childcare facilities, providing incentives to attract skilled migrants, as well as further reducing or subsidising social security contributions, can boost employment and increase mobility. Active labour market policies should focus on socially vulnerable groups – women, older people, long-term unemployed – through targeted upskilling and by facilitating the transition from unemployment to employment. The fact that mobility in the Greek labour market is improving but remains below the EU average shows that there is considerable room for further reforms.

This includes addressing the demographic challenge, which poses a major medium- to long-term fiscal and growth risk. Policy should not be limited to tax incentives, but requires a coherent set of social and development measures: investment in high-quality and affordable childcare facilities; introducing flexible forms of employment; housing support for young families; and strengthening health and care services. Additional benefits, such as education allowances for children or in-home support for new mothers, would enhance family security. Meanwhile, the integration of migrants and the repatriation of Greeks living abroad can reinforce human capital. Only such a policy mix can ensure the long-term sustainability of the social security system and fiscal resilience in an environment of population ageing.

Tackling stagnant structural competitiveness requires accelerating reforms that cut red tape, speed up the delivery of justice, incentivise the adoption of innovative technologies, combat tax evasion and reduce the energy costs of businesses. By making full use of the funds available under the RRF and other European programmes, Greece can close the gap in innovation, technology and productive investment. In an international environment where geopolitical tensions are leading to investment reallocation and a restructuring of supply chains, the resilience of the economy to external shocks is a strategic asset.

A key condition for implementing all of the above is ensuring the sustainability of public debt and continuing its rapid reduction. Steady compliance with the new EU fiscal framework, combined with the use of high cash buffers – amounting to around 18% of GDP – for the early repayment of bilateral loans under the Greek Loan Facility, can bolster the country's credibility in financial markets. A faster decline in the debt-to-GDP ratio would lower future fiscal adjustment needs, allow for higher spending ceilings for discretionary policies and reduce exposure to interest rate risk. The strategic use of part of the cash reserves to reduce the debt, rather than to finance additional expenditure, also reflects the principle of intergenerational solidarity, as it reduces the required future primary surpluses and increases the disposable income of the next generations.

Growth-stimulating tax policies complement this framework. Reducing the tax wedge strengthens incentives for firms to create new jobs and for the working age population to participate in the labour market, thus helping to address labour shortages and increasing productive capacity. Tax incentives for young workers, including income tax credits and relief, help to retain human resources in the country. Lower taxation on rental income can enhance transparency in the real estate market, while regional support measures reduce inequalities and strengthen social cohesion.

Finally, in an environment of geopolitical tensions and shifting alliances, taking advantage of European defence initiatives also has an economic dimension. A more active participation of

the domestic defence industry in international re-armament programmes and joint ventures, through public-private partnerships, can increase the share of its value added in GDP, create high-skilled jobs and cover a larger part of defence needs through domestic production. In a Europe that seeks strategic autonomy, Greece has the potential to position itself as a reliable partner and a production hub, transforming part of mandatory defence spending into a driver of growth policy.

Overall, the above policy recommendations constitute a coherent framework for strengthening the resilience and competitiveness of the Greek economy in an environment of heightened international uncertainty and trade protectionism. By combining structural reforms, targeted investment, fiscal responsibility and socially equitable interventions, Greece can not only address the challenges, but also seize the opportunities of the new era.

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In recent years, the Greek economy has undergone an impressive transformation, becoming one of the most dynamic economies in the euro area. The country has grown at rates well above the euro area average since 2021, on the back of stronger private consumption, higher investment, buoyant services exports and improving labour market conditions. At the same time, the positive outlook for the Greek economy is confirmed by forecasts of continued growth at higher rates than the euro area also in the years to come, contributing to gradual real convergence towards the EU average living standards. Strong fiscal performance and rapid reduction of public debt, along with a decline in non-performing loans and an improvement in banks' capital position, led to upgrades of both the sovereign's and commercial banks' credit ratings to investment grade. This reduces financing costs, enhances stability and facilitates the attraction of new investment, accelerating the process of real convergence with Europe's most developed economies.

Such progress is all the more important considering that it is taking place in an environment of heightened international uncertainty. Recent years have been characterised by increasing geopolitical fragmentation, armed conflicts, tariff competition and generalised insecurity in global supply chains, while technological competition between great powers – notably the US and China – has intensified. Despite these challenging global conditions, the Greek economy has shown remarkable resilience, with market confidence remaining high. Strengthened economic policy credibility, political stability and fiscal responsibility have created a virtuous circle that shields the economy against global shocks.

Despite this progress, the Greek economy still faces crucial and persistent challenges. The investment gap, although declining, remains significant and the sustainability of the investment momentum largely depends on the efficient and timely use of available European resources. Structural competitiveness remains limited due to institutional dysfunctions, low innovation intensity, the small size of businesses and delays in justice and licensing. At the same time, the climate crisis and the green transition require significant investments in low-emission technologies, while the rapid spread of artificial intelligence poses new challenges to the production model, the labour market and human capital skills. International geo-economic tensions and the reorganisation of value chains require new corporate resilience strategies, while population ageing threatens to erode the available labour force and weigh on the social security system. In this complex environment, Greece needs to continue and accelerate reforms that enhance productivity, innovation and its attractiveness as an investment destination.

However, national policies, as critical as they may be, are no longer sufficient on their own. The international environment has changed so radically that Europe has to redefine its strategy. The EU is faced with enormous economic, technological, energy, environmental and geopolitical challenges that are far beyond the powers of individual Member States to tackle. This is why

national policies need to act in synergy with a European strategy along the lines suggested by the Letta and Draghi reports, with a view to removing the remaining barriers to the free movement of goods, services, capital and labour and boosting investment in innovation, infrastructure and strategic technologies so that Europe remains competitive.

The EU is moving steadily in this direction and many of the European Commission's initiatives mark the shift to a new European industrial policy that encourages large-scale investments in critical technologies and infrastructure. However, it is necessary to step up these efforts and complement them with actions towards completing the banking union and creating a genuine savings and investment union in order to reduce financial fragmentation. Moreover, building on the very successful experience with NextGenerationEU, there is a need to establish a permanent macroeconomic tool to support investment and reforms in the EU. In this context, the launch of a eurobond could act as a catalyst for cross-border investment, strengthen the international role of the euro and enhance Europe's long-term competitiveness. The continuation of national reforms, coupled with a stronger and more competitive EU, can ensure that the country's growth path remains stable, resilient and sustainable in the face of the challenges of the new era.

Box 1

TARIFFS AND TRADE POLICY UNCERTAINTY: DEVELOPMENTS AND IMPLICATIONS

The shift in US trade policy towards protectionism has been the source of considerable economic uncertainty and has contributed to a rise in global geo-economic fragmentation, weighing on international trade flows.[1] This box briefly reviews developments in US tariff policy, going on to present available estimates of the effects on GDP and inflation for the United States and the European Union (EU).

Evolution of US tariff measures

In recent years, a notable shift was seen in the trade policy of the United States, which, following decades of commitment to free trade, adopted a protectionist stance, mainly by threatening and imposing tariffs on its major trade partners. The shift has been a three-stage process: It started in 2018-20, continued at a milder pace throughout 2021-24 and peaked in 2025.

The United States has been using tariffs as a multiple policy instrument: first, as a negotiation lever, putting pressure on its trading partners to concede more favourable deals, as was the case with the EU; second, as a "punitive" tool, i.e. an alternative to economic sanctions, aiming to enforce US policy at the international level (Brazil, India, etc.); and third, as a macroeconomic tool, to protect domestic industries against "unfair" trade practices in the context of international competition, repatriate production, reduce the US trade deficit and increase government revenue.

As early as March 2018, the United States imposed 25% and 10% tariffs on steel and aluminium imports, respectively, from most countries, including major trade partners such as the EU and Canada, forcing these countries to retaliate. July 2018 marked the beginning of a trade war with China, with the US imposing tariffs on goods produced in China in response to alleged unfair competition and theft of intellectual property. Moreover, as from 1.7.2020, NAFTA was replaced by USMCA.[2]

In 2021-24, the Biden administration, while adopting a milder rhetoric, maintained the bulk of tariffs against China. Actually, in May 2024, new targeted tariffs on goods produced in China – including on electric vehicles – were imposed by the United States to protect the domestic industry.

The start of 2025 marked a major shift, as the US tariff policy expanded and became almost universal. In February 2025, the United States imposed a 25% tariff on most imports from Canada and Mexico, citing security considerations. The new policy culminated in "Liberation Day" on 2.4.2025, when "reciprocal tariffs" were levied on imports to the United States, including different rates on each country and a 10% "baseline tariff" on all international trade partners. At the same time, the "de minimis" exemption allowing the tariff-free import of low-value goods was eliminated. In the summer of 2025, new country-specific tariffs were introduced, reaching up to 50% on imports from Brazil and India, while tariffs on Russian imports increased to 100%.

As regards the EU, after the US administration threatened a 50% tariff on imports as from 1.6.2025, on 27.7.2025 the two partners agreed on a "Framework Agreement" which, while preventing an all-out trade war, led to a significant increase in tariffs. It provided for a new baseline tariff of 15% on the EU – well above the previously applicable average tariff of 3.4% under the Most Favoured Nation (MFN) clause on US imports from the EU (5.1% on EU imports from the US, respectively). The new 15% tariff is not stacked on tariffs already in force; rather, they are all combined to reach 15%, where the previously applicable tariff stood below 15%: where the latter

1 For the economic impact of global trade fragmentation following the pandemic and the energy crisis, see Bank of Greece, *Monetary Policy – Interim Report 2024, Executive Summary and Boxes*, Box 1 "Global trade fragmentation: impact and risks to the global economy".

2 The North American Free Trade Agreement (NAFTA) between the USA, Canada and Mexico, which entered into force in 1994, created a free trade zone in North America. It was officially replaced by the United States-Mexico-Canada Agreement (USMCA), which largely maintains the provisions of NAFTA, but also updates them, particularly regarding the automotive and digital trade sectors, as well as labour rights and environmental protection.

was higher, a tariff of only 15% shall apply. Tariffs on steel, aluminium and copper are set at 50%. In addition, the EU pledged to increase its procurement of US energy goods to USD 750 billion and to invest an additional USD 600 billion in the United States by 2028. Lastly, the EU agreed to eliminate tariffs on all US industrial goods, as a prerequisite for the US to reduce tariffs on European cars to 15%, and to provide preferential market access for a wide range of US agricultural goods. Since Greece is a member of the EU, its trade with the United States is governed by this Framework Agreement, with Greece's main exports, such as olive oil and aluminium, now subject to the new tariffs of 15% and 50%, respectively.

A similar bilateral agreement was finalised by the United States and Japan in September 2025. It introduced a new baseline tariff of 15% (MFN for US imports from Japan: 3.9%) on most imports from Japan, including automobiles and auto parts, although it excludes some strategic sectors, such as generic pharmaceuticals.

As regards the United Kingdom, the United States conceded a more favourable agreement compared with Japan, in an effort to maintain strategic cooperation between the two countries, concluding the Economic Prosperity Deal (EPD) and the Technology Prosperity Deal (TPD). The former introduces a 10% baseline tariff on most imports from the UK, on top of the already existing average MFN tariff of 3.4% on US imports from the UK (3.9% on UK imports from the US, respectively). The UK deal also includes a reduction or elimination of tariffs on certain goods categories, such as automobiles (down to 10% for the UK, quota-based) and industrial goods, excluding the UK from the latest increase, from 25% to 50%, in tariffs on steel and aluminium applicable for other countries, in exchange for reduction or elimination of tariffs on specific US goods exported to the UK and of numerous non-tariff barriers considered to cause discriminatory treatment of US goods. The second agreement enhanced UK-US collaboration in advanced technologies by introducing harmonised standards, ensuring supply chain resilience and creating joint innovation partnerships.

The US-China trade relationship has been more strained, as China retaliated to US "reciprocal" tariffs with equal increases; thus, on 11.4.2025, tariffs on most Chinese imports to the US stood at 145% and on US imports to China at 125%. A provisional agreement-truce was reached in May 2025, suspending the raging tariff war. On 30.10.2025, in South Korea, the leaders of the largest two economies in the world agreed on a tariff regime that is more complicated compared with those for other partners. Effective from 10.11.2025 to 10.11.2026, it provides for a "reciprocal" tariff of 10% on US imports from China, instead of 34% announced on 2.4.2025; plus a 10% instead of 20% on the fentanyl-related tariff; plus a 25% on many other goods; plus a 3.3% MFN clause. On the other hand, China reduced to 10% the baseline tariff on goods imported from the United States.

The macroeconomic implications of recent US tariffs

The increase in tariff rates by the United States on most of the world's economies represents a shock to external demand for these economies, insofar as it leads to a slowdown in growth or even to a decline in exports. At the same time, it constitutes an aggregate supply shock for the United States, causing an immediate increase in the cost of imported goods in the tariff-imposing country, that weighs on firms' profit margins and/or final consumer prices, resulting in stronger inflationary pressures.

In parallel, tariffs are an obstacle to the smooth functioning of markets, distorting relative prices and restricting the volume of international trade. They lead to lower utilisation of the production factors and reduce potential output. Additionally, the reallocation of resources towards less efficient sectors, due to protectionism, undermines overall economic efficiency at the international level. The imposition or the threat of imposition of tariffs disrupts global value chains, creating investment uncertainty, while it often leads to trade retaliation by other countries, triggering a vicious circle of trade conflicts that exacerbates geo-economic frictions and tensions and reduces the predictability of the international environment.

Overall, tariffs affect not only prices and output in the short term, but also long-term economic growth, innovation and international cooperation.[3]

3 See Krugman, P.R., M. Obstfeld and M.J. Melitz (2022), *International economics: Theory and policy* (12th ed.), Pearson.

US tariff rates on key trade partners

Tariff category/Product	EU	Japan	China	United Kingdom
Reciprocal tariff	15% (total)	15% (total)	20% to 45% (plus a 3.3% MFN clause)	10%
Steel and aluminium	50%	50%	50%	25% (by special agreement)
Automobiles and auto parts	15%	15%	25%	Quota-based: 10% up to 100 thousand automobiles, 25% over this threshold
Elimination of de minimis exception for imports of <800 US dollars	Suspended	Suspended	Suspended	Suspended

Source: Official announcements of the US government on the basis of trade agreements concluded after "Liberation Day".

Impact assessment

The policy shift towards trade protectionism has attracted strong interest among institutional and academic circles regarding macroeconomic impacts and redistributive effects. For the United States, current publications point to chiefly negative effects on economic growth, as well as an upward impact on inflation. Estimates vary, although overall they suggest substantial implications for 2025 and 2026 and a more limited impact in the long term. The range of estimates is explained by different assumptions of tariff levels, possible retaliatory measures, the exchange rate response and transmission channels.[4]

Estimates of the implications for Europe, based on the July 2025 agreement, also point to a negative impact on GDP.[5] For the euro area, the ECB estimates a cumulative impact on GDP growth of -0.7 percentage points (pps) over the 2025-27 period. ECB estimates of the impact on euro area headline inflation suggest almost negligible effects, i.e. a total annual decline of 0.05 pps in inflation in 2026 and 2027.

Conclusions

First the threat to impose high tariffs, then the introduction by the United States of higher tariff rates on goods imported from all countries, along with the uncertainty that prevailed throughout most of 2025 regarding the outcome of the negotiations, were another major external shock to international trade and the global economy. The easing of heightened uncertainty following the new trade agreements with major US trade partners partly offset the expected impact from increased tariffs. It is estimated that the US will suffer more than the EU from the negative effect on GDP, as well as on inflation, where the consequences for the euro area are seen as negligible. Trade diversion and intensified price competition with China entail risks for the EU; however, new opportunities also emerge for European manufacturing and exports, since these developments function as a catalyst for businesses, national governments and European institutions towards a faster transformation of the EU economies.

4 See (a) PIIE, "The global trade war: An update"; (b) Conference Board, "Reciprocal Tariffs Will Weaken US and Global Economies". An impact assessment of any retaliatory actions on behalf of trade partners which could aggravate financial losses is not included in this analysis; (c) Yale Budget Lab, "State of U.S. Tariffs"; (d) Congressional Budget Office, "Budgetary and Economic Effects of Increases in Tariffs"; (e) Schmitt-Grohé, S. and M. Uribe (2025), "Transitory and Permanent Import Tariff Shocks in the United States: An Empirical Investigation", NBER Working Paper No. w33997. In this analysis, the authors suggest that the macroeconomic impact depends on tariff permanence and tariff policy credibility. Transitory tariff increases are neither inflationary nor contractionary. In contrast, permanent tariff increases are associated with a more sustained increase in the price level and a persistent negative impact on real income and growth.

5 See (a) Kiel Institute, "Kiel Trade and Tariffs Monitor"; (b) Bottazzi et al. (2025), "Euro Area Risks Amid US Protectionism"; and (c) CEPS (2025), "The EU-US trade deal promises temporary relief but longer-term pain".

Box 2

THE ASSESSMENT OF THE EUROSYSTEM'S MONETARY POLICY STRATEGY (2025)

In June 2025, the Governing Council of the European Central Bank (ECB) published the results of its monetary policy strategy assessment.[1, 2] The monetary policy strategy sets out the key principles and tools for fulfilling the Eurosystem's mandate to maintain price stability over the medium term. It provides policymakers with a coherent analytical framework that maps actual or expected economic and inflation developments into policy decisions. The strategy also contributes to a better understanding of monetary policy by both markets and the general public, by providing a benchmark for anchoring inflation expectations at levels consistent with price stability.

The monetary policy strategy is therefore of key importance, which necessitates its regular review in order to adapt to changing economic conditions. Thus, already during the strategy review of 2020-21, the decision was taken to carry out a new assessment in 2025. The aim of regular assessments is to make sure that the monetary policy strategy remains fit for purpose –that is, for fulfilling the Eurosystem's primary objective of price stability – both now and in the future. The work to complete the assessment –which took place between July 2024 and June 2025– involved staff from the ECB and the national central banks of the Eurosystem, including the Bank of Greece. The conclusions of the work were published in two[3] ECB Occasional Papers, which address two main themes: (i) the changing economic and inflationary environment in the euro area; and (ii) the monetary policy tools, strategy and communication.

The conclusions from the extensive review of the monetary policy strategy in 2020-21[4] reflected an environment characterised by low inflation and very low interest rates. However, since mid-2021 the Eurosystem was confronted with a surge in inflation, in an environment of high uncertainty and volatility. The strong inflationary pressures that emerged in the euro area were mainly due to supply-side shocks, linked to the reopening of the economy following the COVID-19 pandemic and to Russia's war against Ukraine. In addition, profound global changes posed new challenges for the Eurosystem, such as geopolitical tensions and the resulting geo-economic fragmentation, as well as changes in US trade policy. At the same time, ongoing structural shifts related to digitalisation and the effects of the climate crisis, and developments in the international financial system further add to uncertainty. Finally, the euro area equilibrium real interest rate (r*), which is consistent with inflation at target and the economy operating at potential, may have increased somewhat since the previous strategy review. However, it remains at a significantly lower level than before the global financial crisis.

All these factors suggest that the inflation environment will remain uncertain and potentially more volatile, with larger target deviations in both directions, posing significant challenges for forecasting inflation and thus for the effective conduct of monetary policy. Accordingly, in the 2025 assessment, the Governing Council of the ECB focused on the lessons for the monetary policy strategy from the changing economic environment over the period from mid-2021 to mid-2025.

The updated monetary policy strategy

The 2025 assessment maintained the key elements of the previous strategy review (2020-21):

- The inflation target of 2% over the medium term was taken for granted, as it has served as a clear anchor for inflation expectations – which is essential for maintaining price stability. The Governing Council's commitment

1 See ECB, "The ECB's monetary policy strategy statement (2025)" and "An overview of the ECB's monetary policy strategy – 2025", June.
2 In the course of 2025, the US Federal Reserve also completed a review of its monetary policy strategy.
3 See Workstream 1: Changing economic and inflation environment, "A strategic view on the economic and inflation environment in the euro area", ECB Occasional Paper No. 371/2025, and Workstream 2: "Report on monetary policy tools, strategy and communication", ECB Occasional Paper No. 372/2025.
4 The ECB's original monetary policy strategy, which was adopted in 1998 and first reviewed in 2003, was revised extensively between 2020 and 2021, with the last assessment completed in June 2025.

to this target remains symmetric, meaning that both negative and positive deviations from this target are considered equally undesirable.

- In addition, the medium-term orientation of the monetary policy strategy was reaffirmed. This allows for inevitable short-term deviations of inflation from the 2% target, recognising lags and uncertainties in the transmission of monetary policy to the economy and to inflation. The flexibility of the medium-term orientation takes into account that the appropriate monetary policy response to a deviation of inflation from the target is context-specific and depends on the origin, magnitude and persistence of the deviation.

However, in view of the new environment and macroeconomic conditions stemming from it, the Governing Council considered it necessary to adjust certain aspects of the strategy. The main adjustments are the following:

In an environment where deviations of inflation from the target can be either upside or downside, it is important to ensure that, in both cases, the Governing Council fulfils its primary objective of price stability. To maintain the symmetry of its inflation target, the Governing Council recognises the importance of appropriately forceful or persistent monetary policy action in response to large, sustained deviations of inflation from the target in either direction, to avoid deviations becoming entrenched through de-anchored inflation expectations.

- In the event of significant disinflationary shocks, the effective lower bound on nominal interest rates needs to be taken into account. Policy action along the forcefulness or persistence dimensions may help to address the constraint imposed by the effective lower bound (ELB) on nominal interest rates and prevent the de-anchoring of inflation expectations.

- In the event of significant inflationary shocks, possible non-linearities in price and wage setting need to be taken into account. Moreover, there can be instances when it is optimal to shift the focus from forcefulness to persistence as the tightening cycle proceeds, by maintaining the restrictive monetary policy stance for a longer period rather than pursuing further interest rate hikes. In this way, price stability is achieved, but at a lower economic cost and with lower risks to financial stability compared to a continued increase in interest rates.

The findings of the updated strategy assessment confirm the key role of each monetary policy instrument in the Eurosystem's toolkit. The set of key policy rates are the primary instrument. The instruments also differ in two functions: (i) steering the monetary stance at the ELB; and (ii) supporting the monetary transmission. Some instruments, such as longer-term refinancing operations and asset purchase programmes, combine both functions. The Governing Council has declared that it will continue to respond flexibly to new challenges as they arise and will consider, as needed, new policy instruments in the pursuit of its price stability objective.

In the new volatile environment, as in the past, the choice, design, implementation and adjustment of instruments will be subject to a comprehensive cost-benefit analysis to ensure proportionality, weighing their benefits and potential side effects, as well as their interactions. The updated assessment confirms the advisability of deploying a mix of instruments near the ELB rather than an excessively intensive use of single instruments. In addition, the marginal effectiveness of single instruments may decline as these are used more extensively, while side effects tend to increase. The proportionality assessment is therefore particularly important, as it may affect both the intensity with which monetary policy instruments are employed and their design, which can be calibrated to limit side effects.

Over the period under review, the side effects of monetary policy tools were generally limited. Most importantly, side effects on central bank profitability turned out to be more severe than expected in 2021, as the policy tightening required to counter the inflation surge resulted in significant losses for some national central banks. However, these losses do not undermine the Eurosystem's ability to fulfil its primary objective of maintaining price stability. It is also important to put these losses into perspective, taking into account that certain monetary policy instruments, such as asset purchases, improved macroeconomic outcomes. Going forward, where two alternative instrument designs are judged to deliver the same effectiveness in terms of price stability, the preferred design should be the one that is more efficient including along the (projected) central bank income dimension.

In addition, the design of monetary policy tools should embed sufficient flexibility for an agile response to changes in the economic environment.

The Governing Council bases its monetary policy decisions on an integrated assessment of all relevant factors. In particular, it takes into account not only the most likely path for inflation and the economy – as described in the baseline scenario of the macroeconomic projections – but also the regular risk assessment. Through the appropriate use of scenario and sensitivity analyses, the Governing Council assesses relevant risks and uncertainty factors using a systematic but context-specific approach in order to steer the monetary policy stance. This can include analysing the sensitivity of projections and policy choices to changes in the underlying technical assumptions and model parameters as well as exploring a range of alternative scenarios, especially in relation to specific risk events. In the current uncertain environment, the use of scenarios helps the decision-making process and ensures better communication with the public.

The Eurosystem has already adapted its external communication as part of its effort to keep inflation expectations anchored at target. Initially, in June 2022, the Governing Council stated that it follows a data-dependent and meeting-by-meeting approach to determine the appropriate monetary policy stance. Subsequently, the Governing Council made it clear (for the first time in March 2023) that monetary policy decisions are based on the following three criteria: the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. More recently, in July 2025, it added that the assessment will also take into account the risks surrounding the inflation outlook. This is how the Governing Council clarifies its complex decision-making process, i.e. its reaction function.

In addition, the recent monetary policy strategy assessment explicitly referred to another parameter relevant to the pursuit of price stability. In particular, it was recognised that a more resilient financial architecture at euro area and EU level – supported by progress on the savings and investments union, the completion of banking union and the introduction of a digital euro – would also support the effectiveness of monetary policy in this evolving environment. This can contribute to effectively responding to structural shifts in the economy, which create an uncertain and potentially more volatile inflation environment.

As regards climate change, the findings of the previous review were reaffirmed. In particular, climate change, especially through the effects of extreme weather events, as well as through the adjustment process of the financial system, has profound implications for price stability through its impact on the structure and cyclical dynamics of the economy and the financial system. For this reason, the Eurosystem fully takes into account the implications of climate change and nature degradation for monetary policy and its other tasks.

In a rapidly changing world, the Eurosystem's monetary policy strategy needs to be reviewed and adapted regularly. While changes are generally difficult to predict, there are some areas where developments are foreseeable in the coming years that could alter the economic and financial landscape in which monetary policy operates. Against this background, the Governing Council intends to assess periodically the appropriateness of its monetary policy strategy, with the next assessment expected in 2030.

Box 3

LABOUR FORCE TRANSITIONS IN THE GREEK ECONOMY

The Greek labour market has shown significant improvements over the past few years, reflecting the implementation of structural reforms that have addressed several rigidities and distortions in this market. At the same time, economic growth in recent years was accompanied by a constant rise in the employment rate and a continuous decline in the unemployment rate. The drop in the unemployment rate has markedly reduced the pool of employees (population labour force) available for hiring. The labour market has tightened significantly after the pandemic and this trend continued in 2024 and early 2025, with firms struggling to find employees to cover their

needs.[1] At the same time, the drivers of labour market dynamics improved, with a substantial increase in the transition of the working age population between the three possible labour market statuses: employment, unemployment and non-participation in the labour force (inactivity).

This box explores the transitions of the population aged 15-74 years, examining the flows between employment, unemployment and inactivity in 2010-2025, with a particular focus on the post-COVID-19 period. Studying these flows allows for identifying key intervention areas, with an aim to design and implement targeted policies that enhance labour market dynamics and help raise employment rates. Nevertheless, it should be noted that maintaining high rates of employment growth is a significant challenge, as low birth rates and population ageing have caused a continuous decline in the working age population, which could adversely affect the functioning of the labour market and undermine the long-term sustainability of the social security system and social cohesion. Enhancing labour market mobility can deliver multiple benefits for economic growth, as it facilitates the reallocation of labour towards higher value-added sectors. This process contributes, inter alia, to increasing labour productivity and improving workers' wages.[2]

Labour mobility methodology

In order to examine transitions across the three labour market statuses, we employed data from ELSTAT's Labour Force Survey (LFS) for the period from 2010 up to and including the second quarter of 2025. During the study period, individuals can either remain in the same status as in the previous period or move to a different status. The transition rate between two labour statuses represents the number of individuals that moved from one status to another during the reference period as a percentage of the total number of individuals in the initial status in the previous period.[3]

Transitions in labour market status in Greece (2024)

(population aged 15-74; % of initial status in 2023)

		Final status 2024		
		Employment	Unemployment	Inactivity
Initial status 2023	Employment	96.2%	1.7%	2.1%
	Unemployment	21.3%	49.2%	29.5%
	Inactivity	4.2%	5.0%	90.9%

Source: Eurostat.

The table presents the transition probabilities[4] between the three labour statuses in the 2023-24 period. Both the employed and the inactive population show a probability of remaining in the same status of over 90%. Nevertheless, it should be noted that the probability of an employed individual remaining in employment is strong

1 Antonopoulos, C., S. Anyfantaki, H. Balfoussia, T. Kosma, E. Papapetrou, F. Petroulakis, P. Petroulas and P. Zioutou (2022), "The Greek labour market before and after the pandemic: slack, tightness and skills mismatch", Bank of Greece, *Economic Bulletin*, No. 56.

2 See (a) Directorate-General for Employment, Social Affairs and Inclusion (2025), Estimating labour market transitions and skills investment needs of the green transition – a new approach, Publications Office of the European Union: increased labour mobility in the secondary sector, particularly among green businesses, in the past few years in the EU, excluding more polluting sectors such as mining; (b) Braunerhjelm, P., D. Ding and P. Thulin (2020), "Labour market mobility, knowledge diffusion and innovation", *European Economic Review*, 123, 103386: labour mobility influences firms' innovation measured as patent applications; (c) Bai, J.J., A. Eldemire and M. Serfling (2024), "The effect of labor mobility on corporate investment and performance over the business cycle", *Journal of Banking and Finance*, 166, 107258: firms located in more mobile labour markets increase investment rates more during economic expansions.

3 For example, the transition rate for the $P(U_{t-1}E_t)$ flow from unemployment in the previous period (U_{t-1}) to employment in the current period (E_t) according to Eurostat's definition is calculated as follows:

$$P(U_{t-1}E_t) = 100\frac{U_{t-1}E_t}{U_{t-1}E_t + U_{t-1}U_t + U_{t-1}I_t} = 100\frac{U_{t-1}E_t}{U_{t-1}}$$

where $U_{t-1}\,E_t$ is the flow from unemployment in the initial period to employment in the second period, $U_{t-1}\,I_t$ represents the flow from unemployment in the initial period to inactivity in the second period, $U_{t-1}\,U_t$ shows the number of the unemployed in the initial period that remain unemployed in the second period and U_{t-1} is the total number of the unemployed in the initial period.

4 The transition rate can also be defined as a transition probability, in the sense that, when an individual is in a specific labour market status in the initial period, outflows expressed in percentages also imply the probability, ceteris paribus, of the same individual being in a specific labour status in the second period.

(96.2%) as labour market conditions continue to improve. By contrast, the probability of an unemployed individual remaining in the same status stands at 49.2%, which means that half the unemployed in 2023 either transitioned to employment or stopped seeking a job and became inactive.

Evolution of labour market transitions across time

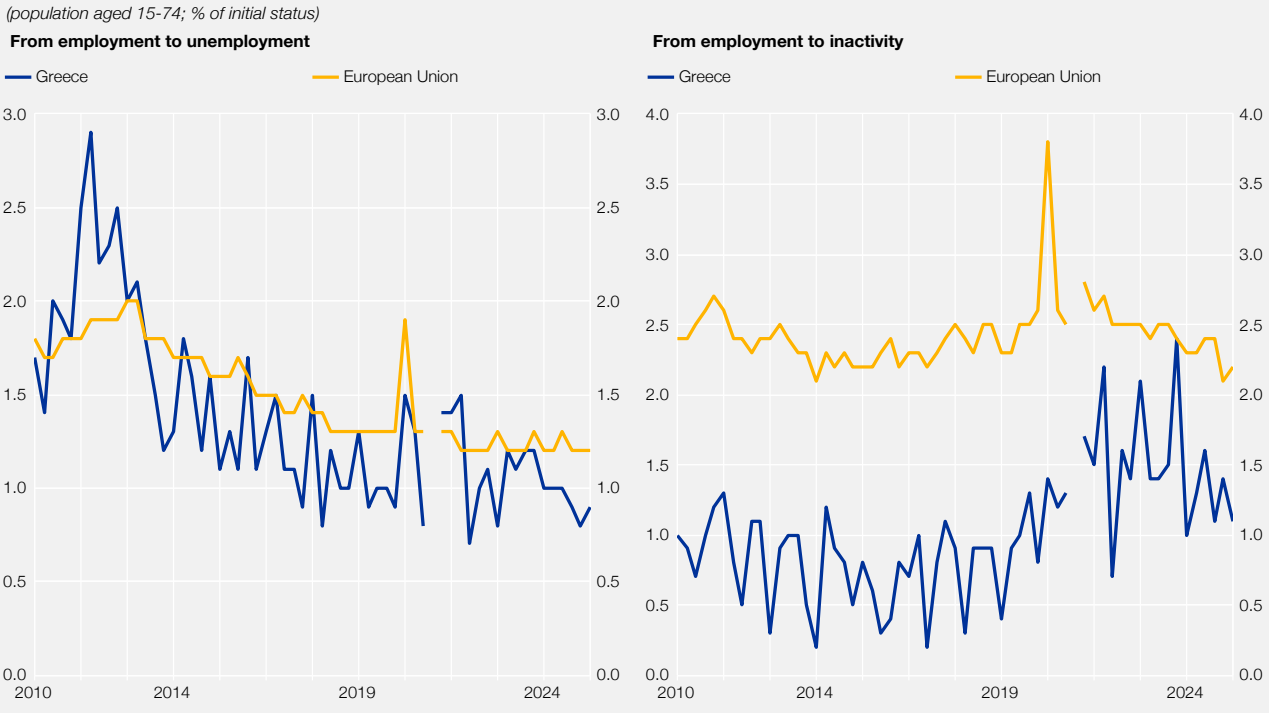
Flows from employment across time

Looking at the evolution of moving out of employment across time, the probability of remaining in employment was above 95% throughout the reference period,[5] even during the financial crisis. The transition probability to unemployment has been decreasing over time, from 2-3% in 2011 down to 1-1.5% in the last six quarters. Similarly, the transition probability to inactivity grew from 0.8%, i.e. the quarterly average in 2011-2019, to 1.5% in the period from 2020 to the second quarter of 2025 (see Chart A). Compared with the European Union (EU), the transition probability from employment to unemployment is almost equal; by contrast, the transition probability from employment to inactivity is much higher in the EU, although some convergence has been observed in recent years. Data indicate a very high employment retention rate for those who are already employed.

Flows from unemployment across time

Looking at the evolution of moving out of unemployment across time, the transition probability to employment has been increasing, especially after 2012, reflecting the implementation of structural reforms and the normalisation of the economic situation.[6] Turning to transition out of the labour force, the probability was low until 2020,

Chart A Transitions from employment: Greece and the European Union (2010-Q2 2025)

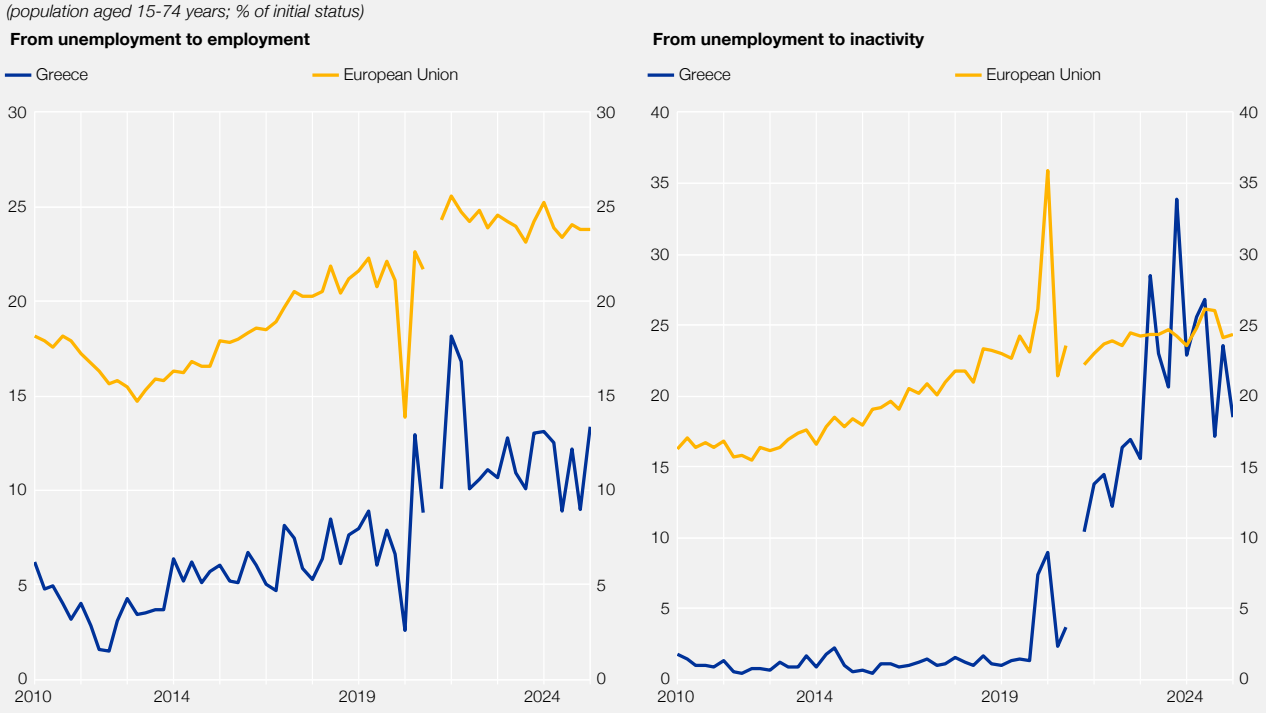


Source: Eurostat.

5 Data for the first quarter of 2021 are excluded due to a change in Eurostat methodology; as from 2021, data are collected on the basis of Regulation (EU) 2019/1700 of the European Parliament and of the Council of 10 October 2019 establishing a common framework for European statistics relating to persons and households.

6 See Special Feature IV.1 "The determinants of unemployment dynamics and the Beveridge curve in Greece", Bank of Greece, *Monetary Policy – Interim Report 2015* (in Greek).

Chart B Transitions from unemployment: Greece and the European Union
(2010-Q2 2025)



Source: Eurostat.

but has been increasing strongly since 2021 (see Chart B). The rise in the probability of transition both into employment and into inactivity has resulted in a continued decline in the unemployment rate. Compared with the EU, both transition probabilities are lower in Greece, highlighting the difficulties facing the unemployed in changing their status – despite a clear improvement in labour market conditions in recent years – possibly due to skill supply mismatches. It is therefore imperative to develop policies that raise the probability of transition from unemployment to employment.

Flows from inactivity across time

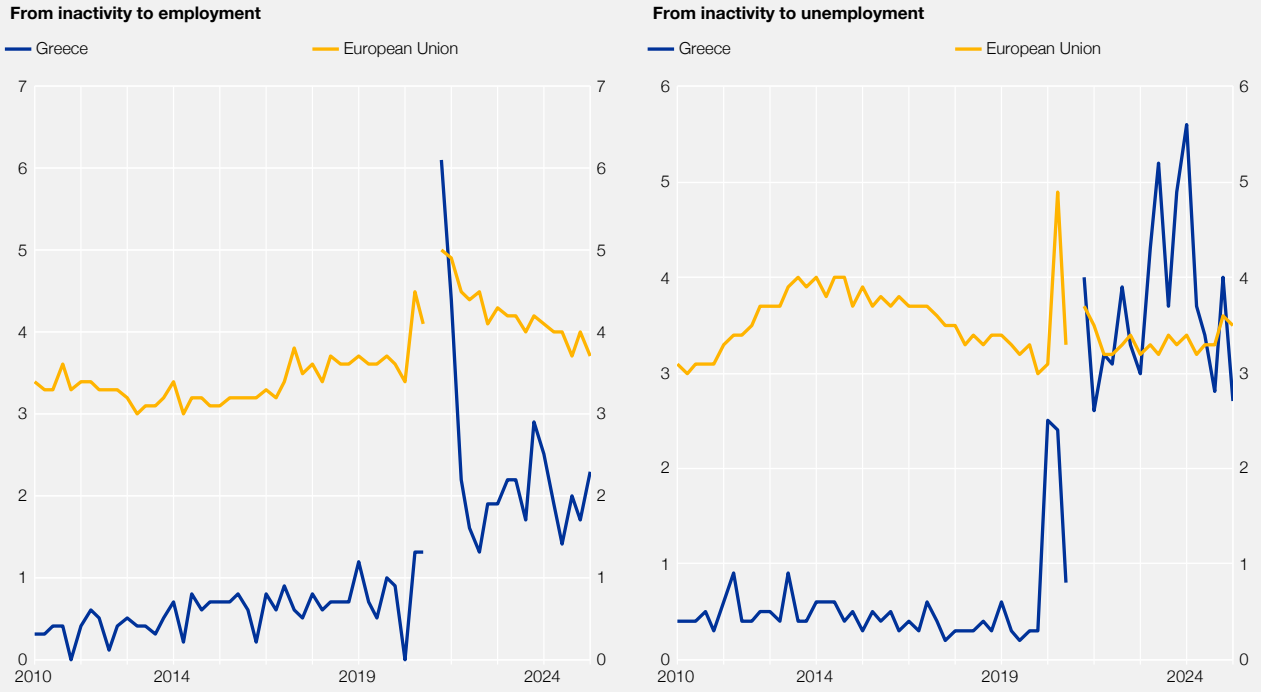
Examining the evolution of moving out of inactivity across time, an increase in the probability of transition both into employment and into unemployment is observed. Specifically, a significant rise in the transition probability to unemployment was recorded from 2021 onwards, matching the reverse path, i.e. the transition probability from unemployment (see Chart C). Consequently, from 2021 onwards, strong mobility to and from unemployment and inactivity is observed. Compared with the pre-pandemic period, data show that inactive individuals register a higher tendency of entering the labour market, irrespective of whether they have actually found a job or are just actively looking for. This suggests that one of the main pools feeding the labour force is the inactive population, which lies around the edges of the labour market. This could make an essential contribution to raising the participation rate and broadening labour supply. A substantial contribution is also made by pensioners entering the labour market, following the abolition of the 30% pension cut and its replacement with a non-contributory fee to e-EFKA.

Qualitative characteristics of the transition from unemployment to employment

Unemployment undermines the medium- to long-term prospects of the economy, erodes human capital and weakens the social security system and social cohesion. For an in-depth understanding of this issue, this section explores individual features of flows related to the transition from unemployment to employment, referring to gender, age group, duration of unemployment and previous work experience. The reference period is 2021-24 and average annual data are used (see Chart D).

Chart C Transitions from inactivity: Greece and the European Union (2010-Q2 2025)

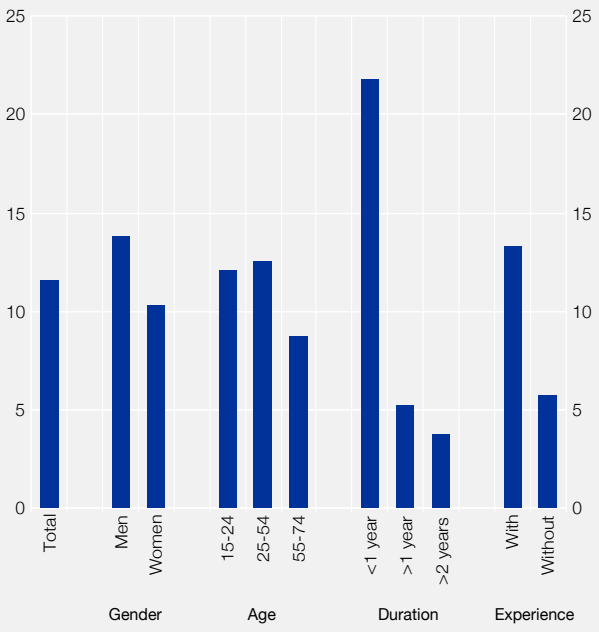
(population aged 15-74; % of initial status)



Source: Eurostat.

Chart D Transitions from unemployment to employment in Greece (2021-2024)

(population aged 15-74; % of the unemployed in the initial year; average for the period)



Source: Eurostat.

With regard to gender, unemployed men are more likely to find a job (13.8%, compared with 10.3% for women), although the female unemployment rate remains consistently above that of men. The lower probability of female access to employment reflects the difficulties in women's labour market entry. This is confirmed by the continued divergence of unemployment rates between genders. Closing this gap requires targeted policies that ensure, inter alia, equal opportunities for women and facilitate the reconciliation of professional and family life.

Regarding age groups, older unemployed individuals (aged 55-74 years) are less likely to find a job (8.8%) compared with younger individuals, as they encounter more obstacles with reintegration due to relative lack of skills that are available to the younger generation of unemployed. The age dimension of unemployment highlights the need for targeted retraining and lifelong learning policies. Removing disincentives for pensioners is an intervention in the right direction; however, targeted measures are needed to help older unemployed individuals develop the necessary skills to meet modern market demands.

As regards unemployment duration, there is a clear inverse relationship between the length of unemployment

and the probability of finding a job. The short-term unemployed have a 21.8% transition probability to employment, compared with 5.3% for the long-term unemployed. The probability is even lower (3.8%) for those unemployed for over 2 years, which highlights the need to implement active employment policies, specifically targeting the long-term unemployed.

Lastly, in terms of experience, unemployed individuals with work experience have more than double probability of finding a job than unemployed individuals without work experience (13.3% vs 5.8%, respectively). Further promoting apprenticeships and effectively linking education with the labour market are critical for boosting employment and ensuring the effective utilisation of human capital.

Conclusions and policy proposals

Economic growth and the implementation of structural reforms have contributed to raising the employment rate, reducing the unemployment rate and improving labour force participation. An analysis of the transitions between employment, unemployment and inactivity showed a significant increase in labour market mobility since 2021, between all statuses, particularly in the probability of transition from unemployment to inactivity, where Greece's rates have converged with those of the EU. Moreover, the probability of remaining in employment appears quite resilient due to strong growth in labour demand. Higher labour market mobility is attributable both to economic growth and to the implementation of structural reforms, which have helped to improve matching between labour supply and demand, facilitating the absorption of unemployed into available jobs. The tightening of the labour market, coupled with stronger labour demand and higher wages, has made employment more attractive, resulting in an increased flow of individuals moving from the pool of inactivity into the active population.

The rise in mobility has had a favourable effect on employment growth and thus on the continuous decline in the unemployment rate. Although mobility has been converging towards the EU average, it still remains lower in Greece, indicating that there is scope for further labour market improvement through economic growth and the implementation of structural reforms, which should increase flexibility and enhance employment. The qualitative analysis of the transition from unemployment to employment indicates that socially vulnerable groups (women, older people, long-term unemployed) face greater difficulties in making this transition; therefore, there is a pressing need for further implementation of active labour-market policies focused on strengthening their skills, in order to facilitate a smoother entry into the labour market and, subsequently, into employment.[7] Institutional and fiscal measures can play a key role in increasing mobility, such as further developing technical education; introducing incentives to attract skilled migrants; expanding full-day schooling; supporting childcare facilities; further reducing or subsidising social security contributions to enhance the competitiveness of Greek enterprises; and strengthening audit mechanisms to tackle undeclared and underdeclared work.

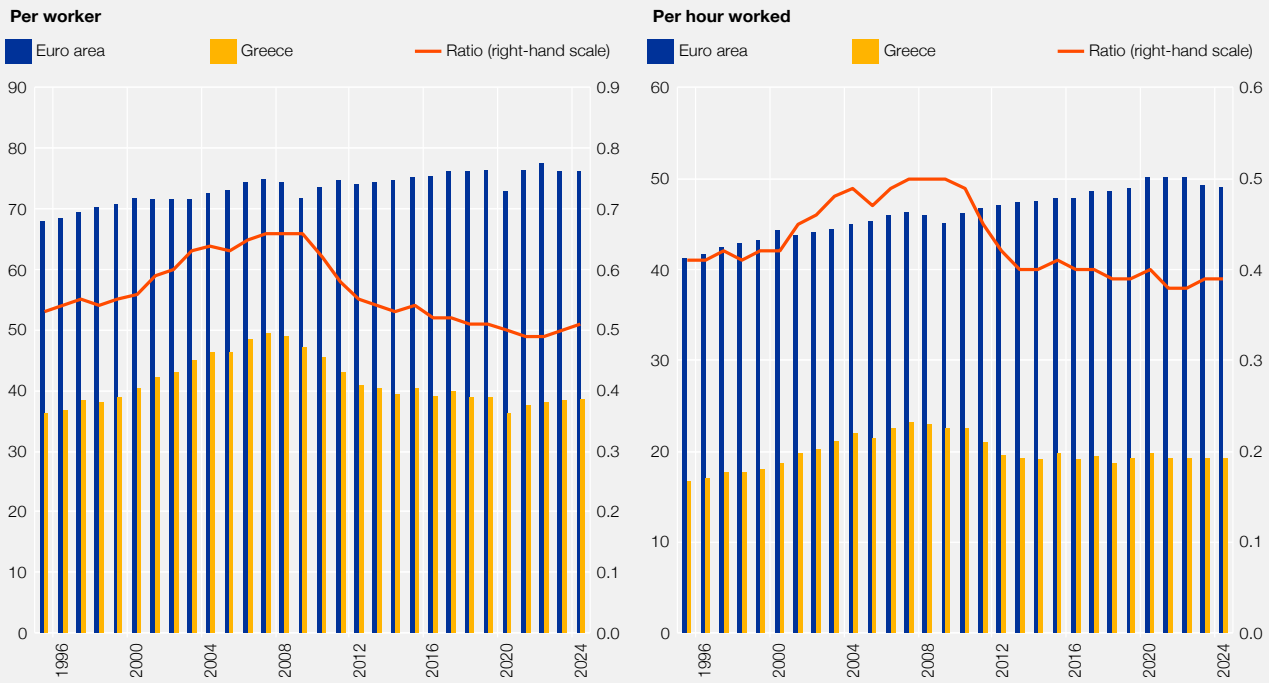
7 Bank of Greece (2024), Box 3 "Labour market challenges: labour force and participation rates", *Monetary Policy 2023-2024 – Executive Summary and Boxes*, pp. 29-34.

Box 4

WAGES AND LABOUR PRODUCTIVITY IN THE GREEK ECONOMY

The sovereign debt crisis at the beginning of the previous decade reversed the convergence of Greece's Gross Domestic Product (GDP) towards the European Union (EU) average and, despite the economic recovery of recent years, its level is not expected to approach the European average in the medium term. Per capita GDP (in purchasing power parities – PPPs), which stood at 93.4% of the EU average in 2009, fell significantly during the economic crisis and still remains at very low levels (69.4% in 2024). At the same time, despite the significant increase in employment and the implementation of major structural reforms, which resulted in the correction of

Chart A Labour productivity in Greece and the euro area (1995-2024)



Source: Eurostat.
Note: Productivity is defined as the ratio of GDP (2020 constant prices) to the number of a) workers and b) hours worked (National Accounts definition).

distortions and further liberalisation, mainly in the labour and secondarily in the product market, there has also been a lag in labour productivity.[1]

Labour productivity is particularly important for the economy, as it is directly linked to sustainable wage growth. For an economy to remain competitive, nominal wage increases must keep pace with productivity growth so that unit labour costs do not rise and fuel inflation, thus triggering a wage-price spiral.

Chart A shows labour productivity in Greece and the euro area per employee and per hour worked, as well as the ratio between Greece and the euro area for the period 1995-2024. Labour productivity in Greece has been consistently lower than in the euro area throughout the period for both measures.

In the decade 2000-09, a period during which the Greek economy achieved real convergence with its euro area partners, mainly due to higher growth rates, the ratio of labour productivity per employee in Greece to the corresponding euro area average increased steadily, reaching 66% in 2009. However, the economic crisis reversed the convergence trend, causing this ratio to fall below 50% at the end of the previous decade. The ratio has been increasing since at a very slow pace, coming to just 51% in 2024.

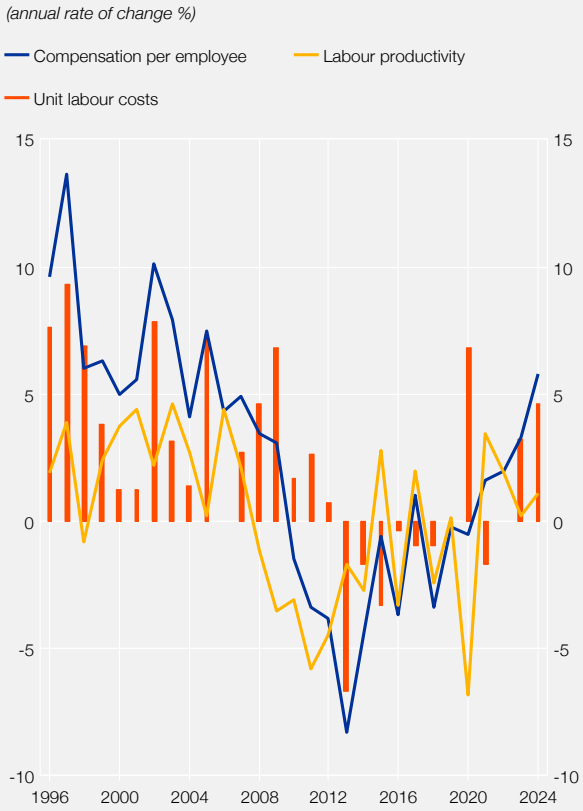
When productivity is measured per hours worked, the differential is even greater, as the average Greek employee works longer hours than the average European. Thus, in 2024, labour productivity in Greece stood at a mere 39% of the euro area average.

Chart B shows the evolution over time of the rates of change in compensation per employee, labour productivity per employee and unit labour costs for the period 1995-2024.[2] Persistent high unit labour costs over a long period

1 Labour productivity is defined as the ratio of real GDP to the number of employees/hours worked in the economy as a whole and indicates the quantity of output produced per employee/hour worked.
2 Unit labour costs are an indicator of the average cost of labour required to produce one unit of output in the economy and are calculated as the ratio of compensation per employee to labour productivity per employee.

of time have significant negative consequences for the viability of businesses, as they are unable to compete with foreign companies in terms of labour costs, while at the same time inflationary pressures are exerted on the economy as a whole.[3] This is exactly what has happened in Greece over the last 30 years. More specifically, during the period 1995-2012, compensation per employee increased more than labour productivity (except for 2006, when the latter was marginally higher), which led to a steady deterioration in the competitiveness of the Greek economy. During the same period, unit labour costs recorded positive growth rates and exceeded average unit labour costs in the euro area. Since 2013, the trend has reversed, despite negative rates of change in labour productivity, as the decline in wages has been even greater. However, over the last two years, there has been another significant increase in unit labour costs, while productivity has declined slightly.

Chart B Labour productivity and compensation per employee in Greece (1996-2024)



Source: Eurostat.

Next, labour productivity per employee is broken down by main sector of the Greek economy for the period 2021-24.[4] The highest rate of growth in labour productivity is recorded in "construction", where the rate of change in unit labour costs is negative. "Industry," "food and accommodation services", "financial and insurance activities" and "professional, scientific, and technical activities" show an increase in labour productivity, which, however, is lower than the increase in compensation per employee, resulting in a positive rate of change in unit labour costs. It should be noted that "manufacturing" outperforms "industry" in terms of productivity growth, given that manufacturing comprises the most outward-looking and dynamic sectors of industry, and records a negative rate of change in unit labour costs. By contrast, in "agriculture, forestry, and fishing" and "wholesale and retail trade", labour productivity is declining and the change in unit labour costs is positive and very high. In "transportation and storage" and "information and communication", labour productivity and compensation per employee are changing at roughly the same rate, resulting in relatively stable unit labour costs. Finally, "public administration and defence, mandatory social security, education, health" shows zero growth in labour productivity, resulting in a significant increase in unit labour costs. In conclusion, considering the weight of individual sectors in the country's GDP, it appears that the increase in unit labour costs in recent years stems mainly from developments in trade and tourism and, to a lesser extent, public administration.

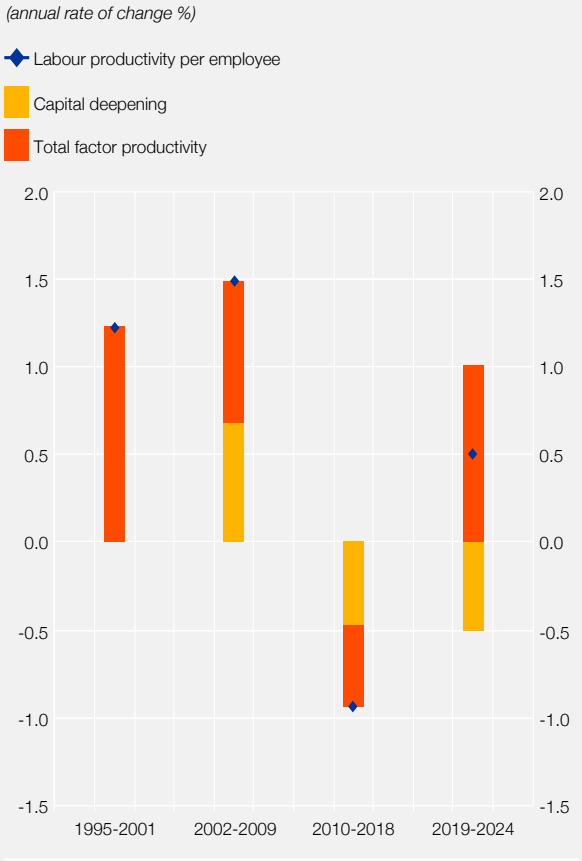
Labour productivity and growth accounting

Labour productivity is an indicator encompassing all components of GDP growth for given levels of employment. It is affected by both cyclical and structural factors. Thus, during recessions, capacity utilisation is low and firms tend to hoard labour. However, prolonged recessions and crises can have a market clearance effect, in the sense that adverse economic shocks disproportionately affect low-productivity firms, driving them out of the market. This frees up resources that are reallocated from low- to high-productivity firms, which can mitigate the negative impact on productivity during recessions. Structural factors impacting productivity refer to the quality of labour and capital, but also to the technological level of firms (particularly regarding information

3 See Bragoudakis Z. (2014), "An empirical investigation of the relationship between unit labour cost and price developments: the case of Greece", Bank of Greece, *Economic Bulletin*, Issue 40.

4 To calculate labour productivity at sectoral level, Gross Value Added (GVA) in real terms is used instead of GDP.

Chart C Rate of change in labour productivity per employee and components (1995-2024)



Source: Bank of Greece.

technology), bureaucratic and administrative burdens, public infrastructure, financial development, the regulatory burden of the economy, the number of competitors, the mobility of workers to and from other countries, etc.[5]

An analytical framework is adopted to examine the factors that influence labour productivity (measured as the ratio of real GDP per employee) over time. For this purpose, we use a Cobb-Douglas production function with two production factors, capital (K) and labour (L), and total factor productivity (TFP), which measures the efficiency with which the economy uses the two factors to produce output. According to this function, the rate of change in labour productivity (Y/L) is approximately equal to the sum of the rate of change in TFP and the rate of change in capital per employee (capital deepening, K/L).[6]

In the pre-euro area entry period, labour productivity in Greece grew mainly due to total factor productivity (see Chart C). Subsequently, during the period of significant growth in the Greek economy (2002-09), labour productivity growth was again strong and more balanced in terms of composition, with about half stemming from total factor productivity and half from capital deepening. During the period 2010-18, when the country was under economic adjustment programmes, labour productivity declined, with both components contributing equally. In a protracted recession environment, investment slowed dramatically, resulting in a contraction of the economy's capital base, compounded by low capacity utilisation and a tendency of firms to engage in labour hoarding. As a result, total factor productivity declined. In recent years, labour productivity has been rising again, albeit at a slower pace than in the past, as improvements in total factor productivity offset the negative impact of capital shallowing.

Labour productivity remains low. In fact, measured in terms of PPPs, labour productivity in Greece in 2023 was the lowest in the EU. The lag is attributable to both of its components. In more detail:

a) Total factor productivity. The Greek economy is characterised by low total factor productivity.[7] The main reason for this is its structure, as it depends more than the EU average on low-productivity sectors such as accommodation and food services. Furthermore, the Greek economy is dominated by small and micro enter-

5 See a) Gust, C. and J. Marquez (2004), "International comparisons of productivity growth: the role of information technology and regulatory practices", *Labour Economics*, 11(1), 33-58; b) Belorgey, N., R. Lecat and T.-P. Maury (2006), "Determinants of productivity per employee: An empirical estimation using panel data", *Economics Letters*, 91(2), 153-157; and c) Goel, V., R. Agrawall and V. Sharma (2017), "Factors affecting labour productivity: an integrative synthesis and productivity modelling", *Global Business and Economics Review*, 19(3), 299-322.

6 The production function is given by the equation $Y=A\,L^{\alpha}\,K^{1-\alpha}$, where Y is output, A is total factor productivity, L is labour, K is capital and α is the share of labour compensation in output. Expressed in terms of output per worker, the function is $Y/L=A(K/L)^{1-\alpha}$ or, expressed in rates of change, $g_{Y/L}=g_A+(1-\alpha)\,g_{K/L}$.

7 Recent publications of international organisations have concluded that the level of productivity in the Greek economy is low. See e.g. a) European Commission (2024), "In-Depth review 2024 Greece", *European Economy*, No. 281; b) IMF (2024), "Greece: Staff Report for the 2023 Article IV Consultation", IMF Country Report No. 24/23; and c) OECD (2024), *OECD Economic Surveys: Greece 2024*.

prises,[8] which tend to be less competitive[9] and less capable of entering global markets and investing in research. Furthermore, because total factor productivity is calculated as a residual, it also reflects factors that are not measured elsewhere, such as the quality of labour, which has deteriorated due to the brain drain during the debt crisis, and the institutional environment, which often does not adequately support economic activity.

b) Capital per worker. Extensive disinvestment during the debt crisis led to an erosion of the Greek economy's capital stock. Specifically, the productive capital stock of the economy is estimated to be approximately 20% lower than before the debt crisis, while the ratio of capital per worker is below not only the pre-crisis, but also the pre-euro area entry level. As a result, the capital shallowing continues to have a negative impact on labour productivity to this day.

Policy conclusions

In recent years, the Greek economy has been on the upward phase of the economic cycle; as a result, the lag in labour productivity is mainly due to its structural features. The low level and limited growth of labour productivity mainly reflect factors related to total factor productivity, labour quality and low capital per worker. To increase labour productivity, thus ensuring that wage increases are sustainable, the following lines of action are proposed:

- Continuing structural reforms. Reforms in the goods and services market, as well as a more efficient public sector, faster delivery of justice, cutting red tape and other interventions will improve the institutional environment and increase total factor productivity in the economy.

- Encouraging investment. New investment increases the capital stock and the capital-labour ratio. The impact on labour productivity will be both direct, through an increase in the "capital-labour" component, and indirect, since a higher and more modern capital stock will also boost total factor productivity. However, the quality of investment is also important for labour productivity. New investment should be productive, and not opportunistic, if it is to generate high value added and create quality jobs.

- Improving the quality of the workforce. Retraining and upskilling the country's workforce will lead to an increase in total factor productivity. A brain regain movement would also work in the same direction, provided that jobs are created that match the skills of expatriates and offer competitive salaries.

- Tapping artificial intelligence. Artificial intelligence can significantly improve productivity across all industries by automating repetitive tasks and supporting more effective decision-making. This will require retraining employees to develop and use artificial intelligence applications in their work.

8 According to the European Commission (2025, "2025 Country Report – Greece"), Greek small and micro enterprises (with up to 50 employees) employ 73% of workers (compared with 50% in the EU) and generate 50% of total gross value added (compared with 37% in the EU).

9 According to the European Commission (2025, op. cit.), in 2024, the productivity of micro enterprises (0-9 employees) was estimated at 49% of that of large enterprises in the EU, while the productivity of small enterprises (10-49 employees) was estimated at 63% of that of large enterprises in the EU.

Box 5

MONETARY AND FISCAL POLICY INTERACTIONS IN GREECE

The strong inflationary pressures that have prevailed since late 2021, mainly due to rising energy prices and supply chain disruptions, have led to a tightening of monetary policy in the euro area in order to bring inflation down to the 2% target over the medium term and to prevent a de-anchoring of inflation expectations. The period 2022-2024 was marked by increases in the European Central Bank's (ECB) policy rates, following a prolonged period of low policy rates. In particular, from July 2022 to September 2023 policy rates surged rapidly, thereafter

to remain at elevated levels up to June 2024, when they started to gradually ease, as inflationary pressures started to unwind, albeit remaining strong in some economic sectors, such as services.[1]

The effectiveness of monetary policy in maintaining price stability largely depends on whether fiscal policy complements or counteracts monetary policy. The relevant literature has shown that the disinflationary effect of monetary tightening is enhanced when combined with a contractionary fiscal policy, as both policies work in the same direction by reducing aggregate demand and contributing to price stability. Similarly, when monetary policy is accommodative, with interest rates remaining low, an expansionary fiscal policy strengthens the upward effects on inflation.[2]

However, in an environment of high inflation, rising interest rates, heightened uncertainty and weak economic growth, monetary and fiscal policies do not always complement each other. For example, after 2021, monetary tightening in the euro area came at a time when many national governments had to implement a fiscal policy mix designed to support households and businesses against high inflation. In this case, expansionary fiscal policy had a countervailing effect, dampening the effectiveness of monetary tightening and delaying the disinflation process.

Against this background, the aim of this box is to investigate the effects on inflation from the interaction between monetary and fiscal policy for the Greek economy, and to assess whether these two policies complemented each other or had a divergent effect on the effort to curb inflation over the period 2023-2024, which was marked, inter alia, by the withdrawal of most fiscal support measures that had been taken to mitigate the impact of the energy crisis.

Methodology

The effects on inflation from the interaction between fiscal policy and monetary policy for the Greek economy are analysed using the dynamic stochastic general equilibrium model of the Bank of Greece.[3] The model describes a small open economy that is a member of a monetary union, in the sense that changes in policy rates and the exchange rate are exogenous, as is the case for Greece. Moreover, the model incorporates a wide range of fiscal policy tools as exogenous variables, including tax rates on consumption and on income from capital and labour, as well as various categories of public expenditure, such as public consumption and investment, the public sector wage bill and transfers.[4]

The methodology applied can be summarised as follows: First, the model is calibrated for the Greek economy. The exogenous fiscal variables and the policy rate are set at their observed levels for the year 2022, which is used as a reference for the simulations. Then, effects on inflation for the Greek economy over the period 2023-2024 are simulated, using ECB data on the evolution of the policy rate, as well as Bank of Greece estimates of the fiscal

1 It should also be noted that monetary tightening was not limited to policy rate hikes by the ECB, but also included a phasing out of the quantitative easing measures previously adopted. For more information on policy rate developments and the speed of disinflation, see Lane, P. (2025), "Monetary policy: new challenges", speech at Barclays-CEPR Monetary Policy Forum 2025, and Bonam, D., M. Ciccarelli and S. Gomes (2024), "Challenges for monetary and fiscal policy interactions in the post-pandemic era", ECB Occasional Paper No. 337.

2 For the interaction between fiscal and monetary policy, see Christiano, L., M. Eichenbaum and S. Rebelo (2011), "When is the government spending multiplier large?", *Journal of Political Economy*, 119(1), 78-121, Eggertsson, G.B. (2011), "What fiscal policy is effective at zero interest rates?", *NBER Macroeconomics Annual 2010*, 25(2), 59-112, Debrun, X. et al. (2021), "Monetary-fiscal policy interactions in the euro area", ECB Occasional Paper No. 273, and Kloosterman, R., D. Bonam and K. van der Veer (2022), "The effects of monetary policy across fiscal regimes", De Nederlandsche Bank Working Paper No. 755.

3 For a detailed description of the model, 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; and Papageorgiou, D. (2014), "BoGGEM: A dynamic stochastic general equilibrium model for policy simulations", Bank of Greece Working Paper No. 182.

4 The analysis also takes into account the spillover effects from the euro area and the rest of the world generated by the conduct of the ECB's monetary policy. Spillover effects stem from exogenous changes in external demand, foreign inflation and the nominal exchange rate. These variables, together with the policy rate, are incorporated in the model as a vector autoregression model (VAR).

stance in Greece, as calculated according to Eurosystem methodology.[5] Overall, fiscal policy has been contractionary, although some individual fiscal policy tools may have been expansionary over the period under review.

Two alternative scenarios are considered: The first describes the effects of monetary policy in isolation, while the second describes the combined effects of monetary policy and fiscal policy, in order to draw conclusions as to whether these two policies complemented each other or had a divergent effect on the effort to curb inflation over the period 2023-2024.

Results of policy simulations

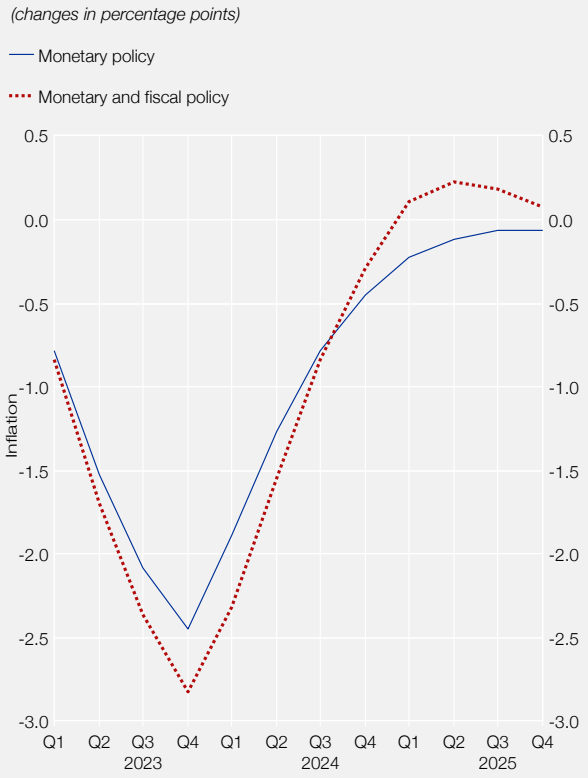
The chart illustrates the dynamic effects on inflation resulting from the model simulations and shows that the two policies complemented each other in mitigating inflation. In particular, inflation resulting from the combination of monetary tightening and a contractionary fiscal policy over the period 2023-2024 was, on average, 0.20 percentage points (pps) lower than the inflation implied by the same monetary policy, but without a simultaneous fiscal tightening. This estimate arises as the net effect of the interaction of seven different fiscal policy tools. Some of these exert disinflationary pressures, while others exert inflationary pressures. Therefore, the fiscal policy mix over this period complemented the disinflationary process.[6]

The combined downward effect of monetary policy and fiscal policy on inflation can be attributed to the transmission channels through which the two policies interact within the theoretical model.

First, a higher policy rate raises financing costs for households and businesses, reducing their incentive to consume and invest. The decline in domestic demand dampens demand for labour by businesses, which reduces employment and, thus, production costs. The combination of reduced domestic demand and lower labour costs creates disinflationary pressures. Moreover, monetary tightening leads to second-round effects, mainly through lower external demand, which further enhance the downward effect on domestic prices.

Second, fiscal tightening, through public spending cuts and/or tax increases, reduces households' disposable income and lowers their incentives to consume and invest, leading to lower domestic demand and employment. However, the overall effect on inflation from a contractionary fiscal policy depends on the composition of the fiscal policy mix. In the model, cuts in public spending have a strong disinflationary effect, as they dampen aggregate demand and labour demand, thereby leading to lower labour costs and stronger downward pressure on prices. By contrast, tax increases, although they reduce domestic demand by creating disinflationary effects, ultimately have an upward effect on inflation. In

Dynamic effects of monetary-fiscal policy interactions on inflation



Source: Bank of Greece calculations.
Note: Inflation (measured by the consumer price index – CPI) is expressed in percentage point changes relative to the steady state and is annualised.

5 In the simulations, fiscal shocks are proxied by changes in the cyclically adjusted primary balance and its sub-components, expressed as a percentage of GDP. The estimates exclude the support to the financial sector and revenues from NGEU. After 2024, it is assumed that the exogenous variables gradually return to the 2022 levels, which entails a phasing out of all fiscal support measures.

6 After 2024, a gradual return of fiscal variables to the 2022 levels entails the withdrawal of fiscal tightening, leading to higher inflation in the path towards the steady state, compared with the monetary policy-only scenario.

the case of higher indirect taxes, such as consumption taxes, the upward effect on inflation results from the fact that these taxes directly raise the final prices of goods and services. Similarly, an increase in direct taxes, such as taxes on income from labour or capital, raises the user cost of capital and reduces work incentives by exerting upward pressure on firms' production costs and thus on domestic prices.[7]

Thus, in the context of the theoretical model, in periods of monetary tightening the implementation of fiscal measures focused on reducing public spending can contribute to disinflation by complementing monetary policy action. By contrast, increases in public spending may offset the dampening effect of monetary policy on inflation. Similarly, tax increases tend to have a countervailing effect, while tax cuts can support the disinflation process.[8]

Based on the above transmission channels and taking into account the fiscal policy mix as derived from the cyclically adjusted primary balance over the period 2023-2024 used in the simulations, the results of the analysis for the Greek economy suggest that the contractionary fiscal policy on the expenditure side has dampened domestic demand and complemented monetary policy, enhancing the disinflationary process. At the same time, the observed reduction in the tax wedge has contained production costs and helped stabilise domestic prices.

Conclusions

This box investigates the effects on inflation from the monetary-fiscal policy interaction in Greece over the period 2023-2024 using the dynamic stochastic general equilibrium model of the Bank of Greece for the Greek economy. The two policies are found to be complementary, contributing to the process of easing inflationary pressures. Specifically, the inflation implied by a combination of monetary tightening and a contractionary fiscal policy is estimated to be 0.20 pps below the level that would have prevailed without a simultaneous fiscal tightening. It should also be noted that, in addition to the overall fiscal policy stance, the fiscal policy mix is also crucial to inflation developments. In this respect, based on the results of the theoretical model, the recently announced labour income tax cuts are deemed consistent with the objective of price stabilisation, mainly through lowering labour costs.

7 These results are consistent with findings in the relevant literature: See Coenen, G., P. McAdam and R. Straub (2008), "Tax reform and labour-market performance in the euro area: A simulation-based analysis using the New Area-Wide Model", *Journal of Economic Dynamics and Control*, 32(8), 2543-2583; and Coenen, G. et al. (2012), "Effects of fiscal stimulus in structural models", *American Economic Journal*: Macroeconomics, 4(1), 2268.

8 See also Caramp, N. and D.H. Silva (2023), "Fiscal policy and the monetary transmission mechanism", *Review of Economic Dynamics*, 51, 716-746.

Box 6

THE INCORPORATION OF DEFERRED INTEREST ON EFSF LOANS INTO THE EXTERNAL SECTOR ACCOUNTS

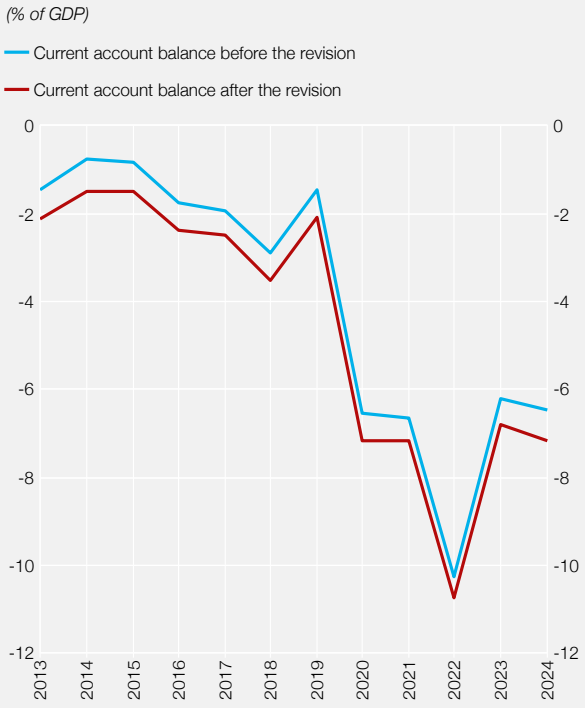
As part of the Greek debt relief measures, at the end of 2012 a 10-year interest payments deferral on loans provided by the European Financial Stability Facility (EFSF) was decided under the second economic adjustment programme.[1] Subsequently, in mid-2018, a further deferral by 10 years (from 2023 to 2033) of interest payments on EFSF loans was decided, amounting to EUR 96.4 billion.[2] In October 2024, in the second notification of fiscal data by ELSTAT, there was a methodological change in the statistical treatment of deferred interest on EFSF loans. The change concerned its statistical inclusion, retroactively to 2013, in government debt as accrued interest, which will be paid following the aforementioned period of deferral.[3]

1 Eurogroup statement on Greece of 27 November 2012.

2 Eurogroup statement on Greece of 22 June 2018.

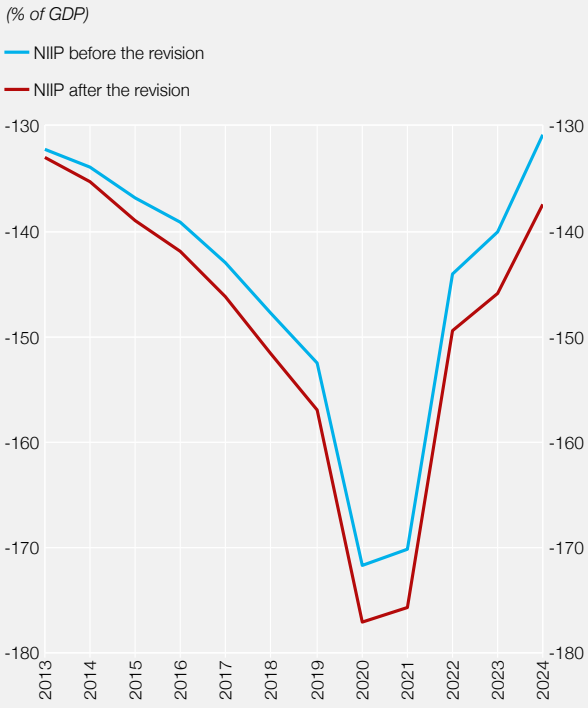
3 For more details, see Bank of Greece, *Monetary Policy – Interim Report 2024*, Chapter V, Section 5.5 (in Greek); and European Commission – Eurostat, "Methodological treatment of the deferred interest on EFSF loans – Article 10 par. 1 Council Regulation (EC) 479/2009 clarification request", 17.9.2024.

Chart A Current account balance before and after the revision



Sources: Bank of Greece (for the current account) and ELSTAT (for GDP).

Chart B Net international investment position before and after the revision



Sources: Bank of Greece (for the IIP) and ELSTAT (for GDP).

In the context of the annual review of the external sector accounts in 2025, the balance of payments and international investment position data have been revised for the years from 2013 onwards to reflect the above-mentioned methodological change and to ensure compatibility of external statistics with fiscal data and national accounts.[4] The revision resulted in a higher current account deficit and an increase in the country's net external liabilities.

In the balance of payments, an increase of the same amount was recorded in general government interest payments under the primary income account and in general government liabilities under the other investment balance. This revision led to a higher current account deficit for the years 2013-24, with a variation of 0.6% of GDP on average per year (see Chart A).[5] Specifically, in 2024 the current account deficit stood at EUR 16.9 billion (7.2% of GDP), up from EUR 15.3 billion (6.4% of GDP) before the revision (see the table). However, the trend of the current account deficit since 2013 has not changed and therefore the improvement of the deficit in the first seven months of 2025 compared to the same period of 2024 was not reversed.

At the same time, data on the international investment position have also been revised, as the inclusion of deferred interest on EFSF loans in general government debt was reflected in an increase in general government external liabilities under other investment (long-term loans). At the end of 2024, this increase in the international investment position amounted to around 5.9 percentage points of GDP and the country's net foreign liabilities (net IIP) amounted to EUR 325.5 billion, compared with EUR 309.8 billion before the revision (see Chart B).

4 It should be noted that further revisions were made in the context of the annual review of the external sector accounts. However, changes in both the balance of payments and international investment position are almost entirely related to the incorporation of deferred interest on EFSF loans.

5 The amount of deferred interest on EFSF loans is not constant every year, hence the change in the current account deficit resulting from its incorporation varies from year to year.

Current account balance in EUR billions and as a percentage of GDP

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account balance after revision												
EUR billions	-3.8	-2.6	-2.6	-4.1	-4.4	-6.4	-3.9	-12.0	-13.3	-22.2	-15.3	-16.9
% GDP	*-2.1%*	*-1.5%*	*-1.5%*	*-2.4%*	*-2.5%*	*-3.5%*	*-2.1%*	*-7.2%*	*-7.2%*	*-10.7%*	*-6.8%*	*-7.2%*
Current account balance before revision												
EUR billions	-2.6	-1.3	-1.4	-3.1	-3.4	-5.2	-2.7	-11.0	-12.3	-21.2	-13.9	-15.3
% GDP	*-1.5%*	*-0.7%*	*-0.8%*	*-1.7%*	*-1.9%*	*-2.9%*	*-1.5%*	*-6.5%*	*-6.6%*	*-10.3%*	*-6.2%*	*-6.4%*
Change												
EUR billions	-1.2	-1.3	-1.2	-1.1	-1.0	-1.1	-1.1	-1.1	-1.0	-1.0	-1.4	-1.7
% GDP	*-0.7%*	*-0.8%*	*-0.7%*	*-0.6%*	*-0.6%*	*-0.6%*	*-0.6%*	*-0.6%*	*-0.5%*	*-0.5%*	*-0.6%*	*-0.7%*

Sources: Bank of Greece (for the current account) and ELSTAT (for GDP).

In conclusion, the revision of the external sector data for the years 2013-24, following the methodological change in the statistical treatment of deferred interest on EFSF loans, led to an increase in both the current account deficit and the country's net foreign liabilities. However, this did not contribute to a significant change in the path of the balance of payments and the international investment position.

Box 7

THE IMPORTANCE OF INDEPENDENT AUTHORITIES IN FISCAL MANAGEMENT

Independent fiscal authorities are institutions enshrined in law.[1] They are operationally independent from the executive (i.e. they enjoy administrative and operational autonomy) and they serve the purpose of strengthening the credibility and sustainability of fiscal policy. In Greece[2] there are two independent fiscal authorities:

a) The Hellenic Parliamentary Budget Office, established by Law 3871/2010, its main tasks being to monitor the execution of the State budget, evaluate the performance of the Greek economy and monitor adherence to fiscal targets. This Office informs the relevant committees of the Hellenic Parliament by publishing regular reports (monthly and quarterly), as well as its annual Opinion on the Preliminary Draft State Budget. These reports are publicised, allowing anyone concerned to access relevant information.

b) The Hellenic Fiscal Council, which was established by Law 4270/2014 to assess the macroeconomic forecasts underpinning the preliminary draft and the annual State budget, as well as the Medium-Term Fiscal Strategy Framework (MTFS). It is also responsible for monitoring compliance with numerical fiscal rules and evaluating their implementation, especially in relation to any deviations from targets. The Hellenic Fiscal Council, through its regular reports and opinions, monitors the observance of national fiscal rules and the rules of the Fiscal Compact, as well as fiscal sustainability (debt dynamics, path of the budget balance). It also assesses the macroeconomic forecasts of the Ministry of Economy and Finance. More specifically, the Hellenic Fiscal Council releases quarterly bulletins on the performance of the Greek economy, half-yearly reports analysing macroeconomic and fiscal developments in Greece, as well as opinions on the State budget and its preliminary drafts and on the MTFS. Law 5217/2025 authorises the Hellenic Fiscal Council to assess not only the State budget, but also the programmes of the opposition parties, thus contributing constructively to the debate on the economy.

1 In the case of Greece, independent authorities are enshrined in Article 101A of the Constitution.
2 For a detailed presentation of the work of all independent authorities in Greece, see the IOBE study "Independent Authorities in the Greek Administration and Economy: Analysis and Evaluation", May 2025, *diaNEOsis*.

Uncertainties in fiscal management and the need for institutional interventions

In recent years, fiscal management has been subject to constraints and uncertainties stemming from geopolitical and geo-economic conditions, the climate and energy crises and technological changes. These are factors that, among other things, call for the productive transformation of the economy, while at the same time affecting the medium-term planning of fiscal policy and the execution of the State budget, which should not diverge from the EU fiscal framework and rules. Thus, economic planning and government programmes are inevitably exposed to uncertainties as far as their targets and implementation are concerned, since they are based on forecasts and choices that are influenced by unforeseen events associated with the above factors. In addition, the objectives of government programmes are shaped by the pressures of the election cycle and governments' re-election drive, which may lead to fiscal derailment if fiscal costs and fiscal targets are not taken into account. Furthermore, the implementation of economic programmes requires public trust in government policy. This is so because the required measures often yield results in the longer term and relate to targets that are not immediately visible or readily understandable by citizens.[3]

So, both tax and expenditure policy choices and structural reforms should bridge the gap between citizens' expectations (possibly intergenerational) and the capabilities of fiscal policy over time,[4] taking under consideration the constraints imposed by the need to comply with EU fiscal rules. In this respect, the contribution of institutionally independent fiscal authorities is important, as they aim precisely at promoting fiscal sustainability by monitoring the compliance of fiscal policy with fiscal rules, by assessing the fiscal forecasts of the State budget, as well as by providing their opinions on fiscal policy matters. Also, it is worth pointing out that in EU economic governance the role of the independent European Fiscal Board (EFB) as an advisory body is important in matters related to multilateral budgetary surveillance and the Stability and Growth Pact. More specifically, the EFB provides an ex post evaluation of the implementation of the EU fiscal framework, makes recommendations on the future evolution of this framework and, by publishing its reports, contributes to enhancing transparency and accountability in the EU.[5]

Independent fiscal authorities – Advantages

In Greece, independent fiscal authorities (Hellenic Fiscal Council, Hellenic Parliamentary Budget Office) are instrumental to reinforcing the credibility and effectiveness of fiscal policy.[6] This is so because, by providing independent, objective and informed assessments on government programmes and State budgets and fiscal targets (annual and medium-term), they help to avoid inappropriate policy measures that are probably dictated by governments' re-election drive.[7] Thus, they provide governments with feedback consisting in a documented analysis of the feasibility of implementing the desired choices, as well as the manner and cost of achieving them. In addition, independent fiscal authorities play a key role in fiscal discipline and in the transparency of government choices, as a basis for government's accountability, but also for a constructive dialogue with society and other institutions. Moreover, the existence and proper operation of independent fiscal authorities reinforces the credibility of government policy and has a positive effect on market confidence as regards the feasibility of government programmes, the stability and consistency of fiscal policy and the overall performance of the economy in the medium term.

Of course, one should not lose sight of the fact that, in an economy and society where the diffusion of knowledge is widespread, independent fiscal authorities are themselves judged – or should be judged – in terms of the ef-

3 For instance, certain climate transition-related tax levies or expenditure cuts aim at long-term results and, consequently, their usefulness cannot be seen in the short period of a government's term.

4 According to OECD's *Government at a Glance 2025*, a mere 37% of citizens in OECD countries believes that governments can adequately balance the needs of different generations, while in Greece this percentage is less than 30%. It should also be noted that between 2021 and 2023 citizens' trust in their governments decreased by 2%.

5 The European Fiscal Board was initially established by Decision 2015/1937 of the European Commission, which was later replaced by Decision 2024/2115 that confers to the Board a more prominent advisory role.

6 It should be noted that the role, significance and scope of independent fiscal authorities are also laid down in the new EU fiscal framework and are therefore binding on Member States.

7 For further reading, see Beetsma, R. and H. Debrun (eds.) (2018), *Independent Fiscal Councils: Watchdogs or lapdogs?*, A Vox EU.org Book; and Cao, Y., E. Dabla-Norris and E. Di Gregorio (2024), "Fiscal Discourse and Fiscal Policy", *IMF Working Papers* 2024, 194 (2024).

European independent fiscal institutions

Austria	Fiskalrat
Belgium	Federaal Planbureau/Bureau fédéral du plan
	High Council of Finance
Bulgaria	Bulgarian Fiscal Council
Croatia	Fiscal Policy Commission
Cyprus	Fiscal Council of Cyprus
Czech Republic	Czech Fiscal Council
Denmark	Danish Economic Council
Estonia	Estonian Fiscal Council
Finland	The Finnish Economic Policy Council
	National Audit Office of Finland
France	Haut Conseil des Finances Publiques
Germany	Stabilitätsrat (Independent Advisory Board to the Stability Council)
Greece	Hellenic Fiscal Council
	Hellenic Parliamentary Budget Office
Hungary	Fiscal Council of Hungary
Ireland	Irish Fiscal Advisory Council
Italy	Ufficio Parlamentare di Bilancio
Latvia	Fiscal Discipline Council
Lithuania	National Audit Office
Luxemburg	Conseil National des Finances Publiques
Malta	Malta Fiscal Advisory Council
Netherlands	CPB Netherlands Bureau for Economic Policy Analysis
	Raad van State (Dutch Council of State)
Portugal	Conselho das Finanças Públicas
Romania	Romania Fiscal Council
Slovakia	Council for Budget Responsibility
Slovenia	Institute of Macroeconomic Analysis and Development
	Slovenian Fiscal Council
Spain	Independent Authority for Fiscal Responsibility
Sweden	Swedish Fiscal Policy Council
United Kingdom	Office for Budget Responsibility

Source: EU Independent Fiscal Institutions (https://www.euifis.eu/pages/members).

fectiveness of their work, thus building their credibility. So, they should be accountable and should operate under an institutional framework in order to produce impartial and objective assessments.

Independent fiscal authorities operate in all European states (see table), e.g. the Dutch CPB goes back to as early as 1945.

Prerequisites for the effective operation of independent fiscal authorities

In order for independent fiscal authorities to be efficient in carrying out their mandates – which should be clearly specified – their administrative and operational independence should be enshrined in an institutional framework, so as to minimise possible interference by the political and economic leadership. The selection of their members and scientific staff should be impartial, based on transparent procedures and taking into account their experience and knowledge, while at the same time the tenure of management members should extend beyond the election

cycle. It should also be ensured that these authorities have unimpeded access to the information sources related to their work (statistics, etc.) and that they are adequately funded to procure the logistical resources necessary for their effective operation.[8] Their analyses and policy conclusions about the macroeconomic and fiscal paths of the country should be publicised in order to communicate their views both to other institutions and to citizens. Finally, establishing a mechanism for the evaluation of their work by other independent bodies, as well as reviewing the raison d'être of existing authorities and also the advisability of establishing new institutions, is of particular importance.

Conclusion

In democratic societies, informed pluralism in matters of assessment and evolution of financial aggregates enhances the credibility of fiscal plans and, consequently, of the economic policy of each country both in the domestic and in the international economic environment. It provides governments with impartial and useful feedback that contributes to the achievement of fiscal targets, but also to the smoothening of imbalances between fiscal policy and the single monetary policy of the euro area Member States. The role of independent fiscal authorities should be strengthened, and a mechanism for evaluating their work should be in place.

8 A step in this direction is Law 5217/2025 on ensuring fiscal sustainability, which includes provisions on the Hellenic Fiscal Council.

Box 8

INVESTMENT FUND FLOWS AND BOND AND EQUITY HOLDINGS IN THE UNITED STATES AND THE EURO AREA

During 2024-2025, developments in the United States and the euro area financial markets have moved in different directions, mainly as a result of the diverging market expectations about the path of monetary policy in the two economies. However, these developments do not just reflect the differences in policy rate movements in the two regions. They also reflect wider shifts in capital flows, risk perceptions and the attractiveness of the US dollar versus the euro as an international reserve currency. A parallel examination of flows into bond and equity investment funds (hereinafter also referred to as "IFs" or simply "funds") and international market valuations may be useful to understand these trends.

Investment fund flows and macroeconomic developments

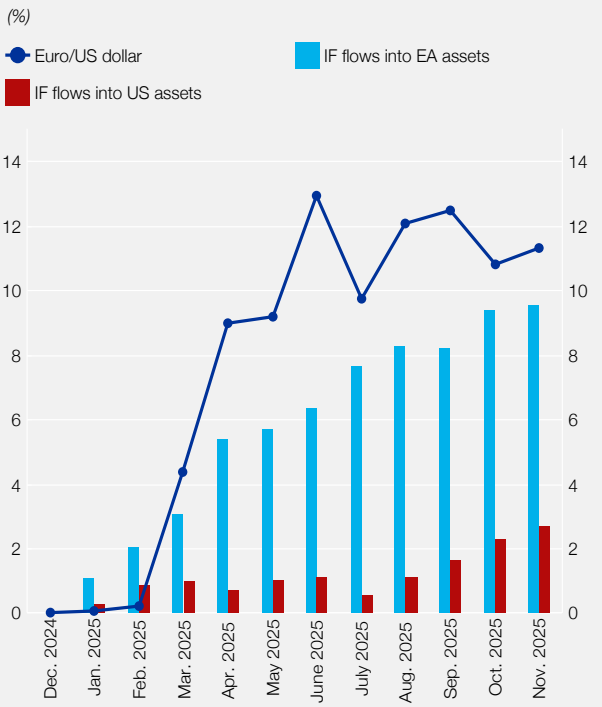
At the end of the first quarter of 2024, global financial markets expected both the US Federal Reserve System (Fed) and the European Central Bank (ECB) to cut policy rates over the course of the year. These expectations caused bond valuations to rise, leading to higher inflows into euro area and US bond funds.[1] However, in 2025, particularly during the second and third quarters, the uncertainty about US economic policy has triggered a profound shift in the pattern of net capital flows.

Specifically, in April, IFs that hold US Treasuries, like those holding US equities, started to record weaker inflows, or even outflows, while inflows into European securities strengthened (see Chart A). As a result, US stocks, bonds, and the dollar fell in unison. The main driver of the appreciation of the euro against the US dollar seemed to be Europe-bound capital flows – a view corroborated by the fact that the euro keeps strengthening vis-à-vis the dollar despite still-high US dollar hedging costs.[2] The fact that these developments took place under conditions

1 See Box IX.2 "Financing flows towards investment funds and monetary policy, Bank of Greece (2025), *Annual Report 2024*, April.

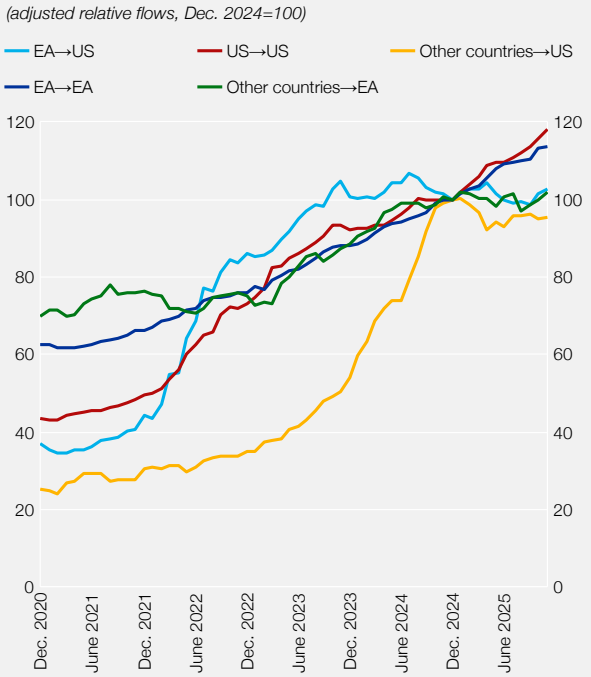
2 According to an analysis by the Bank for International Settlements (see Shin, H.S., P. Wooldridge and D. Xia (2025), "US dollar's slide in April 2025: the role of FX hedging", *BIS Bulletin*, June), the US dollar's depreciation in April-May can be explained by slower inflows into US dollar-denominated assets, alongside a mostly Asian-led increase in speculative positioning against the US dollar.

Chart A Investment fund flows and the exchange rate



Sources: LSEG-Lipper & Workspace, and caclulations based on Bank of Greece data.
Note: The chart shows the cumulative change in the euro/US dollar exchange rate (blue line) in comparison with the aggregate relative flows into US (red bars) and EA (blue bars) asset-focused funds.

Chart B Flows into bond funds (December 2020-November 2025)



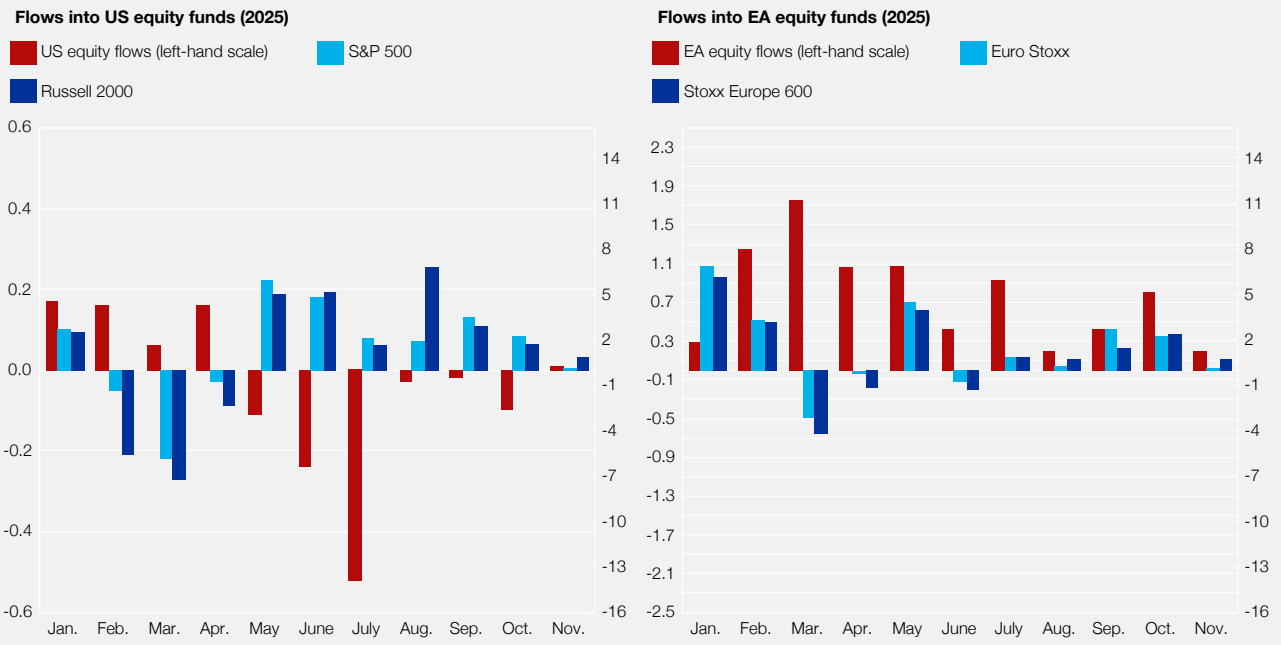
Sources: LSEG-Lipper for Investment Management, and Bank of Greece calculations.
Notes: The chart shows a breakdown of net capital flows into US and EA government bond funds by geographic source region. Data refer to aggregate relative flows as a percentage of net assets under management as at December 2024, taken as the base period.

of risk aversion is extraordinary and highlights the erosion of international investor confidence in US bond and equity assets, in sharp contrast with the US Treasuries' status as a safe-haven asset.[3] This is to a large extent explained by investor uncertainty, as fundamental principles of the US economy, such as the independence of institutions and free trade, have been called into question. On the other hand, for the first time since the debt crisis, the role of the euro area as an alternative safe haven, during a period of international financial turmoil, has been strengthened.

A comparison of relative flows into US-focused government bond funds and their euro area counterparts reveals differences, mostly with regard to flows from foreign investors. In greater detail, foreign capital flows (originating from either the euro area or other countries) into US Treasury funds have declined since August 2024, a trend that intensified in April 2025. On the other hand, both in the United States and in the euro area, investors' home bias appears to be stronger now than in the past. Moreover, data at the asset class level for the period since April indicate that IFs investing in all classes of bonds and money market products have attracted higher aggregate relative inflows in the euro area than in the US. This is true irrespective of whether an IF invests in government or corporate bonds, meaning that foreign investors are moving out of IFs that invest in the US and are taking risks in the euro area. All of which attests to two things: first, that the importance of euro area securities as safe-haven assets has increased; and, second, that positions in euro area assets have generally become more attractive.

3 It is a well-established fact in international literature that, during the global financial crisis, US Treasuries had attracted positions from Europe, increasing their convenience yield. See e.g. Krishnamurthy, A. and A. Vissing-Jorgensen (2012), "The Aggregate Demand for Treasury Debt", *Journal of Political Economy*, 120(2), 233-267. According to a recent study, the convenience yield of US Treasuries moderated greatly after the announcement of US tariffs on 2 April (see Acharya, V. and T. Laarits (2025), "Tariff War Shock and the Convenience Yield of US Treasuries – A hedging Perspective", NYU Stern School of Business Working Paper).

Chart C Flows into equity funds



Sources: LSEG-Lipper for Investment Management, and Bank of Greece calculations.
Notes: Monthly returns on US and EA stock market indices, expressed in US dollars, in comparison with net aggregate relative flows into funds that invest in US and EA equities. Relative flows are expressed as a percentage of assets under management as at the end of 2024.

The global stock market rally, which began in mid-April, continued until July. Initially representing a partial reversal of the stock market slump following the announcement of US tariffs, this trend continued and amplified in the subsequent period as investors became increasingly optimistic about the prospects of tech stocks in particular, following the release of strong financial results by US-listed companies.[4] However, in April and May, i.e. in the wake of the tariffs' announcement by the US administration, US-focused equity funds experienced outflows at the same time as their counterparts investing in the euro area saw inflows. These outflows have persisted through the end of 2025, despite the recovery in stock market valuations (see Chart C).

Beginning in May and for three months in a row, outflows from US equity funds amounted to between 0.1% and 0.5% of their assets under management as at the end of 2024, while their European counterparts experienced inflows of between 0.3% and 1% after April. Disinvestment from US equity funds peaked at the beginning of the third quarter, notwithstanding the strong performance of both large- and mid-cap stock market index returns. This behaviour is related, on the one hand, to portfolio diversification strategies employed by institutional investors (e.g. insurance funds) to scale back their exposure to US stocks in response to stretched valuations and high levels of concentration in the tech sector, and, on the other hand, to the uncertainty surrounding the course of the US economy, due to the US administration's departure from fundamental principles of economic governance, e.g. by restricting free trade through tariffs and engaging in political interference with the Fed's operations.

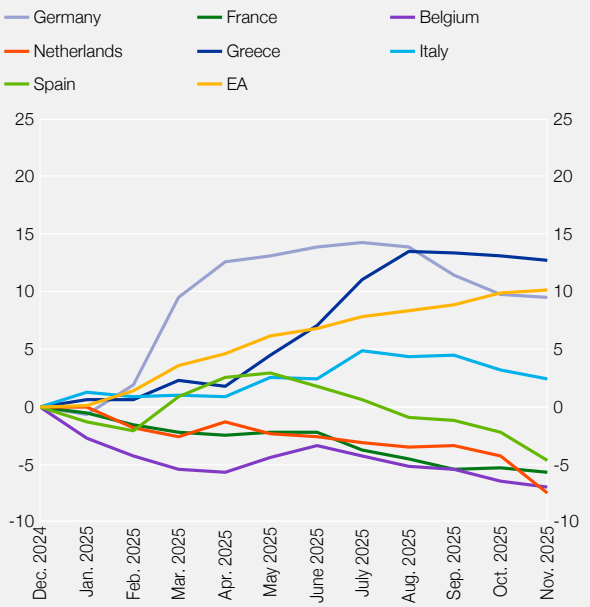
Flows into funds investing in Greek equities

What does the enhanced attractiveness of euro-area assets mean for the Greek economy? Chart D provides a breakdown of 2025's net aggregate relative flows into IFs by geographic focus. Data refer to pure equity funds, as no breakdown by geographic focus is currently available for mixed and bond funds. Since the middle of the second quarter of the year, inflows into Greek-focused equity funds have averaged over USD 40 million a month, adding up to USD 300 million for the seven months from May to November. As a proportion of total assets under management, capital inflows into the Greek stock market over this period were considerably higher than the euro

4 See Box 1 "Understanding the swift market recovery after the April 2025 tariff shock", BIS Quarterly Review, September 2025.

Chart D Flows into euro area equity funds

(% of assets under management as at December 2024)



Sources: LSEG-Lipper for Investment Management, and Bank of Greece calculations.
Notes: The chart plots the aggregate equity fund flows in individual euro area countries. Data refer to relative aggregate flows as a percentage of assets under management as at the end of 2024.

area aggregate,[5] implying that demand for Greek-issued equities outstripped demand for equities issued in other euro area countries. This development is presumed to be related to the resilience of the Greek economy and its newly enhanced credibility among international investors, following the continuous upgrades of its credit rating in recent years.

Conclusions

Uncertainty over US economic policy stemming from the questioning of fundamental principles of the US economy, such as the independence of institutions and free trade, has set in motion a reallocation of global capital flows away from US markets and, in the case of European investors, back to Europe, fuelling a build-up of positions in European equity and bond markets. For the first time since the debt crisis, European equity and bond markets have experienced sizeable inflows during a period of search for safe-haven assets, enhancing the status of the euro area as an alternative safe haven for investment capital. Remarkably, among euro area economies, Greece was the country that attracted the strongest interest from investors, measured as a proportion of existing positions. Therefore, it appears that, to the extent that, going forward, the euro area continues to be perceived as a safe haven during periods of global uncertainty, the Greek economy also stands to benefit, which should translate into lower funding costs for both its government, its banks and its businesses. Macroeconomic stability and the resilience of the Greek economy, as well as a further enhancement of its credibility among international investors, will all contribute in this respect.

5 Total net assets under management by Greek-focused equity funds stood at USD 2.7 billion at the end of 2024.

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