

SUMMARY OF THE ANNUAL REPORT

2025



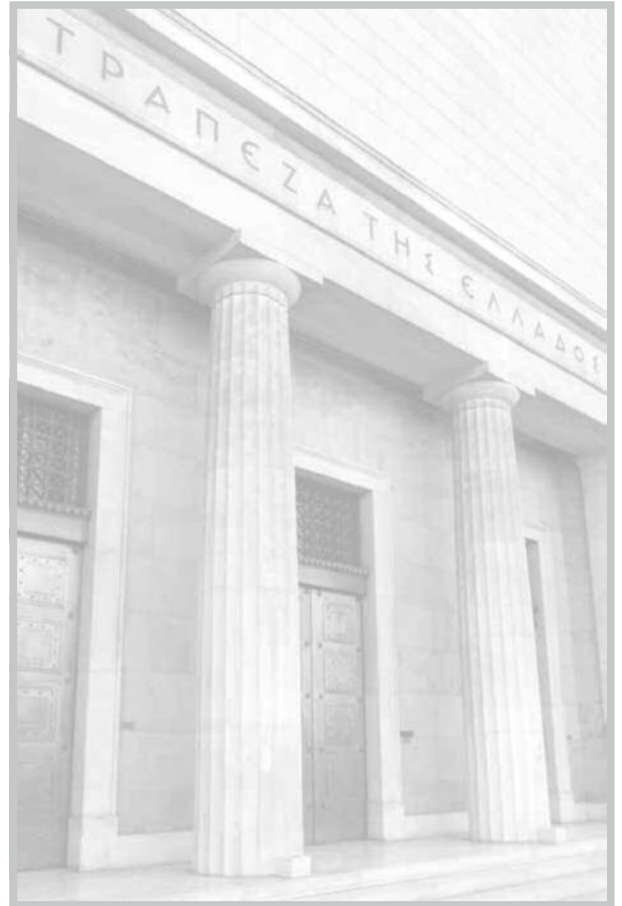
JUNE 2026



BANK OF GREECE
EUROSYSTEM

SUMMARY OF THE ANNUAL REPORT 2025

Presented to the General Meeting of Shareholders
by Governor Yannis Stournaras



JUNE 2026



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ISSN: 2732-6527 (online)

DOI link: <https://doi.org/10.52903/annep.en2025sp.ed>

URL: https://www.bankofgreece.gr/Publications/Summary_Annrep2025.pdf

FOREWORD BY THE GOVERNOR

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



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

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

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

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

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

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

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

Yannis Stournaras

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

1 INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

2 THE WORLD ECONOMY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 THE SINGLE MONETARY POLICY

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

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

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

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

4 THE GREEK ECONOMY: DEVELOPMENTS AND PROSPECTS

• *Macroeconomic environment*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• *Fiscal developments*

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

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

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

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

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

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

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

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

• **Financial developments**

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

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

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

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

• **Banking sector**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• **Projections**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5 SOURCES OF RISK AND UNCERTAINTY

• *International environment*

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

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

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

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

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

• *The Greek economy*

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

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

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

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

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

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

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

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

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

6 POLICY RECOMMENDATIONS

• *Reforms*

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

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

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

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

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

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

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

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

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

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

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

- ***Housing market***

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

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

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

• **Labour market**

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

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

• **Fiscal policy**

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

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

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

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

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

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

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

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

• **Banking sector**

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

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

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

• *European Union*

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

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

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

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

Box 1

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

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

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

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

Data

The empirical analysis is based on the OECD's REGIMPACT indicator, which quantifies the indirect effects on downstream sectors from regulatory constraints to upstream sectors. The indicator is calculated by weighting the stringency of regulation in upstream network sectors – namely energy, transport and telecommunications – by the intensity of intermediate input usage by downstream sectors. In particular, the indicator is constructed by multiplying the level of anti-competitive regulation of upstream network sectors (measured by the ETRC indicator on a scale of 0: fully deregulated sectors to 6: fully regulated sectors) by the degree of exposure or dependence of a downstream sector, as calculated by the share of intermediate inputs originating from those upstream sectors.

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

- 1 According to a recent study by the Bank of Greece, reforms that enhance competition in goods and services markets create an economic environment that favours the entry of more productive firms into the market and facilitates the reallocation of resources from less productive to more productive firms (Mavrogiannis, C. and A. Tagkalakis (2024), "From policy to capital: assessing the impact of structural reforms on gross capital inflows", Bank of Greece Working Paper No. 328).
- 2 See Barone, G. and F. Cingano (2011), "Service regulation and growth: evidence from OECD countries", *The Economic Journal*, 121(555), 931-957, and Bourlès, R., G. Cetté, J. Lopez, J. Mairesse and G. Nicoletti (2013), "Do product market regulations in upstream sectors curb productivity growth? Panel data evidence from OECD countries", *The Review of Economics and Statistics*, 95(5), 1750-1768.
- 3 See [New time-series data shed light on regulatory trends in energy, transport, and telecoms since 1975 – ECOSCOPE](#).

reforms in upstream sectors with cost savings and efficiency gains in dependent downstream sectors, and confirms REGIMPACT as a reliable indicator of the propagation of deregulation through production networks.

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

Econometric analysis and results

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

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

The above relationships are then assessed at sectoral level for the euro area countries. Most sectors show a negative, but often statistically insignificant and not robust, relationship between the regulation of network sectors (energy, transport and telecoms) on the one hand, and value added and employment on the other. In particular, two conclusions can be drawn from the relationship between the degree of regulation and employment. First, the relationship is more often statistically significant and robust across models when employment is measured by the number of employees rather than hours worked. Second, the effects appear strong in sectors highly dependent on network sectors (e.g. manufacturing), as expected.

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

Conclusion

Overall, the results at all levels of analysis converge to a coherent picture. Value added and, more significantly, employment in euro area economies show the most robust negative correlation with the degree of regulation

4 See Andrews, D., B. Égert, C. Castle and C. de La Maisonnette (2025), "Regulation and growth: lessons from nearly 50 years of product market reforms", OECD Economics Department Working Paper No. 1835.

5 It should be noted that, in the relevant literature, the indicator is often used as the only explanatory variable, while the other parameters of the economy are described by fixed effects.

6 Pooled estimates treat all observations as a single sample, ignoring time-constant cross-country differences, such as institutional features, administrative practices or cultural factors. On the contrary, panel models with country-fixed effects control for these unobserved specificities, thereby limiting estimate bias. As a result, it is likely that an initially strong negative relationship in pooled estimates will fade, suggesting that part of it reflects unobservable but time-constant cross-country differences, rather than a purely causal effect of the exogenous variable.

network sectors. Productivity is more sensitive to the methodology and measurement used. This suggests that increased regulation of network sectors acts as a constraint mainly on value creation and the level of employment in the broader economy. At the same time, the effects on productivity also depend to a large extent on other parameters, such as the capital stock or total factor productivity.⁷

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

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

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

Box 2

EU AND EURO AREA POLICY RESPONSES

International trade and international economic partnerships

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

European defence and security

At a time of rapid geopolitical shifts and a radically changed security situation, the EU and its Member States committed to increasing Europe's defence readiness and boosting their defence spending. Building on the Versailles Declaration and the political priorities set by the European Council, in March 2025 the European Commission and the High Representative for Foreign Affairs and Security Policy presented the "White Paper for European Defence", a strategic framework for defence industry, accompanied by the "ReArm Europe Plan/Readiness 2030", which outlines the legal and financial means to achieve defence objectives. In May, the Council of the EU adopted a Regulation establishing the Security Action for Europe (SAFE) instrument, which will provide loans of up to EUR 150 billion to Member States to rapidly and significantly increase their defence investment through common procurement. Canada became the first non-European country to participate in SAFE. At the same time, the national escape clause of the Stability and Growth Pact was activated in July for 16 EU Member

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

States, including Greece, which provides additional fiscal flexibility to move to higher levels of defence spending, without breaching the EU's fiscal rules. The flexibility would be available for four years, starting from 2025, with the annual deviation through 2028 from the maximum growth rates of net expenditure not exceeding 1.5% of GDP of the Member States. The ReArm Europe Plan also envisages enhancing the flexibility of other EU financial instruments, such as cohesion funds, complementing public funding with contributions from the European Investment Bank and mobilising private capital.

Competitiveness, economic resilience and innovation

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

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

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

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

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

² [Simplification – European Commission](#).

Long-term EU budget 2028-2034

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

Savings and Investments Union

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

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

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

Banking Union

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

Capital Markets Union

In June 2025, the Council of the EU and the European Parliament agreed on new rules in the area of payment services to fight fraud more effectively, increase transparency on fees, enhance consumer protection and foster

technological innovation. They also agreed to shorten the settlement cycle for securities transactions from two business days to one after the trade date (T+1). In November they adopted a Directive harmonising certain aspects of insolvency law across EU Member States. The new measures seek to maximise the value that creditors can recover from the insolvent company and increase the efficiency of proceedings, facilitating cross-border investment.

Russia-Ukraine war

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

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

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

Box 3

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

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

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

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

- Investigation phase (October 2020-October 2023): The first phase focused on examining the feasibility of a digital euro and defining its key features, as well as setting out the fundamental principles for its adoption and use: maximum protection of user privacy; accessibility and usability for all social groups; and cash complementarity. This phase was successfully completed with the adoption of a robust strategic framework, paving the way for the next steps.
- Preparation phase (November 2023-October 2025): This period marked the transition from theoretical investigation to practical design. During this phase, the Eurosystem worked on identifying the functional and technical features of the digital euro, exploring pilot solutions and cooperating with banks and other payment service providers. A milestone in the second phase was the delivery of a draft Rulebook for the digital euro scheme, outlining the basic rules for its use and operation as well as the roles and obligations of all actors in the digital euro ecosystem. The Rulebook, which is still under development, serves as a common reference framework, enhancing transparency, consistency, legal certainty and a robust governance framework.
- From design to technical implementation (October 2025-September 2027): The Governing Council of the ECB has decided to initiate the next phase, which focuses on the further development and operational preparation of the digital euro. The three workstreams include: (a) advancing technical readiness by developing infrastructure and standards; (b) preparing pilot tests; and (c) deepening market engagement to finalise the Rulebook. This phase is crucial, as it constitutes the bridge between design and practical implementation, seeking to ensure that the digital euro is safe, reliable and widely accepted across the euro area.
- Digital euro pilot (September 2027-September 2028): Provided that the digital euro legislative package is adopted by the end of 2026, a 12-month pilot exercise will be conducted. As part of the exercise, selected payment service providers will cooperate with the Eurosystem to test the technical, functional and operational readiness of the system within a controlled environment.
- Potential first issuance of the digital euro (2029 onwards): The final decisions on the introduction of a digital euro with legal tender status will be taken by the competent bodies provided for by the relevant legislation, once adopted. The final decision on the issuance will only be taken by the Governing Council of the ECB after the legislative act has entered into force.

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

- It will be accessible to all euro area citizens, who will be able to obtain and use it on equal terms.
- It will be universally accepted for payments throughout the euro area and, under certain conditions, also in other countries, inside or outside the EU.
- It will make maximum use of existing infrastructures and technical standards for its acceptance and settlement, minimising market adjustment costs.
- It will increase competition in the European payments landscape, while reducing dependence on non-European providers.
- It will introduce new usage possibilities, such as offline payments.
- It will encourage banks and other payment service providers to develop innovative products in combination with the digital euro.
- It will operate with the most demanding security standards and within a strict protection framework for users' personal data.

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

Box 4

ARTIFICIAL INTELLIGENCE AND CENTRAL BANKS

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

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

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

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

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

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

Intra-Eurosystem use of AI

Within the Eurosystem, AI already serves various functions.

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

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

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

Specific examples of the ECB's exploration of AI applications for the purposes of economic analysis include: (1) inflation nowcasting by web scraping data on individual product prices⁵ and the use of LLM models for data classification; (2) inflation forecasting in the euro area by utilising machine learning models that capture possible non-linearities;⁶ (3) exploiting machine learning techniques to nowcast world trade;⁷ (4) application of innovative datasets, e.g. combining text data and machine learning techniques to quantify risks and tensions in the global economy and exploring the use of satellite data to track economic activity;⁸ and (5) use of news sentiment analysis for nowcasting euro area GDP.⁹

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

The ECB has recognised that AI offers value also in other central banking areas, such as oversight of payment systems (through early identification of risks), but also in new payment solutions available to the public, such as

2 Cipollone, P. (2024), "[Artificial intelligence: a central bank's view](#)", Keynote Speech at the National Conference of Statistics on official statistics at the time of artificial intelligence.

3 For example, the experimental Project Gaia, developed in collaboration with the Eurosystem centre of the BIS Innovation Hub, explores the use of LLM models that extract data from text-based sources to draw conclusions on climate-related risks in the financial system: https://www.bis.org/about/bisih/topics/suptech_regtech/gaia.htm.

4 Cipollone, P. (2024), op. cit. and Stournaras, Y. (2025), "[Central banks: Opportunities and implications posed by artificial intelligence](#)", Speech at the ECONDAT Conference.

5 Particularly noteworthy is the experimental Project Spectrum, developed in cooperation with the Eurosystem centre of the BIS Innovation Hub: https://www.bis.org/about/bisih/topics/suptech_regtech/spectrum.htm.

6 Lenza, M. et al. (2023), "[Forecasting euro area inflation with machine learning models](#)", ECB, *Research Bulletin*, No. 112.

7 Chinn, M. et al. (2023), "[Nowcasting world trade with machine learning: a three-step approach](#)", ECB, *Working Paper Series*, No. 2836.

8 d'Aspremont, A. et al. (2024), "[Satellites turn 'concrete': tracking cement with satellite data and neural networks](#)", ECB, *Working Paper Series*, No. 2900.

9 Ashwin, J. et al. (2024), "Nowcasting euro area GDP with news sentiment: a tale of two crises", *Journal of Applied Econometrics*, 39(5), 887-905.

10 Cipollone, P. (2024) and Stournaras, Y. (2025), op.cit.

11 Gebauer, S., Th. McGregor and J. Schumacher (2024), "[How central bank communication affects the economy](#)", *The ECB Blog*.

personalised payment methods, as well as payment methods serving people with disabilities and sensitive social groups (e.g. voice payments). For this reason, the ECB continues to invest in relevant tools and infrastructures to foster broader safe and responsible adoption of AI internally and, more widely, throughout the Eurosystem.

The ECB also makes use of AI in the exercise of its supervisory powers¹² and is modernising its supervisory framework through four strategic AI pillars. First, data is brought together in one place with the system Agora, a centralised “data lake” which integrates supervisory and statistical data,¹³ allowing supervisors’ natural language access and swift data retrieval. Second, knowledge management is further enhanced with the tool Athena, which automates search across millions of pages and instantly summarises key points for supervised banks. The ECB’s Athena platform is further refined with specialised AI assistants¹⁴ that optimise drafting and content processing. Third, the Virtual Lab, a platform that serves as a cloud collaboration space allowing supervisors and data scientists to develop LLM models and practical applications. The collaborative approach is completed with the fourth pillar, Project Olympus, a single supervisory cockpit that produces dashboards with information from multiple systems. It combines structured indicators and unstructured information, ensuring workflow transparency and a comprehensive supervisory overview in a digital environment. The innovation ecosystem of the Single Supervisory Mechanism (SSM) described above is complemented by a number of smaller projects covering various aspects of supervision.

AI and the Bank of Greece

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

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

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

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

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

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

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

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

Box 5

MACROECONOMIC EFFECTS OF AN OIL PRICE RISE ON THE GREEK ECONOMY

Recent geopolitical developments, particularly the escalating conflicts in the Middle East, have increased uncertainty in international energy markets and heightened oil price volatility. Given the significant role of energy in production costs and household consumption, fluctuations in international oil prices are a major source of infla-

tionary pressures and macroeconomic shocks for economies reliant on energy imports. Rising oil prices affect economic activity through multiple transmission channels. On the one hand, they increase firms' production costs and put upward pressure on domestic prices of goods and services. On the other hand, they reduce households' disposable income by raising the general price level and increasing expenditure on energy goods and services, thereby dampening aggregate demand.

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

Transmission channels of the shock in the models

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

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

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

Methodology and empirical results

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

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

1 See Zonzilos, N. (2004), "Econometric modelling at the Bank of Greece", Bank of Greece Working Paper No. 14.

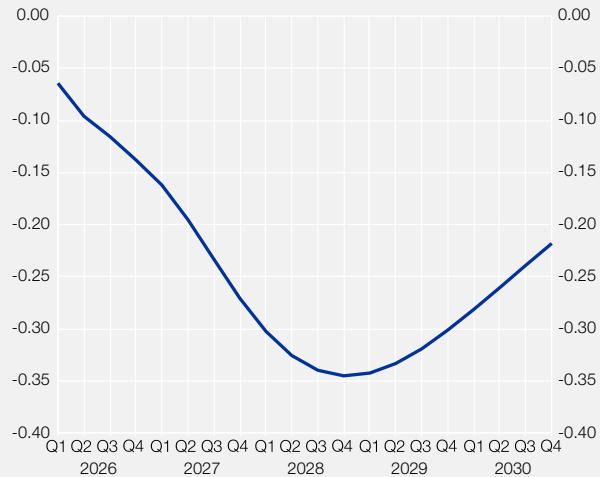
2 See Papageorgiou, D. and E. Vourvachaki (2017), "Macroeconomic effects of structural reforms and fiscal consolidations: Trade-offs and complementarities", *European Journal of Political Economy*, 48, 54-73.

3 For more details, see "[ECB staff macroeconomic projections for the euro area](#)", March 2026 (Chart 11 and Table 5).

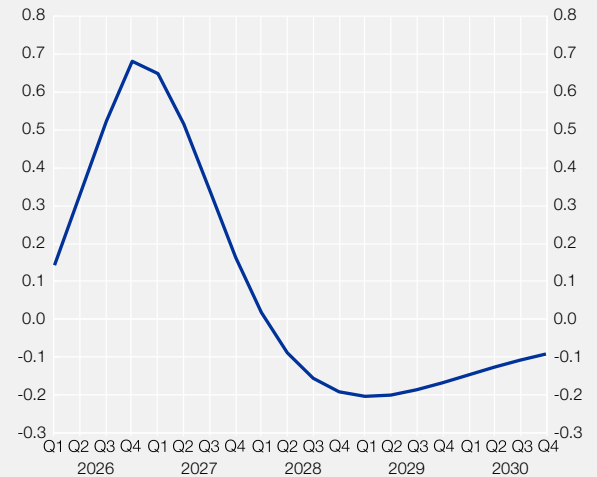
Dynamic effects of an oil price increase

(%)

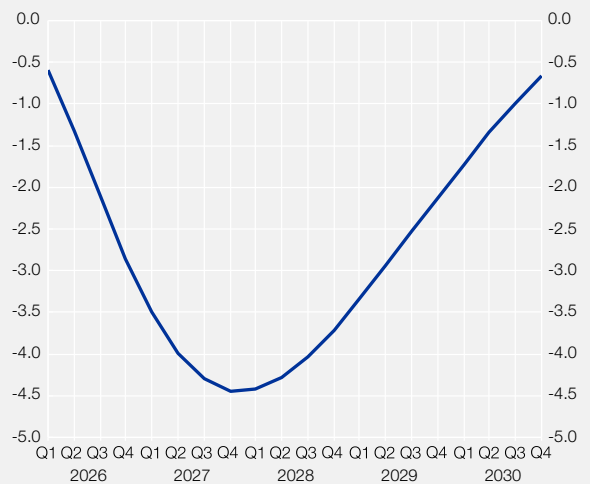
Real GDP



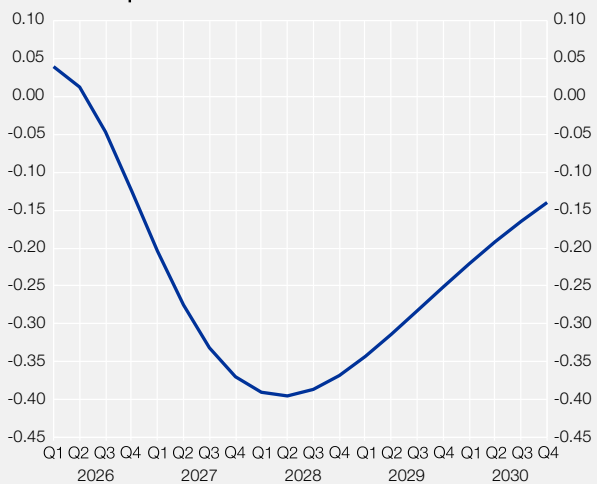
Inflation



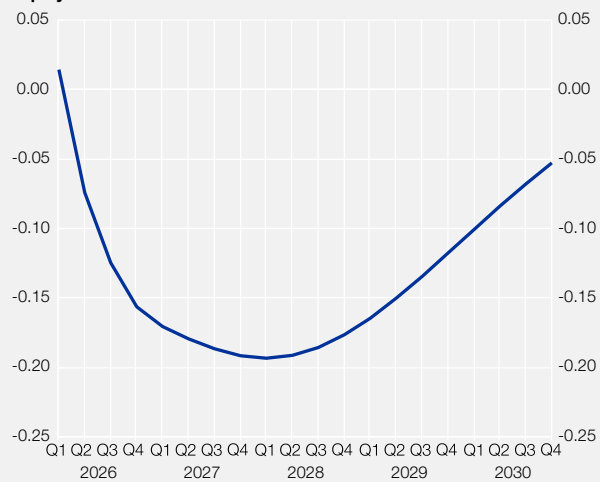
Private investment



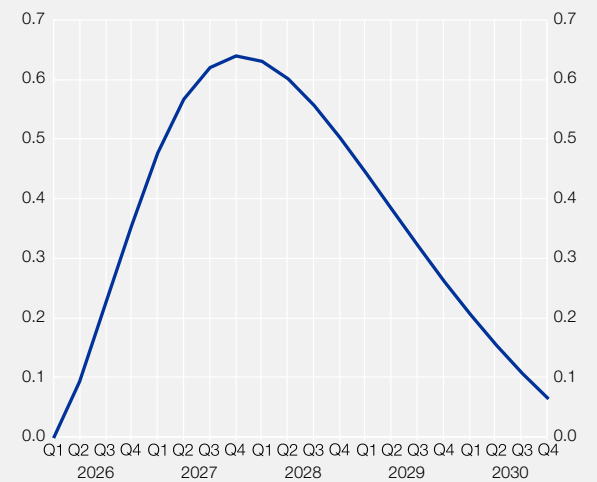
Private consumption



Employment



Trade balance as a share of GDP



Source: Bank of Greece estimates.

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

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

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

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

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

Conclusion

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

Box 6

HOUSING INFLATION IN GREECE AND THE EURO AREA

Housing inflation developments in Greece and the euro area

Housing inflation has always been of great interest, as it concerns one of the most fundamental living needs, together with food inflation. Of the 13 expenditure categories included in the Harmonised Index of Consumer Prices

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

(year-on-year percentage changes)



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

(HICP), the fourth relates to housing¹ and is one of the largest categories of household expenditure. According to the latest available data from the Household Budget Survey (HBS) for 2024, housing expenditure accounts for 14.4% of households' average monthly spending.² As a result, housing carries a large weight in the HICP, which was 117.16‰ in Greece and 149.23‰ in the euro area in 2025 (the weight being lower in Greece due to higher owner occupancy rate).

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

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

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

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

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

Table A Housing inflation in Greece and its breakdown into key sub-indices*(annual percentage changes and percentage point contributions)*

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

Sources: ELSTAT and Bank of Greece calculations.

Table B Housing inflation in the euro area and its breakdown into key sub-indices*(annual percentage changes and percentage point contributions)*

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

Sources: Eurostat and Bank of Greece calculations.

Key housing inflation components in Greece and the euro area

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

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

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

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

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

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

The economic measures already taken, such as the suspension of new property registrations in the short-term rental registers of some districts, the “My Home I” and “My Home II” programmes, the reimbursement of one rent per year and the increase of the Golden Visa thresholds, are aimed at mitigating the problem and driving down rent inflation and thus housing inflation. However, their impact appears to be rather limited.

Conclusions

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

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

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

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

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

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

Box 7

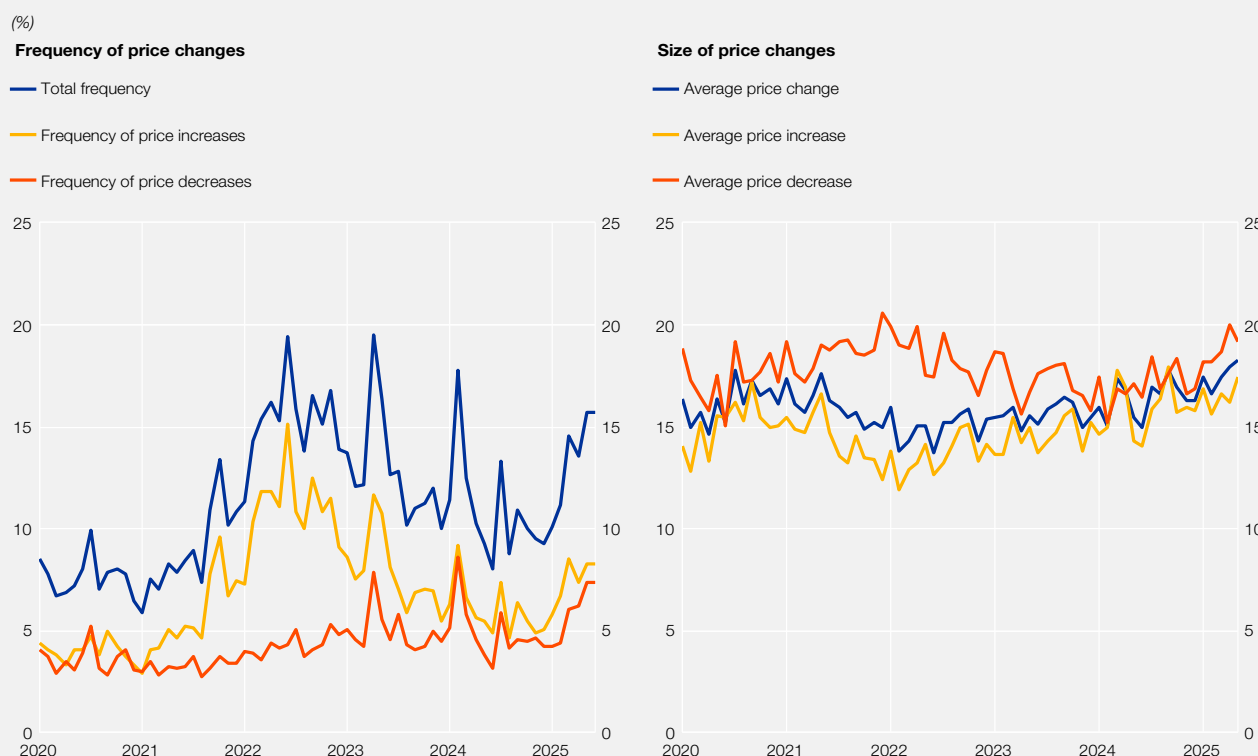
RECENT INFLATION DEVELOPMENTS IN GREECE: AN ANALYSIS USING THE MICRO-PRICE DATASET FOR THE GREEK CPI

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

The analysis utilises the micro price dataset developed by the Hellenic Statistical Authority (ELSTAT), which is used to compile the Greek Consumer Price Index (CPI). The raw data are monthly, from January 2002 to May 2025, and cover more than 80% of core CPI. In total, the database has more than 10.5 million price quotes. The micro database does not include seasonal items (like fresh fruit and vegetables), energy products, administered prices and certain

1 The present analysis uses unweighted data. The main conclusions are not affected by weighting.

Chart A Frequency and size of price changes



Sources: ELSTAT and Bank of Greece calculations.

services (in particular, transport and accommodation services). Price changes that are a result of sales and promotions are excluded from the raw data using filters that have been developed in international literature.²

Monthly inflation can be calculated as the product of the share of prices that change in a given month (frequency of price changes) multiplied by the average size of this change: $\pi_t = f_t^* \Delta p_t$, where π_t is the monthly inflation, f_t the frequency of price changes and Δp_t the size of the average percentage price change. Furthermore, as price changes can be broken down into price increases and decreases, the above equation can be written as follows: $\pi_t = f_t^+ \Delta p_t^+ - f_t^- |\Delta p_t^-|$.³ Since there are monthly price quotes at product level, both the average frequency of price changes and the average percentage price change (increase/decrease) can be calculated. Annual inflation can then be approximated on the basis of monthly inflation.

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

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

² See Nakamura, E. and J. Steinsson (2008), "Five facts about prices: A reevaluation of menu cost models", *The Quarterly Journal of Economics*, 123(4), 1415-1464, and Gautier, E. et al. (2024), "New facts on consumer price rigidity in the euro area", *American Economic Journal: Macroeconomics*, 16(4), 386-431.

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

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

Main aggregates and subcomponents

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

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

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

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

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

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

Conclusions

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

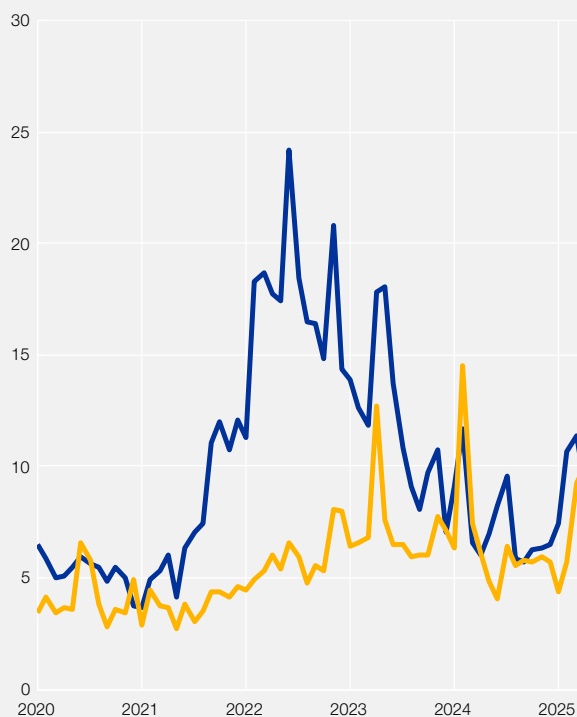
⁵ The database includes 27 products that contain different kinds of meat, fish, mollusks and eggs.

Chart B Frequency of increases and decreases, main aggregates

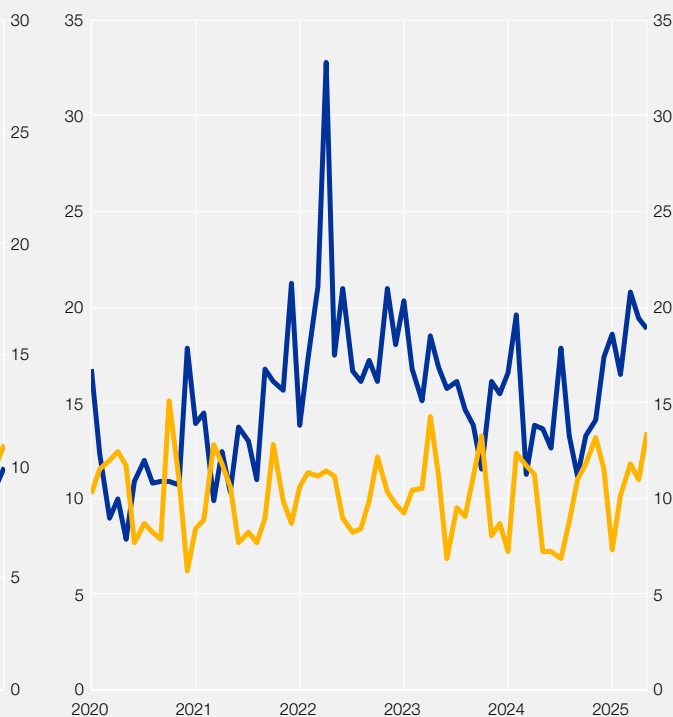
(%)

— Frequency of price increases
— Frequency of price decreases

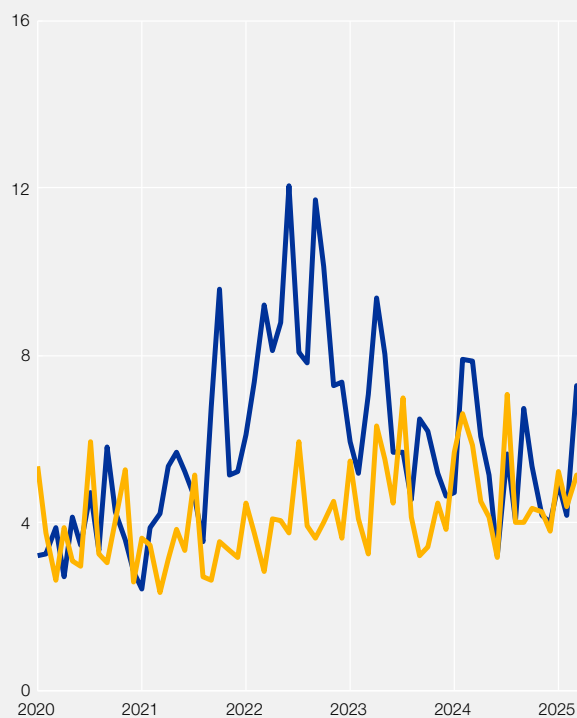
Processed food



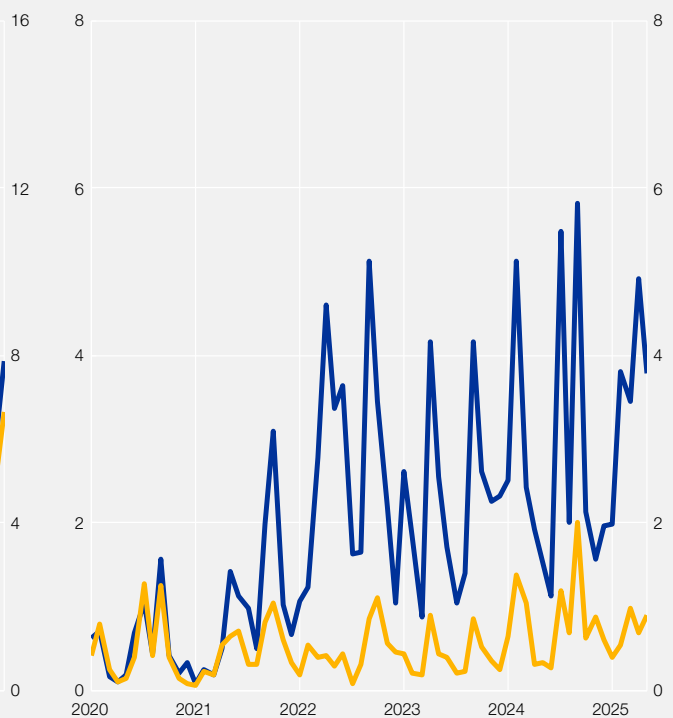
Unprocessed food



Non-energy industrial goods



Services



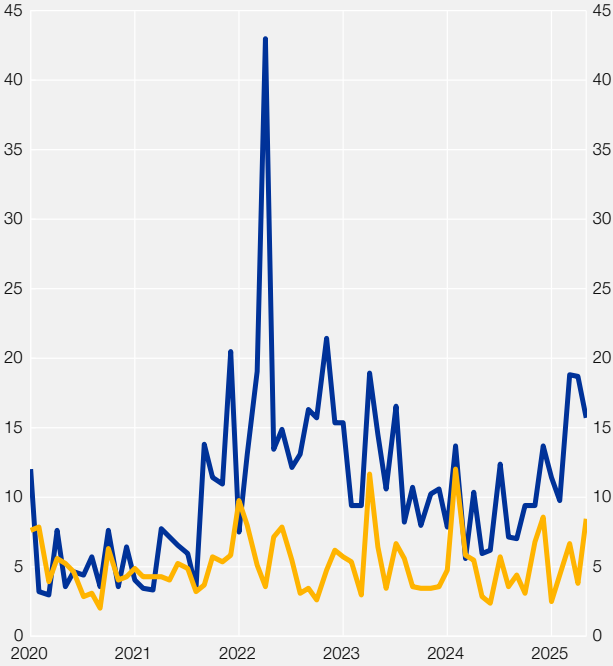
Sources: ELSTAT and Bank of Greece calculations.

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

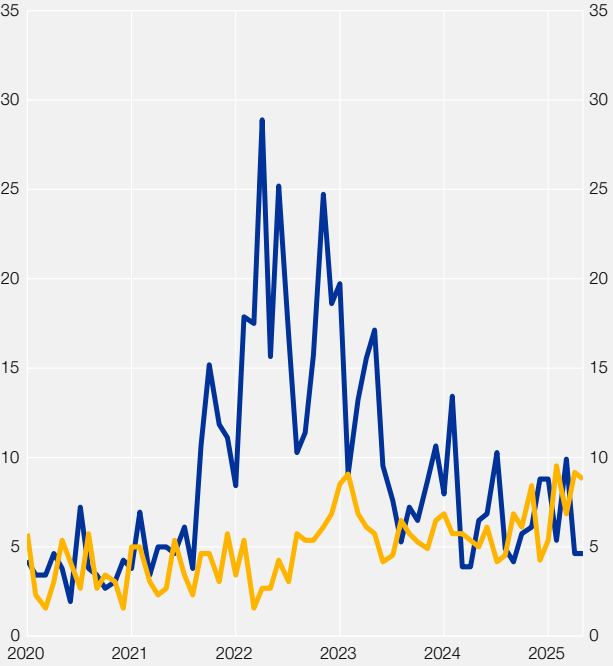
(%)

Frequency of price increases
Frequency of price decreases

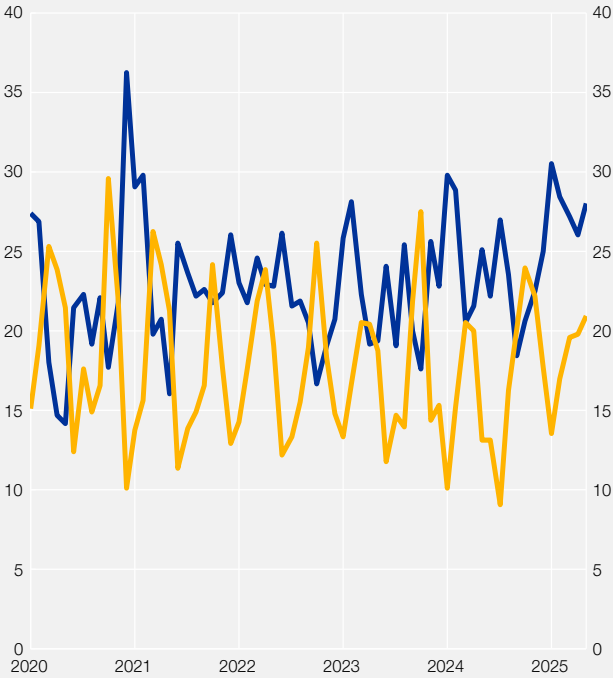
Red meat



White meat and eggs



Fish and mollusks



Sources: ELSTAT and Bank of Greece calculations.

Box 8

THE CYCLICALLY ADJUSTED CURRENT ACCOUNT BALANCE OF GREECE

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

Estimation of the cyclically adjusted current account balance

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

For the purposes of this box,¹ the estimation of the cyclical component is derived from the cyclical part of the balance of goods and services, on the one hand, and of the primary and secondary income accounts, on the other. The estimation of the former requires the use of two main sources of information. First, it is necessary to estimate the relative intensity of the business cycle in the domestic economy, which is determined by the size of the output gap of the Greek economy compared to that of its main trading partners. Bank of Greece calculations are used to estimate the output gap of the Greek economy, while the output gap of the trading partners is weighted by the share of Greek exports to the respective countries.² Second, it is necessary to estimate the impact of changes in the output gap on the balance of goods and services. This impact is directly related to the income elasticity of domestic exports to the GDP of trading partners and of imports to the GDP of Greece.^{3,4}

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

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

3 The impact of the economic cycle on the external sector is mainly reflected in its impact on the balance of goods and services, which is the most important part of the current account balance and is summarised in equation (1):

$$\Delta\left(\frac{TB}{GDP}\right)_{cycl.} = e_x * \frac{X}{GDP} * TPGAP - e_m * \frac{M}{GDP} * GAP$$

where:

$\frac{TB}{GDP}$: the balance of goods and services as a percentage of domestic GDP;

e_x : foreign income elasticity of Greek exports;

e_m : domestic income elasticity of imports;

$\frac{X}{GDP}$ and $\frac{M}{GDP}$: exports and imports, respectively, of goods and services expressed as a percentage of domestic GDP;

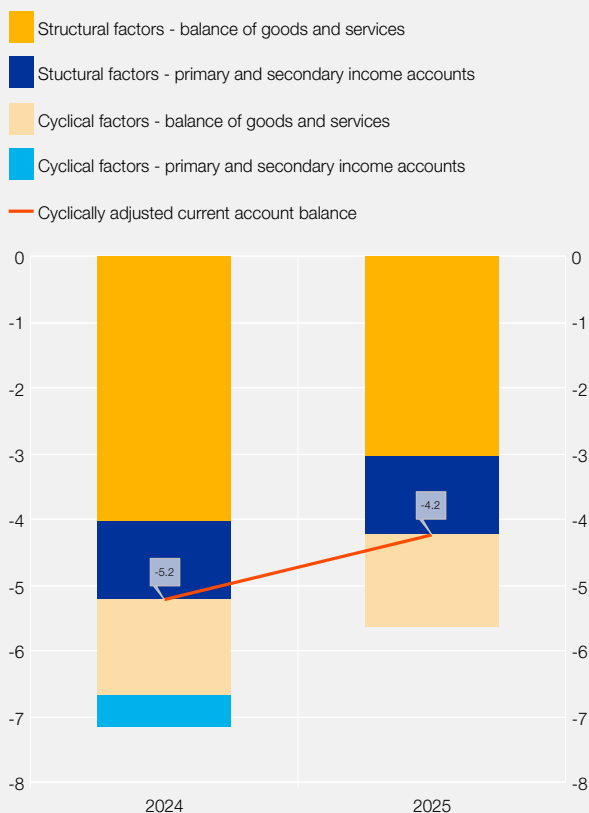
GAP and TPGAP: the output gap of Greece and its trading partners, respectively.

The cyclical part of the balance of goods and services is calculated on the basis of equation (1).

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

Table A Greece's cyclically adjusted current account balance

(% of GDP)



Source: Bank of Greece calculations.

Sensitivity to income elasticity of imports and exports

(cyclically adjusted current account balance, 2025)

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

Source: Bank of Greece estimates.

The cyclical part of the overall primary and secondary income account balance is approximated by its deviation from its long-term average (as a percentage of GDP), which was -1.2% of GDP in 2016-25.⁵

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

Therefore, the improvement in 2025 reflects not only the decline in the cyclical component, but also the lower cyclically adjusted deficit of the balance of goods and services. The cyclical component of the current account deficit, which is not of a permanent nature, is expected to be reversed once the cyclical factors that caused it have faded. However, the cyclically adjusted deficit of the current account balance remains above the corresponding structural level of the current account balance,⁶ as estimated by international organisations (e.g. the IMF).⁷ This finding highlights the need to continue with structural reforms, in order to achieve a sustainable reduction of the current account deficit.

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

As mentioned above, a key parameter in estimating the cyclically adjusted current account balance is the calculation of the output gap of the Greek economy. In order to assess the sensitivity of the results to the

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

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

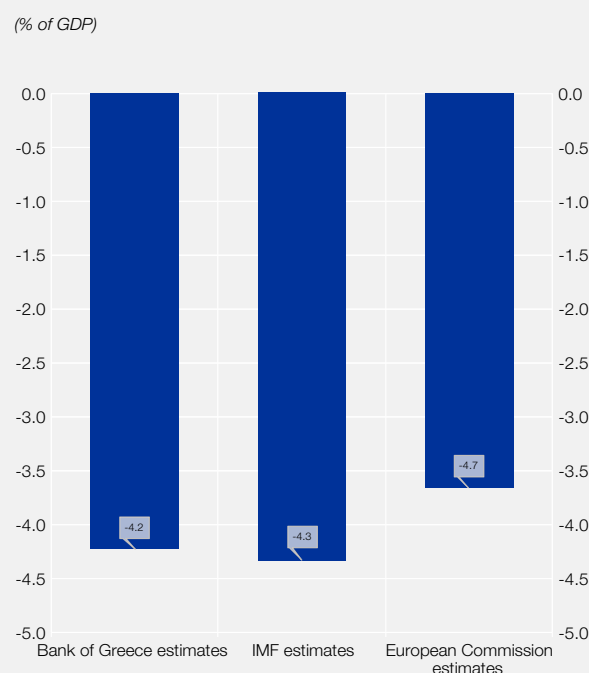
7 See IMF (2025), "[Greece: 2025 Article IV Consultation](#)", IMF Country Report No. 25/85, April.

estimates of the output gap, the cyclically adjusted current account balance was calculated using alternative measures of the output gap for Greece, as published by the IMF (World Economic Outlook database) and the European Commission (AMECO). The differences do not turn out to be particularly significant for 2025 and therefore the conclusions remain robust (see Chart B).

Conclusions

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

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



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

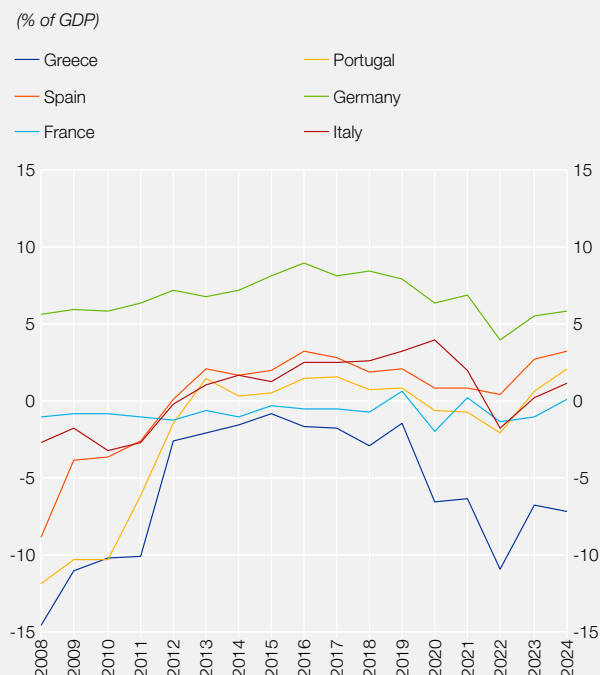
Box 9

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

Since 2020, the evolution of the current account balance of the European Union economies has been characterised by strong fluctuations, as a result of a series of exogenous shocks. In particular, the negative effects on economic activity from the COVID-19 pandemic, disruptions in supply chains and, subsequently, the surge in energy and basic imported goods prices weighed on the external balance of EU countries. As shown in Chart A, many European economies recorded a deterioration in their current account balances in 2021-22, primarily due to rising energy costs and import prices. However, since 2023, many economies have shown signs of a gradual normalisation of their balances, mainly reflecting the partial easing of inflationary pressures and, in particular, the decline in energy and import prices due to the recovery of supply chains.

Against this background, Greece's current account deficit, after a significant correction in 2013-19, widened again in 2020-22, as a result of the pandemic-related restrictions on economic activity and the rise in energy prices.¹ In 2023, a correction to -6.8% of GDP was recorded, from -10.7% of GDP in 2022. However, in 2024 the current account deficit expanded by 0.4 percentage points to -7.2% of GDP. This development was primarily attributable to a widening of the deficit in the trade of goods, as exports of goods declined, while the corresponding imports

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

Chart A Current account balance for select EU countries

Sources: World Bank and Bank of Greece.

increased, reflecting, on the one hand, an economic slowdown in Greece's main trading partners and, on the other, higher imports of capital goods and a low degree of import substitution.

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

Methodology

To this end, an econometric approach is adopted whereby changes in the current account are broken down into their cyclical and structural components, following the empirical methodology used in the relevant literature.² Specifically, in a first step, the key drivers of the current account balance are identified both over a long-term horizon, in which case the underlying determinants are assessed as structural, and in the short term, in which case the relevant factors are assessed as cyclical. Furthermore, panel data econometric models are used for the EU countries. This approach allows the econometric estimation of the coefficients that capture the size and sign of the impact of individual drivers on the current account for all economies in the sample. In a second step, the coefficients derived from the estimation

of short-term (cyclical) factors for the EU countries are applied to the Greek data, in order to derive the contribution of the cyclical component to changes in the Greek current account balance in the recent period (2023-24). The residual part of the changes, obtained after deducting the contribution of the cyclical component from the change in the current account balance, is attributable to structural factors. Therefore, this methodology allows quantifying the cyclical and structural components of the change in the current account balance for the Greek economy.

Structural and cyclical components

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

Applying the coefficients estimated for the EU countries to data for the Greek economy shows that the 0.4 percentage point widening of the current account deficit in Greece in 2024 is primarily driven by cyclical factors. As illustrated in Chart B, the cyclical component made a negative contribution of 2.5 percentage points to the change in the current account balance, possibly reflecting weaker external demand and higher imports.

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

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

By contrast, the contribution of structural factors to the change in the current account balance in 2024 was positive, estimated at 2.1 percentage points, but not sufficient to offset the negative impact of the cyclical component.

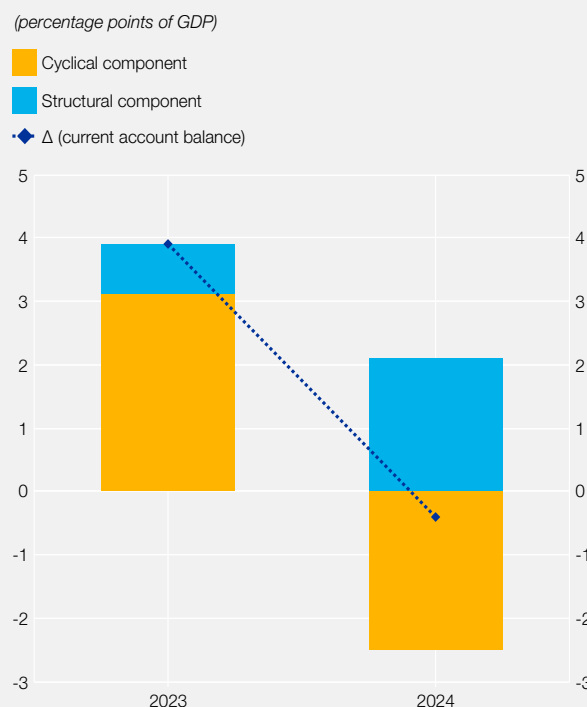
Overall, Greece's current account balance stood at -7.2% of GDP in 2024, and this deficit is estimated to be driven mainly by structural features of the economy.⁴ However, as illustrated in Chart B, the contribution of the structural component to changes in the current account balance has remained positive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

Conclusions

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

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

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



Source: Bank of Greece calculations.

Box 10

DEMOGRAPHIC AGEING AND INTERACTION WITH THE CURRENT ACCOUNT BALANCE

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

Both demographic trends and external imbalances constitute key areas of analysis of the Greek economy in reports of the Bank of Greece,^{1,2} research institutes,³ as well as European and international institutions.⁴ International literature⁵ suggests that demographic developments materially impact the evolution of the current account balance through saving and investment, also affecting the competitiveness of an economy. This box investigates the key channels through which demographic ageing can affect the current account balance, with a focus on the Greek economy and a comparative reference to the euro area, presenting empirical findings from a panel data analysis and aiming to quantitatively assess this relationship.

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

Household saving, investment and the life-cycle hypothesis

Central to the study of the impact of a country's demographic evolution on the current account balance is the life-cycle hypothesis (LCH),⁶ which posits that individuals tend to save more during their working life (e.g. by accumulating employer and pension contributions, savings etc.) and dissave during retirement. At a macroeconomic level, the higher share of the elderly in the population tends to reduce the saving ratio of an economy, adversely affecting the saving-investment balance and, by extension, the current account balance. However, this effect is neither linear nor deterministic, as a number of factors seem to also affect the evolution of the current account balance and its interconnection with the demographic developments of an economy. Although the classical life-cycle hypothesis posits that the elderly dissave,⁷ modern literature points to a more complex set of interactions, suggesting a positive impact of age dependency ratios on the current account balance. Under the extended life-cycle hypothesis (ELCH), increased longevity leads to higher saving rates (in the form of investments, e.g. in real estate or a pension plan) during the working life, as employees prepare for a longer period of retirement.⁸ The elderly's high saving rates can also be attributed to bequest saving motives (as evidenced by the example of the Japanese economy),⁹ but also to heightened uncertainty about income and medical expenses, which give a precautionary saving motive to households, more than offsetting the tendency to dissave posited by the classical life-cycle hypothesis.¹⁰ Such a perspective is better aligned to demographic developments in high-income countries and implies that demographic ageing leads to higher national saving, ultimately improving the current account balance.¹¹

1 See Bank of Greece (2025), *Annual Report 2024*, p. 32.

2 See Bank of Greece (2024), *Annual Report 2023*, Box IV.5 "The twin deficits in the Greek economy: recent developments and prospects", p. 134-137.

3 Foundation for Economic and Industrial Research (IOBE) (2022), "The demographic issue in Greece: Challenges and policy proposals".

4 European Commission (2024), "Commission Staff Working Document: 2024 Country Report – Greece", SWD(2024) 608 final; IMF (2025) "Greece: 2025 Article IV Consultation-Staff Report"; and OECD (2025), *Pensions at a Glance 2025*.

5 For additional information see: 1) Domeij, D. and M. Floden (2006), "Population aging and international capital flows", *International Economic Review*, 47(3), 1013-1032; 2) Gerigk, J., M. Rinawi and A. Wicht (2018), "Demographics and the current account", *Aussenwirtschaft*, 69(1), 45-76; 3) Higgins, M. (1998), "Demography, national savings, and international capital flows", *International Economic Review*, 39(2), 343-369; 4) Börsch-Supan, A., A. Ludwig and J. Winter (2006), "Ageing, pension reform and capital flows: a multi-country simulation model", *Economica*, 73(292), 625-658; 5) Sposi, M. (2022), "Demographics and the evolution of global imbalances", *Journal of Monetary Economics*, 126, 1-14; and 6) Chinn, M.D. and E.S. Prasad (2003), "Medium-term determinants of current accounts in industrial and developing countries: an empirical exploration", *Journal of International Economics*, 59(1), 47-76.

6 For additional information see: 1) Modigliani, F. and R. Brumberg (1954), "Utility analysis and the consumption function: An interpretation of cross-section data", in: Kurihara, K.K. (ed.), *Post-Keynesian Economics*, 388-436; 2) Ando, A. and F. Modigliani (1963), "The 'life cycle' hypothesis of saving: Aggregate implications and tests", *The American Economic Review*, 53(1), 55-84; and 3) Modigliani, F. (1986), "Life cycle, individual thrift, and the wealth of nations", *The American Economic Review*, 76(3), 297-313.

7 And ultimately termination of saving upon completion of life expectancy.

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

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

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

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

Labour supply, productivity and competitiveness

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

Public finance and the twin deficits

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

2 Empirical investigation

For the quantitative investigation of the relationship between demographic developments and the current account balance, a panel data model is employed for the euro area countries,¹⁴ with annual data covering the period 1995-2025. The main empirical model used in economic analysis is based on Higgins (1998) and Chinn and Prasad (2003).¹⁵ The current account balance (as a percentage of GDP) is defined as a dependent variable, while the demographic variables, i.e. the median age and the age dependency ratio,¹⁶ are used as key explanatory variables. GDP per capita (euro area=100) and the fiscal balance (as a percentage of GDP) are used as additional control variables, while D_{it} indicates the disturbance term.

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

The estimation of the empirical model suggests that demographic developments and in particular population ageing, as measured by the median age and the age dependency ratio, have a positive (i.e. improving) and sta-

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

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

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

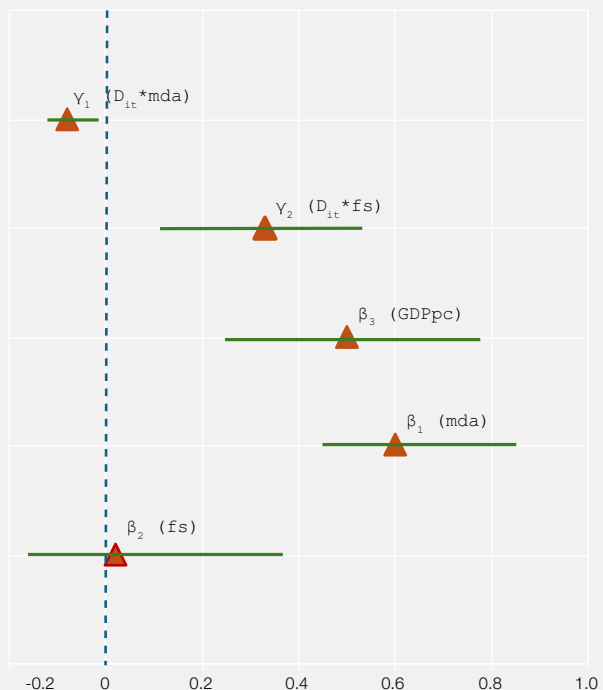
15 The model has the following general form: $CA_{it} = \beta_0 + \beta_1 Z_{it} + \beta_2 f_{sit} + \beta_3 GDP_{pc,it} + \gamma_1 D_{it} Z_{it} + \gamma_2 D_{it} f_{sit} + u_{it}$ (1) where CA_{it} : the current account balance (% of GDP), f_{sit} : the fiscal balance (% of GDP), $GDP_{pc,it}$: GDP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

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

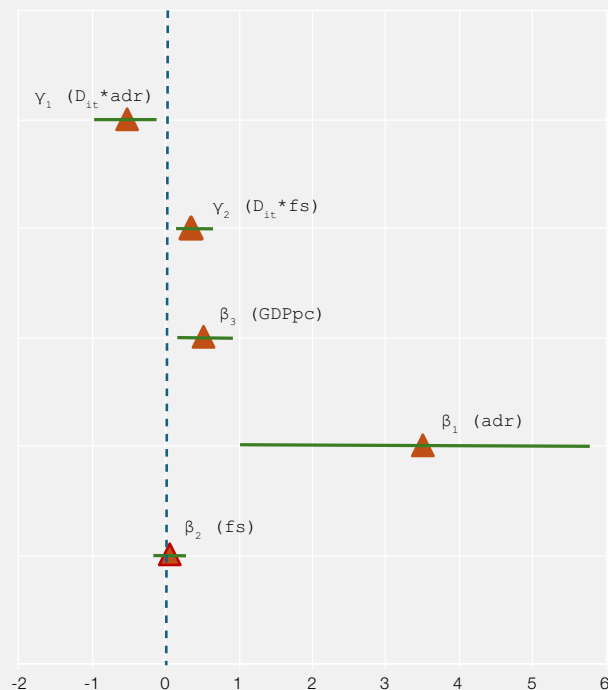
17 The estimated overall impact on the Greek economy from the demographic variables and the fiscal balance results from the sums of $\beta_1 + \gamma_1$ and $\beta_2 + \gamma_2$ respectively.

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

A. Median age (mda)



B. Age dependency ratio (adr)



Source: Bank of Greece econometric estimates.

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

tistically significant effect on the current account balance (at a 1% significance level). This finding (see coefficient β_1 in Charts A and B) is consistent with the extended life-cycle hypothesis and proves that developed economies with ageing populations¹⁸ (such as those of the euro area in the sample under review) tend to exhibit higher saving rates relative to consumption.

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

As concerns the impact of the fiscal balance on the current account balance, for all euro area countries it appears to be statistically non-significant (see coefficient β_2 in Charts A and B) at a 10% significance level. The positive

¹⁸ It should be noted that in developed countries the volatility of the age dependency ratio expresses mostly the pressures of ageing population (65+) and therefore is mainly determined by the variable expressing the old-age dependency ratio.

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

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

Source: Bank of Greece econometric estimates.

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

and statistically significant interaction coefficient for the Greek economy (see coefficient γ_2 in Charts A and B) confirms, on a weighted average basis, the historical validity of the twin-deficits hypothesis in the period under review.¹⁹ Finally, the GDP per capita variable (*GDPpc*) confirms the role of economic growth in the improvement of the external balance, with the coefficient β_3 remaining positive and statistically significant in Charts A and B.

3 Conclusions

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

19 See Bank of Greece (2024), op. cit.

20 Given the fiscal overperformance in recent years and the projections of sustained fiscal surpluses in Greece, no significant further contribution to the improvement of the current account balance through this channel should be expected over the medium-to-long term.

Box 11

HOUSE PRICE DRIVERS IN GREECE AND HOUSEHOLDS' HOUSING FINANCE CAPACITY

1 INTRODUCTION

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

The issue of housing affordability, which is also increasingly highlighted by international organisations, is no longer treated as a conjunctural market phenomenon, but as a structural issue affecting social cohesion and the demographic outlook. Higher house prices make it harder for lower-income households to access home ownership and, given that housing is a key asset for households, their limited ability to buy a house exacerbates inequalities. Young people are particularly affected by worsening housing affordability, which is delaying their ability to become financially independent and start a family. Finally, unaffordable housing has wider economic implica-

tions, as it discourages the geographic mobility of workers towards areas with high labour demand, causes labour shortages, increases labour costs and, ultimately, undermines the efficient allocation of resources and the productivity of the economy.¹

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

2 THE HOUSING ISSUE IN GREECE

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

The faster rise in residential real estate prices relative to incomes makes it harder for households to buy a dwelling that meets their housing needs and is within their financial capacities. At the same time, the cost of renting has also increased as a result of, *inter alia*, the rapid growth of short-term rentals and housing investment. According to Eurostat,³ the share of the population spending over 40% of their disposable income on housing costs (housing cost overburden rate)⁴ in Greece stood at 28.9% in 2024, with the corresponding European average estimated at 8.2%, thereby placing Greece first as regards the housing burden in the EU. This rate has been estimated at 29.1% for large urban centres and at 27.7% for rural areas. The percentage of renters who appear to spend over 40% of their income on housing is estimated at 37.4%, while for homeowners with a housing loan the overburden rate stands at 20.9%.

On the basis of Organisation for Economic Cooperation and Development (OECD) data, in 2024 the average percentage of households' disposable income⁵ allocated to housing costs relating to rent or mortgage payments stood at 23.7% in Greece, against an EU average of 17.9%.⁶ The ratio of housing costs over income was higher for households living in a rented dwelling (24.3%) and slightly lower for households with mortgage payments (20.0%). Finally, according to the findings of an OECD survey, Greece ranks particularly high with regard to the respondents' level of difficulty to pay their rent or mortgage, as well as their level of concern about being able to find and maintain adequate housing, particularly among young people and financially vulnerable households.⁷

2.1 Drivers of house prices in Greece

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

1 See European Commission (2025), "Housing in the European Union: Market developments, underlying drivers, and policies", European Economy Discussion Paper No. 228, Publications Office of the European Union.

2 Bank of Greece data.

3 See Eurostat (2024), *Housing in Europe – 2024 edition*.

4 The housing cost overburden rate is defined as the percentage of the population or households that spend more than 40% of their disposable income on housing, including rent or mortgage payments, as well as basic housing expenses (e.g. heating and electricity/water supply).

5 It refers to households that either rent a dwelling or repay a housing loan. Housing costs relate only to mortgage expenses (principal and interest payments) and rent expenses (for both the private market and the subsidised rental housing).

6 See OECD (2025), "HC1.2. Housing costs over income", OECD Affordable Housing Database.

7 See OECD (2025), "HC1.4. Subjective Measures on Housing", OECD Affordable Housing Database.

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

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

Greece’s high urbanisation rate and the demographic changes of 2011-21⁸ partly explain higher housing demand, particularly in major urban centres. Although Greece’s population has been declining both overall (3.1%) and at local level (in most regions), the number of single-person households has been rising throughout the country. Especially in Attica, where the registered population declined marginally by 0.4%, the number of households rose by 8.4%, or 127,300 in absolute terms, mainly because of a 36.9% increase in single-person households. This development is in line with the housing pressure on the capital city and also suggests a change in the characteristics of demand, which shifts towards dwellings within the urban areas, possibly smaller than in the past.

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

Despite strong demand for housing, a number of factors holds back the supply of new residential properties. Residential construction activity, which experienced historically high growth rates in 2001-08, fell sharply during the economic crisis, while its gradual recovery after 2020 remains insufficient. Indicatively, the average annual number of new building permits issued for residential construction in 2021-24 is around 35,000, while the corresponding number for 2004-08 was around 125,000.⁹ Housing investment (at constant prices) in 2024 accounted for 2.6% of Greece’s Gross Domestic Product (GDP). This is significantly below the pre-crisis level, as the respective figure for 2004-08 is estimated at 8.5%.

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

In addition to the shortfall in the supply of new housing, constraints are also identified in the availability and adequacy of the existing residential stock. The available stock is, to a large extent, old with outdated specifications and poor energy efficiency. In low-demand or deprived areas, renting often generates negative net returns, which

8 ELSTAT data.

9 ELSTAT data.

discourages owners from renting out vacant properties under a long-term lease. Moreover, in several instances, multi-ownership makes it difficult to make a decision on any form of exploitation.

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

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

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

3 HOUSE PURCHASE FINANCING CONDITIONS IN ATTICA

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

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

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

3.1 Data

The compilation of the HFCI for 2024 was based on data from Bank of Greece¹² and Eurostat databases. In greater detail:

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

10 According to the latest ELSTAT census, 36.4% of the country's population resides permanently in the capital city.

11 See Biljanovska, N., C. Fu and D. Igan (2023), "Housing affordability: A new dataset", CEPR Discussion Paper No. DP18678, Centre for Economic Policy Research.

12 According to Bank of Greece Governor's Act 2610/31.10.2008, data on residential property valuations are collected by the Bank of Greece upon submission by all credit institutions operating in Greece.

13 The analysis is based on available Bank of Greece data for the residential property price index up to the third quarter of 2025.

Average annual mortgage interest rate (IR): The average annual interest rate¹⁴ on housing loans in 2024 was compiled from Bank of Greece data.^{15,16}

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

Median Disposable Income (MDI): To estimate household disposable income, data from Eurostat's Survey on European Union Statistics on Income and Living Conditions (EU-SILC) were used. Data on the median annual equivalised disposable income were adjusted to reflect the income of a four-member household.¹⁸

3.2 Methodology

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

1. First, Attica was divided into broader geographical sections – submarkets – based on geographical and urban planning similarities, as well as similarities in price levels. The division into submarkets was carried out by grouping the postcodes in which the properties in the sample are located. The following were identified as distinct submarkets: "Municipality of Athens," "Northern Suburbs," "Southern Suburbs," "Piraeus," "Western Suburbs" and "Rest of Attica." A further division was made specifically for the Municipality of Athens in order to highlight the significant variation in value levels. Specifically, the Municipality was divided into three sub-areas: the first comprises the areas at the very heart of Athens that fall within the lower real estate price range;¹⁹ the second includes the rest of downtown Athens within the 1st Municipal District; and the third includes the remaining areas of the Municipality of Athens, which make up the "typical" residential areas of the city centre (e.g. Ambelokipi, Kypseli, Pangrati, etc.).
2. A "typical dwelling" was defined as an apartment or a maisonette valued at the median price per square metre in each submarket in 2024.²⁰
3. Next, the monthly mortgage loan payment (PMT) that a household is required to make for a typical dwelling in each submarket during the reference year was calculated:

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

where:

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

14 Weighted average based on new business volumes on a monthly basis, excluding commission fees and other charges, relating to all new loans irrespective of maturity and type of interest rate.

15 Data compiled on the basis of Bank of Greece Governor's Act 2688/24.05.2021.

16 During the reference period (2024), published figures on housing loans are affected by the "My Home" programme. See Bank of Greece, *Financial Stability Review*, Box II.2, May 2024.

17 Data collected on the basis of the Bank of Greece Executive Committee Act 231/3/07.10.2024.

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

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

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

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

$$MRDI = PMT * 4 * 12$$

where:

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

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

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

where:

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

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

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

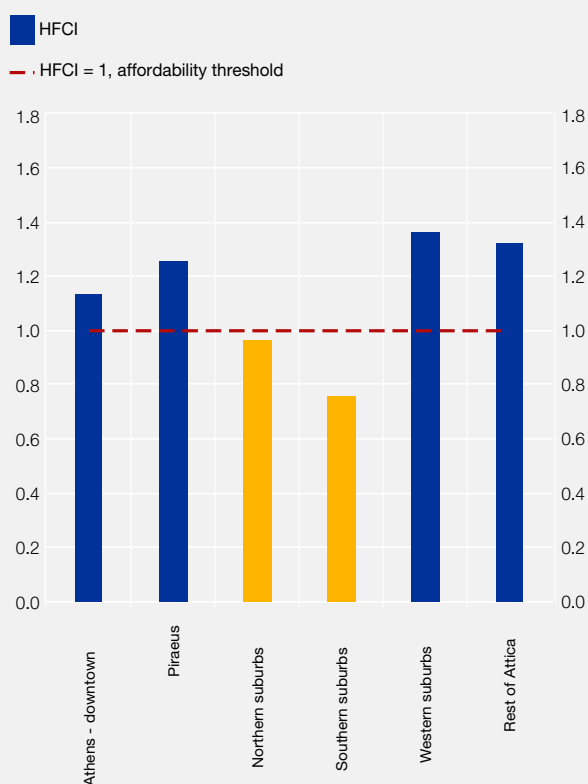
- A 25% income percentage cap was used for mortgage repayments, in line with the housing affordability index methodology suggested in the international literature.²¹ This cap is lower than those used in alternative approaches by the OECD and Eurostat, which range between 30% and 40% of gross household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

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

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

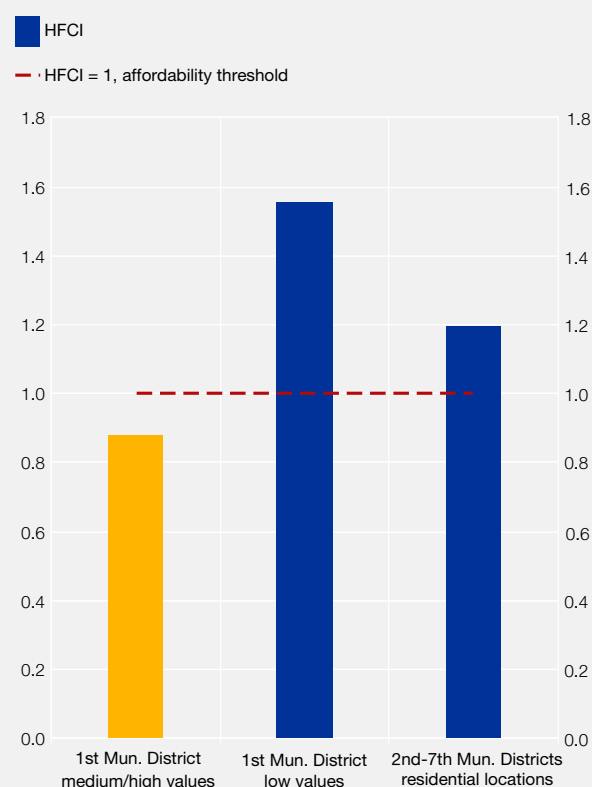
23 According to the Household Budget Survey (ELSTAT 2024), the additional average monthly cost for households with two minor children amounts to approximately EUR 1,000, compared to a childless couple, which suggests that the remaining portion (75%) of income allocated for expenses other than mortgage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

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



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

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



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

3.3 Results

The HFCI was initially calculated for the various submarkets of Attica and subsequently for sub-areas of the Municipality of Athens, for the year 2024. The aim of this analysis is to identify locations in Attica where an average-income four-person household can purchase a home by bank loan and service a mortgage, without compromising their ability to meet other basic needs.²⁴

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

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

²⁴ It should be noted that purchasing a home by bank loan assumes the capacity to provide the necessary own funds, as well as an adequate supply of housing (see footnote 23 and the text below).

HFCI is estimated to be higher than 1. In any event, local demand for real estate and, consequently, property prices are influenced by a number of factors, such as distance from the city's tourist attractions/landmarks, proximity to universities and access to track-based transport.

The analysis of the sample provides further insight into the quality characteristics of the typical dwelling that households could afford in 2024. The average property in downtown Athens (Municipality of Athens) dates back to the mid-1970s, while the average property in the city's suburbs and the rest of Attica was built in the early 1990s. In other words, in the suburbs of Athens – which were developed later than the city centre – the housing stock meets more modern technical standards and is in better condition. Consequently, the difficulty faced by average-income households in affording housing in certain areas is not solely due to the quality characteristics of the locations, but also to the higher technical standards of the properties available. Conversely, dwellings in downtown Athens, even those being within households' financial capabilities, may require sizeable additional funds to become up-to-date and functional so as to adequately meet housing needs, thereby reducing their actual level of affordability. This means that, although the affordability of an area may be rated higher than 1, it is the age of the average typical property that determines the potential need for additional expenses to meet basic housing standards.

It should be noted that this index does not reflect the difficulty in securing housing faced by lower-income households,²⁵ which are the most constrained, but it is rather based on the assumption that the average household has, in addition to the capacity to repay a mortgage, the required amount of own funds to purchase a typical dwelling.²⁶ Finally, the analysis did not examine the distribution of houses in the sample, which might have revealed a shortage of dwellings with the characteristics of the average typical property.

4 CONCLUSIONS – POLICY RECOMMENDATIONS

The recent deterioration in housing affordability is largely attributable to the rapid rise in real estate prices, which is exacerbated by excess demand relative to supply, especially in major urban centres. Growing housing pressure, particularly in the greater Athens area, is gradually limiting households' options for affordable and suitable housing.

In order to assess the capacity of an average-income four-member household to repay a mortgage across different areas of Attica, the Housing Finance Capacity Index (HFCI) was calculated. The analysis revealed that there were affordable locations in the greater Athens area in 2024; however, the eligible properties may not meet the required technical specifications in all locations. In the unaffordable submarkets of Attica, higher house values are due not only to the better characteristics of these areas, but also to more modern building standards.

Since housing affordability is a crucial social issue, it is essential to seek solutions to support particularly the most vulnerable households. Housing support programmes that have been recently implemented or are currently under way, such as "My Home I and II" and rent subsidies, are a step in the right direction; however, it is estimated that they further boost demand. Interventions aimed at financing the renovation of existing older housing stock also have a twofold effect: on the one hand, they help modernise houses and, on the other, they drive house prices and rents up. The recent restrictions on the Golden Visa programme and the provision of incentives for utilising vacant listed properties, repurposing abandoned commercial properties and investing in real estate development for residential, non-investment use are positive developments that could contribute to increasing the housing supply, as well as to revitalising the urban environment more broadly. Finally, the new regulatory framework for short-term rentals has likely freed up properties for long-term leasing in those

²⁵ In the future, it would be useful to estimate these indicators while taking into account the distribution of household income.

²⁶ According to Bank of Greece Executive Committee Act 227/1/08.03.2024, the cap on the loan-to-value ratio at origination (LTV-O ratio) is set at 90% for first-time buyers and at 80% for all other borrowers. The average LTV-O for 2024, which was used to calculate the HFCI, is 60.9% (Bank of Greece data).

areas where restrictions were imposed (central Municipal Districts of Athens), but it may have shifted investor interest to other areas.

To address the housing crisis, additional measures could be adopted to optimise the use of the available housing stock in a way that benefits both owners and tenants, as well as prospective buyers. Cutting red tape and minimising delays in property transfers, regularisation of unauthorised buildings and urban planning permissions, as well as in related court proceedings, along with a stable legal and tax framework, can provide incentives to reintroduce vacant properties into the housing market and stimulate new residential investment.

The use of State-owned properties to develop affordable housing with the involvement of the private sector can provide a sustainable solution for the most vulnerable households. To this end, the properties to be made available by the State must be located in areas with a housing shortage and the final volume of development projects should be large enough to provide housing for a sufficient number of households.

The housing problem is extremely complex to resolve, requiring broader strategic planning aimed at balanced economic growth and a more even distribution of housing demand across the entire country. Upgrading regional infrastructures and services, completing local urban plans, with a potential inclusion of new areas in city planning, and improving the connection of regional towns and settlements with large cities could gradually enhance the attractiveness of non-urban areas as places of residence. Finally, targeted local interventions in urban areas, including the expansion and operational re-design of fixed-track public transport networks, or the gentrification and repurposing of areas for residential use, could enlarge housing possibilities within the boundaries of cities.

Special Feature

THE GREEK AGRICULTURAL SECTOR: CHALLENGES AND PROSPECTS

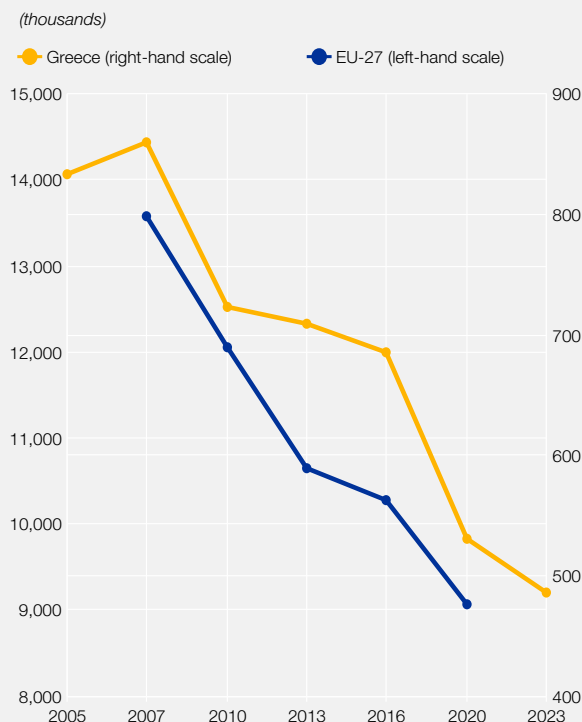
1 INTRODUCTION

Over the years, agricultural policy has mainly focused on ways to support the income of people employed in the primary sector by reducing energy and production costs, by ensuring minimum selling prices for their products and profit margins, as well as by direct payments in the form of subsidies and compensations. The implementation of agricultural policy in Greece has followed the same rationale, with measures primarily aimed at supporting rural income.

However, the primary sector in Greece faces chronic structural weaknesses, which negatively affect its productivity and competitiveness. In addition, it is faced with unprecedented challenges, which are directly linked to labour shortages resulting from the demographic crisis and the widespread destruction of infrastructure and crops due to climate change.¹ It is therefore necessary to approach the problems in a holistic manner, in order to help design a new agricultural policy geared towards the development of rural infrastructure and the introduction of new technologies, aiming to enhance the sector's adaptability and resilience. The ultimate goal should be an improvement in productivity and competitiveness through the modernisation of the agricultural sector, which would, in turn, lead to a permanent increase in agricultural income.

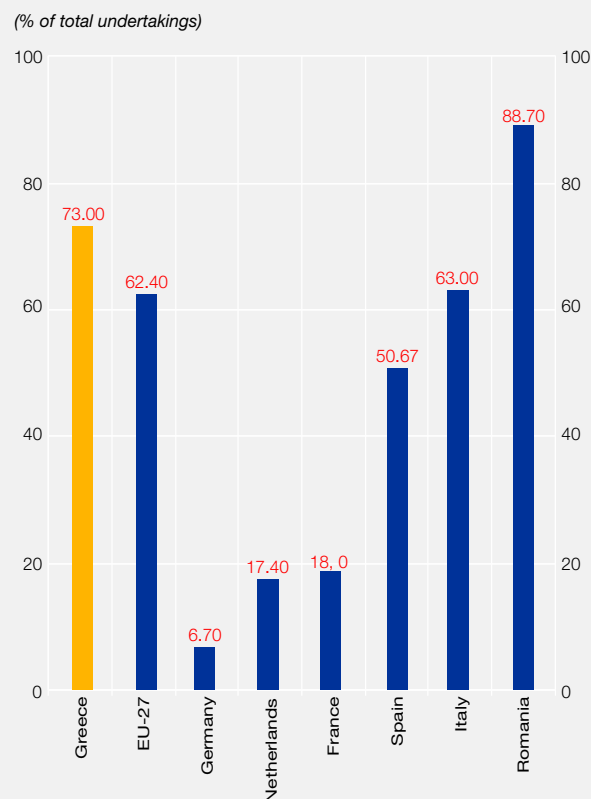
The present analysis aims, first, to present key metrics of the Greek primary sector, second, to briefly describe its special features, structural weaknesses and challenges, and, third, to formulate policy proposals.

¹ For more information on the impact of climate change, see Box A herein.

Chart A Number of agricultural undertakings in Greece and in the EU-27

Source: Eurostat.

Notes: This includes agricultural undertakings engaging in all agricultural activities (crop and animal production, fishing). For the EU-27, the variable refers to the sum of the undertakings of the 27 Member States (first observation: 2007, latest available observation: 2020).

Chart B Percentage of small agricultural undertakings in Greece (compared to the EU-27 and other countries in 2020)

Source: Eurostat and Bank of Greece calculations.

Note: Land area ranging from 0 to 50 stremmas.

2 THE GREEK AGRICULTURAL SECTOR IN FIGURES

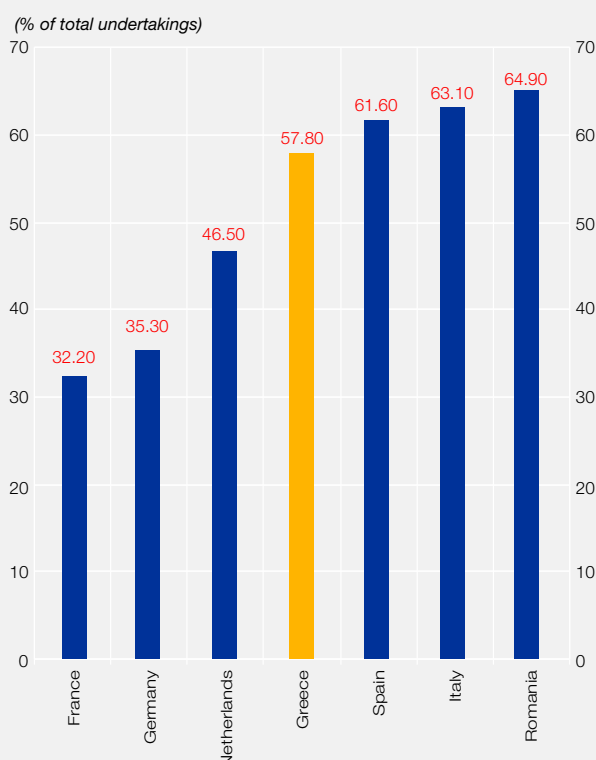
In terms of gross value added, the contribution of the agricultural sector in Greece is particularly low (4.3% – ELSTAT data, March 2026). In terms of employment, agricultural workers make up 11.5% of total employment (World Bank data 2024).

The agricultural sector is weakened by structural imbalances, which have led to low productivity and competitiveness both over the years and against other European economies (see Charts A-F and the table). As shown in Chart A, the number of agricultural undertakings is constantly decreasing, indicating the shrinking of the sector, which is a common feature in both Greece and EU-27.

The main difference between Greece and EU-27 or other European countries is that the sector is overwhelmingly dominated by small holdings. As shown in Chart B, 73% of the total number of agricultural undertakings in Greece does not exceed 50 stremmas (approximately 12.3 acres). Although small holdings account for 62.4% of the total in EU-27, the corresponding share is higher in Greece and this is also true compared with other southern European countries with a similar rural economy structure (Italy and Spain). By contrast, the share is significantly lower in economies with technically advanced agricultural economies, such as Germany, the Netherlands and France. Small holdings have dominated because of the terrain, as mountains interrupt the lowlands, while the State has repeatedly failed to offer appropriate incentives for land consolidation.

Furthermore, more than half of rural undertakings are managed by people over 55 years of age. Although Greece is not the only country with an ageing agricultural workforce, a normal consequence of an ageing population, the

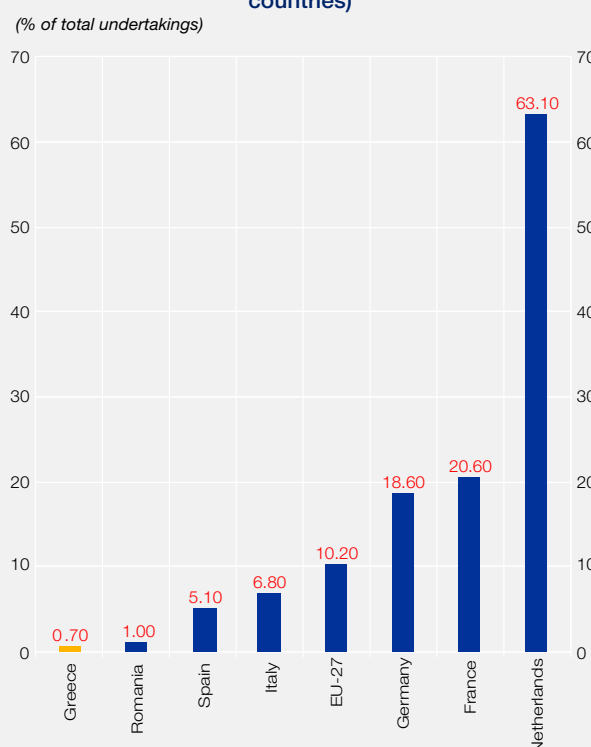
Chart C Percentage of agricultural undertakings where the farmer (owner or tenant) is over 55 years of age in Greece (compared to other countries)



Sources: Eurostat and Bank of Greece calculations.

Notes: Number of agricultural undertakings in operation where the farmer (owner or tenant) belongs to the 55-and-over age group, as a percentage of total undertakings for all agricultural activities (crop and animal production, fishing). The data refer to 2013 (latest available observation).

Chart D Percentage of agricultural undertakings where the farmer (owner or tenant) has completed formal training in Greece (compared to the EU-27 and other countries)



Sources: Eurostat and Bank of Greece calculations.

Notes: Number of agricultural undertakings in operation where the farmer (owner or tenant) has completed formal training, as a percentage of the total undertakings for all agricultural activities (crop and animal production, fishing). EU-27 and Italy data refer to 2020, while data for the remaining countries to 2023 (latest available observation).

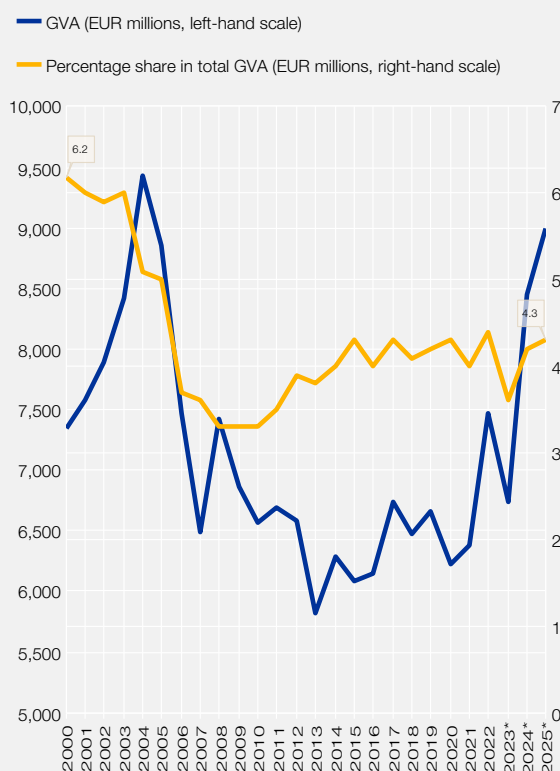
sector's demographics are far worse than in other European countries such as Germany, France or the Netherlands, which, while also suffering from unfavourable demographics, have a much smaller share of people over 55 employed in the agricultural sector (see Chart C).

This difference is even more pronounced when also taking into consideration the level of agricultural training.² Only 0.7% of all agricultural undertakings in Greece (compared to 10% for EU-27) employ people of all age groups with a full agricultural training (see Chart D).

The result of these peculiarities, i.e. small holdings, as well as aged and extremely unskilled workforce, lead to a low value added and a very low share of agricultural value added in total economy in Greece. Indeed, as shown in Chart E, the gross value added (GVA) of the agricultural sector (at constant prices) is highly volatile and does not show a steady upward trend. Moreover, its share in total real GVA of the Greek economy dropped from 6.2% in 2000 to 3.3% at the beginning of the Greek debt crisis in 2008 and has since remained close to these levels (4.3% in 2025), recording a marked stagnation.

Chart F illustrates the stagnant productivity and, consequently, stagnant competitiveness of Greece's agricultural sector against the euro area average. The chart shows the evolution of value added per person employed in the agricultural sector since 1995, which is an indicator of productivity. This indicator measures the economic value

² Full agricultural training: the farmer has completed a comprehensive training programme (equivalent to at least two years full-time) following compulsory education at an agricultural college, university or higher education institution (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Farmers_training_level).

Chart E Gross value added of the agricultural sector in Greece (2000–2025)

Source: ELSTAT.

Notes: GVA = Gross value added of the agricultural sector at basic prices, before taxes and after subsidies, at constant prices of the previous year. The agricultural sector is classified under NACE Rev. 2: 1=crop and animal production, and related service activities, 2=forestry and logging, 3=fishing and aquaculture.
* Provisional data.

generated on average by each worker in the specific economic sector. High values are associated with greater economic growth and prosperity, attractiveness for investment and rising average rural income.

Up until 2005, value added per person employed in Greece was lagging behind, but still followed, the pattern of the corresponding euro area indicator. However, this co-moving pattern was interrupted after 2005: the Greek indicator has remained stagnant at low levels, while the euro area one has followed an upward path; as a result, the “productivity gap” has widened. Indeed, value added per person employed was almost three times lower in Greece in 2023 (compared to less than twice in 1995) than the average value added per person employed in euro area economies.

The same picture emerges from the table, which shows the structural imbalances of the Greek agricultural sector compared to (a) other economies in southern Europe with a similar agricultural structure (Italy and Spain); (b) an economy with a less developed agricultural sector (Romania); and (c) an economy with a technologically advanced agricultural economy (the Netherlands). The ratio of employment in agriculture to its contribution to GDP (column 3) for Greece is 3.05, well above the corresponding indices for Italy, Spain and the Netherlands, which are around 1, and half of Romania’s. This shows the high concentration of labour in the Greek agricultural sector in relation to value added and therefore its low productivity.

Equally revealing is the inverse of the previous indicator, i.e. the ratio of the contribution to GDP to the rate of employment in agriculture (column 4), which measures the value added by an agricultural worker in relation to the value added by a worker in total economy. This indicator is only 0.33 in Greece, the second lowest after Romania, quite far from other countries. To put it plainly, this means that the value created by an agricultural worker in Greece is only 29% of the value created by an average worker in total economy (against 90% in the Netherlands).

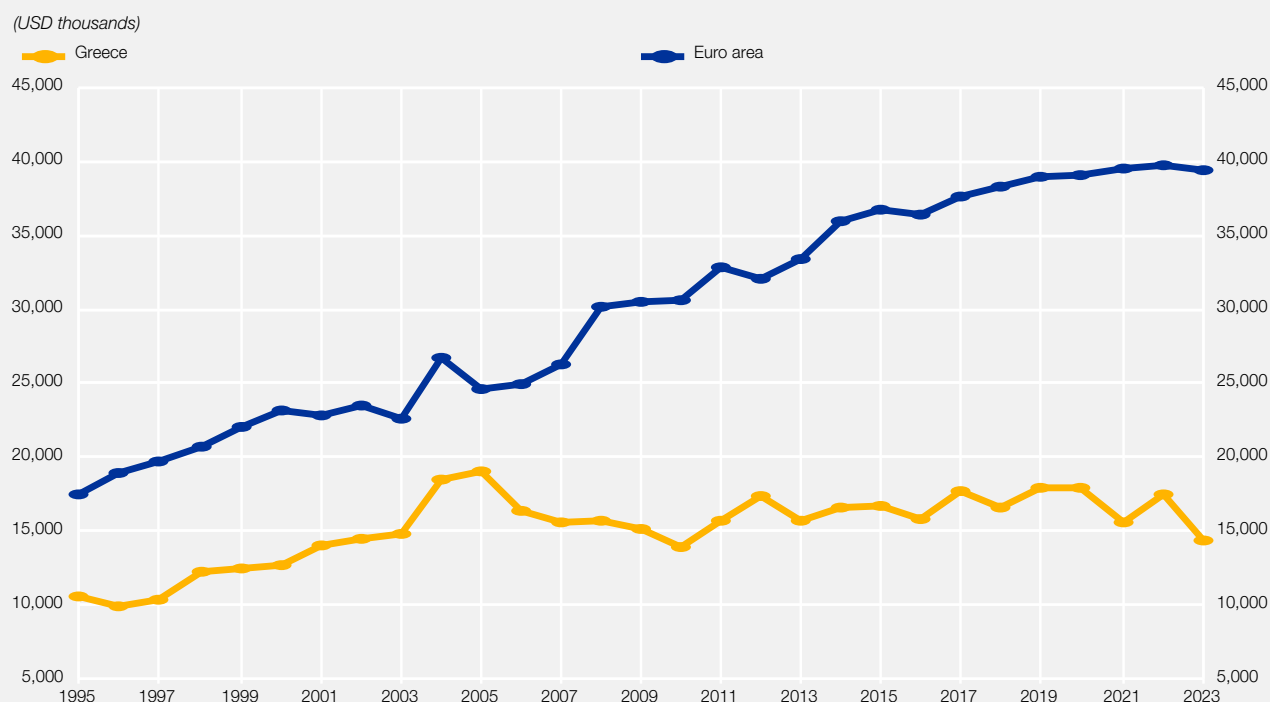
Structural imbalances in Greece’s agricultural sector (compared to other countries)

Countries	Employment (% of total employment)	Contribution to GDP (%)	Concentration of labour (1/2)	Value of produced quantity (2/1)
(1)	(2)	(3)	(4)	
Greece	11.48	3.77	3.05	0.33
Italy	3.59	2.00	1.8	0.56
Spain	3.62	2.75	1.3	0.76
Romania	17.89	2.81	6.4	0.16
Netherlands	1.91	1.72	1.1	0.90

Sources: World Bank, World Development Indicators database, and Bank of Greece calculations.

Notes: Column 1= persons employed in the agricultural sector (all activities and age groups) as a percentage of the total number of persons employed (in total economy), Column 2= gross value added of the agricultural sector as a percentage of GDP (%). Data refer to 2024 (latest available observation).

Chart F Value added per person employed in the agricultural sector in Greece and the euro area (1995–2023)



Source: World Bank, World Development Indicators database.

Notes: Value added in USD at constant 2015 prices, for all agricultural activities (crops and animal production, fishing). 2023 is the latest available observation.

3 POLICY RECOMMENDATIONS

The national agricultural policy, also linked to the climate change strategy, is implemented under the EU Common Agricultural Policy (CAP) with the primary objectives of ensuring fair income and economic viability for farmers through financial aid schemes and safeguarding food security in the EU by promoting quality, cheap and stable food production. Over time, these objectives have been enriched by focusing on sustainability, rational management of natural resources, competitiveness and extroversion of the agricultural sector, as well as preservation of rural areas while adapting to changing economic and climate conditions.³ Taking into account the specificities of agricultural production, the CAP emphasises policies that reduce both business uncertainty and the negative impact on the environment, while fostering sustainability objectives.⁴

The primary sector in Greece remains trapped in a vicious circle of low productivity and structural distortions. Also taking into consideration stagnation, as measured by all available indices, and the challenges posed by population ageing and climate change, it is crucial to immediately prepare a holistic strategic plan within the framework of the CAP, with an emphasis on adapting to changing circumstances and sustainable rural development. Such a plan should clearly define the policy objectives and the means to achieve them.

The overarching objective should be sustainable rural development, which is essential for: (a) facilitating the food supply chain; (b) securing adequacy in terms of food quantity and quality; (c) increasing agricultural

3 See World Economic Forum (2023), “[Scaling agritech at the last mile: converging efforts for farmers’ prosperity](#)”, *Insight Report*, June.

4 European Commission (2025), “[EU agricultural outlook 2025-2035](#)”, December, Directorate-General for Agriculture and Rural Development, Brussels.

income; and (d) boosting food exports. On the demand side, financial support, following transparent and consistent procedures, will help achieve this goal. On the supply side, investing in rural infrastructure, incentivising the pooling of small holdings and encouraging the entry of young, well-trained professionals can play a key role.

Although governments often resort to financial aid schemes to directly support farmers' income, in the form of subsidies or compensations, the effect of this policy is short-term and cannot resolve structural distortions, which have harmful effects of a more permanent nature. Without underestimating financial support as a policy measure, investment in rural infrastructure is the policy instrument that corrects distortions and builds resilience through adaptation, with a positive and permanent impact. An improvement of rural infrastructure includes: (a) modern public infrastructure with a focus on more efficient management of natural resources (e.g. irrigation projects); (b) new technologies with a focus on digitalisation, automation and sustainability, in order to increase production and reduce production costs;⁵ and (c) eliminating the "knowledge gap" through training activities for new entrants, aiming to promote innovation, competitiveness, entrepreneurship and cooperation.⁶

More specifically:

First, artificial intelligence and digital tools can be used to enhance:

- (a) research and development (R&D);
- (b) reliable monitoring and forecasting of soil suitability for agricultural production;
- (c) means and procedures to safeguard agricultural production;
- (d) best practices for a more efficient management of natural resources and of cultivable land; and
- (e) supply chain management, in order to plan ahead and avoid overproduction and waste by balancing supply and demand, as well as to improve the transportation of products.

Second, robotics and computer vision – using autonomous machinery, specialised harvesting robots and drones to detect diseases and perform precision spraying – reduce the problem of labour shortages and allow crops to be managed accurately.

Third, intelligent agriculture (precision farming), including smart irrigation,⁷ variable rate fertiliser and remote sensing applications (e.g. Gaiasense),⁸ which offer real-time insights, improve economic performance for producers while reducing the environmental footprint.⁹

5 For more details on new technologies, see World Economic Forum (2025), "[Shaping the deep-tech revolution in agriculture](#)", *Insight Report*, November, and (2021), "[Artificial intelligence for agriculture innovation](#)", *Community Paper*, March. See also Moysiadis V. et al. (2020), "[Mobile robotics in agricultural operations: a narrative review on planning aspects](#)", *Applied Sciences*, 10, 3453.

6 For such measures at EU level, see European Commission (2025), "[Assessments of generational renewal strategies across EU Member States – Report](#)", Directorate-General for Agriculture and Rural Development, Unit A.3, October.

7 Smart irrigation is an advanced, automated irrigation system that uses data (soil sensors, weather forecasts, satellites) to accurately determine when, where and how much water is needed, thereby optimising water use.

8 Gaiasense is a Greek smart farming system developed by Neuropublic. It is an innovative digital farm advisory tool that combines cutting-edge technologies with scientific knowledge to optimise production. The system is supported by the "Gaia Epicheirein" network and is addressed to both individual farmers and agricultural cooperatives.

9 For more on new technologies and the environment, see IOBE (2025), "Soilless Greenhouse Agriculture in Greece: challenges, prospects and the cases of Central and Northern Greece", June.

Fourth, cultivating in a controlled environment, such as vertical agriculture,¹⁰ hydroponics¹¹ and aeroponics,¹² saves natural resources. The adoption of new technologies provides farmers with the necessary data for preventive actions, thus reducing the cost of reactive action (crop failure, waste of resources). Synergies between new technologies and sustainable farming enable farmers to manage climate change while improving productivity. However, the integration of new technologies requires the cooperation of all stakeholders, such as legislators, governments, farmers, agricultural cooperatives, investors and high-tech companies.

In more detail, exploiting the potential of agrotechnology requires recognising the challenges that arise from the application of new technologies, especially for smallholders or small and medium-sized agricultural enterprises. Multistakeholder collaboration is essential in order to effectively bridge the gaps in awareness, access and widespread adoption of new technologies.¹³ In particular, it is necessary to: (a) establish a governance framework in order to set up a data sharing infrastructure, as well as a regulatory framework for the use of new technologies; (b) facilitate the cooperation with tech firms in the development and adaptation of applications to address the challenges in accordance with national priorities; (c) re-engineer the rural business model by encouraging the adoption of new ways of production; (d) integrate agricultural training and strengthen its link with food processing; and (e) mobilise investment and properly evaluate both risks and economic and social benefits.

Furthermore, initiatives should immediately and jointly be taken by institutional bodies and farmers with the aim of restructuring crops, taking into account not only the changes in consumption over time, as expressed by the forces of demand, but also the effects of climate change, as reflected in the forces of supply.

Given the very small size of agricultural undertakings and farms, it is necessary to encourage land consolidation and the creation of large cooperatives that will operate on the basis of private economy criteria, in order to take full advantage of economies of scale. These, in turn, require faster completion of cadastral registration and acceleration of reparcelling. This is the way to address property fragmentation.

Economies of scale are important for economies with very small agricultural holdings, such as Greece, as they can render small farms more effective and profitable. There are multiple benefits in increasing the size of agricultural undertakings. First, production volume increases, average production costs decrease, and fixed operating costs are shared. At the same time, this ensures better raw material prices for the producer and more competitive prices for the final consumer, increases the bargaining power of producers vis-à-vis suppliers and strengthens resilience to price fluctuations. Also, the workforce becomes more specialised and production more vertical, thereby increasing value added with the ultimate benefit of improving productivity and efficiency in the primary sector. At the same time, however, it is necessary to clearly redefine the farming profession: farmers will operate in an environment where they will be able and willing to introduce modern business models and take investment risks. In this context, recasting the CAP as a lever for modernisation and innovation of the agricultural sector, rather than a simple rural income support tool, is considered crucial.

10 Vertical agriculture is a form of urban agriculture that works by placing plants in vertically stacked layers within specialised greenhouses, allowing a significant increase in planting density without reducing access to light and air.

11 Hydroponics is a method of growing plants outside the soil, without the use of soil but with alternative substrates.

12 Aeroponics, an advanced form of hydroponics, is used for growing soilless plants, where roots are suspended in a closed environment and periodically sprayed with nutrient solutions.

13 See also World Economic Forum (2025), op. cit., p. 37.

Box A

ASSESSMENT OF THE IMPACT OF CLIMATE CHANGE ON AGRICULTURE

The impact of climate change is already apparent and is expected to significantly affect the type, quantity and quality of agricultural products. In this context, agro-climatic zones might move northwards and the start of the

growing season might change. In addition, climate change is gradually degrading the soil quality, affecting its fertility and increasing its erosion, which is expected to reduce the nutritional value of agricultural products, increase the occurrence of agricultural pests and diseases, and worsen the health and metabolic activity of animals. In addition, higher temperatures and prolonged droughts, compounded by limited rainfall, restrict the availability of water resources and the possibility of irrigation, which, in turn, causes uncertainty for the future of agriculture and increases food insecurity.^{1,2}

Overall, climate change increases output volatility, amplifies price fluctuations, undermines food security and turns agricultural risk into fiscal risk in the form of more frequent compensations and emergency measures. On the economic side of the impact, climate risks for the agricultural sector in the EU are already translating into significant and recurrent economic losses. The current estimated average annual loss for the EU is EUR 28.3 billion, corresponding to around 6% of annual crop and animal production.³ In addition, 50% of the damage to agriculture related to climate risks is due to drought episodes.⁴ In terms of labour force, climate change also directly affects agricultural labour productivity. The European Commission's Joint Research Centre (JRC) estimates a 1.6% decline in labour productivity in Europe by 2080 due to heat stress among workers, with the southern and eastern regions most affected (down by up to 5.4% in Greece).⁵

Proposals for climate adaptation measures

The above impact makes it imperative to adopt adaptation measures that strengthen the resilience of agriculture. At national level, in 2016 the [National Adaptation Strategy \(NAS\)](#)⁶ was adopted as a central policy-making framework to strengthen Greece's resilience, setting the main directions and priorities at sectoral level, including in the agricultural sector. These guidelines are specified and implemented at regional level through the Regional Adaptation Action Plans (RAAPs), which take into account the specific climatic, geomorphological and production conditions of each region. Below are indicatively the proposed adaptation measures described in both the NAS and the [published RAAPs](#).⁷

- Adaptation of farming practices: (a) introduction and diffusion of resistant varieties and hybrids; (b) adaptation of planting and harvesting dates; and (c) promotion of agroforestry systems.
- Water resources management: (a) construction and improvement of reservoirs, tanks and micro-dams for reserve water supply; (b) review of irrigation zones and prioritisation of sectors and crops in water scarcity conditions; and (c) implementation of rain and treated water reuse measures for irrigation.
- Improving soil health and addressing desertification and erosion: (a) soil conservation and erosion control measures (terraces, vegetative strips and protective buffer zones); (b) recovery and improvement of soil organic matter; and (c) implementation of bio-waste management practices.
- Integrated monitoring of climate change indicators, information systems and early warning: (a) creation and enhancement of agricultural data recording systems (drought monitoring, yield monitoring, plant health, invasive alien species); (b) disease and pest monitoring and prediction networks; and (c) digital information and early warning platforms for farmers.

1 European Environment Agency (EEA), [Climate change adaptation in the agriculture sector in Europe](#), Report 04/2019.

2 Karamanos, A. et al. (2026), "Study of the projected impact of climate change on crop farming", forthcoming (in Greek).

3 The current estimate of the average annual loss includes losses of EUR 17.4 billion on crops (6.4% of total crop production in the EU) and EUR 10.9 billion on livestock (5.1% of animal production in the EU). The sample includes the simulation of no-loss, medium-loss and very high-loss years.

4 fi-compass (2025), "Insurance and risk management tools for agriculture in the EU", May.

5 Szewczyk, W., I. Mongelli and J.-C. Ciscar (2021), "Heat stress, labour productivity and adaptation in Europe – A regional and occupational analysis", *Environmental Research Letters*, 16(10).

6 [Law 4414/2016](#) on a new support scheme for renewable energy sources power plants and high efficiency combined heat and power plants – provisions on the legal and functional unbundling of the supply and distribution sectors in the natural gas market and other provisions (in Greek).

7 Karamanos, A. et al. (2026), op. cit.

- Research, innovation and transfer of know-how: (a) vulnerability assessment studies of specific crops and areas; (b) promotion of research into resistant varieties, water loss mitigation techniques and digital agriculture; and (c) creation and enhancement of gene banks and preservation of local varieties adapted to drought and elevated temperatures.
- Spatial planning, infrastructure and access to markets: (a) development of local units for the exploitation of agricultural residues (composting, bioenergy) to improve the soil and reduce dependence on inputs; (b) development of protected cultivation with the application of new modern technologies (e.g. hydroponics); and (c) protection of rural infrastructure (roads, storage areas) from extreme events.
- Financial instruments and risk insurance: (a) design and promotion of insurance products for climate risks (floods, drought, frost); and (b) incentives and subsidies for adaptive investments with a focus on prevention (e.g. precision irrigation, greenhouses).

Box 12

THE RULE OF NATIONALLY FINANCED NET PRIMARY EXPENDITURE: AN OPERATIONAL TOOL FOR MONITORING FISCAL PERFORMANCE

The recent reform of the European economic governance framework marks a significant shift in the rationale and practice of fiscal surveillance in the European Union. For a long time, the fiscal framework was based on complex and often unobservable indicators – such as the structural balance and the estimated output gap – while the fiscal targets set were criticised for not taking sufficient account of Member States' specificities. The revised framework seeks to enhance the effectiveness and credibility of fiscal rules by focusing on a single monitoring indicator, which serves as a tool for conducting and monitoring fiscal policy towards the achievement of the targets set separately for each Member State.¹

At the heart of the new framework lies the nationally financed net primary expenditure rule, which serves as a single operational indicator of compliance with the new fiscal rules. This rule directly links the conduct of short- and medium-term fiscal policies to a sustainable reduction of public debt, while ensuring that budget deficits remain comfortably below the thresholds set by the Stability and Growth Pact.

The choice of an expenditure rule as a key fiscal surveillance tool reflects the effort to focus on that part of the budget that is under the direct control of the government. Net primary expenditure is not automatically affected by the economic cycle or by factors unrelated to fiscal policy such as debt-servicing costs. This allows for a clearer assessment of the fiscal stance, reduces uncertainty associated with unobservable variables and enhances the transparency of fiscal surveillance.²

This box aims to highlight the practical application of the expenditure rule as the main operational tool for monitoring fiscal performance. To this end, it provides a brief overview of how the rule is calculated and applied. Particular emphasis is placed on monitoring compliance with medium-term budgetary commitments. Finally, the recent Greek experience is used to demonstrate how the rule can combine fiscal discipline with flexibility, as well as how permanent improvements on the revenue side can create fiscal space within the existing rules.

1 [Regulation \(EU\) 2024/1263](#) of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97.

2 See Eyraud, L., X. Debrun, A. Hodge, V. Lledó and C. Pattillo (2018), “[Second-generation fiscal rules: Balancing simplicity, flexibility, and enforceability](#)”, IMF Staff Discussion Note SDN/18/04, and Arnold, N., R. Balakrishnan, B. Barkbu, H. Davoodi, A. Lagerborg, R.W. Lam, P. Medas, J. Otten, L. Rabier, C. Roehler, A. Shahmoradi, M. Spector, S. Weber and J. Zettelmeyer (2022), “Reforming the EU fiscal framework. Strengthening the fiscal rules and institutions”, IMF Departmental Paper DP/2022/014. For more details, see Box V.1 “The key features of fiscal expenditure rules”, *Annual Report 2023*, Bank of Greece, April 2024.

Net expenditure rule: definition and operation

The operational definition of the expenditure rule aims to isolate discretionary fiscal policy from exogenous or cyclical factors. The growth rate of net primary expenditure is calculated in four steps:³

1) Calculation of the level of net primary expenditure (before discretionary revenue measures):

$$NPE_t = E_t - I_t - U_t - E_t^{EUfunded} - E_t^{nat.cofinanced} - Oneoff_t^E$$

where NPE_t denotes nationally financed net primary expenditure (before discretionary revenue measures); E_t total general government expenditure; I_t interest payments; U_t cyclical expenditure on unemployment benefits; $E_t^{EUfunded}$ expenditure on programmes fully funded by EU resources; $E_t^{nat.cofinanced}$ national expenditure on co-financing of EU programmes; and $Oneoff_t^E$ one-offs and other temporary expenditure (e.g. for natural disasters).

2) Calculation of the change in net primary expenditure (before discretionary revenue measures):

$$\Delta NPE_t = NPE_t - [NPE_{t-1} / (1 + g_t)], \text{ where } g_t \text{ denotes the nominal GDP growth rate.}$$

3) Calculation of the change in net primary expenditure (after discretionary revenue measures):

$$\Delta NPE_t^* = \Delta NPE_t - DRM_t + (Oneoff_t^R - Oneoff_{t-1}^R)$$

where DRM_t (Discretionary Revenue Measures) denotes additional discretionary revenue measures⁴ and $Oneoff_t^R$ denotes one-offs and other temporary revenue measures.

4) Calculation of the growth rate of net primary expenditure (after discretionary revenue measures):

$$\text{growth rate } (\Delta NPE_t^*) = \{\Delta NPE_t^* / NPE_{t-1} / (1 + g_t)\} * 100$$

In the revised economic governance framework, the net expenditure rule is applied through the maximum allowed growth rate for net expenditure and translates fiscal adjustment into a specific expenditure growth ceiling. The rule sets out in advance the maximum permitted growth rate of net primary expenditure, which is included in the national medium-term fiscal-structural plan (MTFSP). The “reference trajectory” of net primary expenditure is set in a way that ensures government debt sustainability over the medium term, as the required fiscal adjustment is determined on the basis of debt dynamics and translates into an expenditure growth ceiling.⁵ In particular, the maximum permitted growth rate of net primary expenditure is determined by the required structural adjustment implied by the Debt Sustainability Analysis (DSA):

$$\text{growth rate } (\Delta NPE_t^{max}) = g_t^{pot} + \pi_t - \beta_t,$$

where $\beta_t = [\Delta SPB_t^{req} / (PE_{t-1} / GD_{t-1})]$; $\text{growth rate } (NPE_t^{max})$ is the maximum permitted growth rate of net primary expenditure; g_t^{pot} is potential GDP growth (in real terms); π_t is inflation (GDP deflator); ΔSPB_t^{req} is the annual required

3 See Box 1: Derivation of the new net expenditure indicator and of the control account, “Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States”, European Commission Staff Working Document, SWD(2025) 951 final, 25.11.2025.

4 The deduction of discretionary revenue measures works in both directions: revenue-increasing measures have a dampening effect on net expenditure, while revenue-decreasing measures increase net expenditure. Additional expenditure above the defined threshold can only be financed through additional discretionary revenue measures.

5 For more details on the identification of fiscal adjustment needs in line with the new European economic governance framework, see Chapter V Special Feature “The new fiscal rules in the context of the EU economic governance reform”, Bank of Greece, *Annual Report 2023*, April 2024.

change in the structural primary balance⁶ (in percentage points (pps) of GDP); and (PE/GDP) is the ratio of primary expenditure to GDP. The above formula also clarifies the relationship between the net expenditure indicator and the structural primary balance, as it implies that the latter remains unchanged as a percentage of GDP when net primary expenditure grows in line with the nominal potential GDP.⁷

The effect of discretionary revenue measures on the expenditure growth ceiling depends solely on their permanent or temporary nature. Discretionary revenue measures are legislative or administrative responses on the revenue side and are estimated in terms of annual change in revenue. Where they are permanent, they affect the structural primary balance and, consequently, the size of the adjustment required to ensure public debt sustainability. Through this mechanism, they alter the expenditure growth ceiling without jeopardising fiscal stability. By contrast, temporary revenue measures cannot support a sustainable change in expenditure. This highlights the importance of permanent revenue-increasing measures for the credibility and sustainability of fiscal policy, especially when such measures result from systematic efforts to combat tax evasion and social security contribution evasion, which create permanent fiscal space by broadening the tax base while also strengthening social equity.

Monitoring and compliance: the control account

The control account is the main mechanism for monitoring compliance with the reference trajectory of net primary expenditure. It is an indicator systematically monitored by the European Commission in the context of the European Semester's fiscal surveillance. Under the new fiscal framework, the assessment of fiscal policy is not based on strict annual adherence to the expenditure growth ceiling but, rather, provides a margin for net primary expenditure to deviate from the approved reference trajectory over the medium term. The control account records the deviations (as a percentage of GDP) of net expenditure outturns from the recommended path, allowing to track the overall fiscal performance against the MTFSP commitments. A negative balance denotes a shortfall (under-execution) relative to the agreed trajectory (implying a positive carryover effect and thus additional fiscal space), while a positive balance indicates an excess (over-execution) and a potential risk of non-compliance with the rule.

The operation of the control account combines flexibility with clear safeguards. A deviation is considered acceptable provided that it does not exceed 0.3% of GDP on an annual basis or 0.6% of GDP cumulatively. Within these limits, deviations can be absorbed without an immediate activation of corrective measures, allowing a smooth adjustment of fiscal policy to the economic cycle. Once the cumulative deviation exceeds the determined limits, the obligation to take corrective measures is triggered, in order to bring the net expenditure path back onto a trajectory consistent with public debt sustainability.

The limits of the control account explain why fiscal overperformance does not automatically translate into additional fiscal space for expenditure. Under the new rules, compliance is assessed not on the basis of the annual budget balance, but on the basis of the cumulative deviation of net expenditure growth from the reference trajectory approved in the MTFSP. Even when a better-than-expected fiscal performance is recorded, the possibility of converting it into a higher expenditure growth ceiling in subsequent years depends on whether the cumulative deviation reflected in the control account remains within the pre-defined limits. This prevents temporary fiscal space from being automatically converted into permanent expenditure increases and ensures that fiscal flexibility is linked only to sustainable (i.e. permanent/structural) improvements in public finances.

The deviations recorded in the control account directly affect the future expenditure growth ceiling. Cumulative upward deviations imply stricter constraints on the maximum allowed growth rate of expenditure in the following

6 According to the European Commission, the structural primary balance is defined as the primary balance adjusted for the effects of the economic cycle (i.e. the cyclically adjusted primary balance), net of one-off and other temporary fiscal measures. Under the new European fiscal rules, the fiscal adjustment required to meet the various sustainability criteria is defined in terms of an improvement in the structural primary balance. For more details, see Chapter V Special Feature "The first implementation cycle of the new EU fiscal rules: challenges, strategies and conclusions", Bank of Greece, *Annual Report 2024*, April 2025.

7 See also Box 5.1 "Technical assumptions for the MTP scenario", European Commission (2026), "Debt Sustainability Monitor 2025", Institutional Paper 332, p. 116.

years. On the contrary, cumulative downward deviations can create additional room for flexibility, provided that the overall fiscal adjustment is not jeopardised.

Overall, the control account transforms the expenditure rule from a narrow annual constraint into a medium-term compliance mechanism, with an enhanced countercyclical nature compared to the previous fiscal framework. Thus, flexibility in annual budget implementation allows the absorption of temporary economic fluctuations, while ensuring that the fiscal path (in cumulative terms) remains consistent with fiscal discipline and the sustainable downward path of public debt.

The implementation of the expenditure rule in Greece in 2024-25: empirical conclusions

Greece's fiscal overperformance in 2024-25 is clearly captured by the application of the expenditure rule. The assessment of fiscal performance is reflected both in higher primary surpluses and faster debt reduction than initially projected, as well as in the actual path of nationally financed net primary expenditure relative to the reference trajectory under the 2025-28 MTFSP.

In 2024 – the year of transition to the new revised fiscal framework – there was a significant underperformance of net expenditure relative to the reference trajectory. The growth rate of net primary expenditure stood at -0.2% (compared with a projected growth of 2.6% according to the reference MTFSP trajectory) (Table, rows: 12, 13). In nominal terms, net expenditure decreased by around EUR 0.2 billion, compared with a projected increase of EUR 2.5 billion, which represents a substantial deviation of primary expenditure below the agreed ceiling (Table, rows: 10, 13b). This deviation was mainly due to the additional discretionary revenue measures of 2024. More specifically, revenues of EUR 2 billion (or 0.8% of GDP) were recorded in 2024 (Table, rows: 9, 9a) on the back of permanent policy measures, including structural interventions to combat tax evasion and social security contribution evasion, which dampened the growth rate of net expenditure under the expenditure rule. As a result, higher revenues translated into lower growth (or even a decline) in net expenditure. Fiscal performance in 2024 is reflected in the control account as a significant carryover effect, creating additional fiscal space. More specifically, the control account stood at -1.2% of GDP (or EUR 2.8 billion) in 2024 (Table, rows: 14, 15). Approximately two-thirds of this space came from the additional discretionary revenue measures of 2024, while the remainder is attributable to the shortfall of net expenditure relative to the reference trajectory.

According to the European Commission estimates, the annual expenditure growth ceiling is projected to be slightly overshoot in 2025, without compromising cumulative compliance. Net expenditure growth in 2025 is expected at 3.9%, marginally above the reference trajectory of 3.7%. On a cumulative basis, however, net expenditure is projected to increase by 3.7% over 2024-25, significantly below the 6.4% MTFSP ceiling (Table, rows: 12, 13), while, in nominal terms, the cumulative increase (EUR 3.6 billion or 1.4% of GDP) remains almost 40% below the original forecast (Table, rows: 10, 10a, 13b, 13c).

The control account explains why fiscal space should be used gradually rather than automatically. The room for increasing nationally financed net primary expenditure, as recorded in the control account, was largely created by the 2024 permanent discretionary revenue measures. The cumulative balance of the control account remains negative in 2025 (-1.0% of GDP or EUR 2.5 billion) (Table, rows: 14, 15), suggesting that only a small part of the 2024 fiscal space was used in 2025 (0.1% of GDP), within the limits set.⁸ Most of the fiscal overperformance in 2024 is still available and is estimated to have been carried over into 2025. In line with the measures announced at the latest Thessaloniki International Fair (September 2025) and included in the 2026 Budget, the estimated fiscal space (as reflected in the control account) is projected to be gradually used over 2026-27 (subject to the constraints of the expenditure rule).

The application of the expenditure rule and permanent discretionary revenue measures translate into higher and sustainable primary surpluses. Keeping the growth of nationally financed net primary expenditure below the reference trajectory, together with strengthening revenue through permanent discretionary revenue measures, im-

⁸ According to the European Commission, the flexibility provided by the activation of the national escape clause for increased defence spending adds 0.1% of GDP to the balance of the control account.

Expenditure rule (European Commission estimates)

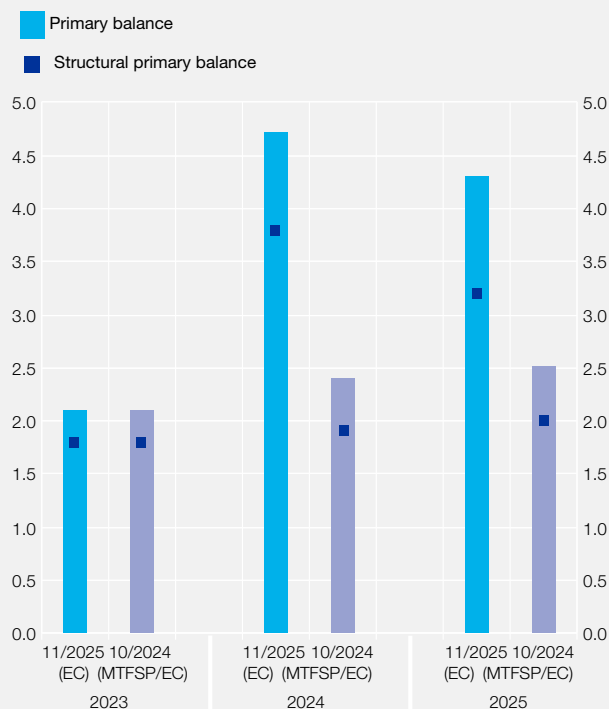
Expenditure rule	Unit count	2023 (a)	2024 (b)	2025 (c)	2024-25 (d)
1 General government public expenditure	(EUR billions)	111.5	114.2	120.4	
2 Interest payments	(EUR billions)	7.6	8.2	8.1	
3 Cyclical unemployment expenditure	(EUR billions)	0.3	0.1	0.0	
4 Expenditure fully funded by European resources	(EUR billions)	5.7	6.1	8.5	
5 National co-financing of European programmes	(EUR billions)	0.7	0.7	0.8	
6 Exceptional/temporary expenditure	(EUR billions)	0.3	0.4	0.4	
7=1-2-3-4-5-6 Nationally financed net primary expenditure (before discretionary revenue measures - DRMs)	(EUR billions)	96.9	98.7	102.6	
8 Δ (Nationally financed net primary expenditure) (before discretionary revenue measures)	(EUR billions)		1.8	3.9	5.7
9 Discretionary revenue measures (additional)	(EUR billions)		2.0	0.1	2.1
9a=9/16*100 Discretionary revenue measures (additional)	(% of GDP)		0.8	0.0	0.8
10=8-9 Δ (Nationally financed net primary expenditure) (after discretionary revenue measures - DRMs)	(EUR billions)		-0.2	3.8	3.6
10a=10/16*100 Δ (Nationally financed net primary expenditure) (after discretionary revenue measures - DRMs)	(% of GDP)		-0.1	1.5	1.4
11=7+100 Nationally financed net primary expenditure (after discretionary revenue measures)	(EUR billions)	96.9	96.7	100.5	
12 % Δ (Nationally financed net primary expenditure) (after discretionary revenue measures - DRMs)	Change (in %)		-0.2	3.9	3.7
13 Reference trajectory: % Δ (Nationally financed net primary expenditure)	Change (in %)		2.6	3.7	6.4
13a Reference trajectory: Nationally financed net primary expenditure (after discretionary revenue measures)	(EUR billions)	96.9	99.4	103.1	
13b Reference trajectory: Δ (Nationally financed net primary expenditure) (after discretionary revenue measures)	(EUR billions)		2.5	3.7	6.2
13c=13b/16*100 Reference trajectory: Δ (Nationally financed net primary expenditure) (after discretionary revenue measures)	(% of GDP)		1.1	1.5	2.5
14=(12-13)*7 Deviation	(EUR billions)		-2.8	0.2	-2.5
15=14/16 Control account	(% of GDP)		-1.2	0.1	-1.0
16 Nominal GDP	(EUR billions)		236.7	248.3	

Source: Table 8.4 Net expenditure (outturn and forecast), annual and cumulated deviations vis-à-vis the recommendation, "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, SWD(2025) 951 final, 25.11.2025.

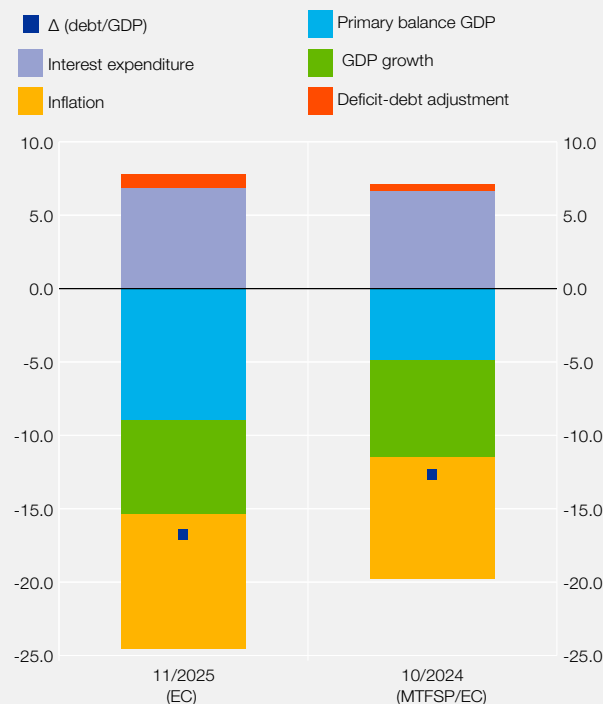
proves the structural primary balance and enhances the overall fiscal performance.⁹ In this way, the expenditure rule does not operate in isolation; rather, it is linked to key fiscal variables, explaining why the overperformance recorded in primary surpluses reflects permanent fiscal improvements rather than cyclical developments. In particular, the primary surplus stood at 4.7% of GDP in 2024 and at 4.3% of GDP in 2025, according to European Commission estimates (November 2025), compared with forecasts of 2.4% and 2.5% respectively in the MTFSP. In structural terms, the primary surplus is estimated at 3.8% of GDP in 2024 and at 3.2% of GDP in 2025, significantly exceeding the initial forecasts by 1.9 and 1.2 pps of GDP in 2024 and 2025 respectively (see Chart A).¹⁰

9 Overall, the net primary expenditure path affects the budget balance as follows: a lower (higher) growth rate of the expenditure indicator implies a higher (lower) primary surplus.

10 It should be noted that the fiscal adjustment in terms of improvement in the structural primary balance Δ (SPB) realised in 2024 (2 pps of GDP) more than covered (almost by 5 times) the adjustment required to comply with the debt sustainability criteria under the new fiscal rules.

Chart A Primary balance and structural primary balance*(% of GDP – European Commission estimates)*

Sources: European Commission (EC), "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, 25.11.2025, "Fiscal Statistical Tables providing relevant background data for the assessment of the 2025 Draft Budgetary Plans", European Commission Staff Working Document, 26.11.2024, and Greek Ministry of Economy and Finance, MTFSP 2025-2028, October 2024.

Chart B Cumulative change in the debt-to-GDP ratio and components (2024-2025)*(percentage points of GDP – European Commission estimates)*

Sources: European Commission (EC), "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, 25.11.2025, "Fiscal Statistical Tables providing relevant background data for the assessment of the 2025 Draft Budgetary Plans", European Commission Staff Working Document, 26.11.2024, and Greek Ministry of Economy and Finance, MTFSP 2025-2028, October 2024.

As a result, the fiscal stance¹¹ was much more restrictive in 2024 and more expansionary in 2025 than initially estimated.

Improved public finance dynamics confirm a faster-than-expected reduction in public debt. The cumulative decline in the debt-to-GDP ratio over 2024-25 is estimated to be larger than initially expected (by 4 pps of GDP), mainly reflecting the strong contribution of higher primary surpluses, as well as favourable effects from higher inflation (see Chart B). It is worth noting, however, that the build-up of cash buffers (as reflected in the "deficit-debt adjustment"), which is directly linked to the rationale of the new rules, is projected to partly offset the debt-reducing effect of higher surpluses and the favourable interest rate-growth differential (snowball effect).

Conclusions

The Greek experience of 2024-25 shows how the expenditure rule works in practice, combining fiscal discipline with flexibility. The significant shortfall of net expenditure in 2024, together with the expected fiscal outcomes in 2025, are assessed through the control account on a cumulative basis, allowing for a gradual use of fiscal space.

¹¹ According to the European Commission, the fiscal stance is defined as a measure of the annual change in the underlying budgetary position of general government and can be used to assess the impact of fiscal policy on an economy's aggregate demand. It aims to capture the fiscal impulse resulting from fiscal policies, both those financed by national resources and by the EU budget (see Box 2: Derivation of the indicator of the fiscal stance, "Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States", European Commission Staff Working Document, SWD(2025) 951 final, 25.11.2025).

This mechanism ensures that flexibility in annual budget implementation does not undermine medium-term fiscal adjustment and the sustainable downward path of public debt.

The expenditure rule provides an operational framework for the conduct of fiscal policy that rewards permanent fiscal improvements. The Greek case highlights that the systematic fight against tax evasion and social security contribution evasion, through structural measures, can create sustainable fiscal space in the context of the new rules. The structural improvement in public finances translates into higher primary surpluses, faster debt reduction and the possibility of adopting targeted expansionary fiscal policy interventions, without compromising fiscal stability, while also enhancing the credibility and effectiveness of economic policy.

Box 13

THE CONTRIBUTION OF FINANCIAL INSTRUMENTS AND THE RECOVERY AND RESILIENCE FACILITY LOANS TO BANK FINANCING OF DOMESTIC CORPORATIONS

During 2025, bank financing to domestic non-financial corporations (NFCs) and sole proprietors was supported by the ongoing utilisation of modern financial instruments, as well as the acceleration in disbursements under the loan component of the Recovery and Resilience Facility (RRF). The share of these schemes in credit expansion to domestic NFCs was slightly enhanced compared with previous years.

More specifically, disbursements of corporate loans by domestic credit institutions associated either with financial instruments or the RRF loan component accounted for 29%¹ of the value of new bank financing to NFCs and sole proprietors in 2025 (see Chart A), compared with 27% in 2024. This implies a gradual shift in the financing mix towards a combination of private, public and European resources. Between the two sub-categories – financial instruments and RRF loans – the contribution of the former was slightly higher. It should be noted that a significant share of RRF loan disbursements related to contracts signed in previous years.

Developments in 2025

(a) Financial instruments

Financial instruments maintained a significant role in the financing of domestic NFCs during the past year. Loan disbursements to NFCs and sole proprietors under programmes offered by the European Investment Bank Group (EIB Group)² and the Hellenic Development Bank (HDB) amounted to EUR 4.0 billion, slightly higher compared with 2024 (EUR 3.7 billion, see Chart B) and substantially above the level recorded in 2023 (EUR 2.0 billion). The share of business loans related to financial instruments in total new business bank financing stood at 17%³ (see Chart A), compared with 16% in 2024 and 11% in 2023.

Out of the total amount disbursed, EUR 3.0 billion (75% of the amount, see Chart B) was directed to micro, small and medium-sized enterprises (SMEs). This development confirms the pivotal role of financial instruments in improving smaller firms' access to bank financing, particularly in an environment characterised by higher borrowing costs and stricter lending criteria. Loan disbursements linked to financial programmes for these firms accounted for 40% of the value of new business loans to SMEs, close to the share recorded in 2024 and substantially above

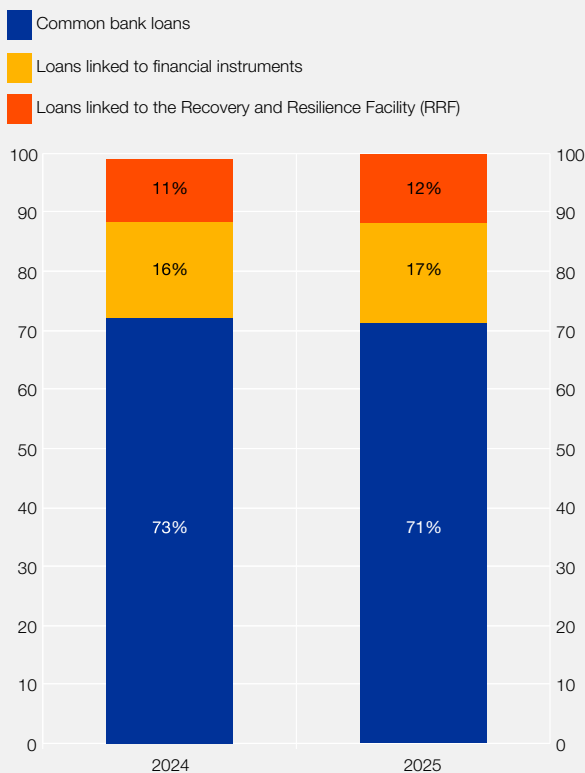
1 The ratio is calculated as the value of disbursed bank loans granted by domestic credit institutions with the support of the financial instruments or the RRF (including loans financed through public resources – fiduciary loans) relative to the total value of new fixed-maturity bank loan agreements. The total value of new contracts excludes amounts related to debt restructuring, while includes amounts granted through public resources.

2 The EIB Group consists of the European Investment Bank (EIB) and the European Investment Fund (EIF).

3 The ratio calculated in the manner defined in footnote 1, with the exception that the numerator includes only loans granted with the support of financial instruments.

Chart A Contribution of financial instruments and the Recovery and Resilience Facility to bank financing of non-financial corporations

(percentages % per annum)



Source: Hellenic Development Bank, Hellenic Bank Association and Bank of Greece calculations.

Note: The contribution is defined as the value of loan disbursements linked to the financial instruments (or RRF) relative to the value of all new bank loans to NFCs granted by domestic credit institutions (including fiduciary loans).

such business bank loans amounted to EUR 3.5 billion,⁵ compared with EUR 2.6 billion in 2024 (see Chart C) and substantially lower amounts in 2023. Out of the above disbursed amount, approximately EUR 2 billion concerned public funds, while the remainder originated from bank funds under the envisaged co-financing arrangements.⁶

On a cumulative basis, by the end of 2025 loan disbursements exceeded 50% of the total value of signed loan agreements, compared with approximately 40% at end-2024 and 22% at end-2023. This suggests that the observed acceleration in disbursements is strongly associated with a release of loan instalments linked to agreements concluded in previous years. Given the investment orientation of RRF loans and their characteristic of gradual disbursement process (depending on the implementation progress of investment projects), the increased disbursement activity in 2025 mainly reflects progress in projects approved at earlier phases of the programme.

the share (25%) recorded in 2023. The share for SMEs is more than double the respective share for all NFCs. Indicatively, under the TEPIX III programme alone more than 90% of granted loans targeted enterprises with an annual turnover below EUR 10 million and fewer than 50 employees.⁴

By category of instrument, the largest share (approximately 70%) concerned guarantee schemes, while the remaining 30% involved co-financing schemes and micro-credit facilities. Under guarantee programmes, the Greek State or European organisations (e.g. the EIB Group) assume part of the credit risk, thereby contributing to lower collateral requirements and facilitating access to financing. In 2025, additional reductions in interest rate margins were introduced in several programmes, contributing to the containment of nominal borrowing costs for beneficiary firms.

Among the individual programmes, the largest contributions in terms of disbursements were related to the “InvestEU SME Competitiveness” programme of the EIF, the guarantee component of the “Entrepreneurship Fund” of the HDB and the “EIB Loan Risk Sharing Enhanced Support” programme to mid-caps of the EIB. Taken together, these programmes accounted for almost half of the total value of disbursements through financial instruments in 2025.

(b) Recovery and Resilience Facility (RRF)

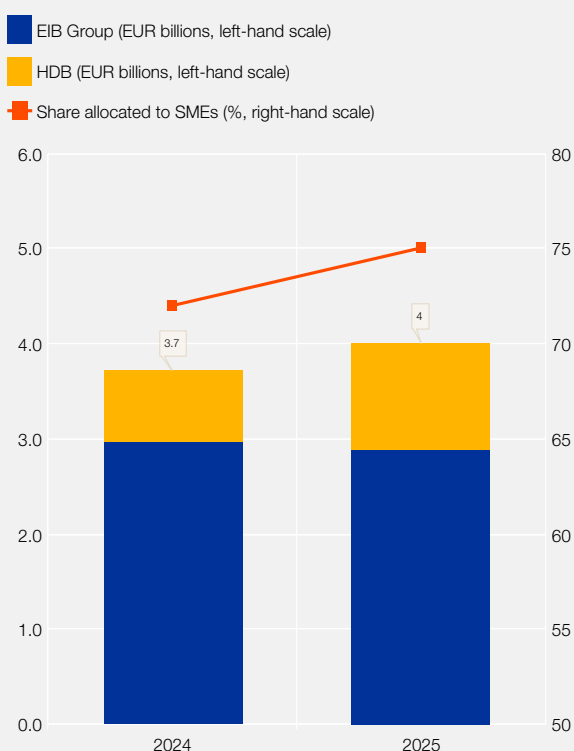
During 2025, disbursements of business loans granted under the RRF continued to increase relative to previous years, reflecting the gradual maturation of investment projects included in the programme. More specifically,

4 See press conference of the Alternate Minister of Economy and Finance on the quarterly review and planning of the utilisation of European and national resources, 22.10.2025.

5 Including disbursements of business loans granted by domestic and foreign banks through public and bank resources. Equity financing/venture capital is not included.

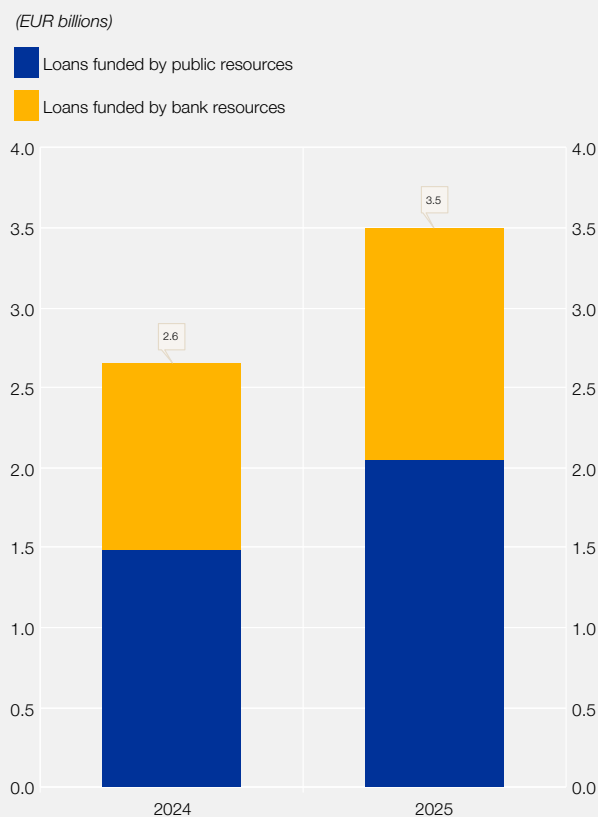
6 According to the programme framework, the co-financing scheme for total investment expenditure is defined as follows: up to 50% participation through public resources (RRF loans), a minimum of 30% bank leverage (co-financing loans) and a minimum of 20% own participation.

Chart B Disbursements of bank loans to NFCs and sole proprietors linked to financial instruments and the share of these loans allocated to SMEs



Source: Hellenic Development Bank, Hellenic Bank Association, and Bank of Greece calculations.
Note: HDB: Hellenic Development Bank, EIB Group: European Investment Bank (EIB) and European Investment Fund (EIF).

Chart C Disbursements of bank loans linked to the Recovery and Resilience Facility



Source: Hellenic Bank Association and Bank of Greece.
Note: Amounts include loans granted by domestic credit institutions and partner banks abroad (EIB and EBRD).

Overall, from June 2022, when the first loan agreement was signed, to February 2026, the number of loan agreements signed amounted to a total of 601, with a total value of EUR 16.4 billion.⁷ Approximately half of the agreements concerned SMEs, which accounted for nearly one-sixth of the total value of RRF loans. This distribution points to a higher participation of smaller enterprises in terms of number of contracts while also confirming the larger average scale of investment projects, which in most of cases are implemented by larger enterprises.

The weighted average interest rate on RRF loans stood at 1.72%, significantly below the corresponding average interest rate on common business bank loans. Indicatively, the weighted average interest rate on common fixed-term bank loans to NFCs stood at 5.06% in 2023-25. The reduction in financing costs through the RRF is significant not only in terms of strengthening demand for external financing, but also for ensuring the viability of investment projects.

Demand for RRF loans remained strong during 2025, as evidenced by the number of new applications, although it generally concerned lower loan sizes compared to previous years. In particular, the average loan size in new applications declined markedly in 2025 compared to 2024,⁸ suggesting some degree of saturation in demand for large-scale investment projects.

⁷ Source: Press conference of the Alternate Minister of Economy and Finance: "Greece among the top absorbers of EU funds" (20.2.2026, in Greek).

⁸ According to data on loan applications submitted to domestic credit institutions, the average loan size declined from approximately EUR 22 million in 2024 to around EUR 16 million in 2025.

Conclusions and prospects

Overall, 2025 further consolidated the importance of blended financing schemes combining public, European and banking resources. Financial instruments and RRF loans complemented traditional bank financing, strengthening credit flows to the business sector and supporting investment. As regards RRF loans, the acceleration in disbursements mainly reflects the maturation of investment projects submitted in previous years. Their future momentum will depend on the capacity to broaden the pool of beneficiary enterprises with greater participation of SMEs on overall lending activity.

Although the contracting process of RRF loans is expected to be completed in 2026, their impact on corporate liquidity is expected to extend beyond this horizon, given that disbursement activity is projected to continue up to 2029. Further strengthening of financing conditions for domestic enterprises is expected to arise from new European financial schemes associated with green transition, energy upgrading and enhancement of social cohesion. In addition, an important role is expected to be played by financial institutions developed under the new Multiannual Financial Framework (2028-2034) which based on currently available indications, is expected to maintain a level of resources comparable to the current NSRF, directing investment towards sectors such as transport, energy and digital networks.

Box 14

FINANCING CONDITIONS FOR SMES: INSIGHTS FROM THE SAFE SURVEY

Since the first quarter of 2024, the Survey on the Access to Finance of Enterprises (SAFE) has been conducted both on a six-month and on a quarterly basis.¹ According to the results of the latest rounds, which cover the six-month period between April and September 2025 (2025:A) and the fourth quarter of 2025 (2025:Q4), SMEs in Greece continued to report lower bank lending rates, while an increase was reported in the euro area. At the same time, SMEs in Greece continued to report increased availability of bank loans, while a decline was reported in the euro area. In addition, SMEs' needs for bank loans increased in Greece, while they remained unchanged in the euro area. Most SMEs in Greece and in the euro area as a whole continued to consider availability of skilled staff or experienced managers to be their most important problem.

Availability (supply) of bank financing to SMEs

In the most recent six-month survey round (2025:A), SMEs in Greece continued to report in net terms² increases in the availability (supply) of bank loans (11%) (see Chart A), as well as credit lines or bank overdrafts (7%). On a quarterly basis, in the fourth quarter of 2025, SMEs in Greece reported a strong further rise in the availability of bank loans (11%, from 2% in the previous quarter) (see Chart B), as well as increased availability of credit lines or bank overdrafts (6%, from -1% in the previous quarter). By contrast, in 2025:A, euro area SMEs continued to report a marginal decline in the availability of bank loans (-1%), while the availability of credit lines or bank overdrafts is estimated to have remained unchanged after having declined for six consecutive six-month rounds. In addition, in the fourth quarter of 2025, SMEs' responses in the euro area continued to show decreased availability of both bank loans (-2%) and credit lines or bank overdrafts (-3%).

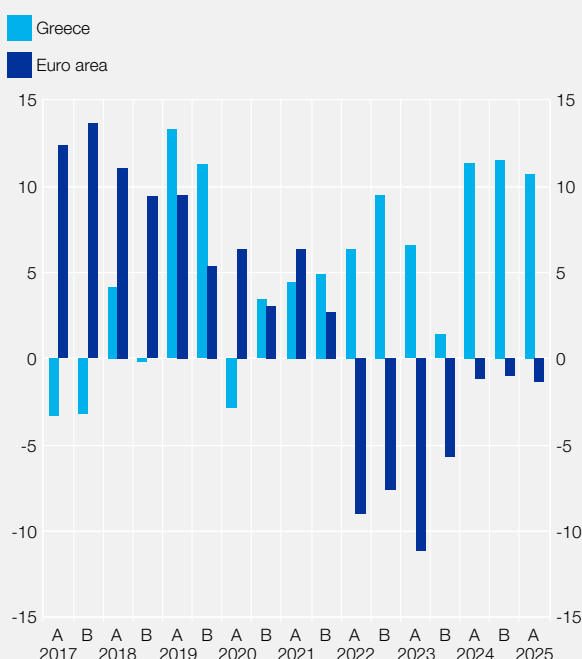
As regards the factors that have an impact on the availability of external financing, SMEs in Greece continued to perceive the impact from banks' willingness to provide credit as significantly positive (2025:A: 20% and

1 The SAFE survey is conducted by the ECB on a quarterly basis, while an expanded round is conducted for the third quarter of each year in collaboration with the European Commission. The survey rounds that review developments in the first and third quarters, alongside the quarterly results, also describe changes relating to the six-month periods of October-March (round B) and April-September (round A) respectively. The rounds relating to the second and fourth quarters only describe developments relating to the calendar quarters concerned.

2 The results refer to net percentages of respondents, which are defined as the percentage of SMEs reporting that a given factor (e.g. availability of bank loans) increased minus the percentage of those reporting that it declined.

Chart A Six-month SME estimates of the change in the availability of bank loans to SMEs in Greece and the euro area

(in the corresponding period,¹ net percentage of respondents²)



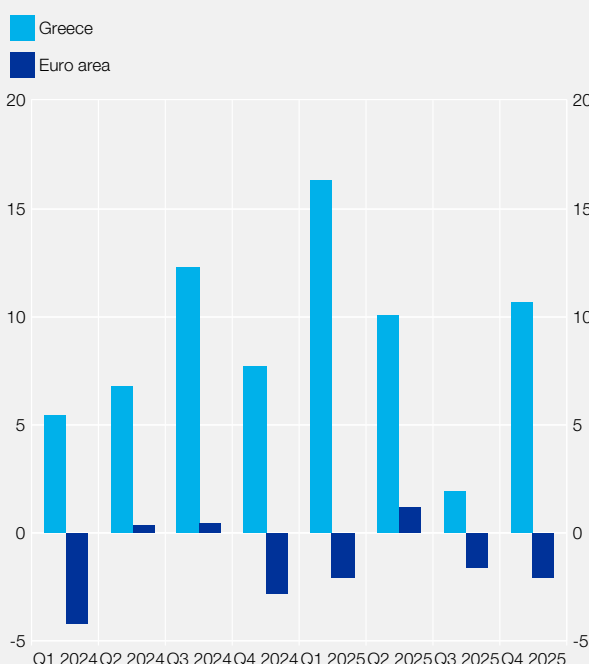
Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 The survey is conducted every six months and covers the periods of April-September (round A) and October-March (round B).

2 The net percentage is the percentage of firms reporting that the indicator (e.g. availability of bank loans) increased minus the percentage of firms reporting that it decreased.

Chart B Quarterly SME estimates of the change in the availability of bank loans to SMEs in Greece and the euro area

(in the corresponding period,¹ net percentage of respondents²)



Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 Since 2024 the survey has also been conducted on a quarterly basis and covers the corresponding calendar quarters.

2 The net percentage is the percentage of firms reporting that the indicator (e.g. availability of bank loans) increased minus the percentage of firms reporting that it decreased.

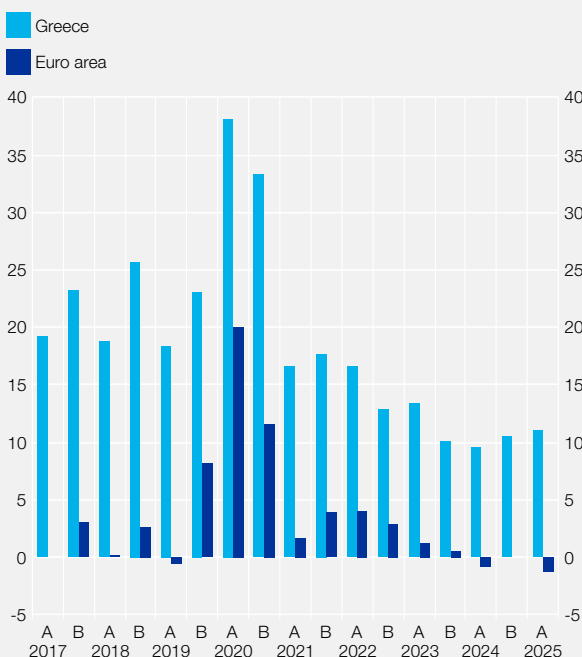
2025:Q4: 20%), while in the euro area SMEs continued to report a muted positive impact (2025:A: 4% and 2025:Q4: 4%). In Greece, the overall impact of the factors determining SMEs' creditworthiness³ was also very significant, while in the euro area SMEs perceived the impact of some of these factors to be negative. Regarding the sign of the impact of the general economic outlook,⁴ SMEs in Greece reported a neutral impact for the 2025:A round and a negative impact for the fourth quarter of 2025 (-3%), while SMEs in the euro area continued to report a significant negative impact both in the 2025:A round (-20%) and the 2025:Q4 round (-22%).

SMEs' bank financing needs (demand)

On a six-month basis, in the 2025:A round SMEs in Greece continued to report increased needs (i.e. demand) for bank loans (11%) (see Chart C) and a weaker (compared to the previous six-month period) increase in their needs for credit lines or bank overdrafts (7%). In the fourth quarter of 2025, SMEs in Greece also reported an increase in their needs for both bank loans (15%) and credit lines or bank overdrafts (15%) (see Chart D). In the euro area, in the 2025:A round SMEs reported a marginal decrease in their needs for bank loans (-1%), while continuing to report increased needs for credit lines or bank overdrafts (5%). Moreover, in the fourth quarter of 2025, SMEs in the euro area reported that their needs for bank loans remained unchanged, while continuing to report an increase in their needs for credit lines or overdrafts (6%).

3 The percentage for "firm's creditworthiness" is a sum of the net percentages of three factors: (a) firm's credit history; (b) firm's own capital; and (c) firm-specific outlook.

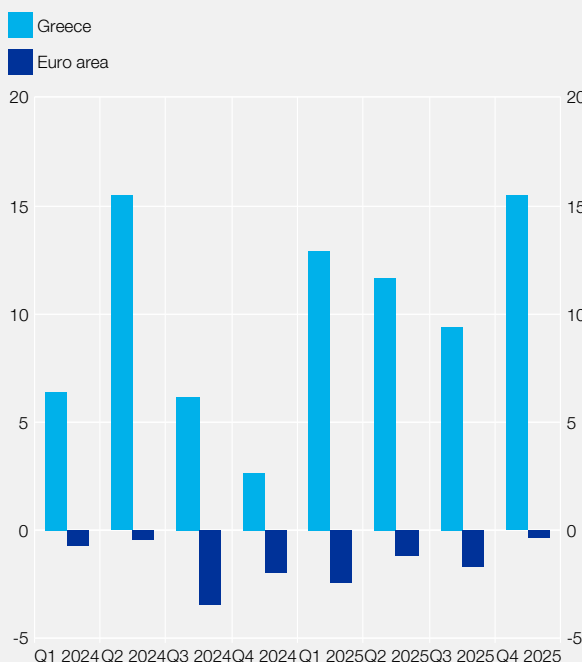
4 The indicator measures the difference between (a) the percentage of SMEs reporting that the general economic outlook contributed to an increase in the availability of external financing over the six-month period under review and (b) the percentage of SMEs reporting that the general economic outlook did not contribute to an increase in the availability of external financing.

Chart C Six-month SME estimates of the change in their needs for bank loans in Greece and the euro area*(in the corresponding period,¹ net percentage of respondents²)*

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 The survey is conducted every six months and covers the periods of April-September (round A) and October-March (round B).

2 The net percentage is the percentage of firms reporting that the indicator (e.g. needs for bank loans) increased minus the percentage of firms reporting that it decreased.

Chart D Quarterly SME estimates of the change in their needs for bank loans in Greece and the euro area*(in the corresponding period,¹ net percentage of respondents²)*

Source: EC/ECB, Survey on the access to finance of enterprises in the euro area (SAFE).

1 Since 2024 the survey has also been conducted on a quarterly basis and covers the corresponding calendar quarters.

2 The net percentage is the percentage of firms reporting that the indicator (e.g. needs for bank loans) increased minus the percentage of firms reporting that it decreased.

In Greece, the percentage of SMEs that applied for a bank loan rose both in the 2025:A round (to 25%) and in the fourth quarter of 2025 (to 25%). Among the SMEs that applied for bank loans in Greece, in the 2025:A round, the percentage of those reporting that their application was rejected increased (19%, compared with 16% in the 2024:B round), while the percentage of applications that were fully or largely successful declined but remained high (47%, compared with 59% in the 2024:B round). In the fourth quarter of 2025, a markedly lower rejection rate coupled with a lower acceptance rate was recorded: 53% (compared with 59% in the third quarter) of SMEs reported that their bank loan application was mostly, if not fully, successful, while a mere 3% (compared with 27% in the third quarter) of SMEs reported that their application was rejected by the bank.

In the euro area, the percentage of SMEs that applied for a bank loan increased marginally in the 2025:A round (to 19%), while it came to 17% in the fourth quarter of 2025. As regards the outcome of bank loan applications, the rejection rate declined in the 2025:A round (to 6% of the SMEs that applied, compared with 8% in the 2024:B round), while it remained unchanged in the fourth quarter of 2025. A higher percentage of SMEs reported that their application was fully or mostly successful in the 2025:A round (75%), but this percentage declined in the fourth quarter of 2025 (67%).

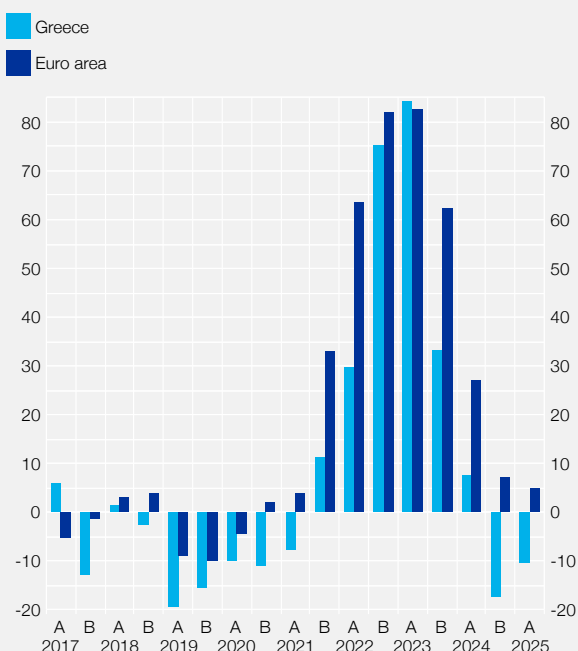
Bank financing terms and conditions

As regards bank financing terms and conditions, following successive increases between the 2021:B and the 2024:A rounds, SMEs in Greece reported a net decrease in bank interest rates⁵ for the second six-month round in a row in the 2025:A round (-10%, compared with -17% in the 2024:B round) (see Chart E) and, similarly, in the

⁵ Respondents were asked whether the bank had changed the level of interest rates on bank loans, overdrafts and credit lines.

Chart E Six-month SME estimates of changes in bank lending rates in Greece and the euro area

(in the corresponding period,¹ net percentage of respondents²)



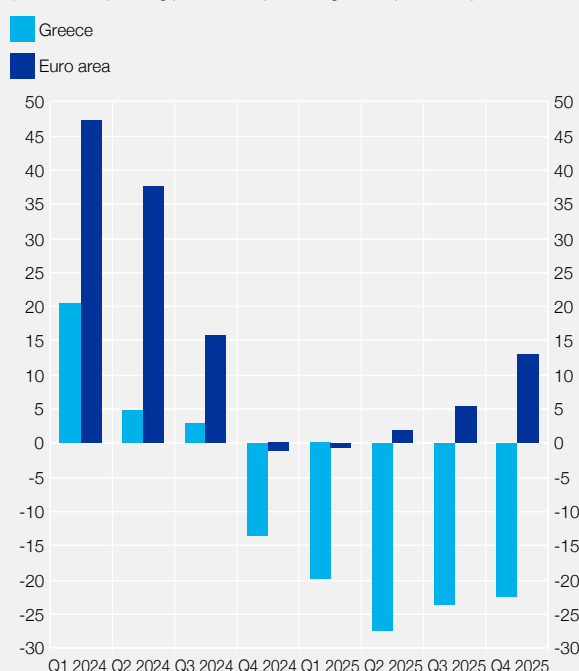
Source: EC/ECB Survey on the access to finance of enterprises in the euro area (SAFE).

1 The survey is conducted every six months and covers the periods from April to September (Round A) and from October to March (Round B).

2 The net percentage is defined as the percentage of firms reporting that the indicator (e.g. the level of bank lending rates) increased, minus the percentage of firms reporting that the indicator decreased.

Chart F Quarterly SME estimates of changes in bank lending rates in Greece and the euro area

(in the corresponding period,¹ net percentage of respondents²)



Source: EC/ECB Survey on the access to finance of enterprises in the euro area (SAFE).

1 Since 2024 the survey has also been conducted on a quarterly basis and covers the corresponding calendar quarters.

2 The net percentage is defined as the percentage of firms reporting that the indicator (e.g. the level of bank lending rates) increased, minus the percentage of firms reporting that the indicator decreased.

fourth quarter of 2025 (-23%, compared with -24% in the third quarter) for the fifth quarter in a row (see Chart F). By contrast, in the euro area, SMEs reported a net increase in interest rates on bank loans both on a six-month (2025:A: 5%, 2024: B: 7%) and on a quarterly basis (2025:Q4: 13%, 2025:Q3: 5%). The results of the SAFE survey for Greece are consistent with the responses provided by credit institutions in the context of the Bank Lending Survey (see Box 15), in which banks also reported an easing of corporate loans' terms and conditions throughout 2025, stemming mainly from lower lending rates and a narrowing of the interest rate margin. For other costs of financing (charges, fees and commissions), the net percentage of SMEs reporting an increase in the 2025:A round declined significantly in Greece (7%, compared with 19% in the 2024:B round) and, to a lesser extent, in the euro area (27%, compared with 30% in the 2024: B round), while in the fourth quarter of 2025 a higher number of SMEs reported increases in Greece (net percentage 18%, compared with 14% in the third quarter), compared with a marginally higher number of SMEs in the euro area (net percentage 28%, compared with 27% in the third quarter).

Most important problems for SMEs

In the 2025:A round, most SMEs in the sample considered availability of skilled staff or experienced managers to be their main problem (26% of the SMEs in Greece and a similar percentage in the euro area). The next most significant problem reported by SMEs in Greece was rising production or labour costs (15%), as well as competition, which ranked alongside access to finance (14%), while the problems reported by SMEs in the euro area were finding customers (19%), production or labour costs (15%) and regulation (13%).

Conclusions

SMEs in Greece reported in 2025 increased availability of bank loans, attributing this to banks' growing willingness to provide credit and to an improvement in the factors determining SMEs' creditworthiness; at the same time, the

impact of the general economic outlook was reported to be overall neutral. By contrast, SMEs in the euro area perceive the availability of bank loans to have marginally declined on account of banks' reduced willingness to provide credit and the negative impact of some factors determining SMEs' creditworthiness, while the impact of the general economic outlook was particularly negative. In addition, increased demand for bank loans was recorded in Greece, while bank loan demand in the euro area remained unchanged. As regards bank financing terms and conditions, SMEs in Greece continued to report a decline in the level of interest rates, reflecting the direct pass-through of recent ECB policy rate cuts, but reported increased charges, fees and commissions, while simultaneous increases in interest rates and in charges, fees and commissions were reported in the euro area.

Box 15

THE BANK LENDING SURVEY¹

According to the latest rounds of the Bank Lending Survey, which look at developments in 2025 on a quarterly basis, credit institutions in Greece report increased demand, mainly for corporate and consumer loans. In the euro area, increases in demand across all loan categories were mostly reported. On the supply side, banks in Greece did not report any substantial changes in credit standards² and terms and conditions³ on loans to households, while terms and conditions on loans to enterprises eased somewhat throughout 2025, as did credit standards in the second half of the year. In the euro area, banks mostly reported a slight tightening in credit standards and a marginal easing of terms and conditions on corporate loans, while, in terms of both credit standards and terms and conditions, banks reported some easing in housing loans and a slight tightening in consumer loans.

Loan demand

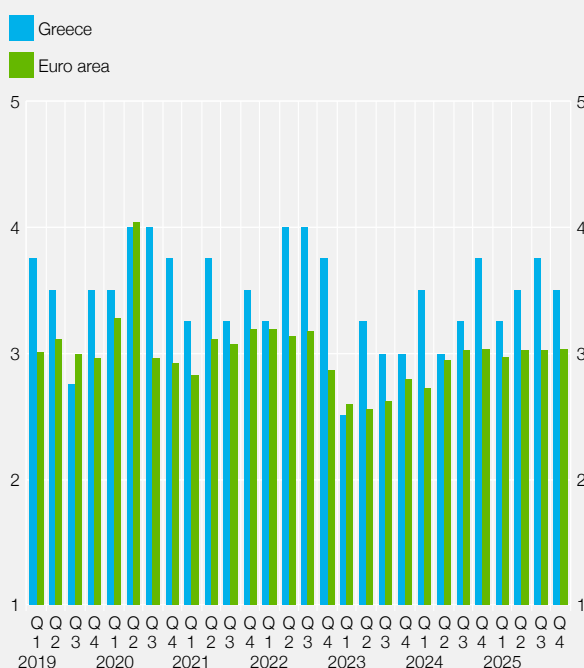
Credit institutions in Greece reported an increase in corporate loan demand in 2025 (see Chart A). Regarding the determinants of demand for loans to enterprises in Greece, banks reported a positive impact from lower interest rates overall and firms' increased financing needs for fixed investment, inventories and working capital, as well as for mergers/acquisitions and debt restructuring. At the same time, they reported that firms' relatively reduced use of alternative finance (such as loans from other banks and issuance of debt securities and, to a lesser extent, loans from non-banks, issuance of equity and internal financing) had a largely positive impact on loan demand. Euro area banks reported a marginal increase in corporate loan demand in 2025. At the same time, there was a marginally positive impact on demand from the lower general level of interest rates and from increased financing needs for debt restructuring.

As regards demand for housing loans, banks in Greece reported an increase in the first quarter of 2025, while they reported reduced demand for the next six months and stabilisation in the last quarter of the year. As regards the determinants of demand, a small positive impact was recorded in early 2025 from the lower general level of interest rates and improved consumer confidence. In the euro area, demand for housing loans rose in 2025, driven mainly by the lower general level of interest rates and better housing market prospects and, to a lesser extent, improved consumer confidence. As regards consumer loans, credit institutions in Greece reported mostly increases in demand, mainly reflecting improved consumer confidence and increased consumer spending and, to a lesser extent, the lower general level of interest rates. In the euro area, demand for consumer loans increased slightly in early 2025, mainly on account of the lower general level of interest rates.

- 1 The Bank Lending Survey (BLS) is conducted by the Eurosystem on a quarterly basis, using a sample of about 150 banks across the euro area, including the four Greek systemic banks.
- 2 The survey defines credit standards as the internal guidelines and loan approval criteria shaping each bank's credit policy, such as new loans sought, geographical areas of activity, type of eligible collateral, etc.
- 3 Loan terms and conditions are defined as the actual terms and conditions agreed in loan contracts, such as the interest rate margin, the level of fees/commissions or other non-interest rate charges, the maturity and size of loans, other loan clauses, etc.

Chart A Change in demand for loans by non-financial corporations in Greece and the euro area¹

(in the corresponding calendar quarter; average²)



Source: ECB/Bank of Greece, Bank Lending Survey.

1 Banks' perceived changes in demand for loans over the corresponding calendar quarter.

2 Average of banks' responses using a five-point scale, where demand for loans 1 = "decreased considerably", 2 = "decreased somewhat", 3 = "remained unchanged", 4 = "increased somewhat", and 5 = "increased considerably".

Chart B Change in credit standards on loans to non-financial corporations in Greece and the euro area¹

(in the corresponding calendar quarter; average²)



Source: ECB/Bank of Greece, Bank Lending Survey.

1 Banks' perceived changes in credit standards on loans over the corresponding calendar quarter.

2 Average of banks' responses using a five-point scale, where credit standards 1 = "tightened considerably", 2 = "tightened somewhat", 3 = "remained unchanged", 4 = "eased somewhat", and 5 = "eased considerably".

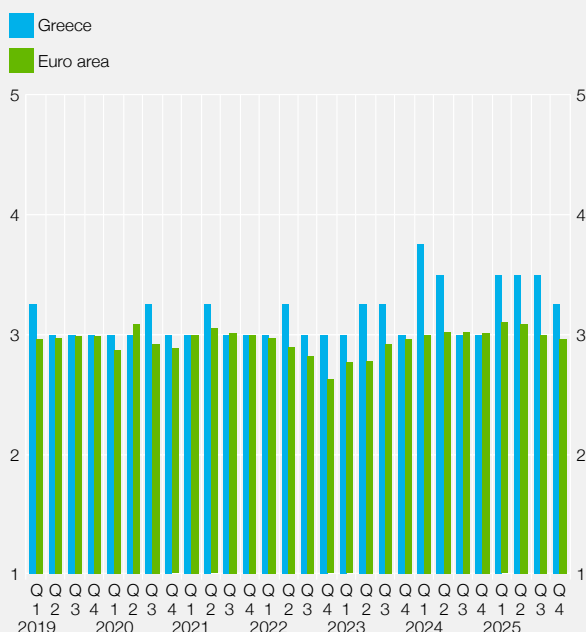
Loan supply

According to the banks surveyed, credit standards in Greece remained mostly unchanged for loans to households, except for some easing reported in the first quarter in housing loans. At the same time, throughout 2025, credit standard determinants for loans to households remained unchanged. As regards credit standards for loans to firms, credit institutions in Greece reported a slight easing in the second half of the year (see Chart B), mainly attributed to pressure from competition and improved borrower creditworthiness due to better prospects in specific sectors or businesses. In the euro area, credit standards for loans to enterprises mostly recorded a slight tightening in 2025 (see Chart B), mainly due to the deteriorating general economic outlook, as well as due to industry- or firm-specific outlook, as well as banks' reduced risk tolerance. As regards loans for house purchase, credit standards in the euro area have eased marginally overall, mainly reflecting pressure from competition. By contrast, with regard to consumer credit in the euro area, credit standards tightened somewhat throughout the year, mainly driven by the deterioration in consumers' creditworthiness and in the general economic outlook.

As regards terms and conditions on loans to enterprises in Greece, banks reported an easing throughout 2025 (see Chart C), mainly stemming from lower interest rates and a narrower interest rate margin, as well as improved other conditions (collateral requirements, loan maturity and covenants) and reduced non-interest rate charges. The responses from credit institutions are consistent with the results of the SAFE survey (see Box 14), according to which SMEs in Greece reported successive bank interest rate decreases. As for loans to households, banks in Greece reported that terms and conditions remained broadly unchanged. In the euro area, credit institutions reported a slight easing of terms and conditions on loans to enterprises in 2025 (see Chart C) in the first half of the year, mainly because of a small decrease in the interest rate margin on average-risk

Chart C Change in terms and conditions on loans to non-financial corporations in Greece and the euro area¹

(in the corresponding calendar quarter; average²)



Source: ECB/Bank of Greece, Bank Lending Survey.

1 Banks' perceived changes in terms and conditions on loans over the corresponding calendar quarter.

2 Average of banks' responses using a five-point scale, where terms and conditions on loans 1 = "tightened considerably", 2 = "tightened somewhat", 3 = "remained unchanged", 4 = "eased somewhat", and 5 = "eased considerably".

loans and a marginal decrease in non-interest rate charges. For consumer loans, banks in the euro area mostly reported some tightening of terms and conditions, associated with banks' risk perceptions and lower risk tolerance, as well as with increased interest rate margins on high-risk loans. By contrast, for housing loans, banks in the euro area reported some easing of terms and conditions, mainly driven by competitive pressures and a narrower interest rate margin on average-risk loans.

Conclusions

In 2025, Greek banks reported overall no change in credit standards and terms and conditions on loans to households, while some easing was recorded in both credit standards and terms and conditions on loans to enterprises. Credit institutions in the euro area reported overall a slight tightening of credit standards, coupled with a marginal easing of terms and conditions on loans to enterprises, while some easing was also recorded in both credit standards and terms and conditions on housing loans, along with a slight tightening on consumer loans. In terms of demand for loans, credit institutions in Greece reported increases for loans to enterprises and mostly for consumer loans. Over the same period, euro area banks reported increased demand, mainly for housing loans.

Box 16

INVESTIGATIONS AND INSPECTIONS WITH ANONYMITY BY THE BANK OF GREECE (MYSTERY SHOPPING)

In the context of private insurance supervision, the Bank of Greece is responsible, *inter alia*, for the compliance of insurance distribution networks with the requirements of the legislation in force, as well as for the supervision of their business practices, with a view to consumers' protection.

In order to carry out its responsibilities, the Bank of Greece has in place processes and supervisory tools, such as remote or physical visits to insurance undertakings and/or insurance intermediaries. Mystery shopping has been included in the Bank's supervisory toolkit since April 2025, following the revision of Law 4583/2018 (Government Gazette A 212/18.12.2018) on insurance distribution.

In particular, the Bank of Greece may assign its staff or external associates to visit supervised entities, as well as any entity carrying out activities that fall within its supervisory remit, as potential or existing insurance customers without divulging their identity or the purpose of their visit. The external associates of the Bank of Greece are bound by official and professional secrecy and use the data collected exclusively for the purpose of the assignment.

Prior to the launch of each investigation, a relevant announcement is posted on the Bank of Greece's website, stating the relevant legal provisions, the start date and the duration of the exercise, while the Bank may notify the European Insurance and Occupational Pensions Authority (EIOPA) of the investigations carried out, providing

information on the scope and findings of the exercise, while maintaining the anonymity of the supervised entities. Mystery-shopped entities include distributors of insurance and reinsurance products active in Greece, irrespective of their home country.

The main advantage of this new supervisory tool is that it enhances the effectiveness of supervision of the insurance market, with a direct benefit for customers (existing or new). More specifically, mystery shopping enables the Bank of Greece to carry out a more realistic market supervision, as it can verify in practice whether supervised entities comply with the legislation on the distribution of insurance products by providing the required documentation or information. In addition, consumer protection is strengthened, as any misleading practices, inadequate information and breaches of transparency obligations towards consumers are identified in a timely manner.

The findings and conclusions drawn from the use of the new supervisory tool are an important input to the Bank of Greece's supervisory work. In this context, once breaches of the provisions of insurance distribution legislation have been identified, the Bank may take appropriate supervisory action to ensure that supervised entities comply with the relevant legislation in force.

In summary, the ability to conduct unannounced and anonymous inspections serves as a prudential supervisory tool, strengthening supervised entities' compliance with the regulatory framework. Effective supervision contributes to enhancing confidence in the private insurance sector. Finally, the revision of the legal framework is in line with modern supervisory methods already applied in other EU Member States and enhances cooperation with EIOPA.

Box 17

GREEK SOVEREIGN RATING: HOW TO REGAIN THE "A" CATEGORY

This box aims to examine the prospects for further upgrades of the sovereign credit rating of Greece to the "A" category,¹ where Greece's rating stood until 2009. To this end, it estimates the evolution of sovereign credit ratings assigned to Greece by the three major credit rating agencies, namely Fitch, Moody's and Standard and Poor's/S&P, on the basis of macroeconomic and fiscal projections. By developing scenarios related to reforms that affect the institutional parameters of the ratings, the necessary conditions and timeline for an upgrade to the "A" category are identified.

Why are upgrades important?

Greek government bond yields are closely linked to the country's credit ratings. Since 2019, the aforementioned credit rating agencies, as well as the other two agencies accepted by the Eurosystem as external credit assessment institutions (Scope and Morningstar-DBRS), have upgraded Greece's sovereign credit rating multiple times.² As seen in Chart A, following these upgrades, the yield spread of Greek government bonds over the corresponding German bonds has declined significantly.

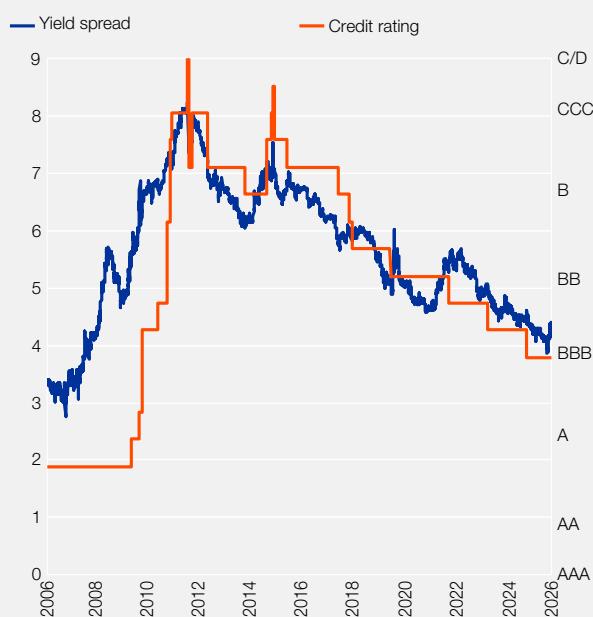
2023 was a pivotal year, as Greece's sovereign credit rating returned to investment grade; as a result, international investors once again see Greek government bonds as a relatively low-risk investment, a status that had been lost in 2011. The spread between Greek and German 10-year government bond yields has narrowed by around 65 basis points (bps) since October 2023, when the first of the three major agencies (S&P) upgraded Greece. This drop is even larger (around 115 bps) if compared with the end of the first quarter of 2023, i.e. before

1 The A-rating category comprises of the following notches: A-/A3, A/A2 and A+/A1.

2 At end-2025, Greece's sovereign credit rating assigned by Fitch and S&P was BBB, while that by Moody's was Baa3 (which equals BBB-). The other two agencies accepted by the Eurosystem, namely Scope and Morningstar-DBRS, assigned the Greek economy a BBB rating.

Chart A Credit ratings and yield spreads of Greek sovereign bonds

(left-hand scale: yield spreads; bps in logs; right-hand scale: credit rating)



Sources: LSEG (daily data) and Bank of Greece calculations.

Note: The blue line represents the spread between Greek and German 10-year government bond yields, expressed as basis points in logs. The orange line shows the most favourable credit rating assigned to the Greek sovereign by Fitch, Moody's and S&P.

S&P indicated a possible upgrade to investment grade.³ Moreover, bank and corporate bond yields have declined significantly, as the sovereign credit rating upgrades were followed by upgrades of Greek banks and a number of large exporters.

Thus, the upgrades are presumed to lead to lower debt servicing costs for the Greek government, domestic banks and Greek enterprises, playing a key role in increasing aggregate demand in the Greek economy and boosting economic activity (e.g. for Greek enterprises, see Box 18). Consequently, possible further upgrades should deliver even greater benefits to the Greek economy, with even lower financing costs for the public and private sectors and improved resilience for the Greek economy in an environment of heightened global uncertainty.

The outlook for sovereign ratings

The following analysis employs the econometric model of the Bank of Greece, which estimates the scores assigned by Fitch, Moody's and S&P, based on the fundamentals of the Greek economy that form the quantitative component of credit ratings.⁴ Then, assuming that the adjustment related to the qualitative component of the ratings remains at current levels, the imputed sovereign credit rating for Greece is estimated for each agency, based on projections for key macroeconomic and fiscal

variables. To estimate the evolution of the sovereign credit rating, the available projections by the three agencies for the years 2025, 2026 and 2027 are used, as well as projections by the Ministry of Economy and Finance up to and including 2029. Some of these projections are set out in the table.

To sum up, the three major agencies expect positive GDP growth rates for 2026 and 2027, amounting to 2-2.3% for 2026 and between 1.9% and 2.1% for 2027. Based on the assumptions of the Ministry of Economy and Finance's Multiannual Fiscal Programming (MFP) for 2026-2029, economic activity is expected to gradually decelerate, with growth rates set to fall from 2.4% in 2026 to 1.7% in 2027, 1.6% in 2028 and 1.3% in 2029. Fiscal projections by credit rating agencies are relatively homogeneous and assume prudent fiscal management until 2027. Thereafter, based on the MFP 2026-2029 projections, the general government budget is expected to remain close to balance, i.e. fiscal revenue should cover expenditure. Supported by lower interest payments, the public debt ratio should drop to 119% of GDP by end-2029, from around 146% at end-2025.

Overall, as shown in Chart B, the improved public debt-to-GDP ratio is expected to make an upward contribution of around 0.6 notch to the total score of the Greek economy. This also translates into a positive change in sovereign net foreign assets, adding an extra 0.12 notch. Lastly, 0.15 notch is added by improved macroeconomic aggregates, mainly

3 This decline is consistent with past experience from upgrades to investment grade (a cumulative 88 bps drop in spreads) and confirmed the expected impact derived from the relevant econometric model of the Bank of Greece. See Anastasatou, M. et al. (2023), "Effects of a sovereign credit rating upgrade to Investment Grade on the Greek economy", Bank of Greece, *Economic Bulletin*, No. 58, 9-28.

4 For more details, see Malliaropoulos, D. and P. Migiakis (2020), "Sovereign credit ratings and the fundamentals of the Greek economy", Bank of Greece, *Economic Bulletin*, 51, 43-69. In summary, the final credit rating for each debt issuer is derived from quantitative criteria combined with a qualitative assessment. The quantitative component yields individual scores based on fundamental economic indicators and then a qualitative assessment is incorporated, resulting in an overall score that corresponds to one of the notches applied by international credit rating agencies.

Macroeconomic and fiscal projections 2025-2029

	Fitch			S&P			Moody's			Ministry of Economy and Finance (MFP 2026-2029)				
Forecast date	16.1.2026			17.10.2025			5.11.2025			November 2025				
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027	2028	2029
GDP growth rate (%, constant prices)	2.3	2.3	2.1	2.3	2.0	1.9	2.0	2.1	2.1	2.2	2.4	1.7	1.6	1.3
Inflation (%)	3.0	2.3	2.2	2.6	2.4	2.2	2.7	2.3	2.0	3.0	2.2	2.2	2.3	2.3
Public debt (% of GDP)	145.5	138.9	133.3	139.3	133.0	127.8	149.3	144.8	139.7	145.9	138.2	131.7	124.6	119.0
Interest expenses (% of revenue)	6.4	6.2	6.7	7.1	7.8	8.1	6.5	6.8	6.8	6.2	6.0	6.3	5.9	5.7
Budget balance (% of GDP)	0.9	0.4	0.3	-0.3	-0.7	-0.8	0.0	0.0	-0.5	0.6	-0.2	-0.2	0.0	0.1

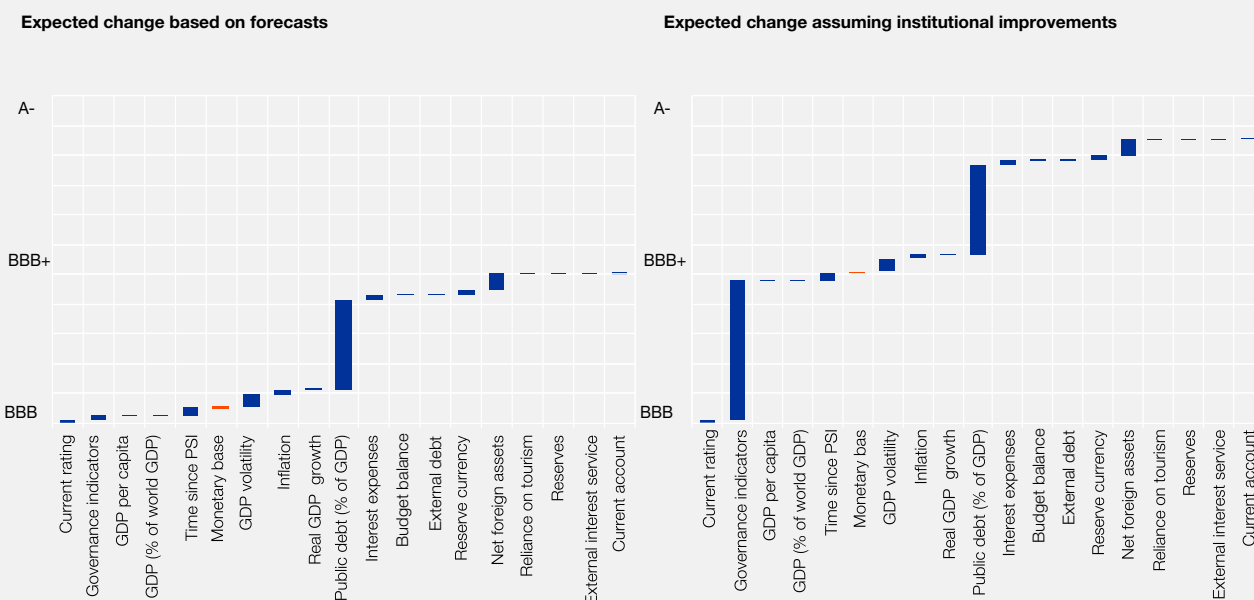
Sources: Credit rating agencies and Ministry of Economy and Finance.

Note: The columns referring to Ministry of Economy and Finance forecasts draw on the Multiannual Fiscal Programming (MFP) for 2026-2029 published by the Ministry on 28 November 2025.

as a result of positive growth rates and lower GDP volatility. Consequently, a significant improvement in the Greek sovereign credit rating is expected, which should equal almost one notch, i.e. from BBB to BBB+. In other words, it is estimated that the expected improvement in the public debt ratio and the fact that rating parameters reflect the stability of the Greek economy should lead to further upgrades in the coming years, albeit at a slower pace than so far.

However, if the institutional parameters were to improve through reforms, the Greek sovereign could be upgraded to as high as category “A” by end-2029. Specifically, as shown in the right-hand panel of Chart B, an improvement in the institutional parameters – closing the gap between Greece and the euro area average – would lead to an additional improvement in the overall score of the Greek economy by around one notch, bringing it within reach of the

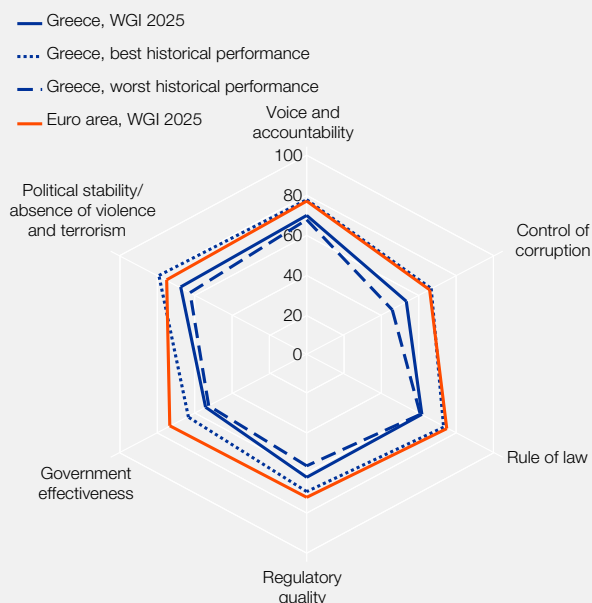
Chart B Expected changes in credit rating parameter scores until 2029



Source: Bank of Greece econometric estimates.

Notes: The left-hand panel reflects the expected effect of credit rating parameters, based on forecasts by agencies and the Ministry of Economy and Finance, for the years up to and including 2029. The right-hand panel also takes into account the impact from a hypothetical improvement of institutional parameters as a result of reforms, based on the assumption that Greek governance indicators converge towards the euro area average. The impact is calculated as changes in parameters against their respective current levels (positive changes in blue; negative changes in red).

Chart C Greece's ranking in the World Bank's Governance Indicators



Source: World Bank, Worldwide Governance Indicators (WGI).

“A” category. This is so because institutional (or structural, depending on the definition used by each agency) parameters taken into account by rating agencies have an increased weight, i.e. 3 (Moody’s) to 4 (Fitch) times higher than the weight on each of the other variables.

As to what reforms would contribute to improving the ranking of the Greek economy in terms of the institutional parameters used as input for credit ratings, the information provided by the indicators used by rating agencies shows the way. Specifically, all three major agencies report factoring the World Bank Governance Indicators in their assessments.⁵ Chart C shows Greece’s ranking for each individual sub-index at the time of the latest indicator releases (i.e. for the year 2025), along with the outliers for Greece and the average values for the euro area.

Chart C shows that, for all governance indicators, the Greek economy stands well below both the euro area average (2025 composition) and the best ranking ever achieved by Greece. In particular, the country’s ranking fell significantly during the debt crisis and, while on some dimensions, such as political stability and control of corruption, there has been

a marked improvement since 2017-18, the country’s ranking has stagnated at low levels for most criteria.

Yet, as these indicators capture developments with a lag, recent improvements, such as the digitalisation of public services and reforms in the justice system, may significantly elevate Greece’s ranking in the governance indicators and thus contribute to higher credit ratings, thereby further strengthening the upward momentum of sovereign credit ratings. For instance, benefits from the recent reform of the justice system and amendments to the Code of Civil Procedure (Law 5221/2025) with a view to accelerating the delivery of justice are expected to become visible by 2029 and should make a positive contribution to the Rule of Law indicator. In any case, maintaining or further improving the Political Stability indicator, coupled with possible further reforms in the area of justice and other institutional parameters, would strengthen the upward trajectory of the Greek economy and make a decisive contribution to an upgrade of the sovereign credit rating, further adding to the positive effects expected from the prudent fiscal and economic policies pursued.

Conclusions

The improved fiscal aggregates and strong growth rates of the Greek economy have enhanced the fundamentals considered by credit rating agencies, resulting in upgrades of Greece’s sovereign credit rating in recent years. Further progress in the relevant parameters is expected in 2026-29, primarily in public finances and secondarily in macroeconomic aggregates. If this improvement materialises, it will lead to further upgrades of the sovereign credit rating, with positive effects on the Greek State as well as banks and businesses. The expected improvements in public finances and macroeconomic aggregates should certainly contribute to achieving the targeted upgrade to category “A”, which was Greece’s credit rating prior to the debt crisis. However, to achieve this goal, further progress is necessary, especially regarding the institutional parameters that are used as inputs for the assessments and carry an increased weight in the process. In fact, there is considerable room for improvement in the Greek economy compared with the euro area average. Therefore, maintaining political stability and continuing reforms in institutions such as the justice system and public administration are considered essential, with tangible results for the Greek economy.

⁵ For the purposes of the compilation of the Worldwide Governance Indicators, the World Bank assesses individual economies based on criteria under six dimensions of governance: Rule of Law, Political Stability and Absence of Violence/Terrorism, Control of Corruption, Regulatory Quality, Government Effectiveness, and Voice and Accountability.

Box 18

GREEK CORPORATE BONDS AND THE ECONOMIC IMPACT OF GREECE'S SOVEREIGN CREDIT RATING UPGRADES

During the period 2021-25, large Greek non-financial corporations (NFCs) made consistent use of international and domestic bond markets to refinance existing debt or finance investments and/or other activities. Despite a series of Eurosystem policy rate hikes between June 2022 and April 2024, the cost of market-based debt financing for these firms declined, alongside a narrowing of their yield differentials vis-à-vis comparable euro area firms that issued bonds over the same period. During the period under review, Greece's outlook and sovereign credit rating were upgraded on successive occasions, culminating in a milestone upgrade to investment grade in autumn 2023. This box analyses the effects of the sovereign credit rating upgrades on NFCs' market-based debt financing costs and issuance volumes, while also highlighting the contribution of bond-issuing NFCs to overall economic activity. The analysis additionally considers how the resulting expansion in financial resources has affected NFC bond issuers' value added.

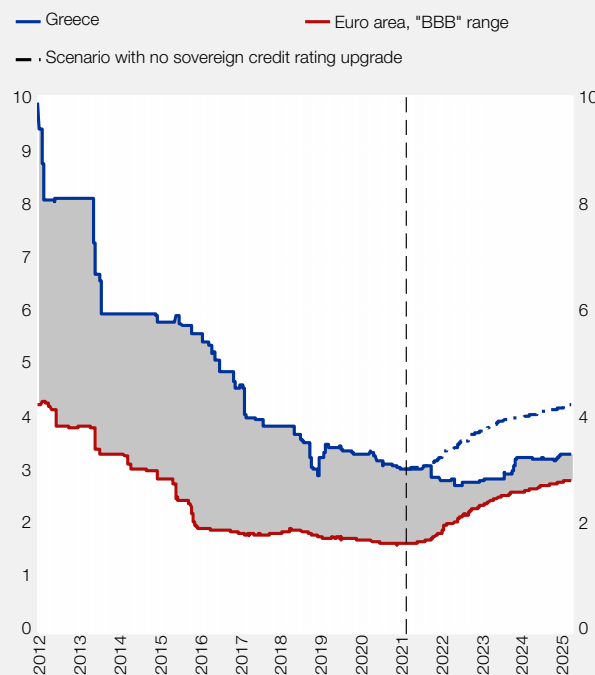
Developments in Greek NFC bond financing costs

Bond issuance costs directly influence Greek NFCs' access to financing and investment decisions. The lower these costs, the more efficient it becomes for Greek NFCs to raise market-based debt to fund new investments or refinance existing obligations. By contrast, higher financing costs have a dampening effect on profitability (raising financial risk), constrain investment activity and ultimately impair firms' overall productivity. As shown in Chart A, weighted average borrowing costs for Greek NFC bond issuers declined steadily relative to "BBB" range rated euro area counterparts up to 2022. The pace of this decline has accelerated since the sovereign upgrade to investment grade in autumn 2023. This pattern stands in sharp contrast to the rise in borrowing costs directly faced by euro area firms since 2022, primarily driven by the ECB's monetary tightening cycle.

Specifically, in early 2022 the financing cost differential between Greek bond-issuing firms and their euro area counterparts¹ stood at 142 basis points (bps). As relative borrowing costs for Greek NFCs declined between June 2022 and July 2024, this differential narrowed markedly, reaching a historical low of 36 bps in July 2024. Since then, it has remained at broadly similar levels, standing at 55 bps in early 2026. The onset of this downward trend largely coincided with the sovereign credit rating upgrade to investment grade.

Greece's sovereign credit rating upgrades have translated into both lower borrowing costs and higher market-based debt financing volumes for domestic firms. Chart B shows the flow of market-based debt financing to Greek NFCs – as captured through net issuance (defi-

Chart A Weighted average bond issuance costs for non-financial corporations

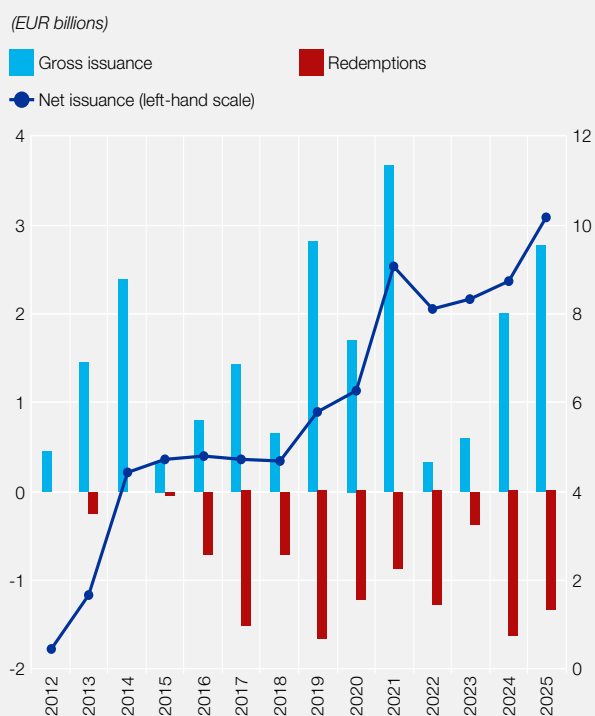


Sources: LSEG, and Bank of Greece calculations.

Notes: Blue solid line: weighted average coupon rate of bonds issued by Greek NFCs. Blue dashed line: weighted average coupon rate of bonds issued by Greek NFCs under a counterfactual scenario in which the yield differential vis-à-vis comparable EU firms did not decline. Red line: weighted average coupon rate of all bonds issued by euro area NFCs with credit ratings in the "BBB" range ("BBB-" to "BBB+"). The weights are calculated using the net issuance of each bond. Bonds issued before 1 January 2012, bonds with a residual maturity of less than one year, or zero-coupon bonds are not included.

¹ The financing cost differential is calculated as the difference in weighted average coupon rates between all Greek NFCs that issued bonds during this period and their euro area peers rated in the "BBB" range.

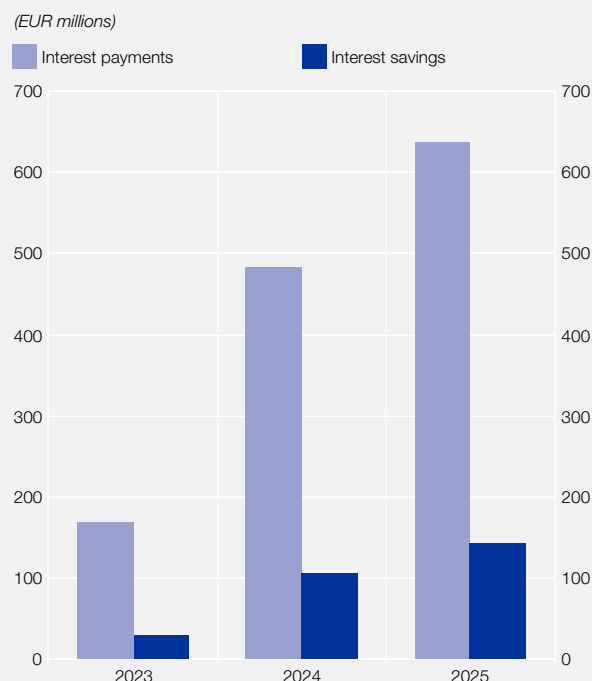
Chart B Net flow of market-based debt financing



Sources: LSEG and Bank of Greece calculations.

Notes: The chart shows gross issuance (blue bars) and redemptions (red bars) of bonds issued by Greek NFCs. Left-hand scale: gross issuance and redemptions; right-hand scale: net issuance.

Chart C Market-based debt financing cost savings resulting from Greece's sovereign credit rating upgrade



Sources: LSEG, and Bank of Greece calculations.

Notes: The chart shows the annual amounts of market-based debt financing cost savings for Greek NFC bond issuers since the upgrade to Greece's sovereign creditworthiness outlook. The light blue bars refer to the actual interest payments made by Greek bond-issuing NFCs, calculated by multiplying the coupon amount at issue by the maturity of each bond. The dark blue bars depict the additional interest payments Greek NFC bond issuers would have incurred under a counterfactual scenario in which the weighted average issuance cost differential between Greek NFC bonds and euro area NFC bonds rated in the "BBB" range remained at pre-upgrade levels.

ned as gross issuance minus redemptions) – over the period 2012-25. Although net issuance was modest in 2022 – reflecting expectations of tighter monetary conditions – it has increased markedly since the upgrade to investment-grade status, exceeding EUR 2 billion over the 2023-25 period.

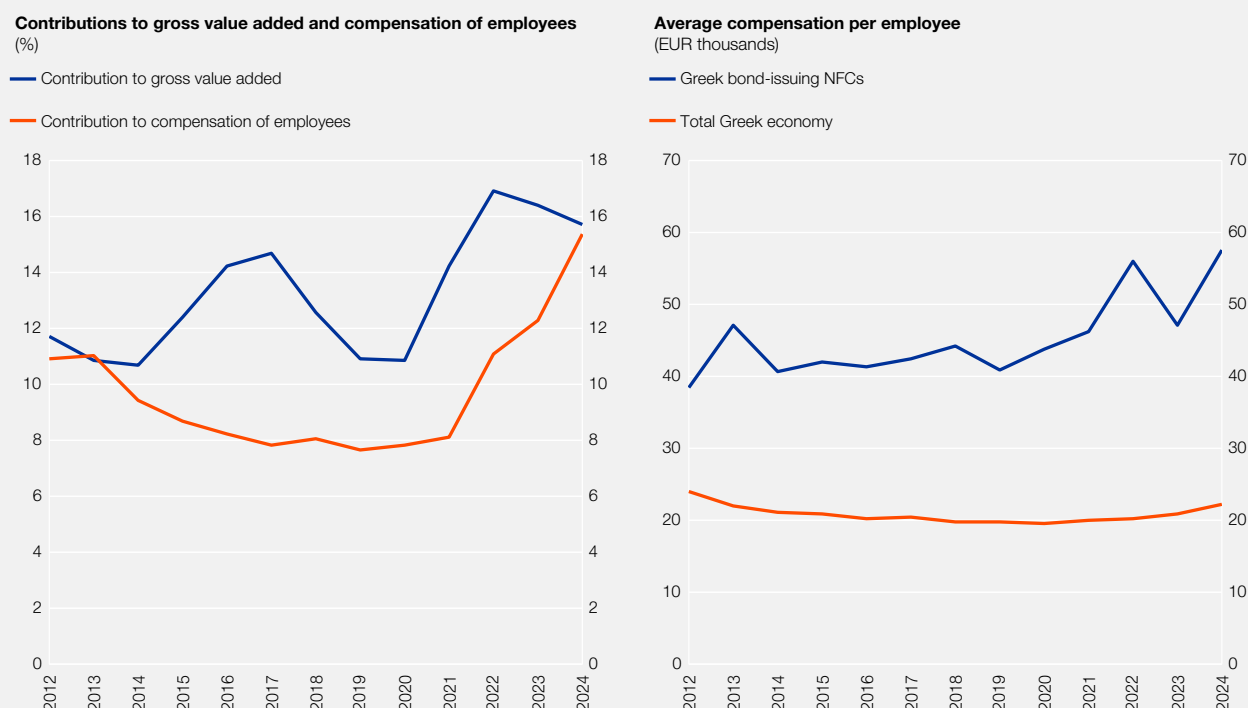
The savings resulting from lower financing costs for Greek bond-issuing NFCs relative to euro area NFC bond issuers over the period 2023-25 are shown in Chart C. Had borrowing rate differentials relative to "BBB" range rated euro area peers remained at their 2022 levels, Greek firms' interest payments would have been roughly EUR 275 million (or 20% per annum) higher over the three-year period. In other words, Greek NFCs that issued bonds during 2023-25 achieved interest savings of approximately EUR 90 million as a result of the upgrades to Greece's sovereign creditworthiness. These savings materialised amid increasingly tight financing conditions for euro area firms, suggesting that the factors compressing financing costs for Greek firms also enhanced their competitiveness relative to euro area peers.

Benefits in terms of economic boost

Financing cost savings directly strengthened firms' operating results. Improved access to financial resources is therefore also likely to have had a positive impact on key firm-level indicators – such as employment, investment and value added – thereby supporting overall economic activity.

This hypothesis is tested against evidence on the evolution of Greek NFC bond issuers' gross value added (GVA) and employment. Empirical evidence shows that Greek NFC bond issuers have considerably expanded their fo-

Chart D Amounts and shares of employee compensation for Greek NFC bond issuers



Sources: LSEG, Orbis Europe (NFC bond issuers' financial statements), ELSTAT and Bank of Greece.

Notes: Left-hand panel: (a) ratio of Greek bond-issuing NFCs' gross value added (GVA) to the Greek NFC sector's GVA (blue line) and (b) ratio of Greek bond-issuing NFCs' employee compensation to the Greek NFC sector's employee compensation (orange line). NFC bond issuers' GVA is calculated as the sum of compensation of employees, net profits, depreciation, taxes and net financial expenses, less subsidies. Only domestically generated GVA is taken into account. It is derived by allocating the total GVA based on (a) the number of employees in Greece relative to the total number of employees and (b) the amount of non-current assets in Greece relative to total non-current assets. The Greek NFC sector's GVA is calculated as the sum of compensation of employees, gross operating surplus, and other taxes, less subsidies on production and imports. Right-hand panel: (a) average compensation per employee (defined as a ratio of compensation of employees to employment) for Greek bond-issuing NFCs (blue line); (b) average compensation per employee (defined as a ratio of compensation of employees to employment) for the total Greek economy (orange line).

otprint in the Greek NFC sector's employee compensation. Specifically, as illustrated in Chart D (left-hand panel), bond-issuing firms' share in Greek NFCs' overall employee compensation rose from around 8% in 2021 to nearly 16% in 2024 (based on the latest available data on NFC financial statements). In short, bond-issuing NFCs' contribution to the Greek NFC sector's compensation of employees has risen markedly over the past few years.

This is consistent with the strong employment growth observed in these firms. Specifically, between 2022 and 2024, employment in Greek NFC bond issuers grew by 24%, compared with an increase of just 3.5% in dependent employment in total economy. At the same time, as shown in the right-hand panel of Chart D, bond-issuing firms' average compensation per employee has consistently remained well above the economy-wide average and has even increased further in recent years, implying that employment growth has translated into not only more jobs, but also higher wages.

Moreover, Greek NFC bond issuers' overall contribution to the Greek NFC sector's GVA increased by approximately 25% in the period 2023-24 compared with the period 2012-22 (see Chart D, left-hand panel). A similar pattern is observed at the total economy level, where bond-issuing firms' share of GVA rose from an average of 4% during 2012-22 to 5.2% in 2023-24 – an expansion of about 30% – primarily reflecting higher employment and investment among these firms. Specifically, between 2022 and 2024, bond-issuing NFCs' capital expenditure (CapEx) increased by 67%, compared with a rise of just 9% across the entire Greek NFC sector.² This shows

² NFC bond issuers' capital expenditure (CapEx) is calculated by adding depreciation to the change in net fixed tangible assets (net property, plant & equipment). The respective aggregate at a wider sectoral level (covering all Greek NFCs) is approximated by gross fixed capital formation, as recorded in the non-financial sector accounts (S.11).

that NFC bond issuers have leveraged improved access to bond markets to scale up investment, either by expanding productive capacity or by upgrading and replacing fixed assets. Such investments are expected to raise firm-level productivity, with beneficial effects on aggregate economic growth.

Overall, bond-issuing firms now account for a larger share of the Greek NFC sector's GVA. Combined with their higher capital expenditure and employment, this is consistent with a transmission mechanism whereby improved financing conditions and access to bond markets enhance productivity and support overall economic activity.

Conclusions

The sovereign credit rating upgrades have significantly increased the financial resources of Greek NFC bond issuers by improving their access to cheaper and more abundant financing. Specifically, over the 2022-25 period, Greek NFCs narrowed their borrowing cost differential relative to comparable euro area firms by 87 basis points, while simultaneously expanding their net market-based borrowing, despite the restrictive monetary policy environment. This enhanced their net profitability and freed up financial resources for investment and broader business expansion. Indeed, following the upgrades to Greece's sovereign creditworthiness, Greek NFC bond issuers have recorded significant increases in investment, employment and overall activity, strengthening their contribution to the domestic economy. Their share in Greek NFC sector GVA increased to about 16% in 2023-24, from roughly 12.5% before the sovereign credit rating upgrade to investment grade, offering compelling evidence of an indirect channel linking sovereign credit rating improvements to stronger real economic activity.

Box 19

NATURE AS A RISK FACTOR FOR THE ECONOMY AND THE FINANCIAL SYSTEM OF THE EURO AREA AND THE NEED TO MANAGE WATER RESOURCES

The euro area economy heavily relies on nature and the ecosystem services it provides.¹ ECB surveys have shown that approximately 72% of non-financial corporations in the euro area are highly dependent on at least one ecosystem service. These corporations account for three quarters of total corporate bank lending in the euro area.^{2,3} However, nature is increasingly threatened by anthropogenic factors that cause its degradation and reduce its ability to adequately support human activities, posing, among other things, risks to financial stability and the economy.

Indeed, in a relevant study,⁴ the ECB, in collaboration with the academic and the research community, developed a methodology to estimate the dependency of euro area economies on services provided by nature. The methodology determines an indicator called Nature Value-at-Risk (NVaR), which captures the financial risk arising from degradation and the loss of services provided by nature for the euro area economies, by economic sector. The NVaR indicator measures the share of the value of sectoral economic output that might be at risk, based on extreme (but probable) scenarios of ecosystem-service degradation.

This methodology highlighted water scarcity (both surface water and groundwater scarcity⁵), combined with regionally declining water quality, as highly material nature-related risks that represent the most significant threat

1 Ecosystem services are categorised as follows: provisioning services (such as food, water, wood), regulating services (such as climate regulation), cultural services (such as recreation) and supporting services (such as soil formation, pollination). Source: [Ecosystem services – EUR-Lex](#).

2 ECB/ESRB (2023), [Towards macroprudential frameworks for managing climate risk – December 2023](#).

3 See Box X.2 "The degradation of ecosystems and biodiversity loss pose risks to the economy and the financial system", Bank of Greece (2024), *Annual Report 2023*.

4 ECB (2025), "[Nature at risk: Implications for the euro area economy and financial stability. Economic and financial risks stemming from degradation of ecosystem services](#)", Occasional Paper No. 380. These scenarios constitute vulnerability assessments rather than forecasts.

5 According to the definitions in Article 2 of [Directive 2000/60/EC](#) of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy (Water Framework Directive).

to the euro area economy. Three main drivers are at play in this context: continued climate change; the overexploitation of water resources; and pollution. In addition, pressure on water resources can provoke cascading effects on many sectors of the economy. For instance, dry soils reduce agricultural crop yields and increase the need for efficient irrigation, while reduced river flows limit hydro-electric power generation and hamper inland navigation in certain countries.

The above ECB analysis also showed that in cases of extreme, but probable, drought events (with a 100-year return period, or 1% annual probability), almost 24% of aggregate euro area economic output would be exposed to risk. This risk concerns all euro area countries, though being greater in Southern countries. Agriculture emerged as the most exposed sector, with potential output losses reaching 30% under a moderate drought scenario (corresponding to a 1-in-25-year event, or 4% annual probability) and 38% under an extreme drought scenario. In other sectors, such as manufacturing, mining, water supply, construction, publishing, and accommodation and food services, more than 20% of their output is at risk of loss even under moderate drought conditions.

Mapping these results to euro area bank portfolios revealed that around 19% of loans are exposed to surface water scarcity and 22% to groundwater scarcity, while 12% are linked to risks from degraded water quality. The loans that seem to be most affected by surface water and groundwater scarcity are those related to activities in real estate, manufacturing, wholesale and retail trade, mining and construction. At the same time, loans affected by declining water quality are mainly linked to activities in manufacturing and mining, as these sectors are heavily dependent on water quality.

Greece presents a serious vulnerability due to the lack of adequate, high-quality water resources. The Climate Change Impacts Study Committee (CCISC) of the Bank of Greece, in a relevant study, has highlighted the crucial role of water resources, especially for agriculture which is a prime consumer of water. In climate change conditions, water resources are under strain, due to, among other things, decreased rainfall, increased irrigation needs, the higher concentration of pollutants in a smaller volume of water resources and aquifer salination. In the coming years, the agricultural sector is estimated to face increasingly lower crop yields and rising irrigation costs due to the lack of adequate – in terms of both quality and quantity – water.⁶ The Bank of Greece, in the context of the CCISC's research activities and the eight-year long project "LIFE-IP AdaptInGR – Boosting the implementation of adaptation policy across Greece" (2019-26), will publish a new study assessing the impacts of climate change on water resources, as well as on natural processes and human activities that are linked to or rely on them.

To address these challenges, policies are pursued and significant adaptation actions and measures are implemented at national and regional level. More specifically, Greece implements the EU Water Framework Directive and has taken important steps towards the integrated and reliable recording, assessment and management of water resources, with the aim of balancing water supply and demand.⁷ Meanwhile, policies are pursued for the management of flood risks, marine protection and the management of drought and water scarcity. Particular emphasis is also placed on protecting human health through quality standards for drinking water, as well as on reducing pollution from urban wastewater, in the context of the European Green Deal.⁸ Moreover, targeted investment programmes are currently under way, such as "Hydor 2.0", an integrated programme⁹ that aims to solve chronic problems related to the lack of irrigation water in many areas of the country, to improve water resource management, as well as to restore the quality of groundwater.

At the same time, there is significant scope for implementing interventions, economic policies and adaptation actions, such as introducing an appropriate pricing policy according to the principles of cost recovery and providing incentives for the efficient use of water resources, the reuse of treated wastewater and the implementation of new agricultural practices. The recent government announcements about its future interventions to fight the

6 CCISC (2011), *The environmental, economic and social impacts of climate change in Greece*.

7 See [River Basin Management Plans](#), Greek Ministry of Environment and Energy (in Greek).

8 See [Water Resources](#), Greek Ministry of Environment and Energy (in Greek).

9 See [Investment in the National Irrigation Network through PPP – "Hydor 2.0" Integrated Programme](#) (in Greek).

intensifying water scarcity in the primary sector and to further secure the country's water supply, should they be implemented, are expected to help address this challenge.¹⁰

The aforementioned studies and actions highlight the significant degree of vulnerability of both the euro area and Greece to risks arising from the degradation of nature and, particularly, from the lack of sufficient and high-quality water resources. In addition, these risks can also affect the economy and financial stability. Therefore, alongside the need for governments to adopt policies and take measures to address this challenge, it is also essential that relevant risks are duly incorporated into the work of central banks and supervisory authorities. Indeed, these risks are increasingly embedded into the actions of the central banks of the Eurosystem and the national supervisory authorities of the euro area. After the completion of the ECB's climate and nature plan for 2024-25, a priority for the ECB is to further assess the economic and financial consequences arising from nature- and water-related risks.¹¹ A deeper understanding of these risks will help assess the potential impacts of nature degradation on financial stability, inflation and the transmission of monetary policy. To achieve this goal, the research and development of appropriate risk analysis tools is crucial, as is cooperation with the scientific community, with a view to enhancing the data and methods for conducting risk analysis and assessment.

10 See [press release](#) of the Greek Ministry of Rural Development and Food, 13 June 2025 (in Greek).

11 See "[ECB advances climate and nature work after delivering on 2024-2025 plan](#)", ECB press release, 16 January 2026.

Box 20

THE GREEN INVESTMENT GAP: ITS IMPACT AND SOCIO-ECONOMIC IMPLICATIONS IN THE EUROPEAN UNION

The European Union (EU) set climate neutrality as one of its key objectives in 2019, under the European Green Deal. The need to achieve this is all the more urgent in the current period, as climate risks have increased and climate-related disasters are increasing in frequency and severity. Accelerating the green transition towards 2030 and beyond, and strengthening the EU's adaptive capacity to climate change are important challenges, given the particularly high investment needs in areas such as energy, sustainable infrastructure, decarbonisation, new technologies and climate change adaptation. However, there is a significant shortfall between the current funding of sustainable investment and the amount of finance required to achieve international and European climate targets. This shortfall is referred to as the green investment gap and mainly reflects challenges in channelling available funds into mature, investable and economically viable green projects. The green investment gap is one of the most significant obstacles to the green transition and is considered to have social, economic and environmental implications.

At EU level, total green investment necessary to achieve climate neutrality by 2030 is estimated at EUR 1.2 trillion per year, around 8.3% of its GDP in 2023. Historically, between 2011 and 2020, an average of EUR 764 billion per year was invested in projects related to reducing the EU's carbon footprint, equivalent to 5.1% of its GDP in 2023.

However, additional green investment is needed in order to align greenhouse gas emissions with the 55% reduction target.¹ The European Commission estimates that the annual green investment gap – defined as the investment needs in excess of past expenditure – amounts to EUR 477 billion of additional green capital investment per year, equivalent to 3.2% of the EU's GDP in 2023.²

1 Council of the EU, [Fit for 55 package](#).

2 Andersson, M., P. Köhler-Ulbrich and C. Nerlich (2025), "[Green investment needs in the EU and their funding](#)", ECB, *Economic Bulletin*, Issue 1/2025.

The investment gap is larger for climate change adaptation projects, which account for around 10% of global climate investment,³ with the bulk of funding directed towards mitigating the effects of climate change. Mitigation projects, such as renewable energy and electromobility, are easier to define and deliver more immediate and predictable returns, which is why they attract more resources, particularly private capital. By contrast, adaptation finance, although increasing in recent years, remains insufficient and focuses on long-term projects whose benefits are difficult to quantify. The provision of distorted incentives by governments,⁴ the insufficient financing instruments and the difficulties in pricing climate risks, combined with the complex institutional financing frameworks, are key obstacles to mobilising capital and closing the green investment gap, particularly in adaptation projects.

To date, funding from the banking system and available public or European financial instruments have played a key role in implementing green projects. Most of the public funding available for the green transition comes from the Recovery and Resilience Facility (RRF), which allocates EUR 275 billion of the EUR 650 billion envelope to support climate objectives, in the form of grants and loans.⁵ The investment gap may, eventually, be narrowed only to a limited extent due to the relatively low absorption rate of RRF funds, as only 28% of the funds available for the green transition – around EUR 77 billion – had been absorbed by early 2026.⁶ The main reasons for the limited absorption of funds appear to be insufficient administrative capacity and complex governance structures, as well as the performance-based nature of the RRF, which disburses funds only upon the satisfactory fulfilment of specific targets and milestones. 2026 is considered a pivotal year for the EU, as major temporary financing instruments supporting the green transition, such as the RRF, are set to expire. The gradual transition from the RRF to new European support programmes for 2026-32, such as the Social Climate Fund,⁷ which aims to tackle energy poverty, and the Modernisation Fund,⁸ which supports infrastructure upgrades, will play an important role in mitigating the risk of a slowdown in green investment.

Looking ahead, mobilising private investment in large-scale projects through blended finance – where public funds are deployed to scale up private investment – will be key to narrowing the green investment gap.⁹ In addition, private investment can be indirectly supported by the public sector through subsidies and government guarantees. Public sector incentives also play a key role in lowering financing costs and tax burdens for borrowers, as well as in de-risking green investments through partial risk-sharing mechanisms.

The mobilisation of private investment requires continuous and sustainable financing; however, unlocking it requires eliminating existing barriers, establishing a stable institutional framework and improving transparency. Frequent changes in regulation, subsidies and taxonomies can create a vicious circle of persistent underinvestment.¹⁰ Finally, skills shortage among the implementing entities, together with limited capacity to develop mature projects, results in low absorption of available funds.¹¹

The economic implications of the green investment gap

The green investment gap is not merely an accounting or financial measure, but a critical economic and development risk with implications for macroeconomic and financial stability,¹² market functioning and beyond. A widening green investment gap raises the cost of inaction, as it leads to higher future spending on repairing damage caused by extreme weather events, lower GDP in affected countries and increased pressure on their public fi-

3 World Resources Institute, [Adaptation Finance, Explained](#).

4 OECD (2025), [“Scaling up finance and investment for climate change adaptation”](#), OECD Net Zero+, Policy Paper No. 7.

5 European Commission, [Recovery and Resilience Facility for clean energy](#).

6 European Commission, [Recovery and Resilience Scoreboard](#).

7 European Parliament, [Social Climate Fund: Parliament’s ideas for a just energy transition](#).

8 Climate-ADAPT, [Funding opportunities at EU and Member State level | Funding | Portal of the EU mission on Adaptation to Climate Change](#).

9 European Commission, [Finance and the Green Deal](#).

10 European Commission, [Investment Barriers to Sustainable Finance: How to Enable the Transition in G20 Economies](#).

11 European Investment Bank (2023), [“Skills shortage is delaying the green transition, EIB Municipality Survey shows”](#).

12 Climate-ADAPT, [Financial | Adaptation in EU policy sectors](#).

nances. In addition, it raises the cost of capital for green projects and discourages the reallocation of capital towards sustainable solutions, leaving the financial system exposed to climate-related risks.¹³ Delayed and insufficient funding for environmentally friendly innovations increases the risk of stranded assets (i.e. assets that become obsolete due to regulatory changes) and may lock economies into carbon-intensive practices. Furthermore, the risk of “greenwashing” – where investments are classified as “green” without delivering substantial environmental benefits – should not be overlooked, as it may undermine the effectiveness of sustainable finance and further slow the transition.¹⁴

The social implications of the green investment gap

The green investment gap is neither socially nor geographically neutral, as insufficient financing for green investments disproportionately affects the most vulnerable social groups and regions, which are most exposed to the impacts of climate change.¹⁵ At the global level, the investment gap brings to the fore climate justice issues and generates geopolitical tensions, as developing countries, despite contributing less to global emissions, are confronted with higher investment needs and limited access to affordable finance. Moreover, many vulnerable communities are located in high-risk areas, including regions affected by conflict or other forms of instability.¹⁶

It is estimated that the investment gap for adaptation projects in developing countries will amount to USD 310-365 billion per year by 2035, while current adaptation finance flows from developed to developing countries amount to only around USD 26 billion – 12 to 14 times less than needed.¹⁷ This lack of investment in adaptation projects, such as resilient infrastructure, social services and early warning systems, exacerbates social vulnerability and places lives, incomes and entire economies at risk, heightening the risk of poverty and social exclusion. It also increases exposure to the impacts of climate change, including diseases related to rising temperatures, housing degradation and limited access to essential services.

More generally, countries’ growth prospects are critically affected by the green investment gap, as it delays the creation of sustainable jobs and undermines a smooth transition to a green economy.¹⁸ Moreover, limited funding for clean technologies and green skills reduces employment opportunities, especially in regions reliant on carbon-intensive industries.

In conclusion, the green investment gap is a key determinant of future economic, social and environmental sustainability globally. Timely, well-designed and regulation-consistent mobilisation of public and private capital is necessary to mitigate climate and economic risks and ensure the transition to a sustainable and resilient economy for societies. Managing and addressing this gap requires clear policies, transparency and credibility in green investments, as well as enhanced know-how and administrative efficiency among the actors involved. Early action is expected to strengthen competitiveness and create a strategic advantage for firms and economies that choose to move in this direction.

13 OECD (2024), [“Bridging the clean energy investment gap: Cost of capital in the transition to net zero emissions”](#), OECD Environment Working Paper No. 245.

14 OECD (2024), [“Aligning finance with climate goals”](#), OECD Net Zero+ Policy Paper No. 4.

15 World Resources Institute (2025), [Adaptation Finance, Explained](#).

16 European Commission, [Peace and security – International Partnerships](#).

17 UNEP (2025), [Adaptation Gap Report 2025](#).

18 OECD/UNDP (2025), [Investing in Climate for Growth and Development: The Case for Enhanced NDCs](#).

