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COMMISSION STAFF WORKING DOCUMENT

In-depth review for Greece

Prepared under Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances

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European Commission

Greece

In-Depth Review 2025

This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Greece for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2025 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or excessive imbalances in Greece. That Communication will be published in June 2025.

CONTENTS

1. INTRODUCTION

This in-depth review (IDR) analyses the evolution of Greece's vulnerabilities related to high government debt, a weak external position and high stock of non-performing loans in the context of high unemployment. This year's IDR, which follows the 2025 Alert Mechanism Report (AMR) published in December 2024, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future[1].

The vulnerabilities in Greece are analysed against the background of sustained economic growth. The economy grew by 2.3% year-on-year in the first three quarters of 2024, keeping pace with the 2023 growth rate (2.3% for the year as a whole), and well above the EU average. Growth in 2024 was driven primarily by domestic demand, while net exports were a drag on GDP growth. Going forward, consumption is set to continue expanding in line with real income growth. Investment is forecast to accelerate, as financing conditions improve and the implementation of the Recovery and Resilience Plan (RRP) and Cohesion Policy programmes shifts further towards investments. The recovery in external demand is set to benefit export growth, but import growth is expected to remain strong, given the high import content of investment. GDP growth is forecast to be 2.3% in 2025 and 2.2% in 2026[2]. A widening positive output gap, associated labour shortages and minimum wage increases are set to continue to exert upward pressure on prices. Headline inflation averaged 3% in 2024, down from 4.2% in 2023, and it is set to decline further to 2.4% and 1.9% in 2025 and 2026, respectively[3]. Core inflation came in at 3.6% in 2024 and is forecast to reach 2.7% in 2025, which would remain above the euro area average, as in recent years.

(1) European Commission (2024), Alert Mechanism Report 2025, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, COM(2024) 702 final; and European Commission (2024), Alert Mechanism Report 2025, Staff Working Document, SWD(2024) 700 final.

(2) All forecast data used in the IDR come from the Commission Autumn 2024 Forecast (European Economy, Institutional Paper 296), unless stated otherwise, in order to ensure the coherence of the various figures and calculations. The cut-off date for the data for the preparation of this IDR was 20 February 2025. Actual outturn data that have become available after the Autumn Forecast, and before the cut-off date for the IDR, are mentioned.

(3) Input-output analysis indicates that over the period 2020-2024, foreign demand contributed 0.7 pps. to Greece's cumulated GDP growth of ca. 9%; conversely, due to its limited size, the Greek domestic demand had little impact on the EU growth. Over that same period, imported value-added inflation accounted for 1.2 pps. of the 13.3% cumulated inflation. See European Commission Institutional Paper 2025 (forthcoming) – "Economic spillovers and financial linkages in the EU".

2. ASSESSMENT OF MACROECONOMIC IMBALANCES

In recent years, Greece has been characterised by fast receding, but still high government and external debt. The high ratio of non-performing loans and the unemployment rate have also improved. The public debt ratio has been declining after 2020, driven primarily by solid nominal GDP growth, but remains the highest in the EU. Thanks to prudent fiscal policies and the fight against tax evasion, the primary budget balance improved significantly and turned positive in 2023, further supporting debt reduction. High current account deficits have persisted since 2021. Favourable valuation effects and increasing nominal GDP triggered an improvement in the net international investment position (NIIP) over the same period but the ratio remained the most negative in the EU. Banks' balance sheets have been significantly cleaned up from non-performing loans (NPLs), but the workout of NPLs, now mostly held by servicers, has been slow. As a result, NPLs continue to weigh on the economy. The unemployment rate has declined but remains among the highest in the EU. Finally, while the growth potential is estimated to have been increasing thanks to growing labour force participation rates, capital deepening and structural reforms, further strengthening growth would allow for a faster reduction of debt ratios and a faster closure of the substantial income gap with the EU.

2.1. GOVERNMENT SECTOR

Assessment of gravity, evolution and prospects of vulnerabilities

The Greek public debt-to-GDP ratio has continued falling sharply but remains the highest within the EU. The debt ratio is expected to have declined from 163.9% in 2023 to 153.1% of GDP in 2024 driven by high nominal GDP growth, privatisation revenues and the use of cash buffers(4). The primary surplus is estimated to have increased from 2.1% of GDP in 2023 to 2.9% in 2024, while the headline deficit is expected to have declined from 1.3% of GDP in 2023 to 0.6% in 2024, according to the Commission Autumn 2024 Forecast. These improvements are largely due to the muted growth of current expenditure and an increase in personal income tax (PIT) revenues, also supported by improved tax collection. Thanks to hedging operations, the past rises in interest rates had a limited impact on the after-swap interest payments and hence on debt dynamics(5). Medium-term risks to fiscal sustainability are high overall (see Box 2.1).

The fiscal situation is expected to keep improving with the debt ratio receding further and the government balance turning marginally positive by 2026. In 2025, the headline

(4) Greece repaid EUR 7.9 billion (3.3% of GDP) of the Greek Loan Facility (GLF) ahead of schedule in 2024. Given the regained investment grade status and stable access to market funding, Greece decided to use a part of its cash buffer, which amounted to 13.1% of GDP in June 2024 and was one of the highest in the EU, to finance most of the repayment, with EUR 5 billion (2.2% of GDP) coming from the cash buffer.

(5) In recent years, the Public Debt Management Agency (PDMA) hedged its interest rate exposure stemming from the Greek Loan Facility (GLF) debt at a low interest rate, thereby mitigating the impact of changes in interest rates. Therefore, the after swap interest payments remained broadly unchanged at around 3% of GDP in the period of 2022-2024.

deficit is forecast to decrease to 0.1% of GDP driven by the decline in interest expenditure amid falling short-term interest rates. In 2026, the government balance is expected to turn into a surplus of 0.2% of GDP with the primary surplus reaching 3.2%. The Commission 2024 Autumn Forecast expects the public debt-to-GDP ratio to decline further from 153.1% in 2024 to 146.8% in 2025 and to 142.7% in 2026, supported by nominal GDP growth amid a broadly balanced budget. Government gross financing needs are expected to average some 10% of GDP in 2025 and 2026, given the projected balanced budget and moderate debt amortisation amid a high average debt maturity. After regaining investment grade by three major credit rating agencies in 2023, the agencies put Greece's sovereign rating on positive outlook in 2024.

Assessment of MIP relevant policies

In its Medium-Term Fiscal-Structural Plan, Greece commits to a net expenditure growth[(6)] that does not exceed 17.1% in cumulative terms by 2028. In particular, Greece commits to a net expenditure growth that does not exceed 3.7%, 3.6%, 3.1% and 3.0% per annum in 2025, 2026, 2027 and 2028, respectively[(7)]. According to the plan, general government debt would gradually decrease from 153.7% of GDP in 2024 to 133.4% of GDP by the end of the adjustment period in 2028. Prudent policies are set to improve the budget balance in 2025 and 2026.

The widening of the tax base and the improvement in tax collection have been supporting the rebalancing of public finances. The authorities continued implementing measures to fight tax evasion and the informal economy (See Table A.1 on MIP relevant reforms). The interconnection of cash registers and points of sale (POS) terminals with the tax authorities is operational and is expected to contribute to further reducing Greece's VAT gap. The government abolished the 30% reduction of the pensions of employed pensioners[(8)], incentivising pensioners to declare labour income. In the same vein, Greece has taken measures to fight tax avoidance among others by reducing the social contribution rate by 1 pp. and introducing a temporary system that provides for indirect calculation of a deemed minimum tax base for the self-employed[(9)]. From 2025, self-employed and small businesses, as all persons with taxable income, will be required to use electronic invoicing exclusively. The ongoing digital transformation and simplification of the tax administration is expected to further reduce the informal economy, tax avoidance and increase the investment friendliness of the tax system. However, tax fraud and corruption remain a challenge.

2.2. EXTERNAL SECTOR

Assessment of gravity, evolution and prospects of vulnerabilities

(6) Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

(7) These are also the growth rates that the Council recommended. The cumulative growth rates are calculated by reference to the base year of 2023. Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Greece, Official Journal of the European Union C/2025/661, 10 February 2025.

(8) Working pensioners must pay an extra 10% levy for the income earned on the top of the personal income tax and the social contribution.

(9) This system will be phased out once tax reporting for the self-employed has been digitalized fully.

The current account deficit widened driven primarily by increasing import demand. After declining by 4 pps. to 6.2% of GDP in 2023, largely due to favourable price dynamics, the current account deficit widened to 6.4% of GDP in 2024[10], remaining markedly above the pre-pandemic level. This was mainly due to the growing non-oil goods deficit (Graph 2.1.a). Continued weakness in external demand and sustained supply chain disruptions slowed goods exports. In parallel, solid growth of domestic demand propelled imports. A pick-up in gross fixed capital formation and inventory accumulation contributed, but consumption has a higher share in domestic demand than investment in comparison with the euro area on average. In 2024, real investment growth was solid amid falling prices. By contrast, consumption prices increased strongly, while real consumption growth decelerated. Real export and import remained relatively flat in 2023 and the first quarter of 2024. However, a parallel decline in export and import prices and favourable price effects had a significant positive impact on the trade balance in 2023, as the relative price of key exports (goods such as food and refined oil, and tourism services) increased (Graph 2.1.b). Services, in particular tourism, benefitted further from the relative price increase in 2024. Price dynamics continued to have a positive impact on the goods balance in 2024, but less than in 2023.

Persistently low and declining private sector savings weighed on the external balance, while the improving government budget balance supported rebalancing. The sustained high external borrowing needs have been associated with low and declining household net lending, partly offset by falling budget deficits since 2021. Based on the non-financial national accounts (NA), households' net lending has been declining since 2020, and turned negative in 2022, while the net borrowing of the corporate sector has been broadly stable and close to zero since 2021 (Graph 2.1.c). Statistical discrepancies persist between data sources as financial account data suggest a substantially lower net external borrowing need and that the net borrowing of the corporate sector also increased in 2022-2023 (Graph 2.1.d and Annex 1 on statistical uncertainties), but overall, the private sector remains a net borrower, with a net lending/borrowing ratio of -4.4% of GDP compared to 5.5% for the euro area in 2023. Net lending/borrowing in 2024 declined to -6.4% of GDP. This decline was driven by a 1.2 pps. drop in net inflow of capital transfers close to 0% of GDP, well below its 2023 level as besides a limited inflow of EU funds only EUR 1 billion was disbursed under the RRP in 2024, relative to EUR 3.4 billion in 2023.

Cost competitiveness improved further in 2024. Unit labour costs (ULCs) based real effective exchange rate (REER) depreciated further by 3.7% in 2024 (Graph 2.1.e), as compared to 2023, in the context of modest real wage increases broadly aligned with productivity growth, which pushed ULCs to increase by less than in trading partners[11]. The HICP-based REER remained broadly unchanged as disinflation came to a halt. Export market shares have increased since 2017, primarily driven by services exports. Looking ahead, wages are expected to grow steadily due to tight labour market conditions, pushing up ULCs but at a rate that is aligned with the growth observed among trading partners.

Non-cost competitiveness has begun to improve, but still poses a significant challenge. Non-cost competitiveness started to improve recently as demonstrated by international competitiveness rankings[12] and labour productivity increased modestly since 2017. However, no progress was achieved with regard to barriers to entry to professional

(10) Based on monthly outturn data.

(11) The most important trading partners of Greece are the EU countries (especially Germany, Italy, Bulgaria, and Cyprus), the United Kingdom and the United States.

(12) Greece made significant progress in developing competitive product markets as demonstrated by the OECD Product Market Regulation (PMR) indicators 2024. Based on the IMD World Competitiveness Ranking 2024, Greece's overall ranking has improved since 2023, although it remained broadly unchanged after 2021.

services, and the regulatory framework of retail sector has a margin for improvement. Furthermore, labour productivity remains among the lowest in the EU. Greece's labour productivity per hour worked stood at 56.2% of the EU average in 2023 (measured in purchasing power standards). Among other factors, low productivity reflects a high reliance of the economy on micro and small enterprises with lower exporting capabilities, and low-productivity sectors such as tourism, while medium-to-high-tech manufacturing only covered 1.6% of total employment (6.0% for EU) in 2023.

Low and medium technology products continue to dominate exports, inhibiting the movement up the quality ladder. Goods exports are led by oil products (refined petroleum, petroleum and gas accounted for 27.7% of exports in 2024), pharmaceuticals and other chemicals (11.1%), and food and agricultural products (22.7%), while services exports are dominated tourism (42%) and by transport, mainly shipping (41% in 2023). The ratio of high-tech exports increased to 5% in 2022, but remains far below the EU average of 17.3%[13], while the relative knowledge intensity of trade is estimated to be the lowest within the EU based on the trade complexity index (Graph 2.1.f). Overall, Greek exports remain concentrated in a few low- and medium-technology product categories with low value-added, which constrains the integration into global value chains[14]. Insufficient or outdated industrial port infrastructure also undermines Greece's export capacity[15].

Portfolio investments and RRP loans had a prominent role in external financing, while the net FDI inflow shrank further in 2024. The total net FDI inflow amounted to 1.8% of GDP in 2024 and covered about one-third of the external financing needs. Inflows to the real estate sector accounted for 44% of the total FDI inflows in the first three quarters of 2024. More than half of the external financing was covered by portfolio investments, thanks to privatisation as well as growing foreign demand for Greek stocks and government securities and large-scale international bond issuances by Greek commercial banks. Overall, non-debt generating financing (net FDI and equity inflows) covered a substantial part (35%) of the total financing need. Finally, RRP loans provided by the EU at very favourable terms (1.1% of GDP in 2024) represented an additional and important source of financing in 2024.

The current account deficit is expected to narrow moderately by 2026, and official flows (EU grants and loans) are set to cover the bulk of the deficit. The Commission 2024 Autumn Forecast projects the current account balance to narrow only marginally, by 0.5 pps. to 5.7% of GDP by 2026 compared to 2023, as import demand is expected to stay high, driven by the expected strong growth in investment associated with RRP and Cohesion Policy programmes implementation and easing financial conditions. Hence, the current account deficit is expected to remain well above the level estimated to be consistent with Greece's economic fundamentals (Table 2.1). Net external borrowing needs are set to decline faster than the current account deficit, by 1.5 pps. to 3.5% of GDP supported by the strong increase in the EU funding as the RRP implementation approaches its end. Furthermore, official financing (RRP loans) is expected to cover a significant part of the financing needs (about 1.5% of GDP per year). From a sectoral saving-investment perspective, the net borrowing of the government is projected to decline further. Households' net borrowing is also expected to decline slightly, consistent with an expected small reduction in the consumption-to-GDP ratio. The decline in government and household net borrowing is expected to more than offset the increase in the net borrowing of the corporate sector driven by accelerating investment spending.

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(13) Eurostat (https://ec.europa.eu/eurostat/databrowser/view/tin00140/default/table?lang=en).

(14) See OECD (2016): How to boost export performance in Greece (https://www.oecd.org/en/publications/how-to-boost-export-performance-in-greece_5jlz4046mz35-en.html)

(15) Surveys among the members of the Hellenic Federation of Industries indicate that around 90% of their exports are currently channelled through industrial ports.

Strong nominal GDP growth and favourable valuation effects improved the NIIP-to-GDP ratio in 2024. The NIIP-to-GDP ratio is estimated to have improved from -139.3% of GDP in 2023 to -130.4% of GDP in 2024 supported primarily by nominal GDP growth and valuation effects, more than offsetting the negative impact of the current account deficit. Still, the ratio remains the lowest within the EU, far below the fundamental and prudential country-specific NIIP benchmarks (-48.8% and -48.6% respectively in 2024). The risks associated with external indebtedness are mitigated by the fact that 46% of the external debt is held by official EU creditors with very long maturities at favourable interest rates. However, the persistent and substantial current account deficit projected together with the expected decline in inflation implies that the NIIP is likely to deteriorate in the medium term, according to the baseline scenario (see Box 2.1).

Growth is expected to continue supporting further debt reduction, albeit at a lower rate. Greece's persistent productivity gap vis-à-vis the EU weighs on its economic performance and on the pace of debt deleveraging. Labour productivity has been muted in 2023 and 2024 but is expected to pick up somewhat going forward, supporting growth. Labour supply continues to increase and has supported GDP growth. The employment rate reached a historical peak of 69% in 2024-Q3 (age group 20-64), but remains well below the EU average of 75.9%. In a similar vein, the unemployment rate continued to decline to 9.5% in 2024-Q3, but remains among the highest in the EU. Women and young people continue to be disproportionately affected by joblessness. Meanwhile, several sectors of the economy, including tourism, are reporting labour shortages. Overall, structural challenges such as skills gaps and mismatches, the relatively tight regulations for part-time employment, insufficient supply of child- and elderly care, low labour mobility, and disincentives inherent in the tax and benefit system[16] continue to hamper labour supply.

Assessment of MIP relevant policies

Greece is implementing measures to promote exports, improve the business environment, increase employment, and combat the informal sector. Greece is implementing several measures to ease the administrative burden to businesses while improving tax collection and reducing tax avoidance: creating a simpler regulatory and licensing framework and improving the effectiveness and efficiency of the public administration and the judicial system, including via digitalisation (See Table A.1). Recent labour market reforms, complemented by important investments under the RRP and Cohesion Policy programmes, have supported employment growth, but further measures are needed to increase labour force participation, strengthen human capital and boost employment. Greece increased its renewable energy production and consumption, reaching record levels in wind, solar, and hydroelectric output. Several reforms and investments under the RRP are implemented to reduce energy demand and dependency, increase the production and the use of renewable energy, and reinforce the Greek economy's resilience to energy price shocks. Furthermore, the government decided to reduce social contributions by 1 pp. in 2025, supporting cost competitiveness. The Greek reform agenda under the RRP envisages reforms and investments to support exports including by improving services offered to exporters via the digitalisation of public administration and economic diplomacy agencies, as well as implementing new technologies to support trade in agricultural products.

Widening and diversifying the export base and addressing the structural vulnerabilities associated with low private savings remain essential to support

(16) Commission staff analysis shows that the Greek Guaranteed Minimum Income (GMI), together with the associated non-cash benefits, provides a strong disincentive to work at low levels of gross income (See Allen et al. (2025): Assessing Design Principles and Possible Impacts of an In-Work Benefit Scheme in Greece, EC ECFIN Discussion Paper 219).

external rebalancing. Future competitiveness gains should come from an improvement in non-cost competitiveness and labour productivity growth as a further decline in relative wages can prove socially unsustainable. Besides the general need to improve non-price competitiveness, continuing efforts to remove non-tariff barriers to trade (e.g. by reducing the complexity of the technical and legal procedures for international trade) and promote exports in several product markets as well as to improve port infrastructure could also contribute to expanding export activities. Increasing the capacity of electricity networks, including the international transmission network to support the green transition as well as to allow Greece to export energy directly to the central European markets can play an important role in supporting export performance in the short run. Further progress with structural reforms improving the business environment, among others via improving the efficiency of the legal system and building competitive markets will be needed to strengthen export capacity and reduce import dependence. Policies to increase savings in the economy, ease access to finance while accelerating investment, increase labour market participation and formalize the informal economy remain essential to further improve competitiveness and bring domestic consumption in balance with the level of income.

2.3. FINANCIAL SECTOR

Assessment of gravity, evolution and prospects of vulnerabilities

Banks' portfolio quality improved further, but the ratio of non-performing loans (NPL) remains one of the highest within the EU. The NPL ratio declined substantially by 2.3 pps. to 3.4% over the year ending in the third quarter of 2024(17) , while staying above the EU average of 2.0%. The net inflow of new NPLs was modest, while the ratio of Stage 2 loans to total loans(18) declined and averaged 8.8% in the first three quarters of 2024, 0.7 pps. below the euro area average. The freeze in the interest rate of floating rate mortgages introduced and financed by banks in March 2023 and extended until end 2024 has been cushioning the impact of interest rate increases on individual debtors. Banks continued to rely on portfolio sales and securitisation (i.e. inorganic actions) to reduce the stock of NPLs, while the organic workout, such as loan restructurings and internal loan workouts had only marginal relevance.

The workout of NPLs outside of the banking sector remained slow, with legacy NPLs held by servicers continuing to weigh on the economy. While a major part of NPL exposures exited the banking sector via securitisations and outright sales and was transferred to credit servicers, it continues to weigh on the economy (see Annex 2). The stock of NPLs held by servicers declined only marginally, by EUR 0.4 billion, to EUR 70.8 billion (30.2% of GDP) over the year ending in the third quarter of 2024 due to additional securitisation. Debt restructurings and enforcement remain slower than planned, due to delays and inefficiencies in court procedures and a high ratio of unsuccessful auctions(19), the low third-party interest that may be associated with the excessively long duration of the

(17) Based on data reported by the ECB (NPLs as a share of total gross loans and advances on a consolidated basis).

(18) 'Stage 2 assets' are financial instruments that have deteriorated significantly in credit quality since initial status but where there is no objective evidence of a credit loss event.

(19) 75% of the auctions were unsuccessful, while in successful auctions third parties only acquired about 50% of the properties. See Post-Programme Surveillance Report - Greece, Autumn 2024 (https://economy-finance.ec.europa.eu/publications/post-programme-surveillance-report-greece-autumn-2024_en).

judicial resolution of post-auction disputes, and delays in the registration of transactions in the cadastre[20].

Banks' capital adequacy improved further driven by solid profit generation. Banks' after-tax profits increased by 19.1% in the first three quarters of 2024 compared to the same period of 2023 thanks to the sizable net interest margin and rising income from fees and commissions. Banks continued to repay the targeted longer-term refinancing operation (TLTRO) loans, i.e. the funding provided by the ECB in preceding years at low interest rates. Furthermore, loan rates have started to decline since early 2024 in line with the monetary policy cycle. Banks' own funding costs remained contained, thanks to the low interest rates paid on deposits. Moreover, systemic banks issued bonds on international markets at favourable interest rates, supported by the upgrades of banks' credit ratings[21]. These favourable developments allowed banks to pay dividends for the first time since 2007. The average Common Equity Tier 1 and Total Capital ratios compared to risk weighted assets increased substantially compared to 2023, and reached 15.4% and 18.8% respectively, albeit remaining below EU averages.

Banks need to further strengthen their capital position and the quality of regulatory capital in an environment of declining net interest margins. Despite recent improvements, banks' capital position remains among the weakest in the EU. Furthermore, concerns persist about the quality of the regulatory capital, as deferred tax credits account for a still significant, albeit decreasing part of it (41% for the systemically important banks in June 2024). Systemic banks announced voluntary faster prudential amortisation of deferred tax credits, removing them from the regulatory capital by 2032-2034 instead of the original target of 2041. While future bond issuances can contribute to the reduction of financing costs, the decline in lending rates is set to narrow the net interest margin, weakening banks' profitability.

House prices continue to increase at a fast pace against a background of strong demand and still limited supply, but financial stability risks remain low. House prices continued to rise strongly in 2024. After years of limited construction due to the debt crisis, housing construction grew in recent years, but from a low base. In urban areas with high demand, there are many vacant homes tied up in inheritance disputes or debt enforcement. Demand has been boosted by foreign interest, attracted by still relatively low prices and tourism-related investment opportunities. Since gross mortgage flows were low over the last decade and net mortgage lending to households has been picking up but remained negative, the financial risk from a potential correction of real estate prices remains limited. However, rising house prices raise concerns about housing affordability.

Private debt continued to deleverage in 2024. The non-financial corporation (NFC) debt-to-GDP ratio declined marginally to a bit below 52%, below the prudential threshold and converging to the fundamental benchmark (see Table 2.1), as the impact of buoyant credit flows was offset by solid nominal GDP growth. The household debt-to-GDP ratio declined by around 2 pps. to 38%, still above the prudential and fundamental benchmarks (see Table 2.1), as net credit flows to households remained marginally negative in 2024. Commission projections suggest that private debt ratios will continue to decrease under the baseline scenario, which assumes that net credit flows remain in line with what has been observed over the last decade. However, under several alternative scenarios, NFC debt increases, for

(20) See Post-Programme Surveillance Report - Greece, Autumn 2024 (https://economy-finance.ec.europa.eu/publications/post-programme-surveillance-report-greece-autumn-2024_en).

(21) Systemic banks issued senior bonds with an average yield of 4.3% and subordinate bonds with a yield of 6.2%, approximately 240 bps. and 350 bps. below the levels experienced in 2023 (See Monetary Policy Interim Report 2024, Bank of Greece, https://www.bankofgreece.gr/Publications/Inter_NomPol2024.pdf).

instance, if credit flows keep up with levels observed since 2022, and/or if inflation turns out much lower than expected (see Box 2.1 on debt projections). Net credit flows to households have followed an increasing trend since 2011 and might turn positive in 2025, slowing down the debt deleveraging process.

Assessment of MIP relevant policies

The government is implementing various measures to facilitate NPL reduction, restructuring and debt enforcement, but challenges remain. The Government expanded the relaunched Hellenic Asset Protection Scheme (HAPS)[22] by EUR 1 billion and extended the scheme until mid-2025 which supported a further reduction in banks' NPL ratio (see Table A.1). Furthermore, in 2024, amendments to the Code of Civil Procedure were adopted to broaden the amount of information available on the auctioned properties to potential purchasers on the auction platform, facilitate the conduct of auctions in non-metropolitan areas and unburden auction purchasers from unpaid utility bills. Still, additional measures such as bringing closer the hearing dates and increasing the efficiency of judicial processes (via filtering the cases) as well as lifting the territorial exclusivity of notaries to tackle bottlenecks in the debt enforcement process could help increase third-party demand for auctioned properties and accelerate the pre- and post-auction judicial processes.

The Bank of Greece (BoG) introduced borrower-based measures and a positive neutral rate for the countercyclical capital buffer. To prevent the accumulation of risks related to residential real estate markets and increase lender and borrower resilience related to mortgage lending, the BoG introduced borrower-based measures in April 2024 for the first time. Maximum limits were set for Loan-to-Value (LTV) ratios at 90% for first-time buyers and 80% for second and subsequent buyers and for Debt-Service-To-Income (DSTI) ratios at 50% for first-time buyers and 40% for second and subsequent buyers, applicable from January 2025. Furthermore, in 2024 the BoG increased the countercyclical capital buffer (CCYC) rate from zero to 0.25%, applicable from October 2025. The BoG assesses that the accumulation of this buffer in the early phase of the cycle provides a sufficient capital cushion to absorb potential losses and ensure the smooth flow of credit to the economy, even in the face of unforeseen events.

Table A.1: **Main policies increasing or reducing risks of imbalances considered in this IDR**

Vulnerability	Policies	Implementation status
Government sector	Interconnection of cash registers and points of sale (POS) terminals with the tax authorities	Implemented in 2024
	Measures incentivising the use of electronic payments	Implemented in 2024
	Self-employed and small businesses required to use electronic invoicing exclusively, tax declarations automatised	Announced in 2024 for implementation in 2025
	Digitalisation of the tax and customs administration, simplification of tax legislation	Ongoing
	Introduction of a deemed minimum tax base for self employed	Implemented in 2024
	Abolition of 30% reduction on the pensions of employed pensioners	Implemented in 2024
	The authorities abolished the overhead tax for self-employed.	Implementation from 2025, following a 50% reduction in 2024.
External sector and	Measures to reduce energy demand, increase the production and use of renewable energy also for export purposes	Ongoing

(22) HAPS enabled banks to securitise NPLs and transfer them to private investors (see Annex 2).

competitiveness	Reduction of social contributions (1 pp.)	Announced in 2024 for implementation in 2025
	Tax incentives for mergers & acquisitions and R&D investment	Announced in 2024 for implementation in 2025
	Redistribution of the territorial competences of civil and criminal courts (revision of the judicial map)	Launched in 2024
	Reform of the Hellenic Cadastre (mapping)	Ongoing, expected to be completed in 2025
Financial sector	Amendments to the civil code procedure to broaden the information on auctioned properties, facilitate auctions in rural areas, unburden purchasers from unpaid utility bills	Implemented in 2024
	Expansion of the relaunched HAPS (by EUR 1 billion, scheme extended until mid-2025)	Announced in 2024
	Introduction of borrower-based measures	Announced in 2024 for implementation in 2025

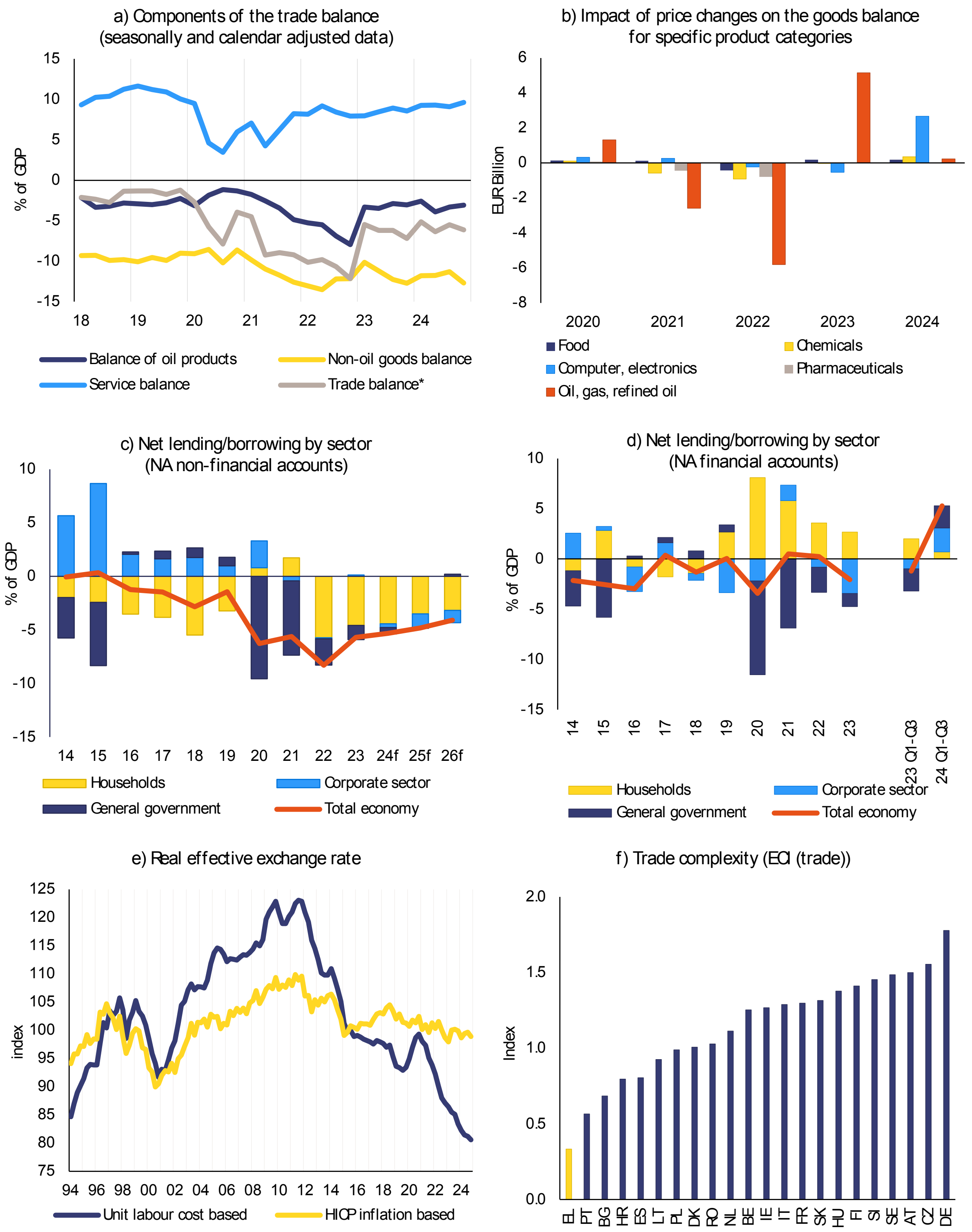
Note: This table lists the main measures that may increase or reduce the risks of macroeconomic imbalances. The measures are described more at length and reviewed in the text of this IDR.

Conclusions

Greece made further progress in addressing its long-standing vulnerabilities relating to high public and external debt, non-performing loans, and unemployment. The public debt ratio further declined substantially in 2024, but it remains the highest in the EU. A strong initial fiscal position and expected further improvements together with solid nominal GDP growth are set to ensure continued reduction of debt-to-GDP ratios. The current account deficit increased to 6.4% of GDP in 2024, well above its pre-pandemic level. However, thanks to strong nominal GDP growth and favourable valuation effects, the NIIP ratio is estimated to have improved further in 2024, although it remains the most negative in the EU. Looking ahead, robust investment growth is expected to drive sustained high demand for imports in 2025-2026, implying only a marginal narrowing of the current account deficit. Nevertheless, EU financing (grants and loans) and private non-debt generating financing are expected to cover the bulk of the external deficit, mitigating external sustainability risks. The labour market continued to improve, with employment rising and unemployment falling, the latter still among the highest in the EU. Although the stock of non-performing loans (NPLs) decreased further in 2024, the resolution of NPLs held by servicers remained sluggish, continuing to burden corporate and household balance sheets.

Policy progress over recent years has been strong, but sustaining reform momentum both under and beyond the RRP remains key to address the structural weaknesses of the economy. The government continued the implementation of its large-scale structural reform agenda in 2024. Measures have been taken to incentivise electronic payments and improve the effectiveness of the tax administration. In the judicial sector, progress was achieved through a revision of the judicial map, which can help shorten legal procedures. Additional steps have been taken to support the enforcement of legacy NPLs, but further efforts are necessary to increase third party demand for auctioned properties. Increasing productivity is key to enhance long-term growth prospects, strengthen export capacity and reduce import dependence, hence, facilitate the unwinding of macroeconomic imbalances. Reforms in this area could continue to further incentivise companies for mergers and acquisition and eliminate remaining barriers to competition and market access.

Graph 2.1: **Selected graphs, Greece**



a) Trade balance calculated as the sum of the seasonally adjusted subcomponents.
e) Real effective exchange rate calculation includes IC37 (EU27 + Australia, Canada, Japan, Mexico, New Zealand, Norway, Switzerland, Turkey, United Kingdom, USA)
Source: Eurostat, Bank of Greece, and European Commission forecasts and calculations.

Box 2.1: **Medium-term external, private, and government debt projections**

This Box summarises external and internal debt to GDP projections for Greece over the next decade, based on scenario analysis. It covers scenarios to take into account different underlying assumptions for external, corporate and household debt stocks, as well as the outcomes of the latest government debt sustainability analysis (DSA) conducted by the Commission.

Greece's net international investment position (NIIP) is projected to increase somewhat before falling under a wide range of scenarios. Under the baseline assumptions that take the 2024 forecasts as a starting point, the NIIP is estimated to fall to around -150% of GDP in 2034 (Graph 1 panel a), mainly due to the deteriorating primary income balance and a large trade deficit. In an adverse scenario of a lower trade balance over the entire projection horizon and an annual inflation assumed to be on average 2.4 pps below the baseline, the NIIP ratio would further decline to -188% of GDP by 2034. Despite the significant size of Greek external debt, risks to its sustainability are partly mitigated by the fact that a substantial share of that debt is held by official creditors.

The corporate debt-to-GDP ratio is projected to slightly decline over the next decade under the baseline scenario. The baseline scenario takes the 2024 nowcast as a starting point and foresees an average real GDP growth of 0.9% per year, average annual inflation rate of 2.1%, and annual corporate credit flows of 1.2% of GDP (slightly below the debt-stabilising[1] NFC credit-to-GDP of 1.7%). In the baseline scenario, the NFC debt-to-GDP ratio is projected to decrease by around 5 pps reaching 49% by 2034 (Graph 1 panel b). However, credit flows as percentage of GDP have shown an upward trend over the last decade, suggesting that, if this trend continues, credit flows will be higher than in the baseline scenario. Under a scenario of high corporate credit flows over the entire projection horizon, the debt-to-GDP ratio would increase by about 5 pps to 58% of GDP. Under a scenario of high corporate credit flows over the entire projection horizon, the debt-to-GDP ratio would increase by about 5 pps to over 58% of GDP. If in addition to high credit flows, annual inflation is assumed to be on average 2.4 pps below the baseline (i.e. assuming deflation over the next 10 years), the NFC debt-to-GDP ratio would increase to about 71%, above its levels in 2020 and 2021.

The household debt-to-GDP ratio is projected to continue decreasing over the next decade under a broad range of scenarios. The baseline scenario takes the 2024 nowcast as a starting point and foresees an average real GDP growth rate of 0.9%, an average inflation rate of 2.1% and credit flows of -1.2% of GDP (solidly below the debt-stabilising credit-to-GDP ratio of 1.2%) for the years 2025 until 2034. As a result, the household debt-to-GDP ratio would drop by more than 20 pps by 2034, to 17% of GDP (Graph 1 panel c). Under several adverse scenarios of credit flows being higher or annual inflation being lower for the entire period under consideration, the household debt-to-GDP ratio would still decrease, but at a slower rate.

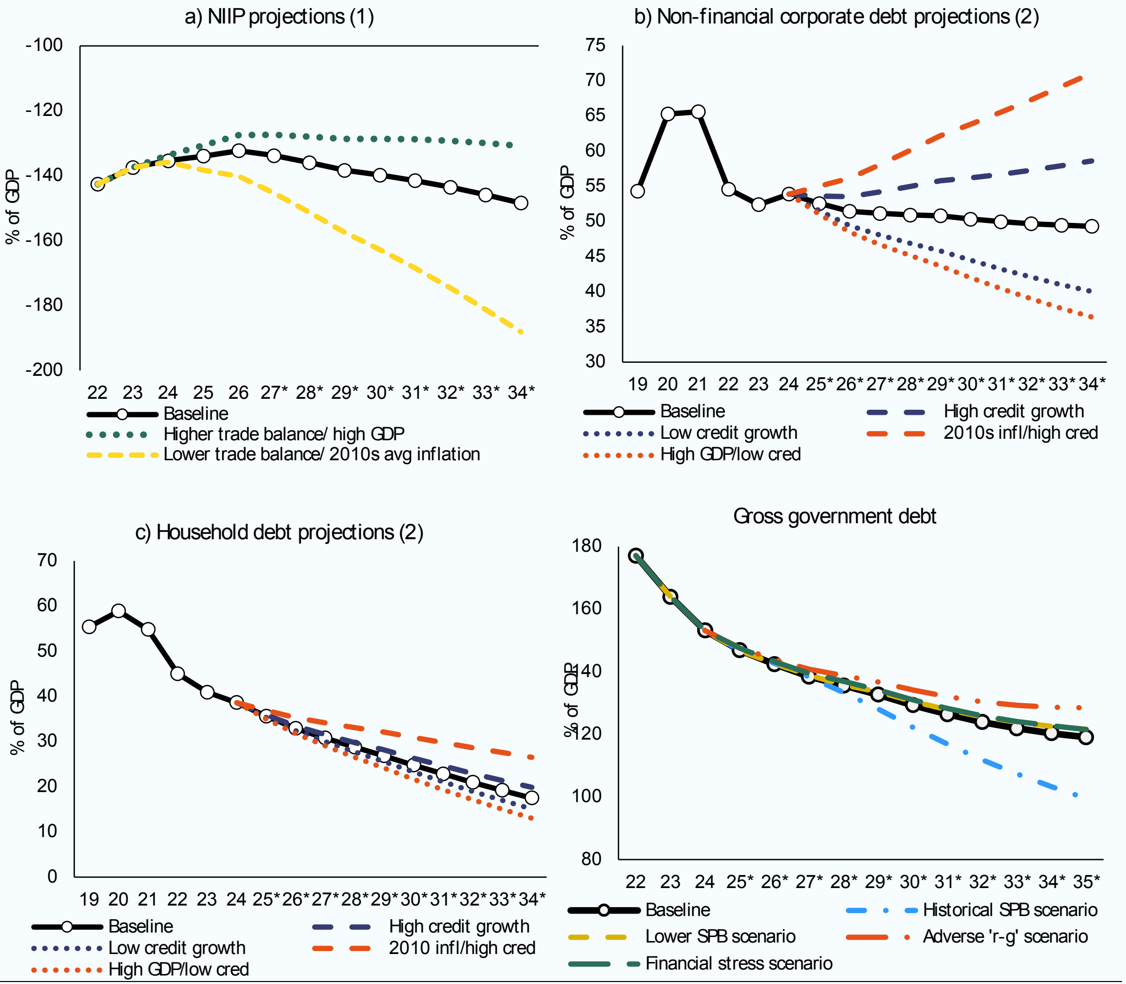
Medium-term risks to fiscal sustainability for Greece are overall high, whereas they are overall low in the short term and in the long term. The debt sustainability analysis carried out by the Commission indicates that, under the baseline scenario, the government debt-to-GDP ratio is projected to decrease to around 133% in 2029 and to around 120% in 2034 (Graph 1 panel d) [2]. This Commission's assessment of fiscal sustainability risks does not take into account Member States' commitments as outlined in the medium-term fiscal-structural plans. In line with standard practice, it only incorporates fiscal measures that have been legislated or agreed for 2025 and assumes unchanged policy afterwards.

(1) The debt stabilising credit-to-GDP ratio refers to the credit ratio between 2025 and 2034 that would stabilise the debt-to-GDP ratio at its 2024 level.
(2) See Post-Programme Surveillance Report - Greece, Autumn 2024, Institutional Paper 299, https://economy-finance.ec.europa.eu/publications/post-programme-surveillance-report-greece-autumn-2024_en. See also European Commission (2025), Debt Sustainability Monitor 2024, European Economy Institutional Paper 306.

(Continued on the next page)

Box (continued)

Graph 1: **External, private, and government debt projections, based on scenario analysis for Greece**



(1) The baseline NIIP projections are based on the Commission's medium-term forecasts for GDP and interest rates. Additionally, assumptions are made about the drawdown of NGEU and MFF funds, and the median value of the last 3 years is used for non-investment income. The 'higher trade balance/ high GDP' scenario assumes higher trade balance in 2025 and beyond, with the difference to the baseline calculated as half the interquartile range of the annual 10-year-average trade balance to GDP ratios over 2013-2023and additionally reflects a permanent 1 pp increase in GDP growth relative to the baseline scenario. The ' lower trade balance/ 2010s avg inflation' scenario assumes the same as the first scenario but with an opposite sign in the trade balance and also reflects an inflation rate that is set to the country-specific average inflation rate observed over the 2010s.
(2) Both for the NFC and HH debt projections, the baseline refers to the country-specific median annual credit flow to GDP ratio over 2015-24. The high/low credit scenario assumes a higher/lower credit flow to GDP ratio, with the difference to the baseline calculated as half the intertercile range of the annual credit flow to GDP ratios over 2015-24. The high GDP growth scenario reflects a permanent 1 pp increase in GDP growth relative to the baseline scenario. The low inflation scenario reflects an inflation rate that is set to the country-specific average inflation rate observed over the 2010s..
(3) The baseline projection for government debt is stress-tested against four alternative deterministic scenarios to assess the impact of changes in key assumptions: 'historical structural primary balance (SPB)' scenario, in which the SPB returns to its historical 15-year average of 4.1% of GDP; 'lower SPB' scenario: the SPB in 2025 deteriorates by 50% more than in the forecast; 'adverse interest-growth rate differential' scenario: the interest-growth rate differential is 1 pp. higher compared with the baseline; 'financial stress' scenario: interest rates temporarily increase by 4.8 pps. compared with the baseline.
Source: Eurostat, Post-Programme Surveillance Report - Greece, Autumn 2024, Institutional Paper 299, and European Commission forecasts and calculations.

Table 2.1: **Key economic and financial indicators, Greece**

	average 2017-2019	average 2020-2022	2023	2024+	forecast 2025	forecast 2026
Output and Prices						
Real GDP (1 year % change)	2.0	1.4	2.3	2.1	2.3	2.2
Real GDP per capita (1 year % change)	2.1	1.9	2.6	2.6	2.7	2.6
GDP deflator (1 year % change)	0.1	2.5	5.9	3.5	2.4	2.2
Harmonised index of consumer prices (1 year % change)	0.8	2.8	4.2	3.0	2.4	1.9
Core inflation (HICP excluding energy, food, alcohol and tobacco) (1 year % change)	0.5	0.7	5.3	3.6	2.7	2.0
External position						
Current account balance, balance of payments (% GDP, 3y average)	**-1.9**	**-5.4**	**-7.7**	**-7.3**	**-5.8**	**-5.7**
Current account balance, balance of payments (% of GDP)	-2.1	-7.8	-6.2	-5.4	-5.9	-5.7
of which: trade balance (% GDP)	-1.2	-8.0	-5.0			
of which: income balance (% GDP)	-0.9	0.2	-1.2			
Current account norm (% of GDP) (1)	-1.7	-1.5	-1.5	-1.4	-1.3	-1.2
Current account req. to reach fund. NIIP (% of GDP) (2)	-1.5	-1.8	-0.4	-0.2		
Net international investment position (% of GDP)	**-147.8**	**-161.7**	**-139.3**	**-130.4**	**-128.1**	**-125.5**
NENDI - NIIP excluding non-defaultable instruments (% of GDP)	-131.7	-140.2	-110.7			
Net lending-borrowing (% of GDP)	-1.7	-6.0	-5.0			
Competitiveness						
Nominal unit labour cost index per hour worked (3y % change)	**-3.4**	**4.1**	**-1.8**	**3.3**	**7.0**	**6.7**
Nominal unit labour cost index per hour worked (1 year % change)	-0.8	1.2	1.8	3.3	1.7	1.6
Real effective exchange rate - 42 trad. part., HICP defl. (3y % ch.)	**0.5**	**-1.8**	**-1.2**	**0.8**	**-1.3**	**0.4**
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)	0.2	-0.8	1.6	0.4	0.1	-0.1
Export performance against advanced economies (3y % change)	**6.0**	**-2.8**	**32.1**	**9.4**	**-2.1**	**3.3**
Export performance against advanced economies (1 year % change)	4.8	2.3	-0.7	2.1	0.2	0.9
Core inflation differential vis-à-vis the euro area (pps.)	-0.5	-1.3	0.4	0.7	0.2	0.0
Corporations						
Non-financial corporate (NFCs) debt, consolidated (% of GDP) (3)	**59.0**	**61.8**	**52.4***	**53.9**		
NFCs debt fundamental benchmark (% of GDP) (4)	37.4	47.5	60.4	66.0		
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	0.4	7.0	4.5	9.2		
Households and housing market						
Household debt, consolidated (% of GDP) (3)	**57.4**	**52.9**	**40.9***	**38.6***		
Household debt fundamental benchmark (% of GDP) (4)	22.1	27.4	33.4	35.6		
Household debt, consolidated (% of Households' GDI)	75.9	65.5	53.1	49.4		
Household credit flow, consolidated (% debt stock t-1)	**-2.2**	**-2.4**	**-1.0**	**0.2**		
Household gross saving rate (&)	-4.2	0.5	-1.9			
House price index, nominal (1 year % change)	**2.6**	**8.0**	**13.8**			
House prices over/undervaluation gap (5)	-8.5	4.6	20.1			
Standardized price-to-income ratio	88.2	95.9	103.3			
Building permits (m2 per 1000 inh)	84.1	180.3	260.7			
Government						
General government gross debt (% of GDP)	**181.0**	**194.6**	**163.9**	**153.1**	**146.8**	**142.7**
General government balance (% of GDP)	0.8	-6.3	-1.3	-0.6	-0.1	0.2
Banking sector						
Return on equity of banks (%)	-0.3	-5.1	12.0			
Tier-1 capital ratio banking sector (% risk-weighted assets)	16.2	14.6	16.2			
Gross non-performing loans, domestic and foreign entities (% gross loans)	40.7	13.8	5.0	3.4		
Cost of borrowing for households for house purchase (%)	3.0	2.8	4.1	4.1		
Cost of borrowing for NFCs (%)	4.2	3.3	5.9	5.6		
Labour market						
Unemployment rate (% labour force Y15-74)	**19.8**	**14.9**	**11.1**	**10.4**	**9.8**	**9.2**
Labour force participation rate - % pop. aged 15-64 (3y change in pp)	**0.5**	**-0.3**	**2.2**	**2.9**	**1.2**	**1.4**

+ If actual data were unavailable at the cut-off date, forecast or nowcast data are presented instead; * Denotes values above prudential thresholds;

(1) Current accounts in line with fundamentals (current account norms): derived from reduced form regressions capturing the main determinant of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See Coutinho, Turrini and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.

(2) Current account required to reach the prudential level of the NIIP over 10 years: calculations make use of Commission's T+10 projections. See Coutinho, Turrini and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission.

(3) Prudential threshold for non-financial corporate and household debt-to-GDP ratio: corresponds to the level above which banking crises become more likely. It is derived from regressions minimising the probability of missed crises and that of false alerts. See Bricongne et al. (2020), "Is Private Debt Excessive?, Open Economies Review, 31:471-512.

(4) Fundamentals-based benchmarks for non-financial corporate and household debt-to-GDP ratios: assesses private debt from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. See Bricongne et al. (2020), "Is Private Debt Excessive?, Open Economies Review, 31:471-512.

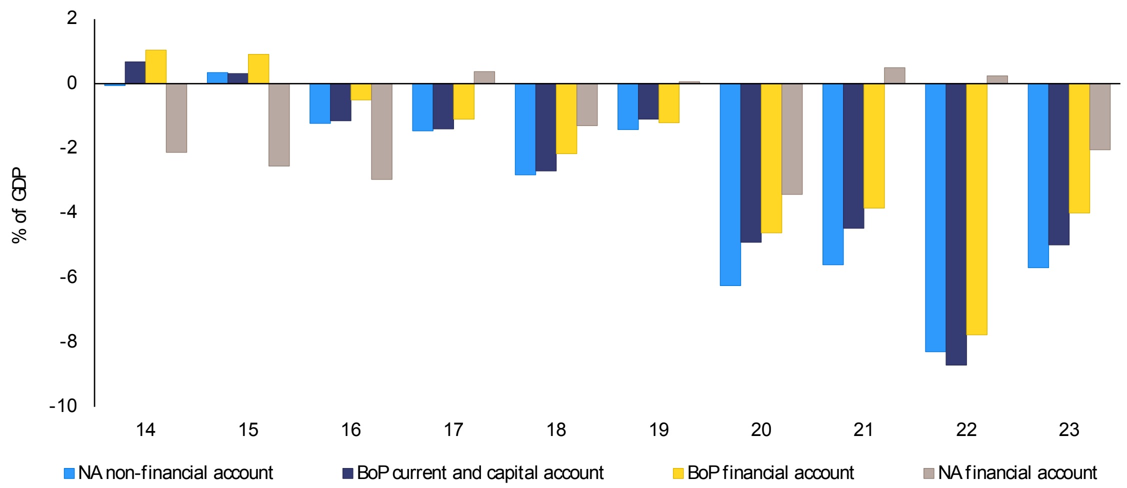
(5) House prices over/undervaluation gap: is the simple average of the price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables: total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure. Based on Philiponnet, N., Turrini, A. (2017), "Assessing House Price Developments in the EU", European Economy - Discussion Papers 2015 - 048, DG ECFIN, European Commission.

Source: Eurostat and ECB where available; European Commission for forecast figures (Autumn Forecast 2024).

ANNEX 1 - STATISTICAL UNCERTAINTIES AROUND EXTERNAL AND SECTORAL SAVINGS ACCOUNTS

External accounts and sectoral savings statistics are surrounded by significant uncertainties, encumbering the assessment of external sector developments. Net external borrowing shows substantial differences depending on the statistical sources, and varied between 2.1% of GDP (financial account – NA) and 5.7% of GDP (non-financial account - NA) in 2023 (Graph A1.1). In the meantime, the indicator consistent with the net international investment position (NIIP), a leading indicator for the assessment of the external sector, was recorded at 4% of GDP (financial account – Balance of Payments). Among others, differences in external statistics can be related to an underreporting of exports (e.g. recording tourism-related revenues as consumption instead of exports) or of capital outflows (e.g. private sector's financial investments abroad are not captured). Differences in financial and non-financial account data for net lending/borrowing can be related to the underreporting of income against the background of the decreasing, but still large size of the shadow economy (estimated at 16% of GDP in 2021[23]), to the fact that transactions of micro firms ('self-employed') and small companies are often reported under the household sector, and differences in reporting standards, data sources and compilation techniques.

Graph A1.1: **The net external borrowing based on different statistics**



Source: Eurostat and Bank of Greece.

(23) See IMF Selected Issues Paper, 2024 February, Larry Qiang Cui and Jiaxiong Yao: Recent Trends of Informality in Greece: Evidence from Subnational Data SIP/2024/009

ANNEX 2 - THE IMPACT OF NON-PERFORMING LOANS ON THE GREEK ECONOMY

The financial crisis that started in Greece at the end of 2009 significantly impacted the ability of debtors to repay their loan obligations to banks. This was caused by a substantial plunge in private incomes, and rise in corporate bankruptcies, while interest rates on loans rose considerably, reflecting the high perceived credit risk. This resulted in a steep increase of NPLs(24), reaching a peak in 2015 by accounting for 46.8% of Greek banks' gross loans(25). In response, the Greek state introduced securitisation programmes such as the Hellenic Asset Protection Scheme (HAPS) in 2019 to reduce the NPL ratio. HAPS enabled banks to securitise NPLs and transfer them to private investors through balance sheet derecognition, with state guarantees provided for the senior tranches of the securitised assets(26). Although this transfer reduced the stock of NPLs on banks' balance sheets, servicers still manage a considerable stock of NPLs (Graph A2.1). The overall amount of NPLs in the economy remained high, at EUR 78.1 billion (close to 35% of 2024 GDP) in the third quarter of 2024 compared to its peak, slightly below EUR 120 billion in 2015(27). The persistence of the high stock of NPLs is largely a consequence of low recoveries from collateral liquidations caused by delayed or unsuccessful auctions, while new NPL inflows were modest over the last couple of years.

The large outstanding stock of NPLs owned by servicers and banks affects the Greek economy unfavourably via several channels. The credit servicers who manage the securitised exposures with medium and high risks (mezzanine and junior tranches) are dominantly owned by foreign institutional investors (i.e., private equity funds and global investment firms); hence portfolio performance under their management has only a marginal direct impact on the Greek financial sector(28). Still, the Greek state can be affected via the potential call of state guarantees in case the securitised assets significantly underperform compared to the original business plans(29). The overall amount of guarantees provided to the total senior notes held by banks and servicers for all HAPS securitisations stood at EUR 16.3 billion(30) in September 2024, which is a contingent liability of the state. Nevertheless, any potential guarantee call is likely to be obvious in advance and limited to specific securitisation, with a limited effect on the yearly evolution of the public debt ratio. Household debt, including mortgage and consumer loans, concerns the largest share of NPLs managed by servicers (54% in servicers' accounts). Household debt-related securitisations are mostly affected by the fact that a large number of residential properties serving as collateral securing debt owned by banks or servicers remain tied up (not marketable) due to protracted debt enforcement proceedings. Furthermore, many of the properties eventually purchased in auctions by banks and servicers remain out of the market for an extended period, substantially reducing the housing supply and contributing to the recent strong house price growth. NPLs of non-financial corporations also account for a

(24) Loans that are more than 90 days past due, or loans of which the debtor is assessed as "unlikely to pay" due to worsened repayment capacity, based on Article 178 of the Capital Requirements Regulation (CRR) - Regulation (EU) No 575/2013)

(25) Based on data reported by the ECB (NPLs as a share of total gross loans and advances on a consolidated basis, CBD2.Q.GR.W0.67._Z._Z.A.F.I3632._Z._Z._Z._Z._Z._Z.PC | ECB Data Portal)

(26) Senior tranche is the tranche composed of securitised exposures with the lowest risk and usually has priority in receiving payments compared to other, riskier tranches (mezzanine and first-loss junior tranches).

(27) Bases on data reported by the ECB (loans and advances – NPLs, CBD2.Q.GR.W0.67._Z._Z.A.F.A1100._X.N._GC._Z.LE._T.EUR | ECB Data Portal)

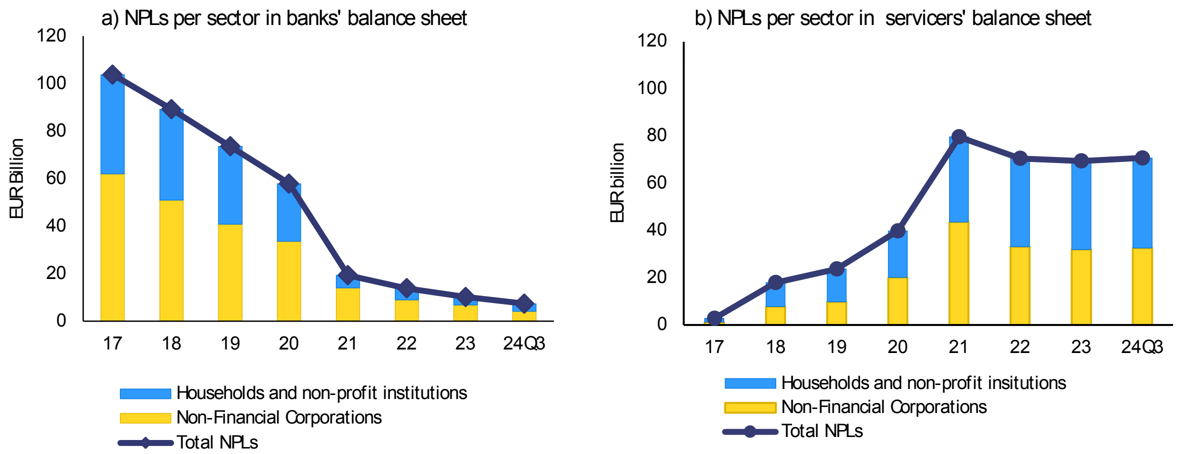
(28) The overall risks that the banks are exposed to when they perform traditional securitisations under HAPS are relatively small, as they are obliged to keep only 5% of mezzanine and junior tranches in their balance sheets.

(29) Business plans submitted by servicers provide projections for loan collections, restructurings, asset liquidations, and overall recovery rates. Original business plans were created in 2019 (HAPS launching year) and were updated subsequently due to the negative effects of the COVID-19 pandemic in the Greek economy.

(30) See "Public Debt Management Agency – PUBLIC DEBT BULLETIN NO 115 September 2024", available on: https://www.pdma.gr/en/quarterly-bulletin/no115. The initial amount guaranteed amounted to EUR 19.2 billion.

substantial portion of total NPLs (32.6% in servicers' accounts), and concern firms in key sectors such as wholesale and retail trade, manufacturing, and construction. A recent study[(31)] found a strong positive correlation between NPLs and the prevalence of "zombie" companies[(32)] in the Greek economy. The study suggests that a high concentration of capital in zombie firms hinders investment by healthy firms and prevents the reallocation of capital to more productive uses. Hence, a faster resolution of corporate NPLs, both on and off bank balance sheets, would facilitate a more efficient allocation of resources, boosting investment and economic activity in the medium to long term.[(33)]

Graph A2.1: **NPL ratio in Greek Banks and amount of NPLs Loan Servicers**



Source: Bank of Greece.

(31) See "Benefits for the Greek economy from resolving bad loans and zombie firms" published on the Economic Bulletin of Bank of Greece, July 2024 (https://www.bankofgreece.gr/Publications/oikodelt202407.pdf)

(32) Following criteria suggested by existing literature, the authors define zombie firms as those that in a given year are at least 10 years old and have an interest coverage ratio of less than 1 for the last three consecutive years.

(33) For instance, the study found that in the manufacturing sector, the real gross investments by viable firms would increase annually by approximately 4.2% or EUR 108 million (in 2015 prices) for every percentage point reduction in the capital share in "zombie" firms in the same sector.