

# Quarterly Report on the Greek Economy

03/ 25

October 22nd, 2025



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

# Overview of the report





# Risks from the external environment remain

## **Global uncertainties**

- World trade and the degree of protectionism
- Fiscal balance of developed countries, monetary stance and characteristics of "fiscal sovereignty"
- Evolution of cutting-edge technologies
- Speed of the green transition and priorities in the energy market
- Financial stability

## **Big challenges for Europe**

- Competitiveness and innovation lag
- Geopolitical tensions
- Fiscal pressure and defense spending
- Integration of new technologies



Overall positive economic performance domestically, but a lag is recorded in certain areas

### **Positive performance**

- Growth rates higher than the EU average
- Fiscal credibility

### **Lagging areas**

- Low investment rate
- Inflation is higher than the EU average
- Low share in sectors such as manufacturing

### **The recently announced measures are a window of opportunity**

- Income tax reduction with additional demographic criteria, indirect effects on the labor market
- Intention to intervene in sectors such as education, health, urban planning, energy

### **Priorities**

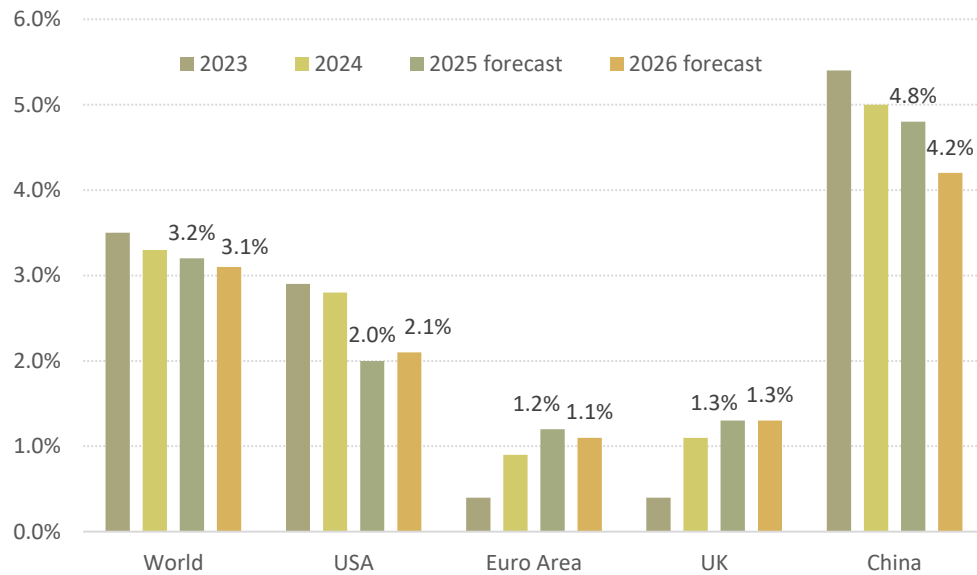
- Reduction of the informal economy
- Mitigation of demographic trends

### **Goal: long-term and systematically higher growth rate**

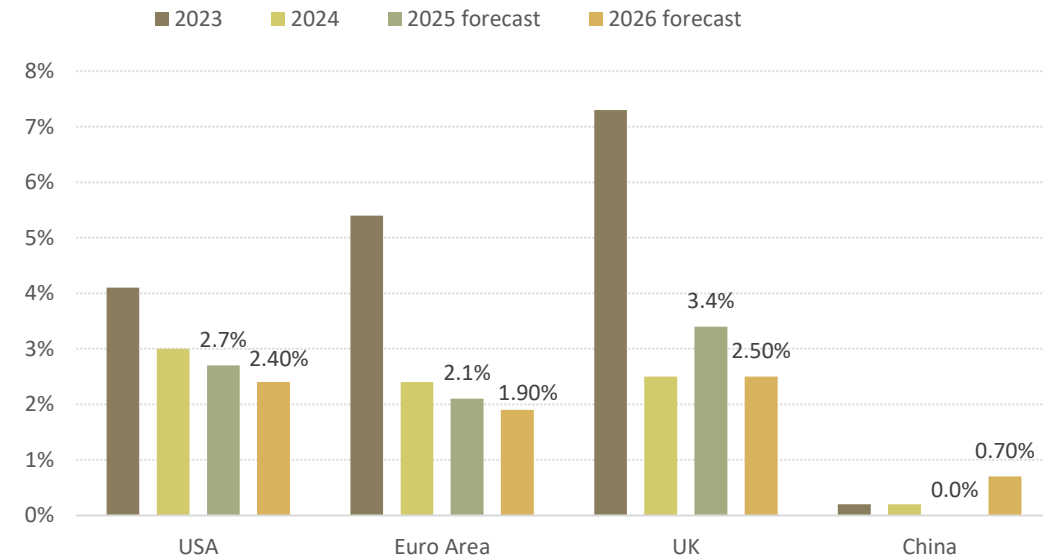


# Global growth is gradually slowing down in 2025 and 2026...

## Real annual GDP growth rate



## Annual inflation rate



**Source:** IMF (October 2025), Analysis: IOBE

...with Europe systematically lagging in growth rates. Inflationary pressures have declined in Europe and the US, while in Asia inflation is below targets.



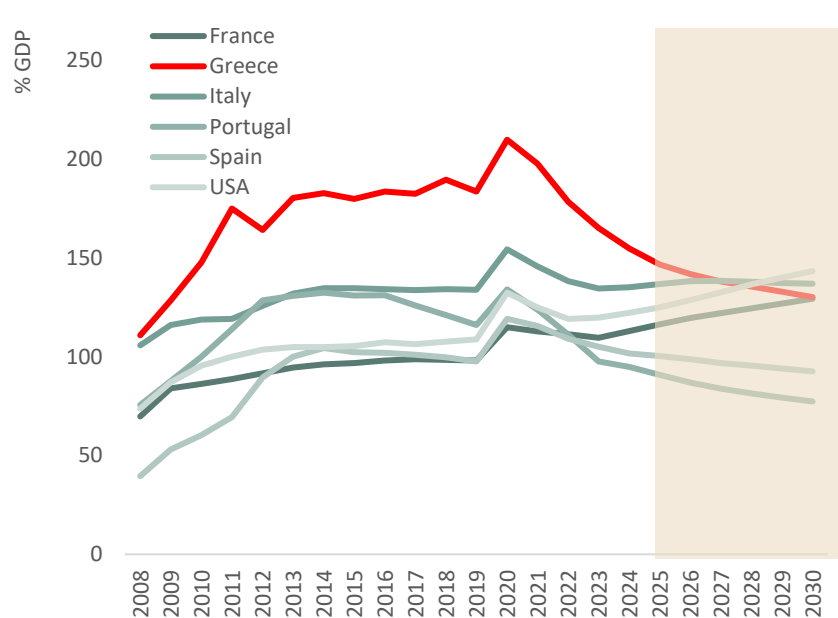
## Global environment: uncertainty regarding the impact of tariffs remains, albeit lower compared to H1

- **Global growth continued** at a moderate pace in the **second quarter of 2025**, amid **ongoing uncertainty** in international trade policy.
  - 1.5% y/y growth in the Eurozone in Q2 (down from 1.6% in the previous quarter), 2.1% in the US (up from 2.0%), 5.2% in China (down from 5.4%), 1.8% (up from 1.7%) in OECD countries.
- **Inflation** in OECD countries remains high (4.1%, core inflation stood at 4.3% in August), but is decelerating in developed economies
- Cautious interest rate adjustments by **central banks** due to uncertainty about the effects of trade protectionist policies
- Global **economic sentiment** is volatile; high volatility in **capital markets and international energy prices**
  - Tensions in the **Middle East** are decreasing; **uncertainty** remains about the course of the **war in Ukraine**.
- **International institutions (September 2025)** forecast...
  - OECD: 3.2% global growth in 2025 and 2.9% in 2026 (down from 3.3% in 2024).
  - ECB: +0.9% growth in the Eurozone in 2025 and 1.1% in 2026 (up from 0.8% in 2024), 2.0% and 1.6% inflation, respectively.

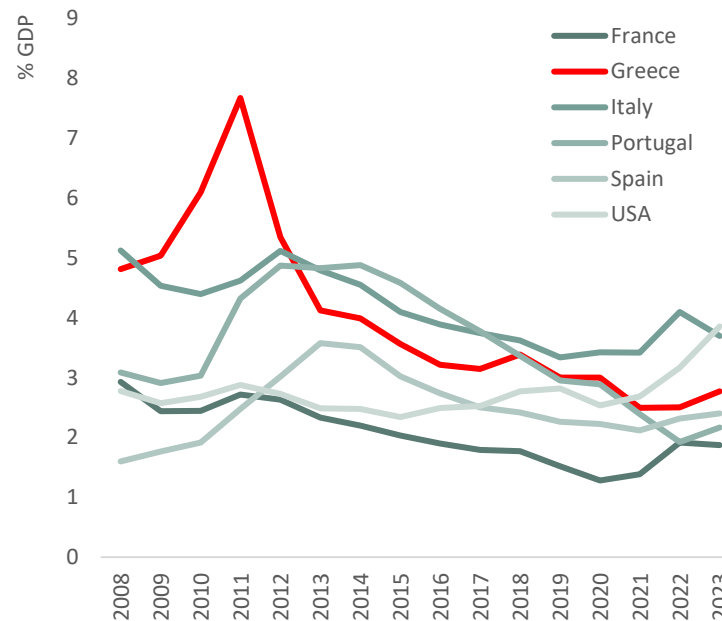


# Fiscal performance is improving in peripheral euro area countries, while deteriorating in core EU countries and the US

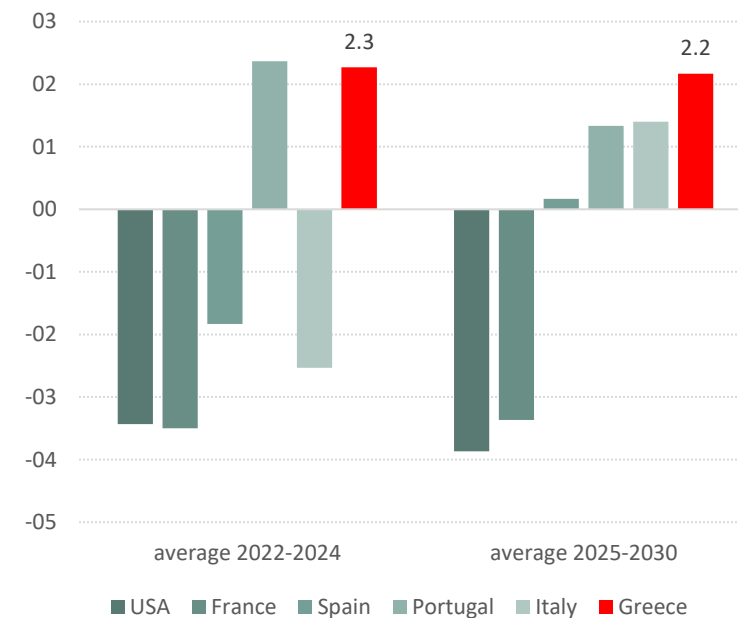
General government public debt (% of GDP), selected EU countries and USA, 2008-2030



Public debt service interest (% of GDP)



Primary fiscal balance (% of GDP)



Source: IMF, historical data and forecasts for 2025-2030, Analysis: IOBE

- Countries such as France and the USA are expected to continue to run high budget deficits, raising challenges for their long-term debt sustainability.
- In contrast, countries such as Italy, Greece and Portugal, despite their high debt stock, are recording a significant improvement in the balance, thus mitigating their long-term debt sustainability challenges.
- Fiscal balance is a prerequisite for stable, long-term growth, with effects beyond the country itself, especially within the euro area.



# Greece Q2 2025: Slowdown in domestic growth

## Real GDP in 2025 Q2: +1.7% y/y

Growth slowdown (from +2.2% y/y in Q1 2025), decline in private consumption, recovery in public consumption, contraction in total investment (decrease in inventories), increase in fixed investment

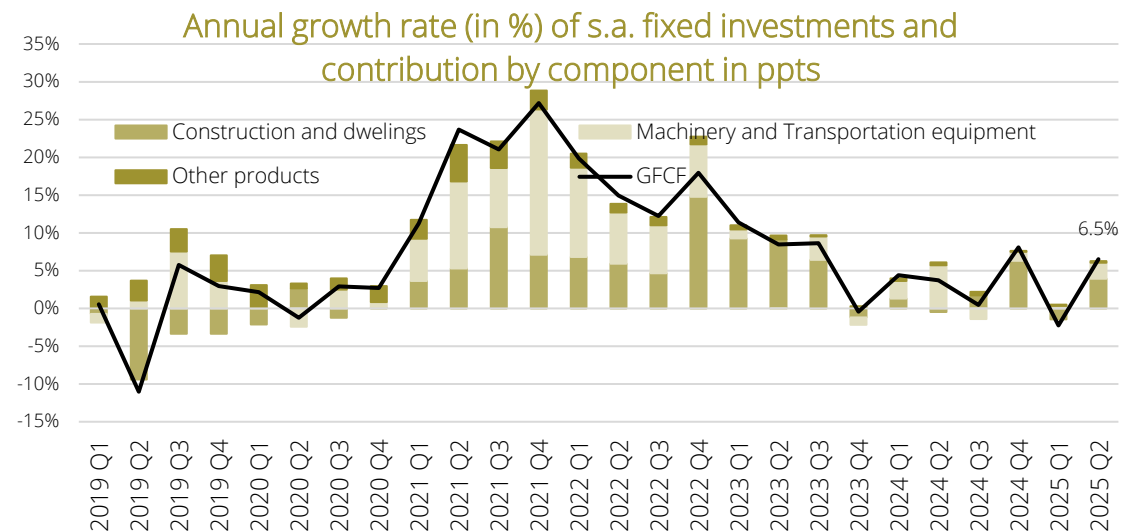
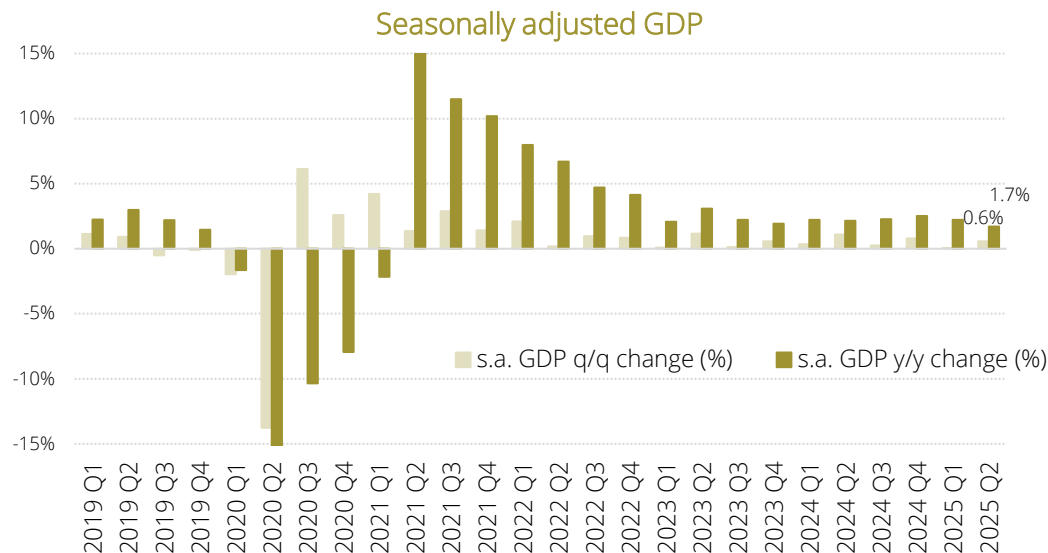
Rise in consumption  
(private +1.1% y/y,  
public +0.7% y/y)

Increase in fixed  
investment  
(total -10.4% y/y, fixed  
+6.5% y/y)

Rise in exports  
(goods -1.1% y/y,  
services +3.9% y/y)

Decline in imports  
(goods -4.8% y/y,  
services +1.5% y/y)

Extroversion  
remains high  
(80% of GDP)

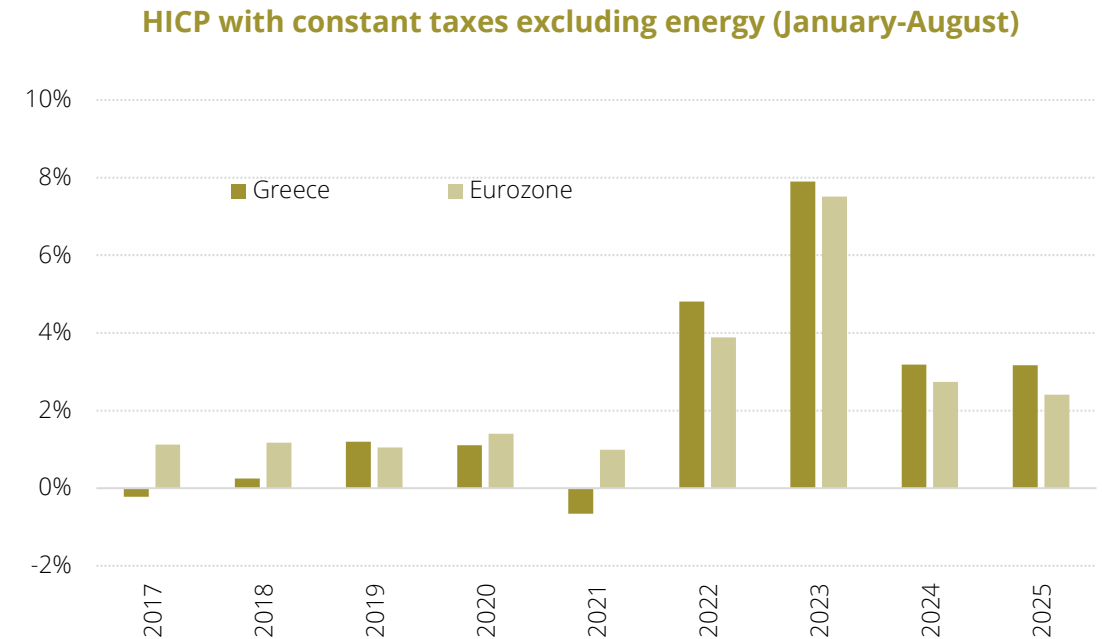
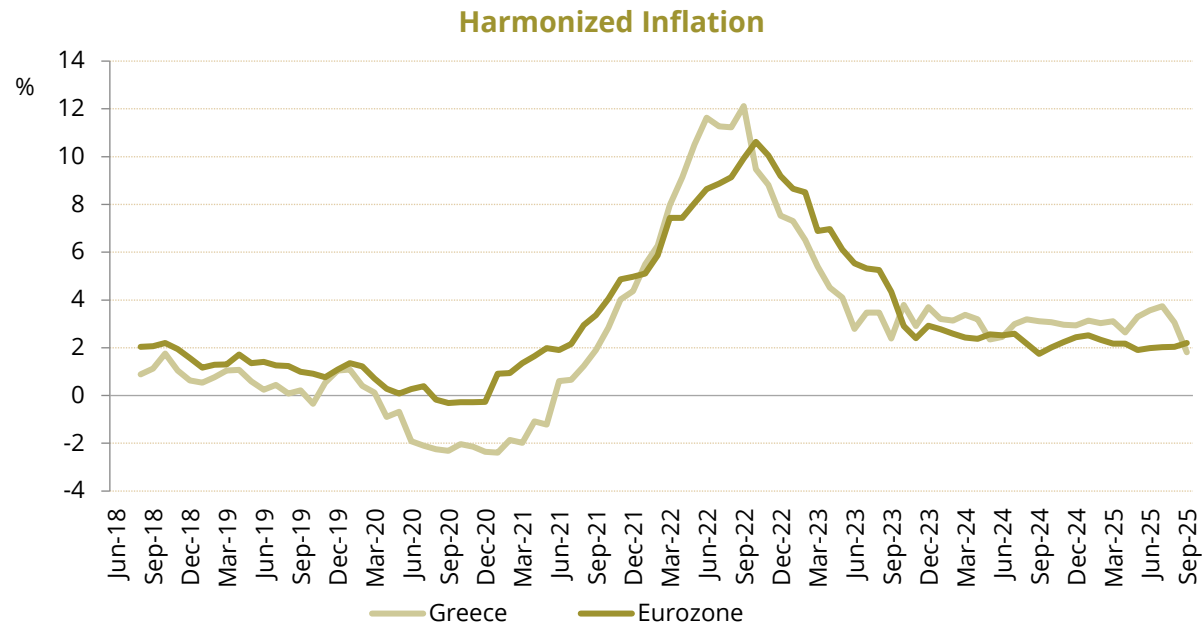


Source: ELSTAT, Analysis: IOBE





Inflation (HICP) remained unchanged in the first nine months of 2025 at 3.0%. Price increases continued in services such as housing, accommodation and catering.



**Sources:** ELSTAT, Eurostat, Analysis: IOBE

**Eurozone:** Inflation de-escalation, 2.2% in the first nine months of 2025, down from 2.5% a year earlier.

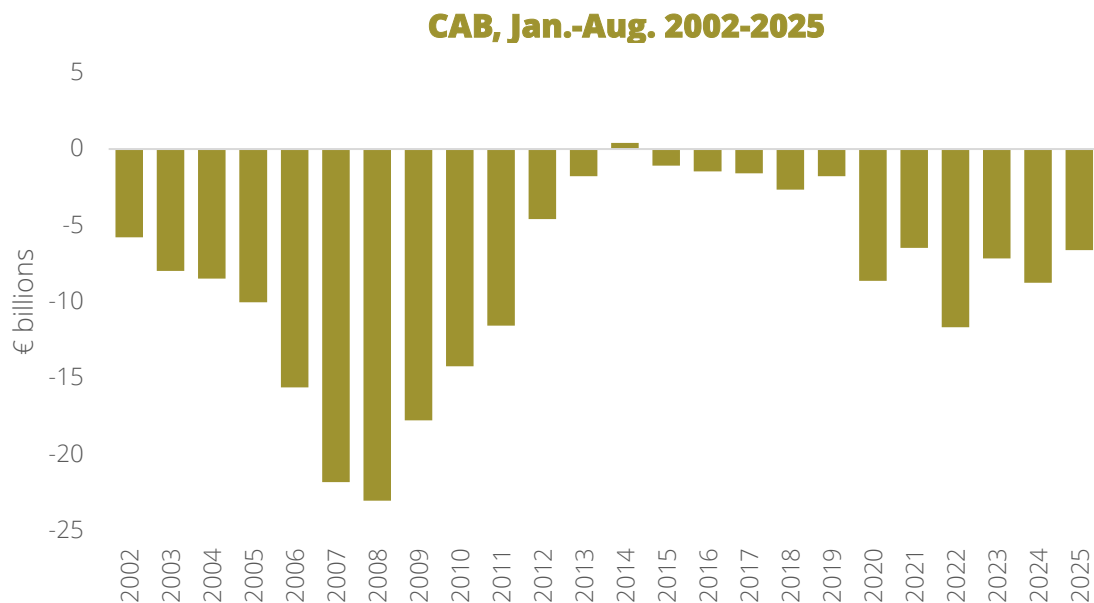
**Greece:** 1.9% y/y rise in the Domestic Price Index in September, down from 2.9% y/y in August. 2.5% CPI growth in the first nine months of 2025, down from 2.8% a year ago.

- Jan-Aug 2025: : +3.2% y/y HICP rate of change, up from 3.1% y/y a year earlier, mainly from the incremental impact of non-energy goods (3.2 pp). Negative impact of energy goods (-0.3 pp), positive impact from indirect taxes (+0.3 pp).

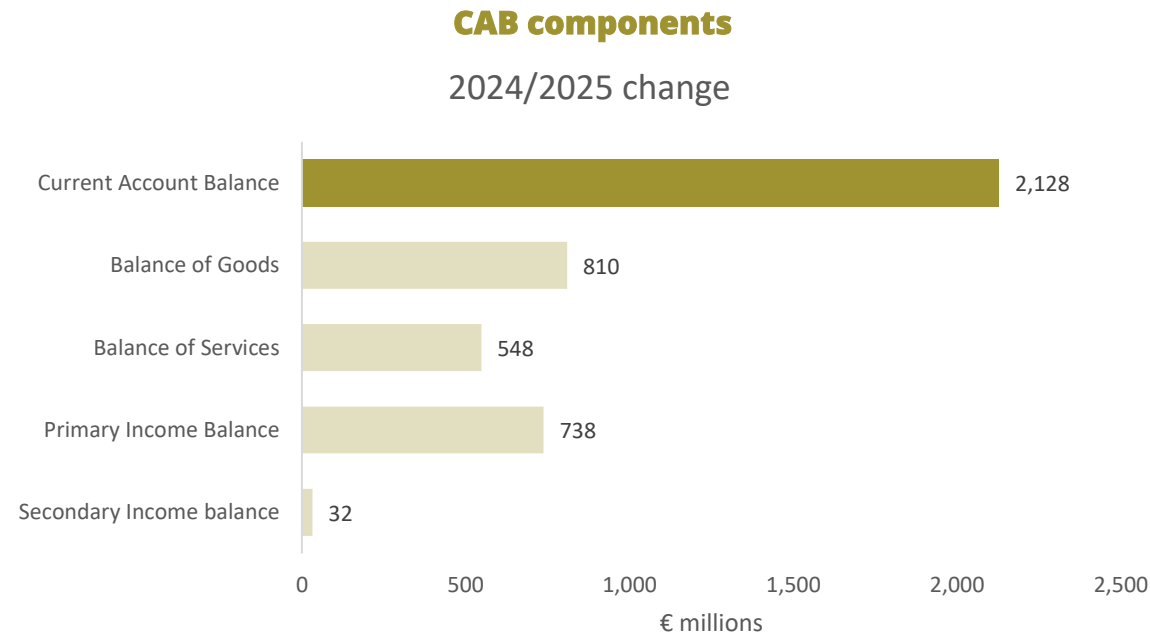
**Producer Price Index (Jan.-Aug. 2025): 0.6% y/y increase**, due to energy goods, up from a 2.2% y/y decline a year ago



The Current Account Balance (CAB) recorded a €6.6 billion deficit in the first eight months of 2025, €2.1 billion smaller than in 2024



**Source:** BoG, Analysis: IOBE



- The **deficit in the goods balance decreased** in the first 8 months of 2025, with a significant decrease in fuel exports and imports but an increase in the flows of other goods.
- The **services surplus increased** by €548 million, with a significant increase in tourism revenue by €1.8 billion (+12.0%) but a decline in transport revenue.
- Improvement in the **primary income surplus** by €738 million, due to a reduction in investment income outflows (profits, interest, dividends).
- Improvement in the **secondary income balance** by €32 million, with an increase in revenue due to the RRF and an increase in payments.



# Public finances: cash target exceeded in the first eight months of 2025

## State budget execution Jan.-Aug. 2025 (cash basis)

- €1,96 billion surplus (0.8% of GDP), target was €1.38 billion
- €8.5 billion primary surplus (3.4% of GDP), target was €4.93 billion

Improvement from last year due to higher rise in revenue (+7.4%) compared to expenditure (+5.5%)

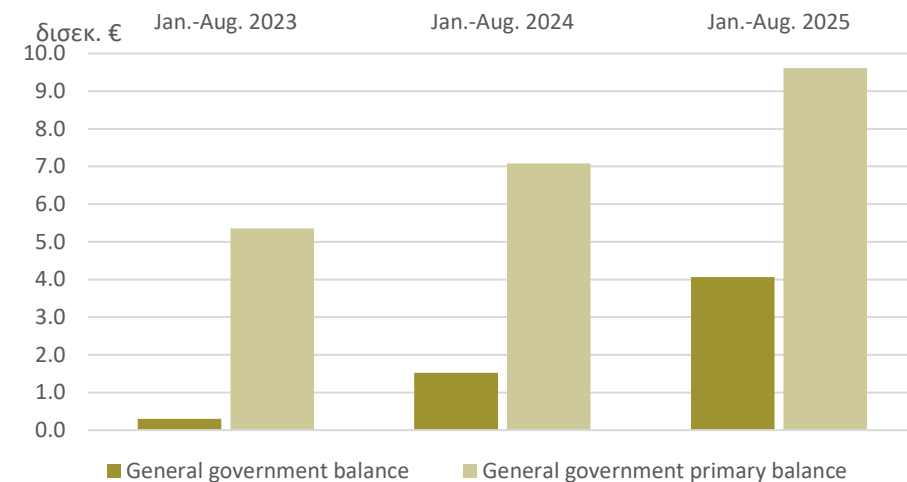
## Target exceeded mainly by expenditure (-€3.16 billion)

- Tax revenue target exceeded (income, VAT, corporate income tax, etc.)
- Reduced expenses due to the deferral of transfer payments
- and payments for equipment programs

## 2026 state budget draft

- Target for **primary** government budget **surplus** of 3.6% of GDP in 2025 and 2.8% of GDP in 2026
- Target for **general government debt** of 145.4% of GDP in 2025 and 137.6% in 2026.
- Tax reform and other interventions announced at the Thessaloniki Fair (TIF) amounting to €1.76 billion for 2026 and €2.5 billion for 2027.

## General government cash balance

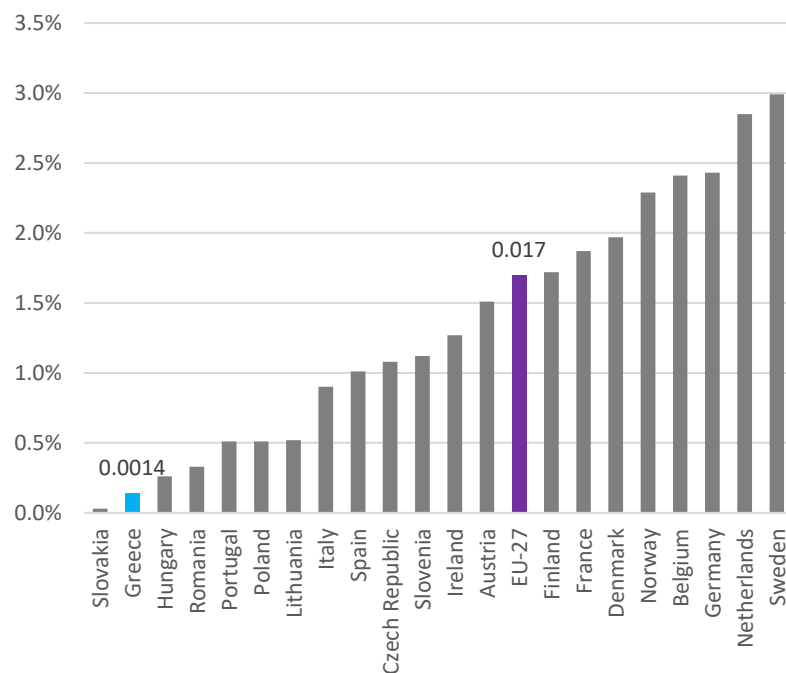


**Source:** Ministry of Finance, Analysis: IOBE

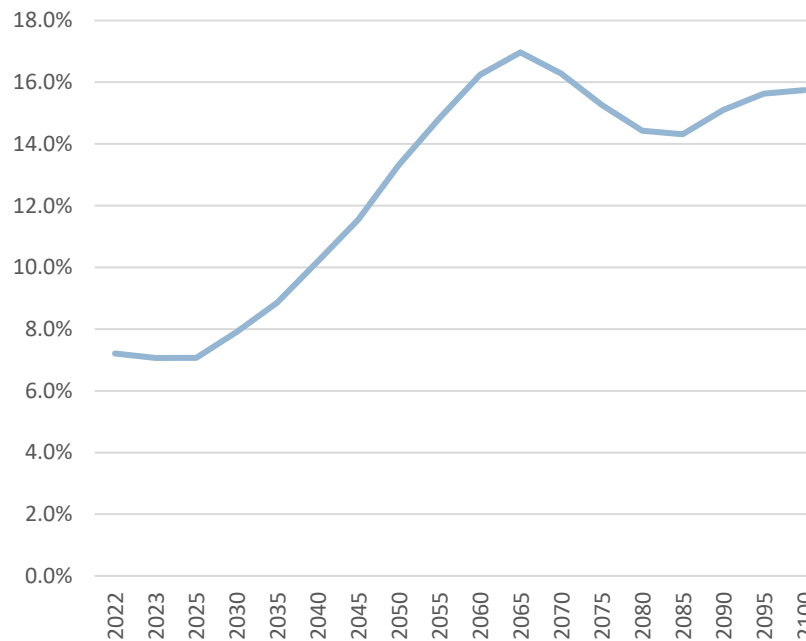


# Public spending on long-term care in Greece systematically lags spending in the EU-27 average

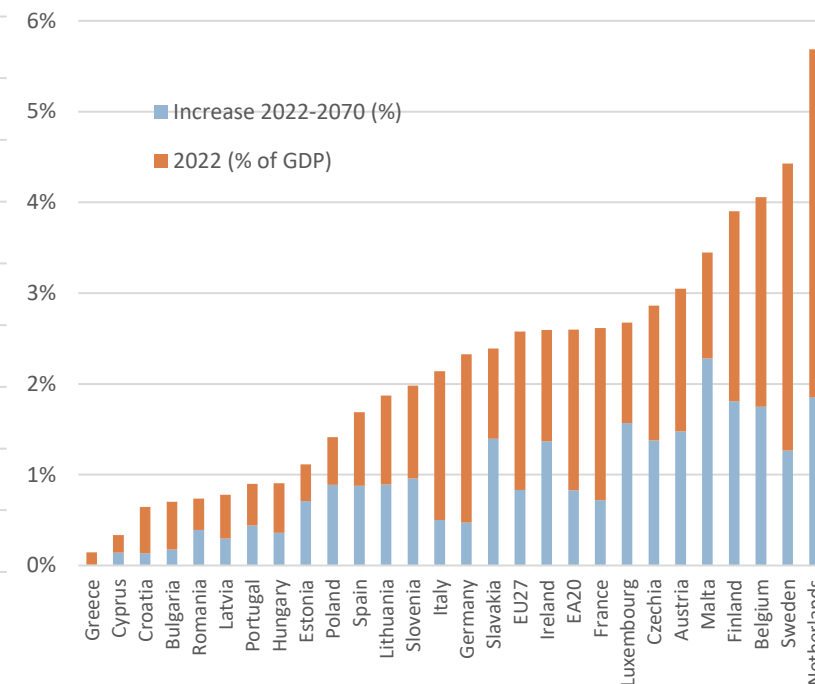
Long-term care spending (% GDP) 2022



Estimated share of population over 80 years old (% of total)



Forecasted public spending on long-term care (2022-2070, % GDP)



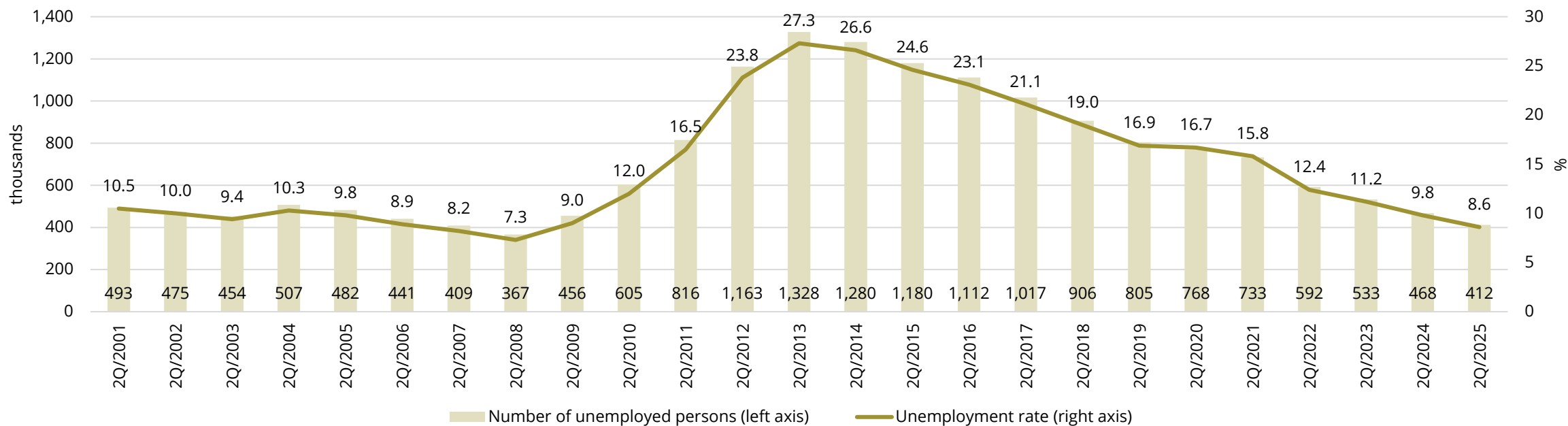
**Source:** Eurostat, European Centre for Social Welfare and Policy Research, European Commission Ageing Report, Analysis: IOBE

- By 2070, the need for long-term care is expected to intensify, as the share of the population over 80 is projected to double. An overwhelming, 92% majority of Greeks, the highest share in the EU, want a significant increase in long-term care spending.
- EU projections anticipate little to no increase in long-term care spending in Greece until 2070.



The unemployment rate decreased further in Q2 2025, with an increase in the labor force participation rate

Number of unemployed persons and unemployment rate in Greece



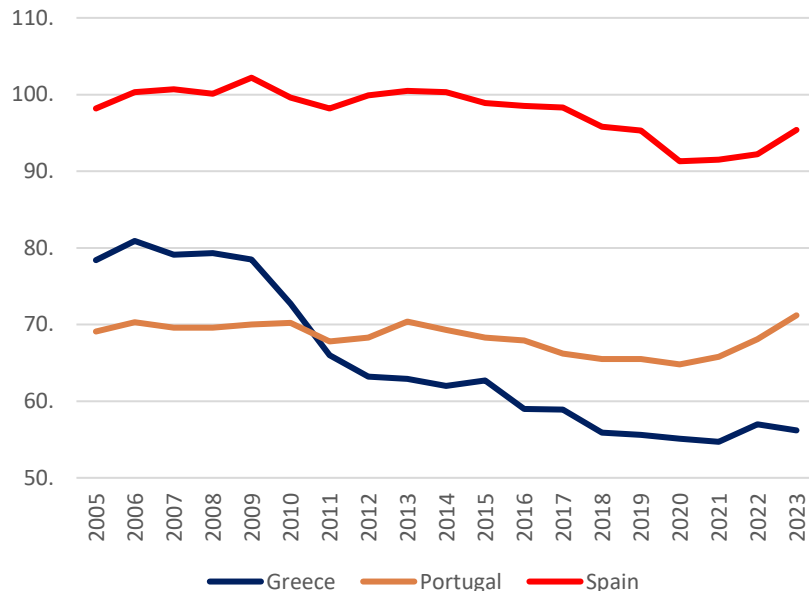
Source: ELSTAT

- The unemployment rate reached 8.6% in Q2 2025, down from 9.8% last year. Increase in labor force **participation rate**.
- **Employment increased** in sectors such as **Wholesale and Retail Trade**, Repair of Motor Vehicles and Motorcycles (+53.6 thousand employees), **Construction** (+25.0 thousand employees), and **Scientific and Technical Activities** (+22.7 thousand employees).
- The **private sector hiring-firing balance** was positive in Q2 2025, by 287.4 thousand people, marginally higher from the Q2 2024 balance (+282.9 thousand).

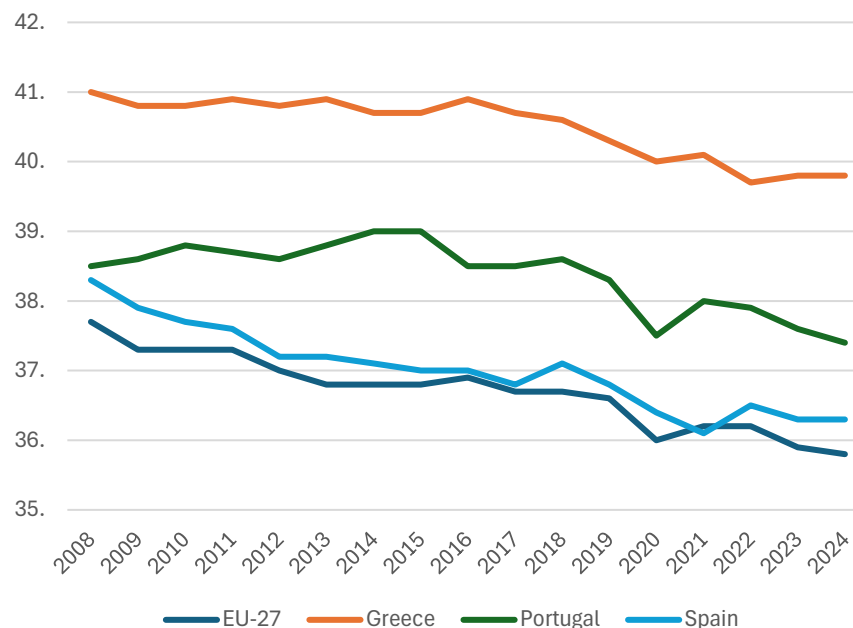


Labor productivity in Greece is 30% lower than in the EU average, without real signs of convergence since the crisis.

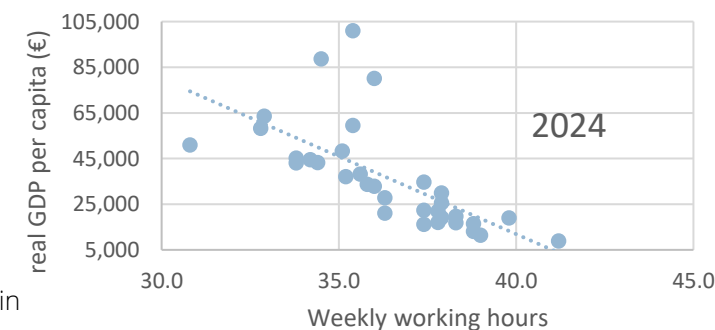
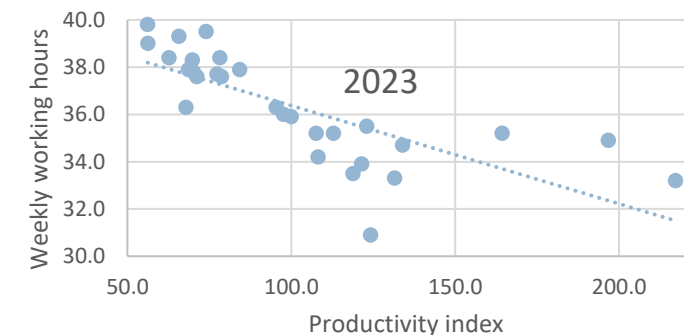
Productivity per hour worked (EU avg.=100)



Average weekly working hours, 2008-2024



Correlation of GDP per capita and productivity with working hours

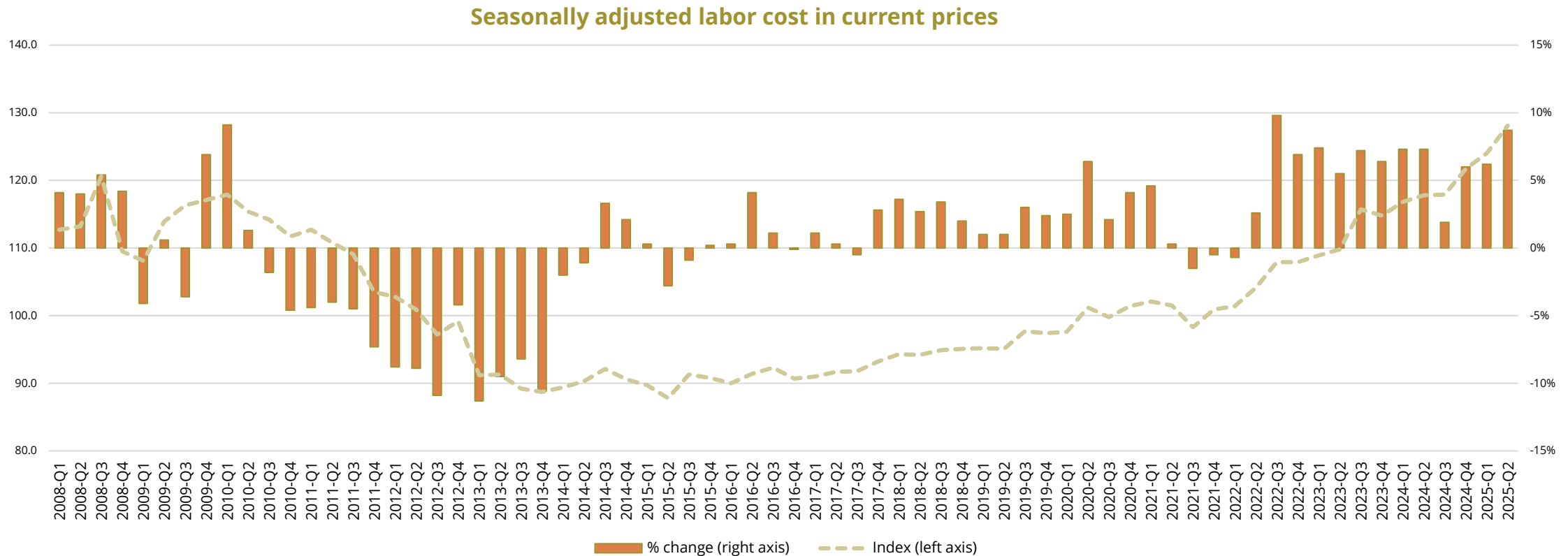


**Source:** Eurostat, Analysis: IOBE. **Note:** Productivity is computed as the ratio of GDP in Purchasing Power Parity terms over total hours of work in each country. The productivity index is then the ratio of each country's productivity to the EU average.

- Countries with the highest productivity, such as Norway, Ireland, Luxembourg, Belgium, Denmark and the Netherlands, record fewer weekly working hours on average, from 30.9 in the Netherlands to 35.2 in Luxembourg.
- In countries with higher GDP per capita, such as Luxembourg, Ireland and Switzerland, employees work fewer hours per week on average.
- Policymakers should thus prioritize measures that boost the productivity and efficiency of each work unit.



# Significant increase in labor cost in 2025 Q2



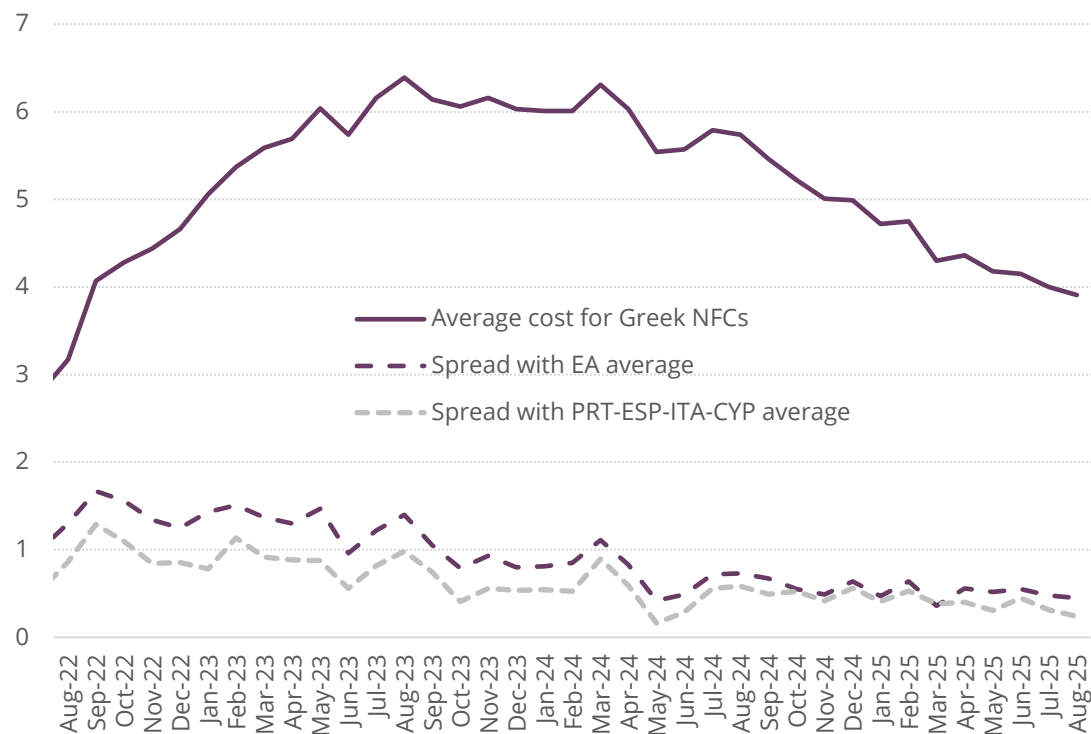
Source: ELSTAT & Eurostat, Analysis: IOBE

- In Q2 2025, labor cost increased by 8.7% y/y, and by 3.3% q/q.
- The cumulative labor cost increase since the beginning of 2022 (26.3%), exceeds the corresponding cumulative increase in the consumer price index (19.3%).



# The average cost of new business borrowing has reached a three-year low...

## Weighted average cost of bank lending to non-financial corporations (%)



Source: ECB, Analysis: IOBE

... while the spread of financing the private sector has reached historically low levels compared to other countries in the Euro area "south".

**Positive trends:** high credit expansion to businesses, reversal of credit contraction to households after 15 years, rising bank deposits, low spread of public sector financing, further reduction in NPLs to 3.6%.

**Challenges:** weak demand for mortgage credit, high stock of loans managed by Servicers (€79.7 billion in mid-2025), high exposure of banks to government bonds, DTCs, high interest rate margin

**Priority:** acceleration of the loan arm of "Greece 2.0", as it heads into its final year



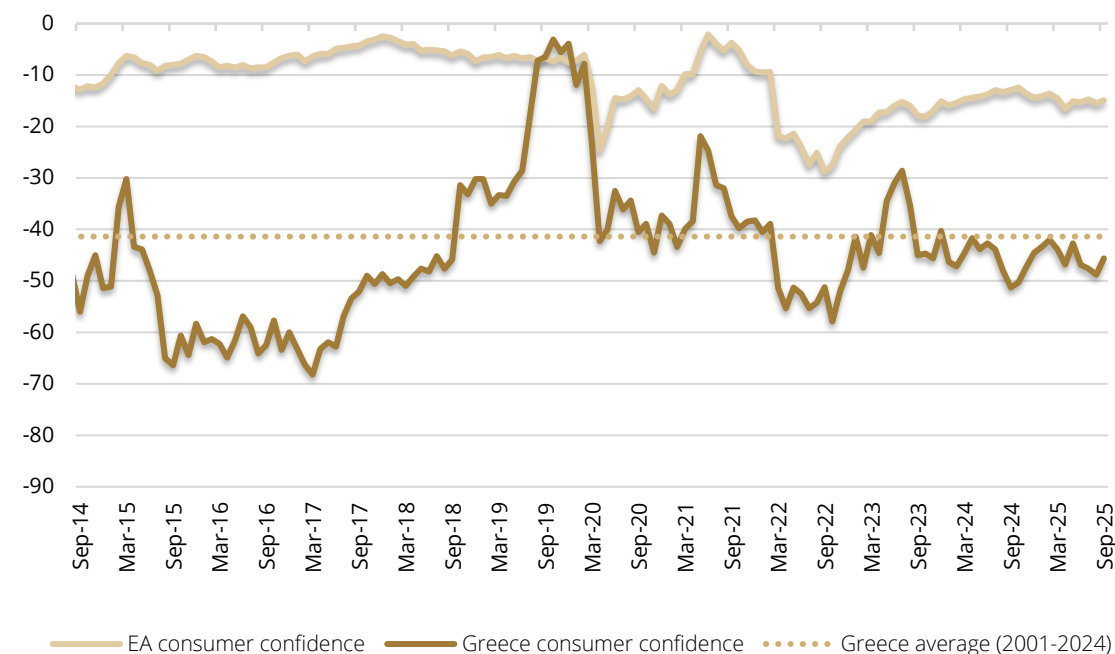


# Small improvement of economic sentiment in 2025 Q3, slightly higher than one year earlier

## Economic Sentiment Index



## Consumer Confidence Index



Sources: IOBE, European Commission

Further decline of Consumer Confidence in 2025 Q3 in Greece but improvement in the Eurozone



## Short-term activity indicators: mixed picture with enhancement in retail trade, slowdown in tourism and construction, stagnation in industry

### Industry

- **Marginal decline in industrial production** by 0.1% y/y in the first eight months of 2025 – a significantly lower rate compared to the corresponding period in 2024 (6.8% y/y)

### Construction

- Further **slowdown in construction** activity in H1 2025 by 1.7% y/y, down from a 18.3% y/y increase in H1 2024

### Tourism

- Turnover increased in **accommodation services** by 3.2% y/y in H1 2025 (down from 11.5% y/y in 2024) and 1.2% y/y respectively in the first quarter of 2025.
- Decrease in Catering by 4.7% y/y, down from a 7.6% y/y increase in 2024

### Retail trade

- In the first seven months of 2025, **volume grew** by 1.9% y/y, up from a 1.0% y/y decrease a year earlier
- However, expectations deteriorated in the first nine months of 2025 – decline in 3 out of 5 sub-sectors



# Macroeconomic forecasts for 2025 and 2026

## Baseline Scenario for 2025 and 2026

- The Eurozone economy follows the ECB's baseline scenario (September 2025) of **+1.2% growth in 2025** (up from +0.9% in June 2025) and **+1.0% in 2026** (down from +1.1% in June's forecast). A **mild increase of inflation is expected in 2025** (+2.1%) and 2026 (+1.6%), in contrast to its **notable de-escalation in 2026** (+1.7%), and maintenance of the enhanced euro exchange rate against the dollar.
- Interest rates follow the trend of today's futures, i.e., the 3-month Euribor gradually **declines from close to 2.7%** at the beginning of the year to **around 2.0%** (up from an expectation of 1.8% in the previous quarter) **at the end of 2025** and **2.04% at the end of 2026**.
- International energy commodity prices follow the ECB's baseline scenario, with downward trends in 2025 and 2026, reinforced by the depreciation of the dollar against the euro.
- Geopolitical tensions in Ukraine and the Middle East are prolonged but do not escalate.
- Economic uncertainty persists at the regional and international levels due to the resurgence of trade protectionism (tariffs and retaliation). We assume that the EU's response to new tariffs will be **moderate and targeted**.
- The implementation of the Recovery and Resilience Plan accelerates in 2026, with the aim of completing most planned actions on schedule in 2026.
- Inbound tourism in 2026 is expected to record a similar performance to the previous year in real terms.

## Forecasts for 2025

- **Growth:  $\approx 2.1\%$**
- Private consumption:  $\approx 1.9\%$
- Public consumption:  $\approx 1.1\%$
- Investment (Fixed):  $\approx -1.0\%$  (7.5%)
- Exports:  $\approx 2.4\%$
- Imports:  $\approx 0.2\%$
- **Unemployment:  $\approx 9.1\%$**
- **Inflation (HICP):  $\approx 2.8\%$**

## Forecasts for 2026

- **Growth:  $\approx 2.2\%$**
- Private consumption:  $\approx 1.3\%$
- Public consumption:  $\approx 1.8\%$
- Investment (fixed):  $\approx 11.7\%$  (10.0%)
- Exports:  $\approx 2.4\%$
- Imports:  $\approx 4.9\%$
- **Unemployment:  $\approx 8.8\%$**
- **Inflation (HICP):  $\approx 2.3\%$**



# Risks and positive prospects

## Risks

- Escalation of the **trade war**, which may impact growth rates, inflation and **stability of the international financial system**, with uncertainty regarding the speed of monetary policy easing.
- Escalation of **geopolitical tensions** in Ukraine and the Middle East is a factor of concern regarding energy security, supply chains, international energy prices and international political developments.
- The **interest rate path** may be undermined by interventions in the **monetary policy independence** of major central banks.
- Volatility in the **euro/dollar exchange rate** due to political and social unrest in core Eurozone countries, such as France.
- High **external deficit**, with structural characteristics.

## Positive prospects

- Acceleration in the **implementation of the revised Recovery and Resilience Plan** could "unlock" international funds for productive and longer-term investments
- The **lower cost of money** is an opportunity to accelerate investments.
- The use of resources from the **Public Investment Program**, which reached a historical high in 2026, is expected to significantly boost investment potential and overall development activity.
- The use of **household tax relief measures** to stimulate **domestic savings** by boosting disposable income

Special study \*

# Trends, challenges and prospects of Construction in Greece - 2025

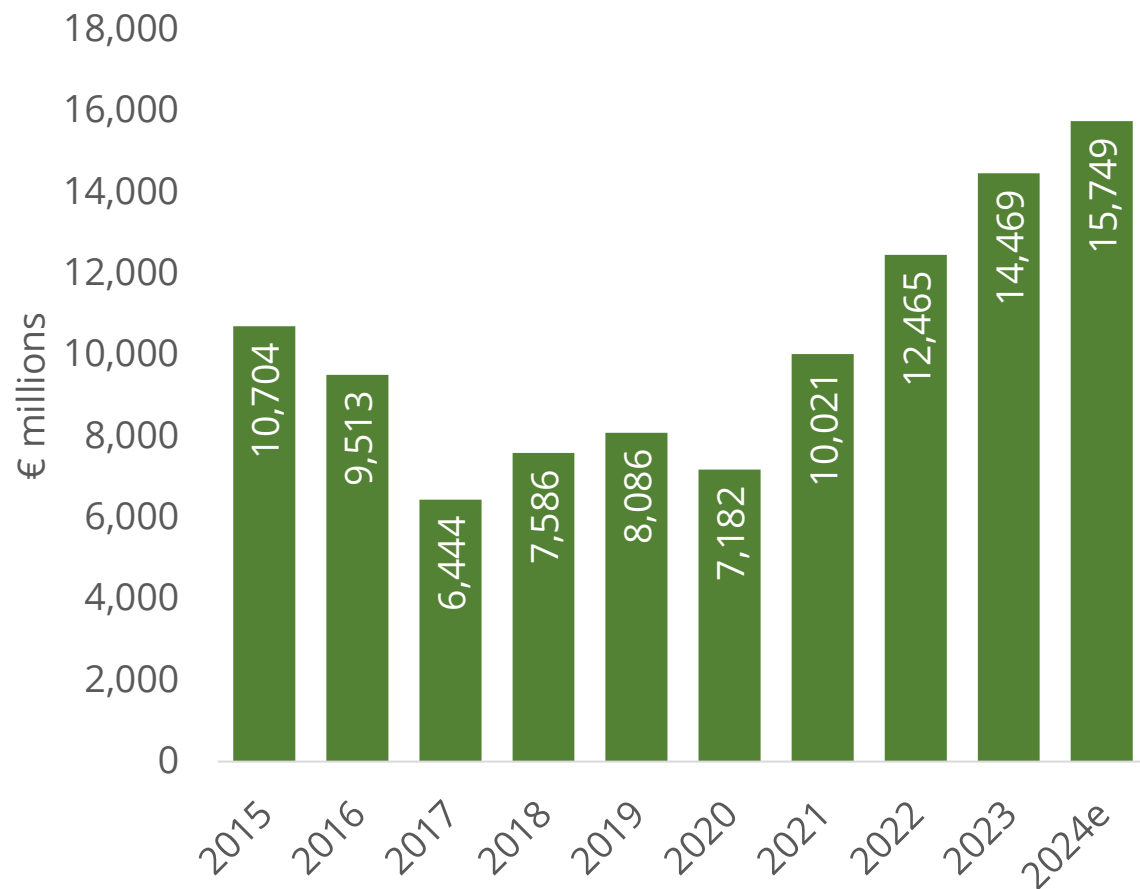
\* IOBE study (2025). Available [here](#)

*The study was conducted with the support of TMEDE*

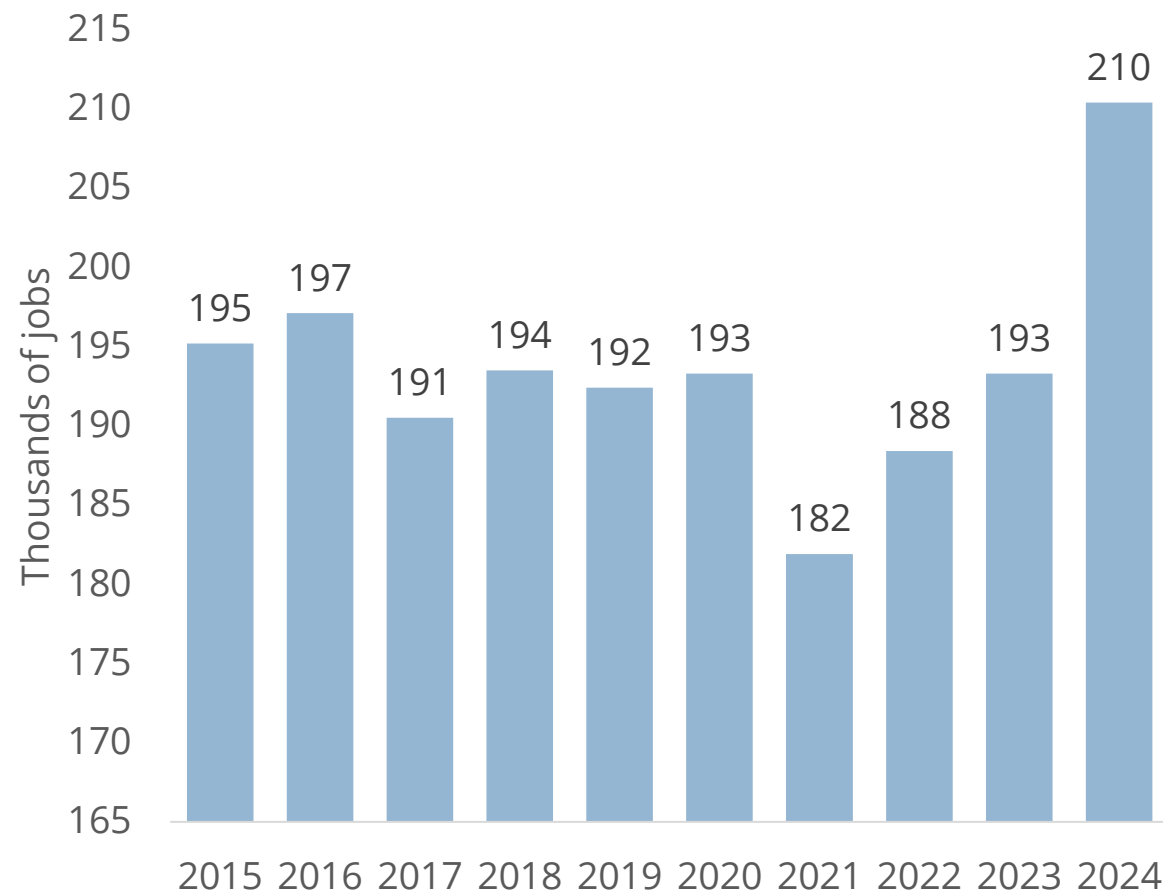


# Output and employment in Construction have increased significantly in recent years

**Construction output (value in € millions)**



**Employment in Construction (thousands of jobs)**

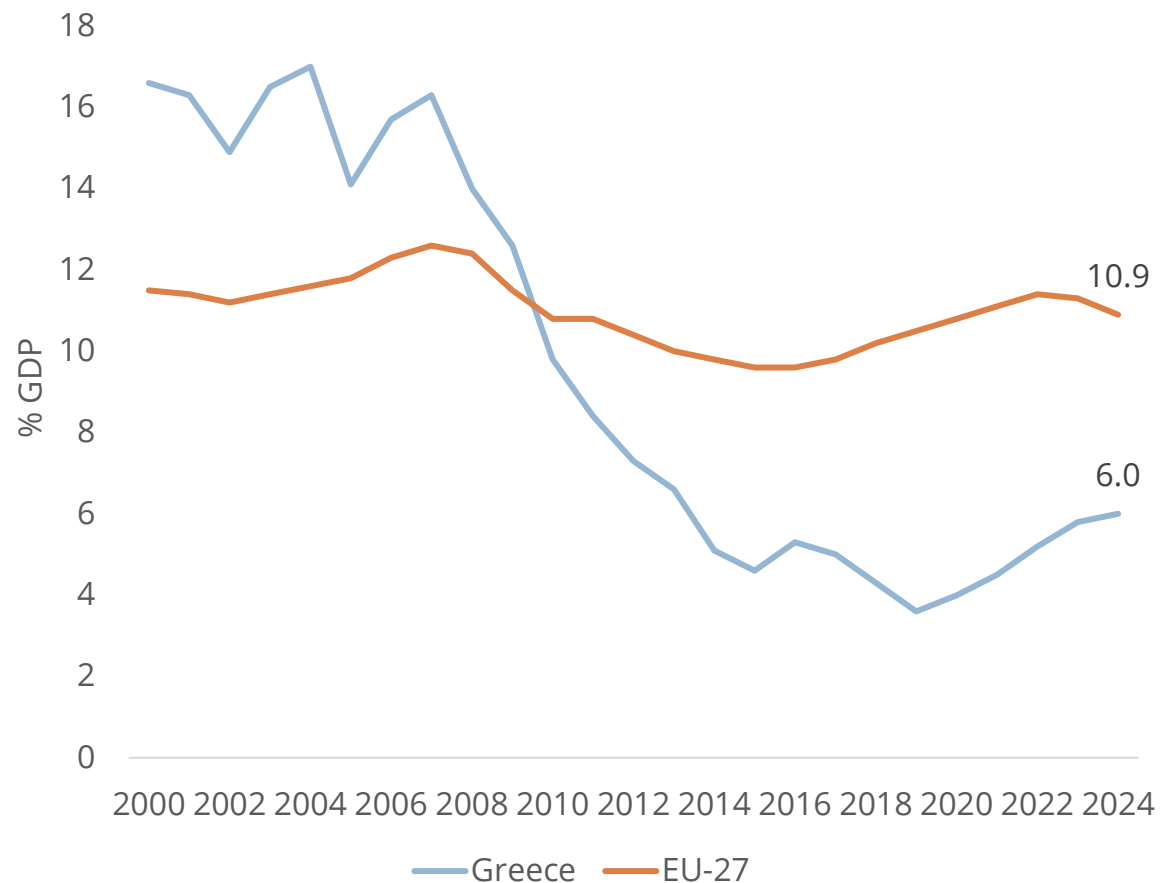


Source: Eurostat. IOBE Analysis

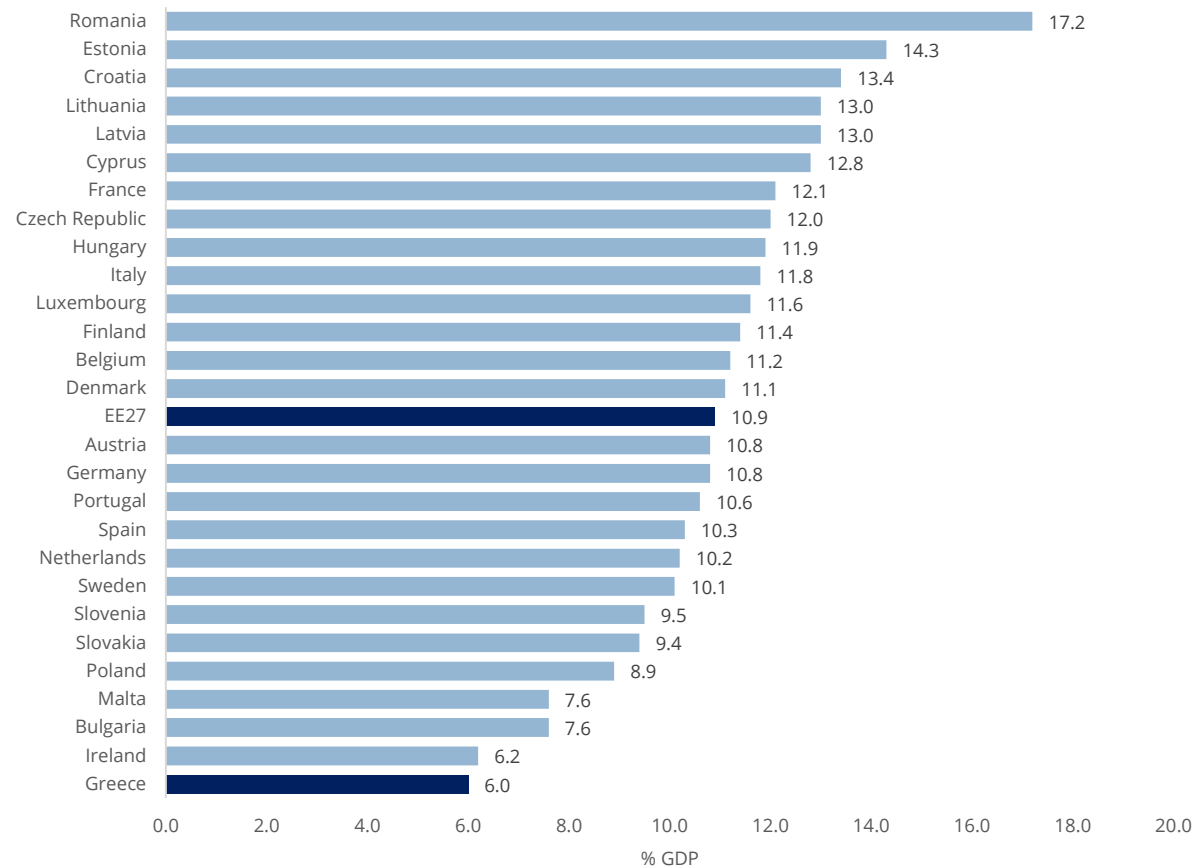


# Greece records the lowest rate of investment in Construction, as a percentage of GDP, among EU countries

Investment in Construction



Investment in Construction (% of GDP) - 2024

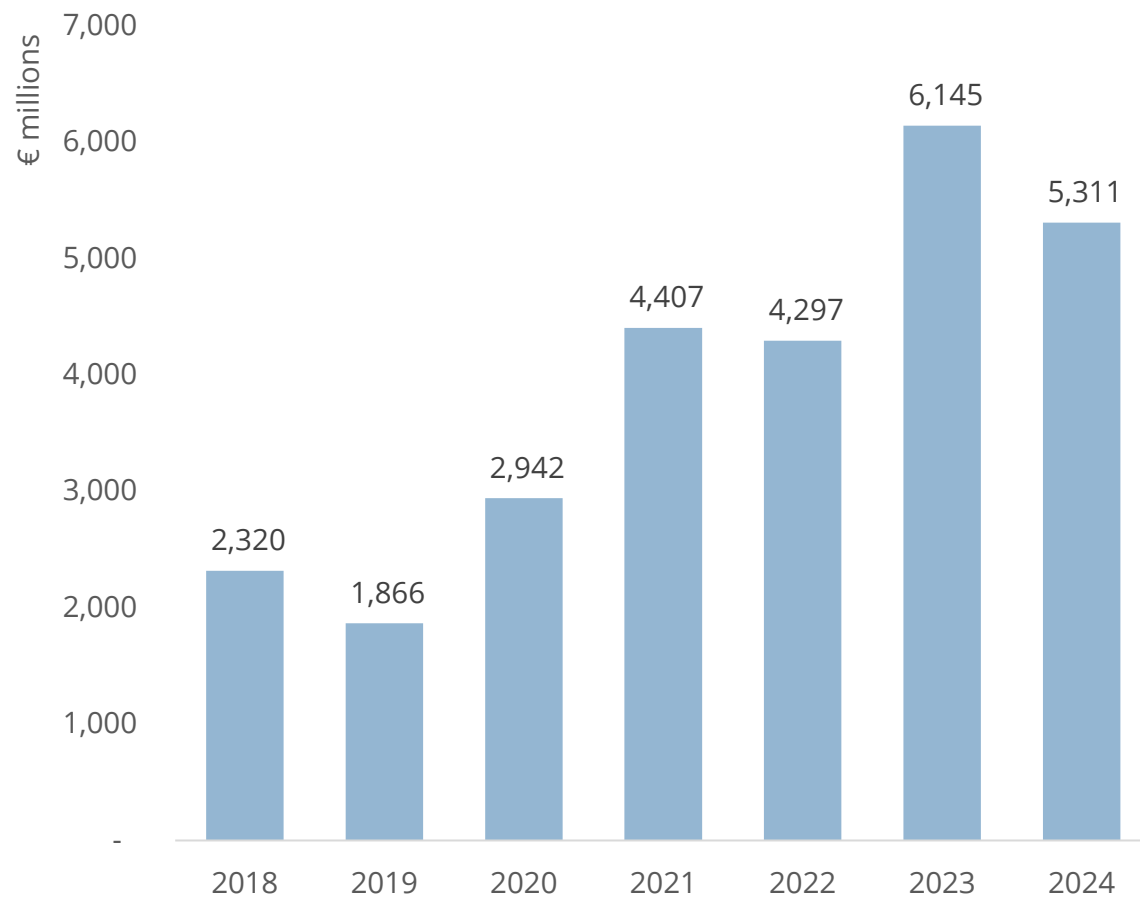


Source: Eurostat. IOBE Analysis

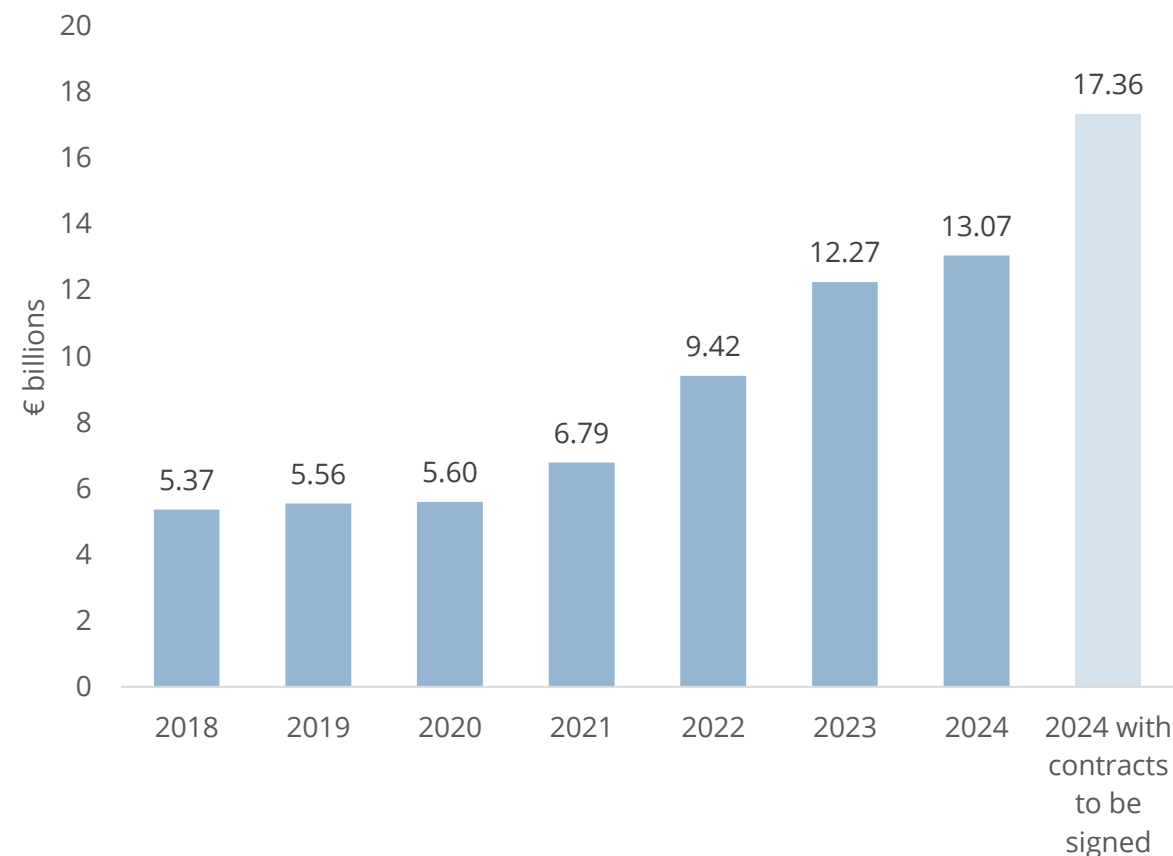


The total value of active public works contracts has more than doubled since 2018, while the backlog of the largest construction companies has almost tripled since 2020

**Total value of public works contracts signed**



**Backlog of projects of 5 Construction Groups Listed on CAA (signed contracts)**



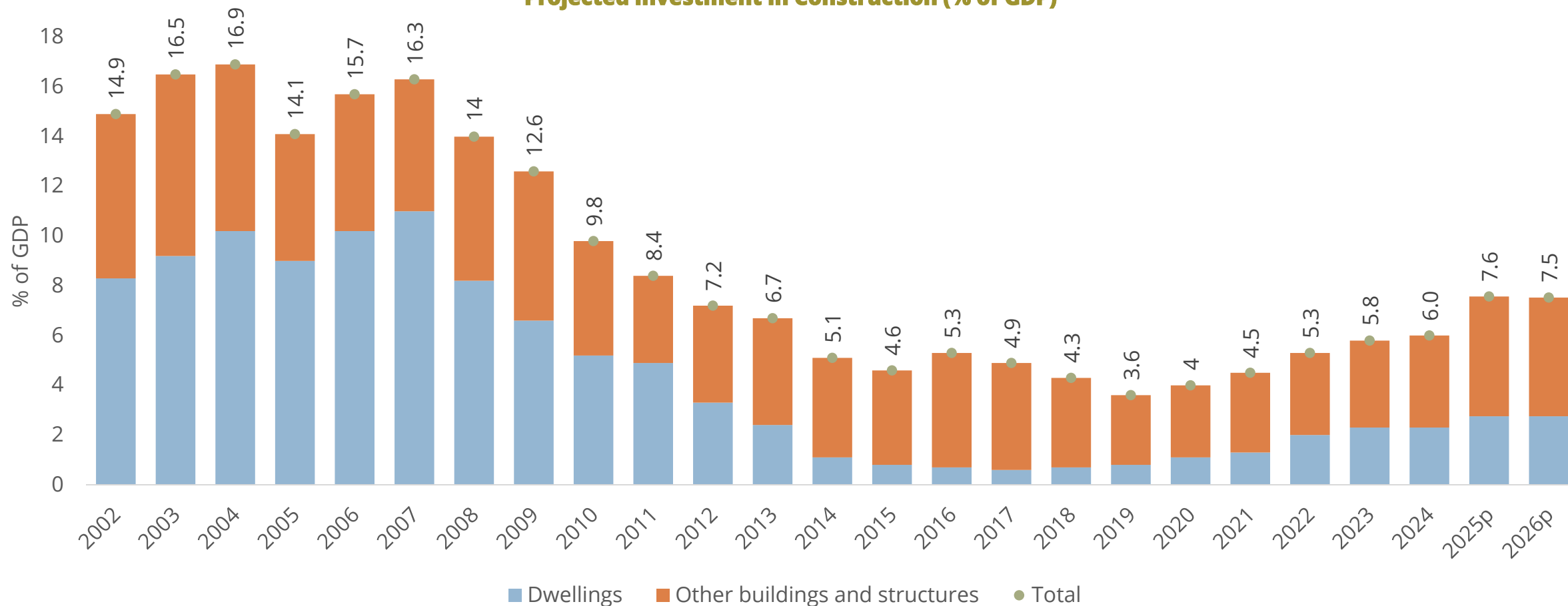
Source: KIMDES





In the medium term, it is estimated that investments in Construction will significantly increase as a percentage of GDP.

**Projected investment in Construction (% of GDP)**

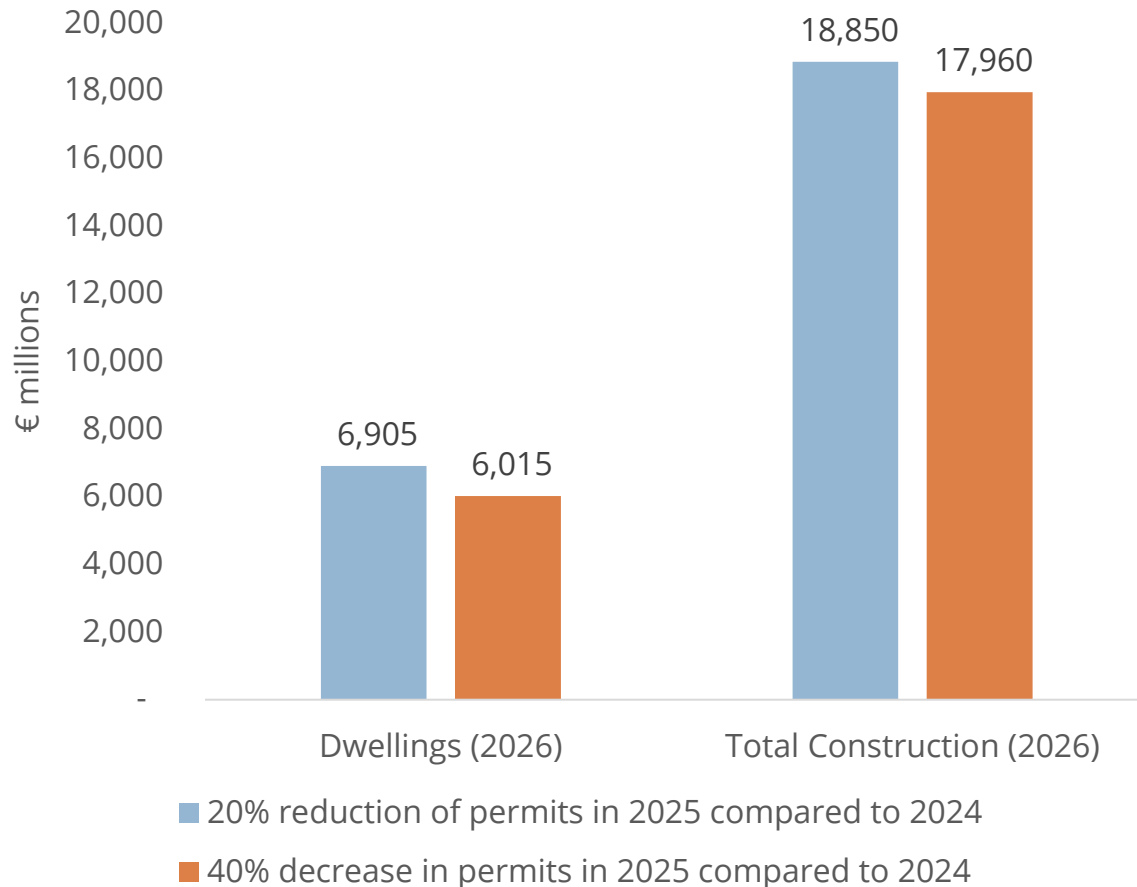


Source: Eurostat, IOBE Estimates (2025-2026)



In the pessimistic scenario, the production value of residential construction projects is estimated to be 13% lower in 2026 compared to the optimistic scenario

#### Sensitivity analysis for dwellings investment in 2026



#### Pessimistic Scenario

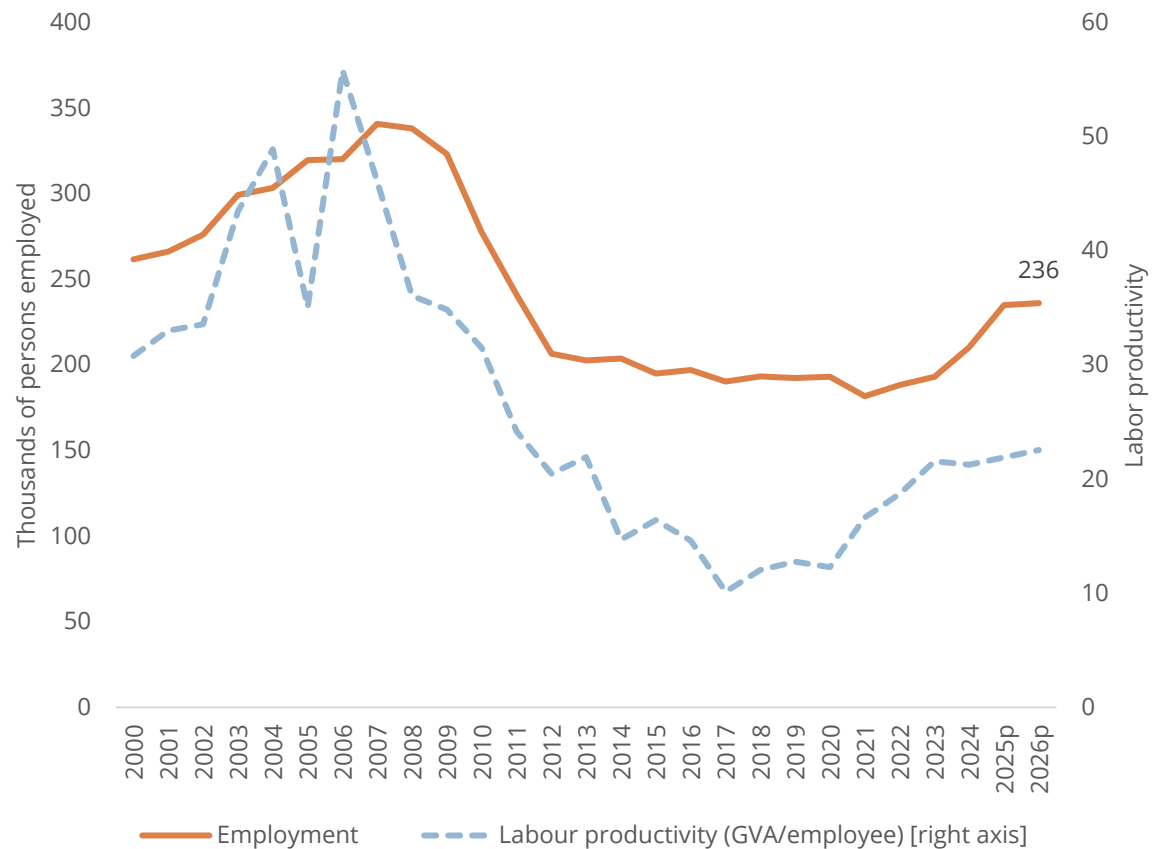
- Residential investment falls to 2.4% of GDP in 2026 (from 2.8% in the optimistic scenario)
- Overall investment in Construction is estimated at 7.2% of GDP (from 7.5% in the optimistic scenario)
- The production value in residential construction in 2026 is estimated to be 12.9% lower than in the optimistic scenario (€6 billion compared to €6.9 billion)
- Overall production value in Construction is 4.7% lower (€17.96 billion compared to €18.85 billion)
- Uncertainty for 2027

Source: Eurostat, IOBE Estimates (2025-2026)

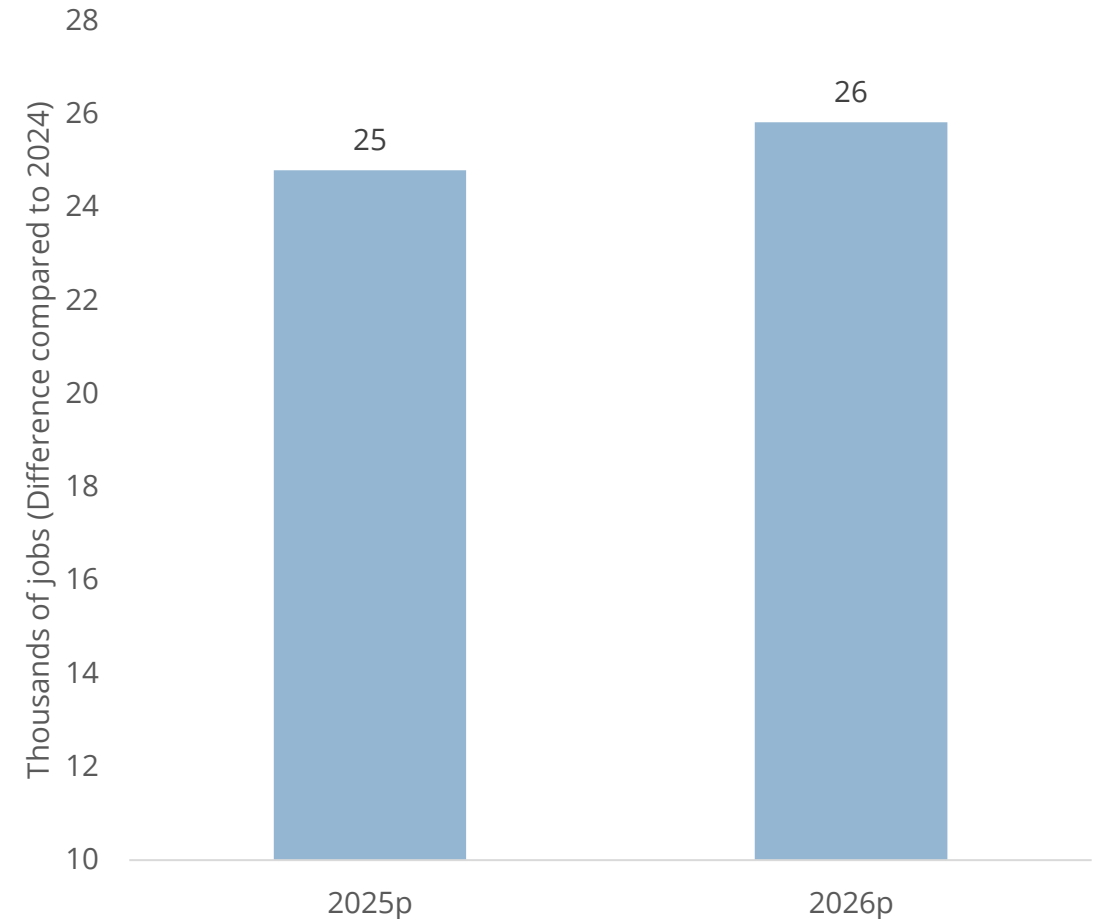


Using 2024's employment as a baseline, the need for additional jobs in Construction for the coming years is estimated at approximately 25 thousand

**Projection of Employment in Construction and Labor productivity**



**Assessing Job Needs in Construction**



Source: IOBE estimates



## Prospects and Challenges

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Further growth stemming from European and national funds

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Conditional development of housing investments (?)

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Maintaining similar activity after 2026 (?)

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Improvement in financing and payment conditions

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Labor shortages which are limited

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Improvements in the institutional framework of the public works production system - certifications

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National strategic planning for infrastructure

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Integration of technology and digitalization of Construction

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Adoption of ESG standards by construction companies

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Adaptation of Construction to climate change

# Issue sponsor



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