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Greece: Navigating in Turbulent Waters

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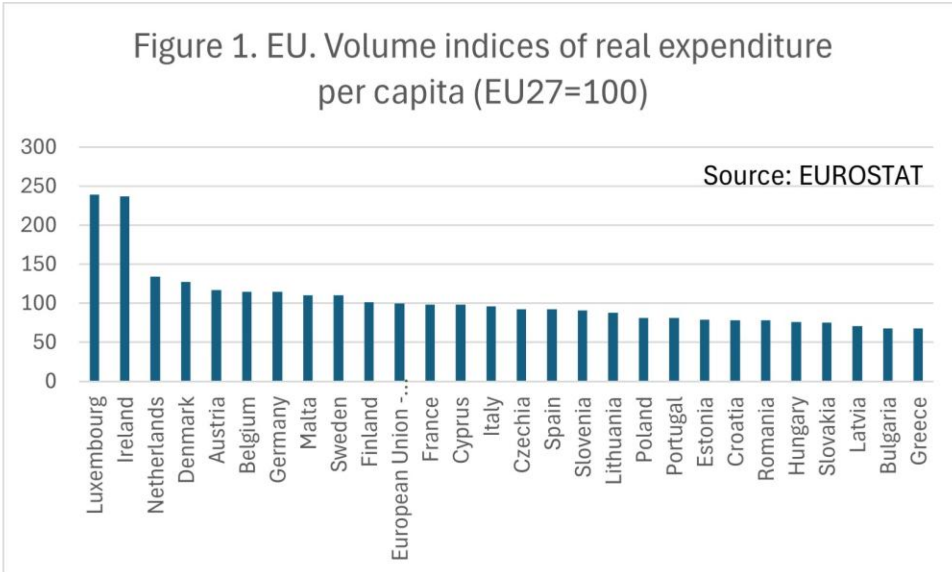
The news on the condition of the Greek economy present a continuing success story compared with the average EU member states, unless a more careful examination is undertaken.

Announcements of positive aspects of the economy are overemphasized while the troubling trends are either not widely reported or reported as insignificant. Government-friendly research organizations –think tanks, research departments of the major systemic banks—including government agencies praise the *efficient* and *effective* management of the economy. To be sure, statistical releases from the Bank of Greece (BoG) and the Hellenic Statistical Agency (Elstat) report some positive trends: growth of output, declining "official" unemployment rates, increases in the minimum monthly wage, PMI, public and private investment and fiscal discipline –accomplished by a combination of larger collection of tax revenues and limiting primary expenditures—delivering primary surpluses. The latter increases the country's credibility in financial markets reflected in higher credit ratings for Greek government bonds and relatively lower interest rates than in past periods that reduces the cost of borrowing.

The not widely reported economic trends are concentrated on the citizens' declining purchasing power parity level among the EU member states which is at the bottom with Bulgaria and the increasing number of individuals being either below or at the poverty line and social exclusion as shown in Figure 1 reported from Eurostat. And, this despite the increases in the minimum monthly wage that so proudly the government's narrative emphasizes.



Moreover, the pressures from increasing inflation –especially in food, energy and other necessities –lead to decreasing levels of private consumption. Disposable income in Greece, despite the various social transfers (vouchers), is declining more than in any other member state of the Eurozone, increasing pessimism among consumers as shown in the deeply negative confidence index hovering around -46 one of the lowest in the EU, far below its average. The reasons for the persistent pessimism stems, not only from the rising prices, but also the worsening financial insecurity. Other negative and indeed very significant trends include the lowering of labor productivity and technological content of production (Nikiforos, et. al 2025). Standard measures of economic performance include the GDP per capita which is increasing, but is still at the very bottom tied with Bulgaria as reported by Eurostat.

The government's budget recently submitted to Parliament is optimistic projecting sustained growth above the average rate of EU with increasing tax revenues mainly from VAT and controlling primary expenditures of the general government in accordance with the newly adopted European framework of economic governance. The government's projections would most likely be revised downwards given the stubbornly sustained inflation and the recent geopolitical breakout hostilities between Iran, Israel and the U.S. while the Ukrainian-Russian war goes on unabetted. The international order instability will worsen the existing disruption of supply chains especially those affecting oil, LNG, fertilizers and foodstuffs for which Greece is heavily reliant. The geopolitical *known unknowns* together with the continuing negative conditions (inflation, suppressed wages, stagnated disposable incomes) and those that will soon emerge, i.e., the ending of the RRF and other European post-Covid support programs will worsen the economy's prospects for the rest of 2026 and beyond.

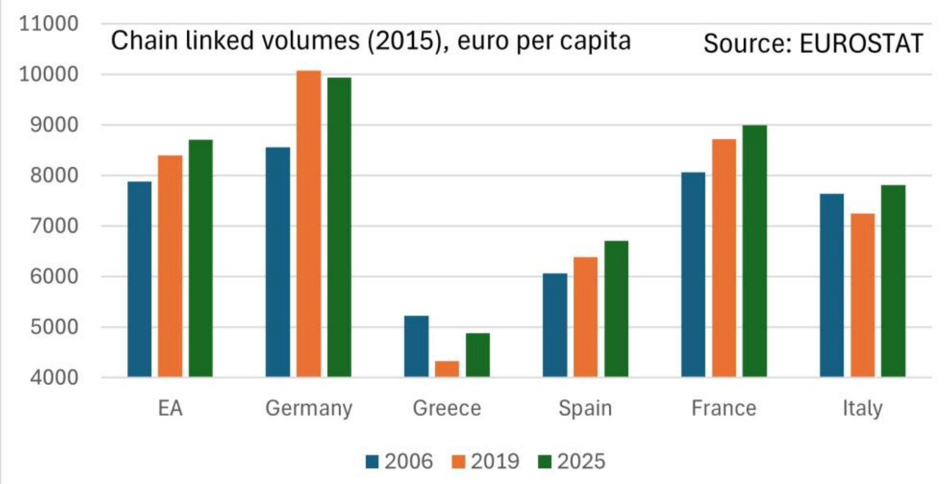
In this report, we first attempt to carefully analyze the existing economic landscape of Greece and second, using the Levy Institute's Stock-Flow Consistent macroeconomic model simulate the economic consequences of the government's fiscal stance and the behavior of the private and external institutional sectors. As it will be shown below, our growth projections differ significantly from those of the BoG, European Commission, IMF and OECD. In our view, a continuing current account deficit together with the government's bias toward primary budget surpluses does not bode well for the private sector's financial balance which in turn, will negatively affect aggregate demand and other related variables essential for continued growth. To the examination of the current economic conditions, we turn next.

Determinants of 2025 real GDP growth

As mentioned, the economy of Greece has experienced one of the highest real GDP growth rates including GDP per capita compared to the pre-Covid period. Figure 2, demonstrates how much real GDP per capita has grown in the Euro-area, Greece, and the major European economies (Germany, France, Italy and Spain), comparing its value before the Great Recession, pre-Covid, and in 2025.

Real GDP per capita in Greece increased by 12.8 percent between 2019 and 2025, compared to an increase of only 3.7 percent for the overall Euro area. Despite the hefty increases, real GDP per

Figure 2: EU. GDP per capita (2015 prices)

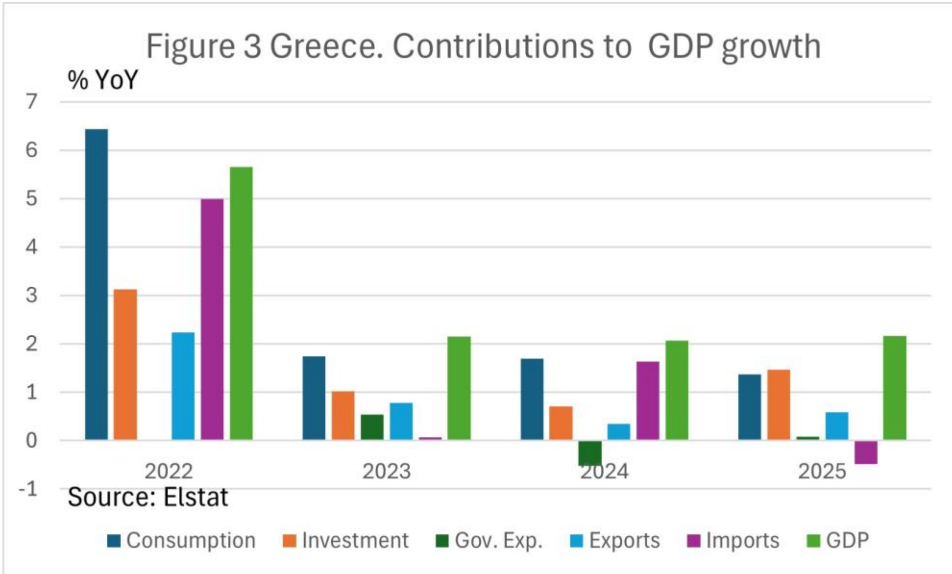


capita in 2025 was still only 56 percent of the Euro area average, down from 66 percent in 2006 and far lower from the major economies as is clearly indicated in the Figure. The wage share of Gross National Income (GNI), despite the economic recovery has remained among the lowest in the EU due to wages not keeping pace with the overall growth rate. This means the purchasing power parity of wages is amongst the lowest in EU and inadequate to satisfy all 13 basic and necessary goods and services as defined and reported by ElStat. The individual disposable income including social transfers has also been amongst the lowest in the EU at 13,381 euro in 2025, even with an increase of 8 percent over 2024. This places many more individuals close to or at the poverty line and social exclusion – 27.5 percent of the population in 2025 recording an increase from 26.9 percent in 2024 (ElStat).

Moreover, the employment/unemployment landscape in Greece presents its own challenges. The upward revised seasonally adjusted unemployment rate in February 2026 was 8.5 percent that rose from 7.9 percent the previous month. It records, however, a higher rate since October 2025. The total number of unemployed rose to 410,500 individuals while the individuals outside the labor force who are neither employed nor seeking employment are 2,906,800. These statistics in addition to the total number employed of 4,412,200 are shown in the last report released from ElStat. Once more, the unemployment statistics for Greece showed the highest level of long-term unemployed among the EU member states representing 5.4 percent. This by many European standards is a crucial issue with no observed improvement despite the accelerated economic growth over the past few years.

Another troubling matter is the enormous difference between the official number of unemployed reported by ElStat in accordance with the ILO definition and the number of registered unemployed reported from the Public Employment Service (DYPA) which is more than 2.2 times higher, that is, 903,928 individuals. The number of long-term registered unemployed is again at the high level of 412,191 individuals representing about 45.6 percent. Moreover, the highest concentration of the total registered unemployed is represented by the 30-44 age group (268,539 individuals or 29.7 percent of the total). Clearly, the 30-44 age group consists the younger and the skilled labor resulting in the serious consequence of the country's large brain drain phenomenon, while others from this group depend on family support or unreported low-wage employment.

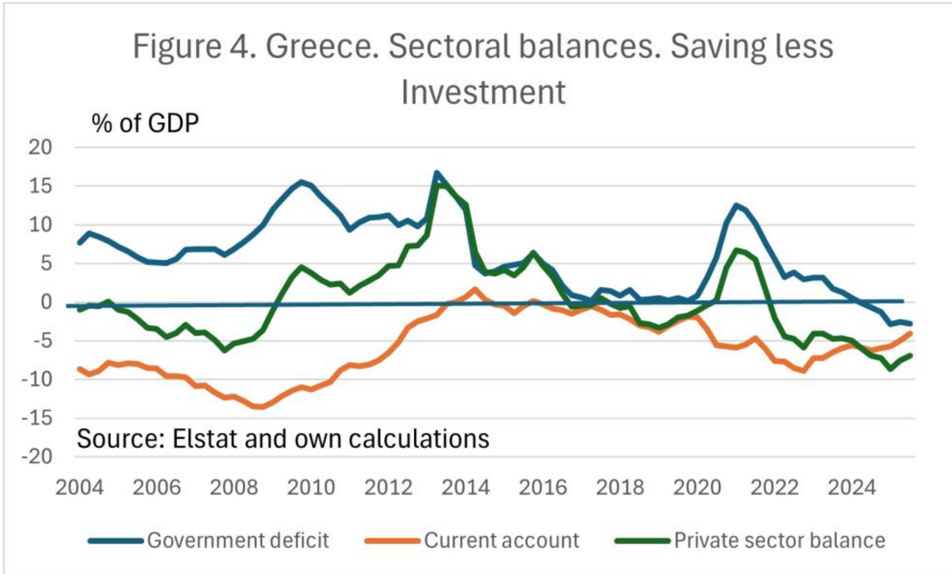
To be sure, the difference between the two measures discussed above is not observed exclusively for Greece. The differences in the measures are the result of alternate methods and procedures used to determine the two statistics together with some definitions that are not identical. The difference for Germany, for example, of the official unemployment rate for February 2026



determined by using the unemployment status concept of ILO and the European Statistical System of the Labour Force Surveys is reported at 3.8 percent while the corresponding unemployment rate of registered individuals, determined by the Federal Employment Agency in accordance with the German Social code, raises it to 6.3 percent –a multiple of 1.658. The uniqueness for the case in Greece is the higher multiple between the two rates. The registered unemployment rate would be raised 18.7 percent –a staggering number. What is important is that the true actual unemployment rate is neither 18.7 percent nor 8.5 percent, which explains the high number of individuals being at or close to poverty rates with the commensurate implications for consumption expenditures and aggregate demand for the remaining of 2026 and beyond, unless some effective active labor market policies are Implemented by the government.

Figure 3 distinguishes the drivers of GDP growth in Greece since 2022. Consumption has consistently been the largest determinant of GDP growth in this period, along with tourism (reported as part of exports). Consumption's contribution, however, was lower in 2025 and as mentioned above may experience even lower levels in the intermediate run. In 2025 fixed investment also made a strong contribution, largely financed by NGEU and other European Union funds. It should be noted, however, that gross capital formation (including investment) dropped in 2025 against 2024 –the result of a large reduction in the "change of inventories[1]" category. Since this latter measure is obtained as

[1] See also IMF (2025).



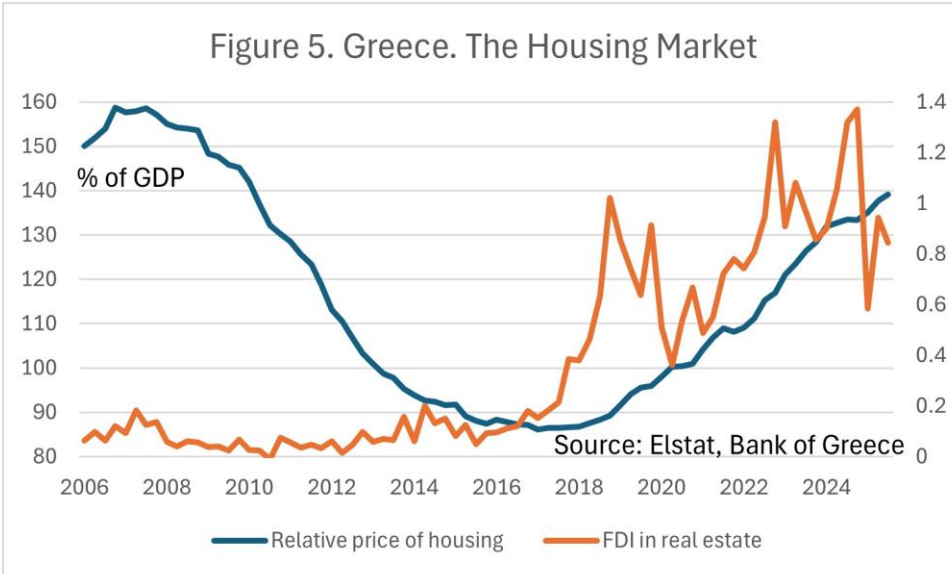
residual in the estimation of GDP from different sources, it captures all measurement errors, and is likely that the contribution of each of the components of GDP will be revised.

The obvious question is whether the robust economic growth can be sustained in the medium term.

We analyze the financial sustainability of demand based on the net lending/borrowing position of the private sector as a whole, computable as the sum of the positions of households, businesses and the financial sector, or as the mirror image of the financial balances of the government and foreign sector.

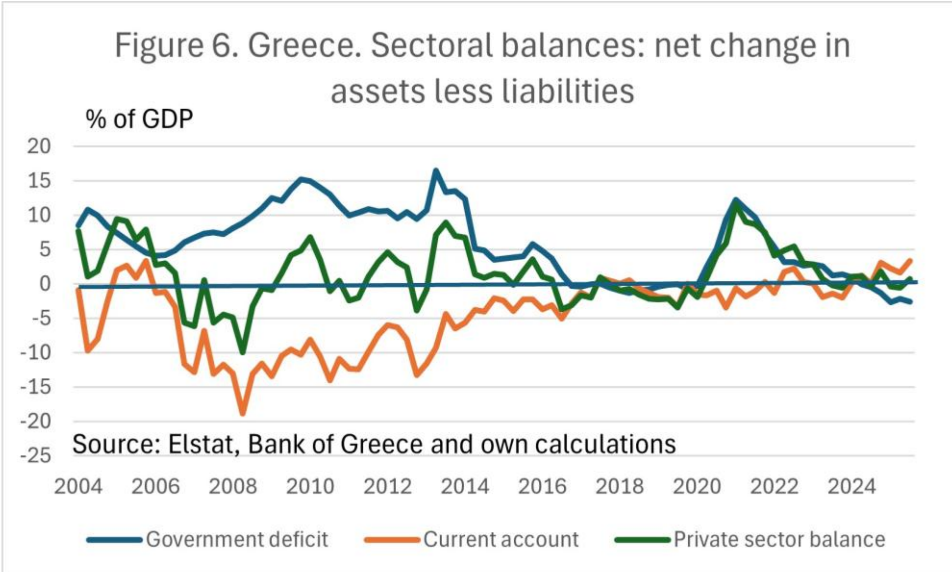
These balances as published in the quarterly accounts of institutional sectors by ElStat are reported in Figure 4. The balances arise from the difference between payments received by the private sector (disposable income) less current and capital expenditure. A positive balance – a net lending position – requires that the government and foreign sectors combined be in a net borrowing position in accordance with the well-established macroeconomic identity. In other words, the current account balance of the country must exceed government overall surplus, or government deficit must be larger than the current account deficit.

The data released from ElStat show that the current account deficit of Greece – the major determinant of the 2009/2013 crisis – has deteriorated after 2018, but exhibited a strong recovery in the 2022-2025 period, largely the result of the extraordinary fall in domestic demand.



The drop of the government deficit and its turn into a surplus position in 2024, contributed to withdrawing funds from the private sector. According to ElStat data, the private sector is now in a deficit position not far from its 2007 pre-Great Recession level. The implication of this condition is that the private sector is increasing its liabilities against foreign institutions, or reducing its stock of net foreign assets. As we discussed in an earlier report (Papadimitriou, et. al., 2025), part of the explanation lies on the increase in "Foreign Direct Investment" in real estate (Figure 5), which in turn contributed to a rapid increase in the price of housing, which in turn raises the costs of renting relative to the general price level. In other words, the outflow of currency implied by a negative current account balance was partly offset by the inflow associated with the transfer of ownership of housing to foreign institutions. This FDI is not increasing further in 2025, but remains at a high level each quarter of almost 1 percent of GDP. The decrease in the second half of 2025 is due to many unauthorized constructions facing legal uncertainty. It is anticipated that some of these unauthorized constructions will regularized and approved in the first quarter of 2026. Some of these constructions are new private and public buildings (Research and Markets (2025). Most of the public building constructions, if not all, are either funded in total by the RFF or co-funded with government with noticeable cost overruns and slower processes of completion.

To investigate the other changes in net foreign assets/liabilities, we examine the financial accounts of institutional sectors, published by the Bank of Greece. These data, reported in Figure 6, tell a quite different story. While the net lending of the government sector is estimated at the same level from the two sources, the foreign sector balance from the financial accounts does not show the



deterioration observed in Figure 4. On the contrary, the last available figure for the third quarter of 2025 shows a surplus of about 3 percent of GDP, which offsets government surplus, implying a small positive balance for the private sector.

The Bank of Greece and ElStat are well aware of the large differences in their respective estimates of financial balances, and a task force to address this issue was established in 2025[2], but with no results thus far.

A plausible explanation of the divergence that should be investigated further, may depend on underestimation of private sector income that would imply larger private sector savings, but would not explain the gap in measuring the foreign sector balance, unless the under-estimated income is generated from abroad, i.e. from tourism. To be sure, it is well-known that a significant part –in the order of 45-50 billion euro of unreported income representing more than 20 percent of GDP—of Greece's economy is in the informal sector. Given the high taxation in the formal economy many firms, self-employed individuals and households are driven to informality. The shadow economy expansion usually occurs during economic difficulties (Pappada and Zylberberg 2025; Dellas, et. al 2024; KEPE 2025). Decreasing the shadow economy requires effective policies, most importantly, lowering income and consumption taxation rather than focusing only on strict enforcement.

[2] Bank of Greece (2025), p. 6.

Baseline scenario

As it is customary with the Levy Institute's Strategic Analysis reports, we first develop a basic scenario of projected GDP growth and the behavior of the financial balances of the three institutional sectors: private, public and external from which we draw conclusions of the conditions that must be realized to deliver our projected results that differ from those projected by the government and other organizations.

The simulation of the baseline scenario is conditional on "neutral" assumptions, we make, about the external determinants of aggregate demand, prices and official projections for monetary and fiscal policy. These projections, in turn, have implications on the private sector's financing of consumption and investment expenditures.

Monetary policy

At the time of writing (March 2026) the monetary policy stance is unclear. ECB president, Mrs. Lagarde, admitted that "We are facing profound uncertainty about the path of the economy."[3] Europe and the world are facing the consequences of the war against Iran, which together with the continuing Ukrainian-Russian war have once more caused a sudden increase in oil and gas prices on international markets, but it is still difficult to predict how long the latest conflict will last, with even higher impact on energy prices; the ECB notes that the impact on inflation will depend on a broad pass-through which "is the exception rather than the rule". [4]

In addition, a persistent increase in energy prices and related products is likely to generate a drop in consumption and in turn GDP growth not only in Greece, but also in the Euro area as a whole rendering the prospect of raising interest rates by the ECB unlikely.

We, therefore, assume that interest rates will remain at their current level in our projection period.

Fiscal policy

The Greek government, in 2025 continued its policy aimed at reducing the country's outstanding debt through the generation of fiscal surpluses.

[3] Lagarde (2025)
[4] Ibid.

Government consumption has dropped steadily from the Covid-19 period, as a share of GDP: it reached 18.4 percent of GDP in 2025, compared to 21.6 in 2021. Social benefits also declined, from 19.4 percent of GDP in 2021 to 16.5 in 2025.

We assume that both consumption and social benefits will stabilize in real terms in the projection period.

Government investment has increased with respect to the pre-Covid period, mainly from funds allocated from the NGEU program through the European Recovery and Resilience Facility (RRF). They have been fluctuating around 3 percent of GDP, higher than the Great Recession period, but about a half of the normal level before the Great Recession.

We project government investment to decline, as RRF funds end, and the part of loans start being repaid from 2027 onwards.

Inflation

Given the global instability and uncertainty of the outcome of the current conflicts in the Middle East and Eastern Europe together with the adverse weather conditions experienced last and this year, it is extremely difficult to project what would happen to domestic and foreign prices in the coming quarters. What is known is that prices of energy, fertilizers and foodstuffs have been climbing making difficult for many individuals to make ends meet. For our baseline projection, however, we assume the consumer price index to increase at an annual rate of 3 percent, higher than the ECB 2 percent target, but, most likely, lower than what may materialize because of the external shocks mentioned.

Employment and consumer expenditures

Employment growth has been relatively strong, albeit primarily in the unskilled and low-wage categories in concert with low productivity. Labor productivity has been falling, however, since disproportionally the sector of tourism, hospitality and related activities attracts most of the unemployed is low-technological content. Recent evidence indicates that the apparent recovery in employment has been accompanied by a persistent suppression of wages, reflecting a structural transformation of the Greek labor market rather than a cyclical adjustment. Despite the near restoration of total employment and hours worked to pre-crisis levels, compensation per employee remains among the lowest in the EU in purchasing power terms, while the average working time is the highest across member states. This combination of increased labor intensity and low remuneration points to a regime of "growthless employment," where job creation contributes weakly to domestic demand. The institutional changes implemented during the adjustment programs—particularly increased labor market flexibility and internal devaluation—have had lasting effects, compressing the wage distribution and anchoring a large share of workers close to the minimum wage. These developments help explain the persistent weakness of household disposable income, as discussed earlier, and private consumption, reinforcing the broader concern that current growth dynamics are not supported by a sustainable income base for the majority of the population (Missos and Rodousakis 2025). Furthermore, the maldistribution of the employed between high skilled, high wage jobs and those of the low-wage together with the significant numbers of unemployed and underemployed presents a significant challenge for keeping consumption expenditures at levels significant to drive growth.

Foreign demand

Net exports of goods from Greece are not a driver of growth, save for tourism, transportation services and refined oil. The demand for exports is customarily dependent on a weighted average of the real GDP of Greece's trading partners drawn from their GDP projections reported in the IMF World Economic Outlook (2025). At this particular juncture, however, geopolitical turbulence could be a significant factor affecting foreign demand. The outcomes of the global exogenous shocks are difficult to estimate and may affect Greece's marginal improvement in the external sector

Projections 2025-2026

On the basis of the analysis above, our model projections are summarized in Table 1. We find evidence of a gradual, but persistent weakening of economic activity over the medium term. Real GDP growth is expected to decelerate from 2.0 percent in 2025 to 1.3 percent in 2026, before slowing further to 0.7 percent in 2027 and eventually turning negative by 2029 (-0.5 percent). This trajectory reflects a progressive contraction in domestic demand, particularly from private consumption, which shifts from moderate growth (1.8 percent in 2025) to a sustained contraction thereafter, reaching -4.3 percent by 2029. The decline in consumption is consistent with the combined effects of high inflation, stagnant real incomes, and the fiscal stance biased toward maintaining sizeable primary surpluses.

Table 1. Greece: Baseline projections

Annual growth rates	**2025**	**2026**	**2027**	**2028**	**2029**
GDP	2.0	1.3	0.7	0.0	-0.5
Consumption	1.8	-1.3	-3.9	-4.4	-4.3
Investment	9.8	9.8	3.4	3.6	1.4
Government expenditure	0.6	0.2	0.1	0.0	0.0
Exports of goods and services	1.5	4.2	2.7	3.2	3.0
Imports of goods and services	-1.3	2.5	-4.2	-3.3	-2.2
Total Government surplus/deficit	4.1	4.9	5.6	5.6	5.2
Primary Government surplus/deficit	7.3	7.9	8.3	8.1	7.4
Percent of GDP					
External balance	-3.9	-3.1	0.1	2.7	4.6
NAFA	-8.1	-8.1	-5.5	-3.0	-0.6

Source: Authors' calculations

Investment dynamics provide only partial support to aggregate demand. While investment exhibits strong growth in the short term (9.8 percent in both 2025 and 2026) largely reflecting the continuation of projects associated with the Recovery and Resilience Facility (RRF). As these funds are gradually phased out, investment growth moderates significantly, falling to around 3–4 percent in 2027–2028 and further to 1.4 percent in 2029. This deceleration underscores the limited capacity of private investment to compensate for the withdrawal of public support, particularly in a context of subdued demand expectations.

Government expenditure contributes minimally to growth throughout the projection horizon, remaining broadly flat in real terms. This reflects the authorities' commitment to fiscal consolidation, as evidenced by the sustained increase in both total and primary government surpluses. The overall surplus rises from 4.1 percent of GDP in 2025 to a peak of 5.6 percent in 2027–2028, before slightly declining to 5.2 percent in 2029. Similarly, the primary surplus remains persistently high, exceeding 7 percent of GDP throughout the period. While this trajectory supports debt reduction, it also implies a continuous withdrawal of government demand from the economy with adverse implications to growth, employment and incomes.

The external sector gradually becomes the main driver of growth. Export growth strengthens from 1.5 percent in 2025 to above 4 percent in 2026, before stabilizing around 3 percent in the following years, supported by external demand conditions. At the same time, imports display a volatile, but generally declining pattern, reflecting the contraction in domestic absorption. As a result, the external balance improves markedly, shifting from a deficit of -3.9 percent of GDP in 2025 to near balance in 2027, and eventually reaching a surplus of 4.6 percent by 2029. This adjustment indicates that the correction of external imbalances is achieved primarily through demand compression rather than a significant expansion of export capacity.

From a sectoral balances perspective, this implies that the domestic private sector will run financial deficits, although these will gradually narrow over time as the external position improves. The adjustment path is therefore characterized by a sustained extraction of financial resources from the private sector, as the net acquisition of financial asset of the private sector (NAFA) remains negative throughout the projection period. In 2025, the NAFA is equal to -8.0 percent of GDP and it stays so through 2026. While the strengthening of the external balance partially offsets this effect in later years, the overall configuration suggests that the reduction in public debt and the improvement in external accounts are achieved at the cost of a prolonged compression of private sector net financial wealth.

Overall, the baseline scenario depicts an adjustment path in which fiscal consolidation and weak domestic demand lead to a rebalancing of the economy toward the external sector. However, this process is associated with declining output growth and a contraction in private consumption, suggesting that sustained government surpluses come at the cost of reduced economic activity over the medium term with the associated negative implications for the overall economy

Conclusions

The current state of the economy in Greece appears to have achieved a successful return to normality after the financial crisis of 2009-2015 and the Covid-19 pandemic in 2019-2020. The current government, since 2019, has been characterized by the leaders of the European Union as effective and efficient in growing the economy, increasing employment, reducing budget deficits and turning them into surpluses, achieving investment quality on its debt and instituting both institutional and flexible labor market reforms. This state of the economy, however, masks the serious challenges the economy will face in the intermediate run. Our analysis, in this report, shows that the years beyond 2026 will most likely changed the successful story to a condition of macroeconomic fragility. The continued tightening of fiscal policy in the absence of a new European support program for public expenditures once the RFF funds end will contract the economy deeply. As indicated in our projections, by 2027, the economy will be experiencing the beginning of an economic crisis with worsening unemployment, further declines in disposable income and even higher poverty rates.

The missed opportunity in using the NGEU structural funds to develop a new production model aiming at import substitution (solar and wind energy, logistics and foodstuff to name a few) and in so doing reduce the dependency on imports (Papadimitriou, et. al., 2024) may not be possible in the future in light of the stricter controls of governance established by the EU for the highly indebted member states. In addition, experience over the last two years or so indicate that climate change has become an urgent call for action to protect the primary sector of the economy from uncontrollable floods and fires with serious reverberations in the overall economy and living standards of the population. The proverbial "business as usual" model that has transformed the Greek economy to a "café economy" (Nikiforos, et. al 2025) dependent mostly on tourism and related activities can neither grow the economy nor lift living standards.

Our economic simulations in many of our past reports have been pessimistic and so is this report. We are reminded of the well-known phrase expressed by Andrew Smithers of the financial crisis (2007-08) when he wrote "Cassandra was a sound analyst. Her forecasts were correct; she made no claims about their timing and her views were largely ignored. But what made her hopping mad was a headline in the Troy Times: "Queen Hecuba asks 'Why did no one warn us about the wooden horse?'"[5]

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