# Legacy Risks Continue to Overshadow Greece's Fiscal Progress

CareEdge GLOBAL RATINGS
A subsidiary of CARE Ratings Limited

August 18, 2025 | Sovereign

Greece has made notable progress since the sovereign debt crisis that unfolded between 2009 and 2018. The country returned to a general government surplus in 2024, reflecting a combination of fiscal discipline and reform momentum. While this achievement is encouraging, it raises an important question: can this performance be sustained over the medium term?

Despite this progress, several deep-rooted challenges from the crisis era continue to weigh on Greece's credit profile. The country's external position remains weak, and both general government and external debt levels are still elevated. Moreover, nominal GDP has largely remained stagnant compared to the pre-crisis period, reflecting limited economic momentum despite ongoing recovery efforts.

As Greece shifts further away from official sector (such as loans from the European Stability Mechanism and European Financial Stability Facility) financing and towards market-based borrowing, interest costs on new debt are expected to rise moderately. In this context, sustaining recent fiscal gains while managing legacy vulnerabilities will be essential for maintaining macroeconomic stability and supporting an improved credit profile.

**Recent Gains Indicate Ongoing Progress**

**1. Fiscal Balance Turns Positive**

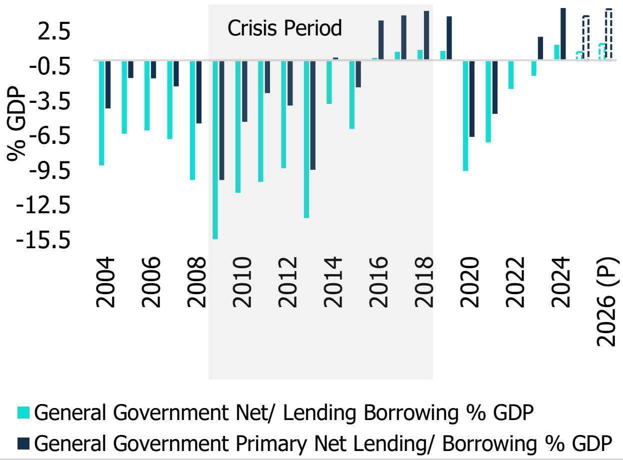
Greece's fiscal performance in recent years has been encouraging, highlighting a clear improvement in its fiscal trajectory. The general government balance turned positive in 2024, posting a surplus of 1.3% of GDP, a significant turnaround from an average deficit of -5.1% GDP from 2020 to 2023. The primary surplus was also healthy at 4.8% of GDP during the year.

This outcome was driven by a combination of stronger revenues, supported by structural tax reforms including measures to curb tax evasion and undeclared work and contained expenditure. Importantly, these gains are not purely cyclical but reflect structural improvements, particularly in the digitalisation of tax administration. Initiatives such as broader electronic payments, digital invoicing, and real-time transaction reporting have helped close compliance gaps, reducing the Value Added Tax (VAT) gap (difference between expected and actual VAT revenue collections) from 25% in 2018 to an estimated 14% in 2022, with further improvements expected in the coming years.

The improved fiscal position allowed for expansionary measures in 2025 amounting to EUR 1.1 billion, which is sizeable in the context of the EUR 3.2 billion fiscal surplus recorded in 2024. These measures include a targeted residential rent subsidy, economic support for low-income pensioners, and an increase in public investment spending.

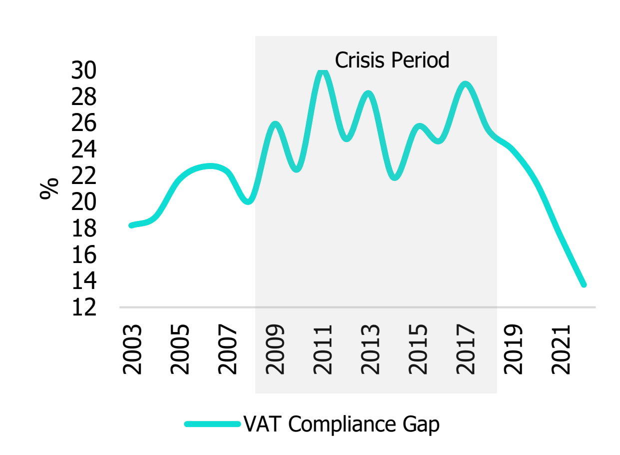
Looking ahead, the general government surplus is forecast to narrow to 0.7% of GDP in 2025 due to announced expansionary measures and wage adjustments. Still, it is projected to rise again to 1.4% of GDP in 2026, supported by continued revenue growth.

**Exhibit 1: Fiscal Gains from Consolidation Efforts**




Source: Eurostat

**Exhibit 2: VAT Gap Decline Reflects Improved Revenue Collection**




Source: European Commission

**2. Steady Reduction in Debt Burden, though it Remains High**

Greece's general government debt-to-GDP ratio has declined significantly, from over 190% in 2018 to 151% in 2024. This improvement has been supported by strong nominal GDP growth, sustained primary surpluses in recent years, and prudent fiscal management. In parallel, supported by the proactive debt management strategy of the 'Public Debt Management Agency (PDMA)', Greece has continued to make early pre-payments since 2021 to official sector creditors (refer to Exhibit 3), including the International Monetary Fund (IMF) and euro area partners under the Greek Loan Facility. These steps have helped reduce interest costs and have lowered refinancing risks.

**Exhibit 3: Greece's Early Debt Repayments**

**2021**: Prepaid EUR 3.4 billion to the IMF, covering repayments carrying high-interest rate charges and surcharges.

**2022**: Fully repaid EUR 1.8 billion in remaining IMF obligations due end-2024 and prepaid EUR 2.65 billion in loans due in 2023 from euro area partners under the Greek Loan Facility (GLF).

**2023**: Paid ahead of schedule EUR 5.3 billion in GLF loans due in 2024 and 2025.

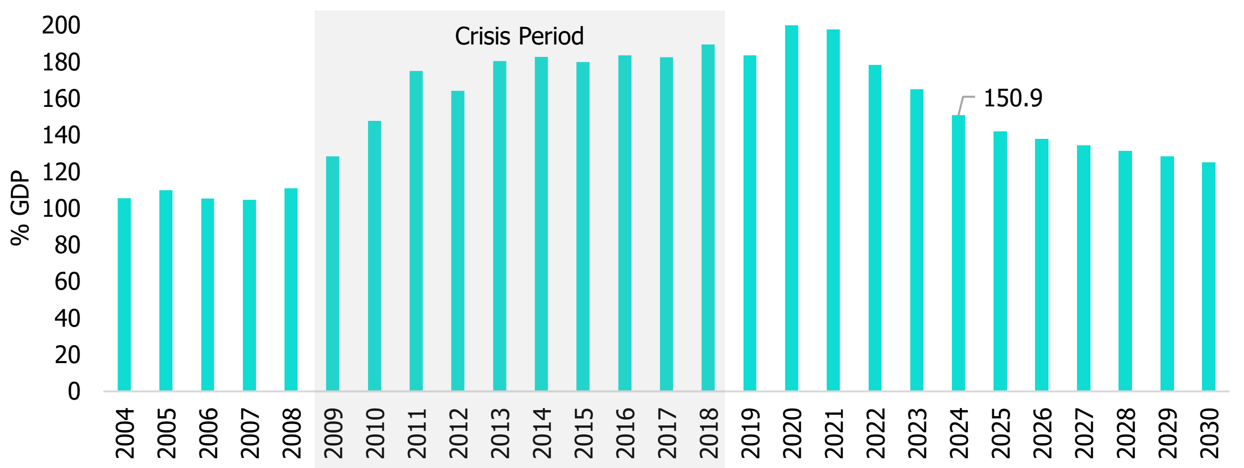
**2024**: Made a EUR 4 billion prepayment in H1 2024. Additionally, in Dec 2024, prepaid EUR 7.9 billion in GLF loans due in 2026–2028.

**2025**: Plans to prepay at least EUR 5.3 billion in 2025, targeting GLF loans maturing between 2033 and 2042.

Source: IMF (Article IV)

Looking ahead, GGG debt-GDP ratio is projected to continue its downward path steadily, to reach below 130% of GDP by 2029 and under 115% by 2033, pointing to an improving debt profile. It may be noted, however, that the debt levels will remain higher than the pre-crisis levels.

**Exhibit 4: Greece's General Government Debt on a Downward Path**



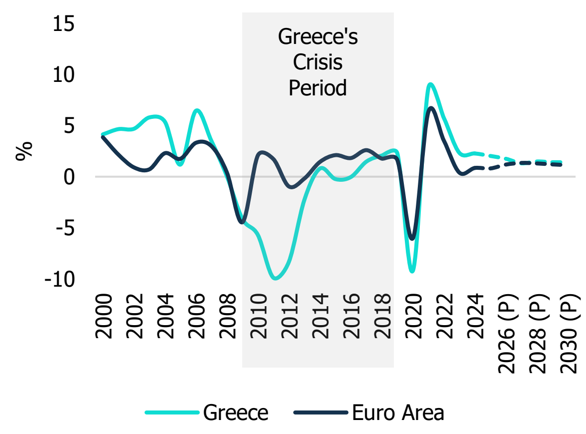

Source: IMF

## 3. Broader Economic Gains Have Aided the Improvement in Fiscal Profile

Greece's economy continued to expand at a firm pace in 2024, overperforming the euro area average for the fourth consecutive year. Real GDP grew by 2.3%, matching the pace seen in 2023. Growth was supported by strong private consumption and sustained investment activity, aided by ongoing disbursements from the EU Recovery and Resilience Facility (RRF).

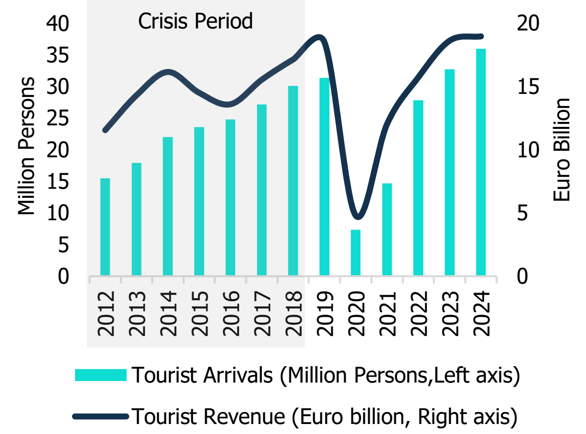
The tourism sector recorded another strong year, with tourist arrivals reaching a record 36 million in 2024, an annual increase of 9.8%. Tourism receipts rose to EUR19 billion, up 2% from 2023, contributing to service sector growth and overall economic momentum.

**Exhibit 5: Greece Growing Faster Than Euro Area Since 2021**




Source: IMF, CEIC

**Exhibit 6: Tourist flows & Receipts has Surpassed Pre-Pandemic Levels**



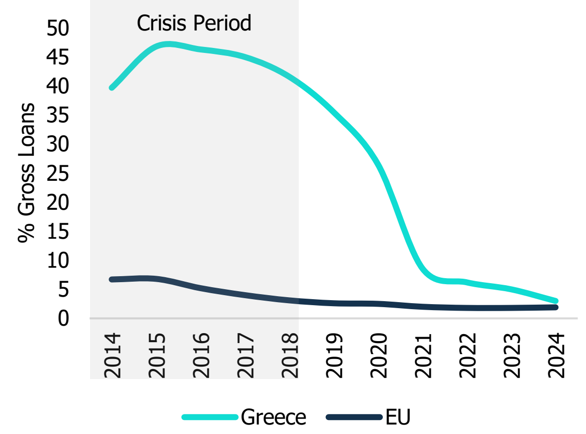

Source: CEIC, Bank of Greece

Labour market conditions have strengthened notably, continuing a steady post-crisis recovery. The unemployment rate fell to 10.1% in 2024, down from a peak of 27.5% in 2013. Total employment rose to 4.3 million persons, broadly returning to levels seen during the pre-crisis period. While unemployment remains above pre-crisis lows, the gap has narrowed substantially. The gradual improvement in both unemployment and employment levels points to a more resilient labour market, although challenges remain in further reducing unemployment, especially among women and youth.

**Exhibit 7: Tracking Labour Market Gains: From Crisis to Gradual Repair**


Source: IMF

**Exhibit 8: NPL ratios has futher reduced in 2024**




Source: CEIC, European Central Bank (ECB)

The banking sector has also shown signs of improvement. The non-performing loan (NPL) ratio declined to around 3% in 2024, from 5% in 2023, primarily due to continued clean-up efforts through securitisations under the Hercules Asset Protection Scheme (HAPS). While NPLs have declined, they remain above the EU average of 1.9%, indicating continued room to strengthen asset quality.

## Legacy Risks Still Weigh on the Credit Profile

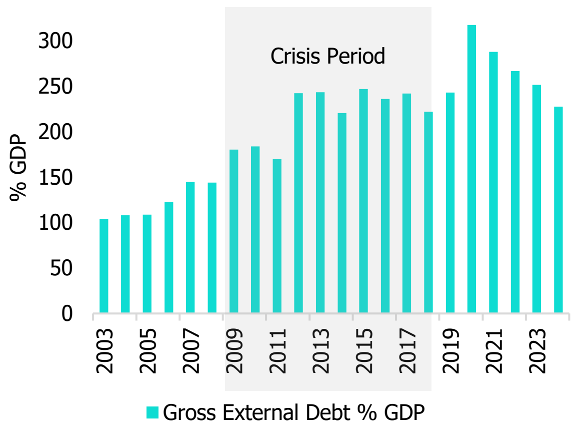
The sovereign debt crisis left some entrenched challenges, reflected in high debt burdens and external imbalances that continue to constrain the credit profile. Notwithstanding the recent return to a general government surplus and improved macroeconomic conditions, these inherited weaknesses remain a source of vulnerability and overshadow the benefits of recent progress.

### 1. External Position Remains a Key Concern

Greece's external position still reflects the build-up of liabilities accumulated during the sovereign debt crisis. Gross external debt stands elevated at 227% of GDP in 2024, driven mainly by public borrowing during the bailouts and persistent current account deficits financed by foreign capital inflows, with some contribution from private sector liabilities. The net international investment position (NIIP) also remains negative at –126% of GDP in 2024, reflecting a comparatively large stock of foreign-owned assets in Greece.

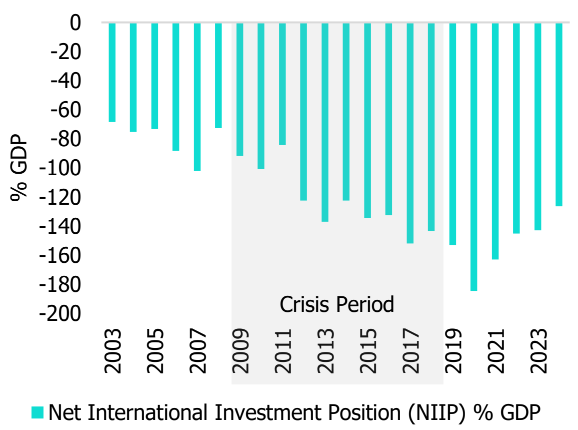
While gross external debt has declined from its 2020 peak, it is still nearly double the pre-crisis average of around 118% of GDP (2003–2007). Similarly, the NIIP has worsened from an average of –82% before the crisis. These indicators highlight the lasting impact of the crisis years and continue to weigh on Greece's overall credit profile.

**Exhibit 9: Gross External Debt at Elevated Levels**




Source: IMF

**Exhibit 10: NIIP Remains in Deep Negative Territory**

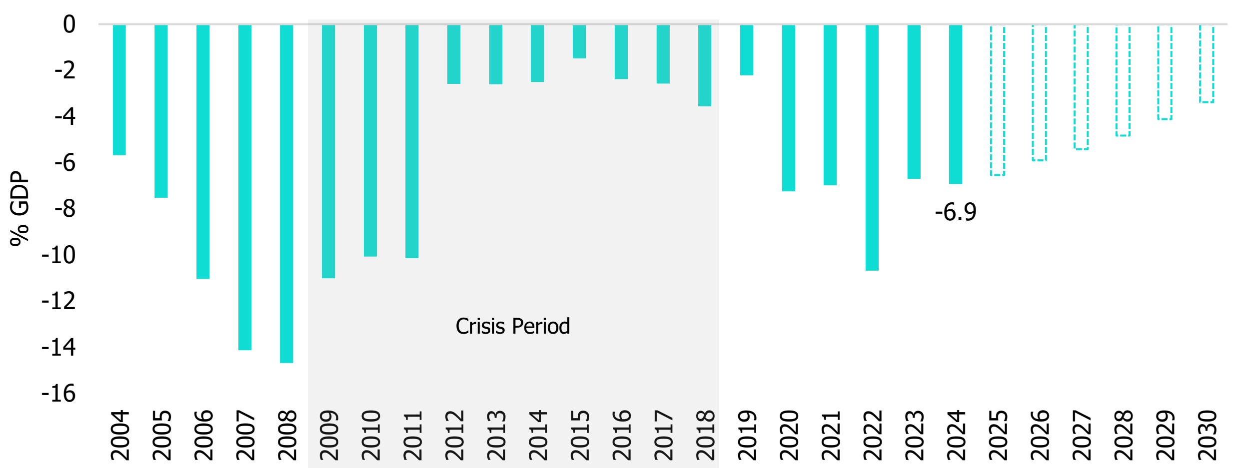



Source: IMF

Beyond legacy imbalances mentioned above, the current account balance adds further strain to the external profile. For much of the past decades, Greece ran twin deficits (both fiscal and current account). This has been partly corrected, with the fiscal balance moving into surplus in 2024 (after a short-lived surplus phase between 2016 and 2019). However, the current account deficit remains significant and persistent, at 6.9% of GDP in 2024 (refer to Exhibit 11).

Looking ahead, the current account deficit is expected to narrow gradually as import-heavy NGEU investments wind down. Still, it remains a structural weakness. Although tourism brings in significant income, it is not enough to offset the large trade deficit. A major reason is that many of Greece's exports rely heavily on imported parts and materials. This means a large share of the export earnings flows back out to pay for imports, making it harder to improve the trade balance and weighing on the external balance. Looking ahead, the deficit is expected to narrow only gradually as import-heavy NGEU investments wind down.

**Exhibit 11: Current Account Balance Shows Limited Improvement**



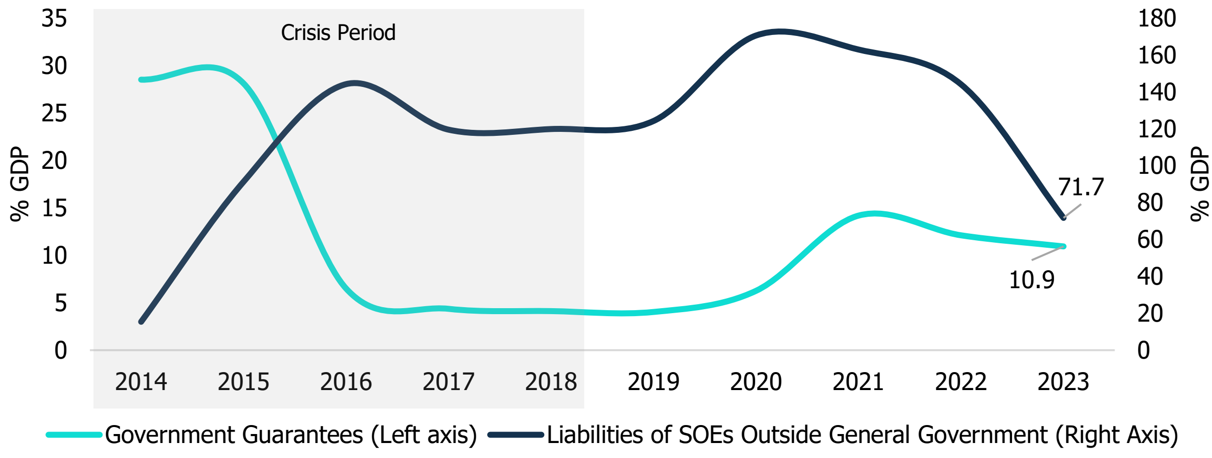

Source: IMF

2. **General Government Debt Still Elevated, with Additional Contingent Risks**

While Greece's gross general government debt-to-GDP ratio has declined substantially, as discussed in the earlier section, it remains well above pre-crisis levels and higher (151% GDP at the end of 2024) than similarly rated peers such as Brazil (87% of GDP) and Colombia (61% of GDP) in 2024. Debt is expected to decline further, reaching about 125% of GDP by 2030, but it will still be high compared to pre-crisis levels (refer to Exhibit 3). Some cushion, though, is available in the form of a significant cash buffer of about 17% of GDP (EUR 40 billion, as of Mar 2025) and a debt composed primarily of official sector loans with low fixed rates, long maturities, and extended grace periods.

Additionally, Greece carries additional fiscal risks through contingent liabilities. Government guarantees remain high, at about 10.9% of GDP in 2023, the ninth largest in the EU. Similarly, liabilities of government-controlled entities outside the general government sector stand at around 72% of GDP, the second highest in the EU. Much of this reflects interventions during the years of the crisis, with some additional build-up during the pandemic due to loan guarantee schemes and support for state-owned enterprises.

**Exhibit 12: Greece's Contingent Liabilities Remain Elevated**




Source: Eurostat

Further, with Greece having shifted more towards market-based financing, the cost of new borrowing is likely to rise moderately. This makes maintaining fiscal surpluses essential to ensure that the debt ratio continues to decline.

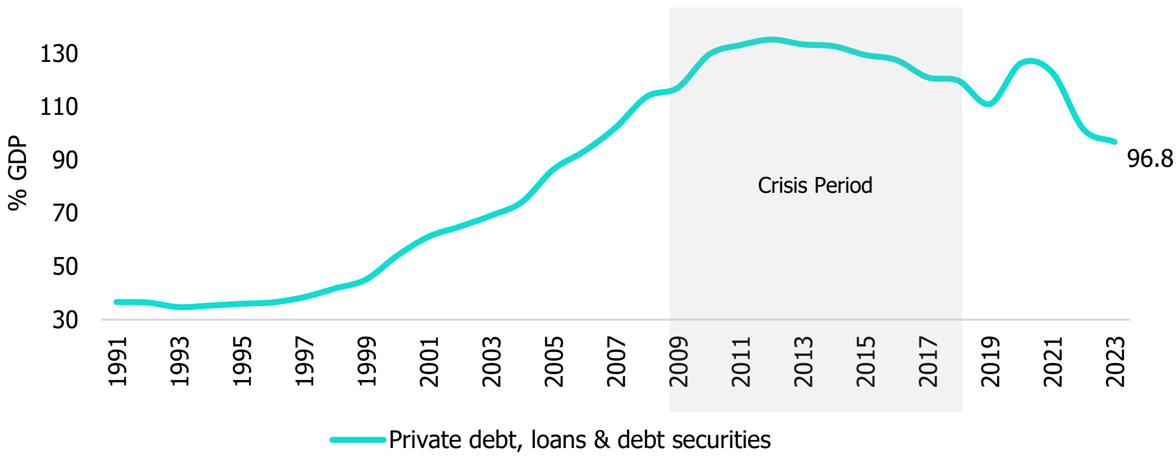
3. **Past Default and Data Quality Concerns**

Earlier episodes of distress, such as the 2012 debt restructuring and the 2015 missed IMF payment, continue to weigh on investor perceptions of Greece's fiscal profile. The 2009 revision of fiscal data, which exposed much larger deficits than previously reported, was a key trigger of the sovereign debt crisis and severely undermined the credibility of fiscal data. Since then, Greece has strengthened its statistical framework, aligning reporting practices with EU standards, though past developments still influence how fiscal transparency is viewed by many.

4. **Private Debt Still Elevated, Reflecting Crisis Legacy**

Private-sector debt in Greece remains high at 96.8% of GDP in 2023. This elevated level, built up in the years leading into and during the sovereign debt crisis (peaking at 135.3% by 2012), has declined but remains well above the historical average of below 50% before 2000 and continues to be a weak point in the financial sector. Greece has taken steps to address this through legal reforms such as out-of-court settlement platforms, which allow faster and more flexible restructuring of debts owed to banks and the state without lengthy court proceedings. Further improvements in the judicial system could help reduce this legacy burden in the coming years.

**Exhibit 13: Greece's Private Debt Remains High**




Source: IMF

**Key Aspects to Monitor**

- **Sustaining primary surpluses** will be essential to keeping public debt on a downward trajectory. This will necessitate maintaining strong revenue performance and keeping spending in check. Further improvements in tax compliance, including the use of digital tools, could support revenues and create space for growth-supportive initiatives.
- Greece's economy is projected to grow by 2% in 2025 and 1.8% in 2026. However, growth is projected to moderate to around 1.4% in the medium term, as NGEU-funded investment phases out and ageing pressures weigh on the economy, though partly cushioned by a projected increase in labour force participation. In this context, it will be important to maintain adequate investment even after NGEU funds expire, to support capital formation and avoid a loss in **growth momentum**.
- At the same time, some deeper **structural challenges** continue to weigh on Greece's medium-term outlook. These include relatively low investment levels (about 15% of GDP versus 21% in the EU), a shrinking working-age population, and sluggish productivity growth. Advancing reforms in these areas will be key to strengthening the country's medium-term economic prospects.

**Conclusion: Progress has been made, but Legacy Risks Still Matter**

In summary, Greece has made steady progress since the sovereign debt crisis, with stronger economic growth, a return to fiscal surplus, and a reduction in general government debt. Reforms in tax administration through digitalization and labour markets have supported better fiscal management and stronger revenues. The banking sector has strengthened, and labour market conditions have improved, with unemployment now at its lowest level since the crisis.

Even so, the country’s credit profile remains overshadowed by high general government debt and external debt, while private-sector debt continues to weigh on the financial system. As Greece shifts more towards market-based borrowing, the cost of new debt is likely to rise, testing the ability to keep fiscal surpluses. The economy is also exposed to global shocks due to its dependence on tourism and shipping, while NIIP remains deeply negative.

CareEdge Global will continue to monitor Greece’s ability to maintain fiscal surpluses, the pace of debt reduction, and the government’s efforts to address structural issues. Progress in resolving crisis-era private debt and reducing contingent liabilities will also be crucial to strengthening long-term resilience.

**Contact**

| | | | |
|---|---|---|---|
| Pawan Agrawal | Advisor | c-pawan.agrawal@careedge.in | - |
| Nitesh Jain | Chief Ratings Officer | nitesh.jain@careedgeglobal.com | - |
| Kiran Kavala | Senior Director | kiran.kavala@careedgeglobal.com | - |
| Annie Mahajan | Economist | annie.mahajan@careedgeglobal.com | - |
| Amya Parmar | Associate Economist | amya.parmar@careedgeglobal.com | - |
| Mradul Mishra | Media Relations | mradul.mishra@careedge.in | +91 - 22 - 6754 3596 |

**CARE Ratings Limited**
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

Connect:

Locations: Ahmedabad I Andheri-Mumbai I Bengaluru I Chennai I Coimbatore I Hyderabad I Kolkata I Noida I Pune

**About Us:**

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.

**Disclaimer:**

This report is prepared by CARE Ratings Limited (CareEdge Ratings). CareEdge Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge Ratings has no financial liability whatsoever to the user of this report.

Privacy Policy applies. For Privacy Policy please refer to https://www.careratings.com/privacy_policy