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Post-Programme Surveillance Assessments - Spring 2026

BACKGROUND

Twice per year, under post-programme surveillance (PPS), the Commission carries out assessments of euro-area Member States that have benefited from financial assistance.

The objective is to assess the Member State's economic, fiscal and financial situation to ensure that it maintains its capacity to service its debt ⁽¹⁾. In March and April 2026, staff from the Commission, in liaison with staff from the European Central Bank (ECB), undertook PPS missions to Ireland, Greece, Cyprus and Portugal. Staff from the European Stability Mechanism (ESM) participated in the meetings on aspects related to its Early Warning System. For Greece, Cyprus and Portugal, International Monetary Fund (IMF) staff also participated in the meetings. The macroeconomic and budgetary projections in the below assessments are taken from the Commission's Spring 2026 Economic Forecast (with a cut-off date of 4 May 2026) ⁽²⁾.

⁽¹⁾ Under Regulation (EU) No 472/2013, PPS continues until at least 75% of the financial assistance received under the programme has been repaid by the Member State. Spain exceeded that threshold in 2025 and is no longer subject to PPS. Under the current repayment schedule, PPS would last until 2030 for Cyprus, until 2031 for Ireland, until 2035 for Portugal and until 2059 for Greece. On 2 October 2025, the Commission tabled a [proposal \(COM\(2025\) 593 final\)](#) to amend Regulation (EU) No 472/2013, intended to clarify the scope and objective of PPS, as well as its application, with a potential to streamline surveillance when warranted. Under the proposed amendment, five years after the application of post-programme surveillance, the Commission may prepare a specific assessment on the capacity of the Member State concerned to repay the financial assistance received. If, through that assessment, the Commission concludes that there are no material risks to repayment over the medium term and after the Economic and Financial Committee has delivered an opinion, it would be possible to suspend regular assessments for a period of five years, subject to certain conditions. This would facilitate a more effective use of resources in supporting the Member State's policies in the years after financial assistance. It would also promote a more efficient and targeted application of PPS, in line with the Commission's overall simplification efforts.

⁽²⁾ [European Commission's Spring 2026 Economic Forecast](#)

IRELAND

Ireland's domestic economy remains resilient, while volatility in GDP growth persists.

Real GDP increased exceptionally by 12.3% in 2025 ⁽³⁾, largely driven by strong pharmaceutical exports. This likely reflects front-loading in anticipation of US tariffs, alongside strong global demand for weight-loss-related products from recently expanded production lines in Ireland. The domestic economy also performed robustly, with strong contributions from modified investment ⁽⁴⁾ and consumption. In the Commission's Spring 2026 Economic Forecast, real GDP is expected to decline by 1.2% in 2026 and grow by 3.4% in 2027. Inflation is forecast at 3.5% in 2026 and 2.6% in 2027. Modified domestic demand ⁽⁵⁾ is projected to expand by 2.8% in 2026 and 3.0% in 2027. While growth in the domestic economy is expected to continue, the energy price shock resulting from the conflict in the Middle East is expected to exert upward pressure on inflation, weighing on domestic growth. Exports are expected to be adversely affected by base effects from the exceptional increase in 2025. However, solid global demand for pharmaceutical products produced in Ireland, along with strong services exports, are expected to contribute positively to the growth forecast over the forecast horizon. Ireland's growth is exposed to risks arising from its high concentration of activity within a few sectors dominated by multinational companies, leaving the economy vulnerable to firm- and sector-specific shocks as well as adverse international developments. In addition, a more persistent and intense energy shock could exert additional downward pressure on the economy.

Ireland's headline fiscal performance has been strong, but there are underlying risks.

In 2025, Ireland recorded a general government surplus of 1.8% of GDP ⁽⁶⁾, supported by buoyant corporate tax receipts and robust growth in other revenue categories, reflecting strong domestic activity. According to the Commission's Spring 2026 Economic Forecast, Ireland's general government surplus is projected to decline to 1.4% of GDP in 2026 and 1.2% of GDP in 2027. Expenditure is set to grow faster than revenues, reflecting strong projected increases in government consumption, social transfers and capital investment, the latter supported by the National Development Plan, as well as the package of measures adopted by Ireland in March and April 2026 to mitigate the impact of high energy prices on households and firms. It consists of temporary and partly targeted measures, including broad reductions in excise duties, a deferral of the carbon tax increase, targeted social transfers to low-income households and targeted subsidies to the agricultural and transport sectors. Overall, sustained spending pressures continue to fuel strong current expenditure growth, leading to repeated mid-year revisions of Exchequer expenditure ceilings. At the same time, revenue growth is estimated to stay strong, amid a solid domestic growth outlook, higher price growth and additional receipts from Ireland's domestic minimum top-up tax. The government debt-to-GDP ratio is forecast to continue decreasing over the forecast horizon to 31.6% of GDP in 2027. Fiscal risks stem from the significant concentration of corporate tax revenue in a relatively small number of

⁽³⁾ Source: Eurostat (online data code nama_10_gdp)

⁽⁴⁾ Modified investment is headline investment excluding the volatile components of leased aircraft, imported research and development and traded intellectual property.

⁽⁵⁾ Modified domestic demand is the sum of household consumption, government consumption and modified investment. It more accurately reflects the domestic economic activity in Ireland.

⁽⁶⁾ Source: Eurostat (online data code gov_10dd_edpt1)

large companies in the pharmaceutical and ICT sectors, and from the fact that a substantial portion of this revenue is estimated by the authorities to be ‘windfalls’, i.e. in excess of what can be explained by domestic economic activity. This exposes Ireland’s public finances to the profitability and decisions of a few individual companies, changes in the US trade and tax policies and in the international tax environment.

The Irish financial system remains resilient, underpinned by profitable and well capitalised banks and improving asset quality. While Irish retail banks continued to record healthy profits in 2025, their performance eased back from the remarkable peaks achieved in the preceding two years. Return on equity moderated to 11.2% in 2025, down from 13.3% in 2024. Net interest income declined, as the impact of lower interest rates was only partially mitigated by growth in loan volumes and the unwinding of the banks’ structural hedging programmes. While fee and commission income rose modestly by 2% year-on-year, retail banks continue to rely heavily on interest income. Operating costs remained stable, as higher staff expenses and operational investments offset a reduction in regulatory charges, notably the absence of contributions to the Irish Deposit Guarantee Scheme, which is now fully funded. Retail banks’ capital buffers comfortably exceed regulatory requirements. The introduction of Basel IV provided a boost to capital ratios by reducing risk weights, resulting in a fully loaded common equity tier 1 ratio of 15.9% by the end of 2025, up from 14.8% at the end of 2024. Capital generation capacity was supported by solid profitability, despite the two largest retail banks distributing all their earnings to shareholders in 2025. Permanent TSB, the third largest retail bank, paid its first dividend since 2008. Asset quality improved amid rising loan volumes. Household loans continued to expand driven by a buoyant mortgage market, while loan demand from non-financial corporations (NFCs) softened further, particularly among small to medium-sized enterprises (SMEs). The volume of non-performing loans (NPLs) shrank to its lowest level in more than a decade, as the decline in household NPLs more than offset a slight increase in NFC NPLs. Notably, the NPL ratio improved for loans collateralised by commercial property and for loans to SMEs, driven by a reduction in the fourth quarter. In March 2026, Irish retail began the roll-out of a joint payment service called Zippay that allows customers to send money to a bank account without the need for a bank account number.

Non-bank lenders continued to expand their market share in lending to Irish companies and households amid easing macro-financial risks. Non-bank lenders expanded their share in SME lending marginally to 36.5% in 2024, from 35.0% in the previous year, while the total volume of new lending to SMEs from banks and non-banks rose to EUR 6.9 billion in 2024, from EUR 6.3 billion in 2023. Despite concerns over credit quality and lending standards in private credit markets, indicators of borrowers’ inability to repay loans remained at low levels throughout 2024. The market-based financial sector, comprising investment funds, money market funds and special purpose entities, continued to expand, reaching over EUR 7.2 trillion of assets in Q3-2025. Irish property funds, a subset of investment funds, increased their borrowing from non-banks in 2024, while reducing their reliance on traditional bank lending. Debt service burdens remained modest for most households, and mortgage arrears continued to trend downwards in 2025. A buoyant housing market has driven house prices higher, resulting in a pronounced increase in the house price-to-income ratio in Ireland since the

pandemic. In contrast, capital values in the office segment of the commercial property market continued sliding in 2025, albeit at a slower pace, while capital values in retail and industrial segments are climbing. The central bank has identified growing operational risks arising from the increasing use of technology, at a time when the banks' IT transformation programmes pose significant challenges.

Sovereign refinancing risks are low amid strong cash and liquid asset reserves and a favourable debt structure. Ireland issued EUR 6.25 billion of bonds in the first quarter of 2026, including EUR 5 billion through a syndicated sale of a new 10-year benchmark bond in January, and EUR 1.25 billion in a March auction. This means that over half of the midpoint of the planned bond funding range for the year (EUR 10-14 billion) is already complete. Ireland's cash and liquid asset reserves remained high at EUR 36 billion (5.6% of GDP) at end-March 2026. They are expected to reduce to about EUR 25 billion (3.9% of GDP) at end-2026 and to reduce further over the coming years as the government uses one-off revenues received in recent years to part-fund the National Development Plan. At the same time, refinancing needs are relatively low in the short term, but they are expected to increase in the early part of the next decade. The vast majority of Ireland's public debt is fixed at an average interest rate of about 1.5% and therefore relatively well insulated from market volatility. Ireland has an outstanding debt of EUR 17.3 billion to the European Financial Stabilisation Mechanism (EFSM) and EUR 18.4 billion to the European Financial Stability Facility (EFSF). A EUR 2 billion EFSM repayment is due in 2026, while the scheduled repayment of the EFSF loans will start in 2029.

Ireland's sovereign debt continues to enjoy strong investor interest. The syndicated bond sale earlier this year was oversubscribed by over eight times, reflecting ongoing investor demand for Irish bonds and their confidence in Ireland's creditworthiness. In March 2026, Ireland's long-term sovereign credit rating was upgraded to 'AA+' by S&P Global Ratings, on the back of a strong economic and fiscal profile and a stable outlook, and it is firmly in the 'AA' category with the other rating agencies. Overall, Ireland's investor base is wide and varied. Since the outbreak of the conflict in the Middle East, the yield for the 10-year Irish government bond has increased to around 3.26% at end-April 2026. After a slight widening in March 2026, the spread against the 10-year German bond reverted to 23 basis points at end-April 2026, a level close to the 2025 average.

Ireland retains the capacity to service its debt. Despite the underlying vulnerability in Ireland's revenue structure and risks to the fiscal outlook, Ireland's debt-servicing capacity remains unaffected in the short term thanks to its large cash and liquid asset buffers, the favourable debt maturity structure and the low average interest rate of its debt portfolio. According to the Commission's Debt Sustainability Monitor 2025, Ireland's fiscal sustainability risks appear low in the medium term, with the debt-to-GDP ratio projected to remain below 60% under all stress-test scenarios, and medium in the long term ⁽⁷⁾. The government's commitment to continue accumulating fiscal buffers in the Future Ireland Fund and the Infrastructure, Climate and Nature Fund, which are expected to be worth more than

(7) See European Commission (2026), Debt Sustainability Monitor 2025, European Economy Institutional Paper 332, (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2025_en).

EUR 24 billion (3.7% of GDP) by end-2026, will help to alleviate future pressures on the public finances.

GREECE

Greece's economic activity maintained its momentum in 2025, supported by increasing investment, including through EU funds. Real GDP grew by 2.1%⁽⁸⁾ for the third consecutive year, driven by investment, private consumption and net exports. EU funds are expected to support solid growth in investments in 2026. Greece's recovery and resilience plan is the largest in the EU as a percentage of GDP. Given the applicable deadlines, the authorities need to maintain momentum in implementation to ensure the swift absorption of the available funds⁽⁹⁾. Rising energy prices are set to put pressure on households' real disposable income. The 2025 fiscal package and recent energy measures should help ease some of this impact. Still, private consumption is expected to slow, which, together with the uncertainty triggered by the conflict in the Middle East, is forecast to moderate GDP growth in 2026. Economic activity is projected to slow slightly further in 2027 as the implementation of the recovery and resilience plan ends. According to the Commission's Spring 2026 Economic Forecast, real GDP is projected to grow by 1.8% in 2026 and 1.6% in 2027. Risks remain tilted to the downside as a potential further escalation of the Middle East conflict could have a material impact on tourism and domestic demand. The current account deficit narrowed but remained elevated at 5.7% of GDP in 2025⁽¹⁰⁾, and it is expected to widen in 2026, given the high import content of investments and the surge in energy prices. Job creation was strong and the unemployment rate declined to 8.4% in the last quarter of 2025⁽¹¹⁾, a level last seen in 2008. Employment is projected to keep increasing in 2026 and 2027, though more gradually due to moderating output growth and structural challenges. Given the rapid population ageing, increasing the quantity and quality of employment and raising productivity growth are key to closing the substantial income gap with the rest of the EU.

Higher commodity prices, strong demand and labour shortages in services are expected to keep inflation elevated. The labour market eased somewhat in 2025, but labour shortages are still significant in construction, tourism and high-skilled sectors (such as professional, scientific and technical activities). Persistently strong demand and labour market tightness in the above-mentioned segments, together with the recent pick-up in energy prices, are set to keep inflation elevated in 2026 and 2027. Inflation is projected to increase to 3.7% in 2026 and to moderate to 2.4% in 2027. Inflation risks are tilted to the upside and hinge on the future development of commodity prices, wage growth in relation to productivity, and the impact of possible adverse climate events.

In 2025, Greece registered a general government surplus of 1.7% of GDP⁽¹²⁾, significantly better than expected. The Commission's Autumn 2025 Economic Forecast projected a surplus of 1.1% of GDP. This over-performance was driven by strong revenue growth from value added tax and direct taxes, accompanied by a significant under-execution of current expenditure. The Commission's Spring 2026 Economic Forecast expects a headline

⁽⁸⁾ Source: Eurostat (online data code nama_10_gdp)

⁽⁹⁾ The disbursement of the seventh payment request for grants and the sixth payment request for loans in April 2026 brought the funds paid out to Greece under the Recovery and Resilience Facility to EUR 24.6 billion, which corresponds to 68.5% of all funds in the Greek plan, with 53% of all milestones and targets in the plan fulfilled.

⁽¹⁰⁾ Source: Eurostat (online data code bop_c6_a)

⁽¹¹⁾ Source: Eurostat (online data code lfsa_unemp)

⁽¹²⁾ Source: Eurostat (online data code gov_10dd_edpt1)

surplus of 0.8% of GDP in 2026 and 0.6% in 2027, and a primary surplus of 4.0% and 3.7% in 2026 and 2027, respectively. The projection incorporates temporary and permanent measures to contain the rise in energy prices and support low-income households, by the cut-off date of 4 May 2026, with a total cost of around 0.3% of GDP. The energy-related measures are temporary and broadly targeted, and include a diesel subsidy, a digital fuel card for households, a one-off payment to families with children, partial coverage of fertiliser costs for farmers, and compensation for ferry companies. Permanent measures include an increase in the annual benefit for low-income pensioners and vulnerable groups and broader eligibility for the rent subsidy. Fiscal risks remain related to ongoing legal cases, in particular those involving the Hellenic Public Properties Company. Rising spending pressures, including those related to defence, energy and ageing, reinforce the need to preserve cash buffers, reduce public debt and refrain from using fiscal space to finance permanent measures, all of which are essential to the preservation of fiscal sustainability.

The stock of general government net arrears declined in the second half of 2025, falling from EUR 626 million in July to EUR 453 million in December (around -28%), though year-on-year progress remains modest (around -3%). Developments across subsectors are uneven, with social security funds showing some improvement, mainly reflecting a continued reduction in lump-sum pension arrears, while arrears in central administration, extra-budgetary funds, local governments and tax refunds have remained broadly stable. Hospitals continue to be the main source of concern, with arrears showing no clear downward trend despite the reforms undertaken. The establishment of the Centralised Health Procurement Authority (EKAPY) has not yet delivered the expected results. According to the authorities, this reflects a financing gap linked to a timing mismatch between pharmaceutical expenditure and the corresponding grant disbursements to EKAPY. Planned measures are steps in the right direction, including accelerating clawback clearance supported by IT upgrades and closer coordination with e-invoicing systems, as well as improving EKAPY's cash-flow management. The effectiveness of those measures will need to be demonstrated through sustained and timely implementation to ensure lasting reductions in arrears and prevent re-accumulation.

The Greek banking sector continued to be profitable and resilient. In 2025, the four systemic banks booked an aggregate net profit of EUR 4.5 billion, an annual increase of 4.8%. Rising lending volumes and stronger fee income compensated for the decline in net interest margins and the higher operating costs compared to the previous year. Liquidity remained high, and deposits of domestic residents grew by 5.4% in 2025. Banks maintained capital levels that exceeded regulatory requirements, but average common equity tier 1 (CET1) and total capital ratios decreased marginally, as banks used part of the generated capital to finance acquisitions and higher dividend payouts. The quality of banks' capital improved as deferred tax credits represented 44.6% of CET1 capital in June 2025, compared to 47.5% in December 2024. The banking sector's resilience is supported by high liquidity, a stable deposit base, a lower cost of funding due to improving credit ratings (in 2025, Moody's was the last credit agency to upgrade Greece's sovereign credit to investment grade, while other major agencies upgraded to one notch above) and a growing diversification of income sources. The main risks are external and contingent on the duration and scale of the conflicts in the wider region.

Banks continued to improve their asset quality, while the workout of legacy debt managed by servicers is slow and could face a new challenge. In December 2025, the non-performing loan (NPL) ratio stood at 3.3% ⁽¹³⁾, half a percentage point lower than in December 2024. This is the lowest level since Greece joined the euro area in 2001. In 2025, the decline in the NPL ratio was driven mainly by robust credit growth and limited portfolio sales, while the organic workout had only marginal relevance. New inflow of NPLs is likely to persist in 2026 as banks continue to phase out or convert their outstanding loans with step-up characteristics, but NPL ratio levels are expected to be contained. A major share of NPL exposures securitised or sold by banks was transferred to credit servicers, who were managing EUR 80 billion of debt in December 2025 - a EUR 5 billion increase from December 2024, driven by the final wave of major securitisations. The pace of workout by servicers remains slow. Most portfolios securitised under the Hellenic Asset Protection Scheme (HAPS) continue to underperform due to judicial delays and obstacles in liquidation proceedings, keeping recoveries from collateral liquidations below plans. Recent amendments to the Code of Civil Procedure and the imminent launch of an electronic platform to bring forward distant hearing dates are expected to improve the situation. The out-of-court workout (OCW) platform continued to record a higher number of restructuring applications following the introduction of the category of ‘eligible debtors’ (for whom creditors cannot refuse proposed settlements) ⁽¹⁴⁾. The process to set up the sale and leaseback organisation (SLBO) ⁽¹⁵⁾ is now expected to be completed in Q3-2026, with the related interim support scheme remaining in place until the SLBO becomes operational. The impact of the recent Supreme Court decision on the calculation of interest on loans restructured under Law 3869/2010 (Katseli) remains unknown, pending publication of the ruling and further details on the methodology and any potential retroactive effect. It is also unclear whether other types of restructuring ⁽¹⁶⁾ might be affected.

The Hellenic Corporation of Assets and Participations (HCAP) doubled its profits in 2025, surpassing EUR 400 million ⁽¹⁷⁾. This increase was largely driven by the profitability of the former Hellenic Financial Stability Fund, which contributed to HCAP’s results for the first time following its absorption. HCAP continues to prioritise the transformation of its subsidiary state-owned enterprises. The Hellenic Public Properties Company is intensifying its strategic asset management reform initiatives, aiming to evaluate and exploit its portfolio of 36 000 public real estate properties over the next two years, to enhance its financial performance and contribute to the government’s efforts to tackle housing challenges. Privatisation transactions are progressing as expected, with the closure of the Egnatia Odos concession transaction on 30 December 2025 marking a significant milestone in infrastructure

⁽¹³⁾ Source: Bank of Greece. The figures refer to NPLs as a share of total gross customer loans on a solo basis. The ECB reports NPLs for Greece and the EU average as a share of total gross loans and advances (i.e. including cash balances at central banks and other demand deposits in the denominator) on a consolidated basis, which is different from the one reported by the Bank of Greece. The ECB figures for Q3-2025 are 2.8% and 1.9% for Greece and the EU average, respectively.

⁽¹⁴⁾ However, the OCW re-default rates remain high, averaging 44% for debt restructured by servicers. Further updates to the platform are expected to increase the percentage of successful restructurings by improving the automated calculation tool (i.e. the algorithm), and to increase participation rates.

⁽¹⁵⁾ The aim of the sale and leaseback organisation is to protect vulnerable debtors’ primary residence from enforcement actions, with property acquisition and leaseback to the vulnerable debtor, with a buy-back option over 12 years. The SLBO is the final missing component of the new insolvency framework adopted in 2020.

⁽¹⁶⁾ Such as those carried out under the OCW or through regular insolvency proceedings.

⁽¹⁷⁾ Hellenic Corporation of Assets and Participations (HCAP) was established in 2016 to modernise state-owned enterprises, maximise public asset value, and deliver enhanced services to the public.

investment, yielding EUR 1.3 billion for the Greek state. The Hellenic Innovation and Infrastructure Fund, established by HCAP with EUR 303.5 million to attract foreign direct investment and support transformative projects, plans to make its initial investment in 2026.

Greece's gross refinancing needs remain low in the short term. Sovereign financing needs are set to remain below 10% of GDP per year in 2026 and 2027, owing to lowered debt amortisations ⁽¹⁸⁾ and high projected primary surpluses. Financing risks are further reduced by the high level of government cash reserves, which amounted to EUR 39.6 billion, or 15.9% of GDP in December 2025, and the exceptionally long – close to 19 years – weighted average maturity of Greece's public debt.

The Greek sovereign debt market attracts strong interest from abroad. Non-residents invested EUR 14.5 billion (5.8% of GDP) in Greek government securities in 2025 ⁽¹⁹⁾. Most of the major rating agencies set Greece's sovereign rating one notch above investment grade, with a stable outlook ⁽²⁰⁾. In January 2026, Greece issued a new 10-year bond, raising EUR 4 billion at favourable interest rates (3.47%) through a syndicated bond issuance, which was heavily oversubscribed ⁽²¹⁾. Greece already covered more than half of its EUR 8 billion annual financing need in the first quarter of 2026. As in several other Member States, the recent deterioration in the international environment triggered some widening of the Greek sovereign spread over the 10-year German Bund, which averaged 78 basis points in April 2026. Public debt management continues to focus on smoothening the payment profile and lengthening the maturity of the debt portfolio. In this vein, Greece continued to issue government bonds with long maturity ⁽²²⁾. Furthermore, Greece again made a partial prepayment under the Greek Loan Facility (GLF) in 2025 and plans to continue making such prepayments in 2026 and beyond.

Greece retains the capacity to service its debt. The public debt-to-GDP ratio continued its downward trend and stood at 146.1% of GDP at the end of 2025 ⁽²³⁾, almost 43 percentage points lower than its pre-COVID-19 peak in 2018. The debt ratio is set to continue declining to 134.4% of GDP by 2027. According to the Commission's Debt Sustainability Monitor 2025 ⁽²⁴⁾, Greece is deemed to face high risks in the medium term due to its persistently high debt-to-GDP ratio and the fact that its debt trajectory is sensitive to historically relevant shocks – particularly to GDP growth and to the primary balance. Long-term fiscal sustainability risks remain low. Greece has an outstanding debt of EUR 26.3 billion under the GLF. It owes EUR 59.8 billion to the European Stability Mechanism (ESM) and EUR 141.4 billion to the European Stability Facility (EFSF) ⁽²⁵⁾. The repayment of the principal on the GLF started in 2020 and was accelerated through partial prepayments since 2023. The repayment of the EFSF loans started in 2023 ⁽²⁶⁾. The majority of Greece's outstanding debt has been secured at low

⁽¹⁸⁾ Following the partial prepayment of the Greek Loan Facility (GLF) in 2024, which brought forward EUR 7.9 billion in loan amortisation, the financing needs for the 2026-2028 period have been reduced.

⁽¹⁹⁾ See [Bank of Greece: Balance of Payments, December 2025](#).

⁽²⁰⁾ Moody's is the only agency keeping Greece at the investment-grade threshold with a stable outlook.

⁽²¹⁾ See PDMA announcement (<https://www.pdma.gr/en/debt-instruments-greek-government-bonds/announcements/eur-4-0-billion-ggb-3-375-16-june-2036>).

⁽²²⁾ In 2025, the weighted average maturity of government bonds issued by Greece was 14.6 years.

⁽²³⁾ Source: Eurostat (online data code gov_10dd_edpt1)

⁽²⁴⁾ See European Commission (2026), Debt Sustainability Monitor 2025, European Economy Institutional Paper 332, (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2025_en).

⁽²⁵⁾ Based on December 2025.

⁽²⁶⁾ In the past, Greece has made non-scheduled repayments on its ESM loan, in accordance with its contractual obligations.

interest rates, and the interest-rate risk linked to the GLF is hedged. These features mitigate the short-term impact of a potential rise in market rates on Greece's effective borrowing costs. The combination of modest financing requirements and a substantial cash reserve support Greece's capacity to service its debt.

CYPRUS

Despite the shock generated by the conflict in the Middle East, growth is expected to remain resilient. Prior to the Middle East conflict, the macroeconomic outlook was strong, with real GDP in 2025 expanding by 3.8% ⁽²⁷⁾, picking up significantly in the last quarter of that year. According to the Commission's Spring 2026 Economic Forecast, real GDP is projected to expand by 2.3% and 2.7% in 2026 and 2027, respectively. This reflects the positive conditions before the conflict and the potential easing of uncertainty over the course of 2026. Private consumption will remain the main contributor to growth, though its momentum is set to moderate considerably as imported inflation will erode real disposable incomes, even if wage adjustment through automatic indexation is likely to provide support. A possible slowdown in the inflow of foreign workers will also play a role. Investment (excluding the registration of ships) is also projected to moderate, despite offsetting support from the final year of implementation of the recovery and resilience plan (RRP). Exports are expected to come under pressure but remain resilient, thanks to expanding ICT and financial and business services, while tourism receipts are likely to take a hit from reduced tourist inflows, in particular from neighbouring countries. Given the increased import bill for oil, developments in the trade balance will widen the current account deficit as the primary income deficit is expected to remain elevated. Headline inflation is projected to increase to 3.6% in 2026 before easing to 2.2% in 2027, reflecting a spike in energy prices and the gradual pass-through to other components. At the same time, employment growth is expected to remain robust, growing by 1.3% and 1.1% in 2026 and 2027, respectively. Over the same period, the unemployment rate is expected to fall to its lowest level in over a decade, stabilising at 4.2% in both 2026 and 2027.

The economic outlook is clouded by significant downside risks. The impact of the Middle East conflict on the Cypriot economy will depend on its duration and intensity. In addition, sector and country-specific vulnerabilities are also at play, particularly in tourism, where arrivals are sensitive to geopolitical developments. Cyprus's sizeable import dependence, especially for energy goods, increases the country's vulnerability to external shocks and warrants close monitoring of its external imbalances.

Public finances remain overall solid. The general government surplus remained significant, at 3.4% of GDP in 2025 ⁽²⁸⁾, albeit below the peak of 4.1% of GDP in 2024. Government revenue has been supported by strongly growing direct taxes and social security contributions, and it continued its dynamic growth at almost 8% in 2025 ⁽²⁹⁾, although revenues from value added tax (VAT) decreased slightly, reflecting the lower VAT rate for electricity and other basic goods. Expenditure grew by a little more than 10% ⁽³⁰⁾, in line with government plans and funds provided by the EU for the Cypriot RRP. For 2026 and 2027, the budget surplus is projected at 2.1% and 2.5% of GDP, respectively. This includes temporary fiscal policy measures adopted in March 2026 to mitigate for some months the impact of high energy prices

⁽²⁷⁾ Source: Eurostat (online data code nama_10_gdp)

⁽²⁸⁾ Source: Eurostat (online data code gov_10dd_edpt1)

⁽²⁹⁾ Source: Eurostat (online data code gov_10a_main)

⁽³⁰⁾ Source: Eurostat (online data code gov_10a_main)

on households and firms due to the conflict in the Middle East. Untargeted reductions in VAT on electricity and in excise duties on fuels may have a favourable impact on demand for fossil fuels, which is not the case for the targeted subsidies to farmers, airlines and the tourism industry. Two significant investment projects in the energy sector (namely the Great Sea interconnector between Cyprus and Greece and the Vasilikos LNG terminal) increase expenditure, even if they are facing implementation obstacles and running behind schedule. Cyprus is also planning to increase defence spending and to compensate depositors affected by the bail-in of the banking sector during the 2013-2014 crisis through a solidarity fund, which is being financed by the state budget. By contrast, revenue is expected to continue benefiting from a favourable labour market situation and a continued positive growth outlook despite the Middle East conflict. The public debt ratio fell below the 60% Treaty reference value at the end of 2025 ⁽³¹⁾ and is projected to continue its downward trend. In line with Cyprus's 2024 medium-term fiscal-structural plan, general government debt is projected to continue decreasing over 2025-2028; according to the Commission's Spring 2026 Economic Forecast, it is projected to decrease to 50.4% in 2026 and 45.5% in 2027.

The financial sector remains robust, with banks maintaining strong profitability and further strengthening their already solid capital positions amid ample liquidity. The net profit of Cypriot banks declined to EUR 0.9 billion in 2025, compared to EUR 1.2 billion a year earlier ⁽³²⁾, as the normalisation of interest rates reduced net interest income. Nevertheless, profitability remains satisfactory, as reflected in the sector's return-on-equity ratio of 14.2% in December 2025, compared with an EU average of 9.6%. Solvency strengthened further, with the common equity tier 1 (CET1) ratio increasing to 25.8% in December 2025 – the highest in the EU – supported by strong internal capital generation. In 2025, total assets increased by EUR 4.4 billion to EUR 70 billion, reflecting strong new lending activity and purchases of debt securities. The sector maintains a substantial buffer of 11.7% above Pillar 2 Guidance, underscoring its strong loss-absorbing capacity. Liquidity conditions remain comfortable, underpinned by a stable and predominantly domestic deposit base. In December 2025, the liquidity coverage ratio stood at 319% and the net stable funding ratio at 185%, both among the highest in the EU, and well above the regulatory minimum of 100%. The loans-to-deposits ratio, at 49%, remains among the lowest in the EU, further reflecting abundant liquidity and a strong funding position.

Asset quality has continued to improve significantly but downside risks arise from uncertainties stemming from the Middle East conflict and recent legislative changes that may affect the effectiveness of the foreclosure framework. The stock of legacy non-performing loans (NPLs) in the banking system, stemming from the 2013 crisis, decreased to EUR 0.8 billion in December 2025, driven primarily by write-offs, NPL sales and loan repayments. This is the lowest level recorded since the harmonisation of the NPL definition in 2014, with improvements observed across all portfolio segments. The NPL ratio decreased to 1.6% ⁽³³⁾, falling below the EU average of 1.9% for the first time. The NPL coverage ratio

⁽³¹⁾ Source: Eurostat (online data code gov_10dd_edpt1)

⁽³²⁾ Excluding branches of non-EU banks.

⁽³³⁾ Based on data from all banks' local operations, including loans and advances to central banks and credit institutions. Excluding loans and advances to central banks and credit institutions, the NPL ratio would be 3.16%.

increased to 62.3%, while unprovided NPLs also declined to historically low levels. Stage 2 exposures decreased to 6% and remain below the EU average of 9%, while the continued decline in forbore exposures further confirms the strengthening of asset quality. Banks' direct exposure to Middle Eastern countries is limited, and their well-diversified loan portfolios help mitigate risks from current geopolitical tensions. However, second-round effects could still weigh on asset quality, particularly in sectors such as accommodation and hospitality. Recent legislative initiatives by the Parliament concerning the foreclosure framework pose downside risks, as they could significantly weaken the effectiveness of the existing framework if enacted⁽³⁴⁾. In particular, one amendment gives borrowers in default the right to seek court suspension of foreclosure proceedings when the debt amount is contested or abusive contractual terms are invoked, a provision that may encourage some borrowers to consider strategic default. This could lead to an increase in the number of litigation cases and delays in enforcement of foreclosures, indirectly also reducing borrowers' incentives to agree to pre-foreclosure solutions that might be offered by lenders. Overall, such a weakening of the existing foreclosure framework may reverse progress in reducing legacy risks, weigh on the overall stability and credibility of the financial sector and/or slow down new mortgage lending. Concerning KEDIPES⁽³⁵⁾, the changes could adversely affect its ability to recover part of the remaining assets to repay the State aid (outstanding amount estimated at EUR 1.8 billion) granted as part of the resolution of Cyprus Cooperative Bank in 2018.

The resilience of the Cypriot sovereign to short-term risks is supported by low financing needs, a strong cash position and a favourable debt maturity profile. Gross financing needs are estimated at EUR 1.6 billion for both 2026 and 2027 (approx. 4.2% of GDP in 2026 and 3.9% of GDP in 2027)⁽³⁶⁾. This is higher than in 2025, reflecting the repayment of European Stability Mechanism (ESM) loans. An issuance of long-term debt took place in January 2026, consisting of a EUR 1.0 billion 10-year fixed-rate benchmark bond. The transaction attracted very strong interest, with the order book surpassing the issuance value 16 times, which is the highest oversubscription ever recorded for a syndicated transaction by Cyprus. Cyprus maintains a strong cash position, standing at EUR 1.7 billion as of end-2025 (approx. 4.6% of GDP), which corresponds to a coverage ratio⁽³⁷⁾ of 1.1. The public debt maturity profile remains favourable, with low rollover risks and an average maturity of 6.2 years for total debt and 7.3 years for marketable debt as of end-September 2025. Concerning debt distribution, 34.1% of debt is based on a floating interest rate; this share is mostly made up of ESM loans⁽³⁸⁾. All outstanding debt securities are denominated in euro, eliminating foreign exchange rate risk. Overall, the weighted average cost of debt stood at 1.83% as of end-September 2025. The yield on Cyprus's 10-year government bond has not been materially

⁽³⁴⁾ According to the Constitution, the President may refer laws passed by the House of Representatives to the Supreme Court for constitutional review if there are concerns that the legislation may violate the Constitution or EU law.

⁽³⁵⁾ KEDIPES is the state-owned asset management company that was established in 2018 to manage the remaining 'bad assets' of the Cyprus Cooperative Bank residual entity.

⁽³⁶⁾ Source: European Commission (2026), Debt Sustainability Monitor 2025, European Economy Institutional Paper 332, February (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2025_en).

⁽³⁷⁾ The coverage ratio is calculated as the ratio of cash balances to gross financing needs over the next 12 months.

⁽³⁸⁾ The ESM interest payments on the floating-rate debt are based on a blended interest rate, calculated on the basis of the ESM's funding and operating costs.

affected by the conflict in the Middle East, and stood at around 3.5% at the end of April 2026, with the spread over the German 10-year Bund at around 47 basis points.

Financial markets' perceptions remain favourable. Credit rating upgrades and affirmations continued in 2025, consolidating Cyprus's investment-grade credit quality and 'A rating' status. In November 2025, Cyprus held ratings of A by DBRS Morningstar (stable outlook), A- by Standard & Poor's (positive outlook), A- by Fitch (positive outlook), A- by Scope Ratings (positive outlook) and A3 by Moody's (stable outlook).

Cyprus retains the capacity to service its debt. According to the Commission's Debt Sustainability Monitor 2025 ⁽³⁹⁾, risks to Cyprus's fiscal sustainability are overall medium in the medium term, but low in the long term. The debt-servicing capacity of Cyprus remains stable, driven by a continuously declining debt ratio thanks to sustained primary surpluses, a relatively long maturity of its debt portfolio, large cash buffers and low gross financing needs. The first loan repayment to the ESM, of EUR 350 million, was made in December 2025, while an amount of approximately EUR 1 billion is scheduled for repayment in May 2026. Annual repayments of approximately EUR 1 billion are planned for 2027 and 2028, increasing slightly to EUR 1.05 billion in 2029, before falling to EUR 0.9 billion in 2030 and increasing to EUR 1 billion in 2031.

⁽³⁹⁾ See European Commission (2026), Debt Sustainability Monitor 2025, European Economy Institutional Paper 332, (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2025_en).

PORTUGAL

Portugal's economy remains resilient amid rising external risks. Portugal's economic growth moderated from 2.2% in 2024 to 1.9% in 2025 ⁽⁴⁰⁾ due to weaker net exports. However, growth continued to outperform the EU average for four years in a row, helped by strong private consumption and investment, which rose by 3.5% and 3.6% in 2025 ⁽⁴¹⁾, respectively. In early 2026, Portugal faced significant adverse shocks, first from a series of devastating storms and later from a steep rise in energy prices and an escalation in global uncertainty due to the conflict in the Middle East. While Portugal has no direct exposure to energy supplies from the Middle East, its economy is still affected by international developments of energy prices and trade. Nevertheless, Portugal's economy is expected to remain resilient, supported by robust household demand and a projected peak in EU-funded investment under the Recovery and Resilience Facility in 2026. According to the Commission's Spring 2026 Economic Forecast, real GDP growth is projected at 1.7% in 2026 and 1.8% in 2027. Domestic demand is expected to remain the main growth driver in both years, while net exports are set to remain weak. The overall balance of risks to growth is tilted to the downside due to uncertainty related to the global geopolitical environment.

Headline inflation is facing upward pressure from energy prices, while real wage growth is set to moderate. Headline inflation dropped from 2.7% in 2024 to 2.2% in 2025 ⁽⁴²⁾. However, the rise in energy prices pushed inflation to 2.7% year-on-year in March 2026, up from 2.1% in the previous month. On the assumption that energy prices gradually recede after a peak in the second quarter of 2026, the overall impact on inflation is projected to remain limited in duration, with only moderate lagged effects on food and energy-intensive services. The Commission's Spring 2026 Economic Forecast projects inflation at 3.0% in 2026 and 2.3% in 2027. Core inflation – excluding energy and food – is set to remain less volatile as real wage growth is expected to moderate. Employment picked up substantially in 2025, breaking new all-time highs and reducing the unemployment rate to an annual average of 6.0%, down from 6.5% in 2024 ⁽⁴³⁾. Employment growth is expected to moderate in the short term, in line with the projected slowdown in economic activity.

Portugal's general government balance is set to turn into a small deficit over the forecast horizon. Starting from a surplus of 0.7% of GDP in 2025 ⁽⁴⁴⁾, the budget balance is forecast at -0.1% of GDP in 2026 ⁽⁴⁵⁾. Going forward, it is estimated to reach -0.4% of GDP in 2027 on a no-policy-change basis. In 2026, the budget balance is being adversely impacted by government support measures taken in response to damages caused by the series of storms in January and February. In addition, current spending is projected to continue to increase, driven by fiscal policy measures on public wages and social benefits and higher interest expenditure. Nationally financed public investment as a share of GDP is expected to peak in 2026 and to moderate in 2027. At the same time, revenue is also estimated to peak in 2026 before declining

⁽⁴⁰⁾ Source: Eurostat (online data code nama_10_gdp)

⁽⁴¹⁾ Source: Eurostat (online data code nama_10_gdp)

⁽⁴²⁾ Source: Eurostat (online data code prc_hicp_ainr)

⁽⁴³⁾ Source: Eurostat (online data code lfsa_unemp)

⁽⁴⁴⁾ Source: Eurostat (online data code gov_10dd_edpt1)

⁽⁴⁵⁾ See Commission Opinion on the 2026 Annual Progress Report of Portugal for estimates of the country's net expenditure path.

in 2027 due to the impact of revenue-decreasing measures, notably on direct taxation. Public debt decreased further to 89.7% of GDP in 2025 ⁽⁴⁶⁾. It is expected to continue decreasing to 86.0% of GDP in 2027. In addition to the risks to the macroeconomic environment mentioned above, this fiscal outlook is subject to country-specific risks that relate to state-owned enterprises and to liabilities arising from public-private partnerships.

The banking sector remains resilient, recording above-average profits relative to the euro area. Portuguese banks' returns remained close to their all-time highs, with an aggregate return on assets of 1.32% in 2025, 16 basis points lower year-on-year but still well above the euro-area average. Net interest income remained on a gradually declining trend as loans to the non-financial private sector recorded lower margins. However, banks adapted well to the lower-interest-rate environment, counterbalancing lower lending margins through lower deposit remuneration and higher fee and commission income. Banks' recent shift towards mixed-rate mortgages also supported net interest income. Efficiency remained very strong and among the strongest in the euro area. Capitalisation also remained high, with banks' common equity tier 1 (CET1) capital ratio at 17.9% at end-2025, and the minimum requirement for own funds and eligible liabilities fully implemented. Liquidity remains ample, well above regulatory requirements. Asset quality improved further, converging towards euro-area averages. Gross non-performing loans (NPLs) declined to 2.1% in the last quarter of 2025, their lowest level on record, while the share of Stage 2 loans shrank to 8%. The mortgage-loans segment remained best-performing with very low default rates. Credit quality in the corporate segment also improved further. NPL coverage remains high, implying a 1% net NPL ratio. Overall, good profitability levels and sound balance sheets put the domestic banking sector in a good position to weather possible economic downturns and market volatility.

Lending growth remains positive as credit has become more affordable. The aggregate loan-to-deposit ratio in the Portuguese banking sector stood at 71.7% in the third quarter of 2025, marking a modest increase compared to end-2024. The monetary policy easing cycle has been reflected in the lower cost of credit to local firms and households. Lending to the private sector grew strongly, though with some variation across segments. At the end of 2025, bank mortgages recorded an increase of 9.8%, reflecting an acceleration in new loans and driving credit growth. Consumer bank loans increased by 7.3% in the same timeframe. Bank loans to non-financial corporations (NFCs) grew by 3.8% (up 3.1 percentage points year-on-year). Growth is broad-based but varies across sectors, with real estate and construction activities continuing to lead. The interest rate on new loans for house purchase averaged 3%, while rates on new consumer loans averaged 8.9% and on new loans to NFCs 3.8%. Nearly all mortgages currently have a loan-to-value ratio below 90%. The Bank Lending Survey points to largely unchanged credit standards. New corporate lending continued to be concentrated among lower- and medium-risk borrowers, as banks maintained clear risk differentiation by charging significantly wider spreads on loans to higher-risk clients.

Portugal's general government borrowing requirements for 2026 are set to decrease slightly. The Debt Management Office estimates them at EUR 28.4 billion (8.9% of GDP),

⁽⁴⁶⁾ Source: Eurostat (online data code gov_10dd_edpt1)

down from EUR 30.0 billion in 2025. This is driven mainly by a sharp decline in maturing debt, as medium- and long-term redemptions are set to fall from EUR 19.3 billion in 2025 to EUR 15.4 billion in 2026. At the same time, net government bond issuance is planned to increase slightly. By the cut-off date for this assessment, Portugal had issued around a third of its 2026 financing needs. The Treasury's cash buffer is projected to increase again to EUR 5.0 billion in 2026, after falling to EUR 4.3 billion at the end of 2025. Debt is financed mainly via government bond issuance. Yields are marginally higher than in 2025, consistent with broader euro-area trends. Net issuance of savings certificates remained positive in 2025 and early 2026. For short-term issuance, Portugal has continued to rely on Treasury bills (T-bills) as its main source of financing so far in 2026.

Financial market perceptions of Portugal's sovereign debt are favourable. All rating agencies maintained their A-category assessment of Portugal's sovereign debt in 2026, with Standard & Poor's and Fitch also revising the outlook upwards to 'positive' in their latest rating actions. As of end-April 2026, the 10-year Portuguese government bond yield stood at 3.4%, reflecting a slight increase on previous issuances. Volatility triggered by the Middle East conflict has only contributed to a very minor widening of the spread over 10-year German Bunds to around 40 basis points as of end-April 2026. The implicit interest cost of debt is estimated to increase slightly to 2.3% by end-2026. Private investors are expected to further consolidate their net buyer position of Portuguese government bonds in 2026, following the ECB's discontinuation of its purchase and reinvestment programmes ⁽⁴⁷⁾. The investor base remains stable and diversified across regions and types, with ongoing efforts to deepen engagement with Asian investors.

Portugal retains the capacity to service its debt. Portugal's economic, fiscal and financial situation remains overall sound. In December 2025, Portugal repaid European Financial Stabilisation Mechanism (EFSM) loans totalling EUR 2.5 billion ahead of schedule. In addition, it made regular repayments to the European Financial Stability Facility (EFSF) of EUR 1.5 billion in December 2025 and EUR 0.8 billion in February 2026. As of April 2026, the outstanding debt to the EFSM was EUR 19.8 billion and that to the EFSF was EUR 23.0 billion. In the second half of 2026, repayments totalling EUR 4.2 billion are due to the EFSM. According to the Commission's Debt Sustainability Monitor 2025 ⁽⁴⁸⁾, Portugal's fiscal sustainability risks remain medium in the medium term and low in the long term. The country's capacity to service its debt is supported in the short term by a comfortable cash buffer, an active debt management strategy for smoothening the redemption profile, a favourable maturity and currency structure (with most debt at fixed rates), and stable, diversified financing sources.

⁽⁴⁷⁾ Since June 2024, the ECB has lowered the deposit facility rate – the rate through which it steers the monetary policy stance – by 200 basis points (from 4.0% to 2.0%). Furthermore, the Eurosystem portfolios acquired under the asset purchase programme and the pandemic emergency purchase programme have continued to decline.

⁽⁴⁸⁾ See European Commission (2026), Debt Sustainability Monitor 2025, European Economy Institutional Paper 332, (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2025_en).