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## **COMMUNICATION FROM THE COMMISSION**

### **Post-Programme Surveillance Assessments - Autumn 2025**

## 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 <sup>(1)</sup>. In September and October 2025, staff from the Commission, in liaison with staff from the European Central Bank (ECB), undertook PPS missions to Ireland, Greece, Spain, 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 in line with the Commission's Autumn 2025 Economic Forecast (with a cut-off date of 31 October 2025). For Spain, the present assessment will be the last under PPS as by the end of 2025 Spain is expected to have repaid at least 75% of the assistance received.

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<sup>(1)</sup> 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. Under the current repayment schedule, PPS would last until end-2025 for Spain, 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, if the Commission concludes that there are no material risks to repayment 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.

## IRELAND

**Ireland's economic growth remains robust, though headwinds persist.** Real GDP increased by 18.5% in the first half of 2025, primarily driven by the front-loading of pharmaceutical exports ahead of the imposition of US tariffs. The domestic economy also performed robustly, with strong contributions from consumption and modified investment <sup>(2)</sup>. Export growth in the short term is expected to be negatively impacted by the unwinding of the front-loading as firms adjust their export patterns. However, new pharmaceutical production lines in Ireland, along with strong services exports, are expected to contribute positively to growth. In the Commission's Autumn 2025 Economic Forecast, GDP is expected to grow by 10.7% in 2025, 0.2% in 2026 and 2.9% in 2027. Modified domestic demand <sup>(3)</sup> is expected to increase by 3.4%, 3.2% and 2.7% in 2025, 2026 and 2027, respectively. Ireland's growth outlook faces significant risks due to ongoing global trade fragmentation and shifting policy environments in the US. These challenges weigh on its highly open economic model, characterised by a substantial concentration of activity within a few multinational-dominated sectors.

**Ireland's public finances are projected to remain in surplus, with some downside risks to the fiscal outlook.** According to the Commission's Autumn 2025 Economic Forecast, Ireland is expected to record a general government surplus of 1.5% of GDP in 2025, supported by buoyant growth in corporation tax revenues. The revenue from other tax categories also proved resilient in the first half of 2025, reflecting continued growth in economic activity despite a slowing global environment. The growth in government expenditure is projected to remain high due to planned increases in public investment, public sector pay and social payments. The general government surplus is projected to be 1.0% of GDP in 2026 <sup>(4)</sup>. The government debt-to-GDP ratio is forecast to continue decreasing over the forecast horizon to 31.3% GDP in 2027. The vulnerability of Ireland's public finances to geoeconomic fragmentation and changes in US trade and tax policies remains the key risk. Impaired profitability in the sectors dominated by foreign-owned multinational companies could severely reduce corporate tax revenues. Moreover, as more than half of these revenues are estimated to be 'windfalls' according to the Irish authorities, excluding them from the budget balance reveals the presence of an underlying deficit, highlighting the risks of overreliance on this uncertain and volatile revenue source to fund recurrent spending.

**Irish retail banks remain resilient and are supported by a strong domestic economy, yet they face escalating risks from the global economic environment and weaknesses in certain lending segments.** In the year to June 2025, the profitability of Irish retail banks remained solid, although it declined from the exceptionally strong levels seen in the two preceding years. Return on equity moderated to 10.0% (annualised) in the first half of 2025, from 13.3% in 2024, as net interest margins narrowed due to the impact of lower interest rates. Operating costs were stable but remained elevated due to high fixed costs and ongoing digital

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<sup>2</sup> Modified investment is headline investment excluding the volatile components of leased aircraft and imports of research and development and intellectual property.

<sup>3</sup> Modified domestic demand is the sum of household consumption, government consumption and modified investment. It more accurately reflects the domestic economic activity in Ireland.

<sup>(4)</sup> Commission Opinion on the Draft Budgetary Plan of Ireland, C(2025)9059.

investments. Retail banks maintained capital levels that comfortably exceeded regulatory requirements. Their fully loaded common equity tier 1 ratio rose to 16.1% in June 2025, up from 14.8% at the end of 2024, on the back of a one-off reduction in risk weights following the introduction of Basel IV. A buoyant housing market bolstered mortgage lending in the first half of this year, as both a rising number of mortgage drawdowns and larger ticket sizes drove an expansion in the aggregate loan volume. Overall, asset quality remains robust, but non-performing corporate loans (NPLs) grew in early 2025, as some business sectors came under pressure due to lagged effects of inflation and global trade uncertainty. NPL ratios increased modestly for loans collateralised by commercial property and for loans to small to medium -sized enterprises. In the household segment, and notably for mortgages, asset quality remains sound. The household NPL ratio dipped marginally to 2.0% in June 2025, down from 2.1% in December 2024.

**So far, Ireland’s financial sector has demonstrated resilience, supported by appropriate macroprudential measures.** Macroprudential measures remained unchanged. In July 2025, the central bank decided to maintain the countercyclical capital buffer at 1.5%, in line with a ‘neutral’ risk level. Mortgage measures were last re-calibrated in January 2023. Since then, the share of first-time-buyer mortgages with higher loan-to-income (LTI) ratios expanded: in 2024, almost half of first-time buyers had an LTI ratio between 3.5 and 4, compared to less than 20% in the first half of 2022. However, the proportion of new lending to borrowers with an LTI ratio exceeding 4 remains low compared to the levels seen in the lead-up to the financial crisis. Overall, Ireland’s households and businesses maintain strong balance sheets and are seen to be able to withstand risks posed by the global economic environment. Meanwhile, the non-bank financial sector continued to expand, reaching over EUR 6.8 trillion of assets in Q2-2025. The sector remains focused on international markets, with very limited exposure to the domestic economy. Irish-domiciled hedge funds, a sector with assets under management totalling EUR 286 billion <sup>(5)</sup>, withstood higher margin requirements during the market volatility of April 2025. Irish property funds, holding around EUR 28.6 billion in domestic assets, are subject to a 60% leverage limit, applicable to newly authorised funds since November 2022 and to existing funds from November 2027. Compliance has largely been achieved through adjustments to liability structures rather than asset sales, although pockets of elevated leverage remain among funds facing continued valuation declines. The central bank is also monitoring the compliance of GBP-denominated liability-driven investment funds (with assets under management totalling EUR 194 billion) with the yield-buffer requirement that took effect in July 2024.

**Sovereign refinancing risks are low, supported by strong cash and liquid asset reserves and a favourable debt structure.** Ireland completed its annual bond funding programme for 2025 with a EUR 1.5 billion auction in October. Including the issuance in the non-competitive part of the October bond auction, the total bond issuance in the October auction exceeded EUR 1.7 billion, bringing the total for the year to just under EUR 8.5 billion. Ireland’s cash and liquid asset reserves remained high at EUR 33 billion at end-September 2025. They are expected to be gradually drawn down over the coming years as the government uses one-off

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<sup>(5)</sup> Assets under management data as of June 2024, Central Bank of Ireland, Market Based Finance Monitor 2024.

proceeds related to the ruling of the Court of Justice of the European Union in the Apple case and bank share sales to implement the revised National Development Plan. At the same time, refinancing needs are relatively low in the short term but will become higher in the early part of the next decade. The vast majority of Ireland's public debt is fixed at an average of 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, and the first two EFSF repayments are scheduled for 2029.

**Ireland's sovereign debt continues to enjoy the confidence of investors.** The long-term credit rating is classified in the 'AA' category by the three main rating agencies. These ratings are supported by strong budgetary surpluses and fiscal buffers, Ireland's sustained economic growth and some short-term policy certainty brought by the recent EU-US trade deal. Yields for the 10-year Irish government bond were at 2.87% at the end of October 2025, while spreads over the German benchmark stood at 24 basis points, with Ireland continuing to trade below its main euro-area peers.

**Ireland retains the capacity to service its debt.** Despite the underlying vulnerabilities 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 maturity structure and the low average interest rate of its debt portfolio. According to the Commission's Debt Sustainability Monitor 2024, Ireland's fiscal sustainability risks appear low over the short and medium term, and medium over the long term, with the debt-to-GDP ratio projected to remain below 60% under all stress-test scenarios <sup>(6)</sup>. At the same time, concentration risks persist on the revenue side as more than half of the corporation tax revenue arises from the 10 largest payers. The establishment of two new savings funds – the Future Ireland Fund and the Infrastructure, Climate and Nature Fund – is a positive, albeit initial, step towards addressing long-term fiscal sustainability risks and underlying vulnerabilities of the Irish public finances.

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<sup>(6)</sup> See European Commission (2025), Debt Sustainability Monitor 2024, European Economy Institutional Paper 306 ([https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024\\_en](https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024_en)).

## GREECE

### **Economic growth is set to remain solid despite the volatile international environment.**

Real GDP grew by 2% in the first half of 2025 on a year-on-year basis. Economic activity is expected to maintain its momentum in 2026, bolstered by EU funds and the recently announced fiscal measures, which are set to support domestic demand. Nevertheless, to ensure full absorption of available funds, Greece needs to accelerate the implementation of its recovery and resilience plan <sup>(7)</sup>. While no sharp cliff-edge effect is expected, growth is forecast to moderate after 2026 as the implementation of the plan ends. According to the Commission's Autumn 2025 Economic Forecast, GDP is expected to grow at a broadly similar pace, by 2.1% and 2.2% in 2025 and 2026, respectively, and it is set to moderate to 1.7% in 2027. Given Greece's demographic challenges, productivity growth will be key to sustain GDP growth and close the productivity gap with the rest of the EU. The current account deficit (7.2% in 2024) is expected to narrow only marginally, to 5.8% of GDP by 2027, due to the high import intensity of exports and investment. Strong demand and still tight labour market conditions are expected to continue exerting upward pressure on wages and consumer prices. Therefore, inflation is projected to decrease only moderately, to 2.8% in 2025 and 2.3% in 2026. Core inflation is forecast to ease by 2027, but a projected rise in energy prices is set to keep inflation at 2.4% <sup>(8)</sup>. Employment is anticipated to further increase; however, jobs growth is dampened by underlying structural issues, including low workforce participation rates, notably among women, and skills mismatches. The economy is managing to cope with external headwinds, but a persistent increase in uncertainty and financing costs could have a material effect on exports, particularly on tourism, as well as on investment.

**The government budget surplus is projected at 1.1% of GDP in 2025 <sup>(9)</sup>, corresponding to a primary surplus of 4.3% of GDP, down from 4.7% in 2024, according to the Commission's Autumn 2025 Economic Forecast.** The lower surplus mainly reflects a reduction in the social security contribution rate over 2025-2026 (1 pp. in 2025), higher public sector wages, and a fiscal package announced in spring 2025, equivalent to 0.5% of GDP. Compared to the Commission's Spring 2025 Forecast, the primary balance benefits from robust revenue growth and underspending in central administration, which are partly offset by increased healthcare costs, financial corrections related to EU agricultural subsidies, and higher military expenditure.

**Greece's fiscal outlook is expected to remain favourable over 2026-2027, with broadly stable primary surpluses, despite the implementation of new permanent tax and social measures.** The general government budget surplus is forecast to decline to 0.3% of GDP in 2026 and 0.0% in 2027, due to the newly announced fiscal package, estimated at 0.7% of GDP in 2026 and 0.9% of GDP in 2027. The fiscal package features permanent cuts to personal

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<sup>(7)</sup> The 6th payment request (for grants), endorsed by the Commission in October 2025, will bring the funds paid out to Greece under the Recovery and Resilience Facility to EUR 23.45 billion, which corresponds to 65% of all funds in the Greek plan, with 48% of all milestones and targets in the plan fulfilled.

<sup>(8)</sup> One factor is the EU emissions trading system 2 (ETS2), due to become operational on 1 January 2027, that will cover CO<sub>2</sub> emissions from fossil fuels used in residential buildings, road transport and industries that are not covered by ETS1.

<sup>(9)</sup> See Commission Commission Opinion on the Draft Budgetary Plan of Greece, C(2025)9055.

income tax and property tax in small villages, complemented by targeted benefits for pensioners and public sector employees. The personal income tax reductions represent the largest share of the package's fiscal cost, aiming to boost household disposable income and incentivise labour market participation, thereby increasing labour supply. Additional downward pressures on the budget balance relative to the Commission's Spring 2025 Economic Forecast stem from higher current transfers to the EU following the upward revision of the gross national income coefficient for all Member States, alongside rising healthcare expenditure.

**The stock of general government net arrears <sup>(10)</sup> increased from EUR 465 million in December 2024 to EUR 626 million in July 2025, mainly reflecting a sharp rise in hospital arrears,** which grew by EUR 147 million and now account for almost 40% of the total. The creation of the Centralised Health Procurement Authority (EKAPY) has not yet fully delivered its expected benefits, although it is expected to help prevent the accumulation of new arrears in pharmaceuticals and other supplies going forward. By contrast, net main pension arrears have been largely eliminated, and lump-sum arrears are following a steady downward trend. Finally, arrears among extra-budgetary funds and local governments remained broadly stable at around EUR 280 million, suggesting persisting inefficiencies partly related to the large number of entities and diverse activities. The monitoring of arrears is essential because it serves as a key indicator for the government's payment discipline and liquidity management as accumulation of arrears may point to weaknesses in expenditure control and can affect liquidity conditions in the private economy.

**In the first half of 2025, the Greek banking sector maintained its robust profitability.** For the four systemic banks, the net interest margin decreased to 2.4% in the first half of 2025, down from 2.7% in the first half of 2024. The decline in net interest income, driven by the reduction in interest rates, was compensated by rising lending volumes and increases in net commission and other income. Operating expenses and loan-loss provisions increased compared to the same period in 2024, driving the cost-to-income up to 35.7%, and annualised return on equity reached 13.2%. Liquidity remained high, supported by a growing deposit base. The Greek banking sector relies strongly on deposits – for example, the four systemic banks have a relatively low loan-to-deposit ratio of 68.9%. The liquidity coverage ratio remained comfortably above 200% and the net stable funding ratio is at a satisfactory level (136%, 9 pps above the EU average) as well. The total capital ratio of the significant institutions increased to 20.6%, up by 0.6 pps compared to December 2024, thanks to capital instrument issuances and retained interim profits. However, the capital quality remained weak as deferred tax credits (DTCs) represented 38.6% of total prudential own funds in December 2024, even though this is significantly lower than in December 2021 (61%). The four systemic banks aim to fully amortise DTCs by 2034, well ahead of the original target of 2041.

**Banks further decreased their non-performing-loan (NPL) ratio, but the pace of the workout of legacy debt managed by servicers remained slow.** The NPL ratio decreased from

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<sup>(10)</sup> Net arrears are defined as the stock of gross arrears excluding specific categories of obligations that are not yet verified, immediately payable, or final. Specifically, this includes arrears under legal dispute, pending additional documentation, linked to investment programmes awaiting Commission approval, subject to clawback or rebate mechanisms, and under audit.

3.8% in December 2024 to 3.6% in June 2025 <sup>(11)</sup>). However, with securitisations under the extended Hellenic Asset Protection Scheme (HAPS) now completed, further progress in NPL deleveraging is expected to be only gradual. There was a slight uptick in the new inflow of NPLs, as new defaults exceeded collections and write-offs and this is likely to continue as banks plan to reduce and convert outstanding loans with step-up characteristics. However, NPL ratio levels are expected to be contained through the growth of the loan book and banks intermittently using inorganic actions (e.g. portfolio sales). The debt managed by credit servicers outside the banking sector increased by EUR 10.3 billion in the last 12 months, amounting to EUR 79.7 billion in June 2025, due to the final round of major securitisations. However, even accounting for this one-off effect, the pace of the workout remains slow. Many portfolios securitised under the HAPS continued to underperform relative to their business plans, primarily due to lower-than-planned recoveries from collateral liquidations as credit servicers face judicial obstacles, predominantly in liquidation proceedings. In July 2025, the government introduced measures to increase the efficiency of judicial processes and to tackle bottlenecks and backlogs in debt enforcement. The number of applications under the out-of-court workout (OCW) platform has increased substantially since the introduction of the category of ‘eligible debtors’ increased the number of debtors to whom creditors cannot refuse proposed settlements. While the OCW mechanism continuously delivers a steady flow of restructurings, the re-default rates are high, averaging 43% for debt restructured by servicers. The process to set up the sale and leaseback organisation <sup>(12)</sup> (SLBO) is further delayed and it is now expected to be completed in Q2-2026, with the related interim support scheme prolonged until the SLBO is operational.

**The Hellenic Corporation of Assets and Participations (HCAP) significantly increased its net profits in the first half of 2025, largely due to the merger with the Hellenic Republic Asset Development Fund and the Hellenic Financial Stability Fund.** Net profits rose to EUR 209.6 million, up from EUR 59.7 million, in the same period of 2024. HCAP launched the new Hellenic Innovation and Infrastructure Fund, intended to become its main investment arm. With an initial capital of EUR 303 million, this fund aims to attract global private and development capital for investments in strategic sectors, including the green and digital transitions. The Hellenic Public Properties Company continues to evaluate its 36 000 public real estate assets with the goal of commercial development. Most privatisation transactions are proceeding as planned, except for the long-delayed financial closure of the concession agreement for the Egnatia motorway, now expected by the end of 2025.

**Greece’s sovereign financing needs are set to remain moderate, below 10% of GDP per year over the forecast horizon (2025-2027).** Following the partial early repayment of the Greek Loan Facility (GLF) in 2023 and 2024, which brought forward EUR 13.2 billion in loan amortisation, the financing needs for the 2024-2028 period have been reduced. Overall, the

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<sup>(11)</sup>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 for 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 Q2-2025 are 2.7% and 1.9% for Greece and the EU average, respectively.

<sup>(12)</sup> 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.



gross financing needs are expected to remain moderate, driven by lower amortisation and projected budget surpluses. The government cash reserves (as measured by general government deposits) are among the highest in the EU, amounting to EUR 42 billion, or 16.7% of GDP (June 2025). The authorities intend to continue making early repayments of the GLF in 2025 and beyond.

**Public debt management focuses on lengthening the maturity and smoothening the repayment profile of public debt.** The weighted average maturity of Greece's public debt remained long, at around 20 years. Greece's market access remained strong. Most major rating agencies set Greece's sovereign rating one notch above investment grade, with a stable outlook <sup>(13)</sup>. Greece completed the bulk of its financing plan for 2025 already in the first four months of the year. Hence, it has had one single bond issuance of EUR 250 million since April 2025. T-bill issuances remained a key short-term debt financing tool, with regular auctions throughout the year. Despite the increased volatility in international financial markets, Greek sovereign spreads over the 10-year German bonds have stayed relatively stable since April 2025, averaging around 70 basis points. The refinancing rate also remained unchanged at 3.2% (10-year maturity, September 2025).

**Greece retains the capacity to service its debt.** The public debt-to-GDP ratio stood at 154.2% of GDP at the end of 2024, almost 30 pps lower than in 2019, and is expected to continue declining to 138% of GDP by 2027. According to the Commission's Debt Sustainability Monitor 2024 <sup>(14)</sup>, Greece is deemed to face low risks in the short and long term. Medium-term risks continue to remain high. Greece has an outstanding debt of EUR 31.6 billion under the GLF. It owes EUR 59.8 billion to the European Stability Mechanism (ESM) and EUR 141.3 billion to the European Financial Stability Facility (EFSF) <sup>(15)</sup>. The repayment of the principal on the GLF started in 2020, with accelerated repayment since 2023. The repayment of the EFSF loans started in 2023 while scheduled repayment of the ESM loans will only start in 2034 <sup>(16)</sup>. Most outstanding debt is contracted at low interest rates and interest-rate risk associated to GLF is hedged. Therefore, the passthrough from higher market rates to Greece's effective interest rates is low in the short run. This, together with modest financing needs, the large cash buffer, and increased growth in potential output, supports Greece's debt-servicing capacity.

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<sup>(13)</sup> Fitch still classifies Greece as investment grade (BBB-), with a positive outlook, while Moody's was the last to upgrade Greece to investment grade (March 2025), with a stable outlook.

<sup>(14)</sup> See European Commission (2025), Debt Sustainability Monitor 2024, European Economy Institutional Paper 306 ([https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024\\_en](https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024_en)).

<sup>(15)</sup> Based on December 2024.

<sup>(16)</sup> Greece has made non-scheduled repayments in the past under the ESM loan in line with its contractual obligations.

## SPAIN

**Following a robust 3.5% real GDP growth last year, economic activity is expected to remain vigorous in 2025, with annual growth forecast to attain 2.9%, before moderating to 2.3% in 2026.** The economy's momentum is set to be underpinned mainly by domestic demand, thanks to further employment gains upholding private consumption growth, and to the positive contribution of gross fixed capital formation. The performance of private investment over the coming years would also be favoured by the healthy financial position of households and firms. The economic impact of the Recovery and Resilience Facility is set to accelerate over 2026-2027, contributing to sustaining growth. By contrast, the contribution of net exports to GDP expansion is expected to turn slightly negative this year due to sustained import growth coupled with a gradual moderation of exports.

**The labour market dynamism exhibited last year is set to extend into 2025 and in 2026.** The unemployment rate reached 11.4% in 2024 and it is projected to drop to 10.4% in 2025. The strong migration flows experienced in recent years have contributed to considerably expanding the labour force and have helped boost the pace of job creation. The reduction in the unemployment rate in 2025, to a level that is still among the highest in the EU, is expected to be supported by additional job creation and to benefit from the impact of labour market reforms carried out in recent years.

**Annual inflation averaged 2.9% in 2024 and it is projected to slow down further, reaching 2.6% this year and 2.0% in 2026.** The downward trend of overall inflation in 2025 is linked to the moderation of food, notably processed food, and non-energy goods prices. Price pressure on services is set to ease more gradually. Nominal wage growth is forecast to remain above the inflation rate in 2025, with real income gains, however, moderating over the next two years.

**Overall, the expected future developments of the Spanish economy remain favourable, but the possible materialisation of pockets of vulnerabilities warrants further scrutiny.** Besides prolonged geopolitical tensions, risks mainly include subdued labour productivity growth, a sustained upturn in labour costs, which could hinder the external competitiveness of the economy, and bottlenecks in the supply of housing, which could result in spillovers negatively affecting the dynamism of economic activity.

**Spain's public finances keep improving.** In 2024, despite the costs of measures taken to mitigate the damages caused by the floods in the Valencian Community, which added some 0.4 pps to the general government deficit, the general government deficit narrowed to 3.2% of GDP and public debt reduced to 101.6%, driven by strong economic growth, buoyant direct tax revenues and the gradual phase-out of energy-related measures. The general government deficit is expected to keep decreasing in 2025 and 2026. The Commission's Autumn 2025 Economic Forecast expects the general government deficit to narrow to 2.5%, helped by positive developments in personal income tax (driven by a good performance of withholdings on earned income and economic activities) and value added tax (benefiting from the phase-out of the energy-related measures). Additionally, the effect of the new tax measures approved in December 2024, such as amendments to corporate income tax, as well as the tax on liquids for

electronic cigarettes and other tobacco-related products, are set to contribute to further reducing the deficit, compensating for higher expenditure on defence and interest. The Commission projects the 2026 deficit to narrow (to 2.1%) and to stabilise in 2027. The debt-to-GDP ratio is expected to keep falling, but more moderately, remaining at high levels. The Commission forecasts the debt to decrease to 100.0% of GDP in 2025, driven by strong nominal GDP growth, and to continue falling afterwards (to 97.1% in 2027). The elevated public debt-to-GDP ratio limits the fiscal space available to respond to future shocks and makes the delivery of the medium-term fiscal-structural plan's investments, reforms and fiscal adjustment crucial to keep market expectations anchored.

**The Spanish banking sector is profitable and exhibits good resilience to risks.** Despite favourable profitability developments, banking sector capitalisation only slightly improved over 2024 and Q1-2025, as banks in Spain opted for significant dividend pay-outs and share buy-backs. In Q1-2025, the Spanish banking sector reported a consolidated common equity tier 1 ratio of 13.6%, the lowest in the EU and around 3 pps below the EU average. However, overall, the capitalisation of Spanish banks is aligned with their business models and exceeds the capital requirements and supervisory guidance (which are also comparatively low in the case of Spanish credit institutions). Banking groups are continuously issuing securities eligible for the minimum targets for own funds and eligible liabilities (MREL) and have met their final MREL targets. Credit institutions in Spain benefit from liquidity coverage ratios well above the regulatory minima. Banks' balance sheets show overall robust asset quality. Supported by the decrease in the share of impaired assets in the loan book and the rebound in new lending, the aggregate non-performing loan (NPL) ratio declined to 2.5% in Q4-2024 and remained broadly unchanged in Q1-2025 (above the EU average of 1.9%). The corporate NPL ratio has been on a downward path and reached 3.3% in Q1-2025 (slightly below the EU average), and new bankruptcies have also been declining since Q4-2024. The share of loans that have significantly deteriorated in credit quality has been on a declining path and as of mid-2025 was among the lowest in the EU. Overall, risks to financial stability remain contained and are mainly associated with unresolved global geopolitical tensions, as well as subdued economic growth, and currency depreciation in key foreign markets (e.g. in Latin America). On the domestic market, while employment and wage developments remain favourable, the recent increases in house prices, new mortgage lending and loan-to-value ratios may warrant further monitoring.

**Bank lending has increased further, in a context of lower interest rates and favourable economic developments.** For households, the annual growth in bank credit increased from 1.4% at the end of 2024 to 3.5% in July 2025. Household lending had already recovered substantially by the end of 2024, driven by higher real incomes and the still ongoing decline in loan rates. For non-financial corporations, annual credit growth reached 3% in July 2025, up from 0.8% at the end of 2024. The Bank Lending Survey for Q2-2025 found no evidence of credit supply restrictions and demand for household credit for home purchases has increased. Growth in demand in the home purchase segment has been driven by lower interest rates, favourable expectations for the housing market, and increased consumer confidence. The Bank of Spain is applying a phased increase in the countercyclical capital buffer (CCyB) to 1% by

October 2026, following a revised macroprudential framework that sets a positive CCyB rate when cyclical systemic risk is considered neutral, rather than waiting for periods of heightened risk. Banks are well-positioned to meet the new 1% CCyB requirement. For three years starting from 2025, Spain's new banking tax has replaced the temporary levy applied in 2023-2024, imposing a progressive rate ranging from 1% to 7% on net interest income and fees earned by credit institutions and branches of foreign banks operating in Spain. Looking forward, the implementation of the banking tax necessitates continued careful evaluation and potential adjustments to mitigate any adverse secondary effects on banks' ability to provide credit. As of October 2025, CaixaBank's continued strong performance was reflected in rising returns on the Spanish Executive Resolution Authority's (FROB) investment.

**Sovereign refinancing risks are low, supported by a favourable debt structure.** By the end of September, the Treasury had issued about EUR 221.6 billion out of the 2025 gross financing needs of some EUR 273.4 billion (16.3% of GDP). The average interest rate of the new issuances was 2.5% in September 2025, while for the benchmark 10-year bond, the average interest rate at issuance was 3.23% (up by 0.19 pps from 12 months earlier). Spain's 10-year government bond spread over German bonds has continued on a downward path, reaching around 55 basis points towards Q4-2025, representing an improvement of about 31 basis points compared with the same period in 2024.

**Public debt management focuses on lengthening the maturity while Spain's sovereign debt continues to enjoy the confidence of investors.** At the end of Q2-2025, the central government debt-to-GDP ratio (net of financial assets vis-à-vis other general government sectors) was 74.1%, and the consolidated debt ratio of other government sectors stood at 29.4% of GDP. Risk is mitigated by the debt's long average maturity of close to eight years, its predominantly fixed-rate profile of around 93%, and broad investor base, with non-resident investors holding nearly half of the outstanding stock. At 2.29%, the average interest rate was some 0.07 pps higher than 12 months earlier. S&P, Moody's, Fitch, Scope and DBRS all rate Spain's long-term sovereign debt as investment grade. Following the recent upgrades by S&P, Moody's and Fitch, all major rating agencies currently maintain a stable outlook. Recent bond market movements have had a limited impact on Spanish yields and spreads, with yields rising moderately but spreads largely tightening.

**Spain retains the capacity to service its debt.** Spain's public debt remains still above the pre-pandemic level, but its dynamic is underpinned by solid economic expansion and strong revenue growth, coupled with diminishing deficits in the short run. Short-term risks to fiscal sustainability are low overall, while medium-term risks are high <sup>(17)</sup> although mitigated by structural features of the outstanding debt. Long-term risks are considered as medium. Overall, financing conditions for the central government are favourable. The spread over German bonds narrowed, which gives indications of continued market confidence towards Spain, and contributes to improving financing conditions. Structural features, such as a long average maturity, relatively low gross financing needs and a robust level of investor diversification

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<sup>(17)</sup> See European Commission (2025), Debt Sustainability Monitor 2024, European Economy Institutional Paper 306 ([https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024\\_en](https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024_en)).

continue to support debt sustainability and repayment capacity in the short run. However, the increase in costs of outstanding debt – albeit from low levels and at a gradual pace – and the still elevated debt ratio warrant close attention.

**Spain is set to exit post-programme surveillance by end-2025.** Spain's outstanding amount of the European Stability Mechanism (ESM) loan is EUR 11.9 billion. The next scheduled payment, of EUR 4.6 billion, is due in December 2025, after which Spain will have repaid more than 75% of the total ESM financial support received in 2012-2013. Reaching the 75% threshold for cumulative repayments paves the way for exiting post-programme surveillance by end-2025. The last repayment is expected in 2027, when the full loan will be repaid. Therefore, Spain is set to be the first Member State to successfully conclude post-programme monitoring, after it had exited the financial assistance programme for the recapitalisation of financial institutions in January 2014.

## CYPRUS

**The macroeconomic outlook continues to be positive.** Real GDP growth maintained its strong momentum in the first half of 2025, expanding by 3.6% year-on-year according to the Commission's Autumn 2025 Economic Forecast. This expansion has been broad-based, supported by robust, though moderating, aggregate consumption, which rose by 3.4% year-on-year. Also, investment picked up pace, growing by 10.4% year-on-year. Services exports remained buoyant, with ICT-related exports growing steadily, and tourist arrivals reached record highs. According to the Commission's Autumn 2025 Economic Forecast, real GDP growth is expected to remain robust throughout the forecast horizon, reaching 3.4% in 2025, 2.6% in 2026, and 2.4% in 2027. Labour market conditions are expected to remain favourable and job creation will be strong throughout the forecast horizon. Employment grew by 1.7% in the first half of 2025, supported by the inflow of foreign workers, while unemployment fell to record lows of 4.6% in Q2-2025. Inflation declined sharply in the second quarter of 2025, reflecting a considerable easing of energy and non-energy industrial goods prices and, to a lesser extent, food prices. However, part of the decline is offset by persistently high service inflation, which remains elevated due to strong demand from tourist-related activities. This contributes to an elevated profile for core inflation. Headline inflation is expected to converge around 2.0% by 2027.

**The fiscal performance and outlook remain solid.** The budget surplus increased to 4.1% of GDP in 2024 compared to 1.7% of GDP in 2023. In the first seven months of 2025, government revenue continued its dynamic growth, increasing by more than 7.3% in nominal terms compared to the same period of the year before, thanks to strong economic growth, high profitability and rising employment. Expenditure growth remained moderate and below revenue growth in the first seven months of 2025, in line with government plans. For 2025, 2026 and 2027, the surplus is expected to decrease slightly but remain significant at 3.3%, 3.0% and 3.2% of GDP, respectively. Budget surpluses are expected to continue benefiting from the positive growth outlook and a favourable labour market situation. This fiscal outlook already includes the expenditure related to two significant investment projects in the energy sector (namely the Great Sea electricity interconnector between Cyprus and Greece and a liquefied natural gas terminal at Vasiliko bay). It also includes the planned payment of compensation to depositors affected by the banking sector bail-in during the 2013-2014 crisis through a solidarity fund, which is being financed by the state budget. Expenditure will also be impacted by the implementation of the mortgage-to-rent scheme operated by KEDIPES, which enables overindebted vulnerable households to remain in their homes by converting their loans into rent payments. The downward trend of the public debt level is projected to continue, with the debt-to-GDP ratio falling below the 60% threshold by the end of 2025. In line with Cyprus's 2024 medium-term fiscal-structural plan, general government debt is projected to continue decreasing in 2025-2028 <sup>(18)</sup>.

**The Cypriot financial sector remains robust, with banks sustaining strong profitability and further strengthening already firm capital positions amid ample liquidity.** The easing

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<sup>(18)</sup> See Commission Opinion on the Draft Budgetary Plan of Cyprus, C(2025)9052.

of policy rates has reduced lending margins and weighed on net interest income (NII), while non-interest income remained broadly unchanged from 2024. The drop in NII, along with a moderate increase in administrative expenses, put some pressure on profitability. Nevertheless, overall performance remained strong. The sector's annualised cost-to-income ratio of 43% and return-on-equity ratio of 14% in the first half of 2025 outperformed the corresponding <sup>(19)</sup> EU averages. Solvency reached a record high, supported by strong internal capital generation and lower average risk-weight density. The common equity tier 1 ratio of 26.3% – the highest in the EU – provides a substantial buffer above regulatory requirements, underscoring the sector's capacity to absorb shocks. Liquidity conditions remain ample, supported by a growing deposit base. Banks exhibit robust liquidity metrics, with a liquidity coverage ratio of 335% and a net stable funding ratio of 190%. Looking ahead, banks' profitability is expected to stabilise at adequate levels, supported by wide lending margins and benefiting from low loan-loss provisions as well as ongoing efforts to improve efficiency.

**Financial stability risks remain contained and broadly unchanged.** Risks within the banking sector have further diminished through 2025, reflecting improvements in asset quality. The stock of non-performing loans (NPLs) has decreased further, while the NPL coverage ratio has increased, and Stage 2 loans (loans that are performing but whose credit risk has significantly increased since origination) are below the EU average <sup>(20)</sup>. Nevertheless, challenges persist in resolving legacy NPLs, particularly among smaller banks, keeping the system-wide NPL ratio above the EU average. The ongoing unwinding of inflationary pressures and monetary easing have alleviated pressure on borrowers. Private-sector indebtedness has been steadily decreasing over the past decade. Although in the last few years, geopolitical tensions have heightened, the financial sector's direct exposure to third countries affected by armed conflicts or trade wars is relatively small and largely concentrated in non-bank financial intermediaries (NBFIs). However, the NBFI sector exhibits strong fundamentals, including sound solvency positions in the insurance segment and the largely unleveraged investment funds. The sector therefore does not pose a material threat to financial stability. Property price growth decelerated in the first half of 2025, suggesting an emerging stabilisation, and there are no significant signs of overvaluation. Nevertheless, banks and NBFIs have significant exposure to real estate, warranting continued close monitoring.

**The Cypriot government maintains low financing needs, a strong cash position, and a favourable debt maturity profile, ensuring resilience to short-term refinancing and liquidity risks.** Gross financing needs (GFN) for 2025 and 2026 are estimated at EUR 1.0 billion and EUR 0.94 billion, respectively (approx. 3.0% of GDP in 2025 and 2.6% of GDP in 2026), and EUR 1.2 billion in 2027 (approx. 3.2% of GDP). The main sources of financing remain Euro-medium-term notes, complemented by loans from the European Investment Bank and the Council of Europe Development Bank, with no new major issuances of long-term debt planned for 2025. Cyprus maintains a strong cash position, standing at EUR 3.9 billion as at the end of September 2025 (approx. 11% of GDP), covering 1.3 times

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<sup>(19)</sup> As a result of the recalibration of risk weights induced by the third Capital Requirements Regulation, which entered into application on 1 January 2025.

<sup>(20)</sup> See [Q2-2025 Risk Dashboard of the European Banking Authority](#).

the GFN of the next 12 months. The public debt maturity profile remains favourable, maintaining maturity risks at low levels, with an average maturity of total debt of 6.4 years and average maturity of marketable debt of 7.4 years at the end of August 2025. Concerning Cyprus's debt distribution, 34.1% of debt is based on a floating interest rate, which is mostly made up of European Stability Mechanism (ESM) loans <sup>(21)</sup>. Of the remainder, 27.4% is held by the European Central Bank under the asset purchase programme. All outstanding debt securities are denominated in euro, eliminating foreign exchange rate risk. The yield on the Cyprus 10-year government bond has remained stable, standing at around 3.08% in October 2025, and the spread over the German 10-year bond has narrowed to around 40 basis points.

**Cyprus continues to enjoy a favourable market perception, reflecting the country's economic and financial stability as well as fiscal progress.** In 2025 a credit-rating upgrade and several affirmations consolidated Cyprus's 'A' status. As of September 2025, Cyprus held ratings of A by DBRS Morningstar (Stable outlook), A- by Fitch (Stable outlook), A3 by Moody's (Stable outlook), and A- by Standard & Poor's (Stable outlook). These upgrades reflect the country's sound fiscal policies, resilient economic growth, improved financial sector stability and moderate interest burden.

**Cyprus retains the capacity to service its debt.** According to the Commission's Debt Sustainability Monitor 2024 <sup>(22)</sup>, risks to Cyprus's fiscal sustainability are overall medium in the medium term, but low in the short and long term. The debt-servicing capacity of Cyprus remains stable, driven by the aforementioned factors – relatively long maturity of the debt portfolio, large cash buffers, low gross financing needs and the continuously declining debt ratio. The first loan repayment to the ESM – of EUR 350 million – is scheduled for December 2025, while an amount of approximately EUR 1 billion is scheduled to be paid each year in 2026-2031.

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<sup>(21)</sup> The ESM interest payments on the floating-rate debt rely on a blended interest rate, calculated based on the funding and operational costs of the ESM.

<sup>(22)</sup> See European Commission (2025), Debt Sustainability Monitor 2024, European Economy Institutional Paper 306 ([https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024\\_en](https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024_en)).



## PORTUGAL

**Portugal's economy regained momentum in Q2-2025.** Following a contraction of 0.3% (quarter-on-quarter) in Q1-2025, Portugal's GDP rebounded by 0.7% (quarter-on-quarter) in Q2-2025. Despite some slowdown in foreign tourism growth, GDP is projected to continue rising at a faster pace than the EU average, supported by a new set of fiscal measures in the form of a pension bonus and personal income tax refunds paid in August and September. According to the Commission's Autumn 2025 Economic Forecast, GDP growth is projected at 1.9% in 2025, following an upward revision to 2.1% for 2024. In 2026 and 2027, growth is forecast at 2.2% and 2.1%, respectively. Growth is driven by domestic demand, primarily in 2025 and 2026, when the absorption of funds under the Recovery and Resilience Facility is set to peak. Investment growth is expected to slow down in 2027. The overall balance of risks to growth remains tilted to the downside as uncertainty related to global trade tensions remains elevated, albeit less so than in the first half of 2025. Consequently, imports are expected to grow faster than exports over the forecast horizon. Nevertheless, the country's current account is expected to remain in positive territory, as the projected surge in import volumes is partly offset by the estimated decline in prices of energy imports in 2025 and 2026.

**Headline inflation continues to recede despite wage pressures.** Headline inflation eased from 2.3% (year-on-year) in Q1-2025 to 2.0% in Q2-2025, reflecting a decrease in prices of energy and non-energy industrial goods. Services inflation decelerated somewhat but remained above 3% as employment and wage growth continued to keep pressure on consumer demand despite the record-high saving rate of households. A steep rebound in prices of unprocessed food in the summer months is expected to slightly offset the disinflation trend in the second half of 2025, but overall inflation is set to move broadly in line with the EU average. The Commission's Autumn 2025 Economic Forecast projects inflation to decline from 2.7% in 2024 to 2.2% in 2025 and 2.0% in both 2026 and 2027. Inflation excluding energy and food is set to remain slightly higher amid continued strong wage growth. Employment picked up substantially in the summer months, reaching new historic highs and bringing down the unemployment rate to a 12-month average of 6.3% as of August 2025 compared to 6.5% in 2024.

**Portugal's budget balance is expected to turn into a deficit over the forecast horizon.** Starting from a surplus of 0.5% of GDP in 2024, the budget balance is estimated at 0.0% of GDP in 2025. Going forward, it is forecast at - 0.3% and - 0.5% of GDP in 2026 and 2027, respectively <sup>(23)</sup>. Current spending will continue increasing, driven by fiscal policy measures on public wages and social benefits, as well as higher interest costs. Under a no-policy-change assumption, nationally financed public investment is expected to remain solid in 2025 and 2026, related to investment in defence, among other things, and to moderate in relation to GDP in 2027. At the same time, revenue is estimated to stay strong despite the impact of revenue-decreasing measures, notably on direct taxation. Public debt decreased further to 93.6% of GDP in 2024. It is expected to continue decreasing to 88.2% of GDP in 2027. This fiscal outlook is

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<sup>(23)</sup> See the Commission Opinion on the 2026 Draft Budgetary Plan of Portugal (C(2025)9066) for estimates of the country's net expenditure path.

subject to risks to the macroeconomic environment, while country-specific risks relate to financial vulnerabilities in state-owned enterprises and to liabilities with public-private partnerships.

**The banking sector continues its very strong performance.** Aggregate profitability in the system remains at historical highs, despite a small decline over the first half of 2025. With a return on assets holding at 1.36% in the first two quarters of 2025, 11 basis points lower year-on-year but still above the euro-area average, the banking sector is managing the transition to a lower interest rates environment well. Net interest income decreased, driven by lower margins on loans to the non-financial private sector. However, the decline is well cushioned by reduced remuneration on new customer deposits, higher fee-based revenues and a gradual shift towards mixed rates on bank loans, which should support interest income in the medium run. Operational efficiency of the sector remains high, even if the cost-to-core-income slightly worsened to 44.5% in the first half of 2025, 4.6 pps higher year-on-year, following higher operational costs and lower interest income. Asset quality is historically at very high levels and continues to converge towards euro-area averages. The mortgage loans segment is the strongest one, with almost no defaults. Coverage of non-performing loans remains high. Overall, the gross non-performing loan ratio stood at just 2.3% in the first half of 2025, while the share of Stage 2 loans further declined to just 9.1%. The banks' common equity tier 1 capital ratio stood at 17.9% in June 2025, and the minimum requirement for own funds and eligible liabilities is fully implemented. Similarly, all liquidity metrics remain at comfortable levels. The soundness of banks' balance sheets, including the high equity and liquidity buffers, position the sector well to weather volatility.

**Credit growth is picking up as financial conditions ease.** The aggregate loan-to-deposit ratio in the banking sector stood at 75.5% in the first half of 2025, slightly increasing by 0.5 pps, reflecting an ongoing pick-up in lending. The monetary policy rate has been cut by 100 basis points since the beginning of 2025. This drop is gradually filtering through to local firms and households. In July 2025, the average loan to non-financial corporations bore an interest rate of 3.65% (vs a euro-area average of 3.43%), about 65 bps lower than at end-2024. The growth in lending is visible (4.3% annual growth for adjusted bank loans in August vs 3.0% in the euro area) but varies across sectors, with real estate and construction-related activities leading in terms of demand for new business loans. The interest rate on loans for house purchase dropped on average by 32 basis points since the beginning of 2025, to 2.88%, below the euro-area average of 3.28%. The dynamics of new lending to households is predominantly driven by new mortgage loans (with mortgage stocks recording an annual growth of 8.4% in August 2025). In the first half of 2025, 17% of new mortgages had the backing of a state guarantee on part of the loan. Mortgage renegotiations have stabilised at around 20% of new loans. Nearly all outstanding mortgages are currently below a loan-to-value ratio of 90%. Still, bank credit accounted for just 48% of new housing transactions in the first half of 2025. Consumer loans are quite dynamic as well, with an annual growth of 6.1% in July and an average interest of 8.82%.

**Financing needs in 2025 are expected to increase.** They are estimated at EUR 26.9 billion (8.8% of GDP), 2.1 pps higher than in 2024. This compares to the Debt Management Office's early-2025 estimate of EUR 33.0 billion (10.8% of GDP) for the year. This downward revision is explained by the lower-than-expected refinancing of state-owned enterprises by the State in 2025. By the cut-off date of this report, Portugal had already issued a total of EUR 20.6 billion (6.8% of GDP) in government bonds. The national Debt Management Office concluded its annual government bonds funding programme in September 2025 with a dual tranche syndication of government bonds. This syndication covered government bonds maturing in 2033 and 2054, with issuances reaching EUR 3.5 billion and EUR 1.5 billion, respectively, and recording high bid-to-cover ratios. Net issuances of saving certificates have stayed positive so far in 2025. T-bills continue to be Portugal's main short-term financing source, with auctions being scheduled regularly.

**Portugal's financing conditions remain favourable.** Rating agencies upgraded or maintained their assessment of Portugal's sovereign debt in 2025. The 10-year Portuguese government bond yields stood at 3.0% by end-October 2025, down from the short-lived spike of 3.3% in March 2025. Spreads over the German bonds continued to narrow, reaching around 40 basis points towards Q4-2025, with Portugal trading below its main euro-area peers. The implicit interest cost of debt is estimated at 2.4% at end-2025 and, with a forecast steepening of Portugal's yield curve, it is expected to increase by 0.2 pps by end-2027. The investor base remains stable and diversified across regions and types.

**Portugal retains the capacity to service its debt.** Portugal's economic, fiscal and financial situation remains overall sound despite the risks related to geopolitical uncertainty. The outstanding debt to the European Financial Stability Facility (EFSF) is EUR 25.3 billion; to the European Financial Stabilisation Mechanism (EFSM), it is EUR 22.3 billion. A EUR 1.5 billion repayment to the EFSF is scheduled to take place in late 2025. In 2026, repayments are due to both the EFSF and EFSM. According to the Commission's latest Debt Sustainability Monitor, Portugal's fiscal sustainability risks are medium in the medium term and low in both the short and long term <sup>(24)</sup>. In the short term, the country's capacity to service its debt is supported by its comfortable cash buffer, its active debt management strategy aimed at smoothening the debt redemption profile, a favourable maturity structure with most debt at fixed rates, its stable and diversified financing sources, and its debt currency denomination.

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<sup>(24)</sup> See European Commission (2025), Debt Sustainability Monitor 2024, European Economy Institutional Paper 306 ([https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024\\_en](https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2024_en)).