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COMMUNICATION FROM THE COMMISSION

Post-Programme Surveillance Assessments - Spring 2025

BACKGROUND

Twice per year, under post-programme surveillance (PPS), the Commission carries out assessments of euro area Member States that have had a financial assistance programme. 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 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 Spring 2025 Economic Forecast (with cut-off date 30 April 2025).

[1] Under Regulation (EU) N°472/2013, PPS will continue 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.

IRELAND

Ireland's economy is forecast to grow over the coming years, though the outlook is clouded by significant downside risks. The Irish economy entered 2025 in a strong position, after real GDP rose by 1.2% in 2024. This was driven by a rebound in exports and continued resilience in the domestic economy. The domestic economy is expected to continue growing over the forecast period, supported by a robust labour market. However, heightened uncertainty stemming from the external environment is likely to weigh on household consumption and modified investment ([2]), dampening their contribution to growth. Exports are also expected to continue to grow, although their pace is expected to moderate due to geopolitical uncertainty and a subdued external environment. In the Commission's Spring 2025 Economic Forecast, GDP is expected to grow by 3.4% and 2.5% in 2025 and 2026, respectively. Modified domestic demand ([3]) is set to expand by 2.2% in 2025 and 2.3% in 2026. However, the balance of risks to Ireland's growth outlook remains firmly tilted to the downside. As a small, open economy with deep economic ties to the US, Ireland is especially vulnerable to rising protectionism. Whether in the form of further tariffs – especially tariffs targeting the pharmaceutical sector – or policy changes that would disincentivise investment and business activity in Ireland, significant downside risks are looming over the Irish economy.

Persistent challenges in infrastructure planning and development continue to hinder Ireland's competitiveness and impact the broader business environment. Fragmented delivery of infrastructure investments affects key sectors like energy, water and transport, which, in turn, restricts housing supply. Grid capacity limits overall cross-sectoral development, while water infrastructure shortages risk undermining environmental sustainability and growth in water-dependent sectors. Public investment remains critical in these strategic areas, with private sector participation also contributing to progress. However, the slow and complex permitting process – often taking 24 to 36 months – creates delays, raises costs, and diminishes Ireland's attractiveness for foreign direct investment. Housing construction is similarly affected: completions fell by 6.7% in 2024 to 30 330 units, well below the annual target of 33 450 units. Structural barriers, including limited serviced land and relatively low construction productivity, continue to undermine supply. Despite a rise in housing commencements, a 21% annual decline in planning permissions signals persistent challenges in meeting housing demand. A key piece of legislation, the Planning and Development Act 2024, passed in October 2024, aims to streamline permitting processes, although its impact remains to be seen. In parallel, the ongoing review of the National Development Plan and the introduction of new Infrastructure Guidelines could help prioritise and accelerate the delivery of key infrastructure.

Ireland's public finances are projected to remain in surplus in 2025 and 2026, though significant risks arise from the uncertain outlook for corporate tax revenues. According to the Commission's Spring 2025 Economic Forecast, Ireland is projected to record general

[2] Modified investment is headline investment excluding the volatile components of leased aircrafts and imports of research and development and intellectual property.
[3] Modified domestic demand is the sum of household consumption, government consumption and modified investment. It more accurately reflects the domestic economic activity in Ireland.

government surpluses in 2025 (0.7% of GDP) and 2026 (0.1% of GDP). In 2024, Ireland recorded an unusually large surplus of more than EUR 23 billion, driven by a one-off transfer arising from a Court of Justice of the European Union ruling and supported by tax revenues. Amid heightened levels of consumer and business uncertainty, slower revenue growth is projected for 2025, though still underpinned by a resilient domestic economy. Government expenditures are projected to remain high due to strong increases in public sector pay, investment and social transfers. The government debt-to-GDP ratio is projected to continue decreasing over the forecast period. However, the vulnerability of Ireland's public finances to the rise in global protectionism remains the key risk, as weaker performance or impaired profitability in the sectors dominated by foreign-owned multinational companies could severely reduce tax revenues. The outlook for corporate income tax revenues is particularly uncertain, given the high concentration of this tax base in a relatively small number of large foreign-owned multinational companies.

Irish retail banks reported another year of solid earnings in 2024, achieving a 13.3% return on equity, as in the previous year ([4]). The result was driven by net interest income and continued wide lending margins, but fee and commission income also grew and should provide a cushion going forward as net interest income is expected to moderate. Operating costs remain high and are driven by the need for digital investments and by high staff costs as the three retail banks integrated employees from the two banks that are leaving the country. The solid performance contributed only marginally to the formation of capital, as the banks chose to distribute most of their profits to shareholders. Lending expanded, driving the strong growth of risk-weighted assets and thus reducing the common equity tier 1 ratio by 20 basis points to 14.8% in December 2024. All banks continue to maintain a capital surplus exceeding regulatory requirements. Given robust demand for mortgages, lending volumes are expected to expand further in 2025. The banks continued to reduce their non-performing loans (NPLs) in 2024 in both the household and non-financial corporations (NFC) segments (2.1% and 3.3%, respectively, in December 2024). Vulnerabilities are present in some business sectors, in particular in commercial property, as office vacancies remain high, and in the small to medium-sized enterprise (SME) sector, which displays a higher share of NPLs (5.1% in December 2024). The share of NFC-loans displaying an increase in credit risk (Stage 2 under International Financial Reporting Standards) rose by 68 basis points in the second half of 2024, to 22.5% in December, but is lower than in the previous year. Trade tensions create risks also for some pools of mortgage holders.

Ireland's macroprudential policy framework remains adequate to mitigate risks to financial stability. The Central Bank of Ireland has confirmed the countercyclical capital buffer at 1.5%, in line with a 'neutral' risk level. Regarding mortgage measures, which aim to ensure sustainable lending standards, there has been an increase in the share of new borrowers approaching the new, higher thresholds, following the recent recalibration of the loan-to-income (LTI) and loan-to-value (LTV) limits. In the first half of 2024, almost 50% 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, lending above these limits remained contained. Persisting difficulties in aligning

[4] See Annex 5 to the Commission's 2025 Country Report on Ireland for additional information.

housing supply with the strong housing demand dampen risks in the sector. Meanwhile, the non-bank financial sector continued expanding, reaching over EUR 6.5 trillion of assets in Q4-2024. However, interlinkages with the domestic economy remain limited, mainly through property funds' exposures and non-bank lending to SMEs. Irish property funds are progressing towards the 60% leverage limit due to become binding in November 2027 but still face a significant gap to fill and are challenged by lower valuations in some segments of the sector.

Sovereign refinancing risks are low amid strong cash and liquid assets reserves and a favourable debt structure. Ireland issued EUR 4 billion of bonds in the first quarter of 2025, including EUR 3 billion through a syndicated sale of a new 30-year benchmark bond in January, and EUR 1 billion in a March auction. This means half of the midpoint of the planned bond funding range for the year (EUR 6-10 billion) is already complete. Ireland's cash and liquid asset reserves amounted to almost EUR 30 billion at end-March 2025, and are expected to remain strong. Refinancing needs are relatively low in the short term but will be greater in the early part of the next decade. Importantly, the vast majority of Ireland's public debt is at a fixed rate and therefore relatively well insulated from market volatility. Ireland's sovereign debt enjoys the confidence of investors, with the long-term credit rating in the 'AA' category with the three main rating agencies. Yields for the 10-year Irish government bond were at 2.85% at the end of April 2025, in line with the average throughout 2024. Spreads against the German benchmark stood at 34.4 basis points, with Ireland trading below its main euro area peers.

Ireland's 2024 medium-term fiscal-structural plan (MTFSP) aims to put the debt ratio on a downwards trajectory. Ireland presented its MTFSP on 15 October 2024. In its MTFSP, Ireland commits to an average net expenditure growth of 5.3% over the years 2025-2029. In May 2025, Ireland submitted its first Annual Progress Report, which includes information about the implementation of the net expenditure path as set by the Council as well as of reforms and investments ([5]).

Ireland retains the capacity to service its debt. Against the backdrop of heightened uncertainty and risks arising from global protectionist trends, 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 ([6]). 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 its first EFSF repayment is scheduled for 2029.

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[5] See Annex 1 to the Commission's 2025 Country Report on Ireland for an assessment of progress.

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

GREECE

The Greek economy is forecast to remain resilient despite external headwinds and global uncertainties. Greece's economy grew by 2.3% in 2024, faster than the euro area on average. In 2025-2026, according to the Commission's Spring 2025 Economic Forecast, real GDP is expected to grow at a similar pace as in 2024, by 2.3% in 2025 and 2.2% in 2026, with growth fuelled by EU-funded investments and private consumption supported by solid income growth. However, the strong investment activity and consumer demand is expected to keep imports high and net exports are forecast to remain a drag on growth, implying a sizeable current account deficit at around the level registered in 2024 (6.4%). Inflation is set to decrease only moderately and to average 2.8% in 2025 and 2.3% in 2026, as tight labour market conditions and minimum wage increases exert upward pressure on consumer prices. Employment is expected to increase further, but structural challenges – such as low labour force participation and skills gaps – are limiting the pace of jobs growth. Thanks to its limited direct trade linkages with the US, US tariffs are expected to have only a moderate direct effect on the Greek economy. However, a persistent increase in financial market volatility, trade policy-related and geopolitical uncertainties can have a substantial indirect effect on Greek exports, particularly tourism, and the broader economy.

In 2024, Greece's general government balance turned positive, exceeding projections. Greece registered a headline surplus of 1.3% of GDP in 2024, significantly better than the Commission's 2024 Autumn Forecast, which projected a headline deficit of 0.6% of GDP. This over-performance was primarily due to stronger-than-anticipated revenues from direct taxes and social security contributions and muted current expenditure growth, but also structural measures to combat tax evasion. These gains are projected to be sustained and to be strengthened by further structural measures, in particular the extension of the digital labour card – which aims to reduce undeclared work – to cover the food and tourism sectors, and the increase in local government fees, thus offsetting the costs of expansionary measures such as the increase in public sector wages and the reduction in social security contributions. The Commission's Spring 2025 Economic Forecast expects the primary surplus to reach 3.8% of GDP in 2025 and increase to 4.4% in 2026 and takes already into account the new spending package totalling EUR 1.1 billion. This package includes the refund of one month's rent for low- and middle-income households, the introduction of a permanent social benefit of EUR 250 for pensioners, uninsured older people and persons with disabilities, as well as an annual increase of EUR 500 million in the national public investment programme. Fiscal risks emanate from ongoing legal cases, in particular those involving the Public Properties Company, and public spending pressure following the positive 2024 fiscal outturn. On a positive side, government efforts to curb tax evasion and undeclared work may boost further fiscal revenues.

High profitability increased the resilience of the banking sector ([7]). Driven by strong net interest and fee income, banks' profits in 2024 surpassed the already excellent results of 2023. This allowed banks to improve capital ratios via organic capital generation, despite increased dividend payout ratios and several acquisitions. Banks' profitability is expected to decrease due to decreasing interest rates, but partly offset by rising lending volumes and various non-

[7] See Annex 5 to the Commission's 2025 Country Report on Greece for additional information.

interest income streams. Banks have met their minimum requirement for own funds and eligible liabilities and have repaid outstanding amounts of targeted longer-term refinancing operations. While capital buffers stood well above prudential requirements, capital quality remained weak as deferred tax credits (DTCs) represented 41% of total prudential own funds in June 2024 (against 44% in December 2023). The DTC part of the capital cannot be freely utilised for, for example, risk absorption, business growth or dividend payout, and all four systemic banks announced plans to fully amortise DTCs by 2033, eight years ahead of the legal deadline.

The non-performing loans (NPL) ratio decreased further but the workout of legacy debt remains slow. The NPL ratio ([8]) decreased from 6.9% in June 2024 to 3.8% in December 2024. The reduction was mainly due to additional securitisations under the extension of the Hellenic Asset Protection Scheme (HAPS) ([9]), more than offsetting the net inflow of NPLs. Going forward, banks intend to shift focus to organic actions ([10]) and continue to use inorganic actions sporadically to control the NPL levels within their business plan targets. A major part of NPL exposures exited the banking sector via securitisations and outright sales and was transferred to credit servicers, who held EUR 74.8 billion of debt in December 2024, up from EUR 69.4 billion in December 2023, most of which is non-performing. Many portfolios securitised under the HAPS continued to underperform their business plans, mainly due to lower recoveries from collateral liquidations, as credit servicers face judicial obstacles, predominantly in liquidation proceedings. The number of restructurings under the out-of-court workout (OCW) platform, where debtors and creditors try to reach debt settlements outside the judicial system, has increased sizeably, and in April 2025, the government has introduced a new category of 'eligible debtors' under the OCW platform, strongly increasing the number of debtors for which creditors cannot refuse proposed settlements. The process to set up the sale-and-lease-back organisation ([11]) (SLBO) is expected to be completed in the third quarter of 2025 and the related interim scheme has been prolonged for another six months or until the SLBO is operational. Moreover, the government is planning further amendments to the Code of Civil Procedure to increase the efficiency of judicial processes and to tackle bottlenecks in debt enforcement.

By December 2024, the stock of net arrears ([12]) had fallen significantly. Net arrears had decreased by EUR 244 million to EUR 461 million since July 2024, with hospital arrears declining by over 50% partly thanks to the new Centralised Health Procurement Authority (EKAPY) and improved grant disbursements. While net main pension arrears have been largely eliminated, the clearance of lump-sum arrears remains slow. The slow pace of clearance is primarily caused by the large proportion of lump-sum arrears coming from older social

[8] 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 than the one reported by the Bank of Greece. The ECB figures for Q4-2024 are 2.9% and 1.9% for Greece and the EU average, respectively.

[9] The extended HAPS includes a EUR 3 billion envelope of state guarantees that cover the senior tranches of the securitisation structure of the HAPS.

[10] E.g. forbearance (including restructurings), write-offs, collections, collateral liquidations, and repossessions.

[11] The aim of the sales 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.

[12] 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.

insurance funds, which operated under different regulatory framework and thus can be processed only manually. The clearance of arrears among certain extra-budgetary funds, in particular public transport companies, is making progress. However, persistent arrears in several municipalities, despite increased funding, suggest inefficiencies in arrears clearance at local government level.

The merger of the Hellenic Republic Asset Development Fund (TAIPED) and the Hellenic Financial Stability Fund (HFSF) into the Hellenic Corporation of Assets and Participations (HCAP) has been successfully completed. The new enlarged HCAP is streamlining procedures and processes to achieve operational integration while implementing its strategic plan for 2025-2027 and taking steps to set up the new Growth Investment Fund expected to be launched in mid-2025. The financial results of major subsidiaries of the HCAP such as the Hellenic Post (ELTA), the Athens Urban Transport Organisation (OASA) and the Hellenic Public Properties Company (ETAD) have improved. The ETAD is advancing the two-year-long evaluation of its 36 000 public real estate assets in view of their commercial exploitation. Privatisation transactions are broadly on track, with the exception of the long-pending financial closure of the concession agreement for Egnatia Motorway, which has been rescheduled for the end of 2025, and the cancellation of the tender process for the acquisition of a majority stake in the Port of Volos, whose development strategy will be reassessed.

Greece's sovereign financing needs are set to remain moderate. With the partial early repayments of the Greek Loan Facility (GLF) in 2023 and 2024, EUR 13.2 billion of loan amortisation was brought forward, which, in turn, decreased the financing needs over the period from 2024 to 2028. Thanks to the reduced debt amortisation and the projected sizeable budget surpluses, the gross financing needs remain moderate, well below 10% of GDP in 2025 and 2026. The cash buffer (as measured by general government deposits) remains substantial, amounting to EUR 36.3 billion (15.3% of GDP) at end-2024.

Debt management focuses on reducing medium-term financing needs and benefits from positive market sentiment. By early 2025, Greece had regained its investment grade rating from all major rating agencies. Greece relies on long-term government bond issuances as well as on debt exchanges to further reduce its short- and medium-term refinancing needs, while maintaining an adequate level of liquidity of its benchmark securities. The average residual maturity of Greece's public debt is 20 years. T-bill issuances continue to be a relevant short-term debt financing instrument, with regular placements scheduled throughout the year, albeit in decreasing amounts. Greece continues to have strong market access and raised EUR 7.45 billion from regular bond auctions in the first four months of 2025, almost completing its financing plan for 2025. Issuances were heavily oversubscribed and spreads over the 10-year German Bund have been on a declining path, averaging at 80 basis points in March 2025. In a similar vein, the refinancing rate fell to 3.2% (10-year maturity) in February 2025.

Greece's 2024 medium-term fiscal-structural plan (MTFSP) aims to keep the debt ratio on a downward trajectory. Greece presented its MTFSP on 7 October 2024. In its MTFSP, Greece commits to an average net expenditure growth of 3.1% over 2025-2028 ([13]). Based on the MTFSP, the general government debt would gradually decrease from 153.7% of GDP in 2024 to 133.4% of GDP by the end of the adjustment period in 2028. At the end of April 2025, Greece submitted its first Annual Progress Report, which includes information about the implementation of the net expenditure path, as set by the Council ([14]).

Greece retains the capacity to service its debt. The public debt-to-GDP ratio declined by more than 10 percentage points to 153.6% in 2024 and is expected to continue to fall to around 140.6% of GDP by 2026. According to the Commission's debt sustainability analysis ([15]), Greece is deemed to face low risks in the short and long term, while medium-term risks remain high due to the sensitivity of the debt-to-GDP ratio to potential changes in economic growth and financing costs. Financial assistance loans were fully repaid to the IMF in 2022. Repayment of the principal on the GLF started in 2020 and repayment of the European Financial Stability Facility loans started in 2023, while repayment of the ESM loans will only start in 2034. Thanks to its modest refinancing needs, its large cash buffer and the low interest -rate sensitivity of its outstanding debt (given that most of the debt is fixed rate and remaining interest-rate risks are hedged), Greece is expected to maintain its debt-servicing capacity in the short term.

[13] This is also the average growth rate that the Council recommended. See Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Greece, Official Journal of the European Union C/2025/661, 10 February 2025.

[14] See Annex 1 to the Commission's 2025 Country Report on Greece for an assessment of progress.

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

SPAIN

Following strong real GDP growth in 2024, reaching 3.2%, economic activity in Spain is expected to decelerate, yet remain vigorous in 2025. The momentum exhibited by the economy throughout 2024 was underpinned mainly by the dynamism of domestic demand, thanks to the robust development of both private and public consumption, and by the positive contribution of external demand, sustained by the impetus of tourism activity and exports of non-tourism services. By contrast, private investment remained relatively subdued. Real GDP growth is expected to soften in 2025, to 2.6%, according to the Commission's Spring 2025 Economic Forecast. Domestic demand would be the key driver of the economic expansion, driven by further real income gains for households and job creation sustaining private consumption, as well as by the projected pickup in investment. On the other hand, the contribution from external demand to overall GDP growth is expected to turn negative in both 2025 and 2026, due to a less buoyant outlook for exports and the sharp recovery of import growth. Downside risks to the outlook relate mainly to the larger than expected slowdown in economic activity in the euro area as a whole and of Spain's main trading partners, particularly those with a relatively high exposure to US markets, which could generate negative spillover effects on Spain's economy.

The robust performance of the labour market in recent years owed to the sustained inflow of foreign-born workers and past policy measures. The strong migration flows Spain has experienced over recent years contributed to expanding the labour force, in particular by integrating foreign-born workers, and have helped boost job creation, particularly in the services sector. The unemployment rate fell in 2024, reaching 11.4%, and it is projected to drop further to 10.4% in 2025, supported by additional job creation and benefitting from the impact of measures included in labour market reforms carried out in recent years. Annual HICP inflation averaged 2.9% in 2024 and it is projected to slow down in 2025, reaching 2.3%. Its downward trend is expected to be driven mainly by the deceleration in energy prices, despite price pressure related to core components, in particular to services and processed food, which are set to ease more gradually. Nominal wage growth is set to keep outpacing the inflation rate in 2025, with real income gains, however, moderating over the forecast period.

Spain's public finances improved further in 2024, with the general government deficit narrowing to 3.2% of GDP and public debt reducing to 101.8%. Aided by strong economic growth and buoyant direct tax revenues, the deficit and the debt have declined by 6.7 and 17.5 percentage points, respectively, since 2020. In cash terms, tax revenues grew by 8.4%, largely helped by corporate income tax (revenues up by 11.5%) and personal income tax (revenues up by 7.6%). Value added tax revenues also expanded (up 7.9%), helped by the gradual phase-out of energy-related measures, including the rate reductions on gas and electricity. In the first three quarters of 2024, overall spending grew moderately, driven by the more targeted energy measures to combat inflation (in particular, direct support for companies), but due to the measures taken to mitigate the damage caused by the floods in the Valencian community in the fourth quarter (estimated at EUR 5.6 billion, or 0.4% of GDP) total expenditure grew by 6.2%, in line with nominal GDP. In particular, social benefits other than in-kind and interest payments accelerated further.

The 2025 general government deficit is expected to keep decreasing as the remaining energy measures have been phased out. According to the government's projections, the general government deficit will reduce further this year to 2.5% of GDP. The Commission's Spring 2025 Economic Forecast also expects the general government deficit to narrow to 2.8%, helped mostly by the complete phase-out of energy support measures. Additionally, the effect of the new tax measures approved in December 2024, including the amendments to the corporate income tax, the tax on liquids for electronic cigarettes and other tobacco-related products, as well as the increased tax rates for savings income in the personal income tax, are set to contribute further to the deficit reduction, compensating the higher expenditure on defence, interest and pensions. Implementation of the Recovery and Resilience Facility is set to accelerate throughout the forecast horizon, contributing to sustain growth and thus improve Spain's public finances. Going forward, the Commission expects the 2026 deficit to keep narrowing (to 2.5%). The debt-to-GDP ratio is set to keep reducing, but more moderately, remaining at high levels. The Commission's Spring 2025 Economic Forecast expects the debt to decrease to 100.9% of GDP in 2025, driven by strong nominal GDP growth, and to continue reducing in 2026, but less dynamically, to 100.8%.

The Spanish banking sector is profitable and exhibits good resilience to risks. There have been favourable profitability developments, but banking sector capitalisation only slightly improved in 2024, as banks in Spain opted for significant dividend pay-outs and share buy-backs, as in other EU countries. In Q3-2024, the Spanish banking sector reported a consolidated common equity tier 1 ratio of 13.3%, the lowest in the EU, but still above the regulatory minimum requirement. Overall, the capitalisation of Spanish banks is aligned with their business models and exceeds the capital requirements and supervisory guidance. Banking groups have continued to issue securities eligible for the minimum requirement for own funds and eligible liabilities (MREL) and have met their final MREL targets. Banks are exposed to a very low liquidity funding risk and show only a limited maturity mismatch between assets and liabilities. All credit institutions have 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, due to the regular sales of non-performing loans (NPLs) by banks and the rebound in new lending, the aggregate NPL ratio declined to 2.6% in Q3-2024 (slightly above the EU average of 1.9%). Despite the overall increase in bankruptcies over the past three years, the corporate NPL ratio has been on a downward path and reached 3.6% in Q3-2024, broadly in line with the EU average. The share of loans that have deteriorated significantly in credit quality (Stage 2) under International Financial Reporting Standard 9 was the second lowest in the EU at the end of 2024.

Bank lending has started to rebound, even as policy actions have had a mild cooling effect. For households, annual growth in bank credit for adjusted loans has started to recover, from –2.6% at the end of 2023 to +0.9% at the end of 2024. Household lending had recovered substantially as of the end of 2024, driven by higher real incomes and a modest decline in loan rates. For non-financial corporations, annual credit growth reached +0.8% at the end of 2024, up from -3.7% in 2023. The Bank of Spain has signalled a phased increase of 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, given that their capital ratios are above the minimum regulatory thresholds. Spain's new banking tax replaces the temporary levy applied in 2023-2024 and imposes 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. The tax, in force for 2024-2026, allows banks to deduct 25% of the tax from their corporate income tax and includes an additional deduction if their return on total assets is below 0.7%, with revenues allocated to the Autonomous Communities. 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 March 2025, CaixaBank's continued strong performance was reflected in rising returns on the Spanish Executive Resolution Authority's (FROB) investment - underscoring the importance of carefully timing the FROB's divestment strategy to maximise gains, a need reinforced by the February Council of Ministers' decision to extend the deadline for the FROB's divestment from CaixaBank until December 2027.

The Commission's debt sustainability analysis (DSA) points to high risks in the medium term while structural features of outstanding debt mitigate risks ([16]). According to the Commission's Debt Sustainability Monitor 2024, risks to Spain's fiscal sustainability are overall low in the short term, high in the medium term and medium in the long term. At 2.27%, the average interest rate was some 0.16 percentage points higher than 12 months earlier. By the end of March, the Treasury had issued about 89 billion out of the 2025 gross financing needs of some EUR 278.4 billion (16.7% of the GDP). In March 2025 the average interest rate of the new issuances was 3.03% while for the benchmark 10-year bond, the average interest rate at issuance was 3.45% (up by 0.40 percentage points from 12 months earlier). Spain's 10-year government bond spread with respect to German bonds was trending around 53 basis points in early 2025, showing an around 35 basis-point improvement from the same period in 2024. S&P, Moody's, Fitch, Scope and DBRS all rate Spain's long-term sovereign debt as investment grade. Currently Moody's and Fitch consider the outlook as positive, while other rating agencies have stable outlooks. The recent bond market movements have had some but rather muted impact on Spanish yields and the spread.

Spain's 2024 medium-term fiscal-structural plan (MTFSP) aims to put the debt ratio on a downwards trajectory. Spain presented its MTFSP on 15 October 2024**.** In its MTFSP Spain commits to an average net expenditure growth of 3.4% over 2025-2028. In addition, Spain commits to a set of reforms and investments with the view to extending the adjustment period to **seven** years (2025-2031), over which the average net expenditure growth is planned to be 3.0%. At the end of April 2025, Spain submitted its first Annual Progress Report, which

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

includes information about the implementation of the net expenditure path, as set by the Council, as well as about reforms and investments ([17]).

Spain retains the capacity to service its public debt. The debt dynamics are underpinned by continued GDP growth with increasing revenue and smaller deficits in the short run. Overall financing conditions for the central government are favourable, and the recent reduction of the spread in relation to German bonds could indicate an improvement in financing conditions. The structural features – such as the long average maturity, relatively low gross financing needs and investor diversification – support debt sustainability and repayment capacity in the short run. However, costs of outstanding debt continue to increase gradually – albeit from low levels – and this, together with a high debt ratio, deserves attention. In the medium run, the implementation of the MTFSP should significantly reduce the negative risks surrounding the debt ratio. Spain has an outstanding debt of EUR 11.9 billion to the ESM and the next repayment – of EUR 4.6 billion – is scheduled for December 2025. After this repayment 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 in 2026.

[17] See Annex 1 of the Commission's 2025 Country Report on Spain for an assessment of progress.

CYPRUS

Economic activity in Cyprus remains robust. Real GDP growth accelerated to 3.4% in 2024, the third highest in the euro area. Growth was broad-based, in large part driven by private consumption, which expanded by 3.8%. Investment also continued its strong performance despite a short-lived strike in the construction sector. Foreign demand for services picked up, with ICT-related exports growing by 14% year-on-year in nominal terms, while tourism and sea transport also posted solid gains. According to the Commission's Spring 2025 Economic Forecast, despite the challenging international environment, robust real GDP growth is projected for 2025 and 2026 at 3% and 2.5%, respectively. This is well above the euro area average. The employment rate has reached historical highs and unemployment is at its lowest level since 2008. Meanwhile, inflation has been gradually decreasing since the energy crisis and is expected to converge to 2% in 2026.

The fiscal performance remains positive. Cyprus's general government surplus increased to 4.3% of GDP in 2024, compared to 1.7% of GDP in 2023. Public revenue continued its dynamic growth at almost 9%. Direct taxes and social contributions continued increasing at double-digit rates as a result of strong economic growth, high profitability and a high employment rate. Expenditure growth remained moderate in 2024, in line with government plans. Expenditure growth in 2024 was also positively affected by the statistical treatment of the payment to the new pension scheme for civil servants, which has been entirely recorded in 2023 although the cash payment will take place in 2024-2026. For 2025 and 2026, the surplus is expected to decrease but remain significant at 3.5% and 3.4% of GDP respectively. This reduction is linked to expenditure that includes, two significant investment projects in the energy sector (namely the Great Sea interconnector between Cyprus and Greece and an LNG terminal at Vasiliko Bay). Moreover, the government has pledged to start compensating depositors affected by the 2013-2014 crisis and bail-in of the banking sector. This will be done through a solidarity fund that was set-up for this purpose already in 2013 and 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 households to remain in their homes by converting their loans into rent payments. The downward trend of the public debt level is projected to be sustained and to go below the 60% of GDP threshold in 2025/2026.

Cyprus's 2024 medium-term fiscal-structural plan (MTFSP) aims to put the public debt ratio on a downwards trajectory. Cyprus presented its MTFSP on 15 October 2024, where Cyprus commits to an average net expenditure growth of 4.9% over the period 2025 – 2028. A general government debt below 60% of GDP by 2026 is also projected in the MTFSP. At the end of April 2025, Cyprus submitted its first Annual Progress Report, which includes information about the implementation of the net expenditure path, as set by the Council, as well as about reforms and investments ([18]).

[18] See Annex 1 of the Commission's 2025 Country Report on Cyprus for an assessment of progress.

In 2024, the Cypriot banking sector was among the best performing in the euro area, exhibiting robust profitability and solvency levels, and operating with ample liquidity ([19]). The high-interest-rate environment has continued to support net interest income, resulting in a sector return on equity (RoE) of 20.0%, among the highest in the euro area. Despite banks' efforts to diversify income streams, they are still highly dependent on net interest income, which is supported by the system's excess liquidity placed with the ECB and the high margin on loans to households and non-financial corporations. In 2024 the common equity tier 1 ratio reached a historic high of 24.5%, ranking among the strongest in the euro area, strengthening the sector's resilience and ability to absorb losses. The sector's liquidity coverage ratio of 333% is also one of the highest in the euro area, benefiting from a stable domestic depositor base. Looking ahead, bank profitability is expected to decline as the reduction in policy rates is passed on to lending rates, yet the RoE is expected to remain robust and solid.

Risks to financial stability appear contained, and strategic acquisitions are shaping a more resilient, though increasingly concentrated, banking landscape. Despite higher interest rates and economic uncertainty resulting from the geopolitical tensions, the stock of non-performing loans (NPL) has dropped to a historic low. In 2024, coverage ratios (banks' provisions to cover expected losses stemming from NPLs) improved to well above the EU average and Stage 2 exposures (loans that are performing but whose credit risk has significantly increased since origination) declined. Banks' prudent credit underwriting standards, combined with the robust macroeconomic environment, have curtailed the creation of new NPLs. Nevertheless, legacy NPLs in the banking system remain elevated, with the NPL ratio still above the EU average. Challenges in resolving remaining NPLs persist, especially among smaller banks. The majority of legacy NPLs are owned by credit acquiring companies and are thus outside the banking system. In order to curb the build-up of cyclical risks, the central bank proactively strengthened macroprudential measures by increasing the counter-cyclical capital buffer (CCyB) from 1% to 1.5% with effect from 14 January 2026. The recent wave of consolidation in the banking sector is expected to enhance stability by strengthening balance sheets and operational efficiency. Nonetheless, consolidation could reduce market competition, highlighting the need for careful oversight to maintain a competitive banking landscape.

Cyprus maintains low financing needs, a strong cash position, and a favourable debt maturity profile, ensuring resilience against short-term refinancing and liquidity risks. For 2025 and 2026, gross financing needs (GFN) are estimated at EUR 0.7 billion (2.1% of GDP) and EUR 1.1 billion (3% of GDP), respectively. Cyprus maintains a strong cash position, currently at EUR 3.4 billion (approx. 10% of GDP). The public debt maturity profile remains favourable, with an average maturity of total debt of 6.7 years and an average maturity of marketable debt of eight years in 2024. As regards debt distribution, 34% of debt is based on a floating interest rate, which is mostly made up of ESM loans. Additionally, 27% of public debt is held by the ECB under the asset purchase programme. All outstanding debt securities are denominated in euro.

[19] See Annex 5 of the Commission's 2025 Country Report on Cyprus for additional information.

Cyprus continues to enjoy a favourable market perception, reflecting the country's economic stability and fiscal progress. Credit-rating upgrades continued throughout 2024 and the beginning of 2025, marking a significant milestone for Cyprus as it regained 'A status' for the first time in 13 years. S&P and Fitch raised Cyprus's long-term credit rating to A-, Moody's to A3, and DBRS Morningstar to A (low) with a positive outlook. These upgrades reflect the country's sound fiscal policies, resilient economic growth, and improved financial sector stability.

Cyprus retains the capacity to service its debt. According to the Commission's Debt Sustainability Monitor 2024 ([20]), 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 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 is scheduled for 2025.

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

PORTUGAL

Portugal's economic growth slowed down from 2.6% in 2023 to 1.9% in 2024. However, growth accelerated substantially in the last quarter of 2024, driven by a steep increase in private consumption. This was largely driven by one-off effects related to retroactive income tax adjustments. In the Commission's Spring 2025 Economic Forecast, GDP growth is projected at 1.8% in 2025, reflecting weak performance in the first quarter of the year, and 2.2% in 2026. Still, in both years, growth is expected to continue outperforming the EU average. Private consumption and investment are expected to support economic activity thanks to continuous wage growth, record-high saving rates as well as accelerated implementation of the recovery and resilience plan. In the external sector, imports are projected to grow faster than exports because of the expected increase in investment demand and global trade tensions. The current account surplus is projected to decline only marginally as the negative impact from external demand is set to be partly offset by lower import prices of crude oil and other commodities. While Portugal's direct exposure to the increased US tariffs is relatively limited, the country is still at risk of indirect setbacks related to global trade contraction and uncertainty. The overall balance of risks to growth is therefore tilted to the downside, as the high level of external risks appears to be only partly offset by buoyant domestic demand.

Headline inflation eased from 5.3% in 2023 to 2.7% in 2024 and is set to continue its downward path. After a temporary rebound in late 2024, inflation slowed further in the first quarter of 2025. Considering the steep drop in prices of crude oil and other commodities in April 2025, the Commission's Spring 2025 Economic Forecast expects inflation to decline further to 2.1 in 2025 and 2.0 in 2026. Inflation excluding energy and food prices is set to remain slightly higher in 2025 and 2026 reflecting continued strong wage growth. Unemployment remained relatively stable at around 6.5% in 2024 and the first months of 2025. However, the jobs market was quite dynamic as both employment and labour supply continued to rise strongly, helped by net migration inflows. Despite headwinds from global trade tensions, the jobs market is projected to remain resilient, with a slight deceleration in the pace of job creation and wage growth, along with a further marginal drop in unemployment.

Portugal's budget surplus is coming under strain, with rising expenditure amid revenue-decreasing fiscal policy measures. Portugal's general government balance is expected to contract from a surplus of 0.7% in 2024 to 0.1% of GDP in 2025 and turn into a deficit of 0.6% of GDP in 2026. These developments result from the expected rise in spending alongside a more muted growth in revenues. Current spending will continue to expand, amid increases in public wages and an ageing population. Public investment is also set to pick up, financed by the Recovery and Resilience Facility. Direct tax policy measures, such as the update of the personal income tax for young people and the reduction of the statutory rate of the corporate income tax will take a toll on revenue. On the back of primary balance surpluses, public debt is expected to continue declining in 2025 and 2026. After reaching 94.9% of GDP in 2024, it is forecast at 91.7% of GDP in 2025 and 89.7% in 2026. Risks to the fiscal outlook are overall on the downside. Other than those related to the macroeconomic environment, country-specific risks relate to financial vulnerabilities in state-owned enterprises and financial rebalancing requests for public-private partnerships.

Portugal's 2024 medium-term fiscal-structural plan (MTFSP) aims to put the public debt ratio on a downwards trajectory. Portugal presented its MTFSP on 11 October 2024 ([21]). In its MTFSP Portugal commits to an average net expenditure growth of 3.6 % over the years 2025–2028. At the end of April 2025, Portugal submitted its first Annual Progress Report, which includes information about the implementation of the net expenditure path, as set by the Council, as well as about reforms and investments ([22]).

Financial stability looks robust, underpinned by exceptional banks' profitability ([23]). In 2024, Portuguese banks' return on assets reached a historic high of 1.38%, double the euro area average. Similarly to 2023, the driver behind this strong profitability remains the net interest income. A marginal decline in net interest income compared to 2023 was offset through reduced loan impairments. The persistently low loan-to-deposit ratio reflects, among other things, subdued credit demand also due to firms' reliance on internally generated cash and trade credits, while a loosening of credit standards to boost net interest income has not been observed. The non-performing loan (NPL) ratio dropped to a record low of 2.7% in Q3-2024, complemented by a reduced share of loans displaying a significant increase in credit risk (Stage 2). Mortgage defaults are negligible, and corporate loan resilience persists, though external risks such as trade tensions or geopolitics could put pressure on credit portfolios. The recent gradual transition to mixed-rate mortgage loans, with a fixed -rate for a first period and then a variable rate, insulates profitability against medium-term rate volatility. Practically all mortgages taken out in 2024 had loan-to-value ratio of less than 90%, which, together with the buoyant housing market in Portugal, mitigates risk exposures to the sector. The capital ratios were again bolstered by retained earnings (common equity tier 1 ratio of 18% in Q4-2024) and the sector remains a leader in terms of cost-to-income ratio (35.6%), reflecting top-tier efficiency and outpacing most euro area peers.

Risks from the financial sector are well mitigated by Portugal's macroprudential policy framework. The currently adopted mix of macroprudential policy measures is commensurate to the risks identified and should be maintained to preserve resilience in the banking sector. Banks hold adequate capital buffers and meet their minimum requirement for own funds and eligible liabilities (MREL) requirements, and systemically important banks progressed in improving their resolvability. In December 2024, Banco de Portugal set the countercyclical capital buffer under a 'neutral' risk level at 0.75%, which will be applicable as of January 2026. The resolution fund continues to improve its financial position and achieved an important milestone by agreeing on an early termination of the contingent capital agreement with Novo Banco. Several borrower-based measures are in place to mitigate banks' exposure to real estate market developments. These include recommendations limiting (i) mortgages' loan-to-value ratios for own and permanent residences to 90% and, for other purposes, to 80%; (ii) borrowers' debt-service-to-income ratio to 50%, for at least 85% of each bank's new mortgages; and (iii) the average maturity of new mortgages to 30 years. The sectoral systemic risk buffer on

[21] https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/national-medium-term-fiscal-structural-plans_en#portugal
[22] See Annex 1 of the Commission's 2025 Country Report on Portugal for an assessment of progress.
[23] This paragraph refers to provisional Q3-2024 data. See Annex 5 of the Commission's 2025 Country Report on Portugal for additional information.

residential real estate exposures, for banks using the internal ratings-based approach, was implemented in October 2024.

Financing needs are expected to surge in 2025. They are expected to reach EUR 33 billion (11% of GDP), which is an increase of EUR 13.1 billion (4.4% of GDP) compared to 2024. This stems from the expected rise in the State's refinancing of state-owned enterprises, higher government bond redemptions for the year and, to a smaller extent, the estimated deterioration of the budget balance on a cash basis. By the cut-off date of this assessment (30 April 2025), Portugal had issued around one-third of its annual financing needs. Debt was financed mainly via government bond issuances, which became slightly more expensive for Portugal. While in May 2024 Portugal issued its government bond maturing in June 2038 at a 3.3% yield, that same bond line was priced in March 2025 at a higher yield of 3.6%. Nonetheless, this is in line with financial market rates for euro area government bonds. Saving certificates ('*Certificados de Aforro*') became more attractive for investors with the Euribor's decline, recording positive net issuances in early 2025. For short-term debt issuances, T-bills have remained Portugal's main financing source so far in 2025. Deposits are expected to remain a marginal source of funding in 2025.

Financial market perceptions of Portugal's sovereign debt are favourable. Since the last 2024 autumn PPS assessment for Portugal, rating agencies have upgraded or maintained their assessment of Portugal's sovereign debt. This has allowed Portugal to access new financing instruments for liquidity, such as Euro Commercial Paper. The 10-year Portuguese government bond yields stood at 3.1% by end-April 2025, down from the short-lived spike of 3.3% in March 2025. Spreads against the German Bund have consistently narrowed, with Portugal trading below its main euro area peers. The implicit interest cost of debt is estimated to slightly increase by 0.1 percentage points, to 2.4% by end-2025. Private investors, mainly residents and those that are part of the Eurosystem, took over the position of net government bond buyers in 2024 following the ECB's discontinuation of its purchase and reinvestment programmes ([24]). Private investors are expected to further consolidate their net buyer position in 2025. The investor base remains stable and diversified across regions and types, with efforts to attract investors from the Asian continent.

Portugal retains the capacity to service its debt. Portugal's economic, fiscal and financial situation remains sound overall despite the risks related to global trade and uncertainty. According to the Commission's Debt Sustainability Monitor 2024 ([25]), risks to Portugal's fiscal sustainability are overall medium in the medium term, and low in both the short and long term. The outstanding debt to the European Financial Stability Facility (EFSF) is EUR 25.3 billion. Debt outstanding to the European Financial Stabilisation Mechanism (EFSM) is EUR 22.3 billion. The next repayments to the EFSF and the EFSM are scheduled for 2025 and 2026, respectively. The country's capacity to service its debt is supported in the short term by: (i) its

[24] Since June 2024, the ECB has lowered the deposit facility rate – the rate through which it steers the monetary policy stance – by 175 basis points (from 4.0% to 2.25%). Furthermore, the Eurosystem portfolios acquired under the asset purchase programme and the pandemic emergency purchase programme have continued to decline over recent months.

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

comfortable cash buffer; (ii) the country's debt management strategy, which aims to smoothen the debt redemption profile; (iii) the maturity structure of its debt, with an expected average residual maturity of 7.2 years by end-2025, most of which with fixed rates, and stable and diversified financing sources; and (iv) its debt currency denomination.