Eurobank Research

ISSN: 2241-4851

EUROBANK

ECONOMY & MARKETS

The Eurobank Research Bulletin

Trade Wars: Risks for the Global, Peripheral and Greek Economy

1. Introduction and Summary

The escalation in global trade tensions—spearheaded by the United States' recent tariff overhaul—marks a significant turning point for the global economic outlook. Amid heightened uncertainty and fragile geopolitical conditions, protectionist trade policy has re-emerged as a key source of downside risk for global growth, volatility in inflation dynamics, and cross-border capital flows. The US temporarily fell back on a baseline tariff of 10% on all imports until July (except for China, where the rate was later reduced to 30%), to allow time for negotiations, and pursued sector-specific levies across critical industries. The temporary 90-day tariff truce with China has offered markets some respite. Yet, the risk of prolonged trade frictions has increased materially given trade negotiations happening on multiple fronts in a small space of time and often with erratic rhetoric, with threats of increasing anew tariffs if negotiations fail (eg. against the EU), which are withdrawn later. Hence, the broader trajectory of global trade relations remains clouded by uncertainty, especially following a US court's May 28 ruling that many of the tariffs are illegal.

Against these developments, the global growth outlook has softened. The IMF and market consensus have revised their forecasts lower, reflecting disruptions to global supply chains, weakening investment momentum, and the dampening impact of trade uncertainty on consumer sentiment. Inflation outcomes remain subject to conflicting forces: supply-side disruptions and higher import costs on the one hand; and softer demand and currency adjustments on the other.

Regarding the Euro Area, in particular, considering it is highly integrated into global trade, rising tariffs and the risk of failure in EU–US trade talks significantly affect external demand and exchange rate competitiveness. Using Bloomberg's SHOK model, we assess that under a benign scenario where tariffs stabilize, Euro Area GDP growth in 2025 could slow by 0.4ppts cumulatively in 2025-26; this is a result of the direct impact from the tariffs, higher uncertainty and the EUR's appreciation. In a more adverse scenario, the hit could double, while inflation would ease due to disinflationary demand effects.

For Greece, direct exposure to the US remains modest (goods exports to the US account for just 1.0% of its GDP). However, the indirect effects—through lower growth in EU, Greece's main trade partner, and elevated uncertainty—pose non-negligible risks to export demand, tourism flows, and broader confidence channels. Nonetheless, Greece enters this new period of trade-induced volatility in a position of relative strength compared to its recent past during the sovereign debt crisis of the 2008–2018 period. Solid primary surpluses, declining public debt, robust liquidity buffers, the return to investment grade credit rating, the continued inflow of Recovery and Resilience Facility (RRF) funds together with the implementation of the new European Union fiscal framework enhance the country's resilience. In addition, tourism's prospects remain strong and defense investment could also provide a fiscal boost. Finally, Greek banks remain well-

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May 2025

capitalized and highly liquid, with minimal direct exposure to US-linked sovereign risk. The NPL ratio, although still higher compared to our Euro Area peers, has receded to its lowest value in record, and performing loan servicing has exhibited remarkable resilience to a series of adverse shocks (pandemic, energy crisis, persistent inflation), mitigating potential concerns for a new wave of delinquencies.

This note explores recent shifts in global trade policy, assesses the macro-financial implications for key economies, and analyzes how external shocks may affect Greece—namely, through trade, tourism, fiscal space, and financial stability.

The note also includes analyses of the potential effects of the trade tensions on the economies of Cyprus and Bulgaria. First, the direct (merchandize trade with the US) and secondary trade risks (e,g., on the services trade with the US, on trade relations with China and the EU) for each country are presented. Broader effects on competitiveness are discussed. The analysis also sheds light to some positive risks, e.g., i) for disinflation in Bulgaria while the country's euro entry assessment is pending, ii) for foreign investors' interest in Cyprus, given related developments during the first round of Trump tariffs in 2018–2019.

2. Trump's Trade Policy: Global Economic Impact

2.1. Sharp Escalation of Tariffs in Early 2025, Easing of Global Trade Tensions Afterwards

The turn of the US trade policy under President Trump's administration towards a protectionist stance has undoubtedly created a particularly challenging environment for the global economy. Uncertainty about global trade relations has reached unprecedented levels, driven by a series of unpredictable and often back-and-forth tariff announcements as well as concerns about further trade escalation and potential economic downturns (Figure 3). Sharply higher-than-expected reciprocal tariffs, ranging from 10% to 50%, were announced by the US in early April 2025. Then, a temporary 90-day pause was announced on April 9 to allow for negotiations for bilateral trade deals, following a market sell-off. Subsequently, a US/China agreement was announced to bilaterally reduce tariffs by more than anticipated — by 115bps, with 10% left on US imports to China and 30% on Chinese imports to the US. This development has lowered near-term downside growth risks. However, overall uncertainty remains high and is unlikely to dissipate any time soon, continuing to dampen business and consumer spending. The timeline of events is illustrated in more detail in Table 1. A sequence of aggressive tariff actions—initially targeting metals and industrial goods—quickly expanded into broader sectors, including autos, rare earths, and licensing regimes. The response from China, the EU, and other U.S. trading partners was swift and coordinated, leading to one of the most intense periods of trade frictions in recent history. Amid rising geopolitical uncertainty and concerns over global supply chain disruptions, the IMF downgraded its global growth forecast in April, while market sentiment soured visibly.

In a notable shift, however, the U.S. and China reached a temporary ceasefire in mid-May. The 90-day tariff truce, announced on 12 May and implemented from 14 May, involves a substantial scaling back of import duties—U.S. tariffs on Chinese goods were lowered from 145% to 30%, while China reduced its retaliatory rates from 125% to 10%. While limited in scope and duration, the agreement brought some relief to financial markets and may pave the way for a resumption of structured dialogue.

The market reaction to the 2025 trade tensions places the episode among the most severe U.S. policy-induced shocks in modern times. As shown in Figure 1 (S&P 500 Comparative Drawdowns), the index declined by 16.3% between late January and April—surpassed only by the 2018 U.S.–China trade war (-20%) and the 2011 debt ceiling crisis (-17%). This sell-off unfolded in tandem with rising volatility, sharp corrections in global manufacturing equities, and widened credit spreads, particularly in EM Asia and export-dependent sectors. When viewed alongside historical shocks such as the Smoot-Hawley tariffs in 1930 or the Nixon shock of 1971, the 2025 episode underscores how trade policy, once considered a background risk, has evolved into a first-order macro-financial driver.

The timeline of policy actions (Table 1) highlights the speed and breadth of the escalation, with 17 major trade-related developments occurring in under four months. This compression of shocks heightened the uncertainty premium and left limited time for market repricing. While the May tariff truce marks a welcome reprieve, its temporary nature and lack of enforcement mechanisms leave open the risk of re-escalation, particularly in the run-up to U.S. elections and amid ongoing strategic competition with China. For investors and policymakers alike, the episode serves as a reminder of the global economy's sensitivity to U.S. trade and institutional direction, as well as the need to incorporate geopolitical tail risks more systematically into forecasting and asset allocation frameworks.

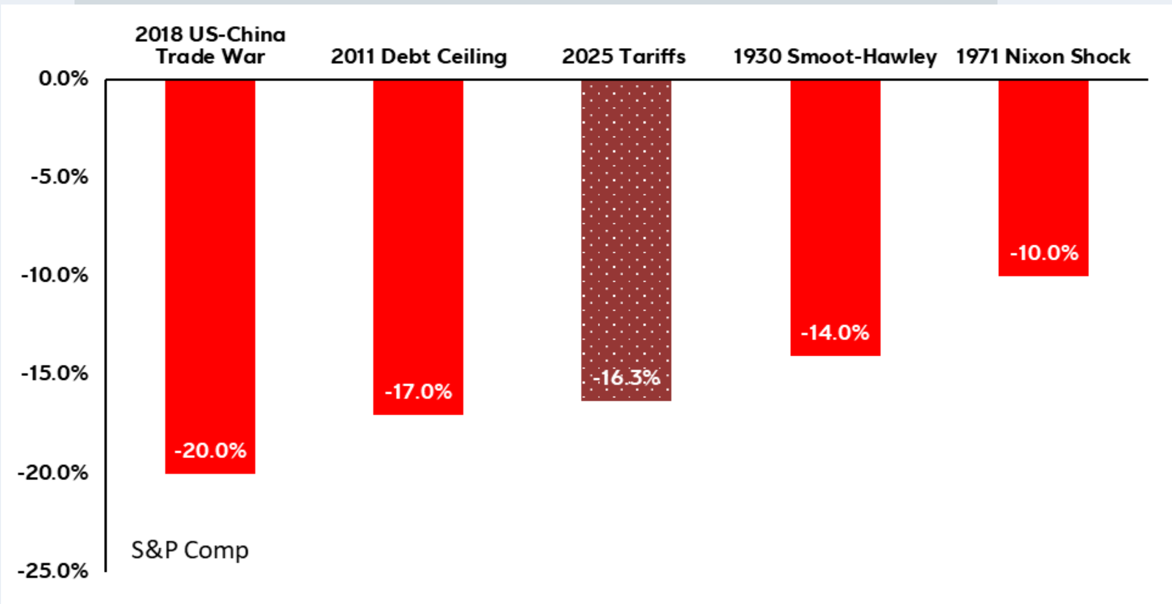
Table 1: Trade War Timeline of Events

Trade War Timeline of Events		
Date	**Event**	**Countries Involved**
20/1/2025	President Trump is sworn in and announces 25% tariff on imports from Canada and Mexico starting Feb 1.	US, CA, MX
26/1/2025	Trump threatens 25% tariffs on all Colombian imports after diplomatic tensions.	US, CO
1/2/2025	Trump signs executive orders imposing 25% tariffs on goods from Mexico and Canada (except Canadian energy at 10%) and 10% on Chinese goods.	US, CA, MX, CN
3/2/2025	Trump pauses tariffs for Canada and Mexico after they agree to enhance border security.	US, CA, MX
3/3/2025	Trump declares delayed tariffs on Canada, Mexico, and China will take effect on Mar 4.	US, CA, MX, CN
4/3/2025	U.S. imposes 25% tariffs on all steel and aluminum imports.	US vs. World
10/3/2025	China retaliates with higher tariffs on U.S. soybeans, pork, and LNG.	CN vs. US
12/3/2025	U.S. steel and aluminum tariffs (25%) go into effect. & EU announces €26bn in counter-tariffs targeting U.S. cars, spirits, and tech exports.	EU vs. US
24/3/2025	Trump announces 25% tariffs on imports from countries buying Venezuelan oil or gas, effective Apr 2.	US vs. Various Countries
2/4/2025	U.S. introduces baseline 10% tariff on all imports, with 20% on EU and 54% on Chinese goods.	US vs. World (esp. EU & CN)
4/4/2025	China imposes 34% tariff on all U.S. imports, effective April 10.	CN vs. US
7/4/2025	EU proposes a “zero-for-zero” industrial tariff pact to defuse tensions with the U.S.	EU vs. US
9/4/2025	EU approves 25% retaliatory tariffs on U.S. goods, effective April 15.	EU vs. US
9/4/2025	U.S. increases tariff on Chinese goods to 104%, China raises retaliatory tariffs to 84%.	CN vs. US
10/4/2025	U.S. and EU agree to 90-day tariff pause to allow for negotiations.	US & EU
11/4/2025	China increases tariffs to 125% on all U.S. imports, files WTO complaint and imposes export controls on rare earths.	CN vs. US
15/4/2025	China halts shipments of rare earth elements, including dysprosium and yttrium.	CN vs. US
17/4/2025	IMF downgrades global growth forecast due to tariff tensions.	Global
19/4/2025	China announces export licensing regime for strategic minerals.	CN vs. US
21/4/2025	U.S. maintains tariffs; President reaffirms stance, cites domestic benefits.	US vs. CN & EU
12/5/2025	U.S. and China agree to 90-day tariff truce: U.S. cuts tariffs on Chinese goods from 145% to 30%; China lowers tariffs on U.S. goods from 125% to 10%.	US vs World
28/5/2025	US Court of International Trade ruled that an emergency law invoked by the US Government did not give the president unilateral authority to impose tariffs on nearly every one of the world's countries;US Government expect to appeal	

Sources: Bloomberg, Eurobank Research, European Commission

In a major development, the US Court of International Trade ruled on May 28 that the US administration had exceeded their legal authority. The court determined that the International Emergency Economic Powers Act (IEEPA) "does not authorize the President to impose unbounded tariffs", casting doubt on the foundation of Donald Trump's trade policy. This ruling covers the 10% baseline tariffs, the 25% tariffs on Canadian and Mexican goods, the recent 20% tariff imposed on China for the fentanyl issue, as well as all reciprocal tariffs that have been paused until July 9. However, it does not address the Section 232 tariffs on steel, aluminum, and automobiles, which are justified on national security grounds and fall outside the scope of the IEEPA (this distinction could lead to further debates over what constitutes "national security" and whether tariffs under this justification can continue). In response, the Justice Department has filed an appeal with the US Court of Appeals, and the case would potentially reach the Supreme Court. If the ruling stands after appeals, it could significantly limit the President's ability to use tariffs as a foreign policy tool, unless the Congress grants more explicit authority.

Figure 1: S&P 500 Reactions to Major U.S. Policy Shocks (1930–2025)



Sources: Bloomberg, Eurobank Research, FED, IMF, Robert Shiller Database

US tariffs are primarily aimed at narrowing the growing US goods trade deficit (reaching 4.2% of GDP in 2024), boosting domestic manufacturing output (the sector's value added fell to a multi-year low of 10% of GDP last year) and generating revenue to support fiscal initiatives. Despite reductions, tariffs remain significantly higher than at the beginning of the year. A 10% baseline tariff on all US imports from trading partners ex. China has been in effect since 9 April, a 25% tariff on most Canadian and Mexican goods (with limited exemptions for USMCA-compliant products), along with the 25% duties on all steel, aluminum and automobiles. Furthermore, the threat of additional sector-specific tariffs looms, as the US administration conducts sectoral trade investigations to assess the impact of foreign trade practices on a broad range of industries, including energy, semiconductors, pharmaceuticals, agriculture, copper and lumber and to determine if they are unfairly harming domestic producers. Another key uncertainty is for how long the increased US tariffs will remain in place, whether they will rise again and how trading partners will respond. The outcome of ongoing tariff negotiations remains highly uncertain, both in terms of the scale of final tariffs and the sectors affected, as there are numerous potential sticking points that could stall progress. While it is hoped that more trade deals with the US will follow the initial agreement with the UK, negotiations may not proceed smoothly. US President Donald Trump has made clear that the US baseline tariff rate will not fall below 10%, meaning that the risk of further escalation in trade tensions remains high. Furthermore, with respect to China, it remains uncertain whether the two sides will reach a lasting deal on lower tariffs after the 90-day negotiation period. In addition, there is uncertainty as to the kind of counter-balancing policy measures that the US may ask –and possibly get— from their trade partners, in order to abolish or lower tariffs. New arrangements in areas such as currency management, industrial policy and subsidies, as well as geostrategic considerations in reorganizing international supply chains, may have an at least equally important –and-lasting- impact on global trade and growth as tariffs do.

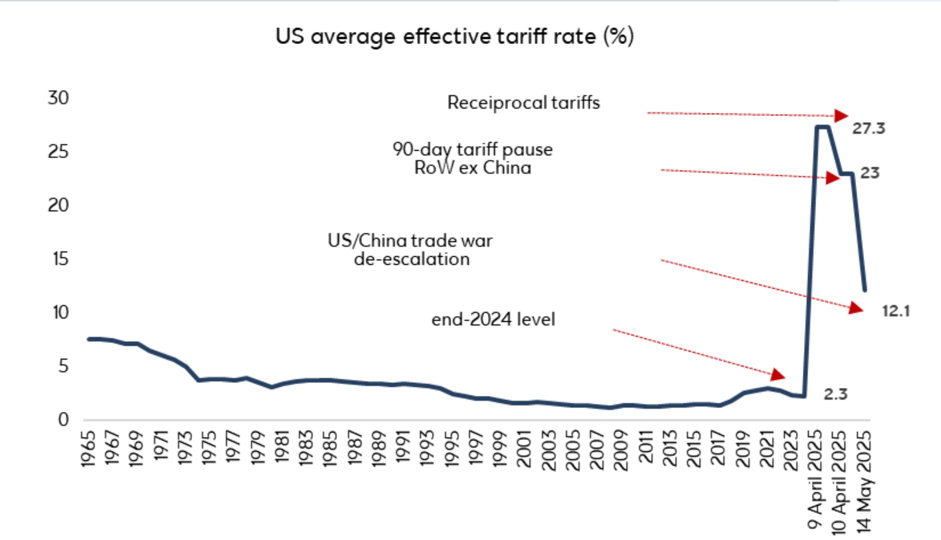
After the recent pause in reciprocal tariffs and the de-escalation in the US/China trade war, the US trade-weighted average tariff on all goods at mid-May, stood at around 12%, compared to around 28% after the reciprocal tariff announcement, the highest level since the early 1900s (Figure 2). Despite the decrease, it still remains nearly six times higher than the 2.3% rate recorded at the end of 2024. By comparison, the average US tariff rose by only 1.4ppts during Trump's first term in 2018-2019.

2.2 Global Economic Implications

2.2.1 Growth Outlook

Tariffs are expected to reduce global growth in the near term, with market consensus by May 2025 (as reported by Bloomberg) forecasting GDP growth of 2.6% for 2025 and 2.8% for 2026, down by 0.4 and 0.2ppts, respectively, from earlier in the year. Similarly, the IMF revised its global growth projection for 2025 downward by 0.5ppts to 2.8% in its mid-April update of its World Economic Outlook. Most major economies experienced downgraded forecasts, with the US and China seeing notable downward revisions of 0.9 and 1.3ppts respectively, bringing their 2025 growth projections to 1.4% and 4.0%. For 2026, the IMF expects only a modest rebound in global growth to 3.0%, down from its January forecast of 3.3%, as the impact of tariffs should continue to filter through the global economy.

Figure 2: US average effective tariff rate still above end-2024 levels

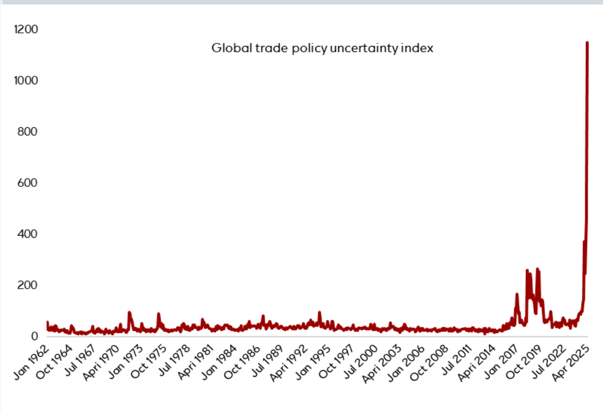


Sources: Bloomberg, Eurobank Research

This impact on economic output operates through multiple channels:

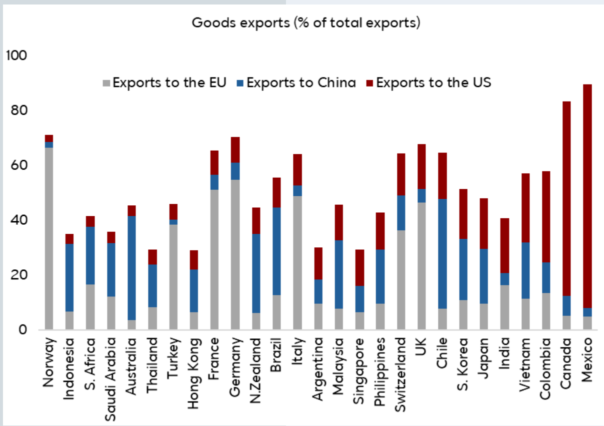
- Trade policy uncertainty. Uncertainty about trade policy can cause delays or even cancellations of business investment projects, resulting in reduced global investment. It also weakens consumer confidence, which curtails spending intentions. As a result, domestic demand declines, which in turn slows economic activity.
- Disruption to global trade flows and supply chains. Weaker consumer and business confidence, via lower demand for goods, depresses trade volumes and, ultimately, reduces global GDP, especially in economies heavily reliant on exports to the US. Companies may attempt to diversify their supply chains by sourcing from various countries or regions, leading to inefficiencies. This diversification increases costs, extends shipping times and risks potential shortages. Economies with lower US exposure may partially mitigate losses by redirecting exports to China or the EU, though this adjustment would take time to materialise. In addition, this trade diversion risks crowding out local production in the areas in which exports are re-directed. The IMF estimates that a 10% across-the-board tariff could reduce global trade by around 1ppt and global GDP by 0.3ppts by 2026.
- Potential retaliatory measures from affected countries. If countries retaliate by imposing tariffs or other trade restrictions, it could lead to a tit-for-tat scenario, resulting in even bigger reduction in global trade and negative growth implications for open economies.
- Domestic currency: when a country's currency weakens, it can increase demand for its goods from foreign markets in the short term (until it increases inflation), potentially helping to offset the impact of higher tariffs on economic activity. On the other hand, when the currency firms, the country's goods become more expensive for foreign markets, which can reduce export demand, and consequently, amplify the impact of tariffs on economic output.

Figure 3: Trade policy uncertainty has spiked to historical highs



Source: Caldara, D., M. Iacoviello, P. Molligo, Andrea Prestipino, A. Raffo," Trade Policy Uncertainty", Eurobank

Figure 4: Economies less US exposed have some diversity in their export markets



Source: Bloomberg, IMF, Eurobank Research

In the longer term, adjustments in global trade patterns — such as diversifying trading partners and consumption-substitution effects, where consumers adjust their purchasing habits due to price changes or the availability of goods — could help alleviate some of the negative growth impacts of trade uncertainty. However, the transition period is likely to be challenging, often involving high costs and inefficiencies that may persist until new trade and consumption dynamics stabilize. During this adjustment phase, consumer demand could decline as substitution effects take hold. Additionally, businesses would need time to identify new suppliers and adjust their supply chains, which can lead to delays, higher costs, and lower productivity.

2.2.2 Inflation Dynamics

The tariff impact on inflation is complex and harder to forecast, with opposing forces at play. Bloomberg consensus sees global CPI at 3.9% in 2025, down from 5.7% in 2024, despite tariff pressures. Key factors include:

- Growth slowdown. Slower economic growth and weaker domestic demand, likely reflect reduced consumer and business spending, exerting downward pressure on prices over the medium term.
- Potential retaliation. If affected countries retaliate by imposing their own tariffs or trade restrictions, import prices should rise.
- Supply chain disruptions. These disruptions could create bottlenecks in production and shipping, potentially leading to shortages of goods, driving up prices.
- Currency adjustments. A weaker/firmer currency makes imports more/less expensive, which can raise/reduce import prices and contribute to higher/lower domestic inflation. The immediate impact on import prices would be felt quickly, but the effect on overall consumer prices would take longer to materialize as businesses pass on these higher/lower costs gradually through the supply chain. Currency moves can accrue, either as a response of the market to the change in relative prices imposed by tariffs, or by deliberate policy actions for counterbalancing those effects.

2.3. Trade Negotiation Scenarios

In addition to the 90-day tariff reduction agreed between China and the US, effective from May 14 to August 12, a 90-day pause on reciprocal tariffs was announced to be in effect until July 2 for most of the US's major trading partners. In the case of the EU, after a threat of further tariffs of 50% imposed by the US was announced and withdrawn, an extension of the pause by 9 July was agreed. Negotiations are ongoing, with the process proving to be difficult.

Key concessions the US may seek for approving tariff relief are likely to include:

- Reducing tariffs on US exports and removing non-tariff barriers to enhance market access for US imports.
- Reducing value-added tax (VAT), which could be a challenging request for many countries, especially in Europe and parts of Asia, that rely on VAT as a significant source of fiscal revenue.
- Minimizing currency intervention, which is employed as a tool to manage the pace of domestic currency depreciation, avoid capital outflows and/or gain price competitiveness.
- Increasing purchases of US goods, thereby reducing the size of bilateral trade surpluses with the US as a percentage of their respective GDPs.
- Increasing purchases of US Treasury securities.
- Committing to higher defense spending.
- Enhancing US-bound investment.
- Cooperating in isolating China economically, potentially by asking Asian economies to impose tariffs on Chinese imports.

2.4. Policy Response Framework

Policymakers of involved countries have several tools for addressing growth challenges from higher US tariffs and elevated trade uncertainty:

- Fiscal policy adjustments. Such initiatives include the EU's "ReArm Europe" plan which seeks to mobilise approximately €800bn for defense spending over four years (1.2% of EU GDP annually), enhancing European strategic autonomy amid heightened geopolitical tensions, while also boosting domestic demand and R&D in Europe (Figure 5). "ReArm Europe" Plan is structured around the following:
    a. Unleashing the use of public funding in defense at national level, which can mobilize resources up to €650bn. In this respect, Member States are allowed to activate the national escape clause, which will provide them with additional fiscal space to increase their defense spending, within the limits of the EU's budgetary rules. This fiscal space will be up to a maximum of 1.5% of GDP for each year of activation of the national escape clause and for a period of four years.
    b. The so-called SAFE (Security Action for Europe) instrument which will provide member states with up to €150bn of loans backed by the EU budget.
    c. Leveraging on the EIB Group and mobilizing private capital accelerating the Saving and Investments Union.

The EU plan has coincided with Germany's massive fiscal stimulus package, that is expected to meaningfully impact Germany's medium-term economic outlook.[1]

- Monetary Policy Considerations. Major central banks are expected to continue cutting policy rates in response to growth risks stemming from elevated uncertainty (Figure 6). However, the pace and extent of easing will differ as some of them face a challenging balancing act between addressing growth concerns and ensuring medium-term price stability. As of late-May, futures markets are pricing in around four rate cuts of 25bps each by late 2026, bringing the fed funds rate to a terminal level of 3.40%. This reflects the market perception that the central bank will prioritize growth risks over the expected rise in inflation, further above its 2% target (core PCE at 3.5% in Q1).[2] Regarding the ECB, market expectations point to further easing of around 60bps by end-2025 to address downside risks to economic activity following a total of 175bps in rate cuts. Meanwhile, disinflationary pressures are building in the Eurozone, with the stronger EUR and lower energy prices reinforcing the ECB's confidence that disinflation remains well on track (headline CPI at 2.2%YoY in April).

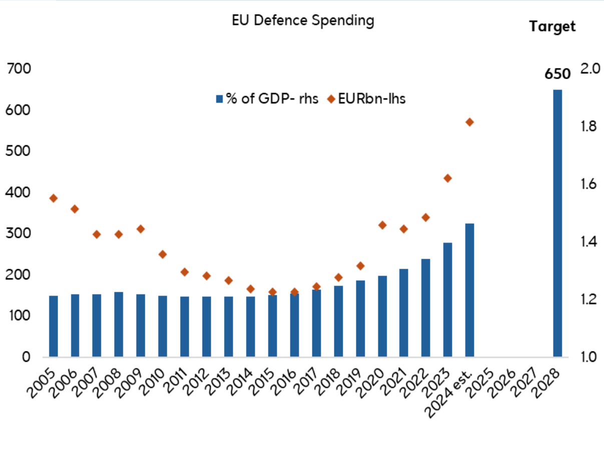
- Lower energy prices could also help to mitigate growth risks from higher US tariffs. Brent crude prices dropped to a four-year low of $58.40/barrel in early April driven by concerns about reduced oil demand following US President Trump's reciprocal tariffs announcement. However, by early May, prices

[1] Germany's fiscal stimulus package includes: (i) the establishment of a €500bn Special Purpose Vehicle (SPV) for infrastructure spending over the next decade (11.6% of 2024 GDP); (ii) exempting defense spending above 1% of GDP from the debt brake; (iii) raising the net borrowing cap for the federal state from zero to 0.35% of GDP; and (iv) potentially making changes to the debt brake by the end of the year to enable additional long-term investments.

[2] On its part, after delivering 100bps of cumulative easing in H2 2024, the Fed has signaled that it is in no hurry to reduce rates further in the near-term, awaiting more clarity on Trump's policies and the evolution of the economy in the face of heightened uncertainty. Supporting this approach, the economy retains momentum overall, despite the Q1 GDP contraction, while the US/China trade de-escalation helps reduce downside risks to growth and the labour market, alleviating concerns about a potential sharp economic downturn.

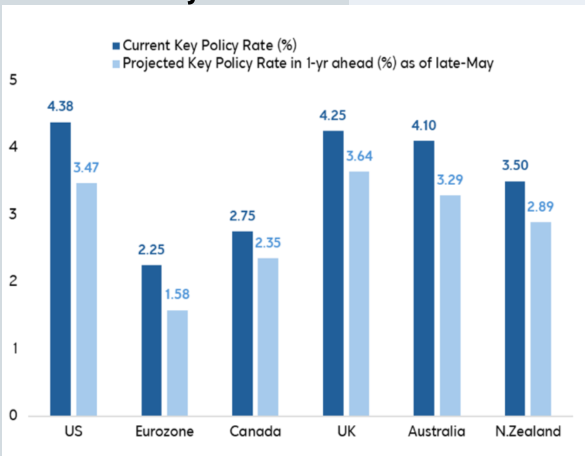
have rebounded to around $66/barrel on optimism for stronger global trade flows after easing US/China trade tensions. Despite this recovery, prices are still more than 13% lower year-to-date and down by around 22% year-on-year.[3]

Figure 5: The EU ReArm Plan envisions €650bn of additional national resources



Sources: European Defence Agency, Eurobank Research

Figure 6: Room for further policy easing by major central banks



Sources: Bloomberg, Eurobank Research

[3] In its Oil Market Report (OMR) released in early April, the International Energy Agency (IEA) sharply reduced its 2025 global oil demand forecast by 300k barrels daily, citing trade tensions and deteriorating economic conditions. It also expects oil consumption growth to slow further in 2026 to just 690k barrels per day, with supply exceeding demand by 1.7 million barrels daily in Q1 2026.

Special issue: Does de-dollarization have real potential?

The USD's depreciation since early March has been a prominent theme in FX markets this year. After reaching highs above 107.50 on February 28, the DXY embarked on a downward trend, driven by growing US growth concerns amid tariff-induced effects, falling to levels below 98 on April 21 for the first time in over three years. The announcement on May 12 of a US/China agreement to bilaterally reduce tariffs helped the USD recover, with the DXY index revisiting levels close to 102. However, most of these gains proved short-lived as the index resumed its downward trajectory following Moody's downgrade of the US credit rating from Aaa to Aa1 (stable outlook), which was prompted by growing US fiscal concerns. By the end of May, it was standing around 9% below its year-to-date peak in mid-January and about 4% weaker than pre-Liberation Day levels, keeping alive market speculation that investors may reconsider the USD's traditional safe-haven status and its structural appeal as the global reserve currency.

The weakness of the USD has coincided with a drop in US Treasury bond prices, especially at the long end of the curve. With US fiscal woes dominating market sentiment, the 30-yr Treasury yield briefly surpassed 5% in late May, marking its highest level since October 2023 and coming just shy of its 2007 peak. On the other hand, after an exceptionally volatile month in April following Trump's reciprocal tariff announcement, US equity markets rebounded, bolstered by US Q1 GDP data which suggested that the economy retains a firm tone overall, despite a 0.3%QoQ annualized GDP growth contraction. The US/UK trade agreement and the 90-day US/China tariff pause, also contributed to this recovery, with the S&P 500 turning into positive territory for 2025 again by mid-May. However, it remains uncertain whether this marks a lasting shift in market sentiment toward US equities or just a temporary improvement as US cyclical, structural and political concerns prevail.

Uncertainty surrounding US trade policy remains high. Against this backdrop, concerns about US growth prospects continue to dominate as it is unclear whether trade war de-escalation will continue. Furthermore, the potential for retaliatory measures from trading partners cannot be entirely ruled out, especially if trade negotiations fail to lead to lower tariffs. Meanwhile, with Trump's pre-election promise to extend the individual tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA), as well as other proposed tax reductions, US fiscal concerns persist.* In addition, there may also be renewed worries about the Fed's independence if high inflation proves more persistent than currently expected.

Together, these factors suggest that US assets may continue to face challenges. Much will depend on the trajectory of US growth and the Fed's policy response, both of which will play a pivotal role in determining whether the trend of de-dollarization (sell off of USD-denominated assets), which gained attention through April, has real potential.

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*The Committee for Responsible Federal Budget estimates that the US President's proposal to extend the individual tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA), which are set to expire in late 2025, as well as other proposed tax reductions — notably tax reduction on tips, overtime pay and social security — would reduce budget revenues by at least 1.7ppts of GDP annually. With a US budget deficit at 6.4% of GDP in fiscal year 2024, any further loosening of US fiscal policy could strain US assets and attract bearish sentiment.

3. European economic impact assessment

In order to assess the potential impact of evolving trade frictions on the European economy, we consider two possible scenarios:

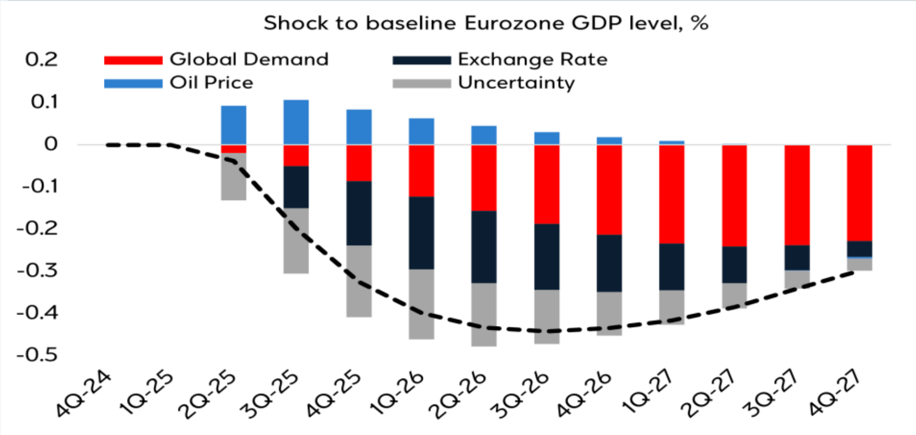
Optimistic Scenario: Tariffs freeze at the 10% baseline rate across all imports, with no significant retaliation from trading partners, including the EU; current sectoral and product-level exemptions remain in place; the easing of US-China trade tensions holds, though the effective tariff rates on Chinese goods remain near 30%.

Pessimistic Scenario: No significant trade deals materialize, and reciprocal tariffs are implemented against major trading partners. Since a tit-for-tat response by the EU matching the scale of the US's reciprocal tariffs would primary hurt European consumers, we assume that whatever retaliatory measures the EU takes will not be big enough to have a measurable impact on the inflation rate.

Using Bloomberg's SHOK model — a semi-structural framework incorporating New Keynesian elements — we assessed potential impacts on the eurozone economy. Under the optimistic scenario where the EU reaches a trade agreement with the US and tariffs stabilise at the 10% baseline rate, our model assumes:

- A 2% decline in trade-weighted global GDP spread over three years
- Trade-weighted EUR appreciation of 3% in Q2-2025
- Oil price reduction of $10 per barrel in Q2-2025
- Elevated uncertainty (VIX two standard deviations above long-term average)

Figure 7: Optimistic scenario shock to Eurozone GDP from Trump's tariffs, %



Source: Bloomberg's SHOK model, Eurobank Research

In this scenario, the maximum impact on euro area GDP arising from the recent trade tensions amounts to 0.4 percentage points cumulatively in 2025-26. Of that, about half is the result of the direct impact from the tariffs, with the remainder resulting from higher uncertainty and the EUR's appreciation. These impacts are slightly counteracted by the falling oil price. Overall, euro area GDP will grow 0.8% in 2025 and 1.2% in 2026 in the optimistic scenario. That is broadly in line with the latest IMF forecasts and most recent Bloomberg consensus estimate. Our pessimistic scenario doubles the global demand hit for the euro area to 4%

of trade-weighted global GDP over three years. We assume a prolongation of uncertainty through Q3 and Q4 2025 and that the nominal effective exchange rate of the EUR appreciates by 7%. We also assume a credit risk channel impacting the real economy as the crisis drags on, with the euro-area's five-year whole economy borrowing rates rising 10bps over the five-year risk-free rate in Q4 2025 and another 15bps in Q1 2026.

In this scenario, euro area GDP grows 0.7% in 2025 and, instead of rebounding, the growth slowdown deepens to 0.5% in 2026. Since we assumed that EU retaliatory tariffs will have macroeconomically negligible impact on headline inflation in Europe, the disinflationary nature of the demand shock means that in our pessimistic scenario, we see the HICP growing by 1.9% in 2025 and 1.4% in 2026, compared with 2.0% and 1.7% respectively in our optimistic scenario. The current Bloomberg consensus sees HICP inflation at 2.1% this year and 1.9% in 2026.

Meanwhile, the combination of disinflation and widening credit spreads would elicit a strong response from the ECB in this adverse scenario, with the deposit rate coming down to 0.50% by the end of 2026.

Figure 8: Eurozone growth scenarios

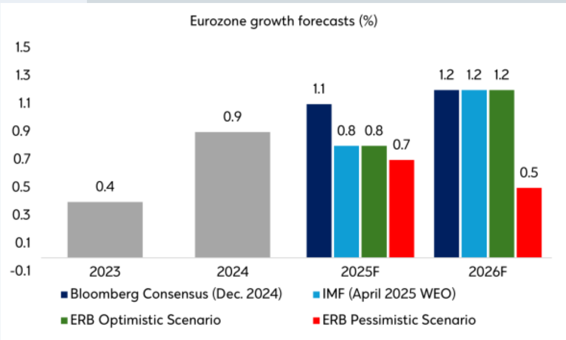


Figure 9: US growth scenarios

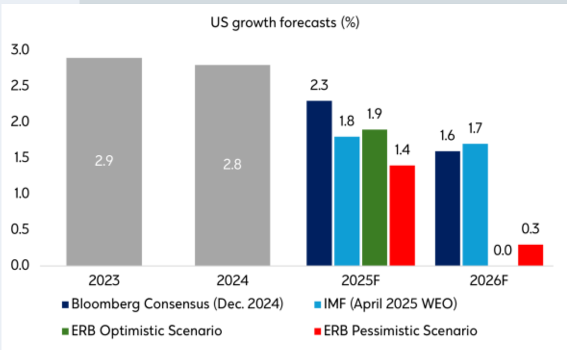


Table 2: Eurozone macroeconomic projections

	Date	2022	2023	2024	2025F	2026F
		Real GDP Growth (%, YoY)				
European Commission	Nov-24	3.5	0.4	0.9	1.3	1.6
IMF	Apr-25	3.5	0.4	0.9	0.8	1.2
Bloomberg Consensus	May-25	3.5	0.4	0.9	0.8	1.1
ERB Optimistic Scenario	May-25	3.5	0.4	0.9	0.8	1.2
ERB Pessimistic Scenario	May-25	3.5	0.4	0.9	0.7	0.5
		HICP (%, YoY)				
European Commission	Nov-24	8.4	5.5	2.4	2.1	1.9
IMF	Apr-25	8.4	5.5	2.4	2.1	1.9
Bloomberg Consensus	May-25	8.4	5.5	2.4	2.1	1.9
ERB Optimistic Scenario	May-25	8.4	5.5	2.4	2.0	1.7
ERB Pessimistic Scenario	May-25	8.4	5.5	2.4	1.9	1.4
		ECB Deposit Rate (Year End, %)				
Market Implied	May-25	2.00	4.00	3.00	1.68	-
Bloomberg Consensus	May-25	2.00	4.00	3.00	2.15	2.15
ERB Optimistic Scenario	May-25	2.00	4.00	3.00	1.75	1.75
ERB Pessimistic Scenario	May-25	2.00	4.00	3.00	1.25	0.50

Source: European Commission, IMF, Bloomberg, Eurobank Research. The Eurobank optimistic and pessimistic scenarios are constructed with the help of Bloomberg's SHOK semi-structural general equilibrium model.

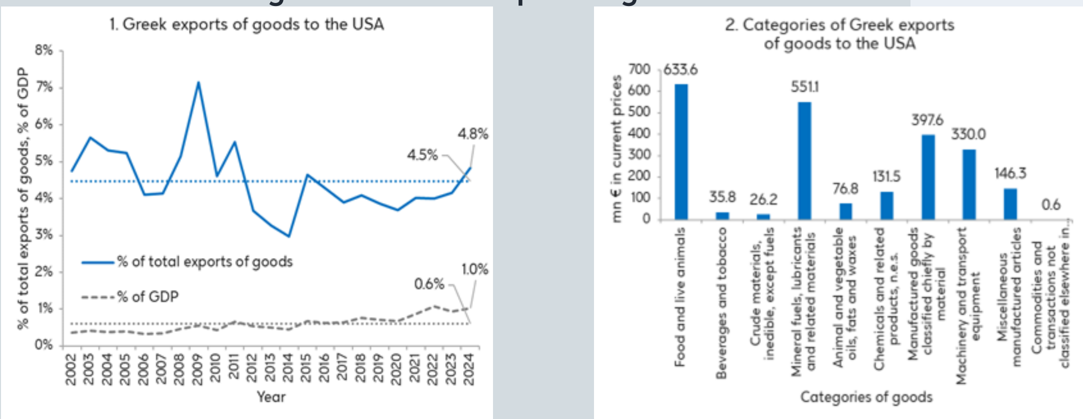
4. Direct and indirect impact of US tariffs on the Greek economy

This sector analyses reasons why impact of trade wars on the growth prospects of the Greek economy may be limited, as well as the particular counters that are available.

4.1 Greece's trade relations with the US

The direct potential impact of US tariffs on Greece's aggregate economic activity is relatively small. Although the US ranked in the 5th place among Greece's trading partners in 2024, its share in total Greek goods exports stood at 4.8% or at 1.0% of GDP (long-run average at 4.5% and 0.6% respectively, see Figure 10.1).[4] Italy ranked in the 1st place with a share of 10.5%, followed by Germany (7.0%), Cyprus (6.3%) and Bulgaria (5.7%).

Figure 10: Greece's exports of goods to the USA

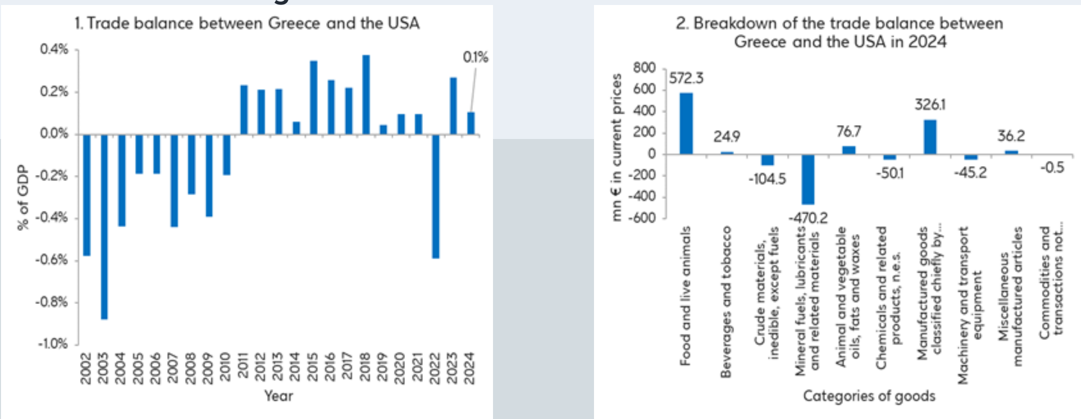


Sources: Eurostat, ELSTAT, Eurobank Research

Among the 10 major categories of merchandises (Standard International Trade Classification), food and live animals had the highest contribution in Greece's goods exports to the US in 2024 (€633.6 mn or 26.3% as a share, see Figure 10.2), followed by mineral fuels, lubricants and related materials (€551.1 mn, 22.8%), manufactured goods classified chiefly by material (€397.6 mn, 16.5%) and machinery and transport equipment (€330.0 mn, 13.7%). Furthermore, according to the Panhellenic Exports Association, the 10 main products that Greece exports to the US are as follows (classified in terms of value): petroleum products, olives, cement, aluminum plates, compotes, patented products, cheese, olive oil, aircraft parts and propulsion devices.

[4] In absolute terms, Greek goods exports to the US in 2024 stood at €2,411.7 mn in current prices. Moreover, in terms of services, travel receipts from the US amounted to €1,583.8 mn, posting a record high share of 7.7% in Greece's travel receipts.

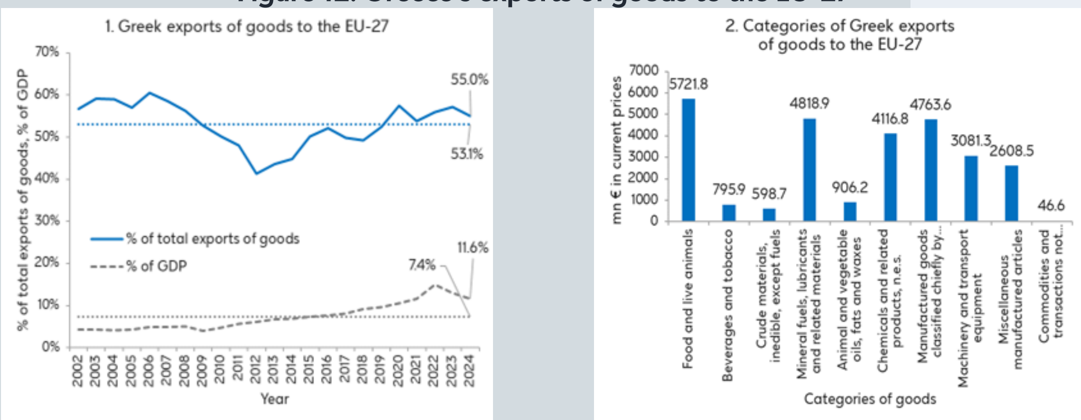
Figure 11: Greece's trade balance with the USA



Sources: Eurostat, ELSTAT, Eurobank Research

Since 2011 Greece is running a small trade surplus with the US equal to 0.2% of GDP on average (with the exemption of the year 2022 where it ran a deficit of -0.6% of GDP due to the high imports of mineral fuels, lubricants and related material induced by the sanctions on Russia, see Figure 11.1). In 2024, the trade surplus between Greece and the US stood at €250.5 mn or at 0.1% of GDP. Food and live animals and manufactured goods classified chiefly by material posted the highest surpluses, €572.3 mn and €326.1 mn respectively (see Figure 11.2), whereas mineral fuels, lubricants and related material recorded the highest deficit (-€470.2 mn).

Figure 12: Greece's exports of goods to the EU-27



Sources: Eurostat, ELSTAT, Eurobank Research

4.2 Greece's trade relations with the EU-27

The indirect impact of US tariffs on Greece's aggregate economic activity stems from the strong trade relations between Greece and the EU-27 (see Figure 12.1). In 2024, 55.0% of Greece's goods exports went to the EU-27 (40.5% to the Euro Area) an amount which accounts for 11.6% of Greece's GDP (€27.5bn), indicating the country's high exposure to the EU-27 economic conditions.[5] As was the case with the US, food and live animals was the top contributor in Greece's goods exports to the EU-27 in 2024 (€5.7bn or 20.8% as a share, see Figure 12.2), followed by mineral fuels, lubricants and related materials (€4.8bn, 17.5%), manufactured goods classified chiefly by material (€4.8bn, 17.3%), chemicals and related products (€4.1bn,

[5] In services, travel receipts from the EU-27 stood at €12.0bn in 2024 (58.1% of the total travel receipts in Greece) with Germany being the top contributor with €3.7bn.

15.0%), machinery and transport equipment (€3.1bn, 11.2%) and miscellaneous manufactured articles (€2.6bn, 9.5%).

To recap, Greece's relatively small exposure to the US in terms of goods exports (just 1.0% of GDP) means the direct impact of US tariffs on Greece's aggregate economic activity is expected to be limited.[6] In contrast, Greece's exposure to the EU-27 is significantly higher, hence a slowdown in the growth rate of the EU-27 due to US tariffs could negatively affect Greek goods' exports to the EU-27.[7] In Apr-25, the International Monetary Fund (IMF) revised downwards its projections for the real GDP growth in the Euro Area to 0.8% (-0.2 ppts) and 1.2% (-0.2 ppts) in 2025 and 2026 respectively. Finally, according to Chisiridis and Panagiotidis (2017), the long-run real income elasticity of Germany, Italy and Turkey in Greek goods' exports is estimated at 0.75, 0.72 and 0.65 respectively (1.16 for rest of Europe). An additional channel concerns the integration of Greece's production in European value chains, yet this is more difficult to estimate, However, given our assessment of a mild expected impact on EU GDP from the trade war, the respective risks for Greece are relatively low.

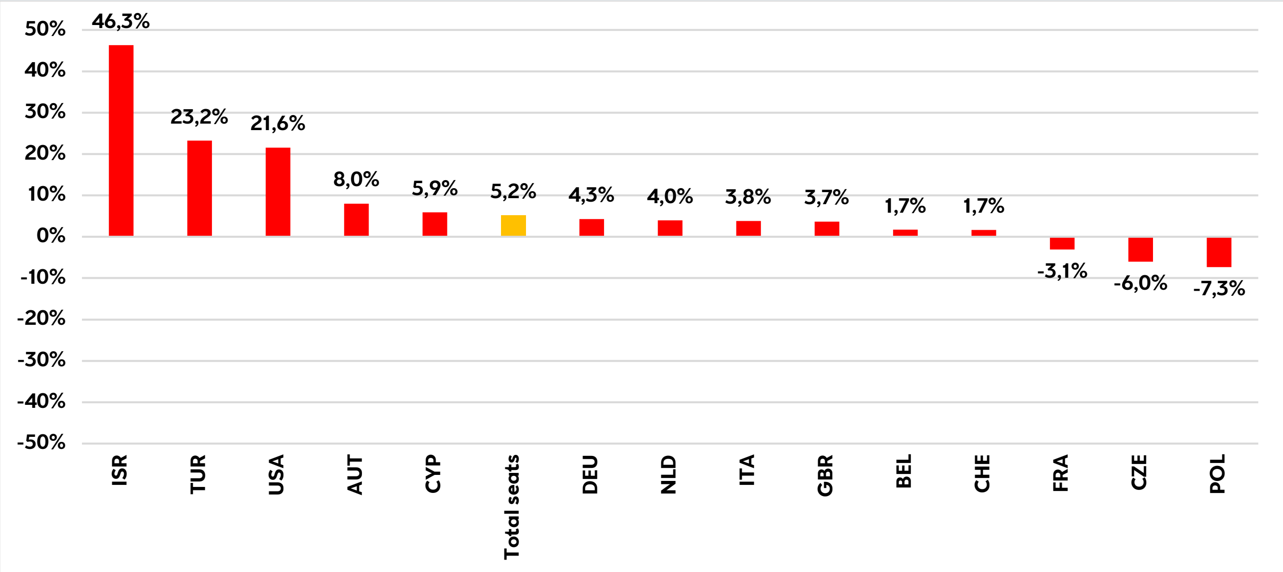
4.3 Potential impact on tourism

Regarding Tourism sector, another medium-term growth driver, it recorded historical high in both travel receipts in 2024 (+4.8% YoY, to €21.6 bn from €20.6 bn in 2023) and inbound tourism (+12.8% YoY, to 40.7 mn from 36.1 mn tourists). However, from 2021 onwards expenditure per trip falls, i.e. from €688.9 in 2021 to €591.7 in 2022, €570.7 in 2023 and €530.6 in 2024. This pattern is partly explained from the rise of city breaks into the product mix of Greek tourism (fewer night stays) and partly due to the increase in the numbers of low spenders (e.g., road arrivals). Tariffs will probably have limited impact on inbound tourism in Greece in 2025, as most of foreign tourists have already booked their vacation. As far as tourist flows from USA are concerned, Greece is not a direct target of trade measures imposed by Trump's administration. Possible negative effects could come "indirectly" from a drop in the disposable income of American travelers. In addition, it is possible that a decline in demand from the USA may be offset by an increase in visitors from other countries. [8]

In this respect, according to the latest data from the BoG database, in Jan-Mar-25 period travel receipts rose by 4.4% YoY (to €1.07 bn) and inbound traveler flows grew by 5.4% YoY (to 2.46 mn tourists). As far as major markets are concerned, an increase is observed in both figures for Italy (+33.5%, +21.4%), United Kingdom (+17.8%, +41.8%), USA (+4.5%, +16.2%), Russia (+27.3%, +53.1%) and a drop for France (-34.4%, -48.7%), whereas for Germany an increase is observed in inbound traveler flows (+19.6%) and a decline in travel receipts (-16.3%). INSETE's data up to May-25 reveal that the total number of scheduled flight seats (Figure 12) for the whole summer season 2025 are 5.2% higher YoY (to 28.5 mn from 27.1 mn, USA: +21.6%).

[6] Nevertheless, a prolonged global uncertainty due to persistent trade tensions could weigh on private investment.
[7] According to the national accounts, Greek goods exports in real terms remained stagnant in 2023 (+0,1%), whereas in 2024 decreased by -1.7%, subtracting –0.3 ppts from the real GDP growth rate in 2024.
[8] The uncertainty about the impact seismic activity in Santorini may have on tourism figures in the Cyclades region seems to be receding.

Figure 13: Seats scheduling of major markets (% change vs 2024)



Source: INSETE

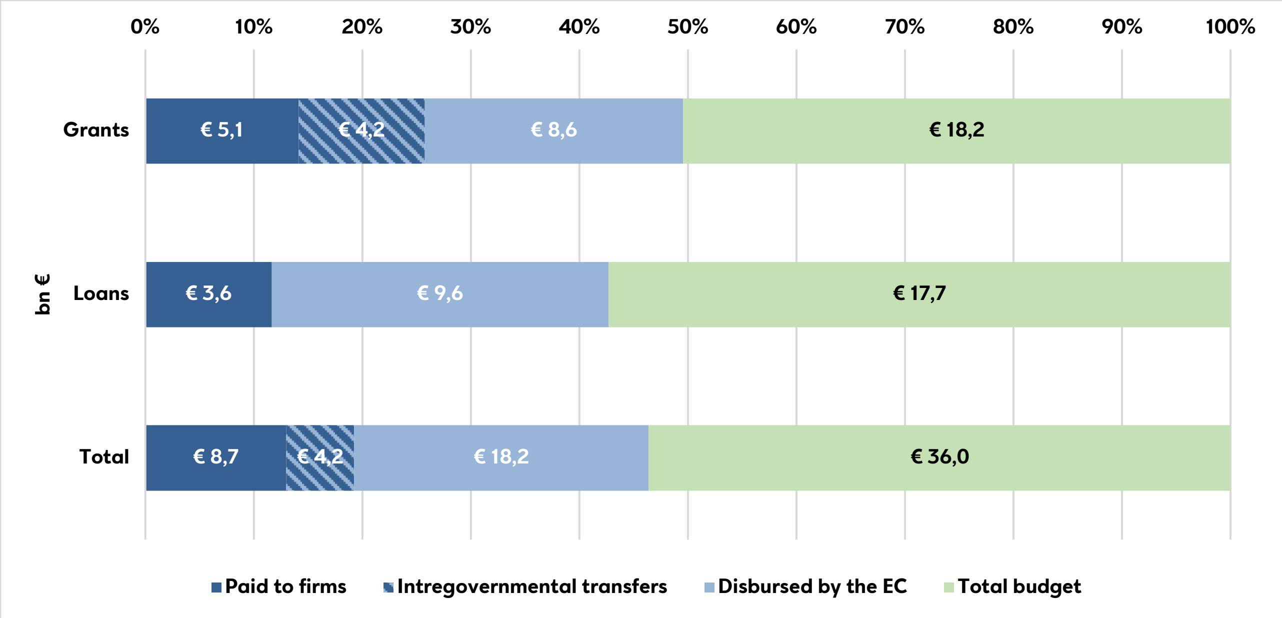
4.4 The Recovery and Resilience Facility (RRF)

RRF is a powerful anti-cyclical tool because it does not depend on the financial conjuncture, hence it can provide support to investment even when uncertainty and volatility in markets deters private investment. Although this is the case for all European countries, Greece may benefit more given it is the largest RRF beneficiary relative to the size of its economy (16.3% of its 2023 GDP). In early May-25, the European Commission disbursed €3.13 bn to Greece (of which €1.35 bn for grants and €1.78 bn for loans), following the successful completion of the 5th payment request submitted by at the end of December 2024. With this payment the funds paid to Greece under RRF reach €21.34 bn or 59.4% of the total envelope. Greece completed 32 milestones and objectives (29 from the grant component and 3 from the loan component) and as a result the total number of fulfilled milestones stands at 139 (35.3% of the total milestones and targets), which is above the EU average (29%).

With respect to grants, up to Dec-24 the disbursements to final beneficiaries reached €5.1 bn and up to Mar-25 intergovernmental transfers amounted to €4.2 bn. In the case of loans, data up to Mar-25 reveal that disbursements to final beneficiaries reached €3.6 bn (Figure 13). Also, according to the Government's estimations, the funds from contracted loans that have been channeled into the market amount to €6.79 bn.

However, even with the disbursement of the 5th tranche, the percentage of fulfilled milestones is rather low and at the same time, the remaining milestones are more "difficult" to achieve, given that at a large part relate to completion of previous projects and implementation of decisions. Also, disbursements to final beneficiaries are relatively low, given that the RRF is completed in 2026 and that the resources that Greece receives from the RRF are proportionally much higher compared to the other EU-27 countries. On the other hand, the Greek government is on track to submit two additional requests (the 6th and the 7th) in 2025.

Figure 14: RRF execution



Source: Bank of Greece

4.5 "ReArm Europe" Plan

In the context of ReArm Europe, the Greek government announced in early Apr-25 the Long-Term Defence Procurement Program for the period 2025-2036. The program amounts to €25.8 bn, from which €0.6 bn concern R&D expenditure, and the Greek industry participation rate would be at least 25% of all future defense projects. Given the well-founded economies of scope of military R&D to the political economy, the intention of Greek industry participation is expected to contribute to the reduction of the investment gap, the improvement of productivity and the extroversion of the Greek economy, as well as to boost domestic demand via secondary impacts.

Regarding the fiscal space, on April 29, 2025, the Greek Minister of National Economy and Finance submitted a request to the European Council and the European Commission to activate the national escape clause. According to the announcement, defense spending in fiscal terms (COFOG-Eurostat definition) is estimated to increase, from 2.2% of GDP in 2024, to 2.3% in 2025 and 2.5% in 2026, as a result of the implementation of the new Long-Term Defense Procurement Program, and is expected to lead to high levels of defense expenditure after 2026. For 2026, the increase in defense expenditure will reach €0.5 bn and it is expected to be excluded from the budgetary targets, in accordance with the provisions of the national escape clause. This amount equals the increase in the defense investment spending program for 2026, mentioned in the Medium-Term Fiscal-Structural Plan 2025-2028. [9] This announcement demonstrates that the calculation of the fiscal space is based on the annual increase in defense investment spending. For the period 2027-2028 when the escape clause will be in force, the Government announced that defense spending will be significantly increased. However, according to the Medium-Term Structural

[9] See Medium-Term Fiscal-Structural Plan 2025-2028, page 15.

Fiscal Strategy Framework 2025-2028, defense investment spending is expected to increase by an additional €0.16 billion in 2027. [10]

4.6 The Outlook for the Greek economy

The factors mentioned in the previous sector indicate that any impact on the Greek economy from trade wars will likely be comparable in magnitude, if not lower, than the already limited impact expected for the Eurozone economy on average. To wit, Greece is poised to continue outperforming the Euro Area over the medium term, with growth supported by strong domestic demand, ongoing Recovery and Resilience Facility (RRF) disbursements, and an improving labor market. According to May 2025 market consensus estimates, real GDP growth is projected at 2.1% in 2025 and 2.1% in 2026, marginally easing from 2.3% in 2024, but still outpacing expected Euro Area growth. Inflation is also seen moderating to 2.6% and 2.3%, while unemployment is projected to decline further to 9.1% in 2025 and 8.7% in 2026 (Table 3).

Table 3 Greece: official Sector projections

Institution	Date	2022	2023	2024	2025F	2026F
		Real GDP Growth (%, YoY)				
OECD	Dec-24	5.7	2.3	2.3	2.2	2.5
IMF	Apr-25	5.7	2.3	2.3	2.1	1.9
Bank of Greece	Apr-25	5.7	2.3	2.3	2.5	2.3
Greek Government	Apr-25	5.7	2.3	2.3	2.3	-
European Commission	May-25	5.7	2.3	2.3	2.3	2.2
Focus Economics Concensus	May-25	5.7	2.3	2.3	2.1	2.1
		Unemployment (%, Workforce)				
OECD	Dec-24	12.5	11.1	10.1	9.4	8.9
IMF	Apr-25	12.5	11.1	10.1	9.4	9.0
Bank of Greece	Apr-25	12.5	11.1	10.1	9.8	9.1
Greek Government	Apr-25	12.5	11.1	10.1	9.7	-
European Commission	May-25	12.5	11.1	10.1	9.3	8.7
Focus Economics Concensus	May-25	12.5	11.1	10.1	9.1	8.7
		HICP (%, YoY)				
OECD	Dec-24	9.3	4.2	3.0	2.7	2.1
IMF	Apr-25	9.3	4.2	3.0	2.5	2.1
Bank of Greece	Apr-25	9.3	4.2	3.0	2.5	2.2
Greek Government	Apr-25	9.3	4.2	3.0	2.4	-
European Commission	May-25	9.3	4.2	3.0	2.8	2.3
Focus Economics Concensus	May-25	9.3	4.2	3.0	2.6	2.3

Eurobank Research projections remain broadly aligned with these trends, emphasizing the role of the RRF as a powerful anti-cyclical tool. So far, tourism activity remains robust, while the expected normalization in interest rates should support private consumption and investment. In addition, according to the European Commission's 2025 Spring Forecasts, Greece's public debt ratio is projected to decline from an estimated

[10] See Medium-Term Fiscal-Structural Plan 2025-2028, page 15.

153.6% of GDP in 2024 to 146.6% in 2025 and 140.6% in 2026—reflecting the combined effect of solid nominal GDP growth, primary surpluses, and prudent debt management. This continued improvement reinforces the sovereign's investment-grade trajectory and underpins fiscal sustainability despite a challenging global backdrop.[11]

However, downside risks remain material and should not be underestimated. A prolonged or escalating cycle of global trade protectionism—particularly if tariff disputes between the U.S., China, and the EU intensify—could dampen external demand and increase import prices, raising input costs. In countries where stagflationary forces prevail, this could delay monetary easing, while in areas where deflationary forces are stronger, rate cuts could be accelerated. Geopolitical tensions, notably in Ukraine, the Middle East, and the Eastern Mediterranean, pose risks of renewed energy market volatility and supply disruptions, with potential second-round effects on inflation and household confidence.

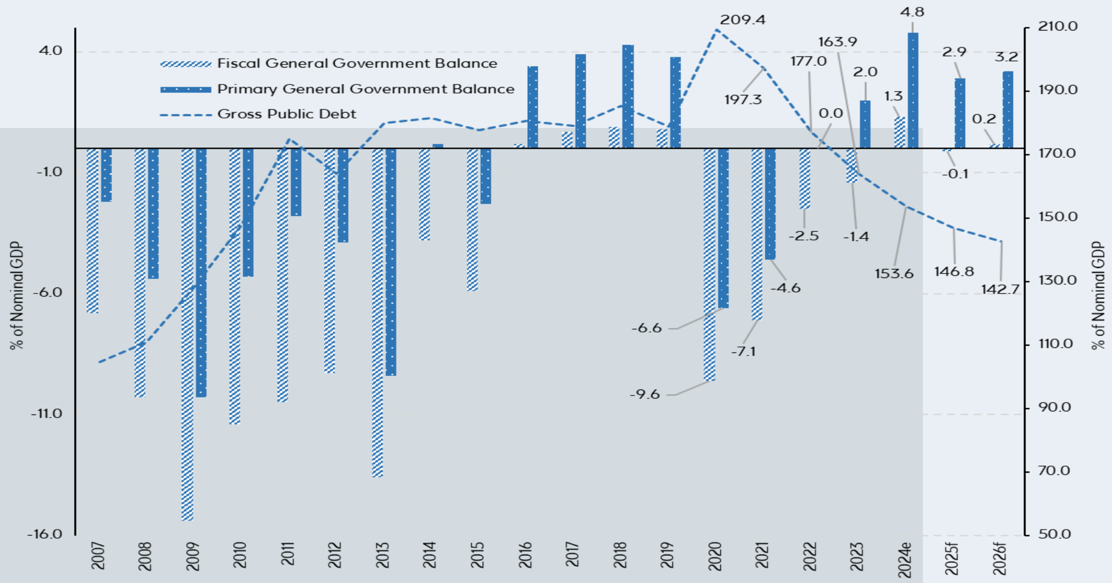
There are also risks on the domestic front, pre-existent to trade wars, that could interact with the latter, including the possibility of delays in the implementation of RRF-funded reforms—especially in digital infrastructure, public administration, and labor upskilling—that could affect medium-term quality competitiveness. Structural imbalances, such as high import dependency, weak savings rates, and a persistent current account deficit, leave the economy relatively more exposed to shifts in global capital flows. In addition, climate-related vulnerabilities (e.g. wildfires and floods) continue to pose risks to infrastructure, agriculture, and tourism. Finally, the economy's heavy reliance on tourism and consumption, coupled with limited high-tech investment and subdued productivity gains, may constrain resilience in the face of future global or domestic shocks.

4.7 Why Greece Is Unlikely to Revisit a 2008-Style Sovereign Shock

Despite rising global uncertainty and domestic risks, Greece is in a fundamentally stronger position today compared to the 2008–2010 sovereign crisis period. As shown in Figure 15, general government primary balances have moved from deep deficits in the 2009–2018 period to consistent surpluses since 2022, reaching +4.8% of GDP in 2024. At the same time, the gross public debt-to-GDP ratio has entered a firm downward trajectory, falling from a peak of 209.4% in 2020 to an estimated 142.7% in 2024. This consolidation has been supported by prudent fiscal management, a multi-year medium-term strategy (MTFS2025–2028), and a sizable cash buffer (€36.3bn at the end of 2024) covering three years of gross financing needs.

[11] The public debt-to-GDP figures for 2025 and 2026 may be revised downward later in the year, contingent on the implementation of the Greek government's recently announced plan to accelerate the early repayment of €31 billion from the loan received under the 1st Economic Adjustment Programme, with full repayment targeted by 2031.

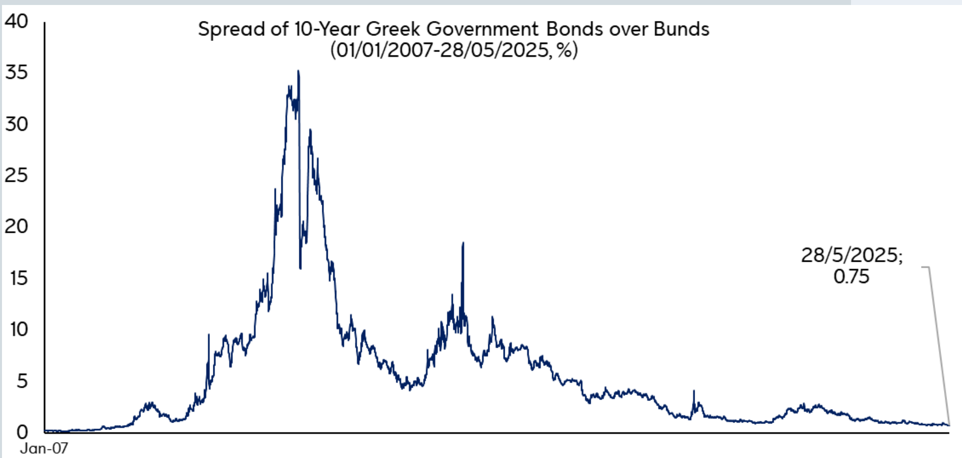
Figure 15: Greece – Fiscal Balance Dynamics and Public Debt Trajectory (2007–2026F)



Sources: ELSTAT, 2025 Budget, Eurobank Research

Investor confidence has responded accordingly. As seen in Figure 16, the spread between Greek 10-year government bonds and German Bunds has compressed to just 75bps as of 28 May 2025—levels last seen before the euro area debt crisis. This compares starkly with the mid-2012 peak of 2,800bps. Importantly, the return to investment-grade status in H2 2023, the recent upgrades by S&P (to BBB from BBB- on 18 April 2025) and the recent change in outlook from stable to positive by Fitch (on 16 May 2025 with rating at BBB-), reflect a fundamental shift in creditworthiness and policy credibility, achieved despite headwinds from global trade tensions.

Figure 16: The Spread of the 10-year Greek Government Bond over the respective German title



Source: Bloomberg

As summarized in Table 4, the contrast with the 2008–2010 crisis period is stark and instructive. Then, the combination of unchecked primary deficits, an exploding debt ratio, and the absence of a coordinated EU fiscal framework left Greece exposed to sudden stops in market access and forced external intervention.

Today's environment is markedly different. Greece operates within a more robust institutional setting, underpinned by credible fiscal rules, greater European integration, and a transparent policy framework, coupled with a favourable structure of public debt (low and fixed interest rates, long average maturity). Structural reforms—many of them politically difficult—have delivered tangible improvements in fiscal governance, labor market flexibility, and public sector efficiency. These gains are now being recognized by investors and rating agencies alike. The restoration of investment-grade status in 2023, the most recent upgrade by S&P to BBB (April 2025) and the change of outlook from stable to positive by Fitch (May 2025), are not symbolic milestones—they reflect a fundamental re-rating of Greece's credit risk profile.[12]

Risks remain, but the country's ability to sustain primary surpluses, manage its debt profile prudently, and maintain investor trust provide a cushion against external shocks. In short, Greece enters this new period of global stress not as the epicenter of contagion, but as a structurally more resilient sovereign with policy tools, institutional support, and market credibility that were notably absent in 2009–2010.

Table 4: Greece's Sovereign Fundamentals: Then vs Now

Greece's Sovereign Fundamentals: Then vs Now	
2008–2010 Crisis	**Post-Crisis (and 2020) Recovery**
High fiscal primary deficits	Stable, significant and rising fiscal primary surpluses
Exploding public debt-to-GDP ratio	Public debt-to-GDP ratio now on a clear downward path; cash buffer able to cover 4-years of financing needs
No EU fiscal framework	Fiscal outlook anchored by MTFS2025-2028
Fragile market confidence; soaring GGB-Bund spreads (above 28,000bps in mid-2012)	Strengthened investor confidence with GGB-Bund spreads at ca 75bps on 28 May 2025
Structural rigidities	Reforms in pension, tax, and health sectors
Lost investment grade (IG) status in 4-6 months in 2009-2010	Regained IG status in H2 2023; S&P upgraded to BBB (investment grade: BBB-) on 18 April 2025; Fitch affirmed investment rate credit rating (BBB-) and changed outlook from stable to positive on 16 May 2025 despite global trade volatility

4.8. Impact on the Greek banking system

There are four main channels through which this trade conflict-induced upheaval could be transmitted to the Greek banks:

- **uncertainty**: Both financial and macroeconomic uncertainty have increased significantly since the announcement of the new US trade policy on April 2nd (the so-called "Liberation Day"). Uncertainty exerts

[12] For more information on the S&P and Fitch credit rating developments refer to: https://www.eurobank.gr/el/omilos/oikonomikes-analuseis/elliniki-oikonomia/7-imeres-oikonomia-19-05-25 and https://www.eurobank.gr/el/omilos/oikonomikes-analuseis/elliniki-oikonomia/7-imeres-oikonomia-25-04-25.

negative effects on economic activity by putting on hold firms' and households' plans, decisions, investments, and purchases (Bernanke, 1983), which in turn undermines demand for new loans. In extreme cases, uncertainty may even cause brief but sharp economic downturns (Bloom, 2009).[13]

- **financial volatility**: Increased policy uncertainty has led to elevated market volatility (Baker et al., 2016). Following Liberation Day, the VIX index jumped to 33 on average in April, from 18.5 in Q1 2025 and 15.5 in 2024, before receding in the vicinity of 20 after the announcement of the temporary trade deal between USA and China, and the acceleration of the trade negotiations between USA and the EU. Volatility could affect negatively financial institutions by reducing their market valuation, lowering the value of their assets, and hitting their capital and liquidity.

- **economic slowdown**: An economic slowdown in the Eurozone in case of continued trade tensions with the United States and/or China could transmit into the Greek economy, mainly through the second-order effects, and hence affect demand for loans.

- **inflation:** An escalation in reciprocal tariffs and other potential retaliatory measures would push upwards not only the prices of goods imported from USA, but also of goods produced elsewhere –even locally– if their production uses inputs with US-import content. Such a tariff-fuelled wave of price increases would reduce real household incomes and business margins, undercutting demand for credit and exerting further pressures on firms' balance sheets and the already strained budgets of many households. Although the baseline forecast is one of lower inflation, a severe and persistent rebound in inflation could induce a contractionary monetary policy reaction which would exacerbate these pressures (Furceri et al., 2019), impacting adversely the timely servicing of loans, and even leading to increased delinquencies.

Considering the mild anticipated size of slow-down in the EU, the impact of all aforementioned channels will likely prove to be small and manageable. Yet, even in a more adverse scenario, the Greek banking system is in a very good position –the best in decades– to weather the storm. Greek systemic banks are well capitalized and highly liquid: Their capital adequacy ratios are well above the regulatory thresholds,[14] on a par with those of the other banks in the euro area, and their liquidity is among the highest in the euro area (Table 5).

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[13] Recent evidence casts doubt on the universality of these widely accepted findings, showing that the detrimental impact of uncertainty could be rather limited in certain circumstances (see, for example, Carriero et al., 2018 and Gambetti et al., 2025).

[14] Although regulatory requirements may vary depending on the characteristics and the profile of each bank, the generic minimum Common Equity Tier 1 (CET1), Total Capital (TCR), and Liquidity Coverage (LCR) ratios for banks supervised by the Single Supervisory Mechanism currently stand at 11.3%, 15.6%, and 100% respectively. For more details, see https://www.bankingsupervision.europa.eu/press/pr/date/2024/html/ssm.pr241217~8ca7d1d44e.en.html.

Table 5: Greek and euro area systemic banks' supervisory indicators

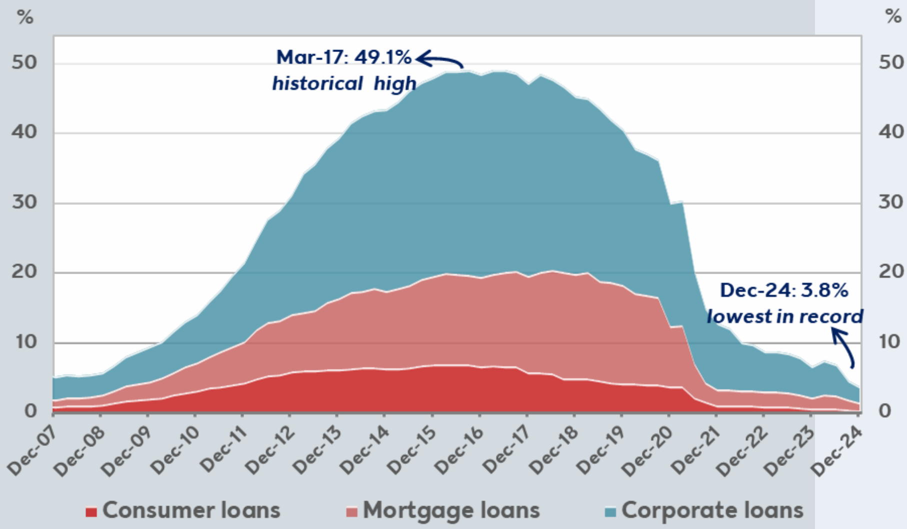
Index (Q4 2024)	Greece	SSM country median	SSM all institutions
capital adequacy			
CET1 ratio (%)	16.0	**17.2**	15.9
TCR (%)	19.9	**20.6**	20.0
liquidity			
Liquidity coverage ratio (%)	**213.9**	171.7	158.0
Net stable funding ratio (%)	**138.2**	**138.2**	126.9
Loan-to- deposit ratio (%)	**60.6**	94.7	100.4
asset quality			
NPL ratio (%)	3.4	**2.0**	2.3
NPE coverage ratio (%)	**48.5**	40.0	39.6
Cost of risk (%)	0.43	**0.31**	0.47

Bolding indicates the best performance among the three figures listed in each row with respect to each broad measure (capital adequacy, liquidity, asset quality). All figures based on the supervisory data for Q4 2024 reported by the SSM-supervised institutions (Greece: 4, total: 109), aggregated at the highest group level. *SSM (all significant institutions)* differs from *SSM (country median)* due to the heavily skewed distribution of assets, with more than 68% of all SSM-supervised institutions' assets owned by MFIs based in three countries (FR, DE, ES), and more than 86% of all assets owned by MFIs based in five countries (FR, DE, ES, IT, NL).

Sources: ECB/SSM, Eurobank Research

Non-performing loans (NPLs) have recorded remarkable progress, declining to 3.8% as of end-2024, from 40% just before the breakout of the COVID-19 pandemic, and a record high of nearly 50% in 2017 (Figure 17). Yet, Greek systemic banks' NPL ratio stood the second highest in the euro area. Risks remain contained though given Greek banks' strong capital buffer, high NPL coverage ratios, and proven resilience of loan repayments in the pandemic and the energy crisis, with limited new delinquencies.

Figure 17: Evolution of NPLs held by Greek banks
(% pre-provision loans to the non-financial private sector, stand-alone basis)



Source: Bank of Greece

A balance sheet item that could be more exposed to the fallout of the trade tensions and the geopolitical uncertainty are financial institutions' sovereign bond holdings. As discussed above, US bond prices suffered a major blow following Liberation Day announcements, adding further pressure on President Trump to temporarily undercut base import tariffs to 10%. Despite a rebound in the latter half of April, the US Treasury bond outlook remains volatile. Greek systemic banks hold significantly more sovereign bonds than their European peers, with the respective share in their assets being 50% higher, which could appear to be an additional risk factor. However, a closer look into the qualitative characteristics of their bond portfolio suggests otherwise (Table 6).

Table 6: Greek and European systemic banks' sovereign exposures

Sovereign exposures (end-2024)	Greece	EA20 *country median*	EU27+ *all significant inst.*
as a share of total assets	**18.9%**	13.4%	12.9%
of which...			
issued by EU27+ governments	**95.2%**	83.6%	75.0%
netting short positions	0.1%	0.1%	**4.6%**
measured at amortized cost	**85.3%**	67.5%	58.6%
with maturities of 12M or shorter	5.6%	16.5%	**21.2%**
with maturities of 10Y or longer	**38.2%**	14.3%	20.0%

EU27+: all EU27 countries plus Iceland, Lichtenstein and Norway. **Bold** figures indicate row maxima. Figures based on the end-year balance sheets of the institutions classified as systemically significant by EBA as of 31-12-2024 (Greece: 4, EU27+: 161), aggregated at the highest group level. Apart from including institutions from non-EA20 countries, *EU27+ (all significant inst.) differs from EA20 (country median)* due to the heavily skewed distribution of assets, with more than 60% of all EU27+ significant MFI assets owned by MFIs based in three countries (FR,DE,ES), and nearly 80% of all assets owned by MFIs based in five countries (FR,DE,ES,IT,NL),

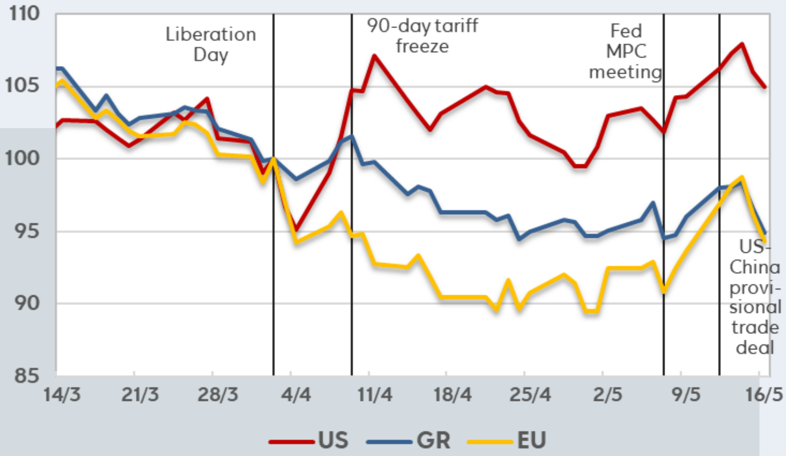
Sources: EBA, Eurobank Research

First, Greek banks' portfolios comprise almost entirely European bonds, with the share of other (including US) bonds in their assets standing below 1%. European bonds have exhibited greater resilience than their US counterparts (Figure 18) and have significantly smaller direct exposure to shifts in US trade and fiscal policies. Greek government bonds, which make up around 56% of Greek systemic banks' sovereign exposure, are now classified as investment grade by all 5 Eurosystem-accepted External Credit Assessment Institutions and are backed by ECB's Transmission Protection Instrument against unwarranted market dynamics.

Second, Greek banks hold almost zero short positions in sovereign bonds, which reduces their exposure to bond price fluctuations and the respective hedging costs.

Third, more than 85% of Greek banks sovereign exposure is measured at amortized cost, that is, are held with the purpose of receiving cash flows –principal and interest payments– at pre-determined intervals rather than for trading purposes. Hence, sovereign bond price fluctuations do not directly affect banks' cash flows or regulatory capital.

Figure 18: Closing yields of 10-year benchmark sovereign bonds (Apr 2nd = 100)



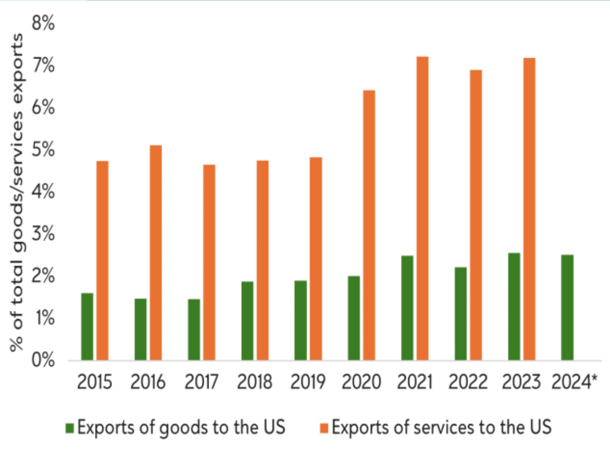
Source: Refinitiv Workspace, Eurobank Research

Fourth, the share of Greek systemic banks' sovereign bonds with maturities 10 years or longer stands at 38%, about double that of their EU peers; on the contrary, the share of sovereign exposures maturing within 12 months is only 5.6%, the smallest in EU. This implies, in general, a riskier portfolio profile in terms of sensitivity to interest rate changes, unforeseen shocks, and liquidity. However, in this case, even not accounting for hedges, the first two risks are largely neutralized since, as mentioned, the vast majority of Greek banks' sovereign bond portfolio is measured at amortized cost, and the third one is not a primary concern since Greek banks sit already on ample liquidity. In fact, this could even turn out to be an advantage, since it guarantees steady cash flows over the next decade. In particular, the securities issued between late 2022 and mid-2024 will keep offering relatively attractive coupons in what is expected to be an environment of falling interest rates, at least in the short-to-the-medium term.

5. Cyprus: Small direct, but potentially stronger secondary effects and an investor-friendly background

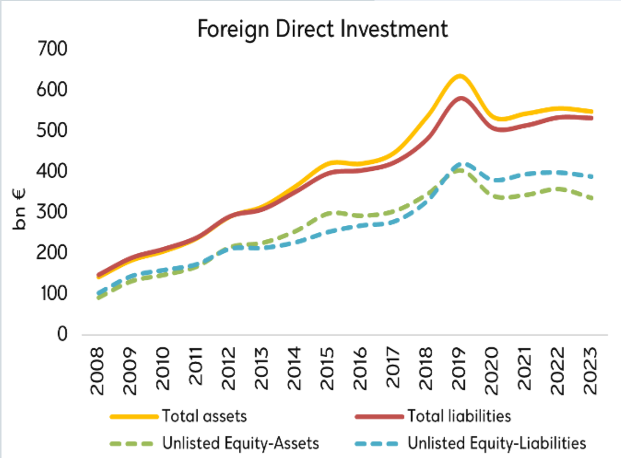
Cyprus's robust economic growth in 2015-2024, on average 4.9% annually, was primarily based on exports, which contributed 8.5 percentage points of GDP growth per annum. While recent US tariff actions have raised concerns globally, their direct implications for Cyprus's exports are expected to be limited, as goods exports to the US represented only 2.1% of total merchandise exports during 2015-2024. Furthermore, their share declined sharply in 2024 to 1.3%, from 2.9% in 2023.

Figure 19: Higher exports of services to the US since the pandemic, mainly in ICT



Source: World Trade Organisation, Eurobank Research

Figure 20: High FDI inflows and outflows after Trump tariffs in 2018. Most of them permanent



Source: Central Bank of Cyprus, Eurobank Research

However, secondary spillover effects stemming from a potential US economic slowdown or broader disruptions to global trade may present stronger downside risks. Cyprus's exposure to the US is much higher in the services sector, as the US share to the country's services exports increased markedly in 2014-2023, from 4.1% to 16.6%. This rise was largely driven by a surge in ICT-related exports. US-origin services also gained share, rising from 3.6% of total services imports in 2018 to 11.1% in 2023. These trends suggest the development of longer-term partnerships in the ICT sector between Cypriot and US entities. Cyprus's trade exposure to China, which is at the epicenter of the new US trade policy, remains comparatively limited. Between 2015 and 2024, exports of goods to China accounted for just 1.4% of total exports, and services exports represented only 0.6%. Within the EU context, Cyprus is less trade-integrated than many other member states, with the EU accounting for 31.5% of Cyprus's goods exports and 34.6% of services exports. Nevertheless, a broad-based EU slowdown would weigh on Cypriot trade flows.

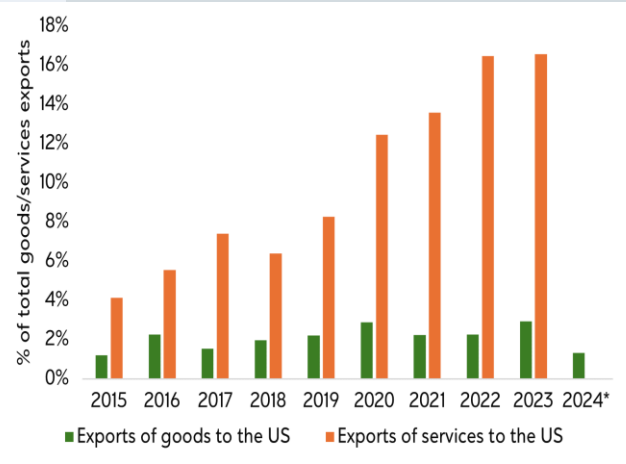
More broadly, a weakening in global trade volumes, driven by rising protectionism, could negatively affect Cyprus's maritime sector, which contributed 44.2% of the country's services surplus between 2015 and 2024. That said, if trade between China and the EU accelerates, it could partially offset -part of- these losses. On the upside, Cyprus may again benefit from shifting capital flows and investor repositioning, as was the case during the initial wave of US tariffs in 2018–2019. During that period, FDI inflows increased notably, by 37.0% (+€157.2bn), with over half of the rise (53.7%) remaining in the country after 2020. Real estate also experienced a notable boost, driven entirely by foreign buyers, pushing up their share to the volume of property transactions to 45.1% in 2018–2019, from 27.5% in 2017.

6. Bulgaria: Potential significant secondary implications; benefits for disinflation-euro entry assessment

Exports were Bulgaria's most significant GDP booster in 2015-2024, adding on average 2.6 percentage points to its 2.8% average GDP annual growth. Although no significant direct implications from US tariffs are expected, second-round negative effects could be much stronger, mainly due to the high export dependence of Bulgaria on the EU.

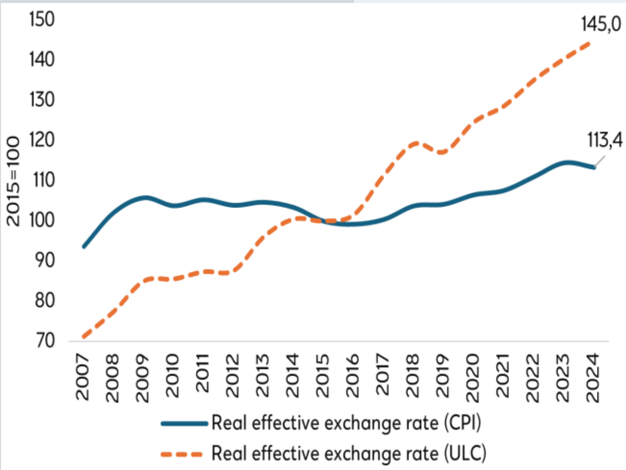
Specifically, the average share of goods exports to the US to total exports of goods stood at 2.0% in the last decade. It slightly increased after the blast of the COVID-19 pandemic, reaching 2.4% in 2020-2024 from 1.7% in 2015-2019. Bulgarian exports of services to the US are more significant for the country's services exports, with an average share of 5.6%, rising since the health crisis to 6.9% (2020-2023 average) from 4.0% in the 2010s. This increase is mainly due to exports of ICT services (63.9% of the rise). Bulgaria's goods trade relations with China are slightly stronger than those with the US (average share to total goods exports, 2015-2024: 2.4%), but services exports to China are minimal (0.3% in 2014-2023). In contrast, export dependence on the EU is very high, as the union absorbs 64.2% and 55.3% of exports of goods and services, respectively. Thus, in case of weakened growth in the EU due to the ongoing trade war, Bulgaria's exports will be significantly negatively affected. Such downward pressures in exports of services could be mitigated by the country's full Schengen membership as of January 2025.

Figure 21: Rapidly rising exports of services to the US, mainly from the ICT sector



Source: World Trade Organisation, Eurobank Research

Figure 22: The deterioration in competitiveness could be intensified from the euro appreciation



Source: Eurostat, Eurobank Research

Besides these potential implications from falling demand in the US, China and the EU, any appreciation of the euro, will weaken the country's competitiveness outside the Eurozone. The main goods trade partners outside the EU are Turkey, Romania and Russia. On the other hand, a euro appreciation, to which the Bulgarian lev is pegged, together with the falling energy prices after the announcement of the US tariffs, is expected to ease inflationary pressures. Such a trend would also support a positive outcome in the Eurozone entry readiness assessments by the European Commission and the ECB, to be released in June 2025.

7. Conclusions

Tariff increases have the potential to incur a deceleration of global trade, investment and growth, although possible losses are not equally divided among countries and areas; effects on inflation –and thus on central bank rates- are more ambivalent. An exact assessment is also complicated by the pre-existing distortions in international trade, which have results similar to those of tariffs, as well as the high uncertainty regarding the course of the negotiating process and its final outcome. In the baseline scenario of no escalation/retaliation and bilateral deals, impact could be manageable and short-lived; in the adverse scenario, deflationary (or for some countries stagflationary) effects could be more serious and more protracted. Greece, is relatively less affected by the direct impact of tariffs and has counters to deal with any secondary effects, including the resilience of tourism, fiscal buffers, a boost from defense investment, and a large size RRF. Similarly, the Cypriot and Bulgarian economies are relatively more protected. At a longer-term horizon, trade wars have the potential to re-frame the geo-economic competition between US and China and global supply chains.

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