

# Bulgaria Special Issue: Euro Adoption

Emerging Markets Analysis

November 2025



## Bulgaria to become the 21<sup>st</sup> member of the Euro Area in 2026: Key Insights



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OF GREECE**

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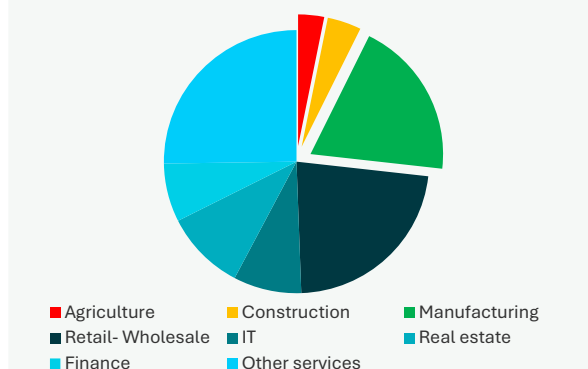
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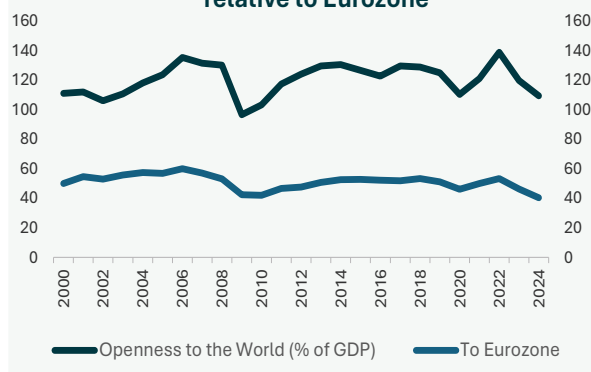
## The Bulgarian Economy & its Interlinkages with the EA

*GVA structure, Trade openness & Other Interlinkages with the EA*

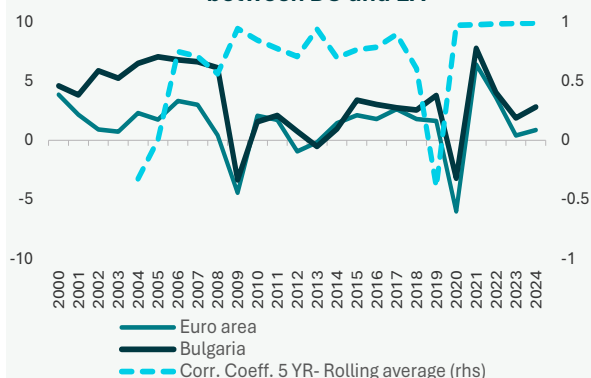
**Sectoral Breakdown of the Economy**  
(% of GVA 2024, in real terms)



**Openness of the Bulgarian Economy**  
relative to Eurozone



**Business Cycle Synchronization**  
between BG and EA

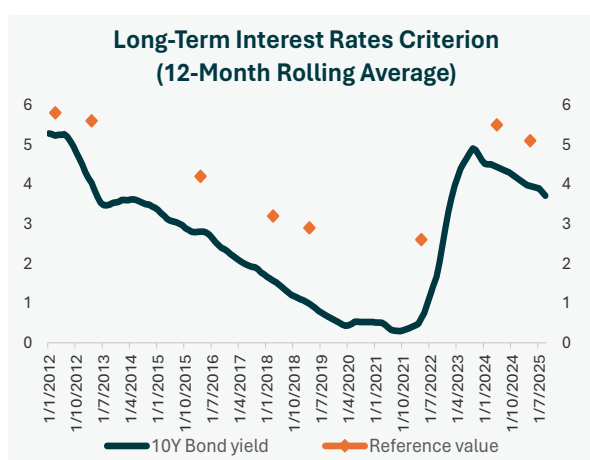
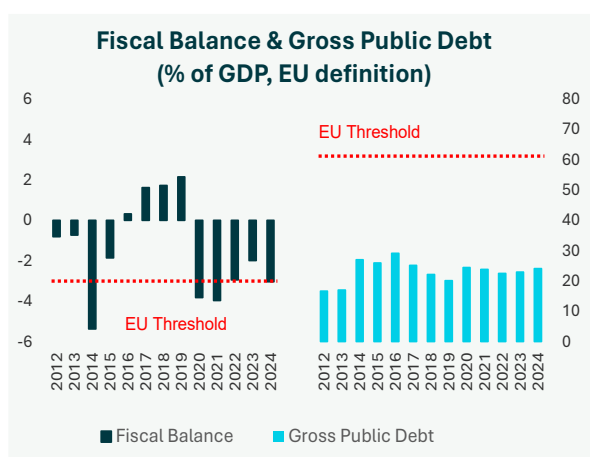
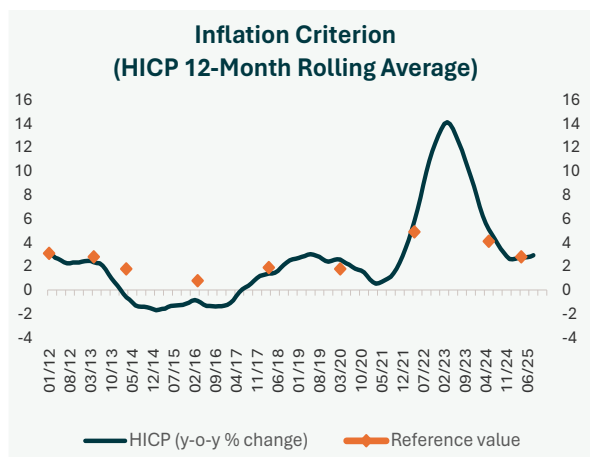


Sources: Eurostat, BNB, NSI & NBG estimates

- **Bulgaria has a small, open economy, which is part of the European Single Market.** It is primarily driven by the **services sector** which accounts for 73% of Gross Value Added (GVA) and employs 67% of the workforce. In addition to retail & wholesale, other major contributors to domestically produced GVA include IT, tourism and financial services. The manufacturing sector follows, representing 20% of GVA -- above the EU average of 18% -- and employing 20% of the workforce. The sector is gradually transitioning from producing lower value-added goods, such as textiles and apparel, to higher valued-added manufactured goods, such as chemicals and machinery, although the level of sophistication remains low. Lastly, the agriculture sector, which focuses on crop production, represents 3% of GVA and employs 5% of the workforce
- Over the past 3 decades, Bulgaria's **trade openness has increased significantly**, reaching a peak of slightly over 138% in 2022, but it has since declined to c. 109% in 2024. Trade with the Euro Area (EA) has followed a similar trend, accounting for c. 40% of total trade in 2024. Germany, Italy, and Greece are Bulgaria's largest trade partners within the EA. Outside the EA, Türkiye and neighbouring EU-member Romania are key trade partners
- Bulgaria's **export base is well diversified**, with non-ferrous metals, food, and machinery accounting for the largest shares. Services also represent a significant portion of Bulgaria's exports, especially in sectors like IT and software, tourism, and transport. According to latest available data (2020, OECD) approximately 40% of Bulgaria's value-added (engaging around 45% of the workforce) is exported, with about 50% of that directed to the EU
- **Foreign Direct Investments (FDI)** are an important mechanism for interlinking the EA and Bulgaria, involving, among other things, the flow of capital and knowledge transfer. EA accounts for the bulk of Bulgaria's FDI stock (70%), with most of the inflows concentrated in the services sector (particularly financial activities), real estate, and manufacturing. After a surge in net FDI in the wake of EU accession (2007), inflows have slowed to levels seen in other new EU member states (c. 3% of GDP in 2023-24). Reinvested earnings make up the largest share of incoming FDIs, reflecting the expansion of foreign businesses operating in the country
- **Emigration and the associated remittance flows** (amounting to c. 3.0% of GDP in 2024), form another link between the Bulgarian and the EA economies. However, the share of remittances in total foreign exchange inflows has been declining in recent years
- **Transfers of EU funds** also serve as a mechanism that connects the Bulgarian economy to the EA, fostering economic integration by channeling financial support for infrastructure, innovation, and regional development
- At the same time, **cross-border financial ties between Bulgaria and the EA have been growing**, further integrating Bulgaria into the EA's financial system. Currently, EA banks hold c. 75% of the domestic system's assets, while claims by foreign (primarily EA) banks on Bulgaria account for c. 50% of the country's GDP
- Against the backdrop of these interlinkages between the Bulgarian and the EA economies, it is no surprise that their **business cycles are highly synchronized** (see chart).

## Bulgaria's Road to Meeting the Euro Convergence Criteria

### Timeline & Maastricht Criteria

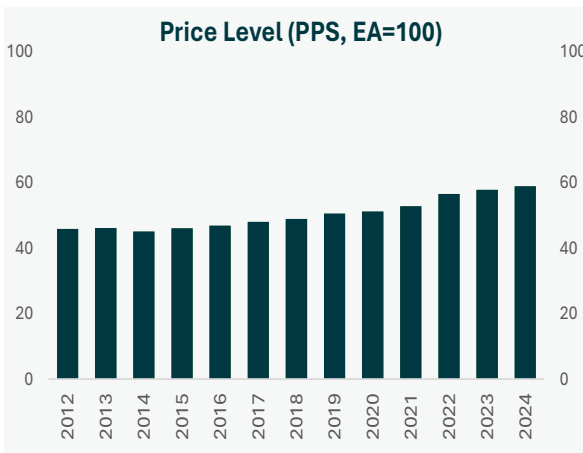
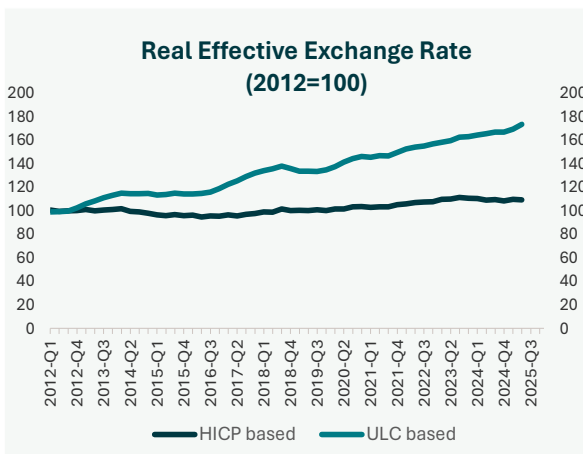
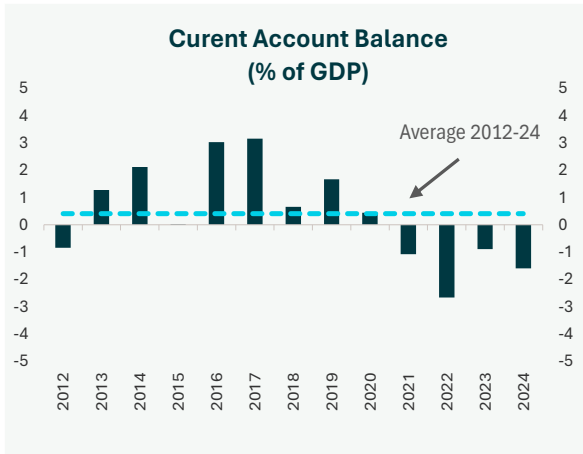


- Bulgaria is set to become Euro Area's (EA) 21<sup>st</sup> member starting from January 1, 2026
- Euro adoption marks a momentous milestone for Bulgaria and comes as the next logical step following accession in the EU and the Schengen area in January 2007 and January 2025, respectively, and Exchange Rate Mechanism II and Banking Union (and its key mechanisms, namely the Single Supervisory Mechanism, SSM & the Single Resolution Mechanism, SRM) memberships in July 2020 and October 2020, respectively
- Bulgaria's accession to the Euro Area was formally approved by the Council of the EU in July 2025, which also set the rate at which the Bulgarian Leva (BGN) would be converted into Euros (EUR) at 1.95583, i.e. the BGN's fixed rate against EUR since the currency board adoption in 1997
- Recall that Bulgaria faced a severe financial crisis in 1996-97, experiencing hyperinflation, sizeable FX losses and bank failures. This crisis led to the adoption of a **currency board arrangement** in 1997, pegging the BGN to the Deutsche Mark (and later the Euro), which helped restore confidence in the currency and control inflation, fostering economic recovery
- In a testament of authorities' prudent policy making all these years (with the latter largely dictated by the need to ensure the stability of the currency board arrangement in place), **Bulgaria had been long meeting all euro convergence criteria** (also known as Maastricht criteria) **barring that on inflation** (see also below). These criteria aim at ensuring that euro area candidates have stable economies with broadly similar monetary policy needs, thus reducing the cost of adopting the EUR, while ensuring the sustainability of the Union
- A stable economic environment, particularly in terms of inflation control and fiscal discipline, was a *sine qua non* condition for the sustainability of a currency board arrangement. In this context, the Bulgarian National Bank's (BNB) prohibition on monetary financing of the state's budget deficit -- in order to avoid destabilizing the currency peg -- has played a key role in maintaining strong fiscal discipline, helping Bulgaria easily meet the related Maastricht criteria. Indeed, Bulgaria's gross public debt is currently the 3<sup>rd</sup> lowest in the EU (26% of GDP, well below the EU average of 82%), which has contributed to compressing government debt yields, close to those of the best performing EA members
- At the same time, Bulgaria has implemented significant **legal and institutional reforms** over the years in preparation for joining the EA. Specifically, it has aligned its national laws on monetary policy and central bank independence with EU standards, while also implementing necessary institutional reforms in areas such as fiscal governance (as provided under the EU Stability & Growth Pact, SGP), financial sector regulation and supervision to meet the operational requirements of the EA

Sources: Eurostat, Bulgarian Ministry of Finance & NBG estimates

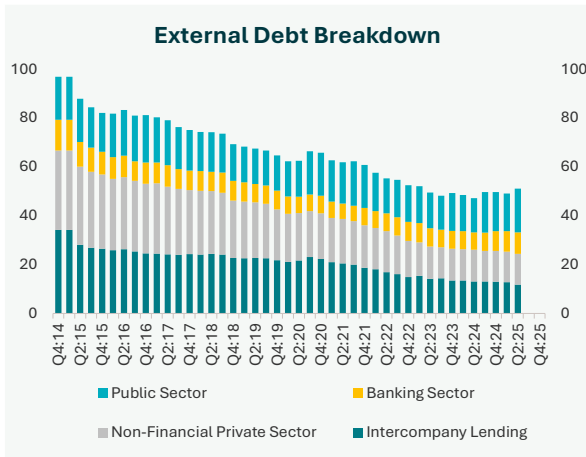
## Euro Adoption – Challenges & Risks

*Loss of Monetary Policy Autonomy & Optimality of BGN's fixed conversion rate to the EUR*



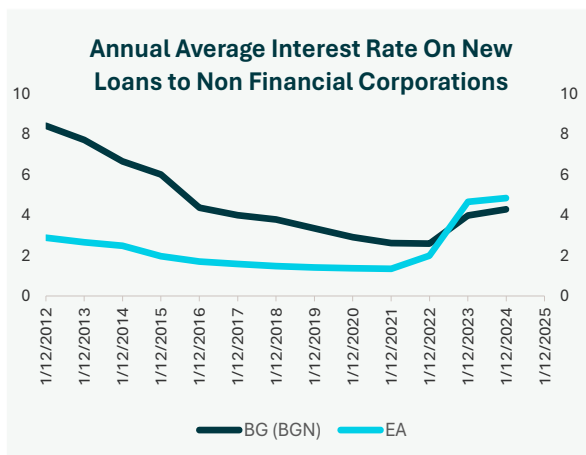
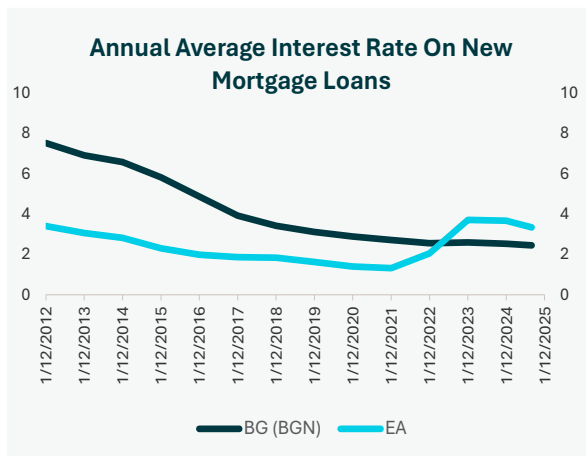
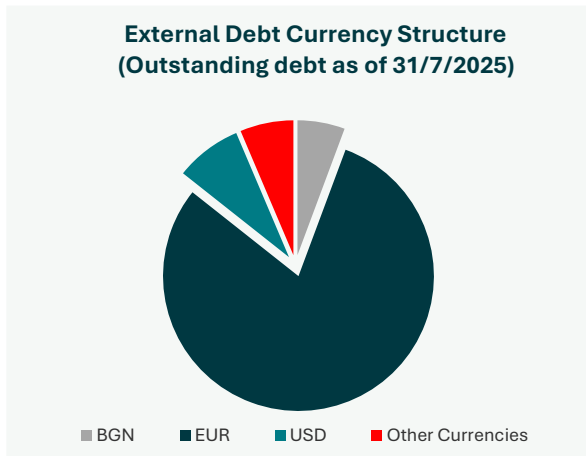
Sources: Eurostat, BNB & NBG estimates

- Given the high degree of synchronization between the Bulgarian economy and that of the EA, which mitigates the risk of asymmetric shocks to the domestic economy, **adopting the euro seems like a logical step**. Unsurprisingly, the economy's nearly 3-decade long operation under a fixed exchange rate regime suggests that opportunity cost of adopting the Euro is much lower for Bulgaria than for other economies running under a free-floating exchange rate regime
- Indeed, the scope of BNB's monetary policy -- particularly its ability to adjust the exchange rate in response to asymmetric shocks -- has been already significantly constrained under the currency board arrangement. In effect, little would change when the BNB's responsibilities and functions are transferred to the European Central Bank (ECB), meaning that **fiscal policy** (within the constraints of the SGP -- with Bulgaria operating close to the 3.0% of GDP threshold in recent years) and, to a lesser extent, other **macro-prudential policies** would remain the main **tools for addressing idiosyncratic shocks and imbalances**. It is important to recall that, within a monetary union, internal devaluation is the ultimate adjustment mechanism
- A key issue remains, however, over the **optimality** of the exchange rate at which the BGN would be irrevocably converted into EUR. At first glance, the fact that Bulgaria's current account was on average balanced over the past 15 years (see chart) with trade flows growing, at the same time, and FX reserves more than adequately covering the economy's financing needs (as suggested by an average FX-reserves-to-months-of-GNFS-imports ratio of c. 8.0 -- double the empirical critical threshold) suggests no significant misalignment. Latest projections point towards a **manageable current account deficit** (of the order of c. 2¼% of GDP) over the medium-term, which should be comfortably **covered by non-debt generating FDI inflows**
- Theoretical and applied research has mainly focused on real effective exchange rate (REER), considering its importance for the competitiveness of an economy, to assess any potential misalignment between the central parity and the optimal (equilibrium) rate.
- Against the backdrop of Bulgaria's growing integration with the EA, BGN's REER appreciated significantly over the past decade, largely reflecting **price convergence with the EA**, although this was partly driven by **rising wages rather than productivity gains** (see also p. 6). Since 2023, BGN's HICP-based REER has broadly stabilized, while the ULC-based REER metric has continued to rise, suggesting that (relative) profit margins have been compressing
- The only recent study available on REER equilibrium is that of the IMF (2024) which shows mixed results regarding BGN's overvaluation or undervaluation, with estimates ranging from 8.0% to -4.4%, depending on the method used. The variance in estimates highlights the complexities of evaluating the equilibrium exchange rate.
- In any case, the results **do not imply a severe misalignment** that requires immediate policy action so as not to give rise to economic imbalances. However, the importance of structural reforms to improve labour productivity and thus sustain the economy's external competitiveness becomes clear



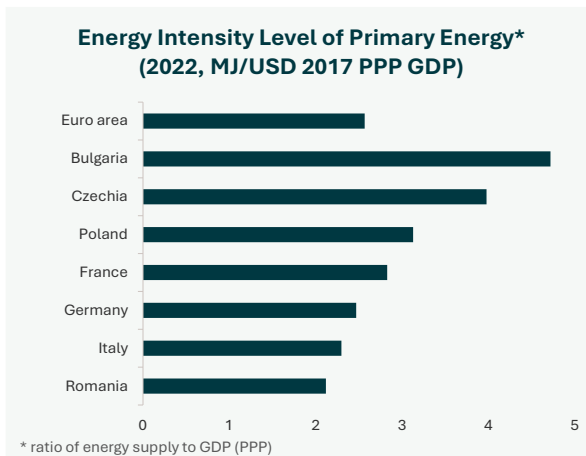
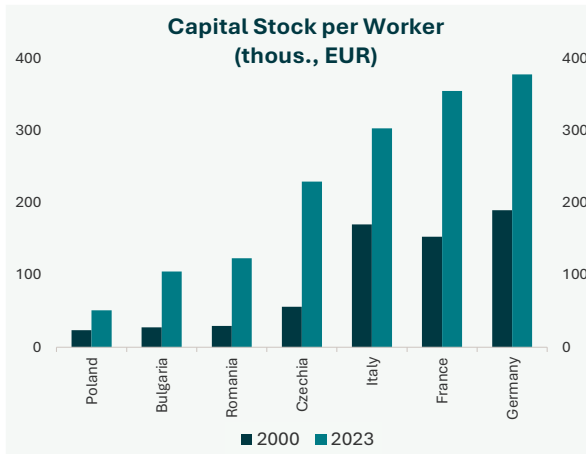
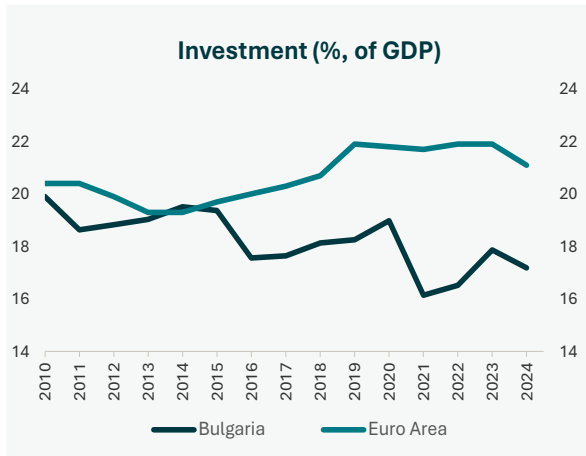
## Benefits from Adopting the Euro

Elimination of FX risk, Reduction of Borrowing & Transactions Costs & Greater Financial Stability



- In a broader context, Bulgaria’s adoption of the EUR will **deepen its integration into the EA’s** economic and monetary framework, including decision-making mechanisms, while also contributing to the EU’s broader strategy of fostering economic stability and reducing regional disparities
- Focusing on the more concrete benefits of euro adoption, they include:
  - **a) Elimination of (the already minimal) FX risk:** Although FX risk has been minimized under the currency board arrangement, Euro adoption and the concomitant conversion of Bulgaria’s sizeable FX-denominated debt to Euro (equivalent to c. 41.0% of GDP) would ultimately eliminate the residual FX risk, enhancing, *inter alia*, the economy’s resilience to external shocks (see chart)
  - **b) Reduction of borrowing costs:** The elimination of FX risk along with a reduction in regulatory costs, following alignment with the ECB’s monetary policy framework (entailing, among others, a reduction in the minimum required reserve ratio for banks to 1.0% from 12.0% currently), better-anchored inflation expectations, and enhanced access to EA financial markets should help reduce risk premia, driving borrowing costs lower. It is worth noting that borrowing costs for Bulgarian households and corporates have already substantially aligned with those of their peers in the EA. In fact, borrowing costs have recently fallen below the EA average, reflecting, *inter alia*, several idiosyncratic factors, such as banks’ abundant liquidity, strong competition for market shares and the impact of tighter macro-prudential policies on mortgage lending (see chart)
  - **c) Lower transaction costs:** The elimination of the costs associated with EUR\BGN conversion (together with the removal of border controls following Bulgaria’s recent accession in the Schengen area and greater price transparency across the single market) should reduce costs for businesses and consumers and improve the economy’s price competitiveness, thus deepening its integration in the EA economy, while helping attract greater FDIs
  - **d) Greater financial stability:** Beyond the elimination of FX risk, better-anchored inflation expectations and broader macroeconomic stability under EU surveillance mechanisms (including the SGP), Bulgaria’s financial stability will be further supported by gaining access to the ECB’s monetary tools and the ESM’s resources. These institutions would provide a safety net, enhancing Bulgaria’s resilience during times of economic or financial stress
- In conclusion, in addition to **strengthening economic, particularly business sentiment**, these factors could help raise the degree of financial intermediation in Bulgaria, which is relatively low compared to the EA. Indeed, credit to the private sector as percentage of GDP currently stands at 47.5% in Bulgaria, well below the EA average of 76.2% (see also p. 6). Moreover, such trends will likely underpin a favourable risk re-rating of Bulgarian assets, which, in turn, could lead to a qualitative upgrade in capital inflows

Sources: Eurostat, ECB, BNB & NBG estimates

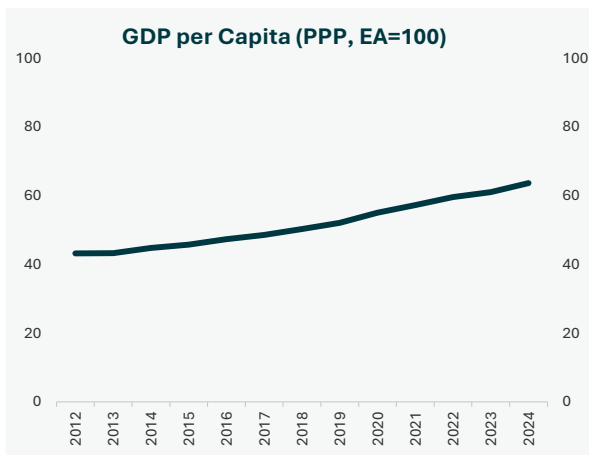
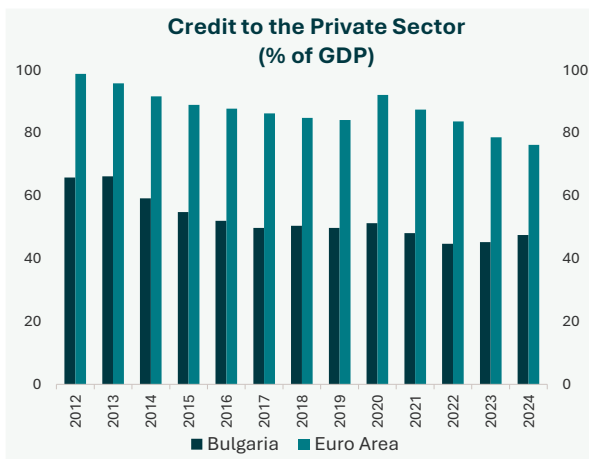
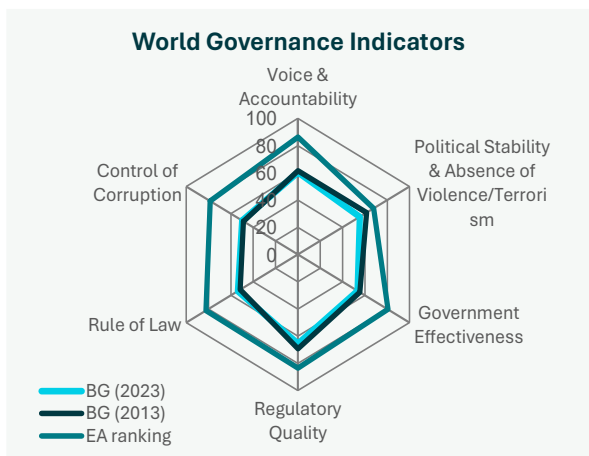


Sources: Eurostat, World Bank & NBG estimates

## Bulgaria's Outlook After Adopting the Euro

*Structural Reforms Needed for Faster & More Sustained Economic Convergence with the EA*

- Considering Bulgaria's long-standing and successful currency board arrangement, its high degree of euroization, deep integration with the EA economy as well as the convergence of borrowing costs for economic agents, the **overall benefit of joining the EA** -- which should be felt only gradually -- is expected to be **more moderate** than those experienced by countries that joined in previous years, but still non-negligible
- We expect the pace of economic expansion to pick up in the short term, mostly reflecting **stronger consumer and business confidence** rather than any structural progress from joining the EA. Indeed, adjusting for carry-over effects (capturing how the growth performance of the previous year influences the growth rate of the following year), we see GDP growth accelerating by 0.1-0.2% in 2026
- However, a **sustained** acceleration in the pace of economic convergence with the EA will ultimately depend on the extent to which authorities implement the **structural reforms necessary to spur investment growth**
- **Investment activity** in Bulgaria has been **subdued**, with the Gross Fixed Capital Formation (GFCF)-to-GDP ratio averaging 19.0% in 2010-19 and declining to 17.0% since 2020, below the EA averages of 20.2% for 2010-19 and 21.7% for 2020-24. These discrepancies are even more striking when considering already subdued borrowing costs and a high implied marginal product of capital in Bulgaria, as suggested by its very **low capital stock** (i.e. total construction, machinery & technology, including intellectual property products). Note that Bulgaria's capital stock per worker is estimated to be less than 40% of that of Germany (see chart)
- It is important to note that Bulgaria's persistently **poor energy efficiency** (see chart) underscores the urgent need for accelerated investment in sustainable technologies and infrastructure, which are essential for the country's transition to a greener, more resilient economy. Failing to act risks undermining Bulgaria's competitiveness, as it may fall behind other economies that are capitalizing on green innovations, leading the global shift towards low-carbon economy. Recent developments with US-sanctioned Lukoil, which operates Neftochim Burgas, the country's largest and only oil refinery, highlight the growing risks to Bulgaria's energy efficiency, as the country faces challenges in diversifying its energy sources and reducing reliance on foreign energy imports
- As a result, the importance of structural reforms in addressing the economy's deficiencies becomes evident. Key areas that require attention include:
  - a) **Demographic pressures**, with net migration and population ageing having contributed to a decline of approximately 15.0% in the country's workforce since Bulgaria's accession to the EU (2007). Note that reforms aimed at increasing the participation of older workers and women could help offset the impact of the demographic decline



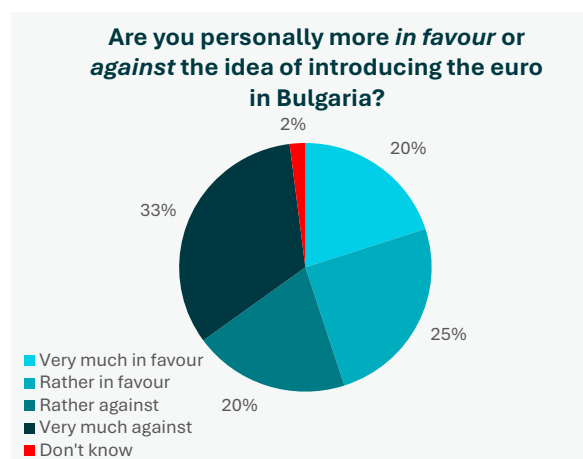
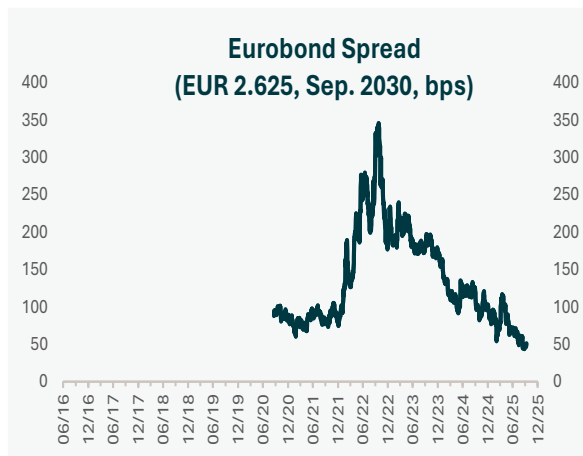
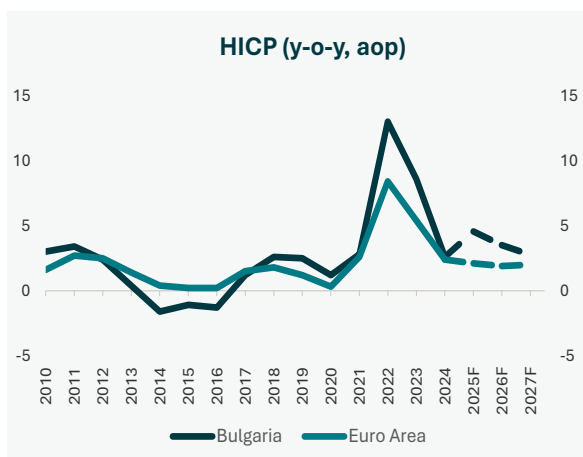
- b) **Low labour productivity**, reflecting -- in addition to the implications of the low capital-to-labour ratio and the concentration of economic activity in relatively low valued-added industries -- education & skills gaps and outdated vocational training, poor labour market mobility, low spending on Research & Development, as well as widespread informality (estimated at more than a ¼ of official GDP). Notably, while labour productivity growth in Bulgaria exceeds the EA average, its overall level (real output per worker) stands at just 55% of the respective EA average
- c) **Unsupportive business climate and regulatory environment**, with Bulgaria ranking significantly lower than EA members in areas such as rule of law, the fight against corruption, and Government effectiveness according to the World Bank's World Governance Indicators (2024). Worryingly, Bulgaria has made virtually no progress in addressing the shortcomings over the past decade
- **Political stability** is also critical for sustainable economic growth. It is important to note that prolonged political uncertainty since 2020 (during which 7 elections were held and the country was governed by caretaker Cabinets for much of this period) has affected policy implementation, including the effective absorption and use of EU funds, while weighing on investor sentiment. This has ultimately slowed the acceleration of the economy's convergence with the EA in the run-up to EUR adoption
- **Deepening lending penetration** would also underpin economic convergence with the EA. This process should be gradual so as not to jeopardize financial stability. Note that credit to the private sector is currently growing at mid-teen figures (a 15-year high), driven by the mortgage segment, which has fueled real estate appreciation, prompting the authorities to implement borrower-based macroprudential policy measures
- All said, Bulgaria's long-term potential GDP growth rate is currently estimated at approximately 3.0%, more than double that of EA. Still, this growth rate is rather small for a catching-up economy. At the current rate, it would take Bulgaria more than 30 years to bring its GDP per capita (in PPS terms) in line with the EA average. Currently, Bulgaria's GDP per capita stands at just 64% of the EA average compared to around 25% in 2000, when EU accession negotiations began. While this represents significant progress, it still lags behind that of other new EU member states, primarily reflecting persistent underinvestment
- Assuming Bulgaria proceeds with necessary structural reforms, it would be reasonable to expect the economy's long-term potential growth rate to improve to up to 4.0%

Sources: Eurostat, World Bank & NBG estimates

## The Impact of Euro Adoption on Inflation

*Minimal Impact on Inflation But Challenges Are Lying Ahead*

Source	Country	Estimated effect on total HICP (p.p.)
<b>Founding EA Member States</b>		
Eurostat (2003)	Euro Area	0.09 – 0.28
Hüfner and Koske (2008)	Euro Area	0.34
Sturm et al. (2009)	Euro Area	0.05 – 0.23
Attal-Toubert et al. (2002)	France	0.2
Banco de España (2003)	Spain	0.4
Deutsche Bundesbank (2004)	Germany	0.3
Folkertsma et al. (2002)	Netherlands	0.2-0.4
Mostacci and Sabbatini (2008)	Italy	0.1-0.6
National Bank of Belgium (2002)	Belgium	0.2
Santos et al. (2002)	Portugal	0.21
<b>Later EA member states</b>		
Eurostat (2007)	Slovenia	0.3
Eurostat (2009)	Slovakia	0.3
Eurostat (2011)	Estonia	0.2-0.3
Eurostat (2014)	Latvia	0.12-0.21
Eurostat (2015)	Lithuania	0.04-0.11
IMAD (2007)	Slovenia	0.24
Room and Urke (2014)	Estonia	0.0-0.5
Eurostat (2023)	Croatia	0.04-0.18



Sources: Eurostat, Croatian National Bank (A. Pufnik 2017), Reuters & NBG estimates

- As was the case with other economies having previously joined the Euro Area, Bulgaria’s adoption of the Euro (*per se*) should **not result in a significant increase in inflation** looking forward, since some of the transitional inflation pressures are likely to have already occurred by 2025. In fact, the currency conversion costs (including rounding effects and business’ adaptation to the Euro) are manageable, dual-currency pricing is in place ahead of January 1, and authorities will remain vigilant to prevent any unjustified price hikes. Experience from founding and later member states suggests an increase in headline inflation of the order of 0.2-0.5 pps in the year of adoption (see table), concentrated in specific sectors (food & services, especially hospitality). Over time, inflationary pressures tend to subside as markets adjust
- The consensus forecast suggests that HICP in Bulgaria is projected to **exceed** the projected reference value as defined for convergence assessment purposes throughout for most of the upcoming year. Indeed, despite the fading impact of the administered price hikes implanted in 2025, **strong wage growth** (both past and current) is expected to keep headline inflation elevated, driven primarily by the services sector
- Still, there are **concerns over the prospect of sustainable inflation convergence**. Indeed, under a fixed exchange rate regime, improvements in productivity would eventually translate into higher inflation, due to the Balassa-Samuelson effect (suggesting that productivity and concomitant wage increases in the tradable sector lead to higher costs in the non-tradable sector, putting upward pressure on overall price levels). Note that prices in Bulgaria currently stands at c. 60% of the euro area average, confirming the significant upside potential for inflation. Worryingly, persistent inflationary pressures could affect expectations, complicating the task of maintaining price stability
- In addition to these concerns, the Bulgarian economy has a high exposure to global energy and food prices, making it vulnerable to supply disruptions and price volatility in these markets

## Market Reception of Bulgaria's Euro Adoption

*Positive Impact Has Been Largely Priced-In*

- Financial markets are estimated to have largely **priced-in the positive impact of EUR adoption**, particularly in government debt, as seen in narrower sovereign bond spreads and CDS. This pricing-in can also be seen across other assets, such as equity markets, where companies in export-oriented sectors and the banking industry have benefited from improved investor sentiment
- Credit rating agencies have **upgraded Bulgaria’s credit rating** in recent years, reflecting the economy’s strong performance, progress toward meeting the criteria for adopting the euro, and improved prospects under EA membership
- That said, EUR adoption comes amid **growing euroscepticism** among Bulgarians, with the latest Eurobarometer poll showing that 50% of respondents do not support the common currency. Concerns about losing national sovereignty, potential price increases, and a lack of tangible economic benefits are frequently cited as reasons for this opposition.

## DETAILED MACROECONOMIC DATA

BULGARIA					
	2023	2024	2025f	2026f	2027f
<b>Real Sector</b>					
Nominal GDP (EUR million)	94,708	103,721	111,920	119,313	126,409
GDP per capita (EUR)	14,695	16,113	17,879	19,213	20,521
GDP growth (real, %)	1.9	2.8	3.2	3.0	3.0
Unemployment rate (ILO definition, %, aop)	4.3	4.2	3.9	3.9	3.8
<b>Prices and Banking</b>					
Inflation (CPI, %, eop)	4.7	2.2	5.0	3.1	2.7
Inflation (CPI, %, aop)	9.6	2.4	4.6	3.5	2.9
Loans to the Private Sector (% change, eop)	11.1	15.0			
Customer Deposits (% change, eop)	9.6	9.8			
Loans to the Private Sector (% of GDP)	44.6	46.8			
Retail Loans (% of GDP)	20.5	23.3			
Corporate Loans (% of GDP)	24.0	23.5			
Customer Deposits (% of GDP)	65.0	67.1			
Loans to Private Sector (% of Deposits)	68.6	69.8			
Foreign Currency Loans (% of Total Loans)	23.4	20.5			
<b>External Accounts</b>					
Merchandise exports (EUR million)	43,540	43,743	44,347	47,139	49,906
Merchandise imports (EUR million)	47,470	48,792	51,446	54,357	57,204
Trade balance (EUR million)	-3,931	-5,049	-7,099	-7,218	-7,298
Trade balance (% of GDP)	-4.2	-4.9	-6.3	-6.0	-5.8
Current account balance (EUR million)	-0,846	-1,660	-3,121	-2,812	-2,369
Current account balance (% of GDP)	-0.9	-1.6	-2.8	-2.4	-1.9
Net FDI (EUR million)	3,987	2,042	2,660	3,139	3,688
Net FDI (% of GDP)	4.2	2.0	2.4	2.6	2.9
International reserves (EUR million)	41,930	42,058	43,548	45,422	47,533
International reserves (Months <sup>a</sup> )	9.2	8.9	8.8	8.8	8.7
<b>Public Finance</b>					
Primary balance (cash, % of GDP)	-2.5	-2.5	-2.3	-2.2	-2.1
Fiscal balance (cash, % of GDP)	-3.0	-3.0	-3.0	-3.0	-3.0
Gross public debt <sup>b</sup> (% of GDP)	22.9	24.1	29.0	31.0	34.0
<b>External Debt</b>					
Gross external debt (EUR million)	44,994	49,142	52,603	54,645	56,252
Gross external debt (% of GDP)	47.5	47.4	47.0	45.8	44.5
External debt service (EUR million)	6,900	7,300	8,100	8,700	9,000
External debt service (% of reserves)	16.5	17.4	18.6	19.2	18.9
External debt service (% of exports)	11.8	12.4	13.5	13.7	13.4
<b>Financial Markets</b>					
Base Interest Rate (% eop)	3.8	3.0	1.7	1.7	1.9
Base Interest Rate (% aop)	2.9	3.4	2.4	1.7	1.8
10-Y Bond Yield (% eop)	4.5	3.9	3.4	3.1	3.1
Exchange rate: EUR (eop)	1.956	1.956	1.956	1.956	1.956
Exchange rate: EUR (aop)	1.956	1.956	1.956	1.956	1.956

f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010



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