GREEK GOVERNMENT REACHES TURNING POINT IN PRESSURE OVER TEMPI TRAIN CRASH INVESTIGATION

PM Mitsotakis aims to reset Greece's political agenda

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EXECUTIVE SUMMARY

Greece's ruling New Democracy party (ND) continues to face mounting public pressure over the political aftermath of the 2023 Tempi train tragedy, with ongoing scrutiny of its handling and perceived efforts to limit accountability. While new revelations regarding the handling of the tragedy continue to dominate headlines, the ruling ND seeks to manage the fallout through a recently launched parliamentary investigation into former Transport Minister Kostas Karamanlis.

Although Greece's centre-right ruling party maintains a narrow lead in the polls, public frustration over the lack of accountability and perceived impunity regarding the tragedy, as well as over persistent inflation, is reshaping the Greek political landscape. Opposition parties are pressing for deeper inquiries and tougher legal consequences, while internal dissent and outside pressure have reenergized parts of the electorate. The debate over whether to politically shield Karamanlis or widen responsibility has split the parties and heightened polarization. Meanwhile, the anti-establishment Course of Freedom party has continued to gain ground in the polls.

While Greece's next parliamentary elections are due in 2027, speculation is growing about potential early elections or at least a major political move in the coming year. A key event looming later in 2025 is the Thessaloniki International Fair (TIF) in September, which Greek PMs traditionally use to announce their economic agenda and to define the political narrative. The PM is expected to use the TIF stage to highlight achievements – from regaining investment grade to securing foreign investments – and may unveil additional relief measures if fiscal space allows. However, continuing pressure over the Tempi train crash investigations and sinking polling numbers could prompt the PM to introduce new measures to reenergize the ND voter base, which may include high-level personnel changes.

For investors, Greece's economic fundamentals remain stable, but political risk is creeping upward. Monitoring how the Tempi issue is handled — particularly whether it escalates into broader institutional or public backlash — will be key in assessing the government's bandwidth to pursue its reform and investment agenda.

Below, Aretera takes a deeper look at Greece's political and economic landscape.

POLITICAL LANDSCAPE

The ruling New Democracy party (ND) of centre-right Prime Minister Kyriakos Mitsotakis has been facing mounting public pressure over the alleged mismanagement of the 2023 Tempi train crash, a catastrophe that left 57 dead and nearly 200 people injured. Following mass protests over the government's alleged failure to hold politicians responsible for the catastrophe in March, the PM reshuffled his cabinet[1] in parallel with the inauguration of the new President Konstantinos Tasoulas. To ease the growing public pressure, the Mitsotakis Cabinet introduced a series of new initiatives, including a minimum wage hike, a one-month rent rebate, as well as a €250 benefit for pensioners and socially vulnerable groups. Touted in a televised speech as proof of Greece's economic progress, the rollout was met with public scepticism. Critics saw it as an attempt to buy public goodwill, especially as high inflation continued to erode purchasing power. The initial bump in headlines quickly faded, with attention returning to unresolved scandals, including the train crash.

While the government was aiming to shift public opinion by framing the recent and EU-mandated promotion of Greece's Maritime Spatial Planning (MSP) as a major diplomatic milestone in defining maritime boundaries, the announcement has drawn a Turkish rebuke and fuelled domestic criticism about overstating its significance. Simultaneously, the Deputy Transport Minister has also faced accusations of misusing EU funds after it was revealed that funds linked to his company were involved in pro-ND social media campaigns, raising legal and ethical concerns.

OPPOSITION GAINS MOMENTUM

While the ruling party has been facing increasing pressure, support for the anti-establishment Course of Freedom party has continued to grow. Led by Zoe Konstantopoulou, a former Speaker of the Hellenic Parliament, the party has been gaining ground among disillusioned voters due to its strong focus on government accountability and investigating the Tempi tragedy. Polling at 15% on average, Konstantopoulou's party is now competing with the centre-left PASOK-KINAL alliance to become the most popular political party on the opposition side of the aisle. While PASOK remains competitive politically, the party was hampered by internal disputes, which diluted its ability to present a cohesive alternative. Meanwhile, signs of unease within the ruling ND have emerged, with senior figures such as Defence Minister Nikos Dendias, Deputy PM Kostis Hatzidakis and Health Minister Adonis Georgiadis subtly positioning themselves for a post-Mitsotakis future. While the Prime Minister maintains formal control, the erosion of public trust and internal jockeying signal deeper uncertainty about ND's long-term leadership. (Mitsotakis has been leading ND since 2016 and has been serving as MP since 2019).

ECONOMIC LANDSCAPE

For Greece, April marked the confirmation of a record budget surplus for 2024, which the government touted as proof of sound economic management. According to Eurostat, Greece ended 2024 with a fiscal surplus of 1.3% of GDP (and a primary surplus of nearly 5%), a dramatic turnaround for a country that a decade ago was synonymous with deficits and bailouts. The PM credited dynamic growth and the fight against tax evasion for the over-performance, arguing that Greece has finally escaped its cycle of fiscal turmoil. There is substance to these claims: the Finance Ministry's crackdown on tax evasion among small businesses and freelancers has shown tangible results. A new system mandating the interconnection of cash registers with point-of-sale (POS) terminals was fully rolled out (ahead of

[1] See here for our overview of the recent government reshuffle from March 2025

schedule) by the end of 2024. This digital linkage has sharply reduced the underreporting of sales, especially in retail and services, thereby boosting VAT revenues. Government officials highlight such modern tools as key contributors to the revenue windfall, alongside continued job growth and some spending restraint. Electronic transactions rose by over 10% in 2024, and sectors like taxis and markets that historically operated largely in cash saw a doubling of recorded transactions once POS became mandatory. Additionally, Greece banned cash for real estate transactions – any property sale must be via bank transfer – to curtail the widespread practice of under-the-table cash payments that evade taxes. These efforts have improved Greece's tax collection efficiency: the VAT compliance gap has been nearly halved since 2018, according to EU data, moving closer to the European average.

However, critics argue that Greece's fiscal surplus is not an unqualified success. They point out that while compliance has risen in retail, tax evasion remains endemic among high earners and property owners. For example, despite the legal ban, it is a common secret that many real estate deals still involve under-declaring the sale price and exchanging the difference in cash – a practice that cheats the tax authorities and keeps substantial income off the books. Furthermore, Greece's VAT rate (24%) is among the highest in the EU, disproportionately affecting those with lower incomes who spend a larger share of earnings on consumption. Indirect tax revenues have surged, indicating that ordinary consumers are indeed paying more. At the same time, public investment and social spending were tightly controlled in order to produce the surplus, raising the question of whether Greece is under-investing in public services during a time of pressing needs.

LOOKING AHEAD AS PRESSURE CONTINUES TO MOUNT

The immediate focal point as Greece enters June is the Greek parliament's handling of the political aftermath of the Tempi crash. Following months of anticipation, the preliminary inquiry committee formed in March has now reached a decision on referring former officials to justice. On 27th May, the ruling party submitted a proposal to investigate the potential responsibilities of former ND-linked Transport Minister Kostas Karamanlis in the tragedy, with the inquiry to examine an alleged failure to provide proper funding and staffing for Greece's national railways organization OSE.

At the same time, the ND proposal also noted that Christos Spirtzis – Karamanlis' predecessor as Transport Minister during the previous, SYRIZA-led government – also bears responsibility for delays in completing contracts aimed at modernizing the railway network. Spirtzis, however, will not be politically investigated, unlike his successor. Responding to the ND proposal, the centre-left PASOK requested indicting both former Transport Ministers. Course of Freedom condemned the inquiry as a "whitewash", demanding full accountability, including for the Prime Minister. PASOK and SYRIZA also criticized the limited scope, with the latter calling Karamanlis to face felony charges.

Observers agree that the ruling ND would have potentially reignited mass protests if it had decided to block the inquiry. Aiming to ease public pressure, the proposal is largely seen as a step toward political accountability, and could potentially lower public anger. Regardless of ND's decision, however, the ruling bloc will continue to face the challenge of managing internal unity as some in the party suggested that avoiding impunity is in ND's long-term interest. How the PM balances party loyalty with public accountability demands will shape popular support, while international observers – from the EU to investor circles – will also be watching as a gauge of Greece's institutional maturity. At the same time, the credibility of the inquiry process– and whether it is perceived as genuine or tactical – will heavily influence both domestic trust and the popularity of the ND-led government.

ALL EYES ON THESSALONIKI

Although Greece's next parliamentary elections are constitutionally due in 2027, speculation is growing about potential early elections or at least a major political move in the coming year. A key event looming later in 2025 is the Thessaloniki International Fair (TIF) in September, which Greek PMs traditionally use to announce their economic agenda and to define the political narrative. The PM is expected to use the TIF stage to highlight achievements – from regaining investment grade to securing foreign investments – and may unveil additional relief measures if fiscal space allows. This year's TIF, however, will also unfold under the shadow of the Tempi train crash and the recent ND-backed parliamentary inquiry into former Transport Minister Karamanlis. While framed as a step toward political accountability, the inquiry also serves a strategic role: it enables the government to shape the institutional narrative ahead of the TIF to contain broader fallout. Whether the inquiry is seen as credible or as damage control will influence the PM's ability to recast the political agenda in Thessaloniki.

Should ND's polling still languish by late summer – current polls put ND in the high-20s%, a far cry from the 40% it won in 2023 – the PM may consider bold promises or even personnel shake-ups to re-energize his base. Insiders suggest the government could roll out targeted tax cuts or housing programs during the TIF to win over the sceptical part of the middle class. At the same time, the internal power dynamics within ND will colour any forward-looking plans. Those eyeing the leadership will closely gauge the PM's TIF performance and public reception. If he stumbles or public opinion remains sour, rumblings about succession could grow louder going into the autumn. For now, ND's leading figures will likely refrain from open confrontation, but the party's trajectory through the summer will set the stage for either Mitsotakis' continued leadership or a more overt contest for the party's future heading into 2026.

LOOKING AHEAD

From an external perspective, Greece remains a stable democracy and an EU economy on the upswing, which provides a buffer against immediate crises. There is no indication of government collapse in the near term – ND's parliamentary majority is intact and the opposition, while energized, is fragmented among several parties. Investors and partners will watch how Greece navigates the current turbulence; it will be crucial to maintain the reform momentum praised by credit rating agencies while also ensuring political stability. Social unrest, if sparked again by perceived injustices, is a wild card that could introduce volatility.

Multinational investors operating in Greece should stay attuned to these developments. The fundamentals of Greece's economy are solid for now, but policy continuity beyond 2025 is increasingly uncertain as political capital wanes. The coming weeks and months will indicate whether New Democracy can stabilize its standing or if Greece's political landscape is headed for a more significant realignment, with all the accompanying implications for the policy environment.

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If you would like to schedule a discussion of this paper, please contact:
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