Hellenic Republic
Rating Report

SCOPE BB+ POSITIVE OUTLOOK

Credit strengths

- Strong European institutional support, via the EU and Eurosystem
- Very strong profile of public debt
- Outperformance of fiscal metrics
- Structural reforms; NPL reduction

Credit challenges

- Very high government debt stock
- Banking-sector fragilities
- Inadequate growth potential, high unemployment, rigid labour market
- Weak external sector

Rating rationale:

Strong European Institutional support: Supportive monetary and fiscal policy measures adopted since the Covid-19 crisis. Despite current ECB monetary policy tightening, the central bank remains committed to maintaining flexibility of reinvestments under the Pandemic Emergency Purchase Programme (PEPP) and has designed a novel 'anti-fragmentation' programme. Such instruments, alongside EU fiscal support via the Next Generation EU fund, are fundamental to supporting Greece's market access – and represent a sea change from Greece's exclusion from ECB monetary operations pre Covid-19 crisis. This supports debt sustainability and creates fiscal space.

Enhanced fiscal dynamics: Stronger-than-expected reduction underway in the public debt ratio and general government deficit since 2020, supported by robust economic recovery, elevated inflation, alongside reductions of the primary budget deficit. Fiscal dynamics are furthermore supported by past significant improvements in the public debt structure – such as low average interest costs of the outstanding debt.

Structural reforms: Banks have continued to substantively curtail elevated non-performing loans (NPLs) – reaching a 9.1% system-wide average by Q3 2022. However, banking-system stability remains challenged by reductions in capital adequacy and strengthened sovereign-bank links.

Rating challenges include: i) very high government debt, representing a continued contingent vulnerability as markets reappraise risk associated with high inflation, monetary-policy tightening and debt sustainability; ii) banking-sector fragilities; and iii) structural economic vulnerabilities.

Greece's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency	Qualitative*	Final rating
		Weight	Indicative rating	Notches	Notches	
Domestic Economic Risk		35%	a	EUR [+1]	-2/3	BB+
Public Finance Risk		20%	bb-		+2/3	
External Economic Risk		10%	c		+1/3	
Financial Stability Risk		10%	bbb-		0	
ESG Risk	Environmental Factors	5%	bbb		0	
	Social Factors	7.5%	ccc		-1/3	
	Governance Factors	12.5%	bb-		0	
Indicative outcome		**bb+**			**0**	
Additional considerations					**0**	

Note: *The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve-currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's 'Sovereign Ratings' methodology. Source: Scope Ratings.

Outlook and rating triggers

The Positive Outlook reflects risk to ratings being skewed to the upside.

Positive rating-change drivers

- "Permanent" European support
- Sustained decline of public debt
- Banking risks furthered curtailed
- Strengthened economic sustainability

Negative rating-change drivers

- Eurosystem support for Greece weakens
- Impediments to declining public debt ratio
- Banking-sector risk re-intensifies
- Reform commitment weakens

Ratings and Outlook

Foreign currency

Long-term issuer rating	BB+/Positive
Senior unsecured debt	BB+/Positive
Short-term issuer rating	S-3/Positive

Local currency

Long-term issuer rating	BB+/Positive
Senior unsecured debt	BB+/Positive
Short-term issuer rating	S-3/Positive

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Bloomberg: RESP SCOP

Domestic Economic Risks

- **Growth outlook:** Output recovered strongly in 2021, recording 8.4% growth, after the 9% contraction in the real economy during 2020. Greece's recovery sustained momentum over the 1H of last year, anchored by buoyant tourism receipts, strong private consumption and recovery of private investment, helped by government measures for businesses and adoption of Recovery and Resilience Plan projects. However, despite limited exposure to Russia of the Greek tourism and banking sectors, war in Ukraine has impeded the economic growth outlook, especially due to higher energy and food prices and consequential slowdown of private consumption from erosion of household real disposable income. GDP growth eased to an estimated 4.9% last year and we estimate growth of 1.3% for 2023 (revised up from 1.1%) and 2.0% for 2024 (amended from 1.5%).

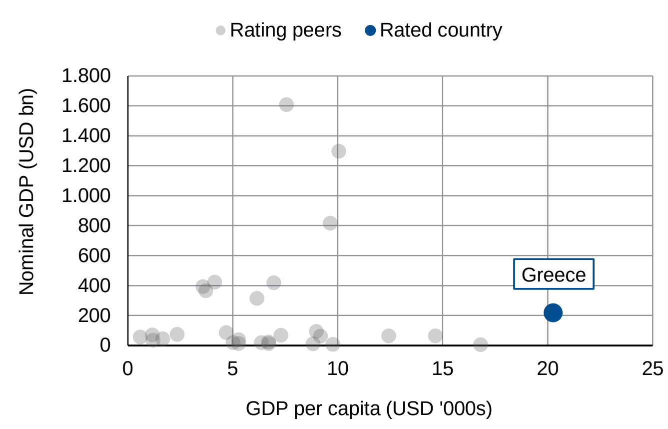
- **Inflation and monetary policy:** HICP inflation reached a record-high of 12.1% YoY in September 2022, before easing to 7.6% by December and averaging 9.3% over 2022. We expect inflation to average 3.9% this year (revised downwards from 5.8%) before 2.8% in 2024. Inflationary pressures have been partly driven by energy and food prices but have broadened to components such as services and non-energy industrial goods. The ECB has tightened monetary policies: raising its three key policy rates each by 300bps since July 2022, and we see further interest-rate hikes accompanied by the start of reductions of balance-sheet bond holdings. Still, flexibility applied to Eurosystem reinvestments under the PEPP – including capacity to purchase Greek debt above and beyond redemptions – alongside a 'Transmission Protection Instrument' – support Greece's debt markets and reinforce our assumption of Eurosystem support for Greece being more endurant, rather than specific to the Covid-19 crisis.

- **Labour markets:** The employment rate has risen strongly since the spring of 2020, with annual growth of employment peaking at 16.7% in May 2021. Employment growth has decreased recently to averaging 5.4% YoY in 2022, due to economic slowdown. Limitations in economic diversification, rigidities in the labour market and high structural unemployment are credit-rating constraints, although we expect unemployment to remain at 12.4% on average this year, before 12.2% in 2024. Unemployment was 14.8% as of 2021.

Overview of Scope's qualitative assessments for Greece's *Domestic Economic Risks*

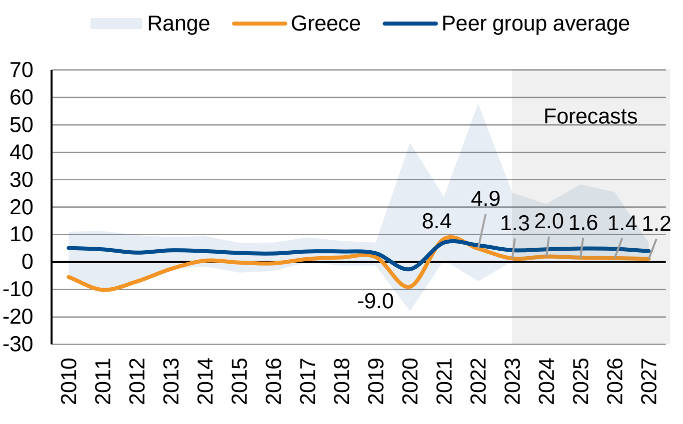
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential of the economy	Weak	-1/3	Substantial investment gaps in several sectors; low levels of innovation; comparatively weak economic growth potential
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank; ECB policy innovations continue to anchor market access
	Macro-economic stability and sustainability	Weak	-1/3	Elevated structural unemployment; limited economic diversification; rigidities in the labour market; however, a weak sovereign peer group

Nominal GDP and GDP per capita, USD



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

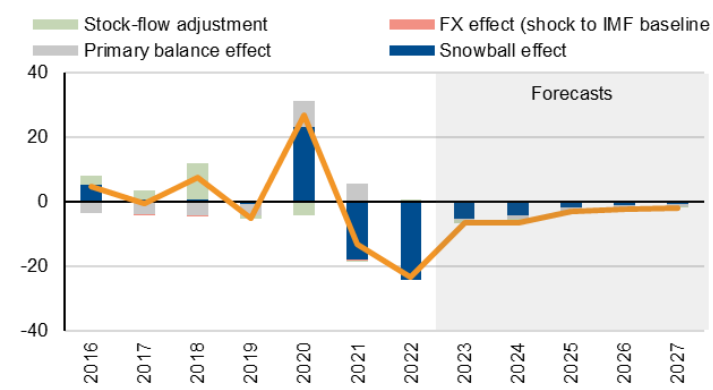
Public Finance Risks

- **Fiscal outlook:** Fiscal performance continued improvements last year due to stronger-than-anticipated rebound of tax revenues on the back of robust economic growth and high inflation. Authorities intend to make permanent earlier reductions in the solidarity tax and social security contributions introduced during the pandemic crisis, having an estimated budgetary cost of 0.8% of GDP a year. Such measures are not expected to prevent re-achievement of a primary surplus this year, and we expect primary surpluses of 0.5% in 2023 before 1% of GDP a year during 2024-27 (below a government target of 2%). A headline deficit of 2.9% of GDP is seen for the current year, compared with the 9.9% deficit at 2020 peaks, before headline deficits average 2.8% between 2024-27.
- **Debt trajectory:** The aggregate debt stock has declined rapidly from 206.3% of GDP peaks of 2020 to about 171.2% by 2022 (falling last year below pre-Covid levels of 180.6% as of end-2019) and is seen reaching 164.5% by end-2023, before 151.0% by 2027 (which, if so, would reflect the lowest such public-debt ratio since the Private Sector Involvement of Q1-2012). This assumes near-term economic slowdown but nevertheless above-potential economic growth over the forecast horizon, and GDP deflator inflation averaging 2.0% over 2024-27 after 10.6% for 2022 and 3.9% in 2023. However, net interest payments are seen rising to about 9.1% of general government revenue by 2027, from the 5.0% at 2021 lows.
- **Debt profile and market access:** Greece benefits from a strong structure of its public debt: over 80% of the debt is held on the official-sector balance sheet, after one adds Greek securities temporarily held via the Eurosystem to said figure. This is, furthermore, anchored by a long weighted-average maturity of central-government debt (17.5 years as of December 2022) and modest weighted-average net interest rate of outstanding debt (2.0% this year). 100% of debt is fixed-rate, curtailing risk from interest-rate rises, and debt amortisations are evenly distributed medium run, anchoring moderate average gross government financing requirements of 9.6% of GDP a year during 2023-27. A cash buffer of about EUR 37bn (16.6% of GDP) abets resilience. However, the strength of the government debt structure is gradually weakening as Greece depends increasingly more on market financing.

Overview of Scope's qualitative assessments for Greece's *Public Finance Risks*

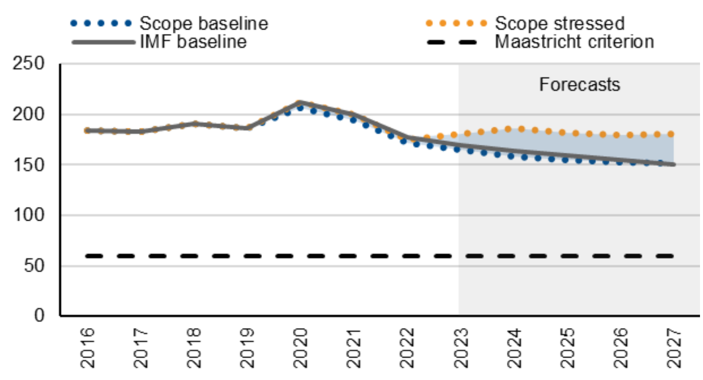
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Fiscal policy framework	Strong	+1/3	Improved national fiscal framework; benefits from EU/euro-area fiscal governance institutions
	Debt sustainability	Neutral	0	Very high public-sector debt but strong decline expected for the debt trajectory; lower risk from rate rises or forex volatility
	Debt profile and market access	Strong	+1/3	Strong debt structure and cash cushion, but debt structure weakening; strengthened access to regional lenders of last resort

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

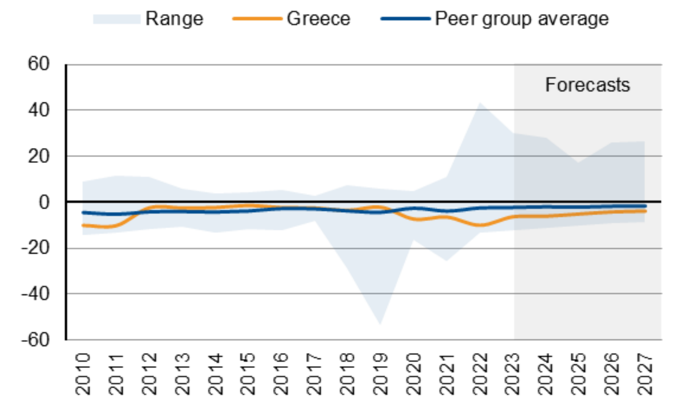
External Economic Risks

- **Current account:** Greece's external position was characterised by structural current-account deficits of about 1.5-3% of GDP during the years immediately pre Covid-19 crisis. In 2020, this current-account deficit widened significantly to 6.6% of GDP before remaining elevated at 6.8% in 2021, despite recovery in travel and sea-transportation receipts alongside steady recovery in exports of goods. The trade in goods deficit has weakened since mid-2021, due to strong recovery of domestic (and, as such, import) demand, continued supply and transport bottlenecks, and higher costs of natural-gas importing from Russia, which accounted for 39% of aggregate natural gas imported. The current account reached a deficit of 10% of GDP last year, although the IMF estimates this deficit to moderate to 3.9% of GDP by 2027 – supported by redressal of supply-chain bottlenecks and further normalisation in tourism-services exports.
- **External position:** Greece has a sizeable net international investment liability position of 148.6% of GDP as of Q3 2022, although improved compared against peaks of 181.6% reached in Q2 2021 and anticipated to further shrink long run – as concessional economic assistance loans are redeemed. In Q3 2022, gross external debt stood at an elevated 279% of GDP, nevertheless 30.5pps below peaks from Q2 2021. Furthermore, 70% of external debt holds a long-term maturity. External debt is mostly owed by government (50.1% of aggregate gross external debt) and the central bank (22.1%). Still, the Greek Target-II balance stood at EUR -112.4bn as of December 2022, significantly weaker than pre-crisis levels of EUR -25.7bn (as of December 2019).
- **Resilience to short-term external shocks:** Greece benefits from issuance in euro, given the currency's status as an international reserve currency, supporting resilience against shocks.

Overview of Scope's qualitative assessments for Greece's *External Economic Risks*

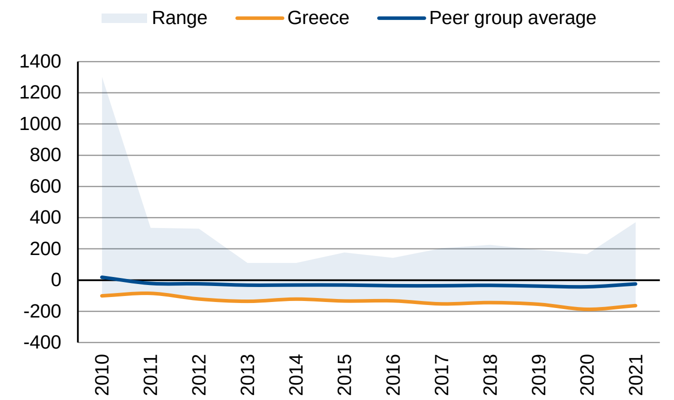
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
c	Current account resilience	Neutral	0	High reliance on tourism revenue; improvements in attractiveness for foreign direct investment; wider current-account deficits than IMF baseline
	External debt structure	Strong	+1/3	Elevated external debt, but very long maturity and in the form of euro-denominated sovereign debt owed to the official sector
	Resilience to short-term external shocks	Neutral	0	Benefits from euro-area membership

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

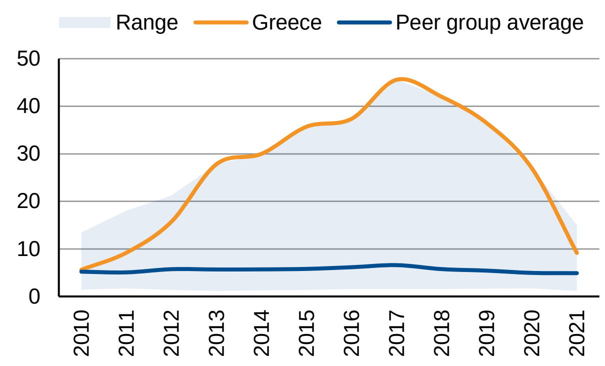
Financial Stability Risks

- **Banking sector:** System-wide tier 1 ratio remains at moderate levels, picking up to 14.2% in Q3 2022, from 13.1% in Q1 2022. However, capital adequacy has declined from Q4-2019 heights of 16.4% as risk-weighted assets rose, banks cleaned up balance sheets via NPL securitisations and impact of IFRS 9 was fully phased in. Bank liquidity positions have bettered since the Covid-19 crisis, with liquidity coverage ratios of 194.9% as of Q3 2022, above a pre-Covid ratio of 130.8%. Profitability returned to positive terrain in 1H 2022, due to declining loan loss provisioning and increased non-recurrent income from financial operations and hedging instruments. The system-wide NPL ratio has continued to decline significantly and reached 9.1% by September 2022 on a consolidated basis, with all four systemic Greek banks achieving a single-digit NPL ratio objective by end-2022. Nevertheless, the NPL ratio remains well above EU averages (of 1.8% as of September) and future rises of NPLs cannot be excluded under a context of tight financial conditions for households and businesses.
- **Private debt:** Non-financial private-sector debt amounted to 110.9% of GDP in Q3 2022, well under a euro-area average of 167.5% of GDP the same quarter, but above a pre-crisis level of 110.7% as of end-2019 – according to Bank for International Settlements data. Resident deposits stood at near a ten-year high at EUR 192.5bn as of November 2022, anchored by higher savings of households and non-financial corporates.
- **Financial imbalances:** Provisions of credit by banks to the private sector have improved since the 2H of 2022, although remaining structurally weak. Annual growth of net credit to non-financial corporates has risen. However, annual net credit growth to households remains negative. The latter reflects existing private-sector cash cushions accrued since the pandemic crisis. Pressures on banking-system asset quality remain from high shares of deferred tax credits within aggregate bank capital (which accounted for 63% of total prudential own funds as of June 2022, accounting for the fully phased-in impact of IFRS 9) and still elevated NPL ratios (49.7%) affecting non-significant banks, which did not have the possibility of benefitting from government guarantee schemes. In addition, bank domestic government bond holdings, equity stakes held by the state in the banks and state guarantees under the Hercules Asset Protection Scheme suggest a strengthened sovereign-bank nexus – raising contingent risks for the sovereign under stressed banking-system scenarios.

Overview of Scope's qualitative assessments for Greece's *Financial Stability Risks*

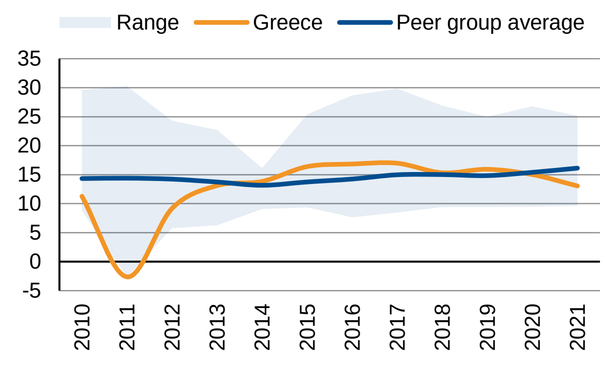
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Banking sector performance	Weak	-1/3	Low profitability; poor asset quality and weak capital ratios; sharp reductions in NPLs and strengthened liquidity
	Banking sector oversight	Strong	+1/3	Effective oversight under the Bank of Greece and the ECB as part of Banking Union
	Financial imbalances	Neutral	0	Moderate private debt; no credit growth imbalances such as those of sovereign peers; banks' interconnectedness with the sovereign

Non-performing loans, % of total loans



Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

ESG Risks

- **Environment:** Greece is exposed to natural-disaster risks such as wildfires and droughts, furthermore contending with existing challenges surrounding water management, air pollution and the shifting of the energy mix to cleaner sources. In 2021, Greece's climate footprint was below the EU average (per capita emissions of 4.8 tonnes of CO_2/year against an EU average of 6.7), while 35% of electricity was derived from renewables (slightly below an EU average of 37%) as of 2020. The government aims to reach >55% reductions of greenhouse gas emissions by 2030 as compared with 2005 levels, 80% by 2040 before full carbon neutrality by 2050. Diversification of Greece's energy mix must be further accelerated, however: as of 2020, 50% of the energy mix was composed of crude petroleum and 24% of natural gas. Issuance of an inaugural green sovereign bond has been postponed to late 2023 due to market conditions.

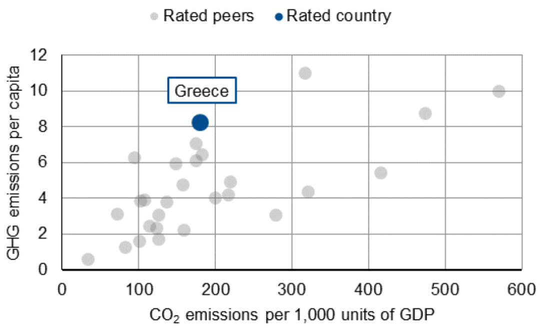
- **Social:** Greece sees net emigration and a declining working-age population, high and rising old-age dependency and structurally elevated unemployment. Unemployment stood at 10.8% against an EU average of 6.1% as of January 2023. Greek unemployment, however, has been on a steadily declining path. Unemployment of those below 25 years of age was an elevated 28.9% as of December, below the 29.6% of Spain, but above a 22.2% figure of Italy. Regional inequalities are evident in labour productivity and labour-market conditions, with nearly two thirds of economic activity concentrated in regions of Attica and North Macedonia. The share of persons at risk of poverty and social exclusion is still high, at 28.3% in 2021.

- **Governance:** While Greece scores moderately on World Bank Worldwide Governance Indicators, a reform agenda since 2017 has advanced institutional scores and progress on areas such as tax administration and compliance, the judicial system, public administration, and anti-corruption. The effective implementation of an economic and institutional reform agenda has been advanced by comparatively stable policymaking conditions under the absolute parliamentary majority of Prime Minister Kyriakos Mitsotakis' government since 2019. His party is leading opinion polling, ahead of next elections possibly to be announced for 9 April 2023 under a new proportional representation system. A second round of elections appears likely at this stage. Any electoral uncertainty and/or post-election pivot of fiscal policy could raise financial risk.

Overview of Scope's qualitative assessments for Greece's *ESG Risks*

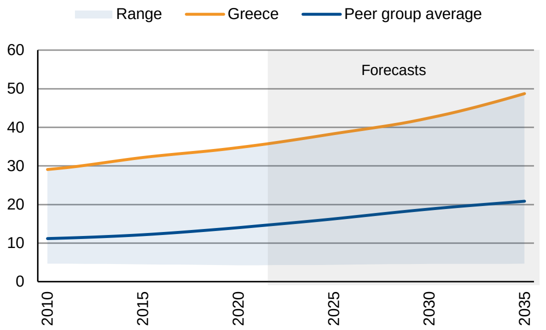
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Environmental factors	Neutral	0	High exposure to natural-disaster risks; ambitious decarbonisation targets; low share of renewables in aggregate energy mix
	Social factors	Weak	-1/3	Adverse demographics; moderate educational outcomes but long healthy life expectancy; inequality between the regions and elevated poverty
	Governance factors	Neutral	0	Comparatively stable political conditions and institutional reforms but forthcoming elections; lingering geopolitical tensions

Emissions per GDP and per capita, $mtCO_2e$



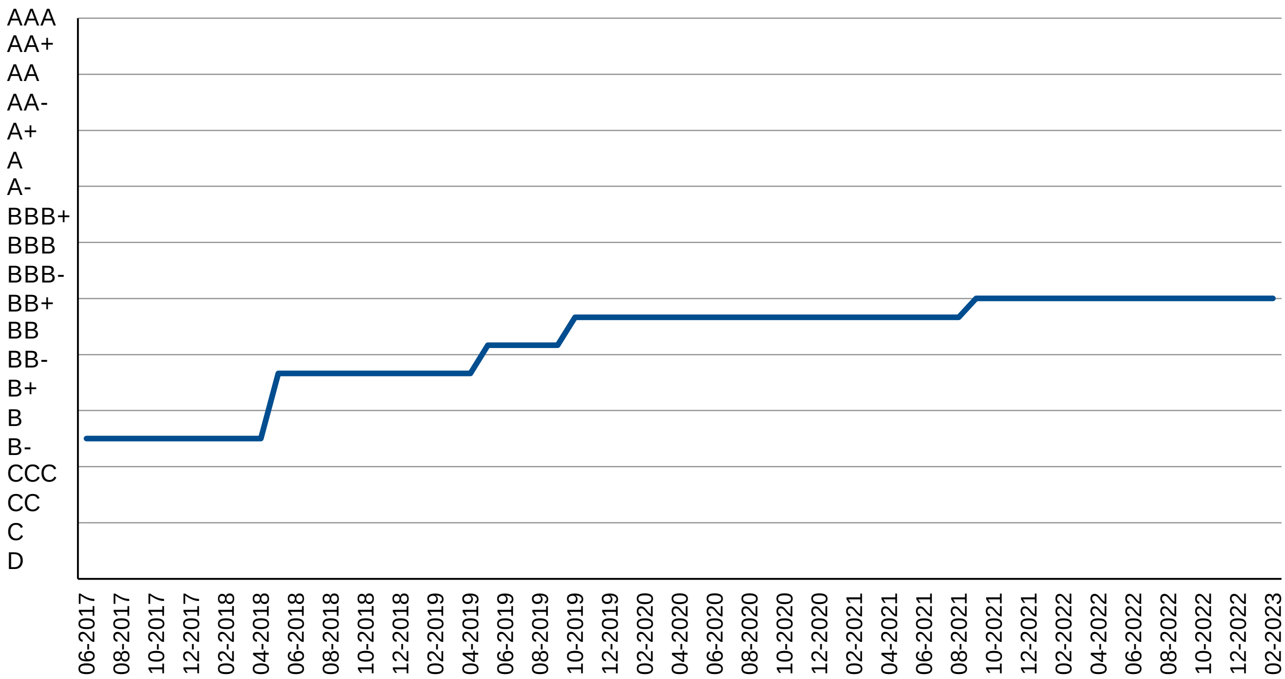
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term debt)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard, including a methodological reserve-currency adjustment.

Peer group*
Georgia
Serbia
South Africa
Turkey

*Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2017	2018	2019	2020	2021
Domestic Economic	**GDP per capita, USD '000s**	IMF	18,552	19,751	19,130	17,603	20,263
	Nominal GDP, USD bn	IMF	199.8	212.1	205.2	188.7	216.4
	Real growth, %	IMF	1.1	1.7	1.8	-9.0	8.3
	CPI inflation, %	IMF	1.1	0.8	0.5	-1.3	0.6
	Unemployment rate, %	WB	21.5	19.3	17.3	16.3	14.8
Public Finance	**Public debt, % of GDP**	IMF	183.2	190.7	185.6	212.4	199.4
	Interest payment, % of revenue	IMF	6.4	6.9	6.3	6.1	5.0
	Primary balance, % of GDP	IMF	4.1	4.2	3.2	-7.9	-5.5
External Economic	**Current account balance, % of GDP**	IMF	-2.6	-3.6	-2.2	-7.3	-6.5
	Total reserves, months of imports	IMF	1.2	1.0	1.1	1.8	1.6
	NIIP, % of GDP	IMF	-152.3	-144.1	-154.7	-187.0	-163.5
Financial Stability	**NPL ratio, % of total loans**	IMF	45.6	42.0	36.4	27.0	9.2
	Tier 1 ratio, % of risk-weighted assets	IMF	16.6	15.8	14.9	14.6	13.7
	Credit to private sector, % of GDP	WB	100.9	91.7	81.0	82.3	-
ESG	**CO_2 per EUR 1,000 of GDP, $mtCO_2e$**	EC	226.4	217.0	197.3	180.3	170.1
	Income share of bottom 50%, %	WID	20.1	21.0	21.0	21.0	21.0
	Labour-force participation rate, %	WB	68.3	68.4	68.7	-	-
	Old-age dependency ratio, %	UN	33.2	33.7	34.2	34.8	35.4
	Composite governance indicators*	WB	0.2	0.3	0.4	0.4	0,4

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 2 March 2023	99.8

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