Hellenic Republic
Rating Report

SCOPE **BB+** STABLE OUTLOOK

Credit strengths

- Strong European institutional support, via EU and Eurosystem
- Very strong profile of public debt
- Outperformance of fiscal metrics
- Structural reform, 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, such as the ECB's Pandemic Emergency Purchase Programme (PEPP), anchor Greece's credit ratings. Despite faster ECB monetary policy tightening appropriately announced, the central bank remains committed to maintaining flexibility of reinvestments under PEPP and is preparing a novel 'anti-fragmentation' instrument near term. Such instruments, alongside EU fiscal support via the Next Generation EU Programme, are fundamental to supporting Greece's market access – and represent a change from Greece's exclusion from such monetary operations pre-Covid. This supports debt sustainability and creates fiscal space for authorities.

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 fiscal deficit. Fiscal dynamics are further supported by past significant improvements made to the public debt structure.

Structural reform: Banks have continued to substantively curtail high non-performing loans (NPLs) – targeting single-digit NPL ratios by year-end. However, banking-system stability remains challenged by reductions of capital adequacy ratios and a strengthened sovereign-bank nexus.

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

Greece's sovereign rating drivers

Risk pillars		Quantitative scorecard: Weight	Quantitative scorecard: Indicative rating	Reserve currency adjustment (notches)	Qualitative scorecard: Notches	Extraordinary adjustment* (notches)	Final rating
Domestic Economic Risk		35%	a+		-2/3		
Public Finance Risk		25%	bbb-		+2/3		
External Economic Risk		10%	c		+1/3		
Financial Stability Risk		10%	bb+		0		BB+
ESG Risk	Environmental Risk	5%	a-		0		
	Social Risk	5%	b+		-1/3		
	Governance Risk	10%	bb-		0		
Overall outcome		bb+		+1	0	-1	

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. *This reflects a one-notch negative adjustment made at rating-committee level to account for the persistence of banking-sector challenges as evidenced by an elevated ratio of non-performing loans, weighing on domestic investment and economic growth potential. For details, please see Scope's 'Sovereign Ratings' methodology. Source: Scope Ratings GmbH.

Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

Positive rating-change drivers

- Eurosystem support further reinforced
- Sustained declining debt trajectory
- Strengthened economic sustainability
- Banking risks furthered curtailed

Negative rating-change drivers

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

Ratings and Outlook

Foreign currency

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

Local currency

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

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Bloomberg: RESP SCOP

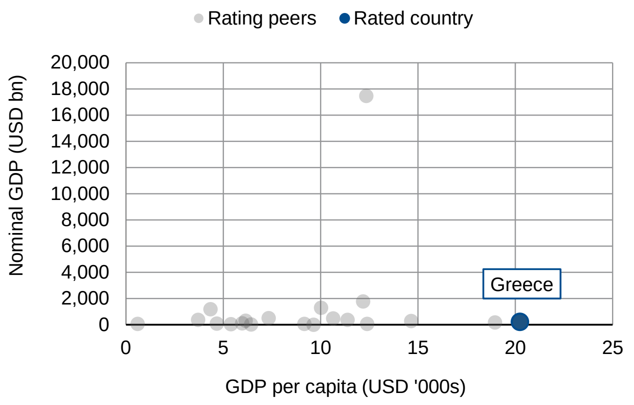
Domestic Economic Risks

- **Growth outlook:** After economic contraction of 9% in real terms during 2020, output recovered sturdily in 2021, recording 8.3% growth with recovery gaining further traction in the first quarter of this year, observing quarterly growth of a stronger-than-anticipated 7.9% YoY. The recovery has been anchored by better-than-expected tourism seasons, private consumption regaining pre-pandemic levels and a boost of private investment supported by government measures for businesses and gradual roll-out of the Recovery and Recovery Plan. Despite limited exposure to Russia for Greece's tourism and banking sectors, ongoing conflict in the Ukraine impedes the growth outlook, especially owing to higher energy and food prices and consequent slowdown of private consumption from erosion of household real disposable income. We estimate real growth of 4.9% in 2022, nevertheless revised up from 3.4% under April 2022 estimates after the strong Q1 GDP, before 2.1% in 2023 (revised down from 2.3% in April forecasts).
- **Inflation and monetary policy:** After 1.2% average annual inflation of 2021, CPI has continued on an increasing trend, reaching a staggering 11.3% YoY by May 2022. As announced by the ECB, monetary tightening is expected to be implemented faster than previously anticipated. We expect 125bps of increases of the deposit rate by year-end (reaching 0.75%), starting with a 25bp hike later this month, before reaching an upper end of the 'neutral rate' at 1.5% by end-2023, after a halt of net purchases under Asset Purchase Programme on 1 July 2022. Still, flexibility applied to reinvestments under PEPP – including forthcoming front-loading of purchases of Greek debt – alongside the expected introduction of a novel anti-fragmentation instrument support Greek debt markets and reinforce Eurosystem support for Greece as being more permanent, rather than specific to the Covid-19 crisis.
- **Labour markets:** Strong economic recovery has anchored robust growth of employed persons, especially since mid-2021 (+8.5% YoY in April 2022). The unemployment rate continued to decline in 2022, reaching 12.5% in April, down from 20.3% at June 2020 peaks. We see Greek unemployment dropping to 12.4% on average in 2022 before 11.7% in 2023. Despite robust labour-market recovery, Greek unemployment remains elevated, however, once compared against that of European peer economies (EU average unemployment of 6.1% in May 2022).

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

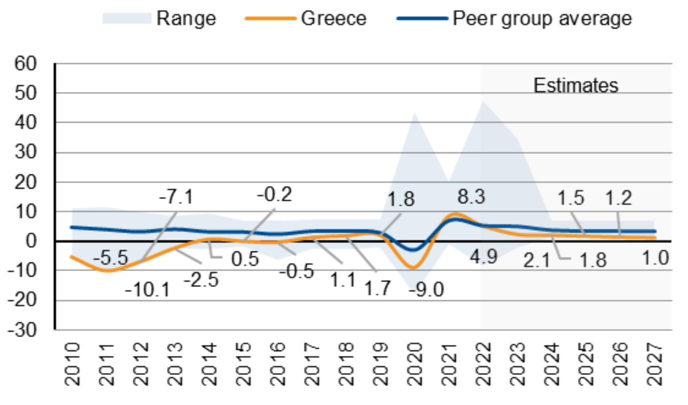
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Growth potential of the economy	Weak	-1/3	Substantial investment gaps in several sectors; low level of innovation; comparatively weak economic growth potential
	Monetary policy framework	Neutral	0	ECB is a highly credible 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 of the labour market

Nominal GDP and GDP per capita, USD '000s



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

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

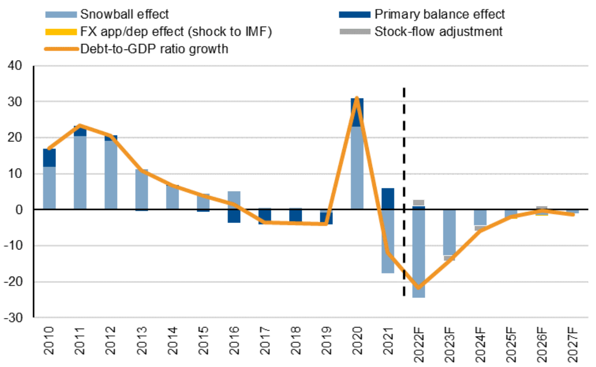
Public Finance Risks

- **Fiscal outlook:** Greece's headline budget deficit moderated to 7.4% of GDP last year, from 10.2% in 2020. Implementation of fiscal measures alleviating the effects of high inflation, consisting of targeted tax reductions and subsidies for households, has required a supplementary budget of EUR 2bn (0.9% of GDP) early April. Authorities intend to make permanent earlier reductions of the solidarity tax and social security contributions introduced during the pandemic crisis, with an estimated budget cost of 0.8% of GDP a year. We expect a headline deficit of 3.9% of GDP (and primary deficit of 1%) this year, better than government objectives of 4.4% (and 2%) respectively, before a balanced primary account is reached over 2023-27, with a headline deficit of circa 3% of GDP in those years.
- **Debt trajectory:** The aggregate debt stock is estimated to have declined rapidly from 206.3% of GDP in 2020 to 193.3% in 2021 and is seen dropping significantly to 171.6% in 2022 (dipping under pre-Covid-crisis levels of 180.7% of end-2019), before moderating to 147.9% by 2027 (which, if so, would be the lowest such public debt ratio since Q3-2010). This assumes real output growth of 1.4% on average between 2024 and 2027 and, more crucially, GDP deflator inflation remaining 2.2% on average over 2024-27 after 10.9% for 2022 and 7.6% in 2023. Assuming 10-year financing rates of around 3.75% over the forecast horizon, net interest payments rise modestly to circa 3.2% of GDP by 2027, from 2.8% in 2021.
- **Debt profile and market access:** Greece benefits from a strengthened structure of public debt: >85% of the debt is held on the official-sector balance sheet, after one reflects Greek securities temporarily held via the Eurosystem. This is, furthermore, anchored by a long weighted average maturity of debt (19 years as of 2022) and modest weighted average interest cost of outstanding debt (1.6%, rising from a 2021 low of 1.4%). The 10-year Greece yield increased to 4.7% mid-June, before easing to 3.6%. Yields nevertheless reflect levels not seen since Covid-19 crisis peaks. 99% of debt is fixed rate, curtailing risk from interest-rate changes, and debt amortisations are evenly distributed over the medium run, anchoring moderate gross government financing requirements of 10.8% of GDP a year over 2022-26. A cash buffer of about EUR 38bn as of mid-April 2022 (bolstered from EUR 32bn as of end-2021) abets resilience.

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

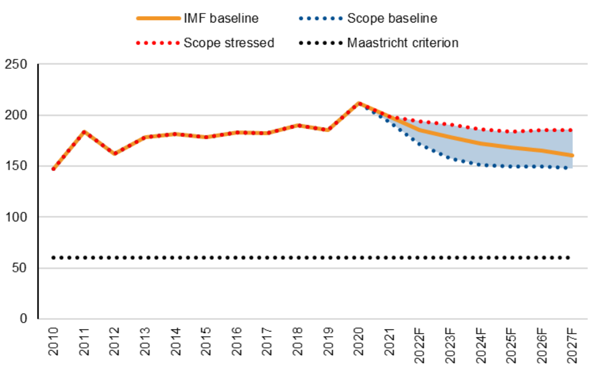
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Fiscal policy framework	Strong	+1/3	Improved national fiscal framework; benefits from EU/euro-area fiscal governance institutions
	Debt sustainability	Neutral	0	Very high public-sector debt, but stronger decline expected for debt trajectory than IMF baseline; lower risk from rate rises or forex volatility
	Debt profile and market access	Strong	+1/3	Debt with very long maturity and fixed rate, manageable gross financing requirements, limited FX exposure, elevated debt ownership by official sector and cash cushion; sharp rise of borrowing rates; strengthened access to regional/international 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

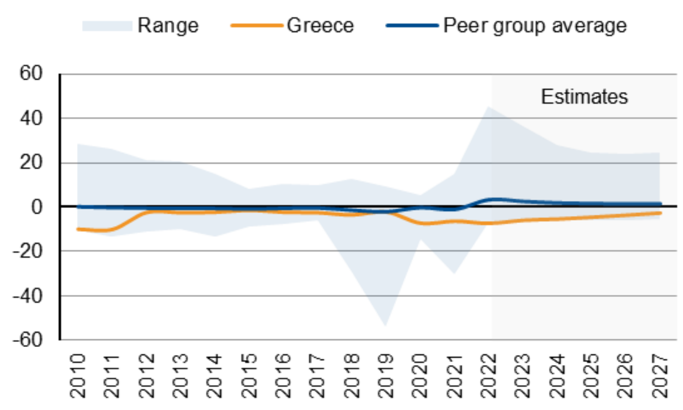
External Economic Risks

- **Current account:** Greece's external position was characterised by structural current account deficits of circa 1.5-3% of GDP over years immediately pre-Covid crisis. In 2020, this current-account deficit widened significantly to 6.6% of GDP before improving during 2021 to 5.9%, supported by recovery of travel and sea transportation receipts alongside steady recovery of exports of goods. However, 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 imports from Russia, which accounted for 39% of aggregate natural gas imported. As such, the current-account deficit weakened to 7.4% of GDP in the year to April 2022. This current-account deficit is expected by the IMF to gradually moderate medium run (to 2.7% of GDP by 2027), supported by redressals of supply-chain constraints and further normalisation in the tourism services sector, which is seen fully recovering to pre-pandemic levels next year.
- **External position:** Greece has a sizeable net international investment liability position of 171.5% of GDP as of Q1 2022 (near a record high net liability ratio), although this is off peaks of 181.8% as of Q2 2021 and anticipated to shrink further medium run – in line with gradual redemptions of concessional economic assistance loans. In Q1 2022, gross external debt stood at an elevated 299% of GDP, 5.6pps under levels of the same quarter of 2021. However, nearly 70% of external debt holds a long maturity. External debt is mostly owed by government (50.3% of aggregate external debt) and the central bank (22.3%). A Target-II balance stood at EUR -106.1bn as of April 2022, significantly below 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. As of Q1 2022, euro accounted for 20.1% of global allocated reserves, comparatively unchanged from a 20.5% share of reserves one year before.

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

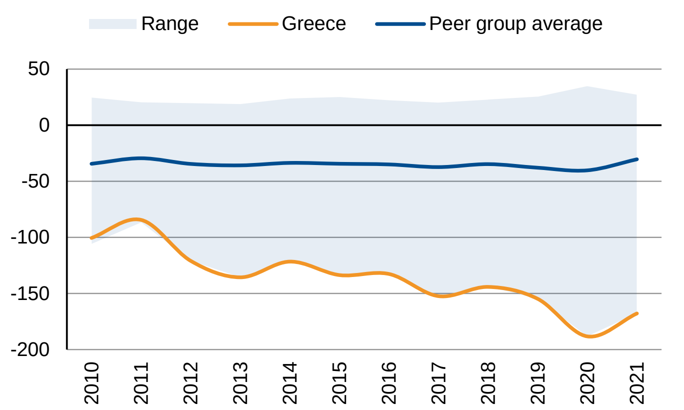
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
c	Current account resilience	Neutral	0	High reliance on tourism revenue; improvements in attractiveness for foreign direct investment; widening of current-account deficit
	External debt structure	Strong	+1/3	Elevated external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

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings forecasts

Net international investment position, % of GDP



Source: IMF, Scope Ratings GmbH

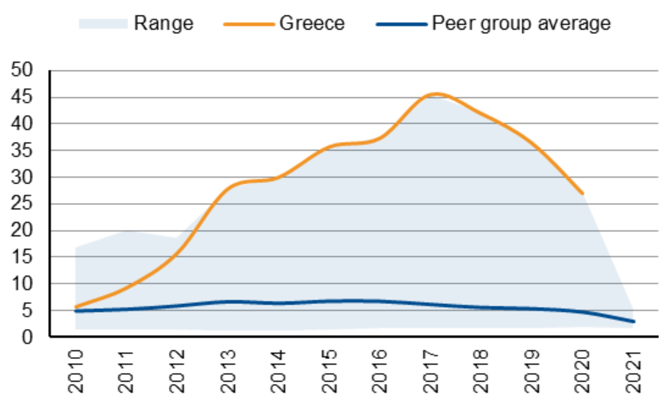
Financial Stability Risks

- **Banking sector:** Greek banks remain adequately capitalised, with a system-wide tier 1 ratio exceeding minimum regulatory requirements, albeit of a curtailed 12.8% of risk-weighted assets as of Q1 2022, down from 15.2% in Q4 2020 – as banks clean up balance sheets via NPL securitisations and due to full phase-in of the impact of IFRS 9. However, banks' liquidity positions improved since the Covid-19 crisis, with liquidity coverage ratios of 200.1% as of Q1 2022, down on Q3-21 peaks of 209.5%, but above a pre-Covid ratio (130.8%). Profitability has remained constrained by provisioning requirements due to securitisation sales of NPL portfolios by the four systemic banks. The NPL ratio has declined significantly from 48.9% as of March 2018, reaching 11.6% by March 2022, although remaining well above an EU average (of 1.9%). Two of the four systemic Greek banks (Eurobank, National Bank of Greece) have already achieved a single-digit NPL ratio, with the remaining two expected to achieve this by end-2022.
- **Private debt:** Total non-financial private sector debt amounted to 121.6% of GDP in Q4 2021, well under a euro-area average of 171.9% of GDP of the same quarter, but above a pre-crisis level of 110.9% as of end-2019 – according to Bank for International Settlements data. Private-sector deposits reached a ten-year high of EUR 180bn in Dec-2021, anchored by budgetary and monetary support as well as raised savings of households and of non-financial corporates.
- **Financial imbalances:** Provisions of credit by banks to the private sector remain structurally weak. Annual growth of net credit to non-financial corporates was 7.3% in May 2022, having picked up somewhat over recent months. However, net credit growth to households remains negative. This reflects existing private-sector cash cushions accrued since the pandemic crisis as well as transition from corporate reliance on bank lending to instead on bond issuance. Despite significant reduction of NPLs, pressures on banking-system asset quality remain from high shares of deferred tax credits in bank capital (which accounted for 64% of supervisory capital as of end-2021). In addition, banks' domestic government bond holdings, equity stakes held by the state in the banks and state guarantees under the Hercules Asset Protection Scheme imply a strengthened sovereign-bank nexus – increasing contingent risks for the sovereign under stressed banking-system scenarios.

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

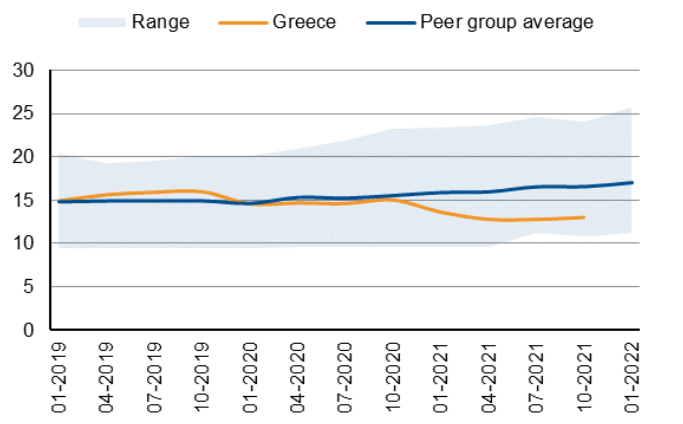
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Banking sector performance	Weak	-1/3	Low profitability, poor asset quality and weakening of capital ratios; sharp reductions of NPLs and strengthened liquidity
	Banking sector oversight	Strong	+1/3	Effective oversight 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; interconnectedness of banks with the sovereign

Non-performing loans, % of total loans



Source: World Bank, Scope Ratings GmbH

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings GmbH

ESG Risks

- **Environment:** Greece is exposed to natural disaster risks such as wildfires and droughts, furthermore contending with existing challenges around water management, air pollution and shifting of an energy mix to cleaner sources. In 2020, Greece's climate footprint was slightly under an EU average (per capita emissions of 7.1 tonnes of CO_2/year), while 35% of electricity was derived from renewables (slightly under an EU average of 37%). The climate law draft submitted end-2021 supports an ambitious sustainability agenda, with government aiming to reach >55% reductions of greenhouse gas emissions by 2030 as compared with 2005 levels, 80% by 2040 before full carbon neutrality by year 2050. Diversification of the 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. The issuance of an inaugural green sovereign bond planned by the Public Debt Management Agency is seen by Q4 2022 or Q1 2023.

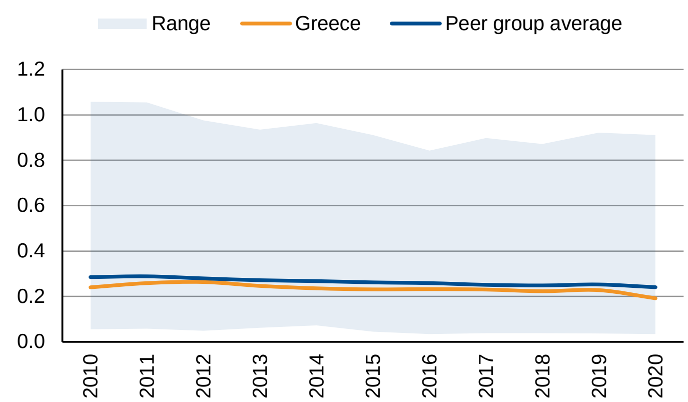
- **Social:** Greece experiences net emigration and a declining working-age population, high and increasing old-age dependency and structurally elevated unemployment, although, as regards the latter, declining as compared with crisis peaks. Unemployment of those under 25 years old was an elevated 36.8% as of April 2022, compared with 28.6% of Spain and 22.6% in Italy. Regional inequalities are evident in labour productivity and labour-market conditions, with half of the population and almost two thirds of economic activity concentrated in regions of Attica and North Macedonia. Although declining since 2017, the share of persons at risk of poverty and social exclusion remains high, of 21.9% in 2021.

- **Governance:** While Greece scores moderately on World Bank Worldwide Governance Indicators, a reform agenda since 2017 has supported improvement of institutional robustness and progress under 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 policy-making conditions in view of an absolute parliamentary majority of Prime Minister Kyriakos Mitsotakis' New Democracy since 2019. His party is leading opinion polling, ahead of next elections by summer 2023, although a coalition government is likely to be required following elections.

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

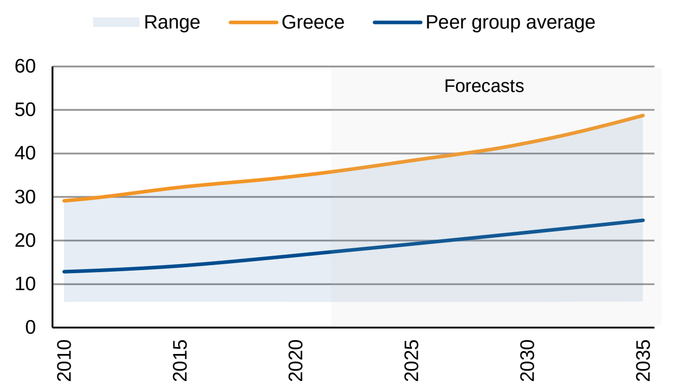
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Environmental risks	Neutral	0	High exposure to natural disaster risk; ambitious decarbonisation targets; low share of renewables in energy mix
	Social risks	Weak	-1/3	Adverse demographics; moderate educational outcomes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

CO_2 emissions per GDP, $mtCO_2e$



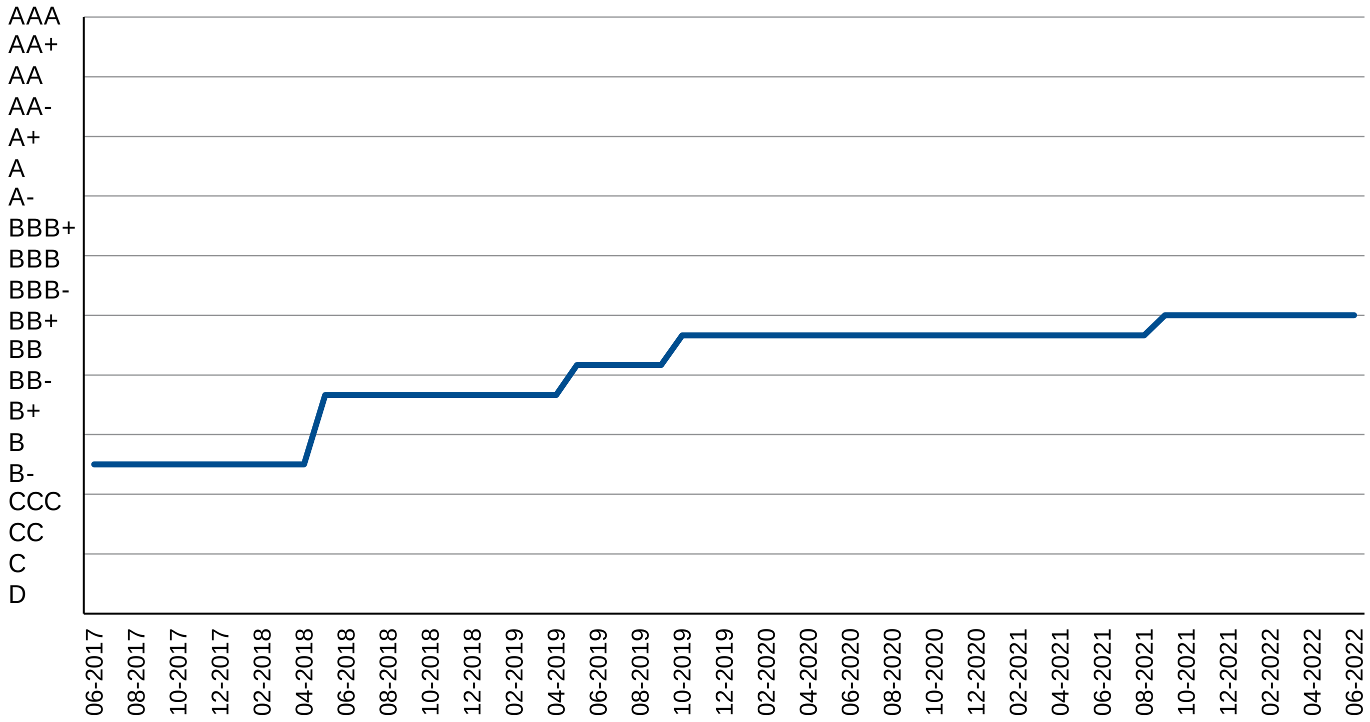
Source: European Commission, Scope Ratings GmbH

Old age dependency ratio, %



Source: United Nations, Scope Ratings GmbH

Appendix I. Rating history



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 embedding a methodological reserve-currency adjustment.

Peer group*
Georgia
Romania
Serbia
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 29 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard.

	2016	2017	2018	2019	2020	2021E	2022F	2023F
Domestic Economic Risk								
GDP per capita, USD '000s	17.9	18.6	19.8	19.1	17.6	20.3	20.9	22.2
Nominal GDP, USD bn	193.1	199.8	212.1	205.2	188.7	216.4	222.8	234.8
Real growth, %[1]	-0.5	1.1	1.7	1.8	-9.0	8.3	4.9	2.1
CPI inflation, %[1]	0.0	1.1	0.8	0.5	-1.3	0.6	11.1	7.6
Unemployment rate, %[1]	23.6	21.5	19.3	17.3	16.4	15.0	12.4	11.7
Public Finance Risk								
Public debt, % of GDP[1]	180.5	179.5	186.4	180.7	206.3	193.3	171.6	157.4
Interest payment, % of government revenue	6.4	6.4	6.9	6.3	6.1	5.8	5.9	6.1
Primary balance, % of GDP[1]	3.5	4.1	4.2	3.2	-7.9	-5.9	-1.0	0.0
External Economic Risk								
Current account balance, % of GDP[1]	-1.7	-1.9	-2.9	-1.5	-6.6	-5.9	-7.4	-6.0
Total reserves, months of imports	1.2	1.2	1.0	1.1	1.8	-	-	-
NIIP, % of GDP	-132.5	-152.3	-144.1	-154.7	-188.1	-167.7	-	-
Financial Stability Risk								
NPL ratio, % of total loans	37.4	45.6	42.0	36.4	27.0	-	-	-
Tier 1 ratio, % of risk-weighted assets	16.8	17.0	15.3	15.9	15.0	13.1	-	-
Credit to private sector, % of GDP	108.6	100.9	91.7	81.0	82.3	-	-	-
ESG Risk								
CO_2 per EUR 1,000 of GDP, mtCO_2e	232.0	230.2	222.7	227.5	192.0	-	-	-
Income quintile share ratio (S80/S20), x	6.6	6.2	5.6	5.7	-	-	-	-
Labour-force participation rate, %	68.3	68.3	68.4	68.7	-	-	-	-
Old-age dependency ratio, %	32.8	33.2	33.7	34.2	34.8	35.4	36.1	36.8
Composite governance indicator[2]	0.1	0.2	0.3	0.4	0.4	-	-	-

[1] Forecasted values are produced by Scope
[2] Average of the six World Bank Worldwide Governance Indicators
Source: European Commission, IMF WEO, World Bank, Scope Ratings GmbH

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 8 July 2022	177.5

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