

Hellenic Republic

Rating Report



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 faster ECB monetary policy tightening announced, the central bank remains committed to maintaining flexibility of reinvestments under the Pandemic Emergency Purchase Programme (PEPP) and has detailed a novel 'anti-fragmentation' instrument. Such instruments, alongside EU fiscal support via the Next Generation EU programme, are fundamental to supporting Greek market access – and represent a change from Greece's exclusion from such monetary operations pre-Covid. 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 of the public debt structure – such as low interest costs.

Structural reforms: Banks have continued to substantively curtail high non-performing loans (NPLs) – reaching a 9.5% system-wide average by Q2 2022. However, banking-system stability remains challenged by reductions of 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 weaknesses.

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 over the next 12-18 months.

Positive rating-change drivers

- "Permanent" European support
- Sustained declining debt trajectory
- 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

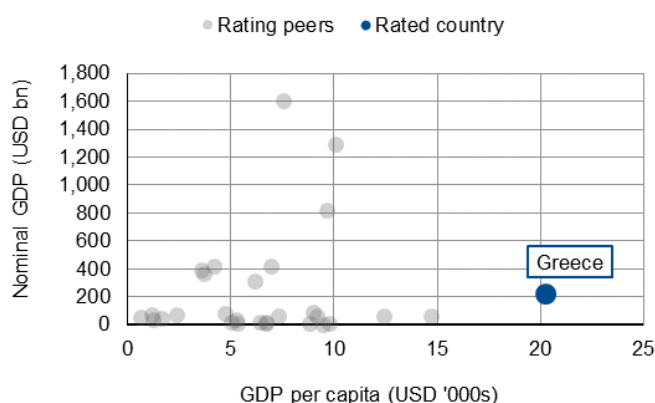
Domestic Economic Risks

- **Growth outlook:** Output recovered strongly in 2021, recording 8.3% growth, after the 9% contraction of the real economy during 2020. Greece's recovery sustained momentum during the 1H of this year, anchored by a buoyant tourism-receipts season, strong private consumption and recovery of private investment, helped by government measures for businesses and adoption of Recovery and Recovery Plan assignments. However, despite limited exposure to Russia of the Greek tourism and banking sectors, war in the Ukraine impedes the growth outlook, especially from higher energy and food prices and consequential slowdown of private consumption due to erosion of household real disposable income. We have assumed sharp slowdown starting Q3 of this year. Nevertheless, we estimate growth of 6% for 2022 (revised up from 4.9% in July forecasts), before 1.1% in 2023 (revised from 2.1%) and 1.5% in 2024.
- **Inflation and monetary policy:** HICP inflation reached a record-high of 12.1% YoY in September 2022, before easing to 9.5% in October. Scope expects inflation to average 9.5% in 2022, before 5.4% in 2023 and 2.4% in 2024. Inflationary pressures were 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 200bps since July 2022, and we expect further interest-rate hikes to about 3% (for the deposit rate) by 1H-2023, accompanied by start of reductions of balance-sheet bond holdings next year. Still, flexibility applied to reinvestment under the PEPP – including front-loading of purchases of Greek debt – alongside announcement of a novel 'Transmission Protection Instrument' – support Greek debt markets and reinforce our assumption of Eurosystem support for Greece being more enduring, rather than specific to the Covid-19 crisis.
- **Labour markets:** The employment rate has risen strongly starting spring of 2020, with annual growth of employment peaking at 16.7% in May 2021. Employment growth has decreased recently, due to weaker job creation during economic slowdown. Limitations in economic diversification, rigidities in the labour market and high structural unemployment are credit-ratings constraints, although we expect unemployment to moderate to 12.4% on average in 2022, before 12.1% in 2023 and 12.0% in 2024, from the 14.8% average of 2021.

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

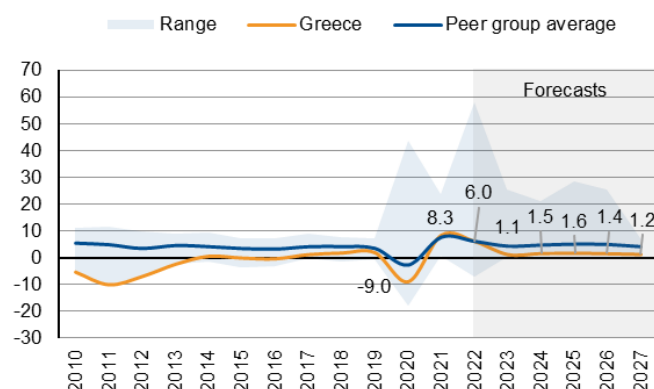
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential of the economy	Weak	-1/3	Substantial investment gaps in several sectors; low levels of innovation; comparatively weak economic growth potential
	Monetary policy framework	Neutral	0	ECB is a highly credible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

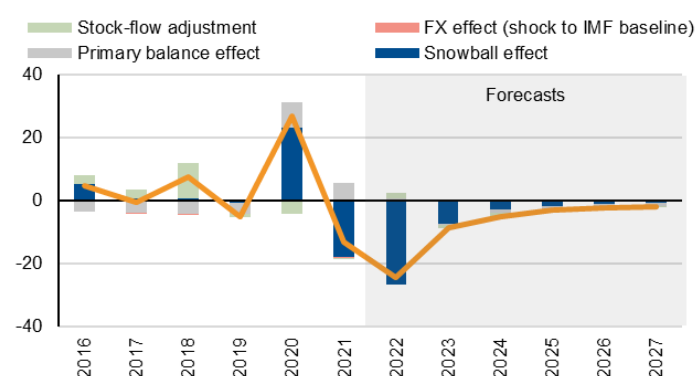
Public Finance Risks

- **Fiscal outlook:** Fiscal performance continued improvements in 2022 due to stronger-than-anticipated rebound of tax revenue on back of robust economic growth and higher inflation. Government expenditure, however, remained at high levels given implementation of measures alleviating effects of high inflation, consisting of targeted tax reduction and subsidies for households – totalling around 2% of GDP this year. Authorities intend to make permanent earlier reductions of the solidarity tax and social security contributions introduced during the pandemic crisis, with an estimated budgetary cost of 0.8% of GDP a year. Such measures are not expected to prevent re-achievement of a primary surplus next year, and we assume primary surpluses of 0.5% in 2023 before 1% of GDP over 2024-27 (although below government targets of 2%). We see a headline deficit of 3.5% of GDP for 2022, declining from the 8.0% deficit for 2021 before headline deficits average 2.6% between 2023-27.
- **Debt trajectory:** The aggregate debt stock is estimated to have declined rapidly from 206.4% of GDP peaks of 2020 to 193.3% by 2021 and is seen dropping significantly to 169% in 2022 (falling under pre-Covid levels of 180.7% as of end-2019) and to 160.3% by 2023, before reaching 147.9% by 2027 (which, if so, would prove the lowest such public-debt ratio since Q1 of 2012). This assumes near-term economic slowdown but above-potential growth over the forecast horizon (highlighting downside risks to the baseline), and GDP deflator inflation averaging 1.9% over 2024-27 after 11.2% for 2022 and 5.4% in 2023. Net interest payments are seen rising to about 8.7% of general government revenue by 2027, from 5.0% at 2021 lows.
- **Debt profile and market access:** Greece benefits from a strong structure of public debt: about 85% of the debt is held on the official-sector balance sheet, after one reflects Greek securities temporarily held via the Eurosystem in this figure. This is, furthermore, anchored by a long weighted-average maturity of debt (18 years as of September 2022) and modest weighted-average net interest cost of outstanding debt (1.6%, having risen from a 2021 low of 1.2%). 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 9.3% of GDP a year over 2023-27. A cash buffer of about EUR 38bn as of mid-April 2022 (bolstered from EUR 32bn as of end-2021) abets resilience. However, the strength of the debt structure is gradually weakening as Greece depends more on market financing.

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

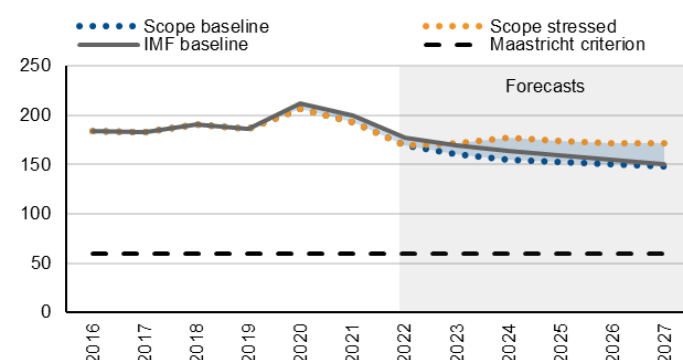
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Fiscal policy framework	Strong	+1/3	Improved national fiscal framework; benefits from EU/euro-area fiscal governance institutions
	Debt sustainability	Neutral	0	Very high public-sector debt but strong decline expected for 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

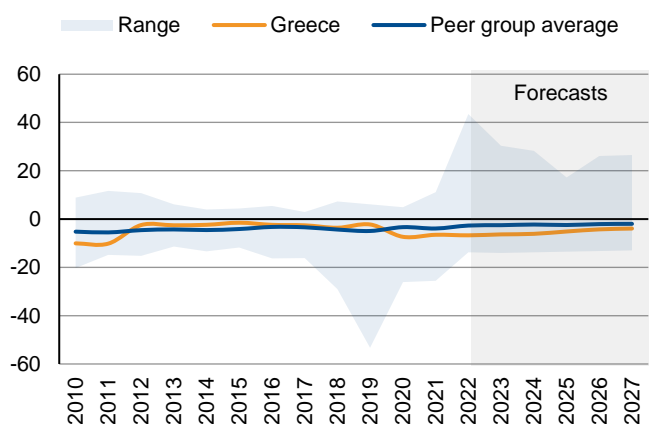
External Economic Risks

- **Current account:** Greece's external position was characterised by structural current-account deficits of about 1.5-3% of GDP over years immediately pre-Covid crisis. In 2020, this current-account deficit widened significantly to 6.6% of GDP before remaining elevated at 6.7% in 2021, despite recovery of travel and sea-transportation receipts alongside steady recovery of 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 stood at a deficit of about 8.4% of GDP in the year to September 2022, and the IMF estimates this deficit to gradually ease to 3.9% of GDP by 2027 – supported by redressal of supply-chain bottlenecks and further normalisation of tourism-services exports.
- **External position:** Greece has a sizeable net international investment liability position of 155.7% of GDP as of Q2 2022, although improved compared with peaks of 180.8% reached in Q2 2021 and anticipated to further shrink gradually long run – as concessional economic assistance loans are redeemed. In Q2 2022, gross external debt stood at an elevated 284% of GDP, nevertheless 24pps below peak levels the same quarter of 2021. Furthermore, nearly 70% of external debt holds a long-term maturity. External debt is mostly owed by government (50.4% of aggregate gross external debt) and the central bank (22.3%). The Greek Target-II balance stood at EUR -105.5bn as of September 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. As of Q2 2022, euro accounted for 19.8% of global allocated reserves, declining from a 20.6% share of global allocated reserves one year before.

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

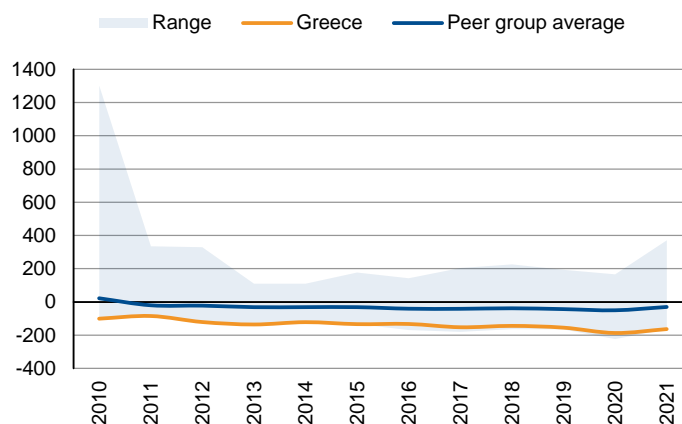
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
c	Current account resilience	Neutral	0	High reliance on tourism revenue; improvements in attractiveness for foreign direct investment; wider current-account deficits than IMF baseline
	External debt structure	Strong	+1/3	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

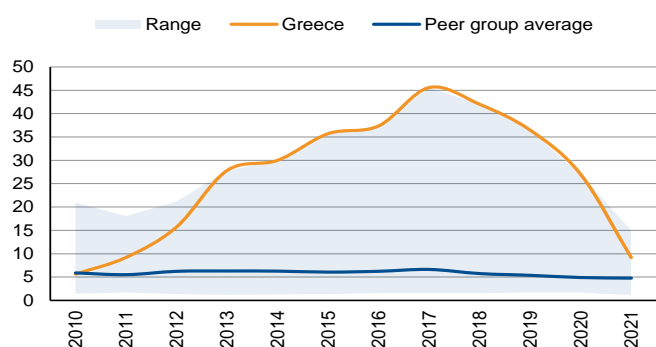
Financial Stability Risks

- **Banking sector:** System-wide tier 1 ratio remains at moderate levels, rising to 13.9% in Q2 2022, from 13.1% in Q1 2022. However, capital adequacy has declined from Q4-19 heights of 16.4% as risk-weighted assets increased, banks continued to clean up balance sheets via NPL securitisation and impact of IFRS 9 was fully phased in. However, bank liquidity positions got better since the Covid-19 crisis, with liquidity coverage ratios of 203.8% as of Q2 2022, above a pre-Covid level of 130.8%. Profitability returned to positive territory in the 1H of 2022, due to declining loan loss provisions and increased non-recurrent income from financial operations and hedging instruments. The system-wide NPL ratio has continued to decline significantly and reached 9.5% in June 2022 on consolidated basis, with all four systemic Greek banks expected to achieve a single-digit NPL ratio objective by end-2022. However, the NPL ratio remains still well above euro-area averages (of 1.8% as of June) and future rises of NPLs cannot be excluded under context of tight financial conditions for households and businesses.
- **Private debt:** Total non-financial private-sector debt amounted to 117.7% of GDP in Q1 2022, well under a euro-area average of 169.5% of GDP the same quarter, but above a pre-crisis level of 110.0% as of end-2019 – according to Bank for International Settlements data. Private-sector deposits reached a ten-year high of EUR 185.5bn in September 2022, anchored by raised savings of households and of non-financial corporates.
- **Financial imbalances:** Provisions of credit by banks to the private sector have improved in the 2H of this year, 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. Pressure on banking-system asset quality remains from high shares of deferred tax credits in 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 high NPL ratios for non-significant banks (49.7%), which did not have 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 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*

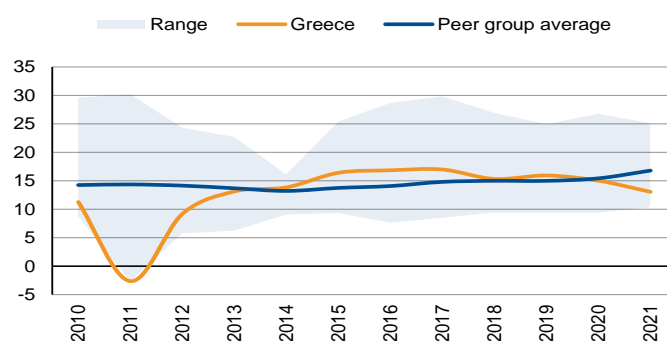
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Banking sector performance	Weak	-1/3	Low, albeit improving, profitability; poor asset quality and weakening capital ratios; sharp reductions of NPLs and strengthened liquidity
	Banking sector oversight	Strong	+1/3	Effective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

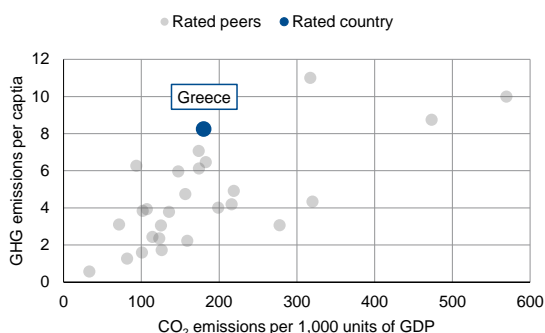
ESG Risks

- **Environment:** Greece is exposed to natural-disaster risks such as wildfires and droughts, furthermore contending with existing challenges around water management, air pollution and shifting of an energy mix to cleaner sources. In 2021, Greece's climate footprint was under the EU average (per capita emissions of 4.8 tonnes of CO₂/year vs an EU average of 6.7), while 35% of electricity was derived from renewables (slightly under an EU average of 37%) as of 2020. The first climate law was passed in May 2022 and 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. Issuance of an inaugural green sovereign bond has been delayed to early 2023 based on market conditions.
- **Social:** Greece sees net emigration and a declining working-age population, high and increasing old-age dependency and structurally elevated unemployment. Unemployment stood at 11.6% vs an EU average of 6% as of October 2022. Greece unemployment, however, has been on a steadily declining path. Unemployment of those under 25 years of age was an elevated 27.3% as of October 2022, below the 32.3% recorded in Spain, but above the 23.9% of Italy. Regional inequalities are evident in labour productivity and labour-market conditions, with half of the population and 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 remains high, at 28.3% 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 held by Prime Minister Kyriakos Mitsotakis' New Democracy since 2019. His party is leading opinion polling, ahead of next elections by summer 2023, although difficult coalition negotiations are likely to be needed following elections with likelihood of a degree of pivot to the left – raising political uncertainty.

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

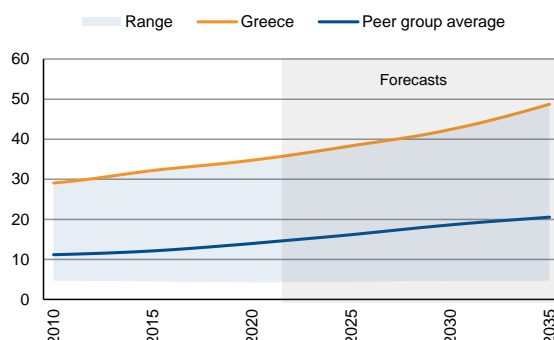
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Environmental factors	Neutral	0	High exposure to natural-disaster risk; ambitious decarbonisation targets; low share of renewables in aggregate energy mix
	Social factors	Weak	-1/3	Adverse demographics; moderate educational outcomes but long healthy life expectancy; inequality between 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, mtCO₂e



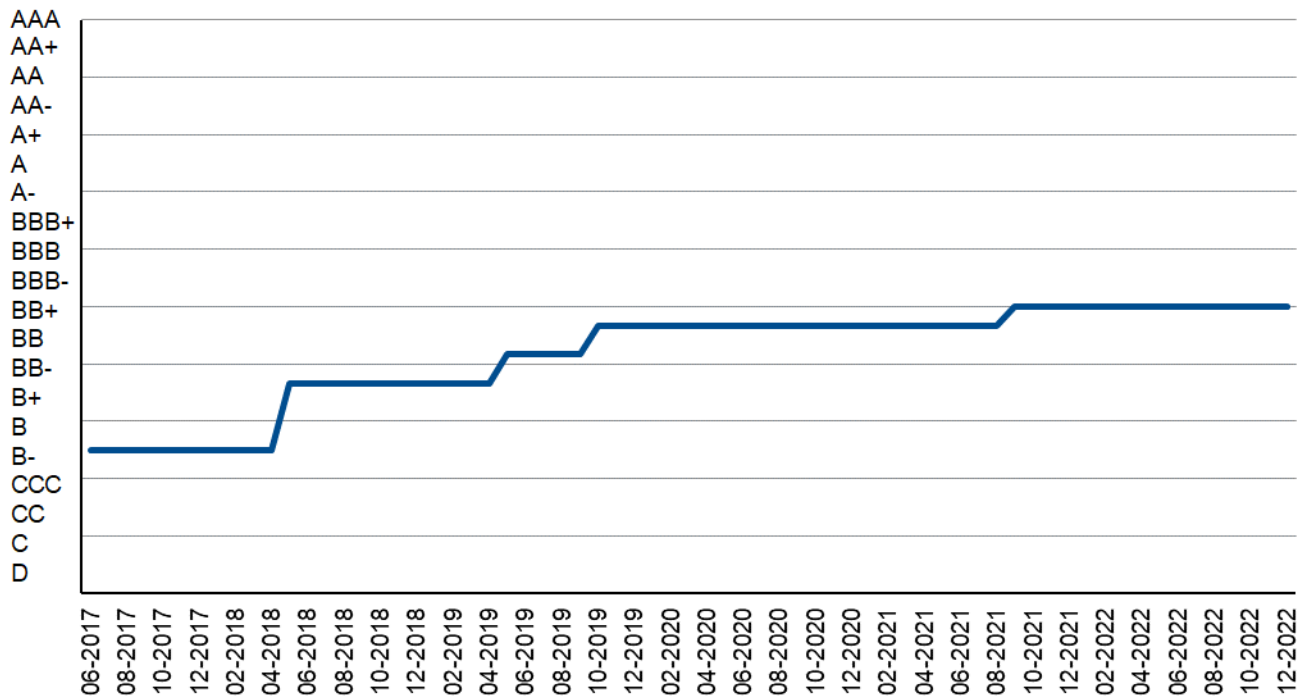
Source: European Commission, Scope Ratings

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
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 ₂ e	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	-

* 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 December 2022

140.0



Hellenic Republic

Rating Report

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