18 May 2018

Public Finance

Hellenic Republic (Greece) Rating Report

SCOPE B+ Positive Outlook

Credit strengths

- Euro area membership
- Compliance with adjustment programme
- Improved budgetary performance
- More favourable policy environment

Credit weaknesses

- High public debt
- Fragile recovery prospects
- Banking sector risks

Rating rationale and outlook: The upgrade to B+ reflects: i) Scope's expectation that Greece will successfully conclude the third adjustment programme, driven by Greece's stabilising macroeconomic indicators along with the government's strong reform progress; ii) structurally improving budgetary performance with fiscal results exceeding targets, backed by a robust public debt profile and an ongoing build-up of a large cash buffer which should support Greece's sustainable return to market funding; and iii) reduced policy uncertainties given the demonstrated support and strong commitments of official euro area creditors to provide Greece with additional debt relief measures along with all major political parties supporting Greece's membership in the euro area. The Positive Outlook reflects Scope's view that risks to the ratings are titled to the upside over the next 12 to 18 months and expectations of potentially further credit-positive outcome as a result of the exit from the adjustment programme and negotiations over debt relief.

Figure 1: Sovereign scorecard results

Scope's sovereign risk categories	Greece	Peer comparison		
		Average	Portugal	Hungary
Domestic economic risk				
Public finance risk				
External economic risk				
Financial risk				
Political and institutional risk				
Qualitative adjustment (notches)	-5		-	-
Final rating	B+		BBB	BBB

AAA AA A BBB BB B CCC CC C

NB. The comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS peer group average is shown with two selected countries chosen from the entire CVS peer group. The CVS rating can be normally adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Positive under-review change drivers

- Agreement on debt relief measures
- Broadened capital market access
- Continuity in fiscal consolidation and reform progress
- Easing banking sector risks and relaxation of capital controls
- Sustained economic growth

Negative under-review change drivers

- Standstill with official creditors about application of debt relief measures
- Limited capital market access remains
- Reversal of reform progress
- Intensifying banking sector risks
- Weakened economic growth prospects

Ratings and outlook

Foreign currency

Long-term issuer rating	B+/Positive
Senior unsecured debt	B+/Positive
Short-term issuer rating	S-4/Positive

Local currency

Long-term issuer rating	B+/Positive
Senior unsecured debt	B+/Positive
Short-term issuer rating	S-4/Positive

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Related research

European Eurogroup & Greece: A dynamic, implicit continuum of debt seniority 30 April 2018

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Domestic economic risk

Growth potential of the economy

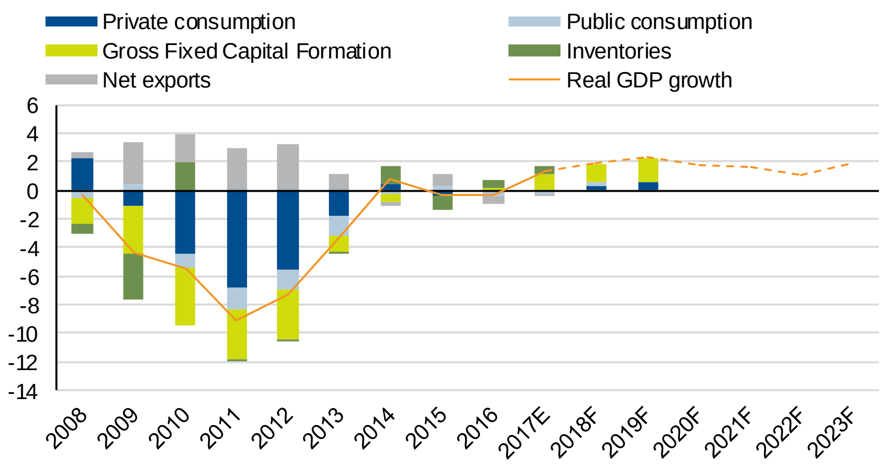
Slow recovery

The Hellenic Republic's B+ rating reflects recent signs of macro-economic stabilisation and improving economic prospects alongside a labour market recovery and amid a period of relative policy certainty, underpinned by on-going implementation of structural reforms. After a prolonged depression, the Greek economy returned to 1.4% growth in 2017, the first time that real GDP growth exceeded 1% since 2007. It is Scope's view that the recovery has been supported by the successful completion of the second EU programme review in June 2017, which buoyed confidence and business activities.

Investment was main growth driver in 2017

As regards the composition of GDP growth in 2017, investment became the main driver of growth with a significant contribution of 1.1% percentage points and a surge in the last quarter (mainly corporate investment). Private consumption added a meagre contribution to growth, while public consumption subtracted 0.2 percentage points from growth. It is Scope's view that the laid-back performance of private consumption indicates that households have remained financially stretched and that improvements in employment are taking longer to translate into consumption growth.

Figure 2: Real GDP growth, % change YoY



Source: IMF

Scope expects stronger real GDP growth of around 2% in 2018-2019, which will likely remain below that of the euro area with no indications of a typical catching-up following the crisis. For 2018-2019, Scope projects that private consumption and investment will be the main drivers of growth, subject to continued commitment to implementing reforms and to fiscal prudence. Private consumption is forecast to accelerate in the coming years on the back of improvements in the labour market and in consumer sentiment.

While the Hellenic Republic's short-term growth outlook is improving, its medium- to long-term economic growth prospects face considerable challenges. Gross investment as a percentage of GDP, now about half of pre-crisis levels, is set to accelerate, but from a low level (investment was 11.7% of GDP versus the euro area average of 20.9% in 2017). Modest support for this will come from further improvements in economic sentiment and the on-going privatisation programme. This is mainly due to a gradual easing of financing conditions, mirroring capital controls and remaining legacy exposure weighing on the banking sector. Depending on the composition of fiscal adjustments going forward, Scope expects additional liquidity stemming from the government's effort to clear its arrears, foreign direct investment, and the support of international financial institutions.

Table of contents

Economic policy framework

On-going structural adjustments support stabilisation

Greece's stabilising macroeconomic situation has been underpinned by structural adjustments leading to some positive trends in employment, job creation and tourism, whose overall result is lower economic risk. Earlier labour market reforms, including employment schemes promoting labour participation, paved the way for the decrease in unemployment and a simultaneous rise in jobs.

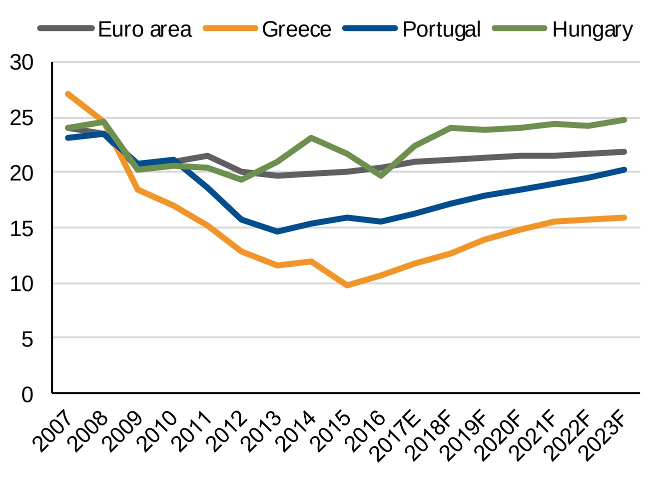
The government has committed to continuing the labour market reforms requested under Greece's third financial assistance programme, including a review of all labour market institutions, an integrated plan to fight undeclared and under-declared work, an expansion of vocational education and training, and the liberalisation of restricted professions. Inflationary pressures are expected to remain subdued this year and next year mainly due to a slow recovery in private consumption. Similarly, wages are expected to rise only slightly.

Macro-economic stability and sustainability

Slow labour market recovery

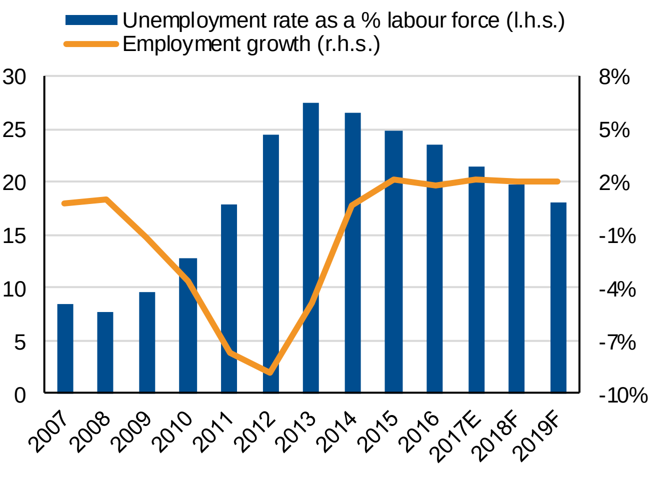
The labour market continues to improve at a slow pace with overall unemployment at 21.5% in 2017 (down from 23.5% in 2016). Following the deceleration of employment during 2015 and 2016, the most recent figures from the national accounts point to a 2.1% increase in employment growth in 2017. Given that the labour force was broadly stable during this time, Scope concludes that the decrease in unemployment reflects more and more people becoming employed rather than discouraged people leaving the labour force altogether.

Figure 3: Investment, % of GDP



Source: IMF; calculations by Scope Ratings GmbH

Figure 4: Unemployment rate & employment growth, in %



Source: IMF; calculations by Scope Ratings GmbH

Scope expects that unemployment will likely fall below 20% by 2019, which would be the first time since 2011. This positive trend was confirmed in Q1 2018, when the employment balance (hires minus exits) in the private sector stayed positive, with net jobs soaring by 65.2% to 55,580 YoY, the highest figure for Q1 since 2001.

Overall, the Hellenic Republic's economic stability remains contingent on its smooth completion of the third programme review and an orderly closure of the current stability support programme in August 2018. Successful completion of the programme will likely contribute to more sustained macro-economic stability amid a gradual relaxation of capital controls, which in turn will likely attract foreign investment.

Public finance risk

Fiscal policy framework

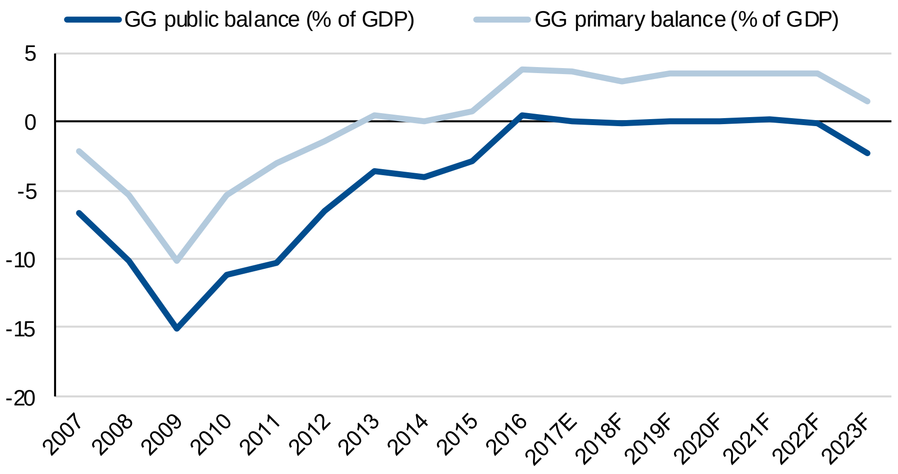
Material structural budgetary improvements

Under the current adjustment programme, and compared to the previous two programmes, Greece has achieved material structural budgetary improvements that provide for sustained fiscal profits going forward. This result was supported by many measures including the 2016 pension reform, expenditure reviews in the healthcare sector, and the stabilisation of the economic and policy environment, following reforms in the tax administration to combat tax fraud and evasion.

Fiscal over-performance three years in a row

In 2017 Greece overachieved the primary surplus target set by the adjustment programme for the third consecutive year. The primary surplus stood at 4.2% of GDP in 2017 under the programme, overshooting the target of 1.75% by a wide margin. The general government balance remained positive for the second consecutive year, increasing to 0.8% of GDP in 2017 from 0.4% of GDP in 2016. The improvement is also driven by better-than-expected revenue growth, which is an additional credit positive development, given that initial fiscal consolidation measures at the beginning of the adjustment process were rather focused on one-off discretionary spending cuts that would be difficult to maintain considering the relatively narrow tax base.

Figure 5: Fiscal developments, % of GDP



Source: IMF

Fiscal over-performance more limited going forward

Revenue growth in 2017 was supported by strong collection of tax arrears including property taxes, higher-than-expected social contributions and non-tax revenues, thereby compensating for some shortfalls in direct taxes. It is Scope's view that the carryover impact of fiscal over-performance (i.e. primary surpluses of more than 3.5% of GDP until 2022) is likely to be limited. In addition to higher targets going forward, the extent of over-performance for 2017 was to a large extent driven by under-spending against the 2017 budget ceilings that mainly affected social expenditure. This was caused by delays in the implementation of new spending on active labour market policies and to lower-than-budgeted spending on social protection of over-indebted households, which was due to delays in the foreclosure process.

Continued compliance with fiscal targets expected, at least until 2022

It is Scope's view that the Hellenic Republic will sustain its fiscal improvements as a result of higher revenue growth, reflecting improved tax collection rates, the continuation of capital controls, and on-going clearance of state arrears, which have increased private-sector liquidity as well as indirect tax receipts and corporate income tax. This positive development was confirmed in the first quarter 2018, when the budgetary surplus (on a modified cash basis) more than doubled year on year on the back of higher-than-expected budget revenues, while primary expenditure was in line with targets. In addition, the Greek government has legislated contingent fiscal measures including tax increases and spending cuts that would be automatically apply if needed to achieve the primary surplus target of 3.5% of GDP for 2019-2022.

Debt sustainability, market access and funding sources

Low public-debt sustainability risks within five-year horizon

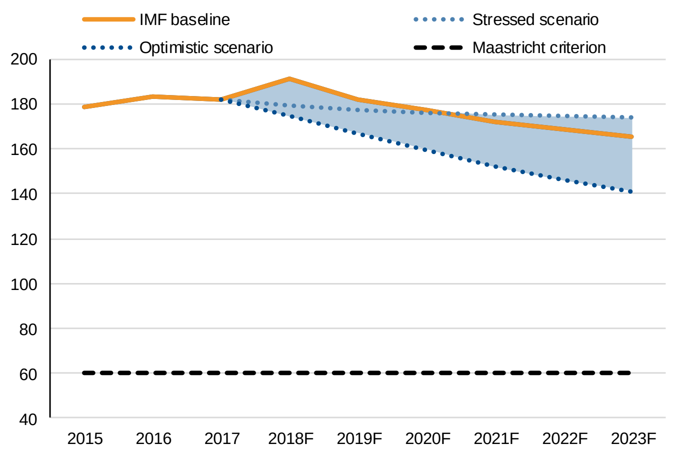
Within the regular five-year horizon, Greece's public debt relative to GDP is forecast to gradually decrease to 165% in 2023 (from 181% in 2017), according to conservative IMF projections. The forecasts are based on key assumptions related to: i) annual real GDP growth (1.7% on average), ii) weakening fiscal performance (primary surplus of 3.1% of GDP on average), and iii) slowly increasing interest costs, reflecting a gradual replacement of programme debt with market funding (real effective interest rate of 0.6% p.a. on average, including inflationary adjustments).

Scenario	Time Period	Real GDP growth (%)	Primary bal. (% of GDP)	Real eff. int. rate (%)	Debt end period (% of GDP)
IMF Baseline	2018-2023	1.7	3.1	0.6	165.1
Optimistic Scenario		2.3	3.8	0.5	141.0
Stressed Scenario		0.4	2.1	0.8	173.8

Sustained fiscal improvements ensure high primary surpluses

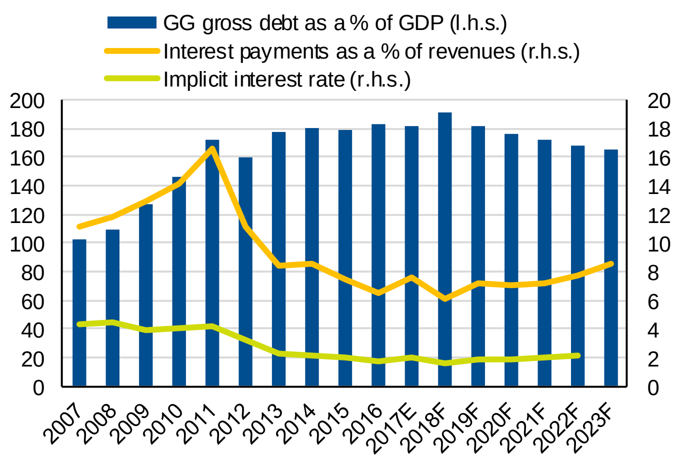
As a positive development, Scope notes that a debt-reducing trend to 173% of GDP by the end of the projection period in 2023 is also indicated in a hypothetical stressed scenario. But it is Scope's view that primary surpluses of 3.5% of GDP until 2022 are likely to be achieved, given legislated contingent budgetary measures that would be automatically applied if needed to achieve the primary surplus target of 3.5% of GDP for 2019-2022. This leads to potential upside risks driven by lasting fiscal benefits due to on-going structural budgetary improvements, underpinned by stronger growth, as reflected in Scope's optimistic scenario (Figure 6).

Figure 6: Public-debt-to-GDP projections 2018-2023, in %



Source: IMF, European Commission

Figure 7: Public debt profile, 2007-2023



Source: IMF, calculations by Scope Ratings GmbH

Greece's public debt dynamics are supported by a low interest payment burden relative to revenues (6.3% in 2017 versus 16.4% in 2011), a robust public debt profile with a very long weighted average residual maturity of 18.1 years in 2018 (versus 6.3 years in 2011) and a low cost of debt outstanding (weighted average cost of 2.2% in 2017 versus 3.9% in 2011). This is due to the predominantly concessional nature of the country's public debt: Official lenders (GLF, EFSF, ESM and IMF) constituted around 70% at the end of Q1 2018.

Concessional terms of public debt support robustness

Refinancing risks are manageable, reflected by a modest refinancing share for the next five years equivalent to around 20% of debt outstanding at the end of 2017. In addition to the robust debt profile, an on-going build-up of a large cash buffer estimated at 10% of GDP as of the end of the programme in August is supporting Greece's return to the private capital markets despite Greece's high debt stock relative to GDP (178.6% in 2017 versus 172.0% in 2011).

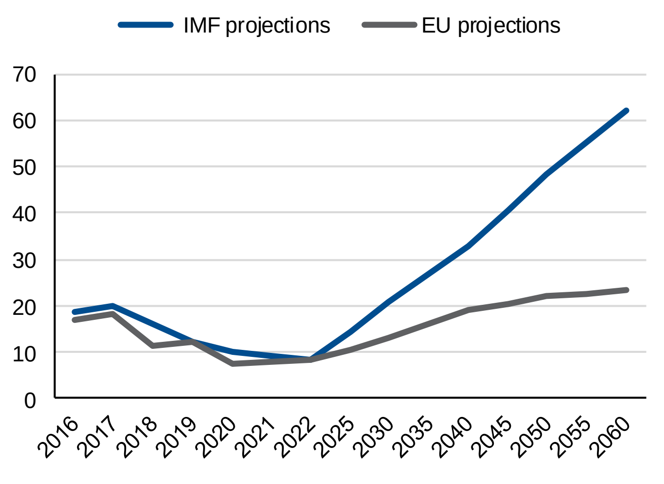
Long-term fiscal challenges

However, given the high level of public debt, it will take a very long time for programme debt to be fully repaid or refinanced with private debt. Under Greece's current repayment schedule, the vulnerability of Greece's public debt dynamics is mainly due to the tightness of the envisaged fiscal path in the long term that would be required to ensure public debt sustainability. It is Scope's view that under plausible projections for growth, fiscal performance and cost of debt, the Hellenic Republic's public-debt sustainability is weak, particularly in the long term, as its official creditors have acknowledged. In principle, regular, sizeable primary surpluses of 2% of GDP would be needed for 40 years to keep gross financing needs (sum of primary deficit, interest and amortisation) under the threshold of 20% of GDP. This would require a healthy, sustainable economy and broad social and intergenerational consensus for continuity of fiscal consolidation and reform progress, which constitutes a concern.

Converging interests between official creditors

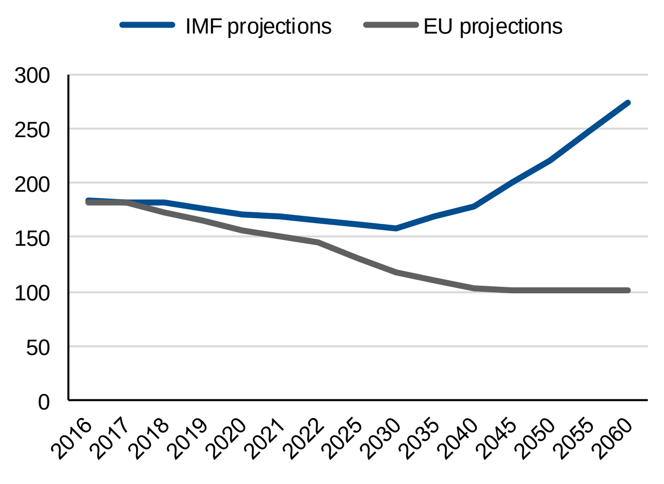
Following initial disagreements between European creditors and the IMF last year, which arose from their conflicting assessments of Greece's public debt sustainability (see Figures 8 and 9), there seems to be growing convergence of interests between the Greek government, European creditors and the IMF in supporting a clean exit from the third adjustment programme and a return to private market funding. Therefore, Scope views the risk of an unorderly exit of the current adjustment programme as materially lower.

Figure 8: Gross-financing-needs-to-GDP projections, in %



Source: IMF, European Commission

Figure 9: Public-debt-to-GDP projections, in %



Source: IMF, European Commission

The Eurogroup's ex-ante voluntary commitment to potentially re-profile Greece's repayments to its largest creditor, the EFSF (around 40% of Greece's public debt), is credit-positive. It is Scope's view that official lenders should consider several options for improving Greece's public debt sustainability, as suggested by the Eurogroup in April. This could include early repayments to the IMF via cheaper ESM financing, for example.

Clean exit will likely be compounded by conditionalities

It is Scope's view that broadened access to official financing sources for the foreseeable future would strongly support Greece's capital market access since the ECB waiver will expire at the end of the programme, whereas capital controls will likely not be eliminated before year-end. In addition, Scope anticipates that official lenders will likely agree on keeping some conditionality with contingent financing, as requested by certain euro area member states as market discipline may not be sufficient; and the system of incentives to encourage continuity in fiscal consolidation over the long-term. Therefore, further contingent debt relief measures, as indicated by official creditors, would materially improve the long-term sustainability of Greek public debt, increase confidence, and strengthen the Hellenic Republic's ability to handle its debt burden.

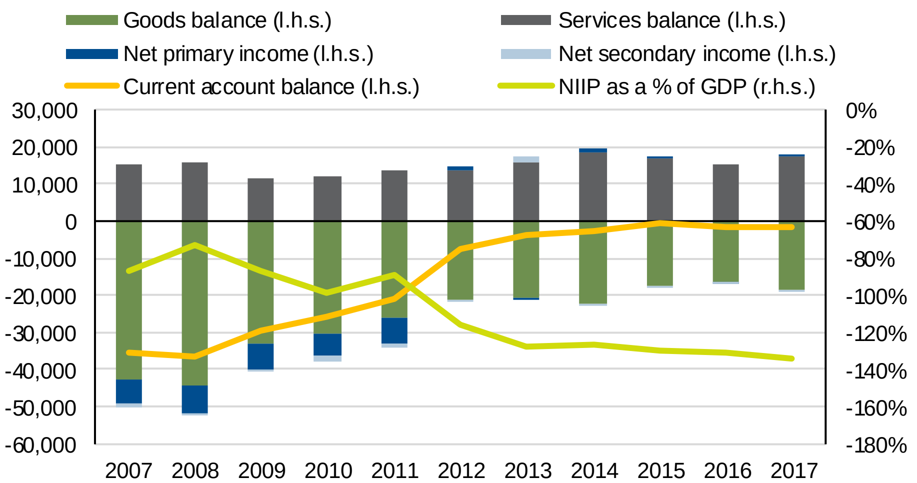
External economic risk

Euro area status reduces external economic risks

Current-account vulnerabilities and external debt sustainability

External debt sustainability is supported by euro area membership. However, the negative net international investment position, equivalent to 135% of GDP in 2016, will remain high and continue to be a drag on recovery as domestic savings remain limited. These would have to be mobilised to make room for investment, potentially supported by higher FDI inflows, which are currently low.

Figure 10: Current-account and net international investment position, in USD m



Source: Bank of Greece, calculations by Scope Ratings GmbH

Major progress in current-account adjustment, some deterioration due to oil bill expected

Greece's current account was slightly negative in 2016 and 2017, extending a positive long-term trend observed since 2008 when it reached a record high deficit of 15.8% of GDP. In 2017, the current-account deficit slightly widened year on year, which was the result of a worsening in all its main components apart from the balance of goods, which showed a slight improvement. As regards travel services, in December 2017, although receipts increased slightly (by 0.8%) despite a marginal fall in arrivals, the corresponding payments (i.e. travel spending by residents abroad) rose significantly (by 26.5%), which resulted in lower net receipts year on year.

Going forward, the trajectory is attributable to deterioration mainly in the balance of goods – especially in the oil bill as an oil-importing country – as well as in the balance of services, a shortage of investment in the tourism industry for an extended period of time is weighing on revenue per tourist, despite strategic locational advantages vis-à-vis neighbouring countries suffering from political risks.

Financial stability risk

Financial performance and financial sector oversight

Sustained decline in ELA funding

Recent positive EBA stress test results on Greek banks have confirmed banking sector resilience and high capital ratios, with none of the Greek banks needing additional capital. Financing conditions in the economy keep improving but remain tight due to continuing, though easing, capital controls. Banking sector liquidity is progressively normalising with returning deposits and sustained decline in emergency liquidity assistance (ELA). Greek banks' reliance on ELA funding was further reduced to EUR 13.5bn at the end of March. Overall, liquidity withdrawn from ELA has dropped by EUR 30.1bn since the end of 2016, due to the diversification of funding sources. Specifically, since October 2017, the core banks have proceeded to covered bond issues for the first time since 2014, while they have gradually increased interbank funding, which reached EUR 13bn in March.

Limited eligibility for Greek government securities

However, Greece's public-sector securities are currently ineligible for the ECB's public-sector purchase programme (PSPP), a component of the expanded asset purchase programme (APP). On 22 June 2016, the ECB reinstated its waiver of minimum credit rating requirements for marketable instruments issued or guaranteed by the Hellenic Republic, subject to special haircuts. This means these instruments can still be used as collateral in Eurosystem monetary policy, allowing Greek financial institutions to access central bank money, which is cheaper than the ELA's emergency funds.

Macro-financial vulnerabilities and fragility

Non-performing exposure remains key challenge

The recovery of Greek banks continues to be burdened by weak asset quality. Non-performing loan exposure (NPE) remains the key challenge in the Greek banking system, comprising 43.1% of total exposures according to the Bank of Greece at the end of 2017, the largest percentage in the EU. The NPE ratio remains high across most asset classes. For YE 2017 (NPE ratio of 49.3% for consumers and 41.8% for businesses). For the business portfolio specifically, the highest NPE ratio is noted in the Small Business and Professionals segment (NPE ratio at 65.4%) and the Small and Medium-Sized Enterprises segment (57.0%). In line with previous trends, better performance is noted in the Large Corporates (22.9%) and Shipping (35%) segments.

Accelerated run-down of legacy assets since 2017

As a positive development, Scope notes that the NPE-stock was drawn down by 10% year on year to EUR 95.7bn by the end of 2017. Compared to March 2016, when the stock of NPEs reached its peak, this constitutes a reduction of 12% (or EUR 13bn), evenly driven by write-offs and sales and supported by improving quarterly NPE cure rates, potentially exceeding the default rate that shows a deceleration trend this year. Provisions coverage at system level remained broadly unchanged at 47.4% in December 2017. According to the Bank of Greece's recent report on operational targets for NPE, NPE are almost fully covered if the value of collateral (reported up to the gross value of the loan) is included. Ultimately, Scope believes that the recovery in the banking sector is likely to be gradual and the successful reduction of NPE will depend on a supportive economic and political backdrop.

Institutional and political risk

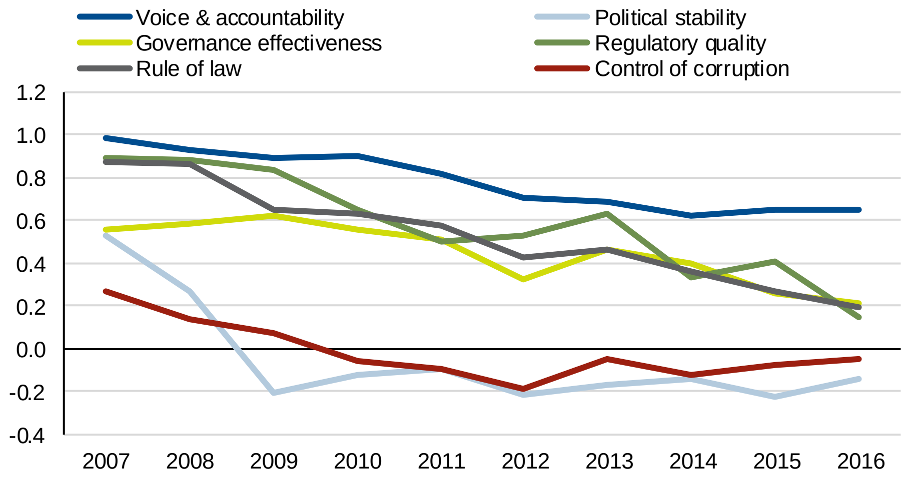
Thin parliamentary majority, national elections scheduled for next year

The Greek government in power since 2015 is composed of a coalition of Syriza and ANEL, which has a parliamentary majority of only three seats. Any wavering of internal support could put Prime Minister Tsipras's thin parliamentary majority at risk ahead of national elections scheduled for next year. While the government's popularity has declined since the last elections in September 2015, the pro-European centre-right New Democracy party currently has a strong lead in the polls.

The Greek parliament has completed all structural reforms as requested under the current adjustment programme, despite some delays. While these measures have proven to be politically challenging, cross-parliamentary party support indicates broad political support for continued euro area membership. Consequently, Scope views the risk of domestic policy reversals as notably lower.

Figure 11: Governance indices compiled by the World Bank

Governance performance ranges from -2.5 (weak) to 2.5 (strong)



Source: World Bank

By the time the programme ends, Greece needs to implement a sizeable amount of prior actions to ensure final disbursements and to successfully exit the programme. This is one condition for more debt relief and for determining the conditions under which Greece will be exiting the programme and returning to private market funding in a post-bailout landscape.

Geopolitical risk

Greece's geographic location gives it significant strategic importance for the EU, which is supporting Greece on the foreign policy front. However, Greece faces heightened regional political tensions while migration will drive Greek politics for the foreseeable future.

Methodology

The methodology applicable for this rating and/or rating outlook, 'Public Finance Sovereign Ratings', is available at www.scoperatings.com.

Historical default rates from Scope Ratings can be viewed in Scope's rating performance report at https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA) at http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default and definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com. The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is not automatically ensured, however.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative (bbb) range for the Hellenic Republic (Greece). This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

Greece's credit metrics as captured by the CVS result are influenced heavily by successive assistance programmes the country has entered since 2010, a factor that cannot be captured by the CVS Scorecard. For Greece, relative credit weaknesses are signalled for i) economic growth potential, ii) economic policy framework, iii) macro-economic stability and sustainability, iv) fiscal policy framework, v) public debt sustainability, vi) market access and funding sources, vii) perceived willingness to pay, viii) banking sector performance, and ix) financial imbalances and financial fragility.

An overall negative adjustment to B+ was made to the CVS outcome to incorporate Greece's experience as a financial crisis country. As a result, the rating committee implemented a greater adjustment beyond the usual +/-3 notches to account for the following factors: i) remaining uncertainties regarding official creditors' measures to ensure more robust long-term public debt sustainability, ii) limited eligibility of Greek government securities for monetary operations with the ECB, and iii) persistent banking sector challenges and decreased confidence due to capital controls.

A rating committee has discussed and confirmed these results.

Rating overview

CVS indicative rating range	bbb
QS adjustment	BB+
Final rating	B+

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 24 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower-case letters.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance, and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, analysts examine the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign- versus local-currency ratings

Greece's debt is predominantly issued in euros or hedged. Because of its history of openness to trade flows and the euro's reserve currency status, Scope sees no evidence that Greece would differentiate among any of its contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS Results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**bbb**
QS adjustment	**BB+**
Final rating	**B+**

QS

Maximum adjustment = 3 notches

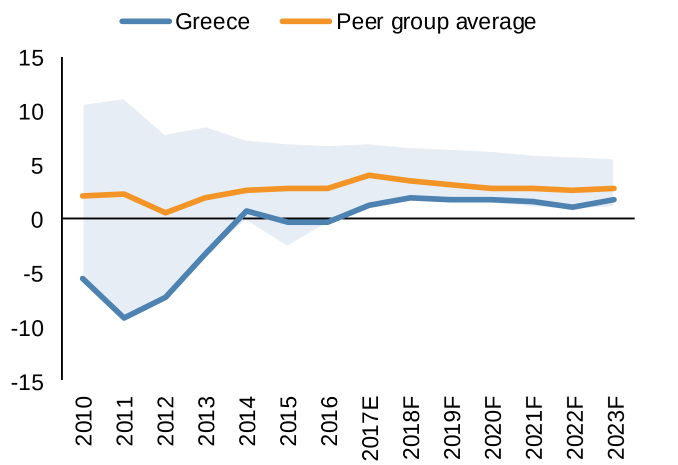
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	○ Neutral	◉ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negative
Economic policy framework	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate
Macro-economic stability and sustainability	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate
Fiscal policy framework	○ Exceptionally strong performance	○ Strong performance	○ Neutral	◉ Weak performance	○ Problematic performance
Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	○ Neutral	◉ Weak sustainability	○ Not sustainable
Market access and funding sources	○ Excellent access	○ Very good access	○ Neutral	◉ Poor access	○ Very weak access
Current account vulnerability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term external shocks	○ Excellent resilience	○ Good resilience	◉ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geopolitical risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Banking sector performance	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate
Banking sector oversight and governance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial imbalances and financial fragility	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate

* Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10

Source: Scope Ratings GmbH

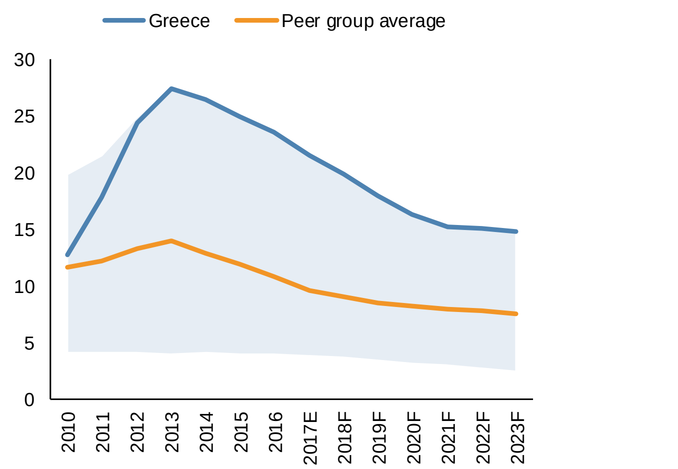
III. Appendix: Peer comparison

Figure 12: Real GDP growth



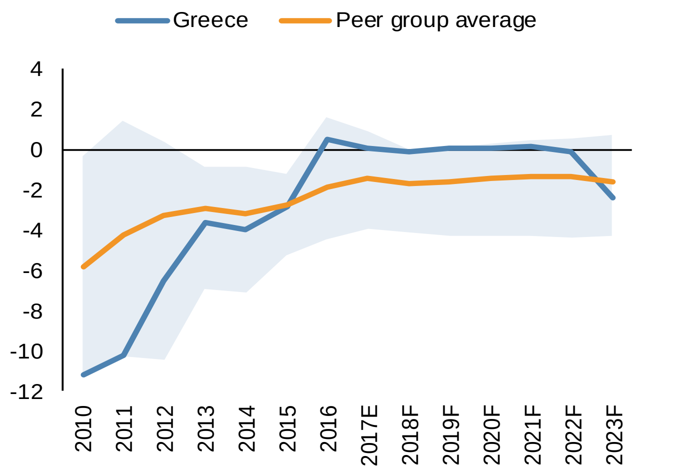
Source: IMF, Calculations Scope Ratings GmbH

Figure 13: Unemployment rate, % of total labour force



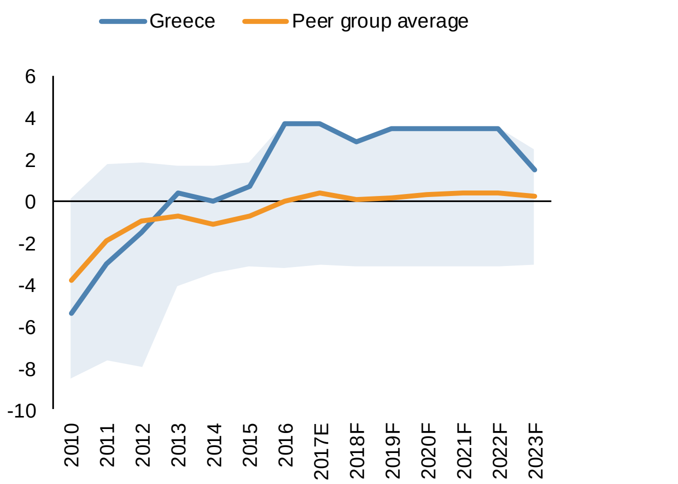
Source: IMF, Calculations Scope Ratings GmbH

Figure 14: General government balance, % of GDP



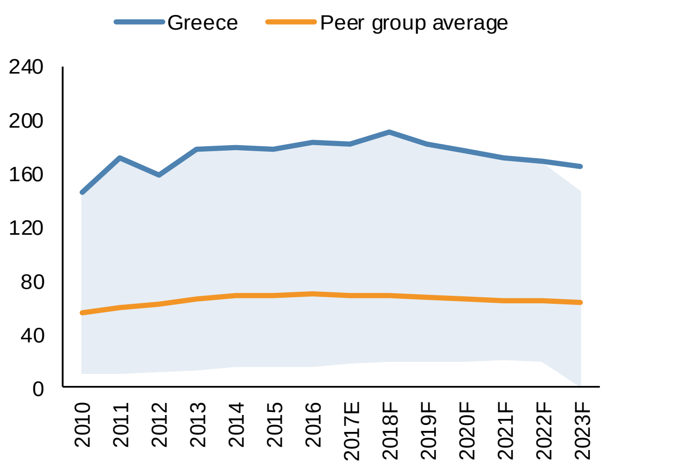
Source: IMF, Calculations Scope Ratings GmbH

Figure 15: General government primary balance, % of GDP



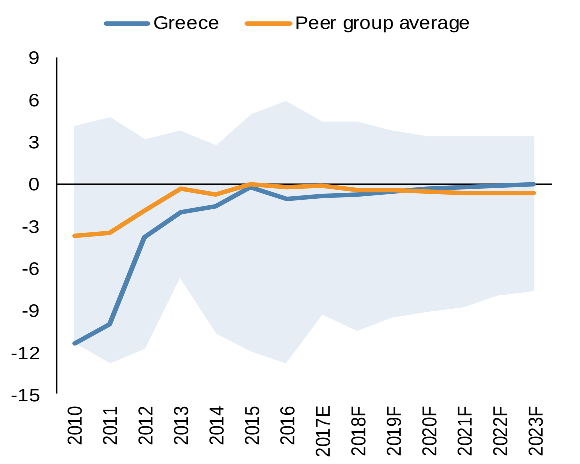
Source: IMF, Calculations Scope Ratings GmbH

Figure 16: General government debt, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 17: Current-account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2013	2014	2015	2016	2017	2018E	2019F
Economic performance							
Nominal GDP (EUR bn)	180.7	178.7	176.3	174.2	177.7	182.9	188.1
Population ('000s)	11,004.0	10,927.0	10,858.0	10,784.0	10,768.0	10,725.0	10,682.0
GDP per capita PPP (USD)	26,097.9	26,838.5	26,697.3	26,778.5	-	-	-
GDP per capita (EUR)	16,417.7	16,350.2	16,238.0	16,153.8	16,505.6	17,055.3	17,606.3
Real GDP, % change	-3.2	0.7	-0.3	-0.2	1.4	2.0	1.8
GDP growth volatility (10-year rolling SD)	5.2	4.7	4.7	3.9	3.6	3.9	4.1
CPI, % change	-0.9	-1.4	-1.1	0.0	1.1	0.7	1.1
Unemployment rate (%)	27.5	26.5	24.9	23.6	21.5	19.8	18.0
Investment (% of GDP)	11.6	11.9	9.8	10.6	11.7	12.7	13.8
Gross national savings (% of GDP)	9.6	10.3	9.6	9.5	10.9	12.0	13.4
Public finances							
Net lending/borrowing (% of GDP)	-3.6	-4.0	-2.9	0.5	0.0	-0.1	0.0
Primary net lending/borrowing (% of GDP)	0.4	0.0	0.7	3.8	3.7	2.9	3.5
Revenue (% of GDP)	47.8	46.2	48.1	50.2	48.8	48.8	48.3
Expenditure (% of GDP)	51.4	50.2	50.9	49.7	48.8	48.8	48.3
Net interest payments (% of GDP)	4.0	4.0	3.6	3.2	3.7	3.0	3.5
Net interest payments (% of revenue)	8.4	8.6	7.5	6.5	7.6	6.1	7.1
Gross debt (% of GDP)	177.9	180.2	178.8	183.5	181.9	191.3	181.8
Net debt (% of GDP)	-	-	-	-	-	-	-
Gross debt (% of revenue)	372.1	390.3	372.0	365.3	372.5	392.3	376.2
External vulnerability							
Gross external debt (% of GDP)	237.3	237.5	250.4	247.8	227.9	-	-
Net external debt (% of GDP)	132.7	132.6	137.8	137.5	136.8	-	-
Current-account balance (% of GDP)	-2.0	-1.6	-0.2	-1.1	-0.8	-0.8	-0.6
Trade balance [FOB] (% of GDP)	-9.8	-10.8	-9.1	-9.5	-10.0	-9.7	-9.6
Net direct investment (% of GDP)	-1.5	0.1	0.2	-2.4	-1.7	-	-
Official forex reserves (EOP, EUR mil)	141.0	597.0	1,375.0	1,819.0	1,896.0	-	-
REER, % change	-0.6	-0.6	-4.4	1.3	0.9	-	-
Nominal exchange rate (EOP, USD/EUR)	1.4	1.2	1.1	1.1	1.2	-	-
Financial stability							
Non-performing loans (% of total loans)	24.2	34.0	37.9	39.0	-	-	-
Tier 1 ratio (%)	13.2	13.9	16.3	16.9	-	-	-
Consolidated private debt (% of GDP)	129.1	128.0	126.1	124.7	-	-	-
Domestic credit-to-GDP gap (%)	-1.1	-6.5	-11.4	-14.7	-	-	-

Source: IMF, European Commission, European Central Bank, World Bank, United Nations, Scope Ratings GmbH

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH.

Rating prepared by Jakob Suwalski, Lead Analyst

Person responsible for approval of the rating: Dr Giacomo Barisone, Managing Director, Public Finance

The ratings /outlook were first assigned by Scope as subscription rating on January 2003. The subscription ratings/outlooks were last updated on 30.06.2017.

The senior unsecured debt ratings as well as the short-term issuer ratings were last assigned by Scope on 30.06.2017.

The main points discussed by the rating committee were: i) sustainability of the economic recovery, ii) recent fiscal developments, iii) public debt sustainability analysis, iv) policy uncertainties surrounding debt-relief measures; v) banking sector performance; vi) recent political and institutional developments, vii) peers consideration

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the European Commission, the IMF, the World Bank, Haver Analytics, Bank of Greece, PDMA, Eurostat, ECB, Ministry of Finance.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

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