Hellenic Republic
Rating Report

SCOPE **BB+** STABLE OUTLOOK

Credit strengths

- Strengthened European institutional support
- Very strong profile of public debt
- Structural reform, NPL reduction, mobilisation of private investment

Credit challenges

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

Rating rationale:

Enhancements of 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) and recognising the Dec-2021 ECB announcement of further availability of net PEPP purchases if called upon during recovery from the crisis, alongside EU fiscal support under the Next Generation EU Programme, together anchoring Greece's market access, supporting debt sustainability and creating the fiscal space for the government to expend on public investment.

Strong debt profile: Strong profile of government debt resulting from past debt measures of international creditors, moderate interest-rate conditions and proactive public debt management.

Structural reform: Banks have continued to curtail high non-performing loan (NPL) ratios and improve banking-system stability alongside mobilisation of private-sector investment.

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

Greece's sovereign rating drivers

Risk pillars		Quantitative scorecard		Reserve currency adjustment (notches)	Qualitative scorecard	Extraordinary adjustment** (notches)	Final rating
		Weight	Indicative rating		Notches		
Domestic Economic Risk		35%	bbb-		-2/3		BB+
Public Finance Risk		25%	bb-		+2/3		
External Economic Risk		10%	c		+1/3		
Financial Stability Risk		10%	bb+		0		
ESG Risk	Environmental Risk	5%	a		0		
	Social Risk	5%	bb-		0		
	Governance Risk	10%	bb-		+1/3		
Overall outcome		**bb***		**+1**	**+1**	**-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. *In line with the methodology, movements between indicative ratings are not immediate but executed after analyst review of core variable scorecard (CVS) results. The rating committee approved an indicative CVS rating of 'bb'. **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 downward debt trajectory
- Strengthened economic sustainability
- Banking-sector risks further reduced

Negative rating-change drivers

- Eurosystem support weakens
- Impediments to declining public debt ratio
- Reform commitment weakens
- Banking-sector risks re-intensify

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

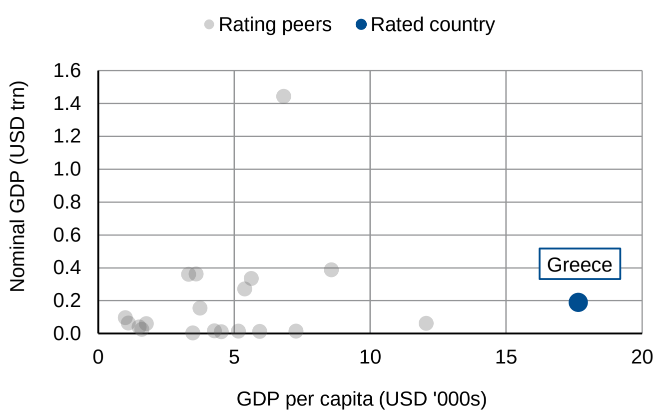
Domestic Economic Risks

- **Growth outlook:** Greece's economy contracted significantly in 2020, by 9% in real terms. Over the second and third quarter of 2021, economic activity rebounded, with YoY growth of 16.5% and 13.7%, respectively, recapturing a pre-pandemic level of output by Q3 2021. The recovery was anchored by domestic demand, easing of Covid-associated economic restrictions and implementation of inaugural 'Greece 2.0' assignments – the Greek Recovery and Resilience Plan. We estimate output growth of 4.4% in 2022 before 2.5% in 2023, after an upside-revised 9.3% estimate of growth for 2021 (revised from 8.9% in a Dec-21 estimate). Continued economic and banking-sector reform is crucial to raising medium-run growth potential of circa 1% per annum, reflecting anticipated 0.7% annual decline of the working-age population.
- **Inflation and monetary policy:** After inflation averaged a negative 0.1% over a last decade, rising energy prices led to increasingly higher YoY CPI increases over the second half of 2021. YoY HICP inflation stood at 5.1% in December. In December 2021's ECB announcement, PEPP net asset purchases were announced to be discontinued from end-March 2022. However, capacity to resume PEPP net purchases at any time with flexibility of such buying across time, asset classes and jurisdictions was specified to counter adverse shocks during an early recovery. This embedded capacity to temporarily buy Greek bonds above and beyond the rollovers of redemptions, should market conditions call for this. The December ECB announcement was in line with Scope expectations. Nevertheless, February's ECB Governing Council raised likelihood of faster normalisation of monetary policy – such as more rapid drawdown of the Asset Purchase Programme and an earlier timetable for rate increases.
- **Labour market:** Thanks to employment protection actions adopted during the Covid-19 crisis, labour market performance has been robust. The unemployment rate stood at 13.3% in November 2021, down on 16.1% a year before. Employment levels have recovered from crisis lows, surpassing pre-crisis levels and reaching around 4.09m persons by November of 2021. Despite this robust recovery performance, Greek unemployment remains elevated as compared with European peer economies (euro-area unemployment of a record low of 7% in Dec-2021).

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

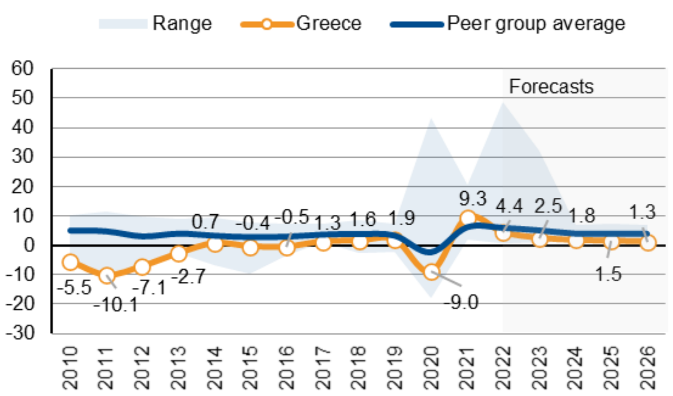
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Growth potential of the economy	Weak	-1/3	Substantial investment gaps in several sectors; low level of innovation; comparatively weak growth potential
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank; ECB policies have anchored market access
	Macro-economic stability and sustainability	Weak	-1/3	Elevated structural unemployment; limited economic diversification; rigidities in the labour market

Nominal GDP and GDP per capita, USD thousands



Source: IMF, Scope Ratings GmbH

Real GDP growth, %



Source: IMF, Scope Ratings GmbH

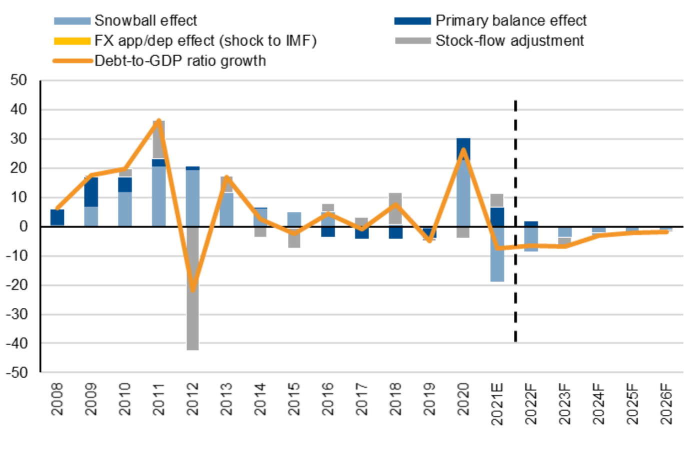
Public Finance Risks

- **Fiscal outlook:** Substantial primary surpluses from pre-crisis have created the fiscal space to implement effective fiscal counter-measures over the Covid-19 pandemic. Fiscal measures during the crisis had an aggregate budgetary impact of 7.2% of GDP in 2021, moderating to 1.6% of GDP this year. For last year, we estimate a budget deficit of 9.5% of GDP, anticipated to decline significantly to 4.8% this year. Scope expects a primary balance to be reached over 2023-26, with a headline deficit of under 3% of GDP over said years. This acknowledges possibility of some fiscal slippage following conclusion of a post-bailout Enhanced Surveillance programme alongside around and/or after forthcoming 2023 legislative elections.
- **Debt trajectory:** The total debt stock is estimated to have declined from 206.3% of GDP in 2020 to 198.7% in 2021 before 192.2% in 2022, trending slightly under 180% by 2026 – assuming above-trend real output growth of an annual average of 1.8% between 2023 and 2026. Despite revenue contraction due to the crisis, interest payments to revenues resumed a declining trajectory, reaching 5.6% in 2021.
- **Market access:** Greece benefits from a significantly strengthened debt structure: >85% of the debt is held on the official sector's balance sheet, after inclusion of bonds temporarily held by the Eurosystem, anchored furthermore by a long weighted average maturity of debt (20 years against an EU average of 8.2 years) and modest weighted average interest cost of debt of 1.4%. The 10-year Greece yield has increased to 2.1% (185bps to Germany), from 0.5% as of August 2021 – but remains moderate under historical standards. 99% of debt is on fixed rate, curtailing risk from interest-rate change and debt amortisation is evenly distributed over a medium run, supporting moderate gross government financing requirements of around 10% of GDP per annum over 2022-26. A cash cushion of EUR 32bn as of end-2021 abets resilience.

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

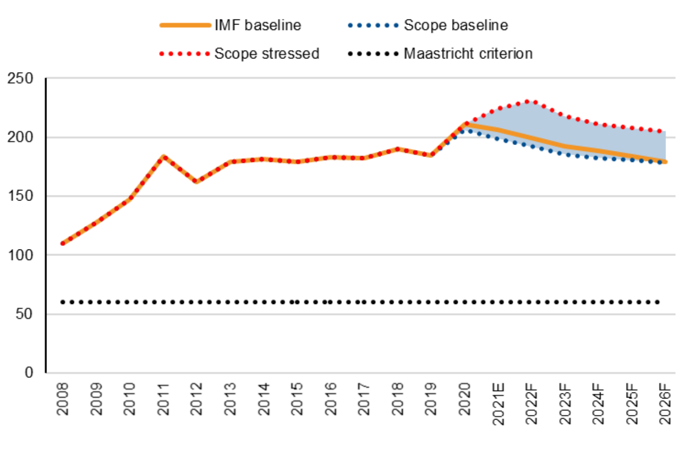
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Fiscal policy framework	Strong	+1/3	Improved national fiscal framework; fiscal oversight from post-bailout EU/IMF surveillance; benefits from EU/euro-area fiscal governance institutions
	Debt sustainability	Neutral	0	Very high public-sector debt but gradual debt reduction expected moving ahead; lesser sensitivity to interest-rate rises or exchange-rate depreciation than sovereign peer group
	Debt profile and market access	Strong	+1/3	Very strong debt profile with very long maturity, manageable gross financing requirements, fixed-rate debt, limited foreign-currency exposure, elevated debt ownership by the official sector; elevated cash cushion; still-moderate financing rates; access to regional/international lenders of last resort

Contributions to changes in debt levels, pps of GDP



Source: IMF, Scope Ratings GmbH forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF, Scope Ratings GmbH forecasts

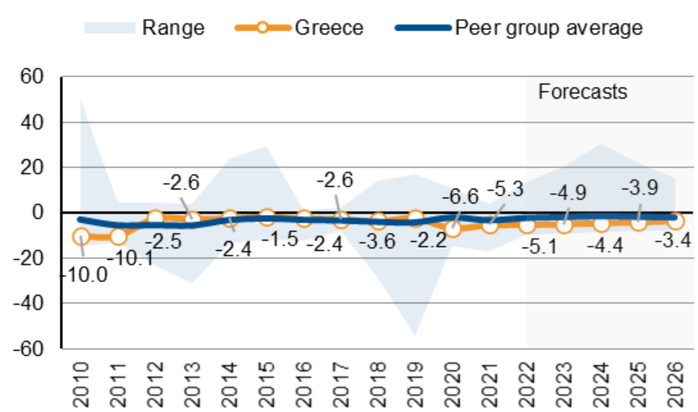
External Economic Risks

- **Current account:** Greece's external position was characterised by structural current account deficits of around 1.5-3% of GDP over years immediately pre-crisis. In 2020, this deficit widened significantly to 6.6% of GDP. The current account deficit is expected to narrow over the longer run, having reached around 5.3% in the year to November 2021, and seen reaching 3.4% of GDP in 2026, partly in reflection of a gradual recovery of an important tourism exporting sector. Goods exports have recovered over the first half of 2021 and continue to grow.
- **External position:** Greece has a sizeable, negative net international investment position (NIIP) of 175.3% of GDP as of Q3 2021 (near a record high net liability ratio), although this is anticipated to shrink over the medium run in line with redemptions of concessional economic assistance loans. In Q3 2021, gross external debt stood 13pps (of GDP) above levels from the same quarter of 2020. However, nearly 70% of external debt holds a long maturity (+2.3pps compared with Q3 2020). The debt is mostly owed by government (54%) and the central bank (19%) rather than the private sector. A Target-II balance stood at EUR -99.7bn as of November 2021, significantly under pre-crisis EUR -25.7bn levels (as of December 2019).
- **Euro as a global reserve currency:** Greece benefits from issuing in euro, given the currency's status as an international reserve currency. As of Q3 2021, euro accounted for 20.5% of global allocated reserves, comparatively unchanged from a 20.6% share one year before.

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

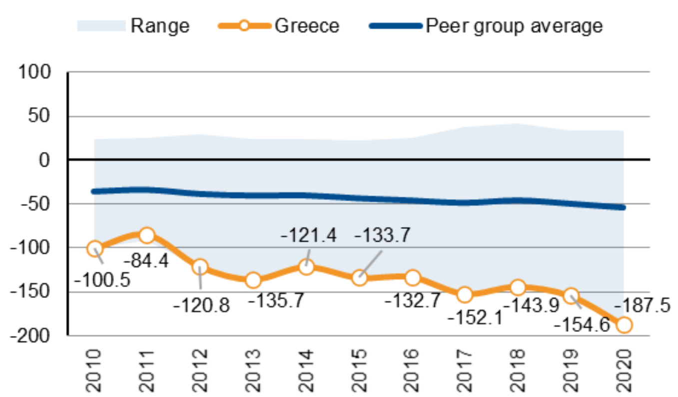
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
c	Current account resilience	Neutral	0	High reliance on tourism revenue; improvements in attractiveness for foreign direct investment
	External debt structure	Strong	+1/3	Very long maturity of external debt and mostly in form of sovereign debt held by institutional sector, euro denomination of external debt; but 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, Scope Ratings GmbH

NIIP, % of GDP



Source: IMF, Scope Ratings GmbH

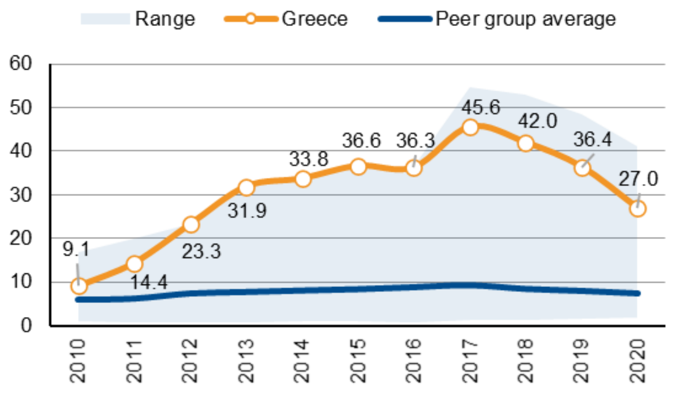
Financial Stability Risks

- **Banking sector:** Greek banks are adequately capitalised, with a system-wide common equity tier 1 (CET1) ratio exceeding minimum regulatory requirements, albeit of a reduced 13.0% of risk-weighted assets level as of Q3 2021, from 16.4% in Q4 2019 – as banks clean up balance sheets via NPL securitisation and Covid forbearance measures are terminated. This CET1 ratio is below an average as concerns credit institutions supervised via the ECB under Banking Union of 15.6%. Banks' liquidity positions have improved during the crisis due to participation under ECB targeted long-term refinancing operations and rising deposits. Profitability remains constrained by provisioning requirements due to securitisation sales of NPL portfolios by the four systemic Greek banks. The NPL ratio has declined from 40% in December 2019 to 16.4% in September 2021. The four systemic Greek banks aim for single-digit NPL ratios in 2022.
- **Private debt:** Total non-financial private sector debt amounted to 128.6% of GDP in Q2 2021, above a pre-crisis level of 110% as of Q4 2019 but well below a current euro-area average of 173% of GDP – according to Bank for International Settlements data. Private-sector deposits increased by EUR 28.6bn from March 2020 to September 2021 on back of budgetary and other supportive measures as well as increased savings of households and non-financial corporates.
- **Financial Imbalances:** Provisions of credit by Greek banks to the private sector remain structurally weak. In September 2021, an annual rate of growth of net credit to non-financial corporates moderated to 2.8%, from 6.7% as of April 2021. This reflects cash cushions built up during the crisis as well as ongoing transition from bank lending to corporate bond issuance. Effects on banks as extraordinary measures are withdrawn might support rise in already high shares of deferred tax credits in bank capital (accounting for 59% of common equity tier 1 capital as of end-2020). This high share of deferred tax credits, banks' increasing domestic government bond holdings, equity stakes held by the state in the sector and state guarantees under the Hercules Asset Protection Scheme imply a stronger 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*

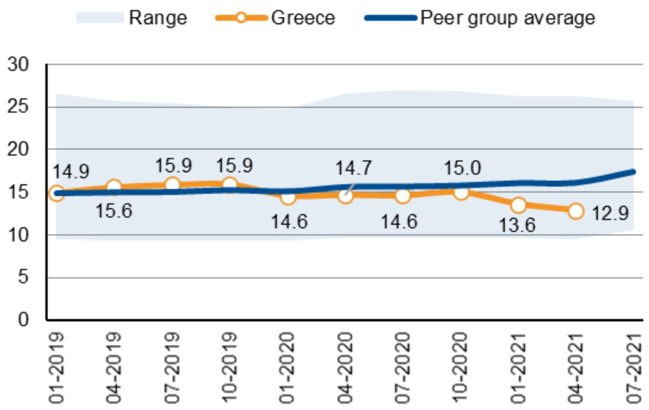
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Banking sector performance	Weak	-1/3	Low profitability, poor asset quality and weakening of capital ratios; reductions of NPLs
	Banking sector oversight	Strong	+1/3	Effective oversight under the national authority and the ECB as part of Banking Union
	Financial imbalances	Neutral	0	No credit growth imbalances such as in sovereign peers; interconnectedness of banks with sovereign

NPLs, % of total loans



Source: IMF, Scope Ratings GmbH

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings GmbH

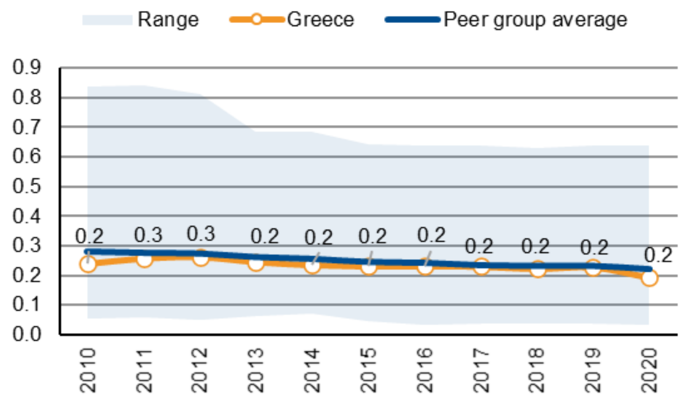
ESG Risks

- **Environment:** Greece is exposed to natural disasters such as wildfires and droughts, furthermore facing challenges as far as water management, air pollution and shifting of an energy mix to cleaner energy sources. In 2019, the climate footprint was equal to an EU average (with per capita emissions of 8.4 tonnes of CO_2/year). In 2020, 35% of electricity was derived from renewable energy (under an EU average of 37%). The climate law draft submitted at end-2021 supports an ambitious sustainability agenda, with the government aiming to reach 55% reductions of emissions by 2030 compared with 2005 levels, 80% by 2040 before full carbon neutrality by year 2050. The Greek Public Debt Management Agency plans an inaugural issuance of a green bond around Q4 2022 if not Q1 2023. Green bond issuance is seen complementing financing of green projects from the Recovery and Resilience Facility.
- **Social:** Greece experiences net emigration and a declining working-age population, a high and increasing old-age dependency ratio and structurally elevated unemployment, although, in the latter case, declining as compared with crisis peaks. Youth unemployment was an elevated 39.1% in November 2021, compared with 29.2% in Spain and 28% in Italy. GDP per capita (of USD 21,155 in 2022) is low when compared with euro-area standards but substantively higher than that as associated with sovereign states in Greece's 'bb+' sovereign peer group. A comparatively elevated level of low-income positions and prevalence of small and medium-sized enterprises weigh on the tax base and raise poverty and social exclusion.
- **Governance:** While Greece scores moderately on the World Bank Worldwide Governance Indicators, a reform agenda since 2017 has supported improvement of institutional strengths and progress in areas such as tax administration and compliance, the judicial system, public administration and anti-corruption. Since 2019 legislative elections, an absolute parliamentary majority has been held by a New Democracy government of Prime Minister Kyriakos Mitsotakis, and the political climate has been comparatively stable, conductive for successes along a political and economic reform agenda.

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

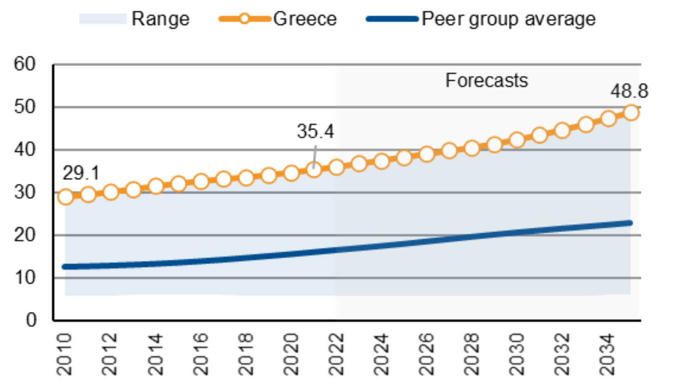
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Environmental risks	Neutral	0	High exposure to natural disaster risk; ambitious decarbonisation targets; low share of renewables
	Social risks	Neutral	0	Adverse demographics; moderate educational outcomes but long healthy life expectancy
	Institutional and political risks	Strong	+1/3	Comparatively stable political conditions; comparatively lesser geopolitical risk

CO_2 emissions per GDP, $mtCO_2e$



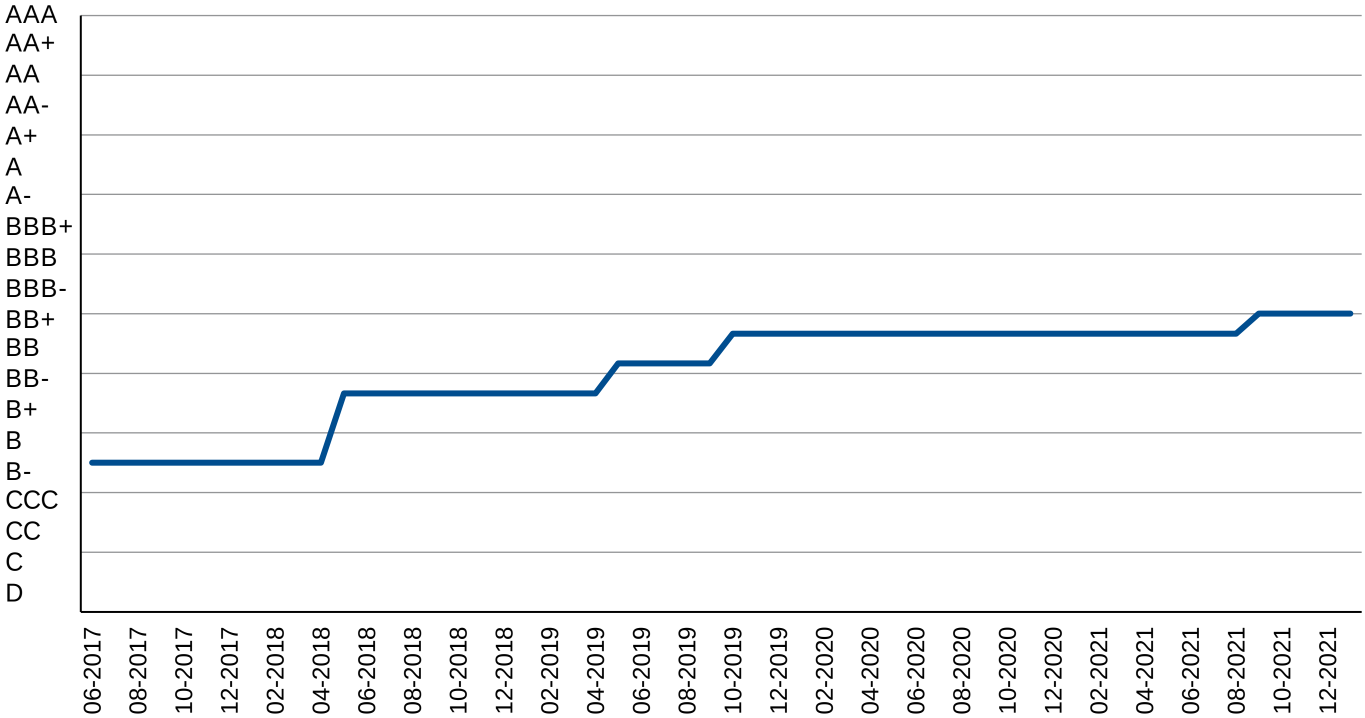
Source: European Commission, Scope Ratings GmbH

Old age dependency ratio, %



Source: United Nations, Scope Ratings GmbH

Appendix I. Rating history



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 after the reserve-currency adjustment.

Peer group
Georgia
Turkey
Ukraine

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	17.7	19.8	21.2	22.3
Nominal GDP, USD bn	192.8	200.1	212.3	205.3	189.3	211.6	224.9	236.2
Real growth, %[1]	-0.5	1.3	1.6	1.9	-8.2	9.3	4.4	2.5
CPI inflation, %[1]	0.0	1.1	0.8	0.5	-1.3	0.6	3.0	1.5
Unemployment rate, %[1]	23.6	21.5	19.3	17.3	16.4	14.9	12.5	11.5
Public debt, % of GDP[1]	183.4	182.4	189.9	184.9	206.3	198.7	192.2	185.5
Interest payment, % of government revenue	6.4	6.4	6.9	6.3	5.9	6.0	6.2	6.3
Primary balance, % of GDP[1]	3.5	4.1	4.2	3.2	-7.5	-6.6	-1.9	0.0
External Economic Risk								
Current account balance, % of GDP[1]	-2.4	-2.6	-3.6	-2.2	-6.6	-5.3	-5.1	-4.9
Total reserves, months of imports	1.2	1.2	1.0	1.1	1.8	-	-	
NIIP, % of GDP	-132.7	-152.1	-143.9	-154.6	-187.5	-	-	
Financial Stability Risk								
NPL ratio, % of total loans	36.3	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	12.9	-	-
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	-	-	-	-	-
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 six World Bank Worldwide Governance Indicators
Source: European Commission, IMF, World Bank, Scope Ratings GmbH

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 4 February 2022	117

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