Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
HELLENIC REPUBLIC	Assigned Ratings/Outlook: **BB+ /positive**	Type: Monitoring, Unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	23-12-2016 10-11-2023 “Sovereign Ratings” “Rating Criteria and Definitions”

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Rating Action

Neuss, 10 November 2023

Creditreform Rating has revised its outlook on the Hellenic Republic to positive from stable and affirmed the unsolicited long-term sovereign rating of “BB+” for the Hellenic Republic. Creditreform Rating has also affirmed Greece’s unsolicited ratings for foreign and local currency senior unsecured long-term debt of “BB+”.

The outlook revision on the Hellenic Republic reflects

(i) our belief that Greece will experience solid economic growth over the medium term, supported by tourism and investment, a resilient labor market, progress in cleaning up the bank balance sheets, and structural reforms;

(ii) our expectation that the government will proceed with the implementation of the Greek Recovery and Resilience Plan (RRP), with policy predictability and the reform momentum benefiting from the ruling party’s outright parliamentary majority following this year’s elections; and

(iii) further moderating fiscal risks amid a sharp reduction in the non-performing loan (NPL) ratio and a declining debt trend, which we expect to continue over the medium term.

Key Rating Drivers

1. Robust real GDP growth has led to higher per capita income; we expect the favorable trends in macroeconomic fundamentals to continue, offsetting to some extent structural weaknesses related to sluggish labor productivity, to the Greek labor market and to the business environment
2. Positive medium-term growth prospects are underpinned by the reform momentum under ‘Greece 2.0’ and political stability, which should contribute to the timely absorption of EU funds; given improvements in cost competitiveness, downside risks to the sovereign’s growth outlook appear to have diminished somewhat, although significant catch-up potential remains in terms of private investment levels, productivity and digitalization
3. Generally strong institutional quality, with room for improvement in terms of the efficiency and quality of the justice system and control of corruption in particular; authorities have

demonstrated commitment to addressing institutional deficiencies, as underscored by ongoing structural reform efforts; we believe that the political environment will prove conducive to further reform progress; major beneficiary of EU/EMU and NATO membership

4. Budgetary execution again better than expected, resulting in a sharp decline in the headline deficit; sharply downward-sloping public debt ratio on the back of strong nominal GDP growth and an improving primary balance; while Greece's debt-to-GDP ratio should remain the highest in the EU-27, we expect it to decline further in the medium term; early repayment of IMF loans and, more recently, part of the Greek Loan Facility (GLF); long-term government bond yields have started to soften again, indicating increased investor confidence in the sovereign's repayment capacity

5. Fiscal risks are balanced by a favorable debt profile and a large cash buffer; despite a substantial reduction of NPLs on banks' balance sheets, the stock of NPLs remains high by European standards; elevated public guarantees and potential long-term fiscal pressures related to demographic aging warrant close monitoring

6. Government debt remains largely in the hands of the official sector, also serving as a mitigating factor for still high external vulnerabilities, as reflected in a very high negative net international investment position and a high current account deficit

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

Our credit assessment of the Hellenic Republic reflects improving trends in its macroeconomic fundamentals, which we expect to continue in the coming years. After a pandemic-related temporary setback, the Greek economy has seen vigorous growth, translating into rising GDP per capita levels. Although Greece's macroeconomic profile still faces structural challenges as regards its labor market and business environment, labor market conditions have improved, and the government is making headway in implementing reforms geared towards enhancing the economy's competitiveness. In the same vein, we believe that the adoption of key reforms will address persistent weaknesses such as anemic private investment, low productivity levels and sluggish digitalization. Progressing with the implementation of reforms and investments under 'Greece 2.0', the national RRP will, in our view, boost Greece's potential growth and income convergence, catering for robust growth going forward. We think that downside risks to medium-term growth have decreased, partly due to the reduction in private sector debt, recent improvements in cost competitiveness, and the parliamentary majority for the ruling government party, which remains committed to maintaining the reform momentum.

Despite economic headwinds stemming from the war in Ukraine, Greece's economy recorded strong real GDP growth for a second consecutive year (2022: 5.6%, 2021: 8.4%). While surging inflation left a dent in household disposable income, private consumption was the main driver of Greek output expansion, contributing 5.1 p.p. to growth last year, supported by employment growth and savings accumulated during the pandemic. Gross fixed capital formation continued

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[1] This rating update takes into account information available until 03 November 2023.

to grow briskly in 2022 (11.7%, 2021: 19.3%), driven by both construction and equipment investments (+16.6% and 15.1%, respectively). Despite the strong recovery of the tourism industry, net exports dragged on real GDP growth as domestic demand-driven import growth outpaced that of exports.

Greece outperformed the euro area (EA) in terms of its five-year average growth rate (2018-22), which posted at 1.7% (EA: 1.3%). In this context, Greek per capita income mounted by 15.7% to an estimated USD 37,526 (IMF data, PPP terms) in 2022. That said, there remains considerable catching-up potential as compared to the EU-27, with Greece's GDP per capita equivalent to 69% of the weighted EU average in 2022. Furthermore, other former program countries such as Cyprus and Portugal appear to be at a more advanced stage of their respective convergence processes (95% and 78%, respectively).

Although Greece's real GDP growth should decelerate in 2023, we expect the Greek economy to continue to expand solidly, mainly due to tourism, vivid fixed investment growth, resilient labor market conditions, improving bank health facilitating bank lending, as well as past and future structural reforms. We forecast real GDP to grow by 2.2% in 2023 and to accelerate to 2.3% in 2024, also aided by political stability, while energy security risks have been reduced. Uncertainty surrounding these projections remains high, given the highly unpredictable nature of the respective situations in Ukraine and the Middle East.

Our projections are corroborated by available data. After stagnating in Q1-23, real GDP resumed dynamic growth in the following quarter, rising by 1.3% q-o-q (EA: 0.1%). While fixed investment grew by 0.3% q-o-q in Q2-23, household spending held up reasonably well, supported by favorable labor market developments. As regards the second half of this year, high-frequency data sends mixed signals. Retail sales are likely to have been weaker in Q3, whilst industrial production grew in annual terms this July and August. Sentiment has been broadly constructive until recently, whereas the significant decline in the European Commission's (EC) Economic Sentiment Indicator in September and October seems to point to only modest growth in the near term.

We believe that private consumption will remain supportive against the backdrop of Greece's resilient labor market, wage growth in conjunction with abating inflationary pressures and ongoing policy measures. Following two increases in 2022, the monthly minimum wage was raised by a further 9.4% from 1 July 2023, which should provide vital support to low-income households going forward. Government measures to alleviate the impact of the energy crisis on household disposable income in 2023 comprised subsidies for electricity consumption and to shield the purchasing power of low-income households. More recently, the government extended household electricity bills in light of tensions in the Middle East.

Labor market conditions have improved since our last review. Greece's unemployment rate fell to an average of 12.5% in 2022 (LFS-adj., 2021: 14.7%), reaching its lowest level since 2010. More recently (August 2023), the monthly jobless rate declined further, reaching 10.9%, thus still well above the euro area level of 6.4%. Job creation has continued its upward trend, and total employment is now 4.7% higher than before the pandemic in 2019. Employment growth is likely to slow down this year and next, reflecting the increasingly tight labor market and softening economic activity, while the implementation of the RRP could exert a positive impact on employment growth to some extent.

On the other hand, labor participation remained virtually unchanged as compared to the previous year, and thus continues to range among the lowest in the EU, standing at 69.7% as of Q2-

23. Similarly, long-term unemployment remained almost constant at 62.7% in 2022 (20-64y), the second-highest in the EU. Youth unemployment, which accounts for roughly a third of the total labor force, still represents the highest in the EU, but has decreased by several percentage points in the last two years (2020: 38.0%, 2022: 31.4%). Confirming the rather unfavorable structural characteristics of the labor market, Greece's performance in the EC's Social Scoreboard indicates ample room for improvement, particularly with regard to 'social protection and inclusion'.

We believe that EU financing, including funds from NGEU and the Multiannual Financial Framework, will significantly boost fixed investment over the medium term, helping to raise Greece's low investment rate. Whilst we assume that private investment is to be held back by deteriorating financing conditions and high uncertainty related to geopolitical tensions in the near term, progress on reforms, e.g. related to the sovereign's business environment and the resolution of its large stock of non-performing loans (NPL) should unleash investment activity further afield.

Indeed, we expect investment to be the key source of economic growth this year and next, thanks to ongoing progress on the RRP. According to AMECO data, public investment as a percentage of GDP stood at 3.5% in 2022 (EA: 3.0%) and is projected to increase to 3.9% and 4.6% in 2023 and 2024, respectively. On the other hand, the private investment ratio amounted to 10.2% of GDP in 2022, well below the 19.7% of the euro area as a whole, and it is forecasted to remain around this level in the short term.

The second tranche of grants and loans under the Recovery and Resilience Facility (RRF), to the tune of EUR 3.6bn, was disbursed in January this year, following the fulfillment of 28 milestones and targets. A third payment request under the RRF of EUR 1.72bn was submitted in May 2023, inter alia covering investments and reforms related to electromobility, energy efficiency and digitalization. Meanwhile, authorities also proposed to amend the RRP by adding a REPowerEU chapter. As part of the request, part of the Brexit Adjustment Reserve would be transferred to the RRP. If the EC approves the modification, the total financial envelope would be worth EUR 18.22bn in grants and EUR 17.73bn in loans.

Flourishing tourism is set to boost export growth, while improved cost competitiveness should aid exports more generally. According to BoP data from the Bank of Greece (BoG), inbound tourism grew by 21.9% y-o-y in the seven months of the current year. At the same time, total travel receipts rose by 20.2%. Nevertheless, net exports should act as a drag on real GDP growth in 2023, as strong domestic demand bolsters import growth, before likely turning broadly neutral next year, mirroring the positive impact of normalizing energy prices on Greece's trade balance.

Downside risks to the outlook relate to Greece's reliance on fossil fuels imports, although this has declined significantly from a year earlier. While this dependence still leaves Greece somewhat vulnerable to global price fluctuations, we emphasize that bilateral trade exposure to Russia has been substantially reduced since the onset of the war in Ukraine, with the total import volume from Russia decreasing by 66.5% y-o-y over the first eight months of 2023 (Hellenic Statistical Authority data). In addition, the value of imports of petroleum gas and other gaseous hydrocarbons from Russia fell by 52.7%.

Medium-term growth prospects are somewhat hampered by remaining challenges pertaining to the Greek business environment and competitiveness. Corroborating this assessment, firms view business regulations as a major obstacle to investment in Greece (EIBIS 2022). In the 2023

edition of the IMD World Competitiveness Rankings, Greece was ranked 49th out of 64 economies. To be sure, this compares favorably with the result of the 2019 ranking before the pandemic (rank 58).

As regards digitalization progress, Greece continues to exhibit rather weak performance. Judging by the EC's Digital Decade Report 2023, SMEs lag far behind the EU in terms of digital intensity and adoption of advanced digital technologies. The share of the population with at least basic digital skills is around the EU average.

Greece has been classified as a moderate innovator in the EC's Innovation Scoreboard 2023, and trails most EU members in the Global Innovation Index 2023 (rank 42), with its best performance in the innovation pillar 'human capital and research'. We also note that Greece lags behind the EU in terms of R&D expenditure, which stood at 1.46% of GDP in 2021 (EU: 2.27% of GDP).

In light of the ongoing and further envisaged roll-out of reforms to address the above issues, it seems worth reiterating the expected significantly positive impact on Greece's economic growth from a full and timely RRP implementation, which the EC gauges will result in an increase of 2.1 to 3.3 p.p. over 2021-2026. According to AMECO estimates, potential growth will quickly catch up with the euro area from 0.4% in 2022 via 1.0% in 2023 to 1.5% in 2024 (EA: 1.5% in 2024), after having displayed negative potential growth rates between 2009 and 2021.

Turning to developments concerning cost competitiveness, real unit labor costs have fallen significantly over the last year, comparing favorably against main trading partners and the euro area as a whole. The strong decline has been driven by the drop in real compensation per employee and an increase in real labor productivity per person, but is likely to be at least somewhat distorted by the recent accumulation of crises. It should be emphasized that nominal labor productivity per person and per hour worked remained among the lowest in the euro area.

At the same time, we observe that Greece's global export market share of goods and services has continued to recover, with both the global share of goods and the global share of services rising. In fact, in 2022 the worldwide share of Greek goods exports climbed to 0.23%, its highest level on Eurostat records. With ample public investment in the pipeline, productivity could be boosted and cost competitiveness improved, which warrants close monitoring going forward.

Risks to the medium-term growth outlook from private sector debt continue to appear contained. Measured against GDP, which grew strongly in nominal terms last year, private indebtedness nosedived by 21.7 p.p. to 100.2% in 2022, also supported by NFC and household debt falling by 4.7% and 7.5%, respectively, in national currency terms.

Institutional Structure

The sovereign's credit rating reflects its favorable institutional framework, supported by substantial advantages associated with EU and EMU membership. Access to both deep and broad capital markets, as well as ample EU funding to implement the green and digital transition while enjoying protection, are key benefits. The latest vintage of the Worldwide Governance Indicators (WGIs) points to gaps in terms of good governance as compared to the euro area as a whole. Similarly, the efficiency and quality of the judiciary continue to show room for improvement, but in our view the authorities remain committed to achieving efficiency gains and increasing the level of digitalization, as evidenced by the adoption of several judicial reforms in recent years. With the incumbent New Democracy party win-

ning an outright majority in the June elections, we are positive on the prospects for timely implementation of RRP-related measures and view the concurrent political stability as a key pillar for policy predictability. Following tensions with Turkiye over natural gas reserves and sovereign rights in the Aegean Sea, Greek-Turkish relations appear to have improved as of late.

The recently updated WGIs, prepared by the World Bank and referring to the base year 2022, confirm Greece's generally strong institutional governance. That said, we have noted a deterioration in each of the four dimensions that we consider most relevant to our credit assessment, as compared with last year's assessment. As a result, Greece continues to lag behind the respective euro area median.

In terms of 'voice and accountability, 'government effectiveness' and 'rule of law', Greece slipped by two places to relative rank 49 (out of 208, EA median: 33), 72 (out of 213, EA median: 43), and 86 (out of 213, EA median: 36) respectively. Greece's performance in 'control of corruption' was notably weaker than in the previous vintage, falling seven places from 2021 to relative rank 93 (out of 213, EA median: 49).

Turning to political events, the incumbent center-right New Democracy party won the snap parliamentary elections in May by a wide margin, but failed to win a majority. The party, led by Prime Minister Mitsotakis, finally won an outright majority in the second round in June with 40.6% of the public vote. The left-wing Syriza party came in second (17.8%), followed by the Movement for Change party with 11.9%. In our view, the outcome of the elections reinforces political stability and provides for coherent and effective policymaking, which will be crucial for the timely implementation of RRP-related investments and reforms, ultimately paving the way for sustained real GDP growth and fiscal consolidation.

Progress in judicial reform should improve the institutional quality of the Hellenic Republic. A bill aimed at revising the judicial map was passed this February. Apart from that, a law on asset disclosures entered into force in February as well, which provides for the modernization of the electronic system. Furthermore, a law on the protection of whistleblowers reporting violations of EU legislation was adopted and steps are being taken to improve the level of digitalization of the judiciary. However, efficiency issues remain in place, weighing on the overall assessment of Greece's justice system and related reform progress. There is still room for improvement in terms of the length of proceedings and the clearance of cases, as underscored by the EU Justice Scoreboard 2023, with a significant backlog in the administrative courts that needs to be addressed.

Concerning the legacy issues related to the clearance of government arrears, we note that good progress has been made on pension arrears, but the agreed target for non-pension arrears has not been met. The stock of net arrears this January was higher than in August 2022, representing a moderate slippage from the target. In the remaining sub-sectors, the clearance of the stock of arrears is well on track, either very close to the target or broadly on track (EC intelligence).

We are also aware that several other structural reforms have progressed, including e.g. the cadastral mapping. A complete mapping is expected by the end of the year, while the replacement of mortgage offices by operational cadastral offices will be crucial to ensuring the speedy registration of property transactions. In addition, authorities are working on the collective labor law and administrative labor law as part of the labor legislation. Finally, Greece has started the implementation of the National Anti-Corruption Action Plan 2022-2025.

As regards greening the economy, preparations are underway for the implementation of the National Climate Law. According to the National Reform Program 2023, a Scientific Committee on Climate Change was established in Q1-23 and the content of municipal climate action plans is to be specified in the last quarter of this year. We understand that the National Strategy for Hydrogen and Other Renewable Gases has not yet been presented. The draft plan envisages the substitution of natural gas and petroleum products in energy-intensive sectors, which should support the aspired-to transition to a climate-neutral economy by 2050. In this context, the RRP remains key to the achievement of Greece's climate change targets.

The overall share of energy from renewable sources was 21.9% in 2021 (2020: 21.7%), broadly on par with the EU-27 average (21.8%). In line with our last review, the share of renewables used in heating/cooling is higher than at EU level, but is lower in the area of transport. Greece improved by one place to rank 18 among the EU-27 countries in the Eco-Innovation Index 2022, but continues to score well below the EU average. Despite a slight increase in per capita greenhouse gas emissions in 2021 (7.6 tons per head) compared to 2020, Greece remains below the EU-27 average (7.9 tons per head).

Fiscal Sustainability

Fiscal sustainability remains a credit weakness in our view. That said, the sovereign's public finances have improved significantly since our last review, partly thanks to strong nominal GDP growth. Greece's debt-to-GDP ratio has thus fallen dramatically, but nevertheless remains very high. While fiscal metrics will be adversely affected by energy support initiatives, provisions for natural disasters, and a raft of other fiscal measures, we expect them to improve further in the near term. Although public debt is set to remain high over the medium term, we expect it to continue on its downward path. At the same time, risks to fiscal sustainability, such as rising interest rates and potential refinancing risks, are alleviated by a number of factors, including a favorable debt holder structure, a very long weighted average residual maturity, and a large cash buffer. In addition, authorities have repeatedly demonstrated sound debt management, as illustrated by the early repayment of IMF loans and loans related to the Greek Loan Facility. The banking sectors' resilience has been further strengthened by the continued decline in the – still high – stock of NPLs. Contingent liability risks, as well as demographic challenges, remain to be monitored.

After posting high deficits in 2020 and 2021 respectively, Greece's general government balance in 2022 turned out markedly less negative and again much better than expected at the time of our last review, particularly against the backdrop of geopolitical events that required large fiscal interventions to mitigate the impact of rising energy prices, as well as still sizeable Covid-19 measures. The headline deficit of 2.4% of GDP, and the associated outperformance of the primary balance (0.1% of GDP), were largely driven by higher tax receipts, partly related to the closure of some gaps in terms of VAT compliance, and strong nominal GDP. Thus, the VAT gap in Greece appears to have continued to decline.

On the revenue side, taxes on production and imports, as well as taxes on income and wealth, increased strongly both in absolute and relative terms. Similarly, net social contributions exhibited a relatively marked rise. Overall, total general government revenue grew by 13.4%, whereas total expenditure increased by a moderate 4.3%, reflecting increases in several items, whilst the public wage bill remained relatively stable.

Preliminary state budget execution data for the first eight months of the current year show that the fiscal balance is developing more favorably than estimated in the 2023 Budget, indicating that a further overachievement of the authorities' fiscal targets for the full year 2023 could be within reach. While net revenues between January and August 2023 are well on target, expenditures in the first eight months were 5.0% below the amount included in the 2023 Budget.

Several discretionary measures with a deficit-increasing impact are envisaged in the 2024 draft budgetary plan (DBP24). Energy support measures with a significant fiscal impact include the electricity subsidy scheme and the income subsidy, which together amount to EUR 1.85bn (or 0.84% of our estimated 2023 GDP). At this stage, the Ministry of Economy and Finance intends to discontinue energy-related support in 2024, but points out that this would be conditional on the absence of future commodity price spikes. With a budgetary impact of EUR 0.863bn (0.39% of GDP), other fiscally relevant measures this year involve the abolition of the solidarity tax for the public sector and pensioners and one-off payments to some pensioners.

Following this year's natural disasters, the parliament decided to adopt a supplementary budget to the tune of EUR 0.6bn in 2023. From 2024, a public investment budget of EUR 0.6bn will be set up to address the economic costs of potential future disasters, partly financed by a fee imposed on hotels and short-term rentals totaling EUR 0.24bn. Also, from next year, enterprises with an annual turnover of more than EUR 2mn will be required to take out insurance against natural disasters.

Given the measures adopted and the slowdown in economic growth, the general government balance should not improve as much as in 2022. However, thanks to favorable developments in the labor market — which will put the tax base on a sounder footing and boost social security contributions — and the phasing out of Covid-19 measures, we expect the headline deficit to narrow to -2.2% of GDP before falling to -1.4% of GDP in 2024. We note that the projection for next year is subject to the withdrawal of fiscal support related to the energy crisis, while also pointing out that global geopolitical tensions render the forecasts highly uncertain.

Although Greece's general government debt-to-GDP ratio of 172.6% remains the highest among the EU countries, it dropped markedly by 22.4 p.p. from 2021. As of Q2-23, the public debt ratio had declined to 166.5% of GDP. In anticipation of primary surpluses and solid real GDP growth going forward, we project that the sovereign's debt-to-GDP ratio will follow a firm downward path, reaching 161.6% in 2023 and 155.1% in 2024.

We do not see the sovereign's debt servicing capacity at risk at this stage, although the ECB's aggressive monetary policy tightening has led to deteriorating financing conditions. Interest payments as a percentage of total general government revenue have risen to 5.9% as of Q2-23 (Q2-22: 4.6%). Coming to 4.15% as of 27-Oct-2023 (weekly data, 28-Oct-2022: 4.53%), the yield on 10-year government bonds has narrowed recently, reflecting the general improvements in the sovereign's credit ratings. The Bund spread almost halved from 244 bp to 132 bp over the same period. Confirming the ongoing normalization in terms of capital market funding, the Hellenic Republic issued syndicated 10-year and 5-year benchmark bonds at yields of 4.287% and 3.919% in January and April 2023, respectively.

In any case, we think that the ECB's interest-rate hiking cycle has peaked, with the main refinancing rate standing at 4.50%. At its October monetary policy meeting, the ECB decided to keep key policy rates unchanged, and stated that the winding down of the APP portfolio is proceeding as

planned. Maturing government bonds under the PEPP will be reinvested until at least the end of 2024. We believe that a first rate cut is unlikely to occur before the second half of 2024.

Refinancing risks are manageable, in our view, with risks to fiscal sustainability being mitigated by Greece's favorable debt profile, with the weighted average residual maturity of general government debt expected to stand at 19.3 years in 2023 (DBP24) and more than three-quarters of central government debt (76% as of Jun-23, PDMA) being held by the official sector. In addition, Greece maintained a large cash buffer, which amounted to around EUR 35bn at the end of March 2023, enough to cover gross financing needs in the foreseeable future.

We assess the fact that Greece has repaid part of the loans under the Greek Loan Facility in the amount of EUR 2.645bn ahead of schedule as positive, after having already completed the repayment of IMF loans earlier than envisaged, demonstrating sound fiscal planning. We understand that a further early repayment of loans due in 2024 and 2025 could take place by the end of this year.

Moreover, financial soundness indicators of the highly concentrated and predominantly domestically owned Greek banking sector have broadly improved over the past year, although vulnerabilities remain largely in place, mainly related to sub-par capitalization and still high NPLs. The CET1-ratio (EBA data) stood at 14.3% as of Q2-23, up from 13.4% a year earlier, but remains well below the EU average (Q2-23: 16.0%). However, despite a slight y-o-y decline, Greek bank profitability, as measured by return on assets, remained above the EU level (1.2% vs. 0.7%).

Arguably most importantly, the resolution of NPLs has progressed well, and Greece has come a long way in cleaning up its banks' balance sheets. According to latest EBA data, the NPL ratio fell from 5.2% to 4.6% in the year to the second quarter of 2023, but remained the highest reading among the EU member states (average: 1.8%). Banks' balance sheets benefited significantly from securitizations under the Hercules scheme, as indicated by an NPL ratio of 30.3% just three years ago. Following the expiry of the program in October 2022, the future reduction of NPLs in bank's loan portfolios will hinge on organic measures. A Supreme Court decision from 16 February 2023 confirmed the right of credit servicers to initiate enforcement proceedings under the 2003 securitization law, which should help reduce the volume of NPLs.

We will vigilantly monitor progress in the further workout of NPLs, as this should have a tangible impact on banks' capitalization and their ability to support real economic activity via lending. Lending activity to the private sector has been weak so far. After showing nascent signs of recovery in line with the clean-up of banks' balance sheets, NFC lending has lost momentum over the last six months and even turned negative in Aug-23.

Pockets of vulnerability relate to the combination of rising interest rates and the prevalence of variable-rate loans in banks' loan portfolios, as debtors may find it difficult to meet their financial obligations, with potentially adverse effects on the banking sector's asset quality. In response to these concerns, the four largest Greek banks announced that they would freeze variable-rates on mortgage loans for 12 months from May 2023, limiting the risk of asset quality deterioration. In addition, Greece displays a low share of outstanding mortgage loans in total outstanding loans to the private sector. Contingent liabilities remain elevated, as public guarantees are projected to post at 10.6% of GDP in 2023, of which 7.6% are linked to the financial sector, and to decline to 9.6% of GDP in 2024. We note that litigation cases against the Public Real Estate Company (ETAD) are still pending, which calls for close monitoring.

Foreign Exposure

External vulnerabilities remain in place. While the risks related to Greece's very high and negative net international investment position (NIIP) are somewhat mitigated by the composition of its external debt, with the lion's share owed to the official sector, the current account deficit remains higher than before the pandemic. Against the background of presumably stabilizing energy prices and robust tourism receipts, we expect the current account deficit to narrow in the medium term, but to remain elevated due to prospectively strong domestic demand.

The energy crises pushed Greece's current account balance into much deeper negative territory. At -10.3% of GDP in 2022, Greece recorded its largest deficit since the global financial crisis, mainly due to the deterioration of the goods balance associated with more expensive energy against the backdrop of its comparatively high energy import dependence. Without the tourism-induced improvement in the services balance, the current account deficit could have been even higher. Based on the four-quarter average, the current account deficit narrowed in the first half of the current year on the back of lower commodity prices, posting at -7.9% of GDP in Q2-23.

Looking ahead, we expect the current account deficit to decline further over the medium term, with energy prices remaining broadly stable in our baseline scenario and travel receipts acting as a supporting pillar, which should at least partly offset the goods deficit. That said, stronger domestic demand, in particular in the context of RRP-related investment, is likely to keep the current account deficit above its pre-pandemic levels for some time.

Meanwhile, the NIIP fell markedly from -173.0% of GDP in 2021 to -144.2% of GDP in 2022, although the change has been driven to a larger extent by the denominator effect, and continues to represent the highest negative position among the EU-27 countries. From a disaggregated perspective, the improvement in the NIIP was essentially due to a large swing in the other investment component. However, we view external risks as mitigated by the high share of (central) government debt being held by the official sector, which reduces the likelihood of sudden capital outflows. More recently, the NIIP remained at -144.2% of GDP in Q2-23.

Rating Outlook and Sensitivity

Our rating outlook on the long-term sovereign ratings for the Hellenic Republic is positive, as we expect macroeconomic and fiscal risks to continue to diminish over the next 12-24 months.

We could thus consider a rating upgrade if the Greek economy continues to grow solidly and the government implements structural reforms and investments under the RRP in a timely and effective manner, accompanied by continued absorption of funds under the RRF. A positive rating action could also be triggered by a further decline in the public debt ratio and continued progress in working out the NPL stock.

Conversely, a negative rating action could be prompted by a markedly slower-than-expected reduction in public debt, or, contrary to our belief, by a reversal of the debt trend, possibly due to substantial fiscal support in the context of renewed commodity price spikes or a failure to implement RRP reforms and investments, which would prospectively also weigh on underlying growth. Moreover, downward pressure on the rating or outlook could result from medium-term growth falling short of our expectations. A significant deterioration in terms of the NPL ratio could also be part of an adverse rating scenario.

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Ratings*

Long-term sovereign rating	BB+ /positive
Foreign currency senior unsecured long-term debt	BB+ /positive
Local currency senior unsecured long-term debt	BB+ /positive

*) Unsolicited

ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit

ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the assessment of an economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, and IMD Business School and the World Intellectual Property Organization (UN) add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof. Indicators or projections providing insight into likely demographic developments and related cost represent a social component affecting our rating or adjustments thereof. Hence, we regard the ESG factor 'Demographics' as less significant in our ESG framework.

While Covid-19 may exert adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2017	2018	2019	2020	2021	2022	2023e	2024e
Macroeconomic Performance								
Real GDP growth	1.1	1.7	1.9	-9.3	8.4	5.6	2.2	2.3
GDP per capita (PPP, USD)	28,518	29,766	30,918	28,518	32,433	37,526	39,864	41,593
Credit to the private sector/GDP	103.8	94.6	83.9	85.7	60.2	55.7	n/a	n/a
Unemployment rate	21.8	19.7	17.9	17.6	14.7	12.5	n/a	n/a
Real unit labor costs (index 2015=100)	100.3	99.4	99.2	107.4	102.7	93.4	n/a	n/a
World Competitiveness Ranking (rank)	57	57	58	49	46	47	49	n/a
Life expectancy at birth (years)	81.4	81.9	81.7	81.4	80.2	80.7	n/a	n/a
Institutional Structure								
WGI Rule of Law (score)	0.0	0.1	0.2	0.3	0.3	0.3	n/a	n/a
WGI Control of Corruption (score)	-0.1	-0.1	0.0	0.0	0.2	0.0	n/a	n/a
WGI Voice and Accountability (score)	0.7	0.7	0.8	1.0	0.9	1.0	n/a	n/a
WGI Government Effectiveness (score)	0.2	0.3	0.3	0.4	0.4	0.4	n/a	n/a
HICP inflation rate, y-o-y change	1.1	0.8	0.5	-1.3	0.6	9.3	4.1	2.5
GHG emissions (tons of CO2 equivalent p.c.)	9.3	9.0	8.4	7.2	7.6	n/a	n/a	n/a
Default history (years since default)	6	7	8	9	10	11	12	13
Fiscal Sustainability								
Fiscal balance/GDP	0.8	0.9	0.9	-9.7	-7.0	-2.4	-2.2	-1.4
General government gross debt/GDP	179.5	186.4	180.6	207.0	195.0	172.6	161.6	155.1
Interest/revenue	6.4	6.8	6.1	5.9	4.9	4.9	n/a	n/a
Debt/revenue	362.6	374.3	368.5	410.1	384.4	341.7	n/a	n/a
Total residual maturity of debt securities (years)	8.1	8.0	7.7	9.2	9.5	9.2	n/a	n/a
Foreign exposure								
Current account balance/GDP	-1.9	-2.9	-1.5	-6.6	-6.8	-10.3	n/a	n/a
International reserves/imports	14.6	11.9	13.6	21.3	18.8	12.5	n/a	n/a
NIIP/GDP	-143.4	-148.6	-154.1	-174.3	-173.0	-144.2	n/a	n/a
External debt/GDP	229.1	232.0	244.6	299.4	305.9	265.0	n/a	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, ELSTAT, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	23.12.2016	B- /stable
Monitoring	22.12.2017	B- /positive
Monitoring	21.12.2018	B+ /stable
Monitoring	20.12.2019	B+ /positive
Monitoring	19.06.2020	B+ /stable
Monitoring	18.12.2020	B+ /positive
Monitoring	10.12.2021	BB- /positive
Monitoring	02.12.2022	BB+ /stable
Monitoring	10.11.2023	BB+ /positive

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. Greece's Public Debt Management Agency participated in the credit rating process, as they reviewed a draft version of the report. Creditreform Rating AG had no access to the accounts, representatives, or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models, and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, World Intellectual Property Organization (WIPO), IMD Business School, Bank of Greece, Ministry of Finance, Public Debt Management Agency (PDMA), ELSTAT, Parliamentary Budget Office (PBO).

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision."

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website.

No ancillary services in the regulatory sense were carried out for this rating object. Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest

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The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

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An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

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