Creditreform Rating

Rating Object	Rating Information	
HELLENIC REPUBLIC	Assigned Ratings/Outlook: **B+ /positive**	Type: Monitoring, unsolicited
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 20-12-2019 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 20 December 2019

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

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Key Rating Drivers

1. Overall weak macroeconomic profile, also reflected in a comparatively tepid economic recovery so far; still, we expect the recovery to gain some momentum, mainly driven by domestic demand, which benefits from envisaged policy measures and a further improving labor market, albeit from very low levels; persisting challenges related to its business environment and moderate medium-term potential output
2. Ongoing challenges with respect to the institutional set-up; while the recent history of political volatility puts pressure on new government to deliver a more stable political environment, we believe it will forge ahead with the implementation of its pro-growth and business environment strategy, and attach a low risk of policy reversals
3. Sovereign remains subject to enhanced surveillance by European partners; confirmed progress has resulted in further debt relief, also in light of budgetary improvements, as primary surplus targets have been exceeded repeatedly; public debt-to-GDP ratio still exceptionally high, but should diminish over the next few years; demographic developments remain a concern regarding the longer-term fiscal outlook
4. We continue to see large fiscal risks stemming from the still very high stock of non-performing loans, which are somewhat balanced by the new asset protection scheme that could help reduce levels markedly; further steps taken towards normalization in terms of capital market access and funding for banks
5. External vulnerabilities as suggested by highly negative NIIP are somewhat mitigated by high exposure to dedicated official creditors; NIIP should, however, remain very high and negative, as current account deficit should widen somewhat going forward

Reasons for the Rating Decision

Creditreform Rating has affirmed its ratings on the Hellenic Republic at "B+", which reflect an increased default risk. The ratings are underscored by persisting weaknesses in the macroeconomic performance profile, shortcomings in the institutional set-up, and elevated external risks, while public finances have to be described as stretched.

The outlook on the Hellenic Republic was lifted to positive, buttressed by our expectation that (i) the recovery of Greece's economic growth will remain robust, supported by further brightening labor market outcomes and fiscal policies; (ii) the Greek authorities will uphold their commitment to implement key structural reform steps; and (iii) fiscal discipline will result in a diminishing public debt ratio.

Macroeconomic Performance

In our view, Greece's overall macroeconomic performance continues to be rather weak. Despite the moderate economic recovery, GDP per capita and trend growth rates are subdued, and its macroeconomic profile remains hampered by structural deficiencies pertaining to the labor market and general business environment, as well as high – though declining – unemployment, a limited degree of diversification, and low productivity.

The Greek economy continued its recovery last year with a somewhat accelerated GDP growth of 1.9% in 2018, following an expansion of 1.5% in 2017. To be sure, the recovery still has to be qualified as rather tepid in light of the steep fall in real economic output in 2007-16. The fact that Greece ranks in the lower half among the EU-28 members and in the lowest third among the euro area countries in 2018 regarding real GDP growth may serve as further testament thereof. Meanwhile, there is also significant room to step up income convergence towards EU levels. Greece's per capita income rose from USD 27,772 in 2017 to USD 29,072 in the following year (IMF data, PPP terms). Notwithstanding this increase, per capita income in Greece was only 67% of the EU-28 average, unchanged from 2017. Other former program countries, such as Portugal (75%) and Cyprus (93%), are closer to the European average, and they are showing a faster pace of convergence with EU-28 income levels.

Compared to the year before, the growth pattern changed in 2018 as domestic demand posed a drag on economic growth, mainly on the back of a large decline in gross fixed capital formation (-12.2%), while net exports contributed positively (+1.5 p.p.). Looking at the breakdown of gross fixed capital formation, one can observe a decline to the tune of 18.5% in construction investment in 2018, chiefly non-residential construction (-22.9%), following near-stagnation (+0.4%) in 2017, thus highlighting the high degree of volatility in this component. The same applies to investment in machinery and equipment and weapons systems, which accounts for the largest share of gross fixed capital formation, and which shrank by 10.2% in 2018 on the heels of a leap of 22.2% in the prior year. As opposed to the previous year, government consumption (-2.5%) also failed to contribute positively to GDP growth in 2018. Conversely, private consumption saw its strongest expansion since 2008, albeit still relatively moderate at a rate of 1.1%, mainly driven by marked employment growth and by the private households' decision to draw down their savings.

On the other hand, foreign trade developed more favorably than would have been expected amidst the challenging external environment. Exports rose by 8.7% in 2018, while imports expanded by 4.2%. Overall, Greece's share in the global export market increased from 0.31 to 0.33% in 2018, mainly driven by services exports, in turn dominated by services related to travel, accounting for roughly 43% of all services export receipts in 2018; and by transport, mainly sea transport, claiming a share of about 38% of all services exports. In 2018, travel exports rose by 10.0%, while exports of sea transport services increased by 14.9% (BOP data).

Over the course of 2019, Greece's economic performance continued to develop favorably, although Greek households appeared to hold back on consumption especially in Q2-19, presumably due to political uncertainty ahead of the snap parliamentary election held this July. Annual GDP growth rates in the first two quarters came in at 1.4% and 2.8% respectively, followed by an expansion of 2.3% in Q3-19 with marked volatility in the components. We expect Greece's economic expansion to gain some momentum resulting from accelerating investment and ongoing growth in household spending, partially offset by net external trade. We thus project GDP growth of 1.8% for the whole of 2019, followed by 2.1% in 2020.

Economic sentiment in Greece has been brightening significantly over the course of the year, and consumer confidence now exceeds pre-crisis levels, gaining further traction after the election (both EU Commission data). Early elections, which were held in July, brought about a change in government, with the center-right New Democracy party taking over with an absolute majority of 158 out of 300 seats. In a first instance, the new government focused on cuts in taxes on labor and capital, as well as on increases in social benefits for families with children, along with plans to improve the business environment and tackle non-performing loans (see below). Private consumption may therefore see some rebound in the second half of the year. Beyond that, household spending should post somewhat stronger growth rates on the back of solid employment and real disposable income growth, the latter being facilitated by subdued HICP inflation, fiscal policy measures, and continued improvements on the labor market. Disposable income will also be boosted by the increased statutory minimum wage, which was raised by 10.9% to EUR 650 under the previous government in February 2019. According to the National Reform Program 2019, this would directly affect approx. 600,000 workers. As we understand, minimum wages are to be ramped up as of June 2020, contingent on a consultation process trying to track the labor market impact.

Employment continued to rise in 2018, with the rate of expansion accelerating to 1.7% as compared to 1.5% in 2017. In the first half of 2019, employment gains accelerated further, surpassing 2%, but falling back to 1.5% year-on-year in Q3-19. While we expect employment growth to remain resilient, we continue to view the labor market as weighing on Greece's economic resilience and flexibility despite the improvements in recent years. Thus, the LFS-adjusted unemployment rate fell by 2.2 percentage points to 19.3% in 2018, corresponding to the highest rate in the EU-28 by a wide margin. More recently, unemployment continued its downward trajectory, falling to 17.3% in Q2-19. At the same time, the

participation rate stood at a low 68.2% in 2018, remaining among the lowest in the EU-28. Since 2016, it has broadly stalled, although there was a slight pickup to 68.5% in Q2-19.

Gross fixed capital formation displayed some volatility in the first nine months of 2019, but will most likely contribute positively to growth in the current year and possibly to a larger extent next year and beyond. We believe that investment activity will be fostered, among others by the new government's plan to prioritize the creation of a more business-friendly environment and spur privatization as in the case of Athens International Airport, several regional ports, and the Public Gas Corporation. Furthermore, the corporate tax rate will be cut from 28% to 24%, and we assess favorably the acceptance by the EU of Greece's proposed market scheme to help lower banks' non-performing loans more decisively (Hercules scheme, see below). We think that such a scheme should help to unlock banks' lending to the private sector, which has continued to contract as regards outstanding volumes, while new lending has picked up since the turn of the year. In this context, it is also worth noting that Greek banks have repaid all of the Emergency Liquidity Assistance (ELA) provided by the Bank of Greece (BoG). Moreover, foreign direct investment (FDI) inflows seem to have embarked on a recovery, marking the highest level in ten years in Q2-19, boding well for investment activity. In addition, the remaining capital controls were lifted, and as of January 2020 the European Commission will put Greece back on the marketable risk list for short-term export credit insurance.

We assume that solid domestic demand will buttress import growth, while exports may face some headwinds due to subdued euro area growth and ongoing uncertainties related to protectionist tendencies, Brexit, and a possible China hard landing. After a slow start into 2019, exports picked up some steam in Q2 and Q3-19, increasing by 5.8% and 9.5% y-o-y respectively. Growth pertaining to exports of travel and sea transport also continued in the first half of 2019, with increases of 13.3% and 7.5% versus the first half of 2018 respectively. Having said this, the slower expansion of transport service exports in the first six months of this year compared to the overall year 2018 suggests that the more challenging global trade environment left its mark on Greek transport services, underscoring the economy's vulnerability to external shocks.

Underlying this vulnerability is a rather moderate degree of diversification. To this end, we recall that Greece's services-to-industry-ratio stood at 4.3 in Q2-19, constituting one of the highest levels in the EU-28. The concentration occurs in sectors that are also relatively sensitive to deteriorating price competitiveness (travel, transport). Apart from that, we would highlight that services related to ICT only accounted for 3.5% of gross value added (GVA) in 2018, comparing unfavorably with the EU-28 (5.3%). Business services represented 5.4% of GVA in 2018, significantly lagging behind the European Union (11.6%).

With a view to the Greek business environment, the improvement of which would be vital to attracting FDI on a larger scale, we are aware that the World Bank's 2020 Ease of Doing Business compilation pointed to a weakening of Greece's position. The country dropped from rank 72 to 79 out of 190, outperforming only Malta among the EU-28. As for registering property (rank 156) and enforcing contracts (rank 146), there seem to remain major obstacles that have to be dealt with. We positively note, however, a significant improvement and relatively high position as far as starting a business (11th position, up from 44th)

is concerned, and we reiterate our impression of a credible commitment and early actions on the part of the new government.

Looking at price competitiveness, however, we notice that real unit labor costs have recently seen a moderate increase (0.5% in 2018) on the back of higher real compensation exceeding anemic labor productivity growth. While we continue to regard labor market inclusiveness as an important factor for achieving higher potential growth, we would highlight that consequences of recent policies such as the increase of the minimum wage need to be carefully monitored in this context. We acknowledge that the new government made an agreement with official creditors to conduct an ex-post assessment of the 2019 increase of the minimum wage.

We observed that the new government expressed the intention to enhance labor market flexibility, and has amended some of the changes made under the predecessor government in October this year, now allowing for opt-outs from sectoral-level bargaining, subject to the economic situation of a business, and introducing certain hurdles to extending sectoral-level bargaining. Nevertheless, we have some reservations as to how the new system will play out in practice. Furthermore, we would underscore that measures and dedicated spending to address persistent deficiencies regarding the labor market - such as the comparatively high degree of skills mismatches and long-term unemployment - may have to be stepped up.

We note that Greece seems to have overtaken the euro area in terms of total factor productivity (TFP) growth in 2018 (1.5% vs. 0.7%), and appears set to continue to do so over the next two years (AMECO data). The new government's strong emphasis on promoting digital governance and the digital economy in general certainly points in the right direction. We deem ongoing productivity increases as essential, as adverse demographic factors appear to weigh rather heavily on medium-to-longer-term growth prospects. The Greek population is estimated to shrink by 3.5% between 2018 and 2030 (Eurostat), a markedly more negative development than is projected for the European Union (+1.6%), in spite of a projected positive net migration. Moreover, labor supply looks set to decline further on the back of an ageing population. Drawing on the EU ageing report, the share of people at working age (15-64) will drop to 61% in 2030, from 63.6% in 2018 (also remaining below the EU median). At the same time, the old age-dependency ratio, by EU standards already at a high 33.4% in 2016, is expected to increase further to 44.9% – one the highest readings in the EU-28.

Institutional Structure

Our rating of the Hellenic Republic remains constrained by its institutional quality, where we still see some shortcomings. A key concern over the last decade has been political volatility, especially as this has partially culminated in a lack of reform ownership and predictability. Backtracking on various reform commitments over the course of the last few years would also have to be mentioned in this context. An example of this would be labor market reforms, as elements of collective bargaining had been restored under the former government, and the increase of the minimum wage markedly exceeded productivity growth. To the extent that the election in July was a snap election, political volatility has continued;

however, we are aware that for the first time since 2009 a single party won an absolute majority in parliament, which in the current relatively favorable economic environment should be beneficial to policymaking.

Institutional deficiencies are also visible when assessing the latest edition of the World Bank's Worldwide Governance Indicators (WGI), among which Greece was placed in the 106th position out of 211 in terms of political stability. This compares rather unfavorably with a median of rank 58 among EU countries and rank 59 among euro area members. Another case in point would be the WGI government effectiveness, on which Greece ranked 72nd out of 209 (dropping one place), again scoring well below the median of fellow euro area (rank 35) and EU-28 members (rank 36).

Tying in with this, we note that Greece is lagging behind with regard to agreed clearing of arrears. According to the Parliamentary Budget Office, overdue liabilities of the government towards the private sector amounted to EUR 1.673bn in spending arrears, in addition to EUR 874mn in outstanding tax refunds as of September 2019. This corresponds to an increase over the first nine months of the year, thus reversing the declining trend experienced in 2018. Having said that, we are mindful of the firmly declared intentions by the new government to honor agreed commitments and to strengthen momentum in tackling various issues, including public financial management. With regard to the latter, we understand that the Greek Ministry of Finance is preparing a new clearance plan. Moreover, considering the lately adopted Development Law, reform steps seem underway as far as facilitating licensing is concerned, as well as enhancing transparency on land use by developing a Single Digital Map, to name two examples. Furthermore, the Executive State Law amends an earlier commitment by reintroducing administrative secretaries, aiming at depoliticizing and augmenting capabilities in public administration.

A closer look into the World Economic Forum's (WEF) 2019 compilation of indicators, merged into the Global Competitiveness Index, also underscores still-existing shortcomings pertaining to Greece's institutional framework. Overall, Greece slipped from rank 57 (out of 140 economies) to 59 (out of 141). While Greece saw some improvement with regard to the institutions pillar, it was ranked 85th out of 141, among others scoring poorly when it comes to public sector performance, a category in which government regulation and the efficiency of the legal framework in settling disputes is taken into account. Ongoing challenges relating to property rights also remain.

As for the legal framework in settling disputes, we note positively that, according to the latest EU justice scoreboard, the number of days it took to resolve administrative cases (first instance) was reduced significantly between 2010 and 2017, from just over 2000 to 735 days. This, however, still compares unfavorably from an EU perspective. Also, the number of pending administrative cases remains markedly above levels witnessed in other EU countries, although it almost halved to 1.9 per 100 inhabitants between 2010 and 2017.

Fiscal Sustainability

Public finances continue to represent a credit weakness in our assessment. While Greece's exceptionally high debt level and its weak banking sector continue to pose significant fiscal

risks, we note that the sovereign's budgetary situation has substantially improved, given that the primary surplus has considerably exceeded the agreed targets since 2016 and is set to outperform in 2019 as well.

In 2018, the primary surplus reached 4.3% of GDP versus a target of 3.5% of GDP, and the headline balance increased to 1.0% of GDP in 2018, after amounting to 0.7% of GDP a year before. Total government expenditure increased by 1.5% last year, reversing for two consecutive years with spending declines. In this context, we concur with the view that continued under-execution of spending ceilings in public investment appears to be a source of concern, as inefficient or non-use of available funds may backfire on the economy's longer-term growth outlook. However, the government seems to be taking measures to tackle this issue, among others by means of implementing the Unified Chart of Accounts (UCoA), which in the medium to longer term should be conducive to fiscal monitoring and decision-making. Meanwhile, revenues rose stronger than expenditure (2.1% in 2018, following a decline of 0.6%), on the back of rising tax income and higher social contributions.

In 2019, the Hellenic Republic will likely overachieve its primary balance target again, mainly on the back of vivid revenue growth, which will likely benefit from enhanced collection, robust employment, and disposable income growth, while the General Accounting Office's revision and the establishment of the UCoA should rein in the public investment budget. We expect the headline balance to come in at 1.3 and 0.9% of GDP in 2019 and 2020 respectively. The primary balance is thus likely to post at about 3.8% of GDP, but should move closer to the 3.5% of GDP target next year.

This is mainly due to a fiscal package announced by the new government which is geared towards a more growth-friendly policy mix, among others through cuts in corporate and income taxes as well as social security contributions, along with measures to support families with children, and which should amount to approx. 0.6% of GDP. Against the background of the envisaged 'fiscal equivalent' measures, authorities expect the new package to be budget neutral. These so-called balance improvement interventions should also add up to some 0.6% of GDP, including initiatives to increase e-transactions, revenue and spending reviews of general government entities, and the rationalization of the objective value system; however, we flag some risks pertaining to uncertain yields associated with the proposed measures. That said, the EU Commission's enhanced surveillance framework should limit the fiscal risks related to non-compliance with the committed targets.

Arguably most importantly, we understand that the new government remains committed to the primary balance target in 2020, which is to apply until 2022, but wishes to renegotiate this target with its European partners beyond this timeframe. Against this backdrop, we would caution that returning credibility is still fragile at this stage, and that Greece will have to prove a firm grip on its public finances through the cycle. In the same vein, we recall that a final decision is pending as to whether certain elements of the 2016 pension reform will have to be overhauled, although we view potential downside risks to the budget as limited, since the Council of State ruled out retrospective financial compensation. Potential risks to the fiscal situation also stem from reportedly numerous exemptions from the unified wage grid. On the other hand, we acknowledge that further progress as regards privatizations could be a mitigating factor.

Apart from this, we are aware of a new tax incentive scheme passed by parliament this December for wealthy individuals willing to reside in Greece for at least six months per year and to make an investment above a certain threshold within three years. Similar so-called 'non-dom' programs are already in place in several other European countries, and it is worth mentioning that they remain controversial, not least as their revenue is rather unpredictable, and there are concerns over possible money laundering.

Turning to the debt situation, we assess the debt maturity profile as rather favorable at this stage. According to the Q3-19 debt bulletin (PDMA), the weighted average maturity of the sovereign's debt portfolio stood at 20.84 years as of September 2019, first and foremost thanks to the large share of EFSF/ESM loans, thus exhibiting a very benign profile. What is more, the bulk of the loans comes with fixed interest rates, rendering the portfolio largely immune to interest rate risk. In addition, a significant cash buffer to the tune of approx. EUR 20.2bn (PDMA data) would cover maturing debt over slightly more than two years, thus shielding the sovereign from refinancing and interest rate risk.

In terms of market access and debt affordability, 2019 held various important milestones in store for the sovereign. Underscoring Greece's headway in regaining investors' trust, the sovereign successfully placed benchmark bonds on the capital market over the course of 2019, following the 2018 conclusion of the ESM program. The issuances of a 5-year (January), 7-year (July) and 10-year Bond (March, first 10-year bond issuance since 2010, and October), each of which were heavily oversubscribed, reflected strong investor interest and represented a significant step towards a process of shifting the composition of debt away from the official sector toward the private sector. Benefiting from the ongoing downward trend in Greek bond yields and the narrowing of spreads towards essential benchmarks such as the 10-year German government bond yield after exiting the program, the sovereign's re-opening of the 10-year bond in October saw the carried yield plummet to 1.5%, from 3.9% in March, representing a record low.

Despite being still relatively high from a European point of view, improved market access should translate into declining interest outlays going forward. Interest expenditure stood at 6.9% of general government revenue, 0.5 p.p. higher than in the year before, but substantially below the levels seen in the wake of the financial and debt crises (2011: 17.2%). The early repayment of part of an IMF loan bearing higher interest in November this year (equivalent to about EUR 2.7bn), whereby EFSF and ESM waived their right to demand proportional early repayment, will also enable the sovereign to reduce its debt servicing costs. While already comparatively low, the repayment will also further reduce risks entailed by debt denominated in foreign currency.

As a result of the build-up of additional cash buffers, and the related higher demand for funds, general government debt came in at 181.2% of GDP last year, up from 176.2% of GDP in 2017, thus remaining the highest in the EU-28 by far. We assume that the public debt ratio will fall significantly over the next years, mainly due to high primary surpluses and resilient growth. Following positive assessments by the European official creditors in April this year, Greece received debt relief of EUR 0.97bn, with a further portion greenlighted this December, after the European partners concluded that, by and large, Greece

had made sufficient progress with regard to the agreed reform efforts. This second portion of debt relief totals roughly EUR 0.77bn.

As regards contingent liabilities stemming from the Greek banking sector, we reiterate that Greece exhibits the highest NPL ratio in the EU-28, although the ratio has come down from 44.8% to 39.2% in the four quarters to Q2-19. NPL ratios decreased both with regard to business loans (42.6% after 48.3%) and consumer loans (52.0% after 57.0%). As briefly described above, we consider as positive the market-based scheme to reduce NPLs (Hercules Asset Protection Scheme) approved by the European Commission (October 2019) and passed by the Greek parliament in a fast-track procedure this December. Similar schemes introduced in Spain and Ireland have contributed significantly to the reduction of impaired loans, thereby giving banks leeway to enhance lending to the private sector. If the scheme proves successful, the budgetary risk implied by the banks' high NPL stock could be curbed significantly.

The planned reform of the insolvency regime for households and enterprises could augment this effect, but it is still in the early stages. Having said this, we would echo remarks made by BoG that even if NPL ratios were reduced towards 20% by the end of 2021 – a target agreed by the four systemic Greek banks and the ECB/SSM – ratios would still be a multiple of EU/EA-wide average readings. However, another piece of positive news regarding the banking sector relates to the full repayment of Emergency Liquidity Assistance (ELA) provided by BoG, which was completed in March this year and which testifies to the considerably improved funding situation of Greek banks. Aside from deleveraging, banks have increasing access to private deposits and secured interbank funding, both of which constitute important steps towards a normalization.

Foreign Exposure

Looking at the external sector, we note that in 2018 Greece's highly negative net international investment position (NIIP) deteriorated further, climbing from -140.7% of GDP in 2017 to -143.3% of GDP (Eurostat data), thus continuing to display the second-highest negative position in the EU-28. Driving the NIIP's increase last year was mainly the 'other investments' component, and, to a lesser extent, also net FDI. Higher incoming FDI partly stemmed from privatizations, but also from rising investment in real estate, thus partly signaling returning trust in Greece's economic future and business environment. In Q2-19, the NIIP declined even further, reaching -150.9% of GDP. Such a highly negative position generally raises concerns over severe vulnerabilities with regard to abrupt shifts of capital flows. However, we acknowledge that Greece remains a special case in this regard, and we continue to consider risks of sudden capital outflows as mitigated by the composition of Greek external debt. According to PDMA, 76% (Q1-19) of its external debt was held by official creditors who remain committed to support Greece's adjustment process towards economic and fiscal sustainability, conditional on Greece's implementation of key structural reforms and fiscal discipline.

Greece's current account balance, which in the crisis years narrowed substantially from a peak deficit exceeding 15% of GDP in 2007/2008 and came close to balance as imports collapsed amid sharply falling domestic demand, has seen a moderately widening deficit

since 2015, totaling 2.8% of GDP in 2018, down from 1.9% a year before. The surplus in the services balance increased from 10.0 to 10.5% of GDP in 2017-18, thereby continuing its positive trend amid the ongoing boom in tourism and vivid shipping activities, probably aided by the incremental lifting of capital controls which had been put in place in 2015. Nevertheless, this was not enough to offset the larger deficit in the trade of goods balance last year (12.2% after 11.0% of GDP).

In the first half of 2019, tourism receipts increased by 13.3%, indicating continuing strong and sustainable development of the tourism sector, thus supporting trade in services. On the other hand, the competition for Greece's tourism industry has increased, which is reflected above all in the recovery of tourist numbers in Turkey. In general, we expect the services balance to further support the performance of the Greek current account, while the goods balance should continue to have a negative impact, reflecting a slowdown in international economic activity and lower demand from Greece's main trading partners. Going forward, we would expect the current account deficit to widen somewhat but stay close to current levels, with the complete removal of capital controls as of September paving the way to benefit from a positive global scenario in the event of subsiding geopolitical and trade tensions. On the other hand, further escalation in this respect could lead to reduced export activity, thus slightly widening the deficit.

Rating Outlook and Sensitivity

Our Rating outlook on Greece’s sovereign ratings is positive, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to improve over the next 12-24 months.

We could raise the sovereign’s credit ratings if Greece’s medium-term growth and labor market conditions evolve in line with our expectations, and/or if the debt-to-GDP ratio diminishes on the back of ongoing fiscal discipline. We could also consider an upgrade if the upheld commitment to key structural reform steps lead to a visibly improved business environment and enhanced productivity. Upward pressure on our rating could also arise if the NPL stock is reduced significantly, due to a successful and swift implementation of the Hercules scheme.

While the positive outlook indicates that a downgrade is rather unlikely at the current stage, downward pressure on the outlook or the rating could result if, as opposed to our belief, we observe some backtracking on or watering down of announced reform measures, and/or significant fiscal slippages which may be prompted by additional public support for the banking sector. We could also revise our outlook or the ratings if medium-term growth falls significantly short of our baseline scenario, e.g. as a result of a sharp slowdown in external demand.

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Ratings*

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

*) Unsolicited

Economic Data

[in %, otherwise noted]	2014	2015	2016	2017	2018	2019e	2020e
Real GDP growth	0.7	-0.4	-0.2	1.5	1.9	1.8	2.1
GDP per capita (PPP, USD)	26,087	26,410	26,816	27,772	29,072	30,252	31,616
HICP inflation rate, y-o-y change	-1.4	-1.1	0.0	1.1	0.8	0.5	0.6
Default history (years since default)	2	3	4	5	6	7	8
Life expectancy at birth (years)	81.5	81.1	81.5	81.4	n.a.	n.a.	n.a.
Fiscal balance/GDP	-3.6	-5.6	0.5	0.7	1.0	1.3	0.9
Current account balance/GDP	-0.7	-0.8	-1.7	-1.9	-2.8	n.a.	n.a.
External debt/GDP	237.5	249.1	244.1	224.9	223.8	n.a.	n.a.

Source: International Monetary Fund, Eurostat, 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

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.

This sovereign rating is an unsolicited credit rating. Neither the rated sovereign nor a related third party participated in the credit rating process. 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.

The rating was conducted on the basis of CRAG´s "Sovereign Ratings" methodology in conjunction with its basic document "Rating Criteria and Definitions". 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 the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG 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, Bank of Greece, Ministry of Finance, Public Debt Management Agency, ELSTAT.

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. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

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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