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 10-12-2021 “Sovereign Ratings” “Rating Criteria and Definitions”

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Rating Action

Neuss, 10 December 2021

Creditreform Rating has raised its unsolicited long-term sovereign rating to “BB-” from “B+” for the Hellenic Republic. Creditreform Rating has also raised Greece’s unsolicited ratings for foreign and local currency senior unsecured long-term debt to “BB-” from “B+”. The outlook remains positive.

The upgrade to “BB-“ reflects

(i) tangible progress regarding the improvement of the institutional framework as well as a credible commitment to fully comply with remaining agreed measures in this respect;

(ii) firming expectations that this is providing a robust basis for effectively implementing NextGenerationEU (NGEU), which we believe to decisively strengthen medium-term growth prospects and foster underlying growth; and

(iii) a higher degree of confidence over public debt to embark on a downward trend once the acute phase of the pandemic has passed, amid what we view as robust factors mitigating fiscal risks over the next few years and significant advances in reducing non-performing loans (NPLs).

Key Rating Drivers

1. Following the pandemic-related collapse of economic growth, we expect a fast and strong recovery on the back of investment, release of pent-up demand, and some recovery of tourism, with the latter subject to lingering downside risks given resurging infections in Europe

2. Challenges continue to persist regarding structural features of the labor market and regarding the business environment, although NGEU-related funds should lay the foundation for lifting underlying growth on a more permanent basis, thereby facilitating so far laggard income convergence, if associated investments and reforms are implemented effectively

3. While the institutional framework still leaves room for further improvement overall, key metrics point to some headway made in this regard; despite some delays partly owing to the pandemic and adverse environmental conditions, broad-based substantial progress in terms of implementing policies and governance structures conducive to enhancing the

quality of the overall institutional set-up; firming impression of more predictable policy-making, notwithstanding a legacy of political volatility in the 2010s

4. The corona crisis has added to a major credit weakness by further lifting the already very high debt level, although we expect the declining trend to resume from this year amid economic recovery and expiry of most support measures, opening space for considerable improvement of the general government balance; an exceptionally large cash buffer and benign debt profile paired with prospectively improving debt affordability continue to represent risk-mitigating factors

5. While considerable progress in rebuilding a yield curve constitutes a crucial step towards normalization, expiry of the ECB's PEPP could serve as a reminder for fiscal discipline; contingent liability risks associated with an elevated level of public guarantees and potential pressure from age-related costs in the longer term are to be monitored, along with still high NPLs ratios, which have been materially improving but may experience some pandemic-related setback

6. The high share of government debt held by the official sector mitigates vulnerabilities otherwise associated with the sovereign's highly negative net international investment position (NIIP) and persistent current account deficits, which in the pandemic are exacerbated by impaired tourism exports

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

Despite an overall weak macroeconomic performance profile including a relatively moderate growth trend, as well as structural challenges on the labor market and a business environment that leaves ample room for improvement, we highlight a rather swift and strong economic recovery by comparison. Notwithstanding some setbacks in the course of the pandemic, we reiterate our perception that reform momentum has increased and that commitment to preparing the ground for higher underlying growth remains strong. NGEU-related funds will play a key role in this if implemented timely and effectively, and initial disbursements are already finding their way into the economy, which will likely translate into a facilitated income convergence going forward. We acknowledge that uncertainty over the evolution of the pandemic and a re-introduction of restrictions to social life remains very pronounced, in the short-term posing downside risks to otherwise brightening medium-term growth prospects.

Prior to the outbreak of the pandemic, Greek GDP had been posting relatively weak growth over the three years to 2019, averaging only 1.5% (euro area 2017-19: 2.0%, Eurostat), leaving behind the painful period of contracting output amid economic adjustment in the wake of the debt crisis. Last year, real GDP plummeted by 9.0% as compared to -6.3% in the euro area (EA) overall. As in other economies with a high exposure to tourism, Greek GDP was heavily affected by plunging exports (-21.5%), which as of Q2-21 still posted 8.9% below their pre-crisis level (Q4-

[1] This rating update takes into account information available until 03 December 2021. We are aware of Elstat's publication of national accounts data for Q3-21 on 06 December. However, these data and the related benchmark revision were not incorporated due to the prior data cut-off.

19). While goods exports even expanded in the first year of the pandemic (2020: 4.2%), services exports slumped by 42.6%.

Drawing on data from the World Travel and Tourism Council (WTTC), the total contribution of travel and tourism to Greek GDP fell from 20.3% in 2019 to 8.7% in 2020. With imports falling at a considerably lower rate than exports, net exports ultimately shaved 5.3 p.p. off GDP growth last year, posing a similarly heavy drag as private consumption (-5.4 p.p.), which had been negatively affected by two comparatively strict lockdown periods. The latter observation is underscored by the Blavatnik School of Government's stringency index.

In order to cushion the blow from the epidemiological situation and the required social distancing measures, the Greek government provided extensive support including a short-time work scheme (Synergasia), extended benefits, advance schemes to companies and loan guarantees, coming to an overall package of about EUR 42.8bn (Draft Budgetary Plan 2022, DBP22). This notwithstanding, last year's severe recession led to a decline in GDP per capita by 7.1% to USD 28,722 (IMF data, PPP terms), remaining one of the lowest levels among EU countries. At 64.6% of the EU-level last year, Greece's GDP per capita continues to trail that of former program countries such as Portugal (76%) or Cyprus (90%).

Masked by the steep annual decline in 2020 overall, Greece's real GDP has been recovering in quarterly terms since last year's third quarter, exceeding its pre-pandemic level already in this year's second quarter. The recovery has been driven by gross fixed capital formation as well as by public consumption. Following a massive rebound in Q3-20, private consumption has since seen quarterly declines, partly exacerbated by the abovementioned lockdown periods in between.

With a view to Q3-21, we observe that tourism rebounded strongly. According to the Bank of Greece (BoG), the number of inbound travelers rose by 89.0% y-oy in January-September 2021. Nevertheless, compared to the same period in 2019, the number remained 56.9% below the respective level. With an easing of restrictions, and tourism showing some recovery, we expect real GDP to increase by about 1.5% q-o-q in Q3-21, presumably boosted by domestic and external demand alike.

Going forward, the soaring number of coronavirus cases in several European countries including Greece, and the newly identified 'Omicron' variant, constitute downside risks to economic activity despite further progress in the vaccination campaigns. The latter varies markedly among European countries, with Greece moving somewhere in the middle range among fellow EU members. As of week 48, 73.1% of the adult population were fully vaccinated (EU: 77.5%, ECDC). At the same time, the cumulative 14-day infection rate stood at 856.6 (week 47, ECDC), causing the government to tighten restrictions for unvaccinated persons and to make inoculation compulsory for people aged 60 and over from mid-January 2022.

Against this background, the November release of European Commission (EC) Economic Sentiment Indicators surprised on the upside, pointing to growing optimism in Greece's industry, the service sector and among consumers, although we would flag a possible deterioration in the coming few months. We note that consumer confidence remains somewhat below its long-term average at this stage.

Generally, we think GDP growth will remain supported by domestic demand, as previous pent-up consumer demand should continue to be released. While rising energy prices are driving inflation and could weigh on household spending, the government in October announced a EUR

500mn support package to mitigate the burden from energy costs for households, with additional support remaining a possibility if price pressure persists.

Aided by government support, Greece's labor market, which had continued its positive trend prior to the outbreak of the virus, has shown some resilience during this pandemic, posting a decline by 1 p.p. in the unemployment rate to 16.3% in 2020 compared to 2019 (Eurostat). As of Sep-21, the short-time work scheme had provided support to about 37.800 persons. Looking at the most recent monthly data, the unemployment rate dropped to 12.9% as of Oct-21, more than 3 p.p. below its pre-crisis level (Dec-19: 16.4%).

To be sure, the Greek unemployment rate remains one of the highest in the EU. Also, the participation rate, at 67.2% of the total population as of Q2-21 (Eurostat), remained below its pre-pandemic level (Q4-19: 68.2%) and continues to compare low vis-à-vis the euro area as a whole (Q2-21: 73.7%). Moreover, despite palpable improvement, Greece still displays one of the highest shares of long-term unemployment, while youth unemployment remains the highest in the EU, highlighting some way to go in further removing structural challenges.

Gross fixed capital investment has continued to grow over the course of the year and should remain the vital pillar for growth going forward, also backed by a reduction of the corporate tax rate from 24% to 22% (from 2022) and ongoing benign financing conditions. Arguably most importantly, NGEU-related funding will provide pivotal support to investment activity, while the Multiannual Financial Framework 2021-27 (MFF 21-27) should also prove beneficial in this respect (see below). Moreover, Greece coming second among the EU members in terms of decided spending associated with ESIF 2014-2020 adds to confidence over timely absorption of the new funds.

The EC's qualitative bi-annual investment survey among managers presented in November seems to back the expectation of vivid investment growth in Greece, pointing to a markedly larger share of companies expecting increasing investment this year and next than in the EU overall. Apart from that, judging by a rise in building permits of 29.1% during the first eight months of 2021 compared with the corresponding period in 2020 (Elstat), construction investment should contribute positively.

In a broader context as regards strategic investments, we are aware of the government's intention to ensure that such investments are realized within a 'reasonable' time frame, reportedly envisaging a completion deadline of end-December 2025 for what it calls 'emblematic investments of exceptional significance', and otherwise envisaging a time limit of 15 years.

While exports should benefit from the ongoing global recovery, the outlook for tourism remains dampened for as long as the coronavirus presents significant health threats, possibly entailing restrictions to cross-border movement. In this context, we recall that UNWTO expects global tourist receipts to reach 2019 levels only in 2025. Notwithstanding domestic demand expected to develop relatively strongly, we assume a positive growth contribution from net trade this year, which should increase in 2022, as we expect tourism to become a more reliable pillar by then.

Overall, we expect real GDP to increase by 9.0% this year and to moderate to about 4.7% in 2022, acknowledging elevated uncertainty over the evolution of the pandemic and lasting immunization. The medium-term outlook seems constructive thanks to NGEU in particular, and it may be worth recalling that disbursement of the funds is linked to reaching agreed milestones in terms of implementing reforms. According to the Bank of Greece (BoG), full implementation of 'Greece 2.0' could lead to an increase in the level of real GDP by 6.9% by 2026, with 4.3 p.p.

accounted for by RRF grants and loans, and may create about 180,000 new jobs. EC simulations, which do not consider the possible positive effect of structural reforms, seem to result in a slightly less optimistic outcome, with the overall increase in GDP from NGEU – 90% of which is accounted for by the RRF – estimated to be between 2.1% and 3.3% by 2026, translating into 62,000 additional jobs.

Crucially, implementation of the envisaged investment and reforms could decisively lift potential growth, thus putting an end to a long streak starting from 2010, during which potential growth was deemed negative, chiefly on account of a shrinking capital stock and subdued TFP growth. Having been on the decline since 2010, nominal labor productivity per hour worked stood at only 51.7% of the EU average in 2020, corresponding to one of the lowest levels among the member states, although last year's exceptional circumstances have likely exaggerated this outcome. In addition, a partly challenging business environment, as indicated by deficiencies in terms of contract enforcement, registering property and getting credit in the latest available vintage of the World Bank's Doing Business Report (2020) which we would still take into account for our assessment, has had detrimental effects on underlying growth.

Related to this, judging by the European Innovation Scoreboard (2021), Greece is currently perceived as a moderate innovator, with a share of micro enterprises well above the OECD level and displaying a low level of productivity which has limited businesses' capacity to grow. Last year's assessment by the World Economic Forum as regards transformation readiness portrayed Greece as one of the sovereigns least prepared among the 37 countries considered in this assessment. Similarly hinting at ample room for improvement, the sovereign ranks 25th among the 27 EU members in the EC's 2021 Digital Economic and Society Index (DESI), even though it edged up from rank 27 out of 28 in the 2020 DESI edition.

In order to address the abovementioned challenges, the government is initiating a comprehensive strategy including creation, upgrade and expansion of digital infrastructure, including fast broadband and 5G technology, while fostering necessary upskilling/reskilling of the labor force. To this end, the government adopted the 2020-2025 Digital Transformation Bible in June this year, coming with several hundred of concrete projects to implement the broad-based digital strategy. Tying in with that, measures to improve the business environment would include the digitalization of public administration, including tax administration and judiciary. Drawing on AMECO forecasts, Greece's underlying growth is now expected to increase from 0.2% in 2021 to 1.0% in 2022 and further to 1.3% in 2023, narrowing the gap to the euro area (2021: 1.3%, 2022: 1.6%, 2023: 1.7%).

Looking at developments which have a bearing on cost competitiveness, we note that real unit labor costs have increased significantly stronger than in Greece's main European trading partners and the euro area overall when comparing 2020 with 2019. Real labor productivity per employee plunged, whilst real compensation per employee was broadly stable, at face value pointing to some deterioration regarding the competitiveness of the Greek economy. However, as this is likely largely owed to the extraordinary circumstances in the current pandemic, we would expect some moderation as economic growth normalizes. Greece's global export market share shrank to 0.27% in 2020 (2019: 0.33%), mainly because of collapsing services exports in the face of travel restrictions, with the global share of services exports decreasing by 0.21 p.p. to 0.53%. The share of global goods exports dipped from 0.20% to 0.19%.

Risks to the medium-term growth outlook from private sector indebtedness also seem limited at this stage, with private debt appearing far from excessive by European comparison. Instead, household debt-to-disposable income has continued to decline since the outbreak of the virus, standing at 79.4% as of Q2-21 (Q2-20: 82.6%), whereas outstanding debt of NFCs measured against GDP has risen significantly, by 11.7 p.p. to 69.9% in Q2-21 (Q2-20: 58.2% of GDP), albeit still moving in the lower middle-range among EU countries.

Institutional Structure

While there remains significant scope for further advances, we have witnessed ongoing progress regarding Greece's efforts to ameliorate its institutional framework. We would reiterate our view that EU/EMU membership outweighs disadvantages from not being able to conduct an independent monetary policy. With some reservations remaining due to the mixed track record over the last decade, our perception is that reform ownership and the commitment to timely implementation demonstrated by the government remains strong and credible. While there remain weaknesses related to the justice system and burdensome regulation, we observe a raft of reform initiatives addressing these issues. Risks to reform delays do remain in place given the recent resurfacing of infection cases that may impose some shift of priorities. Delays in removing or reducing general government arrears continues to weigh somewhat on our credit assessment, while we are aware of plans to tackle this issue.

The recent set of the World Bank's Worldwide Governance Indicators (WGIs) shows continued improvement across the four pillars on which we put the highest emphasis for our credit assessment. When it comes to 'voice and accountability', the sovereign is now placed at relative rank 45 (out of 208 economies, 2019: 58). In terms of 'government effectiveness' we also notice a marked improvement, with Greece having climbed 7 ranks to 65/209. Similarly, regarding 'rule of law', the sovereign is now ranked 78/209, 5 ranks higher than in the preceding year. Regarding 'control of corruption', there remains more room for improvement judging by an 87th rank (out of 209, 2019: 88).

Despite some slippage in 2020, we also think it worth stressing that the WGI relating to political stability no longer stands out so prominently as compared to other EU members, firming on a markedly improved level since 2018 as compared to the period 2009-2017 and hinting at broader acceptance of policies in society. To our mind, this will be a vital prerequisite for 'Greece 2.0' to succeed.

We pay close attention to the EC's 12th Enhanced Surveillance Report, which underscores the impression of tangible progress on a number of structural reforms monitored under the surveillance procedure, including public procurement policies and the implementation of various digital services amid a broader roll-out of the digital strategy (mentioned above). Also, application of the new insolvency framework for small businesses and individuals in force since June 2021 could ultimately contribute to streamlining and shortening these procedures, although its acceptance will have to be monitored. Moreover, the establishment of the Project Preparation Facility and the Strategic Projects Pipeline should be conducive to enhancing efficiency of public investments.

Adding to the impression of broad-based progress as regards the institutional framework, we would point to further advances regarding Greece's justice system. Headway is thus being made, inter alia reflected by the creation of specialized chambers in courts, as well as by the adoption of a code of judicial staff and improved quality of judicial statistics. Further progress has also been achieved regarding anti-corruption reforms, among others enabling or facilitating prosecution of high-level corruption, whereas some shortcomings in terms of putting this in practice seem to remain. When it comes to the law-making process, we are aware of initiatives to streamline law-drafting, as well as further advances on implementing the Executive State Law, which generally we would expect to benefit the quality and transparency of the legislative process.

Despite a challenging environment, some privatization projects seem to have advanced as well, with some advancement achieved in the case of the former Athens airport Hellinikon, as well as some progress regarding privatizations in the energy sector and regarding motorway concessions.

At the same time, there have been some delays, not least due to challenging circumstances associated with the pandemic and devastating wildfires in summer, e.g. with regard to the completion of the cadaster project, which, partly complicated by the fires, might be postponed well into 2022. Some delays also seem to have occurred in the area of justice and health, as well as with regard to clearing general government arrears, with the latter having been an ongoing point of concern in our last reviews. However, we perceive a strong commitment by the authorities to clear non-pension arrears by the end of this year, whereas pension arrears may not be fully cleared until mid-2022. With all that said, we would assess as positive the results achieved thus far, as well as the ongoing strong commitment to press on with the agreed issues.

With a view to Greece's environmental transition, we observe that the EC eco-innovation index ranks the sovereign 17th among the 27 EU member states, suggesting some potential to improve. Looking at the use of energy from renewable sources, at 19.7% Greece's share of renewables was moving in a middle-range position among the respective shares of EU countries as of 2019, matching the level of the EU-27 as a whole (Eurostat). This masks a large gap between shares of renewables in gross electricity consumption and heating/cooling, both exceeding 30% in 2019, and a low share of renewable energy sources in transport (2019: 4.0%, EU: 8.9%).

In its draft Climate Law introduced in Nov-21, the government aims to lower greenhouse gas (GHG) emissions to 55% by 2030 compared to 1990 levels 80% by 2040, and reach carbon neutrality by 2050 at the latest. Over the ten years from 2010 to 2019, the level of GHG emissions was reduced by 2.5 tons per capita to 8.4 tons per capita, equaling the EU-27 level in 2019. Moreover, the new Climate Law envisages decommissioning all lignite plans by 2028 at the latest, as well as the end of internal combustion engine cars from 2030.

Fiscal Sustainability

Although the corona crisis has halted the improving trend in Greece's fiscal metrics, adding considerably to the already exceptionally high government debt level, we would put higher emphasis on looking beyond the assumed temporary deviation at this stage. Greece's public debt profile remains very favorable with a view to the large share of official sector holdings, while at the same time rebuilding the yield curve on the capital market has progressed, representing further steps towards a normalization. Debt affordability is likely to improve further given sound debt management, even if monetary policy may become somewhat less accommodative going forward. Substantial cash buffers continue to provide room for maneuver, also providing some insurance against potentially less favorable financial market developments, possible activation of guarantees and potentially adverse outcomes, as seen from a fiscal point of view, from pending court cases. Although still at a high level, the NPL stock has continued to diminish significantly. We believe that the authorities' stated aim to eventually regain investment grade status should set incentives for fiscal discipline amid progress in rebuilding *a yield curve. With a longer-term view, challenges linked to projected demographic developments could cause fiscal pressure.*

Following continuously improving public finances, including a headline surplus averaging 0.7% of GDP over the period 2016-19 (2019: 1.1% of GDP, Eurostat) and a multi-year primary surplus meeting or exceeding targets (avg. 2016-19: 3.9%, 2019: 4.1%), the corona crisis caused a sharp reversal in Greece's general government balance. Amid plunging GDP and soaring expenditure to cushion the fallout from the pandemic, the sovereign ultimately posted a headline deficit of 10.1% of GDP last year.

In order to combat the crisis, the government provided measures totaling about EUR 42.8bn so far, with fiscal costs estimated to come to EUR 11.6bn for 2020, EUR 15.6bn for 2021 and EUR 2.9bn for 2022 (DBP22). Total government expenditure thus ultimately rose by 12.7% in 2020, with particularly strong increases in subsidies (+216.5%). Concurrently, total revenue contracted by 8.5%, in light of strongly declining income and wealth tax receipts (-14.7%) as well as tax receipts from production and imports (-14.2%).

Looking at developments in the current year, which was marked by another period of restrictions to public life on the one hand, and economic recovery with somewhat recovering tourism activity on the other hand, the sovereign recorded a deficit of 9.0% of GDP as of Q2-21 (Eurostat). Monthly PDMA data available until Sep-21 point to a further shrinking deficit on the back of an increase in total revenue by 12.4% in the first nine months compared to the same period in the preceding year, whereas total expenditure expanded by 11.5%.

The budgetary impact of the corona measures could reach about 7.1% of GDP this year according to the DBP22, although the clouding short-term economic prospects owing to the currently raging infection wave in many European countries may result in some support being extended or augmented after all. While we understand that the EUR 500mn relief package announced in October, and intended to ease the burden on households from soaring energy bills in light of rising prices, is to be financed by revenue from emissions trading, further compensatory support in this respect seems to remain a possibility. More recently, parliament voted in favor of some additional financial support to vulnerable citizens. Support for dealing with the consequences of the catastrophic forest fires in the summer will also add to fiscal costs this year (0.3% of GDP), and likely in 2022 as well (0.1% of GDP).

With regard to the coming year, the fiscal stance is set to remain expansionary. The impact of the measures prolonged to 2022, mainly linked to bolstering the health system and domestic demand, could amount to 1.6% of GDP (DBP22). Among others, they include the suspension of the social solidarity tax in the private sector, reduced social security contribution, and lowered VAT rates e.g. for transport and cinema tickets. Moreover, the new hiring subsidy program was scaled up. Boosted by NGEU-funding, public investment is to be stepped up markedly, from an envisaged 4.5% of GDP in 2021 to 6.2% of GDP in 2022 (avg. 2017-19: 3.4%, 2020: 3.1%).

We currently assume the general government deficit to decrease to about 9.0% of GDP this year, and more significantly to about 4.0% of GDP in 2022 as the economic recovery continues and pandemic-related fiscal support measures are eventually phased out. As pointed out, uncertainty – especially over the evolution of this pandemic and effectiveness of vaccines – remains pronounced, continuing to pose risks to economic developments and fiscal outcomes.

Over the medium term, we expect the government to re-engage in gradual fiscal consolidation, inter alia, by enhancing tax administration and broadening the tax base, as well as by e.g. updating property tax values for ENFIA. In this vein, increased use of e.g. electronic payments should help to reduce the still relatively high VAT gap (2019 estimate: 25.8% of VTTL). In addition, we will presumably see privatization proceeds lending further support to public revenues in an environment less burdened by pandemic-related uncertainty.

In its Medium-Term Framework Fiscal Strategy 2022-25, the authorities thus envisage primary surpluses of 2% of GDP and above from 2023 onward. Notwithstanding the abovementioned pandemic-related uncertainty, and apparently higher appropriations in the 2022 budget draft than in the MTFSF for the coming year for dealing with the pandemic, we consider this to be achievable. Our impression that the government has chosen a somewhat conservative approach as regards this year's GDP growth adds to this assessment.

In light of the sharply deteriorating headline balance and the slump in GDP, Greece's public debt ratio rose to a new high at 206.3% of GDP last year. Drawing on latest data from PDMA, the level of outstanding general government debt was at EUR 356.8bn as of Sep-21. Given the expected narrowing of the deficit and rebounding GDP in the current year, we expect the ratio to decline from last year's peak, to roughly 193.8% of GDP.

Considering our assumption of ongoing output growth and the intended early repayment of the outstanding IMF loan (remaining amount of roughly EUR 1.8bn) early next year, as well as of roughly 10% of the Greek Loan Facility (corresponding to about EUR 5.29bn) by March next year, we would assume a further decrease of debt-to-GDP to about 186.9% in 2022. Against the backdrop of more favorable economic prospects thanks to NGEU-financed reforms and investment, which are starting to take shape more concretely, we think that the overall fiscal outlook has brightened, also added to by the following considerations.

Firstly, debt management has been very sound, following a prudent approach and ensuring that the sovereign continues to boast a substantial cash buffer amounting to roughly EUR 38.5bn (23.3% of 2020 GDP) as of 15 November, which would likely cover about three to four years of gross financing needs. The structure of the debt portfolio remains favorable, given that 77% of central government debt was held by the official sector as of Sep-21. Moreover, as of end-Sep-21, the Eurosystem had bought Greek government bonds equivalent to 19.5% of GDP. In light of a very long weighted average maturity, for central government debt at 18.9 years as of end-Sep-2021 (PDMA data) and almost all of the debt subject to fixed rates, interest rate risks are largely mitigated.

Secondly, and thanks to eligibility to the ECB's PEPP, the sovereign has been able to benefit from very favorable financing conditions when tapping the market over the course of the year. Authorities have not only been able to rebuild Greece's yield curve, thus taking steps towards a normalization, but also to further reduce the cost of debt with regard to the next few years. The sovereign issued 5-y, 10-y, and 30-y benchmark bonds this year, which met with high demand. Interest rate payments had fallen further by 10.1% in 2020, equating to 3.0% of GDP (6.0% of total revenue; 2015: 7.4%, 2011: 17.2%). The envisaged early debt repayment to the official sector would add to improving the debt servicing cost. While we think the ECB's PEPP will be terminated in March 2022, we would expect some sort of smoothing mechanism to be implemented by the ECB in order to avoid a cliff edge.

Thirdly, EU financing will provide viable support in fostering structural reforms without burdening the Sovereign's public finances. Greece is to receive EUR 17.8bn (10.8% of 2020 GDP) in grants via the Recovery and Resilience Facility (RRF) over the period 2021-26 and has asked for the full amount of RRF loans available (~EUR 12.7bn or 7.7% of 2020 GDP). In addition, under MFF 21-27, Greece has been allocated about EUR 21,4bn (12.9% of 2020 GDP). As per the National Recovery and Resilience Plan (NRRP, 'Greece 2.0'), grants over EUR 3.2bn and 3.4bn would be disbursed in 2022 and 2023, following EUR 0.6bn in 2021. All in all, Greece's NRRP totals roughly EUR 60bn over the period 2021-26. Via the labor market instrument SURE, Greece received loans of EUR 5.265bn.

Fourthly, we would stress the significant progress made in terms of strengthening the position of the Greek banking sector, which in terms of assets-to-GDP (Q2-21: 180.2%, Q2-20: 161.9%) occupies a middle-range position among the EU countries. Having long been burdened by a very high level of non-performing loans, their share was substantially lowered over the last few years. Largely thanks to the Hercules asset protection scheme, which in April 2021 was extended for 18 months with a budget of EUR 24bn, the NPL ratio reached 14.8% in Q2-21 (EBA), although this still represents the highest ratio in the EU. We expect the system-wide NPL ratio to fall into single-digits by end of 2022 at the latest.

On a less positive note, bank profitability remains under pressure, as also mirrored by a fifth consecutive quarter of negative return on assets (Q2-21: -2.8%), with increased provisioning on account of securitization additionally weighing on profitability. As moratoria have widely expired and the renewed pandemic worries could spell trouble for some households and companies concerning debt servicing, we would flag some remaining downside risks for the banking sector. Noteworthy in this context, the share of stage 2 loans with expired and non-expired moratoria had increased to 39.7% (EU: 24.4%) and 41.7% as of Q2-21 (EU: 28.2%), respectively. As long as visibility on these issues remains impaired, also with a view to deferred tax credits, we would continue to flag potential downside risks for the banking sector. In the meantime, capitalization in terms of CET1 ratio has weakened to 12.7% as of Q2-21 (Q2-20: 14.8%), corresponding to the lowest level in the EU at that point in time (Q2-21: 15.8%, EBA).

What is more, we understand that a decision is pending on accounting treatment of properties in connection with the sale and lease-back scheme owned by vulnerable debtors. This might add to fiscal risks stemming from contingent liabilities. In this regard, activation of state guarantees, which according to the DBP22 should come to about 11.6% of GDP in 2021 and rise to 13.7% of GDP in 2022, could result in a heavier debt burden. We would also reiterate a pending ruling by the Council of State on the retroactive compensation for cuts in the supplementary pensions and seasonal bonuses, as well as litigation cases against the Public Real Estate Company (ETAD), which could also add to some fiscal pressure.

With a view to a potentially higher burden to public finances linked to demographics, we would continue to monitor estimated developments regarding age-related costs. Greece features one of the highest old-age dependency ratios in the EU (2020: 35.1%, population 65y and over to population15-64y), which is projected to increase further to 41.9% by 2030 in the latest EU Ageing Report (2021). That said, we observe that current projections are for age-related costs to shrink over the coming years as well as in the longer term. In our view, marking some sort of departure from previous statements, we noticed that the IMF now seems to acknowledge the possibility of Greece's public debt level being sustainable in the long term, although stressing uncertainty as being too high to make a firm statement on this matter.

Foreign Exposure

We continue to view Greece's highly negative net international investment position (NIIP), which generally points to persistent external vulnerabilities, as mitigated by the composition of its external debt. Highlighting an open flank in the current context, the current account balance remains to a large extent subject to the development of tourism services, with regard to which downside risks remain pronounced, given the latest infection wave and concern over the effectiveness of available vaccines amid continued virus mutations.

From a more moderate current account deficit averaging 1.8% of GDP over 2015-19, Greece's negative current account position swelled to -6.6% of GDP in 2020 (2019: -1.5%), driven by the falling services surplus (-7.1 p.p. to 4.4% of GDP) amid travel restrictions in the context of the Covid-19 pandemic. This large movement more than offset the effects of the shrinking deficit in goods trade and in the primary income balance last year. Drawing on the four-quarter moving sum, the current account balance in terms of GDP saw little change as of Q2-21, amounting to -6.7%.

While Q3-21 saw much livelier tourism activity, this year's final quarter is burdened by resurfacing corona infections and tighter restrictions across an increasing number of countries, clouding the near-term outlook for Greece's services exports. For 2021 as a whole, we expect the current account deficit to shrink only slightly compared to last year, while our base scenario would be a more pronounced recovery of tourism in the course of 2022, which should be reflected in a rising surplus in the services balance. Having said that, as described above, concern over further mutations that might challenge the effectiveness of vaccines remain a pronounced downside risk.

Against the backdrop of the pandemic, the sovereign's highly negative NIIP deteriorated further to -175.0% of GDP in 2020 (2019: -154.2% of GDP), mainly due to an increasingly negative position in net other investment. Still, risks of abrupt capital outflows remain largely mitigated by the composition of the external debt, with the official sector holding 77% of the general government debt as of Sep-21 (2020: 80%, PDMA). Prospectively, this share is to decrease further. Hence, we expect the falling public debt ratio to translate into an improving NIIP further out.

Rating Outlook and Sensitivity

Our rating outlook on the Hellenic Republic's long-term sovereign ratings is positive, as we assume that the risk situation will improve over the next 12-24 months. Increased immunization levels against the coronavirus should ultimately allow further normalization of tourist activities, while implementation of NGEU measures against the backdrop of strong and credible commitment by the sovereign is expected to strengthen its macroeconomic profile in a context of expected declining debt level and fiscal risks that should remain mitigated by a number of factors as elaborated above.

We could raise Greece's credit ratings if we see clear indications of progressing NRRP implementation, strengthening conviction over more sustainable medium-term growth as assumed in our baseline scenario. More generally, upward pressure on our credit rating could arise if the debt level embarks on the assumed firm downward trajectory, flanked by an unwavering commitment to pursue a credible fiscal consolidation path over the medium term, and if NPL ratios continue their downward trend.

We could contemplate a negative rating action if the deterioration in public finances becomes more entrenched, potentially occurring in the event of deeper pandemic-related scarring of the economy and a significant reversal of the improving trend in NPLs in the banking sector. In such a scenario, implementation of the envisaged structural measures and investments might be delayed, with detrimental effects on the medium-term growth outlook.

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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

ESG Factor Box

Environmental Quality	Ecological Risks	Ressource Management	Education	Health	**Demographics**
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial System**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liberties/ Political Participation**	Market Access	**Business Environment**	Data Transparency

Environment	**Social**	**Governance**	**Highly significant**	**Significant**	**Less significant**	**Hardly significant**

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 what follows, we explain how and to which 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 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.

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 competitive stance of the sovereign such as the World Bank's Ease of Doing Business index and the World Economic Forum's Global Competitiveness Indicator 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 have significant 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 concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2016	2017	2018	2019	2020	2021e	2022e
Macroeconomic Performance							
Real GDP growth	-0.5	1.1	1.7	1.8	-9.0	9.0	4.7
GDP per capita (PPP, USD)	27,449	28,558	29,771	30,914	28,722	31,821	34,344
Credit to the private sector/GDP	111.6	103.8	94.6	83.9	85.5	n/a	n/a
Unemployment rate	23.6	21.5	19.3	17.3	16.3	n/a	n/a
Real unit labor costs (index 2015=100)	100.7	100.3	99.4	98.9	107.5	n/a	n/a
Ease of doing business (score)	67.1	67.1	67.4	68.4	n/a	n/a	n/a
Life expectancy at birth (years)	81.5	81.4	81.9	81.7	81.2	n/a	n/a
Institutional Structure							
WGI Rule of Law (score)	0.1	0.1	0.1	0.2	0.3	n/a	n/a
WGI Control of Corruption (score)	-0.1	-0.1	0.0	0.0	0.1	n/a	n/a
WGI Voice and Accountability (score)	0.7	0.7	0.7	0.8	1.0	n/a	n/a
WGI Government Effectiveness (score)	0.2	0.3	0.3	0.3	0.4	n/a	n/a
HICP inflation rate, y-o-y change	0.0	1.1	0.8	0.5	-1.3	0.5	1.4
GHG emissions (tons of CO2 equivalent p.c.)	8.8	9.2	9.0	8.4	n/a	n/a	n/a
Default history (years since default)	4	5	6	7	8	9	10
Fiscal Sustainability							
Fiscal balance/GDP	0.2	0.6	0.9	1.1	-10.1	-9.0	-4.0
General government gross debt/GDP	180.5	179.5	186.4	180.7	206.3	193.8	186.9
Interest/revenue	6.4	6.4	6.8	6.1	6.0	n/a	n/a
Debt/revenue	359.7	365.4	376.9	368.6	415.0	n/a	n/a
Weighted average maturity of debt (years)	8.2	8.2	8.0	7.7	9.2	n/a	n/a
Foreign exposure							
Current account balance/GDP	-1.7	-1.9	-2.9	-1.5	-6.6	n/a	n/a
International reserves/imports	0.1	0.1	0.1	0.1	0.2	n/a	n/a
NIIP/GDP	-139.1	-143.4	-148.6	-154.2	-175.0	n/a	n/a
External debt/GDP	246.9	229.1	232.0	244.7	299.1	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

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. The Public Debt Management Agency (PDMA) participated in the credit rating process as the authorities provided additional data and information and held a conference call with Creditreform Rating staff. 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	YES
With Access to Management	YES

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, European Investment Bank, Blavatnik School of Government, ECDC, Bank of Greece, Ministry of Finance, Public Debt Management Agency (PDMA), ELSTAT, WTTC, Association of Greek Tourism Enterprises (SETE).

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”.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

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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