PRESS RELEASE

SEPTEMBER 17, 2021

DBRS Morningstar Upgrades the Hellenic Republic to BB, Trend Changed to Positive

SOVEREIGNS

DBRS Ratings GmbH (DBRS Morningstar) upgraded the Hellenic Republic's Long-Term Foreign and Local Currency – Issuer Ratings to BB from BB (low). At the same time, DBRS Morningstar confirmed the Hellenic Republic's Short-Term Foreign and Local Currency – Issuer Ratings at R-4. The trend on all ratings is changed from Stable to Positive.

KEY RATING CONSIDERATIONS

The ratings upgrade reflects DBRS Morningstar's positive view of fiscal and economic developments before the pandemic that positioned the country with more resilience to work through the ongoing challenges. Greece's strong fiscal performance before the outbreak of the COVID-19 health crisis and sizeable cash reserves, that increased to EUR 32.2 billion at the end of June 2021, gave the government fiscal space to cushion the impact of the pandemic by implementing support measures. In spite of the high reliance on tourism, real GDP contraction of 8.2% in 2020 was milder than initially estimated, setting the ground for a strong recovery so far in 2021. In addition, significant progress has been made in the reduction of banks' non-performing loans (NPLs), with the NPL ratio falling to 21.3% in June 2021 from 40.6% in December 2019. Improvements in DBRS Morningstar's building blocks of "Fiscal Management and Policy", "Economic Structure and Performance" and "Monetary Policy and Financial Stability" were the key factors for the ratings upgrade.

The Positive trends reflect DBRS Morningstar's view that Greece's future economic prospects appear to be considerably strengthened. Despite the health crisis, the Greek government continued to implement its structural reform agenda in co-operation with the European institutions, thereby improving growth potential. Strong signs of economic recovery have already started to emerge. Initial GDP estimates point to an economic growth rebound of 16.2% YOY in Q2 2021, resulting in 6.9% growth in the first half of this year compared with the same period last year. Furthermore, data from international commercial flights indicated after a relatively weak start, a strong performance of the tourism sector in the third quarter of the year, with international commercial flights in August reaching 93% of 2019 levels. Most importantly, Greece is expected to receive a substantial amount of funds from the Next Generation EU financial instrument and the Multiannual Financial Framework amounting to around EUR 70 billion. Greece's National Recovery and Resilience Plan (Greece 2.0) consists of reforms that will likely boost inclusive growth and investment narrowing the investment gap between Greece and its euro area peers.

RATING DRIVERS

The ratings could be upgraded if one or a combination of the following occur: (1) continued implementation of reforms that boost investment improving longer term economic prospects; (2) continued commitment to fiscal consolidation that places the public debt ratio on a downward trajectory. A return to Stable trend could occur if economic recovery falls materially short of expectations.

Triggers for a downgrade include: (1) persistent negative economic performance; (2) a reversal or stalling in structural reforms; (3) renewed financial-sector instability.

RATING RATIONALE

Recovery In 2021 Stronger Than Anticipated

The coronavirus pandemic and the restrictive measures plunged the Greek economy into a deep economic contraction in 2020. Greece's real GDP contracted by 8.2%, compared with a 6.3% decline in the euro area. The strict containment measures led to a severe economic contraction in the second quarter, followed by a comparatively weak performance relative to the euro area rebound in the third quarter, due to the high reliance to tourism. However, the milder impact of the containment measures in the fourth quarter with investment and exports of goods showing resilience prevented a double digit recession, as had been initially anticipated. The pandemic fallout on international tourism, which represents a major source of income and employment for the Greek economy accounted for almost half of the drop in economic activity.

Despite the restrictions in place to contain the spread of the virus until May this year, fiscal space to implement among the largest support packages in Europe, meant that the effect on the economy has been moderate, with real GDP posting 6.9% YOY growth in the first half of 2021, driven by strong growth in investments and exports. The European Commission (EC) in its Summer 2021 forecast expects the economy to grow by 4.3% in 2021 and by 6.0% in 2022, however the strong performance in the first half of the year suggests that growth this year could be stronger. The Greek Ministry of Finance revised upwards its growth estimate for 2021 from 3.6% to 5.9%.

The rise of infections due to the Delta variant put pressure on the Greek tourism industry resulting in a sluggish start to the season in May. Nevertheless, recent data point to a strong recovery of tourist arrivals in July and August, indicating that the 50% of 2019 arrivals and travel receipts expectation by the government might be met or even exceeded. However, the emergence of new variants that could lead to new travel restrictions poses a risk to Greece's travel and tourism industry. Additionally, the large share of small and medium sized enterprises (SMEs) in the Greek economy pose additional challenges to Greece's capacity to facilitate a swift economic recovery once support measures are withdrawn.

Greece will benefit substantially from the Next Generation EU financial instrument, as it will receive EUR 30.5 billion euros in grants and loans in the period 2021-2026, among the largest member state beneficiary relative to GDP. The successful implementation of Greece's National Recovery and Resilience Plan (Greece 2.0) constitutes an upside risk for the Greek economy. The main pillars of the plan include the green and digital transition of the public and private sector, promoting employment, skills, and social cohesion and private investment and economic and institutional transformation. According to the Bank of Greece, the EU recovery funds if combined with reforms, could result in a 7% real GDP increase by 2026, mainly due to the increase in investments and total factor productivity. The implementation of Greece 2.0 could also lead to 180,000-200,000 new permanent jobs, which represents a 5% increase from pre-pandemic employment levels. In addition, Greece will receive approximately EUR 40 billion from the Multiannual Financial Framework (MFF) in the period 2021-2027. In DBRS Morningstar's view, the deployment of EU funds, combined with an expected continued implementation of structural reforms, will likely improve Greece's growth prospects and warrants a positive qualitative assessment in the "Economic Structure and Performance" building block.

Significant Progress Has Been Made Reducing NPLs, But Uncertainty Related to New Flows Remains

Despite the elevated uncertainty and the deteriorating macroeconomic environment related to the current crisis, banks made further progress in reducing their NPL ratios during 2020, by ten percentage points. The NPL ratio declined from 40.6% at the end of 2019 to 21.3% at end of June 2021. This reduction was primarily driven by sales and securitizations of loans under the Hercules Asset Protection Scheme (HAPS). In addition, recent capital increases will be supportive in banks' further efforts in cleaning up their balance sheets. Further reduction is expected within the next months, as the government extended the Hercules Scheme for an additional eighteen months. This could result in a single digit overall NPL ratio in 2022, possibly ahead of the end year deadline. Nevertheless, the coronavirus crisis will likely weigh on banks' asset quality. While the outlook for new NPLs remains unclear, we consider it likely that a portion of these loans will not be returning to performing status. This accounts for DBRS Morningstar's negative qualitative assessment of the "Monetary Policy and Financial Stability" building block. Nonetheless, the extension of the Hercules scheme and the implementation of the new insolvency framework will likely support banks' further efforts to clean up their balance sheets.

Extraordinary Measures Will Lead to High Fiscal Deficits, But Debt Profile Remains Favourable

After five years of fiscal overperformance, Greece's fiscal accounts turned negative in 2020 due to pandemic measures. Extraordinary fiscal support to the economy, among the largest packages in Europe relative to GDP, led to a high fiscal deficit of 9.7% of GDP in 2020. The support packages included job retention schemes and financial support to the self-employed, increased expenditures to support the health care system, liquidity support to businesses through loan guarantees and deferred payments of taxes and social contributions. Due to the reimposition of restrictions almost until the end of the first half of 2021 the deficit is expected to remain high at 9.9% this year before falling at 3.1% in 2022. Although uncertainty remains high around the future of the global health crisis, DBRS Morningstar views that Greece will remain committed to fiscal consolidation when the impact of the pandemic fades and will comply fully with guidelines from the European institutions once targets are reinstated.

Debt Liability Management Is Reducing Further Debt Servicing Costs

The debt ratio increased last year due to policy response measures and the contraction of the economy, reaching around 205.6% of GDP from 180.5% in 2019. According to Ministry of Finance forecasts, the debt is expected to fall by the end of this year to 204.8% and to 189.5% by the end of next year. The debt stock remains at a very high level, although several risk mitigating factors are in place. Greece is benefiting from a favourable debt structure as the official sector holds around 80% of government debt with most of it financed at very low interest rates. In addition, the debt has a very long weighted-average maturity of 21 years according to the latest data, with more than 90% of debt at fixed rates, mitigating the risks arising from increased market volatility.

Greece's participation in the ECB's PEPP contributes to favorable financing conditions as seen in bond issuances at historically low yields. Benefiting from the low interest rate environment, the Greek authorities have pursued an active debt strategy prepaying more expensive debt. The average effective interest rate on medium to long term debt at 1.4% is significantly lower that of its Southern European peers. Also, the sizeable liquidity buffer of EUR 32.2 billion at the end of June 2021 is supporting Greece's efforts to strengthen confidence among market participants. These reserve buffers reduce repayment risks leading to a positive qualitative assessment in the "Debt and Liquidity" building block.

Strong Growth of Goods Exports, But Deterioration in the Service Balance Weighs on External Accounts

The deterioration in the travel balance resulted in a 6.7% deficit in the current account last year. International arrivals and travel receipts declined by around 76% compared to 2019. The recovery in international travel flows and the strong performance in exports of goods is expected to improve the current account position this year. The increase in sea transportation receipts and the flows of EU funds are also expected to improve the external accounts, however, recovering domestic demand will result also in higher imports. From a stock perspective, Greece's net external liabilities remain high at 183% of GDP in Q1 2021, up from 89% in 2011, mostly reflecting public sector external debt. The level is expected to remain at high levels because of the long-term horizon of foreign official-sector loans to the public sector.

Continued Commitment to Investment Enhancing Policies is Encouraging

Since its election in July 2019, the Greek government has made significant progress in unblocking major investment projects, reducing bureaucracy and improving the business environment, although there is still work to do. In 2019 Greece scored highly in the 'Starting a Business' World Bank indicator, ranking 11th of out 190 countries from 44th in 2018. Efforts to improve Greece's digital performance, which still remains below the EU average as measured by EC's Digital Economy and Society Index (DESI) have also accelerated with significant progress made in the functioning of the public administration with the digitalization of various public services and agencies. Government priorities in the next few months will be the successful implementation of the Greece 2.0 economic programme, with several reforms and investments in the pipeline. DBRS Morningstar views that the improvement in the political environment and the government's commitment to address Greece's long standing challenges warrants a positive qualitative assessment for the "Political Environment" building block.

ESG CONSIDERATIONS
Human Capital and Human Rights (S) and Institutional Strength, Governance and Transparency (G) were among key drivers behind this rating action. Compared with its euro system peers, Greece's per capita GDP is relatively low at $ 17,670 in 2020. According to World Bank Governance Indicators 2019 Greece ranks in the 60th percentile for Rule of Law and in the 67th percentile for Government Effectiveness, significantly lower than its euro area peers. However, DBRS Morningstar notes Greece's institutional strengths associated with euro system membership and recent improvements in these areas. These factors have been taken into account within the following building blocks: Fiscal Management and Policy, Economic Structure and Performance and Political Environment.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/373262.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments: https://www.dbrsmorningstar.com/research/384602.

EURO AREA RISK CATEGORY: LOW

Notes:
For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/357883.

All figures are in Euros unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments https://www.dbrsmorningstar.com/research/381451/global-methodology-for-rating-sovereign-governments (July 9, 2021). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (February 3, 2021).

The sources of information used for this rating include Ministry of Finance (Medium-Term Fiscal Strategy 2022-2025, Strategic directions of the National Recovery and Resilience Plan, November 2020), Hellenic Statistical Authority, Bank of Greece (Monetary Policy-Annual Report, June 2021, Financial Stability Review, January 2021), Public Debt Management Agency (Funding Strategy for 2021, Investors Presentation, July 2021), Eurostat, BIS, ECB, European Council: Consilium Europa, European Commission (Enhanced Surveillance Report – Greece, June 2021), IMF (Article IV Consultation - Press Release and Staff Report (July 2021), World Economic Outlook April 2021), World Bank, UNDP, European Centre for Disease Prevention and Control, Social Progress Imperative, Global Carbon Project, The Digital Economy and Society Index (DESI), Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: https://www.fca.org.uk/firms/credit-rating-agencies.

The sensitivity analysis of the relevant key rating assumptions can be found at: https://www.dbrsmorningstar.com/research/384603.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Hellenic Republic

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
17-Sep-21	Long Term Foreign Currency - Issuer Rating	Upgraded	BB	Stb	EU U
17-Sep-21	Long Term Foreign Currency - Issuer Rating	Trend Change	BB	Pos	EU U
17-Sep-21	Long Term Local Currency - Issuer Rating	Upgraded	BB	Stb	EU U
17-Sep-21	Long Term Local Currency - Issuer Rating	Trend Change	BB	Pos	EU U
17-Sep-21	Short-Term Foreign Currency - Issuer Rating	Confirmed	R-4	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
17-Sep-21	Short-Term Foreign Currency - Issuer Rating	Trend Change	R-4	Pos	EU U
17-Sep-21	Short-Term Local Currency - Issuer Rating	Confirmed	R-4	Stb	EU U
17-Sep-21	Short-Term Local Currency - Issuer Rating	Trend Change	R-4	Pos	EU U

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