S&P Global Ratings

Press Release

Outlook On Greece Ratings Revised To Positive; 'B-' Long-Term Ratings Affirmed

OVERVIEW

- We believe recovering economic growth, alongside legislated fiscal reforms and further debt relief, should enable Greece to reduce its general government debt-to-GDP ratio and debt servicing costs through 2020.
- We have therefore revised the outlook on Greece to positive from stable while affirming our 'B-' long-term foreign and local currency sovereign credit ratings.
- The positive outlook indicates our view that, over the next 12 months, there is at least a one-in-three probability that we could raise the ratings.

RATING ACTION

On July 21, 2017, S&P Global Ratings revised the outlook on the Hellenic Republic (Greece) to positive from stable. We affirmed the 'B-/B' long- and short-term foreign and local currency sovereign credit ratings.

RATIONALE

The outlook revision reflects our expectation that Greece's general government debt and debt servicing costs will gradually decline, supported by economic recovery, legislated fiscal measures through 2020, and a commitment from Greece's creditors, specifically from the Eurogroup, to further improve the sustainability of its sovereign debt burden.

The Eurogroup, in its statement on June 15, 2017, has agreed to facilitate market access for Greece through the creation of a cash buffer via disbursements over and above the amount needed for the Greek government to meet debt servicing obligations and pay down domestic arrears. In our opinion, this support is likely to pave the way for Greece to successfully reenter sovereign bond markets this year.

We also understand that the Eurogroup has reiterated its intention to provide Greece with further extensions on loans from the European Financial Stability Facility, as well as deferrals on debt service at the conclusion of the European Stability Mechanism (ESM) program in August of next year. These loans, contracted during Greece's second program, constitute the largest chunk of Greek government debt. Such additional measures, once put into effect, will further lengthen Greece's debt maturity profile--from more than 18 years presently--and reduce its annual gross financing needs. The amortization of Greek debt will peak in 2019 at about €13.5 billion, an estimated 7% of GDP;

however, we expect the government to issue market debt to smooth upcoming redemptions, including the 2019 maturities. In every other year from 2018 until 2023, we estimate that repayment obligations will be less than 4% of GDP.

There are as yet no specifics on the precise form of further financial assistance to Greece, if any, after the current ESM program is concluded next year. However, given the considerable financial assistance and political capital invested in Greece by its European creditors since the start of the crisis, we believe that support--in the form of technical assistance and further measures toward long-term debt relief--is likely to remain strong in the years to come, albeit tied to conditionality.

Moreover, we consider it to be significant that euro-area governments are in broad agreement on the outlines of a plan to link debt relief for Greece to any divergence of actual nominal GDP growth from growth assumptions in the ESM program's debt sustainability analysis.

We note that the implementation of this plan, once finalized, is conditional on Greece's compliance with its ongoing loan program. While Greece is expected to exit the current program in 2018, its policymakers have legislated measures until 2020, including cuts to pensions and the income tax allowance, as well as structural reforms, such as changes to facilitate out-of-court debt workouts. This allowed Greece's creditors to conclude the second review of the current ESM program and to sanction a disbursement of €8.5 billion (about 4% of GDP).

We believe that implementation challenges of further fiscal measures and other potentially unpopular reforms--such as those related to the product and labor markets, public administration, and privatization--remain significant. Most of Greece's tax burden falls upon a subsection of the private sector under pressure from difficult credit conditions, an unpredictable business environment, and a challenging macroeconomic setting. Tax evasion remains widespread. Progress on privatizing state assets has been limited in comparison to the long-term privatization target of €50 billion (about 30% of GDP). Finally, the liquidity positions of key government-related entities, including electric utility the Public Power Corporation, remain precarious due to payment arrears in the public and private sector.

Even so, we anticipate broad compliance with the current program's targets until it ends in August next year. The recovering economy, boosted by July's ESM disbursement of €0.8 billion (0.4% of GDP) for arrears clearance, will help authorities meet most of the fiscal conditionality, as indirect tax receipts (particularly VAT) should perform well. Incentives for the government to comply with the program remain considerable. The European Central Bank (ECB), which lends to Greece subject to program compliance, will continue to be a critical source of funding for Greece's banks until deposits return to the Greek financial system. The future return of deposits into the domestic financial system will, in turn, depend upon policy stability and further economic recovery. We therefore think Greece is likely to comply with the program's stipulations--albeit with delays--because the reversal of previously legislated reforms could render ineligible the pool of Greek government bonds that Greek banks use as collateral to access liquidity from the ECB. Another reason is that the prospect of additional debt relief, which also lowers the government's gross financing needs, could further encourage Greece to stay the course.

Accordingly, we project that over 2017-2020 Greece will report general government primary surpluses of about 3% of GDP annually on average, alongside average nominal GDP growth of 2.8%, which should allow general government debt to decline to 158% of GDP in 2020 from 179% in 2016. Our debt-to-GDP projections are highly contingent on an acceleration of real and nominal GDP, though we do note that recent fiscal performance has been encouraging. Moreover, we do not exclude the possibility of a more flexible approach from Greece's creditors toward its compliance with the highly ambitious and potentially self-defeating medium-term primary surplus target of 3.5% of GDP. In 2016, the general government primary surplus was 3.9% of GDP, well above the program's target of 0.5%. While much of the fiscal outperformance during the year came from expenditure restraint, which weighed on growth, some of the adjustment was also on the revenue side. General government revenues increased by 3%, reflecting higher revenues from indirect taxes and higher personal income taxes.

The Greek banking system remains impaired, though we do not view as imminent the risk of another round of recapitalization by the sovereign. Nonperforming exposures (NPEs) still constitute nearly half of systemwide loans. Initiatives to tackle the high stock of NPEs are underway, including for instance legislation to facilitate out-of-court restructuring, the development of a secondary market, and electronic auctions.

The ratings are constrained by Greece's high general government debt, which translates into the second highest debt-to-GDP ratio of all the sovereigns we rate; low economic growth rates that have eroded income levels over the past decade and caused price and wage trends to diverge markedly from the rest of the euro area; the highest unemployment rate in the euro area; and considerable structural challenges, such as adverse demographics, large social security deficits, and an impaired banking system that challenges the transmission of the ECB's monetary policy into Greece. The ratings are supported by the low cost of servicing much of Greece's general government debt burden; primary surpluses, which if sustained could gradually lower Greece's debt relative to GDP; ongoing support from creditors in the form of very long-dated concessional loans; and a new commitment to facilitate market access via the creation of liquidity buffers and further debt relief.

We project that the ratio of net general government debt to GDP will continue declining, after reaching 170% in 2016, but will not be below 150% of GDP until 2021. Greece's net general government debt remains the second highest of the 130 sovereigns we rate. However, the cost of new loans for Greece, under the current program, is significantly lower than the average cost of refinancing for the majority of sovereigns rated in the 'B' category. We anticipate that even with the Greek sovereign's reentry into commercial bond markets, the proportion of commercial debt will remain less than 15% of total general government debt through to the end of 2020. We therefore expect a gradual reduction in interest costs relative to government revenues. The average remaining term of Greece's debt is an estimated 18 years, which is one of the longest among rated sovereigns. For this reason, Greece's official creditors as well as the International Monetary Fund have benchmarked the ratio of Greece's annual general government gross financing needs to GDP as a metric for debt sustainability, alongside the debt-to-GDP ratio.

OUTLOOK

The positive outlook indicates our view that, over the next 12 months, there is at least a one out of three probability that we could raise our 'B-' ratings on Greece.

We could consider an upgrade if commitments from the Eurogroup to provide further debt relief were approved, allowing for a further reduction in the costs of sovereign debt servicing and a further terming out of the government debt profile. Rating upside could also stem from a period of stable economic growth and a recovery of the labor market. We could also consider an upgrade if the banking sector further reduces its reliance on official funding, reflecting a gradual return of confidence and deposits to the system or access to market financing.

We could revise the outlook back to stable if legislated reforms, critical to ongoing creditor support, are reversed, endangering further debt relief measures; or if growth outcomes are significantly weaker than our expectations, thereby restricting Greece's ability to continue fiscal consolidation and debt reduction.

KEY STATISTICS

Table 1
Hellenic Republic Selected Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ECONOMIC INDICATORS (%)										
Nominal GDP (bil. LC)	207	191	181	178	176	176	179	184	190	197
Nominal GDP (bil. $)	288	246	240	236	195	195	197	208	217	226
GDP per capita (000s $)	25.9	22.2	21.8	21.6	18.0	18.1	18.3	19.3	20.1	21.0
Real GDP growth	(9.1)	(7.3)	(3.2)	0.4	(0.2)	0.0	1.5	2.0	2.7	2.7
Real GDP per capita growth	(9.2)	(7.0)	(2.5)	1.1	0.4	0.7	1.6	2.1	2.8	2.8
Real investment growth	(20.5)	(23.5)	(8.4)	(4.6)	(0.2)	0.1	2.0	4.0	3.0	2.0
Investment/GDP	15.1	12.8	11.6	11.8	9.8	10.5	10.6	10.9	12.4	13.8
Savings/GDP	5.1	9.0	9.6	10.2	9.9	9.9	10.3	11.1	12.7	13.9
Exports/GDP	25.5	28.7	30.4	32.5	31.9	30.2	30.1	30.6	30.9	31.4
Real exports growth	0.0	1.2	1.5	7.8	3.4	(2.0)	3.0	3.0	3.0	3.0
Unemployment rate	17.9	24.5	27.5	26.5	24.9	23.6	22.5	21.5	21.0	20.5
EXTERNAL INDICATORS (%)										
Current account balance/GDP	(10.0)	(3.8)	(2.0)	(1.6)	0.1	(0.6)	(0.3)	0.1	0.3	0.1
Current account balance/CARs	(34.4)	(11.5)	(5.6)	(4.2)	0.3	(1.9)	(1.0)	0.4	0.9	0.3
CARs/GDP	29.1	33.3	36.6	38.7	35.4	32.9	32.3	32.8	33.2	33.3
Trade balance/GDP	(12.7)	(11.0)	(11.5)	(12.5)	(9.8)	(9.4)	(9.1)	(9.1)	(9.3)	(9.5)
Net FDI/GDP	(0.2)	0.4	1.5	(0.1)	(0.5)	1.9	1.5	1.5	2.0	2.0
Net portfolio equity inflow/GDP	(9.6)	(52.2)	(3.6)	(3.9)	(4.8)	(5.5)	(5.5)	(5.0)	2.0	1.0
Gross external financing needs/CARs plus usable reserves	510.0	454.9	410.0	349.5	376.4	391.2	358.5	339.6	325.8	311.8
Narrow net external debt/CARs	413.8	512.3	492.9	403.5	489.9	489.9	536.9	512.8	465.1	440.4
Net external liabilities/CARs	283.8	357.4	370.4	312.9	373.5	394.6	424.6	394.2	365.0	353.9
Short-term external debt by remaining	414.3	381.8	338.3	267.3	310.6	326.1	296.2	274.4	257.9	240.6

maturity/CARs										
Usable reserves/CAPs (months)	0.7	0.9	0.9	0.7	1.1	1.1	1.3	1.2	1.2	1.1
Usable reserves (mil. $)	6,900	7,255	5,752	6,212	6,032	6,857	6,893	6,893	6,893	6,893
FISCAL INDICATORS (%, General government)										
Balance/GDP	(10.3)	(8.9)	(13.1)	(3.7)	(5.9)	0.7	(1.0)	0.9	1.1	1.3
Change in debt/GDP	12.4	(26.8)	8.5	(0.4)	(4.6)	1.8	6.2	2.5	(7.7)	(2.6)
Primary balance/GDP	(3.0)	(3.8)	(9.1)	0.3	(2.3)	3.9	1.8	3.6	3.6	3.5
Revenue/GDP	44.0	46.5	49.1	46.9	48.3	49.7	49.8	49.9	50.0	50.0
Expenditures/GDP	54.3	55.4	62.3	50.6	54.2	49.0	50.8	49.0	48.9	48.7
Interest /revenues	16.5	11.0	8.2	8.5	7.5	6.5	5.6	5.3	5.0	4.5
Debt/GDP	172.1	159.6	177.4	179.7	177.4	179.0	181.7	179.8	166.2	158.1
Debt/Revenue	391.1	343.1	361.2	382.8	367.4	360.0	364.9	360.3	332.4	316.2
Net debt/GDP	167.8	153.0	170.4	173.6	172.1	170.8	168.4	163.4	156.9	150.4
Liquid assets/GDP	4.3	6.6	7.1	6.1	5.3	8.3	13.3	16.4	9.3	7.7
MONETARY INDICATORS (%)										
CPI growth	3.1	1.0	(0.9)	(1.4)	(1.1)	0.0	0.8	1.0	1.2	1.2
GDP deflator growth	0.8	(0.4)	(2.4)	(1.8)	(1.0)	0.1	0.5	0.5	0.7	0.7
Exchange rate, year-end (LC/$)	0.77	0.76	0.73	0.82	0.92	0.95	0.89	0.88	0.88	0.87
Banks' claims on resident non-gov't sector growth	(3.5)	(8.0)	(4.2)	(2.7)	(3.6)	(4.5)	(2.0)	0.0	0.5	1.0
Banks' claims on resident non-gov't sector/GDP	119.2	118.8	120.4	118.9	116.1	110.7	106.3	103.7	100.8	98.5
Foreign currency share of claims by banks on residents	8.6	7.9	8.0	8.9	7.7	8.2	8.0	8.0	8.0	8.0
Foreign currency share of residents' bank deposits	6.0	5.3	4.5	4.3	4.1	4.1	4.0	4.0	4.0	4.0
Real effective exchange rate growth	(0.2)	(10.4)	(6.4)	(0.3)	(3.6)	1.6	N/A	N/A	N/A	N/A

Savings
 is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

RATINGS SCORE SNAPSHOT

Table 2

Hellenic Republic Ratings Score Snapshot

	Key rating factors
Institutional assessment	Weakness
Economic assessment	Neutral
External assessment	Weakness
Fiscal assessment: flexibility and performance	Neutral
Fiscal assessment: debt burden	Weakness
Monetary assessment	Weakness

S&P
Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Section V.B of S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 23, 2014, summarizes how the various factors are combined to derive the sovereign foreign currency rating, while section V.C details how the scores are derived. The ratings score snapshot summarizes whether we consider that the individual rating factors listed in our methodology constitute a strength or a weakness to the sovereign credit profile, or whether we consider them to be neutral. The concepts of "strength", "neutral", or "weakness" are absolute, rather than in relation to sovereigns in a given rating category. Therefore, highly rated sovereigns will typically display more strengths, and lower rated sovereigns more weaknesses. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in assessment of the aforementioned factors does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the assessments.

RELATED CRITERIA AND RESEARCH

Related Criteria

- **General Criteria: Methodology For Linking Long-Term And Short-Term Ratings** - April 07, 2017
- **Criteria - Governments - Sovereigns: Sovereign Rating Methodology** - December 23, 2014
- **General Criteria: Use Of CreditWatch And Outlooks** - September 14, 2009
- **General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments** - May 18, 2009

Related Research

- **Global Sovereign Rating Trends Midyear 2017** - July 12, 2017
- **Sovereign Ratings History** - July 12, 2017
- **Sovereign Risk Indicators** - July 06, 2017. An interactive version is also available at **http://www.spratings.com/sri**
- **2016 Sovereign Ratings Update: Outlook And CreditWatch Resolutions** - April 18, 2017
- **Banking Industry Country Risk Assessment: Greece** - April 05, 2017
- **Default, Transition, and Recovery: 2016 Annual Sovereign Default Study And Rating Transitions** - April 03, 2017
- **Sovereign Debt 2017: Global Borrowing To Drop By 4% To US$6.8 Trillion** - February 23, 2017

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee agreed that the fiscal assessment had improved. All other key rating factors were unchanged.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

RATINGS LIST

	Rating To	From
Greece (Hellenic Republic)		
Sovereign Credit Rating		
Foreign and Local Currency	B-/Positive/B	B-/Stable/B
Transfer & Convertibility Assessment	AAA	AAA
Senior Unsecured		
Foreign and Local Currency [#1]	B-	B-
Foreign and Local Currency	B-	B-
Short-Term Debt		
Foreign and Local Currency [#1]	B	B
Commercial Paper		
Local Currency	B	B

[#1] Issuer: National Bank of Greece S.A., Guarantor: Greece (Hellenic Republic)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at **www.standardandpoors.com** for further information. Complete ratings information is available to subscribers of RatingsDirect at **www.globalcreditportal.com** and at **spcapitaliq.com**. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at **www.standardandpoors.com**. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

S&P Global Ratings is the world's leading provider of independent credit ratings. Our ratings are essential to driving growth, providing transparency and helping educate market participants so they can make decisions with confidence. We have more than 1 million credit ratings outstanding on government, corporate, financial sector and structured finance entities and securities. We offer an independent view of the market built on a unique combination of broad perspective and local insight. We provide our opinions and research about relative credit risk; market participants gain independent information to help support the growth of transparent, liquid debt markets worldwide.

S&P Global Ratings is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit **www.spglobal.com/ratings**.

Update Profile:
If you would like to update your information (telephone number, email address, company, etc.) or change the sectors you receive press releases on, please **click here**.

Visit **SPRatings.com**, a free, interactive, and informative portal to access highlights from our credit research offerings. Consider this your portal to perspective: **www.spratings.com**.

Regulatory Affairs and Disclaimers | **Privacy and Cookie Notice** | **Terms of Use**