



# NEWS RELEASE

Jul 31, 2023

Rating and Investment Information, Inc. (R&I) has announced the following:

## Hellenic Republic (Sec. Code: -)

### [Rating Changed]

Foreign Currency Issuer Rating: BB+, Stable -> BBB-, Stable

Domestic Currency Issuer Rating: BB+, Stable -> BBB-, Stable

### RATIONALE:

The Greek economy stays on a solid track despite the uncertain economic environment in Europe. The primary balance has turned to surplus and the government debt ratio has fallen below the pre-pandemic levels. The election held in June 2023 gave the ruling party led by Prime Minister Kyriakos Mitsotakis a major victory that secured his second term under the parliamentary majority. The result has cemented the continuation of policies sought by the Mitsotakis administration aiming at revitalization of the Greek economy and fiscal consolidation, raising expectations for strengthening the economic growth potential driven by investment and reforms as well as for continuous improvement in government debt ratio. Also taking into account confirmation of further stability in the financial sector along with the said factors, R&I has upgraded the Foreign and Domestic Currency Issuer Ratings to BBB-.

While higher energy prices and accelerating inflation has weighted on the economy since the start of 2022, the recovery in tourism demand has buttressed the economy. Also contributed by the firm trend in private consumption and an increase in investment, the growth rate of real gross domestic product (GDP) for 2022 reached 5.9%, outpacing the Euro-zone average. The projections of the government and European Commission (EC) for 2023 are 2.3% and 2.4% respectively, reflecting the firm trend of domestic demand despite the expected slowdown of economy.

Thanks to the progress in disposal of non-performing exposure (NPE) utilizing securitization backed by government guarantee, NPE ratio of the banking sector has fallen to the single-digit range. While the sector's loss for 2021 had widened from the previous year due to the negative impact of the NPE disposal, it turned profitable in 2022. With an improved balance sheet, banks are transforming themselves into a profit-generating structure. Banks have also been strengthening their capital. Going forward, eyes are on whether the sector is able to accelerate the reduction of NPE ratio, which still stands at a higher level than other Euro-zone countries.

The fiscal balance is improving from the huge deficit recorded due to the COVID-19 pandemic. In 2022, the primary balance turned to a slight surplus backed by the robust tax revenue in spite of the fiscal supports for companies and households amid soaring energy prices and accelerating inflation. The government is projecting the fiscal deficit to narrow to 1.8% of GDP in 2023 with a primary surplus of 1.1%. EC is projecting an even larger surplus. Under Prime Minister Mitsotakis, who secured its second term, the government is expected to maintain its disciplined fiscal policies. R&I believes that the increase in government spending will be controlled and that the primary balance will remain in the black from 2024 onwards.

The general government debt fell below the pre-pandemic levels, standing at 171.3% of GDP in 2022 in contrast to more than 200% recorded in 2020. The government projects the government debt ratio for 2023 at 162.6%. The government debt ratio will likely follow a stable downward trajectory backed by the primary balance that had turned to the black. The government debt consists mostly of borrowings from public institutions, with an average remaining term to maturity of approximately 20 years. The Greek government is deemed to hold a certain level of debt affordability, given the ample cash reserves available to the government.

The government is planning to seek additional funding from the REPowerEU Plan, on top of the funds available under the Recovery and Resilience Facility (RRF) of the European Union (EU). It is implementing structural reforms in the areas such as business environment, labor market and public administration in accordance with RRF. These initiatives give a good opportunity to bolster the economic growth potential, which has been an issue since before Corona, including the promotion of

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investment. Helped also by the inflow of foreign direct investments, the investment ratio has recovered from the persistently stagnant level after the Greek debt crisis, gradually narrowing the gap between the EU average and the country. R&I keeps a close eye on the direction of policies under Prime Minister Mitsotakis that has secured a solid administrative foundation.

## R&I RATINGS:

**ISSUER: Hellenic Republic**

### [Rating Changed]

	Rating	Rating Outlook
Foreign Currency Issuer Rating	BBB-	Stable
Domestic Currency Issuer Rating	BBB-	Stable

Primary rating methodologies applied:

R&I's Analytical Approach to Sovereigns [May 21, 2021]

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