MOODY'S RATINGS

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of Greece, Government of

15 Mar 2024

Frankfurt am Main, March 15, 2024 -- Moody's Ratings has completed a periodic review of the ratings of Greece and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 7 March 2024 in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

Greece 's Ba1 ratings and the stable outlook are supported by a solid reform track record, which has led to visible improvements to institutions and governance, stronger investment and a healthier banking sector. Despite the expected large reduction, debt-to-GDP will remain very high. That said, the favourable debt structure and the large cash buffer are important mitigants. The Greek economy has weathered the energy crisis well, and substantial European Union (EU, Aaa stable) funds as well as private investment will support growth in the coming years. Together with continued reforms this will help lift potential growth and compensate to some degree the negative impact from adverse demographics.

Greece's economic growth slowed to 2% in 2023 from 5.6% in 2022, as high inflation and monetary tightening weighed on consumption and investment growth. Revenues from tourism, however, reached a new record. Moody's forecasts real GDP growth of 2.4% in 2024 and 2.3% in 2025, supported by domestic demand and exports, while inflation rates will decline to around 2%. Lower energy prices and stronger services exports have helped to reduce the current account deficit to 6.4% of GDP in 2023, from a deficit of 10.3% in 2022.

Greece's general government deficit improved sharply to less than 1% of GDP in 2023 from 2.4% in 2022, according to Moody's estimates. Cash-based figures show strong revenue growth of 4.9% outpacing expenditure growth of only 0.9%. Moody's expects deficits to stabilise at 0.9% of GDP in 2024-25 and primary surpluses of around 2% of GDP. Greece's debt ratio is estimated to have fallen to 161% of GDP at the end of 2023 from 172.6% in 2022, and Moody's projects a further decline to 148% by the end of 2025.

Greece's "baa1" economic strength, balances higher wealth levels than similarly-rated peers and robust growth prospects in the next three years with moderate economic size and challenges to potential growth from adverse demographics. Greece's "baa2" institutions and governance strength score reflects strong momentum on the implementation of structural reforms that have already brought tangible progress in several areas. The 2012 debt restructuring still weighs on the assessment though. Fiscal strength of "ba2" is based on the government's very high but fast declining debt burden, supported by a benign debt structure with low interest rates and very long maturities. Susceptibility to event risk at "ba", continues to be driven by risks related to the banking sector, despite the significant reduction in non-performing loans (NPLs).

The stable outlook balances profound structural improvements which could deliver stronger credit metrics than Moody's currently expects against structural challenges, which could weigh on Greece's credit profile more than currently assumed. Consensus around continuing reforms that improve the functioning of Greece's labour and product markets and deliver fiscal primary surpluses may deliver larger-than-expected positive results. Challenges include a large current-account deficit. In addition, given the size and importance of sectors like tourism and shipping, the economy is susceptible to external shocks, and further improvements with regard to economic resilience by broadening the export base will take time.

Upward pressure could emerge under a scenario of a continuation of economic policies and commitment to fiscal consolidation, together with successful implementation of remaining reforms, particularly in the judicial system, leading to greater resilience to external shocks, faster than expected improvement to fiscal strength and work-out of NPLs would support a higher rating. In addition, a more rapid change in Greece's economic structure that helps to improve economic resilience would be credit positive. Further improvements in the banking sector, reducing volatility of profitability and bringing asset quality and capitalization ratios closer to the euro area average, would also be credit positive.

Downward pressures could emerge if a reversal of the policy path seen over the past years, or indications that past reforms are not delivering the boost to growth and fiscal accounts currently expected, weighing on business sentiment and investment would put downward pressure on the rating. In particular, indications that a sustained, material deterioration of the government's fiscal position is likely, possibly combined with a sharp deterioration of the banking sector's health would trigger a negative rating action. An escalation in the geopolitical situation in Europe involving NATO would also likely lead to downward pressure on the rating.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Sovereigns published in November 2022. Please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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