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OUTLOOK
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Banking System Outlook – Greece

Positive outlook driven mainly by expected improvements in core profitability

We maintain our outlook as positive for Greece's (Ba3 postive) banking system in view of the benign economic conditions expected for 2023-24 and continued robust credit growth, underpinning banks' performance. Banks have significantly reduced their nonperforming exposures (NPEs)[1] in recent years, with loan quality expected to stabilize despite difficulties expected for vulnerable clients because of higher interest rates. Corporate credit demand will continue to support banks' core profitability, while loan-loss provisions will subside from previous years and costs will be contained. Capital levels will remain intact and marginally increase as banks build capital internally through retained earnings. Funding and liquidity will be sound as customer deposits increase and banks continue to tap capital markets to build up minimum requirements for own funds and eligible liabilities (MREL). Due to customary balance sheet structures, we consider the Greek banking system as broadly resilient to implications of monetary tightening.

Exhibit 1

OVERVIEW OF KEY DRIVERS

Operating environment	Improving	+	Real GDP will expand by around 1.8% in 2023 and 1.7% in 2024 as consumer spending wanes in 2023 due to inflation and higher interest rates against a strong performance by tourism.
		+	Sizable EU funds will support Greece's growth and bank lending to the real economy as RRF projects start to take shape and require a borrowing element for their financial closure.
Asset risk	Stable	=	Problem-loan ratios will likely stabilize at mid-single-digits of the system's gross loans, as banks complete their NPE offloading and provide new lending of good quality.
		–	Greek banks will manage risks arising from inflationary pressures and rising interest rates, as an uptick in the formation of new NPEs will be counterbalanced by new loans.
Capital	Stable	=	Capital consumption has come to an end as banks finish their NPE securitizations. They now aim to generate capital organically and be in a position to pay modest dividends.
		=	We expect banks to remain comfortably above capital requirements as improving profitability reinforces their capital. The high proportion of DTAs will continue to be a credit concern.
Profitability and efficiency	Improving	+	New lending and higher interest rates will support banks' net interest margins and top lines, as net interest income remains their core source of earnings.
		+	Lower loan impairments and higher fee-based income should also support profitability.
		=	Efforts to contain operating expenses will continue, mostly through voluntary employee exit offers, along with investments in digitialisation.
Funding and liquidity	Stable	=	Banks' liquidity will benefit from increasing customer deposits and less so from ECB funding, with good liquidity ratios. Encumbered assets will be lower as ECB secured funding reduces.
		=	Access to international capital markets has been restored for large banks, though widening spreads will make it more challenging to meet MREL stipulations.
Government support	Stable	=	We expect the government's capacity to provide support to remain weak, keeping our low support assumptions unchanged, resulting in no rating uplift for any bank.

IMPROVING STABLE DETERIORATING

DTA: Deferred Tax Assets
Source: Moody's Investors Service

Outlook remains positive, driven mainly by profitability improvements on the back of robust credit growth and higher interest rates

The operating environment will be benign in 2023-24, with economic and credit growth in Greece remaining higher than other EU countries on the back of RRF funds. We forecast real GDP to expand by around 1.8% in 2023 and 1.7% in 2024, after a robust 5.9% growth in 2022. Although the surge in consumer spending in 2022 will likely wane in 2023 because of inflationary pressures and higher interest rates, the strong tourism industry performance is likely to persist, supporting the Greek economy. In addition, sizable EU (Aaa stable) funds from the Recovery and Resilience Facility (RRF) will continue to be disbursed for various projects, which will help sustain credit flows and to some degree mitigate risks for the banking system in the next 12-18 months.

Loan quality will likely stabilize, despite pressure expected on vulnerable borrowers from higher funding costs. Greek banks significantly reduced legacy NPEs in 2021-22, mainly through securitizations with the government's asset-protection program (Hercules) that helped clear bad assets from banks' balance sheets. The NPE ratio for the four systemic banks was around 6.3% in December 2022, according to our estimate[2], compared with 33% at the end of 2020 and a peak of 49% in December 2016. Despite the steep decline, Greece's NPE ratio remains one of the highest in the euro area and some vulnerabilities remain from net NPE inflows coming from vulnerable borrowers (mainly from SMEs and retail mortgages) on the back of higher interest rates. We expect all large Greek banks to have mid-single digit NPE ratio in the next 12-18 months, in line with their business plans. The potential downside risks arising from inflationary pressures on vulnerable borrowers are likely to be counterbalanced by the resilience of the corporate sector and the new RRF-related lending. Recently announced government support measures to help ease the negative effects on vulnerable borrowers, who are partly subsidized by the banking system, will have minimal impact on banks' performance and asset quality.

Capital levels will be broadly stable, supported by retained profits. We expect the sector's capital levels to be broadly stable following some depletion in recent years because of NPE securitizations, and will remain above regulatory requirements. Banks' capital will be supported by internal capital generation through retained profits, and despite the potential for modest dividend payments in 2024. Greece's four systemically important banks reported a weighted average fully-loaded Common Equity Tier 1 (CET1) ratio of around 13.5% and a capital adequacy ratio of 15.8% as of December 2022, albeit their capital buffers are among the lowest within the EU. In addition, the high level of deferred tax assets will continue to undermine the quality of Greek banks' capital because they make up more than half banks' CET1.

Profitability to be underpinned by higher lending margins and corporate loan growth. Greek banks are now focused on improving structural profitability, which is highly dependent on net interest income (NII). We expect banks' margins and NII to benefit from higher interest rates and new corporate lending, which will mitigate the effects of NPE sales that reduced loan balances in recent years. Accordingly, we expect banks' profitability to improve, supported also by higher fee income, cost containment (balanced by investment in digitalisation) and modest loan-loss provisions in the next 12-18 months. All banks aim to reach a return on equity (ROE) of approximately 10% or higher by 2024, although some of them have already achieved this target in 2022 with the help of some one-off gains.

Funding structure and liquidity will remain sound as customer deposits increase. We expect a continuation of relatively benign funding and liquidity conditions with increased customer deposits and access to the international capital markets. There were strong increases in customer deposits during the last two years (5% in 2022 and 10% in 2021[3]), significantly reducing loan/deposit ratios to less than 70%[4]. Greek banks also use ECB funding with Greek government bonds accepted as collateral, complementing their funding profile with debt issuances in capital markets (raising predominantly senior preferred bonds) to gradually meet their MREL by 2025. The four systemic banks reported an average liquidity coverage ratio (LCR) of 198% as of December 2022, signifying their comfortable liquidity with almost half of their investments in the form of Greek government securities. Accordingly, the increase in interest rates in recent quarters has created some unrealised losses in these portfolios, although they are contained through banks' hedging positions. We do not expect Greek banks to realise any material fair-value losses from these government securities in the next 12-18 months.

Low government support assumptions are unchanged. The Greek government has limited capacity to support banks and, accordingly, we have made no change to our assumption that the probability of government support for failing banks is low. Accordingly, no bank enjoys any rating uplift in its deposit ratings because of government support.

Rating Universe

We rate six Greek banks, which together account for almost all of the assets of commercial banks in the country (see Exhibit 2). The Baseline Credit Assessment (BCA) is b1 for Eurobank, National Bank of Greece and Alpha Bank; they are followed by Piraeus Bank at b2. Two smaller banks that we rate, Pancreta Bank and Attica Bank, have BCAs of caa2 and caa3, respectively. The BCA is our view of a bank's standalone financial strength. The deposit and senior debt ratings are positioned according to each bank's liability structure and its buffer of subordinated debt. They do not incorporate rating uplifts from government or supranational support.

Exhibit 2
Rated Greek financial institutions
Ranked by size of total assets

Name	Consolidated total assets (Sep. 2022) € Billion	Market share (commercial banks' total assets)	Long-term domestic bank deposit rating and outlook	Baseline Credit Assessment	Notches of uplift from external support
Eurobank Ergasias Services and Holdings S.A. / Eurobank S.A. (Eurobank)	83.4	25%	Ba2 / Positive	b1	0
Piraeus Financial Holdings S.A. / Piraeus Bank SA (Piraeus Bank)	82.7	25%	Ba3 / Stable	b2	0
National Bank of Greece S.A. (NBG)	80.9	25%	Ba2 / Positive	b1	0
Alpha Services and Holdings S.A. / Alpha Bank SA (Alpha Bank)	77.4	23%	Ba2 / Stable	b1	0
Attica Bank SA (Attica Bank)	3.3	1%	Caa1 / Positive	caa3	0
Pancreta Bank S.A. (Pancreta Bank)*	2.6	1%	B3 / Positive	caa2	0
Total Rated Banks / Average Ratings (asset-weighted)		100%	Ba2	b1	0

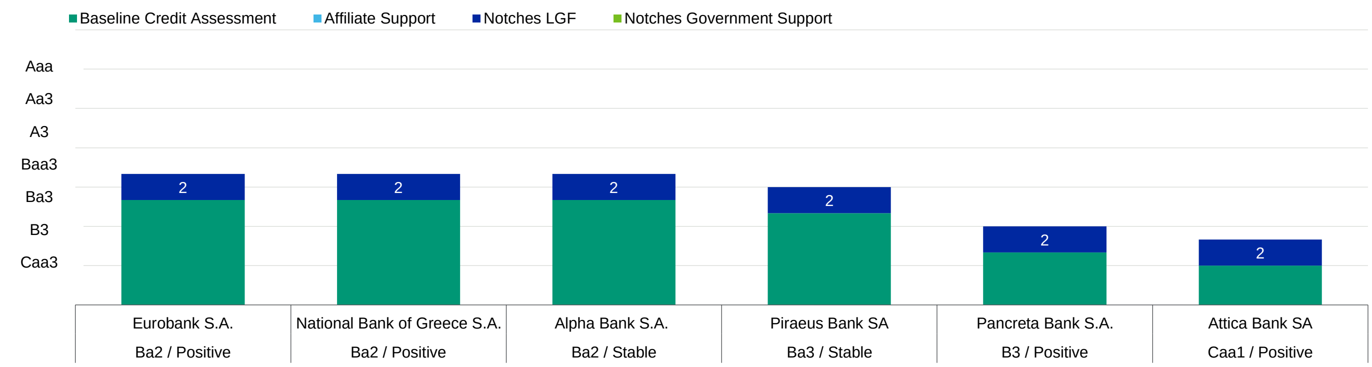
Notes: Long-term Bank Deposit Ratings reflect a bank's Baseline Credit Assessment (BCA) and any government or affiliate support considerations. A bank's BCA reflects its standalone financial strength without considering support.
Sources: Bank of Greece, banks' disclosures and Moody's Investors Service

Exhibit 3
Key indicators for the Greek banking system

	2017	2018	2019	2020	2021	Latest 2022
Nonperforming Exposures / Gross Loans [2] [3] [6]	47.2%	45.4%	40.6%	30.1%	12.8%	6.3%
Loan Loss Reserves / Nonperforming Exposures [2] [3] [6]	47%	47%	44%	44%	42%	65%
Tangible Common Equity / Risk-Weighted Assets [1] [5]	5.4%	1.5%	8.3%	6.7%	5.7%	6.5%
Common Equity Tier 1 ratio [3] [6]	17.0%	15.3%	16.2%	15.0%	13.6%	13.5%
Pre-Provision Income / Risk-Weighted Assets [1] [5]	2.0%	1.9%	1.9%	2.8%	2.5%	3.8%
Net Income (loss) / Tangible Assets [1] [5]	-0.2%	0.0%	0.1%	0.0%	0.5%	0.9%
(Market Funds - Liquid Banking Assets) / Total Assets [1] [5]	4.1%	-2.0%	-9.3%	-12.0%	-13.9%	-8.6%
Market Funds / Tangible Banking Assets [1] [5]	21%	15%	11%	18%	20%	21%
Gross Loans / Due to Customers [1] [5]	132%	114%	100%	89%	72%	71%
Cost to Income ratio [1] [5]	51%	53%	54%	41%	46%	35%

[1] Based on adjusted figures from six rated banks
[2] NPE and provisioning coverage for banks' solo financials
[3] Based on data from Bank of Greece
[4] Latest 2022 figures as of September 2022
[5] Latest 2022 figures as of June 2022
[6] Latest 2022 figures average for the four large banks as of December 2022
Data notes: For 2020, we have used a combination of the operating companies' and holding companies' data.
Source: Bank of Greece and Moody's Investors Service

Exhibit 4
Greek financial institutions' long-term deposit ratings



Source: Moody's Investors Service

Banking System Outlook definition

The Banking System Outlook reflects our view of credit fundamentals in the banking sector over the next 12 to 18 months. Banking sector outlooks are distinct from rating outlooks, which, in addition to sector dynamics, also reflect issuers' specific characteristics and actions.

The outlook does not represent a sum of upgrades, downgrades or ratings under review, or an average of rating outlooks.

Endnotes

1 According to the European Banking Authority's definition, NPEs include performing restructured/forborne and impaired loans for at least 12 months.
2 Weighted average of Greece's four systemically important banks.
3 Private-sector deposits according to data by the Bank of Greece, which includes deposits by corporations and households.
4 Private-sector credit as a percentage of private-sector deposits, according to data by the Bank of Greece.

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