HELLENIC REPUBLIC (GREECE)

Rating Analysis - 3/15/12
Debt: EUR329.4B, Cash: EUR16.6B

EJR Sen Rating(Curr/Prj) D/ N/A
EJR CP Rating: D
EJR's 1 yr. Default Probability: 100.0%

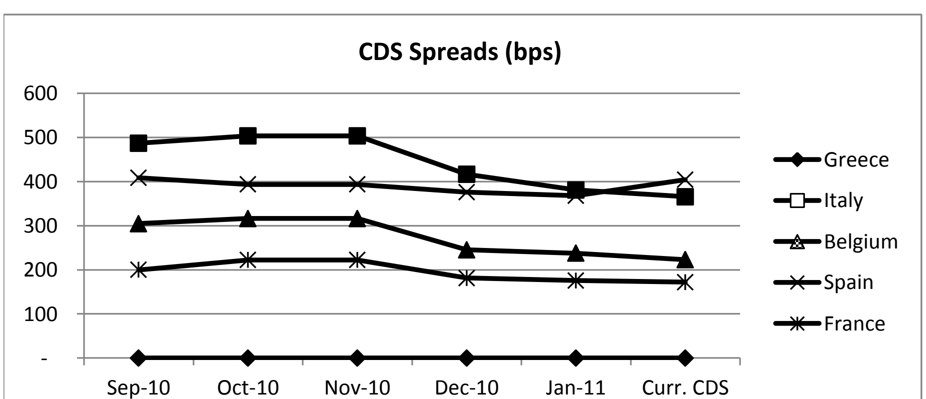
Little hope - with Greece's primary budget deficit and declining GDP, Greece cannot shoulder ANY debt and is likely to re-default. Nonetheless, other raters are likely to raise their rating post the most recent default. Greece's patience is waning and the still high interest rates are likely to place an unbearable burden on Greece. Additionally, austerity measures will further pressure GDP. The Hellenic Statistical Authority cited an accelerated contraction in domestic demand and a fall in consumer expenditures with the decline.

We expect that Greece again be forced to restructure its debt within the next 12 to 24 months; it cannot sustain significant additional budget cuts, the tepid economy, restricted capital raising, and 10+% interest rates. Greece's revised debt is near EUR200B, GDP is EUR230B, and the federal budget deficit is EUR3.8B before interest expense and near EUR12B after interest expense. The country has failed to meet its initial deficit targets under the joint IMF-EU bailout terms. Meanwhile, Greek debt (currently the hi

	Annual Ratios					
INDICATIVE CREDIT RATIOS	2008	2009	2010	P2011	P2012	P2013
Debt/ GDP (%)	113.0	129.3	144.9	153.9	159.8	163.9
Govt. Sur/Def to GDP (%)	-9.8	-15.8	-10.6	-8.1	-5.0	-3.2
Adjusted Debt/GDP (%)	117.4	133.8	149.4	158.5	164.4	168.5
Interest Expense/ Taxes (%)	24.7	26.0	29.3	29.8	31.9	33.3
GDP Growth (%)	-2.1	-7.4	-5.5	-0.6	-0.6	-0.5
Foreign Reserves/Debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Implied Sen. Rating	D	CC	CC	CC	CC	CC

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	35.0	45.0	55.0	75.0	115.0	145.0
Govt. Sur/Def to GDP (%)	4.0	1.0	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	40.0	50.0	60.0	80.0	120.0	150.0
Interest Expense/ Taxes (%)	7.0	9.0	12.0	15.0	22.0	26.0
GDP Growth (%)	5.0	4.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	25.0	20.0	15.0	12.0	9.0	7.0

PEER RATIOS	S&P Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Government Of Canada	AAA	34.0	-5.0	34.0	14.1	1.8	A
French Republic	AA+	81.3	-7.1	99.6	9.5	1.4	BB-
Kingdom Of Belgium	AA	94.9	-4.1	114.0	11.9	1.0	BB-
Kingdom Of Spain	A	59.6	-9.3	67.5	9.5	0.3	BB
Republic Of Italy	BBB+	117.4	-4.6	124.9	15.4	-0.4	B



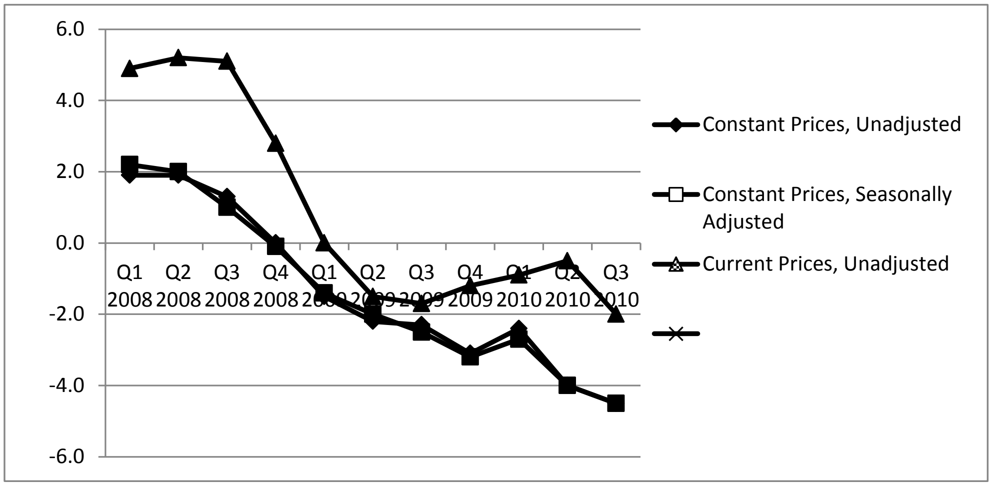
Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece (D)		7,000
Italy (BB)	365	800
Belgium (BBB-)	223	400
Spain (BBB-)	404	400
France (A-)	172	120

* Projected Rating
* EJR's targeted CDS based on rating

Economic Growth & Bailout Plans

In 2010, GDP fell by a greater than expected 7.4% YoY (1.1% QoQ). Previous forecasts averaged a 4.2% decline. The Hellenic Statistical Authority credited an accelerated contraction in domestic demand and a fall in consumer expenditures with the decline. Meanwhile, the country's jobless rate increased from 8% in 2008 to 10 in 2009 to 14% as of 2010. Joblessness will continue at high rates.

Year-on-Year GDP Growth (Millions €)



The fundamental problem for Greece is a continuation of the past: low and declining GDP, and continued budget deficits. While productivity in most other EU countries has grown, in Greece's case, it has not. While Greece remains part of the euro monetary system, significant devaluation is not possible. Furthermore, austerity measures will place additional on GDP. We expect that Greece and its creditors will conclude that further austerity measures are counter-productive and that the country will be in an economic funk for the foreseeable future.

Unemployment

The number of unemployed persons in Q2 2010 amounted to 594,032 persons, versus 4,426,992 employed persons. The rate of unemployment rose 0.1% QoQ (2.9% YoY) to 11.8% during the quarter. The IMF forecasts rates to reach 14.8% by 2012.

Q2 2010 Breakdown of Unemployment:			
By Sex and Age Groups			
Age Group	**Males**	**Females**	**Total**
Total	**9.4**	**15.3**	**11.8**
15-29	18.9	27.5	22.8
30-44	8.1	14.7	10.9
45-64	6.5	9.0	7.5
65+	1.2	1.2	1.2
Source: Hellenic Statistical Authority			

The unemployment rate for females (15.3%) remains considerably higher than the unemployment rate for males (9.4%). Furthermore, the highest unemployment rate recorded is among young persons aged 15-29 years (22.8%).

Assumptions for Projections

	Peer	Issuer	Base Case	
Income Statement	**Median**	**Average**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	4.2	(1.6)	**(1.6)**	**0.5**
Social Contributions Growth %	1.4	1.0	**1.0**	**1.0**
Grant Revenue Growth %	0.0	(100.0)	**0.5**	**0.5**
Other Revenue Growth %	1.8	(178.5)	**(1.4)**	**(1.4)**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	3.1	1.9	**(1)**	**(0.5)**
Compensation of Employees Growth%	2.0	(11.1)	**(11.1)**	**(11.1)**
Use of Goods & Services Growth%	1.8	(18.2)	**(18.2)**	**(18.2)**
Social Benefits Growth%	3.2	(3.6)	**(3.6)**	**(3.6)**
Subsidies Growth%	3.9	4.9		
Other Expenses Growth%	(29.4)	(29.4)	**(10.0)**	**(10.0)**
Interest Expense	0.0	4.0	**4**	
Balance Sheet				
Currency and Deposits (asset) Growth%	(20.6)	40.1	**(1.4)**	**(1.4)**
Securities other than Shares LT (asset) Growth%	7.0	0.0		
Loans (asset) Growth%	7.5	(3.9)	**(3.9)**	**(3.9)**
Shares and Other Equity (asset) Growth%	(1.7)	(5.6)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	0.0	11.9	**11.9**	**11.9**
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	0.5	0.7	**(1.6)**	**(1.6)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Accounts Payable Growth%	2.4	0.7	**0.7**	**0.7**
Currency & Deposits (liability) Growth%	2.5	(33.4)	**0.5**	**0.5**
Securities Other than Shares (liability) Growth%	5.7	(23.5)	**(16.4)**	**(16.4)**
Loans (liability) Growth%	5.7	68.1	**68.1**	**61.3**
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Addl debt. (1st Year) million EUR	0.0	0.0	**(100,000)**	

Base Case
ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

	Dec-08	Dec-09	Dec-10	PDec-11	PDec-12	PDec-13
Taxes	48,298	45,821	45,108	44,386	43,676	43,894
Social Contributions	30,750	29,458	29,751	30,047	30,346	30,648
Grant Revenue	28,761	31,762	0	0	0	0
Other Revenue	-13,045	-18,971	14,891	14,677	14,465	14,257
Other Operating Income	0	0	0	0	0	0
Total Revenue	94,764	88,070	89,750	89,110	88,487	88,799
Compensation of Employees	27,921	30,969	27,536	24,484	21,769	19,356
Use of Goods & Services	14,898	17,051	13,950	11,413	9,337	7,639
Social Benefits	45,755	48,970	47,220	45,533	43,905	42,336
Subsidies	70	123	129	129	129	129
Other Expenses	8,385	8,094	5,718	7,285	5,146	6,556
Grant Expense	28,761	31,762	0	0	0	0
Depreciation	4,587	4,998	5,392	5,392	5,392	5,392
Total Expenses excluding interest	101,546	110,082	99,816	94,235	85,679	81,409
Operating Surplus/Shortfall	-6,782	-22,012	-10,066	-5,125	2,808	7,390
Interest Expense	11,937	11,915	13,205	13,205	13,940	14,637
Net Operating Balance	-18,719	-33,927	-23,271	-18,330	-11,132	-7,247

Base Case
ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Dec-08	Dec-09	Dec-10	PDec-11	PDec-12	PDec-13
Currency and Deposits (asset)	13,204	11,841	16,592	(83,647)	(82,442)	(81,255)
Securities other than Shares LT (asset)	702	741	741	741	741	741
Loans (asset)	1,591	1,262	1,213	1,166	1,121	1,077
Shares and Other Equity (asset)	29,256	39,757	37,533	38,284	39,049	39,830
Insurance Technical Reserves (asset)	38	42	47	53	59	66
Other Accounts Receivable LT	19,581	19,461	19,602	19,288	18,980	18,676
Monetary Gold and SDR's						
Additional Assets						
Total Financial Assets	64,372	73,104	75,728	(24,115)	(22,493)	(20,865)
LIABILITIES						
Other Accounts Payable	19,581	19,461	19,602	19,744	19,887	20,031
Currency & Deposits (liability)	728	1,508	1,005	1,005	1,005	1,005
Securities Other than Shares (liability)	213,617	248,184	189,950	158,751	132,676	110,885
Loans (liability)	45,722	44,613	75,014	20,722	59,409	89,933
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	(3,477)	(3,535)	(3,837)	(1)	(1)	(1)
Liabilities	276,171	310,231	281,734	200,221	212,976	221,851
Net Financial Worth	(211,799)	(237,127)	(206,006)	(224,336)	(235,468)	(242,715)
Total Liabilities & Equity	64,372	73,104	75,728	(24,115)	(22,493)	(20,865)

Sovereign Rating Methodology

Egan-Jones takes the perspective of the investor as its primary point of view when developing the ratings it issues for sovereigns. Therefore, in the case of sovereign ratings, we attempt to take a more holistic view of credit quality to include not only analytic comparisons of various sovereign issuers but also the impact on our quantitative and qualitative analyses by current global, sovereign, governmental and market events, including the effects of government investments in speculative, volatile or other high risk investment products. For example, many sovereign issuers have taken on significant exposures of major financial institutions over the past several years. Hence, we calculate the under-funding of financial institutions and include this amount in the total indebtedness of sovereigns. (We use a base assumption that no country can afford to allow its major banks to fail and therefore we believe that there will almost always be an intervention by either a host or allied nation should financial institutions or markets require support at some measurable level.)

Generally we devise modeling calculators and do an analysis that examines the debt load of a country with respect to its GDP and other economic indicators. The analysis is then adjusted to reflect the outlook on a myriad of factors that reflect the firm's overall view of the sovereign debt and the quality of the country's ability to meet and thrive under such load. Some of the qualitative factors that impact our ultimate assessment of credit quality such as the flexibility, stability and overall strength of the economy, ease of tax collection, acceptance of contract law, ease of doing business, and prospects for future growth and health. The non quant issues are generally subjective and a moving target, so each rating of a sovereign may differ because of the non-quantitative nuances being addressed. Note, debt levels for many sovereign issuers have increased over the past decade and has accelerated recently, effecting the implied ratings.

Nota Bene

History has proven that defaults on domestic public debt do occur. In fact, seventy out of three hundred twenty defaults since 1800 have been on domestic public debt (1). Egan-Jones does not view a country's ability to print its own currency as a guarantee against default. Additionally, Egan-Jones generally views cases of excessive currency devaluation as a de facto default.

1. "This Time Is Different: Eight Centuries of Financial Folly", Reinhart & Rogoff, p.111, 126