Euro Themes

Greece: The election and a new megacycle

FOCUS

The 21 May general election lies in the balance, but we do not expect a new government to undo the advances achieved since 2015. The macro and public finance outlook support the case for rating upgrades. We have positive cross-asset views at the start of what could be a new megacycle for Greece.

- Greece's ruling conservative New Democracy party has a lead of five to six points in the polls ahead of Syriza, the radical left opposition party, ahead of the **general election on 21 May**. Current electoral laws generate a multitude of possible outcomes, complicating the near-term path. But the scope for radical policy discontinuity is much smaller than in 2015, thanks to a broad move in Greek politics towards the centre ground.
- The **Greek economy** recovered strongly from the COVID-19 recession, outperforming most euro-area (EA) peers in 2021-22. Solid growth, a low-for-long average cost of public debt, and an expected return of primary surpluses should lead to a sizable decline in the government's debt-to-GDP ratio and in the gap between Greece and other highly indebted EA countries. Greece's large current account deficit reflects cyclical and structural features of its economy, rather than implying that gains in competitiveness since 2010 have been lost, in our view.
- Attainment of investment grade (IG) status could be a powerful tailwind for **government bonds.** S&P recently changed Greece's outlook to positive and an upgrade seems likely

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within the next year. Other rating agencies could follow suit. Inclusion in IG indices may still be some time away, but the market may price that prospect well in advance, if Portugal's experience in 2017 is any guide.

- A new megacycle would likely provide a further boost to Greek **equities**, which have had a strong run in light of positive EPS revisions. A continuation of structural reforms, post-election, could bode well for the market, given its bias to Financials and domestic cyclicals.
- Greek CDS trade wide to cash, both relative to history and relative to other European sovereigns. To express a positive **credit** view on Greece, selling protection appears more attractive, in particular for shorter tenors.

A third economic megacycle?

Themos Fiotakis, Lefteris Farmakis

Greece is not a typical economy that goes through 7-8 year cycles, at least not in a way that is impactful for observers outside Greece and investors. Instead, its post-WW2 economic history has been marked by two megacycles, deeply linked to structural forces and political choices:

The first megacycle...

The first megacycle took place between the 1950s and the mid-1970s. In 1950, Greece was coming out of its bloodiest decade in history. What with World War 2, an interwar famine and a protracted deadly post-war civil conflict, Greece lost one of the largest shares of its population during the 1940s globally.

In the aftermath, the Greek economy was devastated. In the months before the civil war had even started, former US Emissary to Greece Paul Porter wrote: "Today an almost forgotten American mission has got to perform a miracle... The miracle is to save Greece from economic disintegration.... The whole country, from top to bottom is in the grip of a grey, unrelieved, profound lack of faith in the future..."[1]. Even after the end of the civil war, Figure 1 shows that life expectancy in Greece was low – a result of economic strain and poor healthcare and sanitation conditions.

The arrival of foreign aid – mainly as a result of the Marshall Plan – coupled with protectionist industrial and foreign exchange policies, as well as foreign economic supervision, produced an economic miracle: Greece, albeit from a low base, posted years of growth rates seen mainly in rapid growth emerging economies of the time such as South Korea. It is estimated that Greece received a sum of $700mn, the sixth largest beneficiary of the 'European Recovery Program'.

Greek living conditions had started to resemble those in modern western societies as early as the mid-1970s.

... then a protracted slump preceding the second megacycle

This first megacycle was followed by a protracted slump in activity, which lasted until the early 90s. Despite improved living conditions, politics were exceptionally unstable and democratic institutions frail. After the collapse of the Greek military dictatorship in the aftermath of the Cyprus crisis, Greek politicians decided to accelerate Greece's EU entry, despite clear economic fragilities. The thinking was deeply political, as the EU was seen as a long-term anchor for democratic institutions (which indeed it became).

The lifting of industrial policies and protectionism (coupled with global oil and inflation shocks) led to a process widely known as 'premature de-industrialisation'. The tradeable sector had

[1] Paul Porter, 20 Sep 1947, "Wanted: A Miracle in Greece"

grown mostly to attend the needs of the rapidly growing domestic economy and by no means was ready to compete in international markets. The combination of shocks led the traded sector into crisis – parts of it shrinking and other parts nationalised as part of a broader rescue plan.

Equally, however, this period laid the ground for Greece's second megacycle. The arrival of structural funds from the EU, depreciation of the drachma, deep infrastructure investment and convergence policies soon led to the resumption of growth. Starting intermittently from the mid-80s but accelerating in earnest after the signing of the Maastricht Treaty in 1992, the Greek economy had grown more than five-fold as a share of the German economy by 2008 (Figure 2).

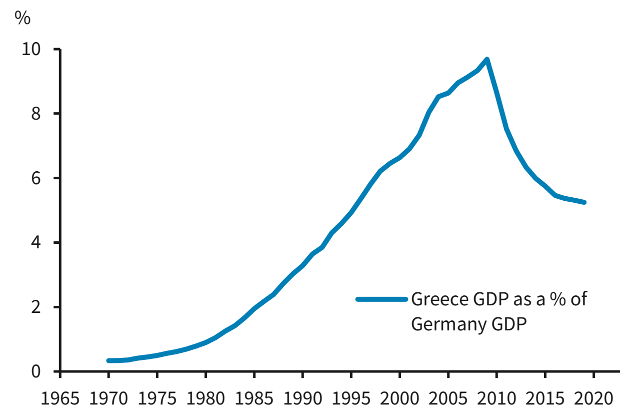
At the end of this second megacycle, Greece had built substantial imbalances. Reliant on increasing amounts of government borrowing and external funding, operating at an uncompetitive cost level and consuming an unreasonable share of potential income, the economy was setting itself up for the 2010-2019 collapse, which is a relatively fresh market memory.

Again, as a share of the German economy, the Greek economy almost halved over a decade, including in nominal terms.

FIGURE 1. First mega cycle in the 50s...

Source: Haver Analytics, World Bank, Barclays Research

FIGURE 2. ... followed by a second since the late 70s



Source: Haver Analytics, World Bank, Barclays Research

A potential third megacycle

Today, we think Greece has the opportunity for a third megacycle given three key dynamics:

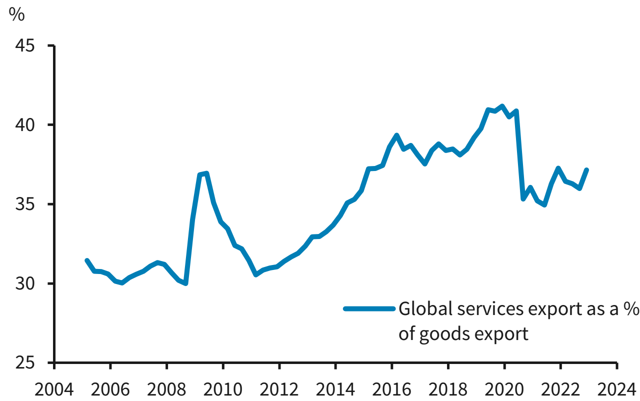
1. Global services are becoming more tradeable, giving Greece a good chance to build an internationally competitive sector for the first time in its post-war history. Specifically, global trade in services are increasingly tradeable and are outperforming goods in terms of global trade growth (particularly if we exclude the one-off COVID-19 boom in goods trading) (Figure 3).

   This trend accelerated during the years of the Greek crisis and Greece is now catching up to it. Services constitute a good 75-80% of GDP for Greece (Figure 4). Greece is hence much more likely to be competitive in its areas of comparative advantage (tourism, real estate, transportation, IT, clean energy, healthcare) than to build a new auto manufacturing industry.

2. The issues facing Europe as a whole (energy security, energy transition, protectionism from China and the US) are reducing the focus on intra-European budget frictions and introducing a new focus on cross-EU policies set to address the challenges ahead.

3. Greece is starting from a low level of activity (a large output gap), with much fewer imbalances than in the past, benefiting from structural reforms and infrastructure investment and in receipt of NGEU funds, which in their current form will be levered to reach up to €60bn – which is extremely large in the context of the size of the Greek economy (c.€200bn).

FIGURE 3. Services are increasingly tradable...



Source: Haver Analytics, OECD, Barclays Research

FIGURE 4. ... and should support the Greek economy

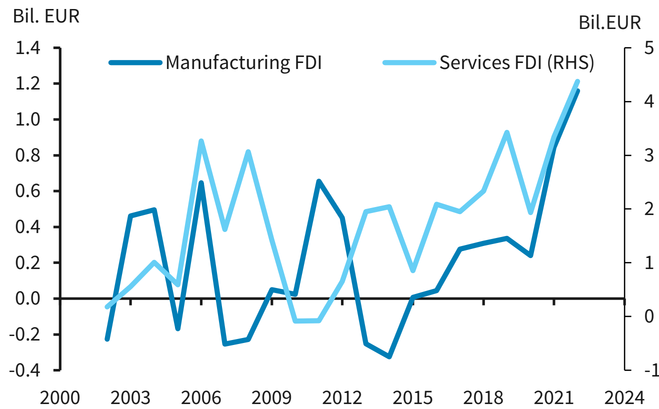
Source: Haver Analytics, Barclays Research

Can Greece capitalize on these dynamics, given its many institutional and cost disadvantages? Figure 5 shows the spikes in FDI in both manufacturing and services in the last two years. There is clearly a sense that Greece is directly investable to a greater extent than in its recent past, and certain big deals in the technology and payments sector are pointing that way. In consequence, there seems to be more than just COVID-related growth base effects in Greece's rapid post-pandemic recovery. Sustaining this momentum will be key to entering yet another multi-year high-growth megacycle (Figure 6).

The incumbent government should also be credited for this surge in investment – market confidence is a sign of investor-friendly policies. It is thus no accident that many rating agencies are waiting for the election result and its implications for political stability and reform momentum before a critical potential upgrade to investment grade.

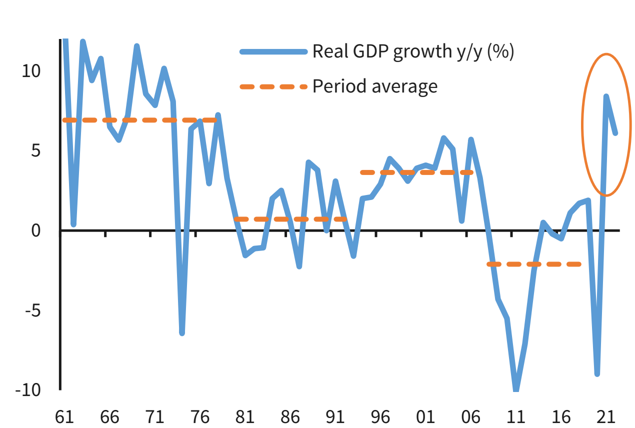
As we discuss below, the election is not risk free, but we believe the risks are not too likely nor unmanageable. Overall, we still see Greek convergence to other highly rated peripheral bond markets (eg, Portugal) as a key investment thesis for 2023.

FIGURE 5. FDI has increased in the past two years



Source: Haver Analytics, Barclays Research

FIGURE 6. The beginning of a third mega-cycle?



Source: Haver Analytics, Barclays Research

Political overview: Complicated near-term path but low tail risks

Themos Fiotakis, Lefteris Farmakis

The Greek general election on 21 May is attracting market attention once more. The current (almost) proportional electoral laws generate a multitude of possibilities, complicating the near-term path somewhat. That said, the scope for radical policy discontinuity is much smaller than in 2015 across scenarios, thanks to the broader move of Greek politics towards the centre ground. In what follows e detail the main paths opening up after the 21 May elections and explain why they all imply low tail risks, in our view.

Greece's current proportional electoral laws include a 3% minimum threshold for a party to enter parliament (Figure 7). This makes the majority threshold in the 300-member parliament a function of the share of the vote that goes to parties unable to make that threshold. On current opinion polls this is around 45%, too high for any party to have a realistic chance of forming a majority on its own (Figure 8).

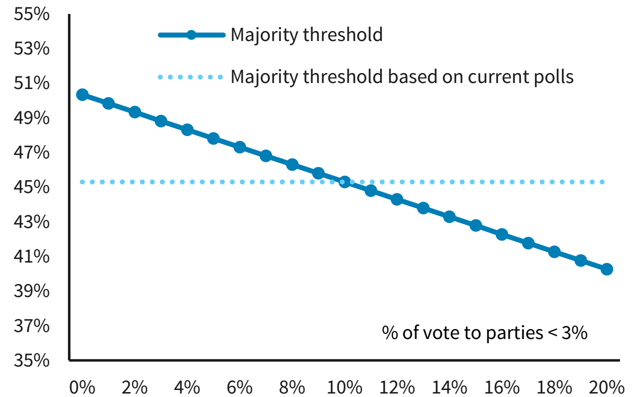
Opinion polls have reverted to a picture similar to that prevailing just before the train accident in late February. The ruling centre-right New Democracy party (ND) leads by c. 34.5% (assuming a proportional allocation of the undecided vote) versus c. 29% for second-place left-wing SYRIZA. Following the disqualification of a Golden Dawn-offspring party by the Supreme Court, opinion polls point to a six-party parliament, Figure 9.

FIGURE 7. Electoral systems in Greece's upcoming elections

	Elections on 21 May	Elections beyond 21 May
Electoral system	Proportional	Enhanced proportionality
Threshold to enter parliament	3% of national vote	3% of national vote
Majority premium	No premium	20 seats (if at least 25% of votes) + 1 seat every 0.50% increment in the 25%-40% (for a maximum total of 50 seats)

Source: Barclays Research

FIGURE 8. Majority threshold too high for 21 May election...



Source: Barclays Research, Greek polling companies

Based on recent opinion polls, we note three main possibilities: 1) an ND-led coalition government (centre-left PASOK being the only potential partner), 2) a SYRIZA-led coalition government with some of the smaller parties, and 3) a snap election (this time with New Democracy's newer electoral law replacing simple proportionality – more on that below). Our base case is that a snap election will be necessary, given the low likelihood of any of the coalition options presented below.

A coalition between ND and PASOK has been all but ruled out by both parties as regards the 21 May elections[2]. It could still arise, in our view, particularly if the combination results in a comfortable majority between the two but current polls do not point to this outcome as being very likely. At any rate, this outcome entails almost complete policy continuity with the outgoing government for all intents and purposes.

A coalition led by second-place SYRIZA would require the co-operation of PASOK plus one (or more) of MERA 25 or the Communist party (KKE). The more or less necessary presence of centrist PASOK but also a much less radical SYRIZA relative to 2015 arguably limit the degree of policy discontinuity with the last four years, even as policy priorities are likely to shift somewhat.

All three smaller parties have ruled out participating in a such a coalition with varying degrees of assertiveness, with KKE historically the least receptive to coalitions with ideologically non-aligned parties[3]. Radical left-wing MERA 25, led by ex-finance minister Varoufakis, has also ruled out participation[4], but itself may also be a fairly incompatible partner to a much more centrist PASOK. All in all, such a scenario does not look particularly likely at present.

A variant of the above scenario that has been discussed in the press[5] is a short-lived/limited scope SYRIZA-led coalition government with the aim of reintroducing simple proportionality (this was replaced by ND in 2020). In theory, this scenario is in the interest of all smaller parties as it maximises their parliamentary presence. This could even include smaller right wing party 'Elliniki Lisi' (EL), which would probably be incompatible with a more organic coalition but could facilitate this short-lived variant (especially if PASOK, which voted against simple proportionality in 2016, together with ND fall short of the 150 majority threshold).

[2] https://www.ekathimerini.com/news/1210262/skertsos-rules-out-nd-pasok-coalition-blames-socialist-leader/

[3] https://morningstaronline.co.uk/article/w/communist-party-greece-rules-out-coalition-ahead-greek-elections

[4] https://www.ekathimerini.com/news/1210540/mera25-not-here-to-become-mr-tsipras-ministers-says-varoufakis/

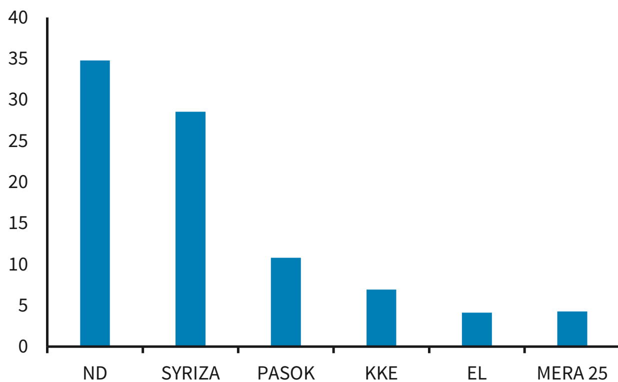
[5] https://country.eiu.com/article.aspx?Country=Greece&articleid=1543071737&subsubtopic=Election+watch&subtopic=Forecast

But for an immediate return to simple proportionality, a super-majority of 200 out of 300 MPs is required, which does not seem attainable unless ND materially underperforms current opinion polls and PASOK turns in favour only a few years after voting against it. What is more, it is unclear whether changing the rules of the game once more will afford political gains in the near term, particularly as it increases the risk of protracted instability. Thus, this scenario is also fairly unlikely, in our view.

If all the above fail, a snap election would follow soon after, with 2 July already touted as a likely date[6]. That election would be run with the 'enhanced proportionality' system the outgoing government passed in 2020, according to which the first party receives a bonus. This starts from 20 seats if it has 25% and then increases by one seat for every extra 0.5% vote share, with a maximum bonus of 50 seats (Figure 7). The 3% threshold for entry in parliament remains in place. Figure 10 shows that majority is likely to require a score of c. 38% for the first party.

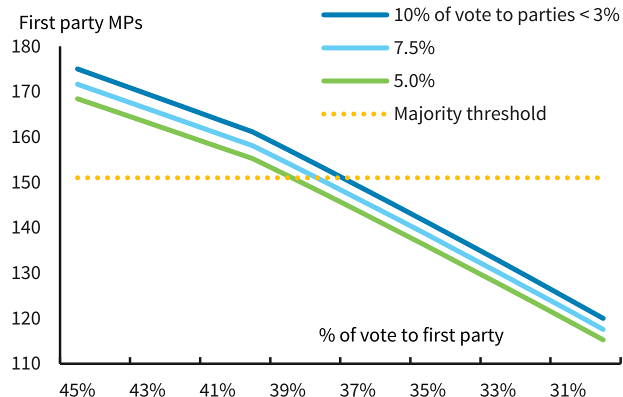
There is a general presumption that simple proportionality implies fragmentation (as a lack of majority is more or less a given), while a less proportional system tends to favour the front-runners. On this basis, a snap poll would likely solidify the advantage of the first party; in this instance ND, according to opinion polls. Whether this is enough for a majority is a different issue. But either way, a government without ND becomes much harder to form. Accordingly, an ND-led government is a very strong base case in case of a snap election, in our view.

FIGURE 9. ..according to opinion polls



Note: The chart presents an average of the last round of polling by Greece's main pollsters, allocating the undecided vote proportionally to each party.
Source: Barclays Research, Greek polling companies

FIGURE 10. The majority threshold in a snap poll is c. 38%



Source: Barclays Research

Economic and public finance outlook brightens

Silvia Ardagna

A robust post-COVID economic recovery

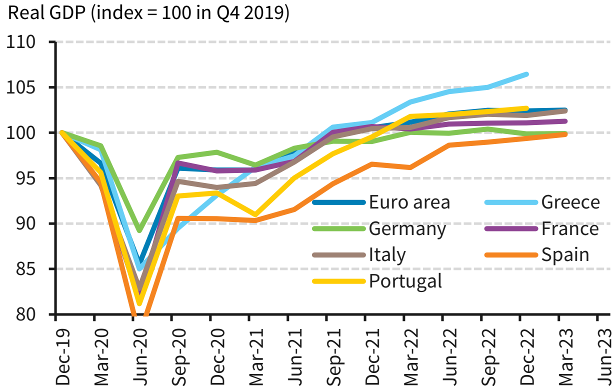
The Greek economy outperformed most euro area (EA) peers in 2021-22 and recovered strongly from the COVID-19 recession (Figure 11). Real GDP had recovered to 2019 levels by Q3 21 and is now c.6% above it – a level it would have reached if 2020-22 growth had equalled the 2017-19 average.

The current government and the IMF forecast real growth to remain robust and higher than the EA average, as Greece continues to close the economic gap opened up during the European sovereign crisis (Figure 12).

[6] https://greekcitytimes.com/2023/03/07/greek-election-2023-may-21-and-july-2-are-the-most-likely-dates-as-april-is-ruled-out/https://greekcitytimes.com/2023/03/07/greek-election-2023-may-21-and-july-2-are-the-most-likely-dates-as-april-is-ruled-out/

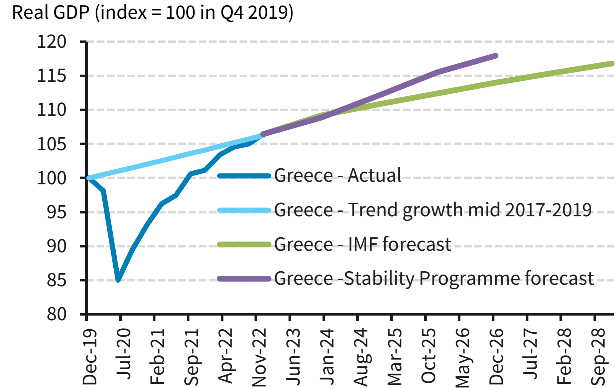
The drivers of future growth are expected to be exports and business investment, the latter supported by NGEU funds (€17.7bn in grants and €12.7bn in loans that can be levered up to €60bn). These funds will be allocated to 106 investment measures related to the green and digital economy, and dozens of reforms.

FIGURE 11. **The Greek economy outperformed euro area peers in recovering from the COVID-19 recession**



Source: Eurostat, Barclays Research

FIGURE 12. **Real GDP is back to the pre-pandemic trend level and its rapid growth is expected to continue**

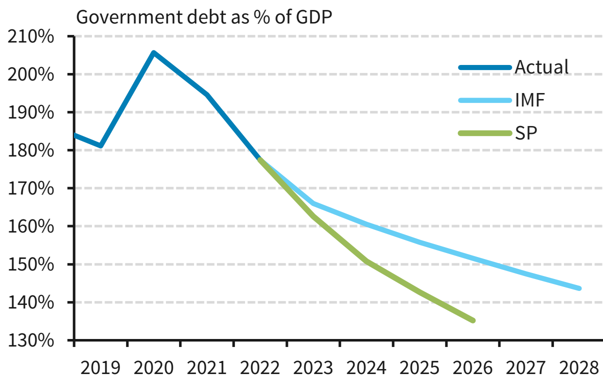


Source: Eurostat, Barclays Research

A feasible public debt reduction path

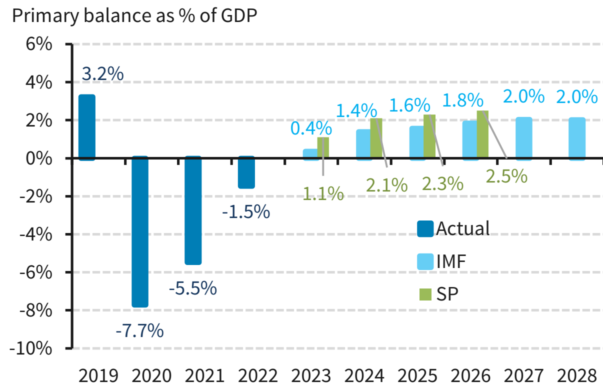
Robust real growth is a pillar of a sustained decline in Greece's government debt/GDP ratio, which fell to 172% of GDP at end-2022 from a peak of 206%, and which is forecast to fall to c. 140% of GDP at the end of 2028 (Figure 13). Near-term inflation, the cost of government debt remaining low (1.8-2%), and a primary surplus peaking at 2% of GDP are other factors driving down public debt (Figure 14).

FIGURE 13. **Greek public debt is set to decline sharply with...**



Source: Eurostat, IMF, Barclays Research

FIGURE 14. **...a return of primary surpluses**



Source: Eurostat, IMF, Barclays Research

In our view, the assumptions underpinning the public debt reduction path seem feasible: given the low average cost of public debt, it would take a severe negative nominal growth shock and/or a large deterioration of the fiscal balance for public-debt-to-GDP to increase. For example, with the average cost of government debt at c. 2%, government debt would remain at the 2022 ratio of 172% of GDP even with sizable primary deficits (between 4.9-1.7% of GDP) if nominal growth were to remain in the 3-5% range (Figure 15).

FIGURE 15. A combination of pretty negative growth, fiscal and interest rate shocks would be needed for Greek public debt not to decline in the coming years

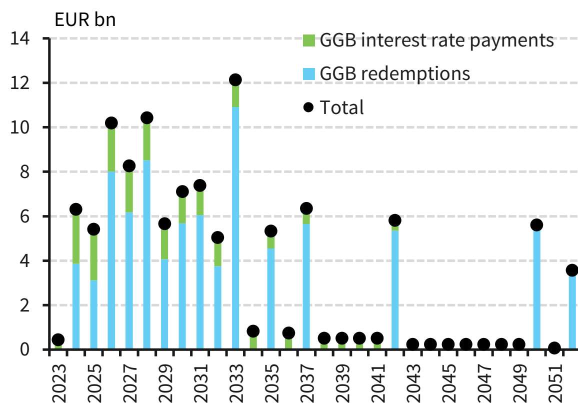
Government Debt/GDP = 172%		Nominal interest rate paid on entire stock of debt (%)							
		0	1	2	3	4	5	6	7
Nominal GDP growth (% y/y)	-2	3.5	5.3	7.0	8.8	10.5	12.3	14.0	15.8
	-1	1.7	3.5	5.2	6.9	8.7	10.4	12.2	13.9
	0	0.0	1.7	3.4	5.2	6.9	8.6	10.3	12.0
	1	-1.7	0.0	1.7	3.4	5.1	6.8	8.5	10.2
	2	-3.4	-1.7	0.0	1.7	3.4	5.1	6.7	8.4
	3	-5.0	-3.3	-1.7	0.0	1.7	3.3	5.0	6.7
	4	-6.6	-5.0	-3.3	-1.7	0.0	1.7	3.3	5.0
	5	-8.2	-6.6	-4.9	-3.3	-1.6	0.0	1.6	3.3
	6	-9.7	-8.1	-6.5	-4.9	-3.2	-1.6	0.0	1.6
	7	-11.3	-9.6	-8.0	-6.4	-4.8	-3.2	-1.6	0.0
	8	-12.7	-11.1	-9.6	-8.0	-6.4	-4.8	-3.2	-1.6

Source: Eurostat, IMF, Barclays Research

In addition to the favourable low-for-long average cost of government debt locked in with the official sector lenders, the long-term maturity profile reduces significantly near-term funding needs. As is well known, only about one-third of Greek government debt stock is held by the private sector, and GGB redemptions average c.€5bn per year over the coming five years (Figure 16).

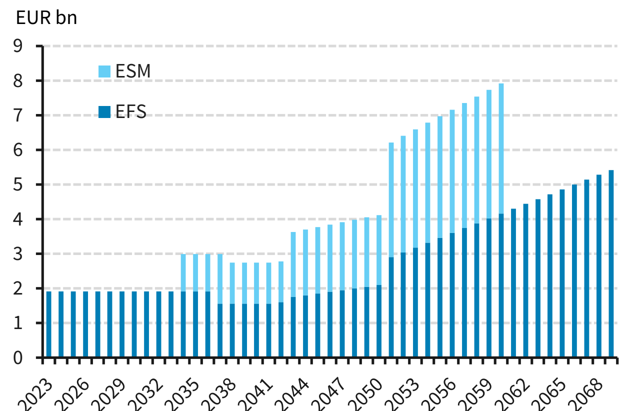
Two-thirds of the stock of government debt is held by the official sector (EFSF, ESM, bilateral loans with European governments, while Greece has repaid the IMF loan), with repayments of c.€2bn per year for more than 10 years (Figure 17).

FIGURE 16. GGBs redemptions average c.€5bn per year over the coming five years



Source: Bloomberg, Barclays Research

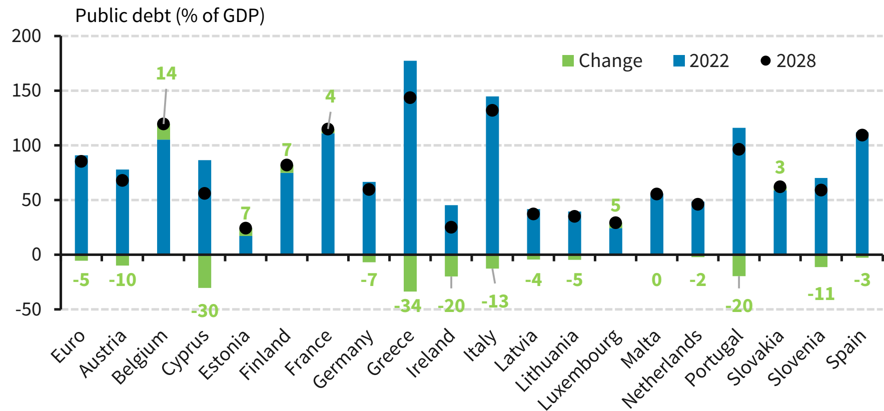
FIGURE 17. The long maturity of the EFSF and ESM loans limit Greece's funding needs in coming years



Source: ESM, Barclays Research

Finally, future debt dynamics compare favourably to peers. By the end of 2028, the public debt gap between Greece and other high-debt EA countries is set to shrink. Based on IMF projections, government debt as a share of GDP in Greece will be declining much faster and be about 12ppt/48ppt of GDP higher than Italian/Portuguese ratios (vs 32ppt/61ppt in 2022), respectively (Figure 18).

FIGURE 18. The public debt gap between Greece and euro area peers is expected to fall

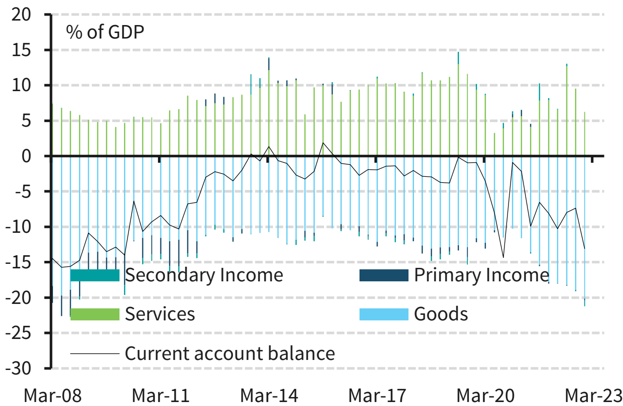


Source: Eurostat, Barclays Research

The return of a current account deficit

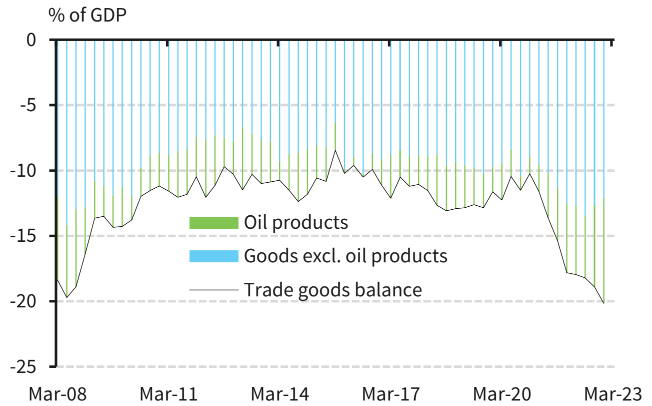
One potential vulnerability of the Greek economy is the return of a sizable current account deficit, which averaged 9% of GDP in 2022 up from 1.5% of GDP in 2019. This is the result of a large deficit in the goods trade balance, only partially offset by a surplus in the services balance (Figure 19). We do not downplay the risk of a large persistent current account deficit, but the recent trend is partly cyclical and partly structural, and does not necessarily reflect a loss in competitiveness.

FIGURE 19. The return of a large current account deficit...



Source: Eurostat, ELSTAT, Barclays Research

FIGURE 20. ...is partly due to the energy crisis



Source: Eurostat, ELSTAT, Barclays Research

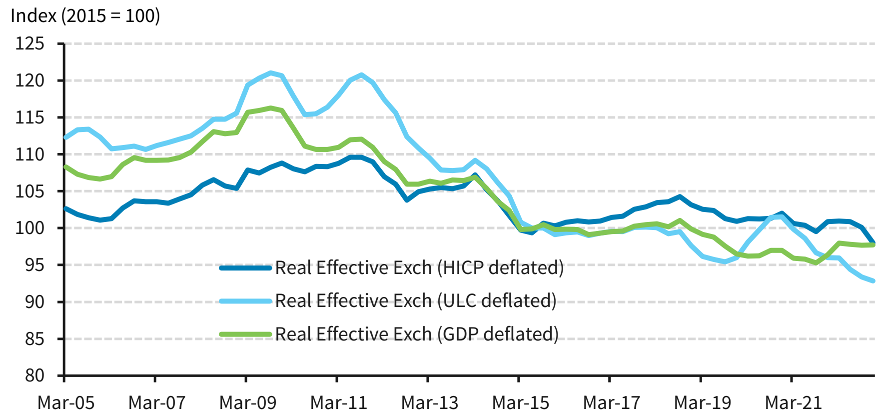
In particular, we note that:

1. The negative terms of trade shock worsened the trade good balance significantly, with the net trade of oil products contributing to about 40% of the total goods deficit in Q4 22, versus 22% on average since early 2008 (Figure 20).

2. The sizable reduction of the current account deficit during the euro-area sovereign crisis was triggered by the very large contraction in economic activity. As growth resumes, a trade deficit in goods is to be expected.

3. Finally, a deficit in the goods balance and a surplus in the services balance is a structural feature of the Greek economy, reflecting the specialization in the service sector we discussed above, and it does not necessarily reflect a loss of competitiveness. In fact, various measures indicate the competitiveness gains Greece achieved since 2010 have not been lost (Figure 21).

FIGURE 21. **Greek gains in competitiveness versus 37 main trading partners have not been lost**



Source: ECB, European Commission, Haver Analytics, Barclays Research

Greek sovereign rating: IG status in the pipeline

Max Kitson

The upcoming elections are, in our view, the main event standing in the way of the long-awaited upgrade of Greece's sovereign rating to investment grade (IG). On 21 April, S&P changed the outlook on Greece's BB+ sovereign rating to positive, citing its "strong track record of implementing structural reforms", as well as faster-than-expected narrowing of the budget deficit. An upgrade by S&P following the change of outlook would result in Greece achieving an IG rating with the agency. In terms of the timeline for an upgrade, S&P flagged in its report that "we could raise our ratings on Greece within the next 12 months if fiscal discipline is maintained over our forecast period through 2026".

One potential risk to Greece's path to an IG rating would be an election outcome marking significant policy discontinuity. We have explained that we think the risks in this respect are low, and S&P seems to concur: "We believe NGEU programs and the available RRF funds, as well as the tangible benefits of significant progress made in restructuring the economy over the past decade, firmly incentivise the next administration to continue implementing structural reforms, regardless of the electoral outcome". All in all, assuming broad policy continuity following the elections, an S&P upgrade would appear to be on the cards either at its next scheduled review in October, or otherwise at its first review of the year in 2024.

FIGURE 22. **Greek sovereign rating: timeline of upcoming reviews**

Date	Agency	Rating/outlook
9-Jun	Fitch	BB+, stable
8-Sep	DBRS	BBH, stable
15-Sep	Moody's	Ba3, positive
20-Oct	S&P	BB+, positive
1-Dec	Fitch	BB+, stable

Source: S&P, Fitch, Moody's, DBRS, Barclays Research

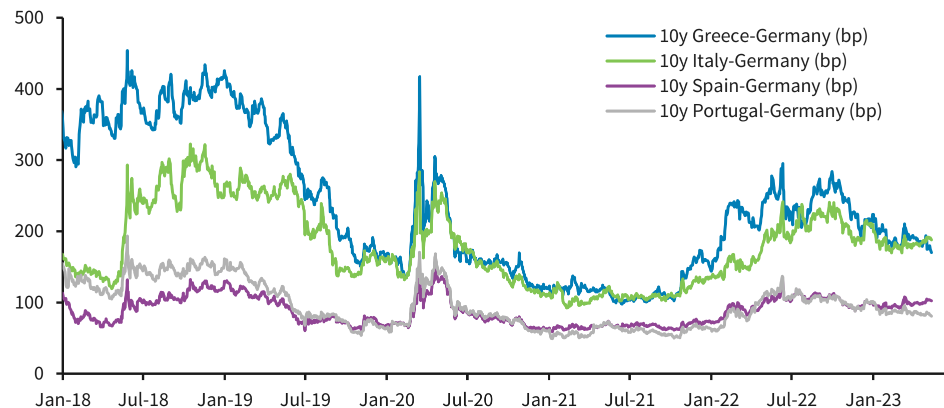
Besides S&P, attainment of an IG rating with Fitch/DBRS is potentially also not too far away: both agencies rate Greece just one notch below IG, albeit with stable outlooks. Fitch will next review Greece on 9 June, and DBRS on 8 September. We see a meaningful likelihood that these

agencies follow S&P's lead by changing the outlook to positive, in turn potentially paving the way for upgrades into IG territory over the subsequent year or two (an immediate upgrade to IG with no preceding change in outlook is not impossible, though we do not view this as overly likely given the typical behaviour of rating agencies).

Regarding Moody's, attainment of an IG rating will probably take longer: Moody's currently rates Greece three notches below IG (at Ba3), albeit with a positive outlook (assigned in March). While it would typically take a rating agency a number of years to raise a sovereign's rating by three notches, one possibility would be for Moody's to implement a multi-notch upgrade at a future review, enabling faster attainment of IG status (as a precedent, in March 2019 Moody's upgraded Greece by two notches, from B3 to B1). That said, Moody's has been something of a laggard with regards to euro area periphery country upgrades since the region's debt crisis.

Achievement of IG status would result in Greece becoming eligible for IG bond indices. For Bloomberg's IG indices, the middle rating of S&P, Fitch and Moody's must be IG (in effect meaning that the sovereign needs an IG rating with two of the three agencies). In a similar vein, FTSE's Eurozone Government Broad IG index requires at least two IG ratings from S&P/Fitch/Moody's. While this means that index inclusion could still be a year or so away, we think the market may price that prospect well in advance.

FIGURE 23. **We think attainment of IG status by Greece could encourage significant further relative outperformance of GGBs**



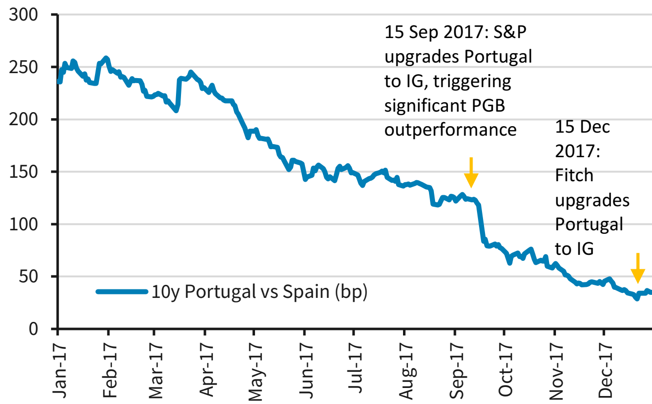
Source: Bloomberg, Barclays Research

Portugal's re-attainment of an IG rating in 2017 (having lost it amidst the euro area debt crisis) provides an instructive case study in terms of market impact (Figure 24). On 15 September 2017, S&P upgraded Portugal from BB+ to BBB-. This came as something of a positive surprise to the market, given that S&P's outlook on the rating was kept at stable at the preceding review in March: as such, the upgrade catalysed a c.40bp tightening of 10y Portuguese spreads vs Spain. On 15 December 2017, Portugal also attained an IG rating with Fitch: this added to positive sentiment on PGBs, with 10y Portugal-Spain spreads tightening c.10bp over that month.

More importantly, however, the spread had tightened by a further c.40bp in the interim, which we think likely indicates markets pricing in index inclusion. In total, over the second half of 2017, 10y Portugal-Spain spreads tightened by c.100bp against the backdrop of the rating upgrades, with broader peripheral spreads (eg, 10y Spain vs Germany) broadly little-changed over this period. We see potential for Greece to follow a similar broad template and view PGBs as a potentially more appropriate long-term benchmark for GGBs (rather than BTPs). In this respect, upon attainment of an IG rating, we think GGBs could benefit from a meaningful scarcity effect given the relatively small free-float of the GGB market (not dissimilar to the PGB market, but in stark contrast to the Italian bond market, Figure 25). Furthermore, while QT is likely to pose a significant headwind for BTPs in particular in coming months/years, this will not

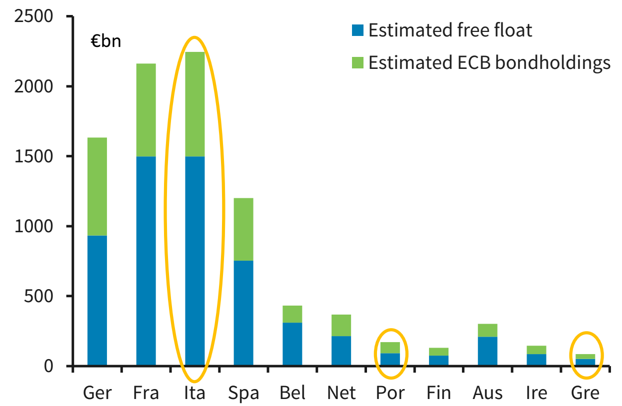
be the case to a meaningful extent for GGBs (given the absence of Greek bond holdings in the ECB's APP portfolio). All in all, therefore, we see ample medium-term room for further relative outperformance of GGBs in anticipation of, and in response to, attainment of IG status in the coming years.

FIGURE 24. **Portugal re-attained IG ratings with S&P/Fitch in September/December 2017, encouraging significant relative outperformance of PGBs**



Source: Bloomberg, S&P, Fitch, Barclays Research

FIGURE 25. **We think GGBs can benefit from a meaningful scarcity premium upon attainment of IG status, similar to PGBs but in contrast to Italian bonds**



Source: Bloomberg, ECB, Barclays Research

Equities: Small but strong

Emmanuel Cau

Greece is part of the MSCI EM index, liquidity is tight and stocks highly concentrated in domestically exposed sectors like Financials.

However, the Greek equity market has been on a steady uptrend over the past 12 months, outperforming MSCI Europe by nearly 20%. Near-term political uncertainty may cause some volatility, as the main Greek index (up 20% YTD) does not seem particularly worried about tail risks. However, if Greece is indeed about to enter a new megacycle, as discussed above, its equity market would likely benefit, in our view.

FIGURE 26. Greek equities have been on a steady uptrend over the last two years

Source: Refinitiv, Barclays Research

FIGURE 27. Greek equity market is highly concentrated in Financials/Value

Name	Sector Name	Style	Weight In MSCI Greece	Market cap ($bn)
Greek Org Of Football	C Disc	B	13.2	6.6
Hellenic Telecom.Org.	Comm Svcs	G	11.3	6.4
Eurobank Hlds	Financials	V	14.2	5.9
National Bk.Of Greece	Financials	V	11.1	5.3
Mytilineos	Industrials	G	11.3	4.0
Public Power	Utilities	G	7.0	3.5
Jumbo	C Disc	V	10.3	3.4
Alpha Services & Hlds	Financials	V	10.8	3.1
Motor Oil	Energy	V	5.6	2.7
Terna Energy	Utilities	G	5.0	2.5
Total			100	43.3
		Value weight	59	
		Growth weight	41	

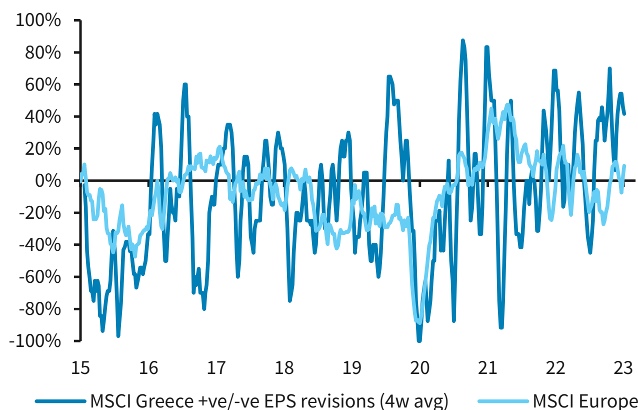
Data as of 10 May 2023
Source: Refinitiv, MSCI, Barclays Research

First, the prospects of a stronger economy and continuation of structural reforms under a business friendly administration would certainly bode well for the Greek equity market, given its bias to Financials and domestic cyclicals. We note that EPS revisions for Greek companies have been stronger than for European ones on average over the past few months, which likely explains some of the strong performance.

Second, Greece is a key beneficiary of fiscal transfers within the euro area. This will likely continue to boost both domestic and foreign investment if the country sticks to its reformist agenda, in our view. More broadly, political stability, willingness to engage in structural reforms and more alignment with EC prerogatives should benefit the entire peripheral region and contribute to narrowing the gap with the core.

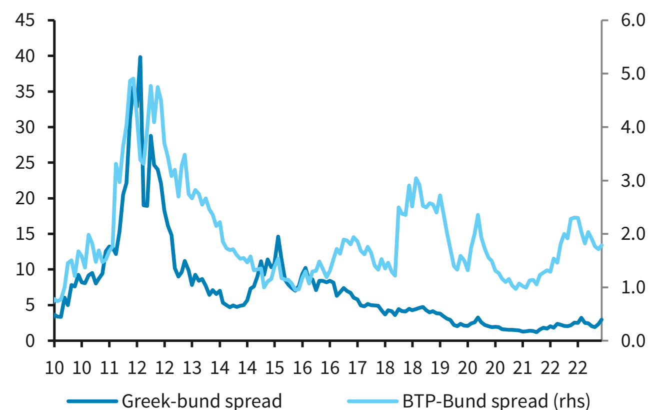
Despite the sharp tightening in ECB policy in recent months, peripheral spreads, and the euro, have remained well behaved, suggesting that the region may have finally moved on from the debt crisis of the last decade.

FIGURE 28. Greek EPS revisions have been strong ...



Source: IBES, Refinitiv, Barclays Research

FIGURE 29. ... while peripheral spreads have settled



Source: Refinitiv, Barclays Research

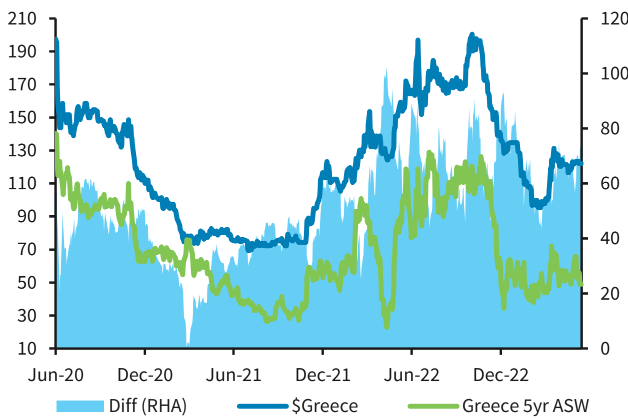
Credit: Long-risk views on sovereign best expressed in CDS, in particular in shorter tenors

Soren Willemann

Greece CDS and cash spreads generally exhibit a fairly strong correlation. Currently (Figure 30), 5yr CDS is at the wider end of 5yr cash (ASW) relative to history. Also looking across European sovereigns, Greece CDS-cash basis looks high - both on an absolute basis but equally relative to 3yr ranges (Figure 31).

As such, to express a positive view on Greece, selling protection rather than buying bonds appears more attractive, in general.

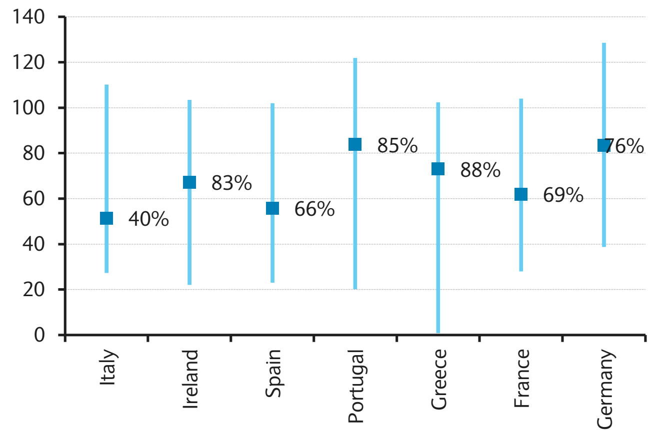
FIGURE 30. **Greece 5yr CDS and 5yr ASW have been rangebound lately, with the CDS-cash basis higher than longer-term trends...**



5yr CDS-cash basis of $CDS and constant-maturity 5yr ASW spreads.

Source: Barclays Research

FIGURE 31. **... and looking across sovereigns, 5yr CDS-cash basis for Greece is at the higher end on a percentile basis and in absolute**

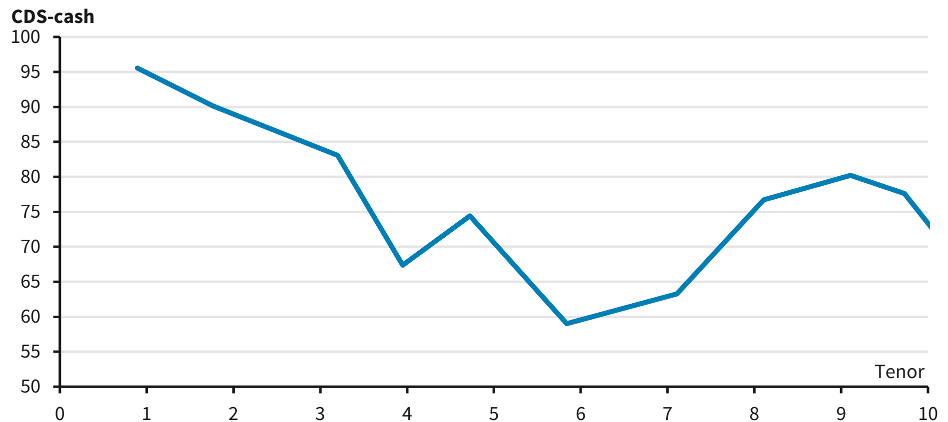


5yr CDS-cash basis of $CDS and constant-maturity 5yr ASW spreads. Ranges since Jun-2020. Current levels and percentiles shown

Source: Barclays Research

Looking across tenors (Figure 32), the CDS-cash basis for Greece is most positive in the short end (1-2yrs), with 5yr CDS-cash basis near the lowest while longer-dated (10yr) CDS-cash basis is higher. This implies that short-dated CDS is the best place to express long-risk views on Greece, compared to bonds.

FIGURE 32. **CDS-cash basis across the curve for Greece is most positive for shorter dates, lowest around 5yr, and higher again for longer tenors**



Z-spreads for cash bonds

Source: Barclays Research

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