SUMMARY OF THE ANNUAL REPORT
2017

FEBRUARY 2018

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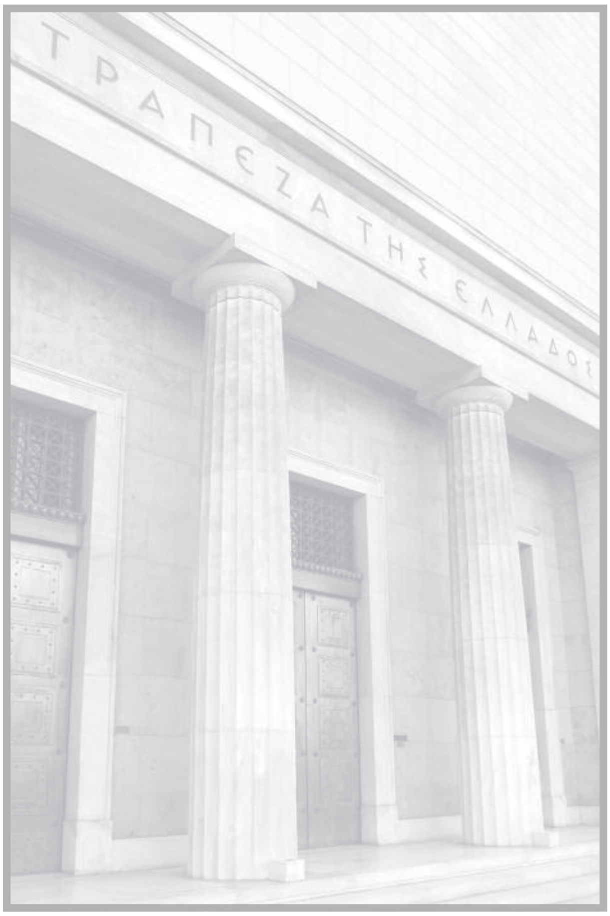
BANK OF GREECE
EUROSYSTEM

SUMMARY OF THE ANNUAL REPORT
2017

Presented to the General Meeting of Shareholders
by Governor Yannis Stournaras



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REQUIREMENTS FOR SUSTAINABLE GROWTH: COMPLETION OF THE PROGRAMME AND CONSOLIDATION OF CONFIDENCE

1 TOWARDS THE COMPLETION OF THE THIRD PROGRAMME AND A RETURN TO THE MARKETS

The successful completion of the third programme in August 2018 will signal the end of a long period of economic adjustment, allow a return to normality and could, under the right conditions, prove to be a starting point for strong and sustainable growth.

In order for this to happen, however, a number of pending matters need to be addressed, the prior actions agreed in the third review need to be implemented and sufficient preparation must be made for the timely completion of the fourth and final review.

Apart from matters related to the consistent implementation of the programme, decisions must be made during this period on a number of crucial issues that will determine the path and prospects of the Greek economy after the end of the programme.

These issues are:

Public debt sustainability

The high level of public debt feeds uncertainty, undermines confidence in the prospects of the economy, weighs on Greece's credit rating and hinders the smooth exit from the current programme. Thus, securing debt sustainability would not only facilitate Greece's return to the markets, but would also significantly enhance medium-to-long-term economic prospects.

Short-term debt relief measures have already been taken, and it has also been decided that before the end of the programme, there will be a new debt sustainability report and a set of medium-term measures, technical work on which is currently under way. The Eurogroup of 22 January 2018 invited the Greek authorities to finalise, in cooperation with the institutions, a comprehensive growth strategy, to be taken into account by the institutions in their updated debt sustainability analysis.

The Bank of Greece has put forward relevant proposals envisaging, among other measures, an extension of the weighted average maturity of interest payments on EFSF loans. The debt relief measures being considered by the Eurogroup is in line with the proposals of the Bank of Greece, which could serve as the basis for an agreement. In addition, there has been talk recently of a mechanism that would link debt relief with Greece's economic growth. The debt sustainability analysis and the specification of the medium-term debt relief measures need be completed as soon as possible, so as to further strengthen confidence on the part of financial markets and ensure a smooth exit from the programme.

Consolidating confidence

In order to ensure its return to the markets on favourable terms, Greece must consolidate investor confidence in the continuation of reforms and convince that fiscal policy will not relapse once again in the wrong direction. The fiscal commitments under the programme extend beyond 2018, with an explicit target for a primary surplus of 3.5% of GDP annually in the five-year period 2018-2022 and equal to or above but close to 2% of GDP thereafter. These commitments must be kept, along with decisive steps to continue reforms and privatisations, starting with the removal of obstacles to large investment projects that have already been agreed to, but are lagging. Land-use legislation should play an important role in this respect.

The credibility of economic policy will crucially hinge on consistent implementation and ownership of the programme. As shown by the European institutions' compliance reports, Greece has delivered on its commitments under the programme. It should, however, be noted that insufficient ownership in the past had stoked uncertainty and deterred investment. In order to achieve a smooth exit from the programme and a rapid return to sustainable growth, Greece must commit to a **national growth strategy** that does not jeopardise the fiscal achievements, ensures the smooth continuation of reforms and makes use of all the possibilities afforded by EU and euro area membership.

This is in fact what the Eurogroup of 22 January 2018 urges Greece to do. In its statement, "The Eurogroup reconfirms the importance of an ambitious comprehensive growth strategy with strong ownership from the Greek authorities. The authorities are invited to finalise it in cooperation with the institutions well before the end of the programme".

Such a national growth strategy, integrating the fiscal and structural targets already agreed for the post-programme period, will boost confidence. It will have a positive impact on the terms of Greece's return to the markets, improve investor sentiment and help attract investment. It will also facilitate the return of deposits to banks and enhance banks' lending capacity. These developments will set in motion a virtuous circle for the economy and the banking system and will create the necessary conditions for a full lifting of capital controls.

A smooth return to the markets

With the completion of the programme, marking the end of financial support from the European Stability Mechanism (ESM), Greece will have to secure the funds required to cover its financing needs by resorting to international financial markets on sustainable terms. As already mentioned, the consolidation of confidence is a sine qua non. At the same time however, a financial safety net will need to be put in place to assure that Greece is able to weather adverse developments that could temporarily drive borrowing costs up to unsustainable levels.

The envisaged "cash buffer" is one such safety net, that would enable Greece to avoid a recourse to the markets at times of heightened volatility and high refinancing costs. This cash buffer is currently being built up with trial bond issues before the end of the programme, as well as with disbursements from the European Stability Mechanism (ESM). The Eurogroup has already committed to support Greece in its exit to the markets and has indicated that the disbursements prior to the end of the programme will be used not only for debt service needs, but also to build cash buffers.

At the current stage, the first trial return to the markets took place in July 2017 with a five-year bond issue, while in November 2017 a bond exchange was conducted for an amount of €25.8 billion. Subsequently, after the completion of the third review, a seven-year bond issue was launched, as part of the government's plan for a return to international markets before the end of the programme. This issue, which took place amid turbulence in international financial markets, was successful.

However, episodes of turmoil like the recent ones appear to have a greater impact on countries with poor credit ratings and a weaker economy. These countries saw the yields on their government bonds rise considerably. This suggests that, in the present uncertain conditions, the Greek State's return to the markets, as necessary as it may be for a return to normality, must proceed with caution.

International experience has shown that trial bond issues for the purpose of creating a sound cash buffer prior to the expiry of a programme helps bolster confidence and paves the way to the exit from the programme. Nevertheless, the need for a complementary precautionary assistance programme must also be considered. The possibility of a recourse to a precautionary support programme, especially if financial market conditions call for one, must not be overdramatised, as the European mechanisms are there to be used if needed. Such a precautionary assistance framework can be expected to support the Greek economy, by helping to reduce borrowing costs, since it will provide assurance of the Greek government's and banks' access to funding beyond the end of the current programme in August 2018. Under an ESM precautionary credit line, funds would become available, without necessarily having to be raised beforehand, whereas the build-up of a cash buffer necessarily entails additional borrowing, which would increase the annual debt service costs. Moreover, this precautionary financial assistance framework would ensure that the waiver on Greek government bonds stays in place, so that the latter remain eligible as collateral in Eurosystem monetary policy operations until Greece regains an investment grade credit rating. Furthermore, in such case, the buffer for systemic banks should remain available beyond August 2018.

The post-programme surveillance framework

According to the European institutional framework, the end of the Greek programme in August 2018 does not relieve Greece of its obligations vis-à-vis its lenders. What changes is the form of the surveillance framework for Greece, which must conform to the general surveillance terms and regulations in force in the European Union.

The European institutional framework, as laid down in Regulation (EU) No. 472/2013 of the European Parliament and of the Council, in the provisions of the Treaty establishing the European Stability Mechanism ("ESM Treaty") and in the guidelines of the ESM, lays down the terms and conditions for the entry of a euro area member country into a macroeconomic adjustment programme in exchange for financial assistance, and clearly describes the surveillance of that country's economic policy both during the programme and post-programme.

In particular, Regulation (EU) No. 472/2013 provides for automatic post-programme surveillance until the country repays 75% of the loans it has obtained from other Member States, the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM). Furthermore, the European Commission reserves the right to subject a Member State to enhanced surveillance, if it judges that this is warranted by the circumstances.

Greece could be subject to additional surveillance, if it uses the option of a precautionary financial assistance programme. Two types of financial assistance are envisaged: (a) a Precautionary Conditioned Credit Line, if the economic and financial situation of the country in question is fundamentally sound; and (b) an Enhanced Conditions Credit Line, if the country faces serious economic difficulties. Both types of credit line require the signing of a Memorandum of Understanding. By definition, a precautionary assistance programme would only be temporary, since the credit line has an initial availability period of one year, renewable twice, each time for six months.

Apart from these provisions, already in force, the European Commission has proposed changes to the economic governance of the euro area, some of which could be relevant for the type of post-programme surveillance that the Greek economy would be subject to, and will be discussed by the European Council within the first half of 2018. The aspects of potential relevance to Greece concern the enhanced role of the ESM and the possible support to Member States for the implementation of structural reforms.

Therefore, it is clear that Greece's smooth exit from the programme and its successful course in new post-crisis European normality entail a commitment to safeguard the achievements made so far, to pursue sound economic policies and to continue and complete the structural reforms.

2 REBALANCING AND ADJUSTMENT OF THE ECONOMY FROM 2009 TO 2017

The positive indications of a sustainable return to growth are the result of a long-standing and painful economic adjustment effort. In the years preceding the crisis, the combination of high budget deficits and very low competitiveness led to a widening of the current account deficit and drove public debt to high levels. In order to address these imbalances, Greece implemented a bold programme of economic adjustment and structural reforms. The progress made since the beginning of the debt crisis in 2009 is remarkable and unprecedented by international standards. More specifically, Greece achieved:

- Full elimination of the twin deficits, i.e. the very high fiscal deficit and the large current account deficit.

- A full recouping of competitiveness in terms of labour costs and its considerable improvement in terms of prices. It is worth noting that this was achieved through a painful process of internal devaluation, involving significant reductions in nominal wages and salaries, mainly in the private sector.

- At the same time, a bold programme of reform, privatisation and economic modernisation is being implemented in areas such as the labour and product markets, the healthcare and social security systems, the fiscal framework, the tax system and public administration.

- As a result of all these major reforms during eight years of crisis, the economy has become more extrovert and the production model has begun to rebalance towards export-oriented sectors.

- Finally, the restructuring and consolidation of the banking system, characterised first and foremost by significant recapitalisation, following stringent stress tests and in-depth asset quality reviews, ensure high capital adequacy ratios (Common Equity Tier 1-CET1), higher than the European average, which, along with a satisfactory NPE coverage ratio, enable Greek banks to effectively manage their high stock of NPEs.

It should however be noted that, despite the progress made, the crisis has taken a significant toll on the economy in terms of output and employment losses and a marked decline in household wealth. Between 2008 and 2016, Greece lost over one fourth of its GDP at constant prices, and unemployment rose by nearly 16 percentage points. Furthermore, GDP per capita at purchasing power parity in 2016 came to merely 68% of the EU average, down from 93% in 2008. Meanwhile, a large brain drain has taken place, depriving Greece's society and economy of one of its productive parts, with devastating demographic, economic and social consequences.

3 DEVELOPMENTS AND PROSPECTS OF THE GREEK ECONOMY IN 2018

2017 marked the return of the Greek economy to positive growth after several years of recession, with the exception of 2014. GDP growth is expected to come to 1.6% in 2017 and to pick up further to 2.4% and 2.5%, respectively, in 2018 and 2019. Therefore, there are reasonable grounds to anticipate that, after a protracted and very painful economic adjustment, growth is now taking hold, on the back of favourable domestic developments and a positive European context. Developments on the domestic front include the rapid completion of the third review and its positive impact on confidence and liquidity, as reflected in the positive course of GDP and other indicators of economic activity. The favourable European context is best illustrated by the fact that, after five years of sluggish recovery, the euro area and EU economies have dynamically returned to robust growth, reaching the highest rate in a decade (2.5% in 2017).

The improved prospects for the domestic economy have bolstered the economic climate and led to an increase in bank deposits, to upgrades of the credit ratings of the Greek sovereign and to successive reductions in Greek banks' dependence on Emergency Liquidity Assistance (ELA). These better prospects also resulted in sovereign bond yields falling to January 2016 levels, thereby allowing the Greek government to return to the markets in July 2017 for the first time in three years. Corporate bond yields also fell and Greek banks returned to international financial markets with covered bond issues.

Against this background, it is reasonable to anticipate a pick-up in growth for 2018, with GDP growing by 2.4%, driven by: (a) the solid performance of tourism; (b) stronger manufacturing output, reflecting the improved business environment and heralding a rise in business investment; (c) increased exports; and (d) favourable global economic conditions.

HICP inflation returned to positive territory in 2017, posting an average annual rate of 1.1%, compared with 0% in 2016. The weakening of deflationary pressures is mainly attributed to the sharp upswing of international oil prices, particularly in the first five months of the year, and to the inflationary impact of new indirect taxes, effective from early 2017. In 2018, domestic inflation is expected to be determined largely by base effects, which will keep inflation in positive territory, but lower than in 2017.

It is, however, worth noting that the favourable projections rely crucially on the assumption that the current economic adjustment programme will be completed smoothly and according to schedule, without delays or setbacks, and that the implementation of reforms will continue unabated in the post-programme period.

4 FISCAL POLICY

In 2016, Greece's general government primary balance —as defined in the Economic Adjustment Programme— overshot the target set in the programme, for the second consecutive year. More specifically, the general government primary balance, according to the programme definition, turned out at a surplus of 3.8% of GDP in 2016, against a target of 0.5% of GDP. This overachievement reflected the better-than-expected performance of direct and indirect tax revenue, as well as the containment of social expenditure and of public investment. In the course of 2017 and in the context of the second review of the programme, a number of fiscal measures were adopted aimed at bolstering tax revenue, curbing tax evasion and, in the medium term, rebalancing the current fiscal policy mix. Legislation of fiscal measures continued into 2018 with the enactment in January of Law 4512/2018 in the context of the completion of the programme's third review.

According to the Introductory Report to the 2018 Budget, the primary surplus for 2017 is projected to reach 2.44% of GDP, against a target of 1.75%. However, based on the available fiscal data, it is estimated that the 2017 primary budget balance will exceed this forecast. Nevertheless, budget execution data for 2017 indicate that the overachievement of the fiscal target for 2017 is mainly driven by increased revenue from tax arrears (forced collection, additional taxes from the voluntary disclosure of income, tax arrears settlement), which are in large part conjunctural, but also by public expenditure cuts. On the other hand, the increase in direct and indirect tax revenue is marginal, despite higher tax rates and the introduction of new taxes. This confirms the view that the tax-paying capacity of the country's productive forces has been exhausted and points to a need for change in the fiscal policy mix.

5 THE SINGLE MONETARY POLICY

In 2017, the single monetary policy retained its very accommodative stance and led to a significant improvement in financing conditions in the euro area, thereby supporting economic growth, which is now seen as solid and broad-based across countries and sectors. Nevertheless, core inflation in the euro area remains subdued (1.1% in 2017), meaning that price stability has yet to be restored. The main factor behind weak inflationary pressures is muted wage dynamics, despite the robust increase in employment.

Against this background, the Governing Council of the ECB decided that the monetary policy stance should remain highly accommodative, but made some changes to its policy instruments. More specifically, the key ECB interest rates remained unchanged throughout 2017, and further cuts are unlikely, as the risk of deflation has largely disappeared. The ECB Governing Council also decided to extend the fixed rate full allotment tender procedures for main and longer-term refinancing operations, at least until early 2020. In addition, the Eurosystem continued its asset purchase programme, however at a lower monthly pace of €60 billion as from the first quarter of 2017 and of €30 billion as of January 2018 until September 2018. Asset purchases are intended to continue until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

The asset purchases programme has resulted in excess liquidity conditions in the single money market and an increase in base money, thereby enhancing monetary policy transmission. This policy has already had visible benefits, with the euro area posting robust growth in 2017, while the potential side effects of prolonged quantitative easing have not materialised.

6 THE BANKING SYSTEM AND PRIVATE INSURANCE UNDERTAKINGS

The main developments in the domestic banking sector in 2017 were a gradual recovery of operating profitability; the maintenance of capital adequacy at satisfactory levels; a diversification of banks' funding sources; and a small decline in the stock of non-performing exposures (NPEs) in line with the targets set, although this stock remains high (€100.4 billion in September 2017). Bank deposits by non-financial corporations and households increased in 2017, as a result of the economic upturn and the gradual recovery of public confidence in the banking system. Furthermore, the slowdown in credit growth observed during the crisis years now seems to have abated. Bank deposit rates continued to fall, albeit at a slower pace, and lending rates to non-financial corporations continued to decline.

Non-performing exposures

The effective management of NPEs is the most crucial legacy problem that banks now have to tackle, if they are to fully consolidate their loan portfolios and become capable of increasing their lending. To this end, the legal and regulatory framework has been strengthened, and banks have taken important action. Specifically, electronic platforms for out-of-court settlement of debts and e-auctions of real estate were launched; the authorisation framework for credit servicing firms was simplified; and the first sales of loan portfolios were conducted, involving unsecured corporate and consumer loans. Moreover, new legislation now protects bank officers involved in bad loan restructuring against criminal prosecution, and the rights of secured creditors have been enhanced. Banks are complying with a specified time schedule to gradually reduce the stock of NPEs, with a view to driving down the total outstanding stock of NPEs by about 37% from June 2017 to December 2019. Furthermore, the coverage ratio of NPEs by accumulated provisions is satisfactory, and the Common Equity Tier 1 (CET1) ratio was 17.1% in September 2017, higher than the EU average of 15%.

In the period immediately ahead, banks must step up their efforts to attain their NPE operational targets. The targets for the next two years are high and ambitious, yet feasible, now that the economy has returned to positive growth. Banks must, as soon as possible, broaden the scope of workouts offered to borrowers and move towards more drastic decisions, in particular with respect to the restructuring of viable businesses, the conclusion of multi-creditor workouts, the identification of strategic defaulters and the implementation of definitive solutions in the case of non-viable businesses. After the publication of relevant guidelines by the European Commission, the possibility of transferring NPEs to one or more central entities to be set up for this purpose could be considered. Moreover, banks should revise their business plans with an emphasis on developing new operations and further cost-cutting.

However, there is no room for complacency. The domestic financial system remains vulnerable to macroeconomic and financial shocks. Banks will be facing new challenges in 2018, most notably the implementation of International Financial Reporting Standard 9 (IFRS 9), the stricter treatment of loan-loss provisions for new NPEs, as well as the EU-wide stress test to be conducted by the ECB. Against this background, it is important that a cash buffer be available under the third support programme, to ensure financial stability by supporting the banking sector if need be.

Insurance undertakings

According to the new framework of Solvency II for insurance undertakings and with a view to increased transparency and consumer protection, as from 2017 Greek insurance undertakings publish an annual solvency and financial condition report. The industry's key financial indicators for 2017 remained stable, whereas solvency ratios are expected to improve. With a view, however, to mitigating the risks stemming from the low interest rate environment and the resulting search for yield, insurance undertakings have adjusted their investment strategies and modified their traditional life products by offering reduced interest rate guarantees and by promoting unit-linked products.

7 RISKS AND SOURCES OF UNCERTAINTY

Despite the progress made so far, as reflected in key economic indicators, domestic and external risks remain, which could jeopardise the course of the Greek economy.

In the short term, the main **risks** relate to a delayed implementation of the measures agreed in the third review, which would in turn delay the completion of the fourth and last review of the current programme, as well as to an underachievement of the fiscal targets. In addition, the absence of a timely specification of the debt relief measures could rekindle uncertainties.

Equally significant is the risk of a reversal of the downward trend, so far, of Greek government bond yields. The recent upgrading by Standard and Poor's of Greece's credit rating by one notch and the agreement reached at the Eurogroup marking the completion of the third review can be expected to drive borrowing costs down further, thereby enabling (through a return to the markets) a cash buffer to be built up to cover Greece's financing needs after August 2018. 2017 saw a significant decline in the high yields of Greek government bonds. The fact, however, that Greece still has the lowest credit rating in the euro area, five notches below investment grade, means that, as soon as Greece exits the programme, Greek bonds will no longer be eligible as collateral for access to low-cost refinancing from the ECB. Considering that the yield on the 10-year Greek government bond currently exceeds 4%, compared with 2% for the Portuguese and Italian counterparts, the risk to the debt dynamics is all too clear. This problem could be further exacerbated, as the factors behind the favourable conditions of 2017 appear to be reversing.

There are also **external risks**, which give rise to concerns about the preservation of the very favourable global economic conjuncture and global stability. More specifically, some of the matters pending at the EU level that could hinder the smooth development of the EU economy are: the Brexit preparations after the agreement of 15 December 2017 for an orderly exit, and the need to reach a mutually acceptable agreement on how to address the refugee crisis ahead of the revision of the Dublin Regulation in June 2018. Furthermore, at the euro area level, significant changes to its architecture are expected to be carried out this year, such as the setting up of the European Monetary Fund and the completion of the banking union. Any delays to the scheduled changes could stoke uncertainties. Turning to the global level, the deterioration of relations between the United States and both North Korea and Iran has given rise to turmoil. Finally, the surge of populism in several countries across the globe erodes public trust in democratic institutions and the rule of law.

8 GROWTH CHALLENGES ON THE DAY AFTER

The economic adjustment programmes implemented over the eight years from 2010 to 2017 succeeded in eliminating the large imbalances of the Greek economy and put the conditions in place for an orderly management of the crisis. On the other hand, significant weaknesses and challenges were brought to light that need to be addressed without repeating past mistakes, to put the Greek economy firmly on a path of sustainable growth.

Lack of consensus and a confrontational mentality. One of the primary reasons why the adjustment was so long and costly was the inability to reach consensus solutions, which could have fostered greater ownership of the programmes. Unlike other countries (Portugal, Cyprus, Ireland) where the adjustment programmes had been formulated by consensus and implemented with consistency and continuity, the programmes in Greece became the subject of acute confrontation and controversy, causing adjustment measures to be delayed or postponed. This could have been avoided with more public awareness of the true causes of the crisis, helping to build a common will to get the economy back on track. Given this information deficit, the adjustment programmes were incorrectly perceived as the causes of the crisis, when in fact they were efforts – perhaps with some missteps and omissions – to mitigate the impact of the acute debt crisis generated by long-standing imbalances.

Inefficiencies in public administration. During the crisis, reforms were made that improved public administration. Mostly centred on procedural and organisational changes, however, these reforms have proved to be insufficient. Administrative inadequacy, excessive fragmentation of responsibilities across bodies/agencies with overlapping mandates, a regulatory overload resulting in low quality regulation, as well as the backlogs in court procedures continued to hamper the achievement of economic policy objectives by slowing down privatisations, public real estate utilisation and the realisation of large investment projects that had already been launched, and by effectively discouraging public-private partnerships. They also undermined the effectiveness of the fight against tax evasion. If a new start is to be made, radical changes are needed in public administration structures and staffing, with an emphasis on setting up effective control mechanisms to combat tax and contribution evasion, smuggling and unauthorised construction, instil a wider respect for institutions and eradicate phenomena of lawlessness and delinquency.

Investment gap. 2017 saw the Greek economy return to positive GDP growth, yet a momentum of self-reliant growth, capable of halting the disinvestment trend, still needs to take hold. Despite a significant rise in forward-looking indicators, such as the manufacturing PMI and the Economic Sentiment Indicator, the contribution of investment expenditure to GDP growth remains meagre, clearly pointing to difficulties in rebalancing the growth model in favour of tradeable goods and services. The decrease in gross fixed capital formation by 8.5% year-on-year in the third quarter of 2017 is a negative development, as it was recorded at a time of lesser uncertainty in the wake of the successful completion of the second review. Investment growth is held back by a number of factors, including high tax rates, the high cost of bank credit, high energy costs, high non-wage costs owing to higher social security contributions, delays in the delivery of justice and ambiguity over land-use rights.

Deficit of competitiveness-entrepreneurship-innovation. Although unit labour cost competitiveness has been fully recouped and price competitiveness has significantly improved, Greece's structural competitiveness remains the lowest in the EU, despite important progress in recent years. Competitiveness and innovation go hand in hand. The need to be competitive motivates businesses to innovate, in other words to provide better products at better prices, and those businesses that fail to innovate simply fall behind. The "knowledge triangle", linking education, research and innovation, is a key driver of competitiveness. Greece's persistent competitiveness deficit is indicative of low total factor productivity, which in turn is largely attributable to an innovation deficit. Based on available OECD innovation indicators, Greece unfortunately ranks very low, reflecting its weak innovation capacity, low business R&D expenditure and insufficient university-industry partnerships.

Insufficient credit for financing growth. Although the root causes of the Greek crisis were the excessive twin deficits and low competitiveness, the deep recession that followed turned the fiscal crisis into a crisis of confidence in the domestic banking system. The resulting mass deposit withdrawals and the rapid accumulation of non-performing exposures impaired banks' traditional function as intermediaries between deposits and investment. The definitive consolidation of bank balance sheets on both the liability side (with the return of deposits) and the asset side (through the effective management of non-performing exposures), enabling banks once again to supply sufficient credit to healthy businesses, is one of the greatest challenges that now lies ahead for the Greek economy. A number of significant institutional reforms have been introduced in this direction, providing banks with the necessary tools to address the problem.

Low level of trust in institutions. In the past few years, public trust in institutions fell to unprecedented lows amid an unpredictable domestic environment as a result of the crisis. Respect for institutions was no longer self-evident or given, since institutions were perceived as acting selectively. This distrust fuelled behaviours that were detrimental both to society and the economy. Today, for a successful restart of the economy, trust in institutions —which is synonymous with trust in the future— needs to be restored. Weak and opaque institutions generate uncertainty and disorientation, whereas strong, transparent and inclusive institutions are necessary for a return to normality.

9 A STRATEGY FOR SUSTAINABLE GROWTH: THE NEW GROWTH MODEL

Today, Greece faces the historic challenge of returning to normality and to a path of convergence with its European partners. A return to strong economic growth calls for maintaining and implementing the structural reforms already legislated, as well as further crucial reforms in areas still lagging behind, such as the tax system, public administration, the judicial system and the goods and services markets. For all of the above to materialise and for Greece to once again become a friendly place for doing business and an attractive destination for productive investment, the end of the current adjustment programme will have to mark the launch of a comprehensive national plan of economic restructuring, whose authorship and ownership will lie with the Greek government. Economic policy planning for the day after Greece's exit from the economic adjustment programmes will have to focus not only on actions to smooth out cyclical shocks, but also, and more importantly, on a medium-to-long-term growth policy geared towards the dual goal of fully utilising the economy's productive potential and safeguarding fiscal stability.

This plan must aim for high and sustainable growth rates by encouraging private initiative, extroversion and broader social engagement. Success will hinge upon profound changes in the fabric of the economy, the implementation of which will require effective and broader consensus and consultation across all social groups. More specifically, what is needed is:

First, a drastic overhaul of public administration with clear delimitation of state intervention in private initiative. The state's role should be to regulate the institutional framework governing the private economy and provide oversight of performance and monitoring capacity rather than acting as an entrepreneur-producer. Furthermore, the use of public-private partnerships in a wide range of administrative procedures and in the delivery of public services would shift costs from taxpayers onto users, while at the same time enabling care to be taken to support the weaker groups of the population.

Second, speeding up the privatisation programme and the development of public property. With government intervention under the new productive model being limited to the role of overseer-regulator, privatisations will increase public revenue, while also strengthening competition to the benefit of the consumer.

Third, changes in the tax system with a view to creating a clear and stable tax regime with lower tax rates for households and businesses and to broadening the tax base.

Fourth, expanding the use of electronic transactions to all types of economic activity, so as to effectively reduce the informal economy and increase public revenue. The success of this endeavour will crucially hinge upon citizens' familiarisation with digital technology applications, as well as upon building a taxpaying culture.

Fifth, evaluation of higher education and linking research to funding and to the production process, helping to commericalise the results of research and innovation.

Sixth, strengthening the operational independence of key institutions. For this to become possible, society and the political forces must understand that strong and sound inclusive institutions, which do not cater to the interests of specific groups at the expense of others, promote the welfare of society as a whole.

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Today, the Greek economy is close to an exit from the crisis and a return to normality. The economic fundamentals, as recorded so far in the evolution of economic indicators, are encouraging. However, making the most of these favourable conditions calls for a comprehensive plan for the future, within a climate of social consensus and normality, capable of convincing the productive forces and the international markets that Greece has broken once and for all with past practices and is back on track to its convergence with Europe.

APPENDIX

TABLES AND CHARTS

TABLES

CHARTS

Table 1 Demand and GDP (2011-first nine months of 2017)

(annual percentage changes and percentage point contributions, at constant market prices of 2010)

	2011	2012	2013	2014	2015	2016	2017 first nine months
Private consumption	-9.9 (-6.8)	-7.9 (-5.5)	-2.7 (-1.8)	0.8 (0.5)	-0.5 (-0.4)	0.1 (0.0)	0.6 (0.4)
Public consumption	-7.0 (-1.6)	-7.2 (-1.6)	-5.5 (-1.2)	-1.2 (-0.3)	1.1 (0.2)	-1.4 (-0.3)	-2.6 (-0.6)
Gross fixed capital formation	-20.7 (-3.6)	-23.4 (-3.5)	-8.3 (-1.0)	-4.4 (-0.5)	-0.2 (0.0)	1.5 (0.2)	2.6 (0.3)
Residential investment	-14.4 (-0.7)	-38.0 (-1.8)	-31.3 (-1.0)	-53.2 (-1.2)	-25.8 (-0.3)	-12.4 (-0.1)	-7.9 (-0.5)
Domestic final demand[1]	-11.0 (-12.0)	-10.0 (-10.7)	-4.0 (-4.1)	-0.3 (-0.3)	-0.1 (-0.1)	-0.1 (-0.1)	0.1 (0.2)
Change in inventories and statistical discrepancy (% of GDP)	-0.6%	-0.6%	-0.8%	0.5%	-0.5%	0.2%	1.7%
Domestic demand	-10.8 (-11.7)	-9.8 (-10.4)	-4.4 (-4.6)	0.9 (0.9)	-1.0 (-1.1)	0.7 (0.7)	1.5 (1.6)
Exports of goods and services	0.1 (0.0)	1.2 (0.3)	1.6 (0.4)	7.7 (2.2)	2.9 (0.9)	-1.9 (-0.6)	7.6 (2.3)
Imports of goods and services	-8.3 (2.5)	-9.4 (2.9)	-3.4 (1.0)	7.7 (-2.3)	0.4 (-0.1)	1.3 (-0.4)	8.5 (-2.7)
Foreign demand	... (2.5)	... (3.2)	... (1.5)	... (-0.2)	... (0.7)	... (-1.0)	... (-0.5)
Gross domestic product at market prices	-9.2	-7.3	-3.2	0.8	-0.3	-0.3	1.1

Source: ELSTAT, Quarterly National Accounts, 4.12.2017, seasonally adjusted data.
Note: Within parentheses, contributions to GDP in percentage points.
1 Excluding inventories and statistical discrepancy.

Table 2 Indicators of consumer demand (2012-2017)

(annual percentage changes)[1]

	2012	2013	2014	2015	2016	2017 (available period)
Volume of retail sales (overall index)	-12.2	-8.1	-0.4	-1.5	-0.6	1.2 (Jan.-Nov.)
Volume of retail sales (excluding fuel and lubricants)	-11.8	-8.4	-0.7	-0.5	0.5	1.2 (Jan.-Nov.)
Food-beverages-tobacco[2]	-9.0	-9.1	0.5	-2.1	0.0	-0.4 (Jan.-Nov.)
Clothing-footwear	-20.6	-2.2	5.4	7.9	5.4	3.4 (Jan.-Nov.)
Furniture-electrical appliances-household equipment	-16.3	-6.2	-1.4	-3.8	-1.2	5.5 (Jan.-Nov.)
Books-stationery-other	-12.1	-0.1	7.0	7.0	4.4	7.7 (Jan.-Nov.)
Revenue from VAT (at constant prices)	-12.8	-6.5	-0.4	1.9	11.0	4.1 (Jan.- Dec.)
Retail confidence indicator	-3.1	22.9	27.1	-9.1	20.9	-6.7 (Jan.- Dec.)
Consumer confidence index	-74.8	-69.4	-54.0	-50.7	-68.0	-63.0 (Jan.- Dec.)
New private passenger car registrations	-41.7	3.1	30.1	13.8	10.7	22.2 (Jan.- Dec.)
Tax revenue from mobile telephony	-7.9	-12.8	-10.4	-6.4	-10.7	-0.1 (Jan.- Dec.)
Consumer credit[3]	-5.1 (Dec.)	-3.9 (Dec.)	-2.8 (Dec.)	-2.3 (Dec.)	-0.8 (Dec.)	-0.5 (Dec.)

Sources: ELSTAT (retail sales, cars), Ministry of Finance (VAT revenue, tax revenue from mobile telephony), IOBE (retail confidence), IOBE and European Commission (consumer confidence), Bank of Greece (consumer credit).
1 Excluding the consumer confidence indicator (weighted percentage balances of positive and negative answers).
2 Comprising big food stores and specialised food-beverage-tobacco stores.
3 The rates of change are derived from changes in stocks, adjusted for loan reclassifications, loan write-offs/write-downs and foreign exchange valuation differences.

Table 3 Indicators of investment demand (2012-2017)

(annual percentage changes)[1]

	2012	2013	2014	2015	2016	2017 (available period)
Capital goods output	-19.2	-0.5	-2.2	2.3	2.9	2.3 (Jan.-Dec.)
Capacity utilisation in the capital goods industry	58.2	61.4	64.7	62.1	65.5	64.1 (Jan.-Dec.)
Credit to domestic corporations[2]	-4.3 (Dec.)	-4.9 (Dec.)	-3.7 (Dec.)	-0.9 (Dec.)	-0.1 (Dec.)	0.4 (Dec.)
Disbursements under the Public Investment Programme[3]	-10.5	14.5	-0.9	-2.8	-1.8	-5.4 (Jan.-Dec.)
Production index in construction (at constant prices)	-33.4	-8.2	15.5	3.1	22.9	-12.2 (Jan.-Sept.)
Volume of private construction activity (on the basis of permits issued)	-30.6	-25.6	-5.8	-0.2	-7.0	23.6 (Jan.-Nov.)
Cement production	-12.8	3.4	-3.4	3.6	23.6	-4.5 (Jan.-Dec.)
Construction confidence indicator	26.1	50.6	23.7	-29.9	-1.1	-9.6 (Jan.-Dec.)
Housing loans[4]	-3.3 (Dec.)	-3.3 (Dec.)	-3.0 (Dec.)	-3.5 (Dec.)	-3.5 (Dec.)	-3.0 (Dec.)

Sources: ELSTAT (capital goods output, volume of private construction activity, cement production, production in construction), IOBE (capacity utilisation, construction confidence), Bank of Greece (bank credit to domestic enterprises and housing, disbursements under the Public Investment Programme).
1 Except for capacity utilisation in the capital goods industry, which is measured in percentages.
2 Comprising loans and corporate bonds, securitised loans and securitised corporate bonds. The rates of change are adjusted for loan reclassifications, loan write-offs/write-downs and foreign exchange valuation differences, as well as corporate bonds and loans transferred by credit institutions to non-resident subsidiaries and to a resident subsidiary credit company in 2009.
3 As of January 2012 actual cash payments and not appropriations under the public investment budget.
4 Comprising loans and securitised loans. The rates of change are adjusted for loan reclassifications, loan write-offs/write-downs and foreign exchange valuation differences, as well as the transfer of loans to a resident subsidiary credit company in 2009.

Table 4 Gross value added at basic prices ((2011-first nine months of 2017)

(annual percentage changes and sectoral contributions to gross value added; at constant prices of 2010)

	Annual percentage changes					
	2012	2013	2014	2015	2016	2017 Jan.-Sept.
1. Agriculture, forestry and fishing	**-1.5 (0.0)**	**9.0 (0.3)**	**-6.1 (-0.3)**	**7.9 (0.3)**	**-2.1 (-0.1)**	**-8.3 (-0.3)**
2. Secondary sector	**-10.8 (-1.7)**	**-6.8 (-1.0)**	**-4.9 (-0.8)**	**-5.8 (-0.9)**	**-1.2 (-0.2)**	**8.8 (1.2)**
2.1 Industry including energy	-4.7 (-0.5)	-6.3 (-0.7)	-1.3 (-0.1)	-4.1 (-0.5)	0.8 (0.1)	5.5 (0.6)
2.2 Construction	-26.1 (-1.2)	-8.5 (-0.3)	-16.9 (-0.6)	-12.6 (-0.4)	-10.1 (-0.3)	25.0 (0.6)
3. Tertiary sector	**-9.3 (-7.5)**	**-7.2 (-5.8)**	**-2.3 (-1.8)**	**1.4 (1.2)**	**-0.2 (-0.2)**	**-2.4 (-2.0)**
3.1 Trade, hotels and restaurants, transport and storage	-12.2 (-3.0)	-15.6 (-3.8)	-4.1 (-0.9)	4.8 (1.0)	-2.4 (-0.5)	-6.1 (-1.3)
3.2 Information and communication	-18.9 (-0.7)	-11.6 (-0.4)	5.6 (0.2)	-5.8 (-0.2)	-5.7 (-0.2)	-3.1 (-0.1)
3.3 Financial and insurance activities	-14.1 (-0.7)	-5.0 (-0.2)	0.9 (0.0)	-6.4 (-0.3)	-0.4 (-0.0)	-1.6 (-0.1)
3.4 Real estate activities	-7.1 (-1.2)	5.4 (0.9)	1.0 (0.2)	3.4 (0.7)	1.3 (0.3)	-0.1 (0.0)
3.5 Professional, scientific and technical activities	-10.8 (-0.6)	-8.4 (-0.4)	-12.7 (-0.7)	-3.0 (-0.1)	4.2 (0.2)	-2.1 (-0.1)
3.6 Public administration and defence	-3.5 (-0.8)	-9.1 (-2.1)	-3.3 (-0.7)	0.9 (0.2)	-0.2 (-0.1)	-1.3 (-0.3)
3.7 Arts, entertainment and recreation	-14.1 (-0.5)	3.4 (0.1)	1.3 (0.1)	-2.2 (-0.1)	3.7 (0.2)	-1.6 (-0.1)
4. Gross value added at basic prices	**-9.1**	**-6.5**	**-2.7**	**0.5**	**-0.4**	**-1..2**

Source: ELSTAT, Quarterly National Accounts, 4.12.2017, seasonally adjusted data.
Note: Within parentheses, contributions in percentage points.

Table 5 Activity indicators in the services sector (2011-2017)

(annual percentage changes)

	2011	2012	2013	2014	2015	2016	2017 (available period)
A. Services turnover indices							
1. Trade							
Wholesale trade	-13.5	-12.1	-12.1	0.2	-4.4	-1.6	4.2 (Jan.-Sept.)
Retail trade	-7.2	-11.0	-8.6	-1.1	-2.9	-2.0	1.6 (Jan.-Νοεμ.)
Motor trade	-26.5	-29.3	-3.1	18.6	7.8	7.2	4.2 (Jan.-Sept.)
2. Transport							
Land transport	-1.7	-3.2	-4.1	-4.4	-5.9	-2.1	8.7 (Jan.-Sept.)
Sea transport	-2.6	-15.4	-7.4	-8.1	-5.4	-4.6	-11.0 (Jan.-Sept.)
Air transport	-0.9	-1.1	3.9	7.1	7.8	3.9	9.2 (Jan.-Sept.)
Storage and supporting transport activities	-7.9	-4.8	-7.0	5.5	2.5	7.7	7.0 (Jan.-Sept.)
3. Hotels and restaurants							
Accommodation and food service activities	-7.4	-17.2	4.8	11.8	3.1	0.2	10.1 (Jan.-Sept.)
4. Information and communication							
Telecommunications	-8.9	-5.1	-11.7	-4.3	-1.3	0.5	1.0 (Jan.-Sept.)
Film, video and TV programme production, recordings and music products	-28.4	-4.9	-5.0	-0.8	-24.3	0.1	-4.0 (Jan.-Sept.)
Programming and broadcasting activities	-27.1	-16.4	-7.9	12.6	-22.3	-13.7	-7.5 (Jan.-Sept.)
5. Professional-scientific-technical activities							
Legal, accounting and management consulting services	-0.9	2.7	0.4	2.3	-12.7	-13.5	2.5 (Jan.-Sept.)
Architectural and engineering services	-19.7	-12.3	-13.9	-15.0	4.7	-9.1	-13.0 (Jan.-Sept.)
Advertising and market research	-21.2	-16.7	-21.0	-7.0	1.0	-5.9	0.6 (Jan.-Sept.)
Travel agencies and related activities	-35.2	-27.0	11.3	6.4	-4.2	-4.0	8.5 (Jan.-Sept.)
B. Passenger traffic							
Athens International Airport	-6.3	-10.4	-3.2	21.2	19.0	10.7	8.6 (Jan.-Dec.)
Aegean Airlines[1]	4.2	-5.8	44.6	14.4	15.2	7.0	6.0 (Jan.-Dec.)
Piraeus port (OLP)	-0.8	-17.5	1.0	12.7	-9.7	-3.0	3.0 (Jan.-Sept.)
C. Services confidence indicator	-2.9	-11.2	28.4	23.9	-19.0	8.1	13.5 (Jan.-Dec.)

Sources: ELSTAT (services turnover). Athens International Airport, Aegean Airlines, Piraeus Port Authority (OLP) and IOBE (services confidence).
1 Including charter flights.

Table 6 Price developments in Greece and the euro area

(annual percentage changes)

	2012	2013	2014	2015	2016
A. Euro area					
Harmonised Index of Consumer Prices (HICP) and its components					
Overall index	**1.4**	**0.4**	**0.0**	**0.2**	**1.5**
Goods	1.3	-0.2	-0.8	-0.4	1.7
Food	2.7	0.5	1.0	0.9	1.8
Processed food[1]	2.2	1.2	0.6	0.6	1.6
Unprocessed food	3.5	-0.8	1.6	1.4	2.2
Industrial goods	0.6	-0.5	-1.8	-1.1	1.6
Non-energy industrial goods	0.6	0.1	0.3	0.4	0.4
Energy	0.6	-1.9	-6.8	-5.1	4.9
Services	1.4	1.2	1.2	1.1	1.4
Industrial producer prices	***-0.2***	***-1.5***	***-2.7***	***-2.3***	***3.1***
B. Greece					
Harmonised Index of Consumer Prices (HICP) and its components					
Overall index	**-0.9**	**-1.4**	**-1.1**	**0.0**	**1.1**
Goods	0.7	-1.0	-2.0	-1.3	1.1
Food	0.9	-1.0	1.7	0.2	1.5
Processed food[1]	0.7	0.6	1.8	1.0	2.0
Unprocessed food	1.3	-3.5	1.7	-1.3	0.4
Industrial goods	0.4	-1.2	-5.3	-2.7	0.7
Non-energy industrial goods	-1.7	-1.0	-1.8	-1.4	-2.3
Energy	6.3	-2.0	-11.1	-5.2	8.5
Services	-2.9	-2.0	0.0	1.4	1.2
Industrial producer prices	***-0.7***	***-0.8***	***-5.8***	***-5.4***	***4.2***

Source: Calculations based on Eurostat and ELSTAT data.
1 Including alcoholic beverages and tobacco.

Table 7 Price indices

(annual percentage changes)

Year	Consumer Price Index							
	Overall index	Sub-indices						
		Goods	Services	CPI excluding fuel & fresh fruit and vegetables	CPI excluding food & fuel	Food and non-alcoholic beverages	Fresh fruit and vegetables	Fuel
2013	-0.9	0.1	-2.2	-1.7	-1.9	0.0	3.0	4.6
2014	-1.3	-1.3	-1.4	-0.7	-0.9	-1.7	-8.6	-4.1
2015	-1.7	-2.5	-0.7	-0.5	-0.9	1.8	6.5	-13.9
2016	-0.8	-1.6	0.4	-0.1	-0.3	-0.2	-5.6	-6.9
2017	1.1	1.0	1.2	0.2	0.3	0.3	4.1	10.8

Year	Industrial Producer Price Index						Import price index in industry	
	Domestic market				External market			
		Sub-indices						
	Overall index	Overall index excl. energy	Intermediate goods	Consumer goods	Overall index	Overall index excl. energy	Overall index	Overall index excl. energy
2013	-0.7	0.0	-1.1	1.1	-1.7	-0.2	-2.7	-0.4
2014	-0.8	-0.5	-1.4	0.2	-2.7	-1.2	-3.7	-0.9
2015	-5.8	0.0	0.0	0.0	-11.4	0.0	-10.5	0.0
2016	-5.4	-0.7	-2.0	0.1	-6.8	-2.2	-2.8	-0.6
2017	4.2	0.5	1.1	0.1	9.1	2.7	5.9	0.7

Source: ELSTAT and calculations based on ELSTAT data.

Table 8 Compensation of employees and labour cost (2015-2018)

(annual percentage changes)

	2015	2016	2017 Jan.-Sept.	2018 (forecast)
Total compensation of employees	-1.4	0.0	2.3	2.5
Compensation per employee	-2.3	-0.9	0.5	-0.1
Labour productivity (GDP/total employment)	-1.0	-0.7	-0.7	0
Unit labour cost (total economy)	-1.3	-0.2	0.9	-0.1
Total compensation of employees in the general government sector	-1.4	0.0	3.6	...
Total compensation of employees in the business sector	-1.4	0.0	0.2	...

Source: For 2015-2017: ELSTAT, revised annual and quarterly national accounts and non-financial accounts of institutional sectors, 17.10-6.11.2017 and 27.10.2017-24.1.2018. For 2018: Bank of Greece forecasts.

Table 9 Balance of payments

(million euro)

	2014	2015	2016	2017
I CURRENT ACCOUNT (I.A+I.B+I.C+I.D)	**-2,912.6**	**-404.5**	**-1,872.0**	**-1,454.2**
BALANCE OF GOODS AND SERVICES (I.A+I.B)	**-3,979.0**	**-298.8**	**-1,270.5**	**-964.8**
Receipts	*57,839.3*	*52,706.4*	*49,501.3*	*56,205.0*
Payments	*61,818.3*	*53,005.2*	*50,771.8*	*57,169.8*
I.A Goods balance (I.A.1 – I.A.2)	**-22,252.2**	**-17,231.2**	**-16,581.9**	**-18,353.2**
I.A.1 Exports of goods	*26,788.0*	*24,787.2*	*24,486.7*	*27,928.8*
Oil	9,049.8	6,713.7	6,156.1	7,831.0
Ships (receipts)	626.0	175.5	156.1	196.9
Goods excluding oil and ships	17,112.1	17,898.0	18,174.5	19,900.9
I.A.2 Imports of goods	*49,040.2*	*42,018.4*	*41,068.6*	*46,282.0*
Oil	15,325.2	10,921.8	8,988.7	11,608.1
Ships (payments)	2,771.9	606.7	297.3	411.2
Goods excluding oil and ships	30,943.0	30,489.9	31,782.6	34,262.7
I.B Services balance (I.B.1 – I.B.2)	**18,273.2**	**16,932.4**	**15,311.4**	**17,388.3**
I.B.1 Receipts	*31,051.3*	*27,919.2*	*25,014.6*	*28,276.1*
Travel	13,393.1	14,125.8	13,206.7	14,595.8
Transport	13,130.8	9,968.3	7,814.2	9,135.3
Other services	4,527.4	3,825.0	3,993.6	4,545.1
I.B.2 Payments	*12,778.1*	*10,986.8*	*9,703.2*	*10,887.8*
Travel	2,076.4	2,037.4	2,005.3	1,915.5
Transport	6,258.6	5,430.0	4,453.4	5,045.2
Other services	4,443.1	3,519.4	3,244.5	3,927.1
I.C Primary income balance (I.C.1 – I.C.2)	**1,401.2**	**415.9**	**-3.3**	**91.2**
I.C.1 Receipts	*8,458.3*	*7,023.7*	*5,887.9*	*6,117.0*
Wages. salaries	209.9	153.8	134.0	135.1
Interest. dividends. profits	4,832.4	3,705.3	2,702.1	3,290.4
Other primary income	3,416.1	3,164.6	3,051.8	2,691.5
I.C.2 Payments	*7,057.1*	*6,607.8*	*5,891.2*	*6,025.8*
Wages. salaries	491.7	379.4	233.2	277.8
Interest. dividends. profits	6,202.9	5,929.3	5,237.9	5,345.0
Other primary income	362.6	299.1	420.1	403.0
I.D Secondary income balance (I.D.1 – I.D.2)	**-334.7**	**-521.5**	**-598.2**	**-580.5**
I.D.1 Receipts	*2,550.7*	*1,909.7*	*1,803.7*	*1,909.9*
General government	1,441.7	1,054.9	1,017.3	897.2
Other sectors	1,109.0	854.9	786.4	1,012.7
I.D.2 Payments	*2,885.5*	*2,431.2*	*2,401.9*	*2,490.4*
General government	2,054.7	1,695.0	1,825.9	1,779.2
Other sectors	830.8	736.2	576.1	711.2
II CAPITAL ACCOUNT (II.1–II.2)	**2,510.6**	**1,988.6**	**1,035.7**	**914.5**
II.1 Receipts	**2,866.2**	**2,369.5**	**1,278.4**	**1,133.8**
General government	2,789.8	2,319.3	1,198.2	1,040.2
Other sectors	76.4	50.2	80.2	93.6
II.2 Payments	**355.6**	**380.9**	**242.7**	**219.3**
General government	8.8	4.1	28.5	3.0
Other sectors	346.7	376.8	214.2	216.3
CURRENT AND CAPITAL ACCOUNT (I+II)	**-402.0**	**1,584.1**	**-836.2**	**-539.7**
III FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**1,461.7**	**2,820.0**	**-891.9**	**-655.2**
III.A Direct investment[1]	**250.1**	**279.4**	**-4,156.5**	**-3,047.7**
Assets	2,275.9	1,426.2	-1,382.2	542.8
Liabilities	2,025.8	1,146.8	2,774.2	3,590.5
III.B Portfolio investment[1]	**6,978.0**	**8,348.3**	**9,622.6**	**-18,625.7**
Assets	8,910.1	6,996.0	7,059.0	-19,340.1
Liabilities	1,932.1	-1,352.4	-2,563.6	-714.3
III.C Other investment[1]	**-6,222.5**	**-6,162.2**	**-6,939.5**	**20,900.2**
Assets	-6,888.7	16,699.8	-15,458.9	-11,575.8
Liabilities	-666.2	22,861.9	-8,519.3	-32,476.0
(General government borrowing)	4,000.2	11,921.6	6,492.9	5,693.7
III,D Change in reserve assets[2]	**456.0**	**354.4**	**581.5**	**118.0**
IV ERRORS AND OMISSIONS (I + II - III + IV=0)	**1,863.7**	**1,235.9**	**-55.6**	**-115.6**
RESERVE ASSETS	**5,117**	**5,535**	**6,539**	**6,509**

Source: Bank of Greece.
1 (+) net inflow, (–) net outflow.
2 (+) decrease, (–) increase.

Table 10 General government and state budget balances

(as a percentage of GDP)

	2013	2014	2015	2016	2017
General government balance[1] *(national accounts data – convergence criterion)*	**-13,2**	**-3,6**	**-5,7**	**0,5**	**-0,6***
– Central government	-15,4	-4,3	-5,7	-1,0	-1,3*
– Social security funds, local government, legal entities in public law	2,3	0,7	-0,1	1,4	0,7*
General government balance adjusted for net support to financial institutions[1]	**-2,4**	**-3,7**	**-3,0**	**0,3**	
General government primary balance adjusted for net support to financial institutions[1]	**1,6**	**0,3**	**0,6**	**3,5**	
State budget balance					
Administrative data[2]	***-3,0***	***-2,1***	***-2,5***	***-1,6***	***-2,4***
Cash data[3]	***-7,1***[4]	***-2,4***[5]	***-1,9***[6]	***-2,0***[7]	***-2,5***[8]

Sources: Bank of Greece, Ministry of Finance and ELSTAT.
* Provisional data (State General Accounting Office, Introductory Report on the 2018 Budget).
1 ELSTAT data, as notified to the European Commission (Excessive Deficit Procedure). Figures may not add up due to rounding.
2 State General Accounting Office data (State Budget Execution Bulletins and Introductory Report on the 2018 Budget).
3 Bank of Greece data. These data refer only to the state budget on a cash basis, excluding movements in the OPEKEPE account.
4 Excluding revenue of €2 billion arising out of the transfer of profits from Greek government bond holdings of Eurosystem central banks (Securities Markets Programme – SMP). Including expenditure of around €6,155 for the payment of arrears.
5 Excluding revenue of €62 million from the transfer of profits on Greek government bond holdings of Eurosystem central banks (Securities Markets Programme – SMP). Including expenditure of around €1,152 million for the payment of arrears.
6 Excluding revenue of €55 million arising out of the transfer of profits from SMP holdings of Eurosystem central banks.
7 Excluding revenue of €43 million arising out of the transfer of profits from SMP holdings of Eurosystem central banks. Including expenditure of €3,850 million for the payment of arrears.
8 Excluding revenue of €32 million arising out of the transfer of profits from SMP holdings of Eurosystem central banks. Including expenditure of around €2,124 million for the payment of arrears.

Table 11 Decomposition of changes in the general government debt-to-GDP ratio[1]

(percentage points of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
General government debt-to-GDP ratio	103,1	109,4	126,7	146,2	172,1	159,6	177,4	179,0	176,8	180,8	178,2
Changes in the general government debt-to-GDP ratio	-0,5	6,3	17,3	19,5	25,8	-12,5	17,8	1,5	-2,1	4,0	-2,6
– Primary balance	2,2	5,4	10,1	5,3	3,0	3,8	9,1	-0,4	2,1	-3,7	-2,6
– Interest rate/growth rate differential (snowball effect)	-2,1	0,9	7,1	12,3	20,7	19,3	13,3	6,0	6,0	5,4	-1,2
– Deficit-debt adjustment[2]	-0,6	0,1	0,1	1,9	2,1	-35,7	-4,6	-4,0	-10,2	2,3	1,2

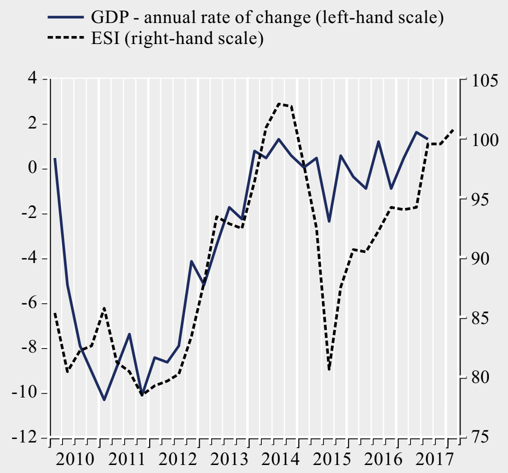
Sources: Introductory Report on the 2018 Budget and ELSTAT.
* Provisional data.
1 Changes in the debt ratio have been decomposed using the following formula:

$$\left(\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}}\right) = \frac{PB_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - g_t}{1+g_t}\right) + \frac{SF_t}{Y_t}$$

where D_t = general government debt
PB_t = primary balance (deficit (+) or surplus (-))
Y_t = GDP at current prices
g_t = nominal GDP growth rate
i_t = average nominal interest rate on government debt
SF_t = deficit-debt adjustment

2 The deficit-debt adjustment includes expenditure or liability assumption by general government that does not affect the deficit but increases debt, as well as revenue (e.g. privatisation proceeds) that does not affect the deficit but reduces debt.

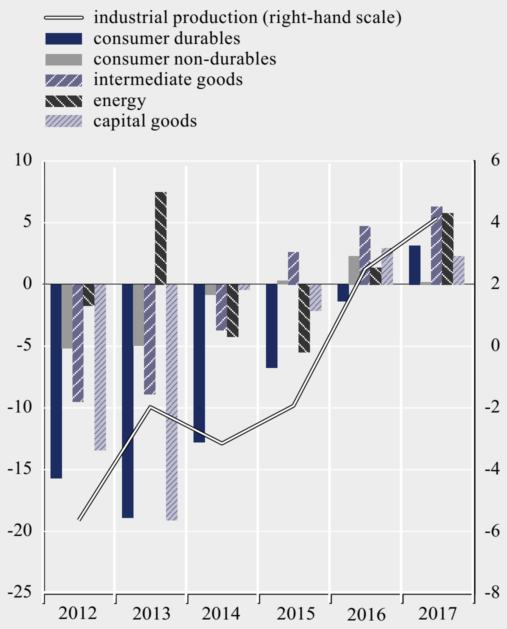
Chart 1 GDP and Economic Sentiment Indicator[1] (Q1 2010 - Q3 2017)



Sources: ELSTAT and European Commission/IOBE.
1 Three-month moving average; data until January 2018.

Chart 2 Industrial production (2012-2017)

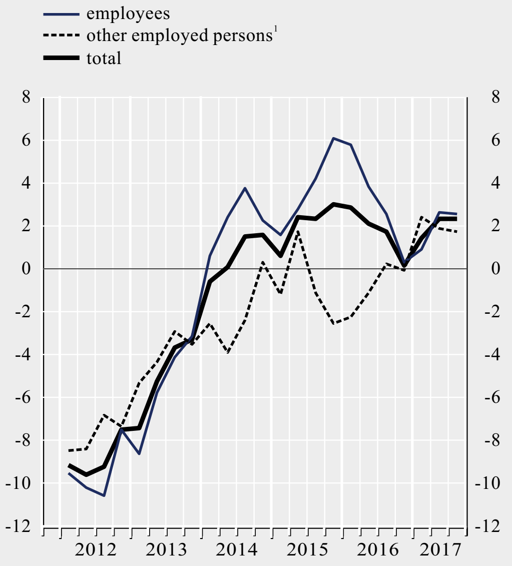
(annual percentage changes)



Source: ELSTAT.

Chart 3 Employment (Q1 2012 - Q3 2017)

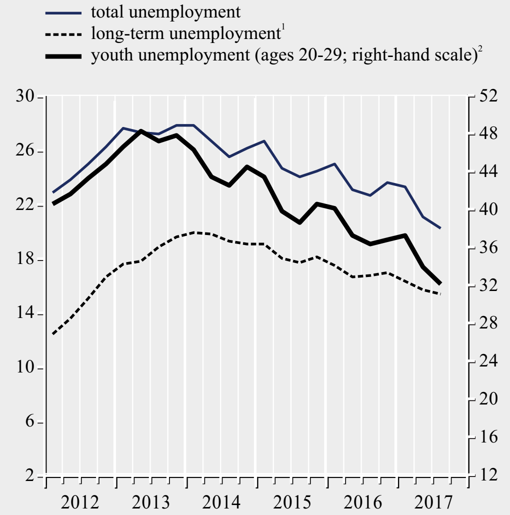
(year-on-year percentage changes; quarterly data)



Source: ELSTAT, Labour Force Surveys.
1 Other employed persons=self-employed with employees (employers) + self-employed without employees + contributing family workers.

Chart 4 Unemployment rates (Q1 2012 - Q3 2017)

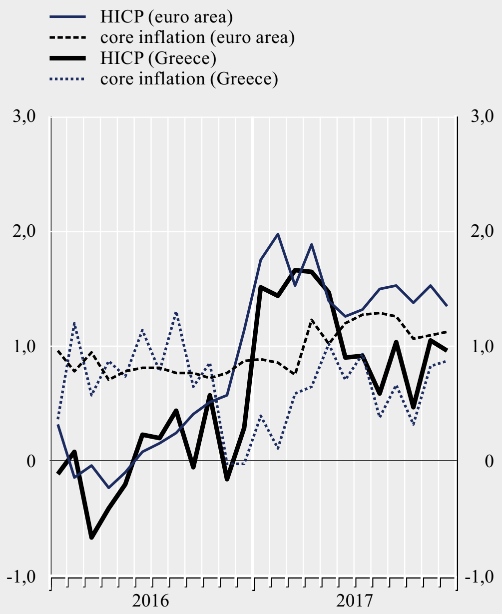
(percentage of labour force)



Source: ELSTAT, Labour Force Surveys.
1 For twelve months or more.
2 As a percentage of the labour force of this age group.

Chart 5 Harmonised index of consumer prices (HICP) and core inflation in Greece and the euro area (January 2016-December 2017)

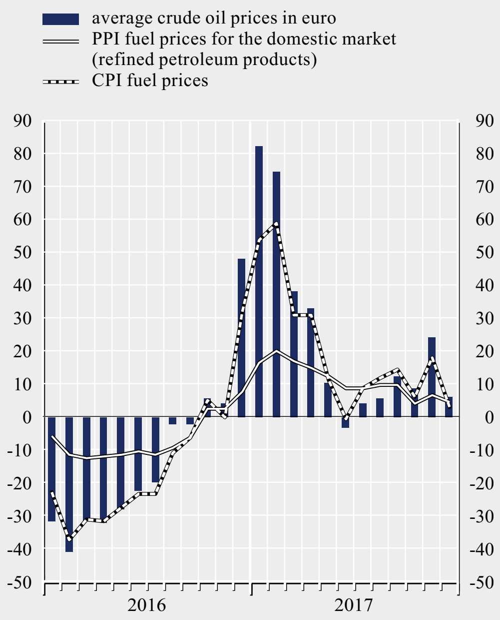
(year-on-year percentage changes; monthly data)



Sources: ELSTAT and Eurostat.

Chart 6 Evolution of CPI/PPI fuel prices and of Brent crude oil prices in euro (January 2016-December 2017)

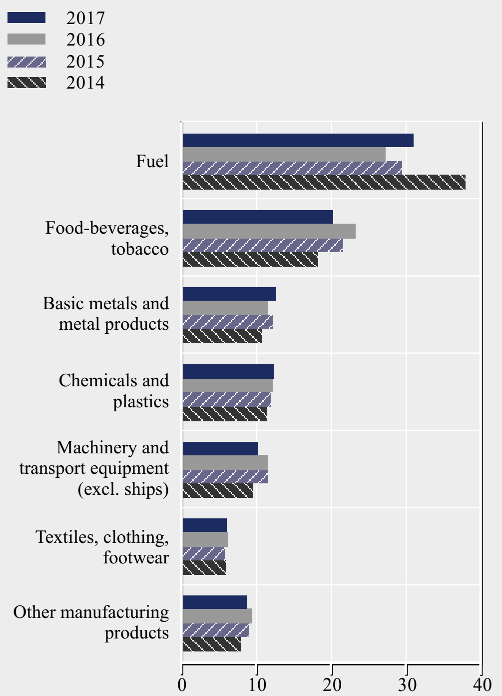
(year-on-year percentage changes; monthly data)



Source: Calculations based on ELSTAT data and, for crude oil prices (UK Brent), on ECB data.

Chart 7 Sectoral breakdown of Greek exports of goods

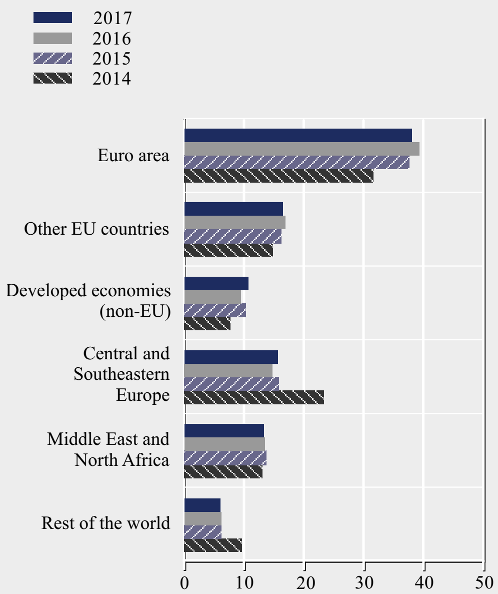
(percentage of total export receipts)



Source: Eurostat, COMEXT database.

Chart 8 Greek exports of goods, by destination

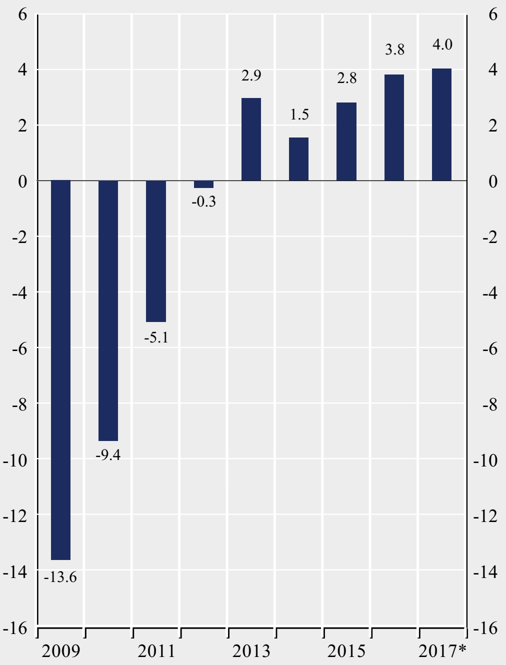
(percentage of total export receipts)



Source: Eurostat, COMEXT database.

Chart 9 Structural primary balance of general government

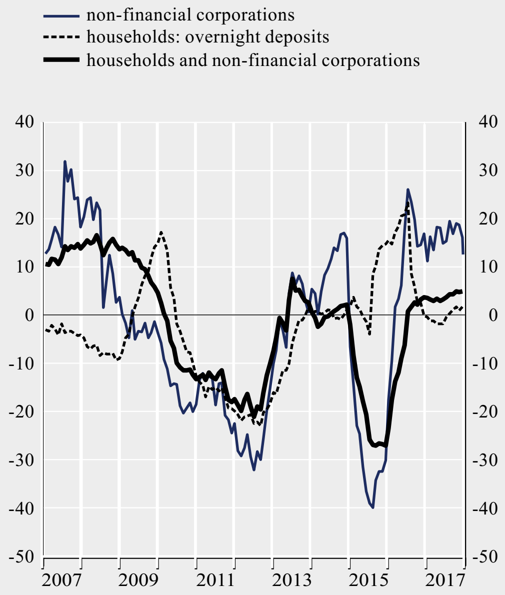
(as a percentage of potential GDP)



Source: Bank of Greece.
* Forecast.
Note: The structural primary balance of general government is calculated according to the Eurosystem methodology.

Chart 10 Deposits with domestic banks (January 2007-December 2017)

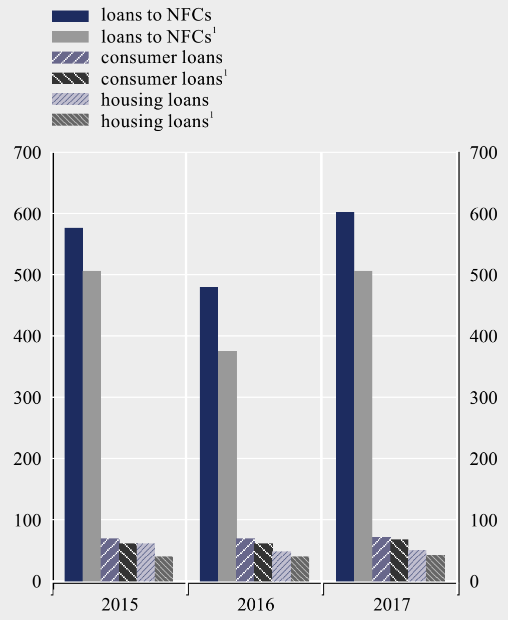
(annual rate of change %)



Source: Bank of Greece.

Chart 11 Bank loans with a fixed maturity to non-financial corporations and households (2015-2017)

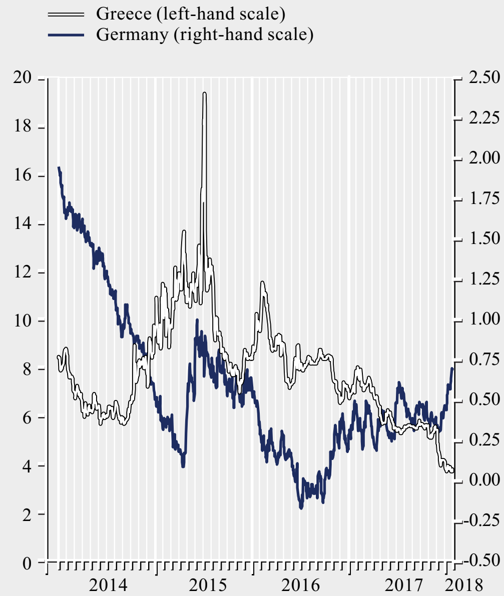
(average monthly gross flow; in million euro)



Source: Bank of Greece.
1 Excluding loan restructuring.

Chart 12 Yields on 10-year Greek and German government bonds (January 2014-January 2018)

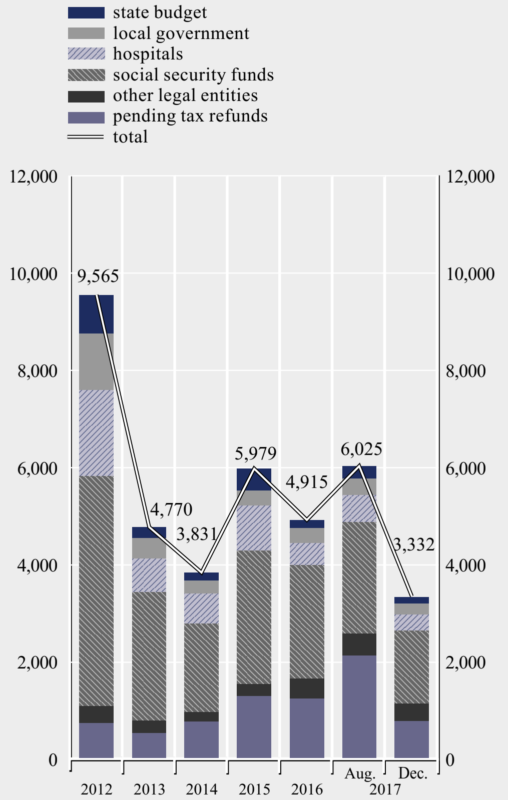
(daily data, yields in percentages)



Source: Thomson Reuters.

Chart 13 General government arrears to suppliers

(million euro)



Source: Ministry of Finance, State General Accounting Office.

ANNUAL ACCOUNTS OF THE BANK OF GREECE FOR THE YEAR 2017

AND THE INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BANK OF GREECE A.E

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Greece (the Bank), which comprise the balance sheet as at 31 December 2017, the profit and loss account and the appropriation account for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and its financial performance for the year then ended in accordance with the accounting principles prescribed by the European Central Bank (ECB) with the "Guideline (EU) 2016/2249 of 3.11.2016 (ECB/2016/34)" as adopted by the Bank in Article 54A of its Statute and the accounting standards prescribed by Greek Law, where the Guideline of the ECB does not provide specific direction.

Basis for Opinion

We concluded our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How our audit addressed the key audit matter
Provisions against financial risks	
Provisions against financial risks are significant to the Bank due to their magnitude to the financial statements. The assessment process is complex and involves the exercise of the Bank's critical judgements and estimates. (Liabilities – Note 12 "Provisions" of the Financial Statements)	We assessed the policies, methodology and internal controls that the Bank has implemented relating to the provisions against financial risks. We assessed whether the methodology employed for the valuation of financial risks has been appropriately and consistently implemented. We assessed the appropriateness and the reasonableness of key assumptions and models used for the valuation of financial risks. In this assessment we also involved risk specialists.
Provisions for defined benefit obligations to insured persons	
Provisions for defined benefit obligation to insured persons is a key area of the Bank's financial statements given its assessment and adequacy involves the exercise of significant actuarial and other assumptions, such as the underlying legal framework, the discount rate and the expected growth rate of salaries and pensions (Liabilities – Note 12 "Provisions" of the Financial Statements).	We assessed the methodology and internal controls that the Bank has implemented relating to the provisions for defined benefit obligations to insured persons. We assessed whether the methodology employed has been appropriately and consistently implemented. We assessed the appropriateness and the reasonableness of key actuarial and other assumptions used for the valuation of the provisions for defined benefit obligations to insured persons, such as the underlying legal framework, the discount rate, the expected growth rate of salaries and pensions. In this assessment we also involved specialists (actuarial specialists). We ensured the completeness of data used for the valuation of the provision and on a sample basis we ensured the accuracy of this data.

Other Matter

The financial statements of the Bank for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 20 January 2017.

Other Information

Management is responsible for the other information. The other information comprises the Governor's Report for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon. The Governor's Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Governor's Report, if we conclude that there is a material misstatement therein, we are required to communicate that matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles prescribed by the European Central Bank (ECB), as adopted by the Bank in Article 54A of its Statute and the accounting standards prescribed by Greek Law, where the Guideline of the ECB does not provide specific direction and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1) Taking into consideration that Management is responsible for the preparation of the Report of the General Council for the year ended 31 December 2017, according to the provisions of paragraph 5 of article 2 (part B) of Law 4336/2015 we note the following:

   a) In our opinion, the Report of the General Council for the year ended 31 December 2017 has been prepared in accordance with the Bank's Statute and the applicable legal requirements of article 43a of Greek Codified Law 2190/1920 and its content is consistent with the accompanying financial statements for the year ended 31 December 2017.

b) Based on the knowledge we obtained during our audit of Bank of Greece and its environment, we have not identified any material inconsistencies in the Report of the General Council.

2) Our audit opinion on the financial statements is consistent with the additional report to the Bank's Audit Committee referred to in Article 11 of Regulation 537/2014.

3) We have been appointed statutory auditors by the General Assembly of Bank of Greece on 24 February 2017. The year ended 31 December 2017 is the first year we serve as statutory auditors. The financial statements of the Bank for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 20 January 2017.

4) We have not provided the prohibited non-audit services referred to in Article 5(1) of Regulation 537/2014 and we remained independent of the Bank in conducting the audit.

5) We have not provided any services, in addition to the statutory audit, during the period from 1 January 2017 to the date of this report to Bank of Greece which have not been disclosed in the Note "Services of Independent Certified Public Accountant" of the financial statements.

22 January 2018

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BALANCE SHEET AS AT 31 DECEMBER 2017
NINETIETH YEAR

(in euro)

ASSETS	31.12.2017	31.12.2016
1. Gold and gold receivables	**5,190,832,297**	**5,261,753,291**
2. Claims on non-euro area residents denominated in foreign currency	**2,597,159,265**	**2,578,715,907**
2.1 Receivables from the International Monetary Fund (IMF)	685,692,703	737,322,397
2.2 Balances with banks and security investments, external loans and other external assets	1,911,466,562	1,841,393,510
3. Claims on euro area residents denominated in foreign currency	**271,455,735**	**204,874,084**
3.1 General government	15,920,425	16,419,464
3.2 Other claims	255,535,310	188,454,620
4. Claims on non-euro area residents denominated in euro	**23,489**	**23,659**
4.1 Balances with banks, security investments and loans	23,489	23,659
4.2 Claims arising from the credit facility under ERM II	0	0
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	**12,059,000,000**	**22,953,000,000**
5.1 Main refinancing operations	680,000,000	15,430,000,000
5.2 Longer-term refinancing operations	11,100,000,000	7,500,000,000
5.3 Fine-tuning reverse operations	0	0
5.4 Structural reverse operations	0	0
5.5 Marginal lending facility	279,000,000	23,000,000
5.6 Credits related to margin calls	0	0
6. Other claims on euro area credit institutions denominated in euro	**21,614,898,570**	**43,665,037,526**
7. Securities of euro area residents denominated in euro	**73,944,793,921**	**57,197,297,804**
7.1 Securities held for monetary policy purposes	60,624,764,994	42,484,409,198
7.2 Other securities of euro area residents denominated in euro	13,320,028,927	14,712,888,606
8. General government long-term debt denominated in euro	**5,717,976,316**	**6,353,182,528**
9. Intra-Eurosystem claims	**1,914,063,363**	**1,854,318,415**
9.1 Participating interest in the ECB	564,765,496	564,765,496
9.2 Claims equivalent to the transfer of foreign reserves to the ECB	1,178,260,606	1,178,260,606
9.3 Net claims related to the allocation of euro banknotes, within the Eurosystem	0	0
9.4 Net claims arising from balances of TARGET2 accounts	0	0
9.5 Other claims within the Eurosystem (net)	171,037,261	111,292,313
10. Items in course of settlement	**85,254**	**0**
11. Other assets	**2,130,224,128**	**2,316,135,103**
11.1 Coins of euro area	63,463,487	59,834,993
11.2 Tangible and intangible fixed assets	564,103,667	792,236,542
11.3 Other financial assets	97,185,041	95,176,220
11.4 Off-balance-sheet instruments revaluation differences	102,453	45,122
11.5 Accruals and prepaid expenses	817,745,677	779,083,565
11.6 Sundry	587,623,803	589,758,661
TOTAL ASSETS	**125,440,512,338**	**142,384,338,317**

(in euro)

LIABILITIES	31.12.2017	31.12.2016
1. Banknotes in circulation	**31,111,777,700**	**29,929,190,200**
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**1,959,800,623**	**907,409,514**
2.1 Current accounts (covering the minimum reserve system)	1,959,800,623	876,909,514
2.2 Deposit facility	0	0
2.3 Fixed-term deposits	0	0
2.4 Fine-tuning reverse operations	0	0
2.5 Deposits related to margin calls	0	30,500,000
3. Other liabilities to euro area credit institutions denominated in euro	**0**	**0**
4. Liabilities to other euro area residents denominated in euro	**12,397,028,127**	**9,527,107,565**
4.1 General government	11,090,282,518	8,269,754,053
4.2 Other liabilities	1,306,745,609	1,257,353,512
5. Liabilities to non-euro area residents denominated in euro	**2,423,950,875**	**2,461,327,349**
6. Liabilities to euro area residents denominated in foreign currency	**711,599,699**	**751,912,348**
7. Liabilities to non-euro area residents denominated in foreign currency	**2,415**	**2,754**
7.1 Deposits and other liabilities	2,415	2,754
7.2 Liabilities arising from the credit facility under ERM II	0	0
8. Counterpart of special drawing rights allocated by the IMF	**0**	**0**
9. Intra-Eurosystem liabilities	**64,160,258,188**	**85,571,386,262**
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	0	0
9.2 Net liabilities related to the allocation of euro banknotes within the Eurosystem	4,758,609,980	13,314,137,100
9.3 Net liabilities arising from balances of TARGET2 accounts	59,401,648,208	72,257,249,162
9.4 Other liabilities within the Eurosystem (net)	0	0
10. Items in course of settlement	**913,852**	**1,004,753**
11. Other liabilities	**1,068,668,202**	**1,226,620,075**
11.1 Off-balance-sheet instruments revaluation differences	544	21,829
11.2 Accruals and income collected in advance	71,722,619	26,548,519
11.3 Sundry	996,945,039	1,200,049,727
12. Provisions	**7,600,331,097**	**7,477,308,544**
13. Revaluation accounts	**3,412,541,786**	**3,715,573,000**
14. Capital and reserves	**593,639,774**	**815,495,953**
14.1 Capital	111,243,362	111,243,362
14.2 Ordinary reserve	111,243,362	111,243,362
14.3 Extraordinary reserve	84,500,000	84,500,000
14.4 Special reserve from the revaluation of land and buildings	285,443,789	507,247,856
14.5 Other special reserves	1,209,261	1,261,373
TOTAL LIABILITIES	**125,440,512,338**	**142,384,338,317**

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2017

(in euro)

	2017	2016
1. Net interest income	**1,157,858,591**	**1,494,479,484**
1.1 Interest income	1,199,436,654	1,513,993,949
1.2 Interest expense	-41,578,063	-19,514,465
2. Net result of financial operations, write-downs and risk provisions	**12,676,418**	**17,841,267**
2.1 Realised gains arising from financial operations	12,676,418	17,841,267
2.2 Write-downs on financial assets and positions	-4,530,231	-32,995,688
2.3 Transfer from provisions for foreign exchange rate, interest rate, credit and gold price risks	4,530,231	32,995,688
3. Net income from fees and commissions	**78,042,738**	**81,860,972**
3.1 Fees and commissions income	80,936,433	84,141,588
3.2 Fees and commissions expense	-2,893,695	-2,280,616
4. Income from equity shares and participating interests	**38,841,503**	**38,863,345**
5. Net result of pooling of monetary income	**140,265,261**	**82,785,679**
6. Other income	**14,021,505**	**12,426,688**
Total net income	**1,441,706,016**	**1,728,257,435**
7. Staff costs and pension benefit expenses	**-268,665,229**	**-258,636,323**
8. Other administrative expenses	**-53,937,156**	**-48,939,789**
9. Depreciation of tangible and intangible fixed assets	**-14,742,577**	**-14,948,548**
10. Consultancy fees for the auditing of the banking system	**-1,610,438**	**-8,939,682**
11. Other expenses	**-52,341,066**	**0**
12. Provisions	**-108,609,347**	**-304,443,890**
Total expenses	**-499,905,813**	**-635,908,232**
PROFIT FOR THE YEAR	**941,800,203**	**1,092,349,203**

DISTRIBUTION OF PROFIT

(Article 71 of the Statute)

(in euro)

	2017	2016
Dividend to be distributed: €0.47712 per share for 19,864,886 shares	9,477,934	9,477,934
Tax on dividends (tax rate 29%, Articles 47 and 58, Law 4172/2013, as currently in force)	3,871,269	3,871,269
To the Government	928,451,000	1,079,000,000
	941,800,203	**1,092,349,203**

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