

# SUMMARY OF THE ANNUAL REPORT

2018



APRIL 2019

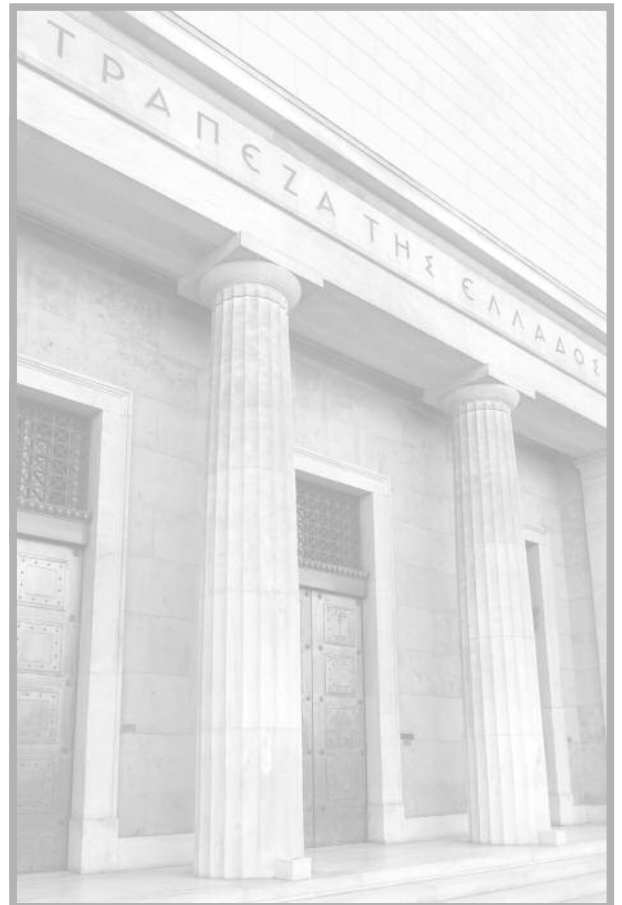


**BANK OF GREECE**  
EUROSYSTEM



# SUMMARY OF THE ANNUAL REPORT 2018

Presented to the General Meeting of Shareholders  
by Governor Yannis Stournaras



APRIL 2019



**BANK OF GREECE**  
EUROSYSTEM

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# CONTENTS

## GREECE IN THE POST-PROGRAMME PERIOD: A STARTING POINT FOR SUSTAINABLE GROWTH, SUBJECT TO CONDITIONS

1	Towards a sustainable growth model	7
2	Correction of imbalances and implementation of structural reforms in 2010-2018: overview	8
3	The Greek economy: developments and prospects for 2019	9
4	Fiscal policy	10
5	The single monetary policy	11
6	The banking system	12
7	Private insurance undertakings	13
8	Risks and sources of uncertainty	14
9	Challenges for growth	15
10	Prerequisites for sustainable growth	17
	APPENDIX	19
	ANNUAL ACCOUNTS OF THE BANK OF GREECE	39



# GREECE IN THE POST-PROGRAMME PERIOD: A STARTING POINT FOR SUSTAINABLE GROWTH, SUBJECT TO CONDITIONS

## I TOWARDS A SUSTAINABLE GROWTH MODEL

2019 marks the beginning of a new course for the Greek economy. Following the successful completion of the last three-year economic adjustment programme in August 2018, the clarification of the enhanced surveillance regime to apply post-programme and with Greece now subject to the improved institutional framework for economic governance in the European Union and the euro area, the Greek economy is called upon to operate in a new economic policy context.

2018 saw the recovery of the Greek economy gain traction. The key drivers of growth were a rise in exports of goods and services, reflecting a greater extroversion of the economy, and a pick-up in private consumption supported by employment growth and an increase in households' disposable income. Despite a slowdown of growth rates worldwide and in the euro area, the growth momentum of the Greek economy is expected to continue, conditional upon the resolute pursuit of structural reforms, the implementation of the privatisation programme without delays and the strengthening of productive investment. In fact, the aim of the prolongation of Greece's enhanced surveillance for a period of six months, as provided for under Regulation 472/2013, is precisely to encourage the reform effort, considered crucial to the achievement of sustainable growth. In this context, the postponement by the Eurogroup of 11 March 2019 until the next meeting of its decision regarding the implementation of medium-term debt relief measures involving the disbursement of profits on ESCB holdings of Greek government bonds puts pressure on Greece to avoid backtracking on its commitments in the post-programme period.

2019 will be a challenging year for the Greek economy. In the external environment, the slowdown of world trade amid rising protectionism could dampen Greek export growth. On the domestic front, increased uncertainty about the continuation of reforms post-programme

coupled with credit constraints are weighing on investment. Furthermore, high taxation in recent years, while helping to halt the upward trend of public debt, has taken a toll on the growth dynamics of the economy, the competitiveness of Greek businesses, and consumer and investor confidence. It has also caused tax fatigue leading to a contraction of the tax base and an exhaustion of the taxpaying capacity.

The above-mentioned factors are expected to dampen the growth outlook for the Greek economy. According to Bank of Greece forecasts, real GDP is expected to grow by 1.9% in 2019, driven once again by exports and private consumption.

Greece's return to international financial markets in February 2019, with a successful five-year government bond issue, signals improved market perceptions of the creditworthiness of the Greek sovereign and marks a first step on the road back to normality. Moreover, the successful 10-year bond issue in March 2019, for the first time since the debt crisis in 2010, marked a further step towards regaining the confidence of international markets. However, Greek government bonds, despite their recent upgrades, have yet to regain investment grade status, and their yields, though now under 4%, are still high and volatile, and remain sensitive to potential turbulence in international financial markets, partly reflecting uncertainty about the maintenance of the reform momentum. The debt relief measures agreed in June 2018, together with the increased disbursements from the European Stability Mechanism (ESM) for building up a cash buffer, have significantly improved public debt sustainability in the medium term. However, as the Greek sovereign rating remains below investment grade and in the absence of a precautionary credit line, Greece has not been able to benefit from the ECB's quantitative easing (QE) programme that would have helped strengthen economic activity and further improve the credit rating of Greek debt. In fact, despite the continued decline in Greek government bond yields, the yield spread between the Greek and

the German 10-year benchmark bond remains just under 400 basis points.

The low level of investment, insufficient domestic savings, the high — albeit declining — stock of non-performing loans, the large loss of physical and human capital during the recession, as well as the apparently low expectations regarding medium-to-long term potential output growth as a result of adverse demographic trends and the sluggish adoption of new technologies in production processes all weaken the growth dynamics. Meanwhile, the outlook for the economy still depends largely on foreign investor confidence and on foreign capital inflows. The Greek economy posted growth rates of 1.5% in 2017 and 1.9% in 2018. However, in order to make up for the huge losses suffered by the Greek economy in terms of output and employment during the protracted crisis, higher growth rates are needed.

The possible generalised implementation of the Council of State rulings that earlier pension cuts and the abolition of pensioners' bonuses were unconstitutional represents the greatest fiscal risk in the immediate future. Plus, the fact that Greece is entering an electoral cycle increases the risk of a slowdown of the reform effort and of fiscal relaxation, compounding economic uncertainty. Thus, there is a risk that the significant progress made so far could unravel.

In order to avert this risk and successfully complete the transition to a sustainable growth model based on extroversion, entrepreneurship, investment, knowledge, inclusion and social and environmental responsibility, key prerequisites are: a continuation of reforms geared towards enhancing structural competitiveness and attracting high-value added investment; the preservation of fiscal consolidation; and a strengthening of institutions. The benefits to be reaped are substantial: a rapid decrease in the unemployment rate, a reversal of the brain drain, higher total factor productivity, higher wages and incomes.

## **2 CORRECTION OF IMBALANCES AND IMPLEMENTATION OF STRUCTURAL REFORMS IN 2010-2018: OVERVIEW**

The global financial crisis spilled over to Greece, where it took the form of a sovereign debt crisis that peaked in 2010, as a result of chronic external and internal macroeconomic imbalances. Since the outbreak of the sovereign debt crisis, Greece has implemented three consecutive economic adjustment programmes, all focused on correcting the imbalances and implementing structural reforms aimed to making the economy more resilient to future shocks. Despite the very ambitious targets set in the programmes, the results have been remarkable:

- an unprecedented fiscal consolidation and sustained high primary surpluses;
- a full recouping of losses in labour cost competitiveness, through a painful process of internal devaluation, and a considerable improvement in price competitiveness;
- a large reduction in the current account deficit;
- wide-ranging structural reforms covering the pension and healthcare systems, the labour and product markets, the business environment, public administration, the tax system, and the fiscal framework;
- the restructuring and consolidation of the banking sector and improvement in banks' capital adequacy;
- a significant improvement in the institutional framework for the effective management of the high stock of non-performing loans (NPLs).

The positive effects of the long and painstaking adjustment effort are already visible: sound fiscal balances; a substantial increase in the openness of the Greek economy and its rebalancing towards tradable, export-oriented



goods and services; and a safeguarding of financial stability.

### **3 THE GREEK ECONOMY: DEVELOPMENTS AND PROSPECTS FOR 2019**

The growth momentum of the Greek economy continued in 2018 on the back of the recovery of 2017. Real GDP growth came to 1.9% and is projected to remain at that level in 2019, despite the significant deceleration in the pace of economic expansion in the euro area. Actual GDP developments in 2018 and the outlook for 2019 indicate that the Greek economy is back on a track of positive growth. The challenge therefore is to preserve and reinforce the growth momentum, so as to enable strong growth rates over a long period.

Growth in 2018 was supported both by favourable domestic developments and by the ongoing expansion, albeit at a decelerating pace, of the European economy. The domestic developments include the successful completion of the last three-year economic adjustment programme in August 2018 and the positive impact it had on consumer confidence, business expectations and liquidity. As for the external economic environment, after several years of strong growth, the rate of change in euro area GDP remained positive, but weakened year-on-year in the third quarter of 2018 and further so in the fourth, reflecting the impact of subdued external demand as well as of domestic factors. 2019 will be another year of positive growth rates for almost all euro area countries, despite the significant slowdown seen in most of them. The factors supporting expansion in the euro area include favourable labour market developments and rising wages, favourable financing conditions, a mildly expansionary fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

The growth of the Greek economy in 2018 was driven by: (a) increased exports of goods and services, on the back of Greece's improved international competitiveness and a buoyant

tourism sector, with increased net travel receipts; and (b) private consumption growth, supported by a rise in households' disposable income, as a result of employment growth. Manufacturing branches that are strongly export-oriented maintained momentum, total industrial production increased, albeit at a slower pace, and the real estate market stabilised.

However, growth has yet to gain sufficient traction, as reflected in a negative rate of change in investment, a negative household saving rate and a still high – albeit decreasing – rate of unemployment. The continued underexecution of the Public Investment Programme is also dampening growth.

The smooth execution and completion of the economic adjustment programme, improvements in confidence and the ensuing strengthening of growth in 2018 led to a return of deposits to banks. This, in turn, enabled an increase in bank liquidity, a significant reduction and almost elimination of emergency liquidity assistance (ELA) from the Bank of Greece, a small recovery of bank credit mainly to large enterprises, as well as a further relaxation of capital controls. All of the above led to upgrades of the credit rating of the Greek sovereign.

Nevertheless, Greek government bond yields have remained at very high levels since March 2018, amid turbulence in international financial markets and heightened uncertainty about the smooth implementation of agreed structural reforms. Thus, another bond issue was not attempted until roughly a year later, in February and March 2019, when, taking advantage of the favourable global investment climate, the Greek government successfully issued a five-year bond and a ten-year bond, respectively.

The growth prospects for the Greek economy in 2019 will, to a large extent, remain conditional on the course of the global economy and of the economy of the euro area in particular,

as well as on the unabated continuation of the reform effort. Economic expansion in the euro area is projected to continue in 2019, but at a more moderate pace (1.1%), as recent data point to a significant weakening relative to the strong growth rates of previous years and projections are surrounded by uncertainty.

The Greek economy in 2019 is forecast to be driven mainly by a rise in private consumption and by export growth, albeit at a slower pace. Private consumption will be supported by the continued robust performance of the tourism sector, the ongoing recovery of the labour market and the improved disposable income of households, while investment will benefit mainly from a stabilisation of the real estate market. A negative impact is expected from the deceleration of growth in the global and the European economy.

HICP inflation fell to 0.8% in 2018, from 1.1% in 2017. The absence of significant further increases in indirect taxation during 2018, the sharp drop in international crude oil prices as from October 2018 and strong base effects were among the main factors behind weaker inflation developments. Looking forward, HICP inflation in 2019 is expected to fall to lower levels, as a result of low international crude oil prices, a slowdown in global activity and trade, as well as strong competition in the domestic retail food market.

#### 4 FISCAL POLICY

In 2017, the general government primary balance exceeded the programme target for the third year in a row. More specifically, the general government primary balance in 2017, under the programme definition, turned out a surplus of 4.1% of GDP, significantly over-achieving the target of 1.75% of GDP. An over-performance is once again expected for 2018, according both to the Introductory Report on the 2019 Budget and to Bank of Greece forecasts. In particular, based on available national accounts data for the period January-

September 2018, the general government primary balance turned out a surplus of 3.5% of GDP, which, combined with the cash data available for the year as a whole, supports the estimate that the primary surplus, as defined in the programme, will exceed the target. However, the Public Investment Programme was once again underexecuted in 2018. Moreover, considerable delays were observed in the clearance of general government arrears to suppliers, despite targeted disbursements under the loan agreement. These developments, observed repeatedly in recent years, tighten credit supply constraints, thereby depriving the real economy of much-needed financing resources and weighing on long-term growth, as also pointed out by the European Commission in its Enhanced Surveillance Report.

In the course of 2018 and as required for the completion of the economic adjustment programme, a number of fiscal measures (Omnibus Laws 4512/2018 and 4549/2018) were introduced for the implementation of the programme's structural reforms. The Medium-Term Fiscal Strategy (MTFS) 2019-2022 was also drawn up.

The Eurogroup meeting in June 2018: (a) specified the medium-term debt relief measures and the relevant conditionality; and (b) outlined the enhanced post-programme surveillance framework. After successfully completing the programme, Greece is now part of the new European normality, i.e. the European institutional framework for economic governance in the post-crisis era. Thus, the Introductory Report on the 2019 Budget was submitted to the European Commission in November 2018, for an assessment of its compliance with the European fiscal rules.

For 2019, an expansionary fiscal package amounting to roughly 0.6% of GDP is envisaged, partly offset by a curtailment of 0.3% of GDP in Public Investment Programme expenditure. More importantly, possible further fiscal expansion in the run-up to the elections could put public finances at risk.

In fact, the possible generalised application of court rulings, whereby earlier pension cuts and pensioners' bonuses had been judged unconstitutional, could compound the risk of fiscal derailment in the medium term, resulting in heightened uncertainty about the implementation of the legislated measures of the pension reform, with adverse consequences on the country's ability to meet its fiscal commitments.

## 5 THE SINGLE MONETARY POLICY

The stance of the single monetary policy remained very accommodative in 2018. The euro area economy is gradually, albeit slowly, approaching price stability. Headline inflation edged up to 1.7% in 2018, despite subdued underlying inflation (1.0%), and is projected to decrease in 2019. The rising inflationary pressures in 2018 were driven by an increase in wage costs broadly based across euro area countries and sectors, on the back of tightening labour market conditions. However, the pick-up in HICP inflation was moderated by the recent sharp drop in international crude oil prices since October. Thus, the Governing Council of the European Central Bank (ECB) assessed that a significant degree of monetary accommodation was still warranted to ensure a strengthening of underlying inflation and achieve the price stability aim of headline inflation coming to levels of below but close to 2% over the medium term.

More specifically, the key ECB interest rates, i.e. the interest rate on the main refinancing operations and on the marginal lending facility, are expected to remain unchanged at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. The Governing Council of the ECB intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past

the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Meanwhile, the Governing Council of the ECB announced the launch of a third new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations will help to preserve favourable bank lending conditions and the smooth transmission of monetary policy.

As from October 2018, the Eurosystem net asset purchases were reduced to €15 billion per month and from the start of 2019 to zero, as incoming data continued to confirm a convergence of inflation on a level close to 2%. The end of net asset purchases does not in any way signal a tightening of single monetary policy, given that the ECB Governing Council's decisions to (a) maintain key interest rates unchanged; (b) continue reinvesting, in full, the principal payments from maturing securities; and (c) more recently, to launch a new series of longer-term refinancing operations (TLTRO-III) starting in September 2019, maintain ample monetary accommodation aimed at restoring price stability.

Moreover, an important role has been played by the ECB Governing Council's policy of providing forward guidance regarding possible future monetary policy measures and their sequencing. This policy has been effective in influencing expectations about the evolution of short- and long-term interest rates and in mitigating financial market volatility by reducing the responsiveness of interest rates to new economic data releases and incoming information. In the context of its forward guidance, the Governing Council has indicated that the likely timing of the first increase in key interest rates will be after the end of 2019, on condition that price stability will have by then been ensured.

To ensure the smooth implementation of the Eurosystem's monetary policy and favourable

conditions in euro area money markets, the regular main refinancing operations (MROs) and three-month longer-term refinancing operations (LTROs) will continue to be conducted at least until the second quarter of 2021, as fixed rate tender procedures with full allotment. However, the main source of liquidity provision in 2018 were net asset purchases under the expanded asset purchase programme (APP), through which long-term interest rates and consequently the cost of capital remained at very low levels, with favourable effects on economic activity and inflation.

## 6 THE BANKING SYSTEM

Developments in the Greek banking system during 2018 were marked by banks' improved liquidity situation, by a diversification of funding sources through increased access to the interbank market against collateral and thus less recourse to emergency liquidity assistance (ELA) from the Bank of Greece, and by the maintenance of capital adequacy ratios at satisfactory levels. In early 2018, an EU-wide stress test exercise was conducted, including Greece's four systemic banks, in order to assess banks' resilience to hypothetical shocks over the period 2018-2020. The stress test exercise identified no capital shortfall in any of the participating Greek banks. However, bank profitability was low in 2018, as the increase in non-interest income was insufficient to offset the drop in net interest income and the decrease in costs was smaller than in 2017.

There were signs in 2018 of a small recovery of bank credit to non-financial corporations and of an accelerating return of bank deposits, which enabled banks to restructure the liability side of their balance sheets in favour of less costly funding sources. The increase in household deposits, partly representing inflows of hoarded cash back into banks, is evidence of improved public confidence in the banking system and reflects higher disposable income of households as a result of employment growth.

The increase in business deposits reflects stronger cash flows and profitability and also is consistent with a positive annual net flow of bank credit to non-financial corporations.

Nevertheless, the high stock of non-performing loans (NPLs) on banks' balance sheets remains the major challenge for Greek banks and a serious constraint on their lending capacity. As a result of the improved institutional framework and significant action by banks in conformity with the supervisory guidelines, the stock of NPLs was reduced to €81.8 billion at end-December 2018, down from a peak of €107.2 billion in March 2016. However, the NPL stock is still excessively high.

Bank deposit rates, after trending downwards for several years, appear to have stabilised at low levels consistent with the persistently low policy rates. Bank lending rates to non-financial corporations continued to decline, unlike borrowing costs for households (consumer and housing loans) which increased further. The higher borrowing costs for households reflect banks' assessment that the associated credit risk is still high.

Bank credit to non-financial corporations showed signs of slight recovery in 2018. In particular, disbursements of new loans with fixed maturity rose by 57% year-on-year, with an average monthly flow of €952 million. The average monthly net flow of bank credit to non-financial corporations, albeit low, was positive for the second year in a row, while a more marked improvement can be seen in the cumulative annual flows as a percentage of the monthly average outstanding amount of total bank credit to non-financial corporations.

The increase in private sector bank deposits enabled a further relaxation of capital controls in gradual steps until October 2018, when restrictions on cash withdrawals were fully lifted. Despite the gradual relaxation of several individual restrictions, the full abolition of restrictions on fund transfers abroad has yet to take place.

## Non-performing loans

In 2018, Greek banks continued their efforts to address the NPL problem. By December 2018, the stock of NPLs had fallen to €81.8 billion (45.4% of total loans), down by about €12.7 billion from December 2017 and by €25.4 billion from its March 2016 peak. NPL reduction was largely achieved through loan write-offs and sales, as well as collateral liquidation. Banks have put in place arrangements that would enable a further increase in loan sales.

Banks are using the options provided by the improved legal and regulatory framework, which has removed significant institutional and administrative impediments to the NPL reduction effort of credit institutions. At the end of September 2018, banks submitted to the Bank of Greece and the ECB their revised operational targets for NPL reduction, which were clearly more ambitious than the initial targets. The banks aim to reduce the aggregate stock of NPLs to €34.1 billion by end-2021, bringing the NPL ratio down to 21.2% of total loans. Considering that this ratio is roughly six times the EU28 average, NPL reduction needs to be accelerated.

The successful resolution of the NPL problem is one of the major challenges facing the Greek economy in its effort to achieve sustainable growth, given that bank lending is the main source of financing for non-financial corporations, owing to their structure and size, and for households. Freeing the banks of the NPL burden would help reduce their financial risk and funding costs, thus sustainably improving their internal capital generation capacity and enabling them to fulfil their intermediation role. In addition, alleviating the NPL burden would strengthen banks' resilience and ability to absorb potential future shocks; support operating profitability and put the conditions in place for a gradual increase in loan supply and a decrease in lending rates to enterprises and households, thereby enabling the smooth financing of the real economy.

In the context of the comprehensive NPL management strategy, the Greek authorities will soon need to decide on new, more systemic tools that would complement the banks' own efforts. The Bank of Greece has for quite some time now proposed a systemic solution, which provides for the transfer to Special Purpose Vehicles (SPVs) of a significant part of NPLs along with part of the deferred tax credits (DTCs) on banks' balance sheets. This solution has the advantage of addressing two very serious problems at the same time: NPLs and DTCs. The government and the Bank of Greece are working together on such systemic solutions to the NPL problem.

Furthermore, the new legislation regarding primary residence protection should aim to protect the more vulnerable social groups, avoid creating moral hazard at the expense of non-delinquent borrowers and ensure that the impact on bank capital is manageable.

## 7 PRIVATE INSURANCE UNDERTAKINGS

As a consequence of Solvency II, the Greek private insurance market matured further in 2018, with improvements in governance structures and human resources. Risk and solvency assessment capabilities were also improved, aimed at better capital and risk management and more effective protection of policy-holders. In 2018, insurers continued their efforts to reduce the long-term guarantees embedded in their products. In this context, the time horizon of coverages has been reduced, and the financial guarantees offered reflect more accurately the prevailing economic conditions. These practices have had a positive impact on the undertakings themselves, by enhancing their solvency position, and on policy-holders, by ensuring lower insurance costs and better quality of insurance products.

From a quality standpoint, the eligible own funds of the domestic insurance market are classified in Tier 1, i.e. the highest quality category. The structure of the Solvency Capital



Requirement suggests that the greatest risks for composite insurance undertakings are market risk and life underwriting risk.

In the life insurance sector, insurance undertakings are increasingly designing and providing insurance-based investment products. This business strategy supports the financial strength of insurance undertakings, while also enabling them to offer higher returns to policyholders, although exposing them to higher investment risks. Against this background, it is of crucial importance that insurers provide accurate and relevant information to prospective customers, enabling them to understand the risks involved and avoid losses. To this end, Directive (EU) 2016/97 on Insurance Distribution regulates matters pertaining to the clear communication of product terms and benefits and the quality of advice provided by insurance distributors, with a view to increasing transparency, credibility and customer protection. This Directive was transposed into national legislation with Law 4583/2018, which entrusted the Bank of Greece with the supervision of insurance intermediaries and distributors.

Furthermore, insurance undertakings are in the process of preparing their systems and infrastructures for the implementation of the International Financial Reporting Standard 17 concerning the valuation of their insurance and reinsurance contract liabilities. The postponement by one year of the first reporting of financial data in accordance with this standard gives the time needed for the completion of this effort.

The outlook for the domestic insurance market is promising. In particular, based on the recent proposal for an EU regulation on a Pan-European Personal Pension Product (PEPP), Greek insurance undertakings could assume a new role in the pension system and offer personal pension products to customers seeking to supplement their pension entitlements. Likewise, insurance undertakings could be part of a broader planning for addressing climate-related and environmental risks.

Moreover, insurance undertakings can take advantage of new technologies, such as big data analytics, artificial intelligence and machine learning, to improve risk assessment and pricing.

## 8 RISKS AND SOURCES OF UNCERTAINTY

Despite the progress made so far, as shown by key economic aggregates, and the favourable prospects for the Greek economy, risks remain, both domestic and external.

On the **external front**, risks could arise from a possible further slowdown of global economic activity in 2019 amid increasing trade protectionism, geopolitical risks and vulnerabilities in emerging market economies. Possible turmoil in international financial markets and a disorderly Brexit are potential additional sources of downside risks to the economic outlook. The slowdown of the European economy is also a significant source of concern, which, together with heightened uncertainty over the outcome of the Brexit process, could negatively affect the growth of Greek exports and tourism.

Turning to the **domestic front**, the possible universal implementation of Council of State Plenum rulings that earlier pensions cuts and the abolition of pensioners' bonuses were unconstitutional, poses the greatest fiscal risk in the medium term. The associated additional expenditure would weigh negatively on the public debt sustainability analysis and feed uncertainty about the fiscal policy and the financial sustainability of the pension system.

Other **domestic risks** that could impact the course of the economy include the potential implications of high taxation and the overall fiscal policy mix, as well as the backtracking on reforms or delays in their implementation. In addition, in the labour market, the increase in the minimum wage, legislated last January, though expected to bring about short-term gains by supporting disposable income and

thereby private consumption, is expected in the medium term to hurt employment, mainly of youth, and Greece's unit labour cost competitiveness. Targeted active employment policies can mitigate the adverse effects, while more effective labour market supervision could avert the risk of an increase in undeclared labour. In any event, any raise of the average wage must be consistent with labour productivity growth, so as to preserve the gains in competitiveness and employment achieved through a painstaking reform effort since 2010.

Finally, 2019 for Greece is a year of multiple elections. As Greece enters an electoral cycle, a possible slowdown of the reform effort and greater fiscal expansion add to economic uncertainty.

## 9 CHALLENGES FOR GROWTH

After exiting the last three-year economic adjustment programme, Greece is now confronted with a dual challenge: on the one hand, to achieve strong and sustainable growth rates, by adopting a new growth model in line with new European normality, and, on the other, to ensure high primary surpluses in order to meet its fiscal target commitments, as defined in the Eurogroup decision of June 2018 and by the broader framework of European fiscal rules.

During the long period of adjustment, the Greek economy succeeded in correcting several macroeconomic imbalances. However, Greece continues to face vulnerabilities which can, to a large extent, be considered a legacy of the crisis, although the multiple and inter-related nature of these vulnerabilities denotes chronic weaknesses. Thus, correcting these vulnerabilities is necessary to avert potential risks and ensure sustained macroeconomic equilibrium. In greater detail:

- **The permanent return of the Greek State to international financial markets on sustainable terms** is the greatest challenge ahead. The existence of a cash buffer, though useful, is

only a temporary means for refinancing State borrowing requirements, and would prove rather ineffective in the event of future shocks in international markets. By no means, therefore, can the cash buffer substitute for a return to the markets at regular intervals and under sustainable terms. The return to markets signals restored market confidence in the creditworthiness of the Greek sovereign and improved country risk perceptions and therefore leads to more favourable borrowing terms for both the public and the private sectors. The successful issue of a five-year bond in February 2019 and, more importantly, of a ten-year bond in March 2019 are the first steps towards Greece's smooth reconnection with the international markets.

- **The high public debt as a percentage of GDP** increases public and private sector borrowing costs and puts a drag on growth. The very high primary surpluses in recent years and the increase in nominal GDP have reined in the upward trend of the public debt-to-GDP ratio. However, the ratio remains very high (estimates for 2018 and 2019: 180.4% and 167.8% of GDP, respectively) and well above the reference value of 60% of GDP specified in the Stability and Growth Pact. Although Greece's debt sustainability has markedly improved in the medium term with the measures adopted by the Eurogroup, most recently in June 2018, debt reduction ultimately hinges upon both achieving the fiscal targets and remaining committed to the reform effort so as to ensure robust GDP growth.
- **The maintenance of large primary surpluses over an extended period of time** (3.5% of GDP annually until 2022 and 2.2% of GDP on average over the period 2023-2060), especially when accompanied by high taxation, weighs on growth and consequently on debt sustainability.
- **The high stock of non-performing loans (NPLs)** on banks' balance sheets hampers

the financing of growth, as it ties up bank funds and financial resources in non-productive activities. Despite the significant steps, already mentioned, taken so far in the area of NPL management (reinforcement of the institutional framework, setting by the banks of operational targets for NPL reduction, establishment of a secondary market for NPLs and removal of the legal, judicial and administrative impediments), the proportion of NPLs to total loans, albeit on the decline, remains extremely high (December 2018: 45.4%, compared with an EU28 average of clearly below 4%). The successful resolution of the NPL problem is absolutely necessary in order to improve the quality of bank assets. This, in turn, would enhance the access of healthy entrepreneurship to bank credit. Moreover, a creditless recovery of the Greek economy would be more anaemic, given the high percentage of small and medium-sized enterprises in the national economic structure.

- **The rate of unemployment remains not only high**, but the highest across the European Union. The gradual drop of the unemployment rate to below 20% and a moderate rise in the number of employed are a result of the economic recovery and of structural labour market reforms, which enabled greater labour mobility and flexibility. High unemployment, in particular youth and long-term unemployment, gives rise to inequalities that threaten social cohesion, devalues human capital, saps away any motivation for better education and work, and feeds the brain drain.
- **Low structural competitiveness.** Given the poor performance of the Greek economy in terms of quality of institutions, governance in the public and the private sector, labour and product market effectiveness, ICT adoption, business innovation and R&D, all of which are included in the key components of the World Economic Forum's Global Competitiveness Index 2018 (GCI 4.0), Greece's structural competitiveness

remains below the EU28 average and in fact shows a declining trend.

- **The still negative rate of change in gross fixed capital formation**, considering the need to replenish Greece's capital stock, especially in the wake of a protracted period of disinvestment during the crisis. Moreover, continued underexecution of the Public Investment Programme holds back growth, as it reduces aggregate demand, leads to a deterioration of public infrastructure and increases businesses' operating costs.
- **Insufficient domestic savings.** The rise in nominal disposable income per capita, in particular in the lower income brackets, supported by employment growth largely among youth and workers with part-time and intermittent employment contracts, was chiefly channelled into consumption. Thus, the household saving rate has remained in negative territory, but its downward trend has shown signs of abating.
- **Delays in the delivery of justice.** According to the Enforcing Contracts Indicator used in the World Bank's Doing Business report for 2019, compared to the OECD average, the time for trial and to enforce the judgment is three times longer in Greece, while the time for resolving insolvency is twice as long. Therefore, the rapid and fair settlement of legal disputes in a transparent and stable legal framework is crucial to strengthening the rule of law, thereby also improving investor confidence.
- **Quality of institutions and respect for independent authorities.** A country's strong institutions are crucial to the resilience and shock-absorption capacity of its economy. Countries with weak institutions lack in flexibility and adaptability, making potential economic disturbances more likely to occur and more difficult to address.
- **Adverse demographic developments.** Over the past decade, Greece's demographics have



deteriorated dramatically, as evidenced by the decline and rapid ageing of the population and a very low fertility rate. This adverse demographic trend was further exacerbated by the recent migration outflow of part of the population of reproductive age. The demographic crisis, which is attributed chiefly to the economic crisis and to a lesser extent to social factors, is one of the most serious challenges that Greece's society and economy will need to address in the immediate future, as the rapid contraction and ageing of the population adversely impacts potential output and the pace of economic growth in the medium-to-long term. Apart from the evolution of fiscal aggregates, the financial sustainability of the social security system also depends on demographic developments, as population ageing reduces the ability of the economically active population to finance the pensions of an increasing number of pensioners.

- **The slow digital transformation of the economy.** The penetration of digital technology in the Greek economy and society in the context of the fourth industrial revolution opens up investment opportunities which largely determine the economy's medium-to-long term growth potential. According to the Digital Economy and Society Index (DESI), Greece ranked second to last among the EU28 in 2018, meaning that the digital transformation of the Greek economy remains slow. As a result, Greece is still considered 'digitally immature'. Consequently, policy action must be taken to eliminate this technological lag and reduce digital illiteracy.
- **Climate change and the challenge of sustainable development.** Redefining the concept of growth in a sustainability context and embracing the principles of a circular economy will be crucial to our future path. According to the World Economic Forum's Global Risks Report for 2019, three of the top five risks for the world economy are environmental and all three relate to cli-

mate change. Climate change represents a global externality and poses challenges for economic analysis and policymaking.

## 10 PREREQUISITES FOR SUSTAINABLE GROWTH

Successfully addressing the challenges discussed in the previous section and achieving sustainable growth for the Greek economy call for a minimum set of policy actions:

First, **a continuation and completion of structural reforms**, so as to safeguard the achievements made so far, reinforce the credibility of economic policy and further improve Greece's credit standing, paving the way to **a permanent return to international financial markets on sustainable terms**. By staying committed to the reform effort, the Greek authorities send a clear sign of their intention and ability to complete the necessary structural reforms, geared towards strengthening the resilience and adaptability of the economy with a view to achieving strong growth rates. In this context, top priority must be given to reforms that enhance public administration efficiency, legal certainty, especially in land use, and the faster delivery of justice.

Second, **reducing the high stock of non-performing loans**, so as to free up funds for viable businesses, facilitate the restructuring of the business sector and strengthen healthy competition. Meanwhile, the legal framework reforms currently under way should improve payment morale.

Third, **a change to the fiscal policy mix** geared towards lowering the excessively high tax rates, further rationalising public expenditure and enhancing the Public Investment Programme. This would broaden the tax base and reduce the size of the informal economy, while shifting expenditure towards uses with a permanent growth-enhancing impact.

Fourth, **greater focus on attracting high value-added foreign direct investment**, which would

accelerate technology integration, strengthen Greece's export performance, utilise inactive human resources, thereby increasing total factor productivity. For this to be feasible, the efficiency of public administration needs to be enhanced by removing major disincentives to investors, such as pointless and costly red tape, an unclear legislative and regulatory framework especially in land use, and by promptly implementing the privatisations programme and fostering public-private partnerships.

Fifth, **strengthening the “knowledge triangle”** (education, research, innovation). The Greek education system, despite producing a pool of highly-qualified individuals, fails to equip them with the skills required in today's digital world. All levels of the education system must therefore be redesigned in order to cultivate the skills

required by the modern labour market. Closer links between education and the production process will contribute towards this goal.

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In 2018, the Greek economy continued to grow. 2019 will be a challenging year, as domestic and external risks remain that could jeopardise the recovery path of the economy. Thus, there is no room for complacency. Greece's successful course in the new, post-crisis, European normality calls for strict commitment to uphold the very important achievements made so far, to conduct a prudent economic policy aimed at eliminating the remaining imbalances and to pursue reforms, so as to ensure a full and safe transition to a sustainable and extrovert growth model.

# APPENDIX

## TABLES AND CHARTS

### TABLES

1 Demand and GDP	21
2 Indicators of consumer demand	22
3 Indicators of investment demand	23
4 Gross value added at basic prices	24
5 Activity indicators in the services sector	25
6 Price developments in Greece and the euro area	26
7 Price indices	27
8 Compensation of employees and labour cost	28
9 Balance of payments	29
10 General government and state budget balances	30
11 Decomposition of changes in the general government debt-to-GDP ratio	31

### CHARTS

1 GDP and Economic Sentiment Indicator	32
2 Industrial production	32
3 Employment	33
4 Unemployment rates	33
5 Harmonised index of consumer prices (HICP) and core inflation in Greece and the euro area	34
6 Evolution of CPI/PPI fuel prices and of Brent crude oil prices in euro	34
7 Sectoral breakdown of Greek exports of goods	35
8 Greek exports of goods, by destination	35
9 Structural primary balance of general government	36
10 Bank interest rates on new loans for households and non-financial corporations	36
11 Household deposits, real disposable income and 10-year government bond yields	37
12 Bank credit to non-financial corporations and households	37
13 Yields on 10-year US, German and Greek reference bonds	38
14 General government arrears to suppliers	38



**Table I Demand and GDP (2013-2018)**

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

	2013	2014	2015	2016	2017	2018	2018 (Q1)	2018 (Q2)	2018 (Q3)	2018 (Q4)
Private consumption	-2.7 (-1.8)	0.8 (0.5)	-0.3 (-0.2)	0.1 (0.1)	0.9 (0.6)	1.0 (0.7)	0.5 (0.4)	1.3 (0.9)	1.1 (0.7)	1.1 (0.7)
Public consumption	-5.4 (-1.2)	-1.2 (-0.3)	1.5 (0.3)	-0.7 (-0.2)	-0.5 (-0.1)	-2.5 (-0.5)	-0.3 (-0.1)	-3.9 (-0.8)	-4.5 (-1.0)	-1.4 (-0.3)
Gross fixed capital formation	-8.4 (-1.1)	-4.6 (-0.5)	0.6 (0.1)	4.6 (0.5)	9.4 (1.1)	-12.0 (-1.5)	-8.4 (-1.0)	19.2 (2.1)	-23.0 (-3.3)	-27.2 (-3.9)
<i>Residential investment</i>	-31.3 (-1.0)	-53.2 (-1.2)	-25.7 (-0.3)	-12.4 (-0.1)	-5.5 (0.0)	17.4 (0.1)	11.1 (0.1)	5.6 (0.0)	21.3 (0.1)	32.3 (0.2)
<b>Domestic final demand<sup>1</sup></b>	-4.0 (-4.1)	-0.3 (-0.3)	0.2 (0.2)	0.4 (0.5)	1.6 (1.6)	-1.4 (-1.4)	-0.7 (-0.7)	2.1 (2.1)	-3.4 (-3.5)	-3.4 (-3.5)
Change in inventories and statistical discrepancy (% of GDP)	-0.8%	0.5%	-1.0%	-0.9%	-1.0%	0.8%	0.3%	-1.0%	2.4%	1.4%
<b>Domestic demand</b>	-4.4 (-4.6)	0.8 (0.9)	-1.1 (-1.2)	0.7 (0.7)	1.8 (1.8)	0.2 (0.1)	-2.6 (-2.8)	-0.4 (-0.4)	4.9 (4.9)	-1.1 (-1.2)
Exports of goods and services	1.6 (0.4)	7.7 (2.2)	2.8 (0.9)	-1.9 (-0.6)	6.9 (2.1)	8.8 (2.8)	8.1 (2.5)	9.2 (2.9)	7.1 (2.3)	10.6 (3.4)
Imports of goods and services	-3.3 (1.0)	7.7 (-2.3)	0.4 (-0.1)	1.2 (-0.4)	7.4 (-2.4)	2.9 (-1.0)	-7.5 (2.8)	2.8 (-1.0)	15.6 (-5.2)	2.0 (-0.7)
<b>Foreign demand</b>	... (1.4)	... (-0.2)	... (0.7)	... (-1.0)	... (-0.3)	... (1.8)	... (5.3)	... (1.9)	... (-2.8)	... (2.7)
<b>Gross domestic product at market prices</b>	-3.2	0.8	-0.5	-0.3	1.4	1.9	2.5	1.5	2.1	1.6

Source: ELSTAT, Quarterly National Accounts, 7.3.2019, seasonally adjusted data.

Note: Within parentheses, contributions to GDP in percentage points.

1 Excluding inventories and statistical discrepancy.

**Table 2 Indicators of consumer demand (2012-2019)**

 (annual percentage changes)<sup>1</sup>

	2012	2013	2014	2015	2016	2017	2018	2019 (available period)
Volume of retail sales (overall index)	-12.2	-8.1	-0.4	-1.5	-0.6	1.3	1.5	-
Volume of retail sales (excluding fuel and lubricants)	-11.8	-8.4	-0.7	-0.5	0.5	1.3	1.7	-
Food-beverages-tobacco <sup>2</sup>	-9.0	-9.1	0.5	-2.1	0.0	-0.4	2.3	-
Clothing-footwear	-20.6	-2.2	5.4	7.9	5.4	3.3	1.3	-
Furniture-electrical appliances- household equipment	-16.3	-6.2	-1.4	-3.8	-1.2	6.2	5.0	-
Books-stationery-other	-12.1	-0.1	7.0	7.0	4.4	7.7	1.8	-
Revenue from VAT (at constant prices)	-12.8	-6.5	-0.4	1.9	11.0	4.1	2.0	-
Retail confidence indicator	-3.1	22.9	27.1	-9.1	20.9	-6.7	9.3	13.1 (Jan.-Feb.)
Consumer confidence index	-73.9	-69.3	-52.8	-50.3	-62.9	-58.9	-44.0	-33.3 (Feb.)
New private passenger car registrations	-41.7	3.1	30.1	13.8	10.7	22.2	25.8	13.4 (Jan.-Feb.)
Tax revenue from mobile telephony	-7.9	-12.8	-10.4	-6.4	-10.7	-0.1	11.0	-
Consumer credit <sup>3</sup>	-5.1 (Dec.)	-3.9 (Dec.)	-2.8 (Dec.)	-2.3 (Dec.)	-0.8 (Dec.)	-0.5 (Dec.)	-0.8 (Dec.)	-0.8 (Jan.)

Sources: ELSTAT (retail sales, cars), Ministry of Finance (VAT revenue, tax revenue from mobile telephony), IOBE (retail confidence), IOBE and European Commission (consumer confidence) and 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 and write-offs/write-downs and exchange rate variations.

**Table 3 Indicators of investment demand (2013-2019)**(annual percentage changes)<sup>1</sup>

	2013	2014	2015	2016	2017	2018	2019 (available period)
Capital goods output	-0.5	-2.2	2.3	2.9	4.5	2.0	4.6 (Jan.)
Capacity utilisation in the capital goods industry	61.4	64.7	62.1	65.5	64.1	69.4	66.2 (Jan.-Feb.)
Credit to domestic corporations <sup>2</sup>	-4.9 (Dec.)	-3.7 (Dec.)	-0.9 (Dec.)	-0.1 (Dec.)	0.4 (Dec.)	0.0 (Dec.)	0.2 (Jan.)
Disbursements under the Public Investment Programme <sup>3</sup>	14.5	-0.9	-2.8	-1.8	-5.4	4.8	34.9 (Jan.)
Production index in construction (at constant prices)	-8.2	15.5	3.1	22.9	-14.6	0.8	...
Volume of private construction activity (on the basis of permits issued)	-25.6	-5.8	-0.2	-6.9	19.3	21.5	...
Cement production	3.4	-3.4	3.6	23.6	-4.5	5.4	-2.3 (Jan.)
Construction confidence indicator	50.6	23.8	-29.9	-1.1	-9.6	4.8	-16.2 (Jan.-Feb.)
Housing loans <sup>4</sup>	-3.3 (Dec.)	-3.0 (Dec.)	-3.5 (Dec.)	-3.5 (Dec.)	-3.0 (Dec.)	-2.8 (Dec.)	-2.8 (Jan.)

Sources: ELSTAT (capital goods output, volume of private construction activity, cement production, production in construction), IOBE (capacity utilisation, construction confidence), Bank of Greece (credit to domestic corporations, housing loans, 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, but excluding (as of June 2010), loans to self-employed, farmers and sole proprietors. 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 Since January 2012, data refer to 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 and write-offs/write-downs and exchange rate variations.

**Table 4 Gross value added at basic prices (2013-2018)**

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

	Annual percentage changes									
	2013	2014	2015	2016	2017	2018	2018 (Q1)	2018 (Q2)	2018 (Q3)	2018 (Q4)
<b>1. Agriculture, forestry and fishing</b>	<b>-6.2</b> (-0.3)	<b>8.0</b> (0.3)	<b>0.3</b> (0.0)	<b>-6.1</b> (-0.3)	<b>8.9</b> (0.4)	<b>3.8</b> (0.2)	<b>6.1</b> (0.3)	<b>4.5</b> (0.2)	<b>2.4</b> (0.1)	<b>2.2</b> (0.1)
<b>2. Secondary sector</b>	<b>-4.8</b> (-0.7)	<b>-5.8</b> (-0.9)	<b>-4.2</b> (-0.6)	<b>7.2</b> (1.0)	<b>2.4</b> (0.4)	<b>2.8</b> (0.4)	<b>1.7</b> (0.2)	<b>3.6</b> (0.5)	<b>1.1</b> (0.2)	<b>4.8</b> (0.7)
2.1 Industry including energy	-1.2 (-0.1)	-4.0 (-0.5)	-3.2 (-0.4)	3.2 (0.4)	3.7 (0.4)	1.7 (0.2)	0.6 (0.1)	2.3 (0.3)	0.8 (0.1)	3.1 (0.4)
2.2 Construction	-16.8 (-0.6)	-12.7 (-0.4)	-8.5 (-0.2)	25.4 (0.6)	-2.3 (-0.1)	7.1 (0.2)	6.1 (0.2)	9.2 (0.3)	1.9 (0.1)	11.1 (0.4)
<b>3. Tertiary sector</b>	<b>-2.3</b> (-1.8)	<b>1.4</b> (1.2)	<b>0.1</b> (0.0)	<b>-2.1</b> (-1.7)	<b>1.2</b> (1.0)	<b>1.3</b> (1.1)	<b>1.9</b> (1.5)	<b>1.7</b> (1.4)	<b>0.7</b> (0.6)	<b>0.9</b> (0.8)
3.1 Trade, hotels and restaurants, transport and storage	-4.1 (-0.9)	4.8 (1.0)	-2.2 (-0.5)	-4.3 (-0.9)	3.6 (0.8)	4.2 (0.9)	4.0 (0.9)	4.2 (0.9)	4.2 (0.9)	4.7 (1.0)
3.2 Information and communication	5.7 (0.2)	-5.8 (-0.2)	-5.4 (-0.2)	-0.5 (0.0)	-1.0 (0.0)	0.1 (0.0)	-0.2 (0.0)	-1.4 (0.0)	0.7 (0.0)	1.4 (0.0)
3.3 Financial and insurance activities	0.9 (0.0)	-6.4 (-0.3)	-2.3 (-0.1)	-1.3 (-0.1)	-6.5 (-0.3)	-9.9 (-0.4)	-8.6 (-0.4)	-9.9 (-0.4)	-9.9 (-0.4)	-11.4 (-0.4)
3.4 Real estate activities	1.0 (0.2)	3.4 (0.7)	2.2 (0.5)	-0.7 (-0.1)	2.3 (0.5)	0.2 (0.0)	0.2 (0.0)	0.2 (0.0)	0.2 (0.0)	0.2 (0.0)
3.5 Professional, scientific and technical activities	-12.7 (-0.7)	-3.1 (-0.1)	4.8 (0.2)	-1.4 (-0.1)	3.3 (0.2)	5.5 (0.3)	7.4 (0.3)	5.3 (0.3)	6.5 (0.3)	3.0 (0.1)
3.6 Public administration and defence	-3.3 (-0.7)	0.9 (0.2)	0.0 (0.0)	-1.7 (-0.4)	-0.5 (-0.1)	0.8 (0.2)	1.5 (0.3)	2.0 (0.4)	-0.9 (-0.2)	0.5 (0.1)
3.7 Arts, entertainment and recreation	1.3 (0.1)	-2.2 (-0.1)	3.5 (0.1)	-2.2 (-0.1)	0.1 (0.0)	1.9 (0.1)	8.5 (0.3)	5.4 (0.2)	-2.5 (-0.1)	-3.4 (-0.1)
<b>4. Gross value added at basic prices</b>	<b>-2.7</b>	<b>0.5</b>	<b>-0.6</b>	<b>-1.1</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>1.4</b>	<b>1.7</b>

Source: ELSTAT, Quarterly National Accounts, 7.3.2019, seasonally adjusted data.

Note: Within parentheses, contributions in percentage points.



**Table 5 Activity indicators in the services sector (2015-2018)**

(annual percentage changes)

	2015	2016	2017	2018 (available period)
<b>A. Services turnover indices</b>				
<b>1. Trade</b>				
Wholesale trade	-4.4	-1.6	3.7	6.8
Retail trade	-2.9	-2.1	1.8	2.1
Motor trade	7.8	7.2	6.3	11.0
<b>2. Transport</b>				
Land transport	-5.7	-2.3	10.9	-0.9
Sea transport	-3.1	-4.5	-9.5	-0.4
Air transport	7.8	3.9	10.4	1.6
Storage and supporting transport activities	3.1	8.1	8.1	8.8
<b>3. Hotels and restaurants</b>				
Accommodation and food service activities	7.8	0.8	8.2	9.0
<b>4. Information and communication</b>				
Telecommunications	-1.3	0.5	-0.5	1.2 (Jan.-Sept.)
Film, video and TV programme production, recordings and music products	-24.2	-1.3	-5.0	7.0 (Jan.-Sept.)
Programming and broadcasting activities	-22.3	-15.0	-3.7	15.6 (Jan.-Sept.)
<b>5. Professional, scientific and technical activities</b>				
Legal, accounting and management consulting services	-12.7	-13.5	4.1	9.9 (Jan.-Sept.)
Architectural and engineering services	4.6	-9.1	-8.4	-6.0 (Jan.-Sept.)
Advertising and market research	1.0	-5.9	3.9	3.8 (Jan.-Sept.)
Travel agencies and related activities	-7.4	-4.7	9.1	27.0
<b>B. Passenger traffic</b>				
Athens International Airport	19.0	10.7	8.6	11.0
Aegean Airlines <sup>1</sup>	15.2	7.0	6.0	5.9 (Jan.-Sept.)
Piraeus port (OLP)	-9.7	-3.0	4.1	2.0 (Jan.-Sept.)
<b>C. Services confidence indicator</b>				
	-16.2	1.5	16.9	4.6

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)

	2014	2015	2016	2017	2018
<b>A. Euro area</b>					
<i>Harmonised Index of Consumer Prices (HICP) and its components</i>					
<b>Overall index</b>	<b>0.4</b>	<b>0.0</b>	<b>0.2</b>	<b>1.5</b>	<b>1.7</b>
Goods	-0.2	-0.8	-0.4	1.7	2.1
Food	0.5	1.0	0.9	1.8	2.2
Processed food <sup>1</sup>	1.2	0.6	0.6	1.6	2.4
Unprocessed food	-0.8	1.6	1.4	2.2	1.8
Industrial goods	-0.5	-1.8	-1.1	1.6	2.0
Non-energy industrial goods	0.1	0.3	0.4	0.4	0.4
Energy	-1.9	-6.8	-5.1	4.9	6.3
Services	1.2	1.2	1.1	1.4	1.3
<b>Industrial producer prices</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>1.1</b>	<b>1.2</b>
<b>B. Greece</b>					
<i>Harmonised Index of Consumer Prices (HICP) and its components</i>					
<b>Overall index</b>	<b>-1.4</b>	<b>-1.1</b>	<b>0.0</b>	<b>1.1</b>	<b>0.8</b>
Goods	-1.0	-2.0	-1.3	1.1	0.7
Food	-1.0	1.7	0.2	1.5	0.9
Processed food <sup>1</sup>	0.6	1.8	1.0	2.0	1.1
Unprocessed food	-3.5	1.7	-1.3	0.4	0.5
Industrial goods	-1.2	-5.3	-2.7	0.7	0.5
Non-energy industrial goods	-1.0	-1.8	-1.4	-2.3	-1.2
Energy	-2.0	-11.1	-5.2	8.5	3.9
Services	-2.0	0.0	1.4	1.2	0.9
<b>Industrial producer prices</b>	<b>-1.1</b>	<b>0.1</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>

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
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
2018	0.6	0.7	0.5	0.1	0.1	0.4	1.7	5.1
Year	Industrial Producer Price Index						Import price index in industry	
	Domestic market				External market			
	Overall index	Sub-indices					Overall index	Overall index excl, energy
		Overall index excl. energy	Intermediate goods	Consumer goods				
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
2018	3.3	0.1	1.2	-0.8	7.6	0.6	6.6	0.1

Source: ELSTAT and calculations based on ELSTAT data.

**Table 8 Compensation of employees and labour cost (2016-2019)**

(annual percentage changes)

	2016	2017	2018	2019 (forecast)
Total compensation of employees	-0.1	2.3	3.6	4.2
Compensation per employee	-0.9	0.5	1.3	2.0
Labour productivity (GDP/total employment)	-0.7	-0.04	0.2	0.1
Unit labour cost (total economy)	-0.3	0.6	1.1	1.9
Total compensation of employees in the general government sector	-0.5	0.2	1.3 <sup>1</sup>	...
Total compensation of employees in the business sector	0.2	3.5	5.5 <sup>1</sup>	...

Sources: For 2016-2018: ELSTAT, revised annual and quarterly national accounts and non-financial accounts of institutional sectors, 7.3.2019 and 4.12.2018-24.1.2019. For 2019: Bank of Greece forecasts.

1 Data for the first nine months of the year.

**Table 9 Balance of payments**

(million euro)

	2015	2016	2017	2018
<b>I CURRENT ACCOUNT (I.A+I.B+I.C+I.D)</b>	<b>-1,438.4</b>	<b>-3,050.0</b>	<b>-3,159.3</b>	<b>-5,275.7</b>
<b>BALANCE OF GOODS AND SERVICES (I.A+I.B)</b>	<b>-1,084.8</b>	<b>-1,662.7</b>	<b>-1,790.2</b>	<b>-3,136.1</b>
Receipts	56,455.1	54,408.3	61,701.7	69,558.9
Payments	57,539.8	56,070.9	63,491.9	72,695.1
<b>I.A Goods balance (I.A.1 – I.A.2)</b>	<b>-17,666.1</b>	<b>-17,960.3</b>	<b>-19,833.9</b>	<b>-22,489.1</b>
<i>I.A.1 Exports of goods</i>	<i>24,805.1</i>	<i>24,613.2</i>	<i>28,040.5</i>	<i>32,372.8</i>
Oil	6,643.3	6,162.5	7,887.8	10,016.9
Ships (sales)	144.4	119.8	102.0	130.9
Goods excluding oil and ships	18,017.4	18,330.9	20,050.7	22,225.0
<i>I.A.2 Imports of goods</i>	<i>42,471.2</i>	<i>42,573.5</i>	<i>47,874.4</i>	<i>54,861.9</i>
Oil	10,777.6	9,148.0	11,605.4	15,197.5
Ships (purchases)	229.2	88.4	141.9	187.7
Goods excluding oil and ships	31,464.4	33,337.1	36,127.0	39,476.7
<b>I.B Services balance (I.B.1 – I.B.2)</b>	<b>16,581.3</b>	<b>16,297.6</b>	<b>18,043.7</b>	<b>19,353.0</b>
<i>I.B.1 Receipts</i>	<i>31,650.0</i>	<i>29,795.0</i>	<i>33,661.3</i>	<i>37,186.1</i>
Travel	14,125.8	13,206.7	14,630.1	16,112.6
Transport	13,663.7	12,574.4	14,473.8	16,629.9
Other services	3,860.5	4,013.9	4,557.3	4,443.6
<i>I.B.2 Payments</i>	<i>15,068.7</i>	<i>13,497.5</i>	<i>15,617.6</i>	<i>17,833.1</i>
Travel	2,037.4	2,005.3	1,904.7	2,169.2
Transport	9,374.8	7,988.9	9,520.6	11,044.3
Other services	3,656.5	3,503.2	4,192.3	4,619.6
<b>I.C Primary income balance (I.C.1 – I.C.2)</b>	<b>153.7</b>	<b>-798.9</b>	<b>-810.4</b>	<b>-1,681.7</b>
<i>I.C.1 Receipts</i>	<i>7,539.9</i>	<i>6,217.5</i>	<i>6,550.1</i>	<i>6,344.8</i>
Compensation of employees	226.2	211.4	216.6	223.0
Investment income	4,033.3	2,828.0	3,514.0	3,017.7
Other primary income	3,280.3	3,178.2	2,819.5	3,104.1
<i>I.C.2 Payments</i>	<i>7,386.2</i>	<i>7,016.5</i>	<i>7,360.5</i>	<i>8,026.6</i>
Compensation of employees	1,187.3	1,211.6	1,343.7	1,363.7
Investment income	5,895.8	5,380.4	5,611.5	6,260.8
Other primary income	303.1	424.5	405.4	402.1
<b>I.D Secondary income balance (I.D.1 – I.D.2)</b>	<b>-507.3</b>	<b>-588.4</b>	<b>-558.7</b>	<b>-457.8</b>
<i>I.D.1 Receipts</i>	<i>1,946.5</i>	<i>1,838.0</i>	<i>1,949.9</i>	<i>2,035.1</i>
General government	1,093.4	1,059.4	939.8	1,034.7
Other sectors	853.0	778.6	1,010.1	1,000.3
<i>I.D.2 Payments</i>	<i>2,453.8</i>	<i>2,426.4</i>	<i>2,508.6</i>	<i>2,492.9</i>
General government	1,717.7	1,850.7	1,792.7	1,702.8
Other sectors	736.1	575.7	715.9	790.1
<b>II CAPITAL ACCOUNT (II.1–II.2)</b>	<b>1,988.6</b>	<b>1,035.7</b>	<b>914.5</b>	<b>353.2</b>
<b>II.1 Receipts</b>	<b>2,369.5</b>	<b>1,278.4</b>	<b>1,133.8</b>	<b>1,007.4</b>
General government	2,319.3	1,198.2	1,040.2	627.5
Other sectors	50.2	80.2	93.6	379.8
<b>II.2 Payments</b>	<b>380.9</b>	<b>242.7</b>	<b>219.3</b>	<b>654.2</b>
General government	4.1	28.5	3.0	4.1
Other sectors	376.8	214.2	216.3	650.1
<b>CURRENT AND CAPITAL ACCOUNT (I+II)</b>	<b>550.2</b>	<b>-2,014.3</b>	<b>-2,244.8</b>	<b>-4,922.5</b>
<b>III FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)</b>	<b>1,582.1</b>	<b>-873.6</b>	<b>-1,702.3</b>	<b>-3,950.5</b>
<b>III.A Direct investment<sup>1</sup></b>	<b>279.4</b>	<b>-4,004.1</b>	<b>-2,688.9</b>	<b>-2,887.5</b>
Assets	1,426.2	-1,551.3	509.0	752.7
Liabilities	1,146.8	2,452.8	3,197.9	3,640.2
<b>III.B Portfolio investment<sup>1</sup></b>	<b>8,348.3</b>	<b>9,622.6</b>	<b>-20,117.7</b>	<b>73.8</b>
Assets	6,996.0	7,059.0	-19,392.1	1,377.7
Liabilities	-1,352.4	-2,563.6	725.7	1,303.9
<b>III.C Other investment<sup>1</sup></b>	<b>-7,400.1</b>	<b>-7,073.6</b>	<b>20,986.4</b>	<b>-1,066.8</b>
Assets	12,402.6	-15,512.5	-11,744.7	-5,701.8
Liabilities	19,802.6	-8,438.9	-32,731.0	-4,635.0
(General government borrowing)	11,921.6	6,492.9	5,693.7	19,555.0
<b>III.D Change in reserve assets<sup>2</sup></b>	<b>354.4</b>	<b>581.5</b>	<b>118.0</b>	<b>-70.0</b>
<b>IV ERRORS AND OMISSIONS (I + II - III + IV=0)</b>	<b>1,031.9</b>	<b>1,140.7</b>	<b>542.5</b>	<b>972.1</b>
<b>RESERVE ASSETS</b>	<b>5,535</b>	<b>6,539</b>	<b>6,509</b>	<b>6,625</b>

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)

	2014	2015	2016	2017	2018
<b>General government balance<sup>1</sup></b> <i>(national accounts data – convergence criterion)</i>	<b>-3.6</b>	<b>-5.6</b>	<b>0.5</b>	<b>0.8</b>	<b>0.6*</b>
– Central government	-4.3	-5.6	-0.9	-1.2	-0.8*
– Social security funds, local government, legal entities in public law	0.7	0.0	1.4	1.9	1.4*
<b>General government balance adjusted for net support to financial institutions<sup>1</sup></b>	<b>-3.6</b>	<b>-2.9</b>	<b>0.3</b>	<b>0.7</b>	
<b>General government primary balance</b>	<b>0.3</b>	<b>-2.1</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>
<b>General government primary balance adjusted for net support to financial institutions<sup>1</sup></b>	<b>0.3</b>	<b>0.7</b>	<b>3.5</b>	<b>3.9</b>	
<b>State budget balance</b>					
<i>Administrative data<sup>2</sup></i>	<b>-2.1</b>	<b>-2.0</b>	<b>-1.6</b>	<b>-2.4</b>	<b>-1.2</b>
<i>Cash data<sup>3</sup></i>	<b>-2.4<sup>4</sup></b>	<b>-1.9<sup>5</sup></b>	<b>-2.0<sup>6</sup></b>	<b>-2.5<sup>7</sup></b>	<b>-2.3<sup>8</sup></b>

Sources: Bank of Greece, Ministry of Finance and ELSTAT.

\* Provisional data (State General Accounting Office, Introductory Report on the 2019 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 2019 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 €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.

5 Excluding revenue of €55 million arising out of the transfer of profits from SMP holdings of Eurosystem central banks.

6 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.

7 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.

8 Excluding revenue of €25 million arising out of the transfer of profits from SMP holdings of Eurosystem central banks. Including expenditure of €3,182 million for the payment of arrears.

**Table II Decomposition of changes in the general government debt-to-GDP ratio<sup>1</sup>**

(percentage points of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
General government debt-to-GDP ratio	109.4	126.7	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.1	180.4
Changes in the general government debt-to-GDP ratio	6.3	17.3	19.5	25.8	-12.5	17.8	1.5	-3.0	2.6	-2.4	4.3
– Primary balance	5.4	10.1	5.3	3.0	3.8	9.1	-0.3	2.1	-3.7	-3.9	-4.1
– Interest rate/growth rate differential (snowball effect)	0.9	7.1	12.3	20.7	19.3	13.3	5.9	4.9	3.9	-0.6	-1.7
– Deficit-debt adjustment <sup>2</sup>	0.1	0.1	1.9	2.1	-35.6	-4.6	-4.0	-10.1	2.4	2.1	10.1

Sources: Introductory Report on the 2018 Budget and ELSTAT.

\* Provisional data.

1 Changes in the debt ratio have been decomposed using the following formula:

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

where  $D_t$  = general government debt

$PB_t$  = primary balance (deficit (+) or surplus (-))

$Y_t$  = GDP at current prices

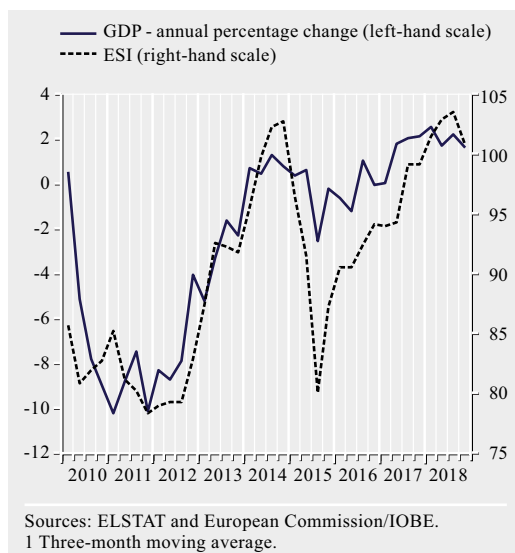
$g_t$  = nominal GDP growth rate

$i_t$  = average nominal interest rate on government debt

$SF_t$  = deficit-debt adjustment

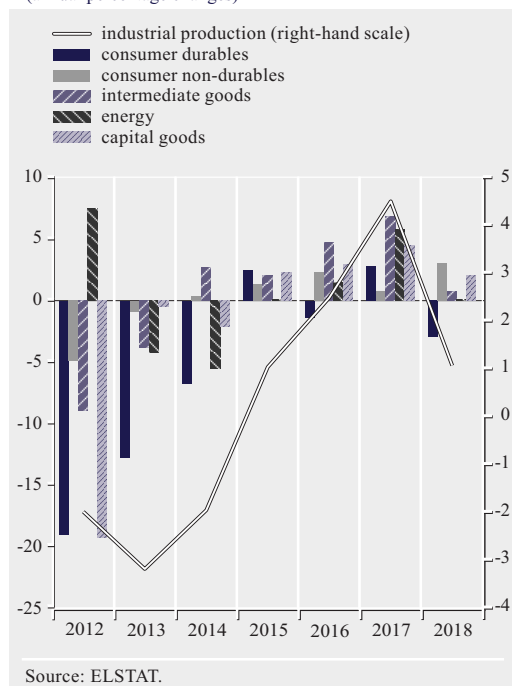
2 The deficit-debt adjustment includes expenditure or liability assumption by general government that does not affect the deficit but increases debt, as well as revenue (e.g. privatisation proceeds) that does not affect the deficit but reduces debt.

**Chart 1 GDP and Economic Sentiment Indicator<sup>1</sup>**  
(Q1 2010 - Q4 2018)



**Chart 2 Industrial production**  
(2012-2018)

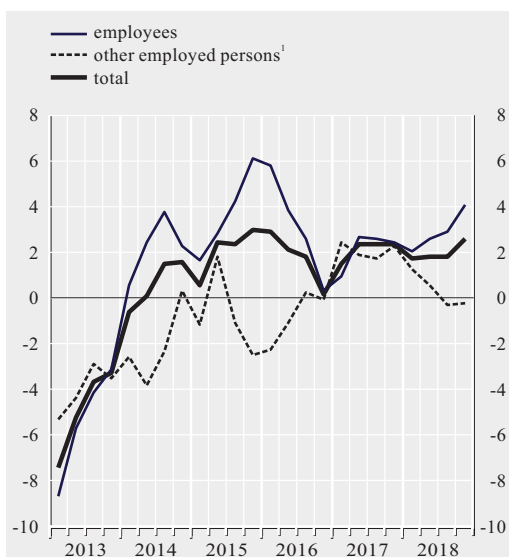
(annual percentage changes)





**Chart 3 Employment**  
(Q1 2013 - Q4 2018)

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

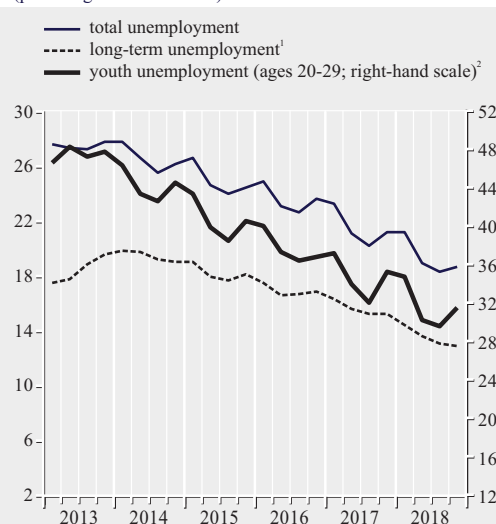


Source: ELSTAT, Labour Force Surveys.

1 Other employed persons=self-employed with employees (employers) + self-employed without employees + contributing family workers.

**Chart 4 Unemployment rates**  
(Q1 2013 - Q4 2018)

(percentage of labour force)



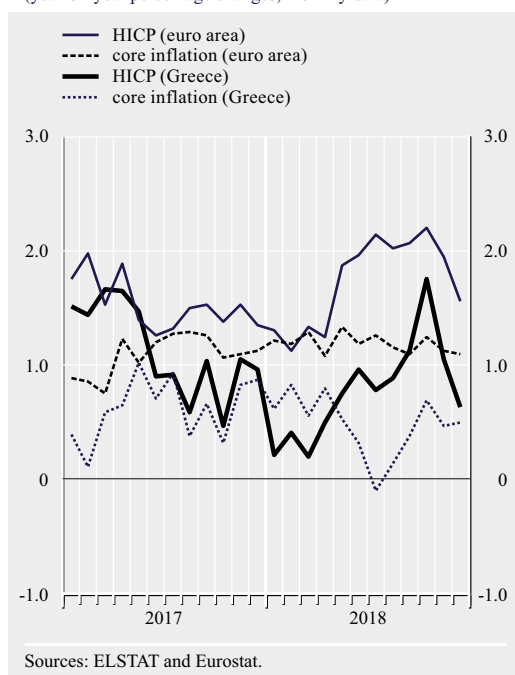
Source: ELSTAT, Labour Force Surveys.

1 For twelve months or more.

2 As a percentage of the labour force of this age group.

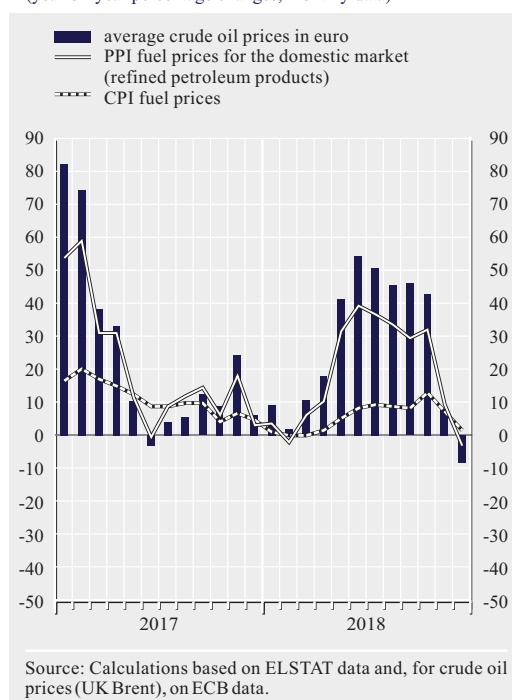
**Chart 5 Harmonised index of consumer prices (HICP) and core inflation in Greece and the euro area (January 2017-December 2018)**

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

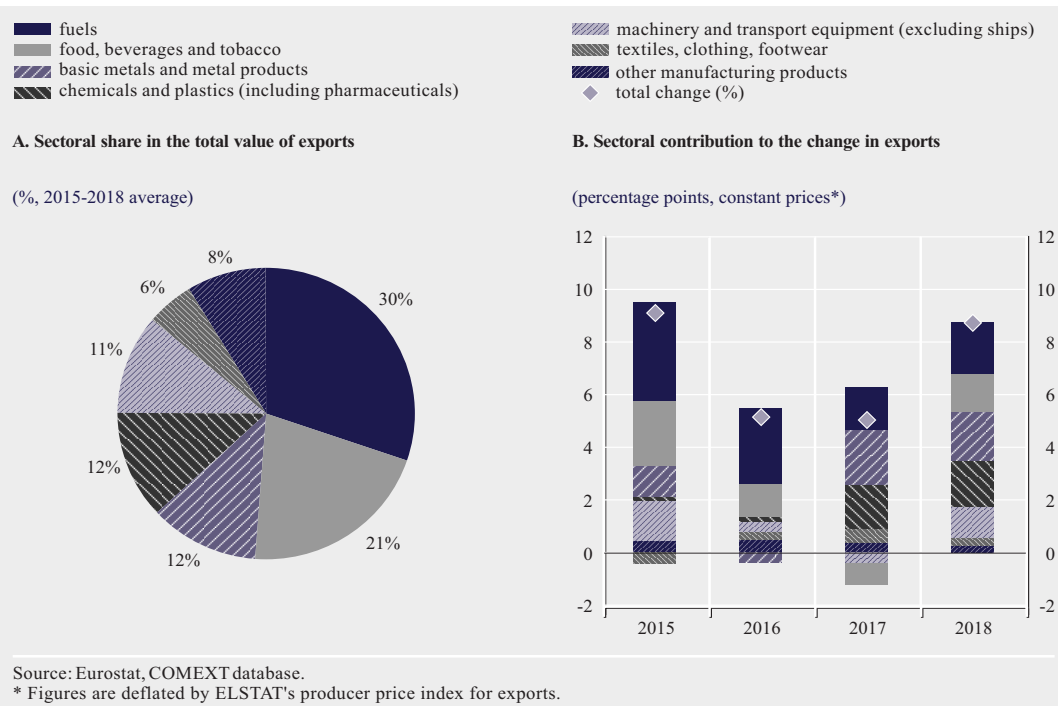


**Chart 6 Evolution of CPI/PPI fuel prices and of Brent crude oil prices in euro (January 2017-December 2018)**

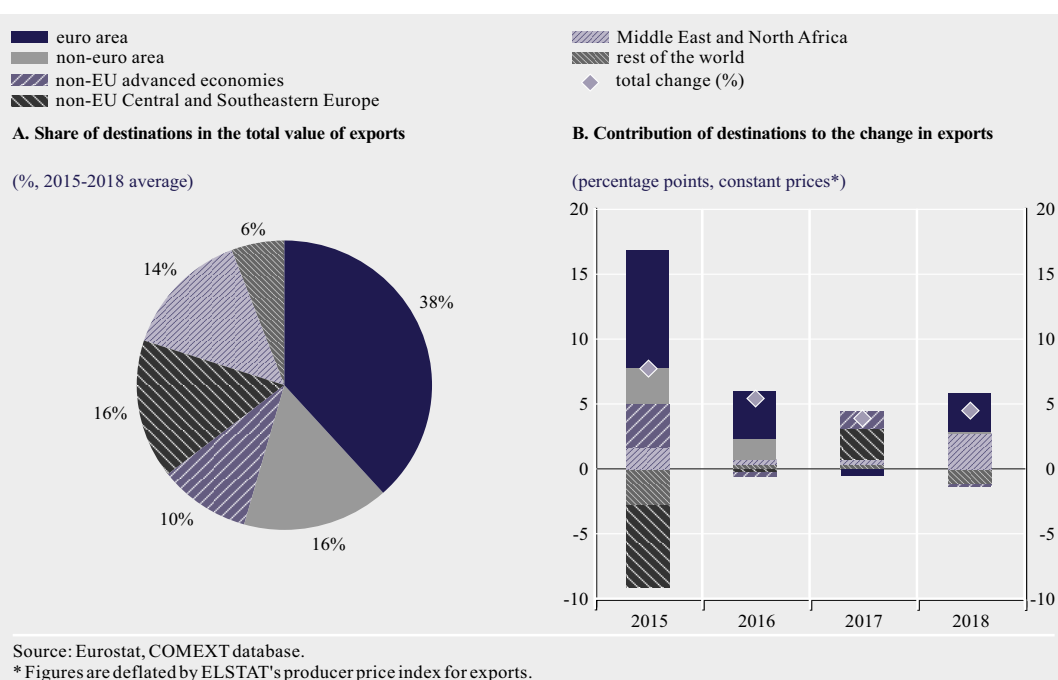
(year-on-year percentage changes; monthly data)



**Chart 7 Sectoral breakdown of Greek exports of goods**

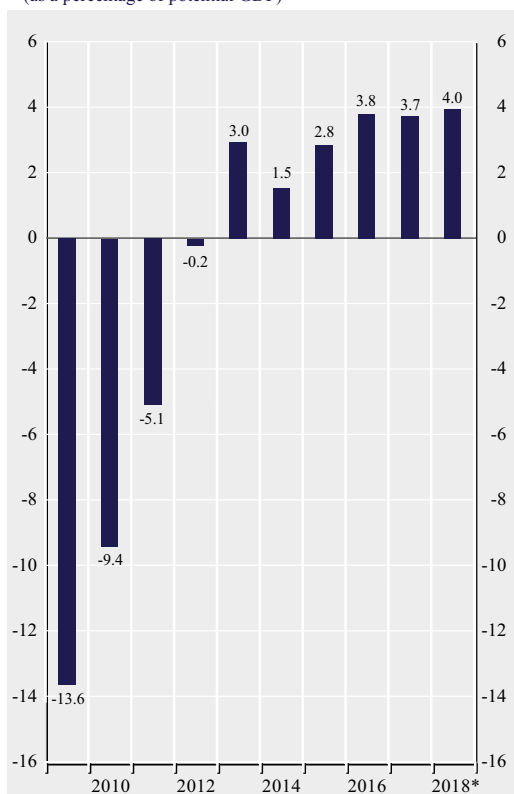


**Chart 8 Greek exports of goods, by destination**



**Chart 9 Structural primary balance of general government (2009-2018)**

(as a percentage of potential GDP)



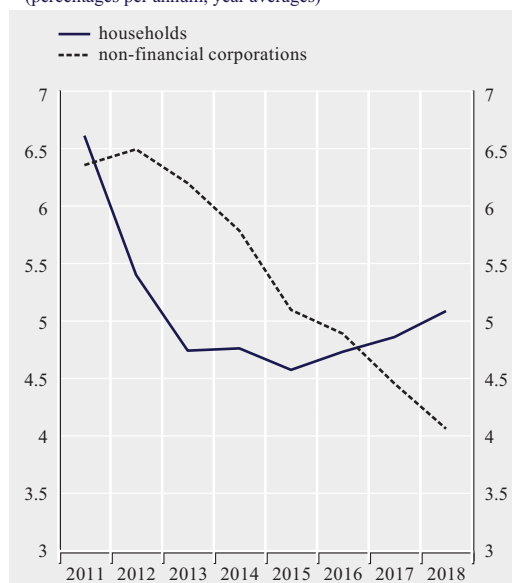
Source: Bank of Greece.

\* Forecast.

Note: The structural primary balance of general government is calculated according to the Eurosystem methodology.

**Chart 10 Bank interest rates on new loans for households and non-financial corporations (2011-2018)**

(percentages per annum, year averages)



Source: Bank of Greece.

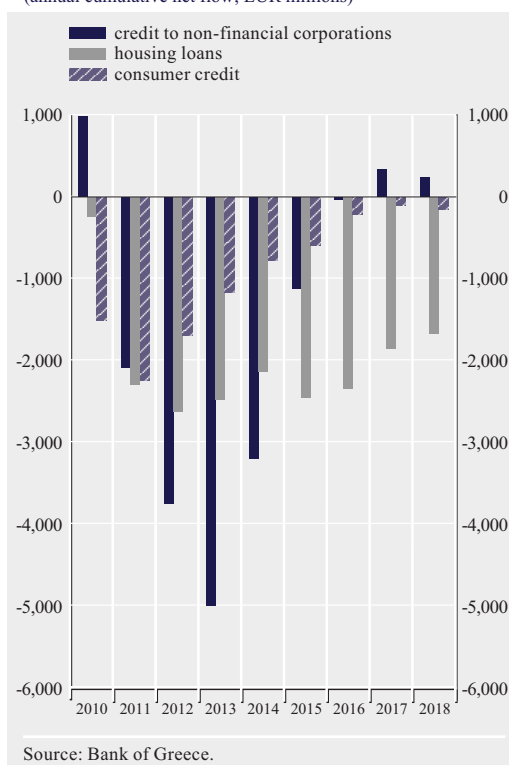
**Chart 11 Household deposits, real disposable income and 10-year government bond yields (Q3 2015-Q4 2018)**

(quarterly cumulative flow in EUR billions; annual rate of change; percentage per annum)



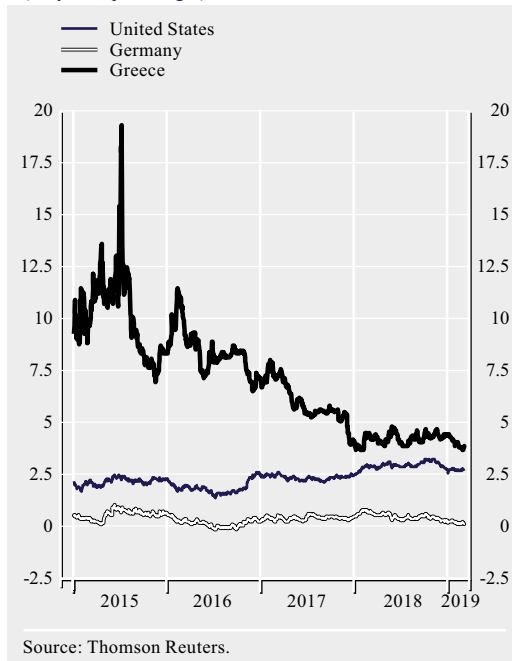
**Chart 12 Bank credit to non-financial corporations and households (2010-2018)**

(annual cumulative net flow; EUR millions)



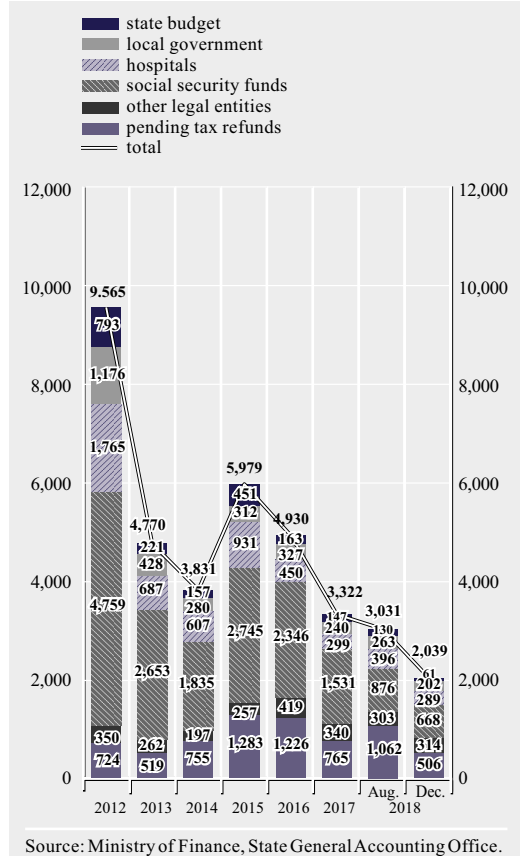
**Chart I3 Yields on 10-year US, German and Greek reference bonds  
(1 January 2015-8 March 2019)**

(daily data; percentages)



**Chart I4 General government arrears to suppliers**

(EUR millions)





# **ANNUAL ACCOUNTS OF THE BANK OF GREECE FOR THE YEAR 2018**

**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 accompanying financial statements of the Bank of Greece (the Bank), which comprise the balance sheet as at 31 December 2018, the profit and loss account and the statement of profit distribution for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance for the year then ended in accordance with the accounting principles prescribed by the European Central Bank (ECB), under the “Guideline (EU) 2016/2249 of 3.11.2016 (ECB/2016/34)”, as adopted by the Bank in Article 54A of its Statute and for any issues that are not covered by the aforementioned ECB rules and guidelines, in accordance with Codified Law 2190/1920 on sociétés anonymes and Greek Accounting Standards, where these have been implemented by the Bank.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs) as these have been incorporated into the Greek legislation. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We have been independent of the Bank during the whole period of our appointment in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) as incorporated into the Greek legislation and the ethical requirements in Greece relevant to the audit of the financial statements and we have fulfilled our ethical requirements in accordance with the applicable legislation and the above mentioned Code of Ethics. 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 and the relevant risks of material misstatement 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
<b>Provisions against financial risks</b>	
<p>The provision against financial risks amounted to €5,311.7 million as at 31 December 2018, compared to €5,309 million as at 31 December 2017. This provision also includes the provision against credit risk.</p> <p>The estimation and the measurement of the provision against credit risk is performed by the Management, with the use of a model, is subjective and involves a high degree of judgement to be applied by the Management and therefore we considered that it is a key audit matter.</p> <p>Management has provided information on the provision against financial risks in Note 12 “Provisions” of the Liabilities, paragraph “c. Provision against Financial and Operational Risks” of the financial statements.</p>	<p>On the basis of the audit risk assessment, and following a risk-based approach, we assessed the adequacy of the provision against credit risk measured by the Management.</p> <p>Our audit procedures include, among others, the following:</p> <ul style="list-style-type: none"> <li>• Assessment of the design of the internal controls related to the provision against credit risk measured by the Management, including the internal controls relevant to the appropriateness of the method and the model as well as Management’s judgement for the estimation of this provision.</li> <li>• With the support of our experts (risk specialists), assessment of the appropriateness of the methodology and the model used by the Management to measure the credit risk, as well as an assessment of Management’s judgement.</li> <li>• Testing the completeness and the appropriateness of the underlying data used to measure the credit risk and, on a sample basis, testing the accuracy of this data.</li> <li>• Assessment of the accuracy of the disclosures related to this key audit matter.</li> </ul>

Key Audit Matters	How our audit addressed the key audit matter
<b>Provisions for defined benefit obligations to insured persons</b>	
<p>The provision for defined benefit obligations to insured persons amounted to €2,168.8 million as at 31 December 2018, compared to €2,155.8 million as at 31 December 2017.</p> <p>The estimation of provision for defined benefit obligations to insured persons involves the exercise of Management's judgment on the determination of the amount on which the pension is calculated which is the basis for the estimation of this provision. In addition, the estimation is performed with the use of an actuarial model and incorporates significant assumptions. Due to the subjectivity and the high degree of judgment to be applied by the Management, we considered that it is a key audit matter.</p> <p>Management has provided further information in Note 12 "Provisions" of the Liabilities of the financial statements.</p>	<p>On the basis of the audit risk assessment, and following a risk-based approach, we evaluated the methodology and assumptions used by Management with regard to the provision for defined benefit obligations to insured persons. Our audit procedures include, among others, the following:</p> <ul style="list-style-type: none"> <li>• Assessment of the design of the internal controls related to the completeness and accuracy of the data, the methodology and the assumptions used by Management to estimate the provisions for defined benefit obligations to insured persons.</li> <li>• Assessment of the reasonable determination of the amount on which the pension is calculated, which is the basis for the estimation of provisions for defined benefit obligations to insured persons.</li> <li>• Assessment, with the support of our specialists (actuarial specialists), of the appropriateness and the reasonableness of the significant actuarial assumptions used in the actuarial report for estimating provisions for defined benefit obligations to insured persons.</li> <li>• Testing of the completeness of the data used by the external actuary and on a sample basis testing its accuracy.</li> <li>• Assessment of the accuracy of the disclosures related to this key audit matter.</li> </ul>

### **Other Information**

Management is responsible for the other information. The other information is included in the General Council's Report, referred to in the "Report on Other Legal and Regulatory Requirements" and in the Report on the Greek Economy (Part A of the Governor's Report for the financial year 2018), 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 auditors' 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 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.

If, upon our reading of the Governor's Report, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to communicate that fact to those charged with governance of the Bank.

### **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), under the "Guideline (EU) 2016/2249 of 3.11.2016 (ECB/2016/34)", as adopted by the Bank in Article 54A of its Statute, and in accordance with the Codified Law 2190/1920 on sociétés anonymes and Greek Accounting Standards, where these have been implemented by the Bank, for any issues that are not covered by the aforementioned ECB rules and guidelines, and for such internal controls as Management determines are 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.

The Audit Committee (article 44 of Law 4449/2017) of the Bank is 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, as these have been incorporated into the Greek legislation, 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, as these have been incorporated into the Greek legislation, we exercise professional judgment and maintain professional scepticism 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 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

## **Report on Other Legal and Regulatory Requirements**

### ***1. General Council's Report***

Taking into consideration that Management is responsible for the preparation of the General Council's Report for the financial year 2018 which also includes the Corporate Governance Statement, according to the provisions of paragraph 5 of article 2 of Law 4336/2015 (part B), we note the following:

- a) The General Council's Report includes the Corporate Governance Statement which provides the information required by article 43bb of Greek Codified Law 2190/1920.
- b) In our opinion, the General Council's Report for the financial year 2018 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 2018.
- c) 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 General Council's Report.

### ***2. Additional Report to the Audit Committee***

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

### ***3. Non-audit Services***

We have not provided to the Bank any prohibited non-audit services referred to in Article 5 of European Union (EU) Regulation 537/2014.

The allowable non-audit services provided to the Bank during the year ended 31 December 2018 are disclosed in Note "Services of Independent Certified Public Accountant" to the accompanying financial statements.

#### **4. Appointment**

We were appointed as statutory auditors for the first time by the General Assembly of the Bank of Greece on 24 February 2017. Our appointment has been, since then, uninterruptedly renewed for one consecutive year based on the decisions reached by shareholder's Annual General Assembly.

25 February 2019

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Co. Reg. No. : 001223601000

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# BALANCE SHEET AS AT 31 DECEMBER 2018

## NINETY-FIRST YEAR

(in euro)

ASSETS	31.12.2018	31.12.2017
<b>1. Gold and gold receivables</b>	<b>5,390,195,138</b>	<b>5,190,832,297</b>
<b>2. Claims on non-euro area residents denominated in foreign currency</b>	<b>2,483,673,148</b>	<b>2,597,159,265</b>
2.1 Receivables from the International Monetary Fund (IMF)	702,267,928	685,692,703
2.2 Balances with banks and security investments, external loans and other external assets	1,781,405,220	1,911,466,562
<b>3. Claims on euro area residents denominated in foreign currency</b>	<b>320,388,447</b>	<b>271,455,735</b>
3.1 General government	16,359,029	15,920,425
3.2 Other claims	304,029,418	255,535,310
<b>4. Claims on non-euro area residents denominated in euro</b>	<b>521,741</b>	<b>23,489</b>
4.1 Balances with banks, security investments and loans	521,741	23,489
4.2 Claims arising from the credit facility under ERM II	0	0
<b>5. Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>10,123,400,000</b>	<b>12,059,000,000</b>
5.1 Main refinancing operations	958,400,000	680,000,000
5.2 Longer-term refinancing operations	9,105,000,000	11,100,000,000
5.3 Fine-tuning reverse operations	0	0
5.4 Structural reverse operations	0	0
5.5 Marginal lending facility	60,000,000	279,000,000
5.6 Credits related to margin calls	0	0
<b>6. Other claims on euro area credit institutions denominated in euro</b>	<b>947,532,869</b>	<b>21,614,898,570</b>
<b>7. Securities of euro area residents denominated in euro</b>	<b>76,536,148,136</b>	<b>73,944,793,921</b>
7.1 Securities held for monetary policy purposes	64,908,555,192	60,624,764,994
7.2 Other securities of euro area residents denominated in euro	11,627,592,944	13,320,028,927
<b>8. General government long-term debt denominated in euro</b>	<b>5,295,537,932</b>	<b>5,717,976,316</b>
<b>9. Intra-Eurosystem claims</b>	<b>5,963,874,072</b>	<b>1,914,063,363</b>
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	4,133,564,050	0
9.4 Net claims arising from balances of TARGET2 accounts	0	0
9.5 Other claims within the Eurosystem (net)	87,283,920	171,037,261
<b>10. Items in course of settlement</b>	<b>0</b>	<b>85,254</b>
<b>11. Other assets</b>	<b>2,101,918,610</b>	<b>2,130,224,128</b>
11.1 Coins of euro area	56,780,853	63,463,487
11.2 Tangible and intangible fixed assets	561,412,923	564,103,667
11.3 Other financial assets	101,614,906	97,185,041
11.4 Off-balance-sheet instruments revaluation differences	62,905	102,453
11.5 Accruals and prepaid expenses	819,046,810	817,745,677
11.6 Sundry	563,000,213	587,623,803
<b>TOTAL ASSETS</b>	<b>109,163,190,093</b>	<b>125,440,512,338</b>

LIABILITIES	31.12.2018	31.12.2017
<b>1. Banknotes in circulation</b>	<b>32,717,386,050</b>	<b>31,111,777,700</b>
<b>2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>6,942,079,203</b>	<b>1,959,800,623</b>
2.1 Current accounts (covering the minimum reserve system)	2,819,079,203	1,959,800,623
2.2 Deposit facility	4,030,000,000	0
2.3 Fixed-term deposits	0	0
2.4 Fine-tuning reverse operations	0	0
2.5 Deposits related to margin calls	93,000,000	0
<b>3. Other liabilities to euro area credit institutions denominated in euro</b>	<b>0</b>	<b>0</b>
<b>4. Liabilities to other euro area residents denominated in euro</b>	<b>24,953,984,561</b>	<b>12,397,028,127</b>
4.1 General government	23,518,798,954	11,090,282,518
4.2 Other liabilities	1,435,185,607	1,306,745,609
<b>5. Liabilities to non-euro area residents denominated in euro</b>	<b>2,395,528,696</b>	<b>2,423,950,875</b>
<b>6. Liabilities to euro area residents denominated in foreign currency</b>	<b>714,999,931</b>	<b>711,599,699</b>
<b>7. Liabilities to non-euro area residents denominated in foreign currency</b>	<b>2,529</b>	<b>2,415</b>
7.1 Deposits and other liabilities	2,529	2,415
7.2 Liabilities arising from the credit facility under ERM II	0	0
<b>8. Counterpart of special drawing rights allocated by the IMF</b>	<b>0</b>	<b>0</b>
<b>9. Intra-Eurosystem liabilities</b>	<b>28,596,286,346</b>	<b>64,160,258,188</b>
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	0	4,758,609,980
9.3 Net liabilities arising from balances of TARGET2 accounts	28,596,286,346	59,401,648,208
9.4 Other liabilities within the Eurosystem (net)	0	0
<b>10. Items in course of settlement</b>	<b>1,985,586</b>	<b>913,852</b>
<b>11. Other liabilities</b>	<b>770,434,515</b>	<b>1,068,668,202</b>
11.1 Off-balance-sheet instruments revaluation differences	37,766	544
11.2 Accruals and income collected in advance	47,212,839	71,722,619
11.3 Sundry	723,183,910	996,945,039
<b>12. Provisions</b>	<b>7,805,756,379</b>	<b>7,600,331,097</b>
<b>13. Revaluation accounts</b>	<b>3,671,010,783</b>	<b>3,412,541,786</b>
<b>14. Capital and reserves</b>	<b>593,735,514</b>	<b>593,639,774</b>
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	285,443,789
14.5 Other special reserves	1,305,001	1,209,261
<b>TOTAL LIABILITIES</b>	<b>109,163,190,093</b>	<b>125,440,512,338</b>

## PROFIT AND LOSS ACCOUNT FOR THE YEAR 2018

(in euro)

	2018	2017
<b>1. Net interest income</b>	<b>961,179,432</b>	<b>1,157,858,591</b>
1.1 Interest income	961,277,610	1,199,436,654
1.2 Interest expense	-98,178	-41,578,063
<b>2. Net result of financial operations, write-downs and risk provisions</b>	<b>29,524,438</b>	<b>12,676,418</b>
2.1 Realised gains arising from financial operations	29,524,438	12,676,418
2.2 Write-downs on financial assets and positions	-7,346,535	-4,530,231
2.3 Transfer from provisions for foreign exchange rate, interest rate, credit and gold price risks	7,346,535	4,530,231
<b>3. Net income from fees and commissions</b>	<b>89,219,136</b>	<b>78,042,738</b>
3.1 Fees and commissions income	92,953,781	80,936,433
3.2 Fees and commissions expense	-3,734,645	-2,893,695
<b>4. Income from equity shares and participating interests</b>	<b>56,812,050</b>	<b>38,841,503</b>
<b>5. Net result of pooling of monetary income</b>	<b>50,209,184</b>	<b>140,265,261</b>
<b>6. Other income</b>	<b>12,478,216</b>	<b>14,021,505</b>
<b>Total net income</b>	<b>1,199,422,456</b>	<b>1,441,706,016</b>
<b>7. Staff costs and pension benefit expenses</b>	<b>-262,265,213</b>	<b>-268,665,229</b>
<b>8. Other administrative expenses</b>	<b>-67,830,887</b>	<b>-53,937,156</b>
<b>9. Depreciation of tangible and intangible fixed assets</b>	<b>-12,541,221</b>	<b>-14,742,577</b>
<b>10. Consultancy fees for the auditing of the banking system</b>	<b>-784,390</b>	<b>-1,610,438</b>
<b>11. Other expenses</b>	<b>0</b>	<b>-52,341,066</b>
<b>12. Provisions</b>	<b>-198,399,265</b>	<b>-108,609,347</b>
<b>Total expenses</b>	<b>-541,820,976</b>	<b>-499,905,813</b>
<b>PROFIT FOR THE YEAR</b>	<b>657,601,480</b>	<b>941,800,203</b>

## DISTRIBUTION OF PROFIT

(Article 71 of the Statute)

(in euro)

	2018	2017
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	644,252,277	928,451,000
	<b>657,601,480</b>	<b>941,800,203</b>

Athens, 25 February 2019

THE GOVERNOR

THE DIRECTOR OF THE ACCOUNTING DEPARTMENT

YANNIS STOURNARAS

MARIA PAGONI





