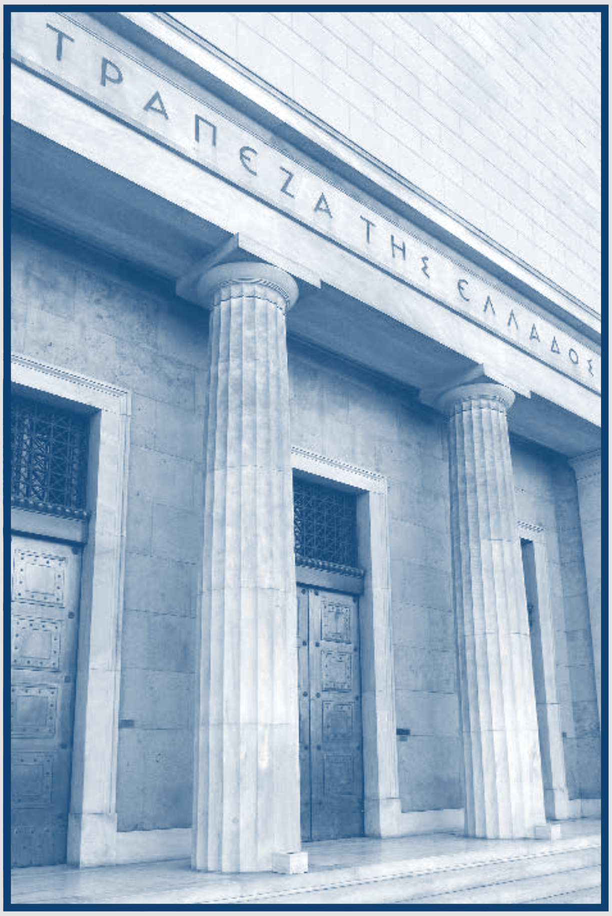
SUMMARY OF THE ANNUAL REPORT
2019



MARCH 2020

BANK OF GREECE
EUROSYSTEM

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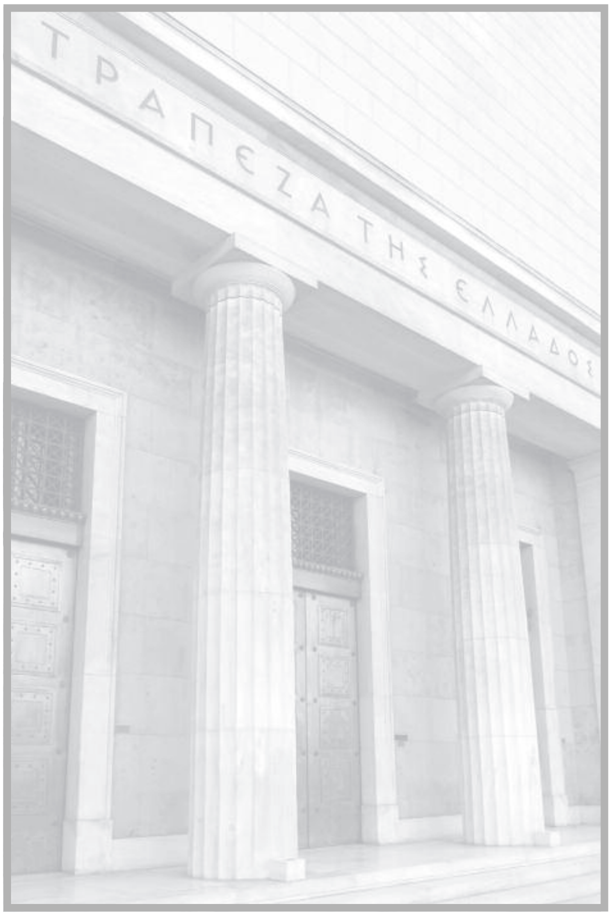
Presented to the General Meeting of Shareholders
by Governor Yannis Stournaras



MARCH 2020

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BANK OF GREECE
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FROM CRISIS TO PANDEMIC TO GROWTH

1 2020: A CHALLENGING YEAR FOR THE GREEK ECONOMY

At the start of the new decade, the Greek economy has corrected the major macroeconomic and fiscal imbalances that had caused the economic crisis, and is now trying to pick up pace towards a sustainable growth trajectory. Along the way, however, Greece faces a number of significant challenges, largely a legacy of the economic crisis, as well as external risks. The outbreak of the coronavirus disease (COVID-19) and an exacerbation of the refugee/migrant crisis weigh heavily on the short-term growth outlook and temporarily raise serious obstacles on the path to normality. The coronavirus pandemic is testing the limits of societies and economies around the globe and calls for an unprecedented level of scientific, social and economic cooperation and coordination. Bond and capital markets have already suffered heavy losses, with the weaker economies hit hardest.

Despite the anaemic growth of the European economy, the Greek economy continued to recover until recently, as evidenced by the positive performance of several key macroeconomic and financial indicators. The strong upward trend of the economic sentiment indicator and the improved business confidence index had, until lately, pointed to a continuation and acceleration of the growth momentum. Positive developments were also recorded in the financial sector, with an increase in bank deposits and an improvement in bank funding conditions, which have contributed to boosting bank liquidity and credit to businesses and households. Meanwhile, restored confidence in the banking sector enabled the full lifting of capital controls as of 1 September 2019. In addition, the recent repeal by the Governing Council of the European Central Bank (ECB) of its decision of March 2015 that had imposed ceilings on the purchase of Greek government bonds by Greek banks attests to the renewed confidence in the Greek banking system.

Prudent fiscal policy, a shift to a more growth-friendly fiscal policy mix mainly focused on a more rational distribution of the tax and social security contribution burden, a reduction of non-performing loans (NPLs), privatisations and the implementation of a national reform programme are the main pillars of the effort aimed at strengthening the credibility of economic policy over the medium term. Several of these medium-term policy features must be kept in place in the current extraordinary economic conditions, while others need to be adjusted to the circumstances.

In acknowledgement of the progress made by Greece, Standard & Poor's upgraded the Greek sovereign's rating by one notch in October 2019, and Fitch followed suit in January 2020, while Greece's ranking in Transparency International's perception of corruption index improved by seven places. In an international environment of negative yields, Greek government and corporate bond yields had been declining steadily and rapidly, until just recently when this trend reversed on account of the coronavirus pandemic, with bond yield spreads widening considerably in the last few days. These recent developments highlight, among other things, the importance of the inclusion of Greek government bonds in the quantitative easing programme of the European Central Bank (ECB). In this regard, particularly welcome is the decision by the Governing Council of the ECB on 18 March to grant a waiver of the eligibility requirements for securities issued by the Greek government for purchases under the Pandemic Emergency Purchase Programme (PEPP), which will have an overall envelope of €750 billion and be conducted until at least the end of 2020.

The successful launch of a 15-year government bond in late January 2020, the first long-term bond issue since the onset of the crisis, which raised €2.5 billion at a low coupon rate of 1.875%, attests to this progress, especially considering that these bonds mature after 2032, when the deferral of interest payments on European Financial Stability Facility (EFSF) loans is scheduled to end, as agreed in the context of the medium-term debt relief measures.

The fifth enhanced surveillance report on Greece, recently released, concludes that Greece has progressed well in implementing its reform commitments for end-2019, including important reforms aimed to increase the efficiency of the public sector, strengthen the effectiveness of social policy, advance the privatisation agenda, further improve the quality of the business environment and bolster financial stability.

In a rapidly-changing world, knowledge and technology are key drivers of economic prosperity. Economies that specialise in the production of high value-added tradable goods and services, combining adequate physical capital, skilled labour and modern technology, are those that will achieve strong growth rates. The Greek economy has undeniably made substantial progress in recent years. However, in the decade that has just started, the challenge for the Greek economy is to secure its place on the new global economic map, capitalising on its comparative advantages. Thus, in order to be competitive in the new global division of labour and wealth and make up for lost ground, the Greek economy needs high rates of accumulation of physical and human capital and a rapid adoption of new technologies in production and organisation systems.

To this end, the Greek economy must step up its efforts to address a number of remaining constraints and challenges, with a focus on narrowing the large investment gap, creating numerous and well-paid high-skilled, full-time jobs, reducing the high stock of NPLs, and bringing down the public debt. Meanwhile, the implementation of the national reform and privatisation programme, with the necessary adjustments in view of the current extraordinary circumstances, would improve the economic outlook, as would a rationalisation of fiscal targets. An adjustment of the primary fiscal surplus target to lower levels relative to those currently applicable would yield gains, so long as the reduction in the surplus is not such as to jeopardise public debt sustainability.

It is against this background that the Eurogroup on 16 March, making use of the Stability and Growth Pact (SGT) provisions that allow for flexibility in the application of the fiscal rules to cater for unusual events outside the control of governments, decided that, for all the euro area Member States, the budgetary impact of temporary fiscal measures taken in response to COVID-19 will be excluded when assessing compliance with EU fiscal rules, targets and requirements. In addition, the automatic stabilisers will fully play their role and will not affect compliance with the applicable fiscal rules. Finally, in the case of Greece, additional spending related to the management of the refugee/migrant crisis will be excluded from the fiscal target.

2 THE GREEK ECONOMY: DEVELOPMENTS IN 2019 AND PROSPECTS FOR 2020

In 2019, the Greek economy maintained its growth momentum, despite a slowdown of the European economy. Real GDP grew by 1.9%, as in 2018, while the growth rate of the euro area economy fell to 1.2%, from 1.9% in 2018. In 2020, the growth performance of the Greek economy will largely be determined by the impact of the COVID-19 pandemic on the global and European economies. There are three main channels through which the impact of the COVID-19 outbreak is affecting the Greek economy. On the demand side, through a slowdown of Greek exports of goods as well as services (transport, shipping and tourism) and weaker domestic consumption and investment. On the supply side, through disruptions in the global and regional supply chains of intermediate and capital goods, and business closures as a way to contain the pandemic. And finally through the international financial system, as an increase in funding costs amid global repricing of risks leads to tighter financing conditions for banks, businesses and households, as well as for the Greek State. Bond yield spreads have, as already mentioned, widened sharply in the past few days, especially in the case of Greece, amid continued heightened volatility in global markets.

The growth rate of the Greek economy is projected to slow down considerably in 2020, on account of the impact of the COVID-19 outbreak. This impact cannot, for the time being, be accurately quantified, due to a lack of available data and given that the pandemic is still unfolding. According to the baseline scenario of the Bank of Greece, GDP growth in 2020 is now projected to be zero, rather than 2.4% as last revised after incorporating the National Accounts data for the fourth quarter of 2019 (6 March 2020). This downward revision by a further 2.4 percentage points is due to the impact of the COVID-19 pandemic. Based on the latest information on the pandemic developments, the most likely scenario suggests a strong negative impact in the first two quarters of 2020, partly offset in the last two quarters. The weaker economic outlook would be mainly driven by demand-side factors, with declines in external demand for goods and services, as well as in domestic demand, particularly affecting sectors such as transport, tourism, trade, catering and entertainment. How the pandemic will evolve is highly uncertain, while its impact on the national economies will also depend on the national and international fiscal and monetary measures taken. The baseline scenario of the Bank of Greece incorporates the COVID-related measures already adopted.

A more growth-oriented fiscal policy, a more credible economic policy commitment to a holistic reform programme and a restoration of global investor confidence in the medium-to-long term growth prospects of the Greek economy have, since the second half of 2019, generated expectations for a return of the domestic economy to a sustainable growth trajectory.

The continued recovery in 2019 was driven by all components of demand, which posted growth: net exports, notably of services (tourism and shipping) but also of goods; investment, mainly in transport equipment and housing; private consumption on the back of a significant rise in household real disposable income; and public consumption. Despite the slowdown of world trade, Greece's export performance, especially in services and internationally tradable goods, remained robust, as shown by the larger shares of exports in GDP, as a result of improved price and labour cost competitiveness. However, the Greek economy still lags behind in terms of structural competitiveness, as problems such as non-wage costs, the tax burden on businesses, bank lending conditions and the institutional framework constrain the business environment and export activity. On the supply side, the industrial output index declined marginally, owing mainly to a drop in electricity output, while manufacturing grew, albeit at a decelerating rate.

In the labour market, the positive developments steadily posted since mid-2014 continued into 2019, with employment growing by 2.2% relative to 2018 and the unemployment rate declining further to 17.3%. Still, Greece's unemployment rate remains the highest in the EU28.

2019 saw a strengthening of investor interest in the real estate market, in both the residential and commercial segments. Recently enacted legislation, aimed at stimulating the real estate market, including a three-year exemption from VAT for all building permits issued after 1 January 2006, and the rebound of housing credit are expected to gradually boost demand for residential property. Increased net inflows for real estate purchase by foreign investors pushed real estate prices up. However, the price increases were seen only at a local level, especially for short-term rental uses that have attracted strong interest from foreign investors, and did not characterise the real estate market as a whole, as domestic demand has remained low. An escalation of the coronavirus outbreak is expected to temporarily halt the positive course of residential real estate demand by foreign investors.

HICP inflation fell to 0.5% in 2019, from 0.8% in 2018, on the back of indirect tax cuts and lower international oil prices. Core inflation (excluding unprocessed food and energy) was also 0.5%, unchanged from 2018 levels. For 2020, headline inflation is projected to be close to its 2019 levels, assuming broadly unchanged international oil prices.

3 FISCAL POLICY

The conduct of fiscal policy in 2019 was marked by compliance with the enhanced surveillance requirements, a commitment to implementing fiscal reforms and, since the national elections of last July, a rebalancing of the fiscal policy mix, mainly with a view to easing the tax burden. The shift towards a growth-friendly fiscal policy and, more importantly, the focus on reforms resulted in a rapid decline of Greek government bond yields to new historic lows, which enabled the Greek government to comfortably tap international financial markets for low-cost funds and to make an early repayment of part of the IMF loan.

In 2018, based on final data, the general government primary surplus target was once again overachieved. Specifically, according to the enhanced surveillance methodology, the general government primary surplus came to 4.16% of GDP, well above the target of 3.5% of GDP. This overachievement reflected a containment of expenditure for intermediate consumption and a continued under-execution of the Public Investment Programme (PIB). Cuts in public investment have become a standard tool for achieving fiscal targets, but not without negative consequences on the quality of public infrastructure and, by extension, on private investment and potential output.

For 2019, according to the available general government cash data for the year as a whole, the primary surplus target is once again expected to have been overachieved, for the fifth consecutive year, with provisional data suggesting an outcome of close to 4% of GDP. The expansionary fiscal package adopted in May 2019 made it necessary to adjust general government primary expenditure by means of a new cut in public investment. The anticipated overachievement of the target is also associated with a better-than-expected course of VAT revenue in the second half of 2019.

For 2020, the forecast until recently was that the fiscal target would be met, as a result of the implementation of a growth-friendly and fiscally neutral policy mix, consisting mainly of an easing of the tax burden and measures to encourage electronic transactions. However, the coronavirus pandemic, on the one hand, will require significant new expenditure to address the disease, support businesses and preserve jobs and, on the other, is having a strong negative effect on economic activity and, thereby, on public revenue. Against this background, the general government primary balance is expected to fall several percentage points short of the initial target of 3.5% of GDP, although the exact outturn is, for the time being, very difficult to assess. A shortfall, however, would by no means constitute a breach of target, as the Stability and Growth Pact provides for flexibility in the event of extraordinary circumstances.

The new social security reform (Law 4670/2020), among other things, addresses the unconstitutionality of certain provisions of the 2016 reform following the Council of State rulings issued in October 2019. In this regard, it introduces a set of targeted improvements and is a step in the right direction. Moreover, according to the underlying actuarial study, the new reform ensures the long-term sustainability of the social security system, as well as the adequacy of pensions. The relevant measures are to be financed through already established 2020 budget appropriations. Another very positive aspect of the reform is the focus on digitalisation across all functions of the social security system, which would bring about considerable efficiency gains.

In the current circumstances of the pandemic, the greatest challenge facing fiscal policy is to use all the available firepower in order to finance the expenditure needed for addressing the coronavirus disease and for minimising the adverse effects on the real economy, with the smallest possible impact on public debt sustainability.

4 THE GLOBAL AND EURO AREA ECONOMIES

2019 saw a significant decline in global trade growth to 1%, from 3.7% in 2018, amid rising protectionism and heightened uncertainty. The slowdown in global trade took a toll on foreign demand and industrial production and led to muted global GDP growth of 2.9%, the lowest rate in a decade, against 3.6% in 2018.

In the euro area in particular, GDP growth declined to 1.2% from 1.9% in 2018, mainly owing to weaker foreign demand. However, the economic slowdown in the euro area was contained by domestic demand, which remained robust on the back of employment growth and rising disposable income, and of a continued improvement in financial conditions supported by a continued accommodative monetary policy stance.

Nonetheless, international trade arrangements are still surrounded by uncertainty, despite the conclusion of the "Phase-one" trade agreement between the United States and China. The coronavirus outbreak is, at present, the most serious source of risk for the global and European economies, as there is a direct impact on industry from supply chain disruptions, as well as on trade, transport, tourism and the financial markets. The economic impact cannot, as yet, be quantified with accuracy, but only estimated on the basis of various hypothetical scenarios. According to the OECD's base-case scenario, assuming a contained outbreak, global economic growth in 2020 is projected to be 2.4%, i.e. 0.5 percentage points lower than the November 2019 projection. Under a downside risk scenario, assuming broader diffusion of the coronavirus and a widespread impact, global economic growth would fall to 1.5%. In light of the latest developments on the coronavirus front, the OECD's base-case scenario seems very unlikely.

According to the latest ECB staff macroeconomic projections (March 2020), euro area growth is projected to be 0.8% in 2020, revised downwards from 1.1% in the December 2019 projections, assuming a contained spread of COVID-19. More specifically, growth is expected to be very weak in the first half of 2020 before improving in the second half, on the back of a rebound in foreign demand, the implementation of coordinated offsetting fiscal measures and an expansionary monetary policy. The adverse impact stems from supply and production chain disruptions owing to the containment measures and from a deterioration in confidence. In the event of a more protracted and widespread diffusion of COVID-19, the impact will be even more severe. Specifically, based on two alternative adverse scenarios, assuming a more persistent COVID-19 outbreak in the euro area and, in addition, shocks to financial markets and oil prices, the additional negative impact on euro area GDP growth would be between 0.6 and 1.4 percentage points in 2020, meaning that the euro area is very likely to post negative growth rates.

In the medium-to-long term, additional challenges include population ageing, low productivity growth, climate change and the green transition, as well as the need to step up the digital transformation of the European economy and exploit the potential of artificial intelligence.

In order to address the medium-to-long-term challenges, apart from the adoption of measures to boost productive investment and expand productive capacity, economic governance in the euro area and the European Union in general needs to be improved and strengthened. Along these lines are the recent initiatives and decisions by EU institutions, such as the European Green Deal, aimed to make the European economy climate neutral by 2050, and the effort to reach an agreement on the 2021-2027 Multiannual Financial Framework.

Specifically, drawing on experience with the response to the euro area crisis, the European Commission launched a public debate on the review of EU economic governance. The Commission's proposals, to be finalised later this year, concern, among other things, the surveillance and coordination of fiscal and economic policies for improving the quality of public finances, aimed mainly to ensure the sustainability of public debt, and the appropriate role of the European surveillance framework in incentivising structural reforms that will help tackle economic, social and environmental challenges.

However, highest priority in the euro area today, above all other considerations, must be given to protecting human lives, and to safeguarding social cohesion and addressing swiftly and effectively the impact of the coronavirus pandemic on the economy and society. Although the response so far from the European Central Bank (ECB), the European Commission, the European Stability Mechanism (ESM), the Eurogroup and, particularly, the Member States themselves can be seen as positive, it is clear that even more cooperation and coordination are necessary at a scientific level, as well as in the fiscal and monetary domains, where flexibility and realism must prevail. Considering that the Member States do not have the same capacities, a stance of cohesion, solidarity and flexibility in addressing the pandemic and providing facilities to the Member States most in need or facing fiscal difficulties, would prove catalytic in validating the governance of the euro area in the eyes of its citizens at this crucial stage.

5 THE SINGLE MONETARY POLICY

In 2019, the single monetary policy continued to be highly accommodative in order to offset the impact on the general price level from the slowdown in euro area growth. In March 2019, the Governing Council of the ECB launched a new series of quarterly targeted longer-term refinancing operations (TLTRO-III) starting in September 2019 and ending in March 2021. Under TLTRO-III, counterparties will be entitled to borrow up to 30% of their stock of loans to non-financial corporations and households, excluding housing loans. By decision of the ECB Governing Council, the conduct by the Eurosystem of main refinancing operations and longer-term refinancing operations as fixed-rate full allotment tender procedures was extended at least until the mid-second quarter of 2021.

In September 2019, given the deterioration of inflation expectation indices to historical lows and the significant downward revision of macroeconomic projections of euro area inflation, the Governing Council of the ECB adopted a number of policy measures designed to stabilise prices in the medium term. Specifically, it decided that the Eurosystem would, starting in November 2019, resume net purchases of debt securities amounting to €20 billion, in line with the regulatory framework governing the Asset Purchase Programme (APP). The modalities of the third series of targeted longer-term refinancing operations (TLTRO-III) were improved, offering credit institutions (subject to conditions) a more attractive interest rate and an extended maturity, while an early repayment option was also made available. The maturity of the said operations, initially set at two years, was extended to three years, i.e. the usual maturity of bank loans for the financing of corporate investment in fixed capital formation. The improved modalities of the targeted operations enhance their effectiveness and are expected to make credit institutions' funding conditions more favourable, in turn improving lending conditions for businesses and households. Meanwhile, the deposit facility rate was decreased by 10 basis points to -0.50%. The Eurosystem was allowed to purchase a wide range of assets with yields below the deposit facility rate. Finally, the Governing Council of the ECB decided to introduce a two-tier system that exempts credit institutions from remunerating, at the negative rate currently applicable on the deposit facility, part of their excess reserve holdings.

The euro area economy had already seen a weakening of inflationary pressures since the end of 2018. In 2019, headline inflation decreased to 1.2% and core inflation to 1.0%, while –based on forecasts for 2020 – headline inflation should edge down further to 1.1%, while core inflation should rise slightly to 1.2%. The impact of the COVID-19 spread on inflation developments is surrounded by heightened uncertainty, given that the downward effect on prices from weak aggregate demand could be offset by an upward effect of price increases, owing to the disruptions in international and regional supply and production chains. In any event, the recent sharp drop in international crude oil prices has had a dampening effect on short-term inflation developments.

In the context of its forward guidance, the Governing Council of the ECB decided that asset purchases on a net basis will continue until shortly before it starts raising the key ECB interest rates, and announced that it intended to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP well past that date, thereby signalling that an ample degree of monetary accommodation would be maintained. The ECB Governing Council also announced that its key interest rates would remain at their new levels, but did not exclude the possibility of further cuts if headline inflation does not resume a course of sustained convergence to levels below but close to 2% over the medium term.

In January 2020, the Governing Council of the ECB announced that it was launching a review of its monetary policy strategy, which is expected to be concluded by the end of the year. The review will, among other issues, encompass (i) a more precise quantitative definition of price stability; (ii) the incorporation of non-standard instruments into the standard toolkit; (iii) the economic and monetary analyses, through which the risks to price stability are assessed; and (iv) the communication policy. More specifically, the ECB wants to ensure that its monetary policy strategy is fit for purpose; will examine whether certain components of the current strategy need to be updated in light of the new trends emerging in the global economy; and will re-examine the Eurosystem's communication policy. Other considerations, such as financial stability, employment and environmental sustainability, will also be part of the review.

The ECB has been closely monitoring developments regarding the coronavirus outbreak and the risks it poses to the euro area economy, the markets and the monetary policy framework, and stands ready to take measures as necessary to minimise these risks. As a first response, in its meeting on 12 March 2020, the Governing Council decided on a comprehensive package of monetary policy measures, while at the same time the Supervisory Board adopted supervisory measures that provide temporary capital and operational relief to banks, so that they, in turn, can continue lending to businesses and households under the extraordinary circumstances of the pandemic. More specifically, the Governing Council of the ECB decided the following: (a) Additional longer-term refinancing operations (LTROs) will be conducted, temporarily, to provide immediate liquidity support to the euro area financial system. These operations will provide an effective backstop. They will be carried out through a fixed-rate tender procedure with full allotment, at an interest rate equal to the average of the deposit facility rate over the life of the respective operation. The LTROs will provide liquidity at favourable terms to bridge the period until the TLTRO III operation in June 2020. (b) For the period from June 2020 to June 2021, more favourable terms will be applied on all outstanding TLTRO III operations with a view to boosting bank lending to those most affected by the coronavirus outbreak, in particular small and medium-sized enterprises. Throughout this period, the interest rate on these TLTRO III operations will be 25 basis points below the average rate applied in the Eurosystem's main refinancing operations over the same period. For counterparties whose eligible net lending reaches the benchmark, the interest rate applied on all these operations will be lower, and, over the period ending in June 2021, could be as much as 25 basis points below the average deposit facility rate. Moreover, the maximum total amount that counterparties will henceforth be entitled to borrow in TLTRO III operations is raised to 50% of their stock of eligible loans as at 28 February 2020. (c) A temporary envelope of additional net asset purchases of €120 billion will be added before year-end, ensuring a strong contribution from the private sector purchase programmes. In combination with the existing asset purchase programme (APP), this will support favourable financing conditions for the real economy in times of heightened uncertainty.

On 18 March 2020, in a second move, more crucial for markets, the ECB decided to launch a Pandemic Emergency Purchase Programme (PEPP), which will have an overall envelope of €750 billion. Greek government bonds will also be eligible for purchase under the PEPP, as the waiver of the general bond eligibility requirements was reinstated.

These important actions of the ECB complement the fiscal actions taken both at the euro area and the national levels to address the impact of the coronavirus spread on the economies of the euro area Member States.

6 THE BANKING SYSTEM

The main developments in the banking system in 2019 were: an improvement in operating profitability; sustained satisfactory capital adequacy; a continued recovery of credit expansion to non-financial corporations; an increase in private sector bank deposits; and a further reduction in the stock of non-performing loans (NPLs) on banks' balance sheets, which however remains at very high levels. The improvement in operating profitability was mainly driven by one-off gains from financial operations and by a containment of operating expenses. On the contrary, core profitability declined, mainly as a result of deleveraging after the sale of subsidiaries abroad and of loan repayments exceeding new loan disbursements, as well as additional provisioning.

Reducing the high stock of NPLs remains the most important challenge for the banking system. The implementation of the "Hercules" plan is expected to contribute to a faster reduction of this stock. The decrease in NPLs so far, combined with improved liquidity conditions, has contributed to improved bank lending conditions to non-financial corporations, especially large-sized ones. On the other hand, the rate of change in housing and consumer credit remained negative.

More specifically, the annual rate of decrease in the stock of bank credit to the private sector slowed down somewhat in 2019 to -0.4%, from -1.3% in 2018. This moderation is attributed to the growth of credit to non-financial corporations at an average annual rate of 2.2% in 2018, compared with a decline of 0.6% in 2018. A stronger growth rate was recorded in credit to large enterprises (6.4%, up from 3.1% in 2018), while the stock of bank credit to small and medium-sized enterprises (SMEs) continued to decline, although at a weaker pace. Bank credit was mainly directed towards enterprises active in the transport (excluding shipping), energy and tourism sectors. In contrast, credit expansion to households continued to decline, in fact at a slightly accelerating rate (-2.6%, against -2.2% in 2018). Household demand for bank loans was positively affected by the rise in the house price index and in household disposable income. On the credit supply side, however, the high level of non-performing household loans remains the greatest constraint, despite an overall improvement in bank liquidity.

In 2019, bank lending rates to non-financial corporations continued to trend downwards, albeit at a declining pace, with the greatest loan rate cuts observed for small enterprises, also benefiting from the financial instruments of the European Investment Bank. In real terms, however, borrowing costs increased. The rates on housing and consumer loans also increased, in both nominal and real terms.

Private sector deposits with banks posted positive growth, due to banknote redeposits and a repatriation of funds invested in financial assets abroad. This development was mainly driven by household deposits as a result of a rise in their disposable income, while the dynamics of non-financial corporation deposits weakened. The gradual replenishment of the deposit base of Greek banks allowed the termination of their reliance on emergency liquidity assistance (ELA) from the Bank of Greece and reduced recourse to Eurosystem liquidity-providing monetary policy operations, and helped to contain the weakening of credit expansion to the economy.

Improved depositor confidence in the banking system contributed to averting an outflow of deposits after the full lifting of capital controls in September 2019.

Turning to bank deposit rates, nominal interest rates on new term deposits declined in 2019. Low deposit rates are consistent with the maintenance of key ECB rates at very low levels.

On 12 March 2020, as previously mentioned, the ECB's Supervisory Board announced a package of regulatory measures to ensure that the banks under its direct supervision are in a position to continue financing the real economy in view of the negative impact and challenges to their business operations from the coronavirus outbreak. The announcement by the ECB was coordinated with a relevant announcement by the European Banking Authority (EBA) postponing the EU-wide stress test exercise to 2021 and adopting a number of other measures. The ECB's announcement refers to temporary capital and operational relief measures, giving banks the right to fully use capital and liquidity buffers, including Pillar 2 Guidance, and allowing them to benefit from relief in the composition of capital for Pillar 2 requirements, while the ECB will consider operational flexibility in the implementation of bank-specific supervisory measures. As underlined by the ECB and the EBA, banks may use the flexibility already provided in the existing regulatory framework for NPLs, but should continue to apply sound underwriting standards and pursue adequate policies regarding the recognition and coverage of NPLs, and to conduct solid capital and liquidity planning and robust risk management.

Benefiting from the abovementioned monetary and supervisory relief measures of the ECB, Greek banks have already announced actions to provide relief to businesses in the sectors affected by the COVID-19 crisis.

Non-performing loans

2019 saw banks push forward their efforts to tackle their high stock of NPLs. Although the NPL problem is largely attributable to the financial crisis, legislative measures – such as the blanket moratorium on primary residence auctions and the abuse of foreclosure protection, as well as several other legal and judicial impediments, prevented an effective management of the problem.

At end-December 2019, NPLs remained at high levels, amounting to €68.0 billion (or 40.3% of total loans), compared with a euro area average of 3.4% at end-September 2019. This was €13.8 billion less than at end-December 2018 and roughly €39.2 billion lower than the March 2016 peak. The reduction in the stock of NPLs in 2019 was mainly due to €8.1 billion in sales and €4.3 billion in write-offs. On the other hand, it is worrying that recoveries from active NPL management remain limited, even though banks have in recent years increasingly shifted to long-term solutions. Moreover, the re-default rate among forborne loans remains high. However, the inflow of new NPLs declined significantly in the last quarter of 2019, resulting in a net outflow of NPLs at a system-wide level.

Regarding the banks' operational targets for NPL reduction, the ultimate objective is to bring the NPL ratio down to below 20% by end-2021. The pace of NPL reduction could be further accelerated through the implementation of solutions such as the "Hercules" plan (Law 4649/2019), whereby banks would make use of state guarantees of up to €12 billion, allowing them to effectively securitise over €30 billion in NPLs. The management of the NPLs to be securitised will be assigned, for a fee, to authorised credit servicers. At a later stage, once its results are assessed, the "Hercules" plan would be complemented by other, holistic measures, such as the ones put forward by the Bank of Greece in the recent past, aimed also at addressing the problem posed by banks' current capital structure, with deferred tax credits (DTCs) accounting for a disproportionately large part of banks' total capital. In any event, as soon as the "Hercules" plan is well under way, it would be important to conduct an assessment of the Greek banking sector's fundamentals, in particular core profitability, provisioning coverage ratios and regulatory capital quality, especially once the coronavirus pandemic is over.

The very large stock of NPLs negatively affects banks' net profit margins, by keeping credit risk costs high. A comprehensive resolution of NPLs is of crucial importance for banks to be able to focus on modernising their organisation structures and business models, search for profitable new opportunities and activities, complete their digital transformation and, above all, resume their intermediation role.

However, in view of the extraordinary circumstances and the high uncertainty prevailing in the banking system and the real economy, it is likely that progress towards a significant reduction of the NPL ratio will slow down in upcoming months, but the final target should not be affected.

7 PRIVATE INSURANCE UNDERTAKINGS

In 2019, the financial aggregates of insurance undertakings operating in the domestic market and supervised by the Bank of Greece under the Solvency II EU Directive were affected by the low interest rate environment. The risk-free rates curve, much of which remained in negative territory, led to significant increases in technical provisions, especially those associated with long-term liabilities. In contrast, positive was the impact from the decrease in credit spreads, as it led to valuation gains on the bond portfolios of insurance undertakings. In the non-life insurance segment, for the first time in several years, a higher incidence of damages from motor liability insurance led to a corresponding increase in incurred claims.

Insurance undertakings more than comply with their Solvency Capital Requirements (SCR), which, under the Solvency II framework, are designed to ensure their ability to withstand extreme or exceptional events. Of the eligible own funds in the domestic insurance market, 96% are classified as high-quality capital (Tier 1).

In an aim to reduce their overall capital requirements and adjust to the negative interest rate environment, insurance undertakings stepped up their efforts to reduce the guarantees embedded in their life insurance products, strengthened their asset-liability matching practices, while at the same time continuing to design new flexible hospital insurance products offering the possibility of an annual adjustment of premiums. Finally, in order to cut costs, speed up underwriting decisions and better assess the risks they assume, insurance undertakings are increasingly moving towards automated interaction with customers.

2019 saw important regulatory developments, including the adoption in November of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector. Its scope includes insurance undertakings providing insurance-based investment products or pan-European pension products, as well as insurance intermediaries providing advice on insurance-based investment products. The sustainability of an investment is determined by criteria ensuring that neither the environmental nor the social objective is significantly harmed.

The new Directive (EU) 2019/2177 amending Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) introduced "cooperation platforms" as a means of strengthening the tools available to supervisory authorities for more effective supervision of cross-border insurance activities.

The Greek insurance market is characterised by considerable concentration, especially among undertakings providing either life insurance or both life and non-life insurance. Moreover, it faces major challenges on account of digitalisation and climate change. In particular, digital technologies, in conjunction with increased demand from customers for personalised service, generate favourable conditions for harnessing new technologies into innovative solutions in the provision of insurance services.

As part of climate change impact mitigation, insurance undertakings can be expected to play a role both as institutional investors and as providers of insurance coverage against damage from climate change-related natural events. Meanwhile, insurance undertakings are themselves also subject to the impact of climate change, since the risks from natural disasters as well as from a transition to a low-carbon economy affect all the aspects of their business models, such as premium income, technical provisions, investment, asset value and capital requirements.

8 RISKS AND SOURCES OF UNCERTAINTY

The projected outlook for the Greek economy is subject to significant downside risks associated with the volatile global economic environment, geopolitical tensions in the Eastern Mediterranean region, extreme weather events as a result of climate change, the recent exacerbation of the refugee/migrant crisis, and above all the coronavirus outbreak, which has an impact both on the supply side of the Greek economy, affecting tourism, shipping, transport and supply chains, and on domestic demand through declines in private consumption and investment. At this stage, as already mentioned, the Bank of Greece is revising its forecast for GDP growth in 2020 downwards to 0.0%, from its previous forecast of 2.4%.

As regards the **external environment**, downside risks could arise from an uncertain and weak recovery of the global economy. Despite the recent signs of a stabilisation after the signing of Phase 1 of the bilateral trade deal between the United States and China and the maintenance of an accommodative monetary policy stance by major central banks, the world economy is projected to expand moderately. However, a more protracted and escalating diffusion of COVID-19 would fuel expectations of a temporary recession, as is already apparent from the recent surge of volatility in international financial markets, thereby significantly increasing the risk of a slowdown of the global and European economies. Furthermore, other risks, e.g. geopolitical risks and an escalation of international trade tensions, could adversely impact world trade developments and heighten volatility on the international financial markets. Turning to the euro area economy, as mentioned previously, growth is projected to remain particularly weak, and a negative annual outturn is very likely, reflecting the adverse impact on business investment, manufacturing and exports from the slowdown of global trade and lower foreign demand, but above all the dampening of domestic demand due to reduced private consumption as a result of the spread of COVID-19. Uncertainty about the future post-Brexit relationship between the European Union and the United Kingdom is an additional downside risk.

On the **domestic front**, the main risks relate to a further spread of the coronavirus and the recent escalation of the refugee/migrant crisis.

9 CHALLENGES AND PREREQUISITES FOR SUSTAINABLE GROWTH

The moderate rise in economic activity in recent years has mainly been supported by stronger aggregate demand, driven by consumption and exports. The ongoing shift to a growth-friendly economic policy and the reforms underway in the structure and functioning of the State and the economy generate expectations of a gradual return of per capita GDP to a path of convergence with the European average in the medium term, once of course the coronavirus crisis is over.

In order to achieve strong growth in the medium-to-long term, once the current crisis is behind us, the Greek economy will need to address, apart from the two major exogenous shocks that are clearly national priorities, a number of medium-term challenges, namely the large investment gap, high unemployment, the high stock of NPLs, high public debt and slow digital transformation. Addressing these challenges is a sufficient and necessary condition for Greece's participation in global manufacturing and service value chains, improving structural competitiveness and fostering innovation.

This calls for supply-side economic policy interventions, aimed at expanding Greece's productive capacity and increasing actual and potential output.

Obviously, some of the required policy interventions cannot possibly be achieved in the current environment of sharp corrections in international markets. Dealing with the pandemic and, more generally, protecting public health, along with addressing the refugee/migrant crisis, are pressing priorities that have been mobilising all of the nation's forces. This, however, does not mean that interventions which would bring about medium-term results should be postponed. After all, such interventions would lead to higher growth in the medium term and to public debt sustainability, both of which are prerequisites for being able to allocate more resources to public health, as well as to the protection of the national borders, which are also Europe's borders. These interventions include the following priorities:

– **Tackling the problem of non-performing loans (NPLs).** Despite having declined, the stock of NPLs remains high (40.3%) and the target is to bring the NPL ratio down to below 20% by end-2021. A sharp reduction of the NPL ratio would enable a rapid decline in borrowing costs for the private economy. The implementation of the "Hercules" plan is expected to contribute to a reduction of the stock of NPLs. At a later stage, once its results are assessed, the "Hercules" plan would be complemented by other, holistic measures, such as the ones put forward by the Bank of Greece in the recent past. A balance-sheet clean-up would enable banks to turn their attention to modern business models, to finding new profitable growth opportunities and activities, to completing their digital transformation, with the ultimate objective of financing the real economy on favourable terms. In the same vein, the new bankruptcy framework, for the first time addressing default of not only business but also household defaults, is expected to have a positive effect on financial stability.

– **Prudent fiscal policies**, which would ensure fiscal consolidation, needed for public debt reduction, and also foster growth.

– **Increasing private productive investment** and physical capital accumulation. The protracted period of disinvestment has negatively affected the quality and quantity of Greece's physical capital stock, delayed the integration of new technologies into the production process and caused a drop in potential output.

– **Reducing unemployment.** Despite trending downwards, the unemployment rate, in particular among the long-term unemployed, women and youth, remains high. Maintaining flexible forms of employment, implementing targeted policies to raise labour force participation and improve the skills match, and foremostly speeding up growth are key to a rapid decline in unemployment and to well-paid full-time job creation. Favourable labour market developments would crucially help reverse the brain drain that Greece experienced during the past crisis, with significant gains in terms of the size and quality of the domestic labour force.

– **Implementing the national reform programme** across all sectors of the economy, society and public administration, whilst allowing for necessary temporary adjustments on account of the extraordinary circumstances posed by the pandemic. An improvement in the quality of existing institutions, together with major reforms, would reduce product and labour market rigidities, giving the economy flexibility to adjust smoothly to the new conditions in the world economy. Despite the progress made mainly in terms of labour market reform, Greece still faces major challenges with regard to its business environment, judicial system and public administration. Reforms are needed to ensure a faster delivery of justice; streamline property registration and building permit issue procedures; rationalise the land use framework for protected areas;

strengthen the rule of law; improve Greece's performance in the indexes of regulatory quality, government effectiveness and the control of corruption.

– **Privatisations, more efficient management of public property and expansion of public-private partnerships (PPPs)** in sectors of high economic, social and environmental value, and linked with large-scale investment projects. PPPs in particular, harnessing each sector's comparative advantage, should become a key pillar of the new growth strategy. Such projects have the potential to boost employment, thereby helping to reverse the brain drain into a brain regain.

– **Targeted policy action aimed at reversing the projected demographic decline in active population.** According to data published by ELSTAT, Greece's population on 1.1.2019 was 0.15% lower than one year earlier, while the flow of outward migration continued unabated. Furthermore, according to EUROPOP 2018 projections, Greece's population is expected to shrink further from 10.7 million in 2020 to 10.4 million by the end of the decade. This rapid decline in population numbers and the changes in composition in terms of active population, adversely impact potential output and the growth rate in the medium to longer term. There is a need for policies that encourage people to start a family and for active employment policies that encourage youth to enter the labour market and older workers to remain in the workforce. Combined with the measures to improve structural competitiveness and to boost productivity growth, these actions could offset the effects of the adverse demographic trends.

– **Strengthening the "knowledge triangle" and expanding the human capital stock** through improvements in education and by fostering research and innovation. By making the best use of its human capital, Greece could develop into a hub for education, technology, research and business innovation. In fact, according to a recent report from the OECD on innovation indicators of product innovation and business process innovation, Greece ranks rather high (in 13th position) among the OECD member countries. The modern workplace in a "knowledge economy" demands leadership and cognitive skills rather than management skills. This calls for soft skills to be developed alongside hard ones, for education to be more closely linked to the labour market, and for digital transformation across all education levels. This would help to reduce the skill mismatch and improve the quality of human capital, with benefits for total productivity and employment.

– **Exploiting the opportunities opened up by the green transition.** Scientific research has so far shown that climate change poses risks to long-term growth associated with: extreme weather events and natural disasters; the costs of addressing and adjusting to global warming and of transitioning to a carbon neutral economy and the effect on financial institutions. Apart from the risks posed, a transition to a climate-neutral economy also brings opportunities associated with product innovation, investments in energy efficiency and energy saving, new infrastructure, new jobs and a shift in funding towards greener activities, i.e. sustainable growth. Particular care must be taken to ensure that the transition, as described in the European Green Deal, is just, socially balanced and in line with the UN sustainable development targets.

* * *

The Greek economy continued to recover until recently, and economic policy credibility has largely been restored. Commitment to fiscal stability, a rebalancing of the fiscal policy mix and a timely implementation of the government's ambitious reform programme are the main driving forces for a return of the economy to a sustainable growth trajectory in the medium term. However, in order to achieve a strong recovery, once the coronavirus crisis is over, and fast growth in the medium term, it is necessary to address in a timely manner the significant issues still impeding the functioning of the economy, partly a legacy of the economic crisis and partly the result of chronic structural weaknesses. The most important of these issues refer to the reduction of NPLs and the completion of the reform programme aimed at fostering a business-friendly environment.

The normal course of the economy is temporarily disrupted by the coronavirus pandemic, which is a severe exogenous shock affecting the economy through the demand, supply and financial channels and requiring the adoption of containment measures by governments the world over to protect public health. Although the repercussions of the coronavirus outbreak on the Greek economy cannot, at this stage, be accurately quantified, they will clearly lead to a significantly lower GDP growth rate relative to what was expected until recently. The adverse effects are expected to make themselves felt in the first two quarters, especially the second, and to be partly offset in the last two quarters, in part as a result of economic policy coordination currently underway worldwide.

The coronavirus pandemic poses major challenges and dilemmas for societies, citizens, institutions and policymakers. Values and virtues such as responsibility, solidarity, cooperation, science-based rationality, community-mindedness, coordination, as well as sound leadership take on crucial importance in the current extraordinary context. Such notions are necessary but not sufficient conditions for successfully countering the pandemic that is sweeping the globe. It is precisely this international dimension that brings to the fore the absolute need for international cooperation and coordination, primarily in the areas of science and epidemiology, as well as in the fiscal and monetary domains. The time is now for a collective, global response to address the healthcare costs of the pandemic, using all available financial resources, but also to minimise the impact, through the concurrent use of fiscal and monetary policies. Considering, furthermore, that the impact of the pandemic will inevitably be harsher on the weaker economies with less organised healthcare systems, these economies will need to receive support by all means possible. Flexibility, international cooperation and building on the policy lessons learned from past epidemiological, economic and financial crises will help minimise the loss of human lives, minimise the cost to the economies and support their quick recovery.

APPENDIX

TABLES and CHARTS

TABLES

CHARTS

Table 1 Demand and GDP (2015-2019)

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

	2015	2016	2017	2018	2019	2019 (Q1)	2019 (Q2)	2019 (Q3)	2019 (Q4)
Private consumption	-0.3 (-0.2)	0.1 (0.1)	0.9 (0.6)	1.0 (0.7)	0.8 (0.6)	0.9 (0.6)	0.0 (0.0)	0.6 (0.4)	1.8 (1.2)
Public consumption	1.5 (0.3)	-0.7 (-0.2)	-0.5 (-0.1)	-2.5 (-0.5)	2.2 (0.5)	0.5 (0.1)	9.8 (2.0)	0.1 (0.0)	-1.4 (-0.3)
Gross fixed capital formation	0.6 (0.1)	4.6 (0.5)	9.4 (1.1)	-12.0 (-1.5)	4.6 (0.5)	8.4 (0.9)	-5.4 (-0.7)	2.7 (0.3)	14.4 (1.5)
Residential investment	-25.8 (-0.3)	-12.4 (-0.1)	-5.5 (-0.0)	17.3 (0.1)	12.0 (0.1)	6.7 (0.0)	19.4 (0.1)	3.9 (0.0)	3.9 (0.1)
Domestic final demand[1]	**0.2 (0.2)**	**0.4 (0.5)**	**1.6 (1.6)**	**-1.4 (-1.4)**	**1.5 (1.5)**	**1.6 (1.6)**	**1.3 (1.3)**	**0.7 (0.7)**	**2.5 (2.4)**
Change in inventories and statistical discrepancy (% of GDP)	-1.0%	-0.9%	-1.0%	0.8%	0.3%	0.8%	0.1%	1.0%	-0.9%
Domestic demand	-1.2 (-1.2)	0.7 (0.7)	1.8 (1.8)	0.2 (0.2)	1.1 (1.1)	3.4 (3.4)	2.4 (2.4)	-1.8 (-1.9)	0.5 (0.5)
Exports of goods and services	2.8 (0.9)	-1.9 (-0.6)	6.9 (2.1)	8.7 (2.8)	4.9 (1.7)	4.5 (1.5)	5.2 (1.8)	9.2 (3.1)	1.0 (0.4)
Imports of goods and services	0.4 (-0.1)	1.2 (-0.4)	7.4 (-2.4)	3.0 (-1.0)	2.5 (-0.9)	9.8 (-3.3)	3.9 (-1.4)	-2.8 (1.1)	-0.3 (0.1)
Foreign demand	**... (0.7)**	**... (-1.0)**	**... (-0.4)**	**... (1.8)**	**... (0.8)**	**... (-1.8)**	**... (0.4)**	**... (4.2)**	**... (0.4)**
Gross domestic product at market prices	**-0.5**	**-0.3**	**1.4**	**1.9**	**1.9**	**1.6**	**2.8**	**2.3**	**1.0**

Source: ELSTAT, Quarterly National Accounts, 6.3.2020, seasonally adjusted data.
Note: Within parentheses, contributions to GDP in percentage points.
1 Excluding inventories and statistical discrepancy.

Table 2 Indicators of consumer and investment demand (2014-2020)

(annual percentage changes)[1]

	2014	2015	2016	2017	2018	2019	2020 (available period))
Volume of retail sales (overall index)	-0.4	-1.5	-0.6	1.2	1.5	0.8	
Retail confidence indicator	27.1	-9.1	20.9	-6.7	9.3	6.0	7.1 (Jan.-Feb.)
Consumer confidence index	-52.8	-50.3	-62.9	-58.9	-44.0	-19.8	-7.4 (Feb.)
New private passenger car registrations	30.1	13.8	10.7	22.2	25.8	13.2	7.4 (Jan.)
Consumer credit[2]	-2.8 (Dec.)	-2.3 (Dec.)	-0.8 (Dec.)	-0.5 (Dec.)	-0.8 (Dec.)	-1.6 (Dec.)	-1.6 (Jan.)
Capacity utilisation in the capital goods industry	64.7	62.1	65.5	64.1	69.4	69.8	73.8 (Jan.-Feb.)
Capital goods output	-2.2	2.3	-2.3	2.1	5.8	5.5	18.7 (Jan.)
Disbursements under the Public Investment Programme	-0.9	-2.8	-1.8	-5.4	4.8	-9.5	108.9 (Jan.)
Credit to domestic corporations[2]	-3.3 (Dec.)	-1.2 (Dec.)	0.0 (Dec.)	0.4 (Dec.)	0.2 (Dec.)	1.7 (Dec.)	1.6 (Jan.)
Housing loans[2]	-3.0 (Dec.)	-3.5 (Dec.)	-3.5 (Dec.)	-3.0 (Dec.)	-2.8 (Dec.)	-3.4 (Dec.)	-3.4 (Jan.)
Production index in construction (at constant prices)	15.5	3.1	5.9	-19.4	-12.7	-4.2 (Jan.-Sept.)	
Volume of private construction activity (on the basis of permits issued)	-6.0	-0.5	-6.8	19.5	21.4	6.7 (Jan.-Sept.)	
Construction confidence indicator	23.8	-29.9	-1.1	-9.6	4.8	0.0	57.5 (Jan.-Feb.)

Sources: ELSTAT (retail sales, cars, capital goods output, volume of private construction activity, production in construction), IOBE (construction confidence, capacity utilisation), IOBE and European Commission (consumer confidence) and Bank of Greece (consumer and housing loans, credit to domestic corporations, disbursements under the Public Investment Programme).

1 Excluding the consumer confidence index (weighted percentage balances of positive and negative answers) and capacity utilisation in the capital goods industry levels.

2 The rates of change are derived from changes in stocks, adjusted for loan reclassifications and write-offs/write-downs, impairments and exchange rate variations.

Table 3 Gross value added at basic prices (2016-2019)

(annual percentage changes and contributions in percentage points; at constant prices of 2010)

	2016	2017	2018	2019	2019 (Q1)	2019 (Q2)	2019 (Q3)	2019 (Q4)
Agriculture, forestry and fishing	-6.1 (-0.3)	8.8 (0.4)	3.5 (0.2)	-1.3 (-0.1)	-0.5 (-0.0)	-1.1 (-0.0)	-1.6 (-0.1)	-2.2 (-0.1)
Secondary sector	7.2 (1.0)	2.4 (0.4)	2.9 (0.4)	3.1 (0.5)	6.6 (1.0)	6.9 (1.0)	3.5 (0.5)	-4.2 (-0.6)
Industry including energy	3.2 (0.4)	3.7 (0.4)	1.7 (0.2)	-0.7 (-0.1)	0.2 (0.0)	0.4 (0.0)	0.0 (0.0)	-3.4 (-0.4)
Construction	25.4 (0.6)	-2.1 (-0.1)	7.5 (0.2)	17.4 (0.5)	33.2 (0.9)	32.8 (1.0)	16.9 (0.5)	-6.7 (-0.2)
Tertiary sector	-2.1 (-1.7)	1.2 (1.0)	1.3 (1.1)	0.8 (0.6)	0.4 (0.3)	1.5 (1.2)	0.7 (0.6)	0.7 (0.5)
Trade, hotels and restaurants, transport and storage	-4.3 (-0.9)	3.6 (0.8)	4.2 (0.9)	3.1 (0.7)	3.3 (0.7)	3.8 (0.8)	3.3 (0.7)	2.0 (0.4)
Information and communication	-0.5 (-0.0)	-1.0 (-0.0)	0.0 (-0.0)	0.3 (0.0)	-1.5 (-0.0)	1.5 (0.0)	0.4 (0.0)	0.6 (0.0)
Financial and insurance activities	-1.3 (-0.1)	-6.5 (-0.3)	-10.0 (-0.4)	-8.0 (-0.3)	-8.7 (-0.3)	-9.9 (-0.4)	-6.1 (-0.2)	-7.3 (-0.2)
Real estate activities	-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)	0.2 (0.0)
Professional, scientific and technical activities	-1.4 (-0.1)	3.3 (0.2)	5.6 (0.3)	4.0 (0.2)	3.3 (0.2)	4.5 (0.2)	3.8 (0.2)	4.2 (0.2)
Public administration and defence	-1.7 (-0.4)	-0.5 (-0.1)	0.8 (0.2)	-0.5 (-0.1)	-1.1 (-0.2)	1.6 (0.3)	-1.9 (-0.4)	-0.7 (-0.1)
Arts, entertainment and recreation	-2.2 (-0.1)	0.1 (0.0)	1.9 (0.1)	2.7 (0.1)	-1.1 (-0.0)	1.7 (0.1)	5.2 (0.2)	5.3 (0.2)
Gross value added at basic prices	-1.1	2.0	1.8	0.9	0.8	1.9	1.2	-0.4

Source: ELSTAT, Quarterly National Accounts, 6.3.2020, seasonally adjusted data.
Note: Within parentheses, contributions in percentage points.

Table 4 Activity indicators in the services sector (2015-2019)

(annual percentage changes)

	2015	2016	2017	2018	2019 (available period)
A. Services turnover indices					
1. Trade					
Wholesale trade	-4.4	-1.6	3.7	6.9	-1.7
Retail trade	-2.9	-2.1	1.8	2.0	1.3
Motor trade	7.8	7.2	6.3	10.8	8.5
2. Transport					
Land transport	-5.7	-2.3	10.9	-1.2	1.3
Sea transport	-3.1	-4.6	-9.6	-0.2	6.1
Air transport	7.8	3.9	10.4	-0.1	5.3
Storage and supporting transport activities	3.0	8.2	8.0	9.0	10.2
3. Hotels and restaurants					
Accommodation and food service activities	7.8	0.8	8.2	8.2	0.9 (Jan.-Sept.)
4. Information and communication					
Telecommunications	-1.3	0.5	-0.5	0.6	1.7 (Jan.-Sept.)
Film, video and TV programme production, recordings and music products	-24.2	-1.3	-5.0	9.0	-6.6
Programming and broadcasting activities	-22.4	-15.0	-3.7	14.1	6.1
5. Professional, scientific and technical activities					
Legal, accounting and management consulting services	-12.7	-13.5	4.1	6.9	4.3 (Jan.-Sept.)
Architectural and engineering services	4.6	-9.1	-8.4	-12.8	0.8 (Jan.-Sept.)
Advertising and market research	1.0	-5.9	3.9	-1.1	7.3 (Jan.-Sept.)
Travel agencies and related activities	-7.4	-4.7	9.1	25.6	3.1
B. Passenger traffic					
Athens International Airport	19.0	10.7	8.6	11.0	6.0
Aegean Airlines[1]	15.2	7.0	6.0	5.7	7.3
Piraeus port (OLP)	-9.7	-3.0	4.1	2.2	7.9 (Jan.-Sept.)
C. Services confidence indicator	**-16.2**	**1.5**	**16.9**	4.6	0.7

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

Table 5 Price developments in Greece and the euro area

(annual percentage changes)

	2015	2016	2017	2018	2019
A. Euro area					
Harmonised Index of Consumer Prices (HICP) and its components					
Total HICP	**0.2**	**0.2**	**1.5**	**1.8**	**1.2**
Goods	-0.8	-0.4	1.6	2.0	1.0
Food	1.0	0.9	1.8	2.2	1.8
Processed food[1]	0.6	0.6	1.5	2.1	1.9
Unprocessed food	1.6	1.4	2.4	2.3	1.4
Industrial goods	-1.8	-1.1	1.5	1.9	0.5
Non-energy industrial goods	0.3	0.4	0.3	0.3	0.3
Energy	-6.8	-5.1	4.9	6.4	1.1
Services	1.5	1.1	1.4	1.5	1.5
Total HICP excluding energy and unprocessed food	**1.0**	**0.8**	**1.1**	**1.2**	**1.2**
B. Greece					
Harmonised Index of Consumer Prices (HICP) and its components					
Total HICP	**-1.1**	**0.0**	**1.1**	**0.8**	**0.5**
Goods	-2.0	-1.3	1.0	0.7	-0.3
Food	1.7	0.2	1.5	0.9	0.0
Processed food[1]	1.8	1.0	1.7	1.0	-0.8
Unprocessed food	1.7	-1.3	1.2	0.5	2.0
Industrial goods	-5.3	-2.7	0.7	0.5	-0.5
Non-energy industrial goods	-1.8	-1.4	-2.3	-1.2	-0.4
Energy	-11.1	-5.2	8.5	3.9	-0.3
Services	0.0	1.4	1.2	0.9	1.3
Total HICP excluding energy and unprocessed food	**0.1**	**0.7**	**0.6**	**0.5**	**0.5**

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

Table 6 Price indices

(annual percentage changes)

	Consumer Price Index							
		Sub-indices						
Year	Total	Goods	Services	CPI excluding fuel & fresh fruit and vegetables	CPI excluding food & fuel	Food and non-alcoholic beverages	Fresh fruit and vegetables	Fuel
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
2019	0.3	-0.4	1.2	0.1	0.4	-0.1	5.6	0.4

	Industrial Producer Price Index						Import price index in industry	
	Domestic market				External market			
		Sub-indices						
Year	Total	Total excl. energy	Intermediate goods	Consumer goods	Total	Total excl. energy	Total	Total excl. energy
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
2019	0.6	0.3	1.1	-0.3	-0.6	-0.5	3.0	0.0

Source: ELSTAT and calculations based on ELSTAT data.

Table 7 Compensation of employees and labour cost (2017-2020)

(annual percentage changes)

	2017	2018	2019	2020 (forecast)
Total compensation of employees	2.3	3.6	5.2	1.0
Compensation per employee	0.5	1.3	1.1	0.3
Labour productivity (GDP/total employment)	-0.04	0.2	-0.1	-0.1
Unit labour cost (total economy)	0.6	1.1	1.3	0.4
Total compensation of employees in the general government sector	0.4	1.0	3.0 (nine months)	…
Total compensation of employees in the business sector	3.3	5.2	7.4 (nine months)	…

Sources: For 2017-2019: ELSTAT, revised annual and quarterly national accounts and non-financial accounts of institutional sectors, 24.1.2020 and 6.3.2020. For 2020: Bank of Greece annual forecasts.

Table 8 Balance of payments*

(EUR millions)

	2016	2017	2018	2019
I CURRENT ACCOUNT (I.A+I.B+I.C+I.D)	**-3,050.0**	**-3,406.2**	**-5,232.2**	**-2,572.4**
BALANCE OF GOODS AND SERVICES (I.A+I.B)	**-1,662.7**	**-1,790.2**	**-3,184.7**	**-1,736.3**
Receipts	*54,408.3*	*61,701.7*	*69,532.2*	*72,569.0*
Payments	*56,070.9*	*63,491.9*	*72,716.9*	*74,305.4*
I.A GOODS BALANCE (I.A.1–I.A.2)	**-17,960.3**	**-19,833.9**	**-22,489.1**	**-22,833.3**
I.A.1 Exports of goods	*24,613.2*	*28,040.5*	*32,372.8*	*32,433.6*
Oil	6,162.5	7,887.8	10,016.9	9,078.8
Ships (sales)	119.8	102.0	130.9	91.5
Goods excluding oil and ships	18,330.9	20,050.7	22,225.0	23,263.4
I.A.2 Imports of goods	*42,573.5*	*47,874.4*	*54,861.9*	*55,266.9*
Oil	9,148.0	11,605.4	15,197.5	14,119.3
Ships (purchases)	88.4	141.9	187.7	436.6
Goods excluding oil and ships	33,337.1	36,127.0	39,476.7	40,711.1
I.B SERVICES BALANCE (I.B.1–I.B.2)	**16,297.6**	**18,043.7**	**19,304.4**	**21,096.9**
I.B.1 Receipts	*29,795.0*	*33,661.3*	*37,159.3*	*40,135.4*
Travel	13,206.7	14,630.1	16,085.8	18,151.6
Transport	12,574.4	14,473.8	16,629.9	17,303.1
Other services	4,013.9	4,557.3	4,443.6	4,680.7
I.B.2 Payments	*13,497.5*	*15,617.6*	*17,854.9*	*19,038.5*
Travel	2,005.3	1,904.7	2,191.0	2,735.6
Transport	7,988.9	9,520.6	11,044.3	11,377.4
Other services	3,503.2	4,192.3	4,619.6	4,925.5
I.C PRIMARY INCOME BALANCE (I.C.1–I.C.2)	**-798.9**	**-1,057.3**	**-1,726.4**	**-1,426.8**
I.Γ.1 Receipts	*6,217.5*	*6,184.1*	*6,058.5*	*6,021.1*
Compensation of employees	211.4	216.6	223.0	246.9
Investment income	2,828.0	3,148.0	2,731.4	2,864.9
Other primary income	*3,178.2*	*2,819.5*	*3,104.1*	*2,909.3*
I.Γ.2 Payments	*7,016.5*	*7,241.3*	*7,784.9*	*7,447.9*
Compensation of employees	1,211.6	1,343.7	1,363.7	1,411.6
Investment income	5,380.4	5,492.3	6,019.1	5,629.3
Other primary income	*424.5*	*405.4*	*402.1*	*407.0*
I.D SECONDARY INCOME BALANCE (I.D.1–I.D.2)	**-588.4**	**-558.7**	**-321.1**	**590.8**
I.D.1 Receipts	1,838.0	1,949.9	2,177.6	3,827.9
General government	*1,059.4*	*939.8*	*1,034.7*	*2,361.2*
Other sectors	778.6	1,010.1	1,142.9	1,466.8
I.D.2 Payments	2,426.4	2,508.6	2,498.8	3,237.1
General government	1,850.7	1,792.7	1,702.8	1,830.3
Other sectors	*575.7*	*715.9*	*796.0*	*1,406.9*
II CAPITAL ACCOUNT (II.1–II.2)	**1,035.7**	**914.5**	**353.2**	**679.8**
II.1 Receipts	1,278.4	1,133.8	1,007.4	1,178.7
General government	*1,198.2*	*1,040.2*	*627.5*	*1,023.0*
Other sectors	80.2	93.6	379.8	155.8
II.2 Payments	242.7	219.3	654.2	498.9
General government	28.5	3.0	4.1	4.9
Other sectors	214.2	216.3	650.1	494.0
CURRENT AND CAPITAL ACCOUNT (I+II)	**-2,014.3**	**-2,491.7**	**-4,879.1**	**-1,892.5**
III FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**-873.6**	**-1,949.1**	**-3,923.7**	**-354.8**
III.A DIRECT INVESTMENT[1]	**-4,004.1**	**-2,935.8**	**-2,960.7**	**-3,745.7**
Assets	-1,551.3	143.0	437.8	380.6
Liabilities	2,452.8	3,078.8	3,398.5	4,126.3
III.B PORTFOLIO INVESTMENT[1]	**9,622.6**	**-20,117.7**	**73.8**	**24,231.5**
Assets	7,059.0	-19,392.1	1,377.7	25,927.1
Liabilities	-2,563.6	725.7	1,303.9	1,695.6
III.C OTHER INVESTMENT[1]	**-7,073.6**	**20,986.4**	**-966.8**	**-20,925.0**
Assets	-15,512.5	-11,744.7	-5,801.8	-3,673.6
Liabilities	-8,438.9	-32,731.0	-4,835.0	17,251.4
(General government borrowing)	6,492.9	5,693.7	19,555.0	-4,444.8
III.D CHANGE IN RESERVE ASSETS[2]	**581.5**	**118.0**	**-70.0**	**84.4**
IV ERRORS AND OMISSIONS (I+II–III+IV=0)	**1,140.7**	**542.5**	**955.4**	**1,537.7**
RESERVE ASSETS	**6,539**	**6,509**	**6,625**	**7,571**

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

Table 9 General government balance

(% of GDP)

	2016	2017	2018	2019*
General government balance[1] *(national accounts data – convergence criterion)*	**0.5**	**0.7**	**1.0**	**1.2**
- Central government	-0.9	-1.2	-1.2	0.2
- Social security funds. local government. legal entities in public law	1.4	1.9	2.1	0.9
Primary general government balance	3.7	3.8	4.3	4.1
Primary general government balance according to the Financial Facility Agreement/ enhanced surveillance methodology	3.8	4.1	4.16	3.73
Financial Facility Agreement/enhanced surveiilance target	0.5	1.75	3.5	3.5

Sources: Ministry of Finance and ELSTAT.
* Provisional data (State General Accounting Office, Introductory Report on the 2020 Budget).
1 ELSTAT data, as notified to the European Commission (Excessive Deficit Procedure). Figures may not add up due to rounding.

Table 10 Decomposition of changes in the general government debt-to-GDP ratio[1]

(percentage points of GDP)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*
General government debt-to-GDP ratio	126.7	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.2	181.2	173.3
Changes in the general government debt-to-GDP ratio	17.3	19.5	25.8	-12.5	17.9	1.5	-3.0	2.6	-2.3	5.0	-7.9
- Primary balance	10.1	5.3	3.0	3.8	9.1	-0.3	2.1	-3.7	-3.8	-4.3	-4.1
- Interest rate/growth rate differential (snowball effect)	7.1	12.3	20.7	19.3	13.3	5.9	5.0	3.9	-0.6	-1.0	-2.1
- Deficit-debt adjustment[2]	0.1	1.9	2.1	-35.7	-4.6	-4.0	-10.1	2.3	2.1	10.3	-1.7

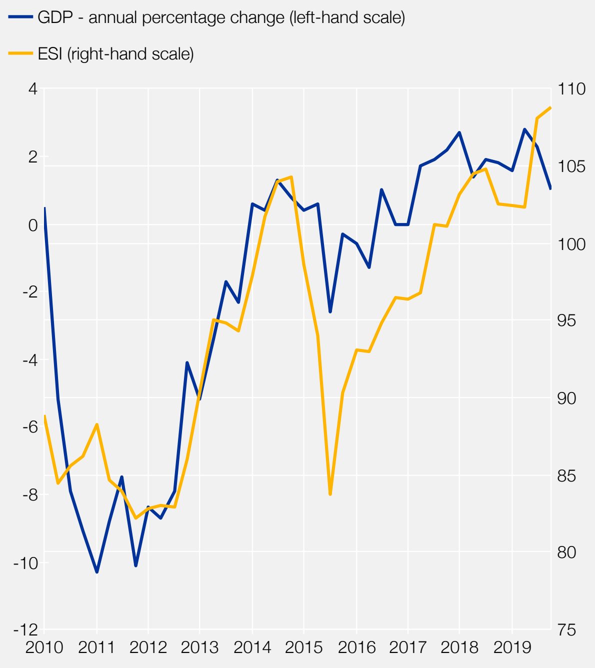
Sources: Introductory Report on the 2020 Budget and ELSTAT.
* Provisional data.
1 Changes in the debt-to-GDP ratio have been decomposed using the following formula:

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

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

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

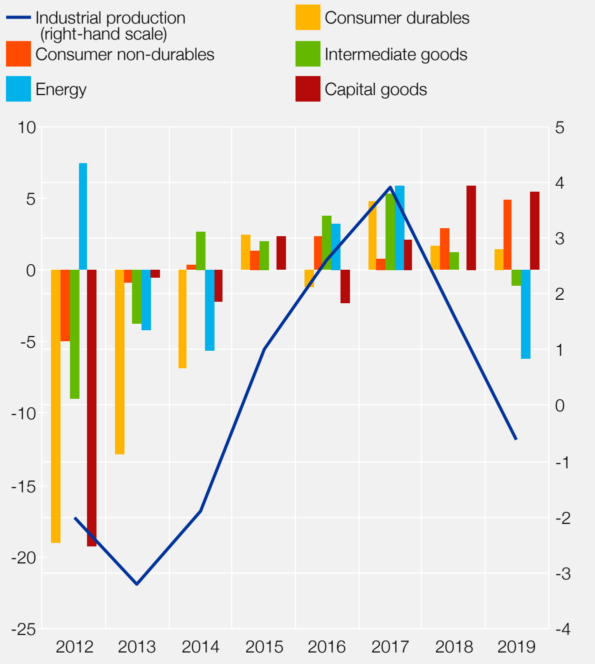
Chart 1 GDP and Economic Sentiment Indicator - ESI[1] (Q1 2010 - Q4 2019)



Sources: ELSTAT and European Commission/IOBE.
1 Three-month moving average.

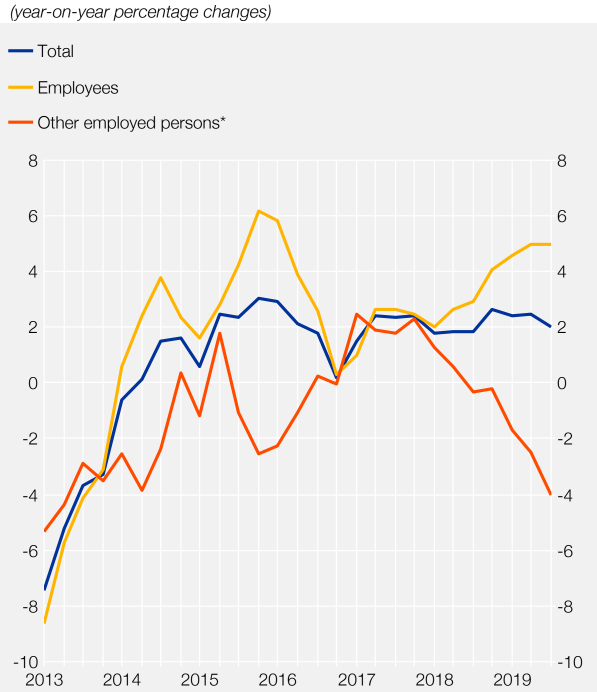
Chart 2 Industrial production (2012 - 2019)

(average percentage change)



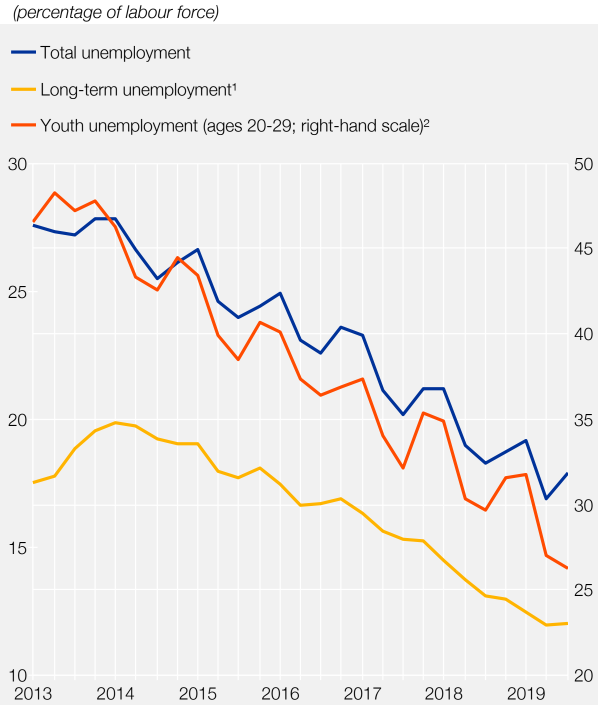
Source: ELSTAT.

Chart 3 Employment
(Q1 2013 - Q3 2019)



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

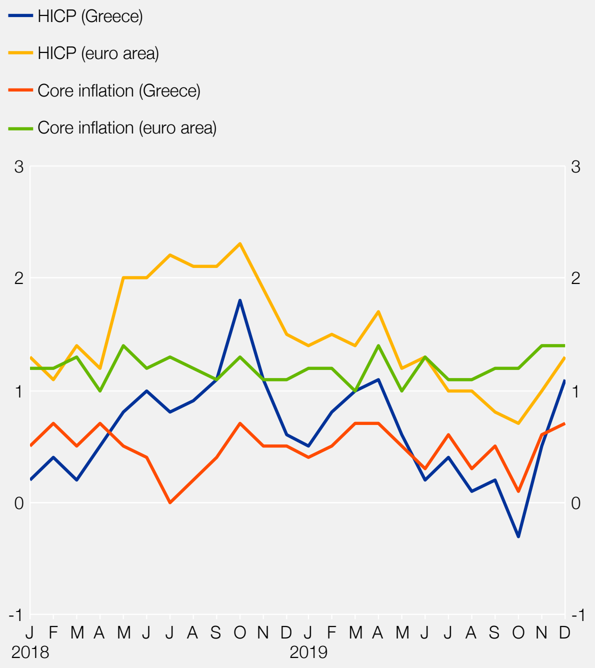
Chart 4 Unemployment rates
(Q1 2013 - Q3 2019)



Source: ELSTAT, Labour Force Survey.
1 For twelve months of 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

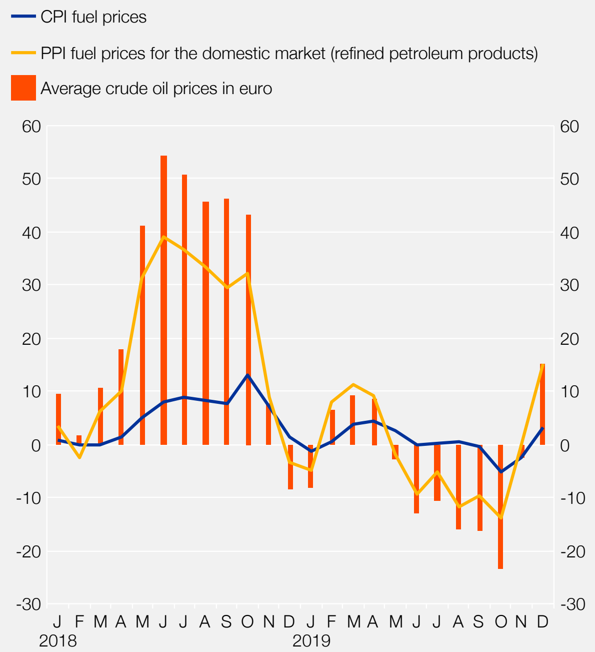
(year-on-year percentage changes)



Sources: ELSTAT and Eurostat.

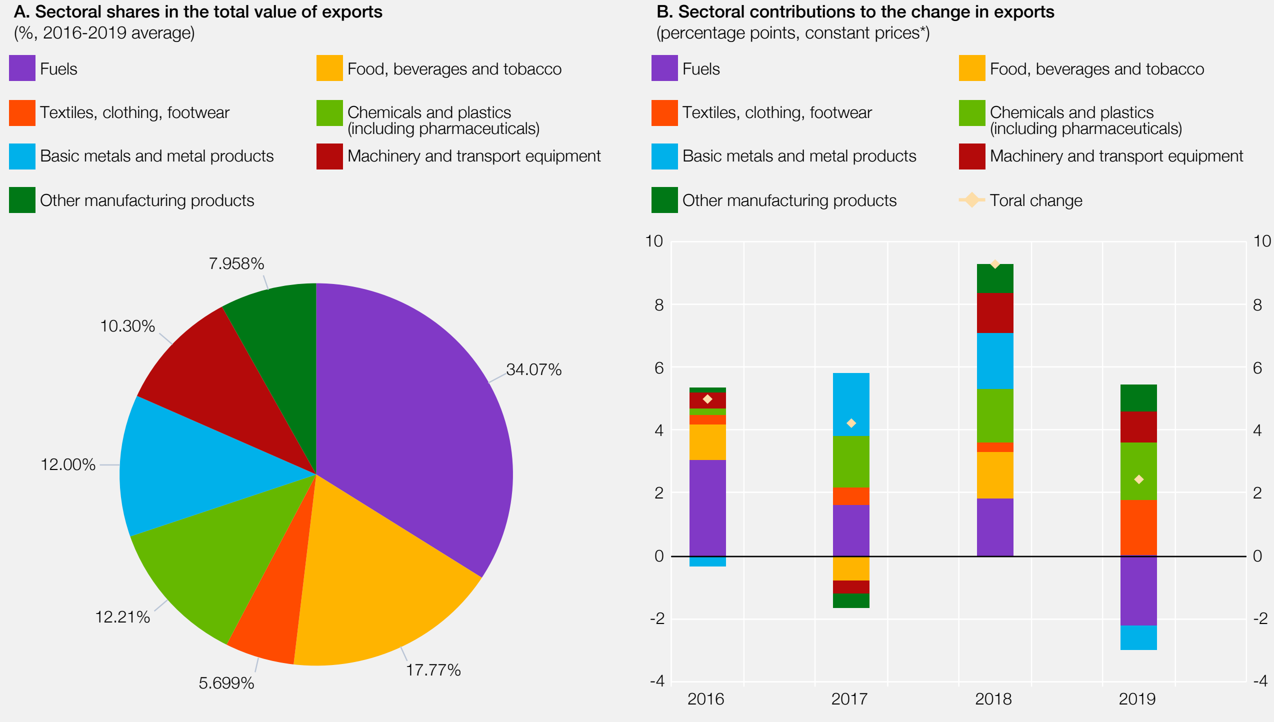
Chart 6 Evolution of CPI/PPI fuel prices and of Brent crude oil prices in euro (January 2018 - December 2019)

(year-on-year percentage changes)



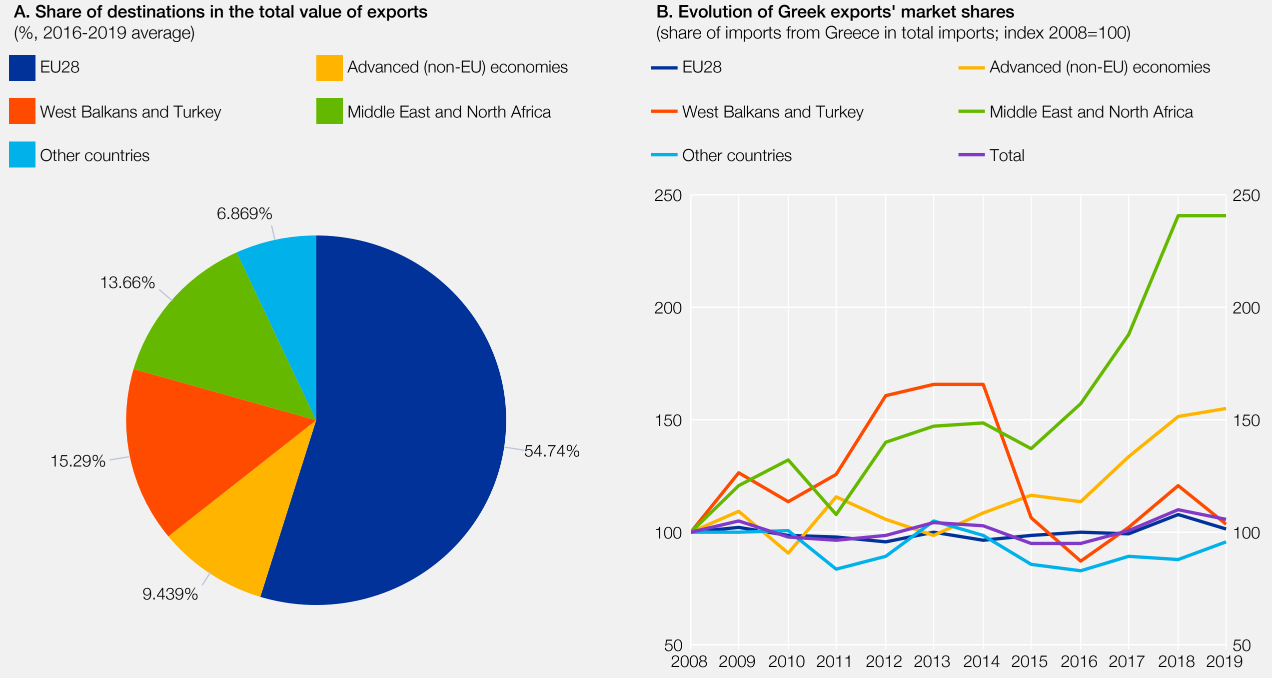
Sources: Calculations based on ELSTAT data and, for crude oil prices (UK Brent), on ECB data.

Chart 7 Sectoral breakdown of Greek exports of goods



Source: Eurostat (COMEX database).
* Figures are deflated by ELSTAT's producer price index for exports.

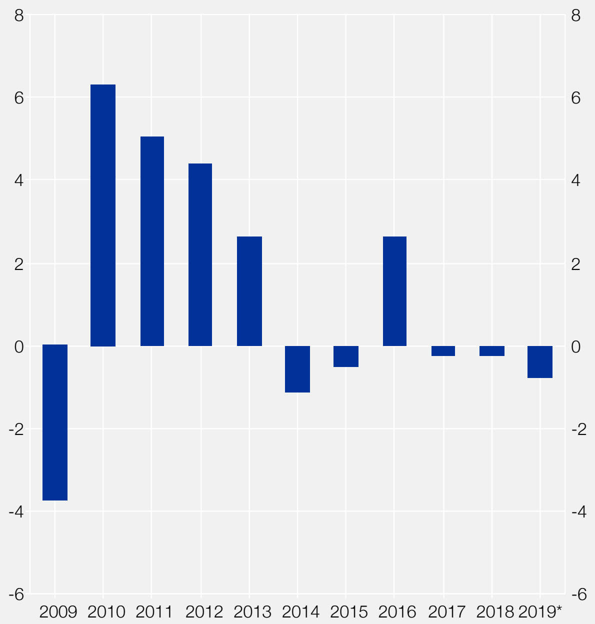
Chart 8 Greek exports of goods, by destination



Sources: Eurostat (COMEXT database) and IMF (DOTS).

Chart 9 Change in the cyclically adjusted primary balance of general government

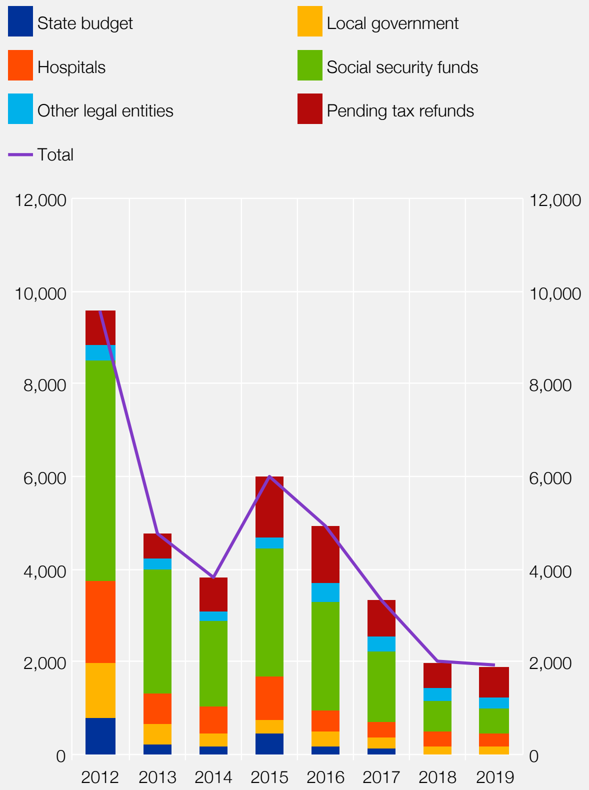
(% of potential GDP)



Source: Bank of Greece.
* Forecast.
Notes: The cyclically adjusted primary balance of general goverment is calculated according to the Eurosystem methodology. It does not include support to the financial sector.

Chart 10 General government arrears to suppliers

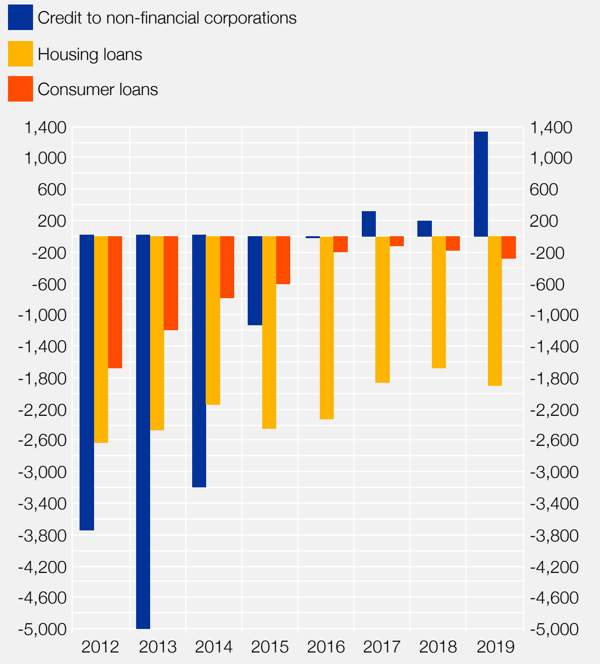
(EUR millions)



Source: Ministry of Finance, State General Accounting Office.

Chart 11 Bank credit to non-financial corporations and households (2012-2019)

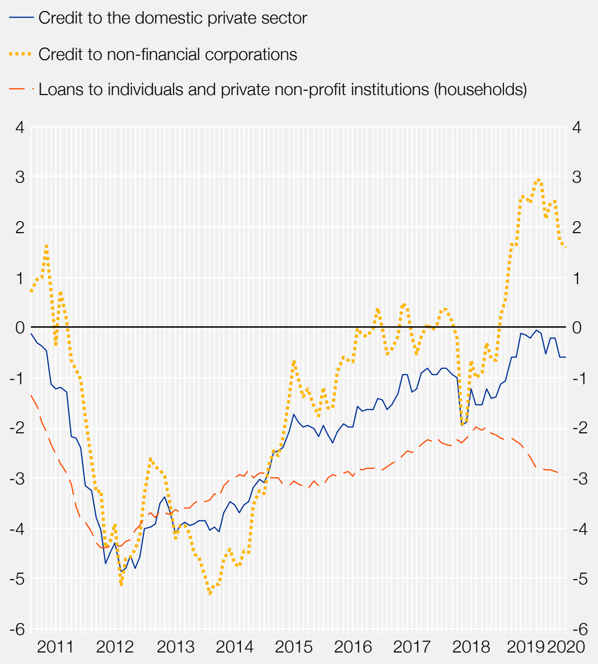
(annual cumulative net flow; EUR millions)



Source: Bank of Greece.

Chart 12 Bank credit to the private sector (January 2011 - January 2020)

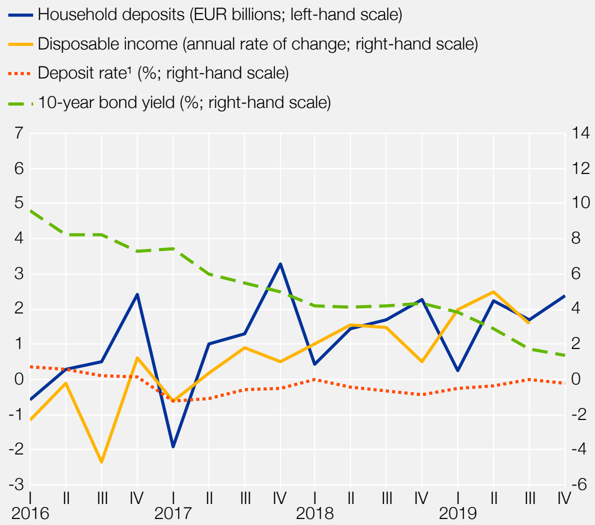
(annual rate of change)



Source: Bank of Greece.

Chart 13 Household deposits, real disposable income, real deposit rate and 10-year government bond yield (Q1 2016 - Q4 2019)

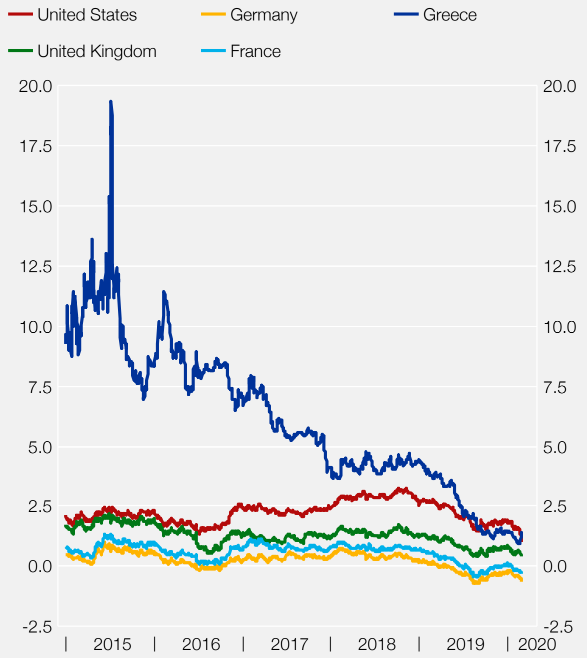
(quarterly cumulative flow in EUR billions; annual rate of change; average percentages per annum)



Sources: Bank of Greece, ELSTAT and Refinitiv/Datastream.
1 Nominal deposit rate minus twelve-month inflation rate.

Chart 14 Yields on 10-year reference bonds in Greece and selected countries (1.1.2015 - 3.3.2020)

(daily data; percentages)



Source: Datastream/Definitiv.

ANNUAL ACCOUNTS

OF THE BANK OF GREECE FOR THE YEAR 2019

AND THE INDEPENDENT AUDITOR'S REPORT

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TRUE TRANSLATION FROM THE ORIGINAL IN GREEK

Independent Auditors' Report

To the Shareholders of the BANK OF GREECE

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 2019, 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 2019 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 amended and currently in force, 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 Law 4548/2018 "Sociétés anonymes Law reform" and Law 4308/2014 "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 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 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.

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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 matters
Provision against credit risk	
The provision against financial risks amounted to € 4,539 million as at 31 December 2019, compared to € 5,307 million as at 31 December 2018. This provision also includes the provision against credit risk. The estimation and the measurement of the provision against credit risk is performed by Management, with the use of a model, is subjective and involves a high degree of judgement to be applied by Management and therefore, we considered that it is a key audit matter. Management has provided information on the provision against financial risks on Note 12 "Provisions", paragraph "c. Provision against Financial and Operational Risks" of the financial statements.	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 Management. Our audit procedures include, among others, the following: • Assessment of the design of the of the internal controls related to the provision against credit risk measured by 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. • With the support of our experts (risk specialists), assessment of the appropriateness of the methodology and the model used by Management to measure the credit risk, as well as assessment of Management's judgement. • Testing the completeness and appropriateness of the underlying data used to measure the credit risk and, on a sample basis, testing the accuracy of this data. • Assessment of the accuracy of the disclosures related to this key audit matter.

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Key audit matters	**How our audit addressed the key audit matters**
Provision for defined benefit obligations to insured persons	
The provision for defined benefit obligations to insured persons amounted to € 2,735.2 million as at 31 December 2019, compared to € 2,168.8 million as at 31 December 2018. The estimation of the provision for defined benefit obligations to insured persons is performed with the use of an actuarial model and involves the exercise of Management's judgment on the determination of the significant actuarial assumptions. The estimation of these assumptions involves a significant degree of subjectivity. Due to the subjectivity and the high degree of judgment to be applied by Management, we considered that it is a key audit matter. Management has provided further information on Note 12 "Provisions", paragraph "b. Provision for defined benefit obligations to insured persons" of the financial statements.	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: • 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. • 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. • Testing of the completeness of the data used by the external actuary and on a sample basis testing its accuracy. • Assessment of the accuracy of the disclosures related to this key audit matter.

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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 2019), 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 amended and currently in force, 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 Law 4548/2018 "Sociétés anonymes Law reform" and Law 4308/2014 "Greek Accounting Standards", where these have been implemented by the Bank, 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 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 aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

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Auditor's responsibilities for the audit of the financial statements - Continued

As part of an audit in accordance with ISAs, as these have been incorporated into Greek legislation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess 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 present fairly the underlying transactions and events.

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 of most significance in the audit of the financial statements for the current period and are, therefore, the key audit matters.

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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 2019, 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 152 of Law 4548/2018.

b) In our opinion, the General Council's Report for the financial year 2019 has been prepared in accordance with the Bank's Statute and the applicable legal requirements of articles 150-151 and paragraph 1 (subparagraphs c' and d') of article 152 of Law 4548/2018 and its content is consistent with the accompanying financial statements for the year ended 31 December 2019.

c) Based on the knowledge we obtained during our audit of the 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 2019 are disclosed in Note "VI. Additional Information" of the accompanying financial statements.

Deloitte.

4. Appointment

We were appointed 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 two consecutive years based on the decisions reached by shareholder's Annual General Assembly.

17 February 2020

The Certified Public Accountant

Despina Xenaki
Reg. No. SOEL: 14161
Deloitte Certified Public Accountants S.A.
3a Fragkoklissias & Granikou str.
151 25 Maroussi
Reg. No. SOEL: E 120

The Certified Public Accountant

Michalis Karavas
Reg. No. SOEL: 13371
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151 25 Maroussi
Reg. No. SOEL: E 120

BALANCE SHEET AS AT 31 DECEMBER 2019

(in euro)

ASSETS	31.12.2019	31.12.2018
1. Gold and gold receivables	**6,544,316,602**	**5,390,195,138**
2. Claims on non-euro area residents denominated in foreign currency	**2,700,269,631**	**2,483,673,148**
2.1 Receivables from the International Monetary Fund (IMF)	720,713,956	702,267,928
2.2 Balances with banks and security investments, external loans and other external assets	1,979,555,675	1,781,405,220
3. Claims on euro area residents denominated in foreign currency	**228,868,498**	**320,388,447**
3.1 General government	19,475,008	16,359,029
3.2 Other claims	209,393,490	304,029,418
4. Claims on non-euro area residents denominated in euro	**23,170**	**521,741**
4.1 Balances with banks, security investments and loans	23,170	521,741
4.2 Claims arising from the credit facility under ERM II	0	0
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	**7,651,000,000**	**10,123,400,000**
5.1 Main refinancing operations	51,000,000	958,400,000
5.2 Longer-term refinancing operations	7,600,000,000	9,105,000,000
5.3 Fine-tuning reverse operations	0	0
5.4 Structural reverse operations	0	0
5.5 Marginal lending facility	0	60,000,000
5.6 Credits related to margin calls	0	0
6. Other claims on euro area credit institutions denominated in euro	**1,828,428**	**947,532,869**
7. Securities of euro area residents denominated in euro	**75,075,229,320**	**76,536,148,136**
7.1 Securities held for monetary policy purposes	63,909,382,552	64,908,555,192
7.2 Other securities of euro area residents denominated in euro	11,165,846,768	11,627,592,944
8. General government long-term debt denominated in euro	**4,863,576,750**	**5,295,537,932**
9. Intra-Eurosystem claims	**9,978,878,494**	**5,963,874,072**
9.1 Participating interest in the ECB	472,980,896	564,765,496
9.2 Claims equivalent to the transfer of foreign reserves to the ECB	1,002,089,435	1,178,260,606
9.3 Net claims related to the allocation of euro banknotes within the Eurosystem	8,455,772,990	4,133,564,050
9.4 Net claims arising from balances of TARGET2 accounts	0	0
9.5 Other claims within the Eurosystem (net)	48,035,173	87,283,920
10. Items in course of settlement	**0**	**0**
11. Other assets	**2,110,926,323**	**2,101,918,610**
11.1 Coins of euro area	51,696,946	56,780,853
11.2 Tangible and intangible fixed assets	548,599,990	561,412,923
11.3 Other financial assets	104,632,067	101,614,906
11.4 Off-balance-sheet instruments revaluation differences	2,040,409	62,905
11.5 Accruals and prepaid expenses	826,922,126	819,046,810
11.6 Sundry	577,034,785	563,000,213
TOTAL ASSETS	**109,154,917,216**	**109,163,190,093**

(in euro)

LIABILITIES	**31.12.2019**	**31.12.2018**
1. Banknotes in circulation	**29,539,154,700**	**32,717,386,050**
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**9,108,199,191**	**6,942,079,203**
2.1 Current accounts (covering the minimum reserve system)	9,108,199,191	2,819,079,203
2.2 Deposit facility	0	4,030,000,000
2.3 Fixed-term deposits	0	0
2.4 Fine-tuning reverse operations	0	0
2.5 Deposits related to margin calls	0	93,000,000
3. Other liabilities to euro area credit institutions denominated in euro	**0**	**0**
4. Liabilities to other euro area residents denominated in euro	**27,421,848,711**	**24,953,984,561**
4.1 General government	25,930,712,804	23,518,798,954
4.2 Other liabilities	1,491,135,907	1,435,185,607
5. Liabilities to non-euro area residents denominated in euro	**2,466,433,379**	**2,395,528,696**
6. Liabilities to euro area residents denominated in foreign currency	**741,439,347**	**714,999,931**
7. Liabilities to non-euro area residents denominated in foreign currency	**2,578**	**2,529**
7.1 Deposits and other liabilities	2,578	2,529
7.2 Liabilities arising from the credit facility under ERM II	0	0
8. Counterpart of special drawing rights allocated by the IMF	**0**	**0**
9. Intra-Eurosystem liabilities	**25,658,087,094**	**28,596,286,346**
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	0
9.3 Net liabilities arising from balances of TARGET2 accounts	25,658,087,094	28,596,286,346
9.4 Other liabilities within the Eurosystem (net)	0	0
10. Items in course of settlement	**548,823**	**1,985,586**
11. Other liabilities	**931,257,299**	**770,434,515**
11.1 Off-balance-sheet instruments revaluation differences	0	37,766
11.2 Accruals and income collected in advance	66,916,406	47,212,839
11.3 Sundry	864,340,893	723,183,910
12. Provisions	**7,797,365,401**	**7,805,756,379**
13. Revaluation accounts	**4,847,400,108**	**3,671,010,783**
14. Capital and reserves	**643,180,585**	**593,735,514**
14.1 Capital	111,243,362	111,243,362
14.2 Ordinary reserve	111,243,362	111,243,362
14.3 Extraordinary reserve	134,500,000	84,500,000
14.4 Special reserve from the revaluation of land and buildings	284,890,789	285,443,789
14.5 Other special reserves	1,303,072	1,305,001
TOTAL LIABILITIES	**109,154,917,216**	**109,163,190,093**

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2019

(in euro)

		2019	2018
1.	**Net interest income**	**835,656,387**	**961,179,432**
	1.1 Interest income	851,121,956	961,277,610
	1.2 Interest expense	-15,465,569	-98,178
2.	**Net result of financial operations, write-downs and risk provisions**	**56,819,536**	**29,524,438**
	2.1 Realised gains arising from financial operations	56,819,536	29,524,438
	2.2 Write-downs on financial assets and positions	-1,963,703	-7,346,535
	2.3 Transfer from provisions for financial risks	1,963,703	7,346,535
3.	**Net income from fees and commissions**	**103,550,649**	**88,075,677**
	3.1 Fees and commissions income	107,203,411	91,810,322
	3.2 Fees and commissions expense	-3,652,762	-3,734,645
4.	**Income from equity shares and participating interests**	**134,754,766**	**56,812,050**
5.	**Net result of pooling of monetary income**	**14,563,443**	**50,209,184**
6.	**Other income**	**20,678,060**	**13,621,675**
	Total net income	**1,166,022,841**	**1,199,422,456**
7.	**Staff costs and pension benefit expenses**	**-824,338,330**	**-264,085,640**
8.	**Other administrative expenses**	**-53,848,358**	**-67,838,799**
9.	**Depreciation of tangible and intangible fixed assets**	**-11,858,174**	**-12,541,221**
10.	**Consultancy fees for the auditing of the banking system**	**-1,720,177**	**-784,390**
11.	**Provisions**	**568,055,696**	**-196,570,926**
	Total expenses	**-323,709,343**	**-541,820,976**
	PROFIT FOR THE YEAR	**842,313,498**	**657,601,480**

STATEMENT OF PROFIT DISTRIBUTION

Article 71 of the Statute

(in euro)

	2019	2018
Profit for the year	842,313,498	657,601,480
Dividend to be distributed for the year 2019 (€ 0.6720 per share for 19,864,886 shares)	-13,349,203	-9,477,934
Tax on dividends (at a rate 29%, Articles 47 and 58, Law 4172/2013, as currently in force)	0	-3,871,269
Extraordinary reserve	-50,000,000	0
Amount to be transferred to the Government	-778,964,295	-644,252,277
	0	0
Tax returned (*)	18,955,869	-
Amount to be distributed for the year 2018	-3,871,269	-
Amount to be distributed for the years 2014-2017	-15,084,600	-
	0	-

* According to Opinion no. 116/2019 of the State Legal Council (Section B), which was endorsed by the Governor of the Independent Authority for Public Revenue (by Circular E.2107/12.06.2019), distributed dividends of certain legal persons, including the Bank of Greece, are no longer taxed as business profits under Article 47 para. 1 of Law 4172/2013 (Government Gazette A 167) retroactively to 1.1.2014. As a result, the amounts already paid for taxes on business profits (Article 47 para. 1 of Law 4172/2013) pursuant to the earlier instructions of the Tax Administration (Circular POL 1059/2015) will be refunded to shareholders.

Athens, 17 February 2020

THE GOVERNOR

YANNIS STOURNARAS

THE DIRECTOR OF THE ACCOUNTING DEPARTMENT

MARIA PAGONI

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