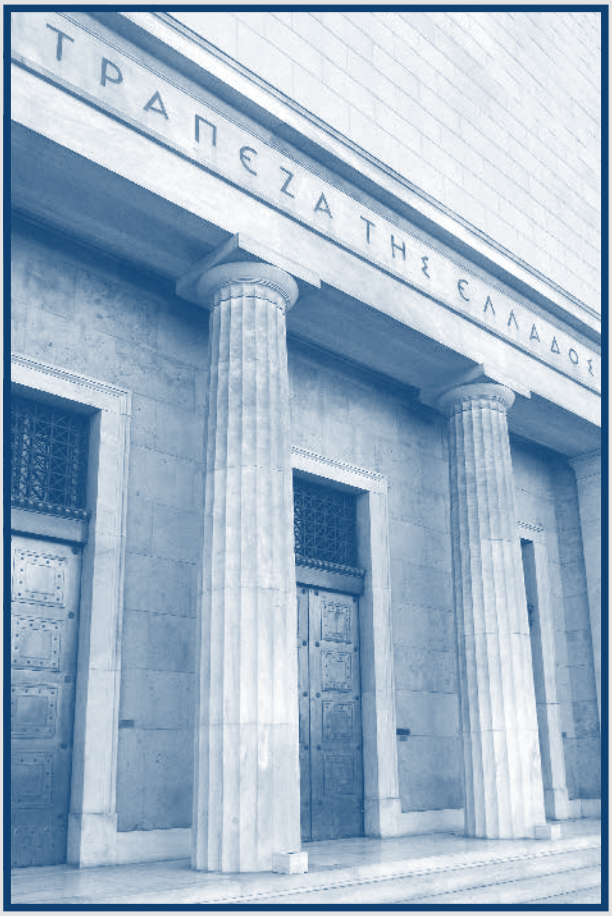
SUMMARY OF THE ANNUAL REPORT
2020



APRIL 2021

BANK OF GREECE
EUROSYSTEM

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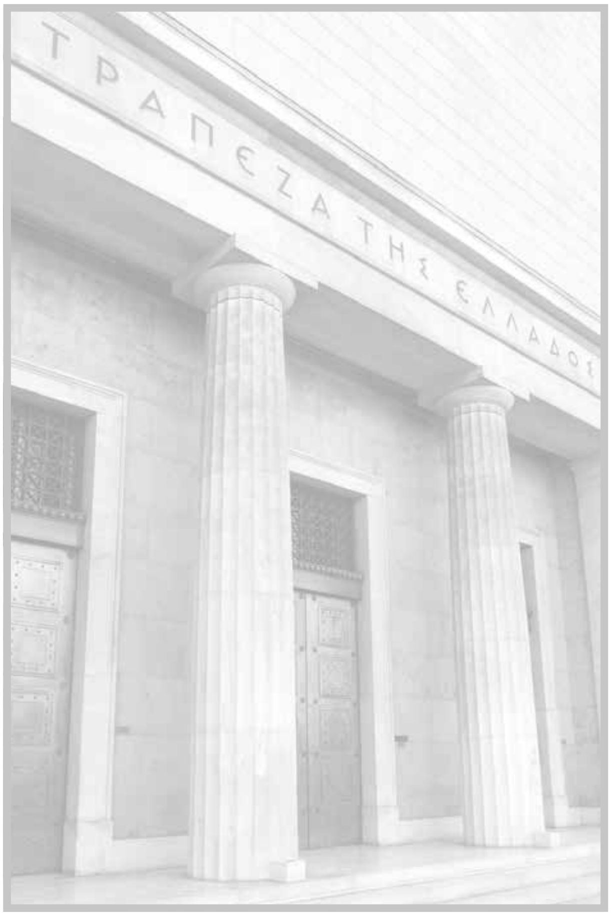
2020

Presented to the General Meeting of Shareholders
by Governor Yannis Stournaras



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EUROSYSTEM

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Printed in Athens, Greece
at the Bank of Greece Printing Works

ISSN: 2732-6527 (online)

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FROM THE PANDEMIC AND UNCERTAINTY TO A RESTART OF THE ECONOMY

1 2021: BEGINNING OF THE END OF THE PANDEMIC AND TRANSITION TO A NEW ECONOMIC REALITY

2021 marks the beginning of the end of the COVID-19 pandemic and a gradual transition to a new economic normal. The start of the vaccine rollout in many countries in late December 2020 was a milestone in the global effort to contain the spread of the virus and resolve the health crisis. Speeding up vaccinations this year will be crucial for a gradual abatement of the pandemic and for a steady path of economic recovery. Mass vaccination will ensure necessary immunity against the virus, allowing the economies to safely reopen.

However, at least in the short term, the pandemic continues to pose serious risks to public health and to the rebound of activity in the European and world economies. Various factors are prolonging the uncertainty, fuelling negative expectations, disrupting economic activity and delaying the onset of the recovery. In particular: (a) the difficulty in controlling the pandemic, as evidenced by the new waves of infections across Europe and worldwide and by the successive lockdowns; (b) the fear of variants; and (c) the delays in vaccine deliveries and in the implementation of national vaccination programmes across Europe are postponing the economic recovery.

Nonetheless, a rebound of global demand and the expansion of fiscal stimulus packages provided by the large advanced economies, including the new European recovery instrument Next Generation EU (NGEU), combined with the maintenance of favourable financial conditions, support expectations for a solid recovery in the EU from the second half of 2021 onwards.

The outbreak of the pandemic in early 2020 was a major shock to the world economy. Countries were hit by an unexpected and deep crisis, both health-related and economic. Values, rights and constants were tested. Past certainties about the functioning of societies and economies and about the conduct of economic policy were called into question. The human toll worldwide has been enormous. The world economy experienced its worst peacetime recession in almost 100 years, with global GDP contracting by a historic 3.5% according to the latest estimates.

The end of the pandemic will shape a new social and economic reality. A new world – predominantly digital – is emerging, in which knowledge, scientific research, technology and innovation will be the key drivers of economic prosperity. There is growing awareness of the need for global solidarity and cooperation in order to improve collective resilience to symmetric shocks. The crisis has also reaffirmed the need to proactively address the impacts of climate change and protect the natural environment as an essential condition for a safe coexistence of man and nature.

In the aftermath of the coronavirus crisis, global and European policy will need to address the following pressing issues: (a) a rise in business failures; (b) higher unemployment, as a result of the loss of mainly unskilled or low-skilled jobs amid rapid automation and digitalisation, and of a potentially large number of business failures; (c) rising poverty as well as social and economic inequalities both across and within countries. Dealing with the pandemic-induced surge in private and public debt worldwide will be another major concern for economic policymakers in the years ahead. Equally important policy priorities will be the strengthening of public health systems and managing the risks associated with ever more frequent extreme weather events, as well as addressing the challenges of digital transition.

Meanwhile, new economic policy instruments and financing mechanisms are being deployed to counter the losses and stabilise economies. At the EU level, the coordinated response with the temporary suspension of Stability and Growth Pact rules and of state aid rules to enable loan and guarantee support to businesses and, more importantly, the unprecedented initiative of the EU leaders to finance the economic recovery in Europe through a common bond issue and an expansion of own resources, all pave the way to a reform of the overall EU economic governance framework with a view to making it more realistic, flexible and effective.

The experience from the management of the pandemic crisis could serve as a blueprint for establishing some form of permanent central fiscal capacity in the EU, including the use of common bond issues as a tool for financing productive investment, and for a better monitoring of structural policy implementation, so as to improve the growth prospects of Member States and support their economic convergence efforts. First and foremost however, the pandemic has highlighted the need to reform the temporarily suspended Stability and Growth Pact in two main directions: (a) towards a simplification of the fiscal rules to make them more flexible, realistic and practicable; and (b) towards an enhanced implementation of credible countercyclical fiscal policies and a parallel strengthening of automatic stabilisers for correcting macroeconomic imbalances. Greater emphasis must be placed on debt sustainability. The revision of the fiscal rules is a challenging topic to debate. The new rules need to be realistic and credible, so as to strengthen market confidence, and should not require complex and time-consuming EU treaty amendment processes, but only political backing at the level of EU leaders.

2 INCREASED UNCERTAINTY AND THE NEED TO ADAPT TO THE NEW NORMAL

The second wave of the pandemic across Europe in the autumn and winter of 2020, with a large spread of infections, necessitated renewed containment and lockdown measures. This halted the rebound that had begun to emerge in the third quarter of 2020 when many containment measures were lifted. The upward course of GDP moderated, with several European economies posting positive, albeit very low, quarterly growth rates in the fourth quarter of 2020. On average, activity in the euro area declined by just 0.7% quarter-on-quarter, which was much less than expected, but year-on-year contracted by 4.9%.

The fact that the economic losses were less severe during the second wave of the pandemic, compared to the first, is mainly attributed to the less stringent lockdowns imposed at national and local levels, resulting in relatively high citizen mobility, a strong growth of industrial production, a rebound of global demand and a gradual operational adjustment of the private economy to the exceptional circumstances, as shown by the significant increase in e-commerce. The extension and, in particular, the tightening of lockdown measures in response to the third wave of the pandemic in the first quarter of 2021 are expected to lead to a further contraction, albeit moderate, of economic activity.

In Greece, the periodic surges of the pandemic since mid-autumn 2020 led to the adoption, from early November 2020, of a new round of containment measures, which were further tightened in mid-February and once more in early March 2021. This time, the measures were definitely less stringent, as evidenced by greater citizen mobility and by continued industrial and construction activity. However, the fact that they have been in place for a longer period of time, combined with the uncertainty regarding the dynamics of the pandemic and the pace of vaccinations worldwide, fuels economic uncertainty and delays the rebound of demand.

Nevertheless, the recovery of the euro area and of the Greek economy is projected to begin later this year, more specifically from the second quarter of 2021, gain momentum in the second half of the year and continue in 2022. This projection is subject to four important conditions:

(a) a faster implementation of national vaccination programmes; (b) an unwinding of containment measures; (c) a continued expansionary stance of national fiscal policies, with the implementation of properly targeted measures to boost subdued demand; and (d) the maintenance of favourable financing conditions, as well as the timely utilisation of NGEU funds.

On the part of the European Central Bank (ECB), the reaffirmation of the accommodative stance of the single monetary policy, along with its flexibility so that no euro area Member State is excluded from the benefits of this policy, ensures favourable financing conditions for all euro area countries, businesses and households. Meanwhile, the NGEU and especially the funding mechanism under the Recovery and Resilience Facility provide all EU countries with adequate fiscal space, not only for a faster recouping of losses but also for stronger and more resilient growth via the digital transformation of the national economies, green transition and parallel implementation of structural reforms. The NGEU functions indirectly as a fiscal transfer mechanism at the European level, with the countries worst hit by the pandemic shock being allotted a larger share of the available subsidies and loans.

Still, the return to growth is expected to be uneven across countries and sectors. Although the pandemic caused recessionary shocks to all economies and sectors, the data available so far indicate that the economic and social impact is asymmetric, with the services sector hit harder by the containment measures and the slump in demand than other sectors, such as industry.

Furthermore, the need to prevent the spread of the pandemic has spurred new trends in consumer behaviour and demand, but also in the organisation and operation of businesses. These changes had been under way before the outbreak of the pandemic, driven by the gradual adoption of new technologies and their applications in economic and social life. Remote working, the widespread use of virtual meetings, e-commerce, livestreaming and online education are some examples of the increased penetration of new technologies into economic and social structures. The pandemic has also accelerated e-globalisation, making location irrelevant for a number of businesses, most notably software companies. Overall, addressing the impact of the health crisis necessitated higher expenditure for technologies and services that are digitalisation enablers.

In light of these new trends, enterprises across all sectors need to rapidly adjust to the new types of demand and to the new ways of operating and doing business. The lack of, or unequal access to, technology and the knowledge-based economy, but also possible delays, policy failures or even unwillingness to adapt could slow and dampen growth and, consequently, exacerbate inequalities across countries and sectors.

The Greek economy, as one dependent mainly on services with a high share of tourism and retail trade in its GDP, was hit harder than other EU countries by the shocks to external and domestic demand from the successive containment measures and the spike in economic uncertainty. The recession in 2020 came to 8.2%. Worst hit were small and very small, mainly family-run, businesses, with limited adjustability and access to bank lending. Yet, despite the inevitable heavy losses, given the nature of the shock and the structure of its economy, Greece has shown remarkable resilience and ability for operational adjustment to the new situation.

In this respect, the timely and effective conduct of a countercyclical fiscal policy by the Greek authorities with the adoption of measures of unprecedented size and scope (amounting to 11.2% of GDP) aimed to preserve jobs, protect entrepreneurship and boost domestic demand has been crucial. In fact, together with credit expansion to businesses, loan moratoria and other government-supported repayment relief schemes, the emergency policy measures, despite their significant fiscal cost, have managed to mitigate the negative effects of the pandemic on disposable income and employment, create positive expectations and reduce heightened uncertainty. The support package to the real economy, combined with the government's overall health crisis response strategy, resulted in the recession turning out significantly less pronounced than forecast by domestic and foreign institutions. Provisional data on GDP developments in 2020 suggest that, despite its dependence on tourism, the Greek economy proved resilient to the impact of the pandemic.

3 THE GREEK ECONOMY: DEVELOPMENTS IN 2020 AND PROSPECTS FOR 2021

The pandemic crisis interrupted the mild recovery path on which the Greek economy had been since 2017, and shifted policy focus to protecting public health and containing income and job losses. The objective was to prevent a temporary recession from turning into a lasting depression.

The losses were particularly extensive in the services sector, primarily in the service industries associated with tourism and domestic demand, such as travel, hospitality, food service, entertainment and retail trade. The fluctuations in conjunctural and economic sentiment indicators during 2020 reflect heightened uncertainty about the course of the pandemic.

On the demand side, the contraction of services exports and private consumption caused losses in national output, partly mitigated by resilient goods exports, a decline in imports and higher government consumption. Furthermore, public investment supported investment activity, but overall gross fixed capital formation decreased marginally. On the supply side, almost all businesses experienced a large decline in turnover, most importantly in the tertiary sector. The secondary sector was less affected, thanks to dynamic manufacturing industries, such as chemicals and chemical products, pharmaceutical products and preparations, and computer and electrical equipment, which increased their output in response to the extraordinary needs generated by the pandemic.

Compared with the output losses, the impact of the pandemic on the labour market was milder, owing to the mitigating effect of the fiscal measures aimed to preserve jobs. So far, the main effects on the labour market have been a sharp decline in mostly seasonal employment in tourism and food service, a decrease in hours worked due to the lockdown, a drop in employment and a rise in unemployment among younger workers and an increase in the economically inactive population. However, the active employment support policies implemented in 2020, providing income subsidies to employees and the self-employed and prohibiting layoffs, helped to contain the rise in the unemployment rate. In this manner, the government managed to mitigate the cost to the labour market from the economic downturn, thereby effectively protecting workers and facilitating the recovery of the economy in 2021.

Reflecting subdued demand, as well as the effect of the transfer of certain items to a lower VAT rate, the average annual inflation rate in 2020, as measured by the Harmonised Index of Consumer Prices (HICP), turned out negative (-1.3%). A gradual easing of the negative annual rate of headline inflation is projected for 2021, mainly driven by rising international oil prices and by positive base effects.

Turning to the real estate market, its strong dynamics, until recently driven by foreign investment demand and tourism, was halted. The pandemic is expected to induce structural changes in the real estate market. Pandemic-led shifts in demand and user needs, as well as the launch of new developments and infrastructure projects, will open up new fields of investor interest and fundamentally change the market's status quo. One important change in the real estate market is associated with the anticipated increase in supply from the second half of 2021 onwards, through collateral property sales.

In the external sector, the Greek economy lost international competitiveness, mainly in terms of relative unit labour costs as a result of lower labour productivity, but its structural competitiveness improved slightly, driven by a faster digital transformation of the economy and an easing of the tax burden.

The rebound of private consumption and of aggregate demand is projected to pick up later this year, specifically from the second quarter onwards, leading the Greek economy to strong positive growth. According to the Bank of Greece, the real GDP growth rate in 2021 is forecast at 4.2%. This, however, is subject to high uncertainty due to risks directly associated with the epidemiological developments and the feasibility of lifting many of the containment and lockdown measures soon, but also with the economy's structural features that largely determine the extent of the pandemic fallout.

Apart from an increase in precautionary saving – a common phenomenon among economic agents in times of deep recession and high uncertainty – forced saving has also been observed in the circumstances of the pandemic. Private saving rose to an annualised 8.2% of GDP in the third quarter of 2020 (from 6.2% of GDP in the fourth quarter of 2019), due mainly to the constraints on consumption during the periods of lockdown, to the moratoria on loan repayments and other obligations, and to the widespread participation of businesses and households in the government's income support schemes. Going forward, as the restrictions on citizen mobility are lifted and the economy gradually reopens, the accumulated savings are expected to enable a return to normal debt repayment and should in part finance the growth of private spending, thereby contributing to the recovery of economic activity.

The speed at which the Greek economy will recover will depend on the following three crucial factors:

First, the acceleration of vaccination campaigns not only in Greece but also internationally. Successful immunisation would boost public confidence in an eventual end to the health crisis and enable a return to normality through a lifting of travel and other restrictions, thereby contributing to a recovery of external demand, mainly for services such as tourism and travel. At the same time, declining uncertainty and the withdrawal of restrictive measures will enable a gradual increase in domestic consumption and investment.

Second, the maintenance – until the COVID crisis is over and the recovery gains traction – of the fiscal stimulus and the emergency measures from the banking system, carefully targeting those categories of workers and sectors worst hit, yet still economically viable. Thus, it is crucially important that the measures be gradually and cautiously phased out.

Third, the speed of activation of the National Recovery and Resilience Plan for the absorption of funds allocated to Greece eligible under the NGEU. Utilisation of NGEU funds from the second half of 2021 through to 2026 will significantly strengthen the growth dynamics and help to restore fiscal sustainability, without the need to resort to severe austerity policies that, in the past, had trapped the economy in a vicious circle of recession and stagnation. For countries like Greece with a high public debt-to-GDP ratio, reducing the debt dynamics hinges crucially on achieving the highest possible nominal GDP growth in tandem with the lowest possible nominal borrowing rates.

Besides, commitment to continue implementing structural reforms is a sine qua non to not only bridging the output gap, but also – and more importantly – to stimulating aggregate supply and raising total factor productivity, increasing Greece's productive capacity and ultimately enhancing potential output growth.

Consequently, in the aftermath of the pandemic and as the economy returns to normal, the medium-term priorities of economic policy will need to be centred around: (a) restoring fiscal sustainability to ensure Greece's creditworthiness; (b) a more growth-oriented fiscal policy;

and (c) faster implementation of the national reform programme, including a clean-up of bank balance sheets from impaired assets.

4 FISCAL POLICY

The fiscal support measures implemented in 2020, amounting to 11.2% of GDP, and the recession led to a sharp reversal of the general government primary surplus into a deficit and, combined with the contraction of nominal output, to a significant increase in the debt-to-GDP ratio. More specifically, revised projections by the Bank of Greece place the 2020 general government primary deficit at 7.0% of GDP, calculated according to the enhanced surveillance methodology, compared with a surplus of 3.6% of GDP in 2019. Public debt is estimated to have increased to 205% of GDP in 2020, from 180.5% of GDP in 2019, mainly on account of a decline in nominal GDP. The contribution of the interest rate-growth differential, known as the snowball effect, to the increase of the debt ratio is estimated at 22 percentage points, reflecting a contraction of nominal GDP.

Government debt levels have soared across all advanced economies on the back of the recession and deflation, as well as heavy government borrowing to finance the fiscal stimulus packages aimed to shield the private economy. That said, in highly indebted economies like Greece's, public debt dynamics is a matter that in the long term affects growth dynamics and fiscal sustainability. However, the inclusion of Greek government bonds – though still below investment grade – in the Pandemic Emergency Purchase Programme (PEPP) of the ECB, their acceptance as collateral in the Eurosystem's refinancing operations, as well as the positive developments in international financial markets, contributed to the uninterrupted access of the Greek State to capital markets and a further decline in Greek government bond yields.

Confirmation of Greece's creditworthiness and evidence of improved market sentiment towards the Greek economy came with the issuance at end-January 2021 of a new 10-year bond with a historically low coupon rate of 0.81% and a successful 30-year bond issue in March 2021 with a coupon rate of 1.96%. Regarding the latter, the issuance of a bond of such long maturity, for the first time since 2008, completes the yield curve of Greek bonds and confirms international investor confidence in the long-term outlook of the Greek economy.

Public debt sustainability appears to be ensured until the early 2030s. The lengthening of the weighted average maturity of repayments and the favourable debt composition, and also the build-up of sufficient liquidity buffers should keep debt service costs in the medium term at their current low levels. At the same time, historically low borrowing rates facilitate the refinancing of debt even at such high levels. Therefore, refinancing risk remains limited. This estimate hinges on the strict condition that the fiscal interventions for addressing the pandemic are temporary and that fiscal sustainability will gradually be restored as the economy recovers, by a return to primary surpluses.

In the Introductory Report to the 2021 Budget, the primary deficit for 2021 – according to the enhanced surveillance definition – was expected to be contained at 3.9% of GDP owing to the gradual withdrawal of the expansionary fiscal interventions and the projected recovery of economic activity, subject to the condition that the pandemic is brought under control. However, uncertainty remains high for as long as the containment measures remain in place and additional expansionary fiscal measures have been introduced, which will weigh further on the projected budget balance. With these additional measures, the overall anti-pandemic package came to 7.4% of GDP for 2021, against 4.3% of GDP in the Introductory Report on the 2021 Budget. Thus, the general government primary deficit in 2021 is projected to reach 5.3% of GDP, compared with a budgeted 3.9% of GDP.

5 THE GLOBAL AND EURO AREA ECONOMIES

Thanks to the coordinated response of the world's major central banks, with policy rate cuts to historic lows and an extension of unconventional monetary policy measures, governments worldwide, whether of advanced, emerging or developing economies, were able – albeit with different degrees of ease and to a different extent – to resort to unprecedented borrowing for funding their fiscal support measures, which helped contain the economic impact of the pandemic. According to the IMF, the fiscal support provided by governments worldwide by end-December 2020 came to 17% of global GDP, with 85% of the total amount accounted for by advanced economies.

Faced with a difficult choice between a deep and protracted recession and a sharp increase in public debt, governments opted for extensive borrowing. As a result, global public debt surged to 97.6% of world GDP at the end of 2020, a post-WWII high.

According to the latest IMF projections, the global economy, after an unprecedented peacetime contraction of 3.5% in 2020, should grow by 5.5% in 2021 and 4.2% in 2022. These projections, though surrounded by high uncertainty, rest on a number of assumptions, including a timely implementation of national vaccination campaigns, continued policy stimulus in large economies, higher public investment and continued solid economic recovery in China.

Turning to the euro area, the full alignment of all policymakers – central banks, governments and supervisors – and their rapid joint response with realistic economic policies aim to contain income losses, reduce uncertainty and boost confidence, with a view to encouraging consumer spending and business investment, supporting economic activity and mitigating the adverse impact on inflation.

More specifically, the continued ample monetary policy accommodation, which was reinforced by the launch of the pandemic emergency purchase programme (PEPP) and its extension until at least the end of March 2022 with a total envelope of €1,850 billion, kept bond yields at low levels and ensured low-cost financing for all euro area members without exception, thereby helping to mitigate the effects of the pandemic. Also, the flexibility provided by the Single Supervisory Mechanism (SSM), enabling banks to use their capital and liquidity buffers, helped banks to maintain the supply of credit to the real economy and offset their pandemic-induced losses. Meanwhile, the moratoria on loan repayments (interest and/or principal), announced by commercial banks and consistent with the guidelines of the European Banking Authority (EBA) for borrowers affected by the pandemic, averted a massive wave of defaults. Finally, the prompt response of national governments, making full use of the flexibility afforded by the temporary suspension of the Stability and Growth Pact, enabled automatic stabilisers to operate freely, but also the conduct of highly expansionary fiscal policies and the creation of large deficits, which however were comfortably financed through extensive, low-cost borrowing.

The extraordinary fiscal interventions of euro area governments in 2020 (other than liquidity support measures and state guarantees) amounted to 4.25% of GDP on average and are projected to be 3.25% of GDP in 2021. It should be noted that the fiscal measures are for the most part temporary in nature and are expected to be reversed in 2022. The euro area government deficit came to an unprecedented 7.2% of GDP in 2020 and public debt to 96.9% of GDP.

According to the baseline scenario of the latest ECB staff macroeconomic projections (March 2021), which assumes a swift relaxation of containment measures from the second quarter of this year and a resolution of the health crisis by early 2022 on the back of a successful rollout of vaccines, continued fiscal support amounting to 3.25% of GDP in 2021, a rebound in foreign demand and a timely activation of Next Generation EU (NGEU) fund, euro area real GDP, after contracting by 6.6% in 2020, compared with an increase of 1.3% in 2019, is expected to grow by 4.0% and 4.1%, in 2021 and 2022 respectively, driven mainly by domestic demand, in particular private consumption. Based on these projections, by the second quarter of 2022, euro area real GDP is expected to have made up for pandemic-related losses relative to 2019.

Measures to preserve employment and support businesses, along with higher goods exports, strong manufacturing growth and a small rebound in investment since the second half of 2020, mitigated the decline in private consumption and the depth of the recession, compared with earlier projections for a much sharper contraction in real GDP. Nevertheless, the recovery in the euro area will probably be weaker and slower-paced than in other industrialised economies.

Finally, inflation, as measured by the Harmonised Index of Consumer Prices (HICP), fell to 0.3% in 2020, from 1.2% in 2019. According to the ECB staff macroeconomic projections, HICP inflation is expected to rise sharply to 1.5% in 2021, before falling back to 1.2% in 2022. The pick-up in inflation in 2021 reflects a number of temporary factors and rising energy prices. Over the medium term, inflation is not affected by these factors, and underlying price pressures in the euro area are expected to remain low in the context of subdued demand, weak wage pressures and the appreciation of the euro in 2020.

6 THE SINGLE MONETARY POLICY

During 2020, the Governing Council of the ECB adopted a number of monetary policy measures to counter the negative impact of the pandemic and the associated containment measures on the euro area economy. Further monetary accommodation ensured smooth monetary policy transmission and very favourable financing conditions across all euro area economies and all sectors (households, businesses, banks and governments).

In this context, the ECB decided on a comprehensive set of measures, including most importantly: (a) the conduct of additional net asset purchases of €120 billion until the end of 2020 under the asset purchase programme (APP); (b) the launch of a pandemic emergency purchase programme (PEPP), with a total envelope of €1,850 billion until at least the end of March 2022 and the reinvestment of principal payments from maturing securities purchased under the PEPP until at least the end of 2023; (c) the launch of pandemic emergency longer-term refinancing operations (PELTROs) at a more favourable interest rate in 2020 and an additional PELTRO series offered in 2021, while also applying more favourable terms to TLTRO III; (d) a broadening of the range of eligible collateral; and (e) a relaxation of supervisory rules.

The ECB Governing Council's assessment is that the very favourable financing conditions, in conjunction with continued supportive fiscal policies, are fostering recovery and countering the negative impact of the pandemic on price developments, thereby keeping inflation rates below, but close to, 2% over the medium term. As stressed by the Governing Council, ensuring favourable financing conditions and averting a rise in borrowing costs are crucial to reducing uncertainty, enhancing confidence, supporting economic activity and achieving price stability in the medium term.

On 11 March 2021 the Governing Council of the ECB confirmed that net asset purchases under the PEPP will continue to be conducted until at least the end of March 2022 and, in any case, until it judges that the coronavirus crisis is over. Based on its evaluation of financing conditions and the inflation outlook, the Governing Council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue according to market conditions. The Governing Council confirmed that net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion. Monthly net asset purchases under the APP are to run for as long as necessary, while principal payments from maturing securities purchased under the APP will continue to be reinvested for an extended period of time. The key ECB interest rates remain unchanged at historically low levels.

Meanwhile, the ECB will continue to provide ample liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations (TLTRO III) remains an appealing source of funding for banks, supporting bank lending to firms and households.

In early 2020, the Governing Council decided to launch a review of its monetary policy strategy, aimed to ensure that the strategy remains fit for purpose and enables the ECB to deliver on its price stability mandate. An update of the strategy was seen as necessary in view of: demographic trends; the implications of climate change; globalisation and digitalisation; and low productivity and declining trend growth in an environment of historically low interest rates, all of which have an impact on the transmission of monetary policy across the euro area countries, as well as on price stability and economic activity. The review will also take into account the interplay between monetary and fiscal policies, and the possibility of incorporating non-standard instruments into the standard monetary policy toolkit. The strategy review, currently in progress and scheduled to be completed in the second half of this year, is expected to lead to a reformulation of the quantitative definition of the price stability objective and of inflation measuring methodology, as well as to enrich economic and monetary analyses, so as to ensure a better and timely assessment of risks to price stability and adjust the monetary policy stance accordingly.

Furthermore, the Governing Council of the ECB is examining the opportunities, challenges and the potential design features of a digital common currency and, in the course of this year, will decide whether to launch a digital euro project. The issuance of a digital euro by the ECB is expected to act as a catalyst in the digitalisation of the euro area and EU economies, offering more choice of payment methods and encouraging innovation in retail payments. The ECB recognises that a digital euro would be a response to the declining use of cash and to similar efforts of other central banks, and also to a shift to cryptocurrencies and the possible launch of global private digital means of payment.

7 THE BANKING SYSTEM

The ECB support package, including the acceptance of Greek government bonds in refinancing operations and its supervisory relief measures, has substantially improved the liquidity situation of the Greek banking system. At the same time, government interventions aimed at easing the liquidity constraints faced by pandemic-affected businesses, mainly through programmes of the Hellenic Development Bank, set the stage for stronger bank credit expansion to non-financial corporations in 2020. The annual growth rate of bank credit to the private sector averaged 1.2% in 2020, compared with a negative rate (-0.4%) in 2019. More specifically, the annual rate of credit expansion to non-financial corporations averaged 5.6% in 2020, up from 2.2% in 2019, posting a significant acceleration after March 2020.

In addition to new bank loans, credit developments in 2020 also reflect the loan moratoria provided to pandemic-hit borrowers, insofar as the deferral of loan repayments temporarily increases the net flow of loans, hence annual loan growth. Stronger credit expansion to the private sector was supplemented with direct state aid to firms and the self-employed in the form of so-called repayable advances. Additional support came from the two loan subsidy schemes Gefyra ("Bridge") and Gefyra II, benefiting pandemic-affected non-delinquent mortgage borrowers and SMEs, respectively.

Banks have increased their lending mainly to large corporations and, to a lesser extent, to small and medium-sized enterprises. From a sectoral viewpoint, retail and wholesale trade, industry and tourism absorbed the bulk of new credit. Bank lending to households (consumer and housing loans) did not change significantly relative to 2019.

Reflecting the build-up of liquidity from direct state aid and increased bank lending, deposits by the private sector (businesses and households) rose by a cumulative €20.6 billion in 2020, with a preference for more liquid types of deposits. The increase in deposits was also supported by the moratoria on loan and tax obligations, and by the cancellation and/or postponement of capital and consumer spending, either precautionary or forced, due to restrictions or lockdown measures.

Bank deposit rates remained on a downward path in 2020. The nominal interest rate on business loans also continued to decline, despite increased credit risk due to the pandemic. As regards bank borrowing costs for households, mortgage rates decreased slightly, whereas consumer loan rates continued to trend upwards. In real terms, however, bank lending rates increased due to deflation.

The main factors that shaped banks' financial and supervisory indicators in 2020 were: (a) a marked rise in aggregate income, albeit reflecting non-recurring gains from financial operations rather than interest income; (b) higher loan-loss provisions; (c) a sustained satisfactory level of capital adequacy; and (d) a reduction in the stock of non-performing loans (NPLs). Banks' operating costs declined, largely owing to staff downsizing and associated cost savings. As a result of these developments, net profits before provisions increased. After provisions, which were higher in 2020, Greek banks on aggregate posted losses.

The aggregate capital adequacy ratio (CAR) is expected to improve through capital enhancement actions, either underway or already completed.

The impact of the pandemic on the banking sector is expected to intensify in 2021, mainly in the form of a new wave of NPLs, as well as an anticipated worsening of the Deferred Tax Credits (DTCs) as a share of total prudential own funds. The Bank of Greece has estimated that new NPLs in 2021 will amount to €8-10 billion. Thus, banks need to reassess the adequacy of their provisions for credit risk. The provisioning ratio, though similar to the EU average, is lower than that of Member States with a high NPL ratio.

In addition to the twin problem of NPLs and DTCs, Greek banks face a number of serious challenges, common to most euro area banks, such as low core profitability, also owing to low interest rates, increased competition from non-banks, challenges stemming from the incomplete banking union and others associated with the impact of climate and cyber risks.

Non-performing loans

Non-performing loans (NPLs) stood at €47.4 billion at end-December 2020, down by about €21 billion from end-December 2019. The NPL to total loans ratio remains high, at 30.2%, compared with an EU average of just 2.8%. However, compared with its March 2016 peak, the stock of NPLs has declined by roughly €60 billion, mainly through loan sales and write-offs, and much less through recoveries from active NPL management. In absolute terms, more than half of NPLs concerned business loans, roughly one-third concerned housing loans and the remainder consumer loans. Also, nearly half of the NPL stock are loans denounced by banks, while about one-third are forborne loans. Forborne loans account for roughly one-fifth of all loans, performing and non-performing combined. A high re-default rate among forborne loans is reported; in many cases, re-default occurs shortly after the forbearance agreement.

By the time the Hellenic Asset Protection Scheme (HAPS), known as the Hercules plan, is completed in the course of 2021, the NPL ratio will likely have fallen to about 25% and the average capital adequacy ratio to temporarily below its current levels but above the regulatory minimum, with a simultaneous increase in the share of DTCs in bank capital. These estimates, however, do not take into account the new NPLs that are expected to be added to the current stock as a result of the pandemic shock.

Against this background, additional measures need to be taken to facilitate the frontloaded recognition of credit losses on account of the pandemic, as well as the fast repair of bank balance sheets together with addressing the DTC problem. To this end, the Bank of Greece has proposed to the government, as a complement to the Hercules plan currently underway, the establishment of an Asset Management Company (AMC), to which the NPLs will be transferred at net book value and then securitised at market terms. Transfer at net book value is an incentive for banks with a high NPL ratio, while securitisation at market terms improves bank liquidity, core profitability and the quality of prudential own funds. More importantly, the Bank of Greece proposal simultaneously addresses the problem of the high DTC share in banks' capital. Specifically, for a fee from the banks, the Greek State would provide guarantees covering the loss resulting from the sale of NPLs at market prices lower than their net book value. Participation in the scheme would be subject to an entry fee, payable by banks over a five-year period. Also, the Greek State would benefit from any higher than anticipated loan recovery, by holding the larger part of the lower class of notes.

The government is examining the advisability of establishing an AMC, as proposed by the Bank of Greece, and has applied to the European Commission's DG Competition for an extension of the Hercules plan. Should the proposal of the Bank of Greece not be selected by the authorities, an alternative way of addressing the problem of DTCs will need to be found that is compatible with the applicable capital requirement legislation.

8 PRIVATE INSURANCE UNDERTAKINGS

The need for coverage against different or new risks, including cyber and climate risks, but also against the impact of the pandemic has increased demand for new insurance products. The knowhow acquired by insurance undertakings, combined with effective supervision under Solvency II, gives them the potential to become drivers of growth. This role is expected to become more important once Pan-European Personal Pension Products (PEPPs) are introduced.

In 2020, the financial aggregates of the domestic private insurance market continued to be affected by the low interest rate environment, with the risk-free interest rate curve, especially in its short-term segment, in negative territory. Life insurance business declined slightly, although gross written premia have increased for unit-linked policies, replacing traditional savings products. In non-life business, noteworthy developments were an increase in health insurance as well as a decline in motor vehicle liability insurance in the context of pandemic-related restrictions on mobility.

Against a backdrop of heightened economic uncertainty and very low interest rates, the profitability and asset valuations of EU insurance undertakings are hard to estimate. According to the latest available data, the domestic insurance sector appears to have weathered the pandemic well and to have remained broadly on track with their longer-term business and service level goals. By ensuring uninterrupted provision of services, redefining its product offering, finding alternative distribution channels and technologically upgrading operations, the domestic insurance sector has managed to maintain a satisfactory financial position amid the pandemic.

Still, insurance undertakings need to review their business models taking into consideration the impact of the pandemic on consumer behaviour, the adverse effects of low or even negative interest rates on their profitability, as well as the challenges associated with climate change. They also need to invest in digital operational resilience and develop a comprehensive system for the management of IT and personal data risks.

9 SOURCES OF UNCERTAINTY AND RISKS

Soaring uncertainty has been a salient feature of the current pandemic period worldwide. According to the IMF's World Uncertainty Index, uncertainty surged to a record high at the start of the pandemic and, despite easing back somewhat, remains high, above the 1996-2020 average. Uncertainty regarding the evolution of the pandemic and the pace of vaccination programmes in advanced economies, together with evolving developments such as in the US-China trade dispute, the Brexit negotiations and the US elections led to high levels of economic uncertainty worldwide. The exceptionally volatile global economic environment is weighing on consumer and business expectations, thereby reducing the effectiveness of economic policy.

As the pandemic continues unabated around the world, with renewed waves and new variants of the virus, the major downside risk to the global economic outlook and to the prospect for a rapid recovery within 2021 is linked to delays in the production and delivery of vaccines. Under the current emergency circumstances, vaccination is a global public good that must be equally accessible to everyone in all countries without discrimination. According to the Bloomberg Vaccine Tracker, vaccine volumes are unevenly distributed across countries. The exclusion of the poorest nations and/or a vaccination gap between wealthy and poor nations would hamper the international effort to tackle the health crisis and to support global recovery, as would vaccine rivalries between industrialised countries. The sooner vaccination programmes are rolled out, the sooner we will be able to end the pandemic and safeguard the health of citizens and the sooner the world's economies can resume normal functioning.

Post-pandemic, one of the major risks for world economic progress and prosperity, democratic institutions and social cohesion relates to the growing economic and social gaps across groups of countries, geographical regions and social groups. The limited scope for discretionary fiscal policies in emerging and developing economies, given their lack of fiscal space and borrowing capacity, together with uneven access to vaccines, increase the risk of a Great Divergence between countries, with negative repercussions on the smooth recovery of the global economy.

In order to avert this risk, coordinated actions are required at an international level to speed up the distribution of vaccines to poor countries, maintain monetary and fiscal stimulus in advanced economies to support global demand and jobs, and provide financial aid to poorer and more vulnerable countries.

There is also a visible risk of large economic gaps and growing inequalities within countries. Through faster digitalisation and automation, the pandemic has accelerated structural changes in the labour market. There is a shift to more flexible and remote work patterns, while digital nomads will become the new trend in the workforce. At the same time, the pandemic has brought to the fore and intensified the risk of a loss of a large number of jobs, mainly unskilled and low-skilled.

According to international organisations, hardest hit by the lockdown measures were the more vulnerable categories of workers, typically in sectors relying on face-to-face interaction and in intermediation services that are increasingly digitalised. Post-pandemic, many of these workers will find themselves without work and income, and possibly also without government support, and without the necessary skills. This will exacerbate the conditions of poverty and precariousness. In contrast, high-technology industries, benefiting from increased demand for online services, have posted faster growth than the more traditional sectors of the economy.

Labour market changes also spur changes in education systems, with curricula adapted to respond to the new patterns of labour demand. They also bring about changes in cities, as the widespread use of remote working, e-learning and virtual meetings reduces the need to commute and slows or reverses urbanisation trends. Population shifts away from cities will have a definite impact on such sectors as food service, entertainment, business and conference tourism, as well as urban property values.

Countries and sectors with a higher adoption of new technologies and operational adjustment capability will attract investment, create jobs and recover faster.

By increasingly shifting online, several activities became more resilient to the pandemic. However, the increased use of information and communication technologies (ICT) is associated with new risks and vulnerability to malicious software and cyberattacks that can cause a collapse of digital infrastructures in just hours.

Another significant risk relates to the surge in private debt, both of businesses and households. Managing this private debt is perhaps the greatest challenge for economic policymakers going forward. Containment measures, lack of demand, disruptions in global value chains, as well as the pandemic-induced changes in the economy and society increase the risk of business failures and job losses and lead to new NPLs.

An equally serious risk to the long-term growth outlook of the global economy arises from the dynamics of global public debt, which soared to a post-WWII high in 2020 on account of the pandemic. Historically low borrowing rates, even negative in certain advanced economies, make public debt manageable in the medium term. In the long term, however, as global economic growth gathers pace and inflationary expectations return, central banks will be faced with a dilemma of whether to keep debt service costs low or, through higher interest rates, safeguard price stability.

In fact, there is concern among investors that the enormous and prolonged fiscal stimulus may cause economies to overheat post-pandemic, thereby fuelling inflationary pressures. The recently observed upward pressures on long-term bond yields, despite the very favourable financing conditions worldwide, confirm this concern. In this context, the risk of a major correction in international stock markets must also be taken into consideration, as valuations in certain stock exchanges have reached historically high levels. However, an abrupt increase in the cost of financing could undermine global recovery. This highlights the need to preserve and extend, for as long as necessary, monetary policy accommodation, including asset purchase programmes by central banks.

Greece, as a member of the interconnected globalised economy and society, is directly affected by the surge in global uncertainty and risk. But it also faces additional risks associated with idiosyncratic features of its economy, as well as legacy issues from the previous crisis. As vaccination rates increase and the economy reopens, and therefore the extraordinary fiscal support measures are gradually withdrawn, the scars of the pandemic will become more visible.

In the aftermath of the pandemic, the Greek economy will need to address two significant risks: First, a large number of failures of non-viable firms and, second, the loss of many jobs, especially in intermediation services and in low-skilled labour-intensive sectors. Inevitably, business failures, rising unemployment and declining per capita income will lead to a rise in private debt and to a new increase in the already large stock of NPLs. It is also possible that the support measures may have kept afloat firms that were unprofitable and would otherwise have closed.

The possible failure of a large number of ultimately non-viable firms would entail significant credit risks (new NPLs) and fiscal risks (calling-in of state guarantees, write-offs of debt to government, higher unemployment benefits), which would negatively affect the financial sector and delay the return to fiscal sustainability.

Finally, risks could also arise from a possible persistence and/or intensification of geopolitical instability in the South-Eastern Mediterranean, and from a new exacerbation of the migrant crisis.

10 CHALLENGES AND PREREQUISITES FOR RECOVERY

Due to the impact of the pandemic, the Greek economy is confronted with two major challenges: (a) speeding up its total transformation, aimed to increase productivity and foster its digital and green transition; and (b) tackling the NPL problem in a timely and comprehensive manner.

As regards the first challenge, proper utilisation of NGEU funds, which will start to flow in from the second half of 2021 onwards, provides a unique opportunity to implement the necessary policies for changing Greece's economic model, with a production base diversification that will strengthen the country's position on the world investment map and upgrade the quality of its exports.

As for the second challenge, macroeconomic and monetary policy developments have a direct impact on banks and thereby on financing conditions for the real economy. The expiration of extraordinary measures, especially those related to fiscal support, could increase credit risk costs for banks via a new wave of NPLs. At the same time, low interest rates, combined with sluggish economic recovery, weigh on banks' core profitability and internal capital generation capacity, with increased provisioning needs being a compounding factor. Moreover, new NPL securitisations could lead to one-off capital losses. To protect themselves against these risks, banks will need to take action to facilitate the frontloaded recognition of credit losses from a new increase in NPLs and a swift clean-up of their balance sheets through systemic solutions, such as the ones specified in the relevant press release of the European Commission on 16 December 2020.

A notable feature of the pandemic crisis is how differently sectors have been affected, with some suffering a severe blow and others showing greater resilience or even growth. This can be explained by the fact that the pandemic, apart from its temporary effects on economic activity, is also driving structural changes in the social and economic model, resulting in a reallocation of resources from declining sectors to more dynamic ones with greater adaptability. Accordingly, the gains from the recovery are expected to be unevenly distributed.

Against this background, the key challenge for economic policymakers will be how to bring the Greek economy back on track, once the support policies (fiscal interventions or borrower relief measures from banks) start to be withdrawn as the health crisis subsides. This would call for active employment policies and action to facilitate the reallocation of resources to dynamic sectors and businesses with better growth prospects.

In this context, it would be necessary to maintain selective support to the sectors and categories of workers worst hit by the containment measures. This fiscal and credit support should be well specified and targeted to prevent the risk of a credit crunch for viable businesses facing temporary liquidity constraints as a fallout of the pandemic. At the same time, there is a need for a stronger payment culture to restore normal debt repayment, as well as for a safety net for workers in non-viable businesses to preserve social cohesion.

Furthermore, the stepped-up implementation of reform- and growth-oriented policies remains essential, so as to create a business environment more friendly to private investment initiatives, with greater focus on infrastructure, education, as well as green and digital innovation.

The key challenge for economic policy, post-pandemic, is therefore to achieve high growth rates. These will enable a faster recouping of losses; a return of the economy to a solid growth trajectory; rapid restoration of fiscal sustainability; and a return of the debt-to-GDP ratio to a declining path.

For this to happen though, minimum prerequisites must be met, including:

Effective utilisation of EU funds. The NGEU recovery instrument together with resources available from other EU programmes and structural funds, amounting to a total €72 billion for Greece, provide a unique opportunity for the country not only to heal the wounds inflicted by the pandemic, but also to accelerate and complete its economic, technological and institutional transformation. The management and optimal utilisation of EU funds is perhaps the greatest challenge for public administration today. Maximising the benefit for the economy will require coordinated action from the public sector, with careful and timely planning and a long-term vision, as well as the participation of the private sector with well-prepared and targeted investment projects.

Definitive NPL resolution. One of the most serious challenges still facing Greek banks is the management of a huge stock of NPLs, which weighs on their asset quality. Despite the reduction of NPLs from their March 2016 peak, the NPL ratio remains exceptionally high compared with other euro area countries. And, worse yet, it is expected to be driven upwards in 2021, due to the deteriorating financial situation of businesses and households that will become apparent with the end of the pandemic and the expiration of loan moratoria and other borrower relief measures. The implementation of the new bankruptcy code, as well as the Gefyra subsidy scheme for retail mortgage debtors and Gefyra II for small and medium-sized enterprises and the self-employed, help private sector borrowers to repay their loans. However, in order to reduce moral hazard, strengthen the payment culture and safeguard their profitability, banks need to establish, in consultation with supervisory authorities, repayment schemes for loans currently under moratoria, adopting proper mechanisms for distinguishing between viable and non-viable borrowers. For an immediate and definitive solution to the NPL problem, additional action is needed from the banks and the government to fully repair bank balance sheets and ensure the continued ability of the domestic banking sector to finance the real economy. The objective should not just be NPL reduction, but a comprehensive private debt resolution.

Completion of the tax reform. The high effective direct tax rates and non-wage labour costs (tax wedge) have distorted the incentives to work and take business risks, encouraged tax evasion and undeclared work and led to exceptionally low tax revenue. In addition, high indirect taxation, although a more efficient source of revenue, has had a social cost, with the burden falling mostly on low and medium incomes. It has also distorted the sectoral allocation of resources, by affecting the consumption and supply of specific products. The tax reform launched before the pandemic will need to be continued and completed, geared to a more rational and equitable tax burden, a broadened tax base, stronger tax compliance and improved tax efficiency. The ultimate objective will be to create a stable, simple and efficient tax system that can boost the supply of labour and physical capital.

Rebalancing public expenditure. The recession necessitated an abrupt and large increase in public expenditure to preserve private consumption and jobs and reinforce the national health system. In the aftermath of the pandemic, however, a return to a realistic framework of fiscal credibility should be combined with a focus on productive, growth-friendly spending, aimed to reduce the output gap and increase potential GDP. This is the case with expenditures on health, education, vocational training and retraining in response to technological advances and labour market needs, as well as on research and innovation. The objective is to enhance employment incentives, facilitate the digital transition and avert the risk of long-term unemployment. The growth potential of the economy can be increased by policies geared towards creating many quality jobs, making full use of the knowledge triangle, strengthening the human capital stock, raising labour productivity and establishing innovation and technology hubs. Given the adverse demographic trends, equally important are active policies to encourage labour market participation of groups with persistently low participation rates, including women, youth and minority workers, with a view to expanding the labour force and reducing social exclusion and poverty.

Policies to facilitate the labour market integration of economic immigrants would help in the same direction.

Increase in public investment. Public investment can serve as an effective medium-term growth policy tool. Apart from its beneficial impact on aggregate active demand, public investment has also positive effects on the supply side, as suggested by the production function: it increases the stock and productivity of public physical capital, with positive spillover effects on private and overall economic activity. Emphasis must be placed on modernising public infrastructure along with the adoption of digital technologies, smart systems and artificial intelligence (AI), promoting the shift to clean energy, the circular economy and adaptation to climate change. The inflow of EU resources under the new National Strategic Reference Framework (NSRF), the Recovery and Resilience Facility and the ReactEU initiative, as well as the other structural funds, enables to finance higher public investment. In this context, public-private partnerships (PPPs) can help optimise the use of such resources and upgrade the quality of projects.

Completion of the digital transformation of the economy and society. Reducing Greece's digital gap versus the EU average calls for: (a) continued digitalisation of the state, focusing on greater interoperability of IT systems and data, cybersecurity and technology diffusion; (b) incentives to businesses, in particular SMEs, for investing in digitalisation; and (c) improving the digital literacy of the workforce.

Building resilience against future infectious diseases and the impacts of climate change. According to the latest Global Risks Report of the World Economic Forum, infectious diseases, livelihood crises, and extreme weather events due to accelerated climate change are among the top risks to the global economy over the next two years. The COVID-19 pandemic and the associated containment measures led to a loss of jobs, incomes and livelihoods. Post-pandemic rehabilitation will need to involve new economic and social patterns that will make Greek society and the economy more resilient to shocks. Meanwhile, far-sighted action by the government and the private sector to protect environmental sustainability and manage climate risks is essential for macroeconomic and financial stability and societal wellbeing.

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The pandemic has dealt a severe blow to Greece's society and economy. At a societal level, despite a comparatively successful management of the health crisis as evidenced by relevant world health indicators, the pandemic has taken a huge toll on public health, resulting in a heavy loss of life. Regarding the economy, it has had major macroeconomic, financial and fiscal repercussions, the costs of which are unevenly distributed across sectors of activity and social groups. Nonetheless, the economic policy response succeeded in limiting output and job losses, relative to earlier projections. At the same time, the pandemic has served as a catalyst for change, accelerating nascent trends and prompting fundamental reforms within just a few months, which would have otherwise taken years. It has revealed the importance of structural policies in strengthening the adaptability and resilience of the economy. It has also made clear that global and European solidarity and cooperation, through pragmatic economic policies, is the way forward for collectively addressing symmetric shocks. Post-pandemic, consistent policies and strategies should enable Greece to enter a solid growth path, taking full advantage of the unique opportunity provided by the coordinated action from the European Commission and the ECB, so as to rapidly recoup the economic losses and tackle its long-term structural weaknesses.

APPENDIX

TABLES and CHARTS

TABLES

CHARTS

Table 1 Demand and GDP (2016-2020)

(annual percentage changes and percentage point contributions, at constant market prices of 2015)

	2016	2017	2018	2019	2020	2020 (Q1)	2020 (Q2)	2020 (Q3)	2020 (Q4)
Private consumption	-0.2 (-0.1)	2.1 (1.4)	2.0 (1.4)	1.6 (1.1)	-4.7 (-3.3)	0.2 (0.1)	-12.9 (-8.8)	-1.6 (-1.1)	-4.7 (-3.3)
Public consumption	-0.2 (-0.0)	-0.2 (-0.0)	-4.1 (-0.8)	1.2 (0.2)	2.6 (0.5)	1.4 (0.3)	-2.6 (-0.5)	4.8 (0.9)	7.3 (1.4)
Gross fixed capital formation	0.1 (0.0)	11.3 (1.2)	-4.1 (-0.5)	-7.3 (-0.8)	0.3 (0.0)	-3.5 (-0.4)	4.4 (0.4)	-1.1 (-0.1)	1.6 (0.2)
Residential investment	-11.4 (-0.1)	-6.9 (-0.0)	22.8 (0.1)	0.4 (0.0)	14.7 (-0.1)	22.2 (0.2)	32.3 (0.2)	6.7 (0.1)	0.3 (-0.8)
Domestic final demand[1]	**-0.2 (-0.2)**	**2.6 (2.6)**	**0.1 (0.1)**	**0.5 (0.5)**	**-2.8 (-2.7)**	**0.0 (0.0)**	**-9.1 (-8.9)**	**-0.3 (-0.3)**	**-1.8 (-1.8)**
Change in inventories and statistical discrepancy (% of GDP)	2.1%	0.6%	1.7%	2.2%	3.0%	3.7%	2.8%	4.8%	0.5%
Domestic demand	0.1 (0.3)	1.3 (1.1)	1.2 (1.2)	1.0 (1.0)	-2.2 (-2.5)	0.0 (-0.0)	-7.4 (-7.5)	4.5 (4.4)	-6.6 (-6.8)
Exports of goods and services	-0.3 (-0.1)	8.4 (2.7)	9.0 (3.1)	4.8 (1.8)	-21.7 (-8.3)	1.2 (0.4)	-30.1 (-11.3)	-41.9 (-17.3)	-13.4 (-4.9)
Imports of goods and services	2.1 (-0.7)	7.4 (-2.5)	7.9 (-2.9)	3.1 (-1.2)	-6.9 (2.7)	0.7 (-0.3)	-13.0 (5.0)	-5.8 (2.3)	-9.5 (3.8)
Foreign demand	**... (-0.8)**	**... (0.2)**	**... (0.2)**	**... (0.6)**	**... (-5.6)**	**... (0.2)**	**... (-6.3)**	**... (-15.0)**	**... (-1.1)**
Gross domestic product at market prices	**-0.5**	**1.3**	**1.4**	**1.6**	**-8.0**	**0.1**	**-13.8**	**-10.5**	**-7.9**

Source: ELSTAT, Quarterly National Accounts, 5.3.2021, 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 (2015-2021)

(annual percentage changes)[1]

	2015	2016	2017	2018	2019	2020	2021 (available period))
Volume of retail sales (overall index)	-1.5	-0.6	1.2	1.4	0.8	-4.0	
Retail confidence indicator	-9.1	20.9	-6.7	9.3	6.0	-20.6	-25.7 (Jan.-Feb.)
Consumer confidence index	-50.3	-62.9	-58.9	-44.0	-19.8	-31.2	-46.2 (Feb.)
New private passenger car registrations	13.8	10.7	22.2	25.8	13.2	-26.6	-21.7 (Feb.)
Consumer credit[2]	-2.3 (Dec.)	-0.8 (Dec.)	-0.5 (Dec.)	-0.8 (Dec.)	-1.6 (Dec.)	-2.2 (Dec.)	-2.5 (Jan.)
Capacity utilisation in the capital goods industry	62.1	65.5	64.1	69.4	69.8	70.1	72.5 (Jan.-Feb.)
Capital goods output	2.3	-2.3	2.1	5.8	6.0	-0.2	-4.2 (Jan.)
Disbursements under the Public Investment Programme	-2.8	-1.8	-5.4	4.8	-9.5	88.7	296.2 (Jan.)
Credit to domestic corporations[2]	-1.2 (Dec.)	-0.1 (Dec.)	0.3 (Dec.)	0.2 (Dec.)	1.7 (Dec.)	9.8 (Dec.)	10.3 (Jan.)
Housing loans[2]	-3.5 (Dec.)	-3.5 (Dec.)	-3.0 (Dec.)	-2.8 (Dec.)	-3.4 (Dec.)	-2.7 (Dec.)	-2.7 (Jan.)
Production index in construction (at constant prices)	3.1	6.0	-18.2	-14.0	-6.0	-9.6	
Volume of private construction activity (on the basis of permits issued)	-0.5	-6.8	19.5	21.4	9.8	5.9	
Construction confidence indicator	-29.9	-1.1	-9.6	4.8	0.0	7.9	21.0 (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 (2017-2020)

(annual percentage changes and contributions in percentage points; at constant prices of 2015)

	2017	2018	2019	2020	2020 (Q1)	2020 (Q2)	2020 (Q3)	2020 (Q4)
Agriculture, forestry and fishing	13.1 (0.5)	-1.4 (-0.1)	5.1 (0.2)	-0.3 (0.0)	0.4 (0.0)	-0.3 (-0.0)	0.2 (0.0)	-1.4 (-0.1)
Secondary sector	-1.8 (-0.3)	0.6 (0.1)	1.1 (0.2)	-2.2 (-0.4)	0.0 (-0.0)	-7.4 (-1.2)	-1.6 (-0.3)	0.2 (0.0)
Industry including energy	3.7 (0.5)	0.3 (0.0)	0.9 (0.1)	-3.9 (-0.6)	-1.8 (-0.3)	-10.8 (-1.6)	-3.1 (-0.4)	0.3 (0.0)
Construction	-33.5 (-0.8)	3.1 (0.1)	3.3 (0.1)	11.9 (0.2)	14.4 (0.3)	23.7 (0.4)	11.7 (0.2)	-0.9 (-0.0)
Tertiary sector	1.9 (1.5)	1.3 (1.0)	0.7 (0.5)	-8.6 (-6.8)	-0.6 (-0.5)	-14.5 (-11.5)	-10.5 (-8.2)	-8.8 (-7.0)
Trade, hotels and restaurants, transport and storage	5.1 (1.2)	2.9 (0.7)	1.6 (0.4)	-20.8 (-5.4)	-1.3 (-0.3)	-32.7 (-8.5)	-27.0 (-6.9)	-22.3 (-5.7)
Information and communication	2.3 (0.1)	0.6 (0.0)	0.9 (0.0)	0.5 (0.0)	2.3 (0.1)	-3.4 (-0.1)	-1.6 (-0.0)	4.8 (0.1)
Financial and insurance activities	1.4 (0.1)	-5.4 (-0.3)	-0.3 (-0.0)	-7.4 (-0.4)	-5.3 (-0.3)	-10.2 (-0.5)	-8.5 (-0.4)	-5.5 (-0.3)
Real estate activities	0.2 (0.0)	1.1 (0.2)	0.2 (0.0)	-0.6 (-0.1)	0.2 (0.0)	-1.5 (-0.3)	-0.2 (-0.0)	-1.1 (-0.2)
Professional, scientific and technical activities	3.5 (0.2)	2.4 (0.1)	-0.3 (-0.0)	-10.8 (-0.5)	-0.7 (-0.0)	-17.2 (-0.8)	-14.3 (-0.7)	-11.0 (-0.5)
Public administration and defence	-1.1 (-0.2)	0.2 (0.0)	-0.4 (-0.1)	2.5 (0.5)	1.4 (0.3)	1.0 (0.2)	3.7 (0.7)	3.7 (0.7)
Arts, entertainment and recreation	4.2 (0.1)	7.4 (0.2)	5.5 (0.2)	-25.1 (-0.9)	-5.4 (-0.2)	-40.1 (-1.5)	-23.6 (-0.8)	-30.9 (-1.1)
Gross value added at basic prices	1.9	1.1	1.2	-7.8	-0.8	-14.0	-10.0	-6.4

Source: ELSTAT, Quarterly National Accounts, 5.3.2021, seasonally adjusted data.
Note: Within parentheses, contributions in percentage points.

Table 4 Activity indicators in the services sector (2015-2020)

(annual percentage changes)

	2015	2016	2017	2018	2019	2020 (available period)
A. Services turnover indices						
1. Trade						
Wholesale trade	-4.4	-1.6	3.7	6.9	-1.7	-10.8
Retail trade	-2.9	-2.1	1.8	2.0	1.3	-3.9
Motor trade	7.8	7.2	6.3	10.8	8.4	-12.9
2. Transport						
Land transport	-5.7	-2.3	10.9	-1.2	1.0	-17.8
Sea transport	-3.1	-4.6	-9.6	-0.2	6.3	-26.0
Air transport	7.8	3.9	10.4	-0.1	6.3	-61.5
Storage and supporting transport activities	3.0	8.2	8.0	9.0	10.2	-14.6
3. Hotels and restaurants						
Accommodation and food service activities	7.8	0.8	8.2	7.6	1.3	-62.7
4. Information and communication						
Telecommunications	-1.3	0.5	-0.5	0.6	2.4	-2.6
Film, video and TV programme production, recordings and music products	-24.2	-1.3	-5.0	9.0	-6.6	-17.5
Programming and broadcasting activities	-22.4	-15.0	-3.7	14.1	6.1	0.4
5. Professional, scientific and technical activities						
Legal, accounting and management consulting services	-12.7	-13.5	4.1	6.9	6.0	-2.9
Architectural and engineering services	4.6	-9.1	-8.4	-12.8	0.4	4.1
Advertising and market research	1.0	-5.9	3.9	-1.1	9.9	-8.6
Travel agencies and related activities	-7.4	-4.7	9.1	25.6	3.1	-75.0
B. Passenger traffic						
Athens International Airport	19.0	10.7	8.6	11.0	6.0	-68.4
Aegean Airlines[1]	15.2	7.0	6.0	5.7	7.3	-62.1 (Jan.-Sept.)
Piraeus port (OLP)	-9.7	-3.0	4.1	2.2	8.7	-59.3
C. Services confidence indicator	-16.2	1.5	16.9	4.6	0.7	-22.2

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)

	2016	2017	2018	2019	2020
A. Euro area					
Harmonised Index of Consumer Prices (HICP) and its components					
Total HICP	**0.2**	**1.5**	**1.8**	**1.2**	**0.3**
Goods	-0.4	1.6	2.0	1.0	-0.4
Food	0.9	1.8	2.2	1.8	2.3
Processed food[1]	0.6	1.5	2.1	1.9	1.8
Unprocessed food	1.4	2.4	2.3	1.4	4.0
Industrial goods	-1.1	1.5	1.9	0.5	-1.8
Non-energy industrial goods	0.4	0.3	0.3	0.3	0.2
Energy	-5.1	4.9	6.4	1.1	-6.8
Services	1.1	1.4	1.5	1.5	1.0
Total HICP excluding energy and unprocessed food	**0.8**	**1.1**	**1.2**	**1.2**	**0.9**
B. Greece					
Harmonised Index of Consumer Prices (HICP) and its components					
Total HICP	**0.0**	**1.1**	**0.8**	**0.5**	**-1.3**
Goods	-1.3	1.0	0.7	-0.3	-1.1
Food	0.2	1.5	0.9	0.0	1.3
Processed food[1]	1.0	1.7	1.0	-0.8	-0.1
Unprocessed food	-1.3	1.2	0.5	2.0	4.5
Industrial goods	-2.7	0.7	0.5	-0.5	-3.3
Non-energy industrial goods	-1.4	-2.3	-1.2	-0.4	-0.4
Energy	-5.2	8.5	3.9	-0.3	-9.8
Services	1.4	1.2	0.9	1.3	-1.4
Total HICP excluding energy and unprocessed food	**0.7**	**0.6**	**0.5**	**0.5**	**-1.0**

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

Table 6 Price indices

(annual percentage changes)

Year	Consumer Price Index: Total	Sub-indices: Goods	Services	CPI excluding fuel & fresh fruit and vegetables	CPI excluding food & fuel	Food and non-alcoholic beverages	Fresh fruit and vegetables	Fuel
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
2020	-1.2	-1.6	-0.8	-0.4	-0.6	1.4	6.5	-12.3

	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
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
2020	-4.6	-0.1	-0.6	0.2	-15.5	-0.3	-10.8	-0.9

Source: ELSTAT and calculations based on ELSTAT data.

Table 7 Compensation of employees and labour cost (2018-2021)

(annual percentage changes)

	2018	2019	2020	2021 (forecast)
Total compensation of employees	3.5	3.2	-0.9	1.1
Compensation per employee	1.8	1.0	0	0.5
Labour productivity (GDP/total employment)	0.15	0.6	-7.0	3.8
Unit labour cost (total economy)	1.6	0.4	7.6	-3.2
Total compensation of employees in the general government sector	1.0	0.7	0.9 (nine months)	....
Total compensation of employees in the business sector	4.7	4.4	-1.9 (nine months)	....

Sources: For 2018-2020: ELSTAT, revised annual and quarterly national accounts and non-financial accounts of institutional sectors, 16.10.2020-5.3.2021, 8-28.1.2021. For 2021: Bank of Greece annual forecasts.

Table 8 Balance of payments

(EUR millions)

	2017	2018	2019	2020
I CURRENT ACCOUNT (I.A+I.B+I.C+I.D)	**-3,406.2**	**-5,232.2**	**-2,725.5**	**-11,165.3**
I.A GOODS BALANCE (I.A.1–I.A.2)	**-19,833.9**	**-22,489.1**	**-22,833.3**	**-18,528.1**
I.A.1 Exports of goods	*28,040.5*	*32,372.8*	*32,433.6*	*28,904.4*
Oil	7,887.8	10,016.9	9,078.8	6,102.5
I.A.2 Imports of goods	*47,874.4*	*54,861.9*	*55,266.9*	*47,432.5*
Oil	11,605.4	15,197.5	14,119.3	9,298.4
I.B SERVICES BALANCE (I.B.1–I.B.2)	**18,043.7**	**19,304.4**	**21,115.9**	**7,266.7**
I.B.1 Receipts	*33,661.3*	*37,159.3*	*40,162.6*	*22,672.9*
Travel	14,630.1	16,085.8	18,178.8	4,280.4
Transport	14,473.8	16,629.9	17,303.1	13,814.2
I.B.2 Payments	*15,617.6*	*17,854.9*	*19,046.8*	*15,406.3*
Travel	1,904.7	2,191.0	2,743.8	766.2
Transport	9,520.6	11,044.3	11,377.4	9,873.0
I.C PRIMARY INCOME BALANCE (I.C.1–I.C.2)	**-1,057.3**	**-1,726.4**	**-1,591.6**	**-468.2**
I.Γ.1 Receipts	*6,184.1*	*6,058.5*	*6,202.9*	*6,459.1*
Compensation of employees	216.6	223.0	246.9	201.4
Investment income	3,148.0	2,731.4	3,046.7	3,077.0
I.Γ.2 Payments	*7,241.3*	*7,784.9*	*7,794.5*	*6,927.3*
Compensation of employees	1,343.7	1,363.7	1,411.6	1,336.4
Investment income	5,492.3	6,019.1	5,975.9	5,166.1
I.D SECONDARY INCOME BALANCE (I.D.1–I.D.2)	**-588.4**	**-558.7**	**-321.1**	**564.3**
I.D.1 Receipts	1,838.0	1,949.9	2,177.6	4,064.5
General government	*1,059.4*	*939.8*	*1,034.7*	*2,452.7*
I.D.2 Payments	2,426.4	2,508.6	2,498.8	3,500.2
General government	*1,850.7*	*1,792.7*	*1,702.8*	*1,914.9*
II CAPITAL ACCOUNT (II.1–II.2)	**914.5**	**353.2**	**679.8**	**2,733.6**
II.1 Receipts	1,133.8	1,007.4	1,178.7	3,124.5
General government	*1,040.2*	*627.5*	*1,023.0*	*2,932.0*
II.2 Payments	219.3	654.2	498.9	390.9
General government	*3.0*	*4.1*	*4.9*	*4.4*
III FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**-1,949.1**	**-3,923.7**	**-2,247.0**	**-7,922.9**
III.A DIRECT INVESTMENT[1]	**-2,935.8**	**-2,960.7**	**-3,910.5**	**-2,507.5**
Assets	143.0	437.8	562.4	689.2
Liabilities	3,078.8	3,398.5	4,472.9	3,196.7
III.B PORTFOLIO INVESTMENT[1]	**-20,117.7**	**73.8**	**24,231.5**	**48,339.5**
Assets	-19,392.1	1,377.7	25,927.1	35,443.0
Liabilities	725.7	1,303.9	1,695.6	-12,896.5
III.C OTHER INVESTMENT[1]	**20,986.4**	**-966.8**	**-22,652.0**	**-55,291.1**
Assets	-11,744.7	-3,050.8	-3,605.6	2,362.1
Liabilities	-32,731.0	-2,084.0	19,046.4	57,653.2
(General government borrowing)	5,693.7	19,555.0	-4,444.8	1,342.6
III.D CHANGE IN RESERVE ASSETS[2]	**118.0**	**-70.0**	**84.0**	**1,536.2**
IV ERRORS AND OMISSIONS (I+II–III+IV=0)	**542.5**	**955.4**	**-201.3**	**508.8**
RESERVE ASSETS	**6,509**	**6,625**	**7,571**	**9,739**

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

Table 9 General government balance

(% of GDP)

	2017	2018	2019	2020*
General government balance[1] *(national accounts data – convergence criterion)*	**0.7**	**1.0**	**1.5**	**-9.9**
- Central government	-1.2	-1.2	0.5	
- Social security funds. local government. legal entities in public law	1.9	2.2	1.0	
Primary general government balance	3.9	4.4	4.5	-6.8
Primary general government balance according to the Financial Facility Agreement/ enhanced surveillance methodology	4.1	4.2	3.6	-7.2
Financial Facility Agreement/enhanced surveiilance target	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)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*	2021*
General government debt-to-GDP ratio	175.2	161.9	178.4	180.2	177.0	180.8	179.2	186.2	180.5	208.9	199.6
Changes in the general government debt-to-GDP ratio	27.7	-13.3	16.5	1.8	-3.2	3.8	-1.6	7.0	-5.7	28.4	-9.3
- Primary balance	2.8	3.6	9.1	-0.4	2.1	-3.7	-3.9	-4.5	-4.5	6.8	3.8
- Interest rate/growth rate differential (snowball effect)	22.8	19.2	12.0	6.3	4.8	5.1	0.2	0.8	-0.7	25.9	-8.3
- Deficit-debt adjustment[2]	2.2	-36.1	-4.6	-4.1	-10.1	2.4	2.1	10.7	-0.5	-4.4	-4.8

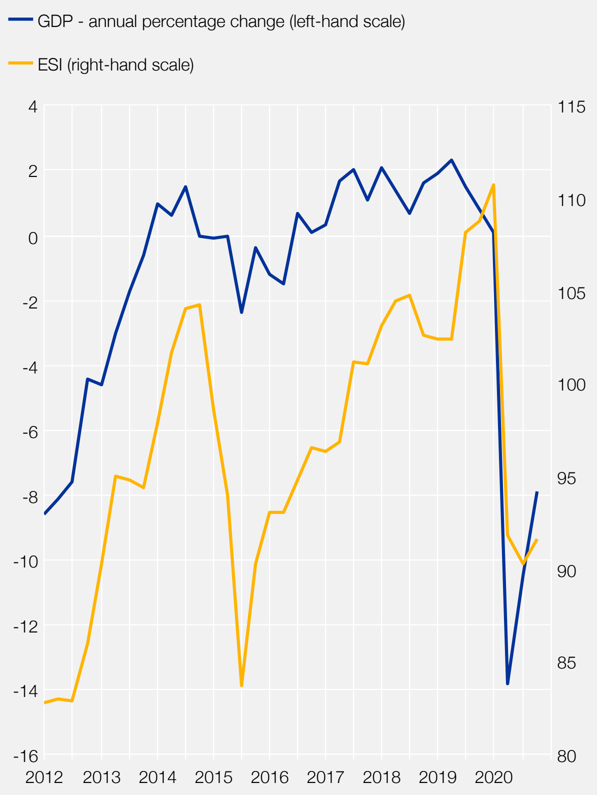
Sources: Introductory Report on the 2021 Budget and ELSTAT.
* Provisional data.
1 Changes in the debt-to-GDP ratio have been decomposed using the following formula:

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

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.

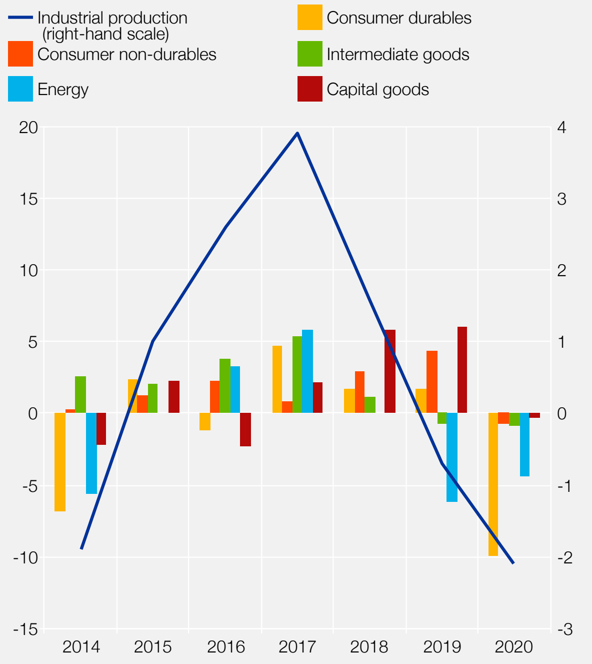
Chart 1 GDP and Economic Sentiment Indicator - ESI[1] (Q1 2012 - Q4 2020)



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

Chart 2 Industrial production (2014 - 2020)

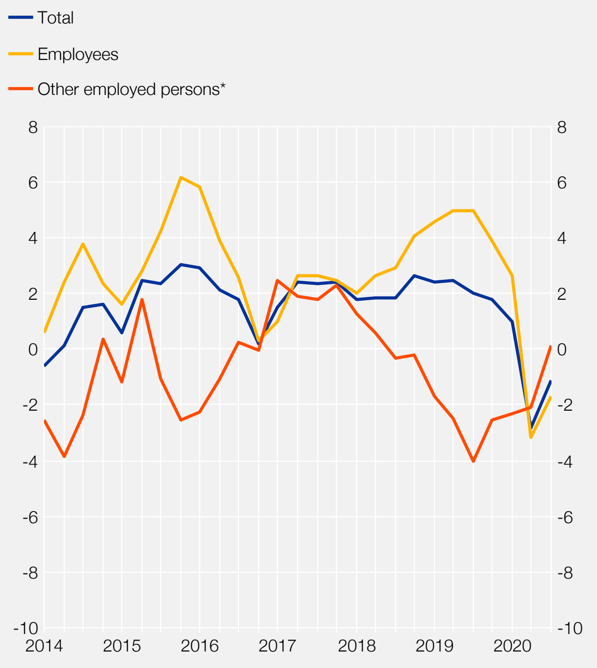
(average percentage change)



Source: ELSTAT.

Chart 3 Employment
(Q1 2014 - Q3 2020)

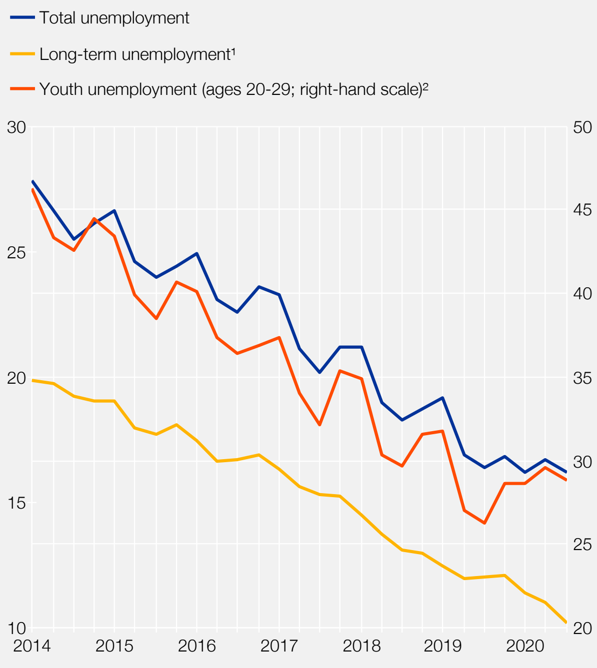
(year-on-year percentage changes)



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 2014 - Q3 2020)

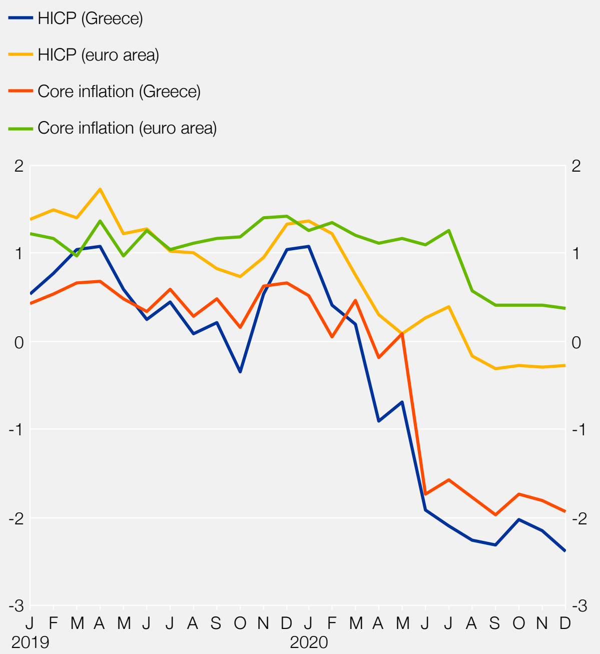
(percentage of labour force)



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

Chart 5 Harmonised index of consumer prices (HICP) and core inflation in Greece and the euro area

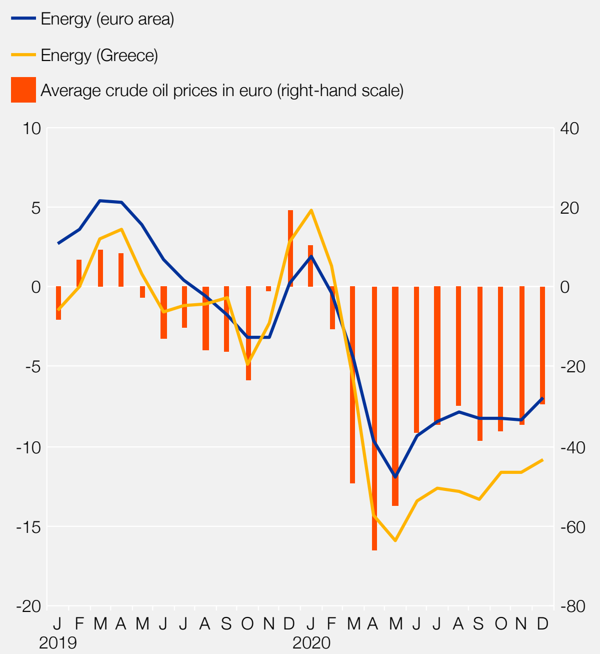
(year-on-year percentage changes)



Sources: Eurostat, ELSTAT and calculations based on ELSTAT data.

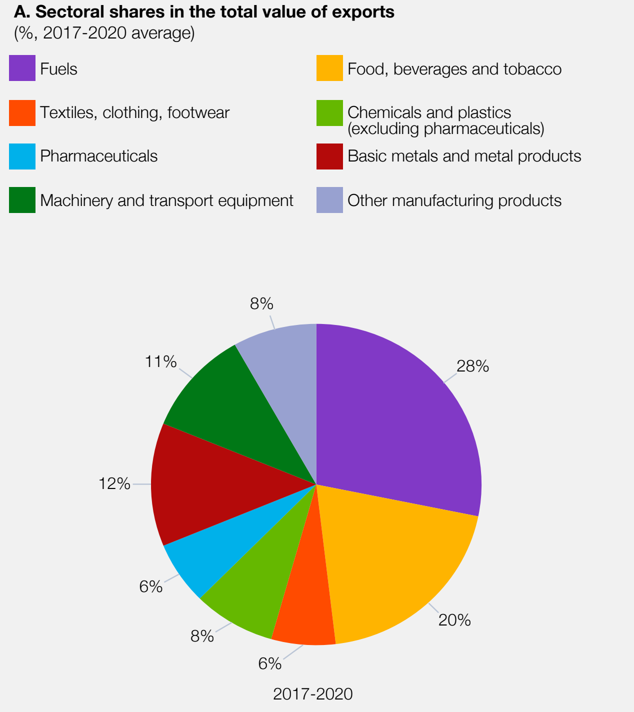
Chart 6 Evolution of energy prices in the euro area and Greece and of Brent crude oil prices in euro (January 2019 - December 2020)

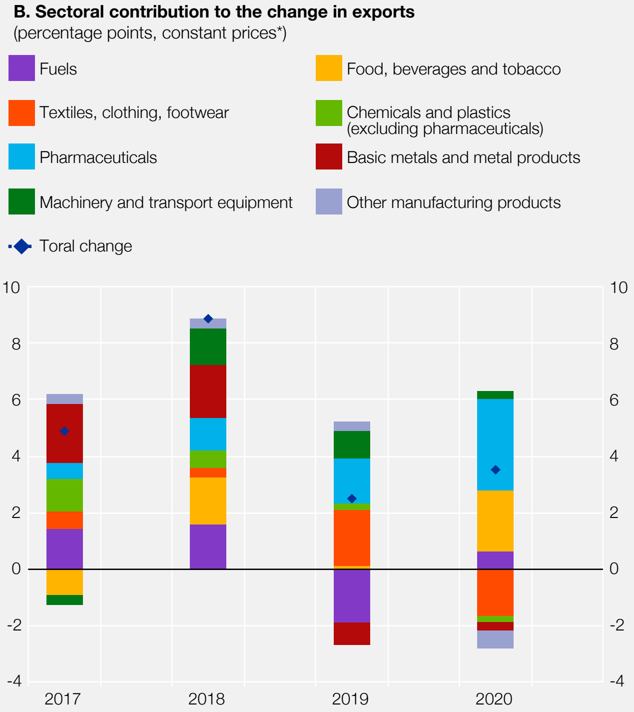
(year-on-year percentage changes)



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

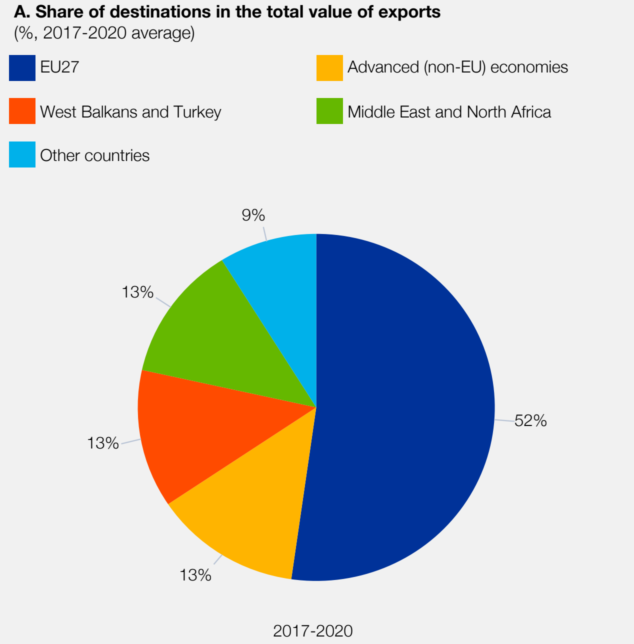
Chart 7 Sectoral breakdown of Greek exports of goods

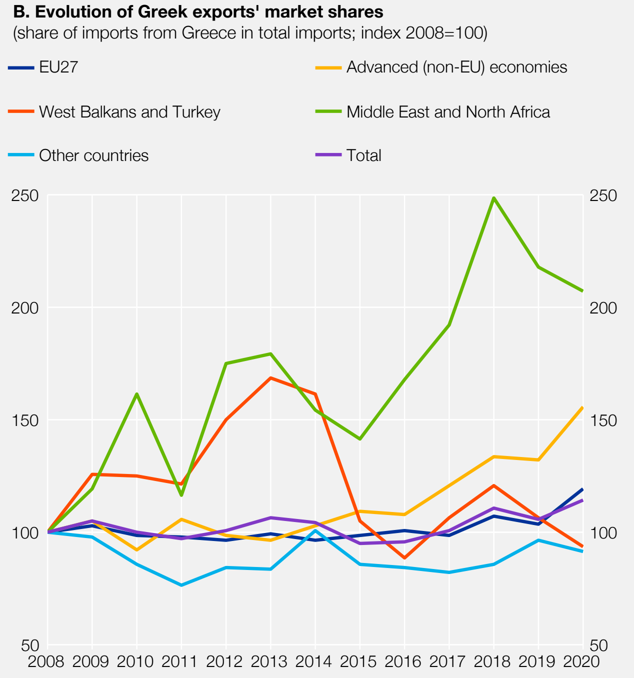




Source: Eurostat (COMEX database).
* Figures are deflated by ELSTAT's producer price index for exports.

Chart 8 Greek exports of goods by destination

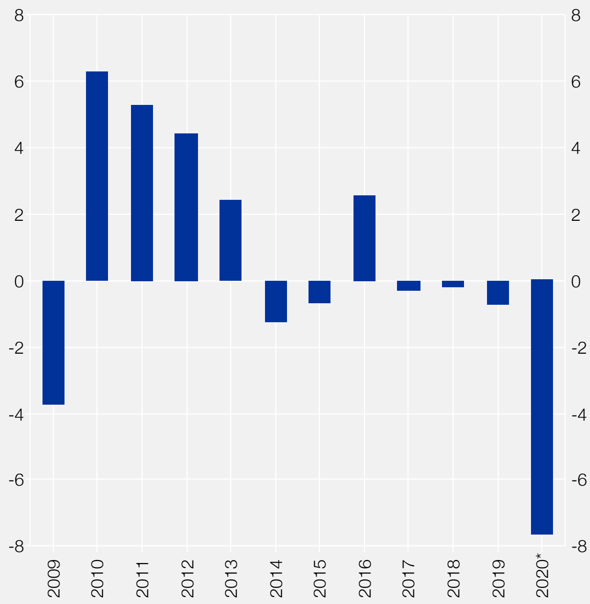




Sources: Eurostat (COMEXT database) and IMF (DOTS).

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

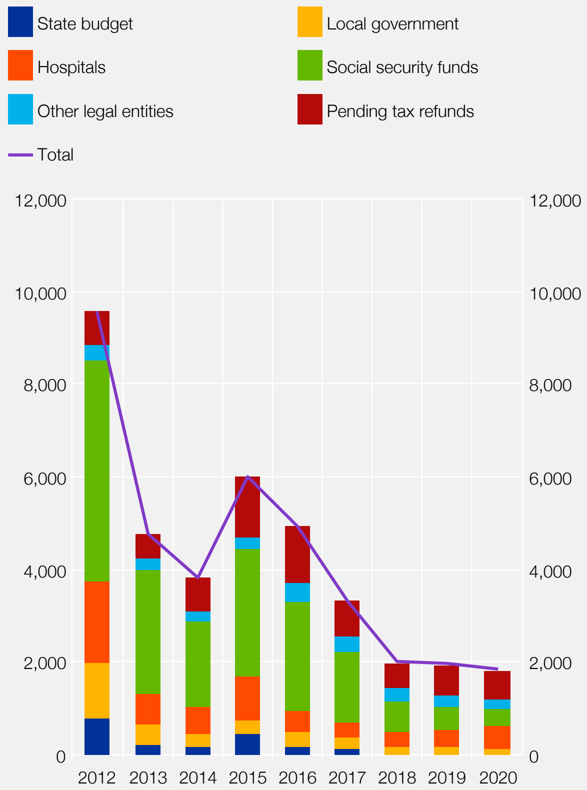
(% of potential GDP)



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

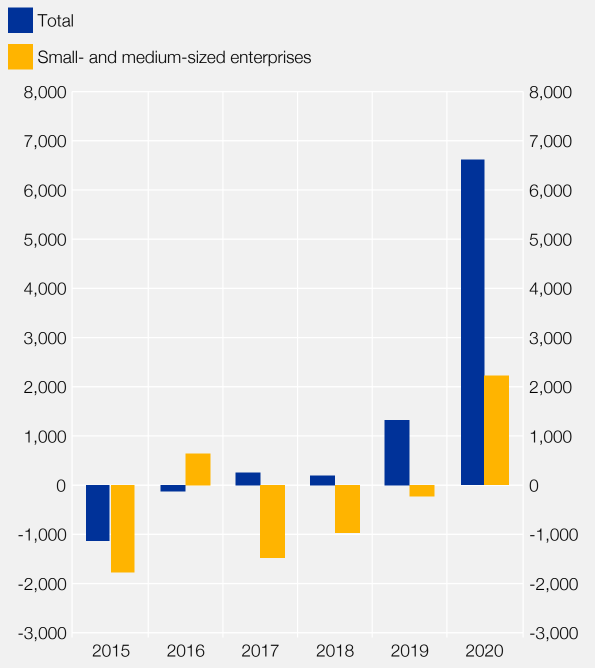
(EUR millions)



Source: Ministry of Finance, State General Accounting Office.

Chart 11 Bank loans to non-financial corporations (2015-2020)

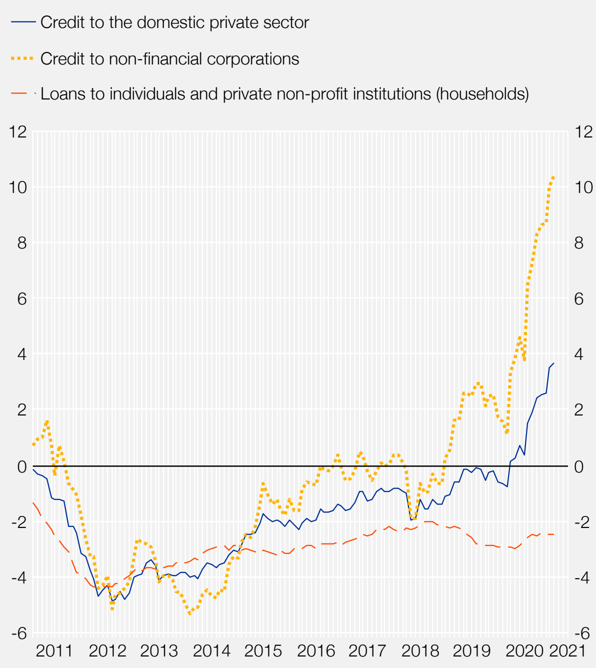
(annual cumulative net flow; EUR millions)



Source: Bank of Greece.

Chart 12 Bank credit to the private sector (January 2011 - January 2021)

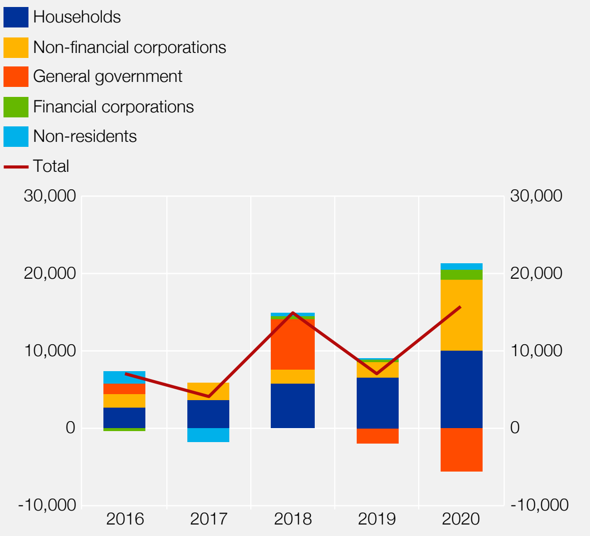
(annual rate of change)



Source: Bank of Greece.

Chart 13 Annual flow of deposits to domestic banks (2016-2020)

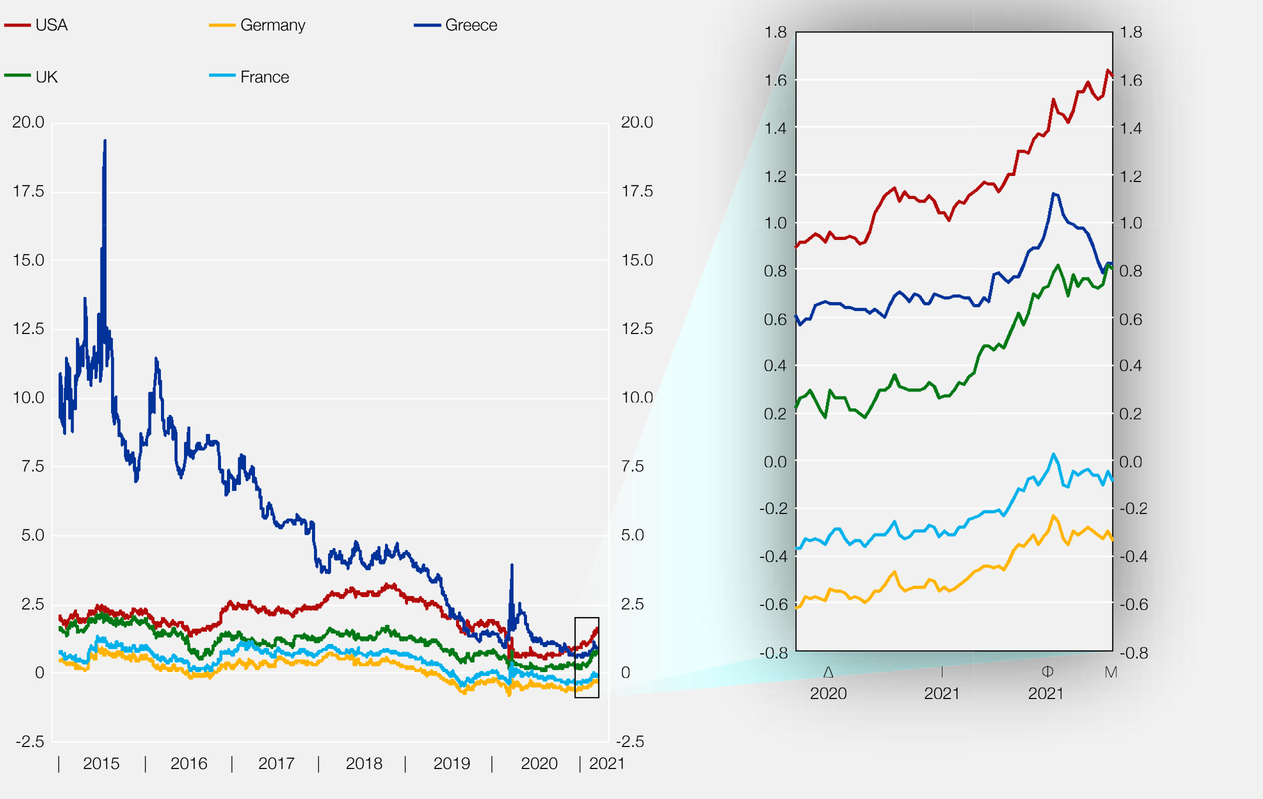
(annual cumulative net flow; EUR millions)



Source: Bank of Greece.

Chart 14 Yields on 10-year government bonds

(daily yields in percentages; main chart: 1.1.2015 - 15.3.2021 and zoom: last three months)



Source: Refinitiv

ANNUAL ACCOUNTS
OF THE BANK OF GREECE FOR THE YEAR 2020
AND THE INDEPENDENT AUDITOR’S REPORT

Deloitte.

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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 2020, 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 2020 and its financial performance for the year then ended in accordance with the accounting principles and methods established 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, relevant arrangements, and other provisions", 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.

Deloitte.

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 financial risks	
The provision against financial risks amounted to € 4,109 million as at 31 December 2020, compared to € 4,539 million as at 31 December 2019. This provision includes the provision against credit and market risk. The provision against financial risks is estimated by Management, is subjective and involves a high degree of judgement to the recognition of post model adjustments to the credit and market risk, the Bank's assets are exposed to, which is applied on the output of the related models, 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 financial risks measured by Bank. Our audit procedures include, among others, the following: • Assessment of the design and implementation of the internal controls related to the Management's judgement for the recognition of post model adjustments to the credit and market risk model outputs. • Assessment of the appropriateness of the Management's adjustments to the credit and market risk model outputs, focusing mainly on the methodology applied and to the documentation of the assumptions used, critically analyzing these assumptions, comparing them to actual data and other supporting evidence and considering significant developments compared to previous year. • Testing whether the provision against financial risks has been approved by the by the appropriate level of authority as per the Bank's governance. • Assessment of the accuracy of the disclosures related to this key audit matter.

Deloitte.

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 2020), 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 and methods established 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, relevant arrangements, and other provisions", 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 2020, 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 2020 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 2020.

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.

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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 three consecutive years based on the decisions reached by shareholder's Annual General Assembly.

1 March 2021

The Certified Public Accountant

Alexandra Kostara
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Deloitte Certified Public Accountants S.A.
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151 25 Maroussi
Reg. No. SOEL: E 120

The Certified Public Accountant

Michalis Karavas
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BALANCE SHEET AS AT 31 DECEMBER 2020

(in euro)

ASSETS	31.12.2020	31.12.2019
1. Gold and gold receivables	**7,493,521,336**	**6,544,316,602**
2. Claims on non-euro area residents denominated in foreign currency	**4,035,177,082**	**2,700,269,631**
2.1 Receivables from the International Monetary Fund (IMF)	689,373,556	720,713,956
2.2 Balances with banks and security investments, external loans and other external assets	3,345,803,526	1,979,555,675
3. Claims on euro area residents denominated in foreign currency	**580,033,591**	**228,868,498**
3.1 General government	21,934,646	19,475,008
3.2 Other claims	558,098,945	209,393,490
4. Claims on non-euro area residents denominated in euro	**23,013**	**23,170**
4.1 Balances with banks, security investments and loans	23,013	23,170
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	**41,238,000,000**	**7,651,000,000**
5.1 Main refinancing operations	0	51,000,000
5.2 Longer-term refinancing operations	41,238,000,000	7,600,000,000
5.3 Fine-tuning reverse operations	0	0
5.4 Structural reverse operations	0	0
5.5 Marginal lending facility	0	0
5.6 Credits related to margin calls	0	0
6. Other claims on euro area credit institutions denominated in euro	**1,918,439**	**1,828,428**
7. Securities of euro area residents denominated in euro	**110,437,634,563**	**75,075,229,320**
7.1 Securities held for monetary policy purposes	99,229,628,663	63,909,382,552
7.2 Other securities of euro area residents denominated in euro	11,208,005,900	11,165,846,768
8. General government long-term debt denominated in euro	**4,294,887,693**	**4,863,576,750**
9. Intra-Eurosystem claims	**12,590,751,169**	**9,978,878,494**
9.1 Participating interest in the ECB	473,379,901	472,980,896
9.2 Claims equivalent to the transfer of foreign reserves to the ECB	997,925,769	1,002,089,435
9.3 Net claims related to the allocation of euro banknotes within the Eurosystem	10,976,875,790	8,455,772,990
9.4 Net claims arising from balances of TARGET2 accounts	0	0
9.5 Other claims within the Eurosystem (net)	142,569,709	48,035,173
10. Items in course of settlement	**0**	**0**
11. Other assets	**2,529,051,574**	**2,110,926,323**
11.1 Coins of euro area	73,960,407	51,696,946
11.2 Tangible and intangible fixed assets	573,746,007	548,599,990
11.3 Other financial assets	108,556,326	104,632,067
11.4 Off-balance-sheet instruments revaluation differences	65,460	2,040,409
11.5 Accruals and prepaid expenses	1,192,968,210	826,922,126
11.6 Sundry	579,755,164	577,034,785
TOTAL ASSETS	**183,200,998,460**	**109,154,917,216**

(in euro)

LIABILITIES	31.12.2020	31.12.2019
1. Banknotes in circulation	**32,642,320,560**	**29,539,154,700**
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**27,330,906,652**	**9,108,199,191**
2.1 Current accounts (covering the minimum reserve system)	27,330,906,652	9,108,199,191
2.2 Deposit facility	0	0
2.3 Fixed-term deposits	0	0
2.4 Fine-tuning reverse operations	0	0
2.5 Deposits related to margin calls	0	0
3. Other liabilities to euro area credit institutions denominated in euro	**0**	**0**
4. Liabilities to other euro area residents denominated in euro	**25,046,298,161**	**27,421,848,711**
4.1 General government	24,077,736,328	25,930,712,804
4.2 Other liabilities	968,561,833	1,491,135,907
5. Liabilities to non-euro area residents denominated in euro	**2,367,956,944**	**2,466,433,379**
6. Liabilities to euro area residents denominated in foreign currency	**699,698,974**	**741,439,347**
7. Liabilities to non-euro area residents denominated in foreign currency	**2,360**	**2,578**
7.1 Deposits and other liabilities	2,360	2,578
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	**80,312,080,267**	**25,658,087,094**
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	80,312,080,267	25,658,087,094
9.4 Other liabilities within the Eurosystem (net)	0	0
10. Items in course of settlement	**689,800**	**548,823**
11. Other liabilities	**982,982,058**	**931,257,299**
11.1 Off-balance-sheet instruments revaluation differences	428,120	0
11.2 Accruals and income collected in advance	243,726,738	66,916,406
11.3 Sundry	738,827,200	864,340,893
12. Provisions	**7,525,566,262**	**7,797,365,401**
13. Revaluation accounts	**5,633,919,175**	**4,847,400,108**
14. Capital and reserves	**658,577,247**	**643,180,585**
14.1 Capital	111,243,362	111,243,362
14.2 Ordinary reserve	111,243,362	111,243,362
14.3 Extraordinary reserve	434,500,000	134,500,000
14.4 Special reserve from the revaluation of land and buildings	0	284,890,789
14.5 Other special reserves	1,590,523	1,303,072
TOTAL LIABILITIES	**183,200,998,460**	**109,154,917,216**

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2020

(in euro)

	2020	2019
1. Net interest income	**515,718,831**	**835,656,387**
1.1 Interest income	756,405,687	851,121,956
1.2 Interest expense	-240,686,856	-15,465,569
2. Net result of financial operations, write-downs and risk provisions	**14,487,271**	**56,819,536**
2.1 Realised gains arising from financial operations	14,487,271	56,819,536
2.2 Write-downs on financial assets and positions	-104,648,600	-1,963,703
2.3 Transfer from provisions for financial risks	104,648,600	1,963,703
3. Net income from fees and commissions	**117,417,899**	**103,550,649**
3.1 Fees and commissions income	122,069,190	107,203,411
3.2 Fees and commissions expense	-4,651,291	-3,652,762
4. Income from equity shares and participating interests	**48,510,309**	**134,754,766**
5. Net result of pooling of monetary income	**113,980,539**	**14,563,443**
6. Other income	**33,226,611**	**20,818,660**
Total net income	**843,341,460**	**1,166,163,441**
7. Staff costs and pension benefit expenses	**-381,521,985**	**-824,338,330**
8. Other administrative expenses	**-58,056,292**	**-53,988,958**
9. Depreciation of tangible and intangible fixed assets	**-10,585,228**	**-11,858,174**
10. Consultancy fees for the auditing of the banking system	**-2,119,340**	**-1,720,177**
11. Provisions	**270,611,813**	**568,055,696**
Total expenses	**-181,671,032**	**-323,849,943**
PROFIT FOR THE YEAR	**661,670,428**	**842,313,498**

STATEMENT OF PROFIT DISTRIBUTION (*)

Article 71 of the Statute

(in euro)

	2020	2019
Profit for the year	661,670,428	842,313,498
Transfer of special reserve from the revaluation of land and buildings	284,890,789	0
Profit for distribution	**946,561,217**	**842,313,498**
Dividend to be distributed for the year 2020 (€ 0.6720 per share for 19,864,886 shares)	-13,349,203	-13,349,203
'Extraordinary reserve	-300,000,000	-50,000,000
Amount to be transferred to the Government	-633,212,014	-778,964,295
	-946,561,217	**-842,313,498**
Tax returned (**)	0	18,955,869
Amount to be distributed for the year 2018	0	-3,871,269
Amount to be distributed for the years 2014-2017	0	-15,084,600
	0	**0**

* The profit distribution is subject to approval by the General Meeting of Shareholders.

** 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, 1 March 2021

THE GOVERNOR

YANNIS STOURNARAS

THE DIRECTOR OF THE ACCOUNTING DEPARTMENT

MARIA PAGONI

ISSN: 2732 - 6527 (online)