

Ομιλία του κ. Παναγιώτη Αθανασόπουλου

Πρόεδρο Δ.Σ. Ι.Ο.Β.Ε.

Opening remarks

Takis Athanasopoulos

Chairman of the Board of IOBE

Reaching our Potential: Competitiveness in the EU

Athens, 27 January 2016

Dear Ambassadors,

Ladies and Gentlemen,

I would like to welcome you to today's seminar, entitled 'Reaching our Potential: Competitiveness in the EU', organised by the British Embassy and IOBE, the Foundation for Economic & Industrial Research. I would also like to warmly thank the UK Embassy for its collaboration and kind hospitality.

Several dimensions of the deep and ongoing crisis in our country, with a decrease of Gross Domestic product that exceeds one-fourth of its 2008 level, cannot be fully understood outside the broader challenges in the EU.

The general goal of the seminar is to shed light to aspects of competitiveness in the EU and how these are interrelated to policies at the central level but also at the level of individual member states. This may be even more important for Greece which is now going through a third Adjustment program in agreement with its European partners and creditors.

How can competitiveness be increased in the European core and its periphery?

The competitiveness of the Greek economy, in particular, has been a topic of numerous studies and events in the past few years. Even before the outburst of the global economic crisis, our Foundation and other institutions were repeatedly issuing warnings about the dangers to Greece from the deteriorating competitiveness of its economy. Indeed, the Greek economy was growing strongly between 2001 and 2007, but the current account deficit was rising.

Meanwhile, the country was losing places in the rankings of the global competitiveness and the level of national corruption indexes.

Despite the warnings, little was done to make the country more competitive and thus more resilient to shocks.

The lack of reforms in the years before the start of the crisis contributed to the exceptional depth and length of the economic recession in Greece.

Five months have passed since the start of the third Economic Adjustment Programme of Greece, drawn as part of the bailout agreement with the country's creditors. Just as the previous two programmes, the third programme contains a broad set of structural reforms, aimed at improving the competitiveness of the Greek economy.

Indeed, significant progress has been achieved in various fronts since the start of the first programme. The labour market legislation underwent significant changes, some product markets were also liberalized (at least to some extent), while reforms were also implemented in certain areas of Public Administration.

The implemented reforms led to improvement in the performance of Greece in the global competitiveness rankings. Greece has gained 15 places in the Global Competitiveness Index since the 2012 report. In Institutions - the 1st pillar of the index - Greece gained 30 places in 3 years.

Nevertheless, despite the achieved improvement, the potential for further progress in Greece remains significant.

The competitiveness ranking of Greece is still very low, at the 81st place in the world, significantly lower compared even with its own performance from 10 years ago. Greece is ranked quite high in terms of its Infrastructure and Technological Readiness (34th and 36th in the world respectively).

However, its place in the rankings remains very low in terms of a number of other significant indicators. Some of them can be justified with the current adverse conditions in the financial sector and the economy overall, but others are more long-term and structural and thus require reforms.

For example, Greece still ranks 114th in the world in terms of the quality of its education system, 125th in terms of cluster development, 126th in terms of FDI rules, 128th in terms of public-sector performance, 131st in terms of capacity to attract talent and 136th in terms of the effects of taxation on the incentives to invest.

The need for further reforms and especially the need to achieve consensus, seems to be now well understood by most political parties in Greece.

This creates a window of opportunity for achieving truly profound changes in the way the Greek economy and society function.

But this is not enough for Greece to prosper over the medium and long term because any effort to reorganize and rehabilitate will be ineffective if it doesn't address the structural problems of our national economy. The problems which constitute the core, the structural causes, that led us to the crisis.

Although the causes that led to the crisis are many, they jointly constitute the major problem of Greek society's governance structure, in other words, of the way of interaction between its key pillars: the constitution, the political system, the judicial system, the institutions of civil society, the public administration and the external influences on the country.

Therefore, the question which arises is whether this governance structure can be reformed, assisting thus the effectiveness of restructuring and allowing the transformation of the country into a modern European market economy with a strong welfare state.

Many of the barriers that dampen the competitiveness of the Greek economy are also present in other EU countries. Moreover, markets often remain fragmented, including these for digital and other services.

The impact of regulations on competitiveness at EU and country level is not always taken into account. Furthermore, the significant structural differences and the lack of real convergence across the European Union create tensions, leading to instability and heightened risk.

This, in turn, dampens the prospects for economic development across the EU member-states, with a serious impact on the Greek economy as well.

While the topic of reforms and competitiveness is widely discussed in Greece in the context of the Greek economy, the need for reforms in other EU countries and the EU as a whole

is a relatively new topic for the public in our country. Therefore, the goal of the seminar to examine the reforms that are needed at the wider EU level is timely and welcome.

I am looking forward to hearing more about the different perspectives on this topic from the participants in the seminar.

Thank you for your attention.

Παρουσίαση του κ. Ηλία Παπαϊωάννου

(London Business School, CEPR, and NBER)

An Institutional Union?

Elias Papaioannou

(London Business School, CEPR, and NBER)

**British Embassy in Greece and IOBE Seminar on Competitiveness in the EU
January 2016**

Nominal Convergence. European Monetary Unification

- Currency union necessary to complete economic unification (Single Market Plan);
- Nominal (Maastricht Treaty and SGP) criteria.
 - Inflation
 - Debt
 - ER stability
 - deficit
- Not much else; What happened to the Lisbon Agenda to make Europe the most competitive region in the world?

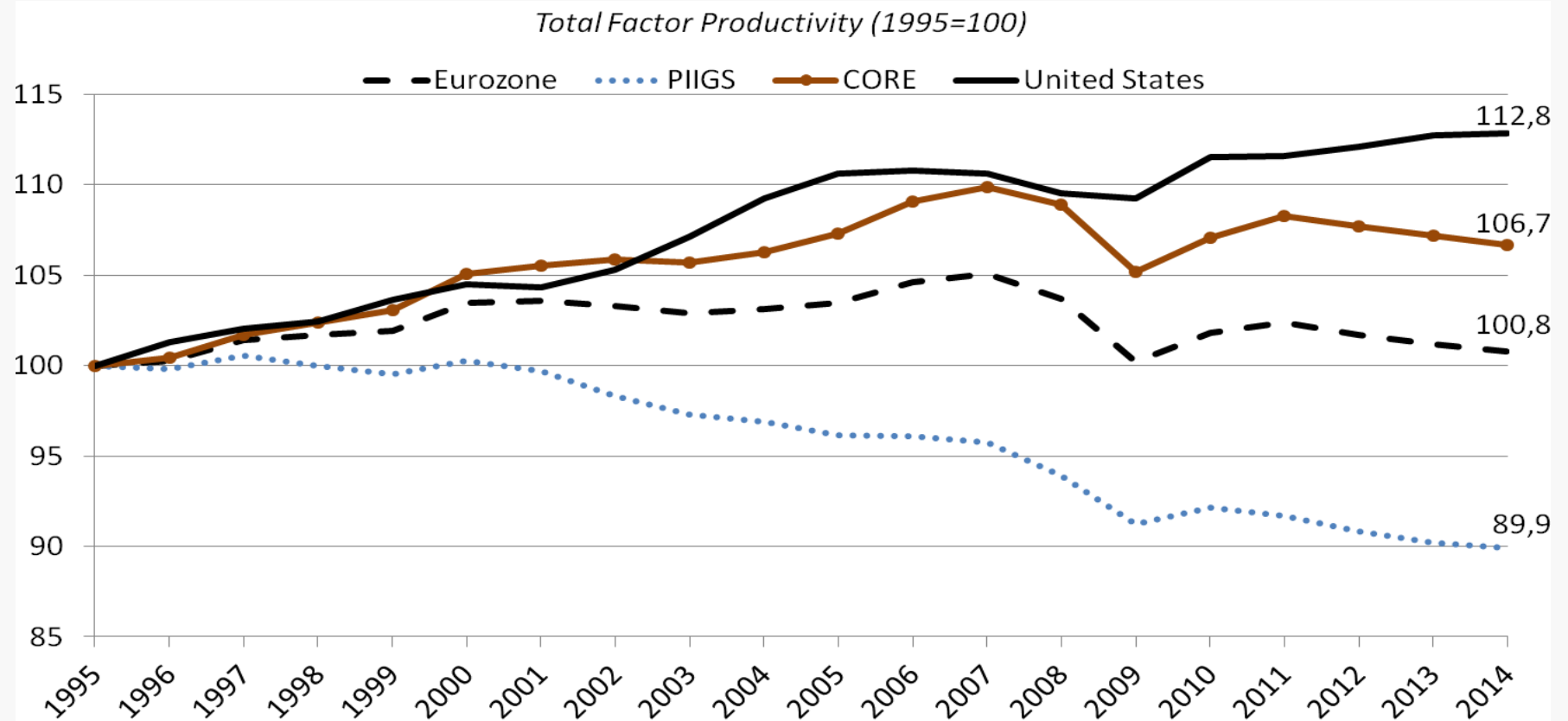
Real (Economic) Convergence

- Inflation (though differentials were non-negligible)
- Cost of borrowing for governments (spreads) and firms (some differences)
- Output/income convergence

Economic Divergence

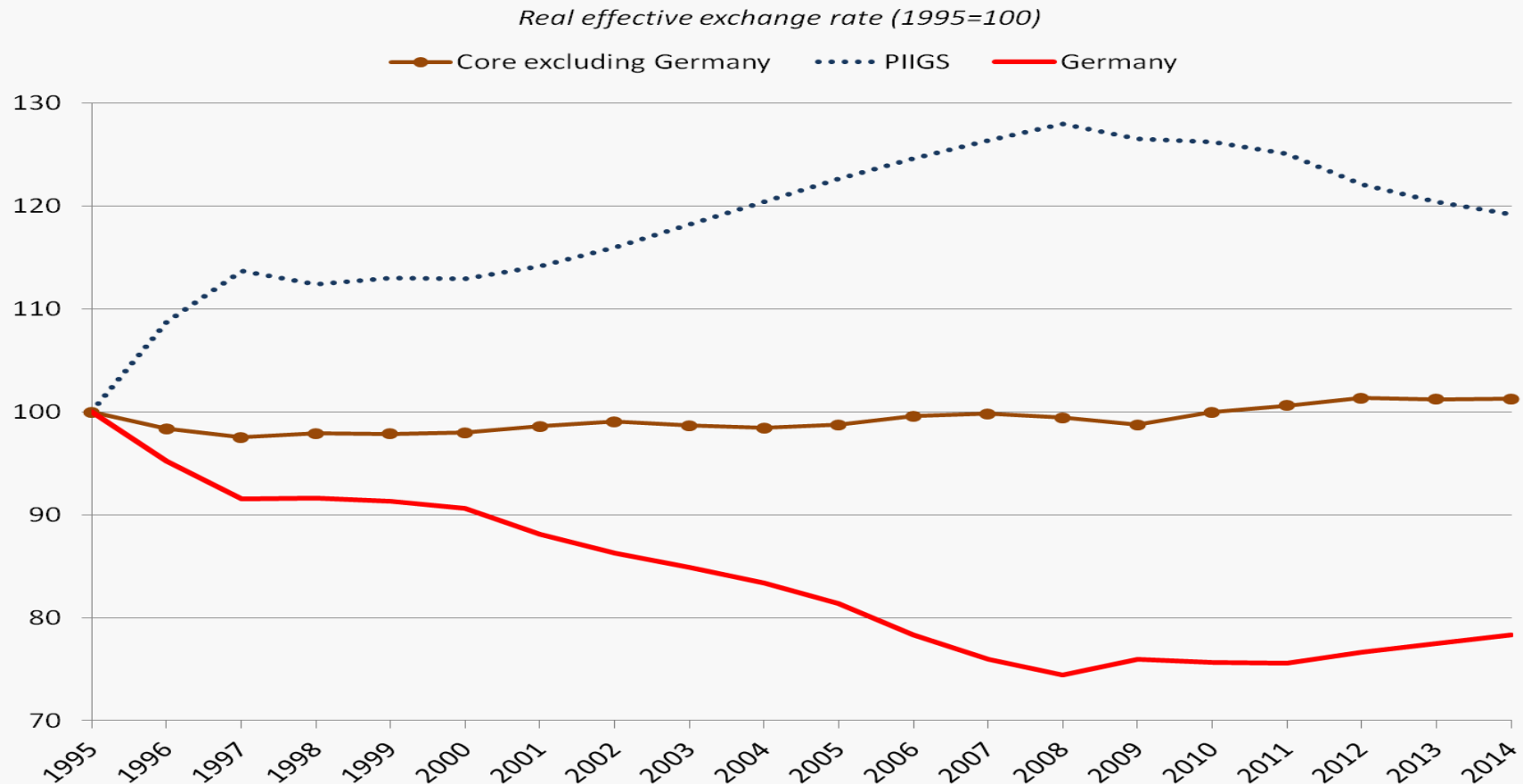
- Total-factor-productivity
 - masked by massive investment (mostly in non-tradeables, fuelled by foreign capital flows)
- Massive current account imbalances (surpluses in the North – deficits in the Periphery)
- Economic reallocation (towards non-tradeables)
- Wage inflation differentials

TFP Divergence



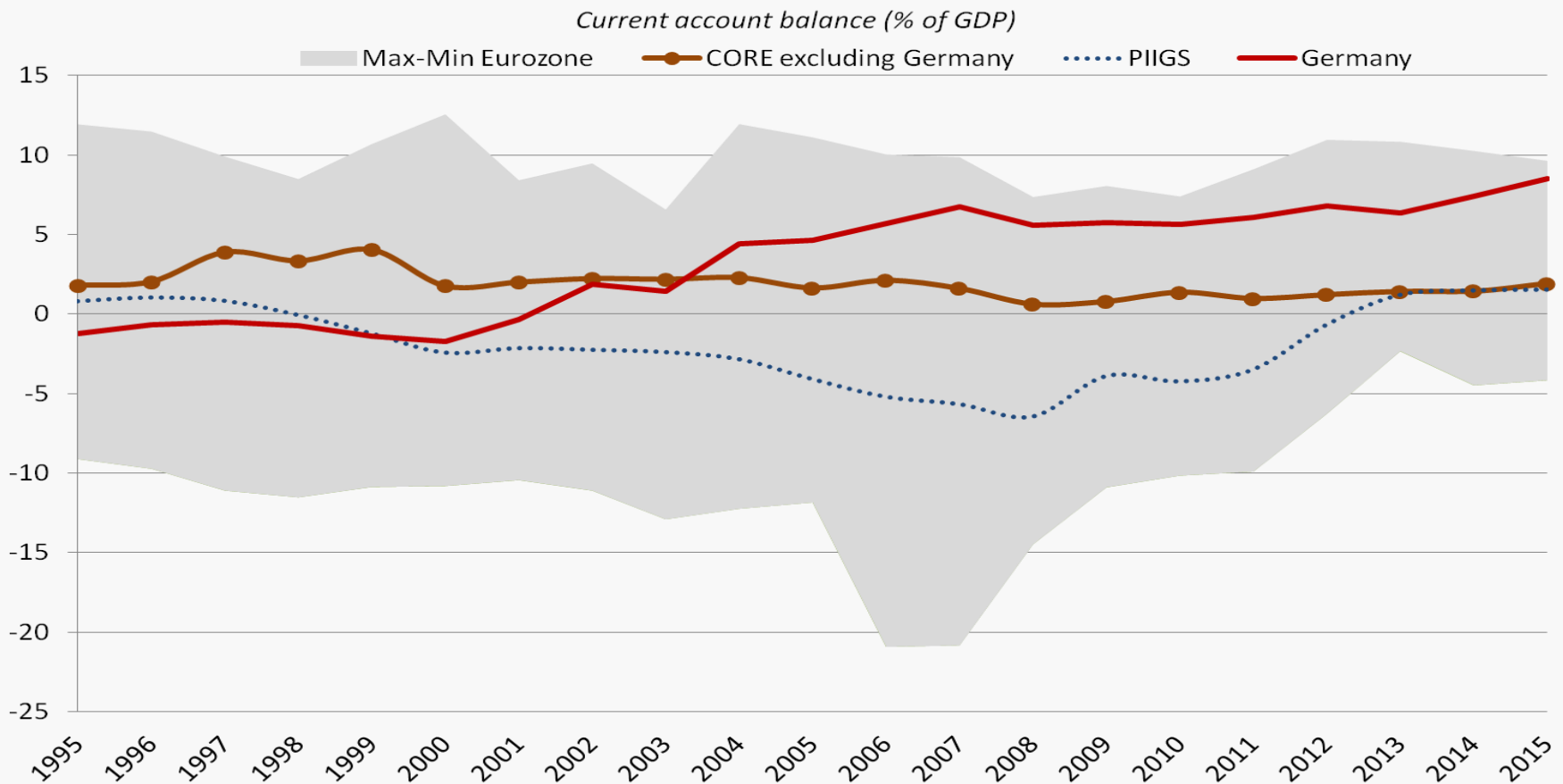
Source: Micossi (2016)

Competitiveness Divergence



Source: Micossi (2016)

European Imbalances

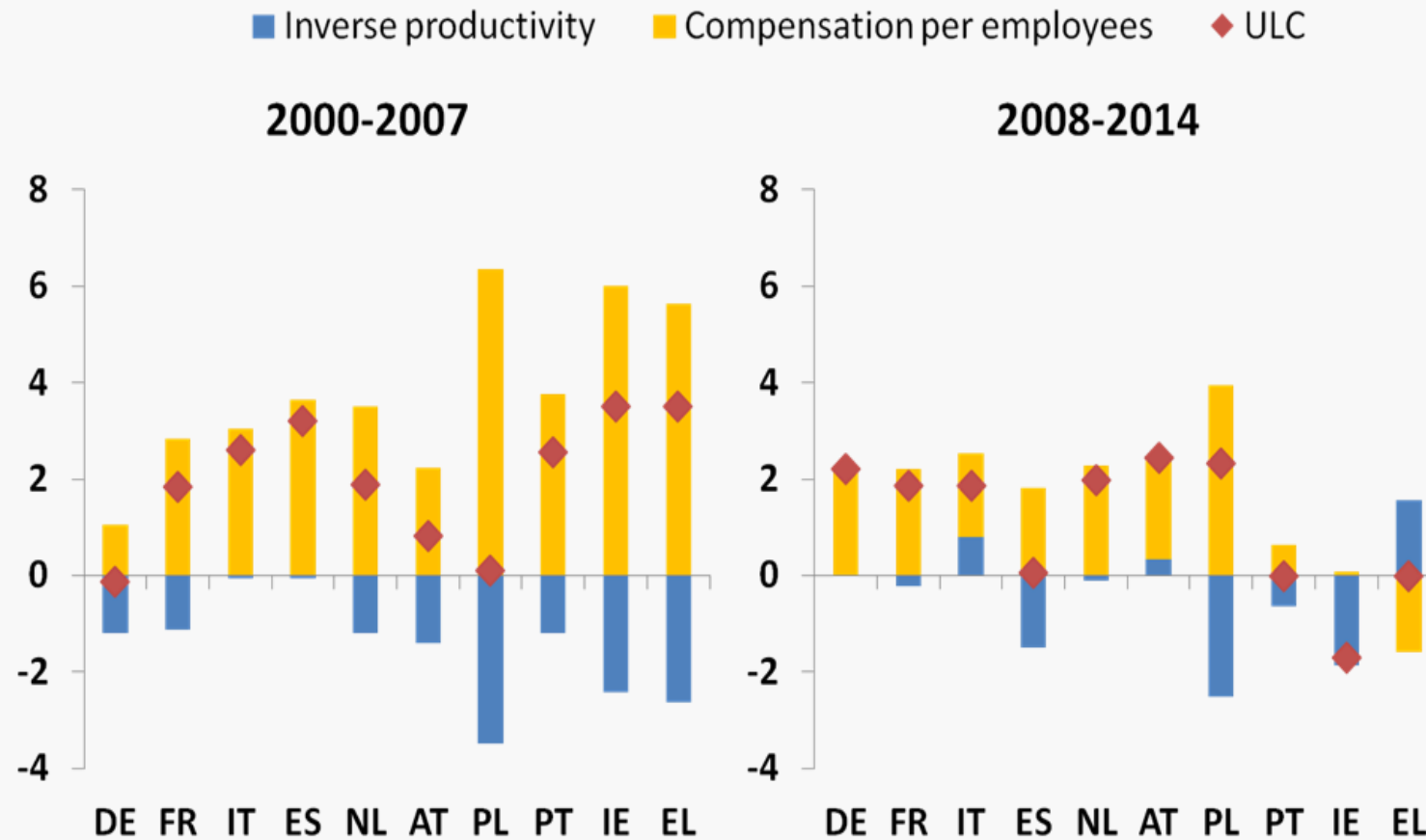


Source: Micossi (2016)

Institutional Convergence or Divergence?

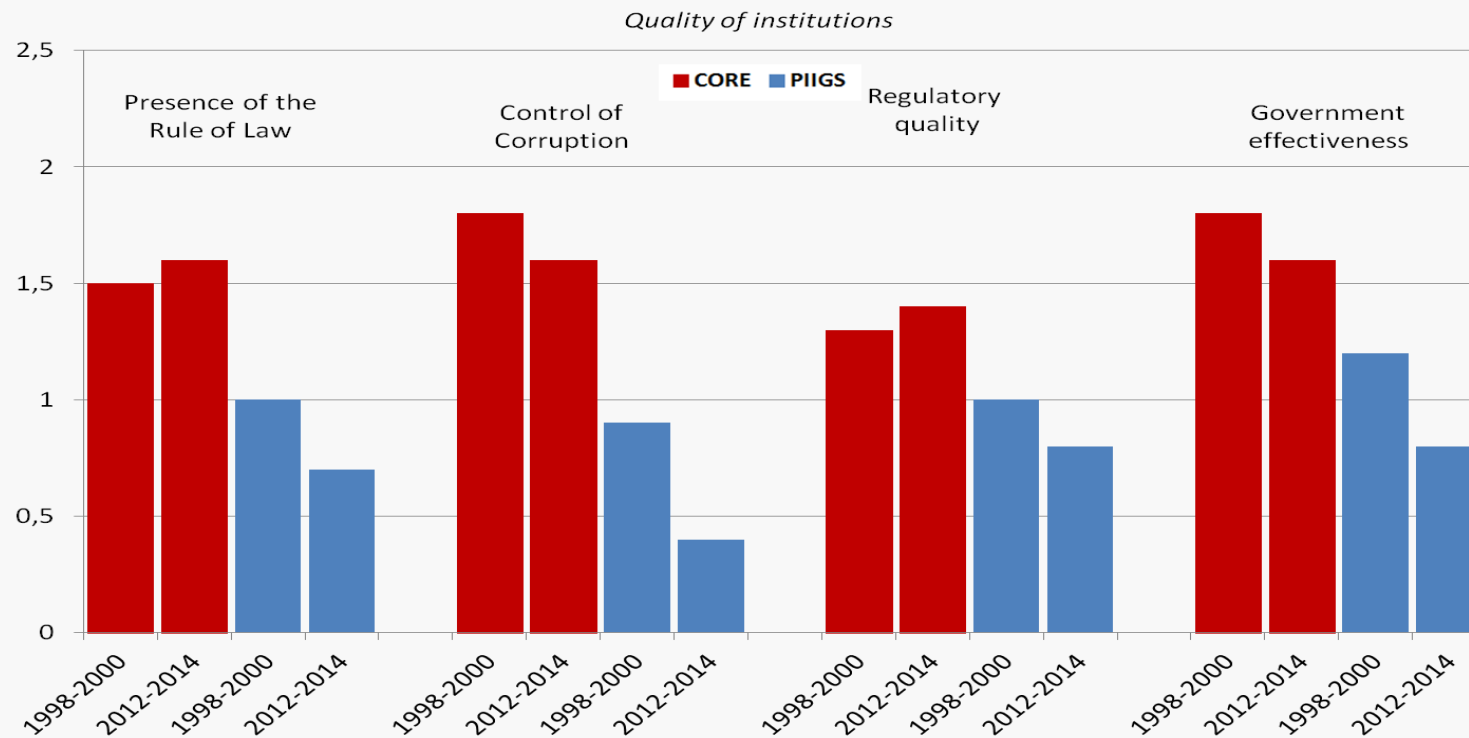
- **Non-negligible institutional divergence (especially after euro's inception)**
 - Public administration (bureaucracy)
 - Regulatory quality and red tape
 - Legal capacity, court efficiency, and legal quality
- **Also divergence of beliefs, trust, civiness**

Competitiveness Divergence

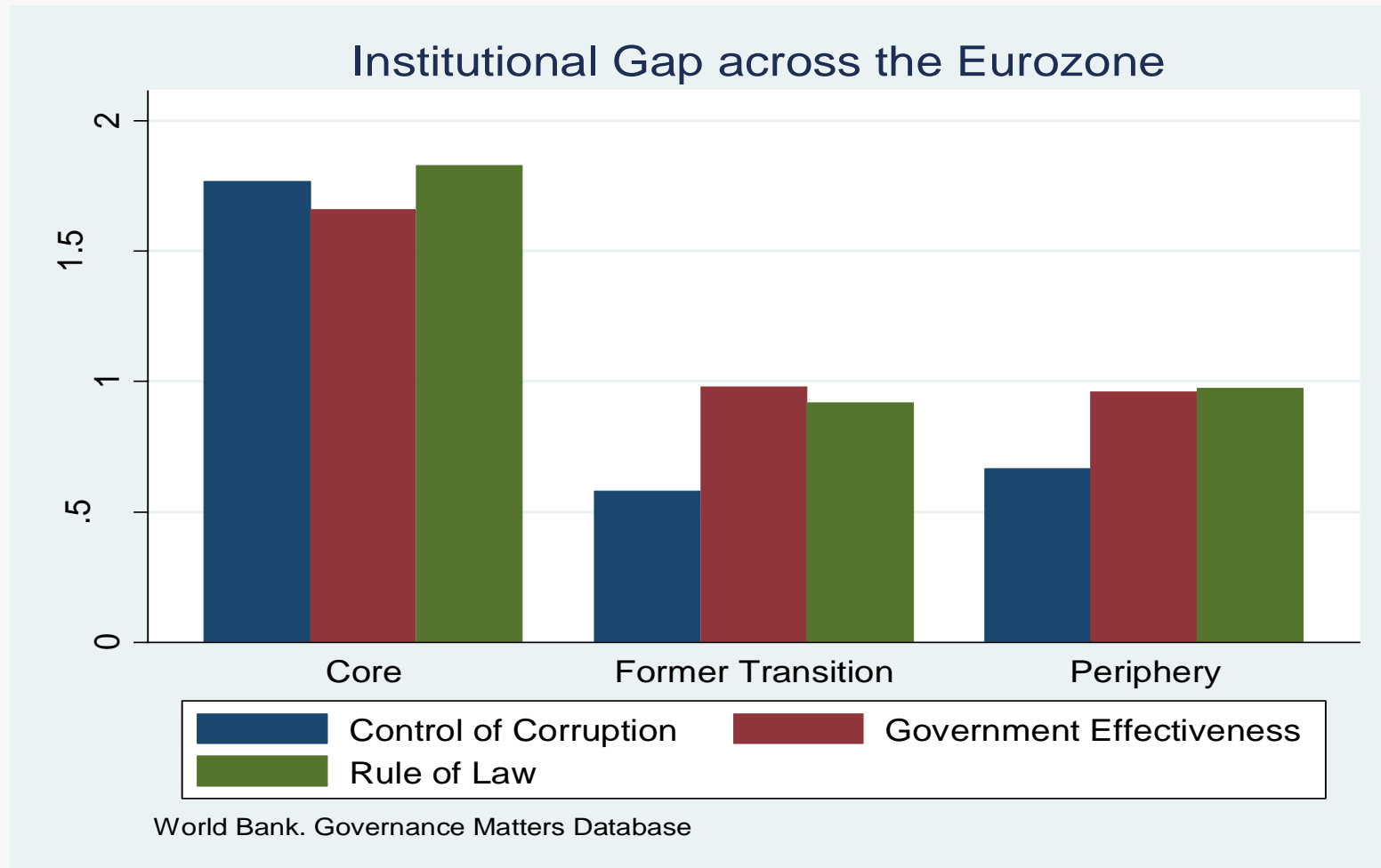


Source: Micossi (2016)

Institutional Divergence

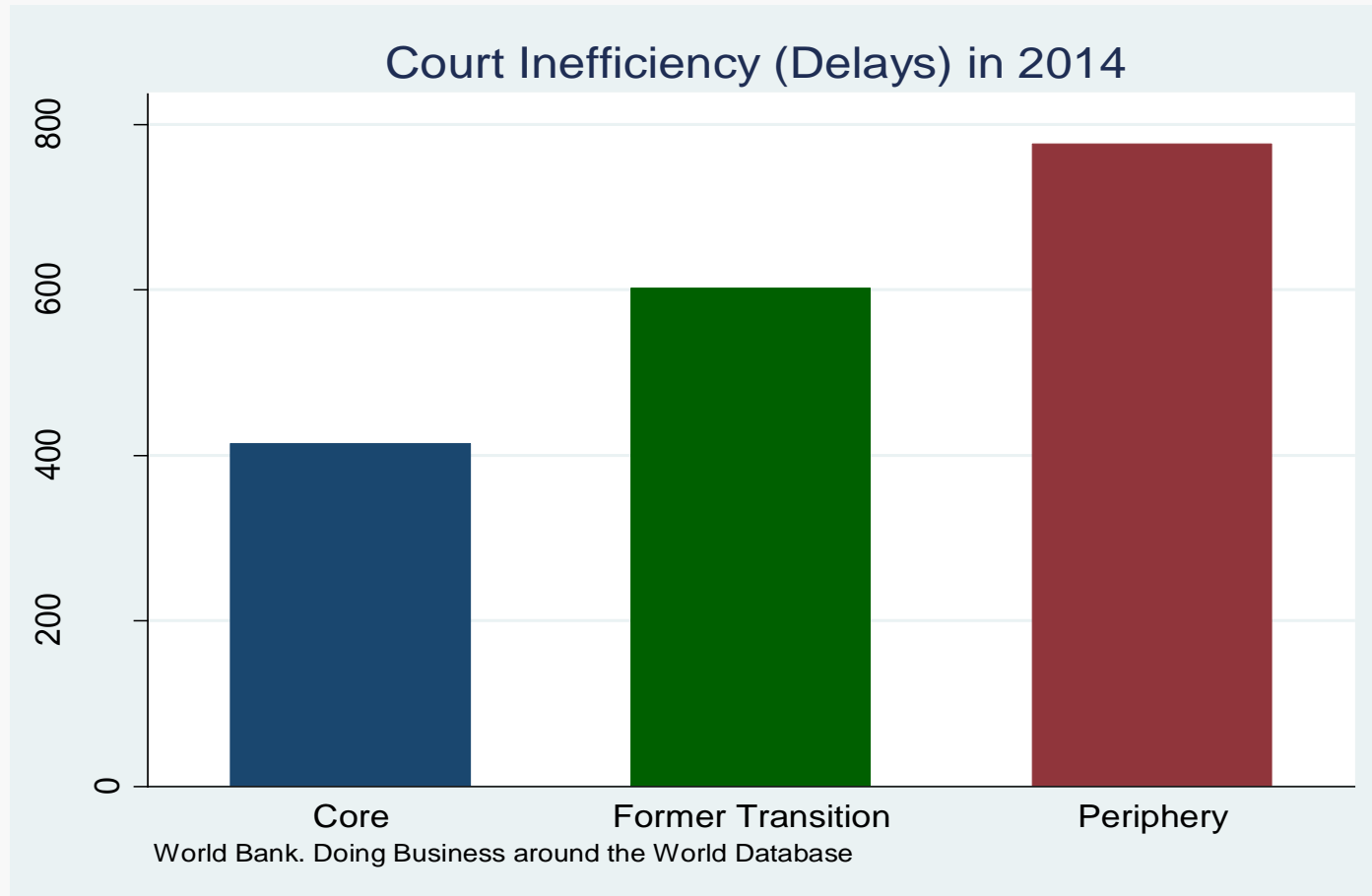


Institutional Divergence, cont.



Source: Papaioannou (2016)

Institutional Divergence, cont.



Source: Papaioannou (2016)

The Crisis and EU-EZ Institutions

- Weak EU-EZ institutional capacity.
- Significant institutional gaps
- Overlapping roles; not properly staffed and funded EU Institutions.
- Lack of vision and clear strategy.

→ **Amplified rather than attenuated risks**

- Numerous mistakes.
- Myopic and short-sighted.
- Perhaps second-best at the short-term; trying to do the minimum at the last **minute**. [analogy to US strategy during Vietnam War]

The Crisis and National Institutions

- Malfunctioning and captured national institutions in many countries (Greece being the most evident example)
 - Public administration
 - Legal system

- Bureaucratic, formalistic and slow-moving national institutions (incl. policy making at national political arena).
 - Portugal, Italy

The EU Paradox

The European Answer to the Debate on Centralization – Decentralization

— Ignored theoretical (and empirically relevant in many large federations) trade-offs; apply a complicated, obtuse, and micro-politics driven process.

The EU System

- EU-wide policies; legislation, regulation. [in theory to promote growth].
- Enforcement lies at the level of national authorities.

Some Issues

— **Heterogeneity** (development/structure, economic needs, cultural norms)

— **Prerequisites at the national level**

- Strong state (fiscal and legal) capacity
- Competent parliamentary procedures and cabinet to transpose efficiently EU-wide legislation.
- Efficient public administration to implement legislation.
 - Capital; Necessary infrastructure (ICT); Human capital
 - Productivity, related to incentives, pay, political interference
- Courts/legal capacity to safeguard policy implementation
- Social environment (beliefs, trust, civicness); a non-negligible issue in Greece but also in the United Kingdom

— **EU largely agnostic on implementation**

— **Ignored externalities (spillovers).**

Examples

— Tax (also pension) reform.

- tax authorities/administration; tax evasion.
- functioning of administrative-tax courts;
- Economic Adjustment Programs
 - ➔ failed, evident in Greece.
 - ➔ Inefficient, promotes tax evasion, punishes productive firms (that are leaving the country), contributes to inequality and belief of unfairness.

— Product Markets. The devil is in the details.

- Quality of legislation; ministries, and parliamentary process
- Role of competition authorities.
- Public administration

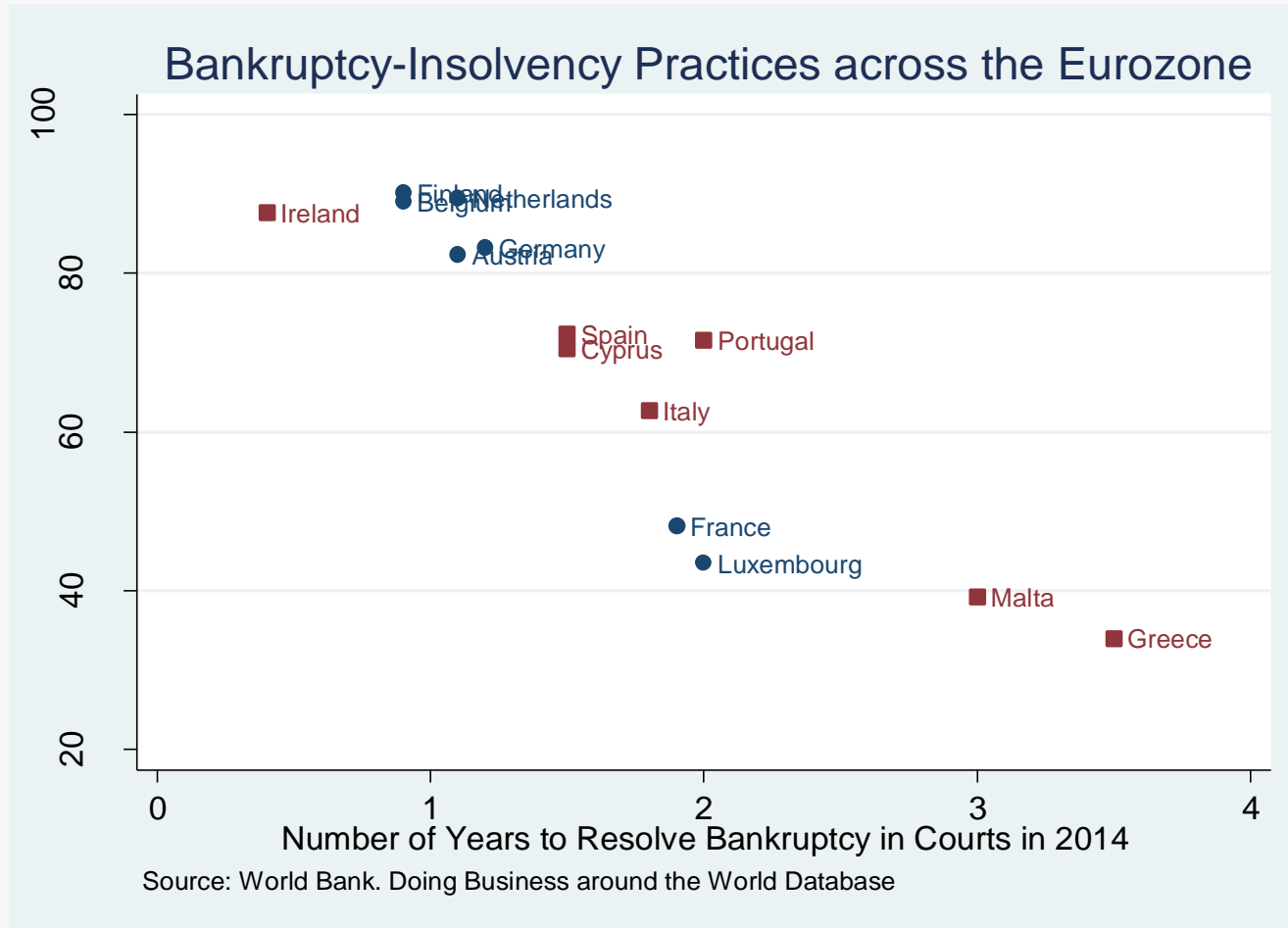
Another Example. Private Debt Restructuring

Private Debt. top policy priority for the “knowledgeable” EU institutions.

- politicians have not fully recognized the need
- the turmoil in emerging markets may serve as a wake-up call).

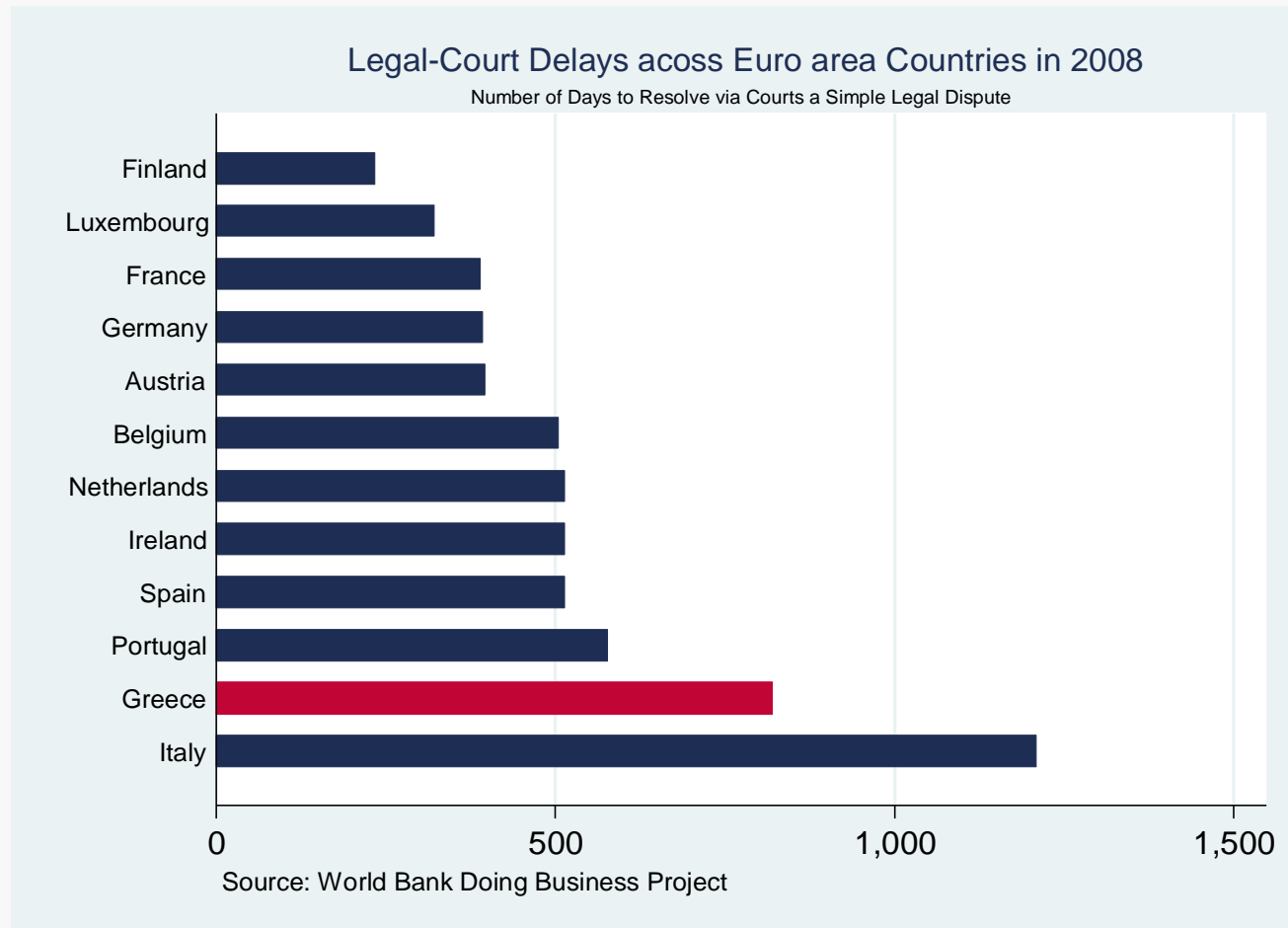
- *Different bankruptcy codes.* Philosophy towards debt forgiveness and reprofiling (common versus civil law). Quality of bankruptcy procedures differs enormously both in re-organization (Chapter 11) and even in resolution/liquidation (Chapter 7). Recovery rates, time, other
- *Courts.* Huge differences across the EU. Time, quality, specialized versus non-specialized courts; alternative dispute resolution systems.
- *Incentives.* Key stakeholders. Banks, creditors, suppliers, employees, pension funds, other
- *Societal beliefs.* Trust, civicness.

A Graphical Illustration



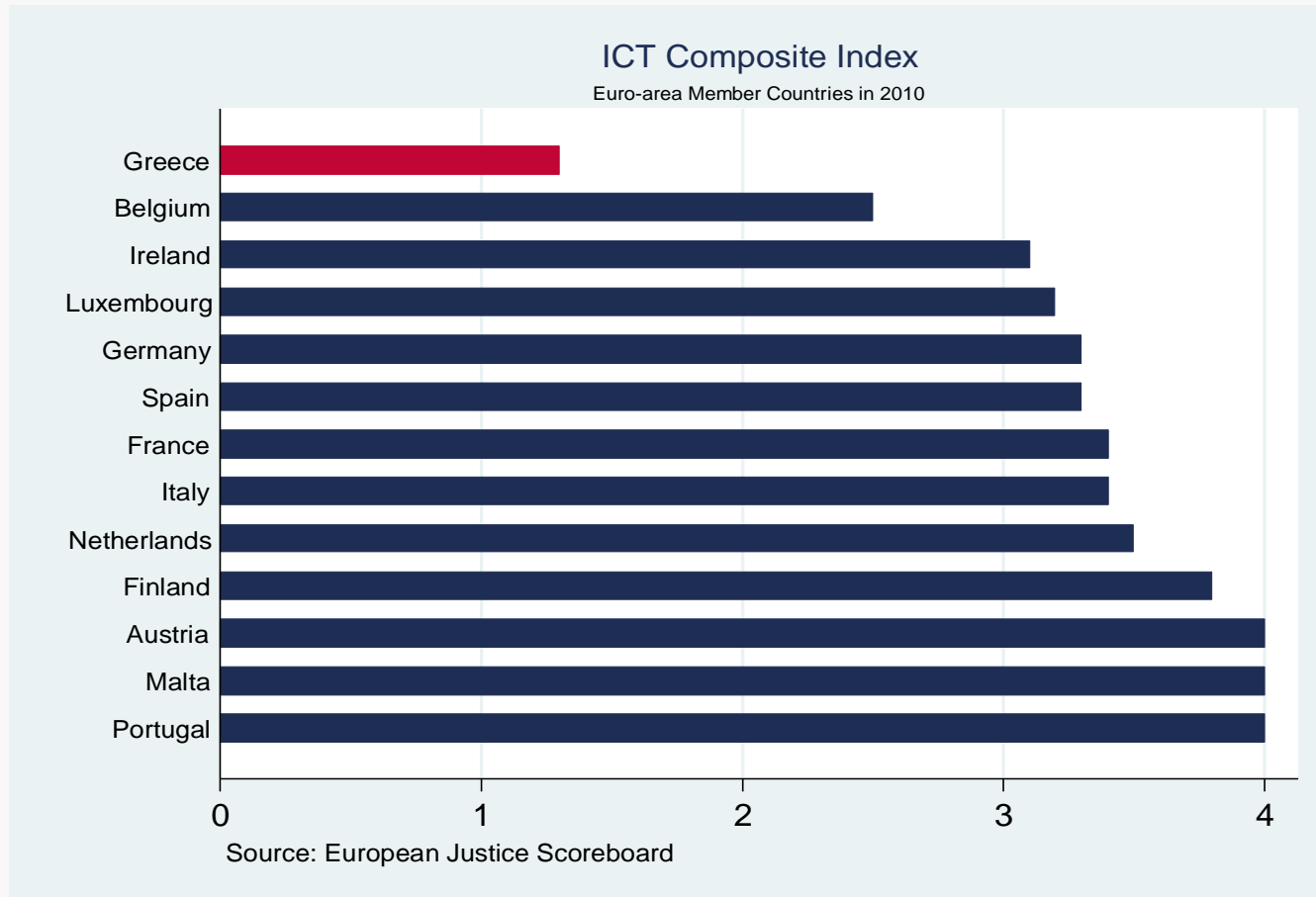
Source: Papaioannou (2016)

Legal System Inefficiencies and Heterogeneity



Source: Papaioannou and Karatza (2016)

One of the problems



Source: Papaioannou and Karatza (2016)

Going Forward

- **Prerequisite.** Define a well-defined objective (ambitious goal such as a political union with large “federal-style” budget or an elaborate free-trade-area) and then design short-term (transition) steps/policies as well as medium-level targets.

- **Dual Approach.**
 - Institutions EU-EZ level.
 - Institutions National Level

EU-EZ Institutions

- **Treaty?**
- **Role of ECB. Legal issues, authority, hierarchy. CB part of the troika/quartet**
- **Single Supervisory Mechanism**
- **ESM (small, peculiar governance)**
- **EU Commission**

- **Issue of distrust**
- **Exogenous risks**

National Institutional Reform and Convergence

- Endogeneity of reforms (e.g., beliefs, distrust, culture, complicated process); crisis offers a window of opportunity
- EU help is needed. Targeted aid is needed, specific projects (e.g., ICT infrastructure, public procurement, bypass captured institutions)
- Share best practices
- Measuring - monitoring

Summary

- **Huge short-term risks**
- **Medium-long term issues. [not well-defined objectives, erroneous policies; legacy of policy mistakes that due to institutional persistence may be hard to reverse]**
- **Global environment (emerging market turmoil)**

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Ομιλία του κ. Jeroen Commissaris
Country President –AstraZeneca Greece

Competitiveness Challenges Greece

Jeroen Commissaris

Country President – AstraZeneca Greece

27th January 2016



AstraZeneca is a global, innovation-driven biopharmaceutical business that focuses on the discovery, development and commercialisation of prescription medicines, primarily for the treatment of diseases in three main therapy areas - respiratory, inflammation, autoimmune disease (RIA), cardiovascular and metabolic disease (CVMD) and oncology – as well as in infection and neuroscience. AstraZeneca operates in over 100 countries and its innovative medicines are used by millions of patients worldwide. For more information please visit: www.astrazeneca.com



Executive Summary

- Since the beginning of the crisis the competitiveness of the Greek economy has slowly improved but a lot remains to be done
- Need deep structural reforms instead of flat measures targeting only cash generation
- Distrust btn State and Industry
 - Lack of Transparency, Mistakes in pricing, No respect of timelines
- Reduced Public Pharmaceutical budget
- High Taxation increase (clawback, rebates)
- Low Prices & Reimbursement level
- Accumulating Public Debts owed to the Pharma Industry
- Bureaucracy regarding Clinical Trial Approval



Greece ranks 81st in the 2015-2016 Global competitiveness Index of the World Economic Forum

Greece is the **least competitive advanced economy** following Portugal, Italy, Slovenia, and Cyprus

Economy	Score ¹	Prev. ²	Trend ³	Economy	Score ¹	Prev. ²	Trend ³	Economy	Score ¹	Prev. ²	Trend ³
1 Switzerland	5.76	1		48 Malta	4.39	47		86 El Salvador	3.87	84	
2 Singapore	5.68	2		49 South Africa	4.39	56		87 Zambia	3.87	96	
3 United States	5.61	3		50 Panama	4.38	48		88 Seychelles	3.86	92	
4 Germany	5.53	5		51 Turkey	4.37	45		89 Dominican Republic	3.86	101	
5 Netherlands	5.50	8		52 Costa Rica	4.33	51		90 Kenya	3.85	90	
6 Japan	5.47	6		53 Romania	4.32	59		91 Nepal	3.85	102	
7 Hong Kong SAR	5.46	7		54 Bulgaria	4.32	54		92 Lebanon	3.84	113	
8 Finland	5.45	4		55 India	4.31	71		93 Kyrgyz Republic	3.83	108	
9 Sweden	5.43	10		56 Vietnam	4.30	68		94 Gabon	3.83	106	
10 United Kingdom	5.43	9		57 Mexico	4.29	61		95 Mongolia	3.81	98	
11 Denmark	5.41	11		58 Rwanda	4.29	62		96 Bhutan	3.80	103	
12 Norway	5.41	11		59 Slovenia	4.28	70		97 Argentina	3.79	104	
13 Canada	5.31	15		60 Macedonia, FYR	4.28	63		98 Bangladesh	3.76	109	
14 Qatar	5.30	16		61 Colombia	4.28	66		99 Nicaragua	3.75	99	
15 Taiwan, China	5.28	14		62 Oman	4.25	46		100 Ethiopia	3.75	118	
16 New Zealand	5.25	17		63 Hungary	4.25	60		101 Senegal	3.73	112	
17 United Arab Emirates	5.24	12		64 Jordan	4.23	64		102 Bosnia & Herzegovina	3.71	n/a	
18 Malaysia	5.23	20		65 Cyprus	4.23	58		103 Cape Verde	3.70	114	
19 Belgium	5.20	18		66 Georgia	4.22	69		104 Lesotho	3.70	107	
20 Luxembourg	5.20	19		67 Slovak Republic	4.22	75		105 Cameroon	3.69	116	
21 Australia	5.15	22		68 Sri Lanka	4.21	73		106 Uganda	3.66	122	
22 France	5.13	23		69 Peru	4.21	65		107 Egypt	3.66	119	
23 Austria	5.12	21		70 Montenegro	4.20	67		108 Bolivia	3.60	105	
24 Ireland	5.11	25		71 Botswana	4.19	74		109 Paraguay	3.60	120	
25 Saudi Arabia	5.07	24		72 Morocco	4.17	72		110 Ghana	3.58	111	
26 Korea, Rep.	4.99	26		73 Uruguay	4.09	80		111 Tanzania	3.57	121	
27 Israel	4.98	27		74 Iran, Islamic Rep.	4.09	83		112 Guyana	3.56	117	
28 China	4.89	28		75 Brazil	4.08	57		113 Benin	3.55	n/a	
29 Iceland	4.83	30		76 Ecuador	4.07	n/a		114 Gambia, The	3.48	125	
30 Estonia	4.74	29		77 Croatia	4.07	77		115 Nigeria	3.46	127	
31 Czech Republic	4.69	37		78 Guatemala	4.05	78		116 Zimbabwe	3.45	124	
32 Thailand	4.64	31		79 Ukraine	4.03	76		117 Pakistan	3.45	129	
33 Spain	4.59	35		80 Tajikistan	4.03	91		118 Mali	3.44	128	
34 Kuwait	4.59	40		81 Greece	4.02	81		119 Swaziland	3.40	123	
35 Chile	4.58	33		82 Armenia	4.01	85		120 Liberia	3.37	n/a	
36 Lithuania	4.55	41		83 Lao PDR	4.00	93		121 Madagascar	3.32	130	
37 Indonesia	4.52	34		84 Moldova	4.00	82		122 Myanmar	3.32	134	
38 Portugal	4.52	36		85 Namibia	3.99	88		123 Venezuela	3.30	131	
39 Bahrain	4.52	44		86 Jamaica	3.97	86		124 Mozambique	3.20	133	
40 Azerbaijan	4.50	38		87 Algeria	3.97	79		125 Haiti	3.18	137	
41 Poland	4.49	43		88 Honduras	3.95	100		126 Malawi	3.15	132	
42 Kazakhstan	4.49	50		89 Trinidad and Tobago	3.94	89		127 Burundi	3.11	139	
43 Italy	4.46	49		90 Cambodia	3.94	95		128 Sierra Leone	3.06	138	
44 Latvia	4.45	42		91 Côte d'Ivoire	3.93	115		129 Mauritania	3.03	141	
45 Russian Federation	4.44	53		92 Tunisia	3.93	87		130 Chad	2.96	143	
46 Mauritius	4.43	39		93 Albania	3.93	97		131 Guinea	2.84	144	
47 Philippines	4.39	52		94 Serbia	3.89	94					

Source: The Global Competitiveness Report 2015–2016, World Economic Forum



Greece ranks very low in innovation

Best practice examples:

Switzerland leads innovation:

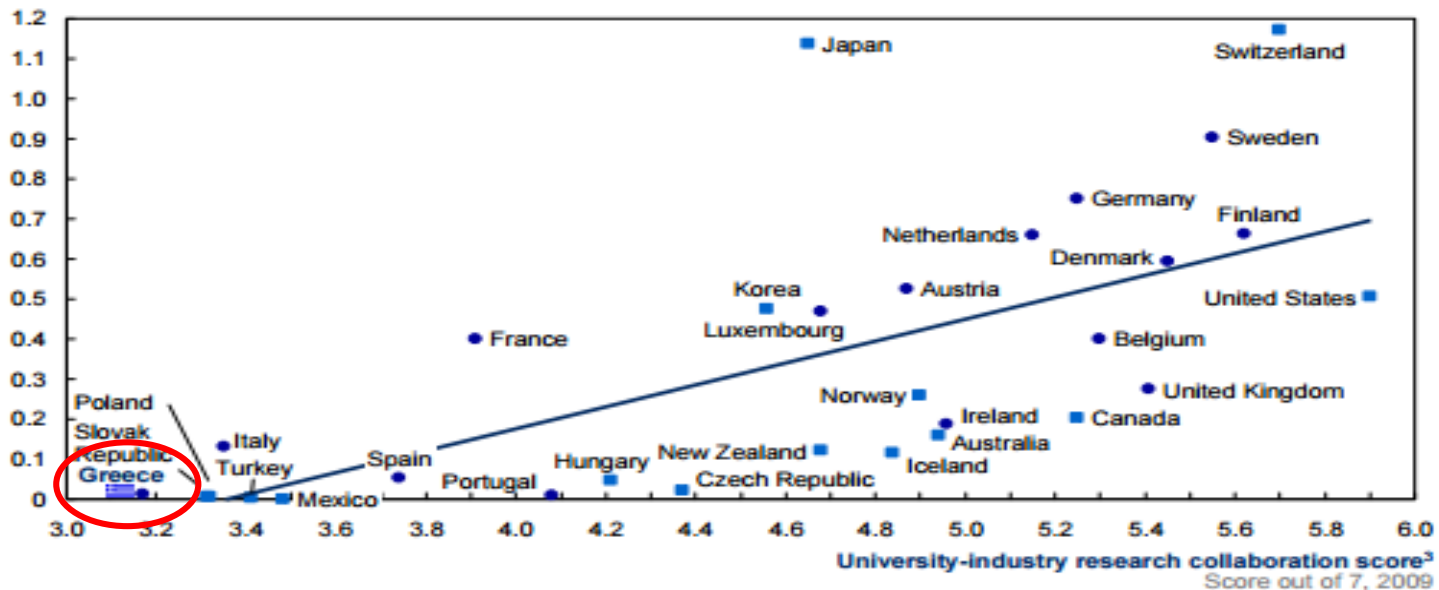
- ✓ world-class research institutions
- ✓ high spending on R&D
- ✓ business collaboration with universities
- ✓ high level of business sophistication
- ✓ capacity to nurture and attract talent, excellent education system at all levels

Germany is highly innovative:

- ✓ strong research institutions
- ✓ high spending on R&D
- ✓ business collaboration with universities
- ✓ excellent on-the-job training ensuring that skills match businesses' needs
- ✓ high readiness to adopt new technologies
- ✓ successful use of Information & Communication technologies

The lack of collaboration between academia and business hinders employment, innovation and entrepreneurship

Triadic¹ patents per 10,000 population, 2007



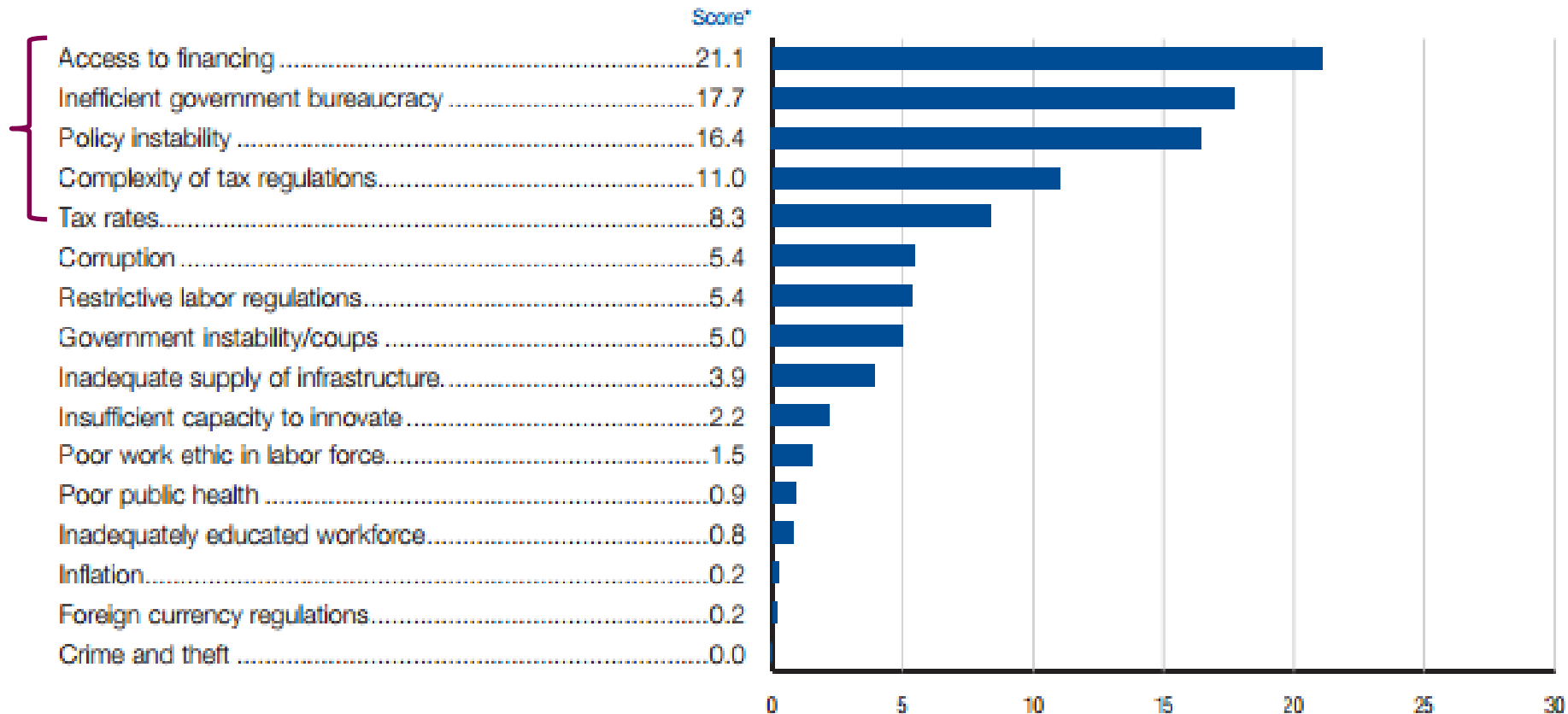
1 Patents filed at the European Patent Office (EPO), the United States Patent and Trademark Office (USPTO), and the Japan Patent Office (JPO)

2 Sample of 30 OECD countries

3 Based on responses from 13,000 business leaders on a scale from 1 = minimal or non-existent to 7 = intensive and ongoing



Barriers in doing business in Greece 2016



Source: The Global Competitiveness Report 2015–2016, World Economic Forum

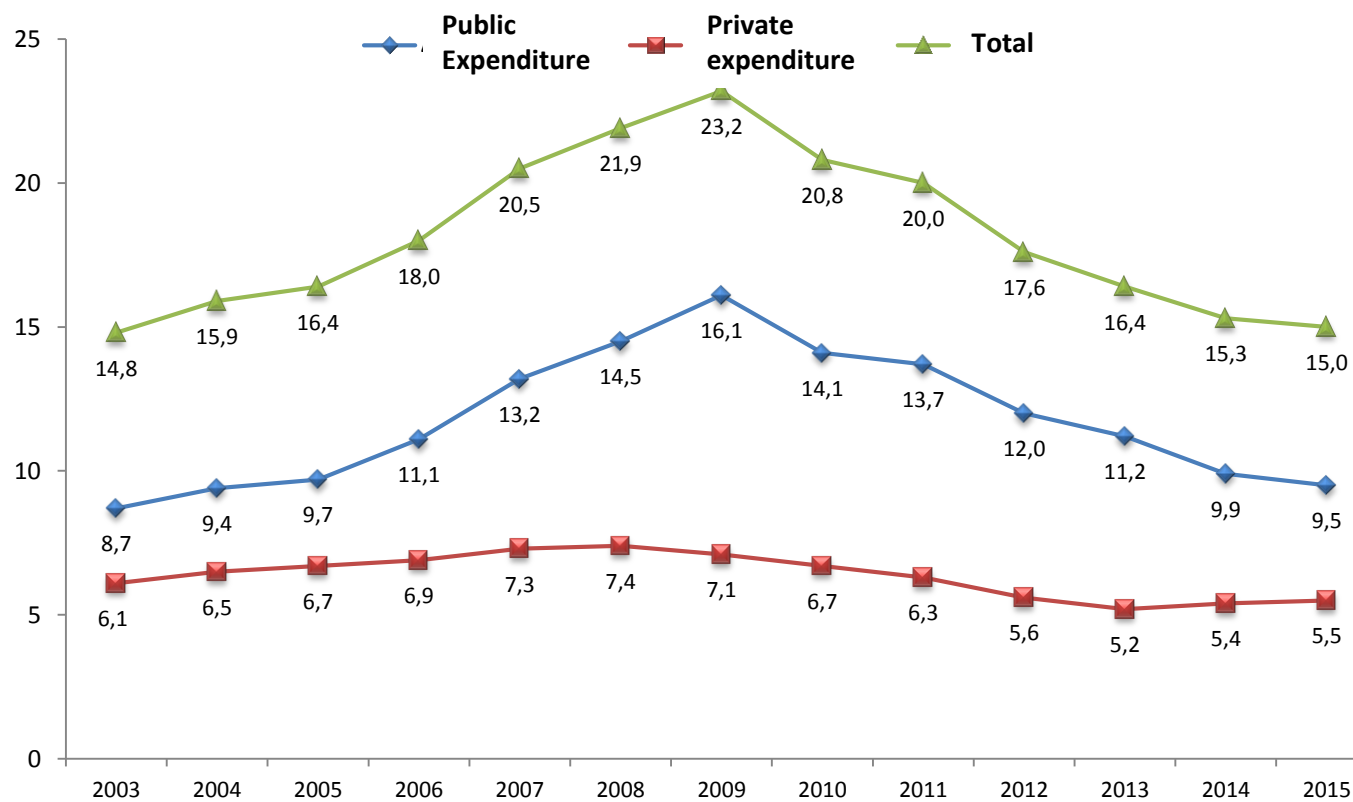
As a result, **more and more foreign and domestic companies leave Greece** to achieve greater **security, stability and liquidity**



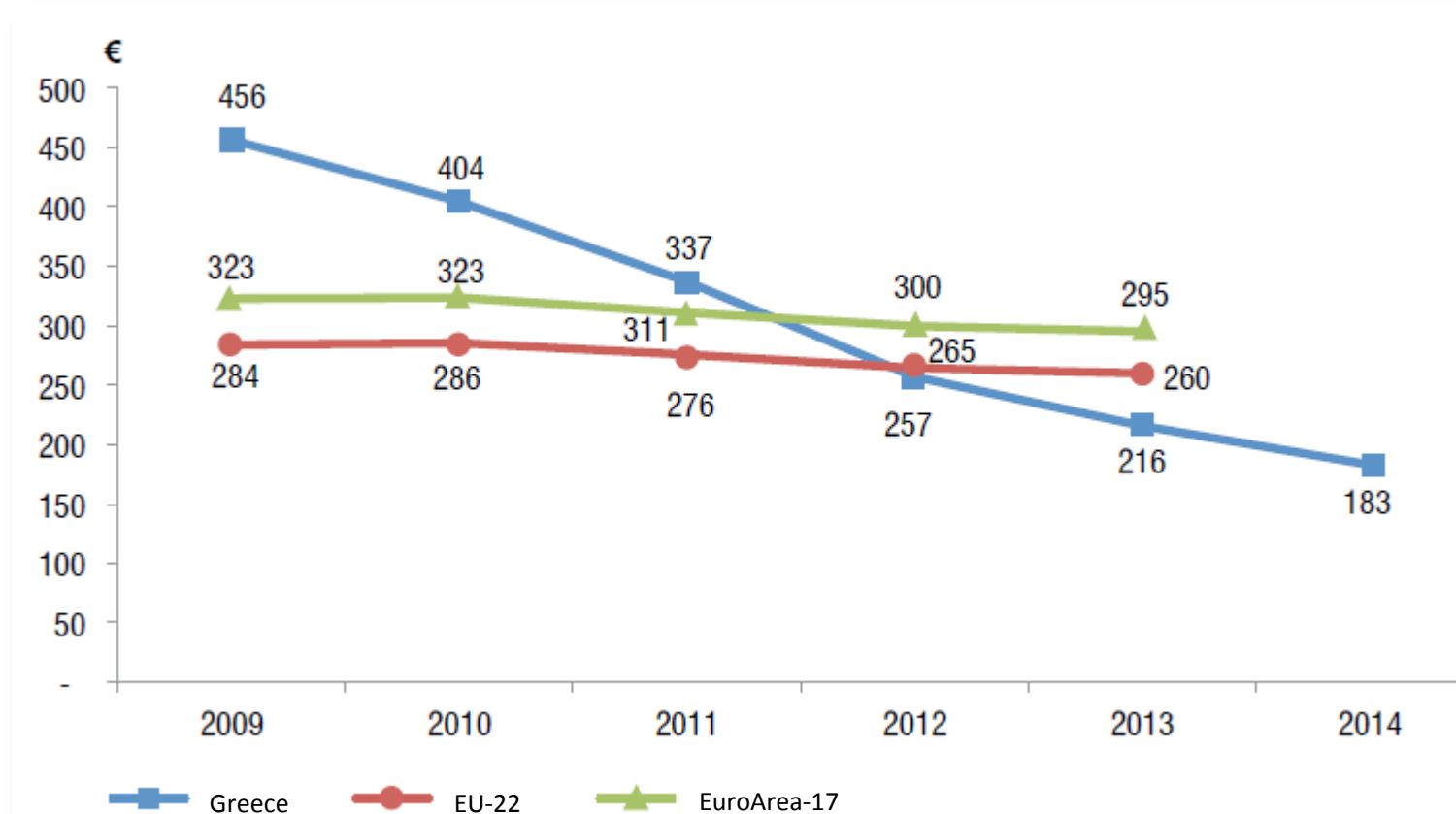
Competitiveness Challenges in Pharma Greece



Evolution of healthcare expenditure, Greece (2003-2015, bil)

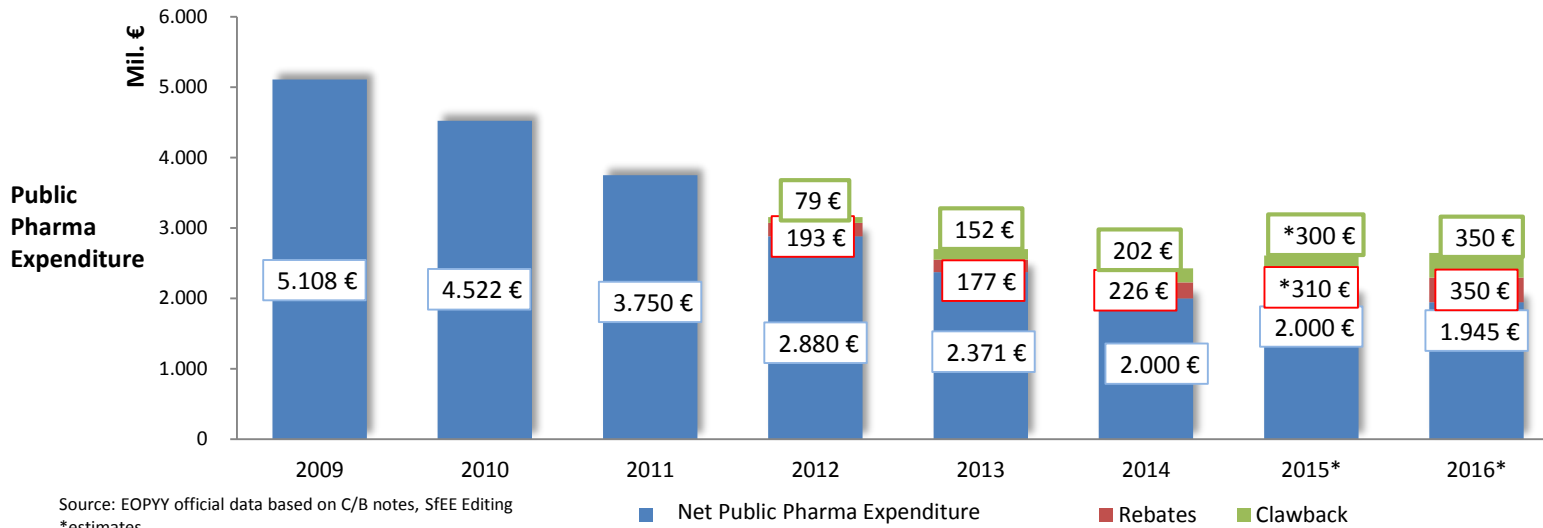


Per capita Public Pharmaceutical Expenditure (€)

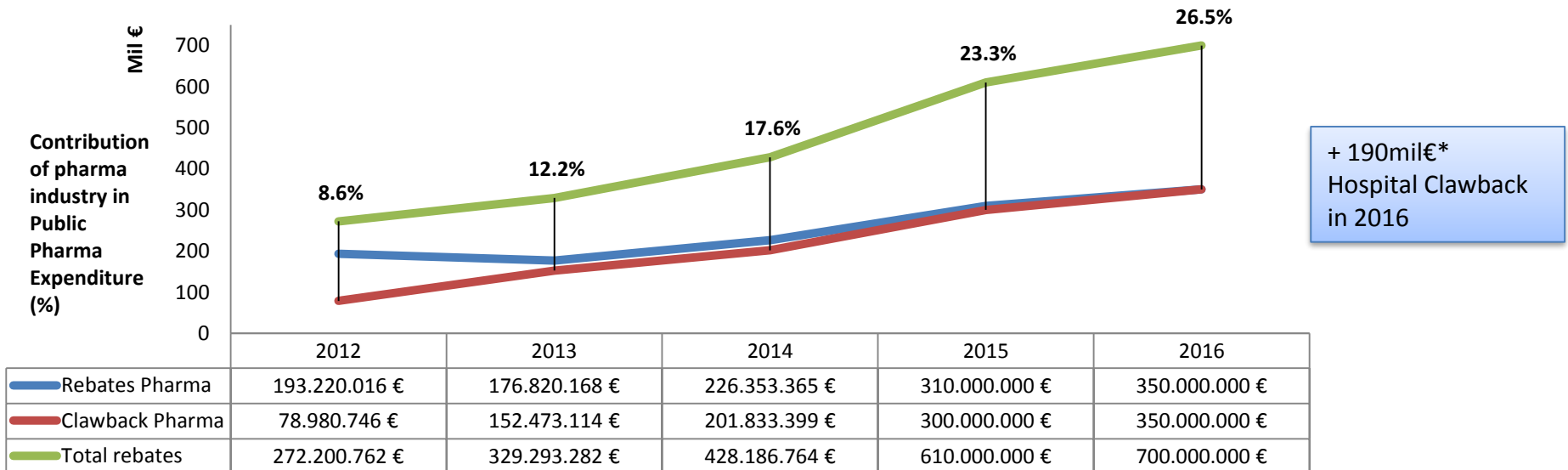


Public pharmaceutical expenditure per capita dropped by 43% between 2009 and 2012 and is declined further by 17% (relative to 2009) by the end of 2014.

Uncontrollable rebates & clawback payed by Industry



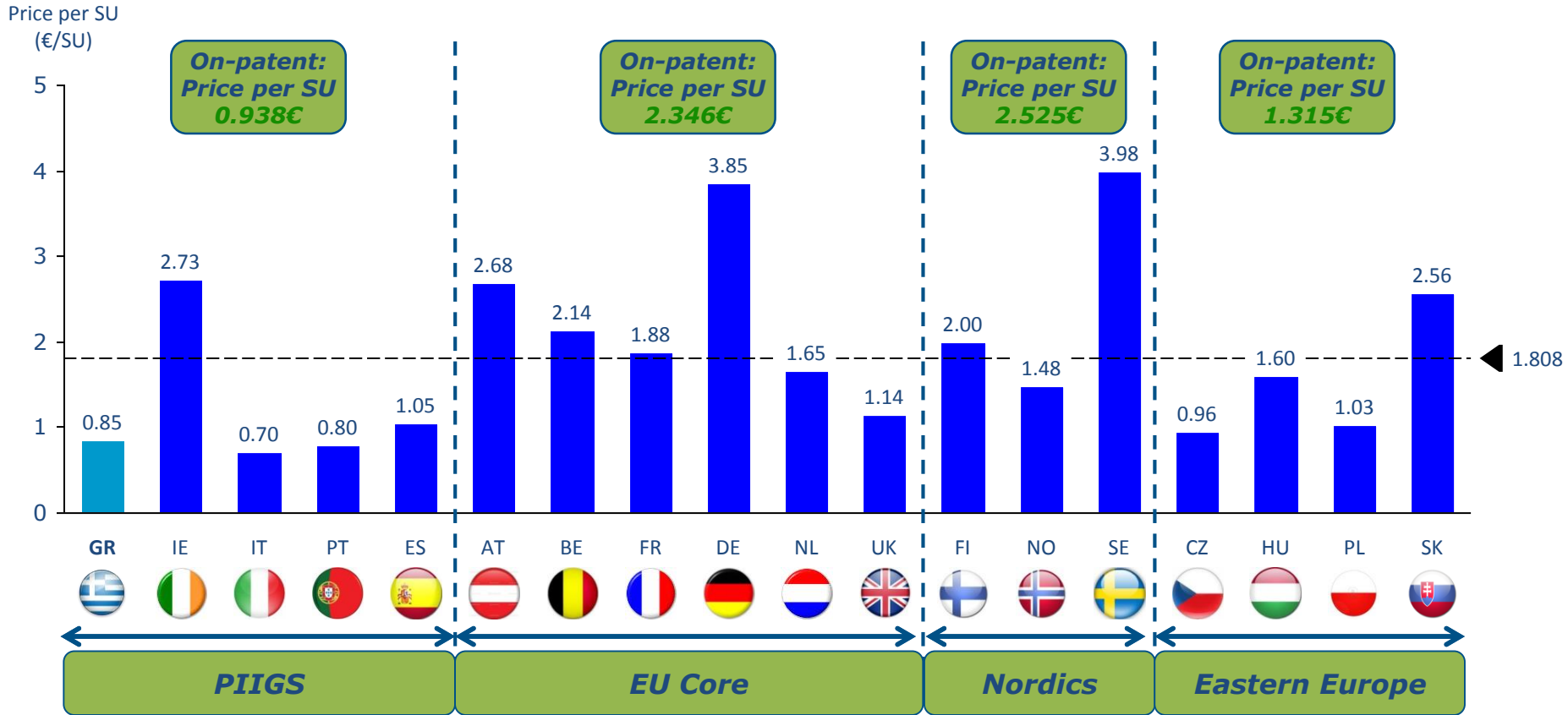
Rebates and ClawBack increased by 42.5% in 2015 vs 2014 with same pharma expenditure



Pricing (in €/SU) across EU countries

On-patent products in Greece having the third lowest average price in Europe

Price per SU for On-patent (MAT/08/15)
Greece vs. European countries



Note 1: Numbers only for retail channel for all countries and based on Pharmacy-Purchase-Prices (PPPs)

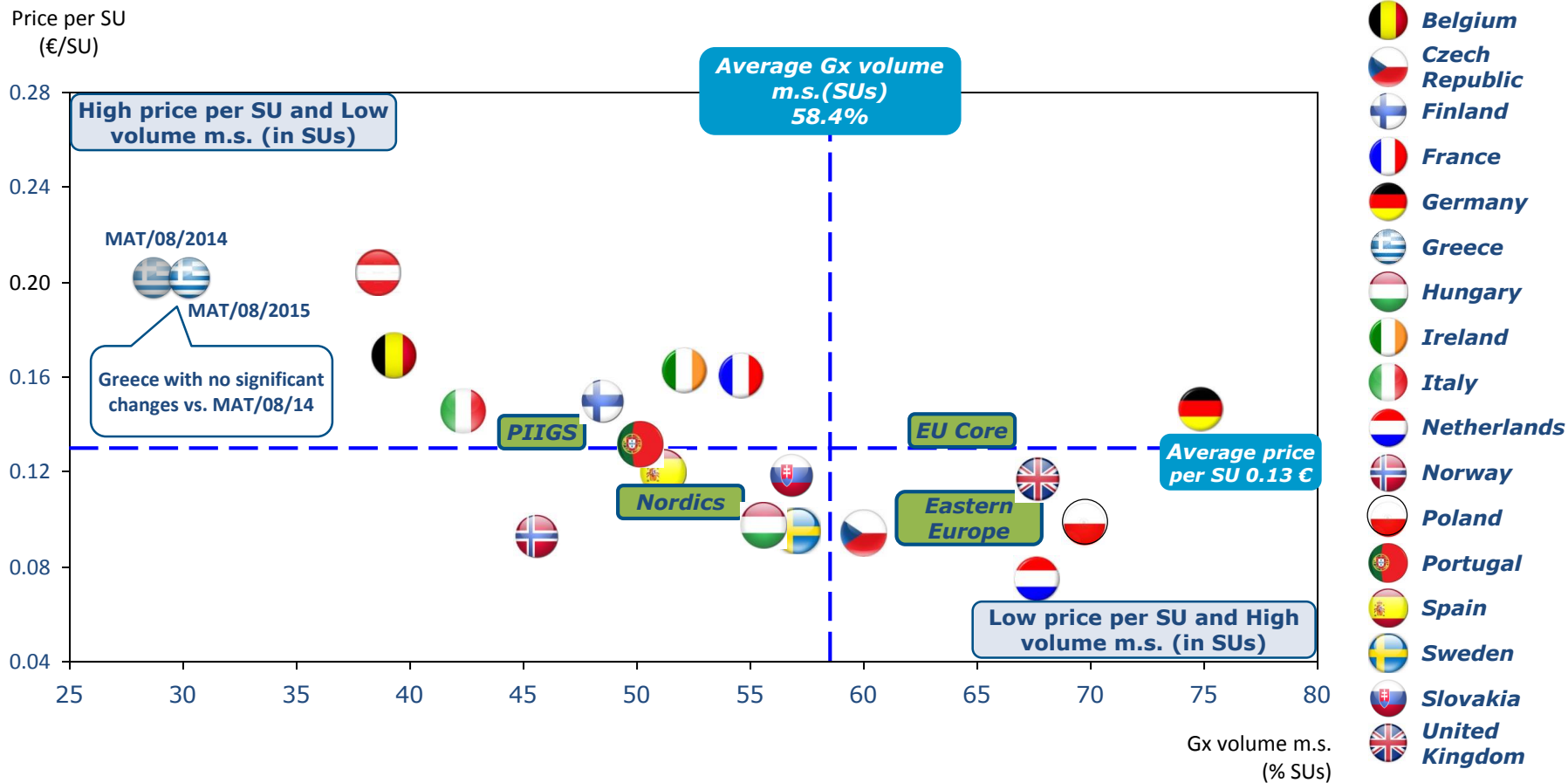
Note 2: AT=Austria; BE=Belgium; CZ=Czech Republic; FI=Finland; FR=France; DE=Germany; GR=Greece; HU=Hungary; IE=Ireland; IT=Italy; NL=Netherlands; NO=Norway; PL=Poland; PT=Portugal; ES=Spain; SE=Sweden; SK=Slovakia; UK=United Kingdom

Source: IMS data (MAT/08/15), IMS Health Consulting analysis

Price per SU and volume (in SUs) market share

Gx in Greece having low volume m.s. but highly priced in terms of price per SU

Price per SU and volume m.s. for Gx products (MAT/08/15)
Greece vs. European countries



1. Based on Pharmacy-Purchase-Prices (PPPs); 2. Number only for retail channel for all countries; 3. Prescription-bound drugs included only
Source: IMS data (MAT/08/15); IMS Health Consulting analysis

Current Complicated Rebates system that harms innovation, creates unfairness, lacks of transparency

Distribution channel	Type of rebate	Medicinal products	Severe Diseases' Medicines
• Retail pharmacies	Basic rebate on reimbursed sales	9%	9%
• Retail pharmacies	Extra scaled rebate on reimbursed sales	2% - 12%	2% - 12%
• Retail pharmacies	ATC5 Classification per Active Substance or Unique Form on reimbursed sales	2%	2%
• Retail pharmacies	50% of difference between Retail price and Reference price	50%	-
• Hospitals • EOPYY pharmacies • Retail pharmacies	New INN (only for 1 st year in Positive List entry)	5%	5%
• Hospitals • EOPYY pharmacies	Basic rebate	5%	5%
• Hospitals • EOPYY pharmacies	Extra scaled rebate	-	<ul style="list-style-type: none"> • 1.5% for 3mester sales ≤2.5 mln € • 3% for 3mester sales 2.5-5 mln € • 4.5% for 3mester sales >5 mln €

* Retail Market: Rebates applied on EX-MNF price
Hospitals/EOPYY Pharmacies: Rebates applied on Hospital price



TOTAL OUTSTANDING DEBTS OF THE STATE TOWARDS SFEE'S MEMBER COMPANIES

**Including SFEE's member companies which report only aggregate debt data*

	DEBTS (December 2014)	Total (Actual)
EOPYY (IKA)	~ 496 mil	~ 841.22 mil
ESY/MILITARY	~ 292 mil	~ 480 mil
TOTAL	~ 790 mil	~ 1.321 mil

	DEBTS (UNTIL 31/12/2012)	DEBTS 2013	DEBTS 2014	DEBTS 2015 (until 31.10.2015)	TOTAL
EOPYY (IKA)	~ 1,9 mio	~ 0,55 mio	~ 187,1 mio	~ 651,7 mio	~ 841,22 mio
NHS	~ 7,6 mio	~ 12,99 mio	~ 94,8 mio	~ 342,9 mio	~ 458,33 mio
MILITARY	~ 0,11 mio	~ 0,19 mio	~ 6,3 mio	~ 15,08 mio	~ 21,69 mio
TOTAL	~ 9,6 mio	~ 13,73 mio	~ 288,19 mio	~ 1.010 mio	~ 1.321 mio

Issue: - State outstanding debts towards pharma companies at ~ >€1.3bil.

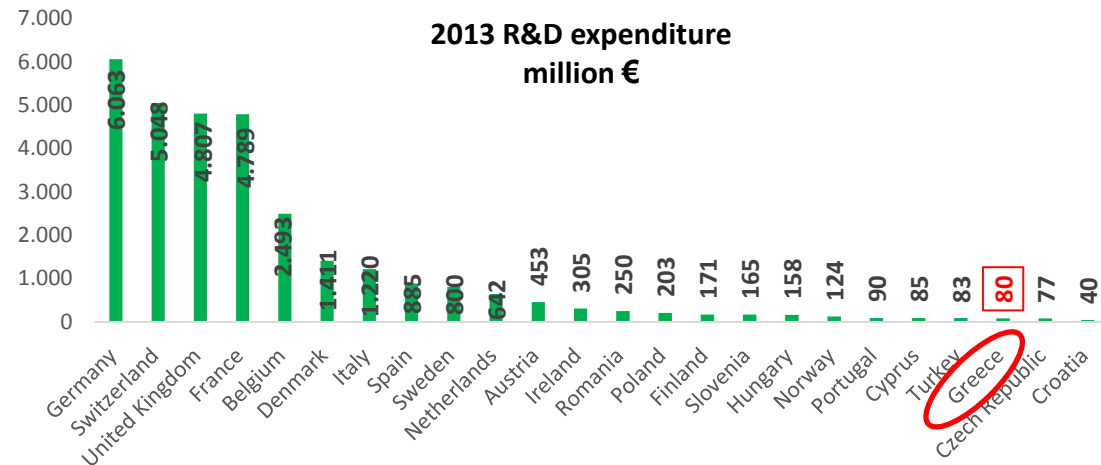
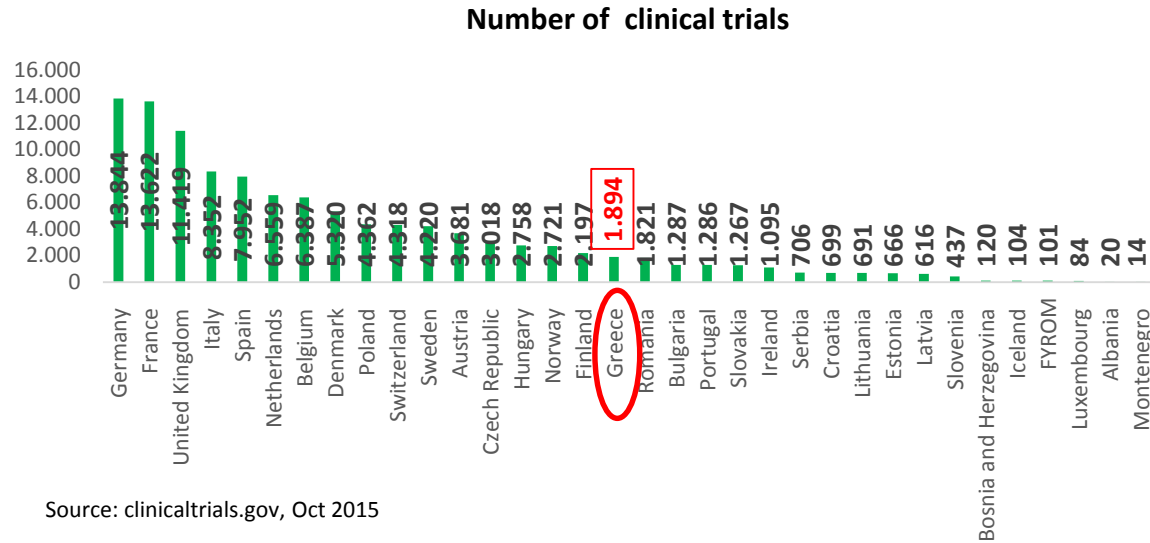
- Payments to pharma companies are delayed by +9 months Vs other providers.

SFEE Position

- ✓ Immediate settlement of 2013/2014 arrears
- ✓ Clear time-table of settlements of the outstanding 2015 debts to pharmaceutical companies
- ✓ Off-setting: a) rebates with hospital debts and b) hospital debts with providers' tax obligations (legislation needs to be issued)
- ✓ Implementation of the Directive 2011/7/EC for settlement within 60 days
- ✓ Non-discretionary treatment among providers

Clinical trials in Greece

- Despite capacity in highly-trained scientists, number of clinical trials remains low.
- In 2013 Greece spent only €80 million in R&D, whereas Belgium spent € 2,5 billion.
- Major hurdles appear to be **bureaucracy**, **complexity** and **delays** in the approval process, mainly within the NHS.
- Framework for observational studies needs to be improved.
 - Cost for studies will be considered as Promotion and not R&D cost -> Important disincentive for pharma companies to conduct these studies.
- Need stable, legal and regulatory framework



Conclusions

- Despite slow improvement, Greece remains non-business friendly vs other European countries
- Urgent need to:
 - Achieve political stability
 - Create financial incentives to attract investment and reset the economy
 - Implement true and necessary structural reforms instead of flat measures targeting only cash generation in all sectors including pharma
 - Enhance university-industry collaborations and establish stable regulatory framework to boost innovation and entrepreneurship, stop brain drain and generate jobs
 - Build trust btn State and Industry - LOI
 - Immediate settlement of public debts
 - Create predictable environment for reasonable business planning
 - Improvement in indirect taxations like rebates/clawback
e.g. Substitute existing multiple Rebates with one more fair, transparent and innovation-rewarding Rebate System

