



'Greece 10 Years Ahead' Defining Greece's new growth model and plan

Presentation to the KEPP event by Mr. George D. Tsopelas
Athens, February 2, 2012

Four key messages

1

Major growth potential for Greece: € 55 billion GDP and 520,000 additional employment in 10 years; € 23 billion GDP and 150,000 additional employment in 5 years



2

The five largest 'Production' sectors and eight 'Rising Stars' could alone deliver this growth; sector specific measures are defined to be implemented by the public and the private sector



3

Necessary condition is the change of Greece's flawed economic growth model and the pursuit of a New National Growth Model that also features 20 specific cross-sector reforms



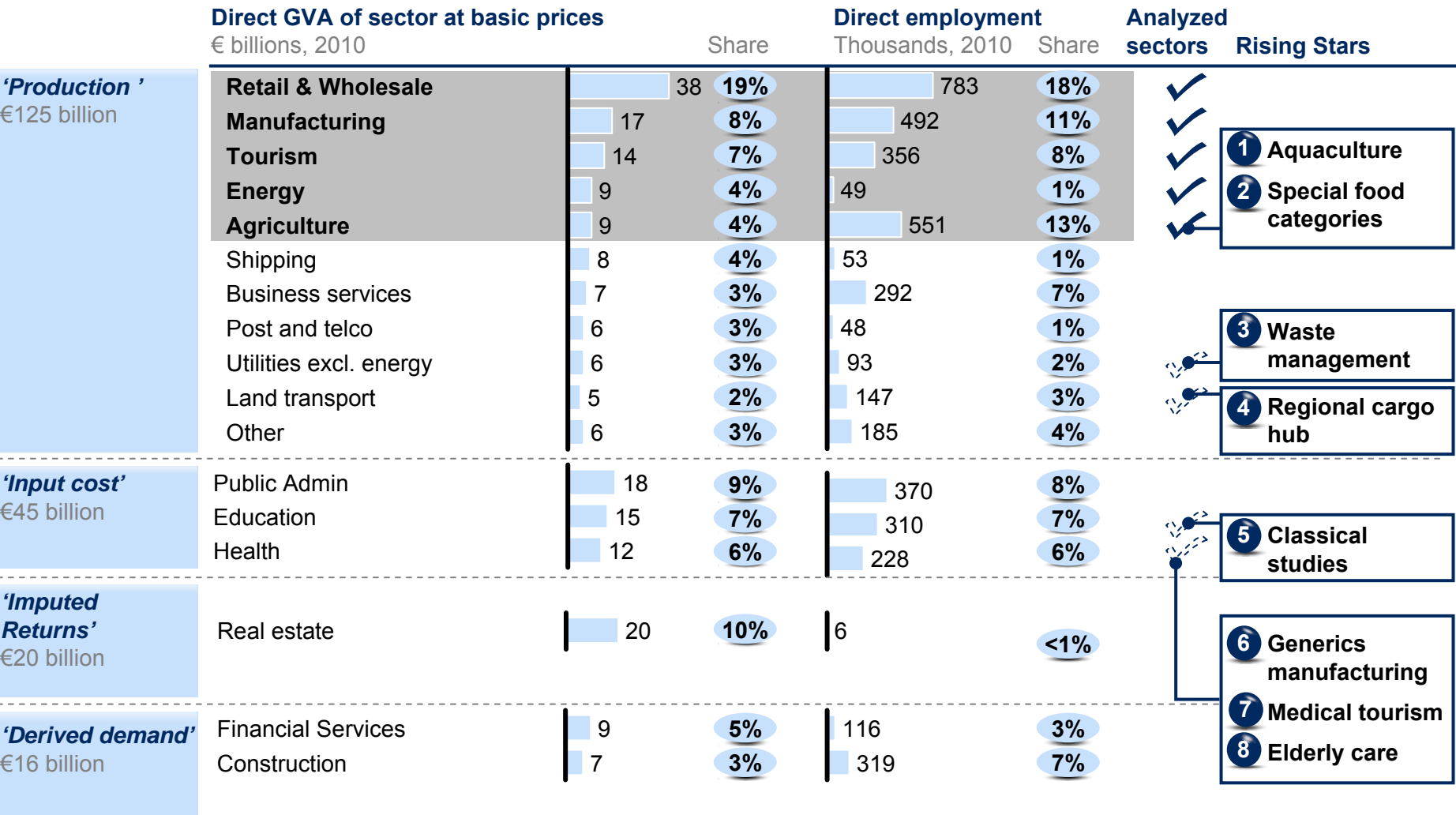
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Reviving investments is critical and doable; we propose specific cross-sector infrastructure and sector investments, new incentives and the revision of the fast track framework



Greece 10 Years Ahead analyzed in depth 13 sectors: the five largest production ones and eight 'rising stars'

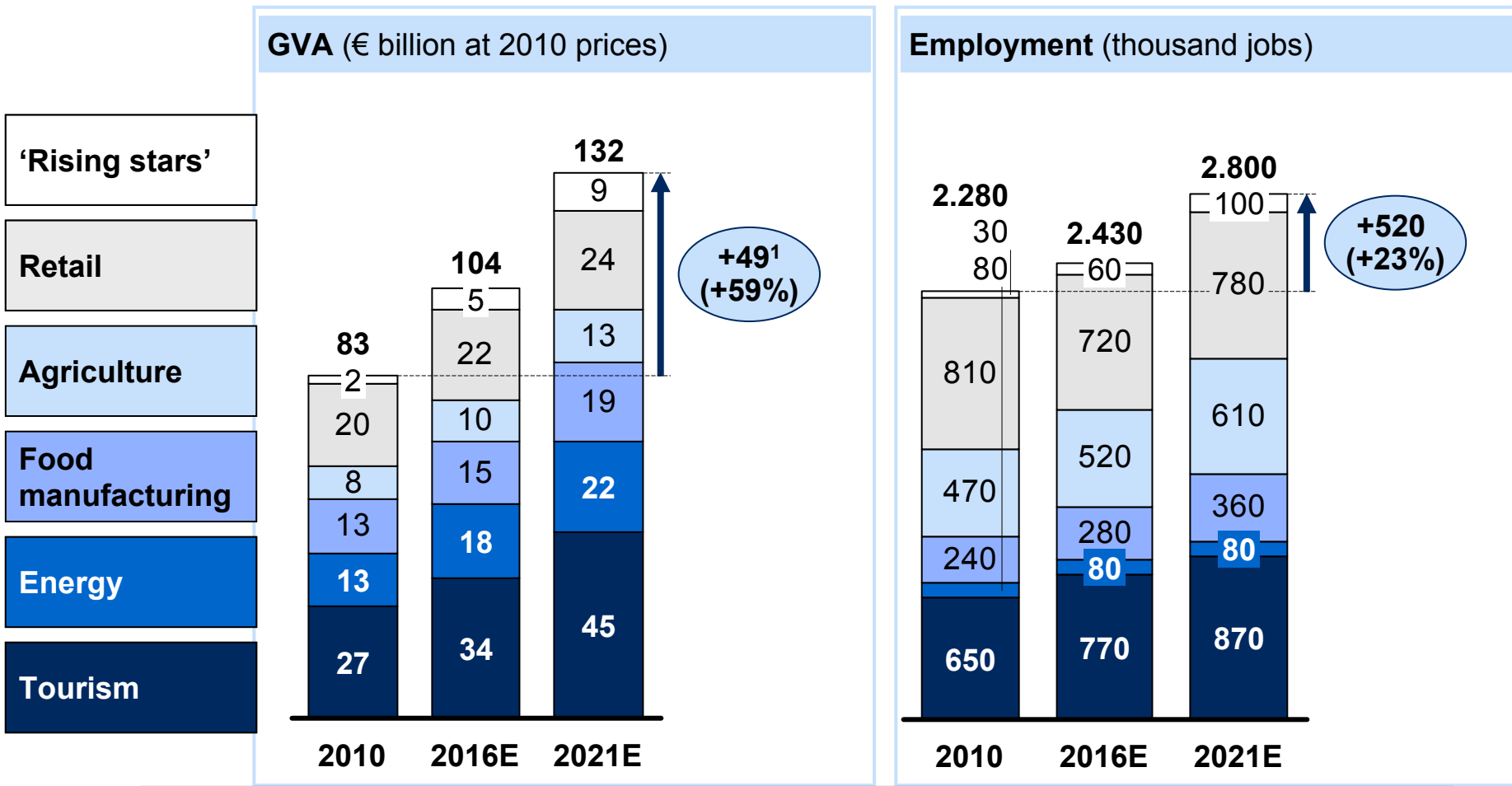
ESTIMATES



SOURCE: WIS Global Insight; EU KLEMS 2009; Eurostat

Potential for €49 billion new GVA (€55 billion in terms of GDP) and 520 thousand new jobs in the next decade

ESTIMATES



- *Doubling of total economy growth rate in a 10-year horizon*
- *Positive contribution in trade and fiscal balances by ~€16-17 bn and ~€7 bn respectively*
- *~20% real productivity increase*

Note: Tourism and Retail are depicted in 2009 figures instead of 2010
 1 ~€ 55 billion in GDP terms

Some illustrative examples, each one representing a € 1-2 billion annual GDP growth upside

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Tourism

Getting from ~0.5% to 2% visitor share in Russia and China

Aligning our 10% embarkation share with the 21% visit share in cruises

Food (Agriculture and Processing)

Capturing our fair exports share in olive oil (30%) and Greek feta (50%)

Re-focusing resources to 10 competitive agricultural products

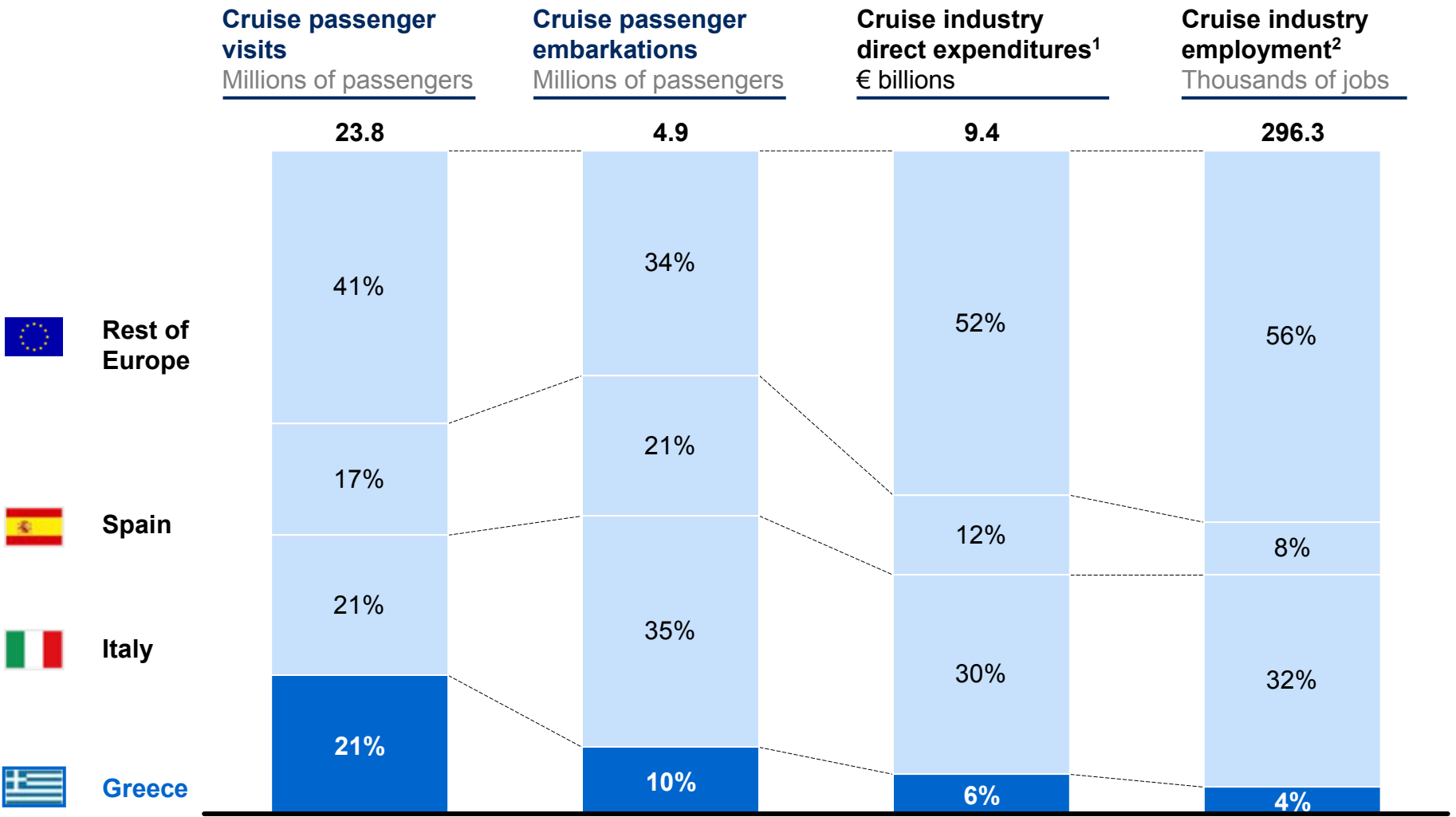
Rising Stars

Increase Generics penetration (32% in Greece vs. >60% internationally)

Reducing land-filling of municipal solid waste from 80% to 40% of EU-27

Opportunity for boosting revenues and employment in the cruise industry by aligning the country's embarkations with visits market share

ESTIMATES



1 Excluding shipbuilding
2 Including shipbuilding

Greece does not capture its 'fair share' in olive oil exports and foregoes significant opportunities, especially with regards to Italy

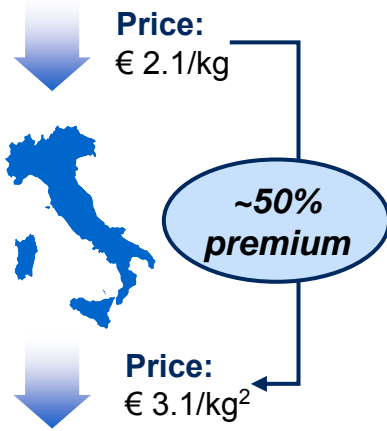
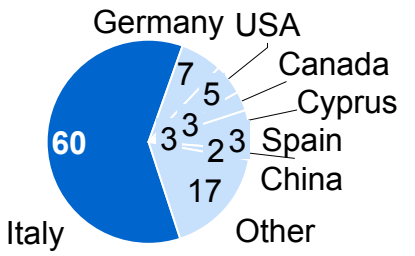
Greek, Spanish and Italian exports to core geographies

Top exporting geographies ¹	Greek share	Exports value € mil, 2009	Greek exports relative share Percent
USA	12	452 // 464	3
France	3	246 // 249	1
Germany	16	150 // 166	10
Portugal	0	150 // 150	0
UK	4	136 // 140	3
Japan	2	107 // 109	2
Australia	4	75 // 79	5
Canada	1	55 // 63	13
Switzerland	2 ⁸	47 // 49	5
Netherlands	2	47 // 49	4
Brazil	1	42 // 43	3
Belgium	2	36 // 38	5
China	4	32 // 36	12
Russia	2	30 // 33	7
Mexico	0	23 // 23	0

- In these 15 countries Greece's share is only 4% while Italy and Spain hold 96%
- If all importing countries considered (including Italy), Greece's share is 10%

Greece – Italy olive oil trade

Greek exports by value; %; 2009



1 Excluding Italy; 2 Average price per kilo for total Italian exports
SOURCE: UN Comtrade

Re-focusing resources to 10 internationally competitive agricultural products

- Lower costs vs. import prices
- Higher costs vs. import prices
- Size of domestic consumption

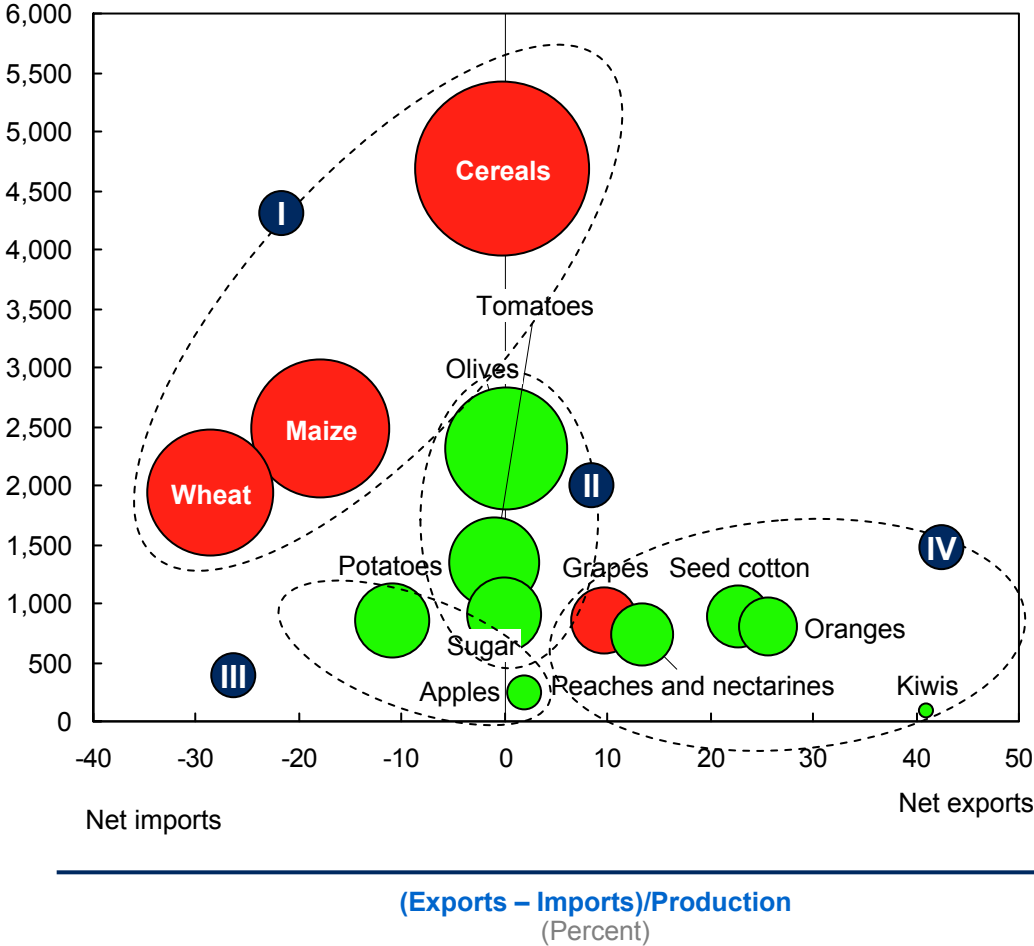
I 'Consumption/Import majors'

- Aggressively reduce local costs to reduce imports
- Explore selective production and land reallocation to potential high value products

III 'Emerging Traders'

- Optimize production to eliminate imports
- Reinforce exports in top priority markets

Production in Greece
Thousand tons



II 'Domestic/processed focused'

- Further reduce production costs to facilitate processing/import substitution
- Modernize and expand processing capacity (see food processing)

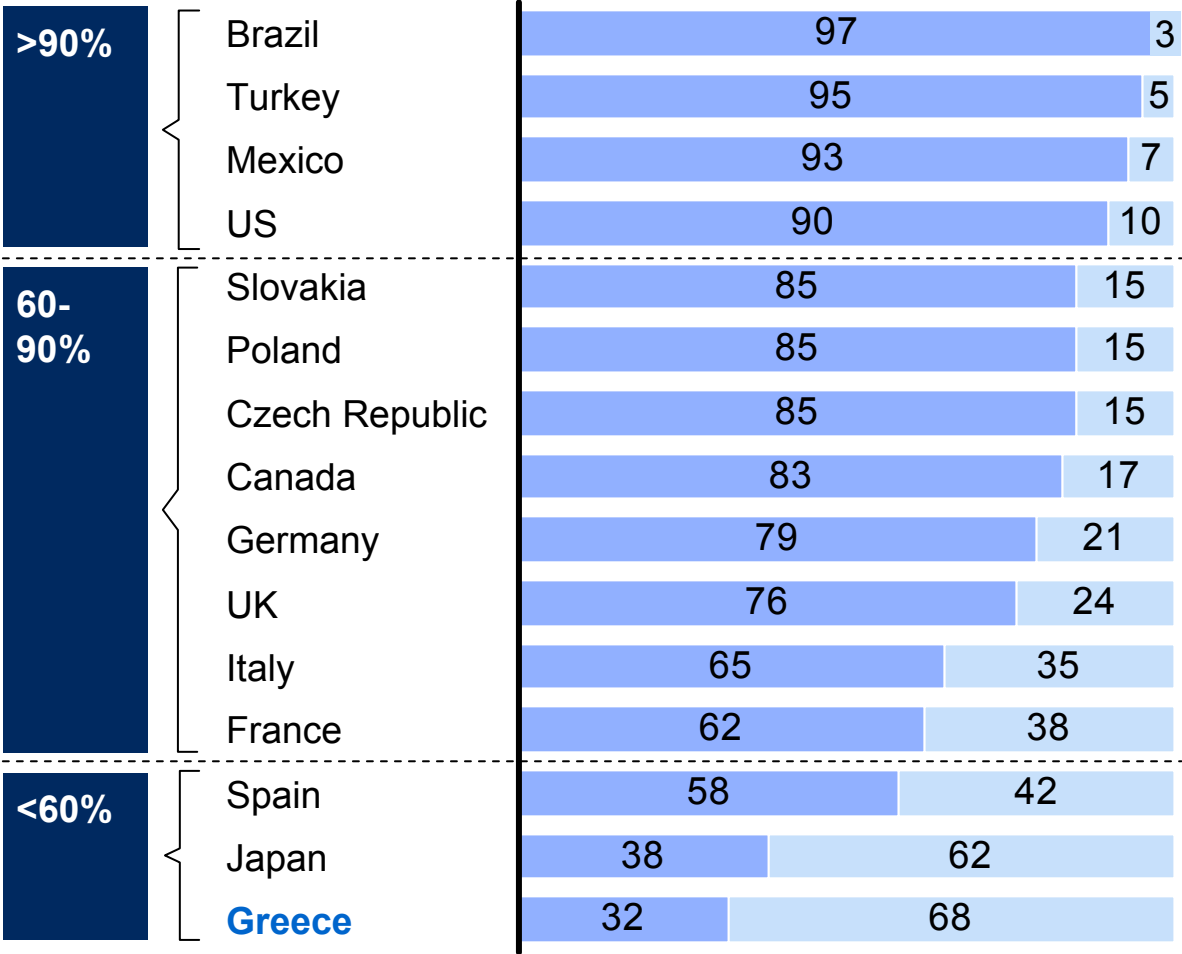
IV 'Export Engines'

- Maintain and further reduce costs (particularly in grapes and peaches)
- Aggressively boost exports to top and priority markets

Generics: Very low levels of generics penetration

Unprotected¹ market segmentation by volume, percent, 2009

■ Generics (Gx)
■ Originals (Rx)

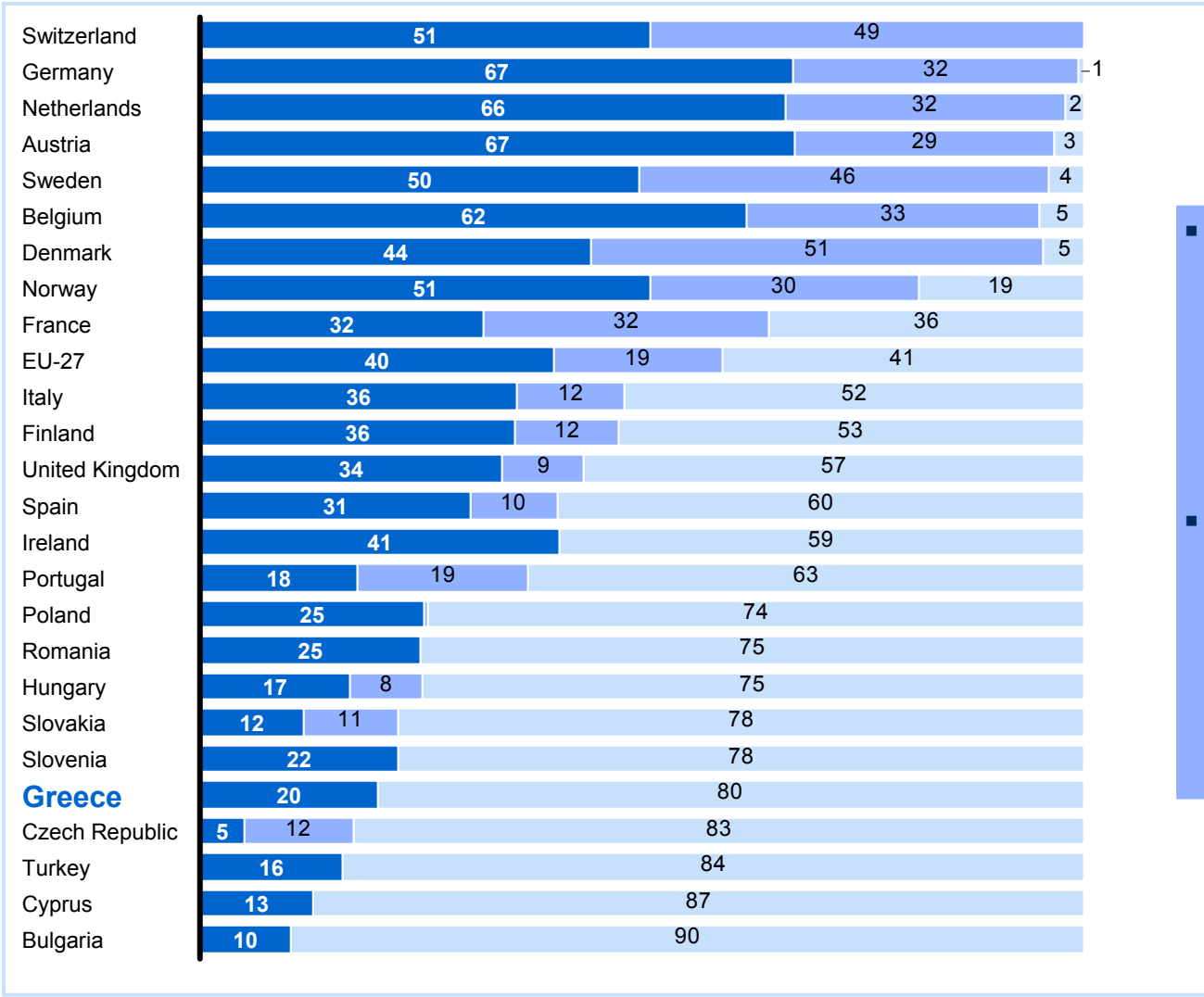
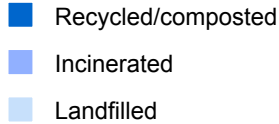


- *Gx penetration in Greece significantly lower compared to international markets and with other systems displaying volume penetration of >60%*
- *Difference partly explained by the Gx pricing regime:*
 - *Gx prices fixed by law at 90% of Rx price*
 - *Internationally, Gx are typically priced at 30-80% lower levels vs. respective Rx*

¹ Off-patent drugs market

Share of landfilling in Greece is still double the EU27 average

Share of total Municipal Solid Waste by method of management

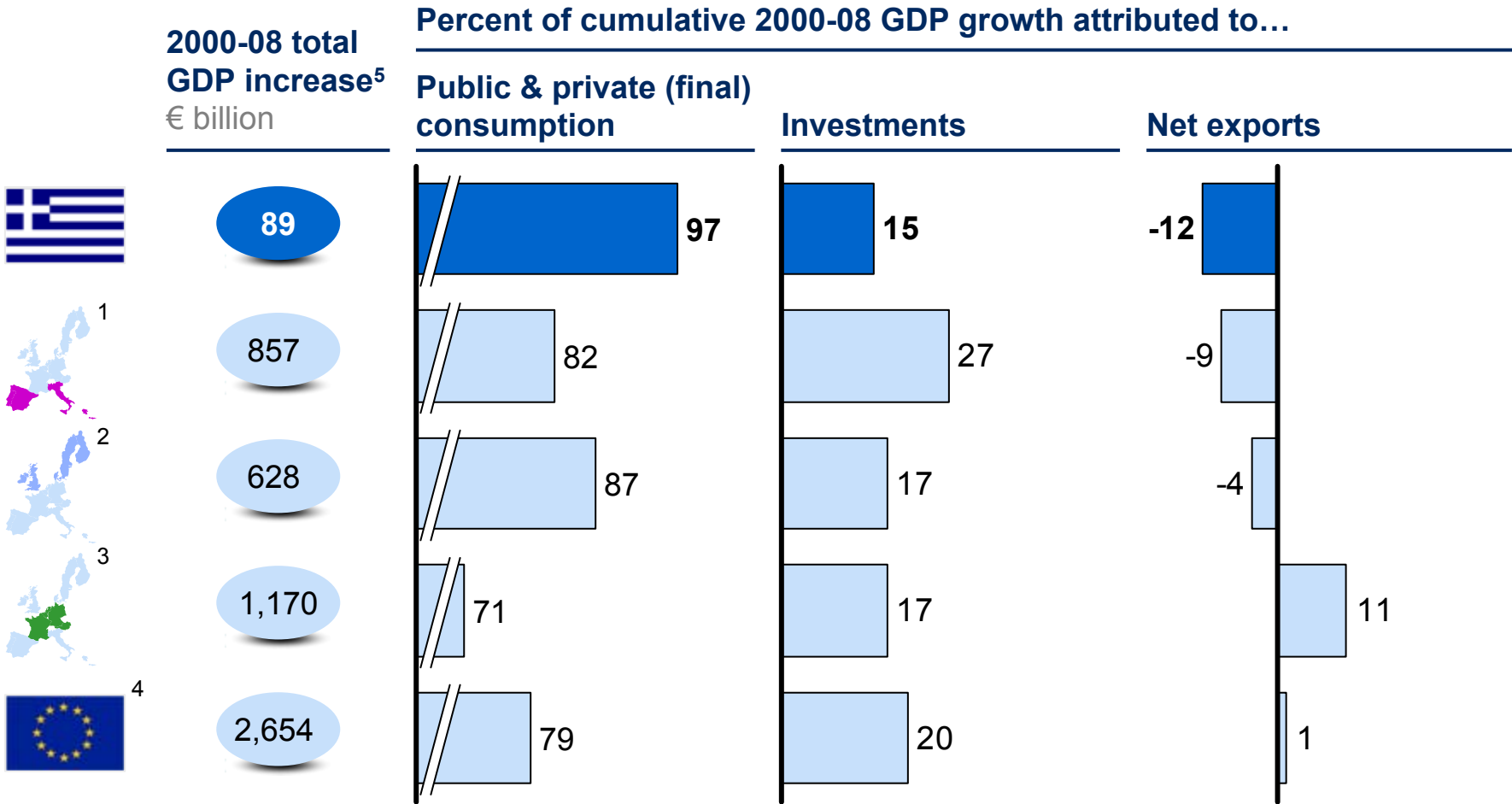


- EU Directives pushing away from landfilling and adopting high value-add waste treatment options, e.g., recycling, decomposting, incineration
- Greece still landfills 80% of its municipal waste, double the average share of EU-27, while several W. European countries have practically fully moved away from landfilling

SOURCE: Eurostat Structural Indicators, Mavropoulos et al.

Traditional economic model featuring overconsumption and underinvestment versus European peers

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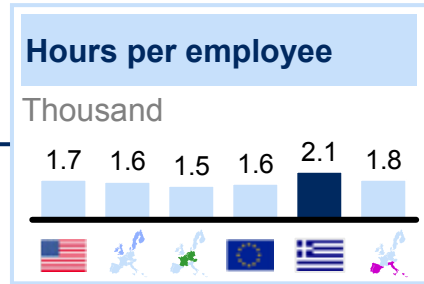
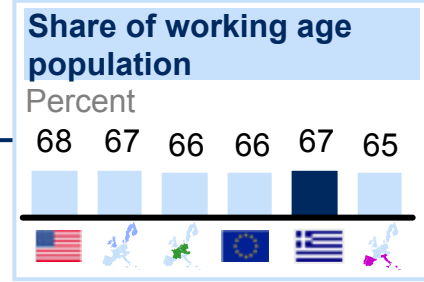
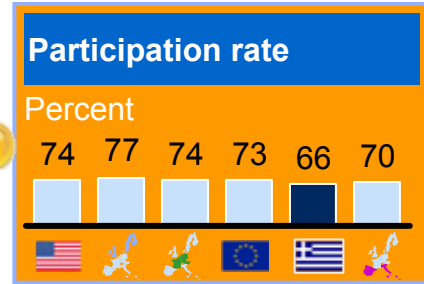
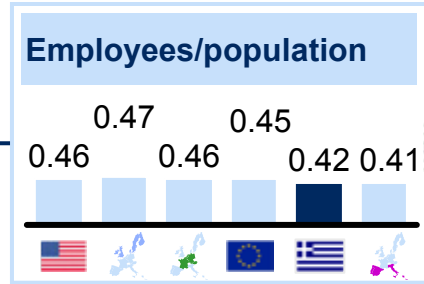
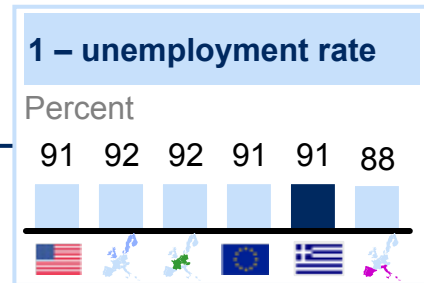
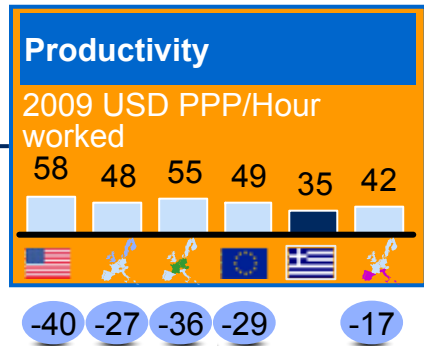
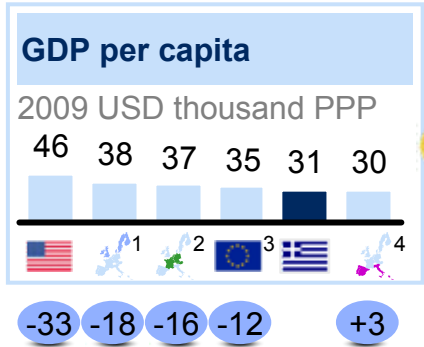


1 Southern Europe: Greece, Italy, Portugal, Spain; 2 Northern Europe: Denmark, Finland, Ireland, Sweden, UK
 3 Continental Europe: Austria, Germany, Belgium, France, Netherlands, Luxembourg; 4 EU-15
 5 Cumulative growth, delta 2000-08, amounts in PPP standards

Greece's GDP per capita gap driven primarily by productivity and secondarily by labor participation deficits

● Gap of Greece vs. others (%)

2009

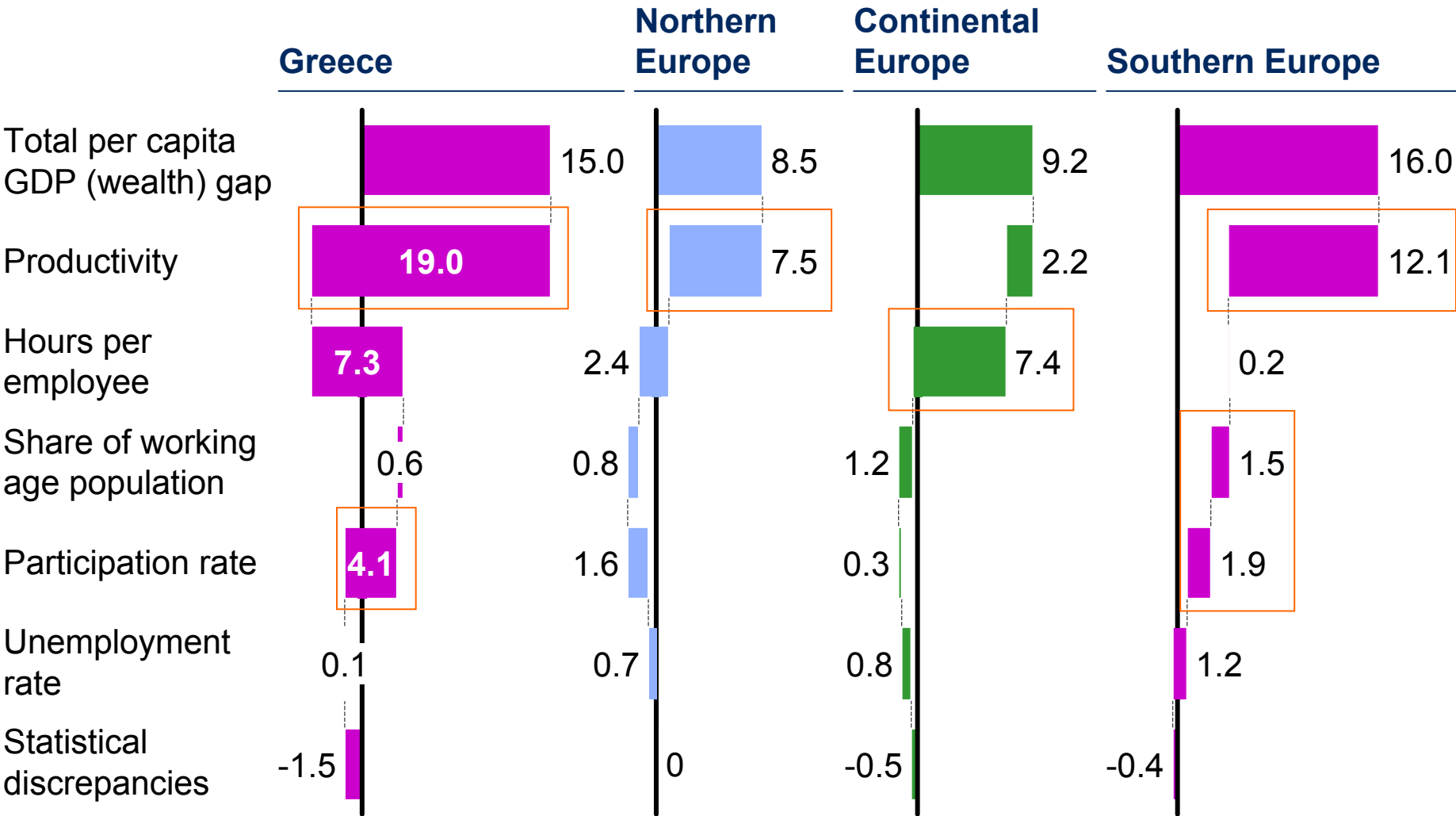


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Low productivity accounting for (more than) the entire wealth gap

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Contribution to per capita GDP gap vs. United States by key drivers
 2009 PPP, \$ thousand



SOURCE: The Conference Board; International Monetary Fund; Eurostat; Global Insight; OECD; McKinsey Global Institute

The 15 productivity and growth barriers in the Greek economy

- A** *Investment and scale discouraged*
- B** *Large, inefficient public sector*
- C** *Rigid use of human resources*
- D** *Cumbersome legal and judicial system*
- E** *Widespread informality*

- 1** Businesses fragmentation and small scale
- 2** Overregulation
- 3** Complex and restrictive licensing and operating processes
- 4** Lack of integrated zoning and real estate planning
- 5** Complex and volatile tax framework

- 6** Large public sector; low quality outputs and efficiency
- 7** Low execution skills; no mechanism to inject market talent
- 8** No performance clarity/accountability and double entry system

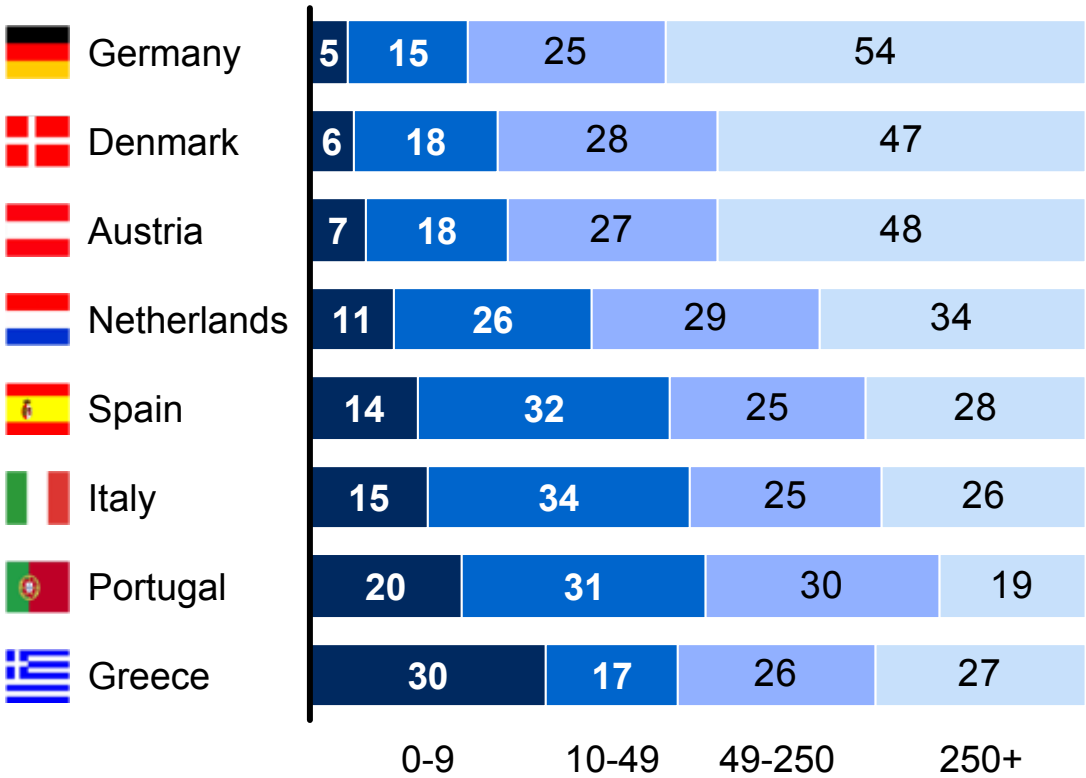
- 9** Low employment participation (youth/female) and flexibility
- 10** Binding and inflexible collective agreement framework
- 11** No link between market and education; no innovation support

- 12** Over-abundance of laws; conflicting with unclear applicability
- 13** Heavy administrative burden and lead times in courts

- 14** Extensive tax-evasion; 'science' part still emerging
- 15** Substantial wealth creation outside formal economy

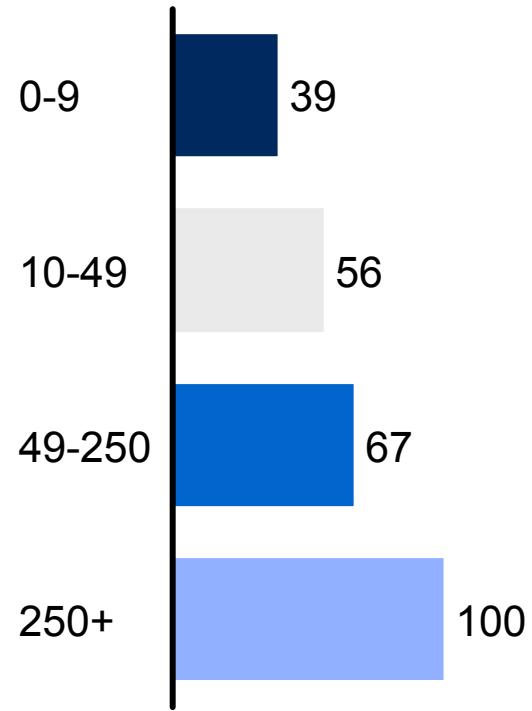
Employees by size of business in manufacturing

Percent of total manufacturing workforce, 2009

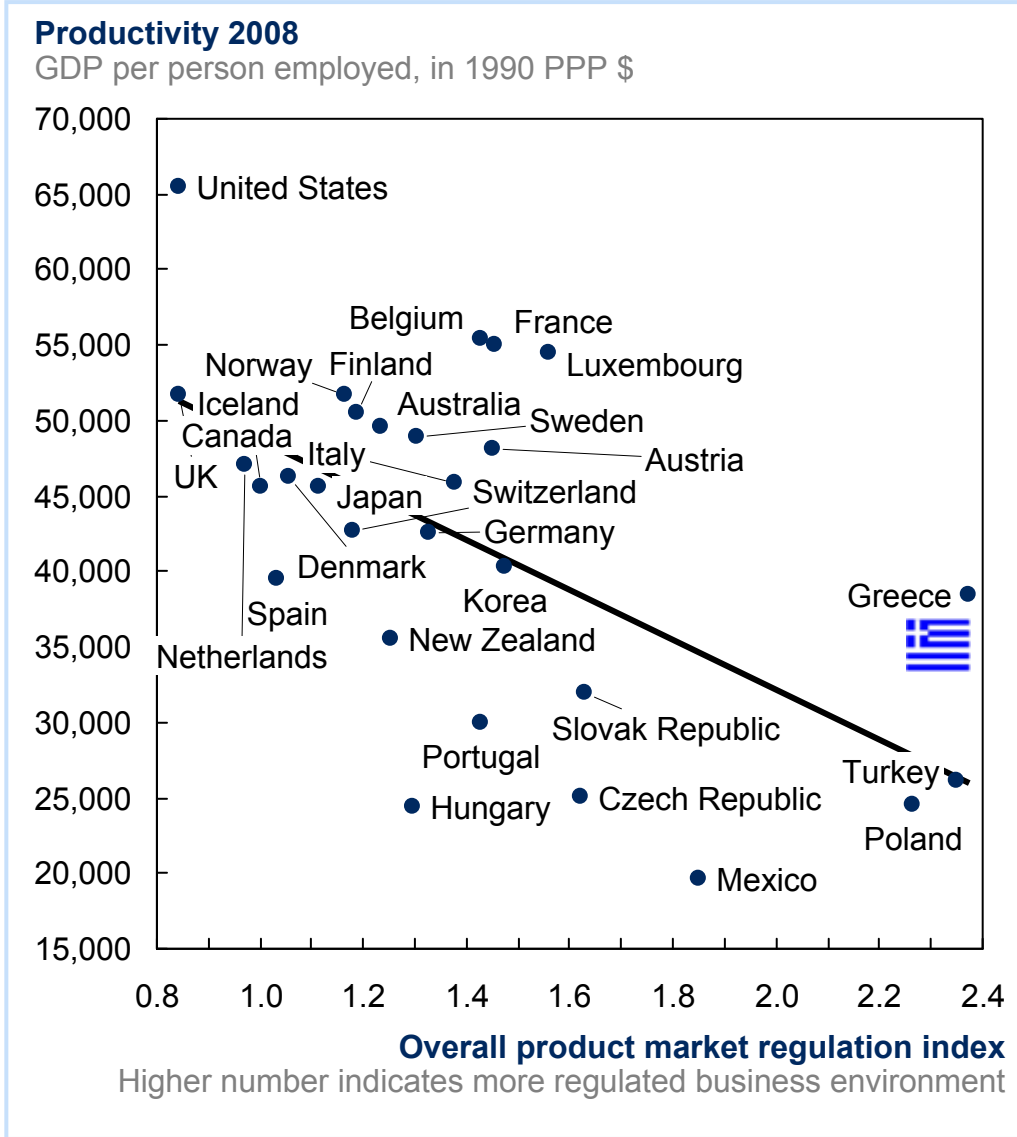
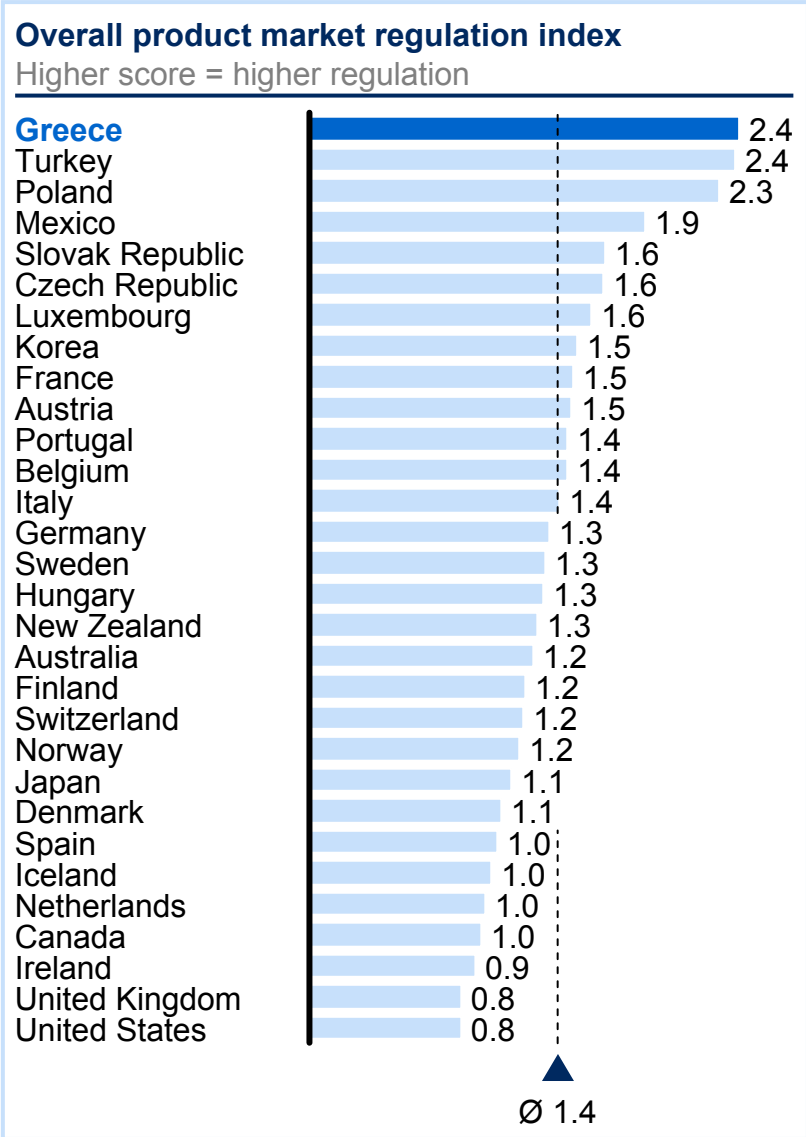


Average productivity by business size in manufacturing

GVA/person employed, EU-27 average, indexed (250+=100)



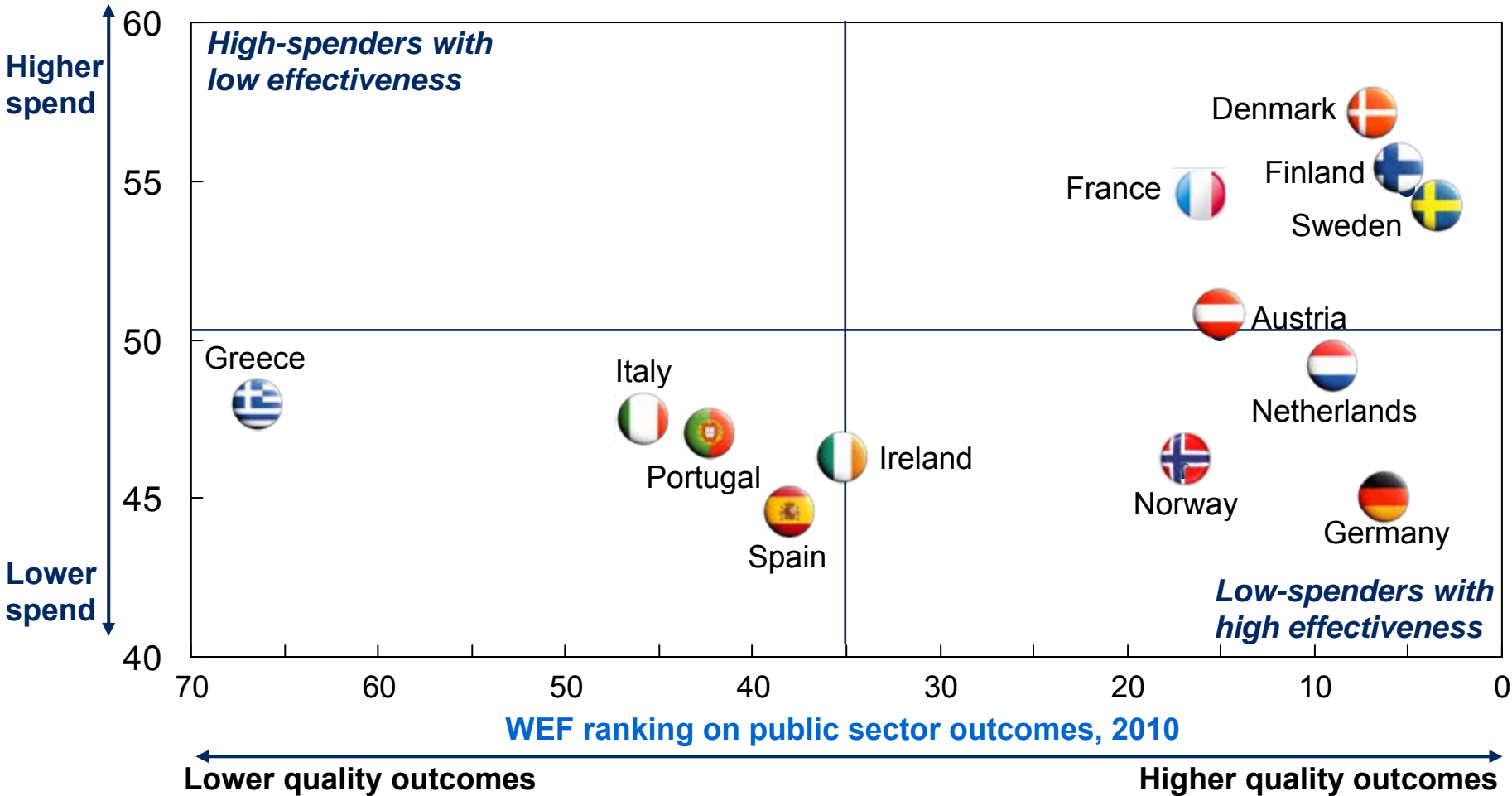
Overregulation impacting productivity



SOURCE: OECD; IFC; ILO; World Bank; McKinsey Global Institute

An expensive and ineffective public sector

Government expenditure
% of GDP, 2009



Note: Excluding interest; including government expenditure on final goods and services, social benefits and capital transfers

Some of the 20 cross-sector measures proposed to unleash growth

Overall

- Introduce the **Economic Development & Reform Unit (EDRU)** under the PM

Igniting and sustaining growth

- Launch growth relevant **infrastructure investments** leveraging PPPs and EU funds
- Revise the **'Fast Track'** framework with legal pre-clearance team; simplify processes
- Revise the **environmental/zoning** framework adjusting specifications and standards
- Establish the **'Greece 10 Years Ahead' Investment Fund** (private or PPP)

Reforming Public Sector and limit scope

- Introduce vehicle to **recruit/deploy** market **talent** into **pivotal PS positions**
- Consolidate all state entities' IT architecture and design into a **central IT company**
- Expand and accelerate **IPSAS/IFRS** double-entry standards across state entities

Stimulating employment

- Effectively allow **part-time** employment; create PS **employment coordination** function
- Launch the **'Ellada & Ergasia'** cross-ministerial program

Improving judicial operations

- Introduce a **7th department** in the **Council of State** for investments/economic reforms

Addressing informality

- Step improve tax evasion measures focusing on detection, segmentation, contacting
- Consolidate all public sector **internal auditing** functions into a **Central Unit**
- Establish a **Central Procurement Unit**

The impact of the new 'National Growth Model'

		From (2010)	To (2021)	References
Performance	GDP per capita (USD thousand PPP) ¹	31	41	<ul style="list-style-type: none"> Average GDP growth of ~3% p.a; realizing the €49 billion growth upside in the sectors studied while rest of economy growing at 1.5% p.a GDP growth as above Average employment growth of 1.0-1.3% p.a. Consumption adjustment to sustainable levels and increased extroversion in the economy Trade balance improvement validated from 'bottom-up' analysis of selected sectors' trade balance evolution Matching Southern European peers' performance (Italy ~20% and Spain ~23%) Matching international benchmarks; typical impact from intensive counter tax-evasion programs Converging to average European practices
	Productivity (USD PPP/hr worked) ¹	35	41-43	
	Private & public (final) consumption (% GDP)	94%	75-80%	
	Net Exports over GDP	-8.5%	0-2%	
	Investments over GDP	14.5%	20-23%	
Health	Tax gap	30%	15-20%	
	Employment turnover ²	14%	20-25%	

1 In 2009 terms

2 Hirings plus separations over total employment

Immediate need to start pursuing highly growth relevant infrastructure investments

Examples of high priority infrastructure investments

Cross-sectoral investments (Public or PPP)

- **South-North and East-West high speed road network**
- **High-speed cargo train-line** (Patras – Athens – Thessaloniki – Evzoni/Kipi)
- Expansion/upgrade of **major ports** for cargo gateway (e.g., Piraeus, Thessaloniki, Patras) and/or transshipment (e.g., Piraeus)
- Development of **residential and industrial waste processing** facilities
- Further expansion of **broadband** penetration

Tourism (Public, PPP or Private)

- Upgrade of **3-4 cruise ship embarkation ports**
- Development of **30-35 new marinas**
- Development of **3-4 new major conference facilities**
- Development of **15-20 Large Integrates Resorts**
- Development of **50,000 Vacation Homes** (resort based)
- Upgrade of **cultural sites'** infrastructure

Energy (Public, PPP or Private)

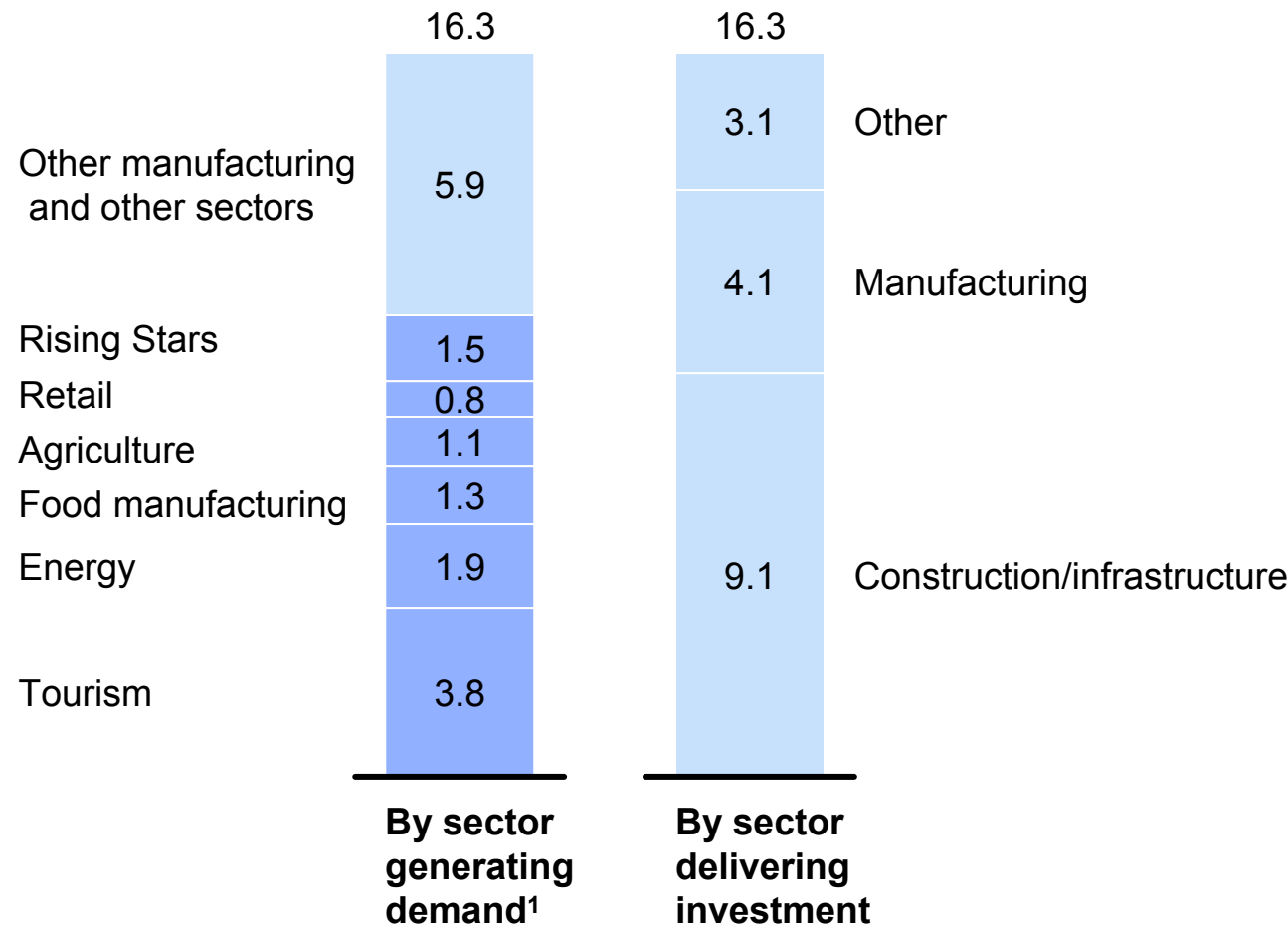
- Prioritization of high local GVA **renewable** investments (e.g., hydro)
- **Interconnection** of specific **islands** with the national **grid**
- **Smart grid**
- **Gas pipelines** to function as a gas hub
- **Exploration of domestic oil and gas** reserves to substitute energy imports

Incremental annual investment of ~€16 b. on top of the €34 b. 2010 level needed to realize the growth potential; figure similar to 2000-8 average

€ billion, 2010 prices

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Average annual incremental investment requirements



Adding 16 billion to the 34 billion investments of 2010 would imply annual investment levels of 50 billion, a figure similar to the 2000-2008 average (both pre- and post-Olympic years)

¹ Based on each sector's contribution to GVA upside

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