



# *'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



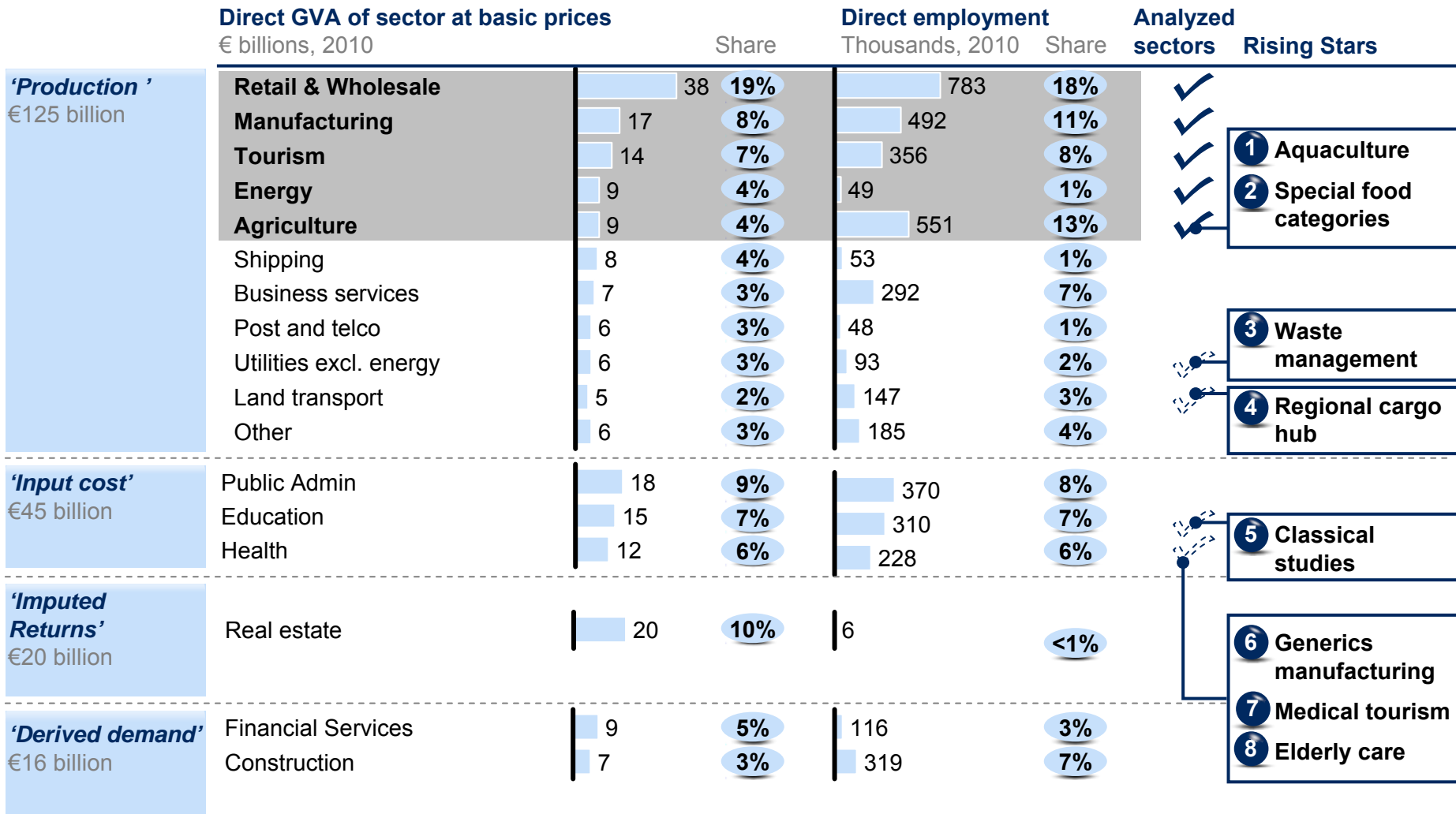
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Reviving investments is critical and doable; we propose specific cross-sector infrastructure and sector investments, new incentives and the revision of the fast track framework



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

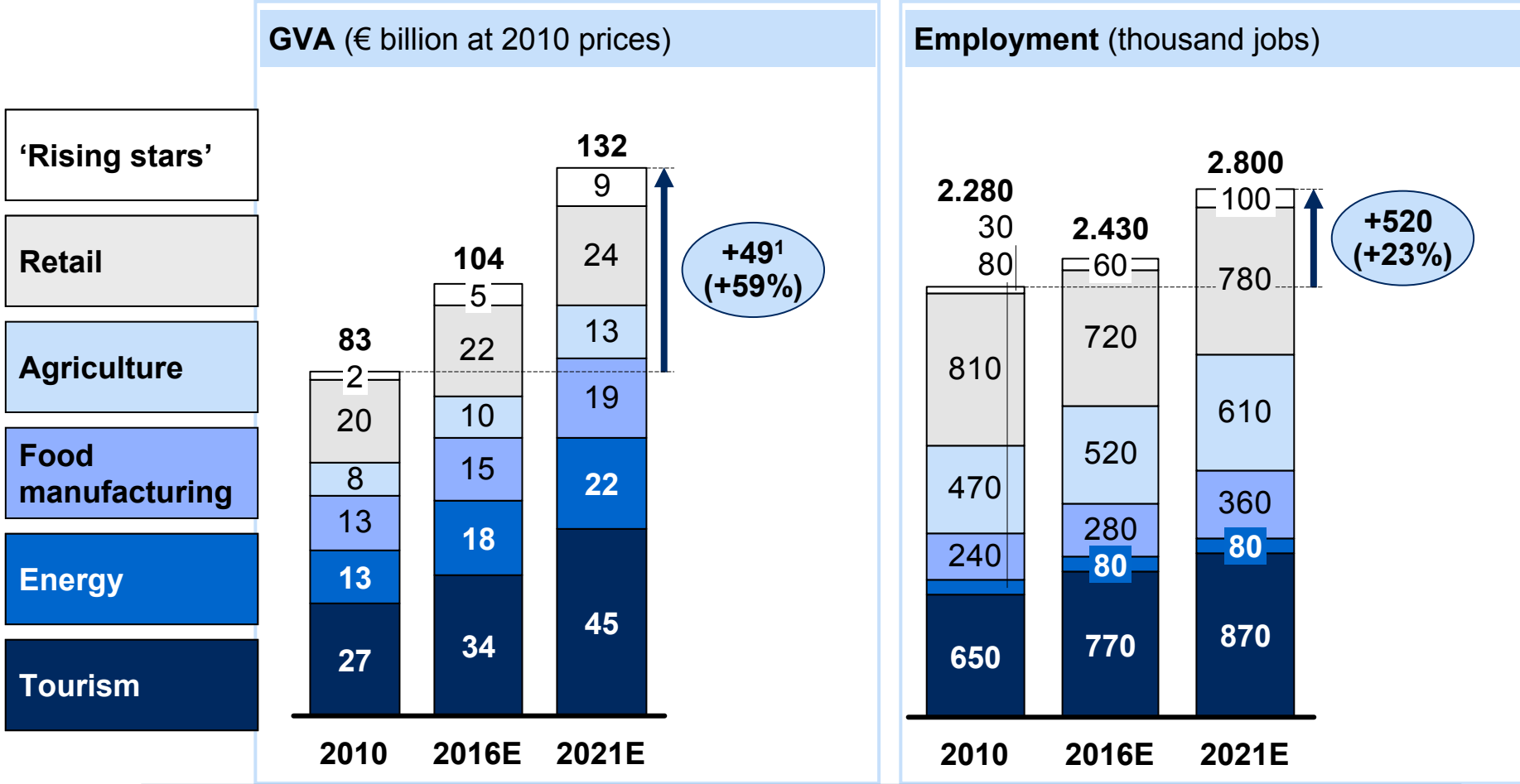
ESTIMATES



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

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- 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*

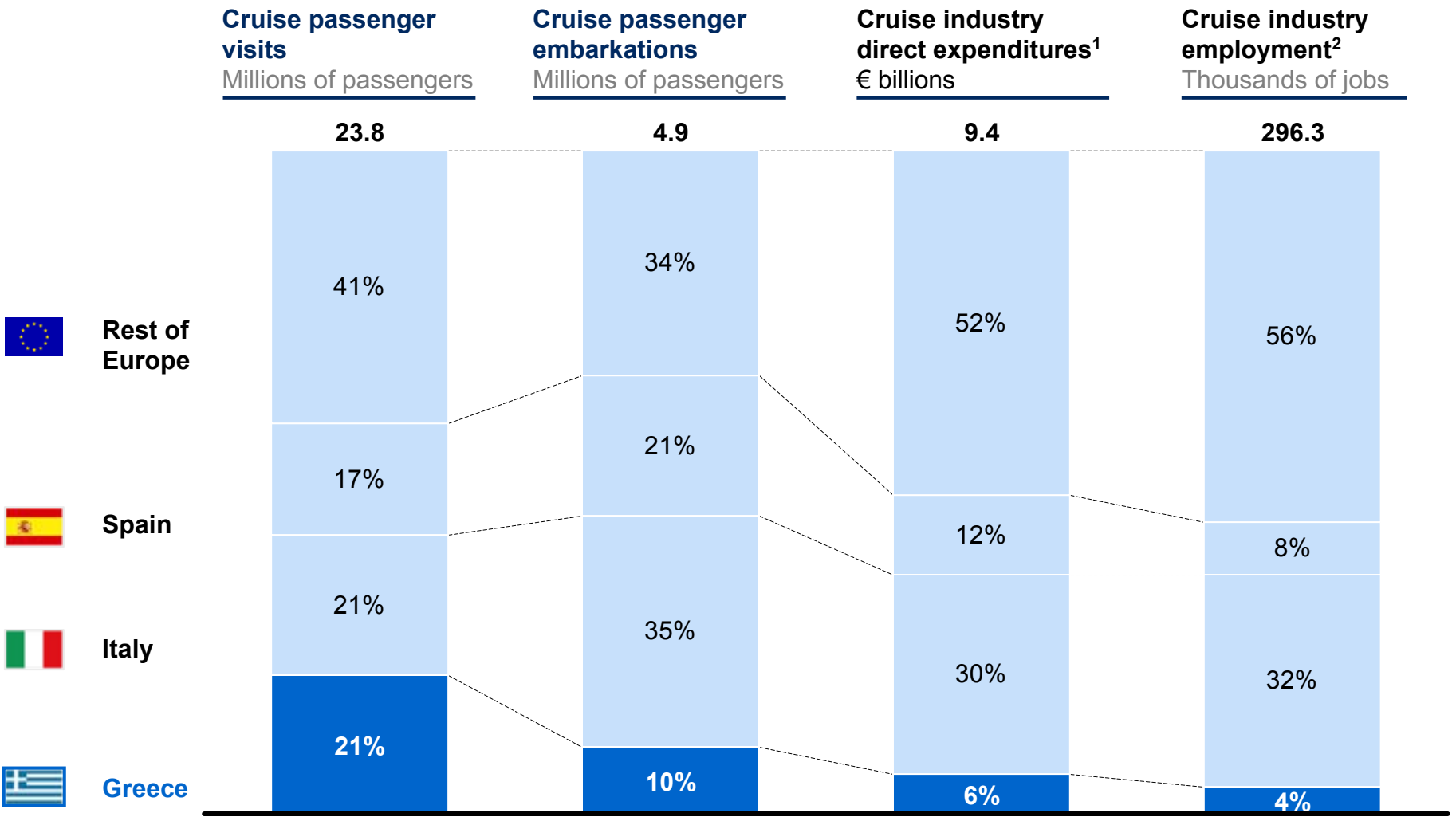
## Rising Stars

*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

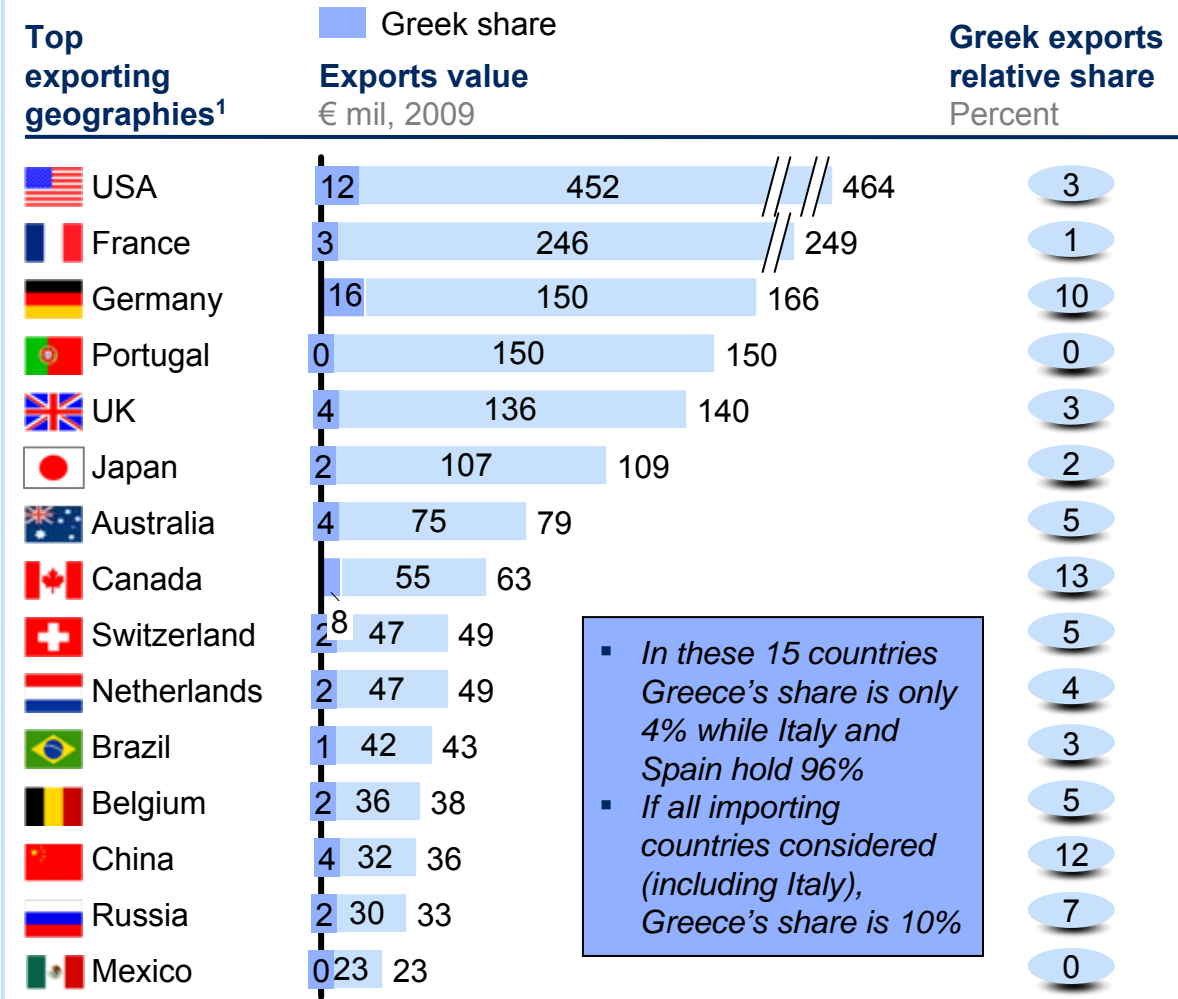
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1 Excluding shipbuilding  
2 Including shipbuilding

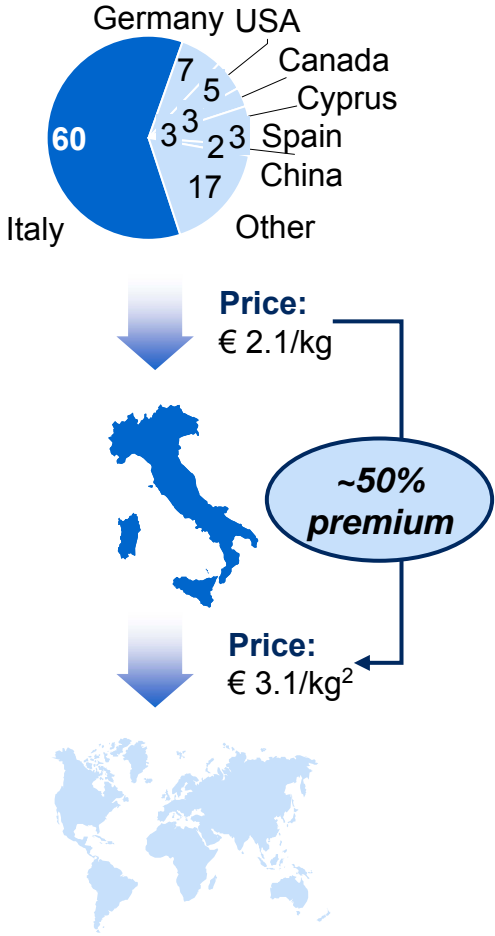
# Greece does not capture its 'fair share' in olive oil exports and foregoes significant opportunities, especially with regards to Italy

## Greek, Spanish and Italian exports to core geographies



## Greece – Italy olive oil trade

Greek exports by value; %; 2009



<sup>1</sup> Excluding Italy; <sup>2</sup> 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

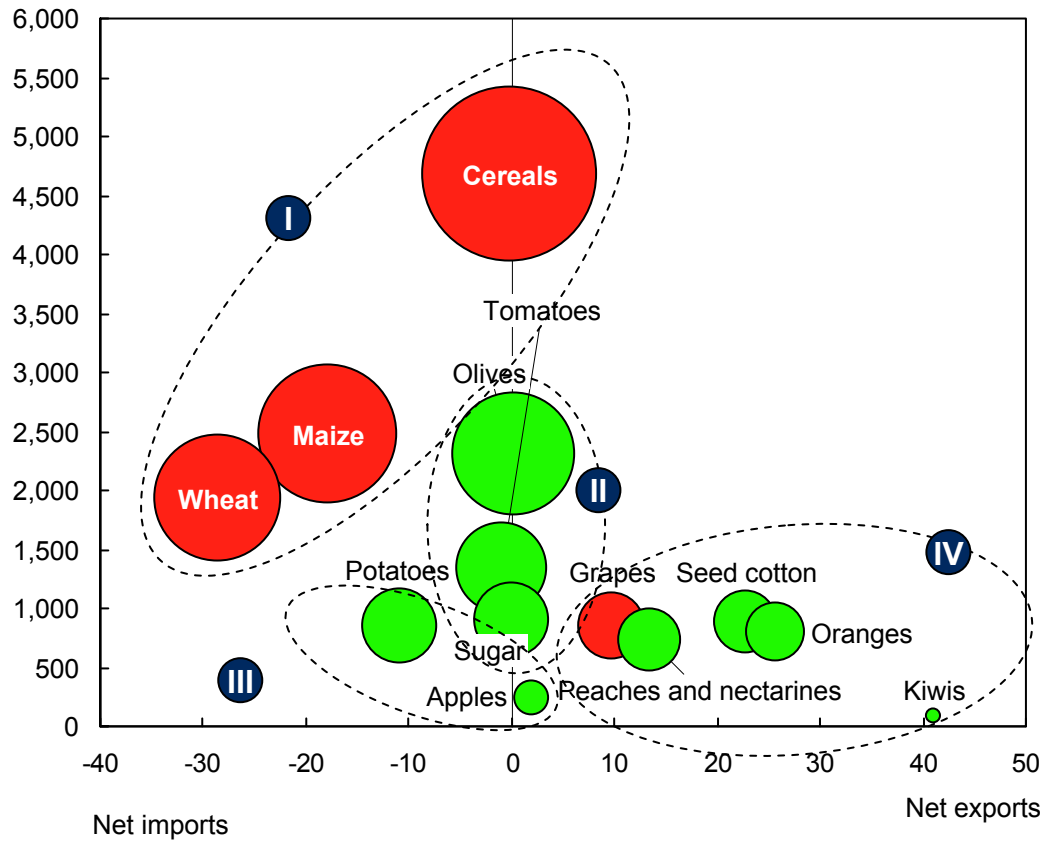
**I 'Consumption/Import majors'**

- 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

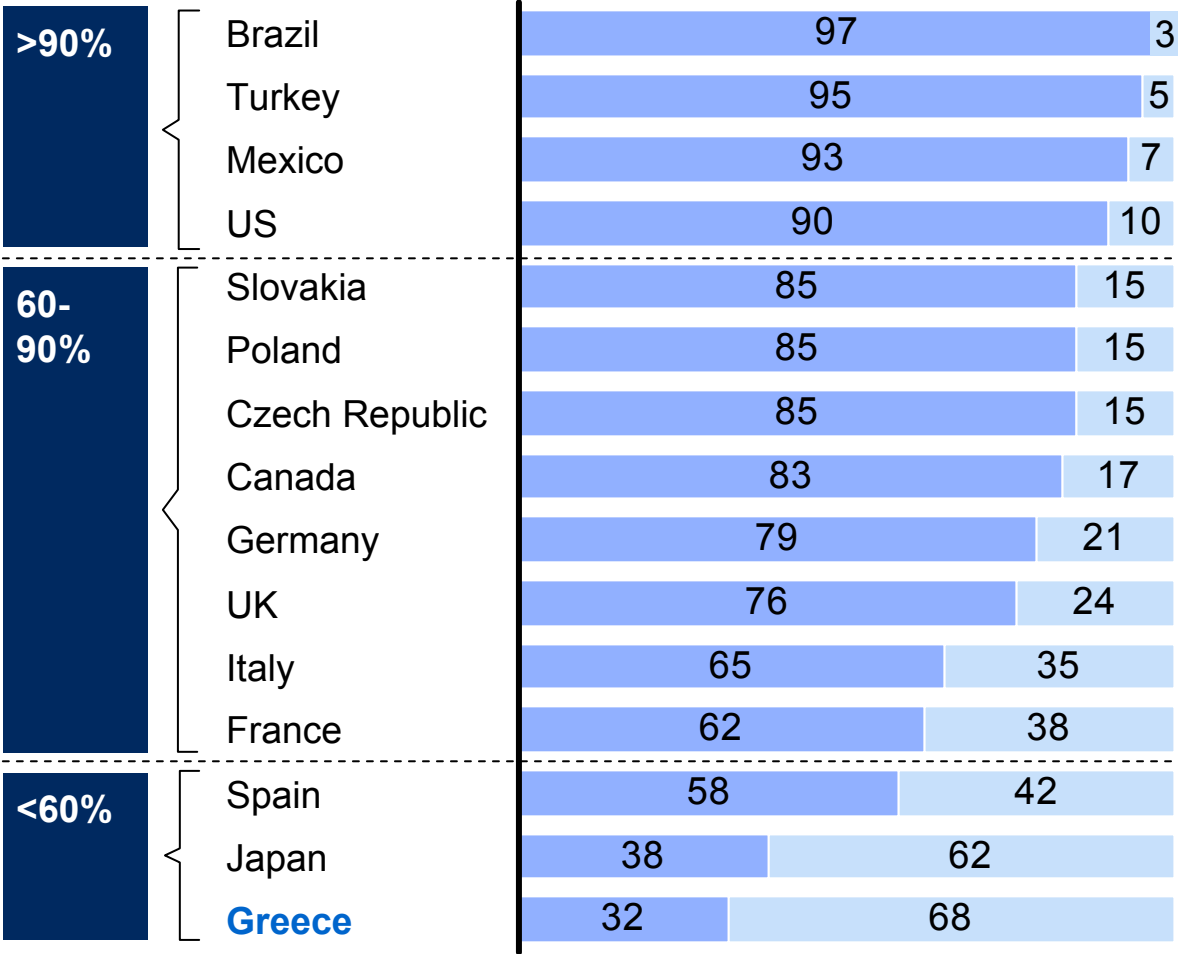
$$\frac{(\text{Exports} - \text{Imports})}{\text{Production}} \text{ (Percent)}$$



# Generics: Very low levels of generics penetration

Unprotected<sup>1</sup> market segmentation by volume, percent, 2009

■ Generics (Gx)  
■ Originals (Rx)

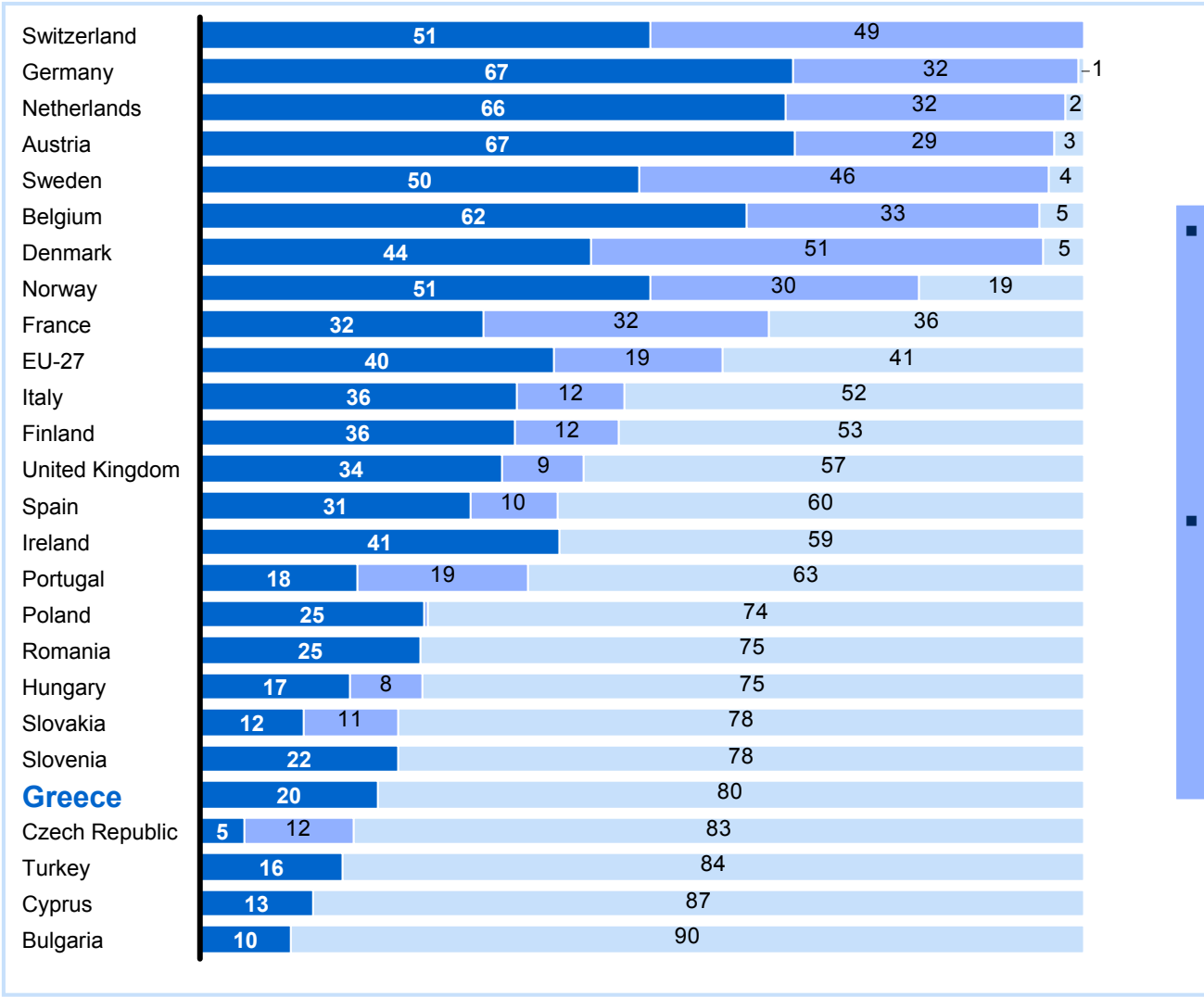
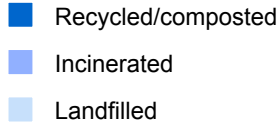


- *Gx penetration in Greece significantly lower compared to international markets and with other systems displaying volume penetration of >60%*
- *Difference partly explained by the Gx pricing regime:*
  - *Gx prices fixed by law at 90% of Rx price*
  - *Internationally, Gx are typically priced at 30-80%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

<sup>1</sup> 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

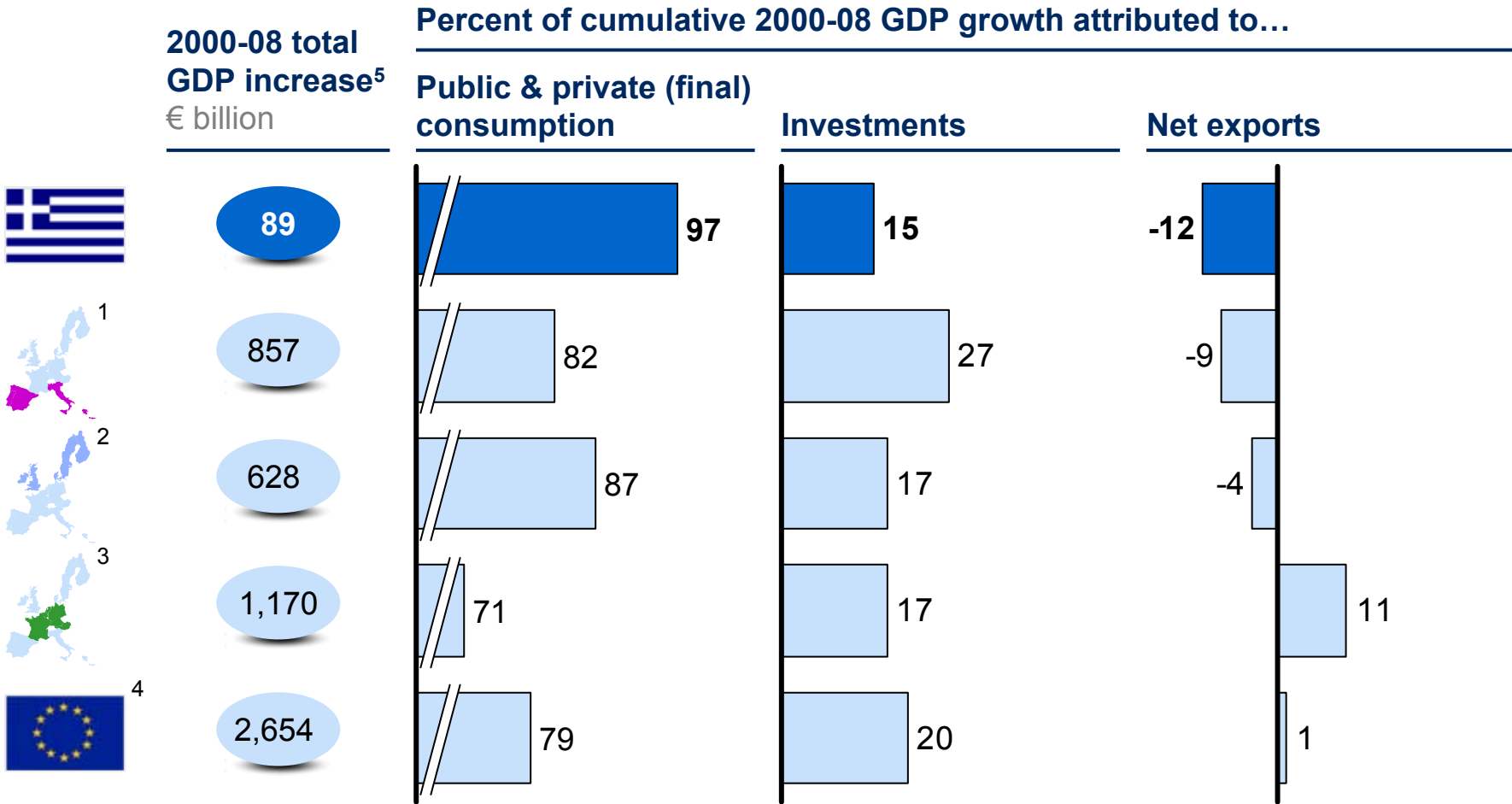


- EU Directives pushing away from landfilling and adopting high value-add waste treatment options, e.g., recycling, decomposting, incineration
- Greece still landfills 80% of its municipal waste, double the average share of EU-27, while several W. European countries have practically fully moved away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

SOURCE: Eurostat Structural Indicators, Mavropoulos et al.

# Traditional economic model featuring overconsumption and underinvestment versus European peers

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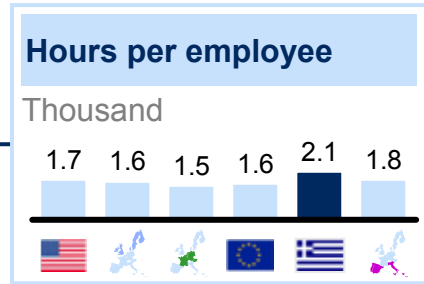
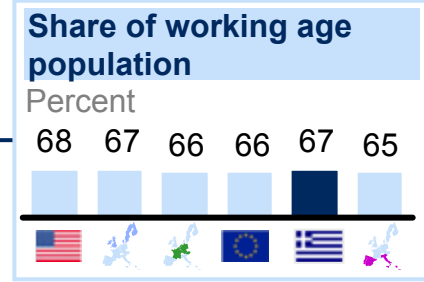
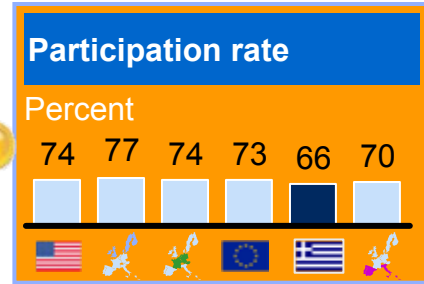
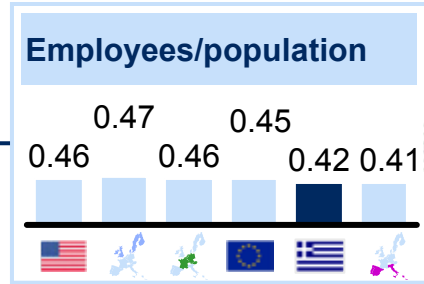
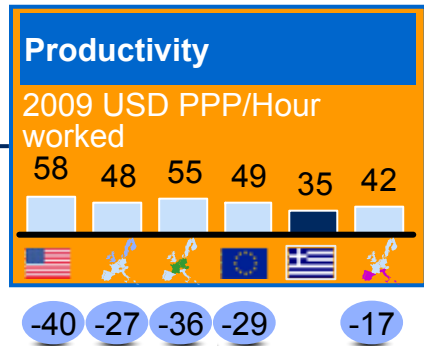
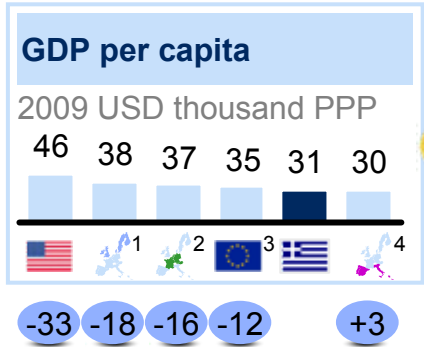


1 Southern Europe: Greece, Italy, Portugal, Spain; 2 Northern Europe: Denmark, Finland, Ireland, Sweden, UK  
 3 Continental Europe: Austria, Germany, Belgium, France, Netherlands, Luxembourg; 4 EU-15  
 5 Cumulative growth, delta 2000-08, amounts in PPP standards

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

● Gap of Greece vs. others (%)

2009

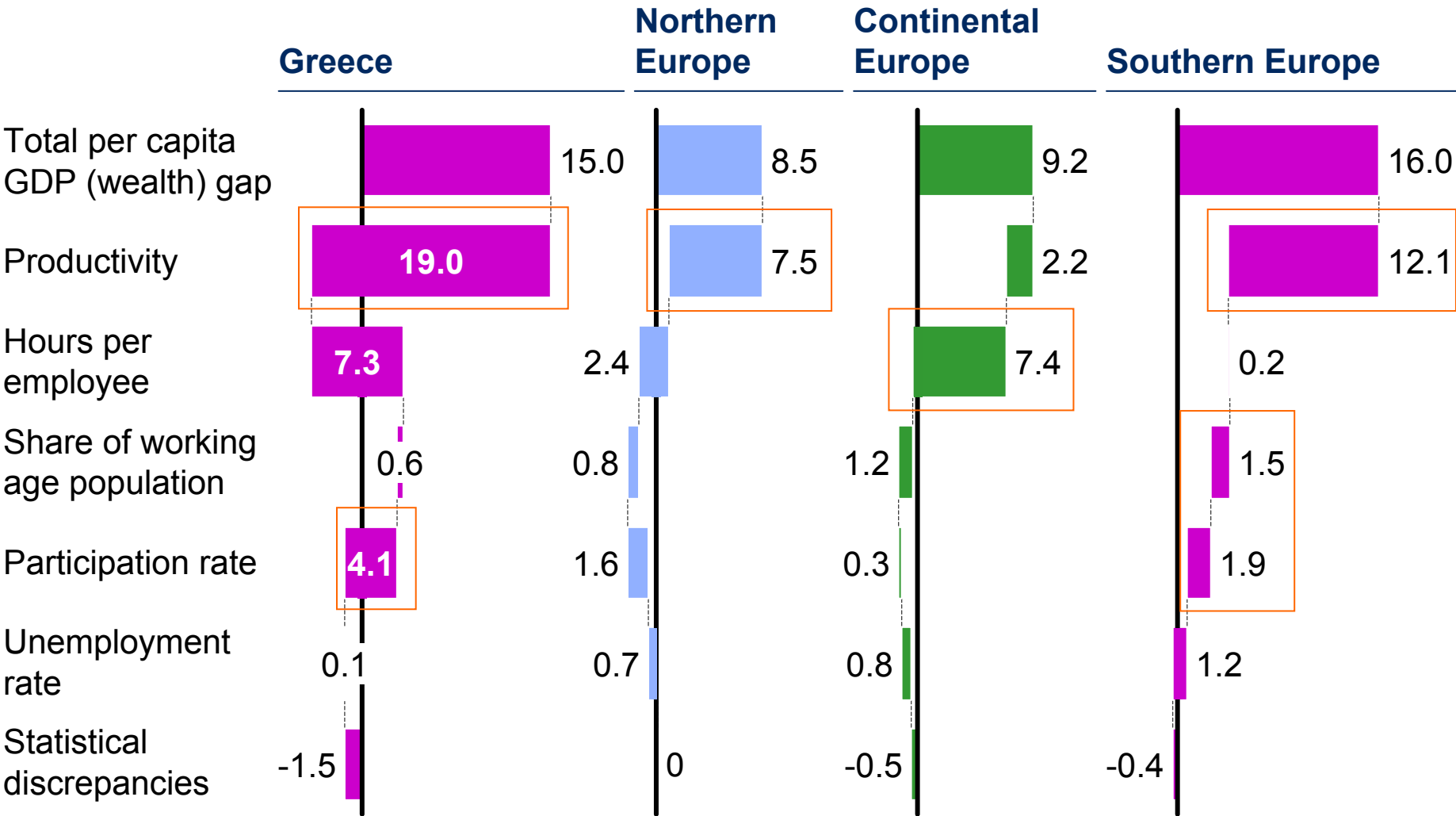


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# Low productivity accounting for (more than) the entire wealth gap

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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*

- 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

## **B** *Large, inefficient public sector*

- 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

## **C** *Rigid use of human resources*

- 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

## **D** *Cumbersome legal and judicial system*

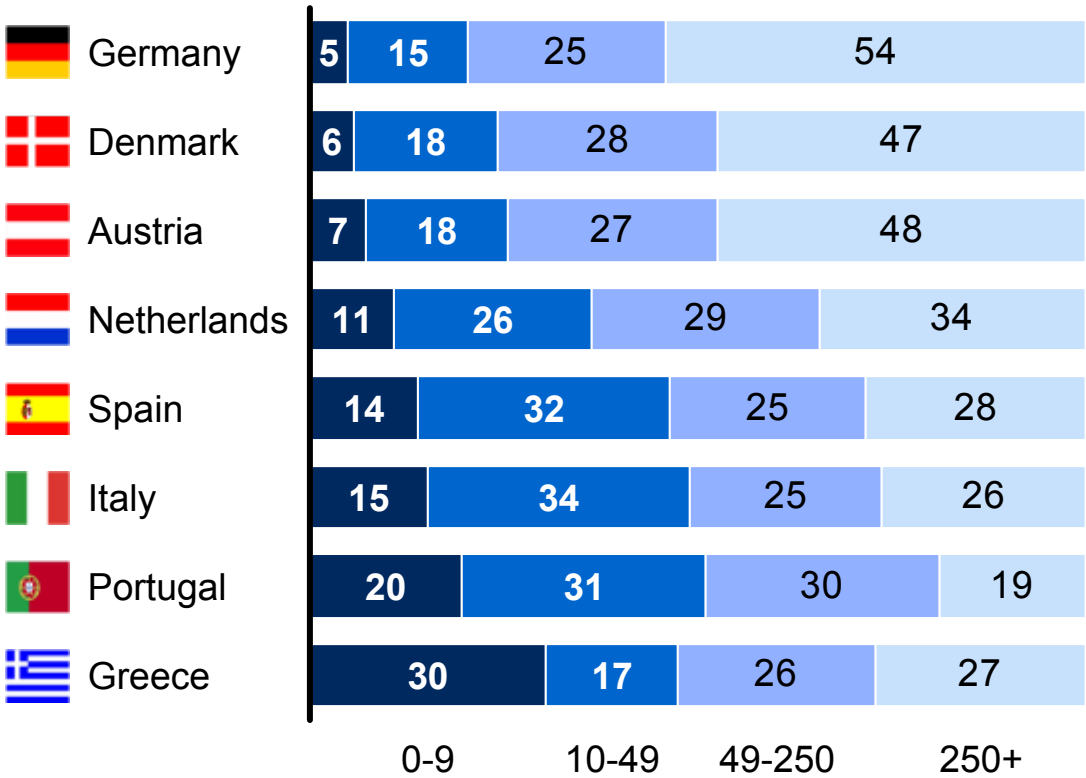
- 12** Over-abundance of laws; conflicting with unclear applicability
- 13** Heavy administrative burden and lead times in courts

## **E** *Widespread informality*

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

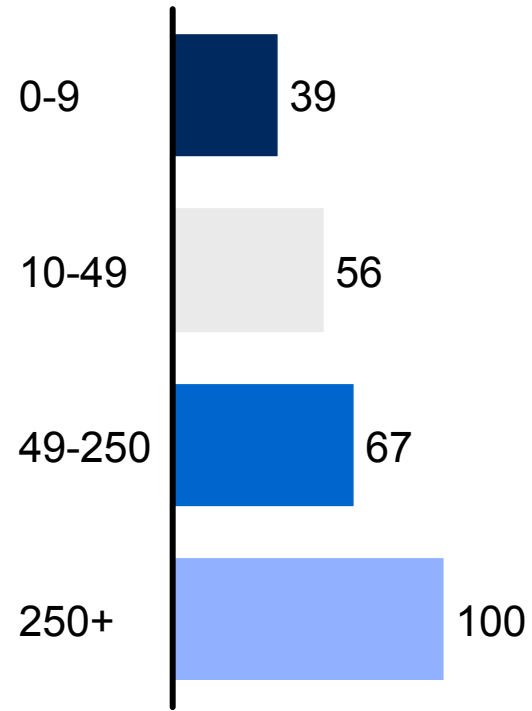
## Employees by size of business in manufacturing

Percent of total manufacturing workforce, 2009

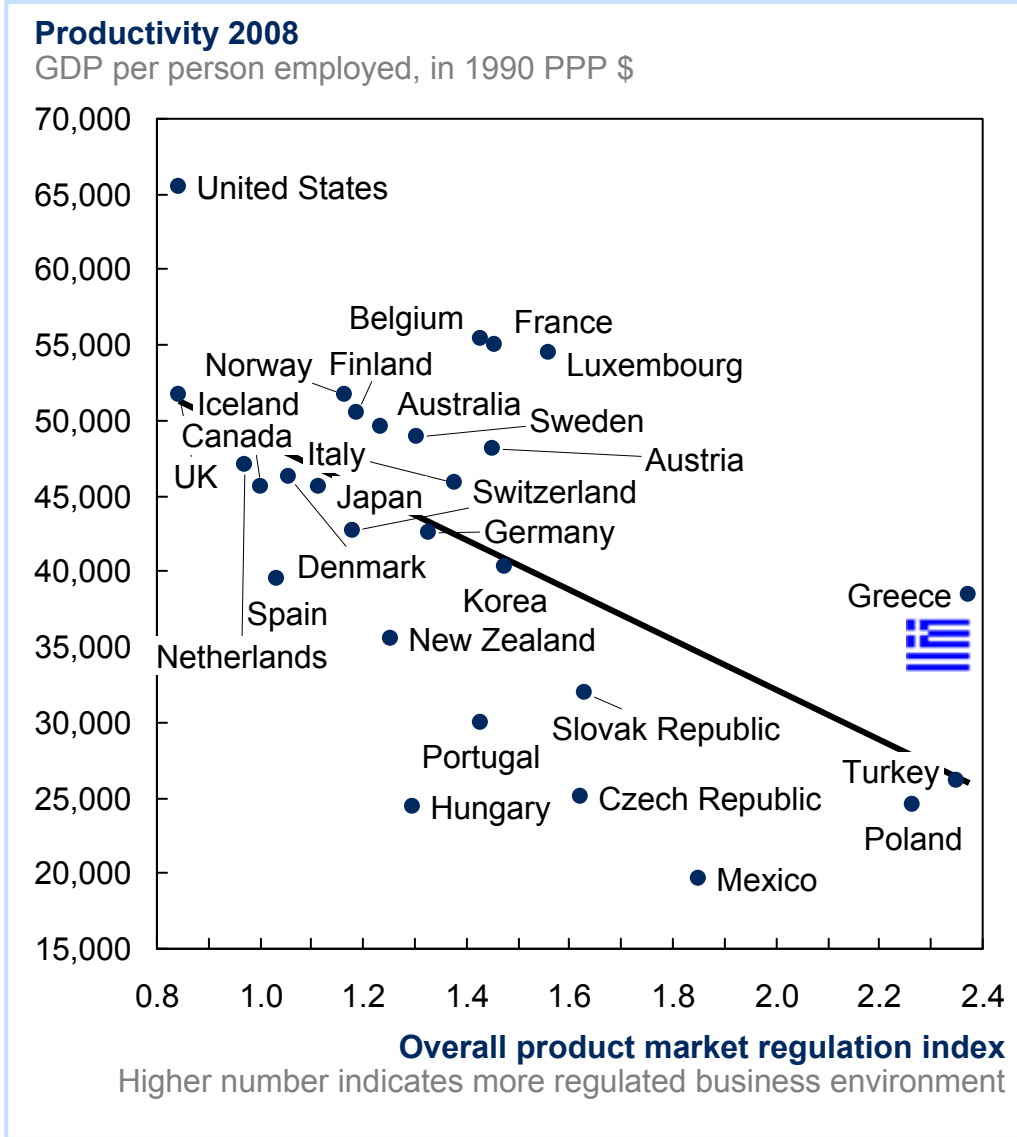
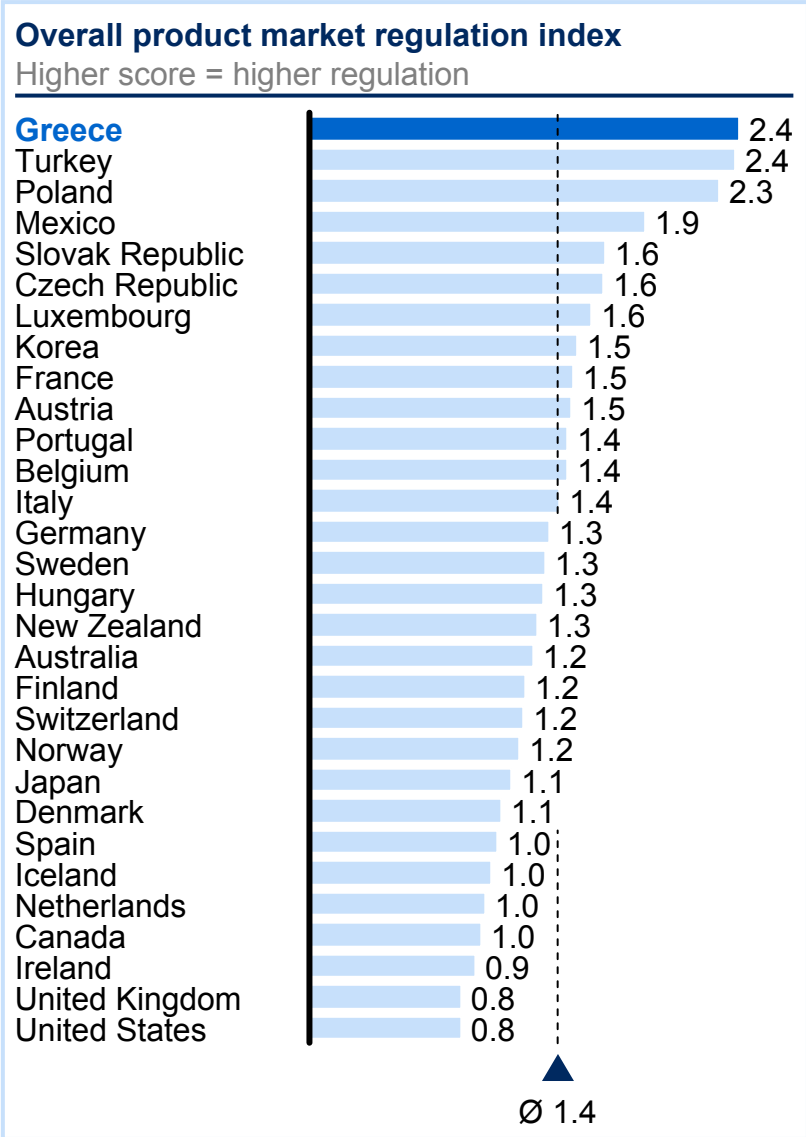


## Average productivity by business size in manufacturing

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



# Overregulation impacting productivity

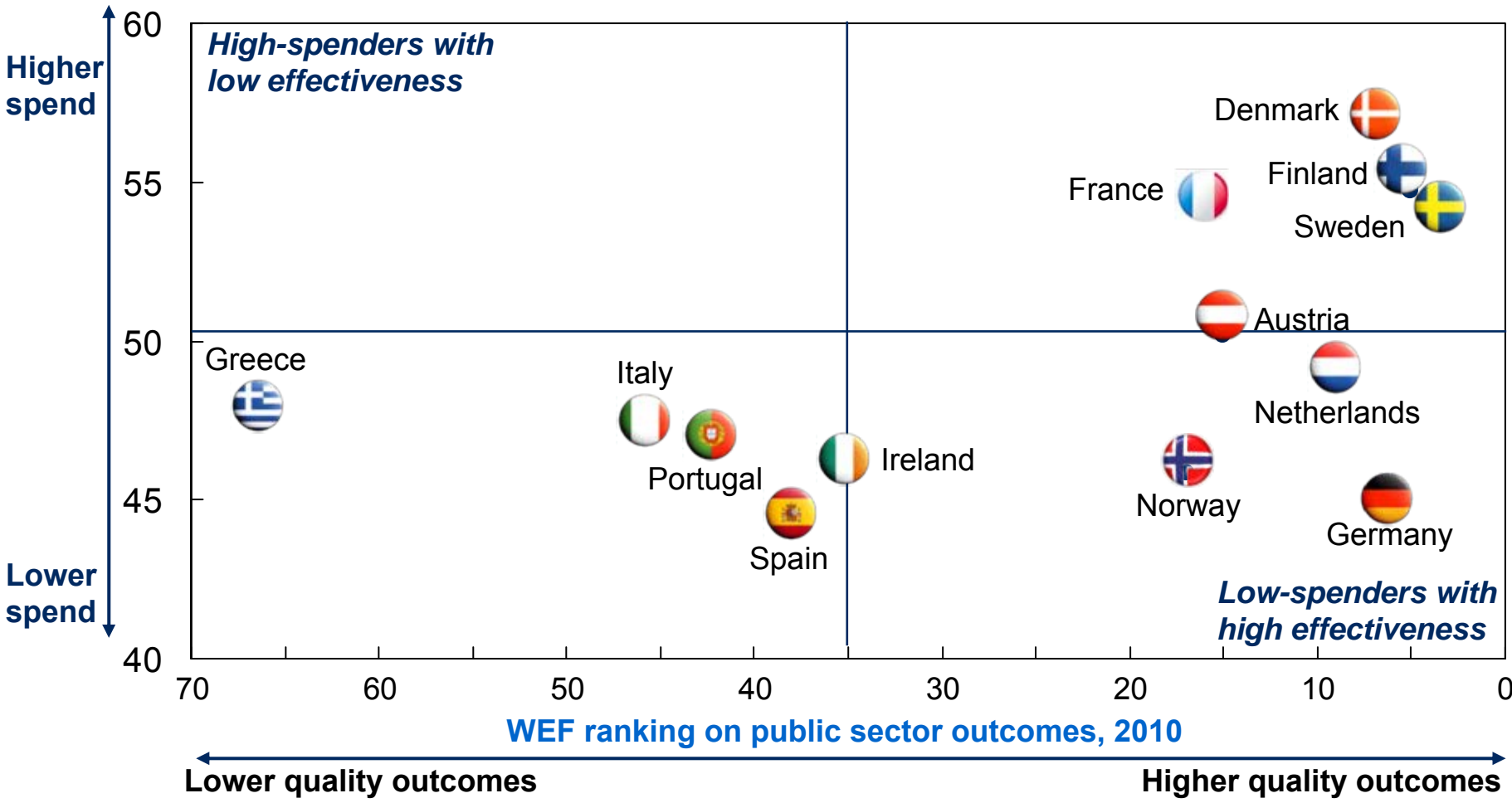


SOURCE: OECD; IFC; ILO; World Bank; McKinsey Global Institute



# 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 **7<sup>th</sup> 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) <sup>1</sup>	31	41	<ul style="list-style-type: none"> <li>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</li> <li>GDP growth as above</li> <li>Average employment growth of 1.0-1.3% p.a.</li> <li>Consumption adjustment to sustainable levels and increased extroversion in the economy</li> <li>Trade balance improvement validated from 'bottom-up' analysis of selected sectors' trade balance evolution</li> <li>Matching Southern European peers' performance (Italy ~20% and Spain ~23%)</li> <li>Matching international benchmarks; typical impact from intensive counter tax-evasion programs</li> <li>Converging to average European practices</li> </ul>
	Productivity (USD PPP/hr worked) <sup>1</sup>	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 <sup>2</sup>	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)

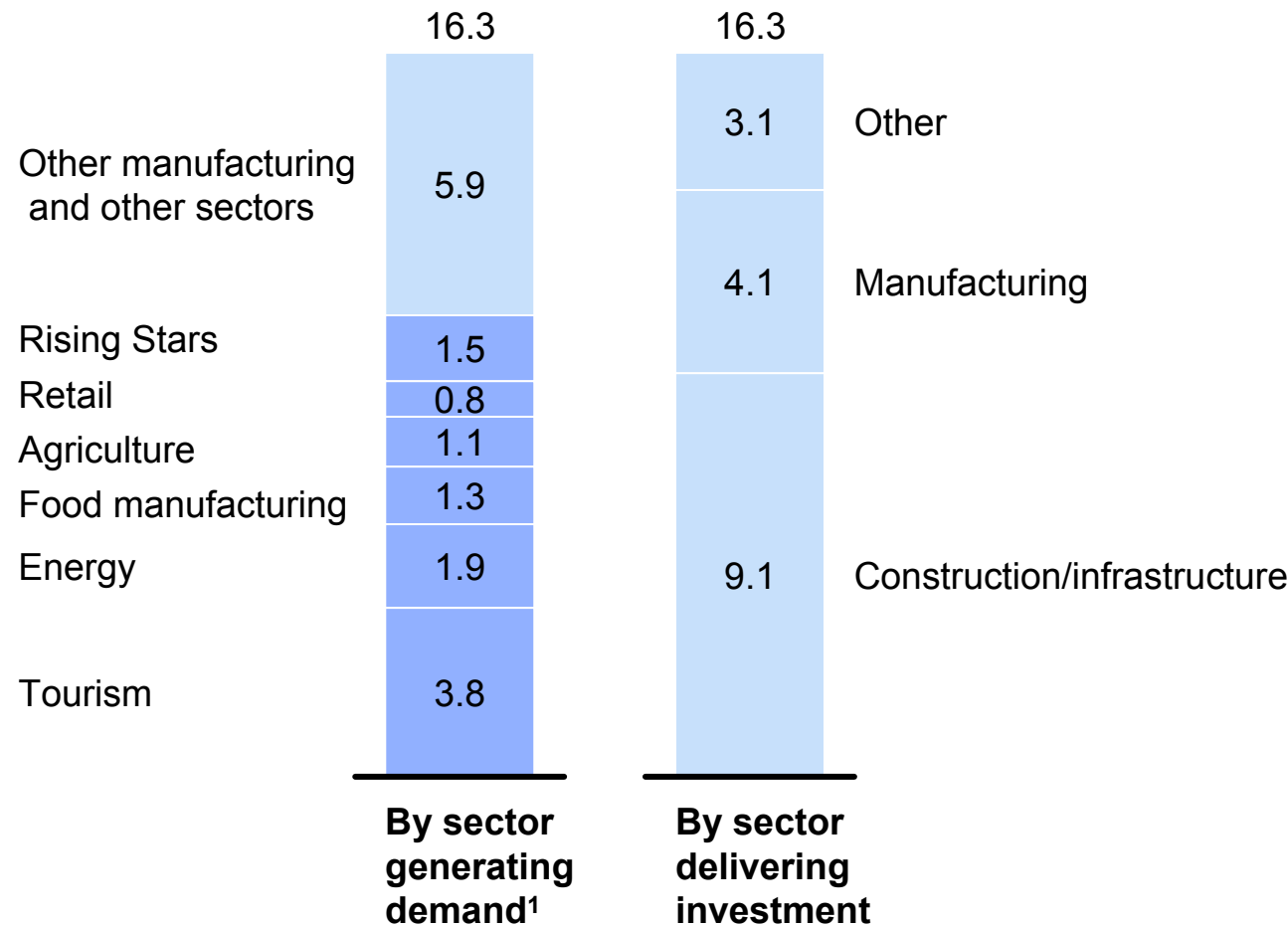
- Prioritization of high local GVA **renewable** investments (e.g., hydro)
- **Interconnection** of specific **islands** with the national **grid**
- **Smart grid**
- **Gas pipelines** to function as a gas hub
- **Exploration of domestic oil and gas** reserves to substitute energy imports

# 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)*

<sup>1</sup> Based on each sector's contribution to GVA upside

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