

# Greece Pharmaceuticals and Healthcare Q3 2012

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## Abstracts

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**BMI View:** Following weeks of speculation and apocalyptic warnings of a potential exit from the eurozone, Greek elections have yielded a much more benign outcome than many feared. The electoral result had huge implications for our assessment of the pharmaceutical and healthcare market, as this vote was widely seen as a proxy vote of eurozone membership. Following the result, we maintain our core forecast scenario of continued austerity. Indicators that Germany and the rest of the EU may reduce the focus on austerity and introduce some pro-growth driven strategies are unlikely to represent any upside for the pharmaceutical industry and the structural reforms within Greece will be maintained.

## Headline Expenditure Projections

**Pharmaceuticals:** EUR6.72bn (US\$9.35bn) in 2011 to EUR5.92bn (US\$7.64bn) in 2012; -11.9% in local currency terms and -18.3% in US dollar terms. Forecast maintained from Q212.

**Healthcare:** EUR21.80bn (US\$30.31bn) in 2011 to EUR20.28bn (US\$26.16bn) in 2012; -7.0% in local currency terms and -13.7% in US dollar terms. Forecast lowered from Q212 due to new industry factors and macroeconomic indicators.

**Medical devices:** EUR670mn (US\$931mn) in 2011 to EU607mn (US\$783mn) in 2012; -9.3% in local currency terms and -15.9% in US dollar terms. Forecast down significantly from Q212 due to industry and macroeconomic factors and revised 2011 medical device calculations. **Risk/Reward Rating:** Our assessment of Greece's pharmaceutical market has declined again, with a further downward revision to the industry risk score in our Q312 Pharmaceutical Risk/Reward

Ratings (RRRs) for the region. Our view that Greece's pharmaceutical market is set for a decade of decline remains firmly in play and its leading position in our Central and Eastern Europe (CEE) RRRs in 2009 seems a distant memory.

## **Key Views On Market Dynamics**

Drugmakers will not withdraw existing products from Greece but they will increase the conditions for their sale. We do not believe multinational drugmakers will see it as necessary to withdraw large swathes of their product portfolios from the market and even after a eurozone exit they would make the necessary preparations to supply the market with critical drugs, even without clear payment terms.

Ignoring the moral obligations, it makes commercial sense for drugmakers to stick it out in Greece. Even if there are immediate costs and even if the Greek drug market never recovers, the global implications and negative headlines of pulling 'life-saving medicines from a people in crises' are surely worse.

Drugmakers must now consider Greece on the same terms as other less-advanced South Eastern European markets.

This year is considerably worse than 2011. The challenges facing drugmakers in Greece in 2012 are considerably tougher than those faced in 2011. Under the new cost-containment legislation introduced in March, the government can now exercise much greater control over the pharmaceutical budget.

Low budgets are insufficient. Despite promises that the National Organisation for Health Services (EOPYY) would settle unpaid drugs bills owed to pharmacists and accrued in the first few months of this year, without additional resources for reimbursement these payments are unsustainable.

Medicine shortages are already a problem. There are reportedly 163 essential medicines that are unavailable from pharmacies in Greece.

Fears about medicines shortages have grown in the last few months. Unpaid drug bills for pharmacists and delays in payments to pharmacists are exacerbating late payments to drugmakers further up the supply chain.

**BMI Economic View:** The Greek economy will remain mired in depression through 2012 as deep fiscal retrenchment and internal devaluation take a damaging toll.

The prospect of further spending cuts and tax hikes will ensure that demonstrations and national strikes remain a key feature of the political landscape over the medium term. Internal devaluation will be a slow and drawn-out process, which will ensure that the current account deficit will narrow only gradually, keeping pressure on foreign financing over the medium term.

**BMI Political View:** Following weeks of speculation and apocalyptic warnings of a potential exit from the eurozone, Greek elections have yielded a much more benign outcome than many feared. New Democracy picked up more votes since the election and will have formed a new government. Despite some potentially minor concessions in the short term, the incoming government will continue to follow the austerity path prescribed by the troika. This in turn will fuel social tensions and motivate some party members to defect, which would reduce the government's majority in parliament. As such, more elections remain a possibility. Ultimately, however, we still expect Germany to relent on blunt austerity and opt for a more balanced deficit reduction and growth path. This could be a year or more away, with turmoil in Greece persisting in the meantime.

## Contents

Executive Summary

SWOT Analysis

Greece Pharmaceuticals And Healthcare Industry SWOT

Greece Political SWOT

Greece Economic SWOT

Greece Business Environment SWOT

Pharmaceutical Risk/Reward Ratings

Table: Central And Eastern Europe Pharmaceutical Risk/Reward Ratings, Q312

Rewards

Risks

Greece - Market Summary

Regional Strategy

Regulatory Regime

Intellectual Property Regime

Pricing Regime

Table: Quarterly Total Sales Volume Per Medicinal Product (additional to 9% of the current decision rebate amount)

Drug Price Deflation

Reimbursement Regime

Industry Developments

Epidemiology

Healthcare System

Hospital Sector Debt Affecting Drugmakers

Industry Forecast Scenario

Overall Market Forecast

Table: Pharmaceutical Sales, 2008-2016

Alternative Scenario: Implications Of A Euro Exit On The Greek Drug Market

Key Growth Factors – Healthcare

Table: Overall Healthcare Expenditure, 2008-2016

Table: Government Healthcare Expenditure, 2008-2016

Table: Private Healthcare Expenditure, 2008-2016

Key Growth Factors – Macroeconomic

Table: Greece Core Macroeconomic Forecasts, 2010-2016

Prescription Drug Market Forecast

Table: Prescription Drug Sales, 2008-2016

Patented Drug Market Forecast

Table: Patented Drug Sales, 2008-2016

**Generic Drug Market Forecast**

Table: Generic Drug Sales, 2008-2016

**OTC Medicine Market Forecast**

Table: OTC Medicine Sales, 2008-2016

Table: OTC Medicine Sales Breakdown, 2007-2010

**Pharmaceutical Trade Forecast****Greece Pharmaceuticals & Healthcare Report Q3 2012**

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Table: Pharmaceutical Trade, 2008-2016

**Medical Device Market Forecast**

Table: Medical Device Sales, 2008-2016

**Key Risks To BMI's Forecasts****Competitive Landscape****Company Activity****Company Profiles****Local Company Profiles**

Vianex

Lavipharm

Elpen

Genesis Pharma

Pharmathen Pharmaceuticals

Kleva

Alapis Pharma

**Multinational Companies**

GlaxoSmithKline

Pfizer

Novartis

Sanofi

Merck Sharp &amp; Dohme

Abbott Laboratories

**Demographic Outlook**

Table: Population By Age Group, 1990-2020 ('000)

Table: Population By Age Group, 1990-2020 (% of total)

Table: Greece's Key Population Ratios, 1990-2020

Table: Rural/Urban Population Split, 1990-2020

**Glossary****BMI Methodology****How We Generate Our Pharmaceutical Industry Forecasts****Pharmaceuticals Risk/Reward Ratings Methodology**

## Ratings Overview

Table: Pharmaceutical Risk/Reward Indicators

## Weighting

Table: Weighting Of Components

## Sources

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