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The Pharmaceutical Market in Greece

Annual Report 2007

Executive Summary

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The Demand for Pharmaceuticals in Greece

In September 2006, the National Statistical Service of Greece revised the system of National Accounts, which resulted in a 25.7% increase in GDP. In this framework, significant increases took place in the data describing the pharmaceutical market, the overall picture of which has completely changed.

Under the revised data, the pharmaceutical market bears two remarkable changes: a) **private pharmaceutical expenditure accounts for 47.5%** of total expenditure –against 22% which was the case before the revision, and b) **data on the demand side appear to exceed supply-side data** (the latter described by sales of pharmaceutical products recorded by the National Organisation for Medicines). The new picture raises questions concerning the relationship between public and private pharmaceutical expenditure, as well as the relationship of supply and demand market data.

Supply-Side Data for Pharmaceuticals in Greece

On the supply side, **pharmaceutical sales** grew to € 3.8 billion in 2005 (at ex-factory prices), 2/3 of which concerned sales to wholesalers and pharmacies (including parallel exports), while the remaining 1/3 concerned sales to public hospitals. However, the sales growth rate has been reduced to less than half in a five year period, from 22% in 2001 to 10.2% in 2005.

According to data from the Hellenic Association of Pharmaceutical Companies, 89% of total pharmaceutical sales referred to **original branded** products, whereas 11% referred to **generics**. The leading therapeutic category in terms of sales was medicines for the cardiovascular system (24% of total sales), followed by medicinal products for the nervous system (15.7%) and the alimentary and tract metabolism (13%).

Production of pharmaceuticals, in 2005, rose to €525 million, exhibiting an increase of about 2% compared to 2004. The Mean Annual Growth Rate (MAGR) for the period 2000-2005 is 9.3%. Additionally, the Gross Production Value in 2003 (last year of available data provided by the Annual Industrial Survey of the National Statistical Service of Greece) grew to €617.7 million, accounting for 28.3% of the chemical industry and 2.1% of the total manufacturing

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sector. Pharmaceutical Industry **investment activity**, on the other hand, contributed to the chemical and manufacturing industry by 43.4% and 3.4%, respectively.

The number of production units has been reduced from 69 in 2000 to 62 in 2003. However, the overall decrease in the number of employees over the same period amounts only to 1.9%. In 2003, 4.668 employees were employed in the production units, accounting for 1/3 of employees in the Greek chemical industry.

According to IOBE's Business Trends Surveys, **capacity utilisation rate** in the pharmaceutical industry was lower than 80% throughout 2005, but upturned during the first months of 2006 and exceeded 85%. Furthermore, the **Business Confidence Index** exhibits increasing trend overtime and remains at a higher level than the respective Index of the total manufacturing sector.

Finally, the **Pharmaceutical Price Index** exhibits a lower rate of increase compared to both the Health Price Index and the Consumer Price Index. In particular, inflation for pharmaceuticals was only 0.7% in 2005, whereas the respective increases of the Health and Consumer Price Indices were 4% and 3.5%.

The External Trade of the Pharmaceutical Sector

As far as the external trade of the Pharmaceutical Sector is concerned, trade flows in 2005 exceeded €3.6 billion, exhibiting a MAGR of 21.3% for the period 2003-2005 (Eurostat data). Pharmaceutical **imports** rose to €2.7 billion in 2005, while **exports** reached €1 billion, indicating an increase of 36% compared to 2004. The pharmaceutical sector's **trade balance** worsens overtime, as it is negative with an increasing trend (from €1.4 billion in 2003 to €1.8 billion in 2005).

The largest share of the Greek pharmaceutical external trade (more than 80%) is undertaken within the EU-15 countries, the most important of which is Germany. The latter holds the first place among EU partners in both imports and exports of pharmaceuticals in 2005.

The pharmaceutical trade balance of the EU-15 as a whole is positive, as the exports are more than twofold the value of the imports (€61.7 billion and €30 billion, respectively). The positive position of Europe in pharmaceutical market external trade is also reflected to the Balassa Index, which is positive with small variations around 0.33.

Financial Statement Analysis of the Greek Pharmaceutical Sector

According to the financial statement analysis of a sample of 112 **pharmaceutical companies**, the **Annual Turnover** of the pharmaceutical sector amounted to €4.7 billion in 2005, exhibiting an increase of 15.8% compared to 2004. PFIZER and BOEHRINGER INGELHEIM were ranked first and second, respectively, in terms of annual turnover and were followed by GLAXOSMITHKLINE, NOVARTIS and VIANEX.

The **Concentration Ratio CR4**, which is based on the joint share of the four leading companies in terms of annual turnover, was 26.6% in 2005, against 26.9% in 2004. It is noteworthy that BOEHRINGER-INGELHEIM entered the group of four leading companies in 2005, taking immediately the second place and thus excluding VIANEX, which held the fourth place during the previous two years.

The pharmaceutical companies' **New Capital Inflow**, in 2005, was €608.5 million, 80% of which was attributed to a decrease in receivables, due to the fact that a **hospital debt settlement** took place in 2004. This also explains the zero increase in the companies' short and long term liabilities. **Gross Profits** rose to €1.5 billion (from €1.3 billion in 2004) and **Net Profits** amounted to €344 million, exhibiting a 9% increase from 2004. The **Gross Profit Margin** for pharmaceutical companies in 2005 was almost 32%, while the **Net Profit Margin** was 7.3%.

As far as **wholesalers** are concerned, the financial statement analysis showed that the **Annual Turnover** exhibited an increase of 10% in 2005, while MARINOPOULOS, STROUMSAS and LAVIPHARM ACTIVE SERVICES were the top performers. The **Short-term Liabilities** exhibited an increase of 13% compared to 2004, whereas the **Long-term Liabilities** presented a decrease of 17%. **Gross Profits** rose to €43.3million in 2005, **Net Profits** fell by 58.4% compared to 2004, while both Gross and Net Profit Margins were reduced. The wholesalers' CR4 remained at the same level as in 2004 (19.2%).

The turnover of a selected sample of **pharmacists' cooperatives** was increased by 15.1% in 2005, reaching €762.4 million. The company with the highest turnover for the year 2005 was SY.FA THESSALONIKIS (SY.FA. of Salonika), followed by PRO. SYNET. FA. ATTIKIS SYN.PE (PRO. SYNET. FA of Attica) and PEIFSYN (SYN. of Piraeus). Cooperatives' **Gross Profits** amounted to €33.7 million in 2005 (€30 million in 2004), whereas the **Net Profits** were reduced by 11.9%. The **Gross and Net Profit Margins** were 4.4% and 1.5%, respectively. The **New Capital Inflow** reached €28.4 million, 23.4% of which derived from an increase in Equity. Finally, the **CR4** of pharmacists' cooperatives exhibited a slight increase in 2005, with the four leading companies holding 19.4% of the market, compared to 18.6% in 2004.

The Regulatory Framework of the Greek Pharmaceutical Market

In May 2006, Law 3457 was put into effect and introduced a major **reform in the Pharmaceutical regulatory framework**. The most important characteristic of this reform was the abolition of the positive reimbursement list. From now on, all medicinal products that require a prescription (apart from OTC and lifestyle drugs) will be reimbursed by the Social Security Institutions.

The new reimbursement policy also introduces a **rebate system**, according to which part of the pharmaceutical expenditure incurred by Insurance Funds will be refunded by pharmaceutical companies. The advantage of the new system against the positive list lies to the fact that it does not confine doctor's and patient's choice. However, due to its complexity, it is not anticipated to be implemented before 2008.

The new pricing system, on the other hand, which was put into effect by Market Decree 6 (12/12/2005), is expected to improve patients' access to new medicines, as long as Price Bulletins are issued every trimester. Since the new Market Decree, three Price Bulletins have been issued, which included both price increases and reductions, as well as price setting for pharmaceuticals (both branded and generics) which had not been marketed.

The implementation of the new pricing system is expected to reduce **parallel exports**, since domestic prices will increase and, hence, wholesalers' gross profit margin from exporting activity will decrease. However, pharmaceutical prices in Greece will remain among the

lowest in Europe, and therefore the country will continue to play a leading role in the European parallel trade.

Despite the reforms that took place in the pharmaceutical market framework, there are still **weaknesses**, the most important of which is the **failure to incorporate economic evaluation in the decision making process**. The new pricing and reimbursement systems take into consideration only cost criteria (narrowly defined) instead of cost-effectiveness criteria, despite the fact that the latter are the only ones that can lead to rational decision making.

Trend in the Global Environment of the Pharmaceutical Sector

In 2005, PFIZER retained the first place in terms of sales among all pharmaceutical companies in the global market. The cholesterol and triglyceride reducers (i.e. statins) were – once again- the **leading therapeutic category**, closely followed by anti-ulcerants. The pharmaceutical product Lipitor remained in the top spot of the global market, although its sales slowed down, exhibiting a decreasing rate of increase (6.4% in 2005 against 13.8% in 2004). This is mainly due to the increasing competition from generic statins. Furthermore, biological products exhibited a significant increase, adding \$7.6 billion to global sales in 2005.

Growth rates in the 10 leading markets –which in terms of sales represent 81% of the international pharmaceutical market- **were reduced** to 5.7% in 2005 from 7.2% in 2004. However, emerging markets like China, South Korea, Brazil, Russia and Turkey experienced a double-digit growth, pointing out significant **shifts in the global pharmaceutical market**.

In general, 2005 can be considered as a transition year for many pharmaceutical companies, as they faced cost-containment challenges by regulatory authorities at a national level and safety issues at a global level. According to the IMS World Review 2006, the decrease in the growth rate, in combination with the increase of generics' share in the pharmaceutical market, will undoubtedly constitute a challenge for the pharmaceutical industry in the future.

However, the global pharmaceutical market is expected to continue increasing at an annual growth rate ranging from 5% to 8% (IMS World Review 2006). The increasing demand driven by ageing populations, as well as by innovation in therapeutic areas where there is high, unmet need, is expected to fuel growth and constitute the answer of the pharmaceutical companies to the challenges they receive from regulatory bodies.