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Research Briefing
European integration

Privatisation in the euro area:

Differing attitudes towards public assets

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Author
Dieter Bräuninger
+49 69 910-31708
dieter.braeuninger@db.com

Editor
Barbara Böttcher

Deutsche Bank AG
DB Research
Frankfurt am Main
Germany
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877

www.dbresearch.com

DB Research Management
Ralf Hoffmann | Bernhard Speyer

There are many good arguments in favour of privatisation. That is why privatisation plays a major role not only in the "troika" programmes, but also generally in the context of budget consolidation and reforms. Nevertheless, it cannot be said that there is a privatisation wave in the euro area. Granted, the economic environment was not conducive to privatisations over the past few years. There was little prospect of privatisation revenues filling public coffers anywhere. Furthermore, political opposition to privatisation – particularly in the sphere of so-called services of general interest – has increased in many quarters.

Lately, at least the economic environment has trended upwards. Stock market trading has in many cases seen equity prices far outstripping their lows of the past few years. In the countries hit by the sovereign debt crisis, the real economy is showing signs of a gradual stabilisation. International investors are taking a renewed interest in Europe. In this situation, privatisations could find growing acceptance also as supplementary measures to build confidence in government efforts.

The privatisation activities in the countries with heavier debt loads differ considerably. This is a reflection of specific political preferences in their attitude towards public assets. Moreover, the general conditions continue to differ in the various countries – despite slightly brightening prospects in recent times.

France is banking on active management of government holdings, with privatisation being only one option of several. The focus is on economic policy objectives. In this context, the French government has a majority holding in nearly 1,500 companies with 785,000 employees (as of end-2011). Also, it owns non-financial assets worth an estimated 85% of GDP.

In Italy, the focus is mainly on the stakes held by the municipalities. The IMF, for example, has repeatedly called for the privatisation of municipal utilities. A government programme from April 2013 provides for privatisations equivalent to 1% of GDP every year up to 2018.

The neighbouring countries of Spain and Portugal are in different situations. In Spain, the government is in the process of rebuilding the momentum of the privatisation process that has been stalling since end-2011. Portugal, however, is on track with its privatisation efforts.

Privatisation projects in Greece are burdened by difficult environment. A sizeable list of holdings, rights (licences) and real estate has been transferred to the privatisation fund. Just how successful Greece will be in achieving the revised privatisation targets (EUR 8.4 bn by December 2016) is anybody's guess.

Introduction

Privatisation has rightful place on reform agenda

Given the necessity of consolidating their public finances, the members of the euro area face a Herculean task. Even though various countries can point to quite noteworthy efforts in consolidating their budgets, the deficits in 2013 will in many cases again exceed the limit of 3% of GDP specified in the Maastricht Treaty. And there are many cases of excessively high government debt ratios that continue to climb. This also reflects the recent recession in the euro area. The dearth of growth stimuli also limits the scope for restrictive fiscal policy.

In this situation, (further) privatisation moves could make a helpful contribution towards restructuring the public finances. Actually, the obligation to privatise government property is one of the main elements of the restructuring plans imposed by the "troika" of IMF, ECB and European Commission on euro-area countries when they avail themselves of bailout funds. There are good reasons for this. Fundamentally, privatisation provides debtor countries with an opportunity to reap dividends in several respects:[1]

The government can generate additional revenues via privatisation receipts. Ceteris paribus, the sovereign debt is reduced or its expansion is slowed accordingly. This can be very significant especially for sovereigns carrying a heavy debt load and labouring under the debt service.

— If there are disposals of public-sector companies that (under government management) do not cover their operating costs, further relief for public budgets may result. This is the case, for instance, when such companies receive government grants that are discontinued in the wake of privatisation. If the companies are in debt, their disposal reduces the government debt (additionally) to the extent that the (private-sector) buyer assumes the company's debts.

— And, above all, privatisation offers crisis-stricken countries the opportunity to attract capital from abroad. This is all the more important as the advent of foreign investors often opens a window of opportunity for an influx of know-how and improves the companies' integration in international value chains – with positive effects for the entire economy.

— Privatisations enable debt-wracked sovereigns to document the credibility of their budget restructuring programmes and thus send an important signal to international bond investors. Fundamentally, this improves the countries' prospects for lower bond yields and sustainably cheaper funding conditions for the public sector.

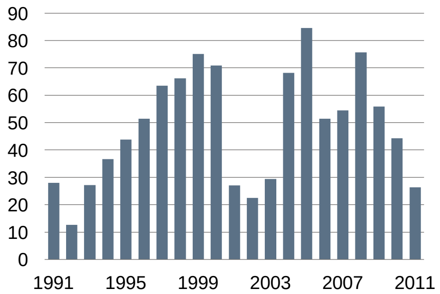
— Given the marked interdependence especially of the financial markets, companies should also be able to benefit from better funding conditions. Via positive financial market effects, privatisations can thus provide stimuli for investment and innovation.

— Finally, by relinquishing business activity the government can directly stimulate GDP growth, because this paves the way to new opportunities for private-sector activity.

The benefits of rigorous privatisation efforts, and the positive fiscal effects in particular, are documented by the experience gathered in Europe in the 1990s.

Privatisation receipts in the EU-25 1

USD bn



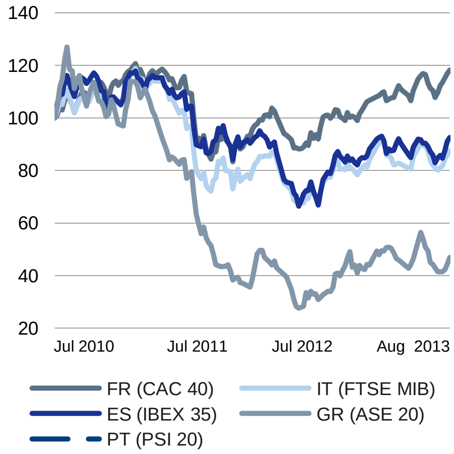
Source: Privatizationbarometer

[1] For a more detailed debate on privatisation, see: Bräuninger, Dieter (2011). Revenue, competition, growth. Potential for privatisation in the euro area. Deutsche Bank Research EU Monitor 87.

Back then there was a wave of privatisations across much of the EU. This was mainly the result of three factors. First, it reflected the then very widespread prevalence of liberal economic thought which asserted that governments should confine their efforts to setting appropriate framework conditions for private business. Second, it was based on competition requirements set by the European Commission for the opening and deregulation of markets such as telecommunications and air transport. These stipulations initiated the (partial) privatisation of government monopolies in these segments. Third, the disposal of government assets served at the time above all as a way to restructure public budgets. Countries with a large government debt and budget deficit that were interested in joining the European Economic and Monetary Union (EMU) succeeded in fulfilling the convergence criteria set out in the Maastricht Treaty within the required time frame thanks partly to privatisation revenues.

Stock market performance in selected countries 2

Weekly averages, 1st week of July 2010=100



Sources: WEFA, Deutsche Bank Research

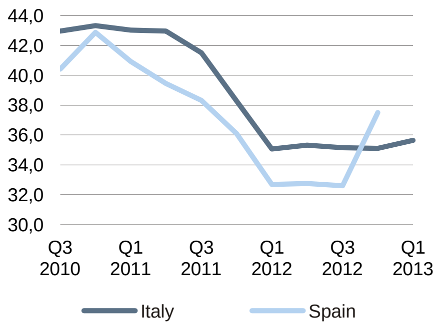
Of course, experience also shows that privatisations do not suffice to ensure sustainable restructuring of public budgets. This requires persistent spending discipline on the part of the public-sector authorities. This holds true despite the fact that the acute fiscal problems in the euro area partly result from government measures that became necessary to address the financial and economic crisis as well as the long recession in several of the heavily indebted countries.

In contrast to the requirements, though, it cannot be said that there is a privatisation wave in the euro area at present. Granted, the environment has not been conducive to privatisation in recent years. There was little prospect of privatisation revenues filling public coffers. Especially the countries hit by the sovereign debt crisis saw their equity markets take a steep dive following the gradual spread of the crisis from early 2010. A clear trend reversal did not begin until summer 2012, after the ECB had announced that it would do "whatever it takes" to preserve the euro, if necessary also by resorting to unconventional monetary measures. Moreover, opposition to privatisations had grown within many countries. In Italy, for instance, the idea of transferring municipal water utilities to the private sector is no longer an issue since being voted down in a referendum in June 2011.

The widespread reservations and the unfavourable environment manifested themselves in some areas in a counter-movement, in fact. That is to say that the government resumed stakes in private-sector companies. Such a trend can be observed above all in what are referred to as services of general interest. Not only in Germany but also in France have there been cases of municipalities in particular reasserting their influence on regional and local energy or water utilities (after having reduced it only a few years previously), often by taking a direct equity stake.[2]

International investors cautiously regaining confidence 3

Sovereign debt held by foreign creditors, % share



Sources: National statistics, Deutsche Bank Research

Improved framework conditions

Given the widespread further rise in sovereign debt in the euro area, privatisations continue to look like a sensible idea, also in countries that have not expressly committed to pursuing them. This holds all the more since the framework conditions, at least with regard to the financial markets, have improved of late. Share prices even in the crisis-stricken countries have meanwhile returned to levels that far outstrip the lows of the past few years. In this context, international investors are also taking a renewed interest in Europe.

In the countries hit by the sovereign debt crisis, the real economy, moreover, is showing signs of a gradual stabilisation. In this situation, privatisations could find

2 It should also be noted that in several countries the central government has also become involved by taking direct stakes in banks during the bailout of the banking system.

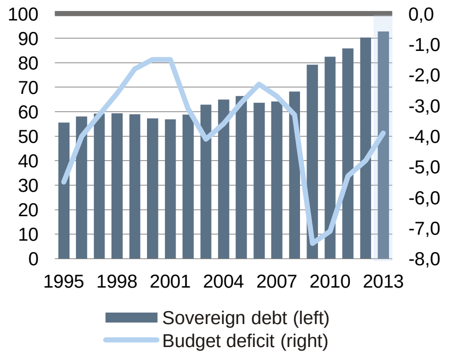
growing acceptance as supplementary measures to build confidence in government efforts.

In any event, there are ways to push ahead with privatisations even in a less conducive environment. One such step may be to set up privatisation agencies. The companies deemed suitable candidates should then be turned over to these agencies with instructions to sell them as quickly as possible to private interests. In this way, governments could signal to the markets that they are prepared to dispose of assets without having to act too hastily. In crisis-stricken countries the uncertainty about the value of state-owned companies and thus the fear of currently only being able to sell assets for "less than fair value" may continue to be an obstacle to privatisation, regardless of the market upturn already discussed. However, such concerns could perhaps be assuaged by means of appropriate financing instruments which secure the government, as seller, a share in future value accretion. Of course, such a hedging instrument would fundamentally have a negative impact on the potential privatisation proceeds.

All of these factors give cause to look at the status of privatisation efforts in selected countries of the euro area. Going by the size of their economic output (GDP), the selection covers the countries that are currently the focus of major attention on the issue of sovereign debt in the euro area: France, Italy, Spain, Greece and Portugal.

France: Sovereign debt & budget deficit 4

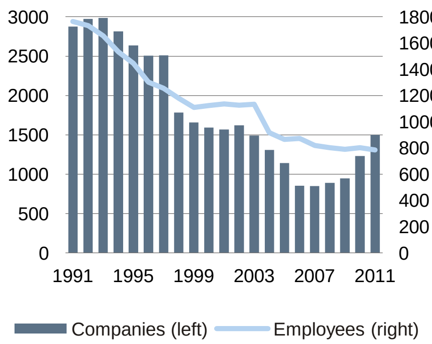
% of GDP



Sources: Eurostat, Deutsche Bank Research

France: Companies with government majority stake 5

Absolute number of companies, Employees ('000, right)



Source: Insee

France: Active management of government holdings

France started a drive in the mid-1980s to reduce its extensive state holdings. However, this process has shown differing phases of activity. Shortly after the outbreak of global stock market turmoil in spring 1988 and during the subsequent second term of President Mitterrand up to 1992 there was a gap. But as in other countries the volume of activities started to pick up again in the run-up to the launch of EMU. Thus, the privatisation wave reached its hitherto highest readings in the years between 1997 and 2002. During this phase the French government divested stakes worth a total of EUR 31 bn (or 2.15% of 2000 GDP). The biggest projects at the time included the (partial) privatisation of France Télécom, Air France, Autoroutes du Sud, Thomson-CSF, EADS and Crédit Lyonnais. The privatisation receipts helped drive down the budget deficit from 4% in 1996 to 1.5% at the turn of the century.

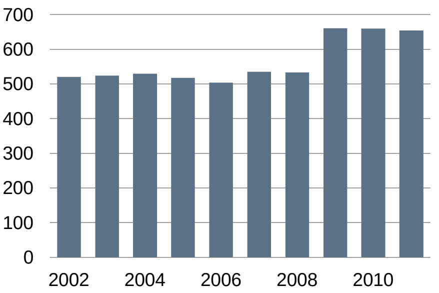
From 2004 to 2008 the privatisation wave regained momentum. This phase includes, inter alia, the disposal of major stakes in the energy utilities GdF and EdF, the Autoroutes Paris-Rhin-Rhone and du Sud (2nd tranche), the airport operator AdP, as well as further shares in France Télécom. By contrast, the subsequent years up to 2012 show no record of any significant privatisation. This is partly a result of the financial and economic crisis, which hampered the disposal of government assets or reduced their appeal.

All in all, the number of companies in which the government held a majority stake fell between 1990 and the end of the past decade, from 2,779 to 946. This is a decline of nearly 66%. In the same period, the number of workers employed at these companies decreased by over 50%, to 789,000.

Nonetheless, the government continues to hold a substantial volume of assets. This is shown by the latest revised figures published by Insee, the national statistical office. They say that at the end of 2011 the government owned a majority stake in 1,498 companies[3] employing 784,500 people. This means that 3.5% of all employees work for firms that are majority-controlled by the government. In most cases the firms are small or medium-sized enterprises (SMEs). However, the employees in question are heavily concentrated in a few major companies. The three companies with the largest headcount (La Poste, SNCF and EDF) are responsible for three-quarters of the given jobs. The government has minority stakes in 540 other firms.

Value of assets held by l'Agence des Participations de l'État 6

EUR bn



Source: Agence des Participations de l'État

Major stakes in listed companies held by APE* 7

- Aéroports de Paris 50.63%
- Air France-KLM 15.88%
- Areva 14.33% (further 68.87% held by CEA (Commissariat à l'Énergie Atomique et aux énergies alternatives))
- EADS 12.04%
- EDF 84.49%
- GDF SUEZ 36.71%
- Orange (formerly France Télécom) 13.45% (altogether, the government owns 26.94% of the share capital and 27.16% of voting rights, as of December 31, 2012)
- Renault 15.01%
- Safran 27.08%
- Thalès 27.08%

* As of August 1, 2013

Source: APE

The main holdings are managed by l'Agence des participations de l'État (APE, the government shareholdings agency). The agency's most recent annual report published in autumn 2012 contains information on 58 major companies in which the government has a direct or indirect stake.[4] In absolute numbers, the top spots are held by ports (9) and airports (8). Going by the value of the holdings, by contrast, two still wholly-owned companies, La Poste and SNCF, as well as the energy utility EDF, in which the government has an over 84% stake, top the list. As of end-2011, the agency lists the total value of its assets at EUR 656 bn, the equivalent of nearly one-third (32.8%) of GDP. 12 companies held by APE are listed on the stock market. Three of them (EDF, Areva and Aéroports de Paris (AdP)) are majority-owned by the state. The value of these 12 APE holdings totalled EUR 71.83 bn, or 3.5% of GDP (2012), on August 1, 2013.

The current government led by President Hollande and Prime Minister Ayrault is banking on active management of the holdings. The primary target, however, is not to generate revenues for the cash-strapped public coffers. Rather, the portfolio is to be optimised in order, among other things, to meet economic policy goals. The government says it does not want to sell what it regards as strategic holdings and generally also wants to maintain its potential influence on other companies in which it holds stakes. All the same, industry minister Arnaud Montebourg (Ministre du redressement productif) has announced changes to the portfolio. He says privatisations are to help finance the government's latest investment programme, which was unveiled in early July. The programme provides for government expenditure totalling EUR 12 bn over the next ten years in order to boost France's competitiveness.

Various transactions have already been concluded in the meantime, anyway. At the end of March 2013 the French government sold a 3.12% stake in Safran S.A., a maker of aircraft engines and electronics, to international investors. The transaction generated close to EUR 450 m, mainly serving to raise additional capital for BPI, the government's newly created investment bank. A further share of 0.34% was sold to company staff members at the beginning of April. The government's remaining stake has thus been whittled down to just over 27%.

The government has also divested a relatively large stake in EADS, the aerospace group. In accordance with an agreement with Germany, France has reduced its stake from around 15% to 12% since autumn 2012. To this end, France most recently sold 3.66% of its share capital in April of this year in two tranches worth a total of EUR 1.19 bn.

Moreover, in June the French Ministry for the Economy and Finance announced that contracts had been signed on the divestment of shares in airport operator AdP. Some 4.81% of the company's share capital has been sold to Crédit Agricole Assurance, and 4.69% to the Vinci Group. This generates EUR 738 m in revenue for the French government. Of this amount, over EUR 300 m flow into the public budget and EUR 435 m into the government's strategic investment fund (Fonds Stratégique d'Investissement). Despite this transaction the government has retained the majority of shares in AdP (50.63%).

[3] The increase over 2009 is partly explained by the hiving off or startup of subsidiaries of major companies under government control. This was the case in the energy sector, for instance, in connection with activities in the renewables segment.

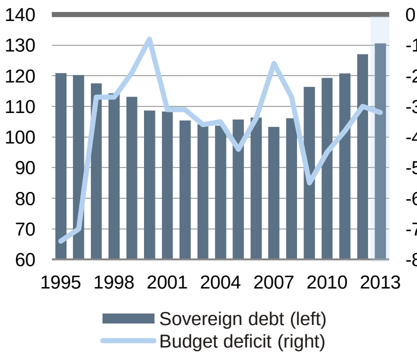
[4] Agence des participations de l'État (Publ.) 2012. The French State as Shareholder. 2012 Report.

Besides its ownership of company stakes France has a significant portfolio of non-financial assets such as real estate and infrastructure facilities. The International Monetary Fund (IMF) values these assets at 85% of GDP for 2010.[5] Roughly two-thirds of them are accounted for by administration buildings and infrastructure facilities such as hospitals and roads. However, three-quarters of the non-financial assets are in the hands of the municipalities. (By comparison: in Germany the value of the corresponding assets for 2011 is 43 ½% of GDP, according to the IMF. There are no data available on non-financial government assets for Germany as a whole.)

In the six years from 2006 to 2011 the government disposed of non-financial assets (public buildings) worth a total of EUR 3.61 bn. At last reading, in 2011, the total was around EUR 0.6 bn. However, only a small portion of 12.5% of this total (2011: 10.5% or EUR 62.5 million) was used to run down public debt. The lion's share went towards financing, above all towards the renovation or purchase of buildings as well as personnel expenditures.

Italy: Sovereign debt & budget deficit 8

% of GDP



Sources: Eurostat, Deutsche Bank Research

Italy: Focus on municipally held shareholdings

The government was a major player in the Italian economy for a long time. For a time, the Istituto per la Ricostruzione Industriale (IRI), a holding company, owned 1,000 enterprises and employed up to 500,000 people. Following a successful phase in the 1950s and in the early 1960s many state-run (industrial) companies fell into financial difficulties, however. This was partly driven by the fact that the government used its holdings to pursue industrial and labour policy objectives (such as employment incentives in southern Italy). Thus, the IRI booked substantial losses in the 1980s.

Significant privatisation did not start until the 1990s, though. Privatisation policy enjoyed a renaissance also in Italy in the second half of the decade. At the time, government-owned companies and facilities in the telecommunications, energy utility (in particular ENEL), infrastructure (including motorways) and transport sectors were (partially) privatised. The reason for this (as mentioned above) was the desire to reduce the heavy burden of sovereign debt (1995: 121% of GDP) and the soaring budget deficits (1995: 7.5% of GDP) and fulfil the convergence criteria of the Maastricht Treaty.

Over the past decade the government continued to pare back its corporate holdings, from 2002 to 2005 in particular. (Privatisation of the savings banks, disposal of further shares in ENEL, partial privatisation of the network operator Terna spun off from ENEL in 1999, and auctioning of mobile telephony licences). Subsequently, the privatisation process started to lose momentum.

Major stakes held by the central government in Italy 9

- ENI (energy utility): 26.37% via CDP, 3.95% Ministry of the Economy and Finance
- ENEL (energy utility) 31.24%
- ENEL Green Power (renewable energies) 69.17%
- SNAM (energy supplier specialised in gas, including storage and transport) 30% with CDA, 20.23% with ENI
- Terna (electricity grid operator 29.85% (via CDP)
- Finmeccanica (aerospace, defence, security) 30.2%.

Compared with past decades the central government now only owns a relatively limited volume of stakes in going concerns. As in other countries, above all the railway (Ferrovie dell Stato) and the post office (Poste Italiane) are still completely in government hands. In value terms, the government also continues to hold significant stakes in companies from the energy supply and aerospace sectors. A portion of these assets is held by the government development bank, Cassa Depositi e Prestiti (CDP).

By contrast, considerable privatisation potential exists at the municipal level. The municipalities own many companies providing what are known as services of general interest, particularly energy supply, water supply and sewage disposal. Against this backdrop the IMF has repeatedly called for more privatisation of municipal utilities in particular.

[5] Bova, Elva et al. (2013): Another Look at Governments' Balance Sheets: The Role of Nonfinancial Assets. IMF Working Paper 13/95.

There are also continual demands for the privatisation of real estate holdings. Detailed, recent information on the value of the land and buildings belonging to the state are not available (yet), however. Nonetheless, a related survey has been in progress in Italy for some time now.[6] According to the initial data collected for this survey the value of the buildings and properties is estimated to equal 35% of GDP (close to EUR 550 bn). The IMF says that, of this total, real estate worth roughly EUR 50 bn (3 ¼% of GDP) could be sold.

The Monti government had presented a plan in summer 2012 to boost the value of the public assets and to dispose of portions of these assets. To this end, initially various funds are to be set up in which assets can be bundled together to serve the corresponding purpose.

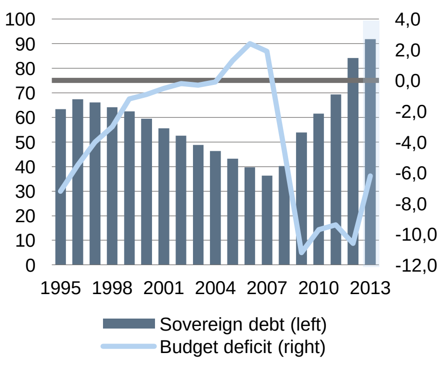
The Monti government hoped that these measures would generate income of at least 1% of GDP, or close to EUR 16 bn, every year for the next five years. This is the claim stated in the reform programme adopted by the cabinet in April 2013.[7] The resources are to be allocated mainly to Italy's "Fund for the amortization of public debt". The remainder is to be used to finance public investment projects and reduce public administration arrears in commercial transactions. Last year, said Fund had already received proceeds from the sale of government stakes in FINTECNA, SACE and SIMEST worth a total of EUR 7.9 bn, or 0.5% of GDP.

As part of the value accretion drive, L'Agenzia del Demanio (an agency for the administration of government-owned property) recently launched an unconventional programme. The agency intends to lease historical buildings to interested parties in the private sector. Those interested can lease castles, palaces or cloisters, for instance, for up to 50 years and use them say as hotels. Initially, 28 properties will be up for auction. A further 53 are to follow in the foreseeable future. If the auctions are a success, up to 1,000 properties could become part of the programme. By transferring them to private investors the government also wants to save itself the costs of maintaining the historical buildings and performing necessary renovations. Moreover, this is also expected to give tourism a fillip.

Spain: Renewed attempts

Spain: Sovereign debt & budget deficit 10

% of GDP



Sources: Eurostat, Deutsche Bank Research

In Spain, privatisations have been enlisted as elements of economic and financial policy by both socialist and conservative governments since the mid-1980s. In the 1990s Spain intensified privatisation efforts as a contribution to budget consolidation in preparation for euro accession. The disposal of government property is also seen as a way to help the country out of the current sovereign debt crisis. Owing to the unfavourable state of the economy, though, major projects have been cancelled or postponed. It appears that the trend has only started to gather pace again in recent times.

Because of the political situation in Spain the government has been relatively heavily involved in the business sector for a long time. Similar to Italy and its IRI, the Spanish government had also established an umbrella holding company called the Instituto Nacional de Industria (INI) for the administration and promotion of industrial companies. Further companies were owned by the Ministry of the Economy and Finance. During the difficult transition phase towards democracy the INI served above all to shore up employment and social stability.

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[6] Pursuant to a 2010 law, all public administrations will be required in future to table a list of their buildings and properties with the Minister of the Economy and Finance every year in order to document their full registration and assessment.

[7] Ministro dell Economia e dell Financia (2013). Economic and Financial Document 2013. Section III. National Reform Programme.

Systematic privatisation efforts started in the mid-1980s in connection with Spain's accession to the EU in 1986. Their target was to reduce the extensive government sector and boost the competitiveness of Spanish industry. The privatisation efforts were intensified from the mid-1990s. In view of Spain's desire to accede to EMU, fiscal objectives also became a major focus.

In this phase, the government mainly divested stakes in energy utilities and telecommunications companies. Compared with the intensive phase in the second half of the 1990s the privatisation activities in the following decade were relatively minor. A few of the high-profile privatisations during this period included the sale of further shares in Iberia Lineas Aereas de Espana in 2001 and 2002 as well as the privatisation of Empresa Nacional de Autopistas (ENA) in 2003. In 2007, the government disposed of its remaining stake in ENDESA, the energy utility.

According to SEPI (Sociedad Estatal de Participaciones Industriales), the state holding company for industrial participations, the government has privatised over 120 companies from SEPI's portfolio since it began these sales. In the process, it generated revenues totalling EUR 45 bn (4.3% of 2012 GDP).

All in all, the Spanish government has been relatively rigorous in disposing of many of its holdings over the past 25 years or so. This applies in particular to the energy sector. Some of the privatised companies' shares have been acquired by Spanish savings banks, though. They include, among others, a 12.23% stake in Repsol and 5.6% in Télefonica.

Nonetheless, the privatisation potential was still far from being exhausted, when the sovereign debt has escalated also in Spain. Among the most important companies still wholly owned by the government are Sociedad Estatal Correos y Telégrafos (the postal service), Renfe (the national railway company) and AENA Aeropuertos, the airport operator. AENA operates numerous airports in Spain and abroad, including the major ones of Madrid Barajas and Barcelona El Prat.

But SEPI, too, still has a mixed bag of holdings which, as a rule, serve the government's strategic purposes. For example, SEPI owns majority stakes in companies not only in the nuclear industry, naval shipbuilding, and investment promotion and development, but also in agricultural and forestry businesses as well as the racecourse in Madrid. Minority stakes are held in EADS and energy utility ENAGAS, among others.

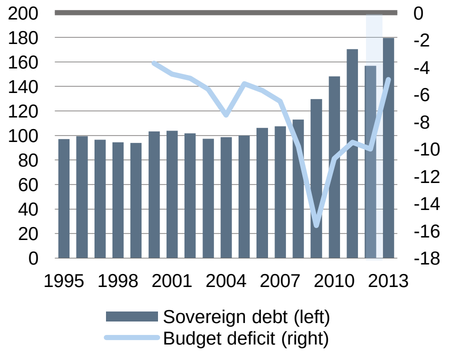
In spring 2011, the ruling Socialist government launched a privatisation drive. Among other things, it provided for the disposal of a 30% stake in the national state lottery and a 49% stake in AENA Aeropuertos. Furthermore, AENA was ordered to sell its licences for operating the two airports in Madrid and Barcelona. These measures were meant to raise a total of EUR 15 bn for the government coffers in 2011. However, because of the difficult situation facing the Spanish economy and the financial markets, it was not possible to implement these projects. The conservative government led by Prime Minister Rajoy that was elected in November 2011 shelved the plans at the beginning of 2012.

For some time, though, there has been a new movement afoot. According to press reports, the planned partial privatisation of AENA is back on the economic and financial policy agenda. They say that in Q4 2013 or Q1 2014 about 50% of the company's capital is to be sold to private investors. This is expected to generate receipts of at least EUR 6 bn. A separate disposal of the operating licences for the Madrid and Barcelona airports is not on the cards. Moreover, the national lottery company is also to stay in government hands. Equally, interim proposals to (partly) privatise the freight and maintenance segments of Renfe have been put on the back burner again for the time being.

The Spanish government recently announced plans, however, to sell off 15,000 state-owned properties, most of which are buildings. Part of the income is not to

Greece: Sovereign debt & budget deficit 11

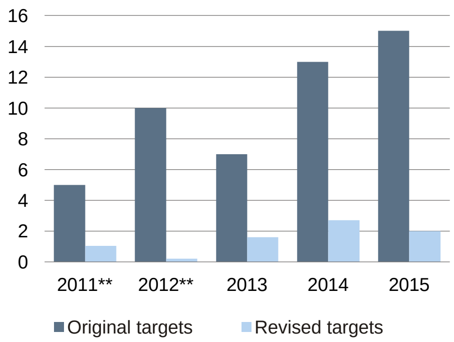
% of GDP



Sources: Eurostat, Deutsche Bank Research

Privatisations in Greece: Significant revision of targets* 12

EUR bn



*As of mid-July 2013
**Actually generated proceeds

Sources: European Commission, IMF

Hellenic Republic Asset Development Fund 13

- Institution governed by private law
- Established on July 1, 2011
- Board of Directors:
  6 members elected by the Fund's General Shareholder's Meeting
  2 observers appointed by the Eurogroup and the ECB
- Council of Experts in an advisory capacity: 7 members, 4 of whom appointed by the Board and 3 by the troika
- Government transfers assets to the Fund for the purpose of privatisation, development/restructuring or liquidation.
- Fund assets:
  -- real estate
  -- company shares
  -- rights (licences, concessions etc.).

be earmarked for the budget, though, but instead for the maintenance and repair of the buildings in its portfolio.

At the regional level, efforts to privatise hospitals in particular have caused an uproar and triggered protest actions by clinic staff in particular. The government of the Madrid region, which is controlled by the conservative Popular Party, wants to privatise six of the 20 biggest hospitals in that region. As a step towards full privatisation, the regional government awarded the management of these six hospitals to private companies as of September. The regional government hopes this will achieve savings of EUR 169 m per year. Meanwhile, however, the Madrid High Court has frozen this privatisation following a suit filed by the opposition Socialist Party which has criticised certain terms of the agreement.

Greece: Difficult environment

Greece was relatively slow to join the rush to privatise that had been sweeping through Europe in the mid-1990s. Yet, intensive efforts were then made in the years before EMU accession to transform the government sector, which for historical reasons had become relatively extensive. This was the phase when – as in other places – the focus was mainly on the partial privatisation of energy utilities and telecommunications firms. However, the government usually did retain substantial stakes in the larger partially privatised companies. And today the railway and postal systems are still fully under state control. Moreover, the Greek government owns a considerable portfolio of real estate.

For the reasons discussed, privatisations soon caught the attention of the authorities in the search for ways to solve the debt crisis in Greece. This is evidenced by the adjustment programmes that Greece has agreed with the troika, consisting of the European Commission, the ECB and the IMF, since mid-2010. The disposal of government property is a major element of the programmes. In this context, Greece initially set itself increasingly ambitious targets. Whereas Greece originally said it wanted to dispose of assets worth EUR 1 bn per year, it subsequently said in July 2011 that it was prepared to present the IMF with privatisation receipts totalling EUR 50 bn by the end of 2015. This corresponds to 24% of 2011 GDP. This shows what a substantial contribution towards budget consolidation has been expected from this quarter.

But the plans soon proved to be nothing more than an exercise in futility given the heavy economic slump in Greece and international investors' meanwhile widespread doubts about Greece's continued membership of the monetary union. Over the past two years only around one-tenth of the originally targeted proceeds of EUR 15 bn had been generated.

In the meantime, the plans have been repeatedly revised. According to the current requirements the troika expects privatisations to generate a total of EUR 22 bn by 2020. In the years up to December 2016 a total of EUR 8.4 bn has been targeted, of which EUR 1.6 bn is to be raised in 2013.

Responsibility for privatisation is now in the hands of the Hellenic Republic Asset Development Fund, HRADF (also known as TAIPED – the acronym of the name in Greek). The Fund was established in mid-2011 to professionalise the privatisation process and reduce the scope for political intervention. Thus, it was set up as an institution governed by private law and not public law. The Fund's Board of Directors includes one Eurogroup representative and one European Commission representative, each with observer status. The Board is advised by a Council of Experts consisting of seven persons, three of whom are appointed by the troika. The Fund is gradually being transferred all the assets that the government intends to sell, develop or liquidate.

The Fund's corporate stakes 14

- State lottery
- State gas utility DEPA
- Hellenic Defence Systems SA (EAS)
- Hellenic Petroleum SA (HELPE)
- Hellenic Post (ELTA)
- Hellenic Vehicle Industry SA (ELVO)
- Mining and Metallurgical Company LARCO

etc.

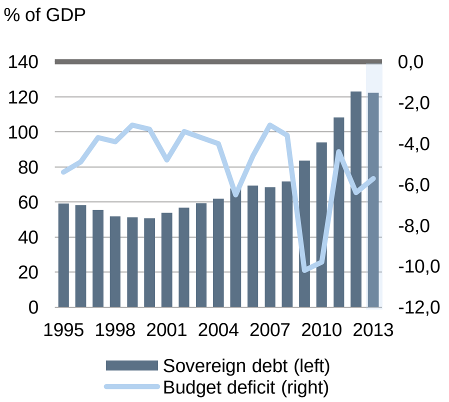
Source: HRADF

The list of assets transferred to the Fund is already very sizeable. It includes, for example, stakes in banks, energy utilities, the Athens international airport, water supply/disposal companies, and other infrastructure installations as well as concession rights for, say, the state lottery or the operation of regional airports. On top of this the portfolio includes numerous properties.

The latter account for a substantial part of the Fund's assets. Of course, it is likely difficult to make any robust estimate of their value. Above all, the disposal of real estate in particular has proved to be very difficult. One major obstacle in this regard is the inadequacies of the land registry. The resultant legal uncertainty over ownership rights obviously weighs on the prospects of rapid privatisation. Many properties will probably also still require an overhaul to become ready for privatisation.

Just how successful the Fund will be in achieving the new privatisation targets is anybody's guess. In early June, the plan to sell state gas utility DEPA, which was meant to generate EUR 1 bn in revenues, failed to go through. This was probably a major reason for the latest revision of the targets for 2013. However, mid-June saw important steps being taken to pave the way for the sale of a 66% stake in Hellenic Gas Transmission System Operator (DESFA), a DEPA subsidiary, to SOCAR, the state oil company of Azerbaijan. HRADF has approved SOCAR's EUR 400 m bid. This means that Greece could collect much more than originally planned (EUR 305 m for 61%). On August 12, the Greek government signed the sale of its 33% share in OPAP, the lottery and sport betting organisation, to the Greek-Czech consortium Emma Delta. The consortium will pay EUR 652 bn, of which EUR 622 m will be paid upfront and the rest by instalments over ten years.

Portugal: Sovereign debt & budget 15



Sources: Eurostat, Deutsche Bank Research

Portugal

Virtually unrivalled by any other country in western Europe, Portugal has repeatedly turned to privatisations for funding since joining the EU in 1986. Of course, years ago, partly because of the extensive nationalisation drive in the early years of the "carnation revolution" (1974), Portugal was marked by a large government sector. Especially the run-up to EMU saw a pronounced acceleration of privatisation activities in Portugal – as in other regions. All in all, more than 100 firms were completely or partially privatised in the 1990s. These included, among others, Telecom Portugal, from which the government had staged a nearly complete exit by end-2000, and the energy utility EDP (roughly 2/3 of the shares sold by end-2000).

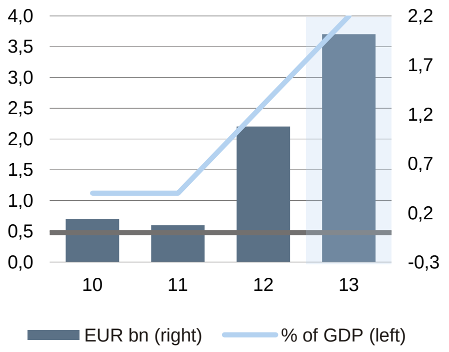
In line with the western European trend, privatisation activities declined again markedly in the past decade. In Portugal, too, the railway, post office, airports and seaports, for instance, are still run by the state.

As a result of the sovereign debt crisis, though, another picture emerged some time ago. Privatisations play a key role in the restructuring programme agreed between Portugal and the troika of IMF, ECB and European Commission in spring 2011 – also from the viewpoint of the Portuguese government. As part of the programme Portugal has committed to generate a total of EUR 5 bn via privatisations by end-2013. This is equal to 3% of 2012 GDP. The current government's focus is not only to generate revenues for the public purse, though. Rather, it also aims to boost the efficiency of the economy and reduce the degree of government influence.

In the meantime, the projects announced back then have largely been carried out. By December 2012, the IMF found that: "The privatisation process is on

Privatisation upswing in Portugal 16

EUR bn and %



*Actually generated proceeds

Source: IMF

track."[8] Portugal has now even managed to significantly overshoot the target. Some EUR 6.7 bn or 4.1% of GDP has already been raised over the past three years thanks to disposals. The government has partly or fully divested its stakes in the energy utilities EDP, GALP and REN. Recently, in addition, Portugal sold off 100% of the shares in airport operator ANA (Aeroportos de Portugal) for EUR 3.08 bn (1.9% of GDP).

But the programme is not over yet. Rather, the Portuguese government's privatisation list for 2013 still features the post office (Correios de Portugal, CTT), the railway freight business CP Carga, the disposal activities EGF of the water supply and sewage company Aguas de Portugal (the invitation to tender for EGF is to start at year-end) as well as the insurance company Caixa Seguros (CGD), a subsidiary of the state-owned financial services provider Caixa Geral de Depositos (CGD). Moreover, the government says it wants to try again to privatise the national airline, TAP Portugal, this year after having abandoned its first attempt to do so last year. Furthermore, concessions are to be sold for the (urban) bus transport activities in Lisbon and Porto as well as for seaports. And on top of this, the government says it wants to save EUR 300 m by renegotiating and restructuring some public-private partnership models.

Conclusion

Over the past few years the privatisation process has proceeded sluggishly at best in the heavily debt-stricken countries of the euro area. Portugal has been the exception, as it succeeded in reaching the targets set by the troika. By contrast, the other countries discussed here have not been able to report any noteworthy success in selling off government property until very recently. This corresponds above all with the brightening of the financial market situation since summer 2012.

All the countries discussed, however, still offer potential for further sales of government assets. As a rule, the bulk of them involve non-financial assets such as buildings and infrastructure. However, the countries also still hold significant corporate stakes, such as in the energy supply sector. Moreover, the railways and post office operations are largely still in the public sector, too.

Nonetheless, the privatisation receipts to be generated in the foreseeable future should not be overestimated. For example, political opposition still has to be overcome mainly with regard to the privatisation of services of general interest. In addition, public-sector companies, facilities and buildings are in many cases in need of restructuring or renovation if they are to be of any interest to private investors. In this context, though, substantial problems could arise. For example, politicians in countries with high unemployment will obviously find it difficult to turn less productive state-owned companies with excessive staff into more competitive and more attractive entities by making the necessary staff adjustments.

In the same vein, state-owned buildings will in many cases first have to be renovated and upgraded if they are to be considered of value. In countries with very tight public budgets, though, the financial leeway for such undertakings is very limited. Nonetheless, it makes sense for the debt-stricken countries to partly rely on privatisation efforts to consolidate their public budgets.

Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)

[8] IMF (2012). Portugal: Sixth Review Under the Extended Arrangement and Request for Waivers of Applicability of End-December Performance Criteria.

Euroland

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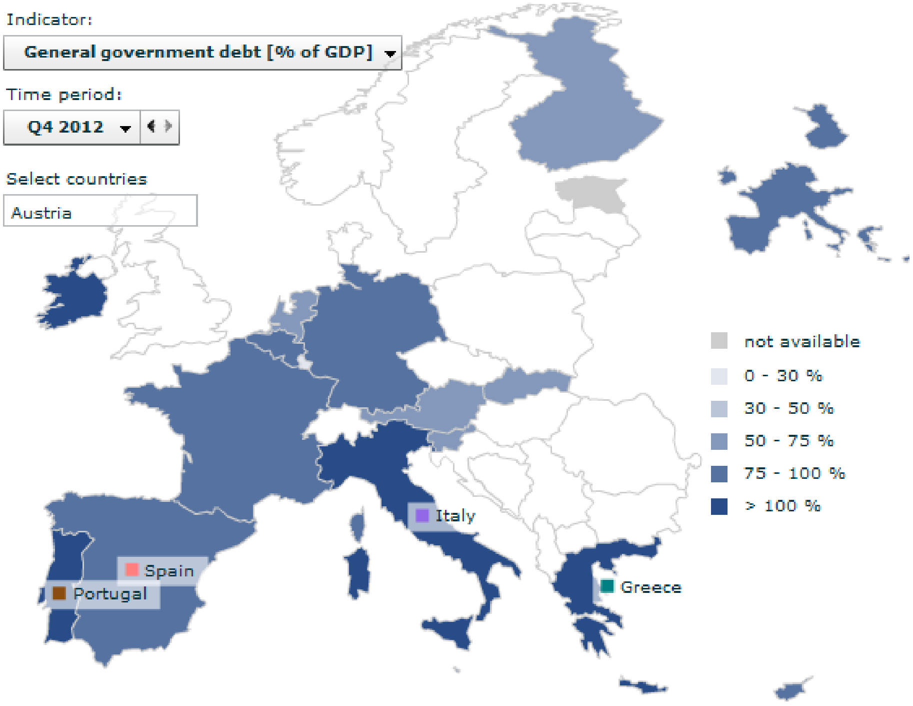

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