PRIVATIZATION POLICY AND THE GREEK ECONOMY

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Privatizations, as a method of reallocating assets and economic activities from the public to the private sector, have emerged as a valuable tool in forming economic policy and promoting structural reforms that are aimed mainly at supporting economic growth and creating opportunities in multiple fields of economic activity. The benefits derived from privatizations spread across a wide spectrum of the economy, affecting state-owned enterprises (SOEs) and the underlying markets, their consumers and central Government simultaneously.

In particular, it has been empirically proven that shifting assets from the public sector to private investors has benefited the companies in question, among others, through capital structure improvement, rationalization of investment, competitiveness, development of corporate governance and managerial effectiveness and improved quality of products and services offered. Thus, both the company and its shareholders gain from the resulting creation of value. Moreover, privatizations that are accompanied by market liberalization policies boost entrepreneurship by attracting foreign and domestic private investment, and increase competitiveness, employment levels and rate of return from invested capital.

Privatizations are a way of reducing state participation in economic activity, thus allowing the state to focus on its primary role as a regulator. Moreover, they are a tool for increasing public revenues and correspondingly decreasing public debt while removing the fiscal burden of subsidizing loss-making SOE.

The most commonly used privatization methods are initial public offerings (IPOs), secondary public offerings (SPOs) and trade sales to strategic or institutional investors. In addition, governments have used public-private partnership (PPP) structures as an alternative way of reducing state participation in the economy. It is worth mentioning that in some cases a combination of the abovementioned methods is by no means excluded but rather necessary. Depending on market conditions, government objectives, the nature of the SOE in question and the political agenda of the government, European countries have historically pursued different methods of privatization. For example, during 1980-2001, privatizations in Portugal and France were carried out at a percentage of 60% and 57% respectively through IPOs/SPOs whereas in Spain only 9% of privatizations were carried out through market offerings while the remaining 91% were completed through trade sales.

In Europe, privatizations gained considerable momentum during 1990-2000, representing a fairly new trend in the design of economic policy. Greece has been slower in following these developments and adopted such policies with significant delay compared with the rest of Europe.

Privatizations in Greece are governed primarily by Law 3049/2002 which replaced the older Law 2000/1991. According to the aforementioned legislation, the body responsible for the formation of privatization policy is the Interministerial Privatization Committee (IPC), which is supported in the implementation of such policy through the Special Secretariat of Privatization.

The primary goal of the Government elected in March 2004, with regard to privatizations, was the decrease of the State's participation in the free market and the better utilization of State property. The new era of privatizations is characterized by moving away from the accounting approach in favor of methods that maximize benefits for the economy. Under this scope, it has been of great importance to emphasize the maximization of value of state-owned enterprises, before the actual privatization process. Thus, the Government first chose to privatize mature enterprises, the "value" of which was widely recognized in the market.

During 2004-2006, total privatization revenues in Greece reached €4,595 mln, substantially reducing the public debt. More specifically, a series of privatization transactions were successfully carried out in the period 2004-2005, generating revenues of €2,855 mln, while 2005 was particularly successful in exceeding the target revenues from privatizations by 31.3%.

During 2006, the privatization program focused on further liberalizing financial markets through the reduction of the State's participation in the sector. In particular, with the restructuring and IPO of Postal Savings Bank, the restructuring and further privatization of Agricultural Bank of Greece and the full privatization of Emporiki Bank, the banking sector in Greece was substantially reformed, while the corresponding privatization revenues reached €1,740 mln, exceeding the national budget target of €1,650 mln.

The following table summarizes the privatization transactions carried out during 2004-2006:

PRIVATISATION REVENUES 2004 - 2006					
Company	Date of Transaction	% share sold	Privatisation Method	Amount raised by the State (mn €)	Currently under State control
Hellenic Petroleum	Aug 2004	8.21 %	Trade sale	192	35.50 %
National Bank of Greece	Nov 2004	7.46 %	Accelerated Bookbuilding	562	0.00 %
Total 2004				**754**	
Football Prognostics Organisation	Jul 2005	16.44 %	Secondary offering (fully marketed)	1,266	34.00 %
Hellenic Telecommunications Organisation	Sep 2005	10.00 %	Accelerated Bookbuilding	835	38.70 %
Total 2005				**2,101**	
Postal Savings Bank	Feb 2006	–	Recapitalisation	400	–
Agricultural Bank of Greece	May 2006	7.18 %	Accelerated Bookbuilding	328	77.30 %
Postal Savings Bank	May 2006	10.00 %	Trade sale to ELTA	15	90.00 %
Hellenic Post	May 2006	10.00 %	Trade sale to PSB	21	90.00 %
Postal Savings Bank	May 2006	34.84 %	Initial public offering	612	55.16 %
Commercial Bank of Greece	Aug 2006	11.01 %	Trade sale to Credit Agricole through public offer	364	0.00 %
Total 2006				**1,740**	
Total 2004-2006				**4,595**	

In more detail:

1. Sale of 8.21% of the share capital of the Hellenic Petroleum SA

- In August 2004 the Hellenic Republic (HR) sold 8.21% of the share capital of Hellenic Petroleum to the existing shareholder Paneuropean Oil & Industrial Holdings.
- The transaction took place following extensive negotiations and resulted in €192 mln in revenues for the HR.
- No additional rights for the management of the company were given to the existing shareholder, which already had the right of first refusal.

- It is worth noting that the transaction price incorporates a 13% premium to the closing price of the previous day as well as a considerable premium to the trading of the share during the previous months.

2. Sale of 7.46% of the share capital of National Bank of Greece SA

- In November 2004 the HR proceeded with the successful sale of 7.46% of National Bank of Greece to institutional investors in domestic and international markets, raising €562 mln.
- This move led to the exit of the HR from the direct shareholding of National Bank of Greece, a fact that was positively appreciated by the market.
- The transaction was the largest placement in the Athens Exchange in 2004.

3. Sale of 16.44% of the share capital of Football Prognostics Organization SA (OPAP)

- In July 2005 the HR successfully completed the sale of 16.44% of OPAP through a combined domestic and international offering.
- The transaction resulted in a return of €1,266 mln, an amount that was the highest ever raised through privatizations in Greece.
- The offering was the largest placement that has ever taken place on the Athens Exchange as well as the first that was completed with an Offering Circular drafted according to new Regulation (EC) 809/2004 of the European Union.
- The offering was characterized by strong demand by international and domestic institutional investors and by the return of retail investor participation with 61,338 applications, one of the highest numbers that has ever been registered in a Greek public offer.

4. Sale of 10% of the share capital of Hellenic Telecommunications Organization SA (OTE)

- In September 2005 the HR successfully completed the sale of 10% of OTE to institutional investors in Greece and abroad through an accelerated book-building process.
- The amount raised from this sale for the HR was €835 mln.
- Following the completion of this privatization the shareholding of the HR in OTE is 38.70%.

5. Agricultural Bank of Greece (ATEbank) SA

Restructuring

- In June 2005, Agricultural Bank of Greece successfully completed an increase of its share capital by €1,250 mln, with the aim of strengthening the bank's equity and capital adequacy ratios.
- The HR exercised its rights according to its shareholding.
- As a result of the above actions, the shares of Agricultural Bank of Greece attracted significant interest from foreign investors.

Sale of 7.2% of the share capital of ATEbank

- In May 2006 the HR successfully completed the sale of 7.2% of ATEbank, raising €328 mln.
- The transaction was completed through an accelerated book-built offering to institutional investors in Greece and abroad.
- Due to strong demand, the HR increased the shares offered from 5% of ATE share capital to 7.2%.

- The decision for the sale was made following the share capital increase (June 2005) and the extensive operational restructuring of the bank, which was very well received by the markets.

6. Postal Savings Bank (PSB) SA

- In May 2006 the HR sold 34.84% of its shares in Postal Savings Bank SA (PSB) through an IPO and the listing of PSB on the Athens Exchange.
- The offering, which was 5.4 times oversubscribed, was a combined domestic and international offering.
- The Hellenic Republic raised €612 mln from the successful privatization of PSB, which was concluded in an adverse market environment. The recapitalization of PSB that took place prior to the equity offering, and was in the form of returning excess capital to shareholders, yielded €400 mln for the HR.
- A cross shareholding between PSB and the Hellenic Post Office (ELTA) took place prior to the IPO. In particular, PSB entered into an agreement with the HR for the purchase of 10% of ELTA's shares, while ELTA purchased, under a separate agreement with the HR, 10% of PSB's shares.
- Following all of the above, the HR and ELTA hold 55.16% and 10% of PSB's share capital, respectively.
- The successful IPO of PSB was the outcome of a significant restructuring that resulted in elaborating and bringing out the bank's value and resulted in the entrance of a new dynamic player in the Greek banking sector.

7. Emporiki Bank SA (Emporiki)

- Remaining consistent with its policy to reduce its participation in the banking sector, the HR decided in March 2006 to explore the possibility of fully privatizing Emporiki Bank.
- The above decision was made following the successful capital reorganization of the bank which was carried through:
- A rights issue in November 2005, at €15 per share, raising €397.2 mln and to which the HR fully subscribed and
- The resolution of Emporiki's pension fund issue through Law 3371/2005.
- During the period that the HR's advisers were exploring the HR's privatization options, Crédit Agricole SA, a 9% shareholder of Emporiki, submitted a public offer for 100% of the bank's shares at €23.5 per share. In the end, Crédit Agricole increased its offer to €25 per share.
- In August 2006, the IPC decided to accept Credit Agricole's revised public offer and to dispose of the HR's 11% shareholding in Emporiki Bank. Through the public offer process, Crédit Agricole accumulated 70% of Emporiki's share capital.
- The HR's direct revenues reached €364 mln, whereas another €700 mln was raised by pension funds and other state-related entities that accepted Crédit Agricole's offer.
- The completion of Emporiki's privatization constitutes the biggest ever foreign investment in Greece.

It is important to point out that despite the considerable progress made so far in the field of privatizations, the governmental effort will continue with the same pace and focus. In particular, the Government's privatization policy includes the following:

Touristic Development Company (TDC)
The IPC has decided to develop certain assets of the company, such as the Faliro Marina, the Corfu Casino, the Golf Club of Afandou on Rhodes and hotels in various places of touristic interest in Greece. The process for many of the abovementioned projects is well advanced.

Hellenic Telecommunications Organization (OTE)
The IPC has decided upon the further privatization of OTE. The Ministers' primary intention is to explore the possibility of a strategic partnership for OTE with a major international telecoms company, though not excluding other methods of privatization.

Public Gas Corporation (DEPA)
The IPC has decided to proceed with the listing of DEPA on the Athens Exchange. The listing will follow the restructuring of the company, the legal unbundling of the transportation activity and the corresponding formation of the subsidiary companies pursuant to Law 3428/2005 for the Deregulation of the Gas Market in Greece.

The privatization program also includes the exploration of the optimum way to further privatize **Athens International Airport**, as well as examining the most appropriate methods for bringing out the value of State participations in listed and non-listed companies.

In addition, the Government recently introduced a modern and flexible regulatory framework for PPPs and PFIs. The establishment of such a regulatory framework, which underlines the Government's intention to promote PPPs/PFIs as a method of privatization, could drastically transform the privatization framework in Greece while attracting foreign and domestic direct investment.

Privatization is a method of reallocating assets and economic activities from the public to the private sector. Even though there used to be much controversy around the issue of privatizations, mainly during the 1980s and '90s, nowadays it is widely accepted as a major means of economic policy and structural reforms, to the extent that it has been adopted across the world and by different political regimes. The driving force behind the increasing popularity for pursuing privatizations is that, undoubtedly, the private sector has proved to perform far better in a globalized competitive environment than the public sector, offering products and services of better quality and lower prices.

Both empirical and theoretical studies support the fact that privatization increases profitability and efficiency at the microeconomic level. Apart from that, in the case of Greece it is evident that the privatization program has had a positive impact on the reduction of public deficit, the attraction of foreign investment, and the increase of the liquidity and capitalization of the stock market.

USEFUL LINKS

Ministry of Economy and Finance
www.mnec.gr