



HELLENIC REPUBLIC

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MINISTRY OF ECONOMY AND FINANCE

Economic Reforms and the Greek Privatization Program

November 2007

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Fiscal Consolidation and Economic Reforms in Greece

Fiscal Consolidation and Economic Reforms

□ Economic Policy Results 2004-2007 & Forecasts for 2008

- Fiscal consolidation
 - ✓ The deficit of the general government was rapidly reduced from 8% of GDP in 2004 to less than 3% in 2006 while it is expected to be reduced further from 2.5% of GDP in 2007 to 1.7% in 2008
 - ✓ The debt of the general government was reduced by 6.6 percentage points of GDP in the period 2004-2007. Public debt is expected to be reduced by 3 percentage points of GDP in 2008 and fall below 100% of GDP – for the first time since 1992
- High growth rates
 - ✓ Rate of growth faster than other Eurozone member states, reaching 3.7% in 2005, 4.3% in 2006 and 4.4% during the first half of 2007. Growth is based on higher private investment and exports.
 - ✓ The growth rate for 2008 is expected to be 4%. Private investment and exports will continue to be the locomotives of economic growth accounting for more than 60% of GDP growth
- Higher employment, lower unemployment
 - ✓ Reduced unemployment rates from 11.3% in the first quarter of 2004 to 8.1% in the second quarter of 2007.
 - ✓ Employment is expected to increase by 1.9% in 2008 leading to further unemployment reduction to 7.4% (down from 8.3% in 2007)
- Inflation reduction
 - ✓ Inflation is projected to slightly fall to 2.6% in 2008 from 2.7% in 2007
- More Privatizations
 - ✓ Revenues from privatizations are expected to reach €1,600m

Fiscal Consolidation and Economic Reforms

□ The 2008 Budget

- Highlights
 - ✓ A budget of great importance since it is Greece's first budget drafted since exiting from the excessive deficit procedure
 - ✓ It launches the second phase of fiscal consolidation and economic reforms for sustainable growth
 - ✓ It continues to implement the new economic model for growth, employment and social welfare, initiated in March 2004
 - Primary Objectives
 - ✓ Further deficit reduction aiming at a balanced budget by 2010
 - ✓ Further reduction of unemployment
 - ✓ Enhancement of social welfare
 - ✓ High economic growth
 - Main Elements of Fiscal Consolidation
 - ✓ Downsizing the public sector
 - ✓ Containing and rationalising public expenditure
 - ✓ Tackling tax evasion
 - ✓ Reducing public debt
 - Priorities of the Reforms Programme
 - ✓ Reducing taxation for enterprises and households
 - ✓ Investment incentives
 - ✓ Public Private Partnerships for infrastructure projects
 - ✓ New privatizations agenda
 - ✓ Strategy for Digital Greece
 - ✓ Implementing a strategy for reforming budget management
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Fiscal Consolidation and Economic Reforms

□ Objectives of Fiscal Consolidation and Reforms Programme

- Achieve a balanced budget by 2010
 - ✓ By tackling tax evasion and illegal activity related to fuel distribution.
 - ✓ By broadening the tax base
 - ✓ By improving the accounts of state owned enterprises, social security and the national health system
- Complete the final phase of the tax reform
 - ✓ By reducing the tax rates for individuals with mid-level incomes to 25% by 2009 from 30% and 40% in 2006
 - ✓ By further tackling tax evasion
 - ✓ By abolishing or simplifying certain property taxes
- Reinforce the social welfare system
 - ✓ By establishing a minimum national pension by 2009
 - ✓ By setting up the National Fund for Social Cohesion to support poor households
 - ✓ By supporting low income pensioners
- Reform the pension system
 - ✓ Through broad social and political dialogue
- Further implementation of the new growth model
 - ✓ By promoting the extrovert characteristics of the economy
 - ✓ Through privatizations, the investment incentives law, the digital strategy and the public-private partnerships
- Implementing a Strategy for reforming budget management

Fiscal Consolidation and Economic Reforms

□ Strategy for reforming budget management

- The current State's accounting system is characterised by
 - ✓ Low level of information on outputs produced
 - ✓ Fragmented functions
 - ✓ High degree of centralisation in decision making
- There is considerable effort to improve the quality of public finances by
 - ✓ Introducing Program Budgeting, in order to evaluate the effectiveness of public expenditure
 - ✓ Implementing a new accounting system which will support the State Budget for the most accurate presentation of public finances
- The 2008 State Budget will be accompanied by:
 - ✓ A Presentation of the State's Budget, structured in functions and programmes, the National Plan of Programs
 - ✓ A description of the above mentioned programs
 - ✓ Pilot planning for the function of "Culture, Religion & Sport"
- According to Law 3513/2006 two new units have been established in the General Accounting Office:
 - ✓ Unit for the Government Budget reform,
 - ✓ Unit for the Government Accounting System Reform,

The Greek Privatization Program 2004 - 2007

Privatization Program 2004 - 2007

- ❑ 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 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 owned property.

- ❑ The new era of privatizations is characterised by shifting away from the accounting-budgetary approach towards methods that maximize benefits for the national economy. Under this scope, it is important to focus on the value maximization of state owned enterprises, before the privatization process commences. Thus, the government proceeds first with "mature" enterprises, the value of which is widely recognized in the market.

Privatization Program 2004 - 2007

- During 2004-2007, total privatization revenues in Greece reached € 6,228m, reducing substantially the public debt. More specifically, a series of privatization transactions were successfully carried out in the period 2004–2005 generating revenues of € 2,855m, 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 € 1,740m exceeding the national budget target of € 1,650m.
- In 2007, the government proceeded with a further step towards reducing its interest in the banking sector through the sale of 20% of Postal Savings Bank via an accelerated bookbuild offering. In addition, 10.7% in Hellenic Telecommunications Organisation was similarly sold, helping revenues from privatisations reach a total of € 1,633m (close to the national budget target of €1,700m).

Privatization Program 2004 - 2007

PRIVATIZATION REVENUES 2004 - 2007					
Company	Date of Transaction	% share sold	Privatization 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 ⁽¹⁾	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	
Hellenic Telecommunications Organisation	June 2007	10,70%	Accelerated Bookbuilding	1.123	28,03%
Postal Savings Bank	July 2007	20,00%	Accelerated Bookbuilding	510	34,37%
Total 2007				1.633	
Total 2004-2007				6.228	

(1) The total transaction value amounts to € 159 and is payable until Dec 2010

Why Privatize? Implications for the Economy

Privatization Benefits

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.

It is evident that **implications** for national economy **from privatizations** are wide and very important. As the most effected stakeholders we can identify the following:

- ❑ **State Owned Enterprises (SOE) and the underlying markets** through:
 - access to new sources of capital and capital structure improvement
 - rationalization of investment
 - corporate culture transition to a more competitive and qualitative approach
 - customer requirements orientation
 - development of corporate governance and managerial effectiveness
 - efficient human capital management
 - increased transparency and disclosure to shareholders

Both the company and its shareholders gain from the creation of value

Privatization Benefits

❑ consumers

- improved quality of products and services offered
- improved level of customer satisfaction
- reduced prices for consumers

❑ central government

- state focus on its primary role as a regulator
- increase in public revenues and correspondingly decrease in public debt
- removal of fiscal burden from subsidizing loss-making SOEs

❑ the economy

- boost entrepreneurship
- attraction foreign and domestic private investment
- increase in employment levels in the medium to long run
- increase in rate of return from invested capital

Privatization Benefits

□ **the economy** (continued)

- promotion of financial markets activity
 - Increased liquidity
 - Increased market attractiveness to new investors
 - Markets operation according to international standards
- introduction of investment culture
- introduction and acceleration of market deregulation and increase in market competition

Privatization is widely accepted as a major means of economic policy and structural reforms, so much 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

Lessons from Experience

Lessons from Experience

- ❑ Benefits are maximised when privatizations are part of a wider program of structural reforms
- ❑ The establishment of the appropriate regulatory framework is critical in the successful privatization of monopolies
- ❑ Transparency is critical for economic and political success
- ❑ The sale of large enterprises requires considerable preparation
- ❑ Most of public enterprises require considerable reforms and restructuring before privatization
- ❑ It is more efficient to first privatize mature enterprises, the value of which is already recognised in the market

Lessons from Experience

- ❑ Governments must pay special attention in developing a social safety net and preparing the public opinion for privatization

- ❑ Although privatizations through capital markets are less bold, they nevertheless produce clear benefits i.e.
 - accounting discipline
 - improved management practices aimed to satisfy the investment community,
 - reduced cost of capital
 - transparency etc

Future Plans

Privatization Pipeline

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, an extensive privatization program is currently implemented including:

❑ Touristic Development Company (TDC)

The Interministerial privatization Committee (IPC) has decided to develop certain assets or business units of TDC as the Faliro Marina, the Corfu Casino, the Golf Club of Afandou in Rhodes and hotels in various places of touristic interest in Greece. The process for many of the abovementioned projects is in well advanced stage

❑ Public Gas Corporation (DEPA)

The IPC has decided to proceed with the listing of DEPA in 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

Privatization Pipeline

❑ Athens International Airport (AIA)

The privatization program also includes the exploration of the optimum way to further privatize AIA.

- ❑ Moreover, the government may also examine the most appropriate methods for bringing out the value of state participations in listed and non listed companies and enrich the privatization program accordingly.

The national budget target for privatization revenues for the year 2008 is set at €1,600m

Privatization Pipeline

- ❑ In addition, the government recently introduced a modern and flexible regulatory framework for:
 - ❑ Sale and Leaseback for state owned properties
 - ❑ PPPs and PFIs.

The establishment of such a regulatory framework, which underlines the government's intention to use PPP/PFI and sale and leaseback structures as an alternative way for reducing state participation in the Economy, could drastically transform the privatization framework in Greece, while attracting foreign and domestic direct investment

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