COSTAS S. MITROPOULOS

Privatisations in Greece: The end of the road?

eco nomia
PUBLISHING

Athens 2023

Acknowledgements

First and foremost, I would like to thank PwC Greece, and in particular Marios Psaltis, Senior Territory Partner, and Kyriakos Andreou, Partner and Advisory Leader, for supporting this initiative and for debating with me extensively the issues and problems of Greek privatisation. Many thanks go to Olympia Liami, Manager at PwC Greece, and her ever changing team, for collecting the privatisation data for Greece and insightfully analysing it. Yakinthi Pountouraki and Maria-Despina Argyrou undertook diligently the international data collection and the econometric analysis of Greek data.

Drafts of this book have been reviewed by distinguished academics, practitioners and journalists. The comments of prof. Nikos Christodoulakis, prof. Tasos Giannitsis, prof. George Zanias, Foivos Karzis and of my colleague at the TAIPED Andreas Taprantzis noticeably improved the content and the structure of the book. Finally, Dora Tourlaki put it together and updated it so many times that she lost track. Errors and omissions can only be left with the author.

Contents

Foreword

This book by Costas Mitropoulos examines the policies of privatisation in Greece covering the period 1990-2019. The extent of the period under consideration, the breadth of existing academic literature that the author has taken into account, and above all the direct experience and knowledge that Costas Mitropoulos brings into play, as a leading technocrat and practitioner in the applied field of privatisation policy and reforms in the wider public sector, make this book highly useful.

The redrawing of the public-private sector boundaries in the economy constitutes an ongoing and dynamic process. De-nationalisation or privatisation is just one aspect of this perpetual process, which is determined by a whole range of factors, both exogenous and endogenous.

Starting in the UK and the US in the 1980s, privatisations have been driven throughout the world by the change of the ideological 'paradigm', initially led by the Thatcher and Reagan governments. The microeconomic advantages of de-nationalisations (the more efficient/effective operation of enterprises under the private sector compared to the ones under the public sector) were highlighted in many cases but disproved in others. Academic literature remains divided on this issue. For every case of successful privatisation internationally, there is a counter-example of failure. Much depends on the regulatory framework that follows the change in ownership, the power of the regulator to prevent the emergence of private monopolies or oligopolistic partnerships, the conditions imposed by the regulator to protect systemic stability, the consumers, and the general interest (a concept that may have become trivialised but is in no way void of content). Indeed, the international experience of certain privatisations that produced high profits for the management and shareholders but allowed services to consumers to deteriorate have highlighted the importance of stakeholders - beyond the shareholders of privatised companies. In any case, the success or failure of every privatisation will be judged under the specific conditions, circumstances, and standards of competent and honest implementation rather than by abstract microeconomic arguments.

Since 1945, the pendulum has swung between state and market, private and public, throughout the world in both directions. Albert Hirschman (Shifting Involvements: Private Interest and Public Action) had beautifully analysed the swing of the pendulum from a long cycle of expansion of the interventionist and ownership role of the state (1930s to the 1970s), in the opposite direction of de-nationalisation and deregulation (1980s to around the global financial crisis of 2008). Following the global financial crisis of 2008 and drawing on numerous examples of privatisation failures (as in Russia in the 1990s when –in the absence of basic public and regulatory institutions– state assets passed into the hands of oligarchs), a reversal of the 'ideological paradigm' is recorded. The shift is driven by internationally renowned economists (Stiglitz, Krugman, Mazzucato, Piketty, Rodrik, Akerlof, Shiller, etc.) who, employing theoretical and empirical arguments, highlight the failures of (poorly regulated) markets, and the positive and strategic role that the state can assume in the production process. These economists pick up where Keynesian and development economists of the 1950s and 1960s (including Hirschman himself) left off. They demonstrate the central role of the state in the development process and the strategic role it successfully played (whenever it operated under high standards of administrative capacity and integrity), at least in the early stages of development, in countries such as post-war Japan, Korea, Taiwan, etc.

In Greece, privatisation entered the public agenda in the early 1990s based on mainly pragmatic (and much less so ideological) arguments. The huge deficits produced by the nationalized sector of the economy (such as the famous "ailing" enterprises nationalized in the 1980s) were one of these arguments. The need to adapt to the objective, exogenous conditions, of the international money and capital markets (which impose fiscal discipline), the European single market (which, from the second half of the 1980s started creating conditions of Europe-wide competition in sectors such as public procurement, telecommunications, and electricity) were decisive factors that led to the de-nationalisations of the 1990s. For example: the economy could not cope with market liberalisation and the abolition of the state monopoly in telecommunications with the state-owned OTE of the 1980s, without possibility of raising capital from the markets, which could have been secured by the presence of an experienced international strategic partner in the equity capital and management of OTE, who would have facilitated the necessary investments and overall modernisation of telecommunications in a unified European market...

Thus de-nationalisation, with the entry of international investors, became a necessary tool for the internationalisation and extroversion of the Greek economy in the 1990s and 2000s, as well as a lever for access to valuable international capital, markets, value chains and know-how. In the decade of the crisis after 2010, privatisations became once again necessary (or rather inevitable) as the indebted country anxiously sought fiscal revenue. After all, internationally, the fiscal factor has been a key driver of privatisation.

In other words, with the benefit of international accumulated historical experience, the academic and public debate is now much more pragmatic, recognising the undeniable advantages of markets (after all, we all live under the constellation of internationalised market capitalism) but also their limits. Limits which become more evident in times of major economic crises, such as the successive crises faced in at least the last 15 years by the developed world - and not only: the financial crisis and the subsequent recession of 2008, the pandemic crisis of 2020, the energy, and economic crisis resulting from the Russian invasion of Ukraine after 2022. And, I would add, the mother of all global crises, the climate crisis, which threatens the entire planet, and especially the most vulnerable geographical areas, including the Mediterranean, with extreme natural (and therefore social and economic) disasters. Can the climate crisis be tackled without the state assuming a decisive strategic, investment, financial and regulatory role or without the coordination of governments at transnational level? The role of governments remains crucial, including inter alia the mobilization and harnessing of private resources and business and market forces.

In all above-mentioned crises, governments have rightly (and quite pragmatically) reacted by mobilising the tools the state possesses as it enforced counter-cyclical macroeconomic policy, enhanced market regulation, reclaimed public control in selected sectors of the economy or in parts of the globalized supply chains. It is equally advisable for the state to withdraw its interventions when conditions of greater stability in the economy are restored.

So, in fact, we have transited from the dilemma “state or market”, “private or public sector” to the appreciation of the need to continuously coordinate the two; to permanently search for the optimal mix of cooperation and partnership between public and private sector (Public-Private Partnerships). This is the historical framework addressed in this book, coming from the pen of a successful practitioner of the sector.

The book is accompanied by useful annexes that present an extensive and valuable mapping of all privatisations completed in Greece (1991-2019), allowing the reader to place the subject studied in its historical and empirical context. This is a book to be read equally by policy makers and by all those who wish to understand the content, the framework, and the course of privatisations.

George Pagoulatos

Professor at the Athens University of Economics and Business,

Ambassador of Greece to the OECD

Introduction

State ownership is as old an institution as the state itself. Transfers of assets from the public to the private domain were first recorded in ancient Greek times. Over the centuries, with the evolution of political structures, the form and the extent of the engagement of the state in private economic activities has changed. The border line between the public and private sectors has been shifting with ideology, social pressure, fiscal conditions and the quest for growth. In the 1980s, privatisation became a major, politically borne, economic force, initially in Britain but gradually around the western world. The collapse of the Soviet Union, the re-unification of Germany and the political changes in China rendered privatisation a key policy in the 1990s, transforming economic structures and institutions globally. A lot of academic effort went into studying privatisation since the early 1970s, but no complete theory emerged and the empirical studies undertaken did not provide clear and strong evidence regarding its impact on the economy at the macro or micro levels.

In Greece, after the Second World War and the civil war, a period of restructuring and then economic acceleration followed driven by the state. Newly created state-owned enterprises and state-controlled banks funded investments and through them economic growth, leading to a commendable rise of the per-capita income. Nationalisation of private production assets, either to save them from bankruptcy or for political reasons, remained a policy instrument until the closing years of the 1980s. Privatisation entered the stage in 1990 and over a relatively short time became a mainstream policy, independent of the political persuasion of the government. When the financial crisis struck Greece in 2010, privatisation was elevated to a cornerstone reform by the country's institutional creditors and remained on the political agenda until 2019. After that, it has been going through a rethinking, possibly leading to a new equilibrium between the private and public sectors.

This short book is probably the first complete review of privatisation in Greece from 1990 to 2019 and attempts to address five interlinked questions: was privatisation systematically applied as a policy in that period; what were the forces driving it; which obstacles were raised to stop its advancement; did it facilitate reforms and finally, did it enhance the performance of the Greek economy? The underlying issue is of course where and how you draw the line between public and private in the economy, a most significant yet singularly difficult question to answer.

Privatisation in Greece was almost consistently applied throughout the period in examination, driven not by the need for reform but by fiscal considerations, with its presence on the political agenda occasionally reinforced by the European Commission and the institutional creditors. However, it did not result in massive changes in ownership, with control of several privatised assets remaining with the state. The institutional framework guiding privatisation stayed surprisingly robust over 30 years and the executing organisations were comparably effective. Privatisation introduced regulation, as a new policy instrument outside immediate government control, made privatised companies more transparent and defined public assets in a more rigorous manner than in the past. Its overall impact on the economy was positive but not significant, bar on the stock market which was measurably strengthened by the privatisation transactions effected through it.

Privatisation appears to have run out of steam. The bulk of state-owned enterprises across many countries have already changed hands or governments have decided, for a variety of reasons, that no more SOEs were to move to the private sector. It remains a policy only in failed states seeking assistance from the IMF and other transnational credit institutions, which almost invariably prescribe it as a fundamental reform and a condition for providing bail out funds. In Greece, privatisation was one of the most debated yet systematically applied policies and probably has also run its course in its legacy format. Nonetheless, the intellectual, and occasionally ideological, battle over where to draw the line between the private and public sectors, though temporarily subdued, is still on.

Having been involved in privatisations, as an advisor and a manager, since 1986 I developed an understanding of what drove the policy and how it was parametrised and worked in practice. I also witnessed the obstacles that impacted on its direction and effectiveness. I started in the UK, where I was a member of the teams working on privatising electricity, water and transport assets. Later, I advised certain CIS countries in preparing, and in some instances in selling assets to private investors. In Greece, since 1992, I advised on early privatisations, like those of MABE and Chalkis Shipyard, and then on more in the period from 1996 to 2008 (HELPE, DEPA, Olympic

Airways, Parnitha Casino). I served as the first CEO of the Hellenic Republic Asset Development Fund (TAIPED) in 2011, with a mandate to reconfigure and accelerate the privatisation process. After this long involvement, I felt that I could share some of the insights gained from coal face experience and provide a different perspective to those interested in understanding the workings, the shortcomings and the impact of this much talked about policy.

Chapter 1 gives a broad-brush historical context for privatisation. Chapter 2 describes the phenomenon in general terms and the methods and processes used. Chapter 3 reviews the theoretical foundations of privatisation and summarises the international empirical evidence. Chapter 4 moves onto Greece and defines and describes in some detail four distinct privatisation periods, comparing them statistically. Chapter 5 examines the effect that the institutional framework, the management structures and the key decision makers and operators had had on Greek privatisation. Chapter 6 identifies the driving forces and the obstacles which shaped privatisation outcomes over these years. In Chapter 7, a number of public policy hypotheses on the economic impact of privatisation are statistically tested. Finally, Chapter 8 summarises the main strands of the evidence and presents some ideas on the coming shape of the border line between the private and public trading sectors.

The book suffers from several limitations. It is not a political book, in the sense of promoting, justifying or criticising policies and specific actions. Neither is it an academic book passing scientific judgement on the policy, despite the statistical analyses presented. And it is not a collection of memories and personal views, which could have given colour to the data. Its purpose is simply to assemble and analyse the available material and provide a frame of reference for understanding and assessing the impact of privatisation on the Greek economy. At the end, it sets out some thoughts for the benefit of the enquiring mind and of the future proper historian. I hope that, though flawed and limited, it will prove readable and useful.

Chapter 2

A global phenomenon

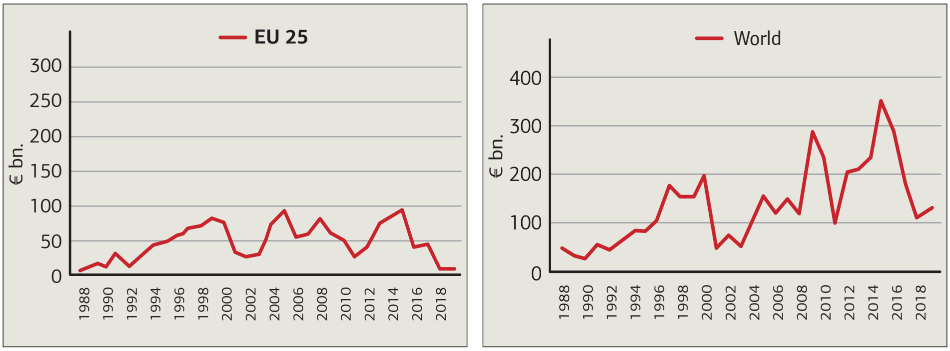
The broad picture

Collecting, collating and processing privatisation data is singularly difficult. No transnational organisation or data gathering company kept complete data series with consistent definitions. The Privatization Barometer collected and processed such data for the 1998-2013 period. MergerMarket (MM) identified state as sellers in certain transactions, allowing thus the filling up of the gap in the Privatization Barometer data after 2013. Both data sets referred to privatisation transactions, denoting the sale of shares and not the change of ownership and control. They did not employ rigorous definitions of the cost of preparation, the accruing proceeds and specific terms and conditions of the contracts. Moreover, they did not include any mass privatisation schemes executed in the ex-Soviet bloc, China and SE Asia communist countries. Overall, the number or privatisation transactions and government proceeds used in this chapter, and presented in Appendix A, must be taken at best as indicative estimates, which could only serve as a broad measure of the phenomenon and for rough comparisons between countries and periods.

In total, over a period of four decades between 1988 and 2019, there were 4,816 privatisation transactions recorded globally, yielding about €4.4trn in proceeds. During the 1990s, proceeds hit a peak, with €176bn in 1997. In the 2000s and 2010s global proceeds averaged €167bn p.a., compared to ca €94bn in the 1990s, with notable exceptions the years 2009 and 2016. During the same thirty-three years, European Union countries privatised at a fairly steady pace, with total proceeds amounting to €1.6trn from almost 2,800 transactions. Between 2000 and 2017, EU countries' proceeds remained within the €40bn-€90bn p.a. band, diminishing thereafter. To put things in perspective, all privatisations over the period accounted for less than 0.4% of global GDP, suggesting that their economic impact was bound to be limited.

It is interesting to observe how the political and economic premises of

Figure 2.1 Global privatisations proceeds, 1988-2019



Note: Conversion of USD to EUR at a constant 0.92 rate
Source: Privatization Barometer, author's estimates

Table 2.1: Privatisation proceeds, 1990-2019

First period (1990-1999) Proceeds (in €bn)		**Second period (2000-2019) Proceeds (in €bn)**	
EU25		**EU25**	
Hungary	42.31	France	51.88
Poland	28.59	Italy	32.69
Czech Republic	15.62	Germany	30.2
Rest of the World		**Rest of the World**	
Brazil	185.47	Australia	58.78
Argentina	109.72	China	48.36
Mexico	91.52	Turkey	41.32

Source: MergerMarket, World Bank, author's estimates

privatisation were reflected on academic research, which in turn reinforced the interest in the policy itself. Between 1980 and 2019, more than 18,000 articles and books on privatisation were published around the world. The elevation of privatisation to mainstream economic policy, implemented simultaneously by a large number of countries, led inevitably to a strong academic interest in the subject. The titles of some of the research and books are indicative of the breadth and the depth of interest[5]. There are indications that literature has been skewed, with fewer publications on microeconomic efficiency and a lot more on the political, macroeconomic and fiscal impact of privatisation. The academic discussion on the process and parameterisation of transactions is limited, but there is a lot of research on privatisation as a reform policy and on the political objections to it.

Appendix A: International Privatisations

	Value of Privatisations (€bn)			Transactions (No.)		
	World	EU25	Rest of the World	World	EU25	Rest of the World
1988	42.4	8.5	33.9	42	24	18
1989	30.4	15.4	15	66	38	28
1990	26.1	13.7	12.4	70	40	30
1991	50	30.4	19.6	206	118	88
1992	42.4	13.8	28.6	230	132	98
1993	65.2	29.5	35.8	227	130	97
1994	82.6	43	39.6	249	143	106
1995	87	47.6	39.3	331	190	141
1996	108.7	55.9	52.8	279	160	119
1997	176.1	69	107.1	258	148	110
1998	152.2	71.8	80.3	206	118	88
1999	152.2	81.6	70.5	221	127	94
2000	195.7	77.1	118.6	227	130	97
2001	47.6	29.5	18.2	192	110	82
2002	75.2	24.5	50.8	82	67	15
2003	50.7	32	18.7	80	65	15
2004	102.2	74	28.2	113	88	25
2005	152.2	91.8	60.3	144	86	58
2006	126.1	56	70.1	163	69	94
2007	150	59.2	90.8	150	52	98
2008	120.5	82.2	38.4	114	56	58
2009	288.3	60.8	227.5	71	57	14
2010	232.2	50.9	181.3	174	100	74
2011	102.6	28.7	73.9	87	50	37
2012	205.9	40.9	165	124	71	53
2013	210.5	73.3	137.3	146	84	62
2014	237.8	84.3	153.5	83	48	35
2015	347.7	94.7	253	109	63	46
2016	289.6	41.1	248.5	154	88	66
2017	172.5	46.2	126.3	115	66	49
2018	111.5	9.8	101.7	77	44	33
2019	129.6	10.9	118.7	135	77	57
	4,363.70	1,548.10	2,815.70	4,925	2,839	2,085

Source: Privatization Barometer, MergerMarket, World Bank, Author's estimates

Index

*The symbol * denotes Tables or Figures.*

R

S

T

U