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Privatisation in the euro area

Governments should grasp opportunities

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As a key element of the new reform agenda for Greece stipulated at the latest eurozone summit, privatisation has become a major issue for the southern European country. However, privatisation should be a topic for other governments in the euro area, too, given the high public debt in many countries. Nevertheless, a look at the privatisation policies in selected countries shows different priorities.

Privatisation is not a major issue in Germany. This reflects the fact that the federal government has largely disposed of its stakes in industrial companies. In addition, the fiscal pressure is lower than in the other eurozone countries. The potential for privatisations in Germany is, however, by no means exhausted.

In France there is a shift in emphasis with regard to the handling of publicly owned assets. Besides industrial policy considerations a stronger focus is being trained on debt reduction. The government announced last autumn that it would divest holdings worth up to EUR 10 bn by the end of 2015. However, the state has also repeatedly acquired stakes in companies to secure its controlling rights.

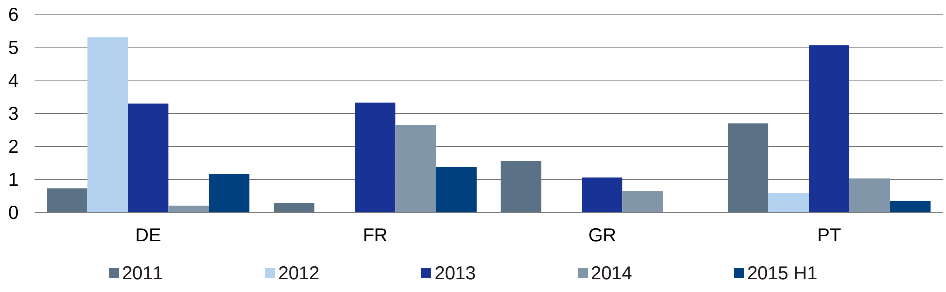
The Italian government is also banking on privatisations. Its reform, fiscal sustainability and economic growth programme targets asset sales worth around EUR 11 bn p.a. Disposals to international investors are intended to show that Italy is open and attractive to foreign capital. The 2014 target was missed by a long way; for 2015 the signs are that receipts will be higher.

In Spain most attention in recent years has been focused on public-sector measures to stabilise the banking system. The state is, however, already withdrawing from the savings bank sector once again. In the real economy the government has launched a new attempt to dispose of public-sector assets.

Stark contrast between Portugal and Greece. In Portugal privatisation is at the top of the political agenda. The proceeds generated over the past four years are equivalent to 5.6% of GDP. In Greece privatisation has proceeded at a very slow pace and has generated only a fraction of the originally slated receipts.

Privatisation receipts by comparison 1

Gross receipts, central or federal government level, EUR bn



Sources: BMF, APE, IMF, HRADF, Portuguese finance ministry

Introduction

As a major element on the new reform agenda for Greece stipulated at the latest eurozone summit in Brussels on July 13 privatization has become a top issue for the southern European country and those commenting on it. However, privatization should be a topic for other governments in the euro area, too.

GDP growth 2

%-change yoy, real

	2103	2014	2015F	2016F
Euroland	-0.4	0.9	1.4	1.6
DE	0.1	1.6	1.6	1.7
FR	0.7	0.2	1.2	1.6
IT	-1.7	-0.4	0.7	1.5
ES	-1.2	1.4	3	2.5
PT	-1.6	0.9	1.6	1.7
GR	-4	0.7	-0.3	1.3

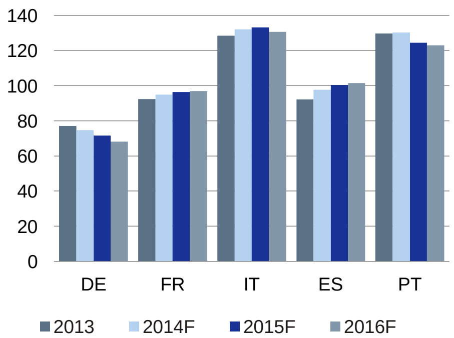
Source: Deutsche Bank Research

Of course, the economic situation has improved markedly across most of the eurozone countries. The southern European countries of Italy, Portugal and Spain are also recovering from the recession triggered by the sovereign debt crisis. With the exception of Greece, the eurozone countries again have relatively straightforward access to the capital market. The ECB's QE programme is keeping yields low on government bonds. Already in May and January 2014, respectively, Portugal and Spain were able to exit the adjustment programmes for the economic and financial sector (Spain) backed by the three lending institutions: European Commission, ECB and IMF.

However, the problem of high sovereign debt levels has not disappeared. True, in its spring 2015 economic forecast the European Commission did stress that the outlook for public-sector finances in the euro area is brightening and that deficit ratios are falling.[1] Nevertheless, deficit ratios remain relatively high in many countries and debt ratios are barely declining on the whole. According to the Commission's forecast, 2015 will see the deficit ratios in France, Spain and Portugal once again exceed the 3% limit set by the Maastricht Treaty. And in France, Greece, Italy and Spain the debt ratios will continue to rise in 2015 at least. These countries and Portugal already have debt ratios of nearly 100% of GDP and more, however.

Public debt in major Euroland countries 3

Gross public debt, % of GDP



Source : European Commission

There is a lot to be said for privatisation as an element of market-oriented structural policy, and the time is good for respective political action. Not only bond market prices, but also stock market prices are at high levels in many places. This means the outlook is favourable for governments to be able to generate appropriate receipts from asset disposals. Just a few years ago critics argued that the Brussels Institutions' adjustment programmes would force governments to sell off public assets at firesale prices. Such price levels are now no longer an issue in most places.

Since particularly on bond markets it is virtually impossible to get attractive yields, many institutional investors, especially pension funds and insurance companies, are on the lookout for other investment opportunities. Acquiring stakes in state-owned enterprises (SOEs) and/or participating in public-private partnerships (PPPs) can provide such opportunities. Regardless of the prevailing market situations, the (financial) success of privatisations depends heavily on the privatisation process itself being designed appropriately. This process, including elements such as the issue of the best possible sales procedure, are beyond the scope of this report.

Privatisation entails more than simply reassigning assets and the cash flow they generate from the state to the private sector. It is basically a core element of a sustainable growth strategy. It has a positive impact simply by easing the burden on the public purse. Governments can thereby document the credibility of their reform efforts. This builds trust, which is the prerequisite for a return to normalcy in the eurozone.

For smaller countries in particular it is also important that privatisations provide the opportunity to attract foreign investors. When foreign investors acquire stakes in companies, the influx of capital into the country is in many cases also

[1] European Commission (2015). Spring 2015 Economic Forecast: Tailwinds support the recovery Press release. Brussels. May 5, 2015.

accompanied by an inflow of important expertise. This is a big issue, particularly where a major investment and modernisation backlog has accumulated at state-owned enterprises and infrastructure facilities after enduring years of crisis.

Furthermore, governments bolster the private sector by selling off their assets and/or company holdings. Transferring ownership and controlling rights to the private sector opens up the prospect of increased efficiency compared with operating under government control. Of course, experience does show that efficiency gains largely depend on the degree to which the activities are conducted in an environment governed by market forces.

Nevertheless, there is an ongoing dispute about the privatisation of services of general interest. In many places there is vehement opposition to transferring the ownership of hospitals and especially water to private operators. Critics are particularly irked by private investors' profit motive. They claim that this drives up the prices of privatised services and results in deterioration in the quality of the services. Such wholesale criticism is unjustified, in our view. It fails to recognise that such potential negative developments, whether they concern the disposal of SOEs or the granting of a concession to private operators, can be addressed via sound, competitive tendering processes, appropriate regulations and/or guidelines for the operation of facilities and efficient control.[2] We believe PPPs offer attractive opportunities. In particular there is the prospect of boosting productivity by incorporating private-sector expertise and exploiting economies of scale and network effects. The involvement of private sector players in financing also relieves some strain on the public purse and expands the scope for risk diversification.

Political opposition was probably a major factor in the privatisation of public services becoming less of a priority in the EU. Instead, over the last few years it is government authorities in several countries that have reassumed state responsibility for privately owned or privately operated facilities providing services of general interest. Prominent examples of this development are the remunicipalisation of water supply services in Berlin and Paris. The insistence on traditional solutions, however, contrasts with the diversity of arrangements in Europe in this sector. With differences from country to country and by no means uniform arrangements within individual countries, energy supply, hospitals, railways, postal services and water management are operated partly by the private sector and partly by the public sector.

By and large the eurozone countries appear to be tapping the existing potential for privatisation. The degree to which this is currently occurring or has occurred in recent years is what we shall now describe by looking at a selection of countries. Our main focus will be the highly indebted southern European countries. In addition, the handling of public assets in France and Germany, the two strongest economies in the eurozone, is of interest.

The respective levels of public ownership cannot be analysed either in detail or in full. Public-sector assets are usually managed by a variety of institutions. As well as bodies that are directly controlled by governments, there are public development banks in particular. These public-sector institutions and their occasionally numerous subsidiaries usually hold stakes not only in large, listed companies, but also in SMEs – in line with their development objectives. Individual low-value, small stakes in particular cannot be examined in great detail here.

[2] See for example OECD (2012). Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships.

Germany

In Germany privatisation in the sense of selling off government assets has not been a major issue for several years, at least at the federal level. In the coalition agreement signed in autumn 2013, the term is only used with rather negative connotations.[3] This is a reflection, on the one hand, of the fact that the federal government has largely disposed of its shareholdings, particularly of listed companies. On the other hand, the fiscal pressure in Germany is lower than in many other eurozone countries. As already achieved in 2014, Germany will probably also post a budget surplus of more than ½% of GDP this year and in 2016. And the government can issue bonds easily and on very favourable terms.

This does not mean, however, that the potential for privatisation has already been exhausted. The state still has sizeable stakes in, for example, Deutsche Post (via KfW) and Deutsche Telekom. Deutsche Bahn AG is still wholly owned by the federal government. Furthermore, the federal government has stakes in Cologne/Bonn airport (30.94%) and Munich airport (26%) as well as in Berlin/Brandenburg airport which is under construction (26%). All three airports are still wholly owned by the state. (The remaining stakes are held by the respective Länder and municipal governments.) Via the financial market stabilisation fund SoFFin, the federal government portfolio also includes a 17.15% stake in Commerzbank AG. Despite continued disposals the federal government also has an extensive real estate portfolio that includes 39,000 dwellings (as of end 2014).

According to a report published by the Federal Finance Ministry in December 2014, the federal government is planning or considering a reduction in or complete disposal of stakes in all the above-mentioned firms from the real economy.[4] (See also lower box in the margin.) This does not mean, however, that concrete measures will be set in motion soon. In view of the lack of references to them in the coalition agreement, it would be something of a surprise to see extensive disposals of stakes in those companies, especially of Deutsche Bahn AG. At Deutsche Bahn, the infrastructure segments – especially the rail network and its operation – are not up for discussion in any case, as they “are associated with the state's responsibility for infrastructure”, according to the Federal Finance Ministry. By contrast, the ministry has stated that 24.9% of DB Mobility Logistics AG [the transport and logistics division of DB] is slated for privatisation, but no timeline is given.

Over the last few years the federal government has disposed of real estate holdings. In addition, the KfW stake in Deutsche Post AG declined due to the disposal of some shares and as a result of the convertible bond issued in 2009 being exercised. Apart from this, however, the federal government did not dispose of any significant volume of assets to private-sector buyers. For 2014 the federal budget plan estimated privatisation proceeds of just EUR 0.2 bn.

In mid-July 2015 the SoFFin floated 75.1% of Deutsche Pfandbriefbank AG (PBB) on the stock market. The volume of the IPO amounted to EUR 1.16 bn. Deutsche Pfandbriefbank is the repository for the core business of Hypo Real Estate (HRE), which is owned by the financial market stabilisation fund SoFFin. In 2014 as well as in 2015 the federal government has also sold dwellings to agencies owned by Berlin public authorities, what cannot be called privatisation.

Major privatisations by the federal government 4

2012

— Ge-Mi-Bau Mittelbadische Baugenossenschaft eG (federal government stake: 0.11%), fully privatised: 0.11%
— Genossenschaft für Wohnungsbau Oberland eG (federal government stake: 2.09%), fully privatised: 2.09%
— Neue Lübecker Norddeutsche Baugenossenschaft eG (federal government stake: 0.06%), fully privatised: 0.06%
— Baugenossenschaft Familienheim Heidelberg eG (federal government stake: 0.03%), fully privatised: 0.03%
— Deutsche Post AG direct sale from KfW holding (accelerated bookbuilding process), KfW stake: 25.5%.

2013

— TLG IMMOBILIEN GmbH (federal government stake: 100%), fully privatised
— TLG WOHNEN GmbH (federal government stake: 100 %), fully privatised
— Deutsche Post AG exercise of the convertible bond issued in 2009 from the KfW holding, KfW stake: 21.0%.
— Duisburger Hafen AG (federal government stake: 33.33%), sale of federal stake to the North Rhine-Westphalian government's investment holding company (i.e. not privatisation).

2014 and 2015 sale of dwellings to Länder real estate authorities.

Source: German Finance Ministry

Federal government stakes being considered for privatisation? 5

— Airbus Group 11% (of the voting rights)
— Deutsche Telekom AG, 14.30% (another 17.50% KfW)
— Deutsche Post AG (KfW 21%)
— Deutsche Bahn AG, 100%
— Flughafen Berlin/Brandenburg GmbH, 26%
— Flughafen Köln/Bonn GmbH, 30.94%
— Flughafen München GmbH, 26%
— DEGES Deutsche Einheit Fernstraßenplanungs- u.-bau GmbH, 29.08% (other 70.2% owned by 12 Länder)
— DFS Deutsche Flugsicherung GmbH, 100%
— ÖPP Deutschland Beteiligungsgesellschaft mbH, 57% (jointly with Länder and municipal governments, as of Nov 2013).

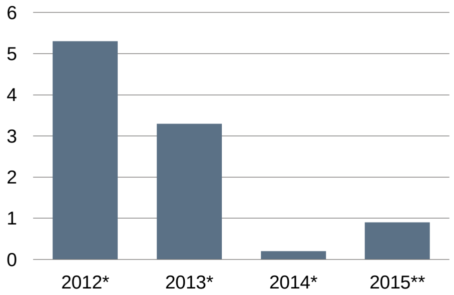
Source: German Finance Ministry

[3] For instance, under the heading “non-agricultural financial investors and land privatisation” there is a call for the examination of controls on the acquisition of farmland by non-agricultural and supra-regional investors. See Bundesregierung (2013). Deutschlands Zukunft gestalten. Coalition agreements between the CDU, CSU and SPD, p. 123.

[4] Federal Finance Ministry (2014). “Verringerung von Beteiligungen des Bundes – Fortschreibung 2014” (only available in German), p. 3.

Privatisation receipts at the federal state level in DE 6

EUR bn

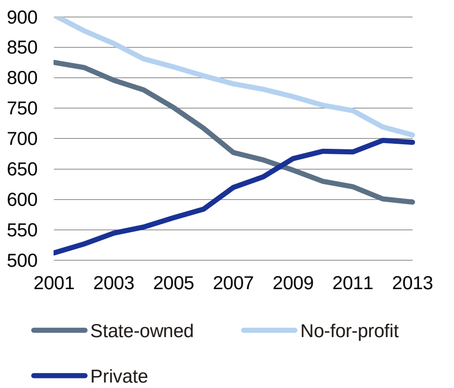


* Fiscal year; ** planned, without the SoFFin's EUR 1.16 bn proceeds from the PBB privatisation

Source: German Ministry of Finance

German hospitals by operator 7

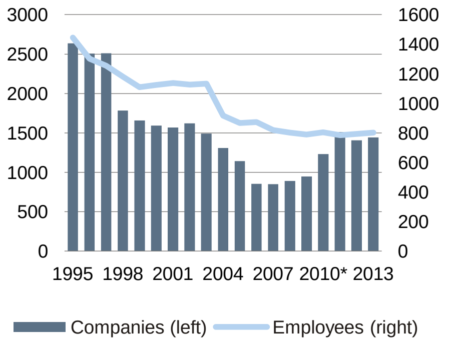
Number



Source: Federal Statistical Office

France: Companies with government majority stake 8

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



* Various gaps in the data series since 2010

Source: Insee

There are no plans to privatise the transport routes in Germany. This applies not only to the rail network, but also to the long-distance road network, which is also owned by the federal government. The experts agree, however, that there is a considerable investment backlog in both segments, especially for federal highways. An expert commission mandated by the Federal Transport Minister recently outlined ways of increasing the efficiency of the expansion, maintenance and operation of highways and of financing such projects.[5] These tasks, which are generally still being carried out by the Länder as project managers, could be transferred to a yet-to-be-established, nationwide operating company established under private law ("infrastructure company for federal highways"). Besides levying toll fees, such an operating company could also be financed by raising private capital. However, the commission comprising experts with a diverse range of political sympathies and societal affiliations could not agree on a market-oriented funding model.

As at the federal level, privatisation at the Länder and municipal levels is not a major issue, leaving aside the sale of residential property (in 2012 and 2013, a total of 75,000 units) by the Länder. For instance, Länder and municipal governments still hold major stakes in infrastructure facilities such as airports, domestic ports and maritime ports or exhibition companies. There are even certain Länder that have stakes in industrial companies (e.g. Lower Saxony in Volkswagen AG (20%) and Salzgitter AG (26.5%), Baden-Württemberg in the brewer Staatsbrauerei Rothaus AG (100%)).

At the local government level, there is still a certain trend towards remunicipalisation. This relates to the water supply and above all the energy supply sectors, especially the grid. In the hospital sector the static number of privately operated facilities suggests that the wave of privatisations observed in the second half of the past decade has come to a halt. However, there has also been consolidation in the private hospital segment recently.

France

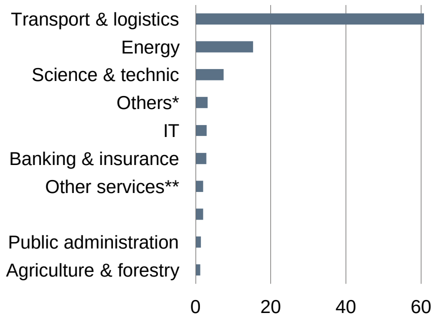
Like many other countries France has in the past 30 years considerably reduced its previously extensive portfolio of public-sector assets. However, this has not always been executed with complete rigour. Rather, interventionist tendencies in economic and structural policy have frequently been part of the mindset of those serving in French governments. This usually included an active entrepreneurial role for the state in business segments considered to be strategically important. That is why the state retains key controlling rights in major companies in several sectors to this day. Also, the management of public-sector holdings was in many cases not regarded as a one-way street leading away from the state towards private sector entities. Instead, governments have repeatedly increased their stakes in companies or made new acquisitions in order to be able to directly influence business activity.

A multi-faceted approach has also characterised policy in recent years. "Active management of state-owned holding" has been the motto of the economic policy of the governments during François Hollande's presidency, to date. In line with this guiding principle, the state has reduced its stakes, on the one hand. However, hardly any of the resulting receipts have been used to reduce sovereign debt. Instead, considerable sums have spent on establishing the development bank Bpifrance, which was founded at the end of 2012 and primarily supports small and medium-sized companies and promotes innovation. Not least privatisation proceeds also facilitate direct acquisitions and

[5] Expertenkommission „Stärkung von Investitionen in Deutschland" (2015). Stärkung von Investitionen in Deutschland. Expert Commission Report. (Only available in German)

Industry structur of SOEs in FR 9

According to number of emplyees, 2013, %

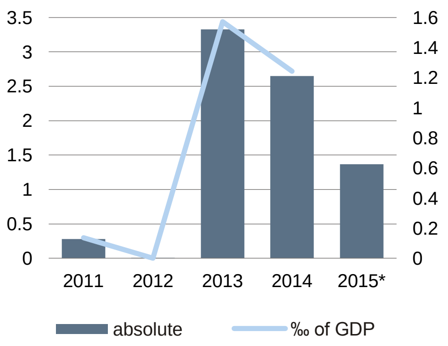


* Electronic & electrical equipment, engineering, others
** Trade, hotels & restaurants, real estate admin., etc.

Source: Insee

Gross privatisation receipts in FR 10

EUR bn, left scale;
as ‰ of GDP, right scale



* Jan to June

Sources: APE, Eurostat, Deutsche Bank Research

restructuring measures via the government investment agency Agence des participations de l'État (APE). Away from its planned policy activities, the government also saw the need in 2011/12 to support the Belgian-French bank Dexia that required restructuring and recapitalisation due to the financial market crisis. It provided a capital injection and acquired a stake in the bank.

There has been a discernible shift in emphasis since Prime Minister Valls' first government came into office and even more so since his second term in summer 2014. The new government is more emphatic than its predecessors in stressing the contribution of state portfolio management in reducing sovereign debt. In October 2014 for instance the APE made a payment of EUR 1.5 bn to the sovereign debt fund (Caisse de la dette publique, CDP). For the first time since 2006 privatisation receipts were thus used directly to reduce debt. In line with the new approach Economics Minister Macron also announced in October 2014 that the French government wanted to dispose of assets worth EUR 5-10 bn over the following 18 months. A major share of the proceeds is to be set aside for debt reduction.

However, this does not mean the government is abandoning its industrial policy goals. The sale of shares in listed companies is not accompanied by a corresponding diminution of control rights. This is prevented by the double voting rights for shares that have been owned by one and the same shareholder for two years or longer. This law was amended in early 2014. Whereas previously the provision applied only if it was explicitly provided for in company statutes, it now applies to all firms unless double voting rights are forbidden in a company's statutes. In addition, shareholders whose voting rights have breached the 30% threshold due to the amended regulations are exempted from the otherwise applicable obligation to make a public offer to acquire the remaining shares. The amended rules provide the government with a major benefit: a fiscally motivated reduction in corporate holdings is no longer automatically at odds with industrial policy interests.

Backed by the new rules the current government has further intensified its already varied activities. The noteworthy asset disposal transactions – in terms of proceeds – that have been conducted in the past two years or so mainly concern the following major listed companies.

— Substantial reduction in the shares held in Safran which, operates in the aerospace sector and in the defence and security technology industry. The state reduced its stake in three stages in March and November 2013 and in March 2015 by more than 11.78 points to 18.03%. In 2013 it thereby raised EUR 0.45 bn and EUR 0.9 bn; and according to press reports the proceeds in March 2015 were up EUR 1.2 bn.

— Sale of 3.1% of the capital of GDF Suez for EUR 1.51 bn in June 2014. The state currently still owns 33.15% of the energy company.

— Reduction in the Airbus stake from 12% to just under 11%. This January 2014 transaction, which resulted from an agreement between the countries with stakes in Airbus, raised EUR 0.45 bn.

— Disposal of 1.9% of the capital of the telecommunications firm Orange for EUR 584 m by the development bank Bpifrance in autumn 2014.

— In mid-June 2015 banks were instructed to sell 0.9% of the capital of the energy firm GDF Suez within three months at the latest.

The asset disposals are set against the inception and expansion of state influence in other companies. The following measures in particular even drew international attention:

— Acquisition of a 14.1% stake in PSA Peugeot Citroen for EUR 0.8 bn in April 2014. According to the government it took this step, which coincided with a

Chinese firm becoming a co-owner of PSA, to support the automaker's strategic plans. Critics regarded the government's primary motivation to be to avert the threat of jobs being lost in France.

— Increasing its stake in Renault from 15.01% to 19.74% in April 2015. In order to secure double voting rights at the carmaker and thus also government influence at the annual general meeting on April 30, the state acquired 4.73% of Renault’s total shares for EUR 1.21 bn.

— In May 2015 the government was driven by the same motive to increase its stake in Air France-KLM from 15.88% to 17.58% at a cost of EUR 42 m.

Furthermore, there were capital reallocations between government bodies. In September 2013, for instance, APE acquired a 7.35% stake in Areva from the nuclear energy and alternative energy authority (CEA). The proceeds of around EUR 0.36 bn are intended improve the financial position of the authority responsible for decommissioning nuclear power plants.

All in all, the state has generated significant receipts in the recent past. From the beginning of 2013 to mid-2015, gross receipts from major privatisations have amounted to EUR 7.34 bn in total, while net receipts, i.e. receipts minus outlays for acquisitions, have remained markedly lower at EUR 4.94 bn, i.e. 1.97 bn per year on average. This is, however, largely due to the upturn in the stock markets. Given that share prices have risen, the government's intention to use privatisation receipts of around EUR 4 bn to reduce sovereign debt this year appears to be only moderately ambitious. Also taking into account the scale of the controlling rights, the influence of the state seems to have actually increased thanks to obtaining double voting rights and buying into PSA.

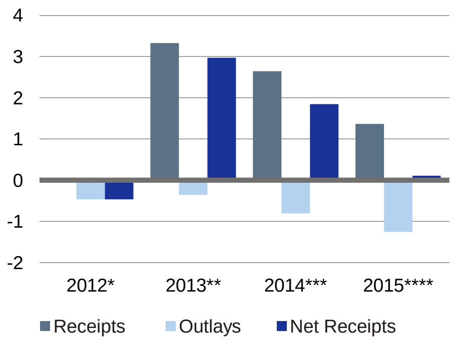
The French state held stakes in 77 firms via APE at last count (as of March 2015). These include 13 listed companies. The (market) value of these 13 stakes totalled EUR 82 bn at July 16, 2015. The unlisted companies included airports and seaports, defence sector firms and the lottery company La Française des jeux, the postal service (La Poste), the rail operator SNCF and the public TV broadcaster France Télévisions. The last three companies mentioned above remain wholly owned by the state. The state also owns other stakes in large companies via the development bank Bpifrance. They include telecoms firm Orange, Schneider Electric (3.42%), Technip S.A. – a listed provider of technology and project management to the oil, gas and petrochemicals industry (5.2%, mid-2014) – and the electronics group STMicroelectronics. (Bpifrance and the CEA hold a 50% stake in the publicly owned French-Italian STMicroelectronics Holding N.V., which owns 27.5% of the capital of STMicroelectronics (end-2014). Further stakes are held by the development institution Caisse des Dépôts et Consignations (CDC) that include the maker of industrial piping systems Vallourec S.A. (7.47%, end-2014), autoparts supplier Valéo (3.39%) and the environmental services provider Veolia Environnement, and together with the latter a stake in the transport provider (coach and rail) Transdev.

At the regional and local levels there is much opposition to privatisation. The highest-profile development was the remunicipalisation of the water supply in Paris in 2010 that caused long-lasting reverberations. In the meantime other towns and municipalities have undertaken similar steps.

There has recently also been local criticism of plans by the government to divest its stakes in regional airports. All the same, the government recently completed the sale of 49.9% of the capital of the company that operates the airport Toulouse-Blagnac (ATB) to a Chinese-Canadian consortium for EUR 308 m. The first legal steps have been taken towards a similar process for the airports in Lyon and Nice.

Receipts from major privatisations in FR 11

EUR bn



* Outlay without EUR 2.6 bn for Dexia recapitalisation;
**Outlay without EUR 3.066 bn Bpifrance capital augmentaion;
*** incl. EUR 584 m Bpifrance receipts from the Orange deal; ****Jan to June, incl. EUR 188 m Bpifrance receipts for the sale of Valéo shares

Sources: APE, Deutsche Bank Research

APE stakes in listed companies 12

— Aéroports de Paris 50.63%

— Airbus Group 10.94%

— Air France-KLM 17.58%

— Areva 28.83% (further 54.37% held by CEA (Commissariat à l'Énergie Atomique et aux énergies alternatives))

— CPN 1.11% (in addition, the Caisse des Dépôts et Consignations (CDC) owns 40.8% and La Banque Postale 36.3% of the insurer)

— Dexia 5.73% (CDC has additional holdings)

— EDF 84.49%

— GDF SUEZ (ENGIE) 33.14%

— Orange 13.45% (another stake of nearly 11.6% is held by Bpifrance)

— PSA 14.13%

— Renault 19.74%

— Safran 18.03%

— Thalès 26.36%

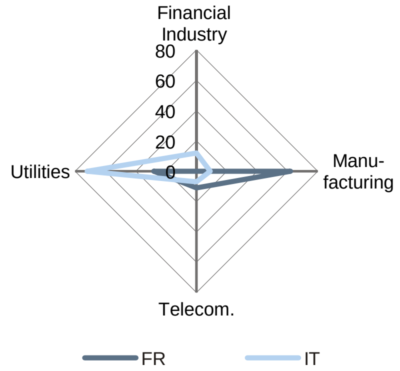
*As of July 16, 2015

Source: APE

Italy

Industry structur of privatisations in FR and IT 13

Share of total privatisation receipts in 2013/14, %



Source: Deutsche Bank Research

Privatisation projects are longstanding elements of the reform programmes in Italy. In the past three years the governments under prime ministers Monti (Nov. 2011-Apr. 2013), Letta (Apr. 2013-Feb. 2014) and most recently Renzi (since 2014) have passed more or less comprehensive privatisation programmes. The Monti government for instance wanted asset disposals to generate proceeds equivalent to at least 1% of GDP per year between 2013 and 2017. Strict execution of these plans was obstructed by among other things difficult market conditions and the change in government. When the Renzi government came into office this breathed new life into the reform plans. The government's programme of reforms, fiscal sustainability and economic growth is targeting average annual asset sales equivalent to 0.7% of GDP for the next few years. That corresponds to EUR 11-12 bn. The disposals especially also to foreign investors are designed to show that Italy is an open and attractive destination for foreign capital.

— The launch-year 2014 proceeds of EUR 3.91 bn fell short of the target, however. The highest profile transaction in 2014 was the partial privatisation of the holding company CDP RETI. The hitherto wholly owned subsidiary of the public-sector development bank CDP SpA (Cassa Depositi e Prestiti) manages the government stakes in the listed electricity grid operator Terna (29.85%) and the listed gas supply and gas pipeline company Snam (32,38%). The transaction saw a European subsidiary of the State Grid Corporation of China group pay EUR 2.1 bn for a 35% stake in CDP RETI. Additional stakes in the holding company were sold to the state's widows and orphans' fund (2.6% for EUR 140 m) and to banking foundations (3.3% for EUR 173.5 m).

— In addition, 28.5% of the CDP SpA stake in the Fincantieri shipyard was sold on the stock market for EUR 350 m. Further disposals are planned. (Originally up to 49% of the stake was already to have been divested last year. There was insufficient demand, however.)

— In July, Fondo Strategico Italiano (FSI), which belongs to CDP, reduced its stake in insurer Generali by 1.91 percentage points to 2.6% and thereby generated receipts of EUR 467.5 m. The shares in the insurer had been acquired by FSI in 2012 as a result of the Italian central bank's acquisition of a stake (20% of the capital) in FSI.

— Furthermore, 30.5% of the capital in Rai Way, a firm that primarily operates transmission equipment of state-owned broadcaster Rai, was floated on the stock market for EUR 280 m. According to press reports international competitors are interested in acquiring Rai Way. The government would like to retain a majority stake of more than 50%, however.

— In December Fonds FSI Investimenti, which is majority owned by FSI (77.1% stake), sold 40% of shares in the steam turbine maker Ansaldo Energia to Shanghai Electric Group for EUR 400 m. The FSI Investimenti portfolio thus retains a 44.5% stake in Ansaldo Energia.

— 2015 began with the sale of more than 5.7% of the energy supplier Enel. This provided the government with receipts of EUR 2.2 bn in February. As a result of this deal the government stake in Enel declined to 25.5%.

— An originally more or less simultaneously planned reduction in the government stake in the oil and gas firm Eni by 5% of the capital has been postponed for the time being because of the low oil price and correspondingly unfavourable market conditions.

In addition to the above-mentioned projects that have already been or are soon to be implemented there are other privatisations on the government's reform agenda. The notable items are:

— Partial privatisation of the postal service. Before the end of 2015 up to 40% of the hitherto wholly state-owned enterprise is to be privatised primarily via a stock market flotation. The government hopes to generate more than EUR 4 bn in receipts from this disposal. This deal was originally due to be executed back in 2014, but it was put on ice because of the then difficult market environment.

— Partial privatisation of Enav, the air traffic control operator. The sale of up to 49% of the shares in Enav, which was also already authorised by the government in 2014 but has not yet been implemented, is also to be completed this year. According to press reports, the sale would generate receipts of up to EUR 1 bn.

— Partial privatisation of the state-owned railway Ferrovie dello Stato (FS). Also under discussion is the sale of up to 40% of the state railway company. The FS group manages the rail network, provides freight and passenger services and offers the services required (maintenance). It could, however, take a while before the project is implemented. According to representatives from the government and the rail company, a stable regulatory environment is important for such a deal with private-sector involvement in the rail sector.

Government stakes in listed companies in IT 14

— Enel 25.5% (Economics and finance ministry)
— Eni 30.1% (CDP 25.76%, Economics and finance ministry 4.34%)
— Fincantieri 72.5% (CDP)
— Finmeccanica 30.2% (Economics and finance ministry)
— Generali 2.6% (via 80% stake in Fondo Strategico Italiano held by CDP)
— STMicroelectronics 13.75% (over 50% stake in the state-owned Franco-Italian STMicroelectronics Holding N.V.)
— Terna 29.85% (via CDP's 59.1% stake in CDP RETI)
— Snam 32.38% (via CDP's 59.1% stake in CDP RETI)

At the regional and local levels the provision of services of general interest, which is still largely administered by the state, is to be organised more efficiently. To this end the government plans, firstly, to promote the merging of municipal utility companies in order to reduce their numbers and to generate economies of scale. Secondly, the government is also advocating a bigger role for private operators. Privatisation of the water supply was already halted several years ago, though, following a corresponding plebiscite. A large proportion of the motorway network, by contrast, has long been operated by private companies.

Privatisation and more efficient management of property at all government levels are intended to generate revenues and cut costs.

As shown by the comments and summary contained in the box 14, the Italian government still has considerable assets despite the large-scale privatisation that has mainly occurred during the last few decades. At the same time the country has an extremely high sovereign debt-to-GDP ratio of 132%. Equally the government's privatisation projects are not only focused on direct fiscal effects. Rather, by rigorously implementing the programme in one important, high-profile area the government could demonstrate its willingness to tackle reforms.

Spain

In Spain events surrounding the topic of public ownership and privatisation in recent years have largely been characterised by the government intervention required to stabilise the Spanish banking system.

As a result of the international economic and financial crisis and the bursting of the bubble in the Spanish property market it was mainly the (former) savings banks (Cajas de ahorros) that were plunged into difficulties from 2009. In a multi-stage process many institutions were restructured and recapitalised. On the one hand, the state acquired extensive banking interests due to the support measures executed via the Spanish banking bailout fund (Fondo de Reestructuración Ordenada Bancaria, FROB). On the other hand, FROB was the medium by which the state became a co-owner of Sareb, the rescue vehicle for non-performing property assets, 45% of whose capital comes from the bank bailout fund and

55% from private-sector institutions. Sareb acquired a total of 200,000 real estate assets from the savings banks which had received state support.

State exiting the savings bank sector once again

These are of course temporary shareholdings. The setting-up of Sareb was linked to the obligation for the rescue company to dispose of its assets within 15 years and to cease its operations. By the end of 2014 the company had sold 24,000 properties – 15,000 of these last year. Sareb aims to dispose of roughly the same number of properties in 2015. Furthermore, 6% of financial assets, such as loans, had been divested and the value of these assets had declined by nearly EUR 6.3 bn to almost EUR 33.2 bn by the end of 2014.

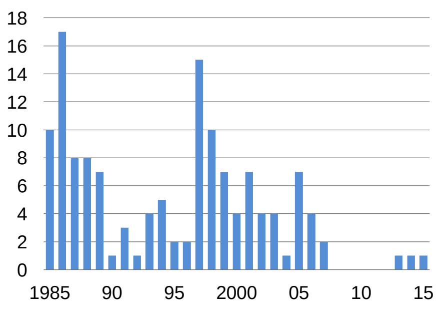
A restructuring programme was drawn up for the savings bank sector, as agreed with the EU. This was designed to stabilise the banking sector and reduce the levels of government ownership. For example, commercial banks with powers to raise their own capital were hived off from the savings banks. The savings banks concerned thus operated only as holding companies from then on. In another step the savings banks were converted into foundations. There were also regulatory incentives for the savings banks/foundations to reduce their stakes in the newly created banks.

Several of the hived-off banks have been acquired by listed Spanish banks. Significant stakes are still held by the state and/or FROB that include the listed agglomeration of seven former savings banks Bankia (62.8% as of end-2014, via the 100% stake in Banco Financiero y de Ahorros, BFA) and in the Banco Mare Nostrum group (BMN, 65%). Both the remaining stakes in Bankia and BMN are to be sold by the end of 2017 and February 2018 respectively. There is also a smallish stake in Bank NCG, after the majority of the capital was sold to Venezuela's Banesco group last year. The ECB has recently emphasised that good progress has been made with the restructuring of the banks supported by the state and the divestment of government stakes to private investors.[6]

Some of the erstwhile savings banks also held significant stakes in real economy companies. For instance, Bankia owned a 12.1% stake in the International Airlines Group (IAG), which was created by the merger between British Airways Plc and Iberia in 2011. Bankia sold this stake, however, in summer 2013 to international investors in order to be able to pay off the loans provided by the European bailout facilities.

Privatisations in non-financial sectors in ES 15

Number*



* step-by-step privatisations of large enterprises over several years separately registered in the respective years, 2015 Jan. to June

Source: SEPI

The “la Caixa” Banking Foundation is the only former savings bank that still has major shareholdings in the real economy via its investment holding company criteria. Criteria owns a majority stake in the listed Caixa Bank, which survived the crisis without a capital injection from the state. The bank acquired several savings banks in the wake of the crisis, as did other big Spanish banks. Given its status as an institution established under private law the “la Caixa” Banking Foundation can hardly be assigned to the public sector, however.

New start in the real economy

Privatisations in the real economy mostly played a significant part in economic policy over the last 30 years, and for both conservative and socialist governments. One exception was the crisis period from 2008 to 2013, in which no such activities took place. The economic recovery in Spain has however been accompanied by renewed interest in this instrument. Given the projects in

6 European Central Bank (2015). Statement following the third post-programme surveillance visit. Press Release. 23 March.

past decades the potential for privatisation has in the meantime concentrated on the transportation and logistics sector and infrastructure activities.

The then socialist government tried to make a new start back in 2011. It wanted to sell 30% of the state national lottery and 49% of airport operator AENA Aeropuertos. Furthermore, AENA was ordered to sell its licences for operating the two airports in Madrid and Barcelona. Given the difficult economic situation and the steep decline in share prices on the Madrid stock exchange, however, the conservative government elected in November 2011 put the plans on hold in early 2012. With the gradual economic recovery, which became steadily more apparent since 2013, the topic of privatisation also came back onto the agenda.

This attention was focused on the airport operator AENA. Unlike with the first attempt, however, no separate sale of licences was planned, but the business structure of the firm, which operates numerous airports primarily in Spain and in South America, was meant to be retained. In addition, the government wanted to sell the 49% stake in two tranches. 28% was to be sold to diversify the shareholder base and 21% placed with a small group of core investors. Particularly the negotiations with potential core investors proved to be more complex and protracted than initially planned by the government. The flotation planned for November 2014 therefore had to be postponed. All the same, the project was successfully completed in February 2015. The successful placement of the two minority stakes in AENA is the biggest privatisation executed in Spain for many years. It generated proceeds of nearly EUR 4.3 bn. The government benefited from the improvement in the company's business metrics that accompanied the general economic recovery.

There has also been more movement in the privatisation and liberalisation of the rail sector. The focus has, however, shifted towards liberalising the market. As of January 1, 2014 the responsible transport ministry split the state-owned railway company Renfe into four subsidiaries with the divisions freight transport, passenger services, maintenance and leasing. The leasing company is charged with leasing carriages, locomotives and also high-speed trains to interested private operators. The plan for the freight transport company is to take on board a foreign partner who will acquire a 50% stake in the company. Parts of the maintenance division were bought by private firms. The previously planned more extensive privatisation of Renfe is currently on ice. Operation of the rail network, which was spun off into a stand-alone SOE in 2005, is not part of Renfe. The network is open for competition. This has also applied to individual express routes for a short time.

Opening up the market to private companies has also been the priority in the postal services segment over the last few years. Privatisation of the still state-owned postal service (Sociedad Estatal Correos y Telégrafos) is not under discussion, however. This also applies in principle to the enterprises still in the portfolio of the government's holding company SEPI. SEPI holds majority stakes in 16 other enterprises apart from the postal service. These firms, which include project development companies, firms operating in the nuclear business and shipyards, usually serve strategic objectives of the state. In addition, SEPI owns and manages minority stakes in large, already heavily privatised enterprises in the energy, industry, commerce and telecommunications sectors. SEPI's most recent disposal, of a 51% stake in a manufacturer of nuclear pharmaceutical products to a major US sector peer, came in 2014.

Two waves of privatisation 16

The privatisations implemented to date came largely in two waves. The first wave began in 1985 in the run-up to Spain's accession to the EU in 1986 and lasted until the mid-1990s. At that time the politicians' primary focus was to restructure state-owned assets and improve the competitiveness of public-sector companies. On the one hand, divestments were made of smaller and medium-sized firms, also including several spin-offs from larger companies. On the other hand, the state started to sell off shares in large companies – including those with a stock market listing – without ceding majority stakes and thus its control.

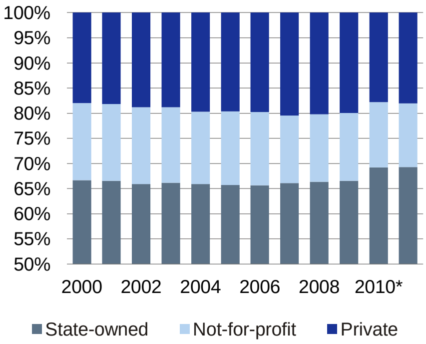
In the second wave from 1996 until 2007 fiscal considerations with regard to the introduction of the euro were initially a major factor. The proceeds during this phase totalled some EUR 30 bn. In addition, policymakers wanted to promote private-sector activity and help to modernise the Spanish economy given the growth in globalisation. By the middle of the last decade the state had transferred around 120 firms from the public sector into private hands. It also disposed of telecommunications companies and large energy suppliers, with the exception of the majority of its industrial interests.

Considerable opposition at local and regional levels

The main topic of debate at local and regional levels is the privatisation of services of general interest. Here, many regional authorities and municipalities find themselves facing a dilemma: on the one hand they are under considerable

Share of hospital beds by operator in ES 17

Share, %



* 2010 break in the series

Source: Eurostat

financial pressure; on the other, the opposition to privatisation plans has grown in many places. Especially in politically highly sensitive areas such as healthcare (hospitals) and the water supply the trend towards involving private operators via PPPs for instance has been halted. However, already around half of water management nationwide is delivered by private companies.

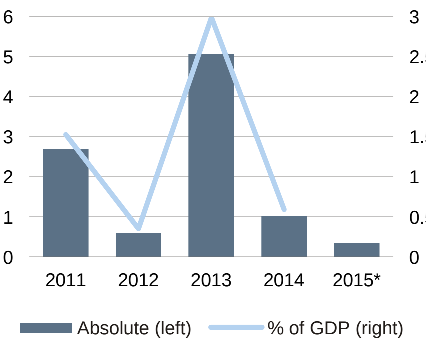
Critics claim that among other things the involvement of private enterprises has in many cases failed to deliver the efficiency gains that were hoped for in these areas. According to a recent report the shortcomings were, however, largely the result of poorly administered issuance of operating licences and unfavourable framework conditions, such as the absence of standards for public tendering procedures, lack of competition, the insufficient willingness of municipal authorities to collaborate with one another – despite the difficulties faced by many smaller local authorities with inadequate resources for capital expenditure and the governance of PPPs – as well as the often insufficient involvement of the public.[7] Instead of now banking solely on remunicipalisation, the authors suggest that consideration should be given to rectifying the above-mentioned shortcomings.

Portugal

In Portugal privatisation ranks relatively high on the political agenda. The current conservative government sees the privatisation programme as the flagship for its structural reforms.[8] The government's programme is not only aimed at generating higher revenues for the state. Another aspect is important, too. Several public enterprises have run into financial difficulties due to the crisis in Portugal in the past years. However, the Portuguese government had little scope to support these companies, given the strain on the public purse and the fact that under EU law subsidies are subject to very restrictive conditions. But the government has recognised that the transfer of SOEs to private actors can provide a way out of this dilemma as the participation of private investors makes it easier to sustainably finance necessary investments in former SOEs. In acting accordingly the government also counts on foreign investors. In addition to these financial goals the programme also has economic policy objectives, such as opening up markets and making the economy more flexible by reducing the role of the state.

Privatisation receipts in PT 18

EUR bn (left scale), % of GDP (right scale)



* Jan to June

Sources: Eurostat, Ministério das Finanças PT, Deutsche Bank Research

In contrast to other countries the Portuguese government has been on track and even exceeded its target in the past few years. The adjustment programme agreed with the Brussels Institutions in 2011 originally stipulated that Portugal had to sell public assets in the amount of EUR 5 bn. In fact, the Portuguese state managed to raise EUR 8.9 bn from privatisations in the three years until the adjustment programme ended in May 2014. In the past 12 months until mid-June 2015 another EUR 843 m was generated. Thus, in the past four years total privatisation proceeds have been equivalent to 5.6% of (2014) GDP.

In the past two years the biggest transaction was the spin-off and privatisation of the insurance business Caixa Seguros of the state owned (former) bancassurance Caixa Geral de Depósitos (CGD). With the transaction completed in May 2014 80% of the capital of Caixa Seguros were sold for EUR 1.63 bn to a Chines investor who thus acquired the control of the insurance company Fidelidade, including its associated companies Multicare, a health insurer, and Cares, a travel and transport insurer. In autumn 2013 CGD already sold its healthcare unit HPP (Hospitais Privados de Portugal) for EUR 86 m to a private Brazilian company. These divestments were elements in the

7 Gomez, Francisco Gonzalez et al. (2014). Beyond the public-private controversy in urban water management. Utilities Policy 31 (2014), p. 1 to 9.

8 Governo de Portugal, Ministério das Finanças (2015). Privatization programme has been a flagship in the structural reform agenda.

Major privatizations in PT 19

2013

- ANA, Aeroportos de Portugal (airport operator) 100% for EUR 3.08 bn incl. transfer of EUR 753 m debt.
- CTT, Correios de Portugal (postal operator) 63.64% of the capital (70% of the free flow) for EUR 566 m.
- Fidelidade (insurance business of CGD), sale in several stages with total receipts of EUR 1.632 bn, amongst EUR 1.25 bn in 2013
- HPP (CGD-share of the hospital operator) for EUR 86 m.
- GALP (energy) 1% of the capital for EUR 95 m.

2014

- REN (management of energy transmission systems) 11% for EUR 592 m.
- CTT, rest of the stake for EUR 343 m
- EGF (waste management company) 100% for EUR 150 m.

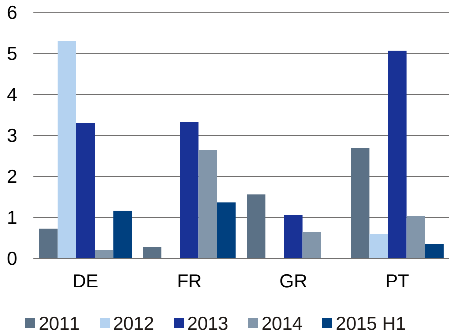
2015

- TAP (airline) 61% of the capital for EUR 10 m plus a EUR 338 m investment programme for TAP.

Sources: Ministério das Finanças, press reports

Privatisation receipts by comparison 20

Gross receipts, central or federal government level, EUR bn



Sources: BMF, APE, IMF, HRADF, Portuguese finance ministry

restructuring and recapitalisation of the CGD group that was financially stricken by the crisis in the Portuguese economy.

Significant revenues of EUR 0.9 bn were also generated by the disposal of the postal operator (Correios de Portugal, CTT) that was privatised in two stages. In the first stage in December 2013 the government offered 14% via an IPO combined with a direct sale of 49.64% to institutional investors for a total amount of EUR 566 m. The second stage completed the privatisation with 31.5% being sold to institutional investors for EUR 343 m (the remaining shares were held by the CTT itself.)

But even in Portugal not all projects have gone according to plan. A case in point is the recent partial privatisation of the national airline TAP, Transportes Aereos Portugueses. This transaction was originally scheduled for 2012. At that time, however, it was deferred due to the recession in Portugal and perhaps the lack of attractive bids. The latest attempt was accompanied by TAP staff going on strike and public protests. Furthermore, in early June 2015 a Portuguese court suspended the privatisation. But the government stuck to its plans, stating that the divestment was in the public interest. Finally, in mid June the government sold 61% of the airline’s capital for EUR 350 m (according to press reports, EUR 10 m in cash plus a EUR 338 m investment programme for TAP) to a group of investors from Portugal and abroad.

The government also made several attempts to sell the state-owned railfreight operator CP Carga and the CP subsidiary railway equipment maintenance company EMEF. At the end of March 2015 the government decided to privatise the two businesses, requiring the winning bidders to retain capital in the companies for a minimum of three years. Recently, the Council of Ministers drew up a shortlist with three candidates for the privatisation of CP Carga and two for the disposal of EMEF. The government wants to complete the deals before the end of the legislative period in late September. The special bus (sight-seeing) and road transport operator Carristur is also to be privatised by the end of 2015. Furthermore, new contracts for the concession to operate major parts of Lisbon transport services will be concluded by the end of this year. But at present there are no plans to privatise the CP passenger business.

The privatisation schedule no longer includes the water supplier ADP, Águas de Portugal, that operates in large parts of the countries. In September 2014 the ADF’s former sub-holding company EGF, responsible for guaranteeing the treatment and recovery of waste, was sold for EUR 150 m.

As the result of the determined privatisation policy in recent decades and years the portfolio of Participações Públicas (SGPS) S.A., the holding company for SOEs, has become relatively small. Besides the ADP and the remaining share of TAP it only contains seven enterprises, including the motorsport racing circuit Estoril, real estate development agencies, a mint and a specialist printer.

Greece

In Greece privatisation is to play a prominent role in re-establishing trust in the government and the country’s debt sustainability. Accordingly, privatisation is a major element in the agreement between the Greek government and the heads of state and government from the other eurozone countries reached at the Brussels Summit on July 13. In the agreement it is stipulated that the Greek authorities shall “develop a significantly scaled up privatisation programme with improved governance” and that “valuable Greek assets will be transferred to an independent fund that will monetize the assets through privatisation and other means”. The parties involved seek privatisation receipts in the amount of EUR 50 bn over the life of a pledged loan from the ESM. To date, however, no timetable has been set either for the establishment of the fund or for the respective receipts expected in the next few years. From the receipts EUR 25 bn is to be used to repay the planned recapitalisation of the Greek banks by the ESM, EUR 12.5 bn will be used to reduce the Greek debt to GDP ratio and the Greek government may spend the remaining EUR 12.5 bn on investments.

The new accord is reminiscent of previous agreements with the Brussels institutions. In line with requests from the three institutions already in 2011 the Greek government launched a detailed privatisation plan aimed at generating receipts of EUR 50 bn, i.e. the same amount as today, by end 2015. The plan even contained a list with 53 suitable public enterprises and a timetable for their privatisation in the period from Q2 2011 to end 2015. From the very beginning, however, the ambitious plan faced a difficult economic, legal and administrative situation in Greece. And it also met strong opposition from politicians and the general public. But all these obstacles are still there today.

A privatisation agency, the HRADF (Hellenic Republic Asset Development Fund), was established to implement the previous plan efficiently and free from political influence. At the moment, however, it is unclear whether this Fund will be able and de jure suited to perform the tasks stipulated in the recent agreement. The latter requires that an independent fund shall "be established in Greece and managed by the Greek authorities under the supervision of the relevant European Institutions". To ensure transparency and "adequate asset sale pricing" the legal framework for the fund should be adopted in agreement with the three institutions and in line with "best international practices" as well as respective OECD principles.

The existing HRADF's regulatory framework and its mission do not conflict with these requirements, in principle. The HRADF is 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. All the assets that the government intends to sell, develop or liquidate is gradually being transferred to the Fund. Despite these rules and in contradiction to the original intention the Fund was not always able to withstand political influence. At the end of January 2015 the then new government under the left-wing prime minister Alexis Tsipras not only put all major privatisation projects on ice, it also dismissed the Fund's Greek board members.

Of course, even before this intervention the Greek privatisation policy was not a success story. The lion's share of the receipts projected in 2011 was expected to come from the sale of real estate. However, it often proved to be very difficult for the HRADF to gather reliable information on the state of large number of the public buildings and sites and thus their potential market prices. In addition, there has been ongoing high uncertainty about ownership rights in many cases, given the lack of reliable land and property registers. In the first years the deep recession in the Greek economy and the uncertainty about when the debt crisis would end also hampered the endeavours to privatise state assets. These obstacles also reduced the appetite of foreign investors to invest in Greece. Of course, the former governments' plans also included long-term projects in the infrastructure sector, such as the privatisation of airports, seaports or utilities. Such projects should be less affected from short-term fluctuations in the economy. Nevertheless, from the beginning the respective Greek governments have cancelled or postponed major projects.

Thus the privatisation process has been slow and it has yielded only a fraction of the envisaged EUR 50 bn. According to the latest HRADF report from December 2014 the total volume of privatisation receipts amounted to EUR 7.7 bn. However, only EUR 3.1 bn has been received so far, more than half of this in 2011. In 2012 the receipts were negligible, in 2013 and 2014 they amounted to EUR 1.05 bn and EUR 0.65 bn, respectively.

The German Treuhandanstalt – a cautionary example? 21

In Germany many critics consider the creditors' request that Greece intensify privatisation to be a mistake. They point to the allegedly wholly negative experiences with the "Treuhandanstalt", the German agency that was in charge of privatising state-owned companies in the former communist GDR in the 1990s. It is true that the Treuhandanstalt was unable to complete its task with the substantial net receipts that were originally expected. Instead, it generated a triple-digit billion deficit (about EUR 230 bn). The original expectations, however, were based on completely false estimates of the strength of the SOEs in the GDR. Very soon, however, the production capacities there proved to be uncompetitive. Also, these enterprises lost important traditional customers when the markets in Central and Eastern Europe went through the adjustment crisis in the years after the fall of the Iron Curtain. Furthermore, the fast adjustment of the wages towards the West German level, mitigated East Germany's attractiveness for capital investment. Last not least, the Treuhandanstalt had to take on the huge debt of the GDR companies and the astronomical costs for the remedying of ecological damages and for the restructuring of the inefficient companies. Nevertheless, the Treuhandanstalt managed to split the old conglomerates into about 14,000 smaller companies and to privatise these entities.

Today's task in Greece is only partly comparable in quantitative as well as in qualitative terms. In Greece the challenge is not to reorganise and modernise an entire economy with no private enterprises. Instead, privatisation offers the opportunity to provide the country's infrastructure facilities, such as airports, seaports and public utilities, with access to fresh capital from abroad. Furthermore, important planned privatisation projects offer the prospect of substantial receipts.

The recent gap between reported and actually received proceeds is due to the fact that projects like the sale of concessions often generate cash flows over a series of years and for other deals the government might have agreed deferred payments with the buyer. Furthermore, major projects are still in the offing. For example, the EUR 920 m sale of the abandoned Hellenikon airport in Athens to a Greek-Chinese group of investors is still being blocked by objections, but the Greek court of audit did at least approve the deal in autumn 2014. Also the privatisation of a 40-year operating concession for 14 regional airports has come to a standstill, although it was already at an advanced stage. Germany's Fraport AG and its Greek partner won the tender after bidding EUR 1.23 bn and were already selected as the preferred investors in November 2014.

Besides these open projects the HRADF report from December 2014 shows 15 "privatisations in progress". One of the most important is the sale of 67% of the Piraeus Port Authority, PPA S.A. The former government expected EUR 500 bn from this deal as well as substantial investments in the infrastructure of the largest port complex in Greece. A 67% share in the Thessaloniki Port Authority, THPA S.A., is to be sold too. Furthermore, the list among others includes marinas, properties from the 2004 Olympic Games and the traction services for the rail company, Trainose.

After having stopped major projects, especially the sale of the concessions for the 14 regional airports and the PPA deal, the new Tsipras government now has to perform a volte-face. This is challenging, given the ongoing broad opposition towards privatisation in Greece. In addition, the recent downturn in the Greek economy is likely to dampen the potential for privatisation receipts for quite some time. Thus, it seems reasonable that the creditor countries have asked Greece for a clear commitment to privatisation documented by respective initiatives as an indispensible element of a reform programme without stipulating a stiff timeframe, at least not for the time being. Given the experience gathered over the last few years and the difficult economic situation at present, the EUR 50 bn goal seems to be very ambitious, nevertheless. It comes as no surprise that – according to latest reports (Handelsblatt, July 31) – experts from the Brussels institutions already rated this target as unrealistic at the summit on July 12/13 and proposed a more realistic target range, i.e. EUR 3-5 bn within the next three years.

Anyway, the possible receipts are only one aspect. For the Greek government it is also important to restart its privatisation programme as a signal of its willingness to launch reforms and to modernise the country.

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