



Katerina Christodoulou

has been sold in the following weeks, which was a 10 percent stake in mobile phone group OTE, bought by Deutsche Telecom for €400m.

Lord Lawson is of the opinion that privatisation could go some way to solving some of the eurozone problems although he is one person who is not surprised about the predicament some eurozone countries have found themselves in.

"Privatisation can certainly help to some extent in getting Greece and some other Eurozone countries out of the appalling mess they are now in," said Nigel Lawson.

"But they will still be in a mess so long as they remain in the Eurozone. European monetary union was fatally flawed right from the start - as indeed I pointed out (in a major speech in January 1989) when I was still Chancellor.

"So while I deeply regret that our European partners and friends are in such serious trouble, it is what I expected to happen and warned of at the time."

Gavin Oldham feels that a sale of State assets can't be a negative thing for any beleaguered eurozone nation.

"If the Greek government has to do some privatisation then those assets will be quite cheap and there'll be worthwhile people applying for them," he said.

"I'm not talking about Greece specifically but generally if government is selling it's worthwhile people sitting up and taking notice."

While such experts are qualified to speculate from overseas, an opinion from Greece is offered by Katerina Christodoulou, Partner at Your Legal Partners.

"Undoubtedly under the current economic climate privatisations although widely recognized as a controversial matter may well serve legitimate objectives of Greek State," she said.

"In fact privatisations have been set as a precondition of the latest bail out 'midterm' financing deal offered by the Troika and thus a very ambitious privatization programme has been adopted.

"A new legislative regime has been introduced with the setting up of the Hellenic Republic Asset Development Fund having the consent of the two major political parties.

Any assets of the Greek State to be developed or sold have been transferred to the Fund aiming to speediest procedures for the sale thereof.

This development has been welcomed by the business community.

"Whether the privatisation will finally help the reduction of public deficit in the context of the Greek debt buyback program of the rescue plan is to be seen since such an outcome seems to be subject to general economical and political factors outside Greece. However, privatisations would certainly lead to broader economic and social gains.

"First of all they will cause the cease of loss making , poorly managed perpetuation of overstaffed state entities. In addition, if privatisations are coupled with liberalization of relevant market and abolishment of any exclusive rights they can guarantee consumer welfare and economic growth, since state monopolies will be abolished and competition will be enhanced.

In addition foreign investment will be attracted and the competitiveness of Greek Economy will be ameliorated.

"Thus, although not a panacea, the Greek privatisation programme is a start in getting the engine of the economy in power again."

Elsewhere in Europe, opinion differs on whether the sale of state assets will actually prove beneficial. Daniel Gros, Director of the Centre for European Policy Studies, Brussels, isn't so sure that it provides the answer for Greece's woes but thinks it's a horses for courses situation.

"Perhaps it could benefit a country like Italy but not Greece," Gros said.

"When the government sells assets which would otherwise be

Privatisation, past & present

at the disposal of Greece's creditors in case of default the value of the remaining privately held (long term) public debt must surely decline because in the absence of default the upside for creditors is limited (by the face value) whereas the downside will become worse in case of default.

Privatisation thus devalues the value of the existing claims of long-term creditors.

"On top of this we have to consider at what price Greek assets could be sold when the country is on the brink of bankruptcy.

"Thinking about Greece as a company which is technically insolvent (i.e. that cannot pay its bills on time without official help) helps.

If this company sells some of its assets to satisfy some privileged creditors who are closely linked to senior management, the other creditors, especially long-term bond holders, will surely be worse off. This is why bond covenants forbid this kind of operation.

"There is no free lunch when a country has a solvency problem. Asset sales only reshuffle claims among different creditor groups.

Any attempt by the official sector to reduce its own risk must ultimately increase the risk to private lenders and thus make market access more difficult. The simple model in the annex shows this formally.

"The economic intuition behind this result can also be seen by a comparison with official lending which is senior to existing private creditors. Privatisation establishes a sort of de facto seniority.

"Proponents of privatisation argue of course that privatisation will increase growth because private investors would put these assets to a more productive use. But most of the assets slated for the first round concern utilities and other natural monopolies.

Transferring them into private hands might increase monopoly profits, but not growth. But even if this were not the case; if one could expect private monopolists to be much more productive and competitive, it is still the case that privatisation is highly unlikely to ignite growth on a significant scale.

"The existing capital stock in Greece (without land) is estimate to be worth around €600 billion. The full privatisation programme of €50 billion would thus not even affect 10% of the national capital stock.

"It is interesting that in the case of Argentina very large scale privatisation programmes were implemented in the context of various reform programmes even years prior to the onset of the acute crisis.

However, they could not stave off default because the government had lost the revenues from the assets which had been sold previously.

"All in all it is thus likely that the risk premium on longer-term Greek government bonds will actually increase as the government privatises its most liquid assets, which are also those which yield solid revenues during normal times.

In the end privatisation might make it actually even less likely that the Greek government will ever be able to return to the capital markets."

There are some who are more sceptical about privatisation in their own country, particularly when it comes to trusting their government's handling of the process.

Following a meeting with the IMF-EU troika managing Portugal's bailout conditions in the summer, Luis de Sousa, Chairman of Portugal's TIAC wrote on transparency.org:

"We are particularly worried about conflicts of interest in privatisation processes: where the wrong outcome can come about to satisfy personal interests.

We want any sales of public assets to be monitored by an independent committee that includes civil society and experts, not just ministers, officials and other people hand-picked by government."

Confusing Sid?

As it's the season to be jolly, let's go back to that 1980s success story when the whereabouts of Sid was almost as popular a mystery as 'who shot JR?'

Without sounding patronising, Sid would probably not be expected to comment on the eurozone crisis. He may well have struggled to get to grips with what's happening with his own shares in the UK as even the experts find the post-privatisation British Gas situation a pretty complicated one with all the subsequent demerging and divesting.

"British Gas has not done badly. After splitting into two companies, back in 2003 I think, there have been various capital reconstructions. They hived off the pipeline business into a company called Lattice [which took ownership of Transco], which was listed for a couple of years, and then Lattice merged with National Grid.

"So, they perhaps haven't helped themselves in terms of how complicated it has become since the flotation but there was always a will to try to break British Gas up, which is effectively what happened, as it was still a monopoly business.

"It gets more complicated because BG Group PLC owned the name British Gas and they licensed it to Centrica for use with their home retail business.

"If you start digging around, looking into this information, it blows your mind."

Happy ending (with a good old British touch of cynicism)

"It is a good story the British Gas one and if you ask the man in the street if they bought British Gas shares 25 years ago, probably half of them would say yes," concludes John Douthwaite.

"Because it was Christmas and because the stock was issued on a partly paid basis you could have made a 30-40 percent return almost overnight, so a lot of people took that option.

"If you were really cynical you could say there was an election in 1987 which Thatcher won with a landslide, a third term I think, and that was six months later! It could be argued that she was bribing the electorate. I'm sure Nigel Lawson would disagree!"