FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

Macroeconomic and socioeconomic impact of the privatisation programme of the Hellenic Republic

Executive summary

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SUMMARY

The aim of this study is to highlight the macroeconomic and socio-economic impact of the Hellenic Republic's privatisation programme. In particular, the study examines the effects of the overall programme of the Hellenic Republic Asset Development Fund (HRADF) for the period 2011-2019 and quantifies the impact of selected major privatisation projects. The effects are presented in terms of changes in socio-economic indicators such as GDP, net fiscal revenue and employment.

Introduction

The development of the private property of the Hellenic Republic has been a key pillar of the effort to correct the structural problems and macroeconomic imbalances that had led Greece to the deep social and economic crisis of the last decade. The revenues from the concessions of infrastructure and the sale of shares and real estate have created a fiscal space, which should otherwise have been covered by further cuts in public spending or by tax hikes.

In addition, the privatisation agreements contain improvements and interventions in the regulatory framework, as well as investment commitments, which have stimulated economic activity and increased the efficiency of the production factors during a particularly difficult period for Greece. Furthermore, the changes in the business model and corporate governance that take place with the entry of strategic investors in the assets' development have a positive effect on productivity. Finally, the progress with the privatisation programme has been seen by the international investor community as evidence of the state’s commitment to the effort to reform the Greek economy.

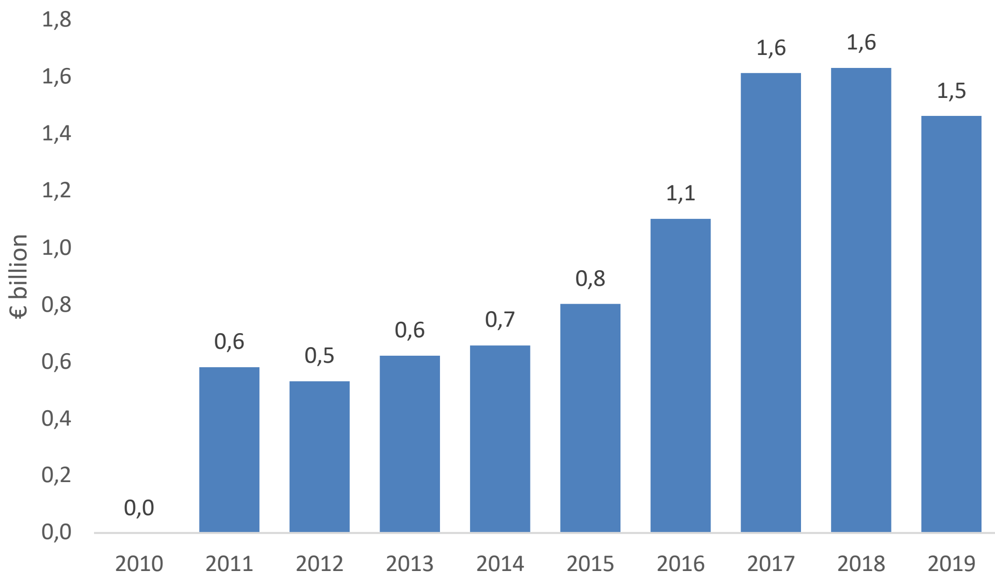
The present study examines the macroeconomic effects of the privatisation programme as a whole for the period 2011-2019 and the socio-economic effects of some major recently completed privatisation agreements (Piraeus Port Authority, regional airports, Astir Palace Vouliagmenis and TRAINOSE). The impact assessment is made by comparing the assets' performance against a counterfactual scenario, where they remain state-owned. The effects of the ongoing COVID-19 pandemic are not factored in the estimations.

Macroeconomic impact of the privatisation programme

The privatisation program has had a strong positive impact on the Greek economy, with clear social benefits during a particularly difficult period for the country. For the overall programme, it is estimated that privatisation boosted the country’s GDP by around EUR 1 bn a year on average over the period 2011-2019 (Figure 1). Over the same period, the average impact on employment was close to 20,000 full-time jobs.

A significant part of this impact came from investment made throughout the economy as a result of a signalling effect. The econometric analysis showed the existence of a positive and statistically significant correlation between gross fixed investments (other than dwellings) and initial receipts from completed privatisation agreements. In particular, it is estimated that around EUR 5.6 billion of fixed investments made in the country between 2011 and the second quarter of 2019 can be attributed to the privatisation programme. It follows that every EUR 1 of initial privatisation proceeds corresponds to an average of EUR 1,02 fixed investments in the economy as a whole.

Figure 1: Strengthening Greece's real annual GDP due to the implementation of the privatisation programme, compared to the level of GDP had the programme not been implemented (counterfactual scenario - reference year 2010)



Source: IOBE

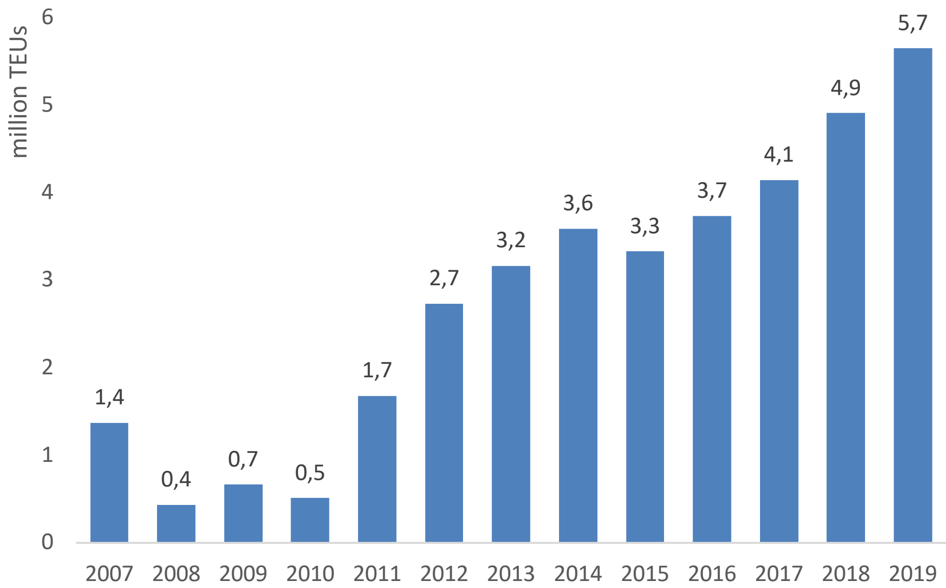
Socio-economic effects

The privatisation impact is not limited to the time of completion of each transaction but extends to the future and in many cases strengthens over time. The new shareholders make significant investments and make changes to the business model, resulting in a significantly stronger economic activity. Increased entrepreneurial activity leads to positive effects on employment and fiscal revenues, while the implemented business model changes often involve the adoption of environmental monitoring and management systems. Finally, through interconnections with other production processes at local and national level, the stronger activity due to privatisation results in multiplier effects on GDP, employment and fiscal revenues for the whole country.

Piraeus Port Authority

The master plan of the Piraeus Port Authority (PPA) provides for the implementation of investments with a total budget of EUR 21 million by 2034, peaking at EUR 120 million in 2022. In addition, subject to normalisation of the economic conditions after the pandemic, it is estimated that the change in ownership will lead to higher business revenues towards the end of this decade by EUR 140 million, with the highest percentage of revenue coming from the container docks (EUR 96.1 million). Already, the privatisation of PPA has led to a dramatic increase in the volume of transported containers (Figure 2) and as a result the port of Piraeus is ranked 4th in Europe (from 17th in 2007) and 1st in the Mediterranean.

Figure 2: Container traffic in million TEUs, 2007-2019



Source: PPA, World Shipping Council

The broader effects of the privatisation of the Piraeus Port Authority on the whole economy are also strong. Taking into account the multiplier effects, the impact of this privatisation on the country's GDP is expected to exceed EUR 375 million in about a decade, from EUR 90 million in 2018. In terms of employment, the overall impact is expected to exceed 5,500 jobs in years when investment activity in the port is expected to be particularly strong.

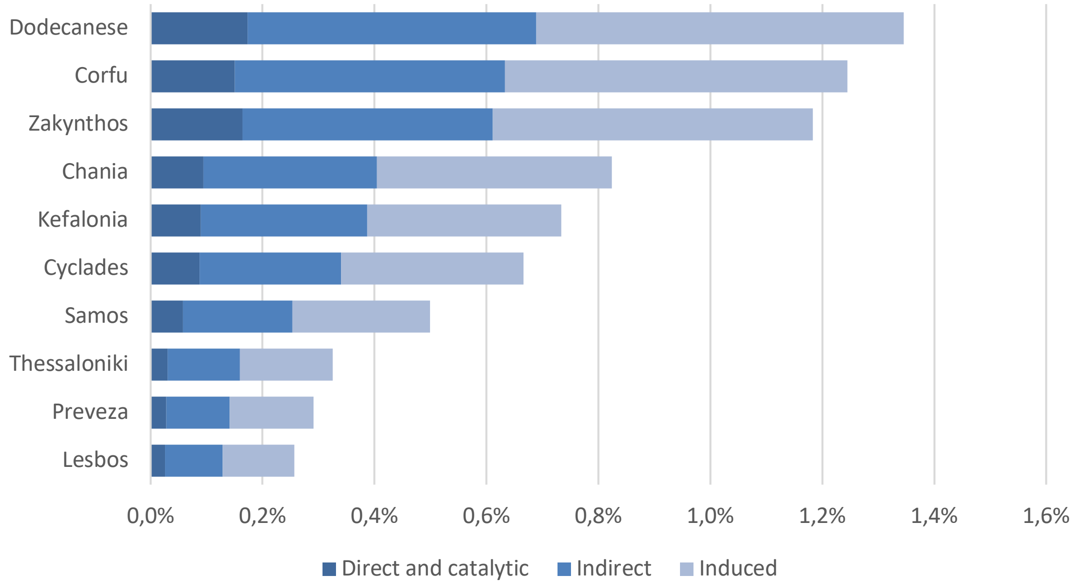
Regional airports

The concession of the 14 regional airports to Fraport Greece is one of the largest investments made in recent years in Greece. The experience of Fraport AG, which is one of the largest airport management companies in the world, has boosted the competitive position of the 14 regional airports and of the areas in which they operate.

For the modernisation, development and expansion of the airport infrastructure, the company is implementing investments that will exceed EUR 463 million by the end of 2020. In addition, with the inclusion of new routes, the strengthening of the network by adding new airlines and with incentive programmes to airlines, Fraport Greece has contributed to the further development of domestic and international traffic. The positive trend recorded since the second quarter of 2017 in the 14 regional airports reflects broader growth of tourism, but also the positive impact of the change in the operation of these airports with the implementation of the company's business plan, as demonstrated by the econometric analysis. It is estimated that an additional tourism expenditure of EUR 225 million in 2017-2018 in the country as a whole is linked to this particular boost of passenger traffic.

The investment carried out at regional airports and the tourist traffic boost due to their upgrade have a significant positive impact on the overall economy. Together with the multiplier effects, the total impact of the concession on the country's annual GDP reached EUR 300 million already from 2019, while in the medium term it is expected to reach EUR 630 million. In terms of employment, the overall impact reached about 7,200 jobs in 2019, while it is expected to exceed 11,600 jobs in about a decade.

Figure 3: Effects of the privatisation of regional airports on the GDP of each prefecture, as a percentage of regional GDP, selected prefectures for the year 2018



Source: IOBE estimates

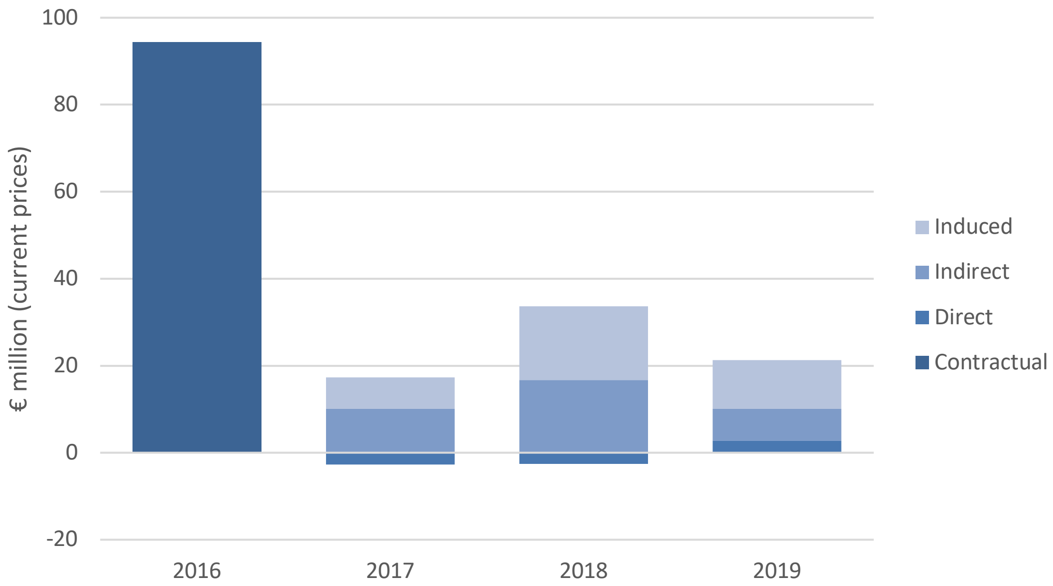
The socio-economic impact of the airport concessions has an important regional dimension. Particularly strong are the impacts on the prefectures of Thessaloniki and the Dodecanese (EUR 51 million and EUR 45 million in GDP terms in 2018 and about 1,300 jobs in each prefecture). Taking into account the size of the local economy, the impact is also strong on the prefectures of Corfu and Zakynthos (about 1.2% of GDP and 1.3% of employment respectively – Figure 3).

Astir Palace Vouliagmeni

The privatisation of Astir Palace Vouliagmeni SA had a significant positive impact on the company's business revenues after the completion of the renovation works in 2017 and 2018 (EUR 27.6 million in 2019). Towards the end of the first decade of operation of the hospitality resort under the new shareholder structure, and provided that there is a full recovery after the COVID-19 pandemic, the revenue difference from the counterfactual scenario is estimated to exceed EUR 35 million.

Together with the investments carried out for the radical upgrade of the resort, it is estimated that the overall impact on GDP amounts to EUR 107 million in 2018 and is expected to stand at EUR 50 million per year after about a decade after the completion of the privatisation. In terms of employment, the overall impact is estimated at about 3,200 jobs in 2018 and is expected to stabilise over the medium term at about 1,000 jobs. Net fiscal revenues, despite the loss of income from dividends, are also estimated to be higher, by around EUR 13 million towards the end of the examined period.

Figure 4: Effects of the privatisation of Astir Palace Vouliagmeni on fiscal revenue in 2016-2019



Source: IOBE estimates

TRAINOSE

The privatisation of TRAINOSE S.A. on 14 September 2017 and its merger with ROSCO on 1 April 2019 are expected to significantly strengthen the company, utilising FSI's know-how and experience in providing rail services. In particular, the operating revenues are expected to increase by 27% for the merged company at the end of the examined ten-year period.

Taking into account the multiplier effects, the stronger activity in the railway services offered by the company raised the country's GDP by about EUR 27 million in 2019, while in the medium term the overall impact on annual GDP is expected to reach EUR 86 million. Similarly, in employment terms, the number of jobs in the economy in the medium term are expected to be higher by 1,400 compared to the counterfactual scenario (Figure 5).

Figure 5: Medium-term effects of the privatisation of TRAINOSE SA on the Greek economy

Source: IOBE estimates

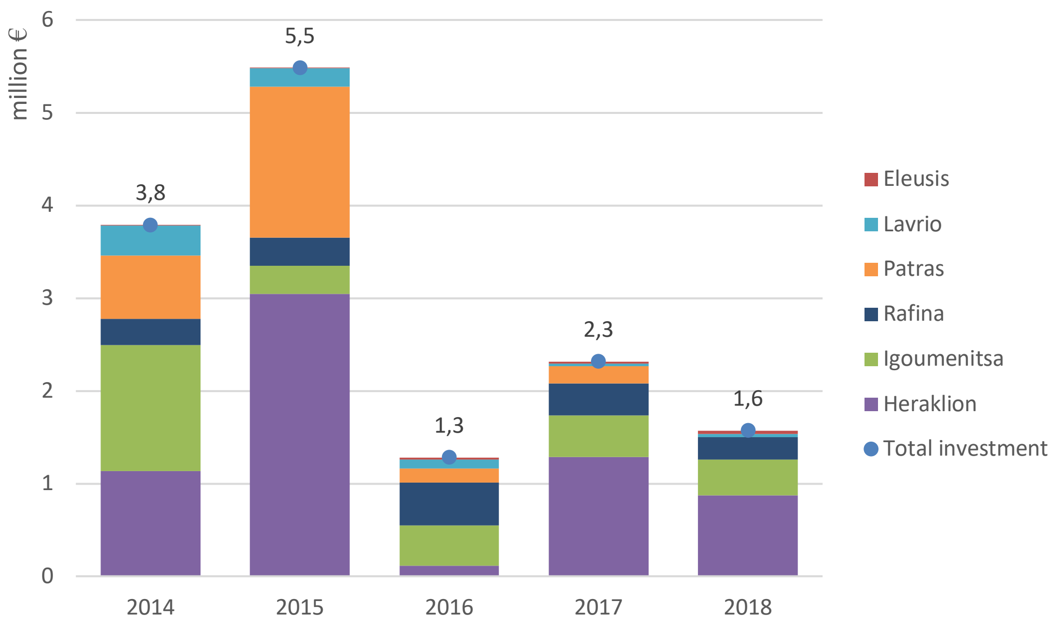
Regional ports

The ports of Greece have a key role for the sustainable development of the Greek economy and its regions. Due to the country's particular morphology and multitude of islands, the ports are an important communication hub not only for passenger traffic but also for commercial activity between mainland Greece and the islands. Moreover, Greece's strategic location is an important advantage for the development of ports serving trade between three continents (Europe-Asia-Africa).

The activity in the ten regional ports that have the legal form of limited-liability companies with shares held by the HRADF has been growing over the past five years, but the level of investment and the utilisation of the port capacity are very low (Figure 6). In addition, the linkage of the ports with other supply chain infrastructure is incomplete, thus the positive interactions with other local production activities and more broadly with the domestic economy are rather limited.

The inflow of new capital, the enhanced corporate governance and the development of new business initiatives by strategic investors with a long-term vision for the operation of the regional ports can contribute effectively to an essential upgrade of the country's port infrastructure. A good development in this direction can contribute substantially to a more balanced economic development of the regions of the country and ultimately it can give a strong boost to the necessary reconstruction of the domestic economy.

Figure 6: Total investment in regional ports



Source: HRADF