

Where will Greece get 50 billion euro from? [CINKCIARZ.PL ANALYST COMMENTARY]

On Monday it was announced that in exchange for adopting serious reforms, Greece will receive over 80 billion euro of aid from the creditors. However, one of the conditions is to create a special fund. Its goal is to privatise the national wealth worth 50 billion euro. Is obtaining such an amount of money even possible? Marcin Lipka, Cinkciarz.pl currency analyst, explained this matter.

After long discussions the creditors of Greece agreed to initiate negotiations regarding a three-year-long aid package worth 85 billion euros. However, Athens will have to accept the regulations regarding changes in VAT calculation regulations on Wednesday (15 July). It will also be necessary to accept the plan of fixing the pension system, and to ensure the independence of the national statistic office.

It is possible that in the next four weeks Greece will be obliged to conduct changes in jurisdiction and on the labour market and also make the rules of retail sales more flexible (for example, open stores on Sundays). However, the most interesting idea is the privatisation program. According to the creditors it will give Athens profits of 50 billion euros. Three quarters of this sum will be used to settle the debts and capitalise the Greek banks. The rest, which is approximately 12 billion euros, will be invested.

We have been there before

Four years ago when the previous aid program was negotiated, an almost identical plan was presented. In June 2011 "The Wall Street Journal" informed that the new aid program includes an obligation to privatise the 50 billion euros of wealth by Athens. Back then Greece also received a recommendation that the sale of national wealth should end by 2015.

Which of these recommendations were performed? According to the information presented at the end of 2014 by the Hellenic Republic Asset Development Fund (HRADF), which is a special institution dealing with the Greek privatisation, since 2011 7.7 billion euros worth of wealth has been sold. However, only 3.1 billion euros arrived to the country's account. The previous obligations of the Greeks were not fulfilled. Thus, it is not surprising that the German side, which is most interested in this matter, initially wanted the privatisation fund to be based in Luxembourg, and to be managed from there under Brussels' supervision.

However, it appeared that this institution will be based in Greece and will be managed by the national authorities under the supervision of the eurozone. The other problem, perhaps even more significant, is the matter of wealth which will be sold to private owners. 50 billion euros

is quite a significant amount for a country containing 10 million citizens, and whose macroeconomic situation is catastrophic. Transactions conducted by the HRADF in the last few years show that what has been easy to sell or did not carry a lot of social controversies was sold.

According to the HRADF data, since 2011 the Greek budget has received 380 million euros for selling a mobile phone network license, almost a billion euros for a license to handle casinos, and 770 million euros for a 12-year-long contract on managing the national lottery.

Looking at the projects, which are already being bid on, it is difficult to find any offers that could provide a profit of a billion euros. Among the several offers, one can find the former American military base in Heraklion, and the Cassandra golf course. Even if these real estates find buyers, the income from the sales will be a small percentage of the needs of the country.

Treasury companies are also not enough

In the past Prime Minister Alexis Tsipras often said that he will not privatise the companies of public use. Even if he has really changed his mind in the past few days, the value of the projects in the HRADF plans is low in relation to the creditors' demands. They include, for example, the companies dealing with the public distribution of natural gas, electricity, water or sewage treatment. The private owner could also purchase 30% of shares of the Greek refinery. Due to the fact that its stock value is currently 1,5 billion euros, it is rather unlikely to sell for more than 500 million euros.

Assuming that all public companies will be sold and comparing their prices to similar institutions abroad, one should not expect a profit of more than 10 billion euros from privatisation in the following years. An extra condition is the stabilisation of the economic situation in Greece and an agreement with trade unions which have already lodged protests.

Thus, when it comes to "pawning" the Greek wealth it is possible that Tsipras appeared to be smarter than the European authorities knowing that the profits from privatisation will be much lower than 50 billion euros. It is also possible that Brussels is aware that the Greek national wealth is worth less and its deliberate revaluation would only calm down the social discontent in the creditor countries.

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