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Privatisations offer Greece the best way to avoid a bail-out

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Greece does not need a bail-out. It needs more reform and, in the long run, nudging Greece in the right direction may be more important than providing short-term assistance.

At the same time, there is no appetite, within either the Greek government or its eurozone partners, for Greece to resort to the International Monetary Fund. Care needs to be taken with any stand-by support deal to ensure the forces of reform are not weakened and that necessary changes are not derailed. Greeks seem to understand the advice of the ancient Greek proverb: “Along with calling on Athena for help, move also your hands!” I hope this is what they will do.

Greece can avoid a bail-out if it demonstrates convincingly to the markets that the reforms in its stability programme will be implemented in a timely fashion. They also have to be big enough to ensure that the government meets its commitment to cut the budget deficit from 12.7 per cent of gross domestic product to 2.8 per cent by the end of 2012. But even at the end of the adjustment period the debt to GDP ratio will still stand at 113 per cent, which is no smaller than it was in 2009. To bring the debt to GDP ratio level below 100 per cent, not to mention the 60 per cent level required by the Maastricht treaty, will require further adjustment in the coming decade. So the reform process that starts in 2010 should be sufficiently robust to ensure that Greece also reduces its debt burden substantially.

The reforms announced recently clearly have the potential to achieve this transformation. The downside risk, which has to be avoided at any cost, would be if the country went through a legislative process to translate these policy intentions into law, but came out with a product that failed to meet expectations. Then the markets would stop giving Greece the benefit of the doubt.

That is why I think that the stability programme needs to be strengthened with more actions and initiatives. Clearly there is no need to worry about overshooting in structural reform. It is better to engage now in an all-out assault on rigidities and distortions that condemn the economy to below-potential growth. Today’s opportunity to transform the economy for good should not be missed because the country may not have another chance.

To speed up and enhance the content of the reforms in the stability plan, there needs to be a bold new privatisation programme to unleash the economy’s potential. Much could be gained from further privatising an economy that is probably the last “Soviet-style” economy in the developed world. To kill the Greek leviathan, one has to starve its gargantuan voracity for intervention in the economy. The state not only runs hospitals, universities and churches but also casinos, lotteries, hotels, marinas, ski

resorts, trade fairs, exposition centres, ports, airports, water, electricity and natural gas companies, oil refineries, postal services, transport, banks and insurance companies. The state's stake in listed companies on the Athens Stock Exchange is worth more than €9bn ($12.3bn). Real estate holdings in major state property-management companies are conservatively valued at more than €300bn and yet yield next to nothing.

Privatisations, therefore, represent a huge untapped opportunity to re-establish discipline in public finances while, potentially, reducing public debt to more manageable levels. The stability programme refers to privatisations as a potential source of funds of €2.5bn, or 1 per cent of GDP, in 2010, while doubling that amount over the period 2010-12. Clearly, given the magnitude of state control in the economy, these figures are suboptimal and would mainly be achieved by selling government stakes in state enterprises through the stock exchange.

However, what is required is a complete severing of the umbilical cord between the state and the economy. If a wider privatisation programme were carried out, it has been estimated that the total raised could amount to as much as 10 percentage points of GDP – in other words equivalent to the amount by which the budget deficit needs to be cut between now and the end of 2012.

Socialist governments in Greece have been credited in the past with the success of major stabilisation efforts. The current government has to outdo its predecessors because conditions are vastly different. The potential for success is clearly there. The task is Herculean for a government in a country with very low credibility. The way out therefore is to opt for market-orientated additional reforms so that stabilisation comes with improved growth potential that will make implementing the three-year stabilisation programme fail-proof. It is not just about fiscal consolidation. It is about far-reaching reforms that will guarantee beyond doubt that the stability plan is implemented in a way that is credible for markets.

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