Greek Privatizations and Long-Run Growth: Doing it Right?

by Yannis M. Ioannides, Tufts University

“How The Greek–Euro Crisis Is Transforming Europe and Greece?”
McGill University, April 4, 2013
Outline

- Greek Crisis Origins: Twin deficits
  - Timeline
- Unfolding of the crisis seen through borrowing costs (spreads/yields)
- Troika (EZ/ECB/IMF) key decisions
- Troika Stabilization Program: seen through debt projections
- Privatizations
  - Hellinikon Site of former Athens International Airport
Greek Crisis Origins: Twin deficits

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II. External and internal (fiscal) imbalances in the Euro Area: Greece showed the largest ones

- Uncompetitive South vs. competitive North
- Fiscal profligacy almost everywhere

\[ y = 1.80x + 2.29 \quad R^2 = 0.45 \]
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The crisis in the periphery: Government yields

Yields on ten-year sovereign debt
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  - October 18, 2010 Private Sector Involvement (PSI) (Deauville)
  - July 21, 2011 PSI, up to 21% haircut on Greek debt
  - October 26, 2011 PSI 50% haircut
  - February 21, 2012 PSI, “53.5%” haircut (about 80%)
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actions to reduce debt (or about €136 billion additional to what is already in the existing program). For the period 2015-2020 official financing needs could amount to an additional €50 billion (again before actions to reduce debt), although this figure could be a little lower if Greece is able to gain some limited market access in the last years of the decade.

**Stress tests continue to point to a number of sensitivities with the balance of risks mostly tilted to the downside:**

- **Policies.** As before, if the primary balance gets stuck below 2½ percent of GDP (a level it now only exceeds in 2014), then debt would be on an ever-increasing trajectory. Significant shortfalls in privatization proceeds (only €10 billion of €46 billion realized by 2020), would raise the level of debt appreciably, and slow its projected decline, leaving it at 148 percent of GDP by 2020.

- **Macro parameters.** Debt outcomes remain very sensitive to growth or to faster internal devaluation. Fixing the primary balance, nominal growth permanently lower by 1 percent per annum would send debt-to-GDP to 143 percent by 2020; nominal growth permanently higher by 1 percent per annum would allow debt to fall to 116 percent of GDP by 2020. Interest rate sensitivities arise via the rate charged on official financing (since Greece is out of the market for most of the decade under the assumed borrowing rule). If the spread on EFSF borrowing were to be 100 bps higher, then debt-to-GDP would reach 135 percent by 2020.
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Το Ακίνητο
Image (1.3). Panoramic View of Agios Kosmas Coastal Front and Former Airport Site - November 2011.