



BANK OF GREECE
EUROSYSTEM

Box VI.1

This is the English translation of the Governor's Annual Report 2015, originally published in Greek (in February 2016, Chapter VI, Box 1).

EXPLOITATION OF PUBLIC PROPERTY: A DRIVER OF SUSTAINABLE GROWTH

The exploitation of public property is understandably one of the key pillars of the new loan agreement. Apart from the ensuing capital gains and the considerable returns on properties, resources and services that remain unexploited or have not been put into the highest and best use, the successful launch and implementation of new private investments in public real estate will signal the beginning of a turnaround in the negative investment climate and mistrust in the Greek economy. Both in theory and in practice, it has been proven that privatisations not only contribute to sustainable fiscal adjustment but also, if accompanied by strong commitment to future investment, can enhance the inflow of investment resources, create new markets, develop the existing ones, and help stimulate aggregate demand. In the case of Greece in particular, privatisations can highlight the Greek economy's still unexploited potential and growth prospects. Furthermore, maximising the value of State-owned property through the new successor of the Hellenic Republic Asset Development Fund (HRADF), as stated in the new Financial Assistance Facility Agreement, will provide fresh impetus to the privatisation programme, with targeting and planning redefined on the basis of the recent experience and the updated economic and market data.

Public property exploitation: developments, plans and challenges

The public property exploitation plans¹ that have been developed at times have been thwarted by numerous legal, technical and procedural issues, by the involvement of various bodies and stakeholders that represent different and often conflicting interests, as well as by limited resources. In 2011, the establishment of the HRADF signalled a concerted effort towards attracting direct investment in infrastructures, energy and real estate. State-owned properties with strong investment potential and a high level of legislative and technical maturity were pooled by the HRADF to be launched, through public tender, for long-term concession, leasing, sale or securitisation. The flagship of this effort was the development of the former Hellinikon international airport, for which the tender process started in late 2011. However, the initiation of the development process is still on hold,

¹ Total public real estate assets comprise more than 70,000 properties across the country, which are managed by Public Properties Management S.A. and the Hellenic Republic Asset Development Fund S.A. (HRADF), while another 240,000 rural and peri-urban land properties are managed by the Ministry of Rural Development and Food, the Regions and other public sector entities.



BANK OF GREECE
EUROSYSTEM

although the concession agreement has been assigned since November 2014. Priority has also been given to other smaller properties attracting high investor interest, mainly in tourist areas (Rhodes, Corfu, Halkidiki, Porto Heli, etc.). Progress with tender procedures has been slow and, as a result, none of the above development projects has started so far.

The main problems that have emerged during tendering and implementation of the contracts are associated with:

- technical issues, such as environmental restrictions, delineation of forest and coastal zones, completion of environmental impact studies, Special Zoning and Spatial Plans for Public Real Estate, urban planning, specification of land uses at the country level, etc.;
- legal issues, such as illegal possession, conflicting ownership claims, concessions, etc.;
- continuing appeals before the Hellenic Council of State against decisions in all stages of the tender process.

On top of these problems, the adverse economic environment in recent years and the conditions of political uncertainty throughout 2015 brought about further delays or postponements in the promotion of new projects, as well as in the finalisation and implementation of ongoing contracts. At the same time, as stipulated in the new Financial Assistance Facility Agreement, the Greek government has committed to establish a new fund for the exploitation of public property. Once this fund is established within the first half of 2016, its responsibilities and objectives will be specified, and the privatisation programme will be re-designed. Major tourist properties, marinas and former Olympic facilities, for which background work has already been done by the HRADF, constitute a few of the most prominent new tenders and contracts that the new fund will have to complete.

Undeniably, the importance of speeding-up and implementation of the privatisations and public real estate development programme extends far beyond the collection of revenues. The gains are manifold and are expected to have a multiplier effect on the economy. The successful implementation of the agreements signed with contractors/investors will provide tangible proof of confidence in the Greek economy and will signal the government's commitment to support new productive investments and protect investors. The assignment of the contract for the sale of a 67% stake of the Piraeus Port Authority (PPA S.A.)² in January 2016, as well as the signing of a new

² The improved binding offer for the acquisition of 67% of the Piraeus Port Authority amounts to €368.5 million. Adding to this bid another €350 million in mandatory investments over the next 10 years and an estimated €410



BANK OF GREECE
EUROSYSTEM

agreement on the concession of Astir Palace Resort³ in Vouliagmeni in December 2015 and the earlier 40-year concession agreement for the 14 Greek regional airports⁴ mark the renewed investor interest in the Greek market.

The privatisation of infrastructures, such as air and sea ports and railways, in tandem with modernisation and the promotion of the necessary reforms, will be key drivers of growth during both the construction and operational phases, by boosting new activities at the regional level, new uses and capital gains as well as supporting local employment. Apart from the benefits to the areas of direct influence, upgrading infrastructures and enhancing their carrying capacity can bring in new users and help an opening-up to new, domestic and foreign, markets in the sectors of tourism, industry and transport, with beneficial multiplier effects on employment and the national economy in general.

Conclusions and policy suggestions

Taking full advantage of its location, resources and assets, Greece can become a major transit hub, as well as a high-end tourist destination offering specialised services and organised holiday residences. This points to a need for a systematic management of public property, coupled with a strategic planning that will map out the targets, uses and forms of the desired investment and establish general specifications along with a stable and comprehensive framework for prospective investors. Strategic planning must also encompass the exploitation of State-owned rural and peri-urban land, with a view to creating economies of scale, ensuring a restructuring and modernisation of agricultural production, improving competitiveness, supporting exports and standardising the primary sector products.

In the context of strategic planning, it is imperative to embark on a systematic process to ensure the technical and legal maturity of public real estate, so that properties can be put on the market at the

million in revenues from the Concession Agreement (see HRADF Report for the period 01.01.2015-31.12.2015, 15 February 2016), the total benefit to the Greek State from the deal would come to €1.5 billion.

³ The expected proceeds of the Astir Palace Resort concession agreement amount to €400 million (see HRADF Report for the period 01.01.2015-31.12.2015, 15 February 2016).

⁴ The proceeds of the signed agreement for the concession of the 14 Greek regional airports amount to an upfront payment of €1.234 billion to the Greek State. Moreover, the Greek State will receive (for the duration of the agreement) an annual guaranteed concession fee of €22.9 million, annually inflation-adjusted, and an annual variable payment equal to 28.6% of the airports' earnings before interest, taxes, depreciation and amortisation (EBITDA). The total amount of the above-mentioned revenues is expected to exceed €10 billion. Last but not least, the planned investments are expected to yield more than €330 million in the first four years and an estimated €1.4 billion overall during the entire term of the concession (see HRADF press release of 14 December 2015).



BANK OF GREECE
EUROSYSTEM

appropriate timing, while establishing the necessary safeguards for speeding up procedures, without compromising the validity, legality, efficiency and safety of development projects. Furthermore, the protection of the public interest and the natural environment should be ensured by effective control mechanisms in all stages of the projects, from tendering through to operation.

Maximising the value of public property and pressing ahead with privatisations will be a decisive step towards restoring confidence and improving the investment climate in the country. It will bring out the investment advantages and potential of the economy and will gradually lead to a rekindling of investor interest and an inflow of foreign funds, ultimately contributing to achieving fiscal adjustment targets, reducing public debt and returning to sustainable growth.