The economic impact of the privatisation of the Piraeus Port Authority

Summary
The judgments on policy issues contained in this study express the opinions of the researchers and do not necessarily reflect the opinion of the members or the management of IOBE.

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SUMMARY

The port of Piraeus, as a pillar of the Greek port system, plays a decisive role in the economy of Greece. To the extent that the port’s infrastructure is properly developed and utilised, it could become a lever for further growth in relation to shipping, cruise tourism and many other economic activities. Under the current conditions of a deep and prolonged economic recession, the goal for a sustainable and integrated management of the Greek ports is of particular importance. In this regard, the sale of a majority stake in the Piraeus Port Authority (PPA) to a strategic investor is a measure of particular significance for the Greek economy.

The scope of the study is to determine the economic impact of the privatisation of PPA over the next decade (2016-2025), under the terms included in the offer of COSCO Group. In particular, the study examines the expected impact on fiscal revenue, investment, administrative cost and PPA activity level upon completion of the privatisation agreement. Furthermore, we highlight the catalytic effects in related activities, such as land transport, tourism and logistics. Finally, by taking also into account the direct and catalytic effects, we quantify the macroeconomic multiplier effects, using models of the Greek economy maintained at IOBE.

Since fiscal revenues would continue to be collected, irrespectively of the ownership status of PPA, we estimate the (incremental) revenues to the State treasury in terms of net benefit from the privatisation, subtracting the fiscal revenues that would be collected in the hypothetical case of no change in the current shareholder structure of PPA. Based on the assumptions of the analysis, the net fiscal benefit remains positive throughout the examined period (2016-2025). The highest net benefit is estimated for 2016 (£277.5 million) and for 2022 (£106.3 million), when according to the proposed schedule, the shares of PPA are sold for €280.5 million and €88.0 million respectively. Even without the inflow from the sale of shares, the net fiscal benefit grows steadily over time, due to increased activity and higher efficiency as a result of the privatisation. In particular, other net fiscal revenues increase from €6.9 million in 2017 to €20.9 million in 2025. The cumulative benefit over the period from 2016 to 2025 is estimated to stand at €511 million or €475 million in present value terms.

In addition, the concession agreement between PPA and the Hellenic Republic envisages particular investments that should be implemented over two five-year CAPEX periods. Apart from the contractual investments, COSCO may also make other investments if deemed necessary and profitable. Lastly, new investments may come from other enterprises that will develop activities in the wider area as a result of cooperation with the port. The overall size of these investments is estimated at around €867 million over the first decade. This estimate does not take into account investments of other companies that may develop related activities in the wider region of Piraeus as an indirect result of the upgrade of the port.

The privatisation of the port and its operation under the conditions of higher efficiency is expected to have a positive impact on the port turnover as well (e.g. in the shipyards and the cruise terminal) and in related economy sectors, such as logistics and rail transport. If a set of particular actions is implemented, the incremental annual output in the Greek economy will range from €17 million in 2016 to €2.6 billion in 2025. This estimate does not include the impact on other branches that might benefit indirectly from an upgrade in the freight transport infrastructure (such as manufacturing and tourism).
Using suitable econometric models that are maintained at IOBE and describe the full interaction of the main macroeconomic aggregates, we estimated the positive impact on the Greek GDP and the support of the fiscal stabilisation effort and debt reduction, emanating from the sale of PPA. Overall, the level of GDP would be higher by 0.8% in 2025, compared with the baseline scenario. Real wages grow steadily over the examined period while the inflationary pressures remain exceptionally weak. The demand factors related to construction works and the operation of the port create more than 31,000 new jobs overall. Moreover, effects of a more permanent nature come from supply factors that express the growth of productivity and potential production capacity, with an impact lasting beyond the completion of the construction works. Furthermore, the investment in the port contributes to a long-term reduction of public debt by 2.3 percentage points of GDP. Taking into account the regional composition of GDP and employment in Greece (about 50% of Greek GDP is produced in the Attica region), the aforementioned impact will be felt stronger in the regions of Attica and in the area of Piraeus, in particular.

We emphasize that the estimations in the study are limited to the effects that are directly related to this particular agreement, which however is an element of a wider dynamic for the revival of production activity in the country. The attraction of a large investment in a key sector of the Greek economy, as is transport, may signal a significant change of the investment climate and provide the impetus for further growth in the sectors examined in the study, such as transport services and tourism, but also in other sectors of the economy in need of foreign direct investment (such as manufacturing, water supply, energy, waste management and other services). Therefore, in the study estimates should be considered relatively conservative, with the impact likely to surpass the estimates in practice, if other factors contribute to the task of improving the conditions and prospects for the Greek economy.

In summary, one of the key problems faced by the Greek economy today is the lack of domestic savings that can prop up an investment programme, strong enough to ensure satisfactory growth rates and to help with the ambitious fiscal targets set by the adopted economic adjustment programme. The current feebleness of the banking system to play its intermediation role in an effective manner hinders the process of turning savings into investment, exacerbating this problem. The inflow of foreign resources is a necessary condition and essentially the only solution to set the country on a path of growth and ultimate exit from the crisis. Therefore, what is required today is a boost of the country’s credibility in order to make it a safe investment destination and to attract the required resources.

The sale of 51% of the shares of PPA to COSCO, and subsequently of an additional 16%, and the further development of the port of Piraeus could play a catalytic role in the direction described above, sending a strong signal to the markets that Greece is a safe and favourable investment destination. The development of the port of Piraeus and the creation of an international hub for logistics, trade, cruise shipping and other forms of tourism, is expected to have multiple positive effects on the domestic economy and society, through direct investment effects, synergies and other vertically integrated business activities.

The full text of the study is available in Greek at:

http://iobe.gr/docs/research/RES_03_08032016_REP_GR.pdf